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THE MIDDLE MATTERS:

Exploring the Diverse
Middle Market Business
Landscape

J.P.Morgan | CHASE 

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EXECUTIVE SUMMARY

The middle market is composed of a variety of midsize businesses (defined here as businesses with revenue between \$11 million and \$500 million) that underpin the U.S. economy. Their diversity spans industry, size, ownership, geography, and more. In this research, we focus on exploring the landscape for diverse-owned midsize businesses (which we define as Black-, Hispanic-, Latino(a)-, Asian-, and other people of color-owned businesses, women-owned businesses, and veteran-owned businesses). Additionally, we look at three of the largest markets: Chicago, Dallas, and Los Angeles.

By addressing capital and advisory gaps such as access to growth capital and succession planning, stakeholders could help diverse-owned businesses position themselves to generate as much as \$1.3 trillion in additional annual revenue and employ three times as many people ten years from now.

The middle market is a core component of the U.S. economy. It is comprised of 300,000 midsize businesses generating \$13T in annual revenue and employing over 40 million people. Midsize businesses account for 33% of revenue generated and 30% of all private sector employment in the country, despite representing only 5% of the total number of national employer businesses.

The “early” and “emerging” middle market opportunity. Together, the number of early midsize businesses (revenue between \$11mm and \$20mm) and emerging midsize businesses (revenue between \$21mm and \$100mm) account for nearly 90% of the U.S. middle market. They generate \$5.4T in annual revenue, or more than 40% of total middle market revenue. Businesses in this stage are capital hungry and account for three out of four dollars in projected capital demand. These businesses represent a large opportunity for stakeholders including business support organizations, financial institutions, and other service providers to build relationships that could generate long-term value for all.

The middle market is concentrated in five industries. Retail, Construction, Healthcare, Professional Services, and Wholesale are the largest middle market industries and contribute 60% of the revenue. Diverse-owned businesses are more concentrated, with the largest five industries making up 75% of the number of businesses. Examining the distribution of diverse-owned businesses across industries surfaces potential opportunities for capital and service providers to target outreach or product solutions in industries like Manufacturing.

Diverse-owned businesses represent ~30% of midsize businesses but only account for ~20% of the revenue. Closing this gap presents an opportunity to generate \$1.3T in additional annual revenue. This gap is further evidenced by a greater proportion of diverse-owned midsize businesses in the early and emerging segments and a smaller proportion in the established (businesses with revenue between \$101mm and \$500mm) segment relative to the overall middle market. Supporting diverse-owned businesses on their journey into and through the middle market can be a powerful way to boost national economic health and prosperity.

Diverse-owned businesses are younger and smaller. Diverse-owned businesses are on average ten years younger, generate lower revenue, and have fewer employees – though notably, they employ proportionally more people of color. On average, there is a business maturity and valuation gap yielding disparities in wealth and employment for diverse owners and their employees.

Access to capital challenges exist for diverse-owned midsize businesses. Sixteen percent of diverse-owned businesses could not access financing, despite needing it, compared to 6% of non-diverse-owned businesses. Fewer diverse-owned businesses accessed financing than non-diverse-owned businesses due to high credit costs, difficulty navigating the application process, and lack of confidence in their credit application.

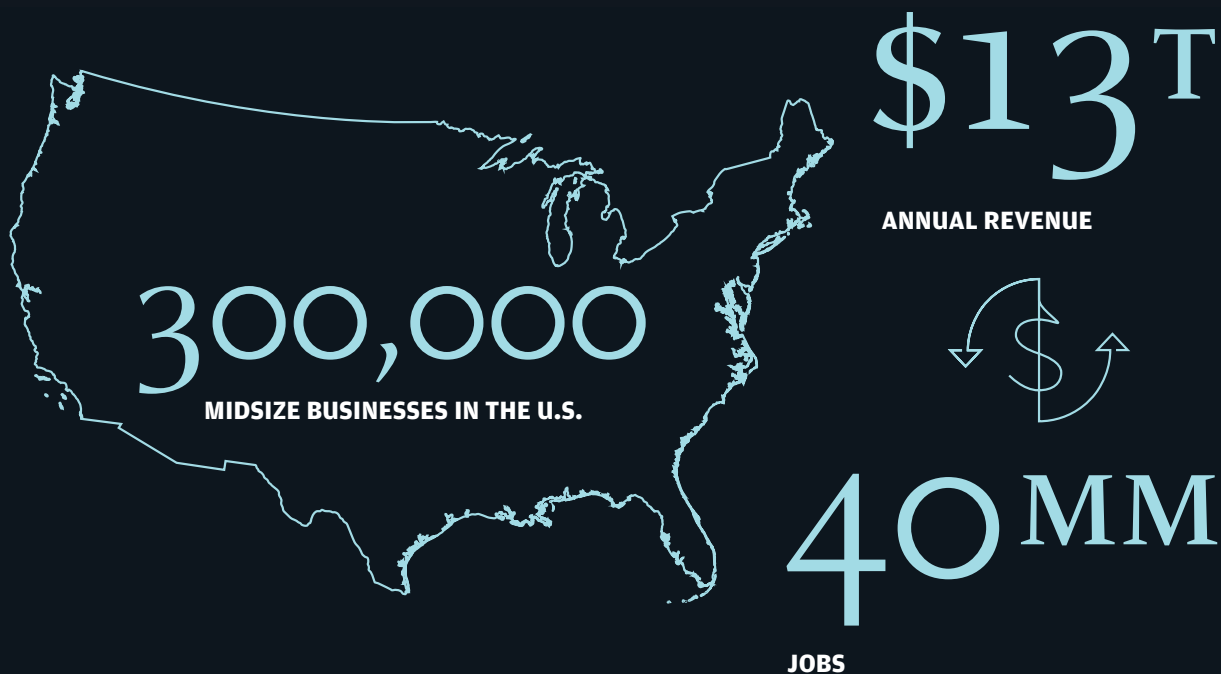
In general, midsize businesses are seeking trusted partners for their growth journey. To scale successfully, midsize businesses need commercial banking support, succession planning services, and organizational and talent development, among other services. Stakeholders can support midsize businesses through access to, and awareness of, service offerings.

The three focus markets of Chicago, Dallas, and Los Angeles are large markets that currently make up ~12% of the national middle market. Compared to national figures, Chicago has a greater presence of midsize businesses in Transportation, Dallas in Administrative Services, and Los Angeles in Wholesale and Real Estate. Across the three cities, diverse-owned businesses have a greater presence in Professional Services, Construction, and Administrative Services compared to national figures.

INTRODUCTION

Why the Middle Market Matters

Midsized businesses – which this research defines as those generating between \$11 million and \$500 million in annual revenue – fuel a significant portion of U.S. economic activity. According to our estimates, there are 300,000 midsized businesses in the middle market, they generate \$13 trillion in annual revenue and employ over 40 million people.¹ Despite representing only 5% of the total number of national employer businesses, they account for 33% of revenue generated and 30% of all private sector employment in the country.^{2,3}



This segment of businesses underpins the U.S. economy yet is not featured heavily in the national dialogue compared to small local businesses or large international corporations. Midsized businesses are resilient, optimistic, and growing. Businesses surveyed as part of this research experienced an average revenue growth of 24% during their last fiscal year. Two out of three business leaders are optimistic about their company's performance with 90% planning to add or maintain headcount.⁴ While private investment firms (private equity, venture capital, and traditional debt) are taking an increasing interest in the middle market as an attractive investable opportunity, there is a need to increase timely resources for midsized businesses.

¹ Next Street research (see Appendix for Market Sizing methodology).

² United States Census Bureau. (2021). *Annual Business Survey*.

³ FRED. (2023). <https://fred.stlouisfed.org/series/USPRIV>.

⁴ JPMorgan Chase. (2023). *2023 Midyear Business Leaders Outlook*.

Research Focus

This research will help us better understand the landscape of midsize businesses and their capital and advisory needs. It focuses on:



Diverse-owned businesses. This includes Black-, Hispanic-, Latino(a)-, Asian-, and other people of color-owned businesses, women-owned businesses, and veteran-owned businesses. We found little existing research on this important swath of the middle market.



The greater Chicago, Dallas, and Los Angeles areas. We place an additional geographic focus on these large, high potential markets with significant opportunities to support midsize businesses.



Early and emerging midsize businesses. We segment midsize businesses into early, emerging, and established, per the following annual revenue ranges:

Early Middle Market	Emerging Middle Market	Established Middle Market
Business with annual revenue from \$11mm - \$20mm	Business with annual revenue from \$21mm - \$100mm	Business with annual revenue from \$101mm - \$500mm

We appreciate that these are broad categorizations of dynamic segments of the U.S. business landscape. Further targeted research is needed to truly understand the dynamics facing specific types of midsize businesses. This research is a snapshot at a point in time and provides directional insight. It is our hope that this research catalyzes other efforts that dive into specific segments and elevate further insights leading to solutions that support the diverse middle market landscape.

Note: In this research, we will use terms such as “Diverse-owned” to include Black-, Hispanic-, Latino(a)-, Asian-, and other people of color-owned businesses, women-owned businesses, and veteran-owned businesses. “Chicago,” “Dallas,” and “Los Angeles” represent our “focus cities”, which includes businesses located in the “Greater” regions of the respective cities. Lastly, “Businesses” in almost all cases refers to midsize businesses as defined.



Research Approach⁵

Our research approach was multi-pronged and included:



Interviews: We interviewed capital providers, business support organizations, thought leaders, and other stakeholders



Expert panels: We engaged a cohort of experts at multiple junctures to guide the research and react to our ongoing findings



Database analysis: We analyzed data from various sources, including the U.S. Census Bureau, Grata, and Tagnifi



A survey: We conducted a primary research survey of middle market executives and decision-makers in the focus cities



Existing literature review: We reviewed and referenced existing research in the middle market (e.g., National Center for the Middle Market, Kauffman Foundation, JPMorgan Chase)

⁵ Details can be found in the appendix.

NATIONAL LANDSCAPE

Market Segmentation by Revenue Size and Diverse Ownership

Strength in numbers. Of the approximately 300,000 midsize businesses, two-thirds generate between \$11mm and \$20mm in annual revenue. These early midsize businesses generate \$2.6T in annual revenue (Table 3.1) and are a significant and often overlooked segment that present opportunities for capital and service providers to build relationships that could generate long-term value for all.

Early and emerging midsize businesses often face large business problems with small business resources

Early and emerging midsize businesses represent a significant portion of the total addressable market. Together they account for almost 90% of the total number of midsize businesses and generate \$5.4T in annual revenue (Table 3.1). Sizeable economic benefits could be produced by helping these businesses succeed.

Table 3.1: Middle Market Segmentation by Number of Businesses and Total Revenue

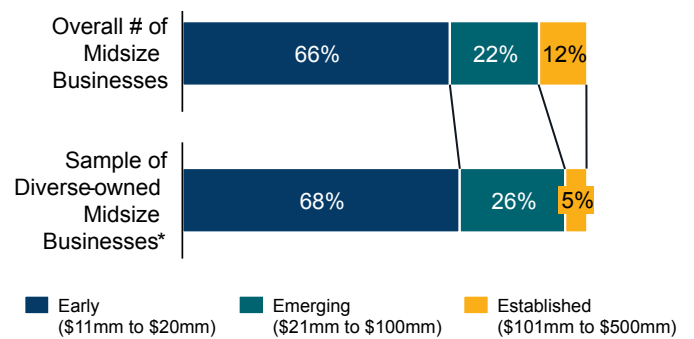
Revenue Segments	Values		Percentages	
	Number of Businesses	Total Revenue	Number of Businesses	Total Revenue
Early (\$11mm - \$20mm)	192,323	\$2.6T	66%	20%
Emerging (\$21mm - \$100mm)	64,108	\$2.8T	22%	22%
Established (\$101mm - \$500mm)	34,930	\$7.5T	12%	58%
Total (\$11mm - \$500mm)	291,361	\$12.9T	100%	100%

Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi; Next Street analysis

Few and fewer. Understandably, a smaller percentage (12%) of midsize businesses generate over \$100mm in annual revenue; these established midsize businesses collectively generate \$7.5T in revenue per year (Table 3.1). There is an even smaller percentage (5%) of established diverse-owned midsize businesses (Figure 3.1). We observe a greater presence of diverse-owned businesses in the smaller revenue segments, particularly within the emerging segment. This highlights the importance of solutions for early and emerging diverse-owned businesses.

Mind the gap. There are 90,000 diverse-owned midsize businesses, representing 30% of the nationwide total. They generate \$2.6T in annual revenue, representing 20% of the nationwide total (Figure 3.2). The average diverse-owned business has lower revenue compared to the average midsize business. Closing this average revenue gap represents an opportunity to generate \$1.3T in additional revenue (assuming a non-zero-sum economy).

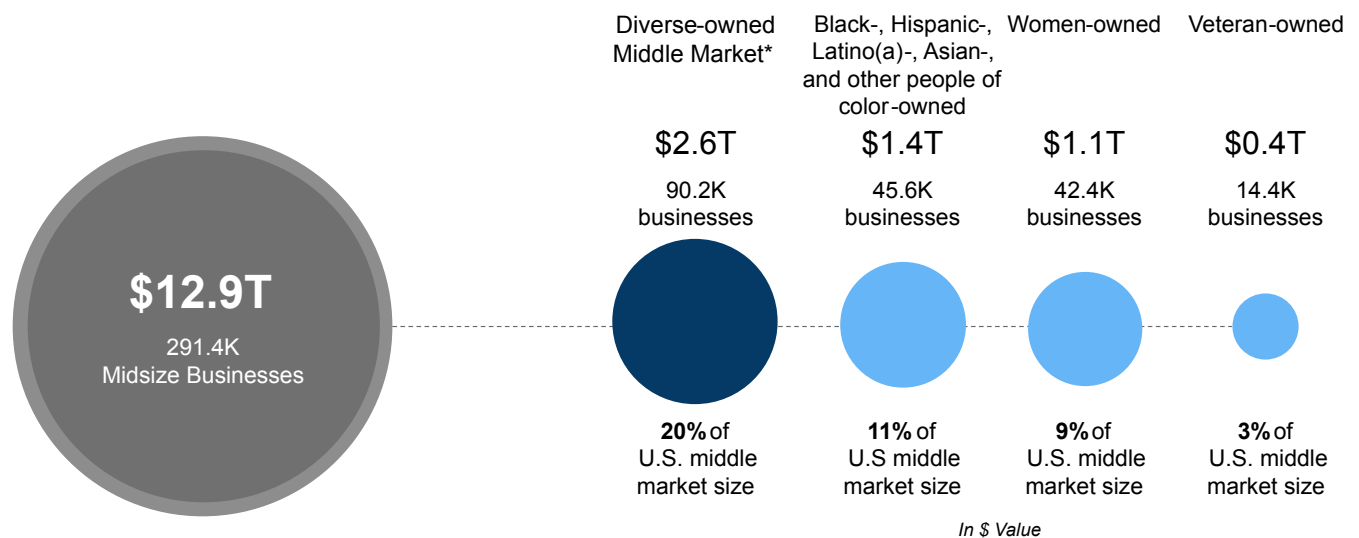
Figure 3.1: Middle Market Segmentation by Number of Businesses and Demographics



Note: * Includes sample set from Grata
 Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi; Next Street analysis

Note: This is a good time to remind readers that we acknowledge that the “diverse-owned” categorization does not do justice to the differences between the various groups that make up the current categorization. In future research, we see potential to disaggregate these groups and elevate additional and more specific insights.

