

Letter from Robb Hilson



We are pleased to share the fall 2015 Bank of America Small Business Owner Report, a semi-annual study that uncovers the concerns, aspirations and perspectives of small business owners around the country.

We're happy to say that confidence in the economy has risen dramatically. It's at the highest levels we've seen since the survey began in 2012. Small business owners not only anticipate a healthier economy, but they also report plans to grow their businesses and to hire more employees over the next 12 months, all at a much higher rate than in recent years. Additionally, loan demand is up – which we see as a key indicator that our clients' growth trajectory, as well as the overall health of our country's economy, are on the right track. In fact, the number of small business owners who applied for a loan in the past two years increased by more than 50 percent since last year.

This confidence comes with some lingering fears. Small business owners across the country maintain some level of concern over current events, such as the upcoming presidential election, the minimum wage hike and an increase in interest rates.

These concerns, however, do not keep them from investing in one of their greatest assets – the talent they employ. In fact, many small business owners are embracing the workplace practices initiated by some of their larger peers. They are giving employees the opportunity to work remotely, offering flex-time arrangements, and some are even offering unusual perks, such as nap pods, game rooms and bringing pets to work. Workplace dynamics are also being impacted by new technology innovations. Over the past five years, the adoption of new technologies has helped small business owners accept payments, connect with employees, track inventory and boost marketing efforts. It's also improved their ability to serve customers, with customer interactions increasing over the past five years via email, social media and online chat.

This change represents an exciting time for small businesses – they are evolving at a rapid pace. We applaud the passion, commitment and nimbleness of this unique group. As small business owners continue to grow, their dedication to their businesses and communities creates a significant impact on the world around us.

Whether you've been in business for 30 years or are just starting out, Bank of America is committed to providing you the expertise to help sustain and grow your small business.

Robb Hilson, Small Business Executive, Bank of America

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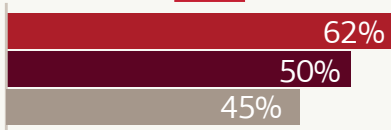
Client profile

Things are looking up: small business owners' confidence in the economy at a three-year high

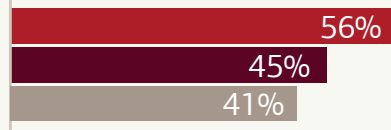
Small business owners' confidence in the national economy rose 11 percent year over year, from 45 percent in 2014 to 56 percent in 2015, representing the highest increase since the inception of our survey in 2012. Confidence in the global economy rose significantly as well, from 31 percent to 45 percent; however, small business owners still feel most confident in their local economy. Sixty-two percent of small business owners feel confident in their local economy versus 50 percent a year ago.

Confidence in the economy jumps to new high

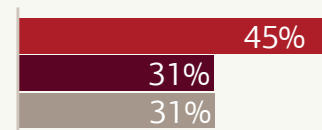
My local economy will improve over the next 12 months



The national economy will improve over the next 12 months



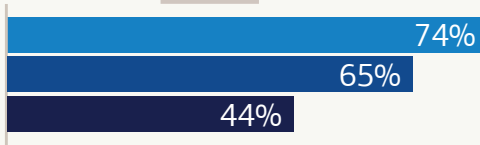
The global economy will improve over the next 12 months



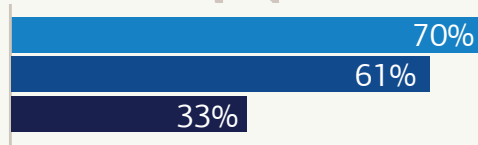
■ Fall 2015 ■ Fall 2014 ■ Fall 2013

Millennials and Gen-Xers much more confident in the economy than baby boomers

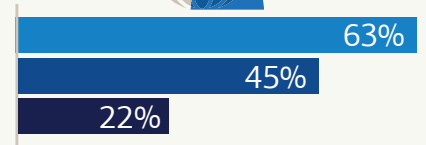
My local economy will improve over the next 12 months



The national economy will improve over the next 12 months



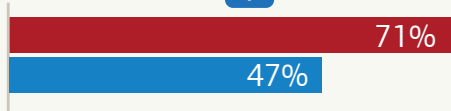
The global economy will improve over the next 12 months



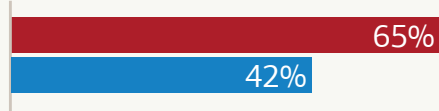
■ Millennials ■ Gen-Xers ■ Baby boomers

New small business owners much more confident in the economy than established small business owners

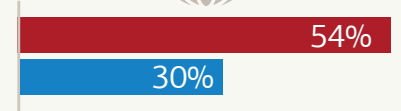
My local economy will improve over the next 12 months



The national economy will improve over the next 12 months



The global economy will improve over the next 12 months



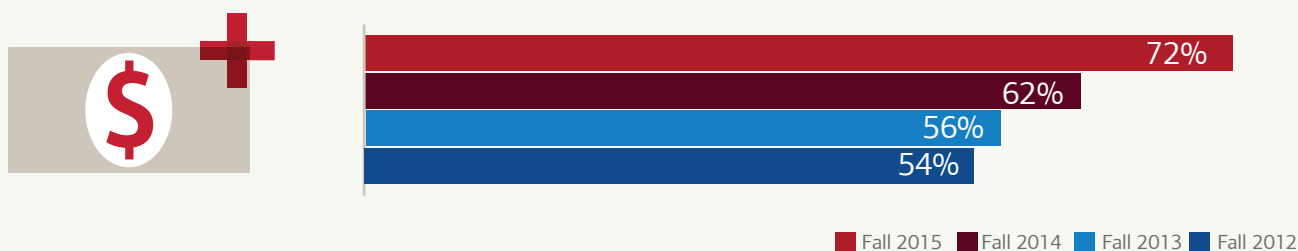
■ In business 0-10 years ■ In business 11+ years

Small business owners bullish on 2016

Increased optimism in the economy is leading to high expectations for business growth as well. Nearly four in five (78 percent) small business owners are reporting plans to grow their business over the next five years, compared to 67 percent one year ago. Baby boomers were least likely to say they plan to grow their business (56 percent, versus 86 percent of Gen-Xers and 88 percent of millennials).

