73RD HALF-YEARLY SME BUSINESS CLIMATE SURVEY

SMES GETTING BACK ON THEIR FEET

July 2021

Half-way through 2021, SMEs' confidence is growing in all sectors of the economy.

Against a backdrop of improvements to the public health situation and progress with the vaccination campaign, allowing restrictions to gradually be lifted, managing directors are more confident overall about the outlooks for revenue, recruitment and capital expenditure this year, a sign that recovery is well and truly underway. In fact, 37% state that their business has already returned to, or even exceeded, its "normal" level.

While SMEs in almost all sectors reported a substantial increase in optimism for this year, it is most strongly felt in Industry. In mid-2021, the balance of opinion held by firms in this sector as regards change in turnover is +35 (up by 100 points year-on-year) compared with a national average of +24 (up 83 points on last year). The recruitment plans indicator is also healthiest in this sector (at +24, compared with +19 for all sectors combined). Worst hit by the crisis and Covid restrictions in 2020, SMEs in Tourism are still the least optimistic, and are again expecting lower turnover this year, despite a definite improvement in the revenue indicator (up 74 points in one year).

Widespread use of the many government support schemes has cushioned the blow to a large extent. Almost two thirds of SMEs (63%) believe their cash flow is sufficient despite the crisis, a definite improvement from one year ago (49%). SMEs in Commerce and Industry appear more confident in the health of their cash flow (believed sufficient by 72% and 66% respectively), whereas Tourism businesses are the most pessimistic (39%). Many Tourism SMEs also say they lack visibility (10% compared with 4% across all sectors) and that their cash flow difficulties cannot be overcome (3%, as in Transport, compared with 1% overall).

Cash flow was in particular supported by state-guaranteed loans, although 57% of recipients report they have still only used at most half of the money. 24% of SMEs receiving a loan say they have spent almost all of it. 4% of respondents fear not being in a position to repay their loan. In terms of repayment timescales, 60% expect to repay the loan in full over a number of years.

As more firms consider taking on more employees, recruitment difficulties are rising, after the downturn last year. 75% of managing directors report encountering such issues, a definite increase compared with November 2020 (up 10 points). While these difficulties are still at a lower level than pre-crisis (81% in May 2019), they could quickly rise as the recovery gathers pace. They are felt particularly keenly in Construction (87%) and Industry (83%).

Managing directors also report some optimism for 2022, by which time three quarters of SMEs expect to have returned to pre-crisis levels of business. However, 10% anticipate a return to business as usual after 2022, and 15% don't know.

Lastly, optimism surrounding business recovery is supporting the upturn in investment prospects. The crisis seems to have accelerated the implementation of some spending plans, especially digital transformation projects. More than half of SMEs (56%) plan to accelerate (26%) or maintain (30%) their digital transformation strategies as they emerge from the crisis, up 3 points from November. Projects relating to green transition are gaining a little ground, while those connected to remote working have lost some, probably linked to the expected return to a more "normal" life, and a reversion to working on business premises.

This survey is based on the responses from 6,104 SMEs (1-250 employees) received between 17 May and 15 June 2021.

SALIENT POINTS

1 Recruitment and revenue prospects in 2021 have improved markedly

The gradual lifting of public health restriction means SMEs expect to see a definite upturn in turnover this year (balance of opinion at +24, up from -48 in November 2020). Recruitment plans show the same pattern, with the recruitment outlook indicator up to +19 in mid-2021, the same level as before the crisis. The outlook seems most positive in Industry, while business owners in Tourism are, logically, the most pessimistic.

2 The cash flow situation for SMEs reported to be sound

Despite the significant impact of the crisis on business for SMEs, 63% of them report that their cash flow is sufficient to cope, once their use of support mechanisms is included (compared with 57% in April 2021 and 49% a year ago). The proportion is largest in Commerce and Industry (72% and 66%). Just 1% of business owners believe their cash flow difficulties are insurmountable, a lower figure than previously. This proportion is however 3% in Tourism and Transport.

3 State-guaranteed loans still very largely a financial reserve

Of those SMEs having taken out a loan, 57% say they have spent little of it (24%) or indeed none of it (33%). Almost two thirds of SMEs that received a loan plan to repay it in full over a number of years. 4% of the managing directors surveyed fear they will not be in a position to repay it, a lower proportion than in February (8%).

4 The anticipated upturn in business is pushing managing directors' capital expenditure plans in the same direction

Businesses are making substantial increases to their investment plans for 2021. The indicator on the change in amounts invested has climbed significantly, up 30 points in one year to stand at +4, above the figure for May 2019. More than half (58%) of the SMEs in Industry report they have either already invested or plan to invest this year, which is the largest proportion among the major sectors of the economy. This spending is directed partly towards digital transformation projects, with 56% of business owners intending to maintain or accelerate their strategy as the crisis comes to an end (up 3 points compared with November 2020).

5 Three quarters of SMEs should be back to pre-crisis revenue levels by 2022

While 37% of SMEs have already returned to, or exceeded, their 2019 levels of business, 10% report they expect "normal" revenue by the end of 2021, and 28% by the end of 2022. Altogether, 74% of SMEs report they will have returned to pre-crisis levels by 2022. However, 10% anticipate a return to business as usual after 2022, and 15% don't know. Following on from the expectation that business will be buoyant by 2022, business owners are confident they will be able to recruit next year.

Key figures

37%

OF SMES REPORT A NEUTRAL OR POSITIVE EFFECT FROM THE CRISIS ON THEIR TURNOVER IN 2021

THE FIGURE WAS 18% IN NOVEMBER AND 9% IN JUNE 2020 (FOR 2020)

63%

OF SMES BELIEVE THEIR CASH RESOURCES ARE SUFFICIENT TO COPE WITH THE CRISIS

THE FIGURE WAS 57% IN APRIL 2021 AND 49% IN JUNE 2020

91%

OF SMES EXPERIENCED NO DIFFICULTIES IN FINANCING THEIR CAPITAL EXPENDITURE

UP 1 POINT OVER ONE YEAR

+19

BALANCE OF OPINION ON THE EXPECTED TREND IN SME HEADCOUNT IN 2021

UP 32 POINTS OVER ONE YEAR

33%

OF SMES REPORT THEY HAVE SPENT LITTLE OR NONE OF THEIR STATE-GUARANTEED LOAN

4% FEAR NOT BEING IN A POSITION TO REPAY IT

56%

OF SMES PLAN TO MAINTAIN OR ACCELERATE THEIR DIGITAL TRANSFORMATION STRATEGIES

UP 3 POINTS FROM NOVEMBER 2020

CONTENTS

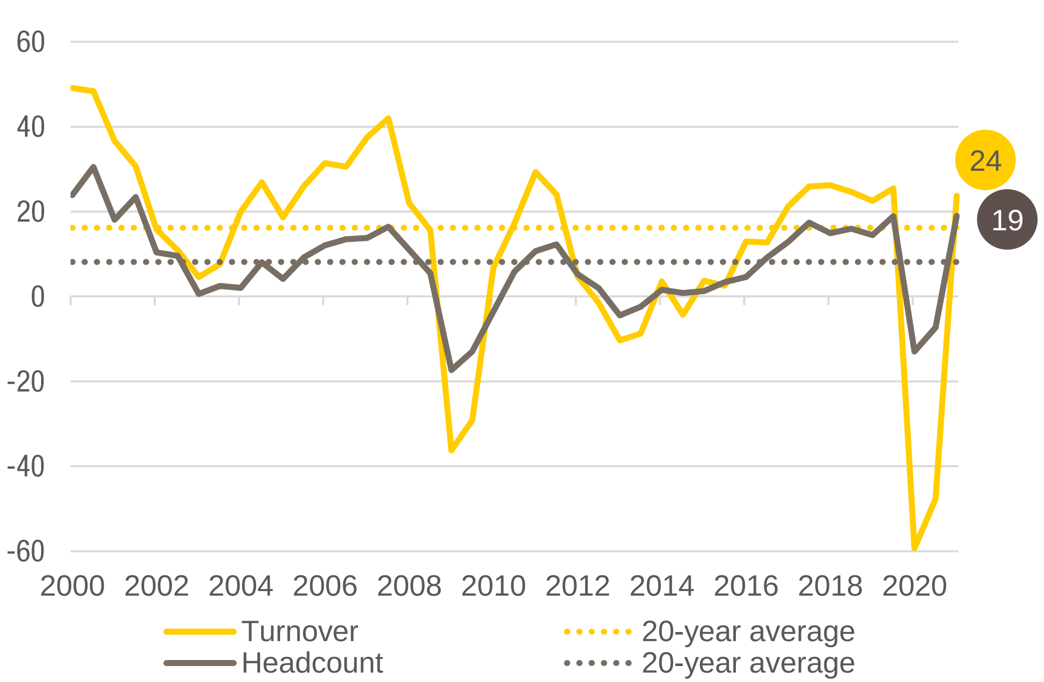
01.

REVENUE AND EMPLOYMENT

Definite upturn in turnover and recruitment expected in 2021

Overall, managing directors are clearly confident about a definite upturn in their turnover and headcounts. Micro-enterprise business owners are the most cautious about the scale of the recovery.

• GRAPH 1: CHANGES IN TURNOVER AND HEADCOUNT FOR THE CURRENT YEAR
BALANCE OF OPINION (AS A %)



Note: the net balance of opinion on the trend in business activity for the current year rose from -59 to +24 between the May 2020 and May 2021 surveys.
Scope: total (N=6,104)

Source: **Bpifrance Le Lab**

After the start of the year saw businesses hampered by the Covid-19 restrictions still in force, the gradual lifting of measures to stop the epidemic spreading, made possible by the improving health situation and the ramping up of the vaccination campaign, are seemingly resulting in a definite recovery in turnover and recruitment for SMEs.

