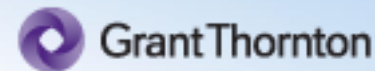


Q2'17 MIDDLE MARKET INDICATOR | ACG WEBINAR | July 26, 2017

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q2'17 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

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

 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

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 2017

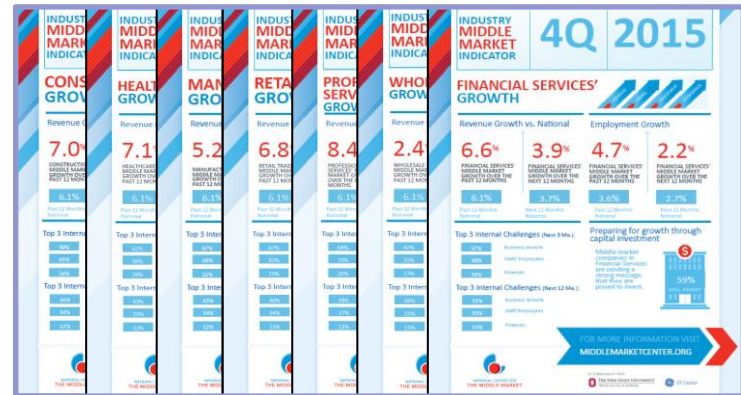
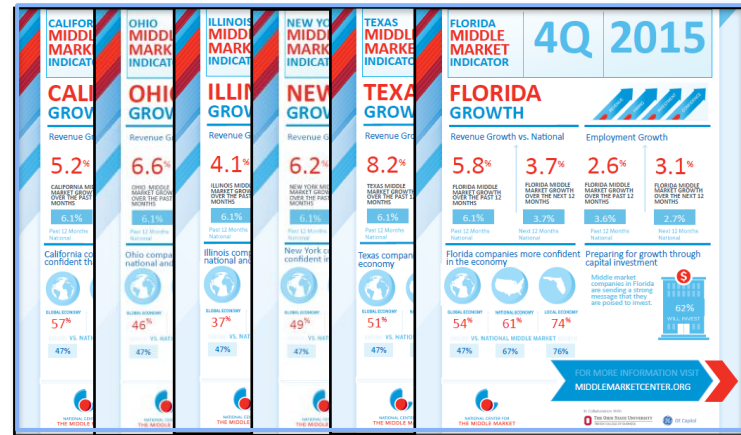
MIDDLE MARKET INDICATOR

GROWTH RETURNS TO TYPICAL LEVELS

IN COLLABORATION WITH



Cut by Geography and Industry



Q2'17 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** FOLLOWING A RECORD-SETTING FIRST QUARTER, THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION
- 2** THE MIDDLE MARKET CONTINUES 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

Q2'17 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

6.7%

PAST 12 MONTHS

4.75%
S&P 500

5.3%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

5.7%

PAST 12 MONTHS

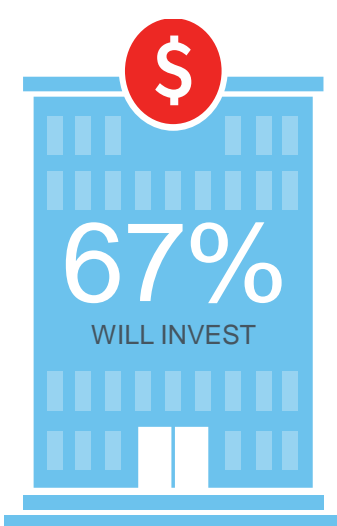
1.3% SMALL BUSINESS
2.5% LARGE BUSINESS

4.7%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

70%

GLOBAL ECONOMY



84%

NATIONAL ECONOMY



87%

LOCAL ECONOMY



Q2'17 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

6.7%

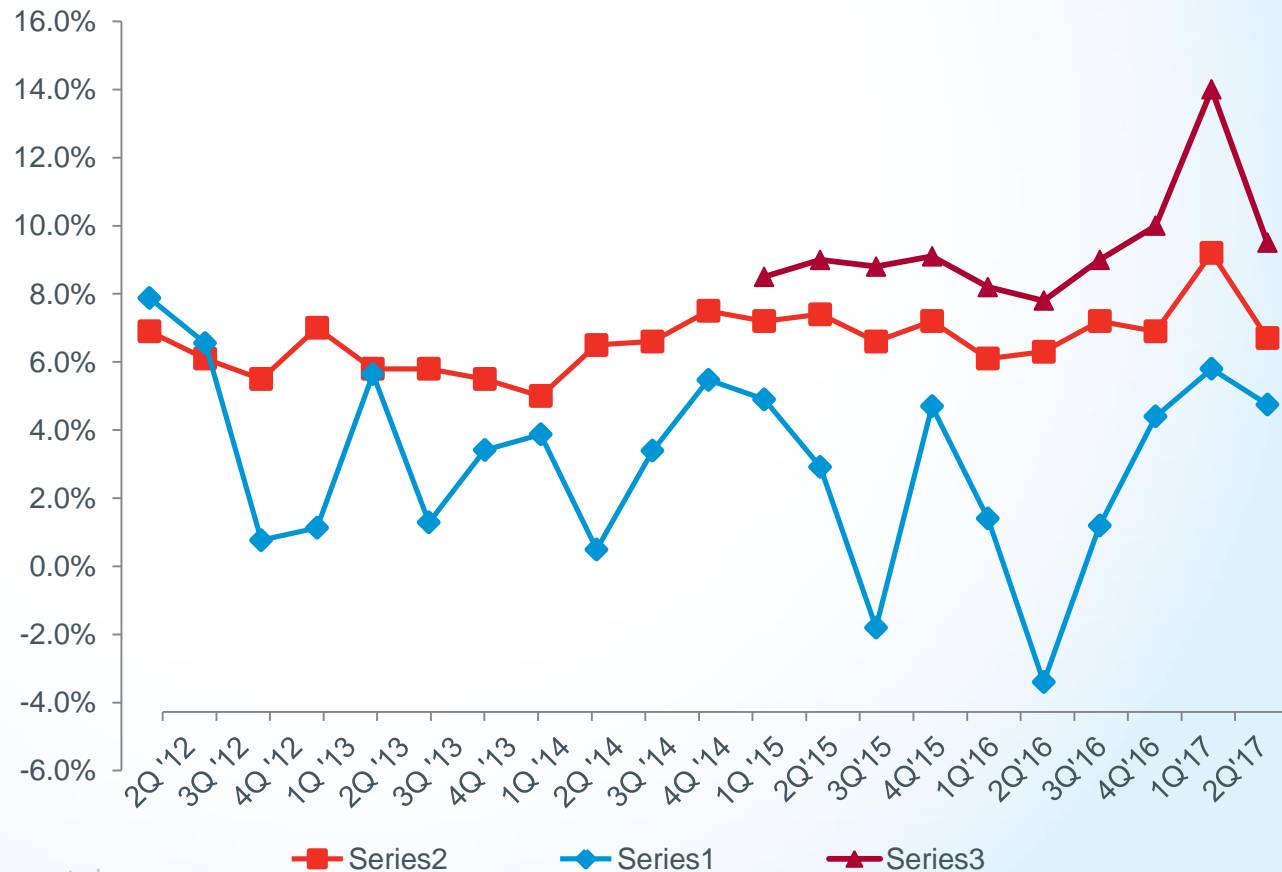
U.S. MIDDLE MARKET

9.5%

PE-OWNED FIRMS

4.75%

S&P 500*











Source: 2Q'17 Middle Market Indicator Report

*2Q numbers include only companies who have reported.

