First quarter 2020 summary

ECONOMIC POSITION

SMALL BUSINESS
Past 12 months
Increased optimism
Increased prices & sales
Increased capital expenditures

MIDDLE MARKET
Optimism flat
Decreased profits
Decreased hiring & capital expenditures

ECONOMIC OUTLOOK

SMALL BUSINESS
Next 12 months
Increased confidence
Increased prices, sales & profit expectations
Increased cash reserve expectations;
Decreased hiring & capital expenditure expectations

MIDDLE MARKET
Increased confidence
Increased prices, sales & profit expectations
Flat hiring, cash reserve & capital expenditure expectations

CREDIT OUTLOOK

SMALL BUSINESS
Decreased need but increased expected need for bank loans
Flat demand for additional credit
Increased expectations to apply for additional credit

MIDDLE MARKET
Decreased need & expected need for bank loans
Decreased demand 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…

BusinessPulse Quarterly Trending Data (1st quarter)
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 (1st quarter)
Most are not expecting a recession within the next two years

Q: When do you anticipate the U.S. will begin another economic recession?

BusinessPulse First Quarter 2020 Data
1 Retrospective economic position
Small business past-looking perceptions of overall financial was higher than middle market for the first time

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

BusinessPulse Quarterly Trending Data (1st quarter)
## Small business net difference change from the first quarter of 2019 (past 12 months)

### Overall financial condition

<table>
<thead>
<tr>
<th>Category</th>
<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>12%</td>
<td>12%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Prices</td>
<td>2%</td>
<td>0%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Sales</td>
<td>4%</td>
<td>5%</td>
<td>2%</td>
<td>-1%</td>
</tr>
<tr>
<td>Profits</td>
<td>-11%</td>
<td>-14%</td>
<td>4%</td>
<td>-6%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
<td>-2%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>-1%</td>
<td>-2%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>-4%</td>
<td>-9%</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

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

$100K-$500K
BusinessPulse Quarterly Trending Data (1st quarter)
Sales and price increases have likely impacted perceptions of overall financial condition.

- **Prices**: Increased 33%, Decreased 2%
  - **Net difference (increased – decreased)**: +31%

- **Sales**: Increased 44%, Decreased 18%
  - **Net difference (increased – decreased)**: +26%

- **Profits**: Increased 30%, Decreased 21%
  - **Net difference (increased – decreased)**: +9%

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

$100K-$10MM
BusinessPulse Quarterly Trending Data (1st quarter)
While still relatively low, capital expenditures have increased in the first quarter of 2020

**Small Business Hiring, Capital Expenditures & Cash Reserves**

- **Full-time employees**:
  - Increased: 9%
  - Decreased: 6%
  - Net difference: +3% (increased – decreased)

- **Capital expenditures**:
  - Increased: 23%
  - Decreased: 15%
  - Net difference: +8% (increased – decreased)

- **Excess cash reserves**:
  - Increased: 19%
  - Decreased: 20%
  - Net difference: <1% (increased – decreased)

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

$100K-$10MM BusinessPulse Quarterly Trending Data (1st quarter)

**Barlow Research Associates, Inc.**
Middle market net difference change from the first quarter of 2019 (past 12 months)

<table>
<thead>
<tr>
<th>Total middle market</th>
<th>Overall financial condition</th>
<th>Commercial banking ($10MM-&lt;$50MM)</th>
<th>Corporate banking ($50MM-&lt;$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>-1%</td>
<td>11%</td>
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<tr>
<td>4%</td>
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<tr>
<td>-12%</td>
<td>-13%</td>
<td>-9%</td>
<td></td>
</tr>
<tr>
<td>7%</td>
<td>4%</td>
<td>17%</td>
<td></td>
</tr>
</tbody>
</table>

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

$10MM-<$500MM
BusinessPulse Quarterly Trending Data (1st quarter)
Middle market profits decreased after an uptick at the end of 2019

**Middle Market Prices, Sales & Profits**

### Past 12 months

- **Prices:**
  - Increased: 42%
  - Decreased: 6%
  - Net difference: +36% (increased – decreased)

- **Sales:**
  - Increased: 56%
  - Decreased: 19%
  - Net difference: +37% (increased – decreased)

- **Profits:**
  - Increased: 42%
  - Decreased: 28%
  - Net difference: +14% (increased – decreased)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (1st quarter)
Middle market net difference hiring ticked down after a high point in the fourth quarter of 2019

MIDDLE MARKET HIRING, CAPITAL EXPENDITURES & CASH RESERVES
Past 12 months

- **Full-time employees**: Increased 36%, Decreased 12%
  - **Net difference**: +24% (increased – decreased)

