



NATIONAL CENTER FOR
THE MIDDLE MARKET

4Q | 2020

MIDDLE MARKET INDICATOR

**Despite Continued Revenue and
Employment Declines, Executives
Project a Return to Growth**

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

CHUBB®

Executive Summary

Nine months into managing through the COVID-19 pandemic, uncertainty has lessened for middle market executives. Still, the negative impacts of the global crisis on this critical economic segment persist. Just 40% of companies perceive overall company performance as better today than one year ago—the second lowest number ever recorded by the *Middle Market Indicator* and just a minor improvement over the all-time low, 37%, recorded six months ago. Perhaps more telling, more than a quarter of firms (28%) believe performance has deteriorated over the course of the year, up from 25% in mid 2020.

Declining year-over-year revenue and employment are key factors driving these weak perceptions of overall company performance. On average, middle market gross revenues are down by 1.2% for the past 12 months with nearly two out of every five companies reporting revenue decline. Employment declined 2.2% during 2020 with approximately a third of companies reducing the size of their staff. The proportion of companies that introduced new products or services over the past 12 months and/or that expanded into new markets continued to decline as well while the number taking on new debt increased.

As middle market leaders look toward the new year, sentiment is more positive. It's important to note that, while still negative, the rates of both year-over-year revenue and employment decline have eased since six months ago. And projections for future growth rates have improved, indicating that recovery may be on the horizon. Overall, executives do believe the middle market will experience positive, if modest, revenue and employment growth in 2021. The proportion of firms expecting to expand domestically in 2021 along with the proportion intending to open a new plant or facility are up from six months ago. But not all companies

will share in this forthcoming growth story. Just 44% of all middle market business leaders say they expect to increase revenues in 2021 while 33% expect to create new jobs. Service companies, including business, professional, and technology services organizations, have the strongest predictions for the year ahead.

These service companies share some of the strongest economic confidence levels as well. Across the middle market, confidence appears to be recovering to some degree after plummeting sharply in mid 2020. Global and national confidence levels in particular showed significant increases over the past six months.

Still, many middle market leaders remain cautious when it comes to their own assets. Two out of five executives would hold on to an extra dollar as opposed to investing it. The majority of these savers would hold onto cash instead of earmarking it for future investments. The investors, however, are most interested in information technology, perhaps out of necessity as they continue to look for ways for employees to work remotely.

As middle market companies continue to adapt to doing business in the COVID-19 environment, finding ways to increase sales, respond to fluctuations in demand, and achieve revenue and growth goals will be the major challenges consuming leaders' time and attention. Indeed, these core business issues surpassed talent management concerns as the number one internal business challenge for the first time in more than five years, and they are shared across industries and middle market businesses of all sizes.

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?

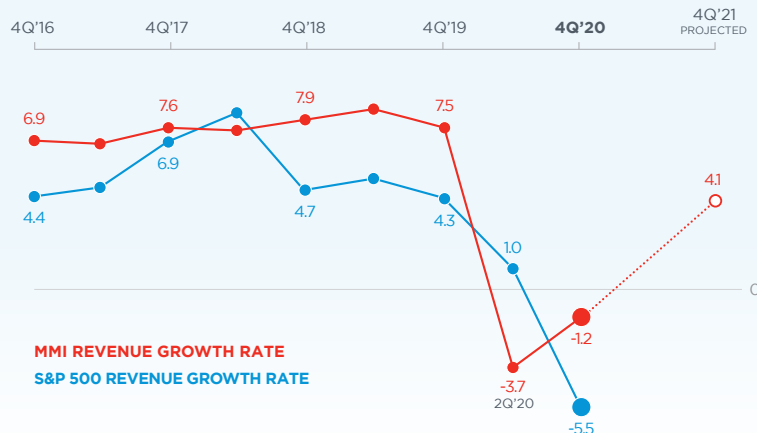
The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies 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 December 2020 with some respondents weighing in before the first official FDA vaccine approvals were announced in mid-December and others submitting their responses after those announcements were made public.



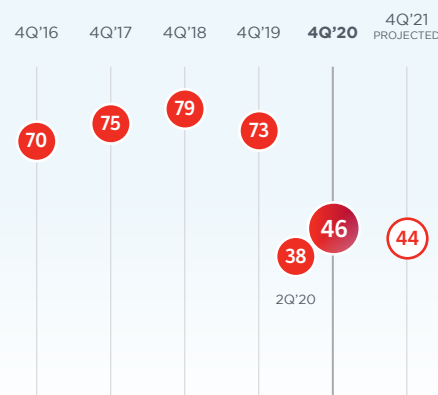
Revenue

Year-over-year top line revenues for the middle market declined by 1.2% with fewer than half of companies reporting growth. Overall revenue growth is projected for 2021 with 44% of firms expecting to increase sales.

