



NATIONAL CENTER FOR
THE MIDDLE MARKET

August 7, 2024

Middle Market Update

Latest Data and Insights from the NCMM

Doug Farren, Managing Director

IN COLLABORATION WITH



CHUBB

VISA

Today's Plan

- I. About – NCMM, Middle Market, and the MMI Report
- II. Middle Market Data
- III. What's Next –Projections
- IV. Issues – Economy, Talent, Technology
- V. Wrap-Up

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 in All Industry
Businesses 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

Part 1

June

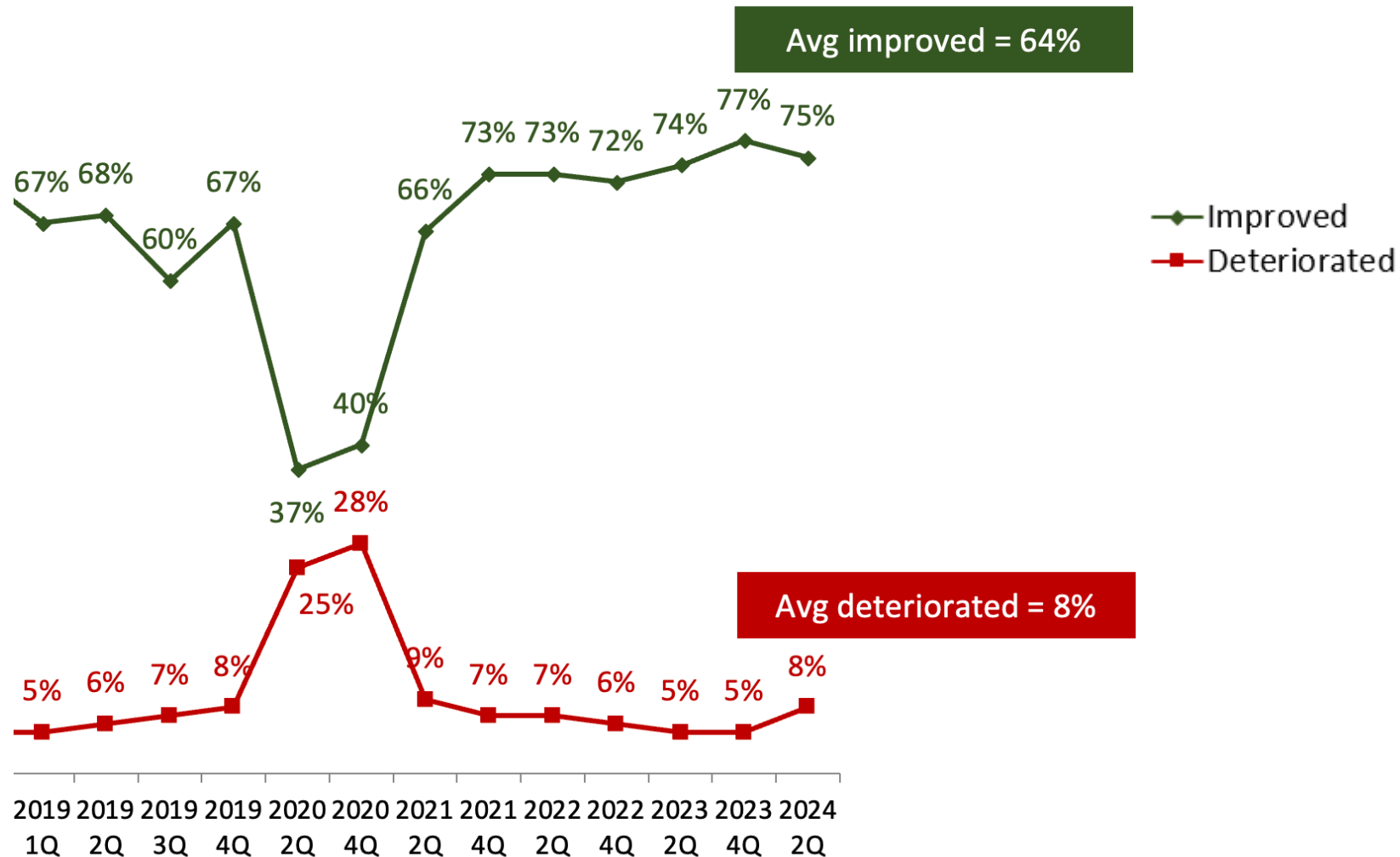
Part 2

December

Study was conducted 4 times per year until 2019 and is now conducted 2 times per year

What's New?

Overall Sense of Performance



- Middle Market Company self-performance sentiment continues to rise
- 75% of the middle market say their business is performing better than a year ago...11% higher than the historical average
- Headwinds such as the macroeconomy, geopolitical issues, and talent gaps remain from the previous survey

Overview—Past Performance and Forecasts

REVENUE GROWTH

12.9%

PAST 12 MONTHS

0.2%

S&P 500

8.8%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

10.3%

PAST 12 MONTHS

0.5%

SMALL
BUSINESS

2.6%

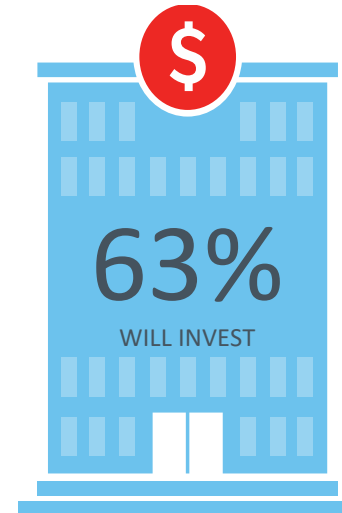
LARGE
BUSINESS

9.5%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

76%

GLOBAL ECONOMY



78%

NATIONAL ECONOMY



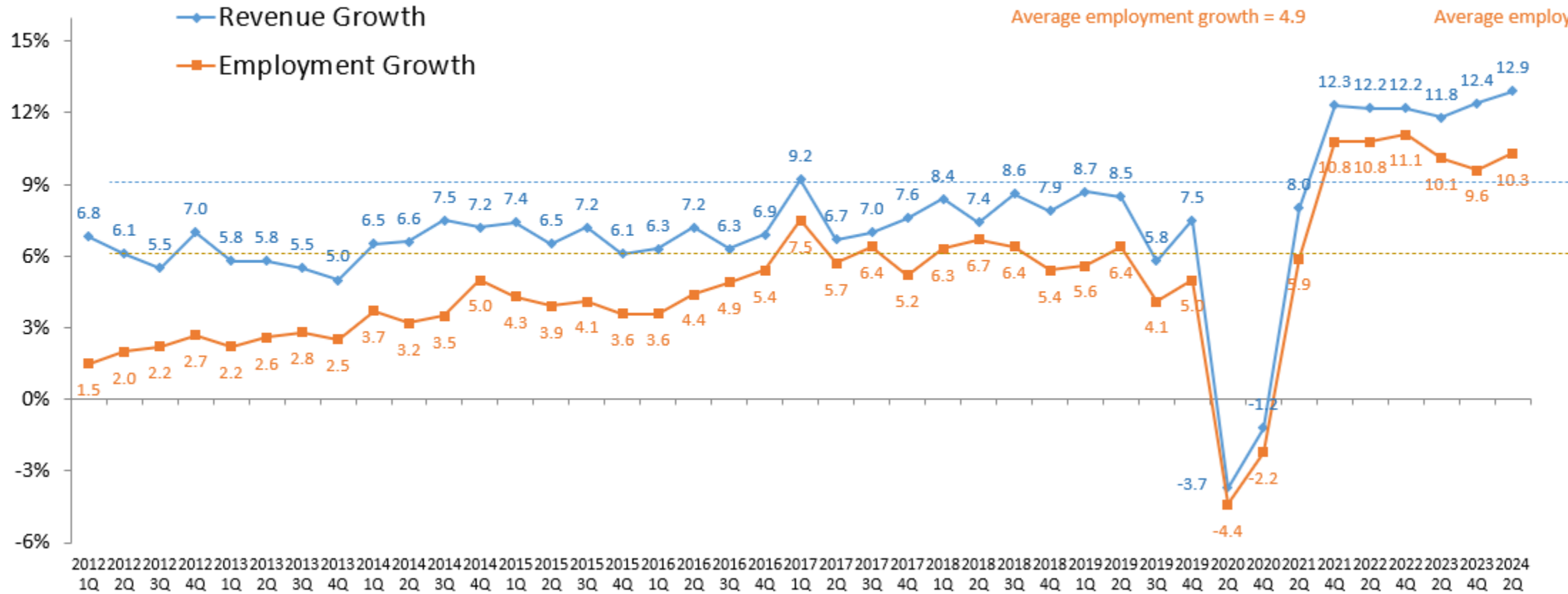
85%

LOCAL ECONOMY



Trend Data

Middle Market Overview



OVERALL:

Average revenue growth = 7.3

Average employment growth = 4.9

POST-PANDEMIC (Since 2021 Q4):

