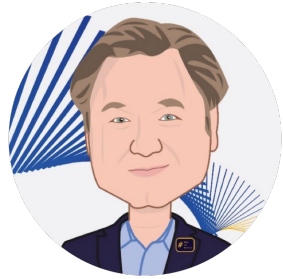




# Small Business Outlook

Visa's proprietary Small Business Health Indexes and a nation-wide survey of small business owners show a steady outlook for small businesses and small business credit cards



"Small businesses remain the bedrock of the economy. However, with most reporting flat revenues last quarter and a growing number saying their confidence in the economy has been shaken, small businesses could adopt a more cautious stance going forward."

**Wayne Best**  
Chief Economist, Visa Inc.

## Small businesses are showing signs of being more cautious and conservative this fall

- After a strong summer, small businesses are expecting growth to stabilize through the fall. The number of businesses reporting a revenue increase is down 5 percentage points, while almost half of small businesses (48 percent) report that revenues have stayed the same over the past three months.
- Sixty-five percent of small businesses reported no growth last quarter, an increase of 5 percentage points since the summer.
- Perhaps small businesses are shifting into a protective mindset as confidence in the U.S. economy declines. Almost one in five small businesses (17 percent) believe the strength of the U.S. economy has declined since the previous quarter. This shift may be due to the fact that a similar number of small businesses (19 percent) are concerned that tariffs may negatively impact their business in 2020 and beyond.
- In particular, businesses in the West (23 percent) are the most worried that tariffs will negatively impact their business in the future.

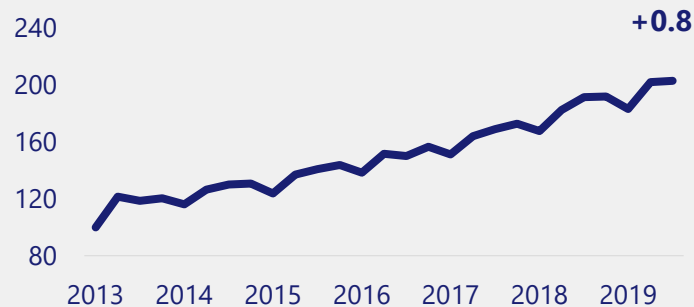
## Small Business Health Indexes: Based on proprietary Visa small business card data

(Quarterly growth)

### Small Business Spending Index



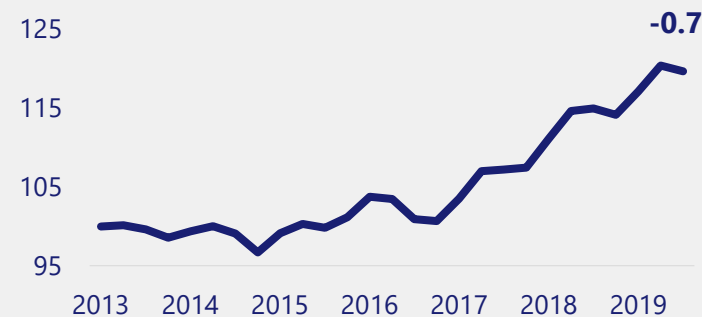
Payment volume on Visa business credit cards,\* indexed to 1Q2013



### Small Business Borrowing Index



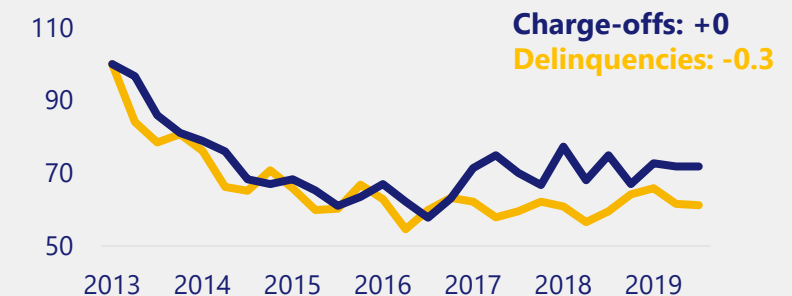
Outstanding balances on Visa business credit cards,\* indexed to 1Q2013



