



SME Banking Insights Annual Report

September 2019



One year on and the need for competitive disruption to better finance the growth ambitions of SMEs is even greater.

It's been three years since we started Judo with the aim of not just being a lender to SMEs but becoming the most trusted SME business bank in Australia.

This report – The 2019 SME Banking Insights Report – the second of this annual report, shows the key reason behind Judo Bank is more relevant now than ever before.

Australian SMEs are facing a worsening national credit crisis, with the “funding gap” for businesses with a turnover of up to \$20 million ballooning over the past 12 months from \$83 billion to \$90 billion.

These findings contrast with the claims made by the major banks that the problem is not a lack of capital being available, but a lack of demand from SMEs for loans.

In fact, as our research shows, nothing could be further from the truth, with one out of every four SMEs requesting credit from the big banks, gets rejected.

This has placed significant constraints on working capital, with many businesses saying they are unable to invest in and grow their businesses – they can't hire more staff, pay higher wages or update their equipment.

Concerningly, over three quarters of SMEs interviewed for this report (76 per cent) said they had no idea how much funding their primary lender would give them.

Unsurprisingly, SMEs level of trust in the major banks continues to plummet. On a scale of 1 to 10, where 1 indicates mistrust and 10 indicates complete trust, the average rating SMEs gave the big banks has dropped even further post the Royal

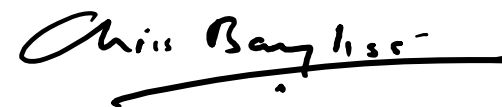
Commission, falling 25 points from an incredibly low base of 2.52 to 2.27 in 12 months, since our last report.

What's clear is that this is not sustainable for the future and prosperity of Australia. SMEs need to have confidence to invest and they need a credible, trusted banking system to support them.

And this is where Judo comes in. We're bringing back the craft of relationship banking and in the process, aiming to become Australia's most trusted business bank – and this report, unfortunately, underlines why our mission is so critical.

Competitor disruption can be the only real catalyst.

Chris Bayliss



Chief Financial Officer, Judo Bank



Contents

Introduction	1
Key Market Insights	2
<i>SME Customer Profile and Demographics</i>	2
<i>SME Finance Gap</i>	4
<i>SME Credit Gaps</i>	6
<i>Winning Customer Trust</i>	8
Key Go-to-market Themes	10
SME Finance Gap	11
SME Credit Gaps	20
Re-Earning SME Trust	25
Appendix I – Research Methodology	29
Appendix II – Interview Questionnaire	34

List of Exhibits

KEY MARKET INSIGHTS

A	Current Debt Facilities	2
B	Current Primary Lender	3
C	SME Finance Gap Unsuccessful Credit Applications	4
D	New Borrowings Intended Purpose	5
E	Extra Equity Funding Required to Capitalise on Opportunities	6
F	Extra Debt Funding Required to Capitalise on Opportunities	7
G	Banking Industry Requirements to Rebuild Trust	8
H	Primary Lender Trust	9

DETAILED DATA ANALYSIS

1	Amount of Funding Sought	12
2	Amount of Funding Sought by Application Success	13
3	Planned Purpose for Borrowings	14
4	Amount of Funding Sought for Future Borrowings	15
5	Amount of Funding Expected	16
6	Future Borrowing Usage Plans	17
7	Future Borrowing Purposes	18
8	New Borrowings Business Funding Methods	19
9	Most Pressing Business Investments	21
10	Funding Required to Capitalise on Opportunities	22
11	Borrowing Term Preferences	23
12	Most Challenging Financing Information to Provide	24
13	Primary Lender Trust Index	26
14	Ways Lenders can Re-Earn Trust	27
15	Other Desirable Bank Service/Support Offerings	28

RESEARCH METHODOLOGY

16	Customer Segment Distribution	30
17	Geographical Distribution.....	30
18	Interviewee Distribution	30
19	Industry Sector Distribution	31
20	Business/Financial/Management Experience of Interviewee	31
21	Age of Interviewee	31
22	Annual Enterprise Turnover.....	32
23	Enterprise FTE / Headcount	32
24	Age of Enterprise.....	32
25	Value of Current Debt Facilities.....	32
26	Current Primary Lender.....	33
27	Age of Primary Lending Relationship	33

Introduction

The Australian small to medium sized enterprise (SME) segment remains numerically the largest battleground for revenue, profit and growth. The segment is firmly on the radar of all banks, lenders and financial service providers.

Anecdotally through the course of East & Partners (E&P) research interaction with SMEs, we are too often told that the role of trusted advisor traditionally falls to several other parties within the SME's trading hub such as business colleagues, trading partners, customers and suppliers – and not their home bank(s).

This trend to seek advice away from their banking relationships is unanimously cited by SME's as being a result of their banks' lack of understanding around issues facing SMEs.

E&P proposed to develop a customer-centric, demand side program in collaboration with key Judo Bank stakeholders covering Australian SME companies which creates a forward-looking set of diagnostics including:

- » SME characteristics and demographics
- » Credit demand, debt type, capital expenditure, working capital, liquidity, planned equity
- » SME Credit Gap and implications
- » SME funding issues
- » Bank Trust Index

SME business remains all about cash flow and liquidity; this is what SME owners spend most of their financial time concentrating upon and represents the single biggest business risk. The primary goal of an SME actually being in business at all is to create wealth in terms of shareholder and owner wealth, business growth and profitability.

Judo Bank is SMEs greatest supporter and is actively seeking to uncover and address what are the most profound issues facing SMEs today armed with the capability of a fully-fledged banking licence positioning the group strongly as Australia's newest Authorised Deposit Taking Institution (ADI).

Key Market Insights

SME Customer Profile and Demographics

For Round Two of the Judo Bank Australian SME Report a screening question was applied to ensure only firms with debt facilities in place were captured as part of the research program, matching the methodology used for Round One conducted in July 2018. As a result, 2682 enterprises were required to be approached in order to fill the final qualified sample of 1751 SMEs with turnover of A\$1 to 50 million, resulting in a 'rejection rate' of 34.7 percent predominantly attributed to Microbusinesses with sub A\$5 million turnover.

Across the expanded sample set, increased from a cap of A\$20 million in Round One to A\$50 million in Round Two, 1052 enterprises reported turnover of A\$1-10 million with the remaining 699 reporting turnover of A\$10-50m. SMEs had average debt facilities in place of A\$3 million in value across a broad range from A\$200,000 among smaller sized Microbusinesses to A\$11.8 million for larger sized SMEs / Lower Corporates. Of the 1751 enterprises with debt facilities in place, 972 identified themselves as the business owner, 299 operated in a defined CFO role while the remainder were either company accountants (271), corporate treasurers or other (209).

According to the Australian Bureau of Statistics (ABS), of the 2.313 million actively trading enterprises in the market as a whole, a majority 93.1 percent had annual turnover of less than A\$2 million. Businesses with annual turnover of A\$2 million to less than A\$5 million had the largest annual percentage business count increase of 5.3 percent. Comparing business count figures from 2014 to 2018 indicates that survival rates generally increased with business size / annual turnover.

Exhibit A
Current Debt Facilities
 Average Value (A\$ million)

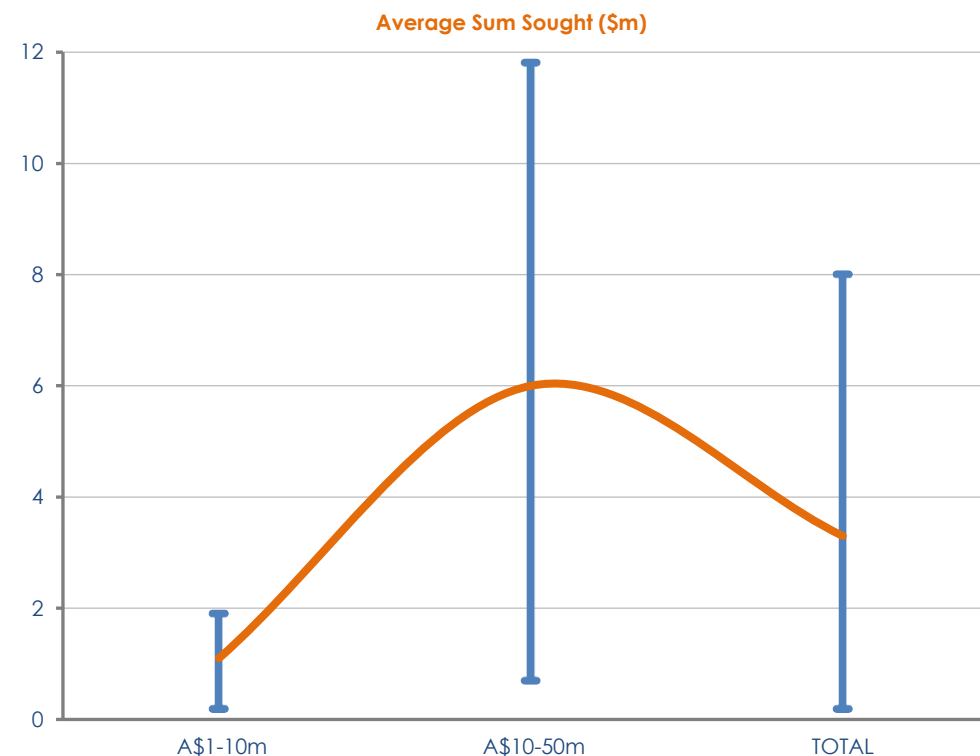
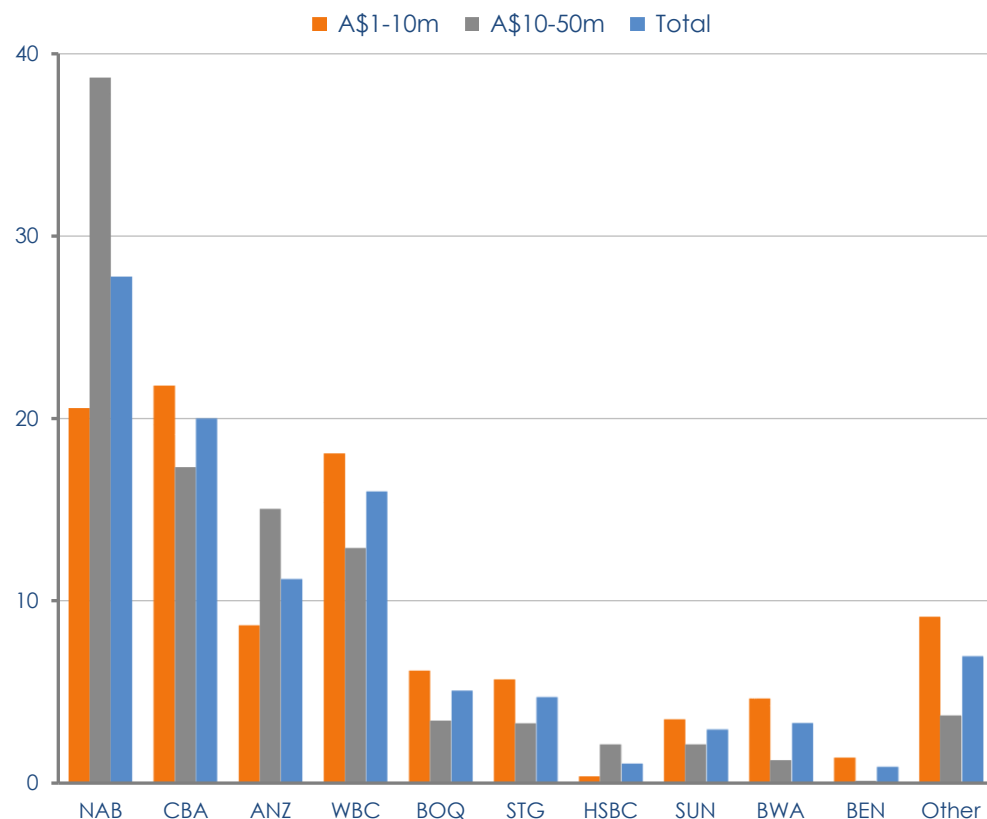


Exhibit B
Current Primary Lender
 % of Total



The exception to this is firms with turnover of A\$10 million or more where the survival rate of these firms (83.5 percent) is lower than for firms with turnover of A\$5 million to \$10 million (84.2 percent). SMEs with turnover of A\$5 million to A\$10 million had the highest survival rate of 66.8 percent according to the latest ABS statistics.

