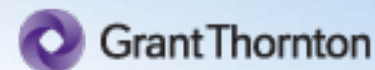


Q1'16 MIDDLE MARKET INDICATOR WEBINAR | May 17, 2016

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q1'16 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
IN 2014**



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 2016

MIDDLE MARKET INDICATOR

GROWTH STABILIZES; OUTLOOK IMPROVES

IN COLLABORATION WITH

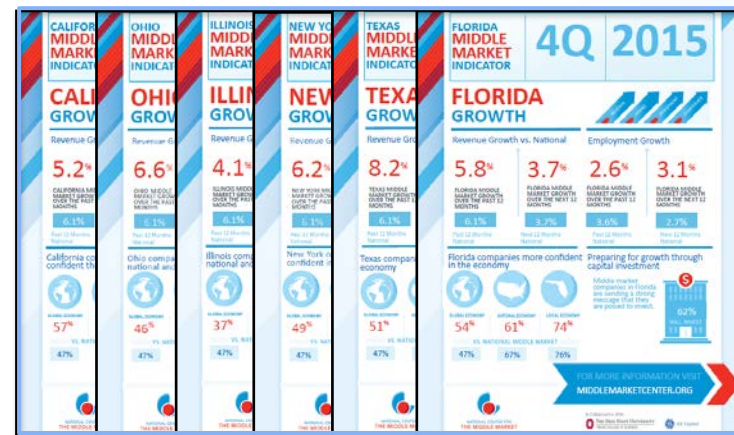
THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

SUNTRUST

Grant Thornton

cisco

Cut by Geography and Industry



Q1'16 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION; P.E.-OWNED COMPANIES ARE PERFORMING MORE STRONGLY THAN THE MIDDLE MARKET OVERALL
- 2** WHILE YEAR-ON-YEAR GROWTH IS HIGH AND JOB CREATION REMAINS STABLE, THE MIDDLE MARKET APPEARS TO HAVE ENTERED A PERIOD OF STABILIZATION
- 3** CONFIDENCE IN LOCAL AND NATIONAL ECONOMIES HAS TICKED UP; INVESTMENT INTENTIONS REMAIN FAIRLY STEADY
- 4** TALENT HAS EMERGED AS THE BIGGEST LONG-TERM CHALLENGE FACING MIDDLE MARKET COMPANIES, AND EXECUTIVES ARE INCREASINGLY WILLING TO PAY WORKERS MORE

