THE UNIVERSITY OF TAMPA
JOHN H. SYKES COLLEGE OF BUSINESS

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the tampa bay economy

TAMPA BAY: THE NEW HOT SPOT

by Speros Margetis, Ph.D.

The Tampa Bay area has invested in the infrastructure needed to develop a culture of success, and is poised to be the next hot spot. A "hot spot" has been described as a geographical cluster of high growth firms within industries. High growth firms with similar expertise often aggregate in common hot spots because of proximity to research activity, talented individuals and venture capital. For example, Silicon Valley is home to the computing industry and Boston, San Diego and San Francisco Bay are homes to clusters of biotechnology firms. These areas have developed both the infrastructure and a culture of success that attracts high quality managers and providers of capital.

Tampa Bay has the combination of entrepreneurs, university involvement, an active angel community, venture capital funds, private equity funds, investment banks and favorable government regulation that provides a great environment for attracting high quality companies and well funded private equity partners. The private equity industry is relatively young in Tampa Bay, but it already boasts many successful companies and providers of capital. The University of Tampa has helped provide the industry with talented students as interns and has had several graduates join the private equity and investment banking communities in the Tampa Bay area.

Entrepreneurs and private equity investors have a symbiotic relationship in which entrepreneurs create successful companies poised for growth and the private equity partners provide capital and expertise to achieve that growth. The creation of successful companies in the Tampa Bay area generates deal flow that attracts private equity investors to the region. As more providers of capital come to Tampa Bay, the successful high growth companies remain local and maintain access to the capital required for continued growth. As the industry grows, it creates a culture of success in which talented managers partner with savvy investors to create the next generation of growth firms. Over time these partnerships develop a history of success, which attracts even more successful companies and private equity investors. Universities, incubators, investment bankers, service providers, and other organizations in the Tampa Bay area enhance the ability for growth for private equity investments.

Areas like Boston, Silicon Valley and the Research Triangle in North Carolina have long histories of success that have created a culture of entrepreneurs and capital providers working together to create value for each other. Talented entrepreneurs and capital providers are attracted to these areas as they provide substantial employment and investment opportunities. Many Tampa Bay companies have benefitted from private equity investments; Qualawash Holdings, The Main Resource Inc., Educational Symposia Persistent Technology, Health Integrated, Ideal Image, Lifestyle Family Fitness, and PODS, just to name a few. These success stories create a culture of success in Tampa Bay that attracts the entrepreneurs and capital providers for the next round of growth companies.

Tampa Bay is home to a network of investors, entrepreneurs, universities and organizations that help attract fast growing companies. To fuel the growth of these companies, Tampa Bay provides a high quality, well educated employee pool, a diverse array of service providers, and many value enhancing investors. The culture of success is gaining traction in Tampa Bay, and entrepreneurs are benefitting from the opportunities Tampa Bay provides for new ventures. The following is a brief description of just a few of the entities in Tampa Bay that are helping the area become the next hot spot for high growth firms.

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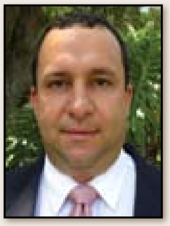

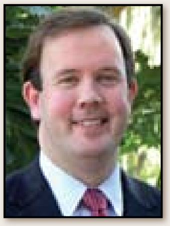

New World Angels is an organized network of angel investors that provide equity capital to early-stage entrepreneurial companies in the state of Florida. New World Angels has chapters in South Florida and the Tampa Bay area and is typically a lead or co-investor in transactions totaling between half a million dollars and $2.5 million. Members of New World Angels have extensive experience in

