GE Capital

EUROPEAN CAPEX BAROMETER

Investment intentions and business sentiment based on a survey of 2,250+ senior decision makers from European SMEs

Q1 2014

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Executive Introduction

Growth is at the forefront of our minds, particularly as macro conditions are improving and the economic recovery underway in much of Europe continues to gather pace. This drive for growth is demonstrated by the results of the latest edition of our annual Capex Barometer, gauging the investment intentions, sentiment and employment plans of SMEs across seven European markets.

It is welcoming to see that business sentiment is improving – companies across Europe are feeling more optimistic – and broadly starting to invest and hire more. However the country level picture is a nuanced one and different economies are moving at different speeds. The report shows that SMEs across the seven markets we surveyed are planning to spend a total of €410bn on equipment in the next 12 months and create an estimated 2.4 million new jobs – figures that are broadly consistent with last year's findings.

This is a hugely positive story and the key factor driving job creation – particularly in Western European markets – is the improving economic climate. Firms in Central and Eastern European (CEE) markets are also seeing an uptick in new orders and business wins that is encouraging them to hire. This is a trend we hope will continue.

On the other hand, it is evident that missing out on income and new business (as a result of dated or inefficient equipment) continues to be an issue impacting firms across all markets. Firms face constant challenges in staying up-to-date with the latest technology and equipment, in order to compete and win in highly competitive markets.

At GE Capital International our clear focus is on growth and our aim is to enable our customers to grow too. We do this by offering them much more than finance. Building on the success of our Access GE programme, we are continuing to offer customers access to GE's wide range of industrial expertise and global network to overcome key business challenges. You can read about some of our fast growing customers in the following pages.

We see 2014 as a year of opportunity. The improving economy is bringing increased confidence to firms and, whilst there are still issues to overcome, the stronger environment will undoubtedly bring new opportunities for us all.

Maurice Benisty
Chief Commercial Officer, GE Capital International

Research Highlights

A total of €410bn in capital investment is planned by European SMEs across these markets in the coming 12 months (vs. €418bn in 2013)

Business confidence has increased across all markets surveyed (France, Germany, Italy, UK, Czech Rep., Hungary & Poland), except Germany where it is level

Manufacturing equipment is again set to drive spend (€184bn), however IT (€81bn) and office equipment (€26bn) spend is set to increase in the coming year

Upgrading equipment to enhance productivity is the biggest reason for investment for Western European SMEs (49%, vs. 47% in the CEE markets)

Estimated loss of income due to out-of-date equipment totals €63bn in 2014, with the vast majority (€59bn) being reported by Western European firms

2.4 million new jobs are set to be created across these markets in the next 12 months

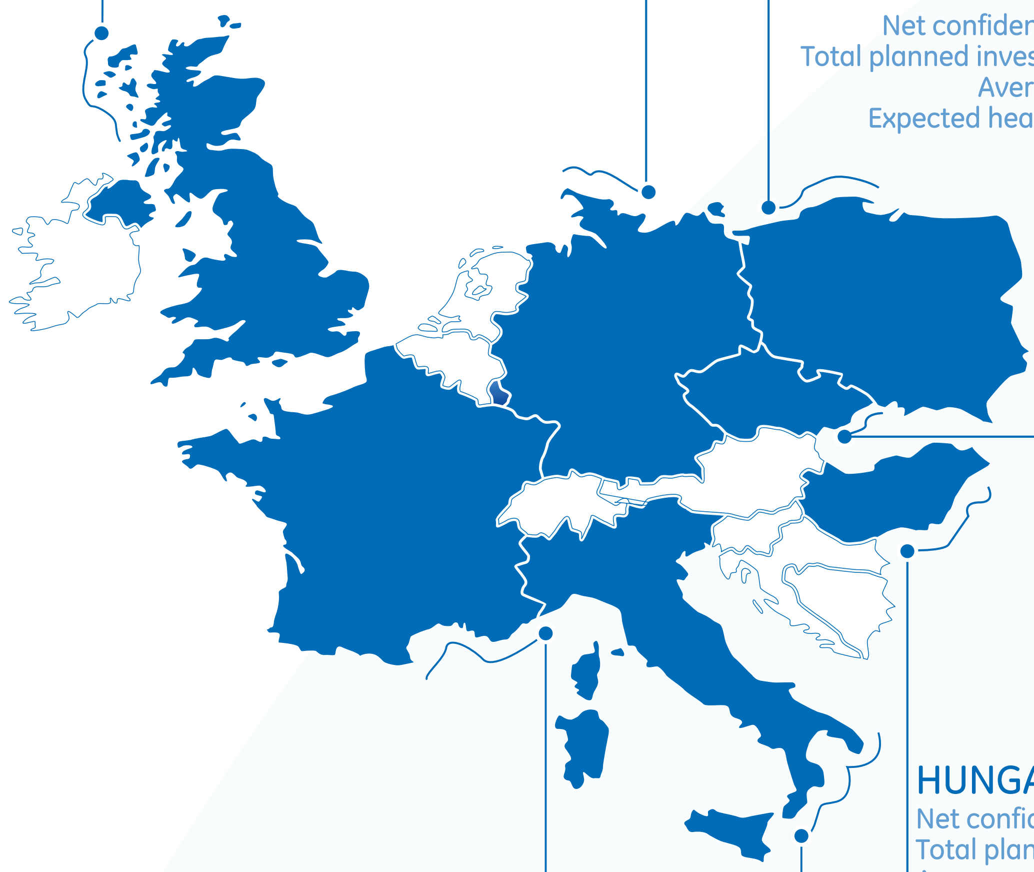
More SMEs are likely to consider using a bank as their finance provider (75%) than financing from a manufacturer (62%) or a leasing provider (56%)