Q1'16 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

6.3%

PAST 12 MONTHS

4.6%

NEXT 12 MONTHS

EMPLOYMENT GROWTH

3.6%

PAST 12 MONTHS

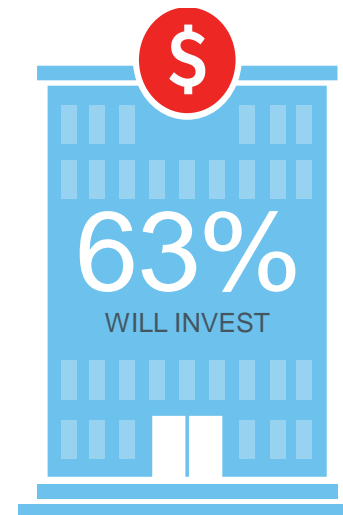
2.1%
SMALL
BUSINESS

2.2%
LARGE
BUSINESS

2.7%

NEXT 12 MONTHS

CAPITAL INVESTMENT



CONFIDENCE

51%

GLOBAL ECONOMY



73%

NATIONAL ECONOMY



81%

LOCAL ECONOMY



Q1'16 MIDDLE MARKET INDICATOR REVENUE GROWTH

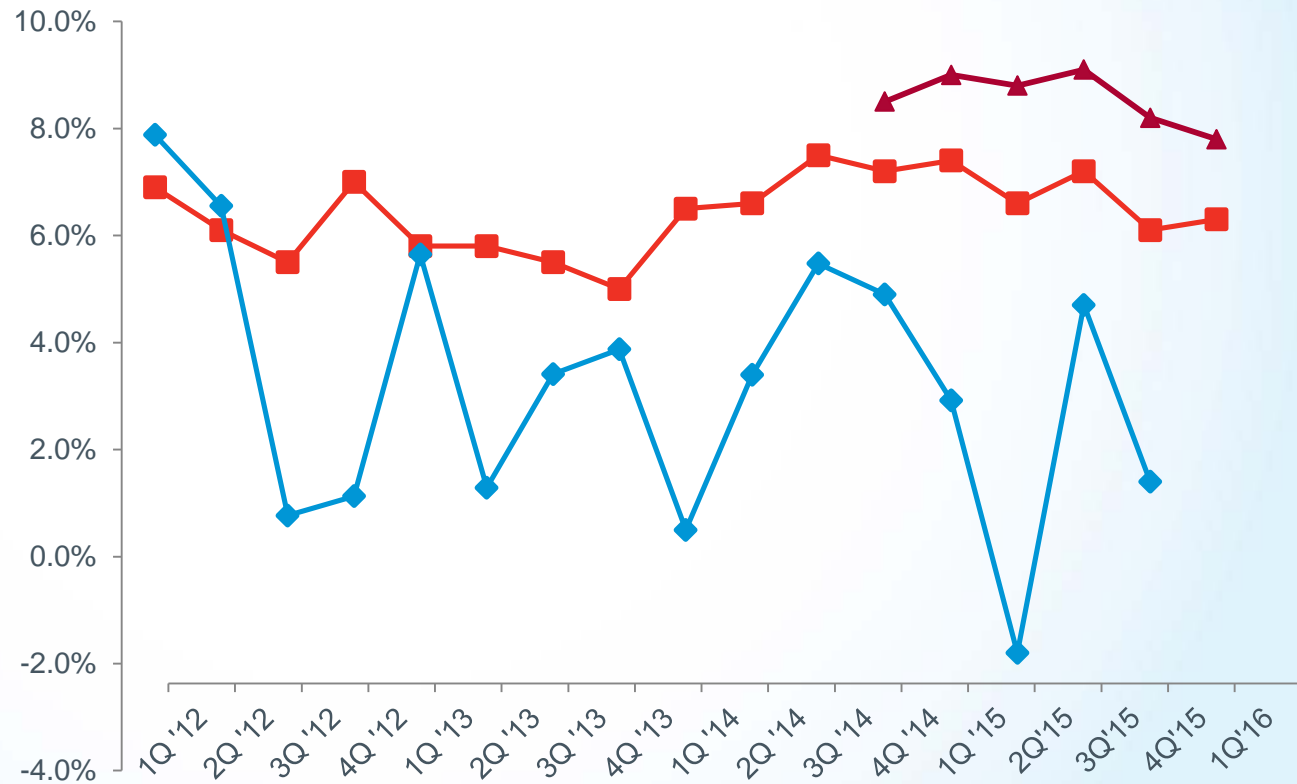
PAST 12 MONTHS

6.3%

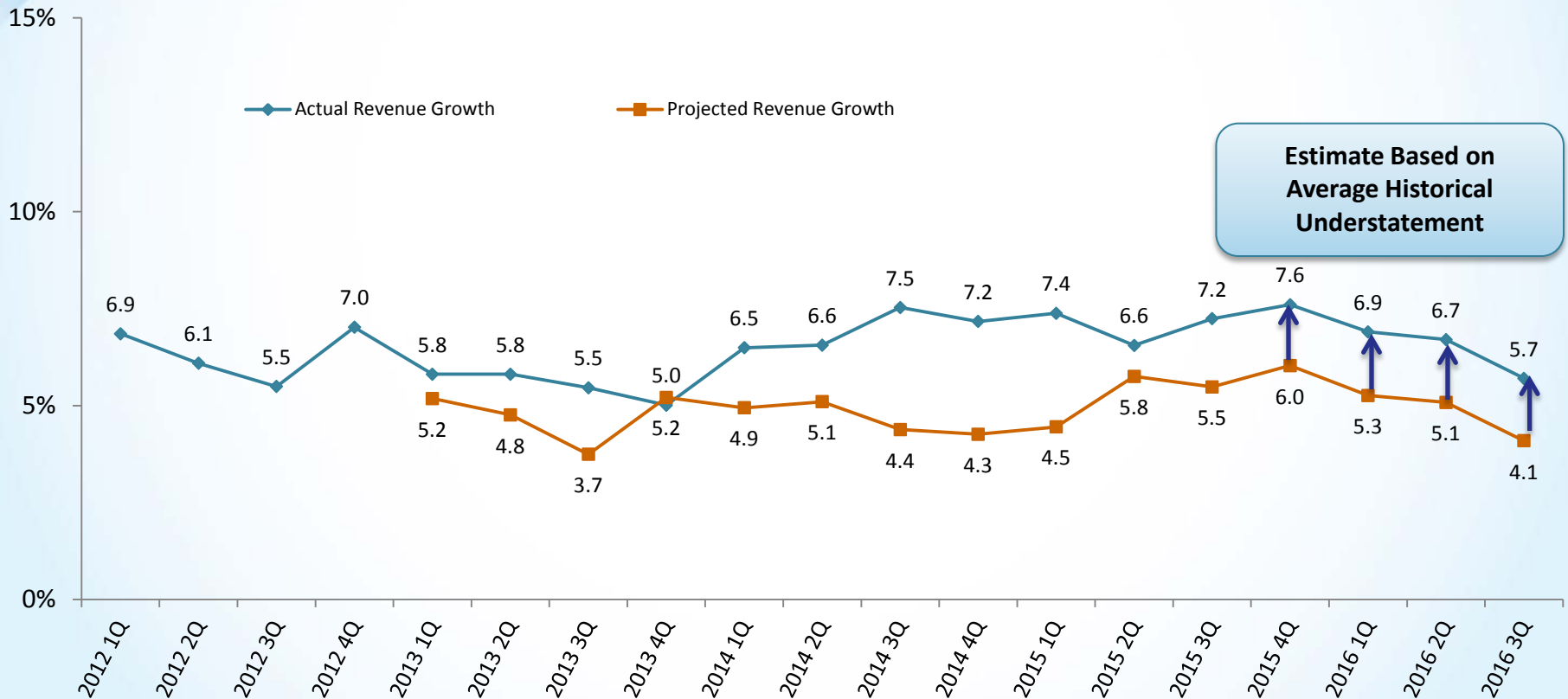
U.S. MIDDLE MARKET

7.8%



PE-OWNED FIRMS



GROWTH FORECAST ADJUSTED FOR CONSERVATIVE BIAS



Q1'16 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH

	REVENUE GROWTH			REVENUE GROWTH	
	PAST 12 MONTHS	NEXT 12 MONTHS		PAST 12 MONTHS	NEXT 12 MONTHS
 <p>SERVICES</p> 	8.2%	4.9%	 <p>CONSTRUCTION</p> 	4.7%	5.0%
 <p>MANUFACTURING</p> 	6.6%	4.4%	 <p>FINANCIAL SERVICES</p> 	8.8%	6.5%
 <p>WHOLESALE TRADE</p> 	6.2%	4.8%	 <p>HEALTHCARE</p> 	6.6%	5.6%
 <p>RETAIL TRADE</p> 	5.9%	3.5%	 <p>OTHER</p> 	5.1%	4.0%

