

# BUSINESSPULSE

Third Quarter, 2022



POWERED BY  
BARLOW RESEARCH ASSOCIATES, INC.

The Live Oak BusinessPulse, fielded by Barlow Research Associates, is an invitation-only economic survey administered online or via fax, fielded for two weeks during the first month of each quarter.





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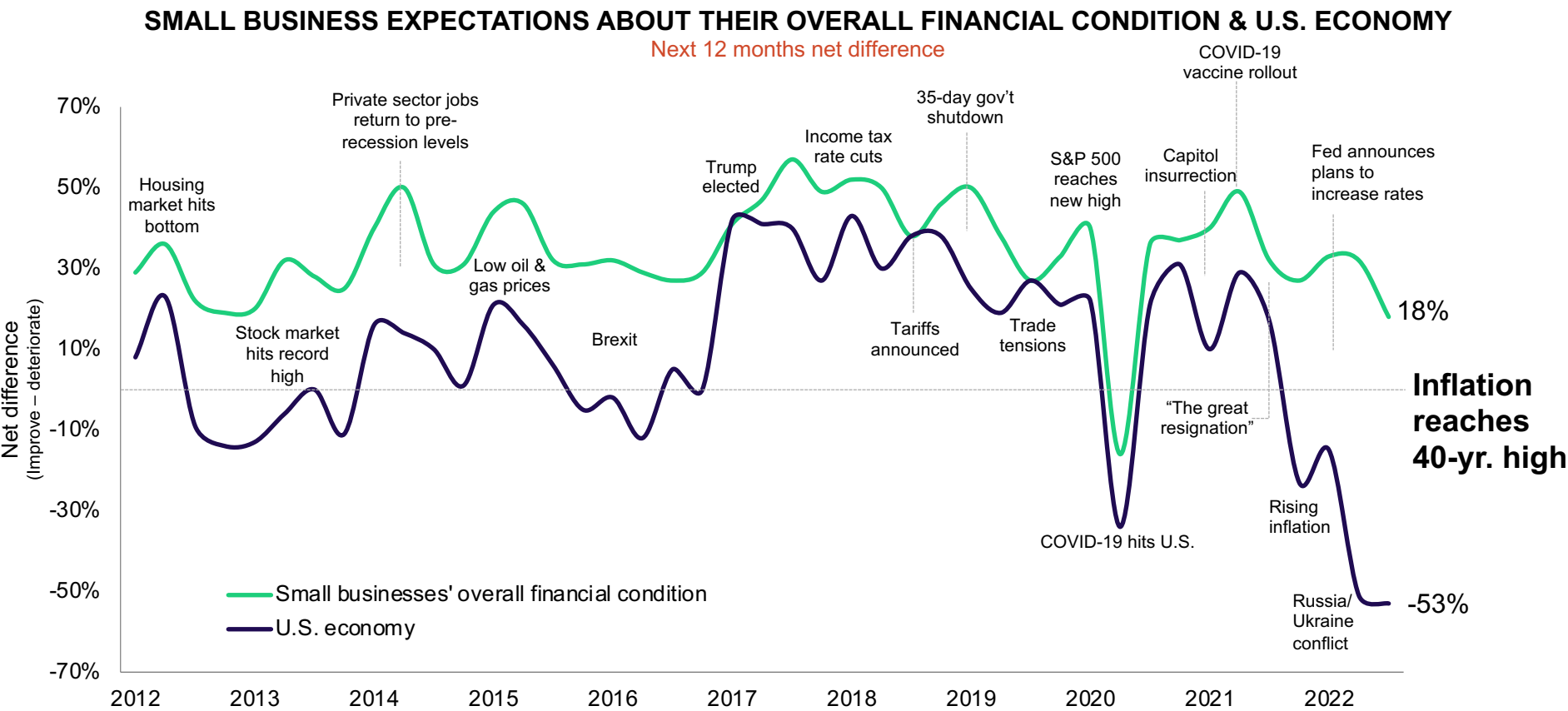
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# Small business expectations about the U.S. economy continued to drop, and expectations about their own financial condition have begun to decline as well

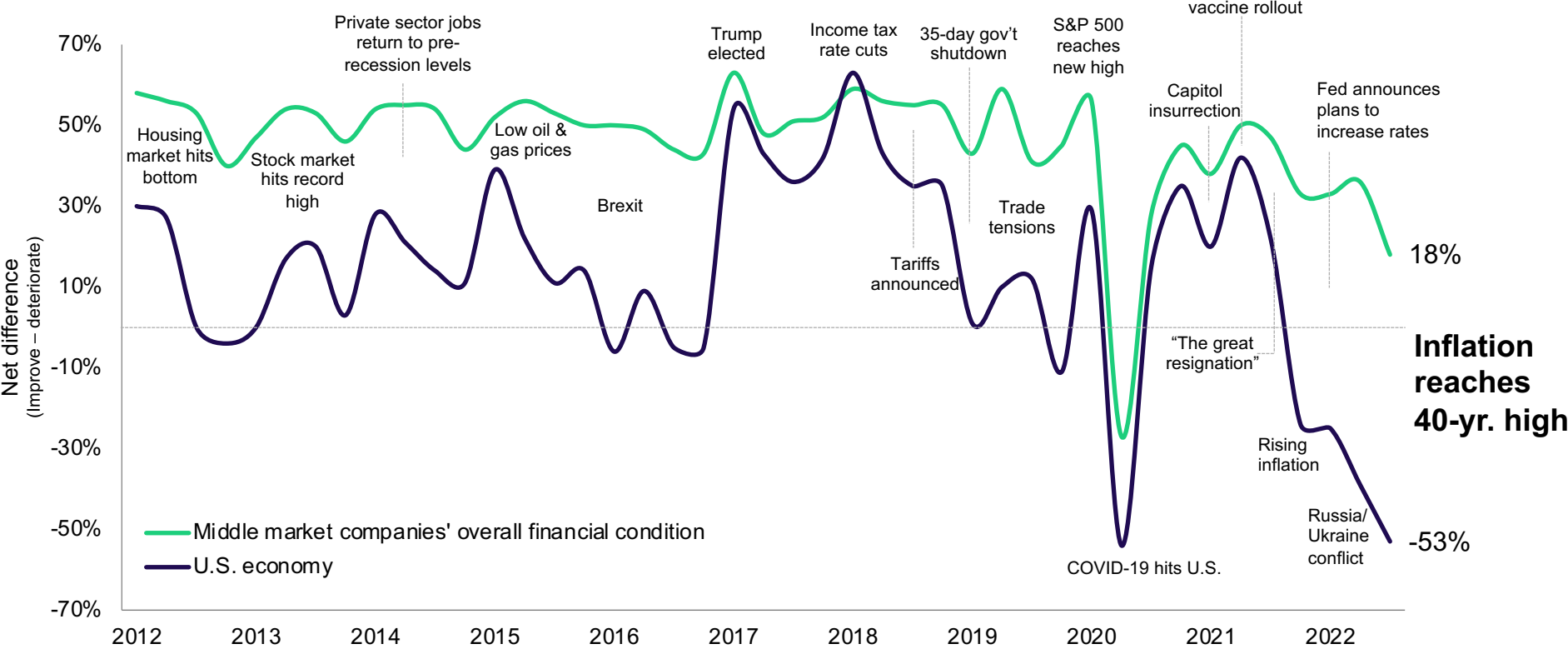


**Q: During the next 12 months, do you expect your company's overall financial condition to...**  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Middle market companies' confidence decreased to its lowest point since the onset of the pandemic

## MIDDLE MARKET EXPECTATIONS ABOUT THEIR OVERALL FINANCIAL CONDITION & U.S. ECONOMY

Next 12 months net difference



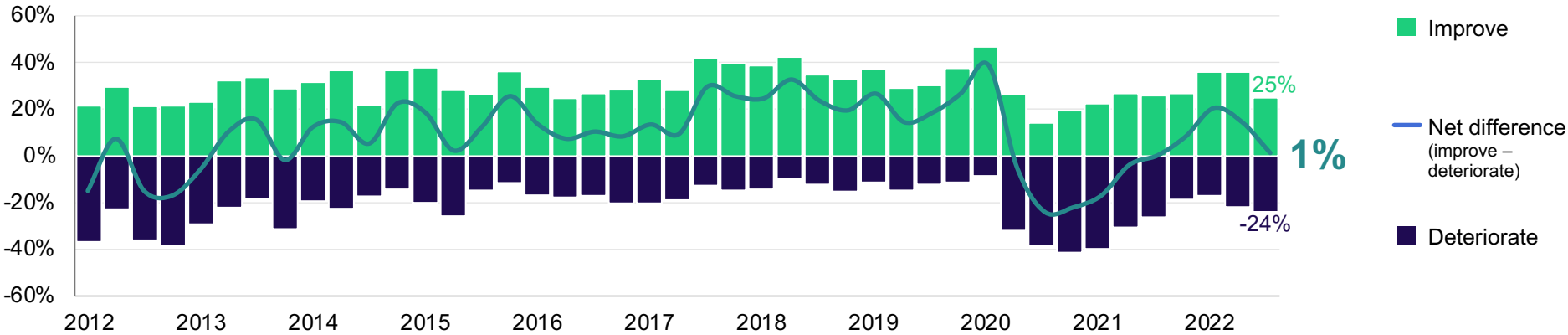
Q: During the next 12 months, do you expect your company's overall financial condition to...  
 \$10MM-~500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

01

# Retrospective economic position

# Small businesses' financial conditions decreased for a second consecutive quarter

**SMALL BUSINESS FINANCIAL CONDITION**  
Past 12 months



**Net difference**

**+1%**

▼ **-13 pts.** from last quarter

▲ **1 pts.** from one year ago

**\$100K-<\$500K**

25% Improve, 21% Deteriorate

Net difference: **-4%**

**\$500K-<\$2.5MM**

19% Improve, 36% Deteriorate

Net difference: **+17%**

**\$2.5MM-<\$10MM**

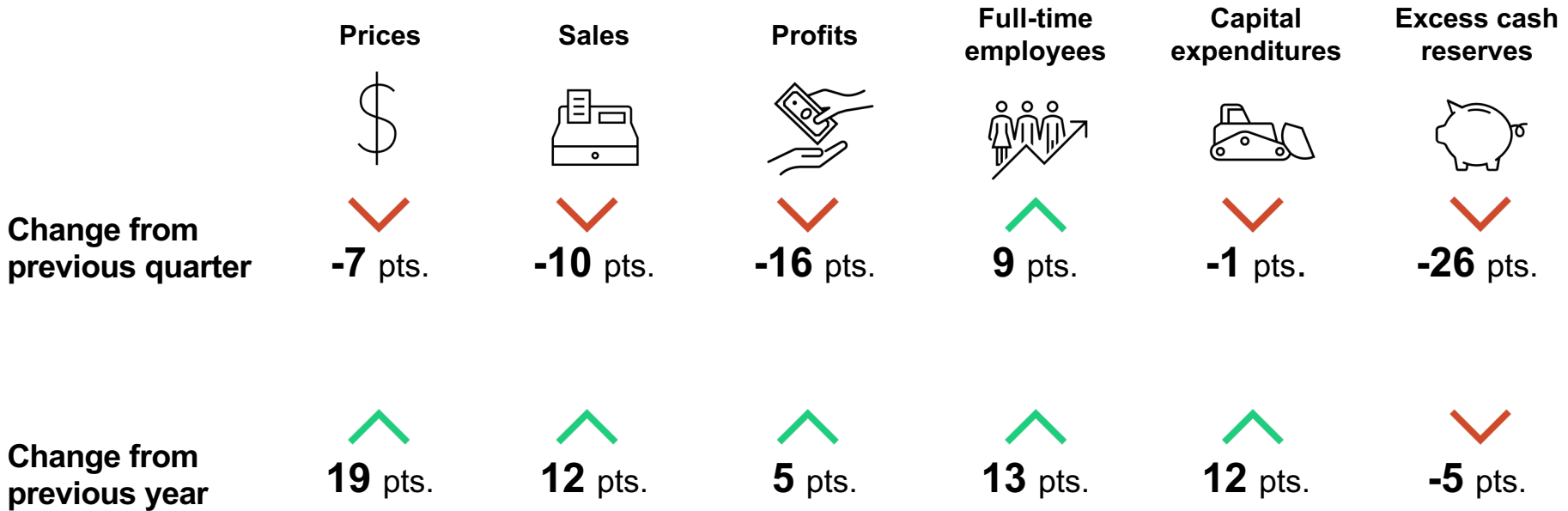
15% Improve, 38% Deteriorate

Net difference: **+23%**

Q: During the last 12 months, did your company's overall financial condition...  
\$100K-<\$10MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Small businesses have begun to dip into excess cash reserves

## SMALL BUSINESS NET DIFFERENCE CHANGES Past 12 months



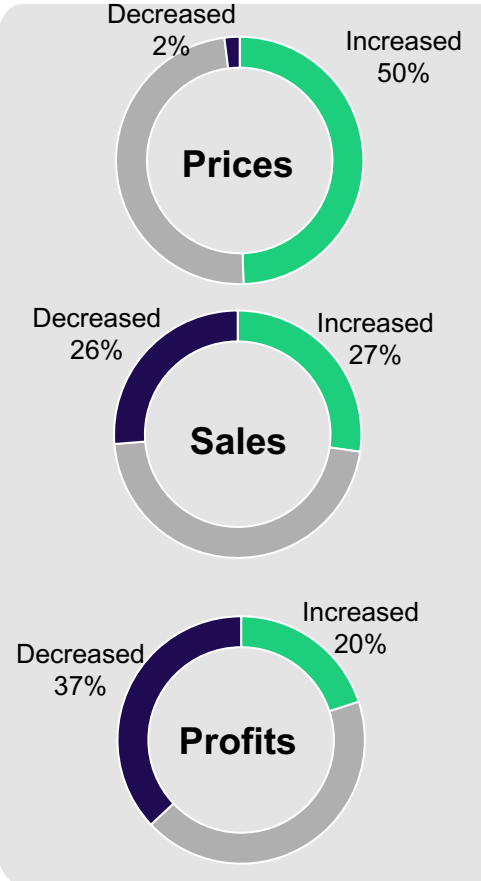
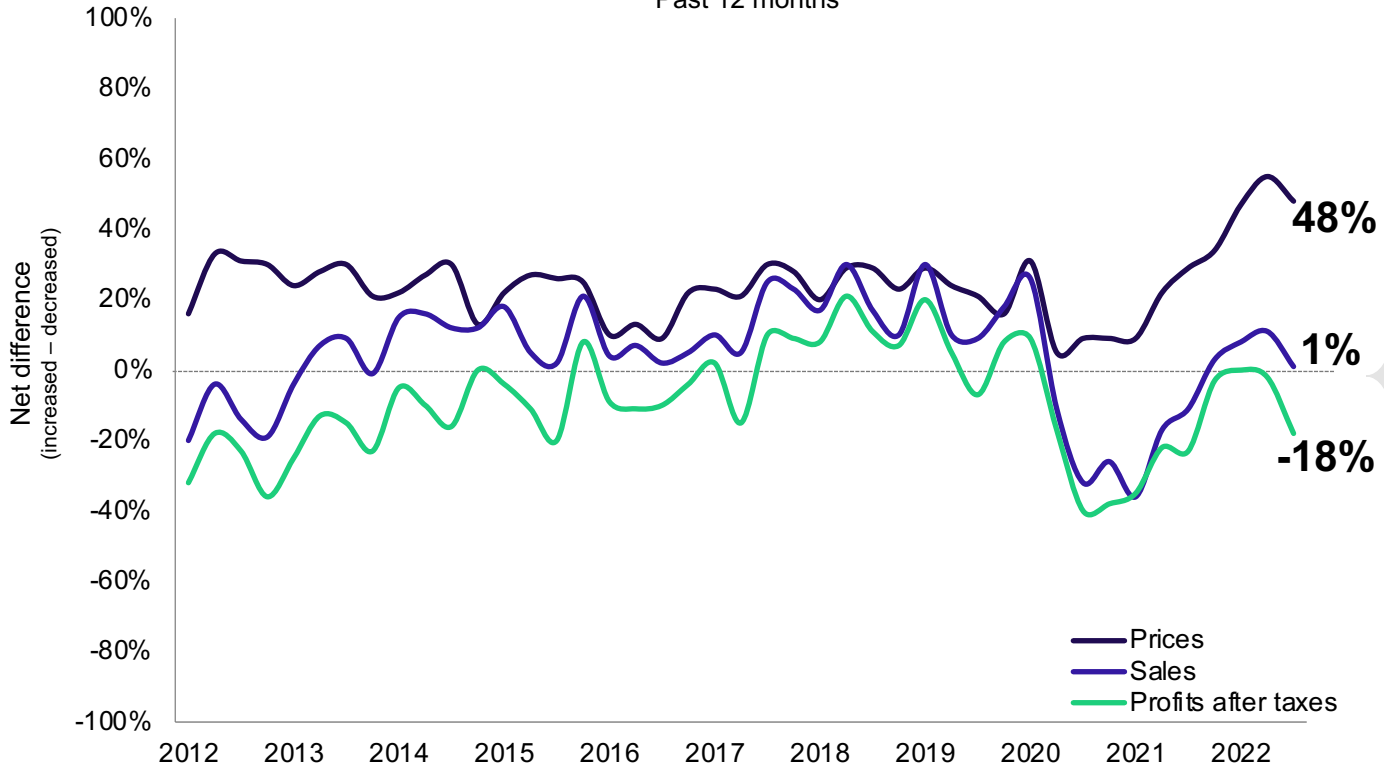
Net difference: increased – decreased

