

The State of the Real Economy: Where Private Companies Stand and Why You Should Care

By Motley Fool Staff, October 18, 2011

Brian Hamilton is the co-founder and CEO of Sageworks, a financial software and information company serving thousands of accounting firms and financial institutions across North America and the United Kingdom. Sageworks has unique insights into the 27 million privately held companies in the U.S.

At our recent Motley Fool 2011 Investing Conference, Hamilton gave a presentation on "The State of the Real Economy: Where Private Companies Stand and Why You Should Care." You can watch the video [here](#) or read the full, lightly edited transcript below. Note: This was recorded on Sept. 22, 2011.

Dayana Yochim: Our next speaker is Brian Hamilton. He is the co-founder and CEO of Sageworks, which is a financial software and information company. He travels very light, and for the next 15 minutes his six PowerPoint slides are going to blow your mind. Really. You want to make that bathroom break really fast. So as soon as Brian is up there, let us welcome Brian Hamilton.

Brian Hamilton: Thank you very much. [Applause.] I will have to confess something up front. I have to be sure not to turn this into an advertorial for Sageworks, but I think you will know why I am giving you a little bit of a background as I start.

Our company, Sageworks, is the developer of a technology called Find. We basically take financial statement numbers and convert those numbers into words. It sounds like a lot of people might appreciate that type of thing. It is all AI-based and we sell to bankers and we sell to accountants. And the reason that I am mentioning that is because each day there are about a thousand companies that are run through our system and they are privately held companies. So they go through our system, we kind of take all the financial stuff and we throw it out into a narrative description of any particular company.

So what I really want to do is kind of change the paradigm a little bit and rather than just talk at you, I will take some questions. Look at me as a window to sort of the privately held company world, because we are gathering data on privately held companies throughout North America, and I think we can give you some insights on that part of the world, which happens to be a very significant part of the world, OK?

I don't know if my first slide is up there, but I will use my cheat sheet over here, too. There are 27 million privately held companies in the U.S. There are about 5,000 publicly traded firms. It is fascinating to me; it always has been because we all kind of, sort of around know that. We are aware that there is not that many publicly traded firms and the number keeps going down over the last 25, 30 years. I don't know exactly where it is, but between 5, 6, 7,000 publicly traded firms, 27 million privately held companies. The vast majority of jobs are generated by privately held firms. GDP is driven by privately held companies, so it is not a mistake or it is sort of like one of these "earth is flat"-types of things where we think, and obviously it is very important what is going on in Wal-Mart because the publicly traded world is where we put our assets, so we want to know what is going on there.

But on an economic level, on a macro level, what is going on with privately held companies is very significant to everything that we are doing. And it is often left out of the equation mostly because the conversation is around not just the investing world, but we know a lot more about these publicly traded firms than we do privately held firms.

By the way, it is fascinating to me as well, we call it the privately held company world rather than the small-business world because you use the word "small business" and you get this picture of someone selling tomatoes at the side of the road or something like that. It is not arrogance, but it is a mental picture around small businesses. I don't know the exact number, but you would be amazed at how many billion dollar, privately held companies there are; more than the publicly traded world. So we know it is an important place in our economy.

Some interesting things from our data. I am just going to give you three pieces of information and then we can chat. The profit per employee at privately held companies is not consistently going up, but it is going up. About 10 years ago or so, there was about \$10,000 in profit per employee and now we are up to about \$15,000 in profit per employee at privately held companies. By the way, like Disraeli said, there are three kinds of lies, you have heard this before: lies, damn lies and statistics, so I am going to be forthcoming on this. Sometimes in the journalism world; we deal with the media a ton at Sageworks. But they will take a look at that one graph or that piece of data; I think it was in USA Today yesterday, as a matter of fact. It is like, well, people are being overworked.

But there are a lot of reasons for more efficiency in profit. It has a lot to do with technology. It is true that people are working longer and longer over the last 50 years. It is astounding. That is definitely true, but also keep in mind that the sales of privately held companies over the last couple of years have been a bit bumpy, so it is not like these companies are just rolling in cash and making tons of money. In fact, their profits have been largely flat for the past couple of years. So efficiency is getting better, but because sales have been bumpy, the actual dollar profit is holding steady.

This is definitely something we should all be watching. It is relevant to everyone in the room. There is no doubt about it, and to me, quite notable given GDP patterns over the last two years. The sales of privately held companies over the last 10 years, you can kind of see it. notice that that started tracking upward, and it is a trailing average, so we have got a bit of a trailing effect here, but it started going up about the end of 2010, but right now through 2011 on a trailing basis, privately held company revenue is up about 6,7%. It is very, very important because it doesn't matter whether you are in the publicly held world or the privately held world, it doesn't really matter. As sales go up, profits tend to go up over time. People start hiring. Things start to get better.

So maybe, and we will cross our fingers a little bit, this could be an optic as to what might happen over the next 12 months where as sales go up, efficiencies get better, profits get better, people start hiring and making more money. Good for the investing world as well because at the end of the day, as you all know, companies are worth what they generate in future net profit or cash flow. It's just the way it is, or it should be anyway. This bodes pretty well. We don't know exactly what is going to happen in 12 months, but it is a good statistic rather than a bad one. And I know most of us are looking at depressing ones lately.

The next graph gives you the incredible, enlightening conclusion that as sales go up, unemployment tends to go down. You can kind of see that with privately held companies as the revenue is going up, unemployment will slide. The big disturbing thing, I know it has been part of the national conversation. I wish I could tell you why this is the case, but why are companies not hiring as sales are going up? We have done lots of studies on this. I

don't want to bore you with all the data, but the truth is I don't know the answer to that. But there is definitely a lagging effect between sales going up over the last 18 months, close to two years, and people hiring people. I think Justin just mentioned what was it, uncertainty, so it is a good escape clause for all of us, right? Everybody is uncertain. We don't know for sure, but again, over a long period of time, as sales go up, companies start to hire people. No matter how efficient they are, they will have a need for more people. So that is a good thing for everyone.

For the full story and video featuring Sageworks' CEO Brian Hamilton, please visit [The Motley Fool - The State of the Real Economy: Where Private Companies Stand and Why You Should Care.](#)