The average interviewee age of 40 fell in a broad range from 25 for the youngest key decision maker to 60 for the most senior and experienced. The financial management experience of small business owners, CFOs and corporate treasurers varies significantly by business size. Key decision makers hold on average 14 years of experience managing the finances and balance sheet of an organisation. The minimum level of experience is five years extending out to as much as 33 years for larger sized SMEs with up to A\$50 million turnover.

SMEs are characterised by a full-time employee count (FTE) of 143 on average with the smallest sized SME managing a workforce of 31 staff whereas the largest maintains a considerable payroll of 402 FTE.

The average SME was established as recently as 2009, noting the youngest businesses interviewed had only been in operation for two years whereas the longest running SME had been running for up to thirty years.

Three quarters of the entire SME segment nominated a Big Four bank as their primary lender, split by NAB (27.8 percent), CBA (20.0 percent), ANZ (11.2 percent) and Westpac (16.0 percent), with further relationship share for the CBA group attributed to BankWest (3.3 percent) and in the case of Westpac for St George (4.7 percent). SMEs average primary lending relationship stands at seven years, with the most recent credit facilities set-up only two years ago and the longest borrower relationship lasting for 23 years.

SME Finance Gap

Obtaining finance while balancing pressure on cash flow can be a significant challenge for a small business owner. Successful credit applications are both difficult to secure and can often result in costly terms, with estimates on the interest rate spread for loans to SMEs and larger sized corporates stretching by as much as two percentage points or more.

Further stress caused by delayed credit approval turnaround times, lengthening debtor days from customers and inventory management headaches with suppliers can quickly result in volatile, unpredictable cash flow and demanding creditors.

Less than one in two SMEs sought new finance in 2018/19 (46.3 percent) for an average value of A\$1.1 million. The range for new borrowing applications was spread in a wide magnitude from A\$200,000 to as high as A\$2.6 million. A similar proportion of SMEs are seeking to increase borrowings in 2019/20 (46.4 percent) for the average sum of A\$1.2 million, ranging from a minimum credit application of A\$200,000 to as high as A\$2.1 million.

Of those firms seeking new funding, 74.8 percent were successful in the pursuit of an average sum of A\$800,000 in new debt facilities while 25.2 percent of SMEs reported failed applications for an average sum of A\$2 million.

By further overlaying Australian business count figures and E&P's proprietary Deposit Funding & Debt Indicator analysis through the use of the Australian Prudential Regulator's Monthly Banking Statistics, the current SME funding gap stands at A\$91.5 billion and represents a nine percent jump from the Round One figure of A\$83.2 billion, noting the increase in annual turnover by SMEs included in the research from A\$1 – 10 million to A\$1 – 50 million.

Exhibit C

SME Finance Gap Unsuccessful Credit Applications

Total Value (A\$ billion)

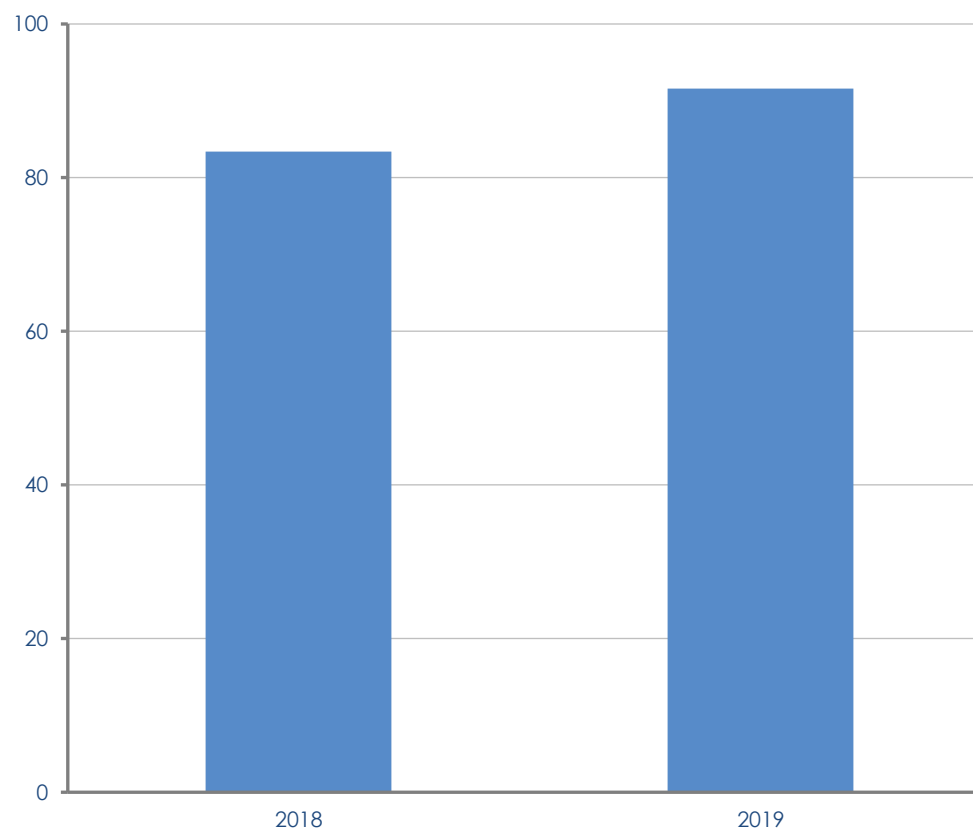
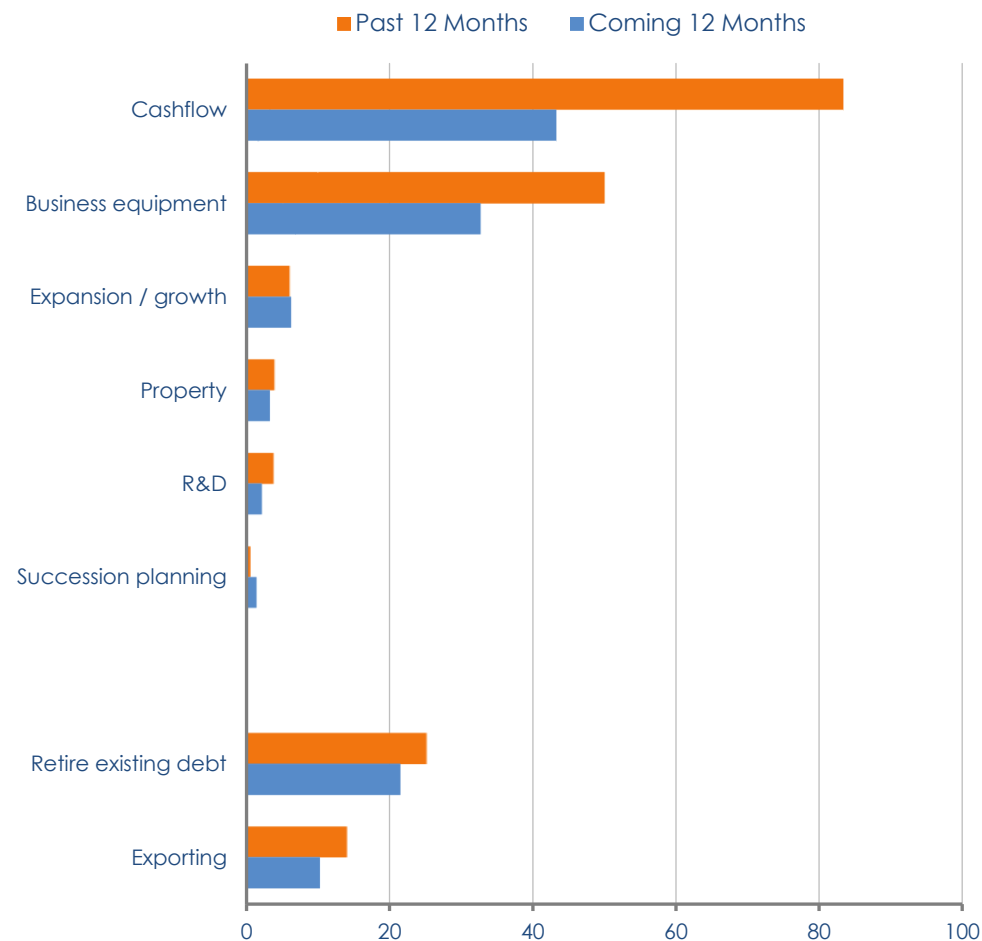


Exhibit D
New Borrowings Intended Purpose
 % of Total



Three out of four A\$1-10 million firms have no idea how much a lender will approve them for (76.0 percent), a surprisingly high figure given most of these enterprises have been in operation for over seven years on average and in many cases for over a decade. Additional unmet borrowings would have been applied to improving working capital margins (43.3 percent), incentivizing current staff (25.3 percent) or hiring new staff (19.4 percent).

SMEs primarily applied newly sourced borrowings in the last year to ease working capital constraints (83.3 percent) or for new plant and equipment (P&E) investment (50.0 percent). Other purposes included the retirement of existing debt (25.2 percent) and expanding into new export markets/international business development (14.1 percent). Future 2019/20 borrowings are primarily intended for improving liquidity (43 percent) and new capital expenditure on P&E (32.7 percent).

In terms of forward dated credit appetite, the A\$10-50 million segment is twice as bullish as the A\$1-10 million segment. Two thirds of the A\$10-50 million segment are planning to borrow up to A\$1.5 million on average, compared to one in three A\$1-10 million SMEs planning to borrow A\$800,000 on average.

In regard to the funding methods SMEs intend to utilise for new borrowings, preferences were evenly split across business/term loans (34.8 percent), asset and equipment finance such as operating leases, finance leases or chattel mortgages (30.6 percent) and Overdrafts (30.0 percent) noting a high one in three SMEs are unsure or do not know as yet (31.0 percent).

Although only one percent of respondents intend to use a credit card for new business borrowings, SMEs reported that they were commonly used but not for the typical size of borrowings interviewees reported and instead for day-to-day needs.

SME Credit Gaps

If funding were not a concern, businesses most pressing investment decision would be replacing or expanding their P&E portfolio (28.3 percent) in preference to improving balance sheet gearing ratios (16.4 percent) or extending their online business presence and digital offering (9.8 percent). Online business capability is particularly important for businesses in the retail sector seeking to tap into international markets using eBay, Amazon and Alibaba to expand their customer base and market reach.

Reflecting the higher level of cash flow anxiety experienced by Australia's smallest sized SMEs, the A\$1 – 10 million segment is four times more likely to invest in balance sheet ratios to improve liquidity (23.3 percent) than the A\$10 – 50 million segment (6.2 percent). Conversely larger sized SMEs are twice as likely to be investing in offshore growth (12.0 percent) and product and service enhancements (11.0 percent) than smaller sized SMEs.

Small businesses would require A\$3.6 million in fresh equity funding and A\$4.4 million in new debt funding on average to capitalise on potential opportunities. This equates to a desired debt/equity ratio of 1.22 percent. The maximum reported equity and debt funding needs reached as high as A\$9 million and A\$12 million respectively for the bullish A\$10 – 50 million segment, while ambitions were slightly more constrained in the A\$1-10 million segment with maximums of A\$2.0 million and A\$2.5 million respectively.

While one in four SMEs are unsure on their lending preference (23.6 percent), and 15.3 percent will take 'whatever they can get', a dominant 48.4 percent of businesses would source longer term funding for a larger balance. This figure is mainly influenced by the 78.0 percent of A\$10-50 million firms who would prefer 'larger for longer' leaving a minority 3.1 percent seeking a shorter-term small balance or either short or long term (0.3 percent).

