A sound formula for success demands a proactive approach towards business decision making. Having your thumb on the pulse of how your fellow business owners are feeling and what they collectively think about is certainly invaluable intel for every business owner.

- **Steve Smits**, Live Oak Bank Chief Credit Officer
Third quarter 2019 summary

**ECONOMIC POSITION**

**SMALL BUSINESS**
- Marginally increased optimism
- Decreased prices & profits
- Decreased hiring, capital expenditures & cash reserves

**MIDDLE MARKET**
- Marginally increased optimism
- Increased prices
- Decreased hiring & excess cash reserves

**ECONOMIC OUTLOOK**

**SMALL BUSINESS**
- Decreased confidence
- Decreased price, sales & profit expectations
- Decreased hiring, capital expenditure & cash reserve expectations

**MIDDLE MARKET**
- Decreased confidence
- Decreased price, sales & profit expectations
- Increased hiring & cash reserve expectations

**CREDIT OUTLOOK**

**SMALL BUSINESS**
- Increased need & expected need for bank loans
- Increased demand for additional credit
- Decreased expectations to apply for additional credit

**MIDDLE MARKET**
- Increased need & expected need for bank loans
- Increased demands for additional credit
- Increased expectations to apply for additional credit
Q: During the next 12 months, do you expect your company's overall financial condition to...

- **Middle market ($10MM-$500MM)**
- **Small business ($100K-$10MM)**
U.S. economy confidence fluctuation with major events

U.S. ECONOMY CONDITION
Next 12 months net difference

Q: During the next 12 months, do you expect the U.S. economy to...

BusinessPulse Quarterly Trending Data
1 Retrospective economic position
Past-looking perceptions of overall financial condition improved slightly

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

BusinessPulse Quarterly Trending Data
# Small business net difference change from the third quarter of 2018 (past 12 months)

<table>
<thead>
<tr>
<th>Total small business market</th>
<th>Overall financial condition</th>
<th>Micro business ($100K-$500K)</th>
<th>Small enterprise ($500K-$2.5MM)</th>
<th>Business banking ($2.5MM-$10MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5%</td>
<td>-4%</td>
<td>-4%</td>
<td>-12%</td>
<td></td>
</tr>
<tr>
<td>-8%</td>
<td>-7%</td>
<td>-12%</td>
<td>-12%</td>
<td></td>
</tr>
<tr>
<td>-8%</td>
<td>-9%</td>
<td>-12%</td>
<td>-7%</td>
<td></td>
</tr>
<tr>
<td>-18%</td>
<td>-20%</td>
<td>-13%</td>
<td>-11%</td>
<td></td>
</tr>
<tr>
<td>-9%</td>
<td>-9%</td>
<td>-12%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>-6%</td>
<td>-6%</td>
<td>-6%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>-8%</td>
<td>-8%</td>
<td>-9%</td>
<td>-7%</td>
<td></td>
</tr>
</tbody>
</table>

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

$100K-$500K
BusinessPulse Quarterly Trending Data

- = change <5%
- = change 5%-10%
= change 11%-15%
= change 16%+

Live Oak BusinessPulse
Small business profits declined despite relatively little change in sales

**Prices**
- Increased 27%
- Decreased 6%

**Sales**
- Increased 28%
- Decreased 20%

**Profits**
- Increased 19%
- Decreased 26%

**Net difference**
- **+21%** (increased – decreased)
- **+9%** (increased – decreased)
- **-7%** (increased – decreased)

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

$100K–<$10MM
BusinessPulse Quarterly Trending Data
Only 6% of small businesses increased full-time employees in the third quarter of 2019 and excess cash reserves declined to a three-year low.
## Middle market net difference change from the third quarter of 2018 (past 12 months)

