1 Putting Pulse results in context
The COVID-19 pandemic has negatively impacted the majority of businesses.

- 77% of small businesses
- 74% of middle market

Sales were negatively impacted by COVID-19.

- Average expected sales decreases by the end of 2020:
  - Small business: -34%
  - Middle market: -23%

- 52% of small business
- 53% of middle market

Supply chains have been impacted by COVID-19.
Second quarter 2020 summary

**ECONOMIC POSITION**

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

**MIDDLE MARKET**
- Decreased optimism
- Decreased prices & sales
- Decreased hiring, capital expenditures & cash reserves

**ECONOMIC OUTLOOK**

**Next 12 months**
- Decreased confidence
- Decreased prices, sales & profit expectations
- Decreased hiring, capital expenditure & cash reserve expectations

**CREDIT OUTLOOK**

- Increased need & expected need for bank loans
- Increased demand for additional credit
- Increased expectations to apply for additional credit

- Decreased confidence
- Decreased prices, sales & profit expectations
- Decreased hiring, capital expenditure & cash reserve expectations

- Increased need & expected need for bank loans
- Increased 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 (2nd quarter)
Q: During the next 12 months, do you expect the U.S. economy to…

BusinessPulse Quarterly Trending Data (2q)
2 Retrospective economic position
## Small business net difference change from the second quarter of 2019 (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>-19%</td>
<td>-19%</td>
<td>-25%</td>
<td>-26%</td>
<td></td>
</tr>
<tr>
<td>-19%</td>
<td>-19%</td>
<td>-14%</td>
<td>-7%</td>
<td></td>
</tr>
<tr>
<td>-21%</td>
<td>-23%</td>
<td>-15%</td>
<td>-29%</td>
<td></td>
</tr>
<tr>
<td>-22%</td>
<td>-24%</td>
<td>-13%</td>
<td>-24%</td>
<td></td>
</tr>
<tr>
<td>-8%</td>
<td>-9%</td>
<td>-4%</td>
<td>-14%</td>
<td></td>
</tr>
<tr>
<td>-9%</td>
<td>-10%</td>
<td>-8%</td>
<td>-13%</td>
<td></td>
</tr>
<tr>
<td>-15%</td>
<td>-16%</td>
<td>-11%</td>
<td>-16%</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>$100K-$500K</th>
<th>$500K-$2.5MM</th>
<th>$2.5MM-$10MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall financial condition</td>
<td>-19%</td>
<td>-25%</td>
<td>-26%</td>
</tr>
<tr>
<td>Prices</td>
<td>-19%</td>
<td>-14%</td>
<td>-7%</td>
</tr>
<tr>
<td>Sales</td>
<td>-23%</td>
<td>-15%</td>
<td>-29%</td>
</tr>
<tr>
<td>Profits</td>
<td>-24%</td>
<td>-13%</td>
<td>-24%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>-9%</td>
<td>-4%</td>
<td>-14%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>-10%</td>
<td>-8%</td>
<td>-13%</td>
</tr>
<tr>
<td>Excess cash reserves</td>
<td>-16%</td>
<td>-11%</td>
<td>-16%</td>
</tr>
</tbody>
</table>

BusinessPulse Quarterly Trending Data (2nd quarter)
Past-looking perceptions of overall financial dropped substantially, especially in the small business market.

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

BusinessPulse Quarterly Trending Data (2nd quarter)
Decreased financial condition confidence is likely a result of large decreases in sales and profits.

**Prices**
- Decreased: 11%
- Increased: 17%

**Sales**
- Decreased: 36%
- Increased: 25%

**Profits**
- Decreased: 37%
- Increased: 20%

**Net difference**
- Prices: +5% (increased – decreased)
- Sales: -11% (increased – decreased)
- Profits: -17% (increased – decreased)

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

$10K<$10MM
BusinessPulse Quarterly Trending Data (2nd quarter)
Many small business cash reserves have likely been depleted

