Access to Capital

How Small and Mid-size Businesses are Funding Their Future

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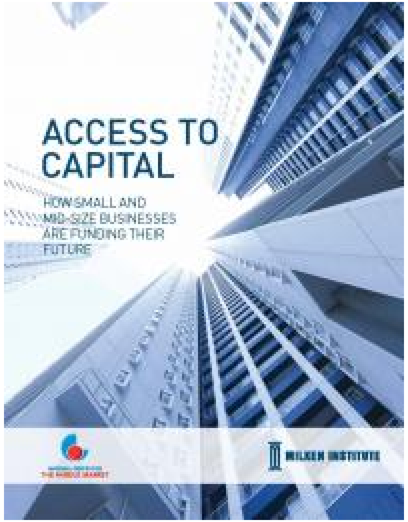
Access to Capital Report

- Co-authored with the National Center for the Middle Market
- Survey of 636 owners and c-suite executives of private companies with total annual revenues from <$500,000 - >$1 billion, administered **January 22 – February 6, 2015**.
- Provides a snapshot of small and middle-market firms' corporate financing structures and approaches to raising capital.
- Report available at: http://bit.ly/1JHLqT1



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Key Findings

1. Debt is preferred method of outside financing

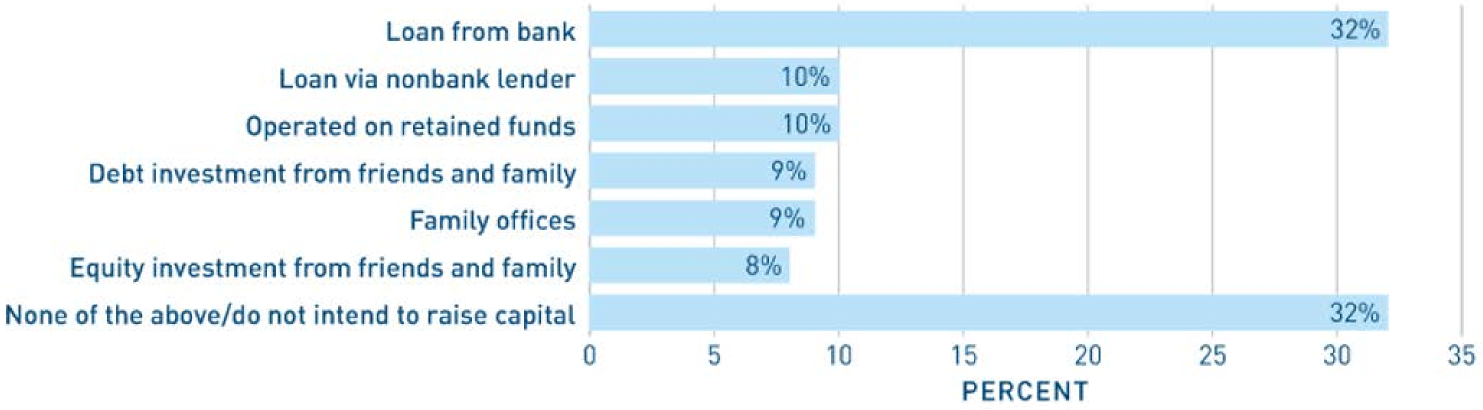
2. Firms value price, ease of access, speed of funding, and certainty when evaluating sources of funding.

3. Firms are uncertain whether bank or non-bank financing is superior, but are influenced by their relationship with their bank.

4. Firms had low understanding and interest in alternative sources of funding and recent securities law changes

Methods of Raising Capital Used in the Last Three Years

Thirty-two percent of small and middle market firms have not raised capital in the last three years

