

# State of the Middle Market 2020

December 2019



A national survey gauging the economic confidence and outlook of companies that together account for one-third of all U.S. private sector GDP



UMPQUA BANK

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# Methodology



"State of the Middle Market 2020" is a national survey conducted by Umpqua Bank, a West Coast regional bank, and DHM, a business and public policy research firm with offices in Portland and Washington, DC.

The survey was fielded from October 17-28, and includes responses from 550 financial decision-makers at middle market companies with annual revenue between \$10 million and \$500 million.

Middle market companies across all industries and geographic regions were polled on issues impacting their economic confidence and decision-making heading into 2020, including U.S.-China trade, stock market volatility, the labor market and interest rate environment.

The survey has a 4.2% margin of error.

## **About the Middle Market**

Middle Market companies (\$10M-\$1B in annual revenue) contribute roughly \$6 trillion to the U.S. economy annually and employ approximately 44 million Americans. Comprised of public, large private, closely held, and family-owned companies spanning all industries, the middle market sector is often the overlooked and unsung bellwether of the global economy.

# Key Takeaways



- Despite economic uncertainty, middle market companies report a positive outlook on the 2019 economy.
- Middle market companies are cautiously optimistic about 2020. Nearly half expect the economy to improve in the next 12 months, with the expectation of strong consumer confidence being key.
- The U.S.-China trade dispute is having a neutral or positive impact on a majority of middle market companies.
- A majority of middle market companies are shifting away from China. More than half of companies indicate they have already or are currently in the process of diversifying supply chains internationally and/or domestically.
- In 2020, nearly one in five will continue pursuing new markets for their goods, with various regions of Asia and Europe topping the list of trading partners.
- In a strong economy, a shrinking talent pool poses a greater risk to growth than tariffs. Nearly one-third of companies surveyed cite acquiring and retaining workforce talent as the most significant risk to future growth.

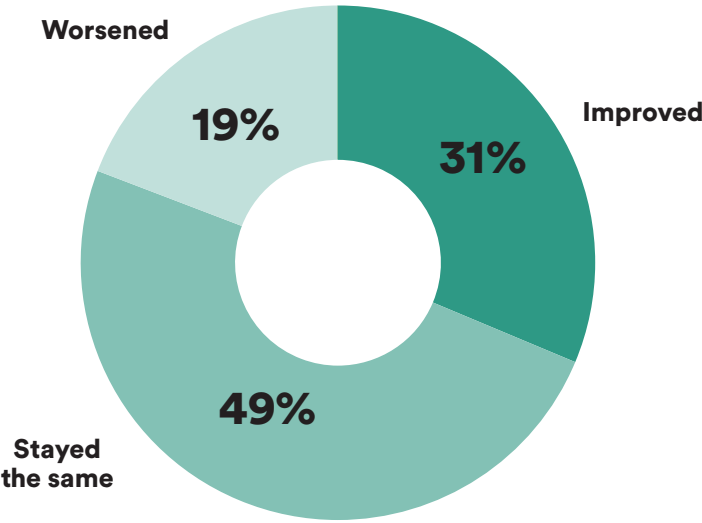
# Middle Market Perceptions of U.S. Economy



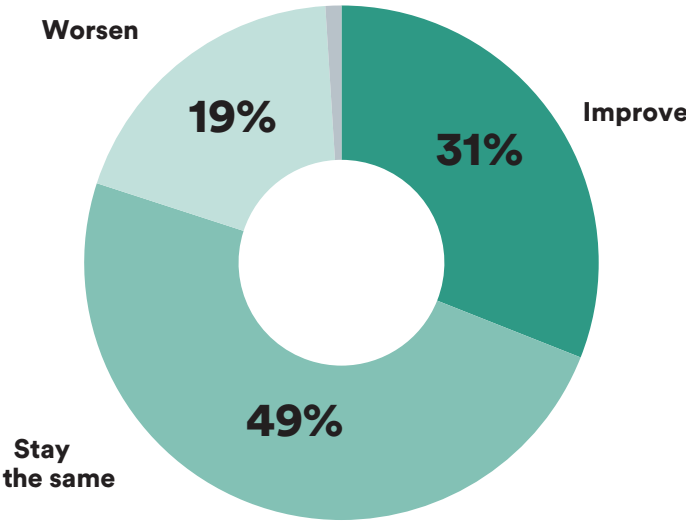
**"The past year has seen its fair share of disruptions and uncertainty—escalating tariffs, recessionary signals like the inverted yield curve, stock market volatility, and a slumping global economy. Umpqua's research indicates that the critical middle market segment of the U.S. economy as a whole remains optimistic about growth."**

**-Tory Nixon, Senior Executive Vice President and Chief Banking Officer**

# Companies have seen and expect steadiness in the overall economic conditions in the United States.

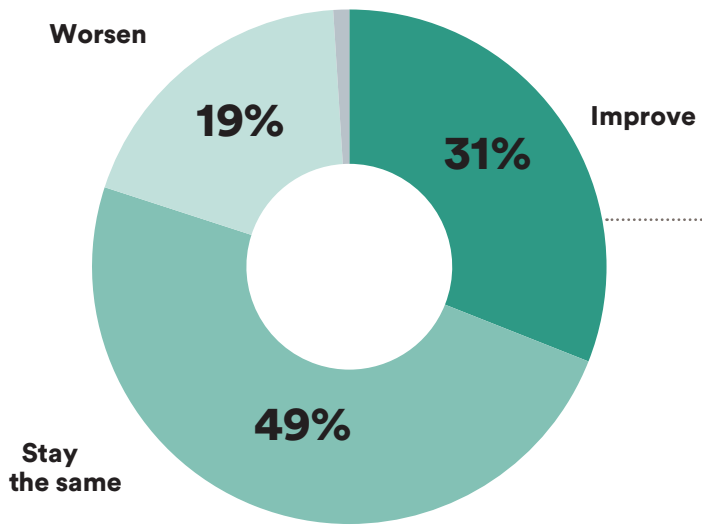


In the previous 12 months



In the next 12 months

Those who expect the economy to improve cite growing consumer confidence and stable or growing product or service demands.



**46%**  
Growing consumer confidence

**21%**  
Stable or growing product or service demands

**13%**  
Yielding benefits from trade dispute with China

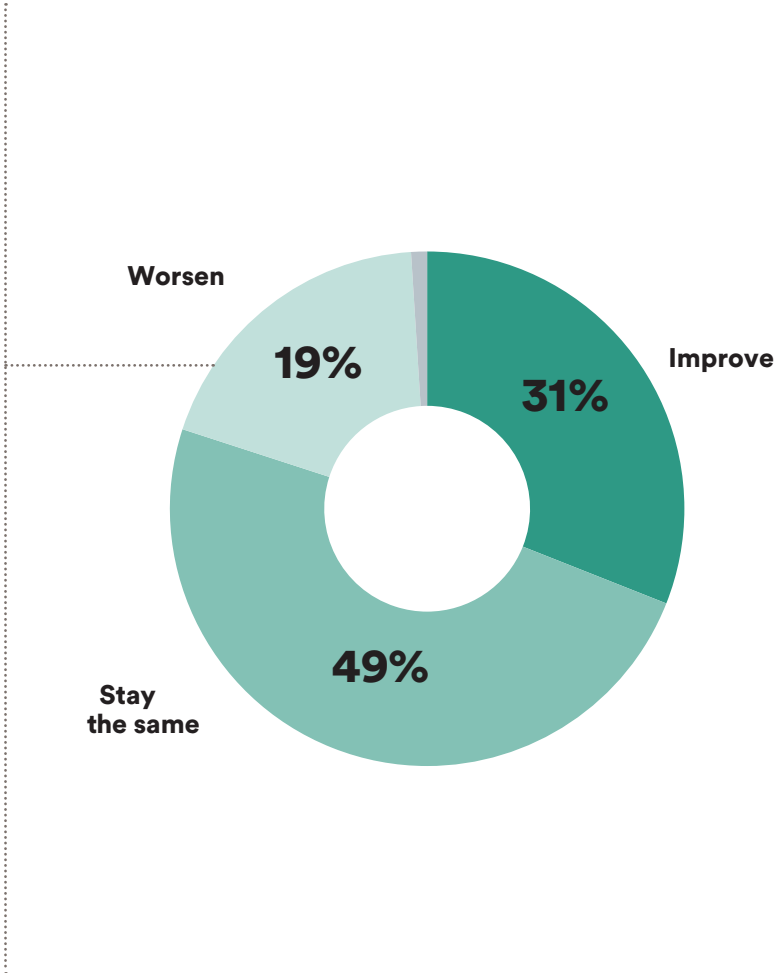
**10%**  
A potential resolution to the trade dispute with China

