



NATIONAL CENTER FOR
THE MIDDLE MARKET

October 22, 2020

A Strong Corporate Immune System

What We Can Learn from Companies That Are Performing Well in 2020

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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



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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

Agenda

I. Impact

Where Covid-19 and the recession have hit, and how hard

II. Priorities

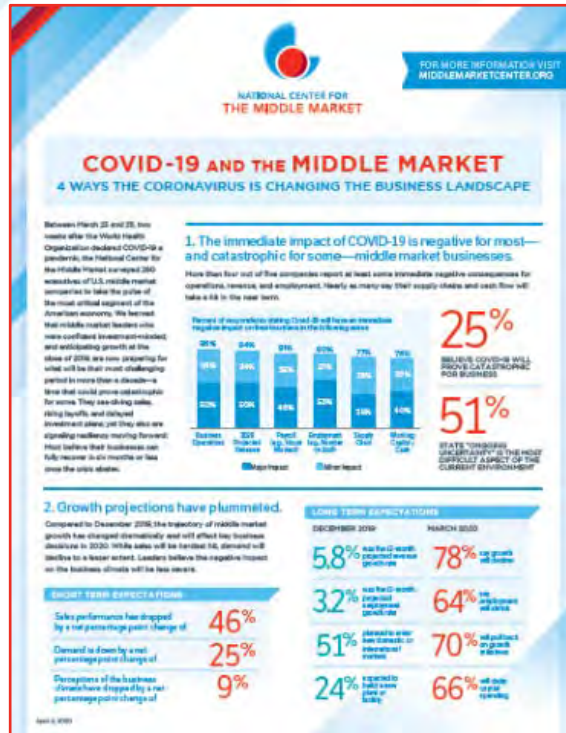
How leaders' plans are evolving

III. Immunity

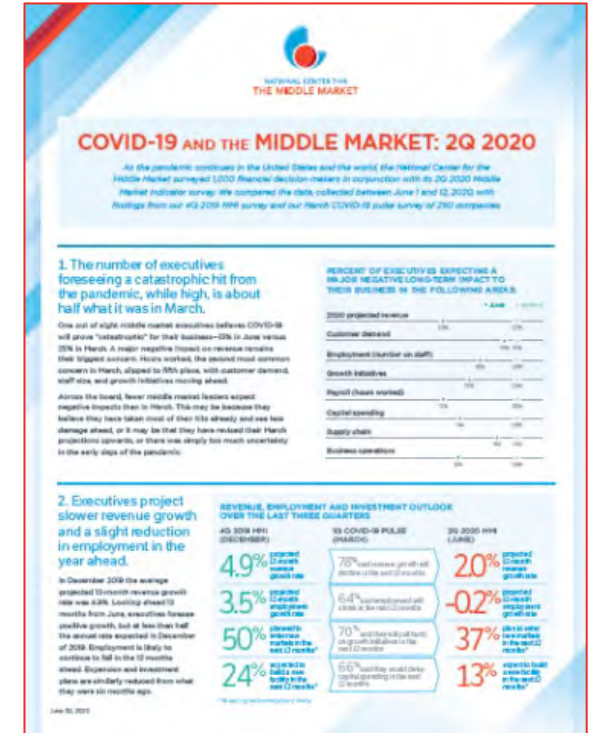
Why some companies are faring well

Impact

About NCMM's Covid-19 Pandemic Research



In late March 2020: pulse-check survey of 260 executives from U.S. middle market companies, all of whom also participated in the Q4 2019 Middle Market Indicator survey, fielded in December 2019.



In June 2020, NCMM fielded its 2Q Middle Market Indicator survey of 1,000 executives of U.S. middle market companies. In addition to the usual trending data on revenue, employment, investment, and confidence, this survey repeated the March questions and included additional questions about company response and use of government and other sources of support.

Now what?

Headlines

The U.S. Middle Market is taking a beating from Covid-19. Overall, PE-owned companies fared better than the market as a whole and forecast a stronger recovery

It won't be quick—but it will come. Reengaging employees and customers is the key

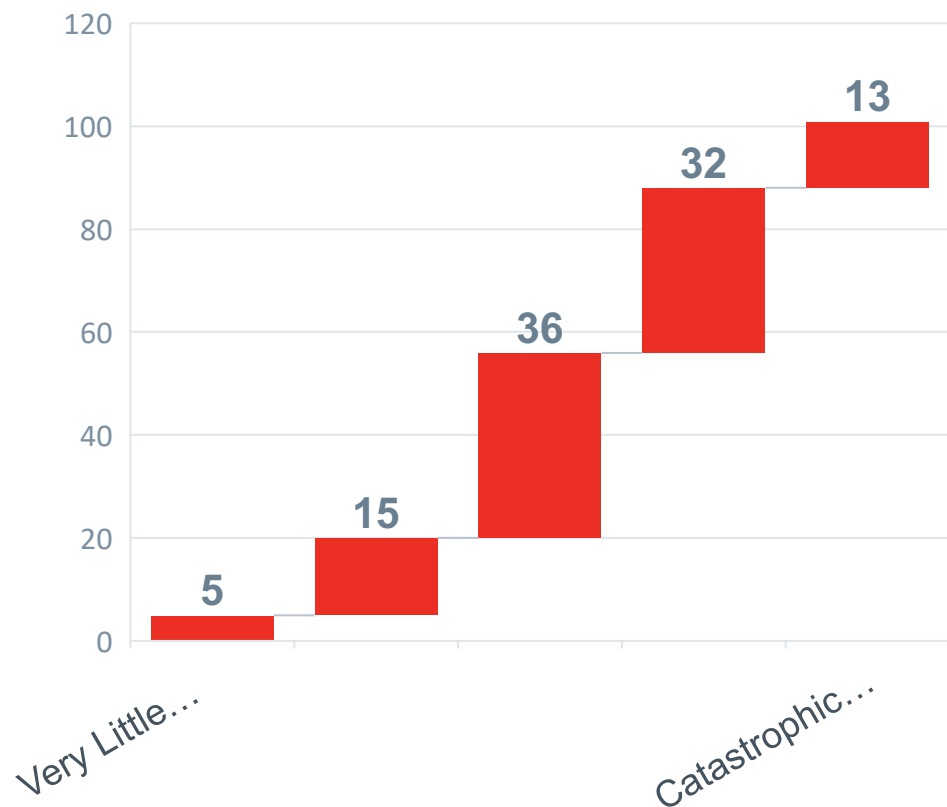
Examining the data in detail reveals a set of capabilities and resources that reduced the impact of Covid and strengthen resilience and recovery—an “immune system”



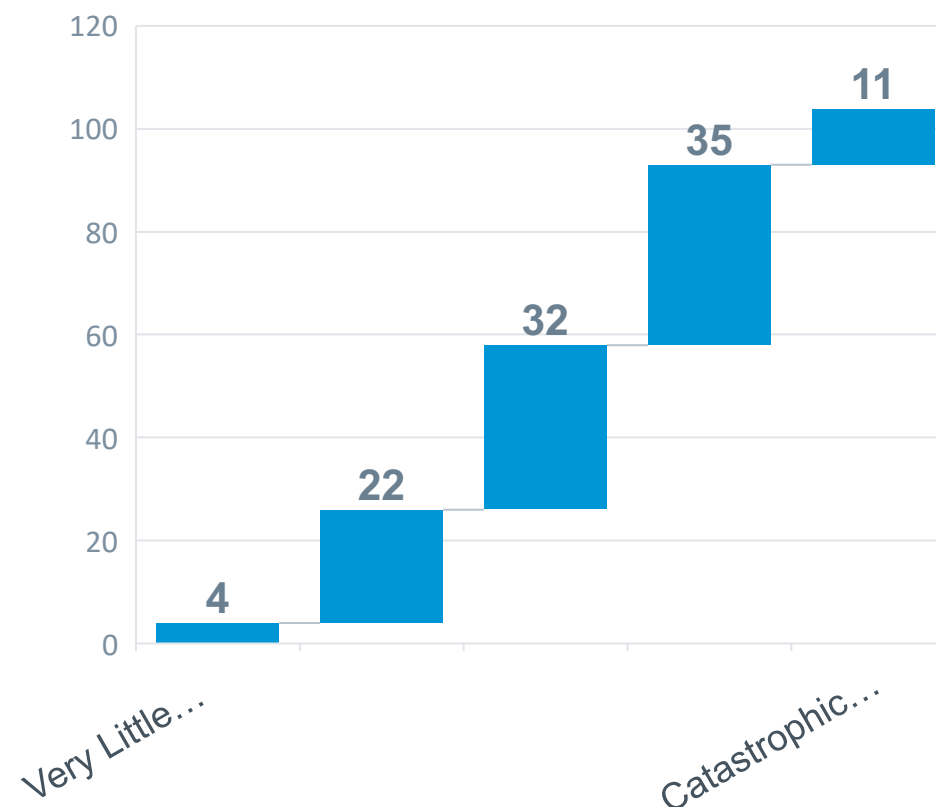
A severe six-month impact, catastrophic for many

IN JUNE **13%** OF THE MIDDLE MARKET, AND **11%** OF PE-OWNED BUSINESSES, SAID COVID-19 WOULD PROVE CATASTROPHIC FOR THEIR BUSINESS OVER THE NEXT 6 MONTHS

TOTAL MIDDLE MARKET



MIDDLE MARKET PE-OWNED



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

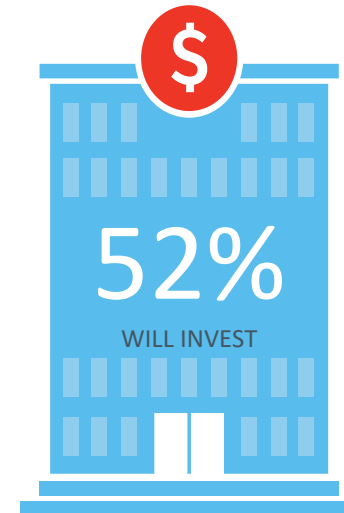
-9.17% **-10.0%**
SMALL BUSINESS LARGE BUSINESS

