



Insights from Synovus — Webinar Series for Business

Understanding, managing, and mitigating business risk in 2021

February 23, 2021

Presented by

SYNOVUS[®]
the bank of here

and

IBISWorld
WHERE KNOWLEDGE IS POWER

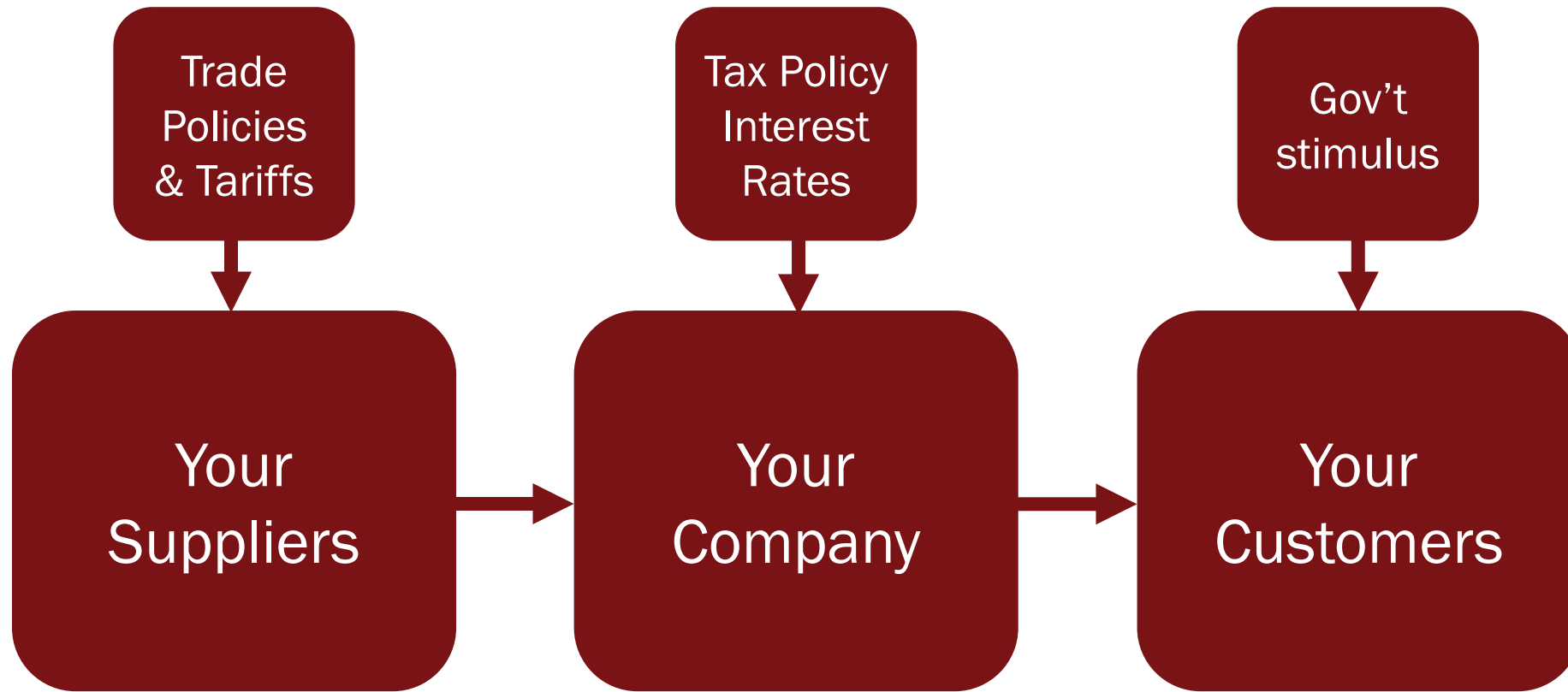
- Understanding Your Business Environment
- The Business Cycle
- Fundamentals of Risk Management
- Risk Factors that Always Matter
- Factors Unresolved Prior to the Pandemic
- New and Renewed Sources of Business Risk
- Q&A



Uncontrollable! Unavoidable!
But Plannable!



- Your competition/marketplace
- Your industry
- The economy (global/national/local)
- Government policies (federal/state/local)
- Access to finance (costs as well)
- Labor availability and costs
- National resources (energy, etc.)
- Supply chain disruptions
- Technological innovation
- Structural changes



Some common factors but...

All face a unique set of key drivers/forces.