- The balance of opinion regarding changes in turnover in mid-2021 shows a climb of +83 points in one year, to a figure of +24, the indicator's pre-crisis level. 42% of managing directors expect an increase in business this year (up from 15% in November) and only 19% expect a decrease (down from 62%).
- On average, SME owners expect turnover to be up 2.8% in 2021 (compared with 13.2% down in the November 2020 survey for 2020's figures).
- Managing directors of exporting companies expect an average increase in turnover of 5.6% (versus a 15.8% drop in November for 2020) (for non-exporters, the equivalent figures are a 2.0% increase after a 12.5% fall). Innovative SMEs expect a 6.4% increase in turnover this year, after an 11.5% drop in 2020 (compared with an average increase of 1.2% for non-innovative SMEs, after a 13.9% decrease in 2020).
- The balance of opinion on the order book for the last 6 months shows a substantial upturn of 30 points in one year, reaching -1, which is above this indicator's long-term average of -6.3.

In line with the expected sizeable recovery in terms of turnover, business owners have substantially expanded their recruitment plans in 2021.

- Standing at +19 at the mid-point of 2021, the balance of opinion indicator for changes in SME headcount has risen 32 points in one year.

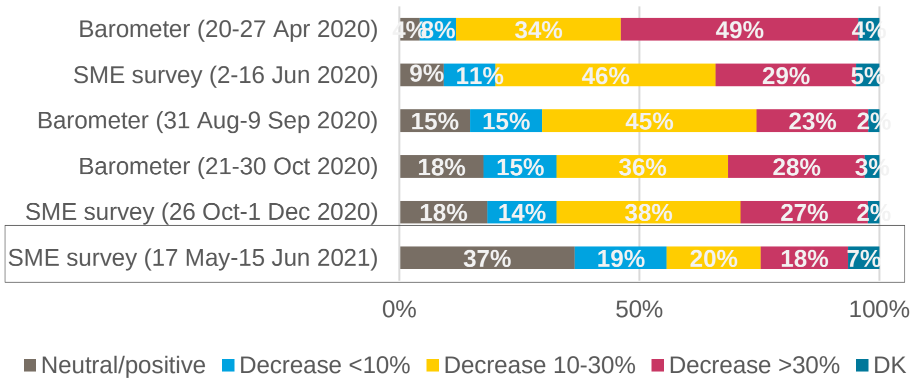
According to the Banque de France, business activity in France should climb by 5.75% over the whole of 2021 after a record decline of minus 8% in 2020 (see Macroeconomic projections – June 2021).

Revenue

Revenue set to rise almost everywhere

Business owners in all sectors except Tourism anticipate a rise in their turnover.

GRAPH 2: IMPACT OF THE PUBLIC HEALTH CRISIS ON TURNOVER FOR THE CURRENT YEAR



Scope: Total (N=6,104); Source: **Bpifrance Le Lab**

After a year marked by a major economic shock caused by the Covid-19 epidemic and the measures introduced to deal with it (lockdown, enforced business closures, curfews, etc.), **SME business owners overall report a return to optimism for 2021**.

- 37% of business owners anticipate a neutral or positive effect from the crisis on their turnover in 2021. This proportion is distinctly larger than the previous surveys for 2020 (up 19 points from November and up 28 points year-on-year). In contrast, 18% predict turnover more than 30% lower than normal (a 9 point drop from November).

SMEs in all sectors and regions report an improvement in their revenue outlook

- The balance of opinion regarding changes in turnover in mid-2021 is highest in Industry (at +35, a climb of 87 points from November), and is now higher than the pre-crisis level (+24 in May and November 2019). On average, managing directors in Industry predict a 5% increase in their full-year turnover (compared with a 12% decrease in November, for the year 2020). 16% of them expect to see a further decrease in turnover in 2021, compared with 66% in November 2020 and 19% in May and November 2019, before Covid struck.
- Worst hit by the crisis and Covid restrictions up to now, SMEs in Tourism are the least optimistic. At -19, the balance of opinion on the outlook for revenue is evidently recovering (74 points up from November and over the year) but remains worse than the +19 figure in November 2019 (just before the crisis) and the +10 historical average. SMEs in Tourism on average expect an 11% drop in turnover over the year (compared with a 42% decrease in November for the year 2020, and a 1% increase on historical average).

See also the focus by sector

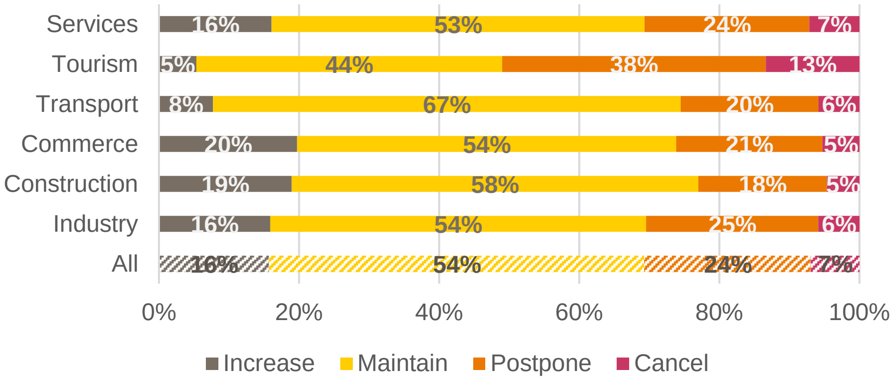
- The outlook for revenue is improving in all regions. SMEs in Pays de la Loire, Normandy and Brittany are the most optimistic as regards their turnover in 2021 (an average 4.9% increase for the three regions). Business for SMEs in Ile-de-France is reckoned to be the least lively (up 1.1% on average), followed closely by those in Provence-Alpes-Côte d'Azur (up 1.7%) and then Nouvelle-Aquitaine (up 1.9% on average).

See also the focus by region

Employment
Significant upturn in recruitment plans in 2021

Employment is maintaining its general momentum in all sectors. SMEs in the Tourism sector are the most cautious.

- GRAPH 3: CHANGES IN RECRUITMENT PLANS SINCE THE START OF THE CRISIS (AS A %)



Scope: Total (N=6,090); SMEs having made recruitment plans
Source: Bpifrance Le Lab

Clear decrease in abandoned recruitment plans compared with the end of last year:

- 16% of managing directors have expanded their plans, more than double the proportion who have abandoned them (7%, a much smaller figure compared with the 15% reported in November). 24% have postponed their plans and 54% have kept them unchanged.
- The highest proportion of abandoned recruitment plans is seen in Tourism (13%), while the largest share of increased plans is in Commerce at 20% followed closely by Construction at 19%.

See also the focus by sector

SMEs anticipate increased headcounts for 2021.

- Standing at +19 in mid-2021, the balance of opinion indicator for changes in SME headcount in 2021 rose 32 points in one year, thereby returning to its pre-crisis level.
- The employment indicator of +24 is particular healthy in the Industry sector. The figure has risen strongly in six months (up 34 points) and is now a significant 16 points above its long-term average of +8. Recruitment plans are also reportedly very upbeat in Services (balance of opinion at +21, up 23 points in six months and 9 points higher than the historical average), Construction (+21, up 19 points in six months and 13 points above the historical average) and Commerce (+17, up 16 points in six months and 8 points higher than the historical average). The greatest change in the indicator on changes in headcount for 2021 is seen in Tourism: at 0, it is 46 points higher than six months ago, albeit lower than the historical average of +2.

In 2020, the drop in private-sector employment was largely kept in check, bearing in mind the scale of the crisis, by widespread use of the short-time working scheme (which involved 8.4 million employees at its peak in April 2020). In 2020, approximately 330,000 private-sector jobs were lost, a drop of 1.7% compared with the 8% decrease in Gross Domestic Product (GDP). By way of a comparison, in 2009, employment in the non-agricultural private sector (i.e. excluding non-profits and the public sector) in France dropped 2.2% while GDP fell 2.8%.

Employment data in early 2021 is on the right track. According to INSEE (French national statistics office), private-sector employment rose by 0.3% in the first quarter of 2021 despite the near stagnation of economic activity (down 0.1%). Moreover, the French social security contributions collection agency URSSAF logged more than 785,000 DPAE submissions (legally required declarations prior to recruitment) in May 2021 for jobs lasting more than one month, of which 383,000 were for permanent jobs, up 37% on the previous month and a 15-year high.

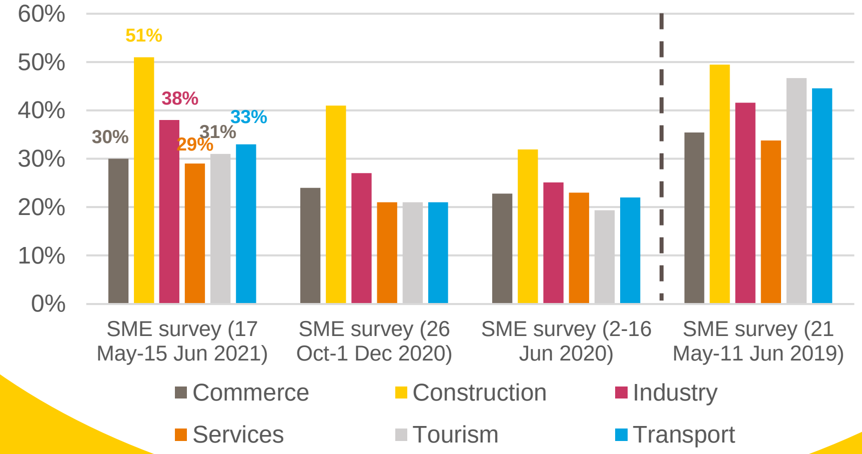
FOCUS

Recruitment difficulties increasing again as the economy recovers

75% of managing directors report experiencing recruitment difficulties. This proportion is distinctly up compared with the November survey (65%) but remains well below the level seen before the crisis (81% in May 2019).

