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September 2025

RapidRatings | Marblegate Middle Market Update

The Hollowing Out of the Middle Market— A Working Capital Crisis Unfolds

An Analysis of the Financial Performance of Private Middle Market Companies and their Large Public Company Peers

Important Information

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Executive Summary

Working capital mismanagement becomes existential for middle market companies hollowed out by declining solvency

FY 2024 Data from RapidRatings

Marblegate has again partnered with **RapidRatings** a leader in supply chain risk analytics to analyze the otherwise inaccessible full-year financial data of **1200+ private middle market companies** and compares that to their larger public peers also tracked by RapidRatings.[1]

Persistent Weakness as Bankruptcies Surge

As we expected, the disastrous 2023 data results contributed to **increased insolvencies manifesting itself in near record levels of bankruptcies** culling many of the weakest firms. Against a backdrop of looming tariffs, private middle market firms continue to **underperform public peers**, showing **divergent trends** and **persistent financial stress in the 2024 data.**

Working Capital Crisis Unfolds

Cash flow problems are taking center stage. With input, labor, and capital costs still high, earnings for middle market companies remain negative and average interest coverage hovers just above 1x. We believe **working capital stress is at the root of increased bankruptcies** and the data highlights this weaknesses in middle market companies' cash flow.

Tariff Exposure Threatens Solvency

Efforts to reshape global trade and U.S. industry expose already challenged middle market companies to even greater stress. Tariffs could **increase costs by 6% to 14%, driving margins negative** and exacerbating cashflow issues resulting from an extended cash conversion cycle and limited cash coverage of expenses.

Capitalizing on the Hollowing Out

The data reveal significant opportunities for **turnaround-oriented investors like Marblegate**. While traditional lenders struggle with stressed and distressed assets they can't effectively manage, firms equipped to execute **both a financial and operational restructuring can create substantial value through active investment.**

About the Data

Marblegate partnered with RapidRatings to uncover previously inaccessible insights on the U.S. middle market

As with prior analyses, **within the RapidRatings universe**, we focused on the more than **1,200 private companies** in their dataset that have sales revenues **between $100 million and $750 million.**

For the large public companies, we used **publicly available data from the Russell 3000**, excluded financial services companies and REITs from the analysis as well as duplicate tickers and recent IPOs. In addition, we removed:

- Companies with less than $750 million sales revenue
- Companies that have corporate headquarters outside the United States
- Companies whose stock is traded on a non-U.S. exchange
- Companies that report in non-USD currency
- Companies that reported no revenue between 2019 and 2024

This left approximately 1,700 public companies to compare to the middle market private company data set.

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Marblegate Asset Management is an alternative investment firm specializing in middle market private credit and special opportunities. Marblegate invests in troubled middle market assets sourced directly from banks and other providers of credit. Our flexible approach enables us to invest across the full range of distress and special situations including restructurings, performing value investments, liquidations, equity as a result of reorganizations, DIP financing, asset-based financing, litigation and rescue financing. As a turnaround-oriented investors, we utilize in-house financial and operational restructuring expertise to transform troubled companies and assets to create value. With our broad mandate and direct sourcing, we uncover opportunities irrespective of the economic environment.

