YOULEND

Widening Access To Capital

↪ YouLend Impact Report

Introduction

Since 2016, **YouLend** has developed a new type of an embedded financing platform, using modern, unbiased underwriting and digital distribution partnerships to increase financial access for SMEs across the UK, EU and the US.

In 2023, YouLend partnered with leading data analytics and credit reporting agency **Experian** to perform an independent analysis of YouLend's social and economic impact. The study focused particularly on the impact on female and ethnic minority-led businesses, as well as businesses in financially disadvantaged areas who typically face barriers when seeking financing from traditional providers.

The review encompassed proprietary data from over 100,000 instances of SME financing through YouLend, totalling over £1 billion and representing 1.5% of the total small business investments in 2022 in the UK.[1]

Experian found that YouLend's embedded financing platform offers faster, more reliable and more equitable access to capital, especially for financially-excluded groups.

experian

Executive summary

The year 2023 has presented numerous challenges for SMEs, with economic headwinds across the UK business landscape

Business owners have faced declining consumer spending and squeezed markets due to various factors. Inflation, which surpassed 10% in February, has not decreased as fast as anticipated and is predicted to end the year at 5%. Alongside rising costs, Q1 2023 saw GDP increase by just 0.1%, raising concerns of a potential recession in the latter half of the year.

Applications for loans and overdrafts from SMEs increased in Q1 2023, but the total amount of lending decreased

SMEs have shown a growing interest in external capital to manage cash flow, with 61% of SMEs seeking finance for working capital in 2022. Banks reported quarter-on-quarter growth of 20% and 11% for loan and overdraft applications, respectively. However, success rates for business loan applications fell from 80% in 2021 to 60% in 2022. As a consequence, gross capital lending declined from £4 billion in Q4 2022 to £3.7 billion in Q1 2023, representing a year-on-year decline of 24%.

YouLend contributed £6.8 billion to growth of the UK GDP in SME revenue

By the end of H1 2023, SMEs contributed an additional £6.8 billion to the UK GDP in SME revenue as a consequence of receiving capital through YouLend. SMEs experienced a 26% increase in sales within six months of receiving funding, surpassing peers who did not receive capital. Increase in sales is strongly correlated with increase of new job positions and employment.

YouLend also supported more equitable access to finance for women and minority-led businesses

A greater proportion of YouLend capital is directed towards SMEs with female directors or equal leadership teams, helping to address the disparity between the number of women-led businesses and the investments they receive. Notably, 30% of all SMEs who receive capital through YouLend are female-led businesses, compared to 12% at national average. In addition, a significant portion of the SMEs who obtained capital from YouLend are in regions where the ethnic minority population exceeds national averages.

Traditional providers retreat while alternative providers like YouLend fill the bank-shaped hole for SMEs

Automated underwriting can help to remove human biases which are a source of discrimination. Embedding financing in software applications which are more accessible for SMEs removes barriers to applying and opens doors for alternative financing providers to fill the bank-shaped hole.

SMEs are struggling to access capital

Business challenges in 2023

2023 has presented a range of headwinds for SME success, in line with broader economic challenges. Business owners have faced widespread falls in consumer spending as households and markets continue to be squeezed by a range of factors.

Inflation, which peaked at 10.4% in February[2] has not fallen as fast as hoped, and is predicted to end the year at 5% rather than the hoped-for 3%. Alongside rising costs, growth has slowed, with GDP rising just 0.1%[3] in Q1 2023, raising the spectre of a recession in the second half of the year.

- In an effort to combat inflation, the Bank of England has raised interest rates 12 times in succession since December 2021, from a record low of 0.1% to 4.5%, with more rises predicted to drive rates above 5% by the end of the year.
- With 70% of SME lending on variable rates, this has the potential to drastically impact the viability of many loans.[4]

Around two thirds of adults are spending less on non-essentials due to cost of living increase

Adults in Great Britain, 01 to 11 June 2023

Source: Office for National Statistics

In the face of these challenges, confidence among SMEs remains diminished, with 40% of all SMEs expecting to grow in the 12 months after Q4 2022, down from 45% pre-pandemic[5]. Meanwhile, tighter credit rules for institutions risk seeing a reduction in SME lending of up to £44bn from the banking sector.[6]

