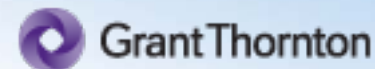


Q4'16 MIDDLE MARKET INDICATOR | ACG WEBINAR | January 25, 2017

THE MARKET THAT MOVES AMERICA

FINDINGS FROM THE NCMM'S Q4'16 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



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



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

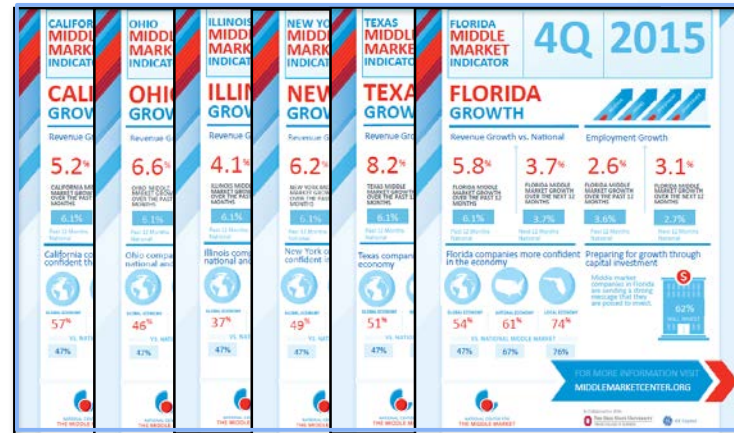
THE MIDDLE MARKET INDICATOR

MIDDLE MARKET INDICATOR OVERVIEW

A Quarterly National Survey



Cut by Geography and Industry



Q4'16 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** THE MIDDLE MARKET ENDED 2016 WITH RECORD HIGH JOB CREATION AND REVENUE GROWTH NEAR THE HIGH END OF ITS HISTORICAL RANGE
- 3** EXPECTATIONS FOR GROWTH AND JOB CREATION IN THE COMING YEAR ARE ALSO STRONG
- 4** CONFIDENCE IN THE U.S. AND LOCAL ECONOMIES CONTINUES HIGH; GLOBAL CONFIDENCE HAS REBOUNDED