Here's a simple illustration!

Framework?

Look along your supply-chain and identify risk factors/forces



- Your commercial customers compete inside an industry bubble
- Industry bubble expands & contracts over business cycles
- Your customers must learn to survive, grow, and prosper over many business cycles as industry bubble bounces up and down, inflates and deflates with these cycles
- The same holds for if your customers are consumers as cycles determine employment and personal incomes
- Let's look at 4 phases of a business cycle





Early Expansion



Late Expansion



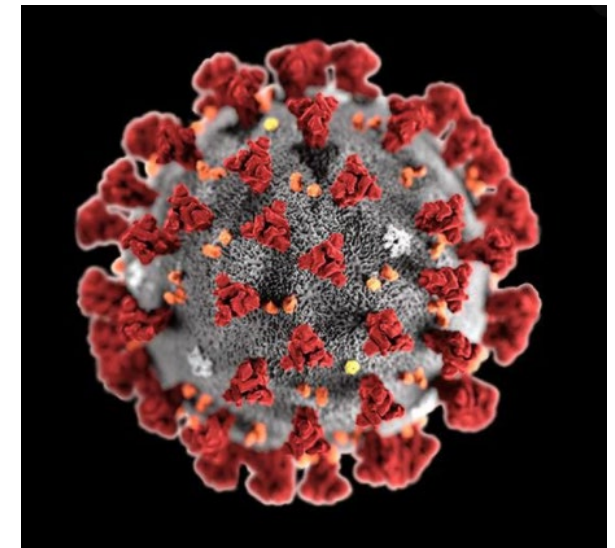
Early Contraction



Late Contraction



- Was this interrupted by COVID-19?
- Or did the virus trigger the end of the cycle?
- Perhaps it's just delayed the ending.



- Understanding the sequencing of risk management.
- Domino effect of latent risks, tobacco plant example.



Understand the attributes of discretionary vs. nondiscretionary spending

Discretionary goods/services are more vulnerable in times of stress!



Necessary Goods and Services
(Nondiscretionary)

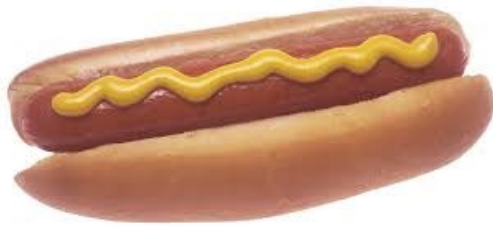
VERSUS



Luxury Goods and Services
(Discretionary)



Used vs. New Autos



Food purchases/production



Restaurants



Nondurable goods industries are less vulnerable to recessions...

than durable goods producers!



**Tip? Pay attention...
Segmentation/Granularity**

Even during times of economic stress people still want to have fun!
They are just more selective depending on relative costs ...

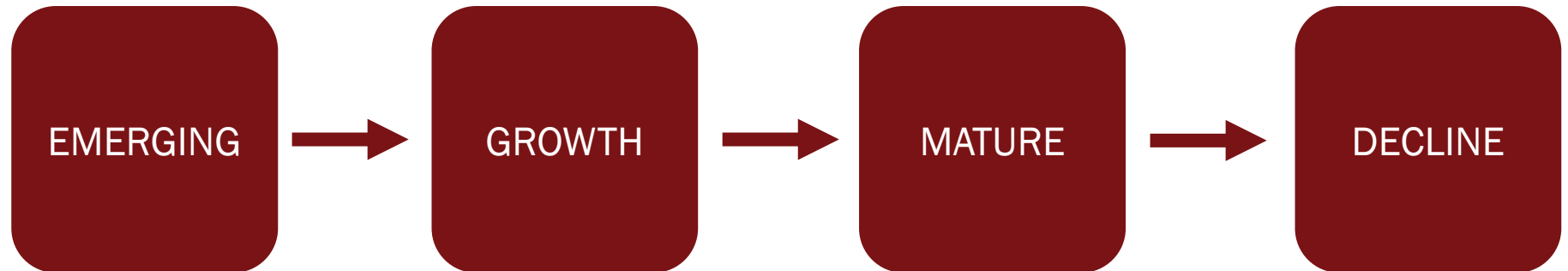


NETFLIX

Four stages

Particularly relevant for those of you that provide business/tech services to small- medium-sized firms.

Must distinguish between biz cycle and industry life cycle!



