The latest BusinessPulse data indicates businesses feel good about their own financial conditions, however, standoffish on their expectations for the overall economy going forward. I would contend that we’re in for more of a slow glide down than a cliff.

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

**ECONOMIC POSITION**

**SMALL BUSINESS**
- Increased optimism
- Decreased prices; increased sales & profits
- Increased hiring & cash reserves

**MIDDLE MARKET**
- Optimism flat
- Increased profits
- Increased hiring, capital expenditures & cash reserves

**ECONOMIC OUTLOOK**

**SMALL BUSINESS**
- Increased confidence
- Decreased sales; increased price & profit expectations
- Increased hiring & cash reserve expectations

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

**CREDIT OUTLOOK**

**SMALL BUSINESS**
- Increased need but decreased expected need for bank loans
- Flat demand for additional credit
- Flat expectations to apply for additional credit

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

BusinessPulse Quarterly Trending Data (4th quarter)
U.S. economy confidence fluctuation with major events

**U.S. ECONOMY CONDITION**
Next 12 months net difference

- Low oil & gas prices
- Private sector jobs return to pre-recession levels
- Government shutdown
- Hurricane Sandy
- Stock market hits record high

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

BusinessPulse Quarterly Trending Data (4th quarter)
1 Retrospective economic position
Past-looking perceptions of overall financial condition improved among small businesses as middle market leveled off

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

BusinessPulse Quarterly Trending Data (4th quarter)
## Small business net difference change from the fourth quarter of 2018 (past 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>7%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>-7%</td>
<td>-8%</td>
<td>-6%</td>
</tr>
<tr>
<td>Prices</td>
<td>8%</td>
<td>-7%</td>
<td>-2%</td>
</tr>
<tr>
<td>Sales</td>
<td>1%</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>Profits</td>
<td>3%</td>
<td>3%</td>
<td>-2%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>-11%</td>
<td>-13%</td>
<td>-6%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>-1%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>-1%</td>
<td>-1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

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

$100K-$10MM
BusinessPulse Quarterly Trending Data (4th quarter)
Sales and profits began to rebound in the fourth quarter as prices continued to trend down.

**Prices**
- Decreased 6%
- Increased 22%

**Sales**
- Decreased 19%
- Increased 37%

**Profits**
- Decreased 23%
- Increased 32%

**Net difference** (increased – decreased)
- **+16%**
- **+18%**
- **+8%**

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

$100K–<10MM

BusinessPulse Quarterly Trending Data (4th quarter)
Although full-time employee hiring, capital spending and cash reserves increased from the third quarter, all three metrics remain at a near-zero net difference.

**Net difference** (increased – decreased)
- Full-time employees: $+3\%$
- Capital expenditures: $+2\%$
- Excess cash reserves: $-1\%$

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

$100K<10MM$ BusinessPulse Quarterly Trending Data (4th quarter)
### Middle market net difference change from the fourth quarter of 2018 (past 12 months)

<table>
<thead>
<tr>
<th>Total middle market</th>
<th>Commercial banking ($10MM-$50MM)</th>
<th>Corporate banking ($50MM-$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>-2%</td>
<td>0%</td>
<td>-6%</td>
</tr>
<tr>
<td>3%</td>
<td>6%</td>
<td>-9%</td>
</tr>
<tr>
<td>5%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>9%</td>
<td>14%</td>
<td>-15%</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>15%</td>
<td>19%</td>
<td>-5%</td>
</tr>
</tbody>
</table>

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (4th quarter)
After over a year of decreases, middle market profits saw an uptick

**Prices**
- Increased 41%
- Decreased 7%

**Sales**
- Increased 55%
- Decreased 17%

**Profits**
- Increased 45%
- Decreased 20%

**Net difference (increased – decreased)**
- Prices: +34%
- Sales: +39%
- Profits: +25%

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (4th quarter)
Middle market net difference hiring reached the highest point to-date

- Full-time employees: Increased 42% (12% decreased)
- Capital expenditures: Increased 31% (8% decreased)
- Excess cash reserves: Increased 36% (19% decreased)

**Net difference (increased – decreased):**
- Full-time employees: +30%
- Capital expenditures: +23%
- Excess cash reserves: +16%

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (4th quarter)
2 Future economic outlook
Small business and middle market financial condition confidence improved in the fourth quarter, but continues to be lower than levels seen in 2018.

