



NATIONAL CENTER FOR  
THE MIDDLE MARKET

July 22, 2020

# The Market That Moves America

Findings from the 2Q 2020 Middle Market Indicator Report

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IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY  
FISHER COLLEGE OF BUSINESS

CHUBB®

# 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 and Chubb. 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** in All Industry  
Businesses Segments and  
Geographies

Equivalent to the  
**5<sup>th</sup> 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

# 2Q 2020 Middle Market Indicator

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# About the Middle Market Indicator

## A National Survey



## Cut by Geography and Industry



# About NCMM's Covid-19 Pandemic Research

In March, two weeks after the World Health Organization declared COVID-19 a pandemic, NCMM surveyed 260 executives of U.S. middle market companies to take the pulse of the most critical segment of the American economy.

All of the survey respondents also participated in the Q4 2019 Middle Market Indicator survey, fielded in December 2019.

Participants completed the survey between March 23 and March 25, 2020.



In June, NCMM fielded its 2Q Middle Market Indicator survey of 1,000 executives of U.S. middle market companies. In addition to collecting the usual trending data on revenue, employment, investment, and confidence, this survey

- Reprised the March Covid-19 questions
- Included additional questions about company response and use of government and other sources of support.

Participants completed the survey between June 1 and June 12, 2020.

# Headlines

- 1** For the first time since the inception of the Middle Market Indicator, year-over-year revenue and employment figures both turned sharply negative, as the Covid-19 pandemic interrupted operations and sapped demand. Virtually all measures of company performance are down significantly.
- 2** Private-equity-owned middle market companies were less hard-hit than the segment as a whole, took more aggressive steps to cut headcount, and foresee stronger growth in both revenue and hiring in the year to come.
- 3** Economic confidence is very low. Short-term expectations have bounced back from March lows, but the overall level of activity in the next three months is not strong. Executives now believe recovery will take longer than they first thought.
- 4** Companies see a return to positive revenue growth in the year ahead, while hiring will remain flat. Big-ticket investment items have by and large been put aside, but innovation and digital transformation will continue strongly. PE-owned companies are more expansion-oriented than the middle market as a whole.

# Overview—Past Performance and Forecasts

## REVENUE GROWTH

**-3.7%**

PAST 12 MONTHS

**-11.1%**

S&P 500

**2.0%**

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

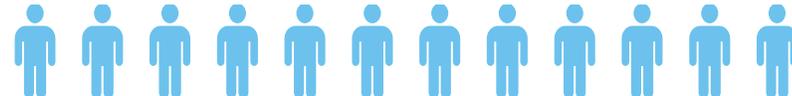
**-4.4%**

PAST 12 MONTHS

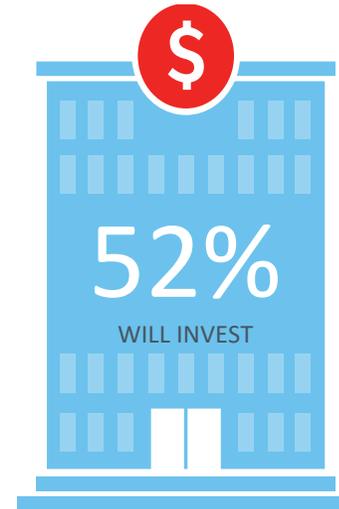
**-9.17%**   **-10.0%**  
SMALL BUSINESS   LARGE BUSINESS