End of business cycle may hasten declines

What defines a volatile industry? Not referring to economic uncertainty...

- Industries that are highly correlated with economic cycles, but their variations are amplified. (CAPEX dependent industries)
- Industries that esoteric and highly variable regardless of the phase of an economic cycle. (Commodity-based industries)

Highly volatile?

- Commodity-based like agriculture, mining and energy.
- Construction
- Finance/insurance
- CAPEX dependent

Cycle correlated, not “volatile”?

- Manufacturing
- Transportation

Why is this so important?





Highly volatile on the consumer goods side?

- Discretionary spending
- Durables
- Goods in general more volatile than services
- All can be verified using official data

Debt at Record Levels

- Government
- Household
- Corporate

Labor Shortages

- Skilled trade workers
- Science, engineering, math and technology (STEM workers)

Trade Tensions

- Not just trade in goods, services as well!
- It's really about the "technology war"!

Retail Apocalypse

- The big boys (anchor stores)
- The small players
- The mall owners

The Global Economy

- Much weaker than prior to the Great Recession
- Populist sentiments on the rise
- Feeds into trade tensions

COVID-19 didn't inoculate us from these forces! They are alive and well ...



Debt Levels Pre-COVID?

- Government: \$27 trillion
\$85,000 per person
Was \$13 trillion in 2010
State/local gov't adds \$2 trillion to the total
- Household: \$15 trillion
Was about \$3 trillion in 2010
\$5.5 trillion unsecured
The bulk of unsecured in autos/education (subprime)
- Corporate: \$14 trillion?
Leveraged lending by the big players.
Stock buy-backs.
Cheap credit for the little guys

BTW, this is more about credit quality than quantity. Credit quality eroding prior to COVID-19.

- Are your consumers subprime?
- Are your suppliers living on the edge dependent on cheap financing and easy access to credit?
- More on this later when we address interest rates...

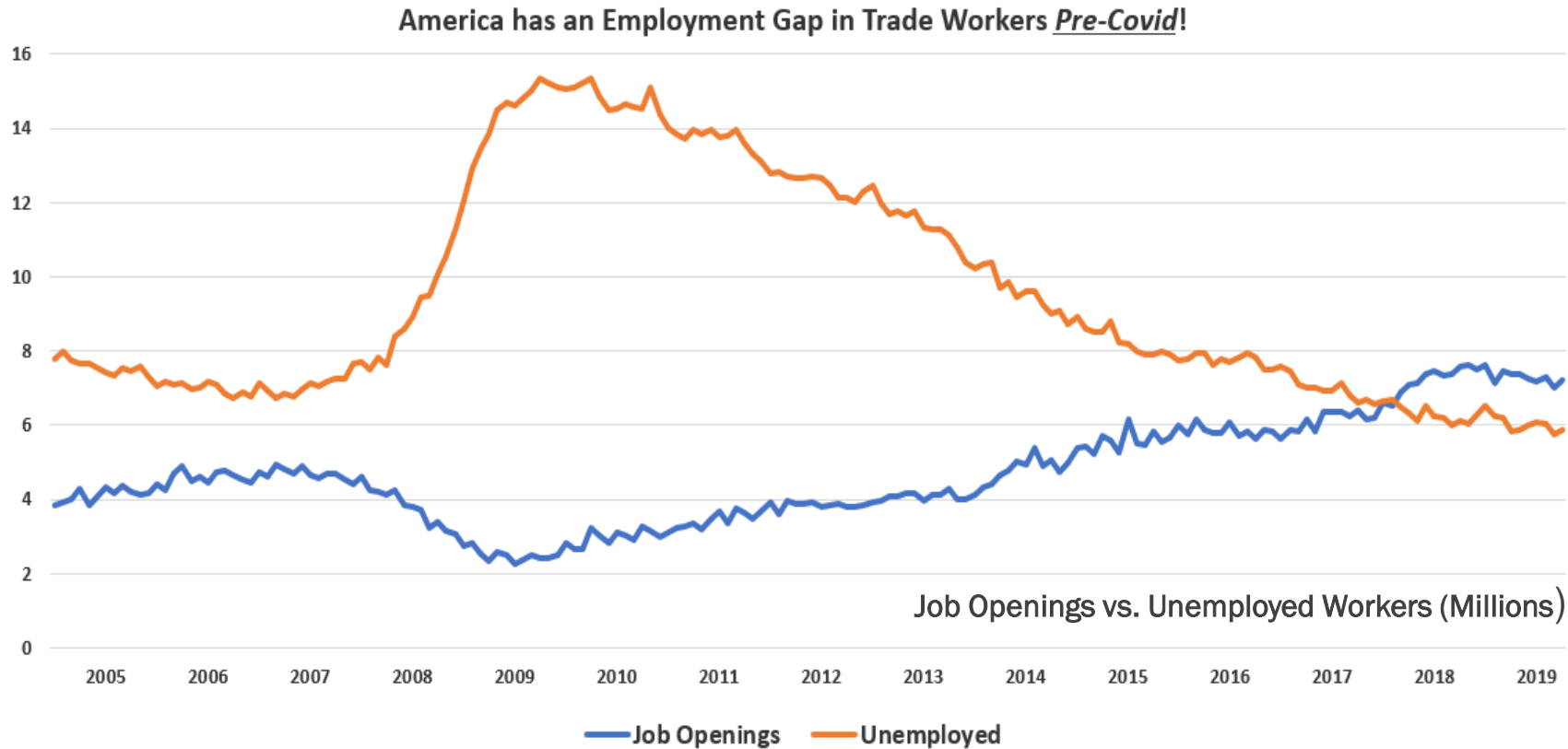
Greater future tax burdens for you, your customers and suppliers. All in flux!

