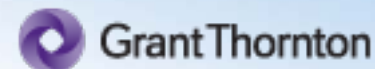


Q2'16 MIDDLE MARKET INDICATOR WEBINAR | August 23, 2016

# THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q2'16 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



**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



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

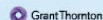


2Q 2016

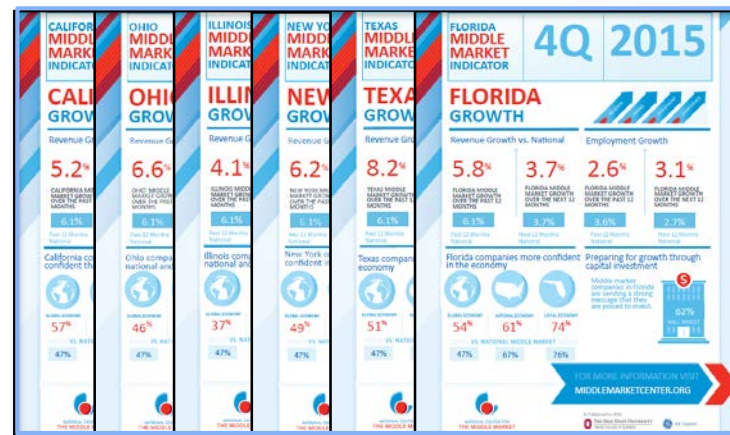
MIDDLE MARKET INDICATOR

GROWTH REBOUNDS; OUTLOOK REMAINS BRIGHT

IN COLLABORATION WITH



## Cut by Geography and Industry



# Q2'16 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** IN THE FIRST HALF OF 2016 AND SEVEN YEARS INTO AN ECONOMIC EXPANSION, MIDDLE-MARKET GROWTH APPEARS TO HAVE PICKED UP SPEED COMPARED TO LAST YEAR
- 3** EXPECTATIONS FOR GROWTH HAVE LIKEWISE TIPPED UPWARD, THOUGH CAPITAL-SPENDING PLANS REMAIN MUTED
- 4** CONFIDENCE IN U.S. AND LOCAL ECONOMIES REMAINS HIGH, BUT CAUTION IS EVIDENT, ESPECIALLY GLOBALLY—BREXIT APPEARS LIKELY TO CAUSE MIDDLE-MARKET COMPANIES TO FOCUS AT HOME



# Q2'16 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

## REVENUE GROWTH

**7.2%**

PAST 12 MONTHS

**4.8%**

NEXT 12 MONTHS

## EMPLOYMENT GROWTH

**4.4%**

PAST 12 MONTHS

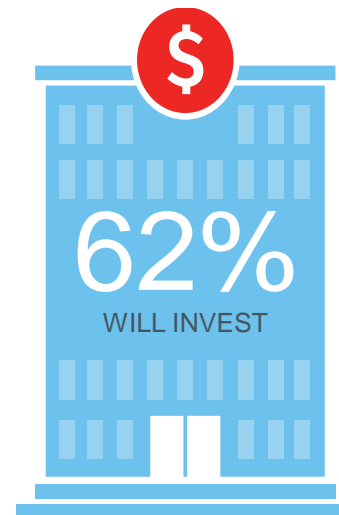
1.9%  
SMALL  
BUSINESS

2.3%  
LARGE  
BUSINESS

**3.3%**

NEXT 12 MONTHS

## CAPITAL INVESTMENT



## CONFIDENCE

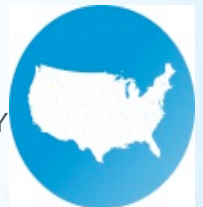
**50%**

GLOBAL ECONOMY



**69%**

NATIONAL ECONOMY



**79%**

LOCAL ECONOMY



# Q1'16 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

**7.2%**

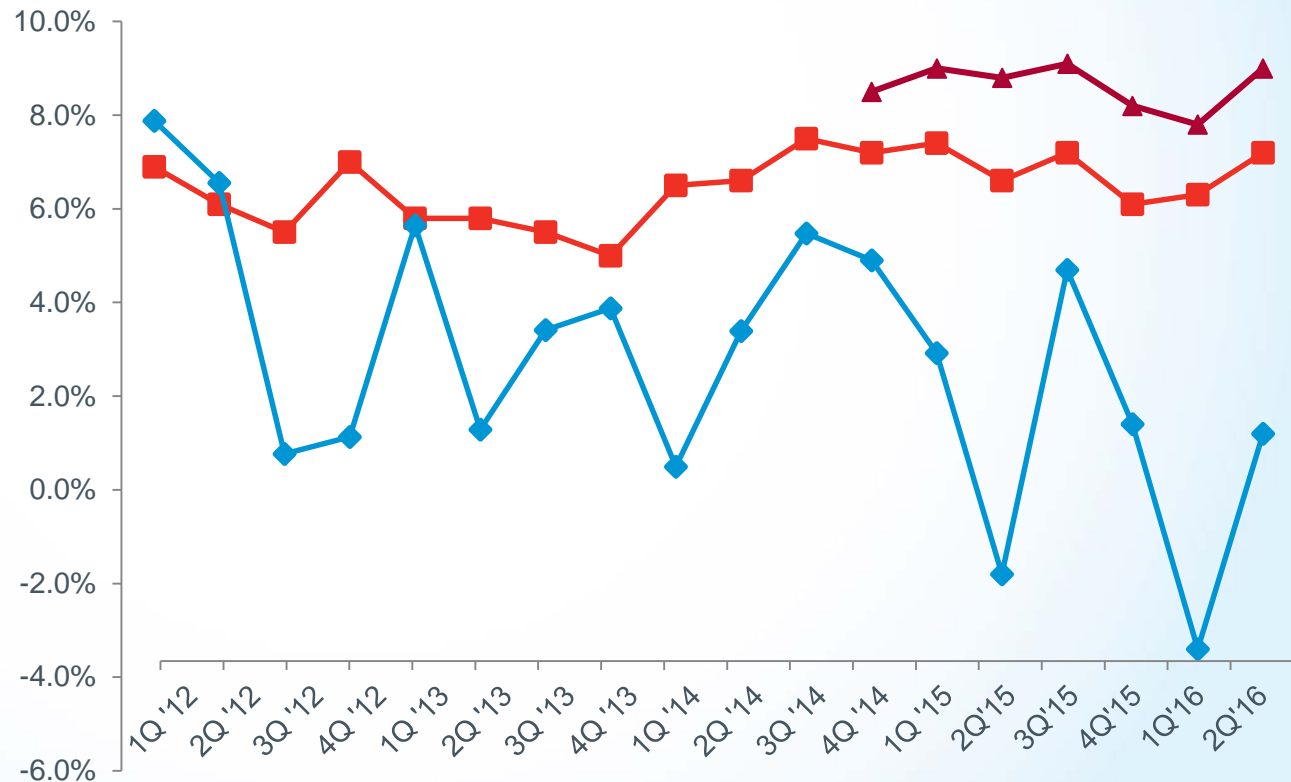
U.S. MIDDLE MARKET

**9%**

PE-OWNED FIRMS

**1.2%**

S&P 500\*



Source: 2Q'16 Middle Market Indicator Report

\*2Q numbers include only companies who have reported.

