2015 Economic Forecast: Insights from Small and Mid-Sized Business Owners

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Director, Pepperdine Private Capital Markets Project

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management
PUBLISHED BY

PRIVATE CAPITAL MARKETS PROJECT

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Cynthia Chilton
Director of Marketing

Irina Shaykhutdinova
Research Associate
ABOUT THE 2015 ECONOMIC FORECAST SURVEY

- 25 questions
- Invite to participate distributed to sample from Dun & Bradstreet Credibility Corp.’s business database
- 3,573 completed responses
- Where relevant, responses are segmented by revenues sizes (<$5 million; $5 million to $100 million)
- Responses collected from Jan 20 – Feb 6, 2015
This research was made possible with the support of Dun & Bradstreet Credibility Corp., the leading provider of credit building and credibility solutions for businesses.

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*Chief Marketing Officer*

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*Senior Vice President, Technology*

Heather Herndon  
*Director, Marketing and Communications*

Brenda Gary  
*Vice President, Marketing Operations*

Lauren Simpson  
*Marketing and Communications Manager*

Bernice Brennan  
*Manager, Creative Services & Marketing Communications*

Trenice Taylor  
*Marketing Manager*
### 2015 ECONOMIC FORECAST

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<thead>
<tr>
<th></th>
<th>Projections in January 2015</th>
<th>Projections in January 2014</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Whole sample</td>
<td>&lt;$5 million</td>
</tr>
<tr>
<td>This year US GDP change</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Next year US GDP change</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Probability of US recession this year</td>
<td>25.5%</td>
<td>25.8%</td>
</tr>
<tr>
<td>S&amp;P 500 year change</td>
<td>4.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>US Unemployment Rate at the end of the year</td>
<td>6.1%</td>
<td>6.1%</td>
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</tbody>
</table>
CONFIDENCE IN GDP GROWTH PROJECTIONS

- Very unsure: 10%
- Somewhat unsure: 10%
- Neither confident nor unsure: 34%
- Somewhat confident: 38%
- Very confident: 8%
### CONFIDENCE IN BUSINESS GROWTH PROSPECTS COMPARED TO ONE YEAR AGO

#### 2015 VERSUS 2014 RESPONDENTS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>More confident</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>Somewhat more confident</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>Neither more nor less</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>Somewhat less confident</td>
<td>7%</td>
<td>10%</td>
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<tr>
<td>Less confident</td>
<td>6%</td>
<td>11%</td>
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</table>
## THE MOST AND THE LEAST INFLUENTIAL IMPEDIMENTS TO U.S. GDP GROWTH NEXT YEAR

<table>
<thead>
<tr>
<th>Impediments</th>
<th>Most Influential</th>
<th>Least Influential</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Respondents in 2015</td>
<td>Respondents in 2014</td>
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<tr>
<td></td>
<td>Whole sample</td>
<td>&lt;$5 million</td>
</tr>
<tr>
<td>Limited access to capital</td>
<td>24%</td>
<td>25%</td>
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<tr>
<td>Government regulations (tax, healthcare)</td>
<td>38%</td>
<td>37%</td>
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<tr>
<td>Global political and/or economic environment</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Domestic (U.S.) economic and/or political environment</td>
<td>18%</td>
<td>17%</td>
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<tr>
<td>This year US GDP change</td>
<td>1%</td>
<td>0.6%</td>
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<tr>
<td>Next year US GDP change</td>
<td>2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>US Unemployment Rate at the end of the year</td>
<td>26%</td>
<td>7.7%</td>
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<tr>
<td>S&amp;P 500 year change</td>
<td>4%</td>
<td>4.0%</td>
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<tr>
<td>Probability of US Recession this year</td>
<td>6%</td>
<td>29.2%</td>
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</tbody>
</table>
PERCENTAGE OF RESPONDENTS WHO RAISED PAY FOR EMPLOYEES IN THE LAST 12 MONTHS BY SIZE

<table>
<thead>
<tr>
<th>Size</th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Whole sample</td>
<td>53%</td>
<td>52%</td>
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<tr>
<td>&lt;$5 million</td>
<td>51%</td>
<td>48%</td>
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<tr>
<td>$5-$100 million</td>
<td>78%</td>
<td>74%</td>
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</tbody>
</table>
PERCENTAGE OF RESPONDENTS WHO PLAN TO RAISE PAY FOR EMPLOYEES IN THE NEXT 12 MONTHS

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Whole sample</td>
<td>60%</td>
<td>58%</td>
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<tr>
<td>&lt;$5 million</td>
<td>58%</td>
<td>55%</td>
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<tr>
<td>$5-$100 million</td>
<td>77%</td>
<td>79%</td>
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</table>
PERCENTAGE OF RESPONDENTS WHO PLAN TO GIVE EMPLOYEES RAISES TO ACCOUNT FOR THE INCREASE IN PAYROLL TAX
PERCENTAGE OF RESPONDENTS WHO THINK INSTABILITY IN WASHINGTON DC IS NEGATIVELY IMPACTING THEIR ABILITY TO HIRE

![Bar chart showing percentage of respondents thinking instability is impacting their ability to hire for different business revenue categories and years.

