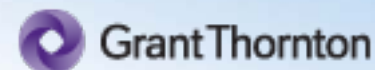


Q3'17 MIDDLE MARKET INDICATOR | ACG WEBINAR | October 25, 2017

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q3'17 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



MORE THAN

**\$10
TRILLION**

IN ANNUAL REVENUE



OF U.S. JOBS—
APPROXIMATELY
45.6 MILLION



PROJECTED
TO CREATE



60%
OF ALL
NEW JOBS



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 2017

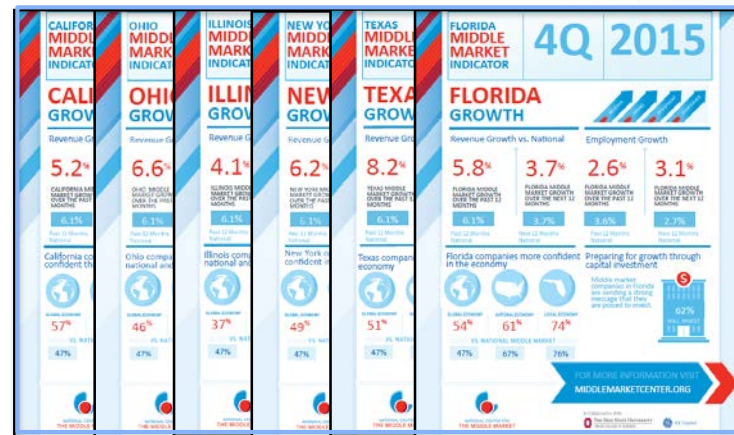
MIDDLE MARKET INDICATOR

GROWTH RETURNS TO TYPICAL LEVELS

IN COLLABORATION WITH



Cut by Geography and Industry



Q3'17 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1** THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION, WITH GROWTH ABOVE HISTORICAL AVERAGES
- 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 REMAIN NEAR RECORD HIGHS; GLOBAL CONFIDENCE HAS REBOUNDED