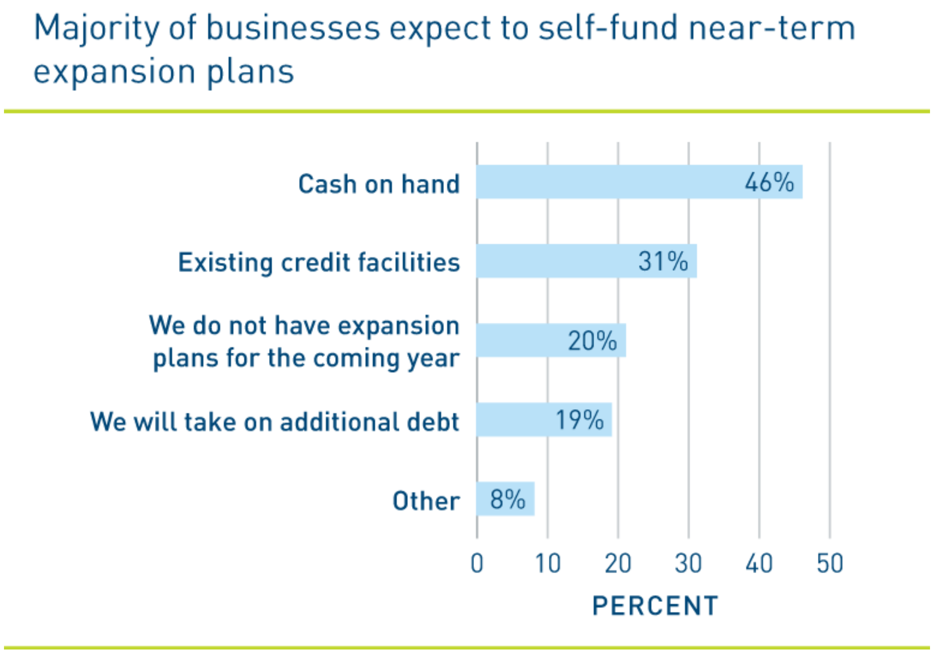


Types of Debt a Firm Currently Has

Bank debt is leading type of debt for small and middle-market companies

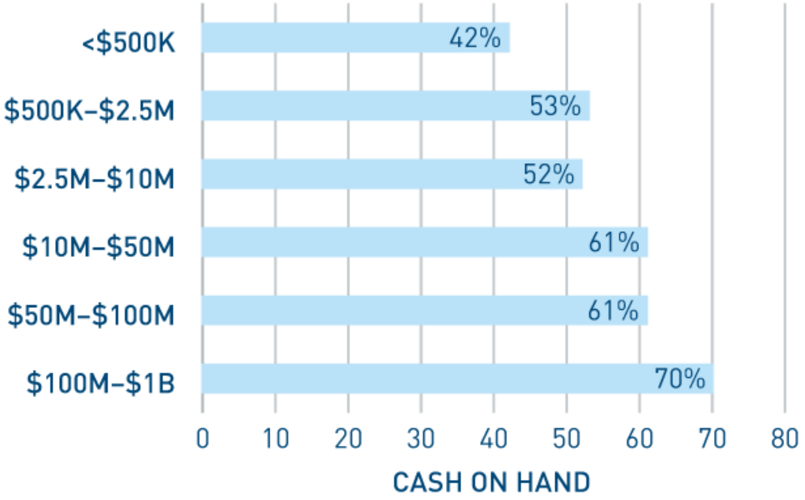
	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
Bank debt	41%	46%	47%	53%	53%	49%
Private debt (i.e., debt issued in a private offering)	22%	23%	34%	26%	40%	33%
Project debt	14%	14%	19%	28%	17%	24%
Publicly held debt	3%	3%	5%	7%	6%	18%
Other types of debt	1%	2%	2%	3%	4%	—
None of these	30%	27%	20%	14%	16%	13%

Sources that will Fund Expansion in the Coming Year



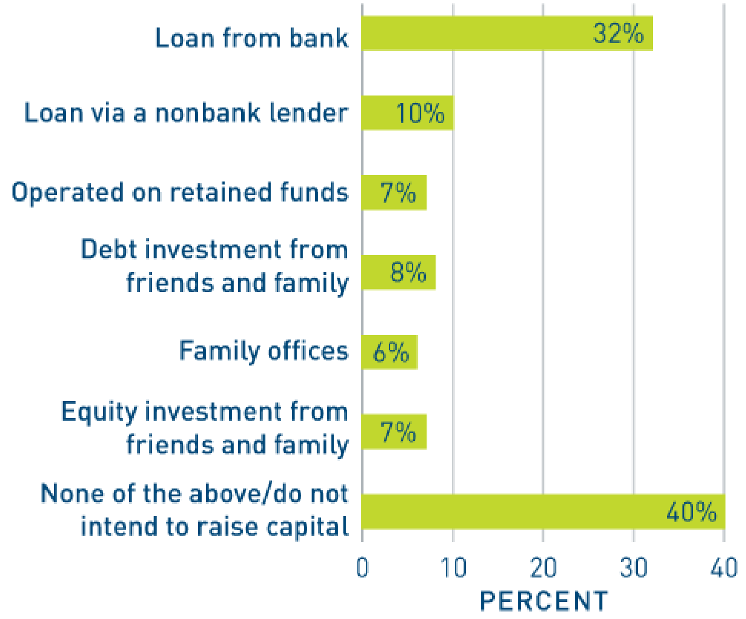
Self-funding Near-term Expansion Plans

Seventy percent of upper middle-market companies plan to finance growth using cash on hand

