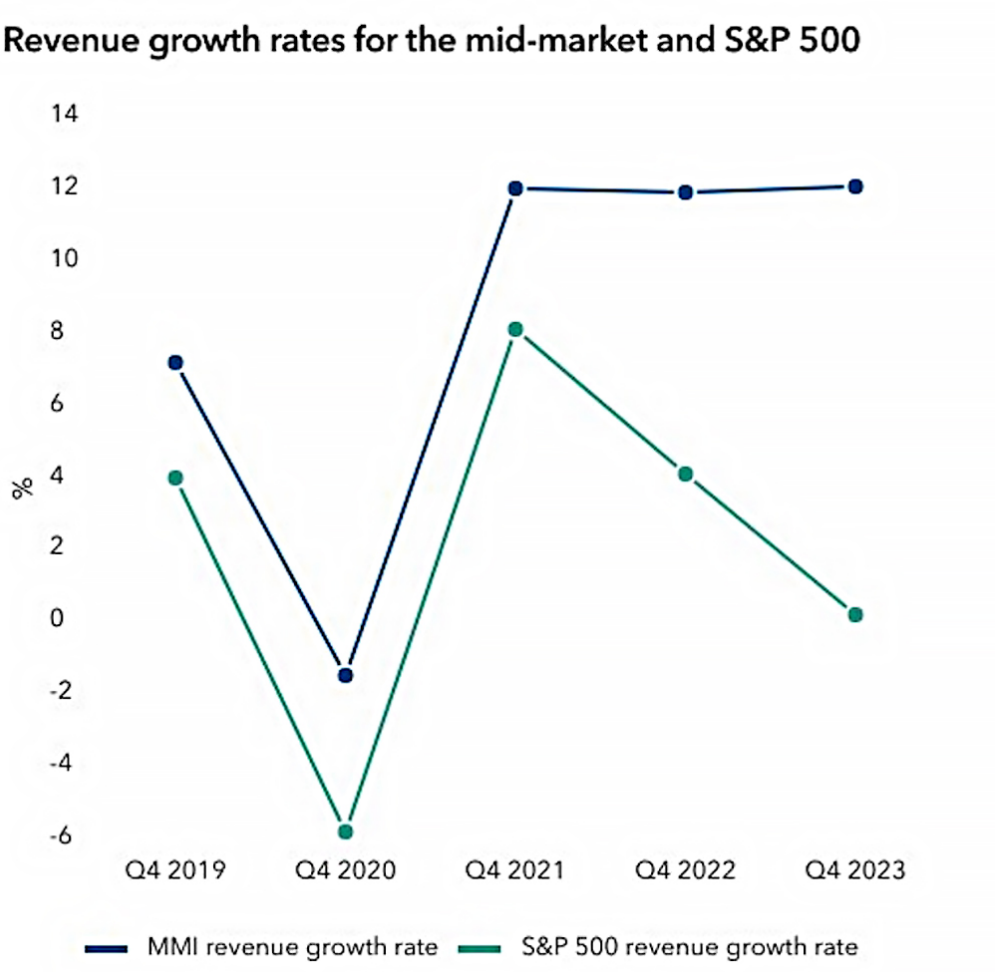
