



UMPQUA BANK

Together for better

**Umpqua Bank's 2022
Business Barometer Report**

Economy in Transition

A nationwide study of more than 1,200 business owners and executives on their perspective and plans as the U.S. transitions into late stage pandemic economy.

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EXECUTIVE MESSAGE

Businesses Navigate Evolving Economy

The past few years represent a remarkable period of both disruption and resilience for U.S. businesses. For four years now, Umpqua Bank's Business Barometer has captured the sentiments of business leaders across the country as they've taken tremendous actions to survive, adapt, and become more competitive and positioned for future success.

This year's report is especially notable given the significant changes the U.S. economy is undergoing in its journey between the pre-pandemic normal and an emerging post-pandemic environment marked by increasing inflation.

Facing a dramatically different economic landscape, for the first time in our research, small and middle market leaders are shifting from recent strategies in how they're planning for change, growth and challenges. After demonstrating extraordinary resilience, small businesses are more prepared than ever to make significant changes to their strategy, with an intense focus on managing inflation's impact. Middle market companies, whose rapid strategic pivots during the pandemic have spurred growth and innovation, are now focused on addressing the compounding impacts and higher costs of workforce transformation and cybersecurity threats.

While last year's surging economic optimism has diminished, businesses of all sizes remain confident in their own prospects for growth. And the success



of middle market companies in tackling supply chain issues and making major changes to compete the past couple of years is paying off, allowing them to focus on other immediate impacts to their bottom lines in the year ahead.

On the whole, these findings reflect what we see across the range of businesses and industries we serve as a bank. There's a palpable sense that the fundamentals of the U.S. economy are changing. Today's economy could be headed toward an extended period of tempered growth, where margins are compressed by high inflation, higher-cost capital and persistent, stubborn impacts of workforce and supply chain disruption.

While it's an unprecedented confluence of mounting pressures, accelerated by the pandemic, there is good news. Businesses are clear-eyed on the changing dynamics and ready to act. Their experience navigating the past few years, willingness to continue adapting and confidence in their businesses remain unchanged, as does our commitment to supporting them.

A handwritten signature in black ink, appearing to read "Tory Nixon".

Tory Nixon
Umpqua Bank President

The economy: Optimism diminished by inflation, conflict, and COVID

U.S. businesses are facing a vastly different economic landscape this year than last.

Umpqua Bank's 2021 report found economic optimism among business leaders exceeded pre-pandemic levels. And for good reason: While COVID-19 was still prevalent, there was increased vaccine availability, pent-up consumer demand, cash-heavy balance sheets, and low interest rates. Now, optimism is down. Businesses face the impacts of soaring inflation and global conflict, while still struggling with supply pressures, hiring challenges, and the lingering uncertainty of COVID-19.

Overall, only 34% of businesses rated economic conditions in the United States as good or excellent, down from 41% last year. And the ranks of those rating it as poor increased from 18% to 34%.

That diminished confidence is markedly higher among small businesses and in line with the views of average Americans.¹ It also highlights a divide between the sentiment of small business leaders and those in the middle market space.

In general, larger companies are more optimistic than their smaller counterparts. And businesses in the West are more optimistic than other regions of the U.S. About 45% of businesses headquartered in the West are more likely to rate the economy as excellent or good.

Overall, businesses have a more cautious economic outlook in 2022 than in previous years. Last year, 52% of those surveyed thought conditions would improve; this year, 24% do. For the second year in a row, small businesses are more likely than middle-market businesses to expect conditions to worsen.

