

Q2'15 MIDDLE MARKET INDICATOR WEBINAR | August 4, 2015

# THE MARKET THAT MOVES AMERICA

## FINDINGS FROM THE NCMM'S Q2'15 INDICATOR SURVEY

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



NATIONAL CENTER FOR  
THE MIDDLE MARKET

In Collaboration With



# 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



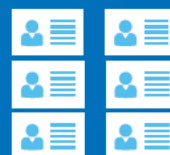
**1/3** OF U.S. JOBS—  
APPROXIMATELY  
**45.6 MILLION**



PROJECTED  
TO CREATE



**60%**  
OF ALL  
**NEW JOBS**  
IN 2014



2013-2014 CONTRIBUTED  
**1.1+ MILLION**  
**NEW JOBS**

# THE NATIONAL CENTER FOR THE MIDDLE MARKET



## ABOUT THE CENTER

---

Founded in 2011 in partnership with GE Capital and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the nation's first and foremost expert on the U.S. middle market. The Center's mission is to serve as the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy.

## 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

# REVISED SURVEY. NEW DATA.

## ABOUT THE MIDDLE MARKET INDICATOR (MMI)

---

The MMI surveys 1,000 executives (CEOs, CFOs, and other C-Suite executives) from the middle market's nearly 200,000 companies, focusing on their business capabilities and performance, growth drivers, and economic outlook. This quarter's MMI was fielded June 9th through June 18th. It is weighted to accurately reflect the size and geographic distribution of this sector, which includes companies with revenues between \$10 million and \$1 billion.

---

### Topics Include

- Gross revenue performance
- Overall company performance
- Employment performance
- Expected 12-month gross revenue and employment growth
- Confidence in the global, U.S., and local economies
- Key business challenges both internal and external as well as long term and short term
- Investment plans
- Outlook on hiring, the labor market, costs, sales, inventories, innovation, R&D spend, profitability and cost structure

### Q2'15 Special Questions:

- Infrastructure
- Workforce
- Digital Infrastructure
- Data Analytics

# Q2'15 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** WHILE YEAR-ON-YEAR GROWTH IS STABLE, THE MIDDLE MARKET APPEARS TO BE ENTERING A PERIOD OF DECLINING ACCELERATION
- 3** EXPECTATIONS FOR GROWTH AND JOB CREATION IN THE COMING YEAR REMAIN STRONG BUT ARE LOWER ACROSS MOST REVENUE SEGMENTS AND INDUSTRIES
- 4** CONFIDENCE IN U.S. AND LOCAL ECONOMIES REMAINS HIGH, BUT SOME CAUTION IS EVIDENT

# Q2'15 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

## REVENUE GROWTH

**6.6%**

PAST 12 MONTHS

**-1.8%**  
S&P 500  
PAST 12 MO.

**5.1%**

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

**3.9%**

PAST 12 MONTHS

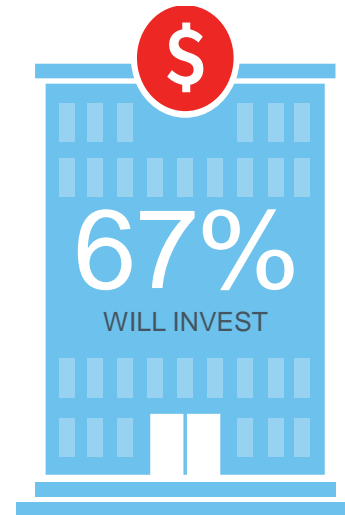
**2.7%** SMALL BUSINESS  
**1.8%** LARGE BUSINESS

**2.7%**

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

**58%**

GLOBAL ECONOMY



**73%**

NATIONAL ECONOMY



**80%**

LOCAL ECONOMY



# Q2'15 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

**6.6%**

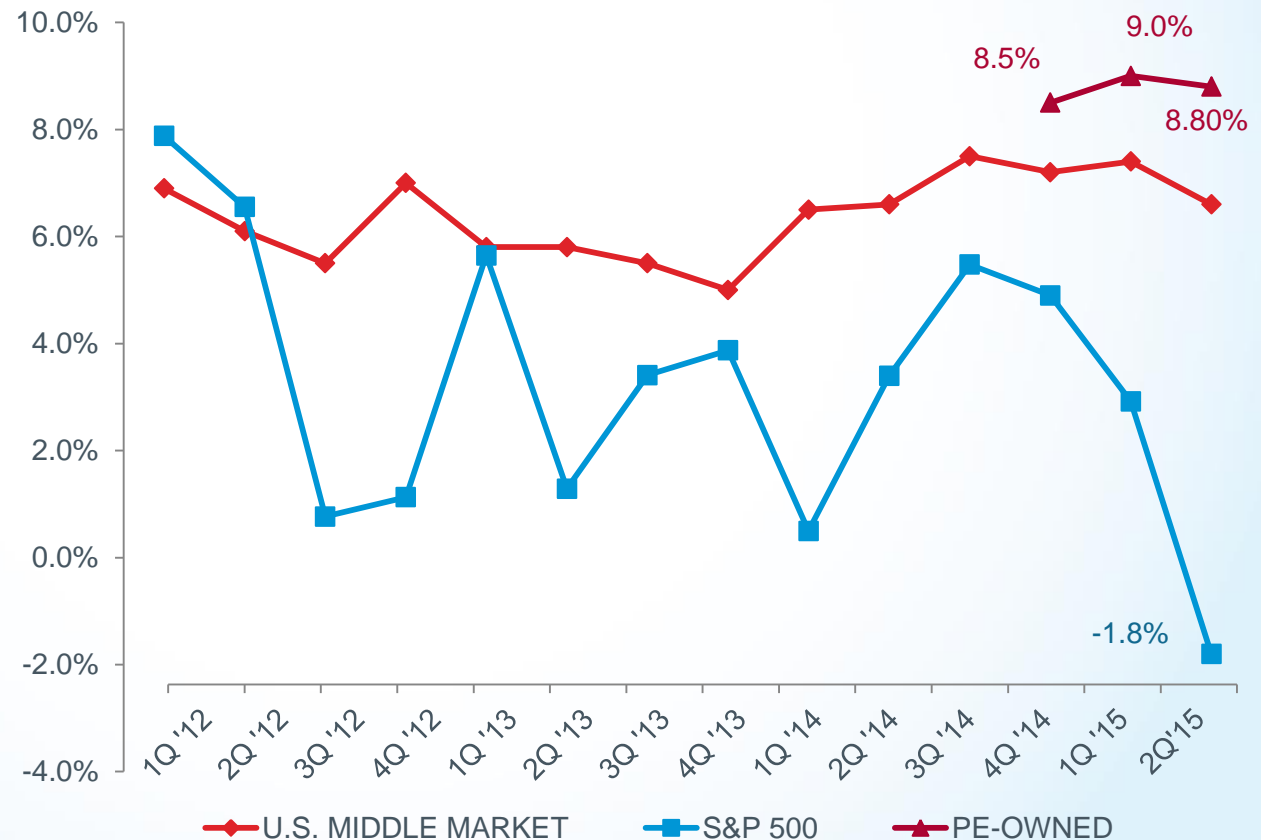
U.S. MIDDLE MARKET

**-1.8%**

S&P 500

**8.8%**

PE-OWNED FIRMS





# Q2'15 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH

	REVENUE GROWTH			REVENUE GROWTH	
	PAST 12 MONTHS	NEXT 12 MONTHS		PAST 12 MONTHS	NEXT 12 MONTHS
 <p><b>SERVICES</b></p>	7.7%	5.1%	 <p><b>CONSTRUCTION</b></p>	8.4%	7.3%
 <p><b>MANUFACTURING</b></p>	6.9%	6.2%	 <p><b>FINANCIAL SERVICES</b></p>	8.5%	5.2%
 <p><b>WHOLESALE TRADE</b></p>	5.6%	3.7%	 <p><b>HEALTHCARE</b></p>	8.4%	6.4%
 <p><b>RETAIL TRADE</b></p>	6.0%	5.7%	 <p><b>OTHER</b></p>	5.3%	4.2%