Figure 3.2: Middle Market Size by Demographics



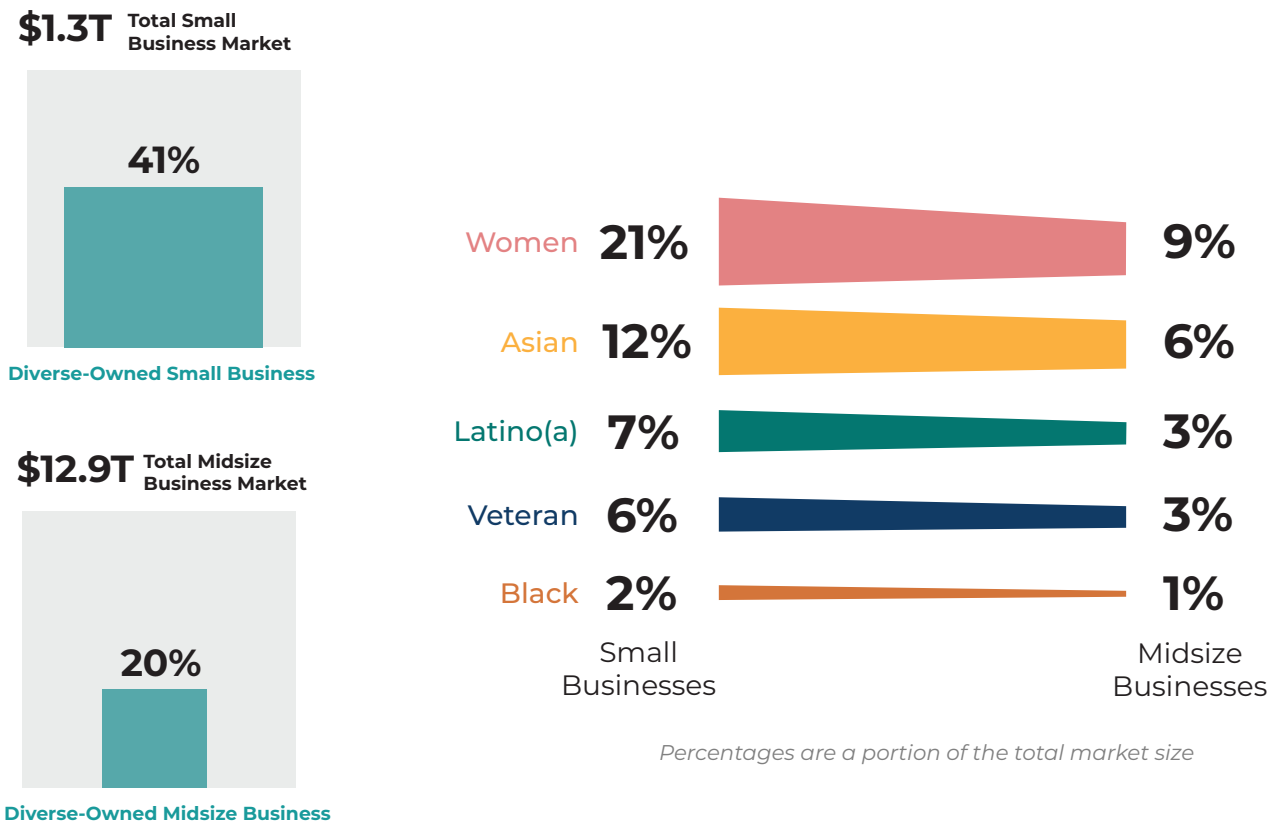
Note: * Excludes overlap of diverse-owned segments
 Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi

In Figure 3.2, we see most of the revenue is generated by Black-, Hispanic-, Latino(a)-, and Asian-owned businesses (11%), followed by businesses that are women-owned (9%). Veteran-owned businesses represent 5% of all midsize businesses and contribute 3% of the total annual revenue.

We find significant gaps between the revenue contribution of diverse-owned businesses in the small business space (41%) and the middle market space (20%) (Figure 3.3). The greatest percentage difference is observed for women-owned businesses, where women-owned small businesses account for 21% of all revenue in comparison to 9% for women-owned midsize businesses (Figure 3.3). The data reinforces the opportunity to provide diverse-owned businesses with the support needed to mitigate the disparities that stem from having less startup capital and lower education, among other factors.⁶ It also represents an opportunity to support diverse-owned small businesses on their journey into the middle market in ways we describe later in this report.

Supporting diverse-owned small businesses on their journey into the middle market can be a powerful way to boost national economic health and prosperity

Figure 3.3: Middle Market and Small Business Diversity Breakdowns



Note: Small businesses defined as businesses with revenue less than \$1 mm
 Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi

⁶ Fairlie, R. W., & Robb, A. M. (2010). *Race and entrepreneurial success: Black-, Asian-, and White-owned businesses in the United States*. MIT Press.

Middle Market Outlook

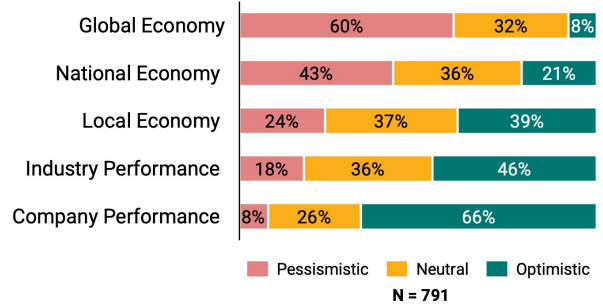
Steady does it. The [National Center for the Middle Market's Middle Market Indicator](#) and the [JPMorgan Chase Business Leaders Outlook](#) are two valuable sources that capture the pulse of the middle market on a semi-annual basis. Briefly summarized, most middle market business leaders remain optimistic about their company performance despite challenges from competition, slowing revenue growth, and economic uncertainty. Midsize businesses also face greater operating expenses, problems with the supply chain, cash flow, labor shortages, and concerns with hiring, retaining, and recruiting talent. Additionally, one in three midsize businesses expressed that the amount of investment capital available to them was insufficient for current needs (Figure 3.4).



Figure 3.4: Middle Market Outlook

Economic Outlook

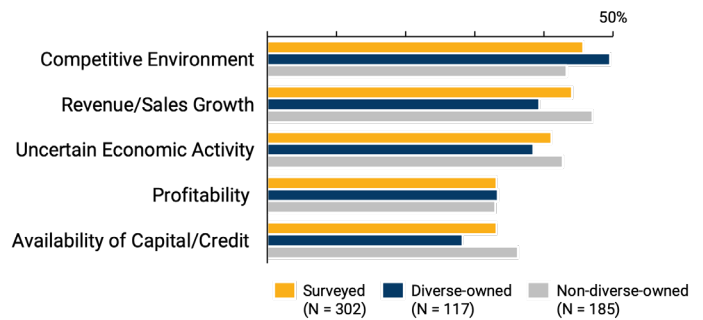
Business leaders are optimistic about their company performance but share more pessimistic sentiments on the global economy.



Top Challenges

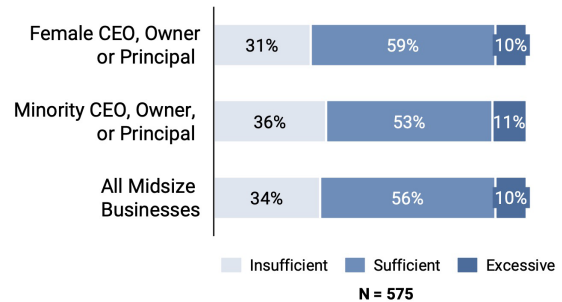
Middle market businesses face similar challenges around competition and revenue/sales growth irrespective of ownership type.

Survey Q: Which of the following challenges, if any, are you facing?



Investment Needs

1 in 3 middle market businesses expressed that the amount of investment capital was insufficient for current needs



Source: JPMorgan Chase Business Leaders Outlook (2023); Next Street Middle Market Survey (2023); National Center for the Middle Market (2022)

Moving beyond “challenge accepted”. Diverse-owned businesses have grown despite facing higher hurdles, including access to funding challenges, as highlighted by a few studies below:

- Black women entrepreneurs grapple with limited access to funding, a factor cited as a significant barrier to growth, often resorting to self-funding mechanisms instead of loans⁷
- Latino(a) businesses, despite showcasing robust business metrics, encounter a discrepancy in loan approval rates, especially for amounts exceeding \$50,000⁸
- Veteran-owned enterprises find themselves at a similar crossroads, with a substantial percentage unable to secure the necessary funding for growth and facing high rejection rates from lending institutions⁹
- Asian-owned firms experienced a decline in being able to meet their full financial needs (i.e., amount of capital sought), witnessing a drop from 30.7% to 24.6% between 2019 and 2021¹⁰

These challenges require a strategic approach to foster growth and break through existing barriers thereby paving the way for a more prosperous business environment with equal opportunities for all. To support the middle market, stakeholders including business support organizations, financial institutions, and service providers must understand the different types of businesses that represent the middle market.

Industry Analysis

Industry-ial strength. Five industries – Retail, Construction, Healthcare, Professional Services, and Wholesale – account for 60% of the middle market in the U.S. For the sub-industries that fall under these industries please refer to the Appendix. Each of these industries has had an increase in annual revenue of more than 20% over the past year (Table 3.2).

Table 3.2: Middle Market Breakdown by Industry

Industry	Market Size	% of Market Size	Midsize Business Count	% of Midsize Business Count	Average 1-Year Revenue Growth
1. Retail	\$2.1T	17%	47.9K	16%	21%
2. Construction	\$1.8T	14%	41.8K	14%	31%
3. Healthcare	\$1.5T	12%	30.2K	10%	23%
4. Professional Services	\$1.3T	11%	30.7K	11%	30%
5. Wholesale	\$1.1T	9%	28.9K	10%	21%
7. Manufacturing	\$0.9T	7%	20.2K	7%	25%

Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Tagnifi; Grata; Next Street Middle Market Survey (2023), Next Street analysis

⁷ Struyven, D., George-Joseph, G., & Milo, D. (2021). *Black womenomics: Investing in the underinvested*. Goldman Sachs Research.

⁸ Gomez-Aguinaga, B., Furszyfer, J., Oyer, P., & Porras, J. I. (2023). (rep.). *2022 State of Latino Entrepreneurship*. Stanford Graduate School of Business.

⁹ Maury, R. V., Tihic, M., Pritchard, A., McKelvie, A., & Euto, L. (2022). *2021 National Survey of Military-Affiliated Entrepreneurs*. Syracuse University Institute for Veterans and Military Families.

¹⁰ Cosgrove, B., Gaskin, P., Goff, T., Kenney, E., Milli, J., & Vassell, H. (2023). (rep.). *Access to Capital for Entrepreneurs: Removing Barriers* (2023). Ewing Marion Kauffman Foundation.

Diverse-owned businesses are more concentrated, within the largest five industries — Manufacturing, Professional Services, Wholesale, Construction, and Information — making up 75% of the number of businesses for diverse-owned firms in our national sample.

A higher presence. Examining the relationship between the presence of diverse-owned businesses and the diversity within an industry could surface potential opportunities for targeted outreach or product solutions.

In Figure 3.5 we define:

Presence of diverse businesses: The number of diverse-owned businesses in an industry (e.g., there are more Manufacturing diverse-owned businesses than Administrative Services diverse-owned businesses)

Diversity of industry: The number of diverse-owned businesses as a proportion of total midsize businesses in each industry (e.g., there is more diversity within the Administrative Services industry than the Healthcare industry)

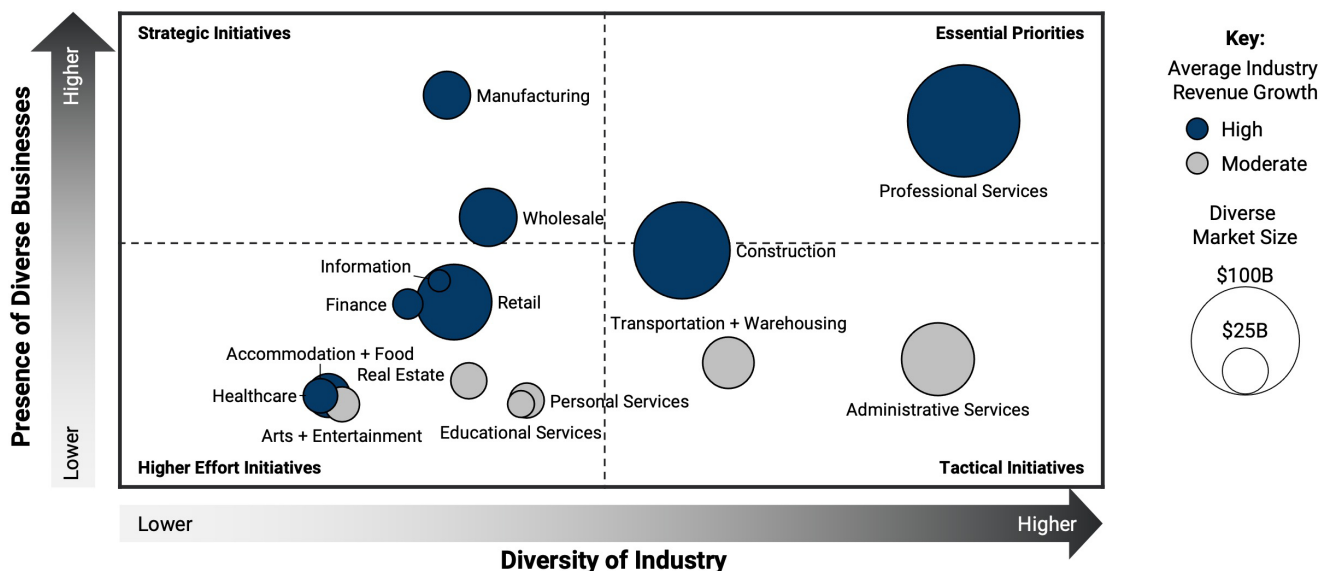
Strategic initiatives: The top left quadrant highlights industries where solutions could create systemic changes with the appropriate investments. Diverse-owned businesses are likelier to be present in these industries; however they represent a small portion of midsize businesses for that industry

Essential priorities: The top right quadrant highlights industries where solutions should be considered near-term priorities due to the high impact potential

Higher effort initiatives: The bottom left quadrant highlights industries where solutions will require high levels of effort and longer-term solutions to facilitate diverse business expansion in these sectors

Tactical initiatives: The bottom right quadrant highlights industries where solutions that build upon existing initiatives are required to create impact

Figure 3.5: Diverse-owned Midsize Business Presence and Industry Diversity



Source: Next Street Middle Market Survey (2023); U.S. Census Bureau, Annual Business Survey (2020); NAICS; Tagnifi; Next Street analysis of Grata data (accessed September 2023)

We identify three broad industry strategies to support diverse-owned businesses (Figure 3.5):

Grow the Industries with higher diversity and presence of diverse-owned businesses:

The **Professional Services and Construction** industries have a greater presence of diverse-owned businesses than other industries. Additionally, diverse-owned businesses in these industries represent a greater portion of midsize businesses in comparison to other industries. Initiatives to support these industries are essential as they would reach many diverse-owned businesses.

