



NATIONAL CENTER FOR  
THE MIDDLE MARKET

# The Market That Moves America

Findings from the 1Q 2019 Middle Market Indicator Report

Thomas A. Stewart, Executive Director | The National Center for the Middle Market

IN COLLABORATION WITH



# The National Center for the Middle Market

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, Grant Thornton, Cisco Systems, and Chubb. It exists for a single purpose: to ensure that the vitality and robustness of Middle Market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector.

## MIDDLE MARKET RESEARCH & DATA



Quarterly Middle Market Indicator



Research and Expert Perspectives



Interactive Benchmarking Tools

## EXPERTISE & OUTREACH



Share Research & Discuss Trends

## EDUCATION



Executive Programs



Webinars



# The National Center for the Middle Market

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, Grant Thornton, Cisco Systems, and Chubb. It exists for a single purpose: to ensure that the vitality and robustness of Middle Market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector.

## Middle Market Research & Data



Quarterly Middle Market Indicator



Research and Expert Perspectives



Interactive Benchmarking Tools

## Expertise & Outreach



Share Research & Discuss Trends

## Education



Executive Programs



Webinars and Podcasts

# The Mighty Middle Market

## U.S. MIDDLE MARKET DEFINED



Annual Revenues Range from  
**\$10MM - \$1B**



Accounts for  
**60%** of All New  
Private-Sector  
Jobs



Nearly  
**200,000** in All Industry  
Businesses Segments and  
Geographies

Equivalent to the  
**5<sup>th</sup> LARGEST**  
global economy



Represents  
**1/3** of Private Sector  
GDP and Employment



**85%**  
of Companies  
Are Privately Held



More than  
**\$10 trillion** in annual revenue

# Today's Webinar

- I. 4Q Middle Market Indicator Overview
- II. High-Performance Culture:  
Findings from Recent NCMM Research

# 1Q19 Middle Market Indicator

---



# About the Middle Market Indicator

## A Quarterly National Survey

NATIONAL CENTER FOR THE MIDDLE MARKET

# 1Q | 2019

MIDDLE MARKET INDICATOR

## Growth Remains Strong; Cautions Mount

IN COLLABORATION WITH

THE OHIO STATE UNIVERSITY  
BAKER COLLEGE OF BUSINESS

Grant Thornton

CISCO

CHUBB

## Cut by Geography and Industry

State	Revenue Growth
CALIFORNIA	5.2%
OHIO	6.6%
ILLINOIS	4.1%
NEW YORK	6.2%
TEXAS	8.2%
FLORIDA	5.8%

FLORIDA MIDDLE MARKET INDICATOR

# 4Q | 2018

Industry	Revenue Growth
CONSUMER GOODS	7.0%
HEALTH CARE	7.1%
MANUFACTURING	5.2%
RETAIL	6.8%
PROFESSIONAL SERVICES	8.4%
FINANCIAL SERVICES	6.6%

FINANCIAL SERVICES MIDDLE MARKET INDICATOR

# 4Q | 2018

Source: 1Q'19 Middle Market Indicator Report

# Headlines

- 1 The middle market continues to lead the U.S. economy in revenue growth and job creation. The annualized revenue growth rate for middle market companies is at near record levels. Private-equity-owned companies outperformed the national averages, and expect to continue to thrive
- 2 Employment, still strong, has slowed, however. Economic confidence has dipped, but the Short-Term Index is holding steady.
- 3 There is some evidence that executives are dialing back investment plans. R&D spending, however, has reached an all-time high.
- 4 Companies have ambitious plans for IT spending—and companies with advanced digital capabilities are outperforming their peers.



# Overview

## REVENUE GROWTH

8.7%

PAST 12 MONTHS

3.25%

S&P 500

5.4%

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

5.6%

PAST 12 MONTHS

1.0%  
SMALL  
BUSINESS

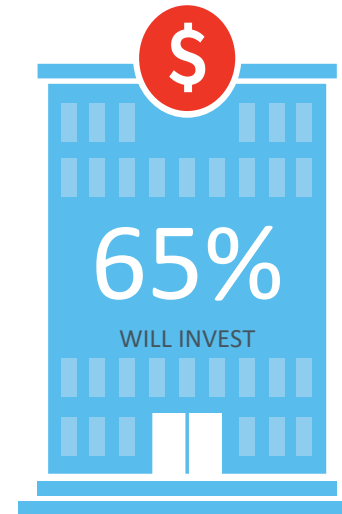
2.3%  
LARGE  
BUSINESS

3.4%

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

70%

GLOBAL ECONOMY



80%

NATIONAL ECONOMY



88%

LOCAL ECONOMY



# 1Q'19 MMI: revenue growth

PAST 12 MONTHS

**8.7%**

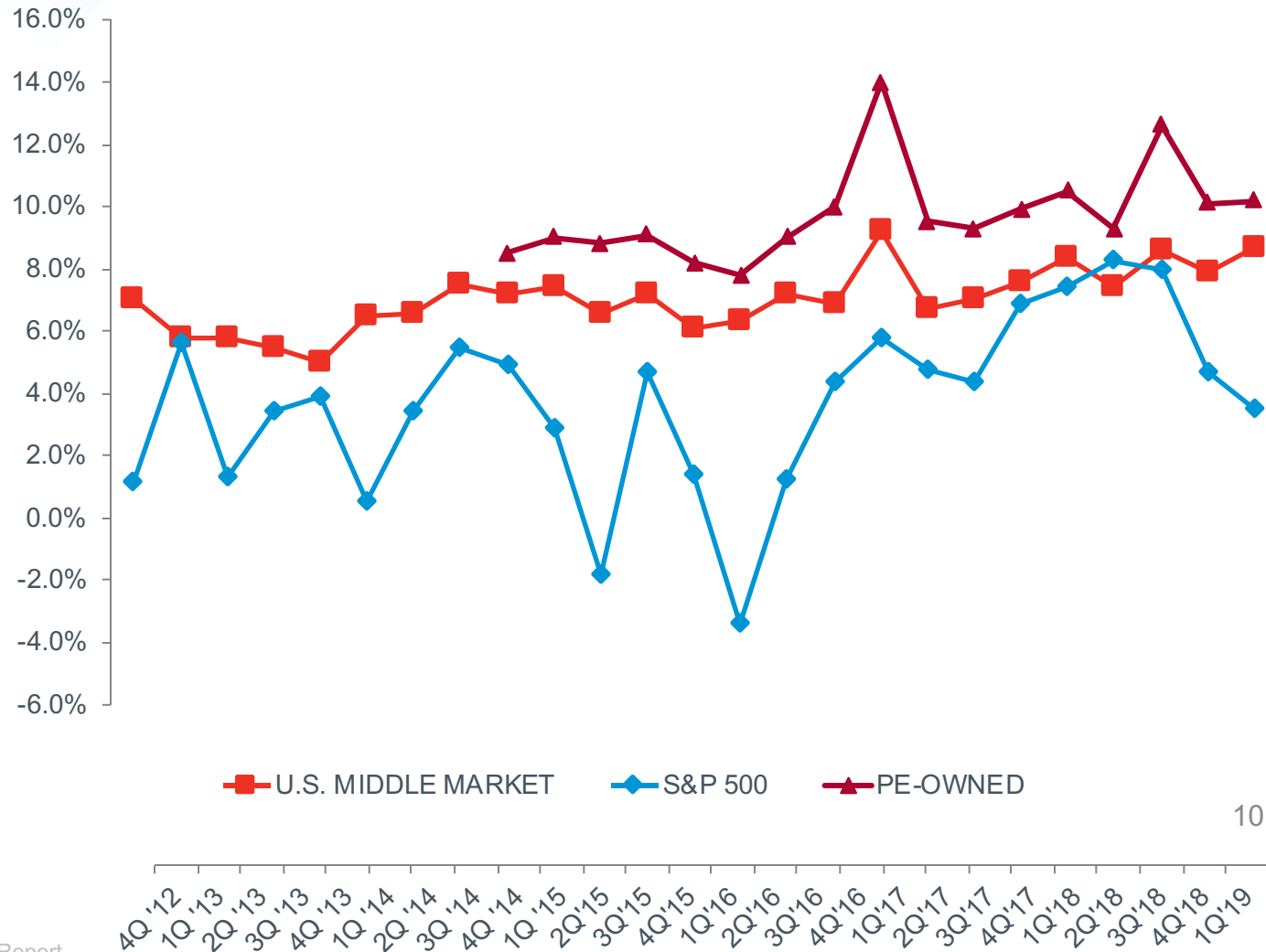
U.S. MIDDLE MARKET

**10.2%**

PE-OWNED FIRMS

**3.25%**

S&P 500\*

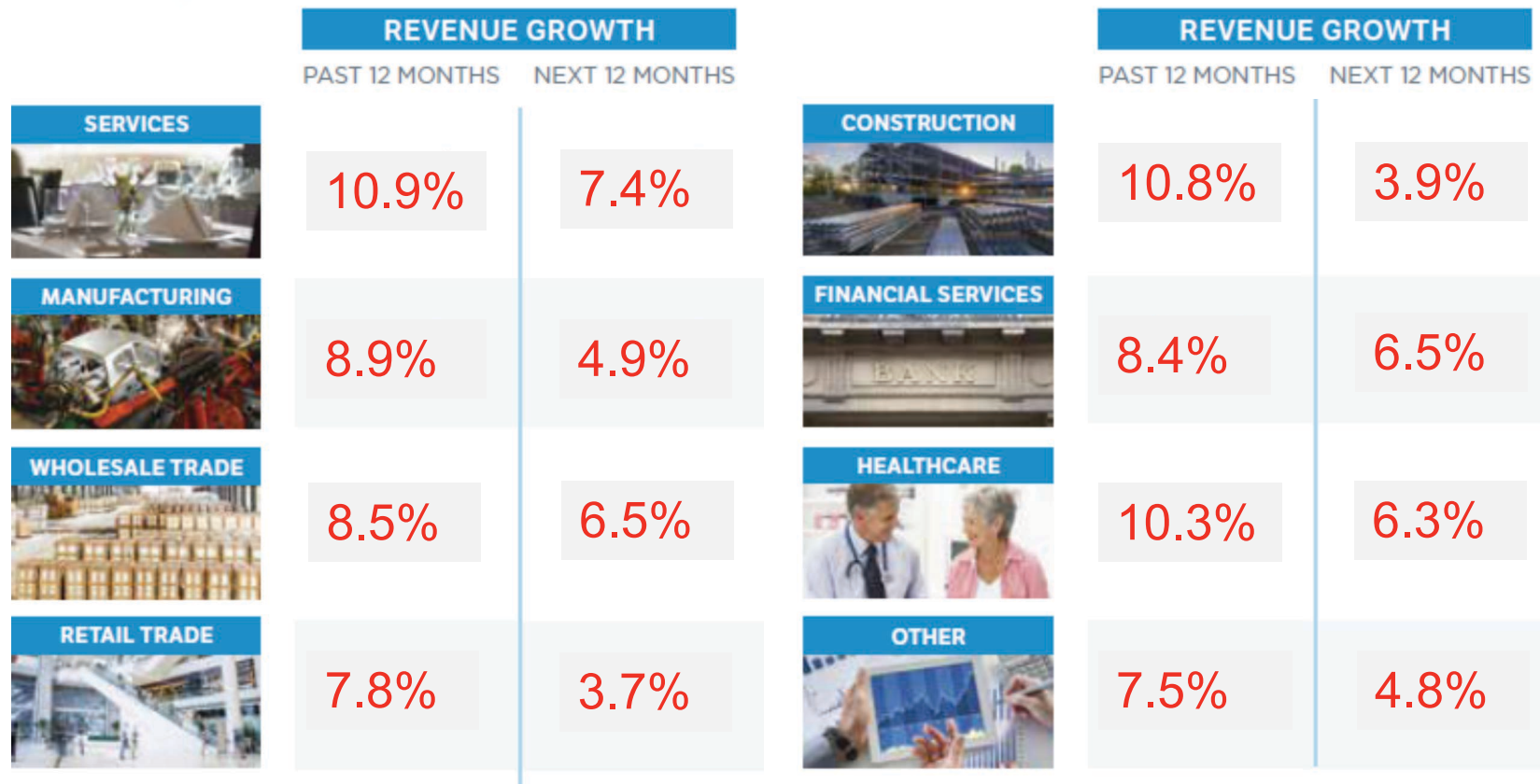


Source: 1Q'19 Middle Market Indicator Report

# 1Q'19 MMI: winners and losers

	1Q 2019	4Q 2018
Performance improved	67%	73%
Performance was unchanged	28%	22%
Performance deteriorated	5%	5%

