BUSINESSPULSE

Third Quarter, 2020

POWERED BY
BARLOW RESEARCH ASSOCIATES, INC.
Putting Pulse results in context
Most businesses anticipate the current recession to end by the end of 2021 or sooner

Q: The National Bureau of Economic Research (NBER) declared that the U.S. entered a recession in February 2020. When do you anticipate the current recession to end?

By the end of 2020: 30%
By the end of 2021: 40%
By the end of 2022: 21%
By the end of 2023: 3%
After 2023: 6%

SMALL BUSINESS
($100K-<$10MM)

MIDDLE MARKET
($10MM-<$500MM)
Third quarter 2020 summary

**ECONOMIC POSITION**

**Small Business**
- Decreased optimism
- Decreased sales & profits
- Decreased capital expenditures & cash reserves

**Middle Market**
- Decreased optimism
- Decreased prices, sales & profits
- Decreased hiring & capital expenditures

**ECONOMIC OUTLOOK**

**Small Business**
- Increased confidence
- Increased prices, sales & profit expectations
- Increased hiring, capital expenditure & cash reserve expectations

**Middle Market**
- Increased confidence
- Increased prices, sales & profit expectations
- Increased hiring, capital expenditure & cash reserve expectations

**CREDIT OUTLOOK**

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

**Middle Market**
- Decreased need for bank loans
- Increased demand 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 (3rd quarter)
Q: During the next 12 months, do you expect the U.S. economy to...

BusinessPulse Quarterly Trending Data (3rd quarter)
2 Retrospective economic position
## Small business net difference change from the third quarter of 2019 (past 12 months)

<table>
<thead>
<tr>
<th>Total small business market</th>
<th>Overall financial condition</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>-42%</td>
<td>-42%</td>
<td>-46%</td>
<td>-44%</td>
<td></td>
</tr>
<tr>
<td>-12%</td>
<td>-11%</td>
<td>-17%</td>
<td>-20%</td>
<td></td>
</tr>
<tr>
<td>-41%</td>
<td>-36%</td>
<td>-53%</td>
<td>-58%</td>
<td></td>
</tr>
<tr>
<td>-33%</td>
<td>-30%</td>
<td>-46%</td>
<td>-33%</td>
<td></td>
</tr>
<tr>
<td>-4%</td>
<td>-2%</td>
<td>-9%</td>
<td>-21%</td>
<td></td>
</tr>
<tr>
<td>-16%</td>
<td>-15%</td>
<td>-19%</td>
<td>-27%</td>
<td></td>
</tr>
<tr>
<td>-26%</td>
<td>-26%</td>
<td>-28%</td>
<td>-20%</td>
<td></td>
</tr>
</tbody>
</table>

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

BusinessPulse Quarterly Trending Data (3rd quarter)
Past-looking perceptions of overall financial continued to decrease in both markets

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

BusinessPulse Quarterly Trending Data (3rd quarter)
Half of small businesses saw sales and profits decrease in the third quarter 2020

**Prices**
- Increased: 18%
- Decreased: 9%

**Sales**
- Increased: 16%
- Decreased: 48%

**Profits**
- Increased: 12%
- Decreased: 51%

Net difference for Prices: +9% (increased – decreased)
Net difference for Sales: -32% (increased – decreased)
Net difference for Profits: -40% (increased – decreased)

Q: During the last 12 months, did your company's...
Small business excess cash reserves have been depleted and capital spending was put on hold

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

$100K<-$10MM BusinessPulse Quarterly Trending Data (3rd quarter)
Middle market net difference change from the third 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>▼ -41%</td>
<td>▼ -44%</td>
<td>▼ -28%</td>
<td></td>
</tr>
<tr>
<td>▼ -34%</td>
<td>▼ -34%</td>
<td>▼ -35%</td>
<td></td>
</tr>
<tr>
<td>▼ -54%</td>
<td>▼ -58%</td>
<td>▼ -39%</td>
<td></td>
</tr>
<tr>
<td>▼ -31%</td>
<td>▼ -33%</td>
<td>▼ -20%</td>
<td></td>
</tr>
<tr>
<td>▼ -33%</td>
<td>▼ -31%</td>
<td>▼ -43%</td>
<td></td>
</tr>
<tr>
<td>▼ -30%</td>
<td>▼ -28%</td>
<td>▼ -35%</td>
<td></td>
</tr>
<tr>
<td>▼ -6%</td>
<td>▼ -8%</td>
<td>-1%</td>
<td></td>
</tr>
</tbody>
</table>

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

$10MM-$<500MM

BusinessPulse Quarterly Trending Data (3rd quarter)
Middle market companies saw substantial decreases in sales and profits.