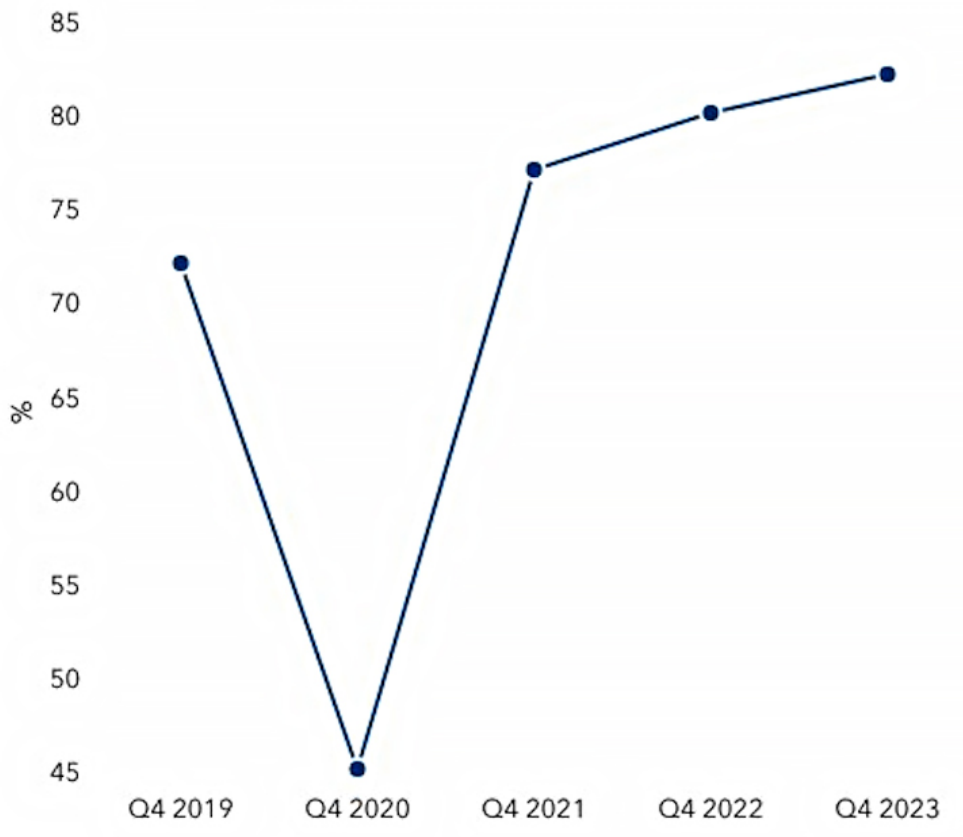
Arguments for the middle way