Q4'16 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

6.9%

PAST 12 MONTHS

5.5%

NEXT 12 MONTHS

EMPLOYMENT GROWTH

5.4%

PAST 12 MONTHS

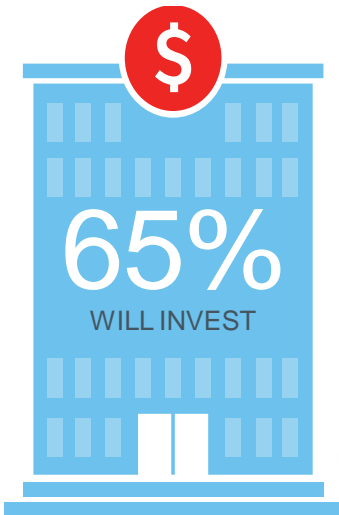
1.4%
SMALL
BUSINESS

2.4%
LARGE
BUSINESS

3.4%

NEXT 12 MONTHS

CAPITAL INVESTMENT



CONFIDENCE

65%

GLOBAL ECONOMY



81%

NATIONAL ECONOMY



86%

LOCAL ECONOMY



Q4'16 MIDDLE MARKET INDICATOR REVENUE GROWTH

PAST 12 MONTHS

6.9%

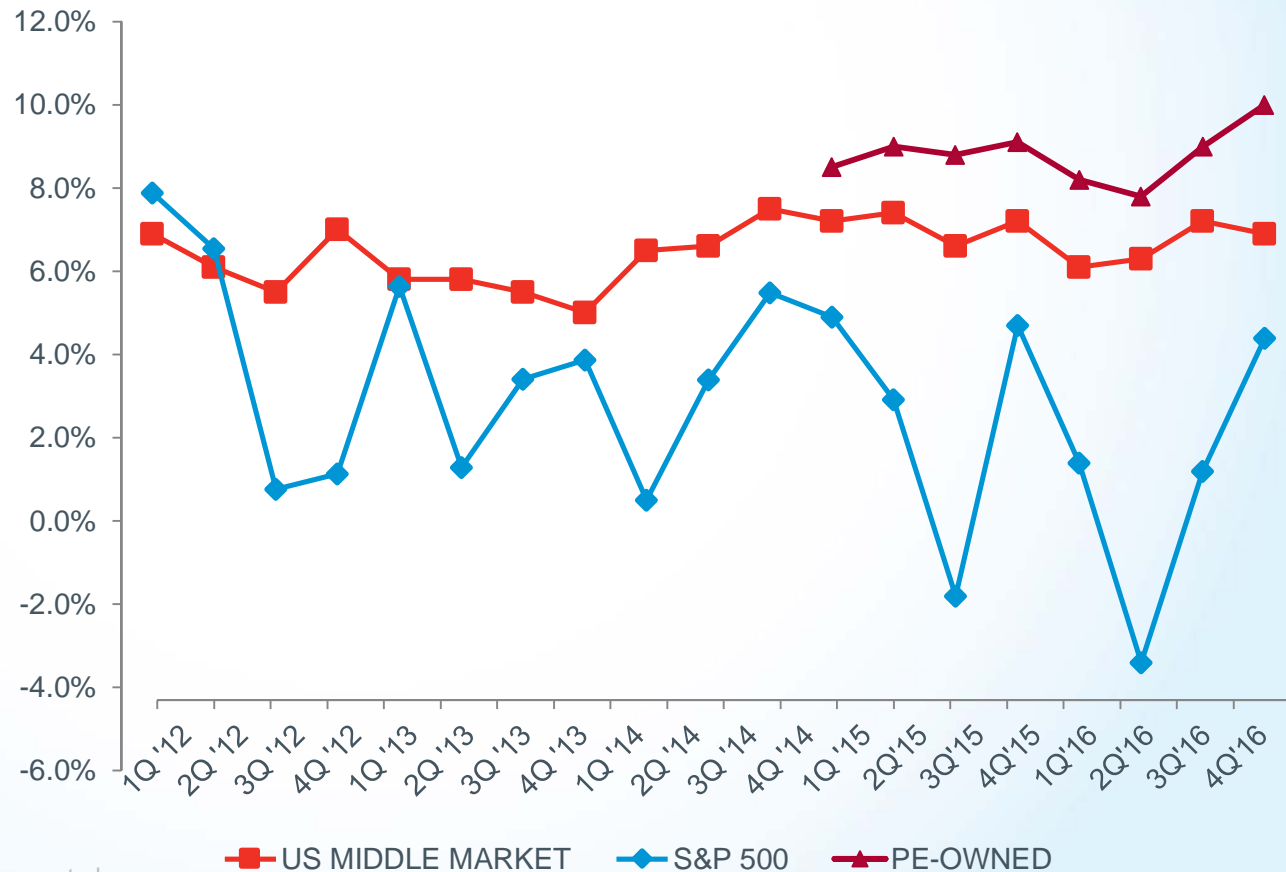
U.S. MIDDLE MARKET

10.0%

PE-OWNED FIRMS

4.4%

S&P 500*



Source: 4Q'16 Middle Market Indicator Report
*4Q numbers include only companies who have reported.

Q4'16 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>	10.2%	8.5%	 <p>CONSTRUCTION</p>	12.6%	9.8%
 <p>MANUFACTURING</p>	7.0%	6.6%	 <p>FINANCIAL SERVICES</p>	8.1%	5.1%
 <p>WHOLESALE TRADE</p>	6.0%	4.9%	 <p>HEALTHCARE</p>	7.1%	3.6%
 <p>RETAIL TRADE</p>	6.4%	4.9%	 <p>OTHER</p>	5.1%	4.6%

