Small Business: New Challenges, New Strategies

Panel Detail:
Wednesday, April 28, 2010 9:30 AM – 10:45 AM

Speakers:

- **Mitch Jacobs**, Founder and CEO, On Deck Capital
- **Ginger Lew**, Senior Advisor, White House National Economic Council
- **Rafael Pastor**, Chairman and CEO, Vistage International
- **Christine Reilly**, President, CIT Small Business Lending Corporation
- **Brian Reynolds**, Founder and Managing Partner, Chatham Capital

Moderator:

How important are small businesses to the U.S. economy?

• Employ roughly 50% of all private sector employees
• Pay 44% of total U.S. private sector payroll
• Create more than 50% of nonfarm private GDP
• Hire 40% of high-tech workers
• Produce 13 times more patents per employee than large firms
• Generated 66% of net new private sector jobs over the past 17 years

Sources: SBA, Milken Institute.
Small businesses account for lion’s share of private sector job growth

Net new private sector jobs
1992Q3 - 2009Q2

5.9 million net new jobs
- Firms with 1-499 employees
  - 66%

11.3 million net new jobs
- Firms with 500 + employees
  - 34%

Source: BLS.
Ten largest U.S. state economies all depend on small business job growth

Source: SBA.
Small business private sector job growth hit hard in current recession
Quarterly, 1993Q2 — 2009Q2

Sources: BLS, NBER.
Small businesses believe they will lead the U.S. out of current recession

'Small businesses will lead the U.S. out of the current economic doldrums'

Small business optimism index starting to rebound from March 2009 low

Monthly, Jan. 1986 — Feb. 2010

Index Value
(1986 = 100)

Sources: National Federation of Independent Business, Economy.com, NBER.
Majority of small businesses are optimistic about revenue growth in 2010

In 2010, do you expect your company’s revenues to:

- Grow significantly: 53%
- Decline significantly: 1%
- Stay the same: 27%
- Decline: 11%
- Grow: 8%

Net percent of small business survey respondents planning to hire in next 3 months

Monthly, Jan. 1986 — Feb. 2010

Sources: National Federation of Independent Business, Economy.com, NBER.
Small businesses still hesitant to ramp up staff levels

In 2010, what are your company’s plans with regards to hiring:

- Hire more workers: 29%
- Hire fewer workers: 33%
- Unsure: 38%

Percent of small business survey respondents that believe now is a good time to expand

Monthly, Jan. 1986 — Feb. 2010

Sources: National Federation of Independent Business, Economy.com, NBER.
Small businesses feel left out of post-crisis recovery efforts

"Current economic stimuli do not benefit small businesses"

Small business owners understand the importance of planning, but few actually do it

**Percentage of survey respondents**

- 85% agreed that the recession put additional pressure on their businesses to plan more effectively.
- 61% indicated they would spend more time on planning & budgets in 2010 than they did in 2009.
- Only 44% indicated they had a strategy in place to guide growth during the coming recovery; 44% said they were working on a strategy while 11% didn’t have a plan.

**Sources:** “U.S. Small Business Outlook 2010: Lessons Learned – A Case for Greater Optimism,” CIT in association with Forbes Insights.
Net percent of small business survey respondents with difficulties obtaining credit

*Monthly, Jan. 1986 — Feb. 2010*

Sources: National Federation of Independent Business, Economy.com, NBER.
Bank survey respondents tightening credit standards on C&I loans to small businesses
Quarterly, 1992Q1 — 2010Q1

Sources: Federal Reserve Senior Loan Officer Survey on Bank Lending Practices, NBER.
Small businesses increasingly unable to obtain adequate financing

Source: National Small Business Association Survey.

Is your business able to obtain adequate financing?