<table>
<thead>
<tr>
<th>Category</th>
<th>Total middle market</th>
<th>Commercial banking ($10MM-$50MM)</th>
<th>Corporate banking ($50MM-$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall financial condition</td>
<td>-10%</td>
<td>-11%</td>
<td>-7%</td>
</tr>
<tr>
<td>Prices</td>
<td>0%</td>
<td>-2%</td>
<td>6%</td>
</tr>
<tr>
<td>Sales</td>
<td>-5%</td>
<td>-3%</td>
<td>-16%</td>
</tr>
<tr>
<td>Profits</td>
<td>-3%</td>
<td>0%</td>
<td>-14%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>-9%</td>
<td>-10%</td>
<td>-7%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>-3%</td>
<td>-5%</td>
<td>-4%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>-19%</td>
<td>-20%</td>
<td>-15%</td>
</tr>
</tbody>
</table>

Q: During the last 12 months, did your company’s…

$10MM-$50MM
BusinessPulse Quarterly Trending Data
Prices continued to trend up in the middle market, although profits remained flat.

**MIDDLE MARKET PRICES, SALES & PROFITS**

Past 12 months

**Prices**: Increased 46%, Decreased 6%

**Sales**: Increased 52%, Decreased 16%

**Profits**: Increased 40%, Decreased 23%

Net difference (increased – decreased):

- Prices: +40%
- Sales: +36%
- Profits: +17%

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

$10MM-$500MM BusinessPulse Quarterly Trending Data
Middle market cash reserves appeared to be in increasingly short supply

**MIDDLE MARKET HIRING, CAPITAL EXPENDITURES & CASH RESERVES**

- **Full-time employees**
  - Increased 36%
  - Decreased 16%
  - Net difference: +20% (increased – decreased)

- **Capital expenditures**
  - Increased 29%
  - Decreased 13%
  - Net difference: +17% (increased – decreased)

- **Excess cash reserves**
  - Increased 27%
  - Decreased 26%
  - Net difference: +1% (increased – decreased)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data
Future economic outlook
Small business confidence continued its decent from the beginning of the year; middle market confidence also saw a sharp decline in the third quarter of 2019.
## Small business net difference change from the third quarter of 2018 (next 12 months)

<table>
<thead>
<tr>
<th>Total small business market</th>
<th>Micro business ($100K-$500K)</th>
<th>Small enterprise ($500K-$2.5MM)</th>
<th>Business banking ($2.5MM-$10MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall financial condition</td>
<td>-13%</td>
<td>-3%</td>
<td>-17%</td>
</tr>
<tr>
<td>Prices</td>
<td>-11%</td>
<td>-4%</td>
<td>-7%</td>
</tr>
<tr>
<td>Sales</td>
<td>-3%</td>
<td>-15%</td>
<td>-14%</td>
</tr>
<tr>
<td>Profits</td>
<td>-7%</td>
<td>-15%</td>
<td>-27%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>-13%</td>
<td>-11%</td>
<td>-12%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>-10%</td>
<td>-4%</td>
<td>-11%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>2%</td>
<td>-8%</td>
<td>-20%</td>
</tr>
</tbody>
</table>

Q: During the next 12 months, do you expect your company’s…

$100K-$10MM
BusinessPulse Quarterly Trending Data
While a high proportion of small businesses expected increased prices, sales and profits, all three metrics decreased.

**Prices**
- To decrease: 4%
- To increase: 27%

**Sales**
- To decrease: 9%
- To increase: 42%

**Profits**
- To decrease: 14%
- To increase: 30%

**Net difference**
- Prices: +23% (to increase – to decrease)
- Sales: +33% (to increase – to decrease)
- Profits: +15% (to increase – to decrease)
Small business net difference hiring expectations reverted to lows last seen at the end of 2015

Net difference (to increase – to decrease)

Q: During the next 12 months, do you expect your company’s…

$100K–$10MM BusinessPulse Quarterly Trending Data
Middle market net difference change from the third quarter of 2018 (next 12 months)