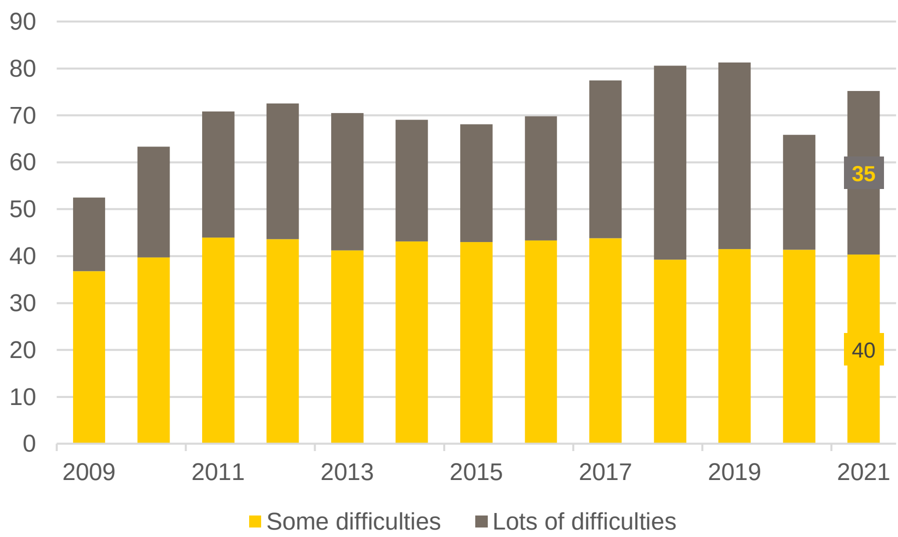
In more detail, some 35% of business owners are seeing major recruitment difficulties (up from 26% in November) while 40% report merely some difficulties, a figure that has changed little since 2017.

Graph 5: Share of SMEs having experienced recruitment difficulties, by sector (as a %)



GRAPH 4: Share of SMEs having experienced recruitment difficulties

As a %



Scope: Total (N=6,104); share of businesses having experienced recruitment difficulties

Source: Bpifrance Le Lab

SMEs in Construction and Industry are reportedly experiencing the greatest recruitment difficulties (87% and 83% respectively, versus 75% for all sectors combined).

Construction-sector managing directors are seeing by far the greatest major difficulties in recruiting (51%, a 10 point rise from November, and up 2 points from May 2019, before the crisis), followed by those in Industry (38%, 11 points higher than November but 4 points lower than May 2019).

While the proportion of business owners reporting severe difficulties in the other sectors, in the region of 30%, is also up year-on-year, it remains somewhat lower than pre-Covid (5 points lower than May 2019 for Services, 6 points lower for Commerce, 12 points lower for Transport and 16 points lower for Tourism). Consequently, as summer approaches, they are far from facing a widespread shortage of staff.

By size, small and medium-sized businesses (more than 10 employees) report more difficulties than micro-enterprises (84% versus 61%). While a gap of this kind is common, it is wider than usual, at 23 points compared with an average of 11.

02.

FINANCIAL SITUATION, ACCESS TO CREDIT AND CAPITAL EXPENDITURE

Financial stability maintained thanks to support measures

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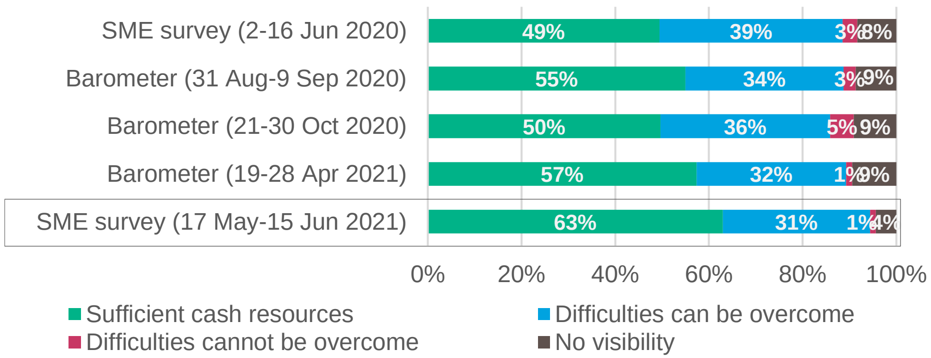
Some two thirds of SMEs believe their cash flow is sufficient despite the crisis, thanks to the government's financial support. The proportion is largest in Commerce and Industry.

• GRAPH 6: CHANGE IN CASH FLOW SITUATION IN VIEW OF THE COVID-19 CRISIS OVER THE COURSE OF 2021



Scope: Total (N=6,090); Source: Bpifrance Le Lab

The many mechanisms put in place by the government and by lenders (deferred taxes and social security contributions, renegotiated bank repayments, state-guaranteed loans, etc.) softened the financial impact from the crisis on SMEs' cash flows. **Almost all small businesses now believe their cash flow is sufficient to overcome the crisis, or that their difficulties are manageable.**

- 63% of SME owners believe their cash flow is sufficient to cope with the crisis, a further improvement since June 2020 (49%). 32% of SMEs report cash flow problems (the lowest proportion since the Covid-19 crisis began), but 31% consider them to be manageable (compared with 32% in April 2021 and 39% in June 2020). Just 1% of business owners believe the cash flow difficulties brought about by the crisis are insurmountable (versus 5% in October).
- Commerce and Industry are the sectors where most SMEs report sufficient cash flow despite Covid-19 (72% and 66% respectively). This proportion drops to just 39% in Tourism, a sector where 3% view their difficulties as insurmountable and 10% report they have no visibility, the highest proportion of any sector (3-5% being the typical figure).

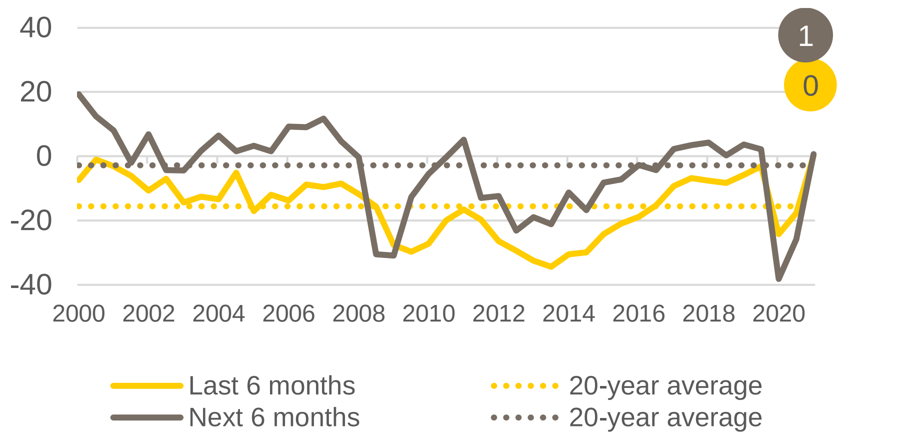
In mid-2021, the cash flow situation for SMEs continues to improve.

- The indicator reflecting opinions on the cash flow situation over the last 6 months has gained 18 points since November 2020 to reach 0, its highest level since the survey began. Standing at –41, the balance of opinion remains far below its long-term average (-26) in the Tourism sector.
- SMEs do not at this stage appear troubled by the prospect of the gradual removal of financial support to businesses put in place to deal with Covid-19, if the future cash flow indicator is any guide. For the first time since the crisis started, the balance of opinion has returned to positive ground, up 27 points to +1, which is above its historical average of -1.

Similarly, SMEs' profitability is much healthier this year.

- 66% of SMEs believe their profitability was "good" or "normal" in 2020, a higher proportion than the 58% seen in November 2020 for that same year, but lower than the 83% figure reported one year previously for 2019.
- Profitability is however expected to be better in 2021, with 30% of business owners expecting an increase in profitability in 2021, while 15% predict a fall. They are consequently more optimistic about 2021 than they were at the end of 2020, when only 21% anticipated a rise and 24% a fall.
- By sector, many more SMEs in Industry expect an increase in profitability this year than a drop (36% versus 15%). This is also the case in other sectors, although to a lesser extent, except in Tourism where the survey's findings are the opposite (20% versus 34%).

• GRAPH 7: AVERAGE OPINION ON THE PAST AND FUTURE CASH FLOW SITUATION
(BALANCE OF OPINION AS A %)



Note: In May 2021, the share of SMEs saying cash flow was difficult over the last 6 months was equal to the proportion saying cash flow was easy.
Scope: total (N=6,104); Source: Bpifrance Le Lab

Lack of shareholders' equity and debt levels still viewed as moderate constraints

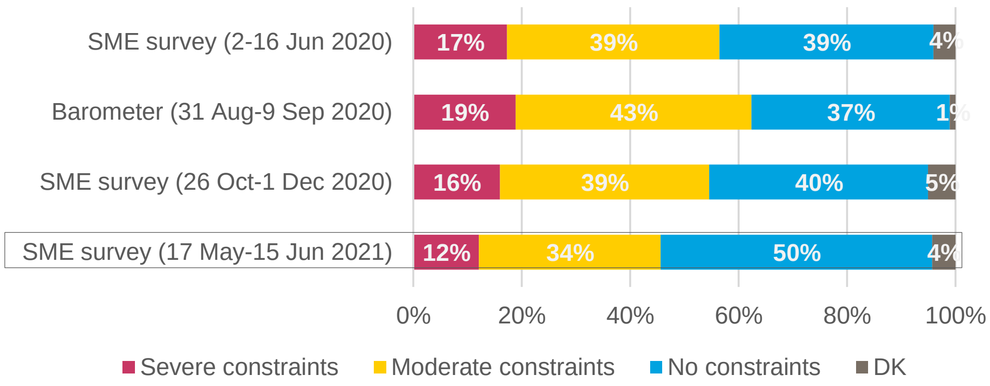
While business owners overall are confident in their business' financial soundness, some 10% of them report severe difficulties.