Q3'17 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

SURVEY IN FIELD SEPT. 4-15, 2017

REVENUE GROWTH

7.0%

PAST 12 MONTHS

4.37%
S&P 500

6.0%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

6.4%

PAST 12 MONTHS

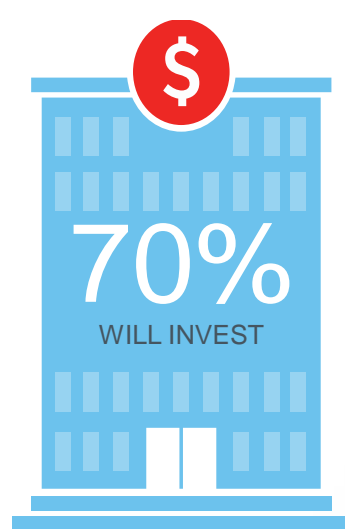
1.2% SMALL BUSINESS 2.8% LARGE BUSINESS

4.7%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

74%

GLOBAL ECONOMY



83%

NATIONAL ECONOMY



88%

LOCAL ECONOMY



Q3'17 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

7.0%

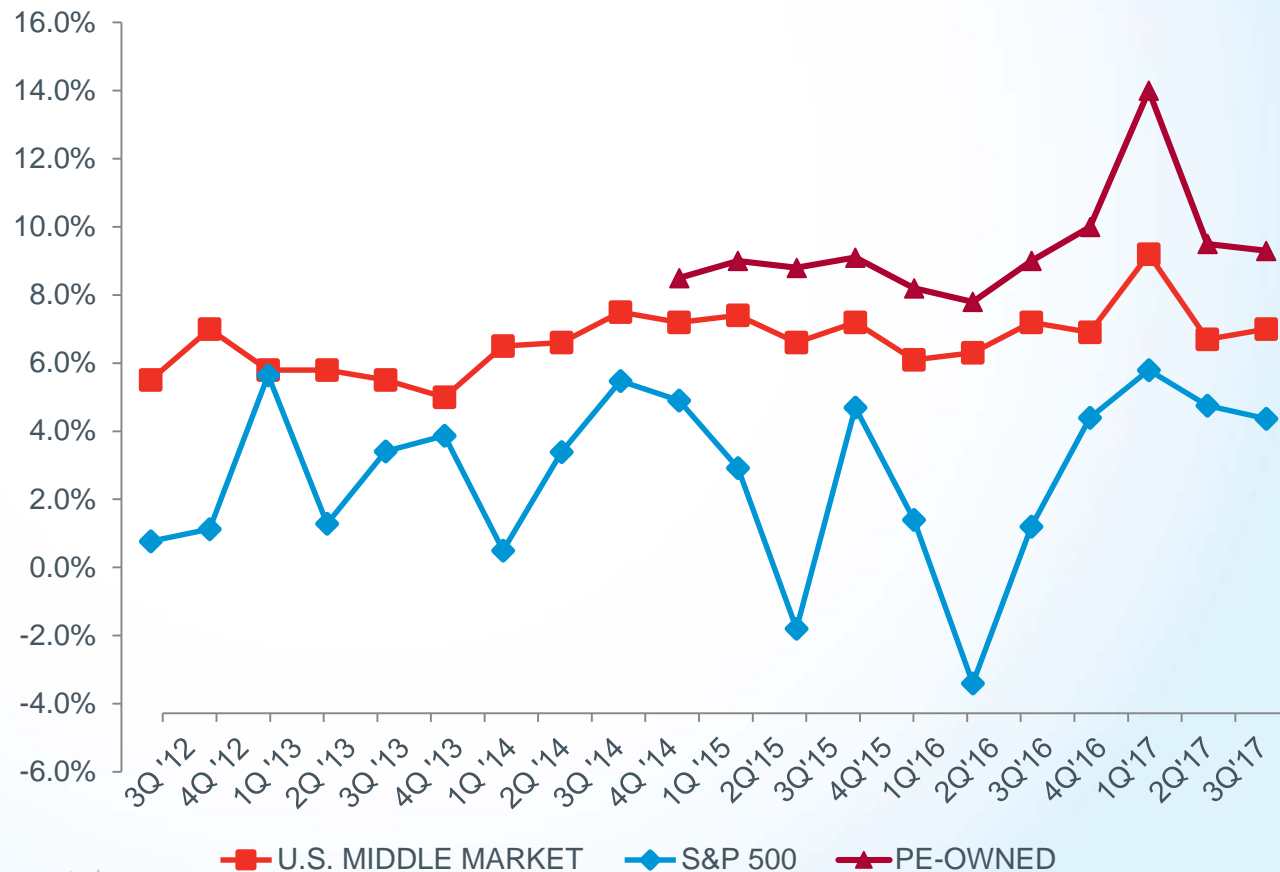
U.S. MIDDLE MARKET

9.3%

PE-OWNED FIRMS

4.37%

S&P 500*

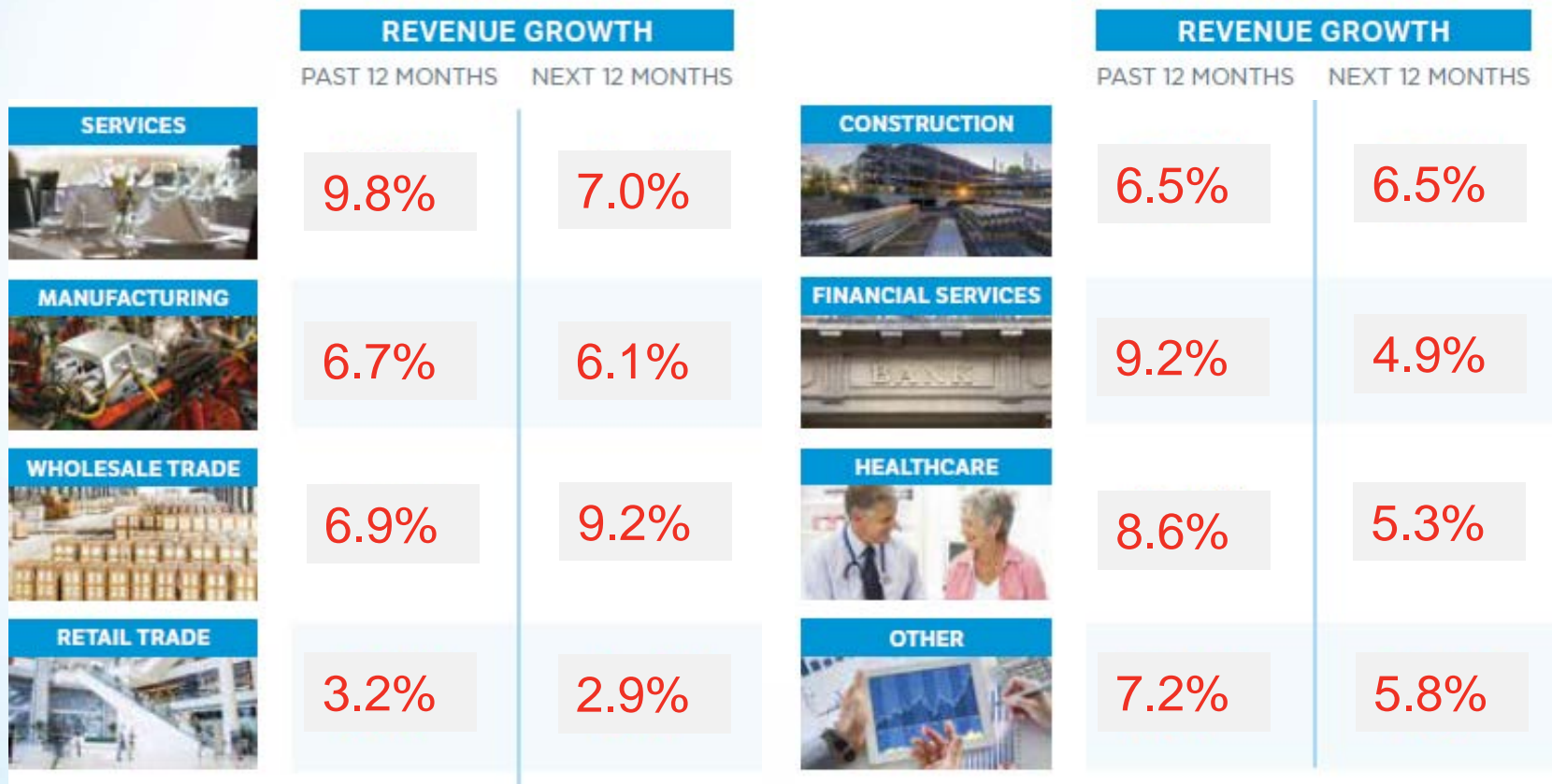


Source: 3Q'17 Middle Market Indicator Report
*3Q numbers include only companies who have reported.