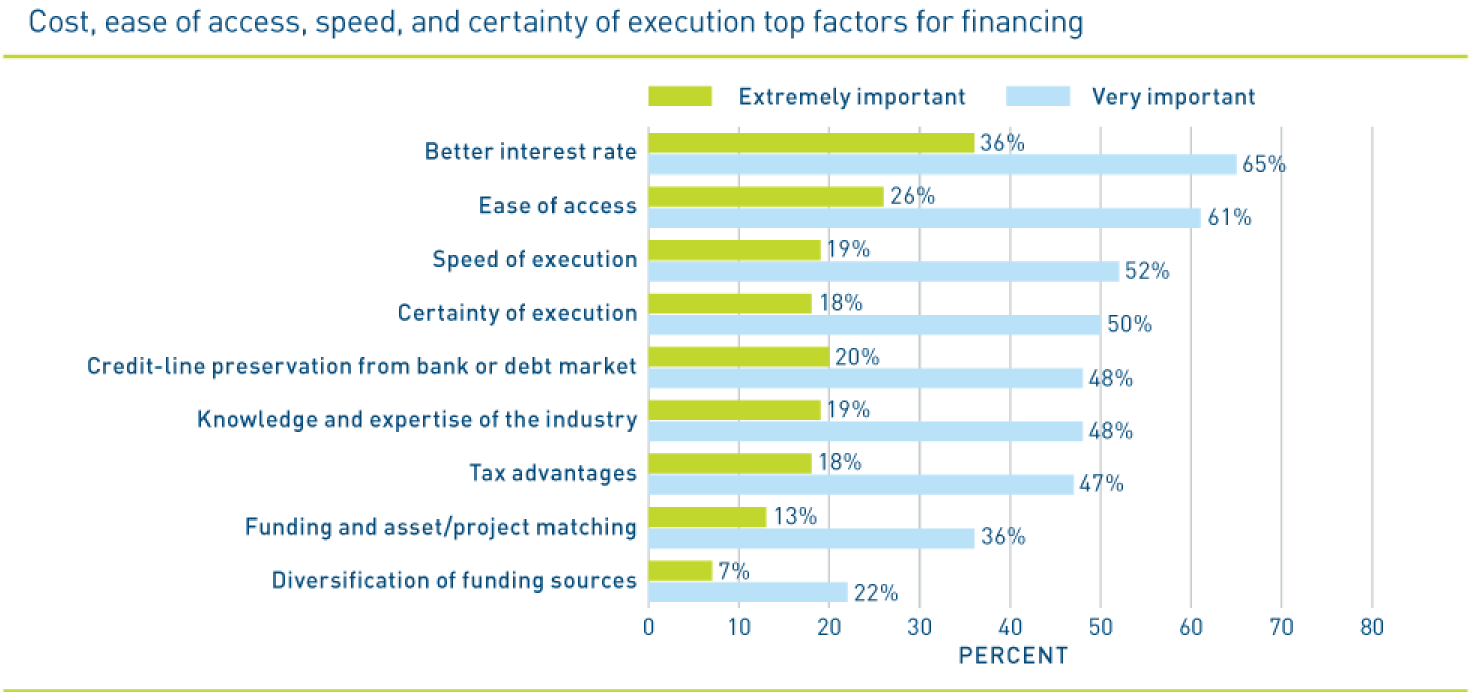


Methods of Raising Capital in the Next Three Years

Thirty-two percent of firms plan to use a bank loan in the next three years



Importance of Factors when Considering Financing



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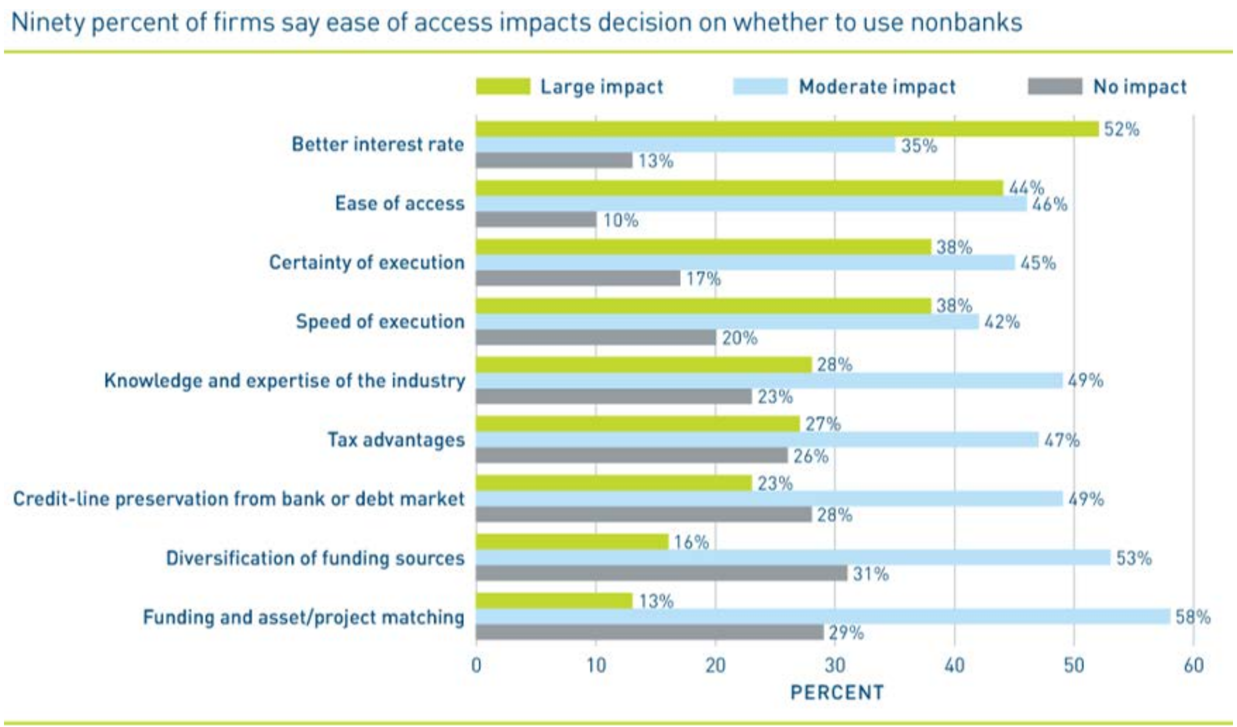
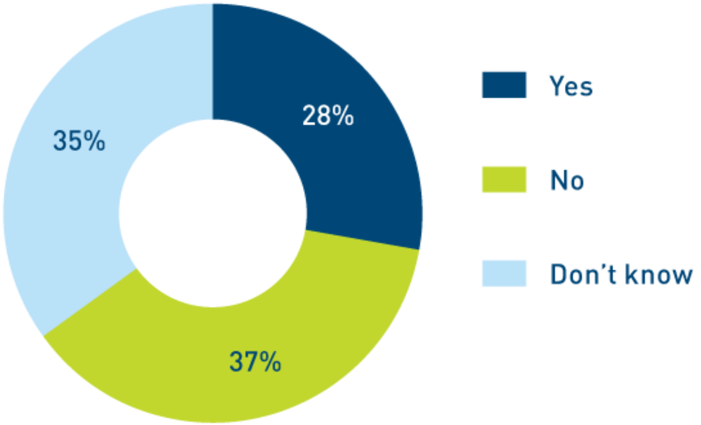
Impact of Factors on Decision to Use Nonbanks for Financing



Are Nonbank Sources of Capital Superior to Traditional Lenders?

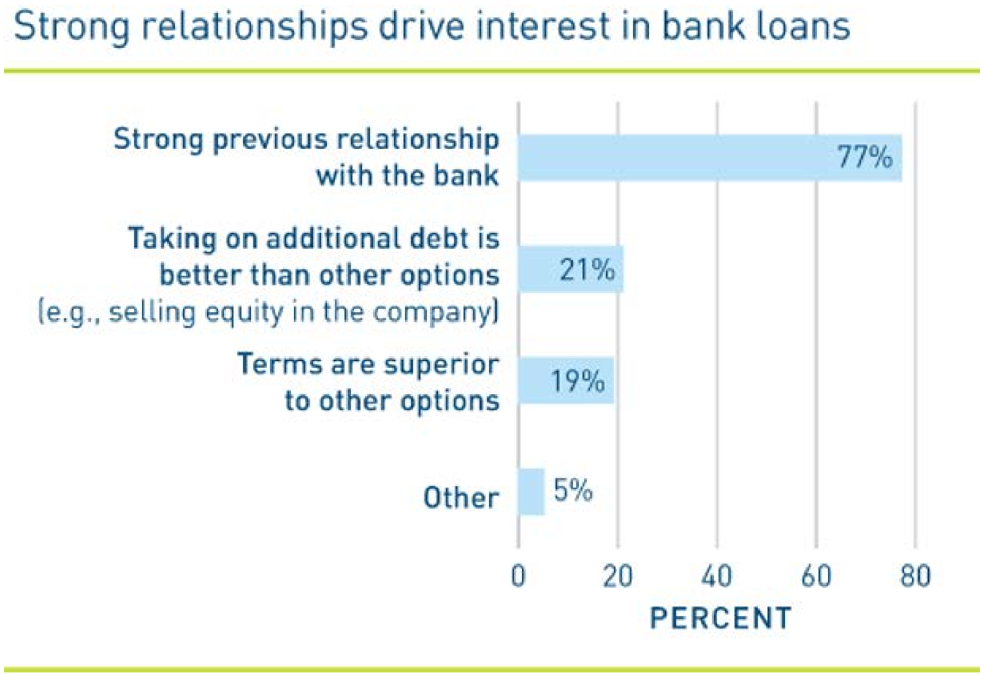
Thirty-five percent of firms do not know whether traditional lenders or nonbank sources of capital are superior



Are Nonbank Sources of Capital Superior to Traditional Lenders?