■ US MIDDLE MARKET    ◆ S&P 500    ▲ PE-OWNED



# Q2'16 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>	8.3%	5.8%	 <p><b>CONSTRUCTION</b></p>	7.1%	7.1%
 <p><b>MANUFACTURING</b></p>	6.3%	4.2%	 <p><b>FINANCIAL SERVICES</b></p>	7.2%	5.1%
 <p><b>WHOLESALE TRADE</b></p>	7.8%	5.4%	 <p><b>HEALTHCARE</b></p>	6.5%	4.7%
 <p><b>RETAIL TRADE</b></p>	7.9%	3.9%	 <p><b>OTHER</b></p>	6.5%	4.4%

# Q2'16 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

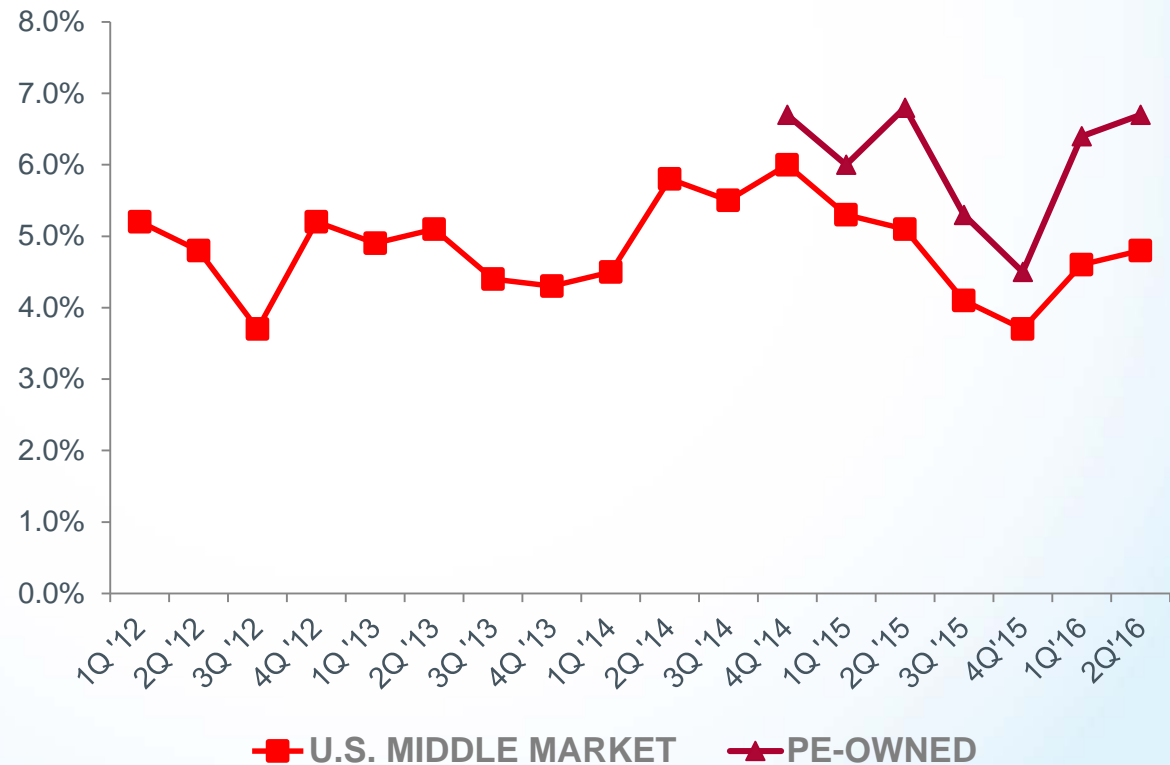
NEXT 12 MONTHS

4.8%

U.S. MIDDLE MARKET

6.7%

PE-OWNED FIRMS



# Q2'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

**4.4%**

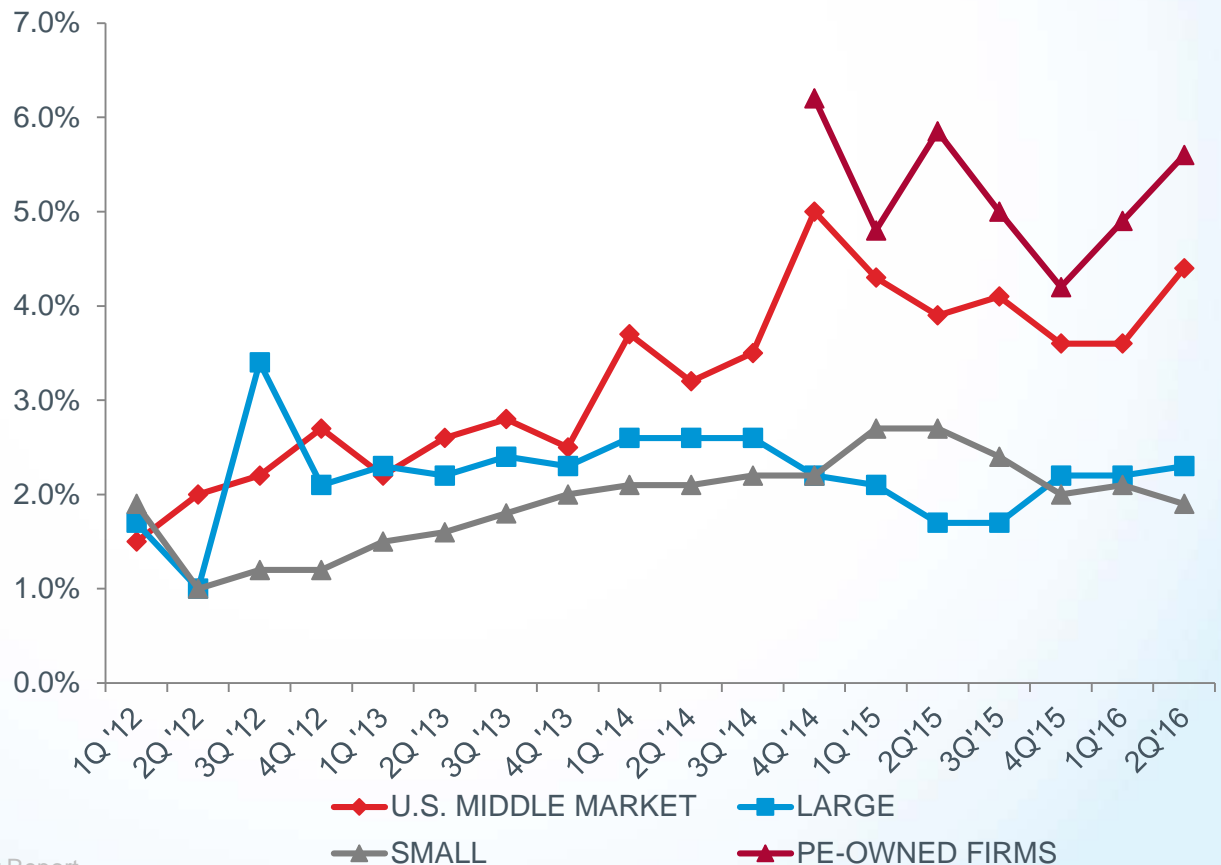
U.S. MIDDLE MARKET

1.9%  
SMALL  
BUSINESS

2.3%  
LARGE  
BUSINESS

**5.6%**

PE-OWNED FIRMS



# Q2'16 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>		5.2%	4.0%	<b>CONSTRUCTION</b>		6.1%	6.1%
<b>MANUFACTURING</b>		5.2%	2.6%	<b>FINANCIAL SERVICES</b>		4.1%	3.5%
<b>WHOLESALE TRADE</b>		2.9%	2.3%	<b>HEALTHCARE</b>		5.5%	2.7%
<b>RETAIL TRADE</b>		4.9%	3.7%	<b>OTHER</b>		3.8%	3.2%

