



NATIONAL CENTER FOR
THE MIDDLE MARKET

February 7, 2024

Middle Market Update

Latest Data and Insights from the NCMM

Doug Farren, Managing Director

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

CHUBB®

VISA

Today's Plan

- I. About – NCMM, Middle Market, and the MMI Report
- II. What's New - Performance and Sentiment 2023
- III. What's Next –Projections
- IV. Issues – External Headwinds, AI
- V. Wrap-Up and Q&A

The National Center for the Middle Market

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, Chubb, and Visa. It exists for a single purpose: to ensure that the vitality and robustness of Middle Market companies are fully realized as fundamental to our nation's economic outlook and prosperity.

The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector.

Middle Market Research & Data



Quarterly Middle Market Indicator



Research and Expert Perspectives



Interactive Benchmarking Tools

Expertise & Outreach



Share Research & Discuss Trends

Education



Executive Programs



Webinars and Podcasts

The Mighty Middle Market

U.S. MIDDLE MARKET DEFINED



Annual Revenues Range from

\$10MM - \$1B



Accounts for

60%

of All New
Private-Sector
Jobs



Nearly

200,000
Businesses

in All Industry
Segments and
Geographies

Equivalent to the

5th LARGEST

global economy



Represents

1/3

of Private Sector
GDP and Employment



85%

of Companies
Are Privately Held



More than

\$10 trillion in annual revenue

Middle Market Indicator

What...

National Survey of C-Level Executives

How...

Self Administered Online Survey

Insight Areas

Past year growth
Current state of the business
Short-term and Long-term outlooks and challenges
Confidence in the economy
Detailed corporate profiling

Who...

Financial decision makers
Private and Public Organizations
\$10 million-<\$1 billion in Gross Revenue

When...

Annual
Field Periods

Mid-Year

June/July

Year-End

December

What's New?

Overall Sense of Performance



Middle Market Company self-performance sentiment continues to rise

77% of the middle market say their business is performing better than a year ago... 13% higher than the historical average

Headwinds such as the macroeconomy, geopolitical issues, and talent gaps remain from the summer

