



NATIONAL CENTER FOR
THE MIDDLE MARKET

October 23, 2019

The Market That Moves America

Findings from the 3Q 2019 Middle Market Indicator Report

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

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

CHUBB®

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, Grant Thornton, Cisco Systems, and Chubb. 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



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Middle Market Research & Data



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Education



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Webinars and Podcasts

The Mighty Middle Market

U.S. MIDDLE MARKET DEFINED



Annual Revenues Range from
\$10MM - \$1B



Accounts for
60% of All New
Private-Sector
Jobs



Nearly
200,000 in All Industry
Businesses Segments and
Geographies

Equivalent to the
5th LARGEST
global economy



Represents
1/3 of Private Sector
GDP and Employment



85%
of Companies
Are Privately Held



More than
\$10 trillion in annual revenue

2Q19 Middle Market Indicator

About the Middle Market Indicator

A Quarterly National Survey



Cut by Geography and Industry



Headlines

- 1** The annualized revenue growth rate for middle market companies fell sharply between the 2nd and 3rd quarters of 2019. Numbers are lower across all industries and geographies. Still the middle market continues to lead the U.S. economy. Private-equity-owned companies outperformed the national averages, and expect to continue to thrive.
- 2** Employment growth, which had been at near-record numbers, fell significantly, too, though the need for talent remains the #1 challenge middle market companies face.
- 3** Caution flags are out. Short-term expectations are down, confidence continues to sag, and executives are building rainy-day funds. PE-owned companies, despite higher performance, appear to be more cautious than the middle market as a whole.
- 4** Executives appear to be tightening investment budgets and focusing on their core business

