



NATIONAL CENTER FOR
THE MIDDLE MARKET

Year-End | 2023

MIDDLE MARKET INDICATOR

Performance Reaches New Highs
As Outlook Softens

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
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Executive Summary

The U.S. middle market continues to thrive in the post-pandemic era with record-setting proportions of companies reporting year-over-year improvements in overall company performance, increases in revenue growth and expansion in the size of the workforce. The rate of year-over-year revenue growth reached a new all-time high (12.4%) with 55% of middle market businesses experiencing double-digit growth compared to 2022. While a majority of companies grew employment, the overall rate of year-over-year employment growth slowed as an increasing number of middle market companies report achieving their optimal size. Economic confidence remains stable; however, middle market leaders have softening expectations for both revenue and employment growth in 2024, signaling that the U.S. middle market may be returning to the more sustainable ongoing growth rates experienced prior to the pandemic.

In 2023, revenues increased for 83% of middle market companies at an average rate of 12.4%, representing two new high marks for the middle market. Middle market companies of all sizes and across nearly all industry segments reported strong growth with most of the growers growing at a rate of 10% or more. These fast growers are expanding through innovation and entry into new markets and are actively investing in technology and people, demonstrating greater interest in digitization and artificial intelligence (AI) as well as a higher average increase in wages for their workforce compared to their slower-growing companies.

In contrast to increasing revenue growth, the rate of employment growth among middle market businesses slowed throughout the year, declining for the second straight reporting period even as the proportion of companies reporting employment growth rose. Nearly three out of five middle market companies (59%) increased the size of the workforce at an average rate of 9.6%. This represents the lowest recorded rate of year-over-year employment growth in the post-pandemic era (since Q4 2021) but remains well above the overall average middle market employment growth rate of 4.8%. The decline may signal that many

middle market companies have reached their ideal size. Indeed, 78% of businesses describe the current size of the company's workforce as just about right. Nevertheless, companies across industry segments continue to report challenges finding and hiring employees with the right skills and digital skills in particular. The healthcare segment continues to express the greatest demand for more people overall.

Most middle market companies expect ongoing growth in 2024 but at notably slower rates than they have enjoyed over the past three years. The fastest growing middle market businesses are planning for growth through the introduction of new products or services and expansion into new domestic markets in the months ahead.

Middle market leaders continue to express healthy levels of confidence in the local, national and global economies and just 17% of companies report a negative business impact due to the current geopolitical uncertainty. Nevertheless, leaders cite the economy as a top external challenge for the next 12 months along with maintaining revenue and sales growth. Specifically, inflation and recession continue to top the list of risks middle market companies face today followed by the talent shortage and need to retain employees.

To prepare for the macroeconomic environment in 2024, many middle market businesses are raising their prices while looking at ways to more fully integrate AI capabilities, an area where the fastest-growing middle market businesses have taken a strong lead and are already using or actively testing AI across various business functions. Information technology is the number one destination for companies that would immediately invest an extra dollar into the business. However, compared to six months ago, a greater proportion of middle market leaders say they would save that dollar as opposed to invest it, which could signal a growing degree of uncertainty among some leaders.

Middle Market Indicator

from the National Center for the Middle Market

THE MIDDLE MARKET INDICATOR (MMI) FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET IS A BUSINESS PERFORMANCE UPDATE AND ECONOMIC OUTLOOK SURVEY CONDUCTED AMONG 1,000 C-SUITE EXECUTIVES OF COMPANIES WITH ANNUAL REVENUES BETWEEN \$10MM AND \$1B.

There are nearly 200,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 48 million people. These businesses outperformed through the last financial crisis (2007–2010 period) by adding 2.2 million jobs across major industry sectors and U.S. geographies, demonstrating their importance to the overall health of the U.S. economy. They are private and public, family owned, and sole proprietorships, geographically diverse, and span almost all industries. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlemarketcenter.org: "The Market that Moves America," seminal research on the definition, significance, and role of the middle market, Oct. 2011.)