-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%

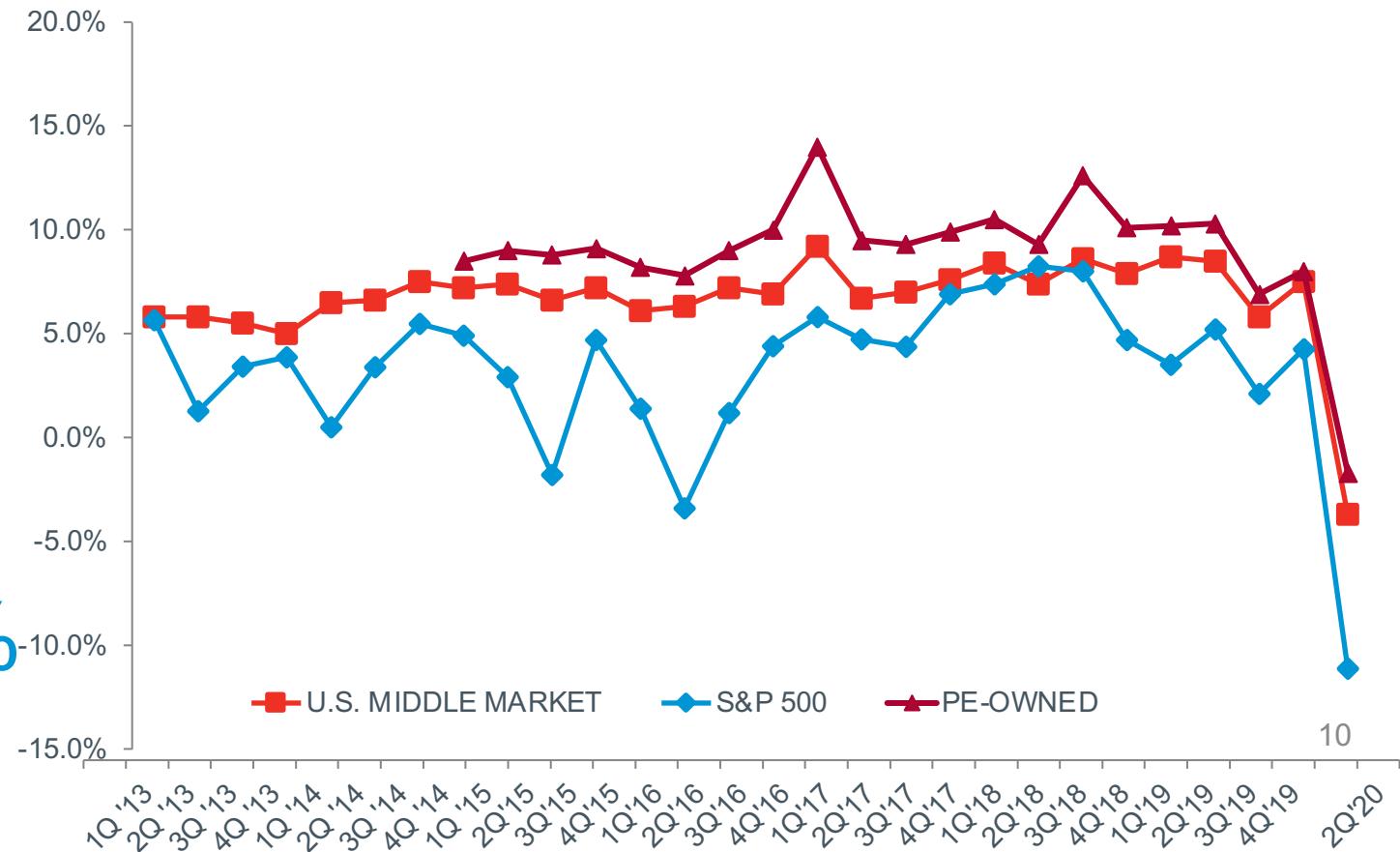
U.S. MIDDLE MARKET

-1.7%

PE-OWNED FIRMS

-11.1%

S&P 500*



Source: 2Q'20 Middle Market Indicator Report

2Q '20 MMI: Revenue by Industry



2Q'20 MMI: Employment

PAST 12 MONTHS

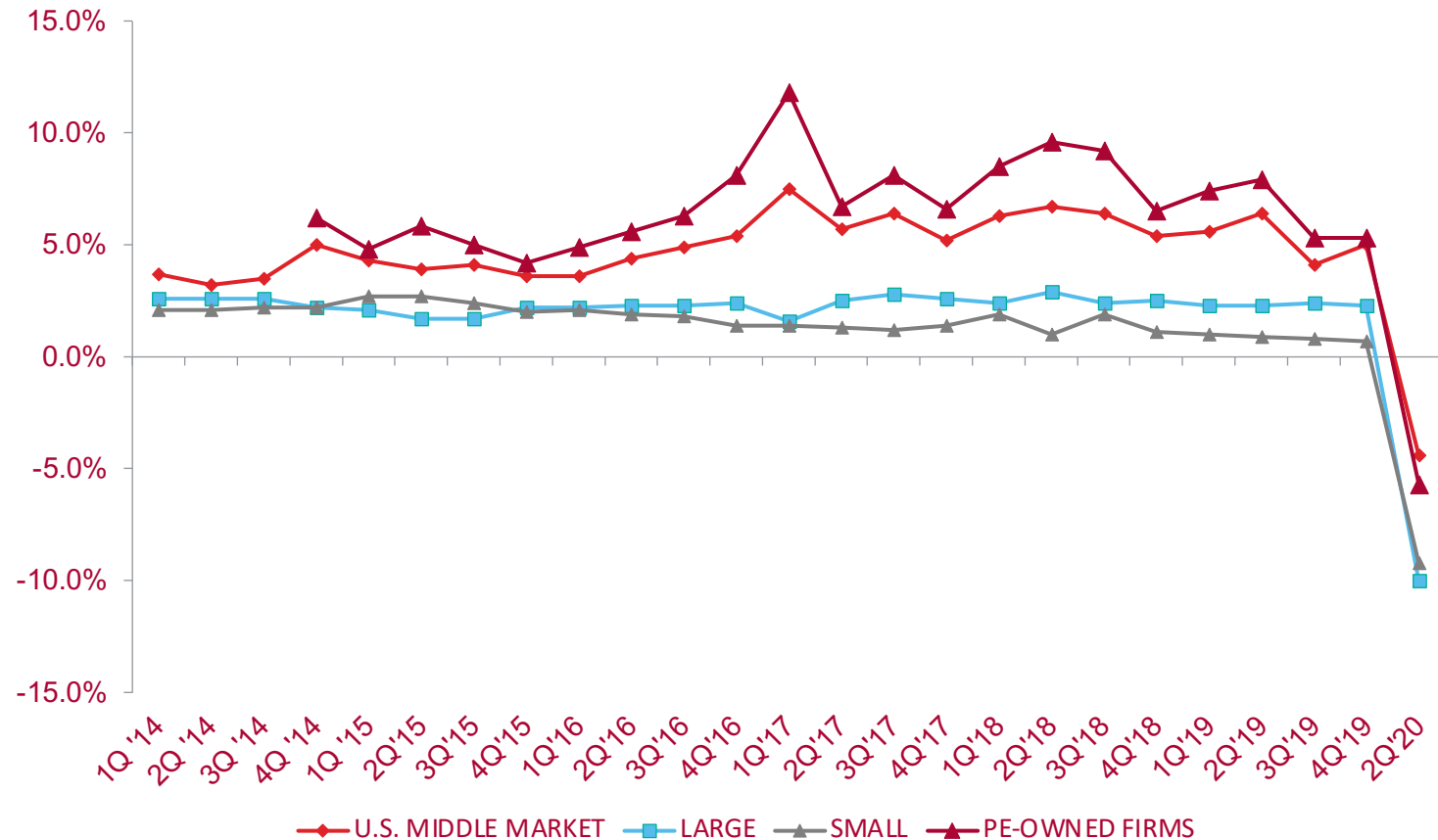
-4.4%

U.S. MIDDLE MARKET

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

-5.7%

PE-OWNED FIRMS



Source: 2Q'20 Middle Market Indicator Report

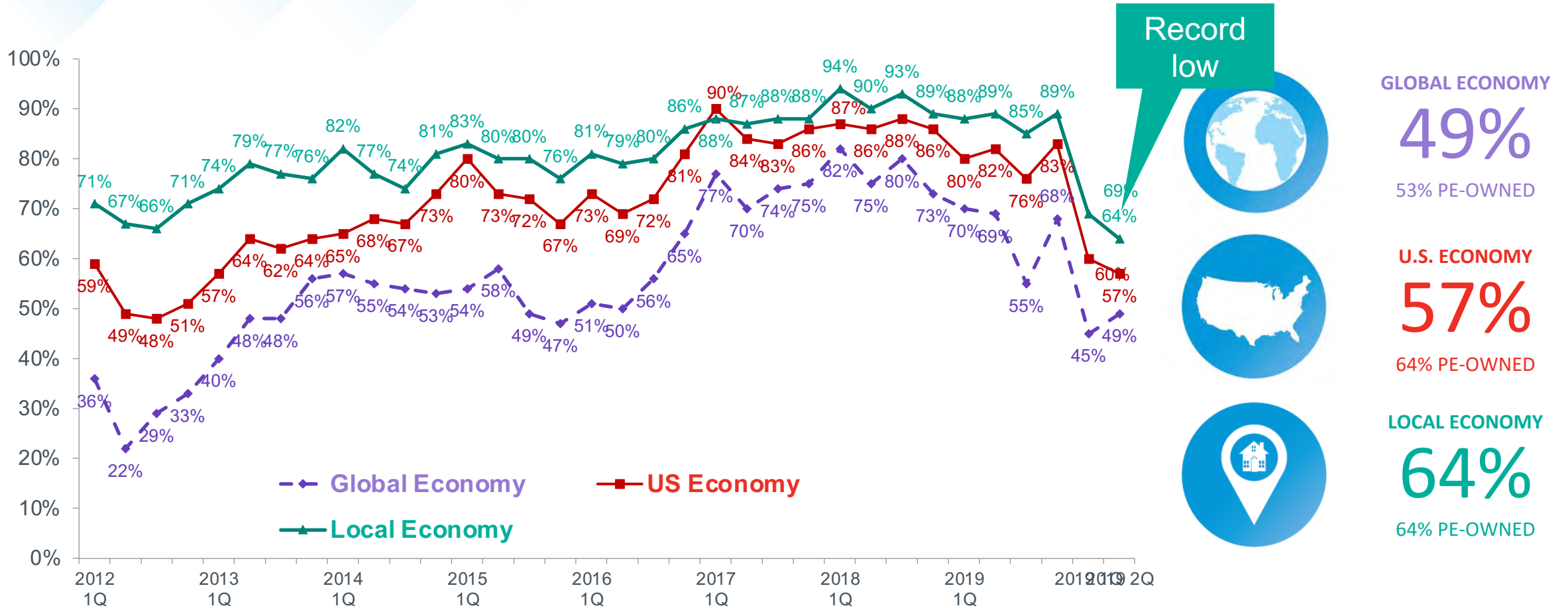
2Q'20 MMI: Employment by Industry



Source: 2Q'20 Middle Market Indicator Report

Economic confidence is very low

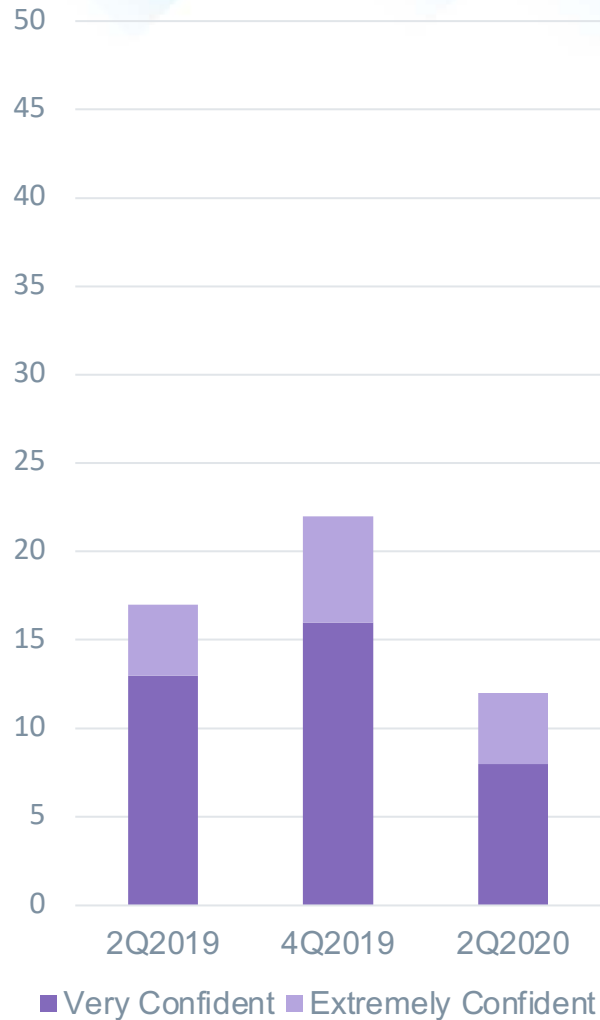
Confidence in Economy



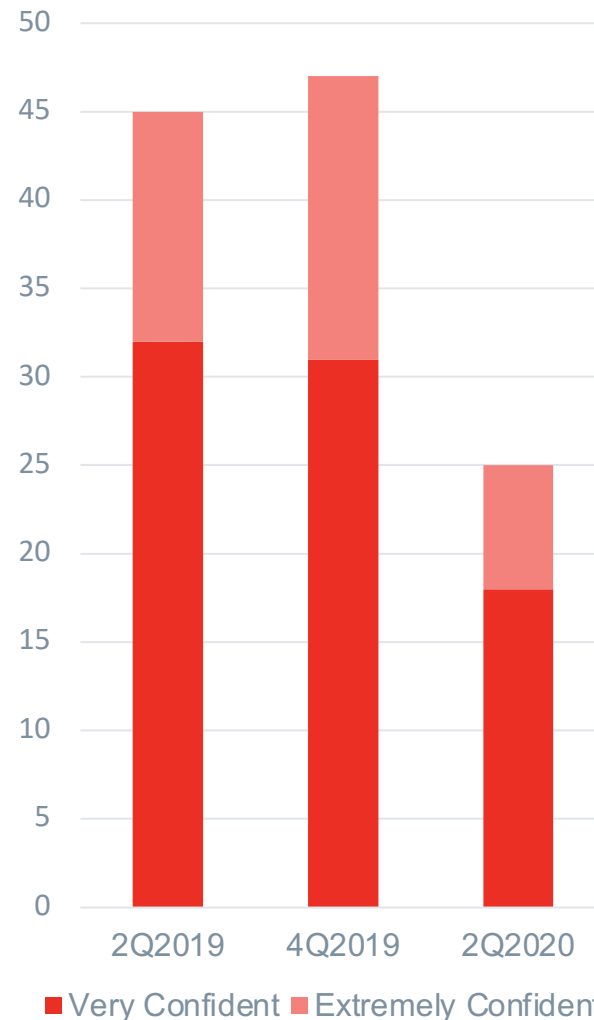
Source: 2Q'20 Middle Market Indicator Report

Economic Confidence: Very and Extremely Only

Global



U.S.



