



COVID-19 AND THE MIDDLE MARKET: 4Q 2020

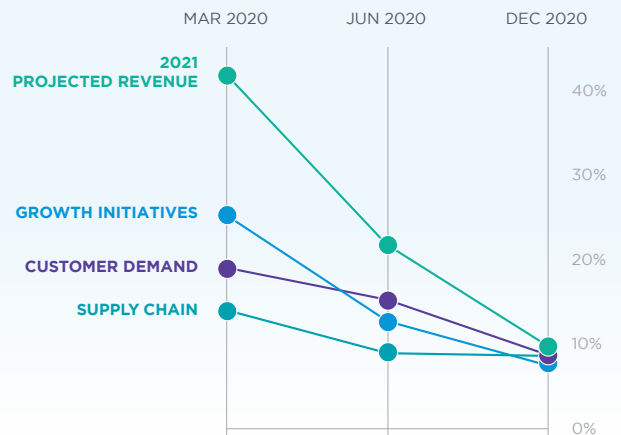
As the pandemic continues in the United States and around the world, the National Center for the Middle Market surveyed 1,000 financial decision-makers in conjunction with its 4Q 2020 Middle Market Indicator survey. We compared the data, collected in December 2020, with findings from our 2Q 2020 MMI survey, our March COVID-19 pulse survey of 260 companies, and our 4Q 2019 MMI survey.

1. The proportion of executives expecting the pandemic to have a major negative long-term impact continues to decline.

While 43% of middle market executives believe the pandemic will have some adverse effects on revenues well into 2021, the proportion of leaders who believe the negative impact on sales will be significant has decreased by nearly 50% compared to six months ago. Currently, just one in 10 leaders is expressing major concerns about revenue projections in the year ahead, and these businesses tend to be at the lower end of the middle market with annual revenues between \$10M and \$50M.

A similar proportion of leaders believe that customer demand, growth initiatives, and the supply chain will also continue to be challenging over the next 12 months. However, these numbers, too, are also much lower than those recorded in March and June.

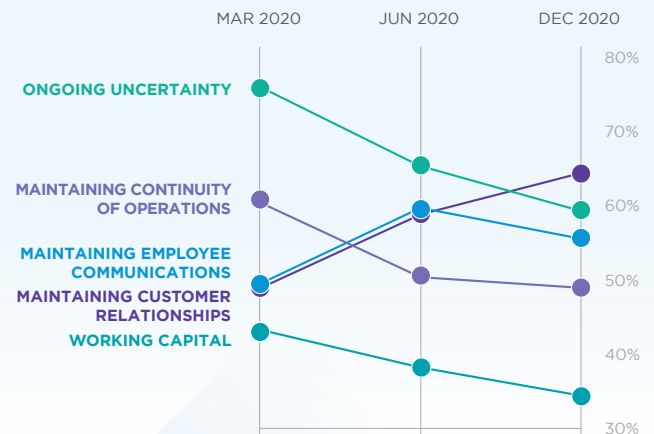
PERCENT OF EXECUTIVES EXPECTING A MAJOR NEGATIVE LONG-TERM IMPACT TO THEIR BUSINESS IN THE FOLLOWING AREAS:



2. Businesses continue to struggle with uncertainty and the challenges of maintaining relationships with customers and employees.

The proportion of middle market executives citing ongoing uncertainty as the most difficult aspect of running a business in the current environment has fallen by half—from 51% at the start of the pandemic to 25% nine months later. While leaders may be adjusting to their circumstances, significant challenges persist. Maintaining customer relationships continues to be difficult, with a larger proportion of leaders citing it as one of their top challenges right now. Managing workforce disruption and keeping employees engaged and productive also continues to be an ongoing problem for middle market leaders.

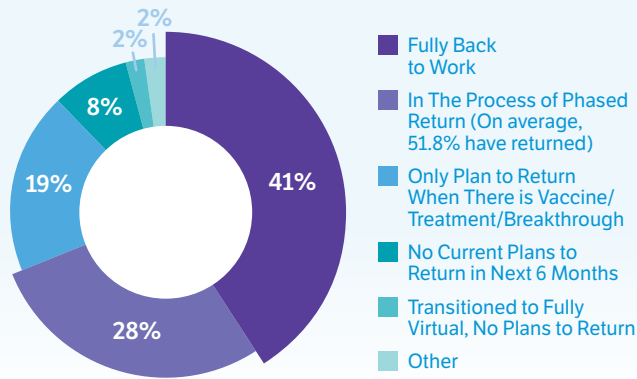
MOST DIFFICULT ASPECT OF RUNNING A BUSINESS IN THE CURRENT ENVIRONMENT



3. Roughly half of the middle market workforce has returned to work in-person.

Most middle market companies have either brought their workforces back in full (41%) or are well into a phased return (28%). This equates to approximately 50% of all employees back to their respective work locations. However, nearly a third of middle market companies remained fully virtual at the end of 2020. Not surprisingly, companies that remain virtual tend to be professional services companies while manufacturing, construction and retail and wholesale trade businesses are more likely to have brought people back in person.

STATUS OF THE MIDDLE MARKET WORKFORCE



4. Forward-looking growth projections improved modestly.

At the close of 2019, three months before COVID-19 became a global crisis, most U.S. middle market executives felt confident about their 2020 growth trajectory. Fast-forward to mid year, and 12-month growth projections had plummeted across key categories including anticipated rates of revenue and employment growth, planned entry into new markets, and plans for building new facilities. By the end of 2020, these key projections have improved to varying degrees. While executives have muted optimism for 2021 compared to their pre-pandemic mindset, they clearly expect a return to modest growth and investment in the year ahead.

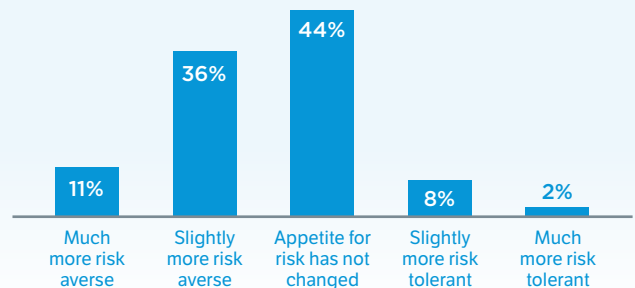
REVENUE, EMPLOYMENT, AND INVESTMENT OUTLOOK PRE AND MID PANDEMIC

	DEC 2019 PRE PANDEMIC	JUN 2020 3 MONTHS INTO PANDEMIC	DEC 2020 9 MONTHS INTO PANDEMIC
Projected 12-month revenue growth rate	4.9%	2.0%	3.6%▲
Projected 12-month employment growth rate	3.5%	-0.2%	1.9%▲
Planned to enter new markets in the next 12 months	50%	37%	43%▲
Expected to build a new facility in the next 12 months	24%	13%	23%▲

5. Nearly half of middle market executives believe the pandemic will increase their risk aversity going forward.

While the pandemic continues to affect everyday life in many ways, many business leaders have found ways to return to work, bring operations back to capacity, and reset growth expectations for the year ahead. Still, the impact of the global crisis will not soon be forgotten. Almost half (47%) of middle market executives will, at a minimum, proceed with caution when pursuing potentially risky business endeavors while about one in 10 executives will approach risk much more guardedly in the future.

IMPACT OF COVID-19 ON MIDDLE MARKET EXECUTIVES' APPETITE FOR RISK



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