PERFORMANCE GAINS ARE WIDE AND DEEP

	3Q 2017	3Q 2016
Performance improved	68%	60%
Performance was unchanged	27	34
Performance deteriorated	5	6

Q3'17 MIDDLE MARKET INDICATOR INDUSTRY REVENUE GROWTH



Q3'17 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

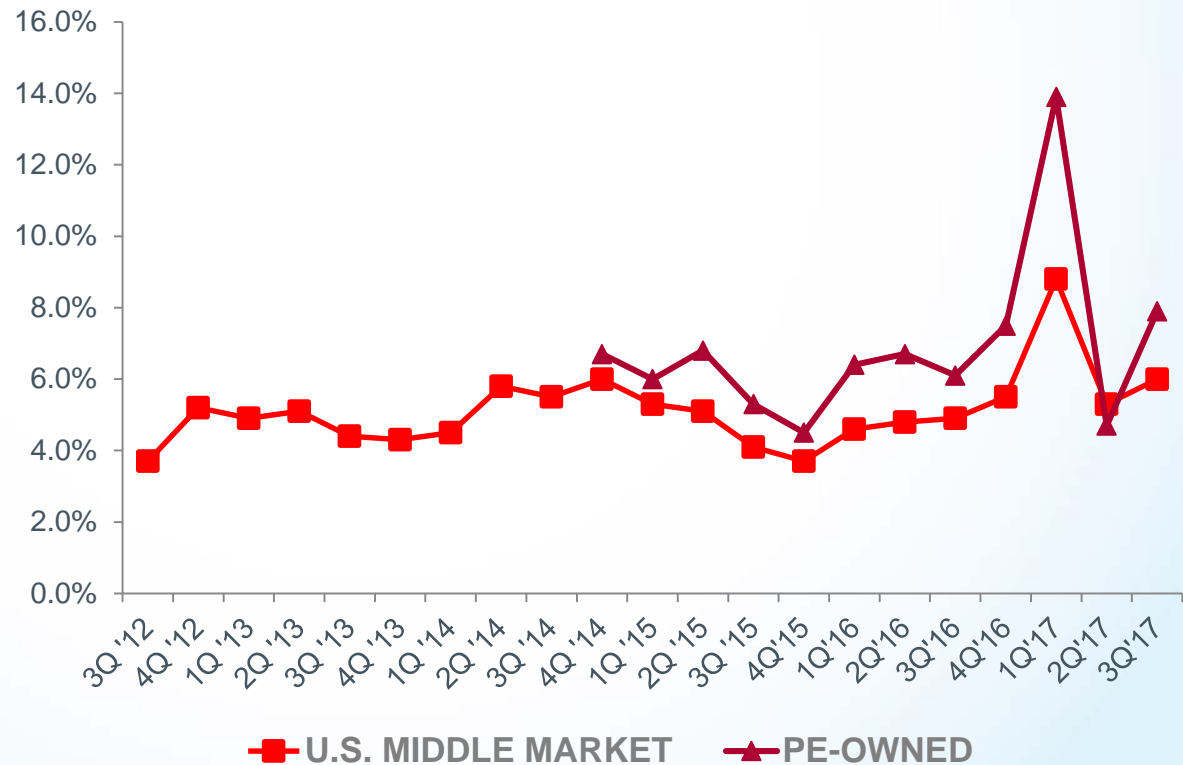
NEXT 12 MONTHS

6.0%

U.S. MIDDLE MARKET

7.9%

PE-OWNED FIRMS



Q3'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

6.4%

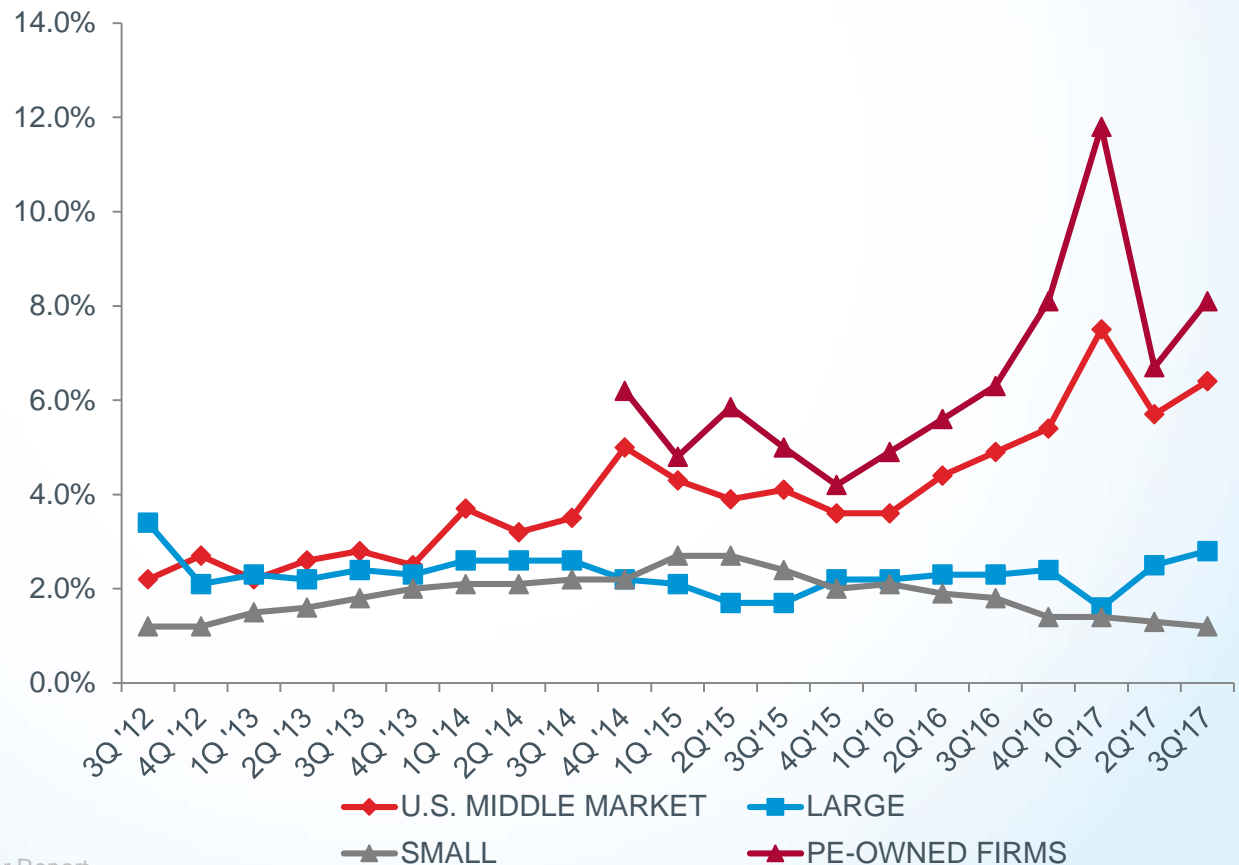
U.S. MIDDLE MARKET

1.2%
SMALL
BUSINESS

2.8%
LARGE
BUSINESS

8.1%

PE-OWNED FIRMS



Q3'17 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q3'17 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH FORECAST