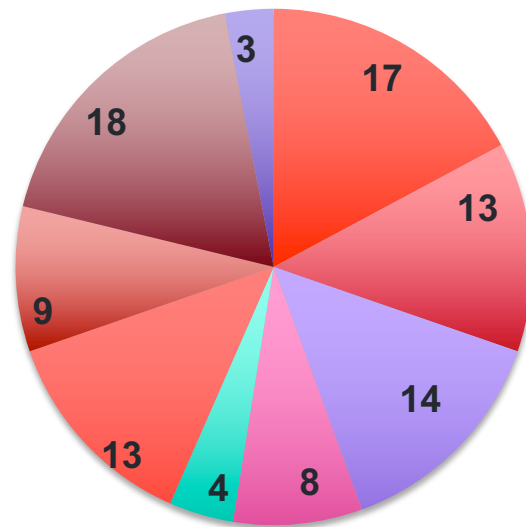
Local



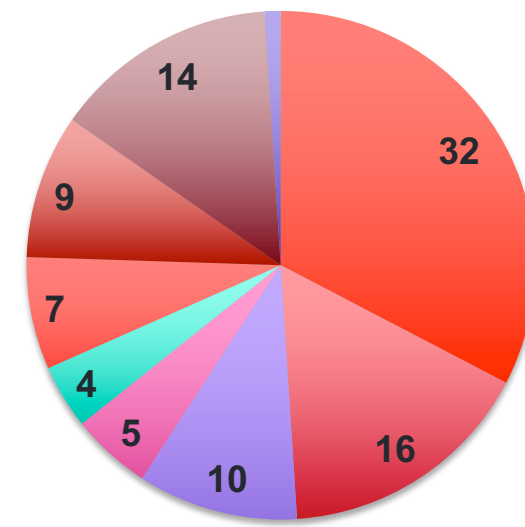
Rainy-Day Funds Have Grown Fast

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

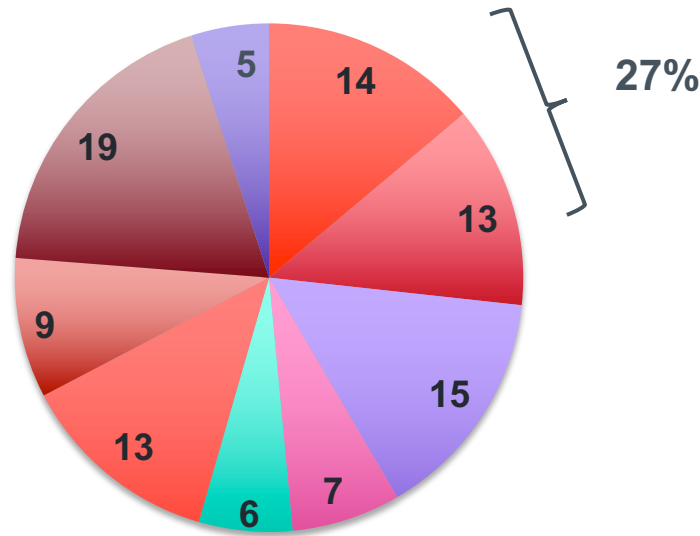


U.S. MIDDLE MARKET, JUNE 2020

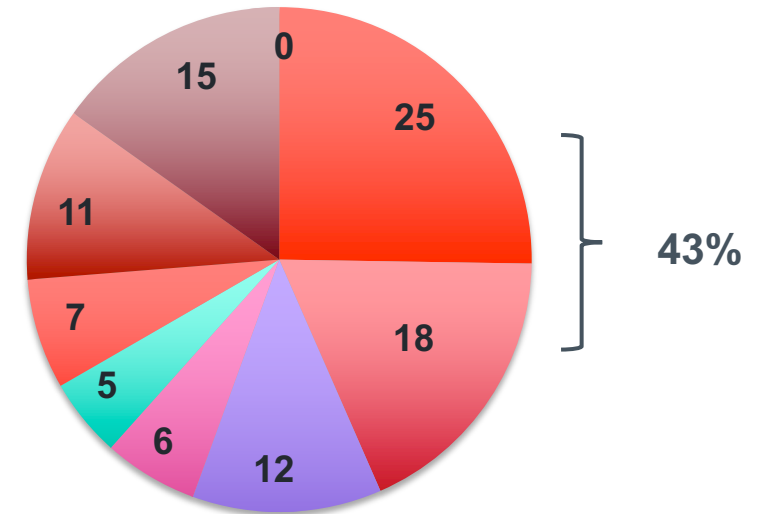
PE Rainy-Day Funds Are Still Growing

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