Support diversity in industries where diverse-owned businesses tend to be present:

Diverse-owned businesses are more likely to be present in the **Manufacturing and Wholesale** industries; however, they represent a lower portion of midsize businesses in comparison to other industries. Strategic investments in the industries overall could create systemic impact by increasing the number of diverse-owned businesses in industries where they are underrepresented but have track records and networks to build on due to their presence.

Increase industry diversity and the presence of diverse-owned businesses:

Healthcare and Accommodation and Food Services industries have the lowest presence of diverse-owned businesses and the lowest representation of diverse-owned businesses in comparison to other industries. Initiatives to support these industries require the most work but are also potentially the most rewarding. They could remove barriers to more widespread participation among diverse-owned businesses in several high-growth and high employment industries that have lacked diversity, which could also promote growth in the industry overall.



Industry Spotlight: Manufacturing

There is record investment and spending being driven by the federal government, positioning the Manufacturing industry for significant long-term growth (it has already experienced a short-term boom). The current focus on infrastructure and green industries is likely to lead to the creation of a procurement economy where Manufacturing businesses are expected to reap dividends. Additionally, Manufacturing midsize businesses face significant turnover in leadership as the baby boomer generation approaches retirement and considers their companies' futures. Approximately 125,000 manufacturers are owned by baby boomers, accounting for 2.6 million workers. Diverse-owned businesses have greater presence in the Manufacturing industry. However, this does not translate into strong representation of diverse-owned businesses amongst all Manufacturing businesses.^{11,12,13}

There is room to strengthen the Manufacturing industry, particularly diverse-owned Manufacturing businesses, by (i) supporting succession planning, (ii) driving wealth-building opportunities through the purchase of businesses, (iii) increasing access to public and private contracting options, and (iv) supporting businesses with flexible products to take advantage of contracting opportunities.

Wealth Building

Succession. The need for succession planning as an advisory service extends beyond the Manufacturing industry. We see a large perceived unmet need for succession planning services, especially among early midsize businesses.

Diverse-owned businesses are **on average ten years younger, generate 2x lower revenue** (\$29mm vs. \$51mm), and **are less likely to become established midsize businesses** with revenue between \$101mm and \$500mm, than those with non-diverse ownership. This suggests there is a maturity and valuation gap yielding disparities in wealth and employment (using revenue size as a proxy) for diverse owners and their employees.

This presents a challenge and an opportunity to close the wealth and employment gap over the next decade by supporting diverse-owned businesses through growth and succession planning services, for example. For the capital and service providers this makes business sense: among middle market businesses surveyed as part of this research, diverse-owned businesses grew at a faster rate (32%) compared to non-diverse-owned businesses (19%) in their last fiscal year.

“Many certified midsize Minority Business Enterprises face tough decisions when owners look to exit. The next generation has shown a disinterest, forcing a choice for owners: close or sell the business and lose minority certification key to revenue. Owners need sophisticated advice, well beyond traditional wealth planning, to navigate this unique situation.”

- Expert Panelist

¹¹ Three recent federal bills – The Bipartisan Infrastructure Law (BIL), Inflation Reduction Act (IRA), and Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act – have authorized over \$1T in federal investment for infrastructure, climate, and manufacturing into the US economy.

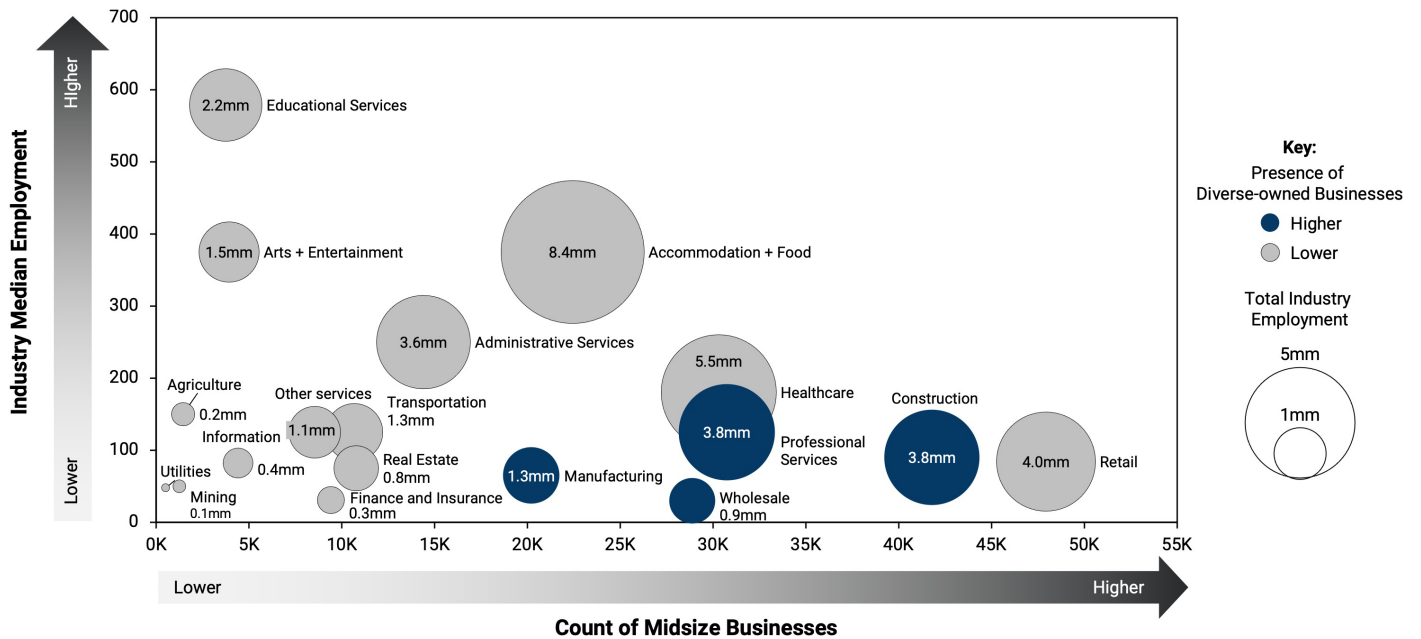
¹² Project Equity. (2023). *The Small Business Closure Crisis*.

¹³ Briggs, X. D. S., Johnson, C. C., & Katz, B. (2023, October). America's new industrial revolution is creating a procurement economy. Unless we act now, it will make the racial wealth gap even worse. *Fortune*. <https://fortune.com/2023/10/11/america-new-industrial-revolution-procurement-economy-racial-wealth-gap/>

Employment Generation

Punching in (and above). Midsize businesses in the U.S. employ over 40 million people across 18 industries. They account for 30% of all private employment in the country. Five industries – Accommodation and Food Services, Healthcare, Retail, Construction, and Professional Services – employ 64% of the total middle market workforce. Excluding the Accommodation and Food Services industry, the larger employment numbers for the other four top industries are driven by a higher number of businesses, with each industry having more than 28,000 midsize businesses (Figure 3.6).

Figure 3.6: Cumulative Employment by Industry

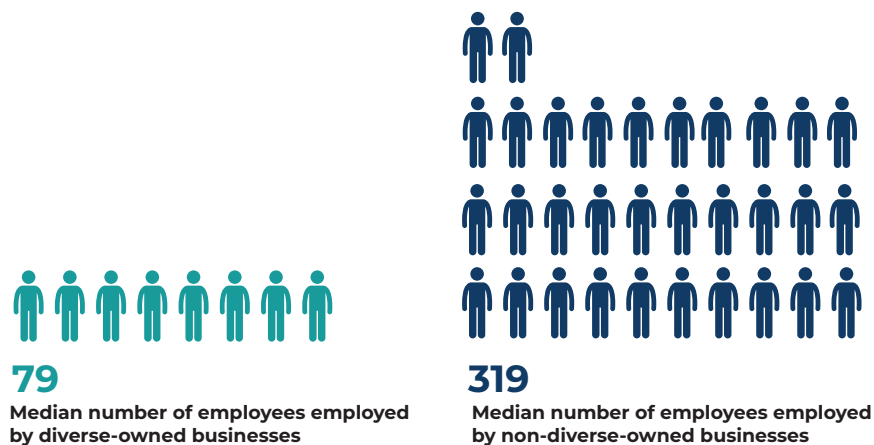


Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi, Next Street analysis



Diverse-owned midsize businesses are more present in industries with lower median employment, such as Construction, Professional Services, and Transportation and Warehousing. This distribution is possibly influenced by trends in minority workforce employment since minority enterprises are more likely to employ minority workers. However, this workforce is shifting towards more service-based jobs, evidenced by the increase in the percentage of professional service jobs.^{14,15}

Figure 3.7: Median Employment Comparison



Source: Grata, Next Street analysis

Our comparative dataset (aggregating middle market sample data from Chicago, Los Angeles, and Dallas) reveals that non-diverse-owned businesses cumulatively employ three times the number of employees compared to diverse-owned businesses. We also present the median employment for our samples of diverse-owned and non-diverse-owned midsize businesses in Figure 3.7. The employment gap between diverse and non-diverse-owned businesses is smallest in the Wholesale industry and largest in the Information industry.

These employment gaps and the interconnectivity between minority enterprises and minority employees imply that supporting diverse-owned midsize business growth has the potential to generate employment, particularly in diverse communities.¹⁶



¹⁴ Stoll, M. A., Raphael, S., & Holzer, H. J. (2001). *Why are Black employers more likely than White employers to hire Blacks?*. Institute for Research on Poverty, University of Wisconsin–Madison.

¹⁵ Winston, A. (2021). *The Contribution of Minority Business Enterprises to the U.S. Economy*. Office of Policy Analysis and Development, Minority Business Development Agency.

¹⁶ Winston, A. *The Contribution of Minority Business Enterprises to the US Economy*.

CAPITAL AND ADVISORY NEEDS

Capital Supply

Bank balances. We project significant demand for capital from midsize businesses. Those seeking credit have encountered a shrinking pool of available bank financing due to a wave of consolidations, regulation-driven strategy changes, the end of low-cost capital, and tightening credit standards. A major contributor to this decline is slow growth in lending to midsize businesses with loan growth averaging just under 2% from 2000 to early 2023 (Figure 4.1). Furthermore, Commercial and Industrial loans as a percentage of bank balance sheets have steadily declined since 2000 (Figure 4.2).

Figure 4.1: Commercial & Industrial Bank Loan Growth and Credit Standards

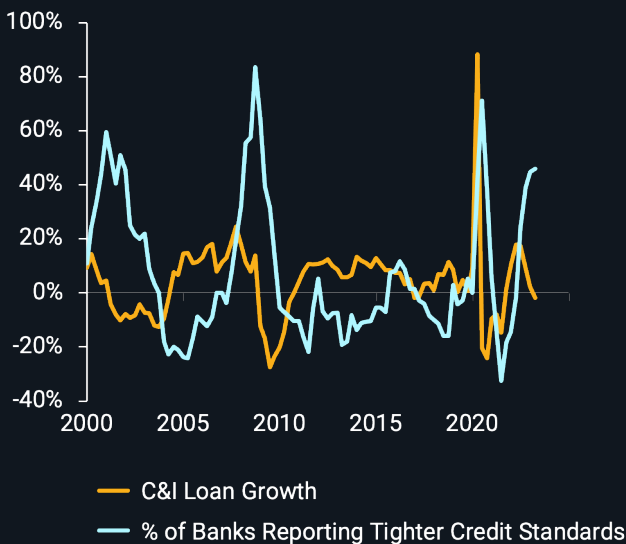
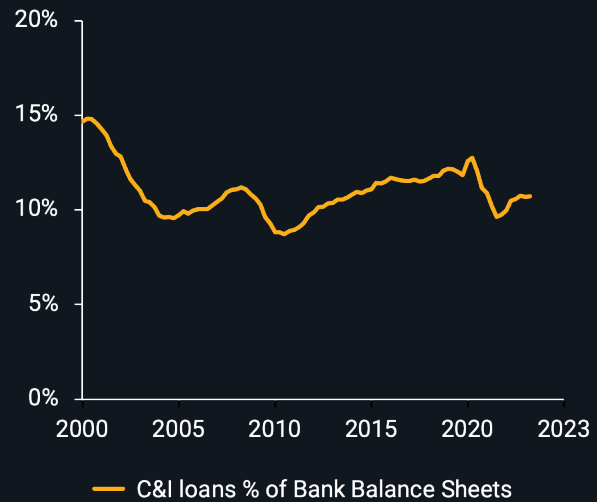


Figure 4.2: Commercial & Industrial Loans % of Bank Balance Sheets

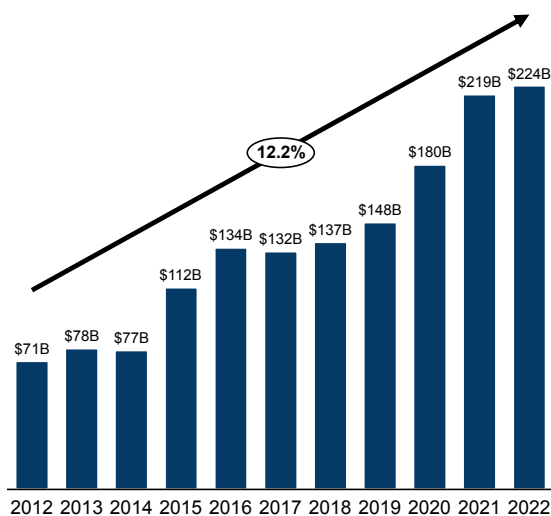


Source: FRB Senior Loan Officers Survey, FRB Commercial & Industrial Loan Data

Private event in progress. Private credit has become an increasingly larger part of the middle market capital landscape with funds seizing the openings created by banks. Assets under management (AUM) in private credit grew at a 12% compound annual growth rate (CAGR) from 2012 to 2022 (Figure 4.3). Eager to capitalize on constrained bank lending, investors poured \$141B into private credit funds last year alone (Figure 4.4). This surge of capital has fueled private lenders' rapid rise.