# 1Q'19 MMI: revenue growth by industry



# 1Q'19 MMI: revenue growth forecast

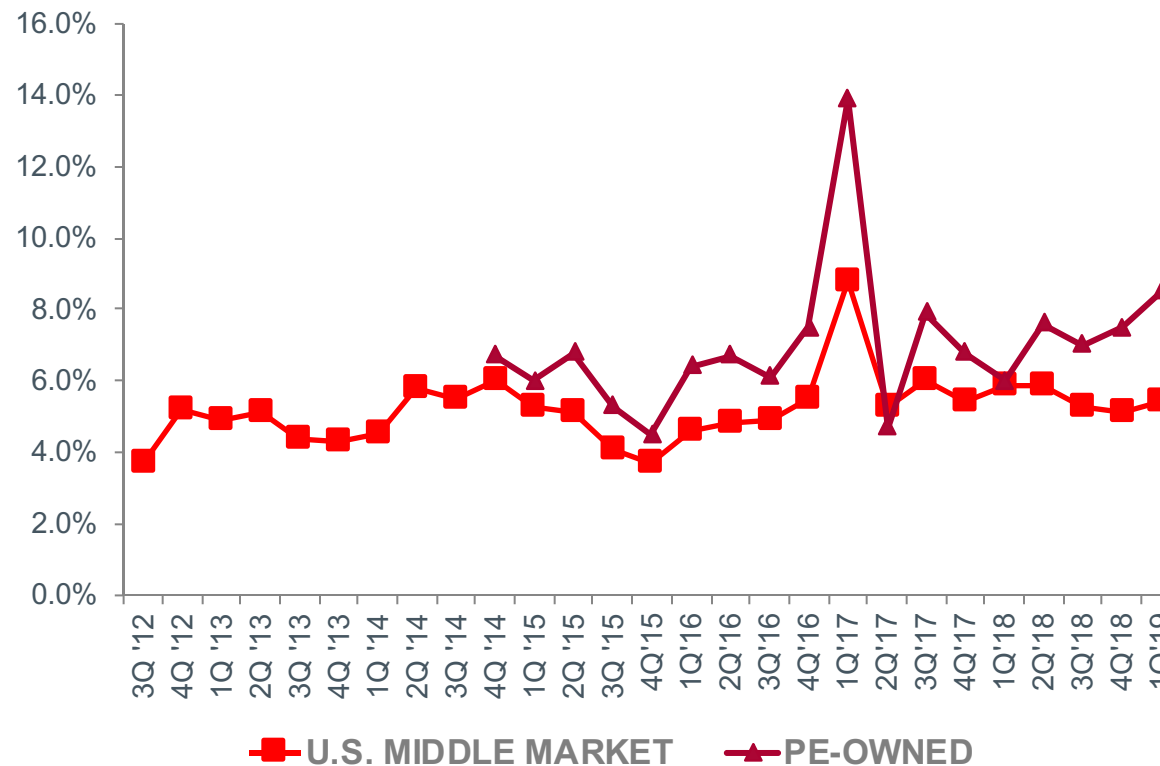
## NEXT 12 MONTHS

**5.4%**

U.S. MIDDLE MARKET

**8.5%**

PE-OWNED FIRMS



Source: 1Q'19 Middle Market Indicator Report

# 1Q'19 MMI: employment growth

PAST 12 MONTHS

**5.6%**

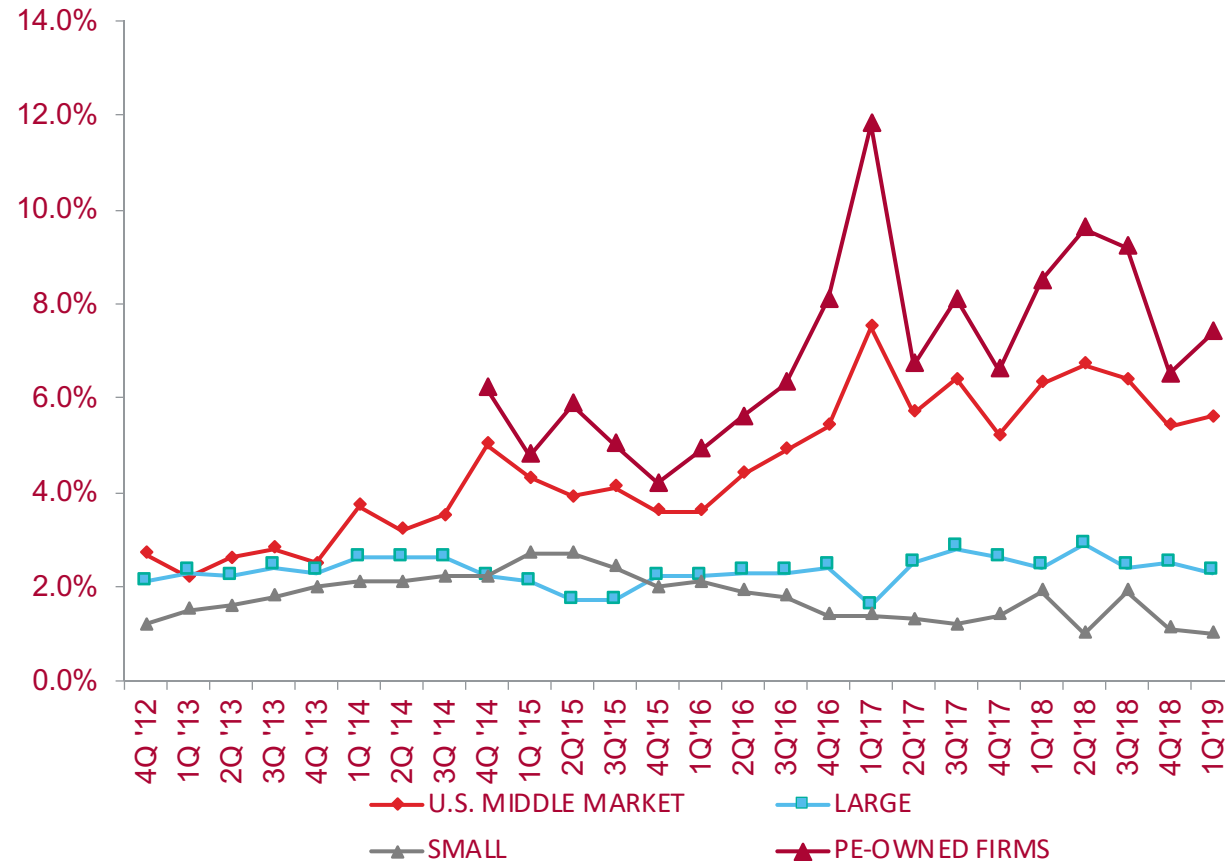
U.S. MIDDLE MARKET

1.0%  
SMALL  
BUSINESS

2.3%  
LARGE  
BUSINESS

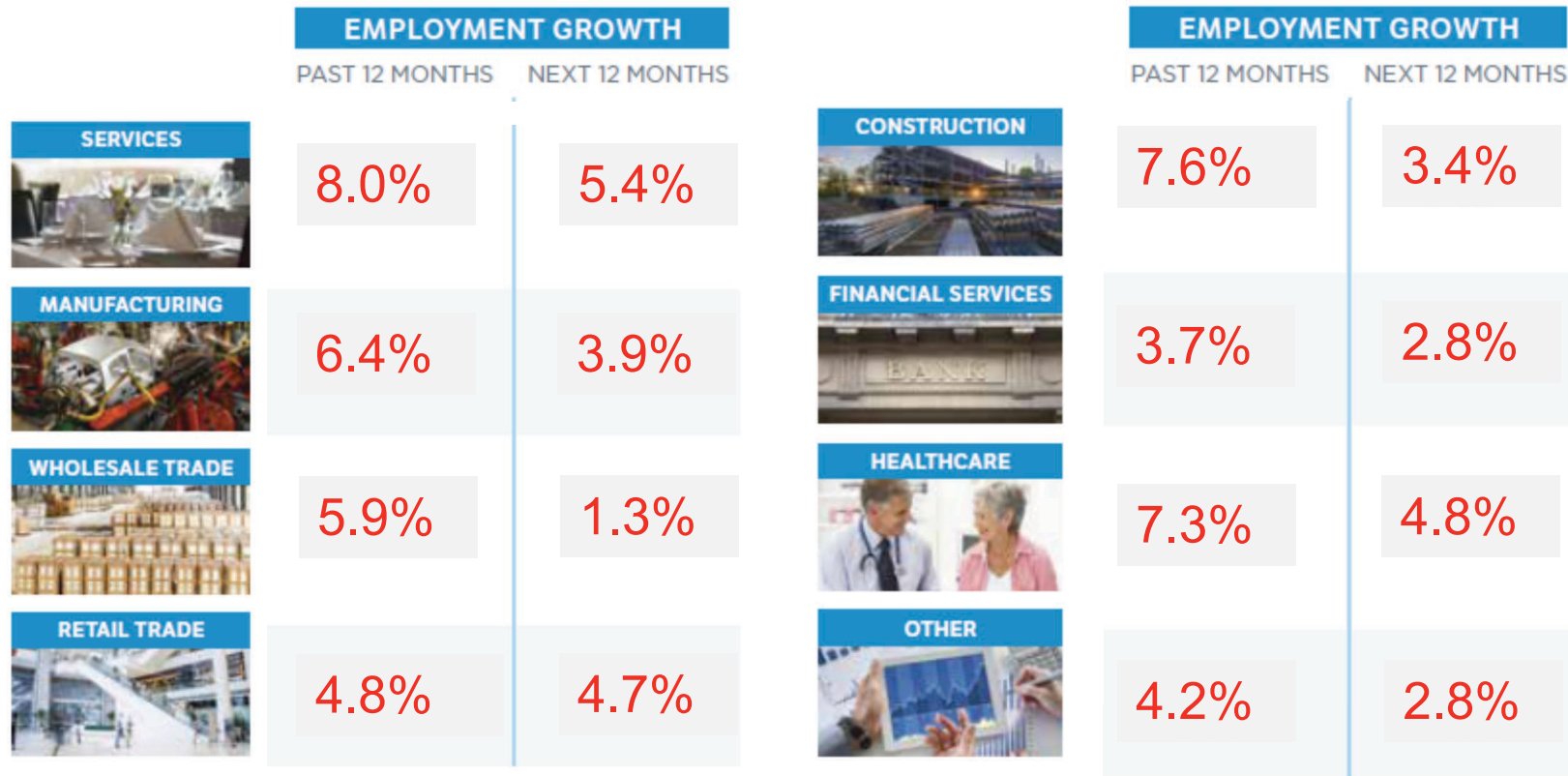
**7.4%**

PE-OWNED FIRMS





