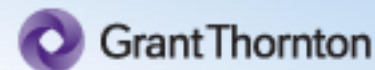


Q3'16 MIDDLE MARKET INDICATOR WEBINAR | November 29, 2016

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q3'16 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


 **5TH**
LARGEST
 GLOBAL ECONOMY

 MORE THAN
\$10
TRILLION
 IN ANNUAL REVENUE

 **33%**
 OF PRIVATE
 SECTOR GDP

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

 GENERATED
 AN ADDITIONAL
\$500
BILLION
 IN ANNUAL
 REVENUE IN 2013

 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

NATIONAL CENTER FOR THE MIDDLE MARKET

3Q 2016

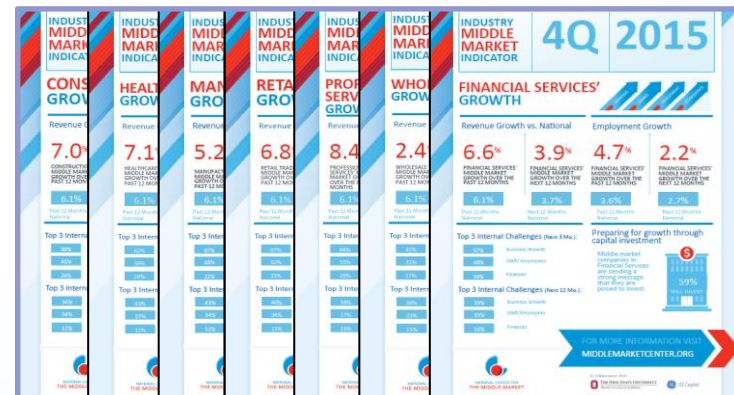
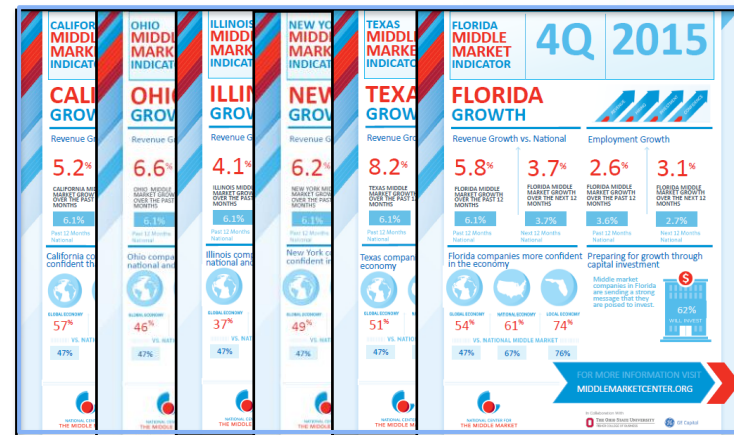
MIDDLE MARKET INDICATOR

GROWTH CONTINUES; OUTLOOK IMPROVES

IN COLLABORATION WITH

THE OHIO STATE UNIVERSITY
SUNTRUST
Grant Thornton
CB&CO

Cut by Geography and Industry



Q'16 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** THE RATE OF REVENUE GROWTH IN THE MIDDLE MARKET REMAINS STRONG, AND EMPLOYMENT GROWTH RATES CONTINUE TO ACCELERATE ACROSS MIDDLE MARKET REVENUE SEGMENTS AND INDUSTRIES.
- 2** YEAR-OVER-YEAR REVENUE GROWTH IN THE MIDDLE MARKET REMAINS HEALTHY OVERALL, WITH INNOVATION BEING A DRIVING FACTOR.
- 3** WITH EMPLOYMENT ON THE RISE, COMPANIES CONTINUE TO STRUGGLE WITH ATTRACTING AND RETAINING THE INNOVATIVE PEOPLE THEY NEED TO DRIVE SUCCESS.
- 4** THIS QUARTER, EIGHT IN 10 COMPANIES ARE SATISFIED WITH ECONOMIC CONDITIONS CLOSEST TO HOME. NEARLY THREE QUARTERS (72%) OF BUSINESSES HAVE A POSITIVE OUTLOOK REGARDING THE NATIONAL ECONOMY.