	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
Yes	30%	25%	21%	23%	26%	20%
No	37%	36%	42%	40%	43%	52%
Don't know	33%	39%	37%	37%	31%	28%

Reasons a Company Would Consider Borrowing from a Bank

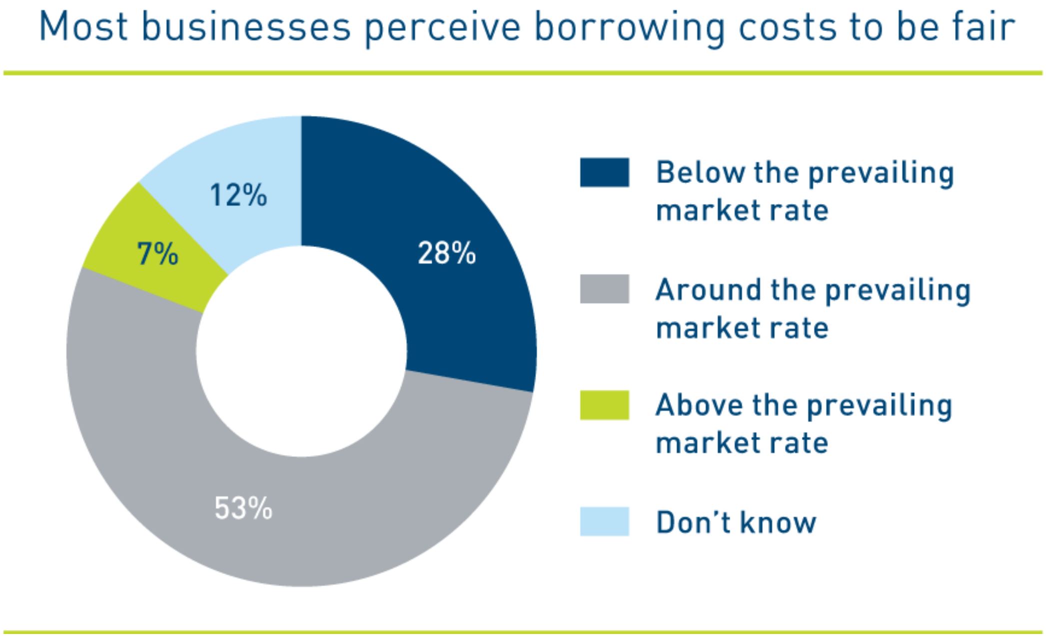


Considerations when Borrowing from a Bank

Reasons for considering a loan from a bank in the next three years

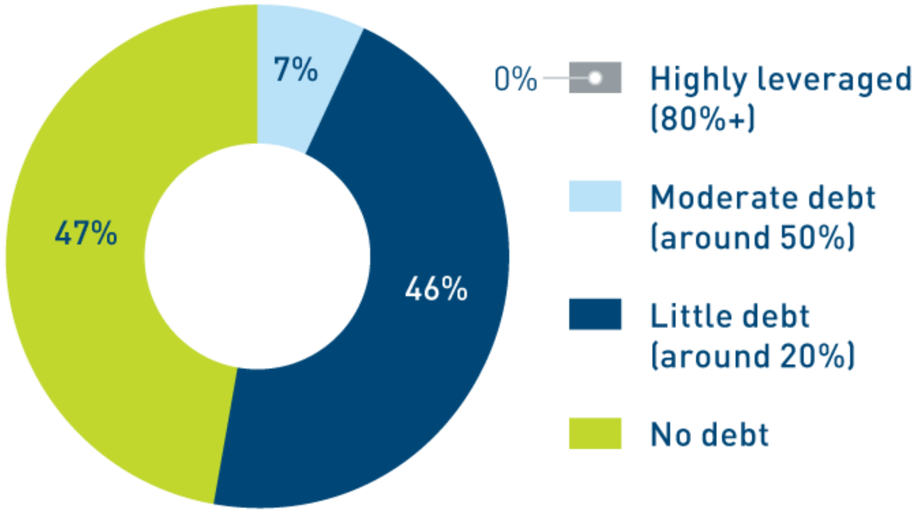
	TOTAL	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
Strong previous relationship with the bank	77%	81%	70%	67%	74%	74%	76%
Terms are superior to other options	19%	13%	33%	14%	38%	16%	18%
Taking on additional debt is better than other options (e.g., selling equity in the company)	21%	19%	20%	36%	26%	35%	44%