Q: During the last 12 months, did your company's overall financial condition...  
\$100K-<\$10MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Small businesses' sales ticked down, producing detrimental impacts on profits during an inflationary cycle

## SMALL BUSINESS PRICES, SALES & PROFITS

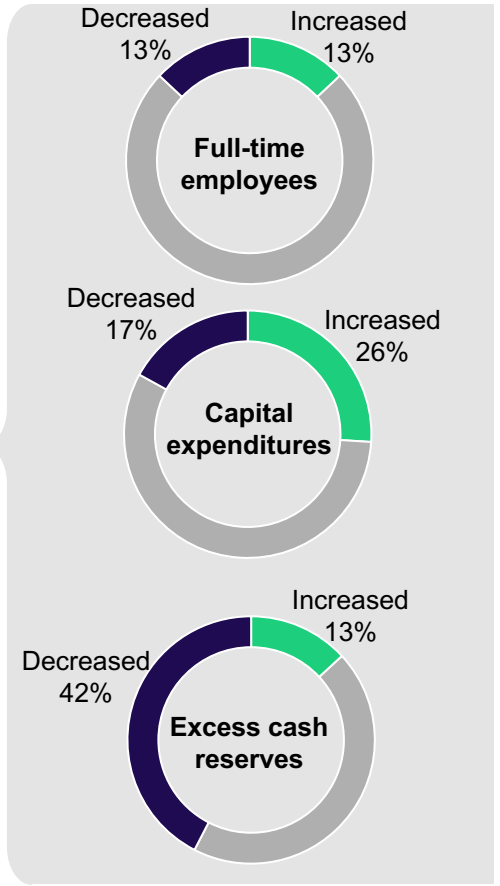
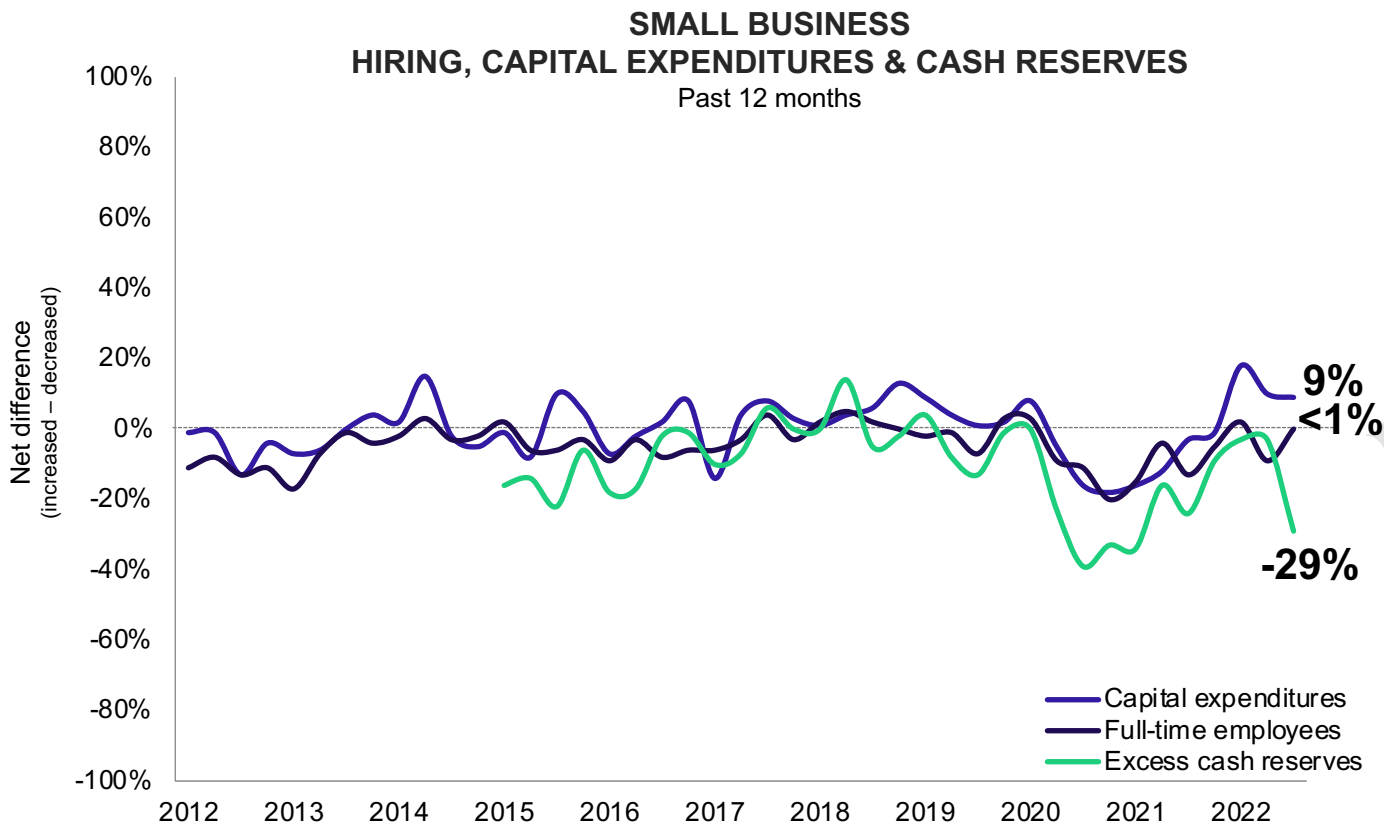
Past 12 months



Q: During the last 12 months, did your company's...  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)



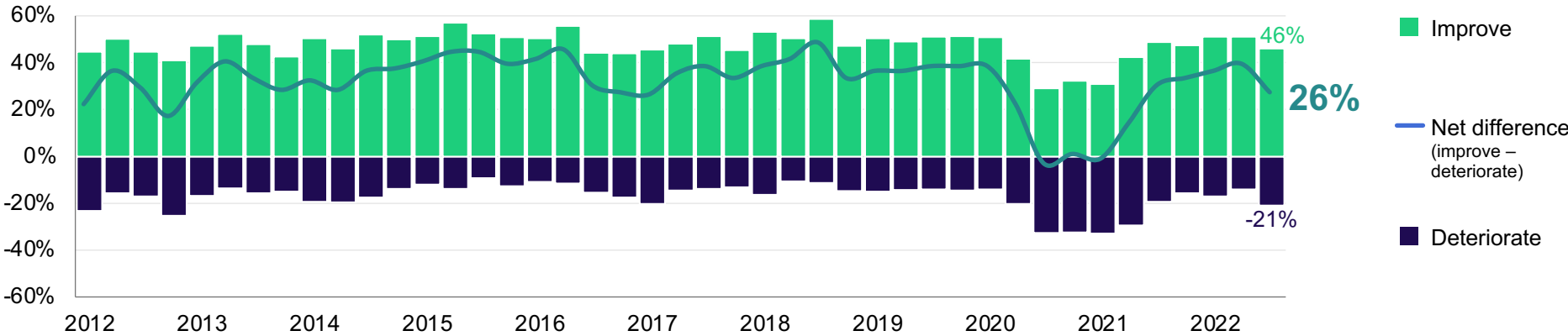
# Cash reserves fell sharply in the third quarter 2022



Q: During the last 12 months, did your company's...  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# The financial conditions of middle market companies ticked down for the first time since the beginning of 2021

MIDDLE MARKET FINANCIAL CONDITION  
Past 12 months



**Net difference**  
**+26%**

▼ -12 pts. from last quarter

▼ -3 pts. from one year ago

**\$10MM-<\$50MM**

21% Deteriorate, 44% Improve, Net difference **+24%**



















**\$50MM-<\$500MM**

20% Deteriorate, 53% Improve, Net difference **+33%**

Q: During the last 12 months, did your company's overall financial condition...  
 \$10MM-<\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Reduce middle market optimism was reflected by decreased sales, profits and cash reserves

## MIDDLE MARKET NET DIFFERENCE CHANGES Past 12 months

	Prices	Sales	Profits	Full-time employees	Capital expenditures	Excess cash reserves
						
Change from previous quarter	 <b>-3 pts.</b>	 <b>-13 pts.</b>	 <b>-13 pts.</b>	 <b>2 pts.</b>	 <b>-9 pts.</b>	 <b>-17 pts.</b>
Change from previous year	 <b>21 pts.</b>	 <b>8 pts.</b>	 <b>-8 pts.</b>	 <b>-2 pts.</b>	 <b>2 pts.</b>	 <b>-21 pts.</b>

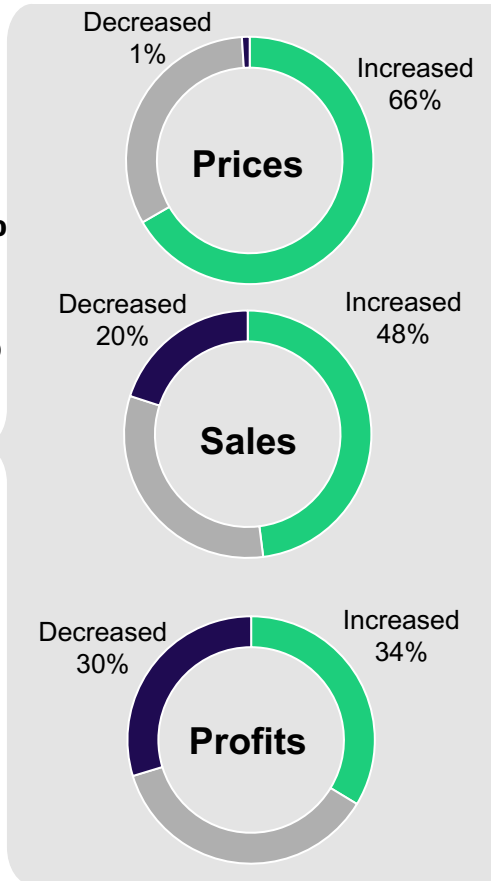
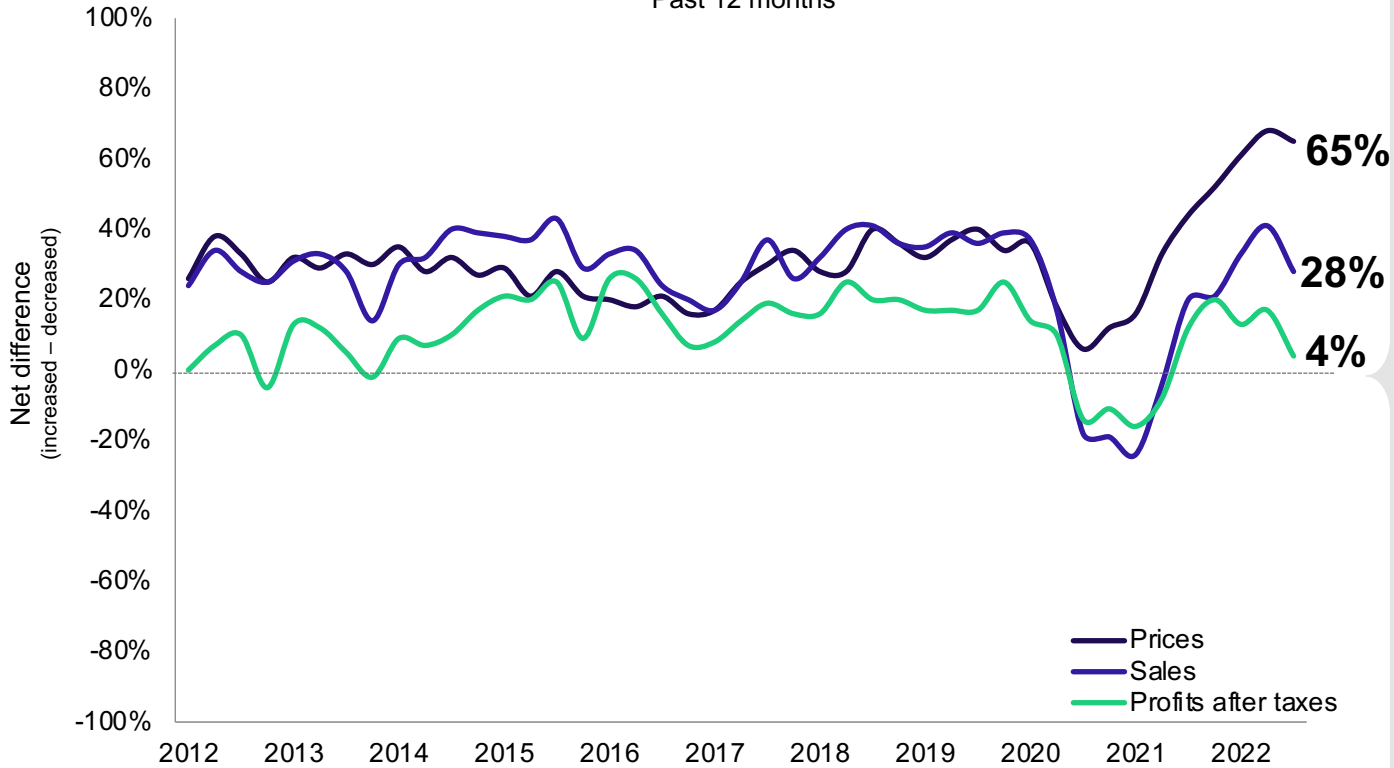
Net difference: increased – decreased

Q: During the last 12 months, did your company's overall financial condition...  
 \$10MM-~\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Prices have leveled off, albeit at an elevated level