Q3'16 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

6.3%

PAST 12 MONTHS

4.9%

NEXT 12 MONTHS

EMPLOYMENT GROWTH

4.9%

PAST 12 MONTHS

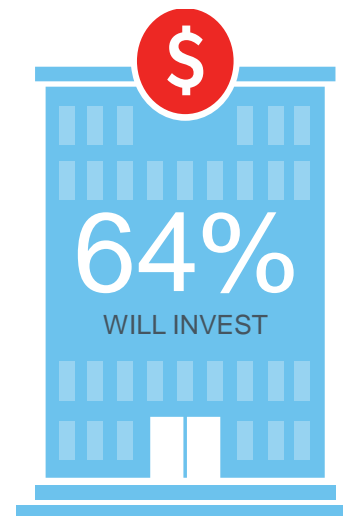
1.8%
SMALL
BUSINESS

2.3%
LARGE
BUSINESS

4.0%

NEXT 12 MONTHS

CAPITAL INVESTMENT



CONFIDENCE

56%

GLOBAL ECONOMY



71%

NATIONAL ECONOMY



80%

LOCAL ECONOMY



Q3 '16 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

6.3%

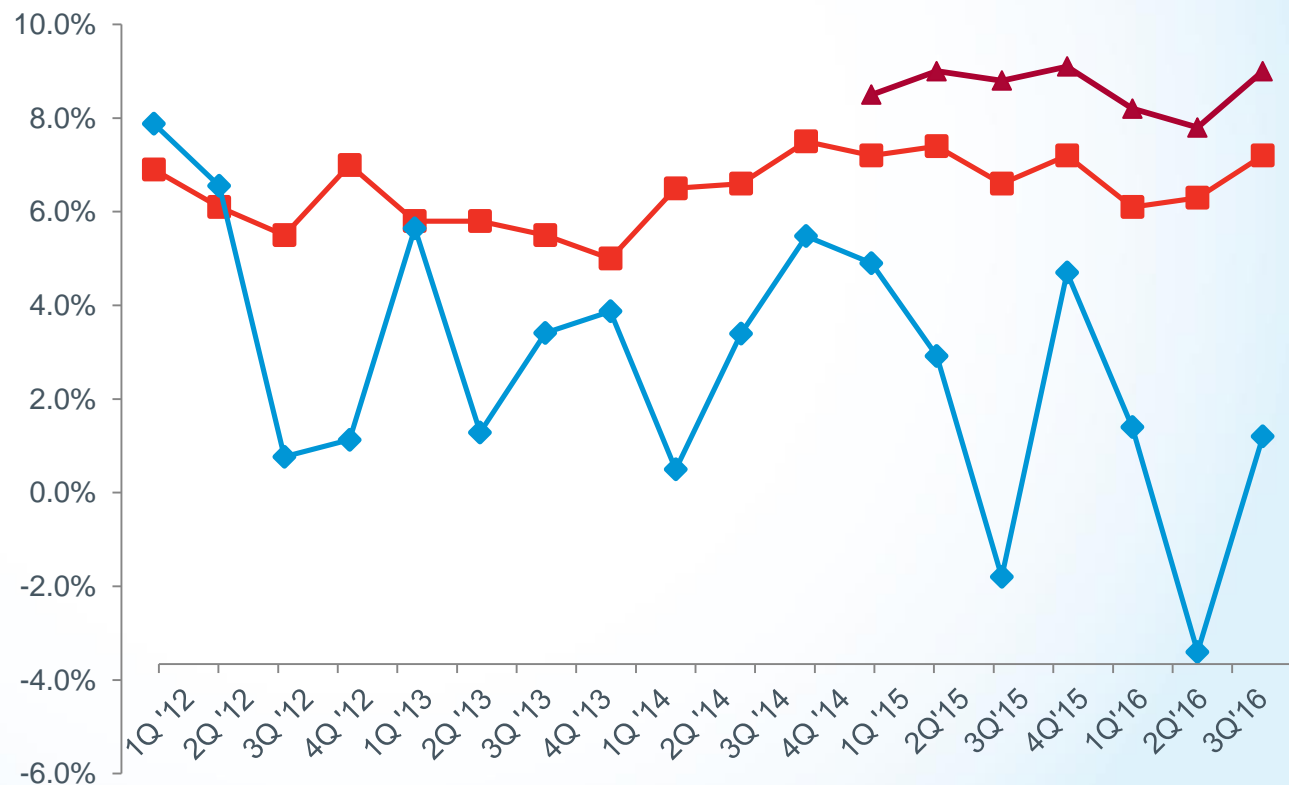
U.S. MIDDLE MARKET

9.0%

PE-OWNED FIRMS

2.5%

S&P 500*



Source: 3Q'16 Middle Market Indicator Report

*3Q numbers include only companies who have reported.

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

Q3'16 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>	9.0%	6.6%	 <p>CONSTRUCTION</p>	10.5%	4.8%
 <p>MANUFACTURING</p>	4.6%	6.6%	 <p>FINANCIAL SERVICES</p>	8.2%	5.1%
 <p>WHOLESALE TRADE</p>	2.8%	4.3%	 <p>HEALTHCARE</p>	8.7%	6.6%
 <p>RETAIL TRADE</p>	5.3%	3.4%	 <p>OTHER</p>	6.6%	4.6%