- **Prices**: Increased 18%, Decreased 12%  
  - Net difference: +6% (increased – decreased)

- **Sales**: Increased 29%, Decreased 47%  
  - Net difference: -18% (increased – decreased)

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

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

$10MM-$500MM

BusinessPulse Quarterly Trending Data (3rd quarter)
Nearly a third of middle market companies had decreased full-time employees, capital expenditures & excess cash reserves.

Net difference (increased – decreased):
- Full-time employees: -13%
- Capital expenditures: -13%
- Excess cash reserves: -5%

Q: During the last 12 months, did your company’s… $10MM-$<500MM BusinessPulse Quarterly Trending Data (3rd quarter)
3 Future economic outlook
Despite COVID-19’s significant disruption of sales and profits, businesses’ confidence in their financial condition rebounded.
## Small business net difference change from the third 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>9%</td>
<td>14%</td>
<td>-11%</td>
<td>-11%</td>
<td></td>
</tr>
<tr>
<td>-3%</td>
<td>-1%</td>
<td>-12%</td>
<td>-10%</td>
<td></td>
</tr>
<tr>
<td>-6%</td>
<td>-5%</td>
<td>-9%</td>
<td>-24%</td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td>3%</td>
<td>-11%</td>
<td>-13%</td>
<td></td>
</tr>
<tr>
<td>1%</td>
<td>-1%</td>
<td>-2%</td>
<td>-11%</td>
<td></td>
</tr>
<tr>
<td>-4%</td>
<td>-1%</td>
<td>-6%</td>
<td>-27%</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td>9%</td>
<td>-5%</td>
<td>-13%</td>
<td></td>
</tr>
</tbody>
</table>

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

- $100K-$10MM
- BusinessPulse Quarterly Trending Data (3rd quarter)

= change <5%
= change 5%-10%
= change 11%-15%
= change 16%+
Nearly half of small businesses anticipate their sales to recover over the next 12 months.

**Prices**
- To decrease: 8%
- To increase: 28%

**Sales**
- To decrease: 20%
- To increase: 46%

**Profits**
- To decrease: 24%
- To increase: 39%

**Net difference**
- Prices: +20% (to increase – to decrease)
- Sales: +27% (to increase – to decrease)
- Profits: +15% (to increase – to decrease)

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

$100K–<$10MM
BusinessPulse Quarterly Trending Data (3rd quarter)
Small businesses will work to rebuild cash reserves

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

$100K–<$10MM BusinessPulse Quarterly Trending Data (3rd quarter)
Middle market net difference change from the third quarter of 2019 (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>-13%</td>
<td>-16%</td>
<td>-1%</td>
</tr>
<tr>
<td>-13%</td>
<td>Prices</td>
<td>-12%</td>
</tr>
<tr>
<td>-18%</td>
<td>-14%</td>
<td>-8%</td>
</tr>
<tr>
<td>-2%</td>
<td>Profits</td>
<td>-2%</td>
</tr>
<tr>
<td>-3%</td>
<td>-10%</td>
<td>-9%</td>
</tr>
<tr>
<td>-17%</td>
<td>Full-time employees</td>
<td>-2%</td>
</tr>
<tr>
<td>-14%</td>
<td>-10%</td>
<td>-17%</td>
</tr>
<tr>
<td>-10%</td>
<td>Capital expenditures</td>
<td>-14%</td>
</tr>
<tr>
<td>-10%</td>
<td>-14%</td>
<td>-10%</td>
</tr>
<tr>
<td>-5%</td>
<td>Excess cash reserves</td>
<td>-7%</td>
</tr>
<tr>
<td>4%</td>
<td>= change &lt;5%</td>
<td>= change 5%-10%</td>
</tr>
<tr>
<td></td>
<td>= change 11%-15%</td>
<td>= change 16%+</td>
</tr>
</tbody>
</table>

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

$10MM-<$500MM
BusinessPulse Quarterly Trending Data (3rd quarter)
Middle market companies were also resilient, but price, sales and profit expectations remained lower than recent years.

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

$10MM-$500MM

BusinessPulse Quarterly Trending Data (3rd quarter)
A quarter of middle market companies plan to hire additional employees

- Full-time employees: To increase 25%, To decrease 17%
- Capital expenditures: To increase 21%, To decrease 19%
- Excess cash reserves: To increase 27%, To decrease 23%

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

- **Full-time employees**
  - Net difference: +9% (to increase – to decrease)
- **Capital expenditures**
  - Net difference: +2% (to increase – to decrease)
- **Excess cash reserves**
  - Net difference: +4% (to increase – to decrease)

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

$10MM-$500MM BusinessPulse Quarterly Trending Data (3rd quarter)
4 Credit outlook
After a spike in the need for bank loans in the second quarter, limited demand for bank loans appears to be on the horizon.

