

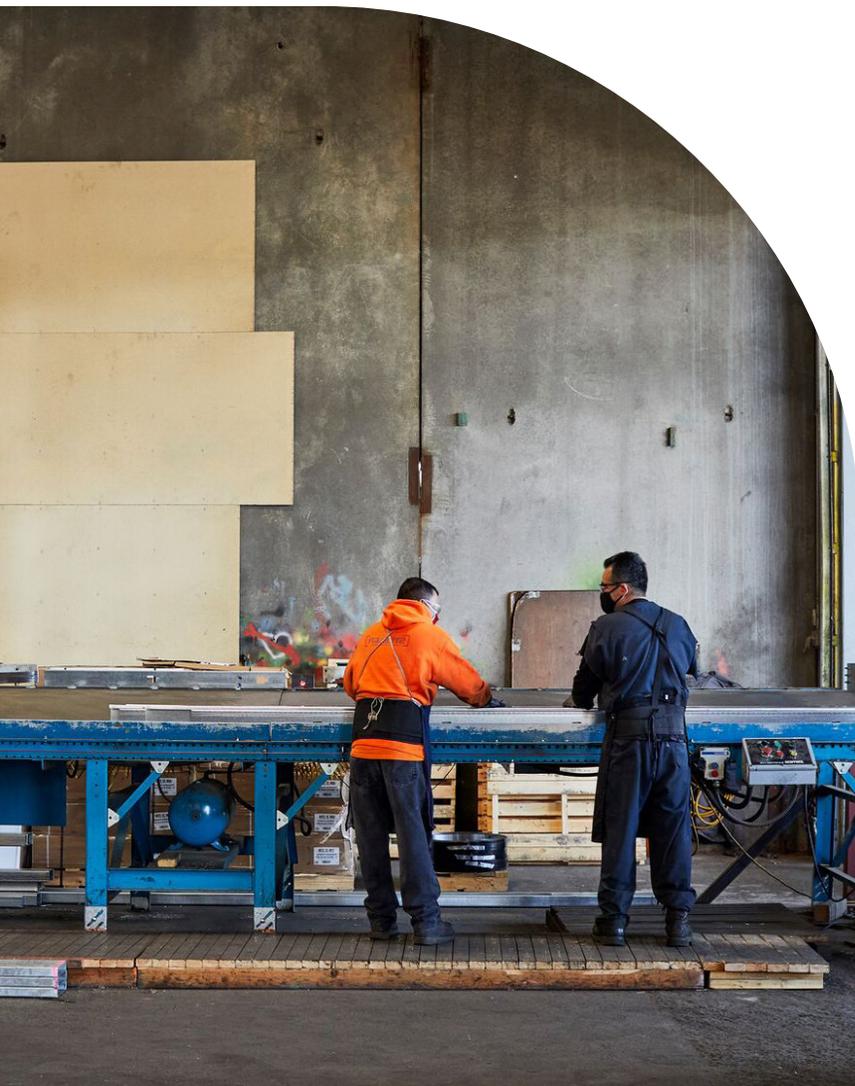


UMPQUA BANK

Together for better

Embracing Uncertainty:

U.S. businesses feeling stronger, nimbler, and more resilient



Umpqua Bank 2021 Business Barometer

A nationwide study of nearly 1,200 of small and middle market business leaders on their mood, mindset and plans for growth as the U.S. economy emerges from the upheaval of the COVID-19 pandemic.

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Moving From Surviving to Thriving

At the height of the pandemic-induced recession, America's small and middle market businesses suffered staggering losses. Now, the fortitude and agility they demonstrated to survive is helping them emerge and thrive.

There's a broad sense the economy has turned the corner. Leaders from these businesses are expressing a surge in optimism and are making plans for growth.

Umpqua's latest annual national survey captures how these companies have transformed and adapted in the face of unprecedented challenges. Perhaps most importantly, it finds they are emerging more prepared. And they've embraced the reality of disruption as the new normal and the need for continuous evolution as vital to success. They are more efficient and more nimble, which will make them better prepared to adapt to the next disruption.



An employee of Umpqua Bank customer Figure Plant working on a custom project for a client.