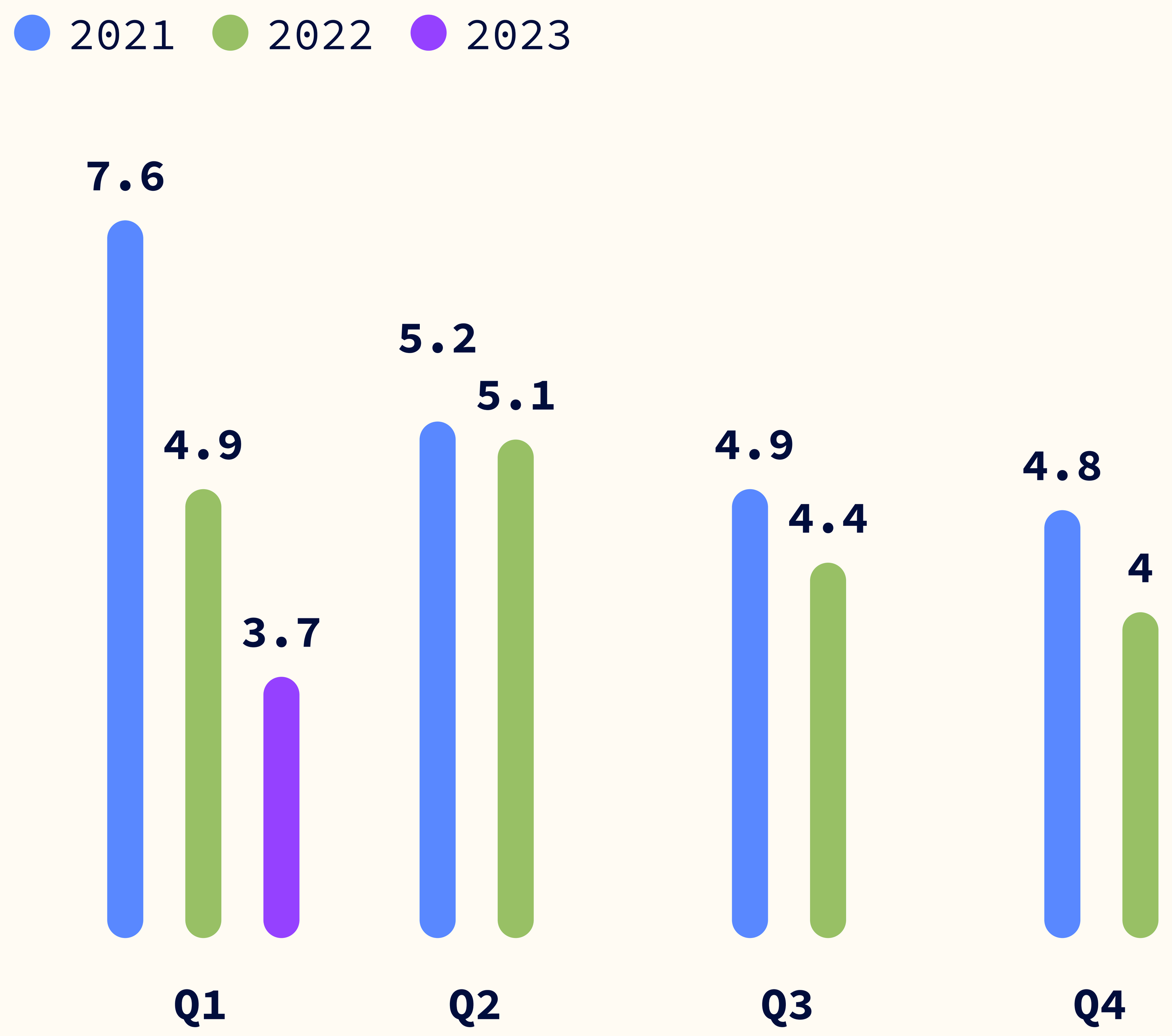
Capital remains key to survival and growth

During economic downturns banks always become more conservative and restrictive in their lending. This puts small business at a big disadvantage. SME demand for financing increases while supply decreases, leading to a SME lending gap.

The first quarter of 2023 reflected a mixed picture as applications for loans and overdrafts grew, but lending volumes fell, reflecting a financial need from SMEs that may not be matched by the options available.