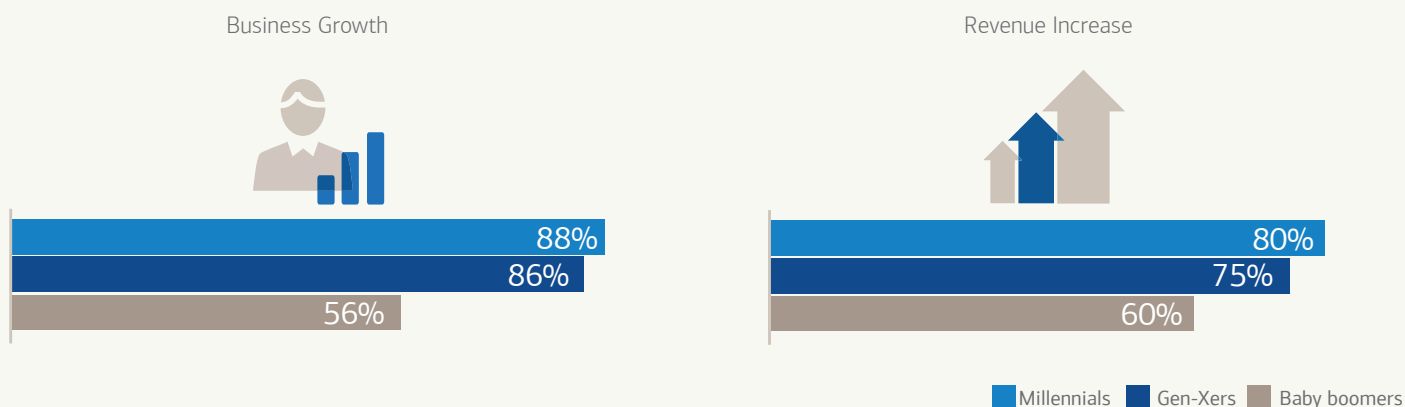
Nearly three-quarters (72 percent) of small business owners say they expect their revenue to increase in the upcoming year, a 10 percent increase from one year ago (62 percent). Millennials are the most optimistic generation, with 80 percent expecting an increase in revenue.

Small business owners' revenue expectations over the next year increase



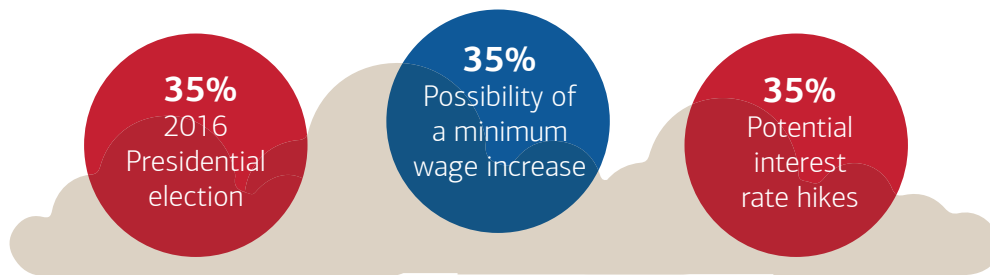
Small business owners' optimism differs across generations when considering anticipated business growth over the next five years and revenue increasing over the next 12 months. Millennials and Gen-Xers appear to be more optimistic when considering business growth and revenue increases compared to baby boomers.

Small business owners' expectations for growth increasing over the next five years



Top emerging small business concerns: 2016 presidential election, minimum wage and interest rates

