

ATB BUSINESS BEAT:

The pulse on business in Alberta

ATB Business™

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The borrowing needs of Alberta business owners

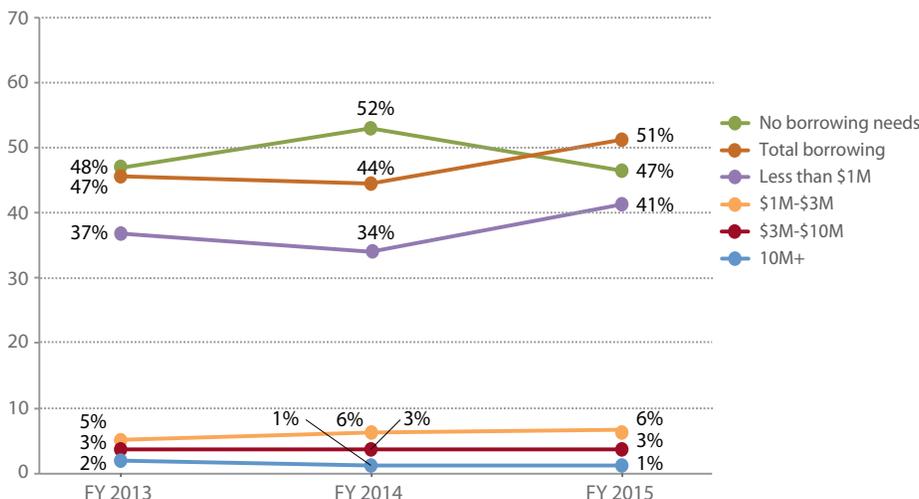
Each quarter, the ATB Business Beat randomly surveys Alberta small and mid-sized enterprises (SME) to gain insights and understanding of the challenges and opportunities they face. In this issue, we take a deep dive into their borrowing needs. Over the last three years, on average, approximately half (47%) of Alberta businesses have borrowed money. Has the economic downturn increased the need to access credit? Who do they look to for lending? What do they use the cash for? What stops them from borrowing? Do they shop around? How does the processes work for them? We also explore if Alberta SMEs are using, or considering using, alternative lending options.

As usual, we seek to understand sentiment around the economy. Alberta SMEs continue to be concerned, with 32% believing the economy will be the same or better off in six months and approximately 61% saying their business will be the same (41%) or better off (21%). All figures are down from last quarter.

A SNAPSHOT OVER TIME

The majority of Alberta business owners who seek out lending borrow less than \$1M. The need to borrow has increased this year (51%) from last year (44%), perhaps due to the economic downturn.

Borrowing needs by year



Source: ATB Financial, Survey on Alberta SMEs 2013-15, n=300

Size does seem to matter as 61% of businesses with five or more employees borrowed money in 2015 versus only 42% of businesses with zero to four employees.

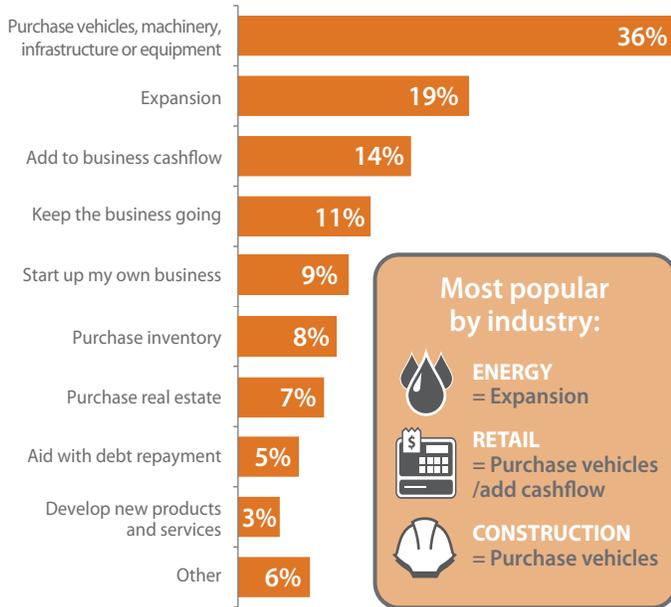
“ WE WOULD LIKE TO EXPAND, DEVELOP SOME OF OUR LAND. AND, BECAUSE WE HAVE NO DEBT, IT MIGHT BE A GOOD TIME TO TAKE ON SOME DEBT. ”