Percent of 'no' respondents

0% 10% 20% 30% 40%

Bank survey respondents increasing spreads of small business loan rates over cost of funding

Quarterly, 1992Q1 — 2010Q1

Sources: Federal Reserve Senior Loan Officer Survey on Bank Lending Practices, NBER.
Bank survey respondents indicate demand for small business C&I loans is down
Quarterly, 1992Q1 — 2010Q1

Sources: Federal Reserve Senior Loan Officer Survey on Bank Lending Practices, NBER.
SBA loan volume down 57% since 2007

Fiscal Year, 2001 — 2009

SBA approved loan volume

Source: SBA.
SBA total loan value down 37% since 2007

Fiscal Year, 2001 — 2009

Source: SBA.
Community banks are critical to small business lending in the U.S.

- Community banks account for 67% of outstanding small business loans and 62% of initial dollar amount.
- There are roughly 8,000 community banks with more than 50,000 U.S. locations.
- Community banks constitute 97% of all banks.
- Of all U.S. banks, 91% have assets under $1 billion and 36% have assets under $100 million.

Source: Independent Community Bankers of America.
Small businesses depend largely on bank loans and credit cards for financing.

What types of financing has your company used within the past 12 months to meet your capital needs?

- Bank Loans: 46%
- Credit Cards: 41%
- Vendor Credit: 24%
- No Financing: 21%
- Private Loan: 18%
- SBA Loan: 4%

Source: National Small Business Association Survey (December 2009).
Small businesses credit card terms typically exceed 10% interest rate

What is the approximate interest rate you are charged on your primary credit card?

Source: National Small Business Association Survey (December 2009).
Banking industry has changed dramatically
Annual, 1993 — 2009

Number of FDIC-insured Institutions

Source: FDIC.
Bank failures reached 140 in 2009

Annual, 1934 — *2010

Source: FDIC.
*through April 16, 2010
California accounts for lion’s share of biggest failed banks during current crisis
2008 – April 16, 2010

Source: FDIC.
California accounted for roughly 25% of U.S. failed bank assets and deposits in 2009.

Source: FDIC.
Number of “problem institutions” reached 702 in 2009, exceeding $400 billion in assets

Annual, 2001 — 2009

Source: FDIC.
Small and medium sized banks commit larger share of assets to small business loans

YTD (12/31/2009)

Source: FDIC.
Smaller banks account for 57% of small business loans with only 20% of industry assets YTD (12/31/2009)

Small business loans outstanding

- Large banks: 43% ($297 billion)
- Small & medium-sized banks: 57% ($389 billion)

Total bank assets

- Large banks: 80% ($9.5 trillion)
- Small & medium-sized banks: 20% ($2.4 trillion)

Source: FDIC.
Note: small & medium-sized banks defined as having less than $10 billion in total assets
Small and medium-sized banks loaded up on real estate assets during boom YTD (12/31/2009)

Source: FDIC.
Note: small & medium-sized banks defined as having less than $10 billion in total assets
Sensitivity to real estate losses concentrated at small and medium-sized banks
YTD (12/31/2009)

Percent
700%
600%
500%
400%
300%
200%
100%
0%

Real estate loans to tier-1 capital ratio

Bank Size by Total Assets

< $100M
$100M - $300M
$300M - $500M
$500M - $1B
$1 B - $10 B
> $10 B

368%
513%
577%
602%
510%
346%

Source: FDIC.
Note: small & medium-sized banks defined as having less than $10 billion in total assets
Small and medium-sized banks least prepared for real estate downturn

YTD (12/31/2009)

Source: FDIC.
Note: small & medium-sized banks defined as having less than $10 billion in total assets
U.S. economy beginning to add jobs

Non-farm payroll employment (monthly job gains/losses)

Source: BLS.
U.S. unemployment rate improving

Source: BLS.
U.S. Real GDP expanding as economy recovers
Quarterly, 1990Q1 – 2009Q4

% change (SAAR)

Real GDP percentage change from preceding period

Dec. 2007 - ??? recession

Mar. 2001 - Nov. 2001 recession


Sources: BEA, NBER.
Home prices may have touched bottom in 2009
Quarterly, 1988Q1 – 2009Q4