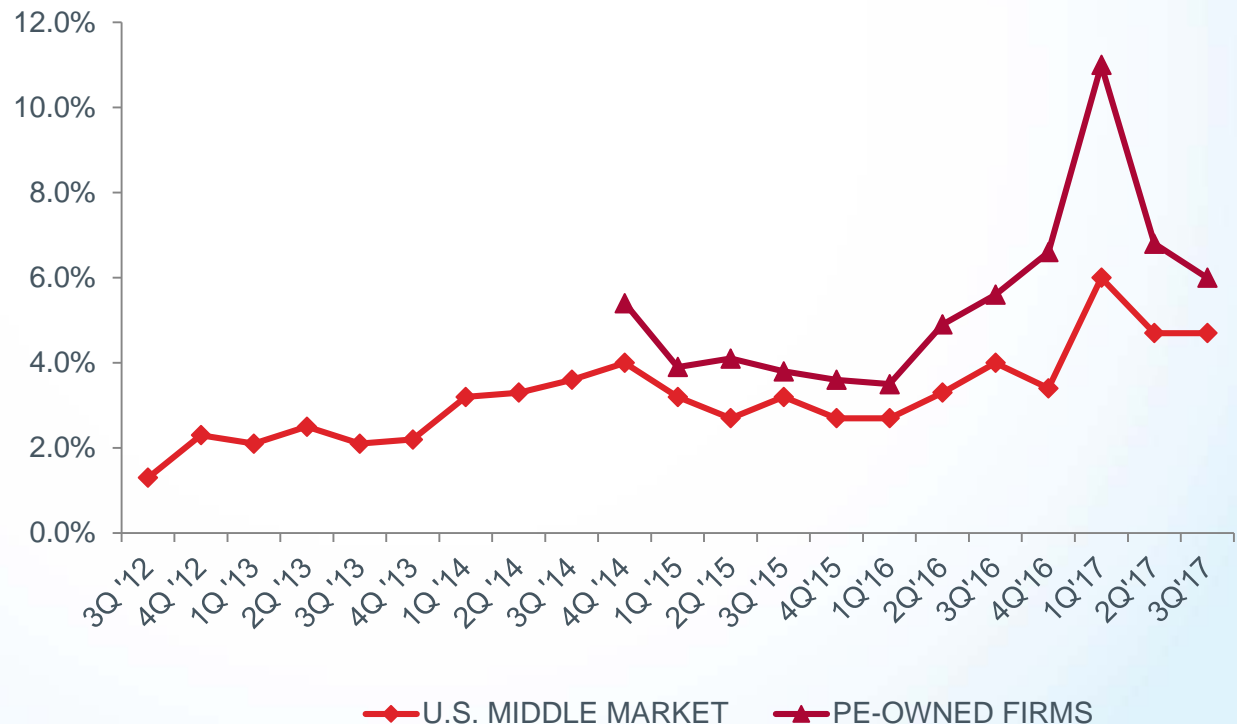
NEXT 12 MONTHS

4.7%

U.S. MIDDLE MARKET

6.0%

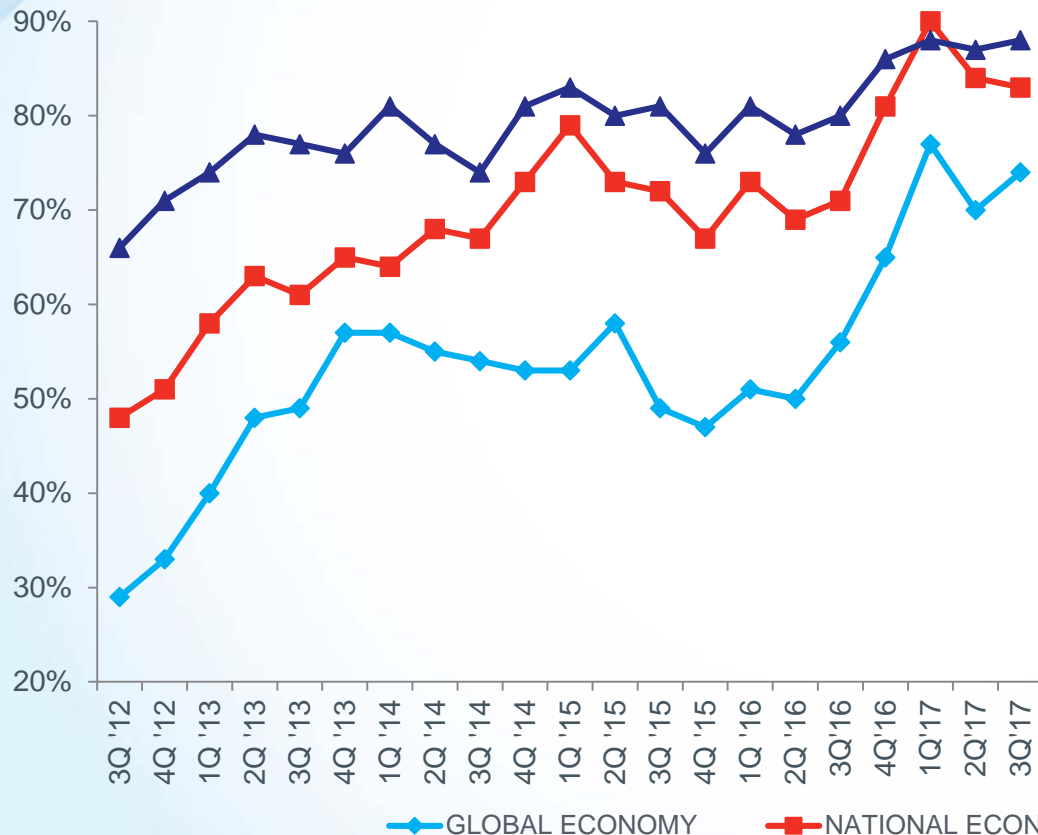
PE-OWNED FIRMS



CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q3'17 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE

