

## Middle market jolted by COVID-19's sweeping effects

Communities around the world have been socially and economically distressed by the COVID-19 pandemic and the business and public gathering shutdowns enacted to slow its spread. Middle market business owners and executives are not immune to its far-reaching impact. Our quarterly sentiment survey connected directly with middle market executives to explore their outlook and how it has changed.

## Middle market momentum hits COVID-19 speed bump

Each quarter, to understand what impact current macroeconomic conditions and government policies have on the business environment, KeyBank surveys 400 owners and executives of middle market businesses — defined as those in the \$10 million to \$2 billion range.<sup>1</sup> This March, because of the unprecedented circumstances of the public health crisis, KeyBank conducted a second survey to see how sentiment changed between early March to late March, when many states in the U.S. responded to contain community spread of the novel coronavirus.<sup>2</sup>

Within just a few weeks, respondents shared a marked difference in their levels of optimism for their own businesses and the economy as a whole. As they deal with the reality of office and retail closures, remote workforces, supply chain disruption<sup>3</sup> and a plummeting investment market, middle market business owners are facing an ambiguous future.

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“The uncertainty is as high as we’ve ever seen it. This is different than what we saw during the economic downturn in 2008, because the public health crisis is unlike anything we’ve been through before. We need solutions led by the government and healthcare sectors, and it’s difficult to know what the lasting effects will be.”

– Joseph Markey,  
East Region Sales Executive, KeyBank

## Positivity dips as coronavirus hits U.S.

As recently as the beginning of March 2020, middle market executives were still in a good place about their companies’ outlook for the next 12 months. The overwhelming majority said, at the time, that it was excellent (41%) or very good (33%), similar to their responses to the same questions in December 2019. Also in early March, middle market leaders felt relatively positive about their states’ outlook and the overall U.S. economy, with more than half saying it was excellent or very good in both cases.

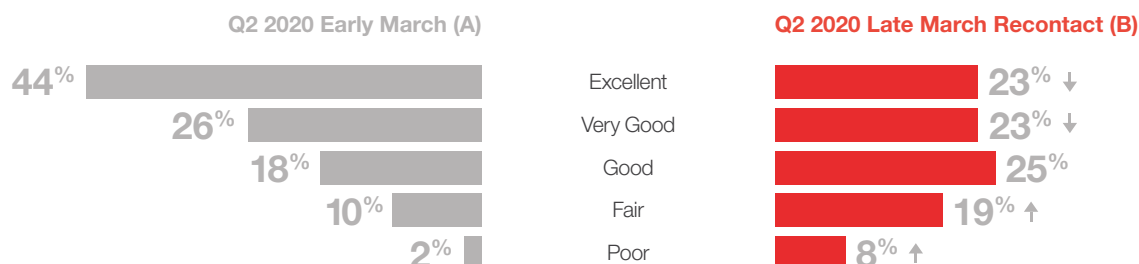
<sup>1</sup>The 400 business owners and executives were interviewed March 3-16, 2020 and then were recontacted later that month (March 24-30) to speak specifically to the impact of COVID-19, after the issue intensified in the U.S. Nearly half (170) of the original interviewees responded to this recontact survey.

<sup>2</sup>Coronavirus timeline: Tracking the critical moments of COVID-19, NBC News, 3/10/20  
<https://www.nbcnews.com/health/health-news/coronavirus-timeline-tracking-critical-moments-covid-19-n1154341>

<sup>3</sup>Supply chains have been upended. Here’s how to make them more resilient. World Economic Forum, 4/6/20  
<https://www.weforum.org/agenda/2020/04/supply-chains-resilient-covid-19/>

But as state stay-at-home orders throughout March and early April took effect, more than a quarter of the U.S. economy was taken offline<sup>4</sup> and the public markets dropped by historic amounts, according to an analysis by the *Wall Street Journal*. During the same time period, the outlook of respondents in our second round of outreach shifted significantly. In late March, middle market executives reported feeling much less optimistic about their own companies. And, when it comes to their overall U.S. outlook, middle market businesses are even more pessimistic since the outbreak of COVID-19.

