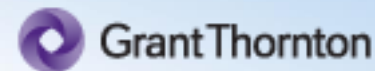


Q2'18 MIDDLE MARKET INDICATOR | ACG WEBINAR | JULY 25th, 2018

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q2'18 INDICATOR SURVEY

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



THE MIGHTY MIDDLE MARKET

U.S. Middle Market Defined

NEARLY

200,000

BUSINESSES

IN ALL INDUSTRY
SEGMENTS AND
GEOGRAPHIES



REPRESENTING

3.0%
OF ALL U.S.
COMPANIES



**ANNUAL
REVENUE**

RANGING FROM

\$10MM-\$1B



U.S. Middle Market Impact



5TH
LARGEST
GLOBAL ECONOMY



33%
OF PRIVATE
SECTOR GDP



GENERATED
AN ADDITIONAL



**\$500
BILLION**



IN ANNUAL
REVENUE IN 2013



MORE THAN

**\$10
TRILLION**

IN ANNUAL REVENUE



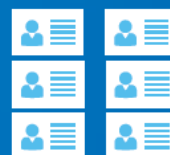
OF U.S. JOBS—
APPROXIMATELY
45.6 MILLION



PROJECTED
TO CREATE



60%
OF ALL
NEW JOBS



2013-2014 CONTRIBUTED

1.1+ MILLION
NEW JOBS

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, SunTrust Banks Inc., Grant Thornton, and Cisco Systems. 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

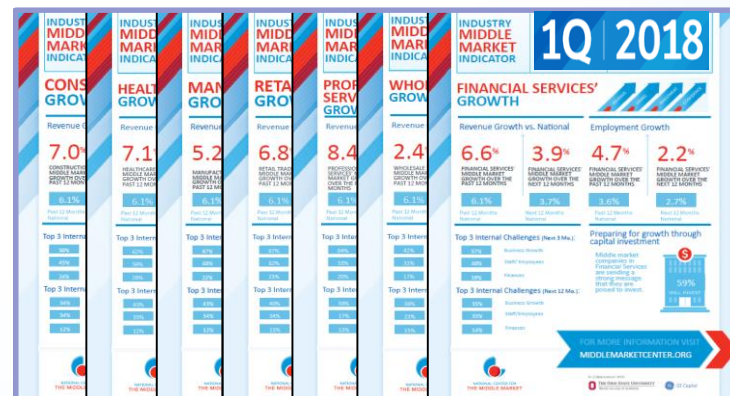
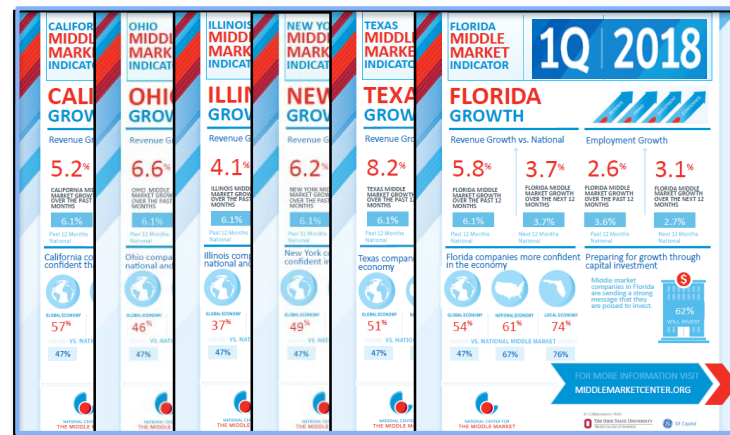
THE MIDDLE MARKET INDICATOR

MIDDLE MARKET INDICATOR OVERVIEW

A Quarterly National Survey



Cut by Geography and Industry



Q2'18 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN JOB CREATION; FOR THE FIRST TIME IN 6 YEARS, S&P REVENUE GROWTH OUTSTRIPPED THE MIDDLE MARKET
- 2** WHILE REVENUE GROWTH SLOWED FROM THE FAST PACE OF THE PREVIOUS QUARTER IT REMAINS STRONG, AHEAD OF LAST YEAR AND WILL ABOVE HISTORICAL AVERAGES. JOB CREATION IS ESPECIALLY ROBUST AND TALENT CHALLENGES ARE INTENSE.
- 3** SHORT-TERM ORDER PIPELINES ARE FULL. HOWEVER, CONFIDENCE HAS DIPPED—ESPECIALLY FOR THE GLOBAL ECONOMY—AND EXECUTIVES REPORT A JUMP IN CONCERNS ABOUT TRADE-RELATED POLICIES AND COSTS.
- 4** PRIVATE-EQUITY-OWNED COMPANIES OUTPERFORMED THE NATIONAL AVERAGES, AND EXPECT TO CONTINUE TO THRIVE