Confidence Is Very Strong Across the Board



GLOBAL ECONOMY

74%

76% PE-OWNED



U.S. ECONOMY

83%

86% PE-OWNED



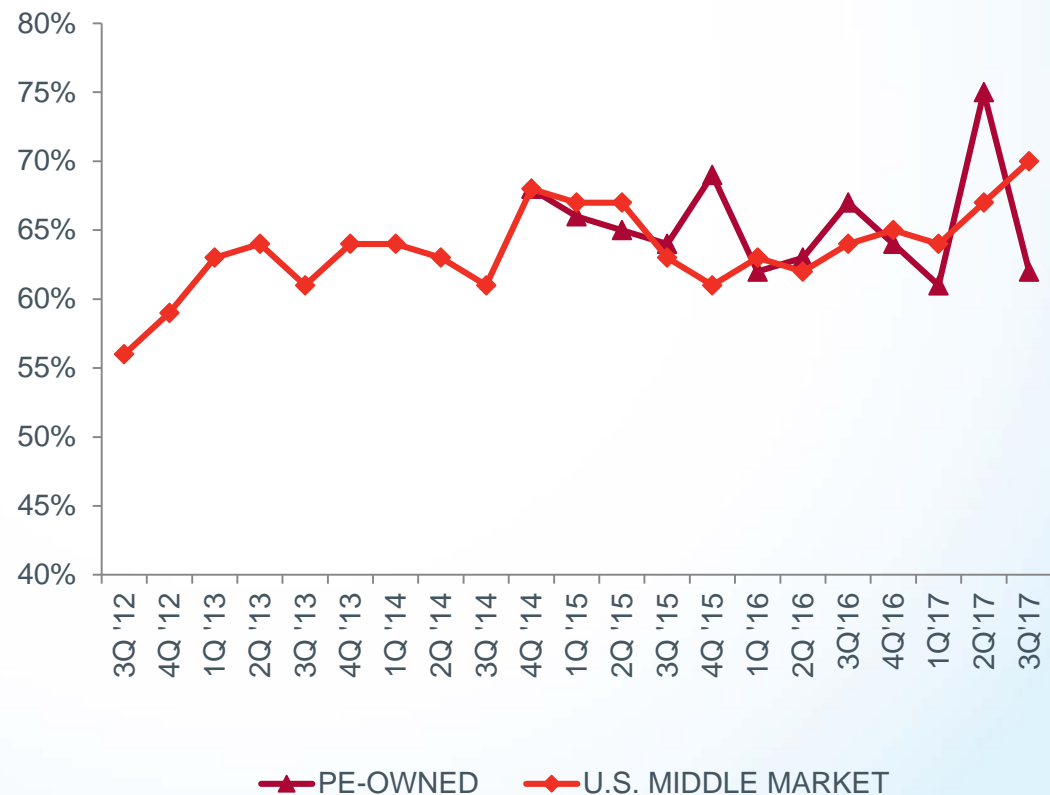
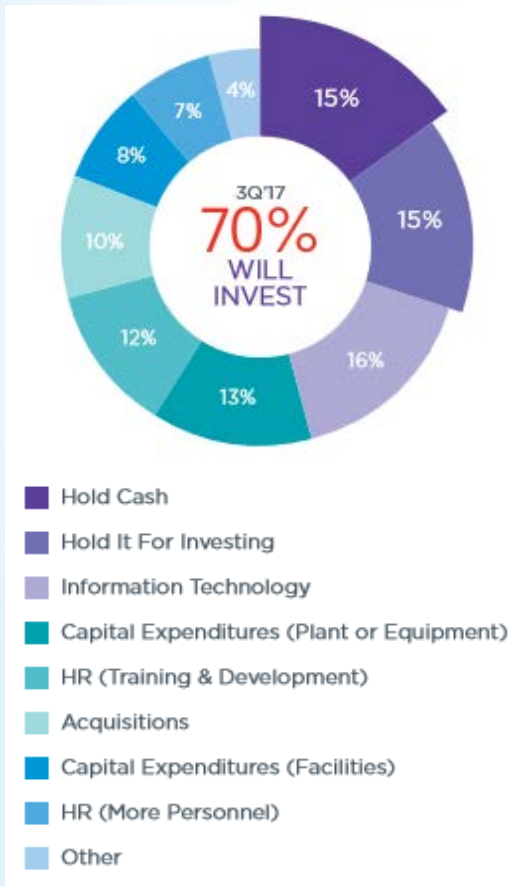
LOCAL ECONOMY