**-0.2%**

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

**49%**

GLOBAL ECONOMY



**57%**

NATIONAL ECONOMY



**64%**

LOCAL ECONOMY



# 2Q'20 MMI: Revenue Growth Trend

PAST 12 MONTHS

**-3.7%**

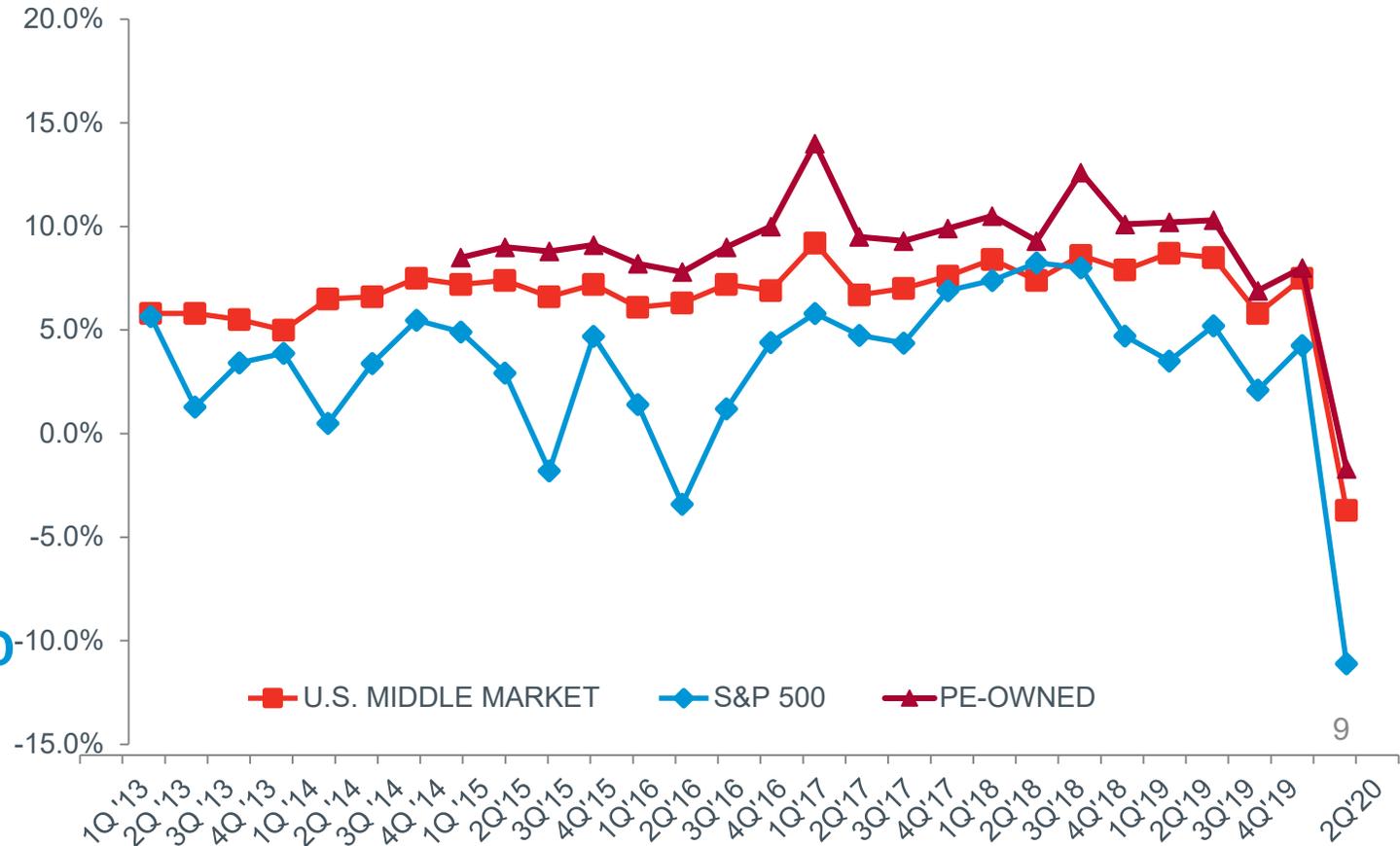
U.S. MIDDLE MARKET

**-1.7%**

PE-OWNED FIRMS

**-11.1%**

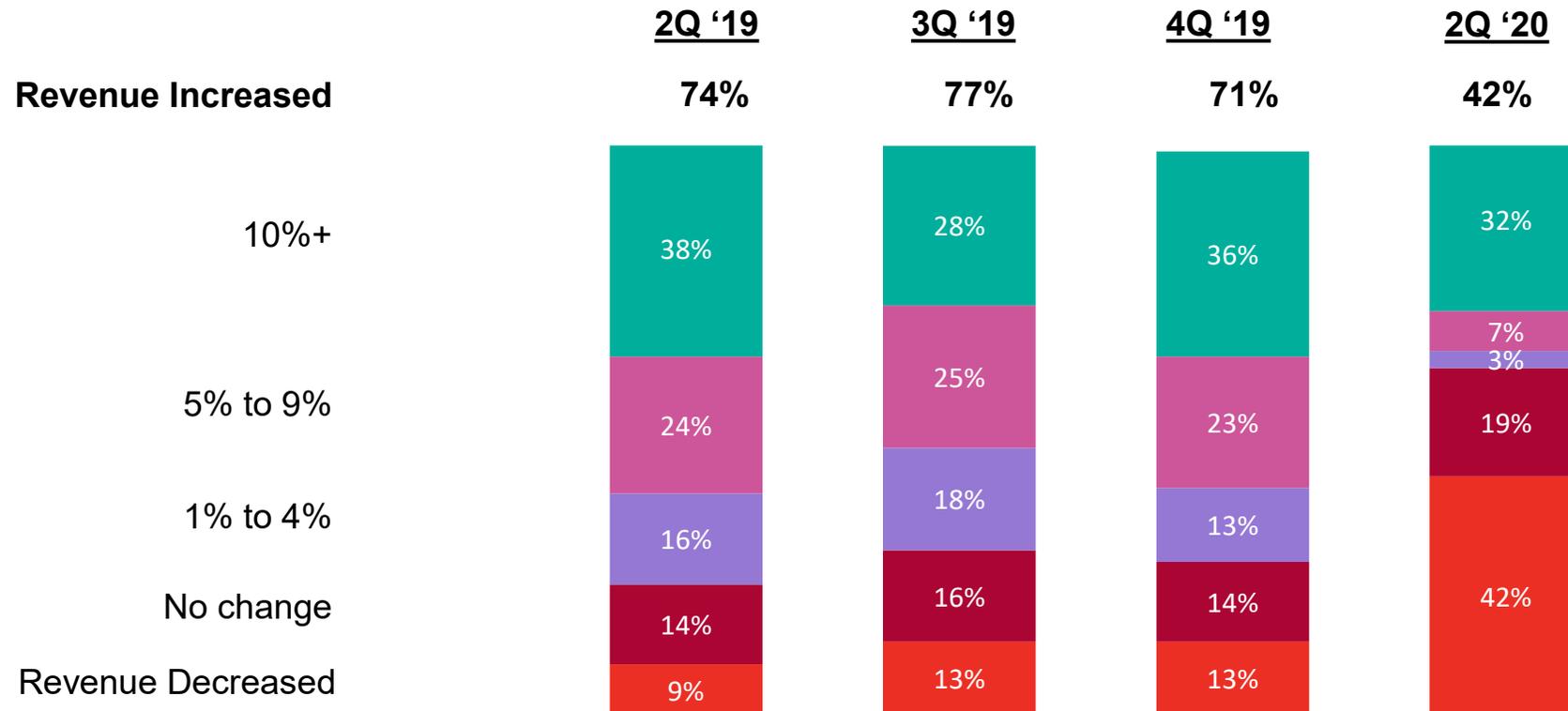
S&P 500\*



Source: 2Q'20 Middle Market Indicator Report

# 2Q'20 MMI: Revenue Growth Distribution

## Past Year Revenue Growth



# 2Q '20 MMI: Revenue by Industry



# 2Q'20 MMI: Employment

PAST 12 MONTHS

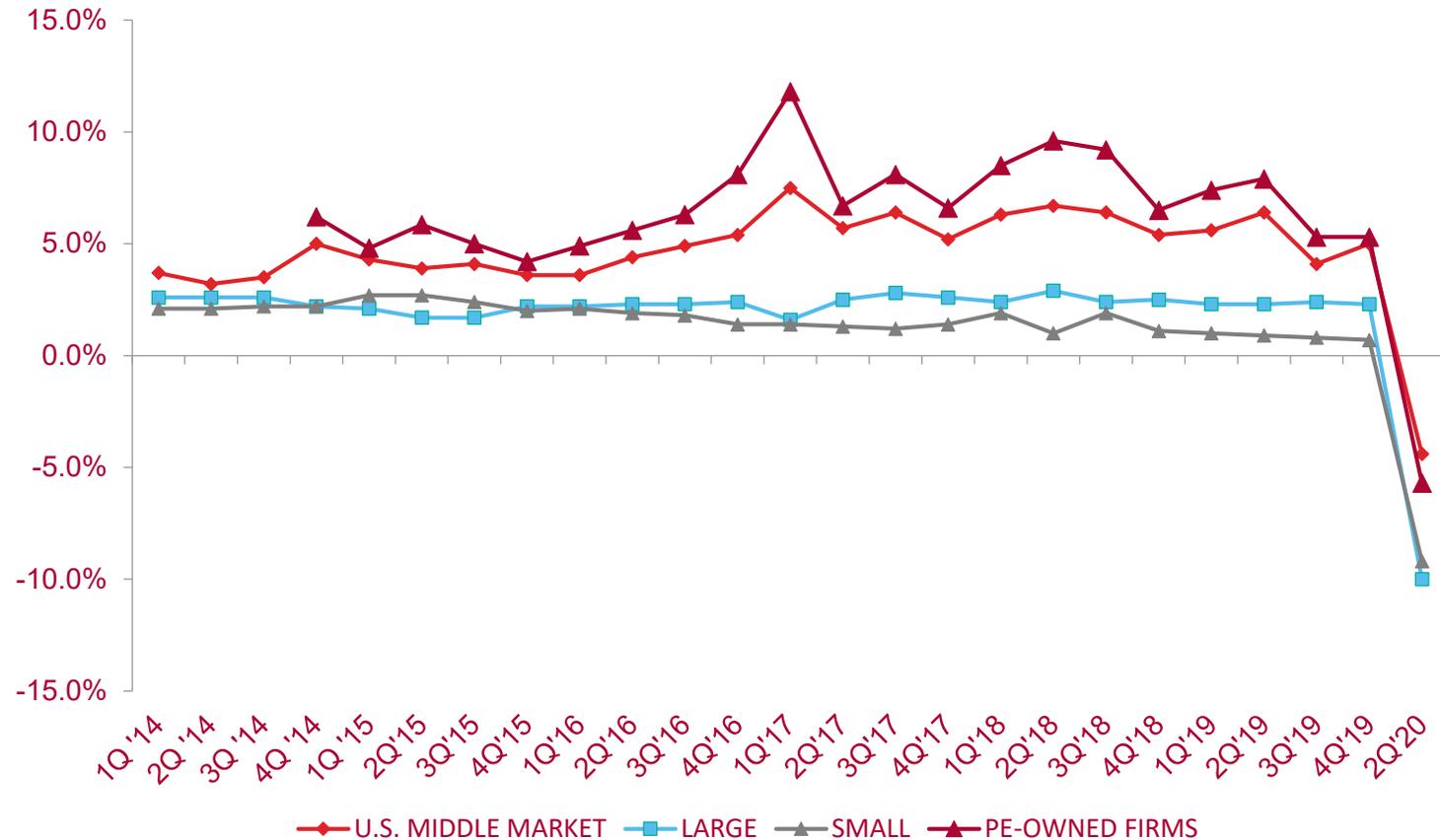
**-4.4%**

U.S. MIDDLE MARKET

**-9.17%** SMALL BUSINESS  
**-10.0%** LARGE BUSINESS

**-5.7%**

PE-OWNED FIRMS



Source: 2Q'20 Middle Market Indicator Report

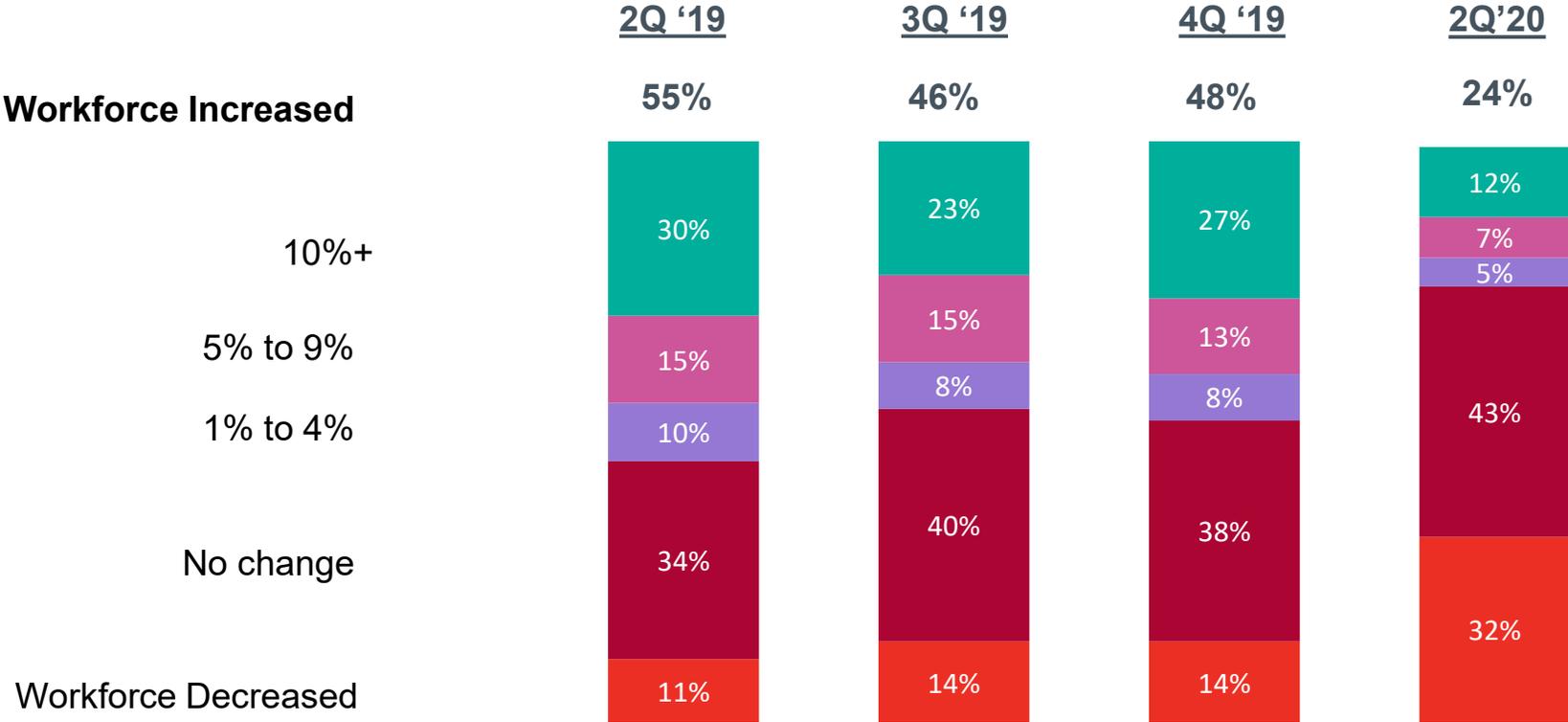
