



January 12, 2022

 **LiveOakBank**
BusinessPulse | January 2022 CABI Presentation

 POWERED BY
BARLOW RESEARCH ASSOCIATES, INC.

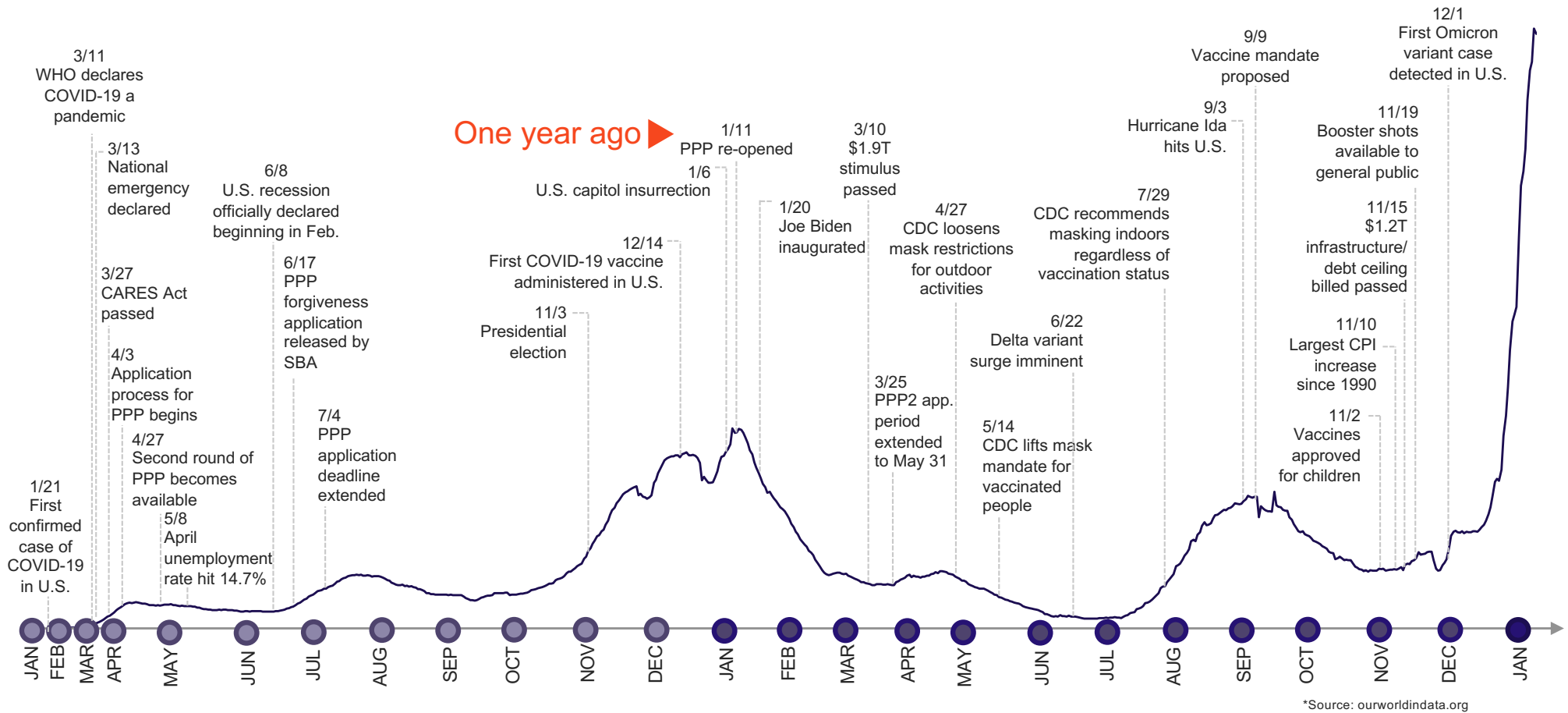
Who Barlow Research is...

We are the voice of the business customer

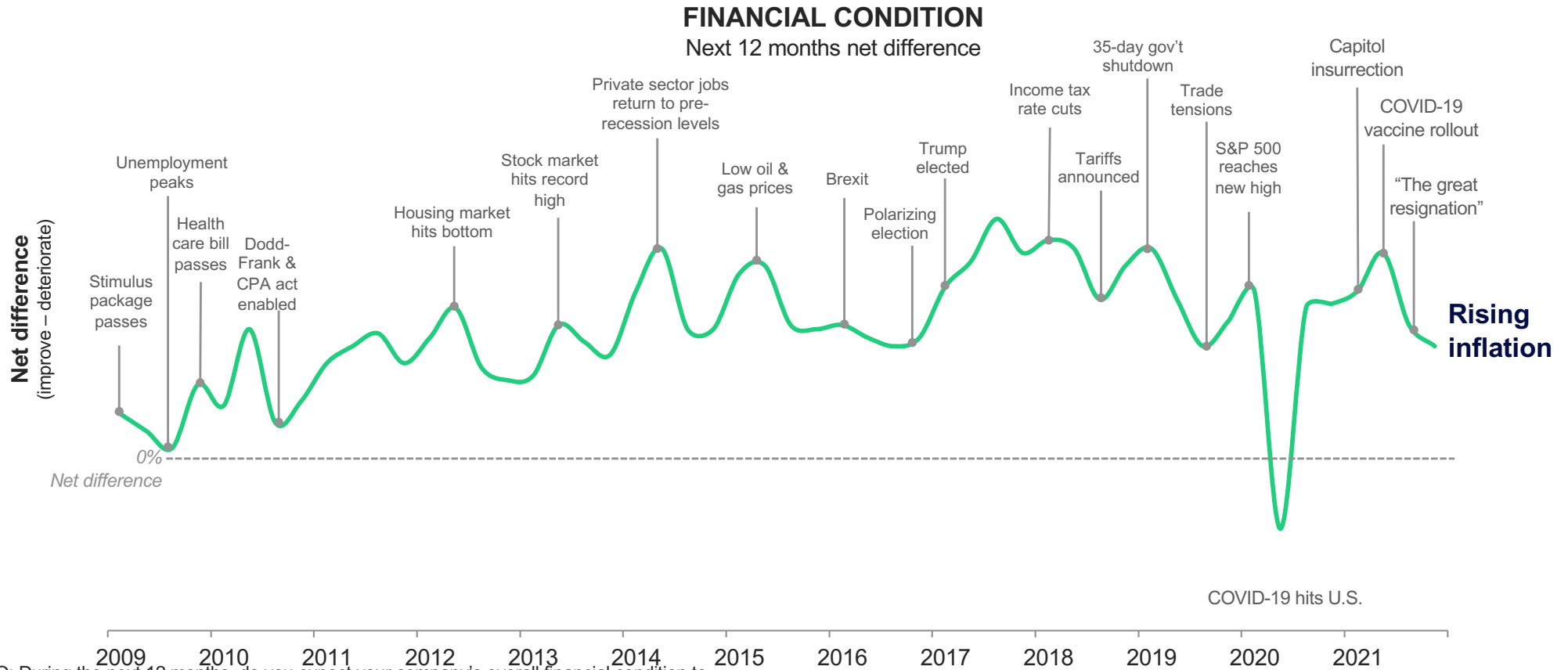
1. Market research firm that collects data (primarily through surveys) from small businesses about their operations and banking behaviors.
2. Collect data quarterly in a variety of studies and measure everything from business sentiment to digital banking behaviors.
3. Have been partnering with Live Oak since 2019 on the BusinessPulse Study to understand fluctuations in the financial condition of the small business market.