Q1 2023 saw banks reporting quarter-on-quarter growth in applications of 20% and 11% for loans and overdrafts respectively. However, gross capital lending fell from £4bn in Q4 2022 to £3.7bn in Q1 2023, a year-on-year decline of 24%.[7]

Gross lending to SMEs



Source: UK Finance Business Finance Review

SMEs have experienced volatile market conditions over recent years, making business owners particularly interested in external capital for managing cash flow: **61% of firms with turnover between £50k and £250k sought finance to help with working capital in 2022.**[8]

Main reasons for applying or seeking finance (%)

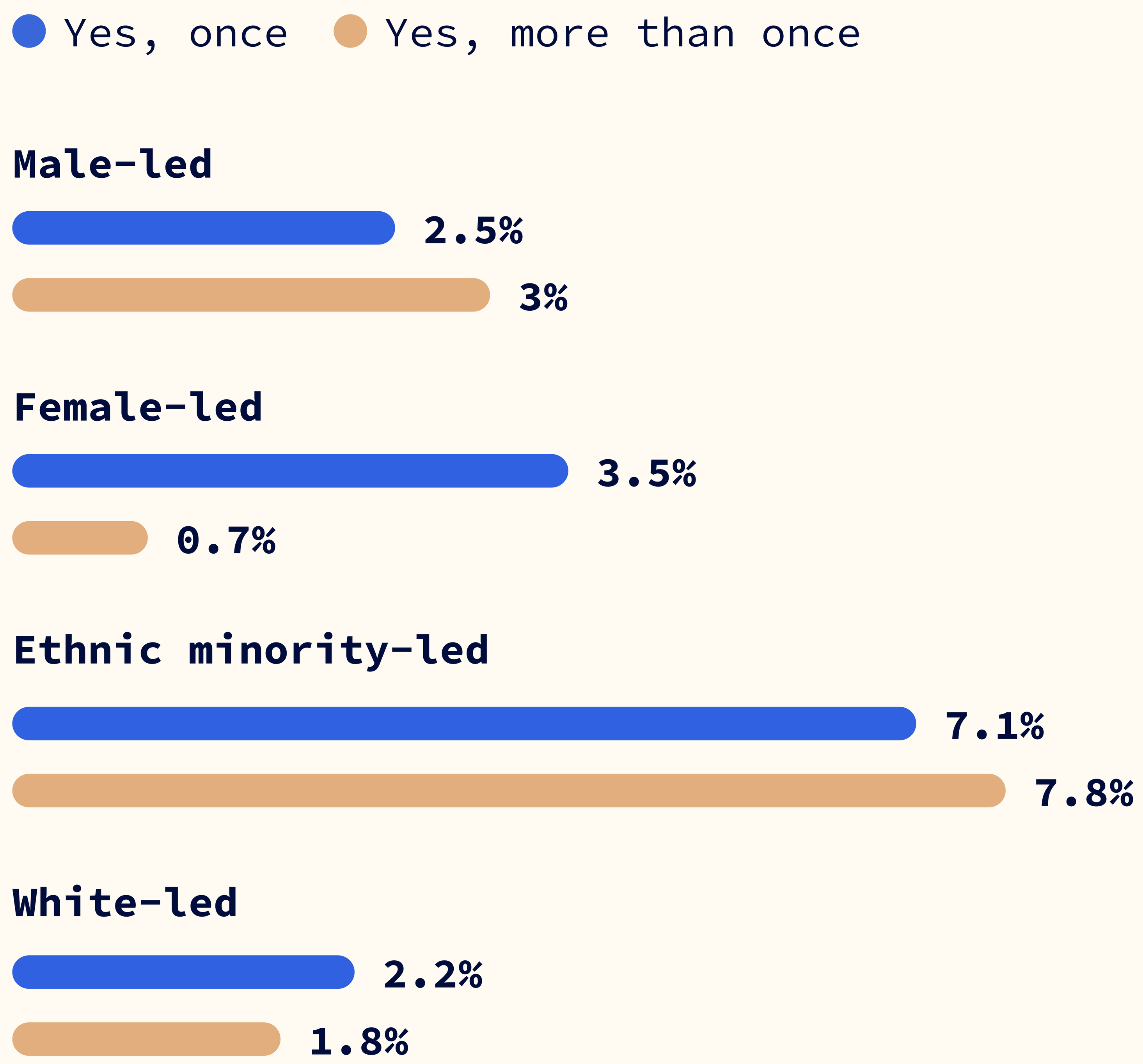
Source: British Business Bank - SME Finance Survey

The traditional finance market is restricting growth for SMEs

The challenges of raising external capital are actively hindering SMEs from sourcing the funds they need to scale, with borrowers voicing concerns around repayment schedules, loan approvals and application timelines.

