WOMPLY

2020

Updated Wed Jun 10, 2020 900a Pacific

Read our joint letter to Congress (with 20+ other companies)

Executive Summary: Alleviating Our Small Business Crisis is Essential to Averting Economic Collapse

By leveraging technology that is in market at scale today, SMBs could have cash in hand 10-20 days after the rules, regulations, and relief structures are promulgated

- Our 30.8 million small and medium businesses (SMBs), employ 47% of our workforce and account for 40% of payroll. They are critical to our economy
  - 50% have less than 27 days cash buffer on hand,[1] meaning we must act quickly if we are going to keep them afloat
- The **operational complexity of moving money to 30.8 million SMBs is massive**, and we must use our country's best-in-class capabilities to enable it
  - **Banks today are equipped to work with the 92 thousand "medium" SMBs**
    - They have existing relationships with these entities: relationship managers personally know the companies and their leadership; they have already manually gathered and assessed their paperwork; connections exist to move money to their accounts
  - **However, banks, which rely on manual processes, do not have the ability to serve the tail of 30.7 million small and micro businesses. Technology and automation must be core to the solution,** which must include:
    - Program onboarding that takes minutes (not days) and includes business verification to weed out fraudsters
    - Underwriting: use of data to determine the amount of relief funding for which a business qualifies with no human review needed
    - Funding disbursement: movement of money to a qualified SMB in 1 business day using the Automated Clearing House (ACH)
    - Monitoring and reporting on funding: performance of ongoing fraud monitoring; reporting on funding usage (e.g., confirm usage for payroll)
  - **A group of fintech companies has the capabilities and scale to handle this *right now*;** these companies have developed and refined these capabilities over the last 10 years, rapidly deploying billions of dollars to millions of SMBs
    - To over-simplify, if the government can fund an account with relief dollars, in a matter of days, these fintechs could connect to this government-funded account and quickly and safely move this money to the SMBs in need
    - Empowering fintechs to help quickly in this time of crisis requires the following:
      - Allowing qualified non-banks to aid small businesses through the SBA 7(a) program during the COVID-19 Crisis
      - Allowing qualified non-banks to aid small businesses by servicing as an onboarding conduit to SBA Disaster Assistance Programs (DAP)
      - Forming federal or state-level SPVs to allow fintech firms to batch fund SMBs from SPVs under simplified underwriting guideline
- We need to move quickly to help our SMBs. They will be hit first and most severely in this crisis, and with each passing day, more will not survive

1 Cash buffer days are the number of days of cash outflows a business could pay out of its cash balance were its inflows to stop (computed as the ratio of its average daily cash balance to its average daily cash outflows).

SOURCE: (1) US Census Bureau, SUSB Annual Data Tables by Establishment Industry, 2017. (2) SBA Office of Advocacy, 2019 Small Business Profile, 2020. (3) "Cash is King: Flows, Balances, and Buffer Days. Evidence from 600,000 Small Businesses." JP Morgan Chase & Co Institute. September 2016.

Summary of the economic apocalypse

We are in a small business depression as of Friday March 13th

The old playbook won't save us:

- Monetary policy: Not relevant to small businesses (in short term)

- Demand-side fiscal stimulus (eg writing checks to consumers): Not relevant if businesses are dead or can't sell goods and services

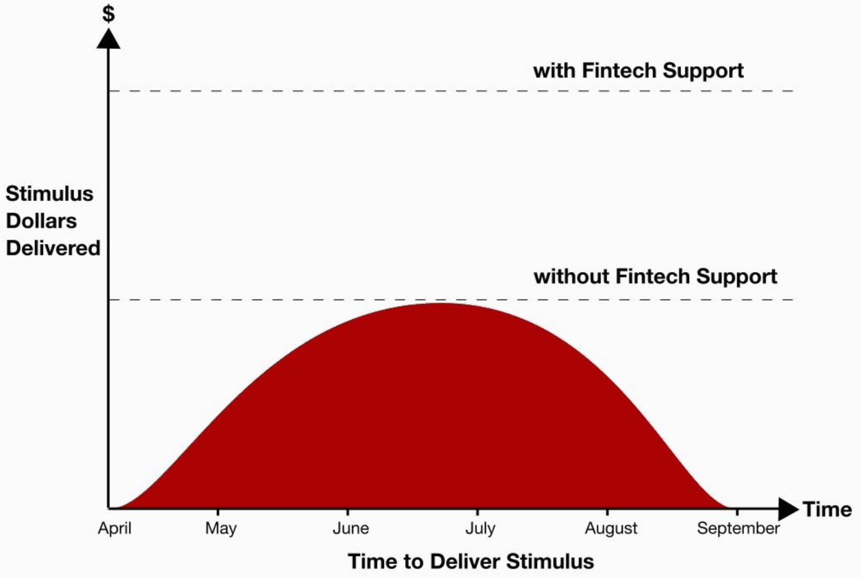
- SBA: Cannot handle scale or speed of crisis

Half of America's businesses will die in the next 60 days without **radical** Federal and State intervention

<u>The only viable solution is to enlist companies (banks, payment processors, alt-lenders, acquirers) in a massive public+private effort to inject supply-side stimulus to keep businesses alive. This could be done within hours or days, using government funds and private data & infrastructure.</u>

If we don't fix this then millions of small businesses will layoff all their employees, default on their accounts payable, rent, credit cards, debts, and taxes. This will cause a simultaneous banking and unemployment crisis, which will hit big businesses too. The recovery will take years because the businesses that are needed to create jobs and get us out of the depression will be dead.

#RaisethePeak
for Small Businesses



More Businesses Die

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Small businesses are critical to the US economy

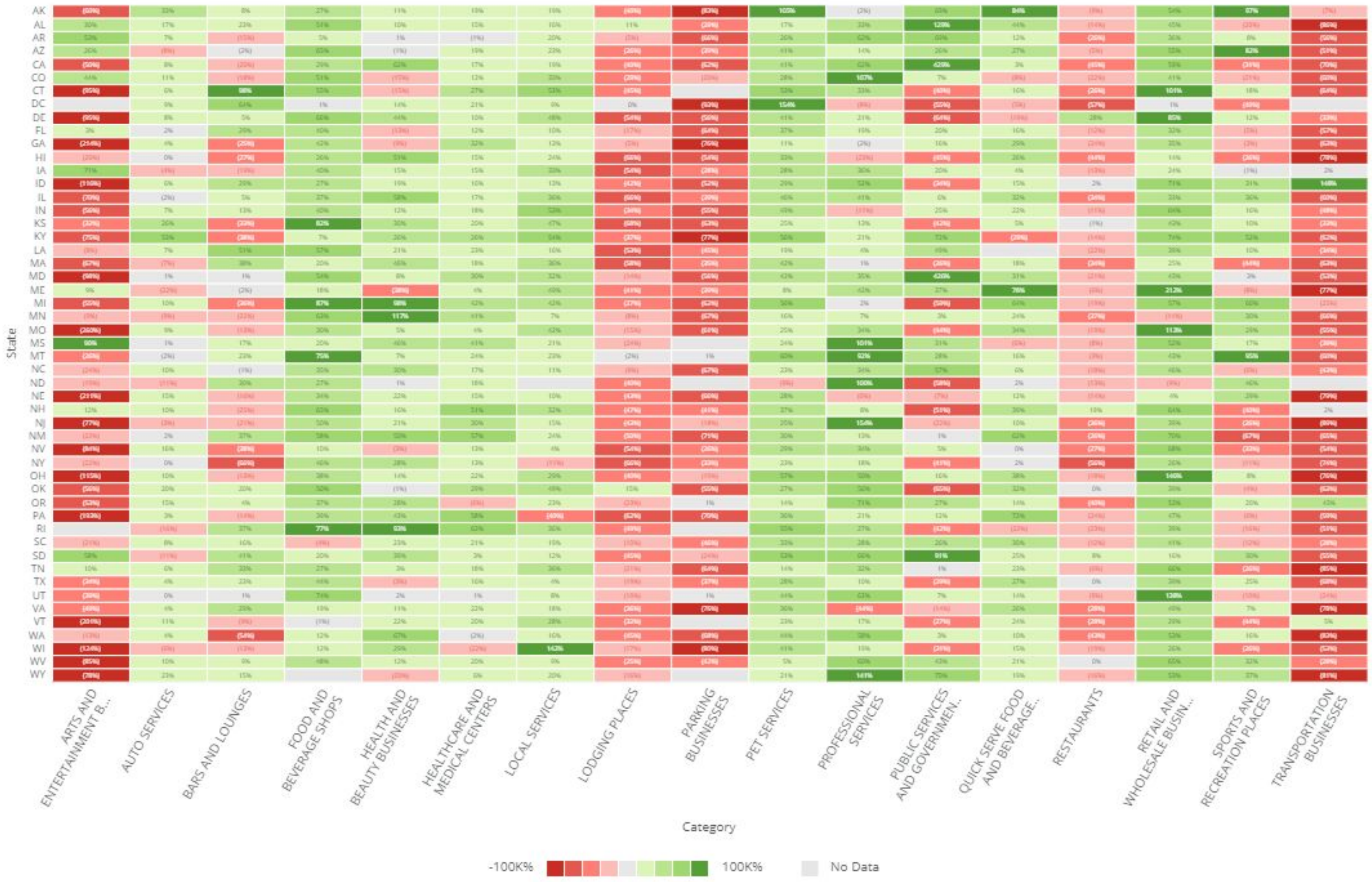
~$10 trillion in GDP
~50% of America's jobs

