



**CAPSTONE  
PARTNERS**

# Q2 2021 U.S. Middle Market Business Owner Survey

---

**CEOs Show Optimism for Future Economic,  
Revenue Growth**

# Contents

**Survey Methodology** **3**

**Executive Summary** **4**

**01. Current Business Challenges** **5**

Supply chain disruptions challenged owners across industries in Q2, with materials availability cited as the foremost issue. Workforce shortages have also afflicted businesses in a variety of industries as limited talent pools made it difficult to hire and retain employees.

**02. Strategies & Initiatives** **9**

COVID-19 demanded industry-specific solutions as owners adapted business models to maintain the health and safety of employees. Tasked with the swift recovery of business, owners prioritized resources that pertained to addressing their most prominent challenges, such as a limited talent pool and material shortages. In the upcoming quarter, growth strategies will be the focus for owners as they enter new markets, scale operations, and bolster sales efforts.

**03. Revenue Impacts, Forecasts, & Economic Outlook** **14**

Business owners' optimism towards their respective industries and the U.S. economy was supported by the reported revenue gains in Q2 and forecasted growth in Q3. Despite a positive outlook for the upcoming quarter, business conditions are expected to return to "normal" in one to two years as lingering pandemic tailwinds and uncertainty continue to impact performance across industries.

**About Capstone** **19**

# Survey Methodology

Capstone Partners is pleased to share the results of its first Middle Market Business Owners Study, providing insight into the health and recovery of small and medium sized businesses in a post-COVID environment. As we continue this research, Capstone will track the performance of the middle market, recent challenges and recovery tactics, value drivers, and the changing sentiments of businesses owners on their respective industries and the state of the U.S. economy.

Middle market businesses are vital to the health and expansion of the U.S. economy and represent nearly one-third of gross domestic product (GDP). While information on public companies can be readily accessed, insight into privately-owned middle market companies is difficult to procure. Our proprietary research seeks to provide greater insight into this crucial group, by gathering quarterly data via an online survey on how the current economic environment is impacting the operations and strategy of privately held middle market businesses.

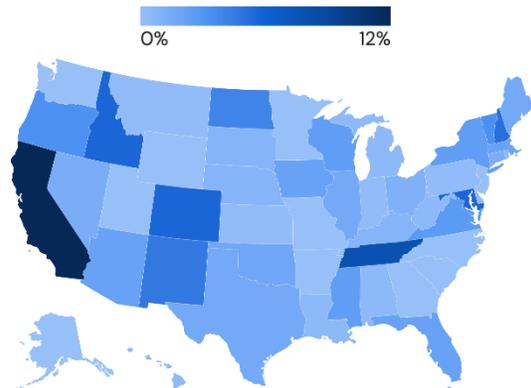
We see this as important work, and we need your help. If you wish to volunteer for future studies, please [register here](#).

## About This Report

*This report combines Capstone's in-depth middle market expertise with proprietary insights obtained from 380 participating business owners of privately owned, middle market companies. Survey responses were collected between July 13, 2021 and August 13, 2021.*

## Geographic Location

*Capstone surveyed middle market business owners across the U.S. Respondents to our July 2021 study were heavily headquartered in California, matching the U.S. Census at 12%.*



## Industry Breakdown

*Business owners in the Industrials industry comprised the largest share of responses in our July 2021 study.*

| Industries Surveyed                       | Share of Total Responses |
|-------------------------------------------|--------------------------|
| Industrial & Manufacturing                | 22.9%                    |
| Technology, Media & Telecom               | 12.1%                    |
| Consumer & Retail                         | 11.8%                    |
| Business Services                         | 11.3%                    |
| Building Products & Construction Services | 8.9%                     |
| Healthcare                                | 8.2%                     |
| Aerospace, Defense, Government & Security | 7.9%                     |
| Education & Training                      | 4.5%                     |
| Other*                                    | 12.4%                    |

*\*Other industries made up <4% respectively and included Transportation & Logistics, Energy & Power, Financial Services, Industrial Technology, Real Estate. Source: Capstone Partners Research*

# Executive Summary

Despite the rollout of vaccines and easing government restrictions, many middle market companies continued to be afflicted by COVID-exacerbated challenges in Q2 2021 including supply chain disruptions (32.1%), workforce shortages (28.7%), and economic uncertainties (12.9%). In fact, only 5.8% of middle market business owners reported not facing any issues in Q2, exemplifying the need for further recovery.

Business owners in the middle market swiftly adapted business models amid COVID-19 to adhere to safety guidelines. The use of digital communication tools (63.7%), integrated social-distancing practices (56.3%), and remote work (55.3%) were among the top protocols incorporated. Although some industries were able to easily deploy these strategies, sectors dependent on in-person work maintained employees' safety through equipment sanitation and health screening.