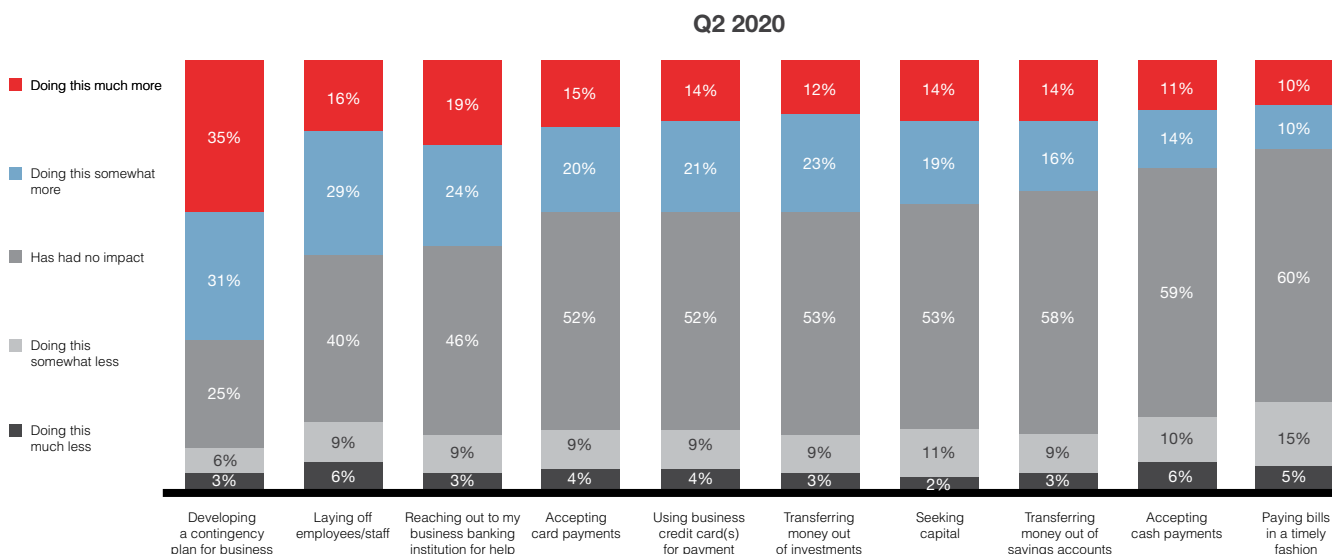
## Overall Company Outlook for the Next 12 Months



## Middle market businesses react

Many middle market companies are taking action to rise to the challenges that the pandemic is bringing to their operations, including the economic repercussions of the pandemic. Among their responses are developing a contingency plan for the business and laying off staff, as well as seeking help from their business banking institutions. They are also seeking out capital; using business credit cards for payment; and transferring money out of savings or investment accounts to ensure liquidity during the crisis.

## COVID-19 Impact on Business Activities



Middle market businesses are turning to their financial institutions to help them apply for the relief available to them in the U.S. Congress's Coronavirus Aid, Relief and Economic Security Act (or CARES Act). As of April 13, a senior Small Business Administration official reported that banks have processed 880,000 loans worth more than \$215 billion through the Paycheck Protection Program, which was designed to help businesses keep their workforce employed during the COVID-19 crisis.<sup>5</sup>

<sup>4</sup>"State Shutdowns Have Taken at Least a Quarter of the U.S. Economy Offline." *Wall Street Journal*, 4/5/2020  
<https://www.wsj.com/articles/state-coronavirus-shutdowns-have-taken-29-of-u-s-economy-offline-11586079001>

<sup>5</sup><https://www.foxbusiness.com/money/small-business-loan-applications-jump-with-more-than-215b-under-paycheck-protection-program-approved>



“KeyBank has assembled a huge group at the highest levels of the bank to help our clients access the Paycheck Protection Program and keep people on the payroll. We have clients contacting us because they want to upsize their credit facility, and others who want to draw down on their revolver and have more cash on hand. We have a daily virtual meeting to address how we can best meet our clients’ credit needs.”