– President, Real Estate

9 years in business, 1-4 employees, \$500,000 to less than \$1 million in revenues

EXTRA FUNDS BRING EXPANSION AND GROWTH

In their most recent loan application, Alberta business owners borrowed for the purposes of:



Of the roughly four out of 10 (43%) who have never borrowed money, 36% have a perception that well managed companies do not need to. The other side to the argument is carrying debt can make smart business sense as it helps businesses to grow and expand.

What would you say is the main reason your business has never borrowed money?



“ WE’VE GROWN SO MUCH OVER THE LAST BIG UPSWING THAT WE’VE DEFINITELY MANAGED OUR DEBT VERY WELL. AND IT’S NOT SOMETHING WE’RE SCARED OF, IT’S JUST BEEN VERY WELL PLANNED. IT’S STRATEGIC, SOME DEBT IS GOOD DEBT. ”

– General Manager, Oil & Gas
8 years in business, 5-19 employees, \$10 million to less than \$15 million in revenues

56%

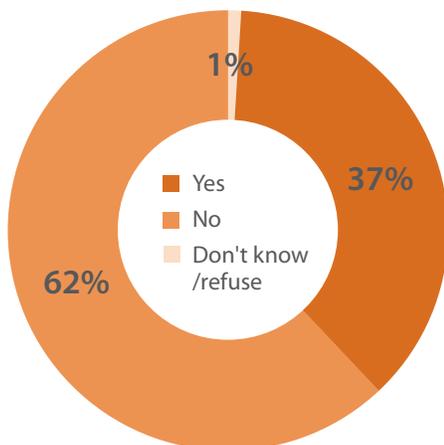
HAVE BORROWED TO MEET CAPITAL NEEDS

43%

HAVE NEVER BORROWED MONEY

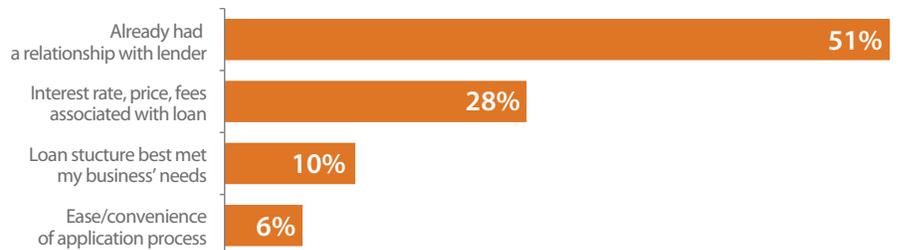
WHO YOU GONNA CALL?

Did your business comparison shop with multiple lenders?



Eight out of 10 (80%) SMEs looked to a financial institution as their main source to borrow money, while 7% borrowed from private investors and 7% from friends and family. Relationships with the bank remain very important to business owners, with 62% sticking with their existing lender (instead of comparison shopping for the best rates and terms). Of the 37% who did shop around, half (51%) said their existing relationship was the key factor in their decision to ultimately stick with their current provider.

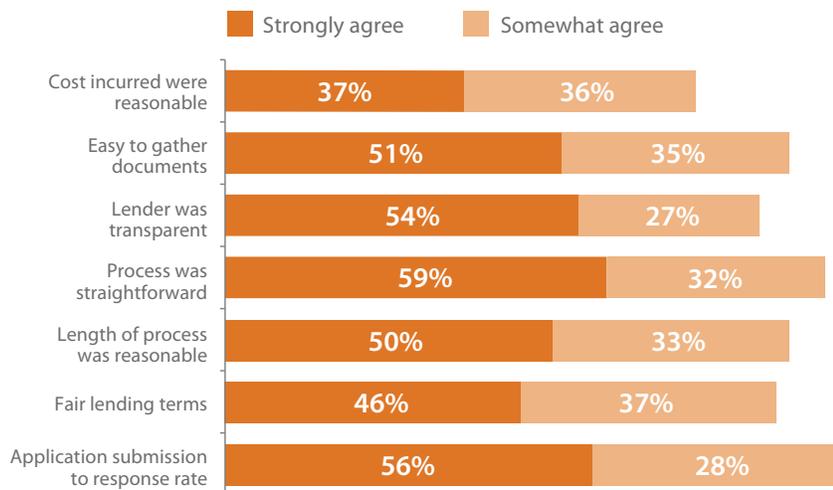
Which of the following was most important in helping your business choose a lender?