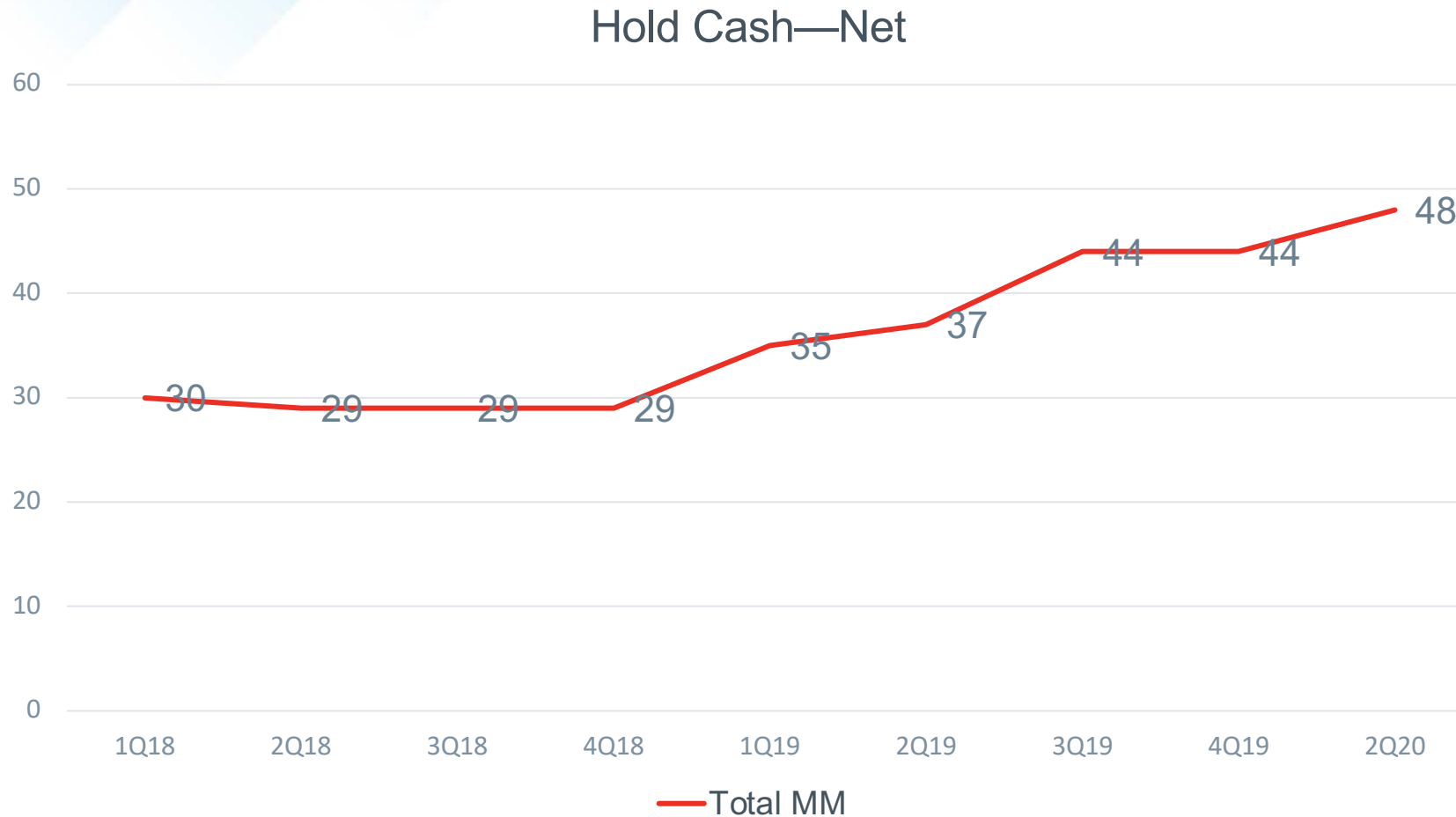


PE-OWNED, DEC. 2019

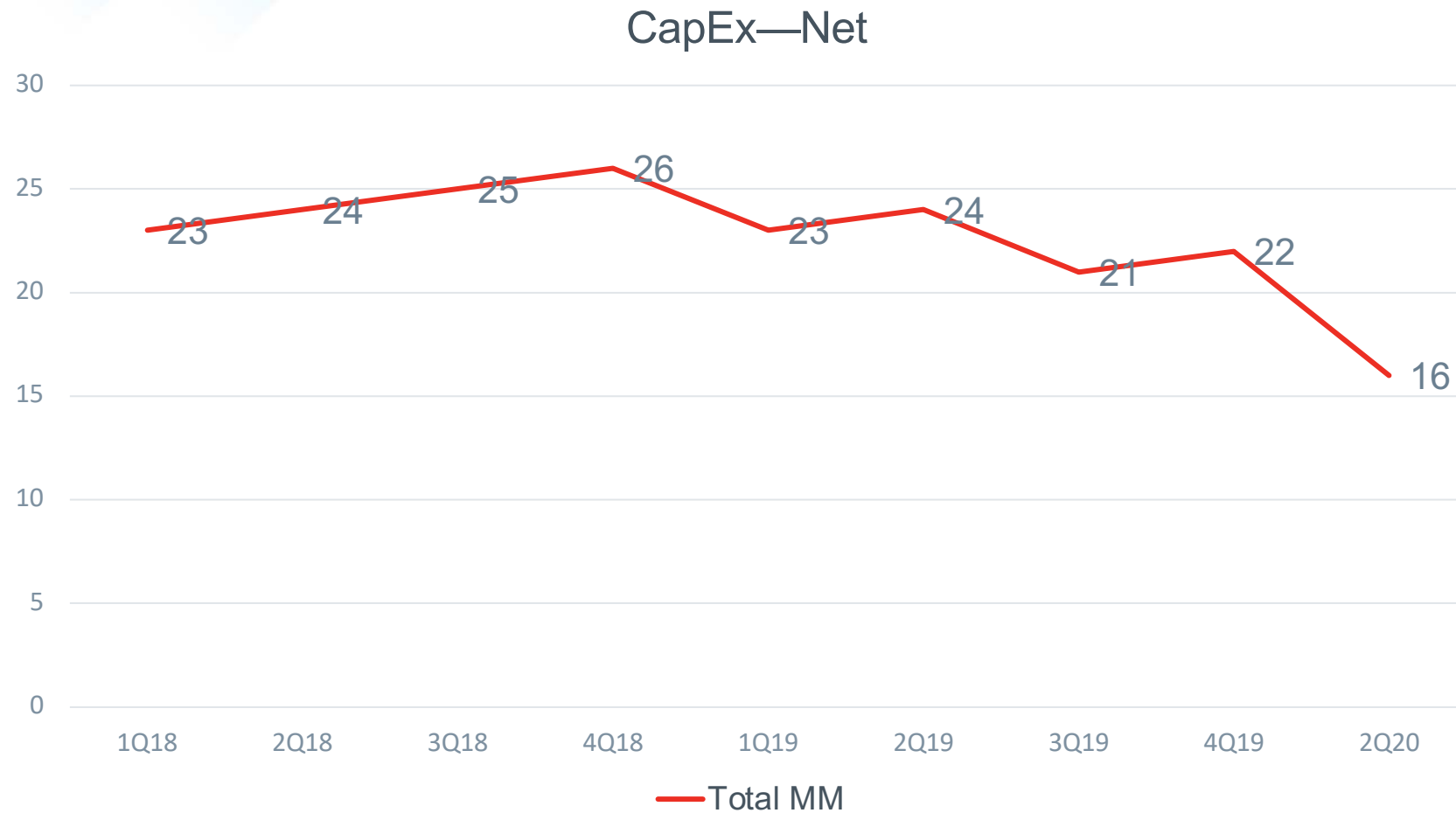


PE-OWNED, JUNE 2020

Not Just Covid: Conserving Cash Has Been a Trend for Two Years

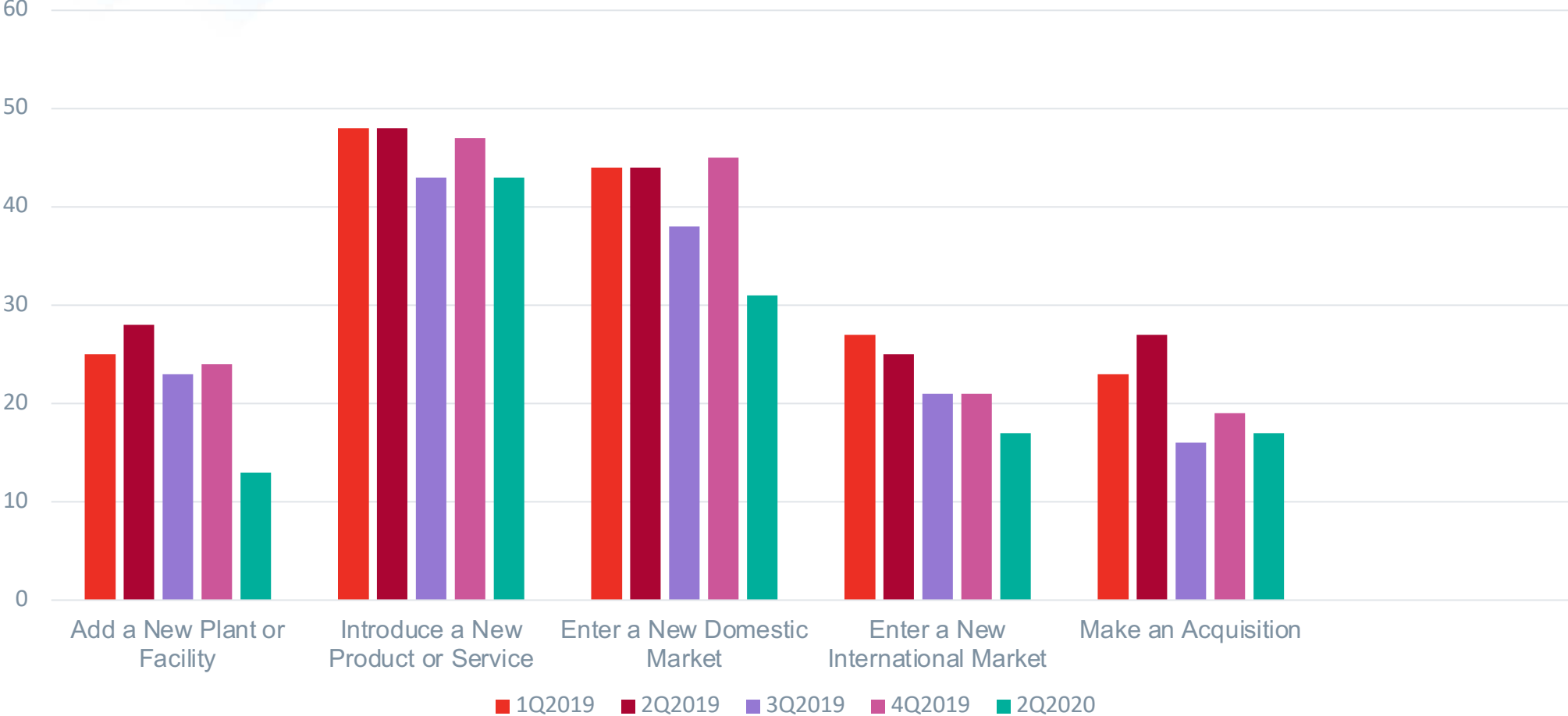


... and CapEx Budgets Were Slowly Tightening



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