Average revenue growth = 12.3

Average employment growth = 10.5

Revenue Growth Trend

PAST 12 MONTHS

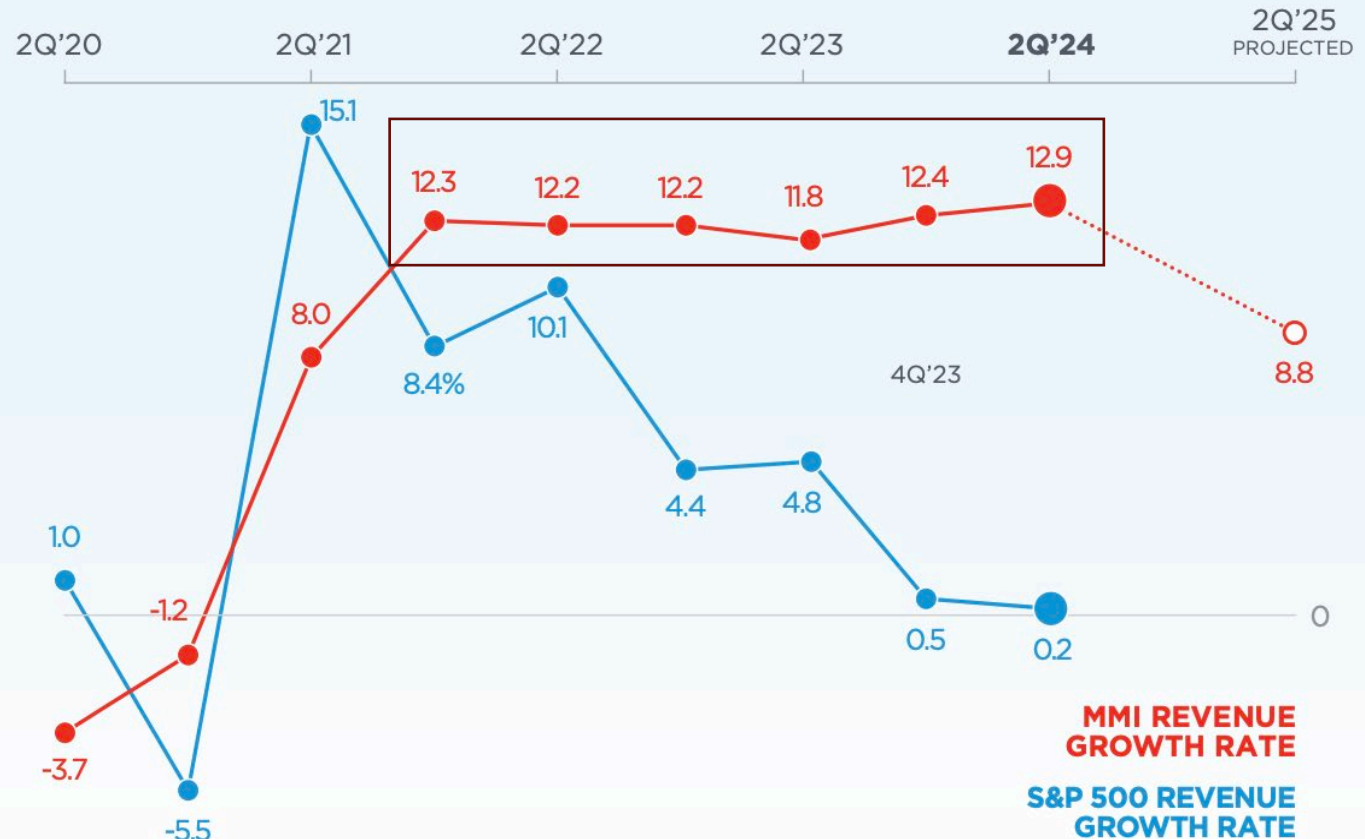
12.0%

U.S. MIDDLE MARKET

0.2%

S&P 500*

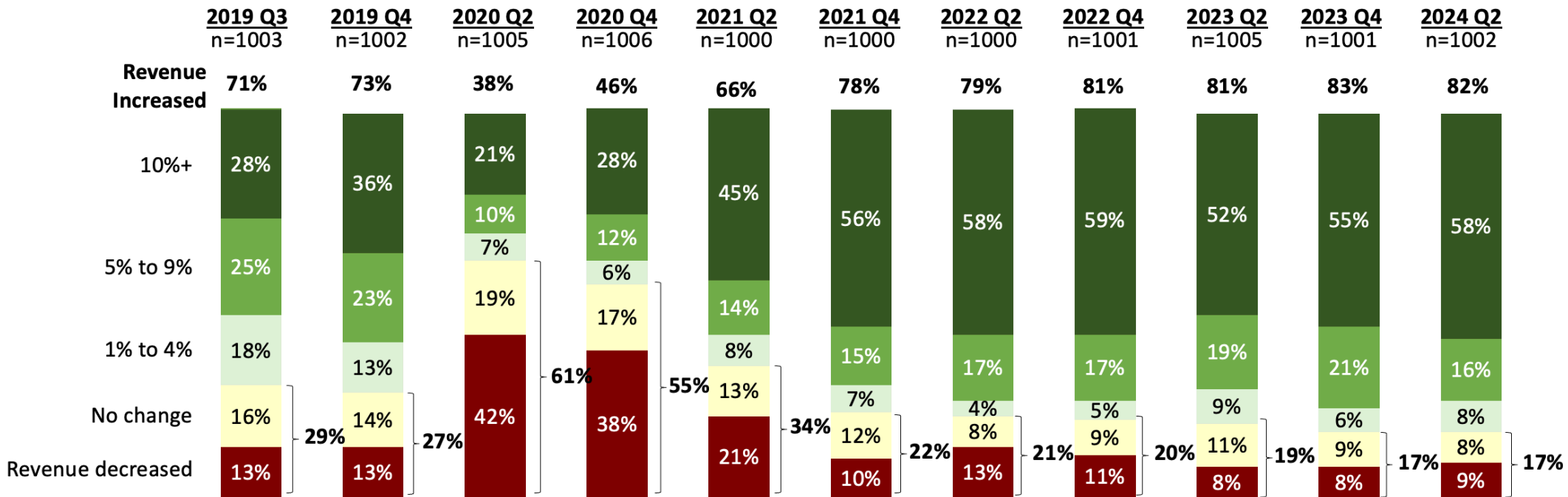
Past, current, and projected revenue growth rates for the middle market and the S&P 500 (%)



Historical Average
9.5%

Growth Remains Steady

Past Year Revenue Growth



Growth Leaders (10% or higher)

6 PP vs.
2023 Q2

Struggling (Declining)