## MIDDLE MARKET PRICES, SALES & PROFITS

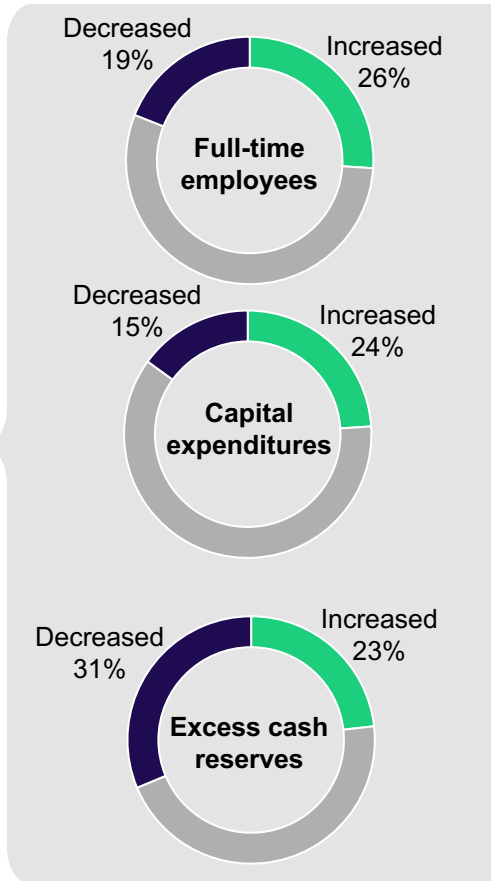
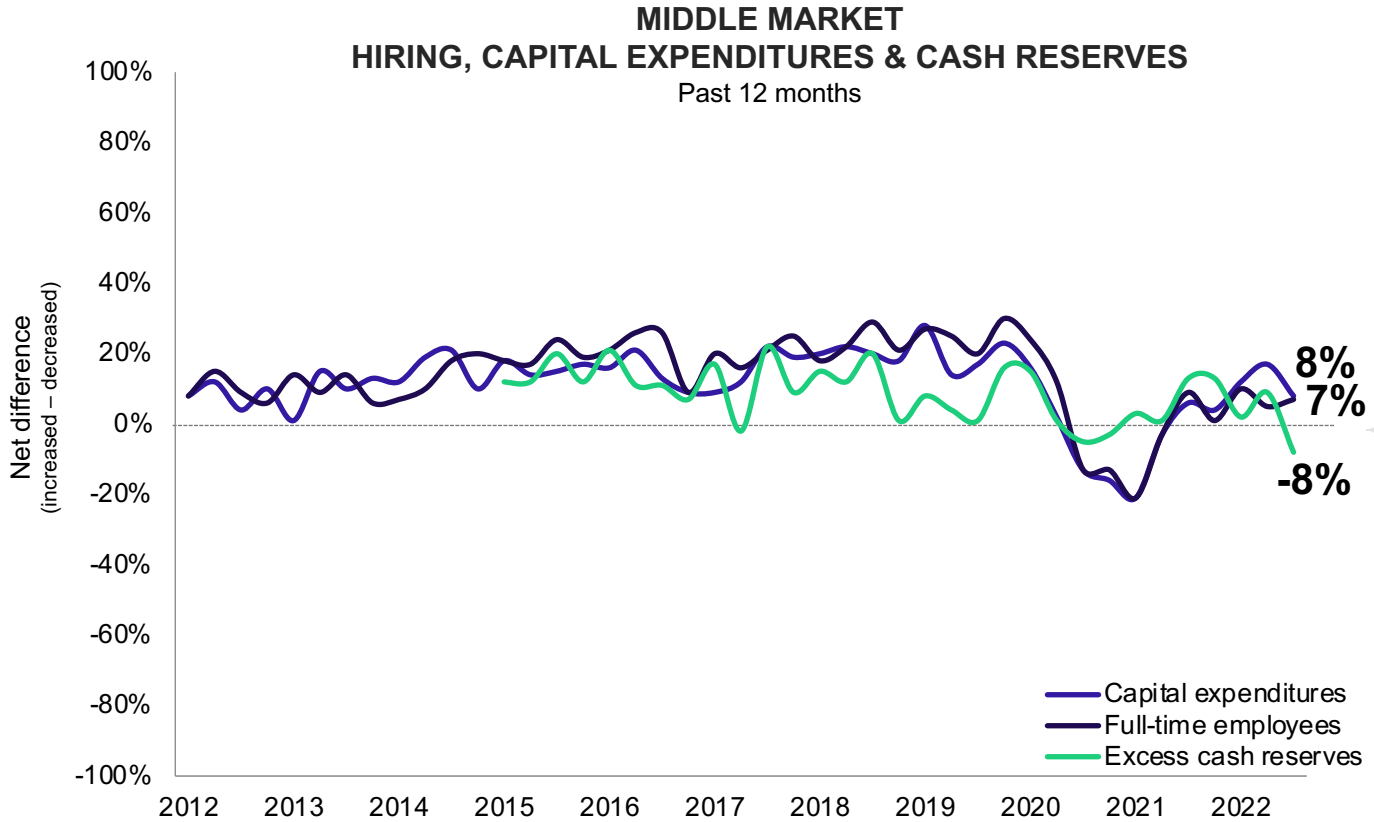
Past 12 months



Q: During the last 12 months, did your company's...

\$10MM-~\$500MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Nearly a third of middle market companies had decreased excess cash reserves



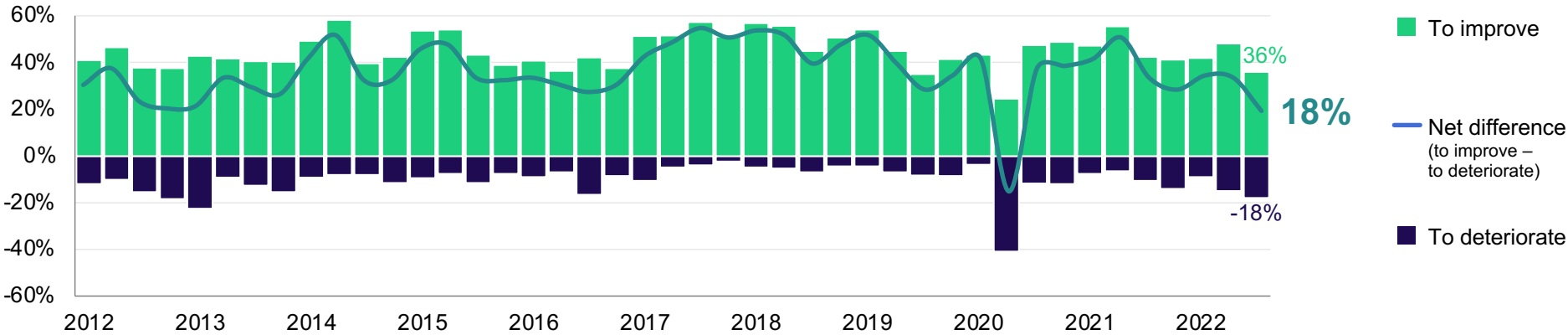
**Q: During the last 12 months, did your company's...**  
 \$10MM-~\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

02

## Expected economic position

# Positivity about the condition of their company over the next 12 months appears to be fading in the small business market

**SMALL BUSINESS EXPECTED FINANCIAL CONDITION**  
Next 12 months



**Net difference**  
**+18%**

▼ -14 pts. from last quarter

▼ -14 pts. from one year ago

**\$100K-<\$500K**

18% To improve, 37% Net difference, 19% To deteriorate

**\$500K-<\$2.5MM**

17% To improve, 32% Net difference, 15% To deteriorate

**\$2.5MM-<\$10MM**


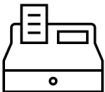
















21% To improve, 34% Net difference, 13% To deteriorate

Q: During the next 12 months, do you expect your company's overall financial condition to...  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Small businesses' sales expectations fell sharply in the third quarter of 2022

## SMALL BUSINESS NET DIFFERENCE CHANGES

Next 12 months

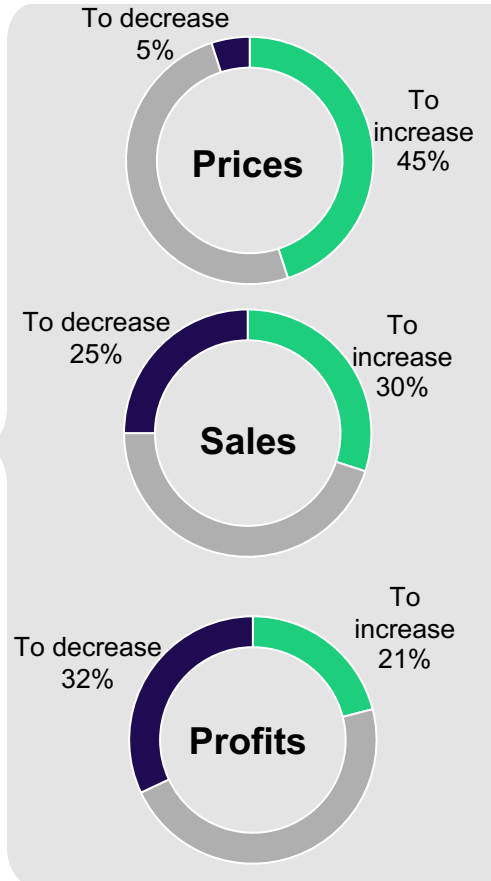
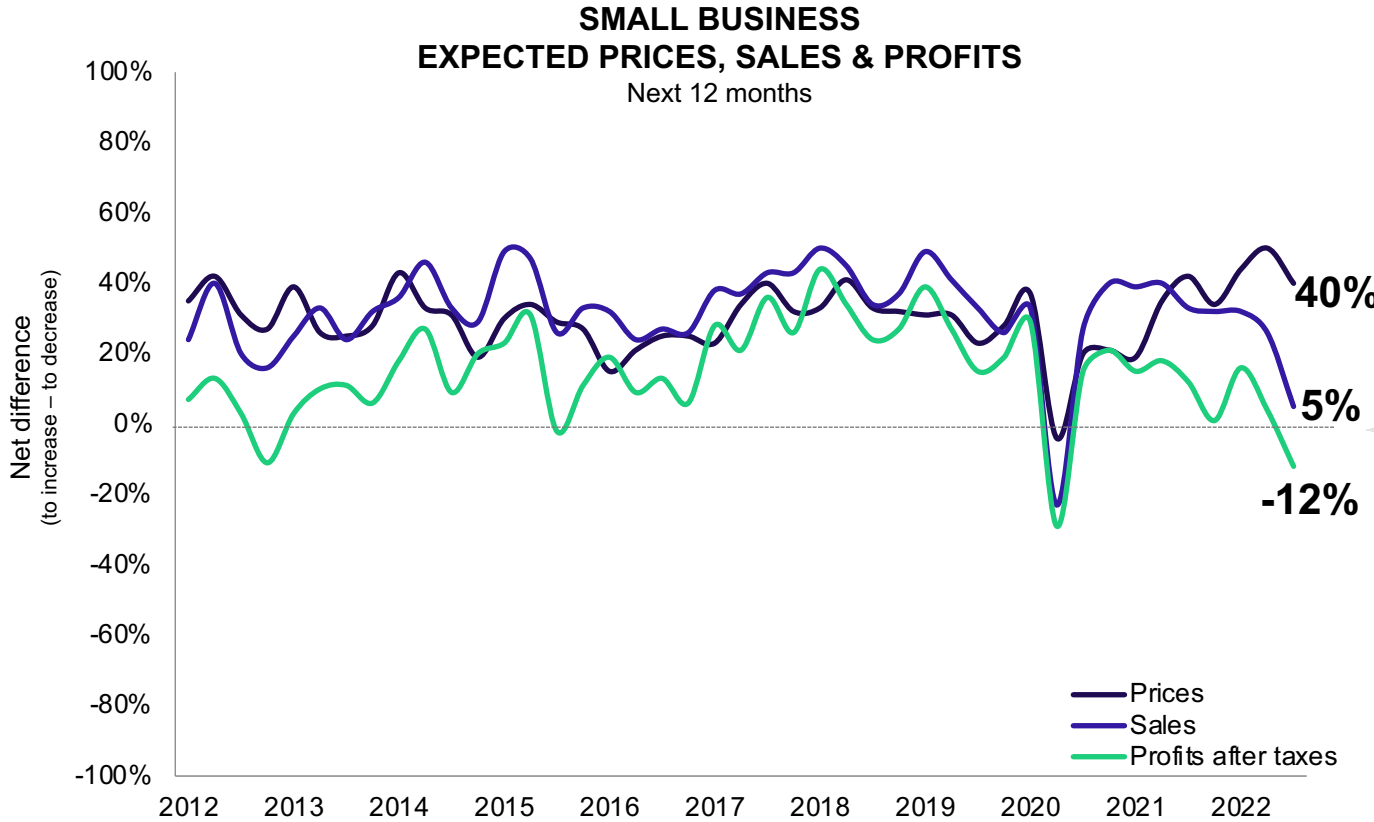
	Prices	Sales	Profits	Full-time employees	Capital expenditures	Excess cash reserves
						
Change from previous quarter	 -10 pts.	 -21 pts.	 -16 pts.	 -7 pts.	 -6 pts.	 -14 pts.
Change from previous year	 -2 pts.	 -28 pts.	 -24 pts.	 -1 pts.	 -4 pts.	 -24 pts.

Net difference: to increase – to decrease

Q: During the next 12 months, do you expect your company's...  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

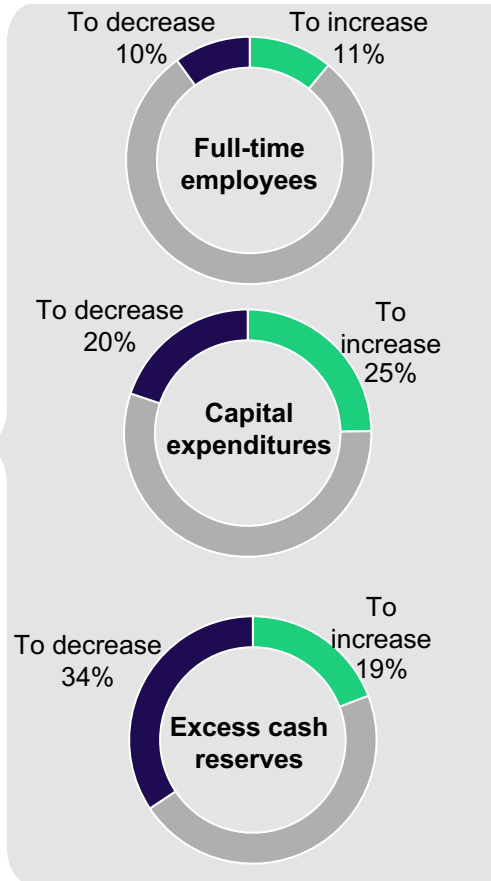
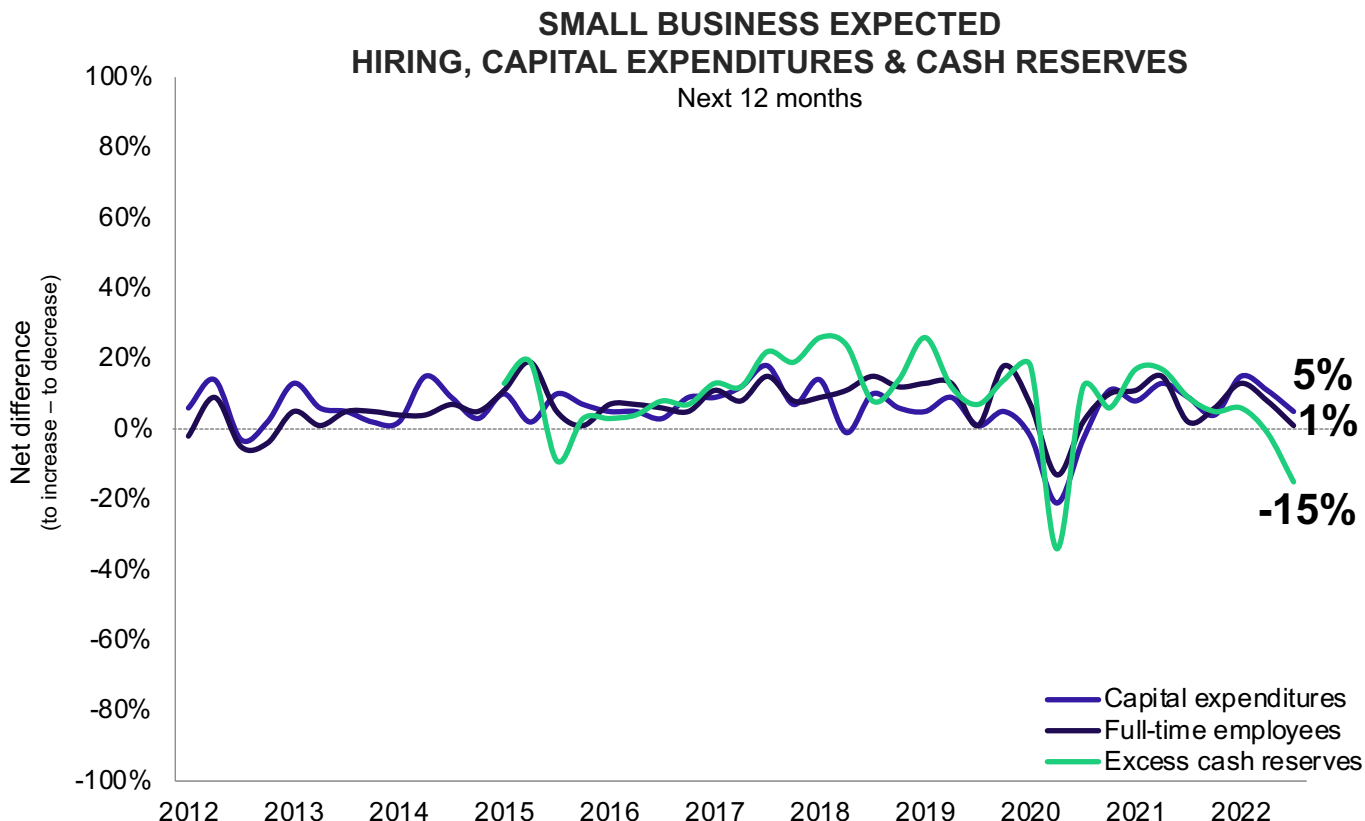