Q2'18 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

7.4%

PAST 12 MONTHS

8.25%
S&P 500

5.9%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

6.7%

PAST 12 MONTHS

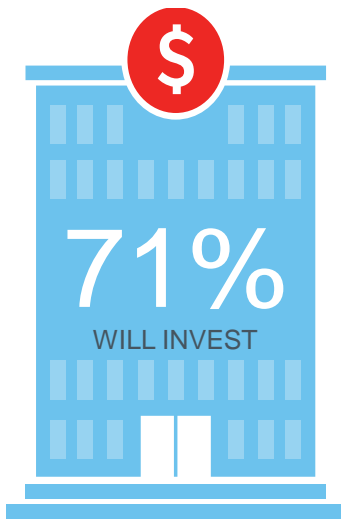
1.0% SMALL BUSINESS 2.9% LARGE BUSINESS

4.8%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

75%

GLOBAL ECONOMY



86%

NATIONAL ECONOMY



90%

LOCAL ECONOMY



Q2'18 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

7.4%

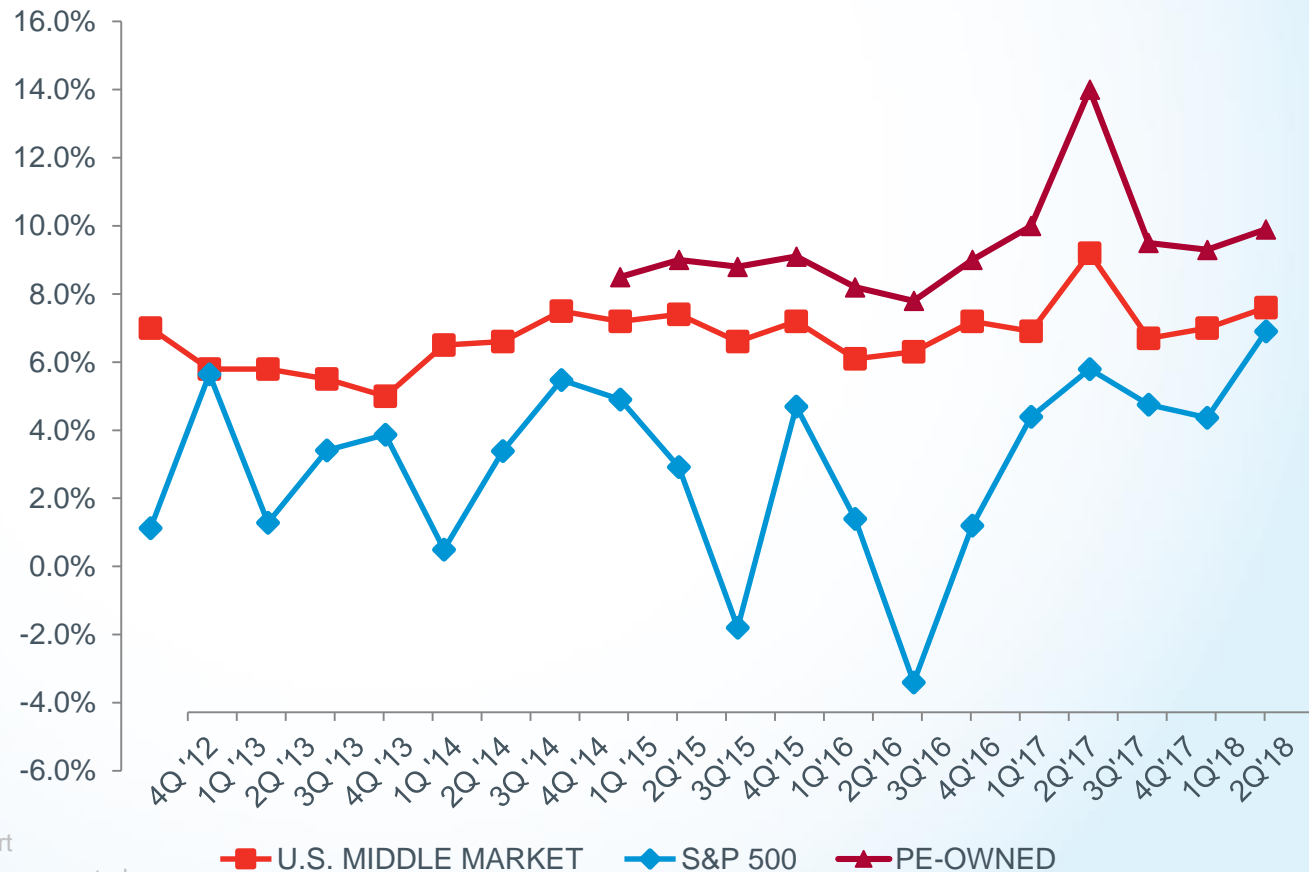
U.S. MIDDLE MARKET

9.3%

PE-OWNED FIRMS

8.25%

S&P 500*

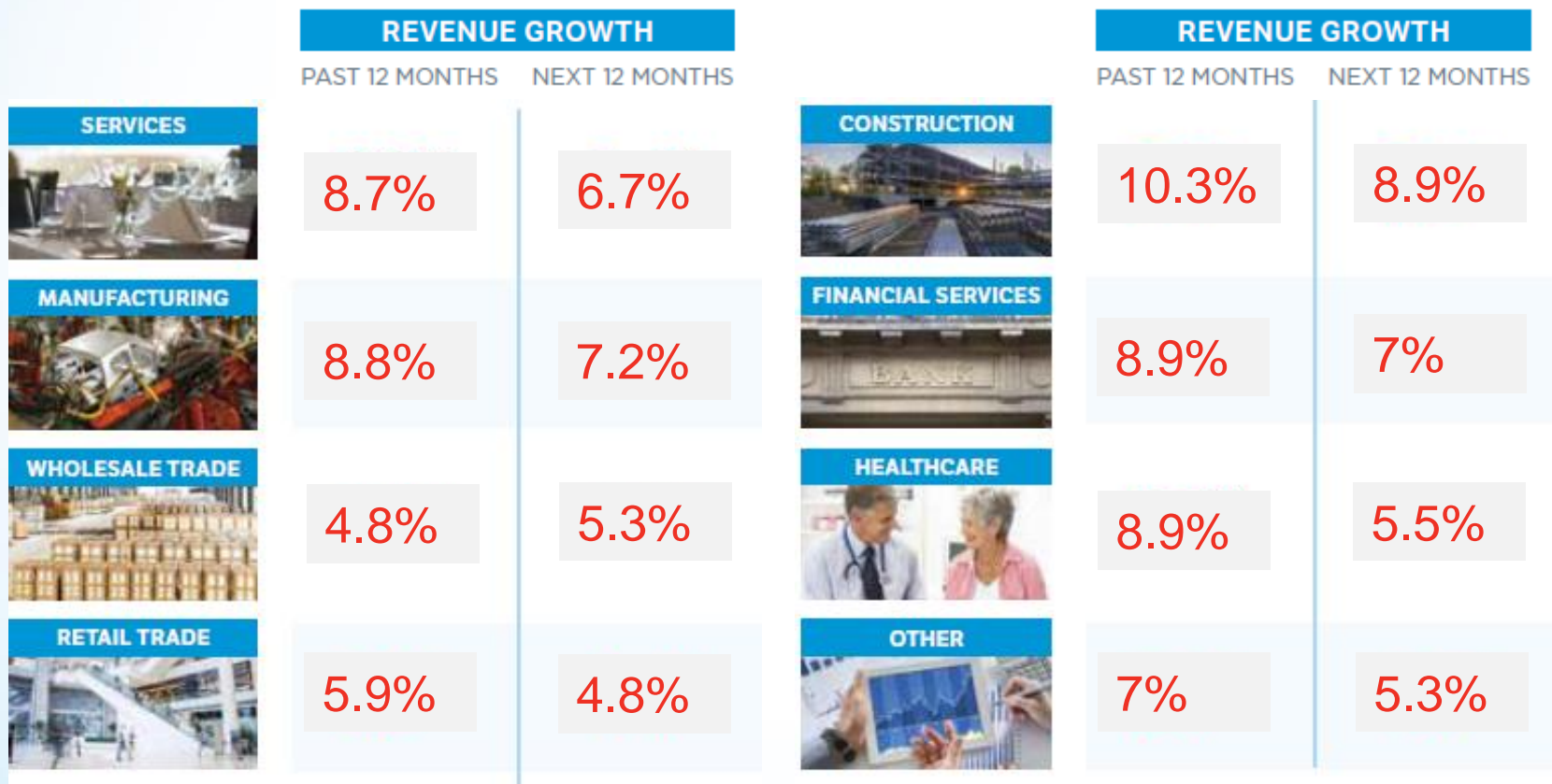


Source: 1Q'18 Middle Market Indicator Report
*1Q numbers include only companies who have reported.

THE RISING TIDE CONTINUES TO LIFT ALMOST ALL BOATS

	2Q 2018	2Q 2017
Performance improved	72%	65%
Performance was unchanged	22	30
Performance deteriorated	7	5