Overview

REVENUE GROWTH

5.8%

PAST 12 MONTHS

2.1%

S&P 500

4.7%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

4.1%

PAST 12 MONTHS

0.8%
SMALL
BUSINESS

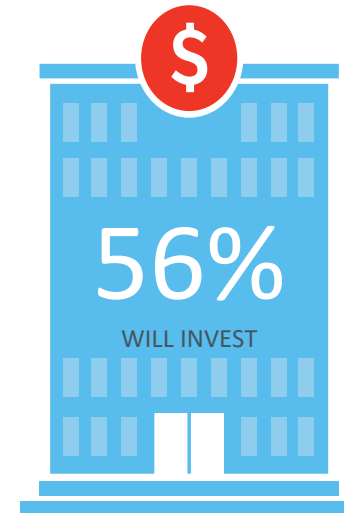
2.4%
LARGE
BUSINESS

2.5%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

54%

GLOBAL ECONOMY



76%

NATIONAL ECONOMY



85%

LOCAL ECONOMY



3Q'19 MMI: Revenue Growth

PAST 12 MONTHS

5.8%

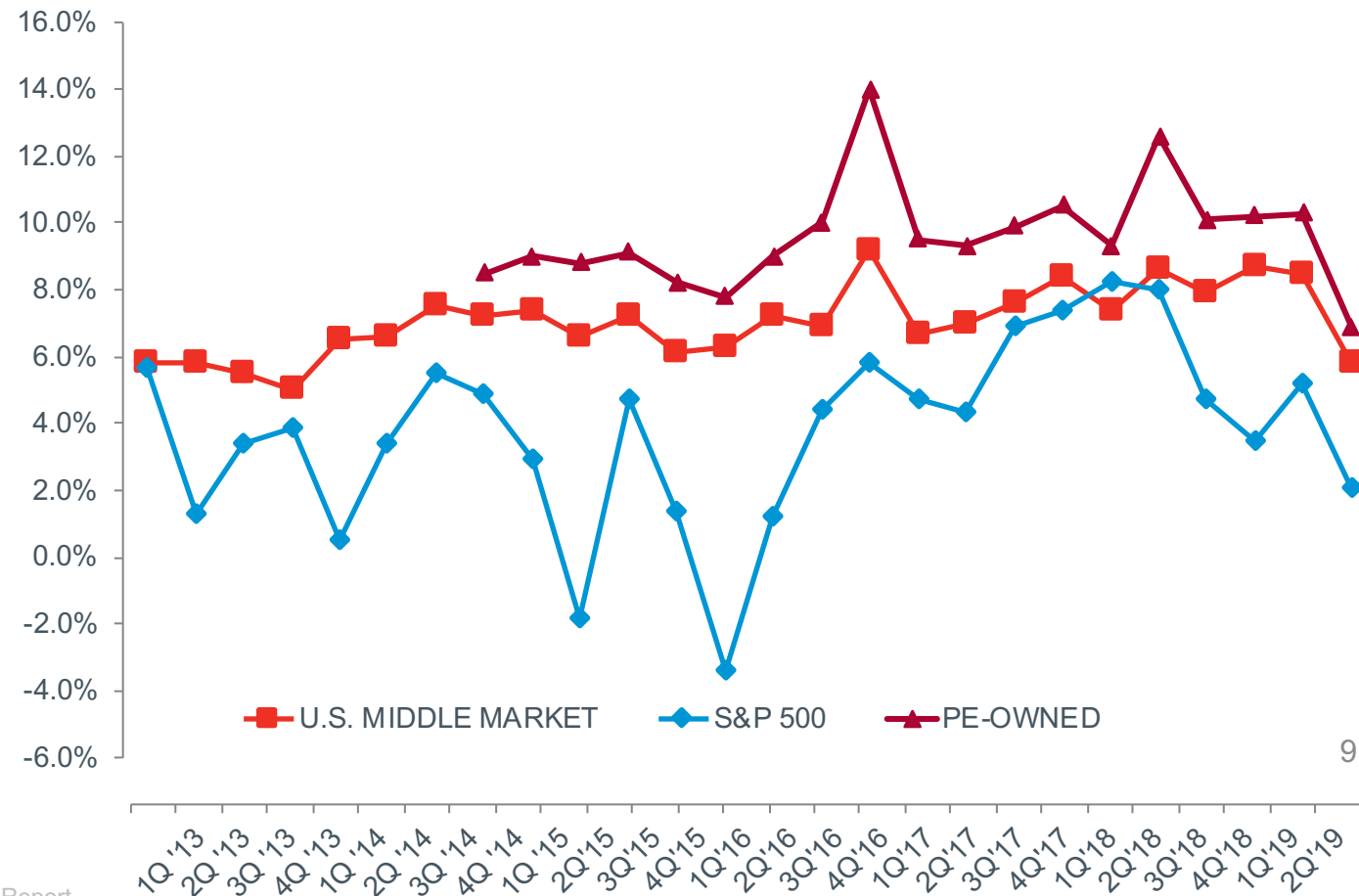
U.S. MIDDLE MARKET

6.9%

PE-OWNED FIRMS

2.1%

S&P 500*

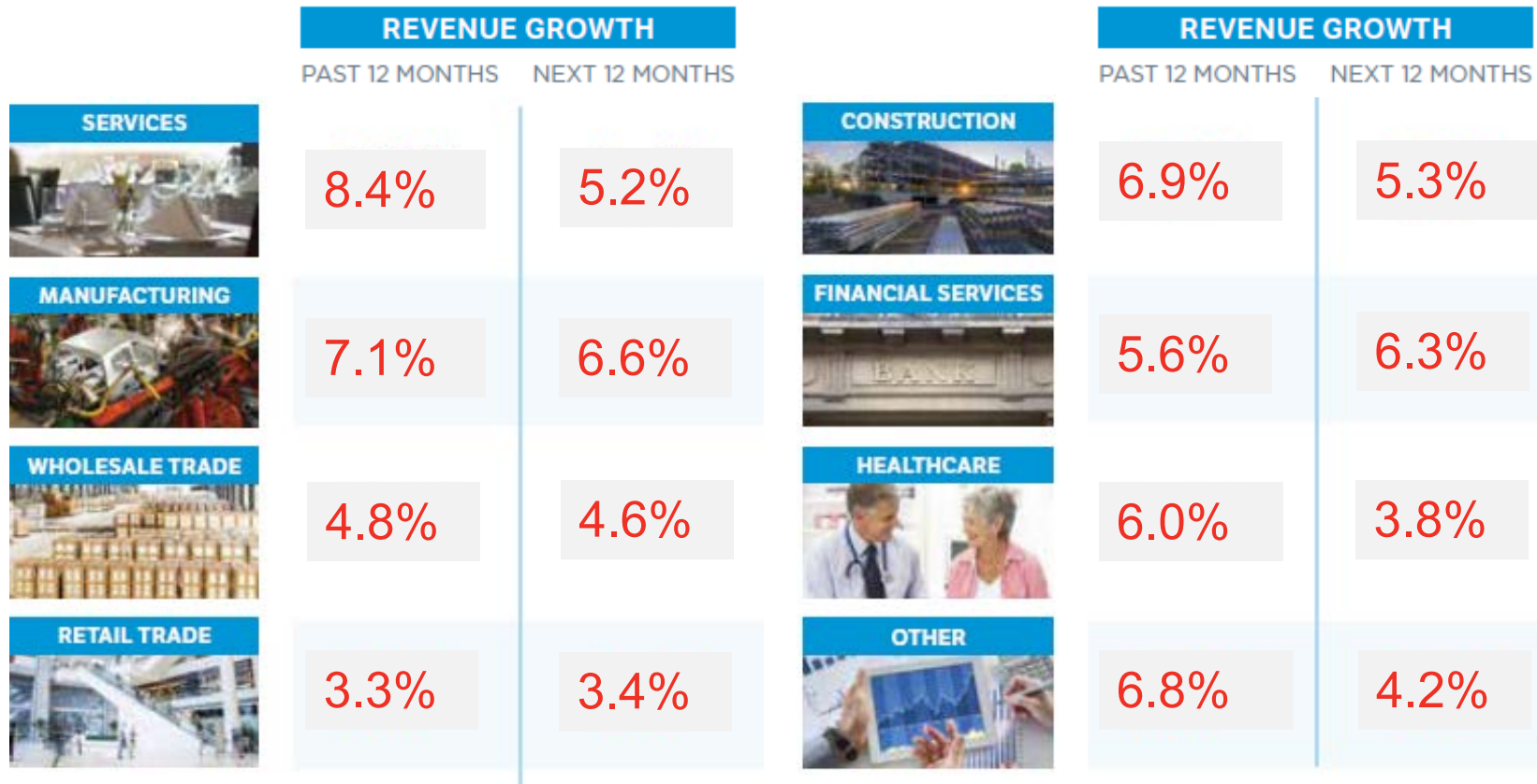


Source: 3Q'19 Middle Market Indicator Report

3Q'19 MMI: Winners and Losers

	2Q 2019	3Q 2019
Performance improved	68%	60% ↓
Performance was unchanged	26%	34% ↑
Performance deteriorated	6%	7%