Q3'16 MIDDLE MARKET INDICATOR REVENUE GROWTH *FORECAST*

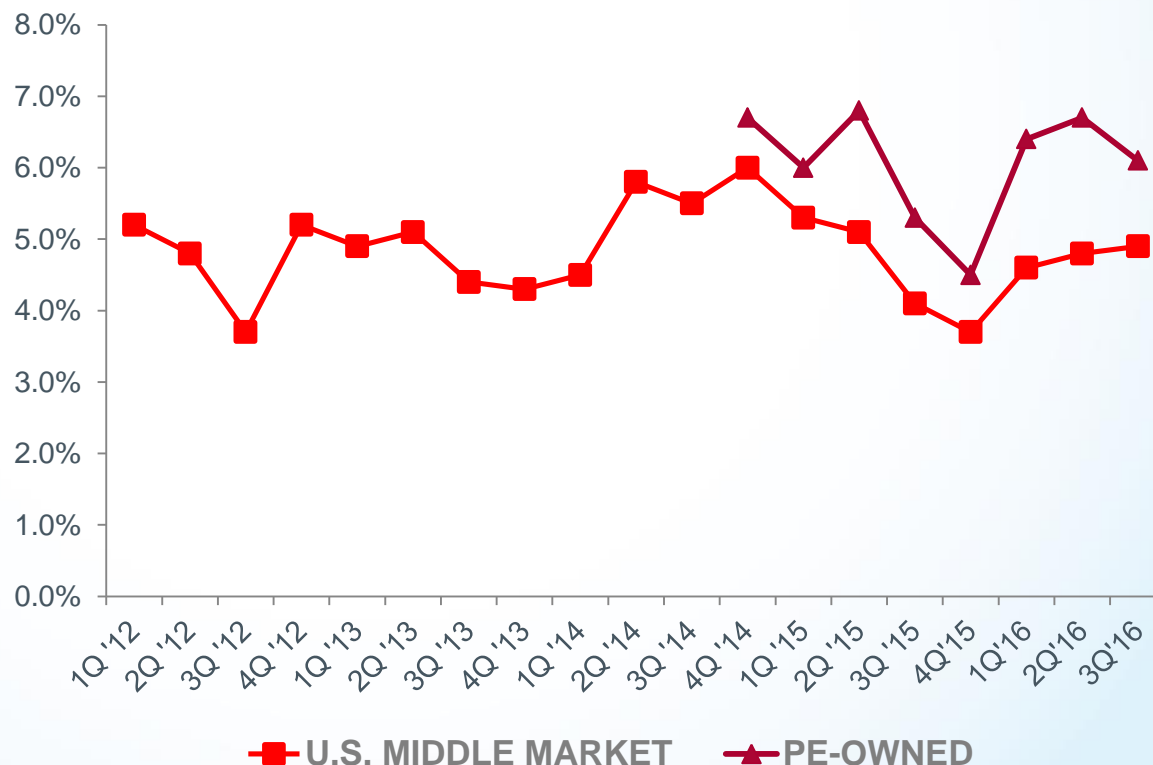
NEXT 12 MONTHS

4.9%

U.S. MIDDLE MARKET

6.1%

PE-OWNED FIRMS



Q3 '16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

4.9%

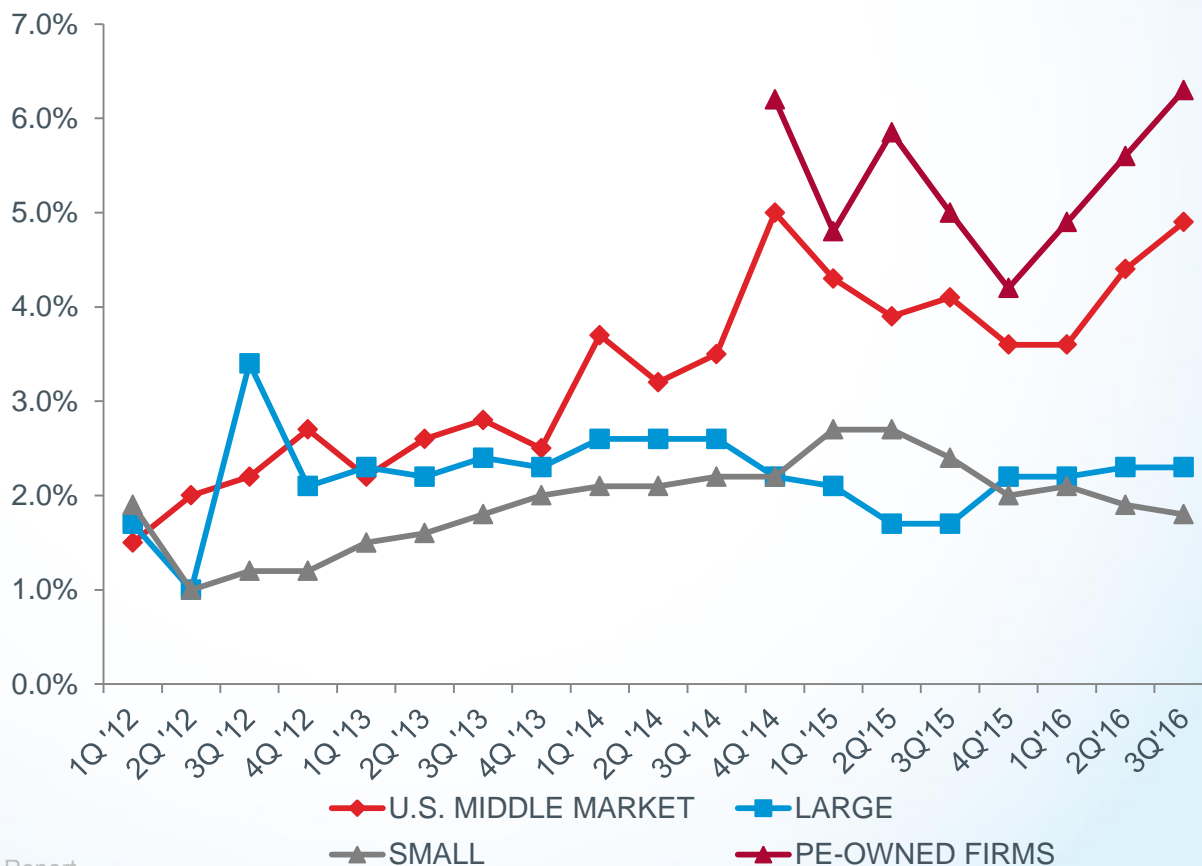
U.S. MIDDLE MARKET

1.8%
SMALL
BUSINESS

2.3%
LARGE
BUSINESS

6.3%

PE-OWNED FIRMS



Q3 '16 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH

		EMPLOYMENT GROWTH				EMPLOYMENT GROWTH	
		PAST 12 MONTHS	NEXT 12 MONTHS	PAST 12 MONTHS	NEXT 12 MONTHS	PAST 12 MONTHS	NEXT 12 MONTHS
SERVICES		6.5%	4.2%	CONSTRUCTION		8.5%	5.3%
MANUFACTURING		3.8%	3.0%	FINANCIAL SERVICES		6.1%	3.7%
WHOLESALE TRADE		4.5%	5.2%	HEALTHCARE		6.1%	3.0%
RETAIL TRADE		5.2%	4.5%	OTHER		3.8%	3.2%