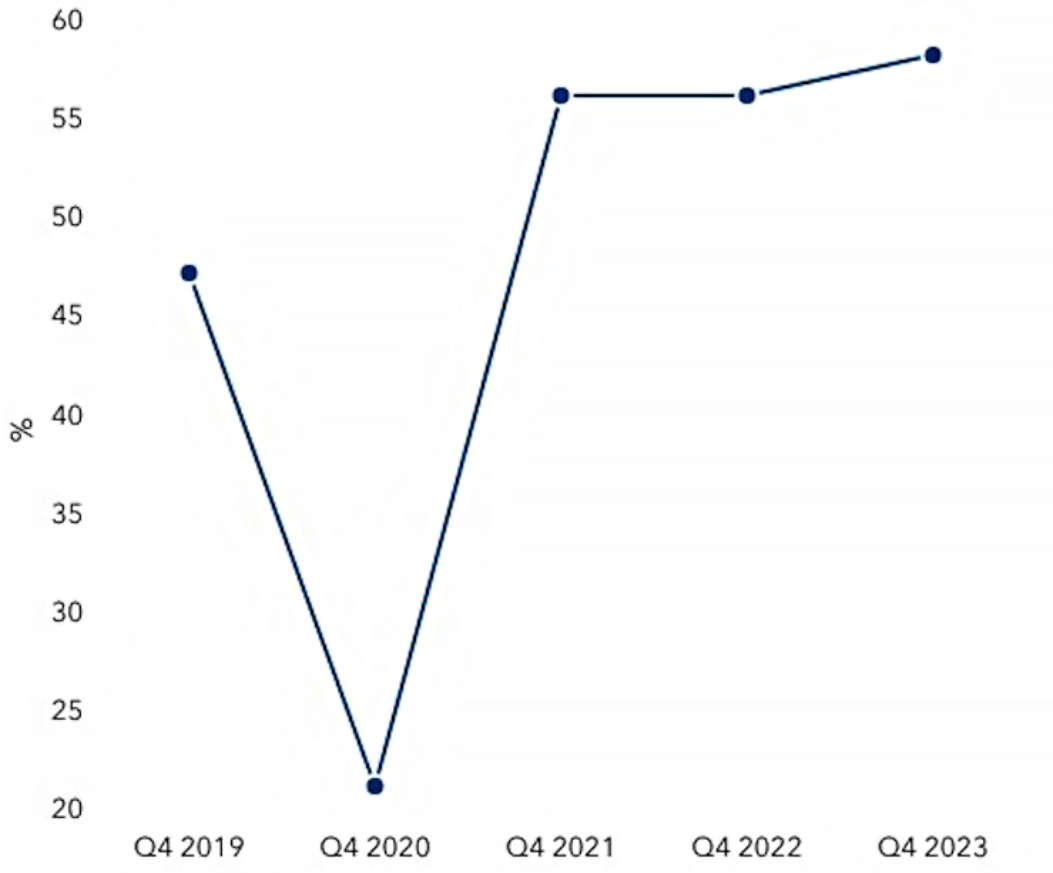
PEI Private Credit | May 29, 2024



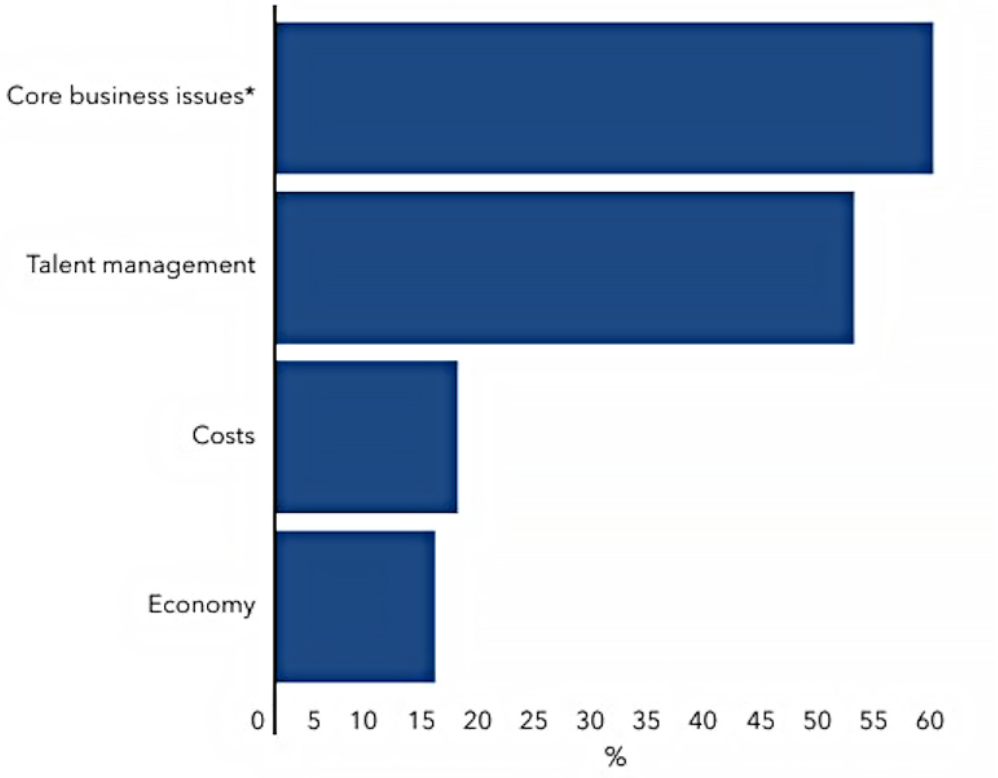
Percentage of mid-market companies reporting year-over-year revenue growth

