

# How a Data-driven Approach Decoded the Financial Unknown of the Pandemic

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The health and human impact brought on by the COVID-19 pandemic has stretched across the globe and into our own main streets and homes. It has been unimaginable and devastating and it is unquestionably important to recognize just how profoundly people, places and business have been effected. As we all begin to look forward, it is also essential that we identify and understand the early indicators of economic recovery. Decoding this information will help bring forward insights that may serve as a guidepost for future planning and preparedness. This article will reveal a unique data and analysis approach taken by Channel Partners Capital (CPC) to discover key findings and the associated reclamation of business profitability and economic recovery across the equipment finance industry.

### Cleared for Take Off

Entering 2020, CPC and so many others believed the year ahead would be the most successful yet. The economy was booming and its benefits appeared to be shared among all industry types and business sizes in the equipment finance community. To help manage relationships, CPC uses a third-party bank verification service to access bank data for opt-in accounts. When referencing this transaction data from January 5, 2020 to March 14, 2020, it was clear to us that most industries CPC serves were performing well in terms of weekly deposits versus 2019, and that they were poised to continue growing as the year progressed.

Weekly Average Deposit Amounts by Group			
Modified	Covid Impact Industry	2019 Deposits 1/5 - 3/14	2020 Deposits 1/5 - 3/14
Yes	Moderate/High	\$16,872	\$20,619
	Low/No	\$19,826	\$22,990
No	Moderate/High	\$23,332	\$31,080
	Low/No	\$24,224	\$26,009
Modified	Covid Impact Industry	2020 % of 2019 Deposits Jan 5 - Mar 14	
Yes	Moderate/High	122%	
	Low/No	116%	
No	Moderate/High	133%	
	Low/No	107%	

▲ At the beginning of 2020, all industry segments showed significant growth versus 2019 based on weekly deposit data.

### KEY TERMS & DEFINITIONS

**Modified Contract/Account:** Borrower requested payment reduction to as low as 10% of the original payment amount for 4 months with a 4-month extension in term.

**Un-Modified Contract/Account:** No borrower request received, continued with original payments to term.

**Revenues/Deposits Weekly:** Bank data for opt-in borrowers through a third-party bank verification service, edited for non-revenue deposits and transfers, displayed as weekly averages for the time-period identified.

**Revenues/Deposits Quarterly:** Bank data for opt-in borrowers through a third-party bank verification service, edited for non-revenue deposits and transfers, displayed as quarterly averages for the time-period identified.

#### COVID-19 INDUSTRY IMPACT DISTINCTIONS:

**High Impact:** Businesses more likely to be negatively impacted by the pandemic including restaurants, travel, hotel, bar/nightclub, beauty salon, consulting, retail sales, passenger transportation, education/schooling, fitness, entertainment, staffing, etc.

**Low/No Impact:** Businesses less likely to be negatively impacted by the pandemic including transportation (local and long haul), construction (residential, specialty), franchise restaurants, auto repair, manufacturing, B2B, accounting, architecture, engineers, grocery, wholesale distribution, etc.

### Flying Blind

Suddenly COVID-19 was upon us. Everyone was operating blind and scrambling to adapt their business in response to new and unknown needs to assist their customers. The world was now defined by forced and unpredictable shut-downs and stay-at-home orders with limited ability to forecast where and what would happen next. In the face of overwhelming turmoil, it was critical that we quickly find ways to gather information to help make well-informed decisions and move forward in supporting our customers, protecting employees and continue to manage our portfolio.

To accomplish this, CPC accessed and collected existing bank data to build an analysis model that would create greater transparency for the purpose of ascertaining where and how our customers were impacted or showing signs of recovery across industry type, size, region and more. This exercise began to uncover insights that were both unexpected and encouraging, and certainly differed from the narrative more typically broadcast in the media.

## Tailwinds Start to Return

The initial analysis was split across high and low impacted industries and whether accounts required modification to their loans. Then, weekly average deposits were tracked to monitor business performance closely throughout the initial stages of the pandemic.

