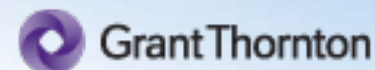


Q1'18 MIDDLE MARKET INDICATOR | ACG WEBINAR | MAY 8th, 2018

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q1'18 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



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 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

NATIONAL CENTER FOR THE MIDDLE MARKET

1Q | 2018

MIDDLE MARKET INDICATOR

New Thresholds of Growth

IN COLLABORATION WITH

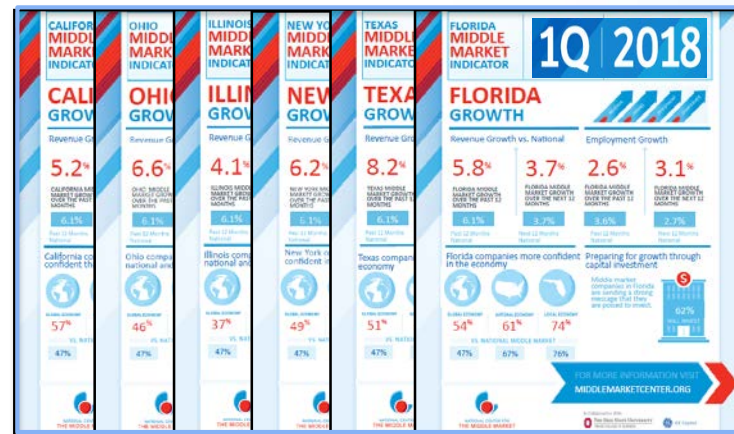
THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

SUNTRUST

Grant Thornton

CISCO

Cut by Geography and Industry



Q1'18 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** BY A SOLID MARGIN, THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION
- 2** THE MIDDLE MARKET KICKED OFF 2018 WITH NEAR-RECORD HIGH JOB CREATION AND REVENUE GROWTH; NEARLY ALL COMPANIES HAVE PARTICIPATED IN THE GOOD RESULTS
- 3** EXPECTATIONS FOR GROWTH AND JOB CREATION IN THE COMING YEAR ARE STRONG. CONFIDENCE IN THE GLOBAL AND LOCAL ECONOMIES HIT RECORD HIGHS; U.S. CONFIDENCE IS NEAR ITS RECORD; TALENT AND COST CHALLENGES ARE INTENSIFYING
- 4** PRIVATE-EQUITY-OWNED COMPANIES OUTPERFORMED THE NATIONAL AVERAGES, AND EXPECT TO CONTINUE TO THRIVE