1 PP vs.
2023 Q2

Revenue by Industry



Expansionary Activity Continues to Decline

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



Year-End MMI: Employment

PAST 12 MONTHS

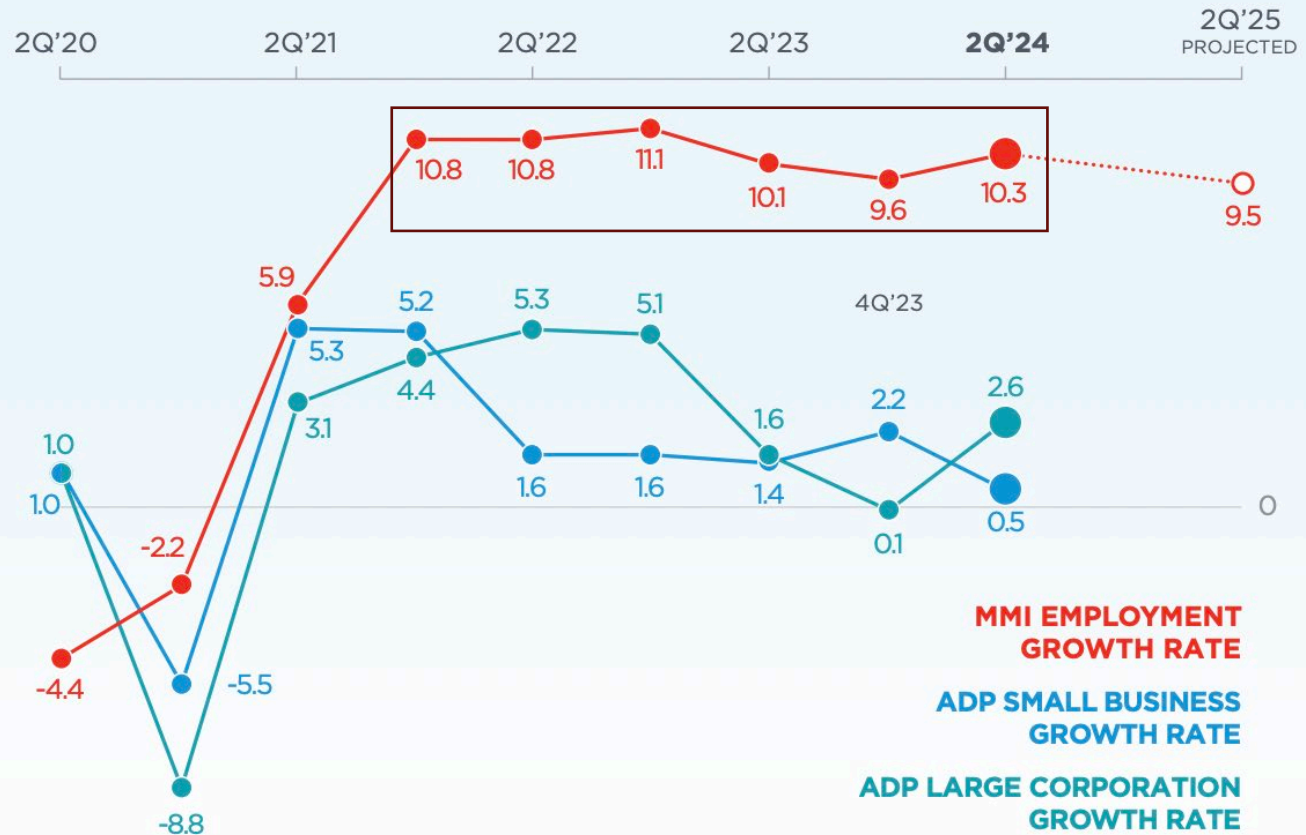
10.3%

U.S. MIDDLE MARKET

0.5%
SMALL
BUSINESS

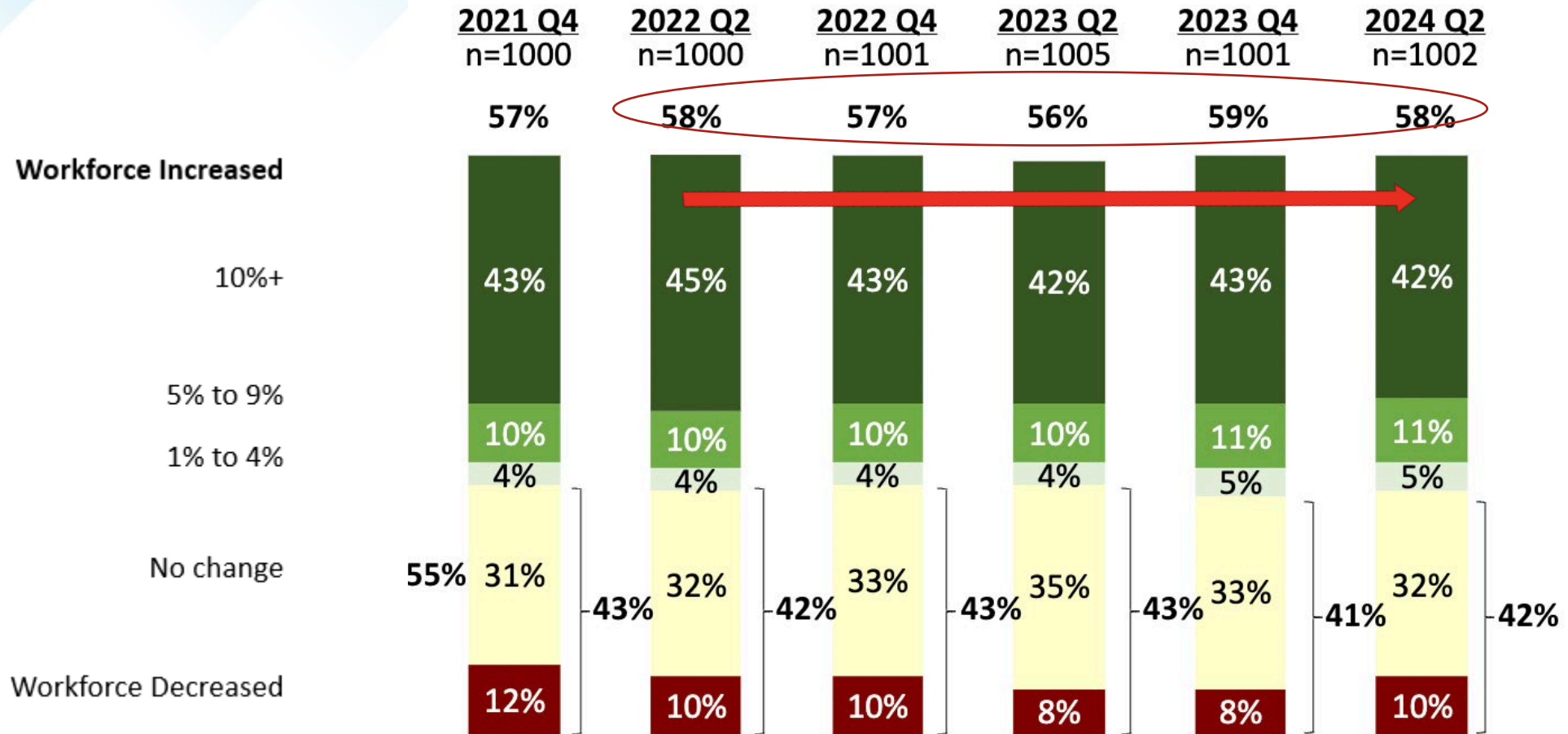
2.6%
LARGE
BUSINESS

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



Historical
Average
7.7%

Employment Growth Remains Consistent

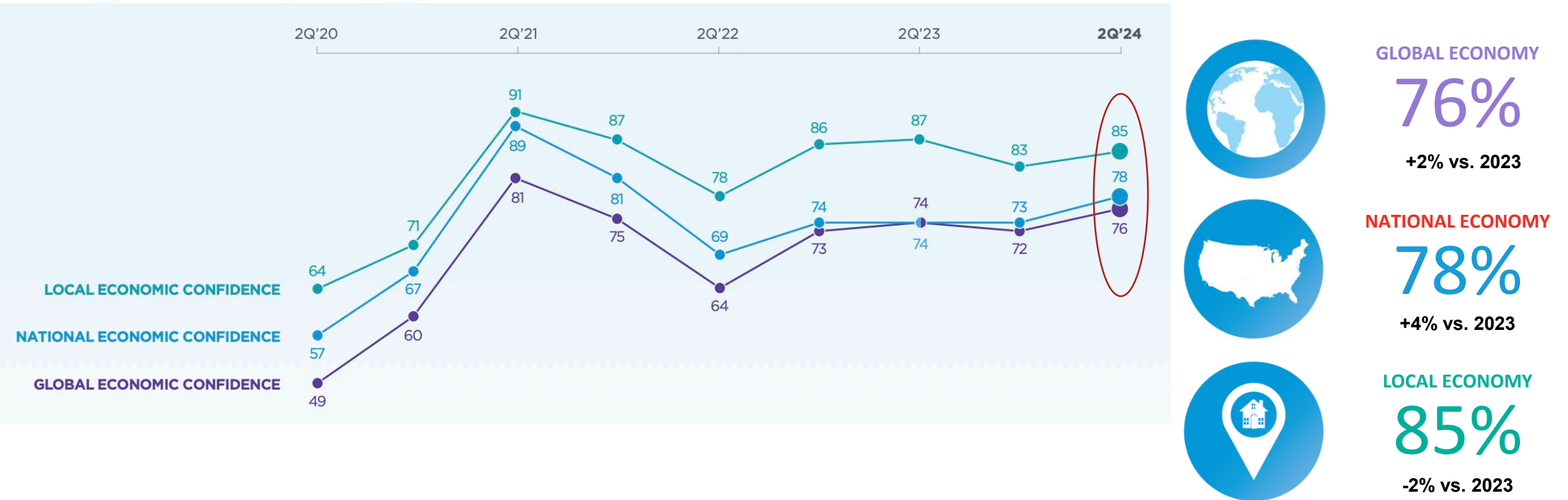


Year-End MMI: Employment by Industry

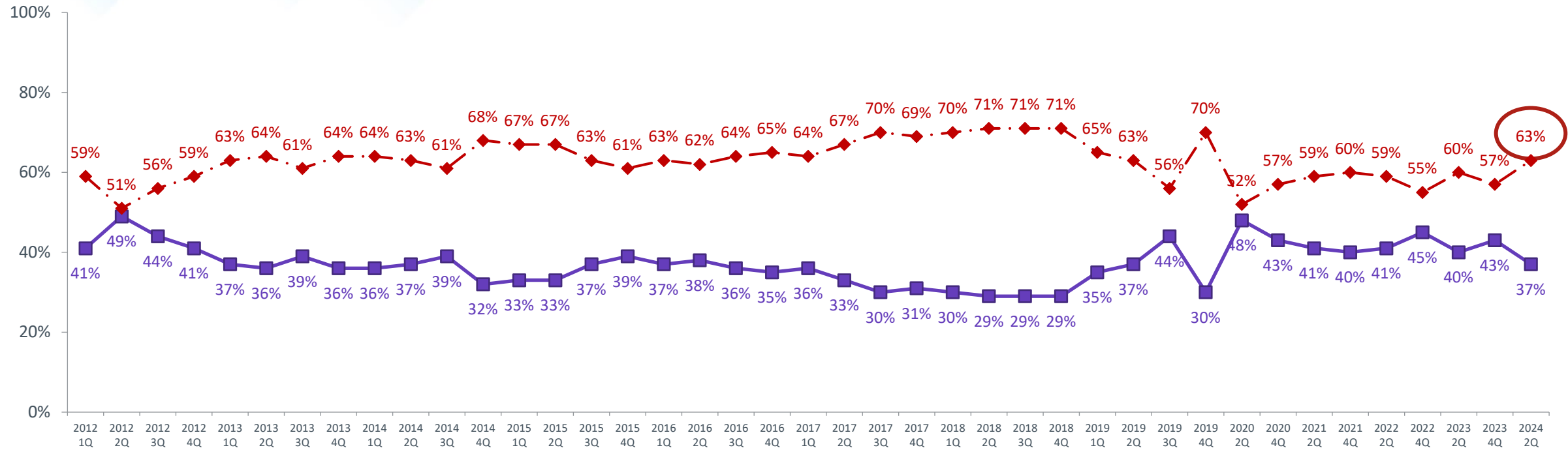


Economic Confidence Remains Strong

Confidence in Economy



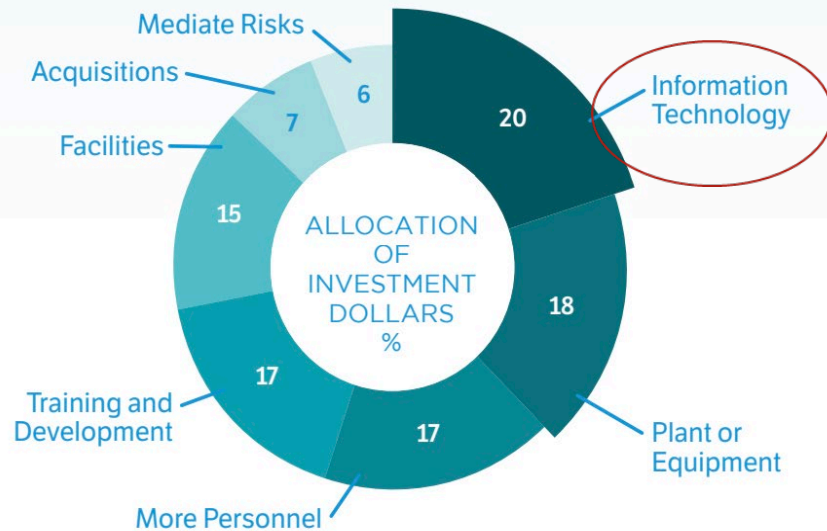
Investment Plans Start to Rebound



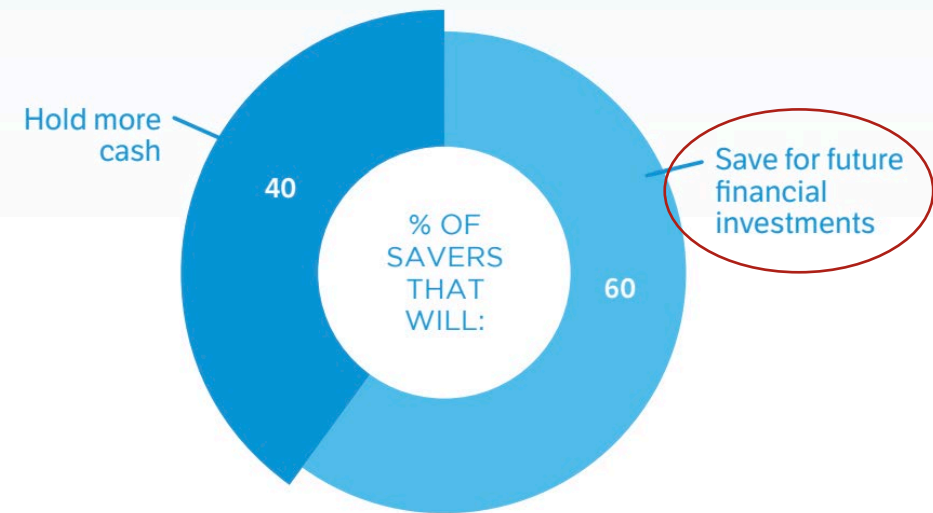
IT and Plant/Equipment are Top Targets for Investment Dollars

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

Technology, people, and capital expenditures are key areas for investment.

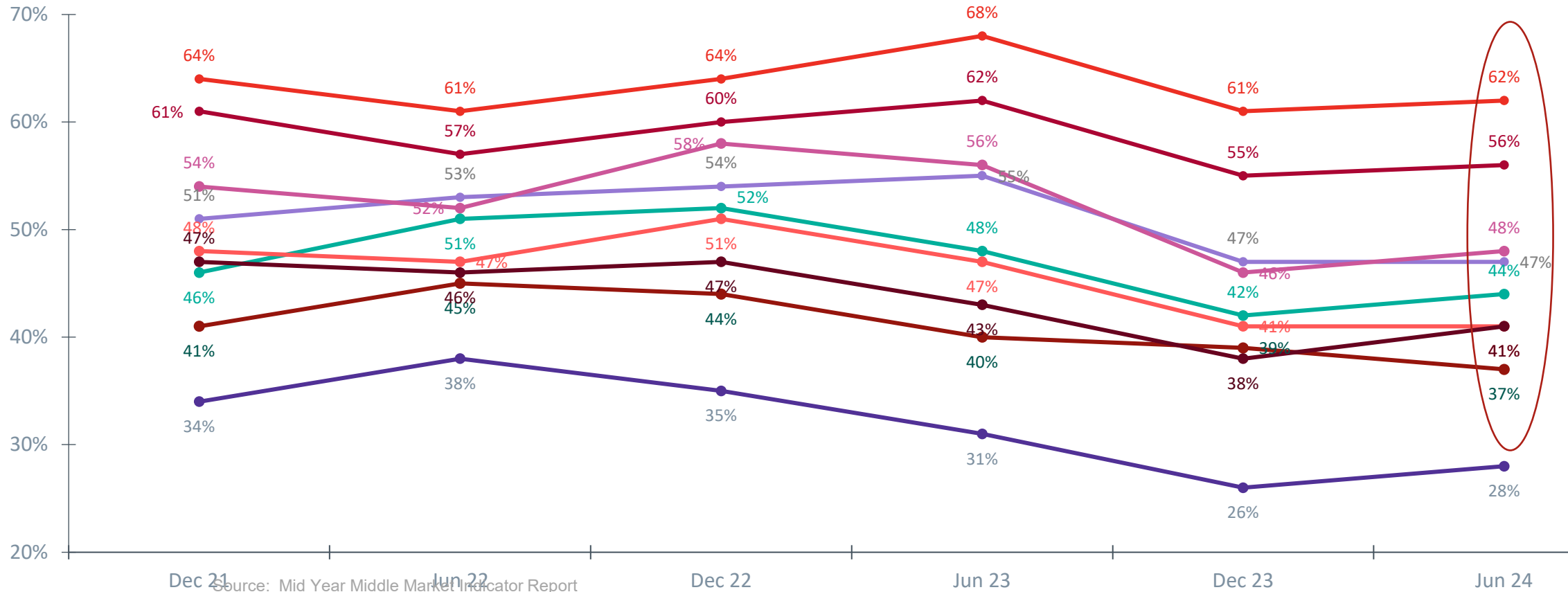


Most savers intend to put the dollars toward future investments.