# Q2'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

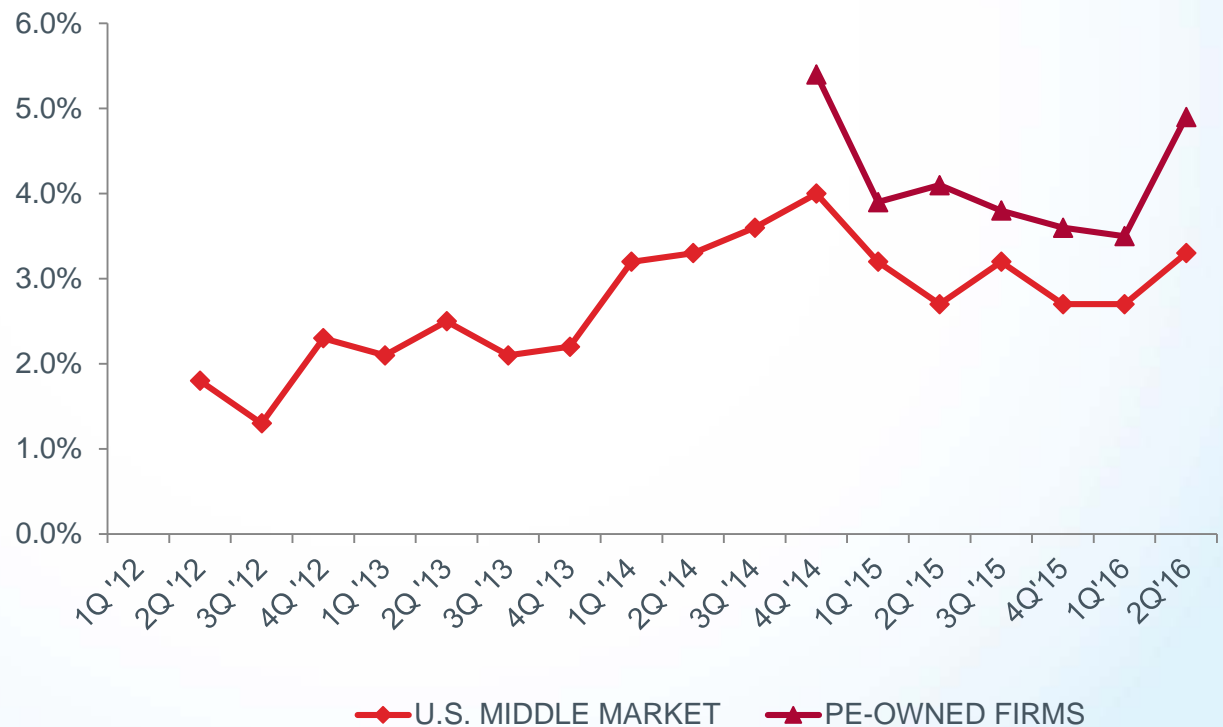
NEXT 12 MONTHS

3.3%

U.S. MIDDLE MARKET

4.9%

PE-OWNED FIRMS



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

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





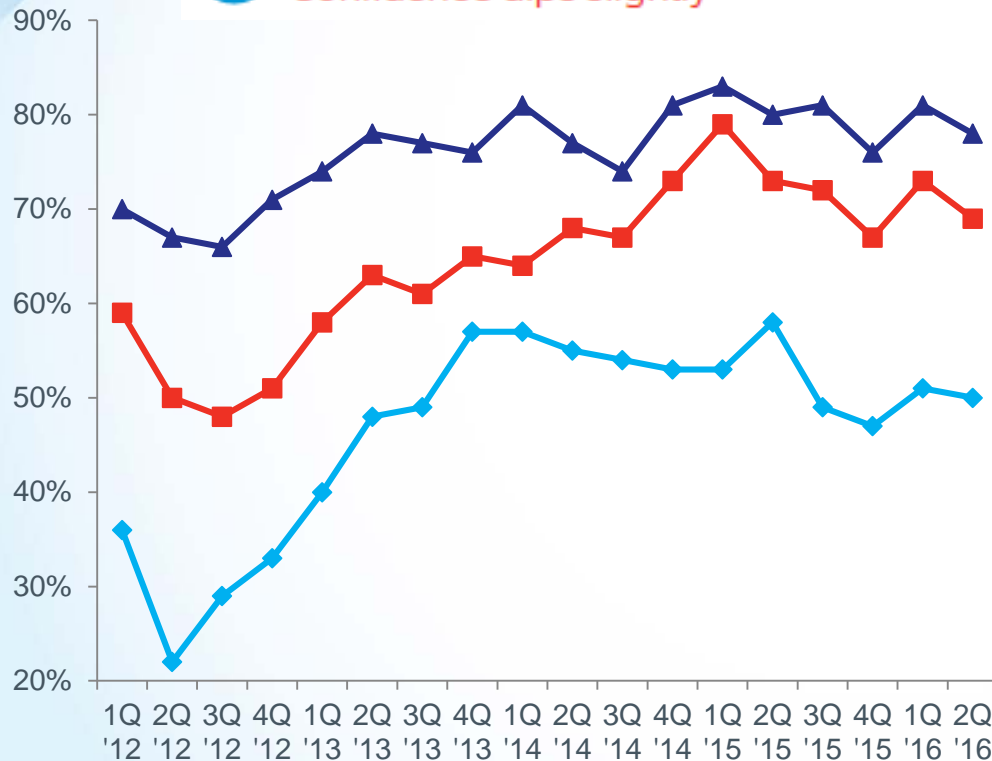
# CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

# Q2'16 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE



## ECONOMIC CONFIDENCE

Confidence dips slightly



—◆— GLOBAL ECONOMY

—■— NATIONAL ECONOMY

—▲— LOCAL ECONOMY



### GLOBAL ECONOMY

**50%**

54% PE-OWNED



### U.S. ECONOMY

**69%**

71% PE-OWNED



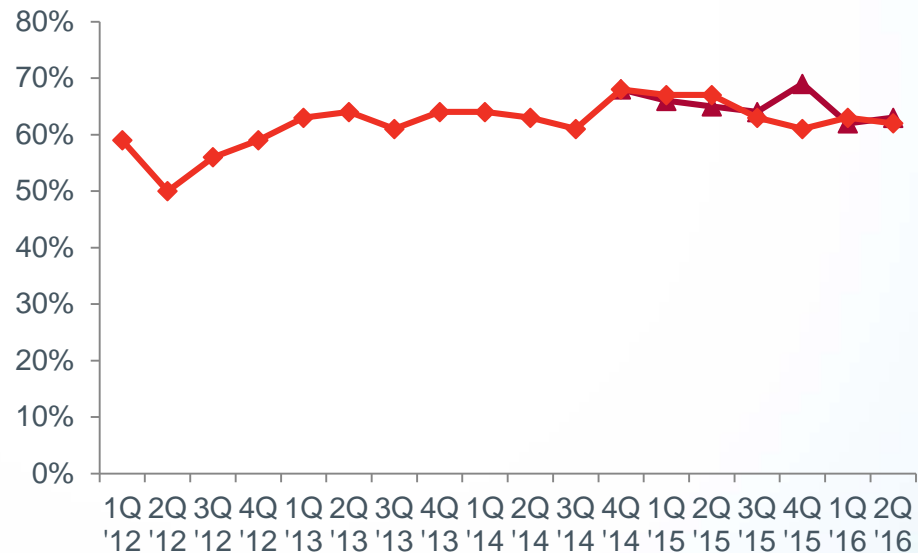
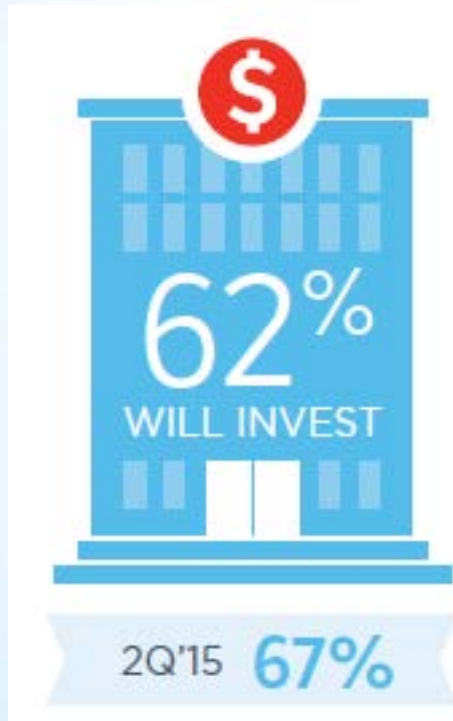
### LOCAL ECONOMY

**78%**

80% PE-OWNED

# Q2'16 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

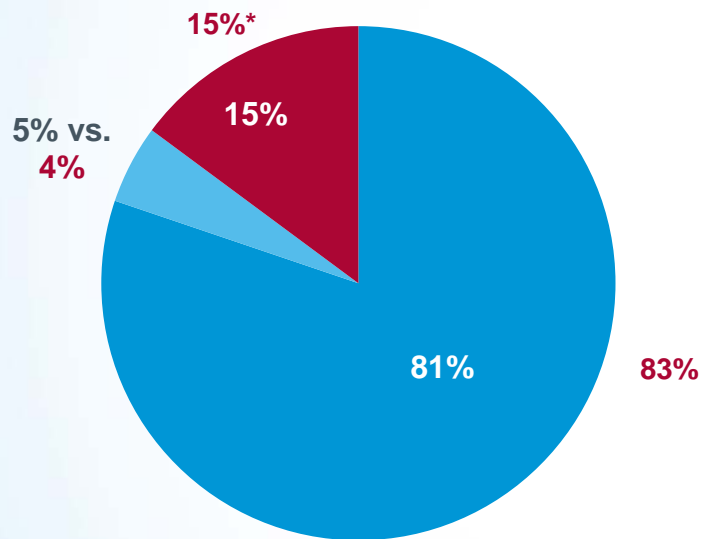
## FIRMS PLAN TO INVEST.