Overview—Past Performance and Forecasts

REVENUE GROWTH

12.4%

PAST 12 MONTHS

0.5%

S&P 500

8.1%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

9.6%

PAST 12 MONTHS

2.2%

SMALL
BUSINESS

0.1%

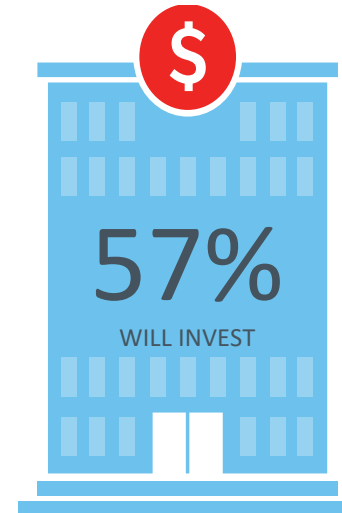
LARGE
BUSINESS

8.7%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

72%

GLOBAL ECONOMY



73%

NATIONAL ECONOMY



83%

LOCAL ECONOMY



Year-End MMI: Revenue Growth Trend

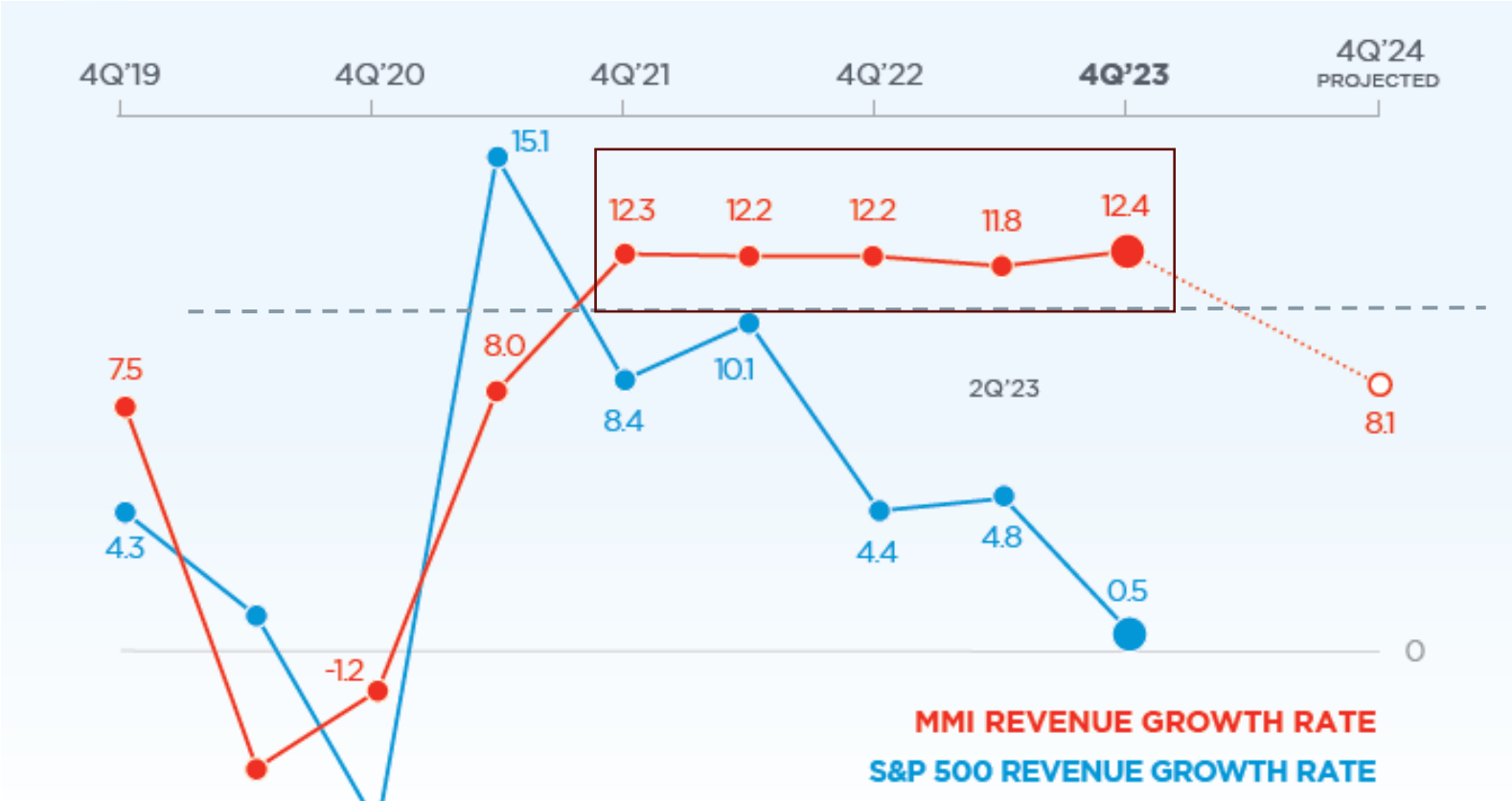
PAST 12 MONTHS

12.4%

U.S. MIDDLE MARKET

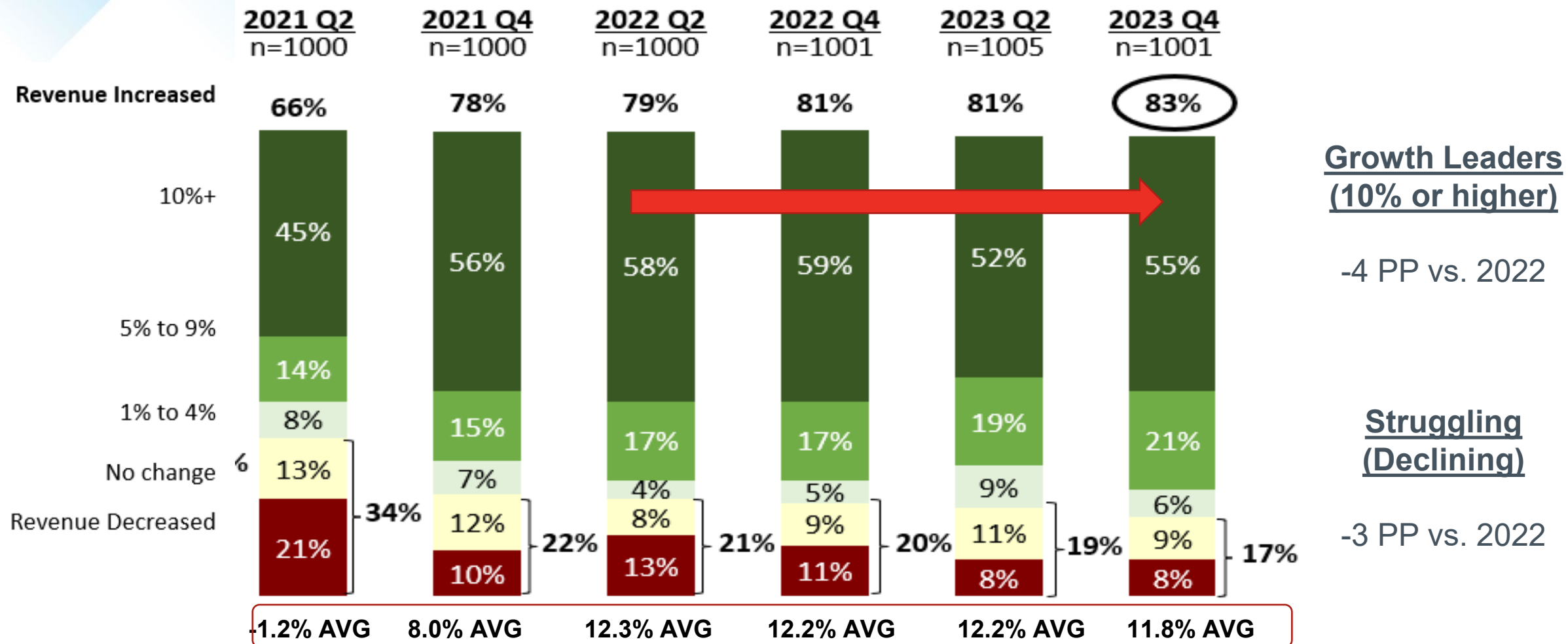
0.5%

S&P 500*



AVG
9.4%

Year-End MMI: Growth Remains Steady



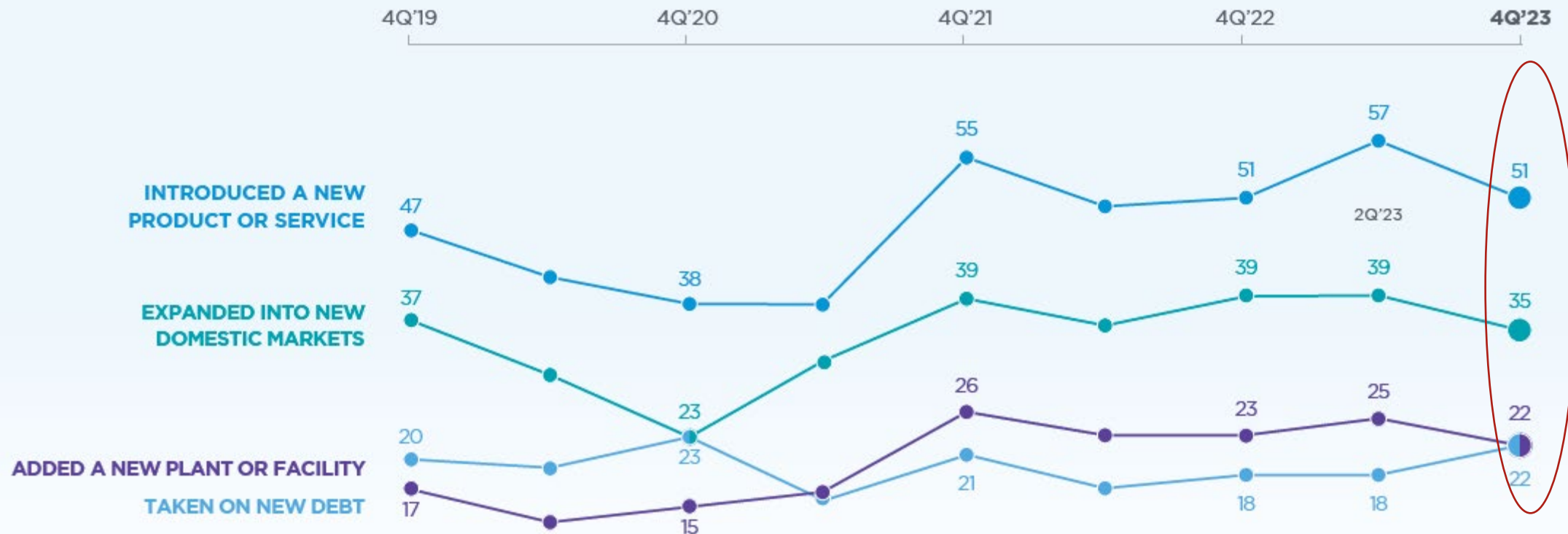
Year-End MMI: Revenue by Industry

	REVENUE GROWTH			REVENUE GROWTH	
	PAST 12 MONTHS	NEXT 12 MONTHS		PAST 12 MONTHS	NEXT 12 MONTHS
SERVICES 	12.6%	9.7%	CONSTRUCTION 	12.8%	10.0%
MANUFACTURING 	11.5%	8.2%	FINANCIAL SERVICES 	16.4%	10.4%
WHOLESALE TRADE 	N/A	N/A	HEALTHCARE 	14.7%	9.0%
RETAIL TRADE 	10.7%	7.7%	OTHER 	11.6%	6.3%

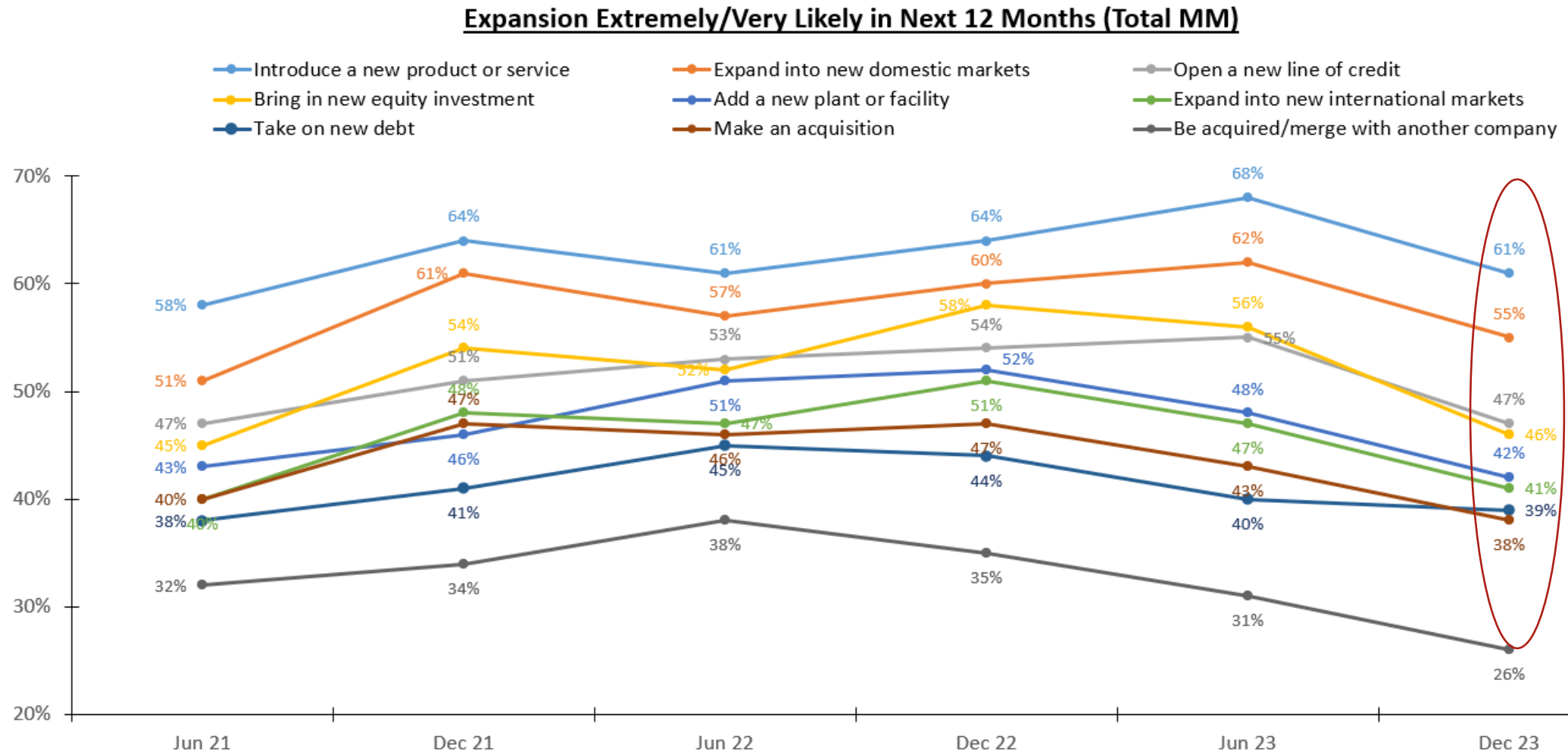
Source: Year-End Middle Market Indicator Report