Exhibit E

Extra Equity Funding Required to Capitalise on Opportunities

Average Value (A\$ million) Equity Funding Reported

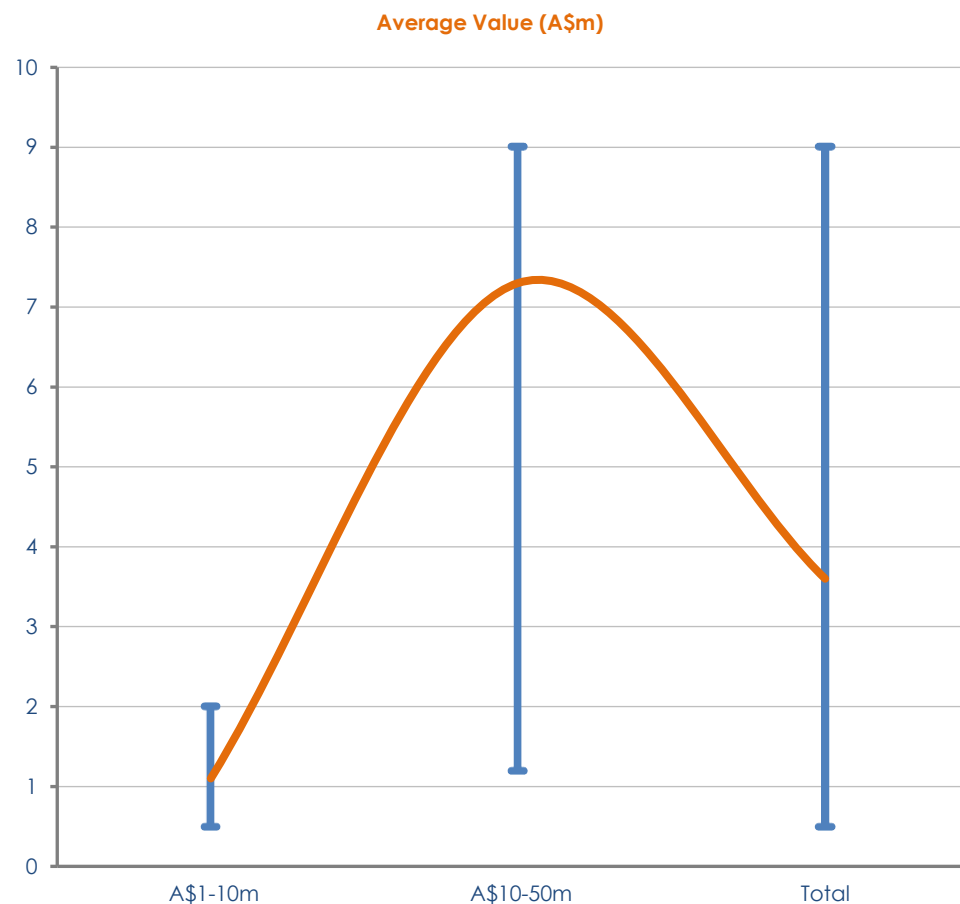
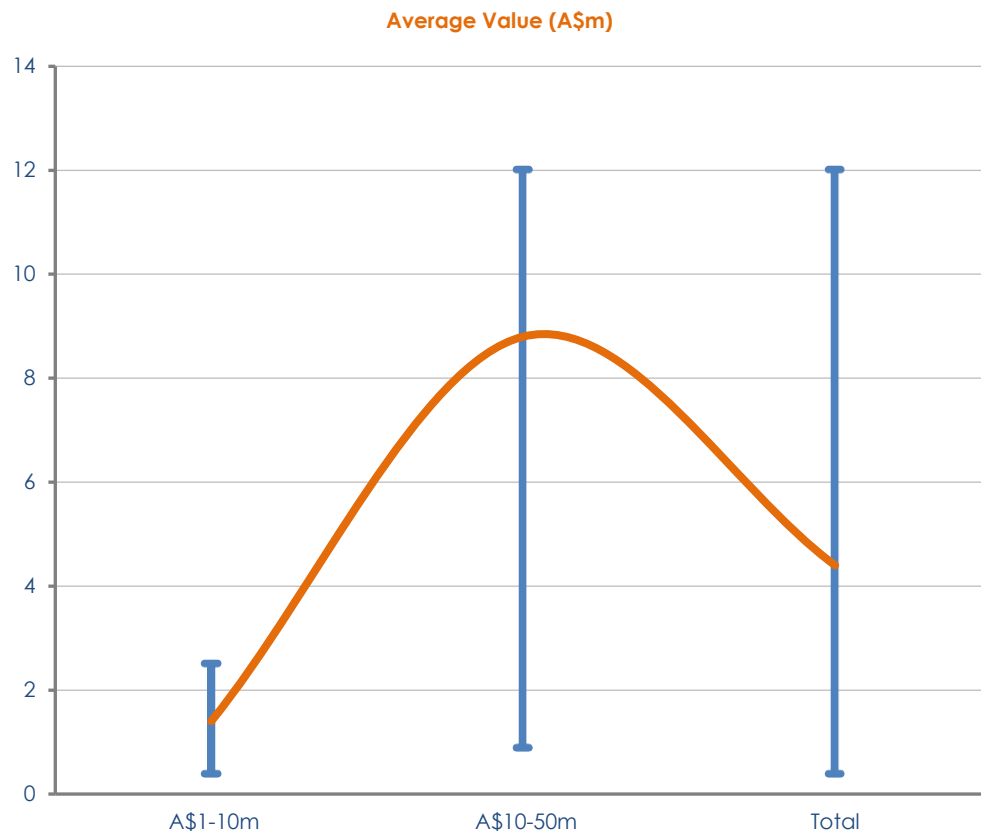


Exhibit F
Extra Debt Funding Required to Capitalise on Opportunities
 Average Value (A\$ million) Debt Funding Reported



Highlighting the high level of working capital constraints facing the A\$1 – 10 million segment, almost as many SMEs will prefer instant access to 'whatever they can get' because they need new funding urgently (25.3 percent) over those seeking a longer term larger sized balance (28.8 percent) or shorter term smaller sum (18.9 percent).

A concerning high one in four A\$1-10 million sized SMEs are unsure or undecided (27.0 percent), reflecting the inappropriate sources of advice many SMEs turn to for critically important business funding decisions, in many cases friends, colleagues or suppliers instead of an accountant or their lender themselves, as reported in Round One of the Judo Bank Australian SME Report.

SMEs find application documentation (38.5 percent) and gathering the requisite supporting financials to match lender's requirements (33.1 percent) equally frustrating to provide when applying for new finance or refinancing existing credit lines.

One in ten SMEs encounter difficulties producing proof of ability to repay (13.8 percent), closely linked with SMEs prevailing concerns providing financials that adequately match lenders requirements cited above (33.1 percent). Unsurprisingly 2.3 percent of SMEs simply find it 'all too hard', nominated as the most challenging issue for twice as many A\$1-10 million sized SMEs (3.0 percent) than larger sized A\$10-50 million sized SMEs (1.3 percent) most likely as a result of their larger sized finance teams, greater resources and capability to meet the required regulatory and administrative burden.

A relatively lower proportion of SMEs encounter complications producing forward business plans (7.5 percent) or detailing the applications of any borrowings (4.8 percent) throughout the credit application process with no distinction made by bank or non-bank lender interaction.

Winning Customer Trust

On a scale of 1 - 10 where a rating of 1 indicates mistrust and 10 indicates complete trust, SMEs gave their primary lender an extremely poor rating of 2.52 overall in Round One last year. Despite expanding the sample to include larger sized SMEs in Round Two, the average trust rating fell 12 points in the last year from 2.52 to 2.40.

The A\$1 – 10 million segment is particularly antagonistic towards their primary lender, assigning their lender an average 'trust' rating of only 2.20. The figure represents a decline of thirteen points from last year, within a wide range from 1.65 for the most mistrusting Microbusiness to only 3.90 for the most trusting.

The A\$10 – 50 million segment is relatively more trusting, rating their lender 2.69 on average with the poorest rating notched at 1.87 through to a relatively stronger 'trust' score of 5.10 overall with minimal statistical variance exhibited by state, sector or lender.

The 'best' trust index rating of 5.10 leaves a lot to be desired and suggests the entire A\$1 – 50 million segment do not legitimately place any real faith in their lender in any great capacity, signalling a seismic shift in bank dealings since the height of trusted advice and interaction as recently as the 1980s.

What must the banking industry do to re-build trust? SMEs demand that banks be more honest, clear and transparent in dealings and communications with them (22.3 percent). One in five simply want the banks to actually do what they say they will do (19.0 percent) while 18.8 percent are seeking improved service quality in the form of more knowledgeable customer facing SME staff. One in ten are seeking greater relationship depth through access to closer guidance and proactive business insights (12.5 percent).

Exhibit G
Banking Industry Requirements to Rebuild Trust
% of Total

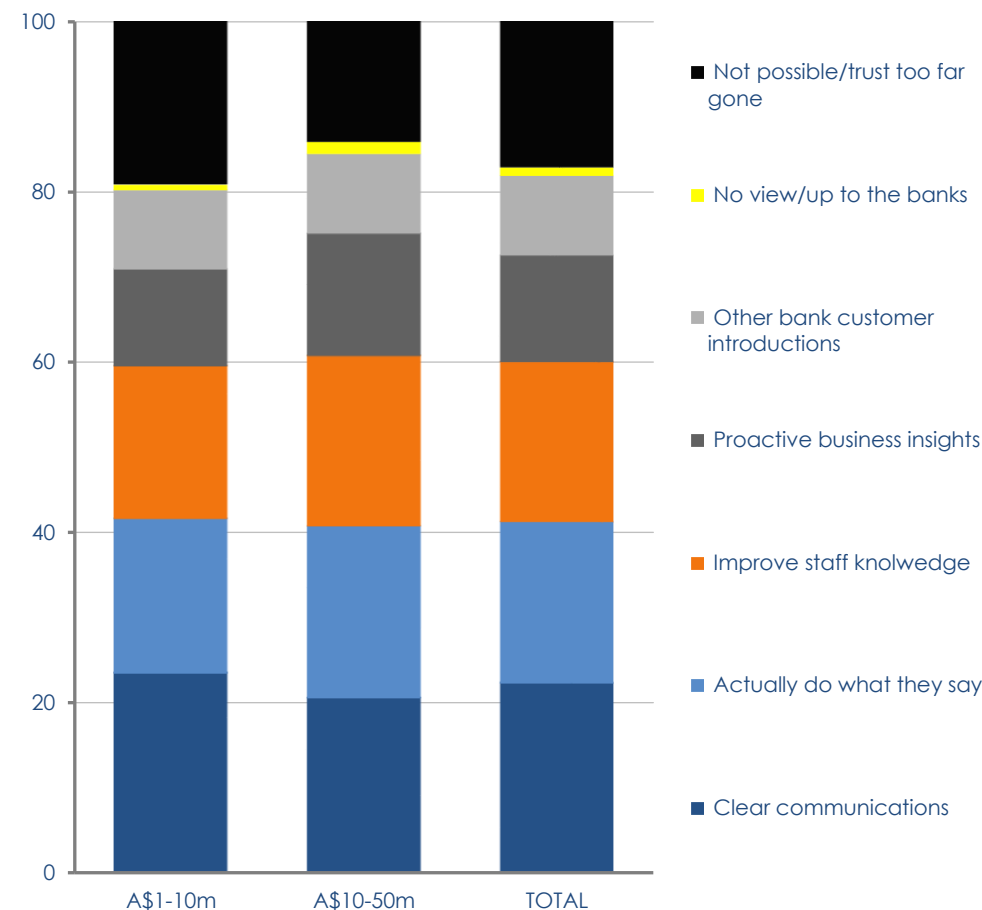
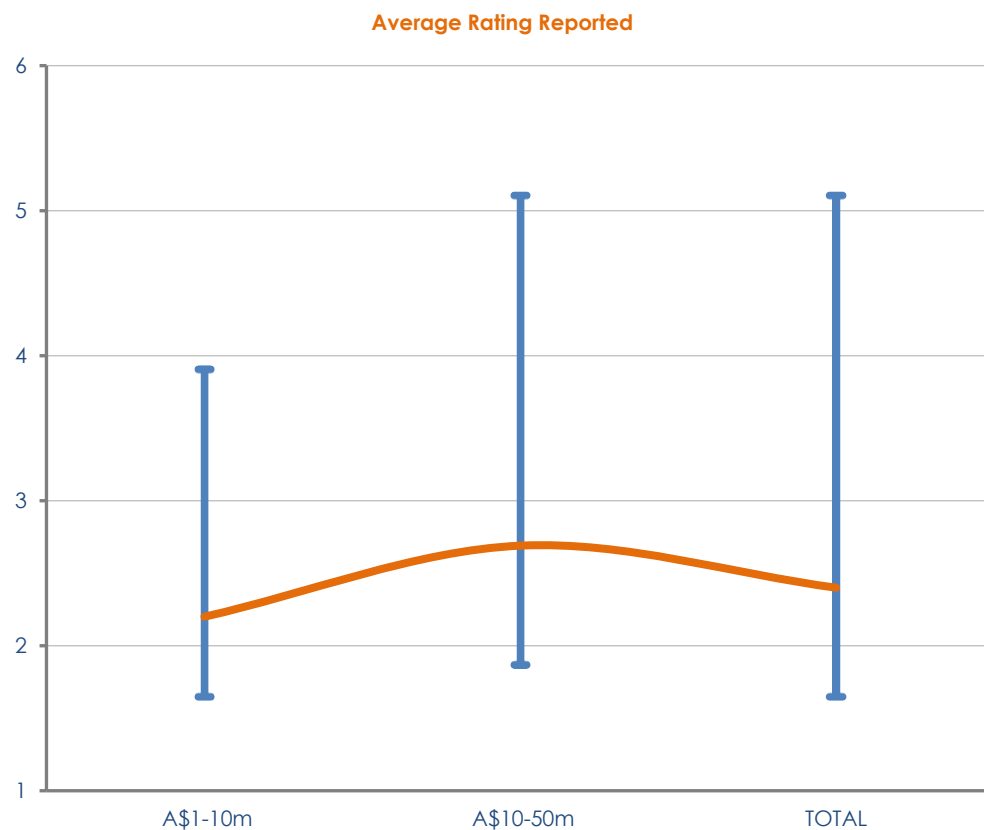


Exhibit H

Primary Lender Trust

Average Rating Reported (1=mistrust – 10=trust)



Of greatest concern to the banking and financial services industry as a whole is the fact that almost one in five SMEs are fed up and effectively 'too far gone' (17.1 percent), up from 14.6 percent in Round One last year. The expectation would have been for this rating to have improved given the wide-ranging recommendations handed down by the Royal Commission into Misconduct in the Australian Financial Services Industry. Unfortunately, it appears the initial response by Banks in addressing the wide range of concerns has not been decisive enough to win over SMEs, representing arguably their most important customer base.

