

DOUG FARREN
MANAGING DIRECTOR



The latest
research on
the Middle
Market
economy and
prospects

ACG[®] Kentucky



NATIONAL CENTER FOR
THE MIDDLE MARKET

Thurs., Sept. 12

**BAIRD CONFERENCE
CENTER | 11:25 AM**



UPCOMING EVENTS



**Oct. 17 | PAT MULLOY,
Interim CEO, Louisville
Economic Development
Alliance**

The newly formed LEDA is a public-private partnership steering the course of economic growth in the Metro.



**Nov. 12 | CHRIS
RATTERMAN, Founder
& CEO, Shady Ray's**

The Louisville-based company approaches its market uniquely. Hear the founder's story about why.



**Dec. 12 | STACY GRIGGS,
CEO, El Toro**

Founded in 2012, El Toro is the leader in geolocation science, advertising technology and advanced analytics through observing and understanding human behavior.

EVENTS: 2025



February | BARDSTOWN BOURBON COMPANY

Executive management discusses recent deals instrumental to the company's growth.



March | FORECASTR (to be confirmed)

Co-CEO Logan Burchett talks about establishing the company, its mission, and growth opportunities ahead.



Spring | ACG KENTUCKY DEAL OF THE YEAR | ACG DEALMAX

ACG Kentucky honors the region's most impactful deals and management teams. ACG Global's Dealmax brings together the agendas for more than 3,000 dealmakers in Las Vegas.

SPEAKER INTRODUCTION

Jim Allen, Vice Chair, Baird



Doug Farren

Managing Director

**The Center for the National
Middle Market**



NATIONAL CENTER FOR
THE MIDDLE MARKET

September 18, 2024

Middle Market Update ACG Kentucky

Latest Data and Insights from the NCMM

Doug Farren, Managing Director

IN COLLABORATION WITH



CHUBB®

VISA



Today's Plan

- I. About – NCMM, Middle Market, and the MMI Report
- II. Latest Middle Market Data
- III. Issues – Talent, Technology, and Supply Chain
- IV. Wrap-Up

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, Chubb, and Visa. 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
5th 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

Kentucky's Middle Market



Other Louisville-Area Companies

Mercer Transportation
Malone Workforce Solutions
Alani Nutrition
Zoeller Pump Company
Buffalo Construction
Algood Food
Louisville Tile
CandyRific
Office Resources
OneSource Logistics

* Source: Business First Book of Lists 2023-24

FIRMS: 2,200 (1%)

EMPLOYEES: 750,000 (31%)

REVENUES: \$115B (36%)

Middle Market Indicator

What...

National Survey of C-Level Executives

How...

Self Administered Online Survey

Insight Areas

Past year growth
Current state of the business
Short-term and Long-term outlooks and challenges
Confidence in the economy
Detailed corporate profiling

Who...

Financial decision makers
Private and Public Organizations
\$10 million-<\$1 billion in Gross Revenue

When...

Annual
Field Periods

Part 1

June

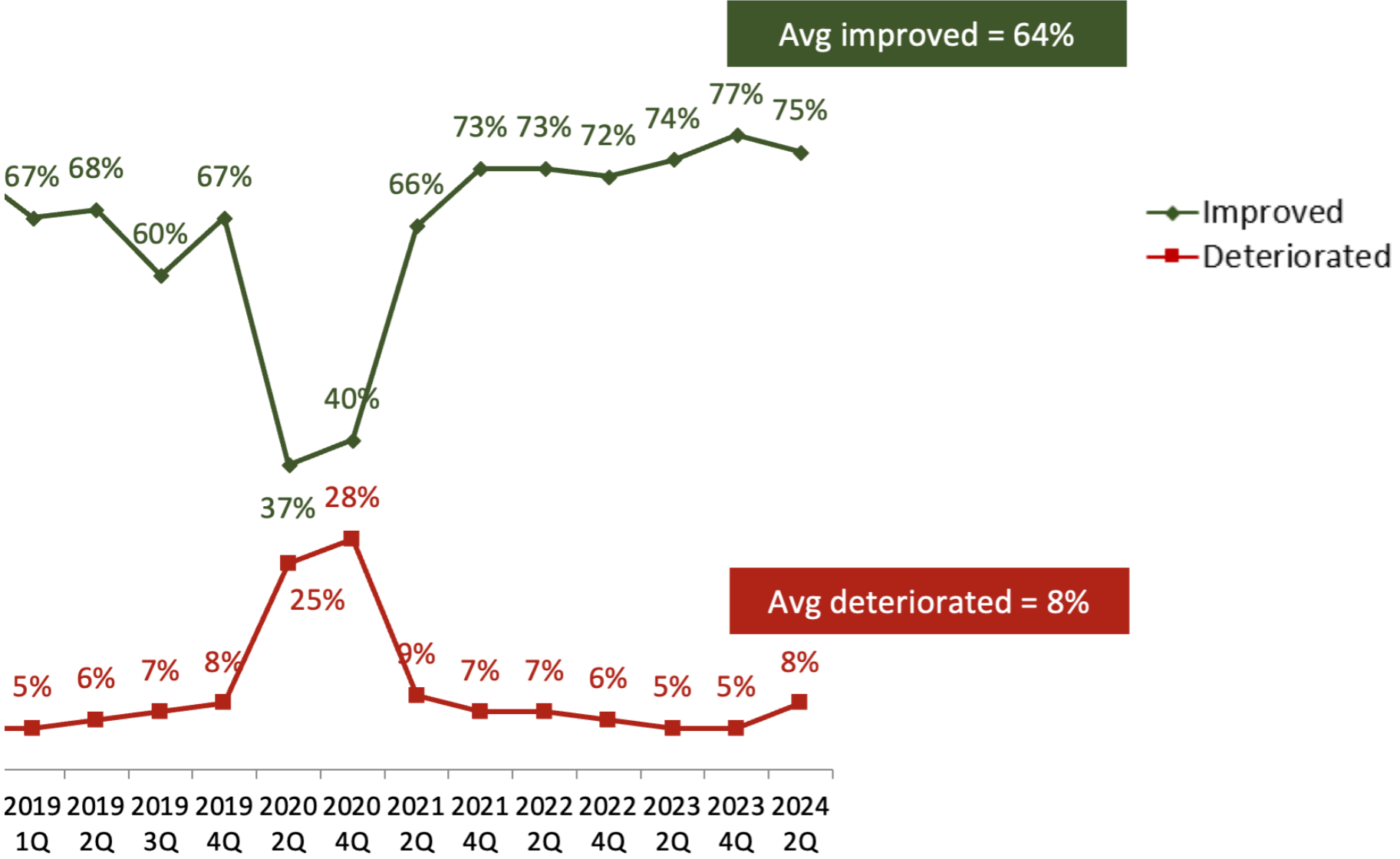
Part 2

December

Study was conducted 4 times per year until 2019 and is now conducted 2 times per year

What's New?

Overall Sense of Performance



- Middle Market Company self-performance sentiment continues to rise
- 75% of the middle market say their business is performing better than a year ago...11% higher than the historical average
- Headwinds such as the macroeconomy, geopolitical issues, and talent gaps remain from the previous survey