# Q2'15 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

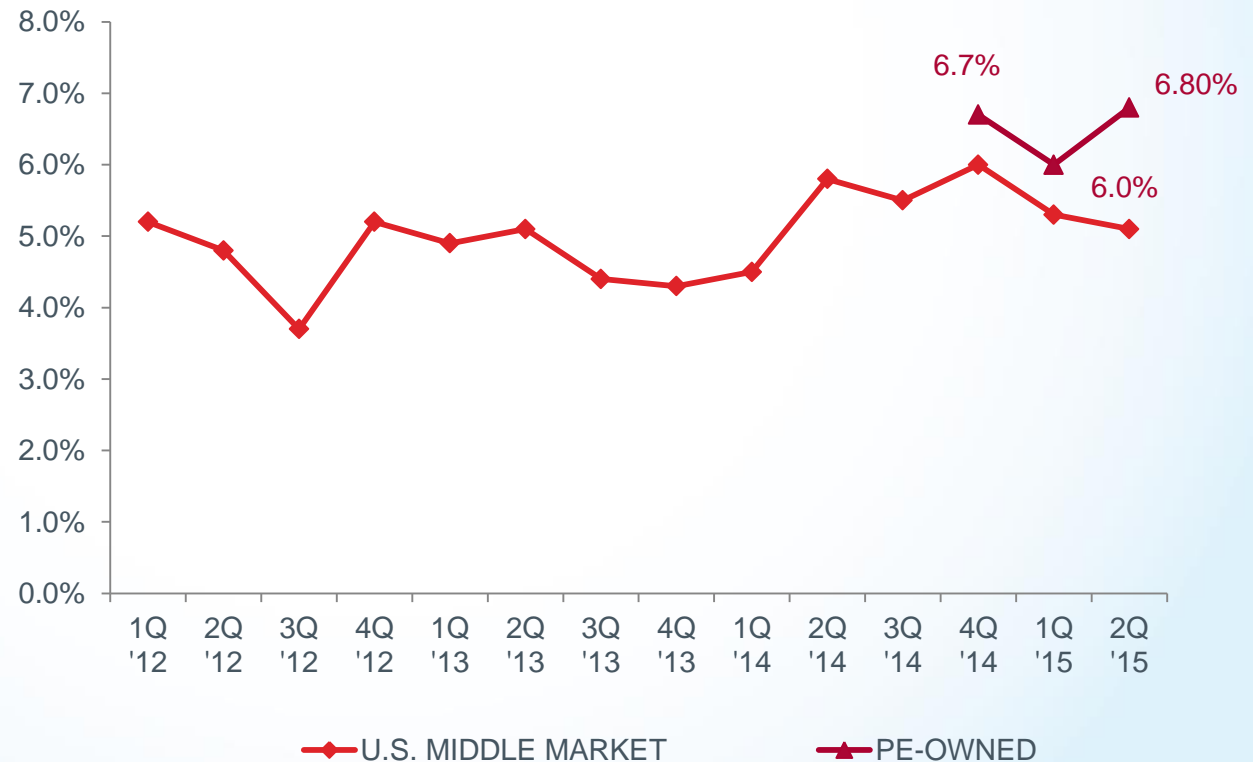
NEXT 12 MONTHS

**5.3%**

U.S. MIDDLE MARKET

**6.8%**

PE-OWNED FIRMS



# Q2'15 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

**3.9%**

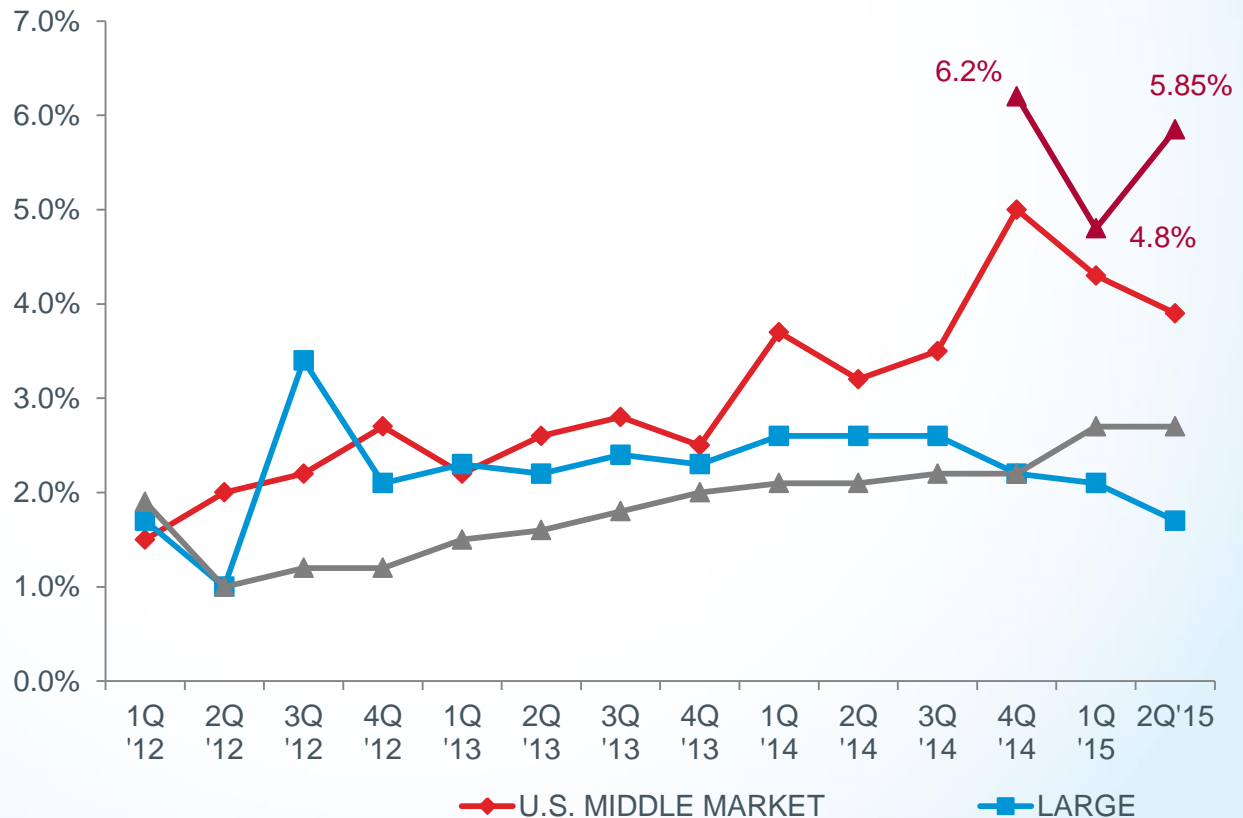
U.S. MIDDLE MARKET

2.7%  
SMALL  
BUSINESS

1.7%  
LARGE  
BUSINESS

**5.85%**

PE-OWNED FIRMS



# Q2'15 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH

		EMPLOYMENT GROWTH				EMPLOYMENT GROWTH	
		PAST 12 MONTHS	NEXT 12 MONTHS			PAST 12 MONTHS	NEXT 12 MONTHS
	<b>SERVICES</b>	4.5%	4.3%		<b>CONSTRUCTION</b>	6.5%	4.3%
	<b>MANUFACTURING</b>	4.0%	3.4%		<b>FINANCIAL SERVICES</b>	4.9%	3.4%
	<b>WHOLESALE TRADE</b>	3.1%	1.4%		<b>HEALTHCARE</b>	5.7%	5.0%
	<b>RETAIL TRADE</b>	2.9%	1.2%		<b>OTHER</b>	3.1%	2.6%

