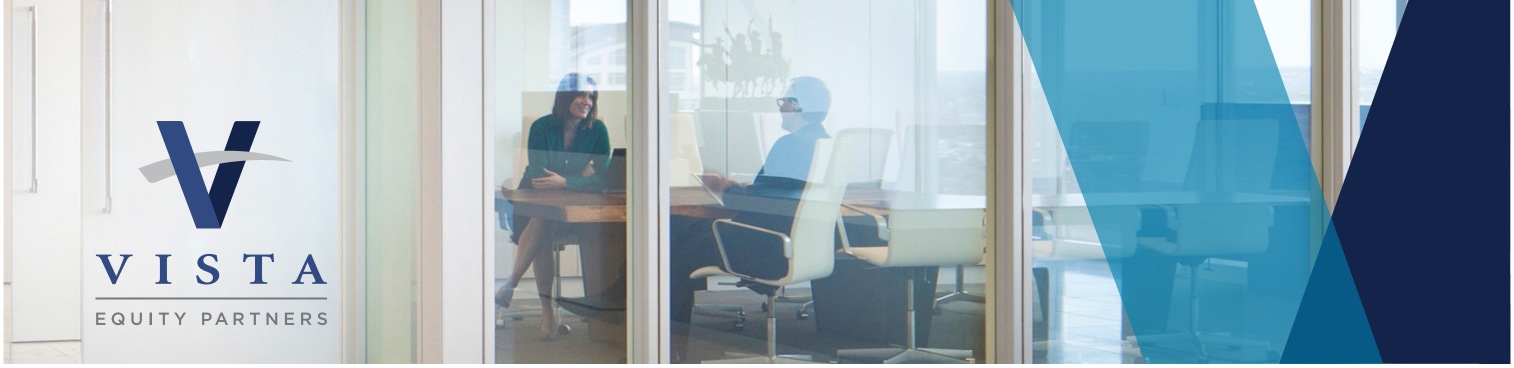


# NAVIGATING ECONOMIC DEVELOPMENTS

Economic developments, both at home and abroad, are difficult to predict. The market landscape can change swiftly and unexpectedly, with results that cascade across your business and impact everything from operations to sales to sourcing. Proactively addressing shifting market dynamics and political challenges that affect your industry will resonate well with your investors and help ensure your business's continued success.

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## INTEREST RATE HIKES

In 2008, the Federal Reserve (Fed) reduced interest rates to nearly zero percent in an effort to stimulate the economy and resurrect the collapsed housing market. However, with the U.S. economy no longer in crisis, the Fed deemed it appropriate to remove this support and in December 2015, raised its target interest rate for the first time in nearly a decade. Although the new rate increase is small - lifting interest rates to between 0.25 percent and 0.5 percent - it affects millions of Americans, including investors, homebuyers, and savers.

These developments could have important impact on businesses in many sectors. Most fledgling software and technology companies have not had to navigate a market in which borrowing costs fluctuate. Low interest rates encourage investors to take chances on riskier ventures with the hope that the growth potential of these businesses will yield high returns. Volatile interest rates, by contrast, have the potential to lead investors to pursue more predictable returns in fixed income or with publicly listed businesses that pay dividends, as opposed to less established firms that remain in the private market.

Recent interest rate hikes may also increase stock market volatility. If the Federal Reserve raises rates higher and faster than investors expect, there could be consequences for the stock market. An unstable market can create complications for technology companies hoping to hold IPOs, and investors who desire a quick return on their investment. Goldman Sachs claims stock market valuations tend to drop 10 percent in the first year of tightening cycles. The uncertain outlook for interest rates could pose challenges for privately held software companies by making the availability and cost of capital less predictable.

VOLATILE INTEREST RATES, BY CONTRAST, HAVE THE POTENTIAL TO LEAD INVESTORS TO PURSUE MORE PREDICTABLE RETURNS IN FIXED INCOME OR WITH PUBLICLY LISTED BUSINESSES THAT PAY DIVIDENDS, AS OPPOSED TO LESS ESTABLISHED FIRMS THAT REMAIN IN THE PRIVATE MARKET.

# THE JOBS ACT

In 2012, the Jumpstart Our Business Startups Act was passed and helped alter a number of laws and regulations to make it easier for businesses to go public, as well as raise capital privately and stay private longer. This Act has helped spur a number of recent rounds of funding and IPOs.

The Act includes multiple objectives that help prepare entrepreneurs and business owners for capital investment. The JOBS Act has also made the costs of a public offering more manageable and predictable, as one of its goals was to create a steadier deal flow and improve access to capital for the private and public sector. Of course, reputational risk of a failed offering remains high.

The Access to Capital for Job Creators Act removed an SEC regulatory ban that prohibited businesses from using advertisements to attract investors to a non-public offering. The Entrepreneur Access to Credit Act grants business owners the ability to sell equity in their company through crowd funding. Other inclusions, ranging from confidential drafting to "test-the-waters" provision, were all implemented to increase the number of companies willing to consider public financing.

Two years after the JOBS Act was adopted, nine out of 10 IPOs were emerging growth companies (a business with total gross revenues of less than $1 billion during the most recent fiscal year), according a study by Latham & Watkins. Technology companies were one of the largest industries accounted for in the study.

