



Middle market shaken, but not broken, by COVID-19

Each quarter, to understand what impact current macroeconomic conditions and government policies have on the business environment, KeyBank surveys 400 middle market business owners and executives – defined as those in the \$10 million to \$2 billion range.¹

U.S. business community is laser-focused

Months after the coronavirus national emergency² began, the U.S. business community is laser-focused on a shared goal: how to safely rebound from the COVID-19 pandemic and its related shutdown. While the level of optimism is generally trending upward, the pandemic is not yet over, and business owners are wary about the nation's economic health.

As companies see the impact of the federal recovery dollars, their own cost-cutting measures and operational adjustments, they've become slightly more optimistic than they were in late March when last surveyed. Some have begun measured reopening, fueling more optimism. However, as many areas of the country see a new spike or resurgence in COVID-19 cases,³ the need to remain vigilant in health and safety practices and to be flexible in operations continue to be important as businesses shape a sustainable long-term recovery.

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“The news is mixed. While business leaders are concerned about the future impact of recent infection spikes, second quarter numbers have been, in many cases, better than the dire projections that many of our customers made.”

– **Timothy Burke, President,
Northeast Ohio, KeyBank**

Executive outlooks show a lift since the start of the pandemic

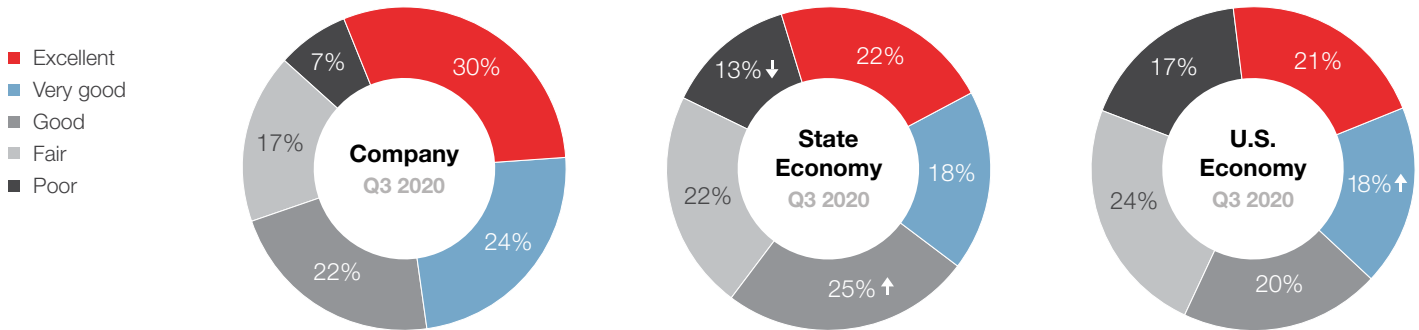
Overall, responses to the June survey suggest that the impact of COVID on middle market businesses has not gotten worse since the second quarter. Compared to late March, when shutdowns to combat the spread of COVID-19 took hold, outlooks have begun to shift back toward being slightly more positive, particularly at the state and national levels, where they were lowest. When asked about their business health, a slight majority (51%) of business owners stated they were very positive or somewhat positive about their performance; additionally, those who reported a negative perception of their business health improved from 37% to 26%.

¹Business 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).

²American Journal of Managed Care, “A Timeline of COVID-19 Developments in 2020” <https://www.ajmc.com/focus-of-the-week/a-timeline-of-covid19-developments-in-2020>

³Washington Post, “Where states reopened and cases spiked after the U.S. shutdown.” 7/15/20 https://www.washingtonpost.com/graphics/2020/national/states-reopening-coronavirus-map/?hpid=hp_hp-top-table-main_reopen-bullet%3Ahomepage%2Fstory-ans&itid=hp_hp-top-table-main_reopen-bullet%3Ahomepage%2Fstory-ans