<table>
<thead>
<tr>
<th>Total middle market</th>
<th>Commercial banking ($10MM-&lt;50MM)</th>
<th>Corporate banking ($50MM-&lt;500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-14%</td>
<td>Overall financial condition</td>
<td>▯ ▯ -13%</td>
</tr>
<tr>
<td>-13%</td>
<td>Prices</td>
<td>▯ ▯ -14%</td>
</tr>
<tr>
<td>-21%</td>
<td>Sales</td>
<td>▯ ▯ -23%</td>
</tr>
<tr>
<td>-37%</td>
<td>Profits</td>
<td>▯ ▯ -30%</td>
</tr>
<tr>
<td>-17%</td>
<td>Full-time employees</td>
<td>▯ ▯ -17%</td>
</tr>
<tr>
<td>-5%</td>
<td>Capital expenditures</td>
<td>▯ ▯ -5%</td>
</tr>
<tr>
<td>-19%</td>
<td>Excess cash reserves</td>
<td>▯ ▯ -20%</td>
</tr>
</tbody>
</table>

Q: During the next 12 months, do you expect your company's...

$10MM-<500MM
BusinessPulse Quarterly Trending Data

= change <5%
= change 5%-10%
= change 11%-15%
= change 16%+
Sharp declines in middle market price, sales and profit expectations likely fueled decreased optimism

MIDDLE MARKET PRICES, SALES & PROFITS
Next 12 months

To increase 42%
To decrease 8%
Prices

To increase 53%
To decrease 13%
Sales

To increase 37%
To decrease 20%
Profits

+33% Net difference (to increase – to decrease)

+40% Net difference (to increase – to decrease)

+18% Net difference (to increase – to decrease)

Q: During the next 12 months, do you expect your company’s…
Middle market excess cash reserve expectations have trended down since the beginning of 2018.

MIDDLE MARKET HIRING, CAPITAL EXPENDITURES & CASH RESERVES

Next 12 months

Net difference (to increase – to decrease)

-100% -75% -50% -25% 0% 25% 50% 75% 100%


-100% -75% -50% -25% 0% 25% 50% 75% 100%

Net difference (to increase – to decrease)

Q: During the next 12 months, do you expect your company’s…

$10MM-$500MM BusinessPulse Quarterly Trending Data
3 Credit outlook
The need for bank loans remained low but has increased in both small business and middle market.
Credit denials have gradually increased among small businesses

**ADDITIONAL CREDIT DENIALS**

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?

BusinessPulse Quarterly Trending Data
Small businesses have increased their reliance on personal savings to finance business operations

*Q:* During the last 12 months, in addition to your company’s equity and cash flow, how has your company financed its business operations?

- 53% No additional financing
- 50% Personal savings
- 36% Commercial bank
- 18% Credit cards
One in five small businesses applied for additional credit in the third quarter of 2019

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
Twenty percent of small businesses that applied for additional credit were denied.

<table>
<thead>
<tr>
<th>SMALL BUSINESS CREDIT APPLICATION OUTCOME</th>
<th>TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not apply for credit 80%</td>
<td>Unsecured short-term loans 40%</td>
</tr>
<tr>
<td>Applied for credit 20% 67% Full approval</td>
<td>Equipment leasing 31%</td>
</tr>
<tr>
<td>13% Partial approval</td>
<td>Secured short-term loans 25%</td>
</tr>
<tr>
<td>20% Denied</td>
<td>Term loans (&gt;1 year) 19%</td>
</tr>
<tr>
<td>6% Expect not to be approved</td>
<td>Commercial real estate 13%</td>
</tr>
<tr>
<td>53% No current need for credit</td>
<td>SBA loans &lt;1%</td>
</tr>
<tr>
<td>41% Company does not borrow</td>
<td></td>
</tr>
</tbody>
</table>
The use of commercial banks continued to be most popular source of financing in the middle market

MIDDLE MARKET SOURCES OF FINANCING

Q: During the last 12 months, in addition to your company’s equity and cash flow, how has your company financed its business operations?