### Small Business Risk Index



Delinquencies and charge-offs on Visa business credit cards,\*\* indexed to 1Q2013



\*Payment volume and balances per active account. See methodology notes on page 2 for more details | \*\*Percent of balances delinquent and charged-off. See methodology notes on page 2 for more details

# Disclosures:

## ▶ Disclaimer

Case studies, research and recommended practice recommendations are intended for informational purposes only and should not be relied upon for marketing, legal, technical, tax, financial or other advice. When implementing any new strategy or practice, you should consult with your legal counsel to determine what laws and regulations may apply to your specific circumstances. The actual costs, savings and benefits of a card program may vary based upon your specific business needs and program requirements. Visa makes no representations and warranties as to the information contained herein and member is solely responsible for any use of the information in this presentation in connection with its card programs.

## ▶ Forward-looking statements

This presentation contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook,” “forecast,” “projected,” “could,” “expects,” “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. Studies, survey results, research, recommendations, opportunity assessments, claims, etc. (the “Statements”) should be considered directional only. The Statements should not be relied upon for marketing, legal, regulatory or other advice. The Statements should be independently evaluated in light of your specific business needs and any applicable laws and regulations. Visa is not responsible for your use of the Statements, including errors of any kind, or any assumptions or conclusions you might draw from their use.

## ▶ Methodology

Except where otherwise noted, statements herein are based on:

- Visa Small Business Health Indexes, based on proprietary Visa data and calculated as follows:
  - Spending Index: Changes in spending per spend-active small business credit card account.
  - Borrowing Index: Changes in balances per balance-active small business credit card account.
  - Risk Index: Changes in share of balances delinquent and balances charged-off in a quarter on Visa small business credit cards.

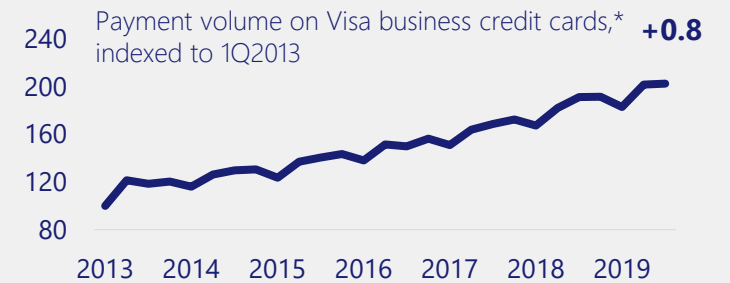
All indexes use 1Q2013 as their base period.

- The national small business survey of approximately 1000 small business owners, administered by Kelton once per quarter. The fall survey was completed in October 2019.

For any further questions on this report please contact your Visa Account Executive.

# Spending Index

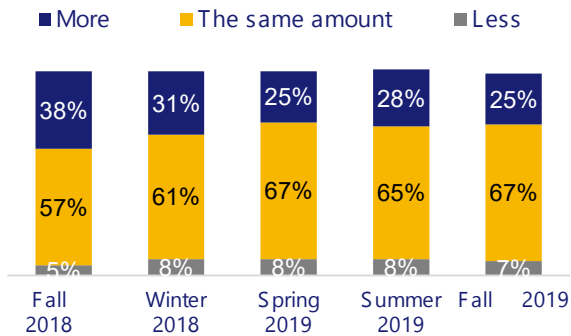
Most small businesses are holding spending flat. Those planning to spend more have expansion in sight.



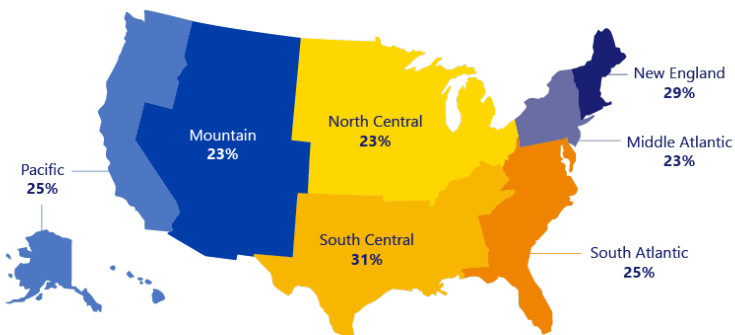
Small business spend holds steady through 3Q2019. **Visa's Small Business Spending Index** reflects this trend, with stability across the third quarter of 2019.

