



NATIONAL CENTER FOR
THE MIDDLE MARKET

Mid-Year | 2022

MIDDLE MARKET INDICATOR

**Robust Growth Continues
Even as Confidence Falters**

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

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Executive Summary

As the MMI enters its 11th year, the U.S. middle market continues its strong performance, despite new and ongoing challenges. Nearly three quarters (73%) of middle market companies continue to report that overall company performance is better today than compared to one year ago; fewer than one in 10 companies (7%) report an overall decline in company performance. While the rapid surge in year-over-year revenue and employment growth rates experienced since mid-2020 has leveled off, companies across all middle market revenue segments and industries are sustaining extremely high growth in both areas.

Most businesses anticipate strong growth into 2023. However, economic confidence levels, which showed signs of faltering six months ago, continue to deteriorate. More companies are signaling an inclination to build up cash reserves, and plans for expansion and investment in the business are tapering off. Overall, middle market business leaders appear optimistic about their own growth as they head into the second half of 2022, but leaders clearly have an eye on mounting headwinds related to inflation and ongoing supply chain challenges.

During the first half of 2022, middle market companies sustained a year-over-year revenue growth rate of 12.2%, just below the all-time-high of 12.3% reported at the end of 2021. While this represents a stabilization in the rate of growth, that stabilization is occurring at a rate well above the average year-over-year revenue growth rate of 6.8%. Furthermore, while nearly four out of five companies experienced revenue growth between mid-2021 and mid-2022, 58% of businesses reported growth of 10% or more. Prior to the pandemic, just 36% of companies were growing their revenues at this strong pace.

Year-over-year employment growth rates have stabilized as well, but also at a rate significantly above the historical average. For the second straight reporting period, a majority of middle market companies cite employment growth with most of these growing organizations adding to the size of the workforce at a rate of 10% or more. The result is an average year-over-year employment growth rate of 10.8%, more than double the 5.0%

year-over-year employment growth rate reported in December 2019 prior to the onset of the COVID-19 pandemic. Even with this ongoing growth in workforce size, more than a quarter (28%) of middle market companies continue to say that the size of their workforce is insufficient for current market conditions and that they will need to continue to hire. Healthcare remains the segment most likely to report a need for additional people.

Most middle market companies continue to project rapid revenue and employment growth into 2023. While the rate of revenue growth will taper off slightly, companies expect to keep adding jobs at the same accelerated pace. For many businesses, however, this may be easier said than done. Almost every middle market business reports experiencing at least some degree of difficulty with finding skilled employees. This challenge manifests in a variety of ways, including greater demands on current employees, increases in pay rates, and a slowdown in sales.

Growth and talent management remain top challenges for middle market leaders. Even as COVID-related concerns continue to diminish, companies continue to contend with the pandemic's fallout, particularly supply chain disruptions. Costs are also increasingly becoming an issue. Most companies report an increase in salaries and wages. However, the middle market is split on the impact of inflation: while 39% report negative effects, the same percentage of companies say inflation is having a positive impact for their businesses.

Nevertheless, compared to six months ago, a larger proportion of companies say they would hold an extra dollar in reserve as opposed to immediately investing it or earmarking it for a future investment, reversing the trend seen over the past several reporting periods. In addition, fewer companies have plans for expansion over the next year, compared to six months ago as the cost of capital continues to rise. The most telling sign of headwinds on the horizon is waning economic confidence. Despite strong, continued growth projections, economic confidence has dropped sharply since the close of 2021. National and global economic confidence have both dipped below their 5-year historic averages.

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 \$10 MILLION AND \$1 BILLION.

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?