# As prices remain elevated, decreased sales expectations precipitate a pessimistic profit outlook for small businesses



Q: During the next 12 months, do you expect your company's...  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

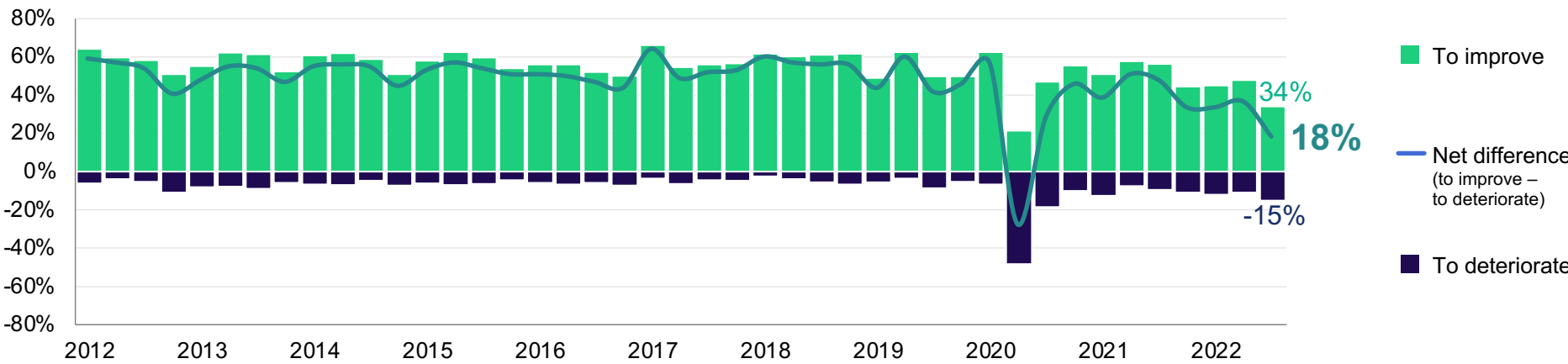
# A third of small businesses expect their excess cash reserves will decrease over the next 12 months



**Q: During the next 12 months, do you expect your company's...**  
\$100K-<\$10MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

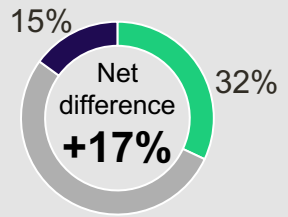
# Expected financial condition confidence remains down from one year ago in the middle market

MIDDLE MARKET EXPECTED FINANCIAL CONDITION  
Next 12 months

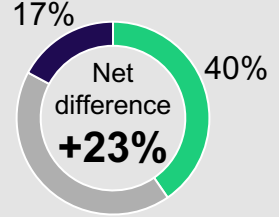


Net difference  
**+18%**  
-18 pts. from last quarter  
-29 pts. from one year ago

**\$10MM-<\$50MM**



**\$50MM-<\$500MM**





















Q: During the next 12 months, do you expect your company's overall financial condition to...  
\$10MM-<\$500MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Middle market profit expectations are down substantially from one year ago

## MIDDLE MARKET NET DIFFERENCE CHANGES

Next 12 months

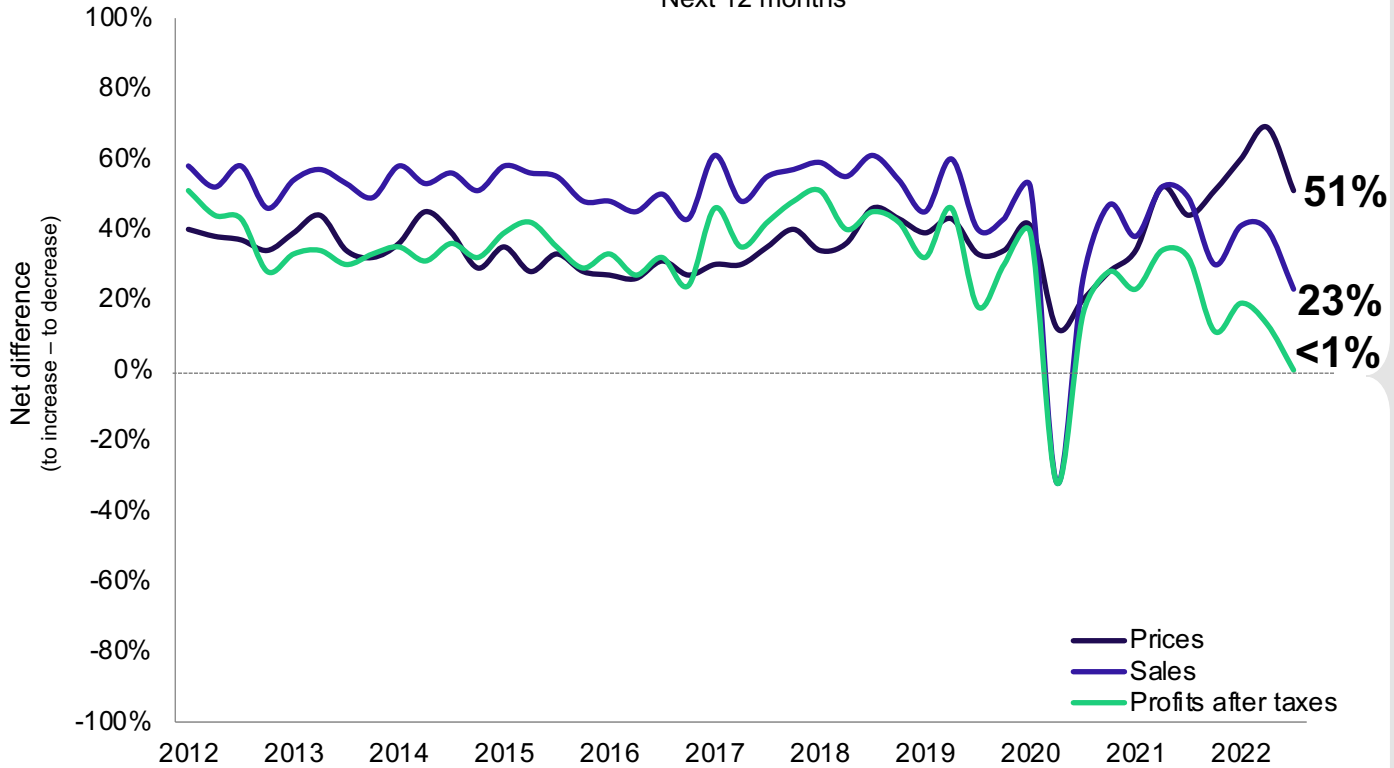
	Prices	Sales	Profits	Full-time employees	Capital expenditures	Excess cash reserves
						
Change from previous quarter	 <b>-18 pts.</b>	 <b>-17 pts.</b>	 <b>-13 pts.</b>	 <b>-17 pts.</b>	 <b>-3 pts.</b>	 <b>-9 pts.</b>
Change from previous year	 <b>7 pts.</b>	 <b>-26 pts.</b>	 <b>-32 pts.</b>	 <b>-26 pts.</b>	 <b>-9 pts.</b>	 <b>-21 pts.</b>

Net difference: to increase – to decrease

Q: During the next 12 months, do you expect your company's...  
 \$10MM-~\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

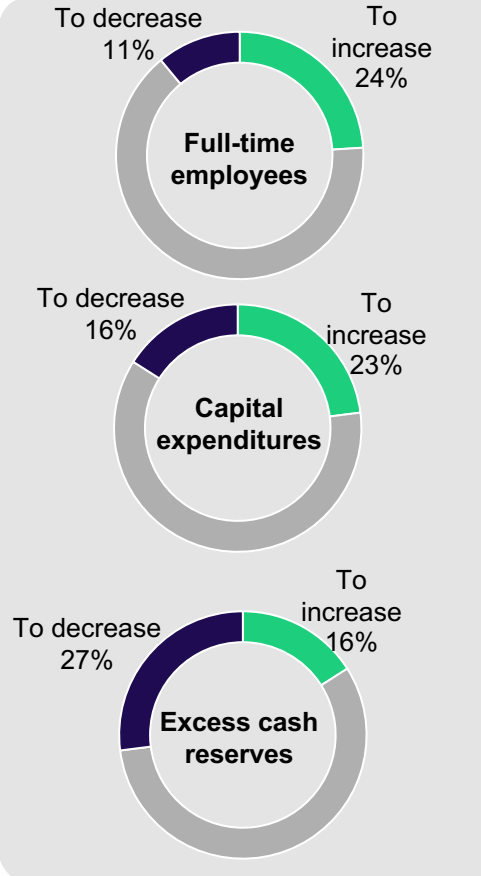
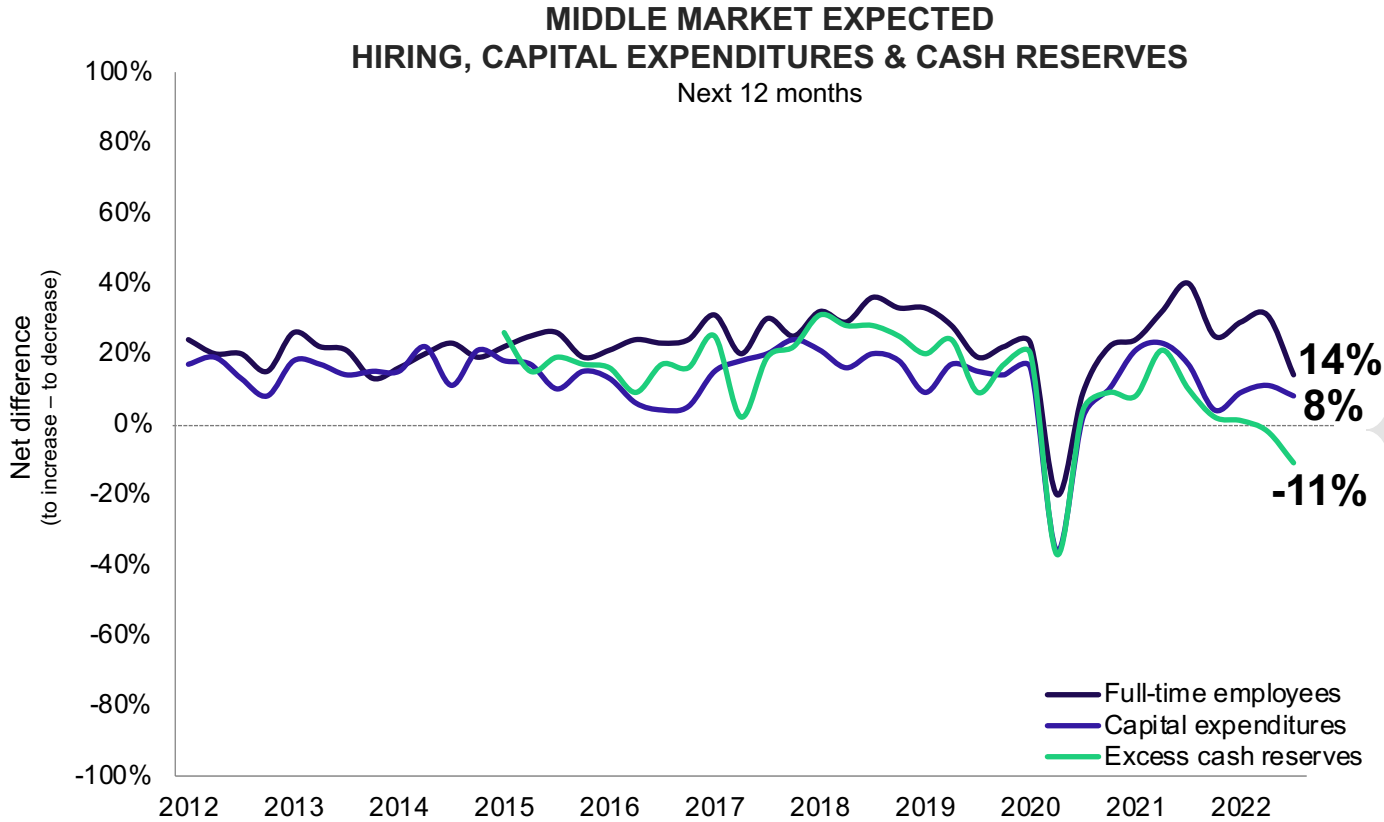
# As price expectations remained elevated, profit expectations continued to trend down

**MIDDLE MARKET**  
**EXPECTED PRICES, SALES & PROFITS**  
 Next 12 months



**Q: During the next 12 months, do you expect your company's...**  
 \$10MM-<\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Middle market companies anticipate being less aggressive in adding full-time employees