- **Capital expenditures**: Increased 32%, Decreased 16%
  - **Net difference**: +16% (increased – decreased)

- **Excess cash reserves**: Increased 34%, Decreased 19%
  - **Net difference**: +15% (increased – decreased)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (1st quarter)
Future economic outlook
Small business and middle market financial condition confidence improved

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

BusinessPulse Quarterly Trending Data (1st quarter)

Live Oak BusinessPulse
## Small business net difference change from the first quarter of 2019 (next 12 months)

### Total small business market
- **Overall financial condition**: -10%
- **Prices**: 3%
- **Sales**: -16%
- **Profits**: -10%
- **Full-time employees**: -6%
- **Capital expenditures**: -7%
- **Excess cash reserves**: -8%

### Micro business ($100K-$500K)
- **Overall financial condition**: -13%
- **Prices**: 4%
- **Sales**: -20%
- **Profits**: -13%
- **Full-time employees**: -10%
- **Capital expenditures**: -10%
- **Excess cash reserves**: -13%

### Small enterprise ($500K-$2.5MM)
- **Overall financial condition**: -3%
- **Prices**: 0%
- **Sales**: -1%
- **Profits**: -3%
- **Full-time employees**: 3%
- **Capital expenditures**: 4%
- **Excess cash reserves**: 8%

### Business banking ($2.5MM-$10MM)
- **Overall financial condition**: 12%
- **Prices**: 0%
- **Sales**: 11%
- **Profits**: 19%
- **Full-time employees**: 10%
- **Capital expenditures**: -2%
- **Excess cash reserves**: 15%

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

$100K-$10MM
BusinessPulse Quarterly Trending Data (1st quarter)
Small businesses grew more optimistic about their future prices, sales and profits.

**Prices**
- To decrease: 3%
- To increase: 37%
- Net difference: +34% (to increase – to decrease)

**Sales**
- To decrease: 11%
- To increase: 44%
- Net difference: +33% (to increase – to decrease)

**Profits**
- To decrease: 11%
- To increase: 40%
- Net difference: +29% (to increase – to decrease)

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

$100K–<$10MM
BusinessPulse Quarterly Trending Data (1st quarter)
After declining in 2019, an increased percentage of small businesses are expecting to have excess cash reserves.

**SMALL BUSINESS HIRING, CAPITAL EXPENDITURES & CASH RESERVES**

- To increase Full-time employees: 13%
- To decrease Full-time employees: 6%
- To increase Capital expenditures: 15%
- To decrease Capital expenditures: 17%
- To increase Excess cash reserves: 30%
- To decrease Excess cash reserves: 13%

**Net difference**

- +7% Net difference (to increase – to decrease)
- -2% 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...

$100K-$10MM BusinessPulse Quarterly Trending Data (1st quarter)
Middle market net difference change from the first quarter of 2019 (next 12 months)

<table>
<thead>
<tr>
<th>Total middle market</th>
<th>Overall financial condition</th>
<th>Commercial banking ($10MM-&lt;$50MM)</th>
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</thead>
<tbody>
<tr>
<td>▲ 13%</td>
<td>▲ 14%</td>
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<td>▲ 10%</td>
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<td>▼ -10%</td>
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<td>▲ 7%</td>
<td>10%</td>
<td></td>
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</tr>
<tr>
<td>▲ 0%</td>
<td>▲ -3%</td>
<td>10%</td>
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</tr>
</tbody>
</table>

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

- Overall financial condition: ▲ 14% ▲ 6%
- Prices: 3% ▲ 1%
- Sales: ▲ 7% 5%
- Profits: ▲ 10% ▼ -5%
- Full-time employees: ▼ -11% ▼ -6%
- Capital expenditures: ▲ 10% ▼ -4%
- Excess cash reserves: ▲ 10% ▲ -3%
Middle market price, sales and profit expectations continued to rebound after declines in the third quarter of 2019.

**Prices**
- To increase: 45%
- To decrease: 4%

**Sales**
- To increase: 63%
- To decrease: 11%

**Profits**
- To increase: 52%
- To decrease: 13%

**Net difference (to increase – to decrease)**
- Prices: +41%
- Sales: +52%
- Profits: +39%
Middle market hiring, excess cash reserve and capital expenditure expectations remained relatively flat

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (1st quarter)
3 Credit outlook
The need for bank loans over the last 12 months declined in both small business and middle market businesses.

**NEED FOR BANK LOANS**

**PAST 12 MONTHS**

- Middle market ($10MM-$500MM)
- Small business ($100K-$10MM)

**NEXT 12 MONTHS**

- Middle market ($10MM-$500MM)
- Small business ($100K-$10MM)

BusinessPulse Quarterly Trending Data (1st quarter)
Credit denials remained consistently low

**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 (1st quarter)

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Live Oak BusinessPulse

Powered by BARLOW RESEARCH ASSOCIATES, INC.
Small businesses grew increasingly reliant on credit cards 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?