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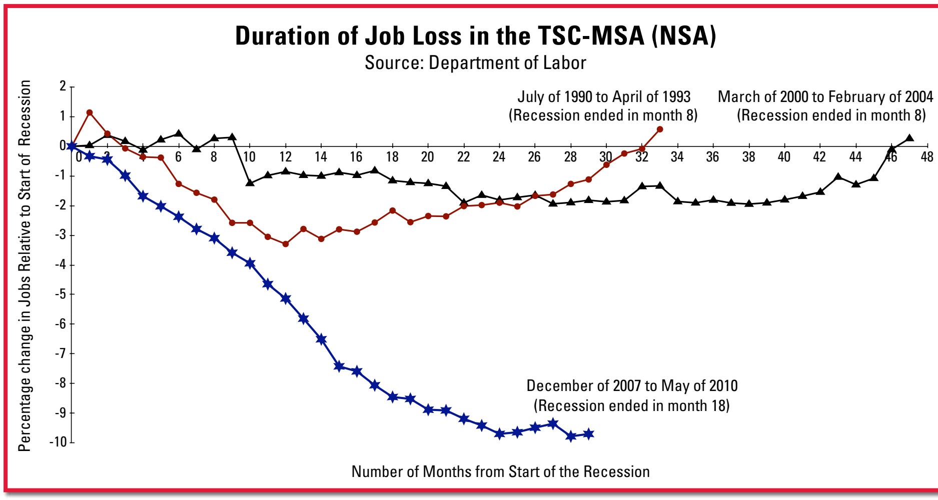
TAMPA BAY ECONOMIC ANALYSIS

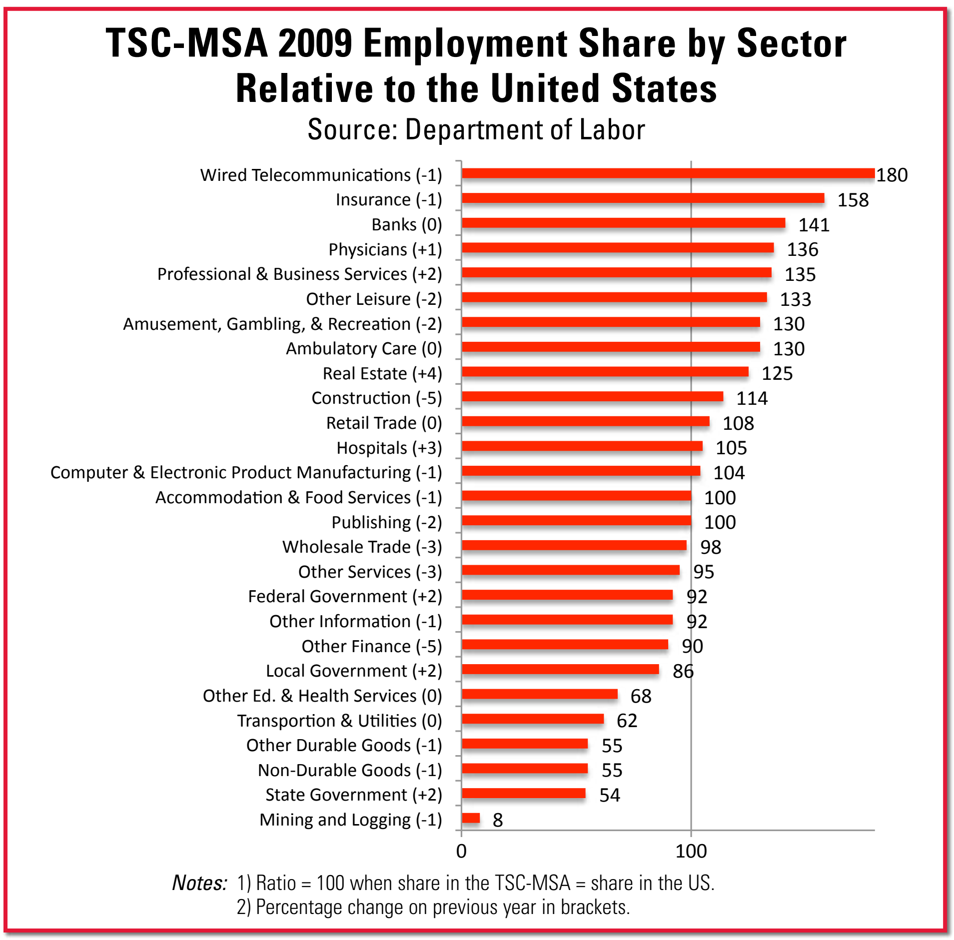
by Brian T. Kench, Ph.D.

The Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (TSC-MSA) is comprised of Hernando, Hillsborough, Pasco and Pinellas counties. Overall the area has exhibited weakness as it continues to adjust to decreased home values and an elevated unemployment rate. However, beginning in July of 2009, the year-on-year increase in job losses ebbed, over the last several months the area has experienced an overall easing in the pace of job losses, and in some sectors the level of jobs has started to increase.

In the TSC-MSA 2009 Employment Share by Sector Relative to the United States figure, we highlight the sectors in which Tampa Bay specialized in 2009. The analysis has neutralized common macroeconomic events in the dataset by comparing local sector shares relative to national sector shares. The analysis reveals that the top sectors in the TSC-MSA are wired telecommunications, insurance, banks, physicians, professional and business services, other leisure, amusement, gambling, recreation, ambulatory care, real estate, construction, retail trade, hospitals, and computer and electronic product manufacturing. Between 2008 and 2009, the Great Recession caused the relative share to decline most acutely in construction, other finance, wholesale trade and other services.



In the Duration of Job Loss in the TSC-MSA figure, we demonstrate the nature of job loss for the past three recessions. It vividly shows how awful the Great Recession has been to the Tampa Bay area. In the 1990-91 recession, it took 32 months to claw back to the level of jobs that existed prior to the recession. In the 2001-03 recession, it took 46 months. As of May of 2010 (the last month for which we have data), 28 months had passed since the recession began. Job losses in the Tampa Bay area have far exceeded the last two recessions. At the depth of the Great Recession, Tampa Bay had lost 123,600 jobs. By May of 2010, job losses decreased to 109,100. More over, this time job losses have exceeded losses in all prior recessions for which data have been collected by the Department of Labor. We continue to forecast that it will be well over a year before nonfarm payroll jobs in the TSC-MSA will reach the level observed prior to the Great Recession.



Notes: 1) Ratio = 100 when share in the TSC-MSA = share in the US.
2) Percentage change on previous year in brackets.

The unemployment rate in the TSC-MSA was 11.7 percent in May 2010, which is higher than the national unemployment rate by 2 percentage points. The unemployment rate in Hillsborough County was 11.5 percent, which is 0.2 of a percentage point below the unemployment rate for the entire MSA and 0.3 of a percentage point higher than the unemployment rate for the state of Florida. We forecast that the unemployment rate will continue to ebb, with occasional retreats, as the economy gains strength.

The Price-Rent Index for the TSC-MSA figure shows the price of area homes relative to their implicit rental value. The price component of the index is the existing homes sales price index published by the Federal

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Housing Finance Agency. The rent component of the index is the owner's equivalent rent index published by the Department of Labor. The figure suggests that from 2001 to 2006 home prices were high relative to rents — in retrospect, a clear sign of a housing bubble. During the Great Recession, the price-rent ratio has declined dramatically. By the end of 2009, the price-rent ratio reached a level not seen since 2000. Currently, the ratio reveals that in the TSC-MSA an individual could purchase a home or rent the same home at a similar monthly expenditure level — evidence that the housing bubble in Tampa Bay has been deflated.

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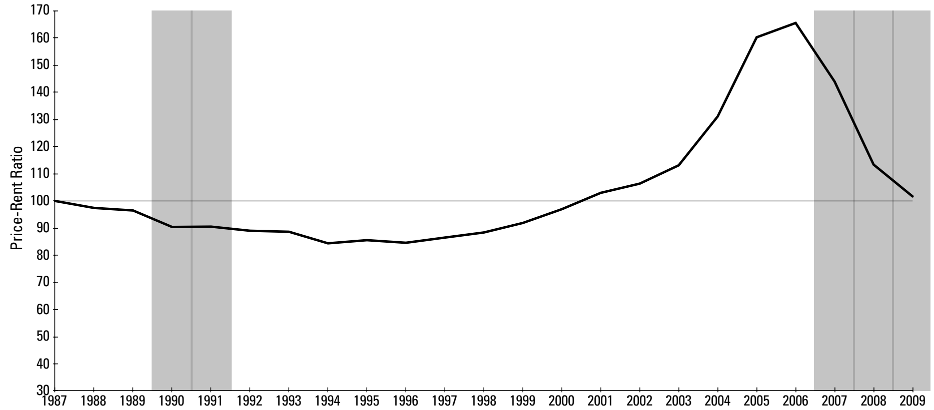
Price-Rent Ratio for the TSC-MSA

Source: Department of Labor, FHFA, and personal calculations



Note: Recessionary Periods in Grey

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founding, building, and managing companies in a wide variety of industries. In addition to providing funding, New World Angels makes their expertise and resource networks available to portfolio companies.