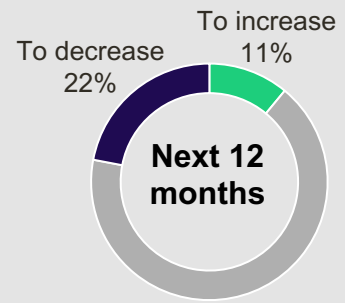
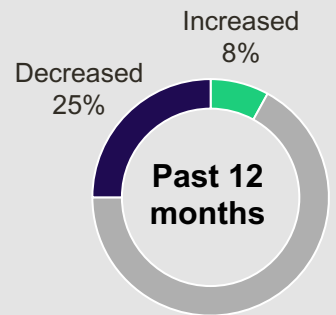
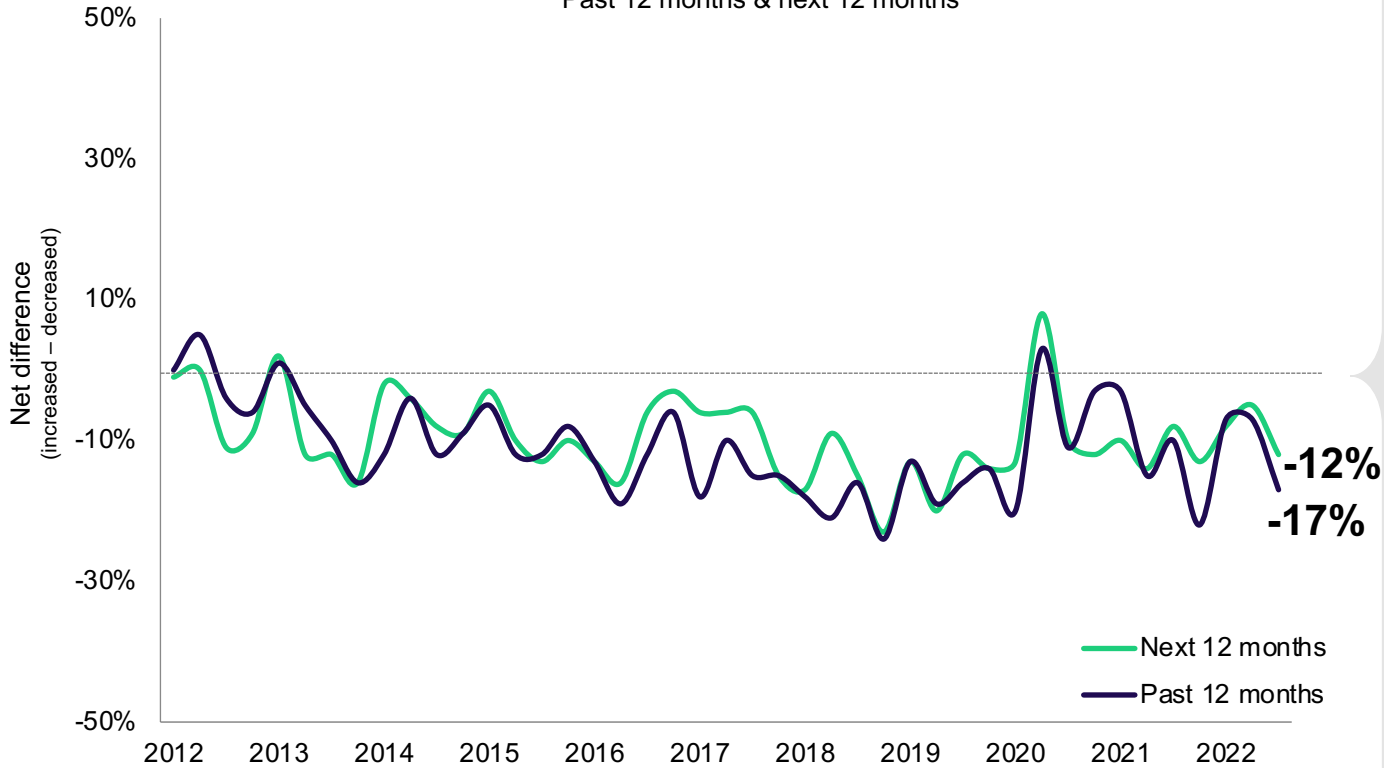
**Q: During the next 12 months, do you expect your company's...**  
 \$10MM-~\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

03

## Credit outlook

# Small businesses' need for bank loans continued to be limited

**SMALL BUSINESS NEED FOR BANK LOANS**  
Past 12 months & next 12 months



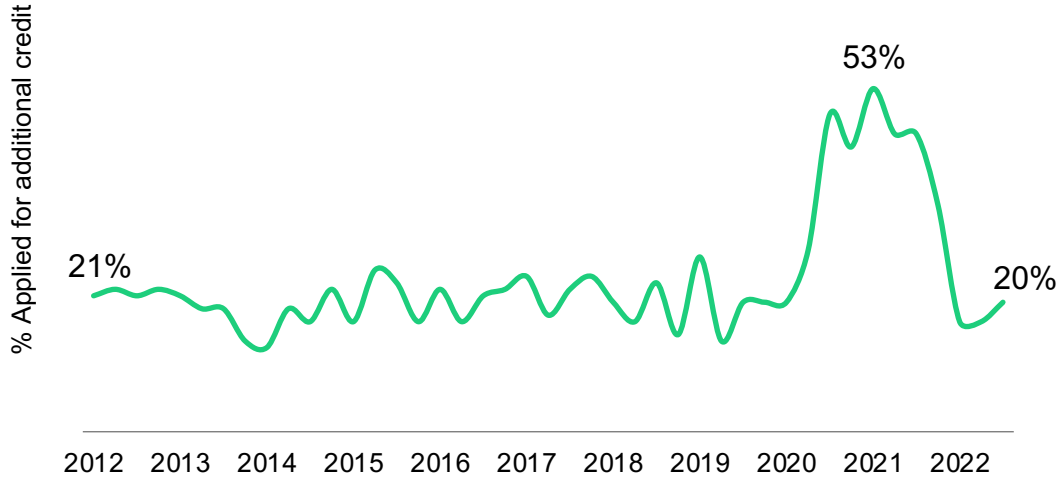
Q: During the last 12 months, did your company's need for bank loans...  
Q: During the next 12 months, do you expect your company's need for bank loans...  
\$100K-<\$10MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)



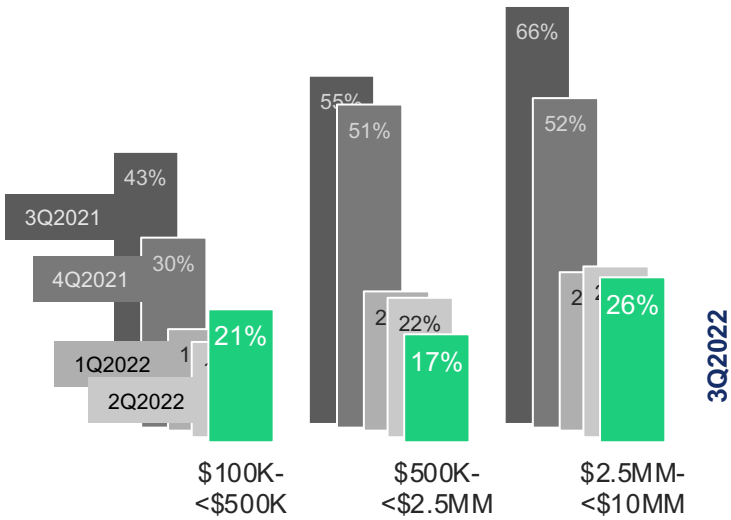
# Small business demand for additional credit ticked up as applications increased in the micro business segment (\$100K-<\$500K in annual sales)

## SMALL BUSINESS APPLICATIONS FOR ADDITIONAL CREDIT Past 12 months

### ADDITIONAL CREDIT APPLICATION TREND Including government relief



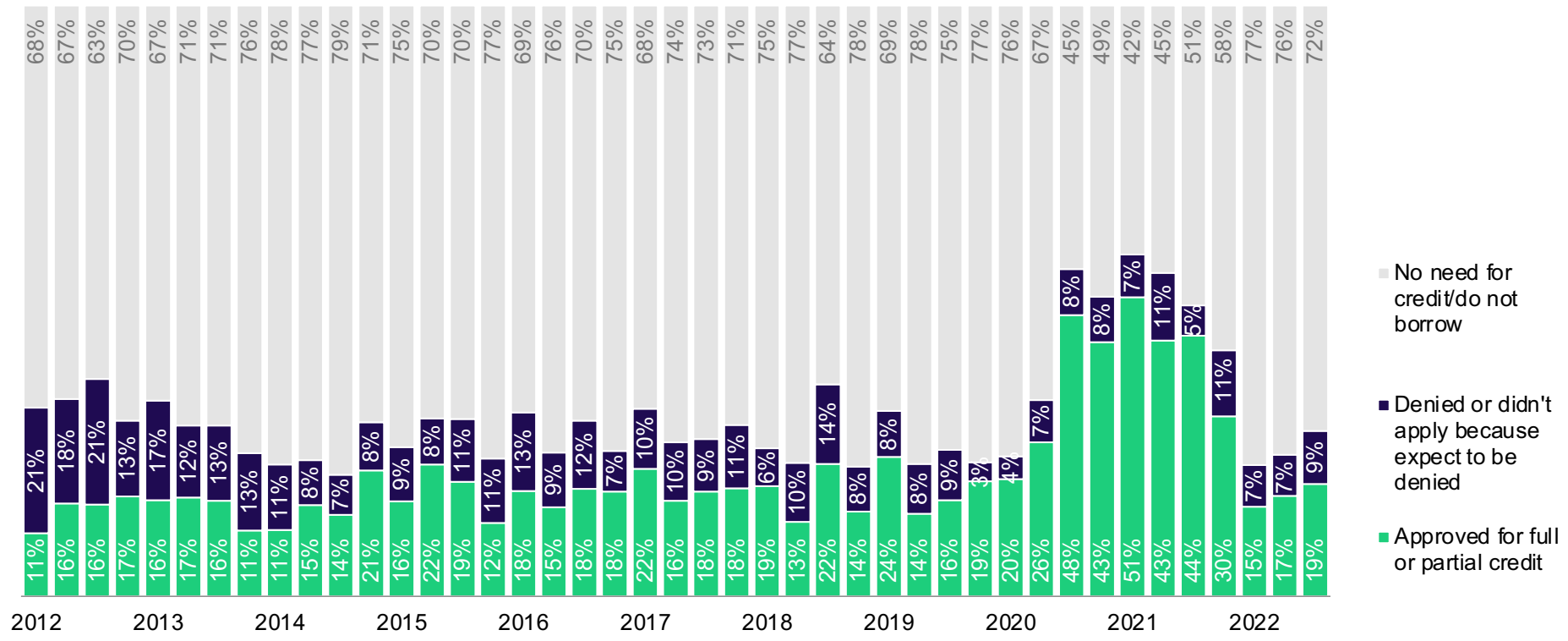
### CHANGE FROM 3Q2021



Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?  
\$100K-<\$10MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# The percentage of small businesses that applied and were approved for additional credit has incrementally increased for a second consecutive quarter

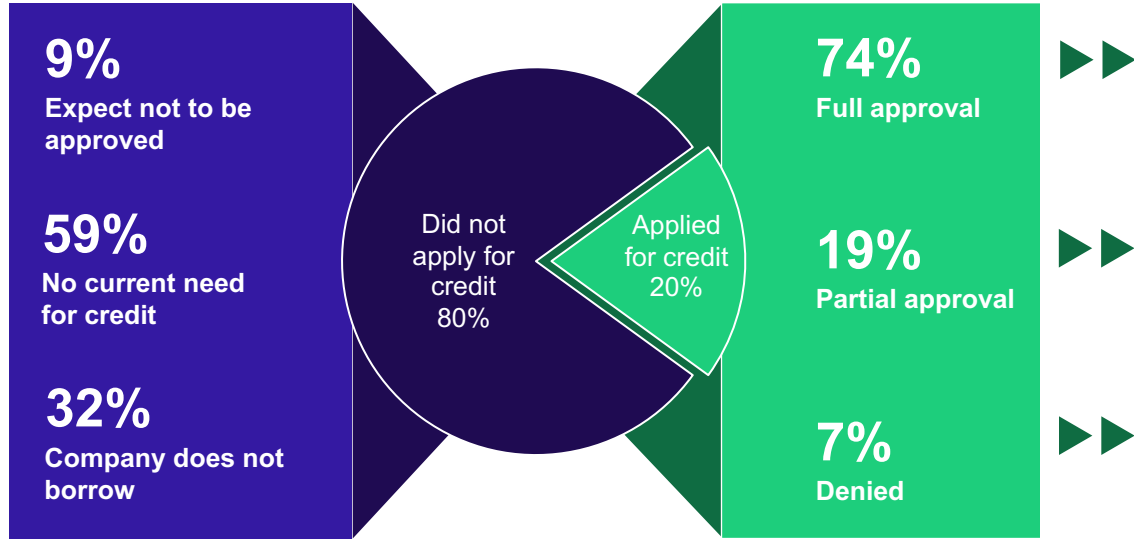
## SMALL BUSINESS OUTCOMES FOR ADDITIONAL CREDIT



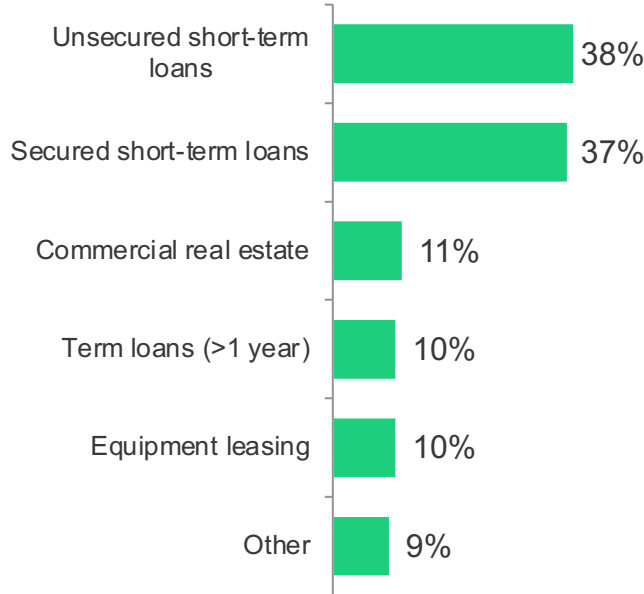
Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Few of the small businesses that applied for additional credit were denied

## SMALL BUSINESS CREDIT APPLICATION OUTCOME



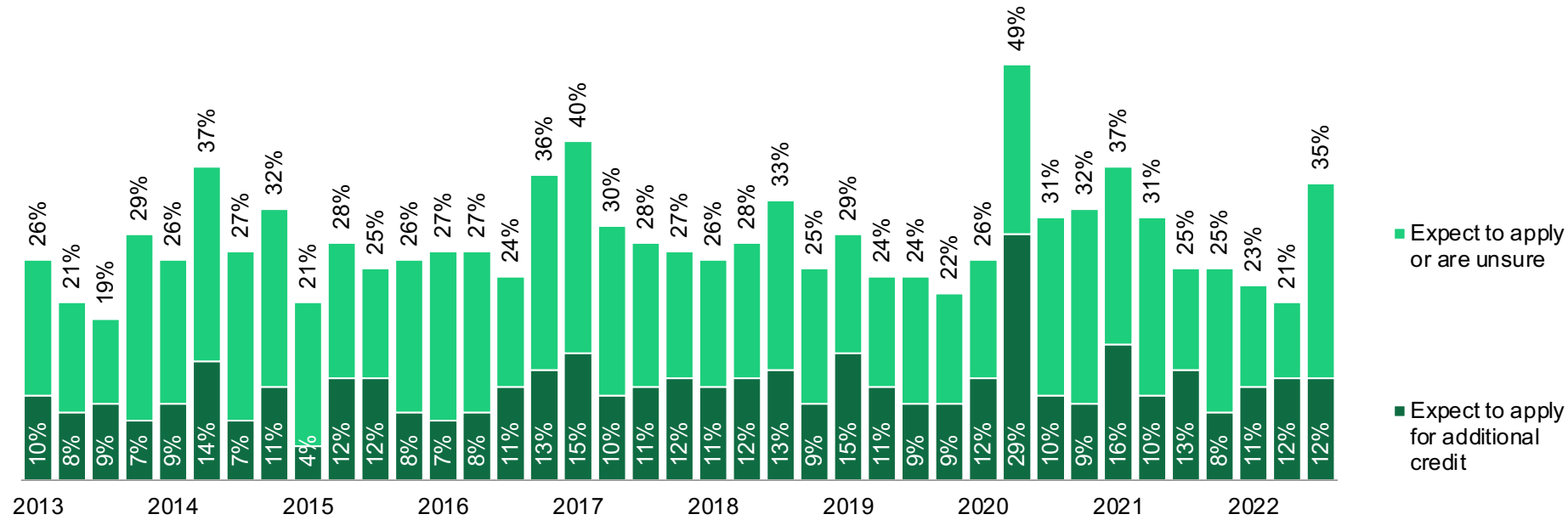
## TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE\*



\$100K-<\$10MM  
 \*Base: those that applied for additional credit  
 BusinessPulse 3Q2022 Data

# A substantially higher amount of small businesses indicated they *may* have a need for additional credit over the next 12 months