3Q'19 MMI: Revenue Growth by Industry

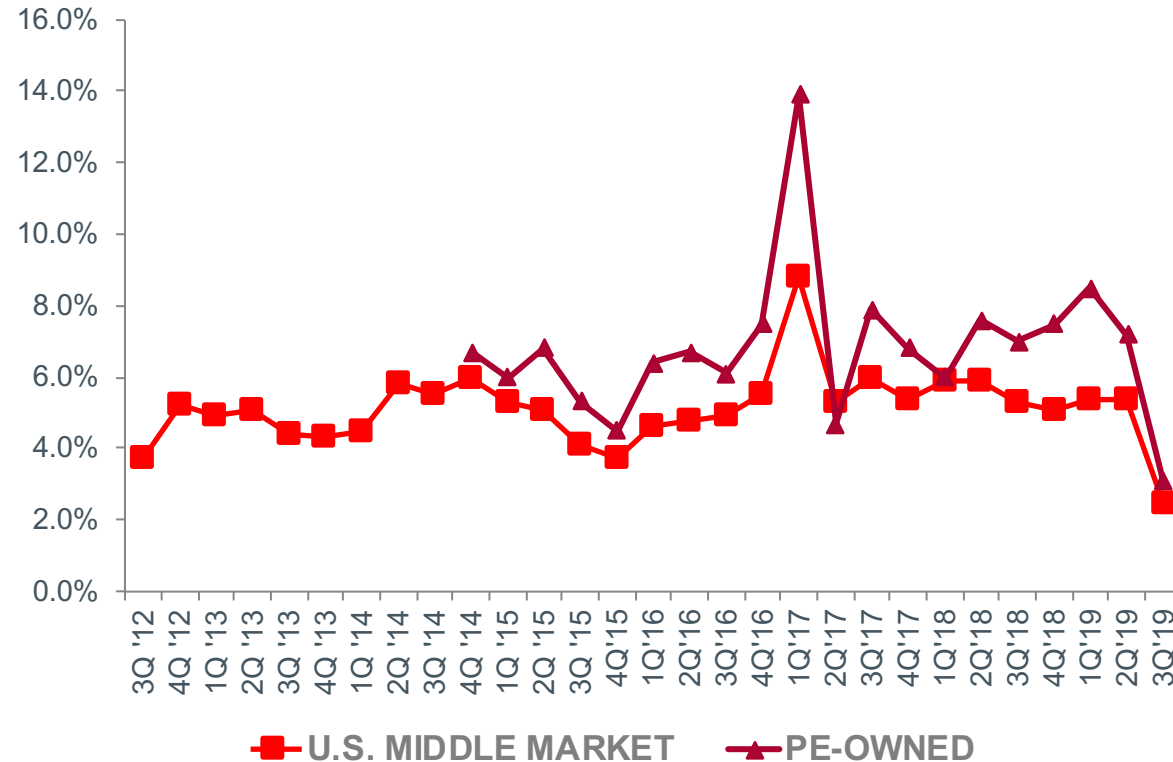


3Q'19 MMI: Revenue Growth Forecast

NEXT 12 MONTHS

2.5%
U.S. MIDDLE MARKET

3.1%
PE-OWNED FIRMS



3Q'19 MMI: Employment Growth

PAST 12 MONTHS

4.1%

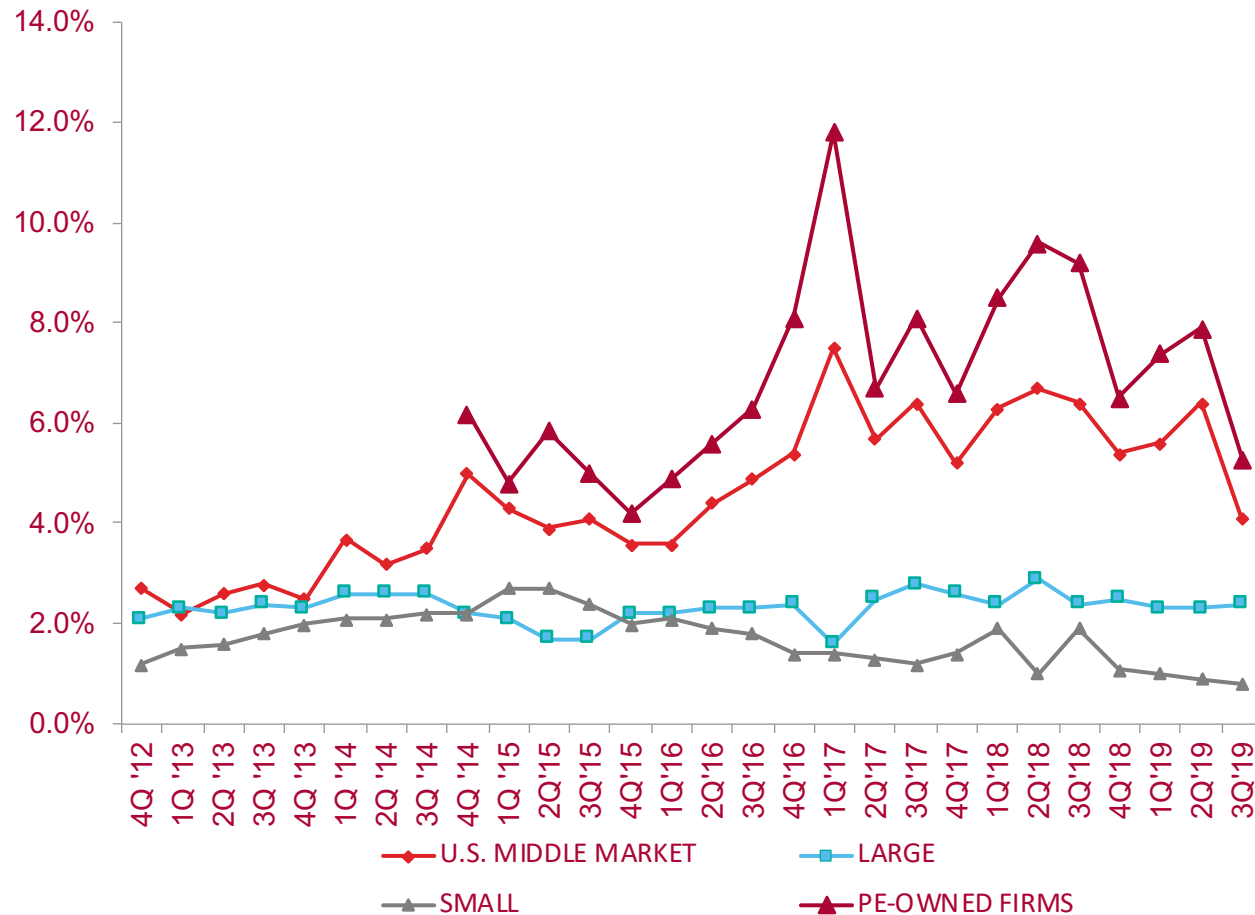
U.S. MIDDLE MARKET

0.9%
SMALL
BUSINESS

2.3%
LARGE
BUSINESS

5.3%

PE-OWNED FIRMS



Source: 3Q'19 Middle Market Indicator Report

3Q'19 MMI: Employment Growth by Industry



3Q'19 MMI: Employment Growth Forecast

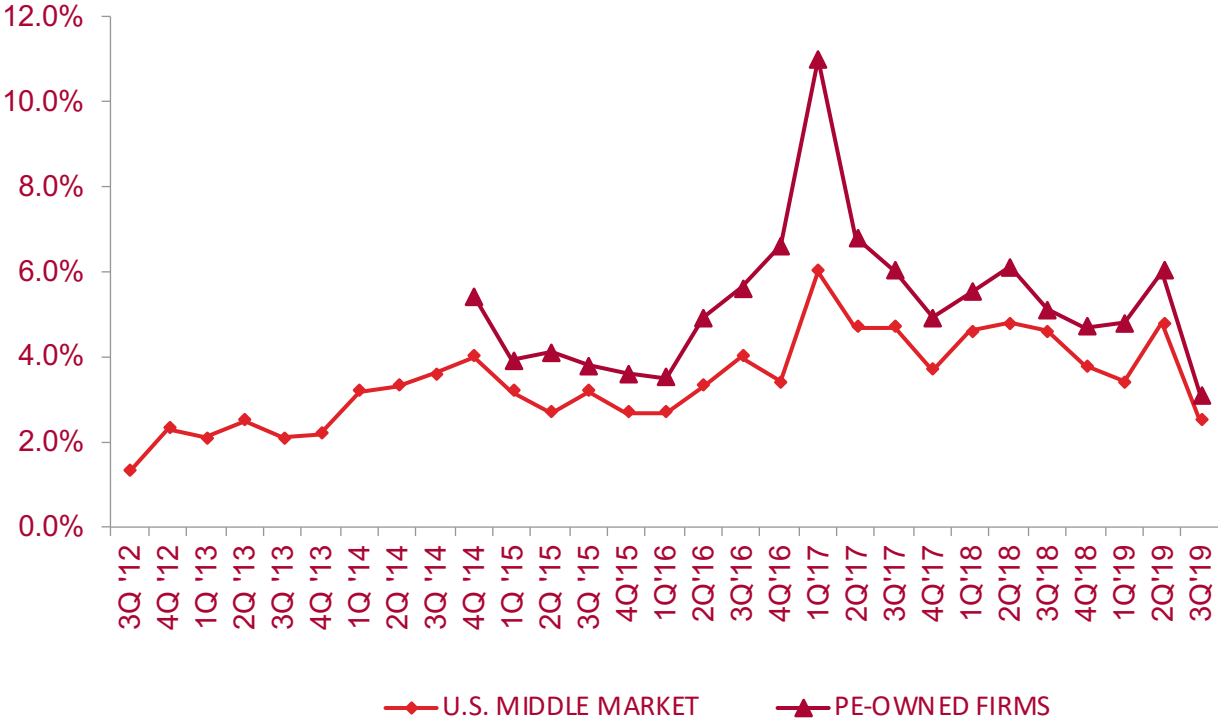
NEXT 12 MONTHS

2.5%

U.S. MIDDLE MARKET

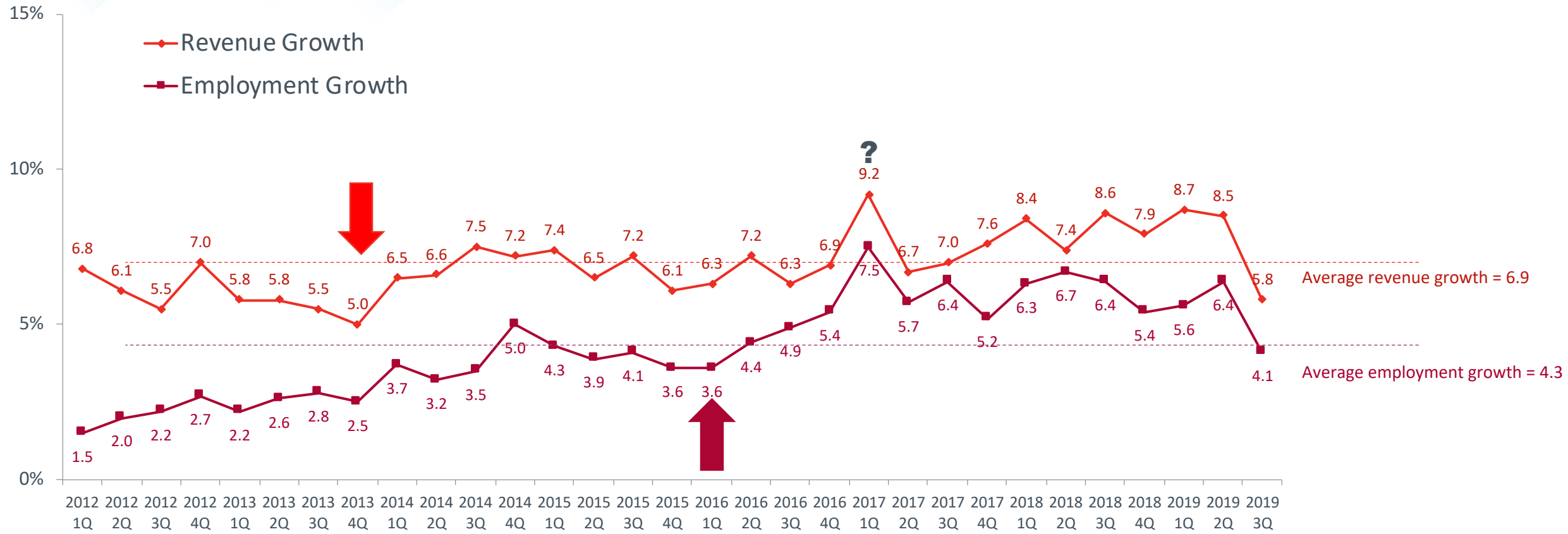
3.1%

PE-OWNED FIRMS



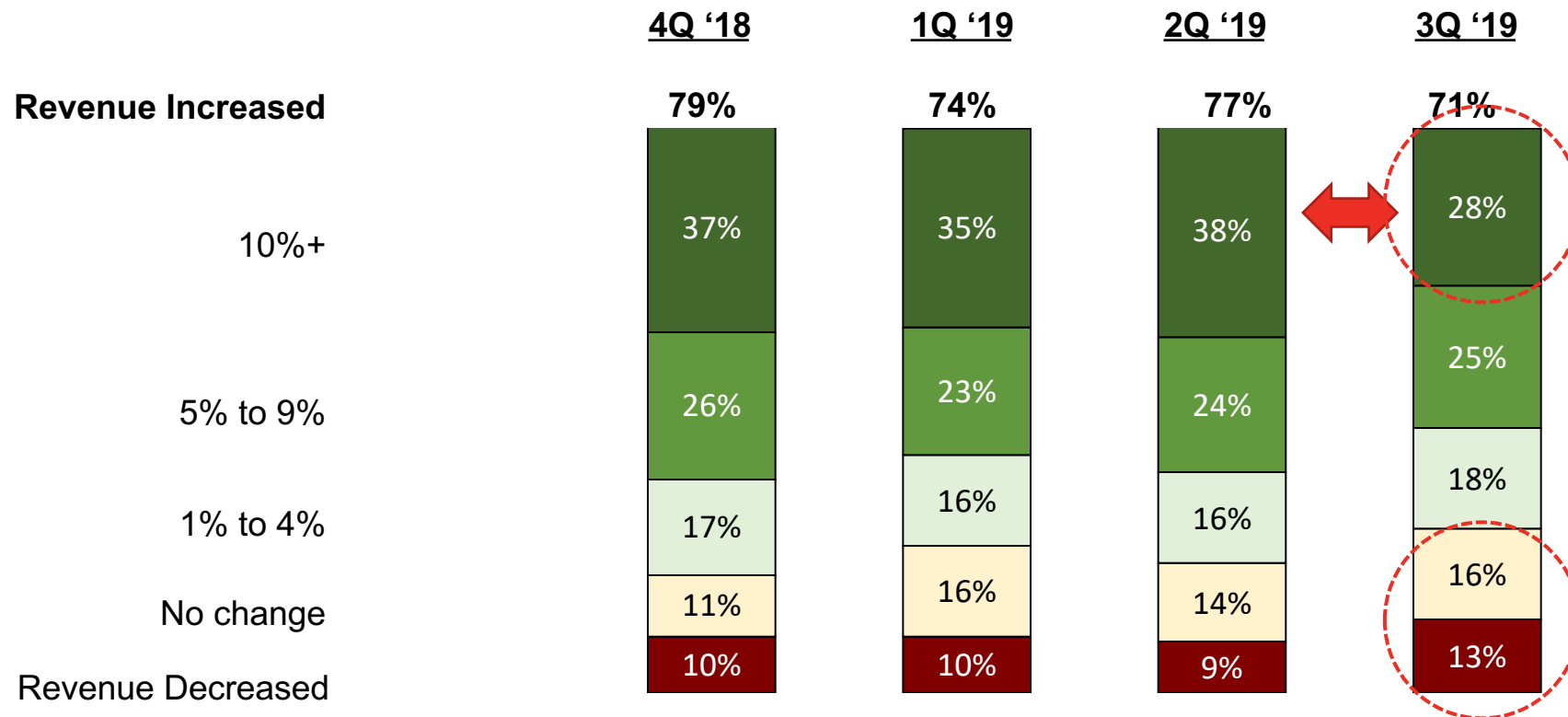
Source: 3Q'19 Middle Market Indicator Report

