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Why Middle Market Companies Matter To The U.S. Economy

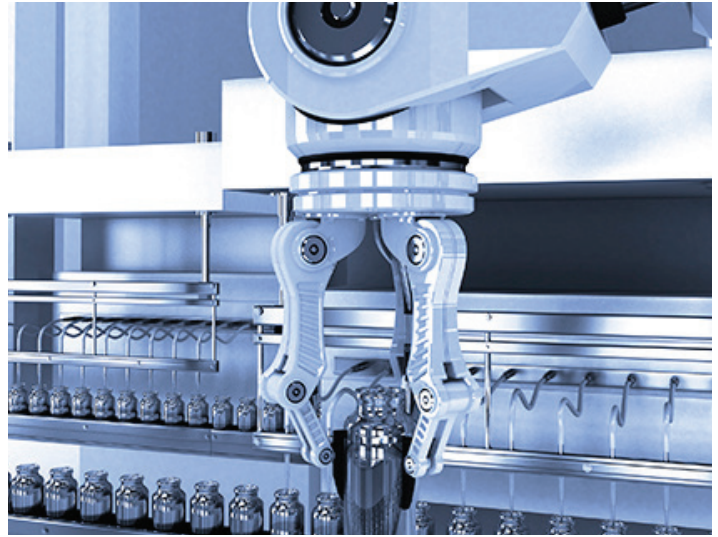
**Overview and Outlook of the Business Sector that
Represents Over \$10 Trillion in Annual Revenue**

Whitepaper Brought to You By Balboa Capital





Only three percent of all companies in the United States fall under the “middle market” category, but they represent more than \$10 trillion in annual revenue and employ one out of every four workers in the private sector. If it were a country, the US middle market would be the fifth-largest economy in the world.



Companies of all sizes are the lifeblood of our nation’s economy. They create jobs, drive innovation, and contribute to our gross domestic product. Situated in-between small businesses and large corporations are middle market companies, which have experienced solid growth over the past several years.

Middle market companies, which are defined as those with annual revenues between \$10 million and \$1 billion, and that employ between 100 to 1,000 workers, are poised to continue their growth and make a positive economic impact at both the regional and national level.

This Balboa Capital whitepaper provides an overview of the U.S. middle market along with information and statistics that illustrate how important it is to our economy.

The Powerful Niche You Rarely Hear About

For the most part, middle market companies are low profile businesses that rarely get the media coverage that small businesses and large corporations do. There are close to 30 million small businesses in the U.S. that, collectively, employ over half of the working population. The enormous size of this sector makes it a popular choice among economists, analysts, and government administrations that measure and report consumer confidence, price indexes, and unemployment rates, to name a few. Therefore, it is not uncommon to see small businesses mentioned in these and other economic-related news stories throughout the year. On the opposite end of the spectrum are large corporations, most of which are household names as a result of immense branding efforts and extensive press coverage.

A large number of middle market companies are in the business-to-business (B2B) sector. Developing and manufacturing important tools, products and technologies, and providing highly specialized B2B services, enable middle market companies to operate under the radar

and avoid the media spotlight that is commonly associated with our nation's small businesses and large corporations.

Middle Market Breakdown

The definition of middle market companies may vary slightly among banks, financing publications, and research firms, but they are typically defined as businesses with annual revenues between \$10 million and \$1 billion. Businesses with EBITDA below \$10 million are generally entrepreneur or family-owned firms

The U.S. middle market can be further broken down into these three categories:

Lower Middle Market Companies
\$10 million to \$50 million of annual revenue

Core Middle Market Companies
\$50 million to \$500 million of annual revenue

Upper Middle Market Companies
\$500 million to \$1 billion of annual revenue

Uniquely Positioned For Growth And Success

You might say that middle market companies have the best of both worlds: The flexibility and entrepreneurial spirit of small businesses, and the financial strength and forward-thinking processes of large corporations. These attributes help middle market companies attract job seekers who are highly skilled and qualified. Landing top talent helps contribute to the growth and success of middle market companies in every industry. Employees at middle market companies receive competitive salaries and have opportunities for career advancement that small businesses and large corporations might not be able to offer.

Impressive Numbers

The economic power of our nation's 200,000 middle market companies is evident in the amount of annual revenue they generate. On average, middle market firms generate just over \$46 million each per year. It is worth noting that the average small business in the U.S. generates approximately \$280,000 per year, and large corporations average just under \$8 billion in revenue per year. According to a Dun & Bradstreet report, middle market businesses have been leading job growth

during the last decade, producing a 4.4% increase in employment. This is higher than both small businesses and large corporations.



