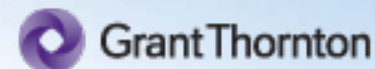


Q3'18 MIDDLE MARKET INDICATOR | ACG WEBINAR | OCTOBER 24<sup>th</sup>, 2018

# THE MARKET THAT MOVES AMERICA

## FINDINGS FROM THE NCMM'S Q3'18 INDICATOR SURVEY

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



# TODAY'S WEBINAR

I. 3Q MIDDLE MARKET INDICATOR  
OVERVIEW

II. THE DNA OF MIDDLE MARKET  
GROWTH:  
FINDINGS FROM RECENT NCMM  
RESEARCH

# 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 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

 **5<sup>TH</sup>**  
**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

 **1/3** 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 MIDDLE MARKET INDICATOR

# MIDDLE MARKET INDICATOR OVERVIEW

## A Quarterly National Survey



## Cut by Geography and Industry



# Q3'18 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION. REVENUE GROWTH REBOUNDED FROM 2Q. CONFIDENCE (PARTICULARLY FOR THE LONG TERM) IS HIGH
- 2** JOB CREATION IS APPEARS TO HAVE STABILIZED AT A HIGH LEVEL, AND EXECUTIVES STRUGGLE TO FIND THE TALENT THEY NEED.
- 3** A SUBSTANTIAL MAJORITY OF EXECUTIVES SAY TARIFFS WILL HURT THEIR BUSINESS. IN ADDITION, IT APPEARS THAT THESE AND OTHER COSTS ARE EATING INTO PROFITS.
- 4** PRIVATE-EQUITY-OWNED COMPANIES OUTPERFORMED THE NATIONAL AVERAGES, AND EXPECT TO CONTINUE TO THRIVE

# Q3'18 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

## REVENUE GROWTH

**8.6%**

PAST 12 MONTHS

**8.0%**

S&P 500

**5.3%**

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

**6.4%**

PAST 12 MONTHS

1.2%

SMALL  
BUSINESS

2.6%

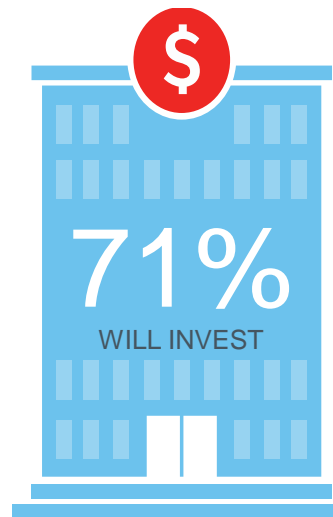
LARGE  
BUSINESS

**4.6%**

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

**79%**

GLOBAL ECONOMY



**88%**

NATIONAL ECONOMY



**93%**

LOCAL ECONOMY





# Q3'18 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

8.6%

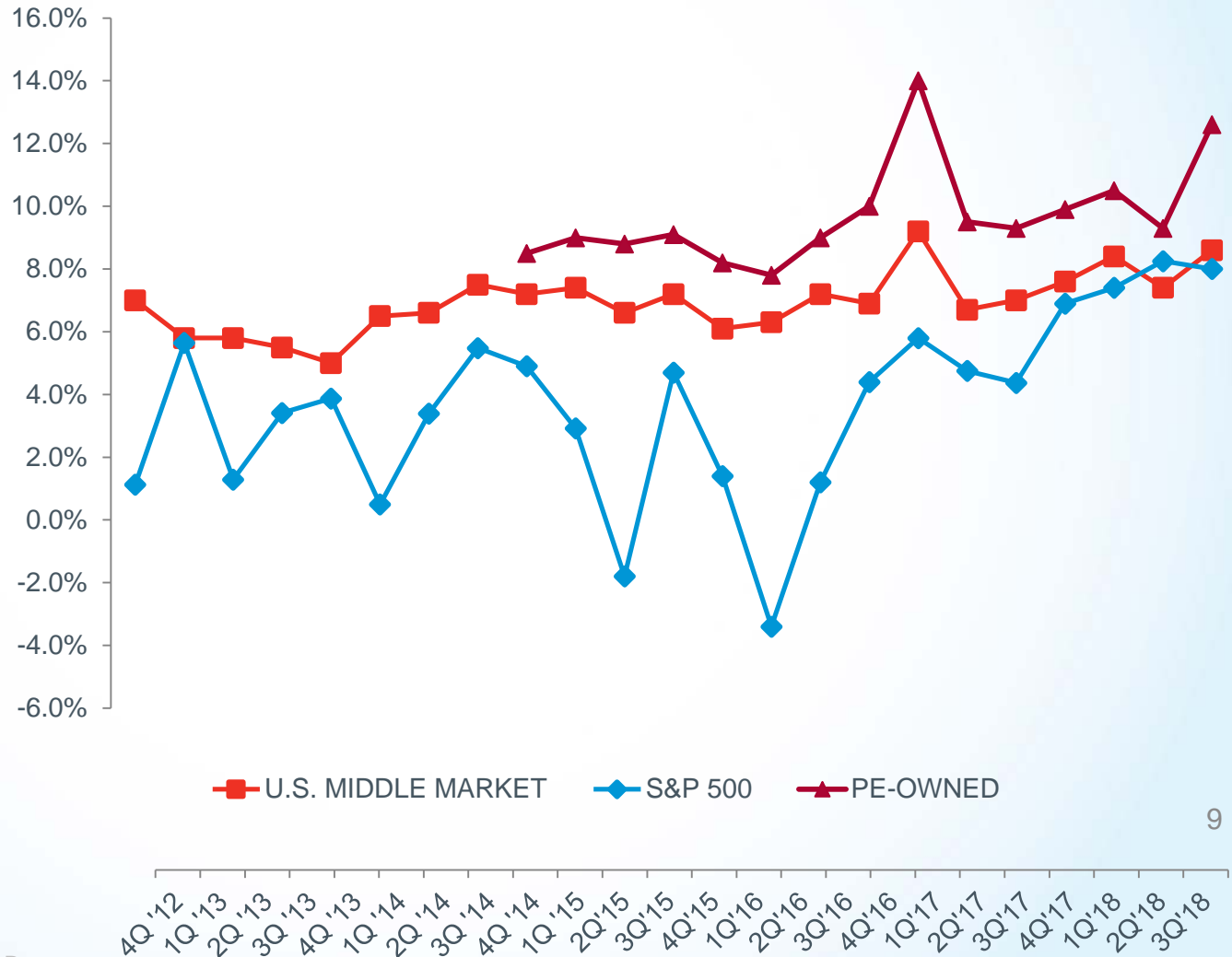
U.S. MIDDLE MARKET

12.6%

PE-OWNED FIRMS

8.0%

S&P 500\*

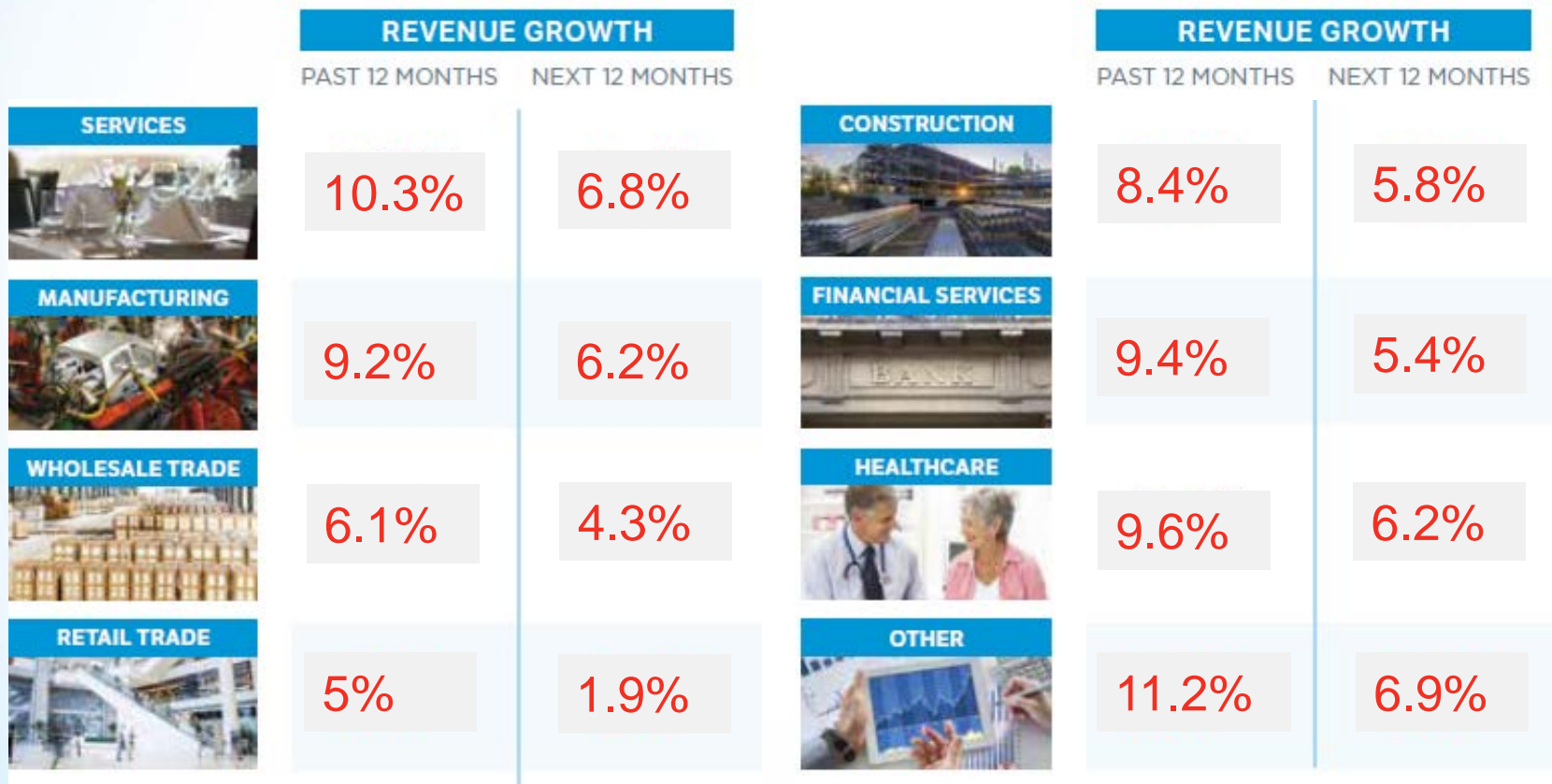


Source: 3Q'18 Middle Market Indicator Report  
S&P numbers include only companies that had reported as of 9/30