How is the research conducted?

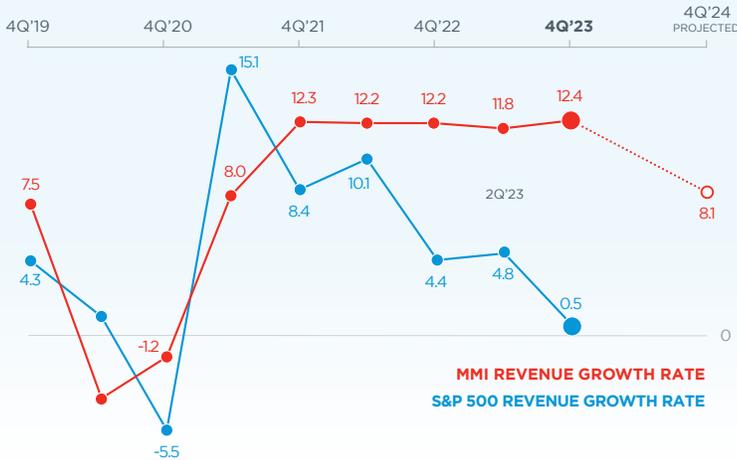
The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between \$10MM and \$1B, the lower and upper limits on middle market annual revenue. The survey is designed and managed by the National Center for the Middle Market. The most recent survey reflected in this report was fielded in December 2023.



Revenue

The proportion of middle market companies reporting revenue growth over the past 12 months and the average rate of that growth both reached new all-time highs. Many leaders anticipate that accelerated rates of revenue growth will slow in 2024.

Past, current, and projected revenue growth rates for the middle market and the S&P 500 (%)



% of middle market companies reporting/projecting year-over-year revenue growth



Employment

A majority of middle market companies expanded the size of the workforce in 2023 and employment growth persists at historically high rates. However, the rate of growth moderated throughout the previous 12 months and leaders expect the growth rate to continue to slow in 2024.

Past, current, and projected employment growth rates for middle market, small, and large companies (%)



% of middle market companies reporting/projecting year-over-year employment growth



KEY FINDINGS



Expansion

Expansionary activity slowed slightly in 2023 but remains on par with pre-pandemic levels. Innovating new products and services remains the primary expansionary lever for middle market businesses.

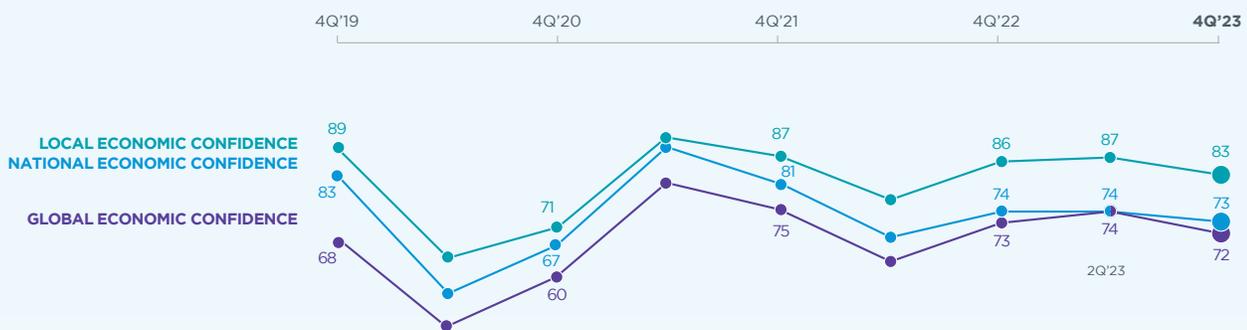
% of middle market companies engaging in expansion activities over the past 12 months



Economic Confidence

Economic confidence levels remained relatively steady throughout 2023. Slightly fewer middle market leaders express confidence in their local economies compared to one year ago.