Q3 '16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH *FORECAST*

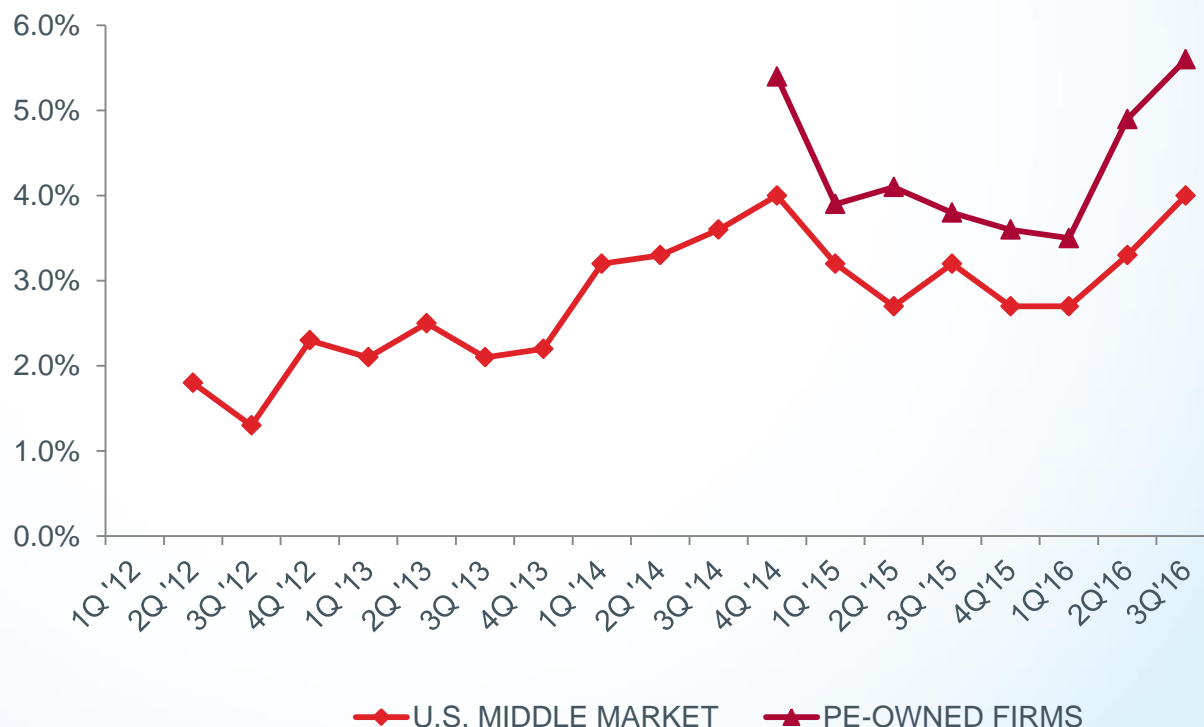
NEXT 12 MONTHS

4.0%

U.S. MIDDLE MARKET

5.6%

PE-OWNED FIRMS



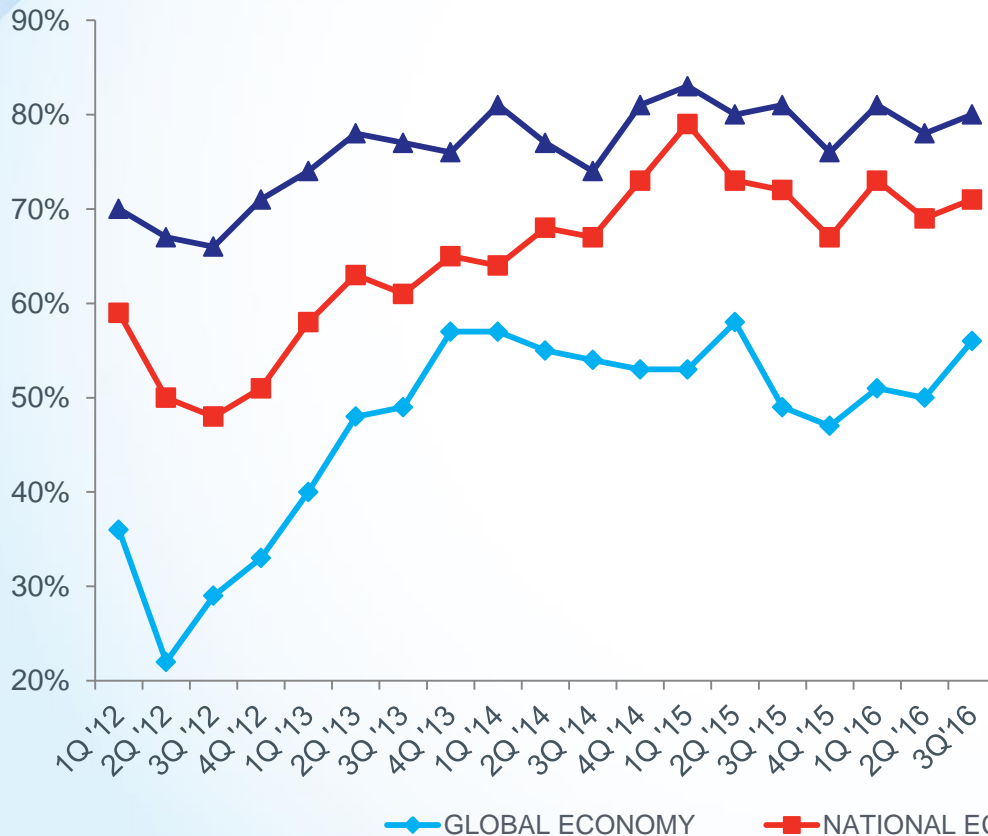
WHAT INGREDIENTS ARE FOUND IN PRIVATE EQUITY'S SECRET SAUCE?

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

CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q3'16 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Up Across The Board