The Road Ahead

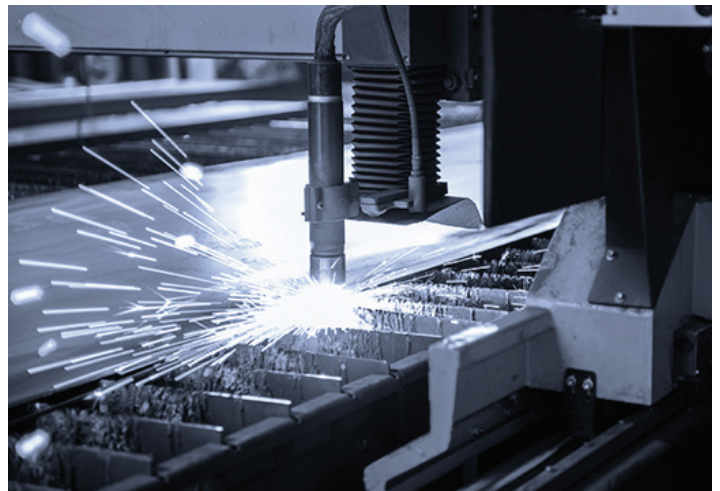
The immediate future looks bright for middle market firms in the U.S. The National Center for Middle Market predicts middle market companies in the United States will grow more than 8% annually over the next few years. In addition, half of middle market companies will hire new employees, and only one in ten firms will decrease the size of their workforce. Lastly, two-thirds of middle market companies plan to invest in new products or services.

Middle Market Industry Breakdown

Middle market companies operate in a wide variety of industries. These include agriculture, mining, manufacturing, construction, retail, finance/investment services, oil & gas, technology, healthcare, logistics, aerospace, biotechnology, and business services. The three industries reporting the strongest year-over-year growth in a recent report are technology (+12%), construction (+7.1%), retail (+6.8%), financial services (+6.5%). A key driver of middle market growth, as with any business sector, is US stock market performance. When the Dow Jones, Nasdaq and S&P 500 move in the right direction, optimism among middle market executives increases, and investors are more likely to pursue strategic mergers and acquisition (M&A).

Middle Market Acquisitions

The general media outlets provide extensive coverage of high profile M&A deals involving large corporations. You probably heard about Amazon's purchase of Whole Foods, Walgreens purchase of Rite Aid, IBM's acquisition of the Weather Channel's digital assets, Dell's purchase of EMC, and Anheuser-Busch's purchase of SABMiller. These stories were



Middle market M&A deals involve lesser-known companies and therefore receive news coverage in niche business publications, and on industry-specific websites. And while middle market M&A deals don't always make the front page of the business section, their transaction sizes are quite impressive.

Financing Options Continue To Fuel Middle Market Growth

Unlike small businesses, which typically rely on small business loans or lines of credit, middle market companies require a multitude of financing products due to their size and scope. These products include commercial loans, commercial equipment financing, lines of credit, trade letters of credit, and treasury management services. When our nation's banks and credit unions began tightening their commercial lending standards, a number of middle market companies found it more difficult to secure financing. Interest rates increased and collateral requirements became more stringent. Although banks have modified their lending requirements over the past few years, the challenges still remain.

A Specialized Market

CFOs, finance directors and other middle market executives who are seeking financing to fund expansion initiatives, capital equipment acquisition and technology refresh programs, to name a few, would benefit from a financing resource that understands the complex commercial financing process. Middle market financing transactions often involve

accountants, investment bankers, private equity firms, among others. A middle market executive should expect their lender to treat them like a long-term strategic business partner and provide them with tailored financing products that are designed to meet the company's growth goals. In addition to having a strong business acumen, the lender should be knowledgeable of the middle market company's business model, its competitive position, and its particular industry.

Financing options for middle market companies to choose from include community banks, credit unions, large banks and alternative lenders. Lending power will play a key role in the decision-making process. Middle market companies that are looking to secure large transactions will need to work with lenders that have the financial backing to accommodate them. Although a big bank seems like the obvious choice, many middle market companies are opting to work with one of the many alternative lenders that are out there.

Summary

Middle market companies are a vital part of our nation's business and economic landscape. Their large but nimble size enables them to be innovative and react to market changes quickly. This, along with their ability to introduce new products and services that will change the way businesses in virtually every industry operate, presents middle market companies with an opportunity to grow and expand for many years to come.

About Balboa Capital

Balboa Capital is a technology-driven financing company that provides business owners with fast, hassle-free solutions to fuel their growth and success. The company specializes in small business loans, equipment financing, commercial financing, equipment vendor financing, and franchise financing.

Balboa Capital developed an intuitive online platform that simplifies the entire financing process. Calculators provide instant estimates, applications can be completed and submitted in a matter of minutes, and sophisticated credit scoring technology provides instant decisions. Visit <http://www.balboacapital.com> to learn more.