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PUBLISHED: 20 January, 2022

NEWS & ANALYSIS

US mid-market earnings continue to blow past pre-pandemic levels

Golub Capital Altman Index jumped 21%, and technology earnings soared 54%, compared to 2019.

Earnings for mid-market private companies leaped by 21.7 percent in the fourth quarter of 2021, compared with the same period in 2019, according to a new report by the Golub Capital Altman Index.

Technology companies saw the largest increase in earnings by sector, rising 54.5 percent from the like period in 2019. Also making healthy progress were consumer companies, whose earnings grew 34.7 percent.

Revenue of mid-market private companies saw similar growth to that of earnings, climbing 21.4 percent compared to two years ago. Consumer revenue accounted for the biggest sector increase at 33.3 percent, while tech revenue was right behind at 32 percent.

However, the industrial sector struggled in the fourth quarter, with earnings in that sector dropping to 5.3 percent from 2019, which Golub attributed to rising costs and supply

chain issues. The firm said industrial companies could not meet demand and missed their operating leverage, which measures a business's break-even point, causing higher labor and material costs to compress margins.

"Boomflation continued in Q4," said Lawrence Golub, chief executive officer of Golub Capital, in the report. "For the third consecutive quarter, median revenue and EBITDA grew by more than 20% compared to the same period in 2019, pre-Covid," Golub added.

But growth in 2021 wasn't as strong when compared to the fourth quarter of 2020. Revenue and earnings rose a still strong 16.9 and 8.5 percent, respectively, in last year's fourth quarter, compared to the like period in 2020, according to Golub. By sector, consumer saw the largest percentage increase in year-over-year growth in both revenue and earnings with 24.1 and 17.1 percent, respectively, according to the firm.

As for concerns about the Omicron variant of the coronavirus, Golub believes companies that thrived through the pandemic will be well equipped moving forward.

"Looking ahead, Omicron seems likely to drive dispersion in company performance based on industry as well as geography," said Edward Altman, an NYU finance professor and co-collaborator of Golub's index, in the report. Altman believes businesses that sell intangible goods and services will have an easier time than those that rely on physical goods or in-person interactions.

The Chicago-based Golub Capital is a direct lender and credit asset manager with more than \$45 billion of capital under management. The firm specialises in sponsor finance, late-stage lending, broadly syndicated loans and opportunistic credit.