GLOBAL ECONOMY

56%

64% PE-OWNED



U.S. ECONOMY

71%

53% PE-OWNED



LOCAL ECONOMY

80%

81% PE-OWNED

Q3'16 MIDDLE MARKET INDICATOR

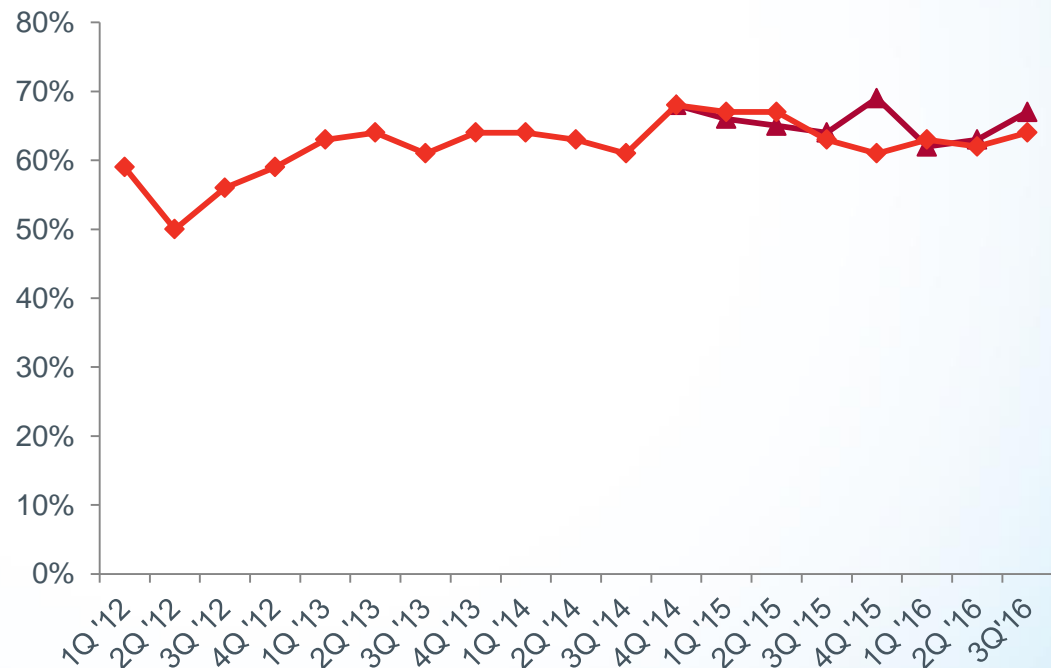
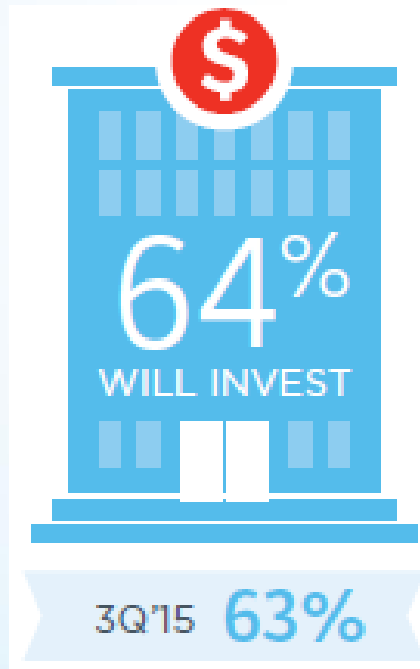
SHORT-TERM OUTLOOK LARGELY STABLE

Short Term Outlook (Next 3 Months)

	Services	Manufacturing	Wholesale Trade	Retail Trade	Construction	Financial Services	Healthcare
Expect Increased Sales							
2016 2Q	41	46	47	45	51	40	36
2016 3Q	38	45	44	41	36	39	46
Expect Increased Demand							
2016 2Q	27	36	33	37	47	28	41
2016 3Q	27	35	20	27	33	30	39
Expect More Favorable Business Climate							
2016 2Q	11	22	14	22	35	21	20
2016 3Q	24	26	17	23	30	25	15

Q3'16 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

FIRMS PLAN TO INVEST.

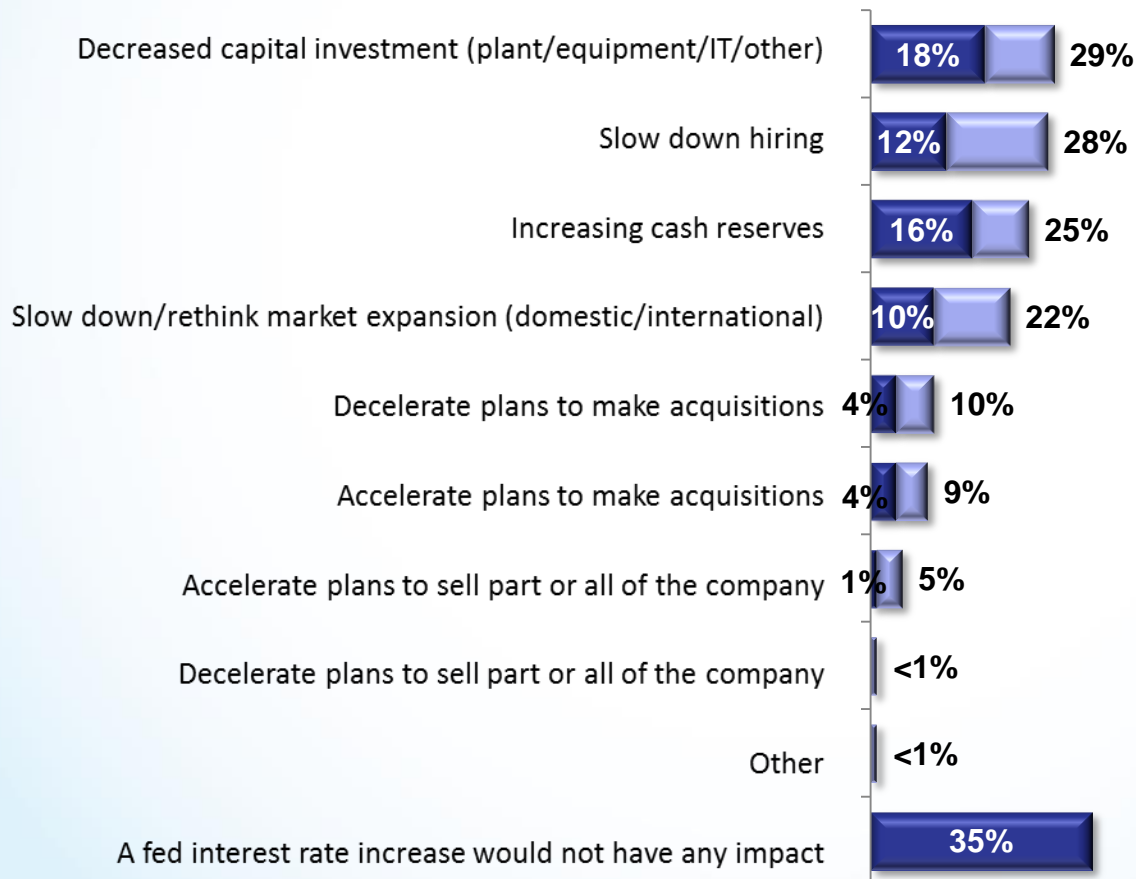


PE-OWNED U.S. MIDDLE MARKET

Q3'16 MIDDLE MARKET INDICATOR IMPACT OF FED ACTIONS

Most Significant Impact to Company if Fed Increases Interest Rate

(Ranked 1st to 2nd most impact)



