



## First stability, then growth: Middle market enters post-pandemic mode

In 2021, KeyBank continues its quarterly survey of 400 owners and executives of middle market businesses – defined as those in the \$10 million to \$2 billion range<sup>1</sup> – to understand what impact current macroeconomic conditions and government policies have on the business environment.

### Middle market business owners poised for a fresh start

In 2020, middle market business owners and executives met tumult with tenacity. After going into protective mode during the interlocked crises of the COVID-19 pandemic and the economic downturn, they are now poised for a fresh start.

Based on the survey conducted at the end of January 2021, after the tense election season was settled, the sentiment in the middle market shows positive improvement across the board. With highly effective vaccines rolling out, albeit with constrained supply at the start, the pandemic is subsiding.<sup>2</sup> The challenges of 2020 will take some time to overcome, but the upbeat momentum is accelerating.

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“We are facing a record backlog of deal activity, across industrial, healthcare, technology and all categories, because the entire M&A market shut down for nearly two quarters, as investors tried to understand the scope and permanence of the pandemic. In the fourth quarter, the election resolution eased uncertainty, then as the first vaccines started getting approved, market activity began to build on that momentum.”

– J.R. Doolos, Managing Director,  
Mergers & Acquisitions (M&A), KeyBanc Capital Markets

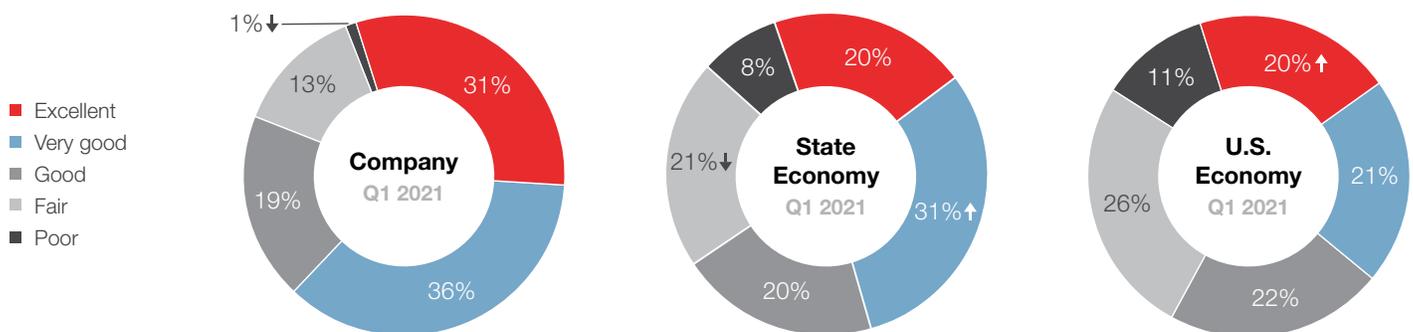
<sup>1</sup>Business Owners/Executives – This sample group represents the opinions of respondents who are specifically business owners, C-suite professionals, or have the title of SVP, VP, controller or treasurer (\$10M to under \$2B revenues).

<sup>2</sup>Healthline “COVID-19 Cases Dropping in Groups with High Vaccination Rate” Feb. 2, 2021 <https://www.healthline.com/health-news/covid-19-cases-dropping-in-groups-with-high-vaccination-rate>

# A positive turn for company, state and national outlooks

Since September, outlooks at the company, state, and national levels alike have become increasingly optimistic. With regard to the outlook for their own company, 68% of respondents said it was “excellent” or “very good” compared to 59% in the fourth quarter (Q4) of 2020. On the state outlook (from respondents in multiple states), the percentage of executives who believe the outlook is “excellent” or “very good” increased by 10 points, from 41% to 51%. And, 63% of respondents had an overall positive outlook on the U.S. economy, with higher revenue businesses having comparatively more positive outlooks at the state and national levels. In general, business owners in the southern region of the U.S. tended to have a more positive outlook than those from other regions.

## Overall outlook for the next 12 months



## What’s still worrying some middle market executives?

While many middle market executives are feeling better today about their companies and the economy than they were late last year, responses among those with a good, fair or poor outlook on the economy identified some continued unease. Not surprisingly, concerns with COVID-19 continue to be the primary reason for concern with respect to the U.S. economy, although the percentage demonstrating COVID-related unease has dipped to 83% from 90% in Q4.