% of middle market leaders expressing confidence in the global, national, and local economies

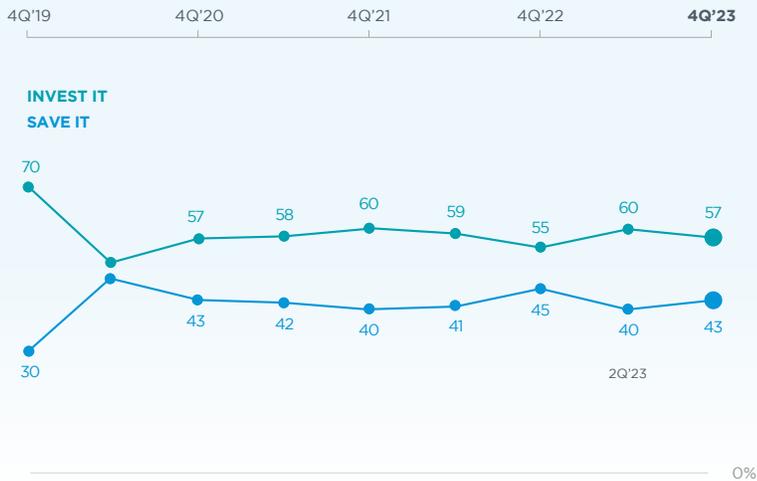




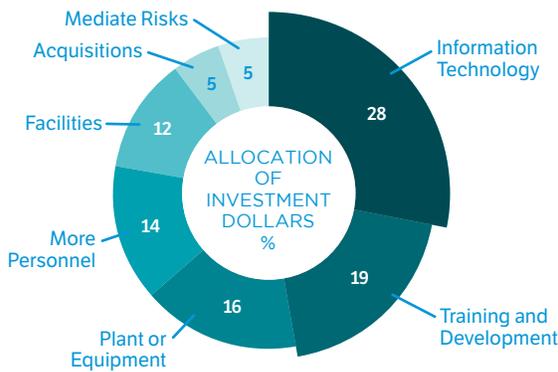
Capital Investment

Investment appetites are similar to one year ago.

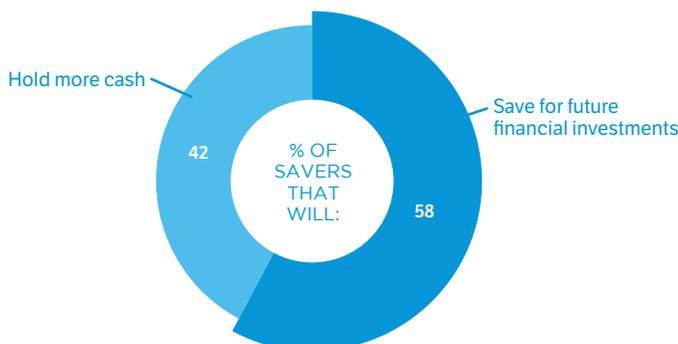
% of middle market executives that would invest vs. save an extra dollar



Information technology is the leading area for investment in the business.



The proportion of companies inclined to build cash reserves increases.



Key Challenges

Maintaining growth is the top concern.

% of middle market leaders citing an issue as a key challenge over the next 12 months

INTERNAL CHALLENGES

- 1. CORE BUSINESS ISSUES* **58%**
- 2. TALENT MANAGEMENT **51%**
- 3. COSTS **16%**
- 4. ECONOMY **14%**

EXTERNAL CHALLENGES

- 1. CORE BUSINESS ISSUES* **41%**
- 2. ECONOMY **23%**
- 3. COSTS **12%**
- 4. GOVERNMENT **12%**

*Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.



The National Center for the Middle Market is the leading source of knowledge, leadership and innovative research focused on the U.S. middle market economy. The Center provides critical data, analysis, insights and perspectives to help accelerate growth, increase competitiveness and create jobs for companies, policymakers and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.



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