Mangrove Equity Partners LP is a Tampa–based, lower middle market private equity fund. Mangrove's partners have more than 40 years and 100 transactions worth of private equity experience across 49 industries. They use their equity fund to sponsor owners and operators in management buy-outs, management buy-ins, majority recapitalizations, family succession recaps, and industry consolidations. As a partner with the incumbent owners, Mangrove is a combination of a well funded and financially savvy partner with transaction experience, operational know-how to fully capitalize on growth opportunities, and a team that understands the importance of preserving positive cultural aspects of successful privately owned business. Mangrove's partners have long maintained a prudent balance between the ability and desire for rapid growth with the need to ensure that the personnel and infrastructure are sufficiently robust to reliably manage significant growth.

KLH Capital LP is a private investment fund founded to provide entrepreneurs with growth capital, minority and majority recapitalizations, management buy-outs and buy-ins, family succession and industry consolidation strategies. Throughout the past 20 years, the partners of KLH Capital have founded two equity firms and in doing so, have invested more than $350 million into over 100 companies nationwide. KLH is unique in the industry as their fund is composed of personal wealth. This allows KLH Capital flexibility in deal structures, which include common equity, preferred equity and debt, and more importantly, time horizon. KLH Capital will entertain majority, minority, and mezzanine positions. KLH Capital is one of two private equity funds that qualify as a Small Business Investment Company. They have 10 platforms in their portfolio, three of which are Bay area based companies: Qualawash Holdings, The Main Resource Inc., and Educational Symposia. Because KLH Capital invests with personal capital, they have seen little drop off in deal flow during the recession and a substantial increase thus far in 2010.

Stonehenge's Capital Corporation was formed in 1998. The firm was spun out of Bank One Corp. following the merger with First Chicago NBD. Stonehenge operates state-specific funds in eight states including New York, Florida, Alabama, Louisiana, Missouri, Wisconsin, Texas and Colorado with approximately $450 million under management. The Florida Fund is a $31 million fund established in 1998. Around 70 percent of the investments have been technology-based companies with revenues around $3 million to $10 million. Stonehenge does not provide seed capital, but typically participates in the first institutional round. Stonehenge's investment strategy is predicated heavily upon a company's product or service having been developed, commercially or widely accepted in the marketplace, and customers who support and endorse the product or service. Their investment is typically used for sales and marketing of a product or to purchase revenue-generating assets.

Hyde Park Capital Advisors LLC is an institutionally focused investment banking firm serving the corporate finance needs of companies typically located in Florida and the Southeastern United States. The principals have extensive investment banking experience executing merger and acquisition engagements, including purchase and sale of company assignments, recapitalizations, financial advisory, fairness opinions and raising growth capital for companies, including equity, mezzanine and senior debt. With experience in the business services, consumer services, education, financial services, healthcare, industrial and technology sectors, Hyde Park Capital broadly represents outstanding growth companies in any industry. Hyde Park Capital professionals have advised on more than 300 corporate investment banking transactions totaling more than $10 billion in transaction value.

Robin Kovaleski, executive director for the Florida Venture Forum, states "Tampa Bay is a proven leader in fostering innovation, and investors have taken notice. We are solidly 'on the map' thanks to a robust entrepreneurial spirit that abides here." The Florida Venture Forum was founded in 1984

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U.S. ECONOMIC RECOVERY: SPEEDING UP OR SLOWING DOWN?

by Vivekanand Jayakumar, Ph.D.

As the temperature rises and summer kicks into high gear across the United States, the status of the nascent economic recovery is being debated by economists and policymakers alike. At the mid-point of 2010, the U.S. economy, which fell into a recession in December 2007, appears to be finely balanced between continuing on a gradual recovery path and tipping back into a slowdown — the dreaded double-dip recession. While the economic performance in early 2010 generated optimism about the pace of the recovery, more recent data suggest some moderation of earlier expectations for growth in the second half of 2010 and 2011.