Potential higher tax rates (52%) and economic recession (51%) are also top factors causing any lingering pessimism. While qualms about the volatile political landscape have steadily declined from 56% in the third quarter to 53% in the fourth quarter to 44% currently, we still see a notable percentage voicing concerns about political volatility.

The sentiments of middle market business owners appear to mirror those of U.S. consumers more broadly. The index of consumer confidence grew to a three-month high of 91.3 in February 2021, yet is far below the pre-pandemic mark of 132.6, indicating anxiety about how long the pandemic will linger.<sup>3</sup>

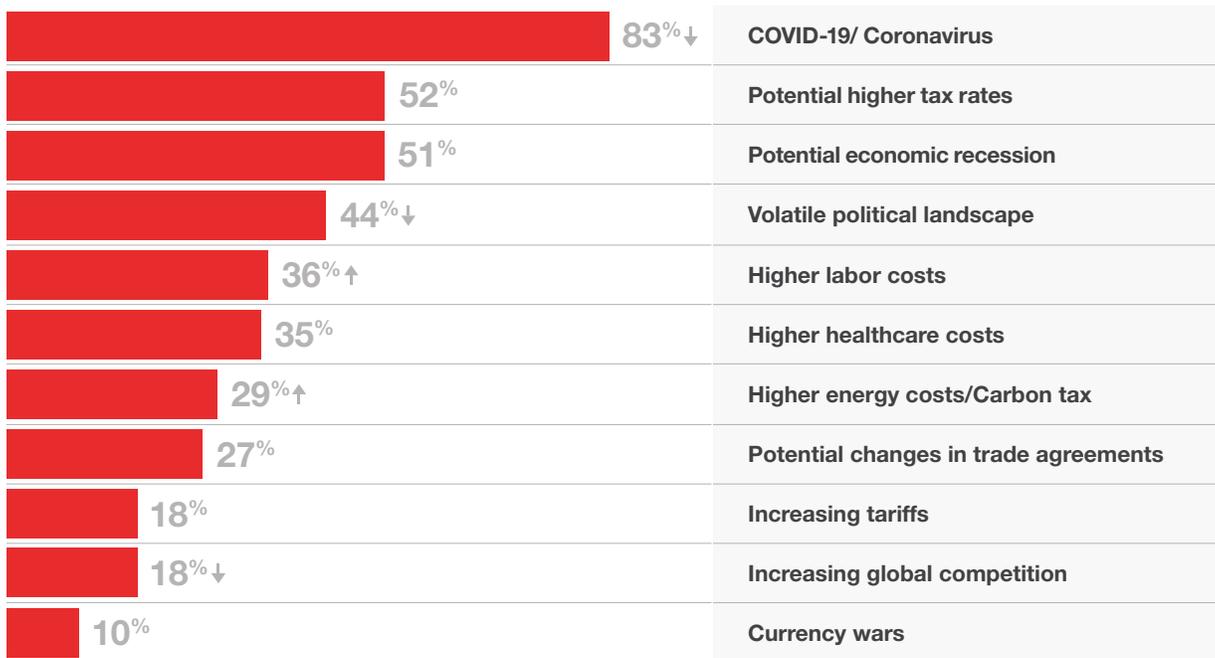
Still, the \$1.9 trillion economic relief legislation passed in March may provide the economic injection needed to lift both business owners’ and consumers’ expectations about the remainder of 2021.<sup>4</sup>

<sup>3</sup>MarketWatch. “Consumer confidence climbs to three-month high as more Americans plan vacations” Feb. 23, 2021 <https://www.marketwatch.com/story/consumer-confidence-climbs-to-three-month-high-as-more-americans-plan-vacations-11614094139>

<sup>4</sup>New York Times “New stimulus package brings big benefits to the middle class.” March 10, 2021 <https://www.nytimes.com/2021/03/10/us/politics/biden-stimulus-middle-class-benefits.html>

## Factors causing low outlook for the U.S. economy

Q1 2021



## Plans for expansion and M&A begin to climb

Last year middle market executives made necessary operations moves to adjust to COVID-19 mitigation, supply chain challenges and reduced revenues. Now that they have found some stability, they're ready to ramp up. Since June 2020, survey respondents' plans for expansion have been slowly increasing, and now 63% plan to expand.