Overview—Past Performance and Forecasts

REVENUE GROWTH
12.9%

PAST 12 MONTHS

0.2%
S&P 500

8.8%

NEXT 12 MONTHS



EMPLOYMENT GROWTH
10.3%

PAST 12 MONTHS

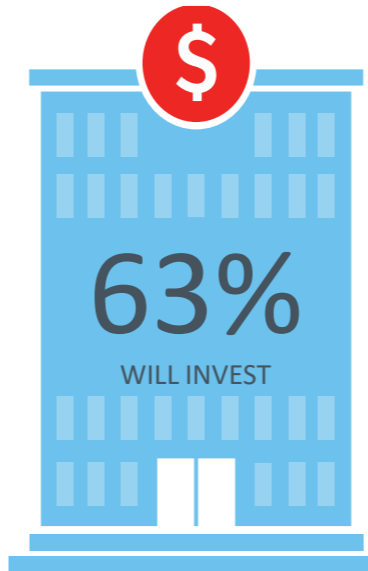
0.5% 2.6%
SMALL BUSINESS LARGE BUSINESS

9.5%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

76%

GLOBAL ECONOMY



78%

NATIONAL ECONOMY



85%

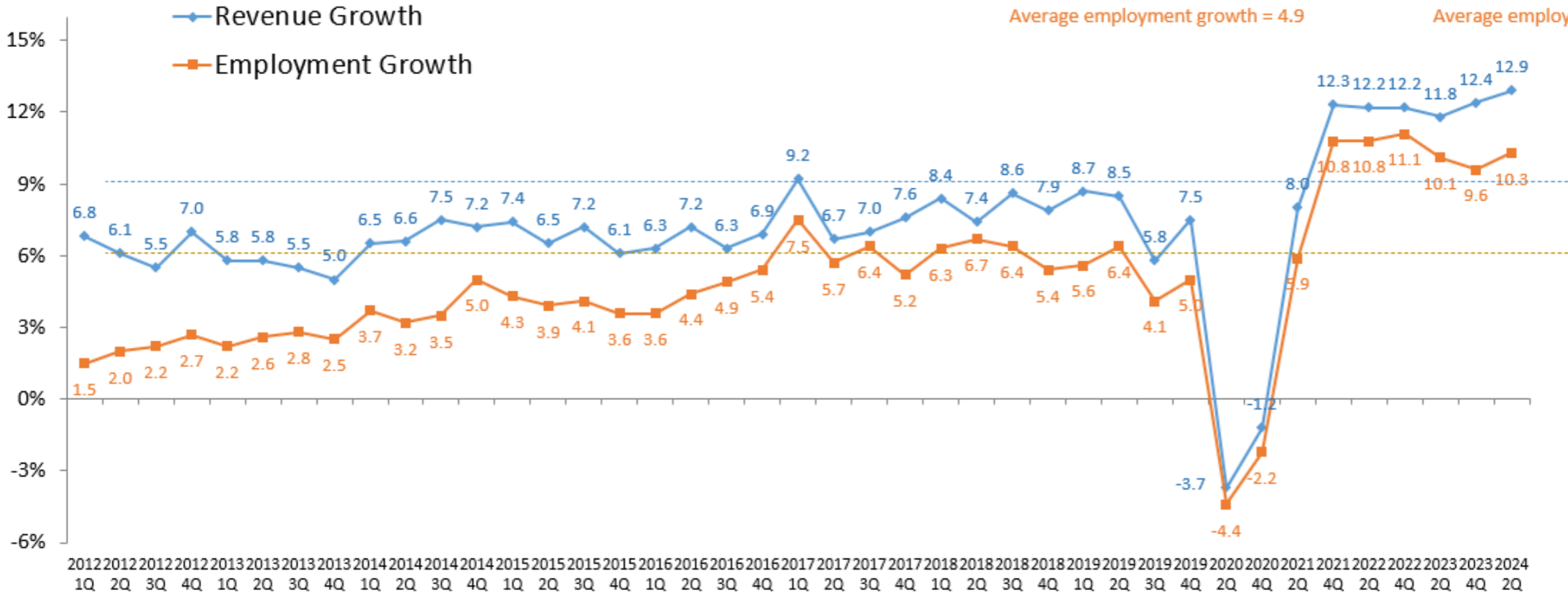
LOCAL ECONOMY



Source: Mid-Year Middle Market Indicator Report

Trend Data

Middle Market Overview



Revenue Growth Trend

PAST 12 MONTHS

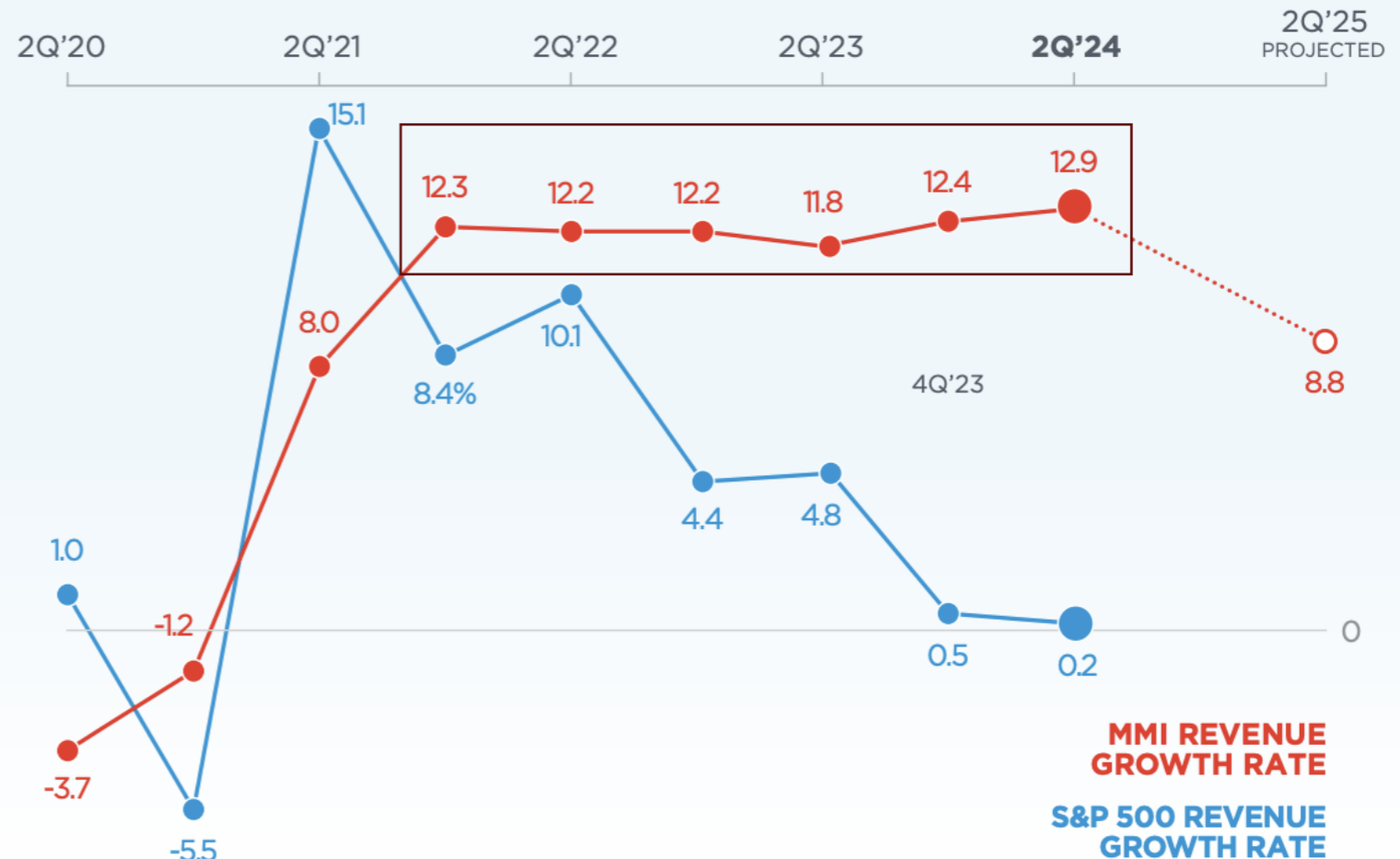
12.9%

U.S. MIDDLE MARKET

0.2%

S&P 500*

Past, current, and projected revenue growth rates for the middle market and the S&P 500 (%)