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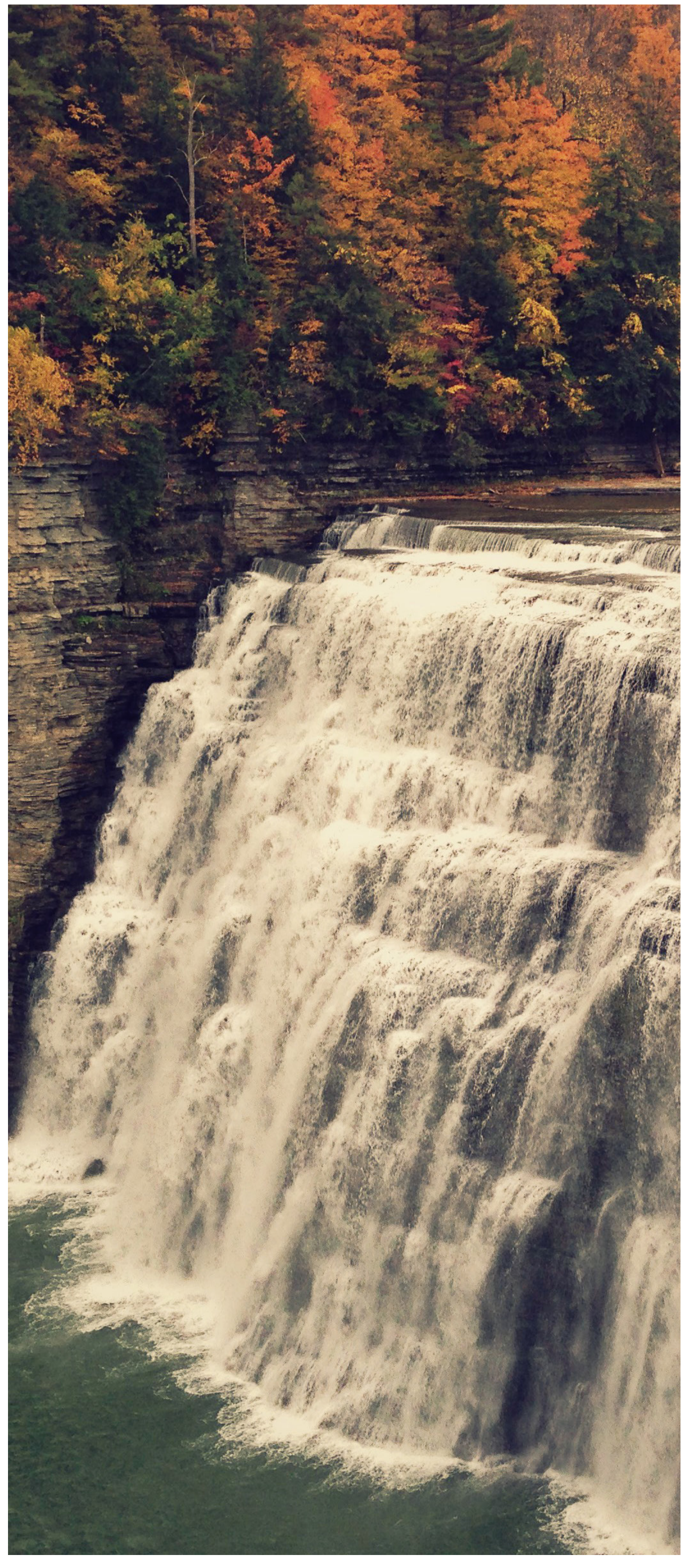
Source: Latham & Watkins

# TAX REFORM

Tax reform is also a top discussion in the upcoming presidential elections. A tax code that enables new business development is essential to help strengthen the U.S. economy and make it more competitive with international peers. If passed in 2016, a tax credit for business research could help boost innovation.



## REGULATIONS

Since the financial crisis, policymakers have enacted regulatory reforms designed to increase economic stability. These reforms intend to prevent a repeat of the crisis. However, regulations can also reduce market liquidity, making it more difficult and costly for companies to raise capital to invest in new innovation.

Legacy technology companies also often use lobbying groups to advocate for regulations to stifle competition.

In September 2015, the Wall Street Journal reported on the political crackdown on the ridesharing economy in Florida, Michigan, Nevada, and other states. After a number of legal battles, ridesharing services in Nevada were legalized, but with a significant caveat. In order to operate, ridesharing businesses had to pay up to $50,000 to license vehicles along with taxes on rides and fees on driver applications.

## GLOBAL CONFLICT

While some economists are quick to dismiss the short-term effects of global conflict and international terrorism, history has shown that the uncertainty incited by terrorism reduces consumer and investor confidence, which has the power to diminish growth. Increased security measures and the costs associated with counterterrorism regulations can significantly hinder market productivity. Even in the best of circumstances, investors must contend with a number of variables when considering investing in a company. Terrorism introduces new uncertainty to the market that makes this decision even more challenging.

Markets will continue to shift, but being aware of economic trends - both past and present, at home and abroad - will help your business prepare for the challenges you can foresee, and respond more effectively to those you can't. Doing so will allow you to maintain operations during periods of market volatility, ensuring the stability you and your investors demand and deserve.

Source: Zurich Insurance, The New York Times, CNN Money, Fortune



WHILE SOME ECONOMISTS ARE QUICK TO DISMISS THE SHORT-TERM EFFECTS OF GLOBAL CONFLICT AND INTERNATIONAL TERRORISM, HISTORY HAS SHOWN THAT THE UNCERTAINTY INCITED BY TERRORISM REDUCES CONSUMER AND INVESTOR CONFIDENCE, WHICH HAS THE POWER TO DIMINISH GROWTH.

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