During the second-half of 2009, several key macroeconomic indicators signaled that the worst effects of the recession had receded. Evidence of an uptick in the economy was seen even in the broadest measure of aggregate economic activity, the gross domestic product (GDP). As shown in the nearby figure, the U.S. has experienced positive GDP growth since the third quarter of 2009. However, the pace of the recovery appears to be slowing.

The closely watched Institute of Supply Management's Purchasing Managers' Index (PMI) indicated that the manufacturing sector had been growing for 11 consecutive months as of June 2010. However, the pace of growth appeared to slow as the PMI index fell from 59.7 in May to 56.2 in June. (Typically, a PMI index over 50 represents expansion within the manufacturing sector of the economy compared with the prior month, while a reading under 50 represents contraction.) The Institute of Supply Management's Non-Manufacturing Index (NMI) suggests that while a recovery in the service sector has been under way since the second half of 2009, the growth momentum may be fading as we head toward the second half of 2010. The nearby PMI and NMI figure shows recent trends in the indexes.

Besides the indicators discussed above, housing sector starts, home sales, and vehicle sales also indicate that the pace of growth slowed at the end of the second quarter of 2010. The most politically sensitive macroeconomic data of late has been the unemployment rate and the payroll jobs number. The U.S. Unemployment Data figure on page 5 shows that the U.S. unemployment rate continues to remain stubbornly high, at 9.5 percent in June 2010. In addition, the figure shows that the share of the unemployed who have been out of work for 27 weeks or longer, the so-called long-term unemployed, is over 45 percent. The payroll numbers, which provide an indication of the number of non-farm jobs being created or lost each month, has in recent months been skewed by the hiring/firing of census workers by the U.S. government on a temporary basis. For instance, the negative payroll jobs number (-125,000) for June 2010 was largely because of the elimination of 225,000 temporary census positions, whereas the private sector, in fact, added 83,000 jobs.

Overall, according to the Bureau of Labor Statistics (BLS), during the first half of 2010, private-sector employment rose by 593,000. Despite that, the private sector employment in June 2010 was 7.9 million below its December 2007 level. Given that around 8 million workers who lost jobs during the recession have yet to find work, it is clear that the current pace of new job creation is inadequate. It is worth noting that around 110,000 to 120,000 jobs need to be added each month just to absorb the natural growth in the labor force from population and demographic changes. Even with steady creation of around 2 to 2.4 million jobs a year, it will take the U.S. another 6 to 8 years to reach the pre-recession unemployment rate of under 5 percent.

Looking at potential drivers of growth in the near term, it is clear that American consumers are unlikely to provide a significant boost to the recovery process. This recession has significantly dented the balance sheets of many Americans. Back to back asset market bubbles — first in equity and then in real estate — propelled many households to embark on a spending binge between the mid-1990s and mid-2000s. Inflated equity and real estate values made Americans feel wealthy on paper, and, it encouraged many to reduce their personal savings and to spend a greater share of their income. The low interest rate policy of the Federal Reserve, especially during 2002-2004, and relaxed credit standards and financial innovations also contributed to a debt-fuelled consumption boom. By 2007, household consumption spending reached around 70 percent of GDP. However, as asset prices declined precipitously in recent years, many households saw a painful drop

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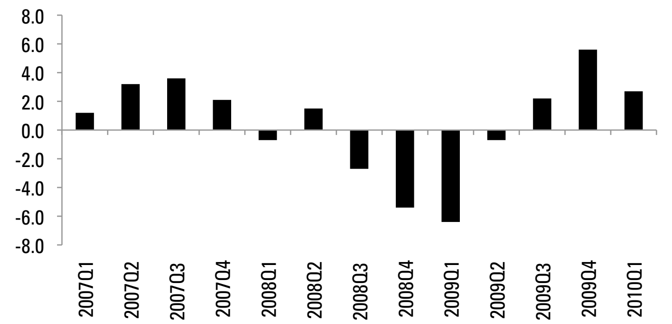
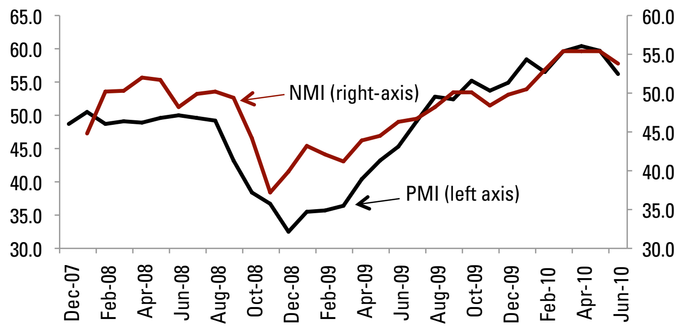
US Real GDP Growth Rate
Percent Change on Previous Quarter at Annual Rate (SA)
Source: Bureau of Economic Analysis