Q1'18 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

8.4%

PAST 12 MONTHS

7.42%
S&P 500

5.9%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

6.3%

PAST 12 MONTHS

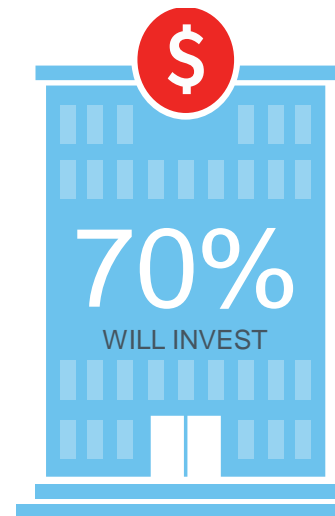
1.9% SMALL BUSINESS 2.4% LARGE BUSINESS

4.6%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

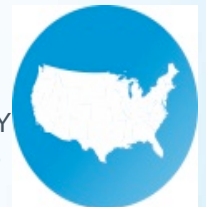
82%

GLOBAL ECONOMY



87%

NATIONAL ECONOMY



94%

LOCAL ECONOMY



Q1'18 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

8.4%

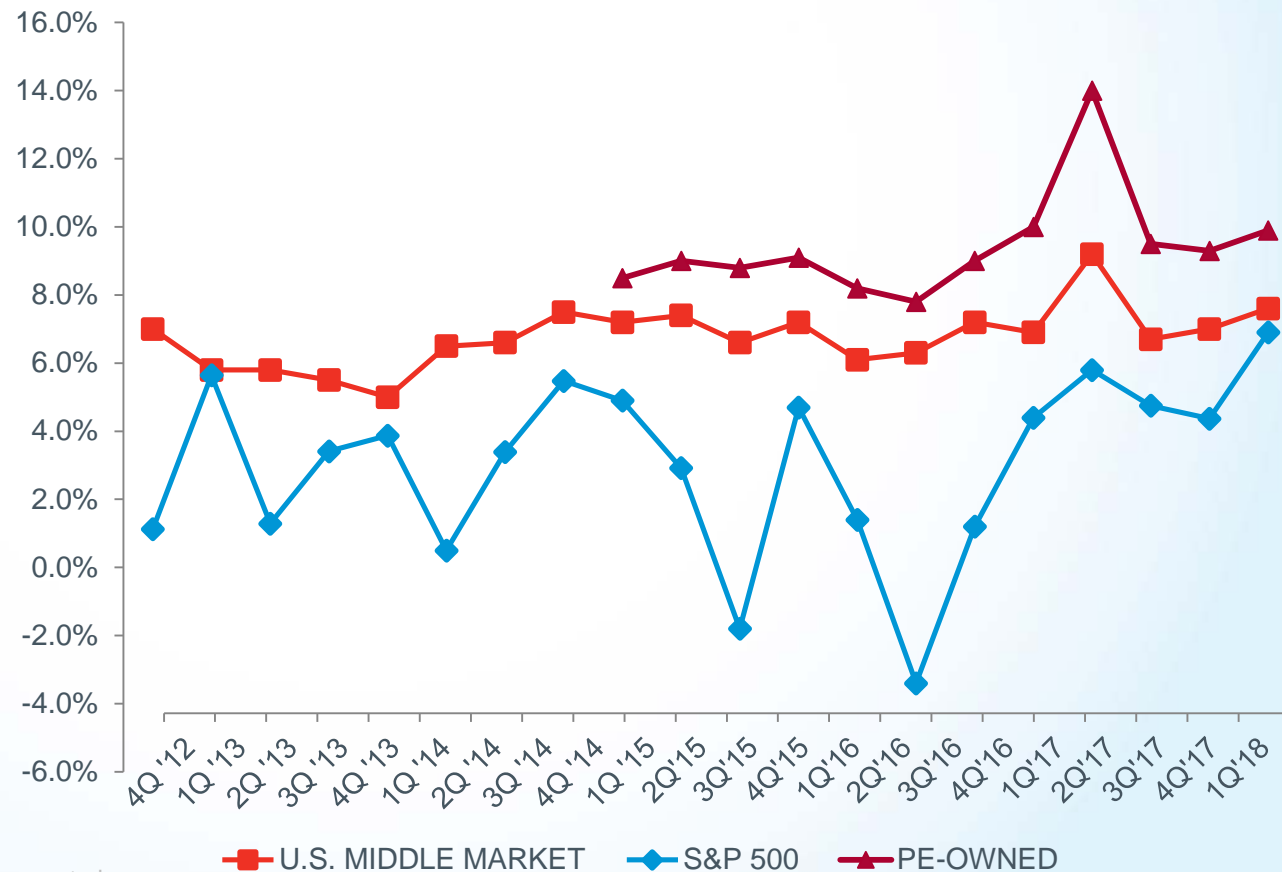
U.S. MIDDLE MARKET

10.5%

PE-OWNED FIRMS

7.42%

S&P 500*



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

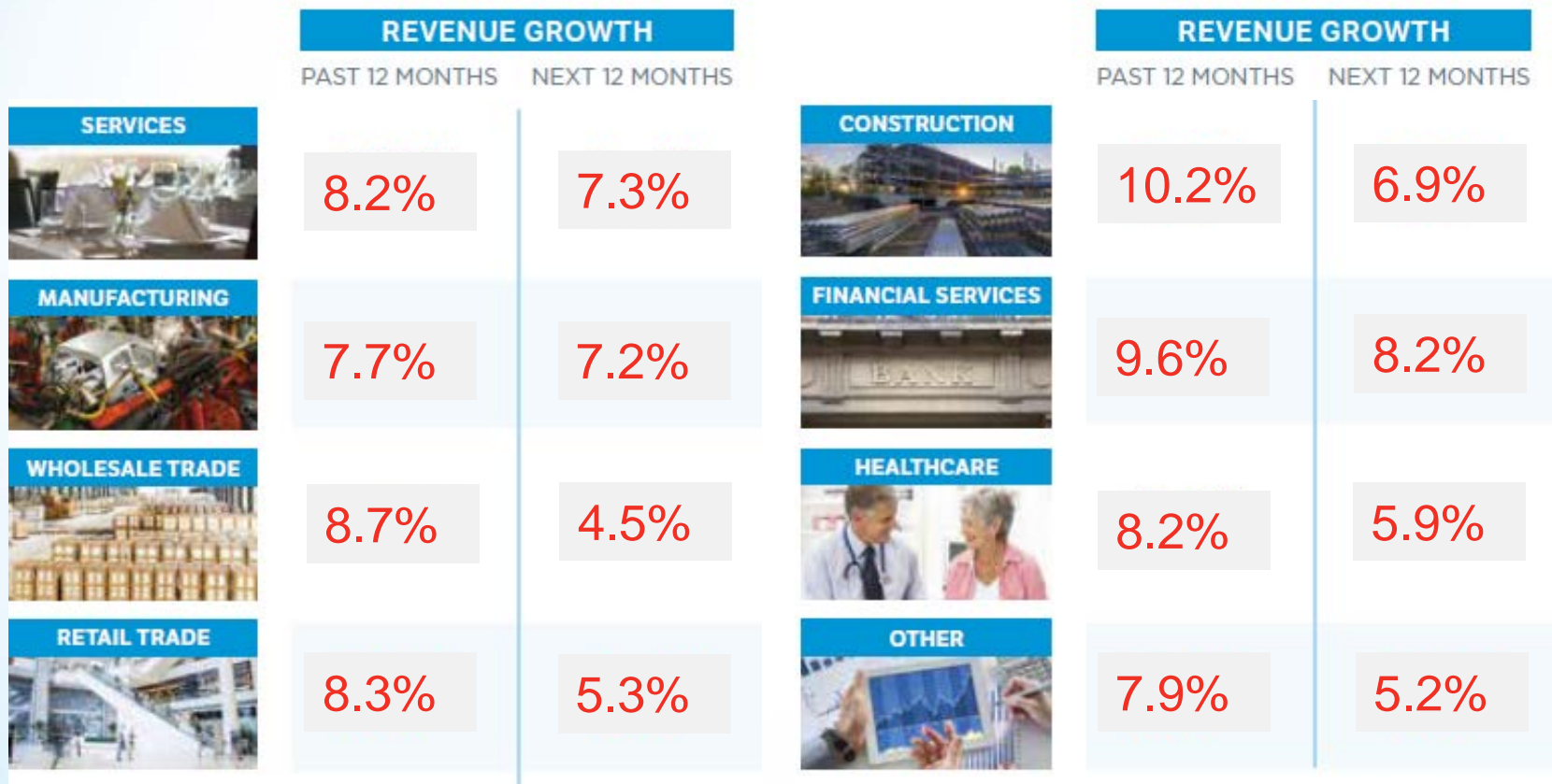
THE RISING TIDE CONTINUES TO LIFT ALMOST ALL BOATS

	1Q 2018	1Q 2017
Performance improved	72%	70%
Performance was unchanged	26	25
Performance deteriorated	3	5