Perception of Borrowing Costs



Right Amount of Debt for Company

Ninety-three percent of firms believe little to no debt right for business



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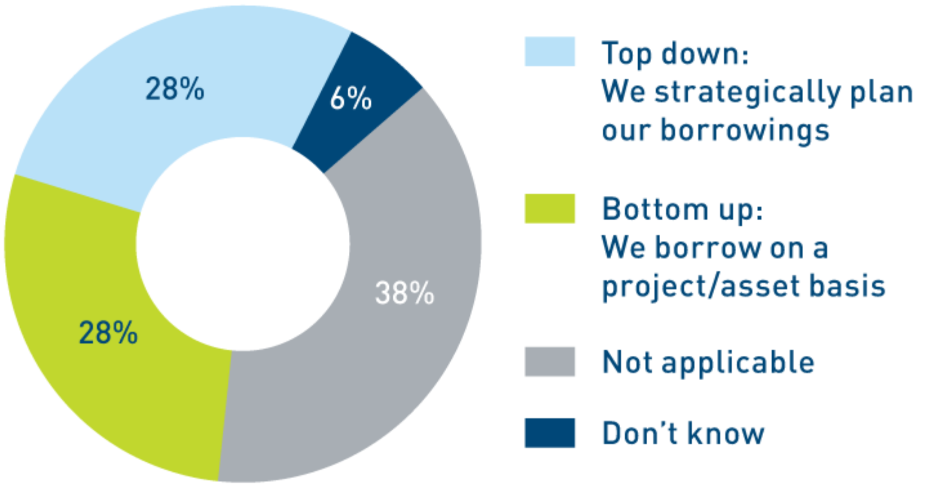
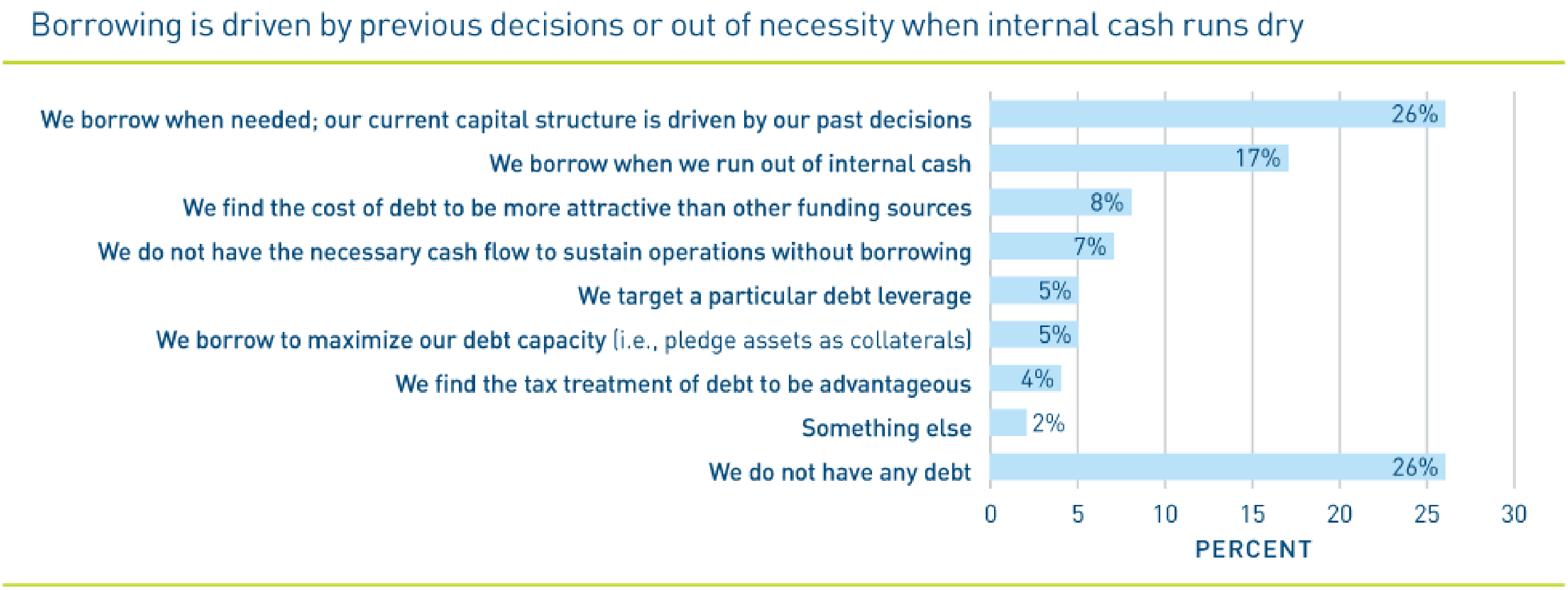
Debt Strategy

Fifty-six percent of businesses have a debt strategy (though nearly half have no strategy)



Most Important Driver of Current Debt Levels



Debt-to-Asset Ratio

Roughly one-third of small businesses maintain ratio of 0%–5%, with most middle-market firms maintaining a ratio of 6%+

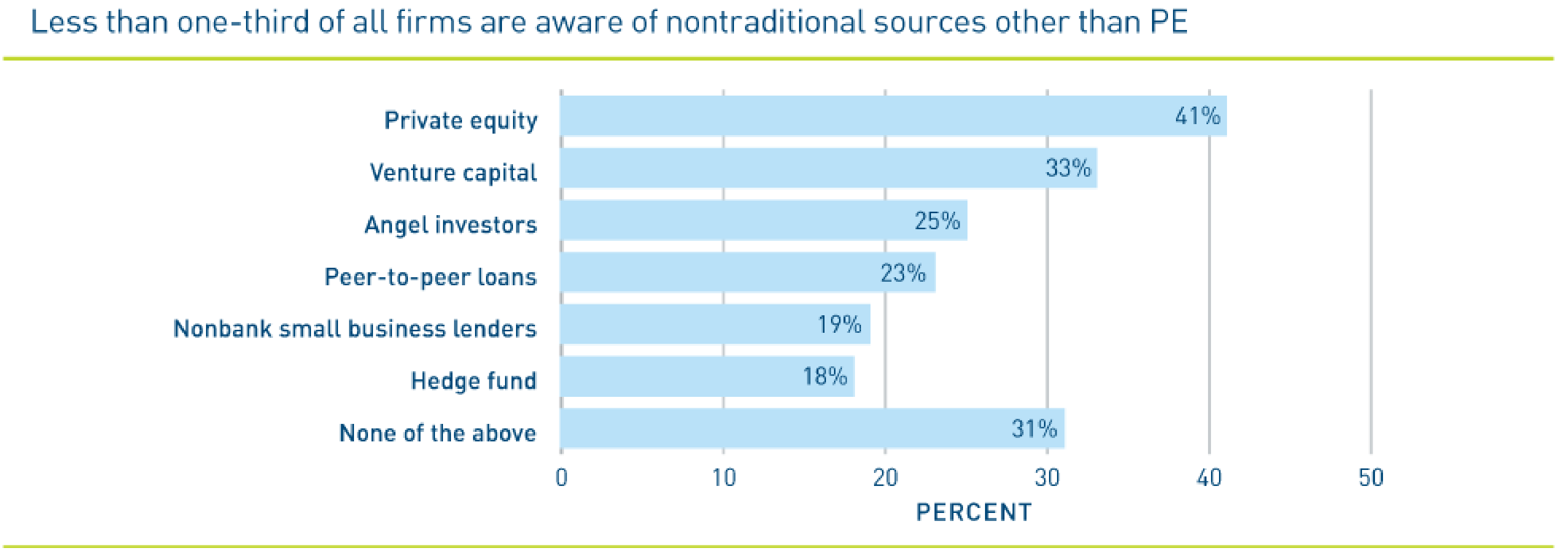
	TOTAL	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
0% to 5%	35%	39%	30%	31%	18%	20%	22%
6% to 15%	26%	24%	32%	25%	30%	35%	29%
16%+	21%	17%	21%	26%	27%	24%	32%
Don't know	19%	20%	17%	18%	26%	20%	16%