The various support mechanisms, widely taken up, have helped to limit the financial constraints affecting SMEs. Approximately 10% of SMEs nonetheless fear that their shareholders' equity and debt levels are restricting their ability to recover.

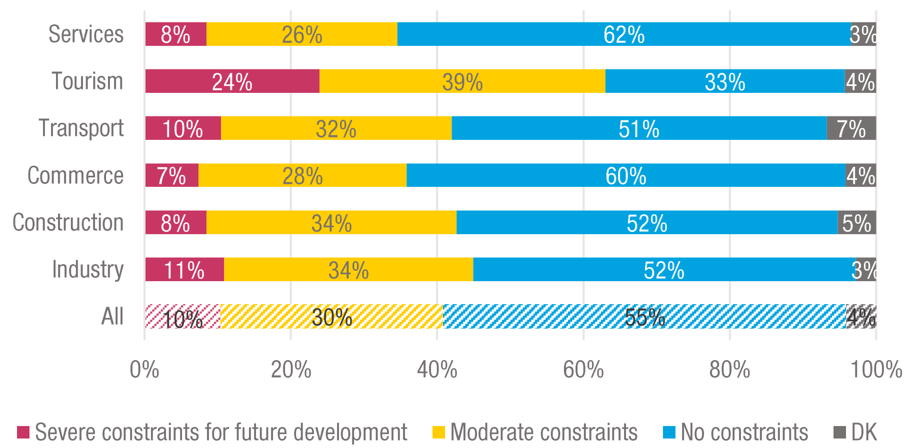
- However, half of them report that their level of shareholders' equity imposes no such restriction. In contrast, 46% believe that their current shareholders' equity limits the development of their businesses (a moderate constraint for 34%, severe for 12%, the lowest proportion since June 2020).
- Note that according to the latest Bpifrance Le Lab/Rexecode survey from May 2021, a lack of shareholders' equity is at this point viewed as an obstacle to growth by just 13% of SMEs, the lowest figure since this survey began in 2018 (the average since the start being 18%). This could however change as businesses emerge from the crisis with rising requirements for working capital and capex, particularly in sectors still receiving significant support.
- 40% of SMEs believe that their debt level is an obstacle to recovery, and 10% seeing the constraint as severe. SMEs in Tourism are by far the most worried about their debt levels (63%, including 24% describing the constraint as severe), followed by businesses in Industry (at 45% and 11% respectively).
- Conversely, slightly more than half (55%) of SMEs say that their debt level is not a constraint on their development. SMEs in Services lead the field (62%), with Commerce (60%) hard on their heels.

According to the Banque de France *(Report on SMEs' shareholders' equity – May 2021)*, the Covid crisis has seriously affected businesses' financial structures, making a targeted strengthening of shareholders' equity necessary, estimated at €50bn, of which around €20bn would be combined with government support. Moreover, according to a simulation by the French Treasury Department *(Trésor-Éco issue no. 282 – April 2021)*, businesses' additional debt caused by the crisis could reduce capital expenditure by some 2% over the medium term.

• GRAPH 8: CONSTRAINTS IMPOSED BY SHAREHOLDERS' EQUITY IN THE RECOVERY PHASE (AS A %)



• GRAPH 9: CONSTRAINTS IMPOSED BY DEBT LEVELS IN THE RECOVERY PHASE (AS A %)



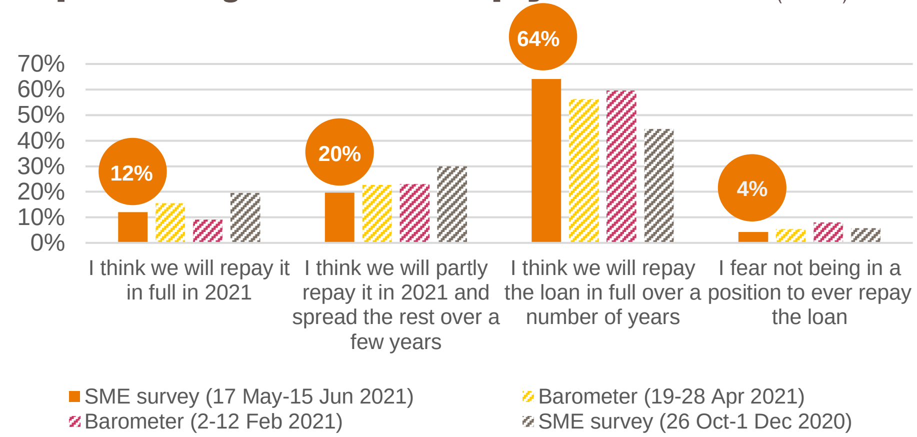
Scope: total (N=6,090)
Source: Bpifrance Le Lab

FOCUS

Most recipients (57%) had still not used more than half of their state-guaranteed loans by mid-2021.

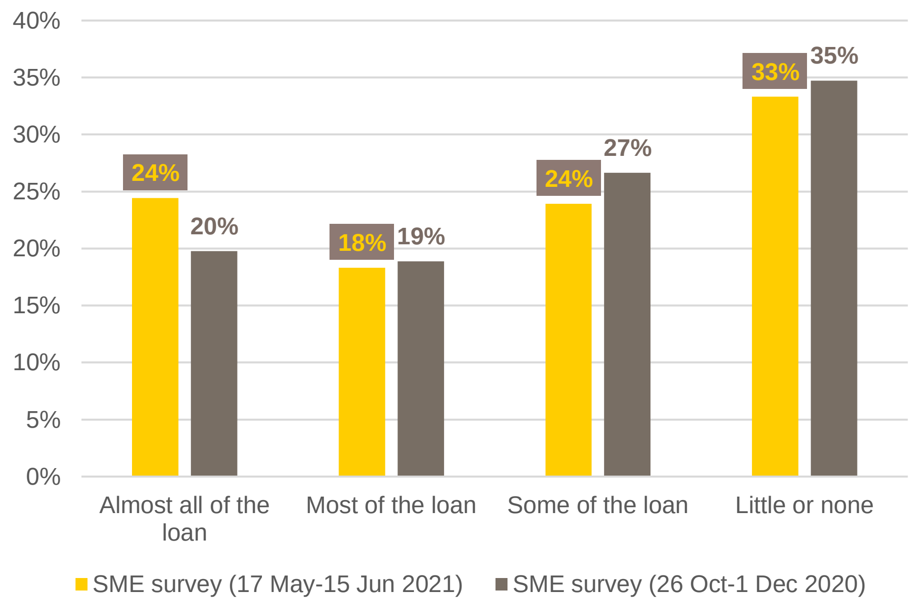
Large numbers of SMEs had applied for state-guaranteed loans to cope with the business impact of the Covid-19 epidemic. In H1 2021, more than half of business owners (56%) who responded to the survey reported that they had applied for a loan.

Graph 11: State-guaranteed loan repayment timeframe (as a %)



Scope: Businesses in receipt of a state-guaranteed loan
Source: Bpifrance Le Lab

Graph 10: Amount of state-guaranteed loans used



Scope: Businesses having requested and obtained a loan
Source: Bpifrance Le Lab

To date, 33% of business owners of SMEs in receipt of a state-guaranteed loan report they have used very little or none, and 24% have spent less than half. On the other hand, 24% of small business recipients say they have spent almost all of their loan, a proportion that is up slightly from 20% in November.

- **22% of managing directors in Industry report they have used almost all of the loan** (lowest proportion of all sectors combined) and **36% have used very little or none,** compared with 26% and 29% respectively in Tourism and 28% and 31% in Construction.
- **Slightly more micro-enterprises** (fewer than 10 employees) **than small and medium-sized businesses say they have used almost all of the loan (25% versus 21%).**

Of all those businesses having requested a state-guaranteed loan:

- More than half (52%) used it to finance their working capital requirement (WCR) or cash flow, 21% to repay pre-existing borrowing or fixed costs (e.g. bank borrowing, HP payments, supplier payables, rent, tax & social security contributions), and 11% for capital expenditure.
- 39% say they have retained a substantial share of the loan as a liquidity reserve at this stage, and 9% spent it on paying employees up-front, pending reimbursement under the short-time working scheme.