# 1Q'19 MMI: Employment Growth by Industry



# 1Q'19 MMI: employment growth *forecast*

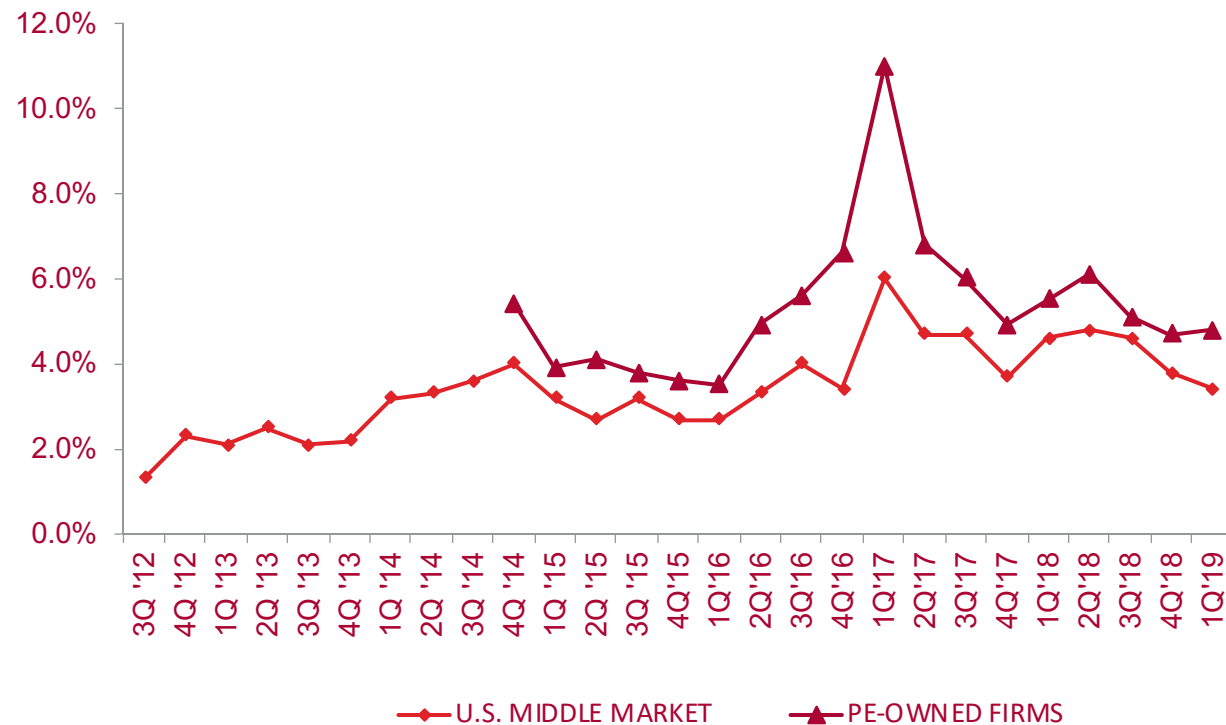
NEXT 12 MONTHS

**3.4%**

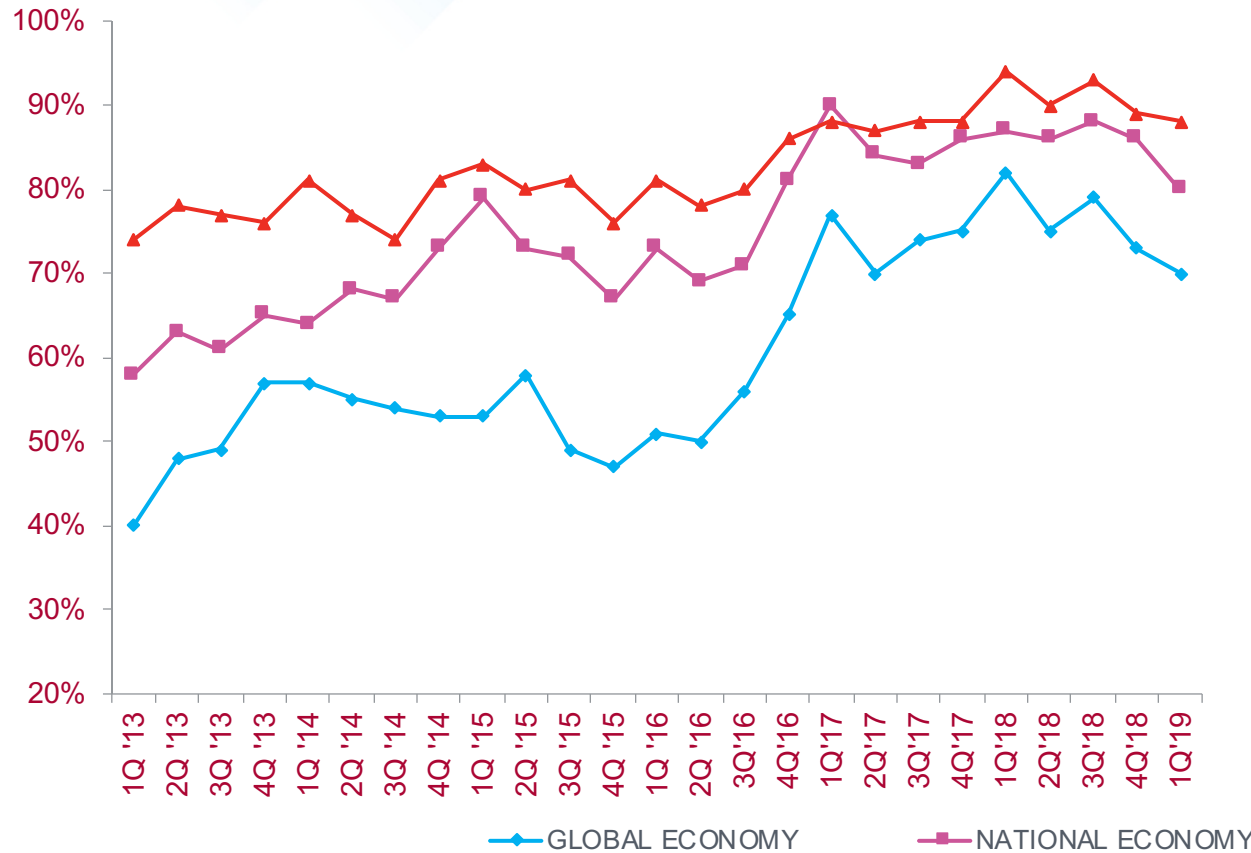
U.S. MIDDLE MARKET

**4.8%**

PE-OWNED FIRMS



# 1Q'19 MMI: economic confidence



GLOBAL ECONOMY

70%

73% PE-OWNED



U.S. ECONOMY

80%

85% PE-OWNED



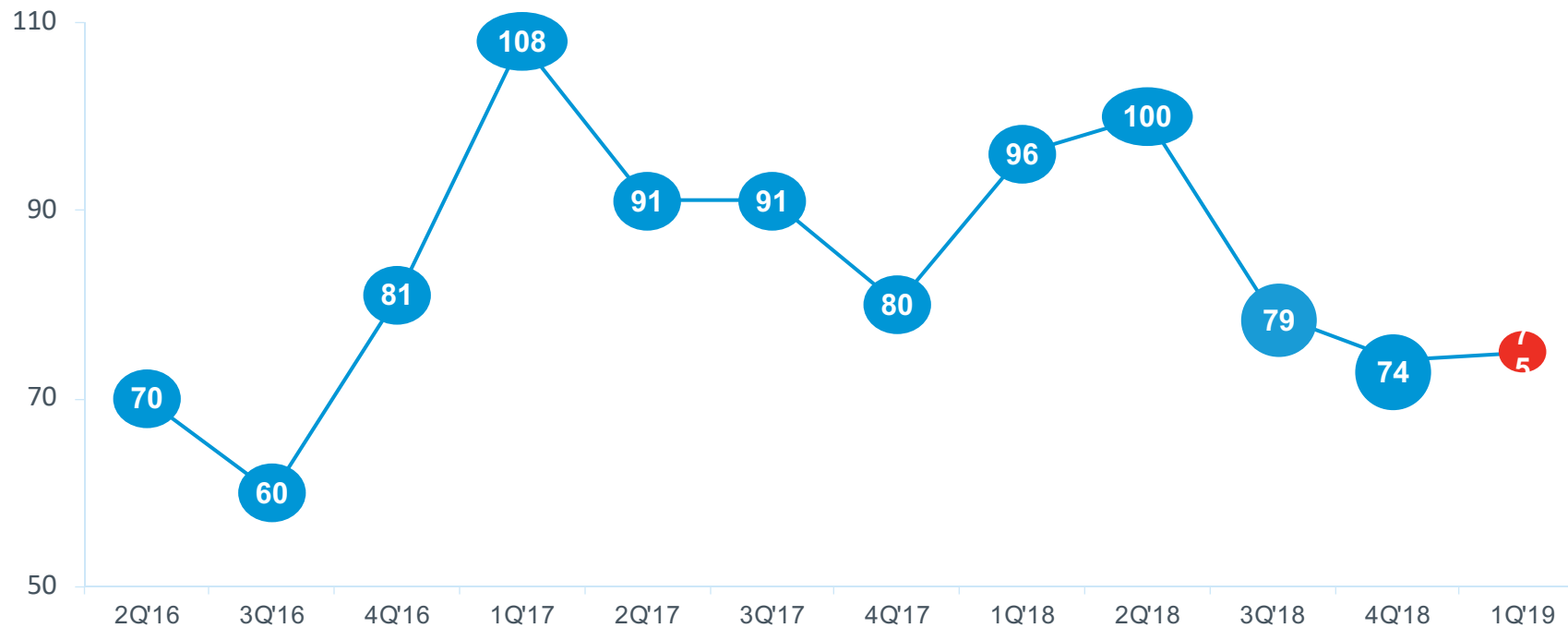
LOCAL ECONOMY

88%

90% PE-OWNED

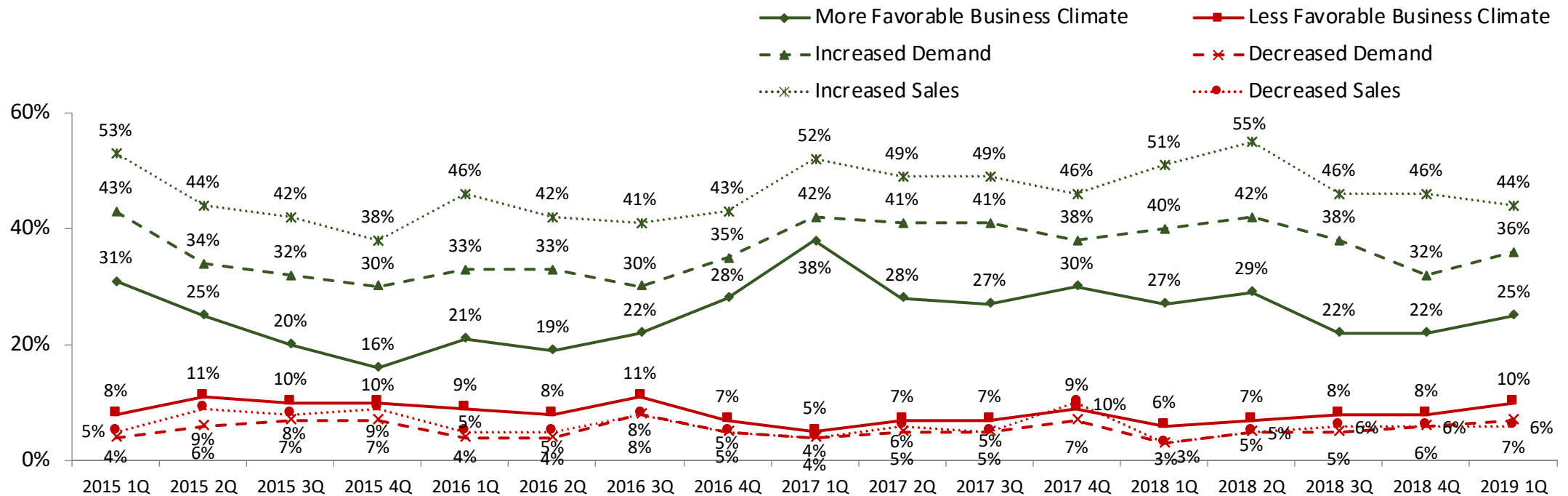
# 1Q'19 MMI: Short Term Index stabilizes

