



NATIONAL CENTER FOR  
THE MIDDLE MARKET

# COVID-19 and the MIDDLE MARKET

Findings as of April 3, 2020

ACG

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.

For more information about the Center, visit <https://middlemarketcenterr.org>.

## 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

# 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

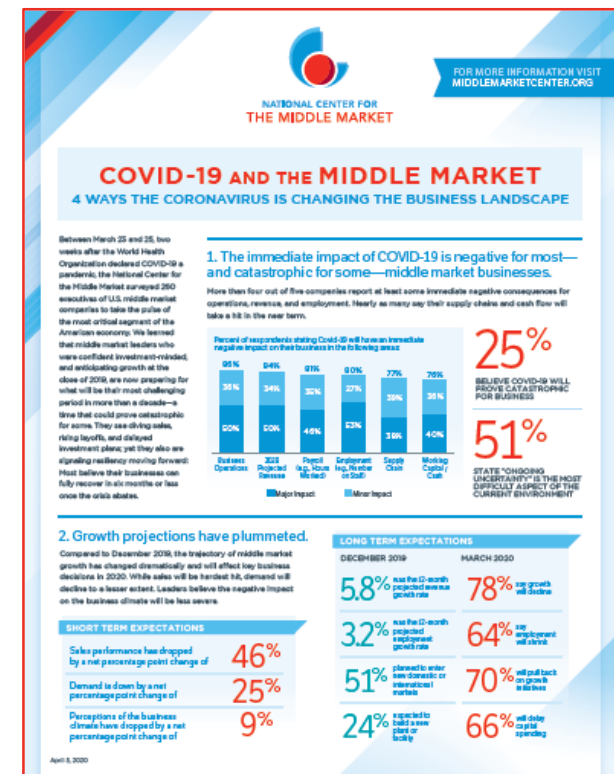
# About this research

Two weeks after the World Health Organization declared COVID-19 a pandemic, the National Center for the Middle Market 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.

The results in this pulse report highlight the current and anticipated future impact of COVID-19 on business operations and reflect how the sentiment of middle market leaders has changed over the past three months due to the coronavirus pandemic.

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



# Headlines

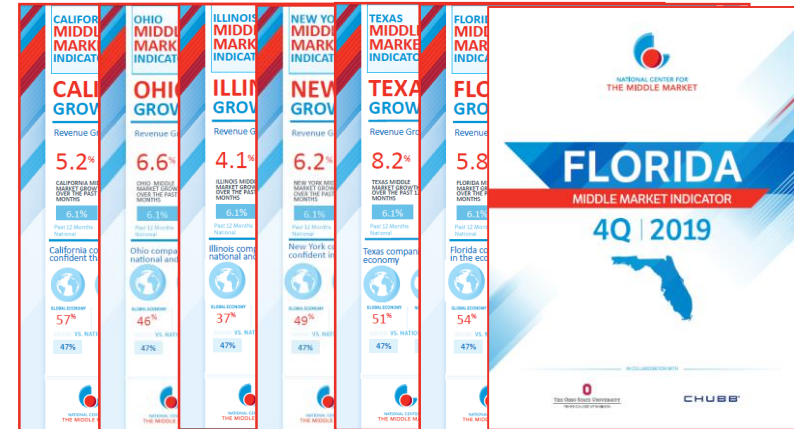
- 1** The Covid-19 pandemic is causing major problems in the middle market, as it is everywhere. Revenue is down, cash is short, operations and supply chains are disrupted. While a few companies will benefit from the pandemic, it may be catastrophic for as many as a quarter.
- 2** These negative effects have fallen upon companies that, as the year began, were overwhelmingly bullish about the economy and their prospects. In response to the change, they are slashing payrolls and deferring or scrapping expansion plans.
- 3** Executives are bedeviled by uncertainty. Looking at their own effectiveness, they feel best about things within their companies' walls, and least effective dealing with cash, customers, and supply chains. IT and communications are, relatively speaking, bright spots
- 4** Notwithstanding the damage, executives retain some confidence in the U.S. and their local economies, and express strong belief in their resilience and ability to get back to work when the crisis ends.

# About the Middle Market Indicator

## A Quarterly National Survey



## Cut by Geography and Industry



# Polling question #1: Impact

What has the impact of COVID-19 been on your business, firm, or portfolio companies?

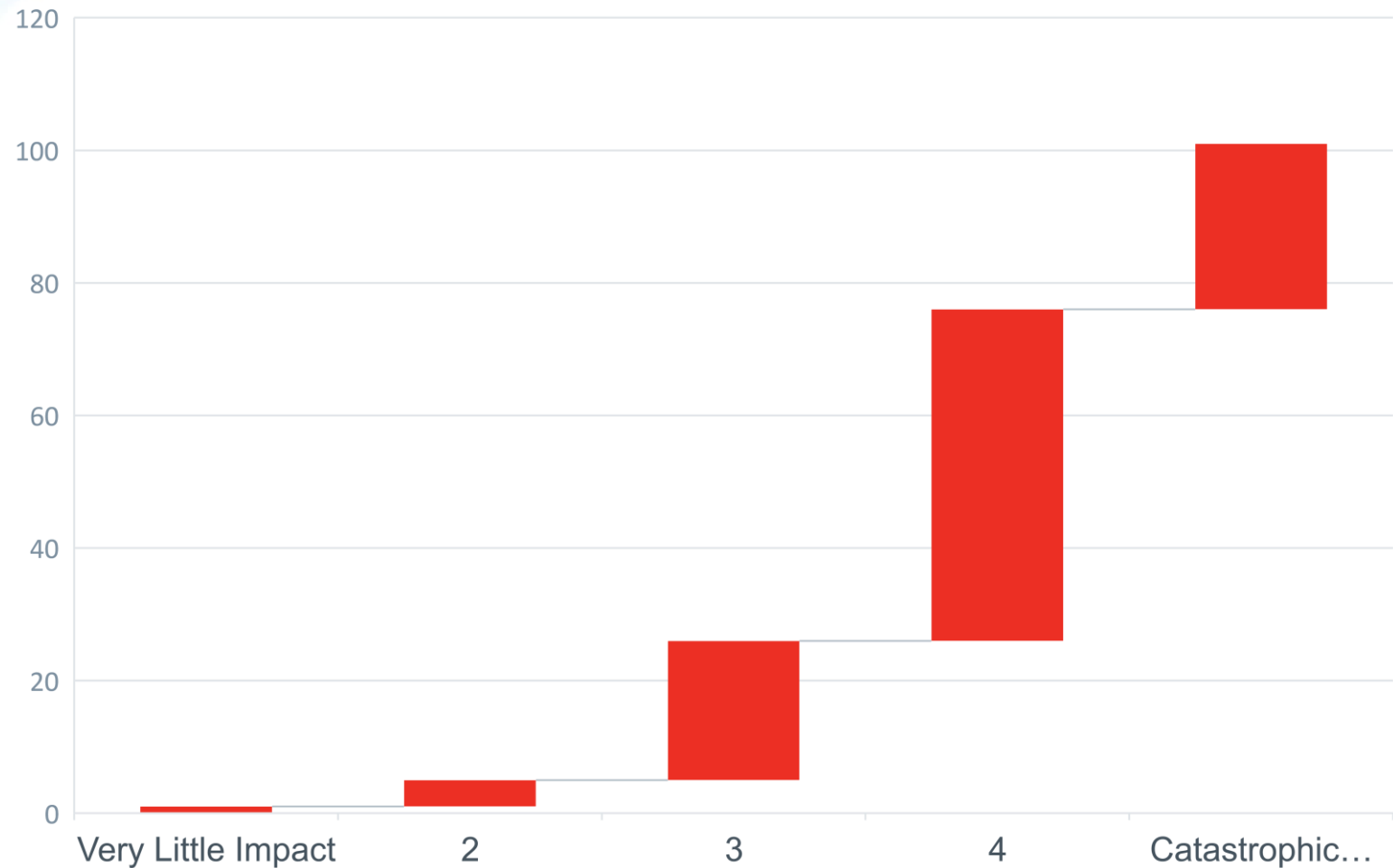
- a. Major negative
- b. Minor negative
- c. Neutral
- d. Minor positive
- e. Major positive