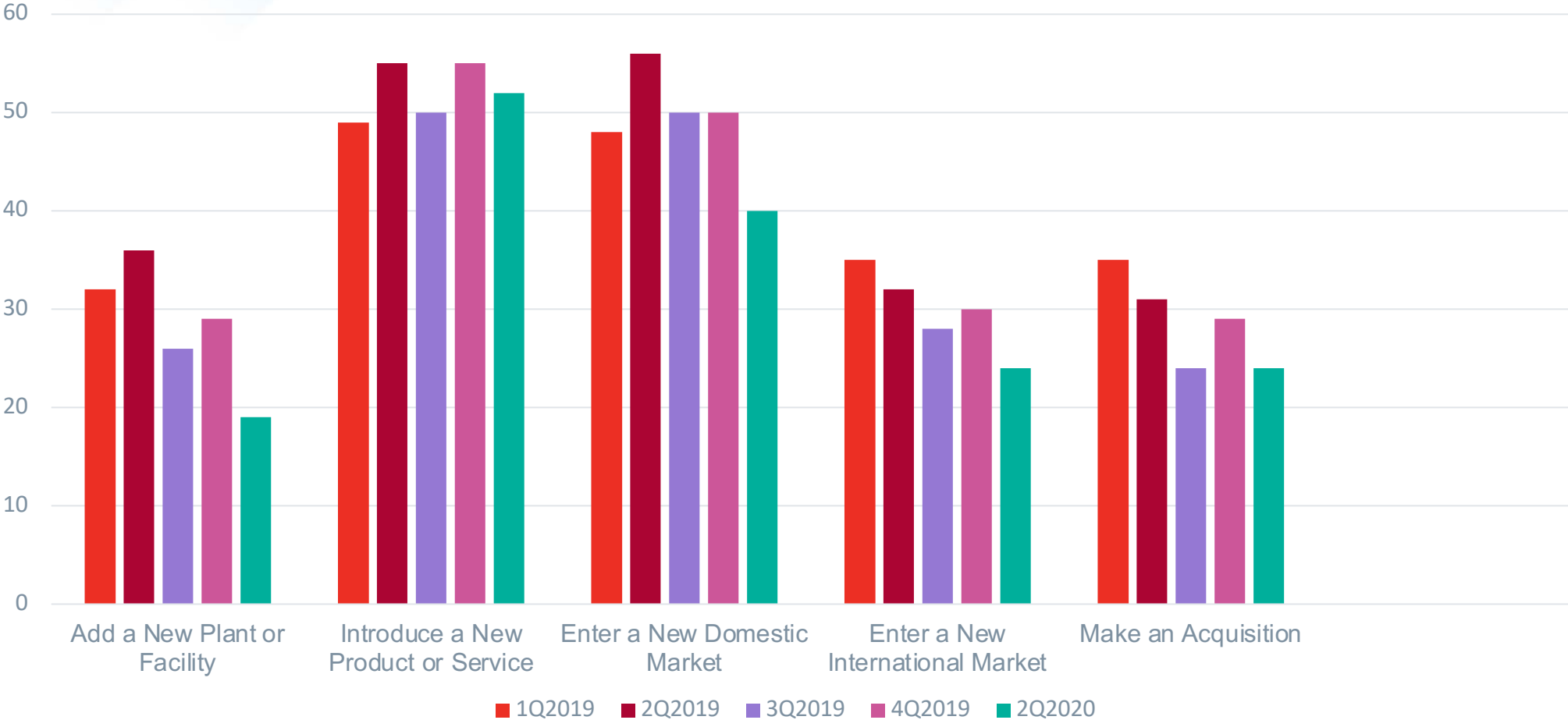
Extremely / Very Likely in the Next 12 Months



Source: 2Q'20 Middle Market Indicator Report

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

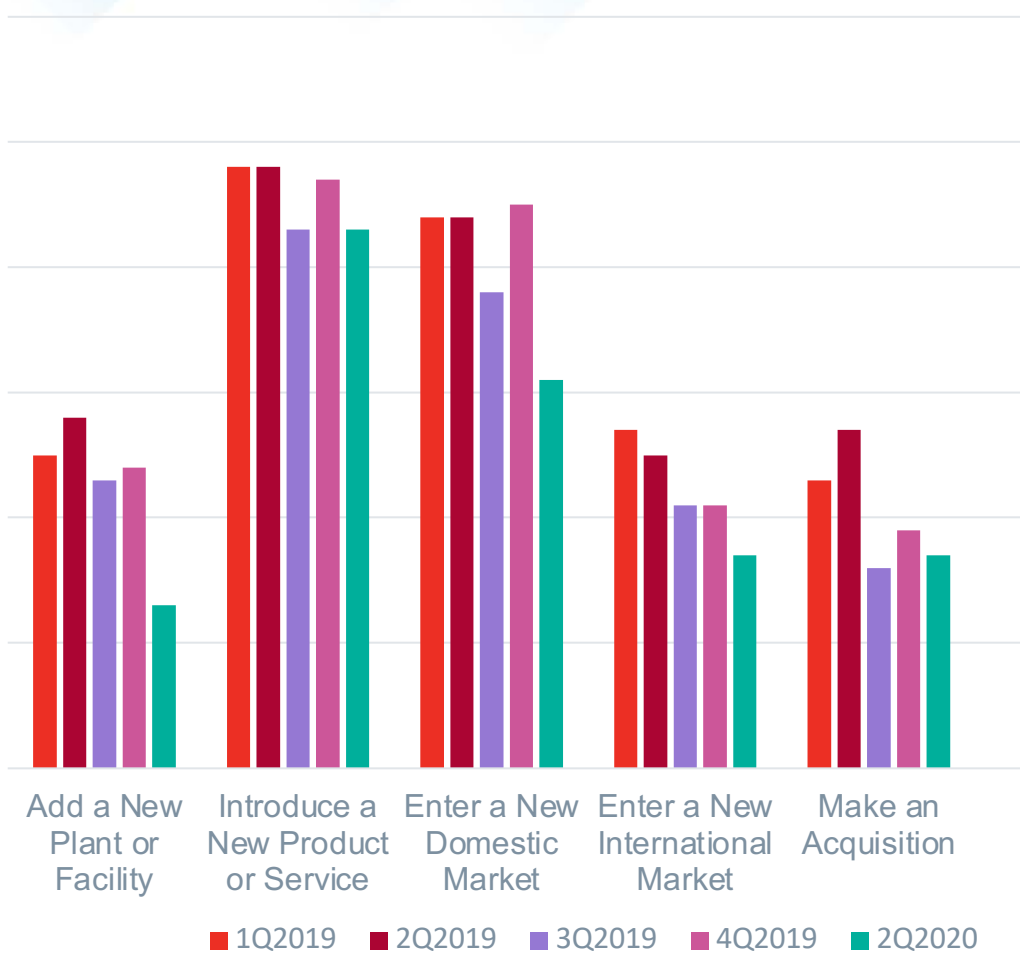
Extremely / Very Likely in the Next 12 Months—PE



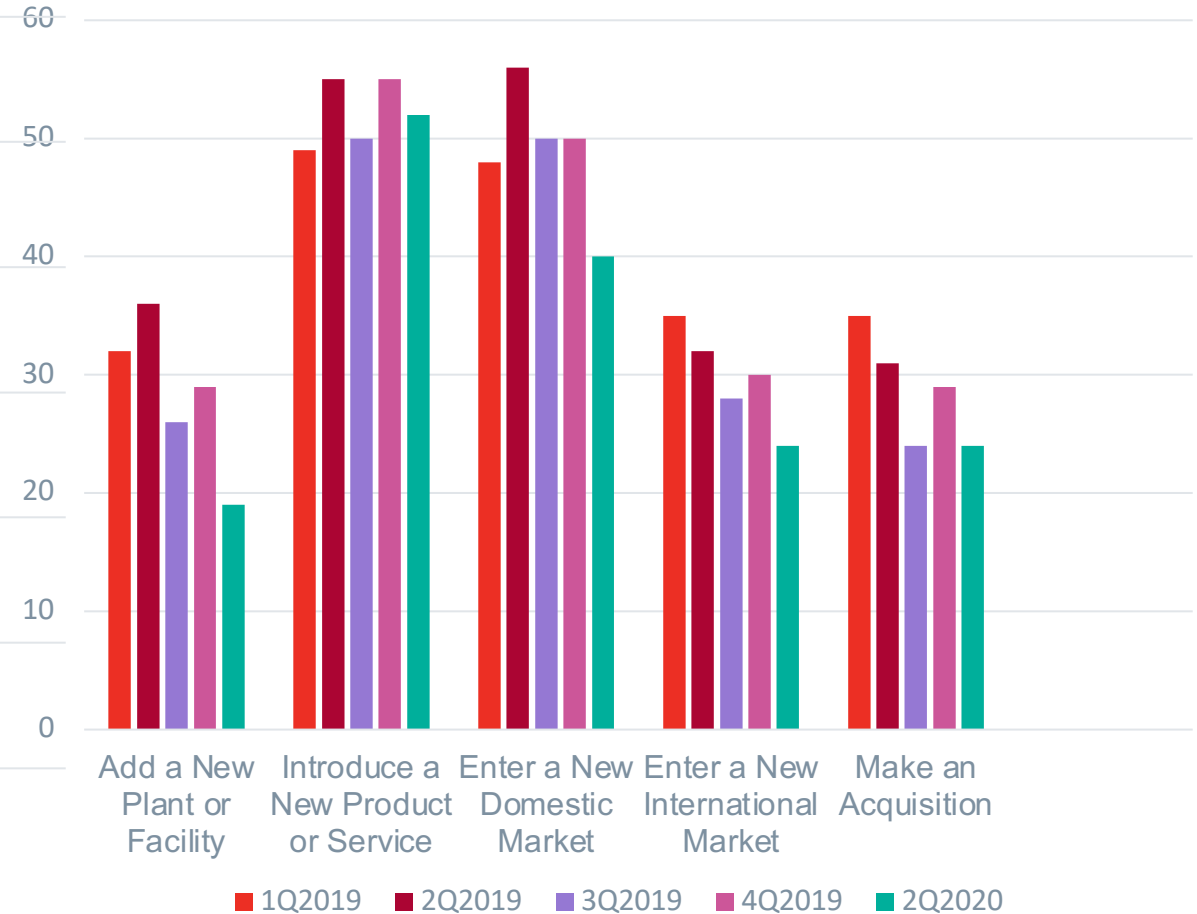
Source: 2Q'20 Middle Market Indicator Report

