FINANCE 2030

Investments, financing and banking will undergo transformative shifts in the next 15 years

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ALTERNATIVE FINANCING

By 2030, banking regulations and tight lending markets won't stop people from getting the investment and loans they need. While the rise of peer-to-peer lending and equity crowdfunding won't make banks defunct, alternative finance will offer other solutions to entrepreneurs and business owners, financial experts say.

Take peer-to-peer lending platforms such as Prosper and Lending Club. Instead of someone applying for a traditional loan at a bank, people who need money log on to the platform and are connected with another individual who has money to invest, said FinTrust Investment Advisors CIO and Chief Compliance Officer Allen Gillespie, who cowrote an equity research paper on Lending Club. Borrowers make payments back on the loan, with interest.

While the platform started with just personal loans, some peer-to-peer lenders now offer small-business loans, which could have serious implications for the traditional banking industry's hold on consumer and business lending, Gillespie said.

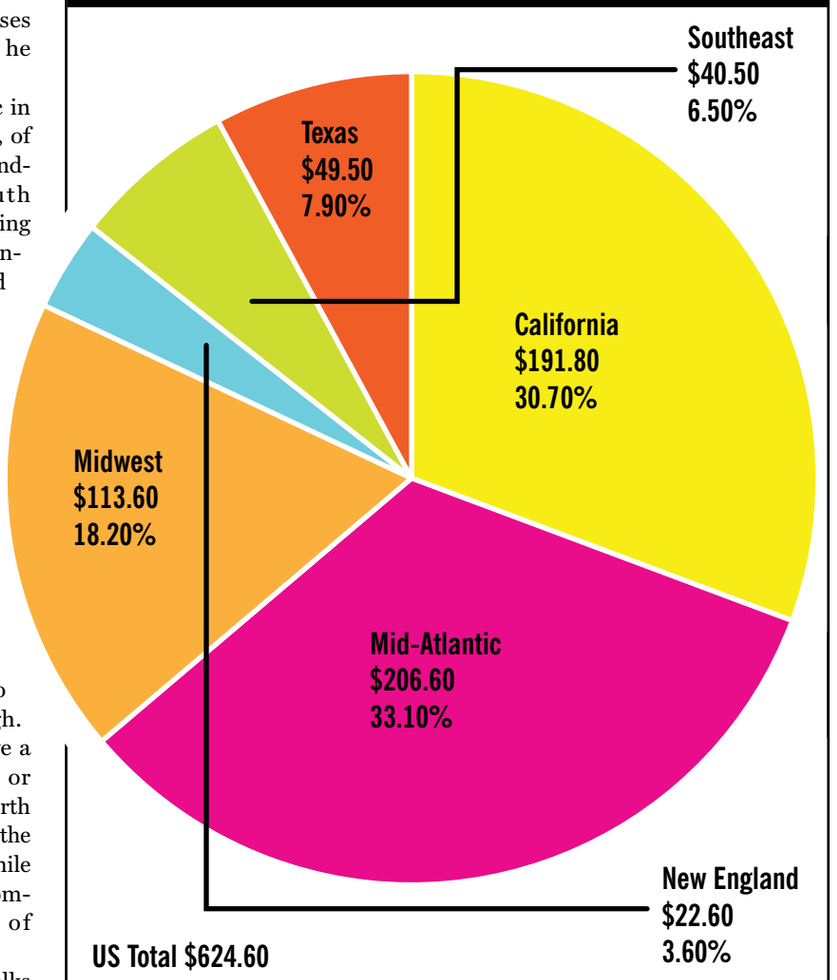
"I think it's going to be transformative [for South Carolina] if businesses can learn to use it," he said.

The other hot topic in alternative finance is, of course, equity crowdfunding, which South Carolina has been flirting with since a bill was introduced and defeated last year. Reintroduced this year by S.C. Rep. Dwight Loftis, the bill could unlock new channels for capital by permitting more people to invest.

As it is, current securities law only allows accredited investors to participate in equity crowdfunding, and the bar to be accredited is high. Individuals must have a salary of $200,000 or more, or have a net worth of $1 million excluding the value of their house, while couples must have combined salaries of $300,000 or more.

"There are a lot of folks who say it's too hard to be accredited, that the threshold is too high, that it doesn't allow enough people to invest in these private offerings," said Nelson Mullins Riley & Scarborough partner Mike Johnson. For example, some of the most knowledgeable people about the subject, those who work at the Securities and Exchange Commission, might not be accredited, he said.

REGIONAL M&A TRENDS, H1 2014



Source: Mergermarket H1 2014 report, Southeast US

SOUTHEAST M&A ACTIVITY H1 2014 BY INDUSTRY

1. Pharma, Medical & Biotech	$8.5 billion	21% of market share
2. Financial Services	$8.1 billion	20.1% of market share
3. Business Services	$5.4 billion	13.4% of market share
4. Technology	$4.9 billion	12.1% of market share
5. Other	$13.5 billion	33.5% of market share

Source: Mergermarket H1 2014 report, Southeast US

FEWER BANKS, BIGGER BANKS

The bank of tomorrow is going to be accessible from everywhere. It's also going to be huge, according to Greenville-based Southern First CEO Art Seaver.

"Fifteen years ago, it was about branches and locations," said Seaver, who also served as the S.C. Bankers Association Board of Directors chairman in 2013. "In 15 years, banking will have nothing to do with locations."

That doesn't mean physical locations won't exist, however. Branches are important for visibility, and customers place value on non-automated and professional relationships, Seaver said. But it means there might be fewer of them, and the number of branches won't be indicative of a bank's success. Case in point: Southern First only has four Greenville branches, but has the fifth-largest market share, he said.