24-1

14-1

Q1'18 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH



Q1'18 MIDDLE MARKET INDICATOR REVENUE GROWTH *FORECAST*

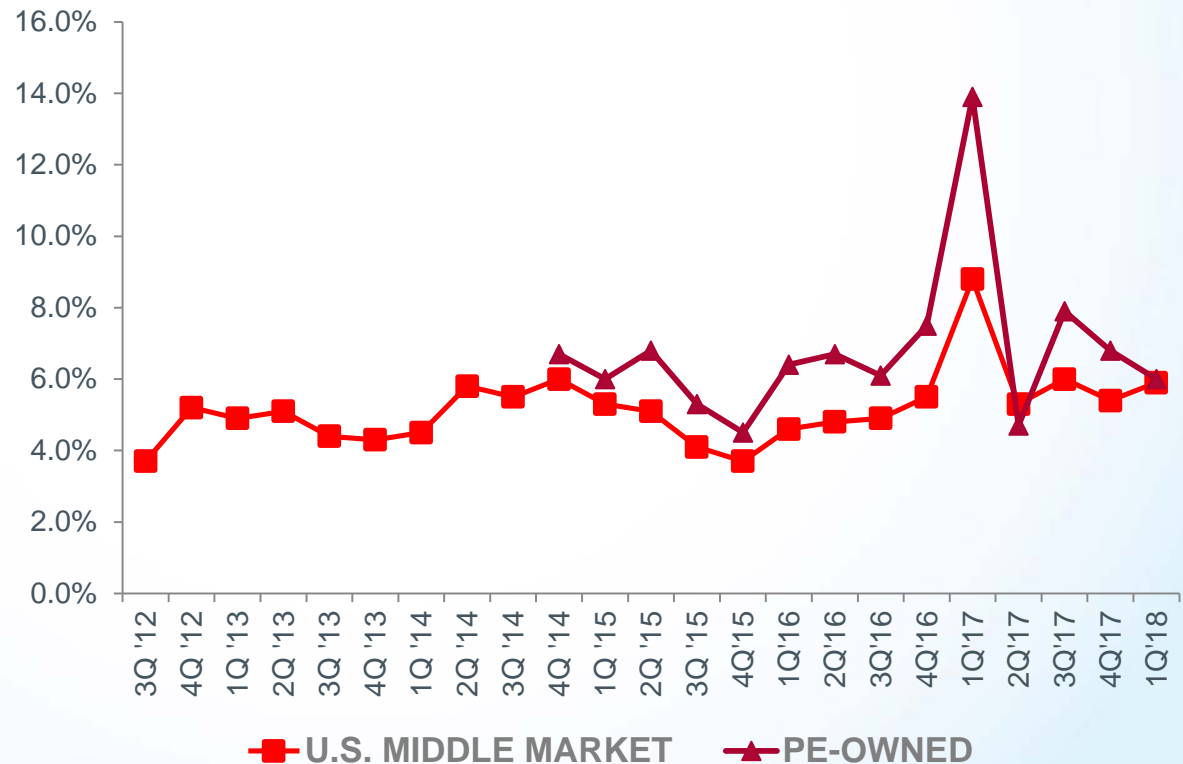
NEXT 12 MONTHS

5.9%

U.S. MIDDLE MARKET

6.0%

PE-OWNED FIRMS



Q1'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

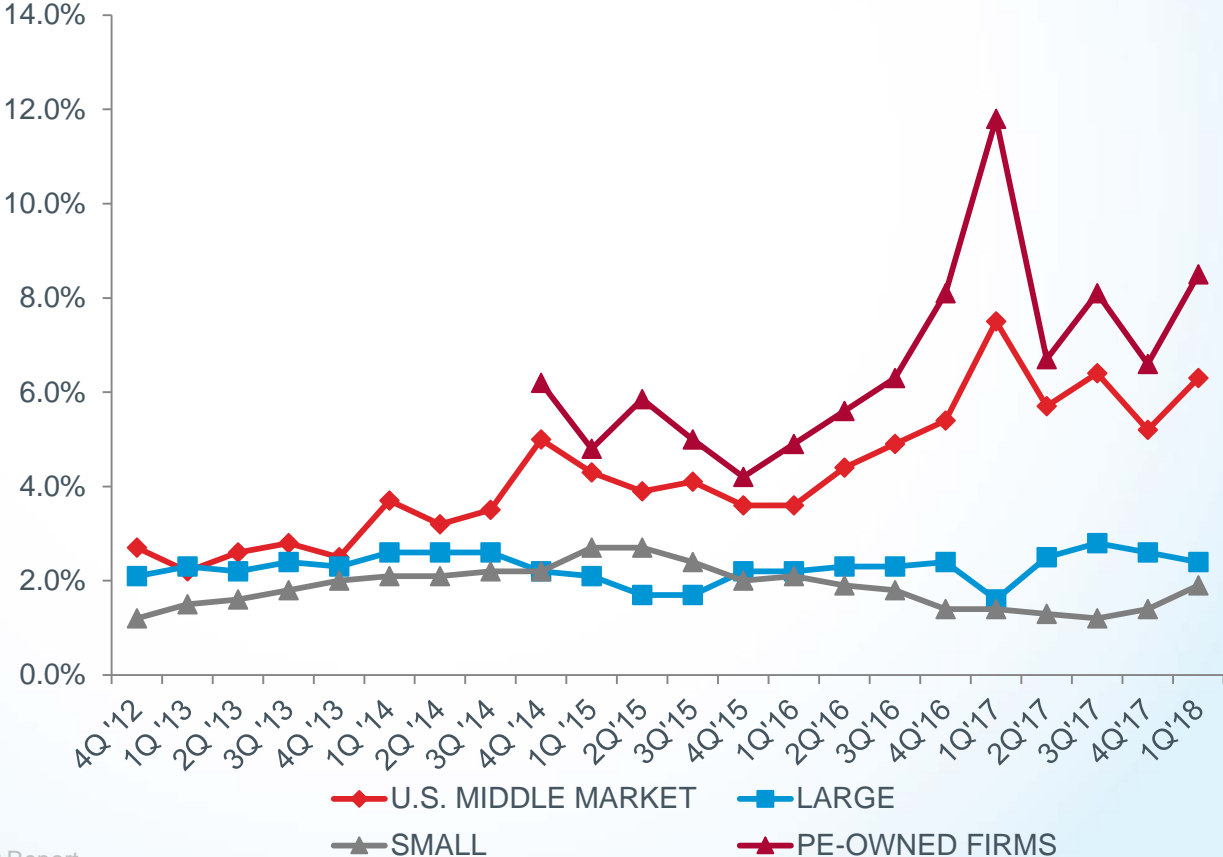
6.3%

U.S. MIDDLE MARKET

1.9% SMALL BUSINESS
2.4% LARGE BUSINESS

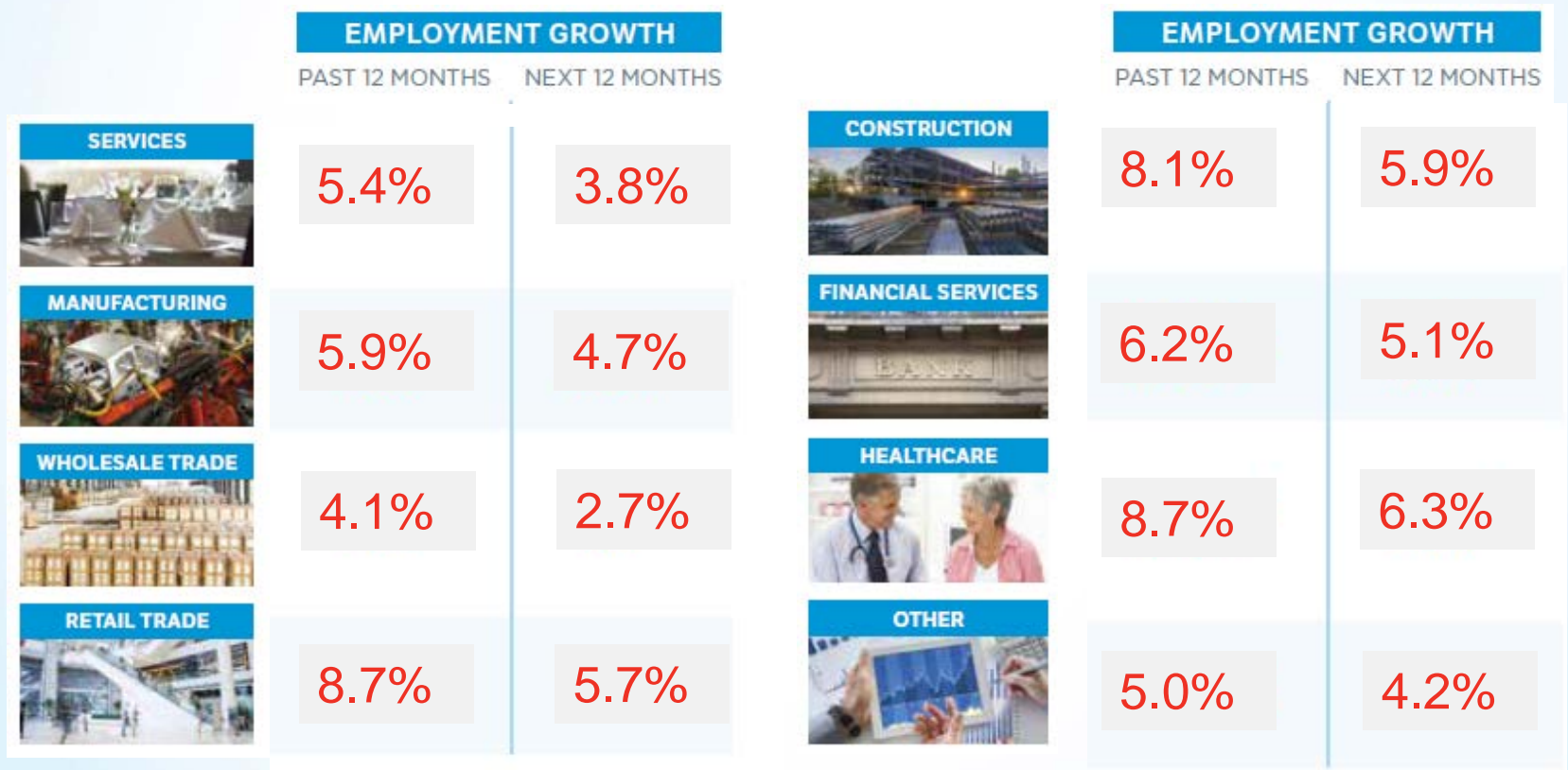
8.5%

PE-OWNED FIRMS



Source: 1Q'18 Middle Market Indicator Report

Q1'18 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q1'18 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