Year-End MMI: Expansionary Activity Declines

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



2024 Expansion Plans are Less Aggressive



Source: Year-End Middle Market Indicator Report

Year-End MMI: Employment

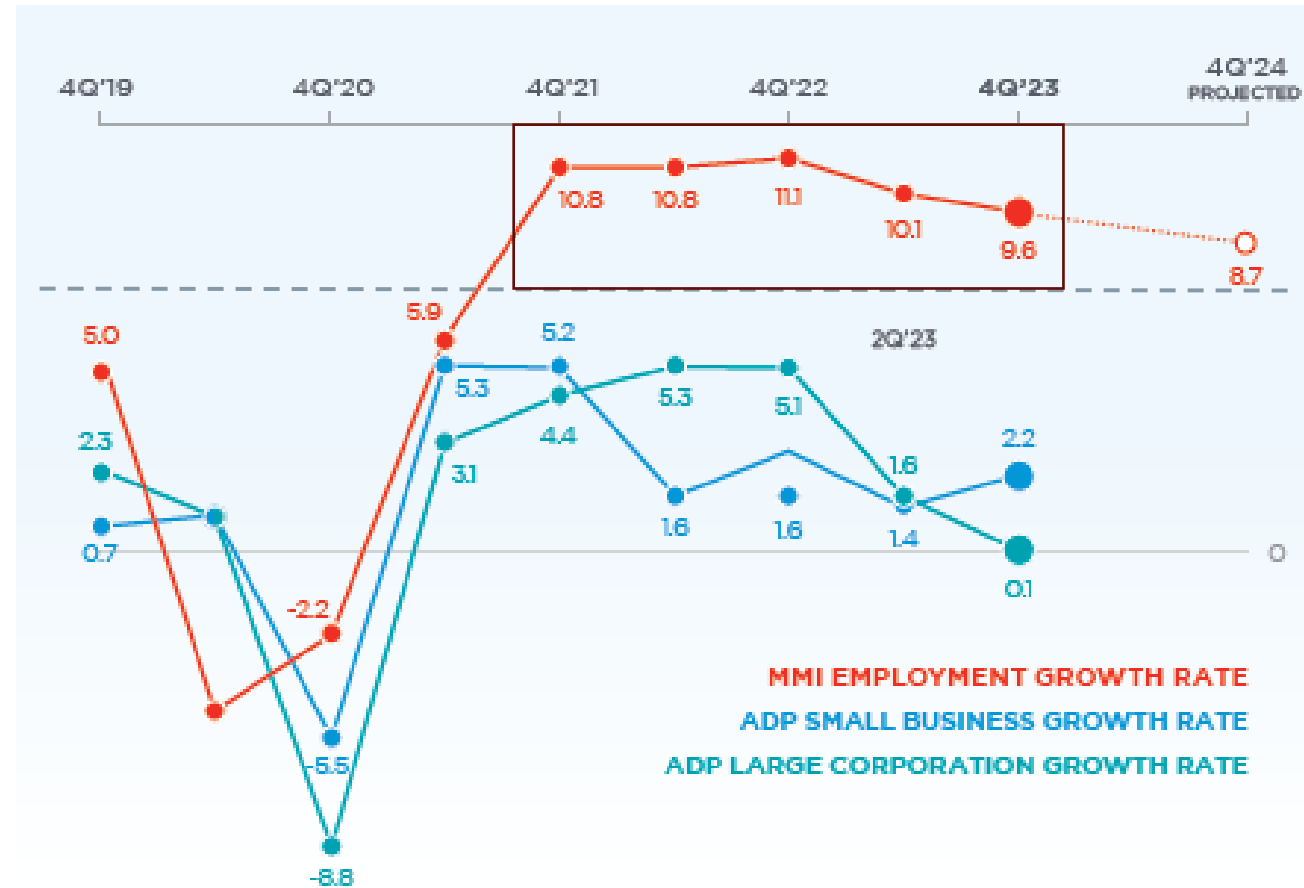
PAST 12 MONTHS

9.6%

U.S. MIDDLE MARKET

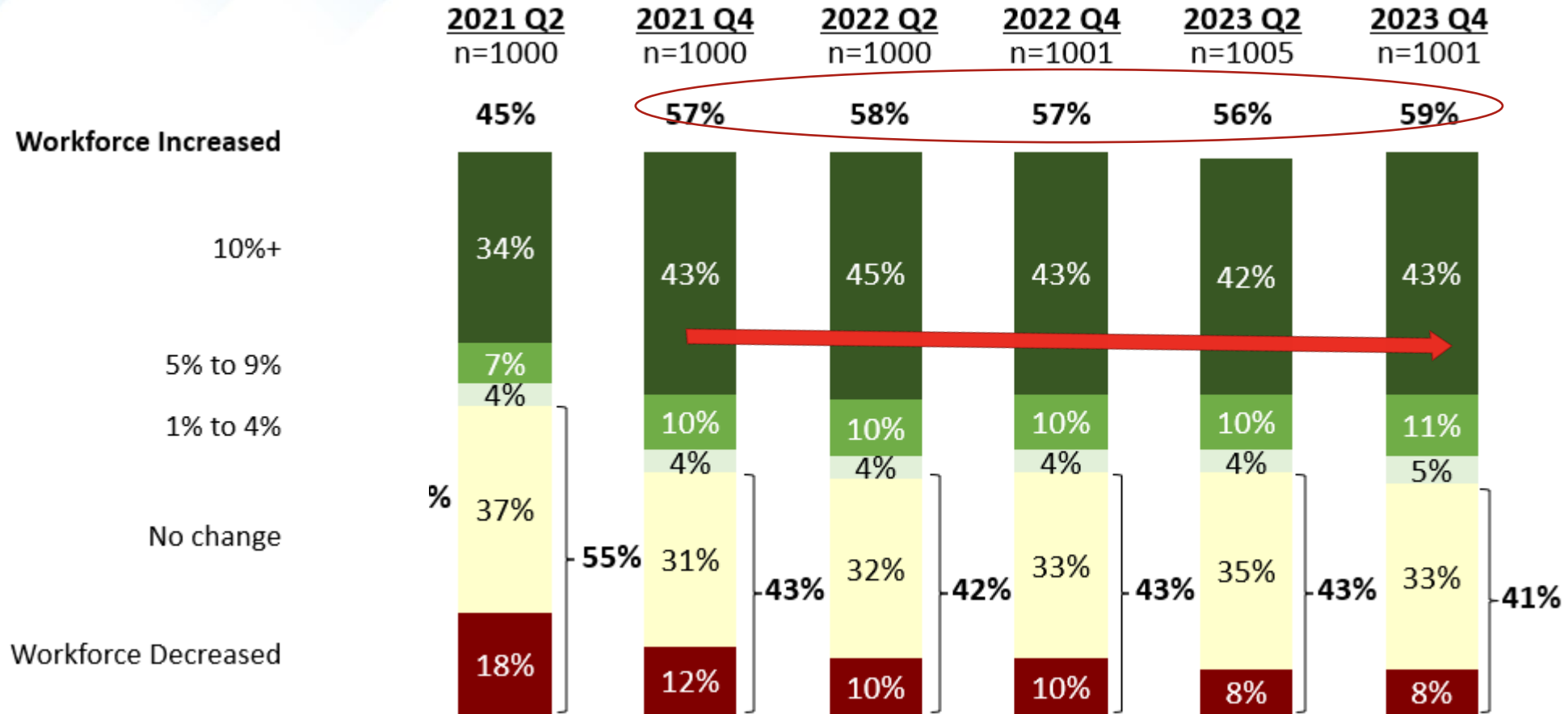
2.2%
SMALL
BUSINESS

0.1%
LARGE
BUSINESS






AVG
7.6%

Employment Growth Remains Steady

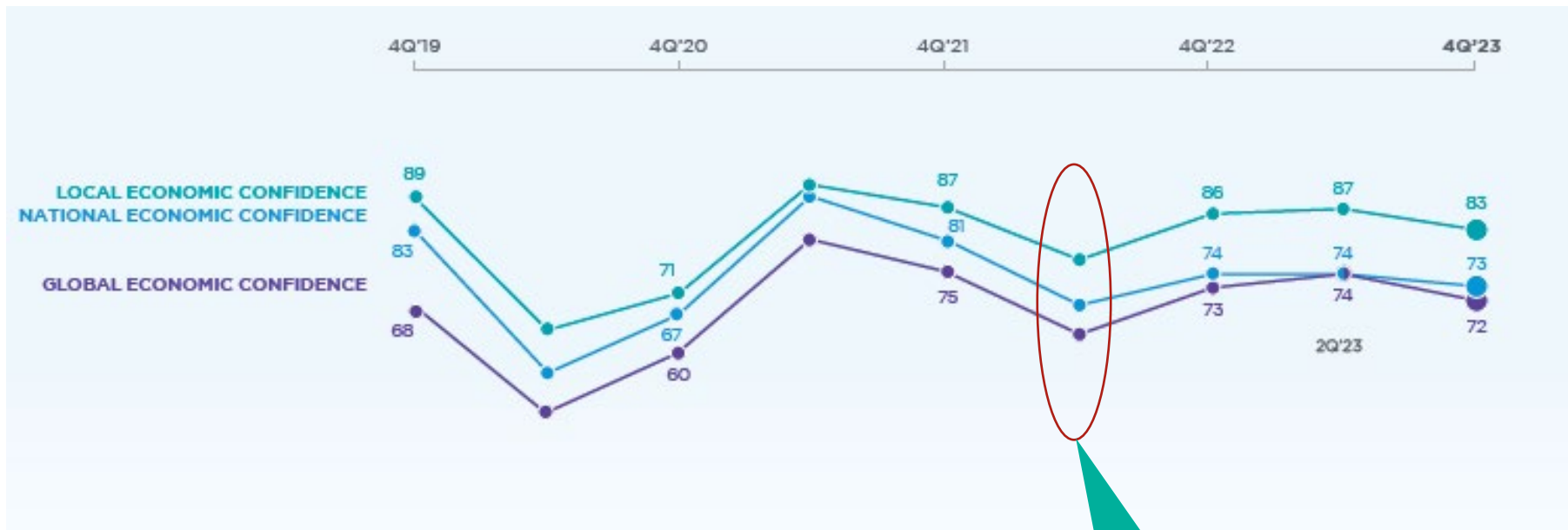


Year-End MMI: Employment by Industry

		EMPLOYMENT GROWTH	
		PAST 12 MONTHS	NEXT 12 MONTHS
 SERVICES		6.5%	8.0%
	 MANUFACTURING	8.7%	9.8%
	 WHOLESALE TRADE	N/A	N/A
	 RETAIL TRADE	10.6%	7.4%
		EMPLOYMENT GROWTH	
		PAST 12 MONTHS	NEXT 12 MONTHS
 CONSTRUCTION		11.1%	8.2%
	 FINANCIAL SERVICES	13.2%	11.8%
	 HEALTHCARE	7.8%	8.8%
	 OTHER	9.2%	7.7%

Economic Confidence Remains Steady

Confidence in Economy



GLOBAL ECONOMY

72%

-1% vs. 2022



NATIONAL ECONOMY

73%

-1% vs. 2022



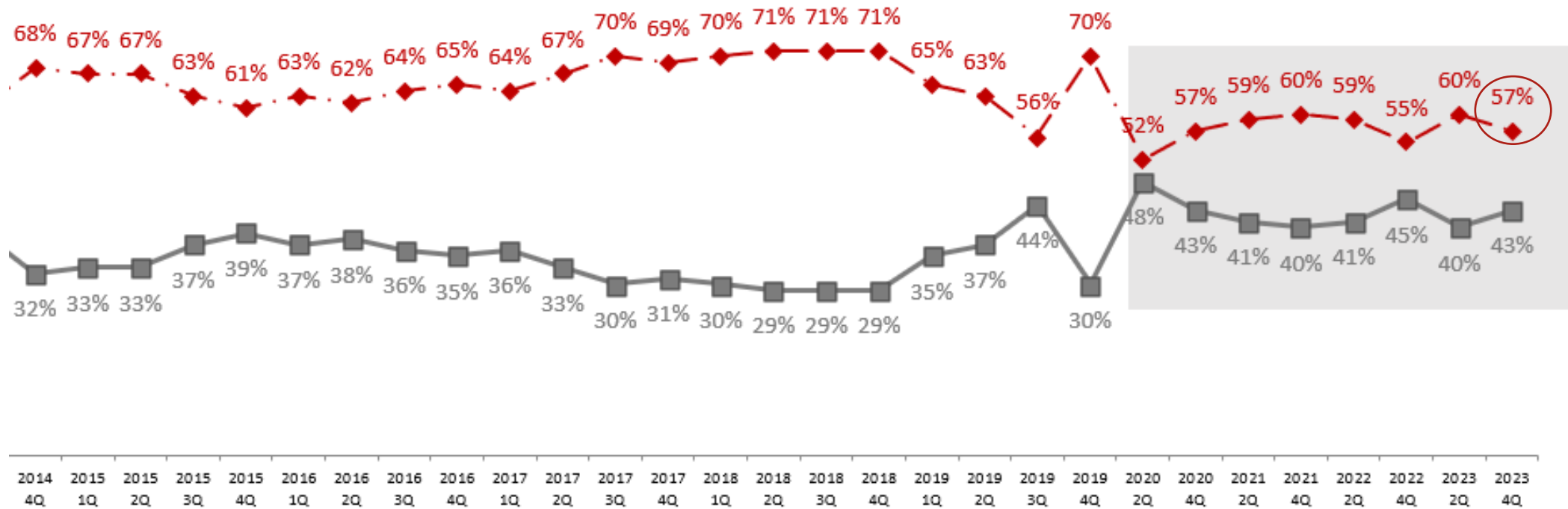
LOCAL ECONOMY

83%

-3% vs. 2022

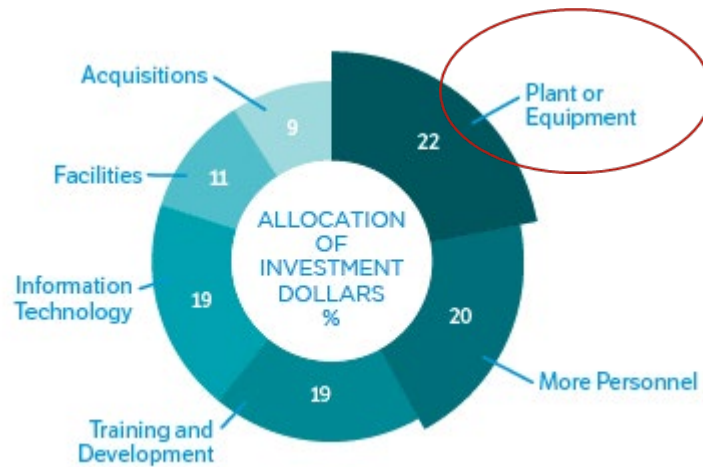
Lowest in
6 years!

Investment Plans Remain Flat



IT and Plant/Equipment are Top Targets for Investment Dollars

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?