▲ PE-OWNED    ◆ U.S. MIDDLE MARKET

# Q2'16 MIDDLE MARKET INDICATOR CURRENT WORKFORCE CONDITIONS

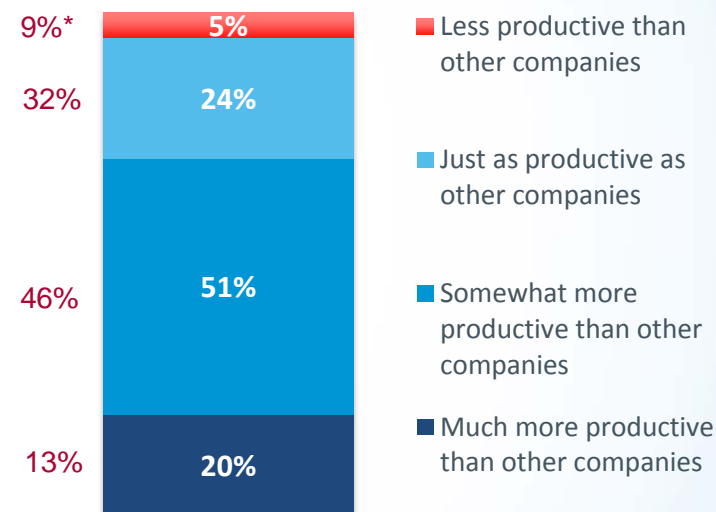
## SIZE OF CURRENT WORKFORCE



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

\*Q1'16

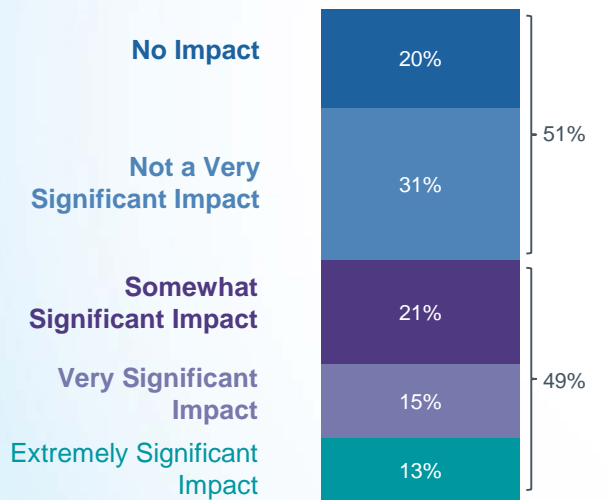
## PRODUCTIVITY OF CURRENT WORKFORCE



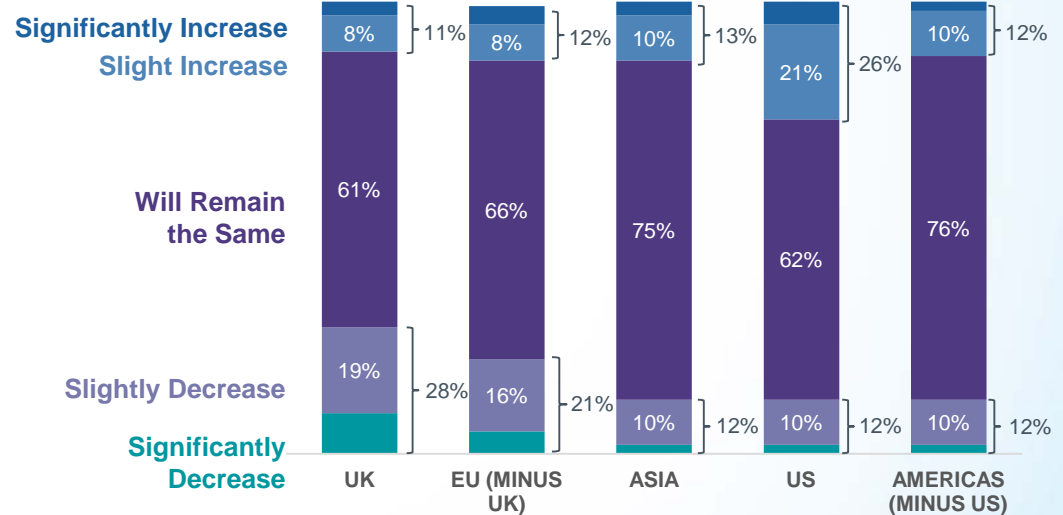
The overwhelming majority of MM firms feel their workforce is the right size for current market conditions, and about half say their workers are more productive than workers at other companies in the same industry.