# A severe—even grim—immediate impact

**25%**

BELIEVE COVID-19 WILL  
PROVE CATASTROPHIC  
FOR THEIR BUSINESS

IMPACT OF COVID-19 IN NEXT THREE MONTHS



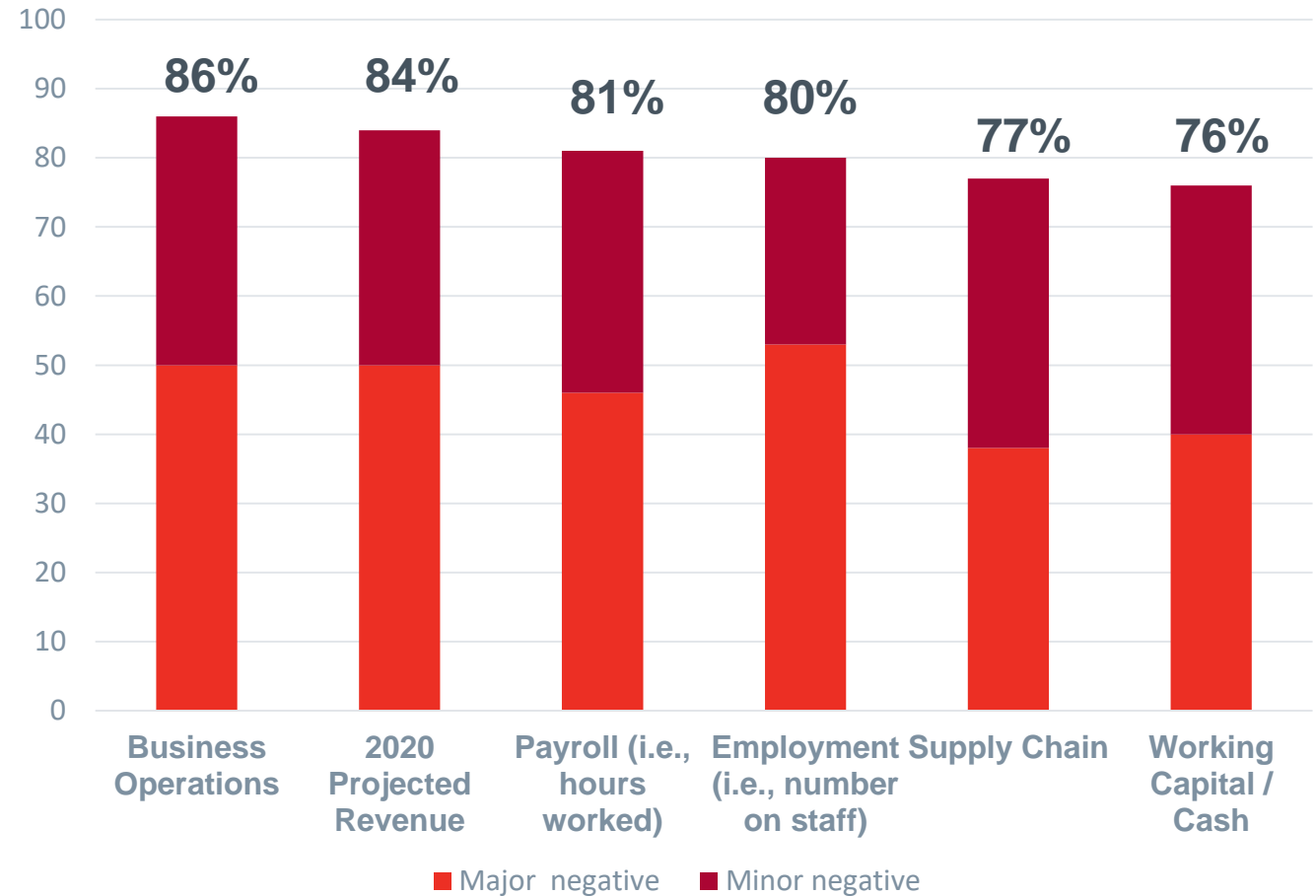


# Operations and revenue will be hit hardest in short term

**51%**

STATE “ONGOING UNCERTAINTY”  
IS THE MOST DIFFICULT ASPECT  
OF THE CURRENT ENVIRONMENT

## COVID-19 WILL HAVE AN IMMEDIATE NEGATIVE IMPACT ON



# Plummeting growth projections: total MM

DECEMBER 2019

**4.9%**

Was the 12-month  
projected revenue  
growth rate

**3.5%**

Was the 12-month  
projected employment  
growth rate

MARCH 2020

**78%**

Say growth  
will decline

**64%**

Say employment  
will shrink

# Plummeting growth projections: PE, family-owned

REVENUE		
	PROJECTED GROWTH, DEC 2019	SAY GROWTH WILL FALL, FALL, MAR 2020
TOTAL MIDDLE MARKET	4.9%	78%
PRIVATE EQUITY OWNED	5.7%	66%
FAMILY OWNED	4.8%	81%

EMPLOYMENT		
	PROJECTED GROWTH, DEC 2019	SAY EMPLOYMENT WILL FALL, MAR 2020
TOTAL MIDDLE MARKET	3.5%	64%
PRIVATE EQUITY OWNED	4.0%	58%
FAMILY OWNED	3.3%	62%

# Polling question #2: Non-governmental financial support

Are you or do you expect soon to be looking for financial support from any of the following?

(Check all that apply)

- a. Banks
- b. Non-bank lenders
- c. Existing financial sponsors
- d. New financial sponsors
- e. Not looking

# Polling question #3: Federal programs

Are you taking advantage of SBA or PPP assistance?