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

$100K-$10MM BusinessPulse Quarterly Trending Data (2nd quarter)
Middle market net difference change from the second 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>-14%</td>
<td>▼</td>
<td>▼ -9%</td>
<td>▼ -27%</td>
</tr>
<tr>
<td>-19%</td>
<td>▼</td>
<td>▼ -17%</td>
<td>▼ -28%</td>
</tr>
<tr>
<td>-22%</td>
<td>▼</td>
<td>▼ -18%</td>
<td>▼ -42%</td>
</tr>
<tr>
<td>-7%</td>
<td>▼</td>
<td>▼ -2%</td>
<td>▼ -25%</td>
</tr>
<tr>
<td>-13%</td>
<td>▼</td>
<td>▼ -7%</td>
<td>▼ -35%</td>
</tr>
<tr>
<td>-12%</td>
<td>▼</td>
<td>▼ -10%</td>
<td>▼ -20%</td>
</tr>
<tr>
<td>-3%</td>
<td>▼</td>
<td>▼ -1%</td>
<td>▼ -20%</td>
</tr>
</tbody>
</table>

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

$10MM-$<500MM BusinessPulse Quarterly Trending Data (2nd quarter)

Live Oak BusinessPulse

Powered by BARLOW RESEARCH ASSOCIATES, INC.
Middle market companies have yet to see a large impact on profits

**Prices**
- Increased 26%
- Decreased 8%

**Sales**
- Increased 43%
- Decreased 26%

**Profits**
- Increased 38%
- Decreased 27%

**Net difference**
- Prices: +18% (increased – decreased)
- Sales: +17% (increased – decreased)
- Profits: +10% (increased – decreased)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (2nd quarter)
Middle market net difference hiring decreased substantially after steady gains since 2017

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

Past 12 months

---

**Full-time employees**
- Increased: 29%
- Decreased: 17%

Net difference (increased – decreased): +12%

**Capital expenditures**
- Increased: 24%
- Decreased: 22%

Net difference (increased – decreased): +2%

**Excess cash reserves**
- Increased: 29%
- Decreased: 28%

Net difference (increased – decreased): +1%

---

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (2nd quarter)
3 Future economic outlook
Small business and middle market financial optimism has been greatly reduced

FINANCIAL CONDITION
Next 12 months

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

BusinessPulse Quarterly Trending Data (2nd quarter)

Live Oak BusinessPulse
Small business net difference change from the second quarter of 2019 (next 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>-54%</td>
<td>-50%</td>
<td>-71%</td>
<td>-66%</td>
<td></td>
</tr>
<tr>
<td>-35%</td>
<td>-35%</td>
<td>-37%</td>
<td>-37%</td>
<td></td>
</tr>
<tr>
<td>-64%</td>
<td>-63%</td>
<td>-68%</td>
<td>-57%</td>
<td></td>
</tr>
<tr>
<td>-56%</td>
<td>-53%</td>
<td>-63%</td>
<td>-63%</td>
<td></td>
</tr>
<tr>
<td>-26%</td>
<td>-26%</td>
<td>-27%</td>
<td>-29%</td>
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<tr>
<td>-30%</td>
<td>-30%</td>
<td>-29%</td>
<td>-35%</td>
<td></td>
</tr>
<tr>
<td>-46%</td>
<td>-41%</td>
<td>-65%</td>
<td>-50%</td>
<td></td>
</tr>
</tbody>
</table>

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

$100K-$10MM BusinessPulse Quarterly Trending Data (2nd quarter)

Powered by BARLOW RESEARCH ASSOCIATES, INC.
Nearly half of small businesses expect sales and profits to decrease over the next 12 months

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

$100K-$1MM

BusinessPulse Quarterly Trending Data (2nd quarter)
Small businesses do not expect to build up additional cash reserves

SMALL BUSINESS HIRING, CAPITAL EXPENDITURES & CASH RESERVES

Next 12 months

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

$100K–$10MM
BusinessPulse Quarterly Trending Data (2nd quarter)
Less than half of small businesses expected growth in the next five years

Q: During the next 5 years, what plans do you have for your business?