# THE RISING TIDE CONTINUES TO LIFT ALMOST ALL BOATS

	3Q 2018	3Q 2017
Performance improved	71%	68%
Performance was unchanged	24	27
Performance deteriorated	5	5

# Q3'18 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH



# Q3'18 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

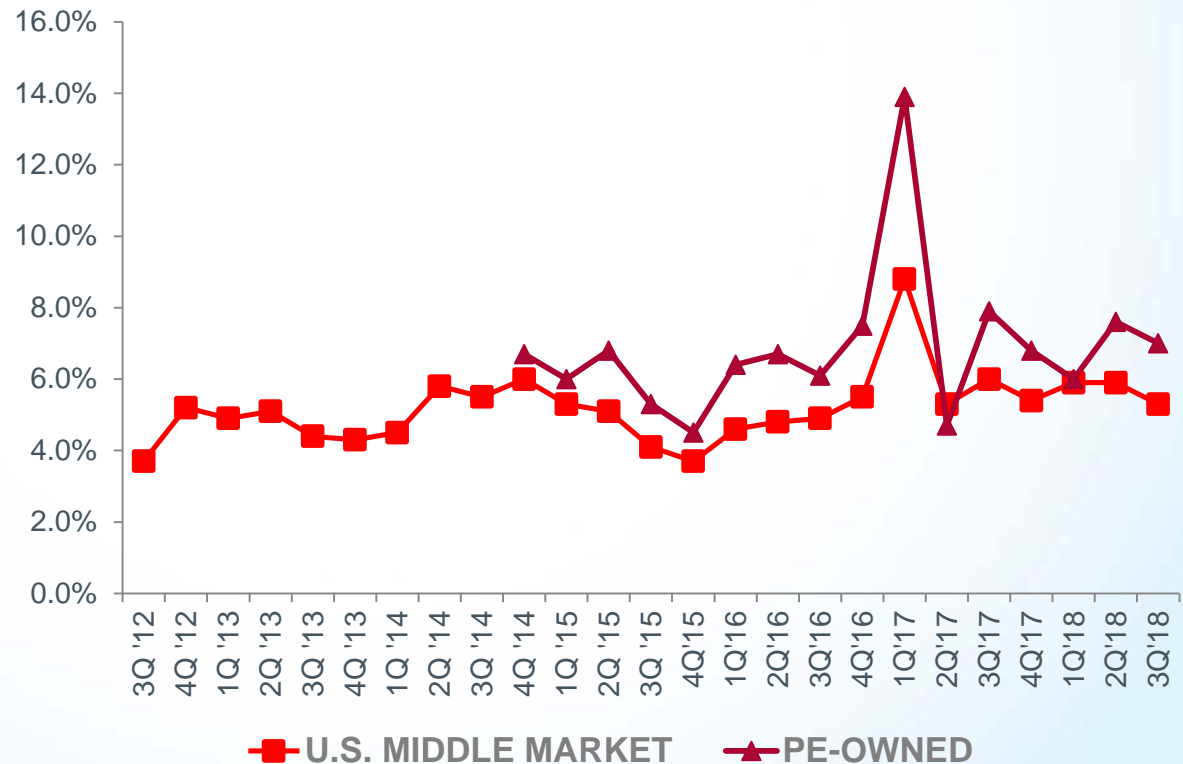
NEXT 12 MONTHS

5.3%

U.S. MIDDLE MARKET

7.0%

PE-OWNED FIRMS



# Q3'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

**6.4%**

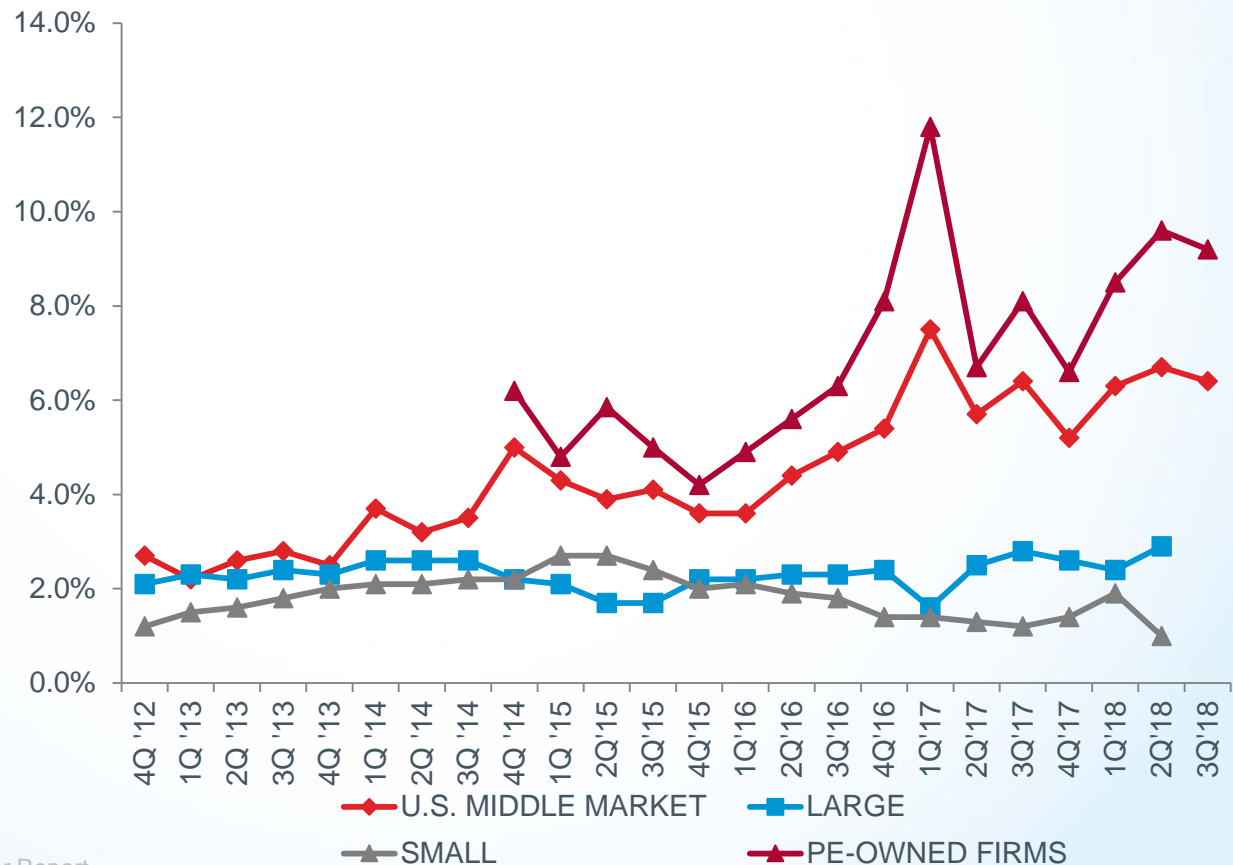
U.S. MIDDLE MARKET

1.9%  
SMALL  
BUSINESS

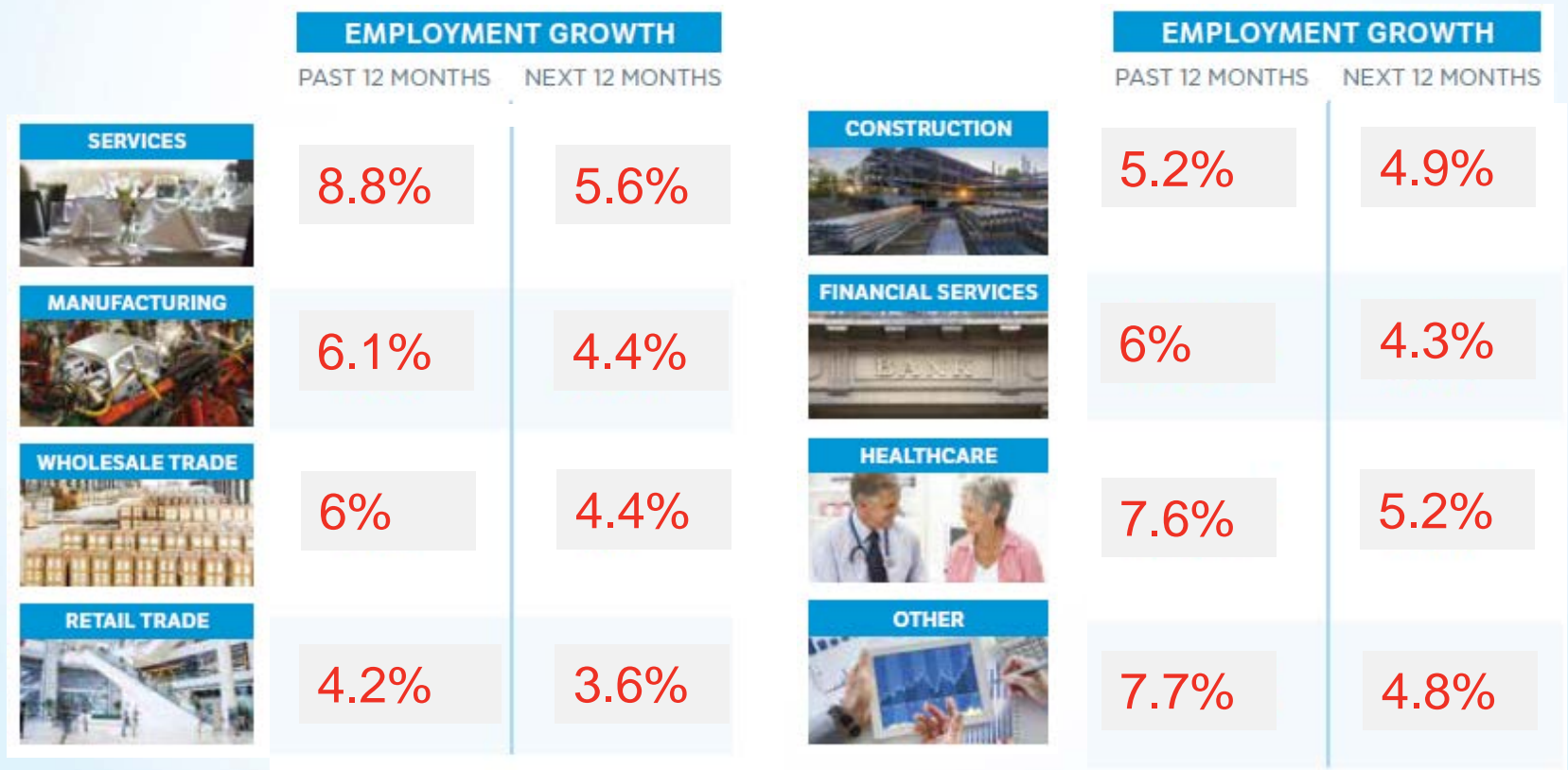
