



NATIONAL CENTER FOR
THE MIDDLE MARKET

2Q | 2021

MIDDLE MARKET INDICATOR

**An Uneven Recovery as
Some Companies Excel While
Others Continue to Struggle**

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

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Executive Summary

After a year of stagnant or declining revenue and employment growth rates for the majority of middle market companies, the U.S. middle market has returned to strong year-over-year growth with two-third of companies reporting that company performance is better today compared to one year ago. Economic confidence is above pre-pandemic levels and expansion into new markets has resumed for many businesses. However, while fewer than one out of 10 middle market companies indicate that overall performance continues to deteriorate, a third of businesses have yet to fully join in the recovery.

On average, middle market gross revenues have grown 8% since June 2020. Yet revenue growth is not universal within the middle market. While nearly half (45%) of companies report robust revenue growth of 10% or more since June 2020, a significant proportion (21%, or one out of five companies) report that revenues continue to decrease. Similarly, overall employment growth in the middle market increased by 5.9% compared to a year ago with a third of businesses expanding the size of their staff by 10% or more since last summer. However, 18% of middle market companies continue to see employment decrease while 37% report no change in the size of the workforce.

Whether companies are in full-fledged recovery mode or still contending with pandemic-related issues, nearly all middle market leaders report renewed confidence in economic conditions both close to home and around the world as vaccines continue to roll out, and restrictions are lifted across much of the nation. Confidence levels have soared with global, national, and local economic confidence exceeding pre-pandemic levels. Business leaders are slower to put their money where their mouths or minds are, however: overall expansionary activity still lags and investment appetites, while increasingly modestly, remain

decidedly below pre-pandemic levels. Savers, however, are much more likely to be considering future investments as the destination for their dollars than they were six months ago and less likely to simply hold cash, indicating that investment numbers may improve as the recovery from the pandemic continues.

Overall, the middle market expects to sustain its recovery well into 2022. A solid 65% of leaders (up from 44% six months ago) say revenues will continue to increase while 57% (up from 33% six months ago) project continued workforce expansion. The anticipated rates of 12-month revenue growth and employment growth are extremely strong at 9.8% and 8.9% respectively.

Companies in all industries are playing a part in the recovery story with the financial services sector reporting some of the strongest 12-month revenue growth and projected revenue growth numbers (13.4% and 13.2%, respectively). Business services and manufacturing services have experienced strong growth as well. Retailers, while growing, are recovering at a slower pace than their peers in other industries (6.6% year-over-year revenue growth), but leaders in the retail sector have strong projections for the industry in the 12 months ahead.

Achieving these projections will be the biggest challenge middle market companies face over the next 12 months as leaders look for ways to drive the top line and keep pace with the technology needed to successfully operate their businesses. Talent management will be an issue as well, especially acquisition and recruitment. Approximately a quarter of firms in all industries report having insufficient workforce to meet current market conditions. That number jumps to 39% for the healthcare sector.

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?

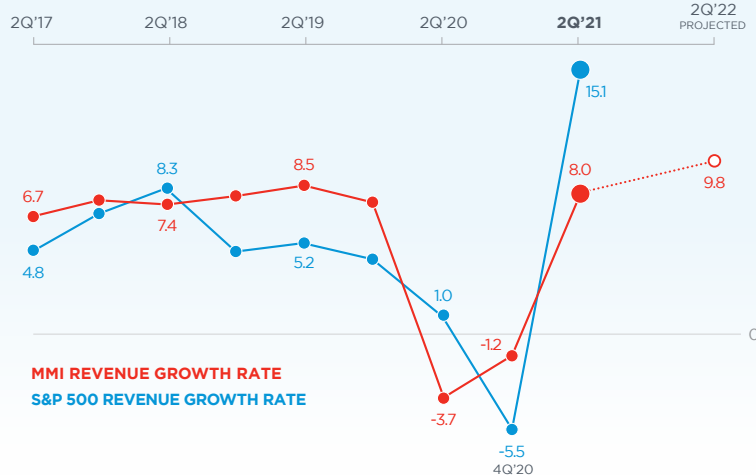
The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America’s middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies 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 June 2021.



