2014 Economic Forecast: Insights from Small and Mid-Sized Business Owners

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Graziadio School of Business and Management
ACKNOWLEDGEMENTS

I’d also like to thank the following people at The Graziadio School of Business and Management for their contributions:

Linda A. Livingstone, Ph.D.
Dean and Professor of Management

David M. Smith, Ph.D.
Senior Associate Dean and Professor of Economics

John K. Paglia, Ph.D.
Associate Dean and Associate Professor of Finance

Mark Chun, Ph.D.
Director, Center for Applied Research

Mike Sims
Executive Officer, CER

F. Douglass Gore III
Director of Public Relations

Bill Bleuel, Ph.D.
Professor of Decision Sciences

Irina Shaykhutdinova
Research Analyst

and consultant
Simon James, Ph.D.
ABOUT THE 2014 ECONOMIC FORECAST SURVEY

• 25 questions
• Invite to participate distributed to sample from Dun & Bradstreet Credibility Corp.’s business database
• 3,615 completed responses
• Where relevant, responses are segmented by revenues sizes (<$5 million; $5 million to $100 million)
• Responses collected from Jan 29 – Feb 28, 2014
This research was made possible with the support of Dun & Bradstreet Credibility Corp., the leading provider of credit building and credibility solutions for businesses.

DUN & BRADSTREET CREDIBILITY CORP.

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Chairman and Chief Executive Officer

Judy Hackett,  
Chief Marketing Officer

Aaron Stibel  
Senior Vice President, Technology

Liz Gengl  
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
## 2014 ECONOMIC FORECAST

<table>
<thead>
<tr>
<th></th>
<th>Projections in January 2014</th>
<th>Projections in January 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Whole sample</td>
<td>&lt;$5 million</td>
</tr>
<tr>
<td>This year US GDP</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Next year US GDP</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Probability of US recession in the next year</td>
<td>29.2%</td>
<td>29.9%</td>
</tr>
<tr>
<td>US Housing Prices</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>US Unemployment Rate (12/31)</td>
<td>7.7%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>
CONFIDENCE IN GDP GROWTH PROJECTIONS

- Very unsure: 9%
- Somewhat unsure: 10%
- Neither confident not unsure: 35%
- Somewhat confident: 38%
- Very confident: 8%
CONFIDENCE IN BUSINESS GROWTH PROSPECTS COMPARED TO ONE YEAR AGO
2014 VERSUS 2013 RESPONDENTS

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>More confident</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Somewhat more</td>
<td>29%</td>
<td>24%</td>
</tr>
<tr>
<td>confident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neither more nor</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>less confident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somewhat less</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>confident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less confident</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Impediments</td>
<td>Respondents in 2014</td>
<td></td>
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<tr>
<td>--------------------------------------------</td>
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<td>------------------</td>
</tr>
<tr>
<td></td>
<td>Whole sample</td>
<td>&lt;$5 million</td>
</tr>
<tr>
<td>Limited access to capital</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Government regulations (tax, healthcare)</td>
<td>39%</td>
<td>38%</td>
</tr>
<tr>
<td>Global political and/or economic environment</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Domestic (U.S.) economic and/or political environment</td>
<td>13%</td>
<td>14%</td>
</tr>
</tbody>
</table>
YEAR WHEN U.S. UNEMPLOYMENT RATE FIRST REACHES 6% OR BELOW
## CHANGES IN ECONOMIC FORECAST OVER THE YEARS

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>This year US GDP (Q4/Q4)</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.7%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Next year US GDP (Q4/Q4)</td>
<td>1.2%</td>
<td>0.9%</td>
<td>1.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>US Unemployment Rate (12/31/2012)</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.7%</td>
<td>9.1%</td>
</tr>
<tr>
<td>US Housing prices (Q4/Q4)</td>
<td>2.8%</td>
<td>3.0%</td>
<td>-0.8%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>S&amp;P 500 (Q4/Q4)</td>
<td>4.0%</td>
<td>3.4%</td>
<td>2.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Probability of US Recession in 2012</td>
<td>29.2%</td>
<td>36.2%</td>
<td>32.0%</td>
<td>28.4%</td>
</tr>
</tbody>
</table>
### Number of Employees Businesses Are Planning to Hire in the Next Six Months by Size