Headcount in Western Europe is being driven by the improving economic climate (37%), whilst increasing orders / new business wins (42%) is driving job creation in the CEE

Buying outright with company capital (37%) is the most preferred method of financing for SMEs (vs. 17% for a leasing solution and 15% for a bank loan)

One in five Western European SMEs say they face 'no restrictions' to investing, and are able to invest as they wish (vs. 1/8 in CEE markets)

Country Highlights



GERMANY
Net confidence: 45% (same vs. 2013)
Total planned investment: €136bn down 18%
Average spend per SME: €115k
Expected headcount increase: 890,000

UNITED KINGDOM
Net confidence: 54% (vs. 33% in 2013)
Total planned investment: €71bn up 12%
Average spend per SME: €70k
Expected headcount increase: 661,000

POLAND
Net confidence: 45% (vs. 24% in 2013)
Total planned investment: €31bn up 33%
Average spend per SME: €119k
Expected headcount increase: 232,000

CZECH REPUBLIC
Net confidence: 37% (vs. 21% in 2013)
Total planned investment: €13bn down 16%
Average spend per SME: €60k
Expected headcount increase: 137,000

HUNGARY
Net confidence: 10% (vs. -24% in 2013)
Total planned investment: €10bn up 50%
Average spend per SME: €57k
Expected headcount increase: 51,000

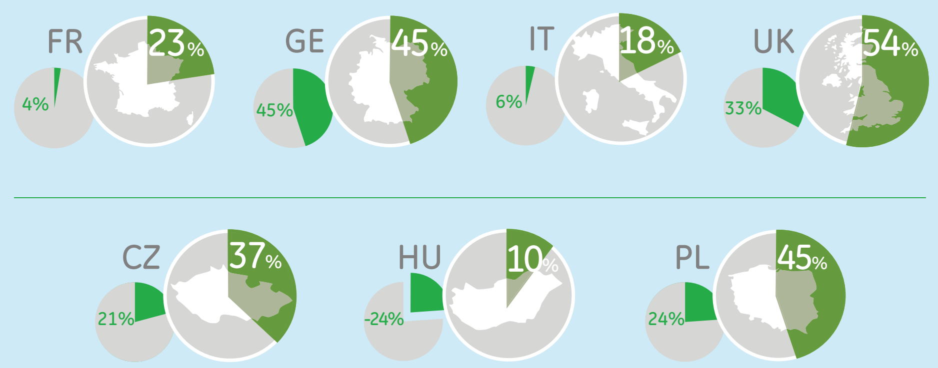
FRANCE
Net confidence: 23% (vs. 4% in 2013)
Total planned investment: €90bn up 41%
Average spend per SME: €76k
Expected headcount increase: 299,000

ITALY
Net confidence: 18% (vs. 6% in 2013)
Total planned investment: €60bn down 24%
Average spend per SME: €53k
Expected headcount increase: 163,000

Business Sentiment

Overall, European SMEs are feeling much more confident about their prospects in 2014. In fact, SME confidence has increased in all markets with the exception of Germany where it remains at the same – relatively high – level as 2013.

NET CONFIDENCE AMONGST EUROPEAN SMEs



Confidence is increasing across Europe

Q1 2013 Q1 2014

The UK, Germany, Poland, and Czech Republic are the most confident markets, whilst French SMEs are also significantly more positive than at the same period in 2013. At the opposite end of the scale, Hungary, while least positive, has still moved into 'net positive' absolute confidence territory.