Owners have turned focus to the immediate recovery of business, prioritizing resources that align with their most prominent challenges. As workforce shortages pertain to a breadth of industries, companies in the Aerospace, Defense, Government & Security (ADGS), Business Services, Consumer & Retail, and Industrial & Manufacturing industries ranked an enhanced labor pool as

the most valuable aid in their recovery. Building products and construction services providers, whose supply chains have been disrupted by material shortages, require a greater product supply. Participants in the Healthcare and Technology, Media & Telecom (TMT) industries exhibited an interest in strategic partnerships to offset the economic uncertainties faced in Q2.

Looking ahead to Q3, business owners' top priority is fortifying growth strategies, both organic and inorganic, to enter new markets, expand offerings, and bolster sales efforts. Driven by the normalization of earnings, the prospect of capital gains tax increases, and the accommodative borrowing environment, 23.5% of business owners plan to engage in acquisitions in Q3. As a result, Capstone expects a continuation of the robust merger and acquisition (M&A) activity witnessed in Q2, which increased 31% year-over-year, according to [Capstone's Q2 Capital Markets Update](#).

The reported revenue gains in Q2 and forecasted growth in Q3 have supported owners' positive sentiment towards the U.S. economy and their respective industries. Although business conditions are not expected to normalize for one to two years, the health of the middle market is on an upward trend.

---

## Capstone's Research Team

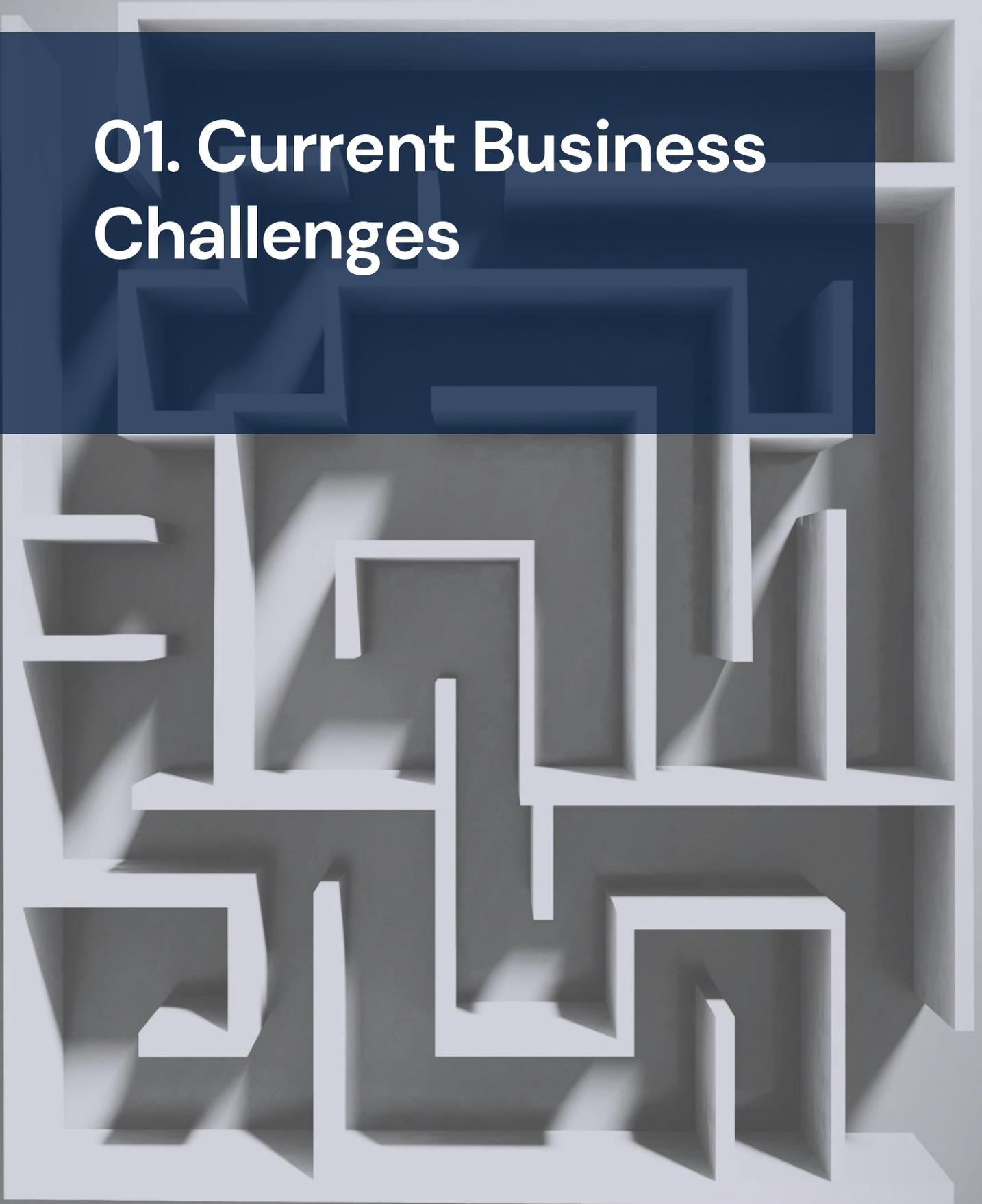
**Sarah Doherty**, Vice President of Research, Aerospace, Defense, Government & Security  
sdoherty@capstonepartners.com