Not just restaurants:

- Hotels
- Bars
- Auto-service
- Gardeners
- Pool Cleaning
- Equipment rental
- HVAC
- Bike shops
- Education
- Salons
- Gyms
- Professional services

State x Category - Last Week YoY Variance

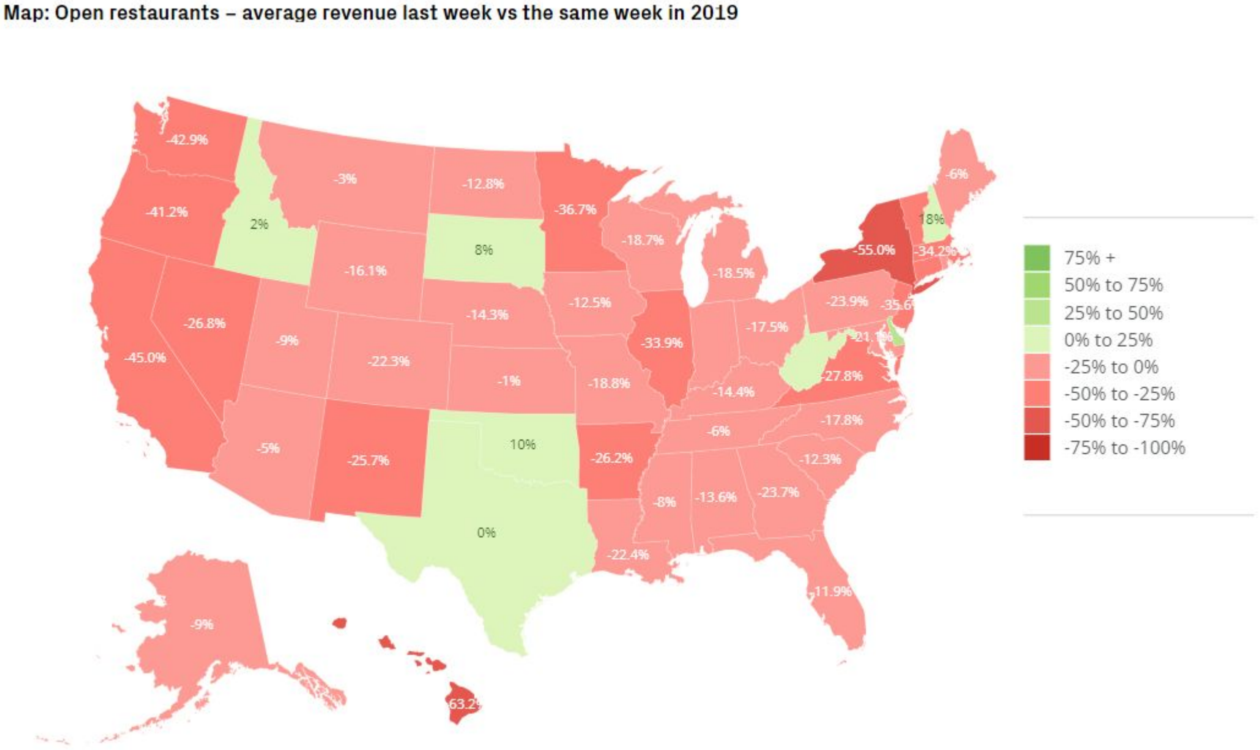
Updated Wed 6/10 w/ data from EOD 6/6



[Live updates.](#) If data shows over 100% in losses, that's due to refunds.

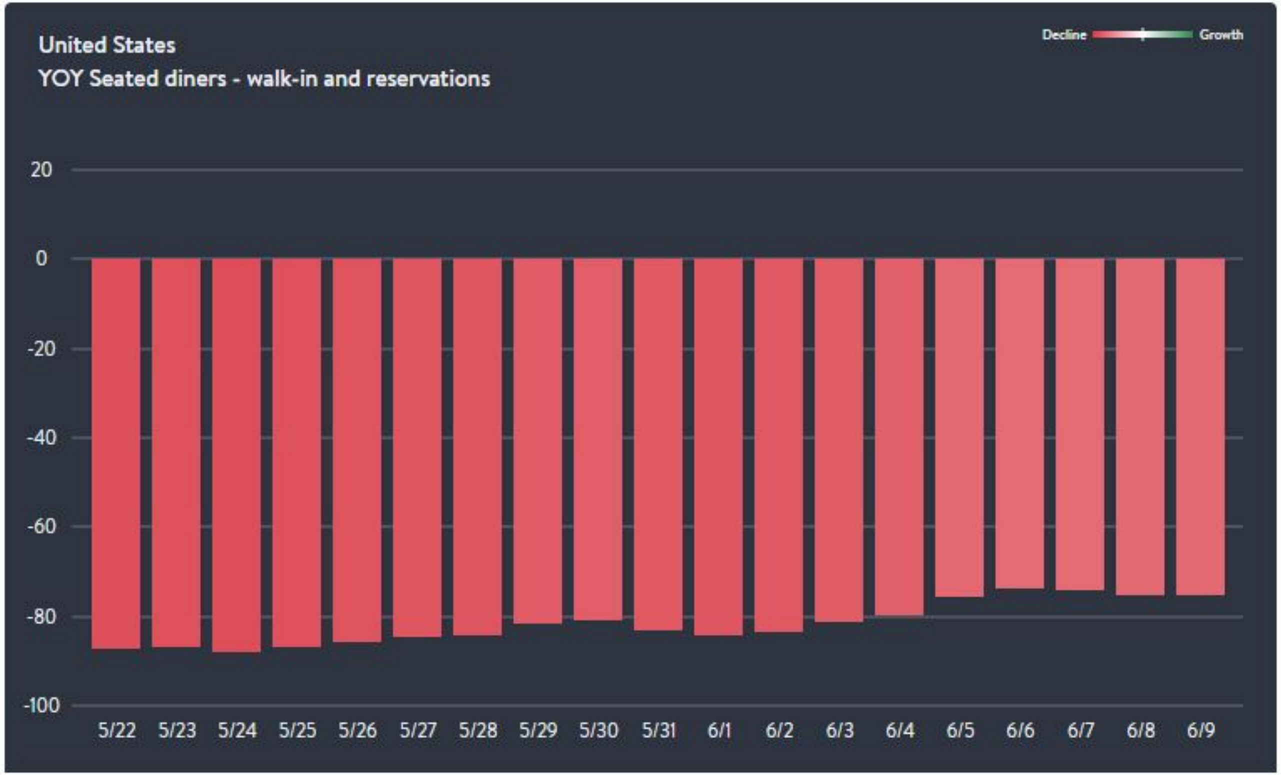
Restaurants as of eod 6/6

Updated Wed 6/10 w/ data from EOD 6/6



WOMPLY https://www.womply.com/blog/data-dashboard-how-coronavirus-covid-19-is-impacting-local-business-revenue-across-the-u-s/