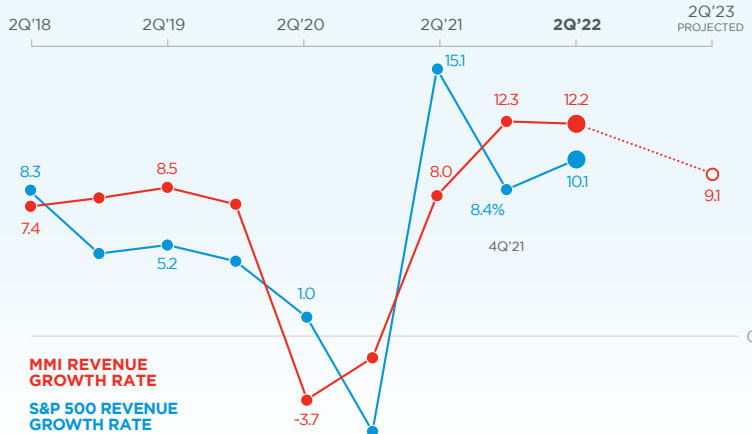
The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenue, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between \$10 million and \$1 billion, the lower and upper limits of 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 2022.



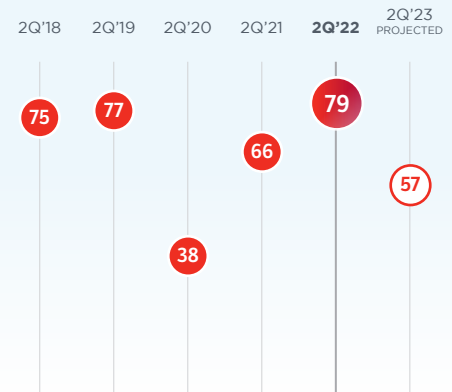
Revenue

Strong year-over-year revenue growth persists in the middle market. Nearly four out of five companies report increases from a year ago with over half of these firms experiencing growth of 10% or more. The average year-over-year revenue growth rate of 12.2% is on par with the all-time high of 12.3% reported six months ago. Most businesses expect robust growth into 2023.

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



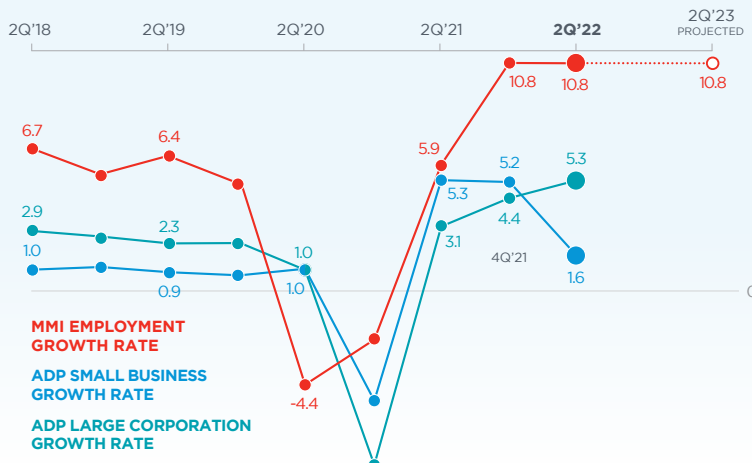
Percent of middle market companies reporting/projecting year-over-year revenue growth



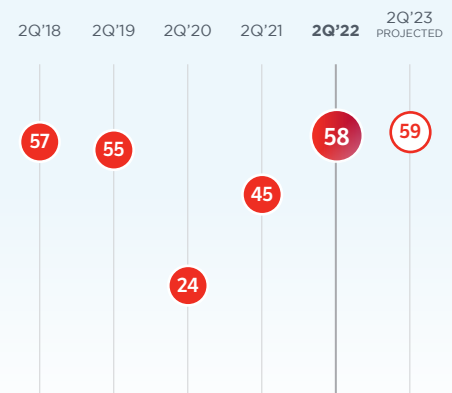
Employment

The record high employment growth experienced in 2021 continues in 2022 with 58% of middle market companies increasing the size of their workforce by an average year-over-year employment growth rate of nearly 11%. Most companies expect to continue adding new jobs at the same high rate into 2023.