**7%**  
Interest rate cuts

**3%**  
Favorable conditions for talent acquisition/retention

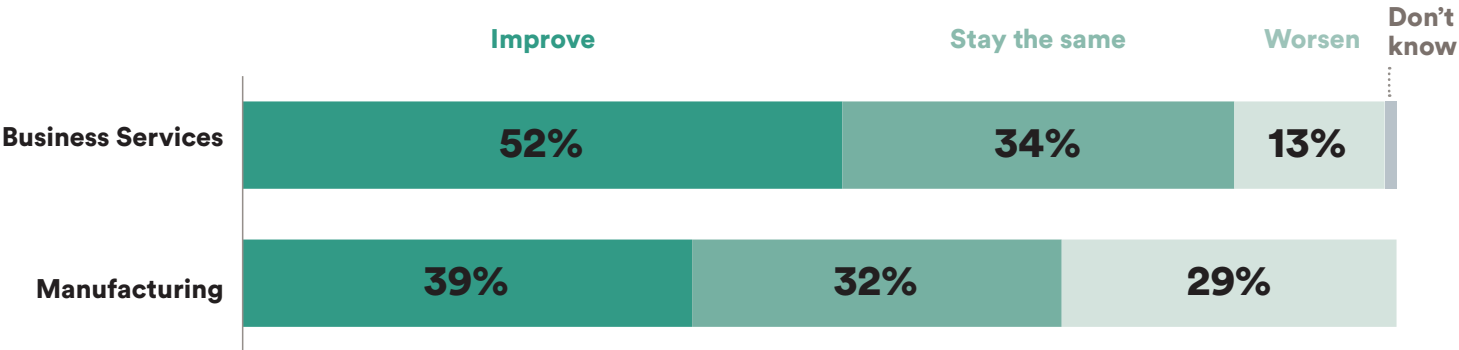
Those who expect the economy to worsen cite the ongoing trade dispute with China and unstable or decreasing product or service demands.

- 35%**  
Ongoing trade dispute with China
- 30%**  
Unstable or decreasing product or service demand
- 10%**  
Waning consumer confidence
- 10%**  
Challenges of talent acquisition/retention
- 8%**  
Stock market volatility
- 4%**  
Other
- 3%**  
Interest rate cuts





The business services industry is the most optimistic, while the manufacturing industry is the most pessimistic.

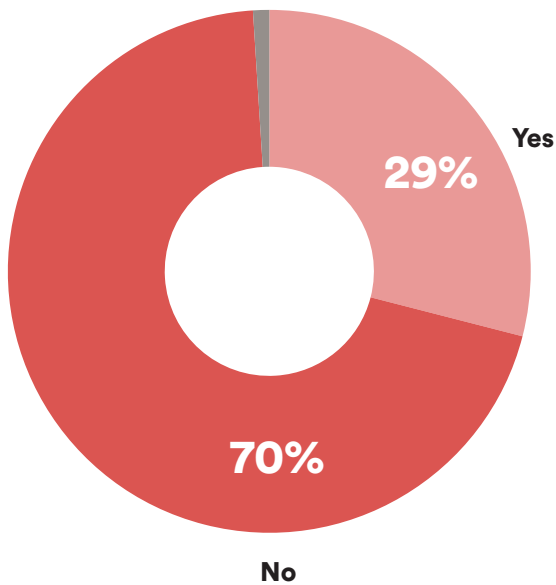


Optimism among Midwestern companies and the retail industry is notable. They are the least likely to expect the economy to worsen in the next year.

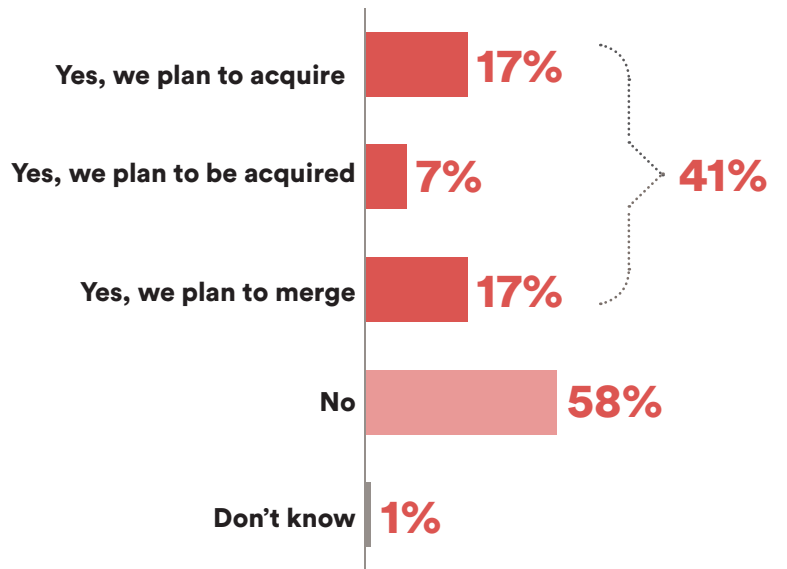


# Projected Shifts in the Next Year

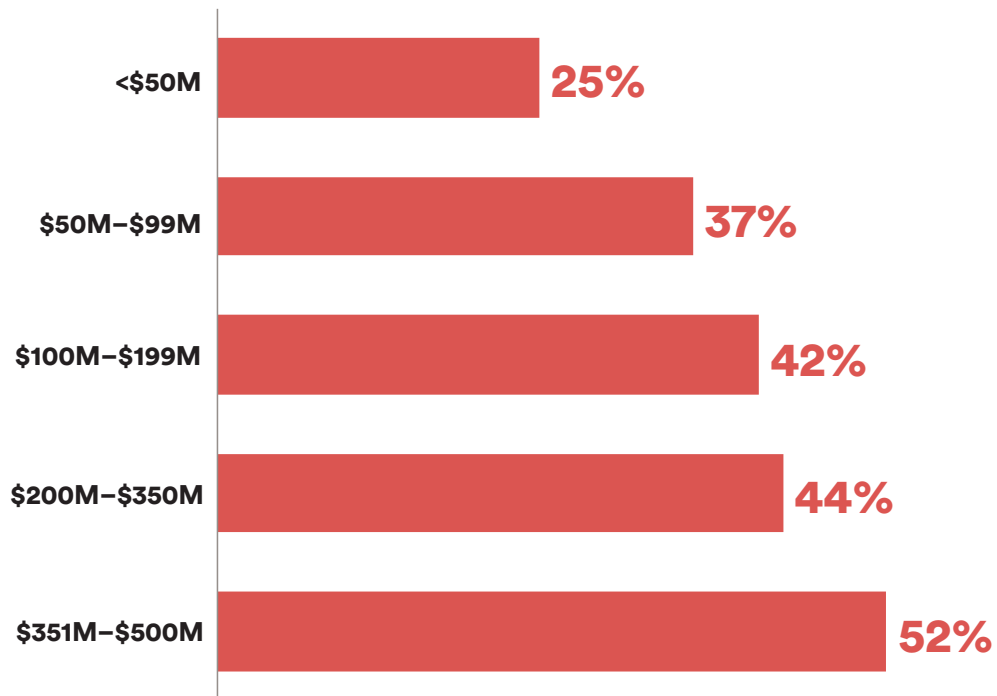
# Many middle market companies are considering an IPO or M&A in the next year.