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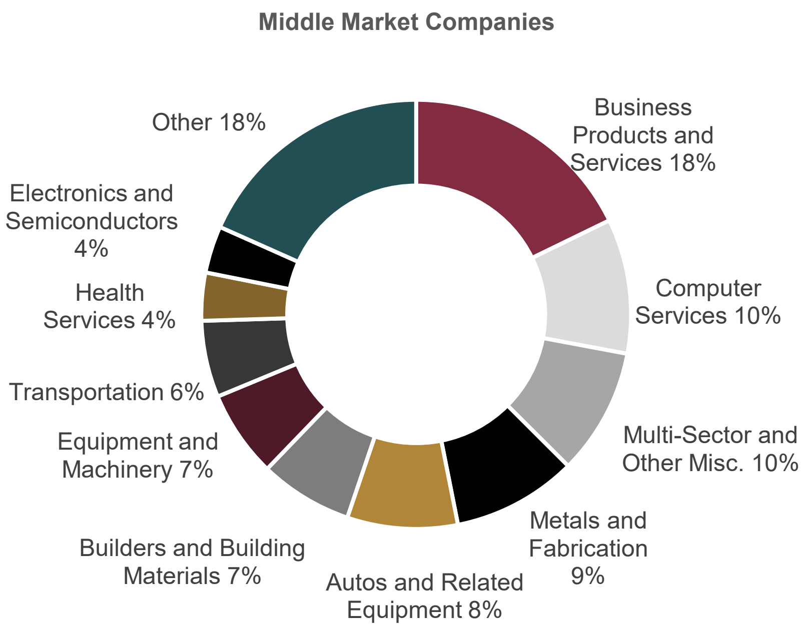
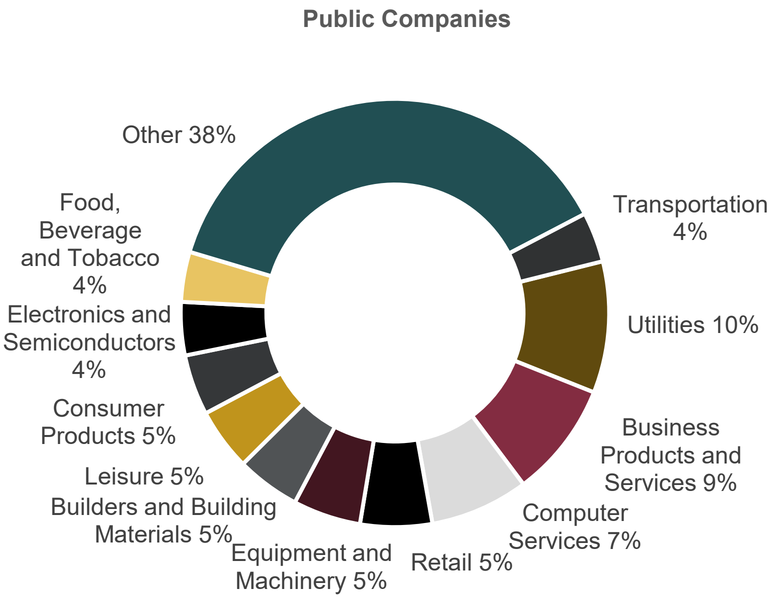
Please see Endnotes for additional information including a link to request access to the white papers.

About the Data

A diverse set of industries – "Other" includes over 15 industries that account for less than 4% each





Middle Market Companies Drive Surge in Bankruptcies

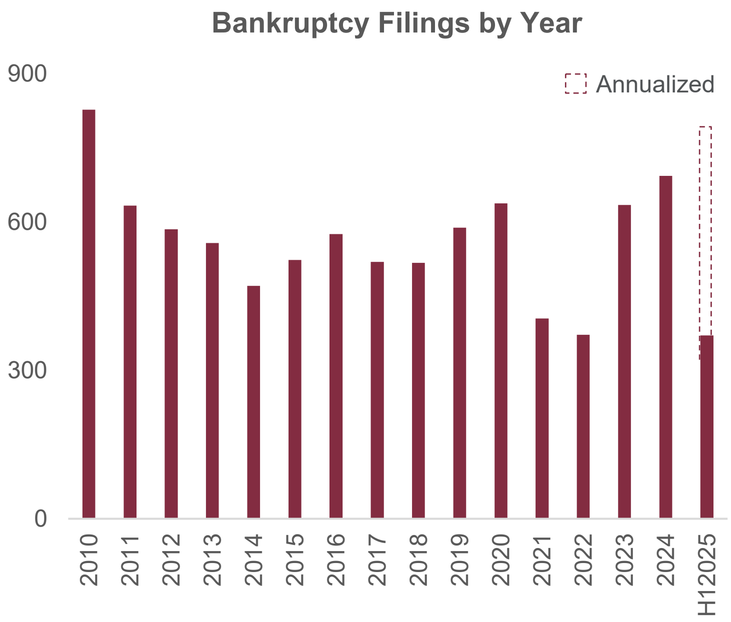
Bankruptcy filings are at 14-year highs— **a hollowing out driven by cost pressures and cash flow problems**

Middle market companies face a perfect storm: operating stress collides with growing cash flow problems. **Bankruptcies hit their highest levels since 2010**, with smaller firms with less than $1 billion in liabilities comprising over 95% of 2024 filings[2]. Q1 2025 data suggests another record high.

Rising costs, shrinking margins, fewer financing options, and looming tariffs intensify restructuring pressure. Middle market firms lack the scale and flexibility of larger competitors, making them especially vulnerable through poor working capital management.

Working capital drives cash flow, yet middle market firms struggle with extended cash conversion cycles and deteriorating payment terms as their financial condition weakens.

This is at the crux of the ongoing need for creative capital to drive financial and operational restructurings, to allow companies to adapt to new economic realities while generating an attractive return on capital.



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The Ongoing Hollowing out of the Middle Market

2024 data highlights the sustained decline and divergence versus public peers across each measurement period

Middle market companies continue to lag behind their larger public peers, with the performance gap persisting since 2019. While public companies rebounded quickly from pandemic shocks and thrived despite persistent inflation and higher capital costs, middle market companies have struggled to recover.