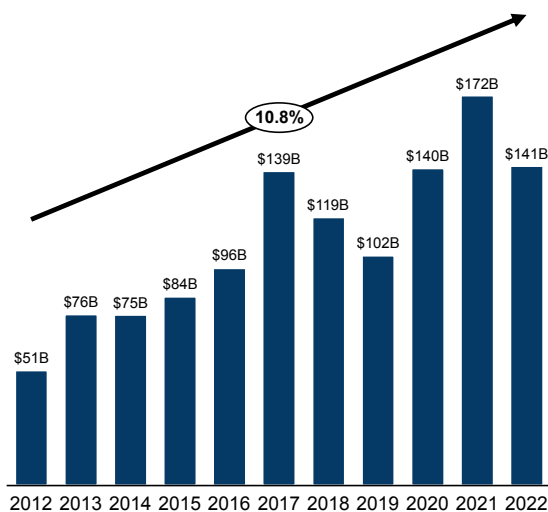
Going forward, private credit's growth trajectory is expected to continue. Substantial unmet demand, attractive yield premiums, and lower default rates of just 2.5% (versus 4% for high-yield credit) will likely sustain the momentum.

Figure 4.3: Private Credit AUM



Source: Preqin Private Debt Special Report (2023)

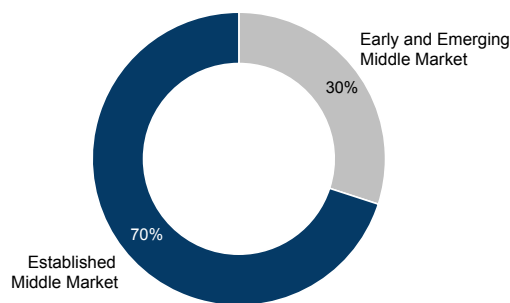
Figure 4.4: Private Credit Fundraising



Missing majority. While we estimate a large portion of capital demand will come from early and emerging middle market businesses, most of the private debt and venture capital investors are focused on larger and later stage businesses.

Even though direct lenders have significantly increased their deployment, our analysis of the top thirty private debt lenders in 2022 revealed that they are largely operating in the established middle market with 70% of the lenders analyzed having a target earnings before interest, taxes, depreciation, and amortization (EBITDA) investment focus of \$25mm - \$75mm (Figure 4.5).

Figure 4.5: Investment Segmentation of Leading Private Debt Providers

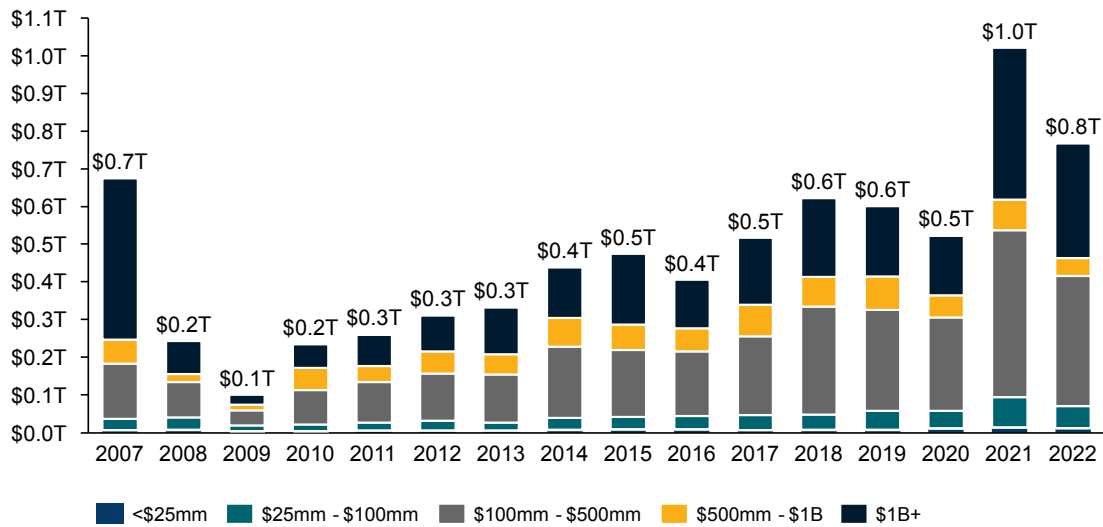


Source: Next Street analysis

Private equity (PE) deal volume has steadily increased with 2021 deal value topping \$1T for the first time since the end of the PE golden age in 2007 (Figure 4.6). Notably, over the past decade, PE firms have moved more downstream within the middle market with growth highest in the emerging and established middle market (\$100mm - \$500mm deal bucket) which represented on average 60% of annual deal volume historically and has grown to 77% of deal volume in 2022 (Figure 4.7).

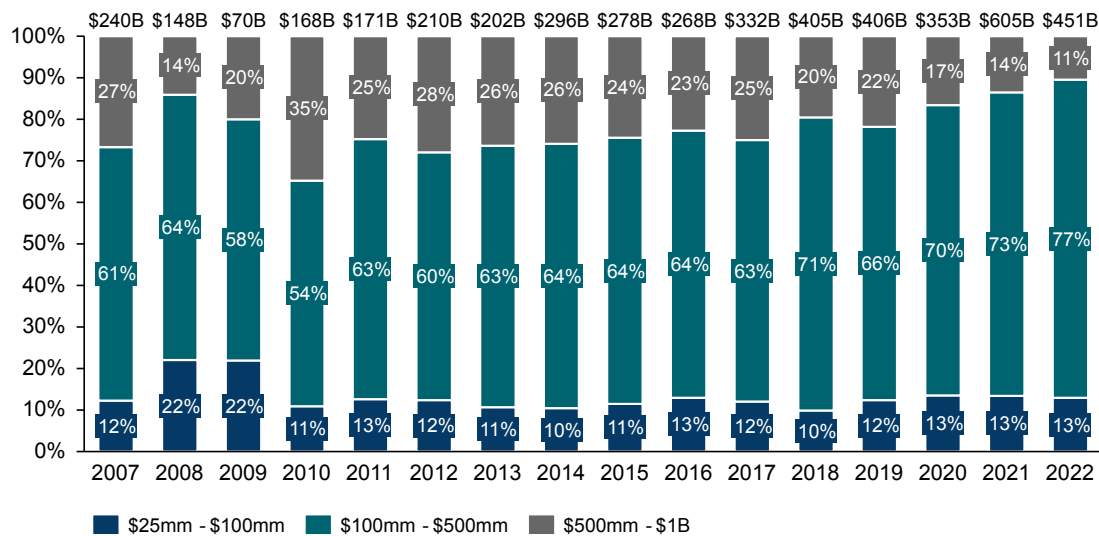
Using a 15-year trailing average enterprise value to revenue multiple of 2x, our analysis indicates that these investments have largely taken place in the emerging midsize segment with business revenue ranging from approximately \$21mm to \$100mm.

Figure 4.6: U.S. PE Middle Market Deal Value and Deal Value as a share of all PE Deal Value



Source: Pitchbook U.S. PE Middle Market Report Q2 2023

Figure 4.7: U.S. Private Equity Middle Market Deal Value by Size Bucket

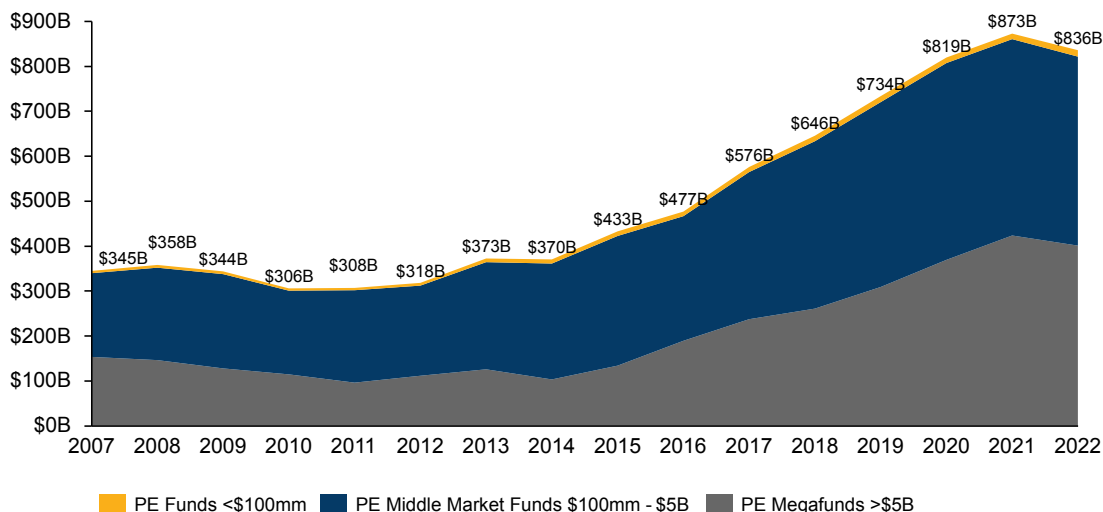


Source: Pitchbook U.S. PE Middle Market Report Q2 2023

While middle market PE has been at the highest levels in recent history, midsize focused firms are sitting on the highest amounts of dry powder (uninvested capital) (Figure 4.8).

To round out our analysis of the capital supply to the middle market, we take a look at the venture capital (VC) sector. Though the VC sector has entered a contractionary period, capital deployment grew at a 13% CAGR from 2018-2022 (Figure 4.9). VC deals are usually focused on high-growth companies in specific industries that typically have lower diversity. For example, nearly 60% of VC deals were directed to software, AI, and alternative energy over the past five years.

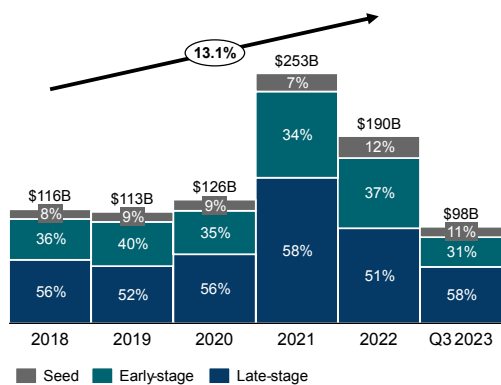
Figure 4.8: U.S. PE Dry Powder



Source: Pitchbook U.S. PE Middle Market Report Q2 2023

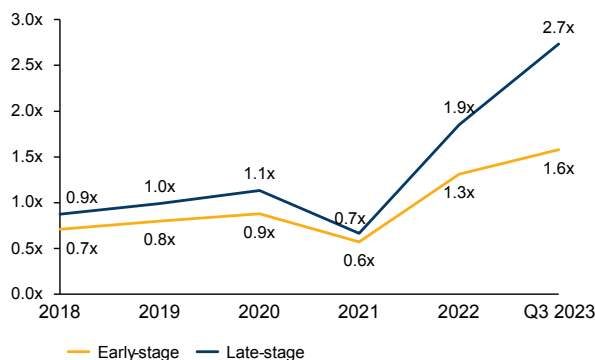
While most midsize businesses do not fit the typical VC investment thesis, for those that do, there is a notable capital gap in the rounds these businesses would traditionally participate in. The capital demand-supply ratio measures funding demand versus available capital supply for VC-targeted businesses. At end of Q2 2023, late-stage demand was 2.7x available capital, while early-stage demand was 1.6x. (Figure 4.10).

Figure 4.9: Venture Capital Deployment



Source: Pitchbook-NVCA Venture Monitor Q3 2023

Figure 4.10: Venture Capital Demand-Supply Ratio



Source: Pitchbook-NVCA Venture Monitor Q3 2023

Figure 4.11: Primary Banking Relationships

Survey Q: What type of institution does your business have its primary banking relationship with?

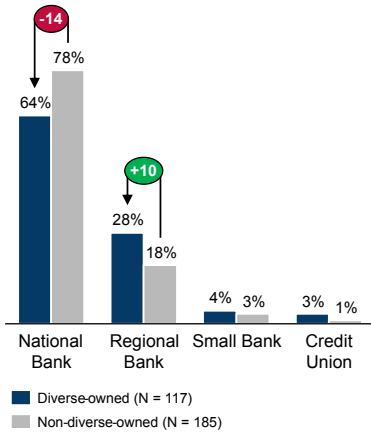


Figure 4.12: Ways to Improve Relationships

Survey Q: What could your current banking partner do to improve your relationship?

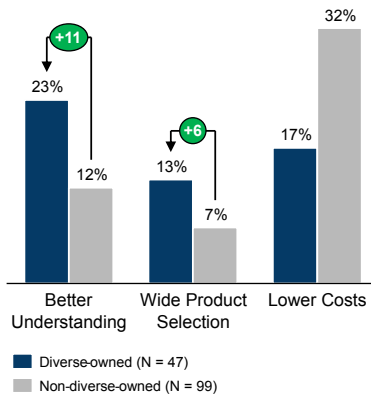
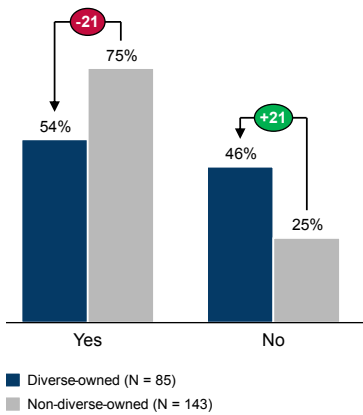


Figure 4.13: Looking to New Providers

Survey Q: Do you anticipate getting your future financing from a different source other than your current provider?



Source: Next Street Middle Market Survey (2023)

Capital Needs

Banking on better. National banks have an opportunity to better serve a larger number of diverse-owned businesses. Non-diverse-owned businesses are more likely to have a relationship with a national bank (78%) compared to diverse-owned businesses (64%), which are more likely to have a regional banking relationship (Figure 4.11).

Further exploration of diverse-owned businesses and their banking partnerships revealed that this segment seeks banking partners who will make greater efforts to understand their needs and offer a wider selection of products, while non-diverse-owned businesses want better rates and lower fees and more access to their bank’s resources (Figure 4.12).

Three out of four non-diverse-owned businesses expect to get their future financing from a different provider. This figure drops to one out of two for diverse-owned businesses – potentially highlighting stickier relationships and fewer options (Figure 4.13).