Q4'16 MIDDLE MARKET INDICATOR REVENUE GROWTH FORECAST

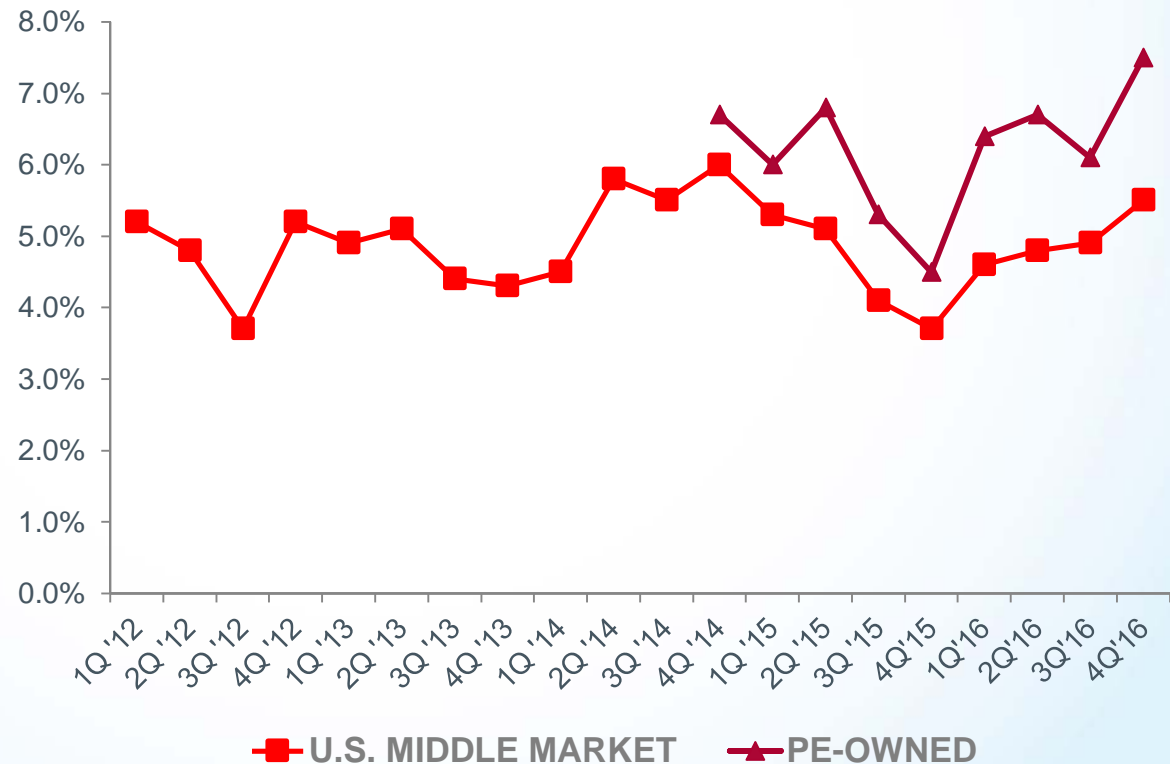
NEXT 12 MONTHS

5.5%

U.S. MIDDLE MARKET

7.5%

PE-OWNED FIRMS



Q4'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

5.4%

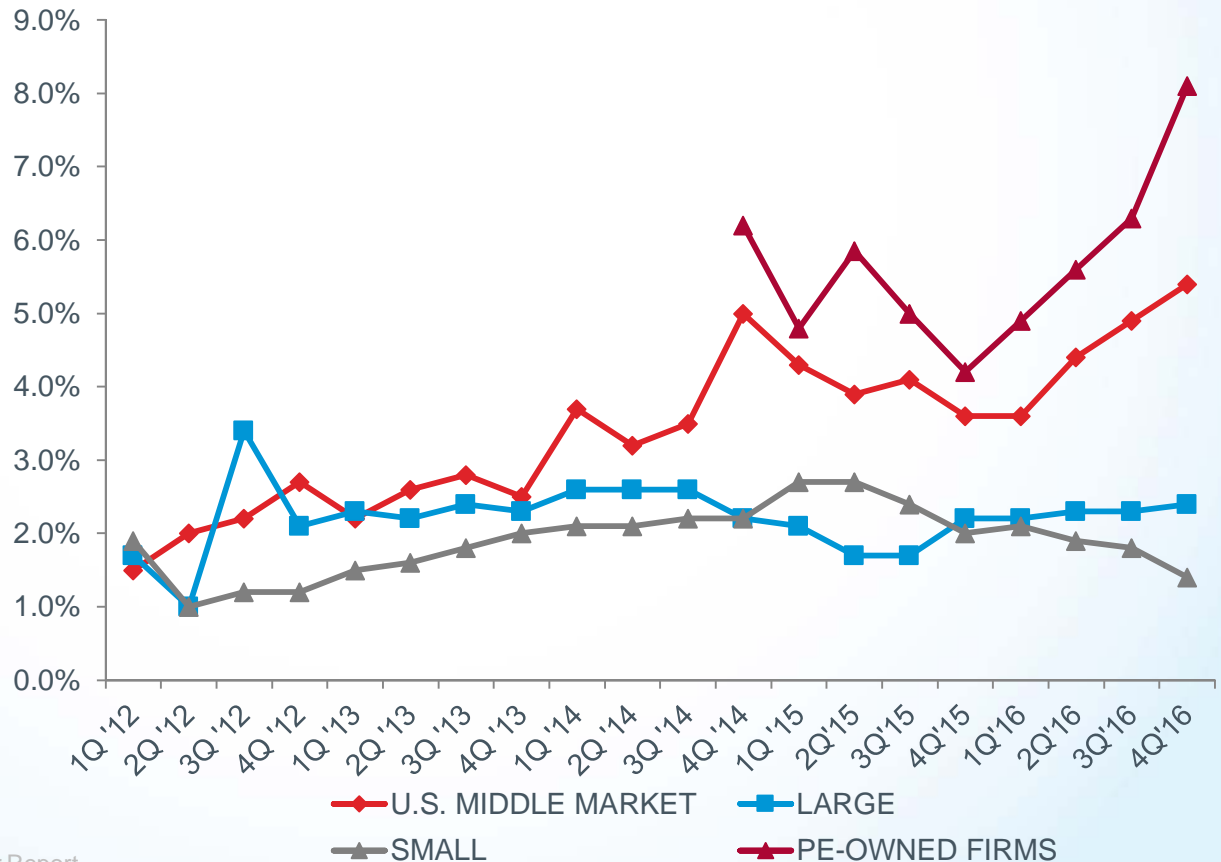
U.S. MIDDLE MARKET

1.4%
SMALL