OpenTable data shows reservations down nearly 80% in US



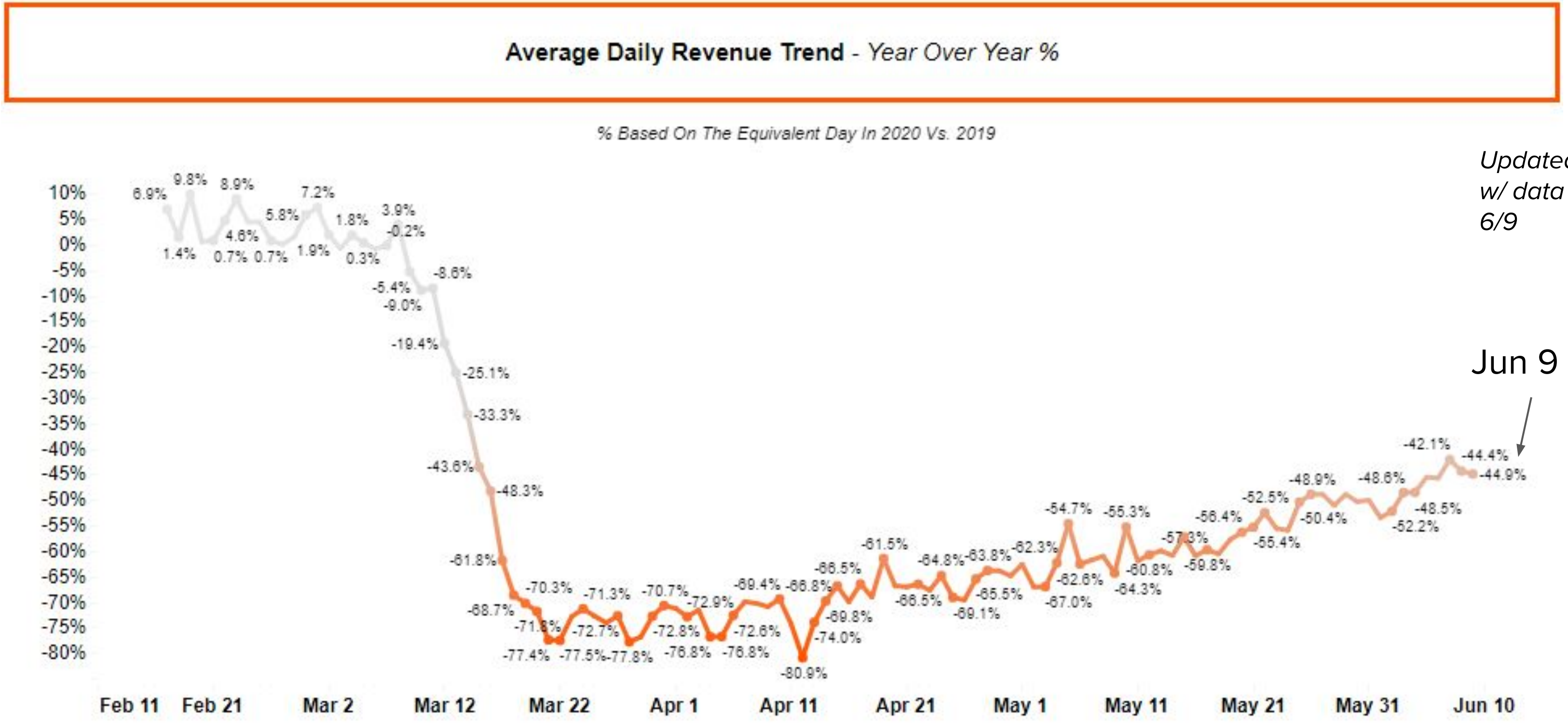
Updated Wed 6/10 w/ data from EOD 6/9

Womply transaction data is three days behind this chart.

Note that Opentable doesn't see takeout or delivery transactions (only table reservations).

WOMPLY https://www.opentable.com/state-of-industry

Toast (POS) shows restaurant revenue down 45% nationwide



Updated Wed 6/10 w/ data from EOD 6/9

Jun 9

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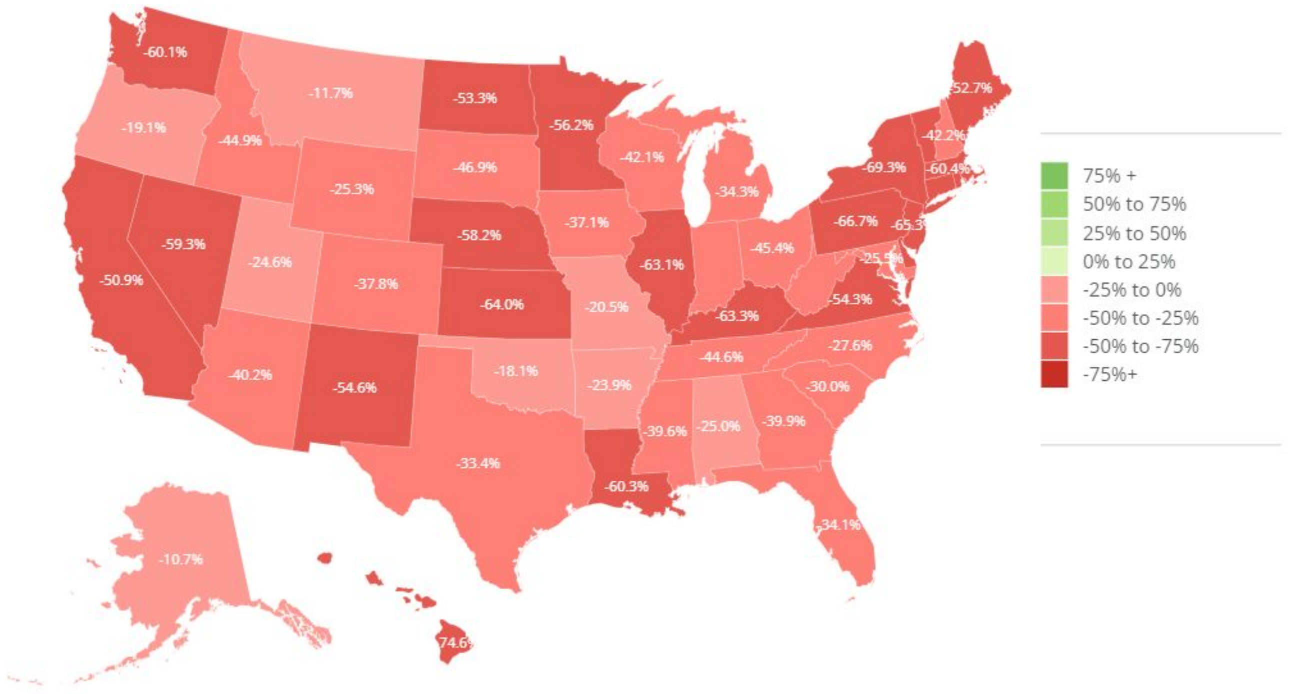
https://rallyforrestaurants.com/impact-COVID-19-restaurant-insights.html

Travel & Tourism as of eod 6/6

Map: Open travel and tourism businesses – average revenue last week vs the same week in 2019

Updated Wed 6/10 w/ data from EOD 6/6

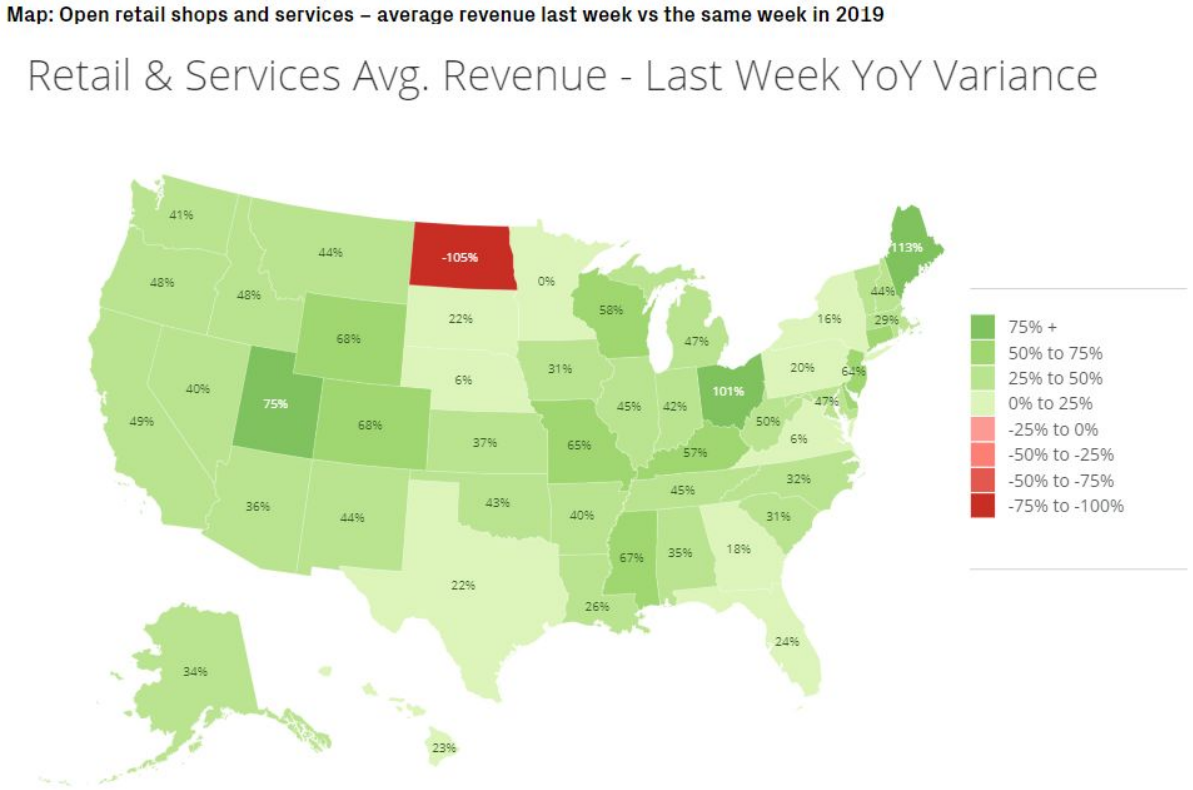


WOMPLY

https://www.womply.com/blog/data-dashboard-how-coronavirus-covid-19-is-impacting-local-business-revenue-across-the-u-s/