Q3'16 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 **56%**
2. STAFF/EMPLOYEES **46%**
3. COSTS **16%**
4. GOVERNMENT **10%**

EXTERNAL CHALLENGES:

1. BUSINESS **35%**
2. COMPETITION **20%**
3. GOVERNMENT **19%**
4. ECONOMY **12%**
5. COSTS **12%**

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:

1. STAFF/EMPLOYEES **43%**
2. BUSINESS **40%**
3. COSTS **12%**
4. GOVERNMENT **4%**

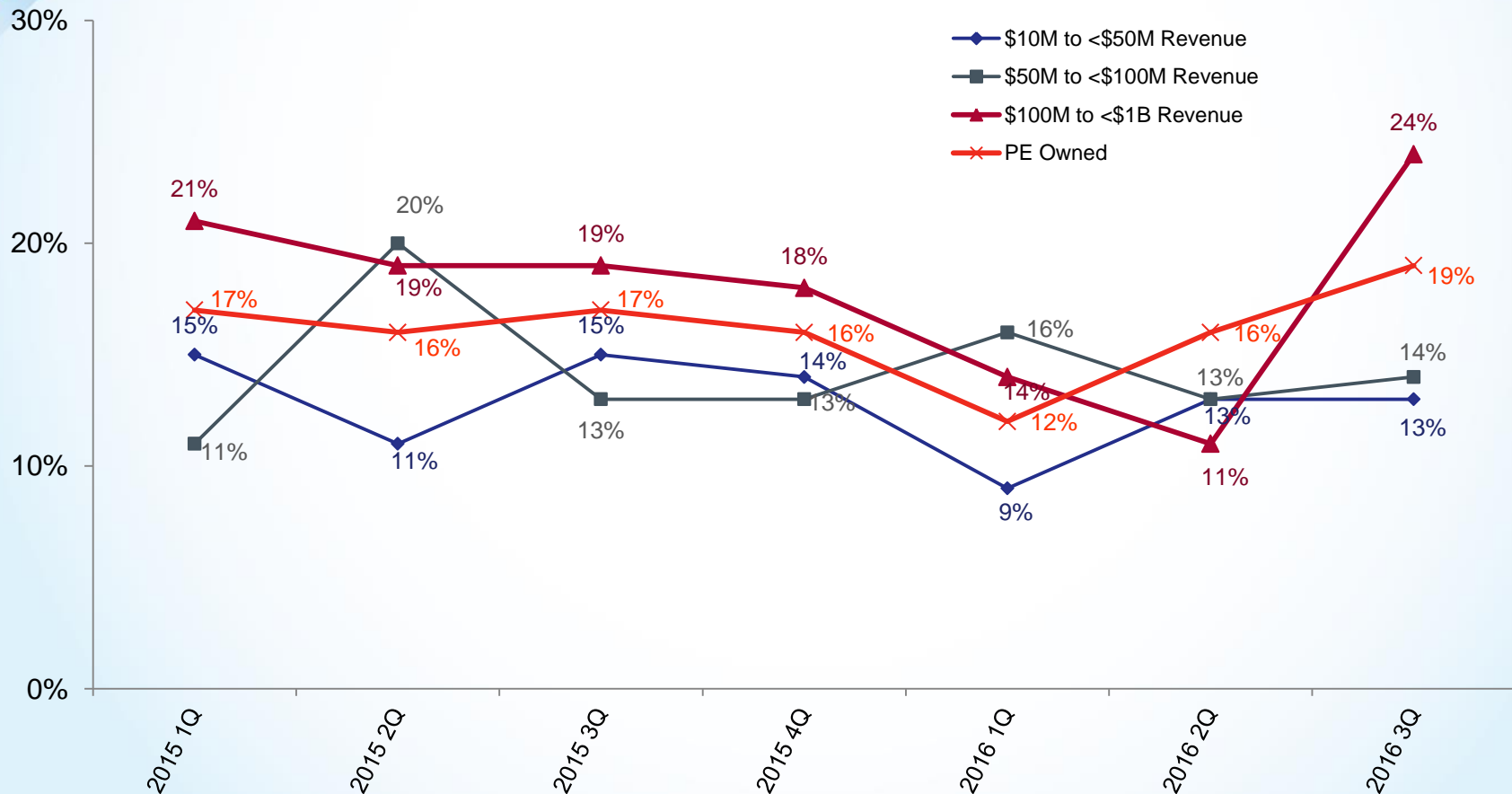
EXTERNAL CHALLENGES:

1. BUSINESS **29%**
2. GOVERNMENT **17%**
3. COMPETITION **16%**
4. ECONOMY **11%**
5. COSTS **11%**

Q3'16 MIDDLE MARKET INDICATOR

THE TALENT SQUEEZE IS ON

Percentage of companies saying their workforce is insufficient for current market conditions