Key performance gaps include:

- The gap in relative earnings power **widened by nearly 40% from 2019 levels**
- Average margins **compressed by 1/3**
- Profitability turned negative in 2023 and **remained negative through 2024**
- Leverage has **more than doubled since 2019**
- Interest coverage has collapsed **threatening solvency**

	Change Since 2019					
	2022[3]		2023[4]		2024	
	Middle Market	Public	Middle Market	Public	Middle Market	Public
EBITDA	-24%	+18%	-39%	+16%	-23%	+16%
EBITDA Margins	-25%	-2%	-38%	-6%	-33%	+2%
NPAT	-79%	+33%	-233%	+27%	-227%	+24%
Total Liabilities	+23%	+1%	+45%	+5%	+72%	+8%
Leverage	+62%	-14%	+139%	-9%	+126%	-7%
Imp. Rate on Debt	-12%	-11%	+44%	+8%	+29%	+15%
Interest Coverage	-33%	+35%	-73%	+9%	-68%	+15%

Over One in Five Middle Market Firms Can't Pay Interest

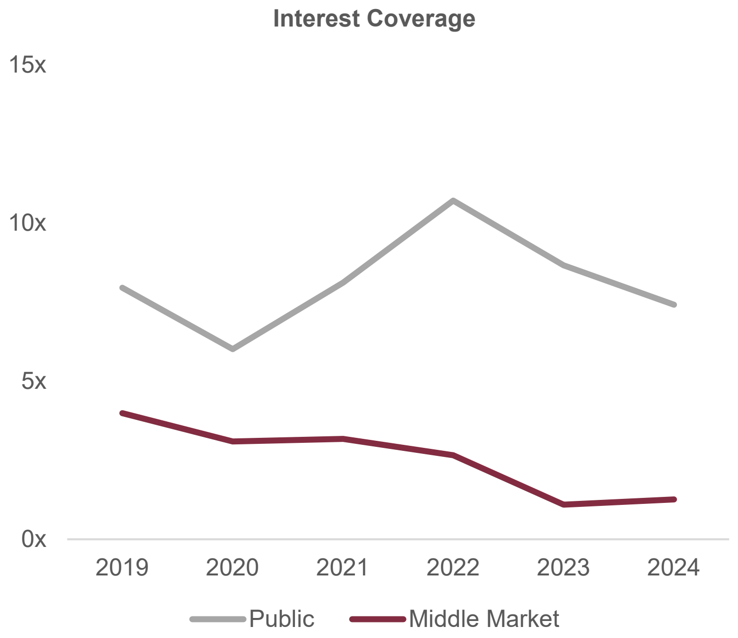
Average interest coverage hovers just above 1x with over 20% of private middle market companies falling below 1x

Declining earnings, rising debt levels and higher interest rates have eroded solvency for many middle market firms. **In 2024, the average interest coverage ratio was just 1.26x**—remaining near the recent lows established in 2023.

As of FY 2024, more than 20% of middle market companies in our dataset reported interest coverage below 1x—meaning they simply can't pay their bills. This aligns with data from CreditSights' Bixby Private Broadly Syndicated Loan database, which found **23% of tracked private firms ended 2024 below the 1x threshold.**[5]

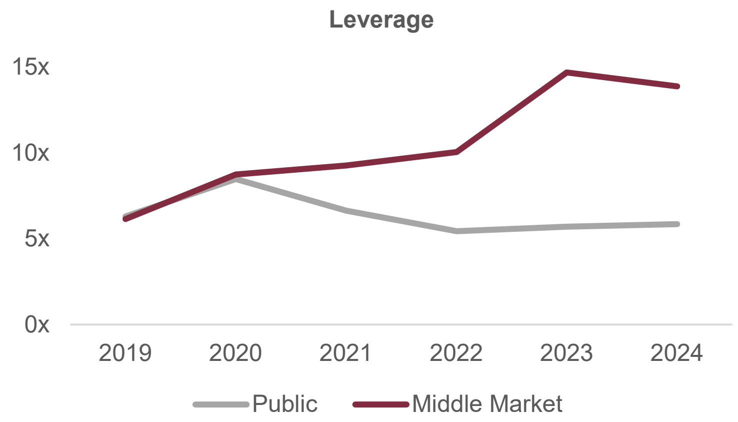
Public companies have maintained stronger coverage, thanks to access to long-term fixed-rate debt and robust post-pandemic earnings. However, even they have seen coverage ratios compress as short-term debt was refinanced at higher rates.