Initial Public Offering



# M&A activity will likely be greatest among companies with the highest revenue.



## M&A activity differs notably by industry.

### Industries most likely to acquire a company:

**Business services**  
**38%**

**Finance**  
**23%**

**Healthcare**  
**23%**

### Industries most likely to be acquired:

**Finance**  
**16%**

**Construction**  
**10%**

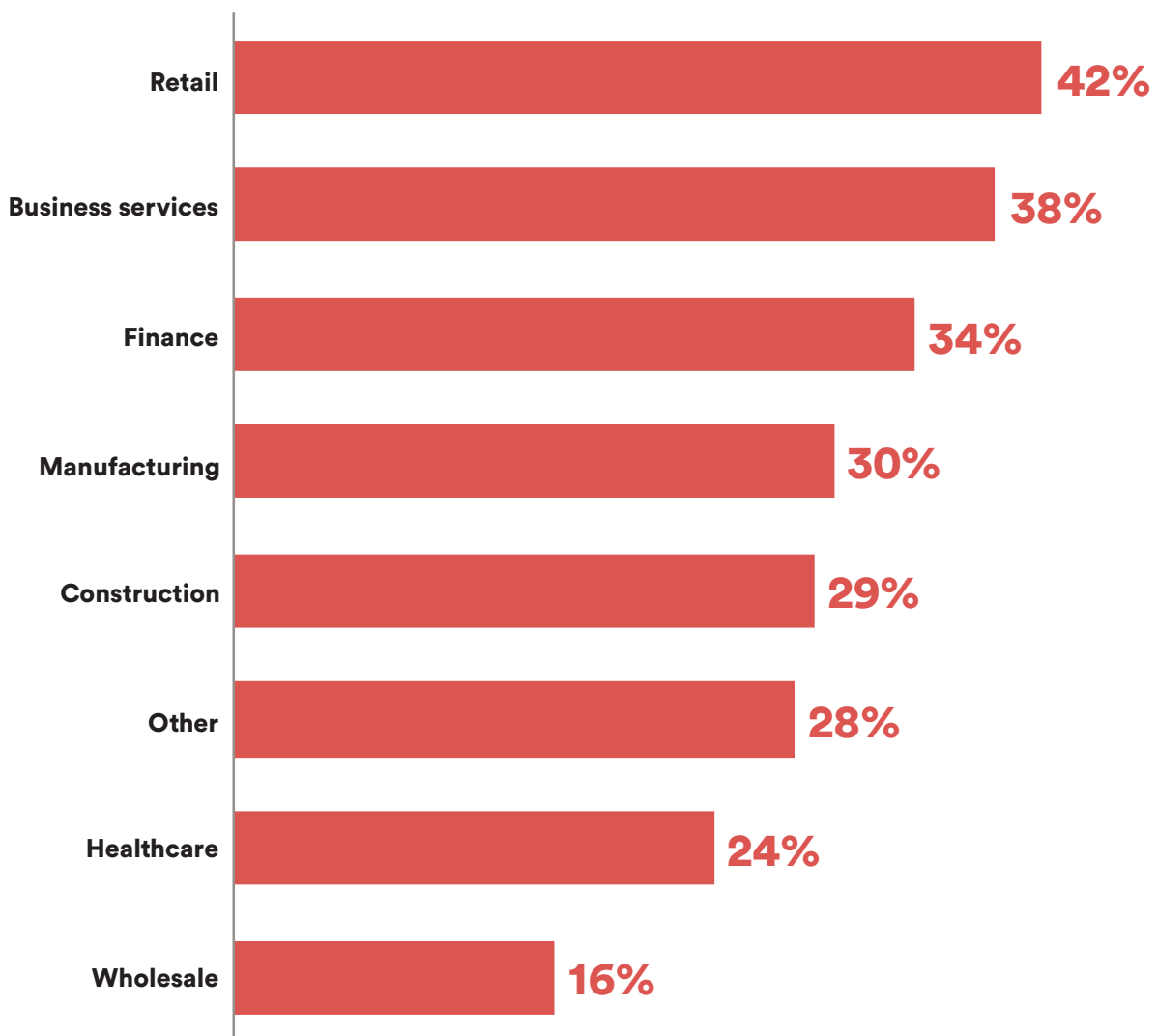
### Industries most likely to merge:

**Retail**  
**25%**

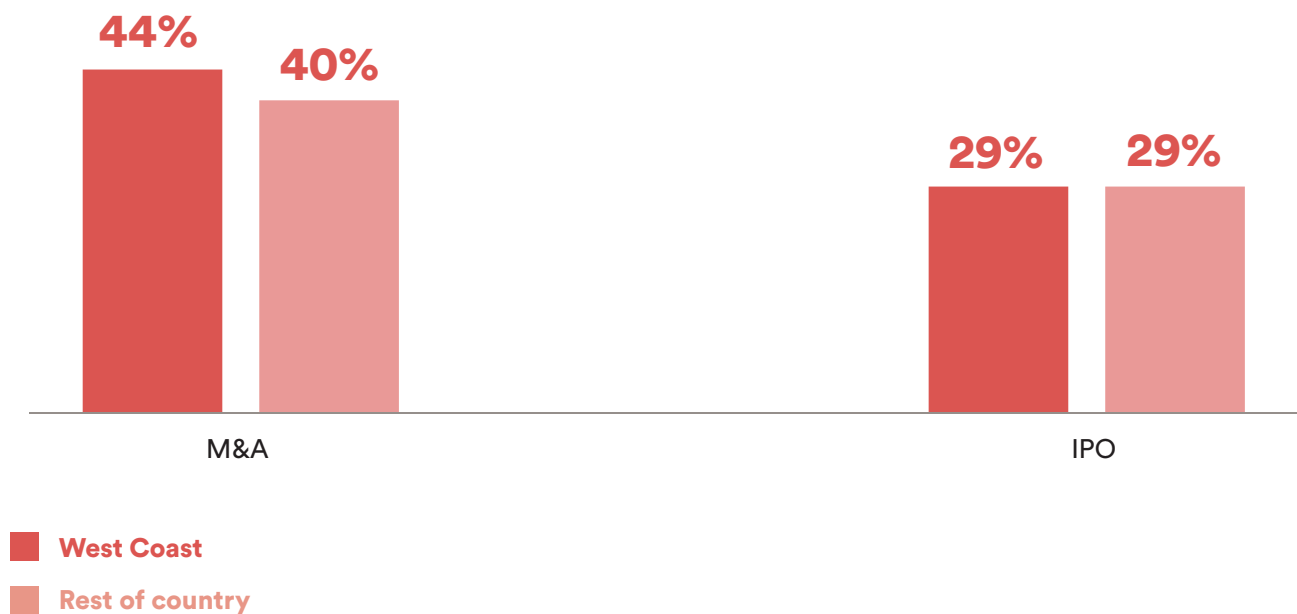
**Manufacturing**  
**25%**

**Construction**  
**21%**

Companies in the retail and business services industries are the most likely to consider an IPO in the next year.



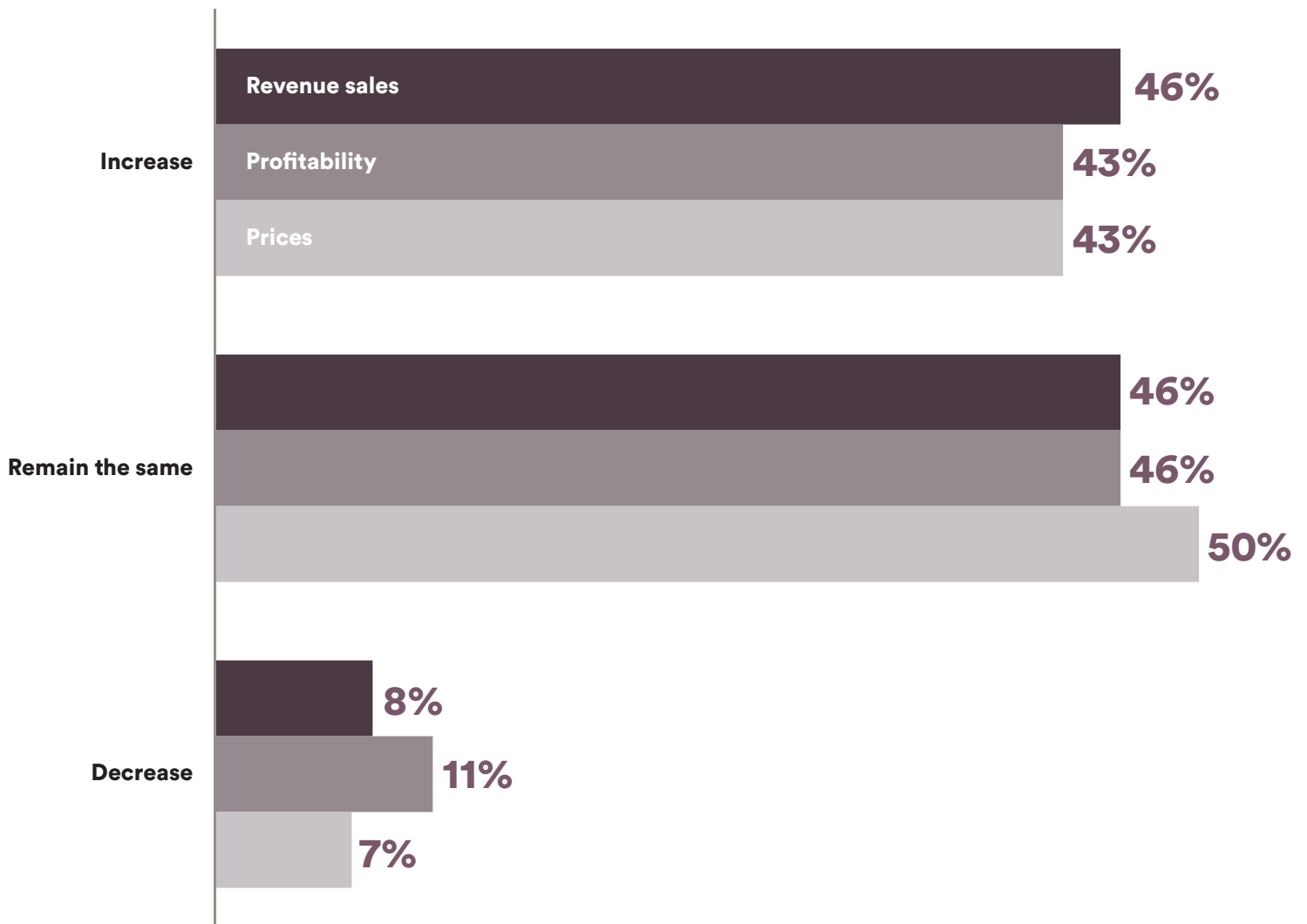
West Coast companies are just as likely as their counterparts in the rest of the country to be planning for an IPO or M&A.