2Q'19 MMI: Revenue and Headcount Trends



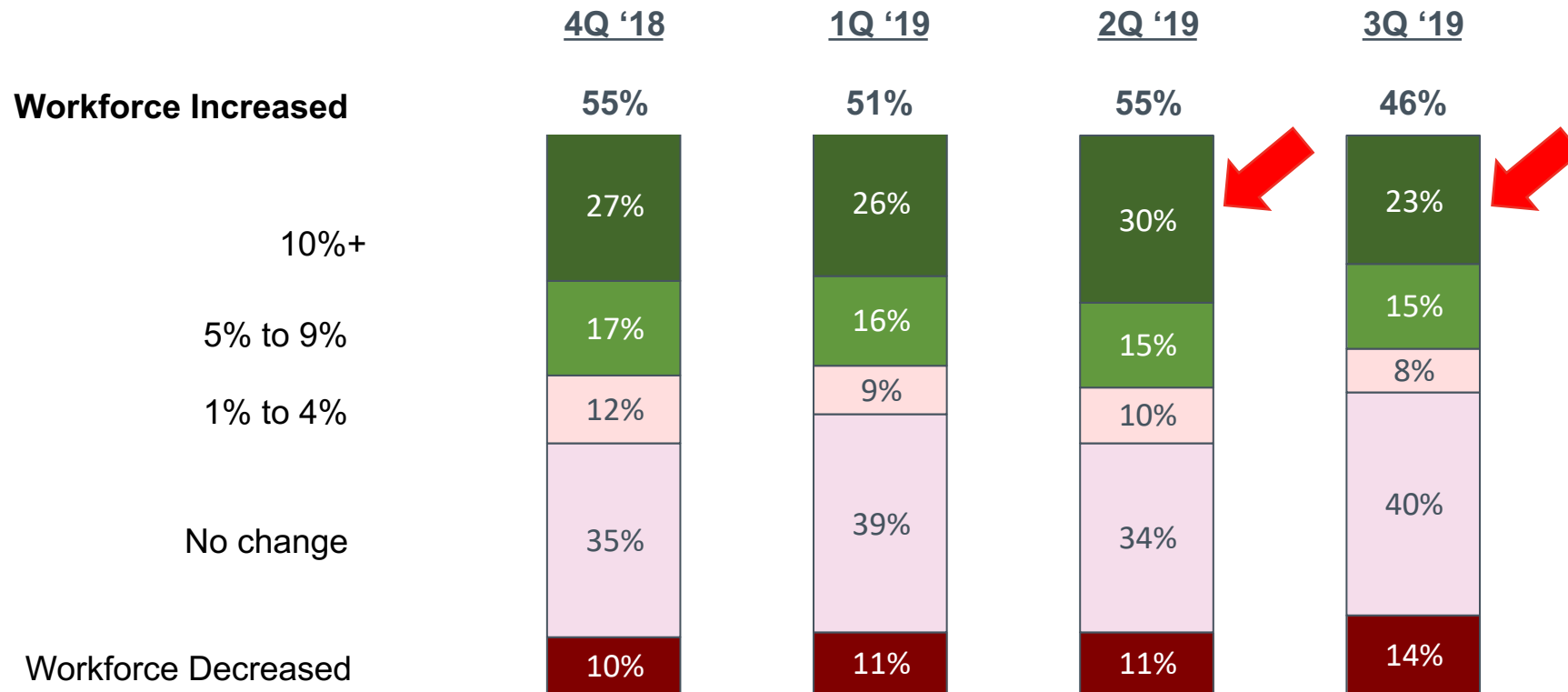
3Q'19 MMI: Fewer High Fliers

Past Year Revenue Growth

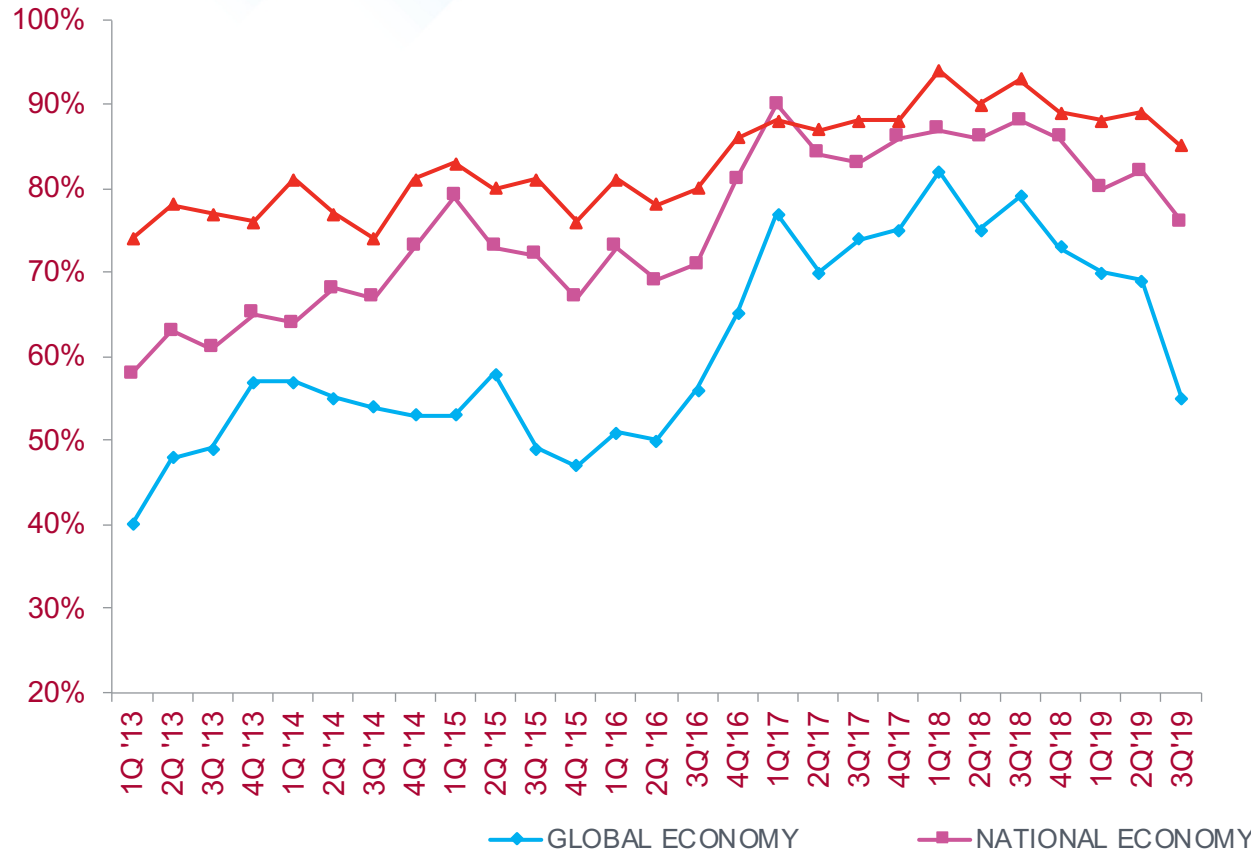


3Q'19 MMI: Fewer Big Hirers

Past Year Employment Growth



3Q'19 MMI: Economic Confidence Has Fallen



GLOBAL ECONOMY

55%

56% PE-OWNED



U.S. ECONOMY

76%

81% PE-OWNED



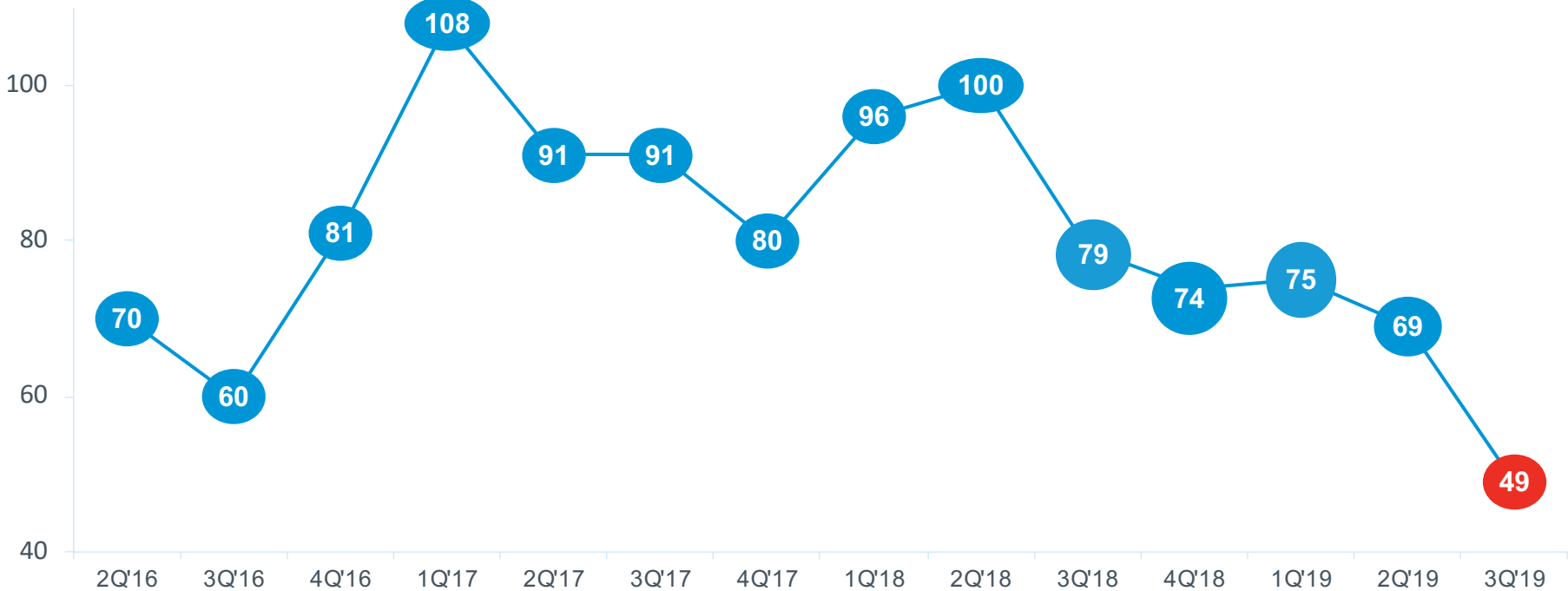
LOCAL ECONOMY

85%

86% PE-OWNED

