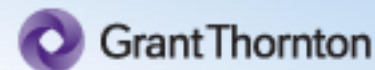


Q1'17 MIDDLE MARKET INDICATOR | ACG WEBINAR | May 3, 2017

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q1'17 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



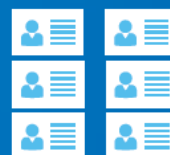
OF U.S. JOBS—
APPROXIMATELY
45.6 MILLION



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

NATIONAL CENTER FOR THE MIDDLE MARKET

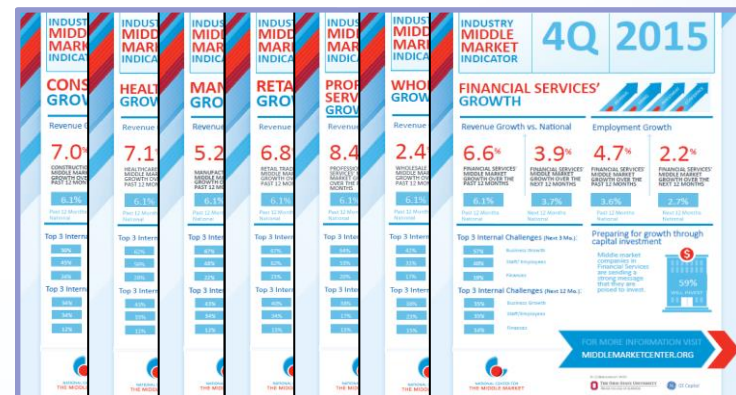
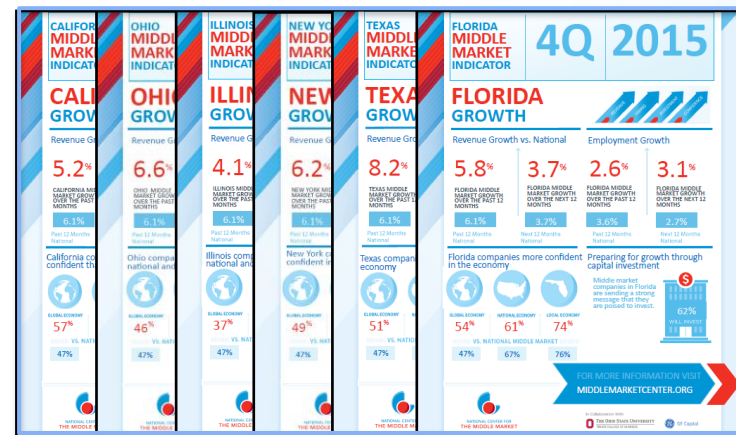
1Q 2017

MIDDLE MARKET INDICATOR

UNPRECEDENTED GROWTH, CONFIDENCE & OPTIMISM

The Ohio State University
SUNTRUST
Grant Thornton
PwC

Cut by Geography and Industry



Q1'17 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** BY A SUBSTANTIAL MARGIN, THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION
- 2** THE MIDDLE MARKET KICKED OFF 2017 WITH RECORD HIGH JOB CREATION AND REVENUE GROWTH, FUELED IN PART BY A SURGE IN M&A ACTIVITY
- 3** EXPECTATIONS FOR GROWTH AND JOB CREATION IN THE COMING YEAR ARE ALSO STRONG
- 4** CONFIDENCE IN THE U.S. AND LOCAL ECONOMIES HIT RECORD HIGHS; GLOBAL CONFIDENCE HAS REBOUNDED