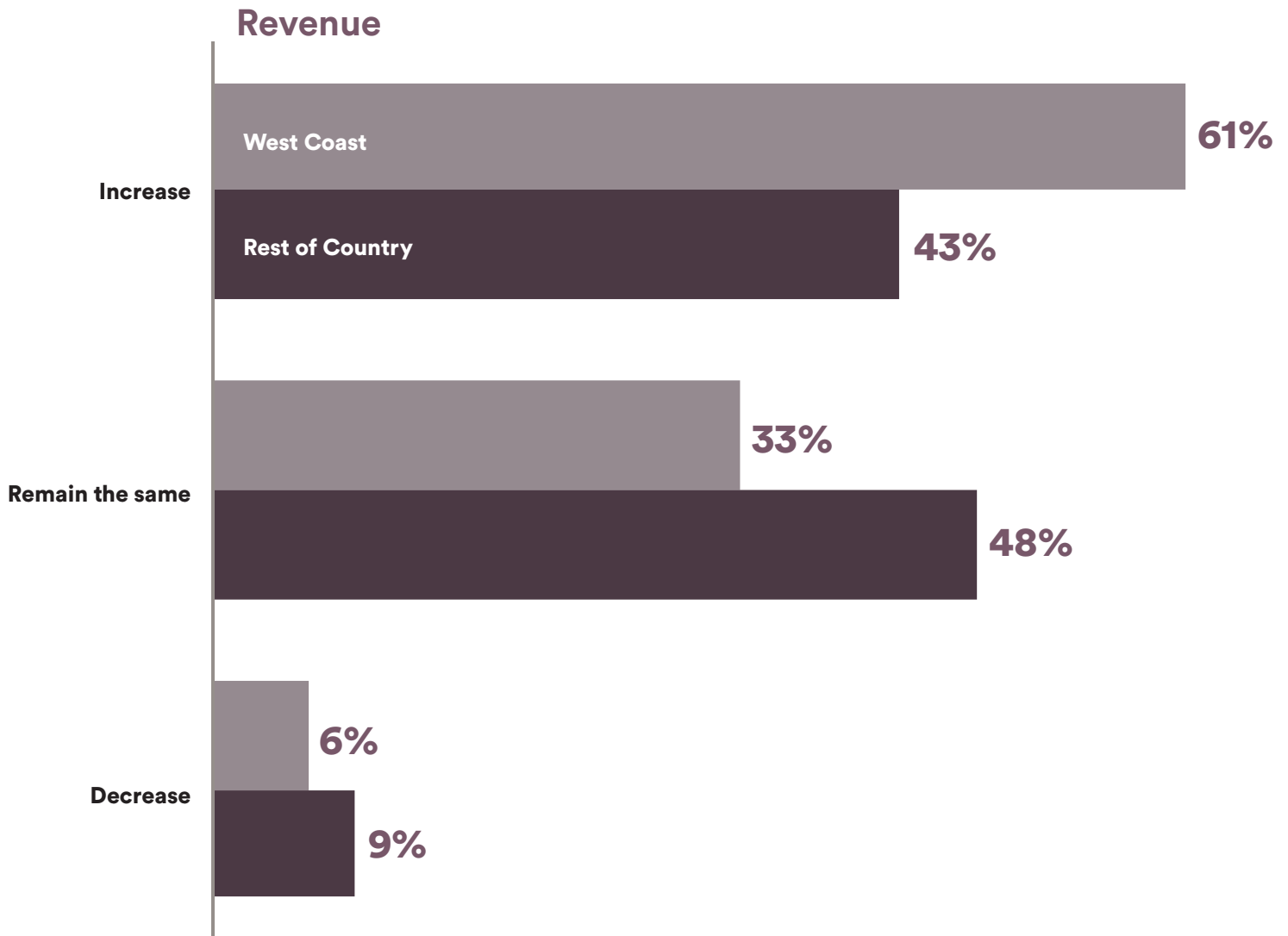


# Companies' Projections for the Next Year

# Companies are cautiously optimistic about revenue sales, profitability, and prices of services in the next year.



West Coast companies are more likely than companies in the rest of the country to expect revenues to increase.



## Optimism about revenue, sales, profitability, and prices of services varies by industry.

### Most **positive** industries:

- Business (**73%**) and financial services (**65%**) most likely to expect their revenue increase
- Business (**63%**) and financial services (**61%**) also most likely to expect their profits to increase

### Most **negative** industries:

- Manufacturing (**14%**) and retailers (**13%**) expect revenues to decline
- Retailers (**15%**) and those in healthcare (**15%**) expect profits to fall



# Impact of U.S.-China Trade Dispute

**"As the U.S.-China trade dispute continues, we may well be witnessing a fundamental shift in how and where companies will do business in the future. The longer tariffs continue, the more likely we'll see a permanence to these market strategy changes."**

**-Richard Cabrera, Executive Vice President, Head of Commercial & Corporate Banking**

# Six in ten say the dispute with China has affected their approach to international business.



## The trade dispute affects companies' approach to international business differently based on geography, industry, and revenue.

### Companies **most** affected tend to be:

- Located in the Northeast (**72%**)
- In manufacturing (**81%**), wholesale (**78%**), and retail (**75%**) industries

### Companies **least** affected tend to be:

- Located in the South (**52%**)
- Have annual revenues of less than \$50 million (**61%**)
- In healthcare (**67%**), finance (**46%**), and construction industries (**45%**)



Those actively looking for new markets are looking in Europe, South Asia, domestically, and in Southeast Asia.