Sources: S&P/FiServ, NBER.
U.S. household assets up 9 percent from bottom in Q1-2009
Quarterly, 1999Q1 – 2009Q4

Source: Federal Reserve.
U.S. household net worth beginning to rise
Quarterly, 1995Q1 – 2009Q4

Source: Federal Reserve.
2009: first time on record that total U.S. household debt fell year-over-year

Annual, 1945 – 2009

Source: Federal Reserve.
2009: first time on record that total U.S. household debt fell year-over-year

Annual, 1945 – 2009

Source: Federal Reserve.
American consumers reluctant to take on additional debt

Monthly, Jan. 2007 – Feb. 2010

US$ billions

Total consumer credit owned & securitized
(month-over-month change)

Source: Federal Reserve.
Does trough in consumer credit signal end of Great Recession?


Sources: Federal Reserve, NBER.
Households now deleveraging
Quarterly, 1980Q1 – 2009Q4

Source: Federal Reserve.
Senior lenders have contracted from 2007 peak while mezzanine lenders have filled void

Source: S&P.
*EBITDA = $50 million or less
Recent momentum in middle-market LBO loan volume

- Q4-2009 LBO loan volume up 370% to $720 million vs. $153 million for first three quarters of 2009 combined.

- LBO loan volume still down vs. Q4-2007 figure of $1.1 billion.

Sources: WYCC Market Analysis, Chatham Capital.
*EBITDA = $50 million or less
Middle-market lending multiples down while required equity contribution up

Source: S&P.

*EBITDA = $50 million or less
Credit contraction and drop in middle-market purchase price multiples

- Purchase price multiples down 19%.
- During a recession, there is less capital to do transactions which drives prices down.

Sources: WYCC Market Analysis, Chatham Capital.
*transactions between $10 and $250 million with EV/EBITDA multiples < 15x
U.S. Vistage CEO confidence index: last four quarters

1,869 respondents

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
U.S. Vistage CEO confidence index: since 2003

Source: U.S. Vistage CEO Confidence Index Survey.
Changes in revenues, profitability and hiring: year ahead

1,869 respondents

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
When do you plan to increase your firm’s total number of employees over the next 12 months?

- Q2 2010 (13%)
- Q3 2010 (12%)
- Q4 2010 (13%)
- Steadily over next 12 months (22%)
- I don’t plan to increase (45%)

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
Most significant business issues in 2010

1,869 respondents

- Economic uncertainty (35%)
- Financial issues – cash flow, finances, profitability (18%)
- Growth – growing too slowly (14%)

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
Biggest business challenges in 2010

1,869 respondents

- Customer retention and/or generation (27%)
- Managing costs and/or cutting staff (18%)
- Cash, liquidity, receivables (17%)

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
• 86% of CEOs say they’re having to do more with less and list leveraging employee productivity as their primary solution.

Source: U.S. Vistage CEO Confidence Index Survey. Dates: March 22 – April 2, 2010
Entrepreneurship in America

1,869 respondents

• 37% of CEOs believe entrepreneurship and business opportunities will be weaker in the U.S. in the next 3-5 years
• 38% say it will be stronger
• 25% see no change

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
Q1 2010 Vistage CEO confidence index: international perspectives

1,869 respondents

41% of CEOs say they are doing business internationally, with Europe topping the list.

69% of CEOs see China as the biggest threat to overtaking the United States as an economic superpower.

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
85% of CEOs do not believe Washington is listening to the needs of small to medium-sized business owners.

65% of CEOs believe national health care legislation is bad for their business.

The new business landscape: more with less

• As we emerge from global recession
  – What is the new normal for your business?
  – How do you adjust your business to:
    • the new normal?
    • do more with less?

• The new paradigms
  – Bigger (government expansion, corporate consolidation)
  – Smaller (budgets, workforces, consumer spending)
  – Broader (opportunities online and internationally)

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010
Vistage CEO confidence index vs. GDP: forecast of economy two quarters in advance

Source: U.S. Vistage CEO Confidence Index Survey.
Dates: March 22 – April 2, 2010