88%

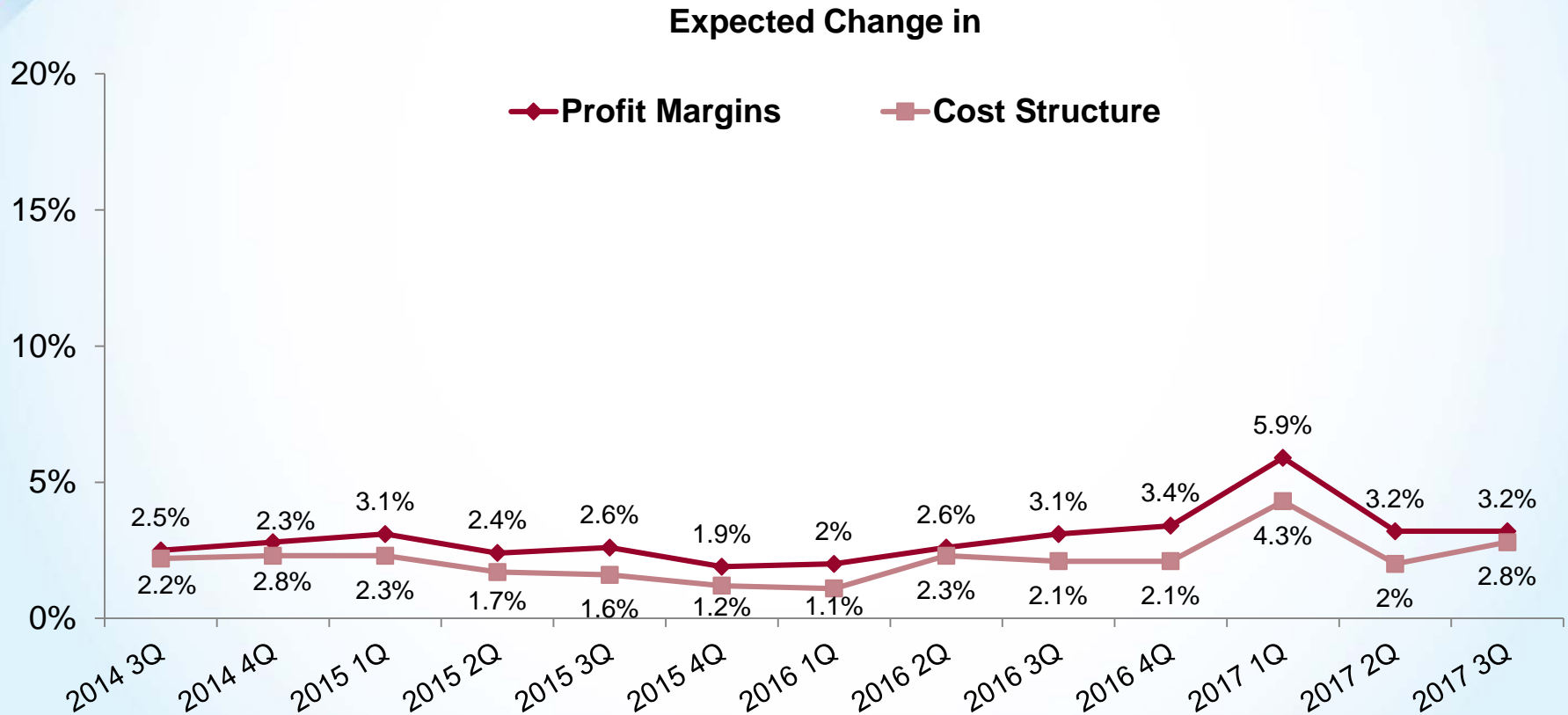
87% PE-OWNED

Q3'17 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

Firms Plan to Invest



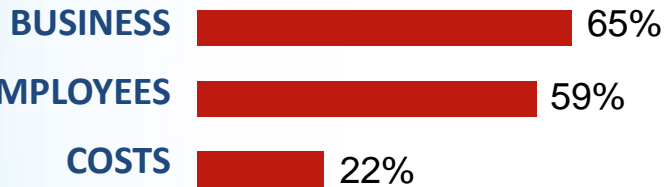
COMPANIES FEEL COSTS ARE UNDER CONTROL AND PROFIT MARGINS SAFE



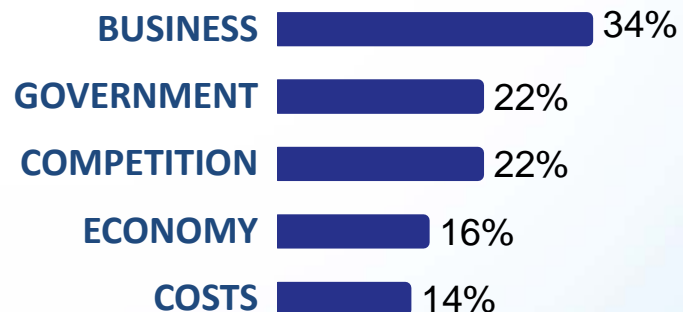
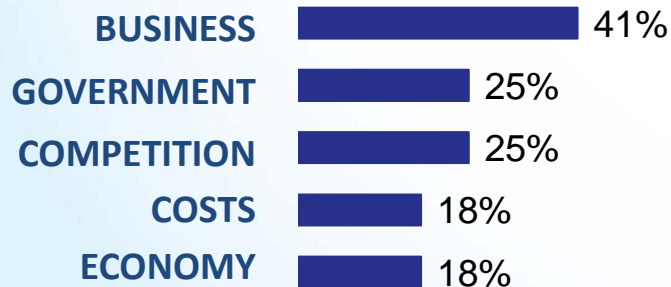
Q3'17 MIDDLE MARKET INDICATOR CHALLENGES

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

SHORT TERM CHALLENGES (Next 3 months)



LONG TERM CHALLENGES (Next 12 months)

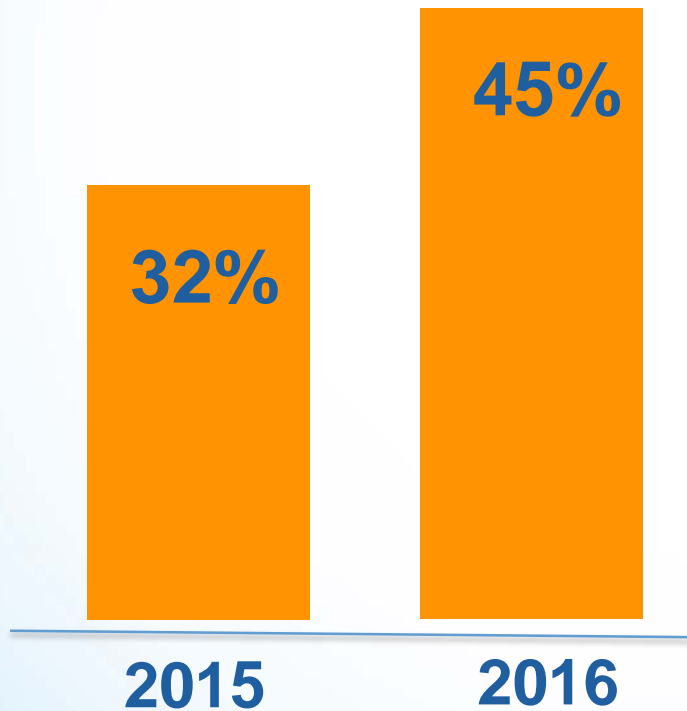




HELP WANTED: THE TALENT GAP

ACROSS THE COUNTRY, FIRMS REPORT HIRING DIFFICULTIES

Share of U.S. employers reporting hiring difficulties



Hiring and retaining qualified employees is the top concern for CFOs for the first time in 21 years ... over government policies, cost of benefits, economic uncertainty, data security.

— Duke University Fuqua School of Business Quarterly Survey, Q2 2017

MIDDLE MARKET COMPANIES FEEL THE TALENT PINCH INTENSELY

77%

Of middle market executives consider the ability to attract, train, and retain talent somewhat/highly challenging.

49%

Of middle market executives feel they do not have a sufficient number of people to fill key leadership positions.

31%

Of middle market executives struggle to attract people for top-level management positions.

37%

Of middle market executives say that a lack of talent is constraining their growth.