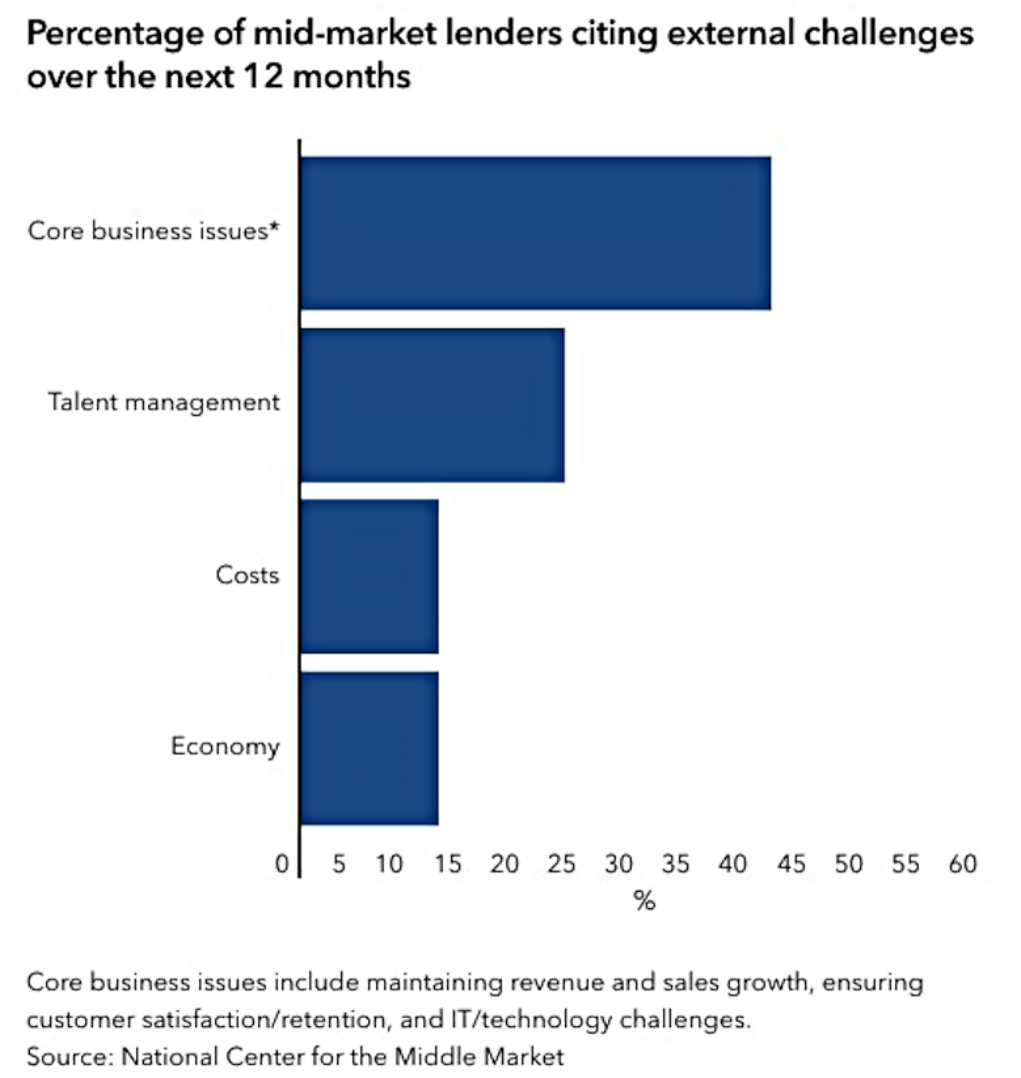


Percentage of mid-market companies reporting year-over year employment growth



Percentage of mid-market lenders citing internal challenges over the next 12 months





A new report examines themes in the mid-market and finds optimism growing as investors seek to diversify.

It has undeniably been a challenging few years for small and medium-sized businesses. But are the tides starting to turn? Recent data suggests earnings of mid-market firms are consistent with a consensus that the worst may be over: M&A looks finally set to rebound and lenders report a bullish start to the year. Here are three trends characterising the mid-market in 2024:

1. The earnings of mid-market companies in the Golub Capital Altman Index grew by 11 percent in the first two months of Q1 2024. This represents a third consecutive quarter of double-digit EBITDA growth. Meanwhile, revenue grew 5 percent. The index follows the revenue and earnings growth of approximately 110-150 privately owned companies in the Golub Capital loan portfolio for the first two months of each calendar quarter.

2. Sector focus is shifting and lenders are looking beyond the three resilient, high-margin segments – healthcare, business services and technology – that have won favour in recent years. Business segments that are characterised by strong recurring revenues and loyal customers continue to be front of mind, but in a post-covid environment some lenders are now casting the net wider. Diversification has always been a key priority for any direct lender focused on the mid-market, but that is true more than ever.

3. Investors are warming to the lower mid-market as they seek to capitalise on a less trafficked part of the lending landscape. Those not persuaded of the segment’s merits would point to the risks associated with lending to smaller firms but defenders would argue that lenders in this space can build stronger partnerships with borrowers, with more opportunity for due diligence, lender protections and regular information flows.

The observations here are taken from *Private Debt Investor’s Mid-Market Lending Report* (June 2024).