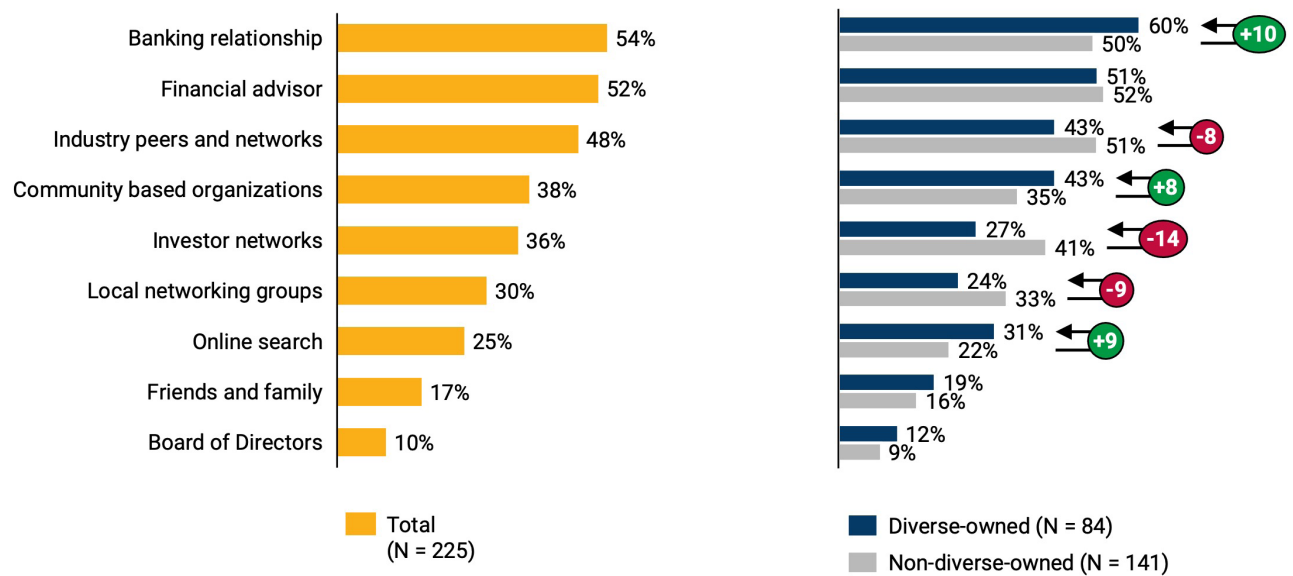
Furthermore, diverse-owned businesses are more likely to source capital from community-based organizations (that are often geared towards smaller businesses) and online searches (that may lead to suboptimal services and pricing).

Diverse-owned businesses feel discouraged in engaging with banks due to cultural and place-based divides (e.g., lack of diverse branch managers, relationship managers, underwriters, and training staff). In addressing this discouragement, there is an opportunity to build relationships with an overlooked and loyal customer base.

There is an opportunity for banks to **build valuable relationships** with an overlooked and loyal customer base

Figure 4.14: Expected Method for Exploring and Sourcing Financing Among Capital-Seeking Businesses

Survey Q: What do you expect your primary method for exploring and sourcing financing to be? (Select all that apply)



Source: Next Street Middle Market Survey (2023)

Product-market (and access) fit. From a product utilization perspective, diverse-owned businesses are more inclined to seek cash-flow financing, mezzanine financing, invoice financing, and unsecured loans to address their working capital requirements and debt repayment. In contrast, non-diverse-owned businesses are more inclined to seek asset-based financing for expansion (Figure 4.15 and Figure 4.16).

Figure 4.15: Types of Debt Accessed in Past Three Years

Base: Debt Was The Primary Type Of Financing Accessed

Survey Q: What type(s) of debt has the company accessed within the last three years?

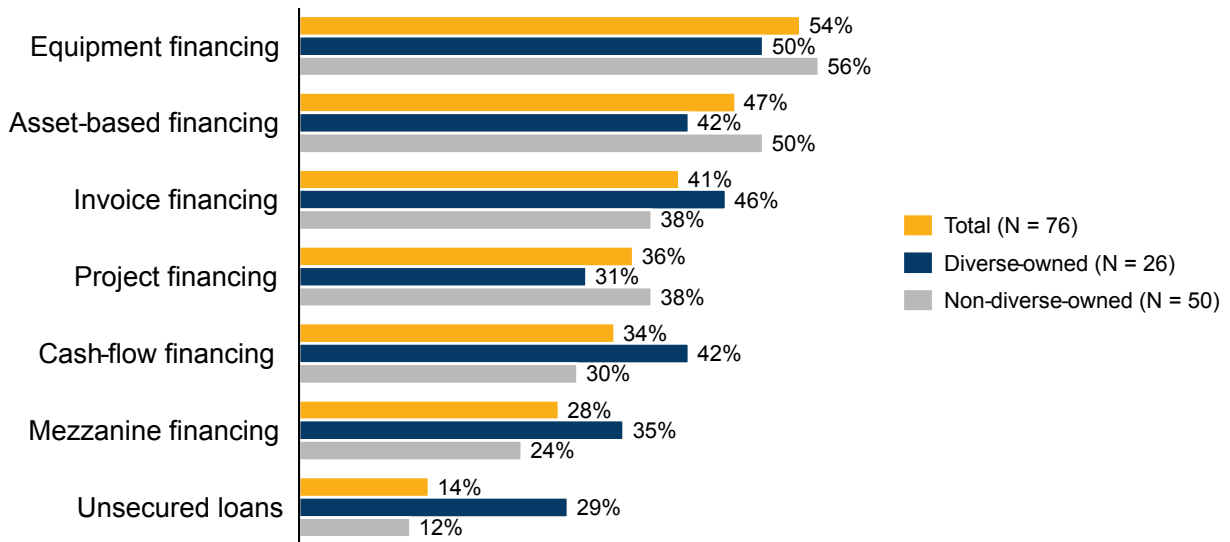
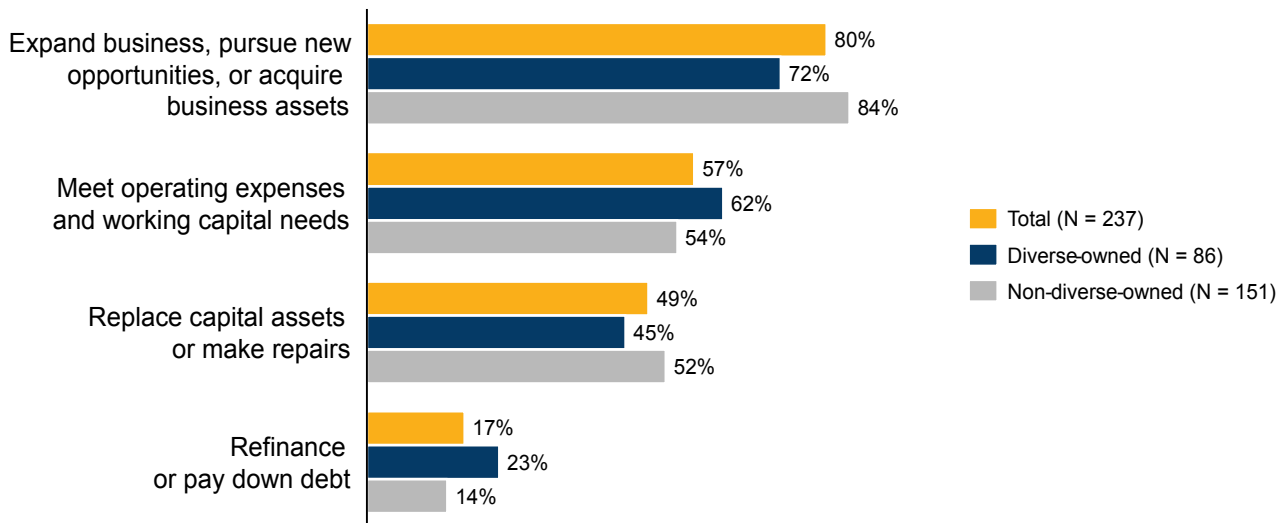


Figure 4.16: Usage of Debt or Equity in the Past Three Years

Base: Acquired Debt In Past 3 Years

Survey Q: What was the debt or equity acquired in the last 3 years used for?



However, despite needing it, diverse-owned businesses were less likely to have accessed any capital relative to non-diverse-owned counterparts – 16% compared to 6% (Figure 4.17). The primary reason why midsize businesses did not access financing is that it was not needed. For businesses that did need capital, fewer diverse-owned businesses accessed financing than non-diverse-owned businesses due to high credit costs, difficulty navigating the application process, and lack of confidence in their credit application.

Our examination of specific capital access gaps preventing businesses in need of capital from accessing the market revealed that early midsize businesses need education to benefit from a client relationship with a commercial bank. Furthermore, speed and ease of access were major concerns with businesses indicating that they would go with a more expensive provider if they could be guaranteed a speedy, simple financing process.

Midsize business needs vary based on revenue size, growth trajectory, sector, and other factors, but can be categorized as:

Capital needs: (i) financial education, (ii) understanding in underwriting, (iii) flexible products, (iv) fast access to capital, and (v) transparency

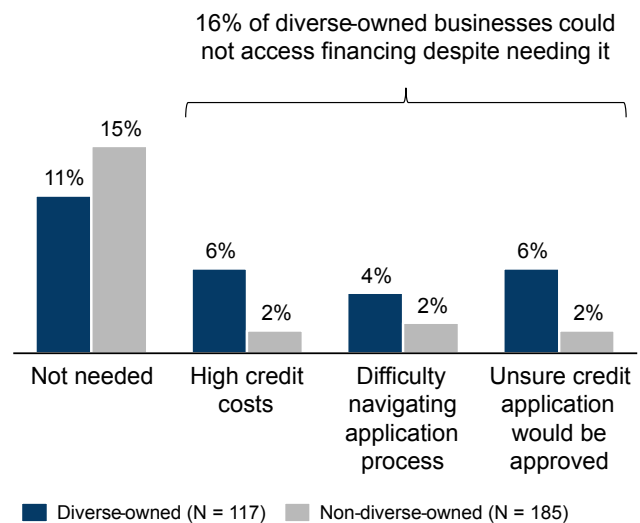
Advisory needs: (i) trusted advisors, (ii) succession planning, and (iii) institutional knowledge, connections, and strategy support

Key cross-cutting themes include: responsive customer service, local market knowledge, and the ability to scale solutions as companies grow. Addressing these needs can help stakeholders better serve the early and emerging middle market segment, in particular.

16% of diverse-owned businesses could not access financing, despite needing it, compared to 6% for non-diverse-owned businesses

Figure 4.17: Reasons for Not Accessing Capital



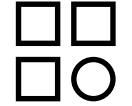





Survey Q: If your business did not apply for financing in the last 3 years, what was the primary reason?



Source: Next Street Middle Market Survey (2023)

“You can’t throw a stick in LA without hitting a bunch of family offices that are targeting midsize businesses. It is an inundated market with all kinds of capital providers. However, pretty large gaps still exist: (i) continuity planning specifically for family-owned businesses, and (ii) setting diverse-business owners up for success with the right valuation and tax planning support.”

– Tomas Duran, Concerned Capital

	Financial Education	Early midsize businesses need education on topics such as income statements, financial goals, and financial controls to engage with commercial banking successfully
	Understanding in Underwriting	Early midsize businesses may struggle with bankers who are inadequately equipped to provide support and have limited industry understanding leading to collateral requests or denials — for example this can be particularly true for businesses with contract-based revenue
	Flexible Products	Capital product needs include working capital, equipment financing, and acquisition financing, but specialized options are limited until higher revenue are reached, leaving a “missing middle”
	Speed of Capital	Midsize businesses require quick access to capital for growth, often turning to non-bank lenders due to lengthy bank processes. However, banks can sometimes delay decisions and tie lending to broader services
	Clarity	Banks limit their feedback on lending decisions which leaves relationship managers defending decisions without input or details, hindering client relationships
	Trusted Advisors	Building trusted advisor relationships is crucial, but staff turnover and cultural divides make it challenging, suggesting the need for more diverse hires and training
	Succession Planning / Exit Planning	Midsize businesses, including those that are diverse-owned, are seeking advice on succession and exit planning, often receive generalized advice instead of personalized guidance
	Institutional Knowledge, Connections, and Strategy Support	Bankers possess market intelligence, access to networks and connections, and strategic advice valuable for midsize businesses. This is particularly important for diverse-owned midsize businesses that may hesitate to seek help, limiting their access to such resources

Advisory Service Needs

The top five categories of advisory service providers are general business support (e.g., chambers of commerce, business associations, etc.) M&A advisory firms, legal, management consulting, and accounting/tax expertise. The gap in advisory support observed through secondary research and our analysis of survey data indicates there is an opportunity to make a concerted effort to support diverse-owned midsize businesses with advisory support services.

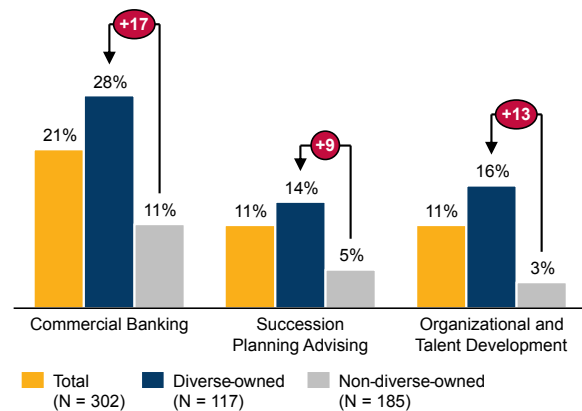
Know your needs. Our survey indicates that the top advisory services midsize businesses seek are (i) commercial banking, (ii) succession planning, and (iii) organizational and talent development (Figure 4.18). While all midsize businesses reported needing at least one advisory service, most claim to already have the services in place, either via in-house or outsourced providers.

However, diverse-owned businesses generally seek advisory services at lower rates than overall businesses (Figure 4.18). Furthermore, unlike non-diverse-owned firms, diverse-owned companies report a lower need for succession planning advisors. We hypothesize that this could be because of a hesitancy to seek outside services and lower access to succession planning advisors.

Access not granted. The primary barriers preventing midsize businesses from accessing advisory support services are: the lack of offerings of those services by current relationships (43%), unawareness or uncertainty of the specific service needed (34%), a lack of budget (19%), and uncertainty regarding how to access (4%). Diverse-owned businesses are more challenged with a lack of budgets and uncertainty about how to access advisory services compared to non-diverse-owned businesses (Figure 4.19).

Figure 4.18: Advisory Service Needs

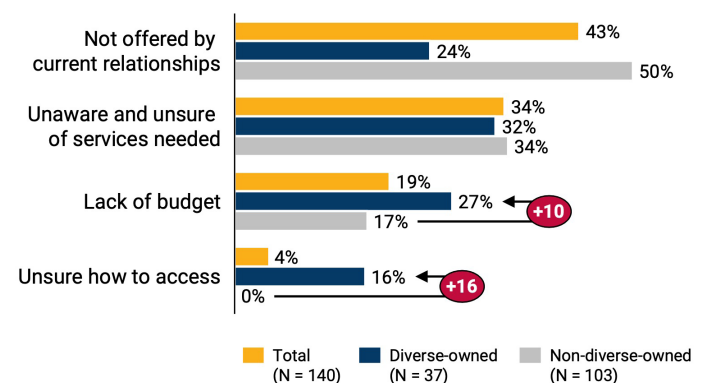
Survey Q: What kind of advisory services are you currently seeking?



Source: Next Street Middle Market Survey (2023)

Figure 4.19: Primary Barriers for Accessing Advisory Services Among Those Seeking Services

Survey Q: What are the biggest barriers preventing your business from accessing advisory services that you would like to have?