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



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



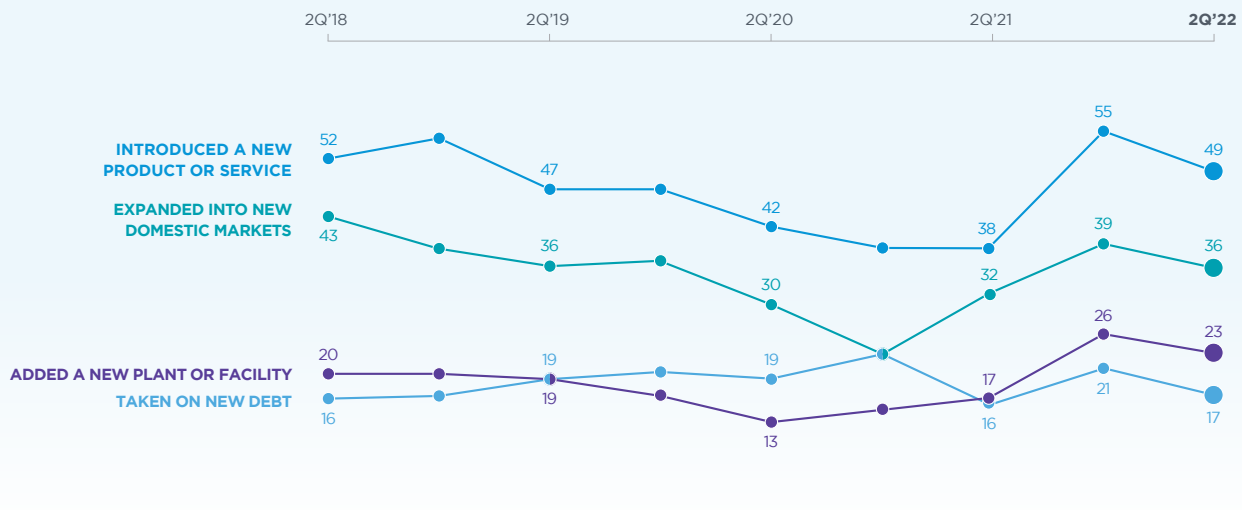
KEY FINDINGS



Expansion

After surging in 2021, expansionary activity has moderated slightly but remains well above levels seen during the height of the pandemic.

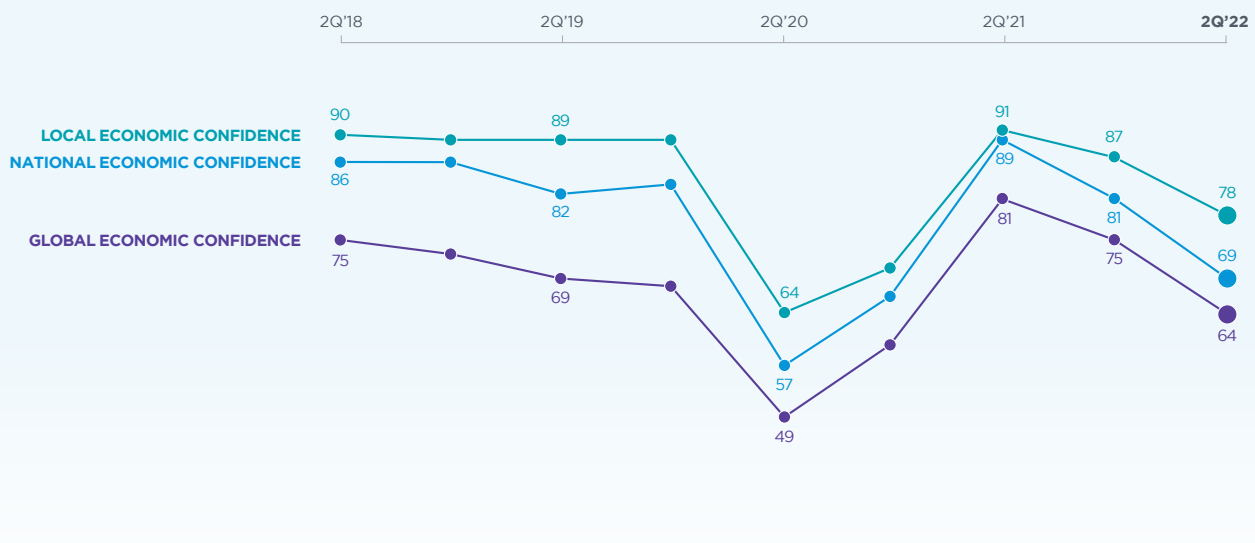
Percent of middle market companies engaging in expansion activities over the past 12 months



Economic Confidence

Confidence plunges but remains above the lows reported in 2020.