Middle market businesses are embracing a mindset of continuous change and evolution.

Despite reporting massive strategic shifts in response to the pandemic a year ago, more changes are coming in a competitive, dynamic post-pandemic economy.

Roughly three-quarters or more of middle market businesses expect to continue:



75%

Making significant changes to products and services



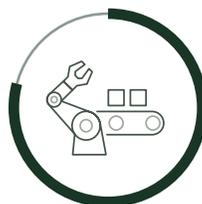
75%

Making significant changes to their pricing models



81%

Digitizing new areas of their business to become more efficient



79%

Automating repetitive manual tasks

The survey found more than 70% of middle market companies made “significant” changes to their businesses in the last year and that they expect these changes will be long lasting. That compares to 30% of small business respondents reporting that they’ve made similar changes in response to the crisis.

Some problems that arose during the pandemic remain. About 40% of small businesses say they’re having trouble finding qualified employees and 55% of middle market respondents say they’re facing the same challenge. Meanwhile, nearly 90% of businesses in our survey say they’ve experienced some type of supply chain difficulty in the last 12 months, with the most common difficulty being increased prices for the goods they purchase.

Still, there’s growing consensus of an economic rebound. This comes from both small businesses, those with annual revenue below \$10 million, and

middle market counterparts, those with revenue up to \$500 million. A majority of respondents from both swaths of companies also expect revenue to increase over the coming year.

Together, the success of these sectors is important not just to us as a business partner, but to the nation as a whole. The middle market alone accounts for roughly \$6 trillion in U.S. private sector GDP and 44 million jobs.

As part of this process, we spoke with business leaders across the country to glean their perspectives on this transformational year. In addition, we went in-depth with companies that are grappling with key issues to spotlight how their priorities and perspectives have changed.

We’re excited to share these findings and explore the implications along the path to recovery.

VP, Commercial Relationship Manager Charles Gray (right) at US Linen & Uniform in Richland, Washington.



At a Glance: Six Key Findings From Our Research



of middle market companies plan to increase their real estate footprint in the next 12 months



of middle market companies say they're finding creative ways to support working parents



of businesses are experiencing some type of supply chain challenge



of middle market companies are considering acquiring another business



of middle market companies plan to digitize new areas of business operations to become more efficient



Middle market optimism surges past pre-pandemic levels

The "Mighty Middle Market"¹

The middle market is an important, but often overlooked, bellwether of our economy. Compared to large corporations and small businesses, it doesn't always get the attention it deserves.

According to the National Center for the Middle Market, these companies represent:

~1/3

of the U.S. private sector GDP (\$5 to \$6 trillion)

44,500,000
jobs

200,000+
companies

Middle market businesses create a significant number of jobs and invest heavily in innovation. And they weathered the last recession better than their larger competitors. The middle market's health and vitality are critical to the pace and strength of economic recovery.

¹ https://www.middlemarketcenter.org/Media/Documents/MiddleMarketIndicators/NCMM_InfoSheet_FINAL_WEB.pdf

Business Conditions

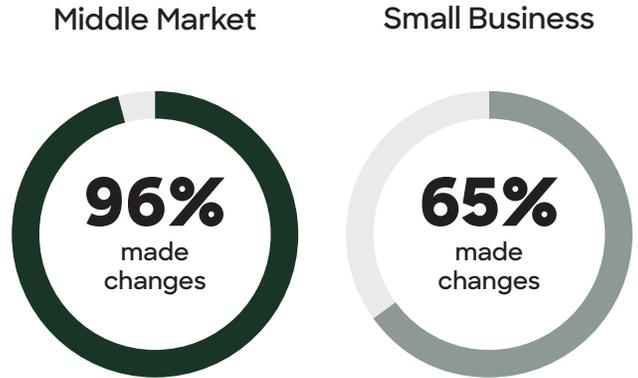
The pandemic continues to have a lingering impact on small and middle market businesses, though expectations for brighter prospects abound. This year, half of middle market businesses (56%) expect economic conditions to improve in the next 12 months, versus 33% feeling the same a year ago.