Future Expansion Plans Hold Steady

- Introduce a new product or service
- Expand into new domestic markets
- Open a new line of credit
- Bring in new equity investment
- Add a new plant or facility
- Expand into new international markets
- Take on new debt
- Make an acquisition
- Be acquired/merge with another company



Source: Mid Year Middle Market Indicator Report

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.*

Core Business Issues

Top Challenges

Top Tier Mentions

Inflation

Impacting costs of supplies, salaries, overall expenses, profit margins

Employee Retention and Recruitment/Talent Acquisition

Finding and retaining skilled talent, Motivating employees, Training and upskilling

Economic Challenges/Uncertainties and Financial Issues

Fluctuations in the economy, Global events like wars and geopolitical tensions, Interest rates and borrowing costs, Cash flow management and budget constraints

Technology

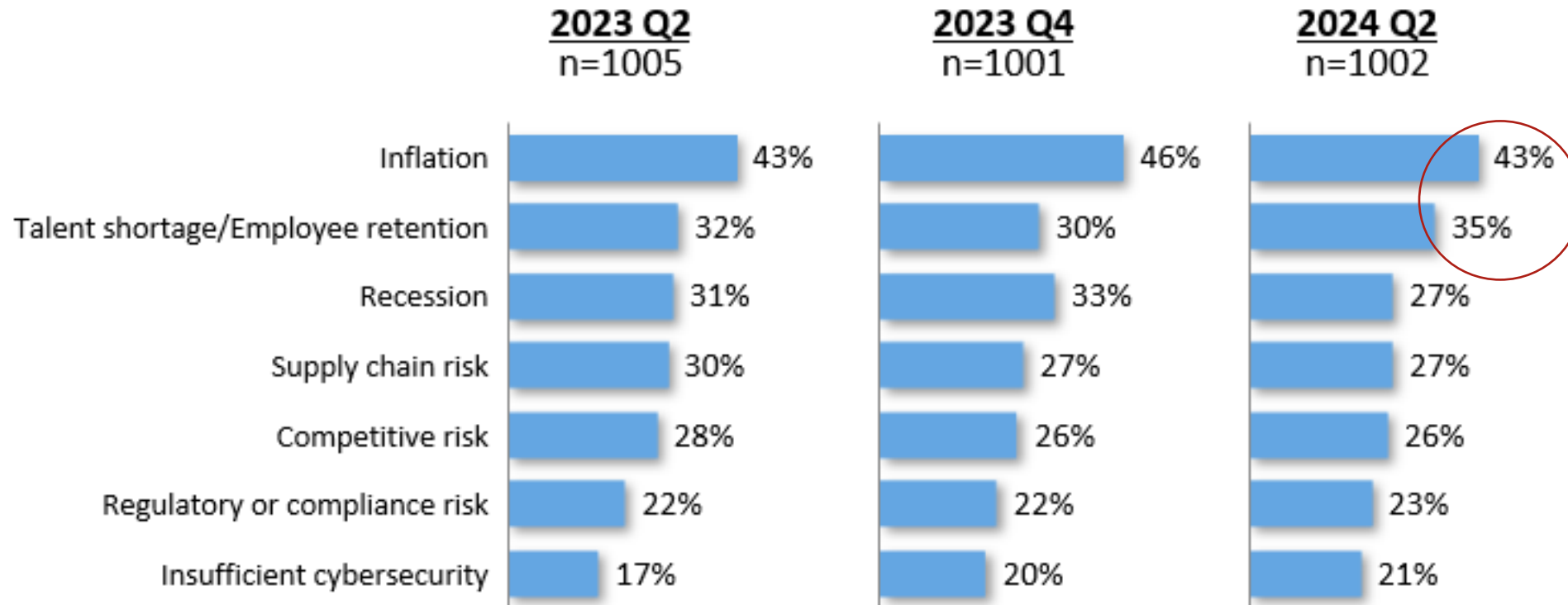
Efficiently integrating new technologies such as AI, Cybersecurity risks and data protection concerns