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

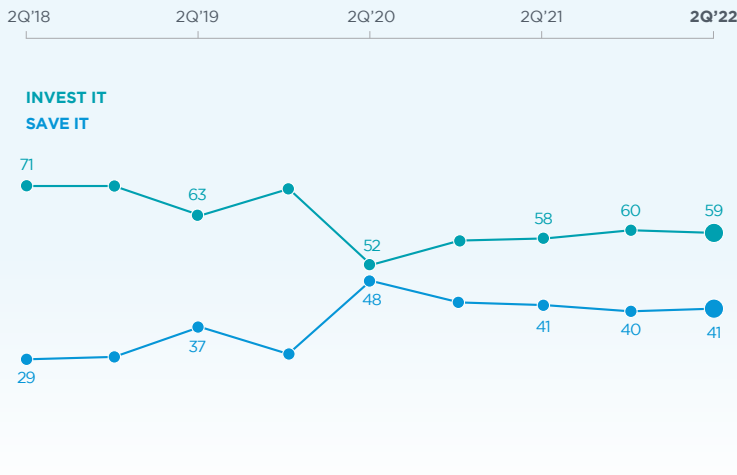




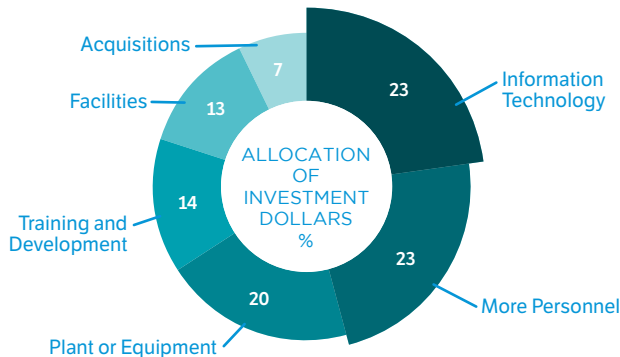
Capital Investment

Appetites for investment plateau as a larger number of companies report a desire to hold cash.

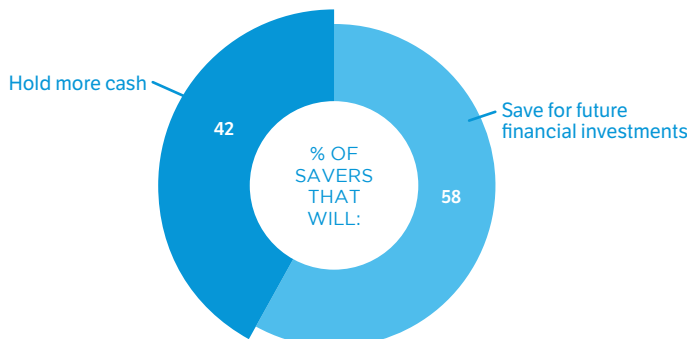
Percent of middle market executives that would invest vs. save an extra dollar



Technology and people are the leading investment targets as companies anticipate continued rapid growth.



The proportion of companies inclined to build cash reserves increased from 36% to 42%.



Key Challenges

Cost concerns mount as COVID fears continue to dissipate. Growing and staffing the business remain top challenges.

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

INTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 51% |
| 2. TALENT MANAGEMENT | 50% |
| 3. COSTS | 21% |
| 4. COVID-19 | 7% |

EXTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 37% |
| 2. COSTS | 16% |
| 3. ECONOMY | 19% |
| 4. COVID-19 | 7% |

*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](https://twitter.com/VisaNews).