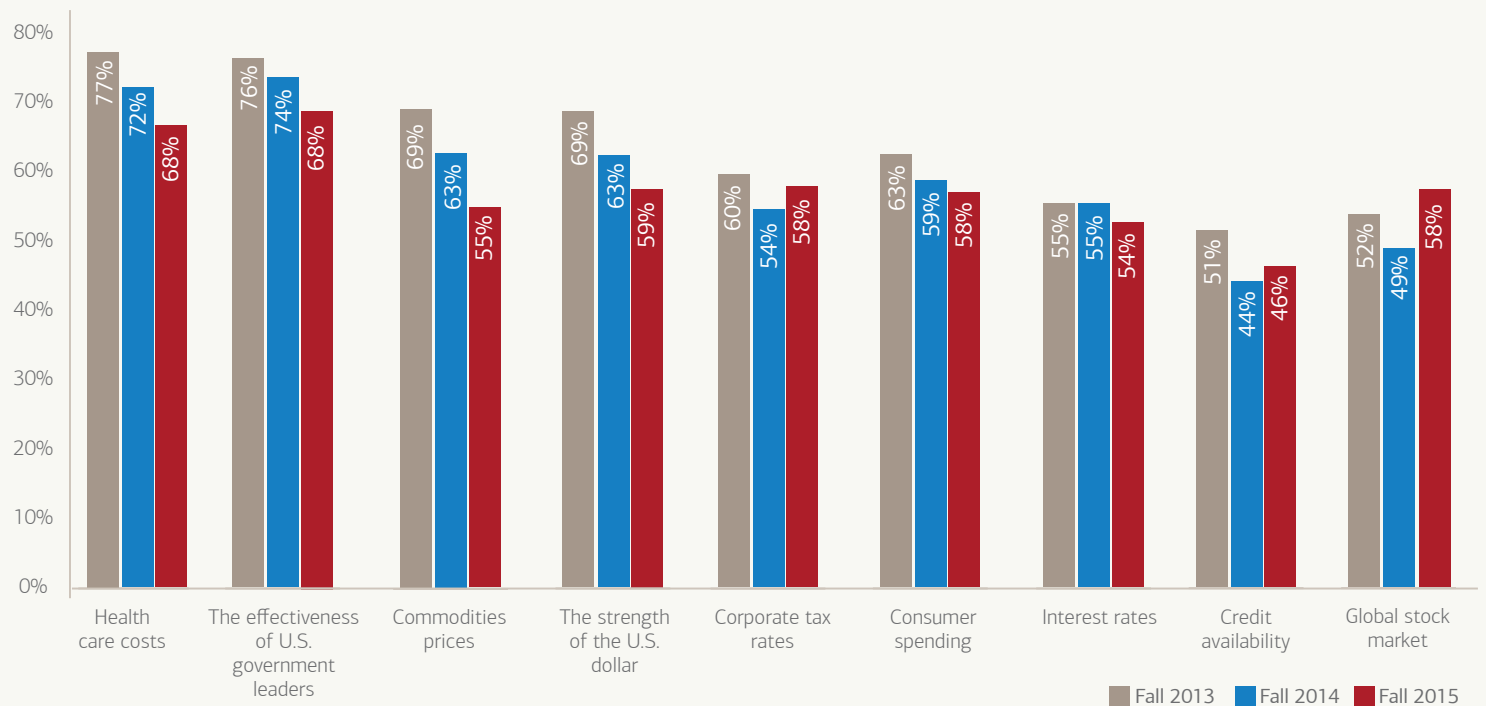
Although small business owners are currently very optimistic, a few current events cloud their outlook for the year ahead. Small business owners worry about the following issues:



However, when comparing historical economic roadblocks, 68 percent of small business owners report concerns over health care and the effectiveness of U.S. government leaders, and 59 percent worry about the strength of the U.S. dollar. Lower on the list, but still prevalent, are worries about the global stock market, corporate tax rates and consumer spending.

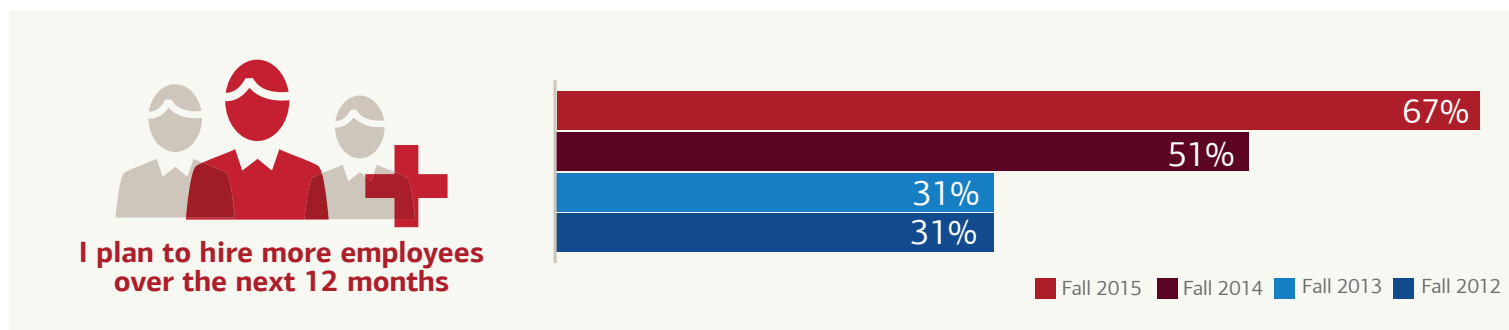
Concerns over the global stock market have increased year over year, which may be attributed to increased volatility in the stock market on a global scale during the period in which the survey was fielded from August 21 through September 22, 2015.