Q2'18 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH



Q2'18 MIDDLE MARKET INDICATOR REVENUE GROWTH *FORECAST*

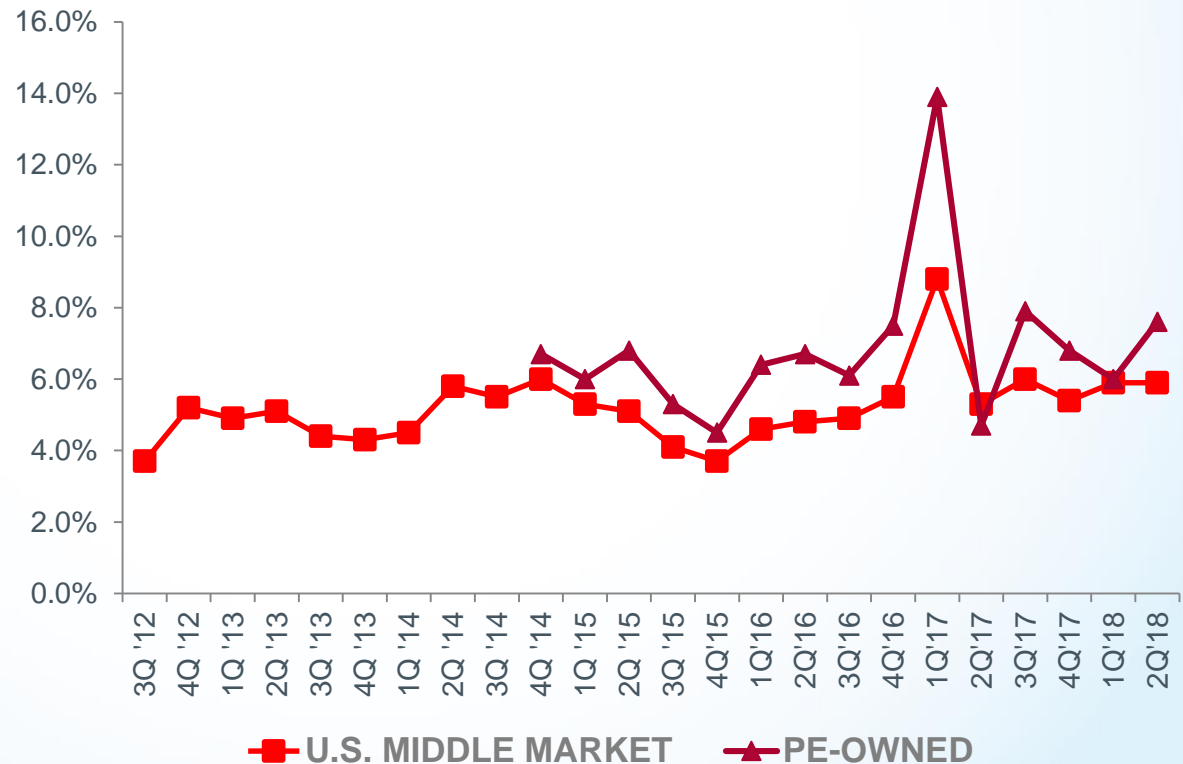
NEXT 12 MONTHS

5.9%

U.S. MIDDLE MARKET

7.6%

PE-OWNED FIRMS



Q2'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

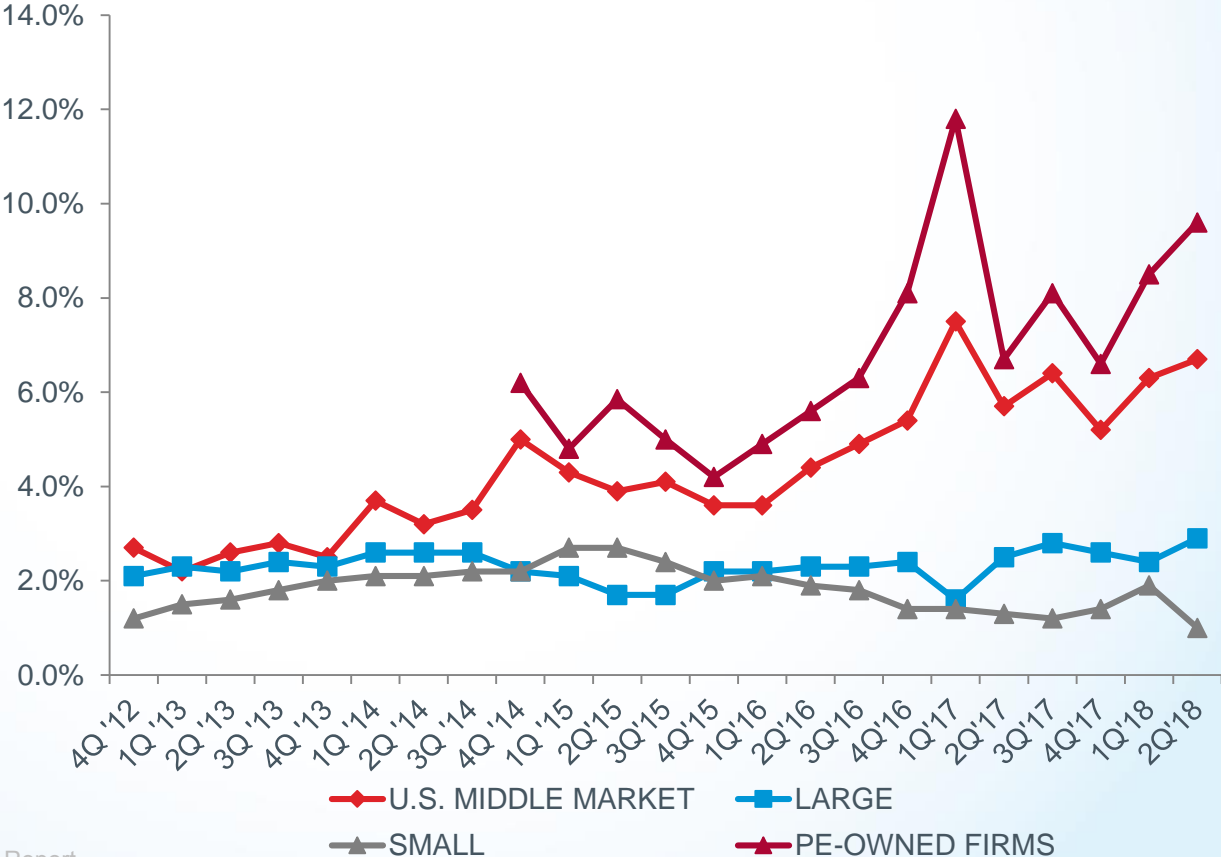
6.7%

U.S. MIDDLE MARKET

1.9% SMALL BUSINESS
2.4% LARGE BUSINESS

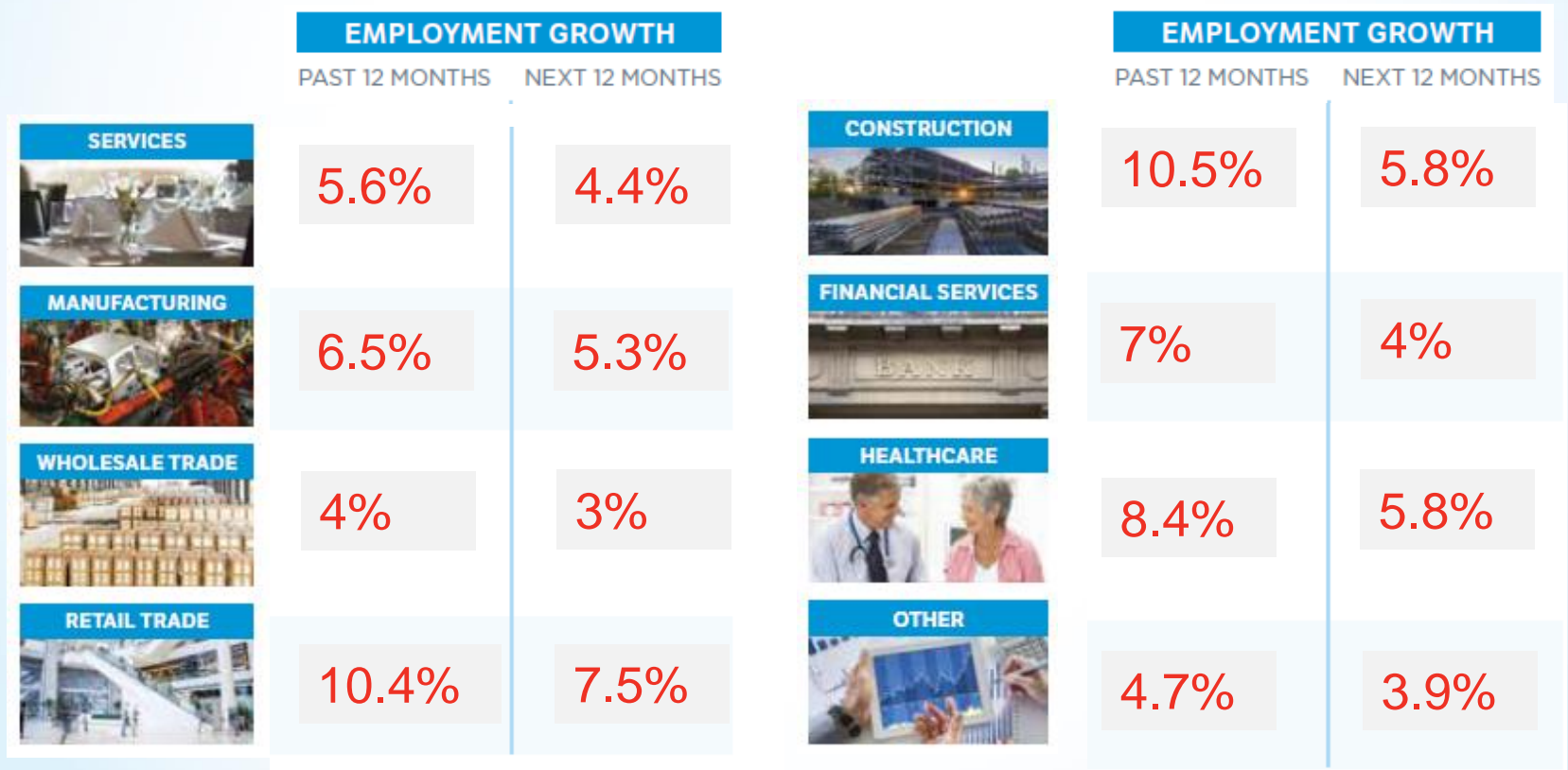
9.6%

PE-OWNED FIRMS