- a. Yes
- b. Plan to do so soon
- c. Not at this time
- d. I would love to but can't figure out
- e. No or don't know what this is

# Plummeting investment projections: total MM

DECEMBER 2019

**51%**

Planned to enter new domestic or international markets

**32%**

Expected to build a new plant or facility

MARCH 2020

**70%**

Will pull back on growth initiatives

**66%**

Will delay capital spending

# Plummeting investment projections: PE, family-owned

## EXPANSION INTO NEW MARKETS

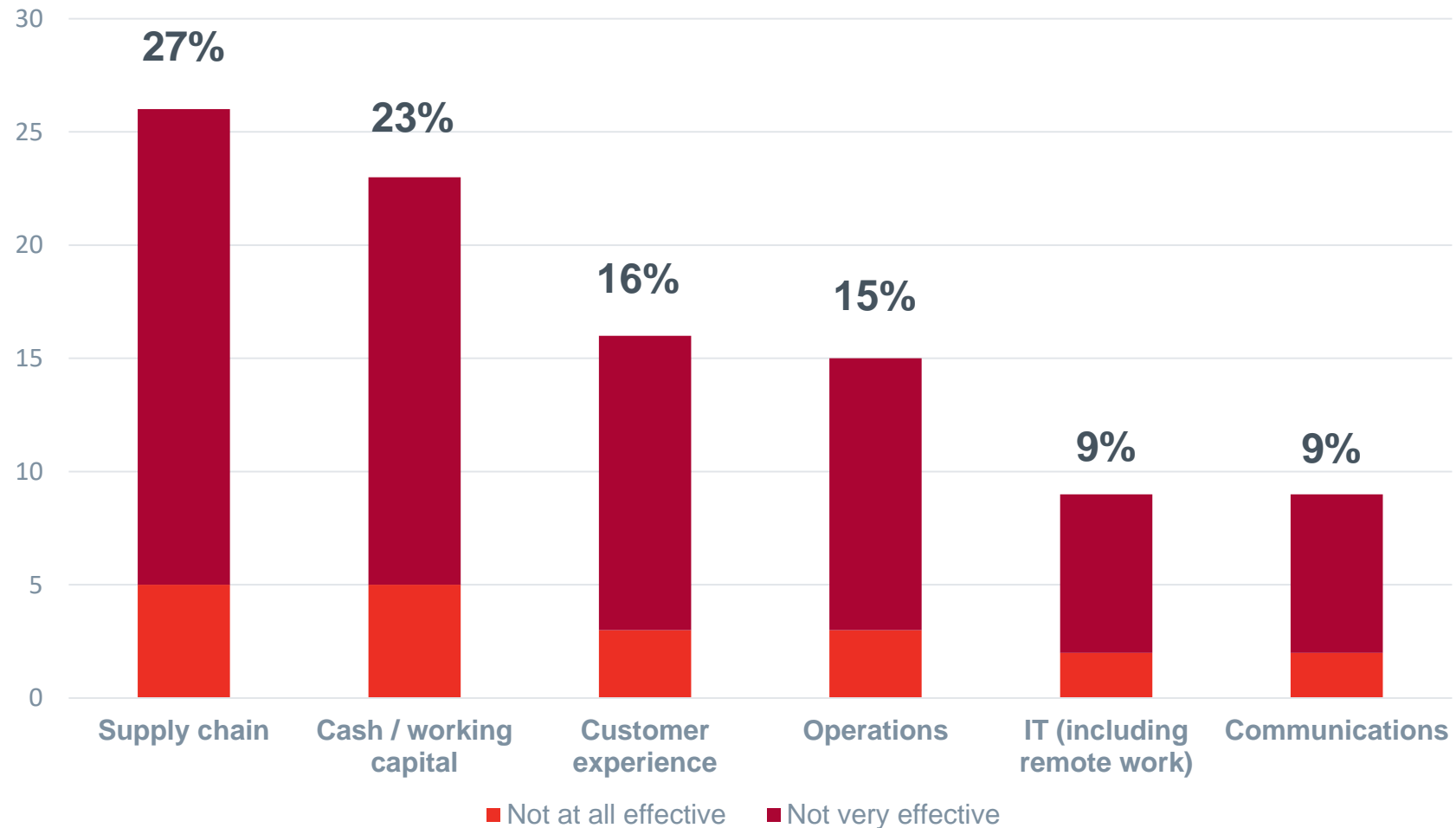
	PLANNED DOMESTIC EXPANSION DEC 2019	PLANNED INT'L EXPANSION DEC 2019	WILL PULL BACK ON GROWTH INITIATIVES MAR 2020
TOTAL MIDDLE MARKET	75%	39%	<b>70%</b>
PRIVATE EQUITY OWNED	79%	47%	<b>60%</b>
FAMILY OWNED	74%	31%	<b>78%</b>

## OPENING NEW PLANT OR FACILITY

	EXPECTED TO BUILD NEW PLANT OR FACILITY, MAR 2020	WILL DELAY CAPITAL SPENDING MAR 2020
TOTAL MIDDLE MARKET	<b>43%</b>	<b>66%</b>
PRIVATE EQUITY OWNED	<b>49%</b>	<b>63%</b>
FAMILY OWNED COMPANIES	<b>39%</b>	<b>71%</b>

# Where managers feel they are least effective

## MANAGEMENT PERSPECTIVE ON ITS EFFECTIVENESS IN MITIGATING PANDEMIC-RELATED PROBLEMS





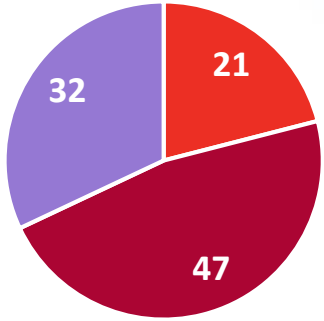
# Polling question #4: Advisors

Are you getting useful nonfinancial help from any of the following?  
(Check all that apply)

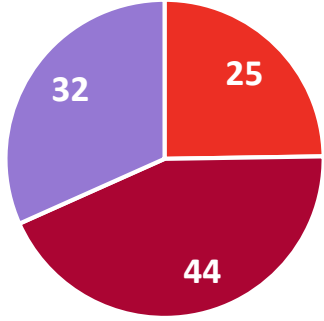
- a. Advisors (banker, accountant, lawyer, coach, consultant, etc.)
- b. Chambers and business development groups
- c. Industry or trade associations
- d. Investors (PE firms, family offices, etc.)
- e. Government agencies
- f. Universities, community colleges
- g. None of the above