Q1'17 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

9.2%

PAST 12 MONTHS

5.8%
S&P 500

8.8%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

7.5%

PAST 12 MONTHS

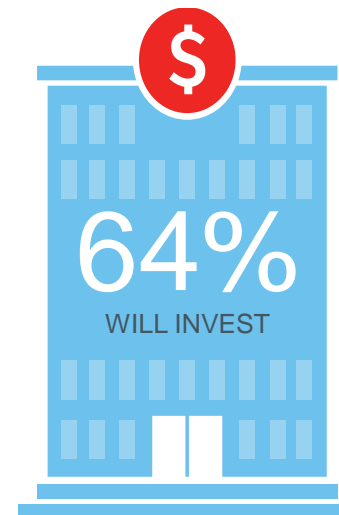
1.4% SMALL BUSINESS
1.6% LARGE BUSINESS

6.0%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

77%

GLOBAL ECONOMY



90%

NATIONAL ECONOMY



88%

LOCAL ECONOMY



Q1'17 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

9.2%

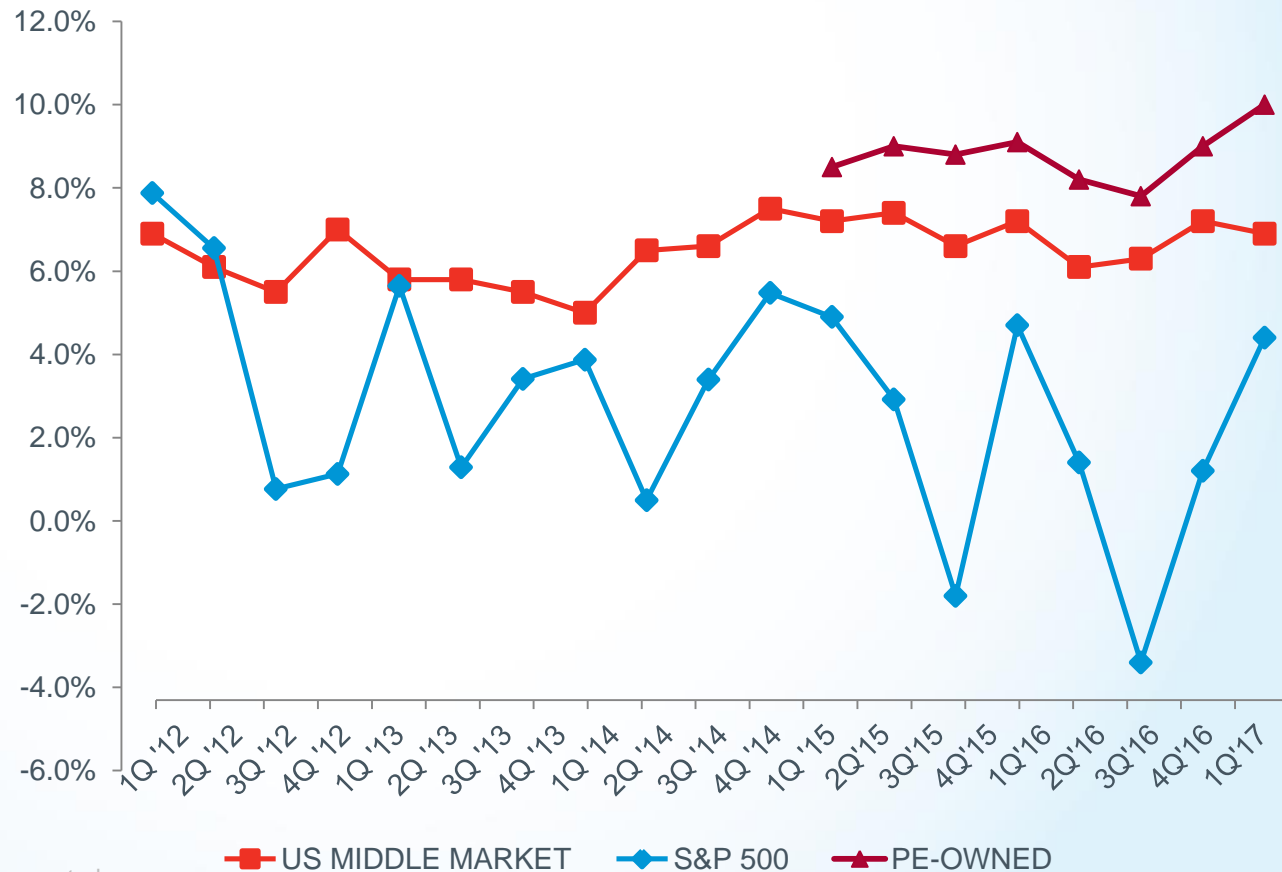
U.S. MIDDLE MARKET

14.0%

PE-OWNED FIRMS

5.8%

S&P 500*

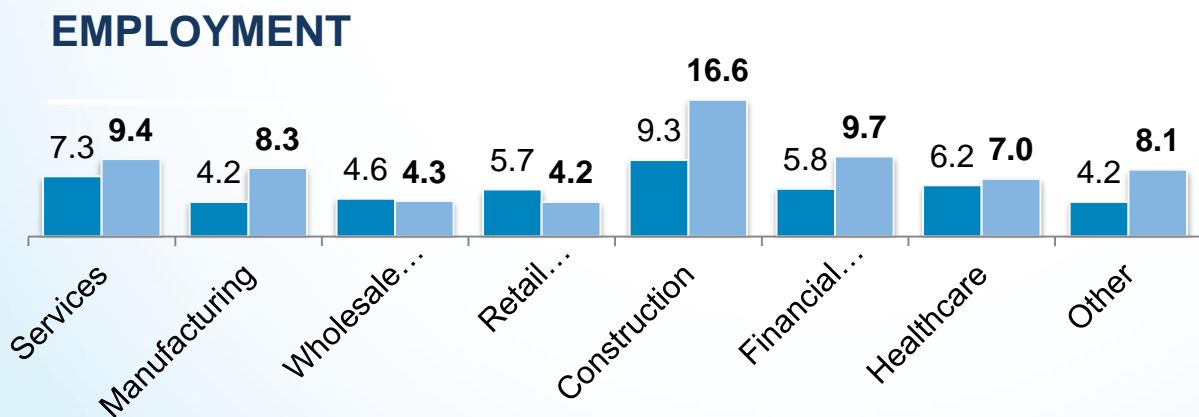
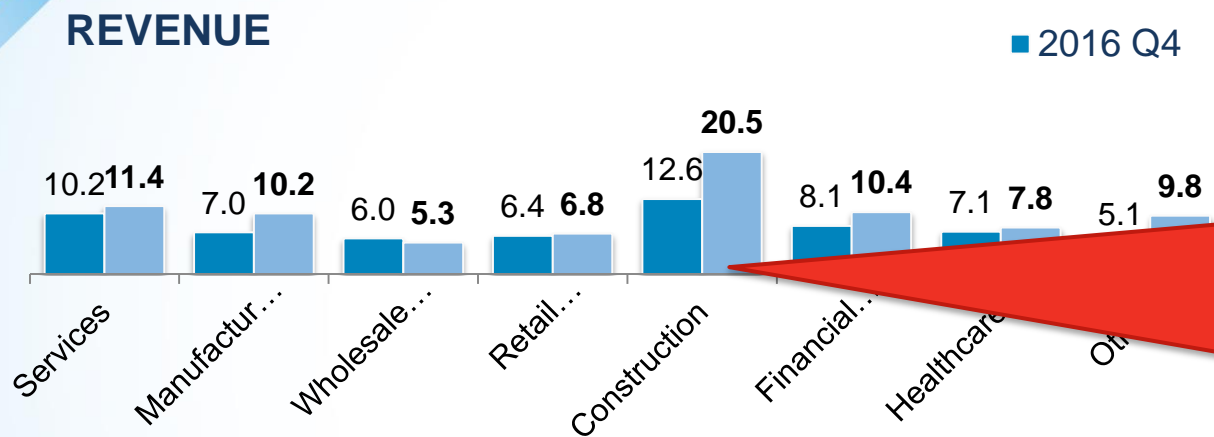


Source: 1Q'17 Middle Market Indicator Report
*1Q numbers include only companies who have reported.