A year ago PPP2 had just opened

DAILY CONFIRMED NEW CASES IN U.S. (7-day rolling average)*



Business confidence has fallen to its lowest point of 2021

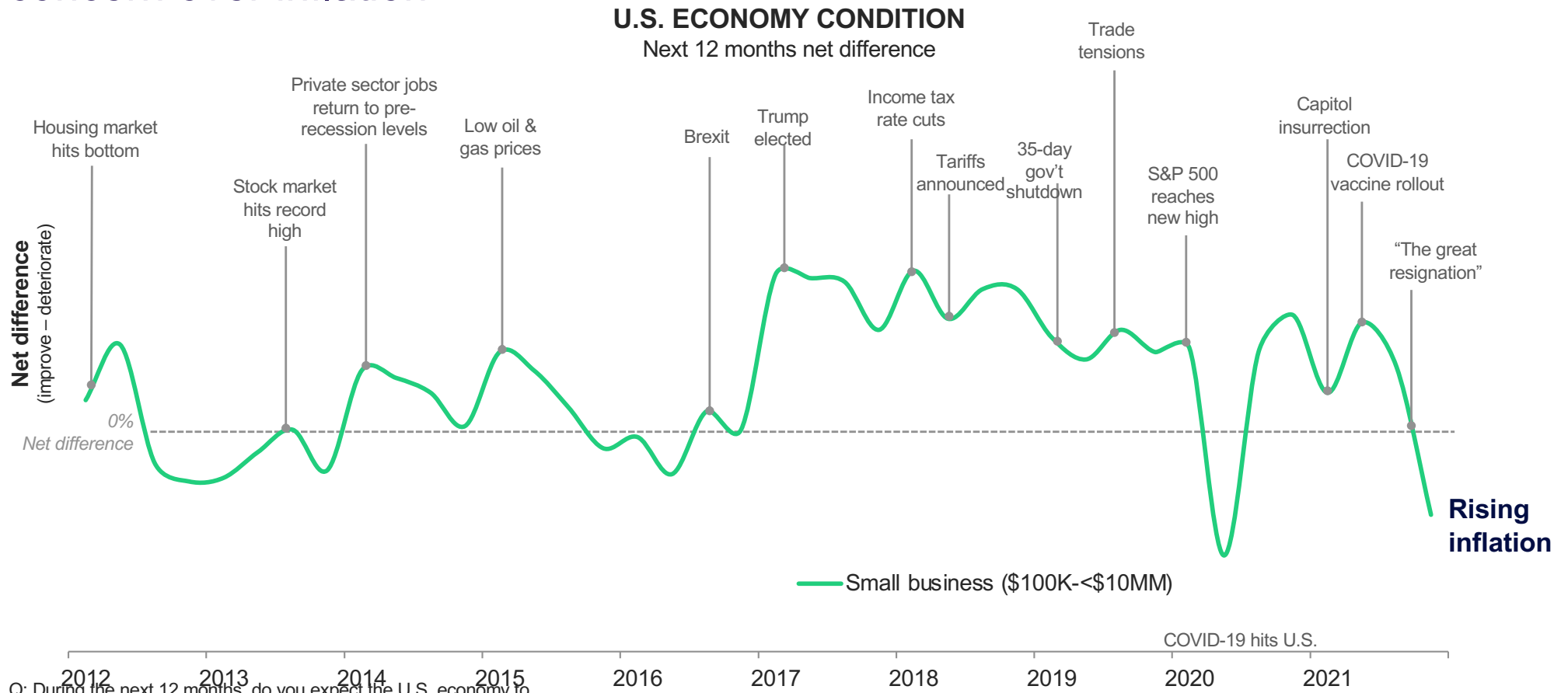


Q: During the next 12 months, do you expect your company's overall financial condition to...

\$100K--\$10MM

BusinessPulse Quarterly Trending Data (4th quarter)

Expectations about the U.S. economy have declined substantially amid growing concern over inflation



Q: During the next 12 months, do you expect the U.S. economy to...
\$100K-<\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

While sentiment has improved, some businesses still struggle

WHAT HAS MADE SMALL BUSINESSES BETTER OFF, WORSE OFF OR THE SAME



Managing inflation

“Really we have had few changes in the last few years. **Prices have raised, so I raised my prices.** Shipping is very expensive!”

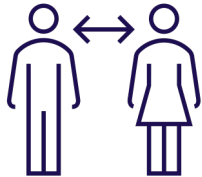
\$100K-<\$500K Kayak building and repair company in Palisade, CO



Dealing with supply issues & labor shortages

“**Lack of inventory** with increased number of agents.”

\$100K-<\$500K Real estate agency in Longmont, CO



Continued recovery from COVID restrictions

“**COVID restrictions**, taxes, inflation and over regulation has hurt my company.”

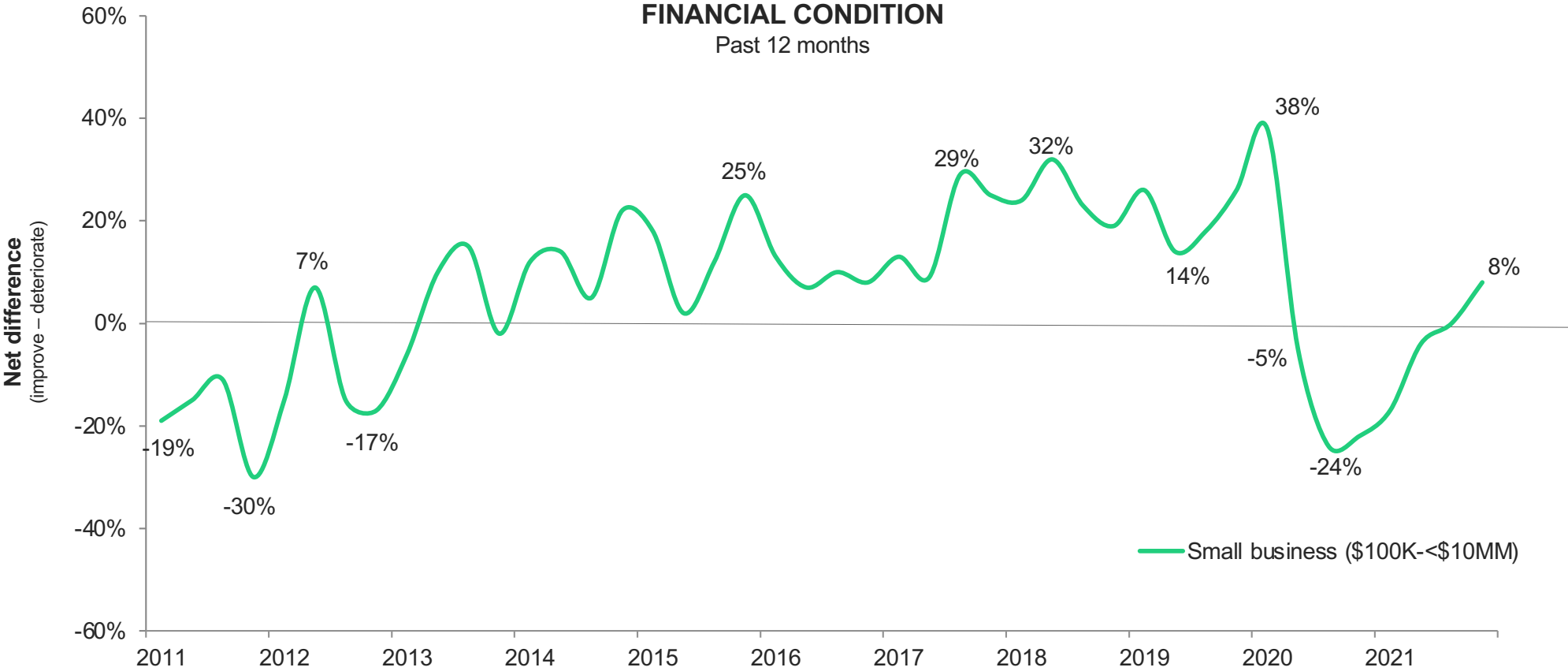
\$500K-<\$1MM Short-term business credit company in Denver, CO

Q: Compared to this time 12 months ago, what has made your business better off financially, worse off or just about the same as now?

\$100K-<\$10MM
COVID-19 Business Sentiment Tracking Study (data collected September 2021)

1 | Retrospective economic position

Although concerns about the future are apparent, financial conditions have improved over the past 12 months

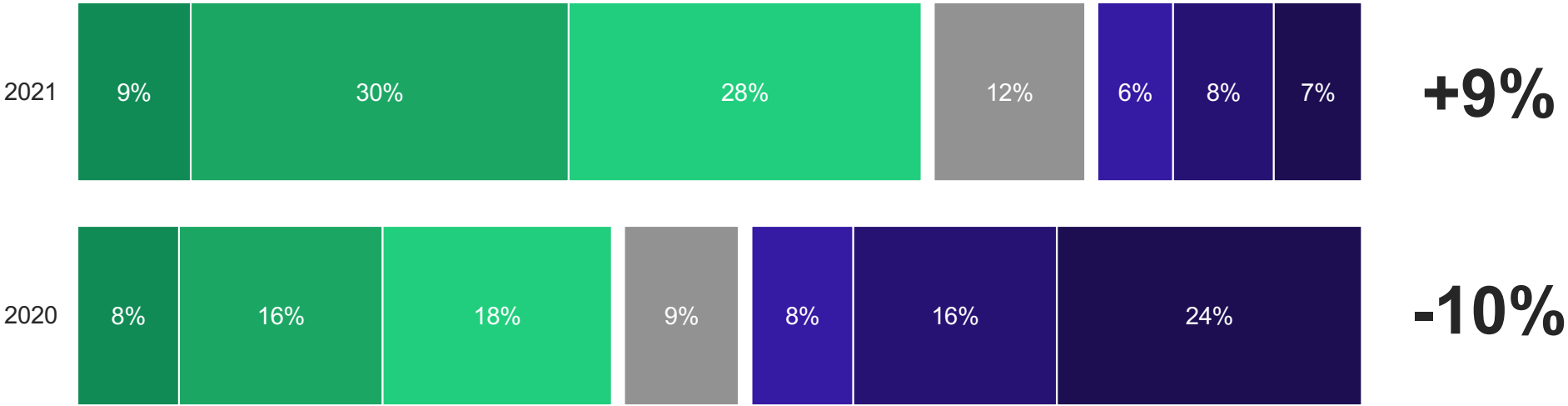


Q: During the last 12 months, did your company's overall financial condition...
\$100K-<\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Small businesses expect their sales to be up by 9% on average