Q1'16 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

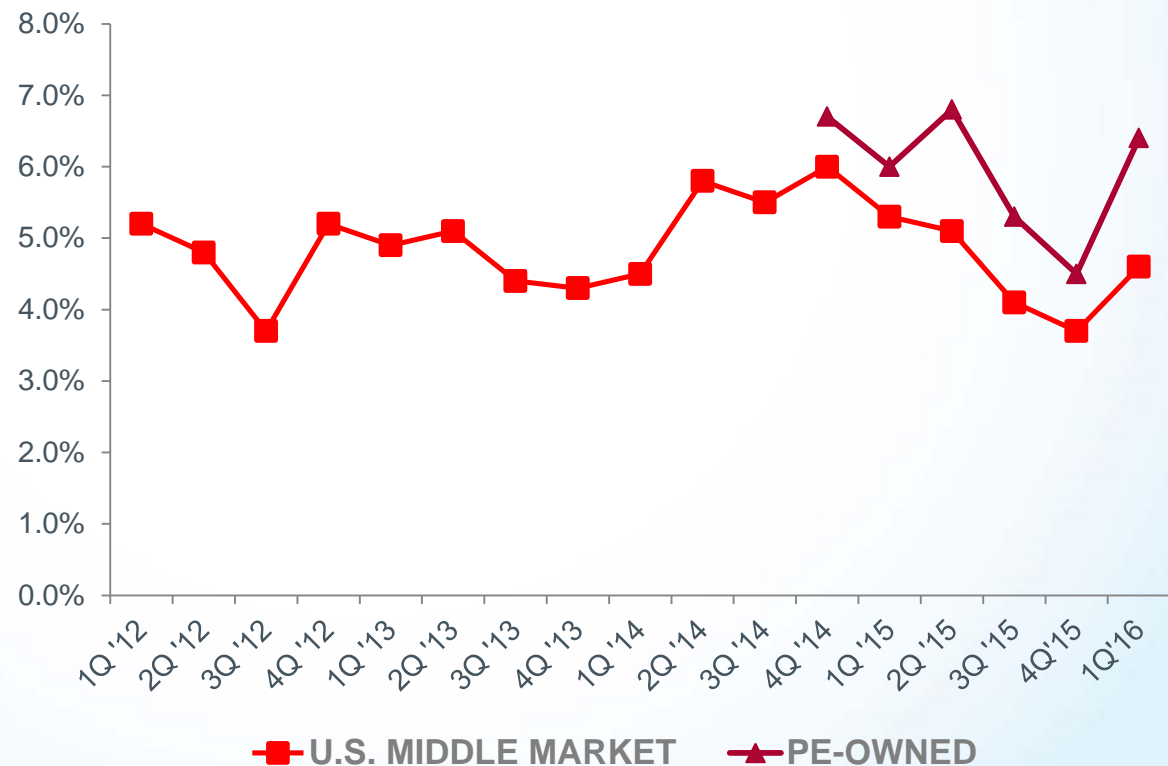
NEXT 12 MONTHS

4.6%

U.S. MIDDLE MARKET

6.4%

PE-OWNED FIRMS



Q1'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

3.6%

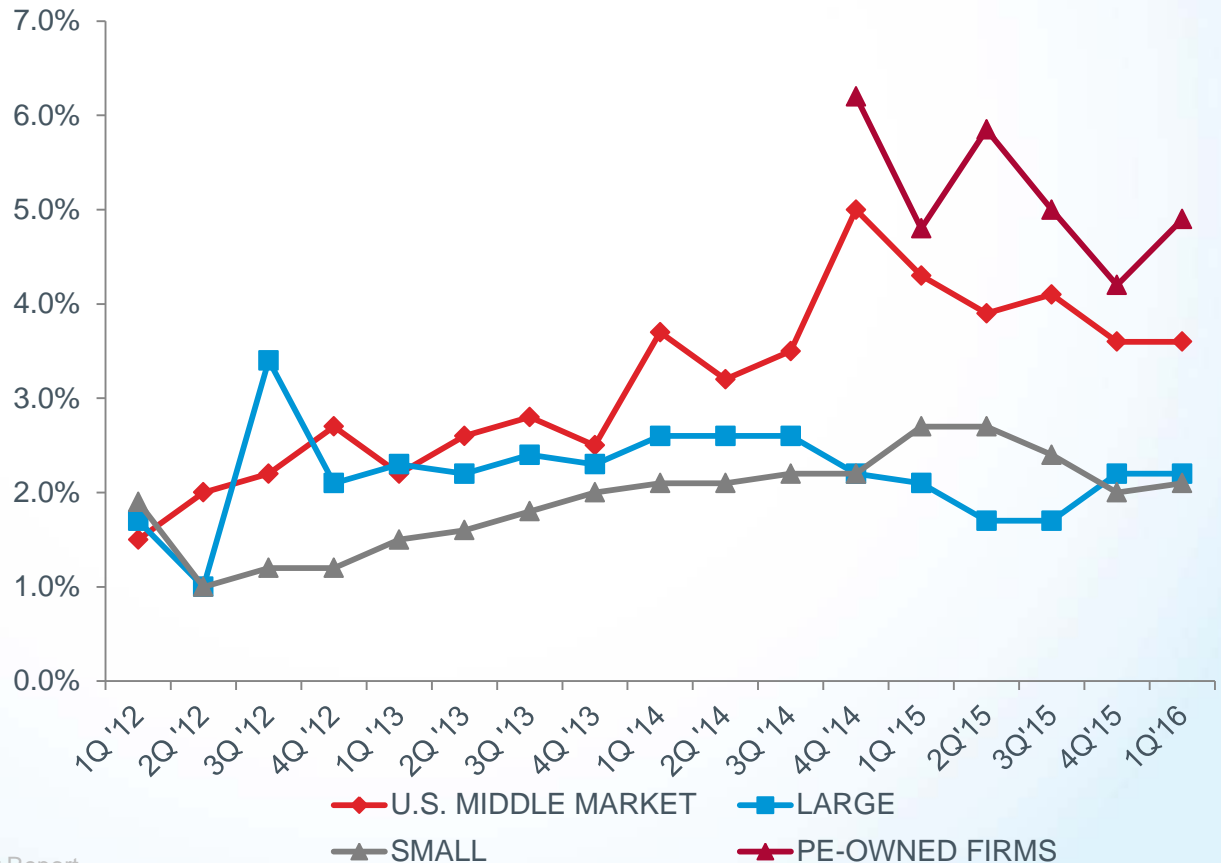
U.S. MIDDLE MARKET

2.1%
SMALL
BUSINESS

2.2%
LARGE
BUSINESS

4.9%

PE-OWNED FIRMS



Q1'16 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH

		EMPLOYMENT GROWTH				EMPLOYMENT GROWTH	
		PAST 12 MONTHS	NEXT 12 MONTHS			PAST 12 MONTHS	NEXT 12 MONTHS
SERVICES		5.1%	2.3%	CONSTRUCTION		2.4%	3.3%
MANUFACTURING		2.4%	2.2%	FINANCIAL SERVICES		5.0%	2.8%
WHOLESALE TRADE		2.1%	1.7%	HEALTHCARE		5.5%	4.0%
RETAIL TRADE		4.6%	3.8%	OTHER		3.1%	2.5%

