Year-End 2021
MIDDLE MARKET INDICATOR

Growth Surges and Predictions Remain Strong as Recovery Becomes More Universal
Executive Summary

Fully two-thirds of middle market businesses (67%) believe that their companies are currently in a better position than they were before the pandemic began. This sentiment is fueled by strong performance throughout 2021. By mid-year, many middle market companies were showing signs of significant recovery from the setbacks experienced in 2020, and by the close of 2021, nearly all middle market businesses have joined in the recovery. Approximately three-quarters (73%) of companies say business has improved compared to one year ago while just 7% report a decline in overall company performance over the past 12 months. Collectively, middle market companies posted their highest ever year-over-year revenue and employment growth rates. The year closed with strong economic confidence levels (albeit somewhat off their all-time highs) coupled with predictions for continued robust growth in 2022.

Between December 2020 and December 2021, the middle market experienced revenue growth of 12.3%, nearly double the historical average. These strong numbers result from more than three-quarters of companies reporting year-over-year revenue increases with more than half (56%) of these growing businesses reporting growth of 10% or more while just one in 10 companies reported declining revenues for the year. Renewed expansionary activity, including a surge in the introduction of new products and services as well as increased entry into new domestic markets, have been key to the growth story. While companies across all revenue bands and in all industries experienced growth, those in the financial services and retail trade sectors posted the strongest numbers.

To support the rapid increase in business activity in 2021, middle market companies have needed more people. Overall year-over-year middle market employment surged by 10.8%, well above the historical average annual employment growth rate of 4.1%. More than half (57%) of companies increased the size of their workforces with most growing employment by 10% or more. However, nearly three in 10 companies say they still do not have enough people to respond to current market conditions. Healthcare and construction businesses have the greatest employment needs with half of all healthcare companies saying they do not currently have enough staff. Regardless of industry, virtually every middle market company (96%) reports experiencing at least some degree of difficulty finding and hiring people with the right skills for their available jobs—and half of companies describe these challenges as significant.

Nevertheless, executives foresee even more expansion on the horizon with both revenue and employment growth expected to remain high throughout 2022. Two-thirds of companies believe revenue will continue to increase in 2022, however at the slightly slower pace of 9.9%. Well over half (58%) of businesses have plans to continue aggressively hiring at nearly the same pace (10.3%) as they did in 2021.

To realize these forecasts, leaders will need to navigate through the labor shortage, skills gaps, and the need for a more digitally savvy workforce. Currently, companies are relying more heavily on the employees they do have, asking staff to work more hours and more shifts. Some businesses are also outsourcing or bringing in outside consultants to help manage the workload. IT and technology challenges present formidable headwinds to growth as well with 40% of companies reporting a digital skills gap and 66% of these companies saying that the gap is affecting performance either by slowing growth or leaving improvement opportunities untapped.

Even as talent and technology concerns mount, concerns related to the government and economy diminish. While confidence levels have cooled some from this significant spike seen six months ago, they remain strong and above five-year averages. Investment appetites continue their gradual rebound as well with IT and more personnel cited as the leading destinations for investments dollars as companies look to grow their teams and technical copiabilities to keep up with demand. While two out of five executives continue to say they would hold onto an extra dollar as opposed to put it to work immediately, most of these savers have future investments in mind. The inclination to stockpile cash, which spiked during the pandemic, continues to lessen.

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.

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 2021.
Revenue

More than three-quarters of middle market companies reported positive revenue growth in 2021 compared to 2020. With year-over-year growth rates reaching an all-time high of 12.3%, the middle market is thriving, and most companies are sharing in the success. A positive outlook for 2022 suggests the growth is sustainable and will continue for most companies.

Employment

Throughout 2021, middle market companies grew employment by 10.8%, far surpassing average year-over-year employment growth rates. A majority of mid-sized companies increased the size of their workforces over the past 12 months, and a similar percentage predict adding additional in jobs in 2022 with another record year for employment expansion on the horizon.
Expansion
Expansionary activity has surged back above pre-pandemic levels with one out of five companies taking on new debt to help fuel growth.

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

<table>
<thead>
<tr>
<th>Activity</th>
<th>4Q’17</th>
<th>4Q’18</th>
<th>4Q’19</th>
<th>4Q’20</th>
<th>4Q’21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduced a new product or service</td>
<td>49</td>
<td>54</td>
<td>47</td>
<td>38</td>
<td>55</td>
</tr>
<tr>
<td>Expanded into new domestic markets</td>
<td>36</td>
<td>38</td>
<td>37</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td>Added a new plant or facility</td>
<td>19</td>
<td>20</td>
<td>17</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Taken on new debt</td>
<td>15</td>
<td>17</td>
<td>17</td>
<td>12</td>
<td>21</td>
</tr>
</tbody>
</table>

Economic Confidence
Confidence levels cool slightly after peaking mid year.

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

<table>
<thead>
<tr>
<th>Confidence Type</th>
<th>4Q’17</th>
<th>4Q’18</th>
<th>4Q’19</th>
<th>4Q’20</th>
<th>4Q’21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local economic confidence</td>
<td>88</td>
<td>89</td>
<td>89</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>National economic confidence</td>
<td>75</td>
<td>73</td>
<td>68</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td>Global economic confidence</td>
<td>86</td>
<td>86</td>
<td>83</td>
<td>60</td>
<td>81</td>
</tr>
</tbody>
</table>
Capital Investment

Investment appetites continue their gradual rebound.

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

Information technology has become the leading destination for extra investment dollars, followed by building up the workforce.

Key Challenges

Maintaining growth and keeping positions filled remain top challenges as COVID-19 concerns linger on.

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

INTERNAL CHALLENGES
1. CORE BUSINESS ISSUES* 59%
2. TALENT MANAGEMENT 49%
3. COVID-19 18%
4. COSTS 12%

EXTERNAL CHALLENGES
1. CORE BUSINESS ISSUES* 35%
2. COVID-19 16%
3. TALENT 15%
4. ECONOMY 11%

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

Most savers have future investments in mind

% of savers that will:
- Hold more cash 35
- Save for future financial investments 65
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