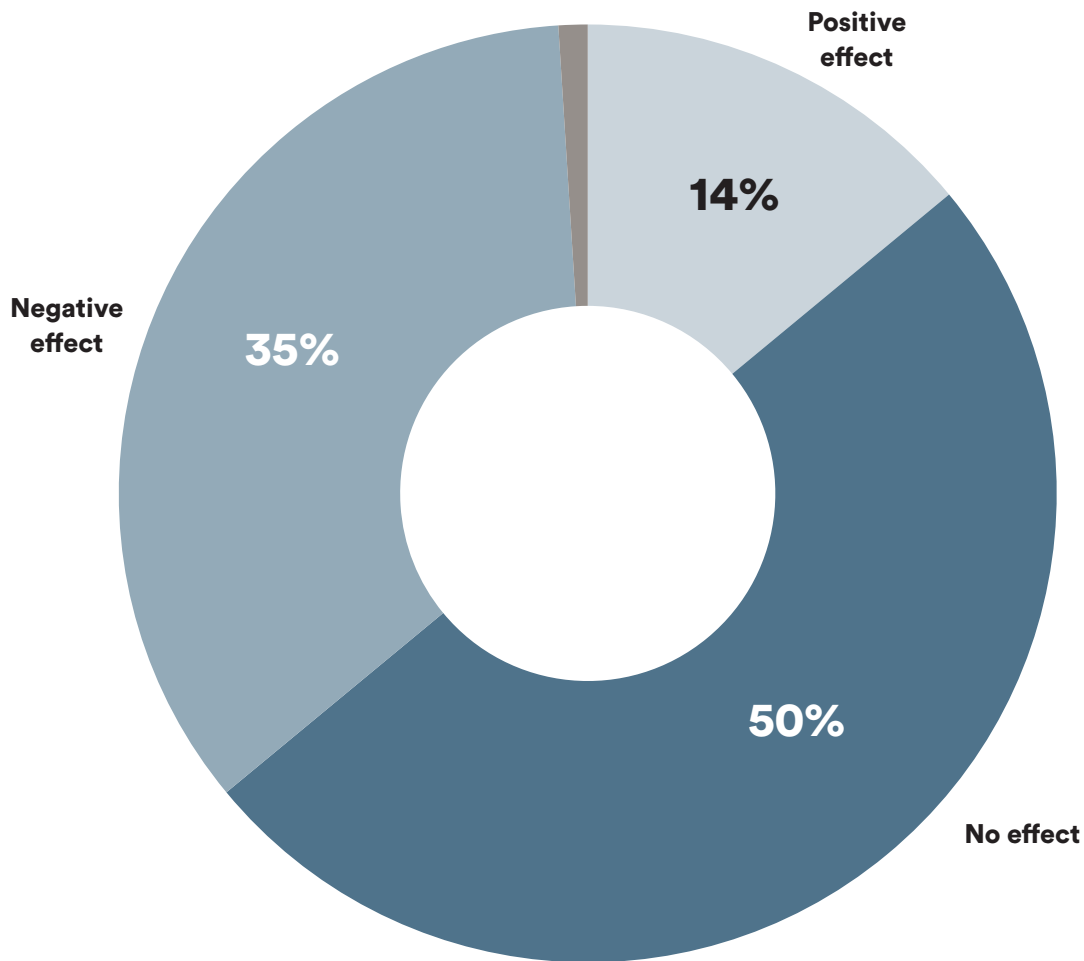
**18%**

have looked, or are actively looking for new markets

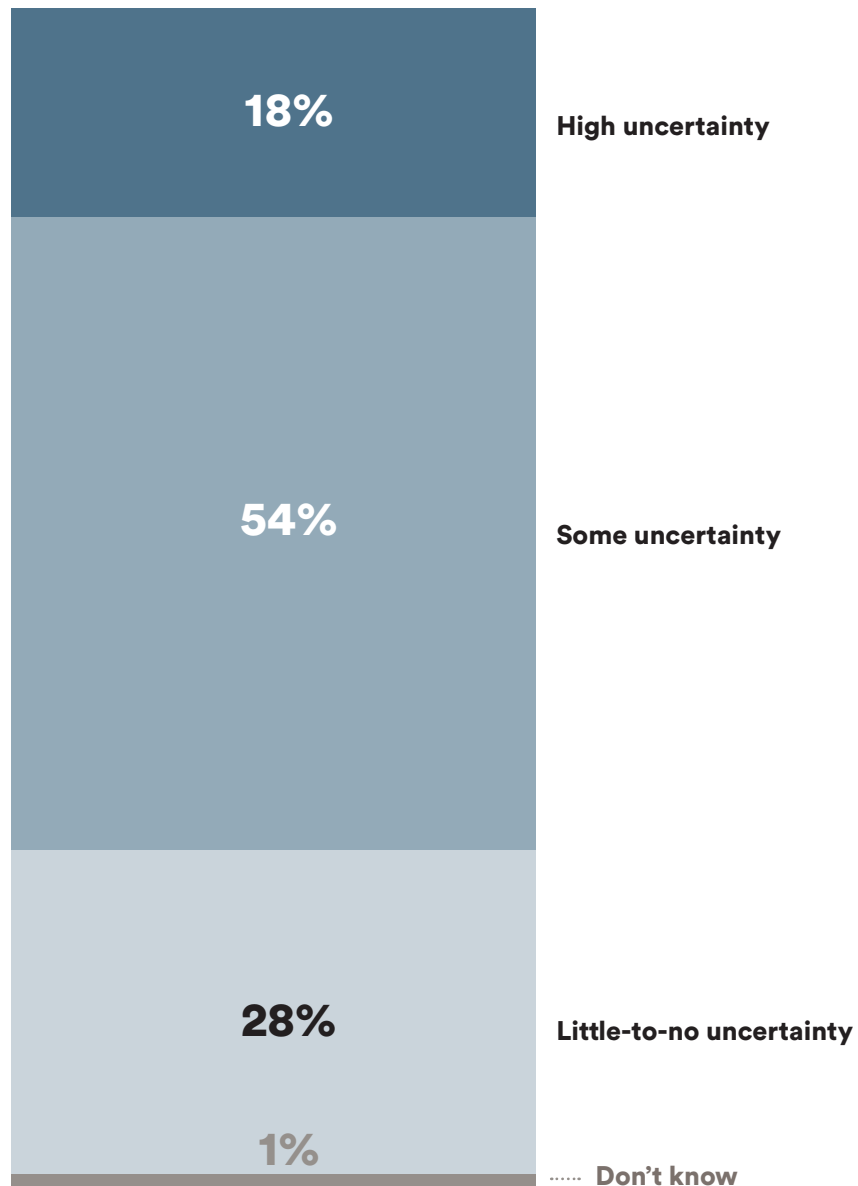
New markets	%
Europe	54%
South Asia	43%
Domestic	37%
Southeast Asia	37%
Latin America	36%
Asia Pacific	29%
Middle East	25%
Africa	7%



# Half say the trade dispute has had no effect on business thus far.



# Yet seven in ten say it has created uncertainty about the future.



# Whether companies view the dispute as having a positive or negative effect on business varies by geography, industry, and size.

## Most likely to report negative effects:

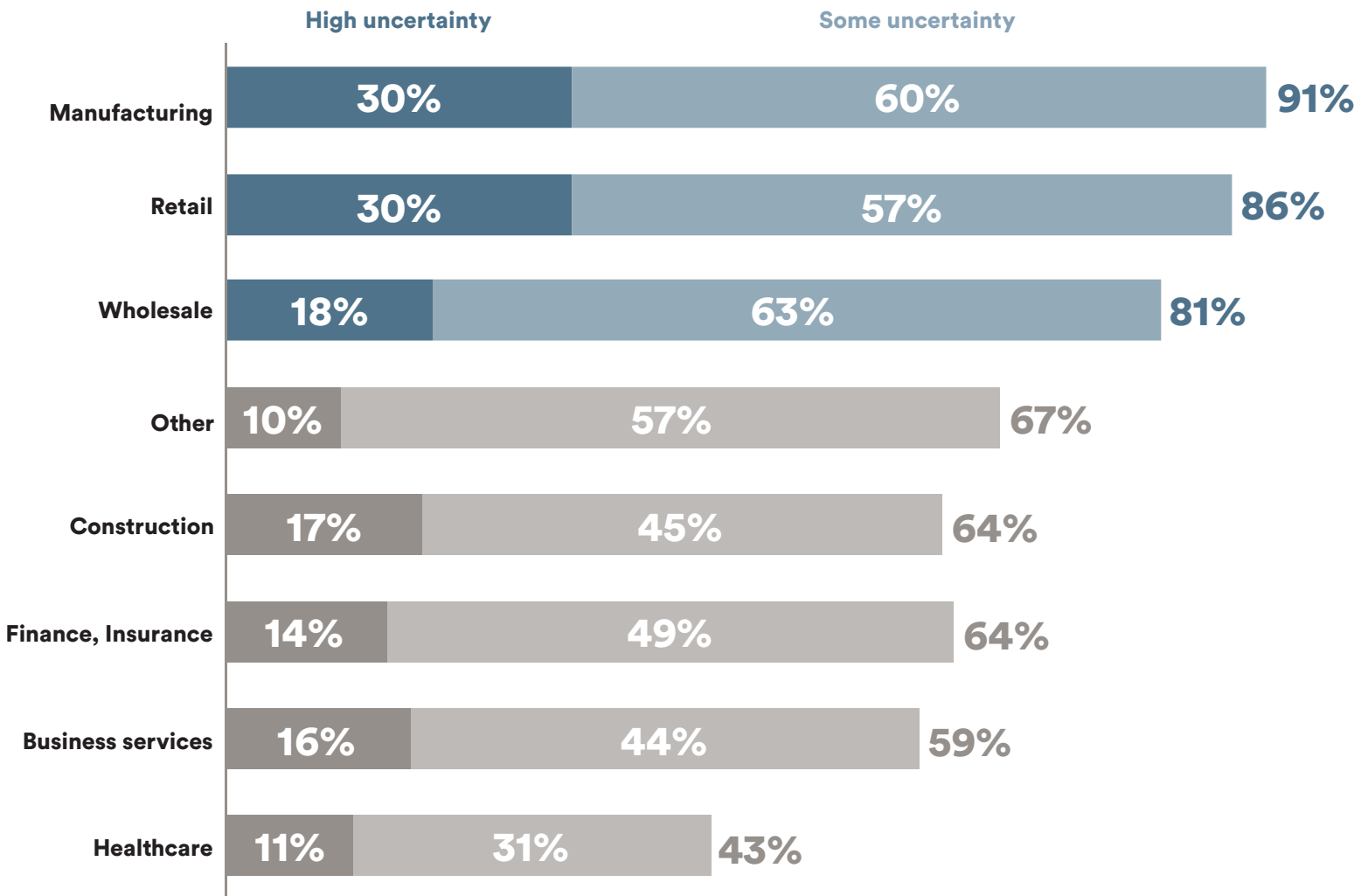
- Are located in the Northeast (47%) and along the West Coast (45%)
- Manufacturing (58%), retail (54%), and wholesale (51%) industries