# Q2'15 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

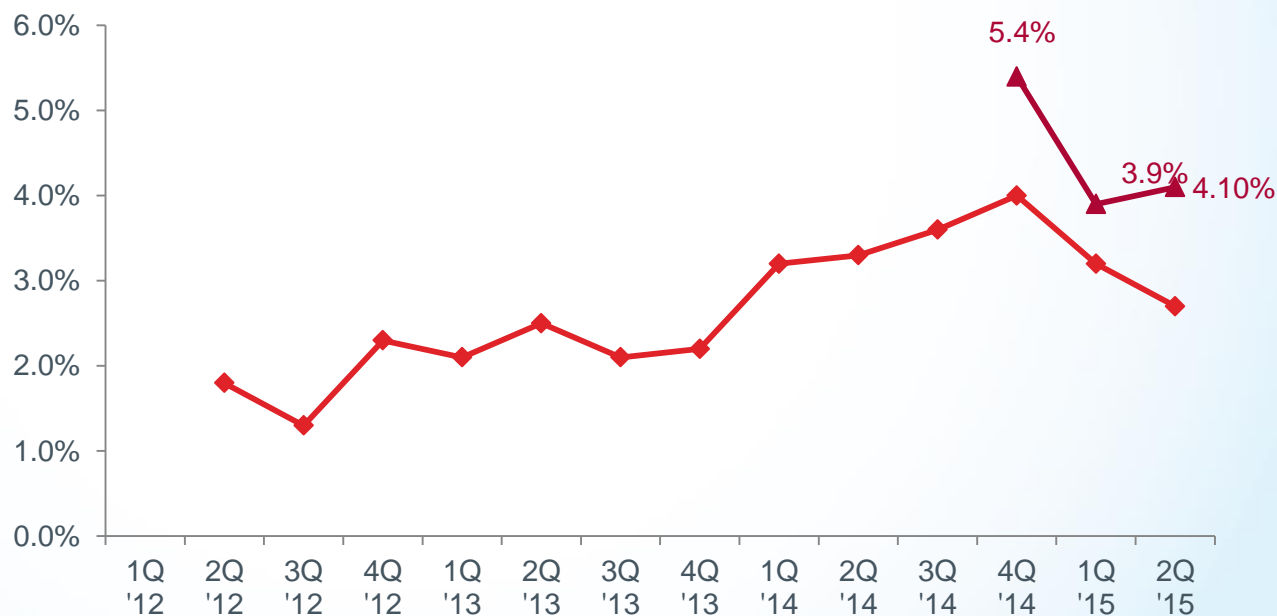
## NEXT 12 MONTHS

# 2.7%

U.S. MIDDLE MARKET

# 4.1%

PE-OWNED FIRMS

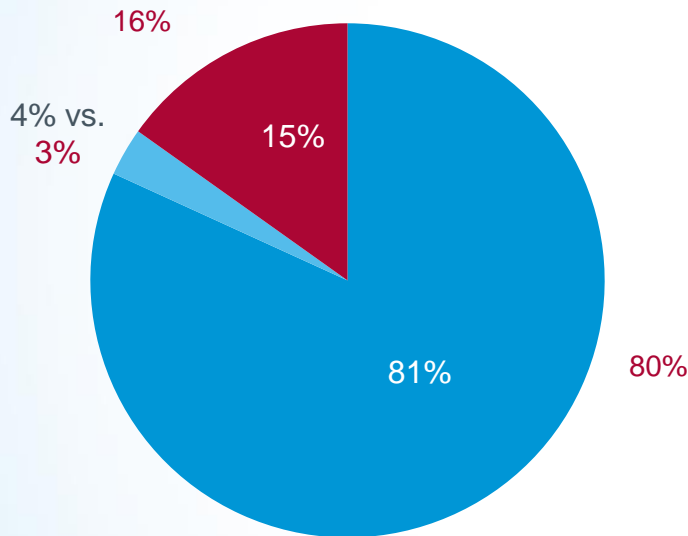


◆ U.S. MIDDLE MARKET

▲ PE-OWNED FIRMS

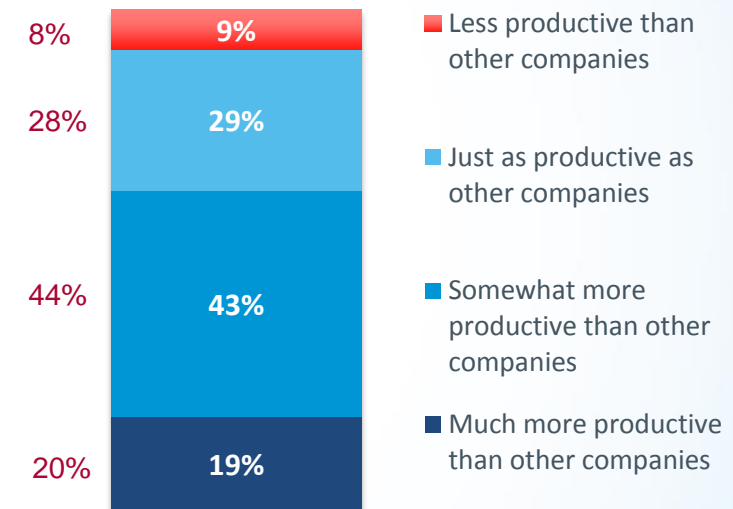
# Q2'15 MIDDLE MARKET INDICATOR CURRENT WORKFORCE CONDITIONS

## SIZE OF CURRENT WORKFORCE



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

## 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.

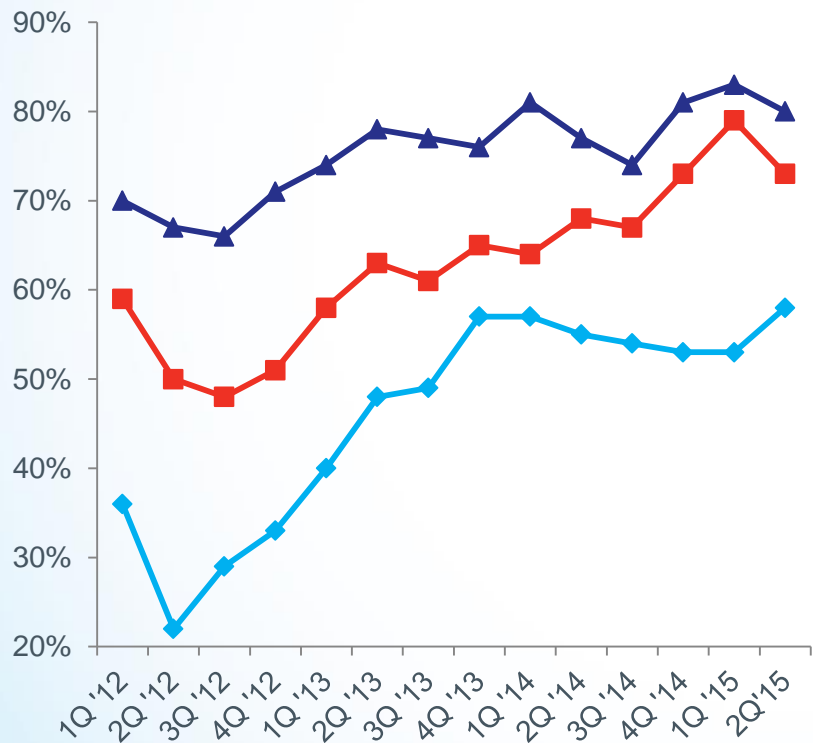


# CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

# Q2'15 MIDDLE MARKET INDICATOR

## NATIONAL CONFIDENCE

### Strong U.S. & Local Confidence Continues



GLOBAL ECONOMY

**58%**

63% PE-OWNED



U.S. ECONOMY

**73%**

73% PE-OWNED



LOCAL ECONOMY

**80%**

80% PE-OWNED

◆ GLOBAL ECONOMY

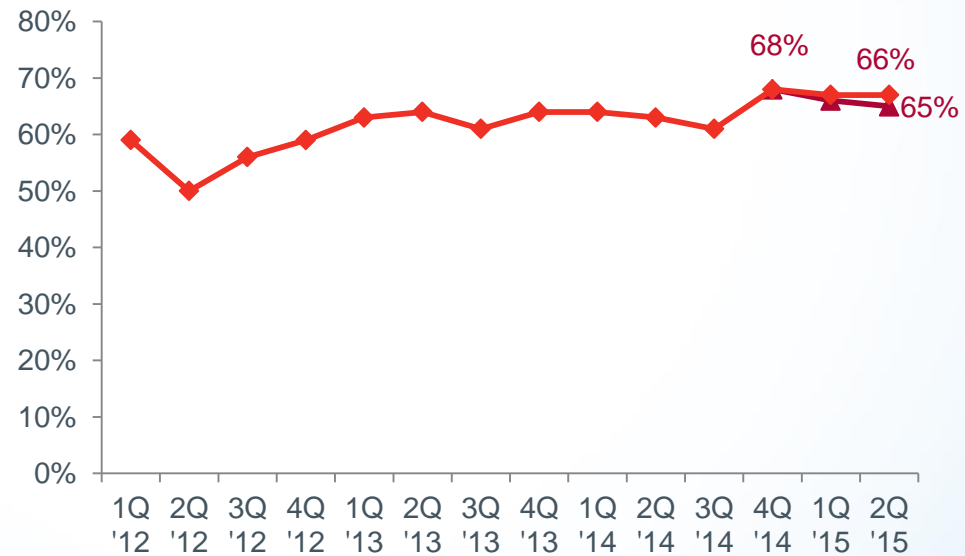
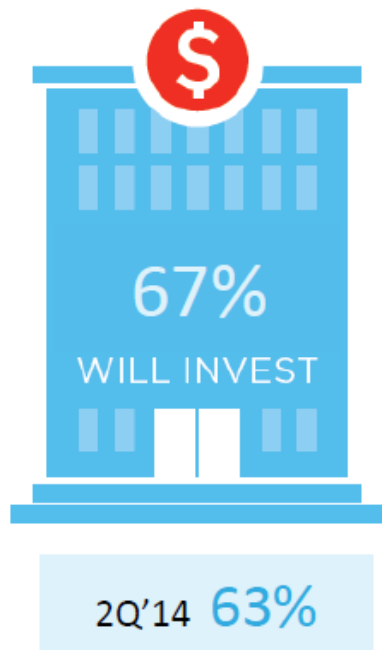
■ NATIONAL ECONOMY