<table>
<thead>
<tr>
<th>Size</th>
<th>Whole Sample</th>
<th>&lt; $5 million</th>
<th>$5 million -$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>42%</td>
<td>45%</td>
<td>23%</td>
</tr>
<tr>
<td>10%</td>
<td>33%</td>
<td>33%</td>
<td>26%</td>
</tr>
<tr>
<td>20%</td>
<td>14%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>30%</td>
<td>6%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>40%</td>
<td>2%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>50%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>60%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>70%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>80%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>90%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>More than 200</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>
NUMBER OF EMPLOYEES BUSINESSES ARE PLANNING TO HIRE IN THE NEXT SIX MONTHS WITH REVENUE SIZE UNDER $5 MILLION, 2014 VS 2013

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>2014, &lt;$5 million</th>
<th>2013, &lt;$5 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>45%</td>
<td>48%</td>
</tr>
<tr>
<td>1-2</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>3-5</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>6-10</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>11-15</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>16-20</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>
NUMBER OF EMPLOYEES BUSINESSES ARE PLANNING TO HIRE IN THE NEXT SIX MONTHS WITH REVENUE SIZE BETWEEN $5 MILLION AND $100 MILLION

2014 VS 2013

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>1-2</th>
<th>3-5</th>
<th>6-10</th>
<th>11-15</th>
<th>16-20</th>
<th>21-30</th>
<th>31-40</th>
<th>41-50</th>
<th>More than 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014, $5M - $100M</td>
<td>23%</td>
<td>26%</td>
<td>22%</td>
<td>13%</td>
<td>6%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>2013, $5M - $100M</td>
<td>32%</td>
<td>22%</td>
<td>18%</td>
<td>12%</td>
<td>6%</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>
### PERCENTAGE OF RESPONDENTS WHO RAISED PAY FOR EMPLOYEES IN THE LAST 12 MONTHS BY SIZE

<table>
<thead>
<tr>
<th>Size</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole sample</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>&lt;$5 million</td>
<td>48%</td>
<td>42%</td>
</tr>
<tr>
<td>$5-$100 million</td>
<td>74%</td>
<td>66%</td>
</tr>
</tbody>
</table>
PERCENTAGE OF RESPONDENTS WHO PLAN TO RAISE PAY FOR EMPLOYEES IN THE NEXT 12 MONTHS

- Whole sample: 58% (2014), 45% (2013)
- <$5 million: 55% (2014), 36% (2013)
- $5-$100 million: 79% (2014), 58% (2013)
PERCENTAGE OF RESPONDENTS WHO PLAN TO GIVE EMPLOYEES RAISES TO ACCOUNT FOR THE INCREASE IN PAYROLL TAX

Whole sample
- 2013: 12%
- 2014: 9%

 <$5 million
- 2013: 13%
- 2014: 9%

 $5-$100 million
- 2013: 8%
- 2014: 8%
PERCENTAGE OF RESPONDENTS WHO THINK INSTABILITY IN WASHINGTON DC IS NEGATIVELY IMPACTING THEIR ABILITY TO HIRE

<table>
<thead>
<tr>
<th></th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>57%</td>
<td>58%</td>
<td>49%</td>
</tr>
<tr>
<td>2014</td>
<td>61%</td>
<td>62%</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PERCENTAGE OF BUSINESS OWNERS WHO PERSONALLY MADE MORE MONEY LAST YEAR THAN YEAR PRIOR

<table>
<thead>
<tr>
<th></th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>42%</td>
<td>41%</td>
<td>52%</td>
</tr>
<tr>
<td>2014</td>
<td>37%</td>
<td>36%</td>
<td>47%</td>
</tr>
</tbody>
</table>
PERCENTAGE OF OWNERS WHO PERSONALLY EXPECT TO MAKE MORE MONEY NEXT YEAR