Economic concerns decreasing for small business owners year over year



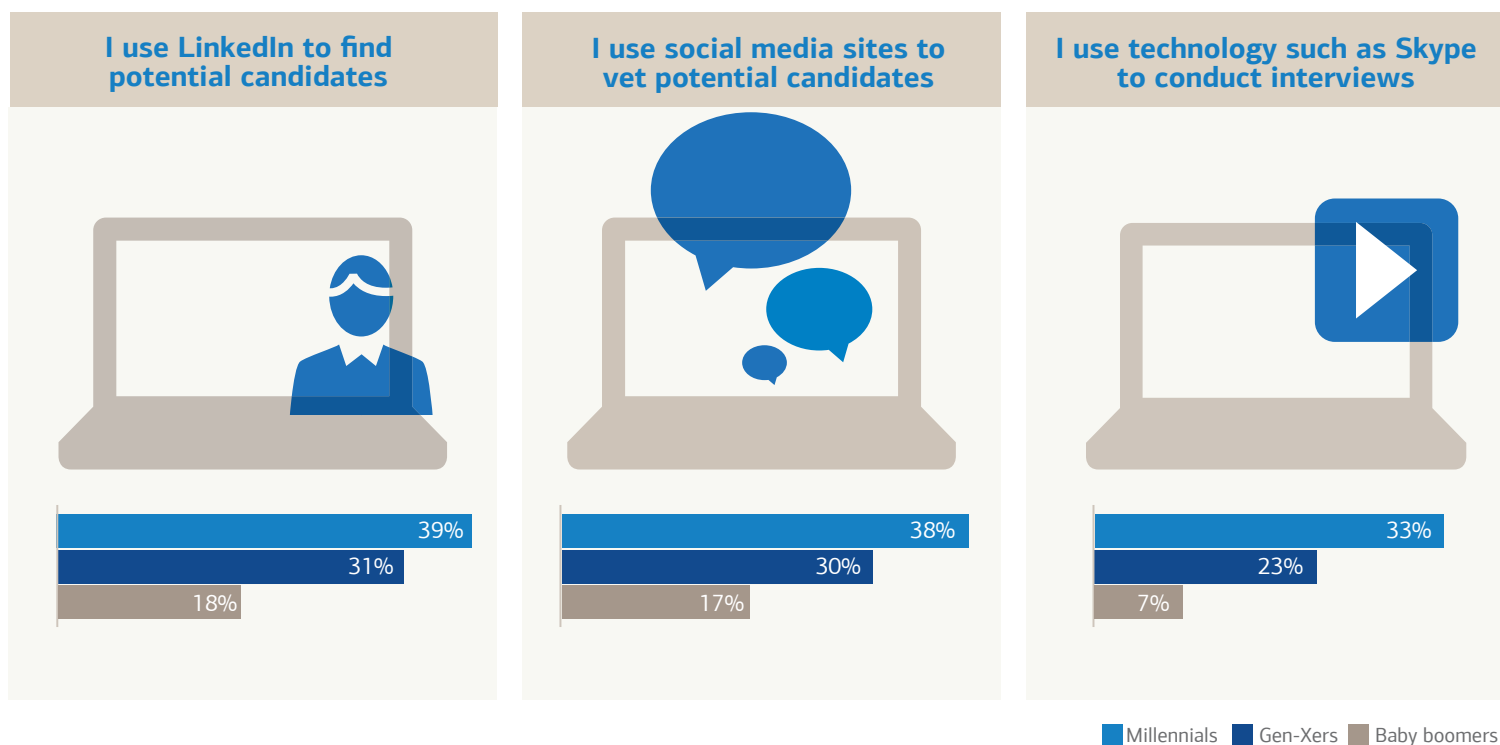
Now hiring: small business owners increase headcount

Small business owners are significantly more likely to hire new employees than they were a year ago. Two-thirds (67 percent) plan to hire staff over the next 12 months, compared with 51 percent in fall 2014. Millennial (80 percent) and Gen-X (73 percent) small business owners are more likely to plan to hire employees than baby boomers (43 percent).



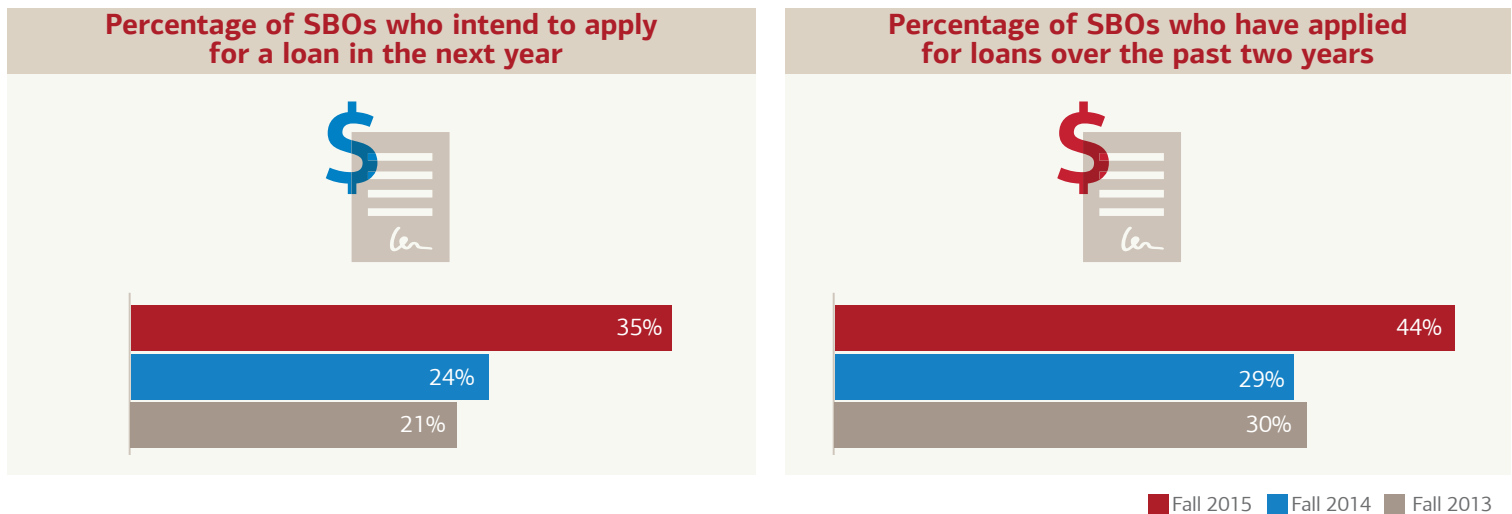
Small business owners report that their hiring methods have evolved over the past five years, with 30 percent using social media platforms such as LinkedIn to find potential candidates, 29 percent using social media sites such as Facebook and Instagram to vet potential candidates, and 22 percent using technology such as Skype to conduct interviews.