While the cost of technology has evened the playing field for banks of all sizes, however, ever-tightening industry regulations have raised the barriers to market entry so high that very few new banks will even try, said Seaver.

"It will be hard for the $100 million, $200 »

» million bank to survive just because of the regulations," he said. Increased overhead costs come primarily from ever-tightening regulations, which take tremendous toll on banks that have to allocate resources to absorb, understand and implement rules. For example, the Dodd-Frank Wall Street Reform Act, which was enacted to prevent events that led to the 2008 financial crisis, included more than 14,000 pages of dense legal parameters.

Only one bank has been created in the last two years, said SC Bankers Association President and CEO Fred Green. On top of that, dwindling customer foot traffic to traditional brick-and-mortar locations means branches have less utility per customer, which further increases costs.

"It's a lot harder to start a bank because that profitability you were able to count on in the first, second or third year won't be there until the fourth, fifth or sixth," said Seaver. "For banks that aren't growing, that cost is going to be so prohibitive that they're going to look for an exit strategy."

The result? Even more mergers and acquisitions, which gradually thins the herd to include just fewer, but much larger, banks.

BOOMER BLOWOUT, BURNING BUILDUP AND BETTING ON RECOVERY

Many firms have extra money to spend, and it's been burning a hole in their pockets since before 2008.

"Before the economy went through its great recession, a record amount of money was raised before the economy went down," said Devin Green, COO of Greenville-based independent M&A advisory firm The Capital Corp. "All of that money that was raised … they pressed 'pause' because they didn't want to buy a company with the economy the way it was."

Now, private equity firms and companies are looking to put that money to work, which will drive heightened mergers and acquisitions activity for years to come.

But there's another reason activity is up: baby boomers.

"So 8,000 Americans turn 65 every day right now, and a lot of those own businesses. A lot of those don't know who is going to run their business once they retire," said Green, whose firm works with companies earning $10 million to $100 million in revenue. "Because they don't have a son or daughter, or a family member in the business, we're seeing a trend in M&A right now."

The trend could have an even more dramatic effect on capital-starved South Carolina, which has historically low levels of in-state capital availability.

"There's a massive disconnect between the number of companies and the supply of money," said Green, who said that by necessity much of the buying and investing activity would come from out of state. "There just isn't a lot of private equity in the state."

Founded in 1991, The Capital Corp. works with lower middle market companies with revenues between $10 million and $100 million in revenue across 40 different industries and segments.

POPULATION 2030

The face of the Upstate's future will be older, more diverse

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HISPANICS ON THE RISE

The Upstate as a whole will be much more culturally diverse in 15 years. Growth in business will bring more employees from international companies, and Hispanics will continue on their trajectory of rapid growth in numbers. The U.S. Census Bureau projects 36 percent growth in the Hispanic population by 2030, and local experts expect the Upstate to reflect that trend.

Gustavo Nieves, CFO of UniComm Media, which specializes in marketing to Hispanic audiences, predicts the Upstate's Hispanic community will resemble Charlotte's in 15 years: more participatory in the mainstream community and more economically stable and powerful.

"Our community will be more prominent in offices, professional occupations and executive-level positions, and Hispanic businesses will be significantly more powerful."

—Gustavo Nieves, UniComm Media

WISER ABOUT GETTING OLDER

The Upstate population is skewing older, also in line with national trends. An older population will mean, among many things, more disposable income for housing, services and products that contribute to an active and social lifestyle.

Many retirees will come from outside of the state, said Kevin Parker, executive director of Woodlands at Furman. About 40 of Woodlands residents are from other states, he said.

Russell Stall with Greenville Forward said an aging population will also impact the health care system and require the community to address the rising cost of living.

The population of younger adults will also grow, but in much smaller numbers, according to the U.S. Census Bureau. Their tastes for less fuss might drive a trend toward more urban-style housing development with small footprints, however, Stall said.

"Greenville County will continue to be the reddest county in the reddest state, I think. We'll remain highly religious, as well."

—Russell Stall, Greenville Forward

COUNTY POPULATION PROJECTIONS: 2015 - 2030

	April 1, 2000 Census	April 1, 2010 Census	July 1, 2015 Projection	July 1, 2020 Projection	July 1, 2025 Projection	July 1, 2030 Projection	Expected increase 2015–2030
Abbeville	26,167	25,417	25,300	25,100	25,000	24,900	
Anderson	165,740	187,126	193,300	199,500	209,000	218,500	25,200
Cherokee	52,537	55,342	56,100	56,800	57,000	57,300	
Greenville	379,616	451,225	473,300	495,400	518,800	542,300	69,000
Greenwood	66,271	69,661	70,600	71,500	73,100	74,700	
Oconee	66,215	74,273	76,600	78,900	84,000	89,100	
Pickens	110,757	119,224	121,600	123,800	128,300	132,900	
Spartanburg	253,791	284,307	295,100	305,800	318,500	331,200	36,100
Union	29,881	28,961	28,700	28,500	28,300	28,100	
York	164,614	226,073	248,800	271,500	296,100	320,700	
South Carolina	4,012,012	1,521,609	1,589,400	1,656,800	1,738,100	1,819,700	

	2015 Projection	2030 Projection	Expected Increase	% Expected Increase
Upstate	1,589,400	1,819,700	230,300	14.49%
GSA	961,700	1,092,000	130,300	13.55%
Outside Greenville	1,116,100	1,277,400	161,300	14.45%

Source: U.S. Census Bureau, S.C. Department of Health and Environmental Control, and S.C. Budget and Control Board - Office of Research & Statistics.