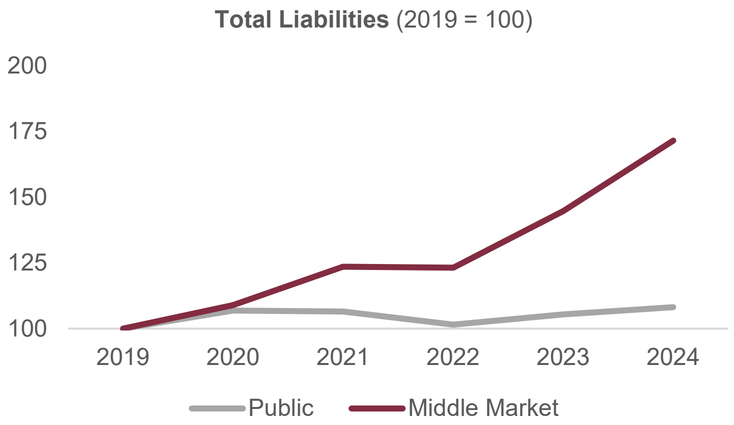
Uncertainty around tariffs and the resultant inflation combined with elevated benchmark rates, and tighter capital flows may apply **continued pressure across both public and private borrowers.**



Soaring Leverage is Consuming Capital

Public peers recovered strongly post-pandemic while middle market companies faced rising debt and shrinking margins





Middle market companies have seen leverage explode, doubling since 2019 due to extended cash conversion cycles and collapsing margins like other smaller firms. Bloomberg Intelligence **reported small cap public companies' leverage is one standard deviation higher than in 2019** leaving them with significantly less financial flexibility.[6] By contrast, large public peers have kept leverage contained given greater pricing power and more efficient working capital management.

With profits under pressure, **middle market firms have turned to additional borrowing to cover rising costs and working capital needs.** In contrast, public peers benefited from stronger post-pandemic earnings and avoided similar debt expansion. **Since 2019, total liabilities among middle market companies has surged over 70%.**

Working Capital Becomes an Issue of Solvency

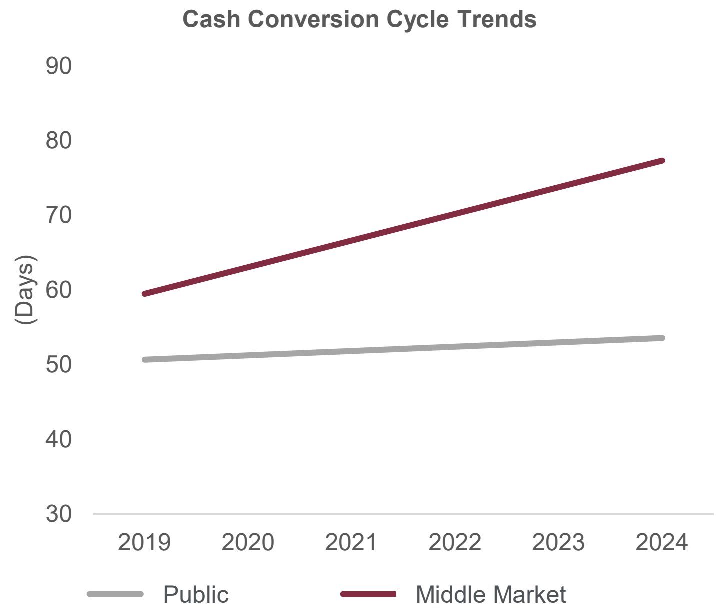
The engine of the economy is misfiring – the timing of cash flows is as important as the magnitude

Working capital pressures intensify challenges for middle market companies. With tighter margins and higher debt costs, these firms face higher operational risks than public peers, struggling to rapidly convert revenue into cash flow.

The cash conversion cycle tells the story: Middle market companies now exceed 70 days while public companies remain stable at approximately 50 days. This growing divergence creates a **critical disadvantage** when managing declining earnings and increasing leverage.

The widening gap has driven middle market firms to increase leverage largely though inventory and receivables-based financing, introducing **costs and complexity that often catalyze financial distress.**

Rising input costs, tariffs, and persistently higher rates will likely extend middle market companies cash conversion cycles further, **driving increased distress across the middle market.**



A Beggar-Thy-Neighbor Economy

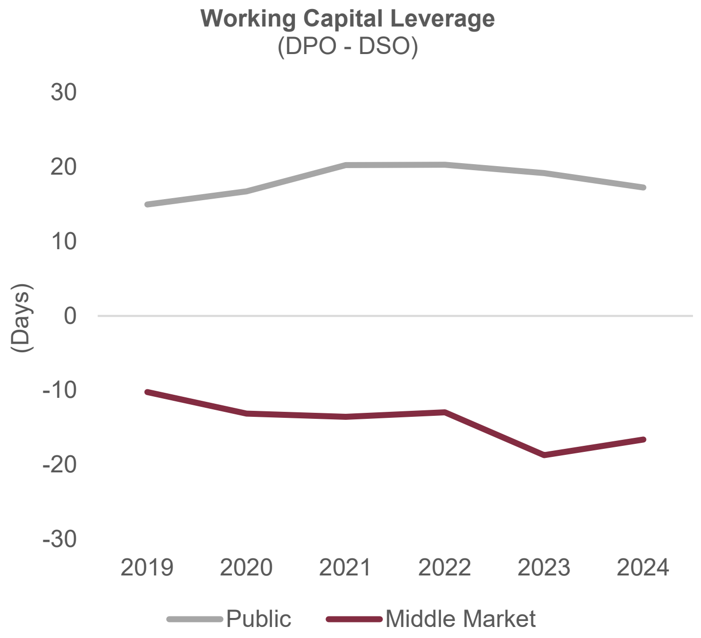
Working capital underpins solvency and middle market companies lack leverage in managing their cash flow