This year's survey indicates companies have dramatically transformed their operations to surmount the key economic challenges of the pandemic. There are increased expectations for profitability and revenue, and a growing sense that businesses now have the tools they need to adapt to shocks, such as supply chain bottlenecks. Nearly all the middle market businesses (96%) and most small businesses (65%) have made changes because of the COVID-19 pandemic. Common adjustments include adjustments to supply chains, staffing models, company vision, products, services, and culture.

“Economic optimism has surged beyond pre-pandemic levels for middle market businesses,” says Richard Cabrera, Executive Vice President and Head of Middle Market Banking for Umpqua Bank. “These businesses have embraced a mindset of continual adaptation and evolution. In the midst of significant pivots over the past year, they continue to make operational changes in response to this new normal.”

In fact, the economic upheaval appears to have fortified many of these businesses. Notably, 41% of middle market respondents say the pandemic has had a positive effect on their companies, with manufacturing and business services companies most likely to report favorable effects. Still, supply chain struggles threaten to halt that progress, as 88% of businesses have experienced at least some type of difficulty sourcing goods in the past 12 months. Although most businesses have been able to purchase the products they need, most respondents say they've experienced price increases and delays. In turn, many have had to procure the materials they need in different ways.

Most businesses have made some change as a result of the COVID-19 pandemic; nearly all middle-market businesses have made a change.

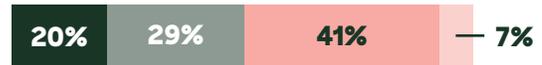


Middle market businesses expect to keep most of the changes; small businesses expect to keep some of the changes.

Middle Market



Small Business



- Keep all/Nearly all
- Keep most
- Keep some
- Will not maintain any

“We could have sold twice or three times as much as before. However, the supply was very hard to find. In April of last year, the shortages were starting, and it hasn't recovered. We used to order bikes every week and get whatever we needed. Now, we have to order them 6 to 12 months ahead of time.”

Owner, bicycle shop, Seattle



Umpqua Bank customer Merlino Foods in their warehouse in Seattle, Washington.

Onyx Distribution: Advance Planning Pays Off, but Supply Chain Lessons Learned

Arsalan Rahbarpoor, President & CEO of Onyx Distribution, feels fortunate to have weathered the pandemic as well as he did, given the global microchip shortage and other major supply chain issues. His business—which distributes an array of products from electric toothbrushes to umbrellas—skirted many of the problems that plagued small businesses over the past year or so.

“We were very fortunate to have planned far ahead and secured enough microchips for our products,” Arsalan said. “We saw the impact COVID had on many small businesses, and it wasn’t pretty at all.”

Onyx also had the advantage of making all its sales online. The Los Angeles-based company had plans to launch a small number of physical stores but was able to pivot away from those plans before it made any financial commitments.

Still, the pandemic did impact Onyx, specifically in its supply chain. “There was clearly a shortage of drivers

and containers in China—where we import most of our products from,” Arsalan said. “It normally took a month to 45 days to get products sent to us, and suddenly that became 60 to 70 days.”

As a result, Onyx began paying more for expediting shipments. “Our margins are very healthy, and we were able to absorb extra shipping charges for our most competitive, price-sensitive products,” he said. “To some degree we passed on a little bit of those costs to our buyers as well.”

Arsalan said he learned a valuable lesson from the pandemic: plan further ahead than you think.

“The takeaway for our business is to send larger orders, because it’s less expensive to store merchandise in the U.S. than it is to suffer the consequences of production delays, especially for competitive items, and extra shipping costs.”

Growth Strategies and Operations

Business leaders say they're ready to take bold steps not only to rebound, but also to ensure their businesses remain agile in the face of continuous disruption. Many are looking to expand their real estate footprint or digitize new areas of their businesses to succeed in the online economy.

It might seem counterintuitive considering the massive work-from-home transformation, but 47% of middle market companies say they intend to expand their property footprint. Among industries, manufacturing, finance, and insurance are those most likely to say they're likely to expand their real estate footprint.

For both small and middle market businesses, about half of respondents say they're focusing their expansion efforts to mid-sized cities. Our survey also shows that half of middle market businesses favor communities with higher taxes and more services, while 60% of small businesses see opportunity in areas with lower taxes and fewer services.