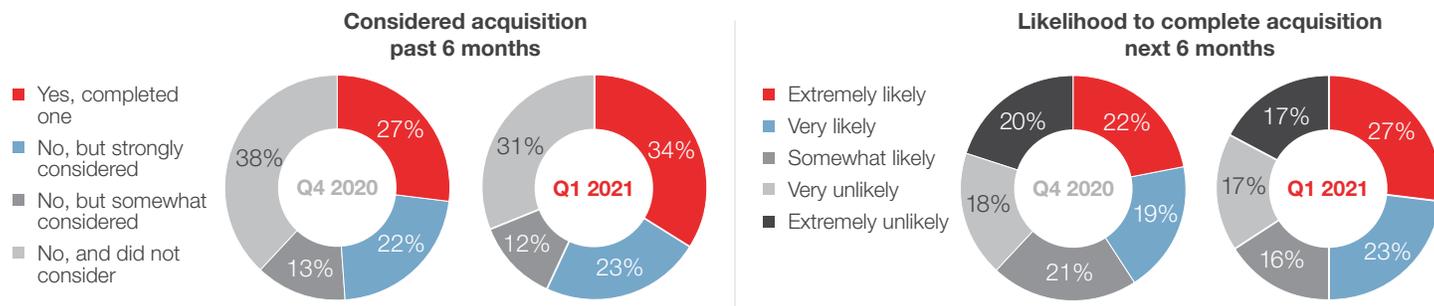
"Our customers are saying they are more bullish on the overall economy and the state of their business. The biggest reasons are the spread and speed of the vaccinations, coinciding with the warmer weather of the spring and summer, and hopes of returning to full productivity," said Tim Burke, market president of Northeast Ohio, KeyBank. "Many of our customers want to see another quarter or two of improved results, and then I believe we'll see more optimism and action regarding investments."

Of respondents who plan to expand, 75% say they will add employees, 61% will make significant equipment purchases, 55% will expand or renovate current facilities and 48% will add new facilities or locations. Hiring trends are already on the upswing nationally, with new filings for unemployment benefits in the week ending March 6, 2021 nearing their lowest level since the pandemic's onset in March 2020 drove a surge in layoffs.<sup>5</sup>

As far as M&A activity, we should expect to see a significant pickup say both respondents and KeyBank Capital Markets' Doolos. Overall likelihood to complete an acquisition in the future has also increased, with more than half of middle market businesses citing they are "very likely" or "extremely likely" to complete an acquisition in the next six months.

<sup>5</sup>Wall Street Journal "U.S. Jobless Claims Ease as Hiring Picks Up." March 11, 2021 [https://www.wsj.com/articles/weekly-jobless-claims-coronavirus-03-11-2021-11615419157?mod=hp\\_lead\\_pos1](https://www.wsj.com/articles/weekly-jobless-claims-coronavirus-03-11-2021-11615419157?mod=hp_lead_pos1)