While German confidence levels in 2014 have not jumped up like in other markets, this is perhaps not surprising. In previous iterations of this research, we have found that German SMEs are far more confident than those in other markets and also plan to invest significantly more. This is perhaps attributable to the speed at which Germany has been able to normalise its economy post-financial crisis, relative to other European markets. Whilst other economies have been in recovery mode, Germany has been able to pull ahead in recent years. The 2014 figures suggest a more balanced – yet still fundamentally positive outlook for German SMEs.

Is Europe's second largest economy finally moving into recovery mode?

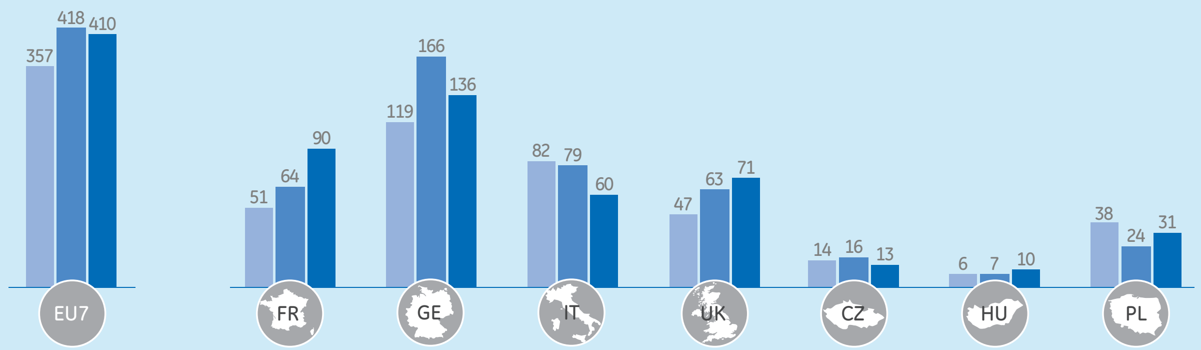
Perhaps most surprising in this year's results is the increase in confidence – and planned investment – amongst French SMEs. The timing of this report may provide insight here. At the end of Q4 2013, the French economy was seen as stabilizing after nine months of pronounced difficulty. Moreover, the broader business climate for manufacturing has remained stable across Q1 and, more recently, latest figures show that manufacturing has returned to growth. The Purchasing Managers Index (PMI) for March shows that manufacturing output has increased at the fastest in almost three years[1]. These factors may have influenced the sentiment of French SME decision makers. With macro conditions starting to stabilise, we hope our confident findings translate into future growth for the French economy.

[1] The seasonally adjusted, Markit French PMI data for March rose to 51.9 from 49.7 in February. Any figure above 50 indicates growth.

Investment Intentions

While confidence is returning across all markets the picture for capital expenditure is more mixed. In both the UK and France expectations are of increased capital expenditure but these are counter-balanced by significantly reduced investment intentions in both Germany and Italy. Germany, however, is still set to spend more than any other market (€136bn). It is interesting to note that the main obstacle to investment for German firms is due to them having already invested / upgraded their equipment. This perhaps explains why overarching investment, whilst high, is down significantly on last year. The increase in capital expenditure intentions within the CEE markets is driven primarily by Poland where predicted overall investment is 33% above the level recorded in last year.

INVESTMENT INTENTIONS OF EUROPEAN SMES IN NEXT 12 MONTHS (€bn)