# Transitions impact: Deals on hold, more internal change

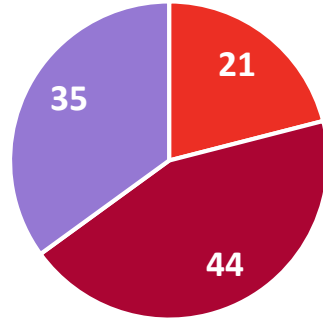
Sell the Business



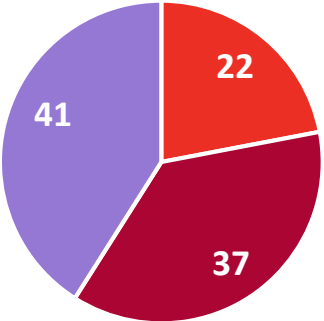
Merge with Another



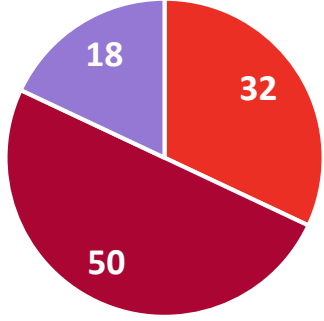
Bring in Major Investor



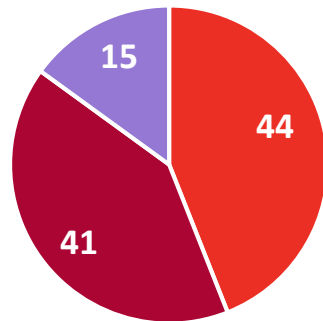
Make Transformative Acquisition



Senior Leadership Transition



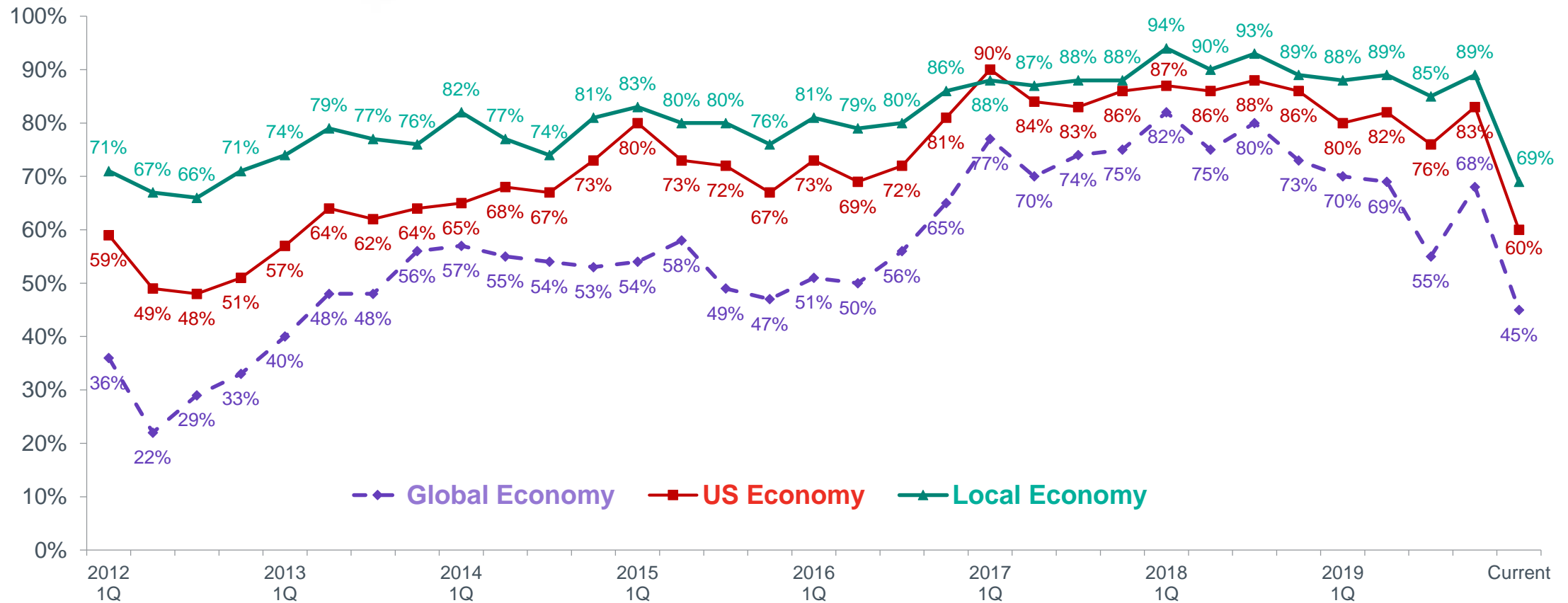
Restructuring



More Likely    No Impact    Less Likely

# Confidence plunges. Will it hold, sink more, or rise?

## Confidence in Economy: March 23-25, 2020



# Polling Question #5: Recovery

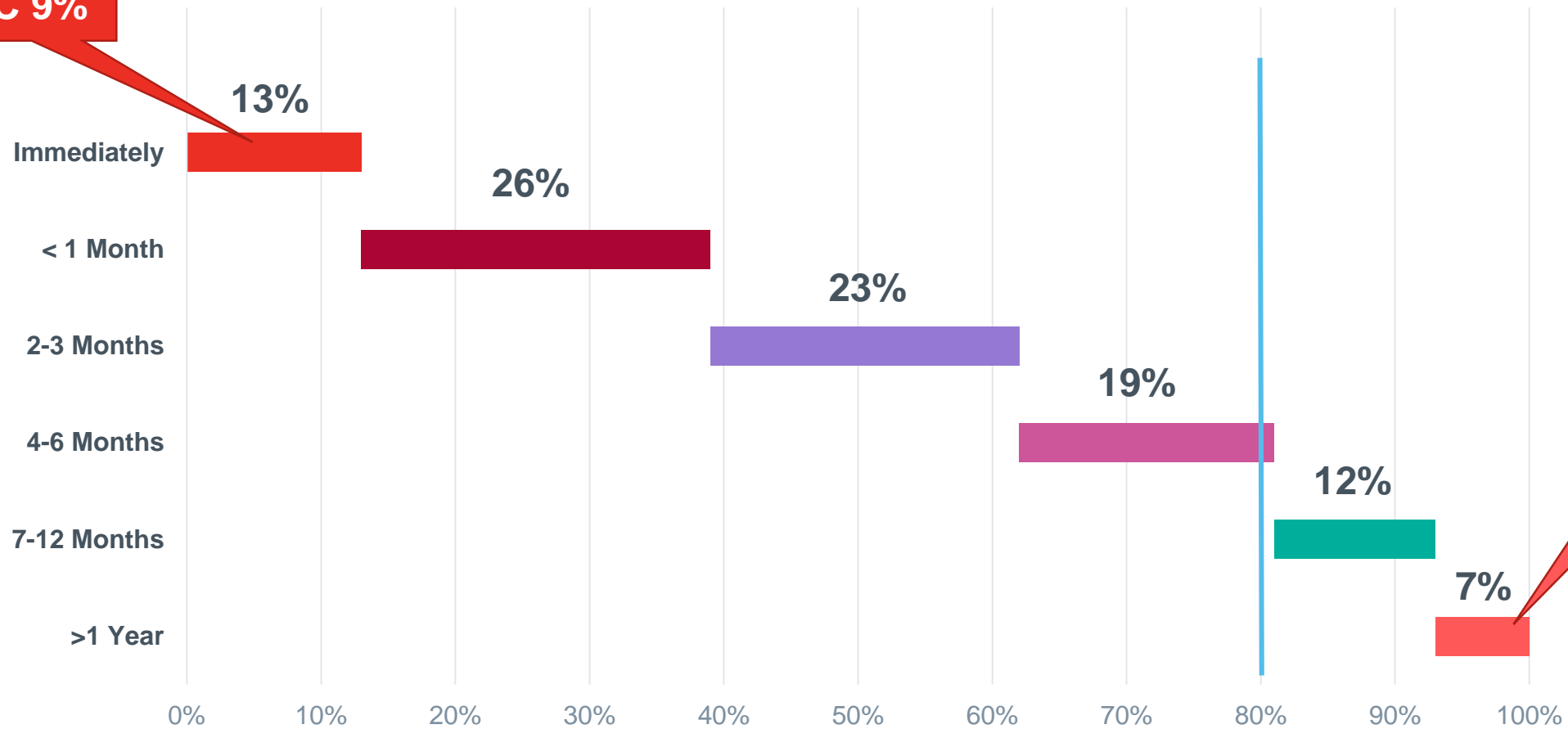
How quickly can your firm, your business, or your portfolio companies be back up and running at capacity?