Total Debt of Firm Regardless of Source

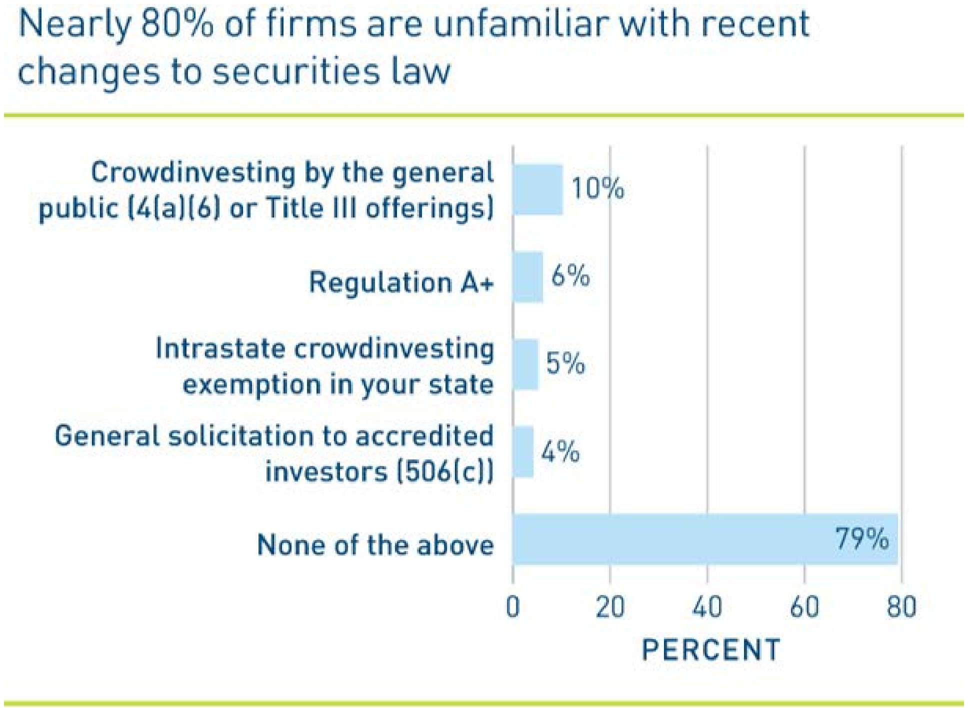
Eighty-seven percent of small businesses have less than $500K in debt; the majority of middle-market firms have more than $500K in debt

	TOTAL	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
Less than $500K	78%	87%	73%	45%	31%	19%	23%
$500K +	16%	7%	25%	45%	59%	71%	65%
Don't know	5%	6%	2%	10%	10%	10%	12%

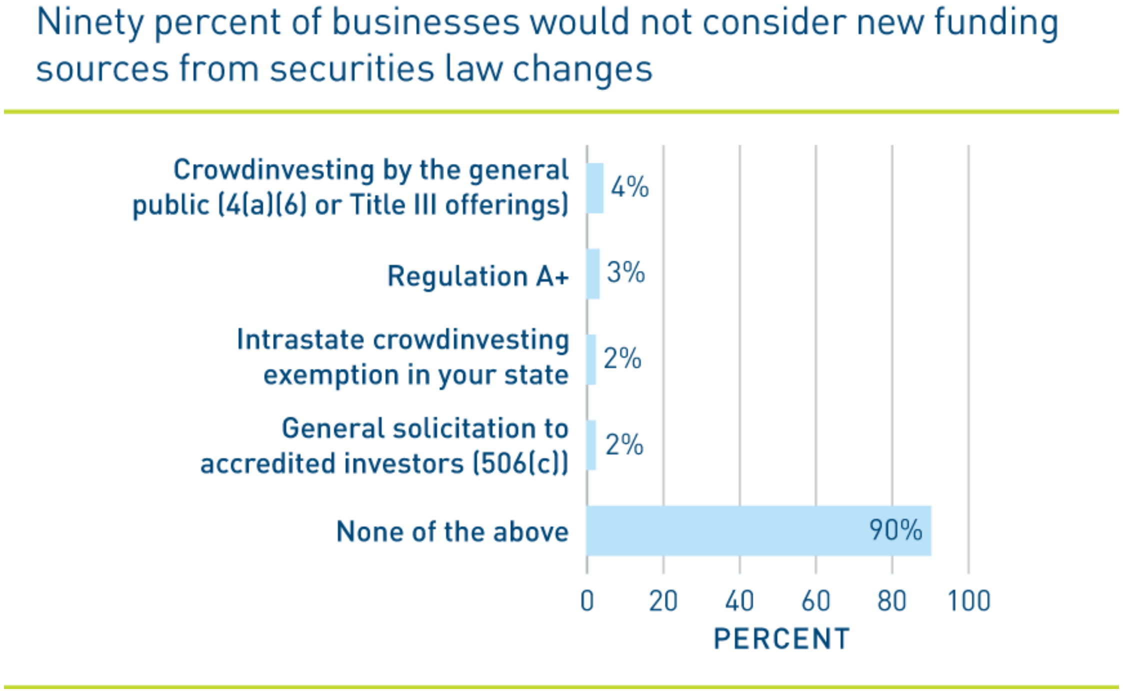
Awareness of Nontraditional Sources of Capital