BUSINESS

2.4%
LARGE
BUSINESS

8.1%

PE-OWNED FIRMS



Q4'16 MIDDLE MARKET INDICATOR INDUSTRY EMPLOYMENT GROWTH



Q4'16 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH *FORECAST*

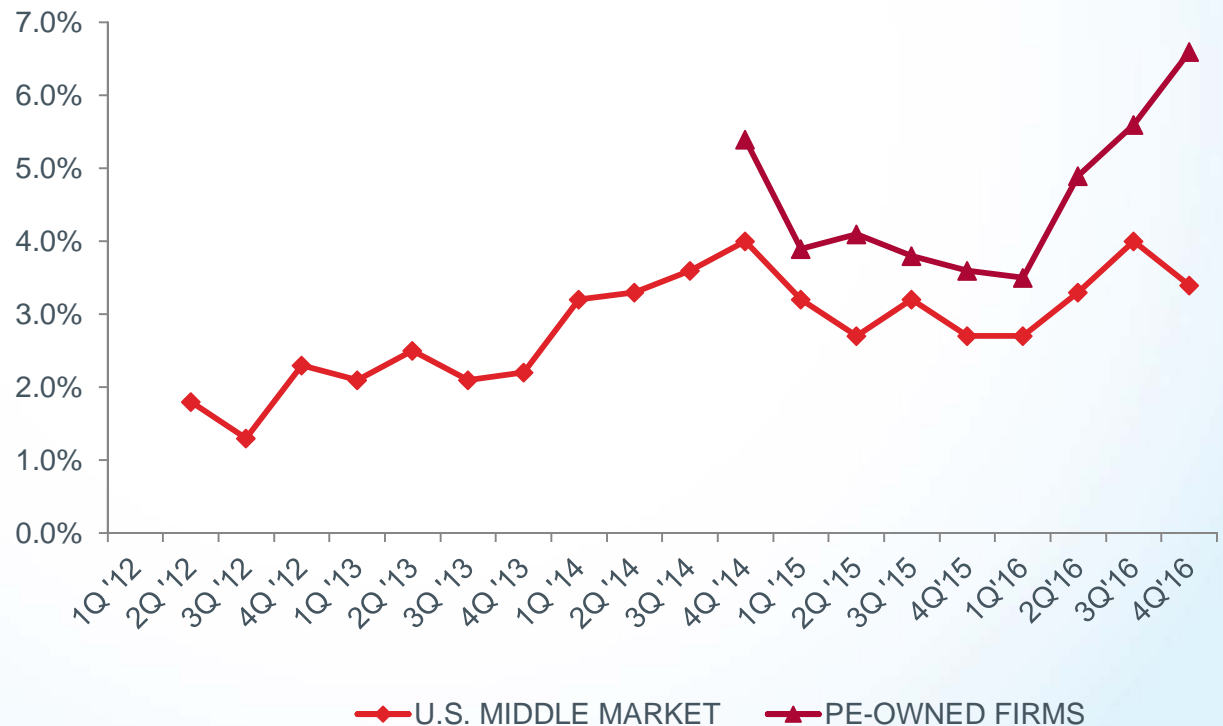
NEXT 12 MONTHS

3.4%

U.S. MIDDLE MARKET

6.6%

PE-OWNED FIRMS