$10MM-$500MM BusinessPulse Quarterly Trending Data
The middle market has begun to show consistent demand for additional credit

**MIDDLE MARKET APPLICATIONS FOR ADDITIONAL CREDIT**
Past 12 months

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?

$10MM-$50MM Commercial banking

3Q2018: 34%
3Q2019: 39%

CHANGE FROM 3Q2018

3Q2018: 34%
3Q2019: 37%

$50MM-$500MM Corporate banking

3Q2018: 37%
3Q2019: 42%

BusinessPulse Quarterly Trending Data
Nearly half of middle market companies that applied for additional credit sought secured short-term loans.

**MIDDLE MARKET CREDIT APPLICATION OUTCOME**

- **1%** Expect not to be approved
- **78%** No current need for credit
- **21%** Company does not borrow

**TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE***

- Secured short-term loans: 44%
- Term loans (>1 year): 29%
- Equipment leasing: 26%
- Commercial real estate: 14%
- Unsecured short-term loans: 10%
- SBA loans: 3%

*Base: those that applied for additional credit

BusinessPulse 3Q2019 Data
Small business expectations to apply for additional credit remained tepid

**SMALL BUSINESS EXPECTED APPLICATIONS**
Next 12 months

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
Middle market expectations to apply for additional credit point to a continuation of elevated demand

MIDDLE MARKET EXPECTED APPLICATIONS
Next 12 months

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

$10MM-$500MM BusinessPulse Quarterly Trending Data
Third quarter proprietary data
The cost of materials had the largest impact on small business’ decisions to adjust prices; few indicated interest rate fluctuations or tariffs would have an impact.

**LARGEST IMPACT ON SMALL BUSINESS PRICES**

- **The cost of raw materials or supplies needed to produce goods/services**: 40%
- **Changes in demand for goods/services**: 16%
- **Increased competition in your market**: 14%
- **New regulations or laws**: 14%
- **Economy**: 4%
- **Interest rate fluctuations**: 2%
- **Tariffs**: <1%
- **Other**: 9%

**Q:** Which of the following typically has the largest impact on your decision to adjust the prices for your products and/or services?

- **$100K-$500K**
  - The cost of raw materials or supplies needed to produce goods/services: 40%
  - Changes in demand for goods/services: 43%
  - $2.5MM-$10MM: 41%

- **$500K-$2.5MM**
  - The cost of raw materials or supplies needed to produce goods/services: 16%
  - Changes in demand for goods/services: 19%
  - $2.5MM-$10MM: 16%

- **$2.5MM-$10MM**
  - The cost of raw materials or supplies needed to produce goods/services: 19%
  - Changes in demand for goods/services: 19%
  - $2.5MM-$10MM: 19%

**$100K-$10MM**
- BusinessPulse Third Quarter 2019 Data
Compared to the small business market, middle market decisions to adjust prices are more likely to be impacted by increased competition.

**LARGEST IMPACT ON MIDDLE MARKET PRICES**

- **33%** The cost of raw materials or supplies needed to produce goods/services
- **20%** Changes in demand for goods/services
- **26%** Increased competition in your market
- **14%** New regulations or laws
- **27%** Other
- **16%** Interest rate fluctuations
- **9%** Tariffs
- **7%** Economy
- **22%** Increased competition in your market
- **21%** New regulations or laws
- **20%** Changes in demand for goods/services
- **31%** Other
- **27%** The cost of raw materials or supplies needed to produce goods/services
- **22%** Other

Q: Which of the following typically has the largest impact on your decision to adjust the prices for your products and/or services?

$10MM-$500MM BusinessPulse Third Quarter 2019 Data
Approximately one in five small businesses anticipate slower company growth as a result of the recent trade agreements and tariffs.

Q: As a result of recent changes to U.S. trade agreements and tariffs, do you expect...