*Short Term Index is calculated by taking expected net positive change in business climate plus expected net positive change in demand plus expected net positive change in sales over the next 3 months.*

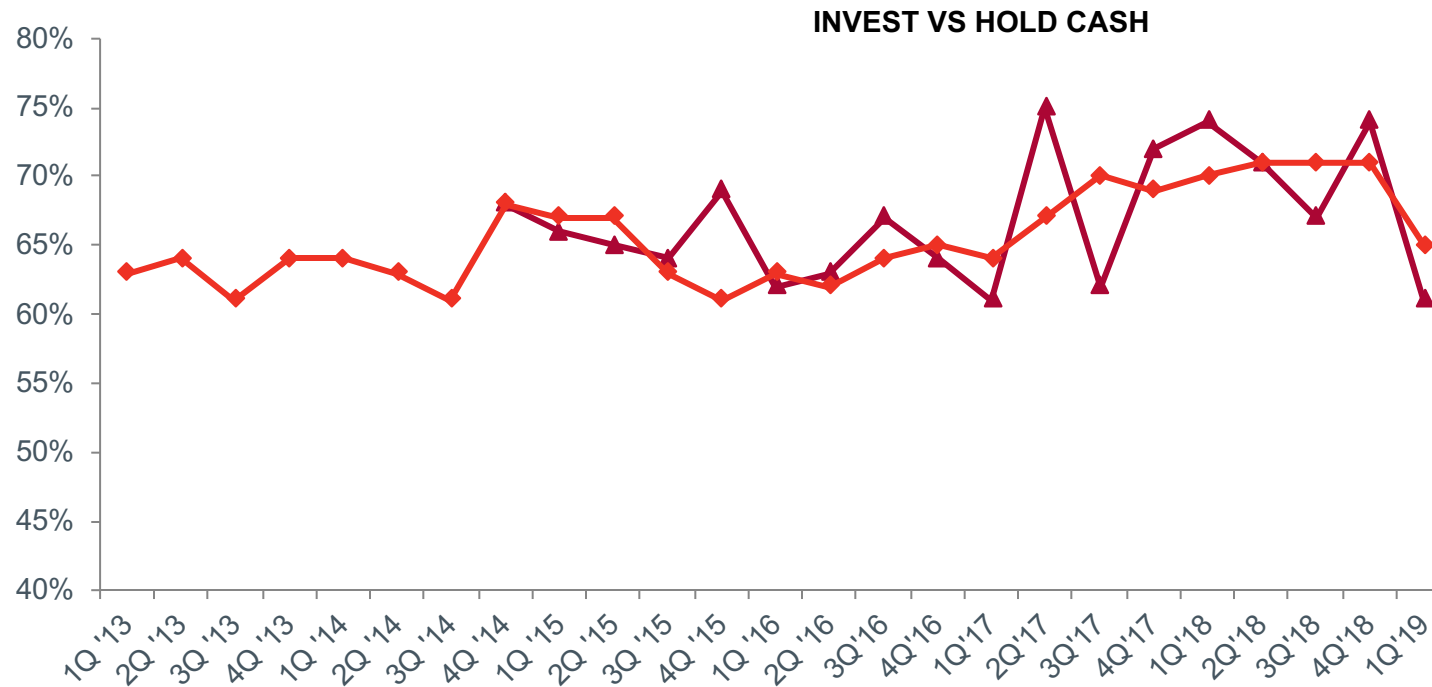


# Sales expectations have softened

## Short Term Outlook (Next 3 Months)



# 1Q'19 MMI: Investment Appetites Have Weakened



Source: 1Q'19 Middle Market Indicator Report

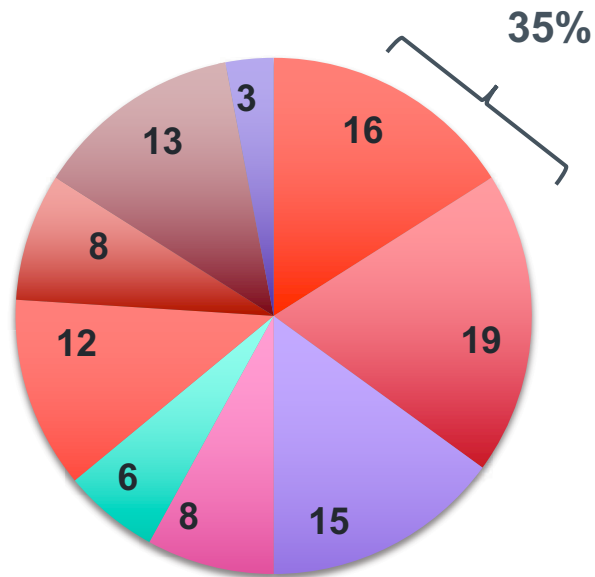
▲ PE-OWNED    ◆ U.S. MIDDLE MARKET



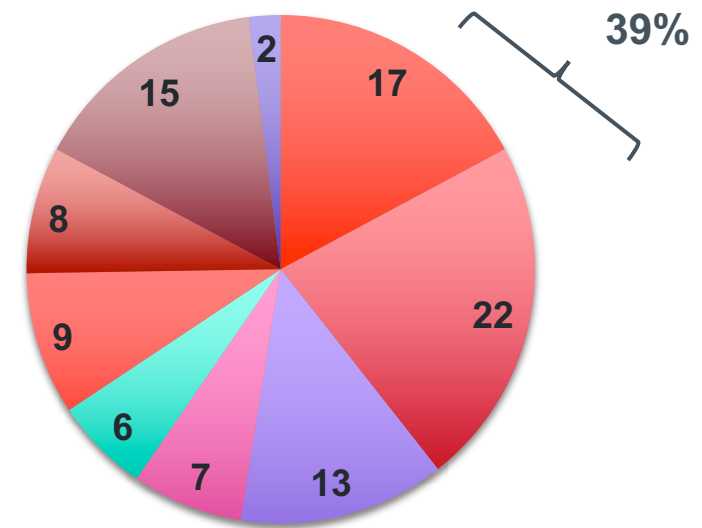
# 1Q'19 MMI: investment plans

## WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

- Save It--Hold as Cash
- Save It--for Making Investments
- CapEx--Plant & Equipment
- CapEx--Facilities
- Acquisitions
- Add to HR--More Personnel
- Add to HR--Training & Development
- IT
- Other