# 2Q'20 MMI: Employment by Industry



Source: 2Q'20 Middle Market Indicator Report

# 2Q'20 MMI: Employment Growth Distribution

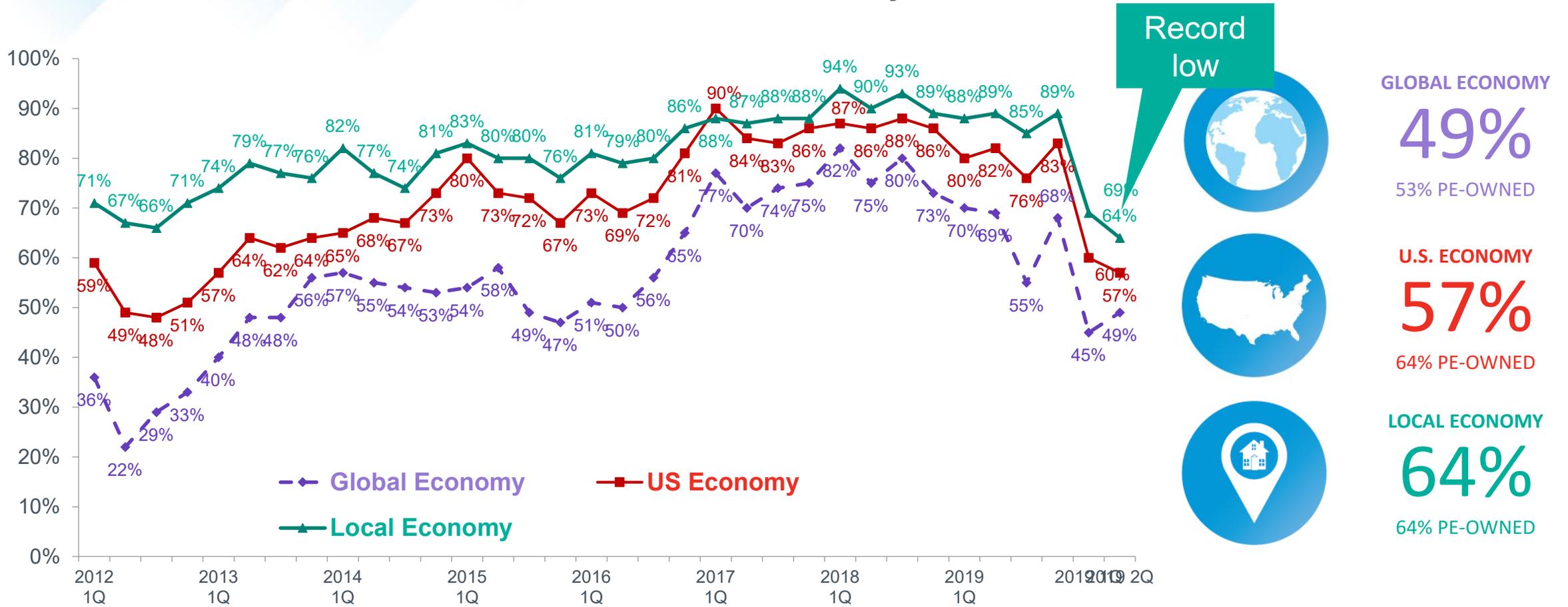
## Past Year Employment Growth



Source: 2Q'20 Middle Market Indicator Report

# Economic confidence is very low

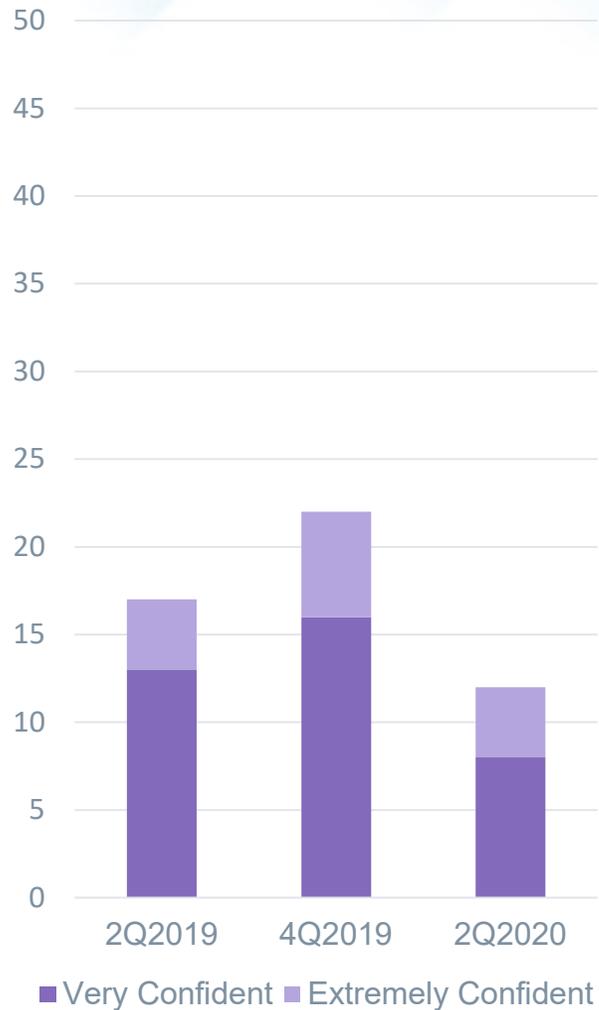
## Confidence in Economy



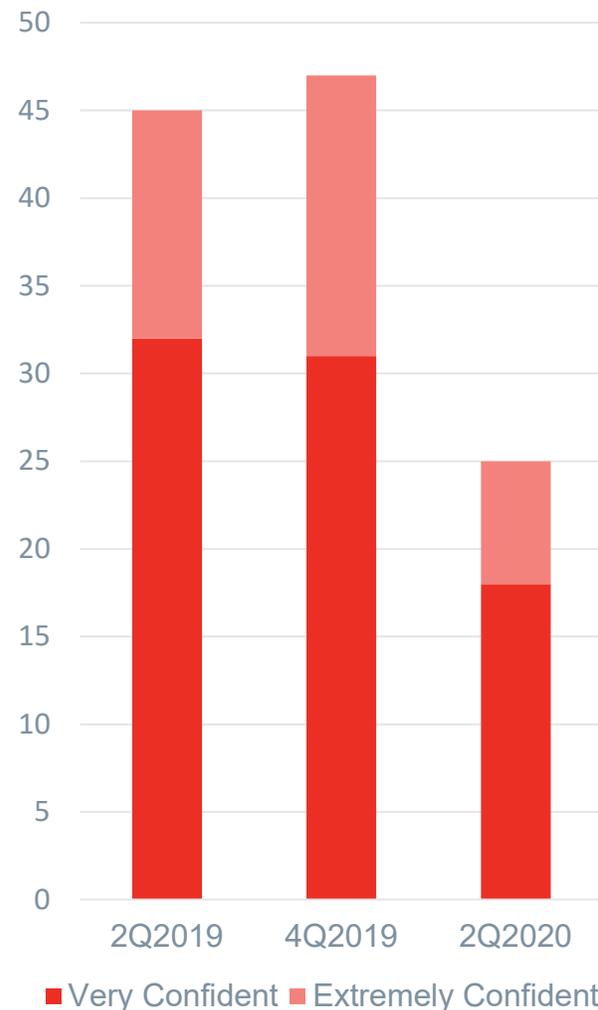
Source: 2Q'20 Middle Market Indicator Report

# Economic Confidence: Very and Extremely Only

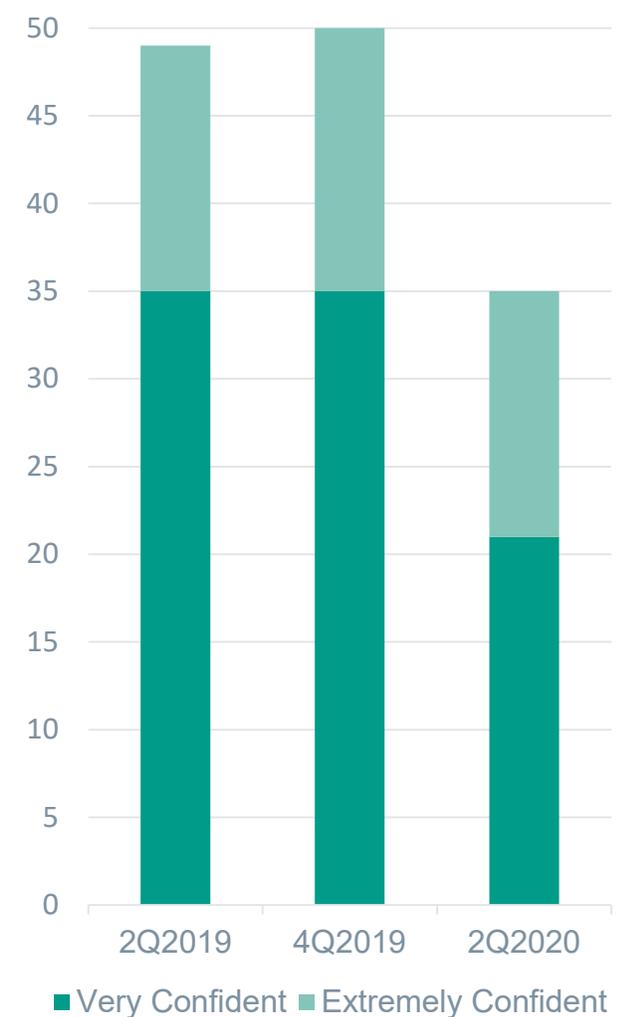
## Global



## U.S.



## Local



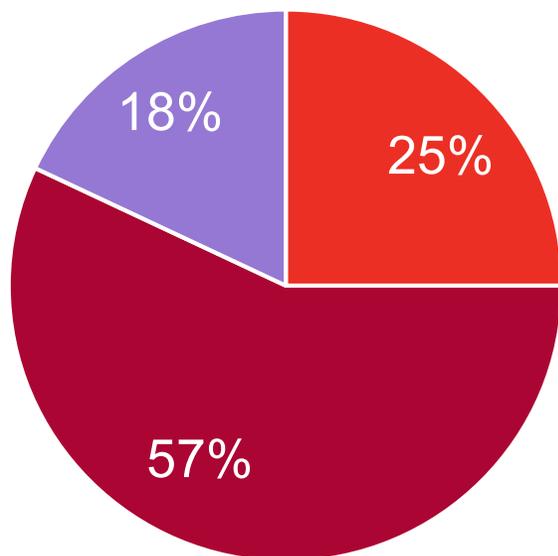
# **The Next Three Months**

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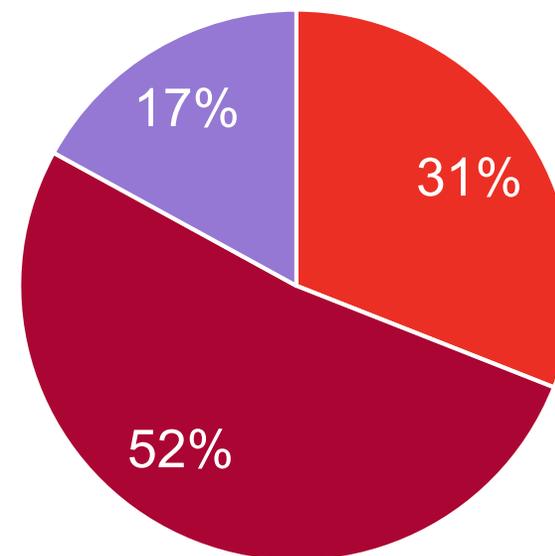
# Overall, job cuts may have stabilized