PMI and NMI
Source: Institute of Supply Management



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in their wealth levels. Lower asset values, coupled with tighter credit access and higher unemployment rates, imply that many Americans face a painful future oriented towards repairing household balance sheets.

There are some who expect business spending to be a key driver of growth in the second half of 2010. U.S. businesses do have the cash to spend as impressive cost cutting and dramatic productivity growth has boosted profitability over past year. However, business investment is likely to remain relatively weak as many sectors still face overcapacity. According to the Federal Reserve, the capacity utilization rate in May 2010 was around 74.7 percent, up from 72 percent in December 2009. However, current levels are still below the 1972-2009 average of 80.6 percent. Additionally, significant uncertainty over the direction of the economy and concerns regarding the vigor of the American consumer implies that businesses will remain cautious in the near term.

An interesting potential driver of growth in the near to medium term for the U.S. may be exports to the rest of the world. In fact, the current administration has made export growth a critical part of its economic recovery plan. While sales of American products in emerging markets may rise, reflecting faster growth in Asia and Latin America, there are significant headwinds arising from the recent turmoil in the eurozone, the collection of European countries that adopted the euro as their currency. The sovereign debt crisis afflicting several eurozone economies, such as Greece, Spain and Portugal, and the associated austerity measures being implemented by affected countries is likely to slow down growth in Europe, a key market for the U.S. Additionally, the weakened euro may create tremendous competition for American exporters in third markets such as China and Latin America. An export powerhouse, like Germany, may find that a weak euro dramatically improves the competitiveness of its products relative to U.S. products in international markets. As such, the slowdown in the eurozone, coupled with a weaker euro, may negatively affect export driven growth prospects for the U.S. in the second half of 2010.

As some of the economic momentum from the first half of 2010 fades, and as traditional growth drivers face challenges, a sharp debate has once again been rekindled regarding the appropriate response from monetary and fiscal authorities. On the monetary policy side, the Federal Reserve is expected to keep short-term interest rates at current levels for the rest of 2010. The underlying frailty of the recovery and the lack of near-term inflationary pressures will allow the Federal Reserve to maintain its easy stance for at least another six months. The interesting debate, however, centers on fiscal policy actions.

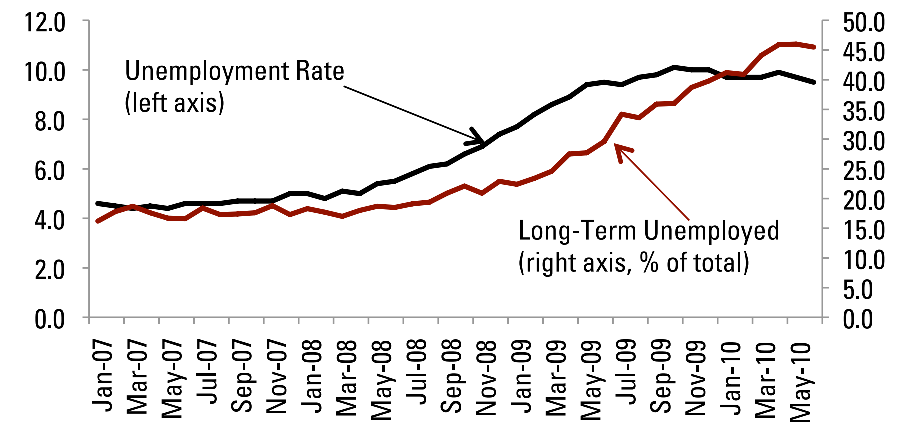
Some economists, such as Paul Krugman, emphasize the need for further large scale stimulus to prop up aggregate demand, and warn those prescribing fiscal austerity of a repeat of Depression-era mistakes. Meanwhile, the 2010 federal budget deficit is expected to exceed the record-breaking 2009 deficit of $1.4 trillion. According to the Office of Management and Budget (OMB), in 2010, the federal gross debt is expected to exceed $13.7 trillion or around 94 percent of GDP. The debt held by the public, which excludes debt that one arm of the government owes another, is expected to near $9.3 trillion or around 63.6 percent of GDP. Not surprisingly, this has imposed political limitations on further fiscal expansion. Additionally, recent events in Europe have highlighted the risks of profligate government spending.