THE RISING TIDE CONTINUES TO LIFT ALMOST ALL BOATS

	2Q 2017	2Q 2016
Performance improved	65%	64%
Performance was unchanged	30	30
Performance deteriorated	5	6

Q2'17 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>	9.9%	6.4%	 <p>CONSTRUCTION</p>	7.4%	7.1%
 <p>MANUFACTURING</p>	7.1%	6.4%	 <p>FINANCIAL SERVICES</p>	6.7%	5.3%
 <p>WHOLESALE TRADE</p>	3.8%	6.1%	 <p>HEALTHCARE</p>	6.6%	4.2%
 <p>RETAIL TRADE</p>	7.1%	4.4%	 <p>OTHER</p>	7.4%	4.7%

Q2'17 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

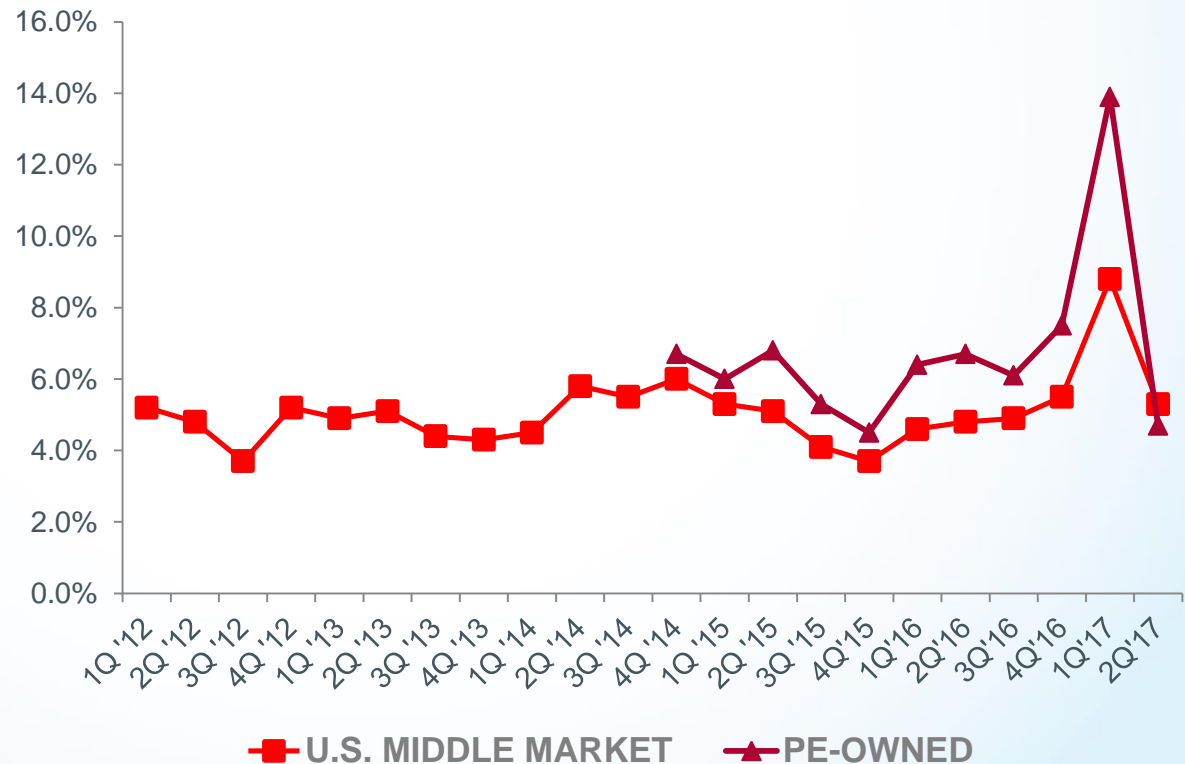
NEXT 12 MONTHS

5.3%

U.S. MIDDLE MARKET

4.7%

PE-OWNED FIRMS



Q2'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

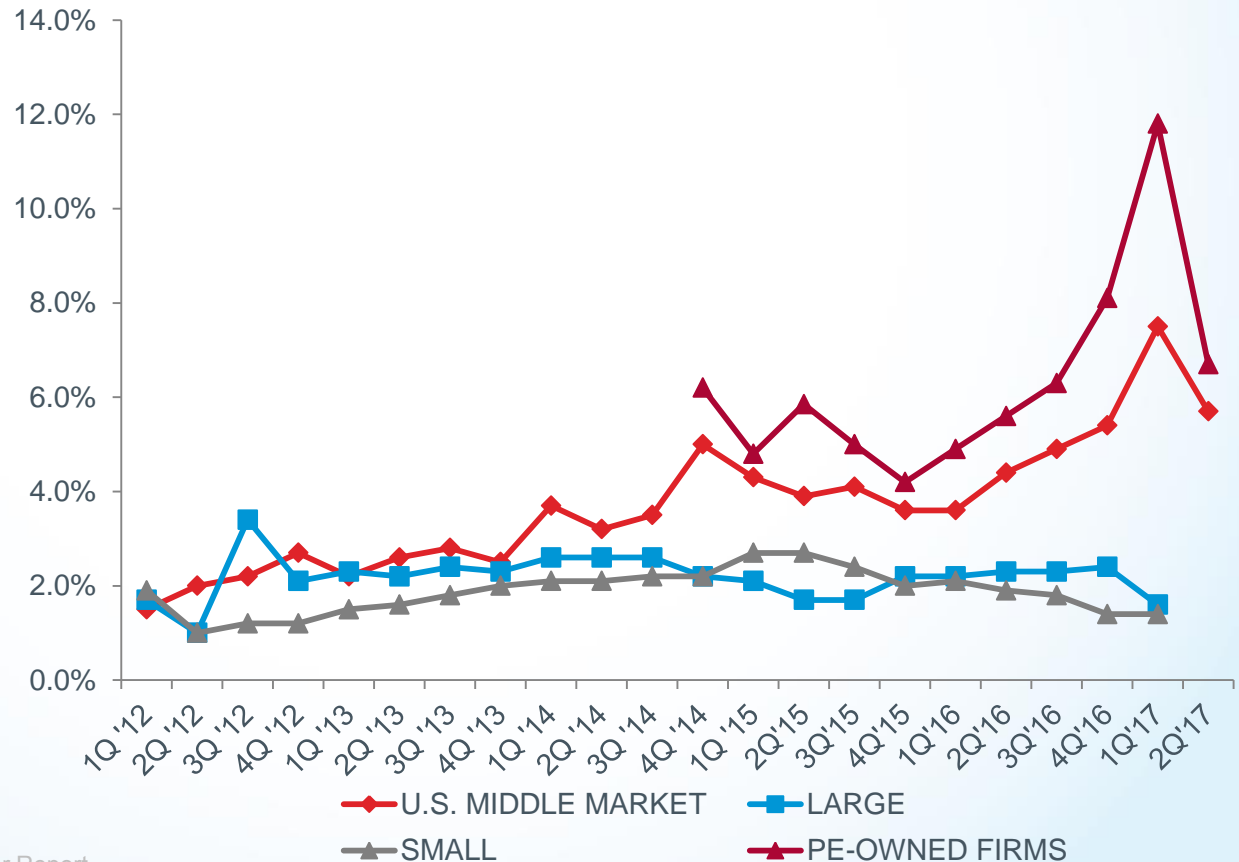
5.7%

U.S. MIDDLE MARKET

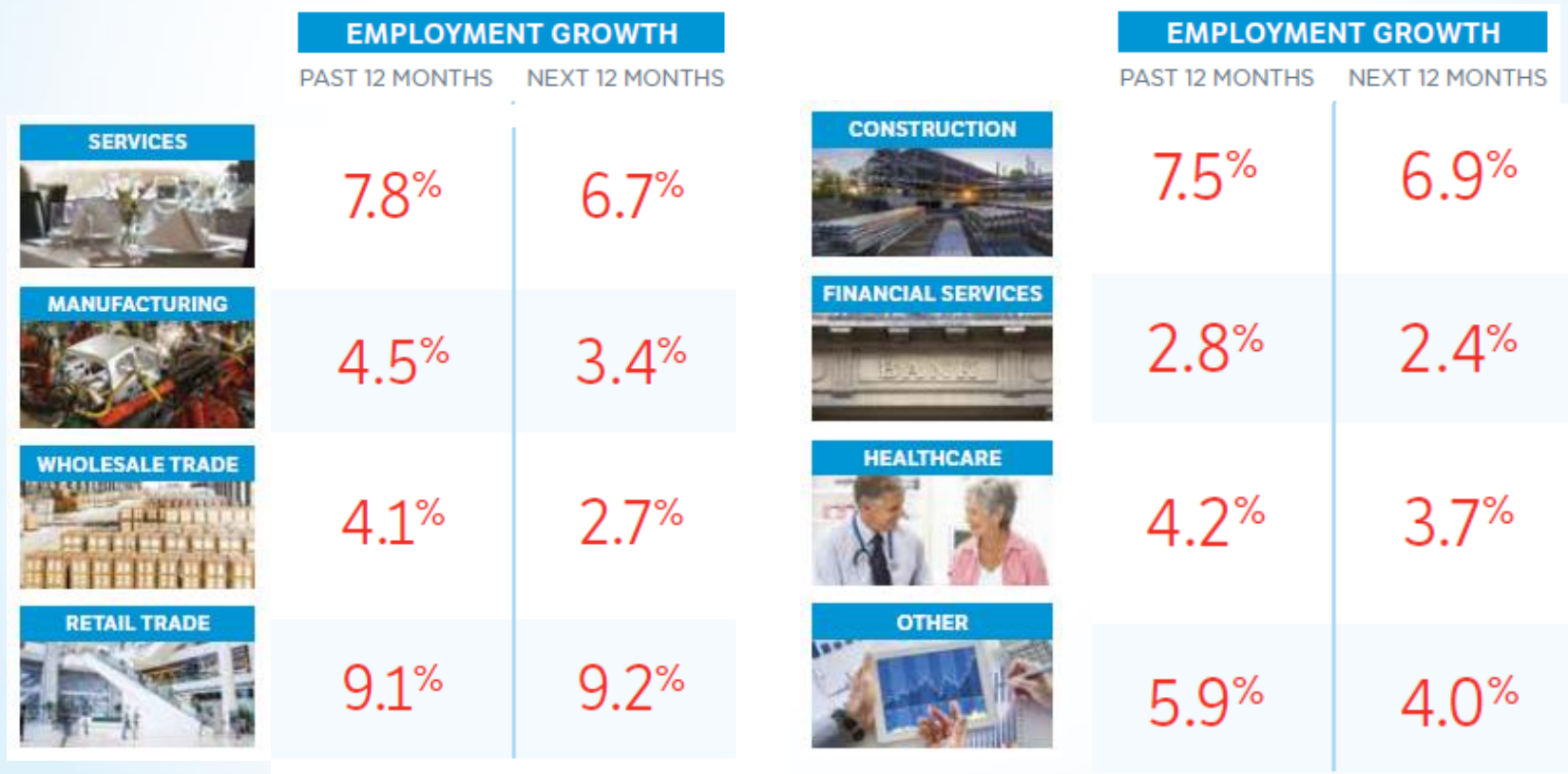
1.3% SMALL BUSINESS
2.5% LARGE BUSINESS

6.7%

PE-OWNED FIRMS



Q2'17 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q2'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