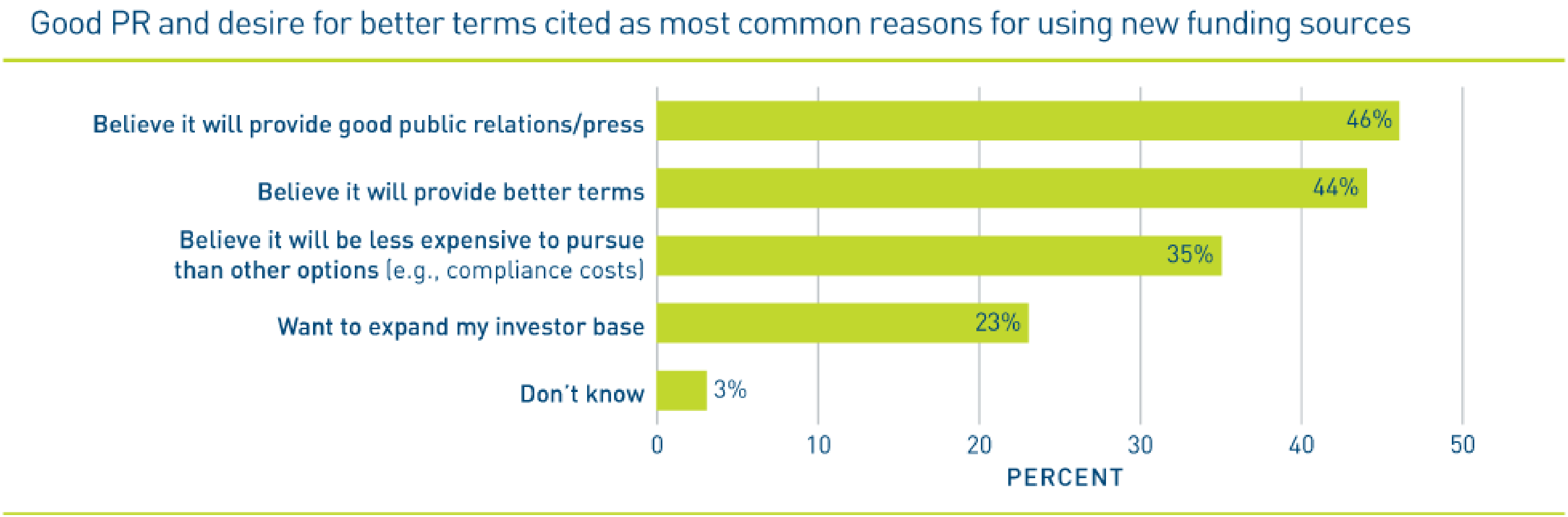
Familiarity with Securities Law Changes



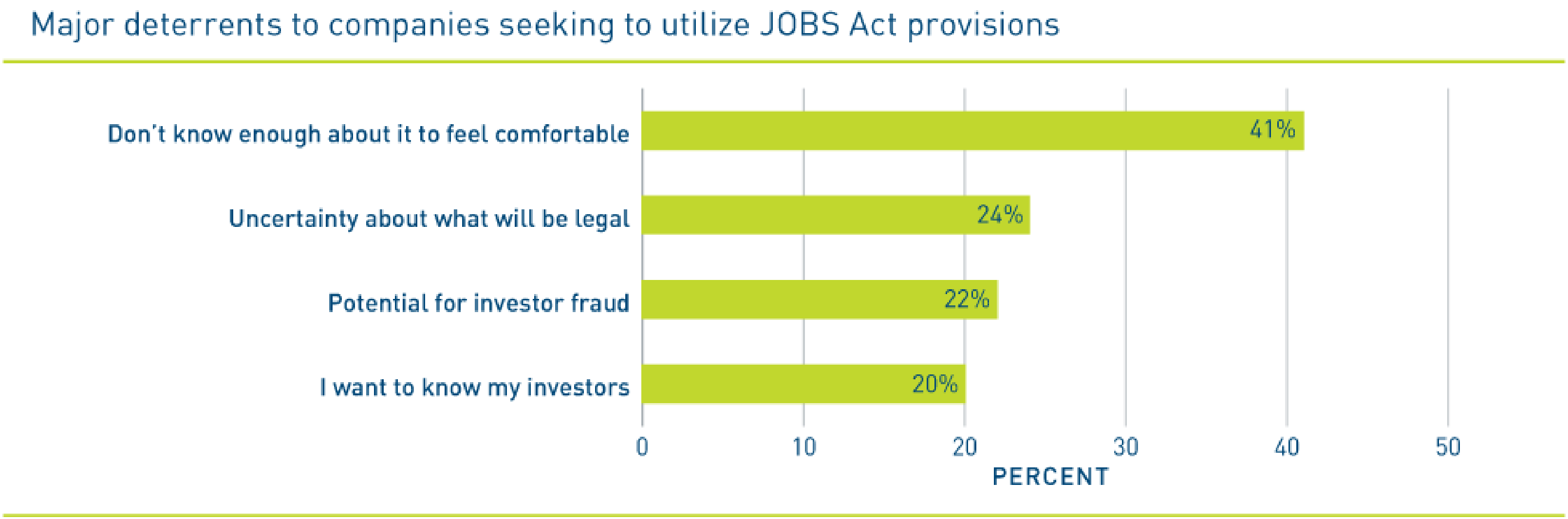
New Methods Company Would Consider Using in the Future