## Acquisition considerations | past and future



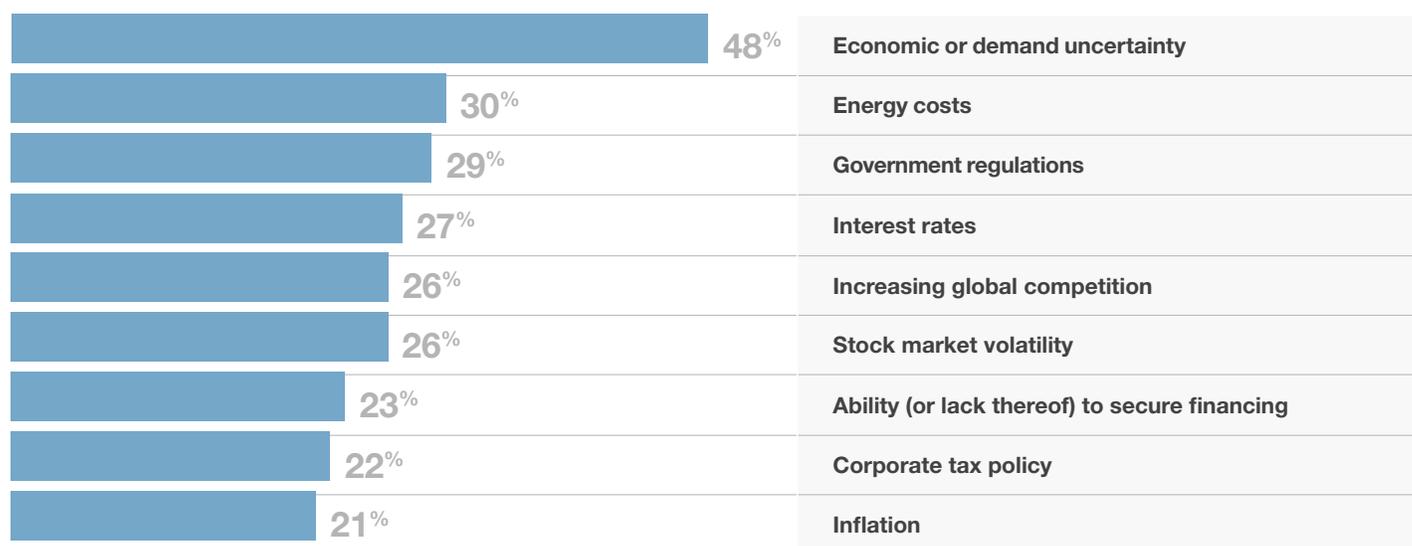
“All of the deals that would have gotten done last year for the companies that made it through the pandemic in at least a neutral position are going to be done this year. We’re going to see the release of a backlog of activity. On top of optimism, we’re seeing increased pitch activity and meaningful pickup of buyside activity, including from corporate buyers that have benefited from equity prices increasing, and ended last year with liquidity to put to work.”

– J.R. Doolos, Managing Director,  
Mergers & Acquisitions (M&A), KeyBank Capital Markets

Looking at the next six months, economic or demand uncertainty is the top factor affecting acquisition likelihood, cited by nearly half of middle market business executives. Energy costs (30% of respondents) and government regulations (29%) are also top factors, while corporate tax policy (22%) falls lower on the list.

## Other factors affecting acquisition likelihood

Q1 2021



# Back to business after one year of COVID-19

A full year of pandemic life has passed, and businesses have grown accustomed to the changes they've made. In early 2021, middle market business owners feel similarly about the overall health of their business amid COVID-19 as they did in June and September 2020. The majority of survey respondents – 77% total – continue to feel that the impact of COVID-19 on their business has been the same or better than their original expectations. And, more than half of middle market businesses that have made changes to their business operations as a result of COVID-19 are somewhat or fully back to operations, similar to September.

“Most of our clients feel the worst is behind them regarding COVID-19 and believe that their performance has been better than expected since mid-2020,” said Burke.

However, one big change since the last survey timeframe that is bringing greater optimism about business health – has been the rollout of highly effective COVID-19 vaccinations. Vaccinations began late last year for frontline healthcare workers with two companies, Pfizer-BioNTech and Moderna, receiving emergency use approval, and have steadily increased in 2021 with a third vaccine company, Johnson & Johnson, recently receiving emergency use approval. As of early March, nearly 1 in 5 Americans had received at least one vaccine dose.<sup>6</sup>

A majority of middle market business owners and executives – 68% – feel the development of the COVID-19 vaccine positively affects the outlook for the overall health of their businesses. Executives from higher revenue companies are even more enthused, with 83% responding saying it will have a “very positive” or “somewhat positive” effect.

## Conclusion: The post-pandemic era could be here

**After a troubling and irregular 2020, middle market business owners and executives are ready for normalcy and acceleration in 2021, but the marketplace isn't yet back to normal. Concerns about the continued impacts of COVID-19 and the related economic impacts persist, yet overall a new feeling of optimism about the trajectory of their businesses and the U.S. economy prevails.**

**As your company continues to navigate the changing financial landscape, having trusted financial advisors is more important than ever. Whether you're planning to expand your current operations, or enter into the burgeoning M&A marketplace, KeyBank experts can provide value-added strategic insights and financial solutions to help your company grow.**

**For more information on KeyBank's middle market capabilities, contact a KeyBank Relationship Manager.**



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<sup>6</sup> Washington Post "At least 85.5 million people have received one or both doses of the vaccine in the U.S." 3/31/21 [https://www.washingtonpost.com/graphics/2020/health/covid-vaccine-states-distribution-doses/?tid=usw\\_passupdatepg](https://www.washingtonpost.com/graphics/2020/health/covid-vaccine-states-distribution-doses/?tid=usw_passupdatepg)