

By: Robin Blumenthal
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NEWS & ANALYSIS

Earnings, revenues of mid-market companies still growing: Golub index

Firms exhibited 'muddling growth' in the latest quarter from a year ago, says Golub's chief executive officer, but at a significantly slower pace than the first quarter.

Mid-market private companies continued to show year-on-year growth in earnings and revenues in the first and second months of Q2, albeit at a slower pace than in the first quarter, according to the Golub Capital Altman index.

Companies in the index, which measures the median revenue and earnings growth of approximately 110-150 privately owned companies in the Golub Capital loan portfolio, grew earnings 5 percent and revenue 4 percent in the period. That compares to a somewhat more torrid pace in the first two months of the year, when the index recorded 11 percent growth in both revenue and earnings.

"We expected muddling growth and that's what we got" in the second quarter, Lawrence Golub, chief executive officer of Golub Capital, said in an interview with Private Debt Investor. "We were surprised

at the growth in the first quarter, and we went back to reasonable expectations in the second quarter." The results showed that Main Street had largely "shrugged off the impact of March's bank failures", he said in a statement.

"Growth exceeded our expectations across all four sectors we track," Edward Altman, director of research in credit at the New York University Salomon Center for the Study of Financial Institutions and co-producer of the index, said in the statement. But he said that the data showed "notable differences in performance by sector", with revenue declining 4 percent year-on-year in the industrials sector at the same time that profit grew by 9 percent.

The unusual margin expansion in the face of falling revenues "highlights the importance of pricing power", Altman said. "Industrial companies that were able to pass through price increases in prior

quarters are now capturing the benefit of falling input costs," he said. But labour market tightness weighed on margins in the consumer and healthcare sectors, where earnings rose 0.8 percent and fell by a like amount, respectively. Tech, which recorded earnings growth of 26 percent and revenue growth of nearly 8 percent, "had the best of both worlds": robust demand for productivity-enhancing software solutions and high operating leverage.

As for the economy, Golub said in the interview that "none of our data shows what you would expect to see if there were a recession coming in the next few quarters", adding that "the economy has been very resilient, especially the parts that are not interest-rate sensitive". The New York-based lender had assets under management of more than \$60 billion as of 1 January. ■