¹ <https://news.gallup.com/poll/1609/consumer-views-economy.aspx>

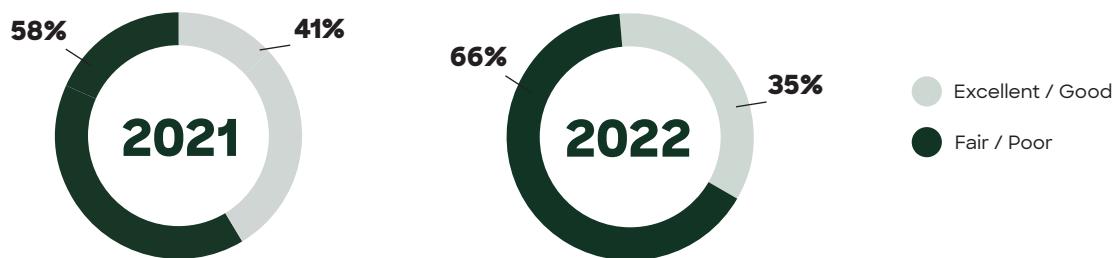
"We definitely see more caution on the part of all businesses, given a series of economic factors outside their control. But tempered expectations can be a strategic advantage, making companies more prepared to weather storms and better positioned if the economy surprises to the upside."

Richard Cabrera, Head of Middle Market Banking



Mood on U.S. Economy

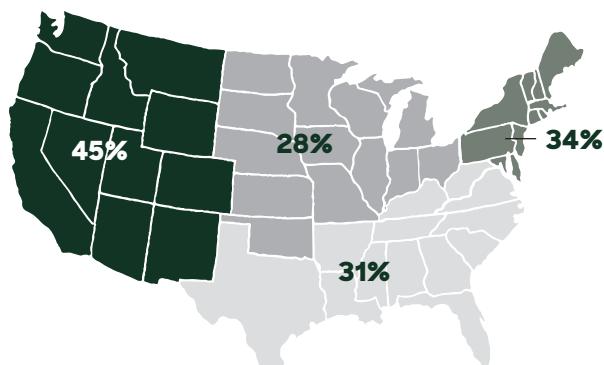
More than half of all businesses feel the U.S. economy is currently in fair or poor condition



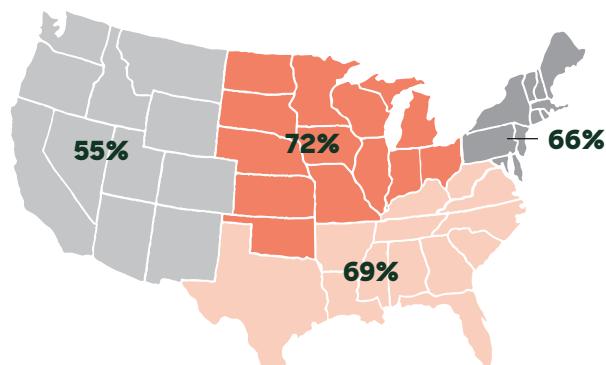
Due to rounding totals may not equal 100%

Economic Conditions by Region

Businesses in the West have the most positive opinion of the current economy



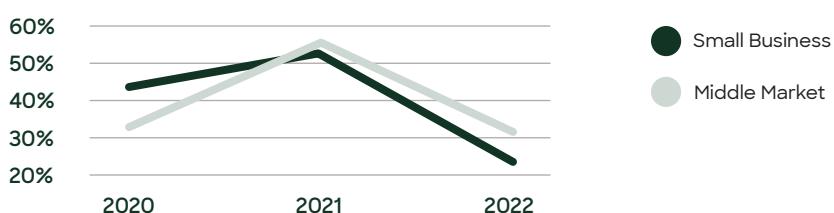
Businesses that said the current economy
is good or excellent



Businesses that said the current economy
is fair or poor

Diminished Economic Outlook

About one in four businesses expect economic conditions in the U.S. to improve in the next 12 months



Looking forward: Businesses remain resilient as they refocus and adapt

Businesses remain resilient: Leaders' feelings about the overall economy don't equate to reduced optimism about their own business prospects ahead.

Of those surveyed, 52% expect revenue to grow in the year ahead and 32% expect it to stay stable, while 13% anticipate a revenue decrease. The breakdown was similar in terms of profitability and stable in comparison to the previous year.

However, for the second year in a row, businesses anticipate they will increase prices to keep pace with inflationary pressure. More than two-thirds of businesses (69%) anticipate raising prices, compared to nearly half (46%) last year. They said these cost increases were driven by increased costs for goods, services, fuel, and wages.