▲ LOCAL ECONOMY



# Q2'15 MIDDLE MARKET INDICATOR NATIONAL INVESTMENT PLANS

## Capital Investment Plans Grow Stronger



▲ PE-OWNED ◆ U.S. MIDDLE MARKET

# Q2'15 MIDDLE MARKET INDICATOR CHALLENGES

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

### SHORT TERM CHALLENGES (Next 3 months)

#### Internal Challenges:

Staff/Employees	<b>44%</b>
Business Growth	<b>30%</b>
Finances	<b>21%</b>
Costs	<b>19%</b>
Government Regulations	<b>10%</b>

#### External Challenges:

Competition	<b>25%</b>
Government Regulations	<b>22%</b>
Economic Factors	<b>15%</b>
Business Growth	<b>13%</b>
Finances	<b>13%</b>
New Markets	<b>12%</b>

### LONG TERM CHALLENGES (Next 12 months)

#### Internal Challenges:

Staff/Employees	<b>47%</b>
Business Growth	<b>22%</b>
Costs	<b>17%</b>
Finances	<b>15%</b>
Government Regulations	<b>5%</b>

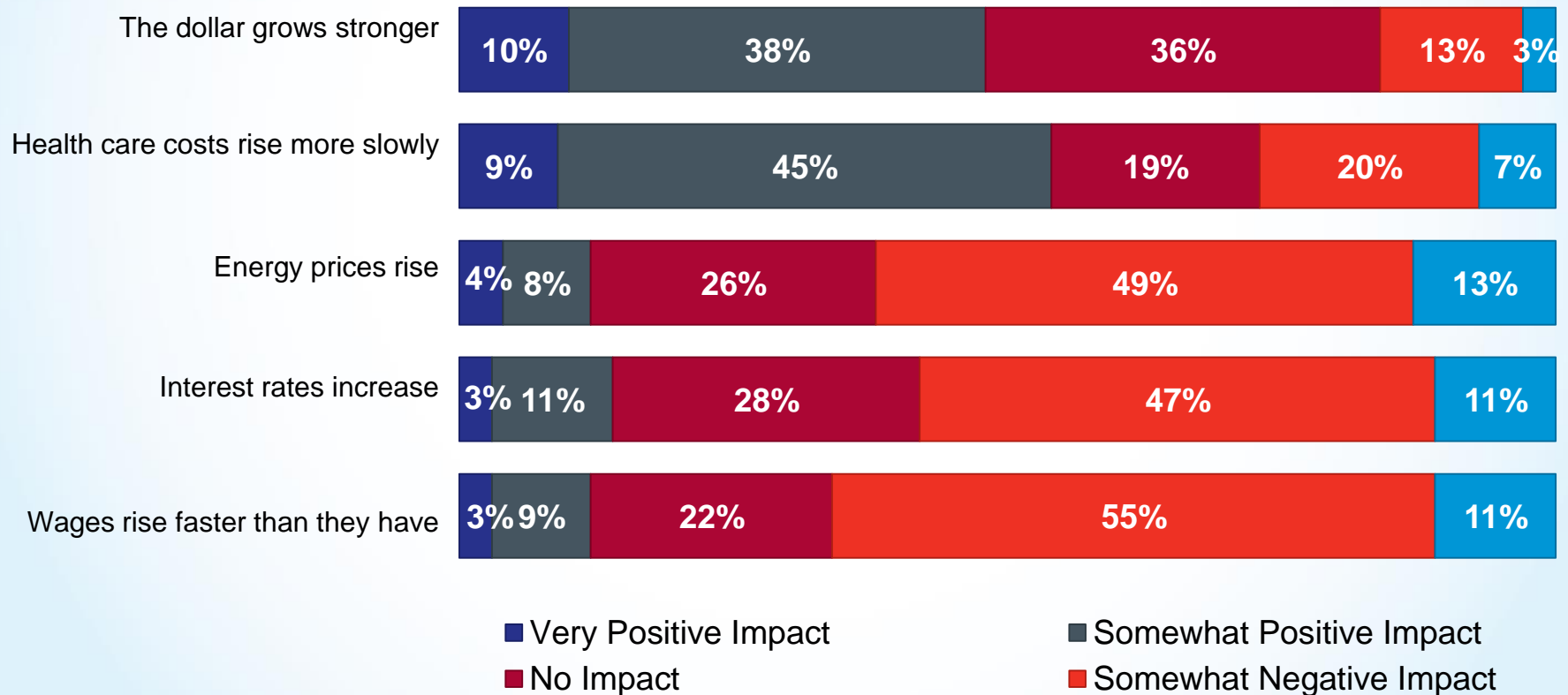
#### External Challenges:

Government Regulations	<b>24%</b>
Competition	<b>19%</b>
Costs	<b>14%</b>
Economic Factors	<b>14%</b>
Finances	<b>11%</b>
New Markets	<b>11%</b>