Source: 1Q'18 Middle Market Indicator Report

Q2'18 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q2'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

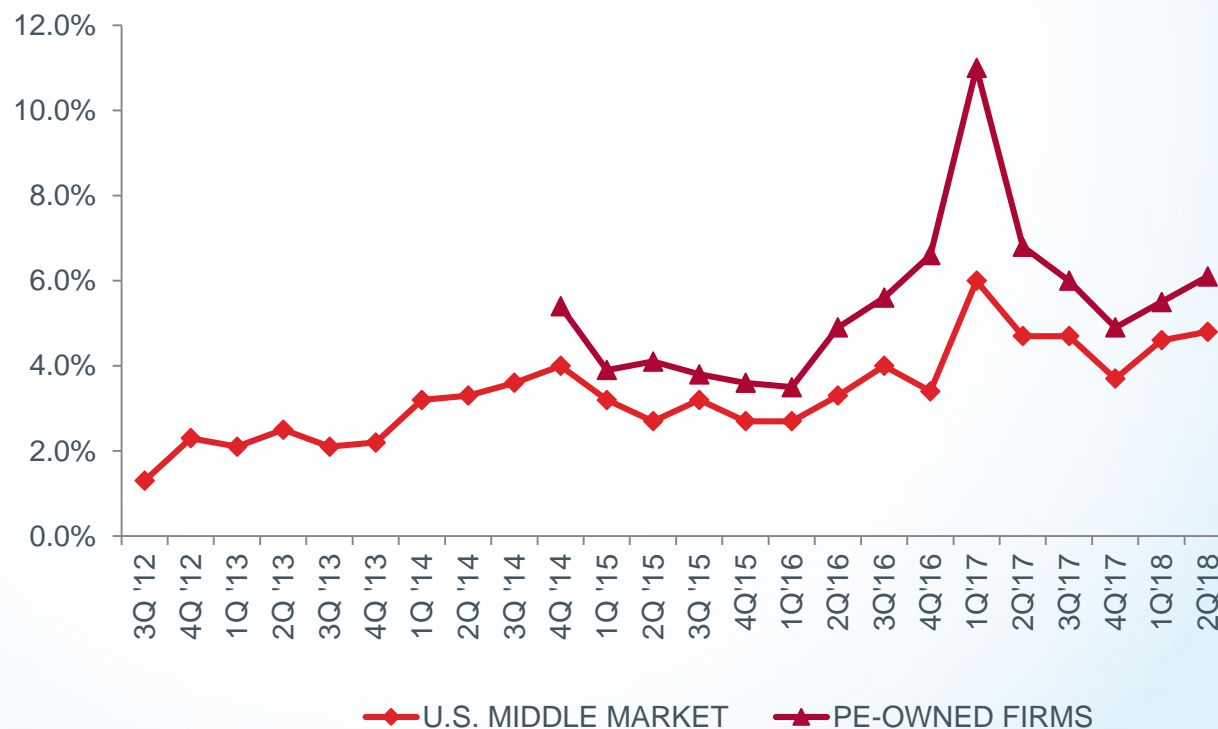
NEXT 12 MONTHS

4.8%

U.S. MIDDLE MARKET

6.1%

PE-OWNED FIRMS

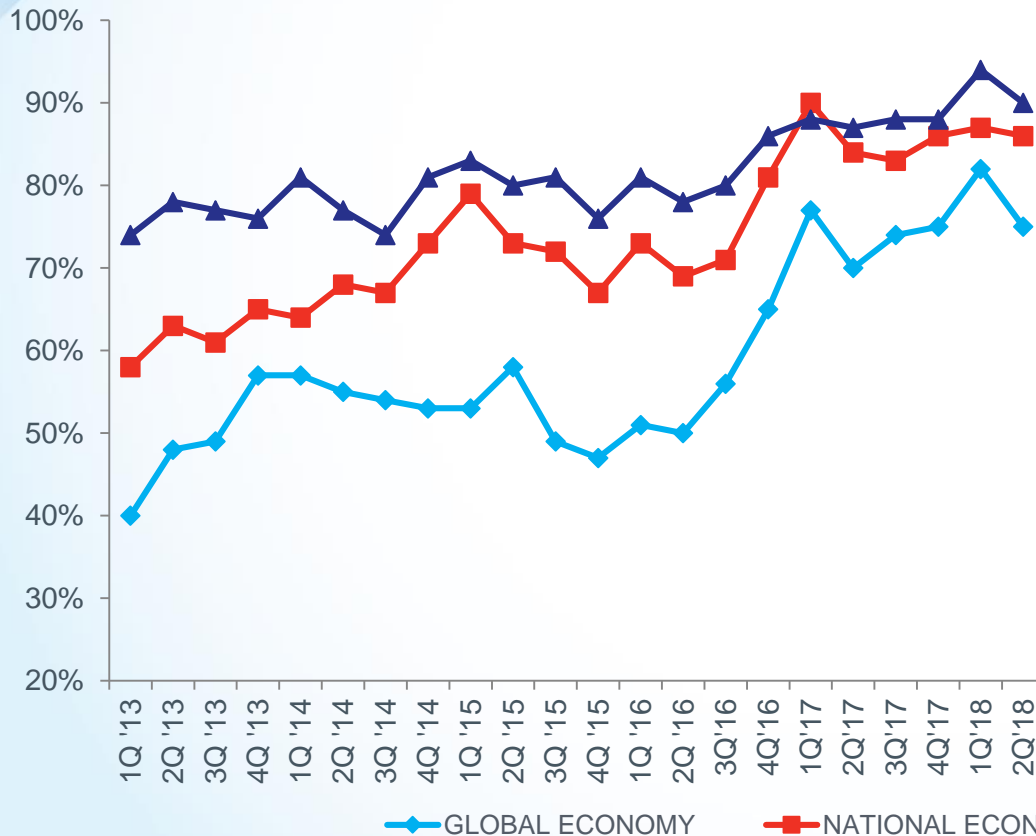




CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q2'18 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Dips, but Remains Strong Across the Board