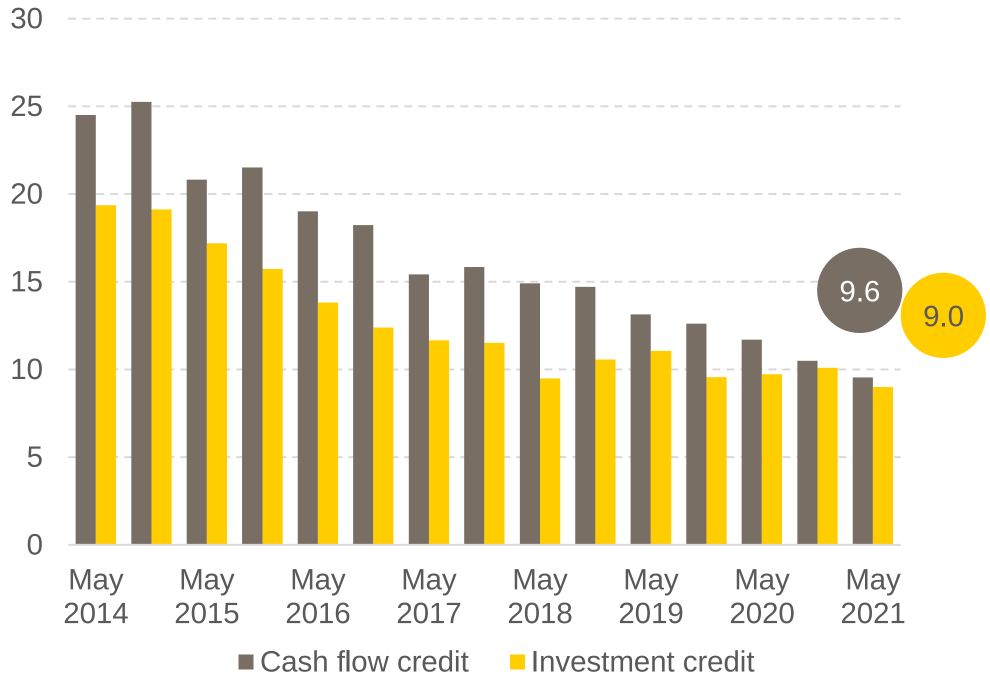
The risk of failure to repay state-guaranteed loans appears relatively limited at this stage. The majority of the SMEs that are loan recipients are planning to repay all of it over a number of years (64%), and 32% plan to repay at least part of it in 2021 (12% repayment in full, 20% part repayment). Just 4% of respondents fear they will be unable to repay their loan, a lower proportion than in the April (5%) and February (8%) surveys. This fear was expressed by 7% of SMEs in Tourism. Two thirds of SMEs in this sector plan to repay the loan over a number of years.

Still very comfortable terms for access to credit

In mid-2021, credit terms remain particularly relaxed. Tourism is increasingly pinpointed as a high-risk sector.

- **GRAPH 12: DIFFICULTIES ACCESSING CREDIT**

FAIRLY OR VERY DIFFICULT (AS A %)



Scope: total (N=6,104)
Source: Bpifrance Le Lab

Difficulties accessing cash flow credit facilities, which have declined near-continuously since the end of 2013, continue to recede.

- Only 9.6% of SMEs said they had experienced difficulty in accessing cash flow credit facilities, versus 10.5% one year ago. The significant use made by SMEs of the state-guaranteed loan scheme, which serves to provide cash to businesses to meet cash flow needs during the crisis, explains to a large extent the availability of short-term credit facilities under favourable terms despite the recessionary situation.
- In the last year, access to cash flow credit facilities has either not changed or become easier in every sector (8% proportion reporting difficulties, down from 11% a year ago in Industry, for example) with the exception of Transport which reported a slight toughening of conditions (11% compared with 9% one year ago). Financing terms nonetheless remain very favourable in this sector too (22% for the long-term average).
- Despite a slight improvement in the situation, Tourism businesses are still experiencing many more issues than other sectors (21% from 22% a year ago).
- For SMEs experiencing difficulties financing their day-to-day operations, the main reason by far remains an insufficient level of revenue and/or lack of certainty over their outlook, which has risen this year (cited by 60% of SMEs after 56% one year ago). This reason is mentioned particularly by SMEs in Tourism (68%), Commerce (66%) and Industry (63%). 36% of SMEs in Industry reporting issues in financing cash flow indicate that the main cause is the guarantees demanded (up from 28% a year ago) and 22% say it is the risk associated with their trade sector (down from 26% in May 2020). Half of the SMEs in Tourism encountering difficulties in financing their cash flow requirements attribute the situation to the risk associated with their trade sector (versus 32% one year ago).

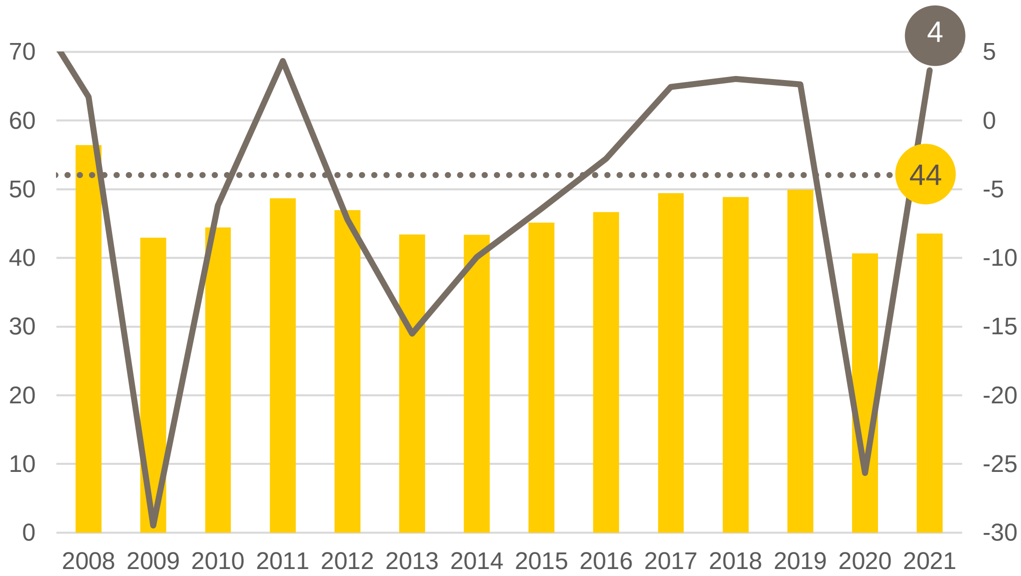
Slight reduction in difficulties accessing investment credit facilities after little change for 2 years.

- Only 9% of SMEs reported difficulty in accessing investment credit facilities, a decrease of 1 point year-on-year and a level almost half the historical average (16%).
- Despite a small year-on-year decrease, Tourism businesses are encountering the most difficulties by far (20% now from 21% one year ago).
- Companies experiencing difficulties accessing investment credit facilities cite the financial fragility of their business as the main reason, a very slightly lower proportion than one year ago (72% from 73% the previous year). Note that 84% of SMEs in Industry affected by these difficulties cite this reason, a higher proportion than a year ago (80% in May 2020) and distinctly above the national average.

Upturn in SME investment expected in 2021

SMEs in all sectors anticipate increased investment for 2021. The upturn is reportedly strongest in Industry, and smallest in Tourism.

• GRAPH 13: CHANGES IN INVESTMENT AT THE START OF 2021



Scope: total (N=6,104)
Source: Bpifrance Le Lab

Since the start of the Covid-19 crisis, 49% of SMEs with investment plans have opted to keep them in place, 13% have decided to increase them, 31% to postpone them and 6% to abandon them entirely. These proportions are very similar to the findings of the Bpifrance Le Lab-Rexecode survey in May 2021.

44% of SMEs report actual or planned capital investment in 2021, a proportion that is up 3 points compared to the previous year.

- Industry has the largest share of SMEs reporting actual or planned capital expenditure this year (58%, up from 54% in November and 48% a year ago), although this figure is still slightly below the long-term average in this sector of 61%. Unlike other sectors, the proportion of SMEs in Tourism reporting actual or planned capital expenditure this year is unchanged from November, but shows a small drop over the year (28% now from 36% in May 2020) and stands far below the sector's historical average of 55%.

The indicator for the change in amounts invested has climbed a substantial 30 points in one year to stand at +4, its highest level since 2011.

- It is still weak in Tourism (-24), remaining far below its long-term average value of -8, although it has certainly recovered relative to November (-56) and May 2020 (-49). The indicator for the change in amounts invested by SMEs in Industry shows the highest value, standing at +16 (after -20 in November and -24 a year ago), well above its historical average of +1.

Investment financing structure has changed little from one year ago.

The largest share of financing (slightly over 40%) is still from banks, medium-term for the most part. Some 30% of funding is internally generated.

Business directors report their first area of increase in expenditure is movable property (plant & machinery, vehicles and other equipment at 60% from 49% one year previously) at the expense of spending on real estate (land, buildings, existing premises and improvements, etc. down to 35% from 43% one year ago). Investment in intangibles, slightly down from last year, accounts for 6% of spending.

INSEE (the French national statistics office) reports that capital expenditure by non-financial companies is expected to show a definite upturn this year in almost all trade sectors. According to the results of INSEE's Industry investment survey in April 2021, businesses in Industry plan to significantly expand their capex plans (up 10% by value year-on-year), and particularly so for SMEs in manufacturing and capital goods.

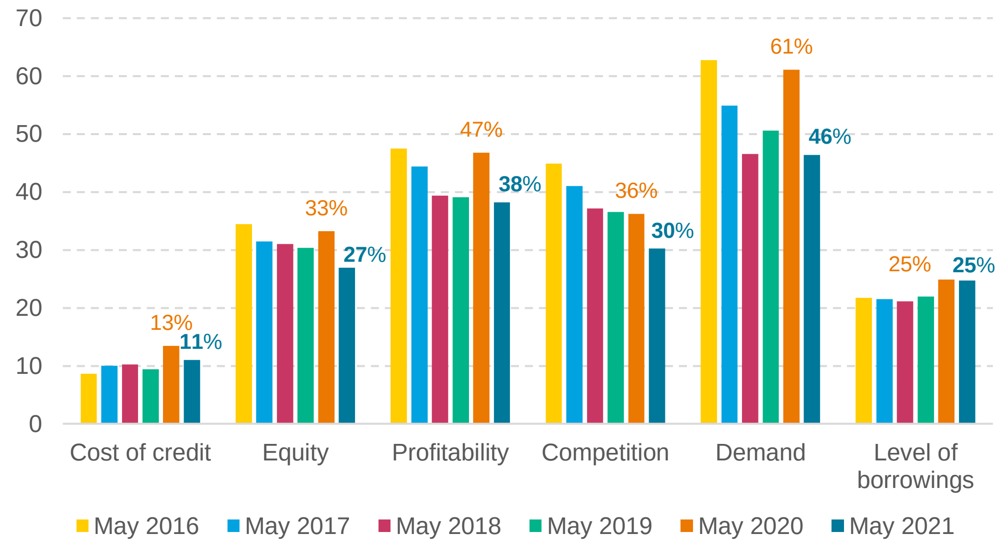
Smaller obstacles to capital expenditure, despite the uncertain times

The share of SMEs reporting barriers to investment is down over the year. Lack of sales outlets remains the main obstacle.