Success rates for business loan applications fell sharply in 2022 from 80% year-on-year to just 60% as credit conditions tightened.[9] Meanwhile, gross lending volumes from banks to businesses are forecast to contract 3.8% in 2023, from net growth of 3.7% in 2022.[10]

Share of rejected finance applications of small businesses in the past ten years, by gender and ethnicity of business owner/partner(s)



Source: BEIS Longtitudinal Small Business Survey

Research from Q1 2023 found that just one in eight small businesses (12%) described the affordability and availability of new finance as good, with over half (51%) saying it is poor or very poor.

Rejection and discouragement from borrowing was particularly acute for ethnic minority owned businesses, who reported higher levels of rejection than white-owned businesses.[11]

This has been reflected in a rise of alternative lending, with finance from alternative providers totalling 55% of gross lending to small firms in 2022 – a record share compared to the traditional 'big 5' banks.[12]

YouLend's Economic Impact: Widening access to capital with embedded finance

The lion's share of available data on lending within the SME ecosystem comes from broad scale analysis of the type referenced in the previous sections. These studies focus on the impact and scope of SME lending from traditional lenders, who still make up the majority of small business financing in the UK.

The research focus of this report was to understand the impact of new financing models. We investigated the demographics of YouLend's portfolio to understand our customers' needs and the impact of our approach to SME funding.

YouLend capital opens doors for female-entrepreneurs

A greater proportion of YouLend capital helps SMEs with female directors or equal leadership teams, helping to improve equal access for entrepreneurs beyond national averages. In the UK, only 12% of total investments are directed towards women-led businesses.[13]

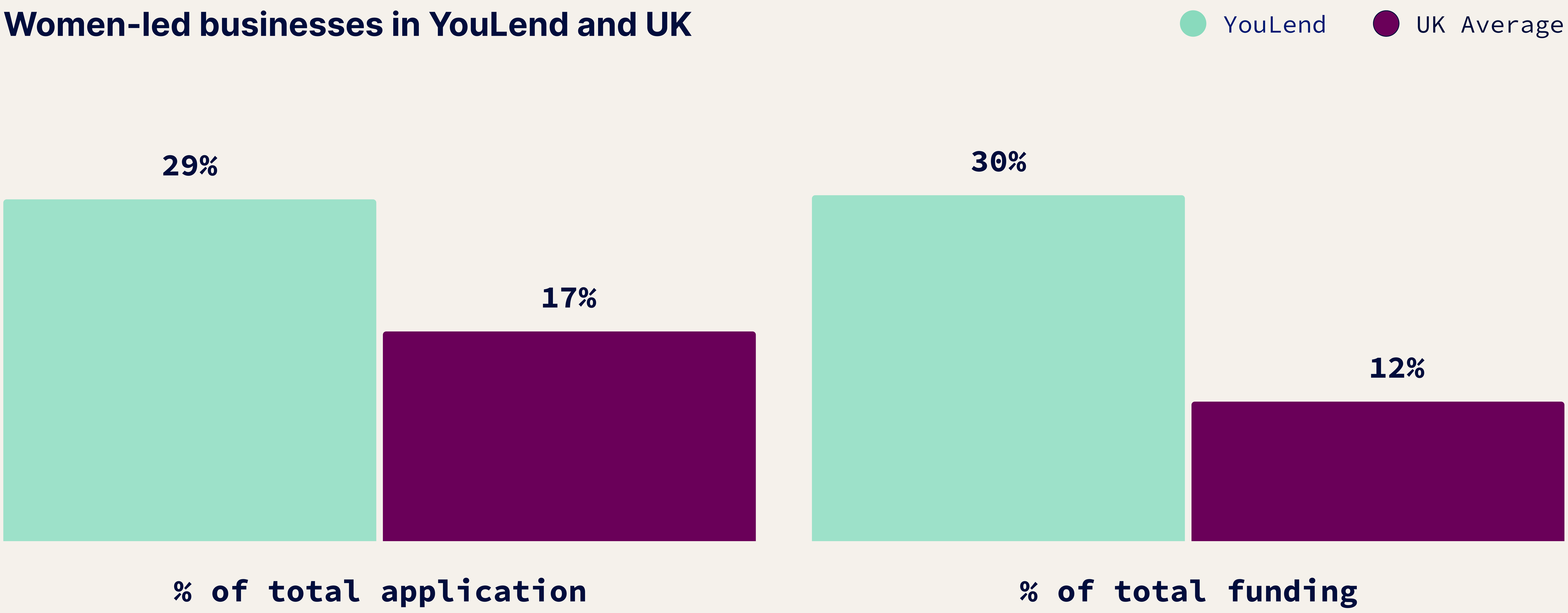
Female entrepreneurship is an increasingly important part of the economy. In 2022, women established over 150,000 new companies in the UK – more than twice as many as recorded in 2018.[14]