Q: During the next 12 months, do you expect your company's overall financial condition to…

BusinessPulse Quarterly Trending Data (4th quarter)
### Small business net difference change from the fourth quarter of 2018 (next 12 months)

<table>
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<th>Total small business market</th>
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</thead>
<tbody>
<tr>
<td>Overall financial condition</td>
<td>-14%</td>
<td>-13%</td>
<td>-1%</td>
</tr>
<tr>
<td>Prices</td>
<td>-4%</td>
<td>-8%</td>
<td>-5%</td>
</tr>
<tr>
<td>Sales</td>
<td>-10%</td>
<td>-17%</td>
<td>-5%</td>
</tr>
<tr>
<td>Profits</td>
<td>-8%</td>
<td>-11%</td>
<td>-12%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>8%</td>
<td>1%</td>
<td>-4%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>1%</td>
<td>-10%</td>
<td>0%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>2%</td>
<td>-2%</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 (4th quarter)
Small business sales expectations have decreased in every quarter of 2019.

**Prices**
- To decrease: 2%
- To increase: 30%

**Sales**
- To decrease: 13%
- To increase: 39%

**Profits**
- To decrease: 16%
- To increase: 35%

**Net difference**
- Prices: +28% (to increase – to decrease)
- Sales: +26% (to increase – to decrease)
- Profits: +19% (to increase – to decrease)

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

$100K–<$10MM

BusinessPulse Quarterly Trending Data (4th quarter)
Small business net difference hiring expectations increased from a low point in the third quarter

To increase 17%  
To decrease 11%

Full-time employees

To increase 26%  
To decrease 8%

Capital expenditures

To increase 17%  
To decrease 11%

Excess cash reserves

To increase 28%  
To decrease 14%

Q: During the next 12 months, do you expect your company’s...
Small businesses continued to be focused on retaining excess cash and using it to pay down debt; however, an increased percentage of small businesses intend to distribute cash to stakeholders.

**Diagram:**
- **Retain cash reserves**
- **Pay down debt**
- **Distribute to stakeholders**
- **Invest in capital expenditures**

**Q:** During the next 12 months, how does your company intend to use its excess cash reserves?

$100K-$1MM Economic Pulse Fourth Quarter Trending Data.
### Middle market net difference change from the fourth quarter of 2018 (next 12 months)

<table>
<thead>
<tr>
<th>Total middle market</th>
<th>Commercial banking ($10MM-$50MM)</th>
<th>Corporate banking ($50MM-$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10%</td>
<td><img src="image" alt="Arrows" /> -11%</td>
<td><img src="image" alt="Arrows" /> -6%</td>
</tr>
<tr>
<td>-9%</td>
<td><img src="image" alt="Arrows" /> -10%</td>
<td><img src="image" alt="Arrows" /> -9%</td>
</tr>
<tr>
<td>-11%</td>
<td><img src="image" alt="Arrows" /> -11%</td>
<td><img src="image" alt="Arrows" /> -7%</td>
</tr>
<tr>
<td>-12%</td>
<td><img src="image" alt="Arrows" /> -14%</td>
<td><img src="image" alt="Arrows" /> -9%</td>
</tr>
<tr>
<td>-11%</td>
<td><img src="image" alt="Arrows" /> -10%</td>
<td><img src="image" alt="Arrows" /> -12%</td>
</tr>
<tr>
<td>-4%</td>
<td><img src="image" alt="Arrows" /> -3%</td>
<td><img src="image" alt="Arrows" /> -8%</td>
</tr>
<tr>
<td>-8%</td>
<td><img src="image" alt="Arrows" /> -8%</td>
<td><img src="image" alt="Arrows" /> -7%</td>
</tr>
</tbody>
</table>

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

- Overall financial condition
- Prices
- Sales
- Profits
- Full-time employees
- Capital expenditures
- Excess cash reserves

$10MM-$50MM
BusinessPulse Quarterly Trending Data (4th quarter)

![Image]
Middle market price, sales and profit expectations have begun to normalize after sharp declines in the third quarter.