**Connor McLeod**, Research Manager, Building Products & Construction Services, Consumer & Retail, Healthcare  
cmcleod@capstonepartners.com

**Max Morrissey**, Research Associate, Technology, Media & Telcom, Education & Training, Business Services  
mmorrissey@capstonepartners.com

**Lucas LaCroce**, Research Analyst, Business Services, Industrials  
llacroce@capstonepartners.com

# 01. Current Business Challenges

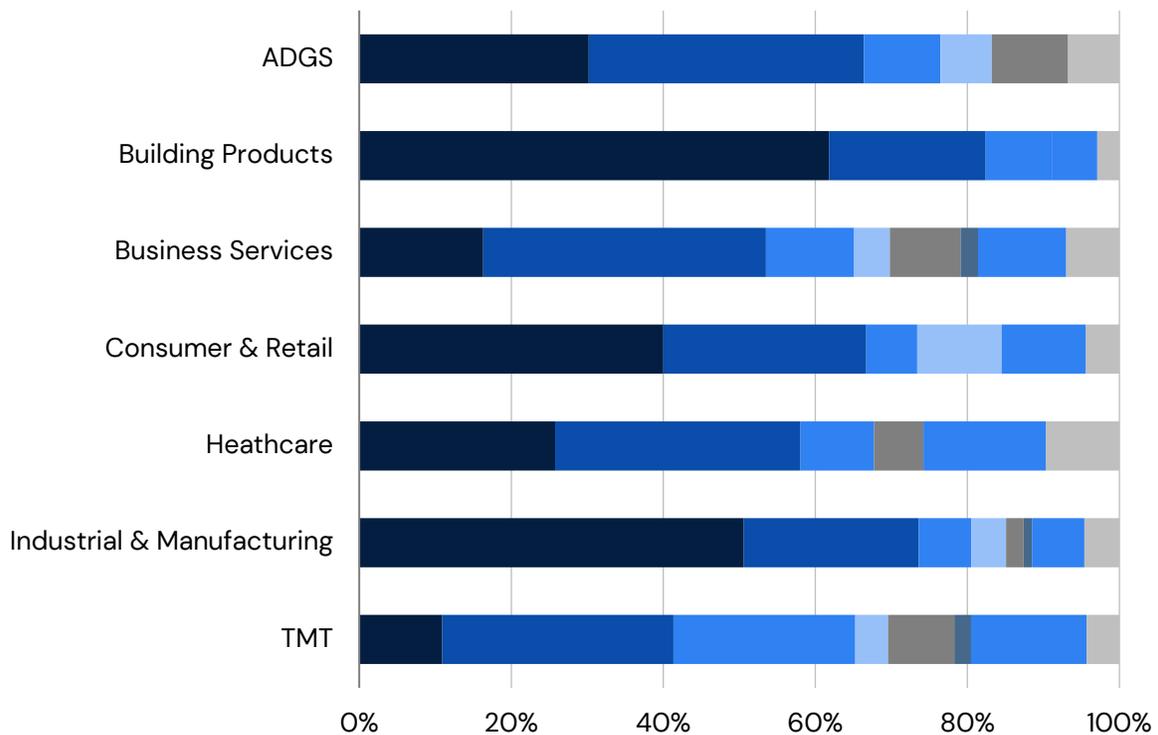


# Supply Chain Disruptions, Workforce Shortage Top Challenges

Business leaders across all industries were most significantly challenged by supply chain disruptions in Q2, apart from TMT providers who were the least impacted by supply chain disruptions (10.9%). The majority (61.8%) of building products and construction services companies were afflicted by supply chain challenges, statistically more so than

businesses in the ADGS, Business Services, Consumer & Retail, Healthcare, and TMT industries. The diminishing supply of lumber and other raw materials, coupled with workforce shortages (the second most impactful challenge) has led to cost increases and scheduling delays with raw goods-dependent industries particularly affected.