> " It was nice to be taken seriously as a female business owner by YouLend. Often this just doesn't happen but they have had faith in me as the owner and in my business. They were highly professional, listened to my needs, accessible and very efficient in all parts of the process. "

Opie's Emporium

Dominique Hogan
Founder, Opies Emporium

Women-led businesses in YouLend and UK



The above graph demonstrates that not only is YouLend more likely to attract applications from women-led businesses than the UK average, but also that women-led businesses applying through YouLend are more likely to get funding.

Data from YouLend's capital cohort found a higher proportion of capital to women-owned businesses when compared to the proportion of the same type of business among the general population.[17]

+12% **YouLend attracts 12% more applications from women-led businesses than UK average**

+18% **YouLend provides 18% more funding to women-led businesses than UK average**

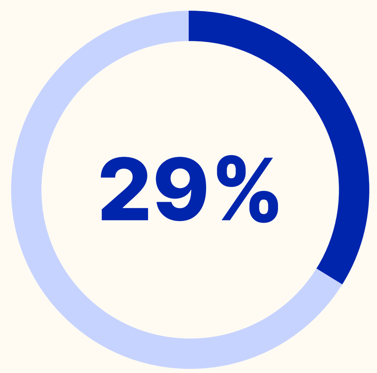
Source: Experian and YouLend research

In 2022, 19% of SME employers were led by women (meaning that they were either led by one woman or by a management team of which a majority are women). Meanwhile 24% of SME employers were 'equally-led', (meaning they had an equal number of men and women in the management team).[16]

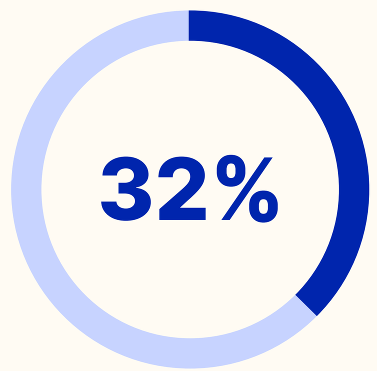
- Aggregate data from the British Business Bank suggests that female-led businesses could be more price-sensitive to the cost of external capital and more likely to see the application process as a barrier, with concerns such as risk and time to cash ranking higher than other groups.

In the UK, female entrepreneurs face challenges when it comes to accessing capital to start a business. Significantly, 50% of female business leaders and entrepreneurs have reported difficulty in obtaining funding and investment over the past 12 months.[15]

- In the same research, 50% of female business owners surveyed said they were rejected when applying for a loan or investment to fund their new business.



of all applications received by YouLend are female-led businesses, outperforming national averages on application and approvals.



of YouLend capital went to businesses with at least one female director, while 29% of fundings went to businesses with more than 50% female directorship, representing a 5% percentage point difference compared to the national proportion of businesses with the same gender-makeup at leadership level.

58% of female entrepreneurs state that an increase in the cost of credit would reduce their likelihood of applying for capital, while also being more likely to be discouraged by the slow decision time.[18]

From these figures, we that see YouLend is more successful in attracting applications from women-led businesses and that these are more likely to be successful in securing funding than national averages.

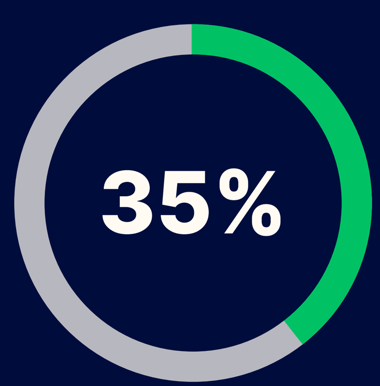
When considering the specific reasons that female entrepreneurs report not applying for capital, the speed, cost-model and lower risk of rejection associated with embedded finance and broader financial analysis of businesses suggests a greater alignment with the needs of these crucial business owners.