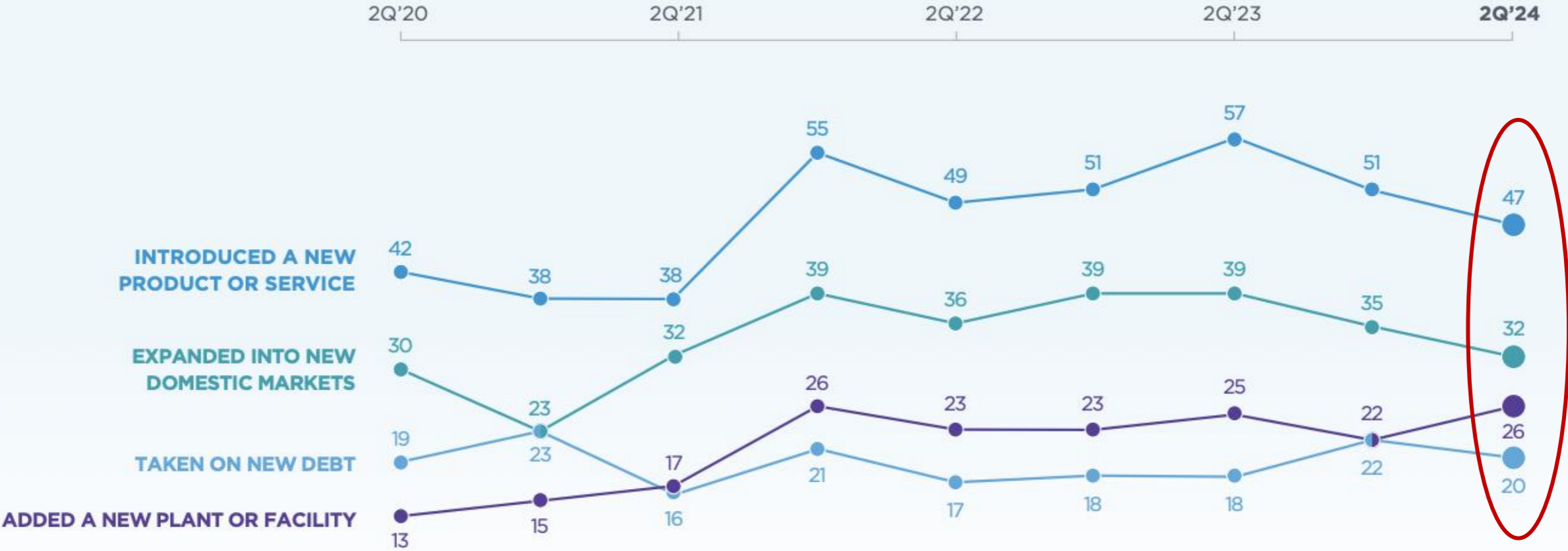
Revenue by Industry



Source: Mid Year Middle Market Indicator Report

Expansionary Activity Continues to Decline

Percent of middle market companies engaging in expansion activities over the past 12 months



Source: Mid Year Middle Market Indicator Report

Year-End MMI: Employment

PAST 12 MONTHS

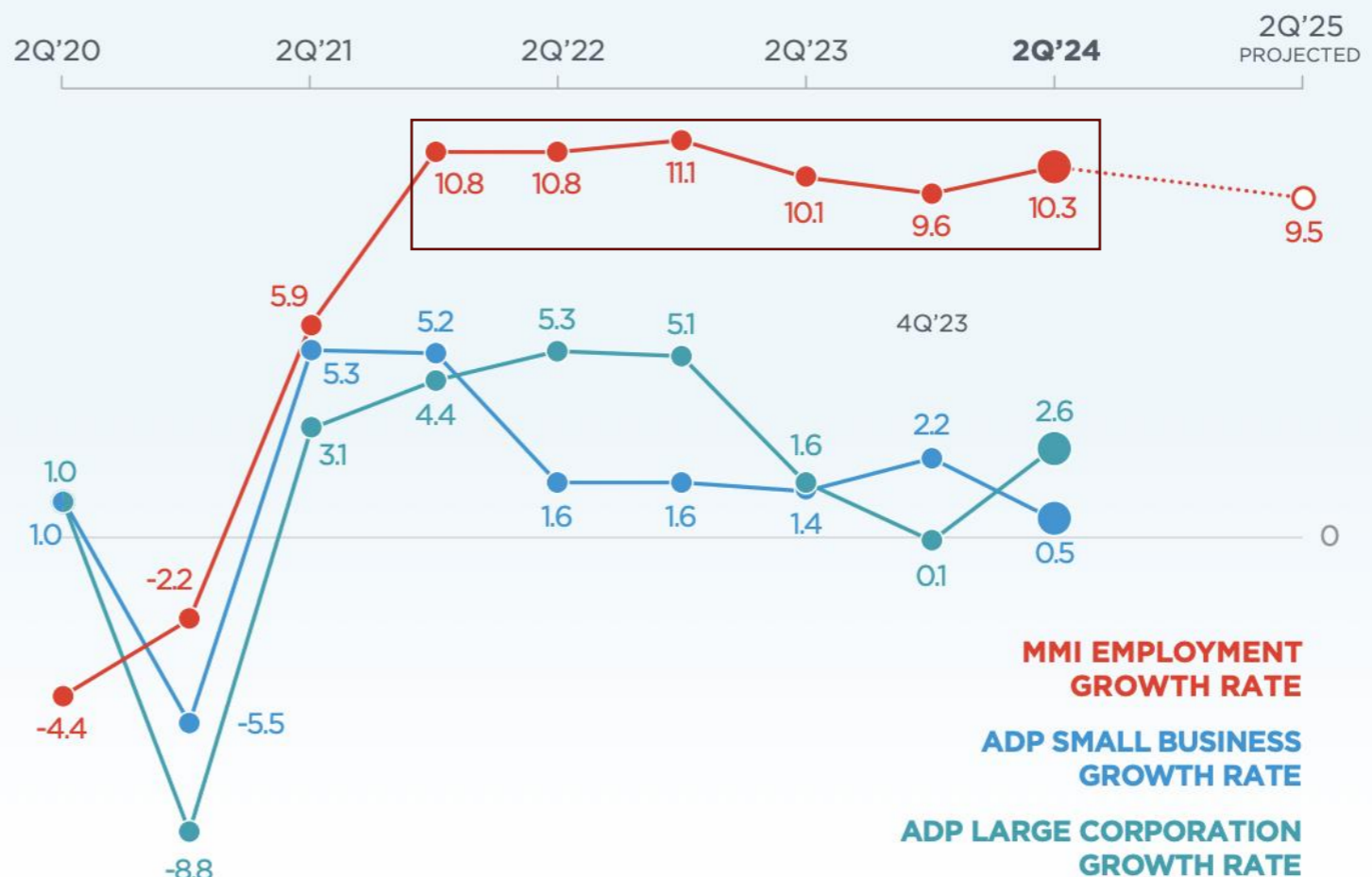
10.3%

U.S. MIDDLE MARKET

0.5%
SMALL
BUSINESS

2.6%
LARGE
BUSINESS

Past, current, and projected employment growth rates for middle market, small, and large companies (%)