- **Weak demand is the main obstacle to capital expenditure**, mentioned by 46% of SMEs, showing a marked drop of 15 points in one year. This reflects the persistent uncertainty over the lack of sales outlets and the prospect of lower demand as the crisis comes to an end.
- **The second obstacle mentioned by business owners**, to a lesser extent compared with the same period last year, **is reduced profitability** (mentioned by 38% of businesses, down 9 points year-on-year).
- **Financial structure constraints identified by SMEs remain modest**. Of the hurdles reported, excessive debt was again mentioned by 25% of business owners, unchanged from last year but higher than the pre-crisis figure. Insufficient shareholders' equity is cited by 27% of business owners, lower than one year ago (33%) and lower than before the crisis.
- The cost of credit remains a minor obstacle to investment, against a backdrop of still very favourable financing conditions (*see graph 12*). Mentioned by 11% of managing directors, it is down 2 points over one year.

• GRAPH 14: OPINION ON OBSTACLES TO INVESTMENT

SIGNIFICANT OR INSURMOUNTABLE (AS A %)



Scope: total (N=6,104)

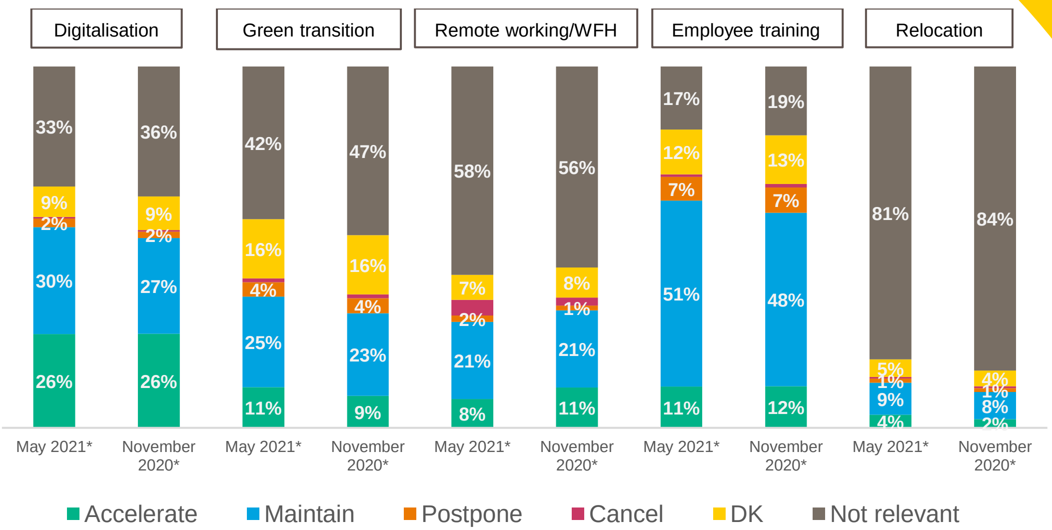
Source: **Bpifrance Le Lab**

FOCUS

Following the crisis, a clear majority of SMEs plan to maintain or accelerate their digital transformation strategies

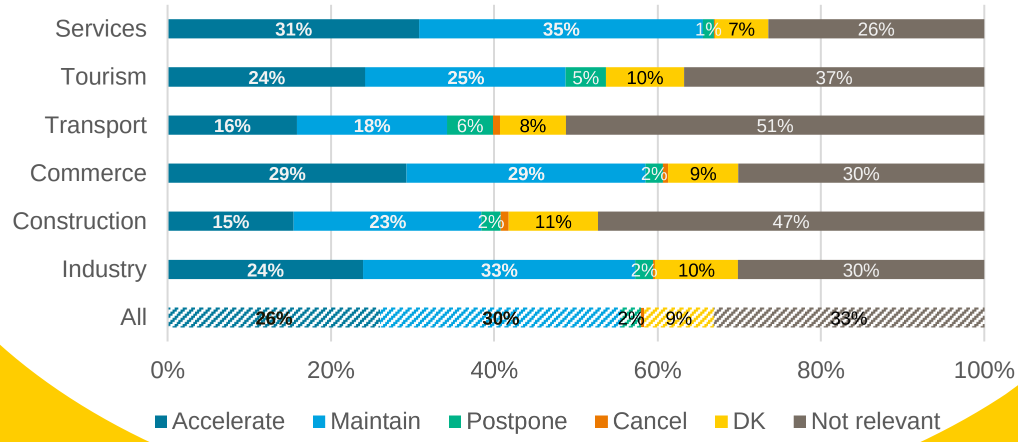
The public health restrictions introduced in France during the Covid-19 crisis (basically the three lockdowns) **induced some SMEs to considerably alter how their work is organised, and even their product range. Emerging from the crisis, business owners overall seem disinclined to reverse these organisational changes, and some even plan to take them further.**

Graph 15: Change in SME post-Covid strategies
(as a %)



Scope: total (N=6,090)
Source: Bpifrance Le Lab
*May 2021 = SME survey (17 May-15 June 2021).
*November 2020 = SME Survey (26 Oct-1 Dec 2020)

Graph 16: Changes to digital transformation strategy by sector (as a %)



Scope: total (N=6,090)
Source: Bpifrance Le Lab

More than half of SMEs (56%) plan to accelerate or maintain their digital transformation strategies as they emerge from the crisis, up 3 points from November.

- In more detail, 26% of managing directors report they plan to ramp up their digital transformation strategy, a proportion unchanged from the end of last year, while 30% intend to keep their current strategy, up 3 points from November 2020. Just 2% of SME business owners anticipate cancelling or postponing their digitalisation plans, again a proportion unchanged from November. A third of business owners say this area does not affect them, slightly lower than at the end of 2020 (36%).

- Looking at sectors, SMEs in Services see the highest level reporting an intention to accelerate their digitalisation plans (31%), followed by Commerce (29%) and then Industry and Tourism (both 24%).

The topic of employee training is the most commonly shared by SMEs, although at 11%, the proportion of businesses anticipating an acceleration in their plans is lower than for digitalisation. Projects relating to green transition are slowly gaining traction, with 36% of SMEs intending to maintain or boost their strategies, up 4 points from November 2020, and a 5 point decrease in 6 months in those saying this area does not concern them. **Remote working/WFH plans have lost a little ground** (29% from 32%), probably linked to the expected return to a more "conventional" life, and a reversion to working on business premises. While up (13% from 10%), **the percentage of SMEs mentioning relocation as a post-Covid strategy (same or accelerated plans) remains a minority. The vast majority of businesses** (81%) **report they have no such plans. A higher share of SMEs mentions relocation as a post-Covid strategy in Industry, as SMEs are more concerned by this issue in this sector** (72 % say this area does not affect them). 19% of them plan to maintain or accelerate their relocation strategy (up from 16% in late 2020).

03.

OUTLOOK FOR 2022

Business outlook set fair in 2022

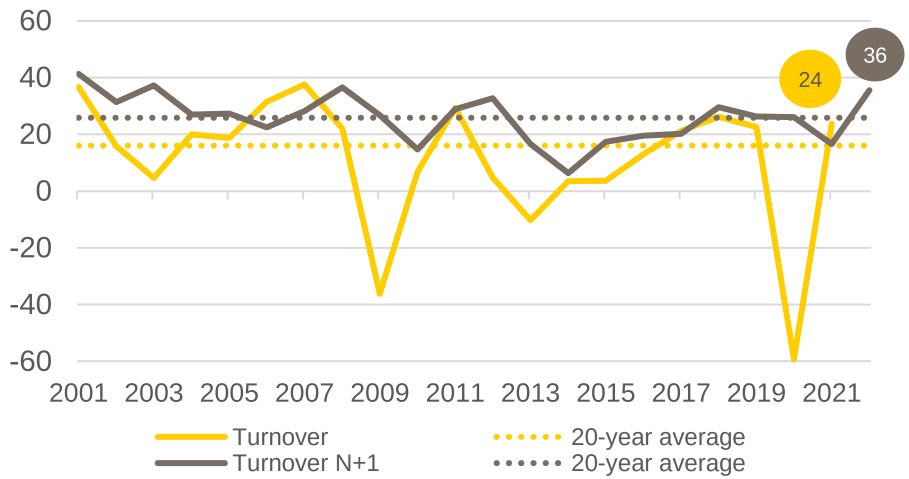
Some three quarters of SMEs should be back to pre-crisis revenue levels by 2022.

The SME business outlook indicators show a definite upturn.

- The balance of opinion on the expected change in turnover for the following year climbed 19 points over the year to stand at +36 in May 2021 for 2022.
- At the same time, the view of future order books has also risen considerably year-on-year. The balance of opinion rose 39 points to stand at +18 in May 2021, its highest level since May 2007.
- Managing directors across all sectors report higher expectations for 2022. SMEs in Tourism are by far the most optimistic (+59), followed by Industry and Services, both at +41 in May 2021. While the balance of opinion on business outlook is also positive in wholesale & retail Commerce (+33), Transport (+30) and Construction (+13).

