



Middle-market companies show high ambitions with bullish growth projections

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Despite today's uncertain times, confidence continues to grow as middle-market executives anticipate double-digit growth in 2019.

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e may be entering a period of renewed uncertainty, but you wouldn't know it based on the growing confidence middle-market executives have in their prospects for 2019. Geopolitical issues? Trade tensions? A forecast economic downturn? These issues do not appear to be slowing middle-market executives down.

It's not that they're ignoring them. In fact, they identify a potential economic downturn as one of the key risks they face. Yet, they prefer to remain positive as they take advantage of ongoing global and local economic growth, opportunities to leverage M&A judiciously, and using technology to improve agility and gain a competitive edge.

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- [Europe](#)
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Middle-market executives push full-steam ahead with double-digit growth plans

According to the EY *Global Capital Confidence Barometer*, 58% of middle-market executives surveyed say that their companies expect double-digit growth in 2019 — more than double the percentage in 2018. Their confidence sits atop a foundation of positive economic growth and strong macroeconomic fundamentals — more than 90% expect global and local economic

growth to increase over the next 12 months; while more than 80% anticipate confidence in corporate earnings, short-term market stability and credit availability to improve.

Are the markets peaking? Are we at the summit with tougher times ahead? Certainly, there are signs that have economists and analysts expressing concern, but even so, middle-market executives are taking a full-steam ahead approach for now.

Interestingly, the smaller the middle-market company, the higher its confidence. 71% of growth companies between US\$100m and US\$250m say they anticipate double-digit growth, 42% of those suggest they see a growth rate of 16% or more in the coming year.

Geographically, the winds have shifted in the US's favor, with 80% of US middle-market companies expecting double-digit growth. This contrasts with our 2018 survey, where the geographic drivers of growth tilted East, and the Asia-Pacific region led the way in growth opportunities. In our recent survey, only 39% of middle-market executives in the Asia-Pacific region have double-digit growth plans. Europe, meanwhile, sits in the middle, with 57% saying they expect growth in the double digits.

Middle-market executives are clear-eyed about the risks that lie ahead

For all of their confidence in their growth opportunities in 2019, middle-market executives acknowledge that there are also risks. While the percentage of middle-market executives concerned about a slowdown in economic activity impacting their growth plans has dropped (from 42% in 2018 to 33% in 2019), executives still see it as a top priority risk. The IMF downgrade of its growth forecast for the fourth time in 12 months (3.9% in July 2018, 3.7% in October 2018, 3.5% in January 2019 and most recently 3.3% in April 2019), may certainly be playing a role in keeping an economic slowdown on their risk radar.

Meanwhile, where many middle-market companies have traditionally viewed geopolitical risk simply as a cost of doing business, 19% now see geopolitical risk as a threat. Equally, 19% see as a key risk supply chain disruption, which may stem from global trade tensions and for example, from the retaliatory tariffs between the US and China, and the US and the European Union. According to EY's Trade Barrier Impact Survey (October 2018), "84% of US executives impacted by tariffs are reviewing or have already made changes to their procurement strategy, global manufacturing footprint or global warehouse strategy/network design."

Unsurprisingly, technology-driven competition has middle-market companies worried as well, with 31% identifying disruption from technologically-advanced competitors or competition

from new entrants as significant challenges to growth. As sectors converge, and disruption from unexpected competitors continues to escalate, we expect these technology-focused competitive concerns to continue.

Growth risk

33%

of respondents believe slowing economic activity, both global and local, could impact growth plans.

Middle-market companies invest in technology to improve agility and resilience

As a hedge against technology-driven competitors, and to improve their agility and resilience against risks that could negatively impact their growth plans, almost all middle-market companies (97%) indicate that they are planning a significant investment in technology in the year ahead. Investment spend appears to be split between acquisition and in-house development however when it comes to artificial intelligence (AI), the emphasis is now definitely on the latter.

Two years ago, when we asked survey respondents about their intended use of AI, 74% said they would never adopt it. One year later, 73% expected to deploy it within two years and now, in our most recent survey, more than 70% say they are planning to develop and deploy AI in-house.

Part of the push towards in-house AI development may be the need to come up with bespoke solutions that integrate with legacy systems. However, middle-market companies also see in-house AI as a means of gaining competitive advantage.