Here, small businesses are on a different path than their middle market counterparts. While businesses of all sizes are concerned about inflation, small businesses are significantly more so than middle market companies. And far more small

businesses (74%) anticipate they will raise prices in the coming year, versus the middle market (44%). Small businesses are more inclined to change their pricing model, lines of products and services, or take on debt to expand this year than last year. In contrast, many middle market companies planned those changes last year and are now focused on pressing issues such as hiring and retaining talent and protecting their business from cybersecurity threats.

However, companies of all sizes continued to show interest in digitizing their business (59% small, 66% middle market) and interest in investing in financial tools to protect their payment systems (47% small, 62% middle market).

In general, middle market businesses appear to have an advantage in how they're positioning themselves for this stage of the economy. In a reversal, middle market's appetite or need to make notable changes is lower than it's been since the onset of the pandemic, while the appetite for change among small business is picking up.

"We saw middle market companies move more quickly to enact changes in response to market adversities over the last two years, but small businesses are quickly catching up. They're finding their footing and making the necessary moves internally to adapt to market adversity. For both, this built-in resilience will pay dividends going forward."

Ashley Hayslip, Head of Community and Business Banking

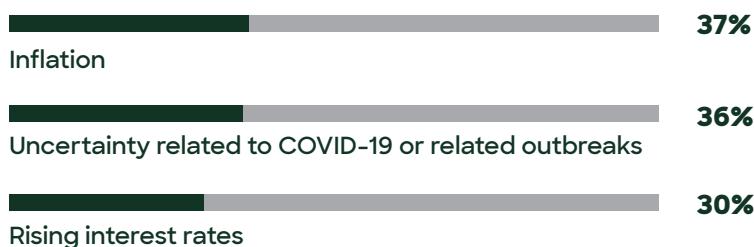




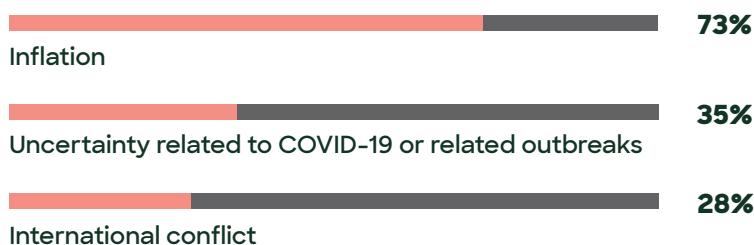
Top Concerns Ranked

When businesses were asked to rank their top three worries, this is how they responded.

Middle Market



Small Business

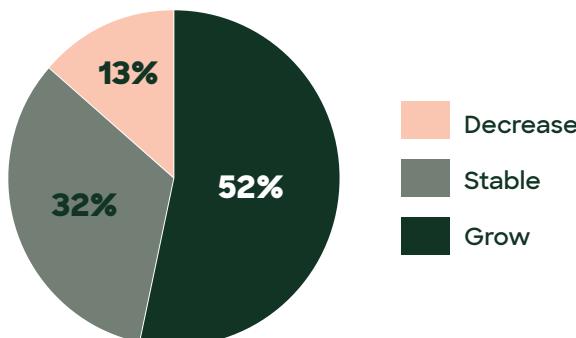




“That innovative spirit to keep your people employed, the doors open and the lights on is what has always excited me about being in business. You have to go figure it out because you’re next on the line. All of your employees are next on the line.”

Phil, business owner

Revenue Expectations Remain Strong



Price Increases Ahead

Small businesses are far more likely to expect to raise prices in the year ahead.

Middle Market



Small Business



● Increase ● Remain the same ● Decrease

Case study: Simon G. Jewelry

Family-run jeweler focused on the future

Although the jewelry industry is well-established, Zaven Ghanimian, CEO of Simon G. Jewelry, sees it modernizing quickly in the face of new challenges.

“What we do is a very historic occupation,” Ghanimian said.

“We make jewelry just like the ancient Egyptians. But as times change, I’m a big believer in technology and data.”