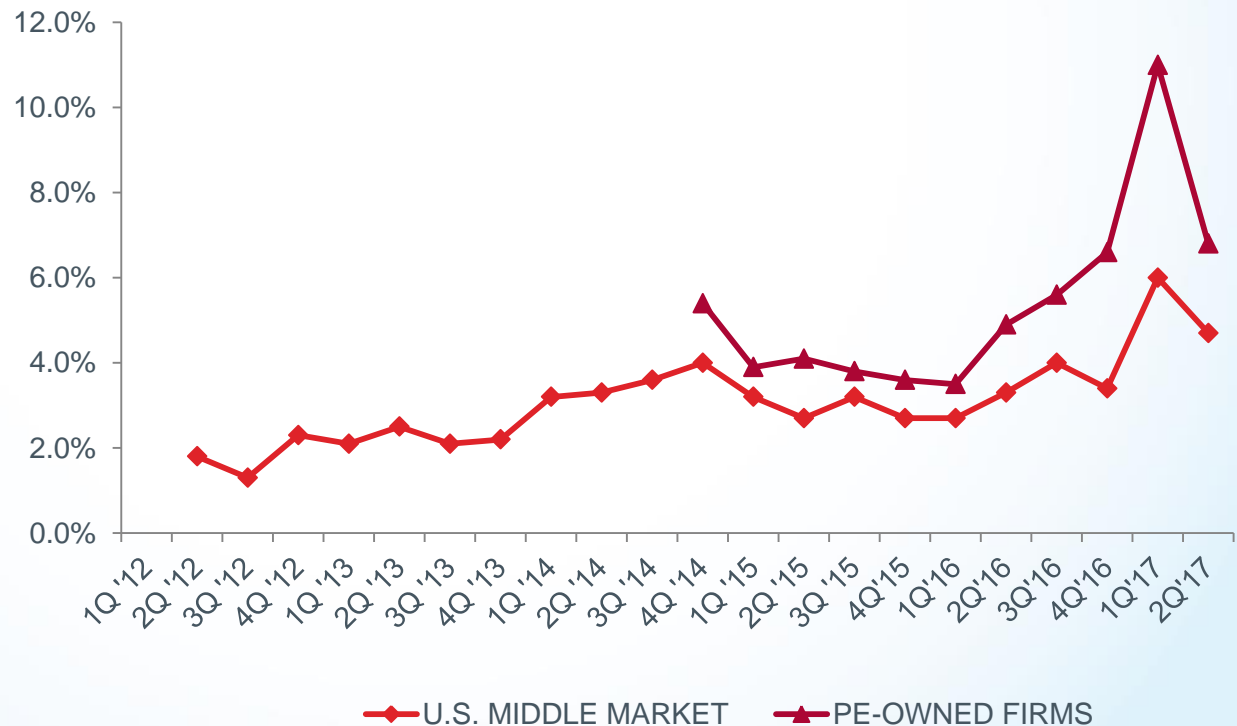
NEXT 12 MONTHS

4.7%

U.S. MIDDLE MARKET

6.8%

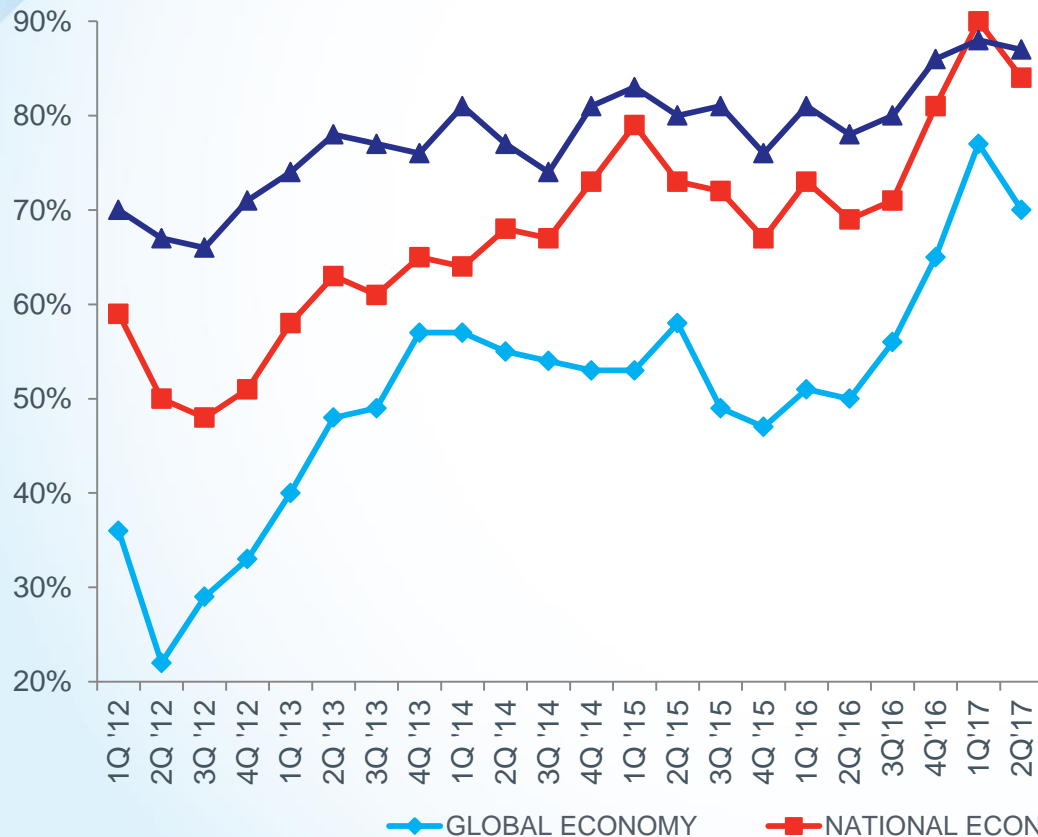
PE-OWNED FIRMS



CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q2'17 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Remains Strong Across the Board



GLOBAL ECONOMY

70%

85% PE-OWNED



U.S. ECONOMY

84%

89% PE-OWNED



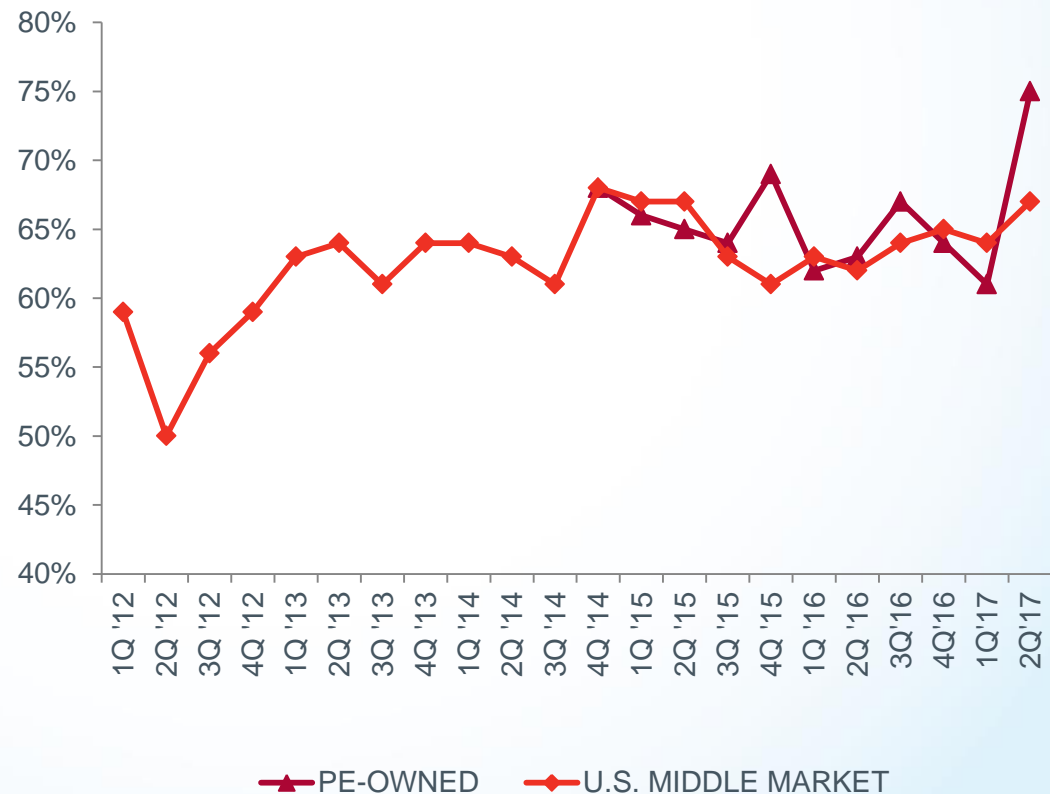
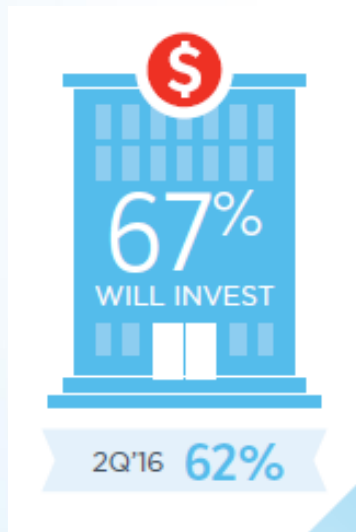
LOCAL ECONOMY