- Whole sample:
  - 2014: 42%
  - 2013: 37%

- <$5 million:
  - 2014: 41%
  - 2013: 36%

- $5-$100 million:
  - 2014: 52%
  - 2013: 47%
### POLICIES TO HELP SPUR U.S. JOB CREATION

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

- Congress continuing to extend long-term: 31%
- Continuation of "Quantitative Easing" by Federal Reserve: 38%
- Significant Reform of the Affordable Care Act: 58%
- Repeal of the Affordable Care Act: 49%
- Democrats retaining control of the Senate in November: 31%
- Comprehensive immigration reform with a path to: 60%
- Balanced US Budget: 78%
- Raising the debt ceiling when limit is reached in early...: 41%
HOW WOULD RESPONDENTS BE IMPACTED IF UNEMPLOYMENT BENEFITS ARE NOT EXTENDED BY SIZE (MULTIPLE CHOICE)

- **I would lose business because many of my customers depend directly or indirectly on unemployment benefits.**
  - Whole sample: 5%
  - <$5 million: 5%
  - $5-$100 million: 4%

- **It would be easier for me to hire employees.**
  - Whole sample: 20%
  - <$5 million: 19%
  - $5-$100 million: 28%

- **I am unsure how my business would be impacted.**
  - Whole sample: 60%
  - <$5 million: 61%
  - $5-$100 million: 53%

- **Other**
  - Whole sample: 14%
  - <$5 million: 15%
  - $5-$100 million: 14%
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: 32%
- Construction: 11%
- Finance & real estate: 9%
- Retail trade: 8%
- Manufacturing: 7%
- Information technology or services: 7%
- Health care: 5%
- Wholesale trade: 4%
- Educational services: 4%
- Arts, entertainment or recreation: 3%
- Transportation and warehousing: 3%
- Forestry, fishing, hunting or agriculture: 3%
- Unclassified establishments: 1%
- Utilities & mining: 3%
DETAILS ABOUT THE RESPONDENTS
ANNUAL REVENUES

- $0 or pre-revenue stage: 2%
- $1 - $100,000: 13%
- $100,001 - $500,000: 18%
- $500,001 - $1,000,000: 26%
- $1,000,001 - $5,000,000: 24%
- $5,000,001 - $10,000,000: 3%
- $10,000,001 - $25,000,000: 4%
- $25,000,001 - $50,000,000: 2%
- $50,000,001 - $100,000,000: 1%
- $100,000,001 - $500,000,000: 6%
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS: WHOLE SAMPLE

Decline

Increase

> 50% 41-50% 31-40% 21-30% 16-20% 11-15% 6-10% 4.5% 2-3% Stayed flat

26% 9% 6% 8% 5% 4% 4% 2% 2% 1.3%

0% 5% 10% 15% 20% 25% 30%
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS: REVENUES UNDER $5M

Decline

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

Increase

- 2-3%: 27%
- 4-5%: 8%
- 6-10%: 6%
- 11-15%: 7%
- 16-20%: 4%
- 21-30%: 4%
- 31-40%: 4%
- 41-50%: 2%
- > 50%: 2%
- Average: 0.8%
ANNUAL REVENUES CHANGE FOR LAST 12 MONTHS: REVENUES FROM $5M TO $100M

<table>
<thead>
<tr>
<th>Decline</th>
<th>41-50%</th>
<th>31-40%</th>
<th>21-30%</th>
<th>16-20%</th>
<th>11-15%</th>
<th>6-10%</th>
<th>4-5%</th>
<th>2-3%</th>
<th>Stayed flat</th>
<th>Increase</th>
<th>2-3%</th>
<th>4-5%</th>
<th>6-10%</th>
<th>11-15%</th>
<th>16-20%</th>
<th>21-30%</th>
<th>31-40%</th>
<th>41-50%</th>
<th>&gt; 50%</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>20%</td>
<td>12%</td>
<td>13%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>5.6%</td>
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</tr>
</tbody>
</table>
ANNUAL REVENUE CHANGE EXPECTATIONS
(NEXT 12 MONTHS): WHOLE SAMPLE

