

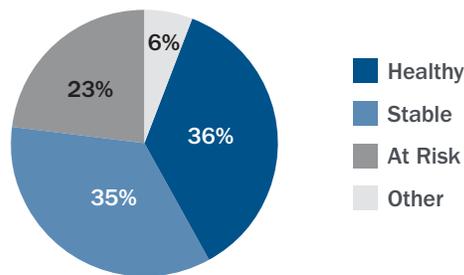
The novel coronavirus has shaken many of the strong economic fundamentals that made the past decade one of growth and recovery. Rising unemployment, reduced consumer spending, and a threadbare initial relief effort have had a chilling effect on a previously thriving economy. As the nation continues to feel the pressure of the COVID-19 shutdown, small businesses are particularly hard-hit — and it is difficult to say when that will change.

While operating a small business can feel isolating in an even more isolated time, local, state, and federal resources are ramping up support for those struggling to remain open. Community outreach efforts prove once again that we are stronger when united in the face of seemingly interminable circumstances. This crisis will pass, and we at the Kessler Group (KG) are committed to bridging the gap between current hardship and future recovery.

Our take on the times:

- **This crisis starkly illustrates the fragility of the small business landscape.** A 2019 survey of small businesses showed that even out of 36% of small businesses classified as “Healthy,” only 1 in 5 had sufficient reserves to weather a 2-month loss in revenue—a situation that becomes ever more real as the shutdown continues.

2019 Small Business Financial Spectrum



Source: Federal Reserve Bank of NY - Can small firms weather the economic effects of COVID-19? 4/2020

Recent surveys on small businesses ability to stay afloat are similar to this 2019 finding by the Federal Reserve of New York. While many believe they will survive with or without federal assistance, the ability to survive is based on how long it will take for the economy to recover. While the federal, state and local governments are taking measures to support small businesses, CEOs and economists debate when the economy will re-open and start returning to pre-COVID-19 times.

- **The federal government has acted with several relief efforts to support small business during this difficult time.** Small Business Association programs like the Paycheck Protection Program (PPP), Economic Injury Disaster Loan (EIDL), and

Express Bridge Loan Pilot Program (EBL) allowed small businesses to maintain their employees' pay, cover necessary business expenses despite revenue shortfalls, and access immediate funding while the rest of the relief programs processed and took effect — strong steps toward safeguarding businesses.

- **While Congress provided critical aid in the face of the COVID-19 crisis, the initial federal response to the crisis was flawed.** Remedial efforts and additional installments to the existing stimulus programs still might not carry small businesses through this crisis.
 - The initial \$349 billion allocation for the PPP ran out after 13 days, with only 5% of the 30.7 million small businesses in the U.S. qualifying for application. Another \$310 billion has been earmarked to supplement this, but it remains unclear whether this will fill the gap.
 - In addition, funds were initially not allocated as efficiently as needed. Successful chain businesses like Shake Shack, Sweetgreen, and Ruth's Chris Steakhouse received \$10-20 million that they have since returned in order to make that assistance available to businesses with greater need. Educational institutions with large endowments have been under intense scrutiny as well, with Harvard returning their \$9 million aid package.
 - In response to these issues, Congress adjusted the guidelines for the second wave of stimulus. \$60 billion is now designated for distribution by small, community-based institutions to reach rural and minority-owned businesses. In addition, publicly owned companies are required to demonstrate that a loan is necessary to maintain ongoing operations, and hedge funds and private equity firms are barred from applying. These restrictions will help to ensure that the greater part of federal aid goes to those small businesses that need a helping hand.
- **Government outreach on the state and local level has also stepped up.** Small business relief programs are in place in many states, and some governors are beginning to explore avenues for the safe and viable reopening of certain businesses. Even corporations such as Amazon and Google are providing funding or service incentives for small businesses.
- **Banks and credit unions have increased their focus on support and outreach.** Communications from financial institutions have increasingly advertised consumer relief efforts, new policies, and cooperation with the government in distributing PPP loans. In addition, many are providing large donations to small business support funds and grants.

Through all of this, KG is uniquely equipped to help our B2B clients through the crisis:

At the Kessler Group (KG), we are fortunate to employ a team of highly talented people who have deep experience in small business financial services — and who have managed through a variety of challenging environments. At a time like this, our perspectives and capabilities may add value for those grappling with today's challenges.

- **Working with our clients to optimize their small business-focused lines of business**, including identifying and orchestrating the movement of higher risk (capital consuming) small business assets off the balance sheet and cross-selling additional services to the many new small businesses who have applied for PPP and other small business loan programs.
- **Evaluating our clients' portfolios** to provide an alternative and unbiased perspective on potential performance in recessionary scenarios — and potentially, in concert with this, suggesting related risk mitigation strategies. (KG's investors and partners have recently purchased several portfolios totaling in excess of \$1 billion which are managed by KG's Fidem subsidiary. In this regard, we are “practicing what we preach,” using our expertise and daily performance data to run scenarios on our portfolios.)
- **Providing pay-for-performance marketing funding** that allows our clients to do more marketing, while transferring program risk to KG. An added benefit of these programs is that acquisition expenses are incurred over time, better aligning origination costs with revenues. (To date, we have funded almost \$1 billion in marketing, including for several of the top 10 banks coming out of the Great Recession.)
- **Providing marketing strategy and agency services** that incorporate our years of experience to drive improved results, helping make scarce marketing dollars go further.

To our clients, and prospective clients, we hope this is helpful. With the constant changing environment, KG has been keeping on top of new developments and is poised to help in any way that we can. For more information, please contact us at info@kessler.com.