SMEs are crying out for more support to conduct peer reviews and competitive benchmarking (70.0 percent), marking a consistent theme in East & Partners SME research where many SMEs are motivated by their direct competitive performance against businesses within their own industry sector vertical.

One in five SMEs are actively seeking greater advice on treasury, tax and navigating red tape (21.6 percent), interestingly nominated by twice as many A\$10-50 million sized SMES (33.3 percent) than smaller sized A\$1-10 million sized SMEs (13.9 percent).

SMEs independently nominated enhanced risk and cybersecurity protection support (42.8 percent) and working capital and balance sheet management (23.2 percent) as key areas of focus they would like their bank to provide.

One in ten small business owners want to see added value in the relationship through the outlay of dedicated guidance, proactive business insights and simply providing help where it is needed be it running the day-to-day operations or planning for long term strategic goals.

Key Go-to-market Themes

- » The current SME funding gap stands at A\$91.5 billion and represents a nine percent increase from the Round One figure of A\$83.2 billion, noting the marginal influence of unsuccessful larger sized SMEs included as part of expanded sampling from A\$1-20 million to A\$1 – 50 million.
- » One in two SMEs did not seek any new funding in the last year (53.7 percent). Of the 46.3 percent of SMEs who sourced new funding, the average sum sought was A\$1.1 million, ranging from A\$200,000 to A\$2.6 million.
- » Three quarters of new credit applications were successful (74.8 percent) for an average amount of A\$800,000, while 25.2 percent of credit applicants were unsuccessful in sourcing an average sum of A\$2 million
- » Within the SME segment, one in three enterprises do not have any debt facilities in place (34.7 percent). Of the 65.3 percent of SMEs with debt facilities in place, the average value is A\$3.3 million.
- » Based on the current funding gap amount of A\$91.5 billion, 21,163 SMEs were unable to secure the vital business funding they need to support growth and investment in their business based on an average loan size of A\$1.1 million
- » SMEs employ 143 staff on average yet one in five SMEs reported that they would have hired new staff if unmet borrowings had been met (19.4 percent). This suggests the current unemployment rate of 5.1 percent and growing 'underemployment' rate could be considerably improved if the SME funding gap was closed
- » Three out of four A\$1-10 million firms are unsure how much a lender will approve them for (76.0 percent) – this represents a surprisingly high figure given most of these enterprises have been in operation for over seven years on average and in many cases for over a decade.
- » SMEs find application documentation (38.5 percent) and gathering the requisite supporting financials to match lender's requirements (33.1 percent) equally frustrating to provide when applying for new finance or refinancing existing credit lines.
- » SMEs primarily applied newly sourced borrowings in the last year to ease working capital constraints (83.3 percent) or for new plant and equipment (P&E) investment (50.0 percent).
- » The larger the business, the greater the level of new credit demand. Two thirds of the A\$10-50 million segment are planning to borrow up to A\$1.5 million on average, compared to one in three A\$1-10 million SMEs planning to borrow A\$800,000 on average.
- » If funding were not a concern, businesses most pressing investment decision would be new equipment (28.3 percent) over balance sheet re-gearing (16.4 percent) or digital (9.8 percent). This has important implications for official capital expenditure growth
- » While one in four SMEs are unsure on their lending preference (23.6 percent), and 15.3 percent will take 'whatever they can get', a dominant 48.4 percent of businesses would source funding 'longer for larger'.
- » The average trust rating fell 12 points in the last year from 2.52 to 2.40, driven predominantly by the A\$1-10 million segment with a poor rating of 2.20 with some reporting a trust rating for their lender as low as 1.65.

SME Finance Gap



Exhibit 1
Amount of Funding Sought
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
No funding sought in last twelve months	53.7	63.1	39.6
Funding sought in last twelve months	46.3	36.9	60.4
Average sum sought (\$m)	1.1	0.7	1.4
Range	0.2-2.6	0.2-1.4	0.7-2.6
1st STD	0.8	0.5	1.1

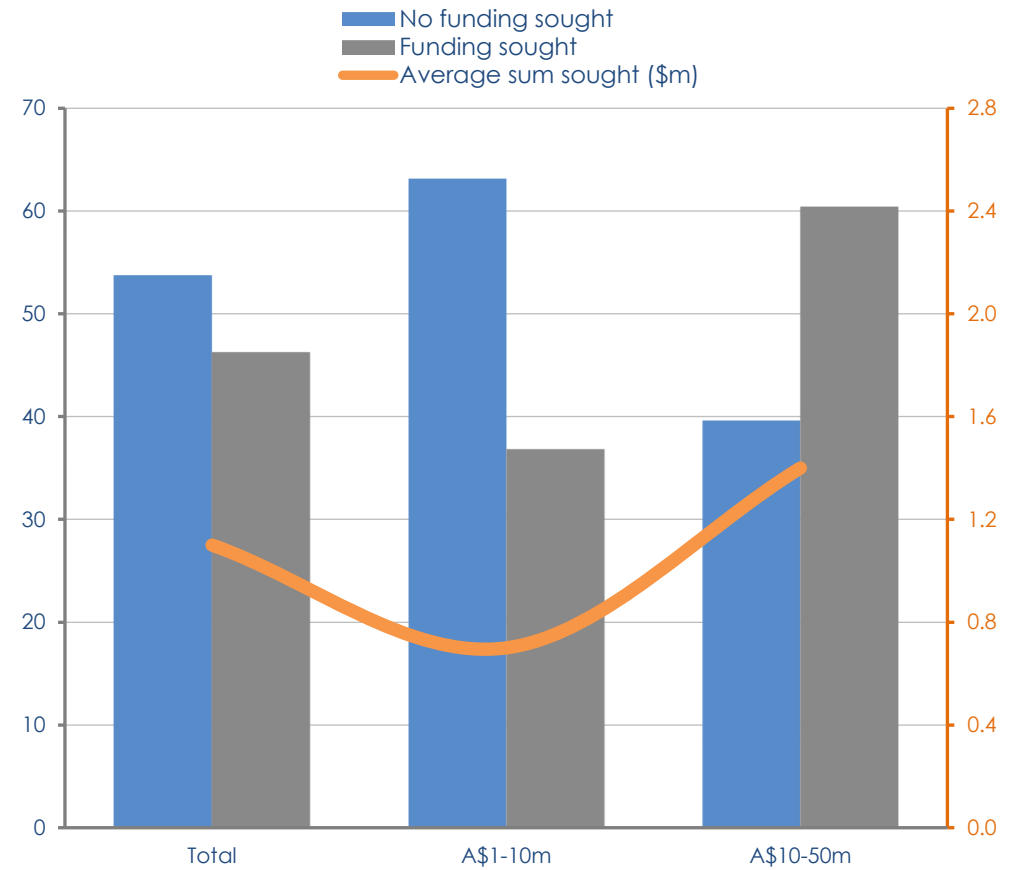


Exhibit 2
Amount of Funding Sought by Application Success
 % of Total

	Total Market (N: 810)	A\$1-10m (N: 388)	A\$10-50m (N: 422)	Average sum sought (\$m)	Range	1 st STD
Successful Application	74.8	—	—	0.8	0.2-1.7	0.4
Unsuccessful Application	25.2	—	—	2.0	0.4-2.6	2.0



Exhibit 3
Planned Purpose for Borrowings
 % of Total

	Total Market (N: 810)	A\$1-10m (N: 388)	A\$10-50m (N: 422)
Cashflow/working capital	83.3	73.7	48.8
Property	4.0	2.6	4.5
Business equipment/plant	50.0	32.0	47.2
Research and development	3.8	2.1	3.6
Expansion /growth	6.0	4.9	7.1
Succession planning	0.6	1.0	0.5
Other			
Exporting/offshore business development	14.1	14.2	12.3
Retirement of other/existing debt	25.2	30.7	28.7

Note: one primary response asked for

Note: no statistical variation by state, sector or lender

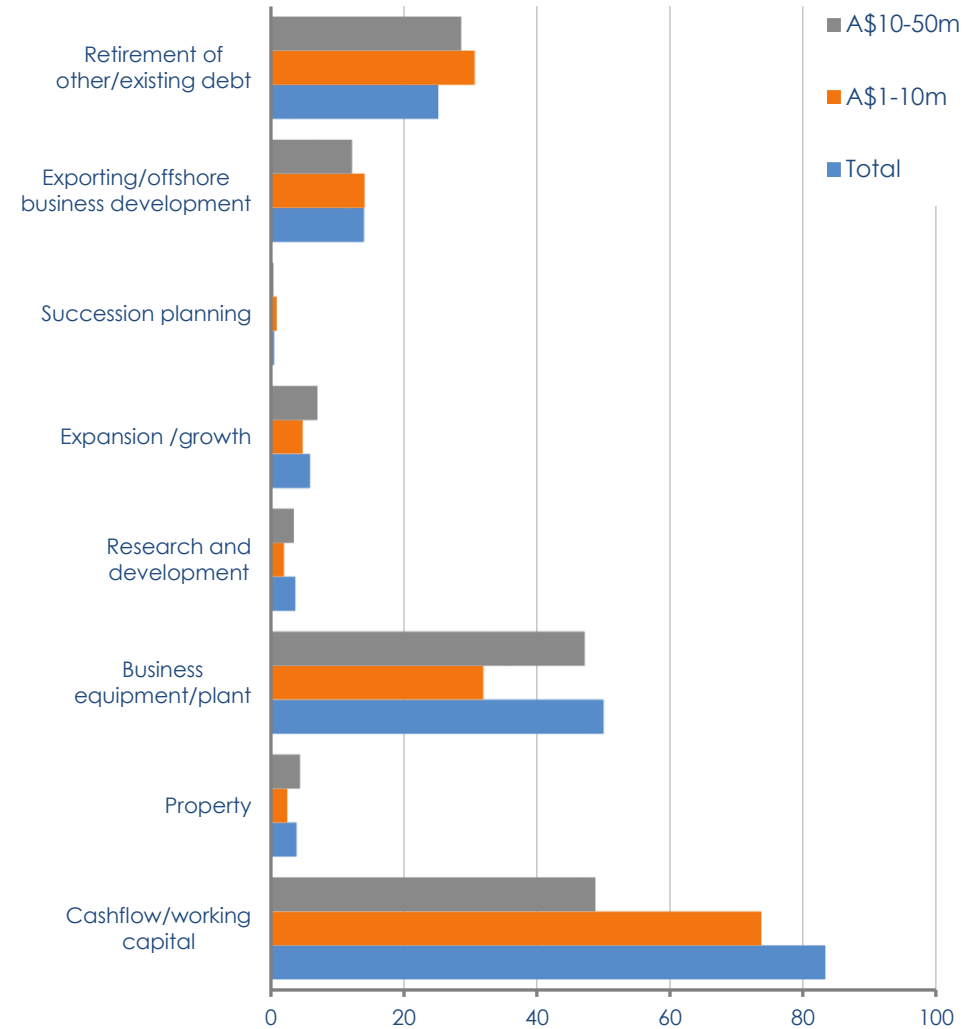


Exhibit 4
Amount of Funding Sought for Future Borrowings
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
No plans to borrow more	53.6	64.0	37.9
Do plan to borrow more	46.4	36.0	62.1
Average sum sought (\$m)	1.2	0.8	1.5
Range	0.2-2.1	0.2-1.1	0.6-2.1
1st STD	0.3	0.2	0.5

