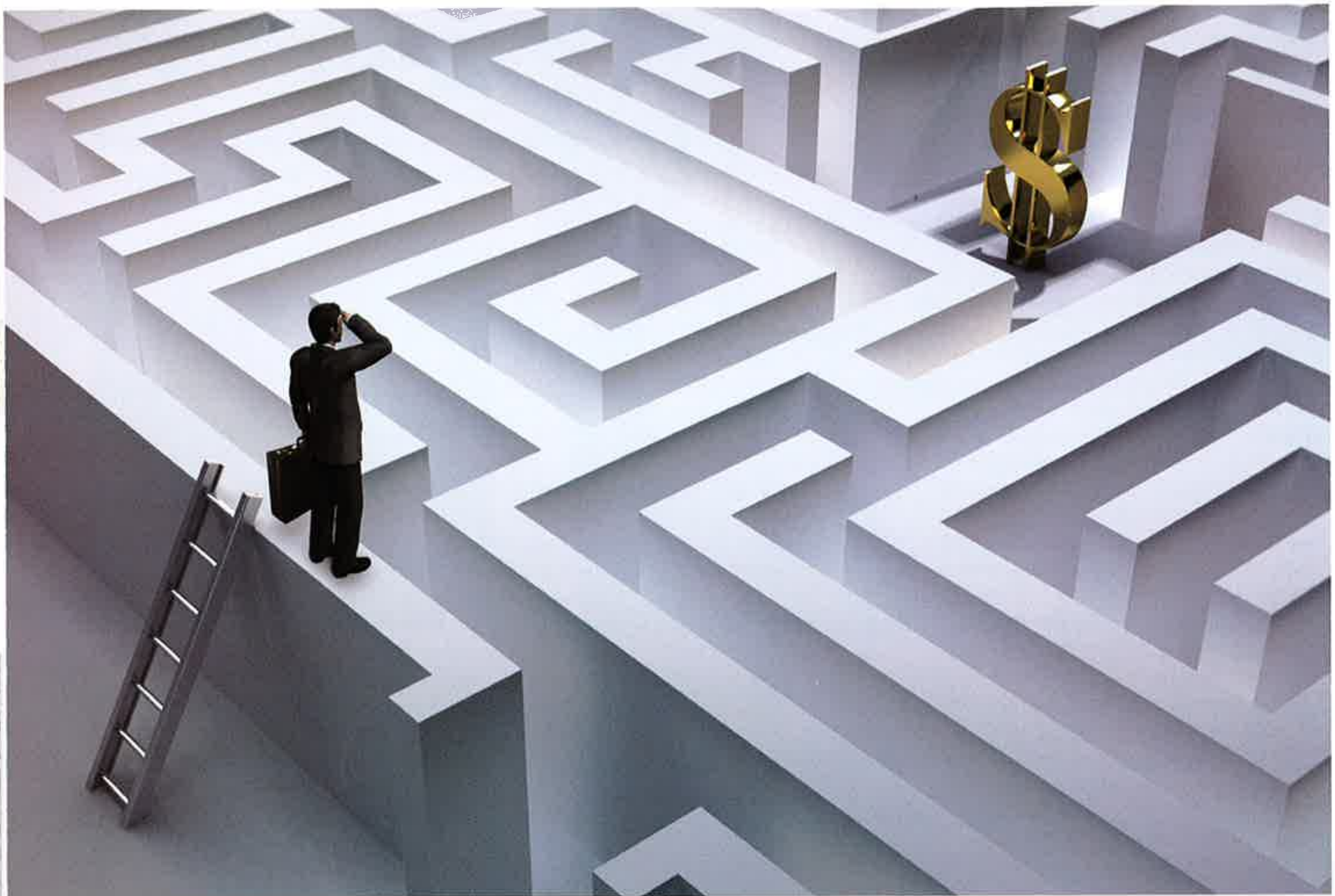

Credit availability still a challenge for small Canadian firms

BY THE CANADIAN FINANCIAL EXECUTIVES RESEARCH FOUNDATION

The global recession triggered by the collapse of the US housing bubble and subsequent subprime mortgage crisis led to worldwide tightening in businesses' access to capital. Even financially healthy corporations saw an impact, as financial institutions failed and other banks were bailed out. Financing through the capital markets became more difficult as stock markets plummeted.

Canada was among the countries least affected, in part due to its healthy banking system, and it was also among the first to bounce back. By mid-2009, the Bank of Canada announced the recession was coming to an end, and the chill gradually lifted from the frozen credit markets.

Yet it seems getting credit is still no easy feat for small Canadian firms post-downturn, despite improved lending conditions that have mostly benefitted their larger counterparts, according to *Credit availability in Canada*, an executive research report by the Canadian Financial Executives Research Foundation and sponsored by Ernst & Young. The CFERF is the research arm of Financial Executives International Canada (FEI Canada).