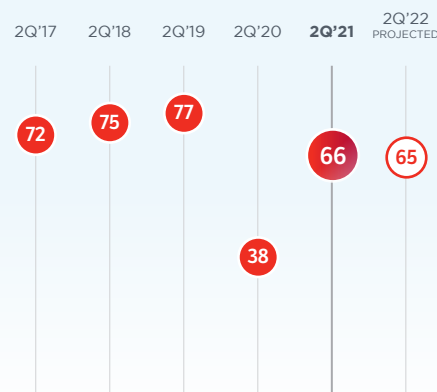
Revenue

Year-over-year U.S. middle market top line revenue growth surged to 8.0%, indicating a healthy recovery underway for the segment as a whole. However, a third of middle market businesses continue to struggle with stagnant or declining revenue growth. Two-third of companies anticipate continued robust revenue growth into 2022.

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



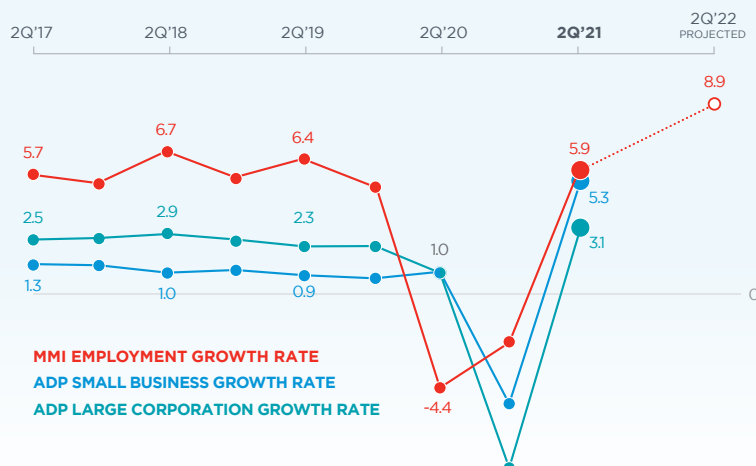
% of middle market companies reporting/projecting year-over-year revenue growth



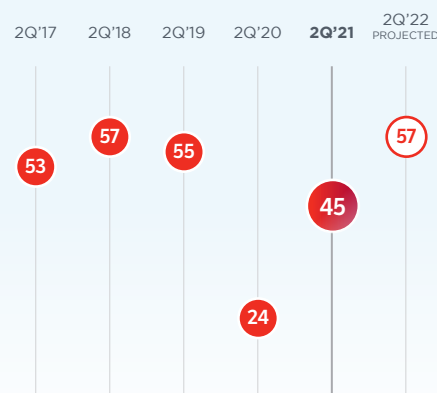
Employment

Since June 2020, middle market employment has increased by almost 6% with nearly half of businesses reporting employment growth over the past 12 months. A majority of middle market companies project that they will increase the size of the workforce over the next 12 months, pushing the year-over-year projected employment growth rate to nearly 9%.