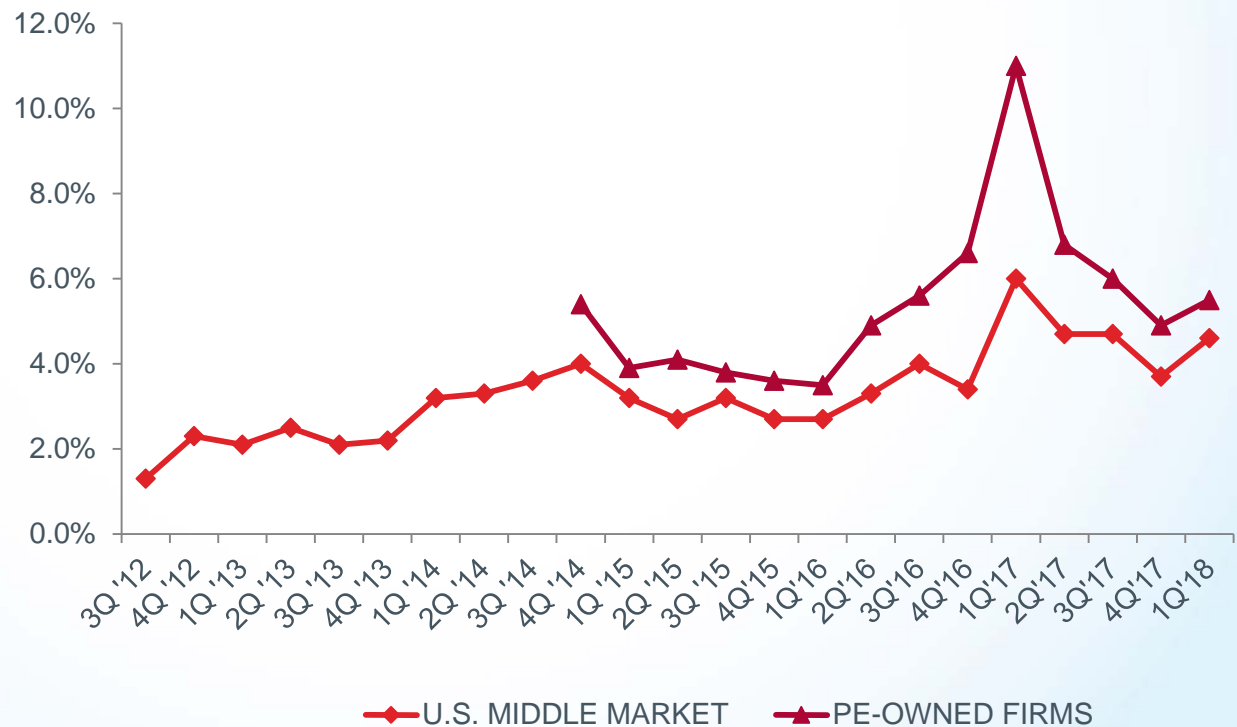
NEXT 12 MONTHS

4.6%

U.S. MIDDLE MARKET

5.5%

PE-OWNED FIRMS

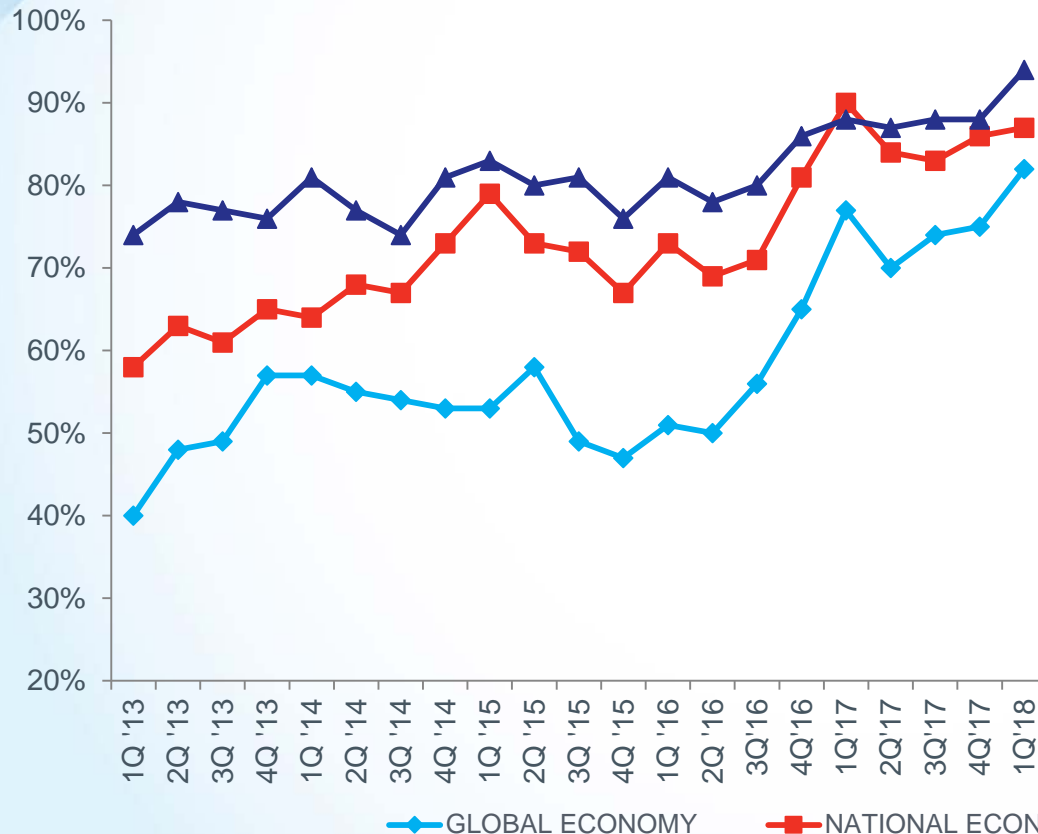




CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q1'18 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Remains Strong Across the Board



GLOBAL ECONOMY

82%

85% PE-OWNED



U.S. ECONOMY

87%

87% PE-OWNED



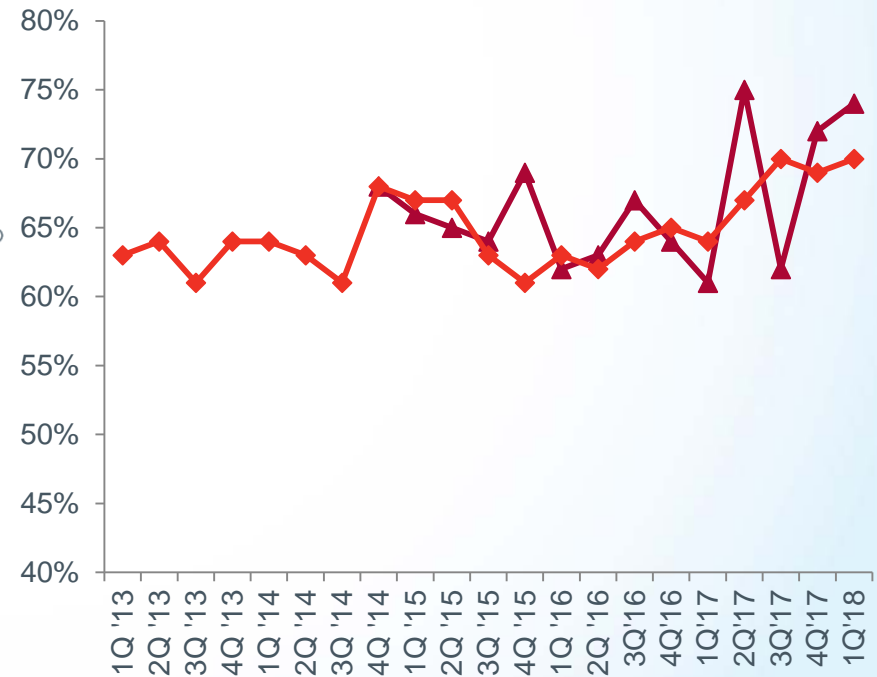
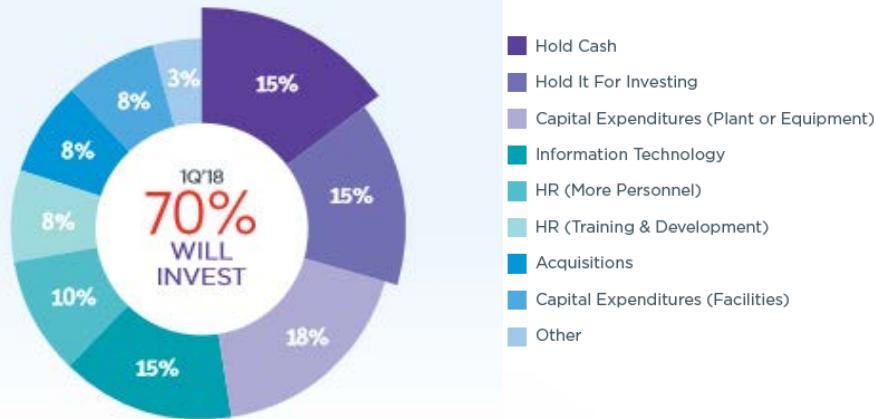
LOCAL ECONOMY