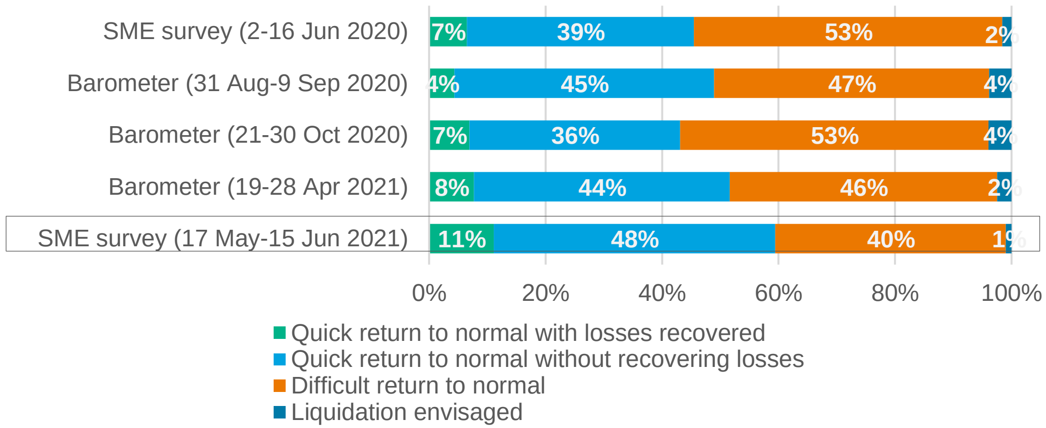
- **GRAPH 17: CHANGE IN TURNOVER FOR THIS YEAR AND THE FOLLOWING YEAR**

BALANCE OF OPINION (AS A %)



Note that the balance of opinion on the expected change in turnover for the following year climbed 19 points over the year to stand at +36 in May 2021 for 2022.
Scope: total (N=6,104); Source: Bpifrance Le Lab

- **GRAPH 18: TYPE OF RECOVERY EXPECTED**



Scope: Total (N=3,453); SMEs anticipating an adverse effect from the crisis on their full-year turnover in 2021
Source: Bpifrance Le Lab

Of those SMEs where revenue is not yet back to or higher than pre-crisis levels, the vast majority expect a swift return to normal (with or without recovery of past losses from the Covid-19 crisis) and most expect this will happen in 2022.

- Of those managing directors who still anticipate a negative impact on their businesses from the crisis (57%), the majority expect business to swiftly return to normal. The proportion has risen steadily since October 2020 (now 59% compared with 43% in October). 48% believe this return to normal is likely to occur without making good the losses incurred in the crisis, and 11% expect to recover those losses, a figure that has climbed continuously since September. This resurgence in optimism is probably attributable to the significant relaxation of health restrictions.
- By size, 68% of managing directors of small and medium-sized enterprises (more than 10 employees) where business is still adversely affected by the crisis are expecting a quick return to normal, compared with 59% of micro-enterprises. However, 31% of these small and medium-sized companies expect a difficult return to normal and the figure is 40% for businesses with fewer than 10 employees.
- Conversely, 40% of business owners anticipate a difficult return to normal. This marks a drop from 53% in October. The proportion does vary from sector to sector, being highest in Tourism (54%), and in the region of 41% for Industry and Transport. The figure is between 32% and 37% for SMEs in Construction, Commerce and Services.
- Among owners of businesses where turnover is still negatively affected by the crisis, just 1% are planning to wind the business up (down from 4% in September and October).
- In terms of the timeframe for recovery, 74% of SMEs expect to be back at pre-crisis levels by 2022, including 46% that report it will have happened by the end of 2021. 10% believe full recovery will take longer, and 16% don't know.

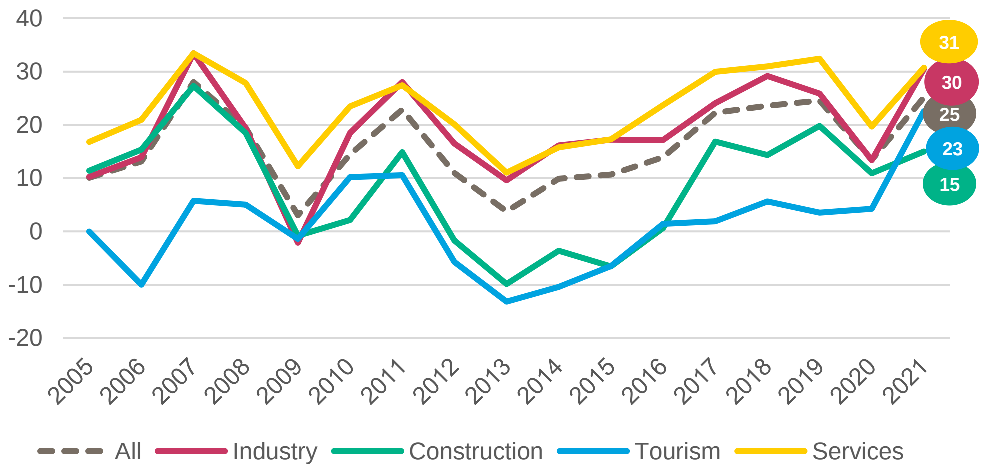
Upbeat recruitment expectations for 2022

SMEs in all sectors demonstrate a marked upturn in optimism for 2022 as regards the outlook for recruitment.

Recruitment is likely to be buoyant in 2022.

- The year N+1 headcount indicator has recovered significantly to +25, far higher than the long-term average of +16.5. It stood at +13 in May 2020 and +25 in May 2019.
- While all sectors report improved prospects for next year, the greatest increase in this indicator is seen in Tourism (up 19 points in one year to +23), followed by Industry (up 17 points to +30) and Services (up 11 points to +31). SMEs in Construction are the least optimistic about expanding their headcounts next year, up 4 points from last year to +15.
- Exporter SMEs are more optimistic (up 18 points in one year to +36, above the historical average of +22) than their non-exporting counterparts as regards changes in headcount in 2022 (up 10 points from last year, to +22, also above the long-term average of +15).
- Innovative SMEs report recruitment prospects for next year that are distinctly better than their non-innovative counterparts. The year N+1 headcount indicator for innovative SMEs is up 18 points from last year to stand at +41 (comfortably higher than the long-term average of +29), compared with a 9 point rise to +18 over the same period for non-innovators (also above the long-term average of +7).
- While up year-on-year (6 points higher at +17, compared with the historical average of +11), the employment outlook for micro-enterprises for 2022 is less attractive than that for small and medium-sized enterprises (up 15 points to +31, compared with a long-term average of +18).

• GRAPH 19: CHANGES IN HEADCOUNT FOR THE FOLLOWING YEAR
BALANCE OF OPINION (AS A %)



Scope: total (N=6,104)
Source: Bpifrance Le Lab

Regional economic environment: summary

Emerging from the economic hammer-blow of last year, SMEs across France report far better prospects for this year. The expected increase in turnover for 2021 fluctuates from 1% to 5% on average, depending on the region.

While businesses in all regions anticipate an upturn in turnover this year, SMEs in Normandy, Pays de la Loire, Bourgogne-Franche-Comté and Brittany are the most positive (+5% on average). Although they also predict an increase in their turnover, SMEs in Ile-de-France, Provence-Alpes-Côte d'Azur and Nouvelle-Aquitaine are more restrained, at +1.1%, +1.7% and +1.9% respectively for the full year.

Consistent with the expected upturn in business, SMEs across all regions of France report intentions to increase headcount this year. This recruitment will be largest in Brittany and Pays de la Loire, as revenue expectations for 2021 are highest from SMEs in these regions. As regards investment, SMEs in all regions report that they predict significant rises in their spending.

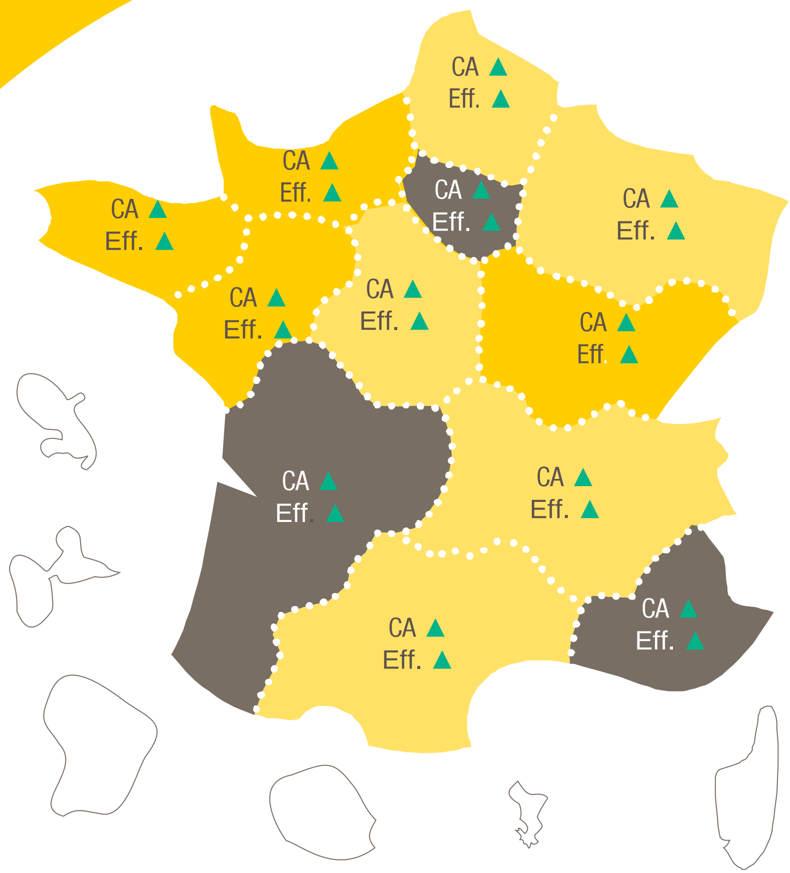
The government support measures rolled out during the Covid-19 crisis served to limit to a large extent the cash flow difficulties experienced by SMEs in all regions. The most serious cash flow issues were seen by businesses in the Ile-de-France and PACA regions. The balance of opinion on the cash flow situation over the last 6 months reached -8 in both regions, in comparison with a value of 0 for all regions combined. Meanwhile, SMEs in the regions of Pays de la Loire, Brittany and Nouvelle-Aquitaine reported fewer cash flow issues in mid-2021.