2.4%  
LARGE  
BUSINESS

**9.2%**

PE-OWNED FIRMS



# Q3'18 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



# Q3'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

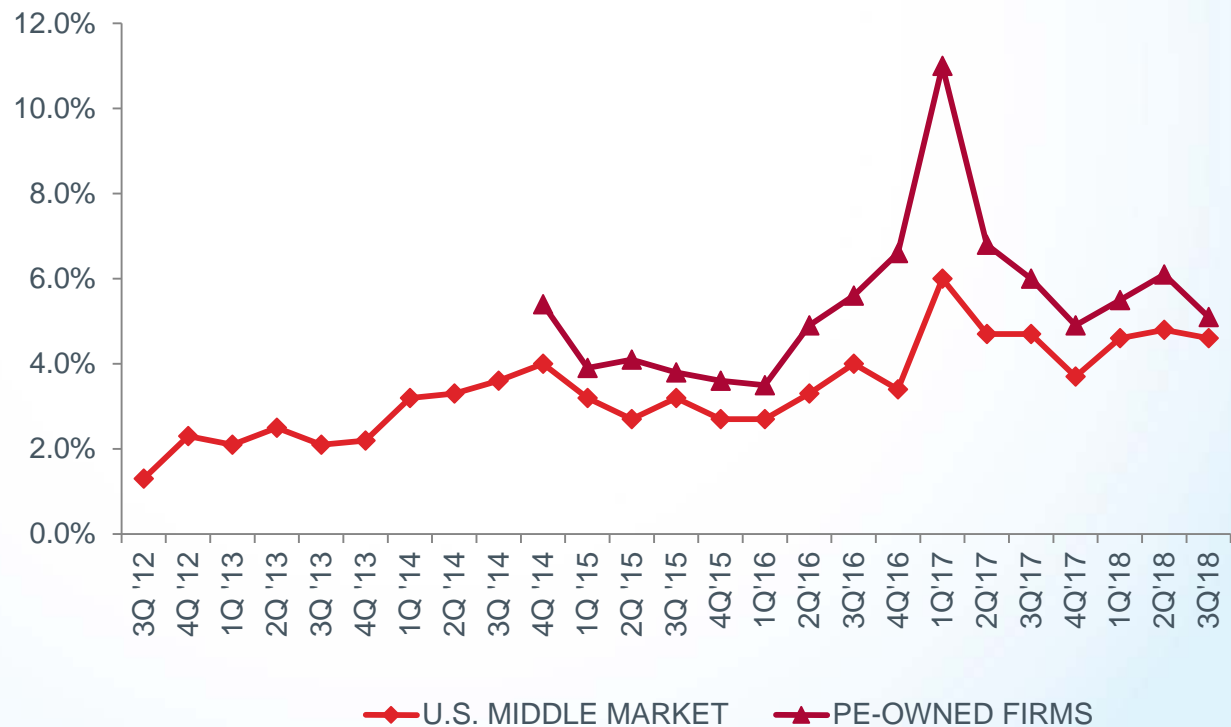
NEXT 12 MONTHS

4.6%

U.S. MIDDLE MARKET

5.1%

PE-OWNED FIRMS

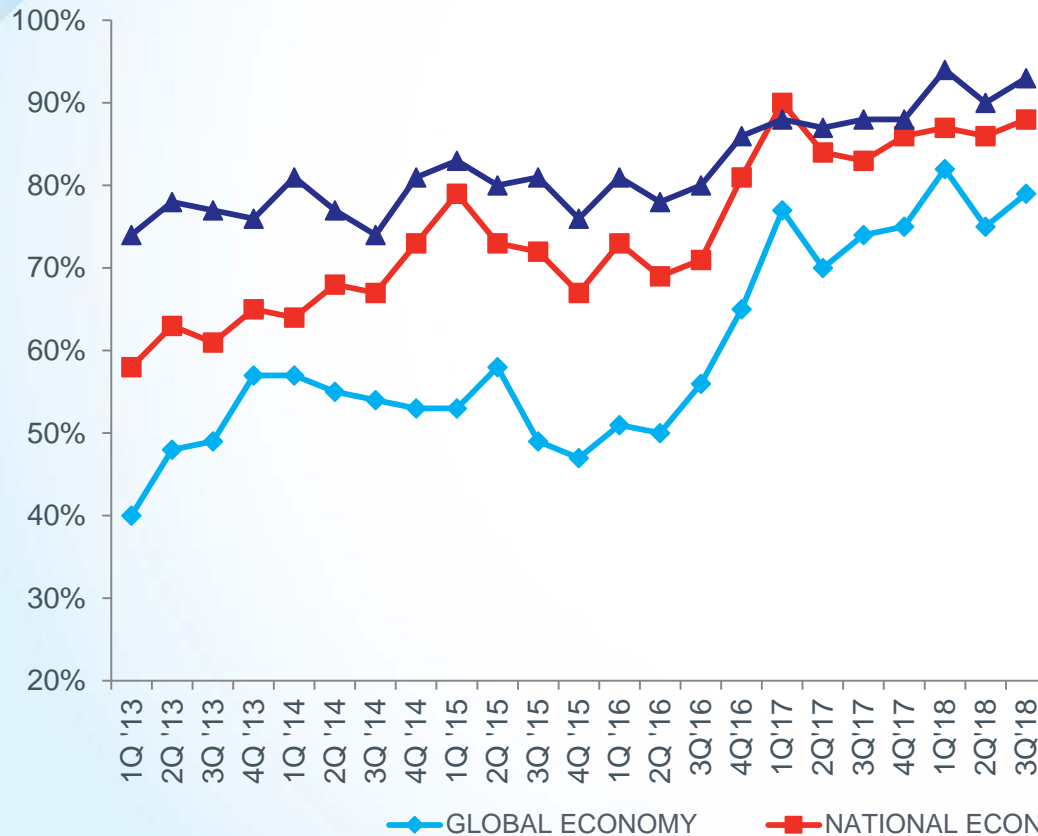


# CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES



# Q3'18 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

## Confidence Remains Strong Across the Board



GLOBAL ECONOMY

80%

85% PE-OWNED



U.S. ECONOMY

88%

89% PE-OWNED