2Q'20 MMI: MM-PE Expansion Plans

Extremely / Very Likely in the Next 12 Months



Extremely / Very Likely in the Next 12 Months--PE



Source: 2Q'20 Middle Market Indicator Report

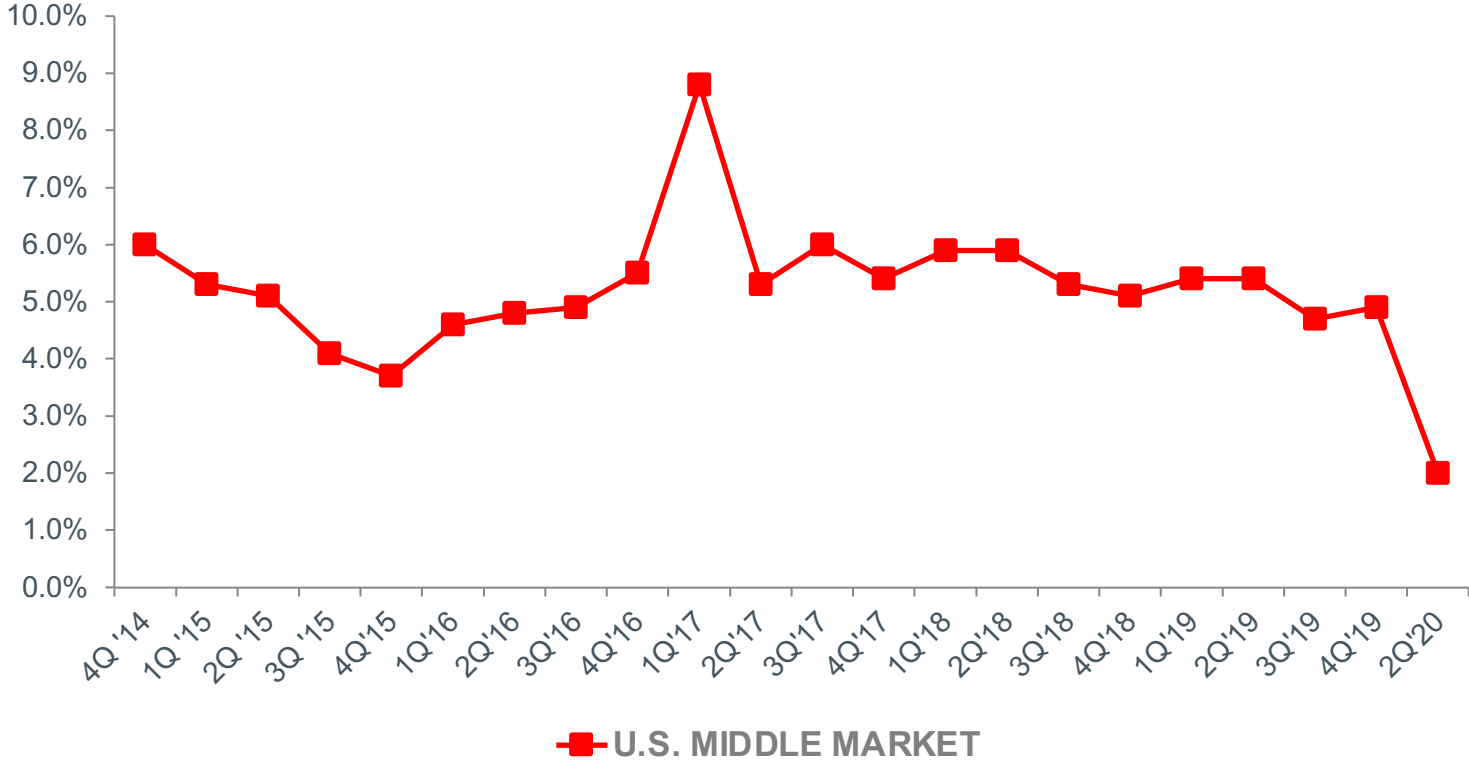
Priorities

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

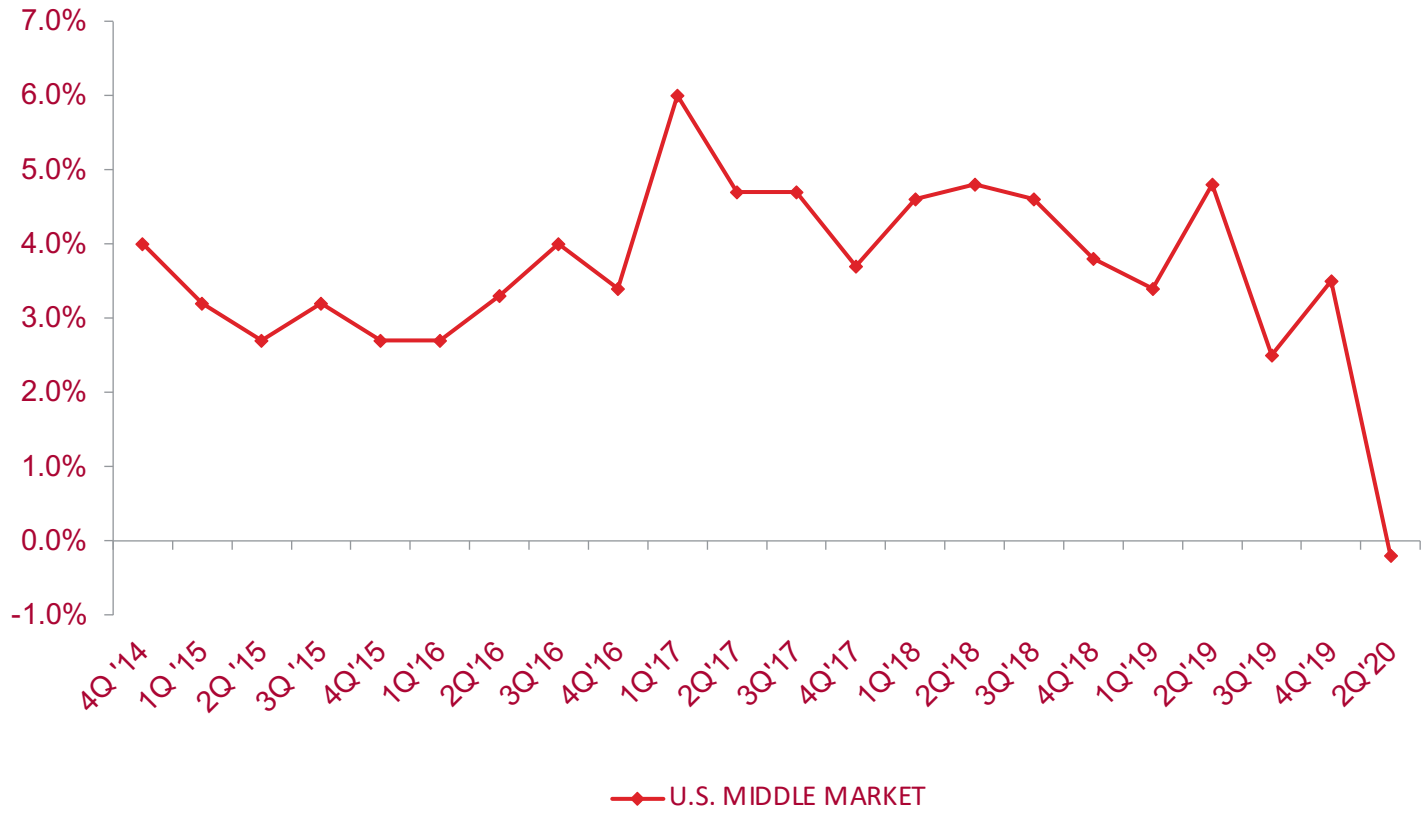
FORECAST EMPLOYMENT GROWTH FOR 12 MONTHS FROM ...

-0.2%

U.S. MIDDLE MARKET

0.7%

PE-OWNED FIRMS



Source: 2Q'20 Middle Market Indicator Report

12-month growth projections: Non-PE vs PE-owned

REVENUE

PROJECTED
GROWTH,
DEC 2019

PROJECTED
GROWTH,
JUNE 2020

NOT PE-
OWNED

4.9%

1.4%

PRIVATE
EQUITY
OWNED

5.7%

3.4%

EMPLOYMENT

PROJECTED
GROWTH,
DEC 2019

PROJECTED
GROWTH,
JUNE 2020

NOT PE-
OWNED

3.5%

-0.6%

PRIVATE
EQUITY
OWNED

4.0%

0.7%

An Extra Dollar: Priorities



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

Source: 2Q'20 Middle Market Indicator Report

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

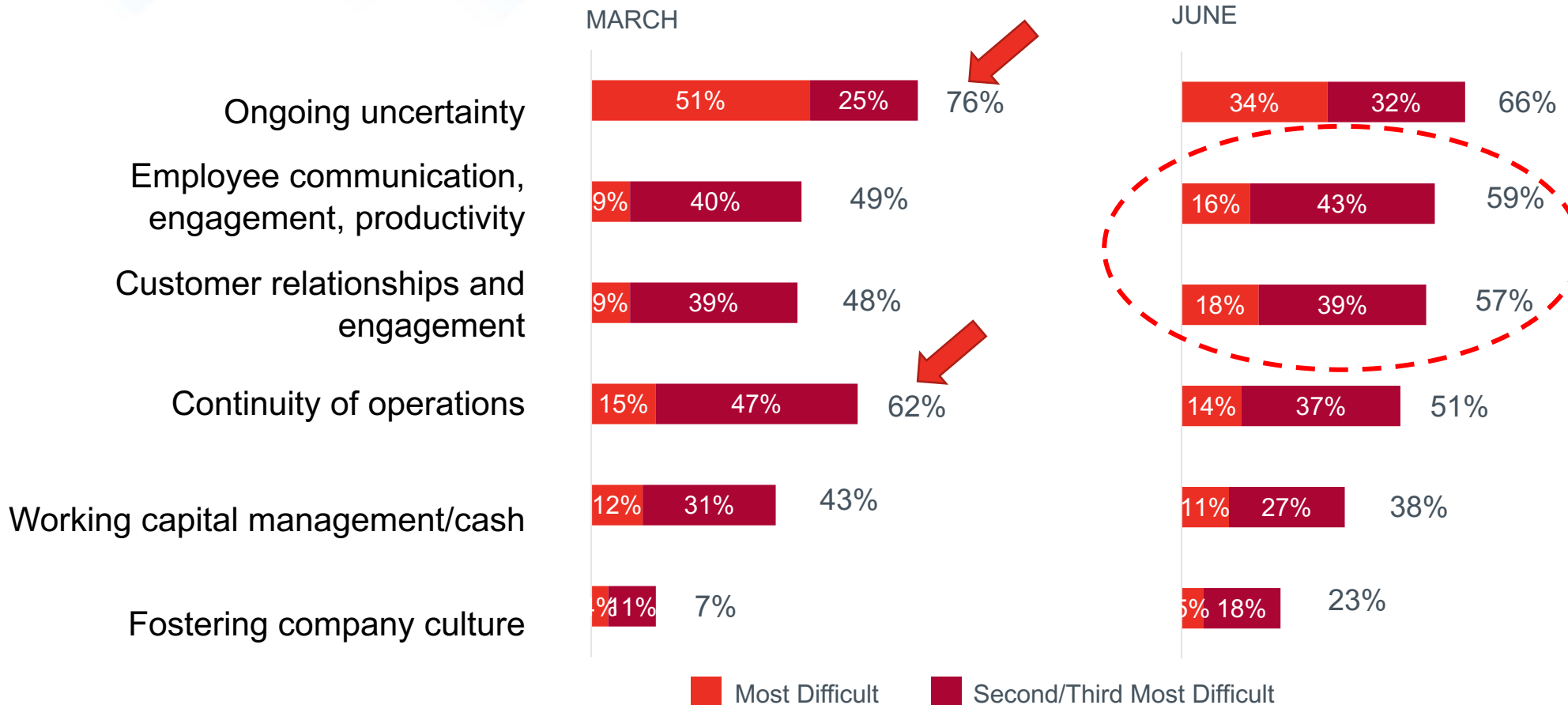
IMMEDIATE IMPACT OF COVID-19 ON VARIOUS MIDDLE MARKET COMPANY ACTIVITIES AND INITIATIVES