CHANGES IN SMALL BUSINESS ANNUAL SALES VOLUME

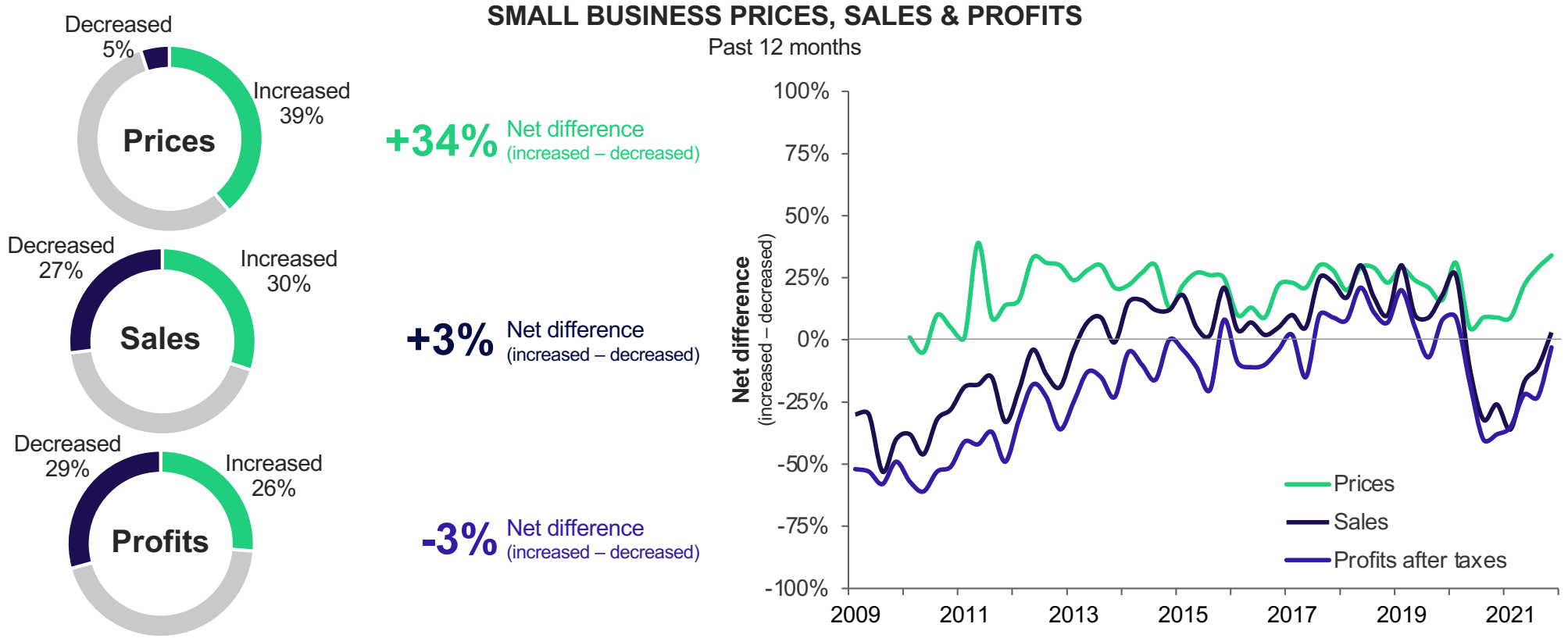
AVG. EXPECTED CHANGE IN ANNUAL SALES VOLUME



■ Up 26% or more ■ Up 11%-25% ■ Up 1%-10% ■ No change from 2019 ■ Down 1%-10% ■ Down 11%-25% ■ Down 26% or more

Q: By the end of 2021, how much higher or lower do you expect your annual sales or revenue to be compared to the end of 2020?
 \$100K--\$10MM
 BusinessPulse 4Q2020 & 4Q2021 Data

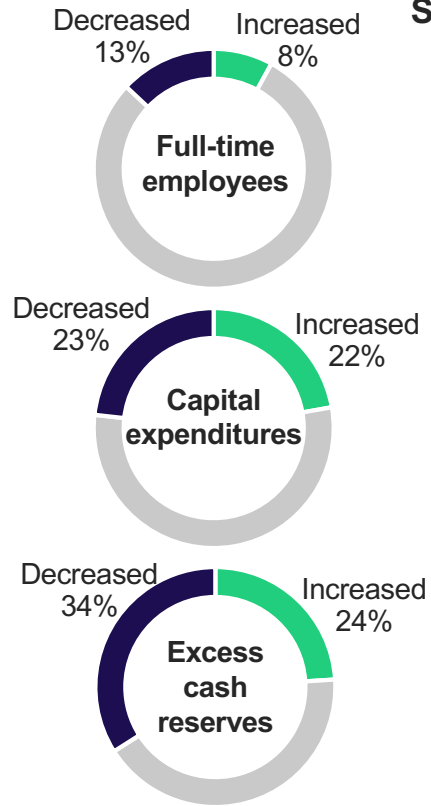
Small business prices continued to climb, while sales and profits also improved



Q: During the last 12 months, did your company's...
 \$100K--\$10MM
 BusinessPulse Quarterly Trending Data (4th quarter)

Full-time employee vacancies continued to outpace new incoming hires

SMALL BUSINESS HIRING, CAPITAL EXPENDITURES & CASH RESERVES

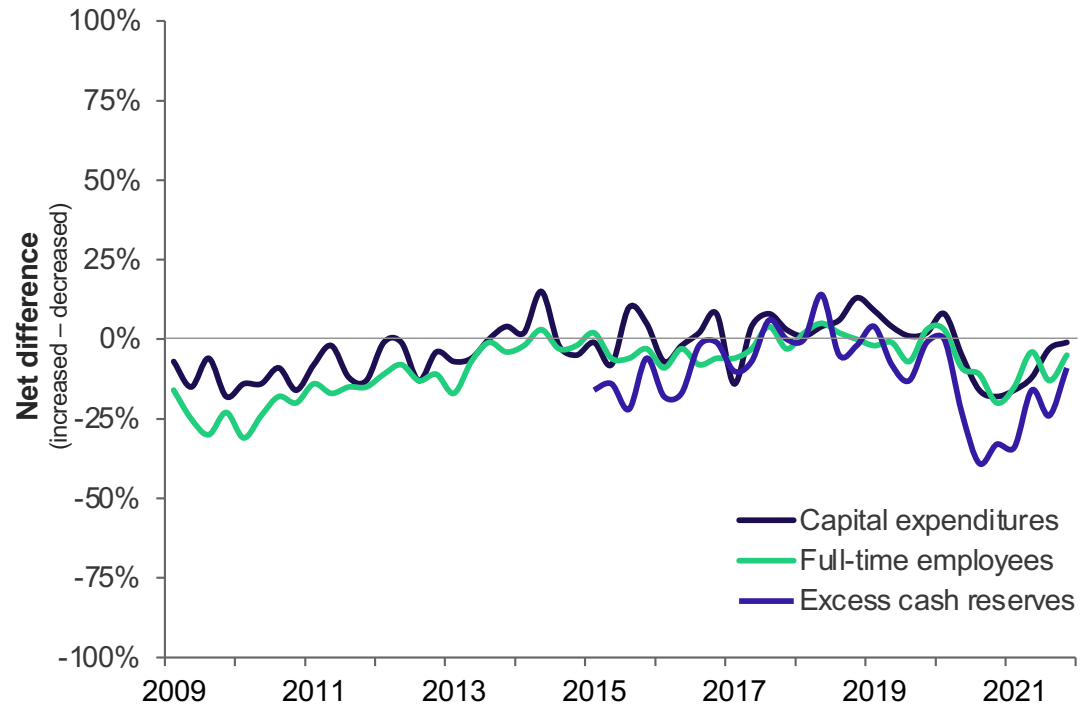


-5% Net difference
(increased – decreased)