Retail shops & Services as of eod 6/6

Updated Wed 6/10 w/ data from EOD 6/6



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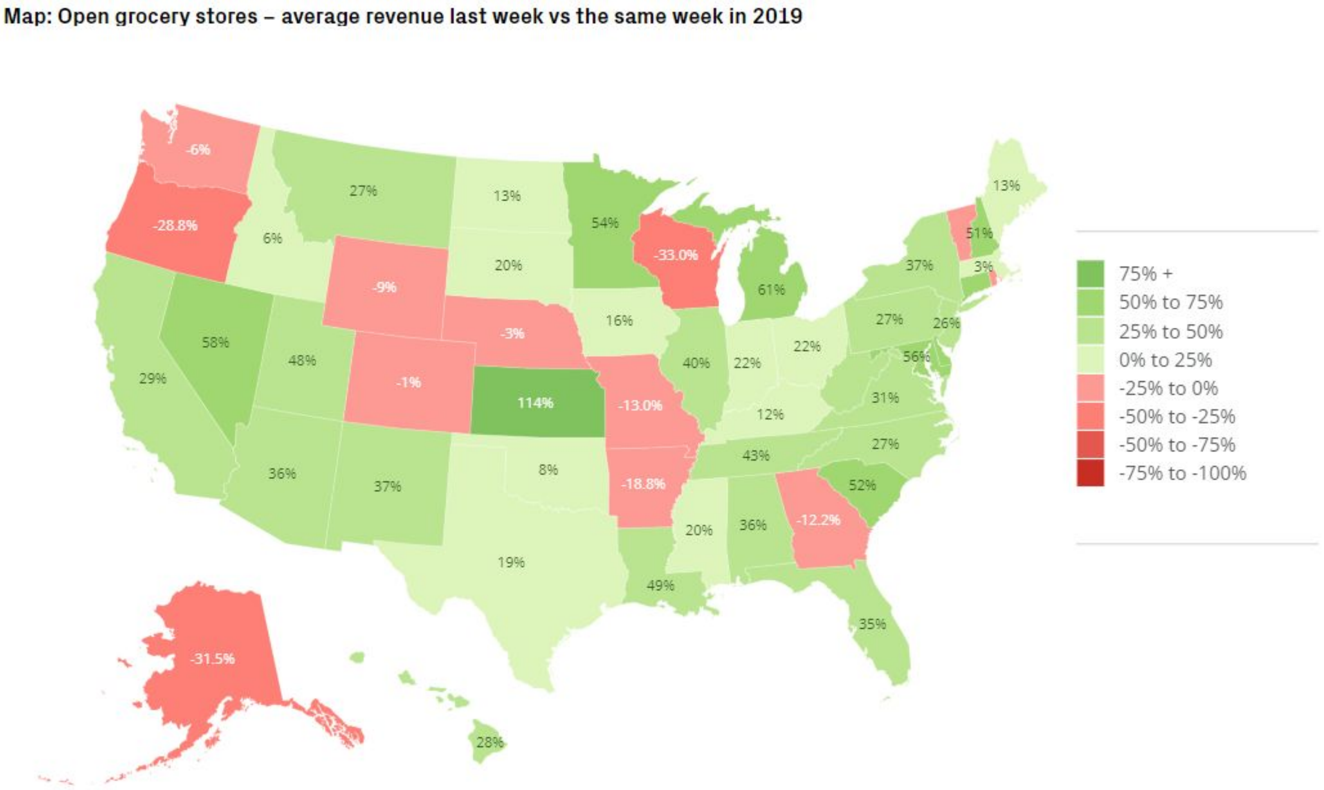
https://www.womply.com/blog/data-dashboard-how-coronavirus-covid-19-is-impacting-local-business-revenue-across-the-u-s/

Grocery stores as of eod 6/6

Updated Wed 6/10 w/ data from EOD 6/6



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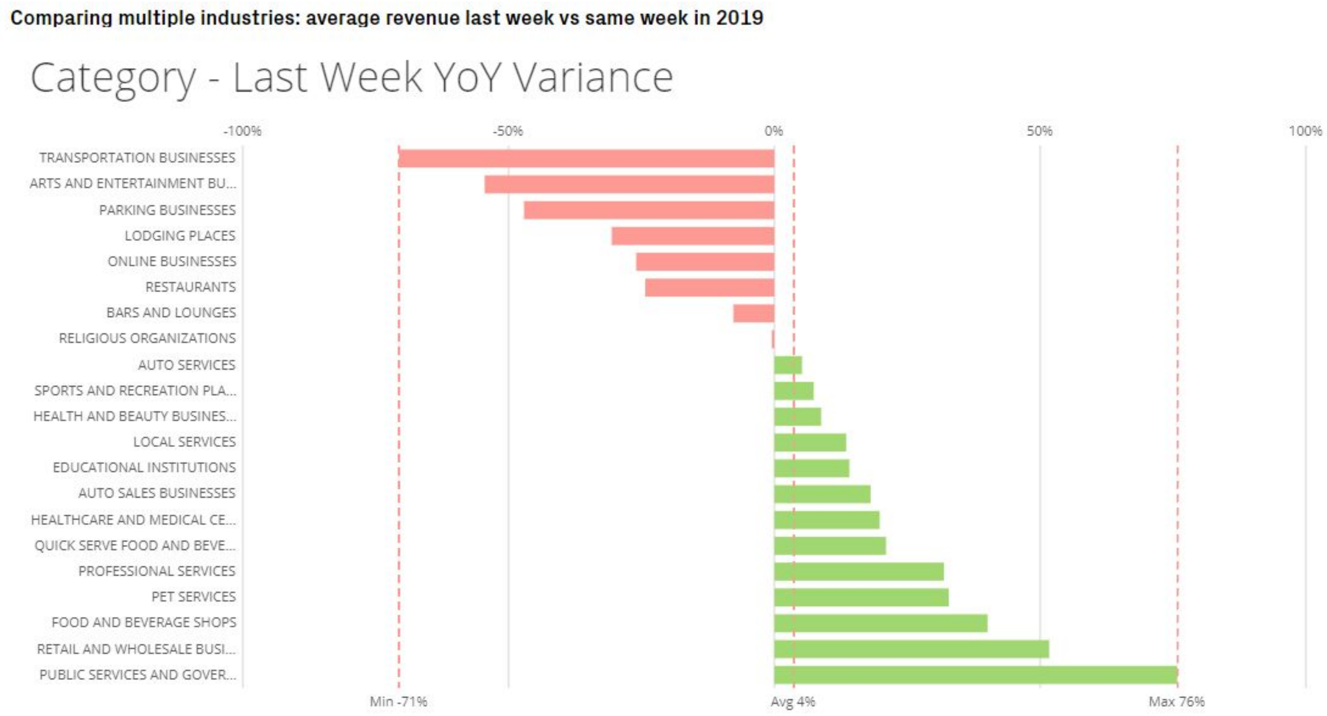
https://www.womply.com/blog/data-dashboard-how-coronavirus-covid-19-is-impacting-local-business-revenue-across-the-u-s/

Comparing industries YoY for week ended 6/6

Updated Wed 6/10 w/ data from EOD 6/6



https://www.womply.com/blog/data-dashboard-how-coronavirus-covid-19-is-impacting-local-business-revenue-across-the-u-s/