MIDDLE MARKET PRICES, SALES & PROFITS
Next 12 months

Net difference
(to increase – to decrease)

Prices
To increase 36%
To decrease 2%

+34% Net difference
(to increase – to decrease)

Sales
To increase 54%
To decrease 11%

+43% Net difference
(to increase – to decrease)

Profits
To increase 45%
To decrease 15%

+30% Net difference
(to increase – to decrease)

Q: During the next 12 months, do you expect your company’s...
Middle market hiring and excess cash reserve expectations ticked up after consistently trended down since the beginning of 2018

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

- **Full-time employees**:
  - To increase: 32%
  - To decrease: 10%
  - **Net difference**: +22% (to increase – to decrease)

- **Capital expenditures**:
  - To increase: 25%
  - To decrease: 11%
  - **Net difference**: +14% (to increase – to decrease)

- **Excess cash reserves**:
  - To increase: 30%
  - To decrease: 13%
  - **Net difference**: +17% (to increase – to decrease)

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

$10MM-$500MM
BusinessPulse Quarterly Trending Data (4th quarter)
Nearly half of middle market companies anticipated retaining excess cash

Q: During the next 12 months, how does your company intend to use its excess cash reserves?

Economic Pulse Fourth Quarter Trending Data

$10MM-$500MM

Retain cash reserves
Invest in capital expenditures
Pay down debt
Distribute to stakeholders
3 Credit outlook
The need for bank loans remained low in both small business and middle market

![Graph showing the need for bank loans for past 12 months and next 12 months for middle market (Middle market ($10MM-<$500MM)) and small business (Small business ($100K-<$10MM)). The graphs show a trend of low need for bank loans over the years 2009 to 2019.](image-url)
Small business credit denials saw a sharp decline in the fourth quarter

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?
BusinessPulse Quarterly Trending Data (4th quarter)
Small businesses reliance on personal savings, commercial banks and credit cards reached parity

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

**$100K-$10MM BusinessPulse Quarterly Trending Data (4th quarter)**
Demand for additional credit was flat from the third quarter of 2019, although there was an increase in demand among companies with $2.5MM-$10MM in sales revenue.

Small Business 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?

$100K-$500K

BusinessPulse Quarterly Trending Data (4th quarter)
Eight in ten small businesses that applied for additional credit received full approval

<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 33%</td>
</tr>
<tr>
<td>Applied for credit 20%</td>
<td>Secured short-term loans 30%</td>
</tr>
<tr>
<td>Full approval 82%</td>
<td>Commercial real estate 16%</td>
</tr>
<tr>
<td>Partial approval 13%</td>
<td>Equipment leasing 10%</td>
</tr>
<tr>
<td>Denied 4%</td>
<td>Term loans (&gt;1 year) 4%</td>
</tr>
</tbody>
</table>

*Base: those that applied for additional credit
BusinessPulse 4Q2019 Data
Nearly half of middle market companies used a commercial bank to fund business operations

**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 (4th quarter)
Middle market demand for additional credit decreased after consistent growth in the previous three quarters

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

**ADDITIONAL CREDIT APPLICATION TREND**

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

$10MM-$50MM

BusinessPulse Quarterly Trending Data (4th quarter)

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

$10MM-$50MM

BusinessPulse Quarterly Trending Data (4th quarter)
Nearly all middle market companies that applied for additional credit received at least partial approval.

**MIDDLE MARKET CREDIT APPLICATION OUTCOME**

- **3%** Expect not to be approved
- **71%** No current need for credit
- **25%** Company does not borrow

**APPLIED FOR CREDIT**

- **34%** Applied for credit
- **15%** Partial approval
- **83%** Full approval
- **3%** Denied

**TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE**

- Secured short-term loans: **52%**
- Term loans (>1 year): **32%**
- Equipment leasing: **20%**
- Commercial real estate: **15%**
- Unsecured short-term loans: **15%**
- SBA loans: **2%**

*$10MM <$500MM
*Base: those that applied for additional credit
BusinessPulse 4Q2019 Data
Small business expectations to apply for additional credit remained low and flat from the previous quarter

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 (4th quarter)
Middle market expectations to apply for additional credit reverted to levels seen earlier in 2019

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 (4th quarter)
**Methodology**

**This BusinessPulse report** contains data from surveys conducted in the fourth quarter of 2019 by Barlow Research, involving a sample of 372 small businesses and 361 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.)

Fielding: October 1, 2019 – October 17, 2019

Weighted: By geography and sales volume

<table>
<thead>
<tr>
<th></th>
<th>Small business ($100K-&lt;$10MM)</th>
<th>Middle market ($10MM-&lt;$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>372</td>
<td>361</td>
</tr>
<tr>
<td>Resp. Rate</td>
<td>36%</td>
<td>35%</td>
</tr>
<tr>
<td>Max Error Factor</td>
<td>±5.08%</td>
<td>±5.16%</td>
</tr>
</tbody>
</table>