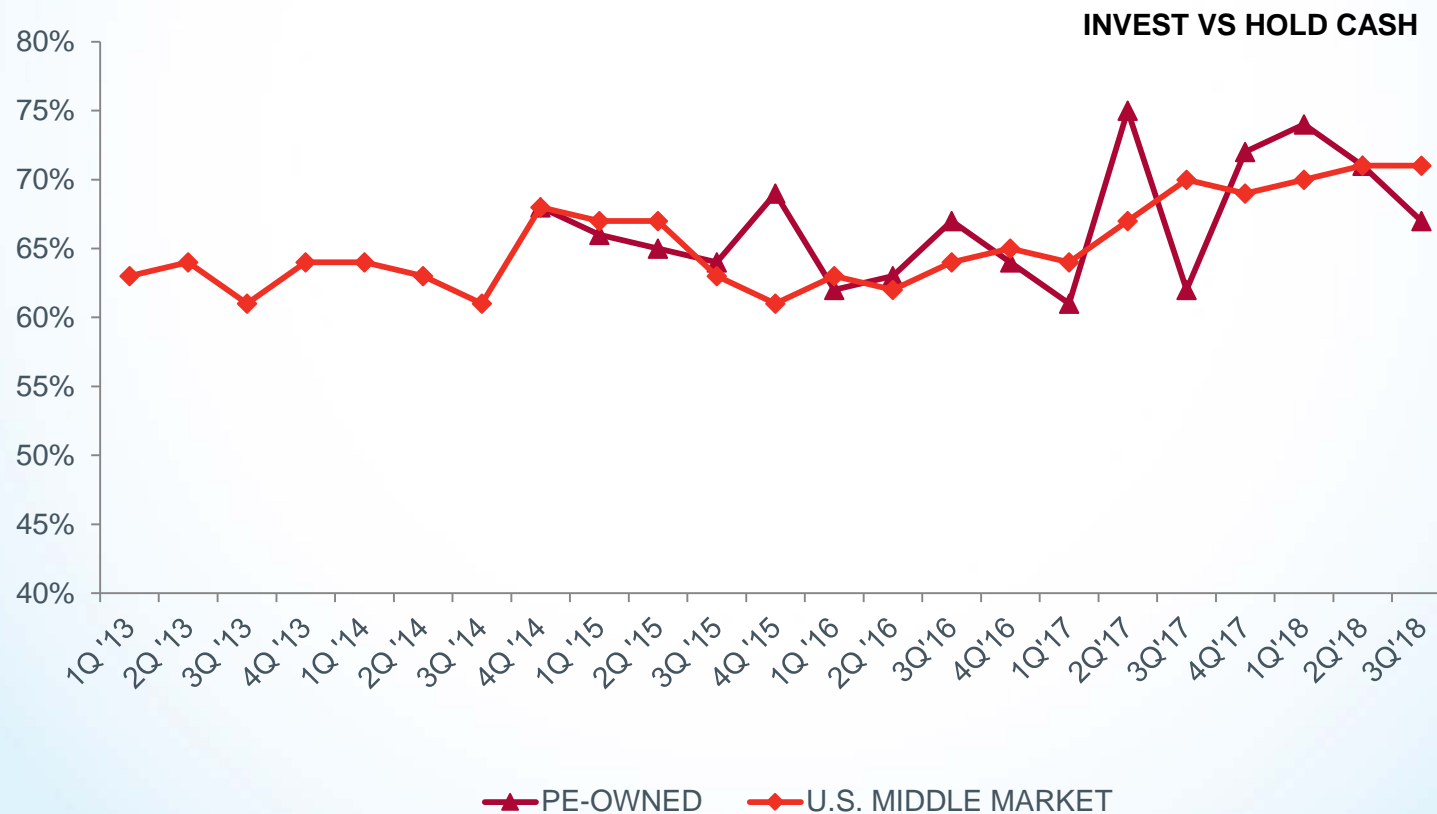


LOCAL ECONOMY

93%

93% PE-OWNED

# INVESTMENT APPETITES CONTINUE TO RISE



# Q3'18 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



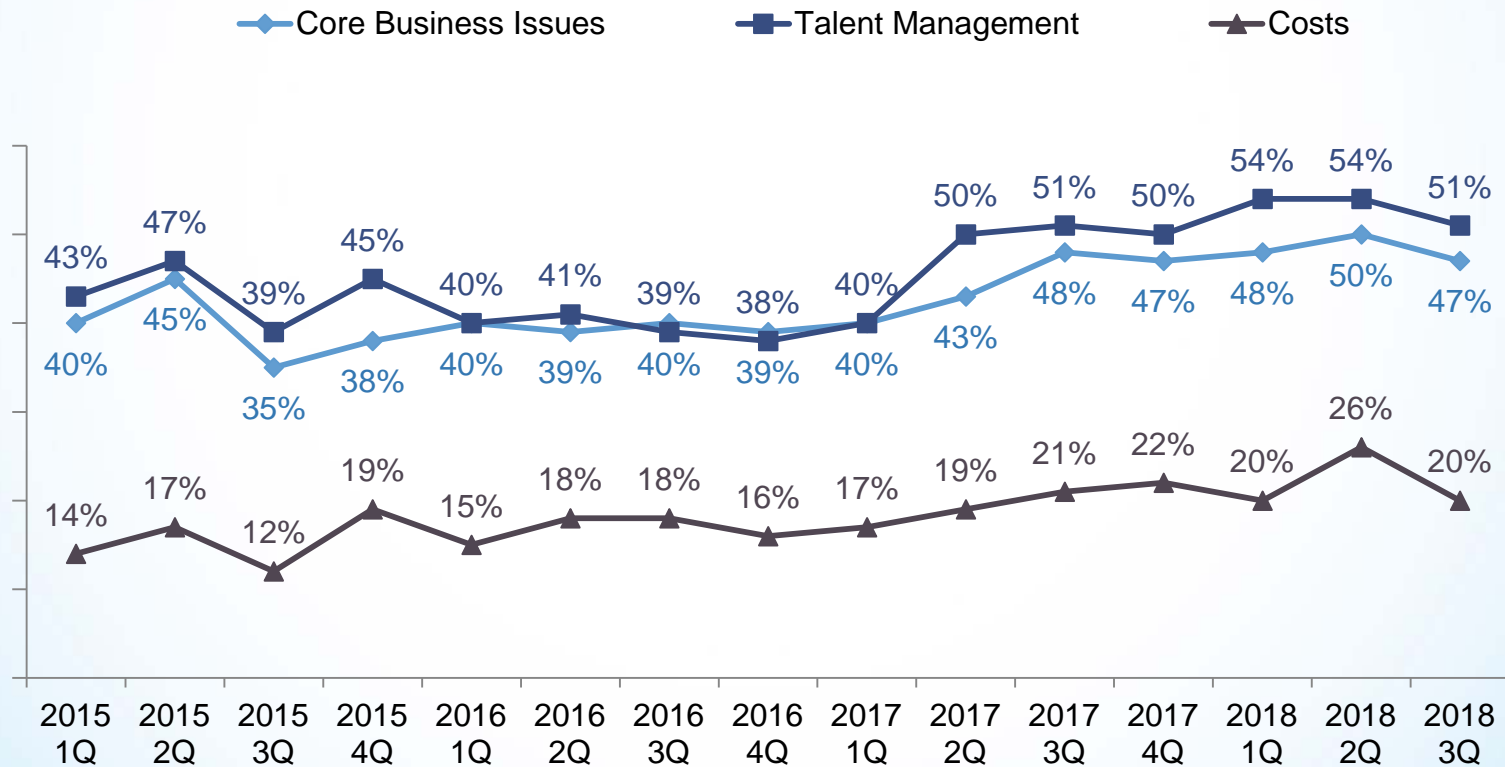
PE-OWNED

# THE NCMM SHORT-TERM INDEX HAS DROPPED

*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.*

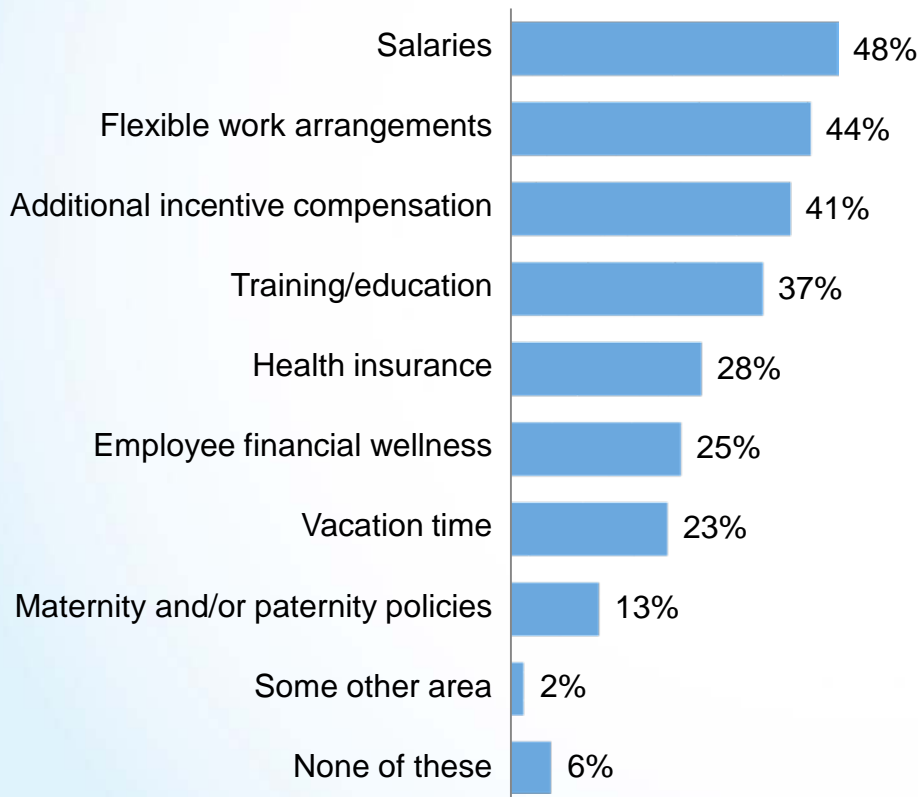


# TALENT CHALLENGES REMAIN INTENSE



# A TIGHT TALENT MARKET IS PUSHING COMPANIES TO RAISE PAY

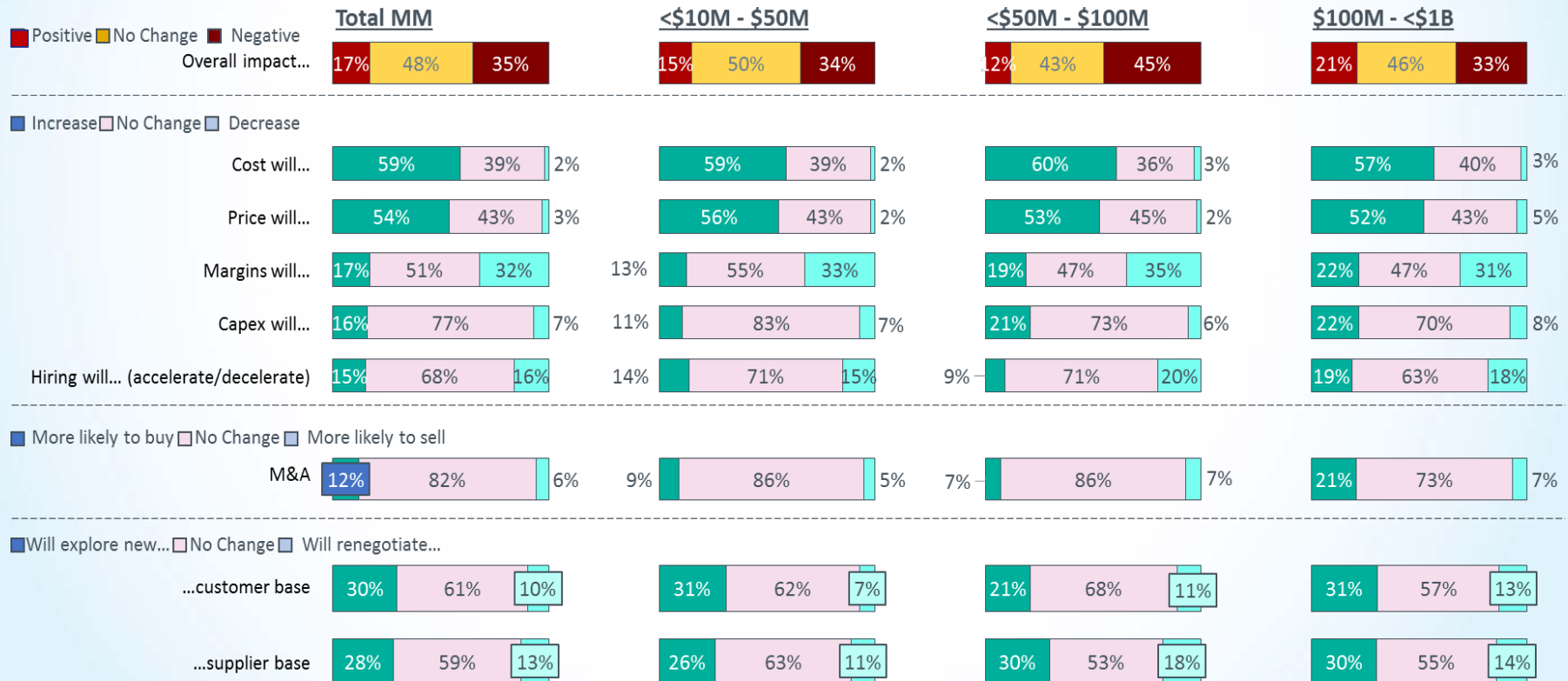
## Areas Considering Expanding To Increase Talent Retention