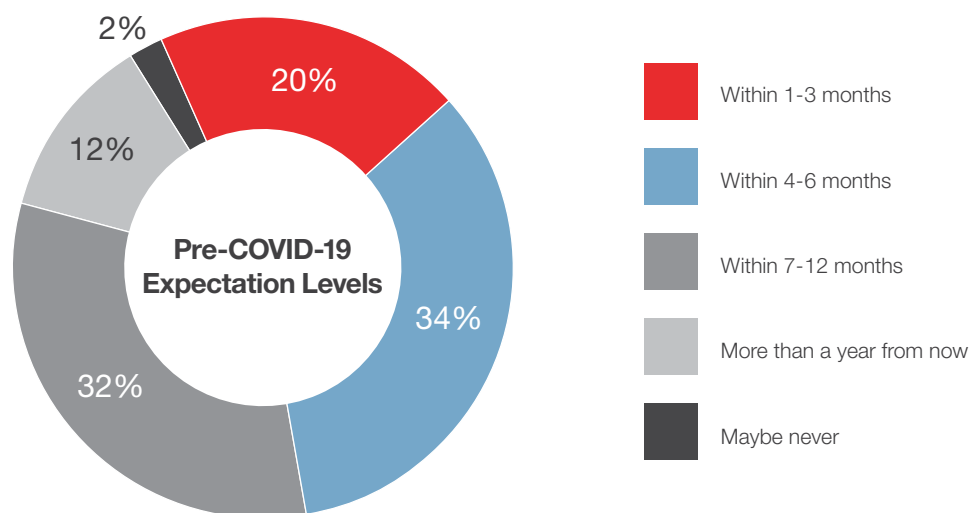
– Joseph Markey, East Region Sales Executive, KeyBank

## Challenges in the new normal – and looking forward

The pandemic has changed the way nearly all companies do business – and has tested their resilience and adaptability. Respondents listed maintaining staff productivity (46%), adjusting to a new remote operating model (43%), and managing overall cash flow (42%) as their top challenges as a result of the COVID-19 pandemic.

In the current environment, middle market businesses do feel more positive than negative regarding their own company’s overall business health – if only slightly. However, among those with a negative view of the overall health of their business, the majority of business executives (about four-fifths) feel that a return to normalcy is still at least four months away, with a similar amount thinking it might be another seven-plus months.

### Expectation to Return to Pre-COVID-19 Business Levels



The pandemic’s profound effect on the global economy has the International Monetary Fund anticipating the worst recession since the Great Depression this year, with a partial recovery in 2021 if the global pandemic fades in the second half of the year.<sup>6</sup> While the effects will be particularly harrowing in the developing world, the U.S. will feel its share of the pain, already evident in skyrocketing unemployment figures and permanent business closures.<sup>7</sup>

It’s no shock a potential economic recession tops the respondents’ reasons for low U.S. economic outlook, dwarfing other formerly top-of-mind issues such as healthcare costs, changes to trade agreements, increasing tariffs, and increasing labor costs.

<sup>6</sup>“IMF Sees World in Worst Recession Since Great Depression” Bloomberg, 4/9/20  
<https://www.bloomberg.com/news/articles/2020-04-09/imf-sees-world-economy-in-worst-recession-since-great-depression?smd=premium>

<sup>7</sup>“Virus Throws Millions More Out of Work, and Washington Struggles to Keep Pace.” New York Times, 4/9/20.  
<https://www.nytimes.com/2020/04/09/business/coronavirus-unemployment-washington.html?action=click&module=Spotlight&pgtype=Homepage>

# Cybersecurity in a volatile world

Remote work during social distancing has taken in-person interactions into the digital realm of video conferences and online collaboration, making cybersecurity more visible than ever before. The survey investigated how middle market businesses are addressing their companies' cybersecurity, which is of heightened importance as the COVID-19 outbreak poses a significant threat to enterprise resiliency, along with employees' health.