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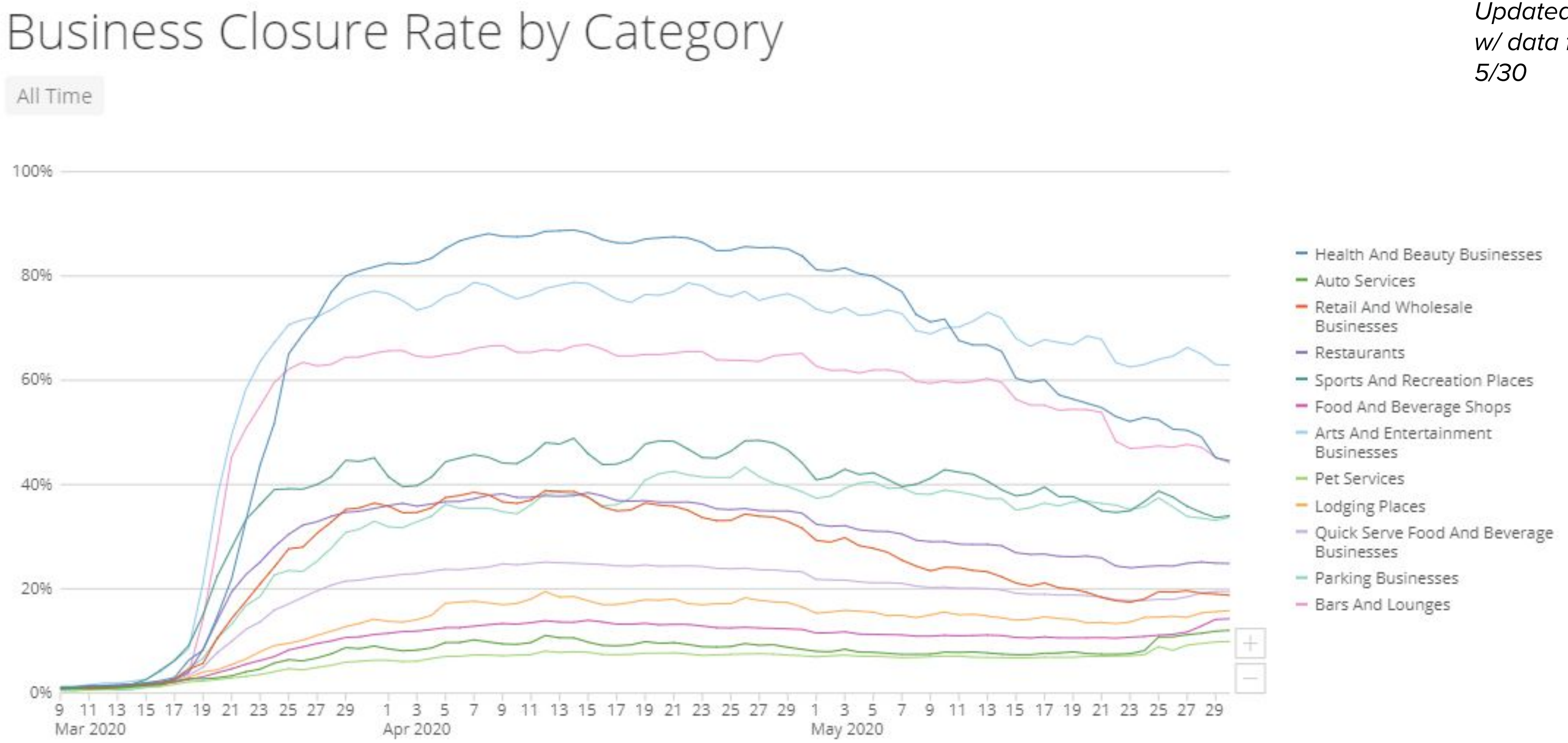
Business closures by category as of EOD 5/30

Updated Wed 6/10 w/ data from EOD 5/30



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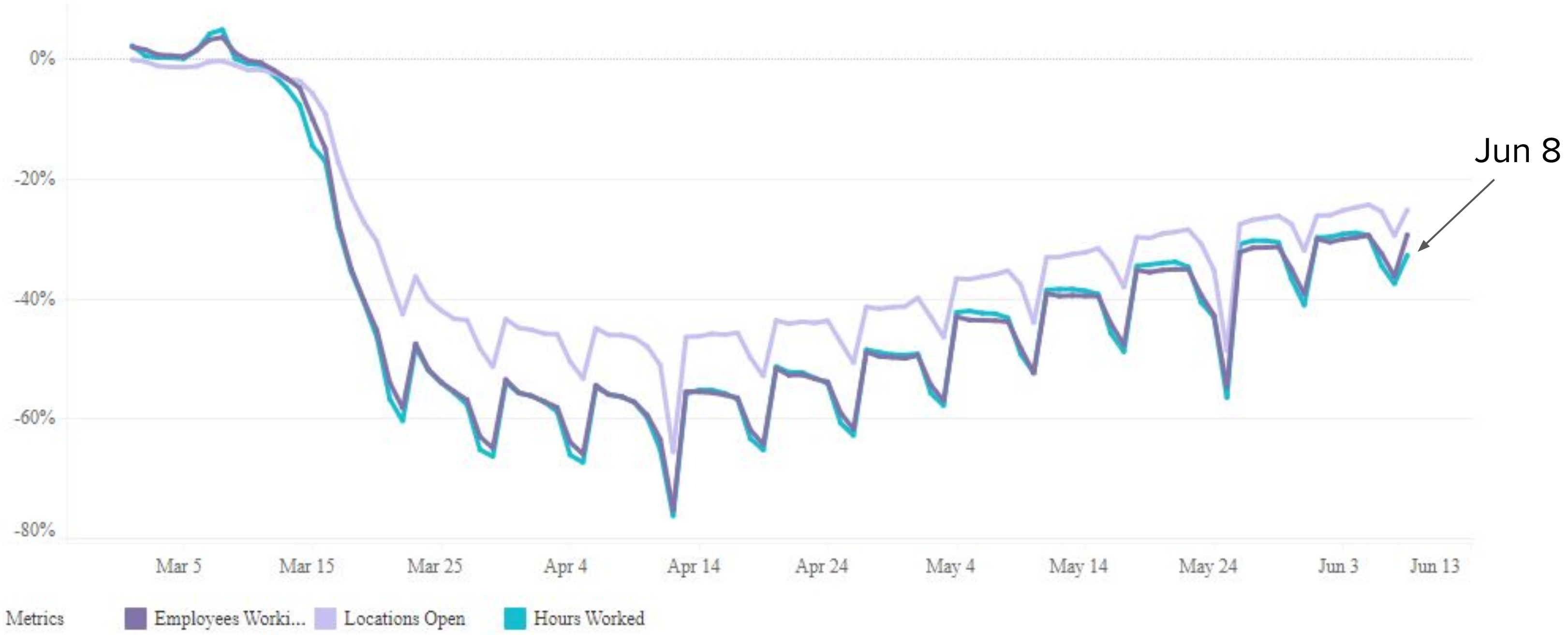
https://www.womply.com/blog/report-how-many-local-businesses-have-had-to-close-due-to-covid-19/

As of 6/8 hourly workers were working 33% less than in ‘19

Updated Wed 6/10 w/ data from EOD 6/8



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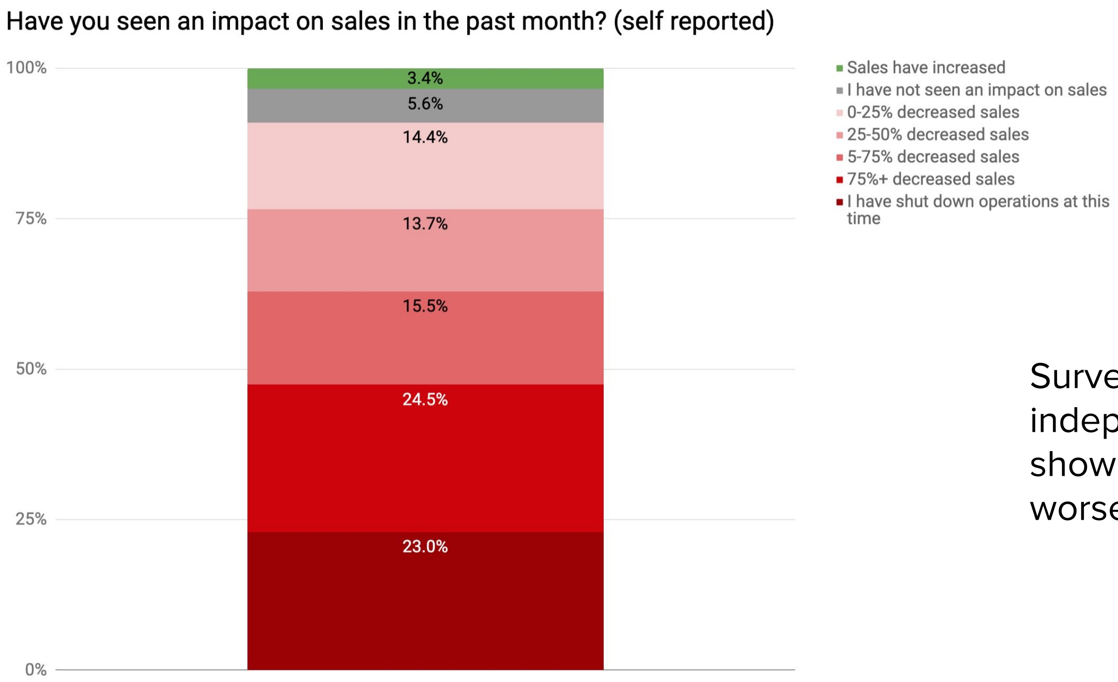
https://joinhomebase.com/data/