3Q'19 MMI: Short Term Index Has Dropped Further

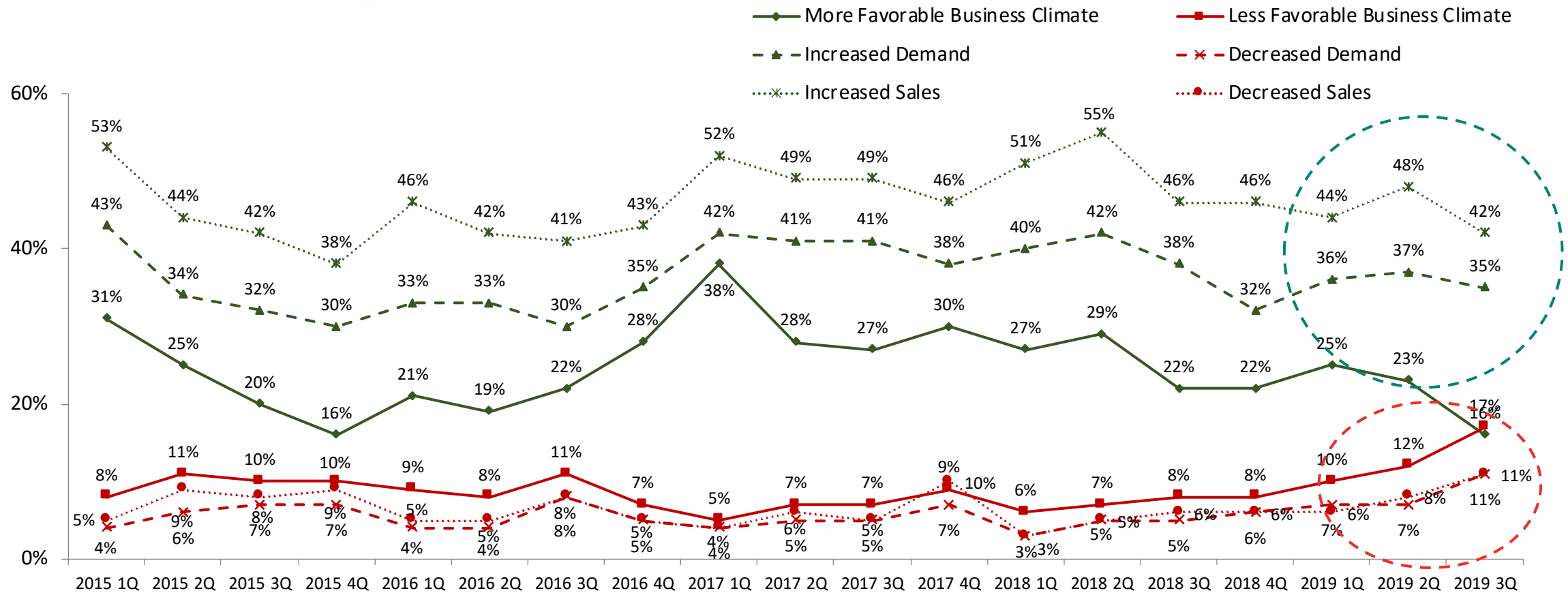
Short Term Index is calculated by taking expected net positive change in business climate plus expected net positive change in demand plus expected net positive change in sales over the next 3 months.



Source: 3Q'19 Middle Market Indicator Report

Short-Term Index Shows Lower Sales Forecasts

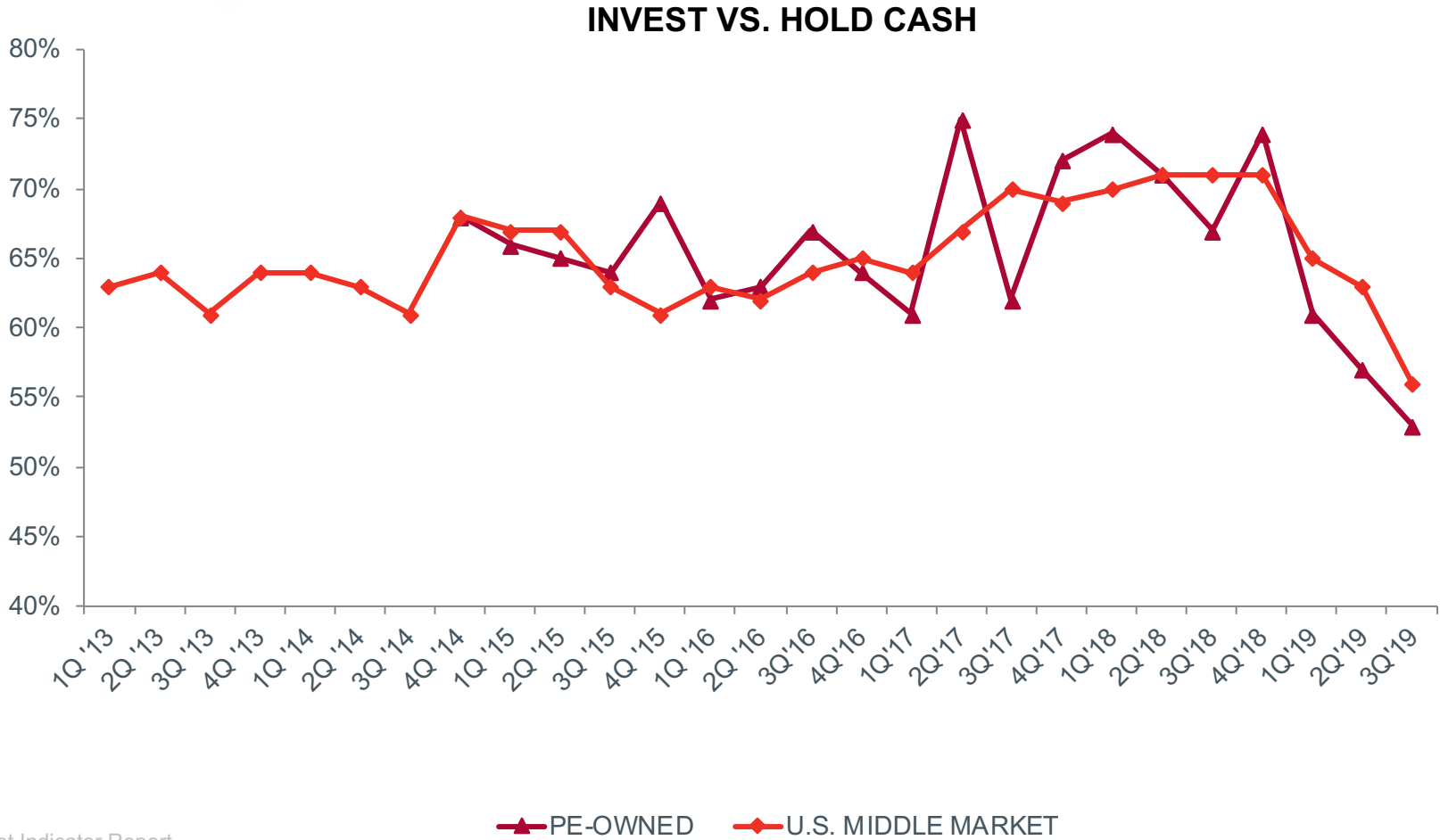
Short Term Outlook
(Next 3 Months)