Whole sample: 43% (2015) vs. 57% (2014)
<$5 million: 43% (2015) vs. 58% (2014)
$5-$100 million: 41% (2015) vs. 49% (2014)
PERCENTAGE OF BUSINESS OWNERS WHO PERSONALLY MADE MORE MONEY LAST YEAR THAN YEAR PRIOR

<table>
<thead>
<tr>
<th>Category</th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>47%</td>
<td>46%</td>
<td>58%</td>
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<tr>
<td>2015</td>
<td>42%</td>
<td>41%</td>
<td>52%</td>
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</tbody>
</table>

Whole sample: 47% (2014) vs. 42% (2015)
<$5 million: 46% (2014) vs. 41% (2015)
$5-$100 million: 58% (2014) vs. 52% (2015)
PERCENTAGE OF OWNERS WHO PERSONALLY EXPECT TO MAKE MORE MONEY NEXT YEAR

<table>
<thead>
<tr>
<th>Category</th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
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<tbody>
<tr>
<td>2014</td>
<td>47%</td>
<td>46%</td>
<td>58%</td>
</tr>
<tr>
<td>2015</td>
<td>42%</td>
<td>41%</td>
<td>52%</td>
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<tr>
<td>Percentage</td>
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</tbody>
</table>
POLICIES TO HELP SPUR U.S. JOB CREATION

- Regulatory reform
- Tax incentives
- Increased access to capital
- Education reform
- Increased competitive position with foreign trade partners
- Repeal or Modify Affordable Care Act

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory reform</th>
<th>Tax incentives</th>
<th>Increased access to capital</th>
<th>Education reform</th>
<th>Increased competitive position with foreign trade partners</th>
<th>Repeal or Modify Affordable Care Act</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>13%</td>
<td>23%</td>
<td>23%</td>
<td>8%</td>
<td>9%</td>
<td>23%</td>
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<tr>
<td>2014</td>
<td>13%</td>
<td>19%</td>
<td>22%</td>
<td>6%</td>
<td>8%</td>
<td>32%</td>
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<tr>
<td>2013</td>
<td>28%</td>
<td>28%</td>
<td>26%</td>
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<td>2012</td>
<td>28%</td>
<td>21%</td>
<td>30%</td>
<td>5%</td>
<td>15%</td>
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<tr>
<td>2011</td>
<td>17%</td>
<td>19%</td>
<td>44%</td>
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<td>14%</td>
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Policies Supported in 2015

- Congress continuing to extend long-term
- Continuation of "Quantitative Easing" by Federal
- Significant Reform of the Affordable Care Act
- Repeal of the Affordable Care Act
- Democrats retaining control of the Senate in
- Comprehensive immigration reform with a path to
- Balanced US Budget
- Raising the debt ceiling when limit is reached in
DETAILS ABOUT THE RESPONDENTS
GEOGRAPHIC LOCATION

Less than or equal to 10
11 - 25
26 - 50
51 - 75
76 - 100
101 - 150
151 - 200
more than 200
DETAILS ABOUT THE RESPONDENTS
INDUSTRY

- Services: 33%
- Construction: 10%
- Retail trade: 10%
- Finance & real estate: 7%
- Manufacturing: 6%
- Information technology or services: 5%
- Health care: 5%
- Forestry, fishing, hunting or agriculture: 4%
- Educational services: 4%
- Arts, entertainment or recreation: 6%
- Wholesale trade: 6%
- Transportation and warehousing: 7%
- Utilities & mining: 1%
- Unclassified establishments: 3%
DETAILS ABOUT THE RESPONDENTS
ANNUAL REVENUES

- $0 or pre-revenue stage
- $1 - $5,000
- $5,001 - $10,000
- $10,001 - $25,000
- $25,001 - $50,000
- $50,001 - $100,000
- $100,001 - $250,000
- $250,001 - $500,000
- $500,001 - $1,000,000
- $1,000,001 - $2,000,000
- $2,000,001 - $5,000,000
- $5,000,001 - $10,000,000
- $10,000,001 - $25,000,000
- $25,000,001 - $50,000,000
- $50,000,001 - $100,000,000
- $100,000,001 - $500,000,000
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS: WHOLE SAMPLE
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS: REVENUES UNDER $5M
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS:
REVENUES FROM $5M TO $100M