94%

92% PE-OWNED

Q1'18 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

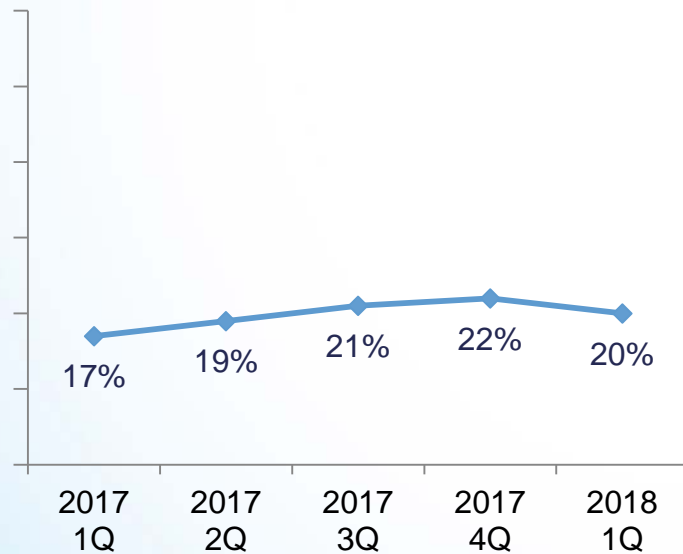
WHAT WOULD YOU DO WITH AN EXTRA DOLLAR OF REVENUE?



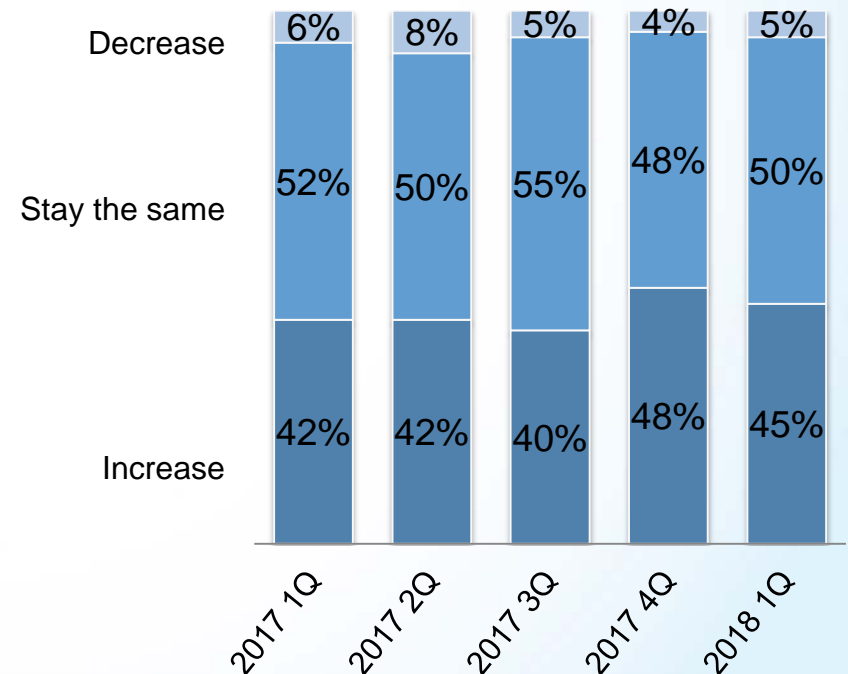
▲ PE-OWNED ◆ U.S. MIDDLE MARKET

COSTS AND PRICES MAY BE BEGINNING TO STIR ...