Source: 3Q'19 Middle Market Indicator Report

3Q'19 MMI: Investment Appetites Have Weakened

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR?

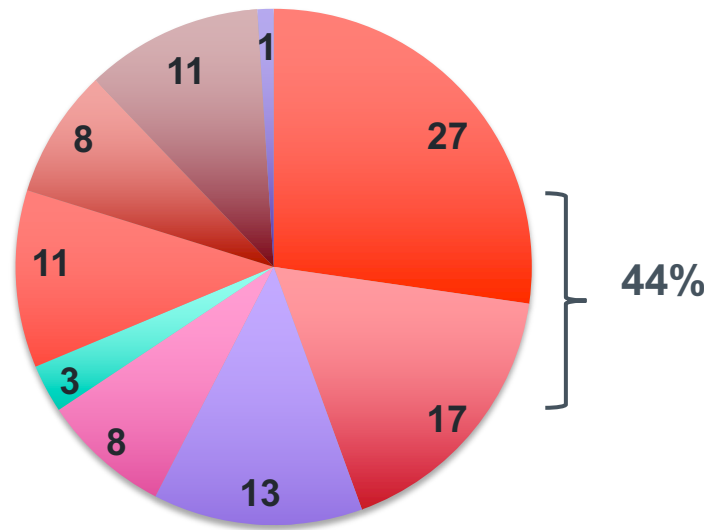


Source: 3Q'19 Middle Market Indicator Report

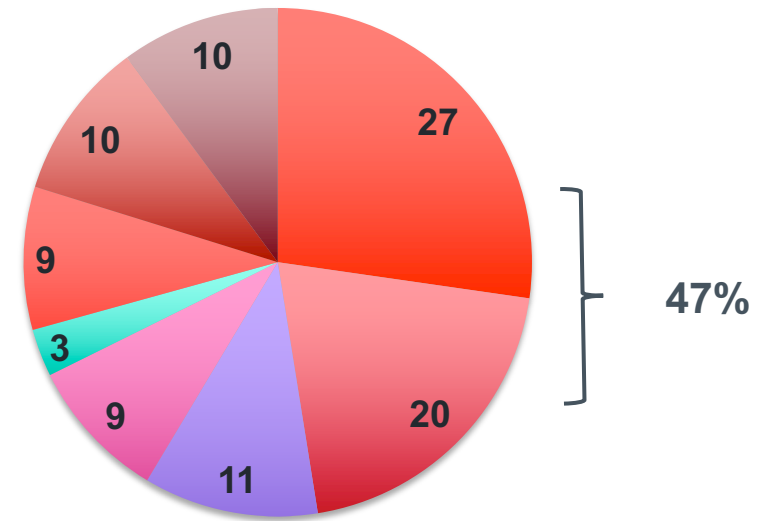
3Q'19 MMI: Rainy-Day Funds May Be Growing

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

- Save It-Hold as Cash
- Save It--for Making Investments
- CapEx--Plant & Equipment
- CapEx--Facilities
- Acquisitions
- Add to HR--More Personnel
- Add to HR--Training & Development
- IT
- Other