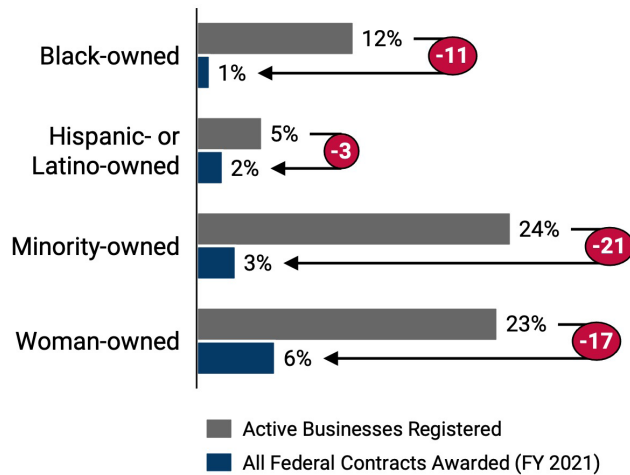


Source: Next Street Middle Market Survey (2023)

Opportunities for Growth and Support: Enhancing Federal Contracting Equity

Sign us up. The underrepresentation of diverse-owned businesses in federal contract awards underscores the importance of overcoming barriers to access and meeting advisory needs. Women and minority-owned firms access a significantly smaller percentage of federal contracts than the proportion of eligible businesses (Figure 4.20).

Figure 4.20: Equity in Federal Contracting by Ownership Category



Source: Annual Business Survey (2021); Department of Labor

Additionally, according to the Minority Business Development Agency, the odds of non-8(a) minority-owned disadvantaged businesses winning contracts were almost always lower than those of other businesses, regardless of other factors like size, age, legal organization, industry, and level of government clearance.^{17,18}

“If the objective is to grow the market, find out who these companies are and hire them. It’s about access to revenue not capital. Incentivize them to work with you by using them as your own suppliers.”

- Amiel Harper, Morpheus Consulting

According to the Alliance for Entrepreneurial Equity, if these businesses received federal contracting dollars in proportion to their share of U.S. employer businesses, minority-owned businesses would have received \$64B more in federal contracts in Fiscal Year (FY) 2020, women-owned businesses would have received an additional \$77B, Black businesses would have received an additional \$4B in contract awards, and Hispanic businesses would have received an additional \$24B.¹⁹

¹⁷ Chow, D. (2022). *The Probability of Winning Federal Contracts: An Analysis of Small Minority Owned Firms*. Office of Policy Analysis and Development, Minority Business Development Agency.

¹⁸ The 8(a) Business Development Program is a federal contracting and training program for experienced small business owners who are socially and economically disadvantaged

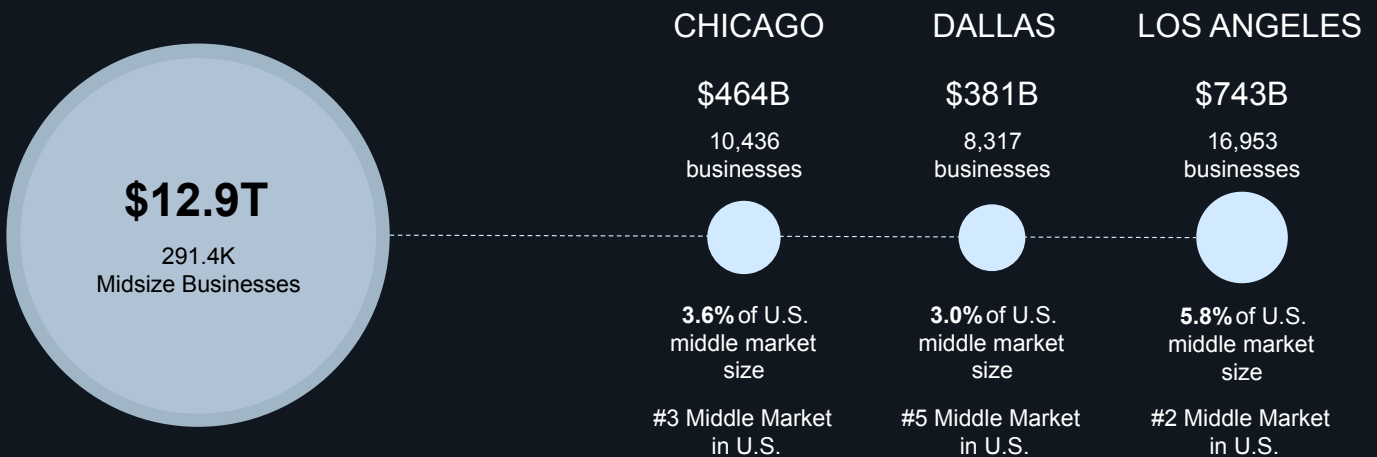
¹⁹ McSwigan, C. (2022). *Shut Out: The Dearth of Opportunity for Minority Contracting*. Third Way.

FOCUS CITIES – CHICAGO, DALLAS, AND LOS ANGELES

Overview

Our report highlights three middle market ecosystems: Chicago, Dallas, and Los Angeles. In each of these markets, we compared the overall middle market to diverse-owned businesses by analyzing the size of the middle market, the opportunity to close the gap in average annual revenue, industry presence, and capital and advisory needs. Collectively, the three focus cities represent 35,000 businesses, \$1.6T in revenue, 12% of the national middle market, and three of the top five middle markets (Figure 5.1). Closing the gap in average revenue between all midsize businesses and those that are diverse-owned across the focus markets represents an opportunity to generate \$200B in additional revenue (Table 5.1). While further research is needed to expand beyond these markets, these markets are representative of national trends for the middle market and are meant to serve as a starting point for local stakeholders to activate initiatives that support businesses in their respective markets.

Figure 5.1: National Middle Market and Focus Cities Middle Market Size



Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi

Table 5.1: Revenue Gap Between All Midsize Businesses and Diverse-owned Businesses

Focus Cities	Middle Market Size	Percentage of Diverse-owned Businesses (By Number)	Percentage of Diverse-owned Businesses (By Revenue)	Revenue Gap*
Chicago	\$464B	28%	18%	\$45B
Dallas	\$381B	36%	23%	\$46B
Los Angeles	\$743B	43%	29%	\$110B
Total for Focus Cities	\$1.6T	37%	24%	\$200B
National	\$12.9T	31%	20%	\$1.3T

Note: * Revenue Gap = Middle Market Size X [Diverse-owned businesses (Number) - Diverse-owned businesses (Revenue)]. All figures presented in this table have been rounded to the nearest billion or whole percentage for clarity and simplicity. As a result, there may be minor discrepancies in the totals or sums due to rounding errors
 Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Grata; Tagnifi

Local Industry Analysis

Locally grown. The industry distribution of midsize businesses in Chicago, Dallas, and Los Angeles are similar to those observed nationally, with Construction, Healthcare, Professional Services, Retail, and Wholesale all generally in the top five industries by the count of middle market businesses (Figure 5.2).

Figure 5.2: Midsize Business Distribution Relative to National* (% of middle market businesses)

Industries	National	Chicago	Dallas	LA
Retail	16%	13%	14%	13%
Construction	14%	11%	14%	8%
Professional Services	11%	13%	12%	13%
Healthcare	10%	9%	10%	10%
Wholesale	10%	11%	11%	16%
Accom. + Food	8%	7%	7%	6%
Manufacturing	7%	9%	6%	8%
Admin. Services	5%	6%	6%	5%
Real Estate	4%	3%	3%	5%
Transportation	4%	6%	4%	4%

Ordered by % of national midsize businesses

Key:
Greater Presence Relative to National
Lower Presence Relative to National

Note: * Business presence is a proxy for location quotient which is calculated as the local proportion of midsize businesses in an industry divided by the national proportion of midsize businesses in an industry; a location quotient below 75% is shown as a lower presence relative to national and a location quotient above 125% is shown as a higher presence
 Source: U.S. Census Bureau, Annual Business Survey (2020); NAICS; Tagnifi; Next Street analysis of Grata data (accessed July 2023)

As one of the leading logistics hubs nationwide, Chicago has a greater presence of Transportation midsize businesses due to Freight Trucking and Warehousing sub-industries.

Dallas has a large corporate presence and central location, resulting in a greater presence of Administrative Services midsize businesses such as Janitorial and Landscaping businesses.

Due to its large population, major port, and tourism industry, Los Angeles has a greater presence of Wholesale and Real Estate midsize businesses. Los Angeles also has a lower presence of Construction midsize businesses, likely due to its complex permitting process and high expenses.

When considering diverse-owned midsize businesses within the target cities, the predominant sectors are Manufacturing, Professional Services, Wholesale, and Construction (Figure 5.3). Compared to national data, there is a relatively higher presence of diverse-owned businesses in Construction, Professional Services, and Administrative Services in all three cities. The industries highlighted in green (Figure 5.3) surface potential opportunities for targeted outreach to support diverse-owned businesses within the focus markets.

Figure 5.3: Presence of Diverse-owned Midsize Businesses Relative to National* (% of diverse-owned businesses)

Ordered by % of national diverse-owned businesses

Industries	National	Chicago	Dallas	LA
Manufacturing	26%	12%	13%	13%
Professional Services	18%	29%	30%	22%
Wholesale	12%	12%	8%	9%
Construction	10%	18%	16%	16%
Information	8%	7%	5%	7%
Retail	7%	5%	7%	11%
Admin. Services	3%	5%	4%	6%
Transportation	3%	3%	7%	3%
Real Estate	2%	3%	2%	5%
Healthcare	1%	1%	1%	1%
Accom. + Food	1%	1%	0%	0%

Key:

- Greater Presence Relative to National
- Lower Presence Relative to National

Note: * Business presence is a proxy for location quotient which is calculated as the local proportion of midsize businesses in a sector divided by the national proportion of midsize businesses in a sector; a location quotient below 75% is shown as a lower presence relative to national and a location quotient above 125% is shown as a higher presence

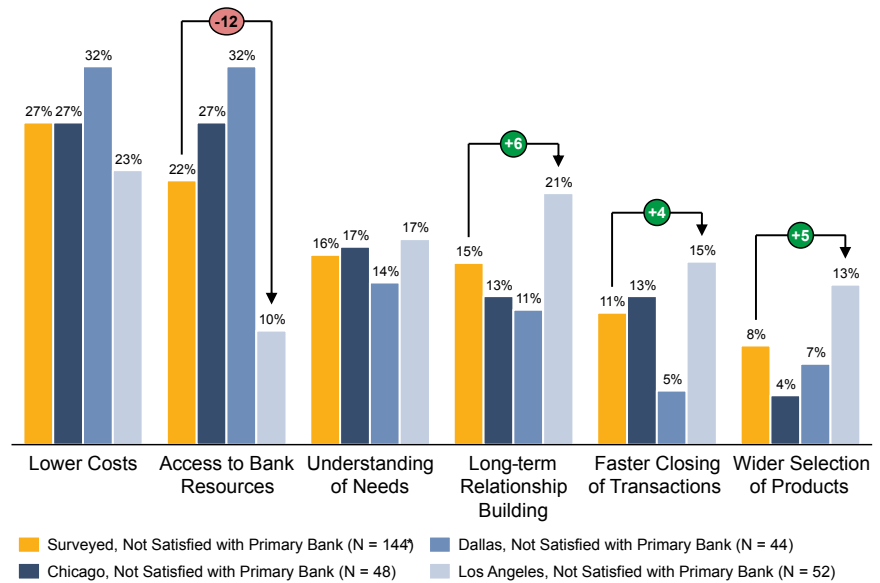
Source: Next Street analysis of Grata data (accessed July 2023)

Local Capital and Advisory Needs

Customer service please. The midsize businesses not satisfied with their primary banking relationship across the focus cities are mainly seeking more competitive rates and fees, greater access to additional bank resources and departments, and greater efforts from banks to understand their business needs. Los Angeles midsize businesses that are unsatisfied with their current bank have slightly different priorities for improving bank relationships. They are more likely to seek long-term banking relationships, faster closing of transactions, and a wider selection of products compared to total surveyed midsize businesses (Figure 5.4).

Figure 5.4: Focus Cities – Ways to Improve Banking Relationships

Survey Q: What could your current banking partner do to improve your relationship? (Top answer among those not very satisfied with their current banking partner)



Note: * Surveyed includes respondents from three focus markets
 Source: Next Street Middle Market Survey (2023)



It's not easy. The top challenges faced by midsize businesses in the focus cities include competitive environments, revenue/sales growth, and uncertain economic times (Figure 5.5). The top barriers preventing midsize businesses from accessing advisory services are the lack of offerings from current banking relationships, knowledge of the breadth of options and identifying which ones are best for their business, and budgets to hire third-party providers (Figure 5.6).

Figure 5.5: Focus Cities – Top Middle Market Challenges

Survey Q: Which of the following challenges, if any, are you facing?

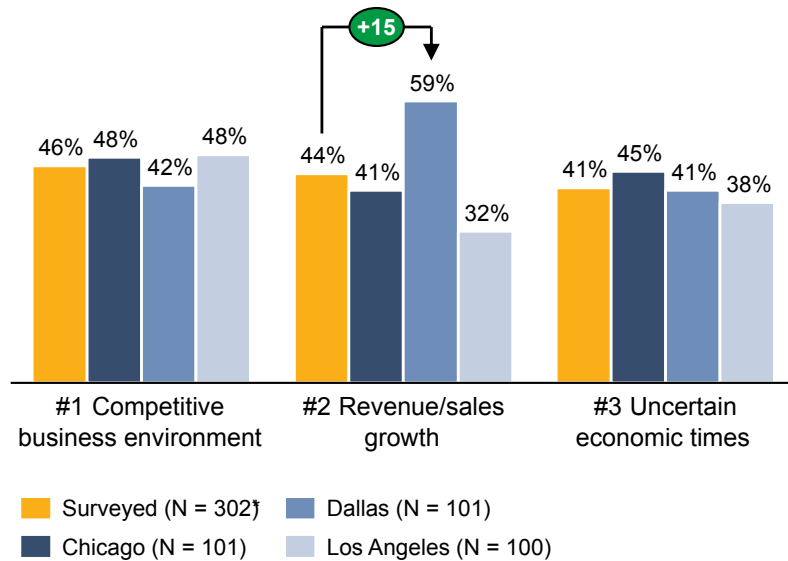
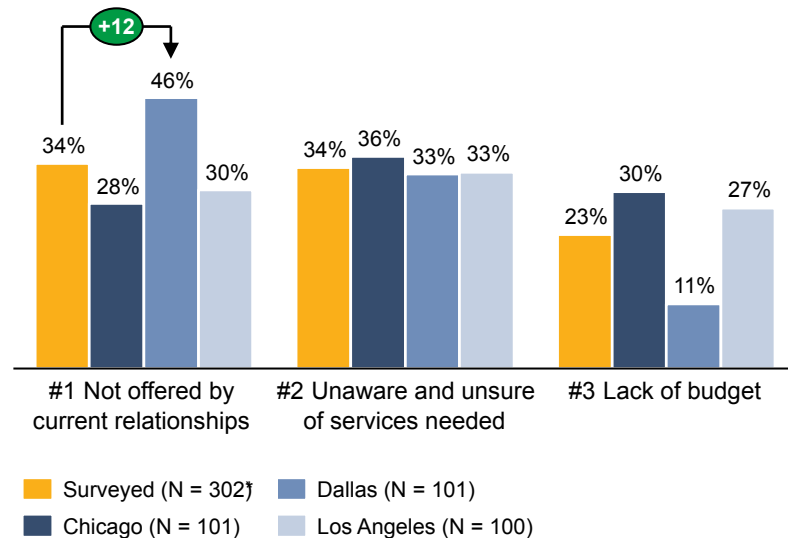


Figure 5.6: Focus Cities – Top Barriers to Advisory Services

Survey Q: What are the biggest barriers preventing your business from accessing the advisory services you would like to have?