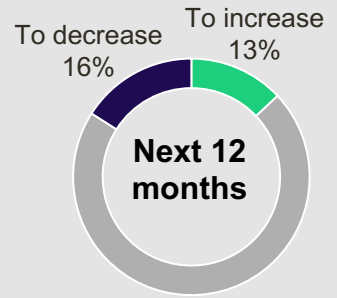
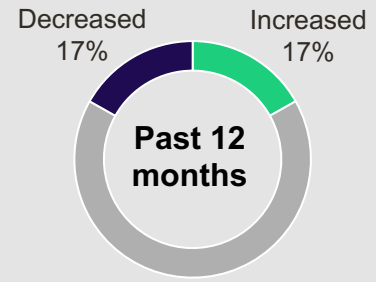
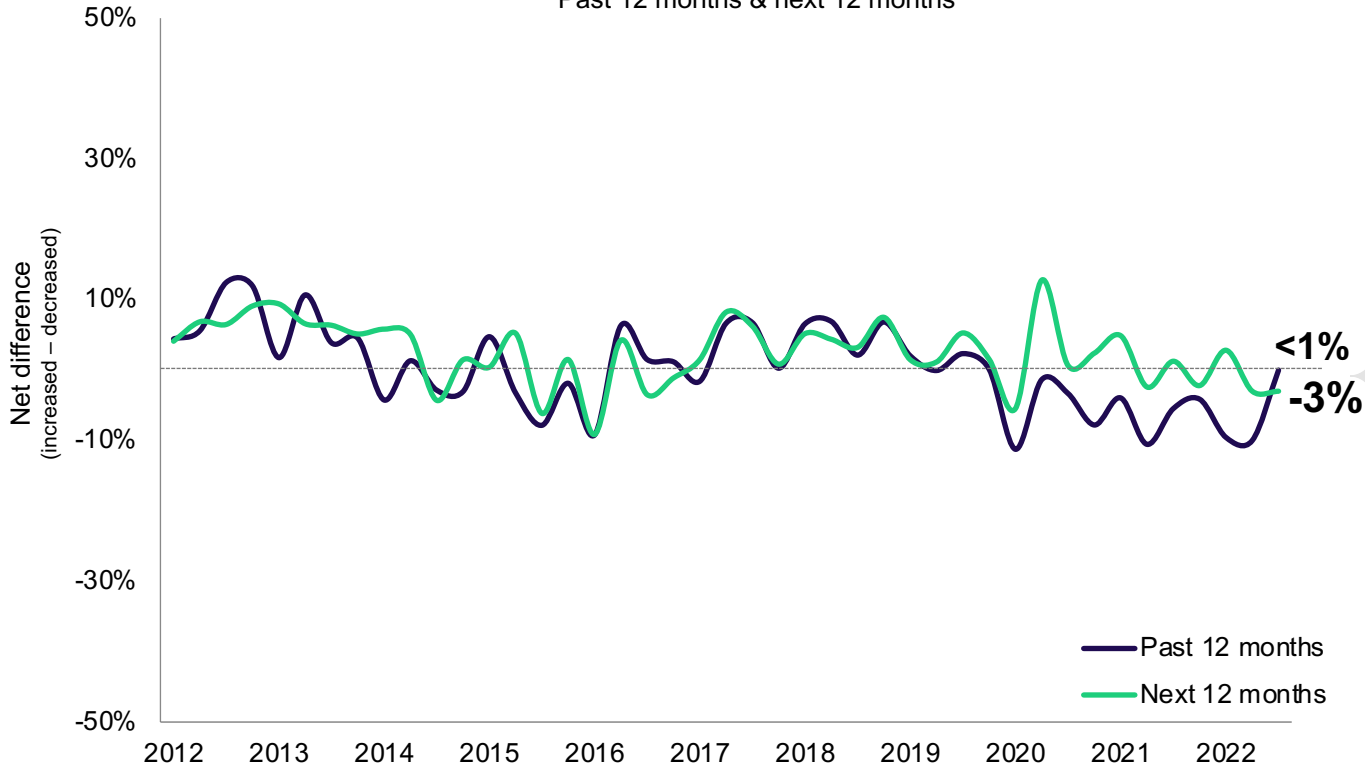
## SMALL BUSINESS EXPECTATIONS TO APPLY FOR ADDITIONAL CREDIT



**Q: During the next 12 months, do you expect your company to apply for additional credit or loans from any financial institution?**  
 \$100K-<\$10MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Middle market companies' need for bank loans increased but remained limited

**MIDDLE MARKET NEED FOR BANK LOANS**  
Past 12 months & next 12 months

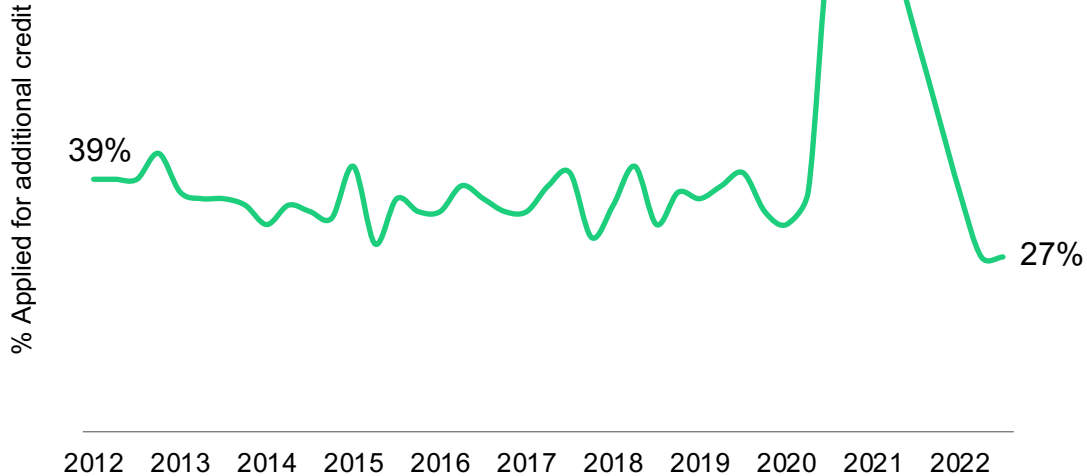


Q: During the last 12 months, did your company's need for bank loans...  
 Q: During the next 12 months, do you expect your company's need for bank loans...  
 \$10MM-\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

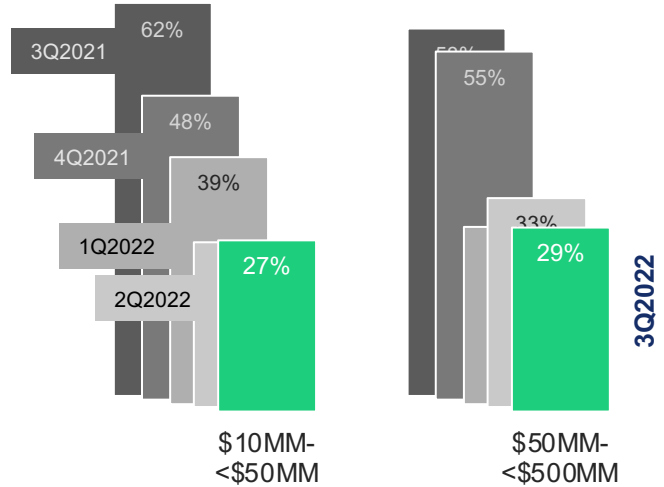
# Middle market demand for additional credit remained limited

## MIDDLE MARKET APPLICATIONS FOR ADDITIONAL CREDIT Past 12 months

### ADDITIONAL CREDIT APPLICATION TREND Including government relief



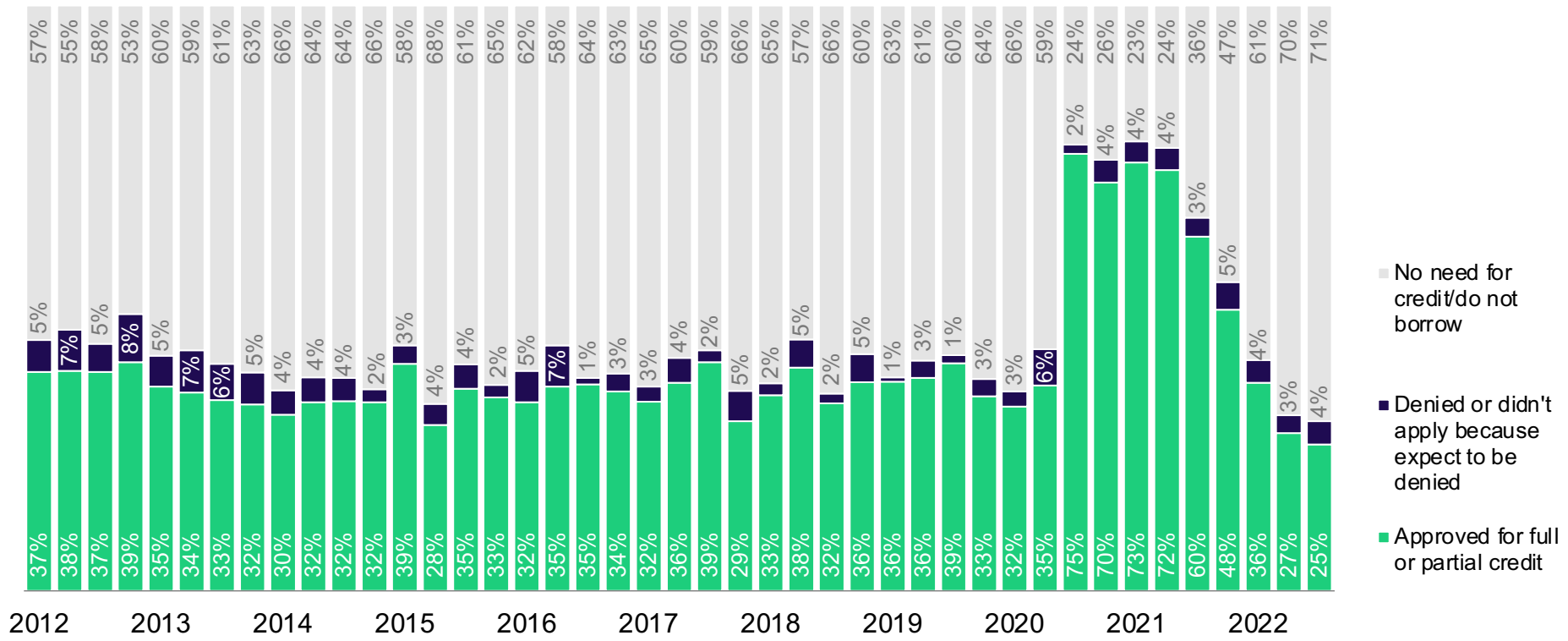
### CHANGE FROM 3Q2021



Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?  
\$10MM-<\$500MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Most middle market have no need for additional credit or do not borrow

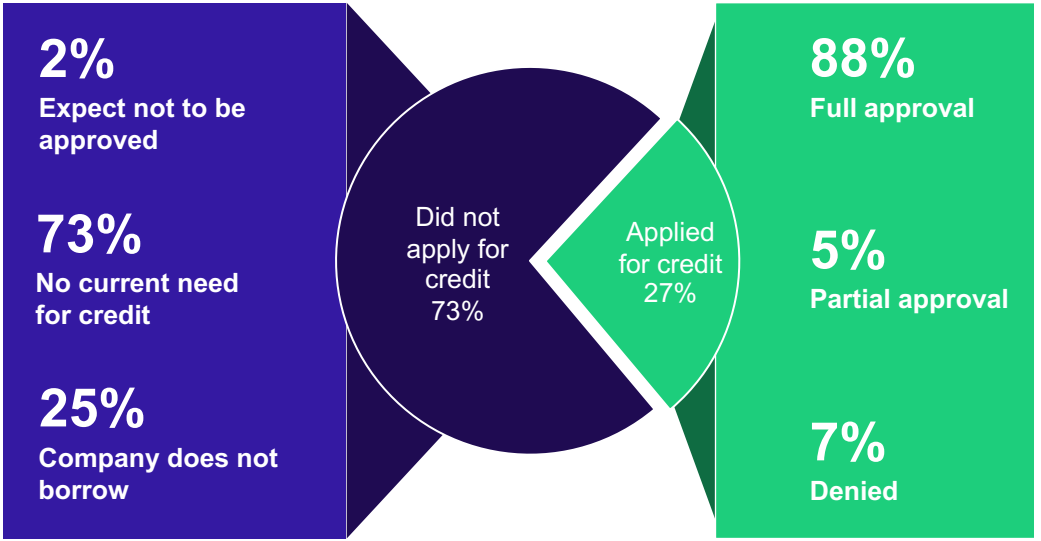
## MIDDLE MARKET OUTCOMES FOR ADDITIONAL CREDIT



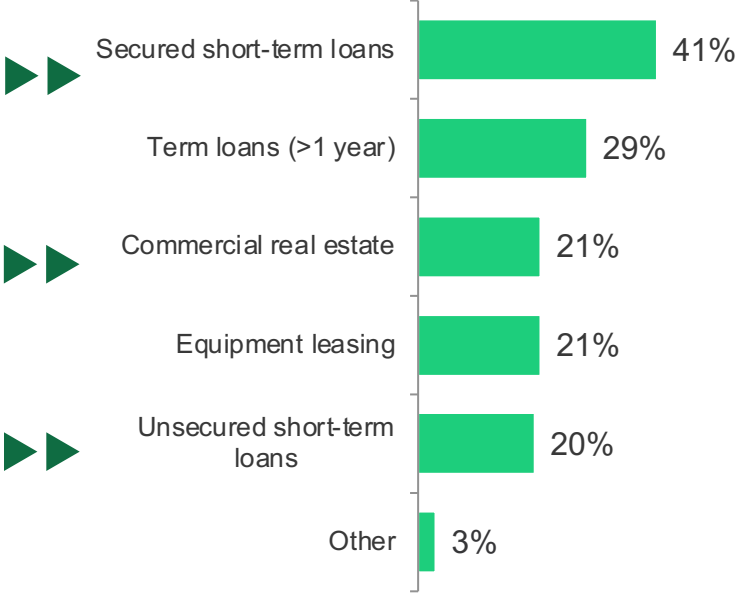
Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?  
 \$10MM-<\$500MM  
 BusinessPulse Quarterly Trending Data (ending 3Q2022)

# Secured short-term loans were the most common credit product sought by middle market companies

## MIDDLE MARKET CREDIT APPLICATION OUTCOME



## TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE\*

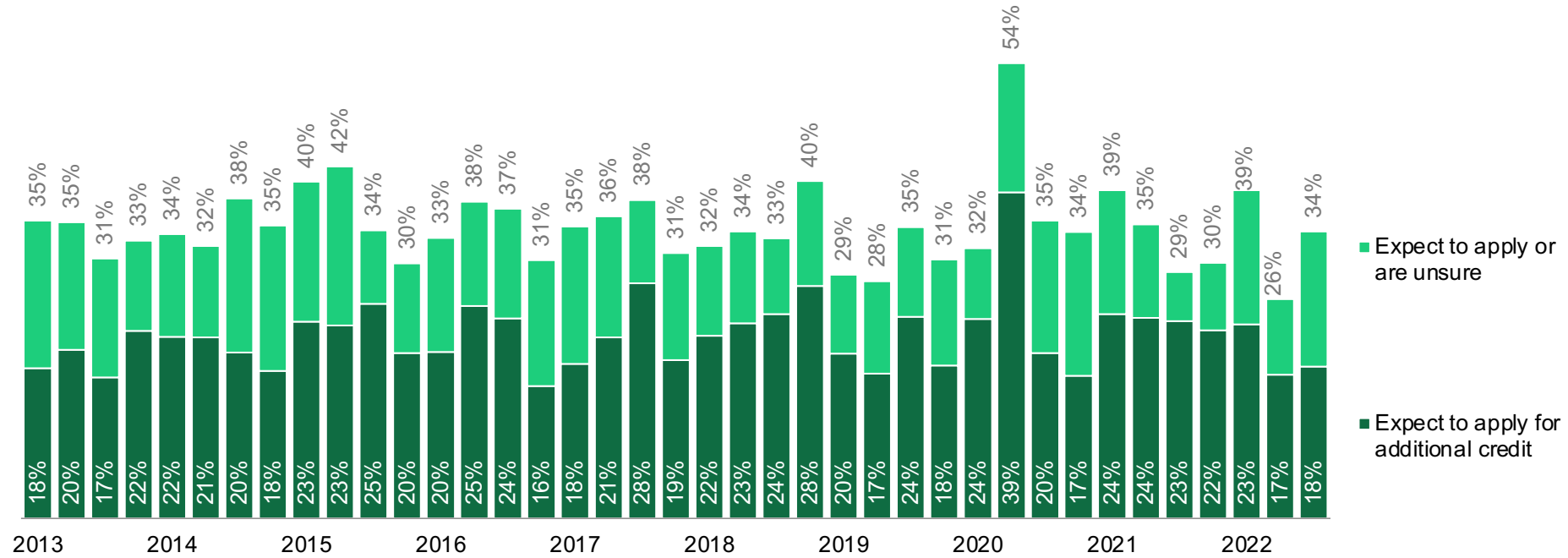


\$10MM-<\$500MM  
 \*Base: those that applied for additional credit  
 BusinessPulse 3Q2022 Data



# An increased percentage of middle market companies anticipate applying for additional credit or were unsure

## MIDDLE MARKET EXPECTATIONS TO APPLY FOR ADDITIONAL CREDIT



Q: During the next 12 months, do you expect your company to apply for additional credit or loans from any financial institution?