~50% of small retailers (6m US jobs!) see huge sales decrease



Survey of 20,000 independent retailers show situation worsening quickly

https://blog.faire.com/thestorefront/immediate-steps-for-local-retailers-during-covid-19/
https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf

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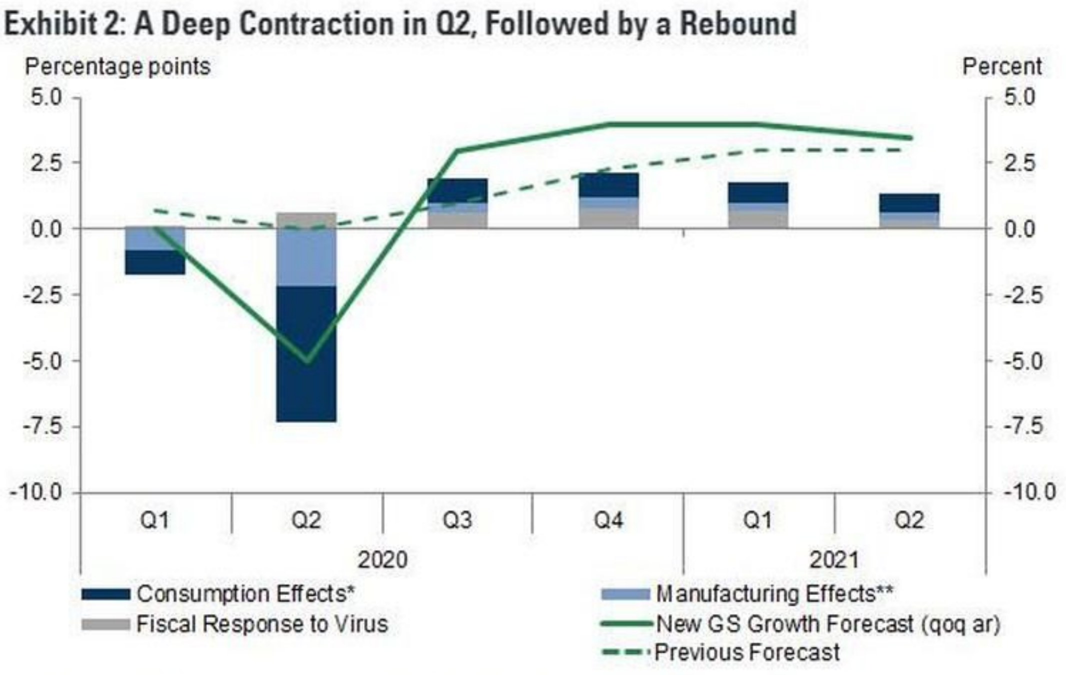
FAIRE

Sunday 3/15: Goldman Sachs forecast Q2 GDP down 7.5%

Note the scale



* Includes cutbacks to consumption categories requiring face-to-face interaction.
** Includes international spillovers to goods trade and supply chains.

Source: Goldman Sachs Global Investment Research

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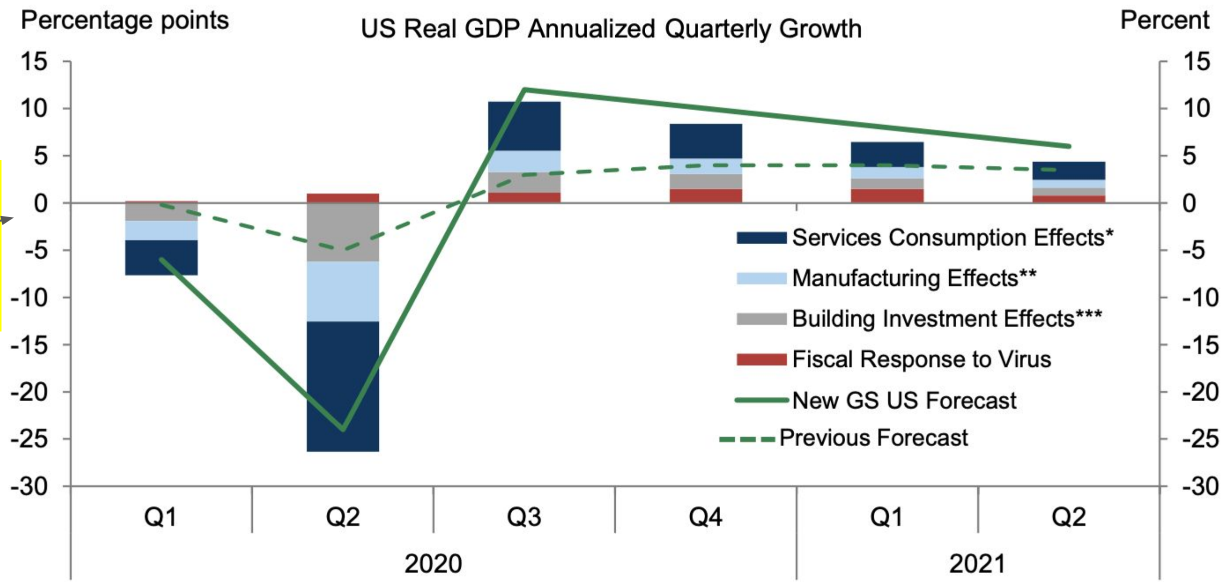
Friday 3/20: Goldman revises Q2 GDP forecast down 24%

Exhibit 3: A Sudden Stop in Q2, Followed by a Gradual Recovery

Note the scale

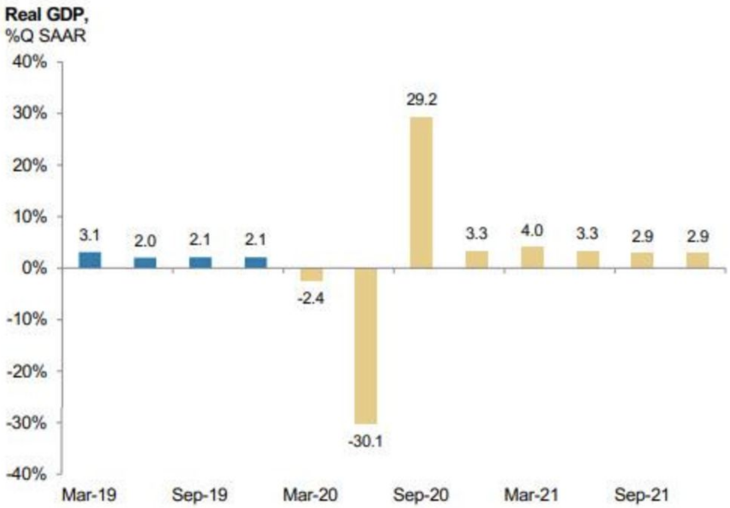


* Includes cutbacks to consumption categories requiring face-to-face interaction.
** Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.
*** Includes cutbacks to structures investment, homebuilding, and home sales.

Source: Goldman Sachs Global Investment Research

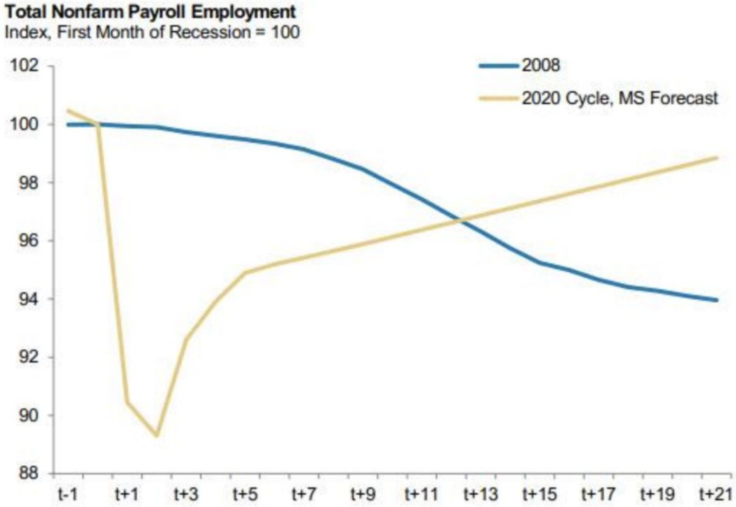
Sunday 3/22: Morgan Stanley forecasts Q2 GDP down 30%