# HALF OF MIDDLE MARKET SAYS BREXIT WILL HAVE A SIGNIFICANT IMPACT

## SIGNIFICANCE OF IMPACT OF BREXIT

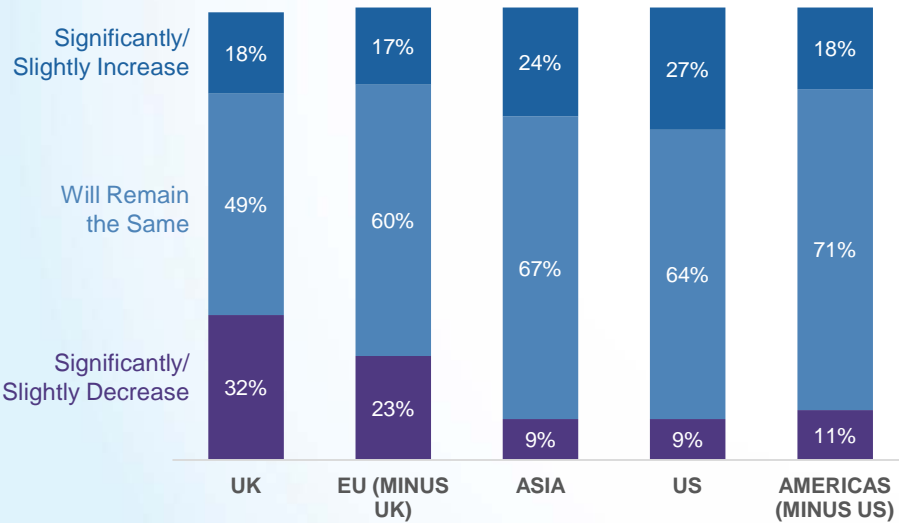


## LIKELY CHANGE IN INVESTMENT PLANS

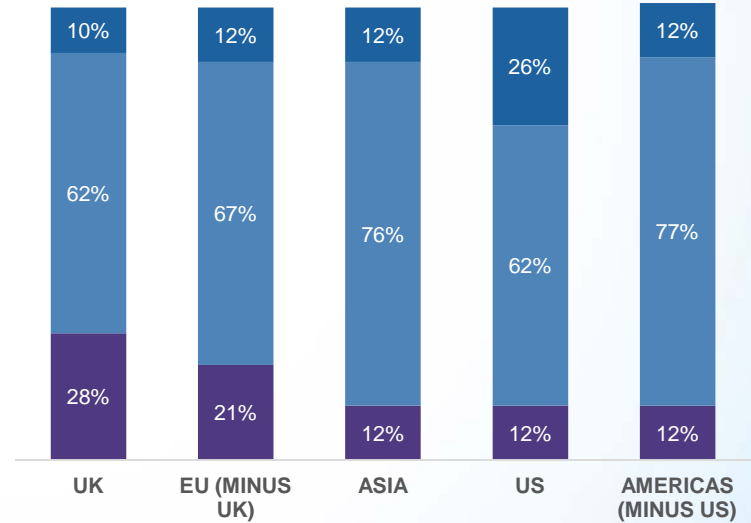


# BREXIT'S IMPACT ON MANUFACTURERS

## MANUFACTURERS



## NON-MANUFACTURERS





# Q2'16 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 **63%**
2. STAFF/EMPLOYEES **51%**
3. COSTS **23%**
4. GOVERNMENT **13%**

#### EXTERNAL CHALLENGES:

1. BUSINESS **35%**
2. GOVERNMENT **23%**
3. COMPETITION **19%**
4. ECONOMY **15%**
5. COSTS **14%**

### LONG TERM CHALLENGES (Next 12 months)

#### INTERNAL CHALLENGES:

1. STAFF/EMPLOYEES **41%**
2. BUSINESS **39%**
3. COSTS **18%**
4. GOVERNMENT **6%**

#### EXTERNAL CHALLENGES:

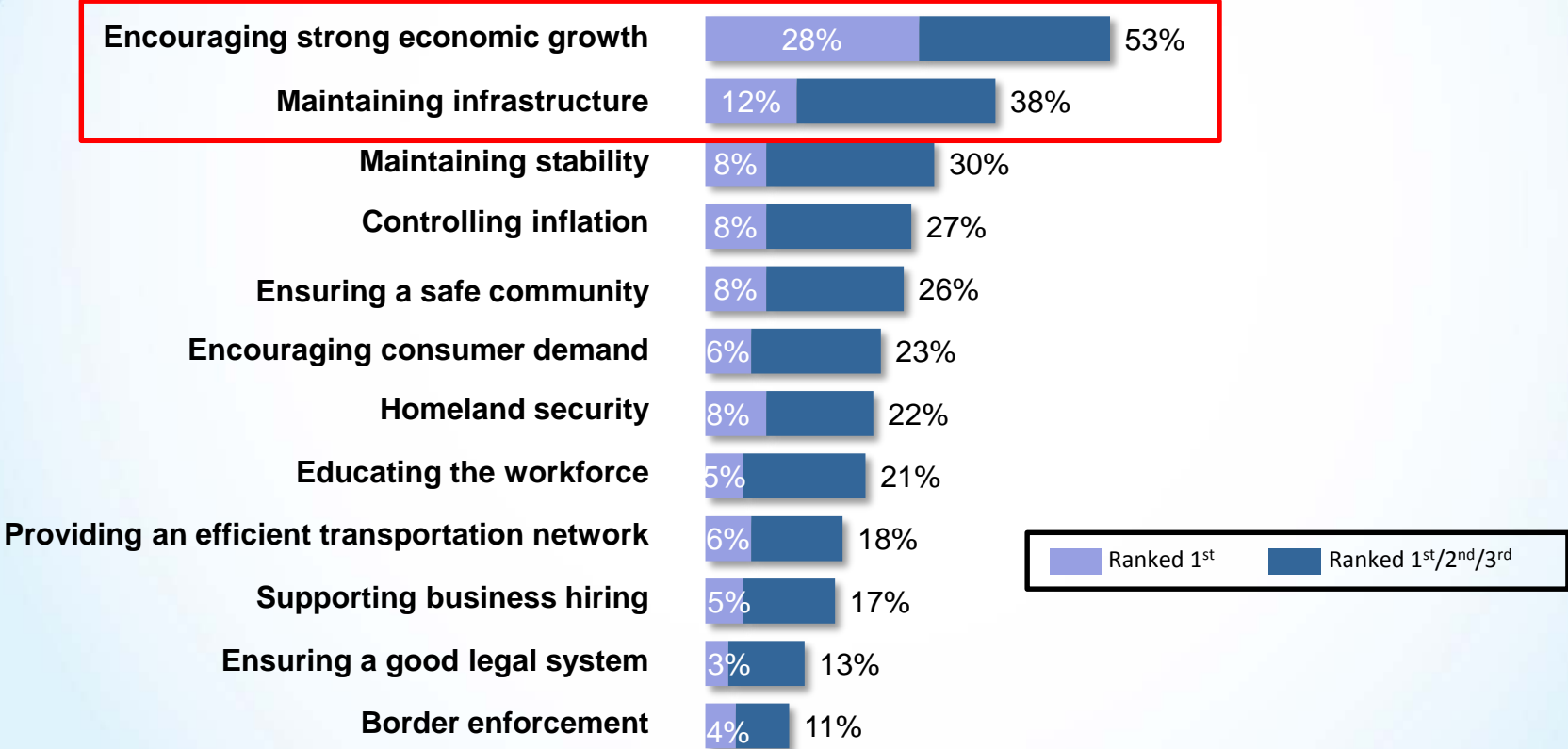
1. BUSINESS **26%**
2. GOVERNMENT **18%**
3. COMPETITION **14%**
4. ECONOMY **13%**
5. COSTS **13%**

# GOVERNMENT SERVICES

“Your public servants serve you right”  
--Adlai E. Stevenson

# GROWTH AND INFRASTRUCTURE ARE SEEN AS MOST IMPORTANT GOVERNMENT ROLES

Government Functions in Terms of Importance to the Business












# MOST COMPANIES HAVE USED GOVERNMENT PROGRAMS

		Revenue Segment		
		\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
Energy efficiency programs	32%	30%	34%	34%
Hiring incentives	24%	22%	19%	29%
Workforce development programs	21%	19%	18%	26%
Energy services	19%	15%	24%	24%
State gov't tax incentives	18%	12%	17%	29%
Local gov't tax incentives	17%	13%	17%	23%
Federal tax incentives	16%	14%	13%	20%
Local trade promotion	11%	9%	13%	13%
Any US Commerce Dept program	7%	6%	5%	9%
None of the above	32%	38%	34%	22%