Salary is increasingly important and up from 38% in the third quarter of 2017

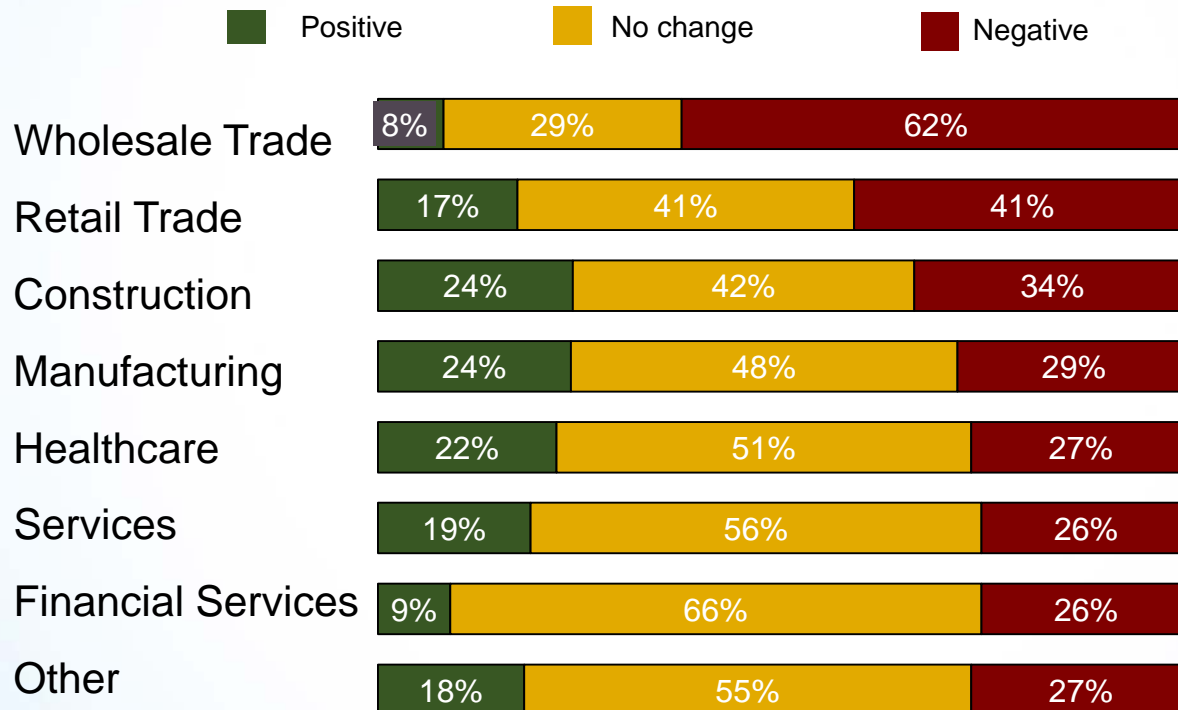
# BY A 2-1 MARGIN, MIDDLE MARKET FIRMS SAY TARIFFS WILL HURT BUSINESS

## Impact of Increased Tariffs



# TARIFFS WILL HURT WHOLESALERS AND RETAILERS MOST

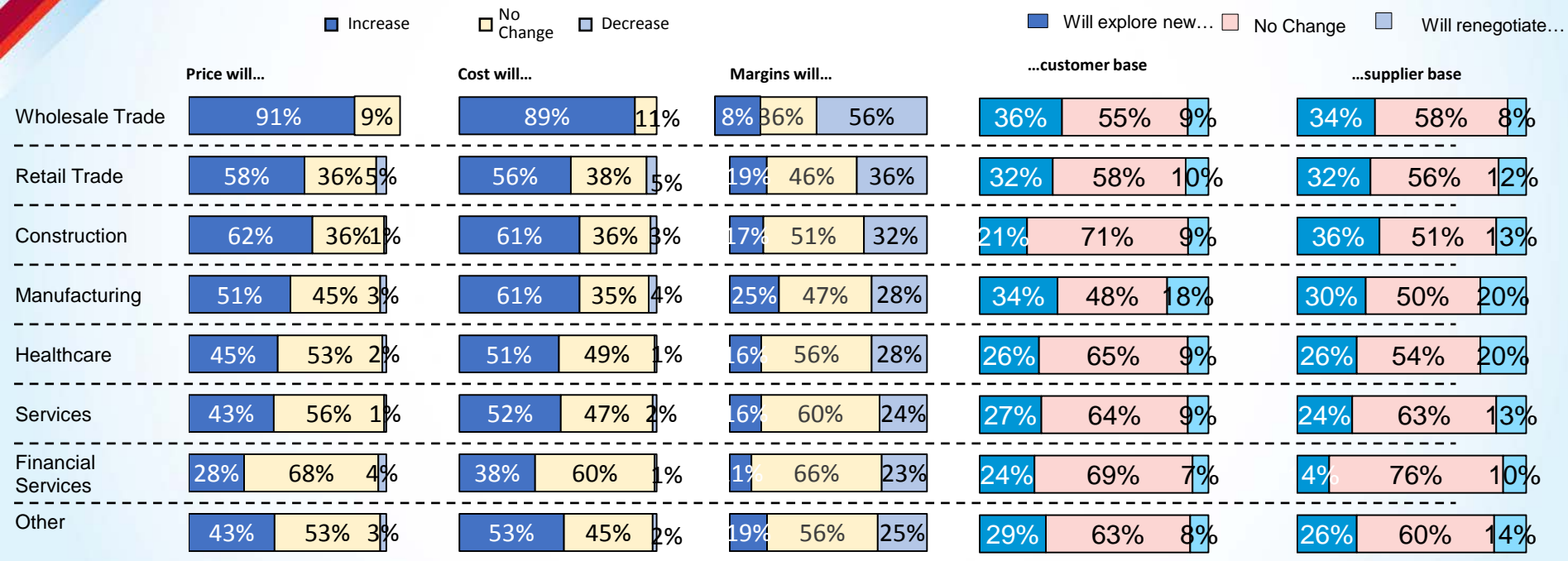
## Impact of Increased Tariffs (by industry)