Note: no statistical variation by state, sector or lender

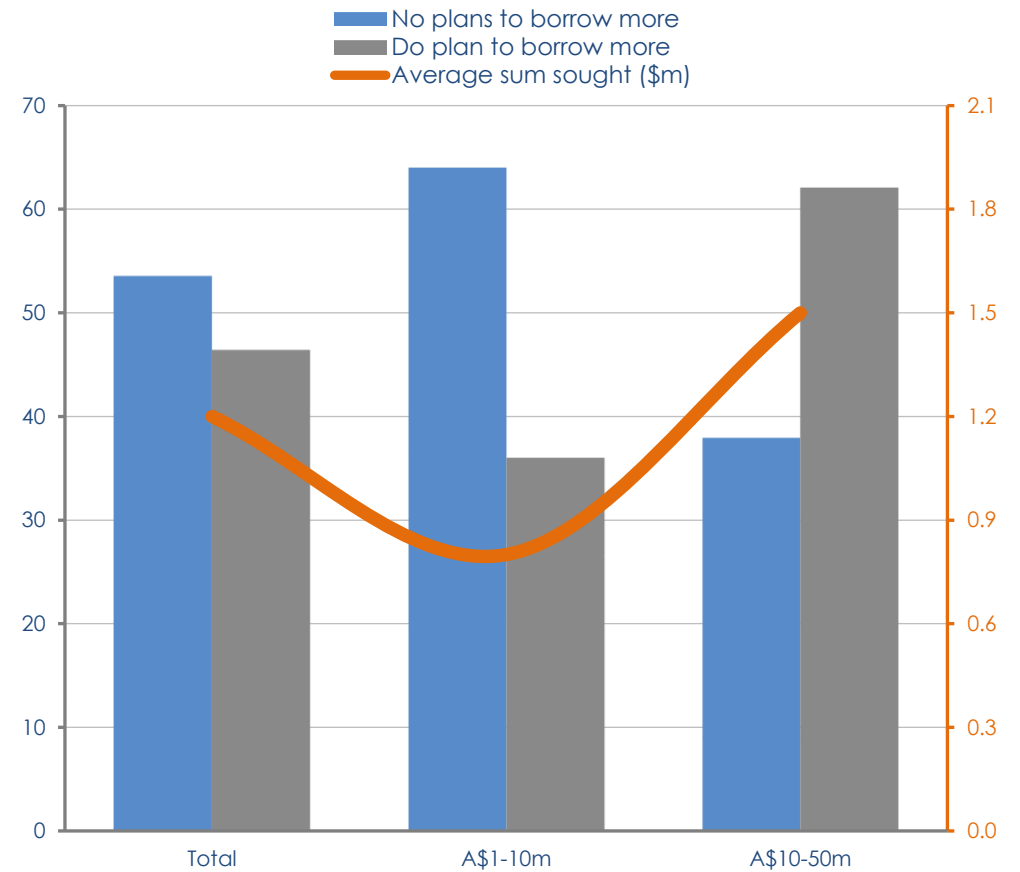


Exhibit 5
Amount of Funding Expected
 % of Total

	Total Market (N: 813)	A\$1-10m (N: 379)	A\$10-50m (N: 434)
Don't know / no idea	51.7	76.0	30.4
What we plan to ask for or more	35.2	6.3	60.4
Less than what we plan asking for	13.2	17.7	9.2

Note: no statistical variation by state, sector or lender

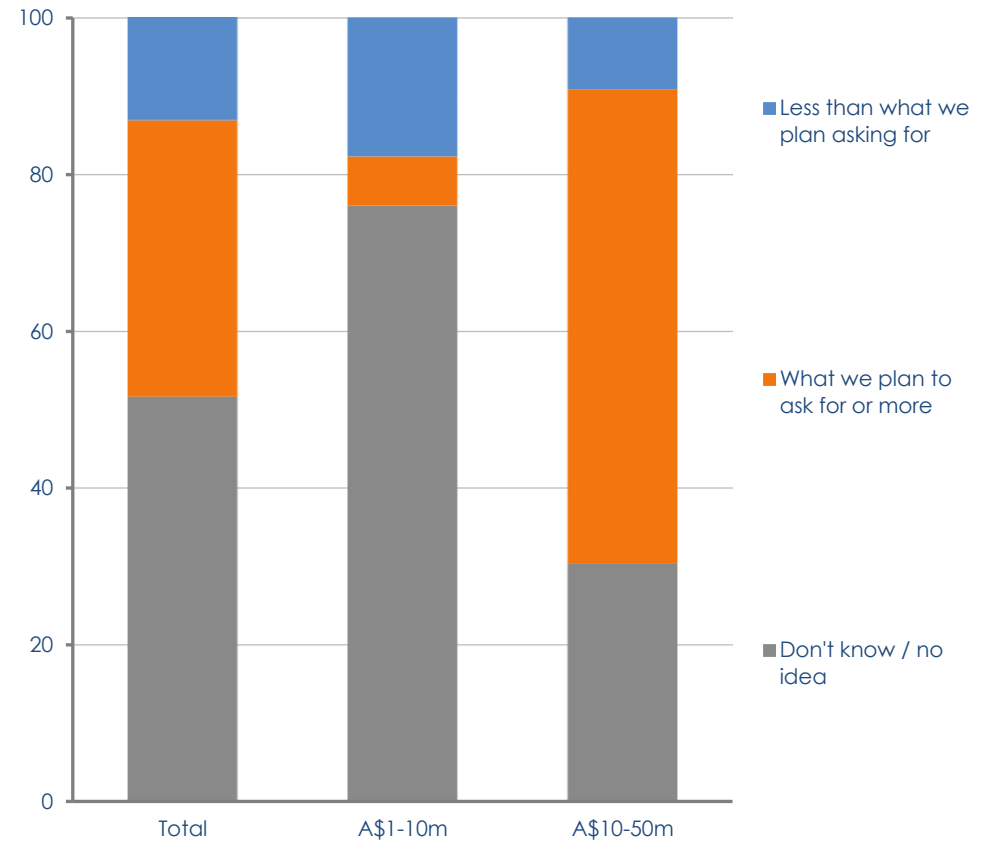


Exhibit 6
Future Borrowing Usage Plans
 % of Total

	Total Market (N: 813)	A\$1-10m (N: 379)	A\$10-50m (N: 434)
Cashflow/working capital	43.3	53.3	34.6
Property	3.3	1.8	4.6
Business equipment/plant	32.7	23.5	40.8
Research and development	2.2	1.3	3.0
Expansion /growth	6.3	4.7	7.6
Succession planning	1.5	2.1	0.9
Other			
Exporting/offshore business development	10.3	8.2	12.2
Retirement of other/existing debt	21.5	22.4	20.7

Note: no statistical variation by state, sector or lender

Note: sums to over N count due to multiple responding enabled

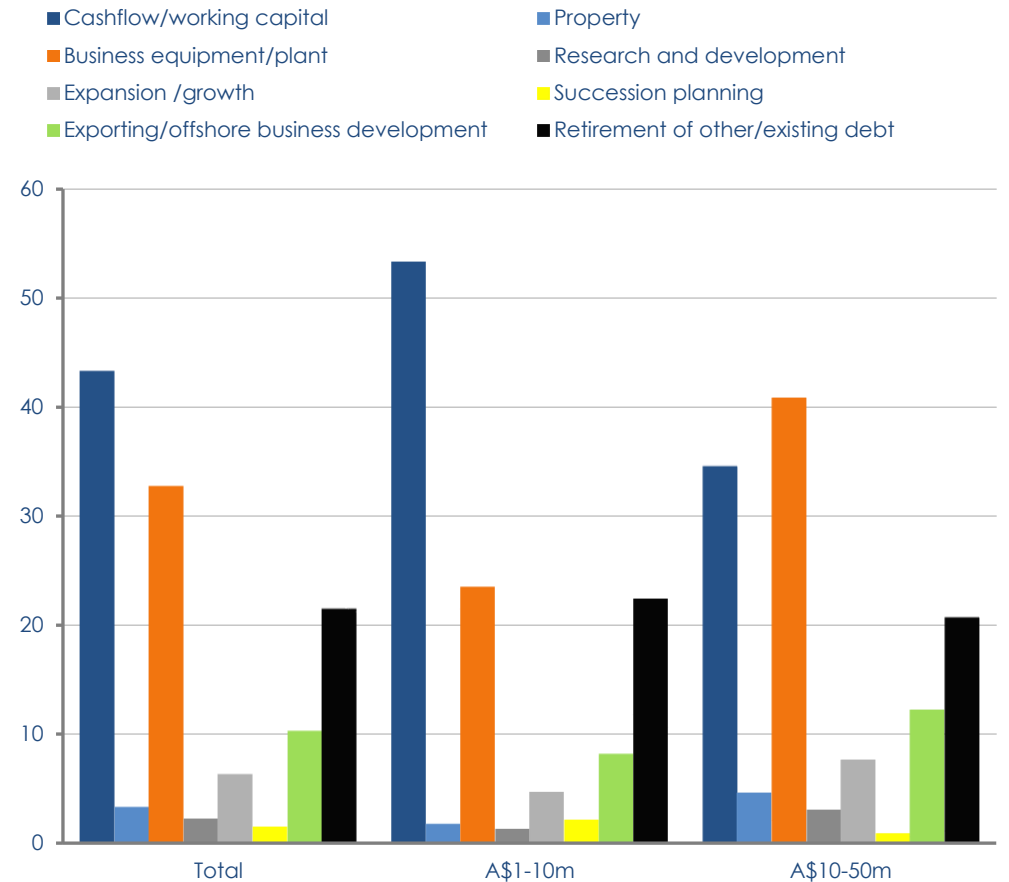


Exhibit 7
Future Borrowing Purposes
 % of Total

	Total Market (N: 813)	A\$1-10m (N: 379)	A\$10-50m (N: 434)
Hiring new staff	19.4	17.9	20.7
Maintaining/retaining current staff	25.3	25.1	25.6
Increasing staff wages/paying performance bonuses	3.8	4.7	3.0
Product/service development/innovation	8.2	5.8	10.4
Inventory	10.6	10.8	10.4
Expansion/growth	6.3	4.7	7.6
Other			
General working capital	43.3	53.3	34.6
Retirement of existing debt facilities	21.5	22.4	20.7