-1% Net difference
(increased – decreased)

-9% Net difference
(increased – decreased)

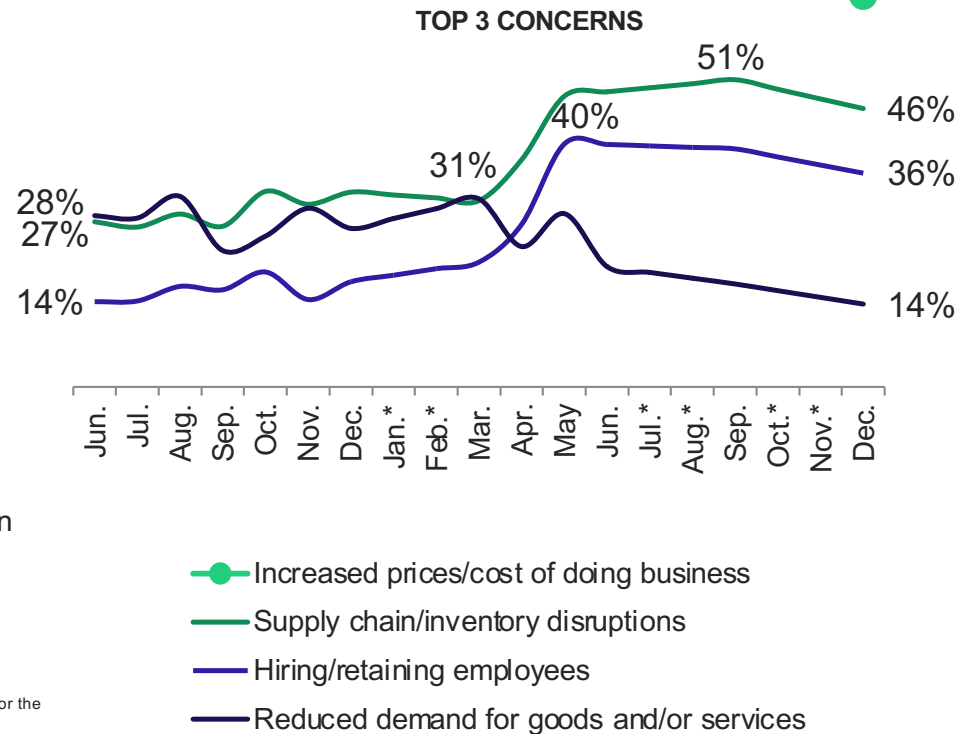
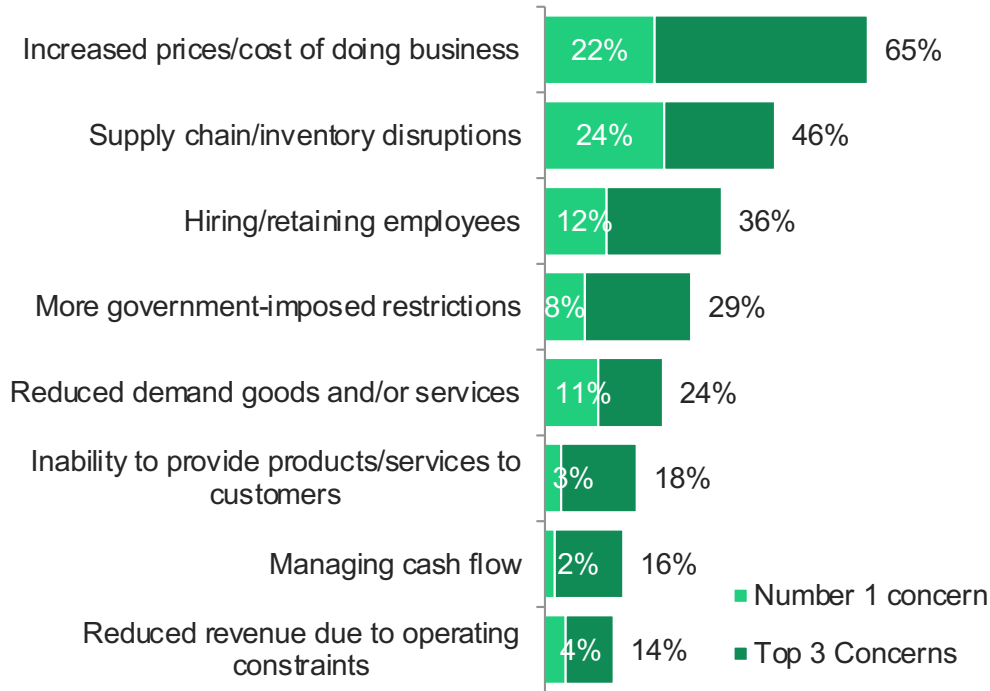
Past 12 months



Q: During the last 12 months, did your company's...
\$100K--\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Increased prices/cost of doing business emerges as a top concern for small businesses

TOP BUSINESS CONCERNS SMALL BUSINESS

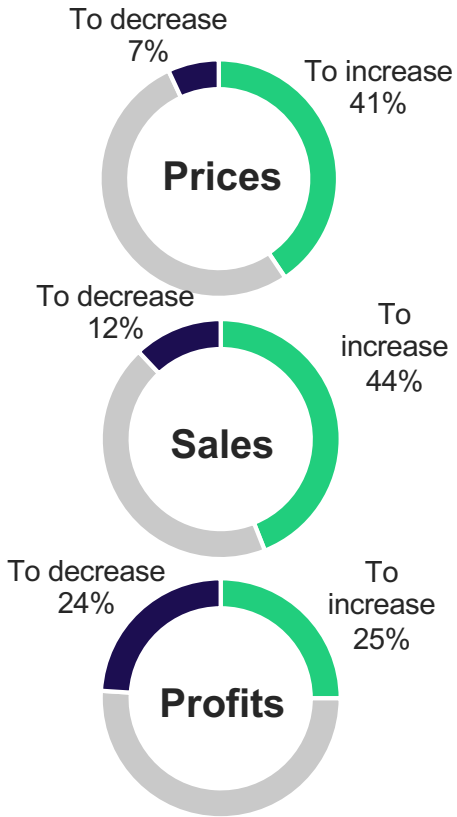


Q: What are your THREE biggest concerns for your business today? Please enter a '1' for your most concerning, followed by '2' and '3' for the second and third most concerning.

*Represent imputed averages; data not collected in January, February, July, August, October and November 2021 \$100K-<\$10MM

2 | Future economic outlook

Small businesses expect prices to continue to increase, but also have optimistic sales expectations



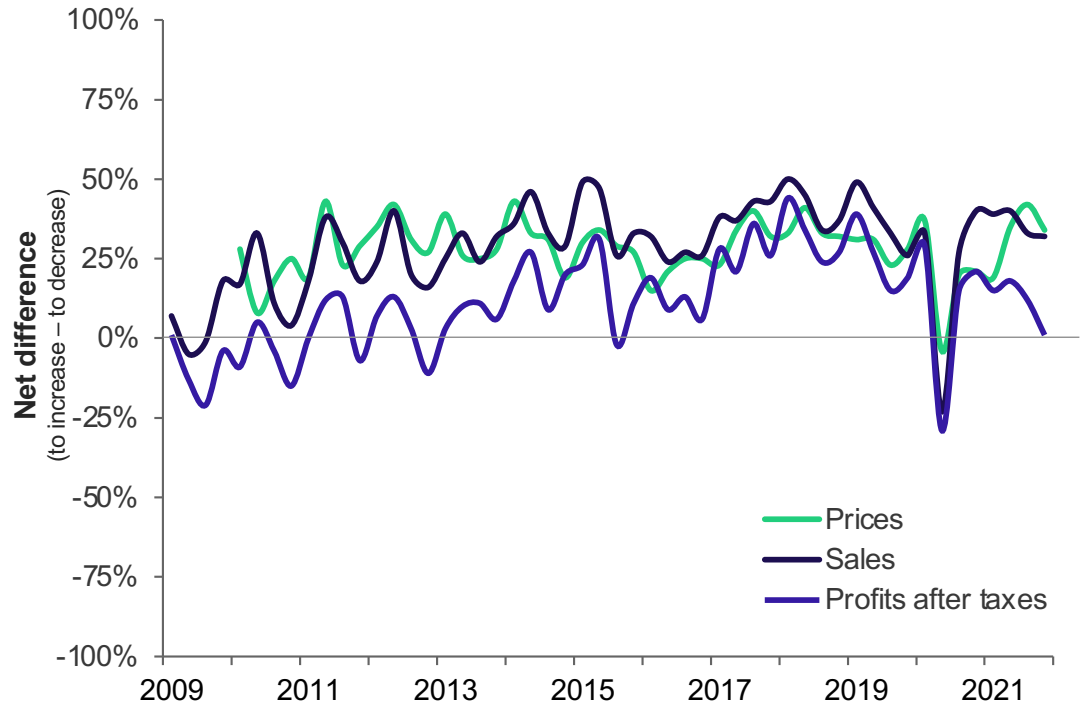
SMALL BUSINESS PRICES, SALES & PROFITS

Next 12 months

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

+32% Net difference
(to increase – to decrease)