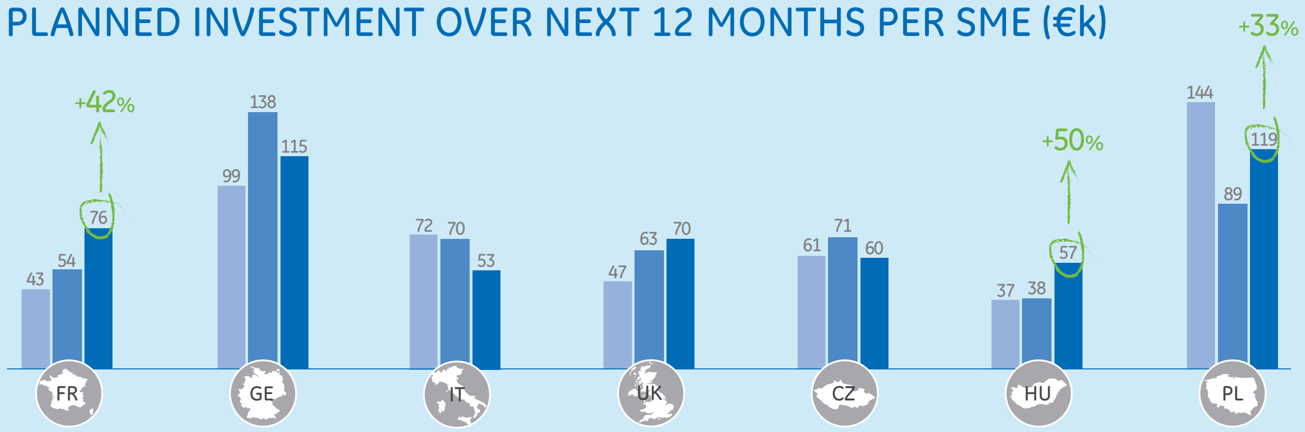


Total capex, at €410bn, is relatively stable vs. 2013

Q1 2012 Q1 2013 **Q1 2014**

Polish SME's also plan to spend more per SME than any other market (€119k), perhaps reflecting their much higher confidence. The strong showing by Poland reflects strengthening macro conditions, with Poland expected to post the fastest growth this year among Eastern European markets, with falling unemployment and slow inflation fuelling domestic demand, according to latest growth estimations from the European Commission.

PLANNED INVESTMENT OVER NEXT 12 MONTHS PER SME (€k)

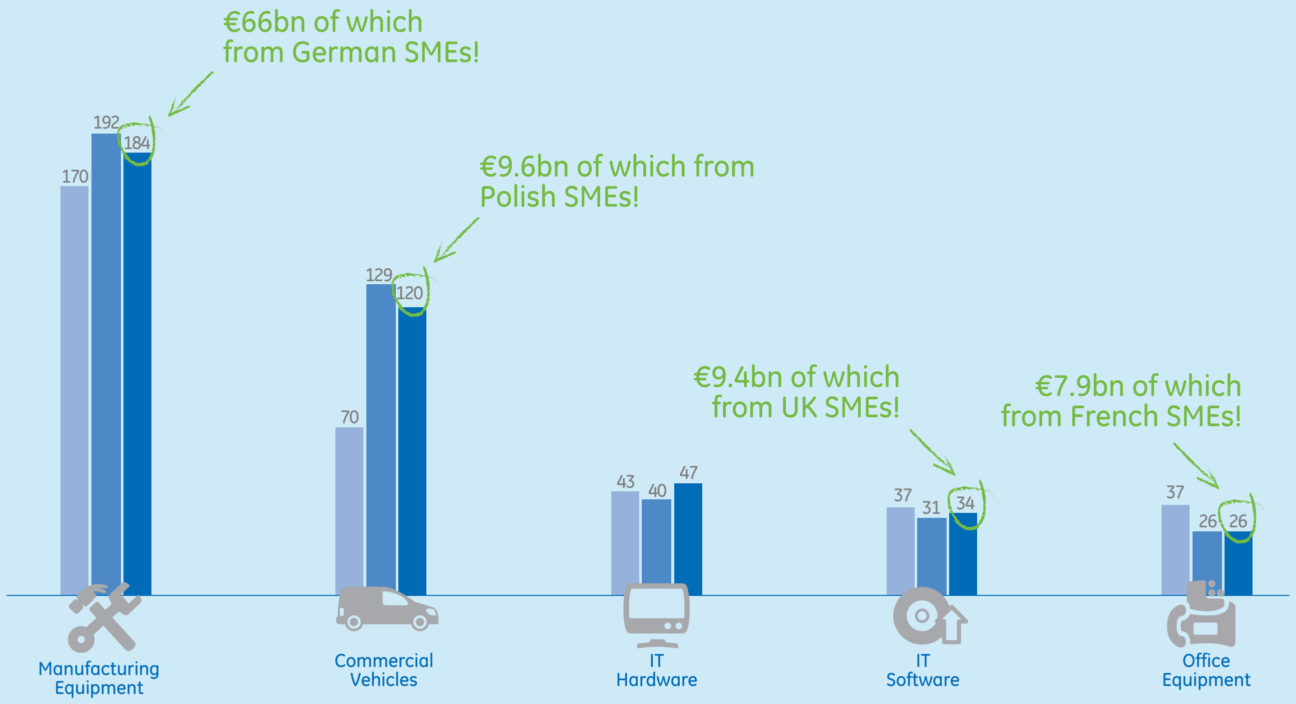


Polish SMEs set to lead the pack in 2014

Q1 2012 Q1 2013 **Q1 2014**

We see an increase in planned investment in IT hardware, software and office equipment across Western European markets, (France, Germany, Italy, The UK) whilst spend on manufacturing and commercial vehicle assets is set to drop off slightly. Conversely, spending on manufacturing equipment and commercial vehicle assets in the CEE markets (Czech Republic, Hungary, Poland) is set to rise, as spend in other areas such as IT and office equipment is set to drop.