- Decline: 1% > 50%, 1% 41-50%, 1% 21-30%, 2% 16-20%, 1% 11-15%, 6% 6-10%, 4% 4-5%, 4% 2-3%
- Increase: 16% Stayed flat, 13% 2-3%, 7% 4-5%, 17% 6-10%, 7% 11-15%, 8% 16-20%, 7% 21-30%, 3% 31-40%, 2% 41-50%, 2% > 50%
- Average: 6.4%
ANNUAL REVENUE CHANGE EXPECTATIONS (NEXT 12 MONTHS): WHOLE SAMPLE

<table>
<thead>
<tr>
<th>Change</th>
<th>1%</th>
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<th>3%</th>
<th>1%</th>
<th>1%</th>
<th>21%</th>
<th>14%</th>
<th>11%</th>
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<th>6%</th>
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A Higher Degree of You
ANNUAL REVENUE CHANGE EXPECTATIONS (NEXT 12 MONTHS): REVENUES UNDER $5M

- Decline:
  - > 50%: 1%
  - 41-50%: 1%
  - 31-40%: 1%
  - 21-30%: 1%
  - 16-20%: 1%
  - 11-15%: 1%
  - 6-10%: 3%
  - 4-5%: 1%
  - 2-3%: 1%
  - Stayed flat: 21%

- Increase:
  - Decline:
    - 2-3%: 13%
    - 4-5%: 10%
    - 6-10%: 11%
    - 11-15%: 6%
    - 16-20%: 7%
    - 21-30%: 5%
    - 31-40%: 3%
    - 41-50%: 3%
    - > 50%: 9%
  - Average: 9.9%
ANNUAL REVENUE CHANGE EXPECTATIONS
(NEXT 12 MONTHS): REVENUES $5M TO $100M

Decline

- 31-40%: 1%
- 21-30%: 1%
- 16-20%: 1%
- 11-15%: 1%
- 6-10%: 3%
- 4-5%: 2%
- 2-3%: 2%
- Stayed flat: 18%

Increase

- 4-5%: 16%
- 6-10%: 11%
- 11-15%: 14%
- 16-20%: 11%
- 21-30%: 6%
- 31-40%: 4%
- 41-50%: 3%
- > 50%: 2%
- Average: 9.0%

Average
DETAILS ABOUT THE RESPONDENTS
ANNUAL INCOME

- Negative (net loss)
- $1 - $5,000
- $5,001 - $10,000
- $10,001 - $25,000
- $25,001 - $50,000
- $50,001 - $100,000
- $100,001 - $250,000
- $250,001 - $500,000
- $500,001 - $1,000,000
- $1,000,001 - $2,000,000
- $2,000,001 - $5,000,000
- $5,000,001 - $50,000,000
- $50,000,001 - $100,000,000
- Greater than $100,000,000
DETAILS ABOUT THE RESPONDENTS
FIRM AGE

- 33% Less than 1 year
- 20% At least 1 but less than 2
- 14% At least 2 but less than 3
- 11% At least 3 but less than 5
- 8% At least 5 but less than 10
- 8% At least 10 but less than 20
- 6% 20 or more
Details about the respondents
Number of full-time employees

- 0: 11%
- 1-2: 9%
- 3-5: 19%
- 6-10: 11%
- 11-15: 48%
- More than 15: 4%
About Pepperdine Private Capital Markets Project
The Pepperdine Private Capital Markets Project at the Graziadio School of Business and Management is the first simultaneous, comprehensive, and on-going investigation of the major private capital market segments. The research seeks to understand the true cost of private capital across market types and the investment expectations of privately-held business owners; providing lenders, investors and the businesses that depend on them with critical data to make optimal investment and financing decisions, and better determine where the opportunities to create lasting economic value may be realized. Download reports and find more information at http://bschool.pepperdine.edu/privatecapital.

About Pepperdine University's Graziadio School of Business and Management
A leader in cultivating entrepreneurship and digital innovation, The Graziadio School of Business and Management at Pepperdine University focuses on the real-world application of MBA-level business concepts. The Graziadio School provides student-focused, globally-oriented education through part-time, full-time, and Executive MBA programs at our 5+ Southern California campuses, Northern California campus, as well as through online and hybrid formats. In addition, The Graziadio School offers a variety of Master of Science programs, a Bachelor of Science in Management degree completion program, Presidential and Key Executives MBA and executive education certificate programs. Follow the Graziadio School at www.facebook.com/pepperdine.graziadio and https://twitter.com/graziadioschool
Thank You
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