GLOBAL ECONOMY

75%

74% PE-OWNED



U.S. ECONOMY

86%

85% PE-OWNED



LOCAL ECONOMY

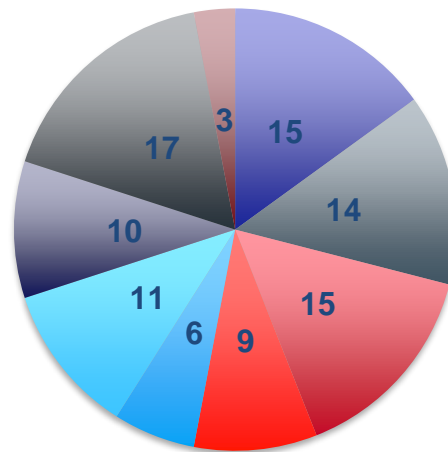
90%

87% PE-OWNED

Q2'18 MIDDLE MARKET INDICATOR 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

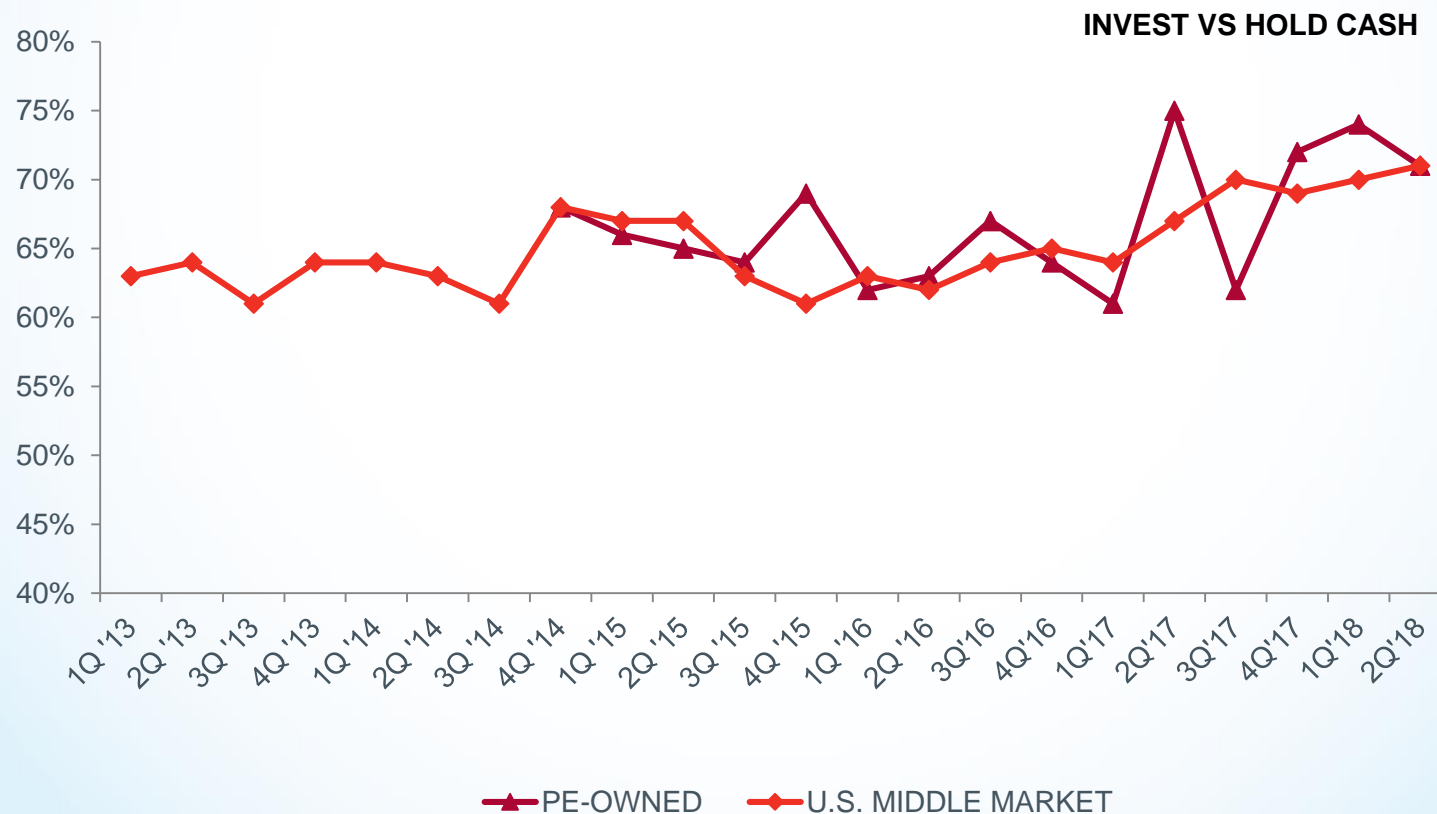


U.S. MIDDLE MARKET



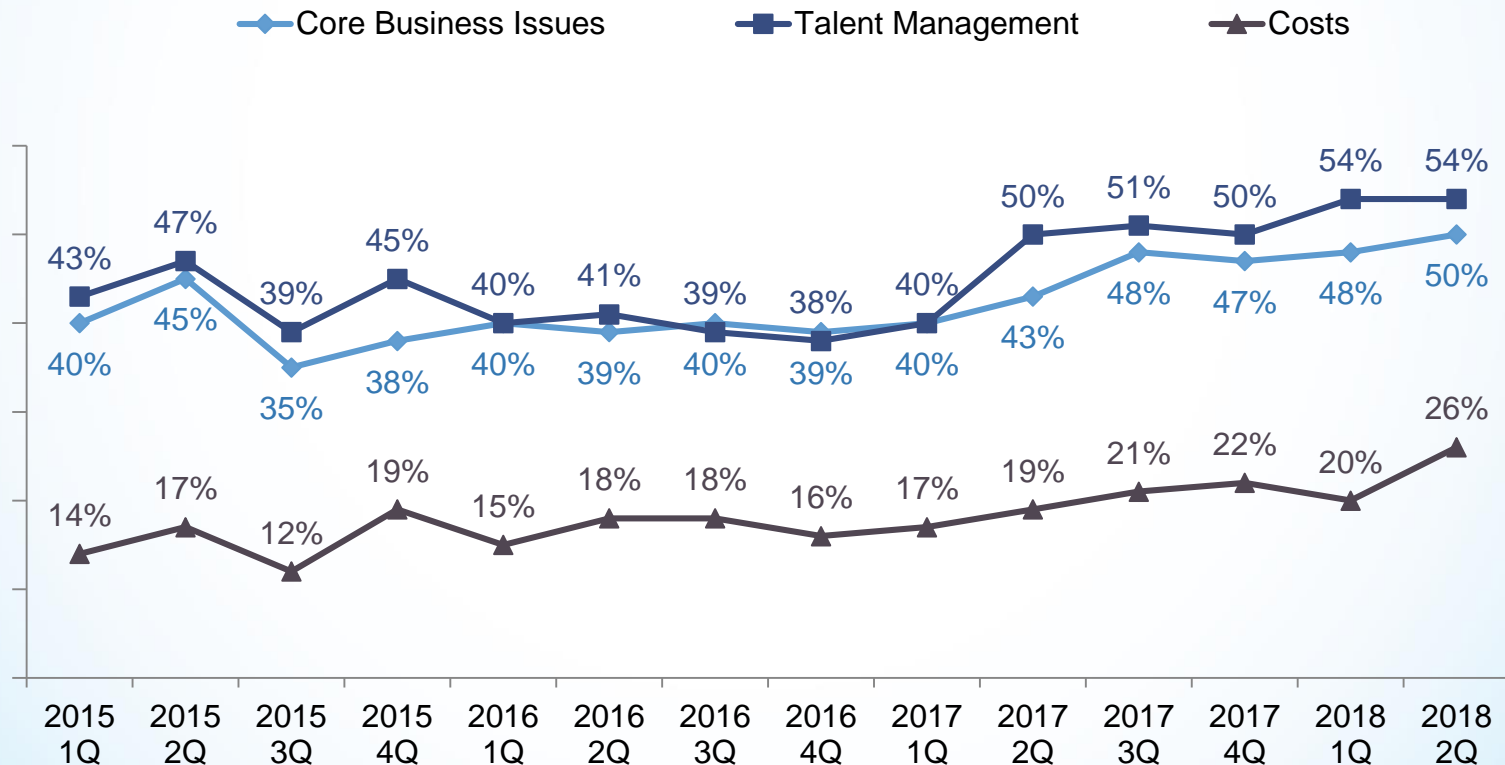
PE-OWNED

INVESTMENT APPETITES CONTINUE TO RISE



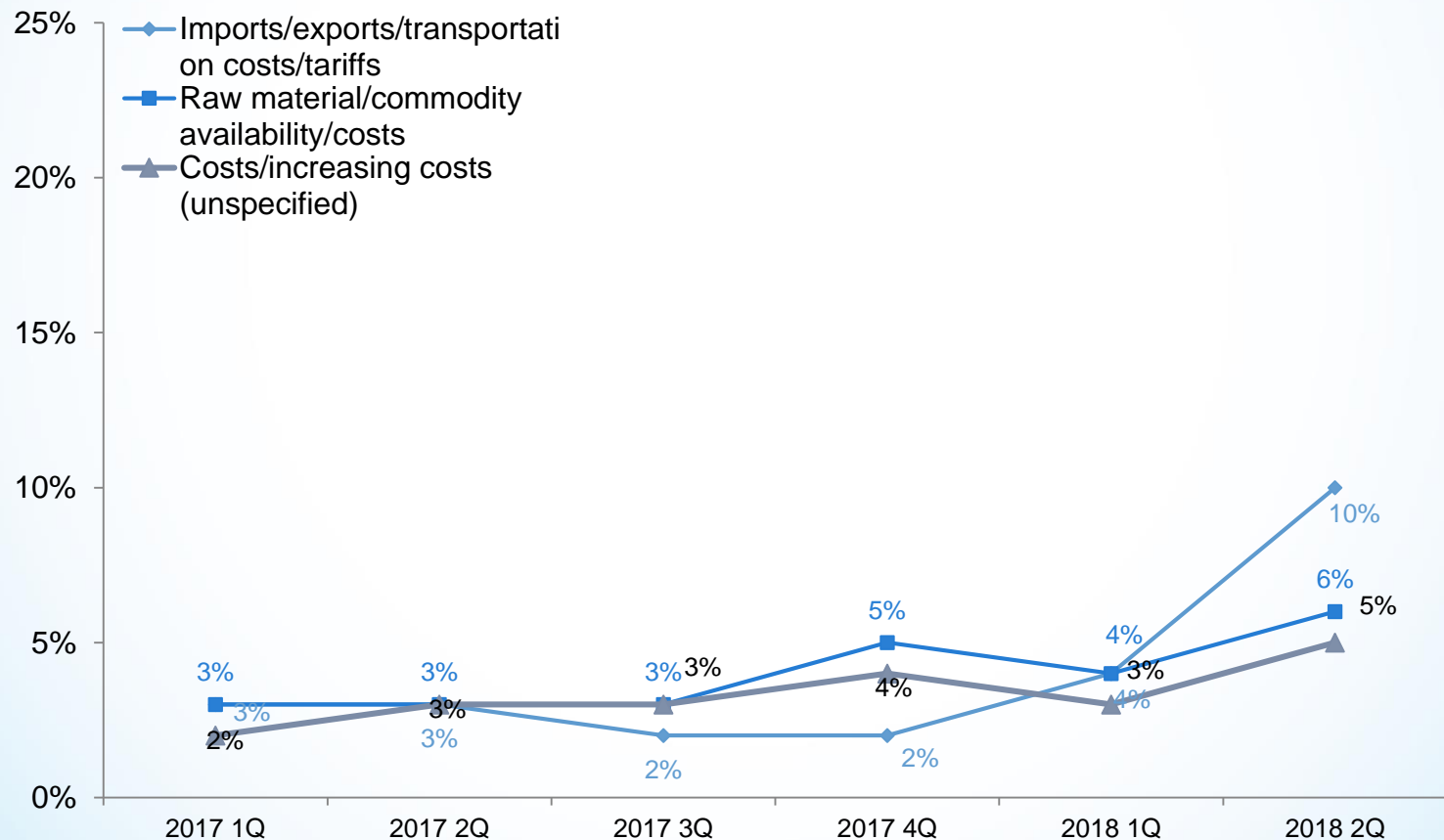
TALENT CHALLENGES REMAIN INTENSE

Talent retention and recruitment remain challenging at MM firms as the labor market continues to tighten.



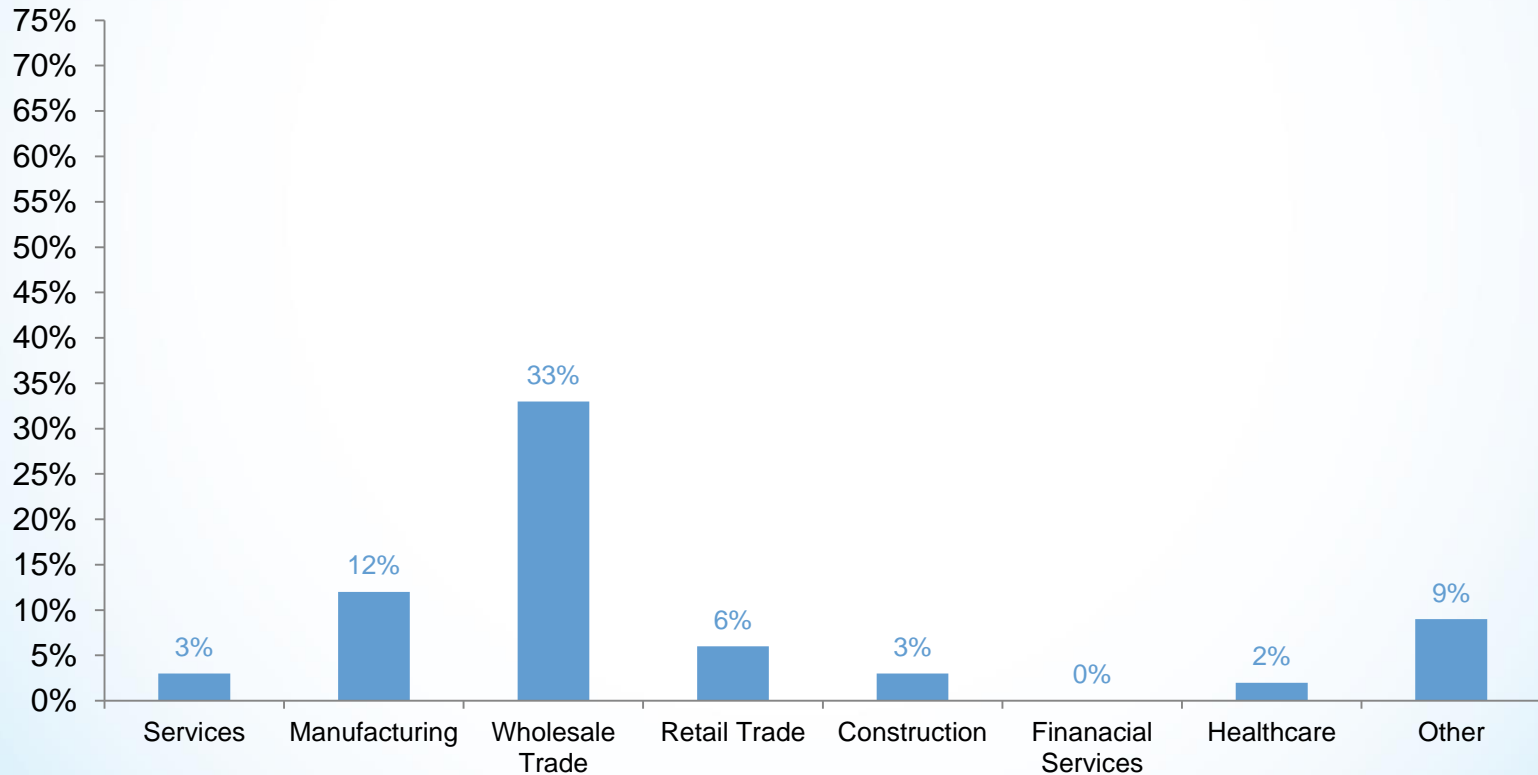
THE TRADE WAR IS CREATING ANXIETY ABOUT COSTS