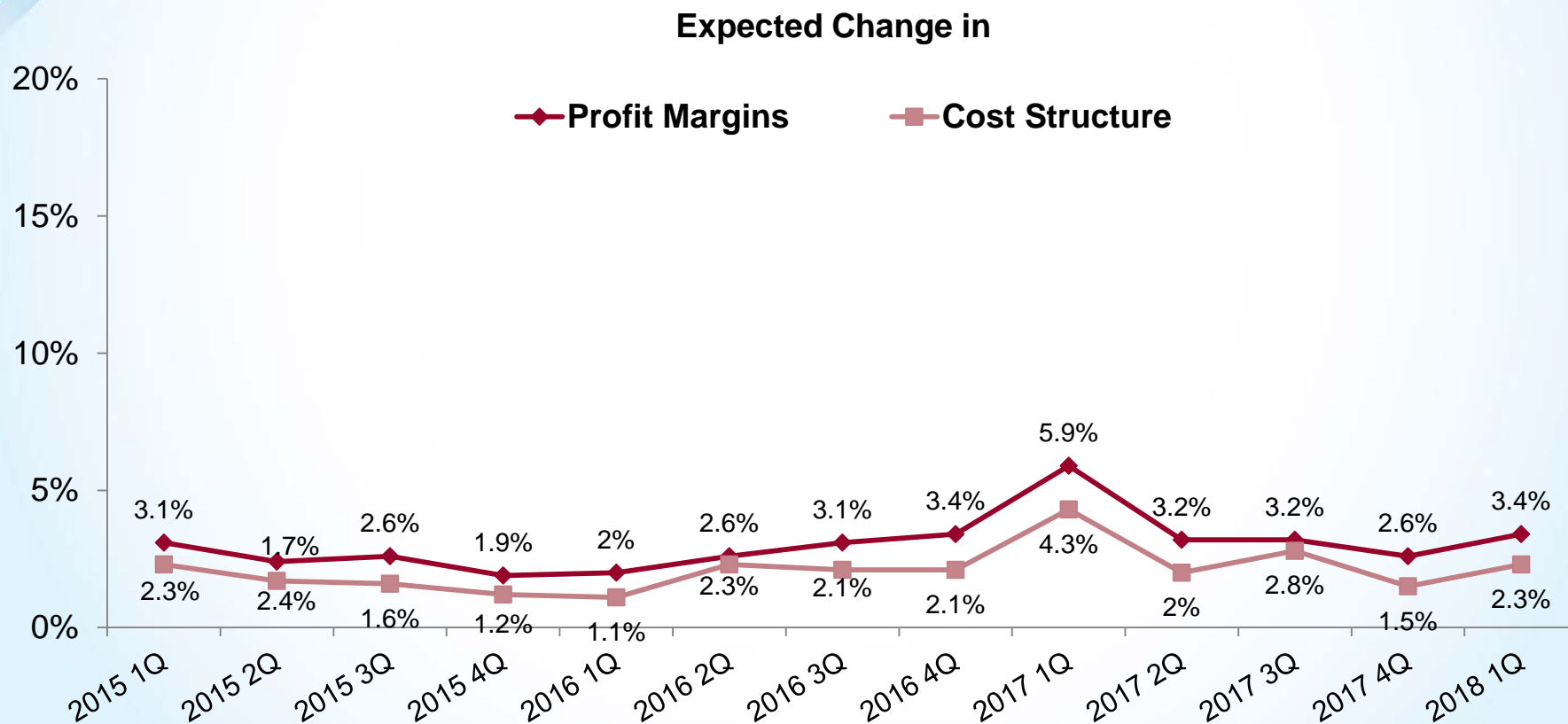
EXECUTIVES CITING A COST ISSUE AMONG TOP THREE INTERNAL CHALLENGES



PRICE ACTIONS EXECUTIVES EXPECT TO TAKE THIS YEAR



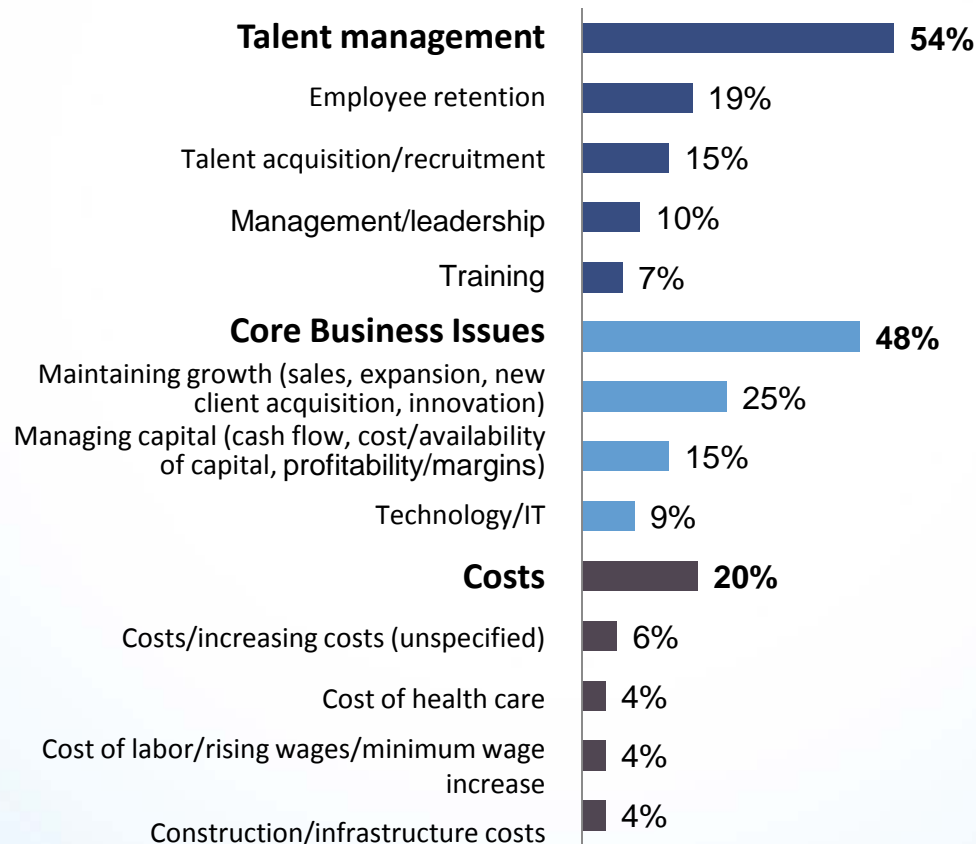
... BUT COMPANIES FEEL COSTS ARE UNDER CONTROL AND MARGINS SAFE



LONG TERM CHALLENGES

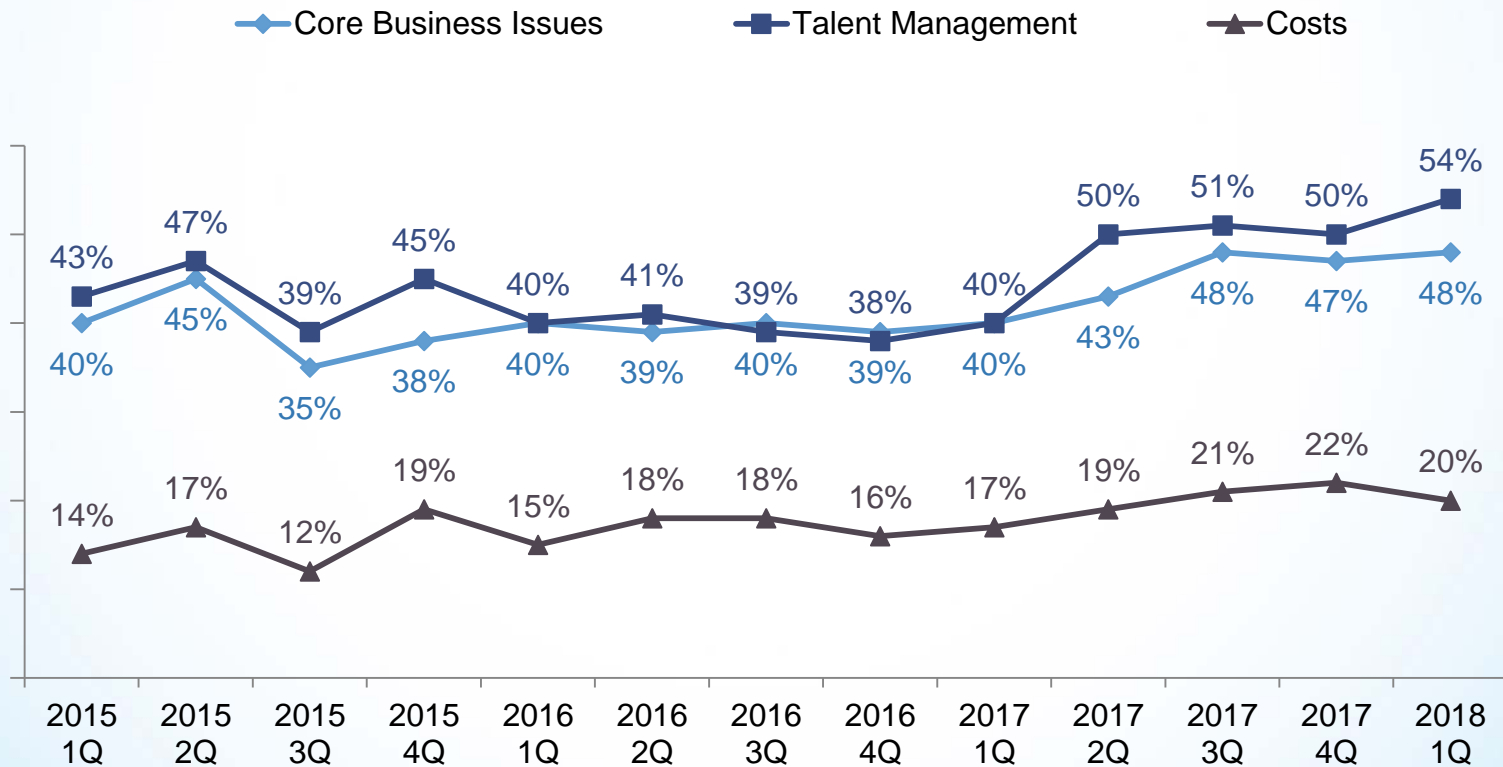
Talent retention and recruitment remain challenging at MM firms as the labor market continues to tighten.

Long Term Internal Challenges



TALENT CHALLENGES HAVE INTENSIFIED STRONGLY

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



RISK AND RESILIENCE

ABOUT THE RESEARCH

RESEARCH OBJECTIVES



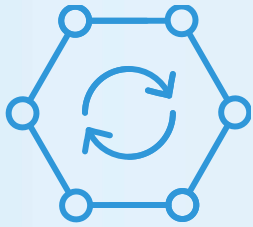
- Understand the prevalence and impact of different types of business disruptions among middle market companies
- Create a comprehensive picture of the major risks companies face
- Assess companies' resilience to withstand disruptions

SURVEY FACTS



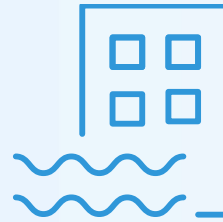
- Administered to more than 1,000 C-level executives in December 2017
- Completed in the aftermath of Hurricanes Harvey and Irma and the northern California wildfires
- www.middlemarketcenter.org

THREE TYPES OF BUSINESS DISRUPTIONS



STRATEGIC DISRUPTION

Industry consolidation, disruptive technology, global megatrends, changing regulations or economic conditions, changes in ownership



OPERATIONAL DISRUPTION

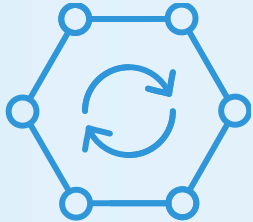
Natural disasters, supply-chain issues, port closures, strikes, facility shutdowns