DEAL-MAKING ACCELERATED MIDDLE MARKET GROWTH

	Made Acquisition Past Year	No Acquisition Past Year
Mean revenue growth	15.0%	7.3%
Mean employment growth	11.2	6.3
Projected revenue growth	12.6	7.5
Projected employment growth	8.9	5.1

CONSTRUCTION COMPANIES GREW ESPECIALLY FAST











- **49 %** expanded into new markets
- **34%** acquired another company (vs 17% the year before)
- Excluding construction, middle market growth was **8.4%**

THE RISING TIDE LIFTED ALMOST ALL BOATS

	1Q 2017	1Q 2016
Performance improved	70%	60%
Performance was unchanged	25	34
Performance deteriorated	5	6

Q1'17 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>	11.4%	10.4%	 <p>CONSTRUCTION</p>	20.5%	18.9%
 <p>MANUFACTURING</p>	10.2%	7.9%	 <p>FINANCIAL SERVICES</p>	10.4%	9.9%
 <p>WHOLESALE TRADE</p>	5.3%	6.9%	 <p>HEALTHCARE</p>	7.8%	6.3%
 <p>RETAIL TRADE</p>	6.8%	6.9%	 <p>OTHER</p>	9.8%	9.0%

Q1'17 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

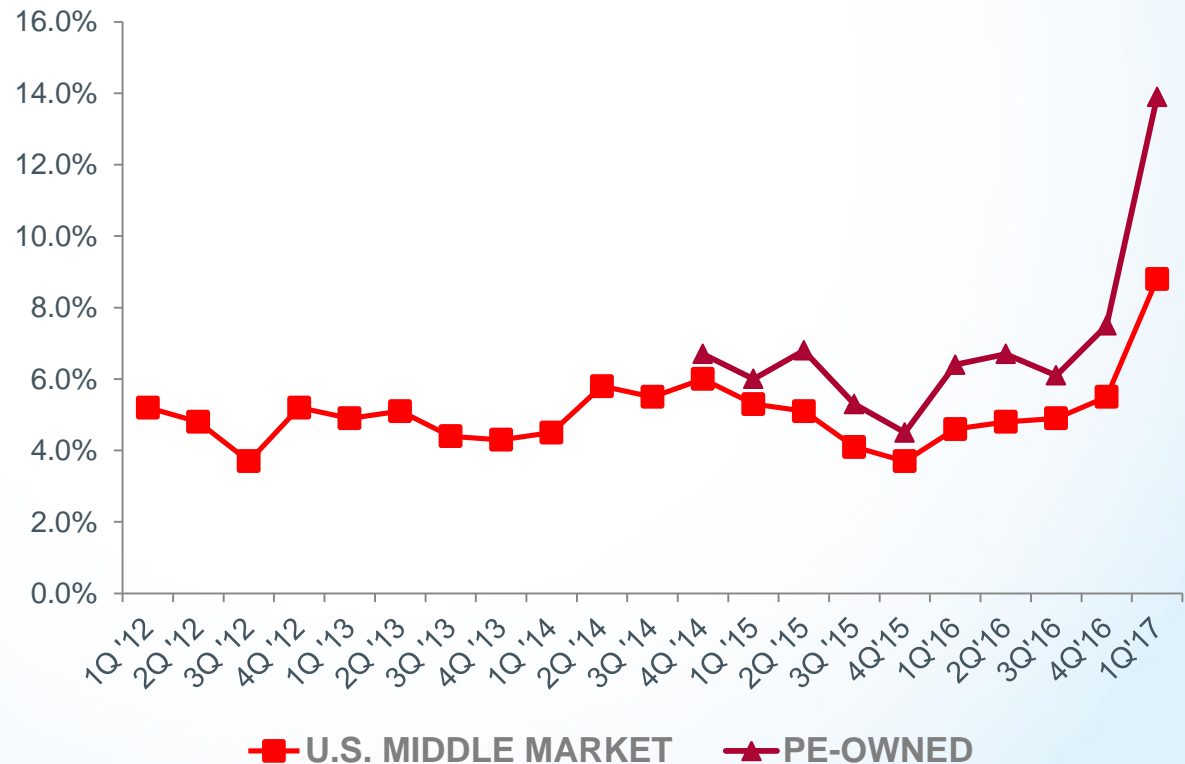
NEXT 12 MONTHS

8.8%

U.S. MIDDLE MARKET

13.9%

PE-OWNED FIRMS



Q1'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

7.5%

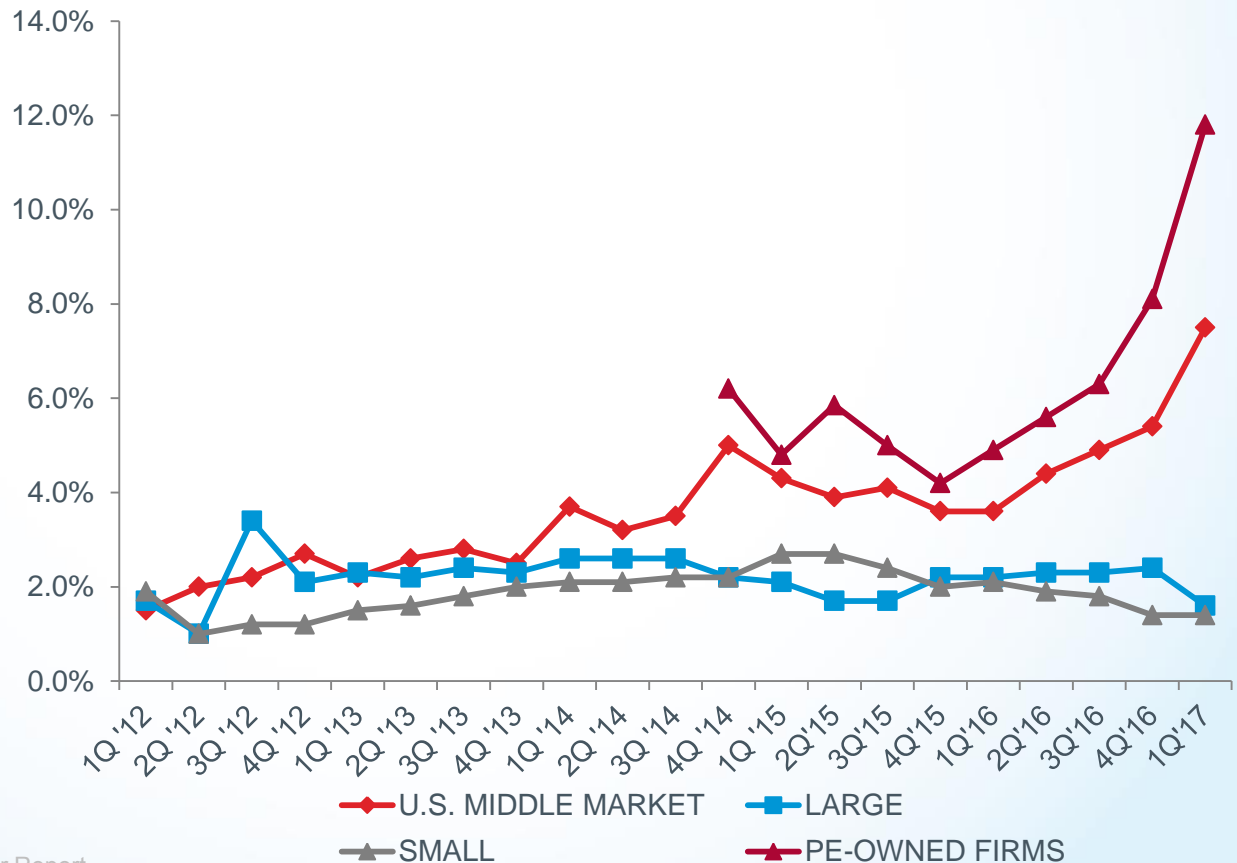
U.S. MIDDLE MARKET

1.4%
SMALL
BUSINESS

1.6%
LARGE
BUSINESS

11.8%

PE-OWNED FIRMS



Q1'17 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q1'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