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



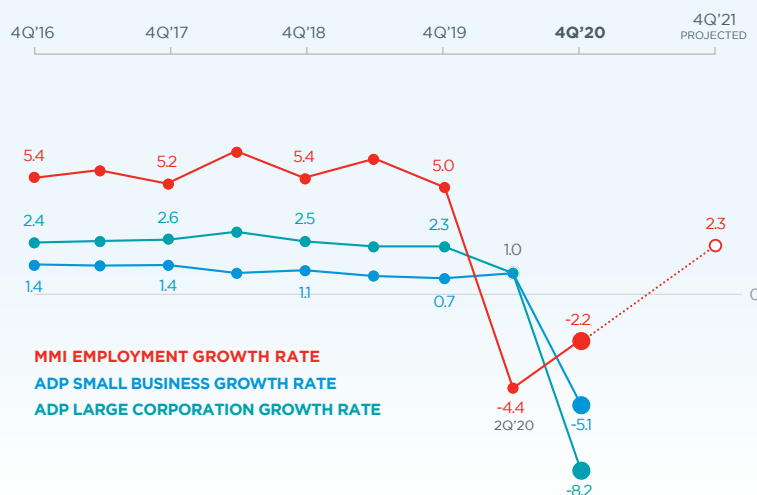
% of middle market companies reporting/projecting year-over-year revenue growth



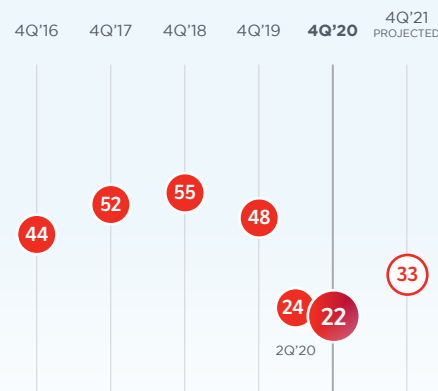
Employment

Year-over-year middle market employment declined by 2.2% with just 22% of companies adding new jobs. A third of firms expect to increase the size of their workforce in 2021, driving positive employment growth for the middle market overall.

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



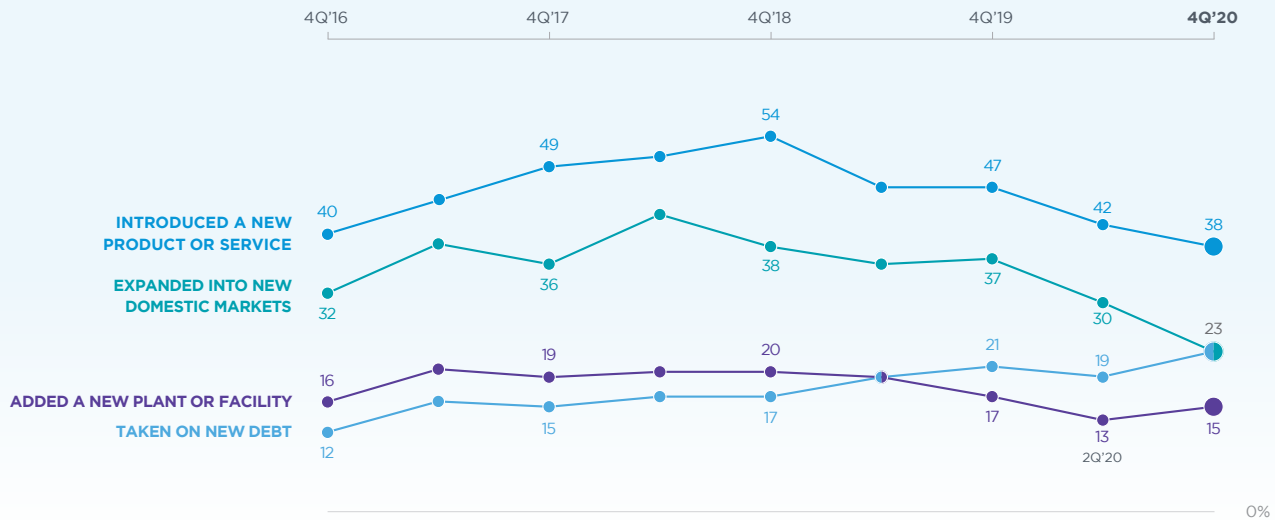
KEY FINDINGS



Expansion

Expansion activity decreased in 2020 while more companies took on new debt.