INVESTMENT INTENTIONS BY ASSET TYPE (€bn)



Manufacturing equipment assets are still driving spend, but IT hardware and software investments set to increase

Q1 2012 Q1 2013 **Q1 2014**

CASE STUDY

Apogee: *increasing investment in IT services*

Founded in 1993, Apogee Corp has rapidly developed into a leading independent provider of digital office solutions in the UK and France. Since 2005 Apogee Corp has seen strong organic growth as well as making 18 acquisitions in that time, increasing its workforce to almost 600, spread across 22 offices in the UK and France. In recent years, the company has achieved double digit growth in sales and last year achieved turnover of £100m. The company is forecasting a strong performance in 2014.

In order to strengthen its market position, Apogee plans to update IT systems within its most recently acquired business in France, and to increase its UK workforce by 10% to help facilitate organic growth.

Apogee says, *"The economic picture in both the UK and France is looking strong, with a number of opportunities out there for new business, fuelling confidence for us to make some important investments in the current business."*

"2014 has started very promisingly with a strong pipeline of opportunities. There is a clear indication from our customers that businesses are looking to increase investments in equipment such as IT services which allows us to move forward with renewed confidence".

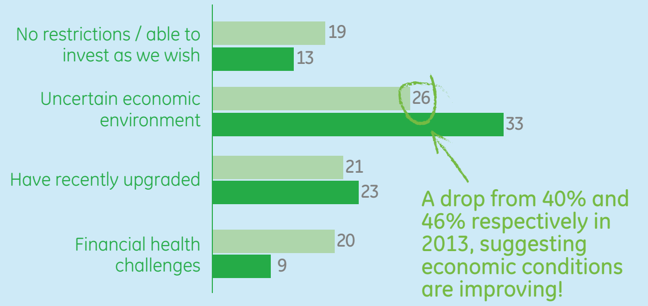
APOGEE CORPORATION

Reasons for Investing

Upgrading equipment to enhance productivity is the single biggest reason for investment for almost half Western European SMEs (49%) whereas deterioration of existing equipment is the biggest reason for SMEs in the CEE markets (49%).

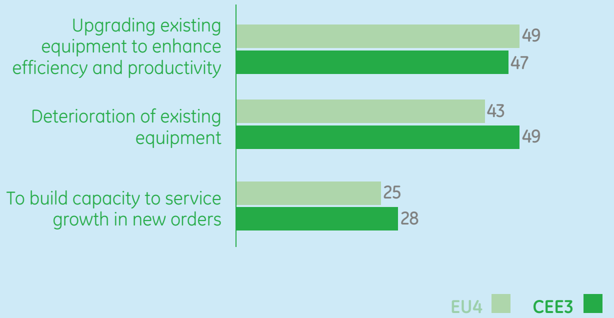
TOP OBSTACLE TO INVESTMENT

The uncertain economic environment remains a key factor restricting investment across all markets



TOP REASON FOR INVESTMENT

Upgrading or replacing deteriorating equipment is the focus for those SMEs aiming to invest



EU4: France, Germany, Italy and the UK
CEE3: The Czech Republic, Hungary and Poland

On a market by market basis we see some interesting trends emerging – for German firms, we heard the top reason for investing is as a result of deterioration of existing equipment, (59%, significantly more than the average across all markets). Perhaps we are seeing a more defensive play by German firms, which in turn is impacting total expenditure? In Hungary we see a similar picture, with 60% of firms investing due to deteriorating equipment.

In Italy, upgrading existing equipment (46%) is the top reason although this has dropped 29% vs. last year.

In most markets, there has been a noticeable drop off in the number of SMEs who see economic uncertainty as a barrier to investment (26%, down from 40% in Western European markets, and 33%, down from 46% across the CEE markets. Interestingly, we see that one in five Western European SMEs say they face 'no restrictions' to investing, (vs. 1/8 in CEE markets).

This is a significant number of firms telling us they are able to invest as they wish - and a positive signal of improving economic conditions across Europe.