Generational differences in hiring

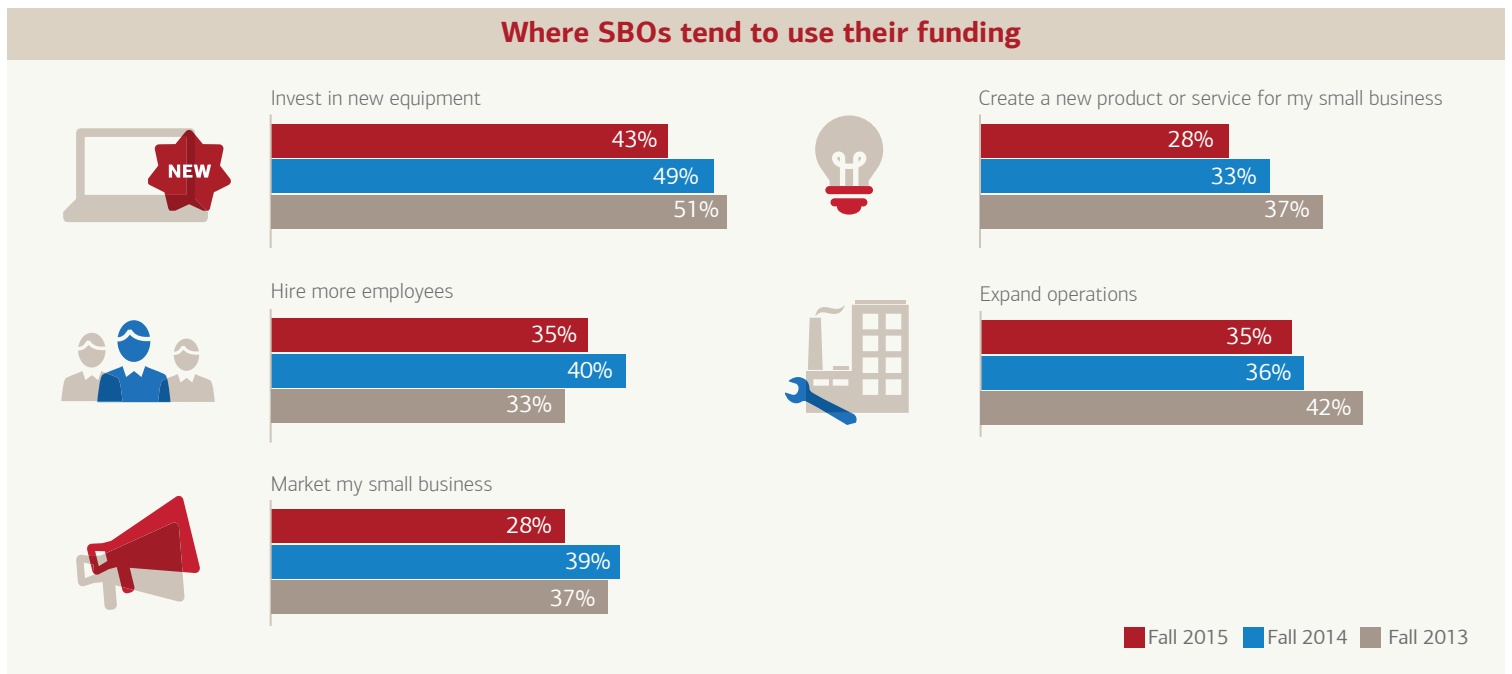


Loan applications rise as small business owners plan for growth

More small business owners intend to apply for a loan in 2016 than in previous years, with one in three (35 percent) indicating intent to apply for a loan in 2016, a considerable (11 percent) jump year over year. In addition, the number of small business owners who report they have applied for a loan in the past two years has increased by more than 50 percent in the last 12 months, rising from 29 to 44 percent.

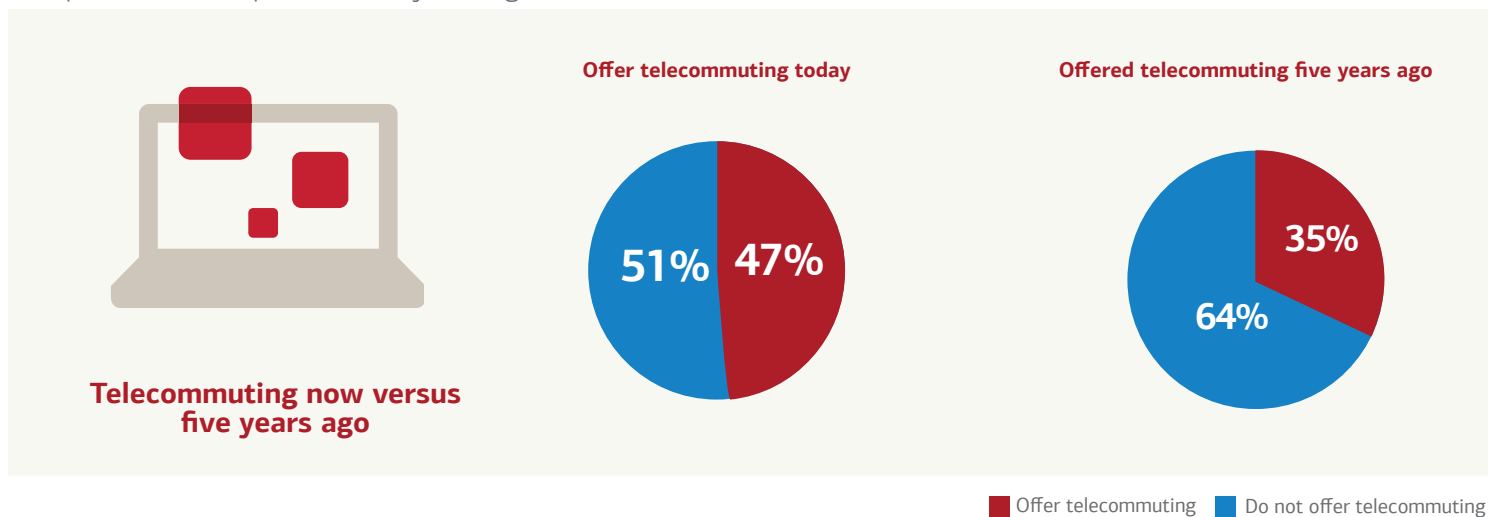


Small business owners plan to use their funding to invest in new equipment, hire more employees and expand operations.