Weekly Average Deposit Amounts by Group					
Modified	Covid Impact Industry	2020 Deposits 1/5 - 3/14	2020 Deposits 3/15 - 4/25	2020 Deposits 4/26 - 5/30	2020 Deposits 5/31 - 6/20
Yes	Moderate/High	\$20,619	\$9,442	\$15,176	\$16,760
	Low/No	\$22,990	\$17,954	\$17,263	\$21,302
No	Moderate/High	\$31,080	\$20,930	\$23,958	\$31,893
	Low/No	\$26,009	\$31,184	\$37,061	\$29,111
Modified	Covid Impact Industry	2020 Deposits 1/5 - 3/14	3/15 - 4/25 Deposits as a % of 1/5 - 3/14	4/26 - 5/30 Deposits as a % of 1/5 - 3/14	5/31 - 6/20 Deposits as a % of 1/5 - 3/14
Yes	High Impact	\$20,619	46%	74%	81%
	Low/No Impact	\$22,990	78%	75%	93%
No	High Impact	\$31,080	67%	77%	103%
	Low/No Impact	\$26,009	120%	142%	112%

▲ Accessing real-time weekly deposit data across accounts expanded the visibility into actual revenues and enabled trackable trend analysis by business segment.

By June 2020, the data showed all industry segments had returned to pre-COVID deposit revenue levels except for the bottom 30% of Modified accounts. In total, Modified accounts made up 45% of CPC's portfolio and only 14% of accounts were operating below a sustainable revenue level through the same period.

Weekly Average Deposit Amounts by Group					
Modified	Covid Impact Industry	2020 Deposits 1/5 - 3/14	3/15 - 4/25 Deposits as a % of 1/5 - 3/14	4/26 - 5/30 Deposits as a % of 1/5 - 3/14	5/31 - 6/20 Deposits as a % of 1/5 - 3/14
Yes	High Impact - Bottom 30%	\$18,312	32%	25%	5%
	High Impact - Top 70%	\$21,628	51%	92%	109%
	Low Impact - Bottom 30%	\$21,351	66%	33%	29%
	Low Impact - Top 70%	\$23,683	83%	91%	117%
No	High Impact	\$31,080	67%	77%	103%
	Low Impact	\$26,009	120%	142%	112%

▲ 45% of transactions were modified. From a revenue standpoint, the non-modified accounts had returned to normal business levels by late May into early June along with the Top 70% of modified transactions. As of June 2020, remaining concern centered upon the bottom 30% of modified transactions.

Many CPC customers appeared to be experiencing a steady recovery pace in the initial analysis, even earlier than anticipated whether they had modified their loans with CPC or not. These positive trends were directionally relevant by April and determinably reliable by June as industries showed sustained deposit levels at or near Q1 2020. The speed of this progress further validated the agility and resiliency of more than 85 percent of our small and mid-size business (SMB) customers. CPC's approach and ability to observe this activity helped to confirm our partners' customers were not only surviving but demonstrating signs of growth in some areas as they adapted new business models and worked to meet altered consumer needs and business demands.

As has been widely communicated, the pandemic had an understandably greater impact on select states and presented more substantial challenges for lenders. Our expectation was to see a dramatically different revenue recovery story in California and New York, for example, versus other less impacted states. The data, however, notably supported that many businesses were at or near Q1 2020 revenues by the fourth quarter of 2020. This visible favorability in these hyper-affected states, and within 6-9 months of the initial impact, was yet another strong indicator that SMBs were finding ways to pull through from an economic perspective.

Weekly Average Deposit Amounts by Group					
Modified	Covid Impact Industry	2020 Deposits 1/5 - 3/14	3/15 - 4/25 Deposits as a % of 1/5 - 3/14	4/26 - 5/30 Deposits as a % of 1/5 - 3/14	5/31 - 6/20 Deposits as a % of 1/5 - 3/14
Yes	High Impact CA & NY	\$25,381	48%	35%	46%
	High Impact - Not CA or NY	\$19,617	45%	84%	91%
	Low/No Impact	\$22,990	78%	75%	93%
No	High Impact	\$31,080	67%	77%	103%
	Low/No Impact	\$26,009	120%	142%	112%

▲ By June 2020, businesses operating in high impacted states (NY, CA), were showing half the recovery of weekly deposit revenue versus those in less impacted states.