A FEW OBSERVATIONS FROM FIVE YEARS OF DATA

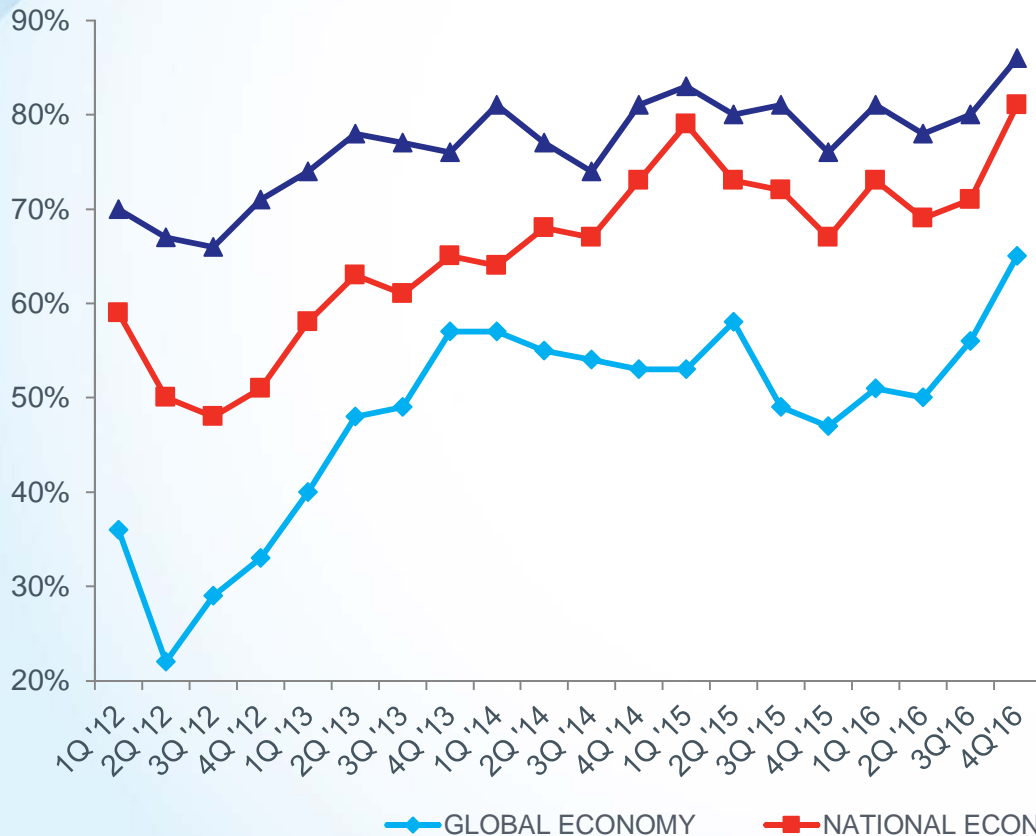
- ▶ **The middle market is the engine of U.S. economic growth**
- ▶ **Most middle market growth is organic**
- ▶ **Middle market executives manage conservatively**
- ▶ **Talent is the middle market's greatest constraint**