Simon G., based in Glendale, Calif., is a family-owned company that sells jewelry through a network of retailers. Started in 1982 by Simon Ghanimian, Zaven’s father, the boutique company now manufactures its product in California, China, and Thailand. Sales have boomed in recent years, growing about 35% in 2021. Yet all the growth makes Ghanimian cautious, given that the industry relies on consumer confidence and disposable income.

After retooling to get through the worst of the pandemic, Ghanimian is not speeding toward expansion now. Instead, he’s focused on conserving cash and improving efficiency. That means not stockpiling materials and delaying hiring if he can. His team is also upgrading software to better track inventory, measuring the average days on the shelf for each product and other sales patterns. The software gives him a “telescopic view” of the retail floor and consumer habits that allows for smarter buying and planning.

“We obviously welcome growth and cater to it, but we know it’s likely not here forever.”



Zaven Ghanimian,
CEO of Simon G. Jewelry

Staffing and supply chain: Disruptions linger and evolve

“We face a bit of a paradox in American business today. On the one hand, companies face labor and supply shortages that present constant challenges in operating their businesses day to day. Yet on the other hand, the gaps indicate strong demand for goods and services, which provides fertile ground for growth for companies that adapt well to the new environment.”

Richard Cabrera, Head of Middle Market Banking

Several disruptions brought on by the pandemic persist for businesses, most notably staffing and supply challenges. However, the shape of these issues has evolved.

Of those surveyed, more than half (56%) said they’re having trouble finding qualified employees. This is a more pronounced issue for larger companies but is an increasing concern this year for both small businesses (53%, up from 41% last year) and middle market businesses (72%, up from 55% last year).

Overall, businesses said their top workforce issue (42%) is a shortage of candidates with the skills they need. Many reported problems finding candidates willing to work at the wages offered (31%), and challenges engaging quality talent (29%). In turn, these hiring difficulties are leading to higher labor costs, difficulties pursuing business opportunities, and increased lead times to deliver goods and services.

In response, middle market companies plan to be even more aggressive with options to attract or retain employees, including increased wages, bonuses, or creative solutions for working parents. However, companies of all sizes (36%) are investing in existing talent, helping current employees build new skills through new training and resources.

Companies also continue to face supply challenges. While the availability of goods has improved, most companies are facing increased prices (84%) and delays in getting goods purchased (73%). The pricing problem has been more pronounced for small businesses, with 90% facing increased prices, versus 54% of middle market companies.

Supply chain pressures appear to be intensifying for small businesses while middle market companies, which took significant steps last year to address challenges, seem to have gotten a handle on the worst impacts earlier on in the pandemic.

Overall, supply remains on the radar of all companies. More than half of those surveyed said they tried something new during the past year to manage their supply chain issues, including implementing new inventory management techniques, switching to new products, and finding new suppliers

“We’re changing the prices because everything is going up right now. I don’t think it’s going to come down any time soon.”

Wilhelm, business owner



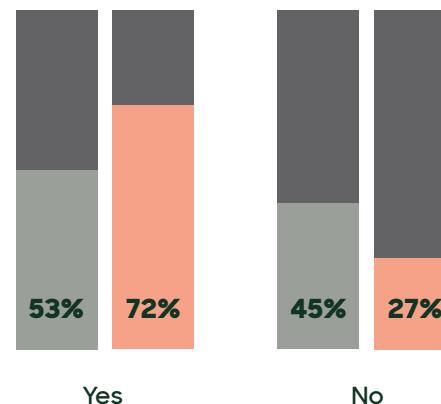


Pandemic Problems Persist With Hiring, Supply Chain

Small Business

Middle Market

Trouble finding qualified employees



Supply Chain Issues Experienced Unevenly

Small Business

Middle Market

Not able to buy goods in a timely manner



Seen prices for goods go up



Have had to source materials differently



Case study: PASCO Scientific

Educational equipment maker scores high marks on navigating hiring and inflation

PASCO Scientific, a maker of hands-on education tools for schools, continually looks for opportunities to navigate today's price increases. The Roseville, California-based company often makes bigger purchases of components for better deals, switches vendors when pricing gets too high, and works with its overseas suppliers to ship products directly to nearby customers.