LONG TERM EXTERNAL CHALLENGES: COSTS

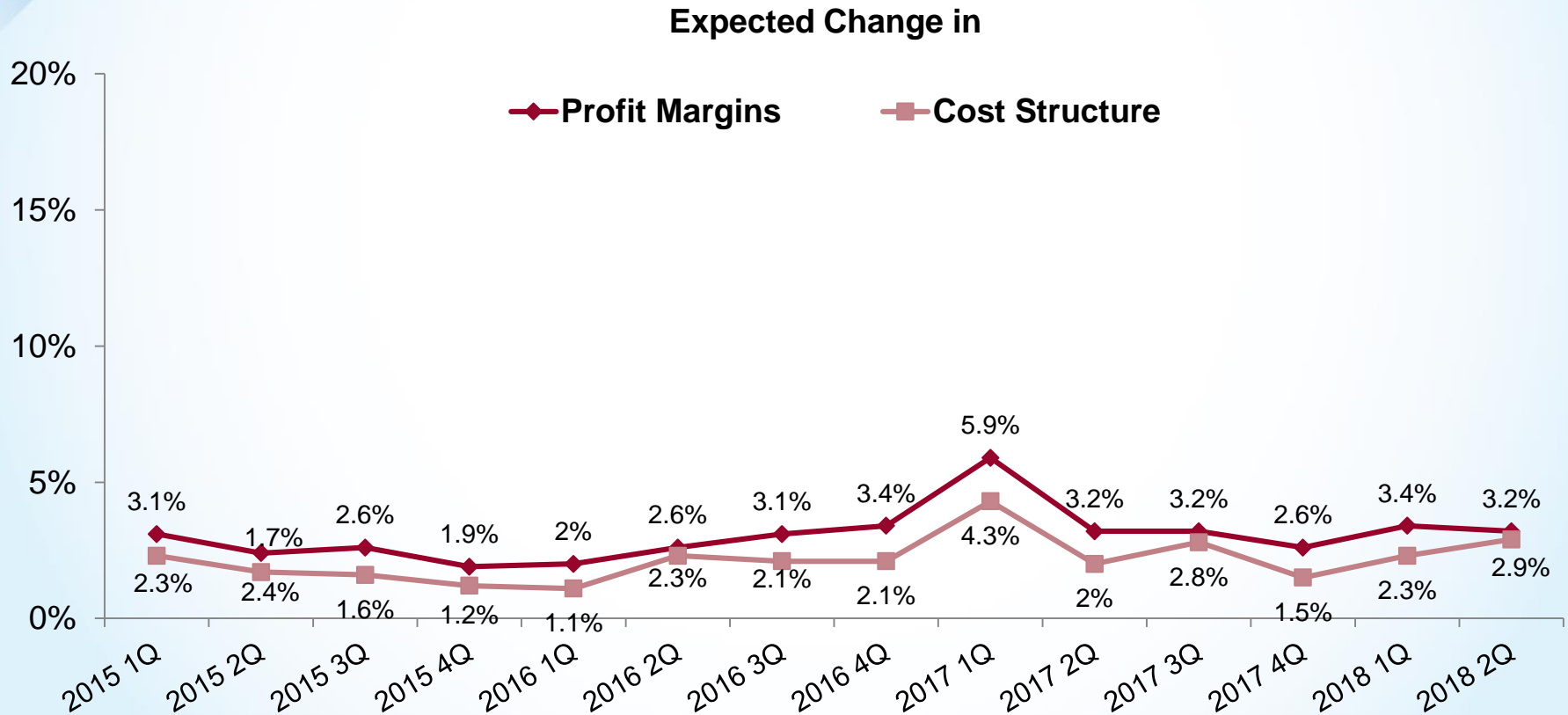


WHOLESALE AND MANUFACTURERS FEAR TARIFFS MOST

LONG TERM EXTERNAL CHALLENGES: TARIFFS



... AND PROFIT MARGINS MAY BE UNDER PRESSURE



RETENTION AND RECRUITMENT TOP THE TALENT CHALLENGES



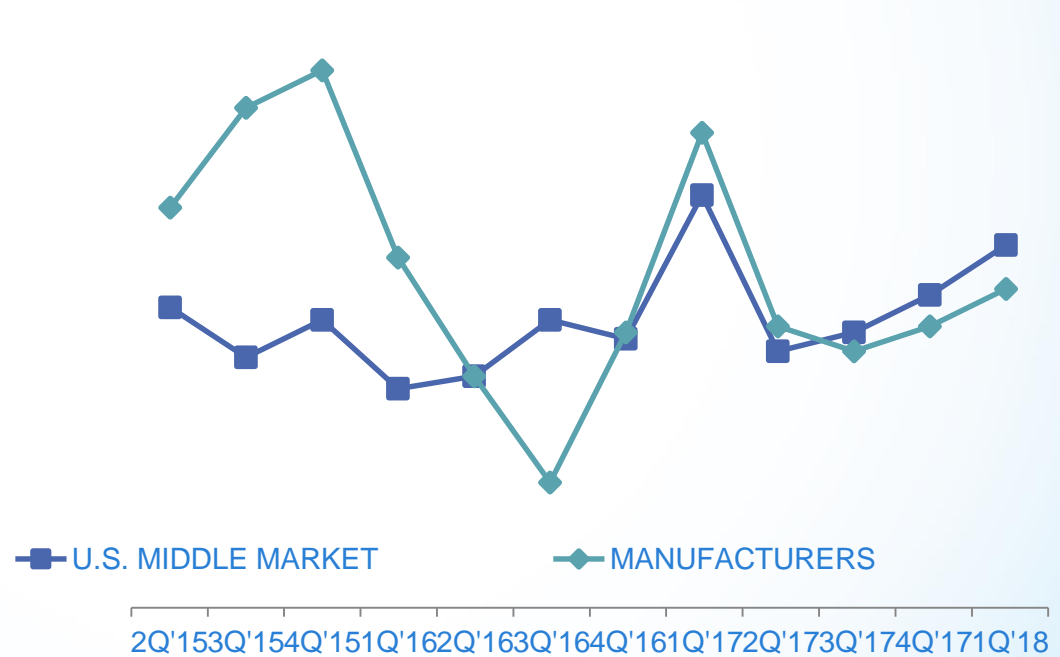
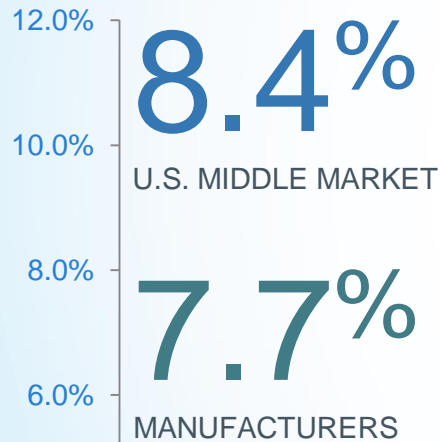
MIDDLE MARKET MANUFACTURING



MIDDLE MARKET MANUFACTURING IS IMPORTANT—AND PERFORMING WELL

REVENUE GROWTH RATE

PAST 12 MONTHS



Source: 1Q'18 Middle Market Indicator Report

*1Q numbers include only companies who have reported.

Source: NCMM Middle Market Indicator

MANUFACTURERS FACE FIVE MAJOR, INTER-RELATED CHALLENGES

Competition

Supply chain relationships

Changing product /service mix

Changing manufacturing technology

Talent



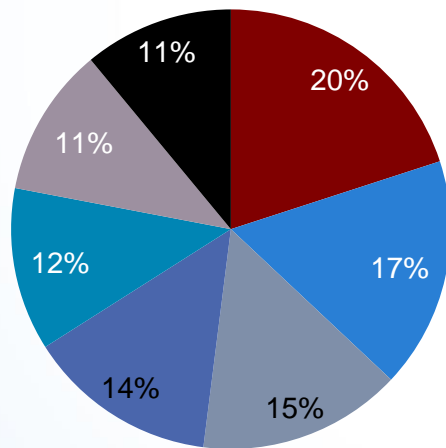
**NEW RISKS AND
EXPOSURES**

**NEW WAYS
TO WIN**

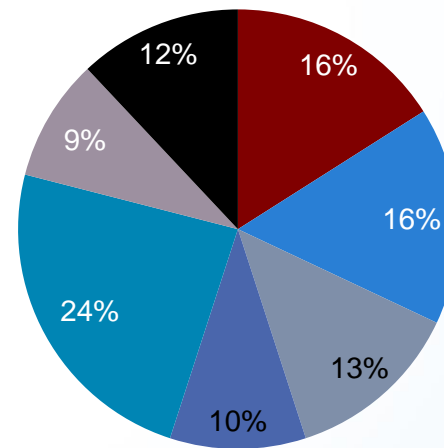
CHALLENGE #1: INTENSIFYING, INCREASINGLY GLOBAL COMPETITION

86% of middle market manufacturers say the business environment has grown much more competitive in the last five years (top 2 of 5 boxes)

ALL MANUFACTURERS



FASTEST GROWING

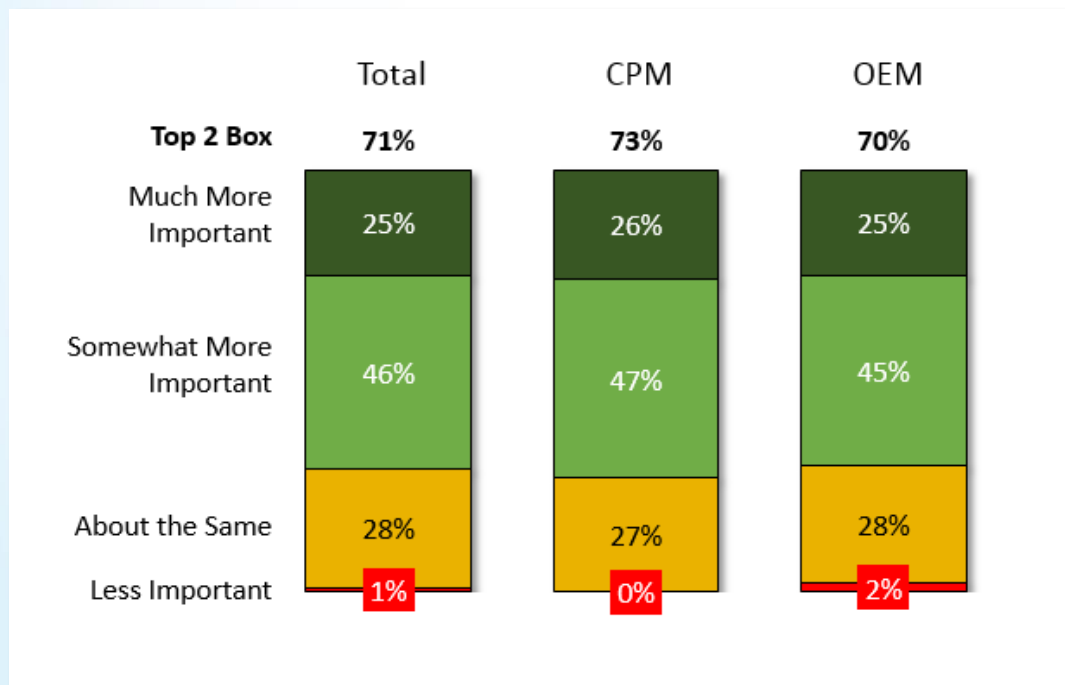


- Globalization
- Businesses from other industries starting to encroach on your business
- Businesses like yours expanding into other adjacent industries
- Disruptive entrants into the marketplace

- Consolidation of customers
- Consolidation of firms like yours
- Consolidation of suppliers