Types of Programs Company Has Ever Taken Advantage Of

# PROGRAMS RECEIVE GENERALLY GOOD MARKS

		Revenue Segment		
		\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
Energy efficiency programs	 48%	44%	52%	50%
Local trade promotion	 45%	40%	68%	41%
Local gov't tax incentives	 45%	50%	33%	44%
Any U.S. Commerce Department program	 43%	41%	42%	46%
Workforce development programs	 42%	36%	57%	45%
State gov't tax incentives	 39%	38%	34%	41%
Federal tax incentives	 37%	37%	29%	39%
Hiring incentives	 37%	28%	36%	46%
Energy services	 35%	34%	37%	36%

Overall Rating of Various Government Programs  
(Excellent/Very Good)

# EXECUTIVES ARE MOST SATISFIED WITH LOCAL SERVICES, LEAST WITH FEDERAL

Overall Satisfaction With Government Services  
(Percentage at least somewhat satisfied)



**Basic Services**

57%

52%

38%

**Regulations, Rules and  
Incentives/  
Subsidies**

47%

42%

34%

**Value-Added Services**

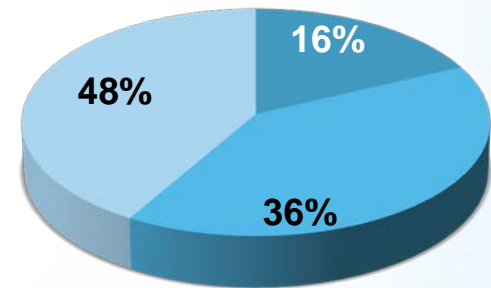
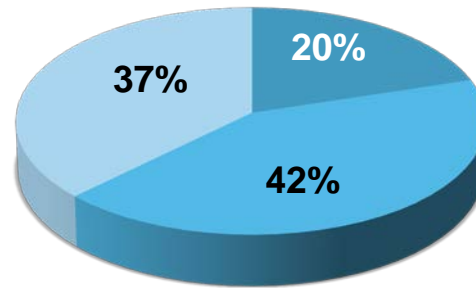
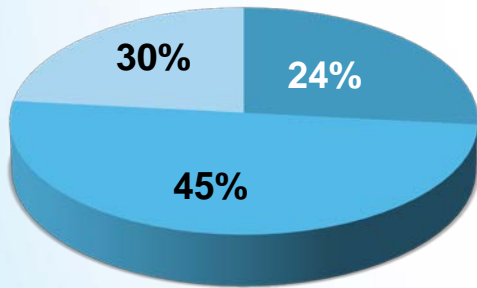
45%