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



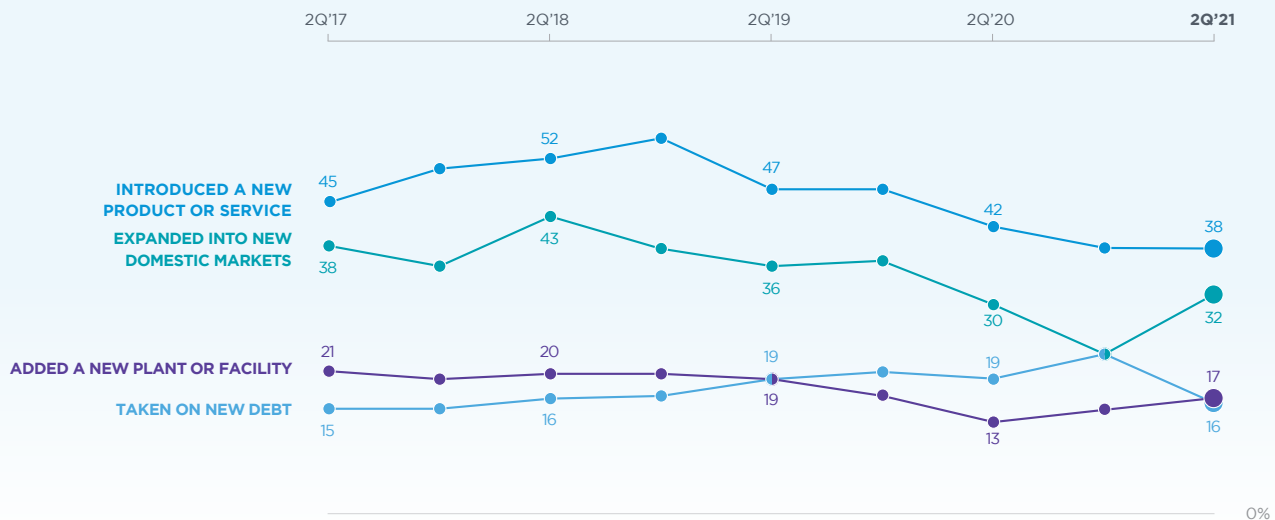
KEY FINDINGS



Expansion

Expansion into new markets as well as adding physical assets increased while the proportion of companies taking on new debt declined.

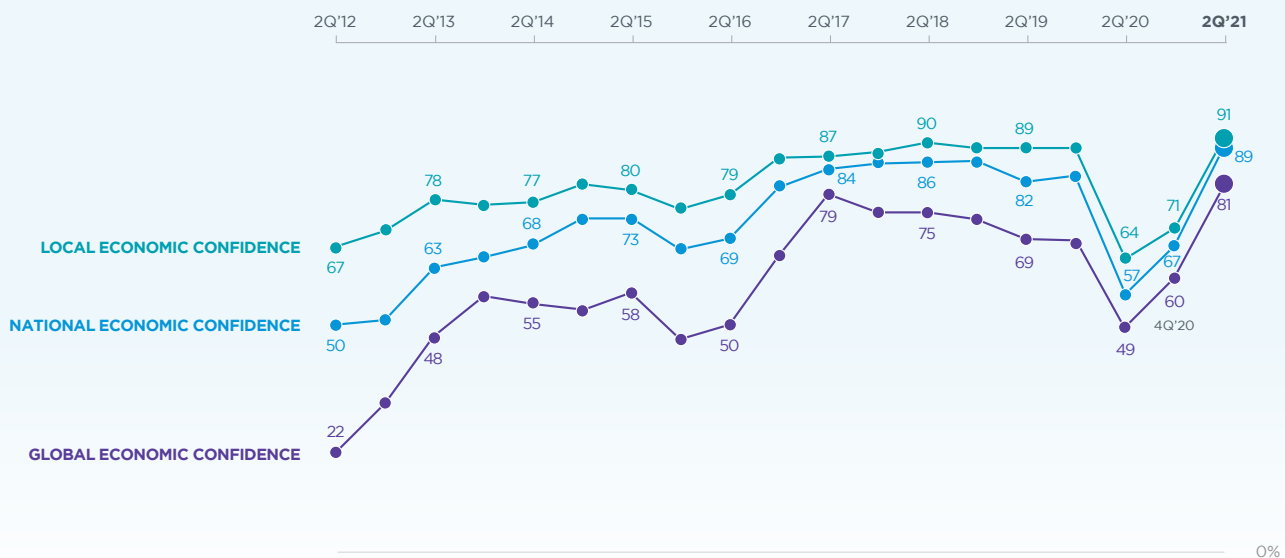
% of middle market companies engaging in expansion activities over the past 12 months



Economic Confidence

Global, national, and local confidence rise to record high levels.

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





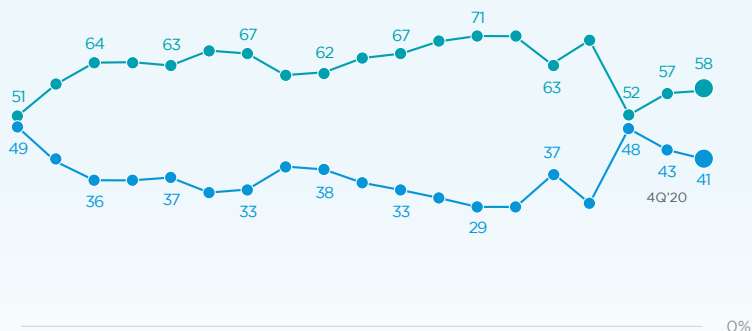
Capital Investment

Appetite for investment continues to slowly increase.