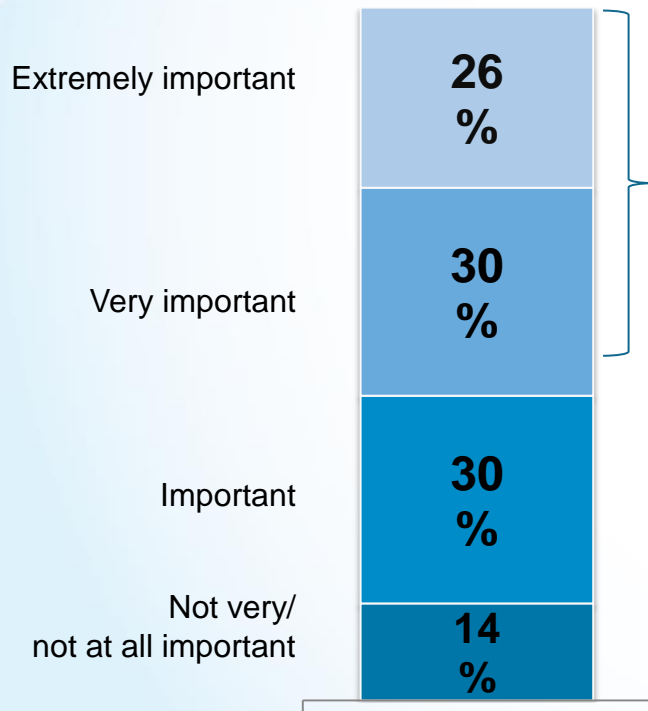


The image features a blue background with a red arrow pointing to the right. The arrow is positioned on the left side of the frame. The word "CYBERSECURITY" is written in white, uppercase letters across the center of the blue area.

CYBERSECURITY

Q3'16 MIDDLE MARKET INDICATOR CYBERSECURITY TALK VS. WALK

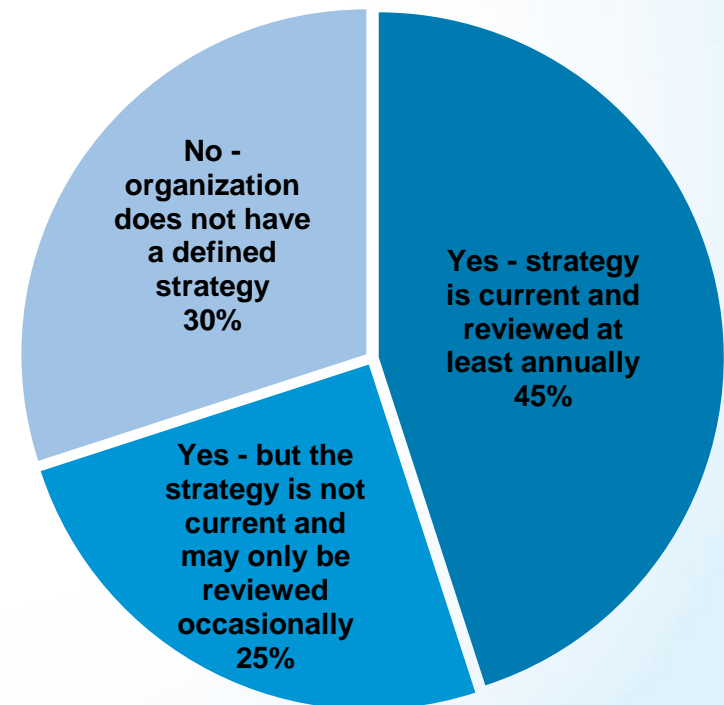
Importance of Cyber Security



Who is concerned?

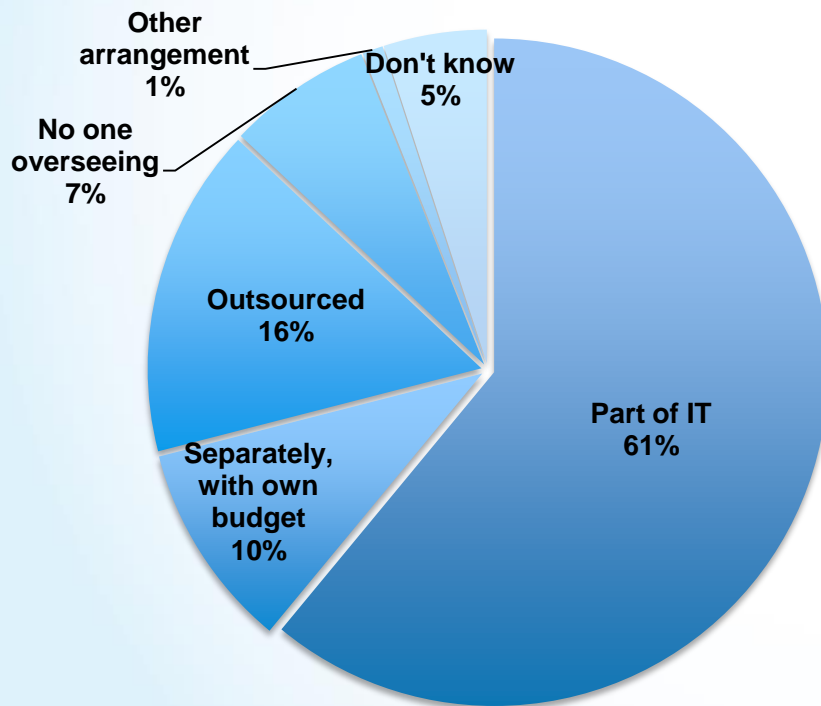
- More rapid revenue growth
- Faster employment growth
- More positive short and long term outlook in terms of revenue and employment growth