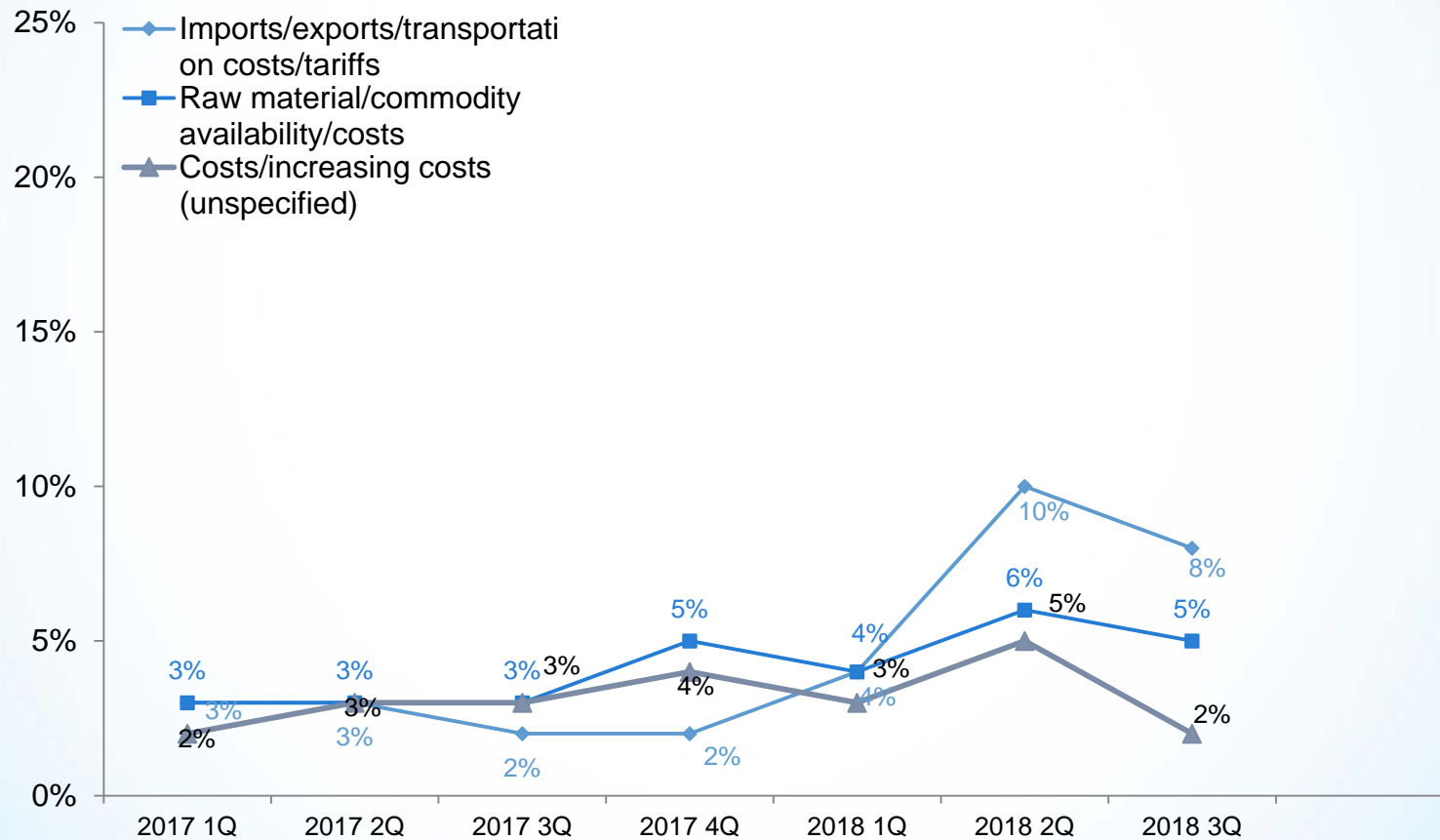
# PRICES, MARGINS WILL SUFFER; RELATIONSHIPS WILL BE DISRUPTED

## Impact of Increased Tariffs (by industry)

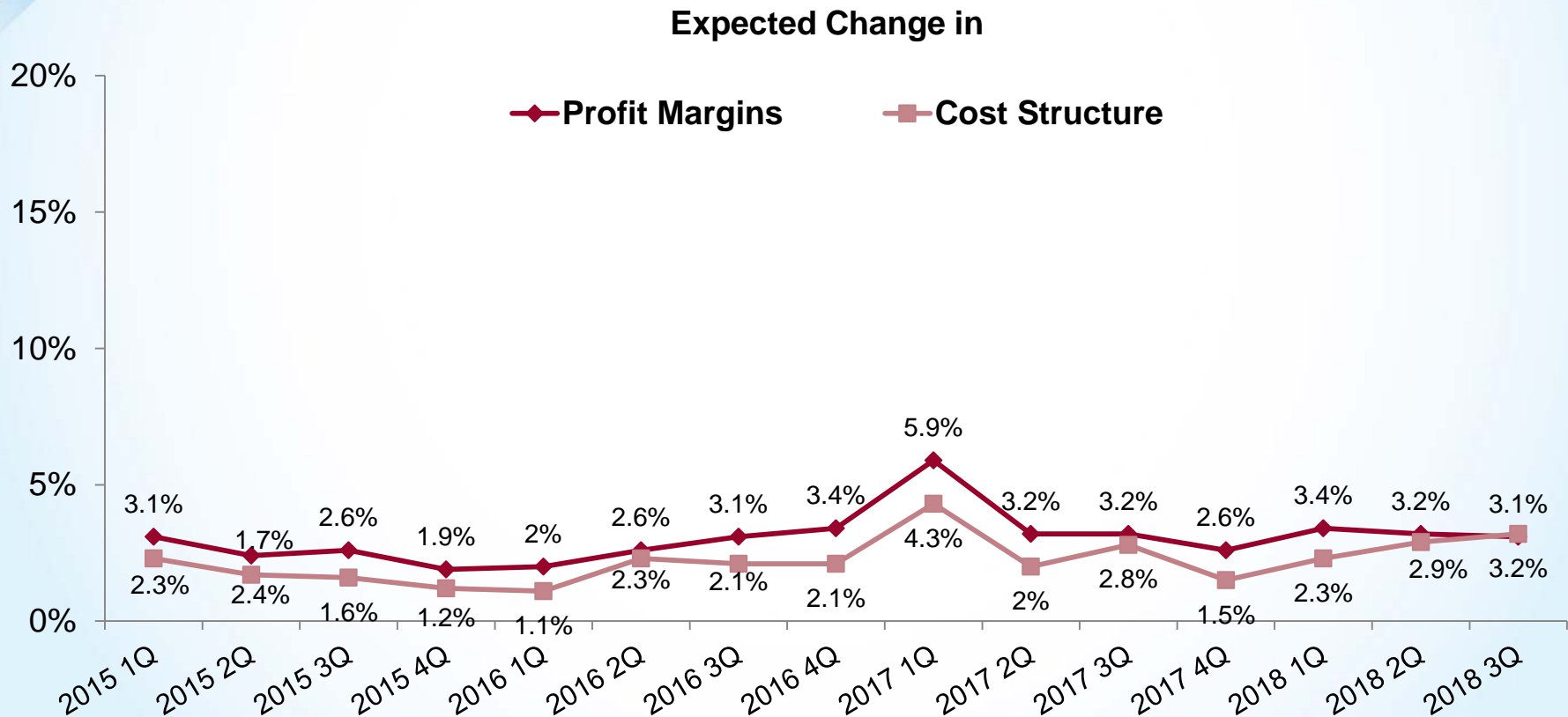


# THE TRADE WAR IS FUELING ANXIETY ABOUT COSTS

## LONG TERM EXTERNAL CHALLENGES: COSTS



# PROFIT MARGINS MAY BE UNDER PRESSURE



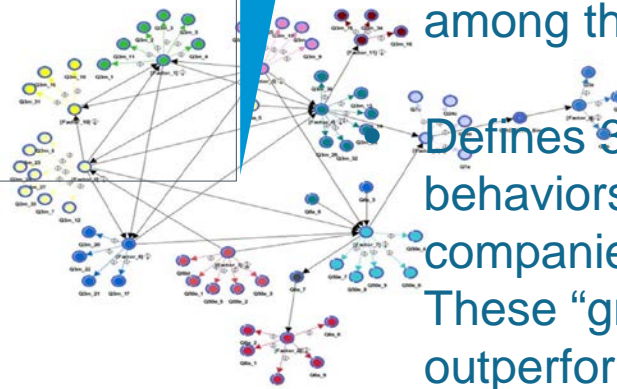
# THE DNA OF MIDDLE MARKET GROWTH: FINDINGS FROM RECENT NCMM RESEARCH



# A VAST DATA SET

- Five years of Middle Market Indicator data (2011-2016)
- 20,000 U.S. middle market companies
- Hundreds of data points for each company

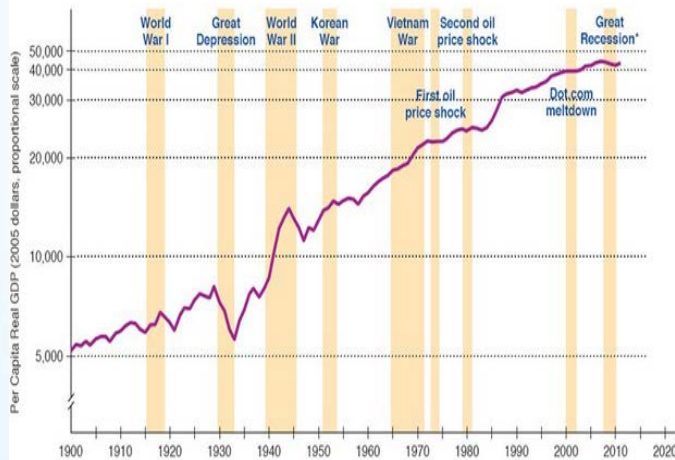
- A Bayesian network analysis reveals the strength of relationships between various factors and a “target” metric—in our case, growth
- Identifies 9 key growth drivers, 7 of which are under management control
- Shows the weight of each factor in the growth model and the relationships among them



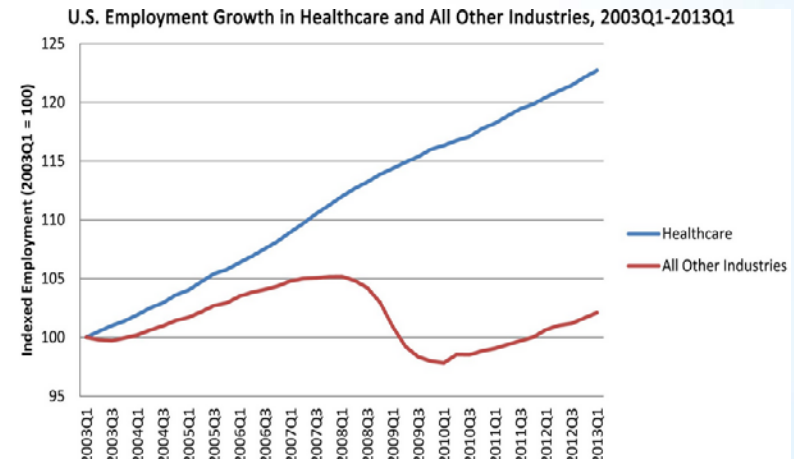
Defines 3 clusters of activities and behaviors—groups of high-growth companies that act in similar ways. These “growth typologies” tend to outperform their peers