## CHANGE IN WORKFORCE, NEXT THREE MONTHS

Total Middle Market

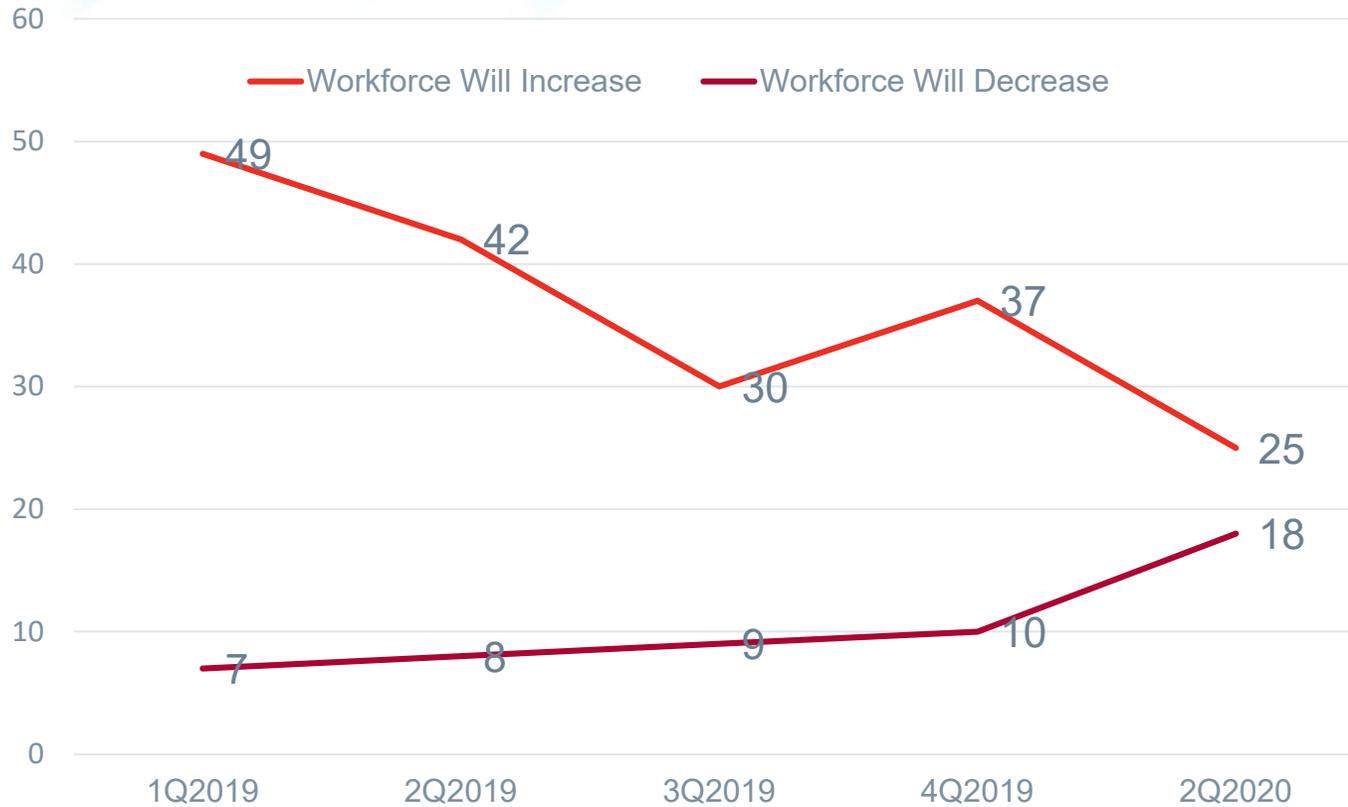


PE-Owned



# 2Q MMI: One Company in Five Expects Cut Payrolls More

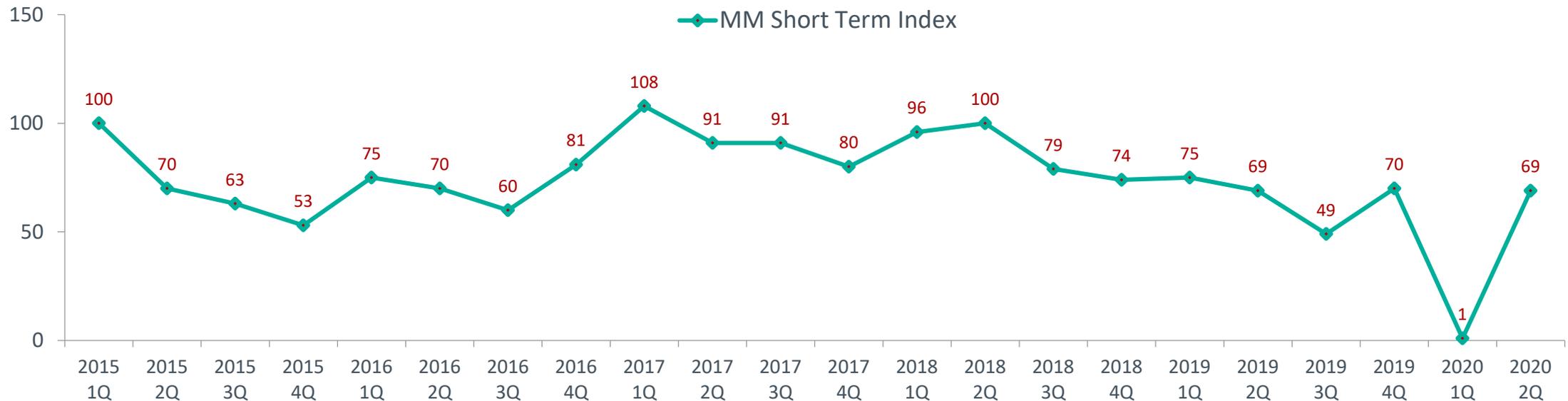
WORKFORCE SIZE, NEXT 3 MONTHS



Size of labor force	4Q'19	2Q'20
Too small; need to hire	22	19
Just about right	73	66
Too big	5	15

Source: 2Q'20 Middle Market Indicator Report

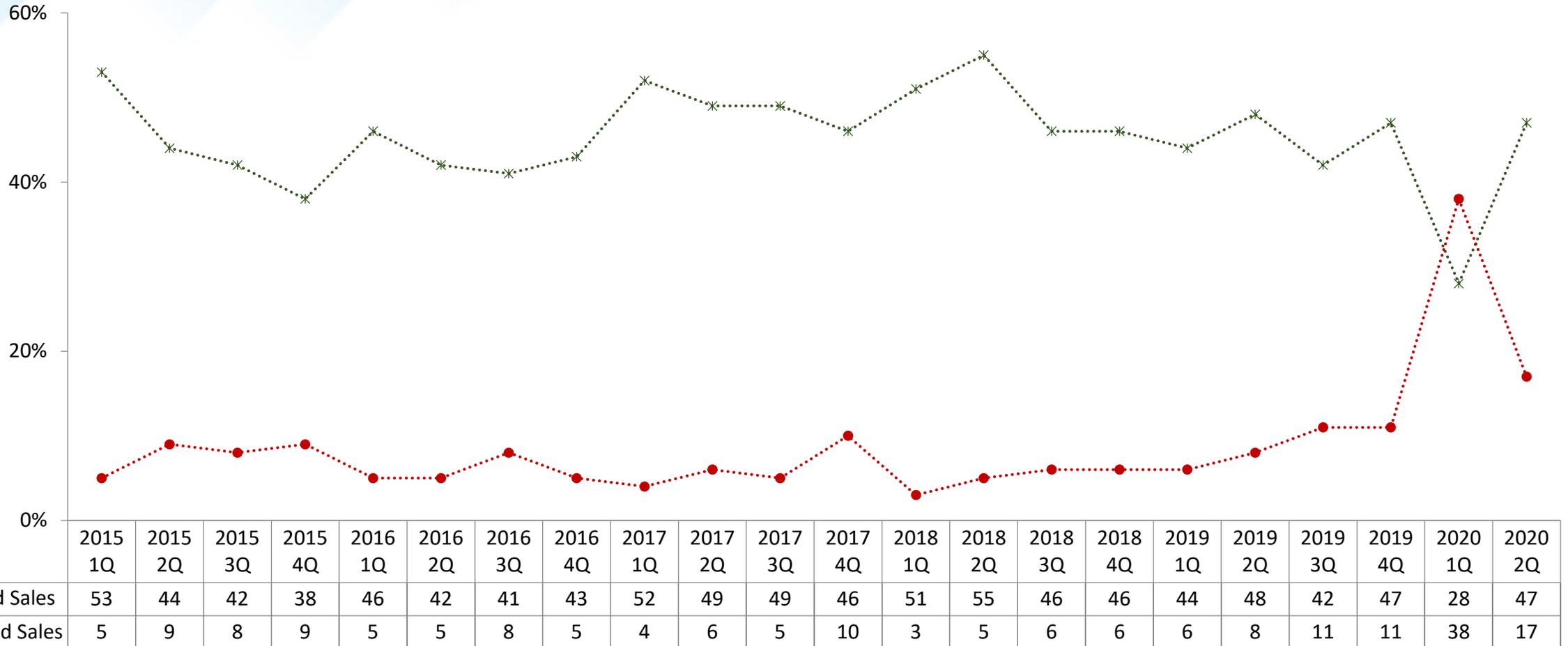
# Next three months: Short Term Index rebounds



*Short Term Index is calculated by taking expected net positive change in business climate plus expected net positive change in demand plus expected net positive change in sales over the next 3 months*

