



# Measuring the Middle Market

## A Driving Force in the U.S. Economy

Home to millions of businesses including 134 of the 500 largest companies in the world as of 2023, the might and scale of the United States economy is widely known.<sup>1</sup> For most people, the largest and smallest companies are the most visible in daily life. These are the huge public companies that provide the products and services you use every day, or the neighborhood restaurant or other local business that is part of your routine. But there is another segment of companies that operates between the largest and the smallest. This is called the middle market, and while these companies are only a small percentage of total national employer businesses, they generate 33% of revenue and account for 30% of private sector employment.<sup>2</sup>

### **What Companies Make Up the U.S. Middle Market?**

The term middle market is used to describe companies with revenues between \$10 million and \$1 billion per year.<sup>3</sup>

### **How Large is the U.S. Middle Market?**

The middle market is made up of nearly 200,000 companies that represent one-third of the private sector GDP and employ roughly 48 million workers in total.<sup>4</sup>

### **How Resilient is the U.S. Middle Market?**

More than half of U.S. middle market companies have been in business for more than 30 years and are, on average, less financially leveraged than large companies.<sup>5</sup> During the economic downturn from 2007 to 2010, surviving middle market companies created more than 2 million new jobs, while surviving larger companies shed nearly 4 million jobs.<sup>6</sup> The U.S. middle market continues to thrive in the post-pandemic era with record-setting proportions of companies reporting year-over-year improvements in overall company performance, increases in revenue growth and expansion in the size of the

workforce. The rate of year over-year revenue growth reached a new all-time high (12.4%) with 55% of middle market businesses experiencing double-digit growth compared to 2022.<sup>7</sup> Given the substantial contributions to the U.S. economy, one might expect that the market segment would garner more attention; however, the middle market lacks familiarity for many investors.

Certain fundamental reasons explain, in part, this unfamiliarity. For one, many of these companies are private or otherwise do not have access to the public equity or bond markets, which means that ordinary investors will have limited access to making investments in these companies. Second, it is very labor-intensive for a bank to underwrite financing for such companies as they are perceived to be less creditworthy than large corporations. Banks would prefer to put the same work into a large company to arrange much larger financing amounts, thereby generating higher fees.

Despite the unfamiliarity among the general public, this market segment presents unique opportunities and is growing. In fact, the average rate of revenue growth of such companies is 12.4%.<sup>8</sup>

## How Do Middle Market Companies Secure Financing?

When middle market companies need to raise funds to expand their businesses' day-to-day operations, they may not have access to inexpensive financing from a bank because they may carry a lower credit rating than a company of larger scale. They also do not enjoy the same financing options as large corporations which can issue stock or bonds in the public marketplace. Instead, these companies turn to the private credit market to obtain loans from private lenders.

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### To learn more, please contact your financial professional

1. The Fortune Global 500 List – 2023
2. United States Census Bureau Annual Business Survey (ABS) 2022; FRED, Federal Reserve Bank of St. Louis, All Employees, Total Private (USPRIV) 2023.
3. National Center for the Middle Market, Year-end 2023 Middle Market Indicator
4. Ibid
5. Farren, Doug and Makhija Anil K. "The Middle Market Is Stressed, but Resilient." Harvard Business Review. May 3, 2021.
6. Ibid
7. National Center for the Middle Market, Year-end 2023 Middle Market Indicator
8. National Center for the Middle Market, Year-end 2023 Middle Market Indicator

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