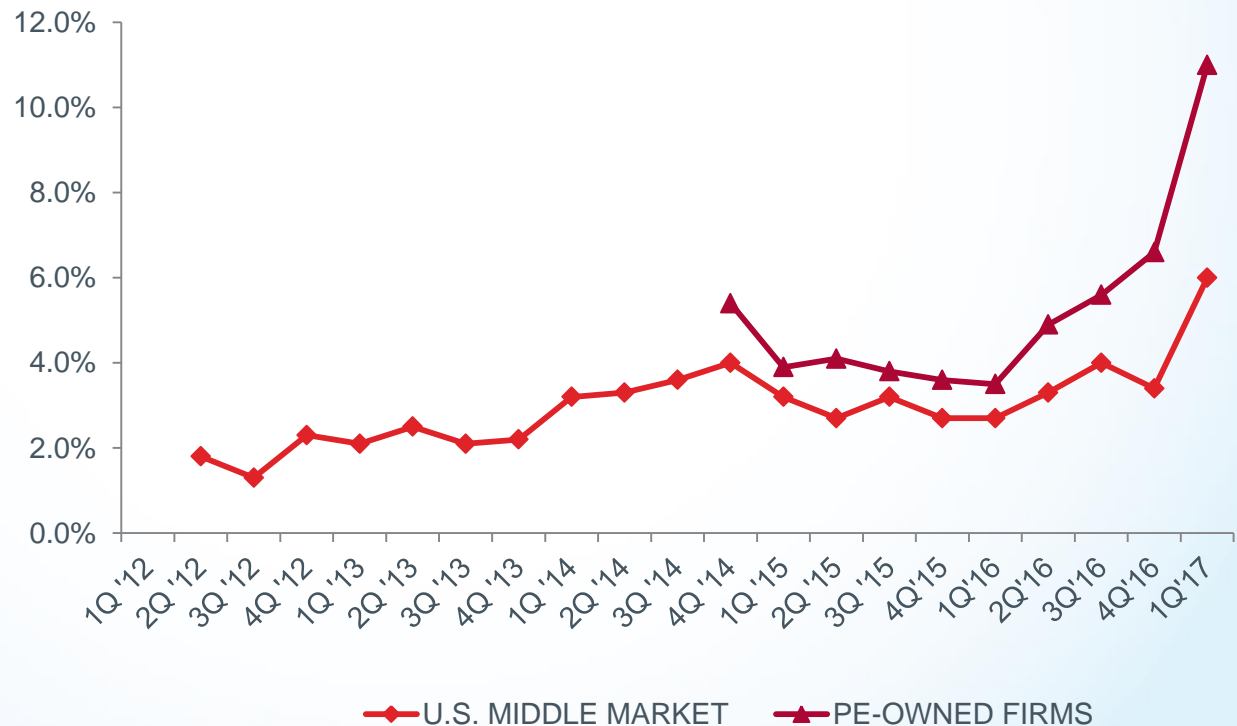
NEXT 12 MONTHS

6.0%

U.S. MIDDLE MARKET

11.0%

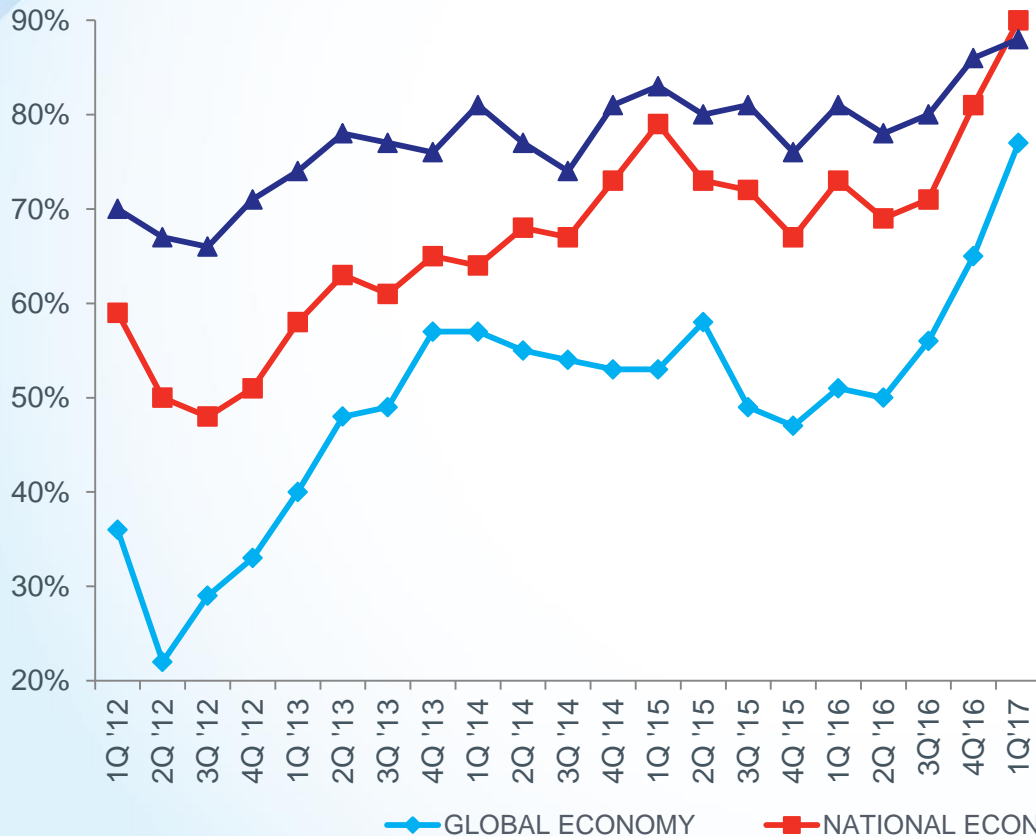
PE-OWNED FIRMS



CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q1'17 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE AT RECORD HIGHS