Note: no statistical variation by state, sector or lender

Note: sums to over N count due to multiple responding enabled

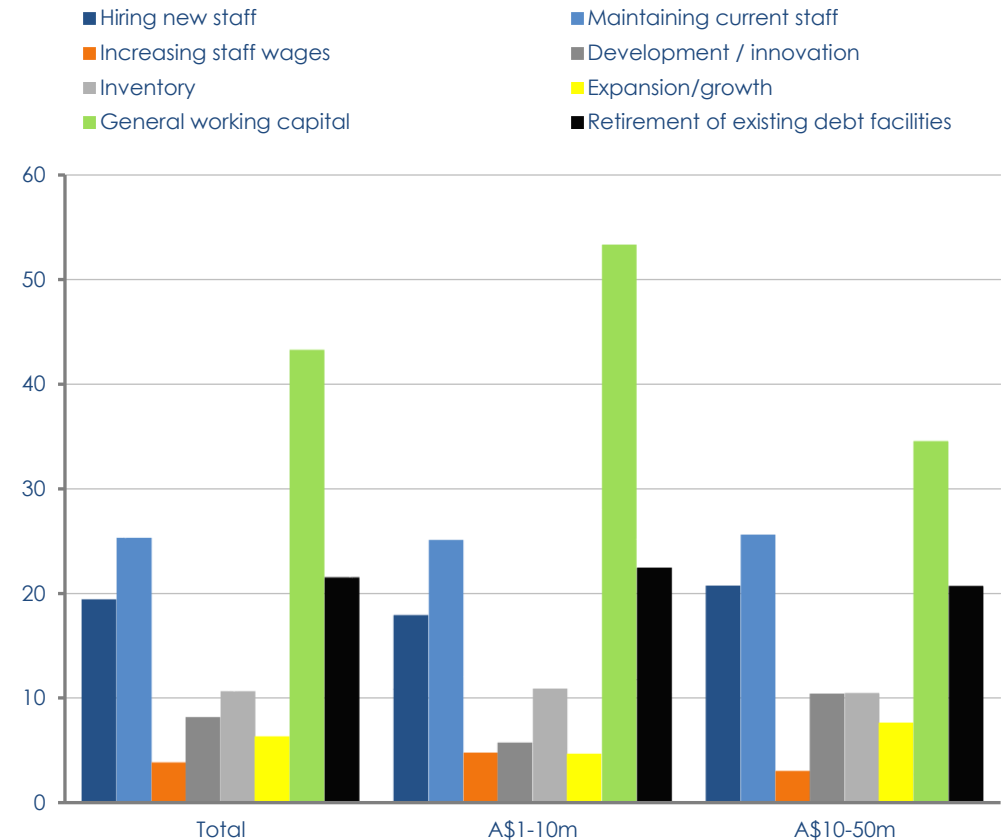


Exhibit 8
New Borrowings Business Funding Methods
 % of Total

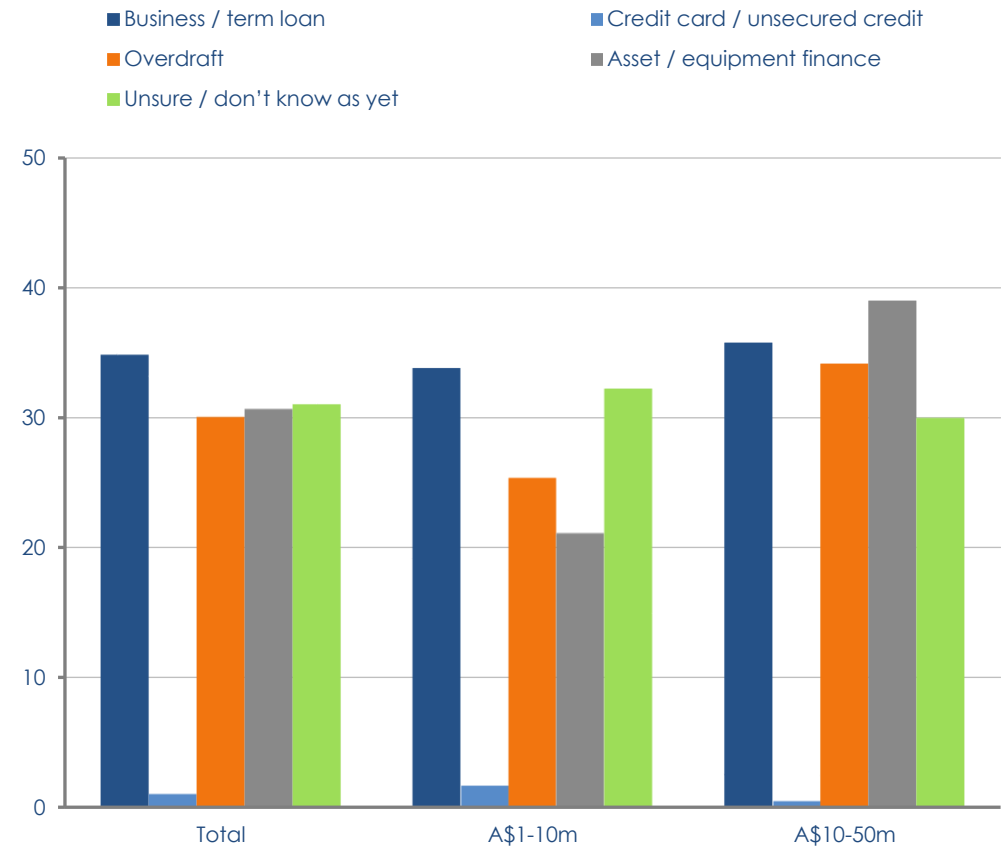
	Total Market (N: 813)	A\$1-10m (N: 379)	A\$10-50m (N: 434)
Business/term loan	34.8	33.8	35.7
Credit card/unsecured credit	1.0	1.6	0.5
Overdraft	30.0	25.3	34.1
Line of credit	*	*	*
Asset/equipment finance	30.6	21.1	38.9
Unsure/don't know as yet	31.0	32.2	30.0

Note: no statistical variation by state, sector or lender

Note: sums to over N count due to multiple responding enabled

Note: credit cards were reported as commonly used but not for the typical size of borrowings interviewees reported looking for

* Note: interviewees viewed the 1st and 4th response options above as the same



SME Credit Gaps



Exhibit 9
Most Pressing Business Investments
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Improve our balance sheet ratios generally	16.4	23.3	6.2
Replace/extend our plants and equipment portfolio	28.3	27.8	29.0
Execute a competitor business acquisition	6.5	4.3	9.7
Getting offshore	7.9	5.1	12.0
Change/improve our physical location/premises	3.0	2.3	4.1
Add to our headcount	4.5	3.7	5.6
Expand our product/service offerings	8.3	6.5	11.0
Enhance our IT	5.6	3.8	8.3
Extend our online business	9.8	9.6	10.0
No needs/in "maintenance mode" as a business	9.8	13.7	4.0

Note: no statistical variation by state, sector or lender

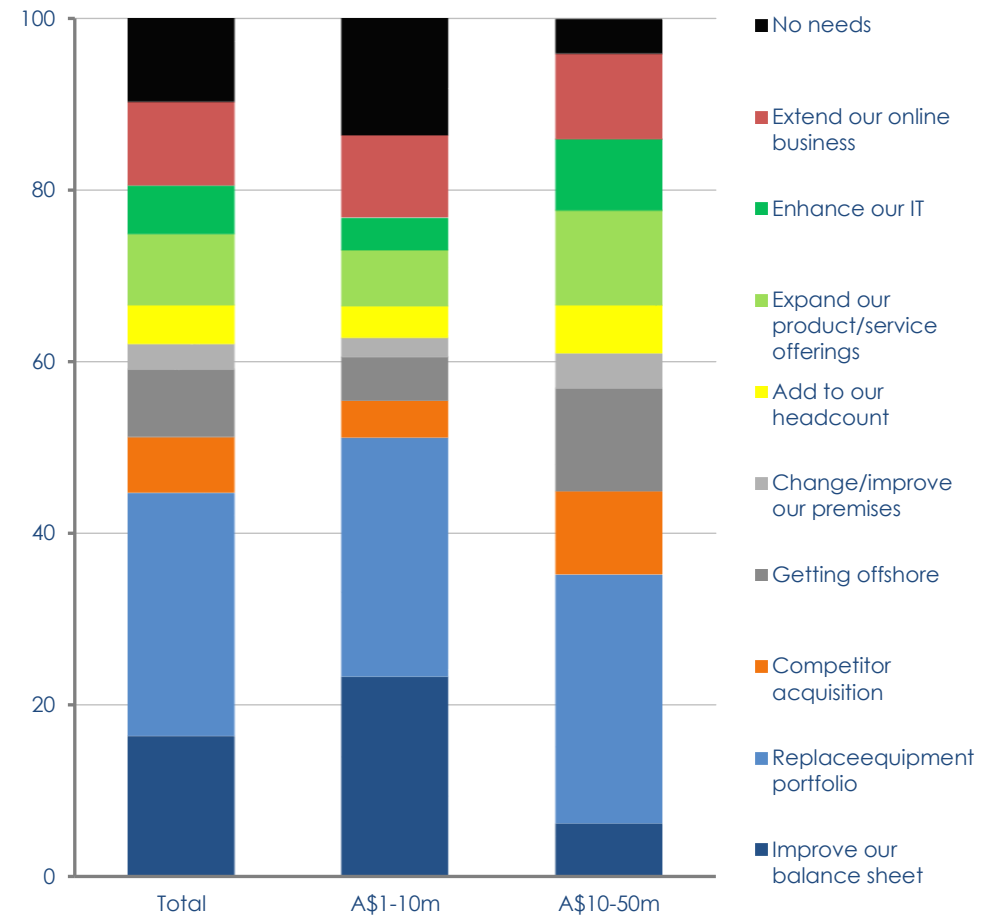
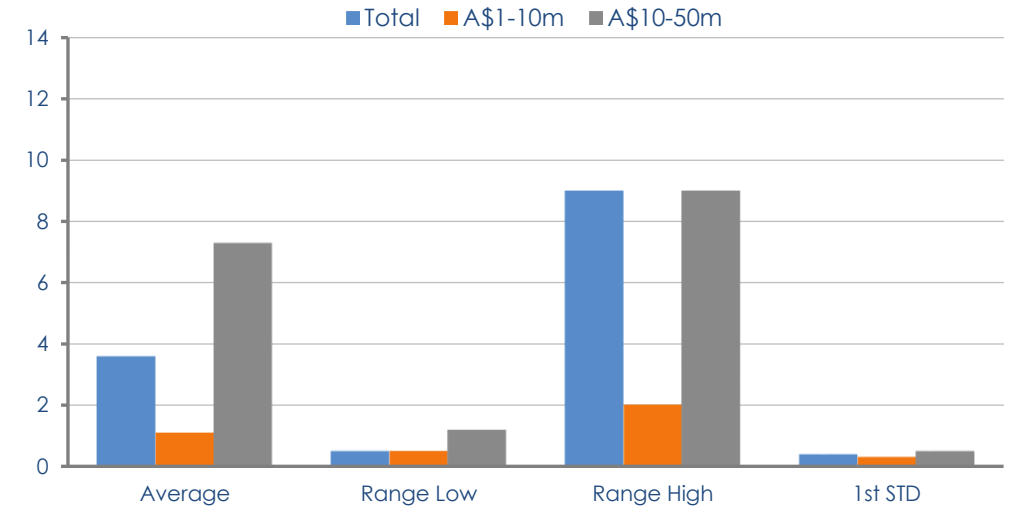


Exhibit 10
Funding Required to Capitalise on Opportunities
 Average A\$ million in Funding Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Equity			
Average reported	3.6	1.1	7.3
Range	0.5-9.0	0.5-2.0	1.2-9.0
1st STD	0.4	0.3	0.5
Debt			
Average reported	4.4	1.4	8.8
Range	0.4-12.0	0.4-2.5	0.9-12.0
1st STD	0.5	0.5	0.5

Note: no statistical variation by state, sector or lender

Equity



Debt

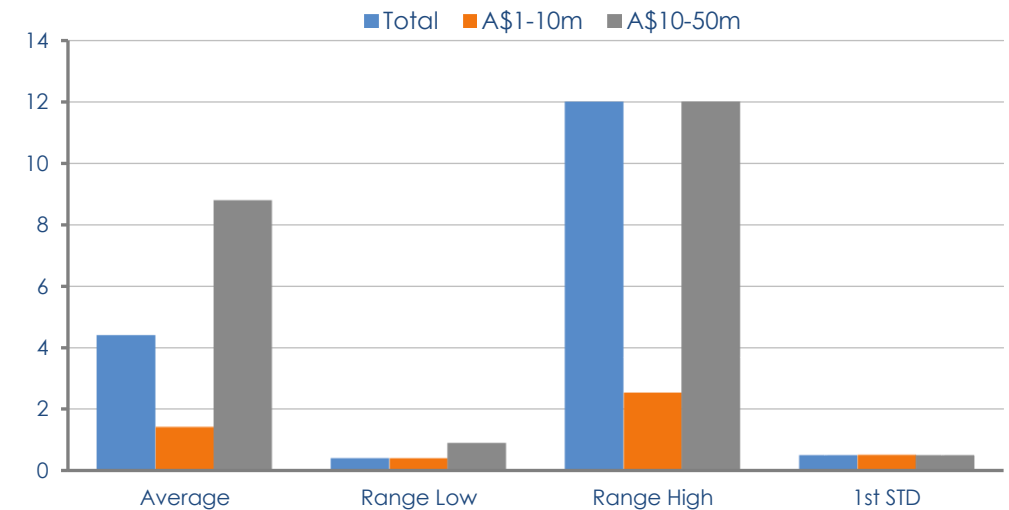


Exhibit 11
Borrowing Term Preferences
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Short term small balance	12.6	18.9	3.1
Long term large balance	48.4	28.8	78.0
Either short or long term - new funding needed urgently	15.3	25.3	0.3
Unsure/undecided	23.6	27.0	18.6
TOTAL	100.0	100.0	100.0