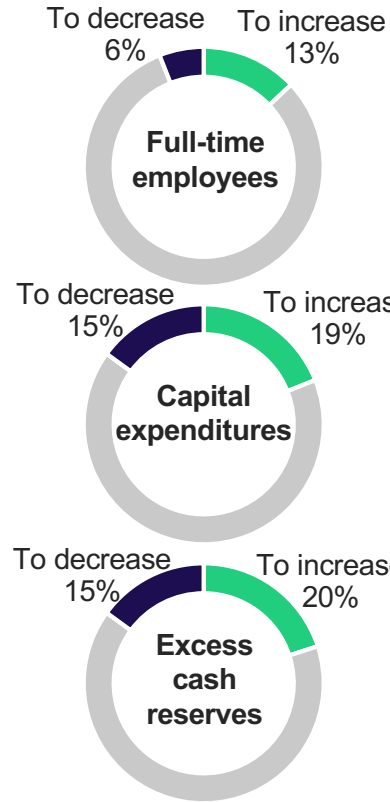
+1% Net difference
(to increase – to decrease)



Q: During the next 12 months, do you expect your company's...
\$100K--\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Hiring, capital expenditure and cash reserve expectations remained minimal

SMALL BUSINESS HIRING, CAPITAL EXPENDITURES & CASH RESERVES

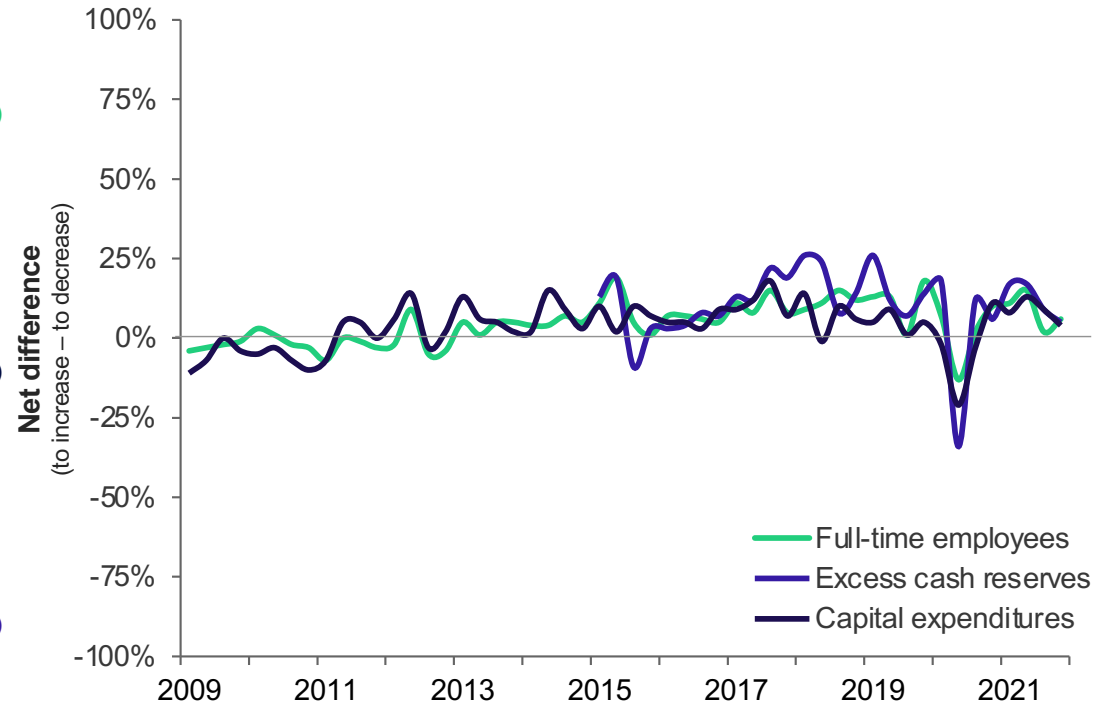


+6% Net difference
(to increase – to decrease)

+4% Net difference
(to increase – to decrease)

+5% Net difference
(to increase – to decrease)

Next 12 months



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

\$100K--\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Finding qualified workers and retaining staff tops the list of small business priorities going into 2022

MOST IMPORTANT FACTORS GOING INTO 2022

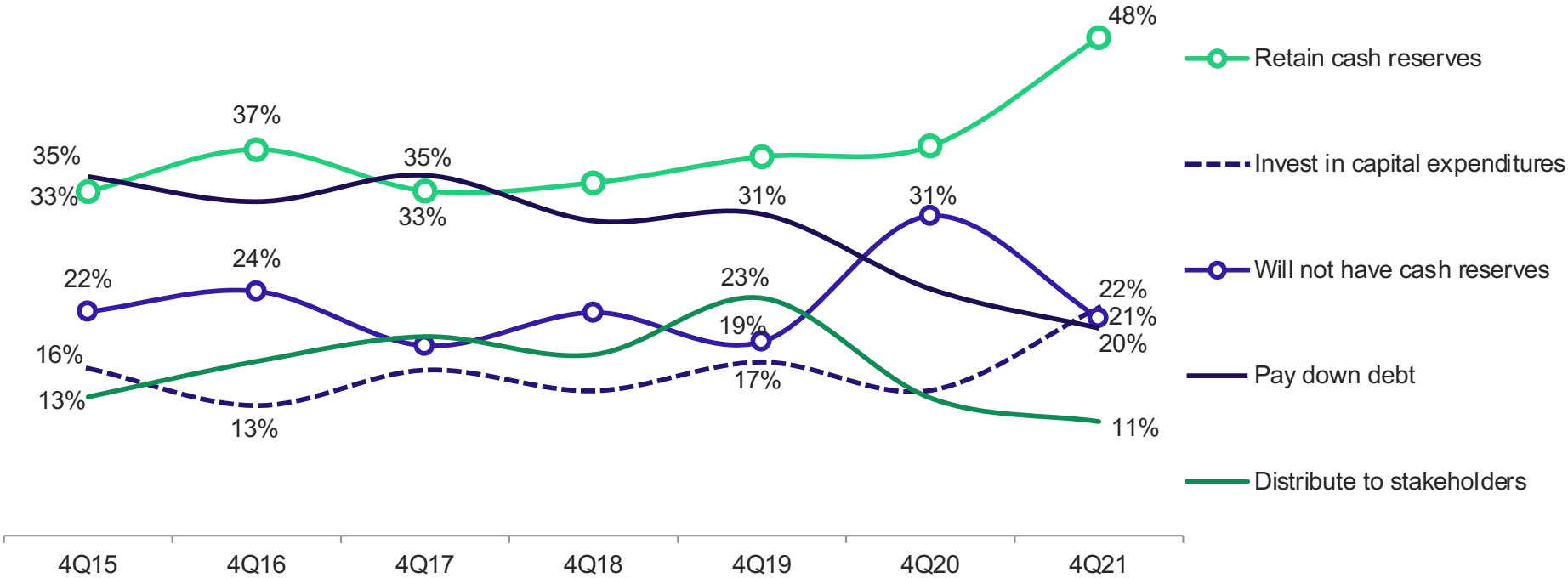


Q: Looking ahead to 2022, what specific aspects of your business will be the most important? (Select up to three responses)

\$100K-<\$10MM

Small businesses grew increasingly likely to retain any cash reserves over the next 12 months