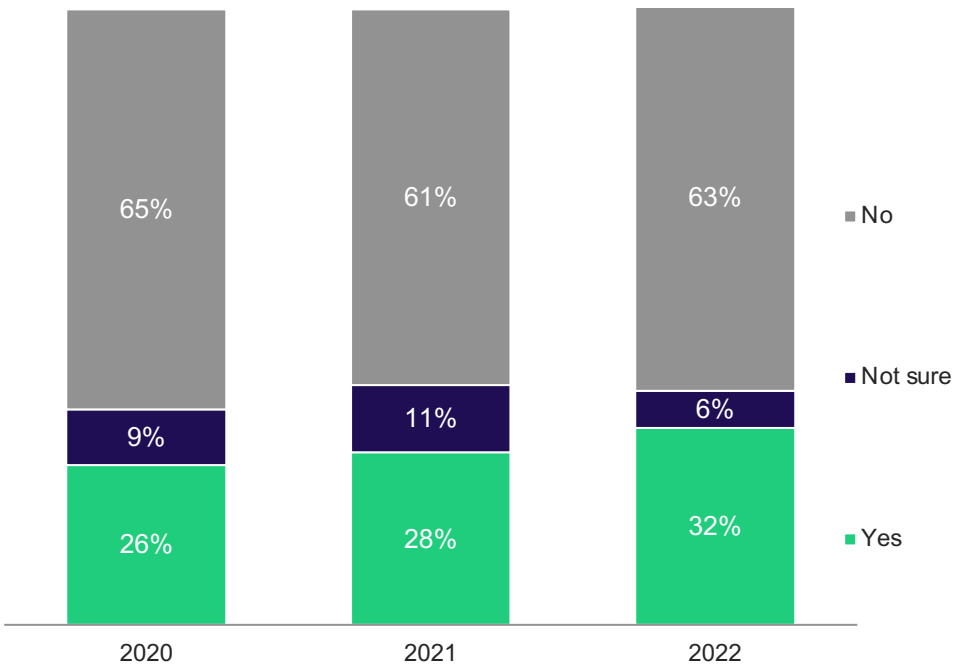
\$10MM- $\leq$ \$500MM  
BusinessPulse Quarterly Trending Data (ending 3Q2022)

04

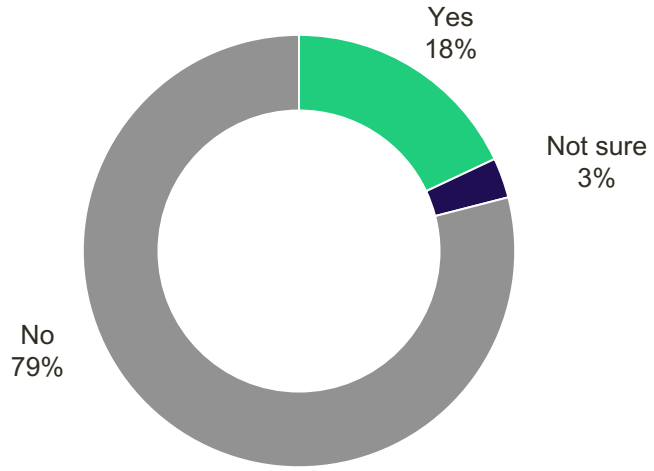
## Business ownership transitions

# Small businesses are increasingly likely to have a succession plan, and nearly one in five have taken steps to begin transitioning their business

SMALL BUSINESS WITH SUCCESSION PLANS



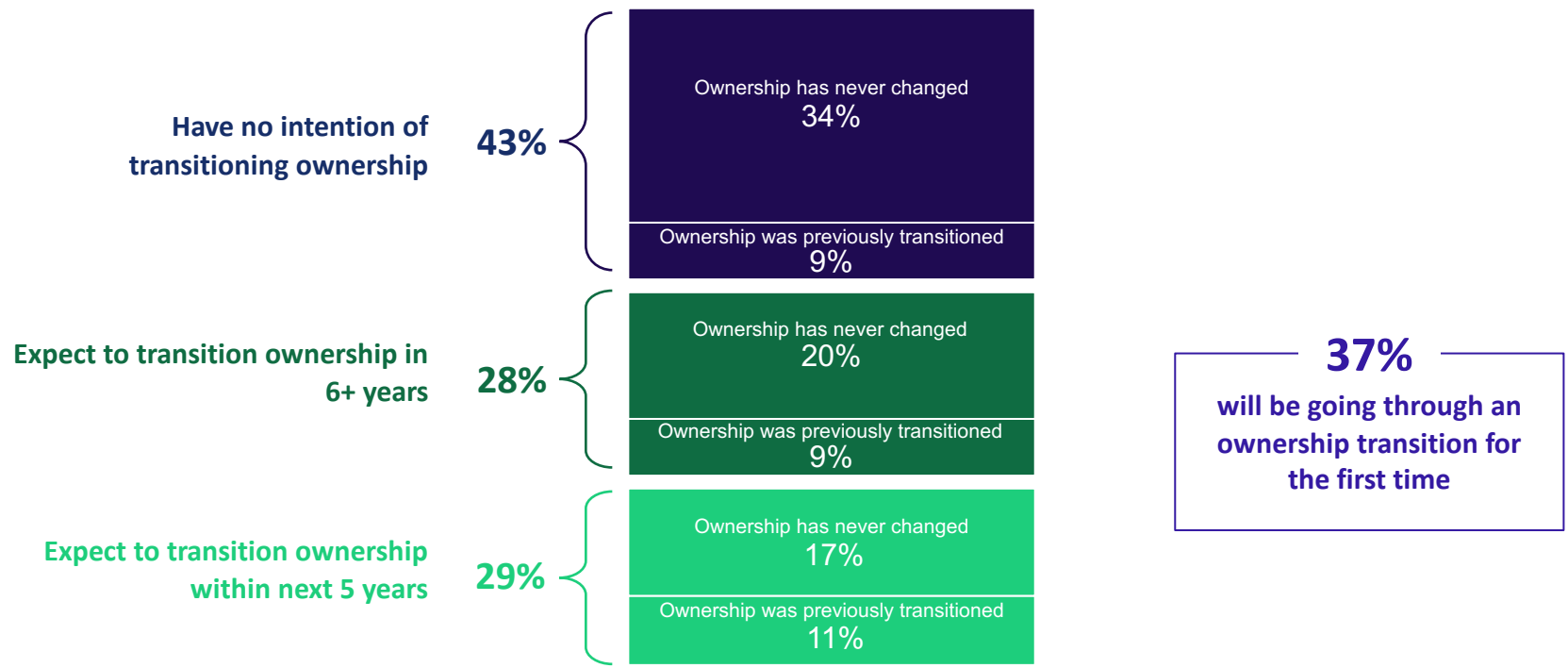
SMALL BUSINESSES THAT HAVE TAKEN STEPS TO TRANSITION COMPANY OWNERSHIP



Q: Does your company have a succession plan (e.g., sell, merge, be acquired, transition ownership, liquidation, etc.)?  
 Q: Has your business taken any steps to begin preparing for a transition in company ownership?  
 \$100K-<\$10MM  
 BusinessPulse Third Quarter Trending Data

# Nearly a third (29%) of small businesses anticipate an ownership transition within the next five years

## SMALL BUSINESS OWNERSHIP TRANSITIONS



Q: When, if at all, was your company's last ownership transition (e.g., sold, merged, acquired)?  
 Q: When, if at all, do you expect the ownership of your company will transition (e.g., sell, merge, be acquired, liquidation)?  
 \$100K-<\$10MM  
 BusinessPulse Third Quarter 2022 Data

# Small business transitions are spurred by aging business owners

## WHAT IS DRIVING SMALL BUSINESS OWNERSHIP TRANSITIONS\*

“Aging out, we have sold the land our business is located on and plan to retire.”  
*Company with \$1MM-<\$2.5MM in sales*

“Getting older-retiring.”  
*Company with \$100K-<\$500K in sales*

“Founder passing the torch to kids.”  
*Company with \$500K-<\$1MM in sales*

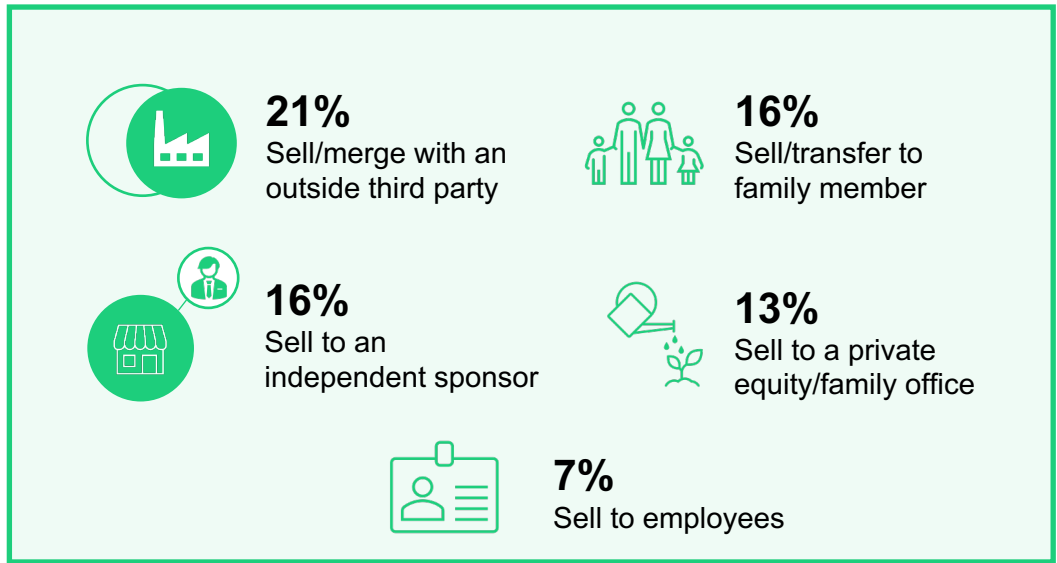
“Looking to retire.”  
*Company with \$500K-<\$1MM in sales*

“Wanting to retire.”  
*Company with \$500K-<\$1MM in sales*

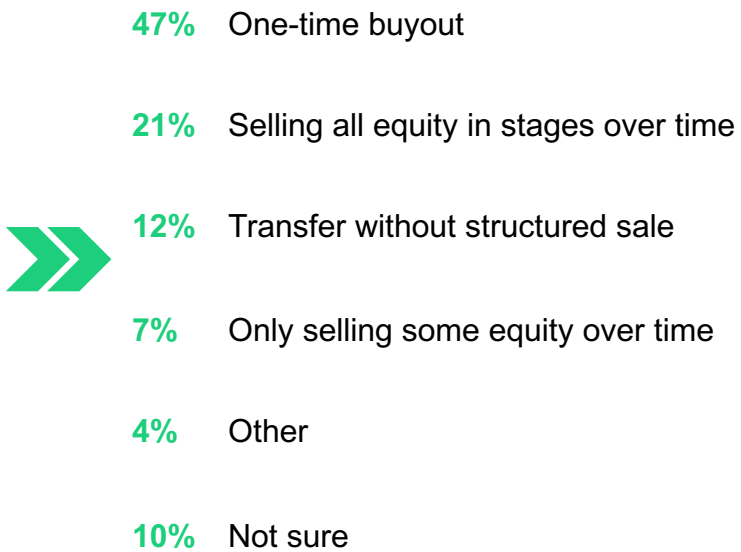
**Q: What, specifically, is driving the transition of your company's ownership now?**  
\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next 12 months  
\$100K-<\$10MM  
BusinessPulse Third Quarter 2022 Data

# Most small businesses transitions involve the sale of their company, primarily through a one-time buyout

## HOW SMALL BUSINESSES WILL TRANSITION OWNERSHIP\*



## STRUCTURE OF SALE



**11%**  
Liquidate or close business



**3%**  
Other

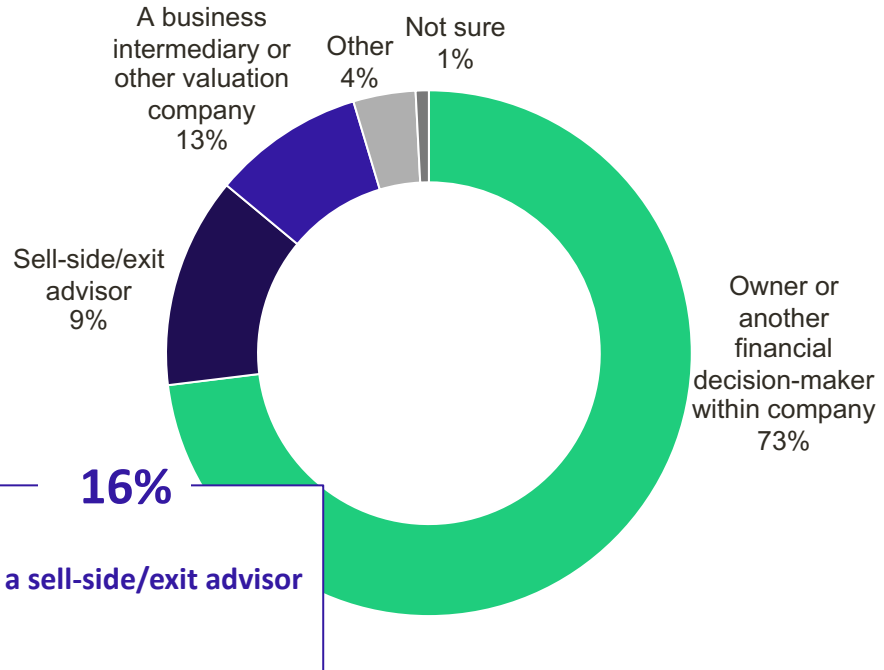


**12%**  
Unsure

**Q: Regarding your company's ownership, does your company plan to...**  
**Q: How are you expecting to structure the sale of your company?**  
\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next five years  
 \$100K-<\$10MM  
 BusinessPulse Third Quarter 2022 Data