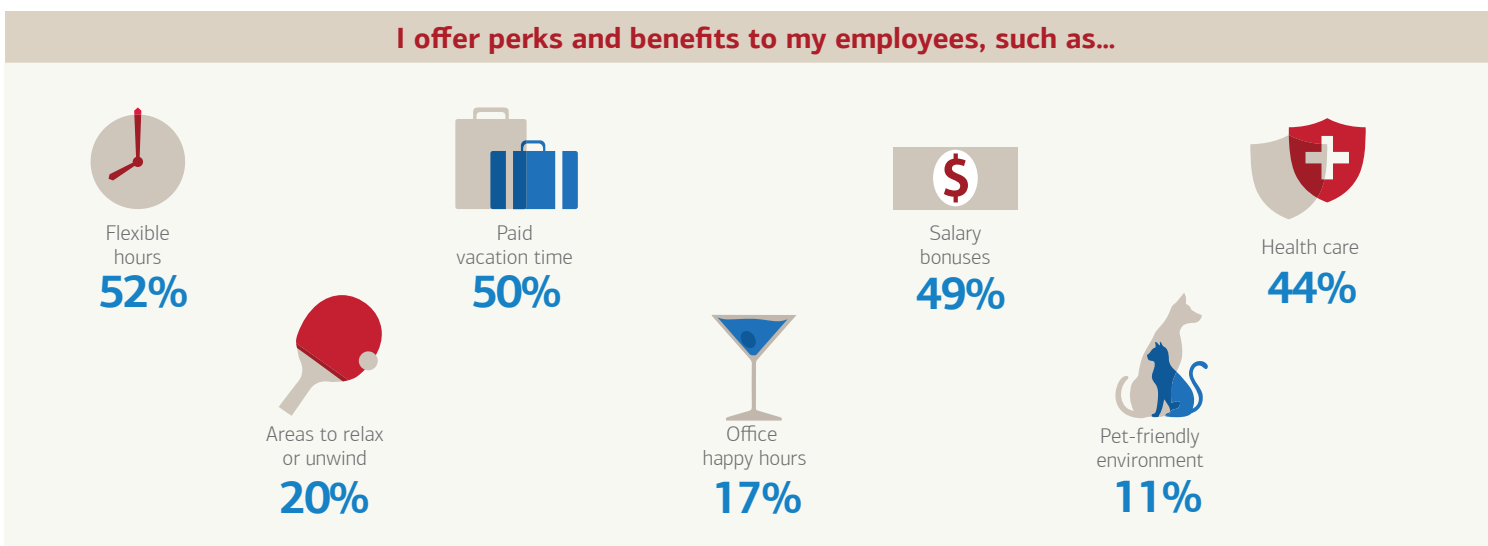
Meeting employee demands for more flexibility in the office

The traditional office environment appears to be changing, with small business owners reporting that workplace culture has become more open to change in the past five years. In particular, the virtual office model is rising in popularity, with 47 percent of small business owners now offering telecommuting options for employees, compared with 35 percent five years ago.



Generally, small business owners are noticing a positive impact from allowing employees to telecommute. Fifty-nine percent say their employees have a better attitude, and 54 percent attribute increased productivity to telecommuting.

New types of employee perks are also emerging, including areas to relax or unwind, such as nap pods and pet-friendly work environments.



Technology triggers increased client interaction

Small business owners report an increased willingness to adopt new technology (85 percent), and 93 percent say that technology has helped their business.

What new technologies are you using now that you weren't using five years ago?



I use new technology to accept payments

54%



I use new technology to connect with employees

50%



I use new technology to track inventory

45%



I have an optimized version of my website

41%



I have created an app for customers

23%

Small business owners are known for their high-touch, personal interactions with customers, as 81 percent have cited they continue to interact with customers in person more or the same as they did five years ago. However, nearly nine out of 10 (88 percent) say technology helps them maintain successful customer relationships. Of the 19 percent who say they interact with customer less, they are instead using the following methods to stay in touch with customers:

Email



83%

Phone



54%

Social media



46%

Online chat



39%

Nearly three-fourths (71 percent) of small business owners report investing in technology upgrades one or more times per year, and more than one-third (39 percent) of small business owners go so far as to say that technology has reduced their need for employees, though this hasn't appeared to impact hiring trends, which are on the rise (see Page 5).

How often do you make technology upgrades to your systems or equipment?



8%

1X a month



30%

1X a quarter



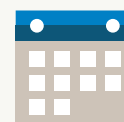
33%

1X a year



21%

1X every 2 years



7%

I haven't made a technology upgrade in over two years

Protecting against cyber-attacks and data theft

More than one in 10 small business owners report that they have already been the victim of a cybersecurity breach (12 percent).

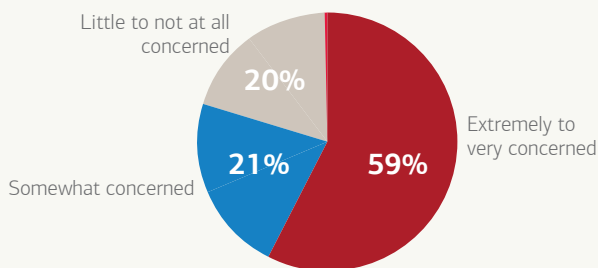


Has your business been the victim of a cybersecurity breach?