Just over two in three small businesses (67 percent) anticipate spending the same amount on their business credit cards in the next three months. This is an increase of 10 percentage points compared to the same period last year. However, only a quarter of small businesses forecast spending more in the next quarter, down 13 percentage points from last year.

### Spend intent over next three months



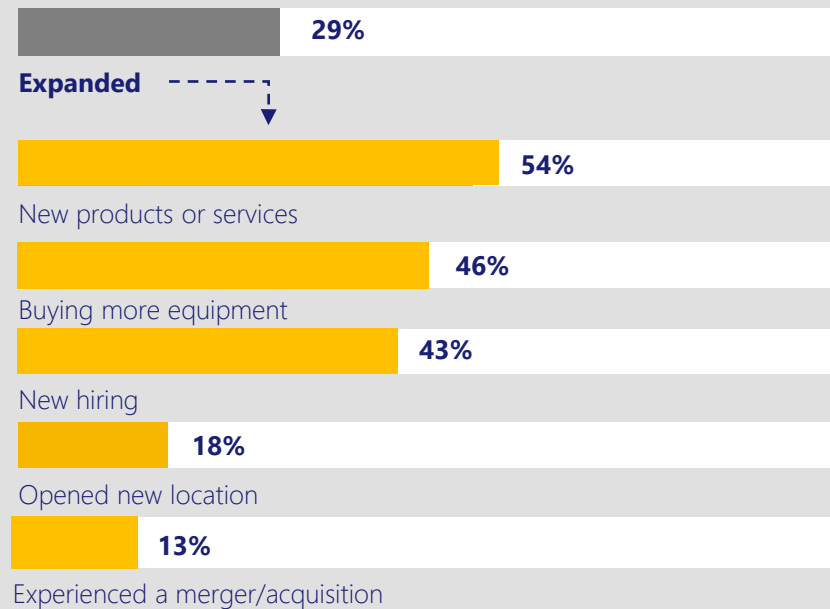
### Spend intent by geographic region



Aggregating the results over 2019, small businesses from the South Central (31 percent) and New England (29 percent) regions were most likely to spend more on their credit cards.

## Business Expansion

How small businesses have grown:



Nearly three in ten businesses (29 percent) have expanded over the past three months. Among those, the top growth areas included adding new products or services (54 percent), buying new equipment (46 percent) and adding staff (43 percent). Compared to the summer, fewer businesses have opened new locations (18 percent, down 7 percentage points) or experienced a merger/acquisition (13 percent, down 7 percentage points).

## International Spending

International spending has tempered, leveling out compared to earlier in the year. Among small businesses that have made purchases internationally in the past quarter, nearly six in ten (59 percent) reported spending the same amount, an increase of 11 percentage points. Only 34 percent said they planned to increase international spend, down from 42 percent reflected in the summer report.

Spend on imported goods or materials has decreased. Spending on international consulting, outsourcing or freelance services also dipped slightly by 5 percentage points. However, the number of small businesses that have travel-related expenses outside of the U.S. is 37 percent, unchanged from the previous quarter.

# Borrowing Index

No change to borrowing intent, but unpaid balances are on the rise.

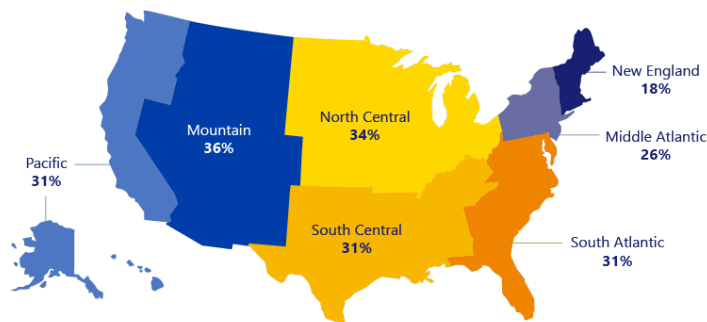


## Visa's Small Business Borrowing Index shows no growth in borrowing for fall 2019

Borrowing intent remains in line with the first two quarters of 2019, with 61 percent of small businesses intending to borrow the same amount on their business credit cards. Overall, just under one in 10 small businesses in the U.S. have plans to borrow more in the next three months.