- Supply chain disruptions
- Workforce shortage
- Economic uncertainty
- Lower consumer demand
- Heightened competition within industry
- Technological disruptions
- Other
- None



Question: What was the most notable challenge your company faced over the past three months?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 380

# How Supply Chains Are Disrupting Business Models

Among those business owners that experienced supply chain disruptions in Q2, **80.3% noted that materials availability was the leading issue**, followed by rising input prices (59.0%), port congestion (52.5%), and trucking bottlenecks (45.1%). With the ongoing pandemic, fundamental changes in consumer behavior, and shifting routes to market, business owners will be forced to adopt new methods to increase

supply chain visibility. Although COVID-19 is a unique case study, it has underscored the fragility of current supply chains. Enhanced data analytics capabilities will be crucial for owners going forward in understanding this complexity, anticipating potential disruptions, and rapidly developing responses. For additional insight on what to consider amid supply chain disruptions, see [Capstone's recent article](#).



**80% Materials Availability**

Materials availability represented the leading challenge associated with supply chain disruptions, as the lack of input goods stalled every tier along supply chains.



**53% Port Congestion**

Port congestion emerged as a supply chain headwind especially for West Coast sites, with more than half of business owners identifying it as a supply chain issue.



**59% Rising input Prices**

Nearly two-thirds of business owners with supply chain issues experienced rising input prices, as costs for lumber, crude petroleum, and natural gas surged in 2021.



**45% Trucking Bottlenecks**

Shipping delays have stressed transportation networks with trucking bottlenecks extending fulfillment timelines for virtually half of business owners.

*Question: What supply chain disruptions has your company faced over the past three months? Select all that apply.  
Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 122*

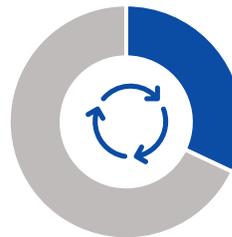
# Limited Talent Pool Proves Obstacle for Organizations

Business owners suffering from workforce shortages namely pointed to a **limited talent pool (81.7%) as the foremost hurdle faced in the past three months**. Despite record-setting job requisitions in the U.S., organizations found it difficult to fill entry level positions as workers sought lifestyle changes amid the pandemic and devoted time to searching for upskilled roles.

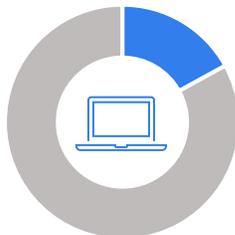
Additionally, many business owners believe that government-funded COVID-19 unemployment programs have contributed to the absence of qualified applicants. Across all industries experiencing workforce shortages, business owners noted that an enhanced labor pool would be the most useful aid in the recovery of their business.



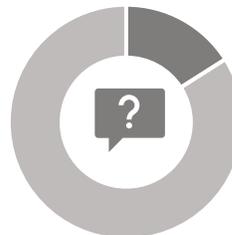
**Limited Talent Pool (82%)**



**Employee Retention (32%)**



**Engagement with Remote Workforce (17%)**



**Other (16%)**  
Owners noted several other workforce challenges including enhanced COVID-19 unemployment benefits disincentivizing applicants

Question: What workforce challenges has your company faced over the past three months? Select all that apply.  
Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 109

## 02. Strategies & Initiatives



# Adapting Business Models, Leadership in During COVID-19

| How Business Adapted During COVID-19                                    | Percentage of Respondents |
|-------------------------------------------------------------------------|---------------------------|
| Utilized digital communication/meeting tools                            | 63.7%                     |
| Integrated social-distancing practices to your office/place of business | 56.3%                     |
| Employees are working remote                                            | 55.3%                     |
| None – my company has not had to make any changes                       | 13.4%                     |
| Implemented online or touch-free payment methods                        | 12.1%                     |
| Other                                                                   | 6.1%                      |

Sample Size (N): 380

Source: Capstone Partners' Middle Market Business Owner Survey

The COVID-19 pandemic required most organizations (86.6%) to rapidly alter operations while delivering on the same value proposition. In order to maintain the health and safety of employees, business owners utilized digital communication tools (63.7%), integrated social-distancing practices (56.3%), and implemented remote work policies (55.3%). However, not

all industries were afforded the same level of flexibility with in-person work remaining paramount in Healthcare, Industrial & Manufacturing, and Transportation & Logistics. As a result, business owners developed tailored solutions including equipment sanitation, health screening (temperature checks), rotating schedules, and vaccine incentives.