Operations

Supply chain disruptions, Inventory management and logistics

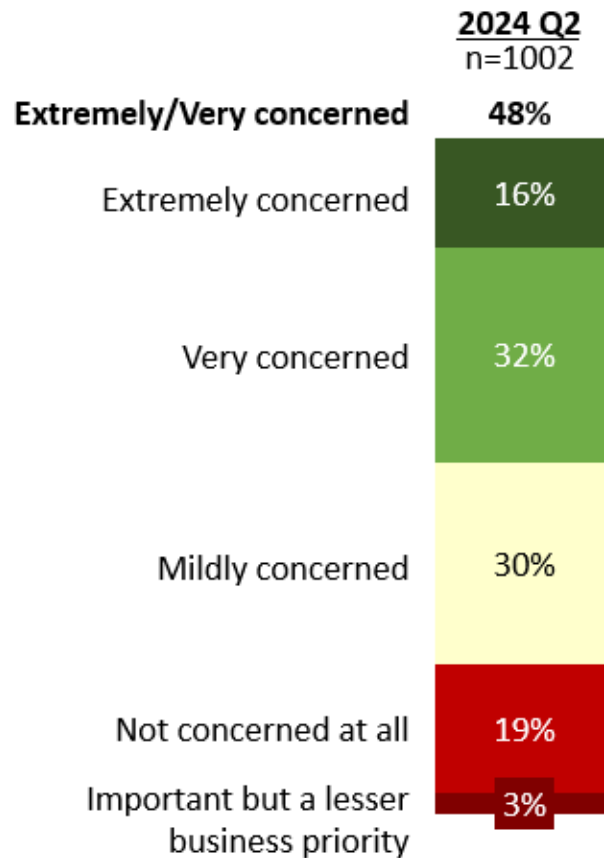
Inflation and Talent Remain Top Emerging Risks