Historical
Average
7.7%

Year-End MMI: Employment by Industry



Economic Confidence Remains Strong

Confidence in Economy



GLOBAL ECONOMY

76%

+2% vs. 2023



NATIONAL ECONOMY

78%

+4% vs. 2023



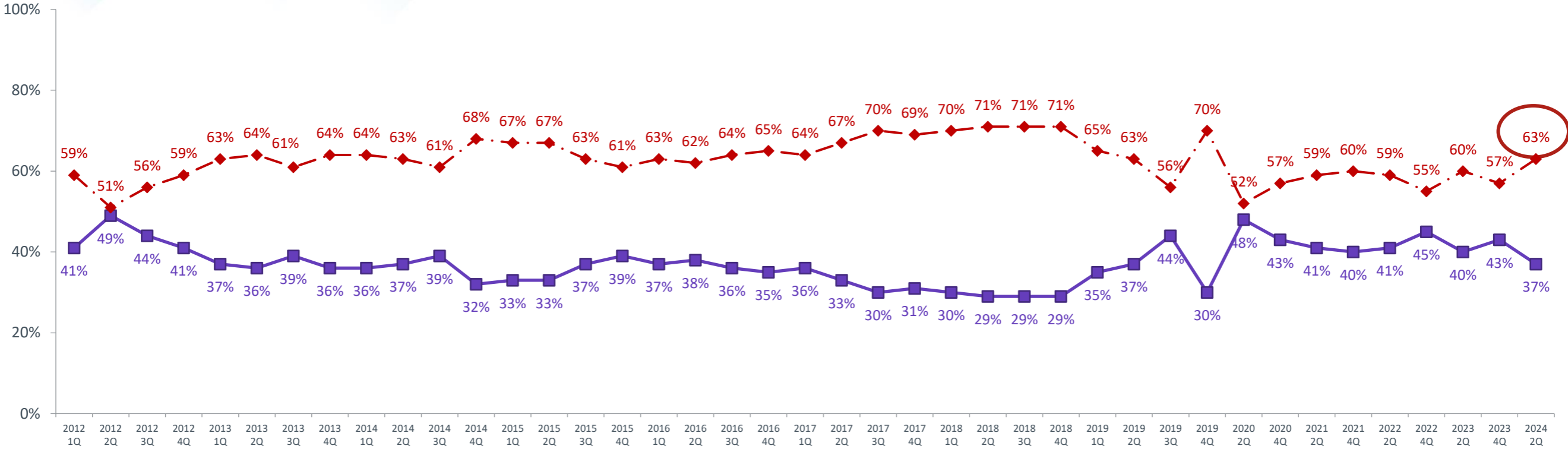
LOCAL ECONOMY

85%

-2% vs. 2023

Source: Mid-Year Middle Market Indicator Report

Investment Plans Start to Rebound

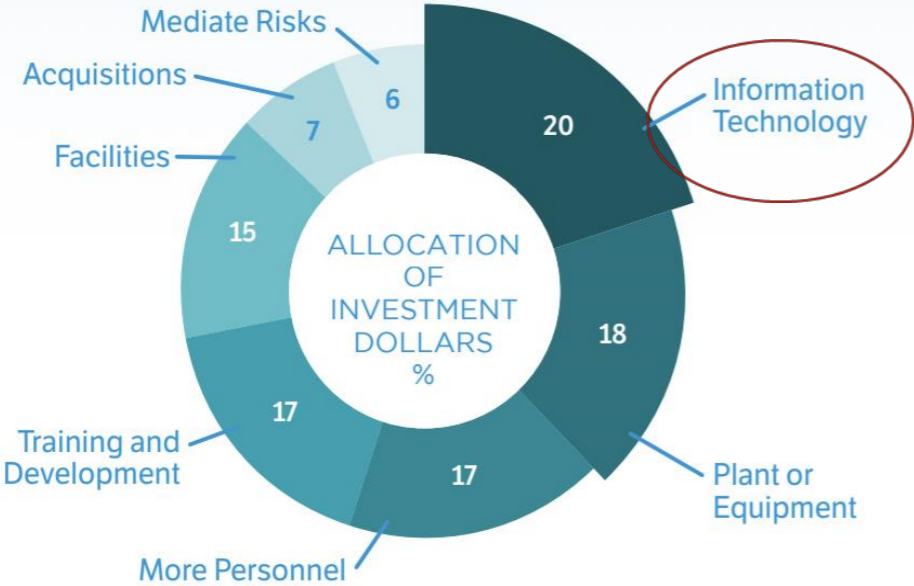


Source: Mid-Year Middle Market Indicator Report

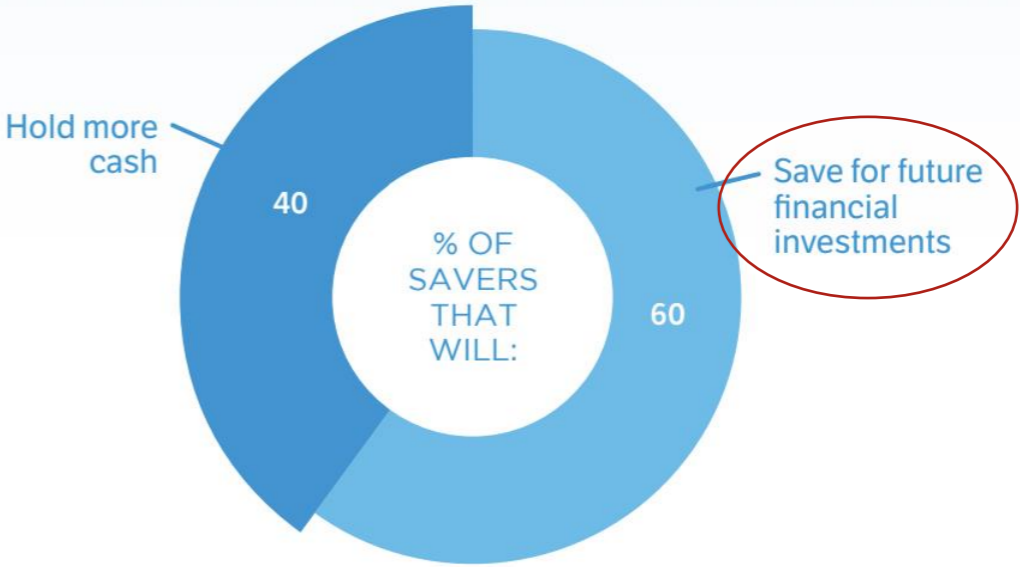
IT and Plant/Equipment are Top Targets for Investment Dollars

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

Technology, people, and capital expenditures are key areas for investment.



Most savers intend to put the dollars toward future investments.



Source: Mid Year Middle Market Indicator Report

Managing Business and Macro Economy

EXTERNAL CHALLENGES

1. CORE BUSINESS ISSUES*	41%
2. ECONOMY	23%
3. COSTS	12%
4. GOVERNMENT	12%

**Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.*

Core Business Issues

Top Challenges

Top Tier Mentions

Inflation

Impacting costs of supplies, salaries, overall expenses, profit margins

Employee Retention and Recruitment/Talent Acquisition

Finding and retaining skilled talent, Motivating employees, Training and upskilling

Economic Challenges/Uncertainties and Financial Issues

Fluctuations in the economy, Global events like wars and geopolitical tensions, Interest rates and borrowing costs, Cash flow management and budget constraints

Technology

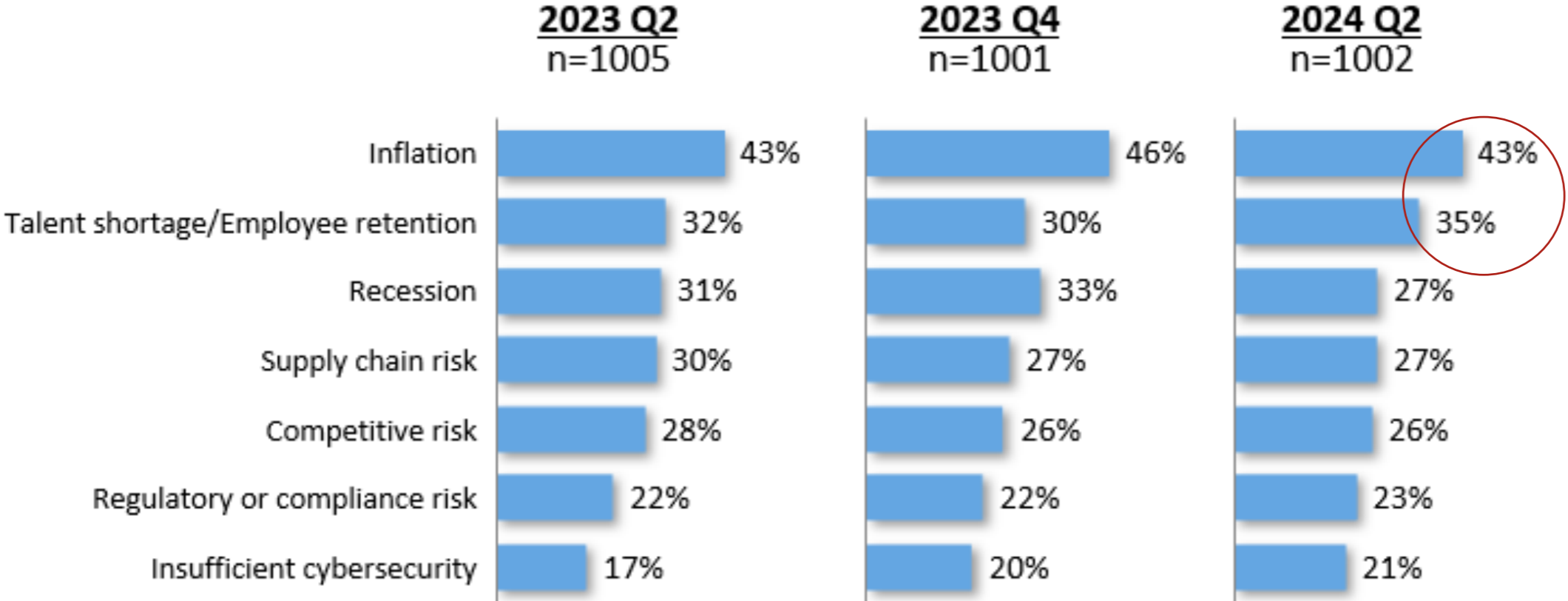
Efficiently integrating new technologies such as AI, Cybersecurity risks and data protection concerns