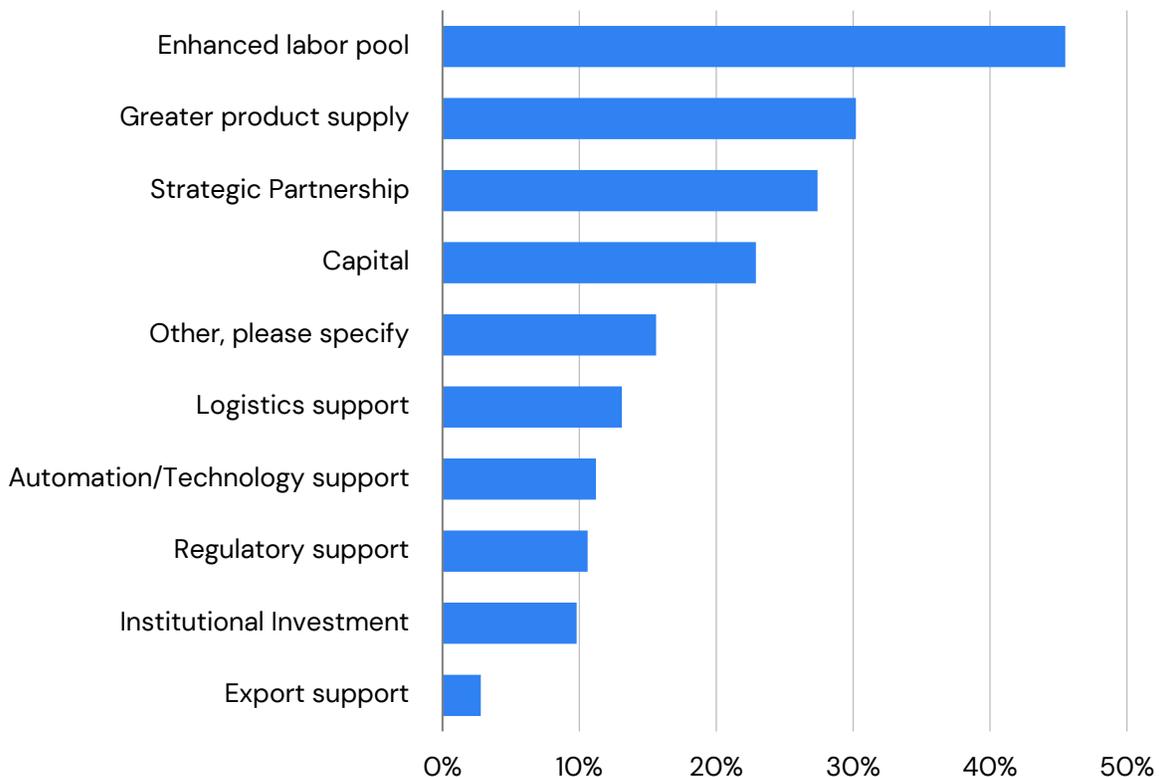
“Leadership is the thing that had to adapt. COVID got very political with polarized employees. We had to re-emphasize our culture and values a lot. ”

Survey Respondent: Business Owner in Business Services industry

# Recovery Tactics Prioritized to Address Recent Challenges

In response to the recent challenges companies have faced, **business owners ranked recovery tactics in accordance with their leading issue to prompt the immediate recovery of their business.** With workforce shortages impacting most industries, 45.5% of owners stated an enhanced labor pool as the most helpful tactic. In the Building Products & Construction Services industry, recovery is most likely to be achieved by a greater

product supply (63.6%), statistically higher than any other industry as participating businesses seek to mitigate risk from material shortages. Businesses in the Healthcare and TMT industries are most in need of strategic partnerships (50% and 46%, respectively) to bolster lead generation efforts and increase profitability, offsetting the labor shortages and economic uncertainty that have negatively impacted business in Q2.



Question: Which of the following would be useful in the recovery of your business? Select all that apply.  
 Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 358

# Growth Strategies Top Focus for Owners Looking Ahead

In the upcoming quarter, business owners are primarily focused on growth strategies (59.5%), led by organic initiatives including enhancing market penetration, expanding products and services, and diversifying customer bases to capture a larger portion of the addressable market. Notably, 88.9% of owners in the Healthcare industry plan to execute market penetration tactics, with 50.0% expanding offerings to scale operations and provide patient-centric services to the aging U.S. population.

Inorganic growth strategies will also be implemented in Q3, with 23.5% of owners planning to engage in acquisitions and 15.5% securing debt or equity capital. Businesses with healthy balance sheets in the ADGS, Industrials & Manufacturing, and Healthcare industries are most likely to engage in acquisitions (38.1%, 34.8%, 33.3%). Technology-enabled companies are expected to utilize debt or equity capital to fund ongoing innovations and invest in advanced capabilities (ADGS, Industrial & Manufacturing, and TMT).