Top Emerging Risks

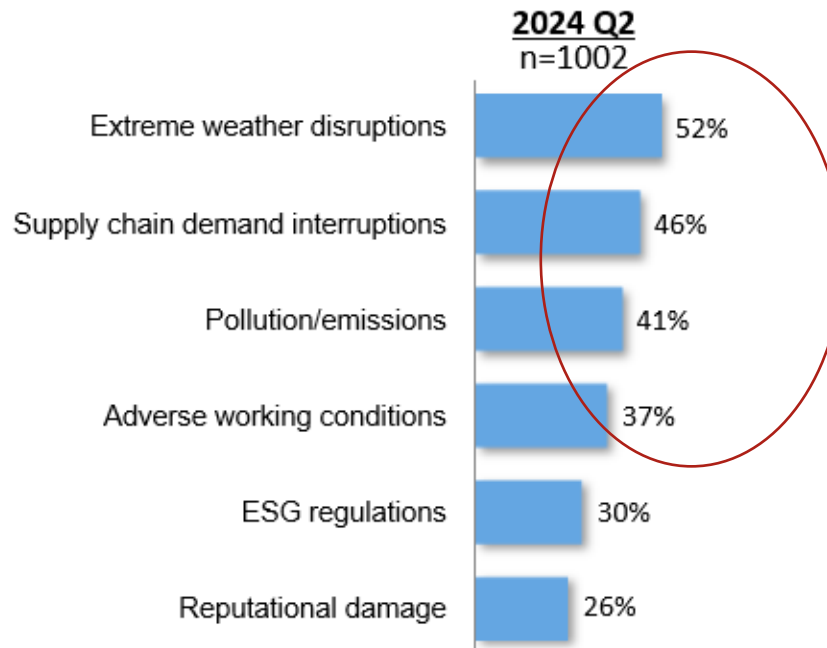


Climate Change Concerns

Level Of Concern About The Impact Of Climate Change

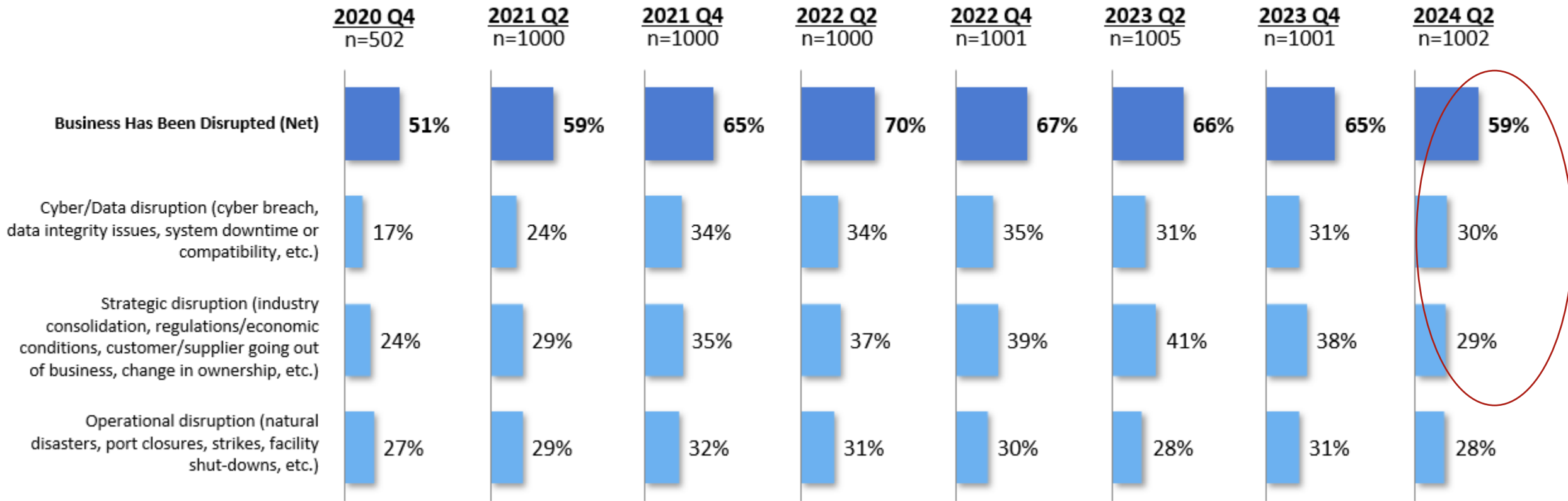


Top Concerns Associated w/Climate Risk



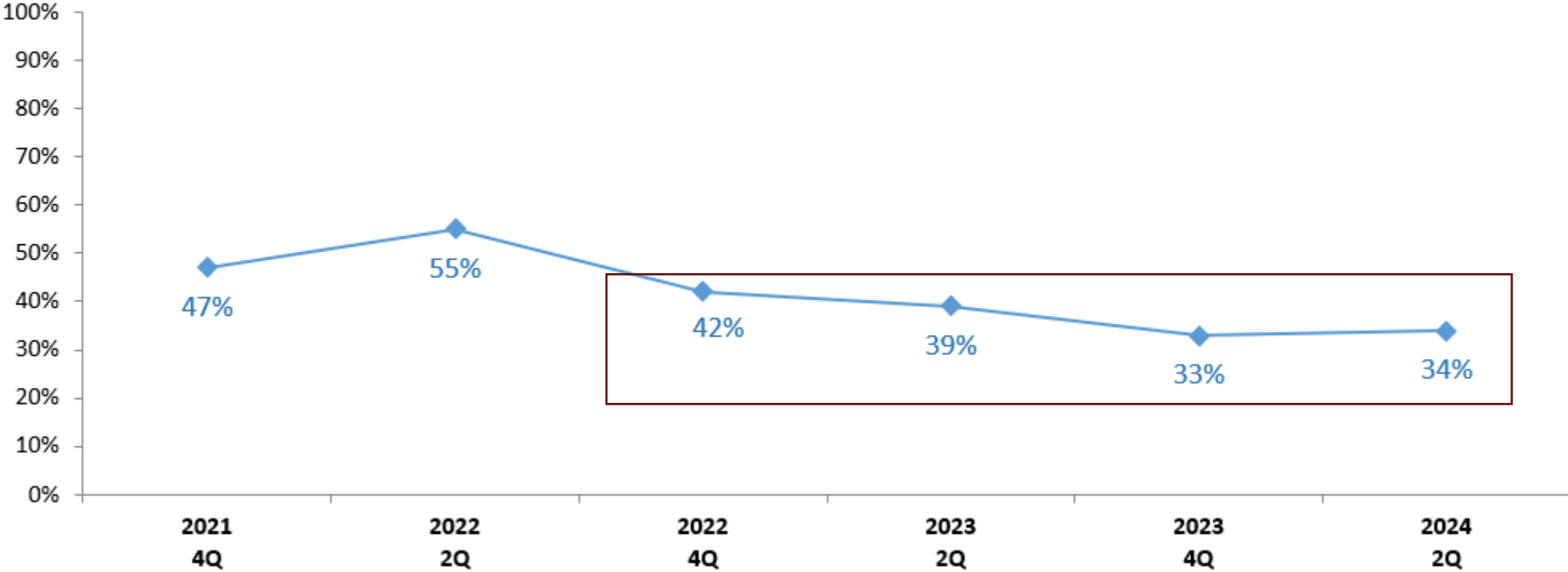
Middle Market continues to be disrupted

Disruptions Experienced in Past Two Years



Supply Chain Continues to Improve

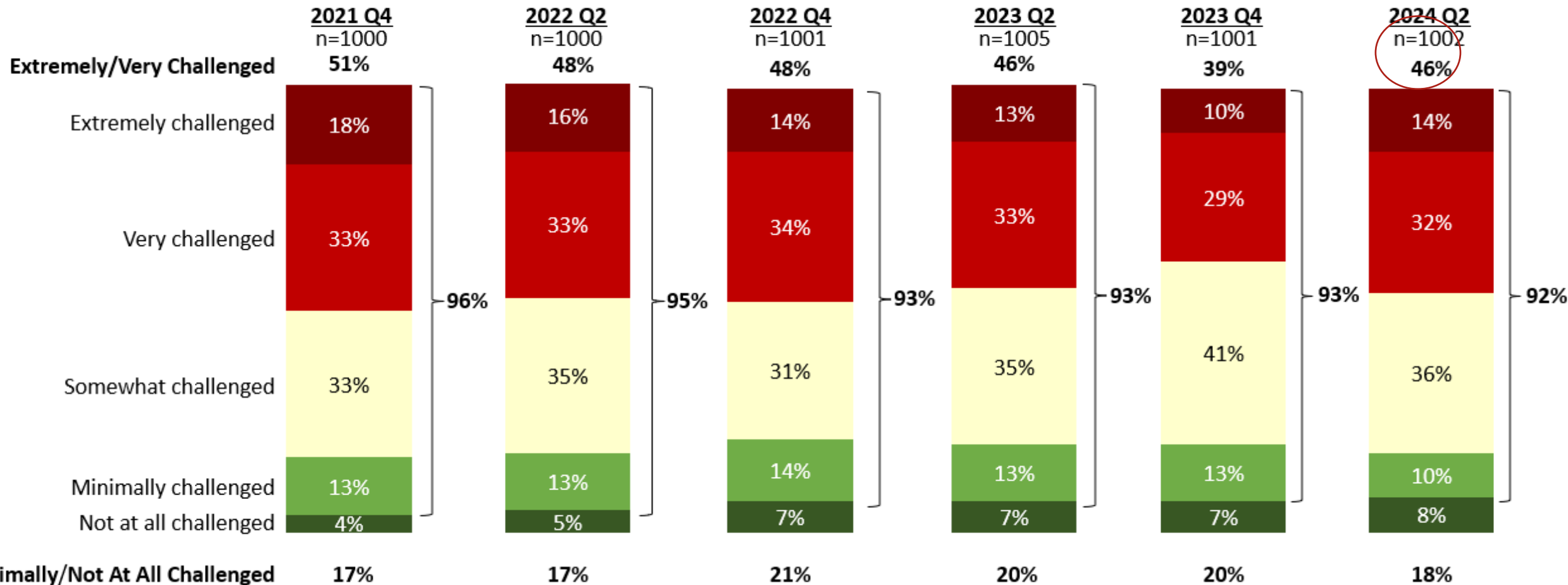
Impacted By Supply Chain Disruptions/Constraints In The Past 6M



Source: Mid Year Middle Market Indicator Report

Middle Market Companies Face Skills Gap

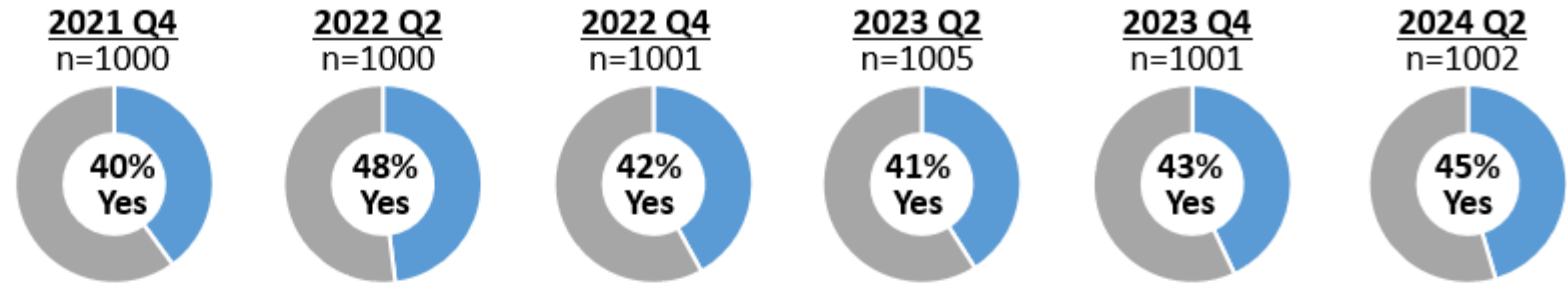
Degree of Challenge to Find Right Skilled Workforce



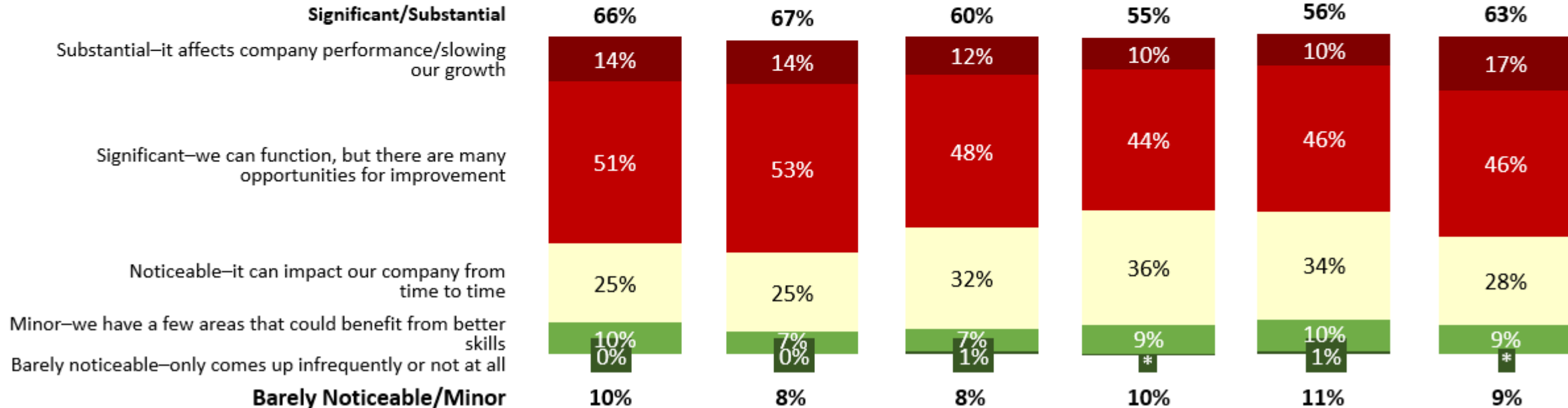
Source Mid Year Middle Market Indicator Report