- Over one in five millennial-owned businesses plan to borrow more on their cards next quarter, which is more than Gen Xers (10 percent) or baby boomers (6 percent).
- Businesses that have been in operation for five years or less are more likely than those established for longer to anticipate an increase in borrowing (18 percent vs. 7 percent).

### Borrowing intent by geographic region



### Unpaid balances:

Debt reduction among small businesses has slowed. While there was a gradual decrease in the median unpaid balance over the past year, in the fall, the average amount owed has increased from \$4,050 to \$5,000. The majority of small businesses (70 percent) expect their unpaid balance to stay the same in the next quarter, but 11 percent are anticipating an increase, of which 24 percent say it is due to the accumulated interest on the balance they owe.

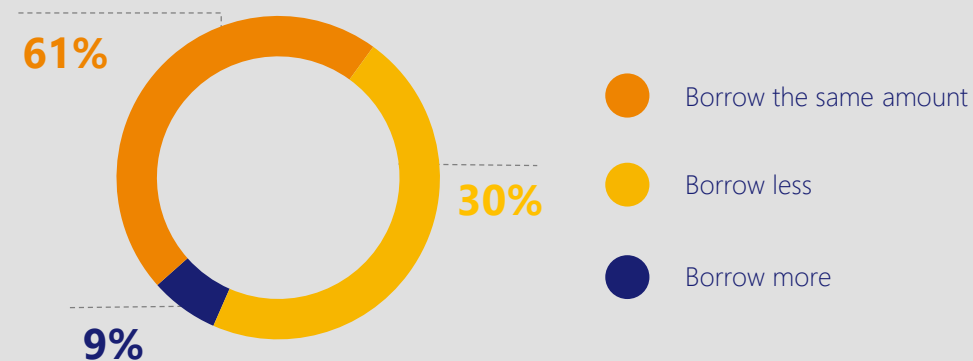
### Loans:

After the Federal Reserve announced an interest rate cut in 3Q2019, more businesses could have been enticed to apply for loans. However, consistent with last quarter, 23 percent have plans to apply for a loan in the next three months. Another rate cut was announced after this survey was conducted.

- Businesses in operation 10 years or less are more than twice as likely than those that have been around for longer to seek out a business loan (36 percent vs. 16 percent).

## Borrowing Intent

In the next 3 months...



## Balance Transfers

Sixteen percent of small businesses have transferred a balance or debt from one business credit card to another. This is down 4 percentage points after a spike this past summer.

### Businesses that are making balance transfers are more likely to be:



48%  
Millennial-owned businesses



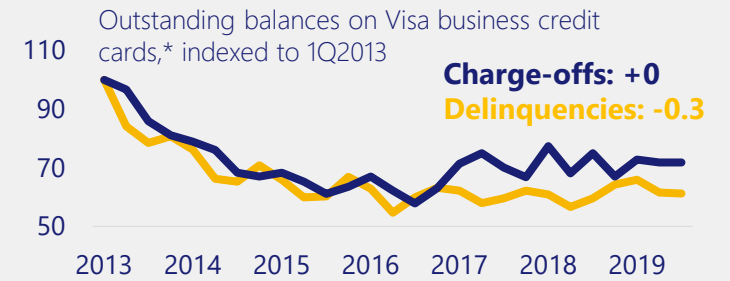
38%  
Businesses that sell internationally



26%  
Businesses open for 10 years or less

# Risk Index

State of delinquency and charge-offs as small businesses head into the final months of the year.



## Delinquency and charge-off indexes remain flat for the fall of 2019.

Following a summer of increased activity, the number of businesses that have reached their credit limit has decreased by 6 percentage points to 13 percent.

- Millennial-owned small businesses (38 percent) and businesses that have provided services or goods outside the U.S. (28 percent) are most likely to have hit the limit on their credit cards.
- Businesses in the Midwest are more likely than other U.S. regions to have hit their credit limit (16 percent vs. 12 percent).