Working capital management drives stress and distress, particularly as the increasing sales-to-cash mismatch creates mounting operational complexity.

At the root of working capital challenges, **middle market companies are often forced to extend favorable payment terms to buyers while suppliers demand faster payment**—essentially turning these companies into providers of capital and creating a cash crunch they cannot manage or afford.

Public peers benefit from the reverse dynamic: collecting on sales before paying bills. **This working capital leverage gap has grown over 30%** since 2019, leaving middle market companies increasingly exposed to cash flow stress given little control over payment terms.

Middle market firms often lack the tools to manage such complexity. Combined with the growing financial strain experienced over the past five years, renewed **supply chain disruptions and increases in costs** will likely push many more middle market firms into insolvency.



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Narrow Margins Leave Little Room for Error

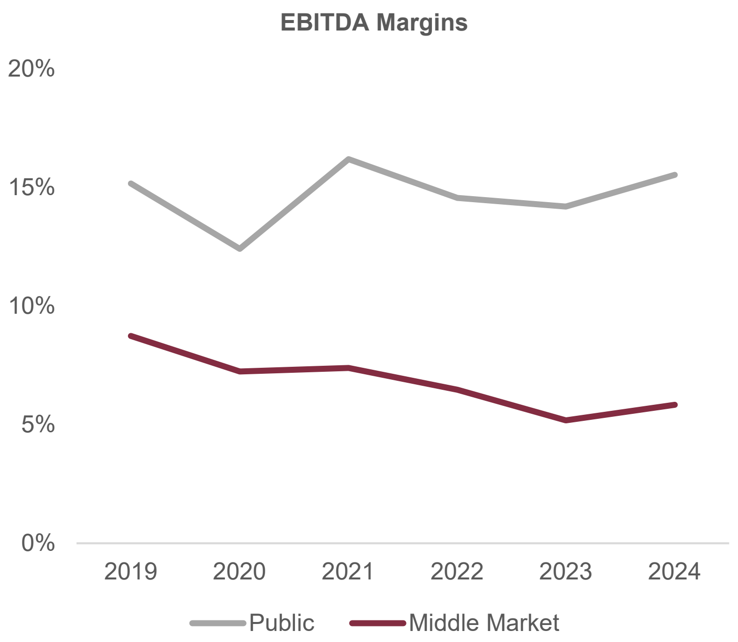
EBITDA margins are less than 40% of the public peers limiting financial and operational flexibility

Middle market companies now average **EBITDA margins below 6%—**a drop of over 30% since 2019. In contrast, large public peers have maintained margins above 15%, with modest gains over the same period.

Public companies have been more effective at passing additional costs to customers and suppliers. Their margin advantage enables them to absorb costs they can't fully pass through. **Middle market firms** lack this flexibility. With already thin margins, they have **limited capacity to absorb in input and financing cost increases.**

High leverage and elevated debt servicing costs will consume much of the middle market companies' margin given interest coverage ratios sit near 1x. **Managing cash flow becomes existential,** yet our data shows limited control over cash conversion cycles.

Without pricing power, tariff-driven inflation and rising labor costs will likely force additional borrowing—while **reduced earnings and elevated leverage will limit access to capital and increase the cost of capital.**



Earnings Power has Declined as Costs Remain High

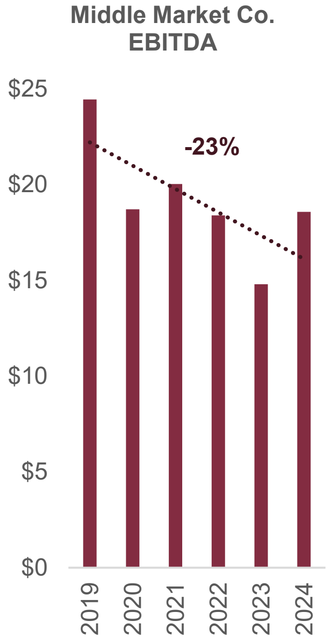
Larger public peers recovered strongly from the pandemic while middle market companies remained impaired