87%

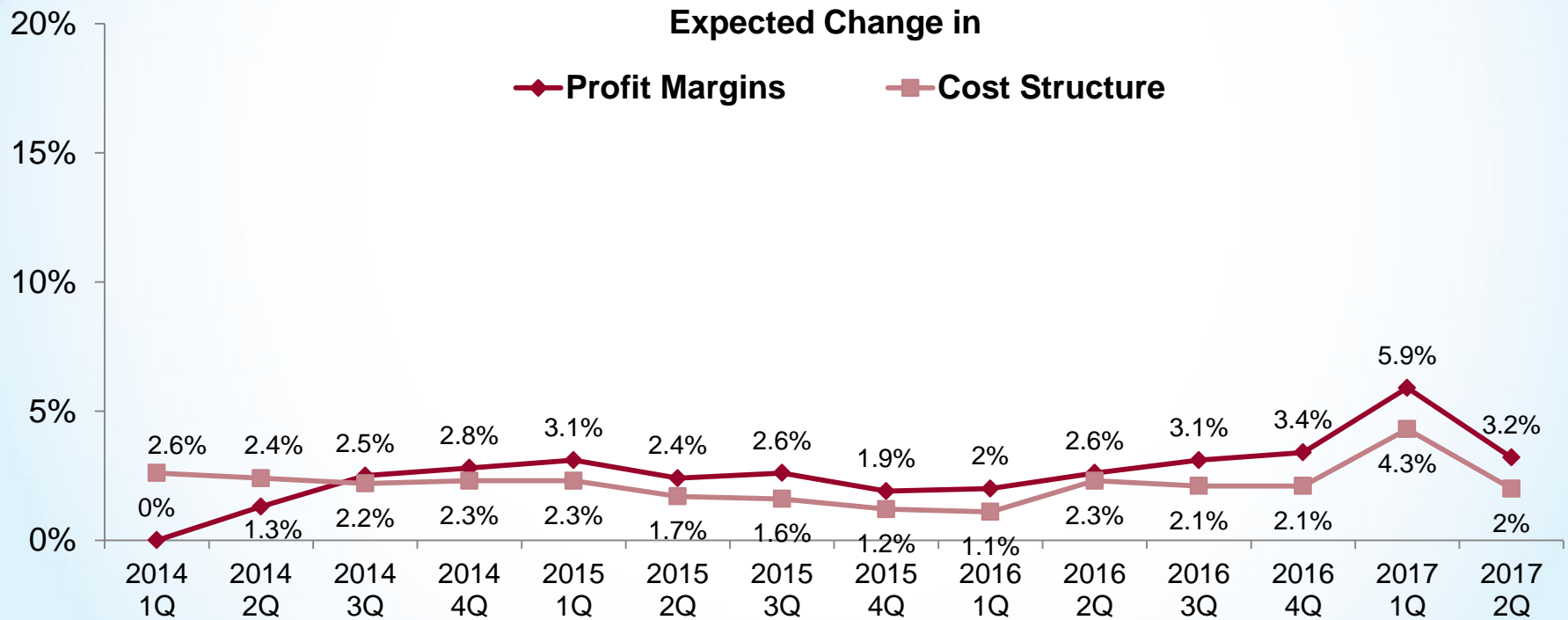
91% PE-OWNED

Q2'17 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

Firms Plan to Invest



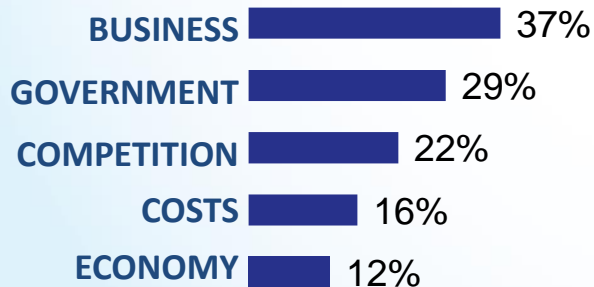
COMPANIES FEEL COSTS ARE UNDER CONTROL AND PROFIT MARGINS SAFE



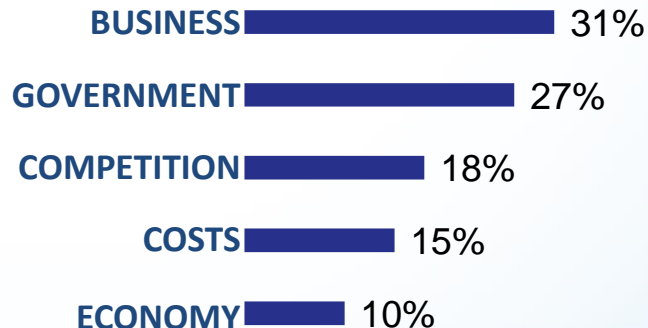
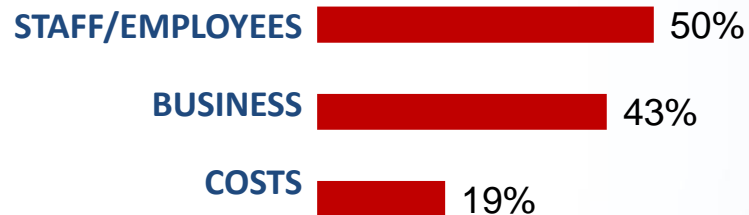
Q2'17 MIDDLE MARKET INDICATOR CHALLENGES

BUSINESS AND STAFF/EMPLOYEES ARE TOP OF MIND FOR MIDDLE MARKET LEADERS

SHORT TERM CHALLENGES (Next 3 months)



LONG TERM CHALLENGES (Next 12 months)



LEADERSHIP SKILLS: WHAT FAST GROWING COMPANIES DO BEST

Performance on Leadership Skills

(One of Strengths)

	Growth Rate				
	10%+	5% - <10%	1% - <5%	0%	Negative
Setting strategic direction	23	33	24	24	21
Driving planning and execution	32	32	38	41	31
Developing talent	35	19	26	15	8
Communication	34	41	25	39	30
Delegating / empowering the team	39	42	28	33	16
Balancing risk and opportunity	26	30	35	44	37
Communicating vision and values	36	20	30	19	21
Creating a sustainable enterprise	23	27	42	23	21
Sharpening customer focus	41	33	14	22	21
Sparking innovation	40	20	17	15	13
Strengthening emotional intelligence	26	10	17	23	56
Encouraging diversity	27	34	15	25	--
Other	--	--	69	100	--