	Positive impact %	No impact %	Negative impact %	Net of + and – Total MM	PE Owned
Revenue	21	22	57	-36	-27
Supply chain	15	37	47	-32	-30
Growth initiatives	21	28	52	-31	-20
Demand	26	21	54	-28	-23
Business operations	19	25	46	-27	-37
Capital spending	16	42	42	-26	-24
Employment	20	35	45	-25	-26
Hours	19	38	43	-24	-23
Working capital/cash	18	40	42	-24	-23
Access to capital	18	53	29	-11	-11
Digital transformation	27	48	25	+2	+3

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

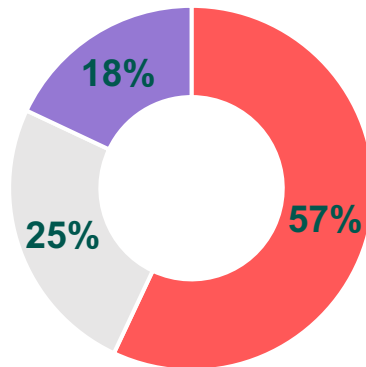
MOST DIFFICULT ASPECTS OF RUNNING BUSINESS IN CURRENT ENVIRONMENT



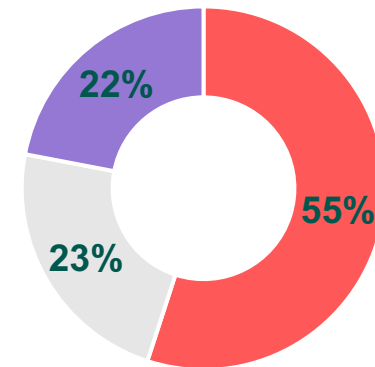
Most businesses plan significant changes in how they operate

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

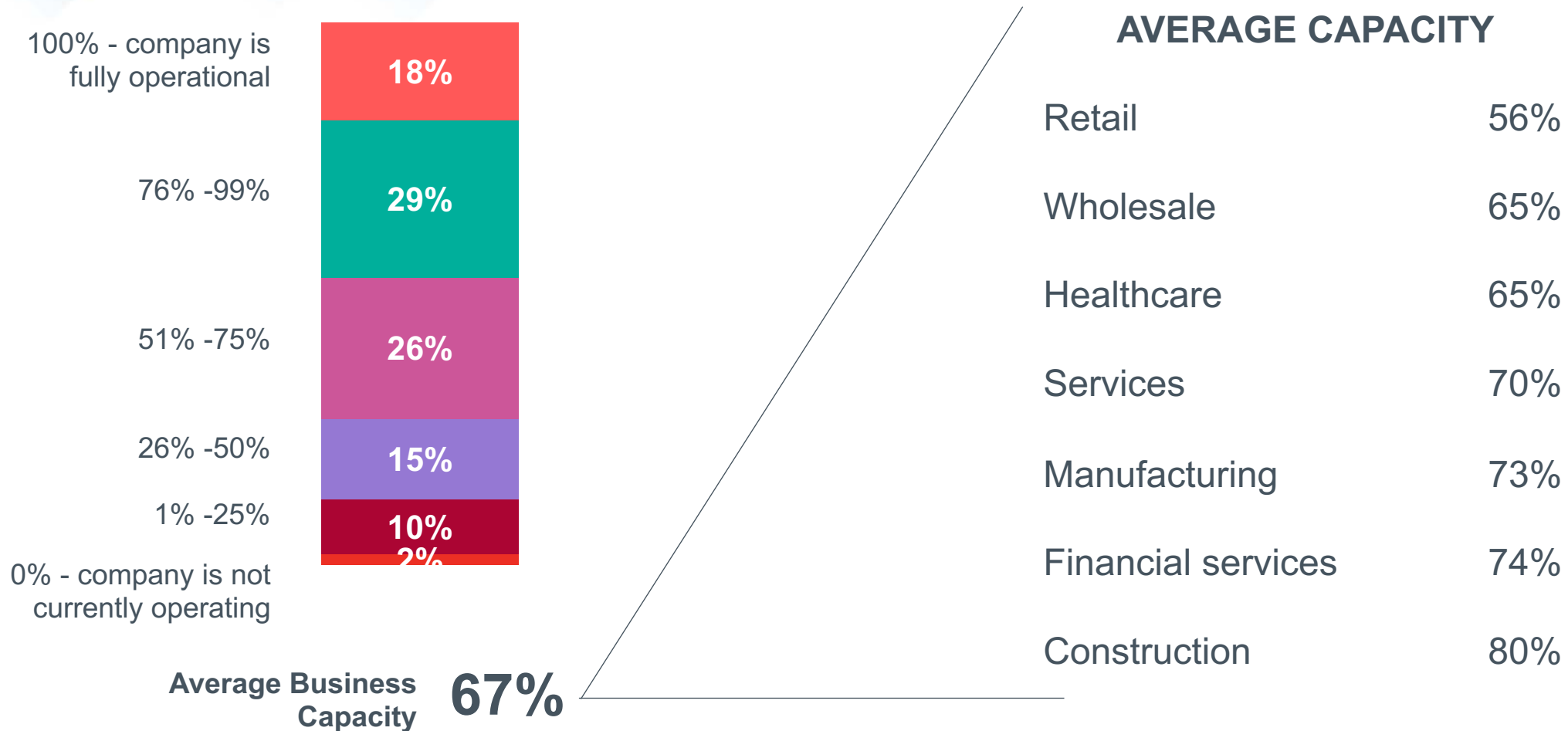
Social Distancing -- Limited Personal Contact -- Virtual Engagement -- Personal Protective Equipment -- Cleaning and Sanitation -- Remote Access -- Reduced Staff On Site

 Extremely/very likely

 Somewhat likely

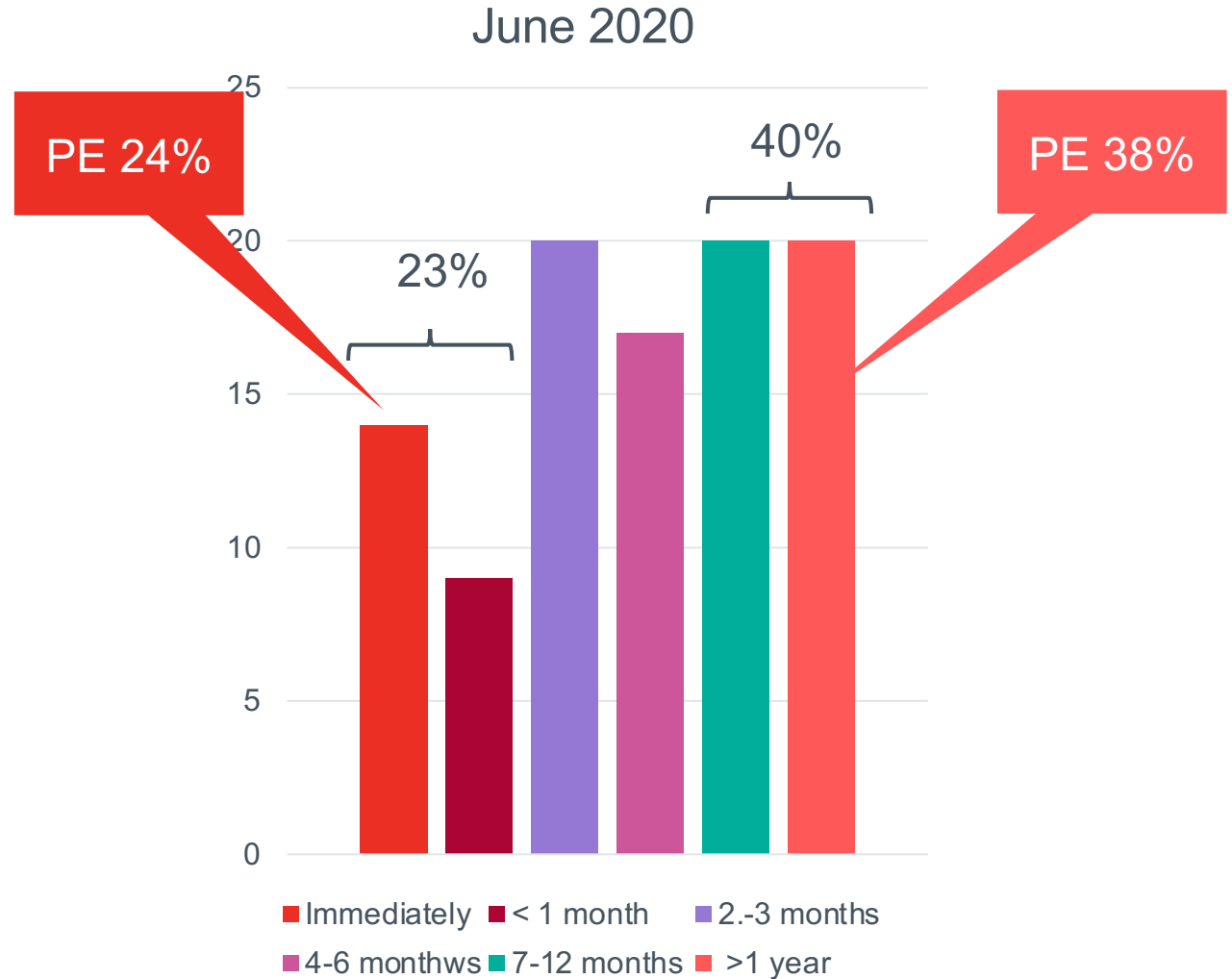
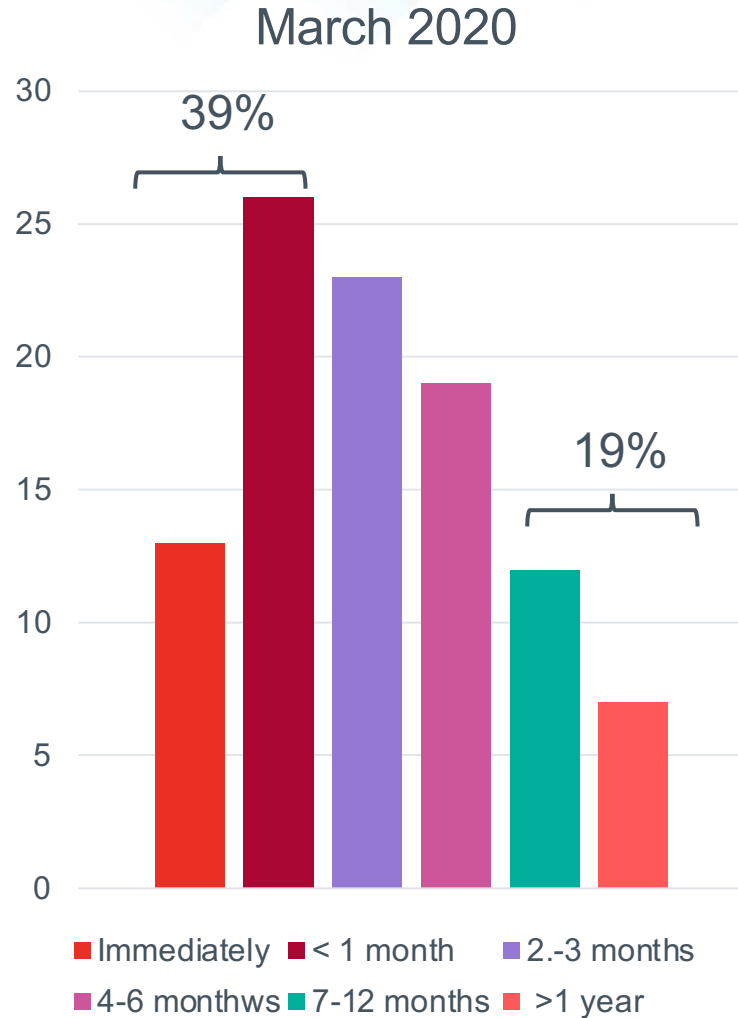
 Not very/not at all likely