Note: no statistical variation by state, sector or lender

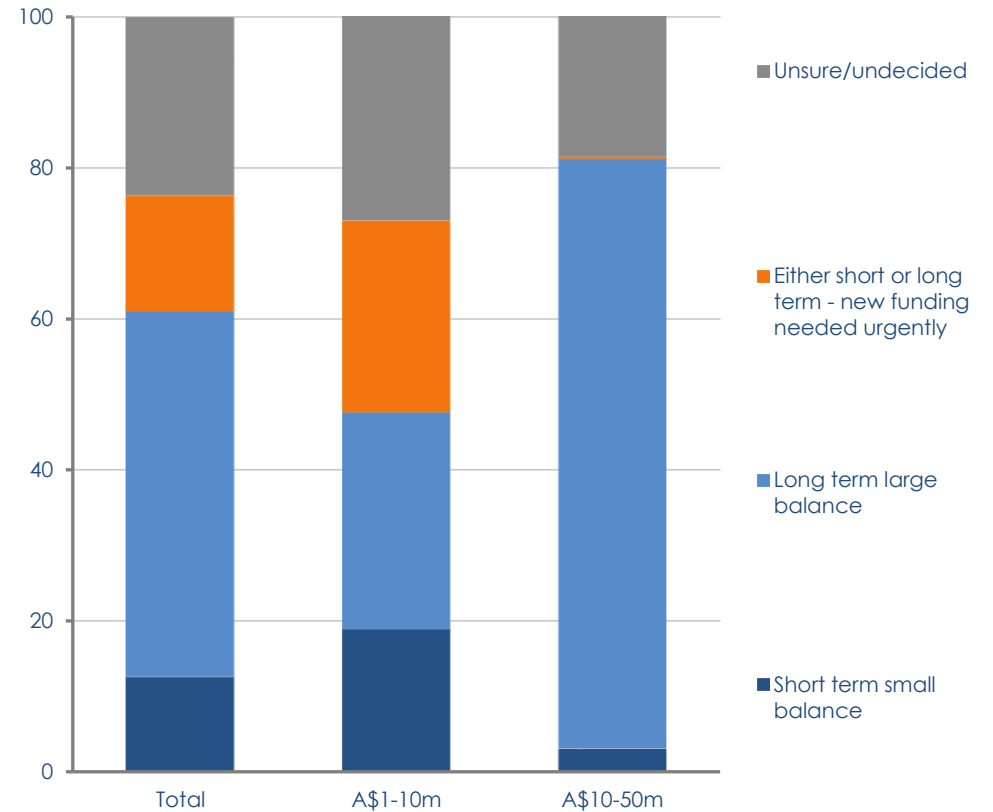
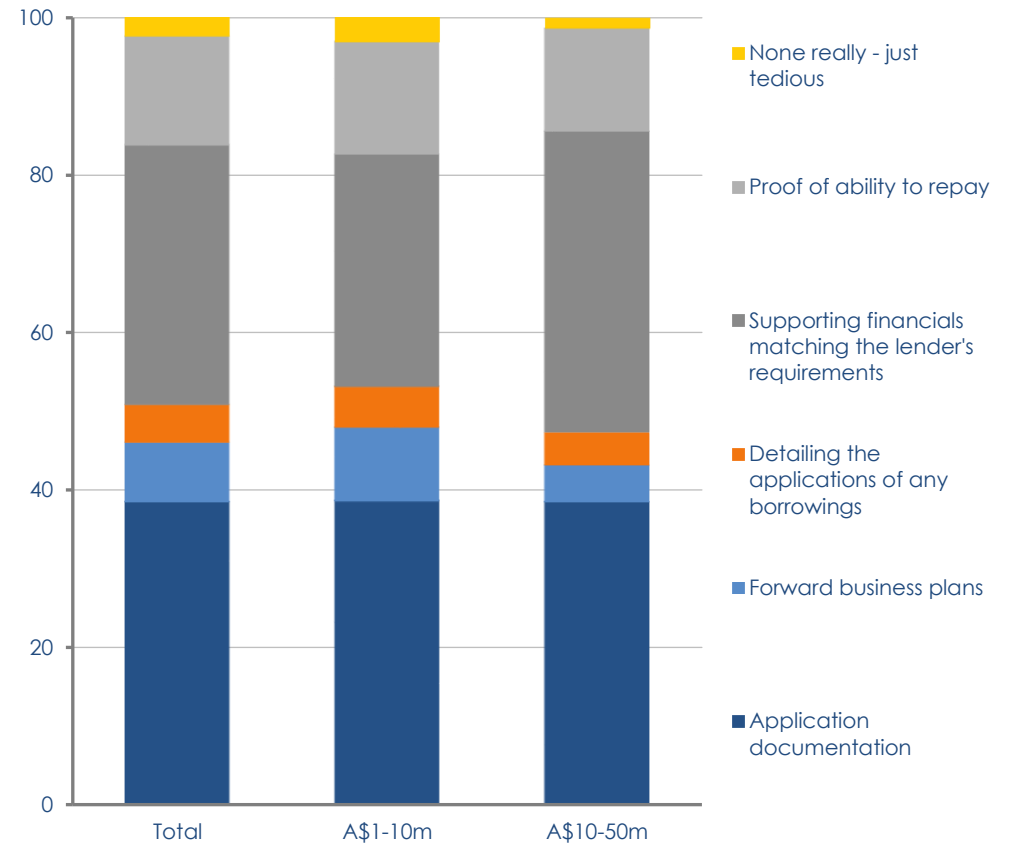


EXHIBIT 12
Most Challenging Financing Information to Provide
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Application documentation	38.5	38.6	38.5
Forward business plans	7.5	9.3	4.7
Detailing the applications of any borrowings	4.8	5.2	4.1
Supporting financials matching the lender's requirements	33.1	29.6	38.3
Proof of ability to repay	13.8	14.3	13.0
None really - just tedious	2.3	3.0	1.3
TOTAL	100.0	100.0	100.0

Note: no statistical variation by state, sector or lender



Re-Earning SME Trust



Exhibit 13
Primary Lender Trust Index
 Average Rating Reported

	Average Rating Reported		
	1 — 3 — 5 — 7 — 10 (no trust)	1 — 3 — 5 — 7 — 10 (complete trust)	
	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average Rating Reported	2.40	2.20	2.69
Range	1.65-5.10	1.65-3.90	1.87-5.10
1st STD	1.55	1.11	2.20

Note: no statistical variation by state, sector or lender

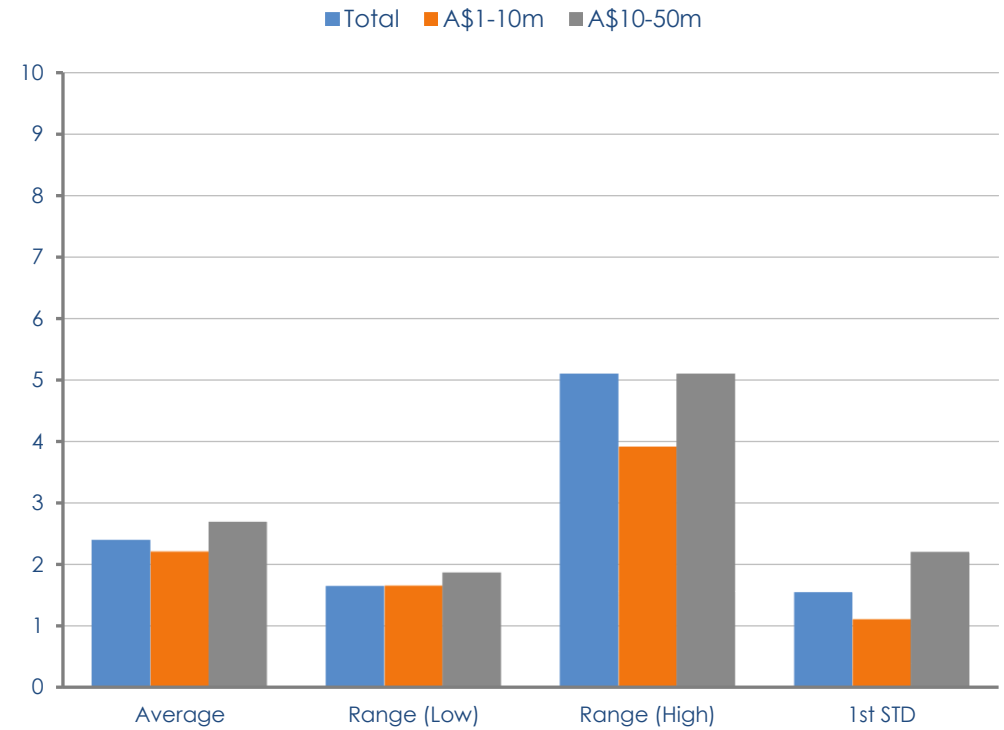


Exhibit 14
Ways Lenders can Re-Earn Trust

% of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Be clear / honest and transparent in dealings / communications	22.3	23.5	20.6
Actually do/execute what they say they will do	19.0	18.2	20.2
Improve the quality / knowledge / experience of their SME facing staff	18.8	18.0	20.0
Add value to our "relationship" with guidance / help / proactive business insights	12.5	11.3	14.3
Introduce us to other bank customers we can trade with	9.3	9.3	9.3
No view / up to the banks	1.0	0.7	1.4
Not possible any longer / lack of trust too far gone	17.1	19.1	14.2
TOTAL	100.0	100.0	100.0