Expanding access for ethnic-minority business owners

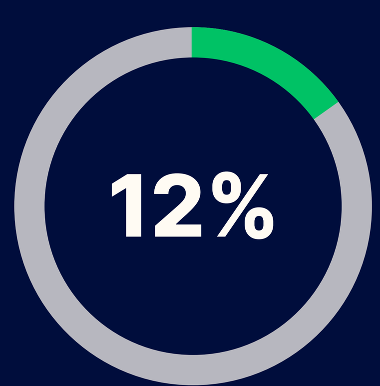
Despite national efforts, financial access gaps persist among minority groups within the UK, with Black, Asian and other Ethnic Minority-led businesses (EMBs) around three times as likely to see access to finance as a barrier to running their business compared to White-led firms (31%, 27% and 10% respectively).[19]

- In 2022 EMBs were more likely to be turned down for finance[20], as covered in the previous section. Among EMBs, 15% reported having been rejected for finance at least once, compared to 4% of other businesses.
- Estimates for the year ending Q2 2022 suggest 8% of EMBs reported one or more factors stopped them from applying, compared to 2% of White-led businesses.
- More EMBs reported being rejected due to low credit rating (51% compared with 23% of other businesses) or insufficient security (45% compared with 18% of other businesses).

YouLend has maintained a strong presence in regions where the ethnic minority population exceeds national averages.



of the total YouLend fundings issued were in areas where ethnic minority representation is above 30%.



of loans were issued in London, where 42.6% of the population identify with Asian, black, mixed or 'other' ethnic groups.[21]

YouLend continued to provide vital financial support to SMEs who struggle with financial access

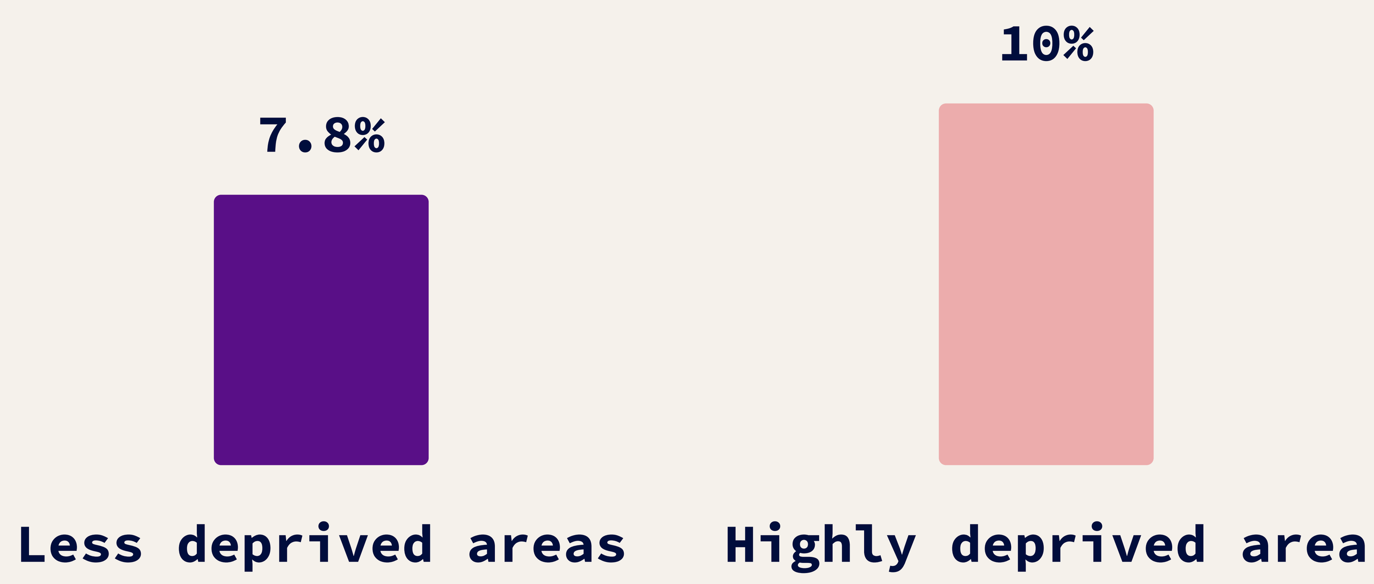
Over half of YouLend capital reaches entrepreneurs in the UK's most deprived regions, providing vital financial support to power growth on a local level.