The survey of Canadian senior financial executives, combined with insights gathered at an executive research forum, show that credit conditions have improved since the 2008 crisis and the subsequent recession, said Michael Conway, chief executive and national president of FEI Canada.

Improvement

"Our survey respondents indicates that the situation will improve some more, particularly for the small business segment," Conway said. "Whether the credit landscape has changed permanently remains to be seen, but companies will have to think on their feet and look for more innovative ways to access capital."

CFERF surveyed 176 senior financial executives across Canada and completed the project with a roundtable discussion on the topic with CFOs in Calgary and Toronto in February 2011. The report shows that, in 2009 and 2010, small companies still reported trouble accessing working capital and long-term financing.

However, more small companies anticipate a better outlook in the credit market, with 77 percent of respondents in this category saying they expect credit to be available or very available by September 2011. Small public companies (50 percent) and small private companies (49 percent) also say that credit came at a higher cost, while significantly fewer large public (23 percent) and large private (32 percent) companies say credit was costly.

"These less than stellar lending conditions include lower credit offered at higher rates, tighter restrictions around terms and requests for more detailed business cases," said Brian Allard, transaction advisory services partner at Ernst & Young. "In 2009 and 2010, many small companies felt that they hit rock bottom and that credit markets and lending conditions could only improve. Conditions have now improved significantly, but companies should focus on building meaningful relationships across a broad spectrum of financial sources."

When CFERF examined large and small companies overall, it heard from senior executives that working capital financing was far more available than at the trough in March, 2009, and that conditions continued to improve between September, 2009 and September, 2010.

Not surprisingly, the level of difficulty of infusing a company with day-to-day operating funds has not loosened to the degree seen prior to the downturn. Indeed, survey respondents report that no category of financing or capital market activity has returned to pre-2008 levels.

As a result, the business of managing one's capital and ensuring a well-maintained balance sheet is a priority for most. Even though conditions are seemingly more promising, debt structure, cash balances, asset performance, covenant controls and strict oversight of working capital continue to be the primary focus. Nevertheless, all of the above were viewed in the fall of 2010 and well into 2011 as easier to control, negotiate and obtain, and thus more available and less costly than in March, 2009.

Confidence

Overall confidence in obtaining access to long-term financing, particularly when compared to survey results from March 2009, recovered considerably in the latter months of 2010. On the other hand, senior financial executives remain cool about further gains into September 2011.

Most expect the level of availability to improve, but at a pace that is steady and in step with what one finance executive described as "a mood in keeping with what should now be de rigueur for all of us: prudence and caution when divining plans for the road ahead."

In fact, the research identifies a rather significant dampening on future spending and its associated financing. Most respondents, of course, kept a close eye on their cash positions as they weathered the recession – many even building healthy war chests for expansion in sunnier times.

Despite this, the appetite for M&A has tapered off since a heart-warming upsurge in acquisition activity through August 2010. Nagging concern over a sluggish global economy has resulted in three-quarters of companies polled preferring to look inward at organic growth.

When they do venture into the marketplace, most respondents have found the arduous process for obtaining credit to have eased significantly since March 2009. The cost of credit followed a parallel course, with large public companies reporting the least pain. Fuelling the coffers was deemed far more costly for small public companies.

In fact, throughout the survey, small public companies stand in stark contrast, faring far worse in all areas of credit availability. However, curiously, compared to their counterparts in this study, small public companies see a ray of hope when they forecast the state of difficulty (restrictions, terms, length of time to arrange loans) of obtaining credit up to the end of 2011.

Types of financing

The survey also asked respondents what types of financing they planned to seek in the next year, helping to shed some light on future activity in the capital markets. Most of those surveyed (68 percent) were planning a line of credit/medium-term notes. About a quarter were looking at private placement debt, and fewer expected to seek private placement equity (14 percent). Other categories included high yield bonds, angel financing and seed capital.

Finally, the respondents indicate that governments' assistance programs proved less useful, particularly for small public and private companies. Overall, 31 percent of respondents say they're not familiar with these programs at all. A mere 4 percent say that they were very familiar with them.

Specifically, many small companies found these programs ineffective, citing problems dealing with government bureaucracy and the complexity of lending requirements as key reasons.

To review the full study, visit
www.feicanada.org

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www.macu.ca

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Jun 13-15
American Bankers Association
CFO Exchange
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June 14-16
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Treasury Management Forum
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Sept 11-13
TAWIP
Inaugural Canadian
Operations Symposium
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September 19-23, 2011
Sibos 2011
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http://www.swift.com/sibos2010/sibos_2011.page

Sep 18-20
American Bankers Association
ABA Marketing Conference
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Credit Union Managers' Association
CUMA Conference 2011
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