Overall Outlook for the Next 12 Months Compared to Late March Survey



COVID-19 Business Health

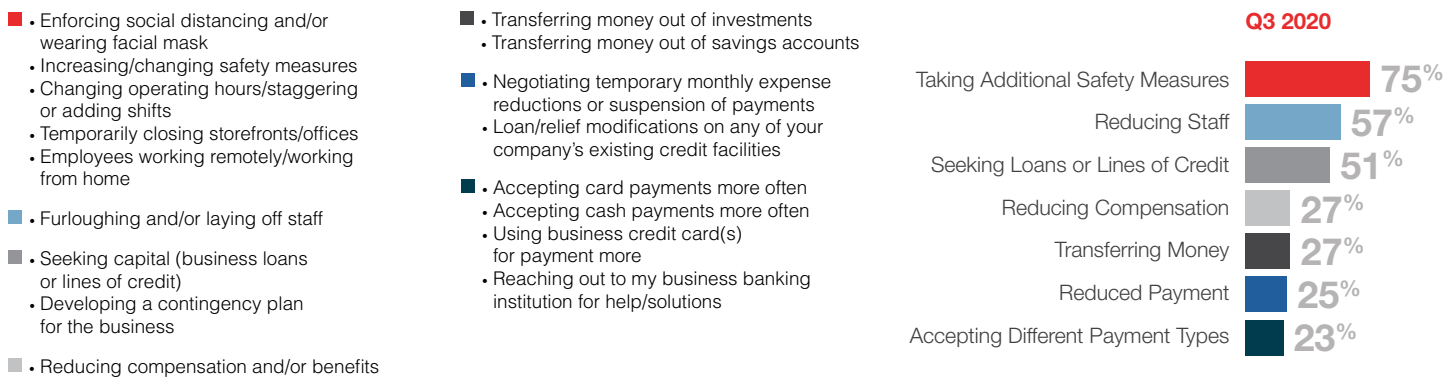


There is something to be said for having expected a dark economic scenario; there's room to be pleasantly surprised. A strong majority of respondents, 70% total, told KeyBank that the impact on their business so far hasn't been as bad as they expected. These respondents reported that their business health has been either as expected or better than the original projections made when they were first faced with the economic reality of COVID-19 in March.

Changing how the middle market works

The nation's approach to reopening after shutdowns has been regional or state-driven,⁴ and most middle market businesses had to make changes to comply with regulations designed to keep their employees and communities healthy. A resounding majority of middle market businesses (76%) reported changing their operations somewhat or very much in response to COVID-19, with their top actions including implementation of enhanced safety measures, transition to a remote workforce, reducing employment headcount or compensation, and applying for loans or lines of credit.

Actions Taken to Mitigate the Impact of COVID-19



⁴New York Times "See How All 50 States are Reopening (and Closing Again) Interactive Map <https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html>

The reopening so far has been measured and has had some disruptions since the virus spread is not yet under control. Planning and management have been clearly challenging for business owners.⁵ However, **half of middle market businesses who have made changes to their business operations as a result of COVID-19 are somewhat or fully operating again.**

Even so, most owners and executives are not staffing their businesses at pre-pandemic levels. Of the middle market businesses that reduced their staffing in response to COVID-19, many companies are not likely to bring back all employees. However, bringing back employees who were furloughed is generally more likely than bringing back those who were laid off.