The emphasis of this technology development is spread equally across multiple priorities — creating new products and services, improving internal efficiencies, enhancing the customer experience and bolstering data access and analysis — the one area that stands out is risk reduction (including cybersecurity). In 2018, only 7% of middle-market executives said they would be investing in technology that reduced risks. This year, the percentage has more than doubled, with 19% now looking to invest in technologies that can help them manage and mitigate their cyber risks.

Middle-market executives turn to M&A to tackle disruption and accelerate growth

For many middle-market executives, M&A appears to be a means to acquire capabilities, tackle disruption and exploit fast-growth opportunities. 47% of middle-market executives say they expect their companies to pursue M&A over the next 12 months, with 90% anticipating that the M&A market will improve during the same time frame.

M&A activity

47%

of respondents expect to actively pursue M&A in the next 12 months.

Looking at where middle-market companies are planning to invest their money, again, geographic appetite has tilted from East back to West with middle-market executives identifying the US as their top destination, followed by the UK, despite the ongoing uncertainty around Brexit. Perhaps to hedge their bets against a still possible, if now unlikely, hard Brexit, middle-market companies also see Germany and France as top destinations of choice. However, despite mixed recent economic indicators, China still appears (at no.4) in the top five most attractive destinations for M&A investment.

In terms of sector focus, technology companies (54%) seem to have the biggest appetite for dealmaking, followed by telecommunications (49%) and industrials (49%).

Looking ahead, middle-market companies will continue to build resilience even as they keenly pursue fast growth

As we look ahead, we anticipate that middle-market executives will focus on achieving their ambitious growth plans through a combination of seizing fast-growth opportunities through M&A, and strengthening financial discipline, managing their supply chains and implementing AI.

In finding the right balance between growth and investment, middle-market companies could achieve their aggressive growth rates, improve their agility and build resilience while navigating uncertain times ahead.

Chapter 1

Asia-Pacific companies look farther afield for growth

Asia-Pacific middle-market companies step beyond domestic borders to drive their business growth.

Middle-market companies in the Asia-Pacific region continue to pursue their growth ambitions, but they are looking farther afield than in previous years to achieve them.

Asia-Pacific executives remain confident in their growth prospects

Geographic expansion appears to be a key focus for M&A

Optimism for growth is tempered by the challenges that lie ahead

Executives turn to technology for agility and resilience

A look ahead suggests a dual path toward growth and resilience


By Loletta Chow, EY Asia-Pacific Growth Markets Leader

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Chapter 2

European middle-market executives expect growth prospects to improve

Confidence is high in the European middle market with 92% of executives expecting global and domestic growth prospects to improve.



European middle-market companies are feeling bullish about their financial performance and their ability to achieve double-digit growth. More than any other region, European middle-market executives plan to use M&A to help them achieve their objectives. However, even as they pursue their growth plans, they plan to build resilience within their organizations by making better use of technology and closing the talent gaps.

Plans for double-digit growth prevail despite economic headwinds

European executives have greater M&A appetite than other regions

Talent shortages pose greatest risk to future growth

Technology investment is on almost everyone's agenda

European executives must build resilience through 2019

By Guillaume Cornu, EY EMEA Growth Markets Leader

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Chapter 3

US middle-market companies lead the way in growth ambitions

US middle-market companies continue to be bullish on growth, but they are building resilience in anticipation of challenges ahead.

The winds of growth have turned around, shifting their trajectory from East back to West as the US has become the main driver of global growth among middle-market companies in 2019.

4 of 5 middle-market executives expect double-digit growth

Bullish executives are keeping an eye on the red flags

Agility and resilience depend on both organic and inorganic growth

Expect the confidence to continue throughout the rest of 2019

By Lee Henderson, EY Americas Growth Markets Leader

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Key highlights from our global report

Why executives expect continued growth in the near term

Why dealmaking is expected to come in many forms in 2019

Why portfolio reshaping has moved to the top of the agenda

Global M&A market is expected to remain at

the speed of disruption is forcing executives to more

Broad-based confidence across multiple indicators underpins positive outlook.

elevated levels while the imperative to manage emerging opportunities and

frequently examine their portfolio for risks and opportunities.

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Summary

The EY *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas.

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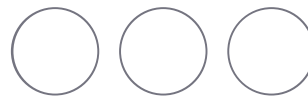
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