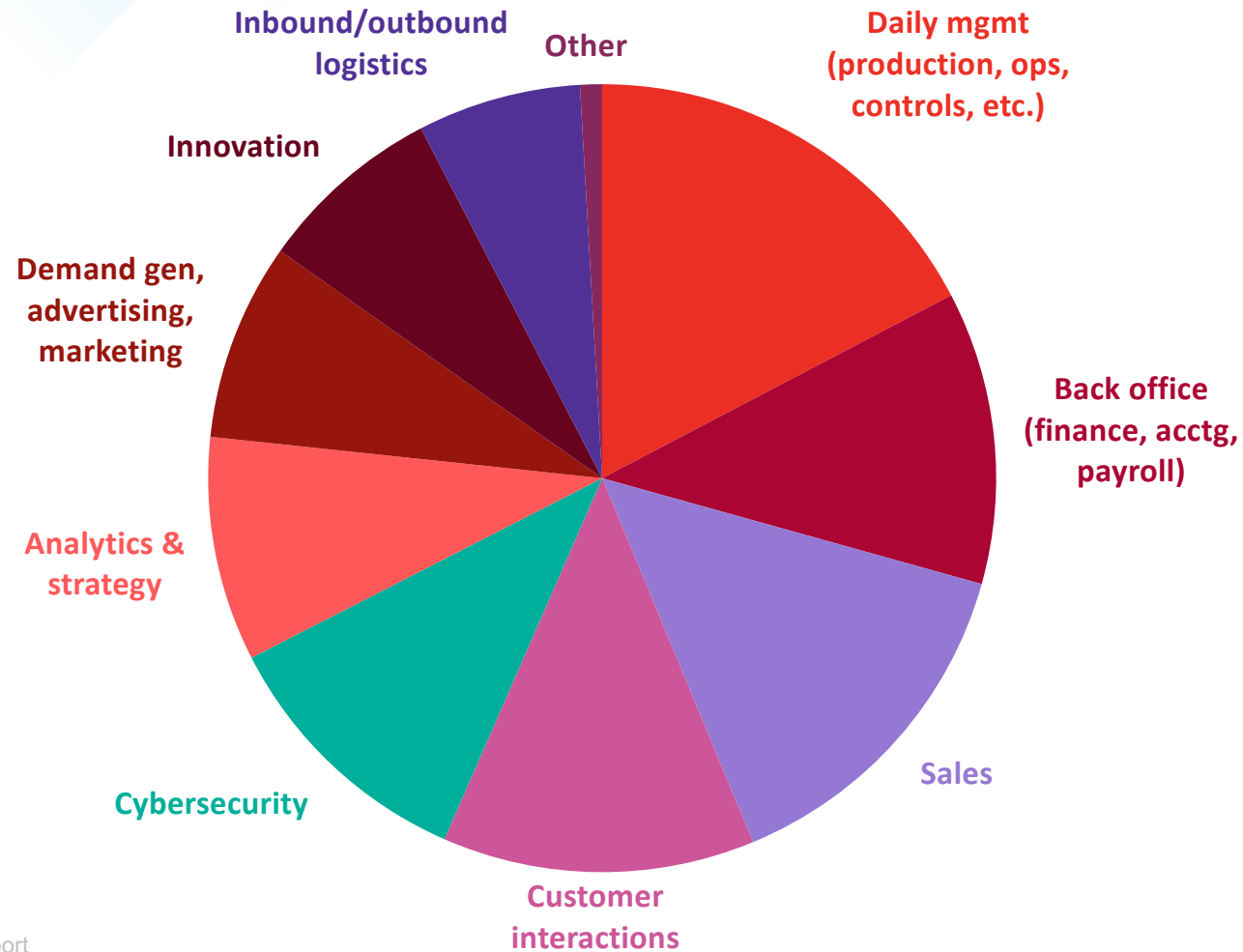


U.S. MIDDLE MARKET



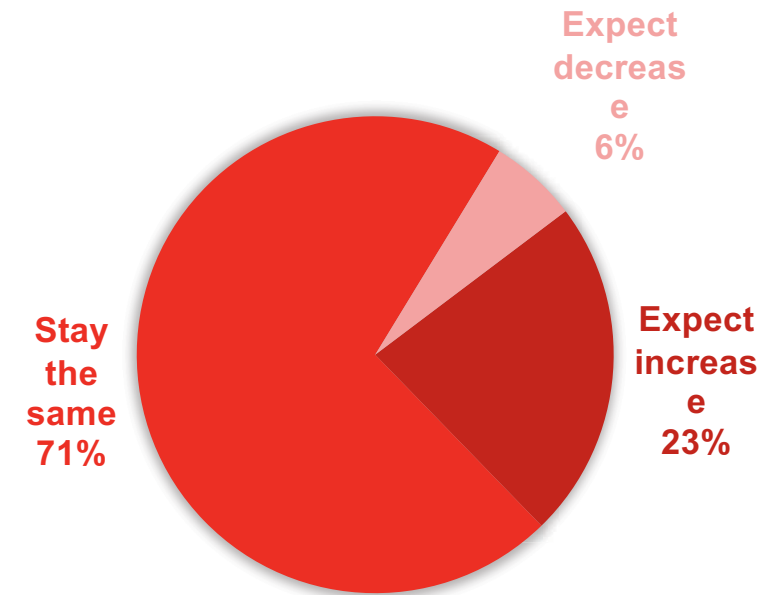
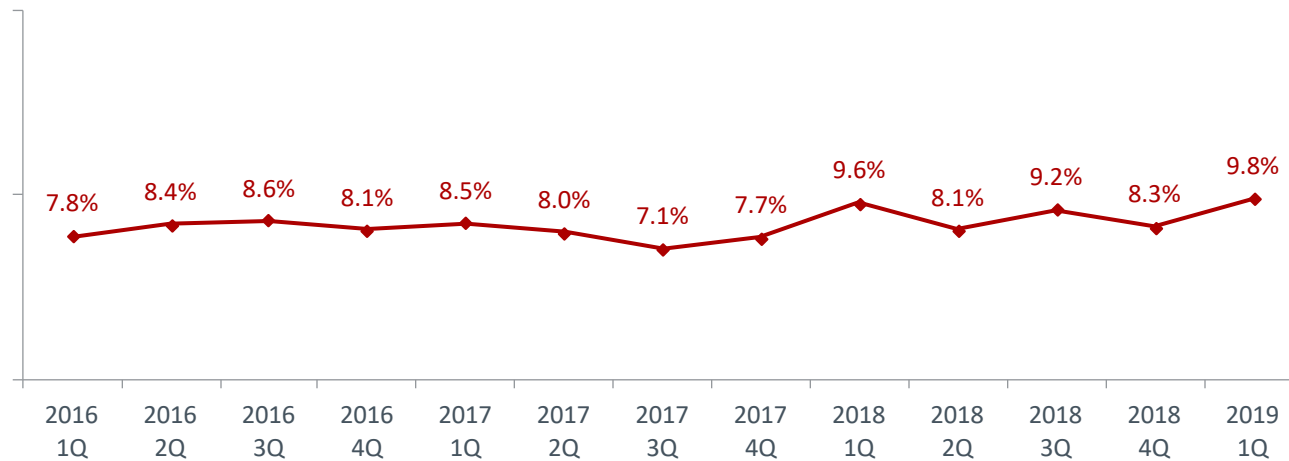
PE-OWNED

# 1Q'19 MMI: Where IT spending goes



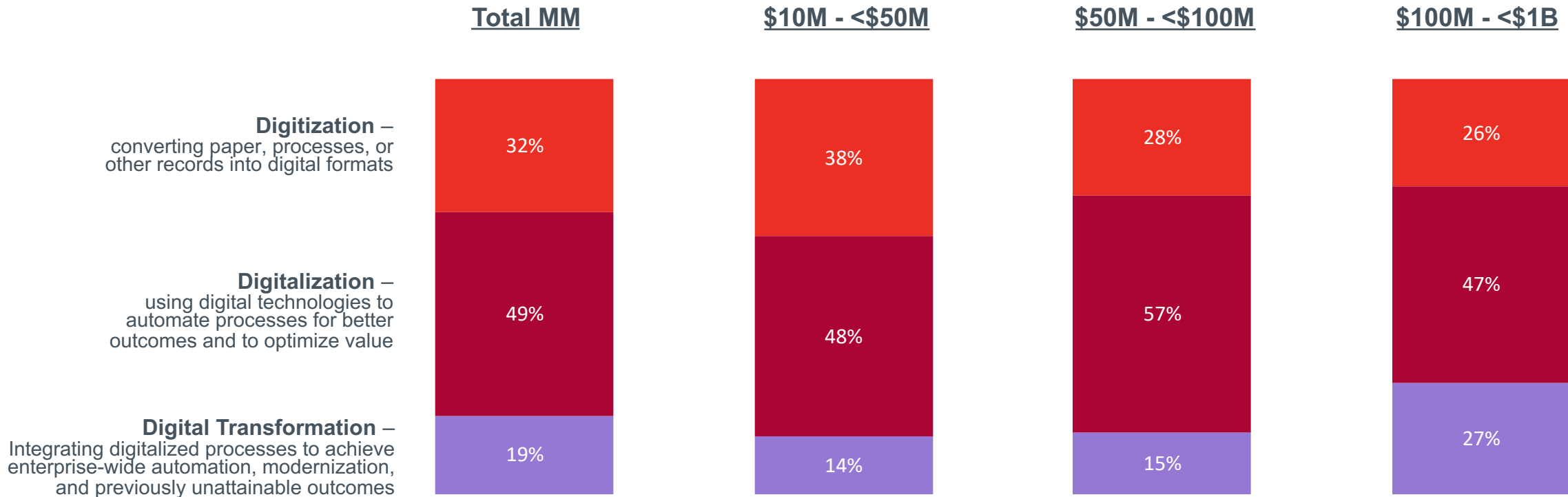
# 1Q'19 MMI: R&D spending reaches a new high