Confidence Up Across The Board



GLOBAL ECONOMY

77%

85% PE-OWNED



U.S. ECONOMY

90%

89% PE-OWNED



LOCAL ECONOMY

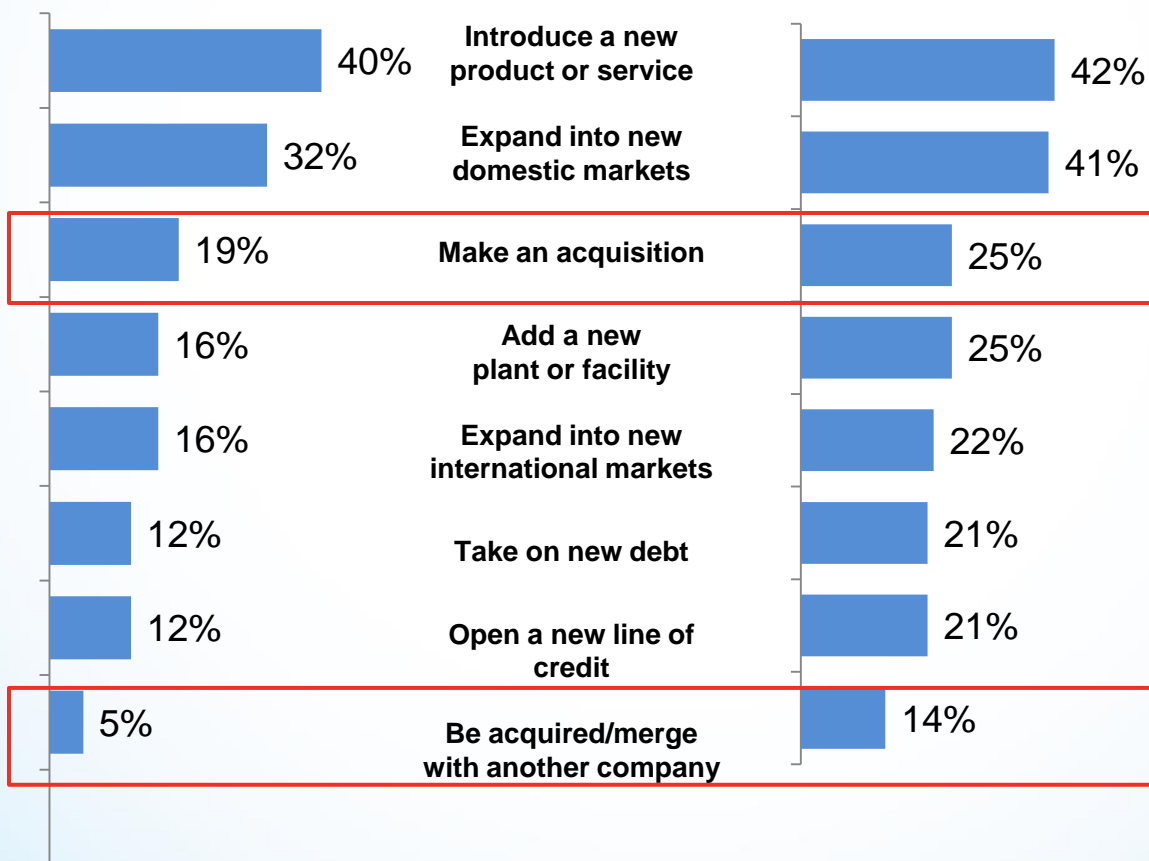
88%

91% PE-OWNED

EXECUTIVES FORESEE MORE DEAL-MAKING IN 2017

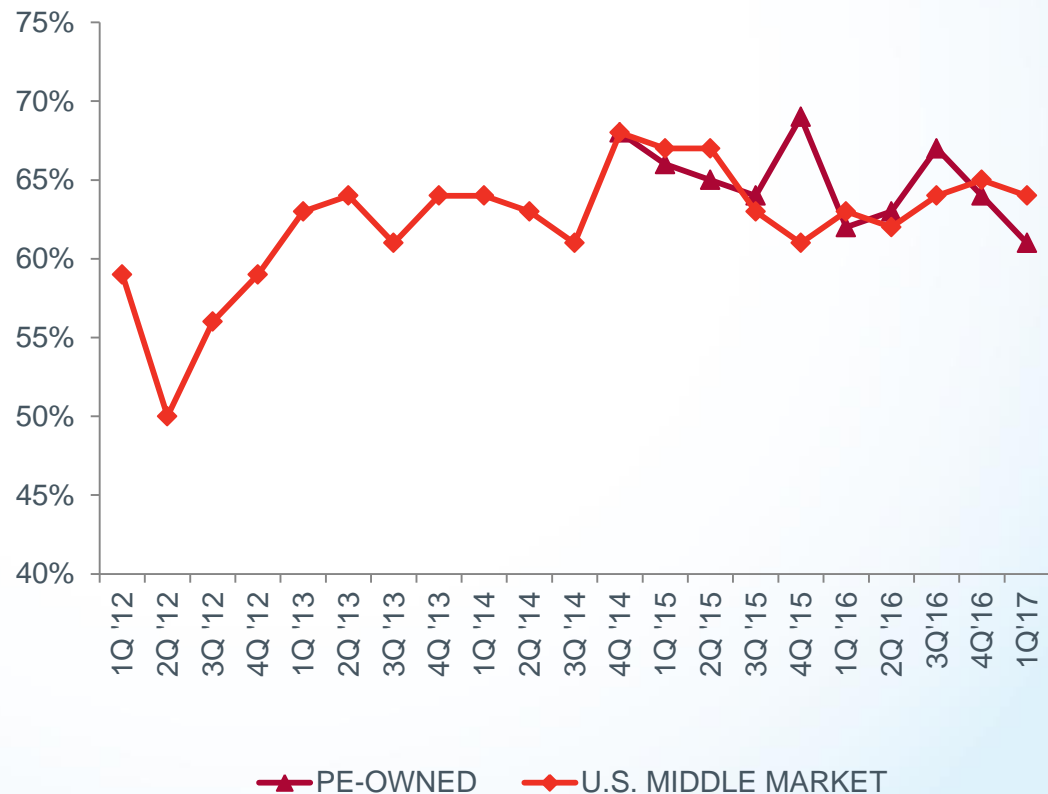
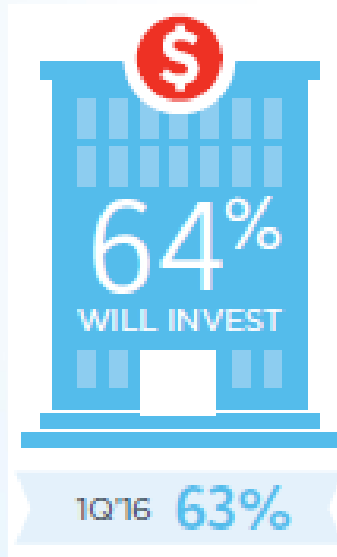
Past 12 Months

Extremely/Very Likely in Next 12 Months



Q1'17 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

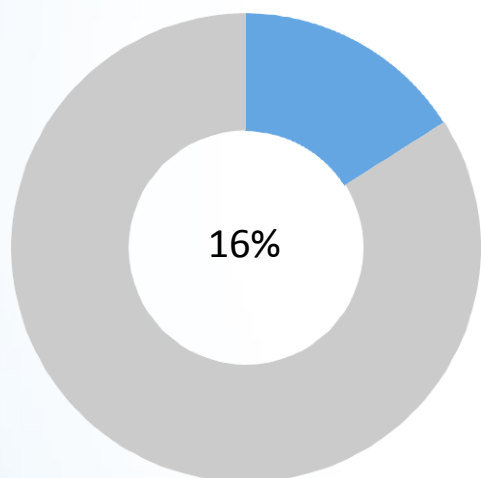
FIRMS PLAN TO INVEST.