- a. Immediately
- b. Less than a month
- c. 2-3 months
- d. 4-6 months
- e. 7-12 months
- f. More than a year

# Resilience when the crisis ebbs

FOUR OUT OF FIVE EXECUTIVES BELIEVE THEIR COMPANIES WILL BE ABLE TO OPERATE AT FULL CAPACITY IN SIX MONTHS OR LESS.

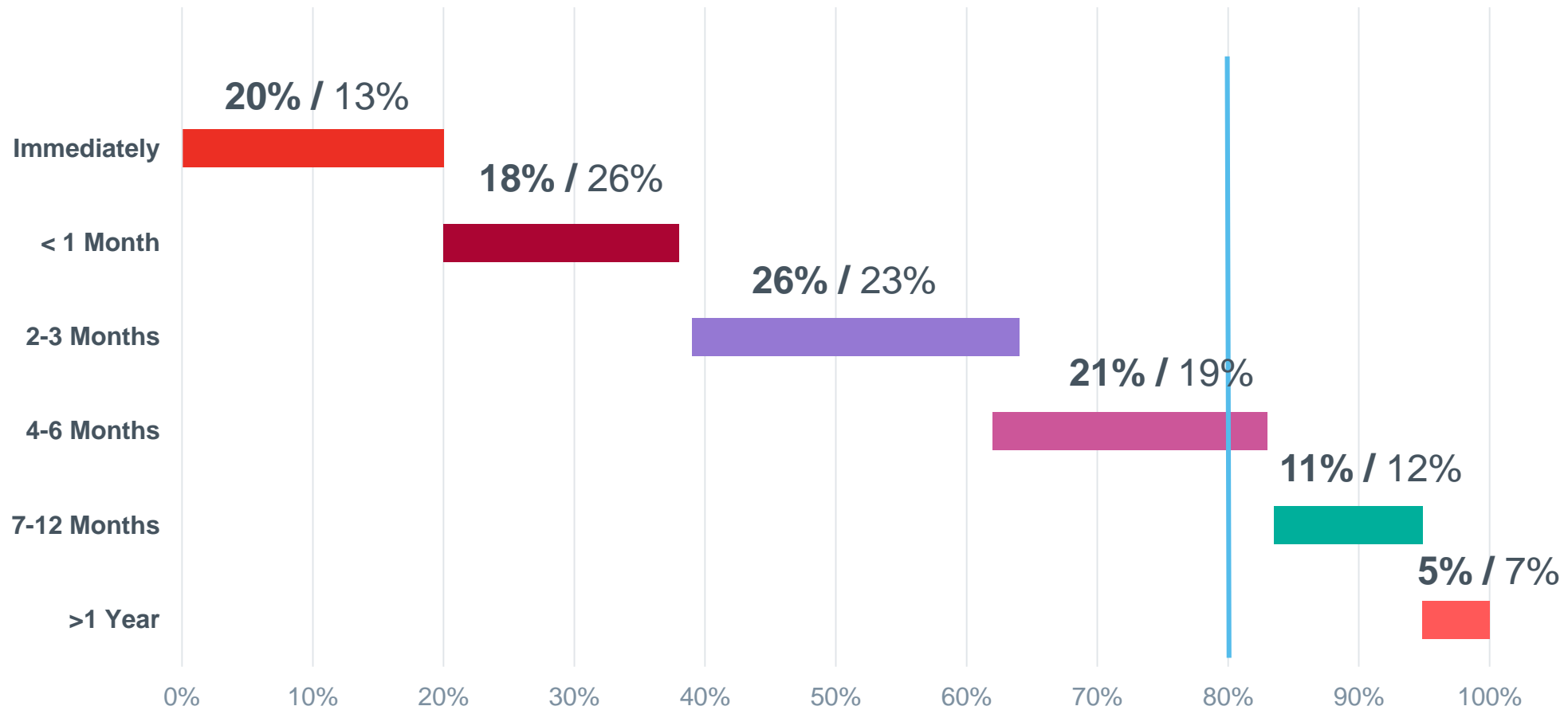