Weekly Average Deposit Amounts by Group						
Modified	Covid Impact Industry	Q1 '20 Monthly Deposits	Q2 '20 Deposits as a % of Q1 '20	Q3 '20 Deposits as a % of Q1 '20	Q4 '20 Deposits as a % of Q1 '20	Q1 '21 Deposits as a % of Q1 '20
Yes	High Impact CA & NY	\$96,686	51.9%	50.8%	92.7%	94.4%
	High Impact - Not CA or NY	\$108,078	50.1%	78.0%	81.7%	87.9%
	Low/No Impact	\$119,069	72.4%	76.0%	66.7%	71.2%
No	High Impact	\$85,334	72.1%	94.8%	120.8%	108.6%
	Low/No Impact	\$95,163	98.1%	113.3%	110.2%	98.7%

▲ By Q4 of 2020, businesses operating in high impacted states (NY, CA) had recovered to a sustainable deposit level, over 90% of Q1 '20 revenues and exceeded deposit performance for modified accounts in other less impacted states for the same period. Regarding Modified/Low Impact accounts not rising above Q1 deposit level, this is driven primarily by construction (commercial/residential) and medical/health accounts that have either stayed low or are currently low.

## The PPP Impact

The Paycheck Protection Program (PPP) came available and served as a welcome life vest for businesses owners during this time. For many businesses receiving funds, PPP loans were a means of survival. For others, their situation was perhaps less dire, yet they accepted funds because there was no way of anticipating what may come next and it was a method of preparedness to manage their business. The money was available through a program that was easy, fast and extensive, helping to provide security against the unknown. As the economy started to recover, the return to employment stability and revenue recovery is attributable, in combination, to the resiliency of the SMB community alongside support through the PPP program.



Plaid Data - PPP + SBA Group					
Industry	Q1 2020 Deposits	Q2 2020 Deposits	Q2 Deposits as a % of Q1	PPP or SBA Amount	PPP or SBA as a % of Q1 2020 Deposits
Construction (Commercial)	\$353,558	\$302,281	85.50%	\$97,414	27.55%
Construction (Residential)	\$378,029	\$491,224	129.94%	\$98,190	25.97%
Construction (Specialty)	\$271,311	\$383,086	141.20%	\$79,036	29.13%
Local Transportation	\$390,073	\$450,582	115.51%	\$105,939	27.16%
Long Haul Trucking	\$294,843	\$289,552	98.21%	\$123,507	41.89%
Medical / Health	\$182,461	\$121,874	66.79%	\$83,845	45.95%
Services (Other)	\$194,264	\$214,613	110.48%	\$109,674	56.46%
Restaurant Franchise	\$287,979	\$339,200	117.79%	\$112,500	39.07%
Restaurant Non-Franchise	\$429,741	\$221,249	51.48%	\$135,400	31.51%
Auto Repair	\$257,903	\$337,623	130.91%	\$141,286	54.78%
<b>Overall</b>	<b>\$256,105</b>	<b>\$244,027</b>	<b>95.28%</b>	<b>\$100,208</b>	<b>39.13%</b>

▲ Industries or businesses that suffered more severe revenue losses were buoyed by PPP program support. Others that continued operating their business through the pandemic turmoil were able to apply PPP funds toward adaptations to their business model, helping them sustain growth.

### A Long Journey

While the data signals that SMBs were recapturing revenue and managing their business despite continued volatility, the journey to fully overcoming the pandemic will take years and not the months many initially assumed. The Q4 2020 holiday season drove another rolling shut down with businesses closing their doors and then returning to phased reopening slowly across the country. There was a pattern forming and this left us wondering if earlier business adaptations would help our customers weather the ongoing challenges. Twelve months later, the analysis continues to emphasize our assessment that SMBs have adapted and are broadly sustaining revenues through the everchanging landscape. In fact, the top 70% of both low and high impact business types remained above Q1 2020 deposits since Q3 2020, and even earlier for some.