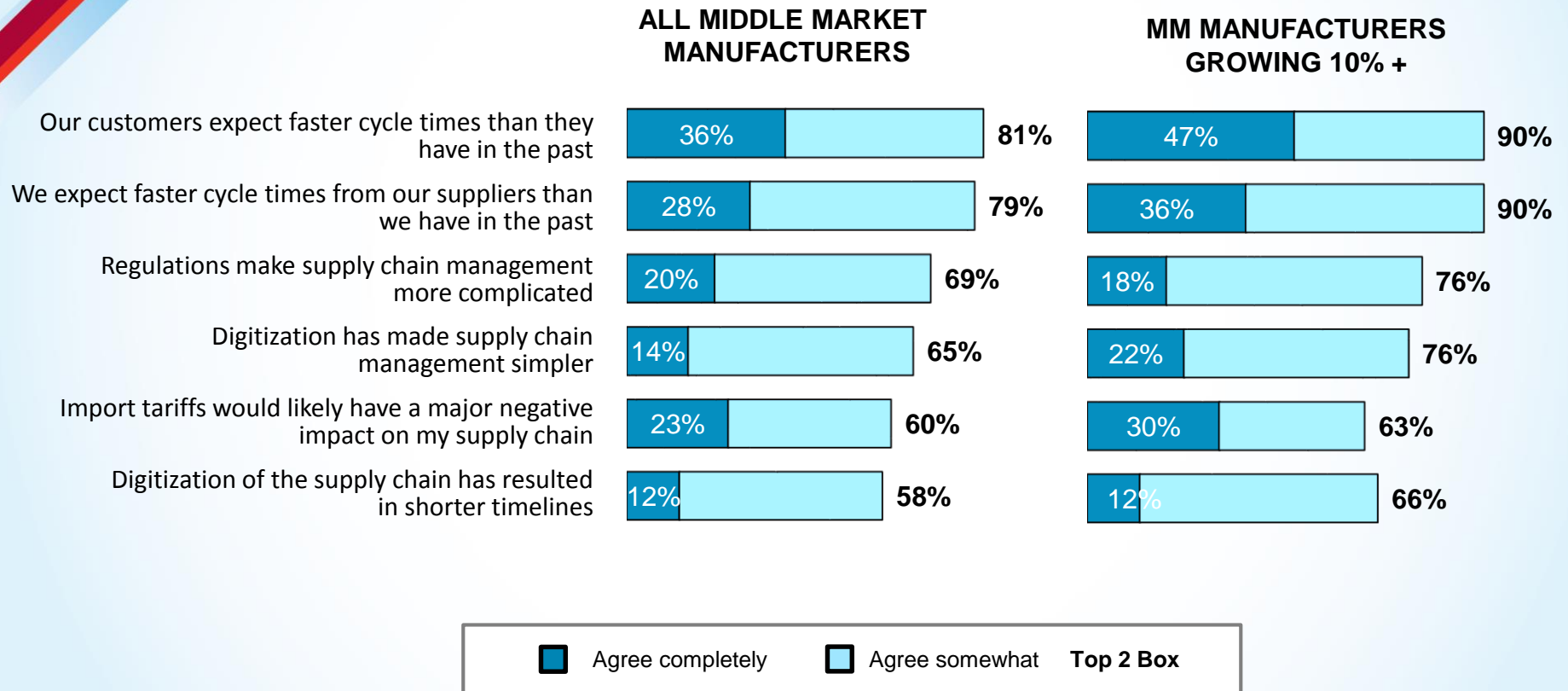
CHALLENGE #2: MORE DEMANDING SUPPLY-CHAIN RELATIONSHIPS

Role of Company in Supply Chain Over Past 5 Years



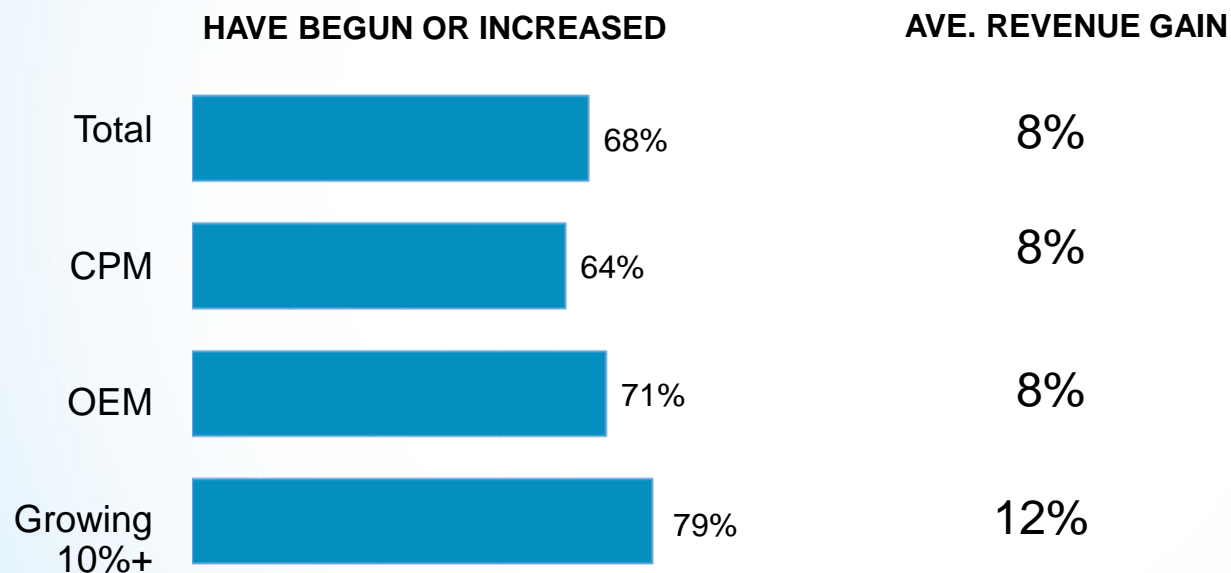
- Speed, inventory policies, and transparency have driven increased collaboration – upstream and downstream
- Increased integration brings about additional requirements, services, and responsibility

CHALLENGE #2: MORE DEMANDING SUPPLY-CHAIN RELATIONSHIPS



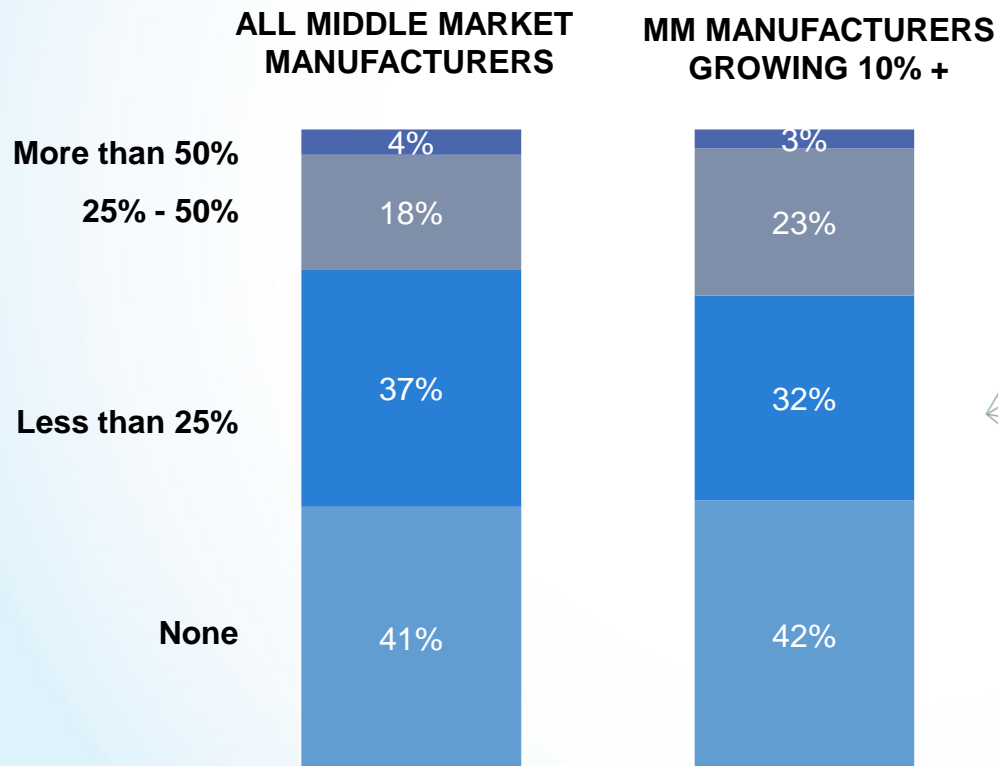
CHALLENGE #3: CHANGES IN WHAT MANUFACTURERS SELL

VALUE-ADDED SERVICES



CHALLENGE #3: CHANGES IN WHAT MANUFACTURERS SELL

PROPORTION OF PRODUCTS MADE THAT ARE "SMART PRODUCTS" (IOT)