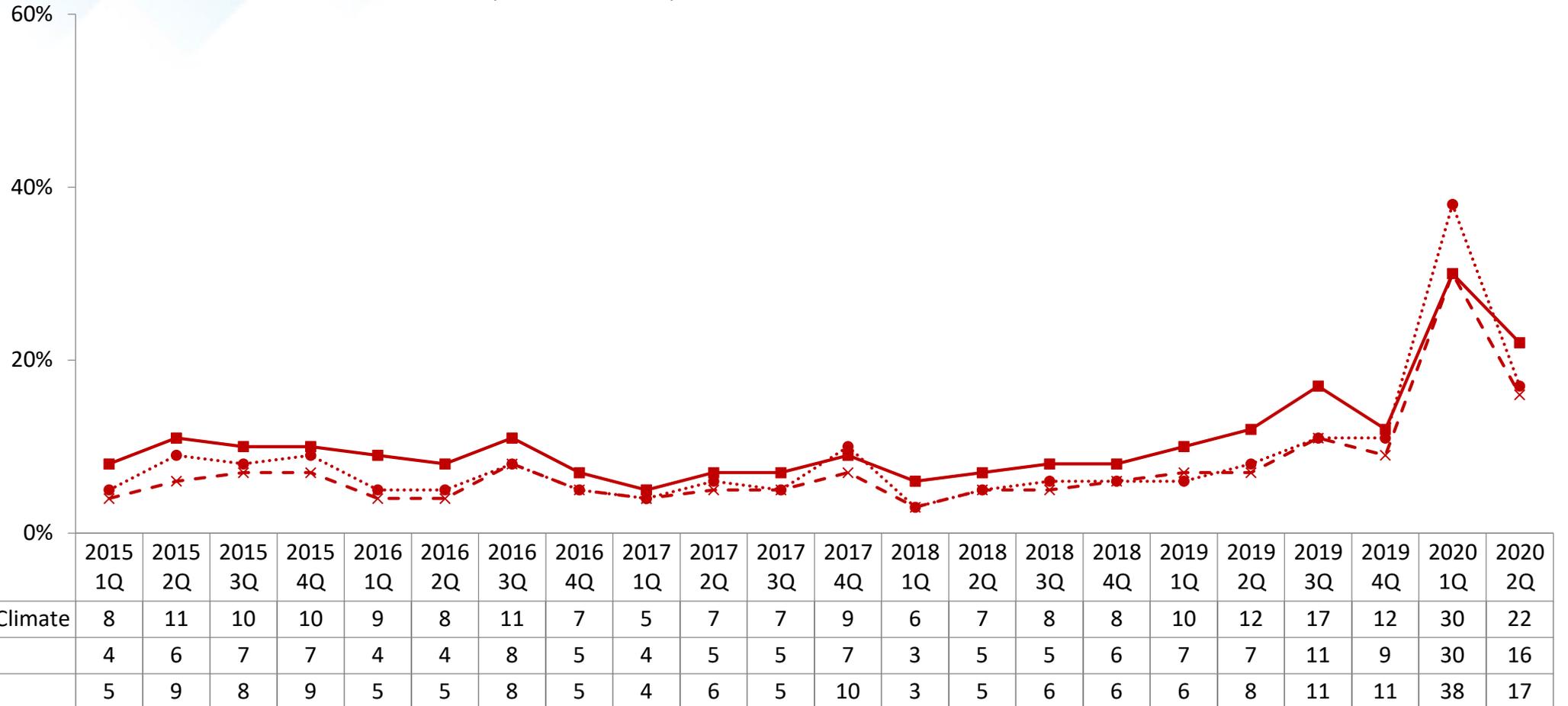
# Short-term: Next quarter's sales +/-

**Short Term Outlook**  
(Next 3 Months)



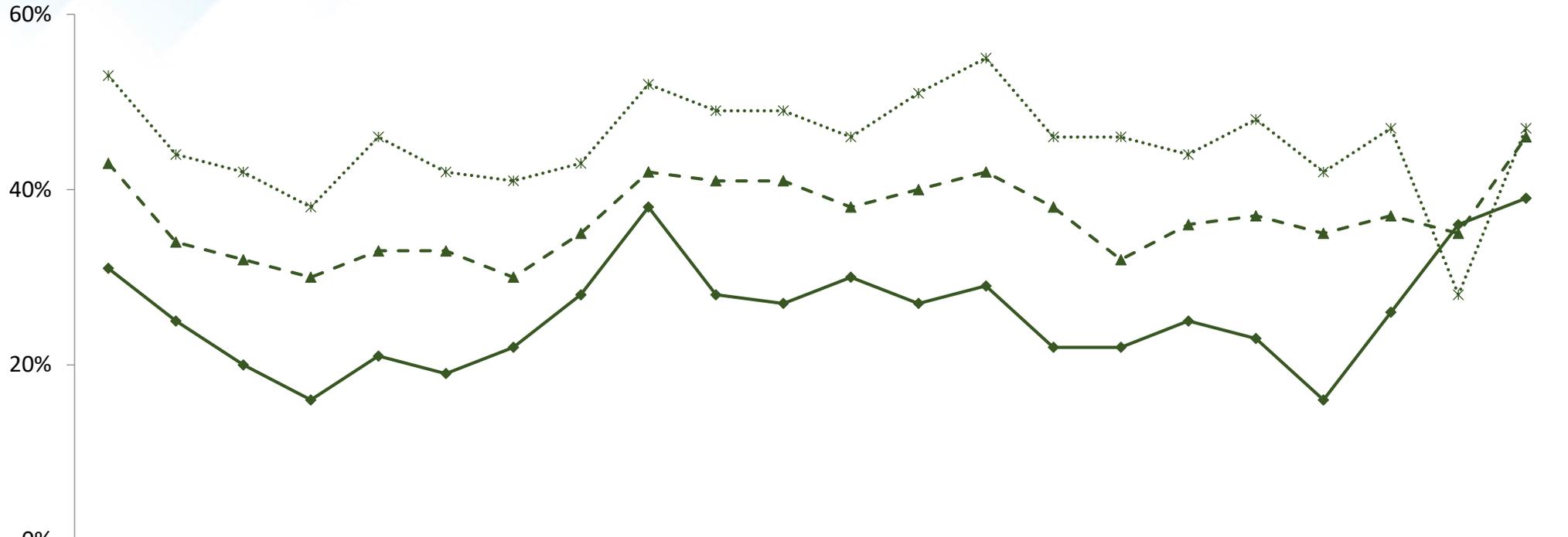
# Short term: Negatives subside

**Short Term Outlook**  
(Next 3 Months)



# Short-term: Positives hold steady

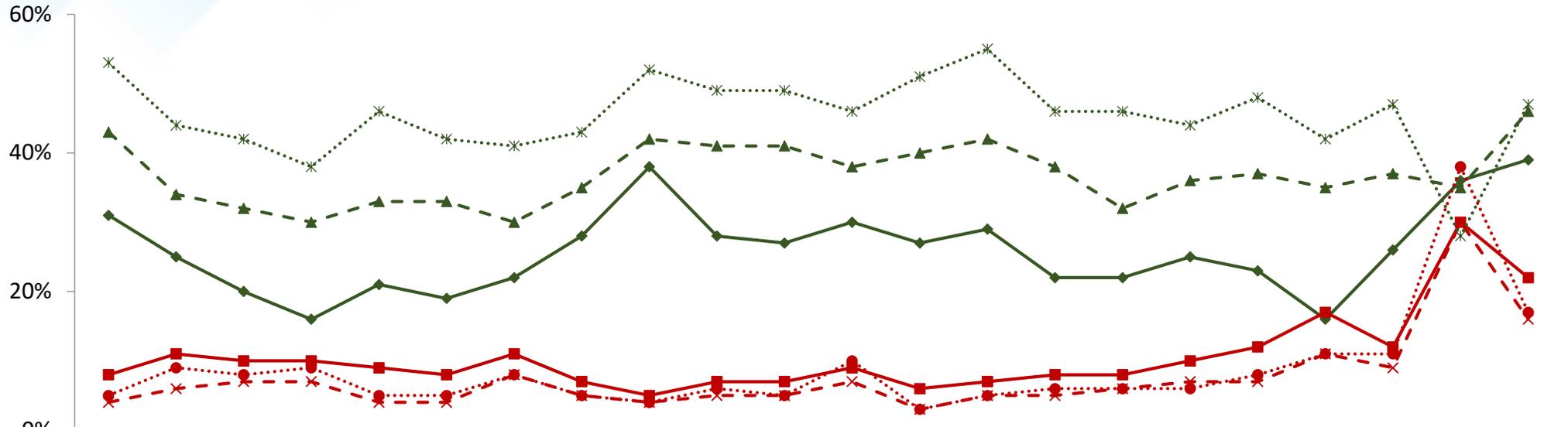
**Short Term Outlook**  
(Next 3 Months)



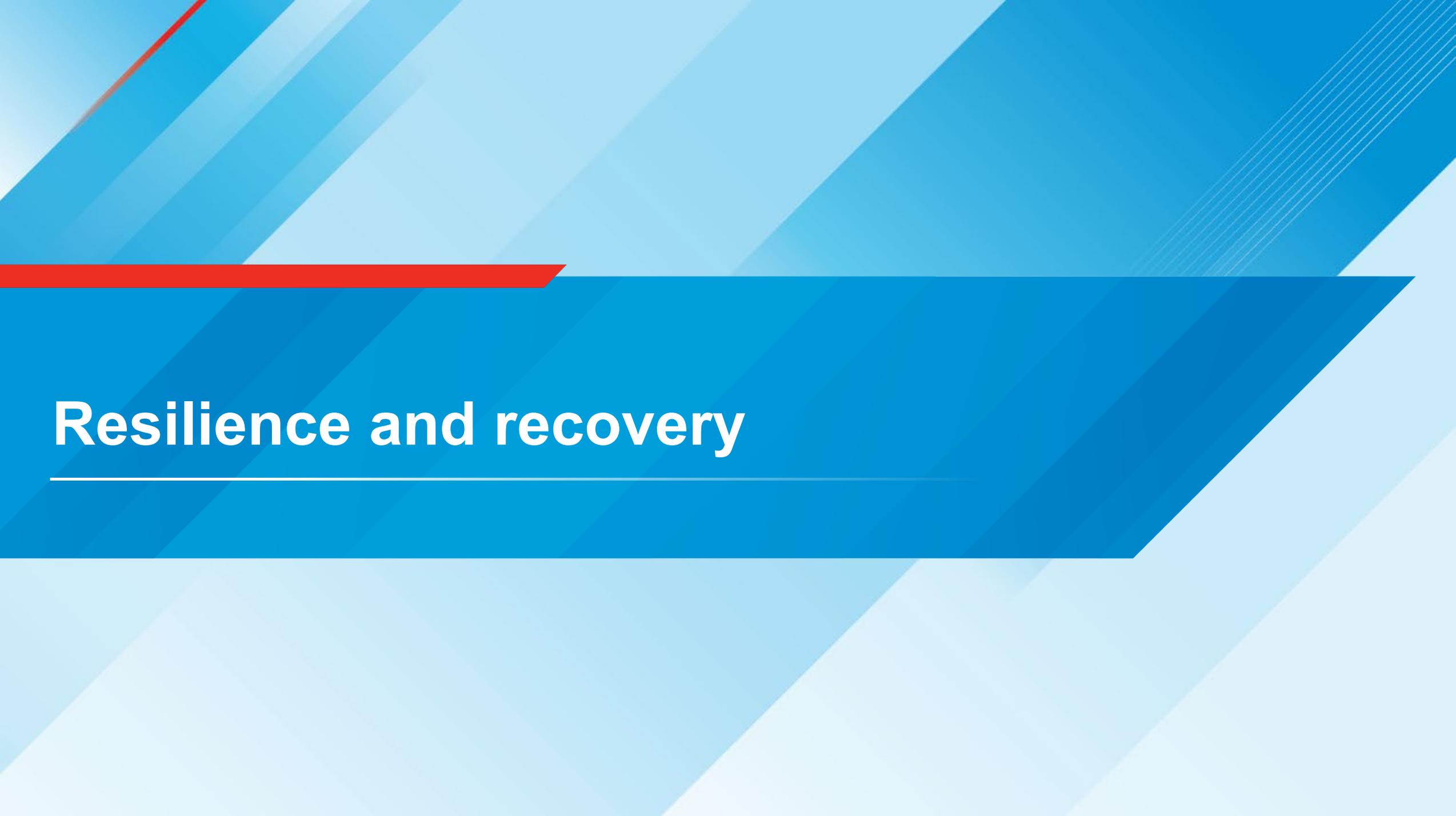
	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q	2016 2Q	2016 3Q	2016 4Q	2017 1Q	2017 2Q	2017 3Q	2017 4Q	2018 1Q	2018 2Q	2018 3Q	2018 4Q	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q
◆ More Favorable Business Climate	31	25	20	16	21	19	22	28	38	28	27	30	27	29	22	22	25	23	16	26	36	39
-▲- Increased Demand	43	34	32	30	33	33	30	35	42	41	41	38	40	42	38	32	36	37	35	37	35	46
...✱... Increased Sales	53	44	42	38	46	42	41	43	52	49	49	46	51	55	46	46	44	48	42	47	28	47

# Short-term: Putting it together

**Short Term Outlook**  
(Next 3 Months)



	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q	2016 2Q	2016 3Q	2016 4Q	2017 1Q	2017 2Q	2017 3Q	2017 4Q	2018 1Q	2018 2Q	2018 3Q	2018 4Q	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q
◆ More Favorable Business Climate	31	25	20	16	21	19	22	28	38	28	27	30	27	29	22	22	25	23	16	26	36	39
■ Less Favorable Business Climate	8	11	10	10	9	8	11	7	5	7	7	9	6	7	8	8	10	12	17	12	30	22
-▲- Increased Demand	43	34	32	30	33	33	30	35	42	41	41	38	40	42	38	32	36	37	35	37	35	46
-×- Decreased Demand	4	6	7	7	4	4	8	5	4	5	5	7	3	5	5	6	7	7	11	9	30	16
⋯*⋯ Increased Sales	53	44	42	38	46	42	41	43	52	49	49	46	51	55	46	46	44	48	42	47	28	47
⋯●⋯ Decreased Sales	5	9	8	9	5	5	8	5	4	6	5	10	3	5	6	6	6	8	11	11	38	17



# **Resilience and recovery**

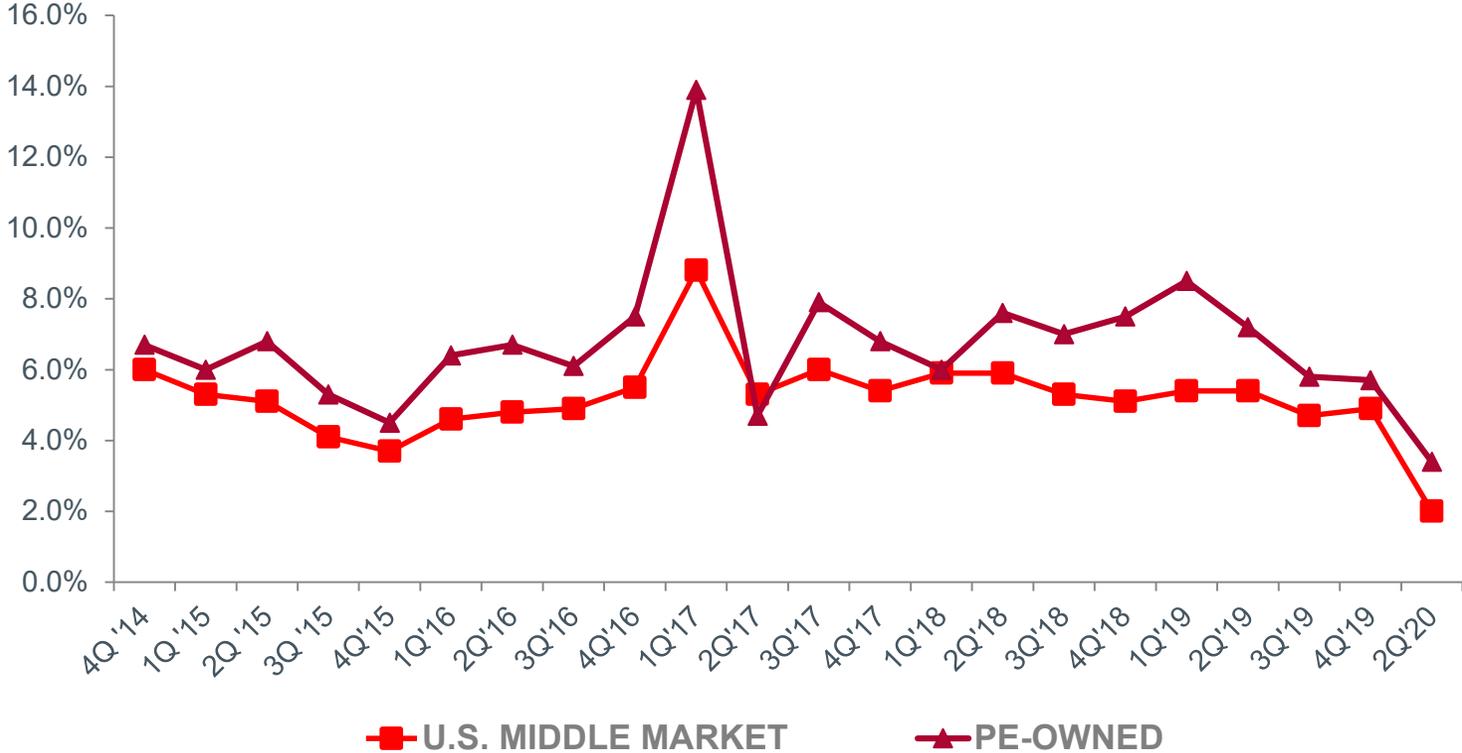
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# 2Q'20 MMI: Long Term Revenue Growth Forecast

FORECAST REVENUE GROWTH FOR TWELVE MONTHS FROM ...