CASE STUDY

KBTECH: *cutting edge investment*

Following its formation in 1995, the main focus of Hungarian firm KBTECH was the production of safety cabinets and vaults. In 2007 the firm switched focus to the production of a range of accessories made from fine sheet metal. The firm acts as a supplier for both Hungarian and foreign companies engaged in IT, electronics and industrial instruments, banking technology, medical technology, mechanical engineering and the automotive industry. It currently employs 60 people and had a turnover of €5.7mn in 2013.

After switching production, it became necessary to continuously develop the plant of the company. Using funds and leasing, KBTECH acquired state-of-the-art edge bending and laser cutting machines. Following these investments a sheet machinery plant three times larger than the present one will be finished by Summer 2014. As a result of this investment the company expects a significant increase in its turnover, with a possibility of doubling its income in the medium term.

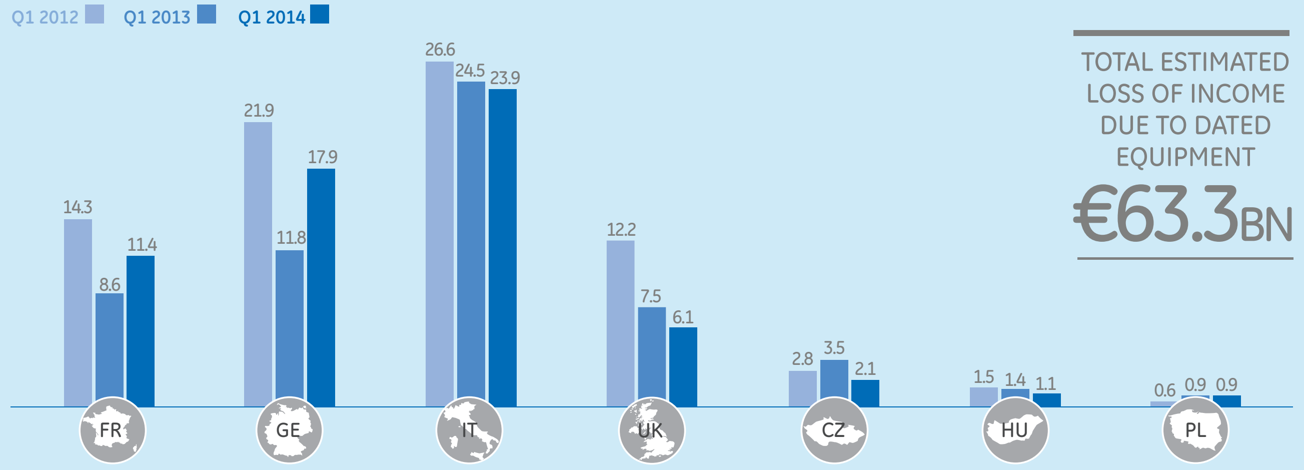
KENYERES-BIZTONSÁGTECHNIKA KFT.

Missed Opportunities

We are seeing a picture emerging of improving economic sentiment across the European markets we have surveyed, but how does this translate to "missed opportunities" - which we define as new business wins or sales opportunities lost due to having outdated equipment?

Again we see a nuanced picture emerging across different markets. Western European markets have, on average, seen a 13% increase in the estimated loss of income, vs 2013, In comparison, we see a 25% reduction in missed income across the CEE markets. French and German SMEs have reported the biggest increase in estimated missed income with sizeable increases, which push the total estimated loss of income up to €63.3bn – up over €5bn on 2013.

ESTIMATED LOSS OF INCOME DUE TO DATED OR INEFFICIENT EQUIPMENT (€BN)



TOTAL ESTIMATED LOSS OF INCOME DUE TO DATED EQUIPMENT

€63.3BN

Looking at previous years, the data show that Italian SMEs have consistently missed out on more opportunities than any other European market. With financial health challenges ranking as the single biggest obstacle to invest for Italian firms, (almost one third cite this as the main obstacle), Italy clearly still has some way to go on its path to modernisation.

CASE STUDY

Bioveta, a.s.: *Seizing the opportunity to innovate*

Bioveta holds a stable position as the dominant European manufacturer of veterinary vaccines and pharmaceutical preparations. The company's product portfolio includes 170 innovated or newly developed veterinary products and it is the leader in mycotic and borrelia vaccines. Its products are sold in more than 70 countries on four continents (including Japan and USA) under the Bioveta brand.

Important investments in the last three years have included the construction of training centres and, most importantly, the construction of the new biotechnology hall for more than CZK 300 million. Thanks to the latest manufacturing equipment and technologies, there will be an innovation of the production process for numerous veterinary vaccines. The biotechnology hall is scheduled to begin operation in mid-2014. As its next investment, Bioveta is preparing the construction of a new development centre for the development of pharmaceutical preparations.