Looking ahead to their next business credit card statement, just under three in four small businesses intend to pay this bill in full and on-time. A quarter foresee only being able to pay a part of it.

- Millennial-owned businesses are more likely to be delinquent, with over half admitting they won't be making a full repayment.
- Newer businesses that have been operating for five years or less are more likely than older establishments to anticipate not being able to pay their next bill in full (43 percent vs. 23 percent).

### Businesses that are likely to be delinquent on their next credit card payment:



56%

Millennial-owned businesses



43%

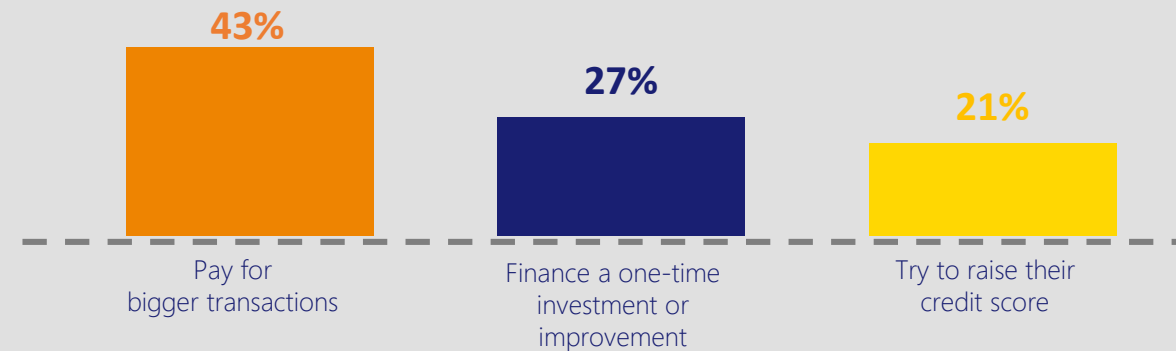
Have been operating for five years or less

## Credit Line Increases

Fewer businesses have experienced a credit line increase either by request or by the card issuer in 3Q2019 (a decrease of 6 percentage points). Among them, the median line increase is \$5,000.

For those with a line increase, 18 percent say it was automatically applied by their card issuer, while 13 percent had requested it. More businesses admitted that they applied for an increase this quarter because they wanted to put through bigger transactions (an increase of 7 percentage points from last quarter). In contrast, fewer businesses are requesting an increase to finance costly one-time investments or improvements (down 14 percentage points versus the summer) or to raise their credit score (down 11 percentage points versus the summer).

## Reasons for requesting a credit line increase



# Acquisitions

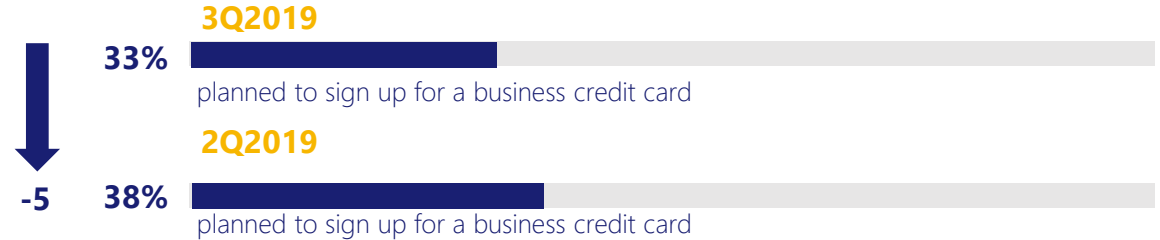


Card interest is steady, but the number of individuals signing up is down. Among those who have signed up for new cards, the majority were actively looking.

The number of small businesses that have signed up for a new card is beginning to show signs of decline, down 6 percent from 2Q2019. However, the number of businesses who were **actively looking for a new card is up 14 percent** versus last quarter.

Among those who have recently signed up for a new card, **nearly half (47 percent)** prioritized better credit card rewards as a top motivator. Businesses are less likely to sign up for a new card because of prior negative experiences.