43%

34%



# LOCAL PROGRAMS GENERALLY ARE SEEN AS BETTER VALUE FOR MONEY

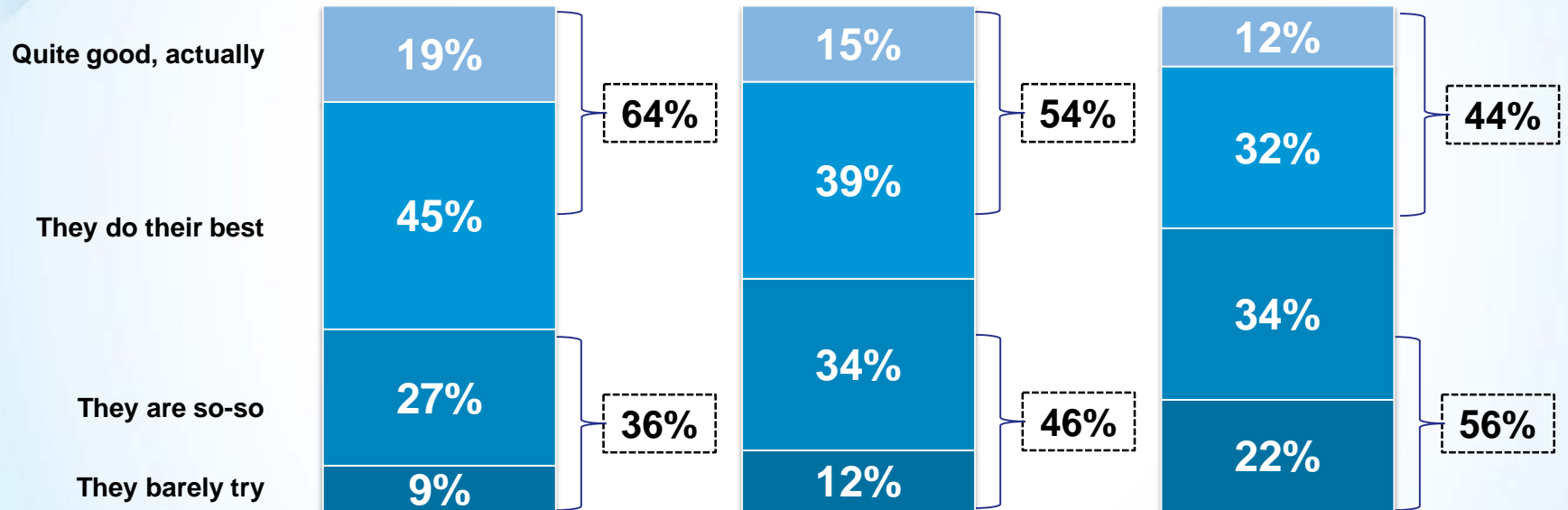


Extremely / Very Good    Somewhat Good    Not Very / At All Good



# LOCAL OFFICIALS ARE SEEN AS MOST HELPFUL, CONSTRUCTIVE

Quality Of Experience with Government Officials

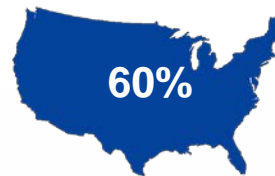
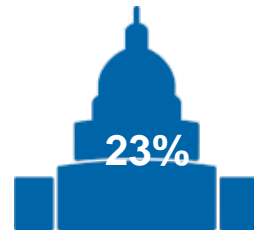
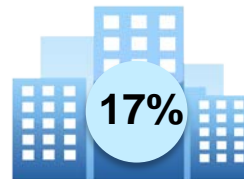
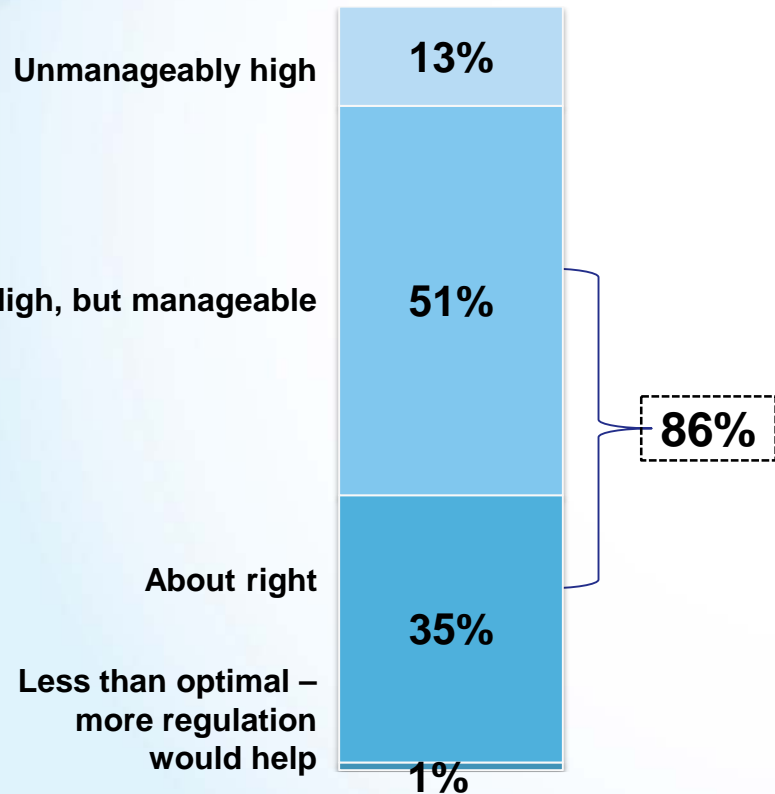


# REGULATORY BURDEN— OVERALL MIDDLE MARKET IMPACT

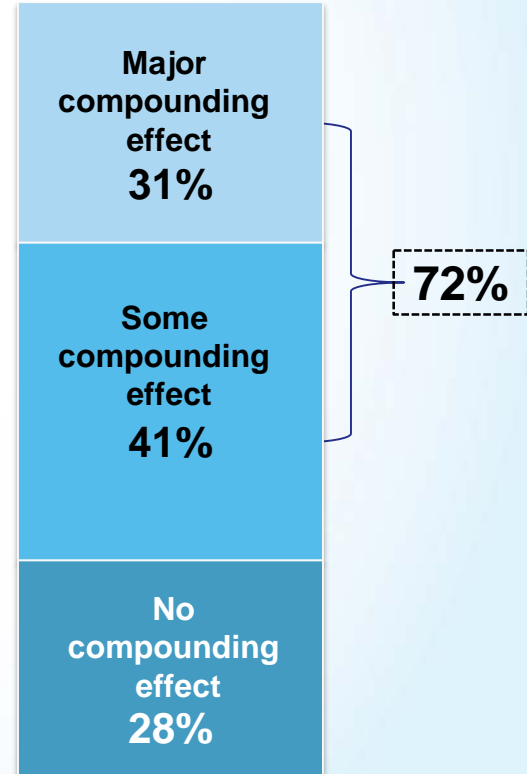
The burden is high but manageable

... is mostly federal

...but has serious compounding effects