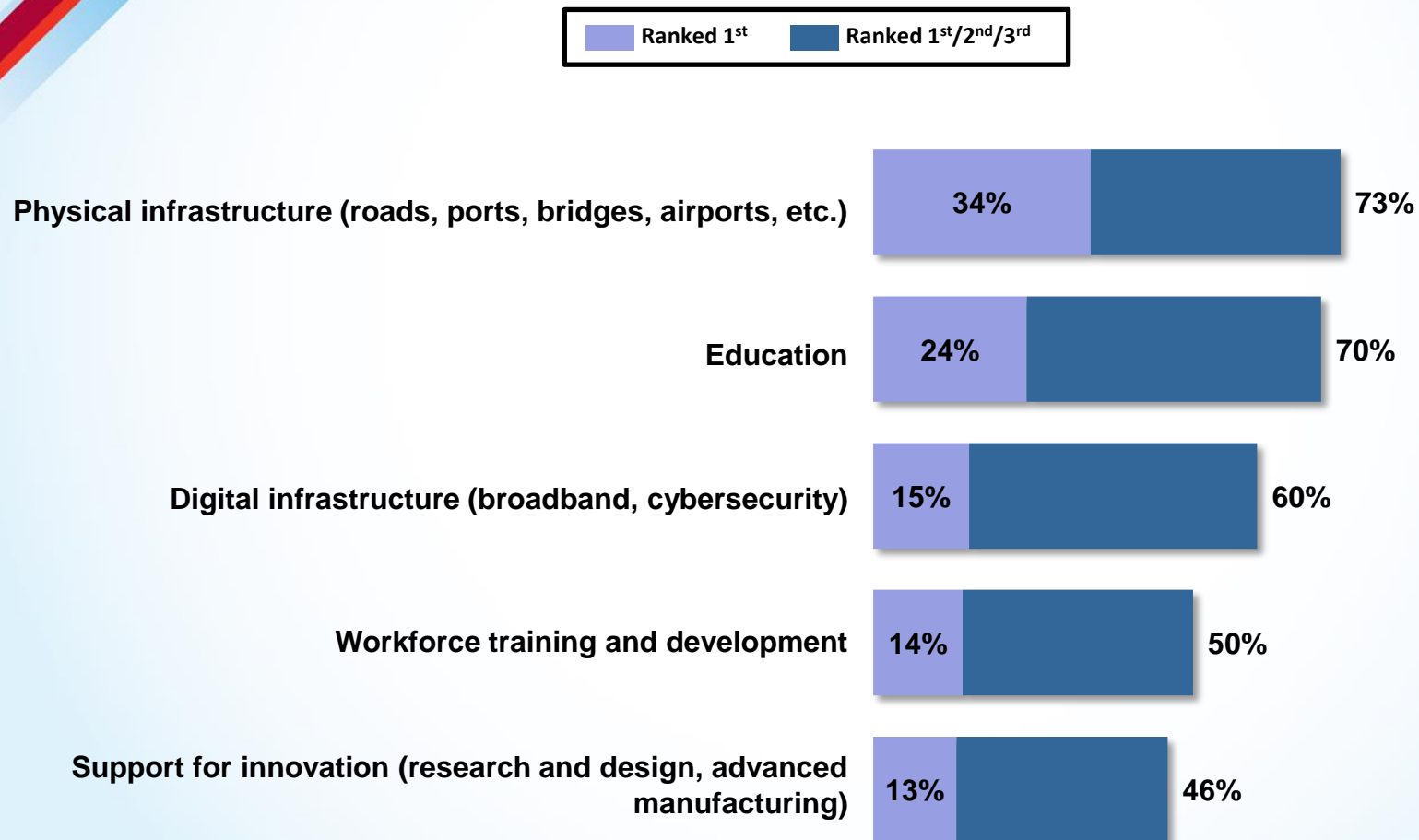
# Q2'15 MIDDLE MARKET INDICATOR

## IMPACT OF MACROECONOMIC TRENDS

Impact of Economic Changes that Might Happen Next Year  
(Total Middle Market)



# Q2'15 MIDDLE MARKET INDICATOR PRIORITIES FOR GOVERNMENT ACTION



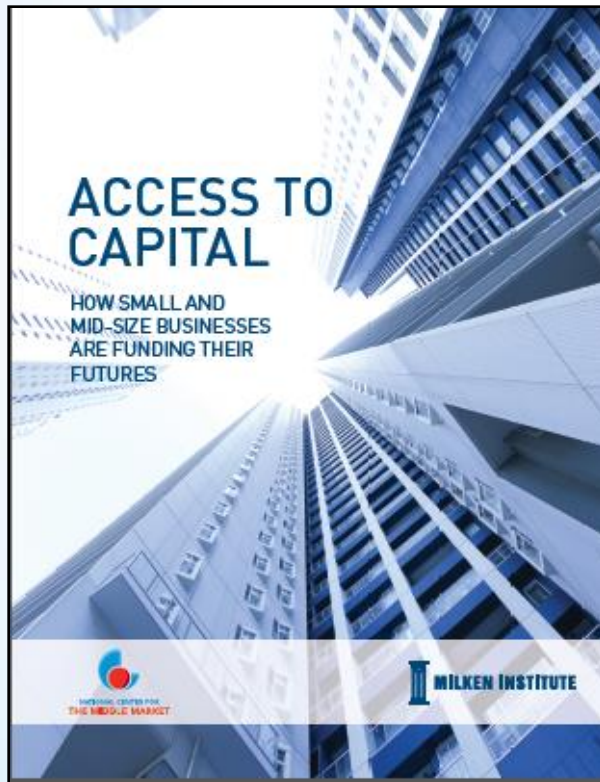
# Q2'15 MIDDLE MARKET INDICATOR CHALLENGES

## TALENT IS TOP OF MIND FOR MIDDLE MARKET LEADERS

Short-Term Internal Challenges (Next 3 Months)		Long-Term Internal Challenges (Next 12 Months)	
Staff / Employees	44%	Staff / Employees	47%
Business Growth	30%	Business Growth	22%
Finances	21%	Costs	17%
Costs	19%	Finances	15%
Government	10%	Government	5%

# ACCESS TO CAPITAL: How small and mid-size businesses are funding their future

# ABOUT THE RESEARCH



- Report jointly designed and prepared by the National Center for the Middle Market and the Milken Institute
- Survey of 636 owners and c-suite executives from small firms and middle market companies
- Survey administered from Jan. 22 through Feb. 6, 2015
- No terms were defined for the respondents, who were expected to use their own understanding as to their meaning

# MIDDLE-MARKET COMPANIES CAPITAL CHOICES: KEY FINDINGS

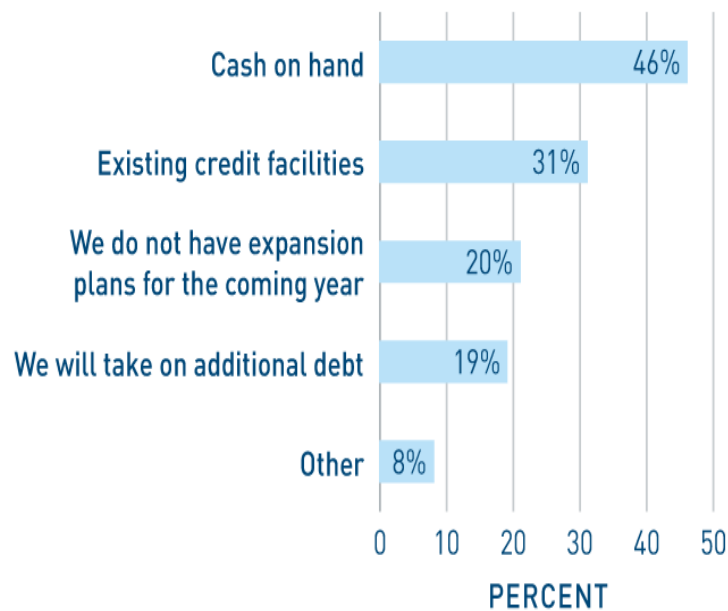
1. Self-financing is preferred, debt is the second choice, and everything else is a distant third
2. A majority say the cost of capital is not a significant deterrent to investment plans
3. Bigger companies appear to be more sophisticated about sourcing, using, and managing capital and appear to view debt more strategically.
4. Price, access, speed, and certainty—and a positive relationship—win the outside funding race
5. No outside capital option is considered “superior,” but in terms of their actual behavior small and mid-size companies use bank financing by a three-to-one margin over the next most popular choice, nonbank lending



# MIDDLE-MARKET COMPANIES EXPECT TO FINANCE THEIR OWN GROWTH

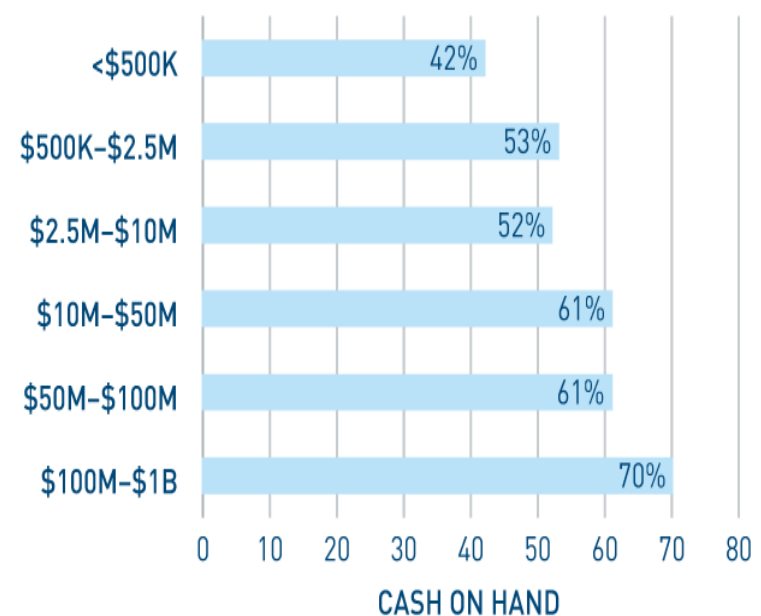
## Sources that will fund expansion in the coming year