**2.0%**  
U.S. MIDDLE MARKET

**3.7%**  
PE-OWNED FIRMS



Source: 2Q'20 Middle Market Indicator Report

# 2Q'20 MMI: Long-term Employment Growth Forecast

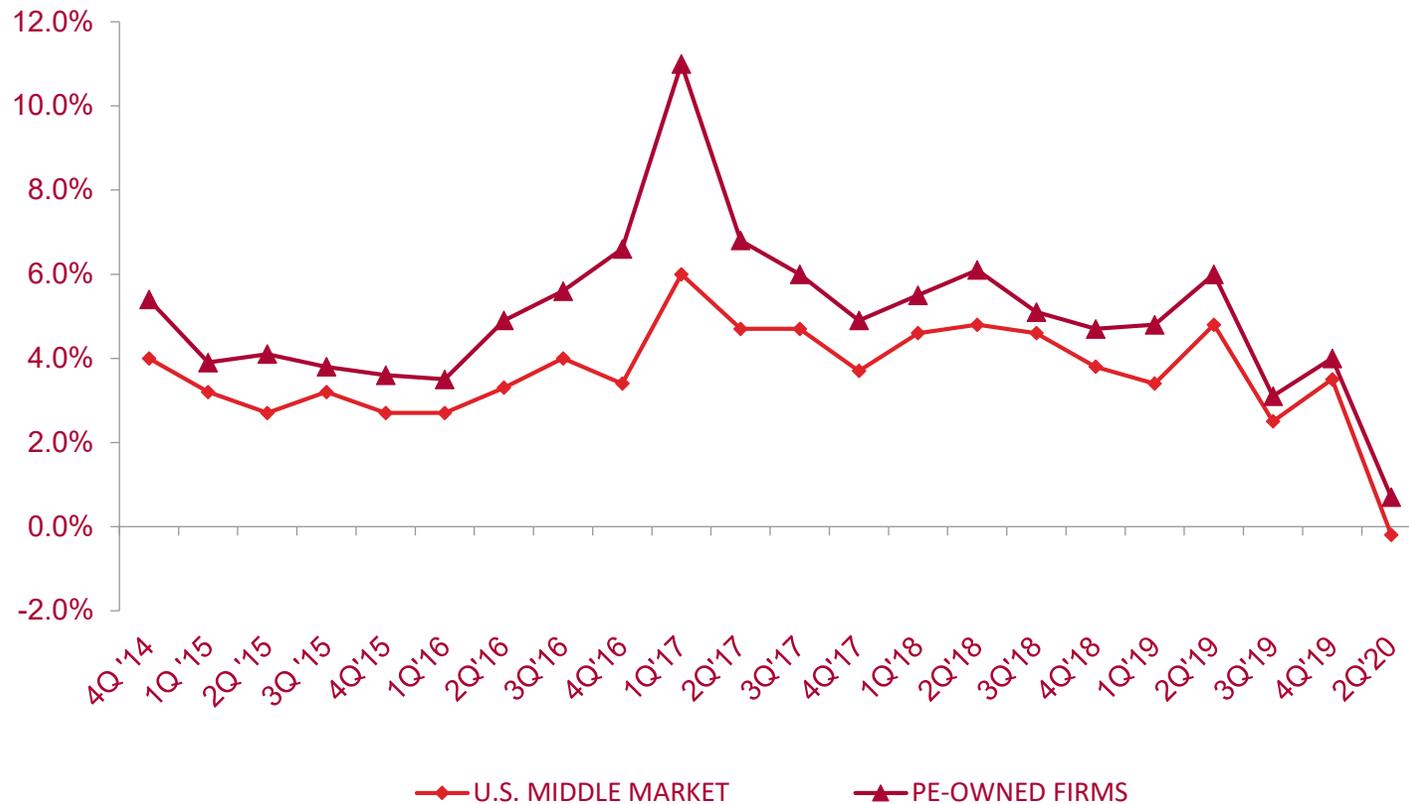
FORECAST EMPLOYMENT GROWTH FOR 12 MONTHS FROM ...

**-0.2%**

U.S. MIDDLE MARKET

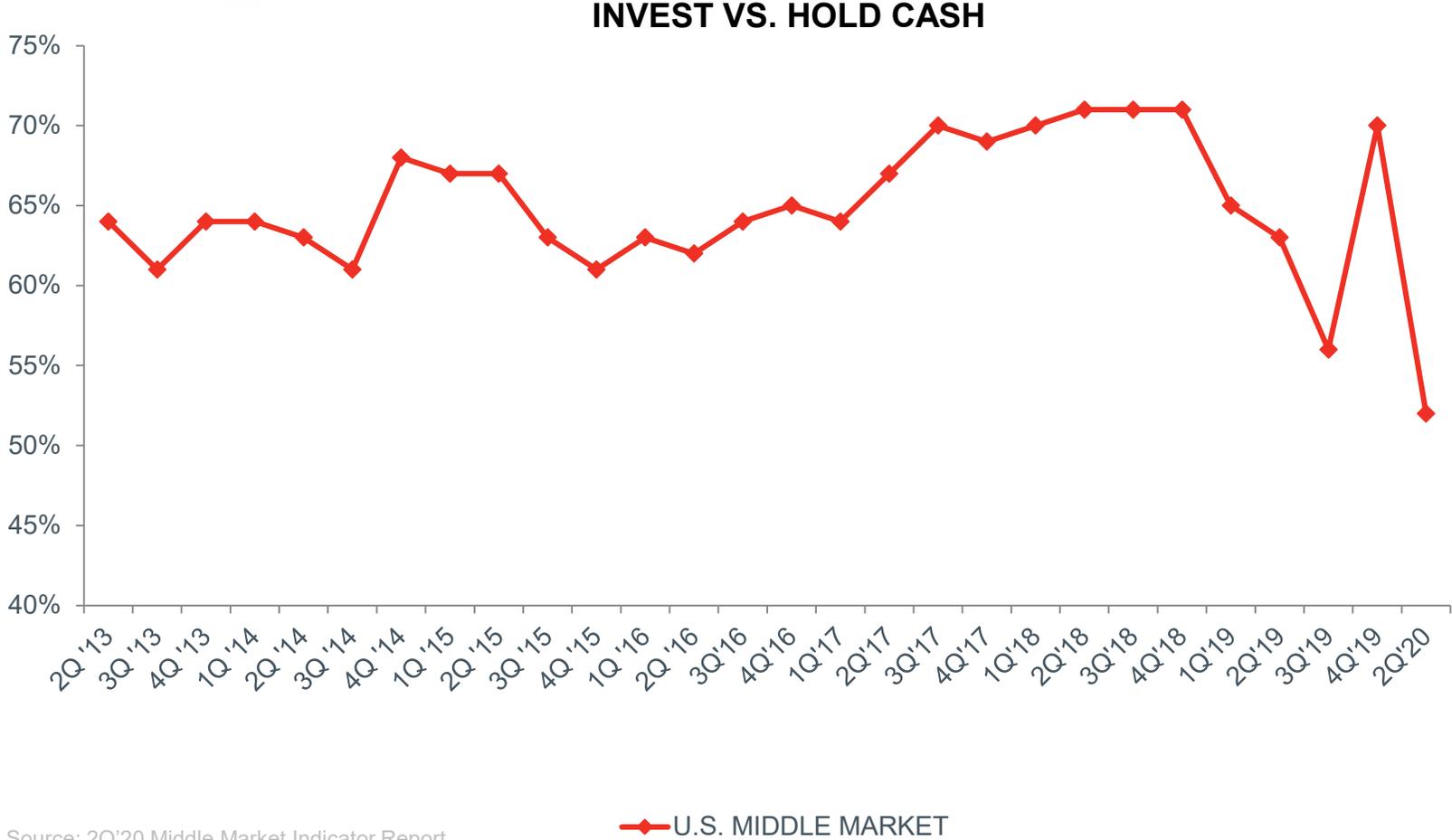
**0.7%**

PE-OWNED FIRMS



# 2Q'20 MMI: Investment Appetites Have Vanished

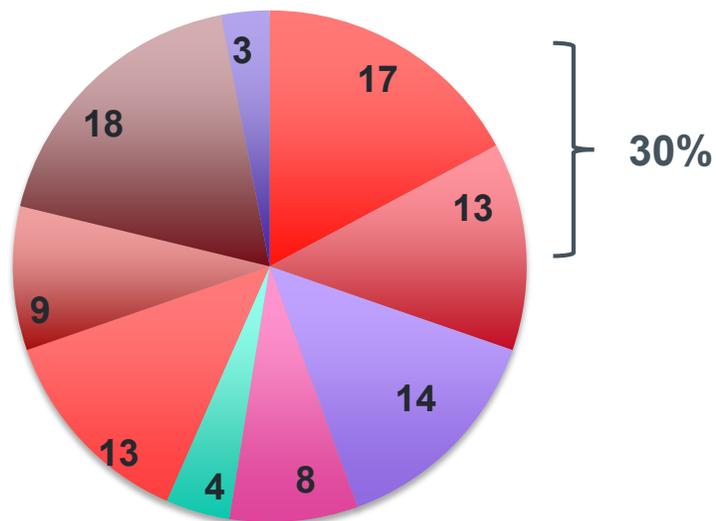
## WHAT WOULD YOU DO WITH AN EXTRA DOLLAR?