Exhibit 2: US Economic Outlook: Quarterly Growth Profile



Source: Bureau of Economic Analysis, Morgan Stanley Research forecasts

Exhibit 9: We Expect a Sharp Upfront Pattern of Job Losses



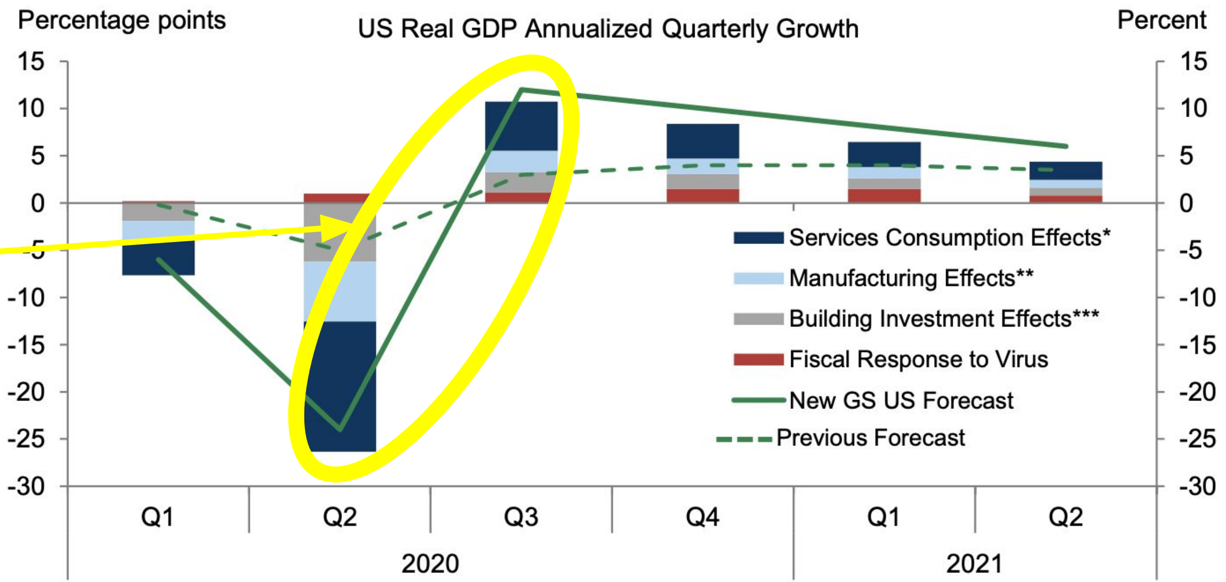
Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

People work at businesses. When businesses go under, worker livelihoods are destroyed.

This magical recovery will depend on small businesses

Small businesses will only be able to create jobs if they receive effective support in days not weeks.

Exhibit 3: A Sudden Stop in Q2, Followed by a Gradual Recovery



* Includes cutbacks to consumption categories requiring face-to-face interaction.
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*** Includes cutbacks to structures investment, homebuilding, and home sales.

Source: Goldman Sachs Global Investment Research

The human toll

The collapse of small businesses will:

- Disproportionately harm hourly workers
- Disproportionately harm minority businesses over non-minority businesses
- Disproportionately harm businesses in poorer communities
- Hurt gig-economy workers (particularly those who cannot file for unemployment)
- Hollow out the middle class

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https://joinhomebase.com/blog/real-time-covid-19-data/

The Phase 3 stimulus relies on the SBA to support businesses

Here's the Thursday draft bill. It focuses exclusively on SBA 7(a) loan providers to deliver cash. Gives SBA 30 days to determine rules before they even start accepting applications for capital. No mechanism to use existing private lenders, banks, or processors to deliver money quickly.

Sunday Update
New drafts: here and here

SBA failed to deploy just $1b effectively during Hurricane Sandy

Hurricane Sandy caused $75b in damage

The SBA was given $779 million to provide disaster relief to businesses and consumers

They received 80,000 total loan applications (from businesses and consumers)

From the Democrats of the House Committee on Small Business Report:

- Application processing delays: 46 days on average
- Low approval rates: 24% for businesses
- Long delays for disbursement (looks like months!?!)

Note that Phase 3 stimulus gives SBA 30 days to set rules for how they will deploy.

The SBA couldn't deploy more than a few hundred million dollars in months. There is simply no way this tiny, underfunded agency can deploy hundreds of billions of dollars.

Source: https://velazquez.house.gov/sites/velazquez.house.gov/files/images/SBASandyReport052013.pdf

Maybe the SBA disaster loan process is better now? Don't count on it

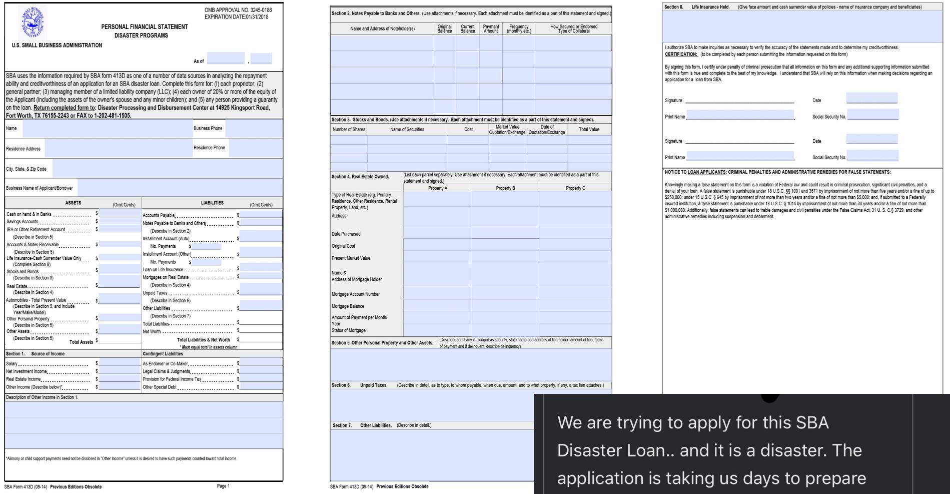
Womply tried applying for an SBA Disaster Loan to understand the process and we haven't finished it yet because it's so long.

Applications require:

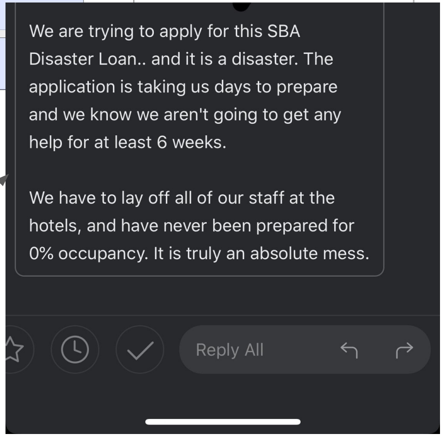
- Complete company statement of assets and liabilities
- Complete personal statement of assets and liabilities for all owners
- IRS forms to request prior tax returns for key individuals and company
- Disaster relief statement

This is not a knock on the SBA; the agency is just not built for a nationwide crisis of this scale. The people at SBA are hardworking civil servants, they should should be applauded and supported by all Americans.

This is one form of many



Businesses are already struggling with SBA application



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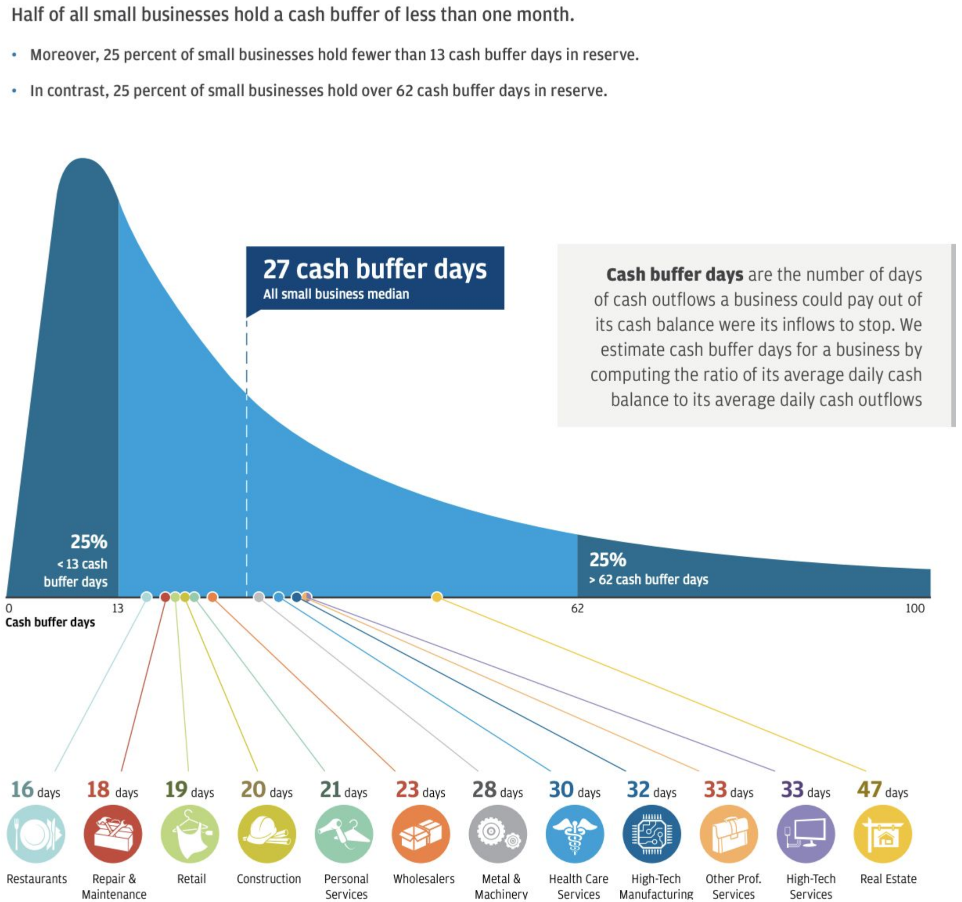
https://disasterloan.sba.gov/ela/Documents/Three_Step_Process_SBA_Disaster_Loans.pdf