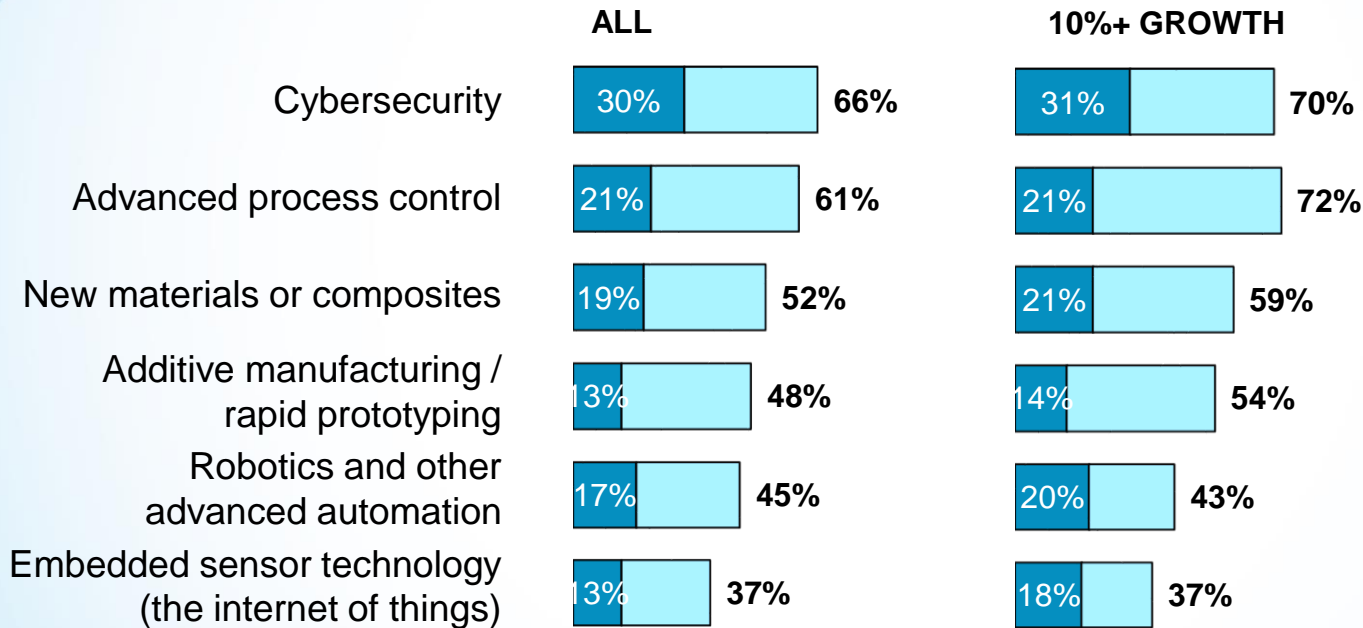
CHALLENGE #4: RAPID TECHNOLOGICAL CHANGE ON THE FACTORY FLOOR

TECHNOLOGY SPENDING LAST YEAR

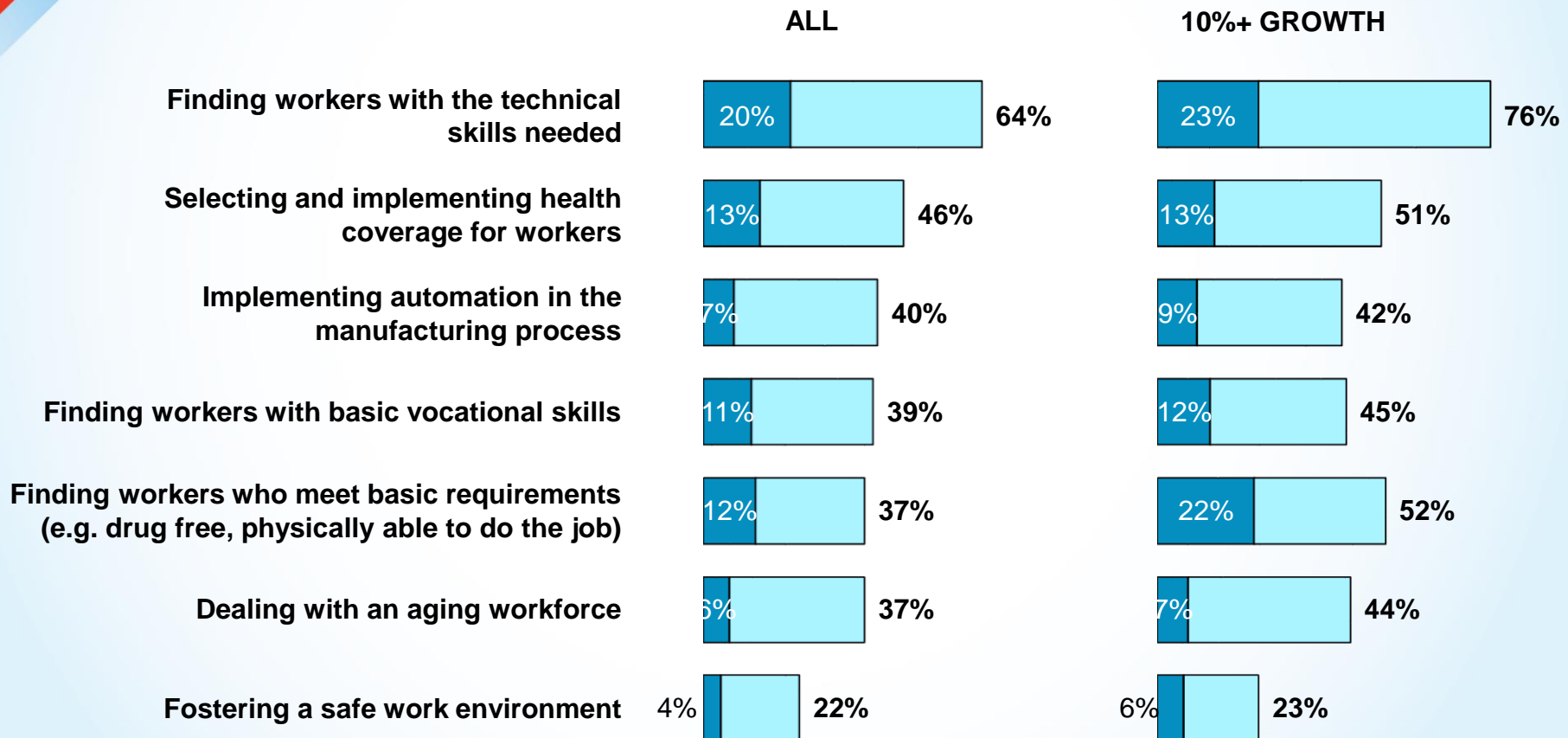


CHALLENGE #4: RAPID TECHNOLOGICAL CHANGE ON THE FACTORY FLOOR

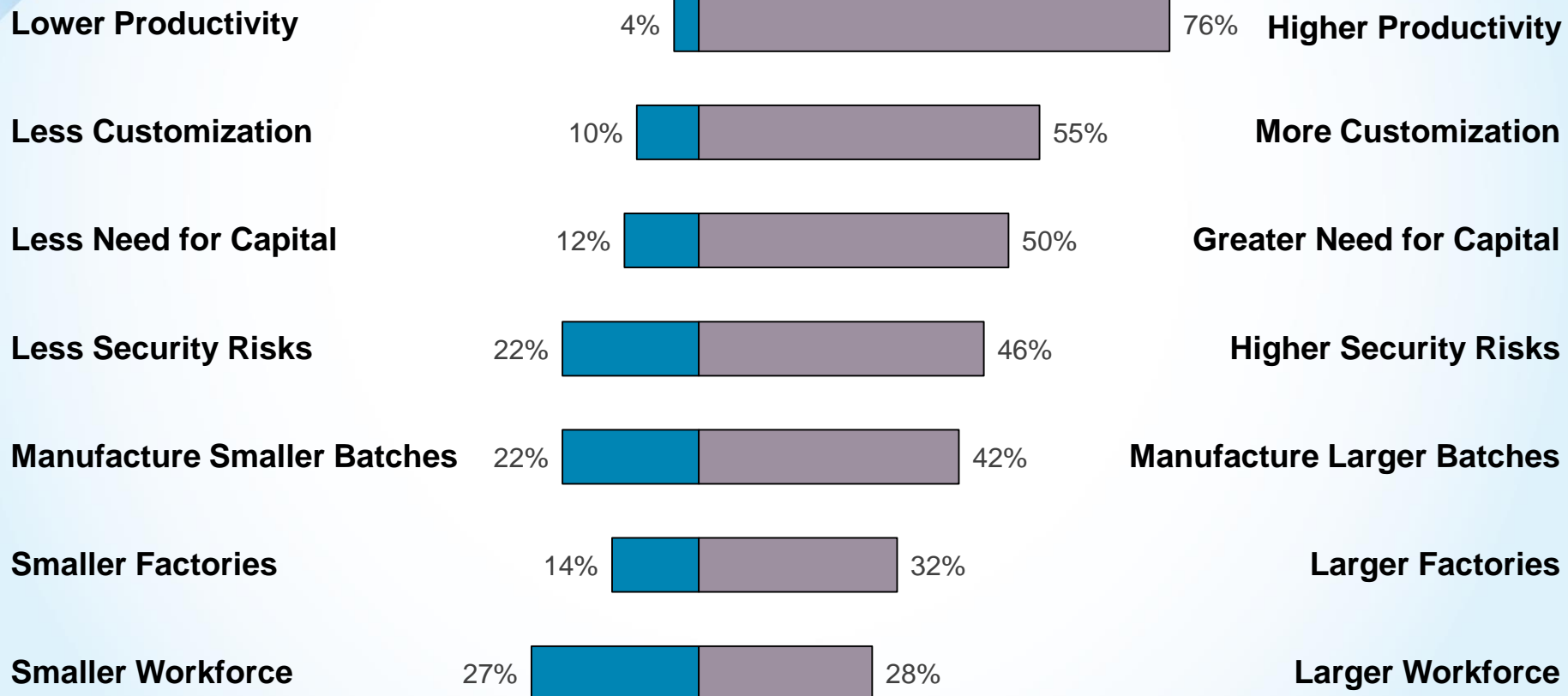
IMPORTANCE OF TECHNOLOGY ISSUES: NEXT YEAR



CHALLENGE #5: TALENT, TALENT, TALENT



IMPACT OF TECHNOLOGY IS OVERWHELMINGLY POSITIVE



MANUFACTURERS ARE EXPOSED TO A WIDER VARIETY OF RISKS

- Playing a more important role in the supply chain leads to greater responsibility
- The geopolitical climate is increasingly important
- Digitization opens new doors—and new cracks
- Adding new services leads to continuing responsibility
- IT and operations systems must become more integrated

WHAT HIGH-GROWTH MANUFACTURERS ARE DOING

- Achieving an ideal mix of international vs. domestic sales (less than 25% of revenue international)
- Incorporating strong relationship management mindsets and tools across the organization
- Offering higher levels of value-added services; these companies experience 9.7% average revenue growth vs. 7.7% for the entire sample – services component of these businesses growing at 17% of annual sales
- Implementing a variety of technology and advanced manufacturing – cybersecurity, APC, robotics, additive manufacturing, and IOT devices/wearables
- Tackling the workforce challenges with stronger employer brands and value propositions, stronger HR and recruiting capabilities, and leveraging public-private systems



NATIONAL CENTER FOR
THE MIDDLE MARKET