The Federal Bureau of Investigation (FBI) has warned Americans of increased fraud related to the COVID-19 pandemic and the stimulus funds from the CARES Act.<sup>8</sup> Typical scams include fake emails, texts, phone calls, and fraudulent websites touting businesses that appear to be in support of COVID-19 activities.

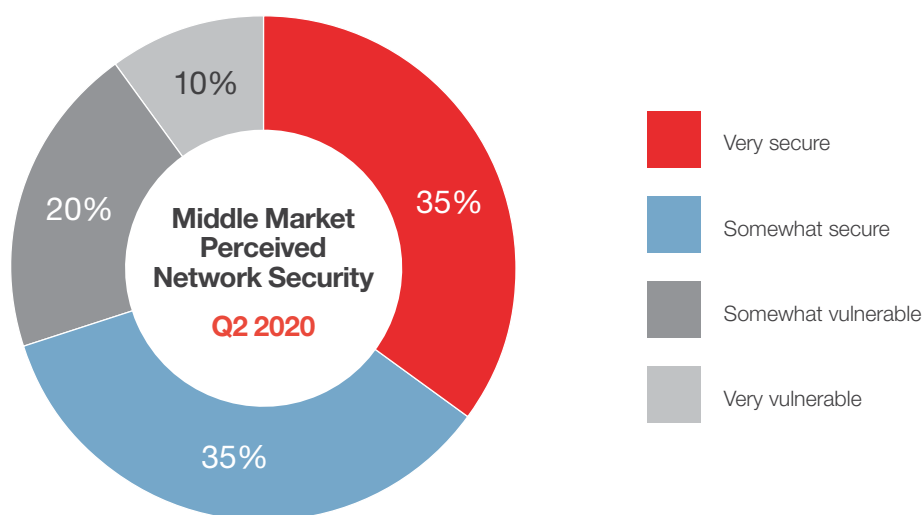


“During this volatile time the threat landscape is heightened. Couple that with employees and consumers operating outside of their normal routines and under increased duress and it creates an ecosystem that is inherently more risky. To combat this, companies should place additional diligence on cyber hygiene to ensure controls are operating effectively, and processes are in place to quickly react to emerging threats.”

– Kelly Uhrich, Senior Vice President, Deputy Chief Information Security Officer, KeyBank

Our survey found that most middle market businesses believe their organization's network is somewhat or very secure, with 35% in each category. The majority of middle market companies are using anti-virus and anti-malware protection. Additionally, since they were last surveyed about cybersecurity topics in June 2019, companies have increased measures such as limited administrative rights, VPN for outside access and dual authorization for outgoing payments. Most report a strong awareness of cyber insurance. Yet despite this enhanced security, more middle market businesses have experienced a cybersecurity incident within the last 12 months, increasing to 34% from 27%.

## Perceived Level of Network Security



In this unprecedented environment, companies have had to make compromises on the physical security of company devices, the use of unsecured Wi-Fi networks, and the use of unsecured personal devices and have had to increase their use of third-party applications such as video conferencing platforms. This has led to increased scams and threats targeting remote workers, making it important for companies to establish secure work-from-home protocols for their employees and additional monitoring and security efforts.

<sup>8</sup>FBI Sees Rise in Fraud Schemes Related to the Coronavirus (COVID-19) Pandemic" FBI 3/20/20 <https://www.ic3.gov/media/2020/200320.aspx>

# Middle market being tested by unprecedented pandemic

While much is unknown about how long shutdown measures will be in place, and how quickly parts of the economy will be able to reopen, businesses of all sizes need to address their resiliency plans, including understanding their financial picture and how they'll move their businesses forward once the pandemic is controlled.

KeyBank is committed to providing real-time support and insight as the markets and economy respond to the COVID-19 public health crisis. Our Relationship Managers can bring your business value-added strategic ideas and solutions to help navigate the challenging economic environment, including insight and guidance on the recently passed recovery legislation.

## We're here for you.

For more information, contact a KeyBank Relationship Manager.



"KeyBank Middle Market Business Sentiment Survey" March 2020.

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

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