Data from the British Business Bank suggests that deprived areas tend to have more appetite for external finance but are also more likely to be deterred from applying. Those that do apply tend to be less successful.[22]

- Fewer businesses from 'highly deprived areas' reporting external capital need actually apply, with 26% of businesses reporting a need for capital not applying for capital, compared to 22% in less deprived areas.
- Those who do apply face higher rates of rejection, with 15% of businesses in 'highly deprived areas' applying for capital between 2019 and 2021 turned down, compared to 11% elsewhere[24].

Proportion of businesses that view access to external capital as an obstacle to the business over the next 12 months

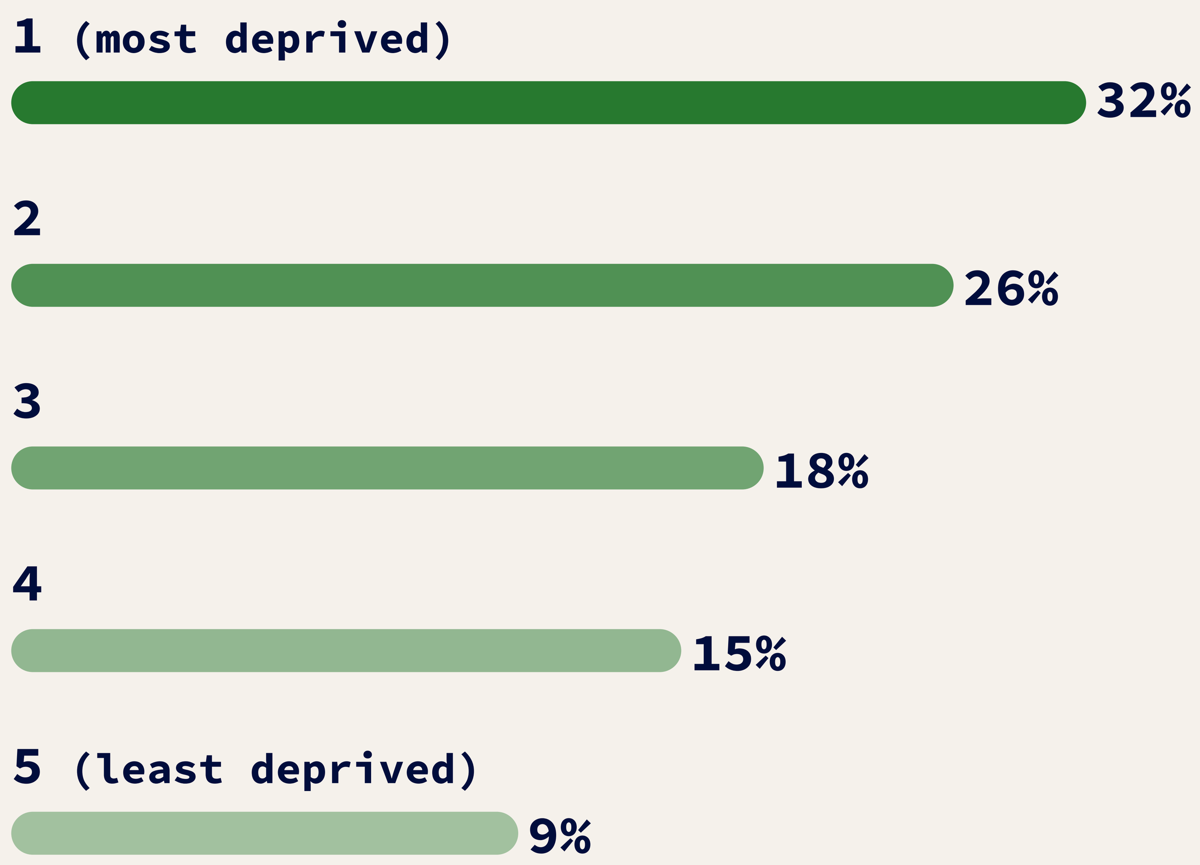
By deprivation level of business location



Source: BVA BDRC SME Finance Monitor

Expanding financial access to low-income entrepreneurs

Proportion of YouLend loans, grouped by income deprivation rate quintile



Source: Experian and YouLend research

Our research revealed that YouLend's largest SME capital segment went towards the most deprived areas in the UK, characterized by lower incomes, employment rates, and poorer educational and health outcomes. A notable 31% of YouLend's funding supported businesses in the UK that were most deserving of financial assistance.