CONFIDENCE, INVESTMENT PLANS, AND CHALLENGES

Q4'16 MIDDLE MARKET INDICATOR ECONOMIC CONFIDENCE AT RECORD HIGHS

Confidence Up Across The Board



GLOBAL ECONOMY

65%

76% PE-OWNED



U.S. ECONOMY

81%

86% PE-OWNED



LOCAL ECONOMY

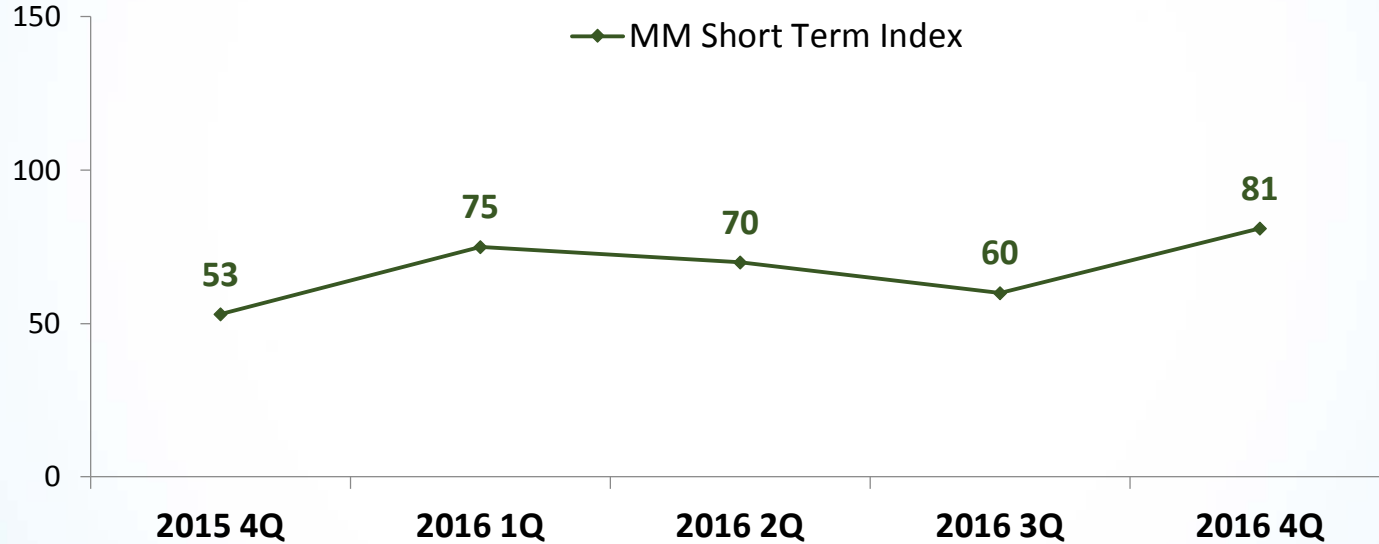
86%

88% PE-OWNED

LARGER COMPANIES GREW FASTEST IN 2016; THE CORE MIDDLE MARKET IS MOST OPTIMISTIC

	Total MM (1007)	\$10M - <\$50M (393)	\$50M - <\$100M (200)	\$100M - <\$1B (414)
Actual Revenue Growth (Past 12 Months)				
Increased	70	65	73	78
Stayed the same	16	16	22	14
Decreased	13	19	5	8
Mean total growth	6.9	5.9	7.9	8.1
Projected Revenue Growth (Next 12 Months)				
Increase	56	58	60	52
Stay the same	38	35	38	41
Decrease	6	7	2	7
Mean total growth (expected)	5.5	5.3	6.3	5.3