SMALL BUSINESS USE OF EXCESS CASH

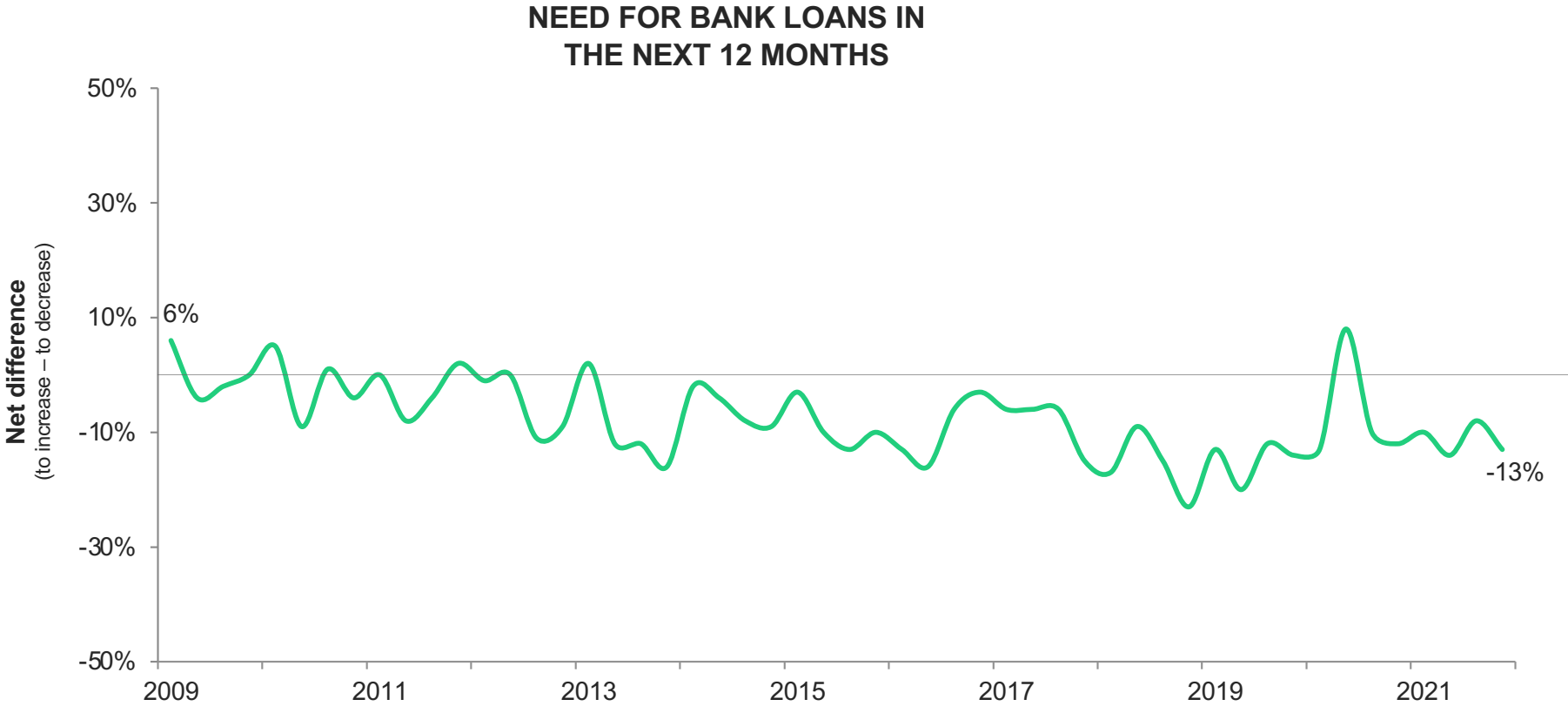


Q: During the next 12 months, how does your company intend to use its excess cash reserves?

\$100K-<\$10MM
BusinessPulse Fourth Quarter Trending Data

3 | Credit outlook

The need for bank loans continued to be limited



Q: During the next 12 months, do you expect your company's need for bank loans...
\$100K--\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

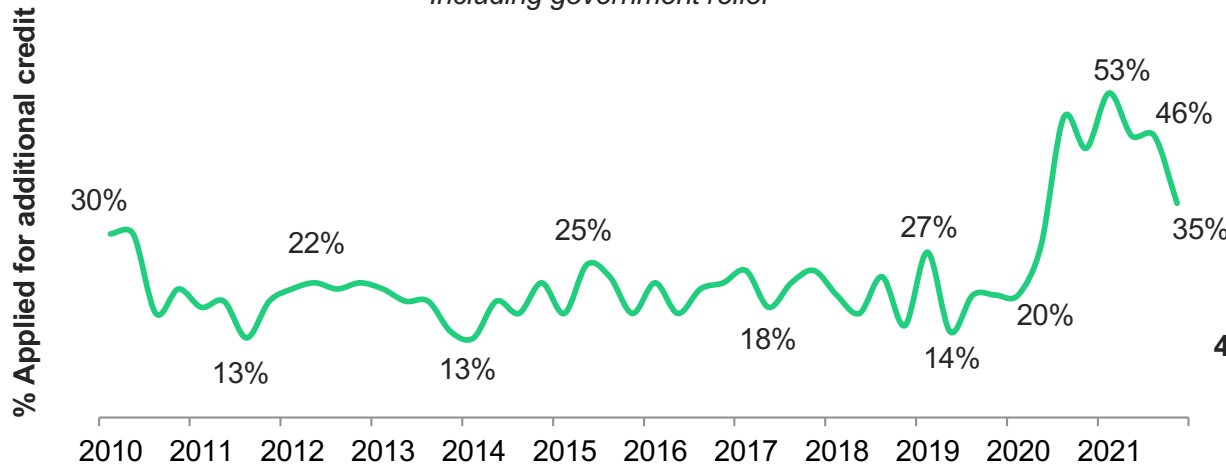
Elevated small business applications for additional credit over the past 12 months began to decline in the fourth quarter

SMALL BUSINESS APPLICATIONS FOR ADDITIONAL CREDIT

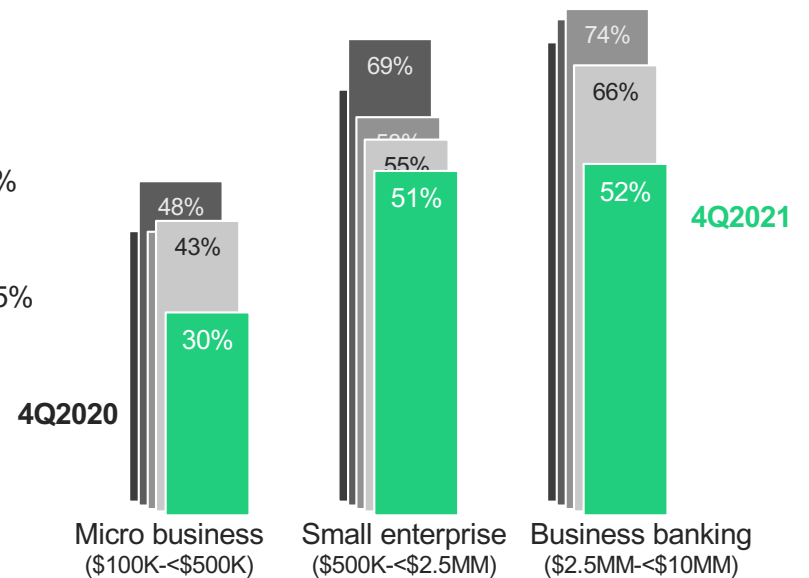
Past 12 months

ADDITIONAL CREDIT APPLICATION TREND

Including government relief



CHANGE FROM 4Q2020

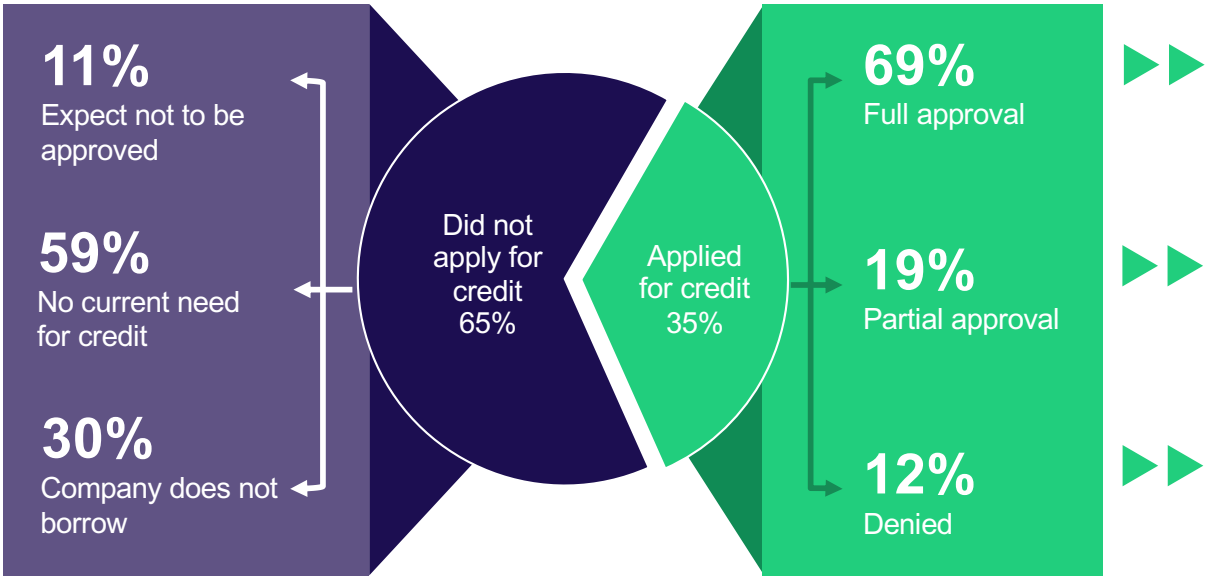


Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution, including any government programs through a financial institution such as the Paycheck Protection Program (PPP)?