# Few small businesses have a sell-side advisor and the business owner(s) tend to set the price

**WHO SETS PRICE EXPECTATIONS FOR BUSINESS SALE\***



**MOST IMPORTANT FACTOR WHEN SELECTING A BUYER\***

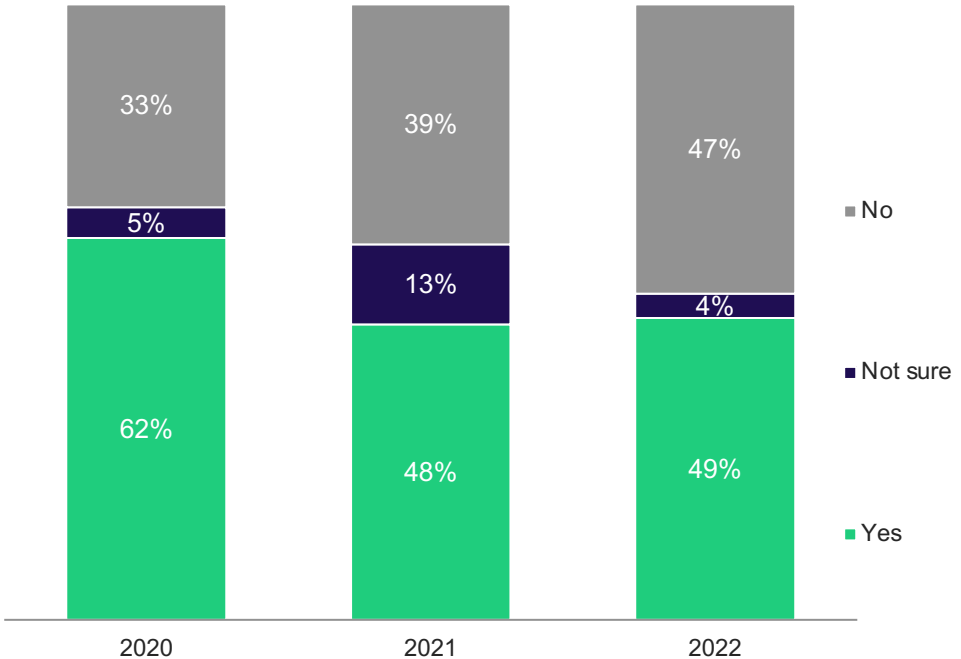
- 39%** Price
- 38%** Preservation of company integrity/legacy
- 13%** How customers/employees will be treated
- 7%** Speed to close
- 3%** Other

**Q: Regarding your company's ownership, does your company plan to...**  
**Q: Does your company have a sell-side/exit advisor who is helping you structure the deal?**  
**Q: How are you expecting to structure the sale of your company?**

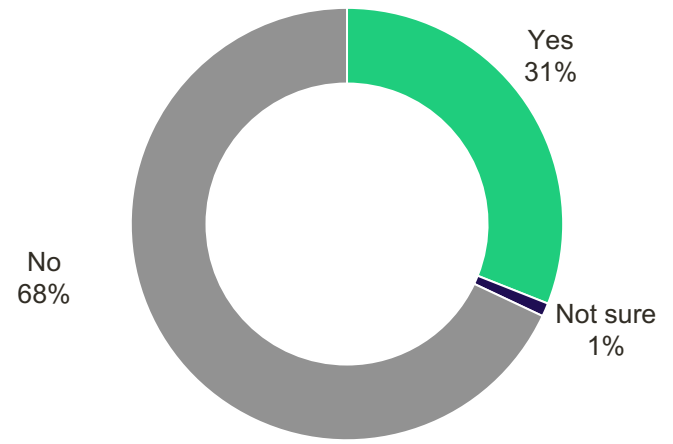
\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next five years  
 \$100K-<\$10MM  
 BusinessPulse Third Quarter 2022 Data

# Similar to 2021, roughly half of middle market companies have a succession plan

MIDDLE MARKET COMPANIES WITH SUCCESSION PLANS



MIDDLE MARKET COMPANIES THAT HAVE TAKEN STEPS TO TRANSITION COMPANY OWNERSHIP

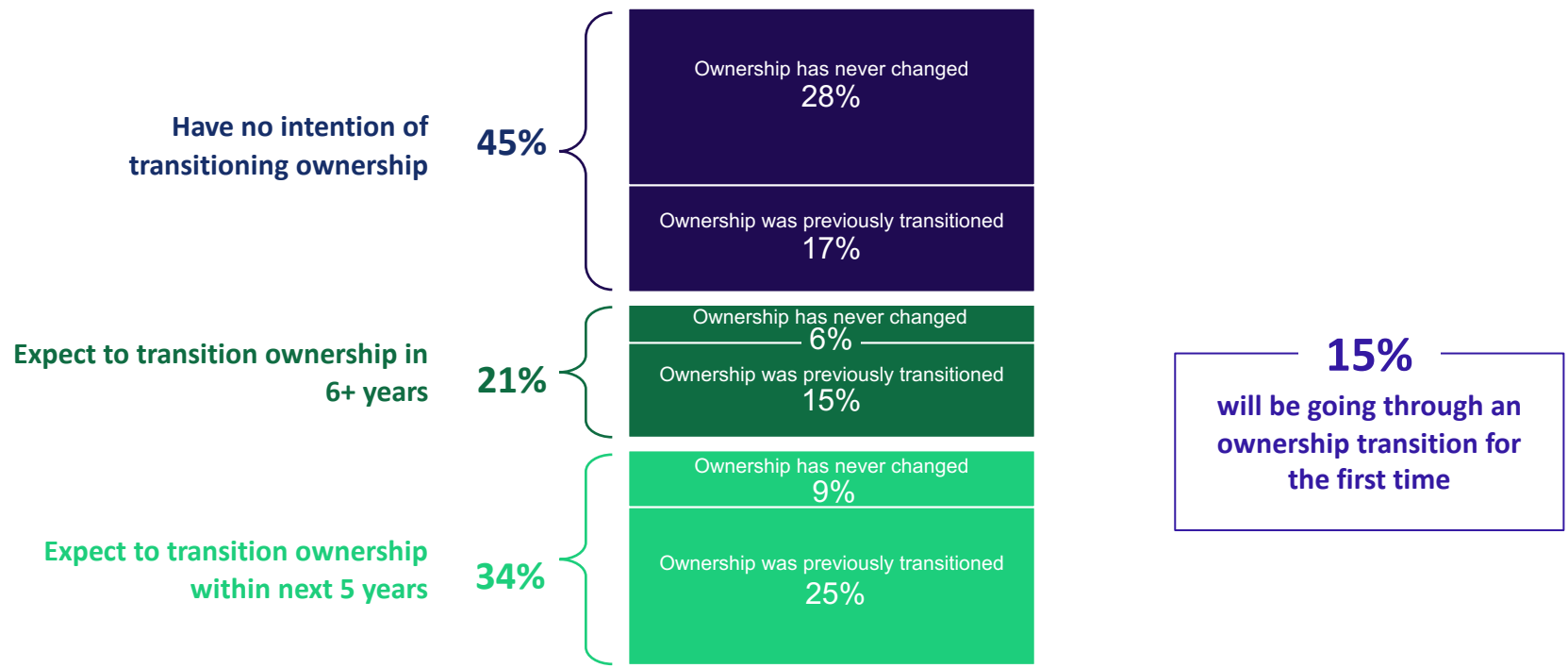


Q: Does your company have a succession plan (e.g., sell, merge, be acquired, transition ownership, liquidation, etc.)?  
 Q: Has your business taken any steps to begin preparing for a transition in company ownership?  
 \$10MM-~\$500MM  
 BusinessPulse Third Quarter Trending Data



# A third of middle market companies anticipate an ownership transition within the next five years

## MIDDLE MARKET OWNERSHIP TRANSITIONS



Q: When, if at all, was your company's last ownership transition (e.g., sold, merged, acquired)?  
 Q: When, if at all, do you expect the ownership of your company will transition (e.g., sell, merge, be acquired, liquidation)?  
 \$10MM-<\$500MM  
 BusinessPulse Third Quarter 2022 Data

# Like small businesses, middle market business transitions are primarily due to the owner's age and desire to retire

## WHAT IS DRIVING MIDDLE MARKET OWNERSHIP TRANSITIONS\*

“Owner retiring, owner has been in business since 1985. Company was an ESOP during 2005-2019.”

*Company with \$25MM-<\$50MM in sales*

“Founder is aging out and converting shares to his children.”

*Company with \$25MM-<\$50MM in sales*

“I am 63, and a key long-term employee is interested.”

*Company with \$50MM-<\$100MM in sales*

“Transition from third generation to fourth generation of ownership.”

*Company with \$100MM-<\$500MM in sales*

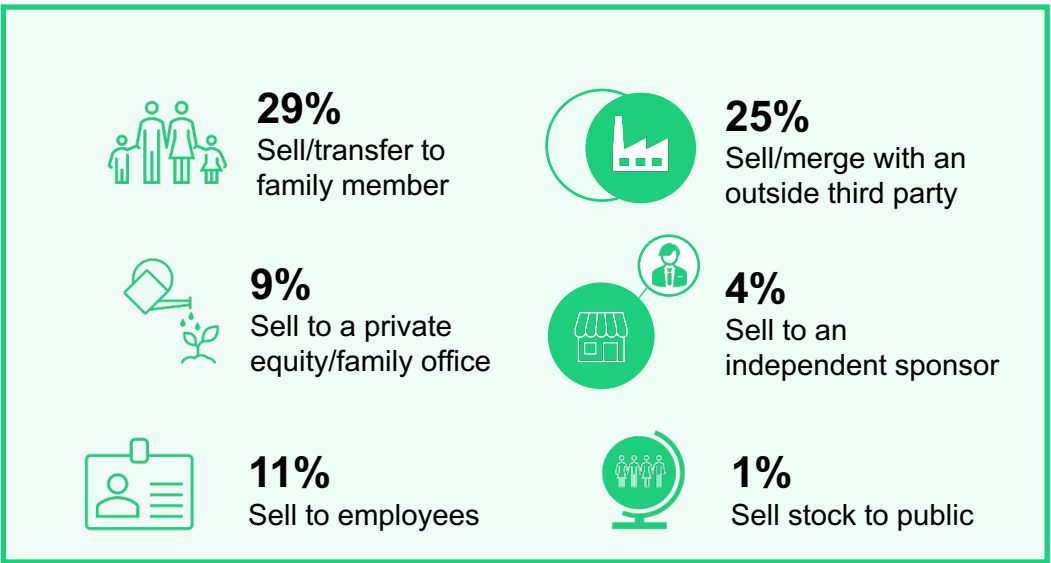
“Estate planning, succession.”

*Company with \$100MM-<\$500MM in sales*

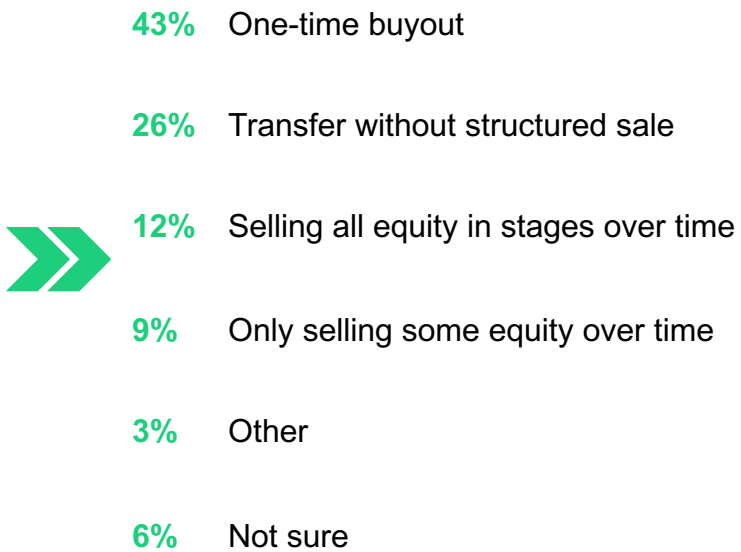
**Q: What, specifically, is driving the transition of your company's ownership now?**  
\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next 12 months  
\$10MM-<\$500MM  
BusinessPulse Third Quarter 2022 Data

# The sale of a middle market company tends to involve a one-time buyout

## HOW MIDDLE MARKET COMPANIES WILL TRANSITION OWNERSHIP\*



## STRUCTURE OF SALE

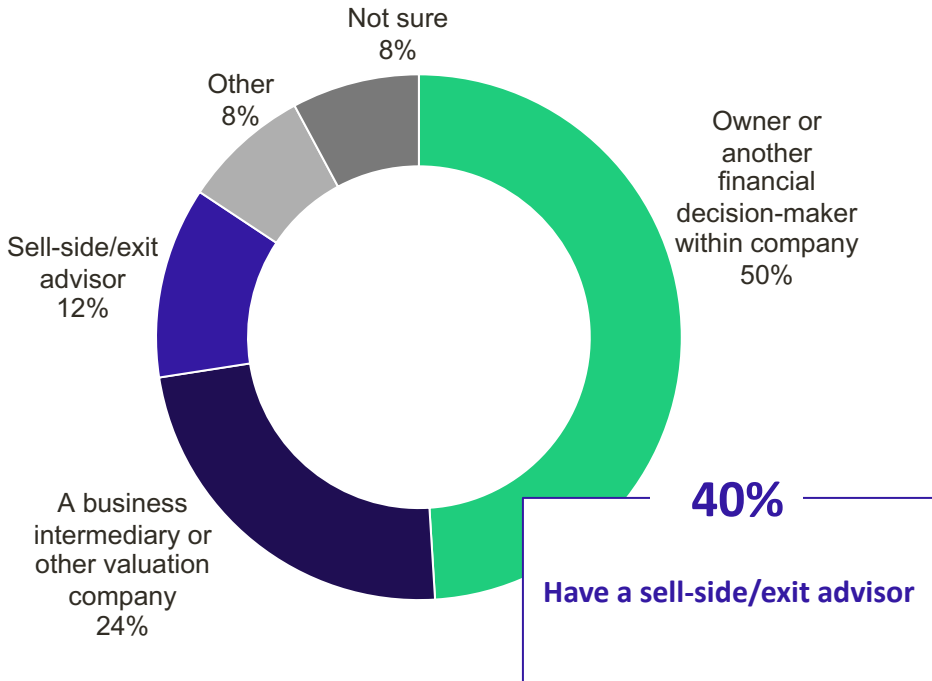


**Q: Regarding your company's ownership, does your company plan to...**  
**Q: How are you expecting to structure the sale of your company?**

\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next five years  
 \$10MM-<\$500MM  
 BusinessPulse Third Quarter 2022 Data

# Many middle market companies have sell-side advisors, and it is not uncommon for business intermediaries to set price expectations

WHO SETS PRICE EXPECTATIONS FOR BUSINESS SALE\*



MOST IMPORTANT FACTOR WHEN SELECTING A BUYER\*

- 32%** Price
- 30%** Preservation of company integrity/legacy
- 28%** How customers/employees will be treated
- 3%** Speed to close
- 8%** Other

**Q: Regarding your company's ownership, does your company plan to...**  
**Q: Does your company have a sell-side/exit advisor who is helping you structure the deal?**  
**Q: How are you expecting to structure the sale of your company?**

\*Based to those currently transitioning their business ownership or planning a business ownership transition in the next five years  
 \$10MM-<\$500MM  
 BusinessPulse Third Quarter 2022 Data



# Methodology

This BusinessPulse report contains data from surveys conducted in the third quarter of 2022 by Barlow Research, involving a sample of 462 small businesses and 485 middle market companies. Companies surveyed include all SIC categories except depository institutions, U.S. postal services, private households, bank holding companies and commercial non-physical research. (All Pulse Survey respondents previously participated in Barlow Research's small business or middle market banking surveys.)

## Small Business (\$100K-<\$10MM)

**462**      **40.5%**

Respondents      Response rate  
by mail or online

**±4.56% at 95%**  
Max error factor

**Fielding period**  
June 27 – July 14, 2022

## Middle Market (\$10MM-<\$500MM)

**485**      **36.5%**

Respondents      Response rate  
by mail or online

**±4.45% at 95%**  
Max error factor

**Weighted**  
By geography and sales volume