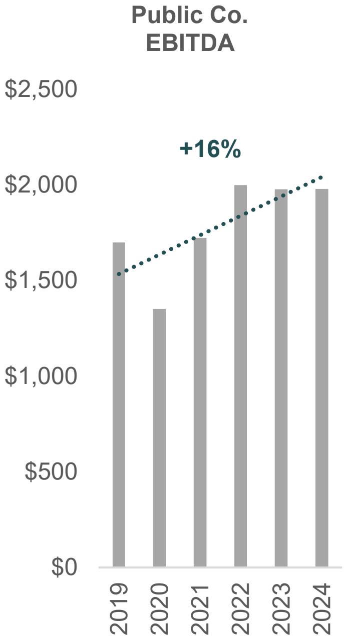
A sharp earnings divergence emerges when comparing EBITDA to 2019 levels. Large public companies recovered strongly post-pandemic, **expanding margins 16%** despite rising costs and rates.

Middle market firms tell a different story: EBITDA down nearly 25% since 2019. Limited pricing power against higher input costs created this material decline. While average EBITDA rebounded from 2023 lows as weak firms failed, the sector remains mired at pandemic levels.

NFIB survey data reinforces the trend: The net share of small businesses reporting earnings gains has remained negative since 2020—those reporting contracting earnings meaningfully exceeds those reporting earnings growth with the data in 2024 nearing pandemic-era lows[7].

CreditSights data from middle market borrowers shows **over 40% experienced negative quarterly EBITDA growth** over the past two years. Nearly a quarter of the companies tracked saw quarterly EBITDA contractions exceeding 20%[6].





Negative Profitability Accelerates the Hollowing Out

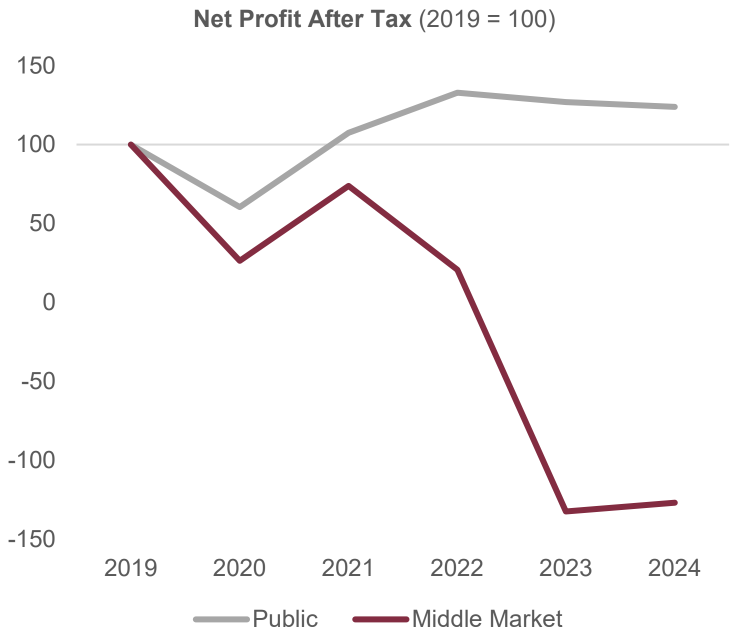
Consecutive years of negative NPAT highlights continued strain on middle market firms

Middle market companies have turned unprofitable after covering expenses and taxes. Surging inflation and rising rates drove Net Profit After Tax ("NPAT") sharply lower—with no recovery despite easing pressures.

Profitability collapsed over 200% since 2019 for middle market firms—companies earning $10 million in 2019 now lose $10 million. Public companies rebounded quickly post-pandemic and preserved earnings despite rising costs and rates.

This steep decline exposes working capital inefficiencies and persistently narrow margins. Soaring liabilities—tied to elevated working capital needs—**compound the stress** on net profit.

Public companies leveraged scale and flexibility to protect margins as pressures mounted. **Middle market firms lack the tools and resources** to manage these challenges effectively—**and underperformed significantly.**