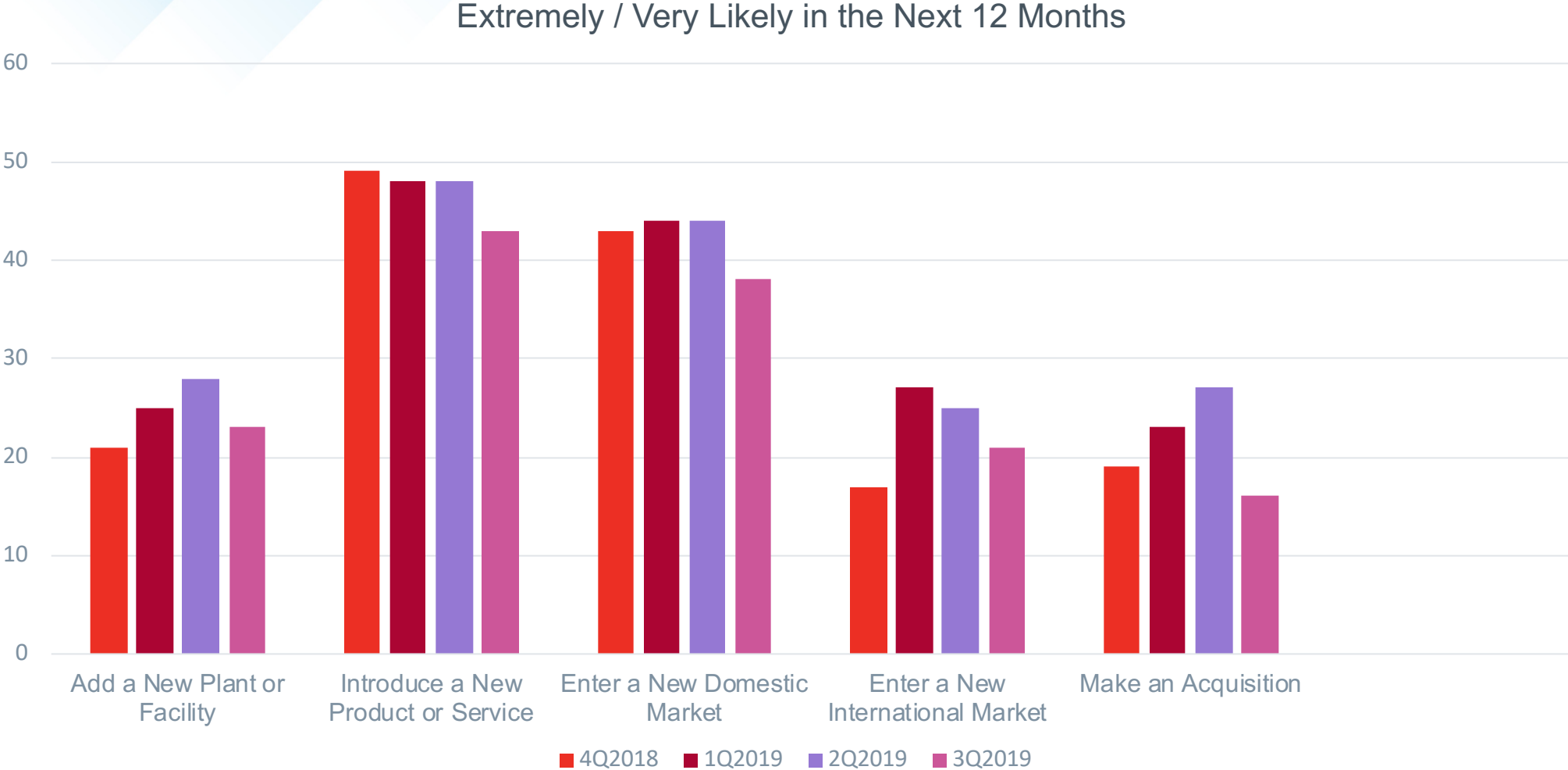


U.S. MIDDLE MARKET



PE-OWNED

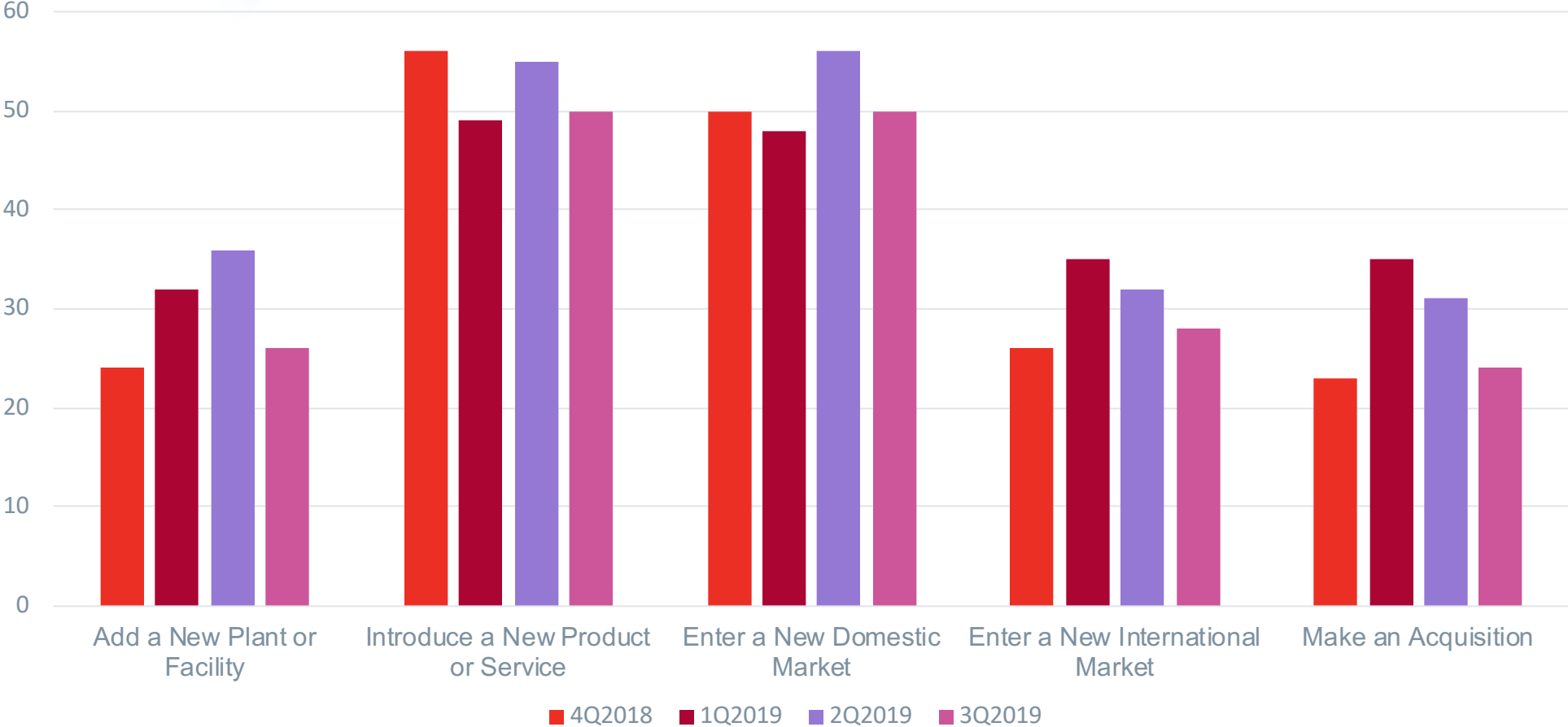
3Q'19 MMI: Expansion Plans Are Changing Slightly



Source: 3Q'19 Middle Market Indicator Report

3Q'19 MMI: PE Expansion Plans

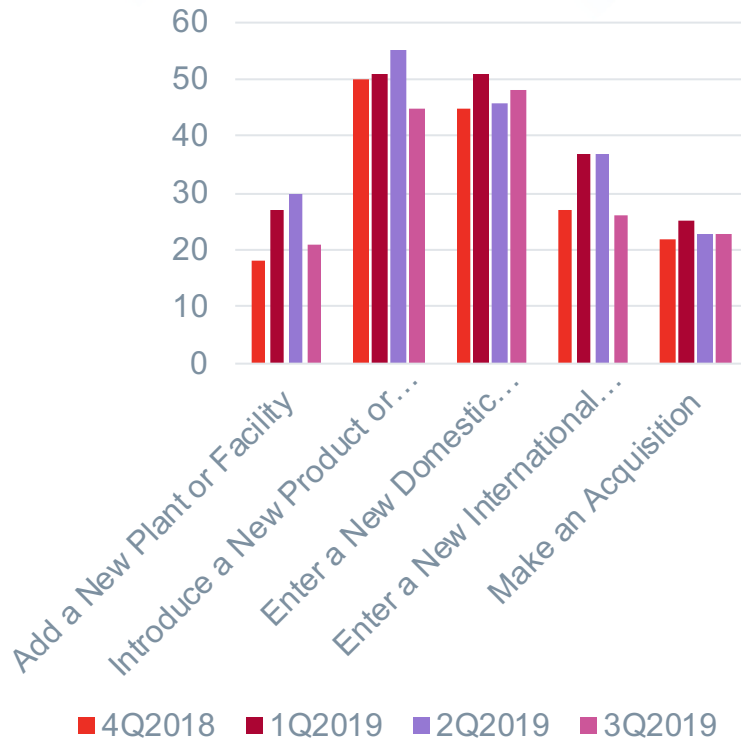
Extremely / Very Likely in the Next 12 Months



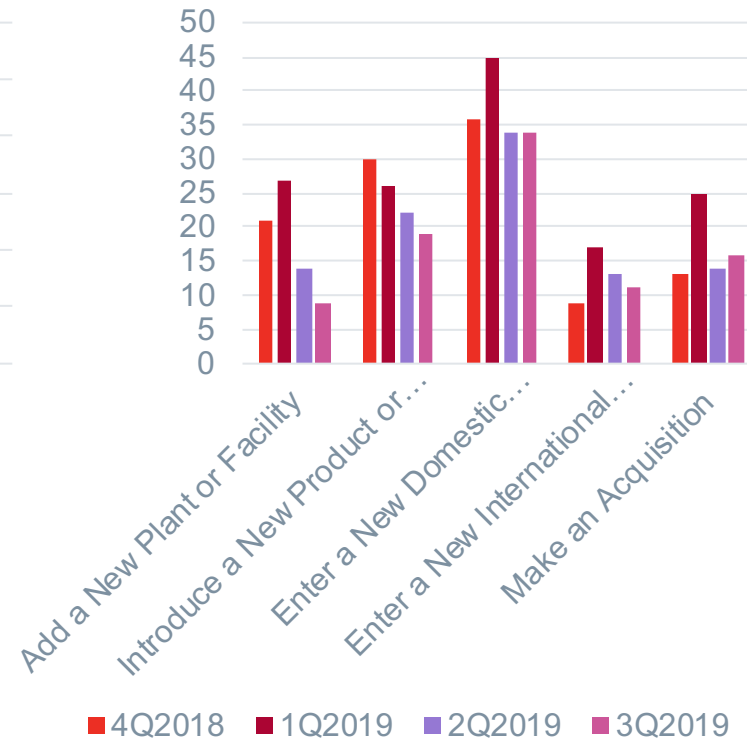
Source: 3Q'19 Middle Market Indicator Report