ALMOST ALL INDUSTRIES FEEL TALENT-CONSTRAINED

LACK OF TALENT CONSTRAINING ABILITY TO GROW

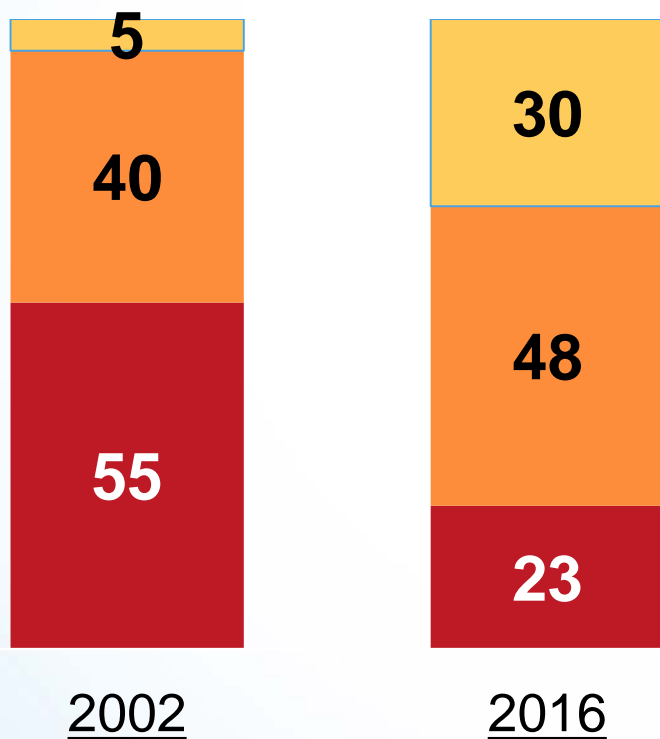
	Total Middle Market	Services	Manufacturing	Wholesale Trade	Retail Trade	Construction	Financial Services	Health care
Yes	37	46	44	20	29	46	33	49
No	63	54	56	80	71	54	67	51

THE TOP WORKFORCE CHALLENGES FOR MIDDLE MARKET COMPANIES

Candidates lack necessary skills	44%
Competition from other employers	40%
Low number of applicants	39%
Lack of work experience	32%
Outside budget range	30%
Lack needed credentials	25%

THE SHARE OF JOBS REQUIRING HIGH AND MEDIUM SKILLS HAS SKYROCKETED

Share of U.S. employment by digital skill level



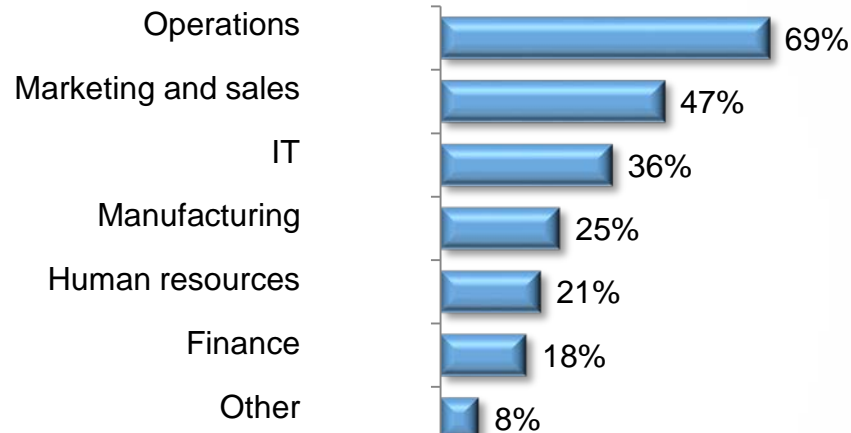
■ Low ■ Medium ■ High

Source: Brookings

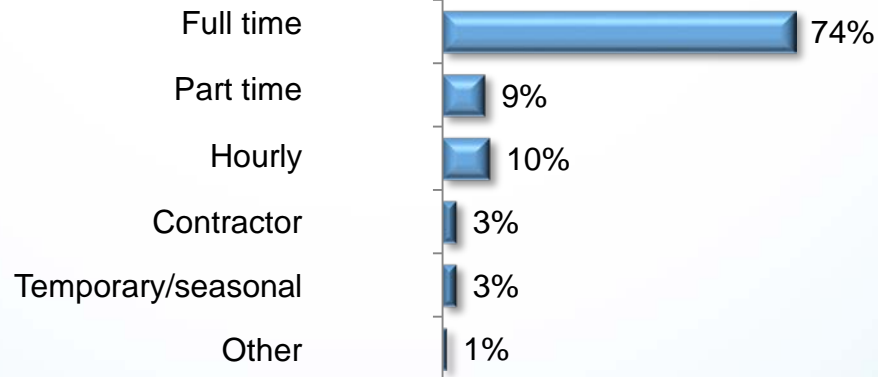


MOST IN DEMAND: FULL-TIME OPERATIONS EMPLOYEES

New Hires by Function



New Hires by Employee Type



TALENT PLANNING AND ITS IMPORTANCE

How Important?	Total Middle Market	10%+ Growth
Extremely/Very	71%	81%
Somewhat	21%	15%
Not very / Not at all	8%	4%
How Well Done?		
A	14%	22%
B	46%	47%
C	28%	23%
D	11%	6%
F	2%	2%

69%

43%

FIVE STEPS COMPANIES CAN TAKE ON THEIR OWN

Recruiting: Have an ongoing process (59% recruit only when they have an opening)

Partner: Use educational and training organizations to upskill employees and find new ones (just 30% do)

Internships: Fewer than half of manufacturers offer, vs. 65% in healthcare

Career pathing, mentoring: Set a process for advancement (only 39% do)

Only 35% of vacancies are filled from within

Training: Build it into daily routines and work (45% train “only when needed”)

BEYOND THE MIDDLE MARKET: FIVE WORKFORCE AGENDA ITEMS

A₁ **AGING**

E₁ **EDUCATION**

I₁ **IMMIGRATION**

O₁ **OPIOIDS**

U₁ **UBERIZATION**



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