**B2B 14%**  
**B2C 9%**



**B2B 5%**  
**B2C 10%**

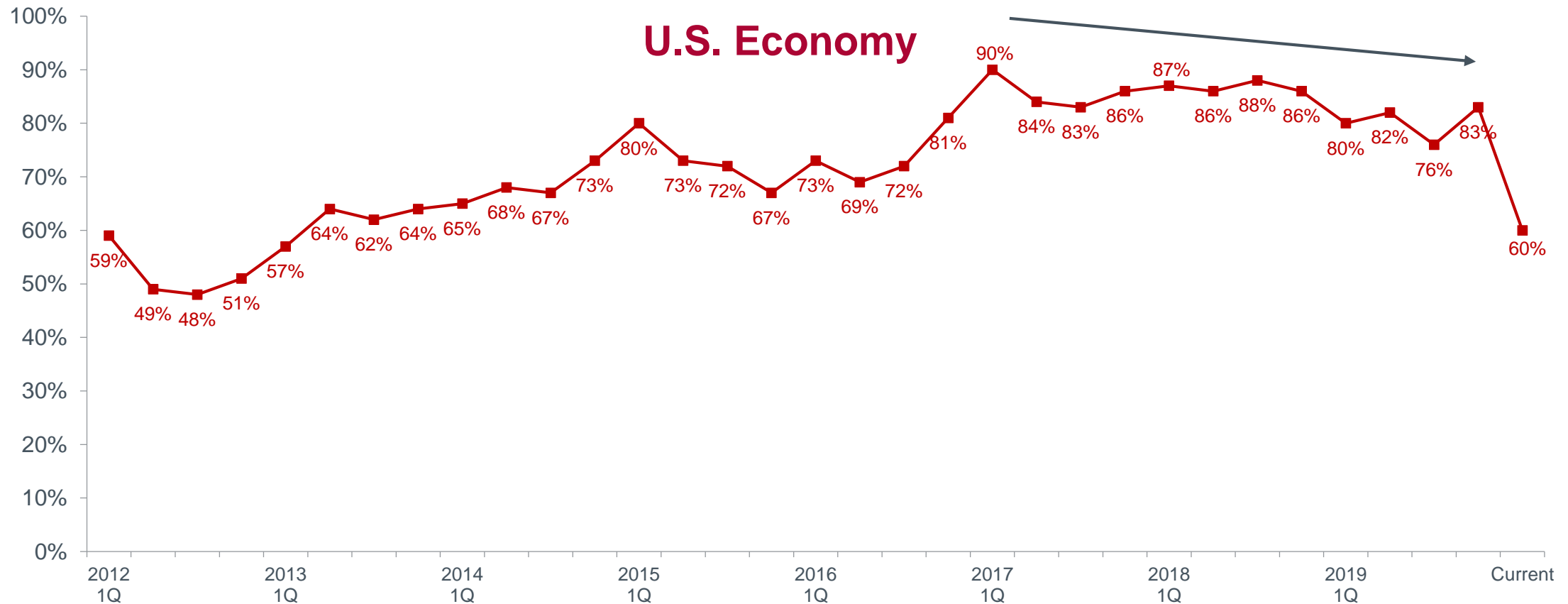
# Resilience when the crisis ebbs—PE owned

FOUR OUT OF FIVE EXECUTIVES BELIEVE THEIR COMPANIES WILL BE ABLE TO OPERATE AT FULL CAPACITY IN SIX MONTHS OR LESS.



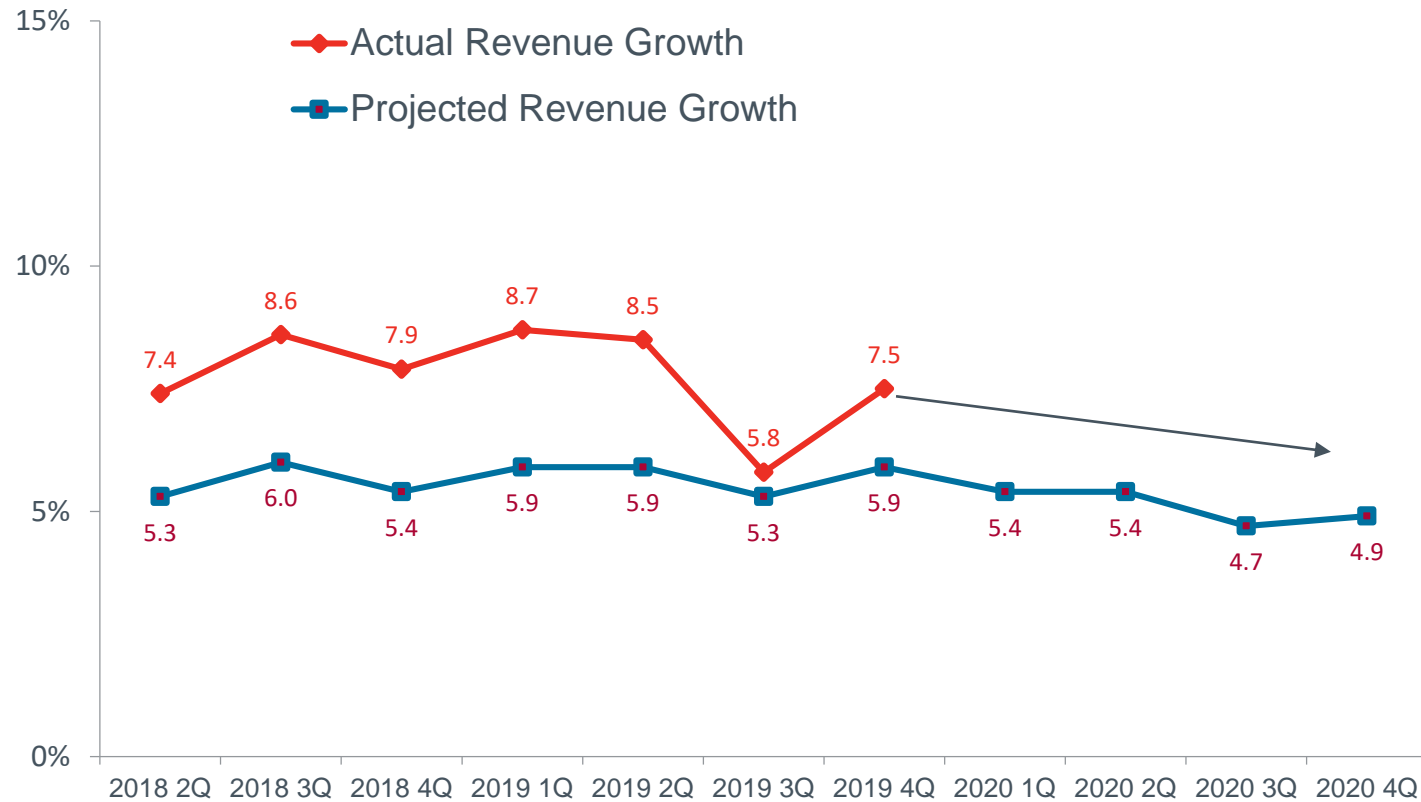
# Signs of flattening were visible before: confidence