**NEED FOR BANK LOANS**

**PAST 12 MONTHS**

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

**NEXT 12 MONTHS**

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

BusinessPulse Quarterly Trending Data (3rd quarter)
Demand surged as small businesses rushed to secure financial support through the pandemic

**SMALL BUSINESS APPLICATIONS FOR ADDITIONAL CREDIT**

Past 12 months

**ADDITIONAL CREDIT APPLICATION TREND**

*Including government relief*

Q: During the **last 12 months**, has your company applied for additional credit or loans from a financial institution, *including* any government programs through a financial institution such as the Paycheck Protection Program (PPP)?

$100K-$1MM

BusinessPulse Quarterly Trending Data (3rd quarter)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% Applied for additional credit</td>
<td>30%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>25%</td>
<td>18%</td>
<td>27%</td>
<td>14%</td>
<td>20%</td>
<td>49%</td>
<td>28%</td>
</tr>
</tbody>
</table>

**CHANGE FROM 3Q2019**

- Micro business ($100K-$500K): 19% to 44%
- Small enterprise ($500K-$2.5MM): 23% to 64%
- Business banking ($2.5MM-$10MM): 28% to 76%

3Q2020
Nearly all small business loan demand was in the form of government relief.

**Small Business Credit Application Outcome**

- **13%** Expect not to be approved
- **51%** No current need for credit
- **36%** Company does not borrow

**Applied for credit**

- **49%** Did not apply for credit
- **79%** Full approval
- **18%** Partial approval
- **3%** Denied

**Type of Additional Credit Attempting to Acquire**

- **Government relief program (93%)**
- **Unsecured short-term loans (9%)**
- **Secured short-term loans (7%)**
- **Term loans (>1 year) (6%)**
- **Equipment leasing (1%)**
- **Commercial real estate (1%)**
Small businesses’ expected need for additional credit decreased from second quarter highs

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

$100K-$1MM
BusinessPulse Quarterly Trending Data (3rd quarter)
Demand for additional credit also spiked in the middle market.

MIDDLE MARKET APPLICATIONS FOR ADDITIONAL CREDIT
Past 12 months

ADDITIONAL CREDIT APPLICATION TREND
Including government relief

% Applied for additional credit

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution, including any government programs through a financial institution such as the Paycheck Protection Program (PPP)?

$10MM-$500MM
BusinessPulse Quarterly Trending Data (3rd quarter)
Middle market applications for non-government loans were drastically reduced

MIDDLE MARKET CREDIT APPLICATION OUTCOME

<table>
<thead>
<tr>
<th>Did not apply for credit 75%</th>
<th>Applied for credit 75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% Expect not to be approved</td>
<td>93% Full approval</td>
</tr>
<tr>
<td>60% No current need for credit</td>
<td>7% Partial approval</td>
</tr>
<tr>
<td>34% Company does not borrow</td>
<td>0% Denied</td>
</tr>
</tbody>
</table>

TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE*

<table>
<thead>
<tr>
<th>Credit Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government relief program</td>
<td>94%</td>
</tr>
<tr>
<td>Secured short-term loans</td>
<td>14%</td>
</tr>
<tr>
<td>Term loans (&gt;1 year)</td>
<td>11%</td>
</tr>
<tr>
<td>Equipment leasing</td>
<td>11%</td>
</tr>
<tr>
<td>Unsecured short-term loans</td>
<td>5%</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Base: those that applied for additional credit BusinessPulse 3Q2020 Data
During the next 12 months, do you expect your company to apply for additional credit or loans from any financial institution? $10MM-$<500MM

Middle market expectations to apply for additional credit normalized

Expect to apply or are not sure

Expect to apply

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

BusinessPulse Quarterly Trending Data (3rd quarter)
5 Government relief & COVID-19 behavioral shifts
Businesses with $2.5MM-<$50MM in annual sales were most likely to have applied for PPP loans

<table>
<thead>
<tr>
<th>Applications for Government Relief Programs</th>
<th>Small Business ($100K-&lt;$10MM)</th>
<th>Middle Market ($10MM-&lt;$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP</td>
<td>41%</td>
<td>68%</td>
</tr>
<tr>
<td>Non-PPP SBA Loan</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Main Street Lending Program</td>
<td>&lt;1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution, including any government programs through a financial institution such as the Paycheck Protection Program (PPP)?