“47 percent of small businesses have less than 15 cash buffer days[1]”



1: 2019 Findings:
https://institute.jpmorganchase.com/institute/research/small-business/quick-liquidity-to-small-businesses-could-mitigate-impacts-from-coronavirus

Note this chart is from 2016. More recent findings suggest situation was worse in 2019

2 Chart from 2016:
https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf

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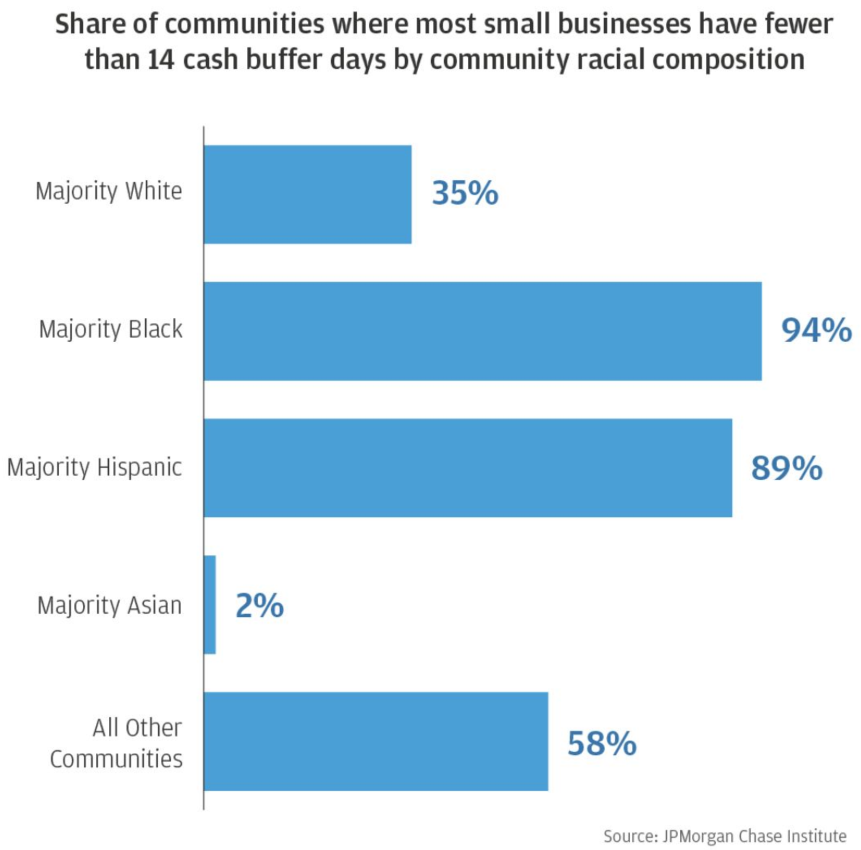
Businesses in minority communities are likely to have less cash on hand



2019:https://institute.jpmorganchase.com/institute/research/small-business/place-matters-small-business-financial-health-in-urban-communities

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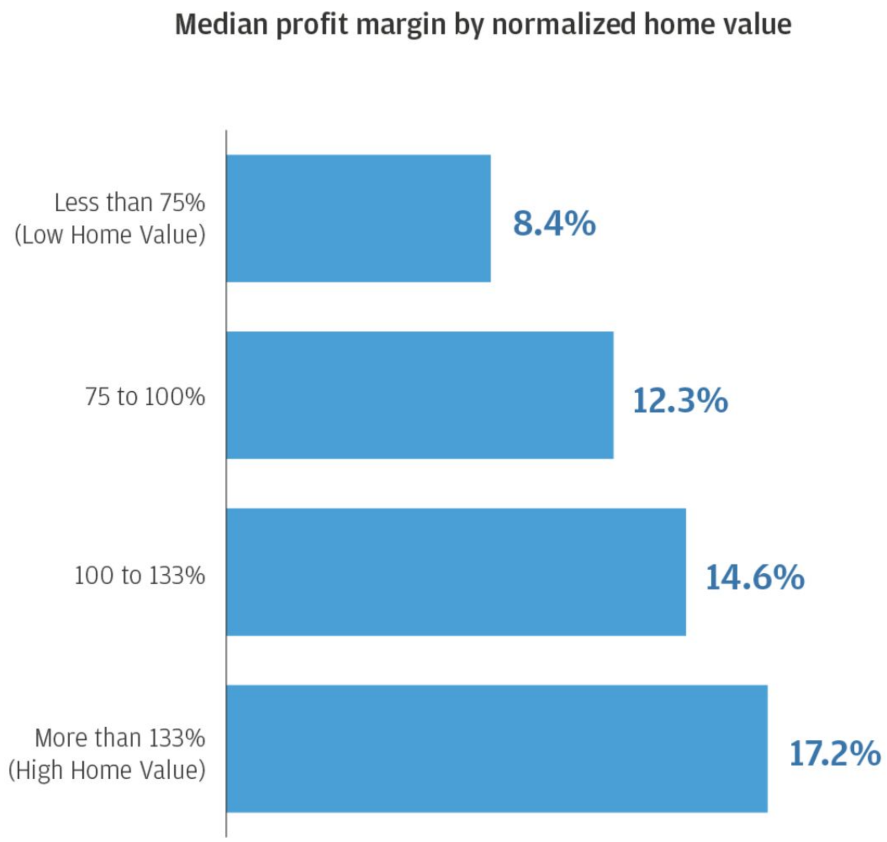
Businesses in poor communities have lower profit margins



2019:https://institute.jpmorganchase.com/institute/research/small-business/place-matters-small-business-financial-health-in-urban-communities

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Business owners are already impacted

Survey of 1,500 Goldman Sachs 10,000 Small Businesses participants

51% say their business will only be able to continue to operate for 0-3 months

96% say they have already been impacted by the outbreak

75% say their business has been impacted by fewer sales

53% say their employees don't have the ability to telecommute

https://www.axios.com/small-business-owners-coronavirus-survey-06e04322-7788-4de4-8216-42b875a39e53.html

What's the solution?: Push govt money through existing pipes

The only viable solution is to push government funding through existing private pipes (alt-lenders, banks, processors) directly to small businesses. Trying to move hundreds of billions of dollars through the SBA is like pushing a boulder through a straw.

Card processors (great companies like FIS-Worldpay, Global Payments-TSYS, Square, Paypal, etc) move trillions of dollars per year (compare that to SBA…). Alternative lenders have moved over $10b in the past few years. They have the data and pipes to move money fast in a targeted and completely auditable manner.

Collectively we must provide capital to intermediaries (lenders, banks, processors) so they can rapidly disburse funds. Here's our proposal. Here's a related proposal from Square & Intuit.

We don't pretend to have all the answers, but we know private companies must be part of the solution.

If we fail at this, we will watch the American dream die in front of us over the next 60 days.

Womply, our partners, and our competitors are ready to help in any way possible.

More info

We are offering complete and free access to our benchmarking data to government, press, and analysts. Please contact toby@womply.com for help.

More Womply data is available on our blog https://www.womply.com/newsroom/blog/

We launched http://Stimulus2020.com in partnership with other companies to support local businesses. Email stimulus2020@womply.com for more info or if you want to help.

We will work with anyone to help local businesses during this crisis.

We are tracking the best data sources we know of here

Here are other policy proposals that deserve consideration from John Cochrane, Steven Hamilton (GWU) and Stan Veuger (AEI), EIG, Kevin Warsh in the WSJ, and Strain and Hubbard.

Methodology for Womply maps & charts

Womply aggregates transaction data from 50+ financial partners in the US. As such we are uniquely positioned to assess the impact to the US economy amid the **COVID-19** health emergency. This data spans hundreds of business categories in every corner of America.

** **Please Note** **

- Transaction data comes in various frequencies from financial partners, so our data can be delayed up to 4 days (post swipe).
- Our window of analysis, as a result, lags 4 days
- To adjust for seasonality, we review the prior 7 days compared to the same week the year prior