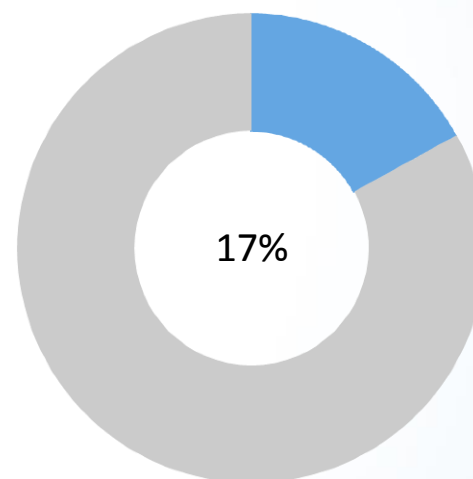
MIDDLE MARKET CAP EX PLANS ARE ROBUST AND CONSISTENT

% of Revenue Invested in Capital Expenditures

Last 3 years



Next 3 years

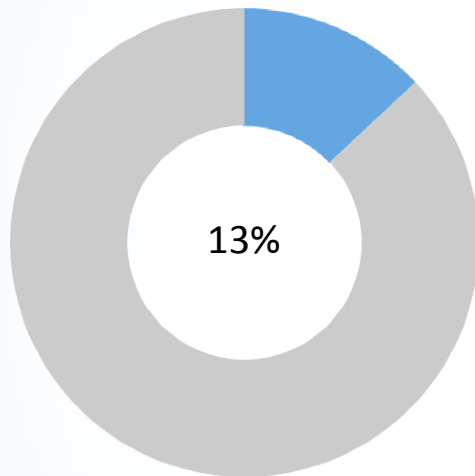


Revenue		
\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
15	13	20

Revenue		
\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
16	16	20

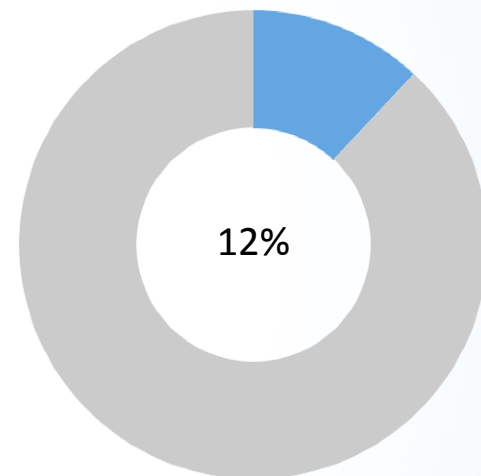
DEPRECIATION AND INTEREST DEDUCTIBILITY HELP FUND INVESTMENT

Depreciation Accounted for Each Year as Percentage of Revenue



Revenue		
\$10M - <\$50M	\$50M - <\$100M	\$100M - < \$1B
11	12	16

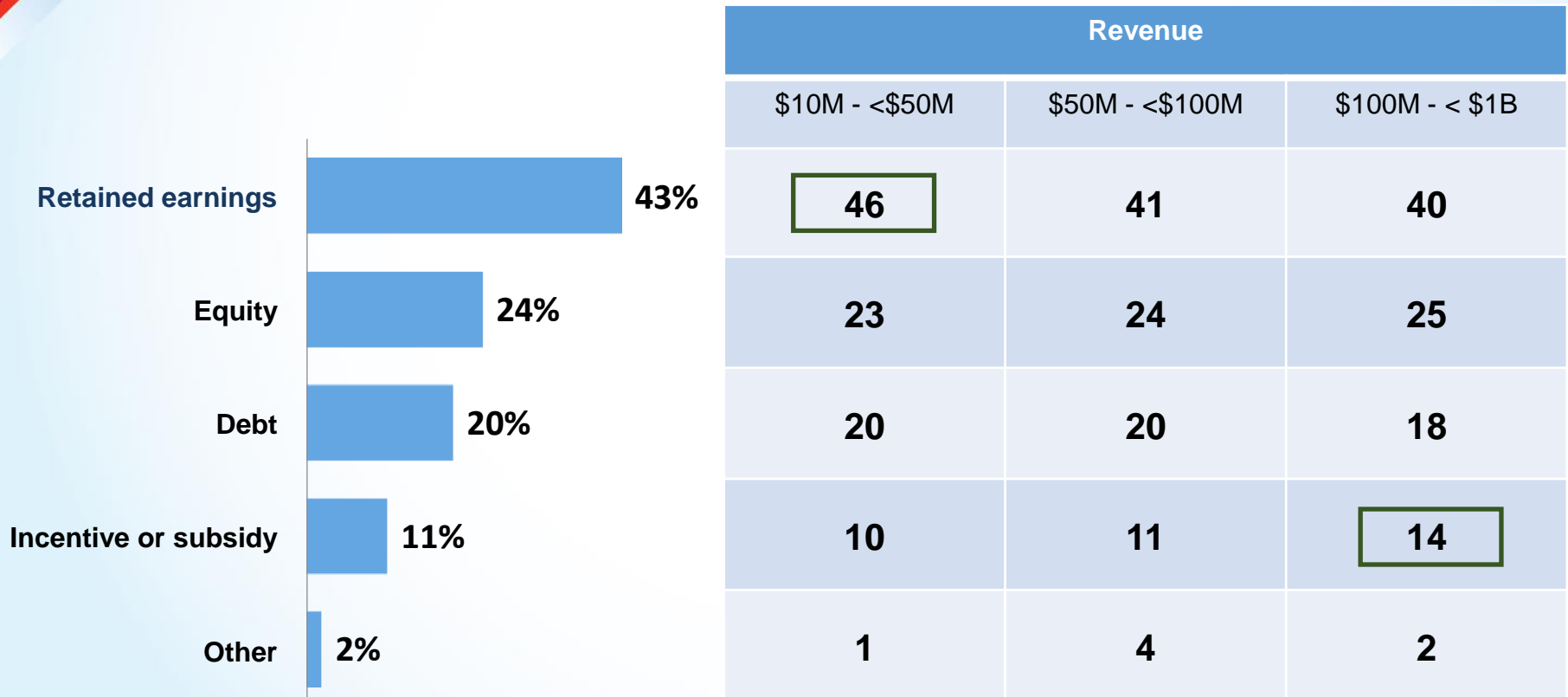