Proportion of Revenue Spent on Product Development



# Digital transformation: Larger companies are leading

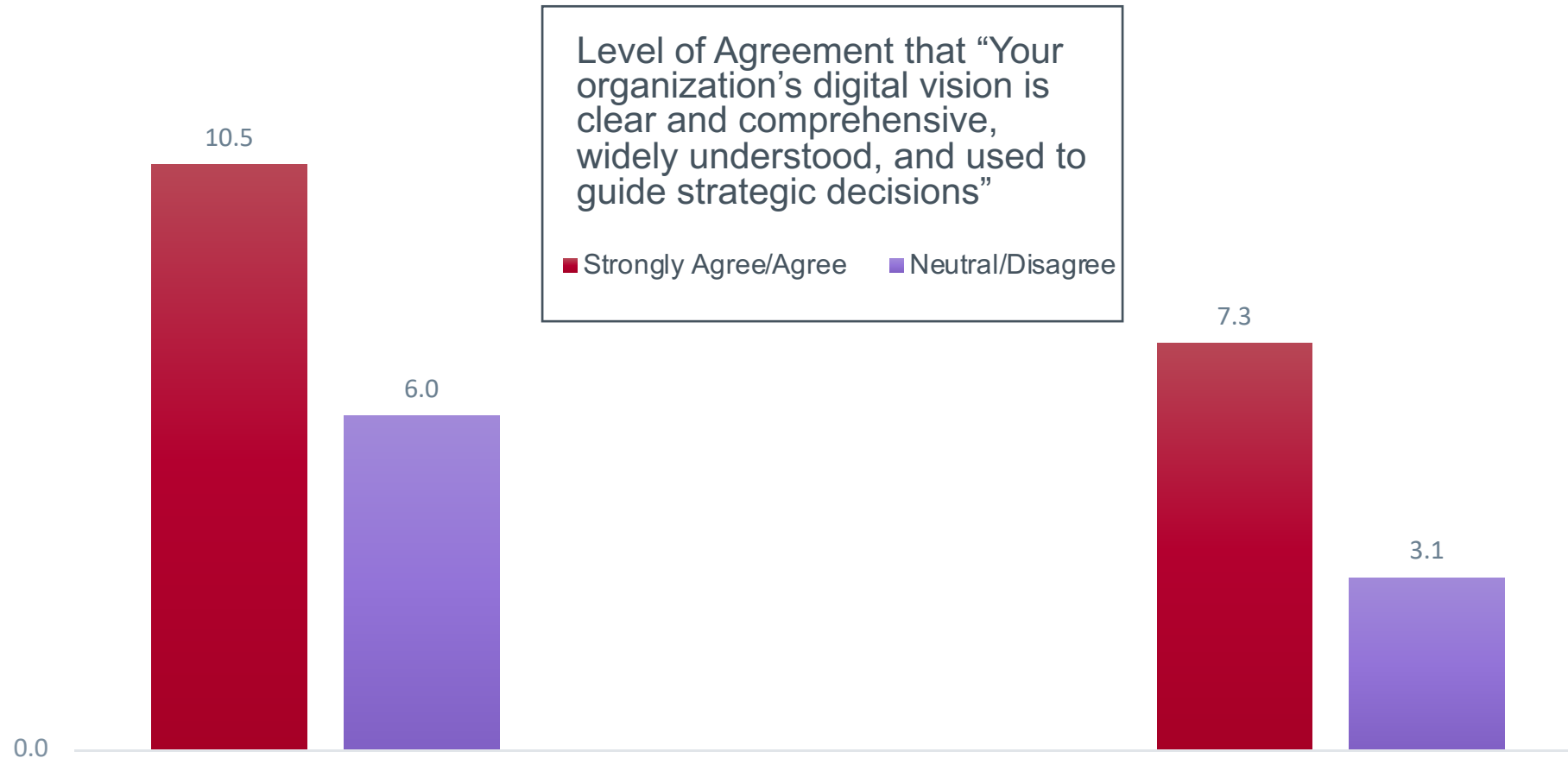
## Current State of Digital Efforts



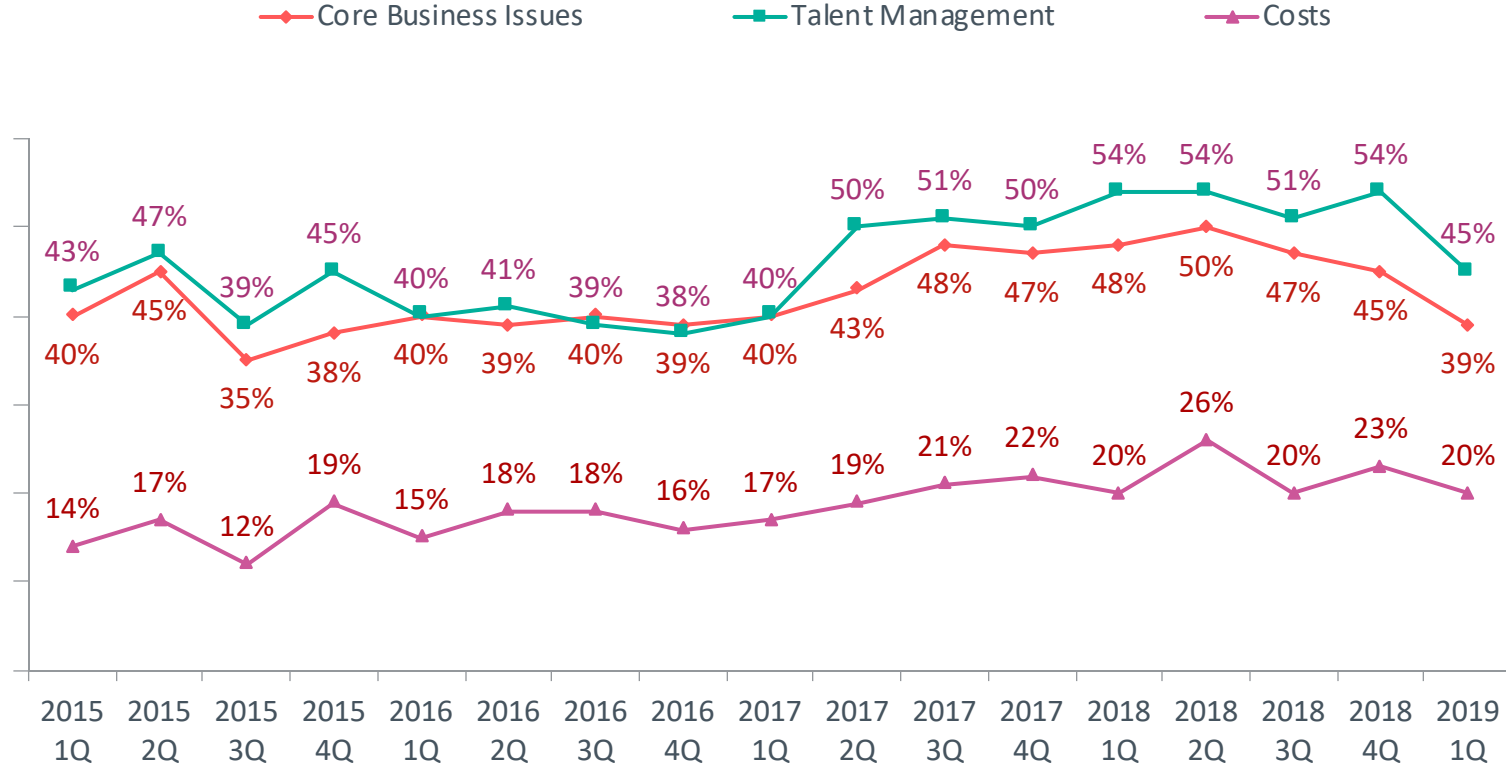
# Digital transformation: A strategic approach drives growth

## Past Year Revenue Growth

## Past Year Employment Growth



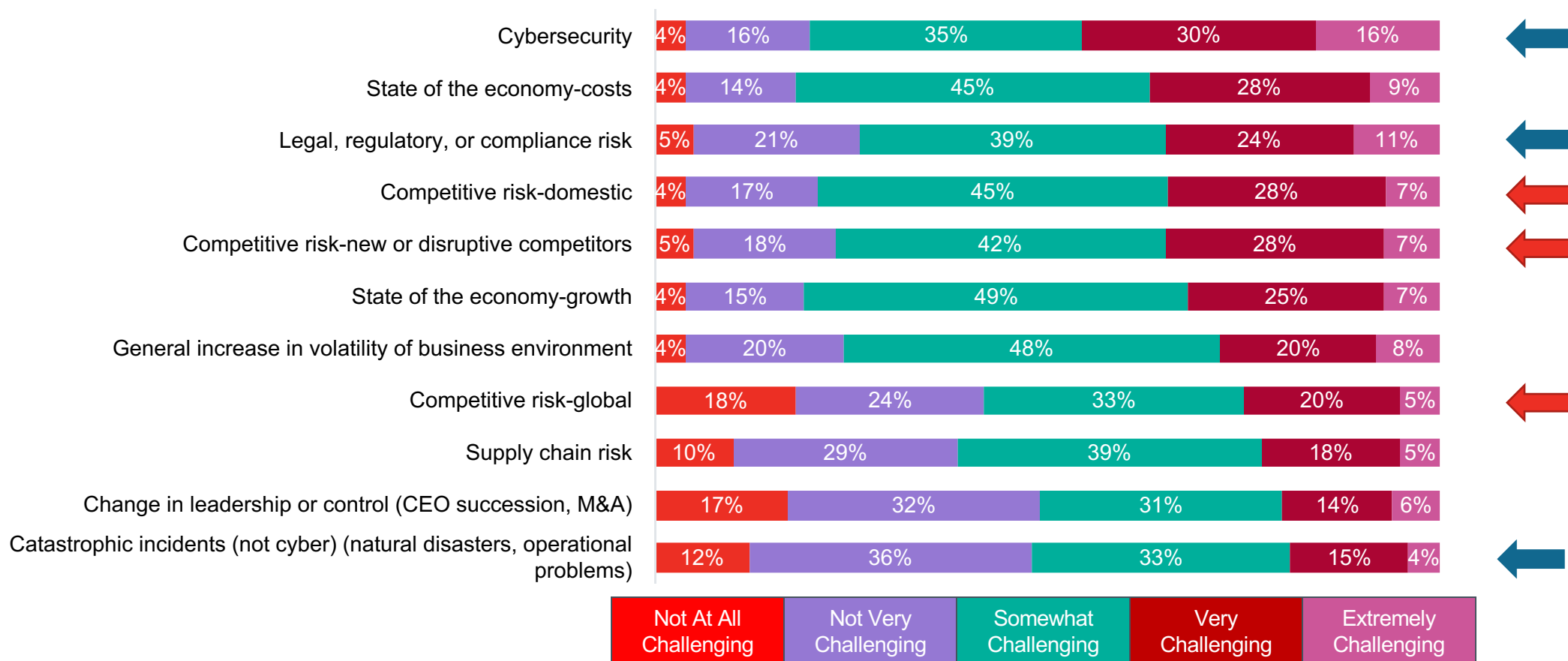
# Talent continues to be the #1 challenge





# Cybersecurity and costs are top risks

## Level Of Challenge of Managing Risk





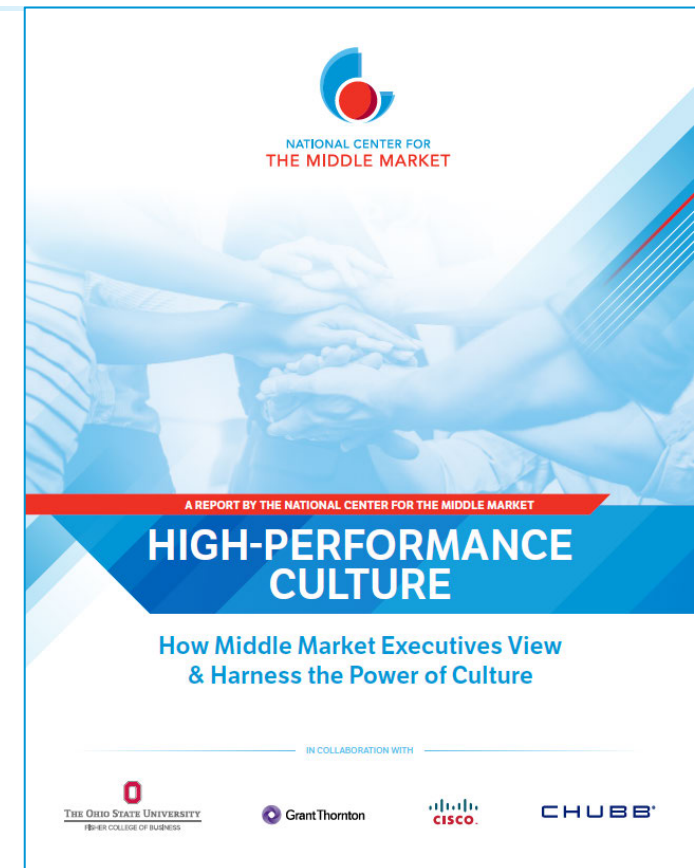
# Culture

Findings from Recent NCMM Research

---

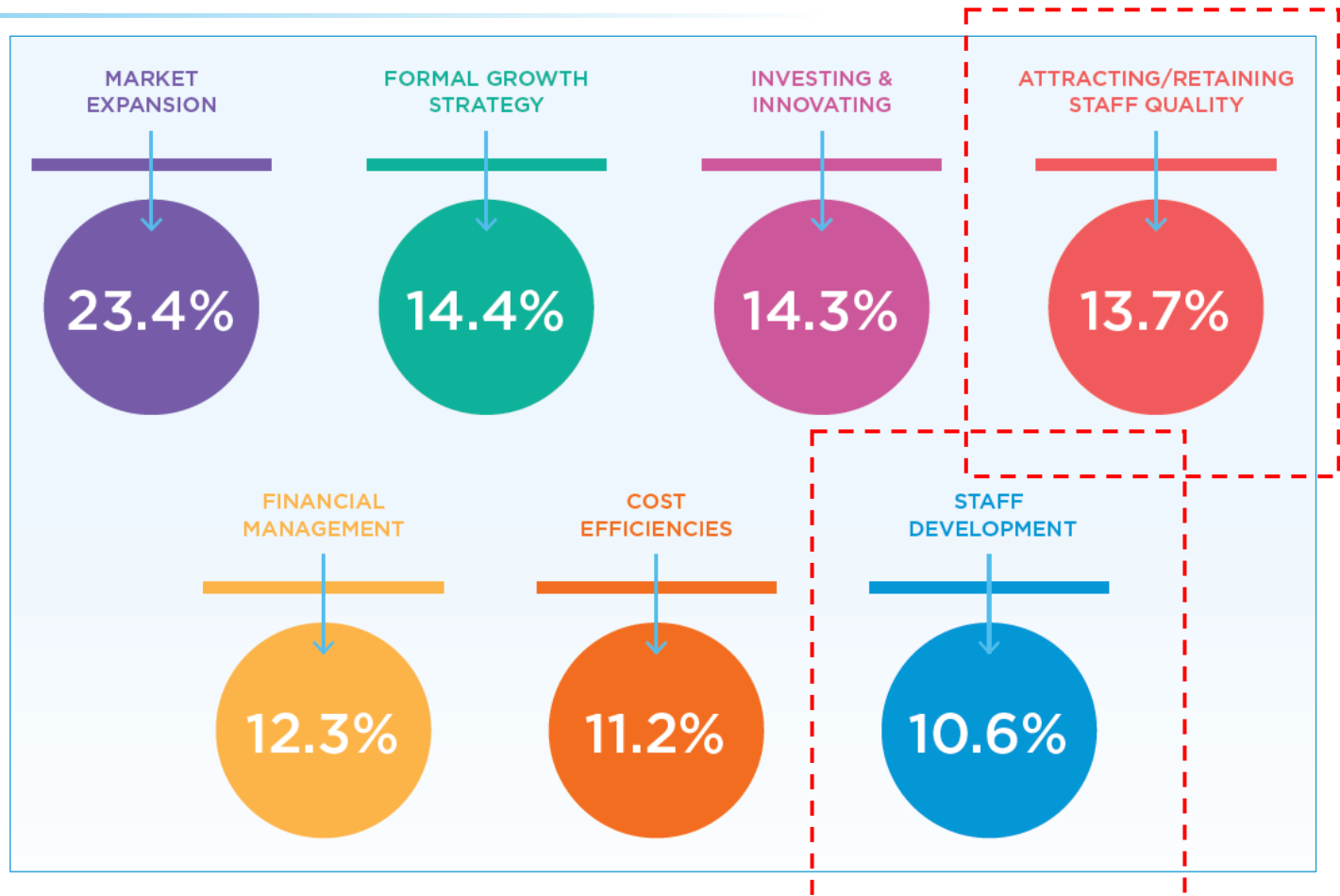
# High-Performance Culture: about the research