Crowding-Out! Economics 101!

- Healthcare initiatives by the government
- Education initiatives by the government
- Investment in America's infrastructure
- Crowding out of private CAPEX

Stimulus checks are a band aid.

Infrastructure/CAPEX build a platform for future growth.



This could put upward pressure on wages, may slow an economic recovery, disrupt supply chains

1.4 million: Mostly in construction and transportation. A serious bottleneck!
Shortages in STEM and healthcare as well.
Immigration policies have made matters worse...

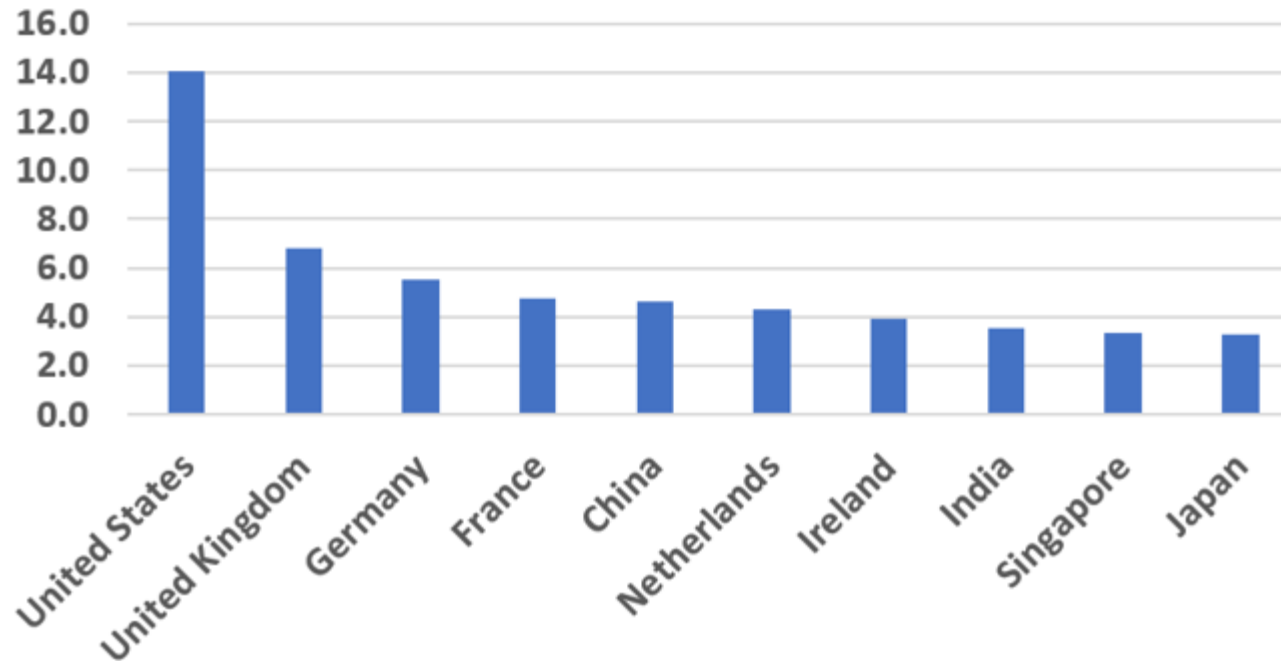


Source: WTO

- Note the strong relationship between world GDP and global trade
- Growing populist sentiments and a weak world economy could amplify this force

What are your direct and indirect exposures to trade?
Think of your supply-chain.