For 2022, SMEs in all regions of France anticipate improved levels of business. Those in the Ile-de-France regions are the most optimistic (balance of opinion on business outlook at +43). In other regions, the balance is in the +30 to +38 range, which is an all-time high.

Recruitment plans for 2022 are also significantly higher across all regions. SMEs in Ile-de-France are again the most positive with a balance of opinion on recruitment for next year at +29 (compared with +25 for the country as a whole), up 8 points on its long-term average. Business owners in Provence-Alpes-Côte d'Azur show more restraint about next year than other regions, with a balance of opinion at +20 versus the average figure of +25, but still slightly above its historical average of +17.

The detailed results by region are available as regional summaries, at https://lelab.bpifrance.fr/.

• **CHANGES IN TURNOVER AND HEADCOUNT BY REGION**
BALANCE OF OPINION (AS A %)



Average change in turnover at nominal value

- From 1.0% to 2.4%
- From 2.5% to 4.4%
- 4.5% and higher
- Not significant

- ▲ Balance of opinion up over one year
- ▶ Balance of opinion unchanged over one year
- ▼ Balance of opinion down over one year

	TURNOVER				HEADCOUNT				INVESTMENT			
	Average 2000 to 2019	May 2020	May 2021	Change/ May 2020	Average 2000 to 2019	May 2020	May 2021	Change/ May 2020	Average 2000 to 2019	May 2020	May 2021	Change/ May 2020
YEAR 2021[1]												
All SMEs	**16**	**-59**	**24**	↗	**8**	**-13**	**19**	↗	**-4**	**-26**	**4**	↗
10-250 employees	23	-58	33	↗	14	-14	25	↗	-1	-25	9	↗
Fewer than 10 employees	6	-62	9	↗	-1	-11	10	↗	-8	-26	5	↗
Commerce	15	-56	23	↗	7	-9	17	↗	-6	-24	0	↗
Construction	10	-56	22	↗	6	-5	18	↗	-9	-24	1	↗
Industry	18	-65	35	↗	7	-20	24	↗	0	-24	16	↗
Services	21	-50	23	↗	13	-5	21	↗	-3	-22	2	↗
Tourism	7	-93	-19	↗	1	-53	0	↗	-10	-49	-24	↗
Transport	11	-67	21	↗	8	-14	16	↗	-5	-35	-1	↗
YEAR 2022[1]												
All SMEs	**26**	**17**	**36**	↗	**16**	**13**	**25**	↗				
10-250 employees	32	21	41	↗	19	16	31	↗				
Fewer than 10 employees	17	10	28	↗	12	11	17	↗				
Commerce	26	17	33	↗	14	10	20	↗				
Construction	6	6	13	↗	8	11	15	↗				
Industry	34	22	41	↗	18	13	30	↗				
Services	30	20	41	↗	24	20	31	↗				
Tourism	16	9	59	↗	3	4	23	↗				
Transport	15	12	30	↗	10	10	19	↗				

(1) Balance of opinion = (Share of businesses anticipating a rise - Share of businesses anticipating a fall)

04.

METHODOLOGY

Definitions

Indicators or balances of opinion are conventionally used in business surveys to track the changes over time in the evaluation of the main socio-economic parameters (business activity, employment, exports and capital expenditure) and financial parameters (cash flow, access to credit, etc.).

They equate to the differences between percentages of opposite opinions:

- **Indicator of trend** = [(x% "up") - (y% "down")] x 100
- **Indicator of level** = [(x% "good/comfortable") - (y% "poor/difficult")] x 100

The percentages of neutral opinions ("same" and "normal"), which take the balances up to 100%, are not included when calculating indicators of this type.

A business is considered "innovative" if it has taken at least 1 of the following 5 steps during the last 3 years:

- funded research and development expenditure (in-house or externally) or recruited R&D personnel;
- acquired an operating licence for a process or technology;
- filed a patent, a trademark, a design or a utility model;
- developed a new or significantly improved product or process (service provision) on behalf of a third party;
- marketed a new product, asset or service (other than simply reselling new products bought from other businesses and excluding aesthetic changes or changes to the packaging of products already in existence), or used a new production, marketing or organisational process (or method). Furthermore, no similar product or process should already have been marketed or used by competitors.

A "**high-export**" business conducts over one quarter of its business internationally, a "**medium-export**" business between 6% and 25%, and "**non-exporters**" less than 6% (including 0%).

Sample structure

For this 73rd half-yearly business climate survey, 31,356 non-agricultural private-sector companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed between the end of May and the beginning of June.

The 6,104 responses received between 17 May and 15 June, considered complete and reliable, have been compiled nationally and broken down for all regions except for Corsica and France's overseas territories, for which the number of responses is insufficient.

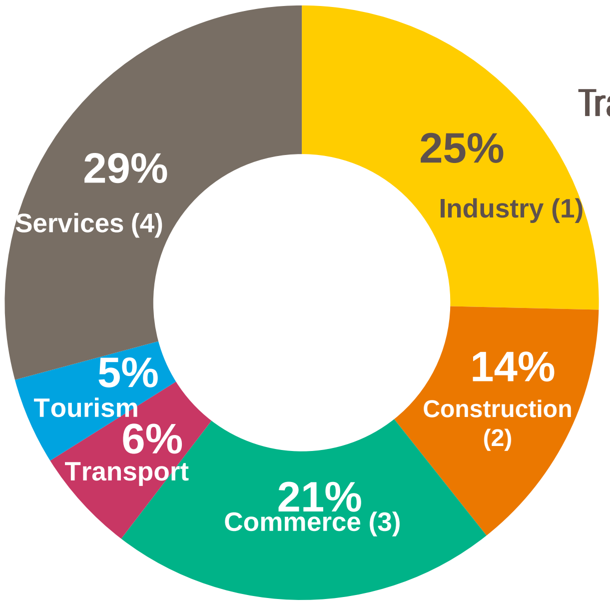
Extra questions on the impact of the current crisis caused by Covid-19 were added for the sample as a whole (6,090 responses to these questions were analysed).

Answers to the extra questions on the impact of the Covid-19 crisis were adjusted for two factors, in such a way as to reflect the demographics of French SMEs:

- Number of employees, to correct the under-representation of micro-enterprises among respondents;
- Trade sector, to correct the over-representation of industry and the under-representation of tourism.

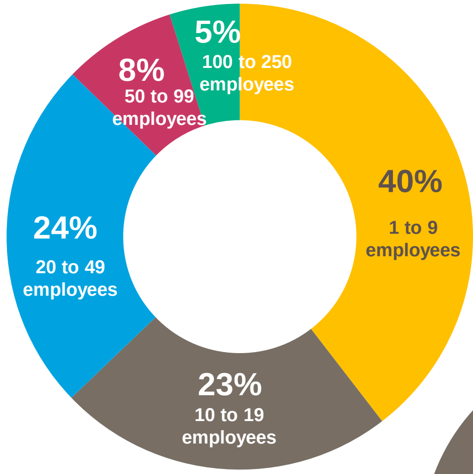
The adjustment was made on the basis of the number of businesses in the different categories.

Trade sector

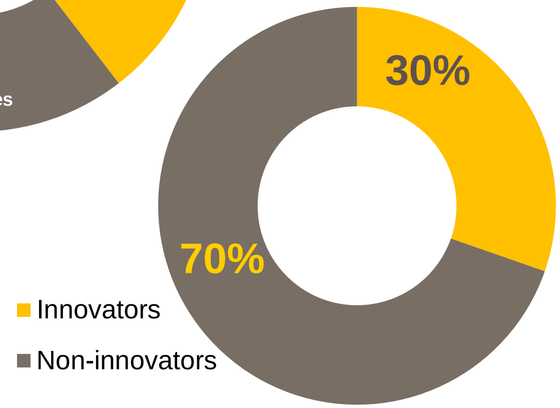


(1) 3% food, 12% intermediate goods, 7% capital goods, 3% consumer goods
(2) 12% construction, 2% public works
(3) 3% automobile dealing and repair, 12% wholesale, 7% retail
(4) 25% business-to-business services, 5% business-to-consumer services

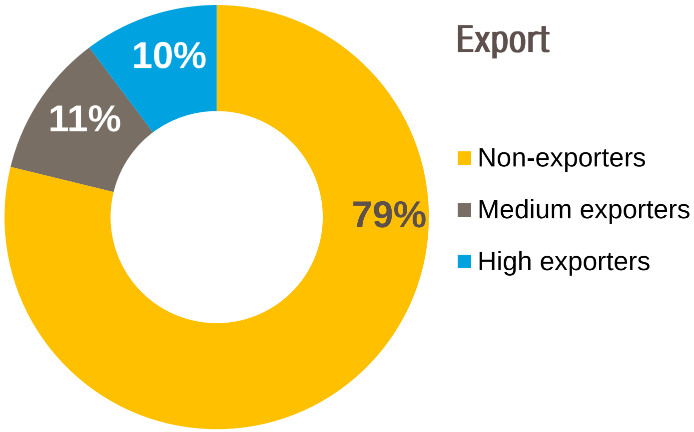
Size



Innovative nature



Export



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