The company has also successfully managed to draw subsidies from European Union funds. Some development tasks are also funded from national subsidy programmes periodically announced by the Czech Ministry of Industry and Trade.

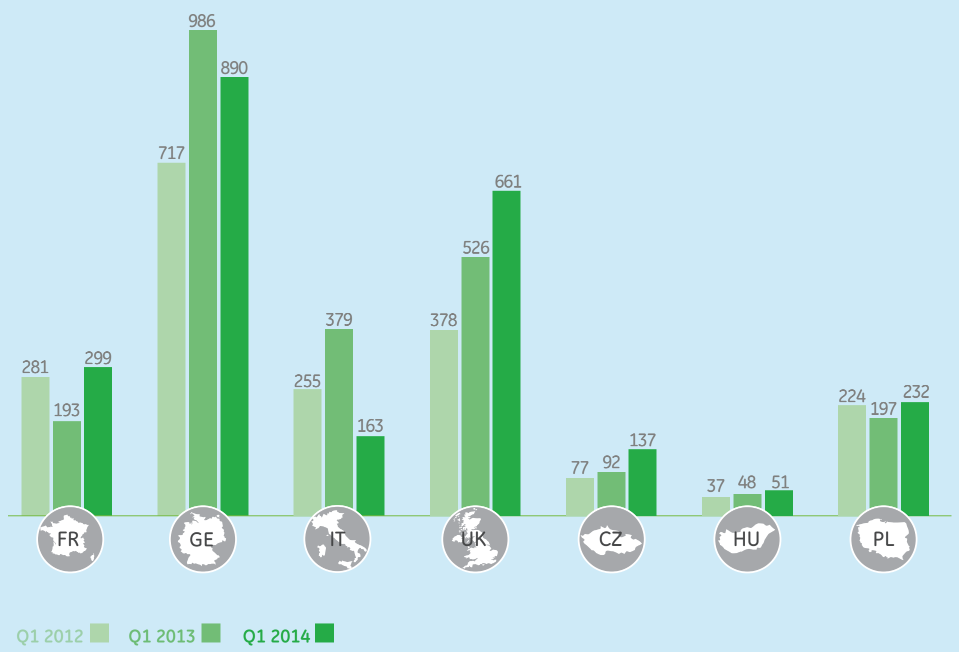
bioveta

Employment Intentions

2.4 million new jobs are set to be created across the seven markets we surveyed in the next 12 months. Headcount in Western Europe is being driven by the improving economic climate (37%), whilst increasing orders / new business (47%) is driving job creation in the CEE markets.

German SMEs plan to hire more new staff than any other market at over 890,000, but this is 10% less than in 2013. The next highest number of jobs planned is in the UK (661k – up 26%), followed by France (299k – up 54%.)

EMPLOYMENT INTENTIONS (EXPECTED NEW HIRES)



MORE THAN

2.4 million

JOBS CREATED BY

EUROPEAN SMEs

IN THE NEXT

12 MONTHS

MATCHING 2013 INTENTIONS

Seidensticker: *a market leader, investing to grow*

CASE STUDY

Founded in 1919, Seidensticker is the shirt brand with the highest level of brand awareness in Germany and one of the top three shirt manufacturers worldwide. With its headquarters in Bielefeld, the Seidensticker Group employs 1,800 members of staff globally, manufactures just under 15 million items of clothing annually and is present in 80 different countries around the world.

The family-owned company operates in a highly competitive market – with few but strong competitors. The company is expanding by means of its new retail offensive opening new retail stores – along with its traditional B2B and trade business – whilst also installing new IT processes as its retail segment expands.

Capital investment is focused on this retail expansion – and an accompanying increase in sales staff – with a geographic focus on Germany and Western Europe.