U.S. MIDDLE MARKET, DECEMBER 2022



U.S. MIDDLE MARKET, DECEMBER 2023



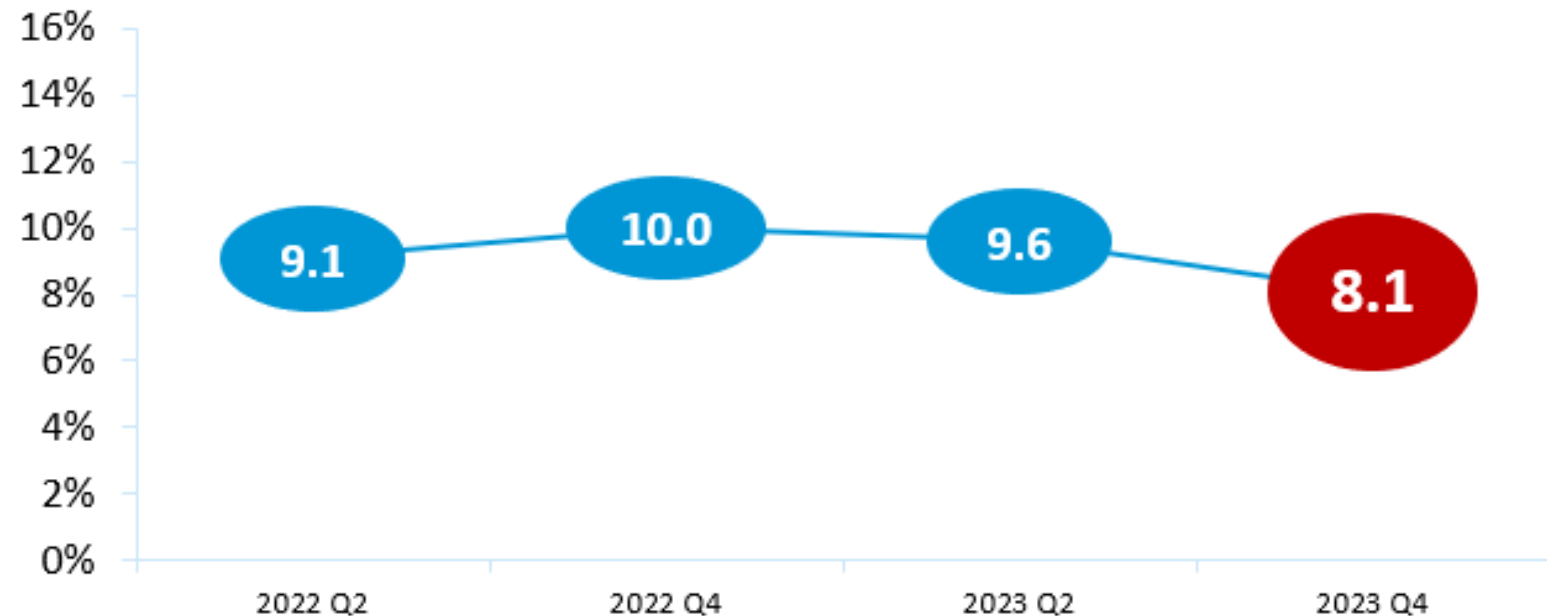
What's Next?

Year-End: Long Term Revenue Growth *Forecast*

FORECASTED REVENUE GROWTH FOR TWELVE MONTHS FROM ...

8.1%

U.S. MIDDLE MARKET

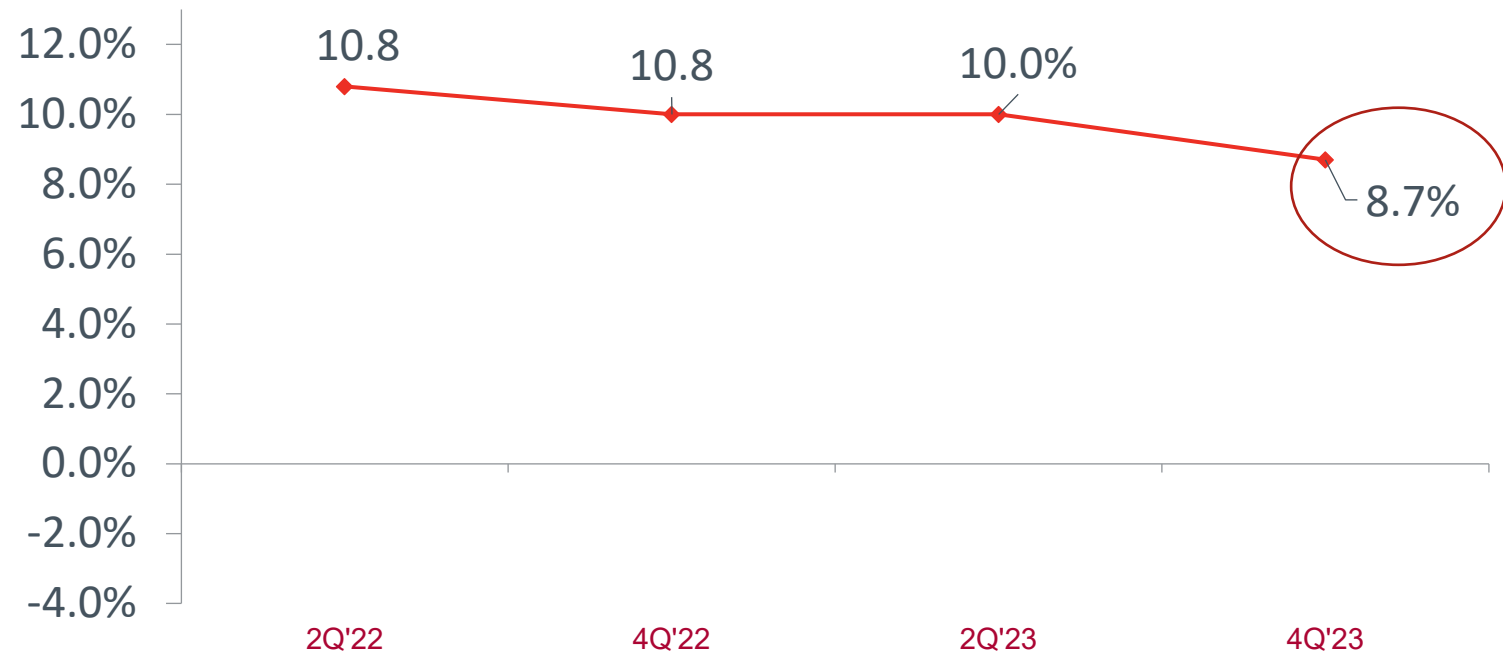


Year-End: Long Term Employment Growth *Forecast*

FORECASTED EMPLOYMENT GROWTH FOR 12 MONTHS FROM ...

10.0%

U.S. MIDDLE MARKET



Managing Business and Macro Economy

EXTERNAL CHALLENGES

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

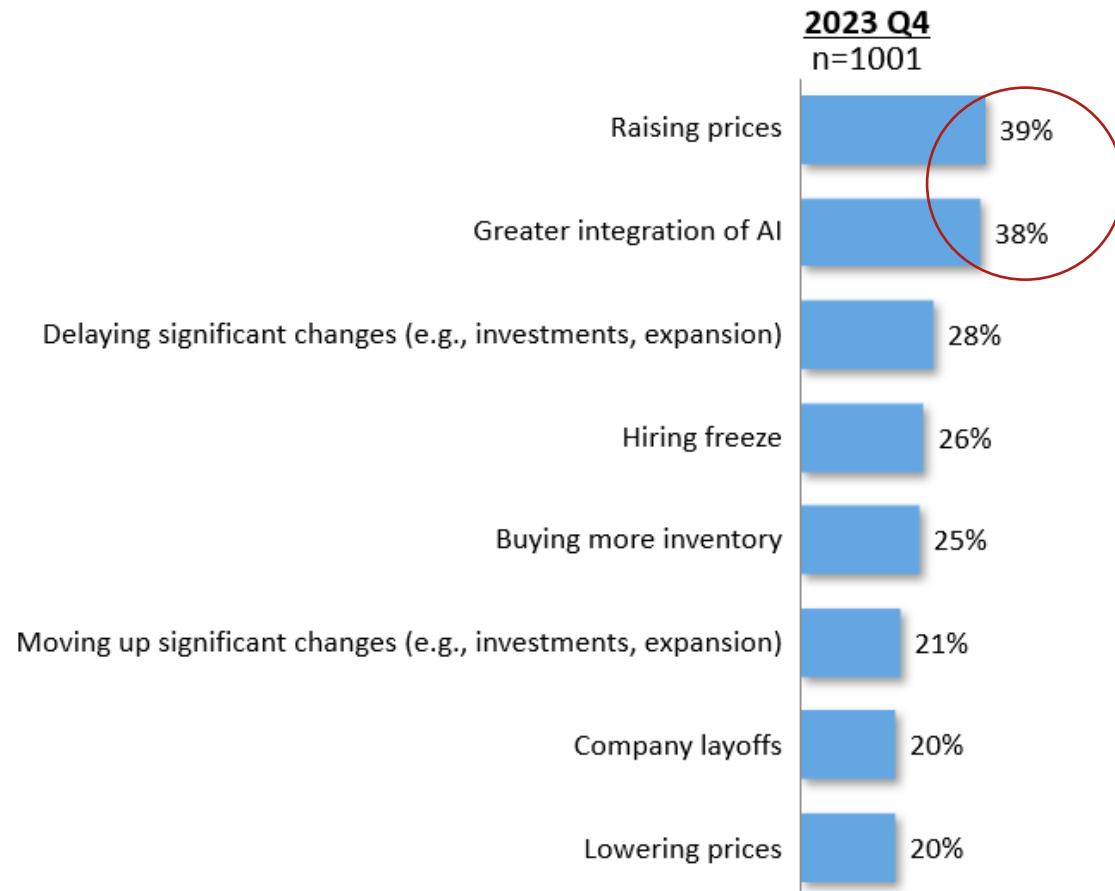
**Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.*

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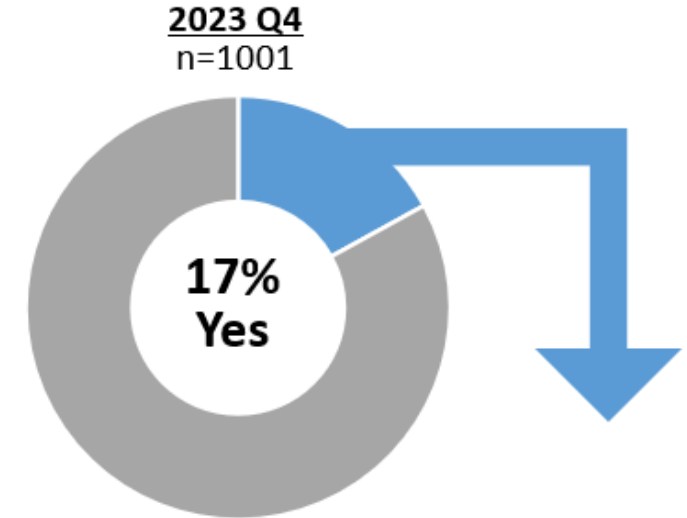
Core Business Issues