- Overall, 50% of YouLend capital went to areas in the bottom two quintiles of income in the UK, demonstrating the significance of offering alternative capital arrangements to businesses often left out by traditional financial access. Enhancing access to capital in deprived areas is crucial to ensuring equal opportunities.
- 44% of merchants who received capital through YouLend have been unable to secure financing anywhere else.[26]

YouLend's wider economic impact

At the end of H1 2023 we estimate YouLend's assets under management will have contributed £6.8 billion to UK GDP in SME financing and supported a 14% increase in employee headcount for the customers taking out YouLend financing. This comes at a time when overall employment growth figures in the UK remain sluggish, with total employment in SMEs increasing from 16.3 million at the start of 2021 to 16.4 million at the start of 2022, an increase of just 0.6%[27].

- Merchants funded through YouLend are seeing a 26% increase in sales in 6 months after funding[28], with financial products from YouLend supporting and directly generating growth for the SMEs.
- Based on benchmark data from companies of similar nature as YouLend, the GDP multiplier can be estimated at 2.3[29]. This means that for every £100 in GDP YouLend financing directly supports, a further £130 in GDP is supported elsewhere in the economy.

YouLend customers' EBITDA growth is 55% faster compared to peers

55%

Source: Experian and YouLend research

On a business level, the impact of efficient, customer-focused funding was clear, with YouLend customers seeing a significantly larger EBITDA growth of 55% compared to peers.

We estimate that YouLend financing generated a direct contribution to UK GDP of £6.8 billion in SME revenue.

£6.8bn

"Our business has grown and been able to invest quickly in an ever changing marketplace, keeping our venues efficient and attractive in a time when others are cutting back. Tiffin Group sees YouLend as a partner in business and its involvement has had a big impact on making us the successful and trusted company we are today."

Linda Wring
Managing Director, Tiffin Group

Embedded finance has a key role to play in expanding financial access

Embedded finance, the integration of financial services directly into non-financial business's products and services, has the potential to reframe the lending process to better benefit SMEs.

- More objective data regarding business performance is used in the underwriting process, removing bias and expanding access to otherwise marginalised groups.
- Faster and easier application processes, implemented within trusted platforms, help to reduce the anxiety associated with applying for financing and expands access for businesses.
- Lower operational costs enable alternative lenders to profitably serve micro SMEs who would otherwise not get access to financing.
- Flexible repayment models reduce repayment risk, expanding access to merchants who would struggle with high fixed payments.

"During our first year of business, we applied for a small loan through YouLend, this was an exceptionally small amount but nevertheless really helped us scale up. We did apply for additional funding from a high street bank but we were refused due not having sufficient trading records. Fast forward 2 years and we again applied to YouLend, we were successful and this time we will be able to scale up to a level we could only ever have dreamed of."

Danielle Best
Co-Founder, Mexi Bean & Mexi Bean Express

How a technology-led approach to lending opens opportunities

YouLend's decision making model is applicant-agnostic, focusing on a broad range of business metrics to create a broader picture of the health of a business. This includes growth, repeat business, online traffic and efficiency. By discounting any element of race, gender and background, our decision engine focuses on the unique strengths of the business, not the individual, ensuring that financing finds those who need and deserve it.

YouLend's lending model is based on combining a wider array of objective financial data to offer fast, tailored decisions, whilst managing risk and returns sustainably through the cycle. YouLend's platform checks up to 24 months of transaction history with open banking, as well as several offline and online sources of data. By sourcing data directly from YouLend's partners, YouLend can credit assess SMEs who may have thin files or dark spots in their public data, whilst improving efficiency.

The results is that YouLend is able to offer 90% approval rates for applicants, well above the 64% average for the UK in 2022, and above the previous, government-assisted rate of 80% in 2021. In addition, more than 50% of businesses receive a decision instantly.

A wider range of data sources also enables a more robust, detailed approach to risk and underwriting. Applicants are offered financing at prices **20% lower than market averages for repayments**.

Capital is offered on a revenue-based finance model, with repayments deducted as a percentage of sales, instead of a fixed fee. This gives SMEs the ability to vary payments in line with their own performance, repaying faster when they succeed and scaling down when they have less revenue. In this way, revenue-based finance aligns the interests of lenders and SMEs, with both succeeding together. YouLend operates with a model that says we win when our partners win and our partners win when their merchants win.

Learn how you can support your SMEs

↪ **Email: partnerships@youlend.com**

Book a demo:

Trusted by:

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