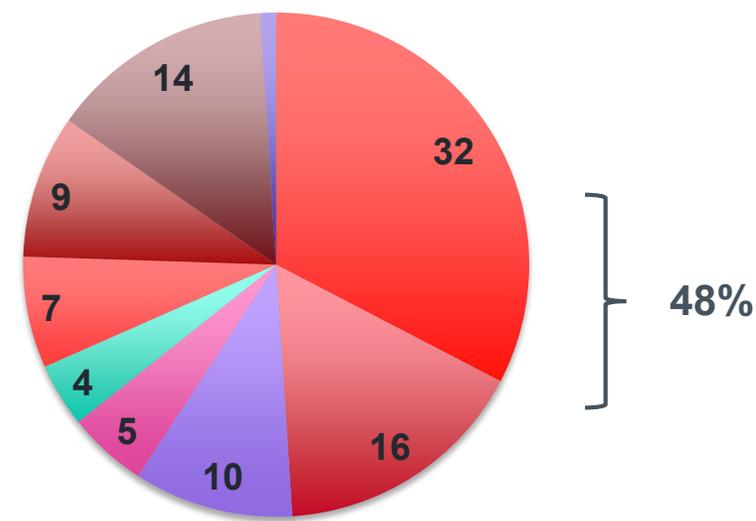
# Rainy-Day Funds Have Grown Fast

## WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

- Save It--Hold as Cash
- Save It--for Making Investments
- CapEx--Plant & Equipment
- CapEx--Facilities
- Acquisitions
- Add to HR--More Personnel
- Add to HR--Training & Development
- IT
- Other



U.S. MIDDLE MARKET, DEC 2019

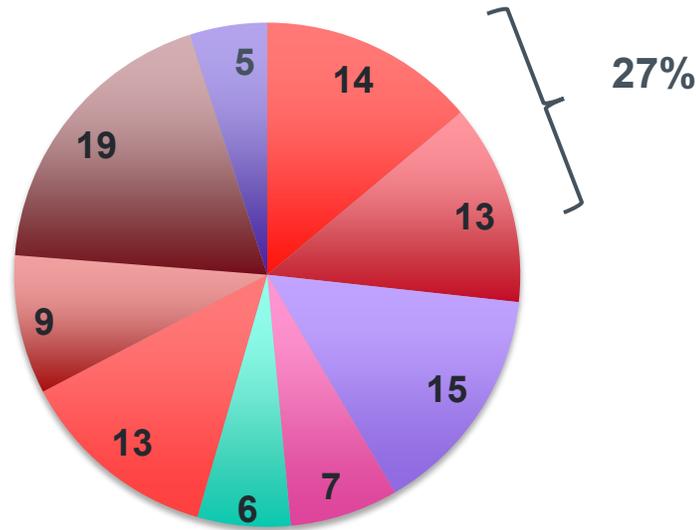


U.S. MIDDLE MARKET, JUNE 2020

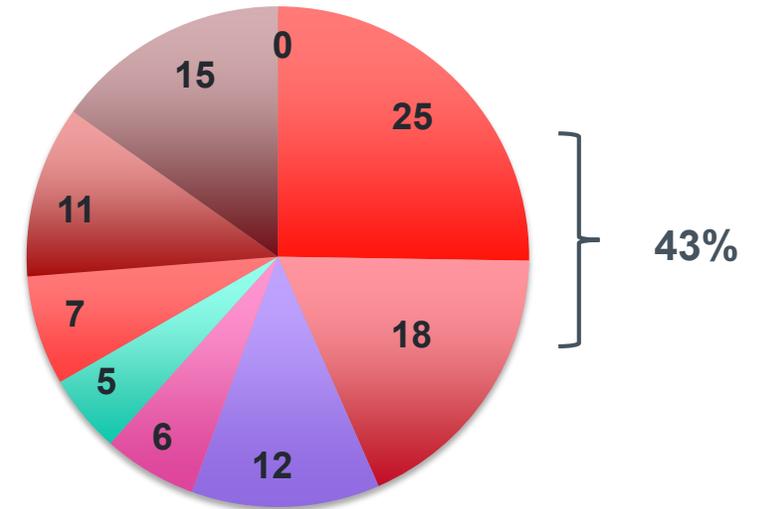
# PE Rainy-Day Funds Are Still Growing

## WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

- Save It-Hold as Cash
- Save It--for Making Investments
- CapEx--Plant & Equipment
- CapEx--Facilities
- Acquisitions
- Add to HR--More Personnel
- Add to HR--Training & Development
- IT
- Other



PE-OWNED, DEC. 2019



PE-OWNED, JUNE 2020

# An Extra Dollar: Priorities

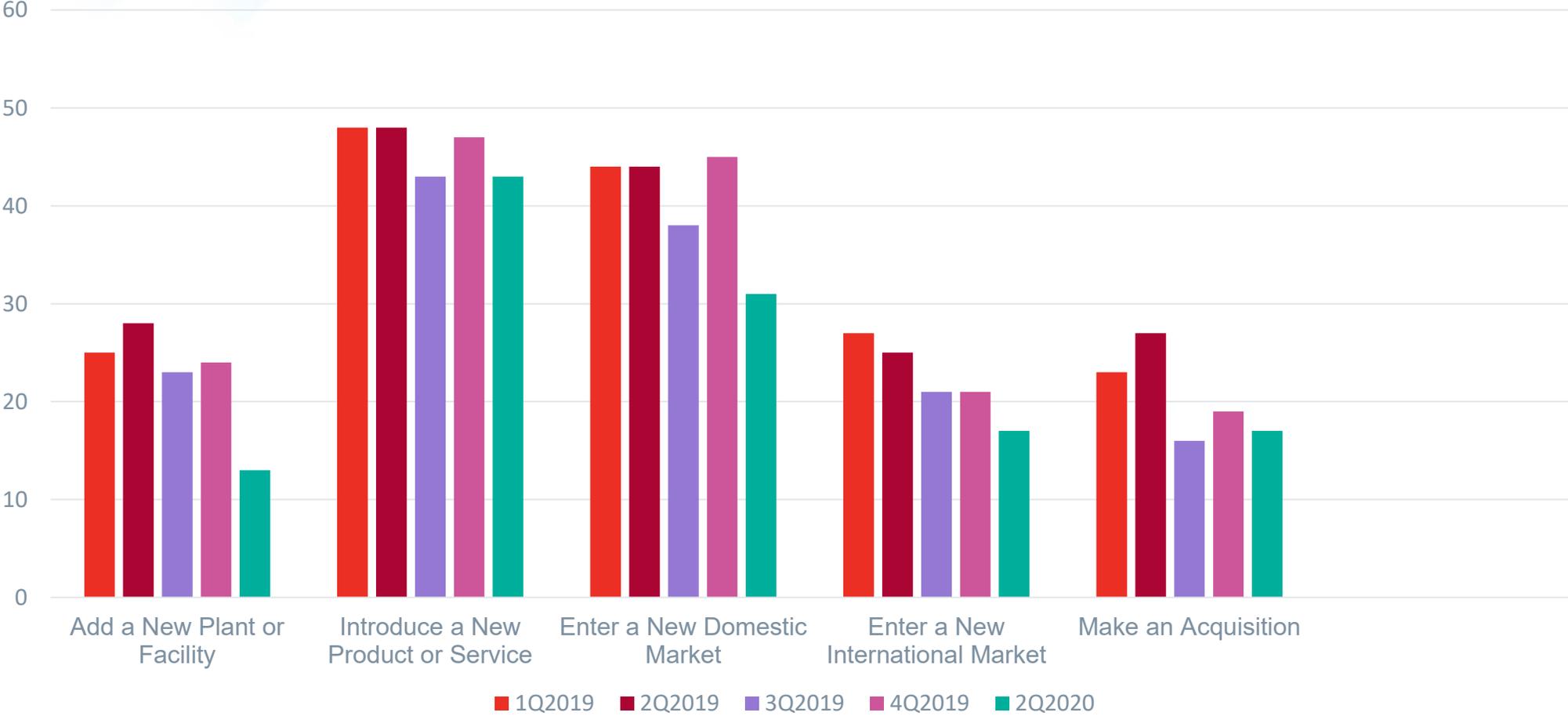


■ Cash Reserves   ■ War Chest/Acquisitions   ■ People   ■ Hard Assets   ■ IT

Source: 2Q'20 Middle Market Indicator Report

# 2Q'20 MMI: Most Expansion Plans Are Sharply Curtailed

Extremely / Very Likely in the Next 12 Months



Source: 2Q'20 Middle Market Indicator Report

# 2Q'20 MMI: PE Expansion Plans Hold Up Better

Extremely / Very Likely in the Next 12 Months



Source: 2Q'20 Middle Market Indicator Report

# Digital Transformation: Where Covid-19's Bite Isn't Bad

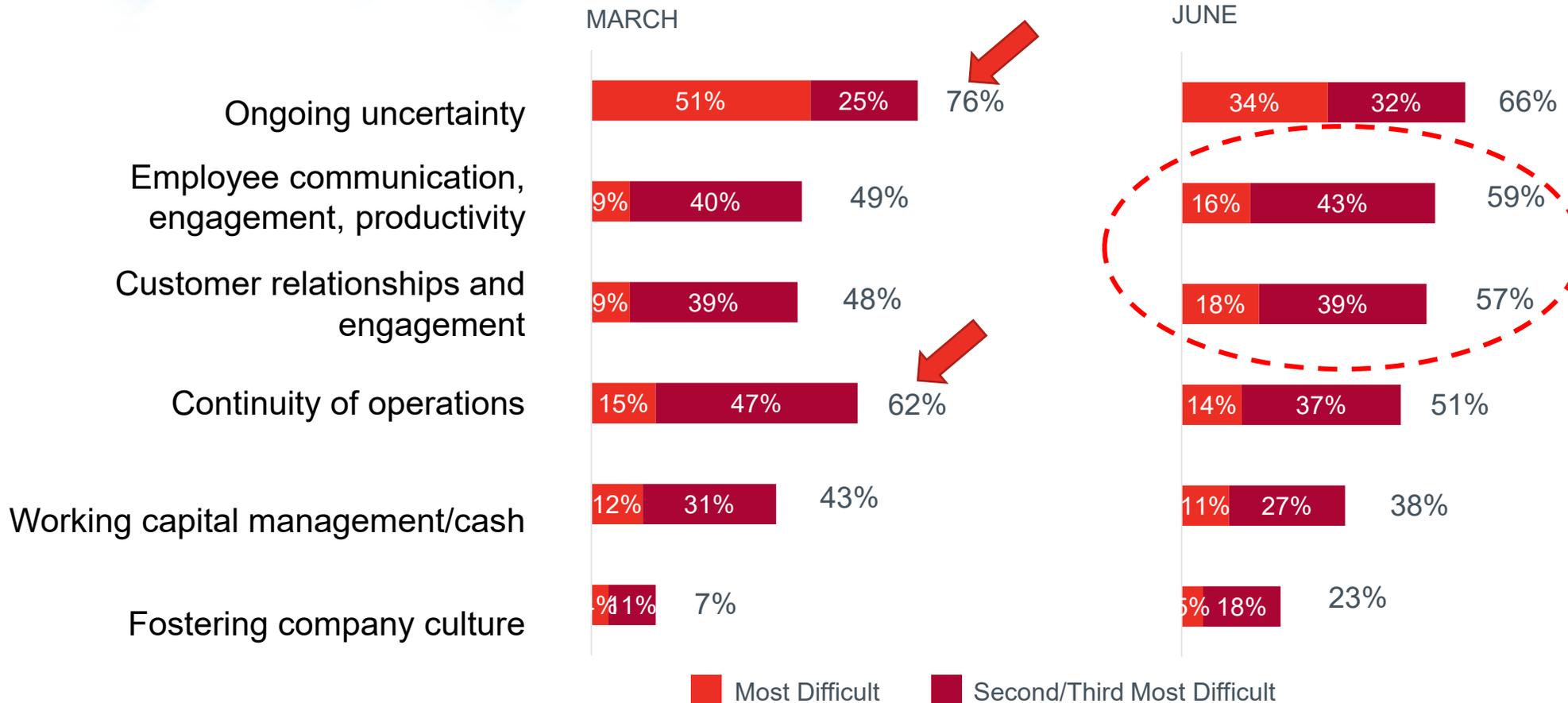
## IMMEDIATE IMPACT OF COVID-19 ON VARIOUS MIDDLE MARKET COMPANY ACTIVITIES AND INITIATIVES