Digital Skills Remain an Issue

Company Has a Digital Skill Gap

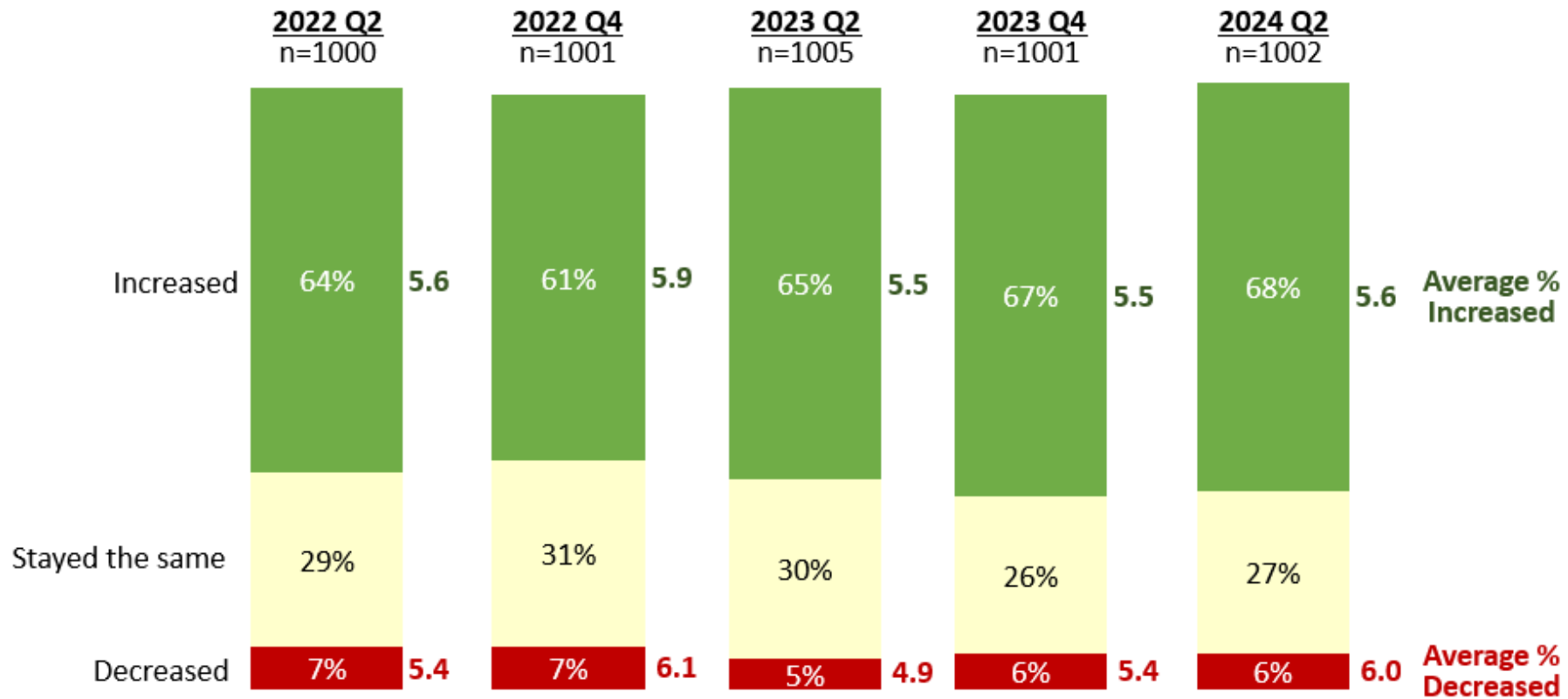


Degree of Digital Skill Gap Impact



Wages

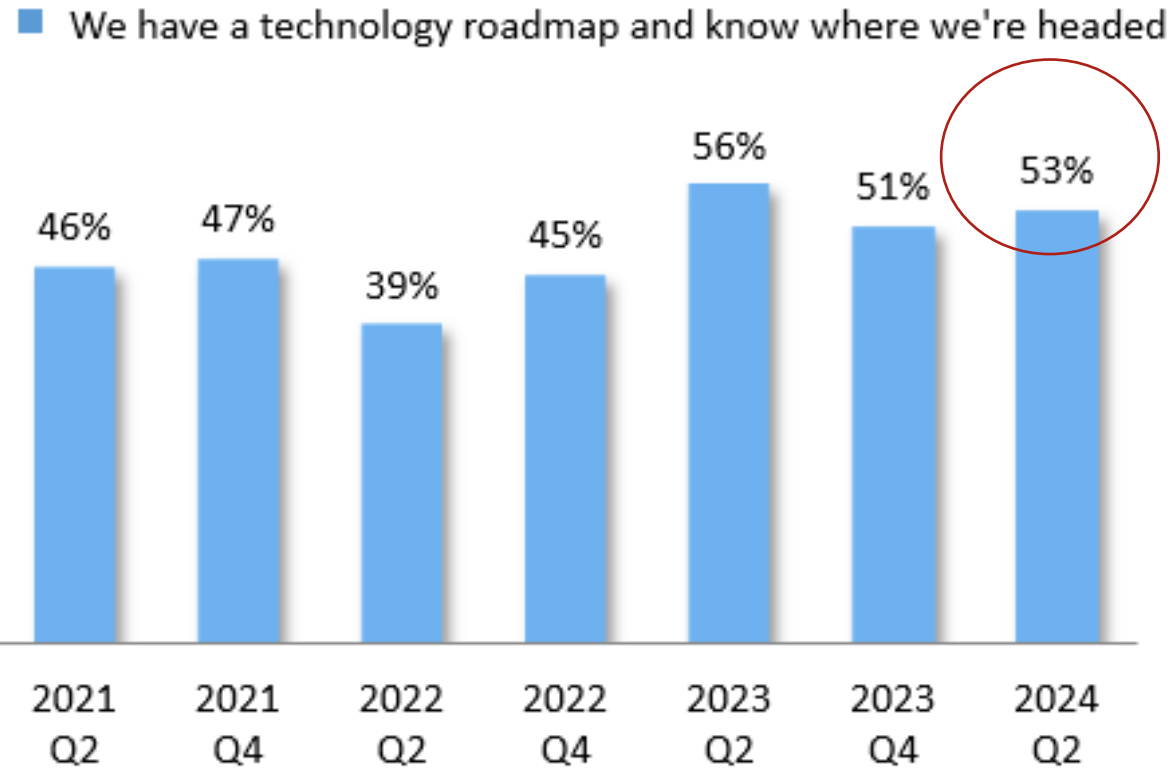
Impact on Wage Compared to One Year Ago



Digitization and AI

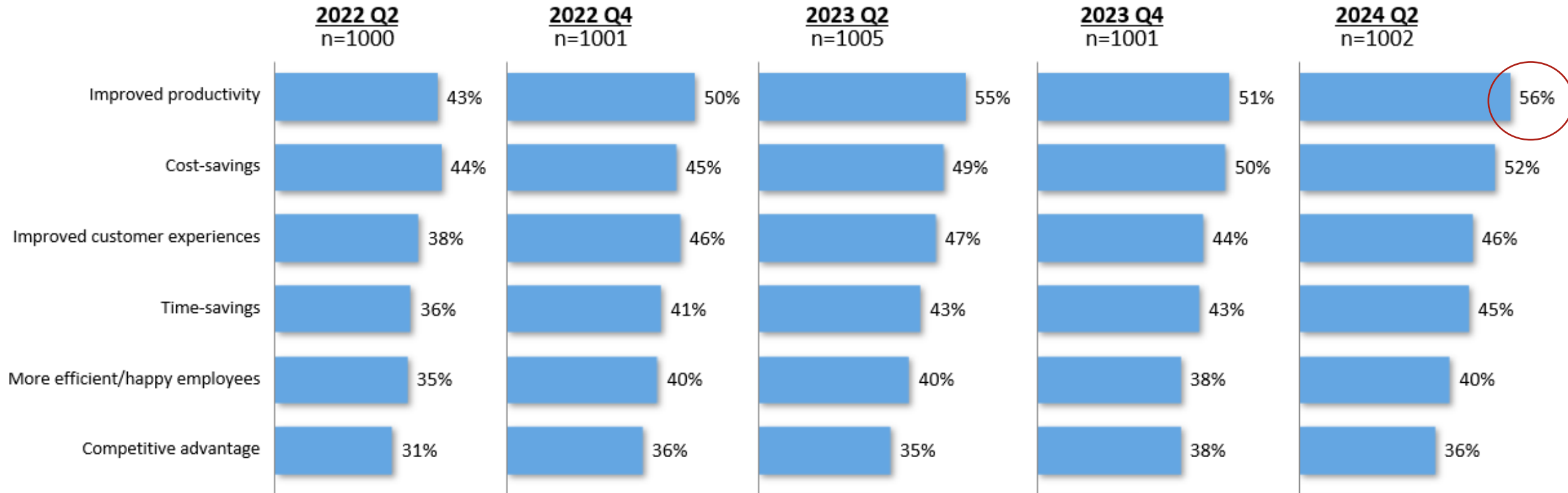
Digital Strategy

How Digital Innovation Incorporated As Part Of Overall Strategy

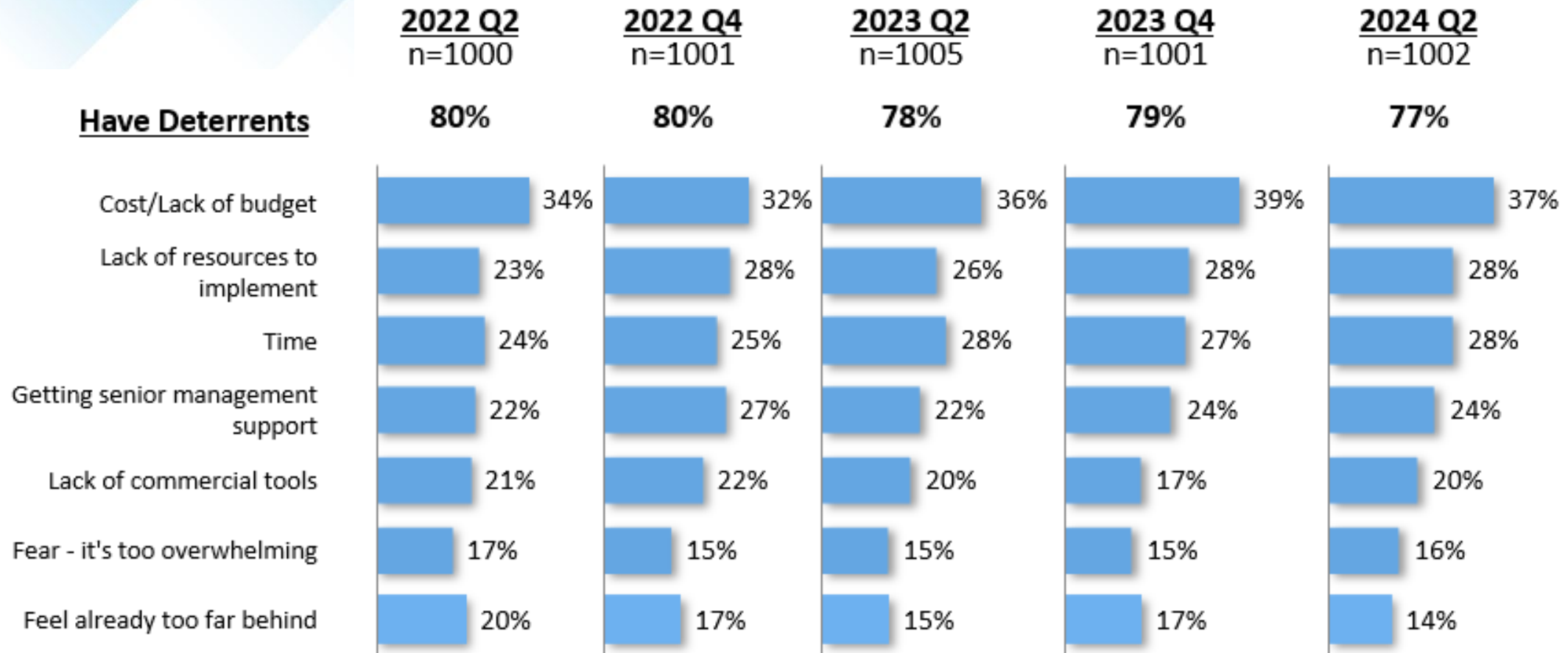


Goals of Digitization

Advantages Hoping To Get From Investing In Digital Solutions

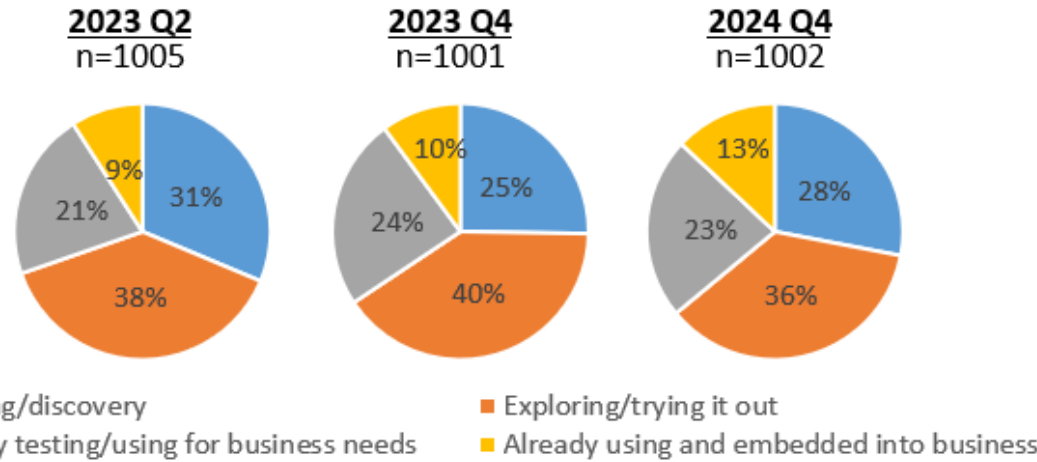


Barriers to Digitization



Artificial Intelligence

Adoption Journey Of New Technology Like AI

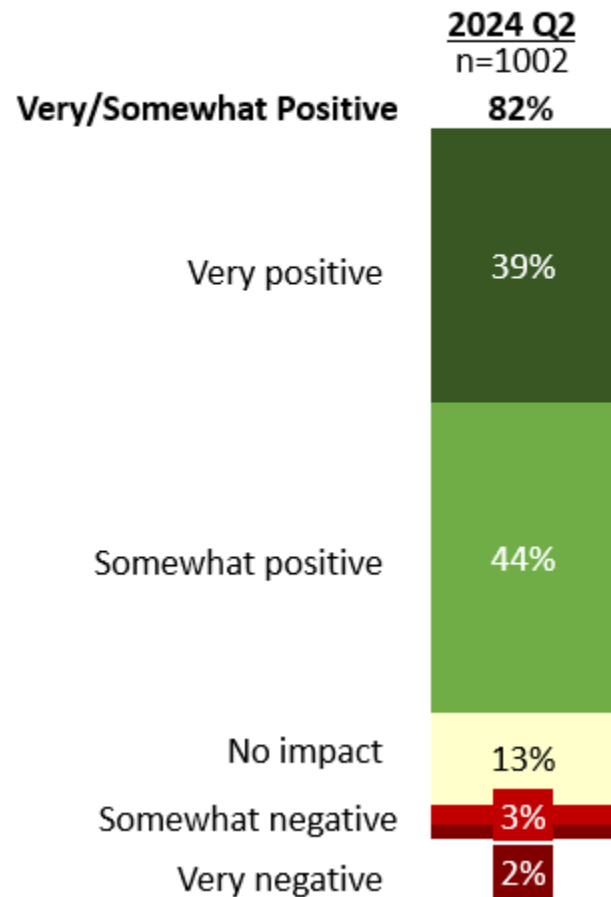


	Total MM (1002) %	\$10M – <\$50M (306) %	\$50M – <\$100M (220) %	\$100M – <\$1B (476) %
Learning/discovery	28	33	25	20
Exploring/trying it out	36	37	36	35
Actively testing/using for business needs	23	19	23	30
Already using and embedded into business	13	10	16	15

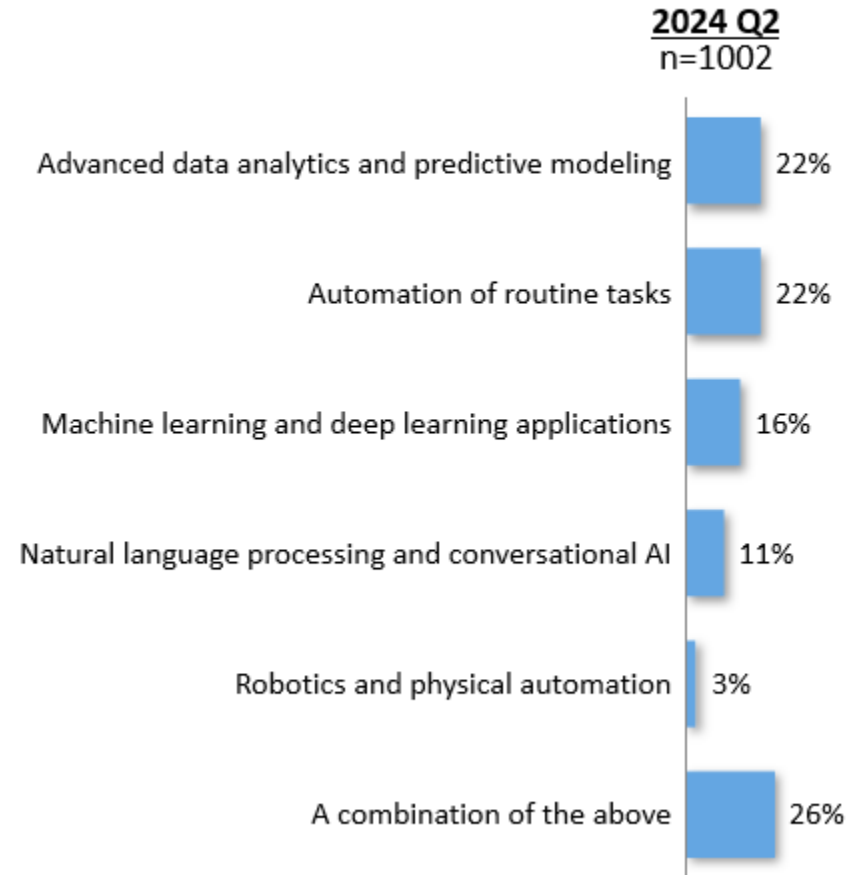
20% of firms in the Business Services Industry indicate they are already using and it is embedded into their business

Artificial Intelligence

Impact Of AI Regardless Of Current Involvement

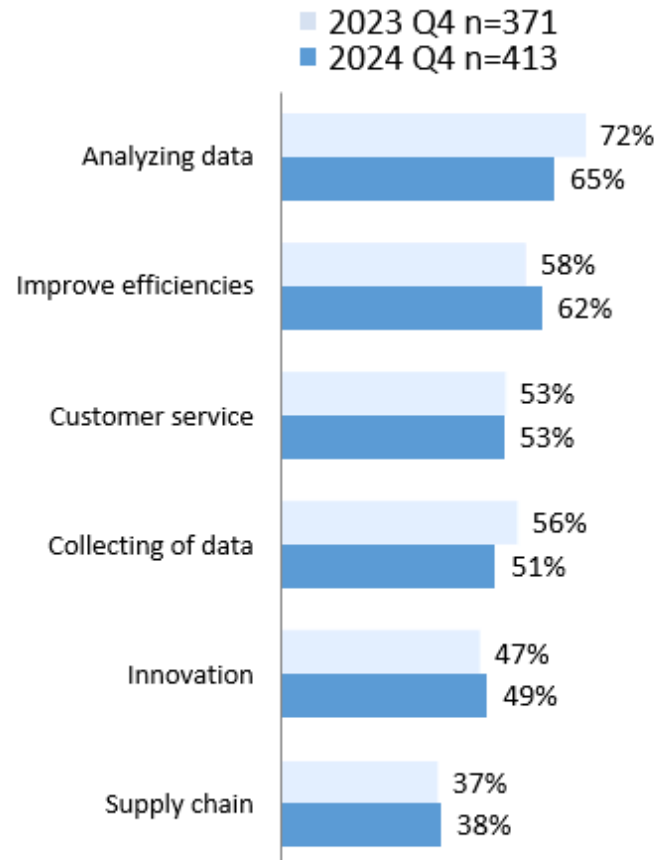


How Business Defines AI

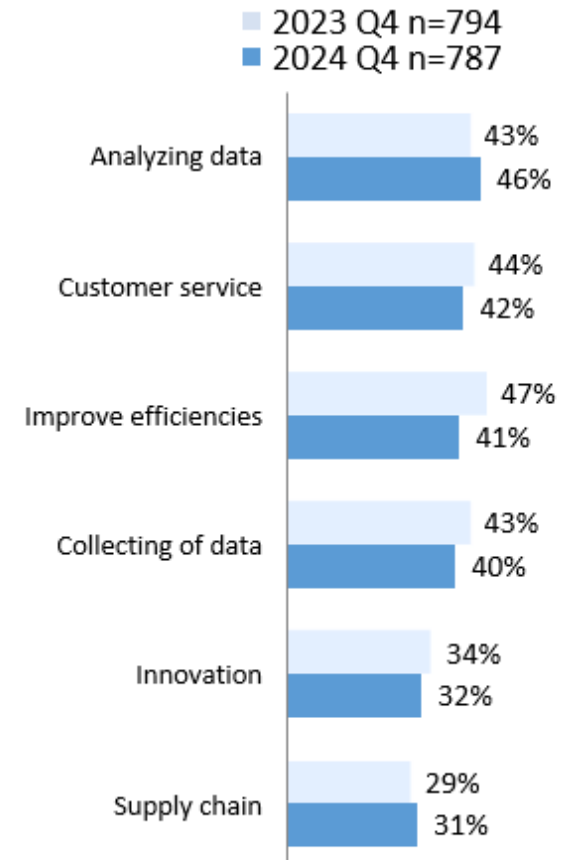


Artificial Intelligence

Functions Use AI For



Functions Plan To Use AI For



Artificial Intelligence

Data Privacy and Security

Significant concern, seeking measures to protect/ensure sensitive information is crucial

Ethical Considerations and Bias

Issues such as algorithmic bias, fairness, and transparency in AI decision-making processes

Impact on Workforce

AI potentially displacing jobs and impacting workforce dynamics

Regulatory Compliance

Keeping up with evolving regulations and standards

Integration Challenges

Complexity of integrating AI with existing business processes and systems

Education and Training

Providing adequate training and support to employees to understand and utilize AI effectively

Costs and ROI

Balancing the investments required for AI implementation with expected returns on investment

Adaptation/Acceptance

Balance of embracing innovation while respecting traditional roles, tasks, and values

Risk Management

Strategies to handle potential AI system failures

Summary

- The middle market remains a steady engine of growth:
 - Consistent revenue and employment growth – post pandemic surge
 - Investment plans starting to slowly rebound, mirroring high confidence levels across the board
 - Expansion plans over the next 12 months include new products/services and domestic markets
- Biggest challenges include inflation, workforce, and economic uncertainty. With an upcoming presidential election, two regional wars raging, and inflation lingering for certain industries, the macroeconomic environment would appear to be an issue yet projections are strong
- AI adoption continues to be slow – and primarily adopted in the industries and functions where benefits are most acute. Risk and uncertainties remain about how and where to incorporate the technology

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



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