## 4Q Middle Market Indicator



# Signs of flattening were visible before: growth

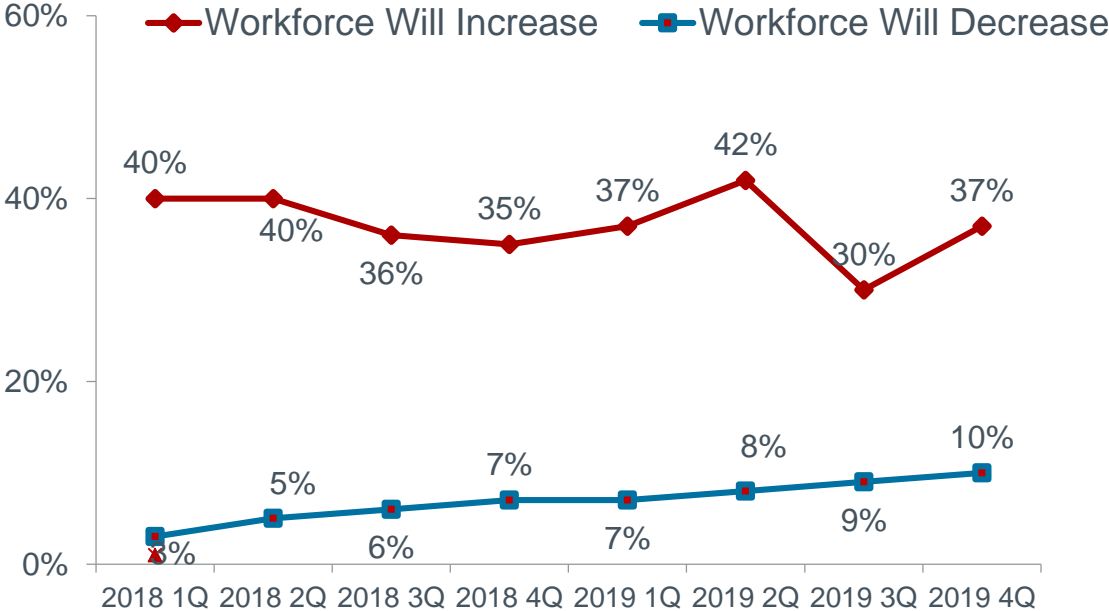
## 4Q Middle Market Indicator



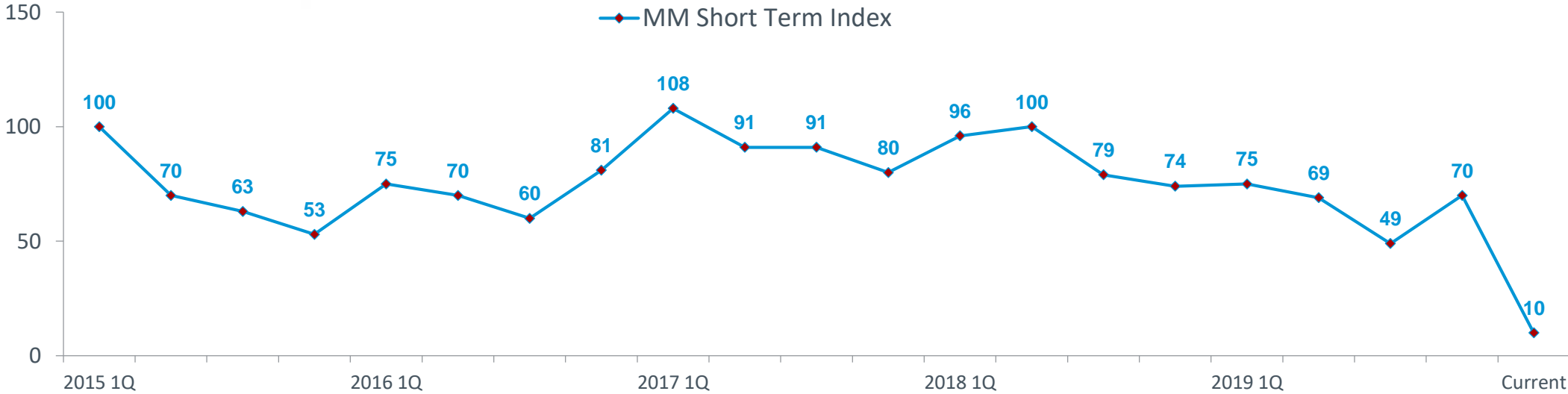


# Signs of flattening were visible before: employment

### 4Q Middle Market Indicator



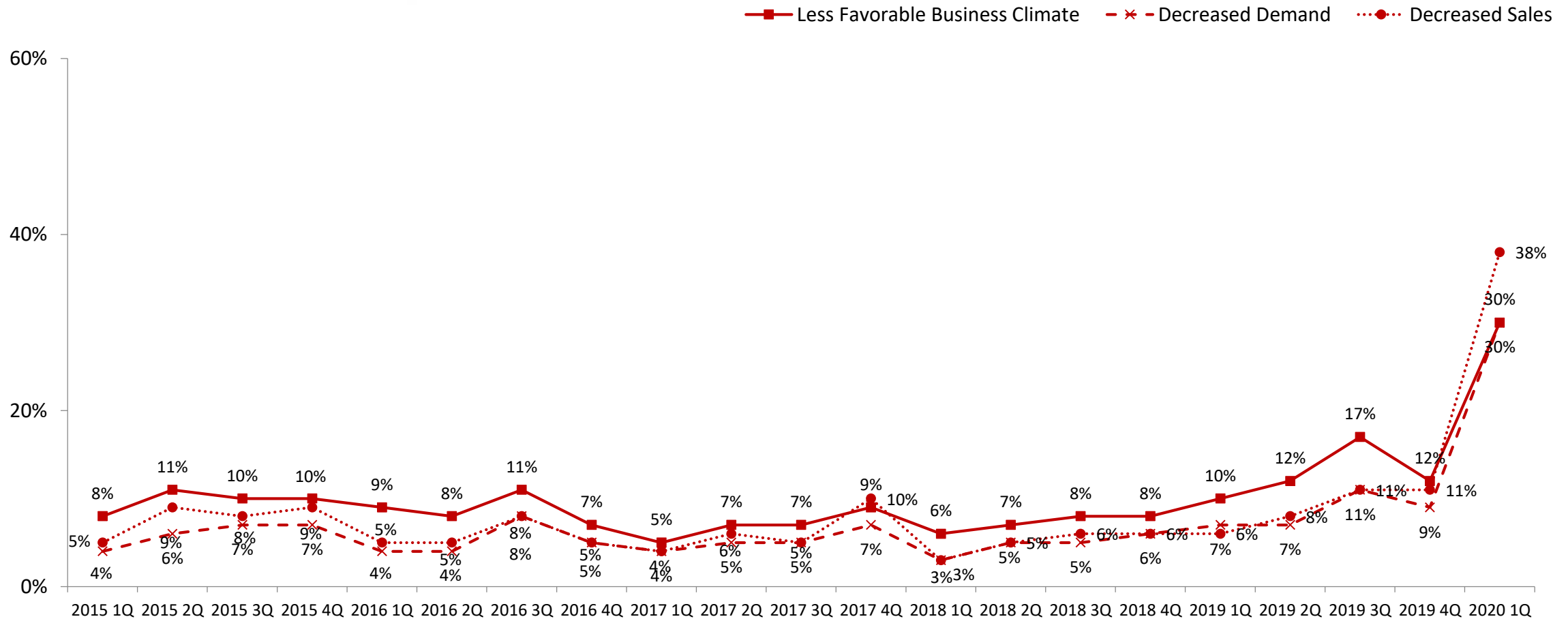
# The next three months: Short Term Index plummets