The middle market is running at 2/3 of capacity



Resilience: The Long Road Back

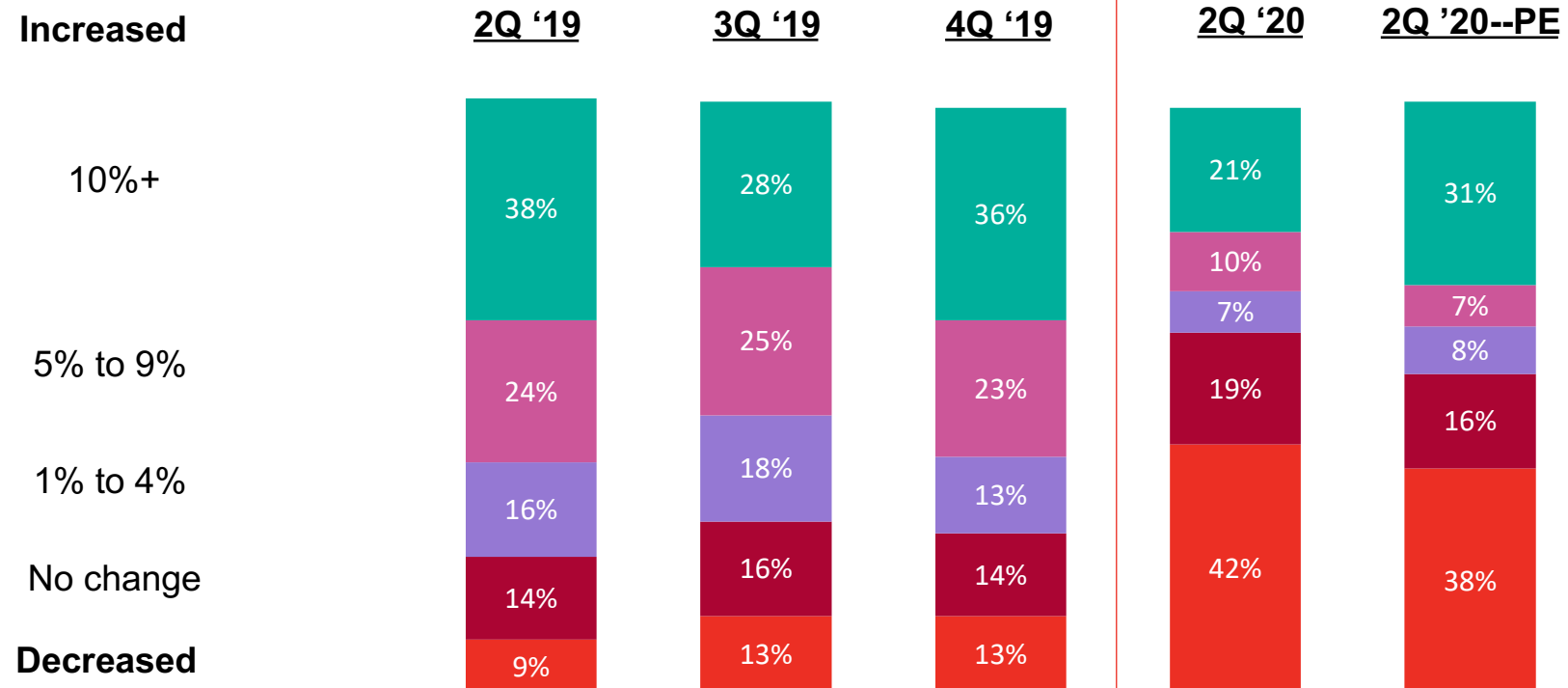
TIME NEEDED TO RETURN TO FULL CAPACITY WHEN PANDEMIC COMES UNDER CONTROL



Immunity







2Q'20 MMI: Some Companies Thrived

Past Year Revenue Growth Distribution








An “Immune System”: Top Capabilities of Companies that Suffered Least from Covid-19

Company Performance on Core Equities: Biggest Differences Between Covid Impact Groups
(% Excellent/Very Good)

	Total MM	Catastrophic/ High Impact	Medium Impact	Low Impact	Difference (Low Impact - High Impact)
Accessing funding at an affordable cost of capital	46	43	41	63	 20
Being able to withstand a downturn in your industry	42	37	41	57	 20
Marketing and communications capability	44	36	47	54	 18
Having a long term growth strategy in-place covering the next 3 to 5 years	45	39	47	56	 17
Keeping talented employees	45	41	42	57	 16
Investing sufficiently for the future	42	37	41	53	 16





Top Finance “Immunity Capabilities”

Company Performance on Core Equities: Biggest Differences Between Covid Impact Groups (% Excellent/Very Good)

	Total MM	Catastrophic/ High Impact	Medium Impact	Low Impact	Difference (Low Impact - High Impact)
Accessing funding at an affordable cost of capital	46	43	41	63	 20
Investing sufficiently for the future	42	37	41	53	 18
Controlling cost through operating efficiency	49	45	48	58	 13
Overall relationship with primary bank	64	60	63	73	 13
Maintaining margins	45	39	49	51	 12










Top Planning “Immunity Capabilities”

Company Performance on Core Equities: Biggest Differences Between Covid Impact Groups
 (% Excellent/Very Good)

	Total MM	Catastrophic/ High Impact	Medium Impact	Low Impact	Difference (Low Impact - High Impact)
Being able to withstand a downturn in your industry	42	37	41	57	 20
Having a long term growth strategy in-place covering the next 3 to 5 years	45	39	47	56	 20
Setting formal annual growth targets for each fiscal year	51	47	51	59	 12
Investing in systems and business processes	38	34	39	45	 11

Top Marketing and Sales / Talent “Immunity Capabilities”

Company Performance on Core Equities: Biggest Differences Between Covid Impact Groups (% Excellent/Very Good)

MARKETING AND SALES	Total MM	Catastrophic/ High Impact	Medium Impact	Low Impact	Difference (Low Impact - High Impact)
Marketing and communications capability	44	36	47	54	 20
Overall salesforce effectiveness	44	41	43	54	 13
Managing against foreign competition	38	35	36	48	 13
Expanding into new geographic markets	35	32	36	42	 10
TALENT					
Keeping talented employees	45	41	42	57	 16
Having a high performing management team	51	49	46	62	 13
Effectively managing health costs	36	33	36	43	 11
Ability to access a workforce that is affordable to our company	36	33	36	43	 10
Providing career pathing for employees	36	34	34	44	 10

“Immunity” Has a Big Impact on Recovery Prospects

Total U.S. Middle Market Projected 12-Month Revenue Growth Rate

2.0%

Projected 12-Month Employment Growth Rate

-0.2%

Projected Growth Rate for Companies Rating Themselves Excellent / Very Good	Projected 12-month revenue growth	Projected 12-month employment growth
Accessing funding at an affordable cost of capital	6.0	1.2
Being able to withstand a downturn in your industry	5.1	2.1
Marketing and communications capability	5.7	1.9
Having a long-term growth strategy in-place covering the next 3 to 5 years	5.0	1.6
Keeping talented employees	4.7	0.6
Investing sufficiently for the future	5.7	1.8

Summary

- As companies begin to get a handle on the impact of Covid and recession on their businesses, two key areas emerge for attention: Reengaging employees and customers
- While most investments have been postponed, investments in innovation and digitalization have held their own, or even inched up
- A handful of capabilities seem to confer relative “immunity.” That is, companies that rate themselves “excellent” or “very good” in these areas were less likely to be severely hit by Covid and forecast a more rapid and robust recovery
 - Access to capital
 - Ability to withstand a downturn in the industry
 - Marketing and communications
 - Having a long-term growth strategy in place
 - Keeping talented employees
 - Investing sufficiently for the future
- Investors can play a central role not just in managing through the crisis but in laying the groundwork for growth



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