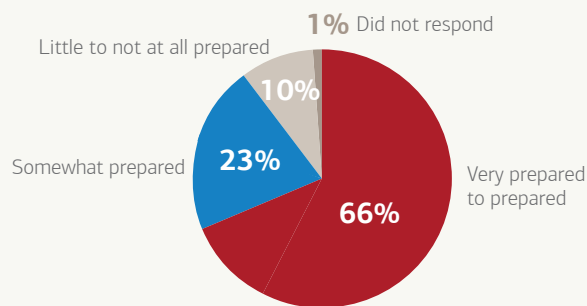


With technology being so prevalent across the businesses, more than half (59 percent) of small business owners have expressed concern over protecting their customers' proprietary data, and 66 percent report they have taken measures to be very prepared for a cyber-attack.

How concerned are you about the security of the proprietary data your company has about its customers?



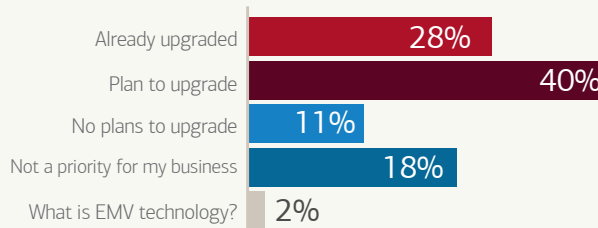
How prepared is your business for a cybersecurity breach?



More than two-thirds (68 percent) say they have already upgraded their systems to support EMV chip technology, or had plans to do so by October 2015, making small businesses and their customers less vulnerable to in-person fraud.



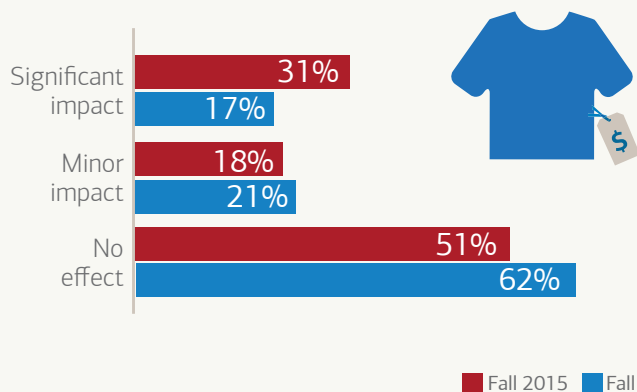
How prepared is your business to handle EMV chip technology?



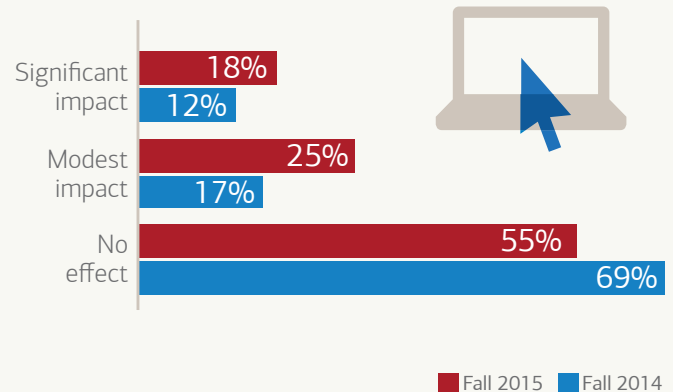
Small business owners expect a strong year-end

Small business owners are more confident about hitting their year-end revenue goals than last year, with 83 percent saying it's likely they will reach their targets, compared to 77 percent in fall 2014. More small business owners than in previous years are relying on Black Friday and Cyber Monday to boost business, with 31 percent in fall 2015 predicting Black Friday will have a "significant" or greater impact on their business' bottom line, compared with 17 percent in fall 2014. In the fall of 2015, 18 percent of small business owners say that the creation of Cyber Monday has had a significant impact on their business' bottom line, compared with 12 percent in 2014.

Black Friday impact on bottom line



Cyber Monday impact on bottom line



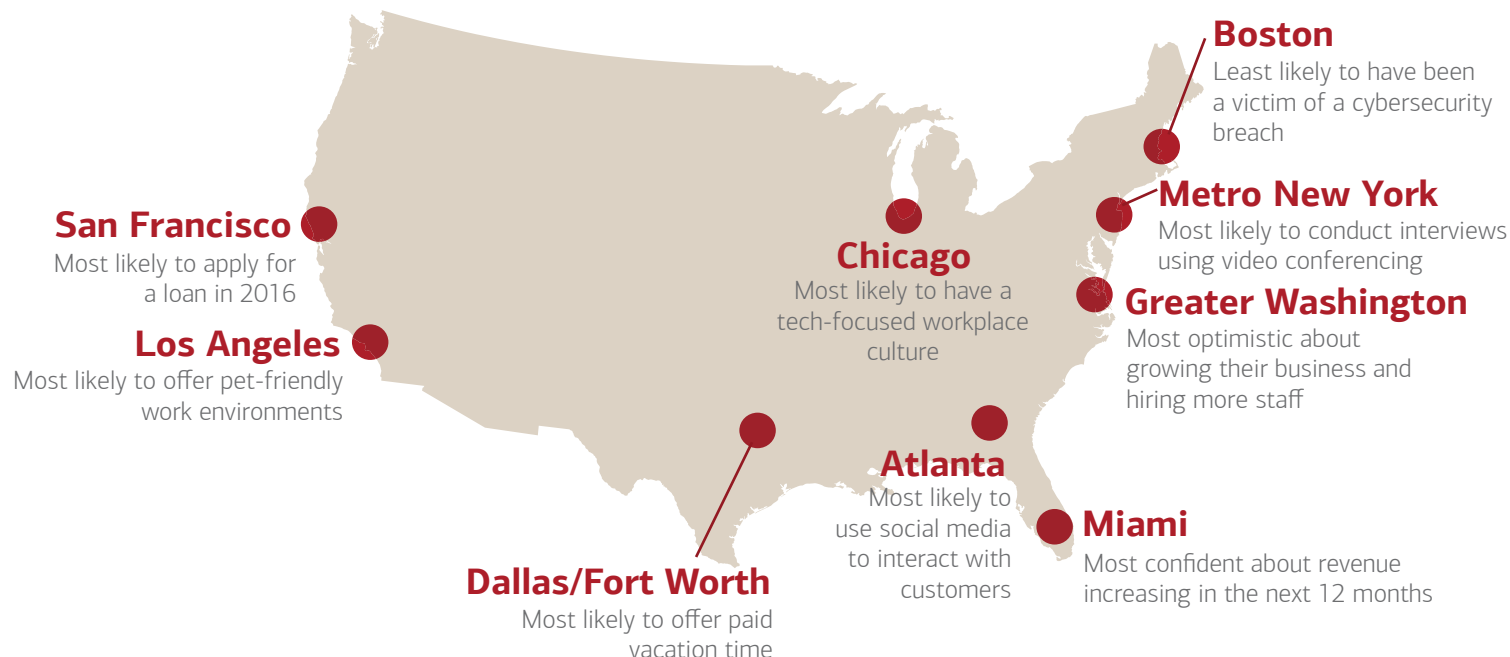
Millennial small business owners are most likely to feel the impact of Black Friday: Nearly half (44 percent) of millennial small business owners report that the annual retail event will have a "significant" or greater impact on their ability to reach revenue targets this year.