- Survey of 400 middle market financial decision makers
- Report:  
<https://www.middlemarketcenter.org/research-reports/power-of-culture>



# The NCMM Middle Market Growth Model

- Five years of Middle Market Indicator data (2011-2016)
- 20,000 U.S. middle market companies
- Hundreds of data points for each company
- A Bayesian network analysis reveals the strength of relationships between various factors and a “target” metric—in our case, growth
- <https://www.middlemarketcenter.org/research-reports/seven-drivers-of-middle-market-growth-types-of-growth-champions>

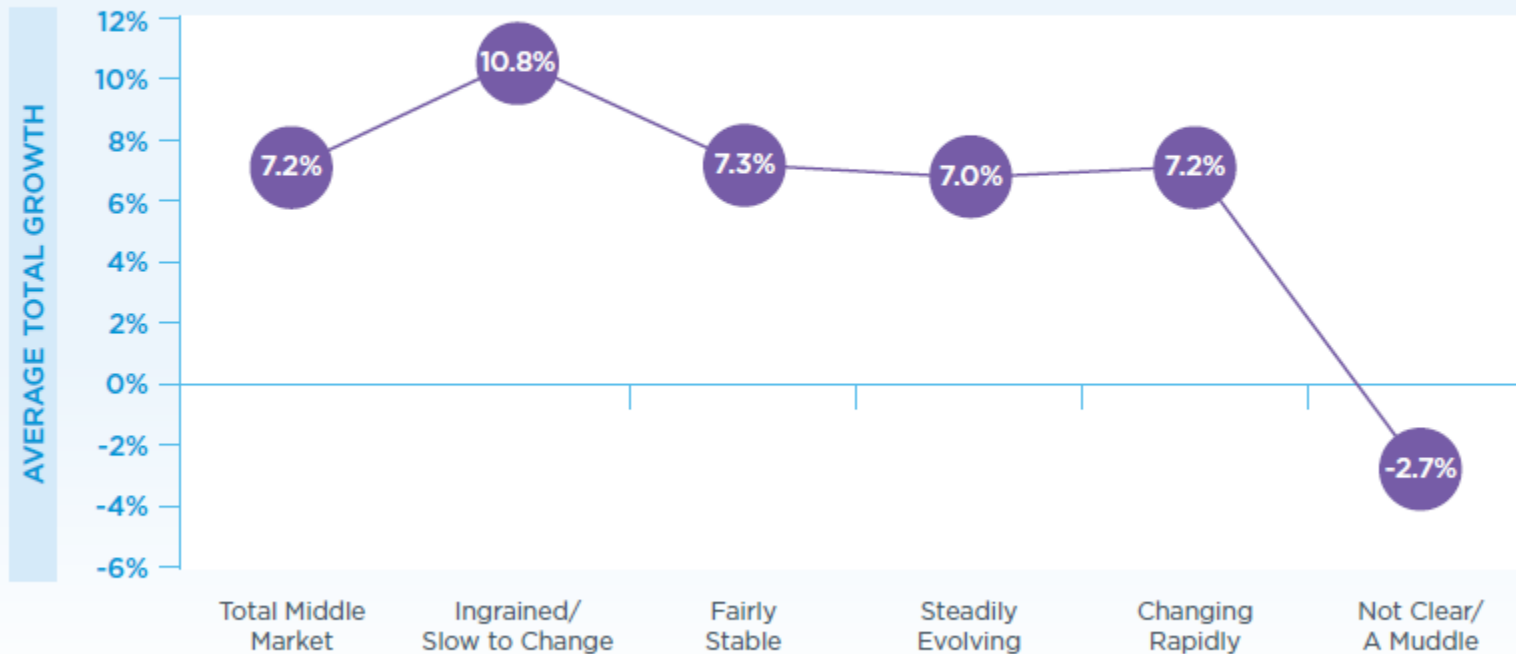


# Key findings

1. Culture has a powerful impact on company performance
2. Culture can be analyzed in two ways
  - By its strength
  - By its type
3. Different cultural attributes have significant consequences for **revenue growth** and attracting and keeping both **customers** and **employees**
4. Culture change is difficult; M&A has big effects on culture

# Strong, stable cultures are connected to rapid growth

REVENUE GROWTH BY STABILITY OF CULTURE



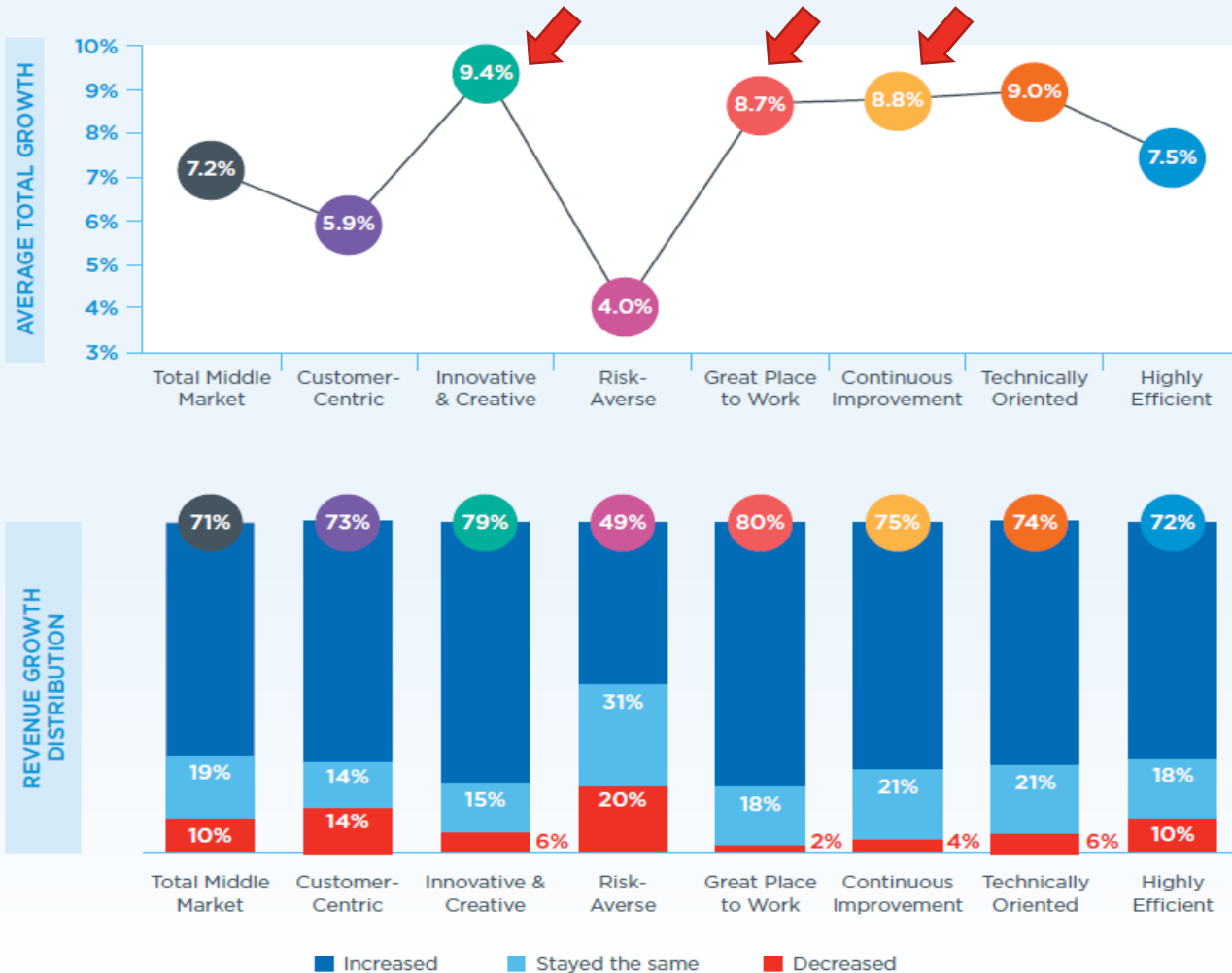


# We identified seven distinct culture types

- Customer-centric
- Innovative and Creative
- Risk Averse
- Great Place to Work
- Continuous Improvement
- Technically Oriented
- Highly Efficient