## Organic Initiatives



## Inorganic Initiatives

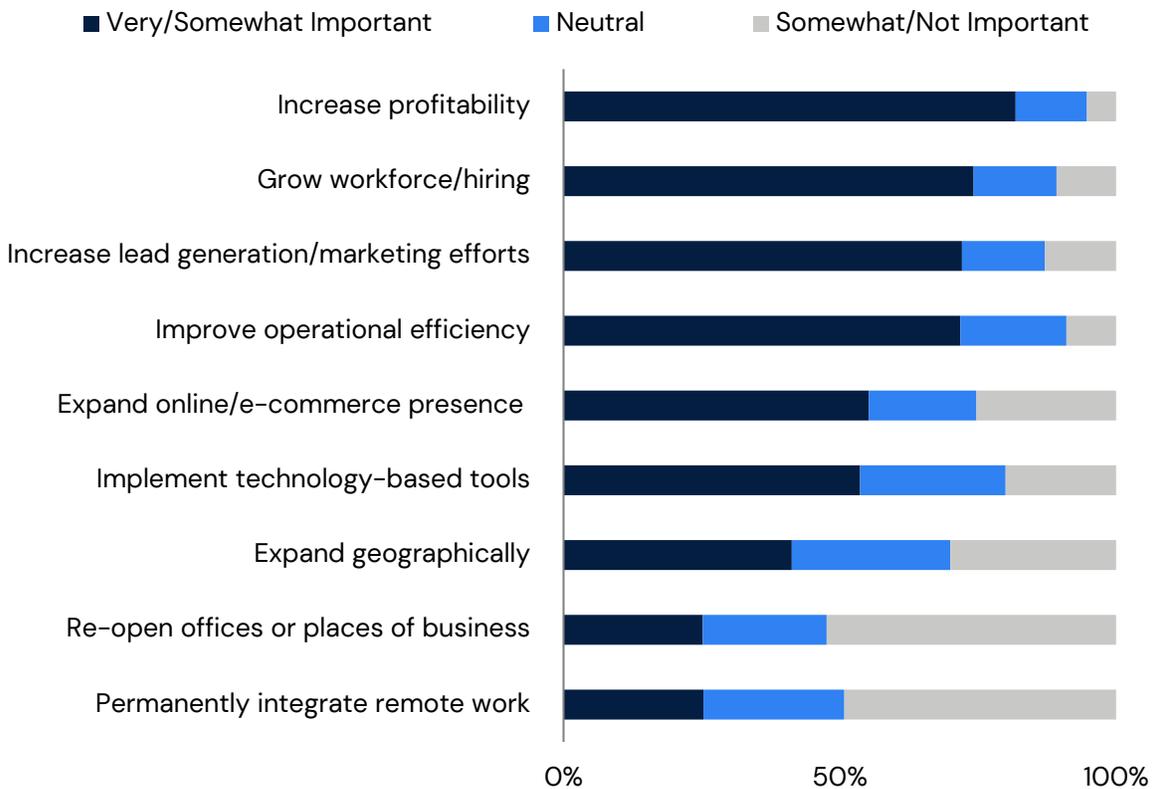


Question: Which of the following growth strategies are most important to prioritize over the next three months?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 226

# Business Owners Plan to Bolster Sales Efforts

Top priorities for business owners looking ahead to Q3 include increasing profitability (81.9%), growing their workforce (74.2%), increasing lead generation and marketing efforts (72.1%), and improving operation efficiency (71.2%). Respondents ranked the importance of these tactics differently by industry, showcasing some of the nuances and strategies on a more granular level. TMT respondents ranked lead generation and marketing efforts the most important

at 89.1%. The Consumer & Retail industry continued to turn to digital channels, as 82.2% stated expanding their e-commerce presence to be somewhat or very important. Unsurprising, with the Healthcare industry facing colossal workforce shortages due to the aging workforce and increased demand for providers during the pandemic, growing its workforce and hiring was deemed the top priority with 90.3% of business owners in the space ranking it somewhat to very important.



Question: How important will the following tactics be to your company over the next three months?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 380