Regarding operations, the automation of manual tasks continues to be a strong focus as respondents look for ways to automate repetitive tasks previously performed by workers. Middle market businesses (79%) are more than twice as likely as small businesses (37%) to say they're likely to make these investments in the next 12 months. Manufacturing businesses are the most likely to say they want to automate at least some of their operations. Manufacturing businesses also say they're most likely to initiate new inventory management techniques.

Middle market businesses are more likely to expect changes in the size of their real estate footprint, whereas small businesses expect stability.

Middle Market



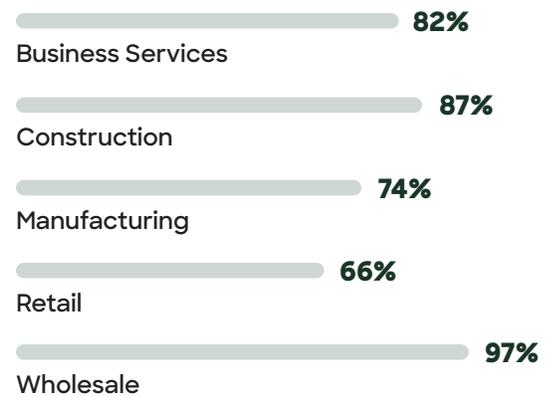
Small Business



● Increase ● Remain the same ● Decrease

Transformation across industries

After a prolonged period of uncertainty, business leaders stand ready to continue adapting to massive changes in their industries. Percentage of respondents who anticipate making significant changes to their business in the year ahead:



“Over the past several years, disruptions—whether macro-economic, geopolitical, or technological—have become a constant reality, and none has been more impactful than the pandemic. The data mirrors what we see on the ground with our customers—businesses are starting to accept this reality. While the last year has been difficult, many businesses have tapped into strategic and creative energy that’s changing their mindset from one of resistance to embracing the need for continual change.”

Richard Cabrera, EVP and Head of Middle Market Banking at Umpqua Bank



Umpqua Bank customer Alpine Foods in the Portland, Oregon warehouse.

Alpine Food Distributing: Demonstrating Newfound Flexibility in the Face of Changing Habits, Supply

Alpine Food Distributing felt many of the economic changes that stemmed from the pandemic: a massive shift to takeout and delivery, an increase in food prices,¹ surging demand for groceries, and a nationwide shortage of popular items. These complex factors challenged the family-owned Oregon company to fine-tune its business model and day-to-day operations to be more resilient to future crises.

“I view the pandemic the same way I view the 2008 recession, as a before and after event that will change the landscape of supply chain for our industry,” says Shawn Hood, the company’s general manager.

Alpine is a just-in-time provider, redistributing food and other perishable items to foodservice distributors, convenience store distributors, and other retail suppliers. The buyers can receive thousands of individual products across categories in a single delivery, meaning smaller minimum orders and shorter lead times, therefore reducing supply chain complexity.

When dining and grocery shopping habits changed

during the pandemic, many of Alpine’s customers also had to adapt. Restaurants cut the number of items on their menus. And as foodservice demand declined, retail business picked up. Alpine was caught in the middle, so they began focusing more of their business on larger grocers and institutional accounts.

“Our team did a great job revisiting our business model to fill the void,” Hood says.

Alpine also looked for ways to support staff during the toughest days of the crisis, such as offering in-house meals for employees. Hood says the team examined every possible way within reason to cut costs without affecting employees or operations—down to reducing the frequency of washing its fleet of semi-trucks.

“We invested a lot of our time in looking at where we could reduce our costs and become a stronger company coming out of the pandemic,” Hood says. “Everybody’s taking a reset on how they purchase, how they carry inventories, and how they manage cash flow. Lean is the word.”

¹ <https://www.marketplace.org/2021/06/10/food-prices-are-rising-is-that-a-problem/>

Workforce and Company Culture

The pandemic forced more than 14 million Americans into the jobless ranks between February and May 2020. Now, companies say they're experiencing a wholly different reality—a massive hiring crunch.