# The culture types are linked to different growth rates

REVENUE GROWTH BY CULTURE TYPE

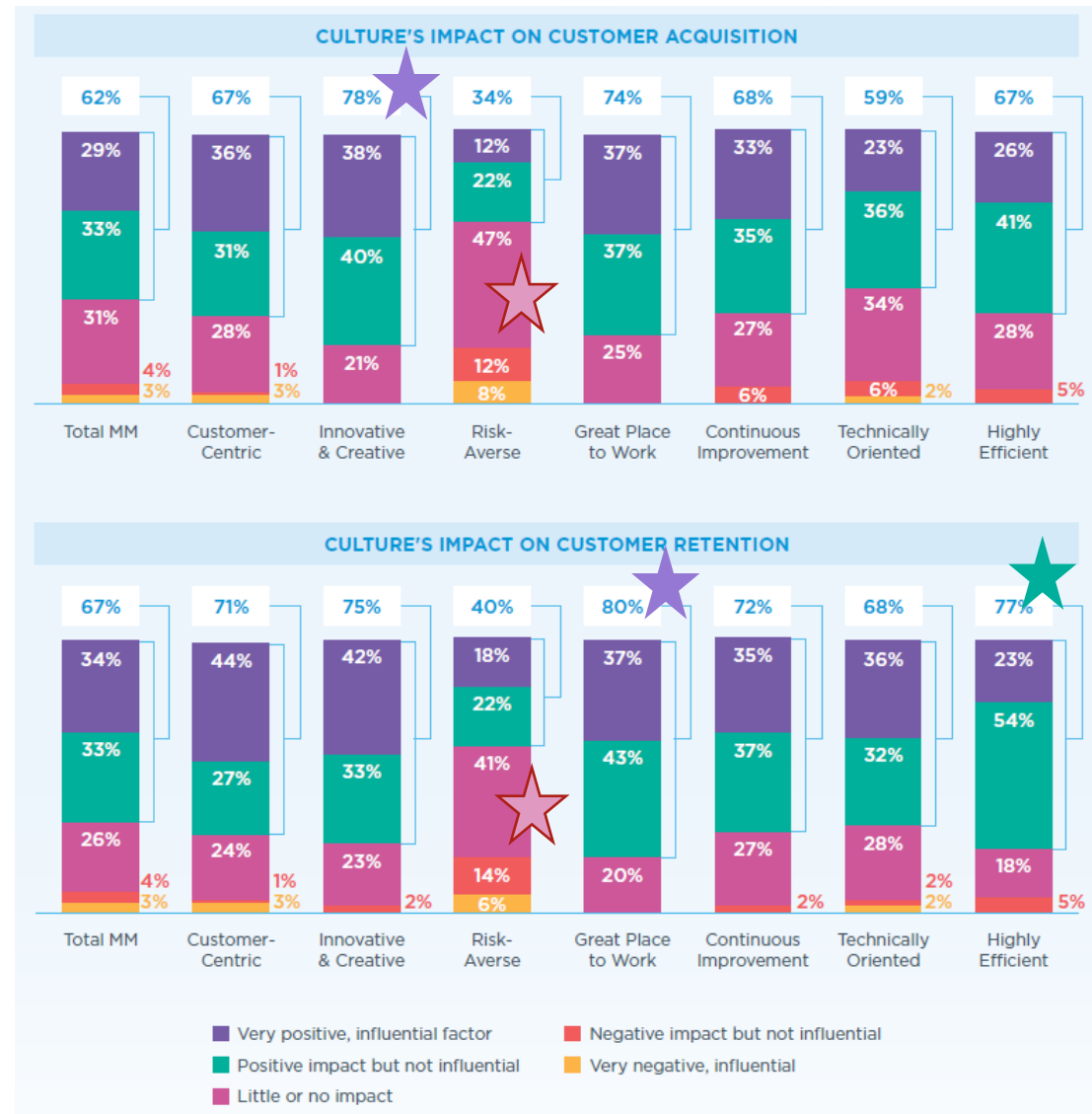


# Customers sense your culture, and respond to it

Customers are attracted by innovation; they stay because of engaged employees

Efficiency has a powerful impact on customer retention

Risk-averse cultures are a turn-off

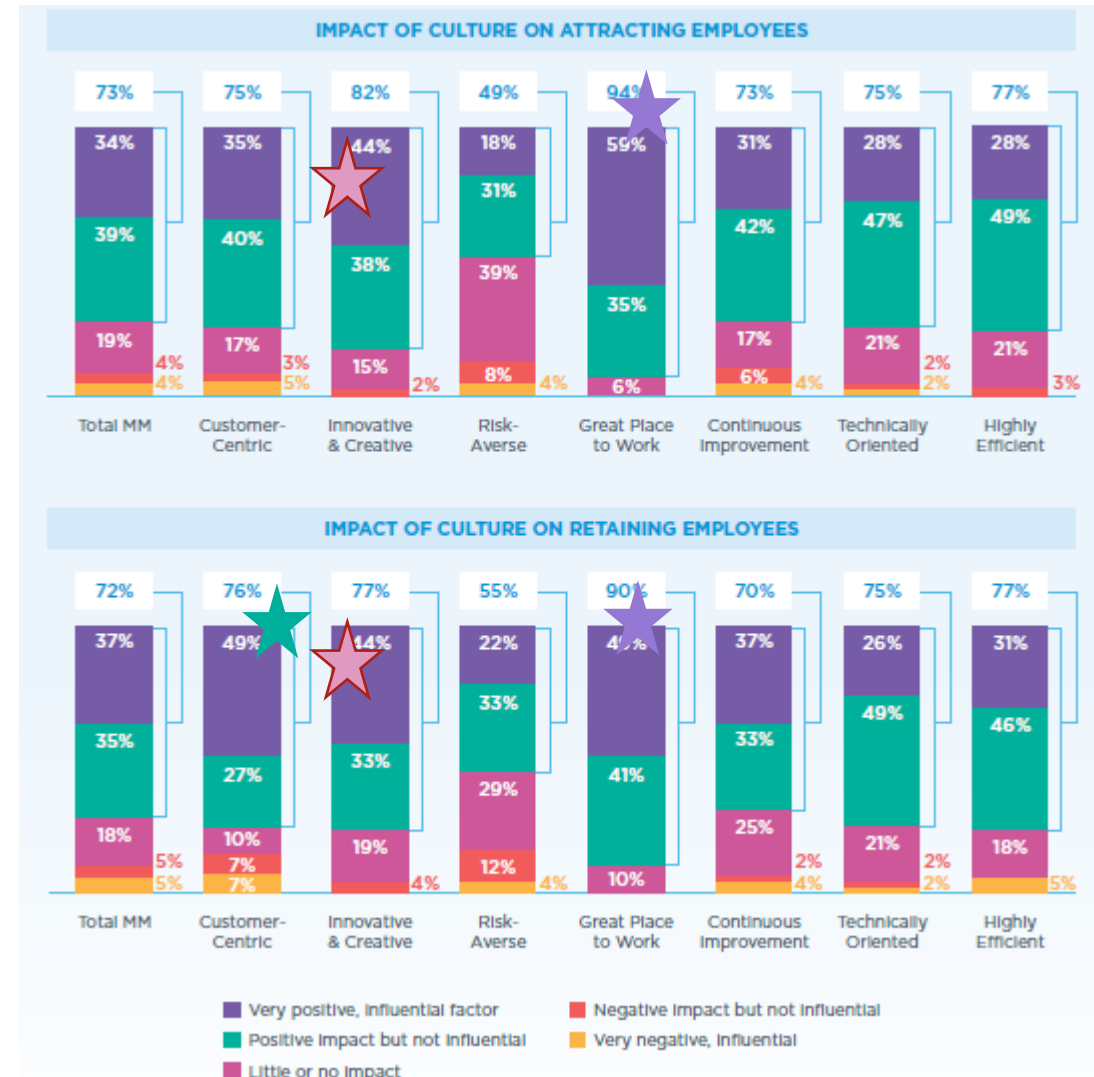


# Culture affects the ability to attract and retain employees

Employees like great-place-to-work cultures

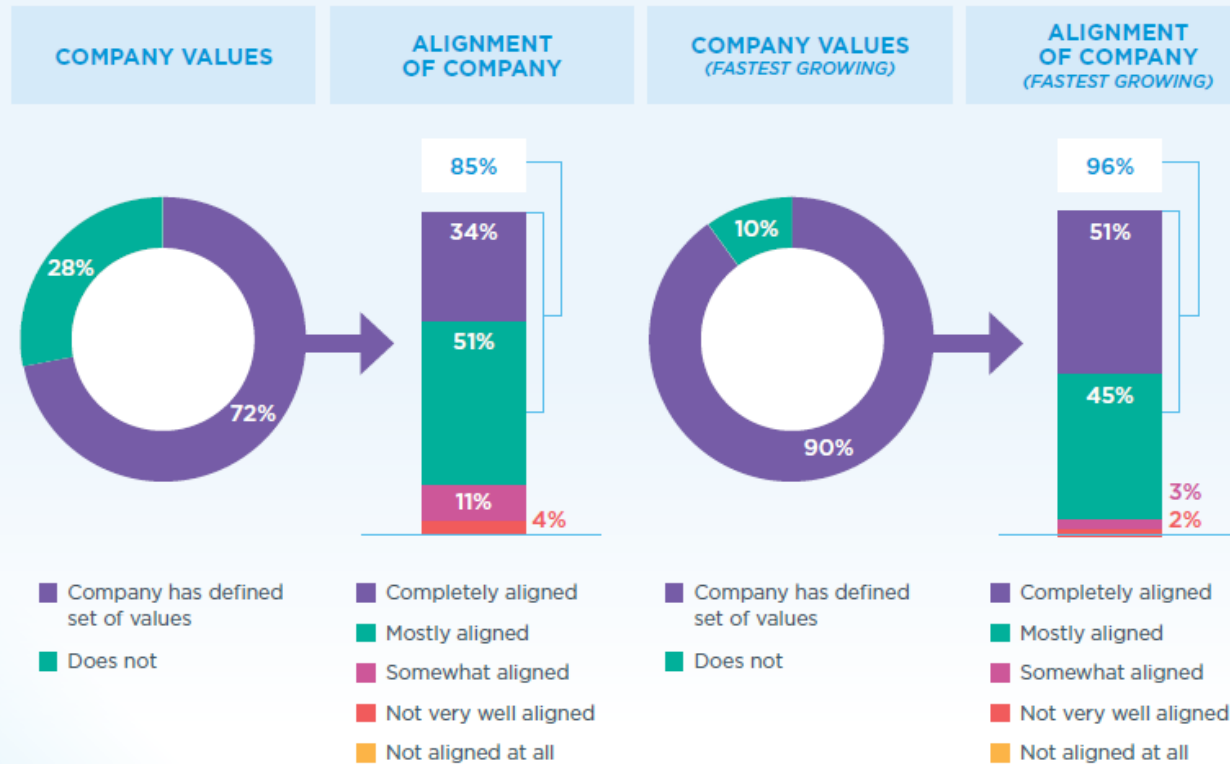
Customer-centricity appeals to staff

Innovative cultures are a selling point



# The value of values

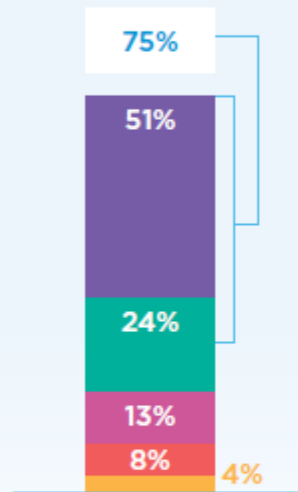
## COMMUNICATING AND ALIGNMENT OF COMPANY VALUES



# Culture and deal-making

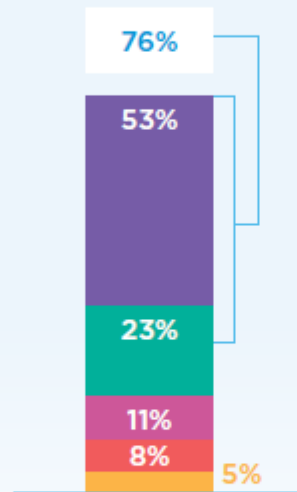
## IMPORTANCE AND IMPACT OF CULTURE ON AN ACQUISITION DEAL

### HELPED DECIDE WHAT TO BUY



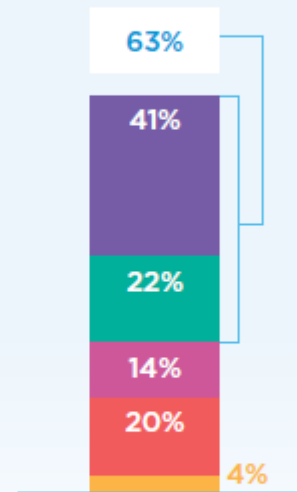
- Extremely important
- Very important
- Somewhat important
- Not very important
- Not at all important

### IMPACT ON OUTCOME OF DEAL



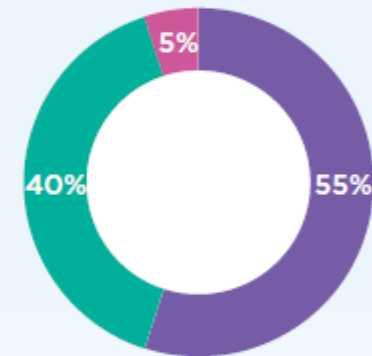
- Extremely important
- Very important
- Somewhat important
- Not very important
- Not at all important

### DIFFICULTY WITH CULTURAL INTEGRATION



- Extremely difficult
- Very difficult
- Somewhat difficult
- Not very difficult
- Not at all difficult

### DEAL'S IMPACT ON COMPANY CULTURE



- Better
- Same
- Worse



NATIONAL CENTER FOR  
THE MIDDLE MARKET

[www.middlemarketcenter.org](http://www.middlemarketcenter.org)