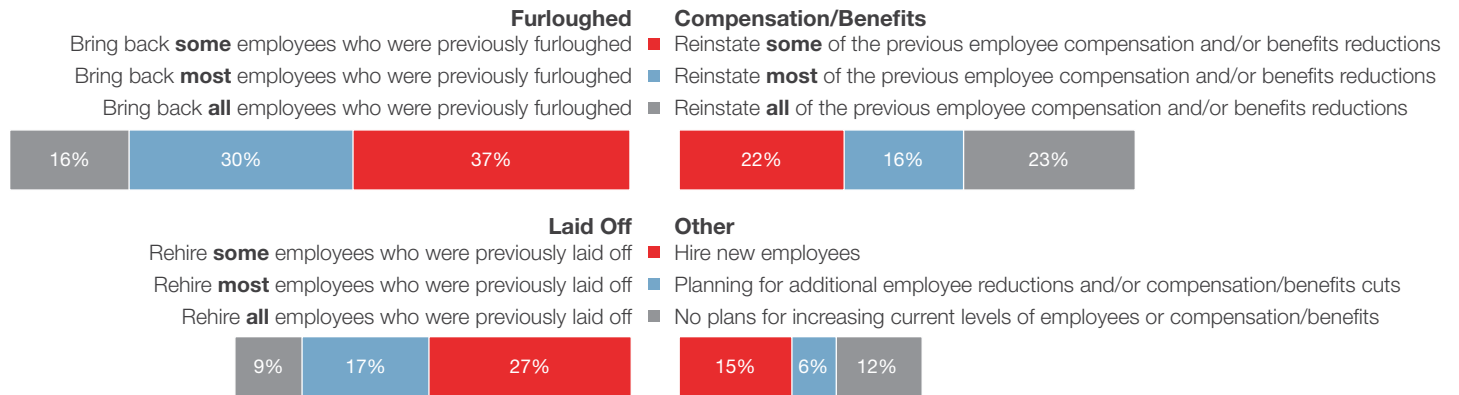
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“The majority of customers we’ve talked to believe that the Paycheck Protection Program was effective and helped to save many jobs at each of their companies. Many would have laid off employees had it not been for that program.”

– **Timothy Burke, President, Northeast Ohio, KeyBank**

Future Plans Around Hiring and Staffing

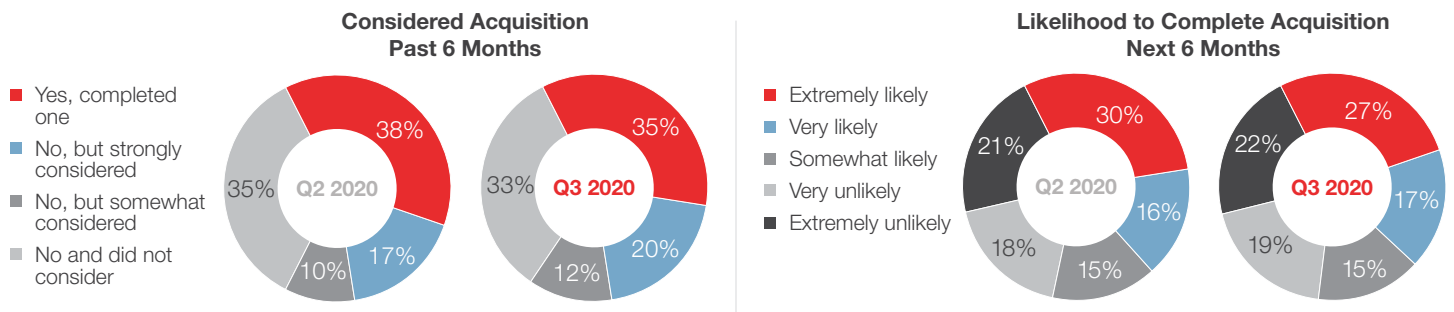
Q3 2020



COVID-19's impact on middle market M&A

The pandemic has also made the merger and acquisitions forecast murkier for middle market executives. Past consideration of acquisitions and future likelihood of completing one have remained consistent since December. However, most middle market businesses report that lower company valuations due to COVID-19 are making an impact on their likelihood to complete an acquisition.