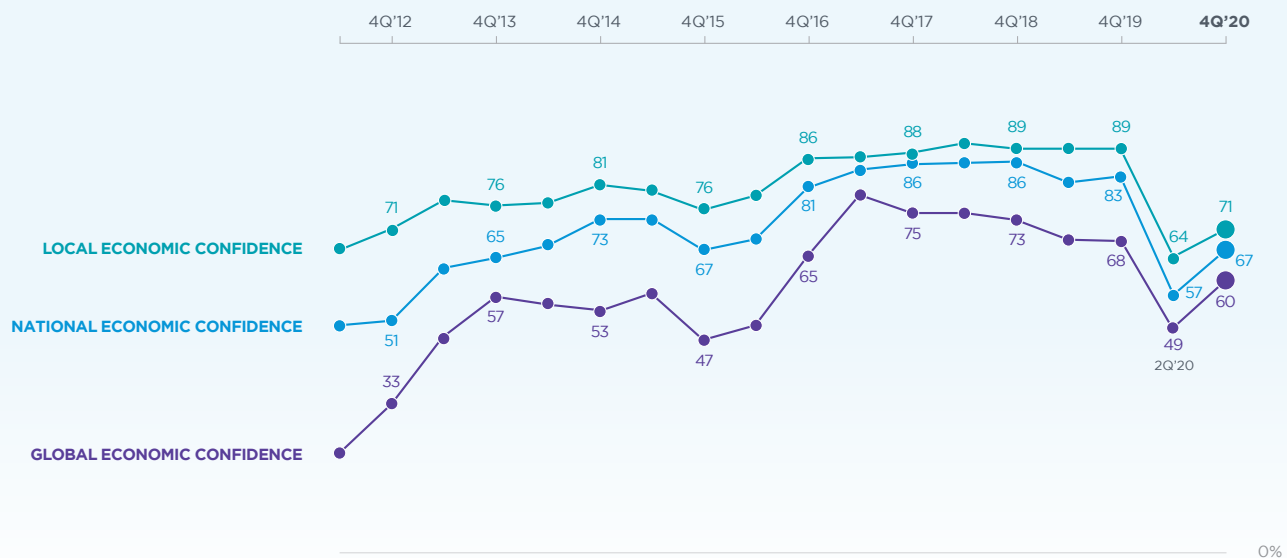
% of middle market companies engaging in expansion activities over the past 12 months



Economic Confidence

Confidence levels begin to rise after plummeting in mid 2020.

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

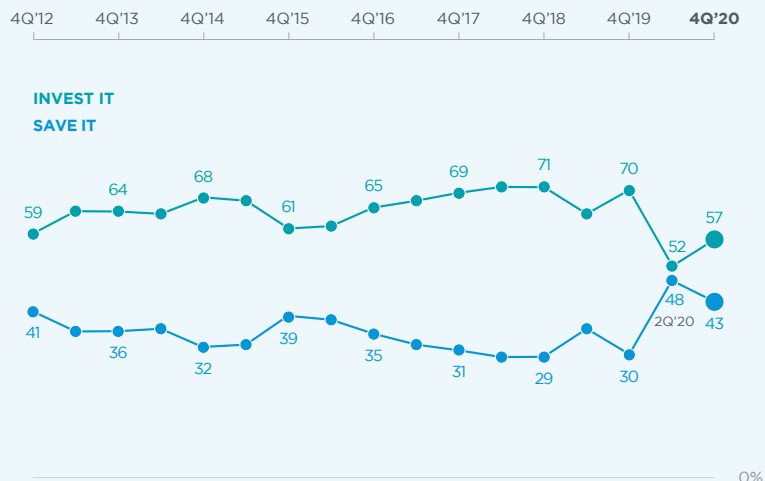




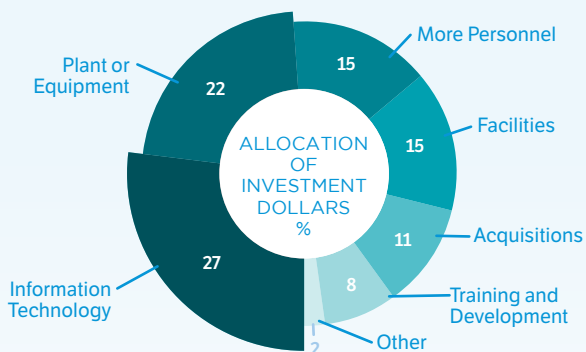
Capital Investment

Appetites remain conservative with just 57% of leaders willing to invest extra cash.

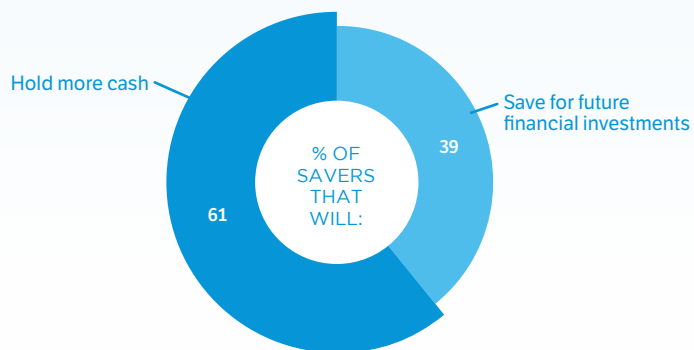
% of middle market executives that would invest vs. save an extra dollar



Information technology is the top destination for investment dollars followed by capital expenditures.



Most savers would hold cash indefinitely.



Key Challenges

Executives struggle most with maintaining growth and the ongoing impacts of the pandemic.

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

INTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 61% |
| 2. TALENT MANAGEMENT | 50% |
| 3. COVID-19 | 38% |
| 4. COSTS | 20% |

EXTERNAL CHALLENGES

- | | |
|--------------------------|-----|
| 1. COVID-19 | 37% |
| 2. CORE BUSINESS ISSUES* | 29% |
| 3. GOVERNMENT | 21% |
| 4. ECONOMY | 17% |

*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
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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.

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