Majority of businesses expect to self-fund near-term expansion plans



## Self-funding near-term expansion plans

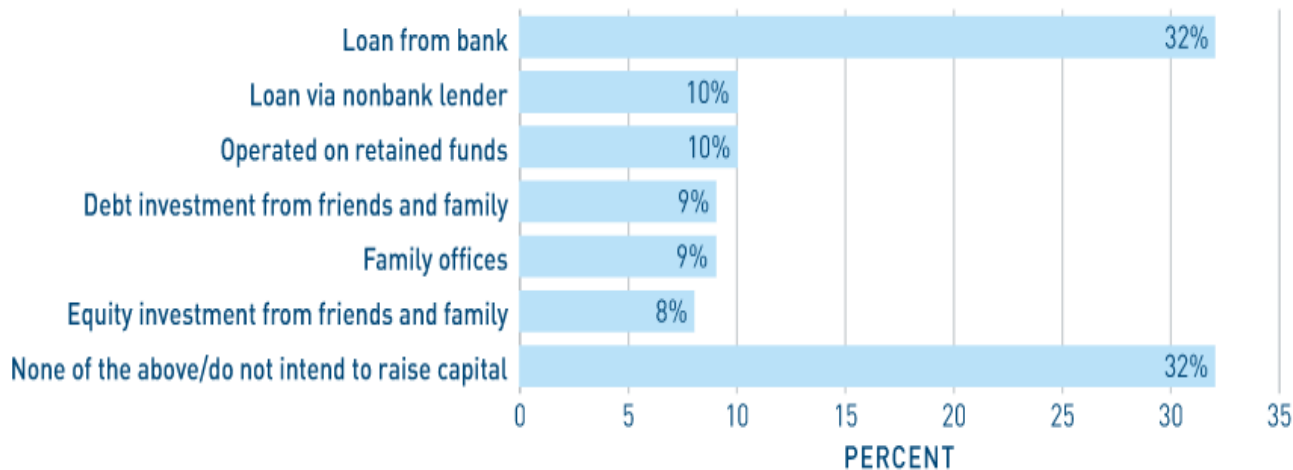
Seventy percent of upper middle-market companies plan to finance growth using cash on hand



# HOW DO COMPANIES CURRENTLY ACCESS CAPITAL?

## Methods of raising capital used in the last three years

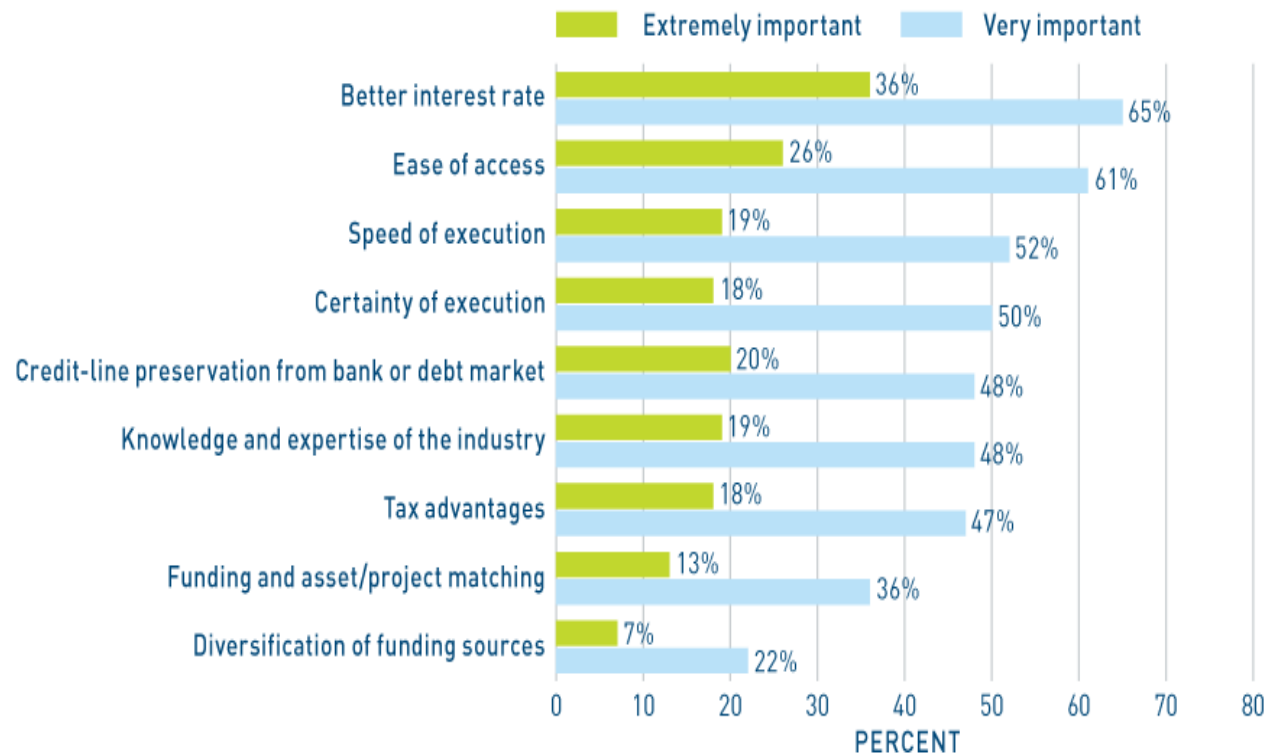
Thirty-two percent of small and middle market firms have not raised capital in the last three years



# WHAT THE MIDDLE-MARKET LOOKS FOR IN CAPITAL PROVIDERS

## Importance of factors when considering financing

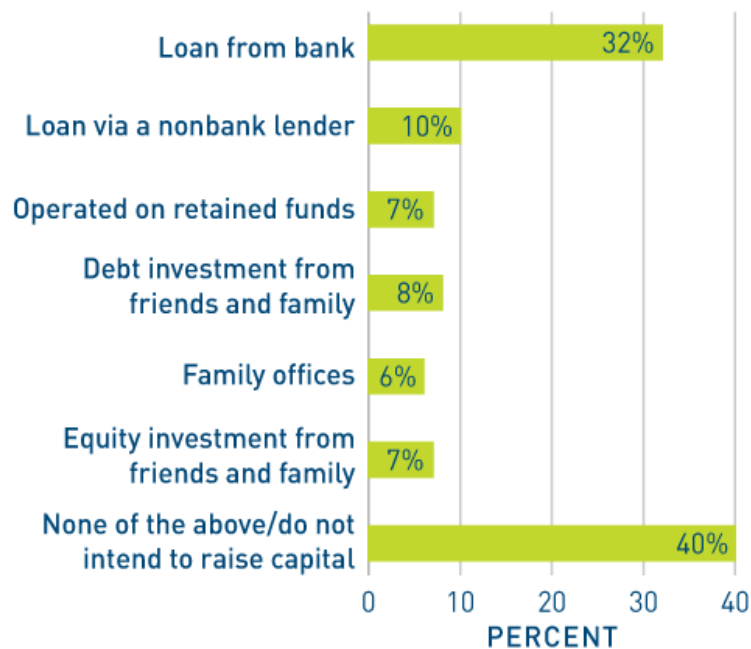
Cost, ease of access, speed, and certainty of execution top factors for financing



# THE BANKS' ADVANTAGE: RELATIONSHIPS

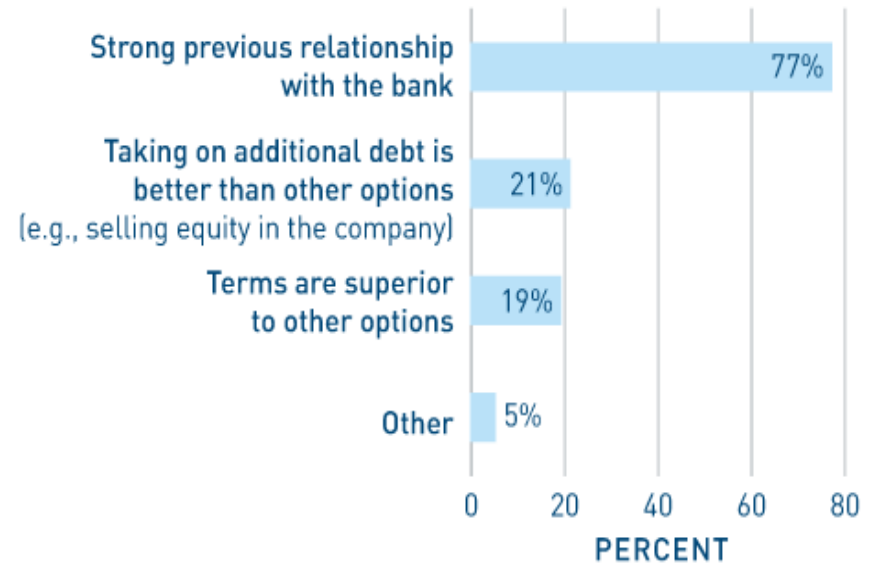
## Methods of raising capital over next three years