DIGITAL DISRUPTION

Cyber breaches, data-integrity issues, system downtime, compatibility issues

THREE TYPES OF BUSINESS DISRUPTIONS



STRATEGIC DISRUPTION

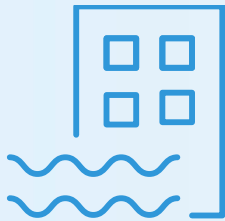
Industry consolidation, disruptive technology, global megatrends, changing regulations or economic conditions, changes in ownership

- » *Most prevalent*
- » *Hardest to prevent*
- » *Biggest impact*
- » *Most difficult recovery*

EXAMPLES OF PAST AND FUTURE STRATEGIC DISRUPTION:

- Significant changes in industry competitive dynamics, such as the effect of Amazon and others on brick-and-mortar retail
- The impact of demographic changes—such as Baby Boomer retirements and Millennials maturing—on the talent pool
- A change in company capital structure and ownership due to retirement or sale
- Major changes in regulations, international trade agreements, or macroeconomic conditions

THREE TYPES OF BUSINESS DISRUPTIONS



OPERATIONAL DISRUPTION

Natural disasters, port closures, strikes, facility shutdowns

- » *Most prepared*
- » *Highest likelihood of complete recovery*
- » *Impact is greatest on operations and people*

EXAMPLES OF OPERATIONAL DISRUPTION:

- Hurricanes, earthquakes, fires and other disasters
- Strikes or other labor actions
- Product recalls due to quality, safety, or health problems
- Supply chain breakdowns

THREE TYPES OF BUSINESS DISRUPTIONS



DIGITAL DISRUPTION

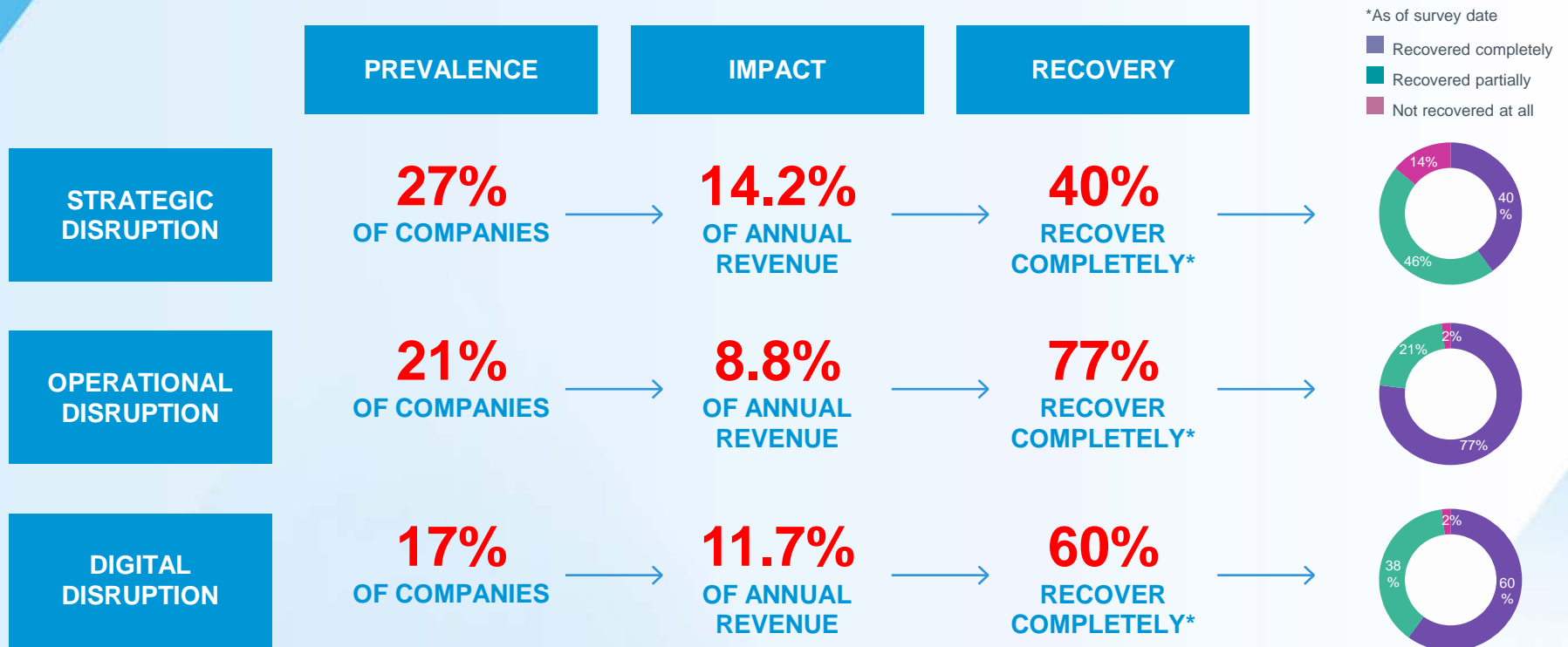
Cyber breaches, data-integrity issues, system downtime, compatibility issues

- » *Least prevalent—reportedly*
- » *Quickest recovery*
- » *Greatest impact on information systems*

EXAMPLES OF DIGITAL DISRUPTIONS:

- Data breaches affecting a company, its employees, its customers, or its suppliers
- Widespread malware attacks such as 2017's "WannaCry"
- IT system failures like those that grounded hundreds of United, Delta, and British Airways flights in 2016 and 2017