$100K-$10MM BusinessPulse Second Quarter Trending Data
## 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-$50MM)</th>
<th>Corporate banking ($50MM-$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-86%</td>
<td>▼</td>
<td>▼ -87%</td>
<td>▼ -84%</td>
</tr>
<tr>
<td>-31%</td>
<td>▼</td>
<td>▼ -26%</td>
<td>▼ -48%</td>
</tr>
<tr>
<td>-92%</td>
<td>▼</td>
<td>▼ -91%</td>
<td>▼ -97%</td>
</tr>
<tr>
<td>-49%</td>
<td>▼</td>
<td>▼ -78%</td>
<td>▼ -80%</td>
</tr>
<tr>
<td>-48%</td>
<td>▼</td>
<td>▼ -45%</td>
<td>▼ -65%</td>
</tr>
<tr>
<td>-53%</td>
<td>▼</td>
<td>▼ -48%</td>
<td>▼ -69%</td>
</tr>
<tr>
<td>-61%</td>
<td>▼</td>
<td>▼ -60%</td>
<td>▼ -64%</td>
</tr>
</tbody>
</table>

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

$10MM-$500MM

BusinessPulse Quarterly Trending Data (2nd quarter)

- ▼ = change <5%
- ▼ = change 5%-10%
- ▼ = change 11%-15%
- ▼ = change 16%+
Only one in five middle market companies expect increased sales or profits in the next 12 months

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

$10MM-$500MM
BusinessPulse Quarterly Trending Data (2nd quarter)
Middle market companies anticipate limiting capital spending

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

Next 12 months

- **Full-time employees**
  - To decrease 36%
  - To increase 16%
  - **-20%** Net difference (to increase – to decrease)

- **Capital expenditures**
  - To decrease 49%
  - To increase 13%
  - **-36%** Net difference (to increase – to decrease)

- **Excess cash reserves**
  - To decrease 55%
  - To increase 18%
  - **-37%** Net difference (to increase – to decrease)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (2nd quarter)
Fewer middle market companies expected growth in the next five years

**MIDDLE MARKET FIVE-YEAR EXPECTATIONS**

- **Divest ownership**
- **Reduce size**
- **Maintain current level**
- **Modest growth**
- **Dramatic growth**

**Q: During the next 5 years, what plans do you have for your business?**

$10MM-$500MM BusinessPulse Second Quarter Trending Data
4 Credit outlook
The need for bank loans has increased in both small business and middle market.
Credit denials have ticked up but continue to remain low

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

BusinessPulse Quarterly Trending Data (2nd quarter)
Nearly a third of small businesses have used personal savings to finance their business operations.
Demand for additional credit among small businesses has increased to the highest point since 2010.

**SMALL BUSINESS APPLICATIONS FOR ADDITIONAL CREDIT**
Past 12 months

**ADDITIONAL CREDIT APPLICATION TREND**

<table>
<thead>
<tr>
<th>Year</th>
<th>Micro business ($100K–&lt;$500K)</th>
<th>Small enterprise ($500K–$2.5MM)</th>
<th>Business banking ($2.5MM–$10MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q22019</td>
<td>28%</td>
<td>26%</td>
<td>31%</td>
</tr>
<tr>
<td>Q22020</td>
<td>35%</td>
<td></td>
<td>35%</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 (2nd quarter)
Nearly one in five small businesses only received partial credit approval.

- **7%** Expect not to be approved
- **56%** No current need for credit
- **37%** Company does not borrow

**Small Business Credit Application Outcome:**
- **Did not apply for credit**: 72%
- **Applied for credit**: 28%
  - **75%** Full approval
  - **18%** Partial approval
  - **7%** Denied

**Type of Additional Credit Attempting to Acquire**:
- Unsecured short-term loans: 32%
- Secured short-term loans: 32%
- SBA loans: 22%
- Equipment leasing: 14%
- Term loans (>1 year): 10%
- Commercial real estate: 4%

*$100K<-$10MM

*Base: those that applied for additional credit

BusinessPulse 2Q2020 Data
The middle market saw an uptick in the use of personal savings to finance 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 (2nd quarter)
Demand for additional credit remained muted in the corporate banking segment ($50MM-$<500MM)