Operations

Supply chain disruptions, Inventory management and logistics

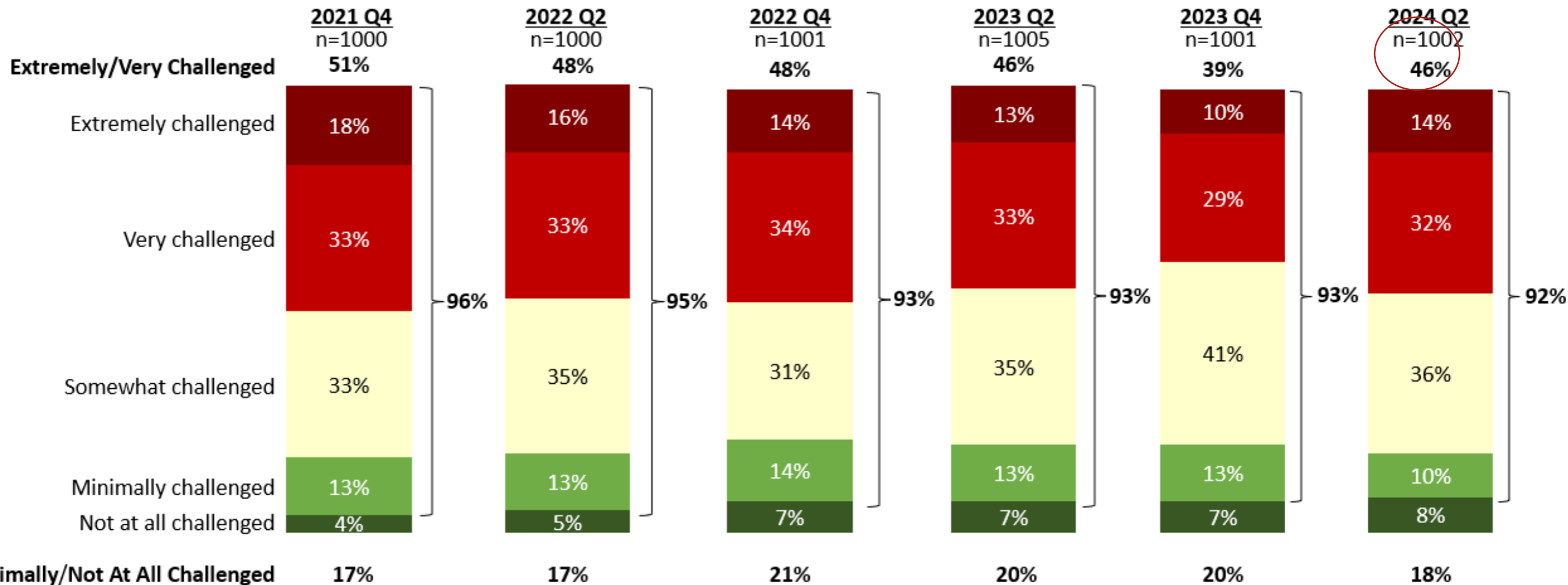
Inflation and Talent Remain Top Emerging Risks

Top Emerging Risks



Middle Market Companies Face Skills Gap

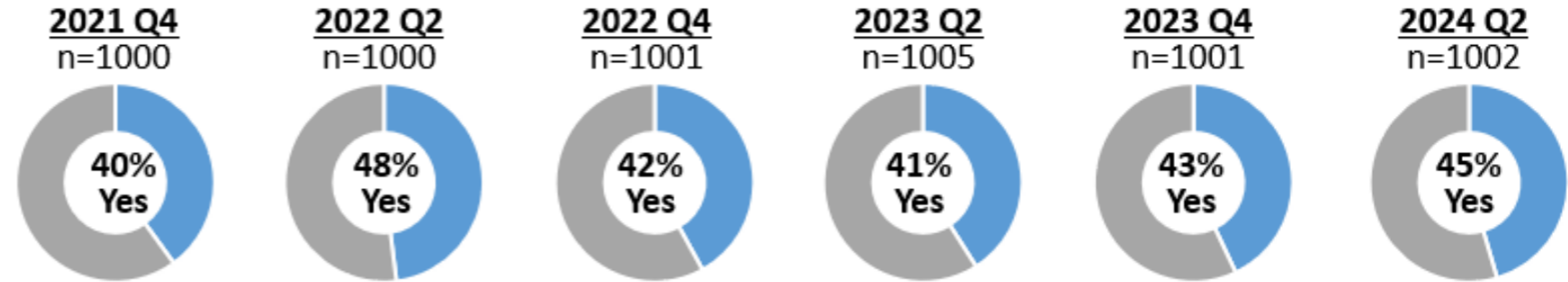
Degree of Challenge to Find Right Skilled Workforce



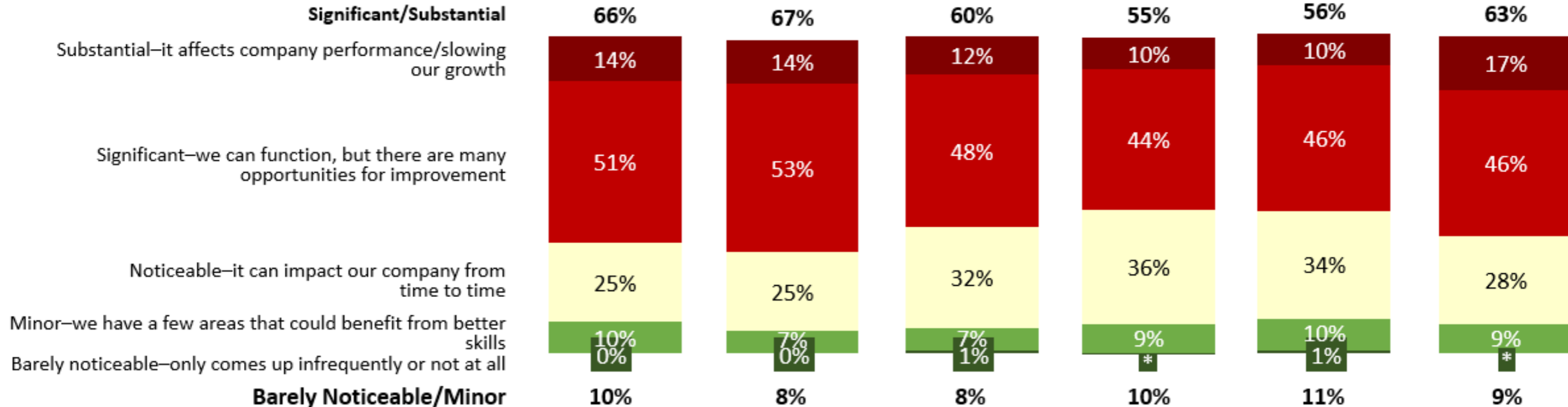
Source Mid Year Middle Market Indicator Report