Economic and Geopolitical Issues Abound

Preparing For The Next 12 Months In The Current Macroeconomic Environment



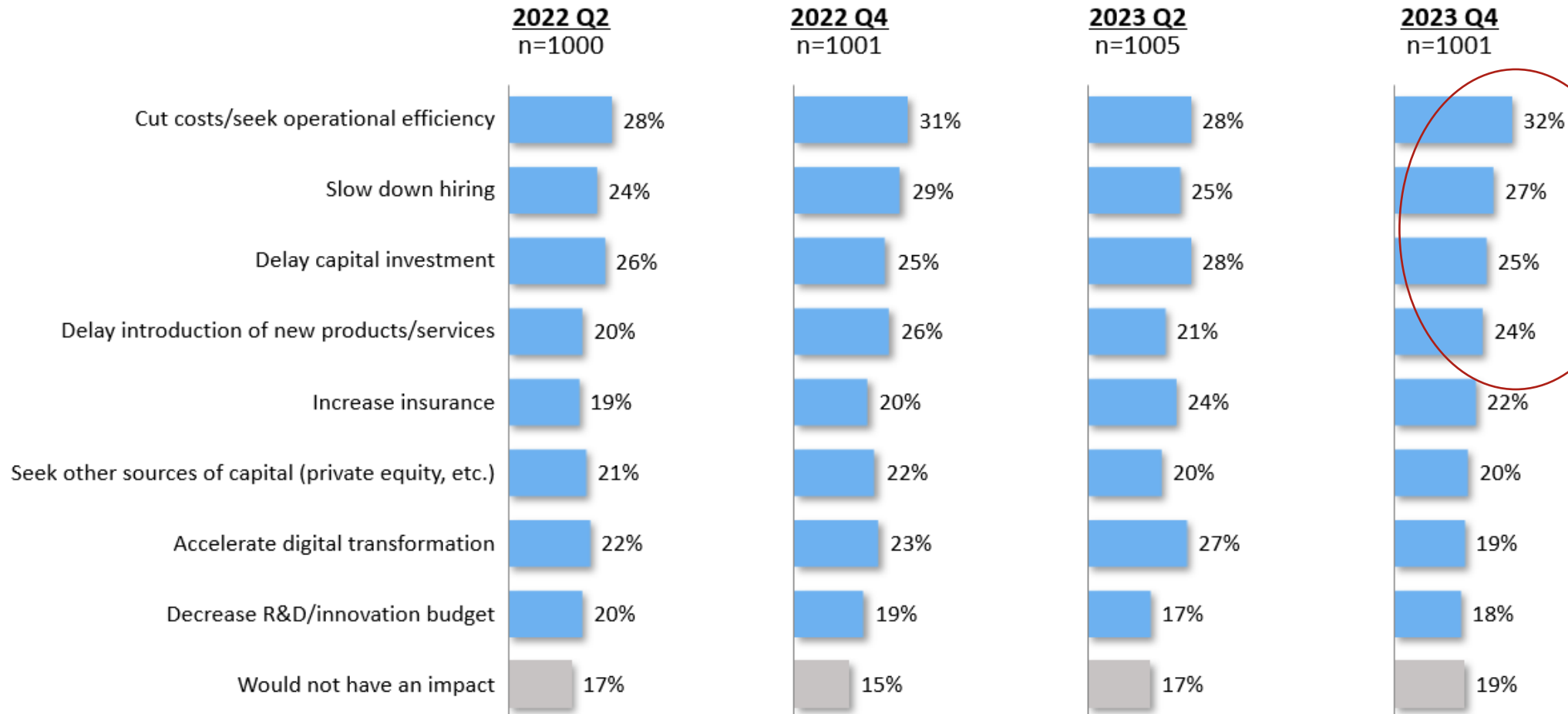
Whether Current Geopolitical Uncertainty Impacted Business



Ways Business Got Impacted	2023 Q4 (177) %
Supply chain risks	58
Delaying market expansion	43
Delaying investments	39
Hiring freeze	29

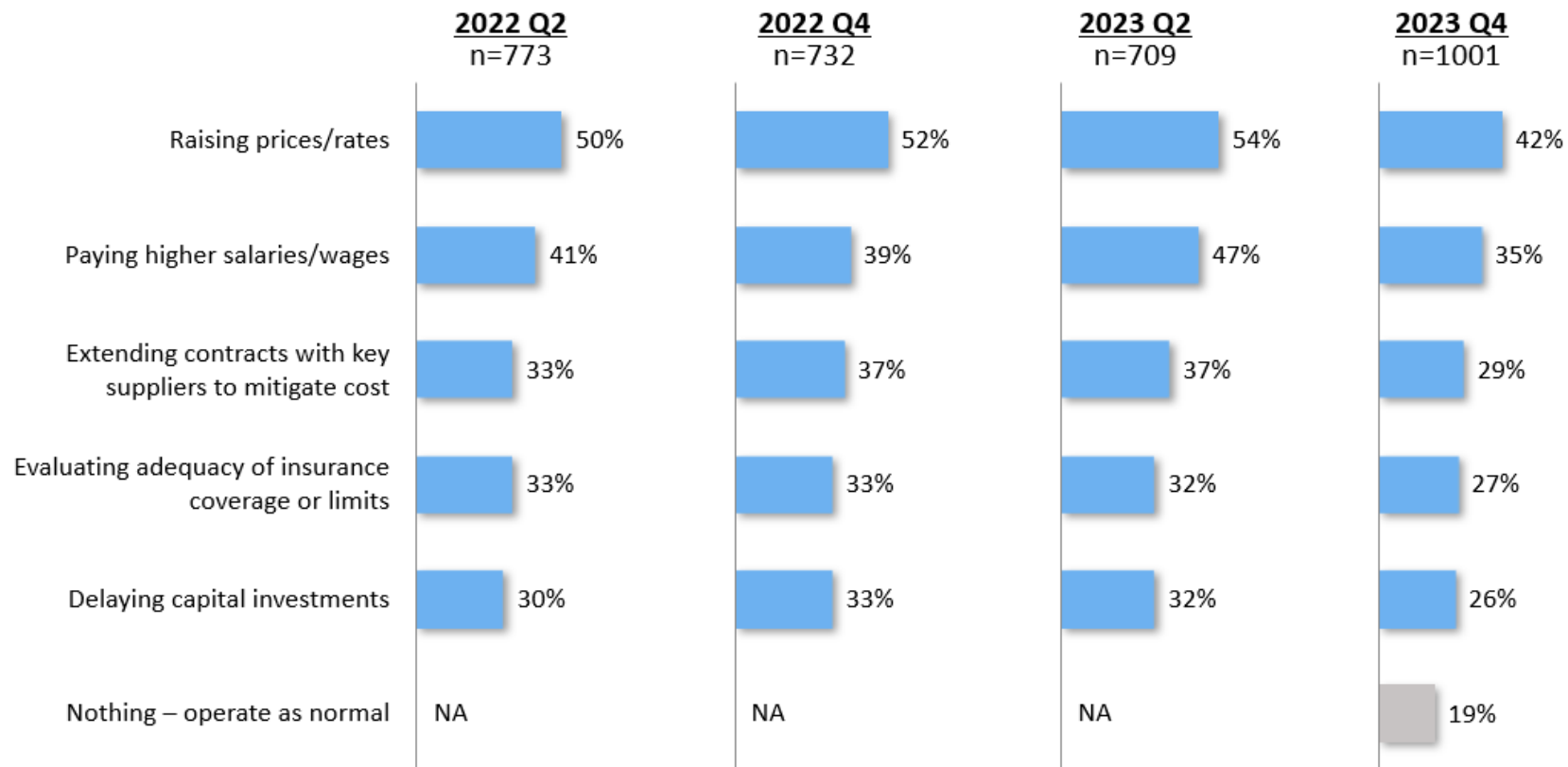
Interest Rates Have Made an Impact as Well

Impact of Rising Interest Rates



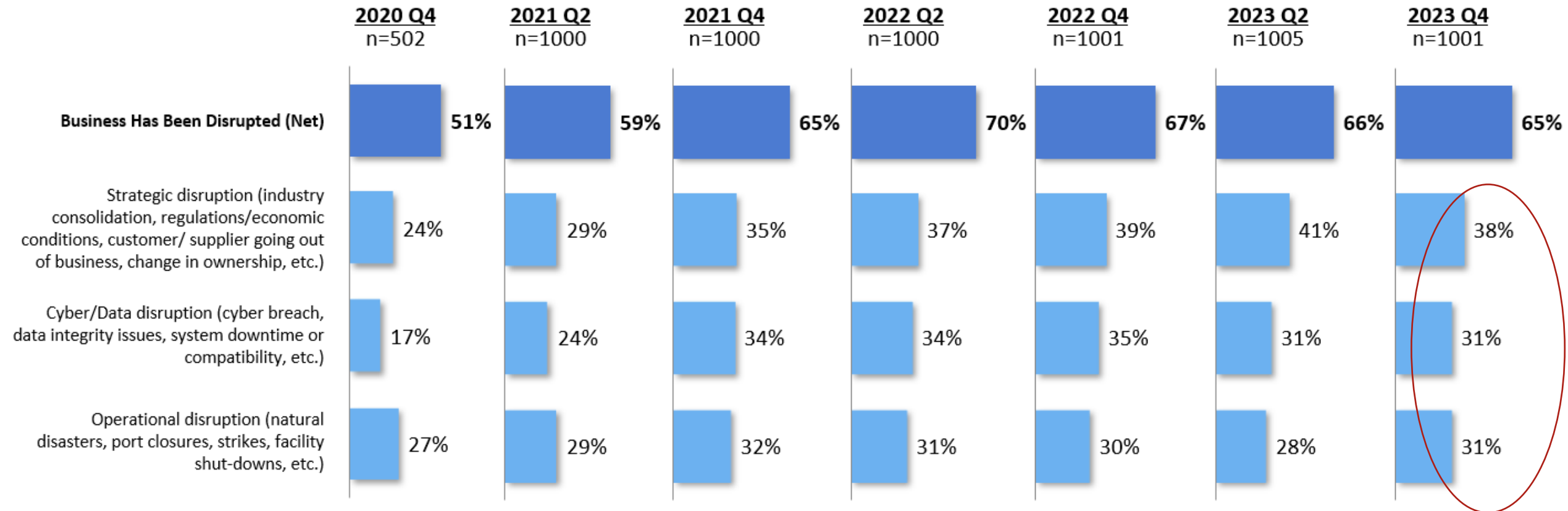
Tactics in response have remained the same