MIDDLE MARKET APPLICATIONS FOR ADDITIONAL CREDIT
Past 12 months

ADDITIONAL CREDIT APPLICATION TREND

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% Applied for additional credit</td>
<td>35%</td>
<td>39%</td>
<td>43%</td>
<td>32%</td>
<td>29%</td>
<td>30%</td>
<td>40%</td>
<td>41%</td>
<td>41%</td>
<td>40%</td>
<td>32%</td>
</tr>
</tbody>
</table>

CHANGE FROM 2Q2019

<table>
<thead>
<tr>
<th>Segment</th>
<th>2Q2019</th>
<th>2Q2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banking ($10MM-$&lt;50MM)</td>
<td>39%</td>
<td>33%</td>
</tr>
<tr>
<td>Corporate banking ($50MM-$&lt;500MM)</td>
<td>39%</td>
<td>29%</td>
</tr>
</tbody>
</table>

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 (2nd quarter)
Nearly nine in ten middle market companies that applied for additional credit received full approval.

- **7%** Expect not to be approved
- **72%** No current need for credit
- **21%** Company does not borrow

**MIDDLE MARKET CREDIT APPLICATION OUTCOME**

- **Did not apply for credit**: 63%
- **Applied for credit**: 37%
  - **86%** Full approval
  - **9%** Partial approval
  - **5%** Denied

**TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE**

<table>
<thead>
<tr>
<th>Credit Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term loans (&gt;1 year)</td>
<td>36%</td>
</tr>
<tr>
<td>Secured short-term loans</td>
<td>34%</td>
</tr>
<tr>
<td>SBA loans</td>
<td>23%</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>15%</td>
</tr>
<tr>
<td>Equipment leasing</td>
<td>8%</td>
</tr>
<tr>
<td>Unsecured short-term loans</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Base: those that applied for additional credit
BusinessPulse 2Q2020 Data
Small business expectations to apply for additional credit spiked

**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 (2nd quarter)

**Expect to apply or are not sure**

**Expect to apply**

- **2013**: 10% (not sure), 8% (expect to apply)
- **2014**: 8% (not sure), 9% (expect to apply)
- **2015**: 9% (not sure), 7% (expect to apply)
- **2016**: 4% (not sure), 12% (expect to apply)
- **2017**: 11% (not sure), 13% (expect to apply)
- **2018**: 10% (not sure), 11% (expect to apply)
- **2019**: 12% (not sure), 13% (expect to apply)
- **2020**: 26% (not sure), 29% (expect to apply)
The majority of middle market companies expect to apply or are unsure if they will apply for additional credit

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 (2nd quarter)
The COVID-19 pandemic has resulted in increased openness for remote banking concepts

Q: How open are you to the following concepts?

Q: Has your openness to any of these concepts changed as a result of the coronavirus outbreak?

$100K-$10MM BusinessPulse Second Quarter 2020 Data
Approximately half of middle market companies are very open to various remote banking concepts.

- Contacting your bank completely remotely (no in-person branch visits): 48% very open, 26% somewhat open, 20% slightly open, 7% not at all open. 32% more open as a result of COVID-19.
- Applying for loans or lines of credit online: 50% very open, 22% somewhat open, 17% slightly open, 10% not at all open. 30% more open as a result of COVID-19.
- Opening business accounts online: 50% very open, 26% somewhat open, 14% slightly open, 10% not at all open. 26% more open as a result of COVID-19.
- Interacting with a Business Banker/Account Officer via video conferencing: 48% very open, 25% somewhat open, 20% slightly open, 8% not at all open. 39% more open as a result of COVID-19.

Q: How open are you to the following concepts?
Q: Has your openness to any of these concepts changed as a result of the coronavirus outbreak?

$10MM - <$500MM BusinessPulse Second Quarter 2020 Data

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Methodology

This Live Oak BusinessPulse report contains data from surveys conducted in the second quarter of 2020 by Barlow Research, involving a sample of 498 small businesses and 372 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**: April 1 – April 19, 2020
- **Weighted**: By geography and sales volume

### Respondents

<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>498</td>
<td>372</td>
</tr>
<tr>
<td>Resp. Rate</td>
<td>37%</td>
<td>28%</td>
</tr>
<tr>
<td>Max Error Factor (at 95% confidence interval)</td>
<td>±4.39%</td>
<td>±5.08%</td>
</tr>
</tbody>
</table>