# 03. Revenue Impacts, Forecasts, & Economic Outlook



# 42% of Respondents Reported Revenue Increase of 10%–50% in Q2

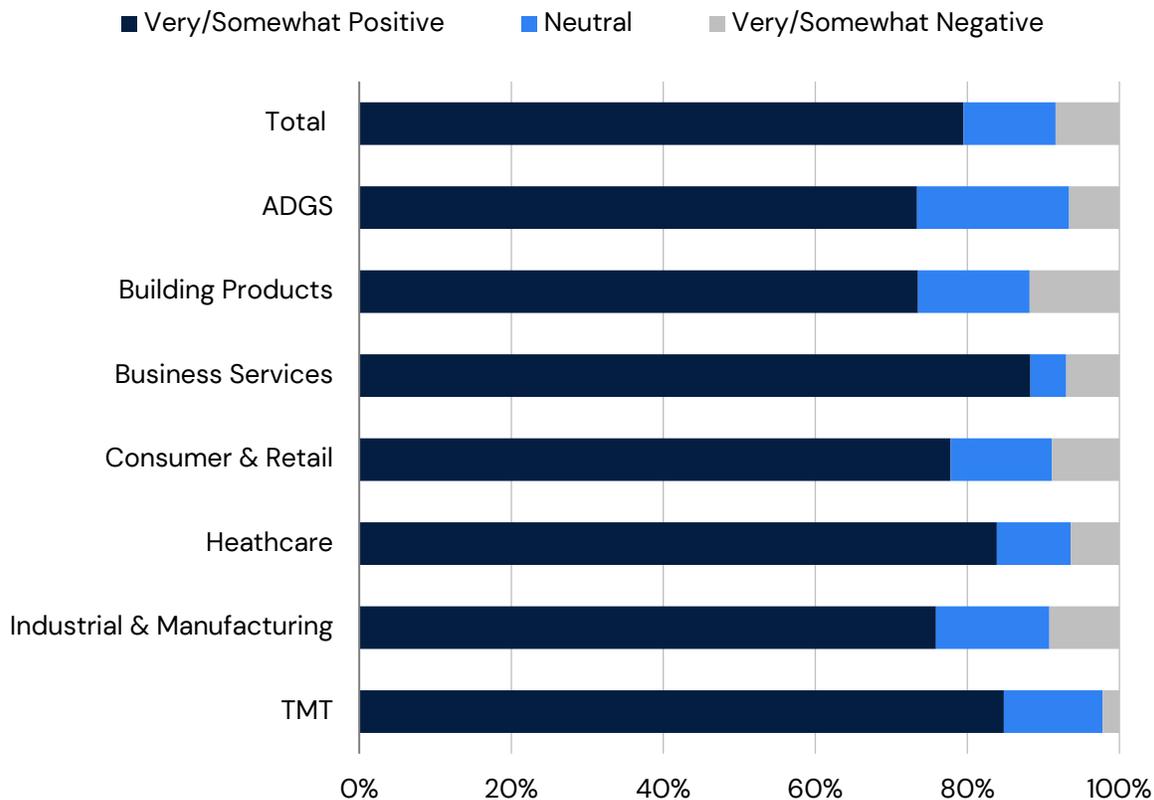


Questions: Revenue change over past three/next three months  
 Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 380

# Industry Outlook: Confidence in Business Services, Concern in ADGS

The sentiment business owners have expressed regarding their respective industries skews positive across all groups, with **more than 70% of CEOs in each industry somewhat or very positive on the outlook of their industry.** However, there remains some differentiation between owners in the Business Services industry and those in the ADGS industry. The ADGS industry represents the least positive segment (73.3%), largely due to the

bifurcated Commercial and Defense sectors recovering at an uneven pace, with Commercial Aerospace lagging as air-travel demand has been slow to return from COVID-19 lows. Owners of business services companies exhibited the highest industry optimism with 88.3% somewhat or very positive as workforce shortages have organizations turned to outsourced services for front, middle, and back-office functions in order scale productivity.