"Anything we can find to reduce the cost of purchasing and shipping, that's what we'll do," said Richard Briscoe, President and Chief Executive Officer at the company.

It's a resilience inherent in Briscoe's approach and PASCO's culture, borne in part out of challenging times. A former physics teacher, Briscoe joined PASCO 21 years ago in sales and took the helm of the company in 2018, helping guide it back to profitability. Yet just as sales were taking off in early 2020, COVID-19 hit, and revenues plunged 40% for the year.

The company quickly pivoted, restructuring to minimize employee impact. It positioned itself for a coming rebound, when schools would once again be open, and focused on investing in personnel and new product development. It increased its focus on hiring and retaining software and electrical engineers, which is challenging in a hypercompetitive labor market.

PASCO has had to find other ways to recruit than just offering the highest salary. Instead, the company leans into what makes it unique and attractive: a tight-knit environment with strong collaboration and employee connection. The company still requires on-site work because it is needed for production, yet offers employees the opportunity to work at home on Fridays.

"We can't compete on wages with someone like Apple or Google, so how do we draw the talent we need?" Briscoe said. "It comes down to people believing in our mission."

The results are clear: revenues rose 20% in 2021, with a similar rise expected in 2022. Briscoe and his team of 105 employees remain flexible.



"We are optimistic about the future, but cautious."

Cybersecurity: An emerging threat recognized

Cybersecurity has become a significant concern for businesses. U.S. regulators and experts have repeatedly warned businesses during the past year to increase their attention to cybersecurity risks to protect themselves against cyberthreats as they have increased in speed, scale, and sophistication.

Our survey found that middle market businesses are much more likely to have been the target or victim of cyber-related

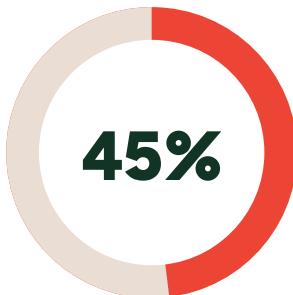
fraud in the past year than small businesses (45% middle, 8% small). Concerns about cyber and network security were second only to hiring and retention as a major issue middle market companies said they need to address in the year ahead for success. Not only are middle market businesses more worried about cybersecurity issues, but they are also more likely to invest in cybersecurity in the year ahead.

“It’s typical to see higher levels of breaches among larger companies, but the numbers we see should serve as an ominous warning for all businesses. Companies might not know they’ve been hit until months after an initial intrusion, with cybercriminals waiting for the right opportunity to take advantage of a weakness in their payment applications or controls. At minimum, all businesses should do everything necessary to protect their payment systems and purchase the best cybersecurity insurance they can afford.”

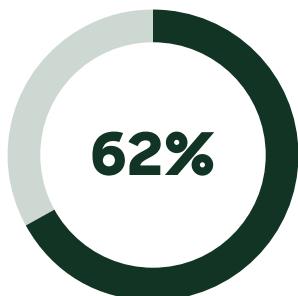
Kathryn Albright, Head of Global Payments and Deposits



Cybersecurity is a Major Middle Market Concern



have been targeted
in the last 12 months



are likely to invest
in financial tools
to protect their
payments systems

Cybersecurity Represents #1 Investment Priority for Companies in the Year Ahead

Cybersecurity



Purchasing or upgrading equipment



Facilities upgrade



Automation



Hiring new personnel





Umpqua Bank believes that the best way forward is together. We work to understand your business, your opportunities and your challenges. We'll find solutions together so you can advance your goals with confidence.

Talk to a banker today about how we can help you navigate what lies ahead.

Survey Methodology

From April 13 to April 26, 2022, a research firm hired by Umpqua Bank conducted an online survey of small and middle-market business owners and executives. The results included 476 middle market businesses and 776 small businesses. For this survey, small businesses are defined as those with annual revenue between \$500,000 to less than \$10 million, and middle market as those with annual revenue between \$10 and \$500 million. The total results were weighted by the number of employees and by region to ensure results are representative. The survey has a margin of error of +/- 2.8%.