APPLICATION PROCESS

For the most part, business owners are satisfied with the processes they are required to follow to secure funding. When asked what they would like to see improved, almost three out of 10 (29%) said they would not change a thing about the process, while 17% would like to see it proceed more quickly and 8% would like greater transparency.

Do you agree or disagree with the following statements about the application process?

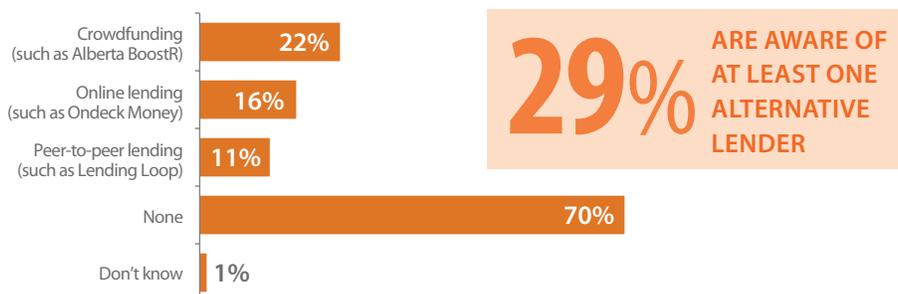


Almost three-quarters (72%) received all, or even more, of the money requested. Over two in 10 (23%) did not receive all of the funding, but only 2% were outright declined. Reduced or no funding impacted plans, and SMEs had to cancel or postpone hiring new employees (51%), expansion (41%) or purchasing of inventory (39%). Of those who were declined or did not receive all the funding, almost four out of 10 (37%) sought alternative financing.

ALTERNATIVE LENDING

Awareness of other types of lending is not on the radar for seven out of 10 (70%) Alberta business owners. As well, only 11% said they would be likely to seek out alternative lenders for their next application.

Are you aware of any of the following types of alternative lenders for businesses?



29% ARE AWARE OF AT LEAST ONE ALTERNATIVE LENDER

THE BANK DOESN'T SEE OUR BUSINESS MODEL AS VERY SECURE. WE BROKER INVENTORY AND BANKS DO NOT LIKE TO FINANCE INVENTORY AS A GENERAL RULE.

– Owner/Operator, Wholesale Trade
27 years in business, 100-199 employees, \$20 million in revenues

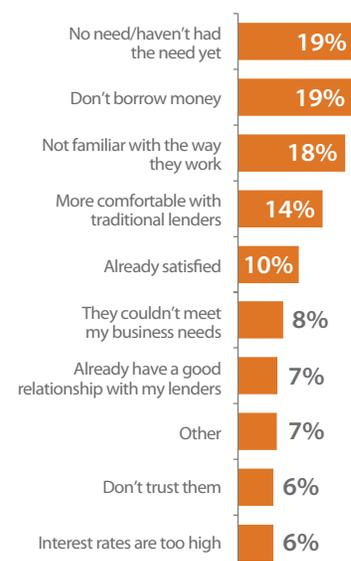
MAKE IT MORE TRANSPARENT SO WE KNOW WHAT WE NEED TO PREPARE FOR TO MAKE IT SUCCESSFUL IN THE FUTURE. IF YOU UNDERSTAND THE PROCESS BETTER YOU CAN MAKE A BETTER APPLICATION.