LEADERSHIP SKILLS: WHAT FAST GROWING COMPANIES NEED MOST

Top Leadership Skills Needed

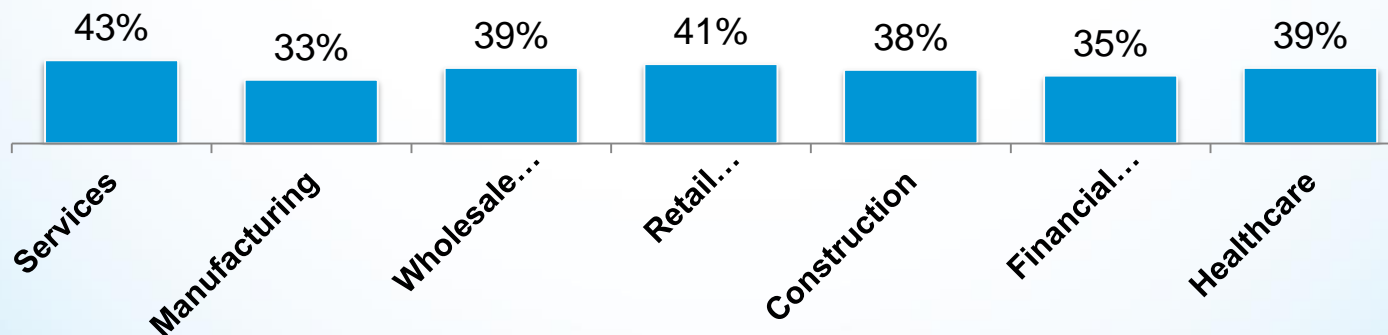
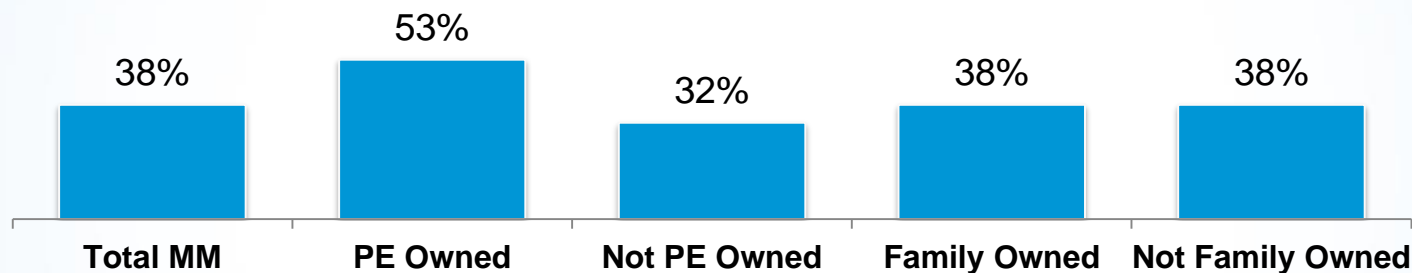
(Ranked 1st-5th)

	Growth Rate				
	10%+	5% - <10%	1% - <5%	0%	Negative
Setting strategic direction	58	69	65	56	55
Driving planning and execution	54	56	59	54	73
Developing talent	53	55	58	57	52
Communication	52	46	58	49	51
Delegating / empowering the team	52	46	53	58	40
Balancing risk and opportunity	48	49	45	48	61
Communicating vision and values	46	52	41	41	61
Creating a sustainable enterprise	32	38	35	44	41
Sharpening customer focus	32	27	25	34	36
Sparking innovation	32	34	32	23	20
Strengthening emotional intelligence	19	17	14	17	7
Encouraging diversity	22	12	13	16	3
Other	1	--	1	3	--

DEAL MAKING: APPETITES AND OBSTACLES

THE APPETITE FOR M&A IS ROBUST— ESPECIALLY AMONG PE-OWNED FIRMS

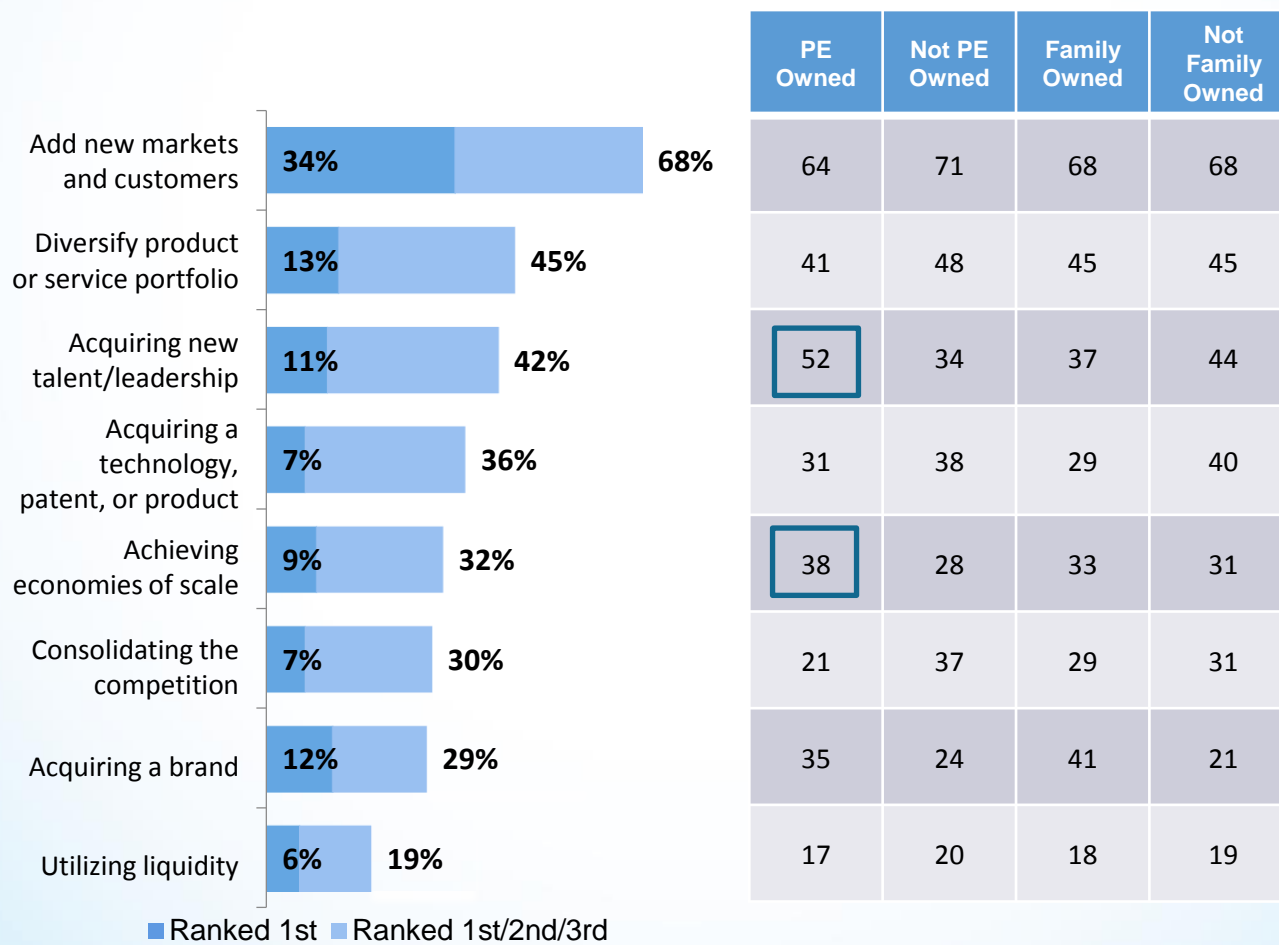
LIKELIHOOD OF MAKING M&A DEALS IN NEXT 12 MONTHS