$100K-$500K: 15% Faster growth/expansion, 57% Slower growth/expansion, 3% Company decline or retraction, 5% No growth/expansion

$500K-$2.5MM: 12% Faster growth/expansion, 56% Slower growth/expansion, 21% Company decline or retraction, 11% No growth/expansion

$2.5MM-$10MM: 17% Faster growth/expansion, 49% Slower growth/expansion, 29% Company decline or retraction, 5% No growth/expansion
A third of middle market companies expect slower growth as a result of the recent trade agreements and tariffs.

**Middle Market Growth Expectations as a Result of Tariffs**

<table>
<thead>
<tr>
<th>Category</th>
<th>$10MM-$50MM</th>
<th>$50MM-$500MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faster company growth/expansion</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Slower company growth/expansion</td>
<td>30%</td>
<td>39%</td>
</tr>
<tr>
<td>No company growth/expansion</td>
<td>54%</td>
<td>44%</td>
</tr>
<tr>
<td>Company decline or retraction</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

---

Q: As a result of recent changes to U.S. trade agreements and tariffs, do you expect...

$10MM-$500MM BusinessPulse Third Quarter 2019 Data
Smaller companies are much less likely to have a succession plan

Q: Does your company have a succession plan (e.g., sell, merge, be acquired, etc.)?  
BusinessPulse Third Quarter 2019 Data

Smaller Business ($100K-$10MM)
- Yes: 32%
- No: 59%
- Not sure: 8%

Middle Market ($10M-$500MM)
- Yes: 52%
- No: 42%
- Not sure: 5%

SUCCESSION PLAN

- $100K-$500K: 61% Yes, 30% No, 9% Not sure
- $500K-$2.5MM: 54% Yes, 41% No, 6% Not sure
- $2.5MM-$10MM: 52% Yes, 44% No, 4% Not sure
- $10MM-$50MM: 44% Yes, 50% No, 6% Not sure
- $50MM-$500MM: 36% Yes, 61% No, 3% Not sure
Companies with $100K-$500K in annual sales have different opinions about investing in their company’s commercial real estate.

Q: Which of the following most accurately reflects your opinion about investments in your company’s commercial real estate?

- Our company does not own or lease CRE: 16%
- Owning company’s CRE provides best ROI: 38%
- Leasing company’s CRE provides best ROI: 53%
- Other: 14%

$100K-$500K

$500K-$2.5MM

$2.5MM-$10MM

BusinessPulse Third Quarter 2019 Data
Most middle market companies find that owning their company’s commercial real estate provides the best return on investment.

Q: Which of the following most accurately reflects your opinion about investments in your company’s commercial real estate?

- Our company does not own or lease CRE: 19%
- Leasing company’s CRE provides best ROI: 18%
- Owning company’s CRE provides best ROI: 63%

$10MM-$50MM:
- Our company does not own or lease CRE: 15%
- Leasing company’s CRE provides best ROI: 20%
- Owning company’s CRE provides best ROI: 65%

$50MM-$500MM:
- Our company does not own or lease CRE: 30%
- Leasing company’s CRE provides best ROI: 14%
- Owning company’s CRE provides best ROI: 56%
**Methodology**

**This BusinessPulse report** contains data from surveys conducted in the third quarter of 2019 by Barlow Research, involving a sample of 417 small businesses and 381 middle market companies. Companies surveyed include all SIC categories except depository institutions, U.S. postal services, private households, bank holding companies and commercial nonphysical research. (All Pulse Survey respondents previously participated in Barlow Research’s small business or middle market banking surveys.)

<table>
<thead>
<tr>
<th>Fielding</th>
<th>July 1, 2019 – July 19, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted</td>
<td>By geography and sales volume</td>
</tr>
<tr>
<td><strong>Small business</strong></td>
<td><strong>Middle market</strong></td>
</tr>
<tr>
<td>Respondents</td>
<td>417</td>
</tr>
<tr>
<td>Resp. Rate</td>
<td>40%</td>
</tr>
<tr>
<td>Max Error Factor (at 95% confidence interval)</td>
<td>±4.80%</td>
</tr>
</tbody>
</table>