Interest Deducted Each Year as Percentage of Revenue



Revenue		
\$10M - <\$50M	\$50M - <\$100M	\$100M - < \$1B
10	11	14

RETAINED EARNINGS ARE THE BIGGEST SOURCE OF FUNDS FOR CAP EX

Funding of Capital Expenditures



Q1'17 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 **64%**
2. STAFF/EMPLOYEES **53%**
3. COSTS **24%**

EXTERNAL CHALLENGES:

1. BUSINESS **37%**
2. GOVERNMENT **25%**
3. COMPETITION **20%**
4. ECONOMY **15%**
5. COSTS **14%**

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:

1. BUSINESS **40%**
2. STAFF/EMPLOYEES **40%**
3. COSTS **17%**

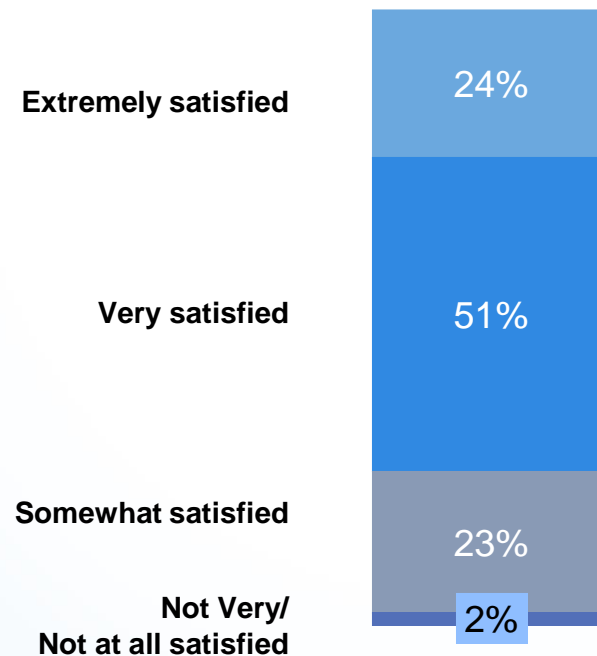
EXTERNAL CHALLENGES:

1. BUSINESS **30%**
2. GOVERNMENT **23%**
3. COMPETITION **16%**
4. COSTS **13%**
5. ECONOMY **12%**

RECENT RESEARCH IMPROVING CASH GENERATION

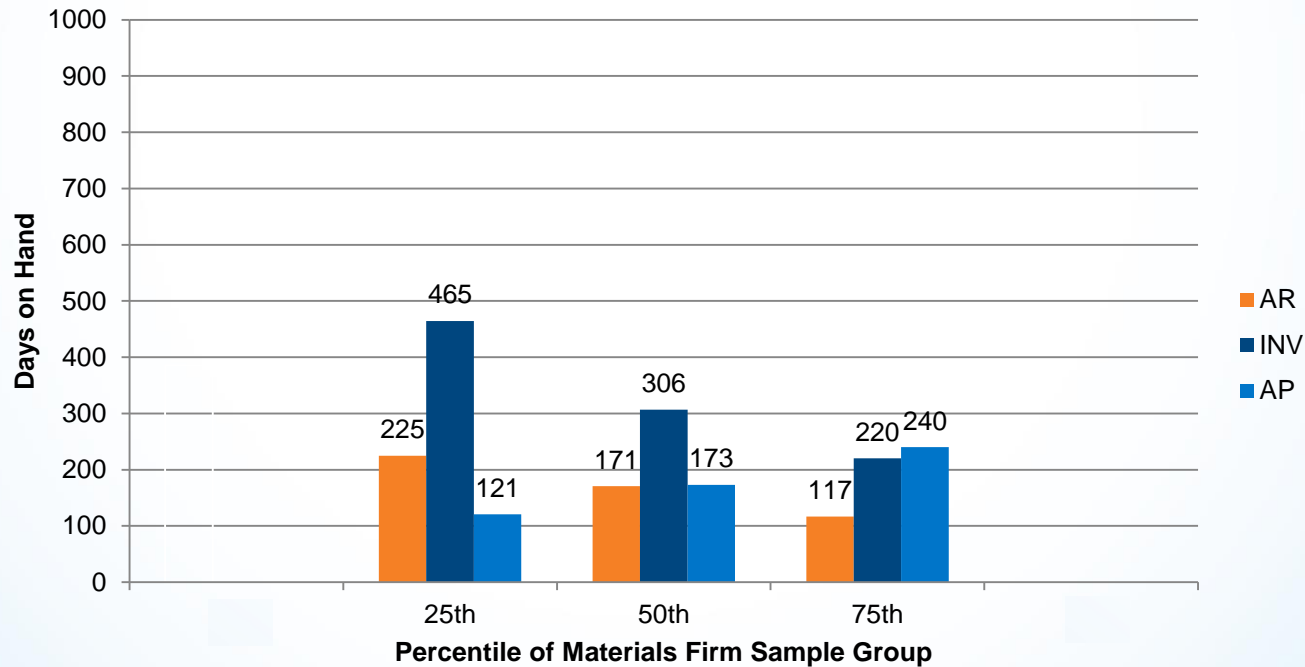
WORKING CAPITAL: MIDDLE MARKET EXECUTIVES ARE SATISFIED ...

Satisfaction with Working Capital Management



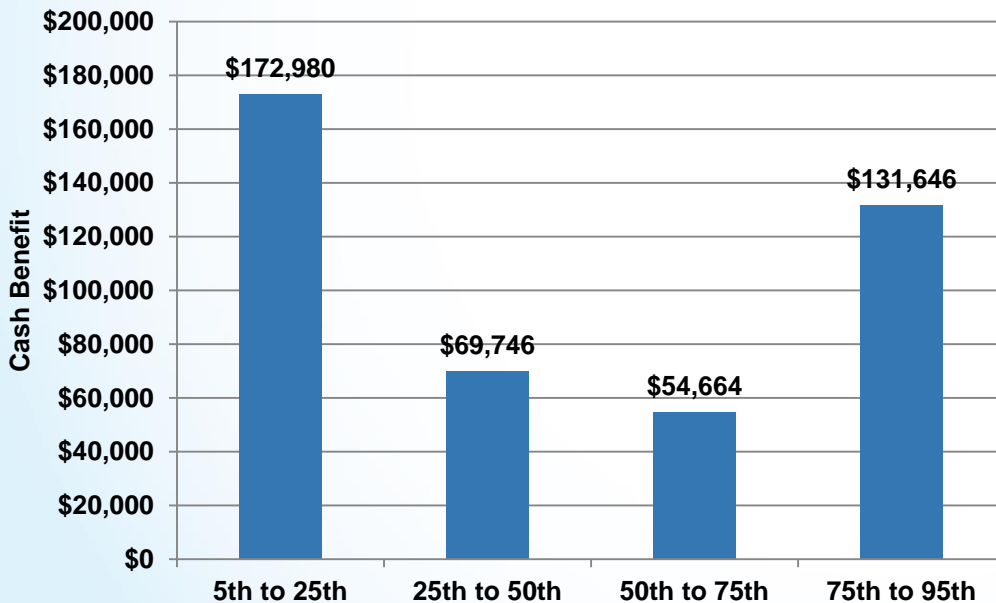
BUT THERE ARE HUGE DIFFERENCES IN WORKING CAPITAL MANAGEMENT ...

Working Capital Metrics of Materials Firms with \$100M-\$1B Revenue, 2016



... AND COMPANIES ARE TYING UP MILLIONS OF DOLLARS UNNECESSARILY

Improvement to Working Capital by Percentile Change*



Cash benefit of just one day's improvement*

A/R	\$274,000
Inventory	\$260,000
A/P	<u>\$260,000</u>
Total:	\$795,000

*Based on a \$100-million-in-sales materials company with average debt

THE NCMM'S NEW CYBERSECURITY RESOURCE CENTER

Dedicated to helping middle market companies manage cyber risks

Additional Support Glossary Contact RSS

NATIONAL CENTER FOR
THE MIDDLE MARKET

CYBERSECURITY RESOURCE CENTER

UNDERSTAND YOUR RISK

MANAGE THE HUMAN FACTOR

IMPLEMENT ROBUST PROCESSES

MAKE SMART TECHNOLOGY CHOICES

<http://cybersecuritycenter.middlemarketcenter.org/>



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