BusinessPulse 3Q2020 Data
Just under half of small businesses that secured their PPP loan from a non-primary bank will sustain the new/existing relationship

WHERE PPP LOAN WAS SECURED

- Primary bank: 71%
- Non-primary financial institution: 11%
- Financial institution not previously used: 17%
- PPP funds have not been secured: 1%

FUTURE USE OF NON-PRIMARY BANK USED FOR PPP

(based to those that used a non-primary bank)

- Will move most or all existing accounts and/or loans; will make it their new primary bank: 5%
- Will move some existing accounts and/or loans; will not be primary bank: 39%
- Will only use non-primary bank for PPP: 56%

Q: Which institution secured PPP funding for your business? Does your company intend to…

$100K-$10MM BusinessPulse 3Q2020 Data
Middle market companies were less likely to use a non-primary bank for their PPP loans

**WHERE PPP LOAN WAS SECURED**

- **Primary bank**: 78%
- **Middle Market**: 12%
- **Non-primary financial institution**: 9%
- **Financial institution not previously used**: 9%

**FUTURE USE OF NON-PRIMARY BANK USED FOR PPP**

(based on those that used a non-primary bank)

- **3%**: Will move most or all existing accounts and/or loans; will make it their new primary bank
- **48%**: Will move some existing accounts and/or loans; will not be primary bank
- **49%**: Will only use non-primary bank for PPP

Q: Which institution secured PPP funding for your business? Does your company intend to…

$10MM-$500MM

BusinessPulse 3Q2020 Data
Just over one in three small businesses have been very satisfied with their primary bank’s support through the pandemic.

SATISFACTION WITH PRIMARY BANK’S SUPPORT SINCE PANDEMIC BEGAN

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Very Satisfied</th>
<th>Somewhat Satisfied</th>
<th>Neutral</th>
<th>Somewhat Dissatisfied</th>
<th>Very Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Business</td>
<td>38%</td>
<td>24%</td>
<td>26%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Middle Market</td>
<td>59%</td>
<td>20%</td>
<td>9%</td>
<td>8%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Q: How satisfied are you with the way your primary bank has supported your business since the COVID-19 pandemic began?

* Satisfaction by bank size includes businesses with sales volumes of $100K-$500MM

Flash Panel (data collected June 30-July 2, 2020)
Over a quarter of small businesses do not find branches necessary and over a third have become more open to branchless banking since COVID-19

**Small Business Necessity for a Branch to Conduct Banking Activities**

- 5% Not at all necessary
- 21% Nice to have but not necessary
- 35% Somewhat necessary
- 39% Absolutely necessary

**Small Business Openness to Branchless Banking**

- 35% of small business have become more open to branchless banking

Q: How necessary is your primary bank’s branch for conducting business banking activities? Have you become more open to the concept of “branchless banking” as a result of the COVID-19 pandemic?

$100K-$10MM BusinessPulse Third Quarter 2020 Data
Nearly half of middle market companies have become increasingly open to the concept of branchless banking.

**MIDDLE MARKET NECESSITY FOR A BRANCH TO CONDUCT BANKING ACTIVITIES**

- **11%** Not at all necessary
- **25%** Nice to have but not necessary
- **32%** Somewhat necessary
- **32%** Absolutely necessary

**Q:** How necessary is your primary bank’s branch for conducting business banking activities? Have you become more open to the concept of “branchless banking” as a result of the COVID-19 pandemic?

$10MM–$500MM BusinessPulse Third Quarter 2020 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, transition ownership, liquidation, etc.)?

BusinessPulse Third Quarter 2020 Data
Compared to 2019, more businesses with $10MM-<$50MM have succession plans.

Q: Does your company have a succession plan (e.g., sell, merge, be acquired, transition ownership, liquidation, etc.)?

BusinessPulse Third Quarter Trending Data
Many small businesses have delayed succession plans due to COVID-19

Q: Has your company’s timeline for succession planning been altered by the COVID-19 pandemic?

*BusinessPulse Third Quarter 2020 Data*
Succession planning has become more important for one in four small businesses

CHANGES IN THE IMPORTANCE OF SUCCESSION PLANNING

Q: Has the COVID-19 pandemic made succession planning more important for your business?

BusinessPulse Third Quarter 2020 Data
Although small businesses are more likely than middle market companies to think about selling their business, most are not likely to sell.

### Changes in the Likelihood to Think about Selling Business

<table>
<thead>
<tr>
<th></th>
<th>Significantly more likely</th>
<th>Somewhat more likely</th>
<th>Neither more nor less likely</th>
<th>Somewhat less likely</th>
<th>Significantly less likely</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Small Business</strong></td>
<td>7%</td>
<td>14%</td>
<td>66%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>($100K-$10MM)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Middle Market</strong></td>
<td>3%</td>
<td>10%</td>
<td>77%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>($10MM-$500MM)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Q: Are you more likely now than you were before COVID-19 to think about selling your business?

BusinessPulse Third Quarter 2020 Data
This Live Oak BusinessPulse report contains data from surveys conducted in the third quarter of 2020 by Barlow Research, involving a sample of 491 small businesses and 440 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: July 2 – July 18, 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>491</td>
<td>440</td>
</tr>
<tr>
<td>Resp. Rate</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Max Error Factor</td>
<td>±4.42%</td>
<td>±4.67%</td>
</tr>
</tbody>
</table>

(at 95% confidence interval)