Q1'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

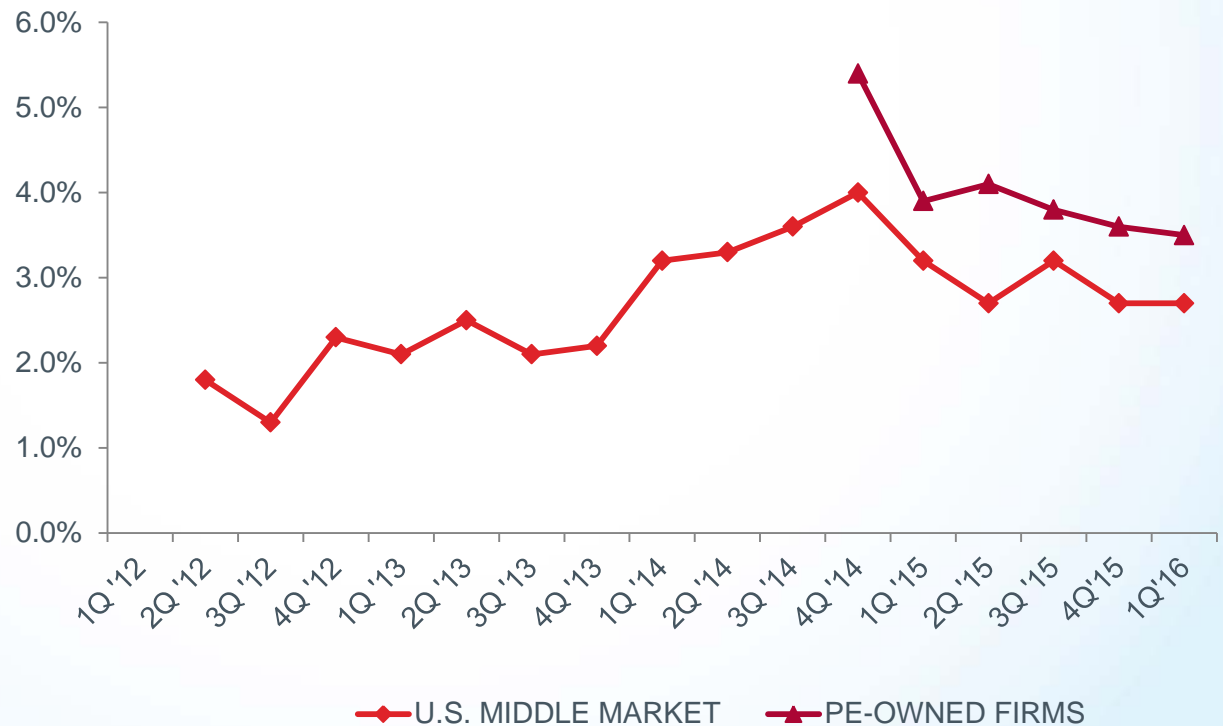
NEXT 12 MONTHS

2.7%

U.S. MIDDLE MARKET

3.5%

PE-OWNED FIRMS



WHAT INGREDIENTS ARE FOUND IN PRIVATE EQUITY'S SECRET SAUCE?

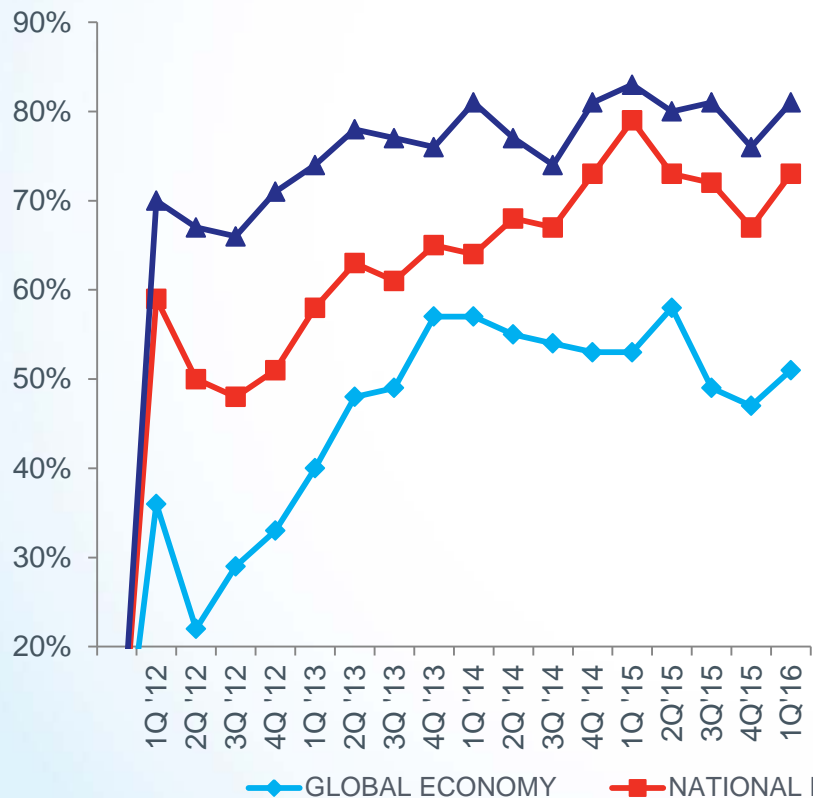
- ▶ **Picking winners**
- ▶ **Leveraging the portfolio**
- ▶ **Relieving financial constraints**
- ▶ **Professionalizing management**



CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q1'16 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Up Across The Board