Thirty-two percent of firms plan to use a bank loan in the next three years



## Reasons would consider borrowing from a bank

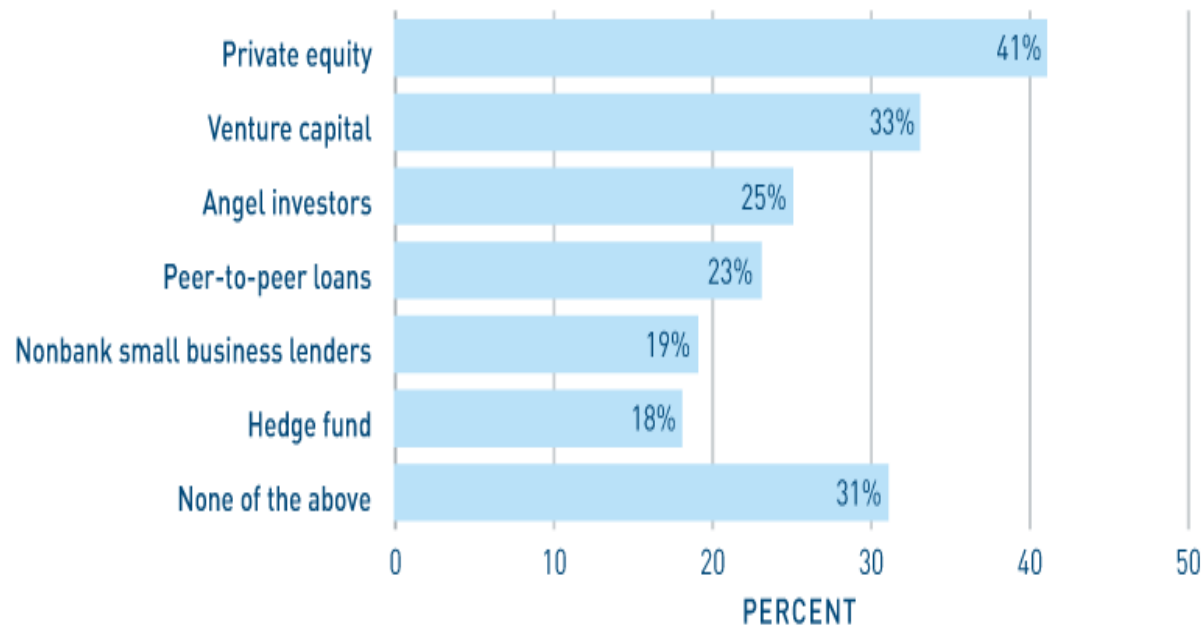
Strong relationships drive interest in bank loans



# THERE IS LIMITED AWARENESS OF ALTERNATIVES TO BANKS

## Awareness of nontraditional sources of capital

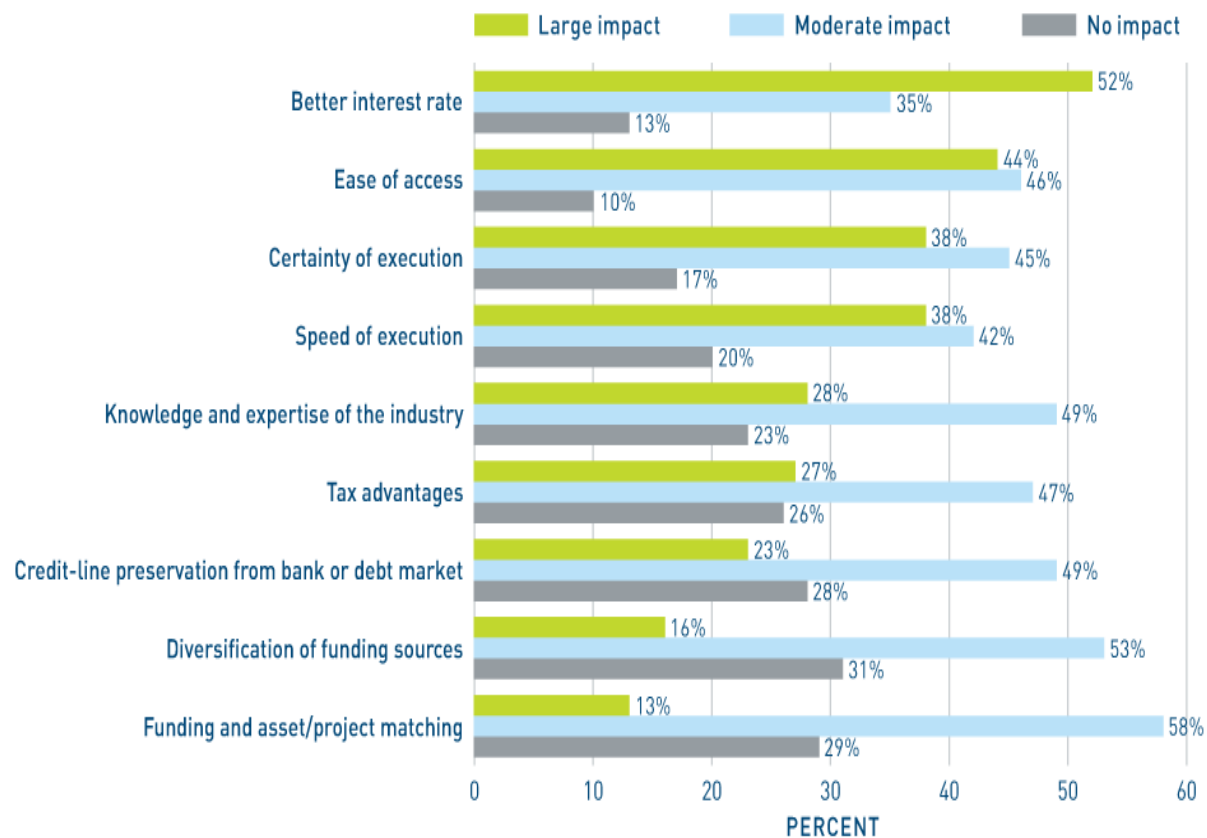
Less than one-third of all firms are aware of nontraditional sources other than PE



# WHEN NON-BANK LENDERS WIN, IT IS ON TERMS AND EASE OF ACCESS

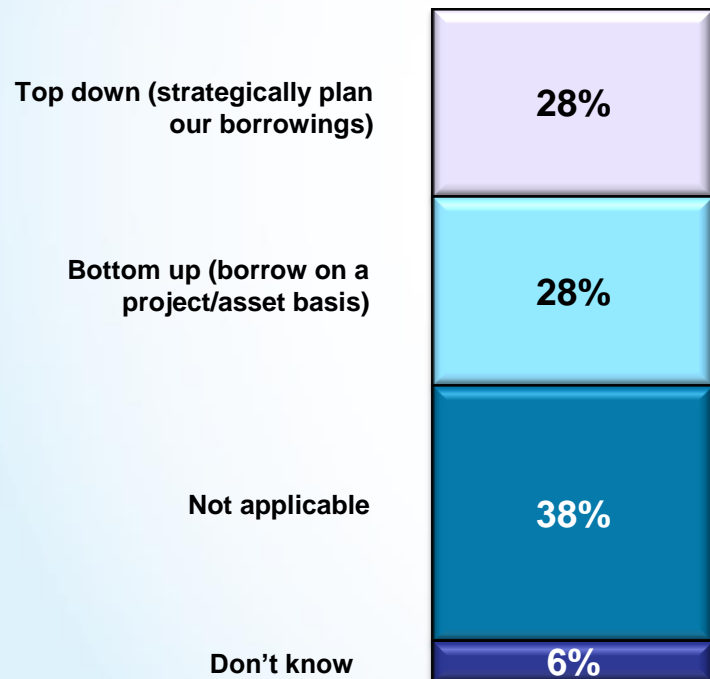
## Impact of factors on decision to use nonbanks for financing

Ninety percent of firms say ease of access impacts decision on whether to use nonbanks