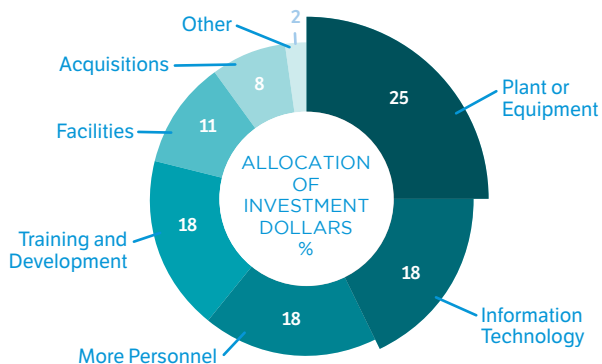
% of middle market executives that would invest vs. save an extra dollar

2Q'12 2Q'13 2Q'14 2Q'15 2Q'16 2Q'17 2Q'18 2Q'19 2Q'20 2Q'21

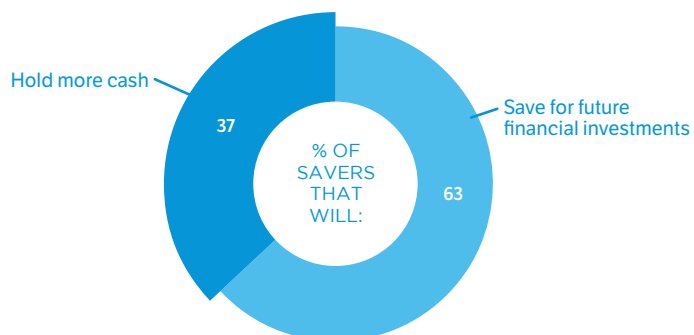
INVEST IT
SAVE IT



New plant or equipment is the top destination for investment dollars followed by human resource focused initiatives and information technology



Savers are planning for future investments



Key Challenges

Executives focus on growth and staffing as COVID-19-related concerns diminish.

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

INTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 54% |
| 2. TALENT MANAGEMENT | 46% |
| 3. COVID-19 | 18% |
| 4. COSTS | 13% |

EXTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 32% |
| 2. GOVERNMENT | 14% |
| 3. ECONOMY | 13% |
| 4. COVID-19 | 12% |

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



NATIONAL CENTER FOR
THE MIDDLE MARKET

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.



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

From business as usual to business unusual, Fisher College of Business prepares students to go beyond and make an immediate impact in their careers through top-ranked programs, distinguished faculty and a vast network of partnerships that reaches from the surrounding business community to multinationals, nonprofits and startups across the globe. Our students are uniquely prepared and highly sought, leveraging Fisher's rigorous, experiential learning environment with the resources of Ohio State, a premiere research university with 500,000 proud Buckeye alumni.

CHUBB®

Chubb is the world's largest publicly traded P&C insurance company and the largest commercial insurer in the U.S. With operations in 54 countries and territories, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. As an underwriting company, Chubb assesses, assumes, and manages risk with insight and discipline. Learn more at chubb.com.

VISA

Visa is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device. As the world moves from analogue to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce. For more information visit usa.visa.com/about-visa.html, usa.visa.com/visa-everywhere/blog.html and @VisaNews.

Solutions
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For over 25 years, VistaVu Solutions has provided award-winning innovative business management software solutions to mid-market companies across North America. We deliver full lifecycle ERP implementations and responsive support to growing companies through our partnerships with SAP Business One, SAP Business ByDesign, Dell Boomi, and Amazon Web Services. We have expertise in six core industries: Discrete Manufacturing, Wholesale Distribution, Industrial Field Services & Rentals, Industrial Machinery & Components, Life Sciences, and Aerospace & Defense.