## In the next three months...



### Active card seekers:

**Better credit card rewards are the primary motivator** for close to half of active card seekers. Other top incentives for this group were a better credit line (42 percent) or better APR (35 percent). **Millennials** who have signed up for new business credit cards (83 percent) were more likely to have actively searched for one than Gen Xers (62 percent) or boomers (52 percent).

### Enticed non-seekers:

**Better credit card rewards are the primary motivator** for over half (52 percent) of small businesses who were enticed to a new credit card. Other top incentives for this group were a better sign-on bonus (34 percent), a better APR (30 percent) or to finance day-to-day operations (25 percent). Promotions were effective among the older age groups. Close to half of **baby boomers** (48 percent) who signed up in the past quarter were enticed; more so than Gen Xers (38 percent) or millennials (17 percent).

## Among those who have recently signed up for a new card, top motivators were:



# Featured Focus



Business owners have started planning for 2020 with an optimistic, but cautious, approach expected for their businesses in the next year.



Small business owners, particularly higher revenue businesses, while realistic about the economic challenges, are planning to invest in staffing, infrastructure and marketing to drive growth in 2020. Business cards provide small businesses not only with rewards, but also a tool to more efficiently fund day-to-day operations and effectively manage cash flow.

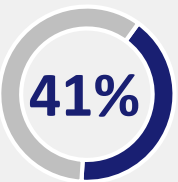
**David Simon**

Global head of small and medium enterprises, Visa Inc.

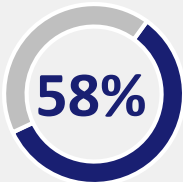
## 2020 Spend

Business owners know their companies and employees are worth the investment. In fact, close to a third of small businesses who have set at least part of their 2020 budget plan to spend more on their marketing efforts and employees in 2020. Physical infrastructure is a key focus for the future. More than a quarter of small business owners (29 percent) have budgeted to spend more on new hardware and operational costs come 2020.

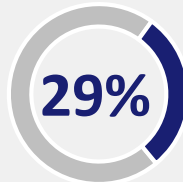
Businesses feel optimistic about their finances for the new year:



Are confident they can handle financial challenges of 2020



Expect their business to have a positive cash flow in 2020

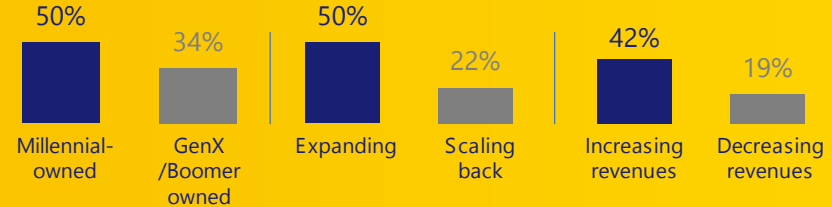


Plan to reinvest cash flows into the business

## Forecasting finances for 2020

Many small businesses are already looking to 2020. In order to plan ahead and safeguard their businesses, 36 percent already have their 2020 budgets in place—23 percent are in the process of setting them—and 26 percent have their 2020 strategies identified for driving growth.

Businesses that have completed their 2020 budgets...



## Global Uncertainty

Businesses are cautious as global and political instability in the future can impact their business:



47 percent worry that global uncertainty will negatively impact sales



45 percent have concerns that the U.S. tariffs will have a negative impact on their business



43 percent feel that global uncertainty will limit their ability to purchase materials

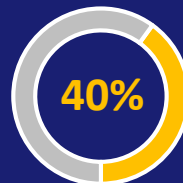


33 percent predict the outcome of the U.S. presidential election will impact their business

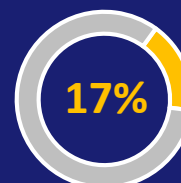


27 percent worry about the possibility of a global recession

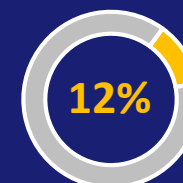
Beyond adopting a more protective approach to financial management and operations, business owners believe they may need to be more proactive and flexible to navigate uncertainty:



agree that their business will need to take action to avoid being negatively impacted by the tariffs



believe their business structure will need to be more flexible in order to stay competitive in 2020



say they'll need to diversify their product and service offerings to maintain market share

***VISA***