Whether Organization Has Defined Cyber Risk Strategy

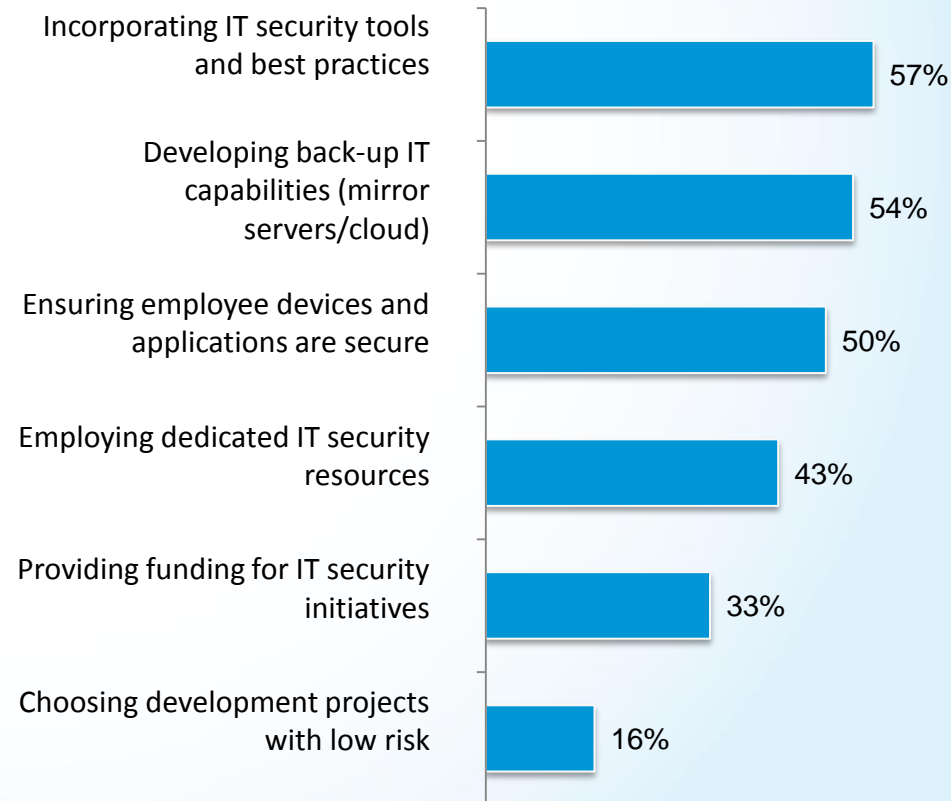


Q3'16 MIDDLE MARKET INDICATOR CYBERSECURITY MANAGED BY I.T.

How Cyber Security is Managed

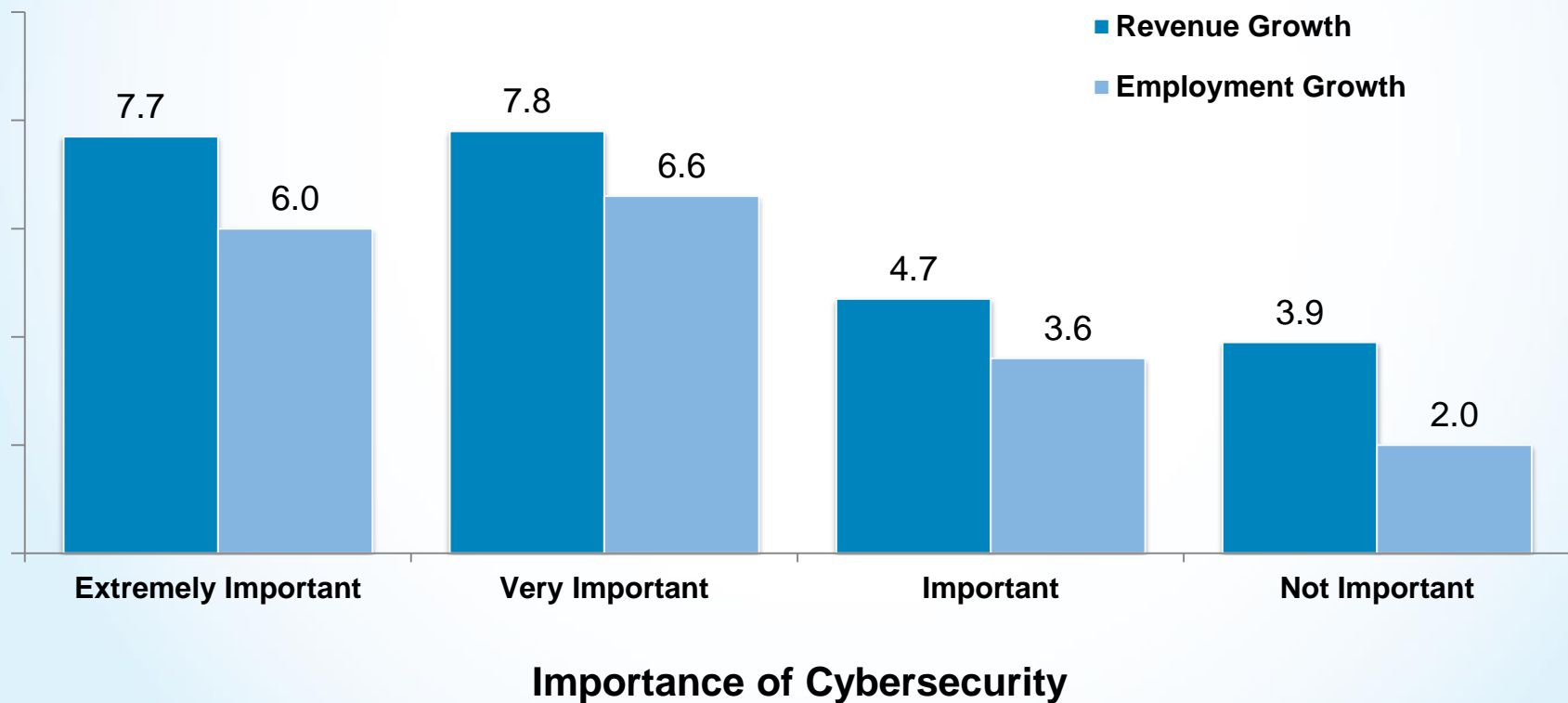


How Company Manages Security Risks



Q3'16 MIDDLE MARKET INDICATOR CYBERSECURITY: TOP GROWERS PRIORITIZE IT

Average Year-Over-Year Revenue and Employment Growth





NATIONAL CENTER FOR
THE MIDDLE MARKET