Digital Skills Remain an Issue

Company Has a Digital Skill Gap

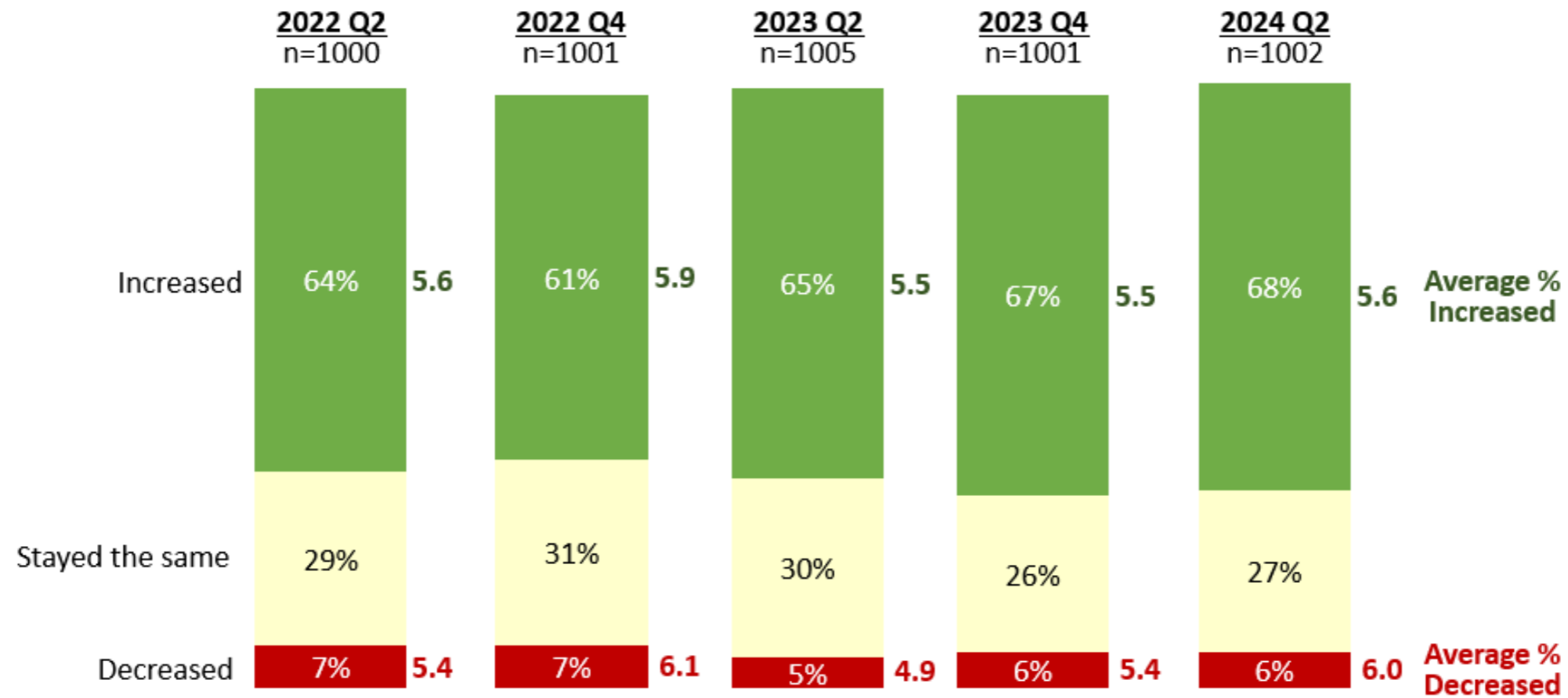


Degree of Digital Skill Gap Impact



Wages

Impact on Wage Compared to One Year Ago

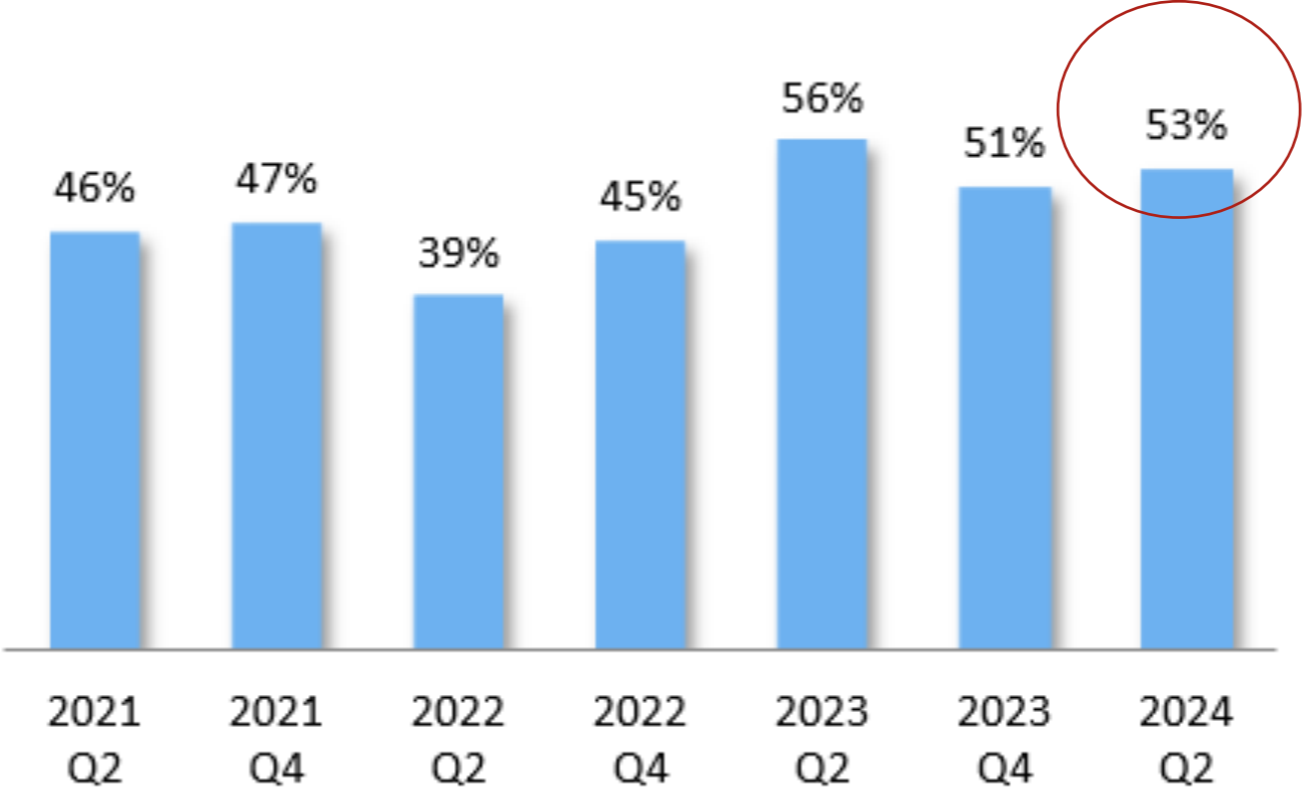


Technology

Digital Strategy

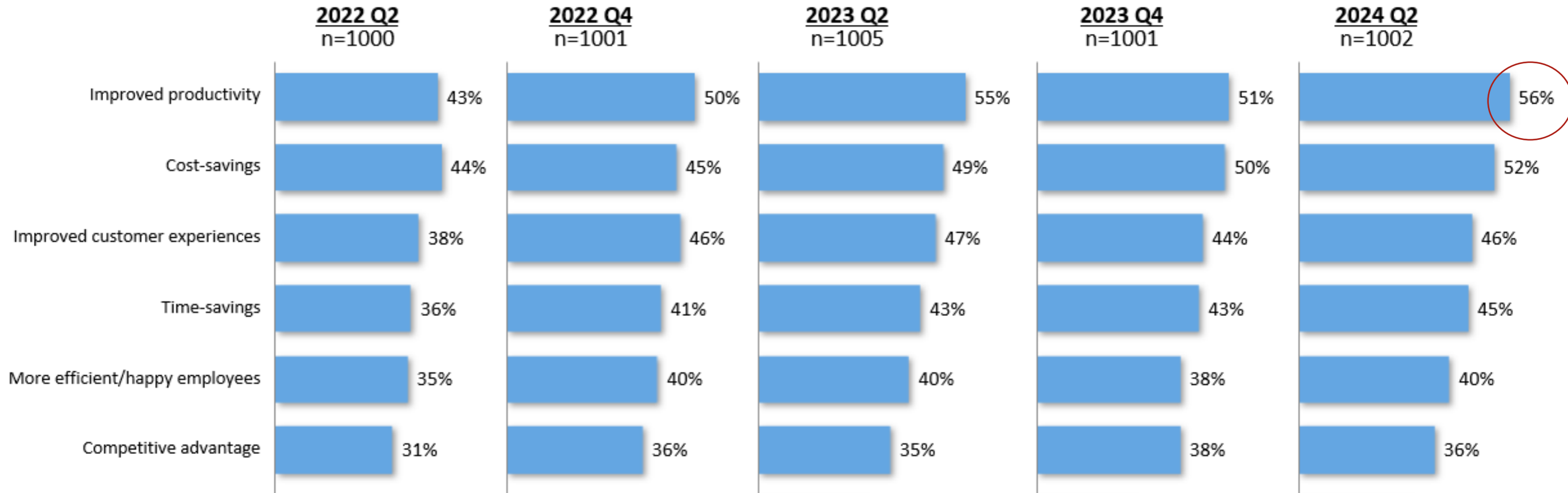
How Digital Innovation Incorporated As Part Of Overall Strategy