Additionally, as in previous years, small business owners are planning to reward employees with bonuses and perks over the holidays. More than nine in 10 (92 percent) small business owners intend to offer holiday-related perks to their employees this year.

Which of the following holiday-related perks do you plan to offer to employees this year?



Priorities of small business owners vary from city to city



Generational Breakdowns

- 18-34 Millennials
- 35-49 Gen-Xers
- 50-68 Baby boomers

Methodology

Braun Research, Inc. conducted the Bank of America Small Business Owner Report survey by phone from August 21 through September 22, 2015, on behalf of Bank of America. Braun contacted a nationally representative sample of 1,001 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between 2 and 99 employees. In addition, 300 small business owners were surveyed in each of nine target markets: Los Angeles, Dallas, Washington, D.C., New York, Boston, Chicago, San Francisco, Atlanta and Miami. The margin of error for the national sample is +/- 3.1 percent; the margin of error for the oversampled markets is +/- 5.7 percent, reported at a 95 percent confidence level.

Client profile

For Dallas entrepreneur Patty Hannan, parenting was the perfect precursor to starting her own business.

"I do have an interesting business story in that I spent my entire early life being a wife and mother," Hannan said. "I raised three beautiful girls. I didn't start PlayWisely until I was 46 years old."

In 2005, Hannan launched PlayWisely, a science-based program created to help young children – from birth to age six – learn more efficiently. PlayWisely is a cutting-edge science-based play system, combining flash cards and gravity-based physical activity. The program's 30-minute classes are designed to "turn on and tune in" a child's brain, preparing them to hit age-appropriate milestones like language acquisition and movement. In addition to her expertise as a parent and a former preschool teacher, Hannan based the PlayWisely approach on early life experience as a competitive gymnast.

"The most important thing about your training in gymnastics is your foundation technique. I thought, 'Why are we not doing that for the human brain? What is the foundation technique for human learning?'"

When PlayWisely first started, Hannan ran in-person classes for young children at local gymnastics clubs in Dallas.

A decade later, the business has expanded rapidly to include several locations in schools throughout Texas and around the world in the Czech Republic, Mexico and Argentina – with additional expansion in the works both on the ground and online. Parents can access the program digitally and also schedule in-home sessions.

Thanks in part to significant digital investments, PlayWisely is growing at a 20 percent clip, and Hannan is gearing up for growth like many small business owners across the country. She just doubled her employee base last year. Finding talent isn't difficult, she said, because workers love the flexibility of the job, which essentially lets them set their own hours.

"They just didn't want to work 8 to 5," she said. "And we have people from all different backgrounds who are attracted to that: nurses, teachers, civil engineers."

Hannan attributes PlayWisely's continued growth to a diverse team, the novelty of the platform and also her company's ability to stay apace with evolving technologies. She knows that it's critical for PlayWisely to keep up with the changing needs of a highly educated and tech-savvy consumer base. That's advice she gives to other small business owners who may not be innovating quickly enough: "You have to stay agile. Otherwise, you are going to lose your market base."

Another lesson from Hannan: believe in yourself. As a female small business owner, she often speaks to women's groups about how she built PlayWisely from the ground up.

"I'm proud of my business because it grew itself," she said. "I really watched how it was being utilized by the consumer – and I got confidence from that."

As for the year ahead, Hannan – like the majority of small business owners surveyed in this report – remains optimistic. With global expansion, high demand from consumers and positive reviews of PlayWisely "spreading like crazy," she is looking forward to even greater success and business growth in 2016.



Bank of America Commitment to Small Business

Bank of America has a nationwide network of banking centers and professionals who are committed to its more than 3 million small business clients and their local communities. The personal connection of small business bankers, client managers and practice solutions specialists contribute to the success of small businesses and their communities by making expertise more accessible. The resources of Bank of America help small business owners succeed by offering convenient interactions and comprehensive banking, credit and cash management solutions.

In the first six months of 2015, Bank of America extended more than \$5 billion in new credit to small businesses. Bank of America's combined new and renewal small business lending totaled more than \$11.5 billion.