America Leads in Service Trade: Did You Know That? Percent Share of World Trade in Services

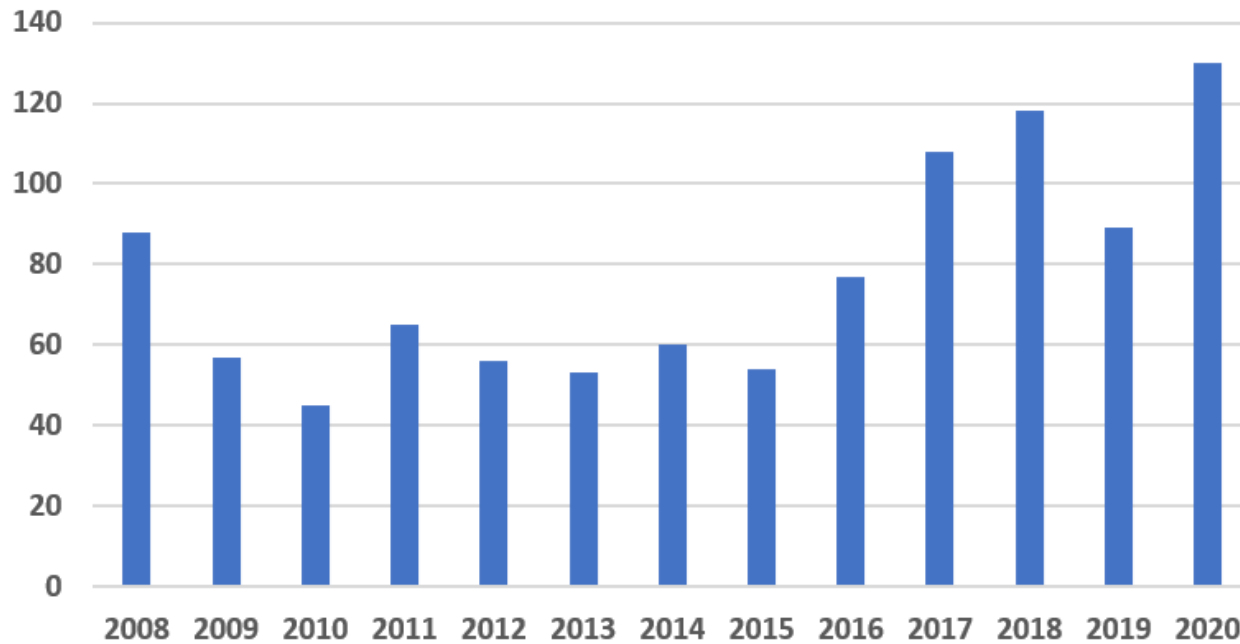


Source: WTO

- Services have a higher value-add than goods trade
- Many areas involve technology (i.e., royalties)
- Countries “stealing” US technology has been an issue for decades and will continue to be so
- Perhaps more critical than goods deficits

Are you, your customers, or your suppliers dependent on service trade or vulnerable to the “technology war”???

Retail Closures by Square Footage (Millions)



- Many casualties of E-commerce
- Anchor stores
- Small players
- Mall property owners/managers



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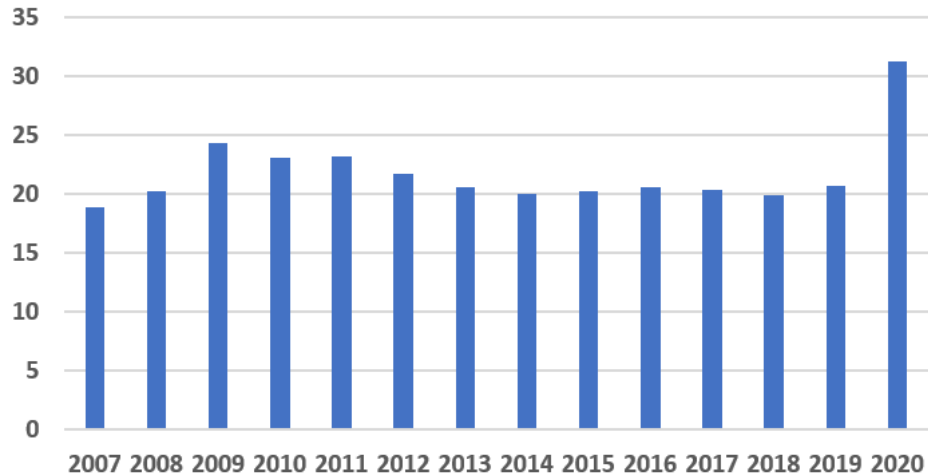
- But... Retail industry is becoming more concentrated
- Less competitive?
- Integration of wholesale and retail trade? Structure change afoot?