■ We have a technology roadmap and know where we're headed

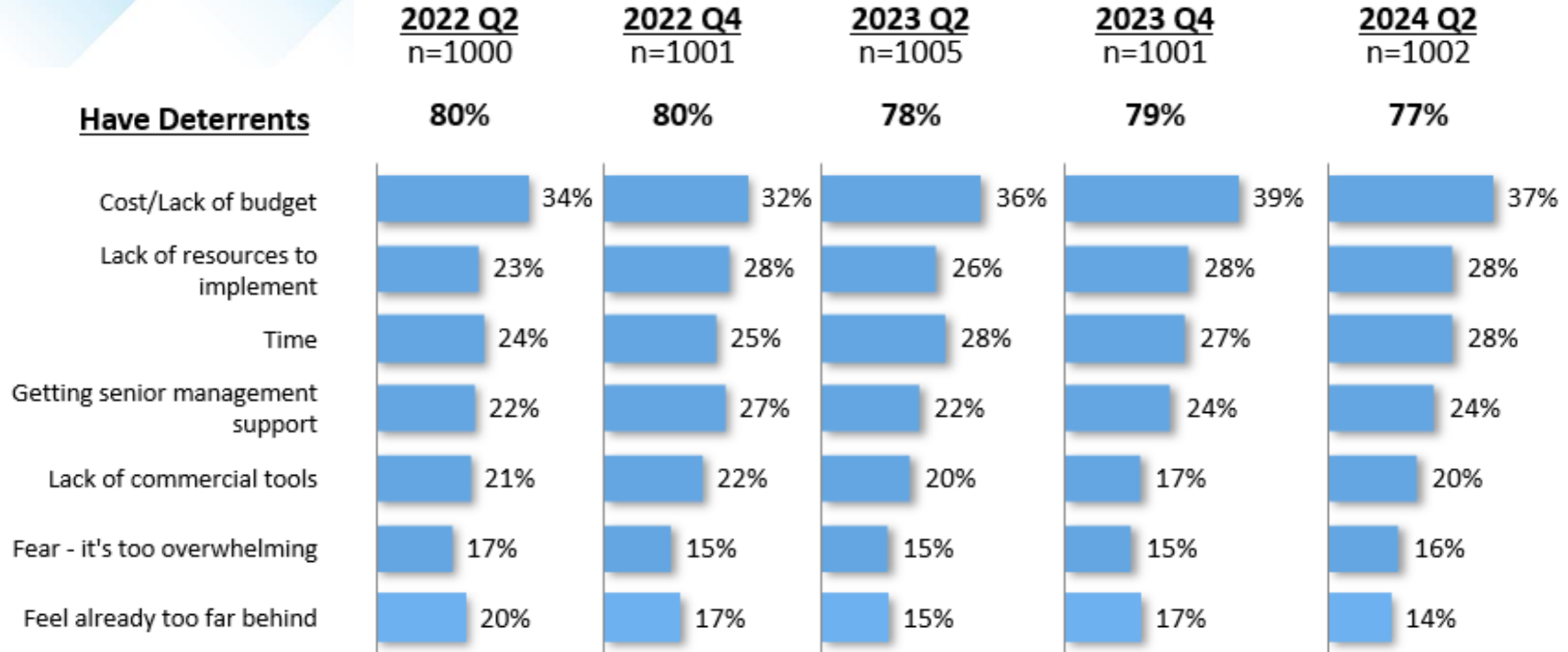


Goals of Digitization

Advantages Hoping To Get From Investing In Digital Solutions

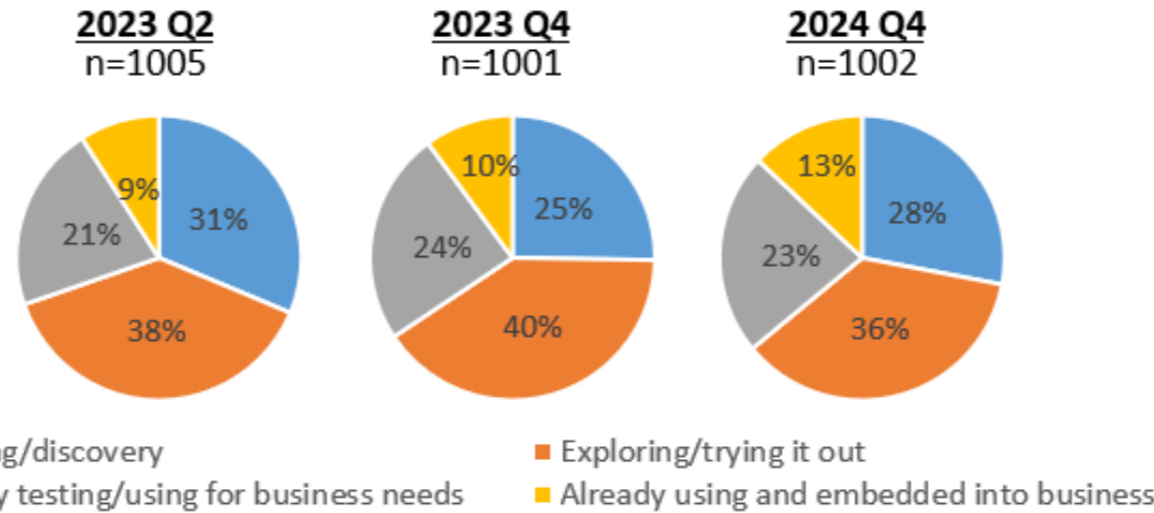


Barriers to Digitization



Artificial Intelligence

Adoption Journey Of New Technology Like AI

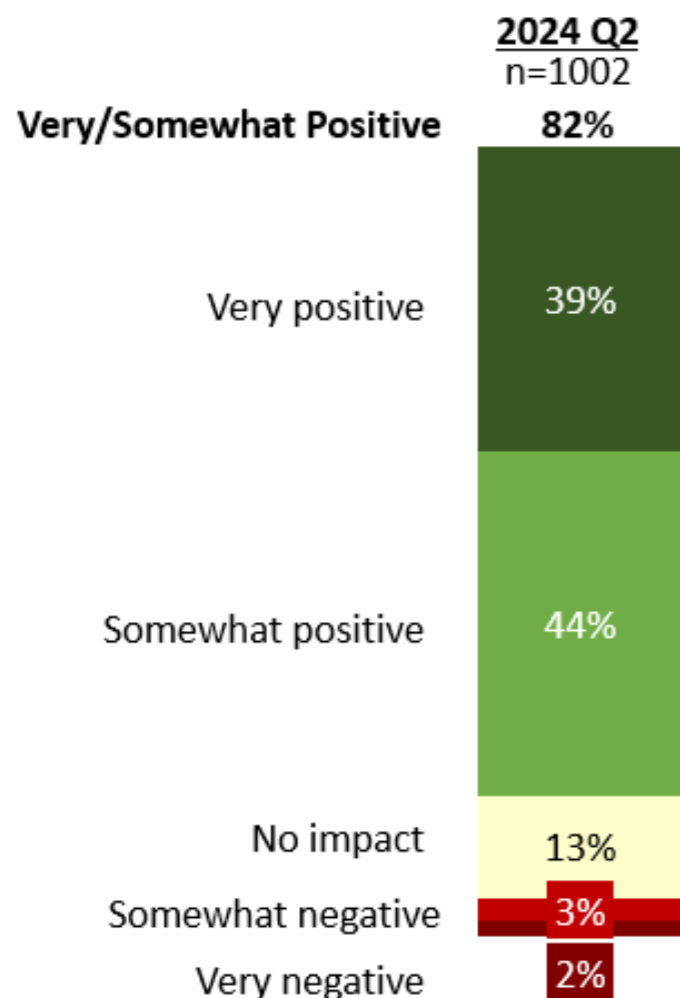


	Total MM (1002) %	\$10M – <\$50M (306) %	\$50M – <\$100M (220) %	\$100M – <\$1B (476) %
Learning/discovery	28	33	25	20
Exploring/trying it out	36	37	36	35
Actively testing/using for business needs	23	19	23	30
Already using and embedded into business	13	10	16	15

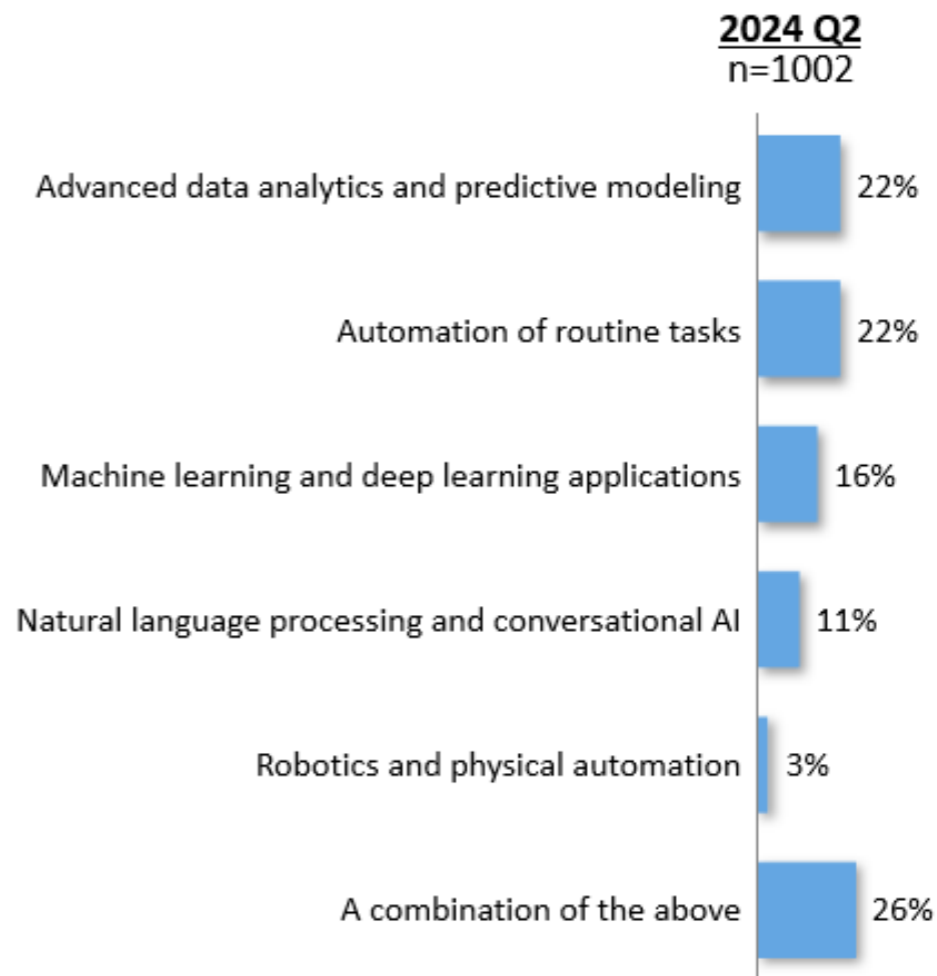
20% of firms in the Business Services Industry indicate they are already using and it is embedded into their business