Acquisition Considerations | Past and Future

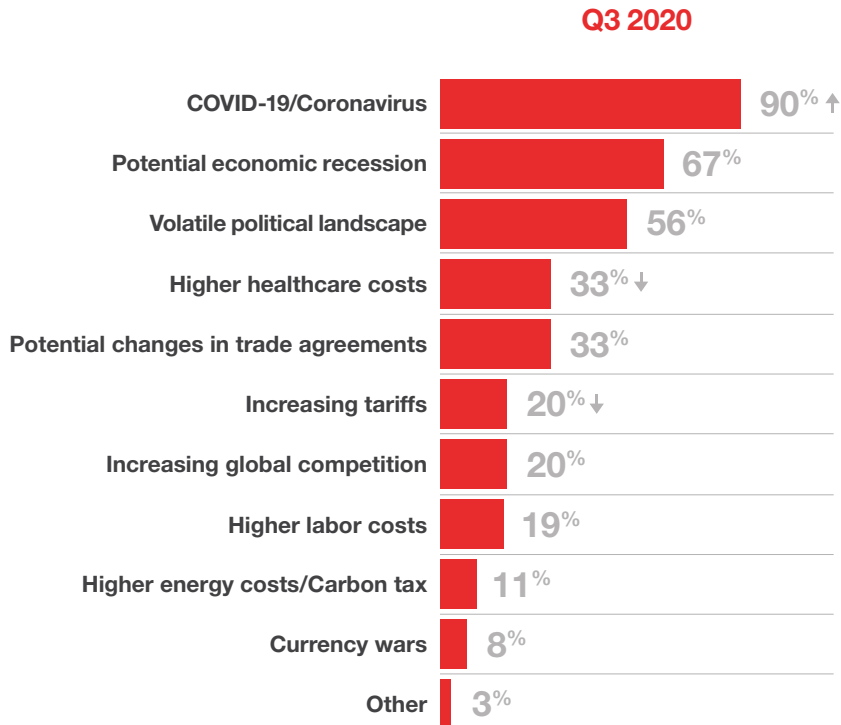


⁵New York Times, “Pandemic’s Headache for Managers: Downs, Ups and ... Now What?” 7/16/20 <https://www.nytimes.com/2020/07/16/business/economy/company-reopening-coronavirus.html>

Middle market still wary about national economy

Unsurprisingly, concerns with COVID-19 have significantly increased since early March and are the primary reason for a dim outlook with respect to the U.S. economy. Of those who have a good, fair or poor outlook about the national economy, coronavirus concerns are intertwined with worries about a potential economic recession (67%) and the volatile political landscape (56%). Increasing tariffs have tumbled down the list of worries for business owners.

Factors Causing Low Outlook for the U.S. Economy



The U.S. economy has reached a crucial point at the beginning of the third quarter, the *Wall Street Journal* says, pointing to a stronger end to the second quarter with rising retail sales causing a bounce in gross domestic product: “But what really matters for investors and Americans generally is if the economy is in substantially better shape in September than it was in June, with more sales, more production, and more people working.”⁶ Yet, the recent resurgence of COVID-19 threatens that recovery. After showing improvement in key indicators such as employment, consumer spending, and stock performance over May and June, the economy more recently has started to be roiled by the country’s inability to quash the virus’s spread.⁷

⁶ Wall Street Journal “U.S. Recovery Hangs in Balance.” 7/16/20 https://www.wsj.com/articles/u-s-recovery-hangs-in-balance-11594918236?mod=markets_lead_pos7

⁷ Bloomberg “The Coronavirus Surge Is Officially Slowing the U.S. Recovery” <https://www.bloomberg.com/graphics/recovery-tracker/>

Middle Market Sees Some Bright Spots in Dark Days

Middle market businesses are slowly restoring more normalized operating and financial positions after taking steps to help their companies withstand the initial brunt of the COVID-19 pandemic. However, it's clear that their worries are far from over. For the remainder of 2020, economic recovery will be tied to public health and require continued cooperation from the private sector and state and federal government.

KeyBank is committed to providing real-time support and market insight as businesses respond to the COVID-19 crisis. Our Relationship Managers can bring your company strategic advice and value-driven solutions to help navigate the shifting economic environment.

We're here for you.

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



"KeyBank Middle Market Business Sentiment Survey" June 2020.

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