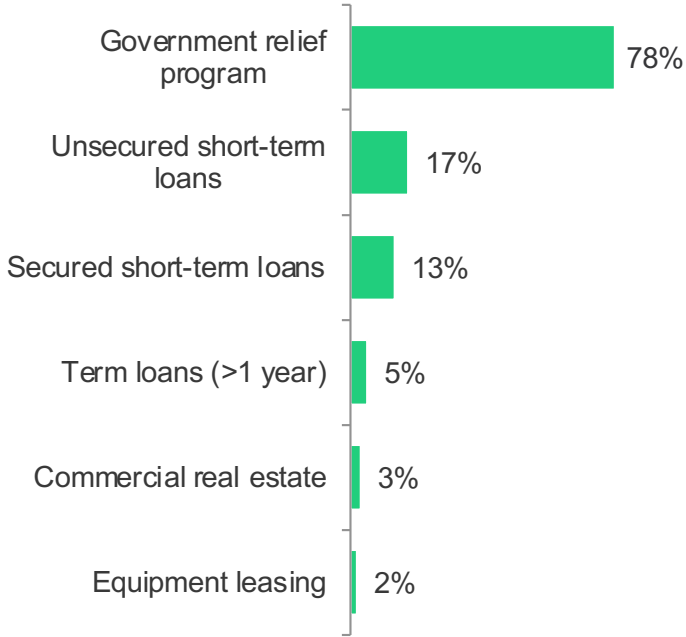
\$100K-<\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Approximately one in ten small businesses that applied for additional credit were denied

SMALL BUSINESS CREDIT APPLICATION OUTCOME



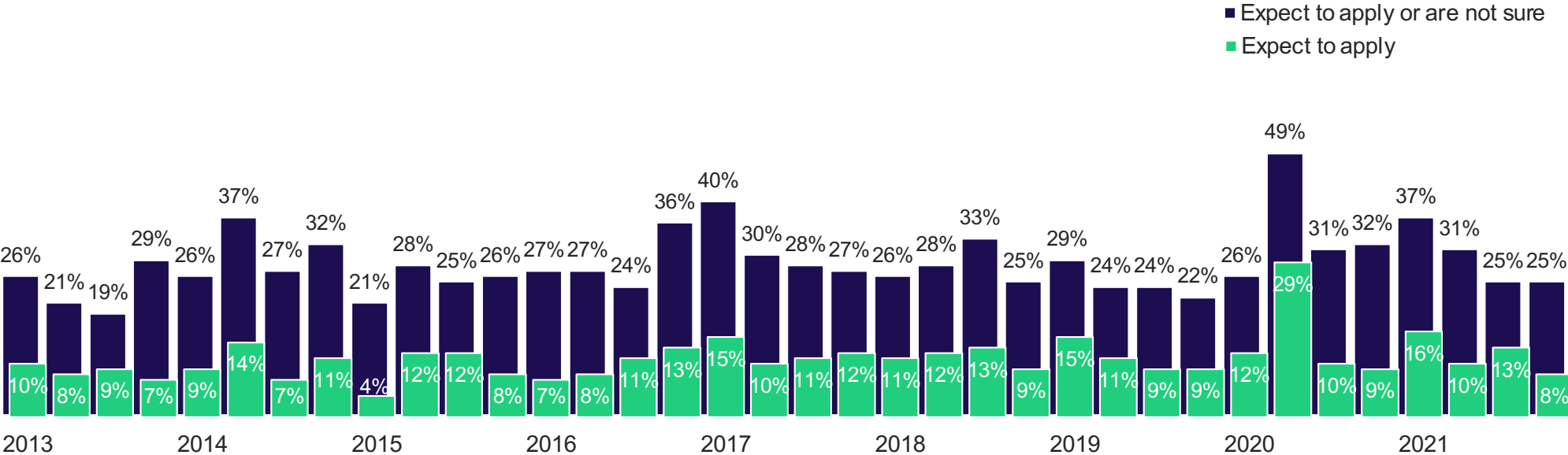
TYPE OF ADDITIONAL CREDIT ATTEMPTING TO ACQUIRE*



\$100K-<\$10MM
 *Base: those that applied for additional credit
 BusinessPulse 4Q2021 Data

Only 8% of small businesses expect to apply for additional credit over the next 12 months; an additional 17% are unsure

SMALL BUSINESS EXPECTED APPLICATIONS Next 12 months



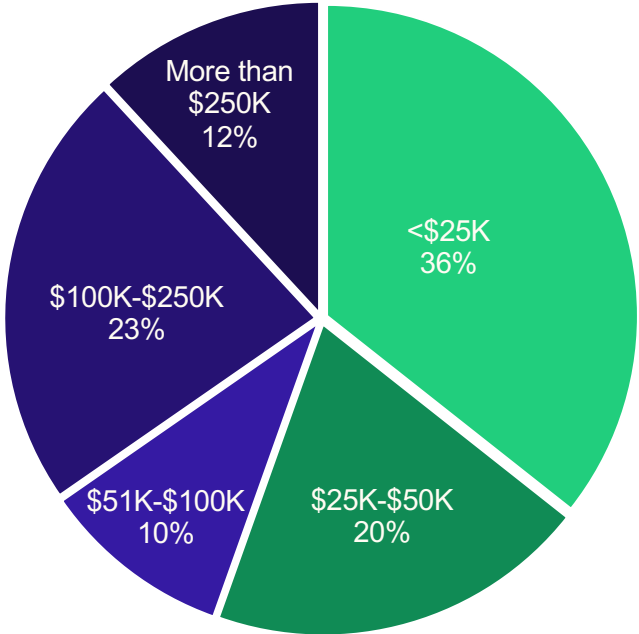
Q: During the next 12 months, do you expect your company to apply for additional credit or loans from any financial institution?
\$100K--<\$10MM
BusinessPulse Quarterly Trending Data (4th quarter)

Most small businesses planning to apply for additional credit (or that are unsure) will apply for loans less than \$50K; primarily to use for working capital