Decline

Increase

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

21% 13% 10% 12% 6% 6% 5% 3% 2% 8% 8.2%

0% 5% 10% 15% 20% 25%
ANNUAL REVENUE CHANGE EXPECTATIONS (NEXT 12 MONTHS): REVENUES UNDER $5M

<table>
<thead>
<tr>
<th>Decline</th>
<th>2%</th>
<th>1%</th>
<th>2%</th>
<th>2%</th>
<th>2%</th>
<th>2%</th>
<th>1%</th>
<th>2%</th>
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<tbody>
<tr>
<td>&gt; 50%</td>
<td>2%</td>
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<tr>
<td>31-40%</td>
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<td>1%</td>
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<td></td>
</tr>
<tr>
<td>21-30%</td>
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<td>2%</td>
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<tr>
<td>16-20%</td>
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<td>2%</td>
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<td></td>
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<tr>
<td>11-15%</td>
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<td>2%</td>
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<td>6-10%</td>
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<td></td>
<td>2%</td>
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<tr>
<td>4-5%</td>
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<td>1%</td>
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<tr>
<td>2-3%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>Stayed flat</td>
<td>22%</td>
<td></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase</th>
<th>13%</th>
<th>9%</th>
<th>12%</th>
<th>6%</th>
<th>5%</th>
<th>5%</th>
<th>2%</th>
<th>3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-3%</td>
<td>22%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-5%</td>
<td></td>
<td>13%</td>
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<td>6-10%</td>
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<td>12%</td>
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<tr>
<td>11-15%</td>
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<td>6%</td>
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<tr>
<td>16-20%</td>
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<td>5%</td>
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<tr>
<td>21-30%</td>
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<td>5%</td>
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<tr>
<td>31-40%</td>
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<td></td>
<td>2%</td>
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<tr>
<td>41-50%</td>
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<td>3%</td>
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<td>&gt; 50%</td>
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<td>9%</td>
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<td>Average</td>
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<td></td>
<td></td>
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<td>8.3%</td>
</tr>
</tbody>
</table>

Decline: 2% of revenues will decline by more than 50%.
1% of revenues will decline by 31-40%.
2% of revenues will decline by 21-30%.
2% of revenues will decline by 16-20%.
2% of revenues will decline by 11-15%.
2% of revenues will decline by 6-10%.
1% of revenues will decline by 4-5%.
2% of revenues will decline by 2-3%.
22% of revenues will remain flat.
13% of revenues will increase by 2-3%.
9% of revenues will increase by 4-5%.
12% of revenues will increase by 6-10%.
6% of revenues will increase by 11-15%.
5% of revenues will increase by 16-20%.
5% of revenues will increase by 21-30%.
2% of revenues will increase by 31-40%.
3% of revenues will increase by 41-50%.
9% of revenues will increase by more than 50%.
8.3% of revenues will experience an average increase.
ANNUAL REVENUE CHANGE EXPECTATIONS (NEXT 12 MONTHS): REVENUES $5M TO $100M
DETAILS ABOUT THE RESPONDENTS
ANNUAL INCOME

- Negative (net loss): 1%
- $0 - $100,000: 7%
- $100,001 - $500,000: 5%
- $500,001 - $1,000,000: 6%
- $1,000,001 - $5,000,000: 28%
- More than $5,000,000: 53%
DETAILS ABOUT THE RESPONDENTS
FIRM AGE

- Less than 1 year: 35%
- At least 1 but less than 2: 21%
- At least 2 but less than 3: 14%
- At least 3 but less than 5: 8%
- At least 5 but less than 10: 7%
- At least 10 but less than 20: 8%
- 20 or more: 7%
DETAILS ABOUT THE RESPONDENTS
NUMBER OF EMPLOYEES

- 0: 7%
- 1-2: 6%
- 3-5: 4%
- 6-10: 4%
- 11-15: 3%
- 16-20: 2%
- 21-30: 2%
- 31-50: 2%
- 51-100: 2%
- 101-200: 2%
- More than 200: 2%
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
Founded on the core values of integrity, stewardship, courage, and compassion, Pepperdine University’s Graziadio (GRAT-ZEE-ah-DEE-oh) School of Business and Management has been developing values-centered leaders and advancing responsible business practice since 1969. Student-focused, experience-driven, and globally-oriented, the Graziadio School offers fully accredited top-ranked MBA, Masters of Science, and bachelor’s completion business programs. More information found at http://bschool.pepperdine.edu/newsroom/.
Thank You
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