BUSINESS DISRUPTIONS ARE COMMON — THEIR IMPACT IS SUBSTANTIAL



FEW COMPANIES FEEL WELL PREPARED FOR STRATEGIC RISKS

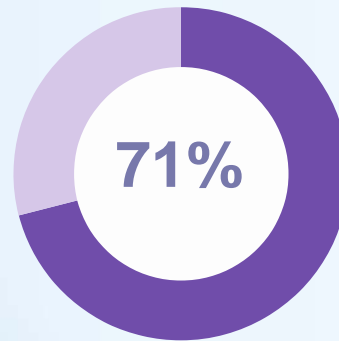
Preparation to Deal with Event



THREE OUT OF TEN COMPANIES LACK A CONTINUITY PLAN

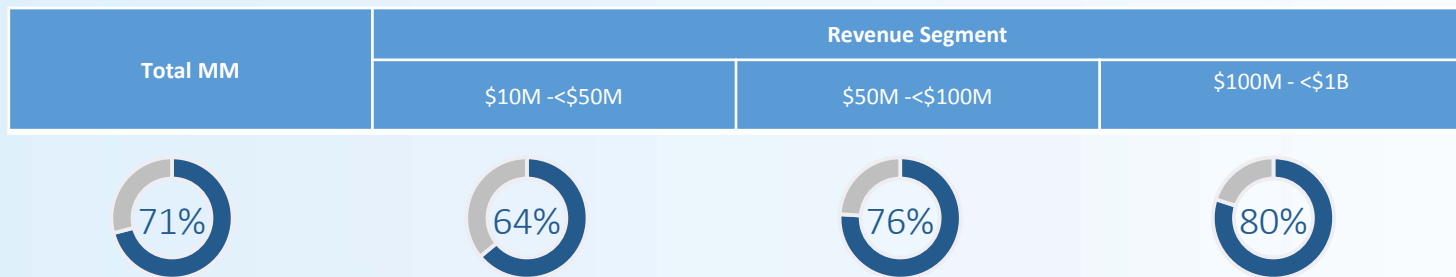
COMPANY HAS ESTABLISHED,
UP-TO-DATE BUSINESS CONTINUITY PLAN

Total Middle Market



DEGREE OF PLANNING VARIES BY SIZE AND INDUSTRY

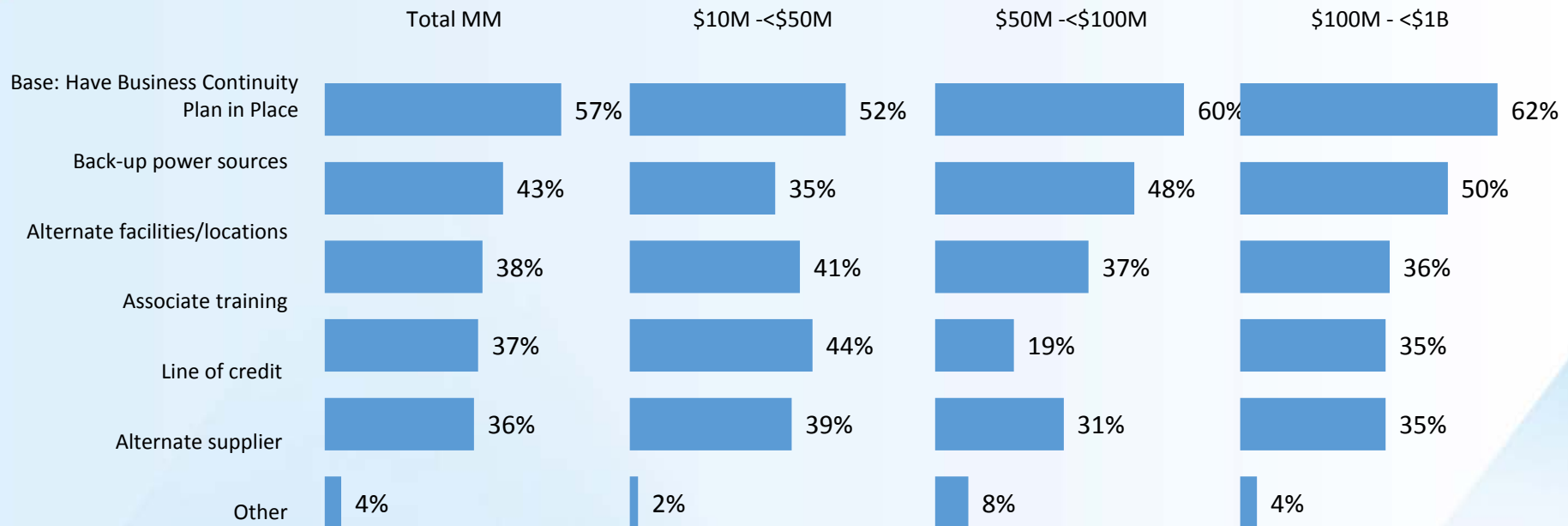
Company Has Established, Up-to-Date Business Continuity Plan



31

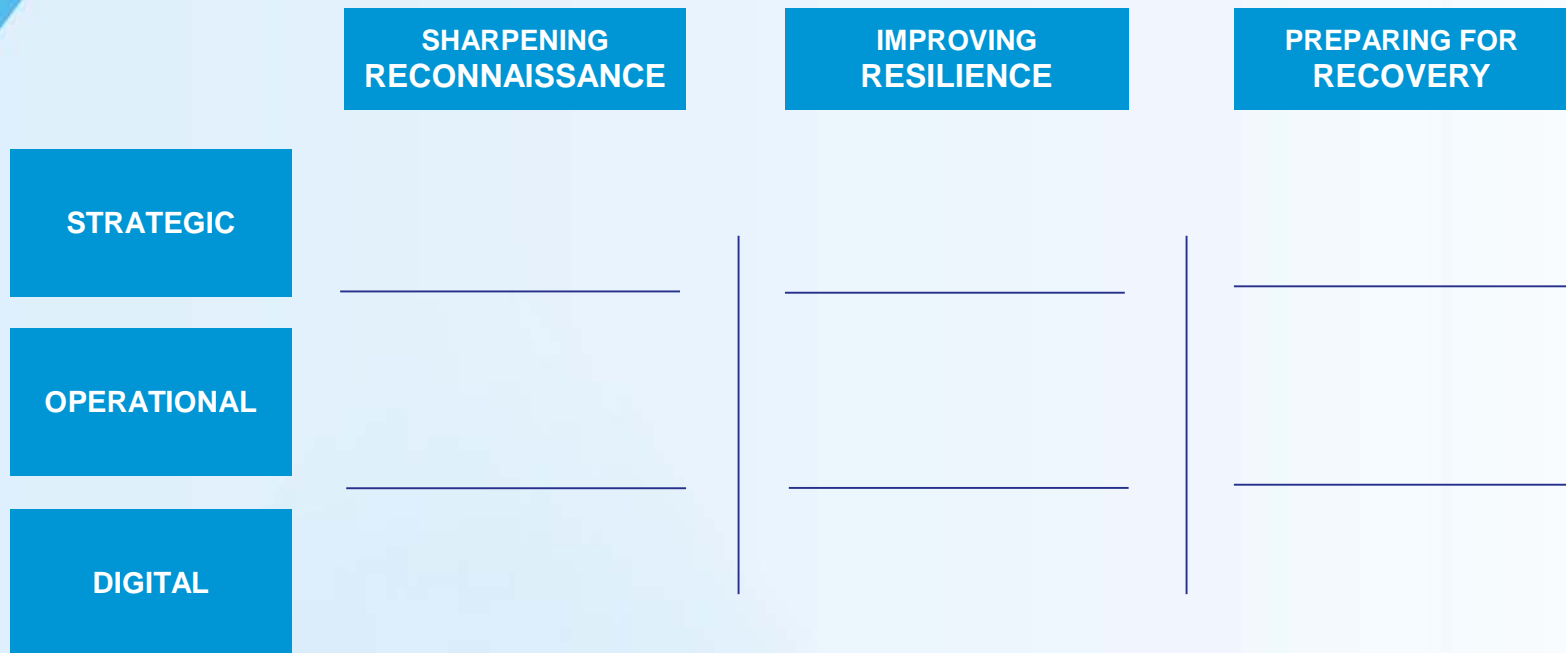
DEGREE OF PLANNING VARIES BY SIZE AND INDUSTRY

Plan in Place – By Revenue Segment



32

A FRAMEWORK FOR MANAGING RISK



A FRAMEWORK FOR MANAGING RISK

STRATEGIC

SHARPENING RECONNAISSANCE

- Annual board-level assessment of known, known-unknown, and unknown-unknown threats: Industry changes, potentially disruptive technology, impact of megatrends, impact of outside factors (e.g., government)

IMPROVING RESILIENCE

- Review financial cushions, flexibility, preparedness, and relationships
- Review and strengthen key-person relationships and succession plans
- Review key customer/supplier relationships and contracts
- Create strategic options via R&D, M&A readiness

PREPARING FOR RECOVERY

- Develop “fight or flight” plans to respond to most likely strategic risks
- Ensure long-term investor support
- Develop capability to create/execute restructuring plans

A FRAMEWORK FOR MANAGING RISK

OPERATIONAL

SHARPENING RECONNAISSANCE

- Annual board-level assessment of vulnerabilities to all operations from natural events, disruption in supply or distribution, etc.
- Include possible disruptions from and to communities in which you do business

IMPROVING RESILIENCE

- Review insurance
- Review banking relationships
- Build redundancy into key operations and supply chains

PREPARING FOR RECOVERY

- Maintain an up-to-date business continuity plan
- Have plans in place for employees, business partners, and community
- Run fire drills

A FRAMEWORK FOR MANAGING RISK

DIGITAL

SHARPENING RECONNAISSANCE

- Annual board-level risk assessment and review of cybersecurity strategy
- Real-time threat monitoring

IMPROVING RESILIENCE

- Ensure backups of all data either with own or cloud resources
- Fully train all employees
- Establish protocols for communication with vendors/customers/authorities
- Review and update legal risks
- Review and update insurance

PREPARING FOR RECOVERY

- Have a disaster recovery plan
- Pre-identify internal and external resources needed for recovery
- Run fire drills



NATIONAL CENTER FOR
THE MIDDLE MARKET