# AFTER ELIMINATING GROWTH FACTORS BEYOND MANAGEMENT'S CONTROL ...

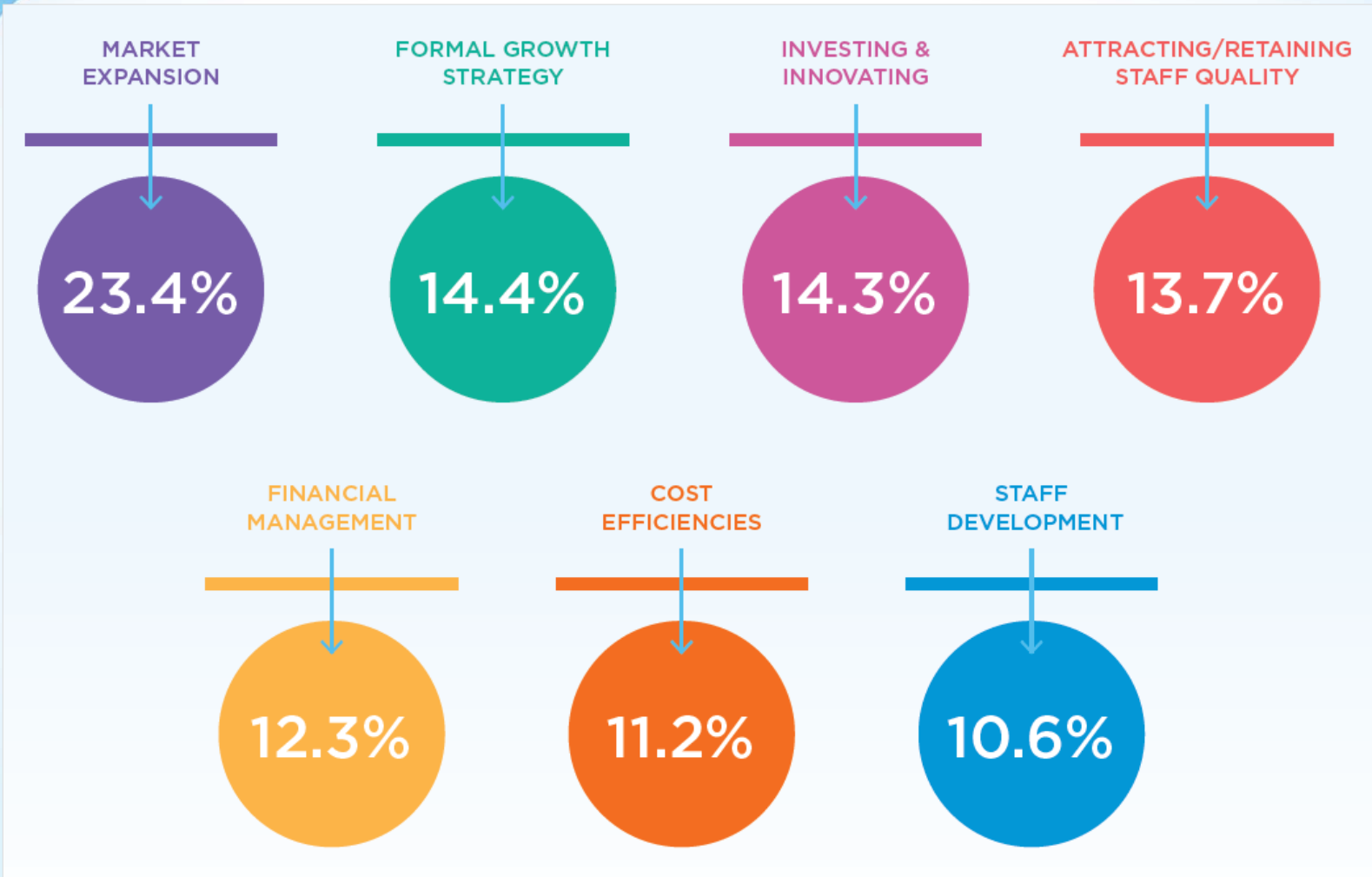
## The overall economy



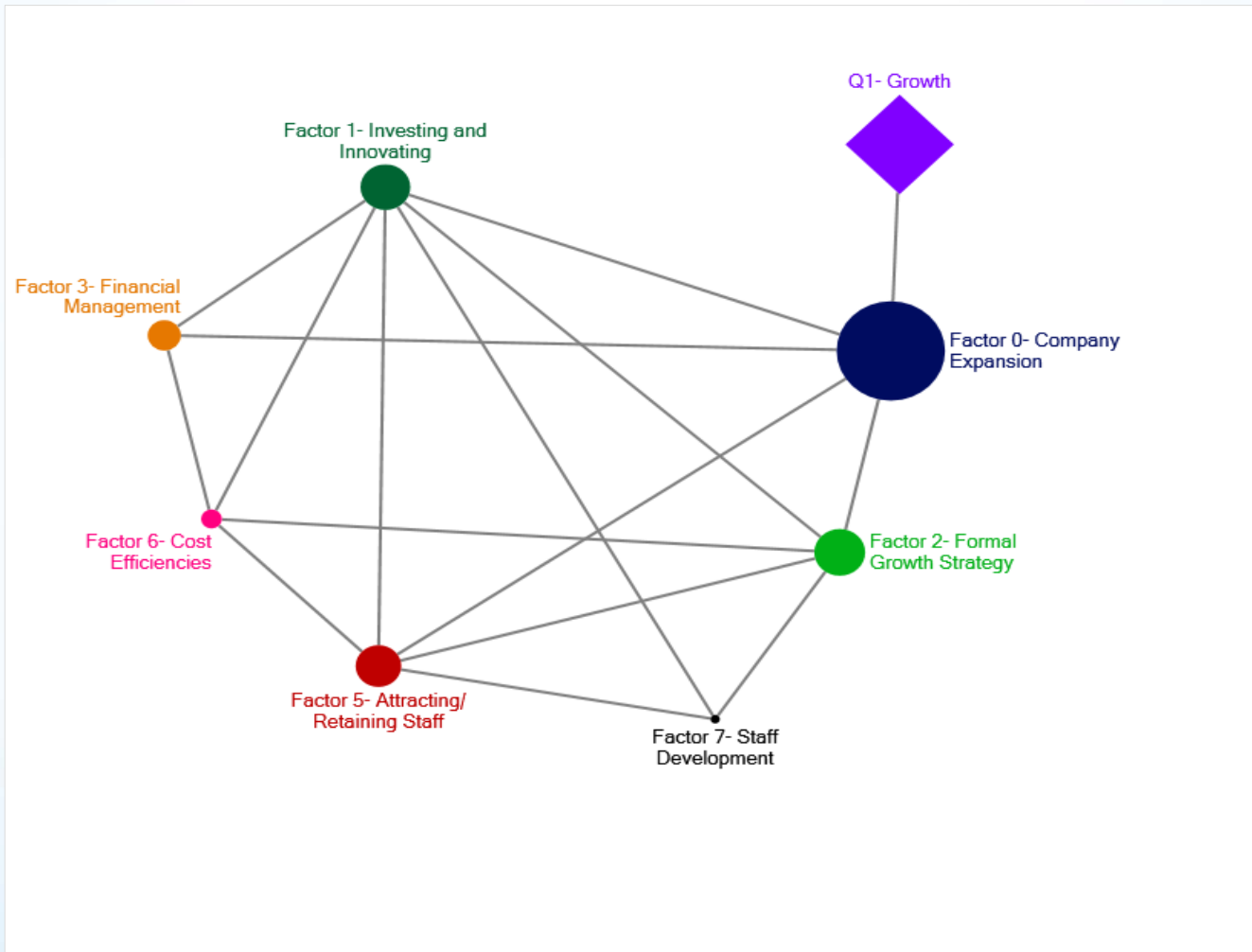
## Industry effects



# WE IDENTIFIED SEVEN KEY GROWTH DRIVERS

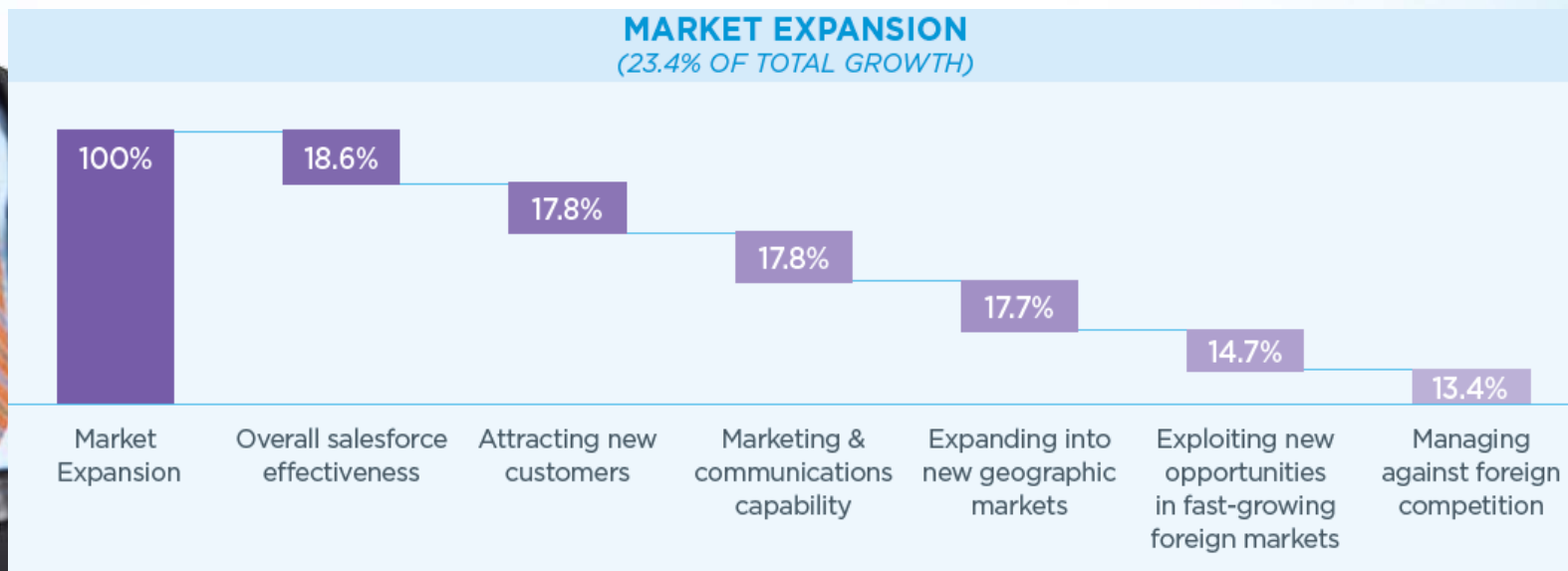


# THE GROWTH DRIVERS INTERACT AND ARE MUTUALLY REINFORCING



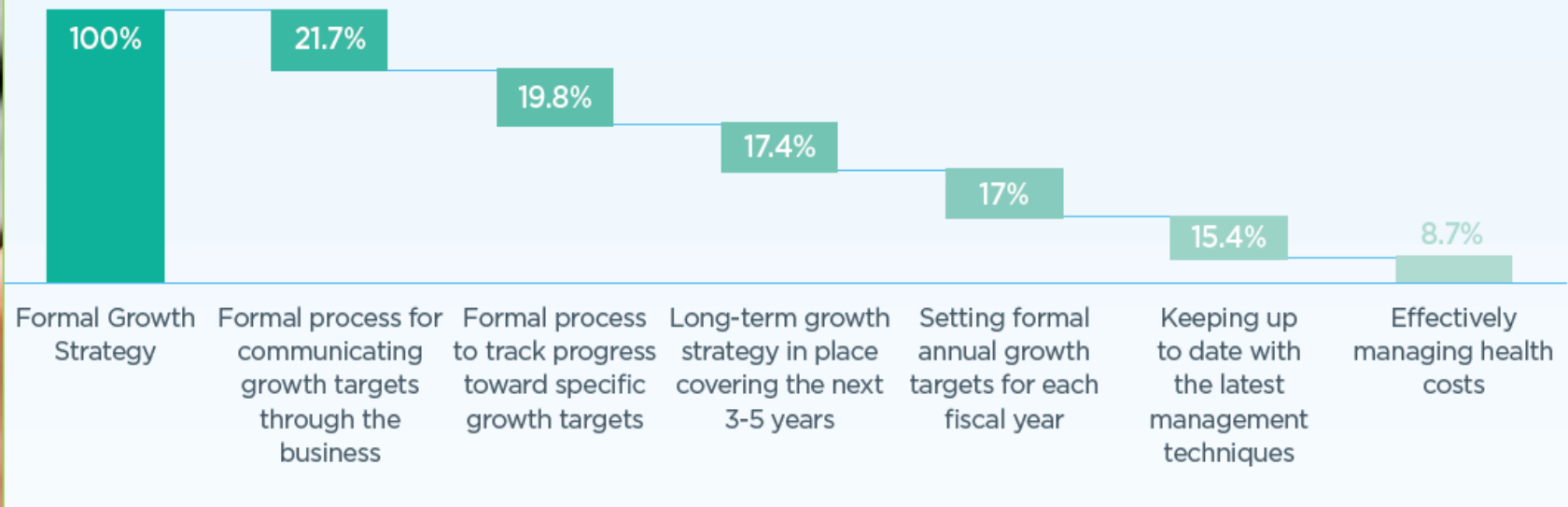


# FACTOR ONE: EXPANDING MARKETS, LED BY GREAT SALES MANAGEMENT



# FACTOR TWO: MAKE A GREAT PLAN AND DRIVE IT THROUGH THE ORGANIZATION

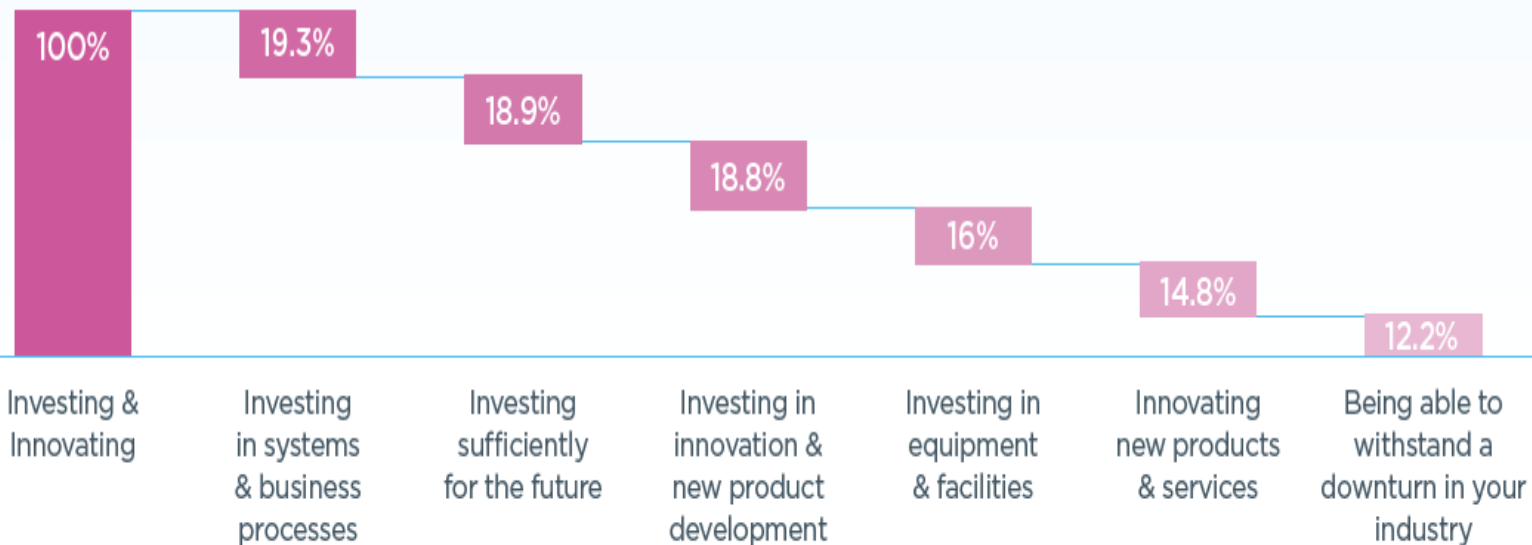
## FORMAL GROWTH STRATEGY (14.4% OF TOTAL GROWTH)