3Q'19 MMI: Investment Plans Selected Industries

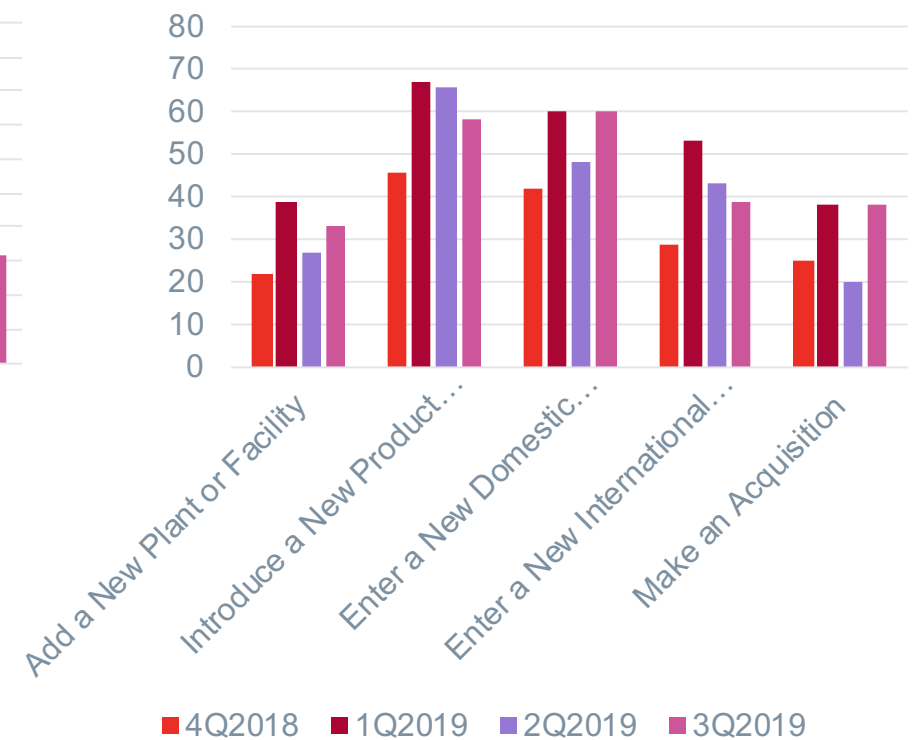
Manufacturing



Construction

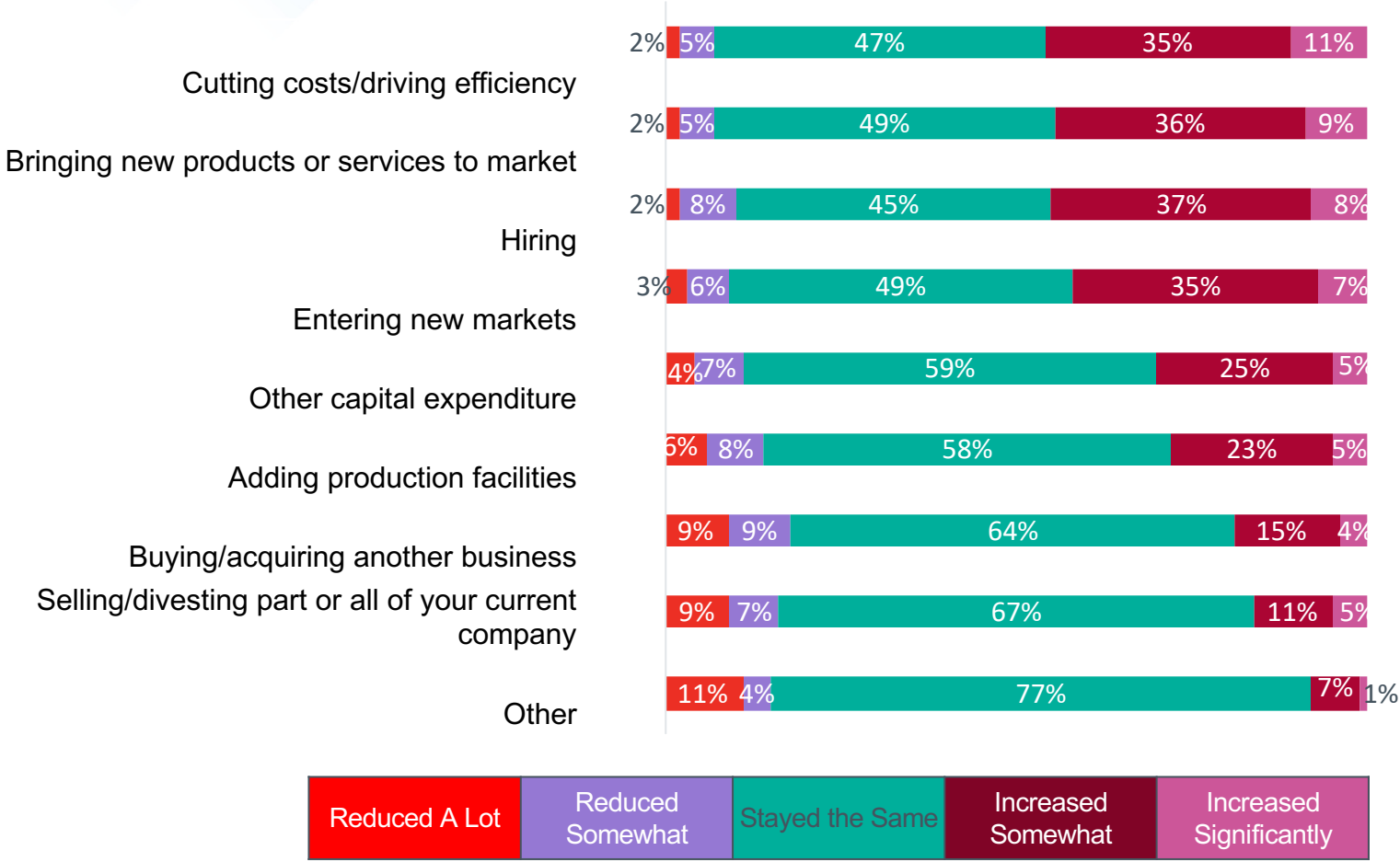


Technology



Executive Response: More Focus on Costs, Less on M&A; and Steady as She Goes

How Company's Plans Changed in Last 6 Months

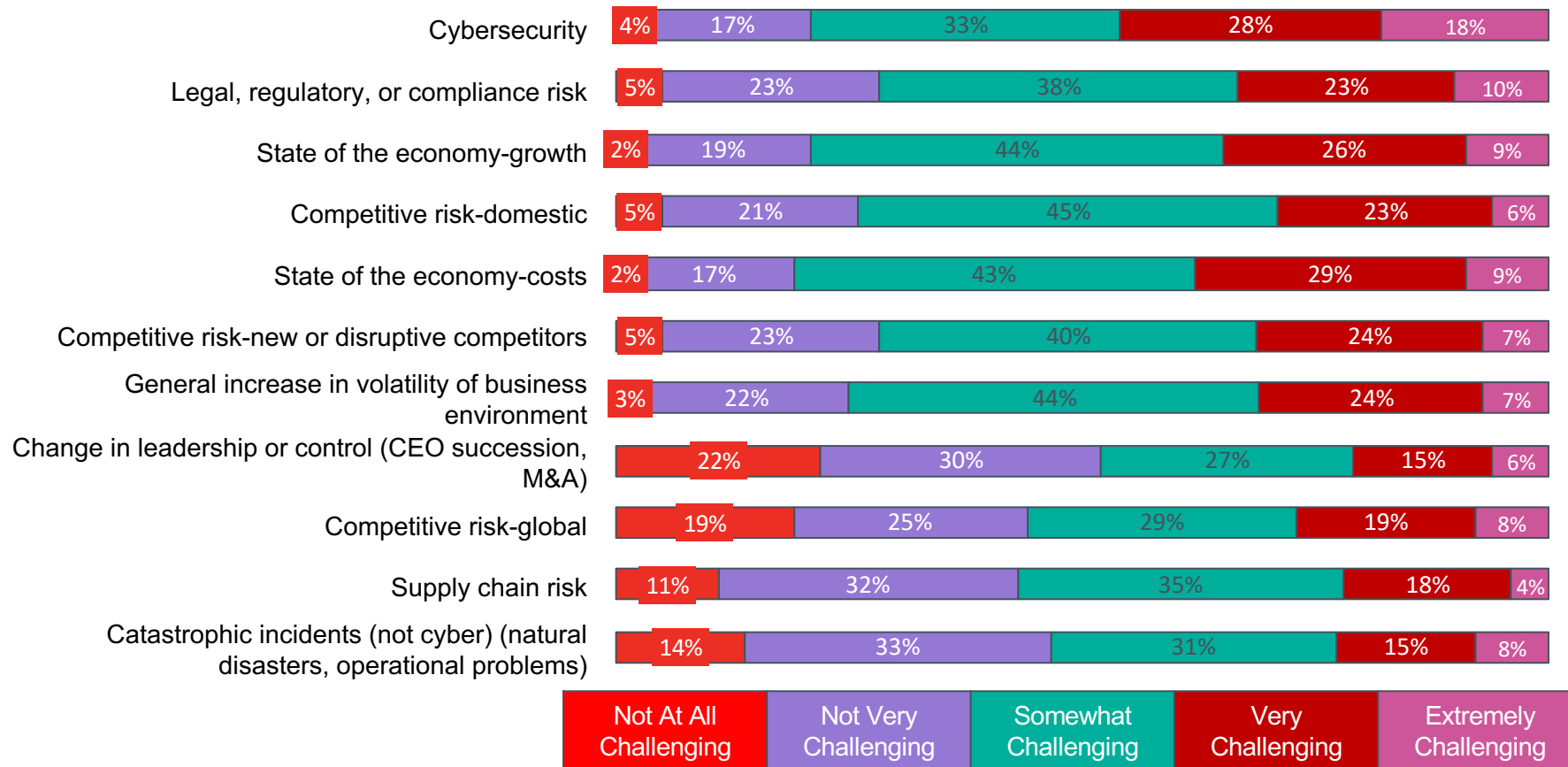


* Less than 0.5%.

q905. In the last 6 months, have your company's plans for the following increased significantly, increased somewhat, stayed the same, reduced somewhat, or reduced a lot?

Cybersecurity and Costs Are Top Risks

Level Of Challenge of Managing Risk



Three Things to Watch

1. Is this an anomaly?

2. What happens to investment plans in the next quarters?

3. Will confidence and other indicators of sentiment change?



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