Weekly Average Deposit Amounts by Group						
Covid Impact Industry	Q2 Deposit as % of Q1	Q1 2020 Monthly Deposits	Q2 '20 Deposits as a % of Q1 '20	Q3 '20 Deposits as a % of Q1 '20	Q4 '20 Deposits as a % of Q1 '20	Q1 '21 Deposits as a % of Q1 '21
High Impact	Bottom 30%	\$113,577	45.5%	53.1%	84.7%	86.8%
	Top 70%	\$76,643	81.2%	103.7%	106.6%	115.9%
Low Impact	Bottom 30%	\$73,349	70.3%	65.0%	78.0%	87.8%
	Top 70%	\$78,983	101.3%	114.0%	111.6%	103.5%

▲ The bottom 30% of high-impact industries returned to a sustainable level of revenue by Q4 2020. Regarding the recovery of low-impact industries, they appear to have taken longer to reach a sustainable level but seem to be there by Q1 2021. The slower recovery may be attributed to variables including state and business model among other factors.

As the analysis drills into industry type, the data further supports a positive recovery trend with most businesses operating at a sustainable level by May 2020 and many at or exceeding first quarter revenues by June that were sustained into 2021. For several industries, 2020 brought unprecedented growth as well. For example, Specialty Construction (electricians, plumbers, etc.) maintained deposits well above Q1 for the duration of 2020, particularly as consumers prepared

their households for work- and school-from-home scenarios. Similarly, Transportation (local and long haul), saw increased demand and deposits related to delivery service needs that continue based on a lasting change in consumer behavior. Medical & Health-related businesses have exhibited more fluctuation, experiencing an immediate decline and then bouncing back in Q2-Q3 followed by another slight decline in Q1 2021 which may be attributed, in part, to a second shutdown and fewer elective procedures.

Weekly Average Deposit Amounts by Group - Industry					
Industry	Q1 2020 Monthly Deposits	Q2 '20 Deposits as a % of Q1 '20	Q3 '20 Deposits as a % of Q1 '20	Q4 '20 Deposits as a % of Q1 '20	Q1 '21 Deposits as a % of Q1 '21
Construction (Commercial)	\$112,423	84.5%	91.5%	94.8%	69.2%
Construction (Residential)	\$93,778	118.0%	126.4%	88.8%	70.4%
Construction (Specialty)	\$99,145	126.6%	125.7%	107.9%	92.1%
Local Transportation	\$81,382	114.5%	118.8%	150.7%	113.1%
Long Haul Trucking	\$113,756	80.5%	112.5%	124.3%	109.9%
Medical / Health	\$76,095	95.0%	101.9%	97.7%	78.7%
Services (Other)	\$72,256	79.7%	84.6%	106.4%	95.5%
Restaurant - Franchise	\$144,871	69.3%	95.6%	97.2%	104.4%
Restaurant - Non-Franchise	\$104,633	53.1%	75.0%	67.1%	86.0%
Auto Repair	\$98,429	89.4%	95.2%	87.3%	91.9%

▲ Weekly deposits by quarter show consistent growth across most industry types through Q4 2020. Declines in Q1 2021 are attributed to 2020 year-end holiday period and a resurgence in COVID-19 cases and shutdowns nationally.

### Open Skies Ahead

Using the deposit data and a unique analysis approach, CPC was able to unveil a reassuring economic story and perhaps much brighter than anyone expected to see by this point. The pandemic and its impact continue nevertheless, perhaps with more turbulence ahead, but through data, we have a clearer understanding for what these moments potentially look like and learnings to help us navigate through them more confidently.

Our world has been permanently altered; this we know to be true. In good times or crisis, the importance of real-time business performance visibility is no longer an option but a necessity for lenders to remain competitive. However, what the data also represents is the incredible strength of the equipment finance industry and our SMB customers with encouragement that we will continue to rise through this unprecedented time together.

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