Actions Taken To Deal w/Inflation



Middle Market continues to be disrupted

Disruptions Experienced in Past Two Years

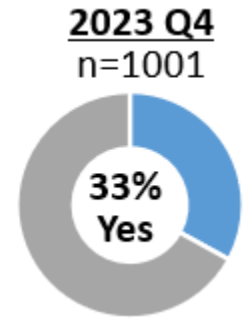
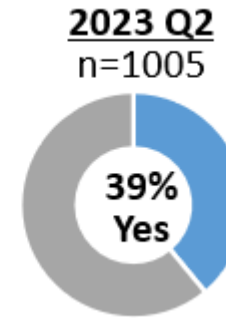
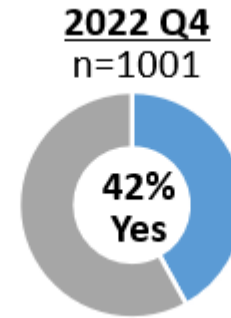
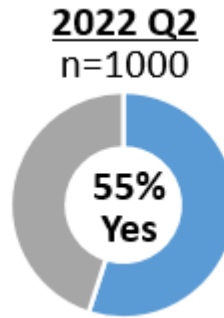
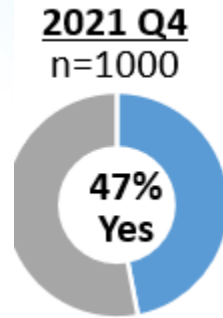


Preparedness Varies

Completely/Very Prepared	2022 Q4 (1001) %	2023 Q2 (1005) %	2023 Q4 (1001) %
Regulatory or compliance	NA	66	64
Payment fraud	60	66	63
Physical damage from fire or water (e.g. burst pipe)	62	69	61
Workplace violence	60	63	60
Cyber attacks	61	65	58
Lawsuit	NA	63	58
Prolonged power outage	56	57	56
Aging infrastructure	NA	61	55
Catastrophic incidents (not cyber) or in some cases, natural disasters	62	57	53
Supply chain disruptions	53	57	49
Labor/Staffing shortages	NA	52	47
Civil unrest	52	50	47
Inflation	47	50	45
Recession	47	51	44

Supply Chain Continues to Improve

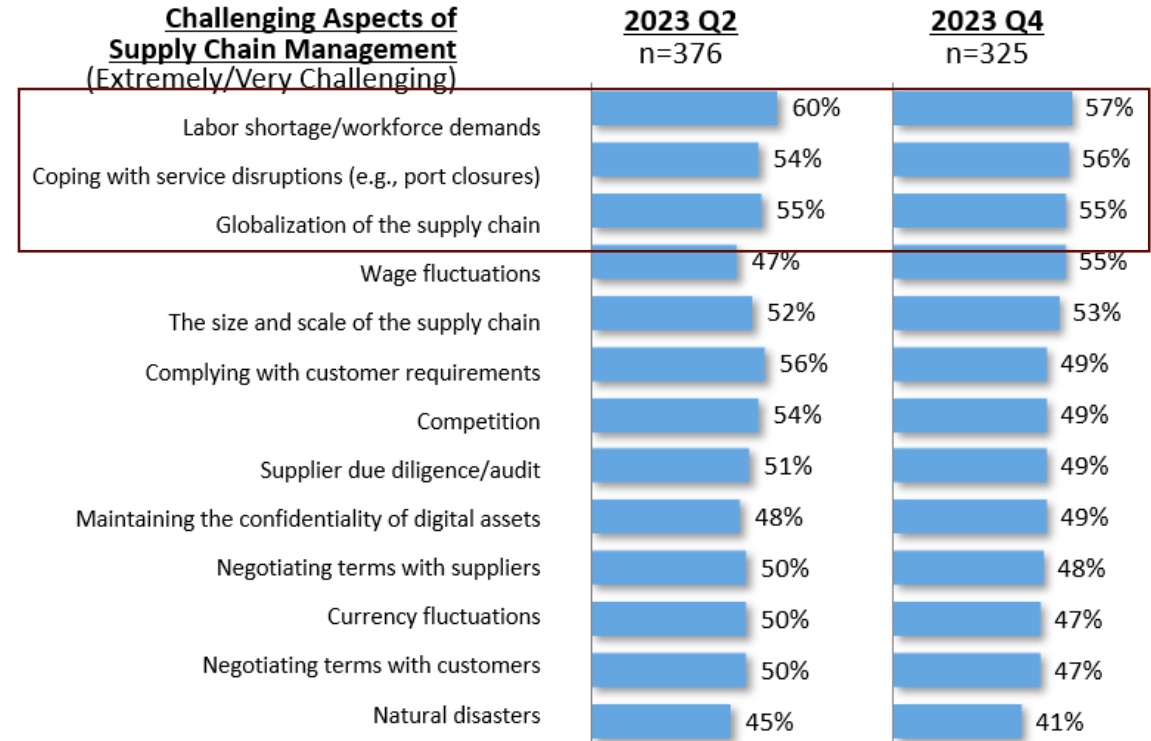
Impacted By Supply Chain Disruptions/Constraints In The Past 6M



Supply chain disruptions are becoming less of an issue across the middle market – dropping from a peak of 55% of companies disrupted in Summer 2022 to 33% to end 2023

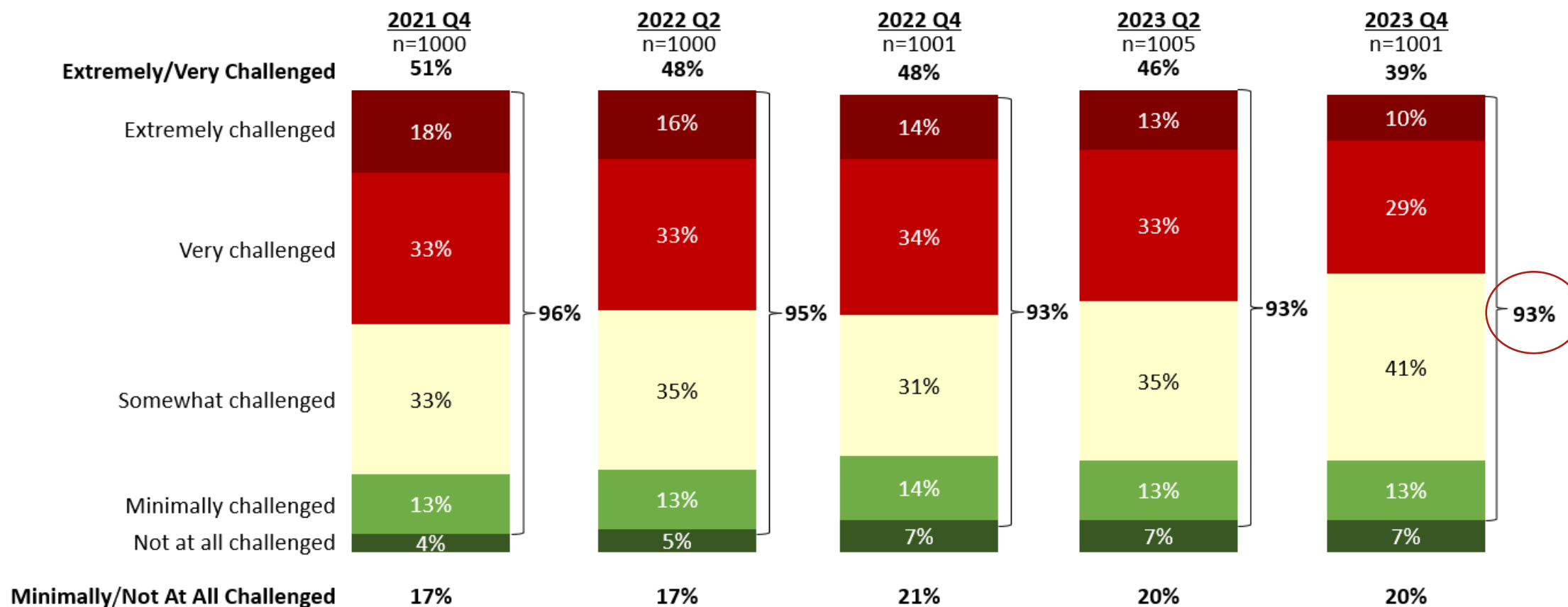
However – those continuing to be disrupted are experiencing a growing and complex set of issues, primarily labor/workforce demands, service disruptions, and globalization

Challenging Aspects of Supply Chain Management (Extremely/Very Challenging)



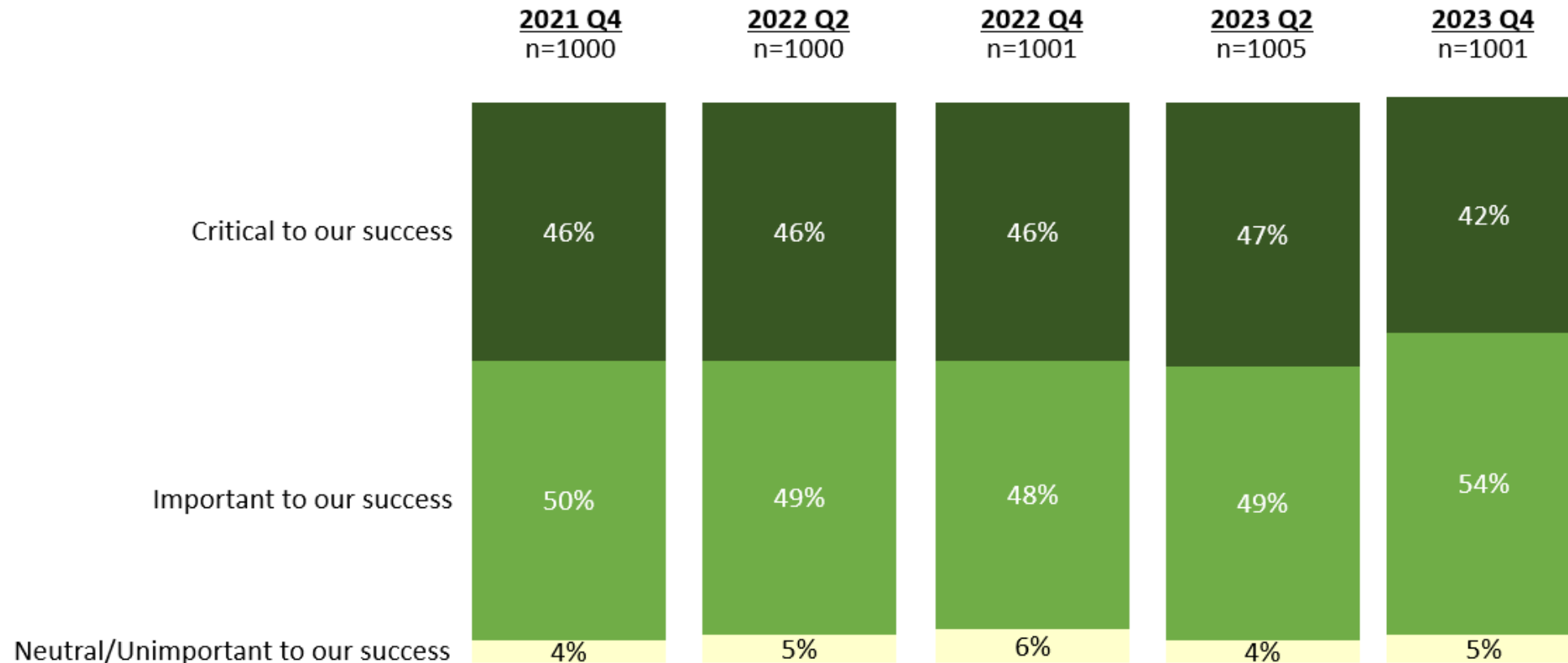
Skills Gaps Remain, But Severity is Declining