Artificial Intelligence

Impact Of AI Regardless Of Current Involvement



How Business Defines AI



Artificial Intelligence

Data Privacy and Security

Significant concern, seeking measures to protect/ensure sensitive information is crucial

Ethical Considerations and Bias

Issues such as algorithmic bias, fairness, and transparency in AI decision-making processes

Impact on Workforce

AI potentially displacing jobs and impacting workforce dynamics

Regulatory Compliance

Keeping up with evolving regulations and standards

Integration Challenges

Complexity of integrating AI with existing business processes and systems

Education and Training

Providing adequate training and support to employees to understand and utilize AI effectively

Costs and ROI

Balancing the investments required for AI implementation with expected returns on investment

Adaptation/Acceptance

Balance of embracing innovation while respecting traditional roles, tasks, and values

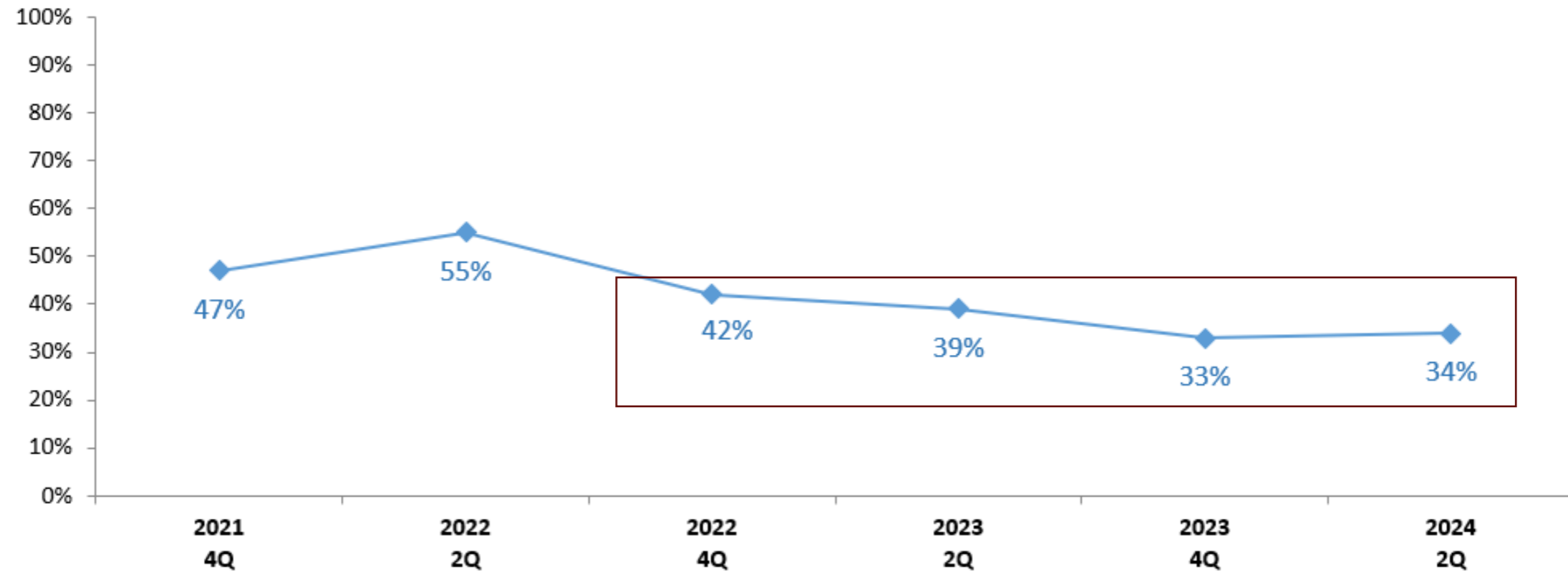
Risk Management

Strategies to handle potential AI system failures

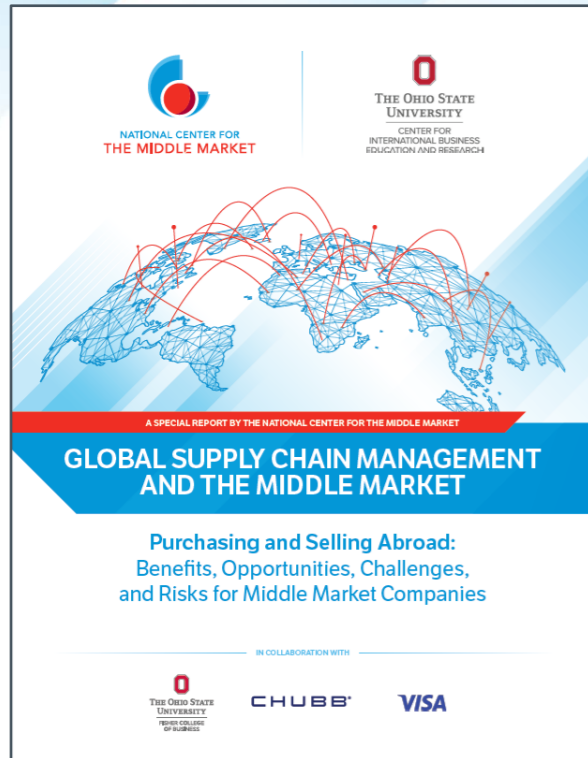
Supply Chain

Supply Chain Continues to Improve

Impacted By Supply Chain Disruptions/Constraints In The Past 6M



Global Supply Chain Study



- Self-administered online survey among N=406 middle market companies
 - n=202 Purchasers
 - n=204 Suppliers
- Data collected December 8th – 22nd, 2023
- Sample sourced from an online panel company
- Survey length ~15 minutes



Qualifiers

- Qualifying job title
- Annual revenue between \$10 million and \$1 billion
- Active involvement in company's supply chain decision-making
- Active involvement in the international supply chain (purchaser or supplier)*

Understand company performance and supply chain practices

Assess the current landscape of international supply chain management

Evaluate factors influencing supply chain decisions

Global Supply Chain Insights

INSIGHT #1 Financial Advantages

Sellers enjoy increased profits; buyers enjoy cost savings

Two thirds of companies are satisfied with cross-border payment processes

INSIGHT #2 Complexity

Majority of sellers and buyers experience increased complexity

Longer lead times

Tariffs/Regulations

Currency Fluctuations

Exposure to Risks

INSIGHT #3 Risk Management

Mid-size firms recognize risks and take actions to address them

Diversifying supply base

Integrations of technology

Insurance Coverage

INSIGHT #4 Talent

Top skills sought include:
Language skills
International Supply Chain Expertise
Trade and Export knowledge

65% of purchasers and 69% of sellers are challenged finding internationally skilled talent

INSIGHT #5 Larger = More

Larger middle market companies (\$100M revenue or more) tend to be more diversified and engaged internationally

Also tend to invest more heavily in talent, training, and expertise

Summary

- The middle market remains a steady engine of growth:
 - Consistent revenue and employment growth – post pandemic surge
 - Investment plans starting to slowly rebound, mirroring high confidence levels across the board
 - Expansion plans over the next 12 months include new products/services and domestic markets
- Biggest challenges include inflation, workforce, and economic uncertainty. With an upcoming presidential election, two regional wars raging, and inflation lingering for certain industries, the macroeconomic environment would appear to be an issue yet projections are strong
- AI adoption continues to be slow – and primarily adopted in the industries and functions where benefits are most acute. Risk and uncertainties remain about how and where to incorporate the technology



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Q&A