Tariffs Could Trigger a Crisis

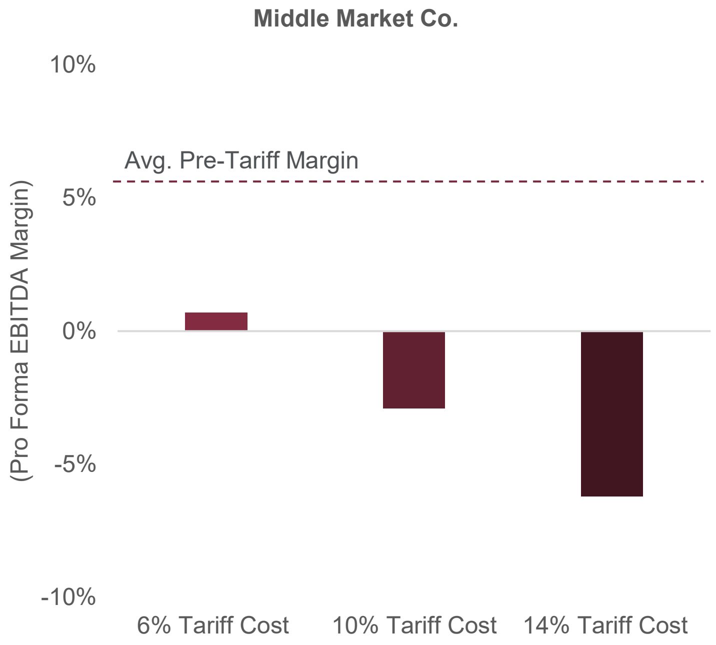
Cost increases in a new trade regime could erase narrow EBITDA margins managing the impact will be critical

We analyzed the companies' in our data set supply chains by country and applied the tariff rates expected to take effect on July 9. The results suggest a **6–14% increase in costs**, depending on the range of possible tariff rates and a company's exposure to a given country.

Without operational changes—price increases, volume gains, or cost cuts—tariffs could **eliminate already thin margins. Even a 6% increase could push the average middle market company into insolvency** given debt service coverage just above 1x.

On average, **middle market companies hold just 45 days of cash on hand** to cover gross monthly expenses, while their cash conversion cycles approach 70 days. Tariff-compressed margins could deplete liquidity quickly—potentially triggering a broader credit crisis.

Middle market firms have not been able to offset cost increases effectively. Rising liabilities funded expenses, without addressing margin decline. If tariffs are enacted at the levels proposed, **this margin erosion could escalate into a structural threat for many companies.**



Public Companies Show Greater Resilience

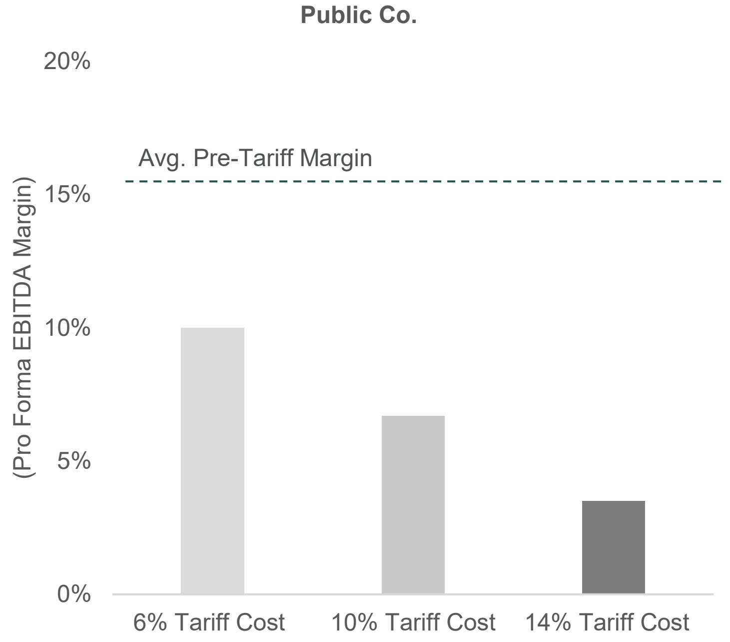
Tariffs will hurt, but stronger margins, liquidity, and borrowing capacity offer a buffer absent in the middle market

Public companies benefit from wider margins and stronger balance sheets, providing them more tools to absorb a 6–14% increase in costs from tariffs or supply chain disruptions.

Even with a 14% cost increase, margin erosion for public companies is approximately 75% **versus the 200%+ declines for middle market companies** due to thinner starting margins.

With an average cash buffer of **more than 2x gross monthly costs** and a shorter cash conversion cycle, **public firms can better manage short-term disruptions**. Lower leverage and stronger debt coverage also provide room to raise capital or refinance if needed.

Public companies are better positioned to counteract costs through price increases, volume gains, or cost reductions. **Most have maintained margin stability since 2019 and have the capital to invest in productivity or supply chain resilience.**



Tariffs Require a Strategic Response Taxing Firms' Skills

Managing 6–14% cost increases **requires either twice the revenue growth or double the cost reduction**

	Base	Tariff Inflation +6%	+10%	+14%
Revenue	$100	$100	$100	$100
Direct Costs (ie. COGS)	$60	$64	$66	$68
Gross Margin (GM)	$40	$36	$34	$32
GM%	40%	36%	34%	32%
Indirect Costs (ie. SG&A)	$30	$26	$24	$22
EBIT	$10	$10	$10	$10
EBIT Margin	10%	10%	10%	10%
Grow Volume to Maintain Margins				
Required Revenue		$110	$118	$127
% Volume Growth Required		10%	18%	27%
Cost Cuts to Maintain Margins				
Required Cuts in Indirect Costs		($4)	($6)	($8)
% Cuts in Indirect Costs		-12%	-20%	-28%

Following on the margin pressure discussed in the previous slide, this simplified model illustrates the **real-world trade-offs companies face in responding to input cost inflation**.