## Most likely to report positive effects:

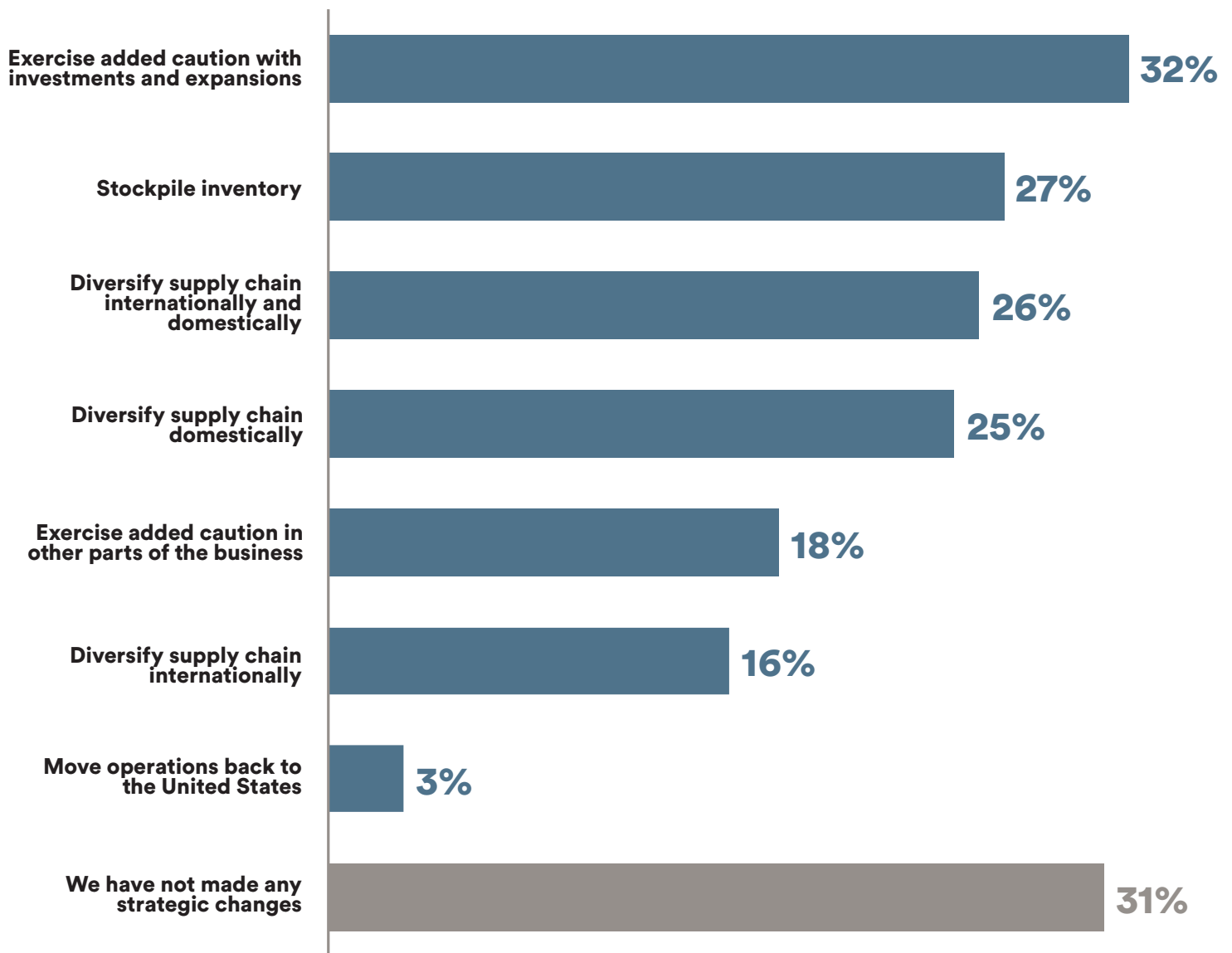
- Largest middle market firms with more than \$350 million in revenue (32%).



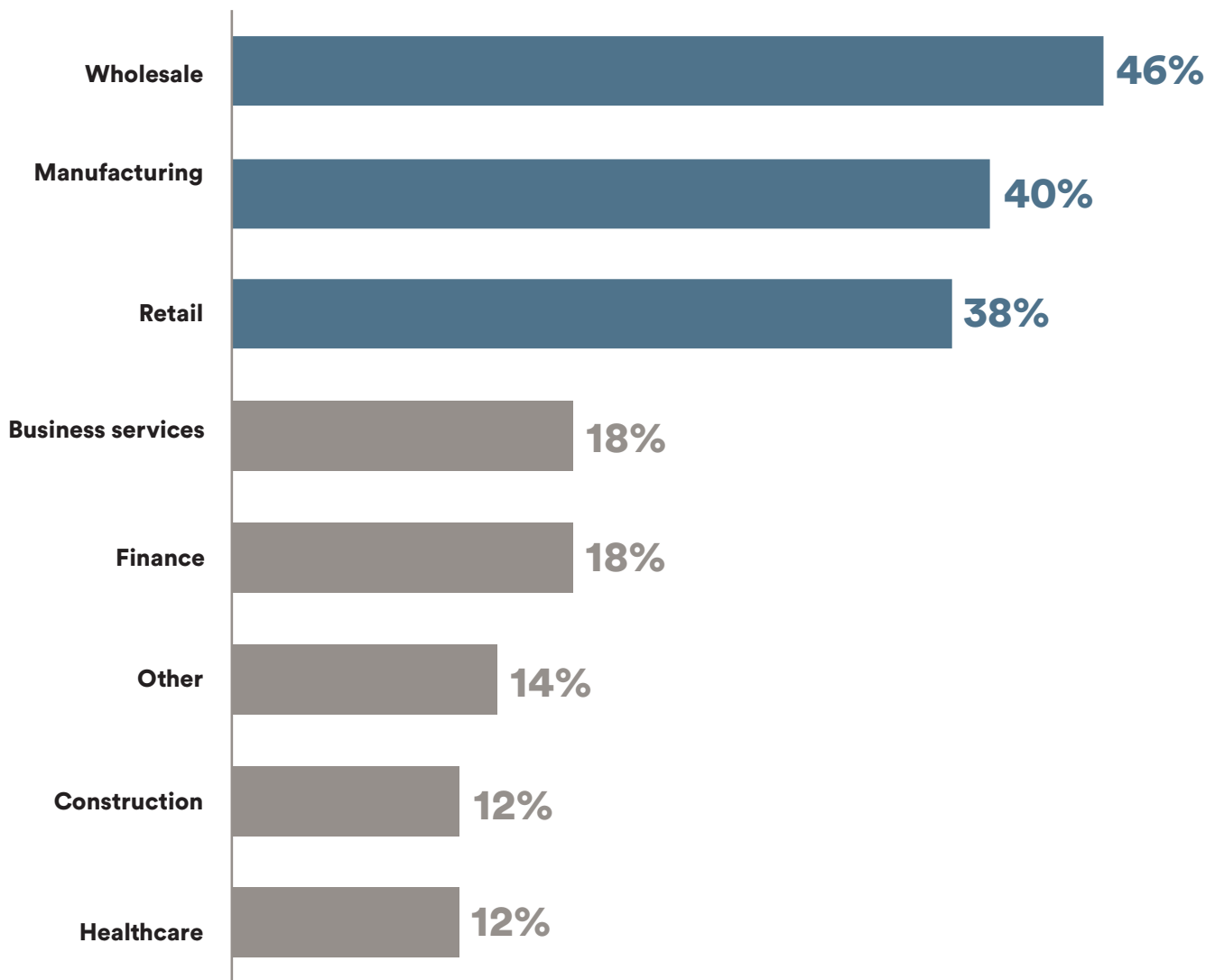
# Companies' level of uncertainty varies by industry as well; manufacturing, retail, and wholesale are most uncertain.