GLOBAL ECONOMY

51%

54% PE-OWNED



U.S. ECONOMY

73%

73% PE-OWNED



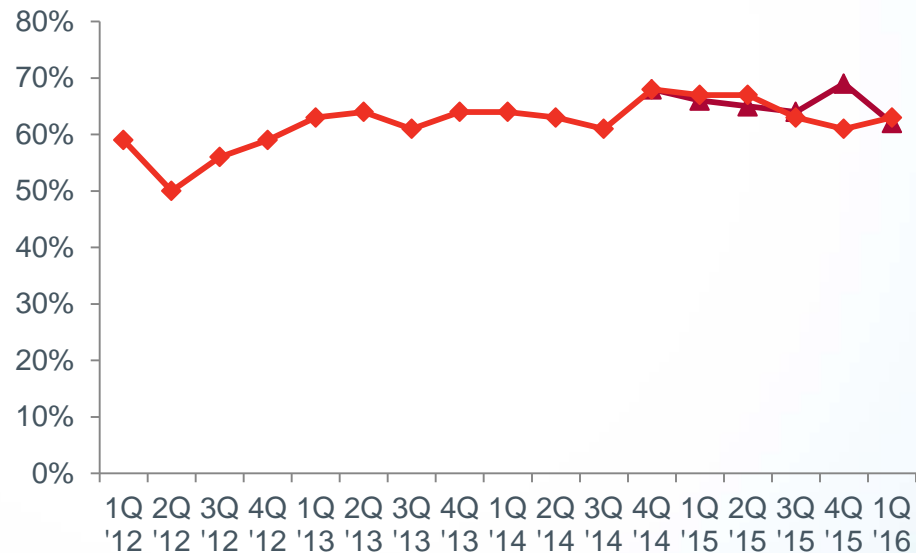
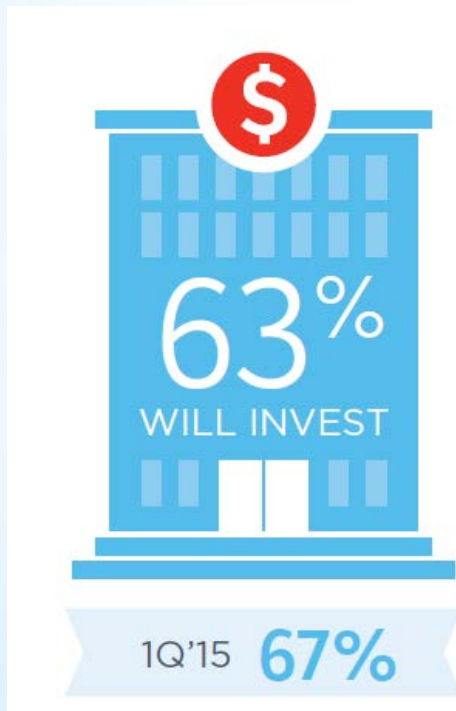
LOCAL ECONOMY

81%

84% PE-OWNED

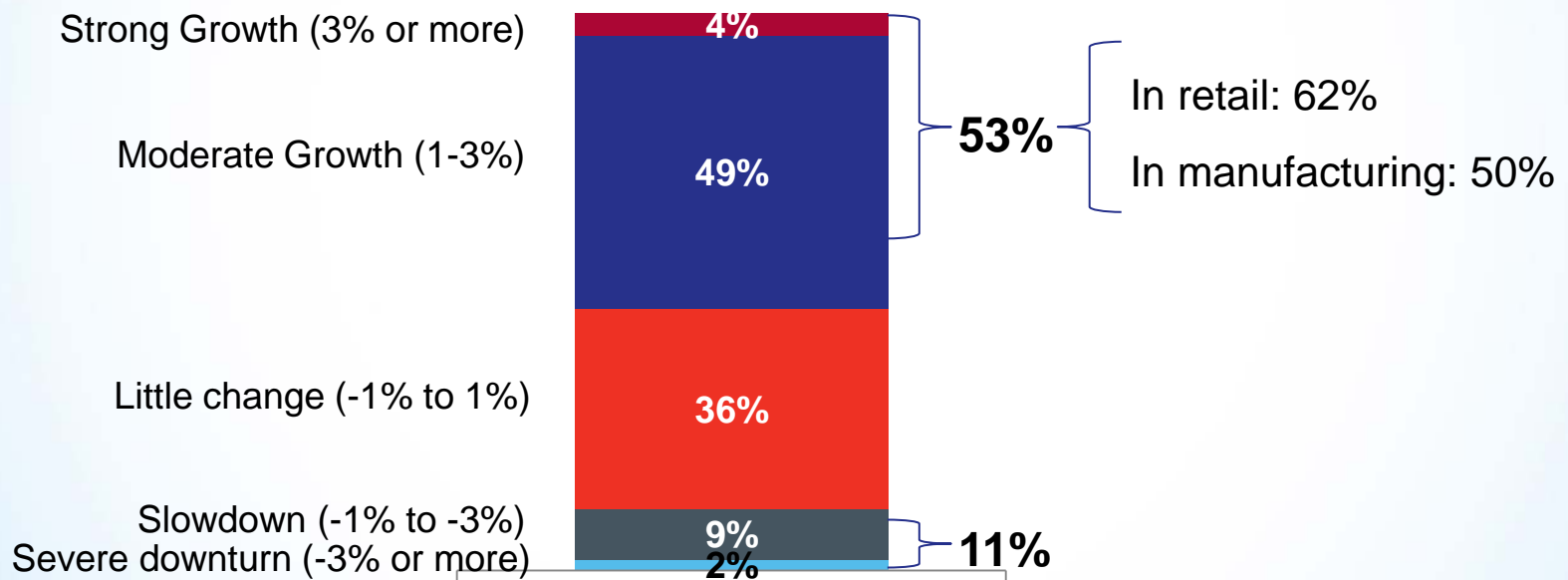
Q1'16 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

FIRMS PLAN TO INVEST.