# FACTOR THREE: INVEST AND INNOVATE PROGRAMMATICALLY

## INVESTING & INNOVATING

(14.3% OF TOTAL GROWTH)



# FACTOR FOUR: GET AND KEEP GREAT PEOPLE

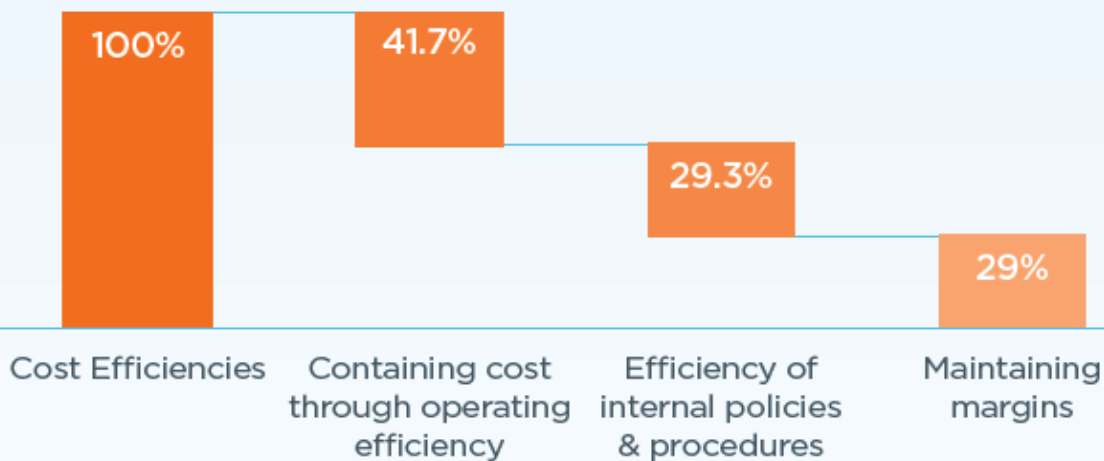


## ATTRACTING/RETAINING STAFF QUALITY (13.7% OF TOTAL GROWTH)



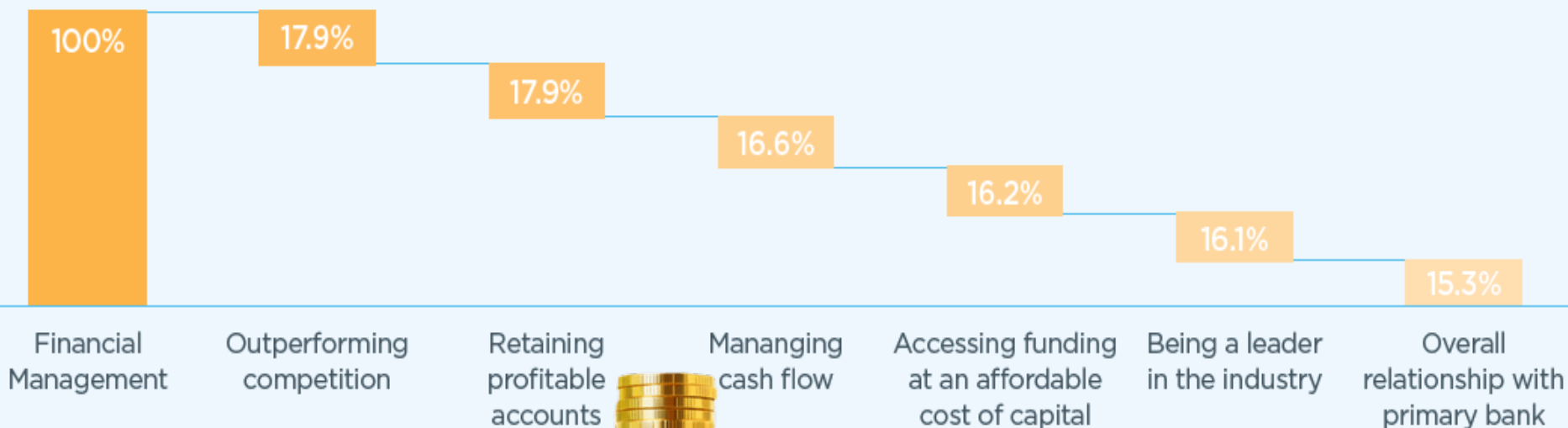
# FACTOR FIVE: RUN A TIGHT SHIP—HAVE A GREAT COO

## COST EFFICIENCIES (11.2% OF TOTAL GROWTH)



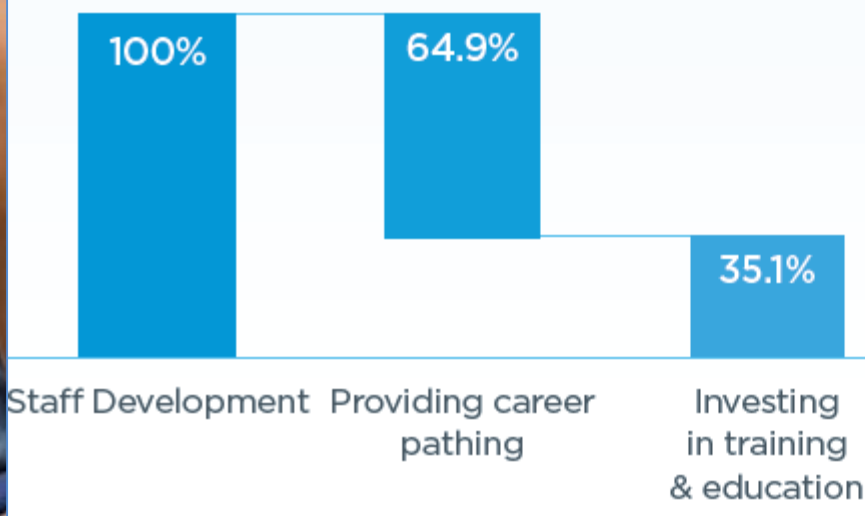
# FACTOR SIX: FOLLOW THE MONEY— HAVE A GREAT CFO

## FINANCIAL MANAGEMENT (12.3% OF TOTAL GROWTH)



# FACTOR SEVEN: HELP PEOPLE GROW

## STAFF DEVELOPMENT (10.6% OF TOTAL GROWTH)



# PUTTING IT TOGETHER: HOW SHOULD MANAGEMENT ALLOCATE RESOURCE?

**MARKET EXPANSION**

**FORMAL GROWTH  
STRATEGY**

**INVESTING &  
INNOVATING**

**ATTRACTING &  
RETAINING STAFF**

**FINANCIAL  
MANAGEMENT**

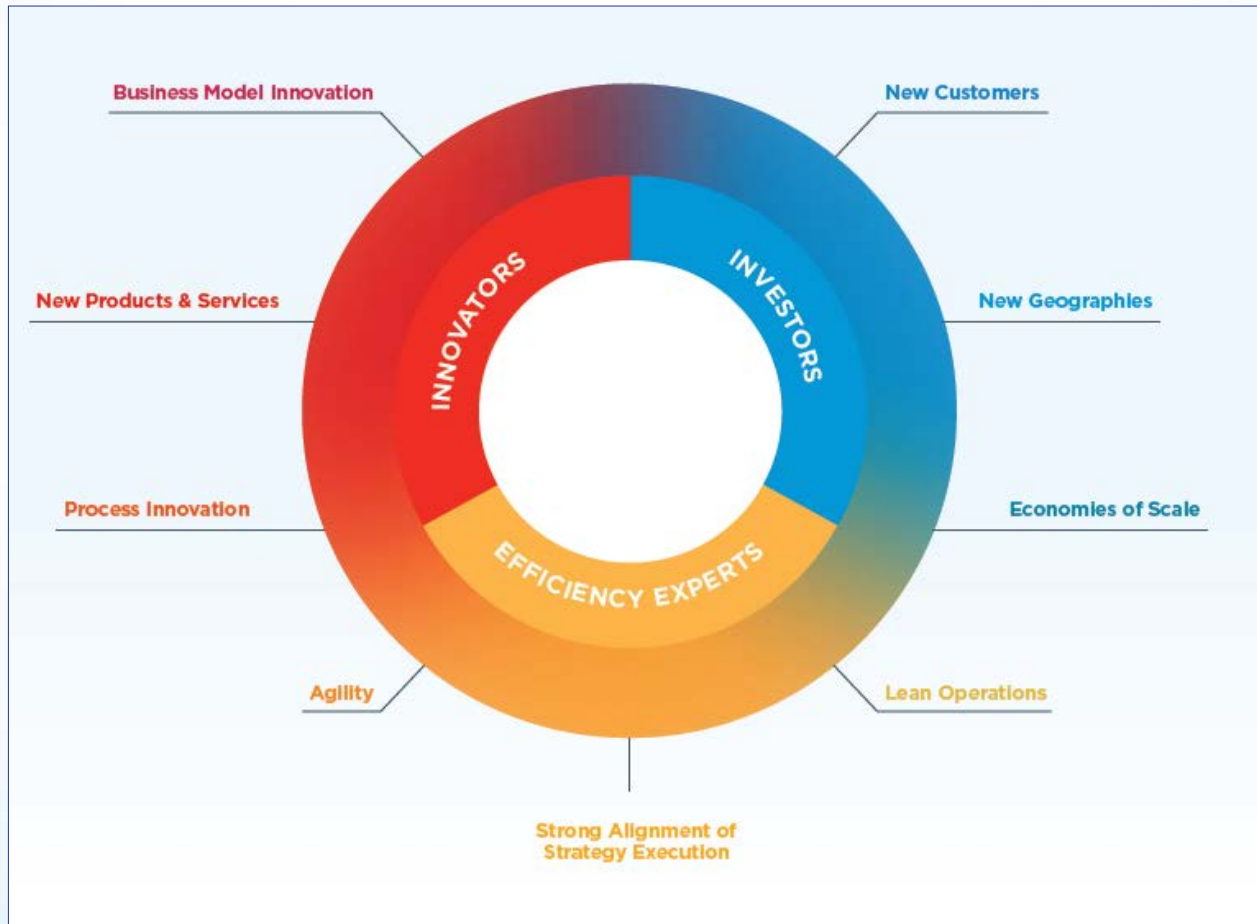
**COST EFFICIENCIES**

**STAFF  
DEVELOPMENT**





# KNOWING YOUR “GROWTH TYPE” WILL HELP YOU GROW MORE SMARTLY





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THE MIDDLE MARKET