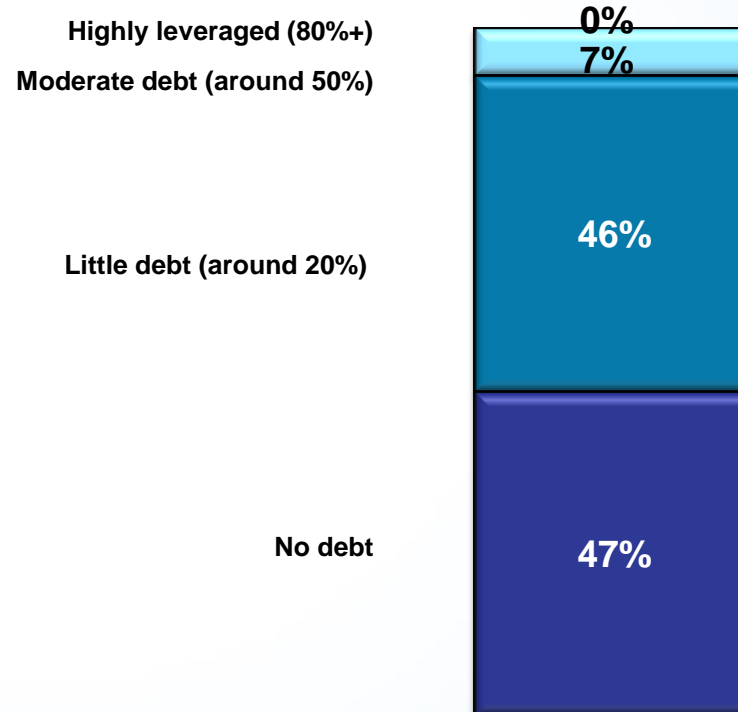


# MIDDLE-MARKET COMPANIES ARE GENERALLY DEBT AVERSE AND LACK A DEBT STRATEGY

## Debt strategy



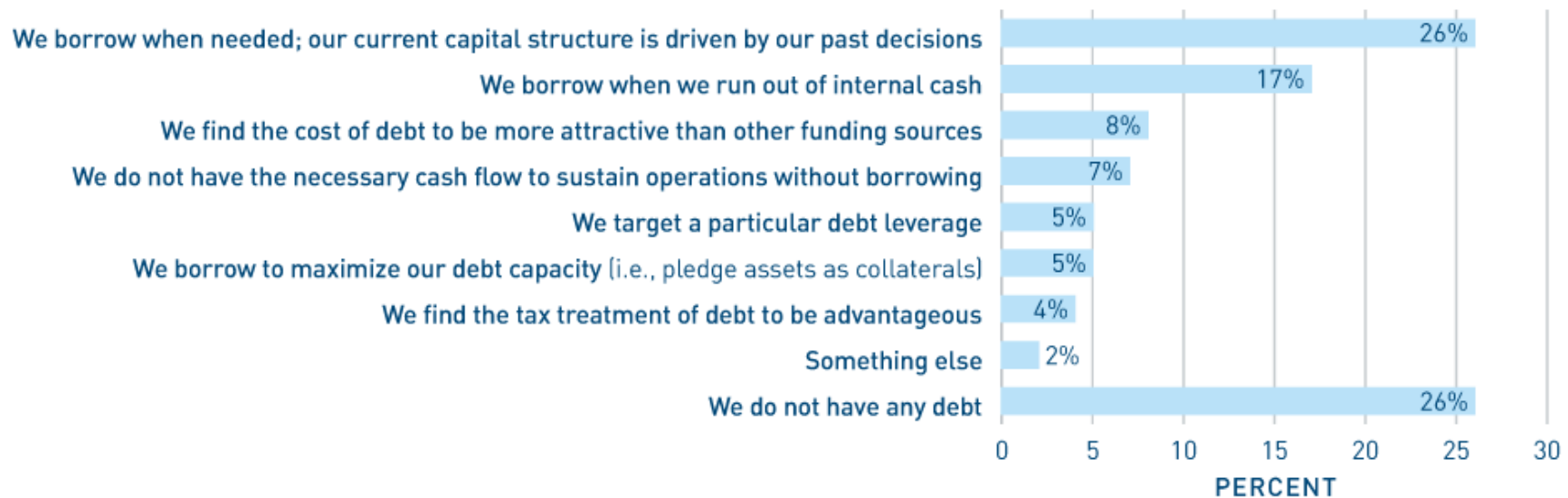
## Target debt / asset ratios



# MOST BORROWING IS AD HOC

## Most important driver of current debt levels

Borrowing is driven by previous decisions or out of necessity when internal cash runs dry





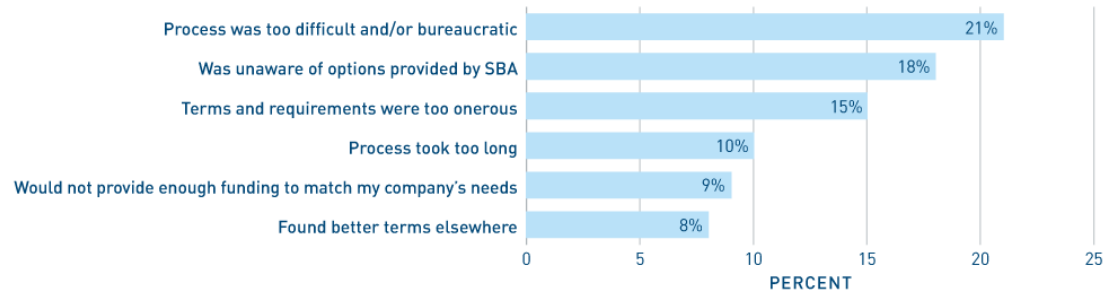
# MOST COMPANIES ARE UNINTERESTED IN SBA PROGRAMS OR IN GOING PUBLIC

**91% have not obtained financing from SBA in the past three years**

**92% have not considered listing on a stock exchange**

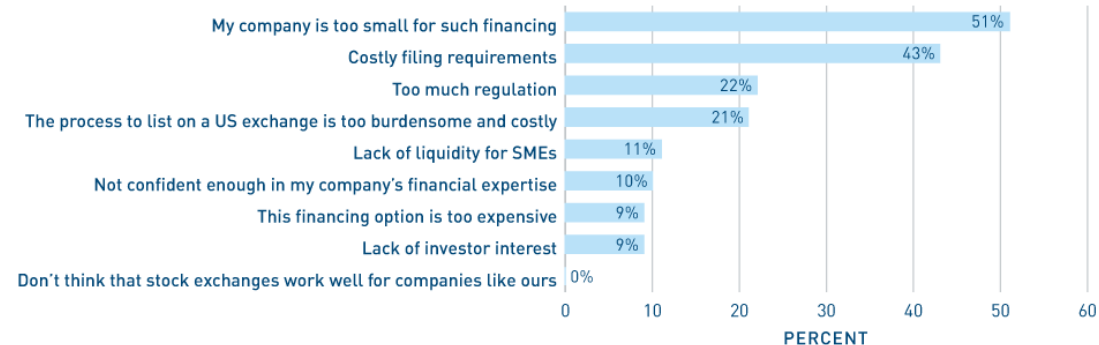
## Reasons for not participating in SBA programs

Difficult process and lack of awareness cited as the top reasons behind the lack of participation



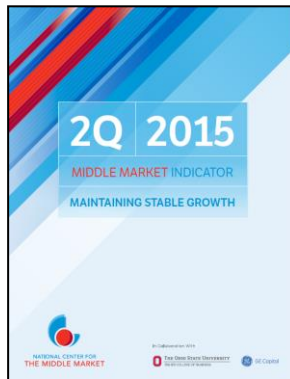
## Biggest barrier that would prevent listing

Small size and cost of filing are concerns for firms who considered listing

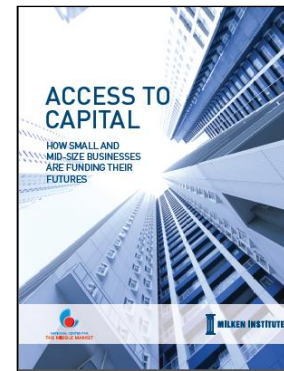


# FOR MORE INFORMATION: [WWW.MIDDLEMARKETCENTER.ORG](http://WWW.MIDDLEMARKETCENTER.ORG)

## MIDDLE MARKET INDICATOR



## ACCESS TO CAPITAL



## NATIONAL CENTER FOR THE MIDDLE MARKET





NATIONAL CENTER FOR  
**THE MIDDLE MARKET**