Conclude with a few additional key risk factors

- Selective Government Policies
 - Fiscal/Monetary Mix
 - Trade and Technology
 - Energy and the Environment
 - State/Local COVID-19 Restrictions
- Bottlenecks to Recovery
 - Labor (already mentioned shortages)
 - Supply-chain disruptions
 - COVID-19: Herd Immunization?

Federal Gov't Spending Percent of GDP



- Gov't had expansionary fiscal policy **before** COVID (spending and tax policies)
- We've had easy monetary policies for two decades
- Not going to end soon!



- Ramifications? Rising debt and crowding out as mentioned previously
- We have become addicted to zero interest rates! Watch out for industry segments that have thin margins and are dependent on cheap credit. A small uptick: devastating!
- Downside risk? **Inflation...**



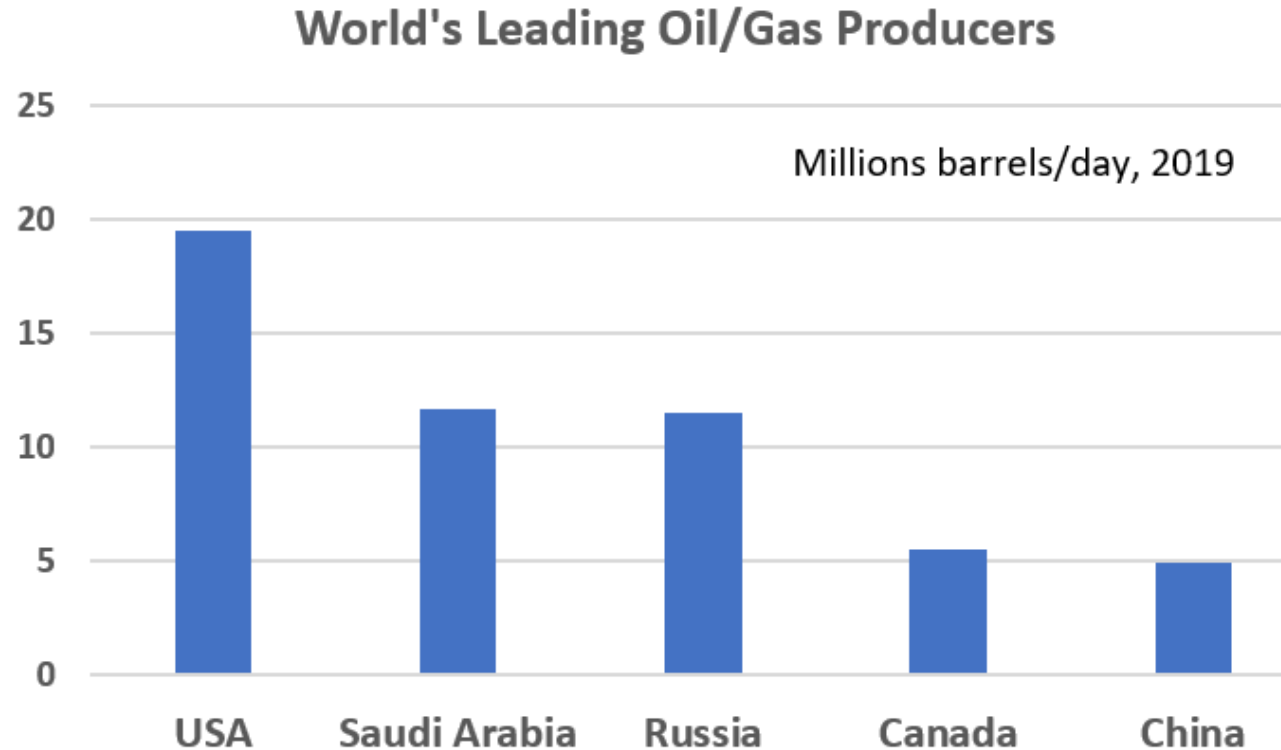
Although the rhetoric may soften under the new administration, the issues remain unchanged, particularly regarding China.