*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: Negatives jump

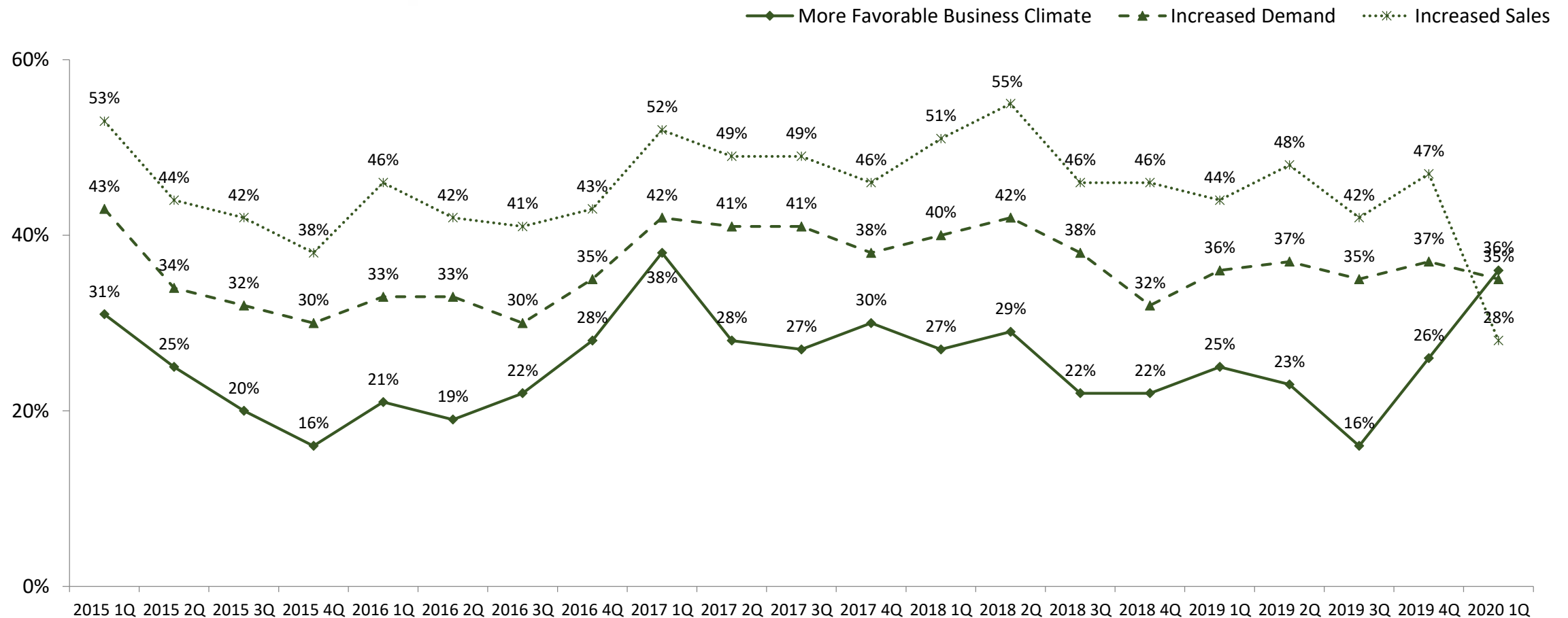
## Short Term Outlook (Next 3 Months)



Source: 4Q'19 Middle Market Indicator Report

# Short-term: Climate and demand hold up, for now

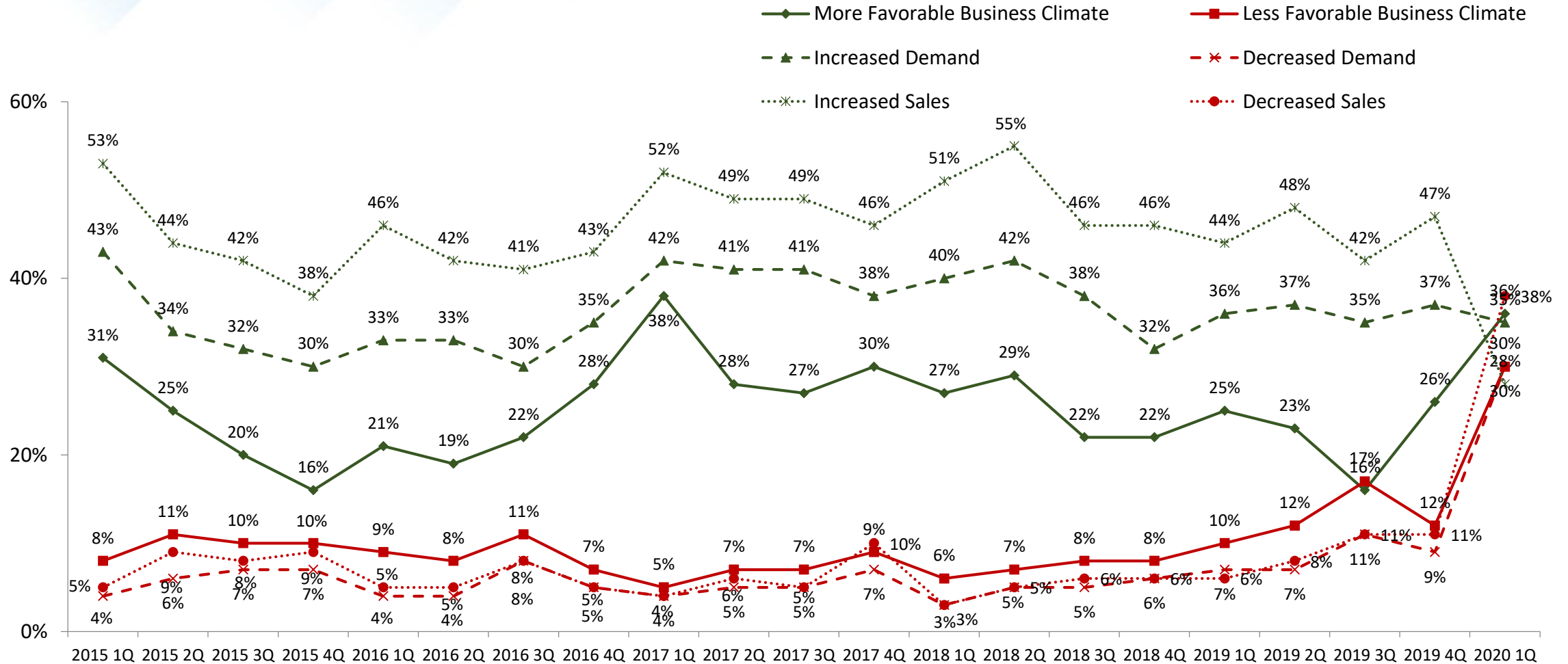
## Short Term Outlook (Next 3 Months)



Source: 4Q'19 Middle Market Indicator Report

# Short-term: Putting it together

## Short Term Outlook (Next 3 Months)



Source: 4Q'19 Middle Market Indicator Report

# Summary

The coronavirus pandemic will derail middle market performance.  
But executives believe they have the resilience to recover.

**Insight 1: The immediate impact of COVID-19 is negative for most—and catastrophic for some—middle market businesses.**

**Insight 2: Growth projections for both the short and long term have plummeted.**

**Insight 3: Supply chains and access to cash are the most difficult challenges to manage.**

**Insight 4: Despite challenges, most middle market companies are confident in their resilience**



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