	Positive impact %	No impact %	Negative impact %	Net of + and -
Revenue	21	22	57	-36
Supply chain	15	37	47	-32
Growth initiatives	21	28	52	-31
Demand	26	21	54	-28
Business operations	19	25	46	-27
Capital spending	16	42	42	-26
Employment	20	35	45	-25
Hours	19	38	43	-24
Working capital/cash	18	40	42	-24
Access to capital	18	53	29	-11
Digital transformation	27	48	25	+2

Source: 2Q'20 Middle Market Indicator Report; Copvid-19 and the Middle Market 2Q2020

# As uncertainty fades (a bit), concern about employees and customers grows brighter

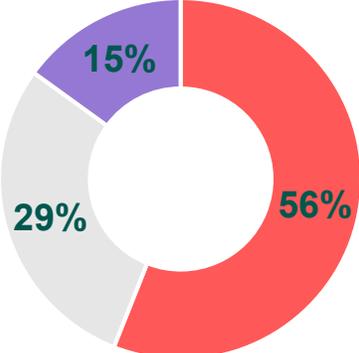
## MOST DIFFICULT ASPECTS OF RUNNING BUSINESS IN CURRENT ENVIRONMENT



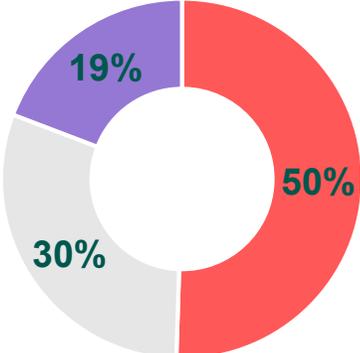
# A majority plan significant changes in how they operate

## LIKELIHOOD OF MAKING SIGNIFICANT AND LONG-LASTING CHANGES

When Organizing the Workplace for the Safety of Employees



When Serving Customers for the Safety of Them and Employees



### LIKELY CHANGES

Social Distancing -- Limited Personal Contact -- Virtual Engagement -- Personal Protective Equipment -- Cleaning and Sanitation -- Remote Access -- Reduced Staff On Site



Extremely/very likely



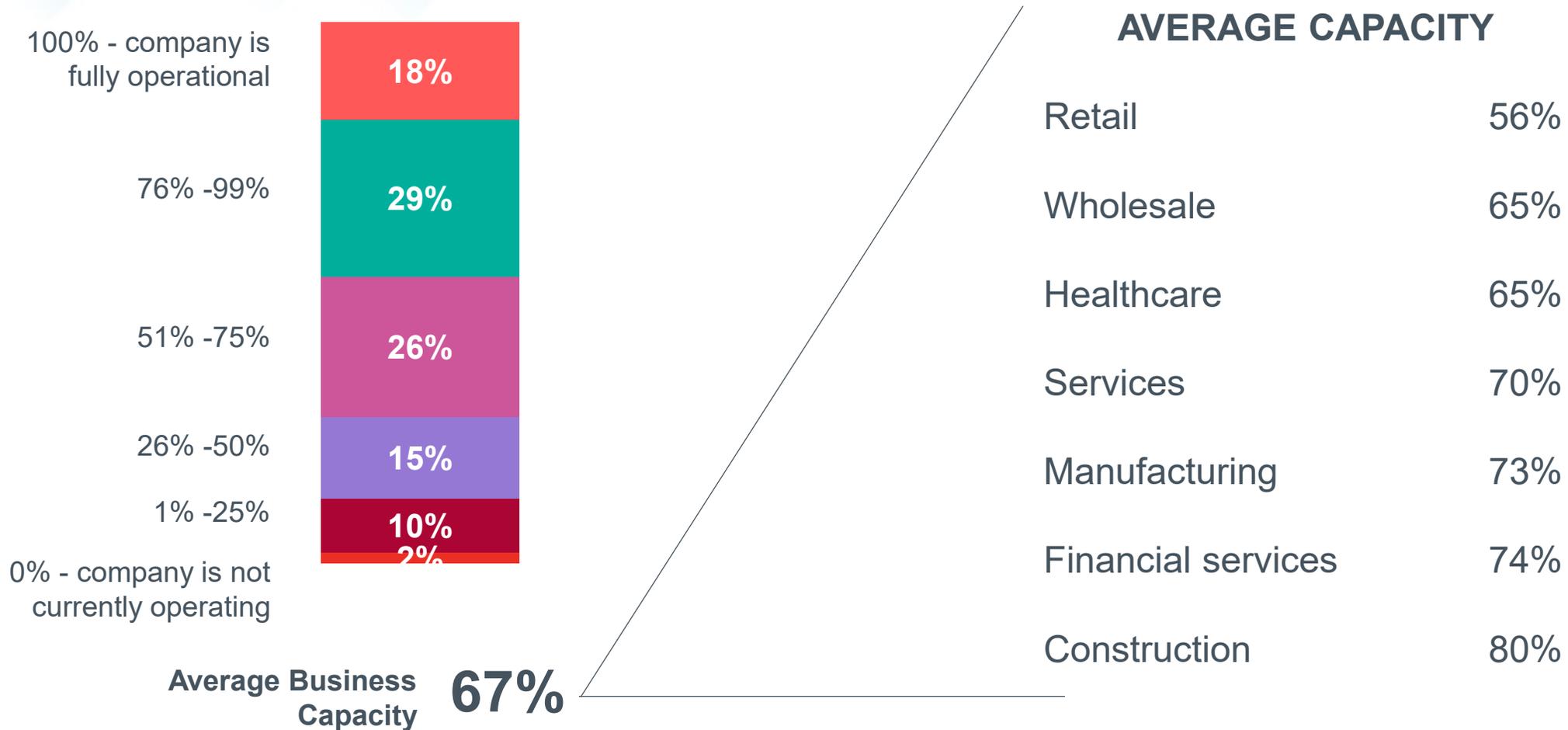
Somewhat likely



Not very/not at all likely

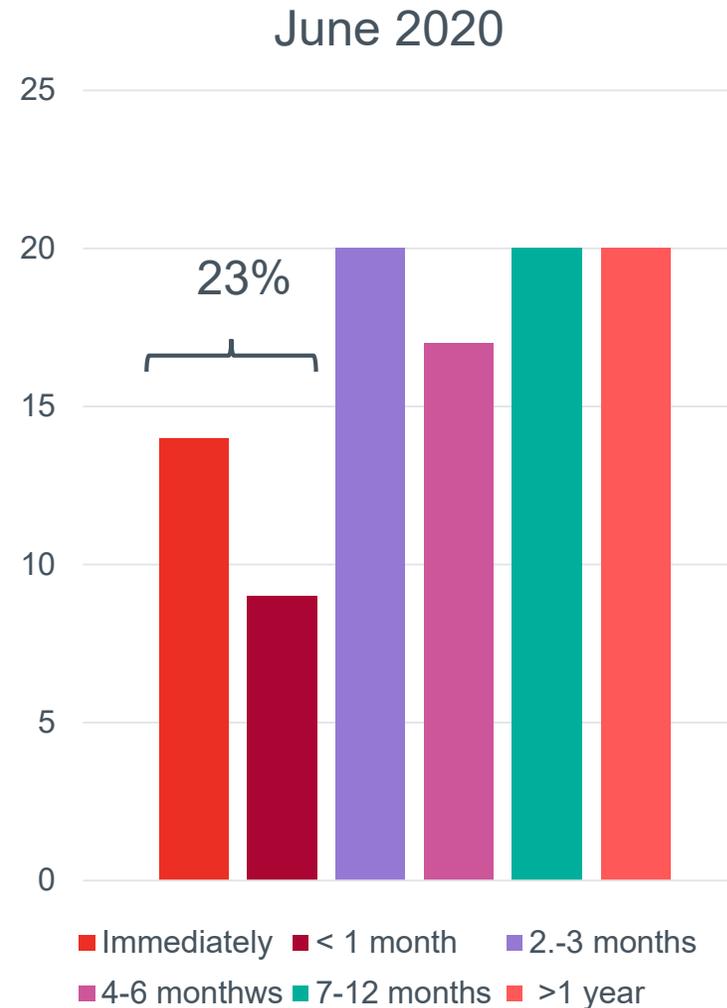
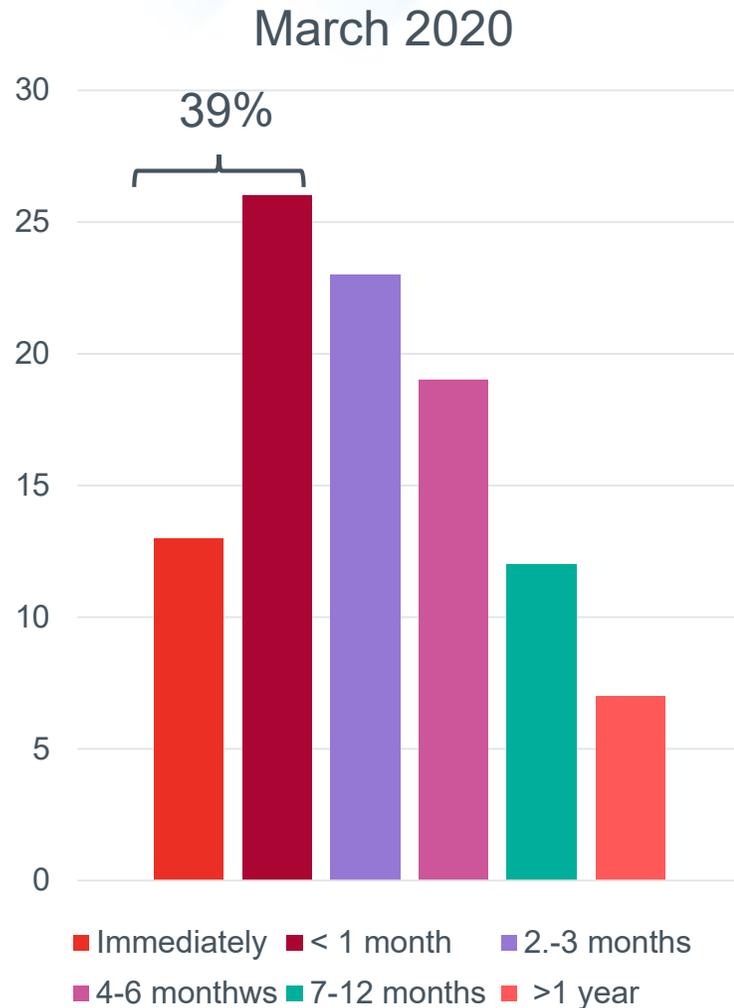
Source: Copvid-19 and the Middle Market 2Q2020

# The middle market is running at 2/3 of capacity



# Resilience: a longer road back

## TIME NEEDED TO RETURN TO FULL CAPACITY WHEN PANDEMIC COMES UNDER CONTROL





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[www.middlemarketcenter.org](http://www.middlemarketcenter.org)