– President, Professional, Scientific and Technical Services
4 years in business, 1-4 employees, \$500,000 to less than \$1 million in revenues

WE HAVE A GREAT RELATIONSHIP WITH OUR LENDER SO I WOULD NOT HAVE CHANGED ANYTHING.

– Controller, Construction
5 years in business, 5-19 employees, \$20 million or more in revenues

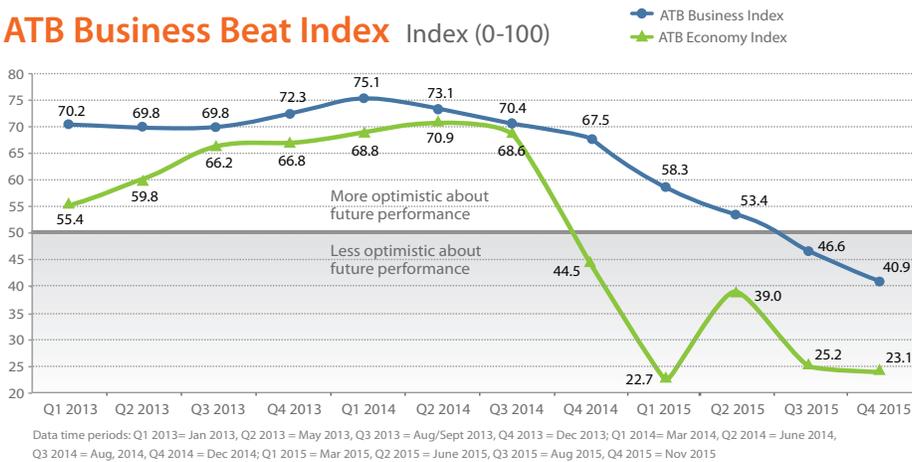
Why isn't alternative lending on the consideration list?



ATB INDEXES

Overall, Alberta business owners continue to feel pessimistic about the future. Only 14% believe the economy will be better off six months from now and 21% believe their business will be better off six months from now. Construction industry SMEs are most optimistic about the future of their business, with 30% believing their business will be better off in six months.

ATB Business Beat Index Index (0-100)



Since Q3 of 2014, we've seen a steady decline in the ATB Business Index. In particular, the retail industry dropped significantly this quarter (from 51.7 to 33.9*) which is interesting considering this survey was taken just before the busy holiday season. The Business Index for construction SME's remains above the total Business Index (48.8*). New housing and multi-family construction is relatively stable which is probably helping to balance optimism. Low interest rates and lower labour costs may also be contributing factors. The ATB Economy Index remains very low which means Alberta business owners do not see the economy improving in the near future.

To determine the indexes, we remove the neutral numbers, take the % better (somewhat/much) and subtract the % worse (somewhat/much) and rescale the number to range between 0 and 100. *For detailed breakdowns by industry visit atb.com/businessbeat

Alberta Economy



Your Company



% better off % the same % worse

ABOUT THIS REPORT

For more information on this report or the next ATB Business Beat, please email businessbeat@atb.com or visit atb.com/businessbeat to be put on the mail list.

About ATB Financial

ATB Financial (atb.com) is the largest Alberta-based financial institution, with assets of \$43.1 billion. ATB offers retail financial services, business and agricultural financial services, corporate financial services and investor services to more than 710,000 Albertans and Alberta-based businesses in 244 communities in our province.

ATB Business and Agriculture provides services to Alberta's small and mid-sized businesses, farmers and other agriculture customers.



To find out how ATB Financial can help your business grow, please contact: Wellington Holbrook, Executive Vice-President, Business & Agriculture, ATB Financial at askwellington@atb.com

About NRG Research Group

NRG Research Group (www.nrgresearchgroup.com) is a leading Canadian public affairs and market research company with offices in Calgary, Vancouver, and Winnipeg.

Who did we talk to?

These findings are from an ATB Business telephone survey conducted during November 2-13, 2015 with 300 randomly selected Alberta SME owners/operators.

Study exclusions: agriculture (farms or ranches), government, financial institutions and large businesses (500+ employees).

Business size definitions: small (0 to 49 full-time employees) and medium-sized (50 to 499 full-time employees).