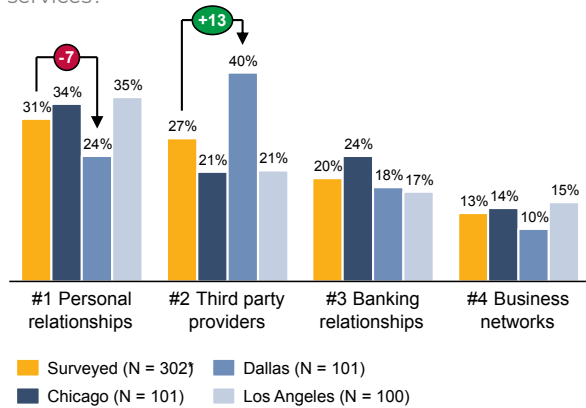
Note: * Surveyed includes respondents from three focus markets
 Source: Next Street Middle Market Survey (2023)

The top challenges and barriers to accessing advisory services for Dallas midsize businesses slightly vary from the other two focus cities. Dallas midsize businesses are experiencing more revenue/sales growth challenges and nearly half report that their current banking relationship or capital partner does not offer them the needed advisory services (Figure 5.5 and Figure 5.6).

Getting linked in. The top sources for new advisory support across the three focus markets are personal relationships (31%) and third-party providers (27%) (Figure 5.7), and the top advisory support needed is guidance on growth financing (62%) (Figure 5.8). Dallas midsize businesses are more likely to use third party providers (40% compared to 27% in focus cities) and are more in need of guidance on growth financing (71% compared to 62% in focus cities) than other markets. Los Angeles midsize businesses are more in need of supplier certification support (46% compared to 32% in focus cities) relative to other focus cities.

Figure 5.7: Focus Cities – Top Source for New Advisory Support

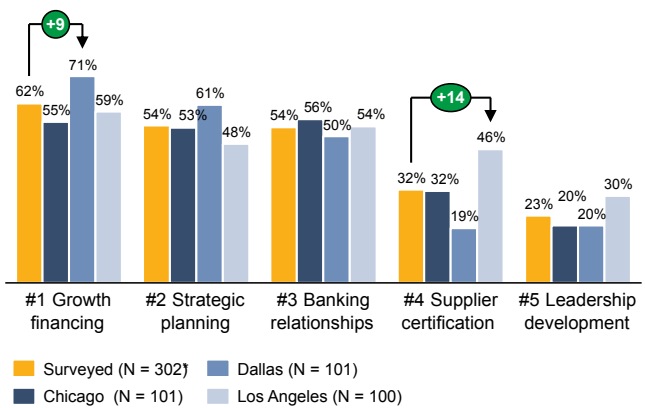
Survey Q: For the advisory services your business currently does not have access to, how would you source those services?



Note: * Surveyed includes respondents from three focus markets
Source: Next Street Middle Market Survey (2023)

Figure 5.8: Focus Cities – Top Advisory Support Needs

Survey Q: Where do you need advice or guidance on best practices for scaling your business?

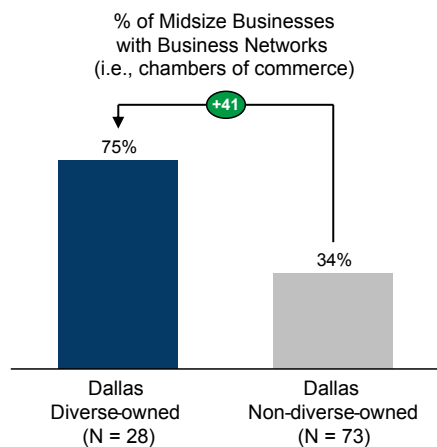


Note: * Surveyed includes respondents from three focus markets
Source: Next Street Middle Market Survey (2023)

Dallas diverse-owned businesses are also more likely to engage with business networks than non-diverse business owners, citing affiliation with organizations such as the National Urban League, Women’s Business Enterprise National Council, and the Latino Business Action Network (Figure 5.9). Despite the strong presence of advocacy groups and engagement with diverse-owned businesses, banking and personal relationships are primarily used by diverse-owned businesses in Dallas to access advisory support (Figure 5.10).

Figure 5.9: Dallas – Engagement with Business Networks

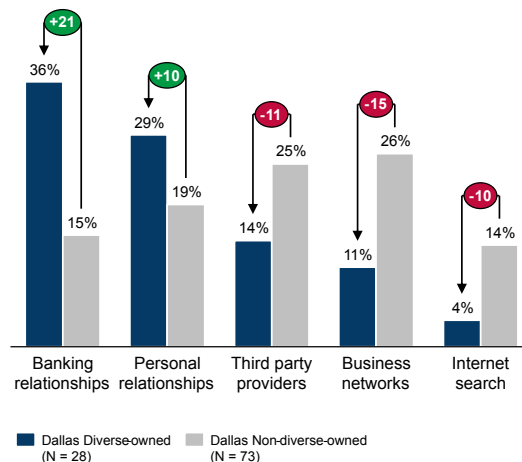
Survey Q: What business networks are you currently involved with? (Respondents that selected any network)



Note: * Surveyed includes respondents from three focus markets
Source: Next Street Middle Market Survey (2023)

Figure 5.10: Dallas – Primary Source of Support Services

Survey Q: For the advisory services your business currently has access to, what is the primary way you have sourced these services?



Source: Next Street Middle Market Survey (2023)

EMERGING SOLUTIONS



In our exploration of the midsize business landscape, we have identified a series of tangible strategies designed to foster growth, inclusivity, and success within this dynamic space. We offer practical and accessible approaches for stakeholders including business support organizations, financial institutions, and other service providers to consider. By focusing on strategic partnerships, financial education, sector opportunities, supplier diversity, and effective outreach, we can collectively build a stronger and more prosperous middle market ecosystem.

Table 6.1: Emerging Solutions for Middle Market Stakeholders

Ecosystem Partnerships	Market Strategies	Outreach & Awareness
<ul style="list-style-type: none"> • Enter key partnerships • Boost financial know-how of early midsize businesses • Diversify beyond financial assistance 	<ul style="list-style-type: none"> • Explore promising industries • Encourage supplier diversity • Focus on the early and emerging middle market 	<ul style="list-style-type: none"> • Conduct outreach • Provide flexible solutions • Promote seamless customer connections

Ecosystem Partnerships

Ecosystem partnerships are the cornerstone of a thriving middle market. To strengthen partnerships, financial institutions and business stakeholders can invest in business service providers to expand the support network available to midsize businesses. This should boost the financial preparedness needed for midsize businesses to buy products and services from financial institutions, and diversify beyond financial assistance to strategic, operational, and general business support.

- **Enter key partnerships:** Collaborative alliances with local business service providers, mission-based lenders, private equity firms, and business development companies can amplify the support network available to midsize businesses and lead to mutual referrals, creating a stronger ecosystem.
- **Boost financial know-how of early midsize businesses:** Financial institutions and business stakeholders should offer financial education programs to assist businesses in preparing for commercial banking relationships. This can include workshops, webinars, and online resources to improve financial literacy among business owners.
- **Diversify services beyond financial assistance:** Recognizing the diversity of needs within the middle market, stakeholders should provide insights into market trends, facilitate strategy discussions, and connect businesses with resources for succession planning and buyouts.

Market Strategies

Market strategies are the roadmaps that stakeholders use to support midsize businesses in reaching their full potential. Possible solutions include targeted industry support, deeper investments in supplier diversity, and a focus on early and emerging midsize businesses.

- **Explore promising industries:** Supporting the middle market requires understanding specific needs across industries. Based on our research, promising industries include Manufacturing, Professional Services, Wholesale, and Construction which have a high presence of diverse-owned businesses and a large market size.
- **Encourage supplier diversity:** Deeper investments in supplier diversity programs and platforms are needed. For example, [JPMorgan Chase's Supplier Diversity Network](#) provides development and capacity building for diverse-owned businesses to position them for success in capturing and fulfilling corporate contracts. Ultimately, increasing revenue opportunities via supplier diversity programs requires identifying diverse-owned businesses, connecting them with sizeable contracts, and ensuring they have access to the necessary tools and support to succeed.
- **Focus on early and emerging middle market:** Recognizing the strong capital demand and unmet needs, institutions should focus on early and emerging middle market segments. These businesses represent the engines of tomorrow's economic landscape and require tailored support.

Outreach and Awareness

Outreach and awareness initiatives are the bridges that connect financial institutions with midsize businesses. Centers of excellence committed to greater diversity such as [JPMorgan Chase's Diversity, Equity, and Inclusion](#) efforts bridge employees and its business to diverse communities. Crafting effective outreach plans, offering flexible financial solutions, and ensuring seamless customer connections are starting points for building engagement between stakeholders and midsize businesses.

- **Conduct outreach:** Engagement requires clear outreach plans and tools for bankers such as engagement strategies and playbooks to connect effectively with midsize businesses. This report is a starting point for understanding the middle market landscape to support targeted and impactful outreach efforts.
- **Provide flexible solutions:** One size does not fit all. Offering flexible financial products and processes that adapt to the unique needs of each business is especially vital for emerging midsize businesses, which often require tailored solutions to overcome challenges and seize opportunities.
- **Promote seamless customer connections:** Smooth transitions lead to satisfied customers. Enhancing communication and collaboration between small business banking and commercial banking teams is necessary to create a seamless customer experience. A united front could help businesses receive the support they need at every stage, fostering long-term relationships and success.

Supporting the middle market is essential for creating meaningful change in local ecosystems, and supporting diverse-owned businesses can have particular impact. Providing midsize businesses with access to growth capital and services, such as succession planning, could help diverse-owned businesses position themselves to generate as much as \$1.3T in additional annual revenue and employ three times as many people ten years from now, tangibly growing the U.S. economy.

APPENDIX

Data Sources

Annual Business Survey Program – U.S. Census Bureau

Annual Business Survey (ABS) data are sourced from a combination of responses to the survey, data from the Economic Census, and administrative records data. The ABS is primarily collected using an electronic instrument. The survey is mailed to approximately 300,000 employer businesses annually.

Tagnifi

The private companies in the database are collected using multiple sources including web scraping, social media profiles, government lists (ex. PPP loans, SBA loans, Form 5500, etc.), and M&A activity. Revenue estimates are derived using a machine learning process with factors such as the number of employees, industry, and location.

Grata

Grata is an AI-based web crawler that finds private companies, reads their websites, makes them discoverable, and creates diligence-grade profiles from multiple sources. Grata has crawled over 10 million company websites and has enriched company data points using proprietary algorithms, as well as third-party sources including Crunchbase, news releases, and social media.

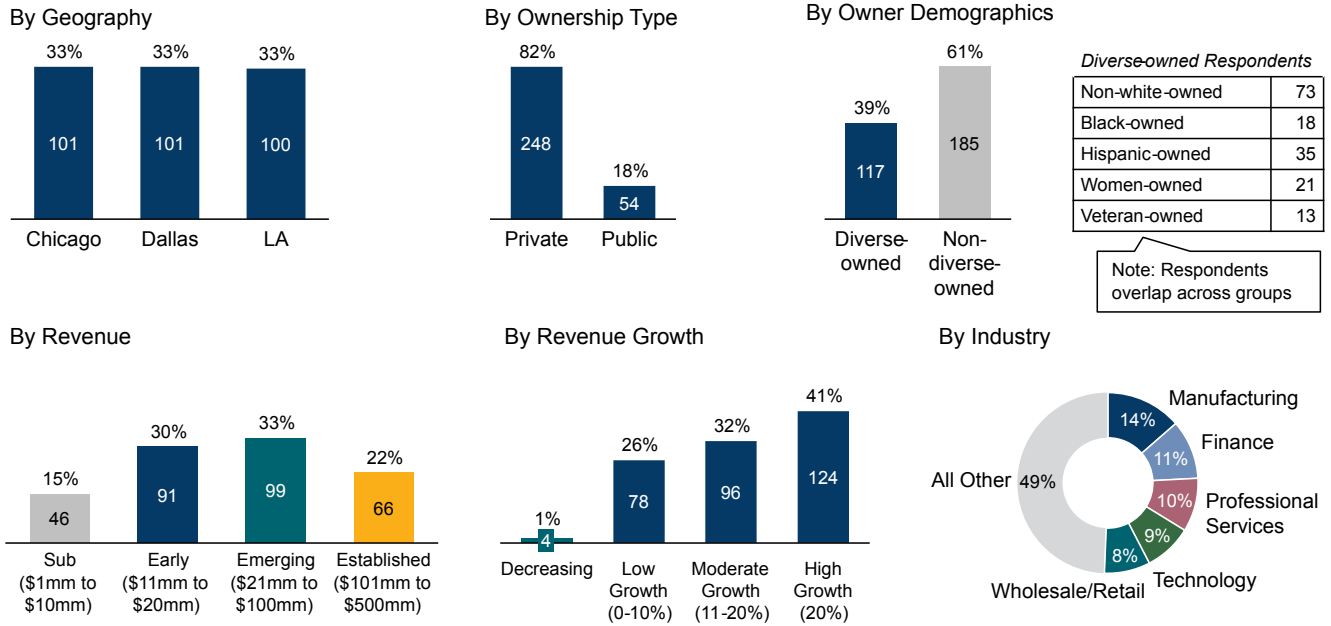
Survey

Next Street conducted a survey of 302 midsize businesses to identify needs, challenges, and opportunities to better serve middle market businesses.

Figure A1: Survey Overview



Figure A2: Survey Respondent Segmentation



Note: Diverse-owned includes respondents that self-identified as majority Non-White, Black, Hispanic, Asian, Middle Eastern, or other non-white, majority female-owned, or majority veteran-owned

Sub Industries

Top 3 Sub-Industries by Count of >\$1mm Revenue Businesses

Greater presence among top 3 sub-industries

Lower presence among top 3 sub-industries

Retail	
Gasoline stations	~50K
Automobile dealers	~30K
Grocery stores	~30K
Represents 40% of Retail businesses	

Construction	
Building equipment contractors	~60K
Residential building construction	~50K
Foundation, structure, and building exterior contractors	~30K
Represents 61% of Construction businesses	

Healthcare	
Offices of physicians	~50K
Offices of dentists	~30K
Individual and family services	~20K
Represents 59% of Healthcare businesses	

Professional Services	
Legal services	~35K
Management, scientific, and technical consulting services	~30K
Computer systems design and related services	~30K
Represents 54% of Professional Svcs. businesses	

Wholesale	
Machinery, equipment, and supplies merchant wholesalers	~25K
Grocery and related product merchant wholesalers	~16K
Miscellaneous durable goods merchant wholesalers	~15K
Represents 34% of Wholesale businesses	

Manufacturing	
Machine shops; turned product; and screw, nut, and bolt manufacturing	~9K
Architectural and structural metals manufacturing	~7K
Printing and related support activities	~6K
Represents 20% of Manufacturing businesses	

Geographic Lens

The geographic units highlight the levels at which we conducted the different analyses.