BUYERS SEEK CUSTOMERS, PRODUCTS, TALENT, AND SCALE

IMPORTANT WHEN DECIDING TO MAKE ACQUISITION

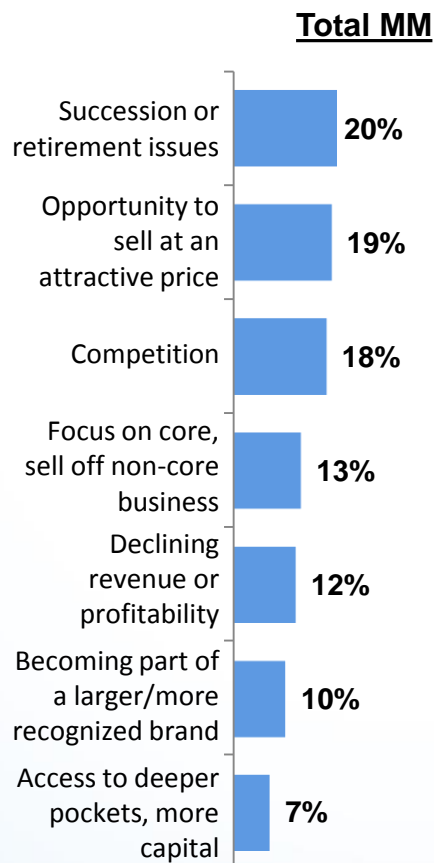
(RANKED 1ST/ 2ND/3RD)



SELLERS ARE MOTIVATED BY SUCCESSION AND PROFITABILITY

IMPORTANT WHEN DECIDING TO MERGE OR SELL

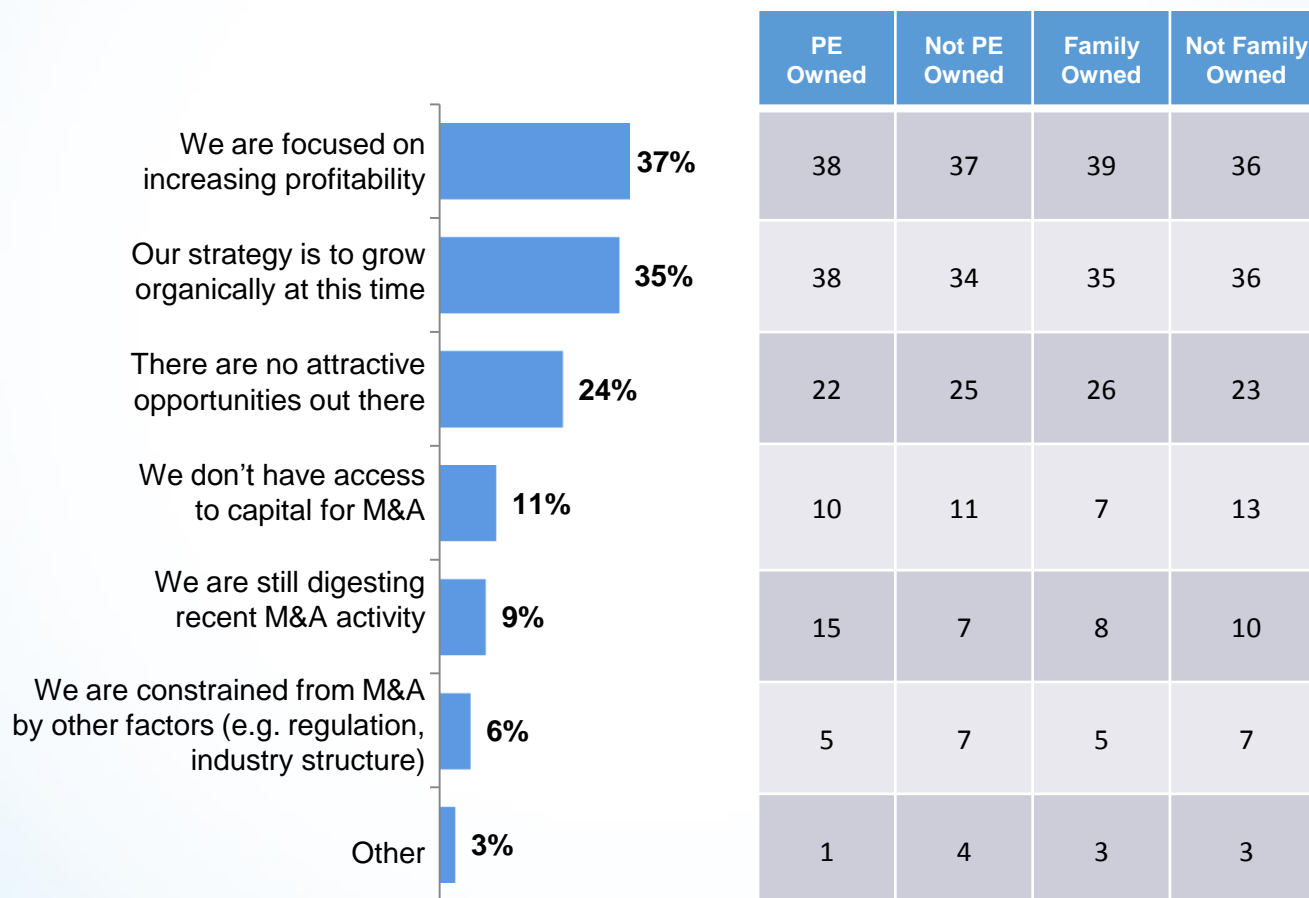
(RANKED 1ST)



	PE Owned	Not PE Owned	Family Owned	Not Family Owned
Succession or retirement issues	14	25	40	7
Opportunity to sell at an attractive price	18	20	11	25
Competition	13	22	18	18
Focus on core, sell off non-core business	20	8	17	11
Declining revenue or profitability	13	12	54	18
Becoming part of a larger/more recognized brand	12	9	5	14
Access to deeper pockets, more capital	10	5	5	9