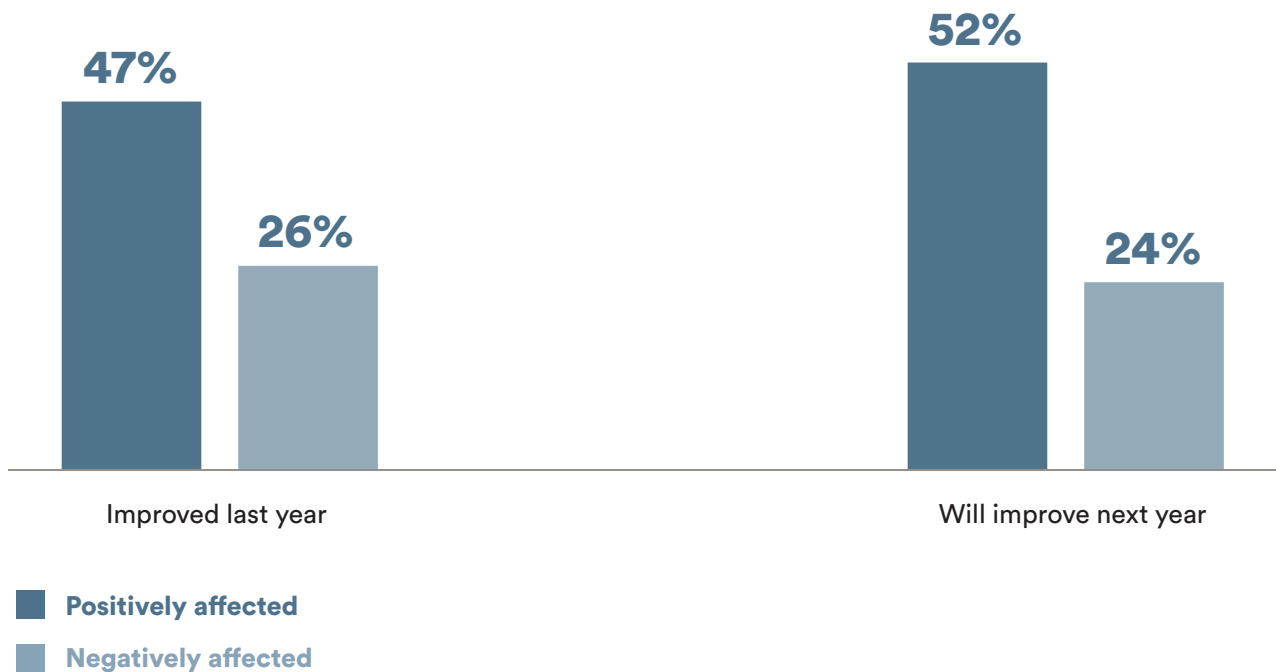
# Companies are adopting a variety of strategies to mitigate the risks presented by the U.S.-China trade dispute.



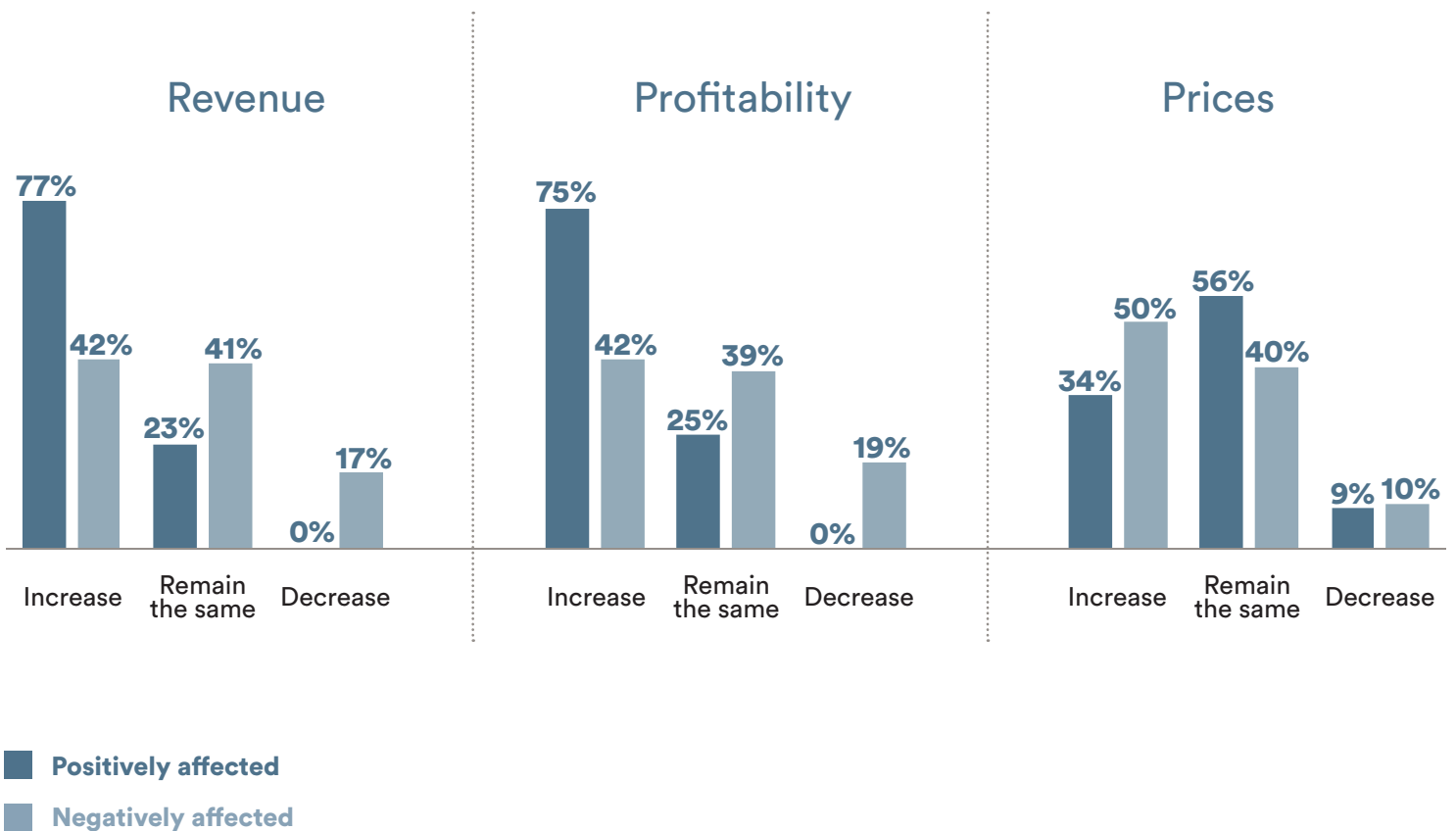
In response to negative effects on business and high levels of uncertainty, those in manufacturing, retail, and wholesale industries plan to diversify supply chains.