Running counter to calls for further fiscal support, a few economists are recommending fiscal austerity as the appropriate response to current conditions. Harvard economist Alberto Alesina, for instance, has suggested that decisive spending cuts might in fact help restart the economic recovery process. In light of growing concerns, credible budgetary cuts may calm jittery financial markets and reduce business uncertainty. Additionally, effective debt reduction measures are likely to reassure households that they are unlikely to be burdened in the future with massive tax increases and high interest rates. Surprisingly, key European economies such as Germany and Britain are heeding the call of fiscal austerity while the U.S. continues to debate ways for the government to provide further economic support.

Overall, the U.S. economy is likely to muddle though the second half of 2010 with GDP growth in the 2-to-3 percent range. Only a slight improvement in labor market conditions is expected. It is worth realizing that we have been through an unusual recession. Before we can return the economy to long-term health, fundamental structural problems in the American economy need to be addressed. The debt-fueled consumption boom and low interest rates skewed the economy toward an excessive dependence on sales and purchases of durable goods and housing during the past decade and a half. The financial and construction sectors became central to job creation during this phase. To return to a more sustainable growth path, the U.S. should wean itself away from profligate consumption and reduce the dominance of finance and construction industries. Sadly, such a radical restructuring of the economy is likely to be painful in the short-run as some industries have to shrink, with some jobs permanently disappearing, while new sectors develop.

U.S. Unemployment Data

Source: Bureau of Labor Statistics



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to accelerate the successful development of the entrepreneurial community in the state of Florida. Along with educational seminars for entrepreneurial companies, the Florida Venture Forum hosts an annual Florida Venture Capital Conference. The purpose of the Annual Conference is to showcase later stage, high growth private companies before a national audience of venture capitalists, private equity investors and investment bankers. Bringing investors and companies seeking financing together facilitates the occurrence of the transactions. The presenting companies at the Florida Venture Forums Conference have risen more than $2 billion of equity financing for companies seeking equity.

The Florida Entrepreneurship Center in the John H. Sykes College of Business at UT teaches critical skills for anyone who wants to be an entrepreneur or think like one. The College of Business also has an extensive internship program that provides Tampa Bay companies with bright, energetic students seeking to gain experience and demonstrate their work ethic and capabilities. Several of the internships in the private equity and investment banking community have led to permanent employment for alumni of The University of Tampa.

Travis Milks '00 interned with Stonehenge Capital and then worked with the company as an associate. Travis left Stonehenge Capital to complete his MBA at Harvard Business School (class of 2008) and subsequently returned as a vice president. Several recent graduates of The University of Tampa have taken jobs in private equity and investment banking in the Tampa Bay area. Jarrod Randel '06 is an associate at Stonehenge Capital. He is responsible for the underwriting and administration of equity and mezzanine investments and for providing analytical support to the investment officers. Kyle Wright '08 works closely with Glenn Oken at Mangrove Equity Partners in sourcing and vetting attractive companies and industries in which to invest. Following internships completed at KLH Capital and Hyde Park Capital, Jennifer Paul '09 took an analyst position at Hyde Park Capital where she supports mergers and acquisitions, raising private capital, and corporate finance efforts. Kyle Madden '08 joined KLH Capital where he is responsible for all deal origination due diligence, financial analysis and marketing efforts. These UT alumni are superb examples of the high quality, well educated workforce that Tampa Bay offers to help fuel our developing hot spot.

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