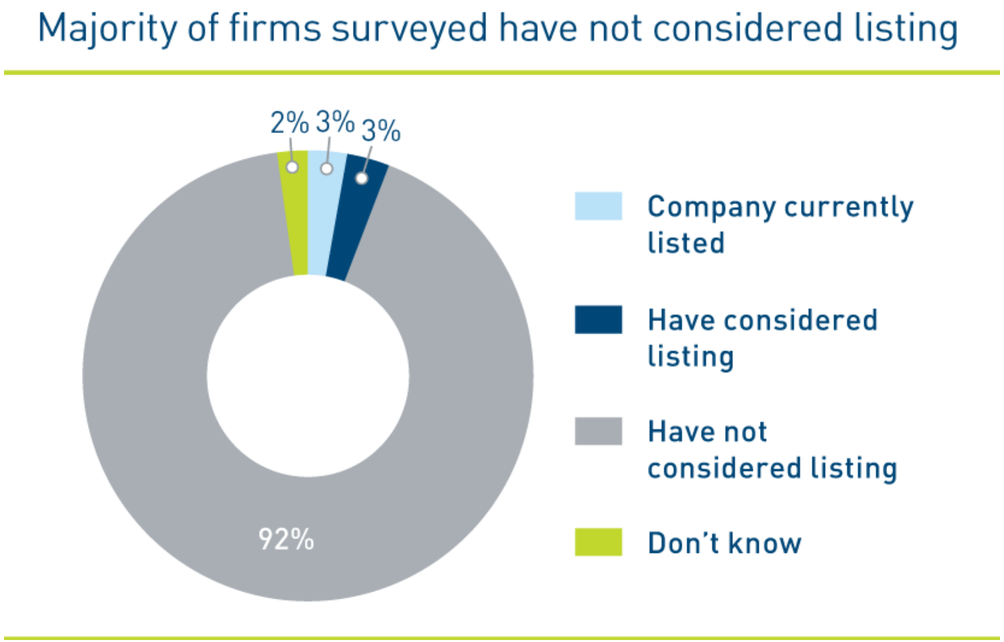
Reasons Would Consider Using a New Funding Source



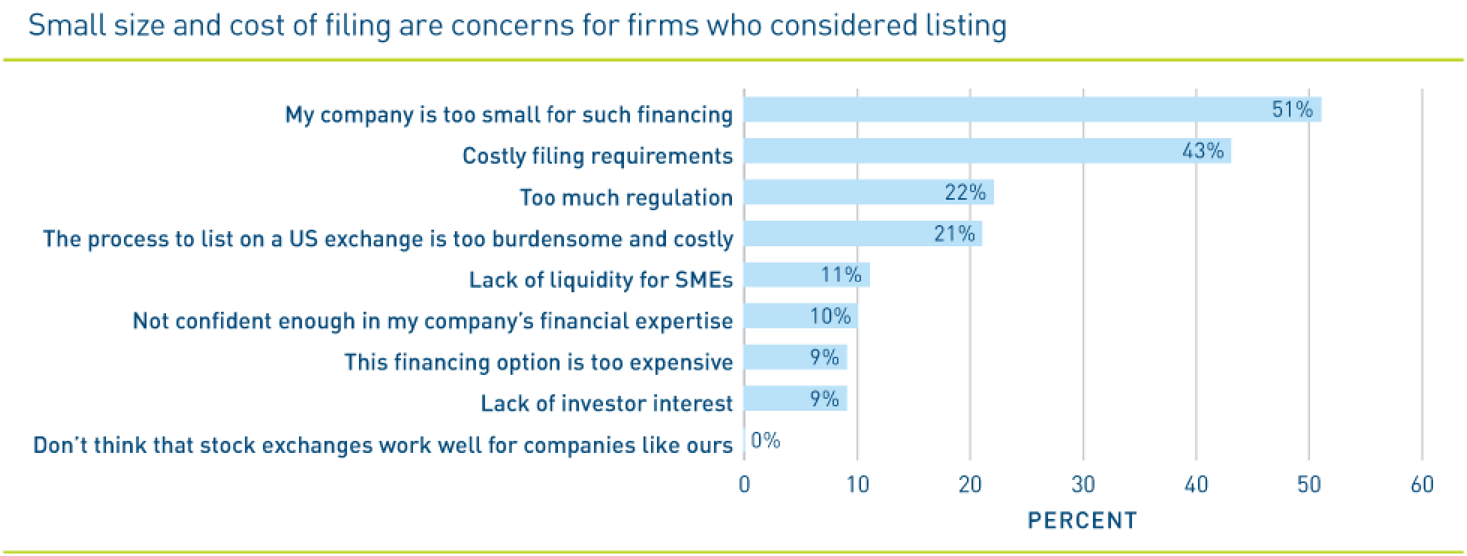
Reasons Would be Hesitant or Unwilling to Use New Methods of Financing



Whether Company is Listed on a Stock Exchange

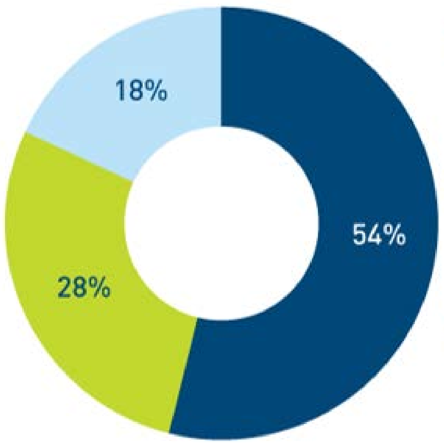


Biggest Barrier that Would Prevent Listing



Extent to which Expansion Plans are Subject to the Cost of Capital

Fifty-four percent of firms would not change expansion plans based on the cost of capital



- Our plans would not change in response to increases in the cost of capital
- Our plans would only change in response to significant interest-rate swings
- Our plans are highly dependent on the cost of capital and even small swings would have an impact

Extent to Which Expansion Plans are Subject to the Cost of Capital

Most small businesses are immune to the cost of capital, with exception of a few firms who are sensitive to modest changes

	<$500K	$500K–$2.5M	$2.5M–$10M	$10M–$50M	$50M–$100M	$100M–$1B
Our plans would not change in response to increases in the cost of capital	54%	58%	45%	41%	37%	46%
Our plans would only change in response to significant interest rate swings	27%	25%	44%	48%	61%	43%
Our plans are highly dependent on the cost of capital and even small swings would have an impact	19%	17%	11%	11%	1%	11%
Increase would cause firms to cancel/slow/reduce investments in the next year						
0.5 percentage points	20%	17%	11%	4%	7%	4%
1 percentage point	26%	24%	15%	21%	9%	6%
2 percentage points	26%	31%	45%	35%	43%	50%
3 percentage points	9%	12%	16%	21%	20%	26%
More than 3 percentage points	20%	17%	13%	18%	20%	14%

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