# Middle market companies' assessments of the national economy appear to be tied to their experiences with the U.S.-China trade dispute.



# The ongoing trade dispute with China is having a significant effect on middle market companies' financial expectations.





# Other Risks and Major Issues

Three in ten rate challenges with talent acquisition and retention as the biggest risk to growth at their company in the next year.

**32%** Challenges with talent acquisition and retention

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**24%** Stock market volatility

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**23%** Trade dispute with China

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**20%** Geopolitical uncertainty

The trade dispute with China is most often ranked as presenting the lowest risk to companies' growth.

**44%** Trade dispute with China

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**21%** Challenges with talent acquisition and retention

---

**19%** Geopolitical uncertainty

---

**16%** Stock market volatility

Companies tend to rank risks to growth differently based on industry, geography, and revenue size.

### Talent acquisition and retention:

**71%** in the healthcare industry report that this is their greatest risk

Is a greater risk for companies with less than \$50 million in revenue (**50%**)

And those in the Midwest (**42%**)

### Stock market volatility:

Greatest risk for the financial service sector (**49%**)

### Trade dispute with China:

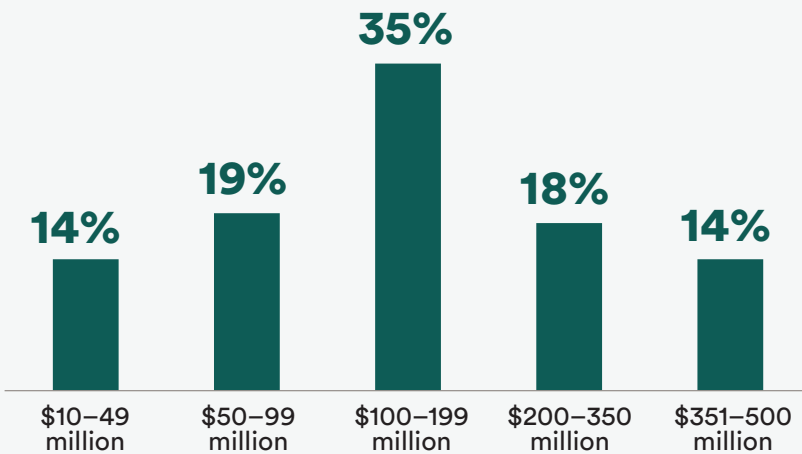
**41%** of wholesalers, **40%** of retailers, and **31%** of manufacturers say this is the greatest risk

Additional risks companies said that they will face in the next year include technology changes and innovation, operations, and cyber security.

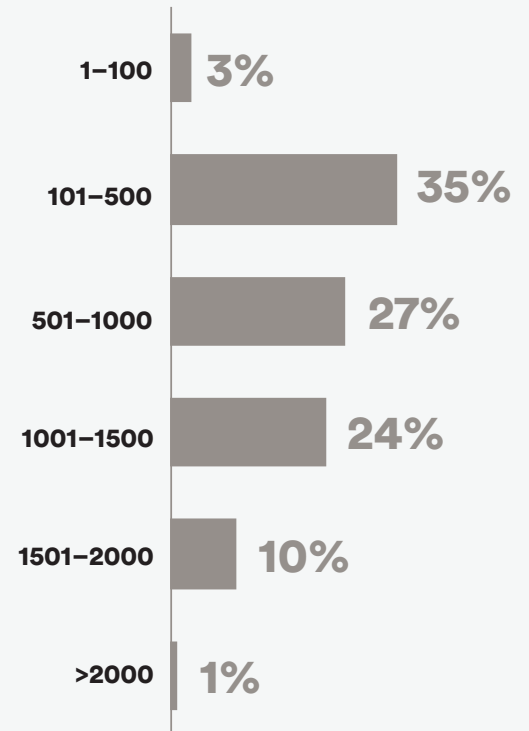
Risks	%
Technology changes, innovation	11%
Talent acquisition and retention	9%
Poor internal operations, communications	8%
Cyber security	7%
Legislation, regulations	6%
Tariffs, trade dispute	5%
Costs, expenses, employee compensation	5%
Fiscal sustainability	5%

# Appendix: Company Profiles

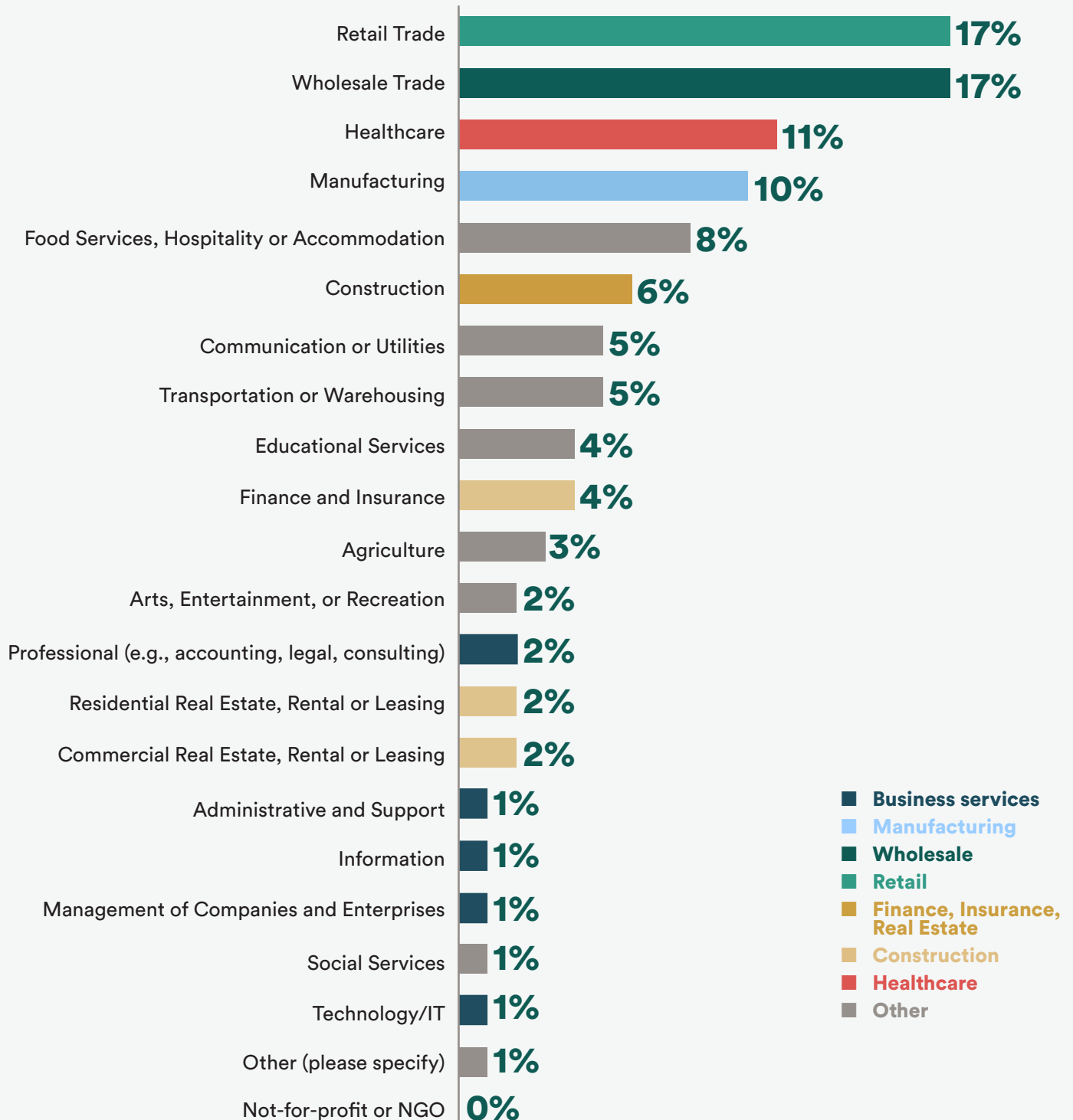
## Participating companies' annual revenue and company size.



### Employees



# Industry distribution of participating companies.







**UMPQUA BANK**

Umpqua Bank is a West Coast regional bank providing financial solutions to businesses of all sizes. With nearly \$30 billion in assets, Umpqua is the largest bank headquartered in the Pacific Northwest and has been named one of America's Best Banks by Forbes magazine.