**Degree of Challenge to Find
Right Skilled Workforce**



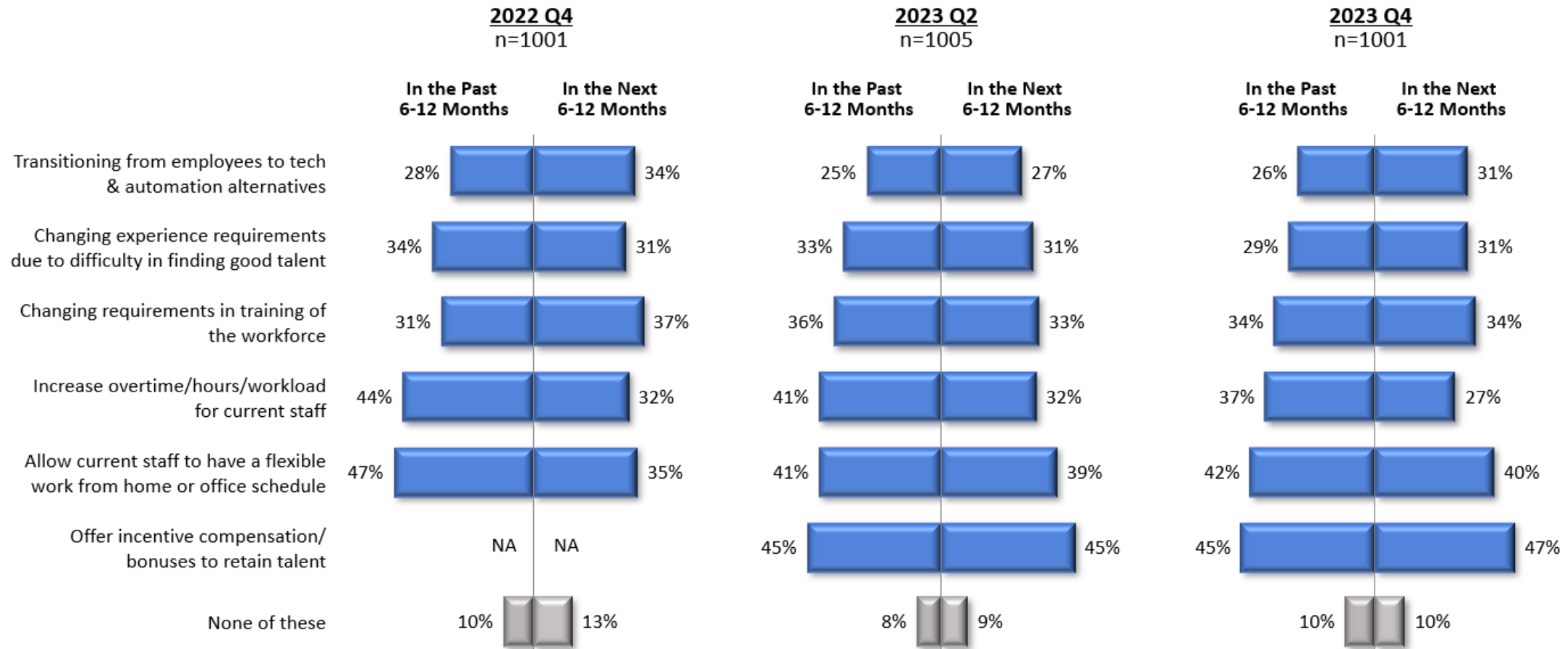
Digitally Savvy Talent is Important

Degree Of Importance Of Having Digital-Savvy Talent



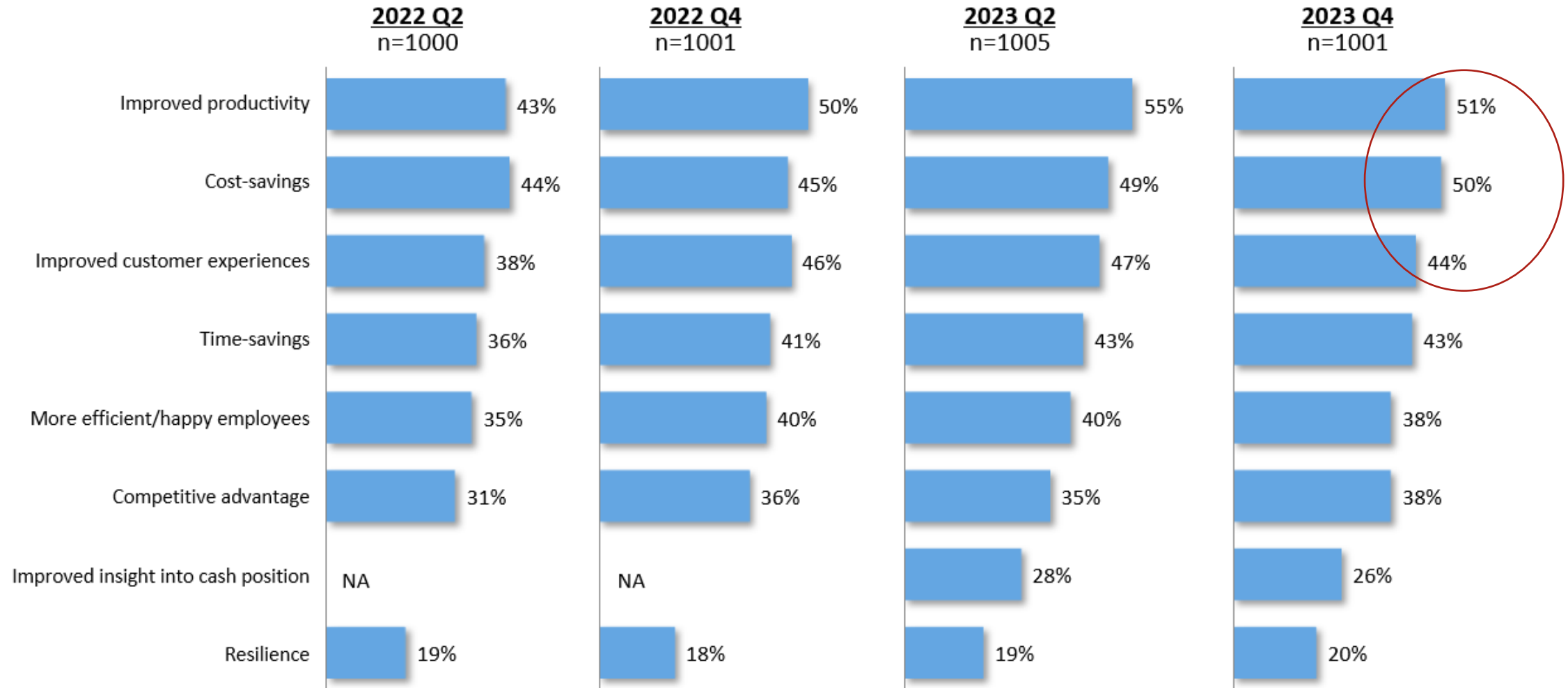
Workplace Environment Approached

Workforce Changes Company Experienced/Plan to Experience

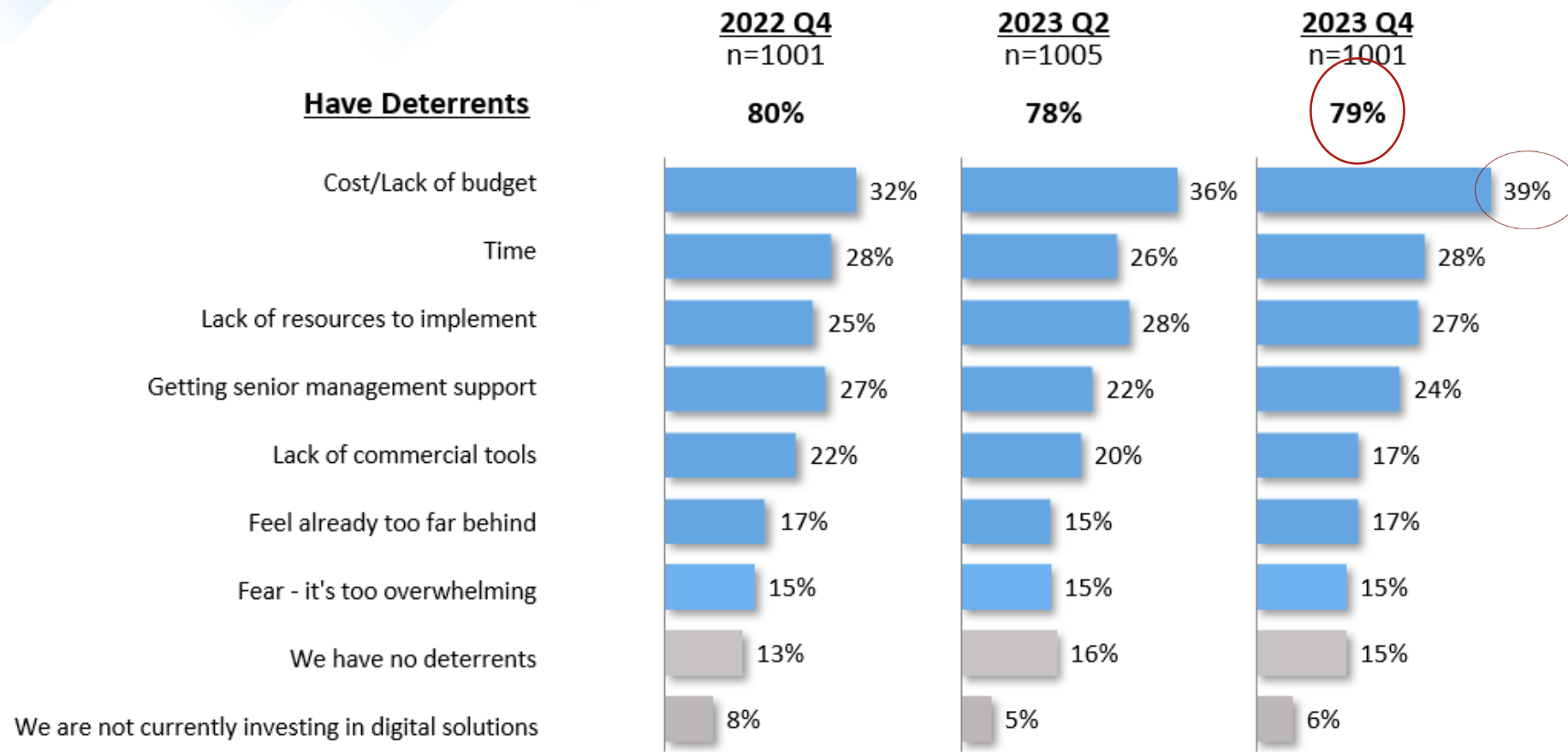


Digitization and AI

Goals of Digitization



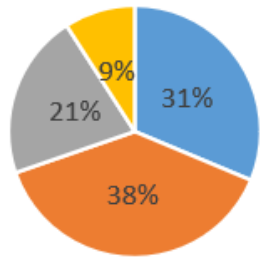
Challenges



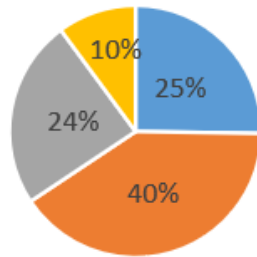
Artificial Intelligence

Adoption Journey Of New Technology Like AI

2023 Q2
n=1005



2023 Q4
n=1001



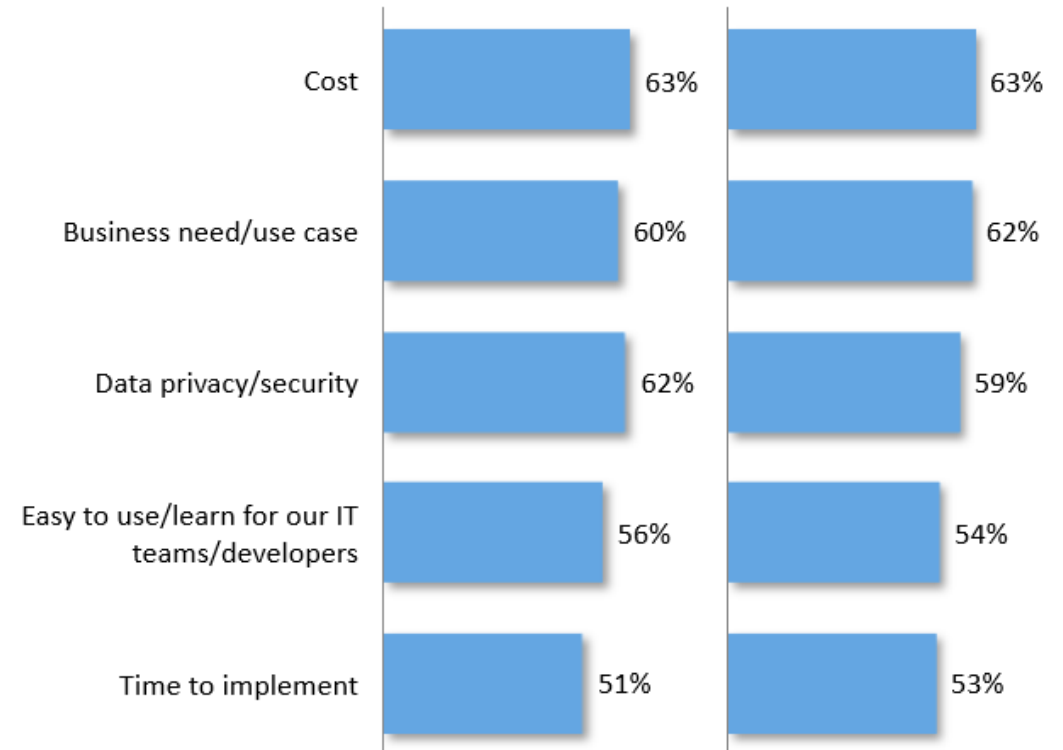
- Learning/discovery
- Exploring/trying it out
- Actively testing/using for business needs
- Already using and embedded into business

	Total MM (1001) %	\$10M – <\$50M (363) %	\$50M – <\$100M (190) %	\$100M – <\$1B (448) %
Learning/discovery	25	30	23	19
Exploring/trying it out	40	44	41	35
Actively testing/using for business needs	24	21	23	31
Already using and embedded into business	10	6	13	15

Top 3 Most Important Elements of How To Incorporate AI

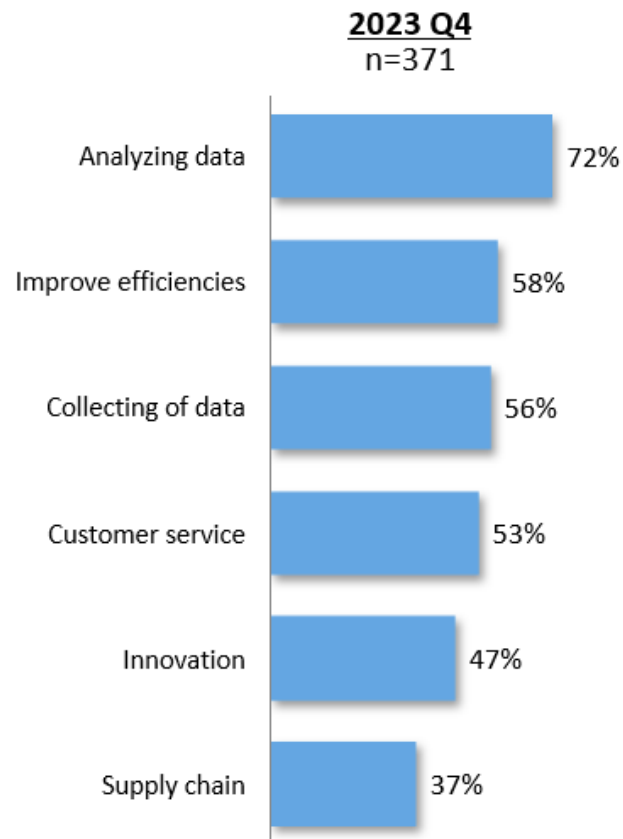
2023 Q2
n=1005

2023 Q4
n=1001

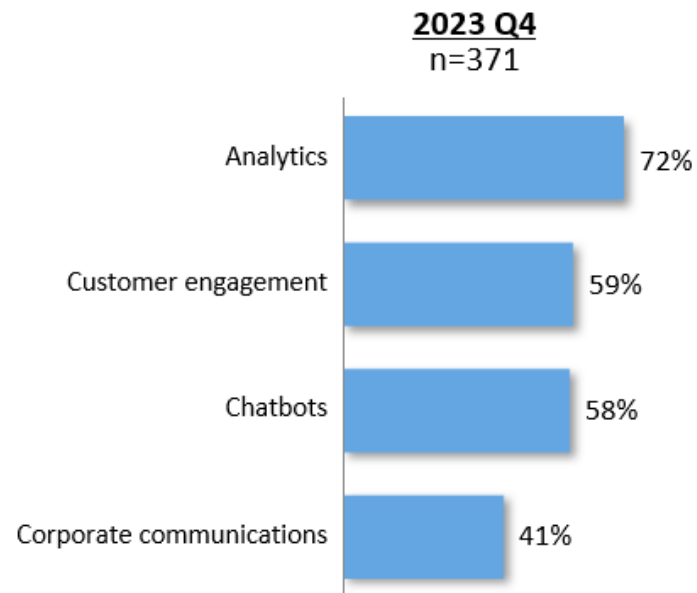


Artificial Intelligence

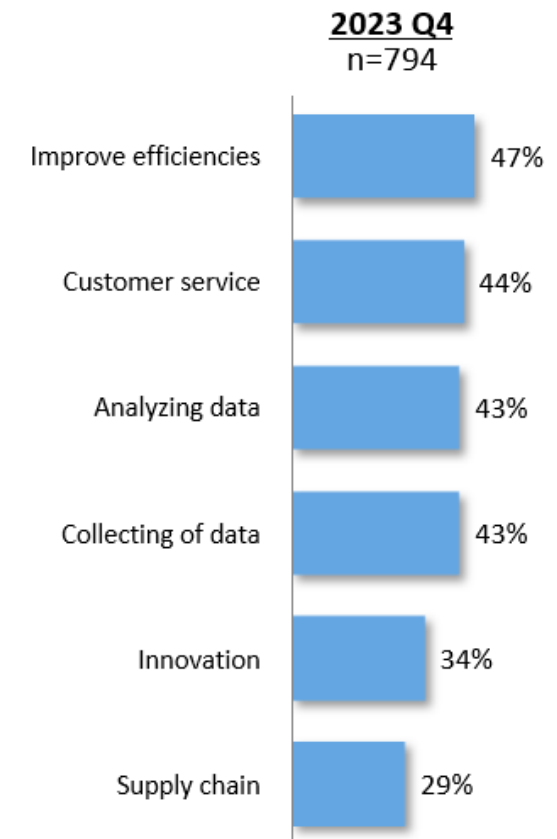
Functions Use AI For



How AI Is Used Within Functions



Functions Plan To Use AI For



Artificial Intelligence

Concerns, Risks Or Uncertainties Related to AI

Bias and Inaccuracies:

Concerns about biases in AI algorithms and the potential for inaccurate results.

Concerns about biases leading to wrong business decisions, affect customer satisfaction, mess up revenue, replace human judgment.

Worries about the ethical and moral foundation of AI, including the need for consistent ethical standards.

Privacy and Security:

Widespread concerns about data privacy and security.