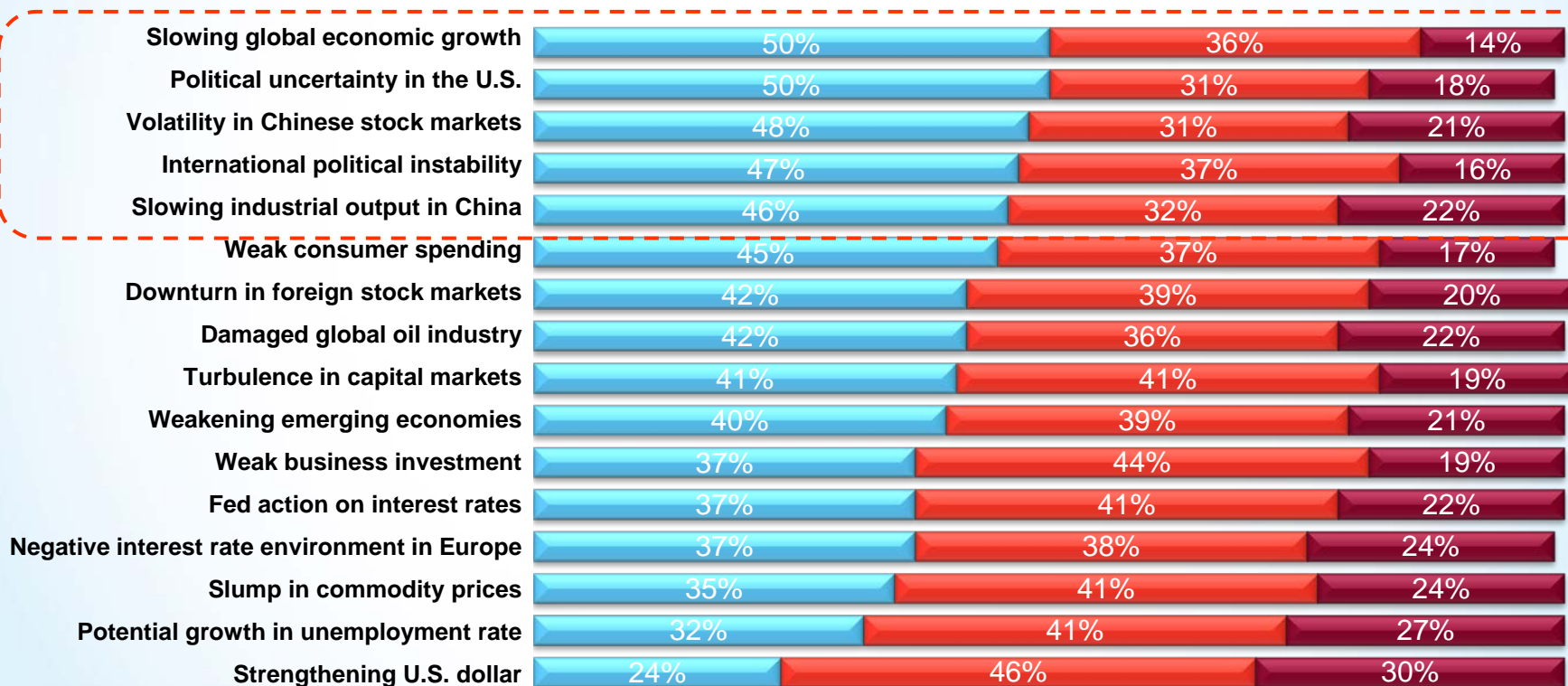
THE MIDDLE MARKET SEES ECONOMIC EXPANSION CONTINUING

Predicted 2016 U.S. Economic Performance



WHAT COULD GO WRONG?

Level of Threat to U.S. Economy Over the Next 12 Months (Total Middle Market)



■ Serious Threat
(Top 2)

■ Middle Box

■ Not a Threat
(Bottom 2)

Q1'16 MIDDLE MARKET INDICATOR CHALLENGES

TALENT AND REGULATION ISSUES ARE TOP OF MIND FOR MIDDLE MARKET LEADERS

SHORT TERM CHALLENGES (Next 3 months)

INTERNAL CHALLENGES:

1. BUSINESS 62%
2. STAFF/EMPLOYEES 51%
3. COSTS 22%
4. GOVERNMENT 9%

EXTERNAL CHALLENGES:

1. BUSINESS 34%
2. GOVERNMENT 21%
3. COMPETITION 20%
4. ECONOMY 16%
5. COSTS 14%

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:

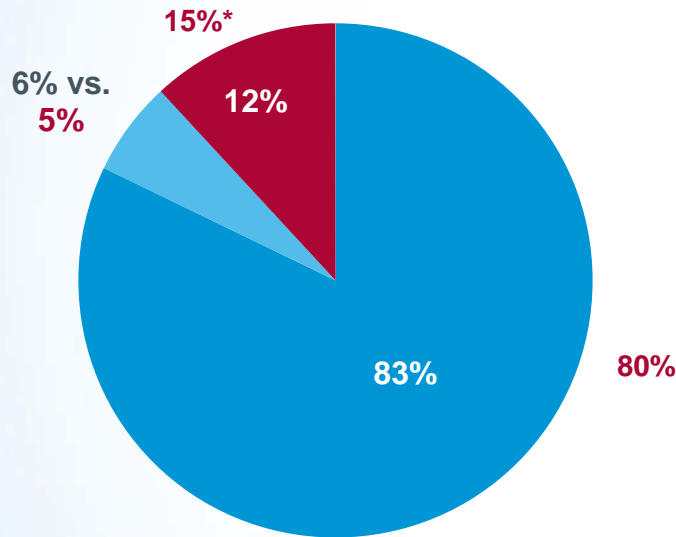
1. STAFF/EMPLOYEES 40%
2. BUSINESS 40%
3. COSTS 15%
4. GOVERNMENT 4%

EXTERNAL CHALLENGES:

1. BUSINESS 26%
2. GOVERNMENT 20%
3. COMPETITION 14%
4. ECONOMY 14%
5. COSTS 13%

Q1'16 MIDDLE MARKET INDICATOR CURRENT WORKFORCE CONDITIONS

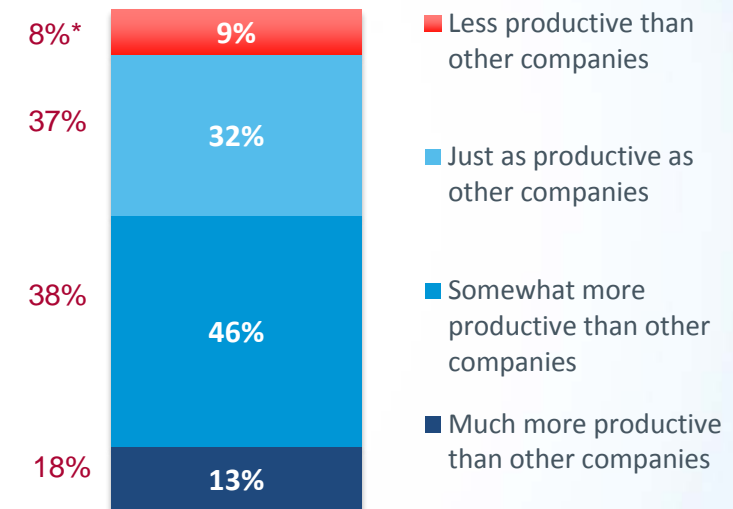
SIZE OF CURRENT WORKFORCE



- Just about right
- Excessive based on current market conditions
- Insufficient for current market conditions

*Q4'15

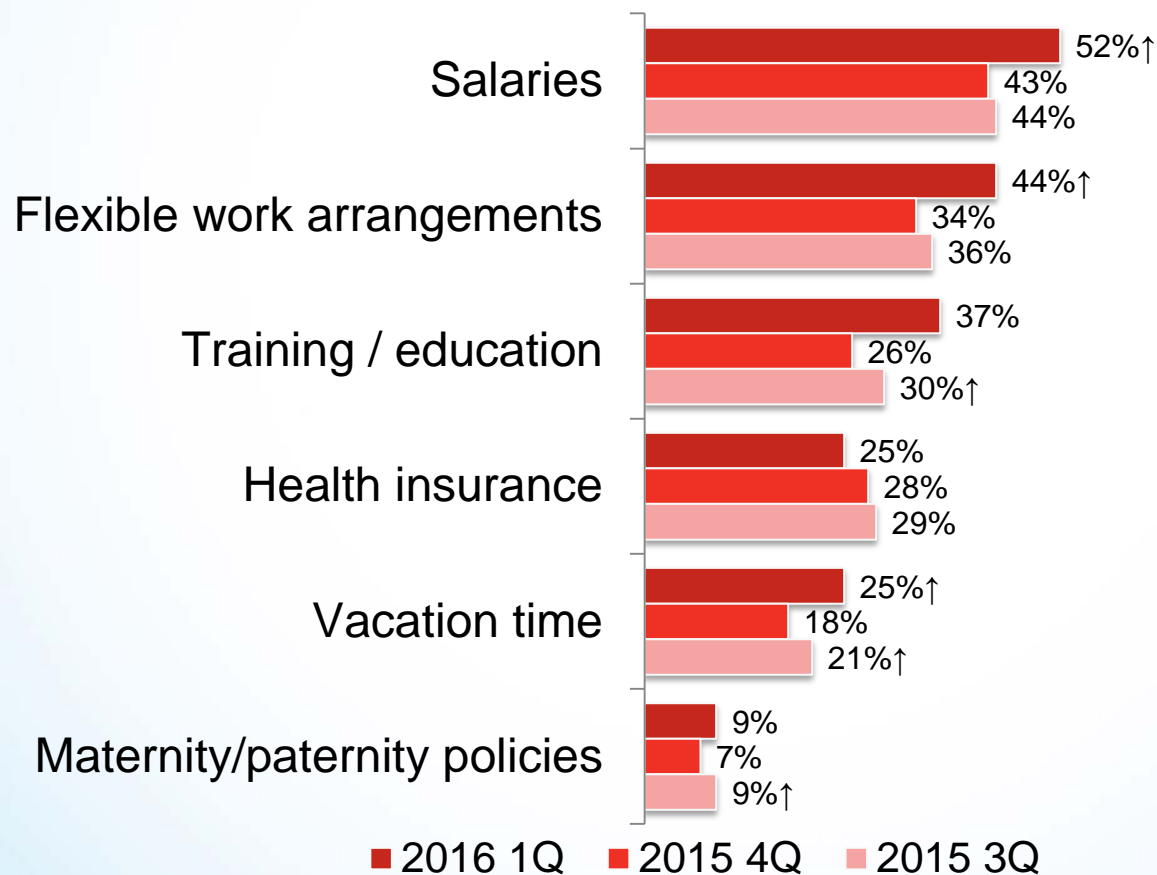
PRODUCTIVITY OF CURRENT WORKFORCE



The overwhelming majority of MM firms feel their workforce is the right size for current market conditions, and about half say their workers are more productive than workers at other companies in the same industry.

MIDDLE MARKET EXECUTIVES ARE MORE OPEN TO WAGE INCREASES

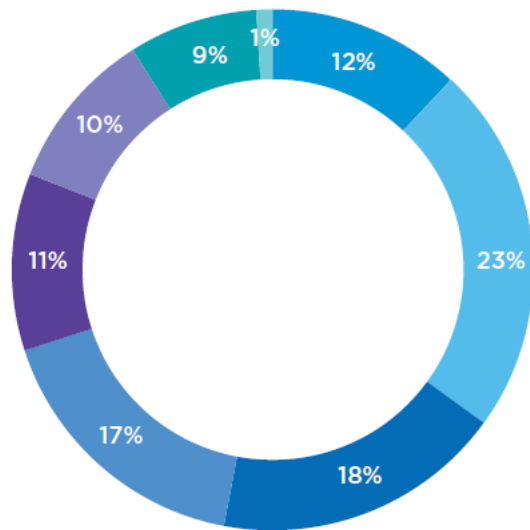
Top 2 Areas Under Consideration for Improving Talent Retention