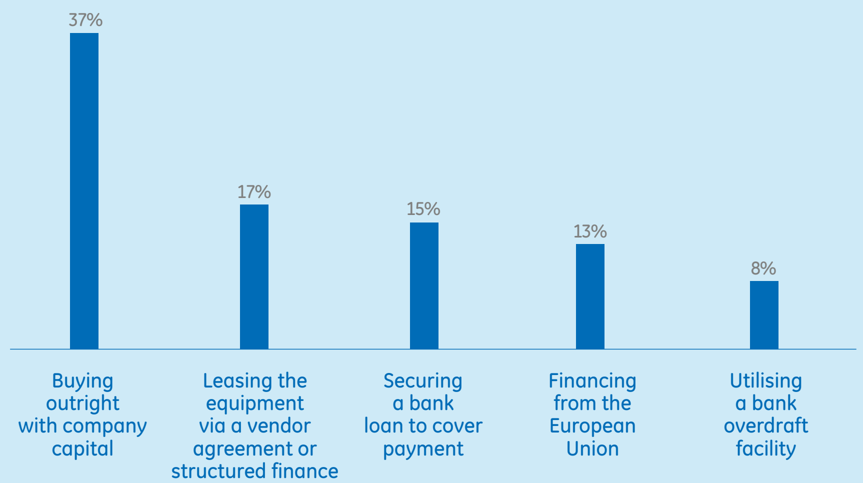
seidensticker

Financing Options

We found that companies would prefer to finance capital investment themselves – buying outright with company capital when possible. Using a leasing solution is the next most popular choice for Western European SMEs, (19%) and in the CEE the second most likely choice is financing from the EU – suggesting that SMEs are more open to looking for alternative forms of financing.

Although a relatively new option in most markets, 26% of companies across all seven markets surveyed would consider peer to peer lending to finance their investment.

PREFERRED METHOD OF FINANCING (%)



We found SMEs predominantly prefer to use company capital to finance their investment in equipment

WHO WOULD YOU USE?

TOP THREE REASONS FOR USING:

A BANK

Good reputation 15%
Have a relationship with them 13%
Good rates 11%

A SPECIALIST LENDER

Better rates/terms 18%
Safe & secure 9%
Specialist / able to meet unique criteria 8%

EU7

Eveline Cosmetics: *expanding a brand globally*

CASE STUDY

Eveline Cosmetics is the largest Polish manufacturer and exporter of cosmetics. The company specialises in the production of beauty and cosmetic products, distributing them to local retailers and wholesalers. The brand is appreciated and readily purchased in more than 70 countries worldwide.

Eveline-branded cosmetics owes its sales success to high quality production, marketing and trade. This consists of the use of innovative technologies, modern design of packaging, high quality products and a quick response to market trends. As a result, Eveline Cosmetics continuously looks to increase its production, launching the latest generation of cosmetics.

Forthcoming investment will support the construction of a new warehouse set up in Poland, enabling the company to maximise its domestic presence and improve its distribution capabilities. Equally, the company is working very hard to raise brand awareness both in existing markets as well as new countries – on a global basis.

EVELINE COSMETICS

Methodology

Overview of research approach and methodology:
The European SME Capex Barometer is a report based on a GE Capital survey of 2,292 senior executives of small and medium enterprises (SMEs) in seven markets (France, Germany, Italy, The United Kingdom, Czech Republic, Hungry and Poland).

The study provides a forecast of the future capital investment intentions of SMEs, the value of 'missed opportunities' due to lack of investment, an assessment of the obstacles currently restricting SMEs' ability to invest, and an assessment of SME business sentiment and employment.

- An online survey, designed by Millward Brown Corporate (London)
- SMEs were defined by number of employees, and within each market, the sample size was split about evenly between business with 2-9, 10-49 and 50-249 employees
- All respondents had buying responsibility in the asset areas covered in the report
- All research was conducted between 13th January and 14th February 2014
- Interviews were conducted online (except for Czech Republic and Hungary where a combination of telephone and online was used)

Figures quoted prior to Q1 2014 have been adjusted to take account of exchange rate fluctuations and inflation (CPI) so as to provide a true comparison i.e. past findings are quoted in 'today's prices.'

Estimates were calculated using national SME business demographic information for each of the seven markets, as well as EU-level official data sources, as follows:

1. European Commission statistics agency **(Eurostat)**
2. UK Department for Business, Innovation and Skills **(BIS)**
3. The National Institute for Statistics **(Istat)**
4. The Bureau van Dijk database **(BvD Orbis)**
5. National Institute of Statistics and Economic Studies **(INSEE)**
6. Institute for Small Business Research in Bonn **(IMF BONN)**
7. Central Statistics Office of Poland **(STAT)**
8. Opten
9. Czech statistical office **(CZSO)**

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Caution concerning forward-looking statements

This document contains "forward-looking statements"- that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," believe," "seek," "see," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include, without limitation: the level of demand and financial performance of the major industries we serve; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks; strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature.

These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forwardlooking statements.

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GE Capital EMEA Services Limited.
Registered Address:
The Ark, 201 Talgarth Road, London W6 8BJ, United Kingdom.

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