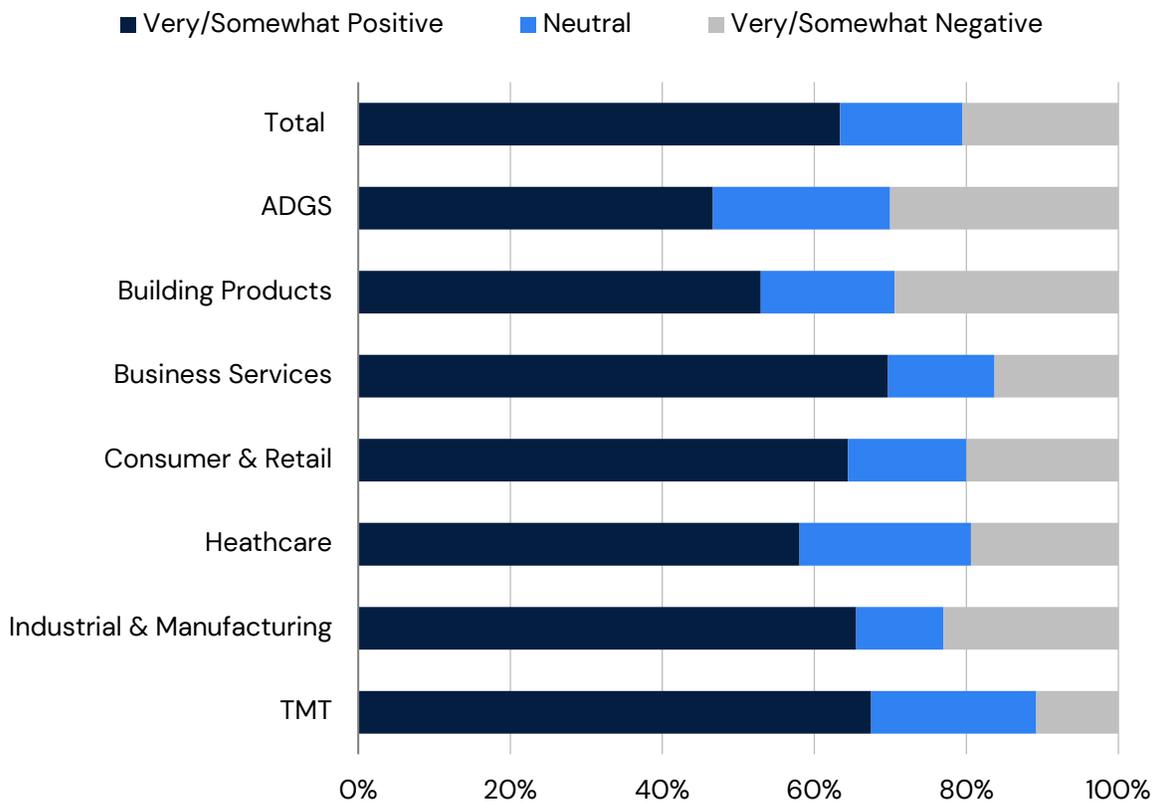


Question: How would you describe the outlook for your industry for the next three months?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 380

# U.S. Economic Outlook: 63% of CEOs Somewhat to Very Positive

Nearly two-thirds (63.4%) of the CEOs surveyed feel somewhat or very positive on the outlook of the U.S. economy for Q3, likely driven by rising vaccination rates, the reopening of businesses and corresponding improvements in GDP, and pent-up demand for consumer products and business-to-business services. The general sentiment is shared by business owners across industry segments, as more than 50% of CEOs in each industry are

optimistic on the future of the economy. Business owners in the Business Services and TMT industries are particularly bullish on the state of the economy, with 69.7% and 67.4% of owners somewhat or very positive in the respective industry groups. The U.S. economy's ability to recover from such a sudden and damaging disturbance has obviously reinforced owners' viewpoint on national productivity levels and the material impacts of financial markets.



Question: How would you describe your outlook on the U.S. economy for the next three months?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 380

# Return to "Normal" Expected in 1-2 Years

Despite industry growth, economic confidence, and vaccination rollouts, middle market founders and entrepreneurs are not expecting an immediate normalization of the business environment. Notably, **21.8% of business owners expect conditions to normalize in seven to 12 months and 23.7% predict one to two years.** The forecasts for returning to "normal" business conditions are heavily dependent on the industry and whether COVID-19 battered or accelerated demand

for the products and services offered. For instance, 36.7% of ADGS participants expect business conditions will normalize in one to two years, statistically higher than any other industry. Meanwhile, 26.5% of building products and construction services companies stated business conditions have not changed, with many citing healthy backlogs of construction projects, elevated housing starts, and a rising demand for commercial and institutional construction.



Question: Within your industry, when do you expect conditions to return to pre-COVID-19 performance levels?  
 Source: Capstone Partners' Middle Market Business Owner Survey, Sample Size (N): 380

# About Capstone Partners

Capstone Partners is one of the largest and most active independently-owned investment banking firms in the United States. Over the past 20 years, thousands of business owners, investors, and creditors have trusted us to help guide their strategic decisions and maximize financial outcomes at every stage of the corporate lifecycle. For more information, please visit [www.capstonepartners.com](http://www.capstonepartners.com).

## Built for the Middle Market

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.



### Disclosure

This report is a periodic compilation of certain economic and corporate information, as well as completed and announced merger and acquisition activity. Information contained in this report should not be construed as a recommendation to sell or buy any security. Any reference to or omission of any reference to any company in this report should not be construed as a recommendation to buy, sell or take any other action with respect to any security of any such company. We are not soliciting any action with respect to any security or company based on this report. The report is published solely for the general information of clients and friends of Capstone Partners. It does not take into account the particular investment objectives, financial situation or needs of individual recipients. Certain transactions, including those involving early-stage companies, give rise to substantial risk and are not suitable for all investors. This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Prediction of future events is inherently subject to both known and unknown risks and other factors that may cause actual results to vary materially. We are under no obligation to update the information contained in this report. Opinions expressed are our present opinions only and are subject to change without notice. Additional information is available upon request. The companies mentioned in this report may be clients of Capstone Partners. The decisions to include any company in this report is unrelated in all respects to any service that Capstone Partners may provide to such company. This report may not be copied or reproduced in any form or redistributed without the prior written consent of Capstone Partners. The information contained herein should not be construed as legal advice.