SALESFORCE EFFECTIVENESS

STRONG SALES MANAGEMENT DRIVES MIDDLE MARKET SUCCESS

OVERALL CONTRIBUTION TO ORGANIZATIONAL SUCCESS

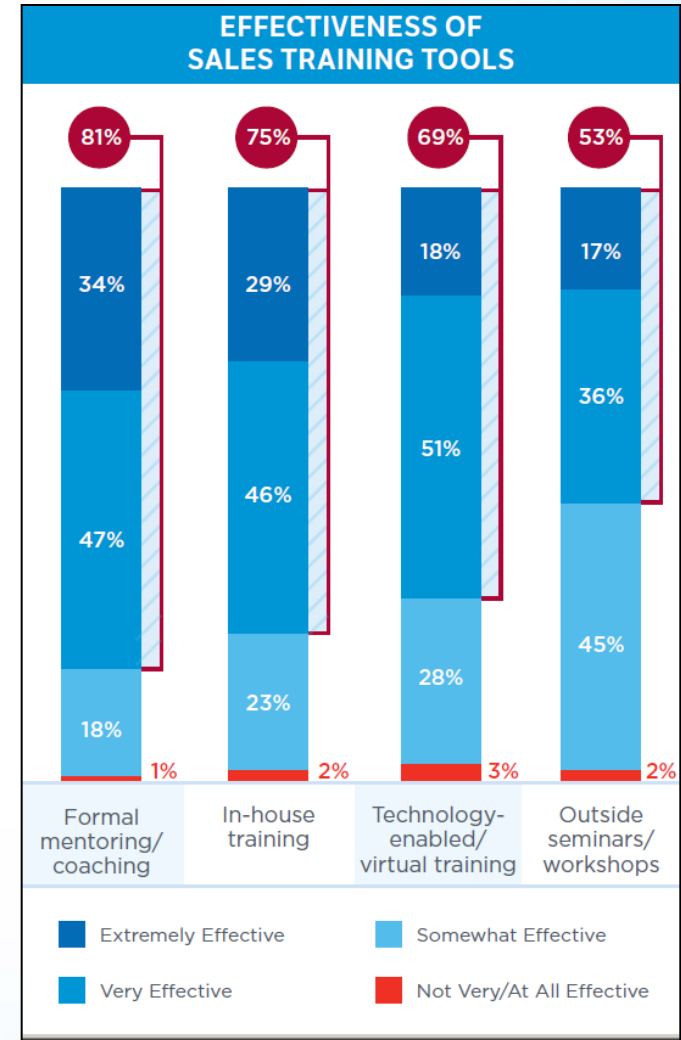


SALES FORCE EFFECTIVENESS ON CUSTOMER ACQUISITION PROCESS (% RATED EXCELLENT/VERY GOOD)

	HIGH-GROWTH FIRMS	ALL OTHER FIRMS
Maintaining customers	85%	72%
Developing customers	81%	61%
Prospecting and capturing customers	72%	60%

CLEAR OPPORTUNITIES EXIST TO IMPROVE SALES FORCE EFFECTIVENESS

SALES FORCE PERFORMANCE RATINGS (% RATED EXCELLENT/VERY GOOD)		
	HIGH-GROWTH FIRMS	ALL OTHER FIRMS
Knowledgeable sales force	80%	66%
High quality sales force	77%	60%
Sales force's ability to drive the business	73%	52%
Manageable turnover rate among the sales force	72%	55%
Effective management of the sales force	69%	55%
Effective utilization of technology by the sales force	65%	50%
Sales force's ability to build new markets	64%	47%



FLAGSHIP RESEARCH FOCUSING ON KEY CHALLENGES

DIGITIZATION

How Digital Are You?
Middle Market Digitization Trends
and How Your Firm Measures Up

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND BASENTO
WITH RAULIN ODEJO OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS
AND SAO THOMAS OF METROPOLITAN POLICY PROGRAM

NATIONAL CENTER FOR THE MIDDLE MARKET | The Ohio State University | Magenta | SUNTRUST | MetLife | MetLife Insurance Company of New York

LEADERSHIP

Building the Top Team
How Middle Market Firms Attract and Retain
the Top Talent that Fuels Their Success

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET WITH DR. LARRY INKS
AND DR. RAYMOND HOE OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

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GLOBALIZATION

**Accelerating Exports
in the Middle Market**
Global Opportunities for U.S. Firms and Metro Areas

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET
AND THE BROOKINGS METROPOLITAN POLICY PROGRAM

Report Authors: David W. Foray, Professor of Economics and Global Trade, TradePolicy.org
Brookings: Dr. Peter A. Klenz, Senior Advisor, Metropolitan Policy Program
Global Exporter: Professor of International Business, University of Southern California
Thomas A. Stewart: Director of the National Center for the Middle Market

NATIONAL CENTER FOR THE MIDDLE MARKET | Metropolitan Policy Program @ BROOKINGS

SALES

The Force Is With You
Building a Highly Effective Sales Organization

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET
AND THE AMERICAN MARKETING ASSOCIATION
WITH DEBBE MARSHALL, CHARLES SARGOOD CHAIR OF MARKETING AND STRATEGY,
CRIMMER GRADUATE SCHOOL OF BUSINESS, WISCONSIN COLLEGE

IN FULL COOPERATION WITH:

The Ohio State University | SUNTRUST | Great Thread | CIBC

INNOVATION

**Organizing for Innovation
in the Middle Market**
Creating Ideas and Capturing Value

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND
CHERRY BUCKLEY LLP WITH DR. MICHAEL LEVINE OF THE OHIO STATE UNIVERSITY
CENTER FOR INNOVATION AND ENTREPRENEURSHIP

NATIONAL CENTER FOR THE MIDDLE MARKET | The Ohio State University | THInc | CherryBuckley | The Ohio State University

LEADERSHIP

**GREATNESS
IS A CHOICE**

HOW MIDDLE MARKET COMPANIES CAN SET THEMSELVES ON THE ROAD
TO SUPERIOR RESULTS, DISTINCTIVE IMPACT, AND ENDURING SUCCESS

AN EXCLUSIVE CONVERSATION WITH
JIM COLLINS

NATIONAL CENTER FOR THE MIDDLE MARKET | In Collaboration With: The Ohio State University | US Capital

OPERATIONS

The Operations Playbook
A Systematic Approach for Achieving and
Maintaining Operations Excellence

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND DR. PETER WARD
OF THE FISHER COLLEGE OF BUSINESS CENTER FOR OPERATIONAL EXCELLENCE

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TALENT MANAGEMENT

It's About People:
How Performance Management Helps
Middle Market Companies Grow Faster

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET, WITH DR. RAYMOND HOE AND
DR. LARRY INKS OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

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