AMOUNT OF ADDITIONAL CREDIT SMALL BUSINESSES ANTICIPATE BORROWING*

REASON(S) FOR BORROWING*

25%
Expect to apply for additional credit or are unsure



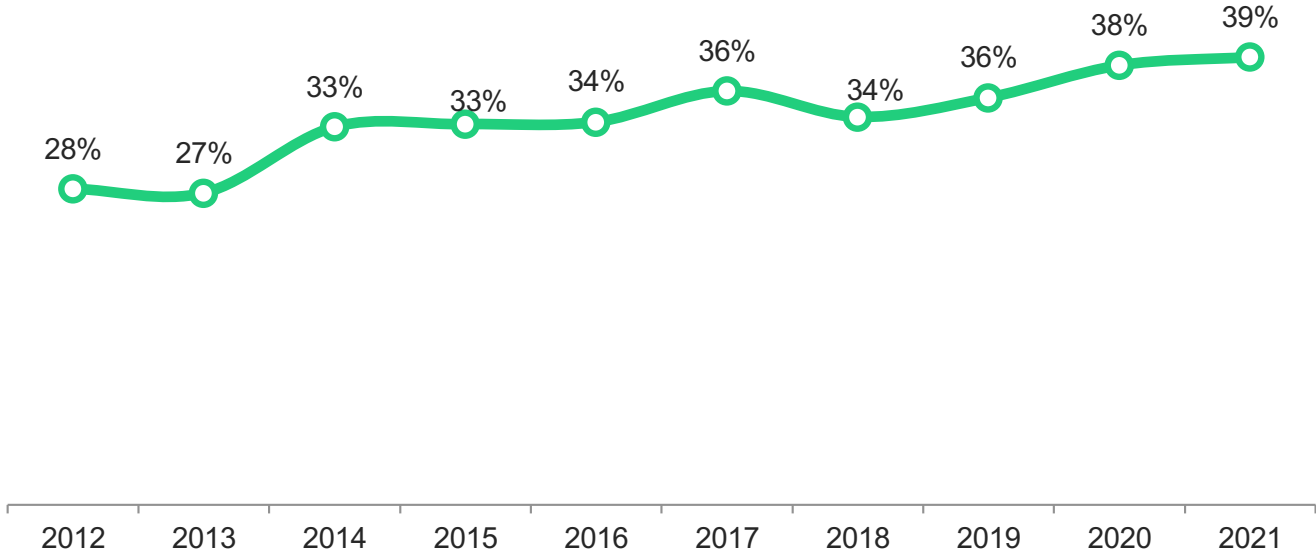
- 45%** For working capital
- 37%** To support company growth/expand operations
- 24%** Equipment purchase
- 24%** To purchase inventory
- 13%** Debt consolidation

Q: If you expect your company to apply for additional credit or loans in the next 12 months or are unsure, approximately how much do you anticipate borrowing?
 \$100K-<\$10MM
 *Base: those that expect to apply for additional credit or are unsure
 BusinessPulse 4Q2021 Data

4 | Small business ownership transition

Small businesses are increasingly likely to be planning for a business transition

% EXPECTING TO TRANSITION OWNERSHIP WITHIN THE NEXT 5 YEARS



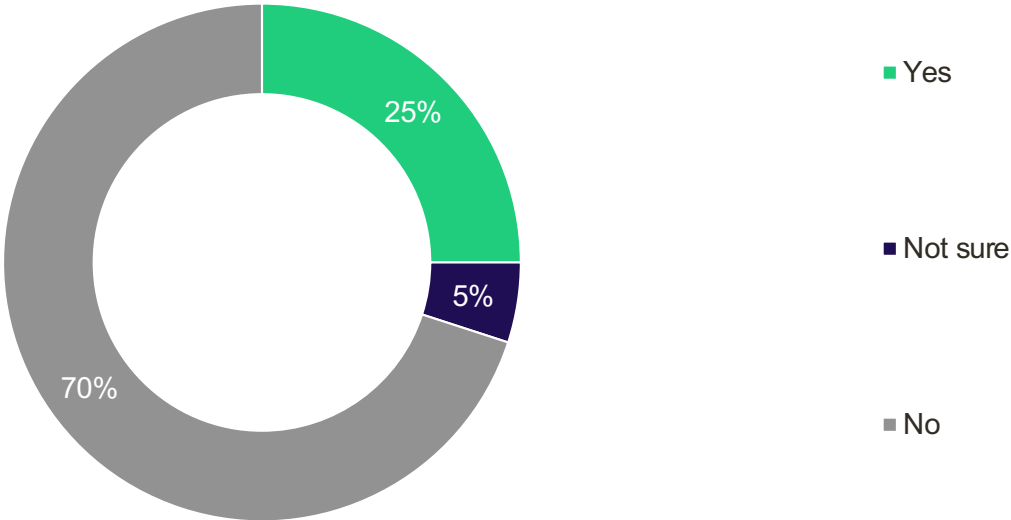
CURRENT
AVERAGE AGE OF
THE SMALL
BUSINESS OWNER

62

Q: Within the next five years, what are the plans for your company's ownership?
\$100K-<\$10MM
Small Business Trailing 4 Quarter Data

Many small businesses have taken the first step to prepare for a transition in ownership

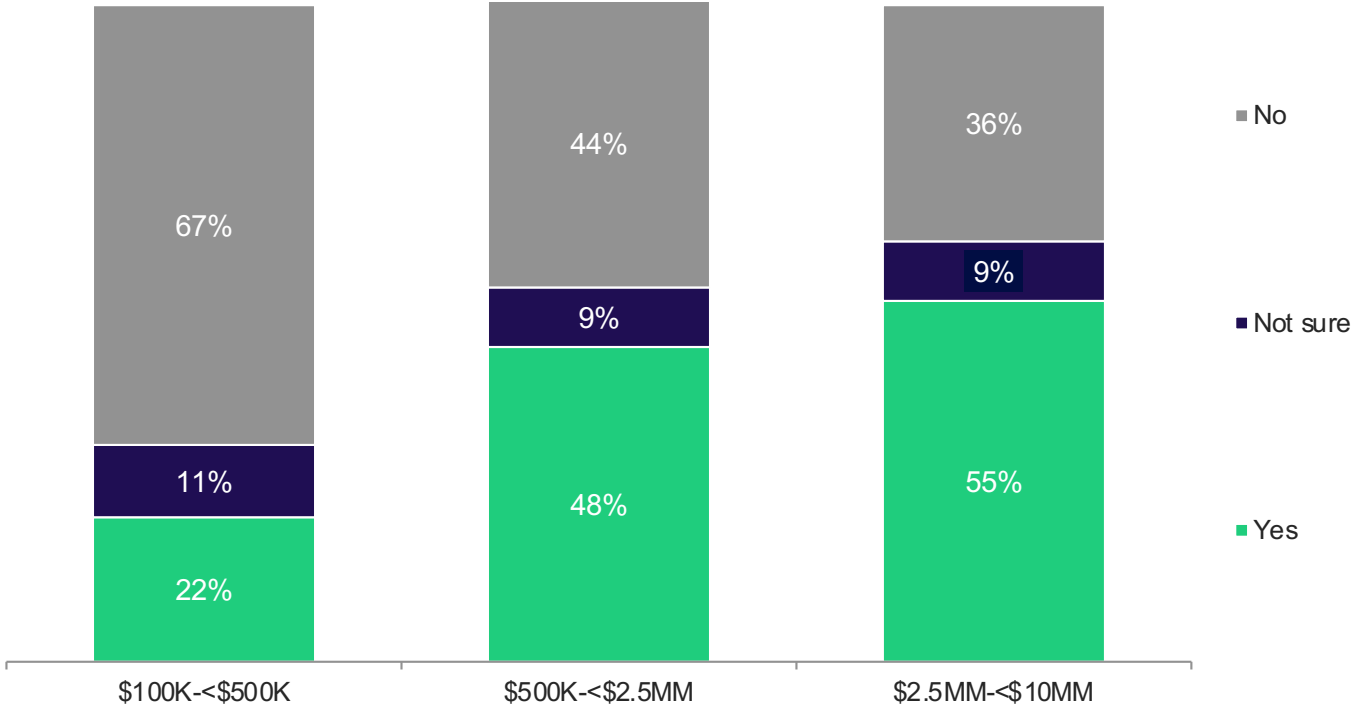
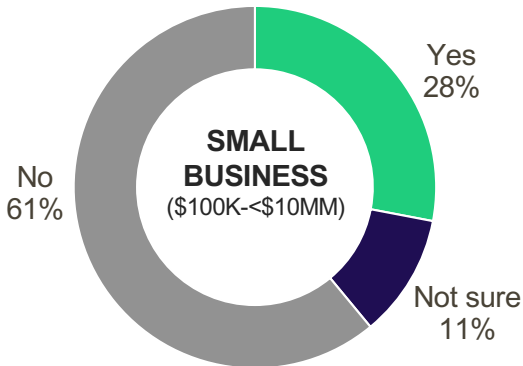
TAKEN STEPS TO PREPARE FOR AN OWNERSHIP TRANSITION



Q: Has your business taken any steps to begin preparing for a transition in company ownership?
\$100K--\$10MM
BusinessPulse Third Quarter 2021 Data

Few micro businesses (\$100K-<\$500K) had a succession plan

PRESENCE OF A SUCCESSION PLAN



Q: Does your company have a succession plan (e.g., sell, merge, be acquired, transition ownership, liquidation, etc.)?
 BusinessPulse Third Quarter 2021 Data

Conclusions

1. Small businesses' financial conditions have improved but inflation, labor shortages and supply chain issues have been detrimental to growth.
2. Credit demand is tepid. Small businesses are more focused on recovery (retaining cash reserves) than growth (borrowing).
3. A shift is happening as small business owners age and begin thinking about transitioning their business.

For further information about this research study and other research services contact:



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