$100K-$10MM
BusinessPulse Quarterly Trending Data (1st quarter)
Demand for additional credit among small businesses has been consistently flat for three quarters.

**SMALL BUSINESS APPLICATIONS FOR ADDITIONAL CREDIT**

Past 12 months

**ADDITIONAL CREDIT APPLICATION TREND**

**CHANGE FROM 1Q2019**

<table>
<thead>
<tr>
<th>Category</th>
<th>1Q2019</th>
<th>1Q2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro business ($100K-$500K)</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Small enterprise ($500K-$2.5MM)</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>Business banking ($2.5MM-$10MM)</td>
<td>25%</td>
<td>43%</td>
</tr>
</tbody>
</table>

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 (1st quarter)
Nine in ten small businesses that applied for additional credit received full approval.

- **89%** Full approval
- **9%** Partial approval
- **2%** Denied

**Small Business Credit Application Outcome**

- **4%** Expect not to be approved
- **61%** No current need for credit
- **34%** Company does not borrow

**Type of Additional Credit Attempting to Acquire**

- **36%** Unsecured short-term loans
- **26%** Secured short-term loans
- **20%** Term loans (>1 year)
- **5%** Commercial real estate
- **5%** Equipment leasing
- **2%** SBA loans

*Base: those that applied for additional credit

BusinessPulse 1Q2020 Data
The use of all sources of financing decreased among middle market companies

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 (1st quarter)
Middle market demand for additional credit continued to decrease; this trend is more pronounced among the corporate banking segment.
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
- **70%** No current need for credit
- **26%** Company does not borrow

**Applied for credit**

- **32%**
  - 91% Full approval
  - 9% Partial approval
  - 1% Denied

**TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE**

- Secured short-term loans: 41%
- Term loans (>1 year): 35%
- Equipment leasing: 29%
- Commercial real estate: 23%
- Unsecured short-term loans: 9%
- SBA loans: <1%

$10MM-$500MM
*Base: those that applied for additional credit
BusinessPulse 1Q2020 Data
Small business expectations to apply for additional credit remained low but increased slightly

**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 (1st quarter)

Live Oak BusinessPulse Powered by BARLOW RESEARCH ASSOCIATES, INC.
Middle market expectations to apply for additional credit rebounded after low levels in the fourth quarter of 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 (1st quarter)
A third of small businesses will likely postpone making capital expenditures until after the presidential election.

**IMPACT OF PRESIDENTIAL ELECTION ON HIRING & CAPITAL EXPENDITURES**

- **Will impact decision to hire new employees**
  - Yes, likely to occur BEFORE election: 21%
  - Yes, likely to occur AFTER election: 62%
  - No impact: 15%
  - Do not know: 2%

- **Will impact decision to make capital expenditures**
  - Yes, likely to occur BEFORE election: 33%
  - Yes, likely to occur AFTER election: 46%
  - No impact: 17%
  - Do not know: 4%

Q: Will the 2020 presidential election impact your decision to…

$100K-$10MM
BusinessPulse First Quarter 2020 Data
Middle market companies’ decisions to hire and make capital expenditures is will likely not be impacted by the presidential election

**MIDDLE MARKET IMPACT OF PRESIDENTIAL ELECTION ON HIRING & CAPITAL EXPENDITURES**

- **Will impact decision to hire new employees**
  - Yes, likely to occur BEFORE election: 68%
  - Yes, likely to occur AFTER election: 16%
  - No impact: 10%
  - Do not know: 9%

- **Will impact decision to make capital expenditures**
  - Yes, likely to occur BEFORE election: 60%
  - Yes, likely to occur AFTER election: 19%
  - No impact: 10%
  - Do not know: 11%

Q: Will the 2020 presidential election impact your decision to…

$10MM-$500MM BusinessPulse First Quarter 2020 Data
Methodology

This Live Oak BusinessPulse report contains data from surveys conducted in the first quarter of 2020 by Barlow Research, involving a sample of 366 small businesses and 321 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  January 10 – January 27, 2020

Weighted  By geography and sales volume

<table>
<thead>
<tr>
<th></th>
<th>Small business ($100K-$10MM)</th>
<th>Middle market ($10MM-$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>366</td>
<td>321</td>
</tr>
<tr>
<td>Resp. Rate</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>Max Error Factor (at 95% confidence interval)</td>
<td>±5.12%</td>
<td>±5.471%</td>
</tr>
</tbody>
</table>