Note: no statistical variation by state, sector or lender

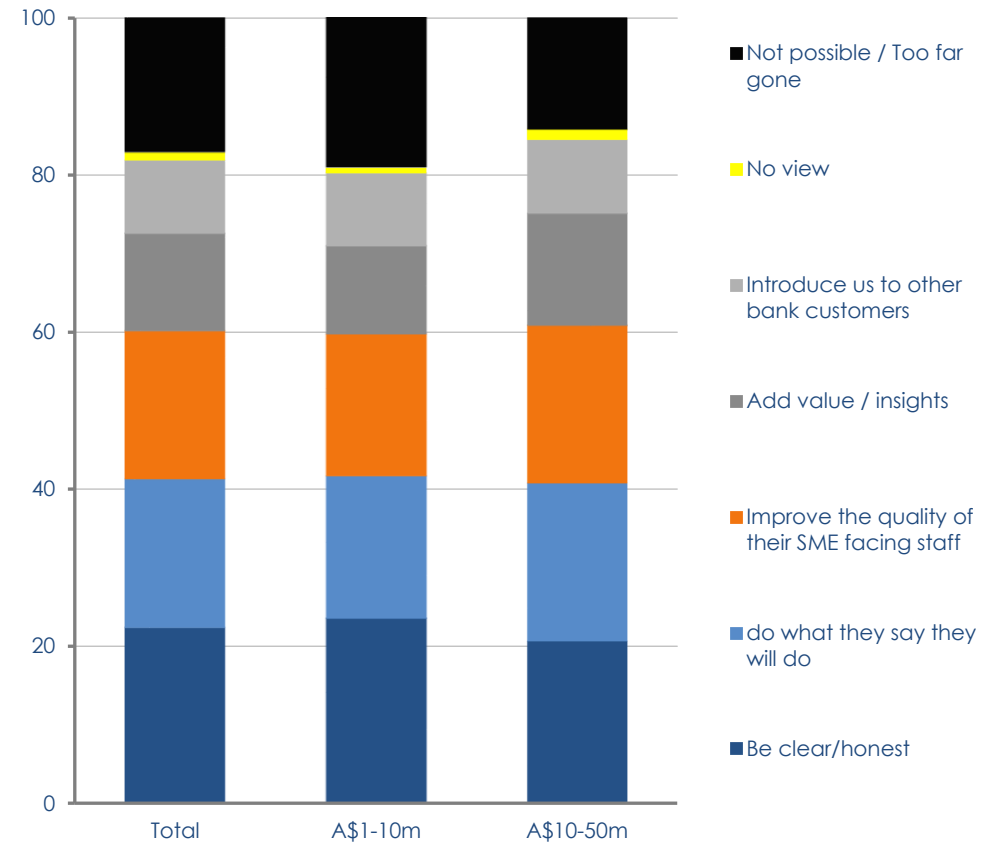


Exhibit 15

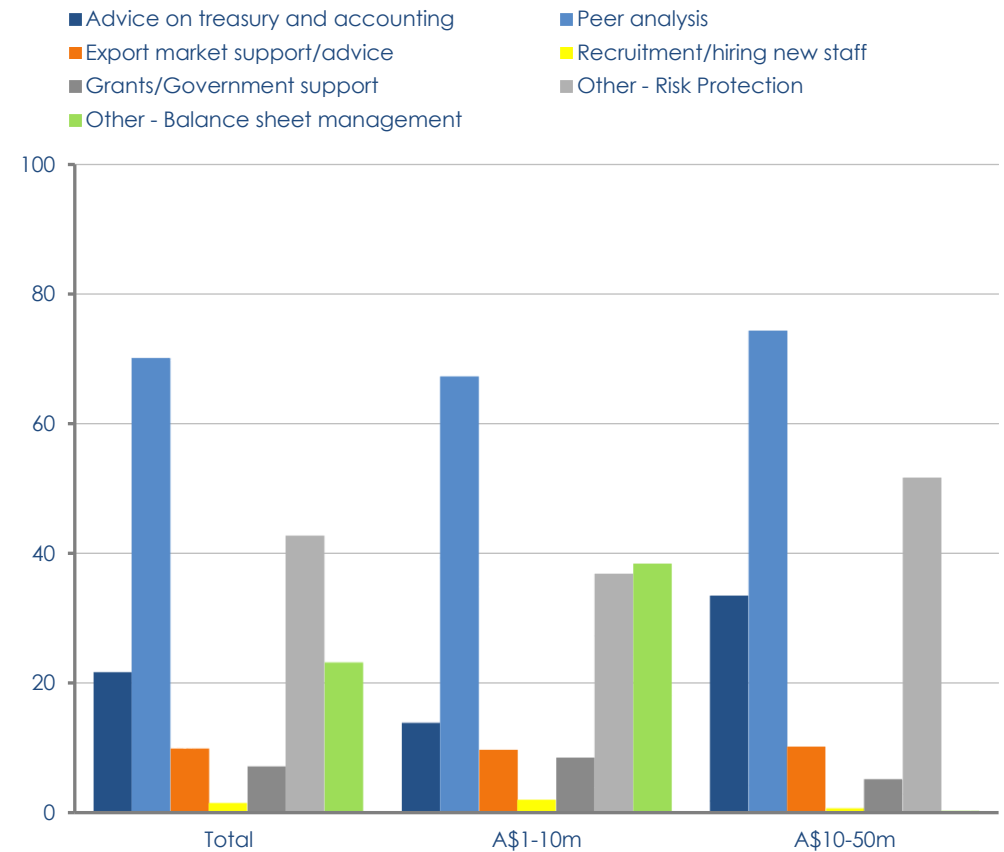
Other Desirable Bank Service/Support Offerings

% of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Advice on treasury and accounting (tax, regulatory)	21.6	13.9	33.3
Peer analysis and insights/competitor benchmarking	70.0	67.2	74.2
Export market support/international markets advice	9.8	9.6	10.0
Recruitment/hiring new staff	1.4	1.9	0.7
Small business grants/Government support	7.1	8.4	5.2
Other			
Risk and cybersecurity protection	42.8	36.9	51.6
Working capital and balance sheet management	23.2	38.4	0.4

Note: no statistical variation by state, sector or lender

Note: sums to over N count due to multiple responding enabled



Appendix I

Research Methodology



The fieldwork for this inaugural research program took place during the five weeks ending 19 July 2019

Exhibit 16
Customer Segment Distribution
 % of Total

	July 2019 (N: 1751)
A\$1-10m turnover segment (Small Enterprise)	60.1
A\$10-50m turnover segment (Medium Enterprise)	39.9
TOTAL (SME Segment)	100.0

Exhibit 17
Geographical Distribution
 % of Total

	July 2019 (N: 1751)
NSW & ACT	47.7
VIC & TAS	26.5
QLD & NT	13.2
SA	3.9
WA	8.6
TOTAL	100.0

All enterprises were interviewed on a direct basis using the structured Interview Questionnaire, reproduced here as Appendix II, through the individual holding primary responsibility for decision making over the organisation's trade banking relationships, profiled below in Table C.

Exhibit 18
Interviewee Distribution
 % of Total

	July 2019 (N: 1751)
CFO	17.1
Corporate Treasurer	5.8
Company Accountant / Financial Controller	15.5
Business Owner	55.5
Other	6.1
TOTAL	100.0

Industry sector distribution of the enterprises interviewed directly reflects the distribution of Australia's commercial population/universe based on Australian Bureau of Statistics census data.

Exhibit 19
Industry Sector Distribution
 % of Total

	July 2019 (N: 1751)
Agriculture, Forestry, Fishing	4.1
Mining	4.7
Manufacturing	9.3
Electricity, Gas, Water and Waste Services	0.9
Construction	8.9
Wholesale Trade	15.3
Retail trade	19.9
Accommodation and Food Services	2.2
Transport, Postal and Warehousing	4.8
Information, Media and Telecommunications	2.4
Financial and Insurance Services	2.4
Rental, Hiring and Real Estate Services	4.2
Professional, Scientific and Technical Services	4.1
Administrative and Support Services	0.8
Public Administration and Safety	0.6
Education and Training	1.3
Health Care and Social Assistance	2.2
Arts and Recreation Services	0.6
Other Services	11.4
TOTAL	100.0

Exhibit 20
Business/Financial/Management Experience of Interviewee
 Average Number Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average Years Experience	14.1	12.7	16.3
Range	5.2 – 33.9	5.2 – 21.0	8.0 – 33.9

Note: no statistical variation by state, sector or lender

Exhibit 21
Age of Interviewee
 Average Number Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average Age (Years)	39.5	37.0	43.3
Range	25.4 – 59.7	25.4 – 45.0	29.6 – 59.6

Note: no statistical variation by state, sector or lender

Exhibit 22

Annual Enterprise Turnover

Average Number Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average	10.0	5.6	16.7
Range	1.3 – 19.7	1.3 – 10.0	10.3 – 20.0

Note: no statistical variation by state, sector or lender

Exhibit 23

Enterprise FTE / Headcount

Average Number Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average	142.7	40.1	297.2
Range	31 – 402	31 – 49	136 – 402

Note: no statistical variation by state, sector or lender

Exhibit 24

Age of Enterprise

Average Number Reported

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
Average Years Established	10.0	6.9	14.7
Range	2.0 – 28.1	2.0 – 13.1	7.7 – 28.1

Note: no statistical variation by state, sector or lender

Exhibit 25

Value of Current Debt Facilities

% of Total

	Total Market (N: 2682)	A\$1-10m (N: 1689)	A\$10-50m (N: 993)
No debt facilities being used	34.7	37.7	29.6
Debt facilities in place	65.3	62.3	71.4
Average Value (A\$m)	3.3	1.1	6.0
Range	0.2 – 11.8	0.2 – 1.9	0.7 – 11.8

Note: no statistical variation by state, sector or lender

Exhibit 26
Current Primary Lender
 % of Total

	Total Market (N: 1751)	A\$1-10m (N: 1052)	A\$10-50m (N: 699)
ANZ	11.2	8.7	15.0
BankWest	3.3	4.7	1.3
Bendigo Adelaide Bank	0.9	1.4	0.1
BOQ	5.1	6.2	3.4
CBA	20.0	21.8	17.3
HSBC	1.1	0.4	2.1
NAB	27.8	20.5	38.6
St George	4.7	5.7	3.3
Suncorp	3.0	3.5	2.1
Westpac	16.0	18.1	12.9
Other	7.0	9.1	3.7
TOTAL	100.0	100.0	100.0

Note: no statistical variation by state, sector or lender

Exhibit 27
Age of Primary Lending Relationship
 Average Number Reported

	Total Market (N: 820)	A\$1-10m (N: 401)	A\$10-50m (N: 419)
Average Years	6.8	5.4	8.2
Range	1.9 – 22.5	1.9 – 8.0	4.8 – 22.5

Note: no statistical variation by state, sector or lender

Appendix II

Interview Questionnaire



Judo Bank SME Insights Report

Round Two – June 2019

Interview Questionnaire

(A\$1 – 50 million turnover accounts)

Organisation

Mailing Address

.....

Phone Fax

Website.....

Interviewee

Title (Owner / Corporate Treasurer / CFO)

Email

Age

Financial Management Experience (in years)

Principal Industry Sector

Current Annual Turnover

Number of Full Time Staff

Finance Team Size (Headcount)

Year Business Established.....

Screening Question

Value of current Debt Facilities A\$.....

(Interviewer note: if no debt facilities terminate interview)

Current Primary Lender.....

Length of Relationship (Years)

Quantify SME Finance Gap Cost to Australia

1. When applying for new finance in the last 12 months, how much funds were you asking for?

Successful Application A\$

Unsuccessful Application A\$

2. What purposes did you plan to use borrowings for in the last 12 months?

- Cashflow / working capital
- Property
- Business equipment
- Research and development
- Expansion / growth
- Succession planning
- Exporting / offshore business development
- Retirement of other / existing debt
- Others (please specify)

3. For future borrowings in the next 12 months, how much would you want to borrow and how much do you expect a lender would (actually) loan to you?

Want to Borrow A\$

Expect Lender Would Actually Lend A\$

Unsure / do not know

4. What purposes do you plan to use new borrowings for in the next 12 months?

- Cashflow / working capital
- Property
- Business equipment
- Research and development
- Expansion / growth
- Succession planning
- Exporting / offshore business development
- Retirement of other / existing debt
- Others (please specify)

5. In relation to Question Three, what purposes would you have used additional unmet borrowings for?

- Hiring new staff - state how many new staff
- Maintaining current staff (i.e. not letting staff go)
- Increasing staff wages / paying performance bonus
- Product / service development / innovation
- Inventory
- Expansion / growth
- Others (please specify)

6. What business funding method do you plan to use for new borrowings?

- Business / term loan
- Credit card / unsecured credit
- Overdraft
- Line of credit
- Asset / Equipment Finance
- Unsure / do not know yet
- Other (please specify).....

SME Credit Gaps

7. If funding was not a concern, what would be the most pressing investment you would make in your business over the coming 12 months (i.e. what is your highest business aspiration)?
-
8. Split by debt and equity funding, how much extra funding would you require to capitalise on potential opportunities? *Interviewer Note – under the condition funds are applied to a defined purpose / balance is repayable. Distinct from Q1 funding gap between amount borrowed / demanded*
-
9. Would you prefer instant access to a smaller sized loan or longer-term borrowings for a larger balance?
- Short term small balance
 - Long term large balance
 - Either short or long term – need any new funding urgently
 - Unsure / undecided
 - Others (please specify)
10. What business financing information is the most challenging for you to provide? (e.g. loan application documentation / proof of ability to repay debt)
-

Trust Index

11. On a scale of 1 - 10, how much trust do you extend to your current primary lending bank? (1 = no trust, 10 = complete trust)

.....

12. What does the banking industry as a whole need to do to re-build your trust?

- Be clear/honest and transparent in dealings/communications
- Actually do/execute what they say they will do
- Improve the quality/knowledge/experience of their SME facing staff
- Introduce us to other bank customers we can trade with
- Add value to our "relationship" with guidance/help/proactive business insights
- No view/up to the banks
- Not possible any longer/lack of trust too far gone
- Other (please state)

13. Other than access to finance, what other service/support would you like your bank to provide (that is not provided)?

- Advice on treasury and accounting (tax, regulatory)
- Peer analysis and insights / competitor benchmarking
- Export market support / international markets advice
- Recruitment / hiring new staff
- Small business grants / government support
- Other (please state)

About Judo Bank

Judo Bank is challenging the one-size-fits-all approach to transform SME Banking in Australia and bring back the craft of relationship banking.

Built from the ground up by a small group of deeply experienced and highly credentialed banking professionals Judo Capital formally launched in March 2018 to provide a genuine alternative for small and medium-sized businesses to access the funding they need and the service they deserve.

Judo Capital was awarded a full banking license from APRA (Australia's banking regulator) on April 24, 2019 to become Judo Bank.

Judo Bank is backed by leading global investors and to date has raised \$540m in one of the largest pre-revenue equity raisings in Australia's corporate history.

Headquartered in Melbourne, with offices in Sydney, and Brisbane and a growing team of 150 Judo has plans to expand further in the coming months.

www.judo.bank

Thank you.



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**DEDICATED TO
DOING BUSINESS**