Level of government whose regulations have biggest impact



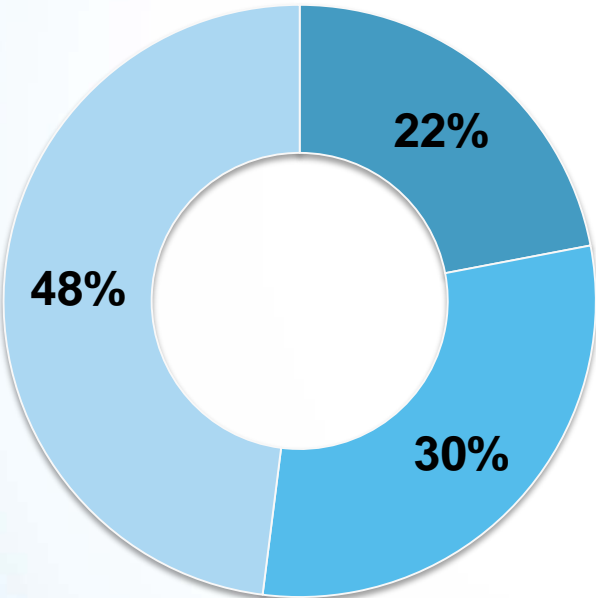
# REGULATORY BURDEN— INDUSTRY EFFECTS

Company's Regulatory Burden by Industry

	Services	Manu- facturing	Wholesale Trade	Retail Trade	Con- struction	Financial Services	Healthcare	Other
Unmanageably high	8%	11%	11%	9%	17%	21%	24%	12%
High, but manageable	42%	50%	44%	49%	53%	50%	55%	59%
About right	47%	38%	46%	42%	30%	29%	21%	29%
Less than optimal – more regulation would help	3%	2%	-	-	-	1%	-	1%

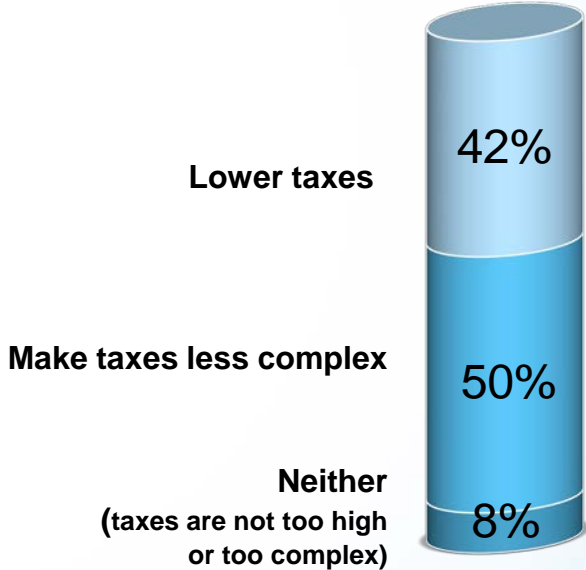
# TAXES: SIMPLIFY, SIMPLIFY

Share of taxes and fees paid



■ Local ■ State ■ Federal

If you could do just one ...





NATIONAL CENTER FOR  
**THE MIDDLE MARKET**