More than half of mid-sized companies (55%) say they can't find qualified candidates. Respondents from construction, retail, and manufacturing businesses are more likely to have troubles finding qualified employees.

As a result, middle market businesses are retraining current employees to build new skills (84%) and many (75%) say they're increasing pay or benefits for the average employee. In addition, slightly more than half (51%) of companies in our survey say they're finding creative ways to support working parents (71% among mid-sized businesses).

“Shortages of skilled labor represent just one more obstacle for these companies, but they’ve demonstrated over the past year that they can take on the tough challenges from whatever corner they emerge.”

Ashley Hayslip, Executive Vice President and Head of Community & Business Banking at Umpqua Bank

“Shortages of skilled labor represent just one more obstacle for these companies, but they’ve demonstrated over the past year that they can take on the tough challenges from whatever corner they emerge,” says Ashley Hayslip, Executive Vice President and Head of Community & Business Banking at Umpqua Bank. “They’ve lived through the biggest disruption imaginable and now the focus is on stability.”

Amid these obstacles, companies are eager to expand their ranks. Middle market businesses are more likely to expect change in the size of their workforce (40%). Notably, retail (51%) and manufacturing businesses (34%) expect to increase their headcount. Meanwhile, more than half of manufacturers (54%) say they're offering bonuses as a financial incentive for new talent.

In addition, as many large corporations relocate from cities in search of more affordable locations and reduce their real estate holdings due to remote work, our survey reveals the opposite in the middle market. Many companies say they're also willing to head where the talent resides, despite the effect on the bottom line: 68% of middle market businesses believe these cities offer the best opportunities for their businesses even if the cost of living is high, compared to only 47% of smaller companies.

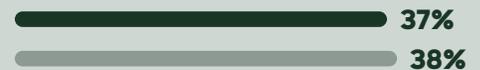
Business Leaders Cite Top Three Staffing Issues

● Small Business ● Middle Market

Engaging qualified talent



Shortage of candidates with the skills your company needs



Determining who is a good fit



Shortage of candidates willing to work at the wages you can offer



Finding, attracting, and hiring diverse candidates



Hiring process takes too long



Overall shortage of candidates looking for work



Retaining existing employees





Positioned for Growth and the Next Disruption

By Richard Cabrera

EVP, Head of Middle Market Banking

America's middle market businesses have emerged from the unprecedented impact of COVID-19 with a remarkable recovery story. As states reopen and millions of workers return to hybrid and in-person models, the outlook among middle market businesses is more positive than it has been in the past two years. Of course, there are lingering issues—supply chain challenges, a very tight job market, and higher cost of goods among them.

The tumultuous past year and a half has provided business with the opportunity to adjust products, services, and business models. A majority of companies expect these changes to stay. Despite the transformational shifts in vision and culture, the impact of the pandemic has not shaken the fundamental growth instincts of many businesses. Half of businesses say they're willing to take on debt to invest in expansion, and half contemplate an acquisition. Those responses to our survey indicate that companies are confident about the path ahead.

Businesses learned tough lessons during the pandemic, and they appear to be more efficient and more nimble as the recovery continues. These businesses have also realized what they're capable of in terms of adaptation, and the pandemic has forced them to continually think more strategically and in greater detail about their larger purpose and the actual value they provide in the marketplace. That not only bodes well for the immediate future, but will also make them better prepared to adapt to the next disruption.

Interested in learning more?

Connect with an Umpqua Banker who will work side by side with you to help reach your goals.

www.umpquabank.com/business-banking



Jonathan Dale, PNW Middle Market Banking Regional Executive, tours facility at Steeler, Inc. in Seattle.

Survey Methodology

From May 24, 2021, to June 4, 2021, Umpqua Bank conducted an online survey of 1,196 owners, executives, and financial decision-makers from American small and middle market companies. The results include 476 middle market businesses and 720 small businesses. Small businesses are those with annual revenue below \$10 million. Middle market businesses are those with revenue of up to \$500 million. Total results are weighted to be proportional to national distribution of business establishments. The survey has a margin of error of $\pm 2.8\%$.

www.umpquabank.com/business-barometer-survey-report