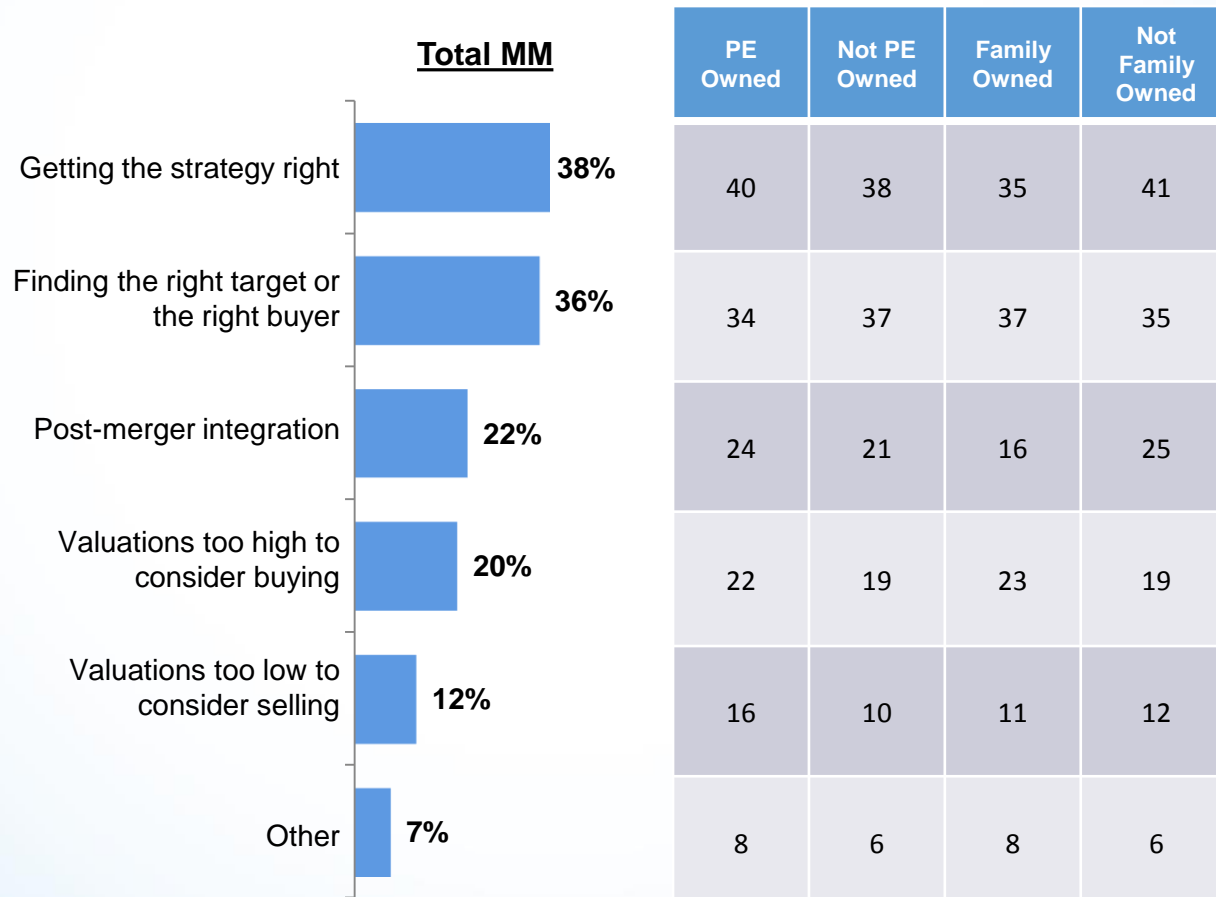
COMPANIES ON THE SIDELINES EMPHASIZE PROFITS, ORGANIC GROWTH

REASONS NOT LIKELY TO MAKE M&A



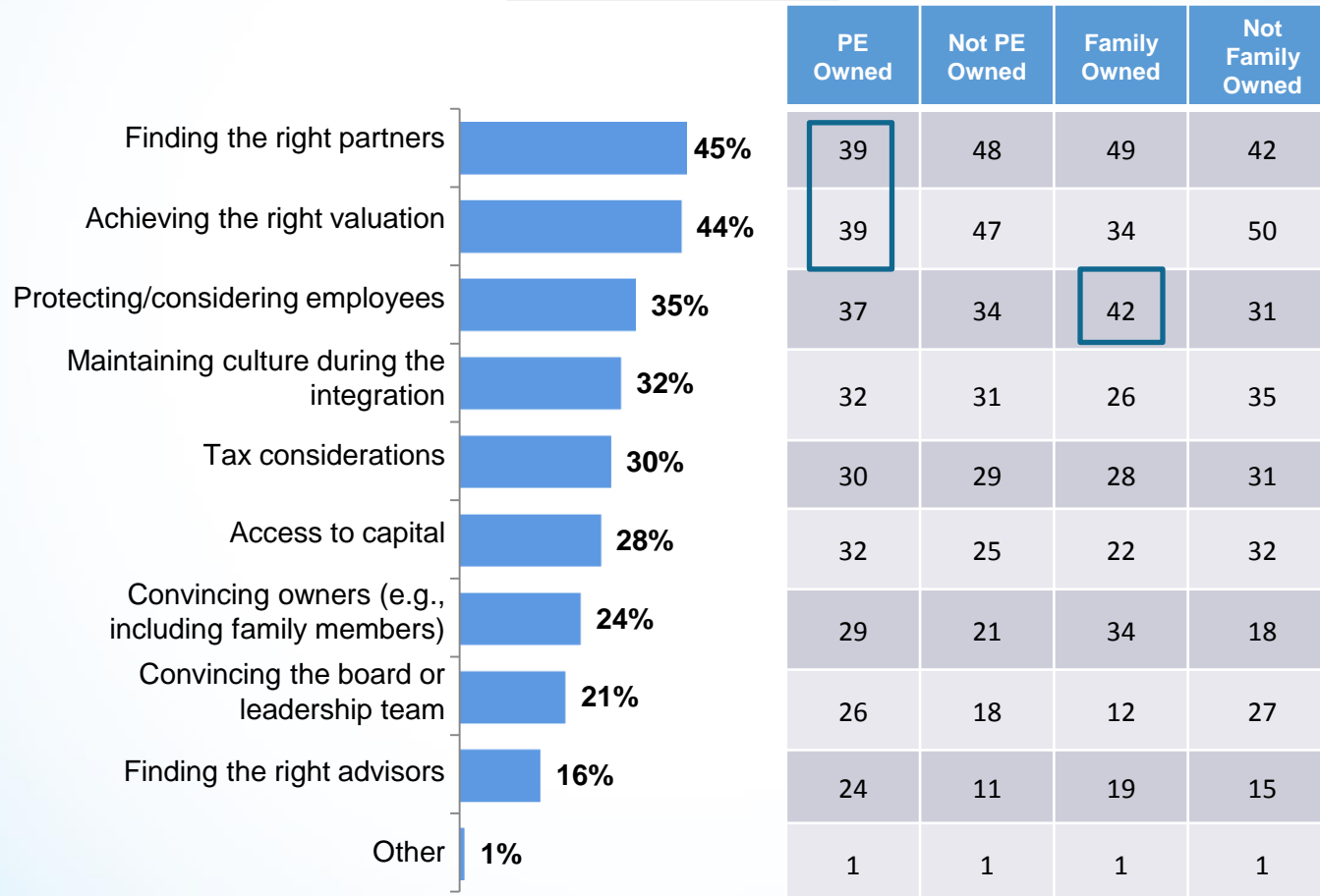
WHAT'S MOST CONFUSING: STRATEGY, FINDING THE RIGHT PARTNER

MOST CONFUSING ASPECT



WHAT'S MOST CHALLENGING: PARTNER AND PRICE

Issues with M&A



THE NCMM'S NEW CYBERSECURITY RESOURCE CENTER

Dedicated to helping middle market companies manage cyber risks



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



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