Two levers—grow revenue or cut costs—create operational stress:

- The average middle market company **has not successfully increased volumes or protected margins** post-2019. Tariffs and inflation will exacerbate this challenge.
- To preserve a 40% gross margin, companies must **increase revenue by 10–27%** depending on cost inflation severity.
- Alternatively, they would need to **cut indirect costs** (SG&A) by **12–28%**—a level of restructuring with significant operational risk.

For every $1 increase in direct input costs, **companies must increase revenue by nearly 2 to 3 times that amount to maintain EBIT.**

With limited ability to either grow fast or cut deep, **middle market companies face significant risk under sustained inflation and tariff pressure.**

Capitalizing on the Hollowing Out

Absent an inflection point prompted by tariffs or shifting capital flows, a grinding hollowing out will persist for some time

"How did you go bankrupt?" Bill asked.

"Two ways," Mike said. Gradually and then suddenly."

– Ernest Hemingway,
The Sun Also Rises, 1926

Hemingway captured bankruptcy perfectly: it happens "gradually and then suddenly." Middle market companies have been **going bankrupt gradually** for five years **through margin compression and cash flow deterioration.**

Managing working capital is the key to keeping companies solvent—and our data shows the average middle market company is **failing at this critical survival tool.**

Tariffs could trigger the "suddenly"—creating an inflection point where widespread failures in the middle market threaten larger public companies that often depend on these companies as their suppliers.

As we have highlighted in our original white papers, **the middle market is a vast opportunity set** making up over **1/3 of private sector GDP** generated by over **300,000 businesses** employing as many as **50 million people.**[8]

This period of dissolution in the middle market creates the **most compelling investment opportunity in credit since the Great Financial Crisis.** Middle market credit is highly fragmented and is dominated by lenders without the skills to manage problem credits.

As lenders are forced to exit these troubled credits, **creative capital focused on financial and operational restructuring** can reposition the businesses to manage today's economic realities—improving cash flow and restoring earnings power and thereby generating attractive risk adjusted returns.

Additional Information

Endnotes

1. All companies included in the white papers and this presentation met specific financial guidelines including non-zero Sales Revenue and Assets to be included in the dataset by RapidRatings International, Inc. (https://www.rapidratings.com/). Underlying data is comprised of non-financial private companies in the United States rated by RapidRatings between 2019-2023 with sales revenue between $100mm and $750mm which was anonymized and provided on a secured server. Analysis of the data was performed by Marblegate Asset Management and reviewed by RapidRatings. Companies rated by RapidRatings International can drop from their client base at any point in time and are not static in relation to this analysis.
2. S&P Global Market Intelligence. (2025, April). S&P Global reported 373 corporate bankruptcies through Q2 2025. Q2 2025 and Marblegate estimates for FY 2025. S&P Global Market Intelligence. (2025, January). US corporate bankruptcies soar to 14-year high in 2024; 61 filings in December. 32 of 694 filings in 2024 were companies with over $1 billion in liabilities. https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/7/63-us-corporate-bankruptcies-in-june-set-up-2025-for-highest-pace-since-2010-91441423
3. Source: white paper "Riptide: A New Era of Acute Economic Stress and Distress" is available upon request at https://marblegate.com/riptide-the-new-era-of-acute-financial-and-operational-stress-in-the-u-s-middle-market-white-paper/
4. Source: white paper Dragged Out to Sea: The Ongoing Stress and Distress in the U.S. Middle Market – an Update to 2023's "Riptide: The New Era of Acute Financial and Operating Stress in the U.S. Middle Market" is available upon request at https://marblegate.com/dragged-out-to-sea-the-ongoing-stress-and-distress-in-the-u-s-middle-market-an-update-to-2023s-riptide-the-new-era-of-acute-financial-and-operating-stress-in-the-u-s-mi/.
5. Source: CreditSights/ Bixby Preliminary 2024 Financial Reporting.
6. Source: Bloomberg Intelligence report by equity strategists Michael Casper and Gina Martin Adams, May 8, 2025.
7. Source: National Federation of Independent Business (NFIB), Small Business Economic Trends, April 2025. Data reflect monthly survey responses on earnings trends.
8. Source: JP Morgan as of December 31, 2023.

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