Worries about the risk of customer data leakage, cybersecurity threats, and breaches.

Emphasis on the importance of safeguarding sensitive data used by AI systems.

Performance and Reliability:

Worries about the reliability and performance of AI systems.

Concerns about glitches, AI-related mistakes harming the business's brand, and the potential for AI to fail in critical moments.

Uncertainty about the accuracy and usability of AI.

Job Displacement:

Concerns about job displacement due to AI adoption.

Fears that AI may limit job opportunities and lead to job loss.

Summary

- The middle market continues a strong growth trend:
 - Revenue and employment growth remain consistent
 - Confidence is steady – yet investment plans/expansion remain muted given uncertainty
 - Projections for 2024 are notably lower, especially after 3 years of consistently high growth. Perhaps this is signaling a return to more normalized MM performance following an extended pandemic recovery period
- The macroeconomy – and global tensions – remain an ongoing concern. While inflation slowly comes under control and fears of a recession are diminishing, interest rates are still incredibly high (and we are now in an election year)
- AI is becoming a reality for most businesses, but the middle market is still determining the best use cases for investment....data collection/analysis and customer engagement are natural starting points. All of this comes with uncharted concerns and risks

Membership



NATIONAL CENTER FOR
THE MIDDLE MARKET

MEMBERSHIP OPPORTUNITIES AND ADVANTAGES

NATIONAL CENTER FOR THE MIDDLE MARKET

- Launched in late-summer 2022 – currently at 8 members
- Designed for companies looking to get involved with NCMM
- Access to more detailed data, NCMM programs, Fisher/OSU students, and more
- To learn more, visit www.middlemarketcenter.org/work-with-us



NATIONAL CENTER FOR
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