Rare Earth Elements																				by Geology.com									
H																				He									
Li	Be																	B	C	N	O	F	Ne						
Na	Mg																	Al	Si	P	S	Cl	Ar						
K	Ca	Sc	Ti	V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As	Se	Br	Kr												
Rb	Sr	Y	Zr	Nb	Mo	Tc	Ru	Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe												
Cs	Ba	La-Lu	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg	Tl	Pb	Bi	Po	At	Rn												
Fr	Ra	Ac-Lr	Rf	Db	Sg	Bh	Hs	Mt																					
Lanthanides																													
La Ce Pr Nd Pm Sm Eu Gd Tb Dy Ho Er Tm Yb Lu																													
Actinides																													
Ac Th Pa U Np Pu Am Cm Bk Cf Es Fm Md No Lr																													

A rarely understood subject? Rare earths...

China supplies US with 80% – LEVERAGE!



US been on top for six years
Net exporter of petroleum
products

Kill the golden goose?

Great deal of *uncertainty*
here although green energy
incentives are likely.

Fracking? Carbon tax/offset policies? Keystone Pipeline? Etc.

Location by County	Industry NAICS Definition	Deviation in Employment from Long-Term Average
Atkinson County, GA	Truck transportation	-47%
Oglethorpe County, GA	Administrative & support services	-9%
Banks County, GA	Clothing & clothing accessories stores	-13%
Candler County, GA	Motor vehicle & parts dealers	-21%
Chattahoochee County, GA	Personal and laundry services	-29%
Fannin County, GA	Transportation equipment Manuf.	-32%
Miller County, GA	Repair & maintenance	-30%
Fulton County, GA	Specialty trade contractors	32%
Marion County, GA	Specialty trade contractors	-20%
Jenkins County, GA	Accommodation	-22%
Johnson County, GA	Gasoline stations	-35%
Lanier County, GA	Food & beverage stores	-5%
Lincoln County, GA	Food services & drinking places	-24%
Long County, GA	Food services & drinking places	-9%
Muscogee County, GA	Nonstore retailers	21%
Oconee County, GA	Professional, scientific, & tech services	8%

IBISWorld
has this
data

Social distancing and essential business polices can vary greatly not only state-by-state, but county-by-county. So can behavior!

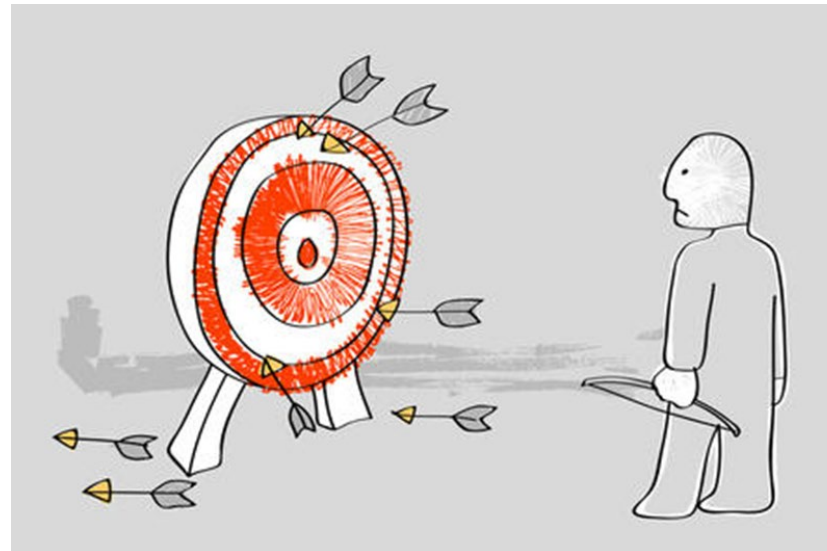


Many examples

- Food
 - Common household items
 - More recently a semiconductor chip shortage that has slammed auto industry (think of the Ford-150)
-
- Not always easy to switch suppliers



- So far expert predictions have been off target.
- Mutant virus strains may be more infectious.
- Will vaccines be effective?
- White noise in the data...





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