- We select metropolitan statistical area (MSA) for market sizing on the assumption that the ABS is the most comprehensive database for businesses in the United States. ABS provides data at the state and MSA geographic level – for our research purposes MSA was deemed extensive
- We select greater city for diverse-owned midsize businesses analysis based on expert panel insight which also effectively increases the sample size of businesses in the sample set, allowing for robust analysis

Table A1: Geographic Units for Data Analysis

Geographic Unit	Overview Analysis			Growth	Sizing
	Revenue Distribution	Industry Distribution	Diverse vs. Non-Diverse	Sector Growth	Market Sizing
MSA	✓	✓	--	--	✓
City	--	--	--	✓	--
Greater City	--	✓	✓	--	--

Developing a Sample of Diverse-owned Midsize Businesses

For analyzing diverse-owned businesses across target cities, we use the following tags on the Grata platform to develop city specific samples of diverse-owned businesses. The diverse- and minority-owned tags are assumed to cover minority groups with comparatively smaller population sizes (e.g., Middle Eastern-owned businesses).

Figure A3: Tags Used to Identify Diverse-owned Midsize Businesses

Diverse Owned	Minority Owned	Women Owned	Black Owned	Asian Owned	Veteran Owned	Latino Owned
diverse owned ×	minority owned ×	woman owned ×	Black owned ×	asian owned ×	veteran owned ×	latino owned ×
diverse-owned ×	minority-owned ×	women owned ×	black-owned ×	asian-owned ×	veteran-owned ×	latino-owned ×
diverse business ×	minority business ×	women-owned ×	black business ×	asian business ×	veteran business ×	latino business ×
		woman-owned ×				hispanic owned ×
		woman business ×				hispanic-owned ×
		women-business ×				hispanic business ×
						latina-owned ×
						latina business ×

Developing a Comparative Dataset

To develop a comparative dataset -

- We searched for businesses excluding the tags used for identifying diverse-owned businesses. Therefore, if a company had women-owned or any of the other tags (Figure A3), it was not included in this dataset.
- To maintain some level of randomization, we shortlisted companies from different pages of the search results.
- We downloaded a sample of non-diverse-owned businesses with a sample count similar to the diverse-owned businesses dataset for the specific city.
- To maintain balance, we shortlisted the top industries based on the presence of diverse-owned businesses and used those industries to pull out a sample of non-diverse-owned businesses – we applied this methodology for each city.

We collapsed the different NAICS codes of Manufacturing, Retail Trade, and Transportation and Warehousing for a cumulative outlook on industries for the Grata datasets.

For \$5mm - \$500mm we get the following breakdown -

- For Greater Chicago, we used diverse-owned businesses (n = 472), non-diverse-owned businesses (n = 344)
- For Greater Dallas, we used diverse-owned businesses (n = 386), non-diverse-owned businesses (n = 196)
- For Greater LA, we used diverse-owned businesses (n = 465), non-diverse-owned businesses (n = 283)

For \$11mm - \$500mm we get the following breakdown -

- For Greater Chicago, we used diverse-owned businesses (n = 289), non-diverse-owned businesses (n = 328)
- For Greater Dallas, we used diverse-owned businesses (n = 240), non-diverse-owned businesses (n = 188)
- For Greater LA, we used diverse-owned businesses (n = 250), non-diverse-owned businesses (n = 261)

Sizing Methodology and Comparative Analysis

National Market Sizing

Distributing by Revenue Segments

The Annual Business Survey (2020) shows the number of businesses within each of nine income brackets for each metropolitan statistical area by industry -

1. Firms with sales/receipts of less than \$5,000
2. Firms with sales/receipts of \$5,000 to \$9,999
3. Firms with sales/receipts of \$10,000 to \$24,999
4. Firms with sales/receipts of \$25,000 to \$49,999
5. Firms with sales/receipts of \$50,000 to \$99,999
6. Firms with sales/receipts of \$100,000 to \$249,999
7. Firms with sales/receipts of \$250,000 to \$499,999
8. Firms with sales/receipts of \$500,000 to \$999,999
9. Firms with sales/receipts of \$1,000,000 or more

For our research, we shortlist the businesses that fall within the category of firms with sales/receipts of \$1mm or more. To generate a more detailed distribution of \$1mm or more firms by early, emerging, established midsize businesses we use the NAICS distribution available at the national level.

Table A2: NAICS Distribution

Revenue Range	Number of businesses	Percentage
\$1mm - \$2.49mm	559,315	48.7%
\$2.5mm - \$4.99mm	226,121	19.7%
\$5mm - \$9.99mm	148,583	12.9%
\$10mm - \$99.99mm	181,386	15.8%
\$100mm - \$499.99mm	24,708	2.1%
\$500mm - \$999.99mm	4,174	0.4%
\$1B +	5,334	0.5%

We collapse the fragmented revenue buckets from \$1mm – \$9.99mm and calculate that 81.2% of businesses above \$1mm+ fall within the \$1mm – \$9.99mm range. To split the \$10mm – \$99.99mm category, we assume 75% of businesses fall within the \$11mm - \$20mm or early middle market segment, and the remainder fall in the \$21mm - \$100mm or emerging segment.²⁰

²⁰ Grata shows 253,803 and 81,429 companies that fall within the \$10mm - \$25mm and \$25mm - \$100mm categories within the US. We use this to inform the distribution between \$11mm - \$20mm and \$21mm - \$100mm for the purpose of our sizing methodology (August 2023).

The resulting distribution –

Table A3: Middle Market Revenue Distribution

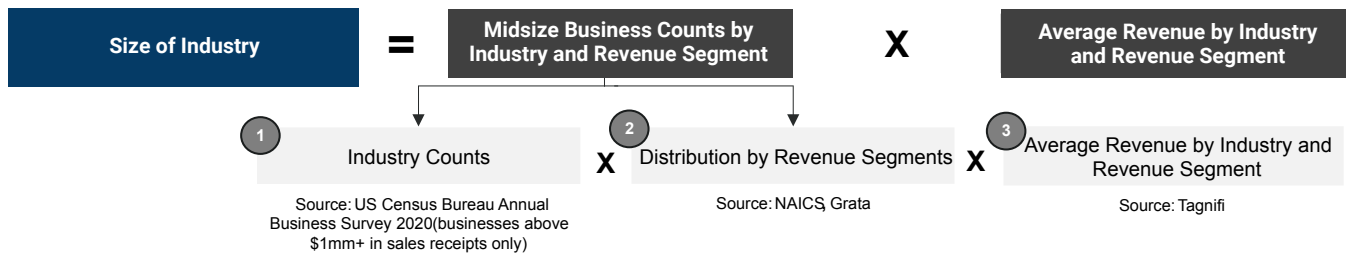
Revenue Range	Number of businesses	Percentage
\$1mm - \$10mm	1,309,527	81.2%
\$11mm - \$20mm	190,732	11.83%
\$21mm - \$100mm	63,577	3.94%
\$101mm – \$500mm	34,641	2.1%

Sizing Industries

Using Tagnifi, we calculate the average revenue for each industry and each segment.

For every industry at the MSA and National level - we multiply the count of businesses within middle market revenue segments with the average revenue.

Figure A4: Formula for Sizing an Industry



According to ABS (2020), there are 4,137 businesses in the Accommodation Services industry in Chicago. We use the following calculation to size the Accommodation Services industry in Chicago.

Figure A5: Sizing the Accommodation Services Industry in Chicago



We repeat the above steps for each industry and sum up the values for the industries to size the middle market in Chicago MSA. The same methodology is applied for sizing Dallas, Los Angeles, and the National middle market.

Revenue Distribution

In the process of sizing the different markets, we also calculate the number of early, emerging, and established midsize businesses for Chicago MSA, Dallas MSA, Los Angeles MSA, and Nationally.

Industry Distribution

In the process of sizing the different markets, we also calculate the number of early, emerging, and established midsize businesses for Chicago MSA, Dallas MSA, Los Angeles MSA, and the National market by industry. For every industry, we use Table A3 to calculate the number of businesses that would qualify as early, emerging, or established.

Diverse-owned Middle Market Sizing

Counting Diverse-owned Businesses

To size the diverse middle market for a location, we identify the number of women-, Hispanic-, Black-, Asian-, and veteran-owned firms that are above \$1mm+ from ABS (2020). Leveraging the distribution in Table A3, the number of businesses that potentially fall within the \$11mm - \$500mm range is estimated.

Adjusting for Overlaps

To reduce potential overlaps from:

- Hispanic-owned business counts, we deduct businesses owned by individuals of Hispanic origin who are of Asian/Black race, and Hispanic women
- Black-owned business counts we deduct businesses owned by Black women
- Veteran-owned business counts we remove businesses owned by female veterans, Hispanic veterans, Asian veterans, and Black veterans
- Asian-owned business counts we remove businesses owned by Asian women

The resulting counts for MMBs are used to calculate the percentage of women-, Hispanic-, Black-, Asian-, and veteran-owned midsize businesses in comparison to the total number of midsize businesses for the geography. An illustrative example of sizing the Hispanic segment nationally is provided below:

- There are 79,451 Hispanic-owned firms in the United States that have sales receipts or revenue greater than \$1mm (ABS 2020)
- We multiply 79,451 by 17.93% (Table A3) to get 14,243 Hispanic-owned that might fall within the \$11mm - \$500mm range
- We find that women Hispanic businesses (17,079), Hispanic Asian businesses (753), and Hispanic Black businesses (1,779) are cumulatively 25% of all Hispanic businesses
- This leaves us with 10,728 which accounts for 3.7% of the middle market or \$475B

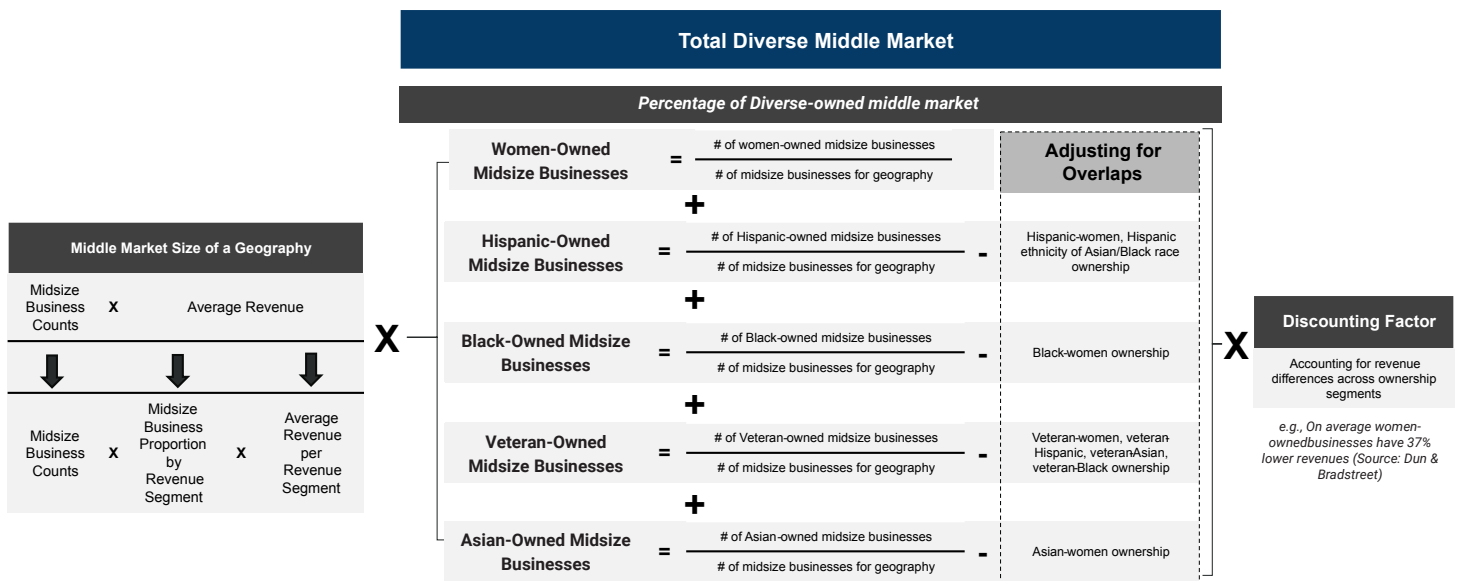
- We finally adjust for differences between diverse-owned and all midsize businesses by multiplying with a discounting factor of .68 (Average revenue of majority-minority middle market businesses/ Average revenue of all middle market businesses)
 - For women-owned businesses we multiply with a discounting factor of .63 (Average revenue of women-owned midsize businesses/Average Revenue of all middle market businesses)
 - For veteran-owned businesses we use the same discount factor derived from majority-minority businesses

Table A4: Discount Factor Calculation

Total Revenue of All Midsize Businesses	\$ 6,167,700,725,000
Total Counts	136,603
Average Revenue of All Midsize Businesses	\$ 45,150,551
Total Revenue of Majority-Minority Midsize Businesses	\$ 205,791,845,000
Total Counts	6,691
Average Revenue of Majority-Minority Midsize Businesses	\$ 30,756,515
Total Revenue of Majority-Minority Midsize Businesses	\$233,578,655,000
Total Counts	8,219
Average Revenue of Majority-Minority Midsize Businesses	\$28,419,352

Source: The Middle Market Power Index: The Growing Economic Clout of Diverse Middle Market Firms (2014)

Figure A6: Sizing the Diverse Middle Market



Industry Distribution for Diverse Businesses

For diverse-owned midsize businesses, we construct the industry distribution using the data sets developed from Grata representing the proportion of diverse-owned midsize businesses that fall within \$11mm – \$500mm.

Median Employment Analysis

To compare employment between diverse-owned and non-diverse-owned businesses -

- We generate a dotted plot of the employment numbers by diverse-owned and non-diverse-owned businesses
- We group by diverse-owned and non-diverse-owned businesses to calculate the median employment for each group, represented by dotted lines on the plot

Years of Operational Comparison

To compare years of operation between diverse-owned and non-diverse-owned businesses -

- We generate dotted plots of the years of operations numbers by diverse-owned and non-diverse-owned middle market businesses by revenue segments
- On the x-axis we plot the age of a business, calculated by subtracting the year founded from 2023
- On the y-axis we plot the count of businesses that are in the same revenue segment and are of the same age

We group by diverse-owned and non-diverse-owned businesses to calculate the median employment for each group, represented by dotted lines on the plots

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