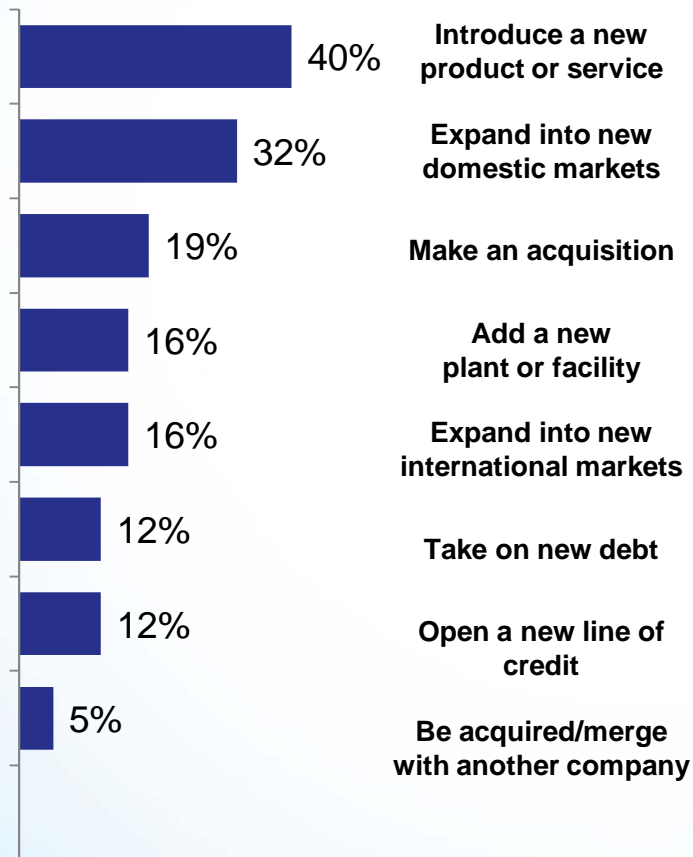
SHORT-TERM EXPECTATIONS HAVE RISEN SHARPLY



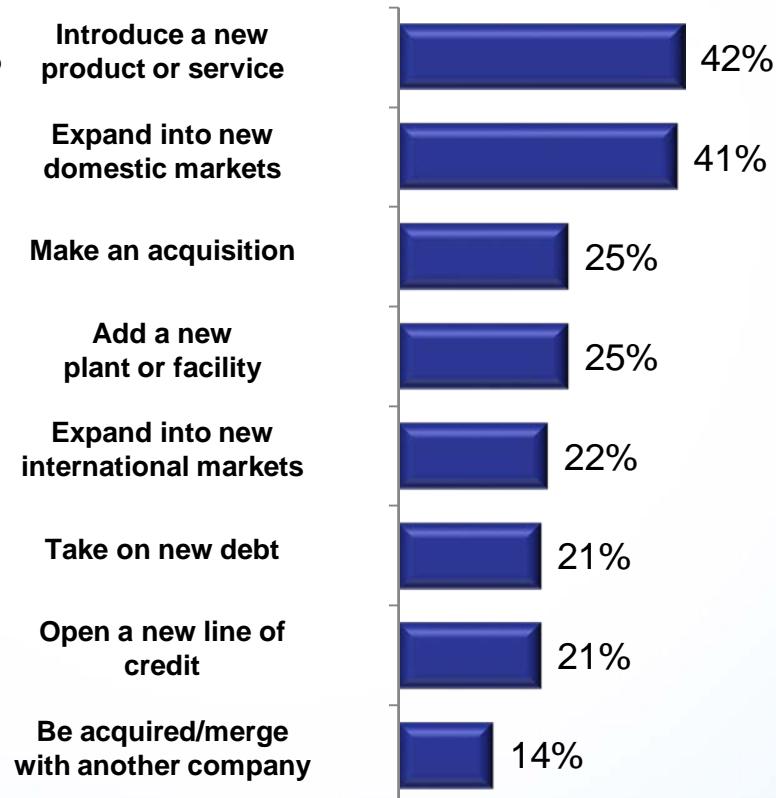
Short Term Index = Net positive change in business climate + Net positive change in demand + net positive change in sales-indexed to Q1 2015

EXECUTIVES FORESEE INCREASED DEAL-MAKING IN 2017

Past 12 Months

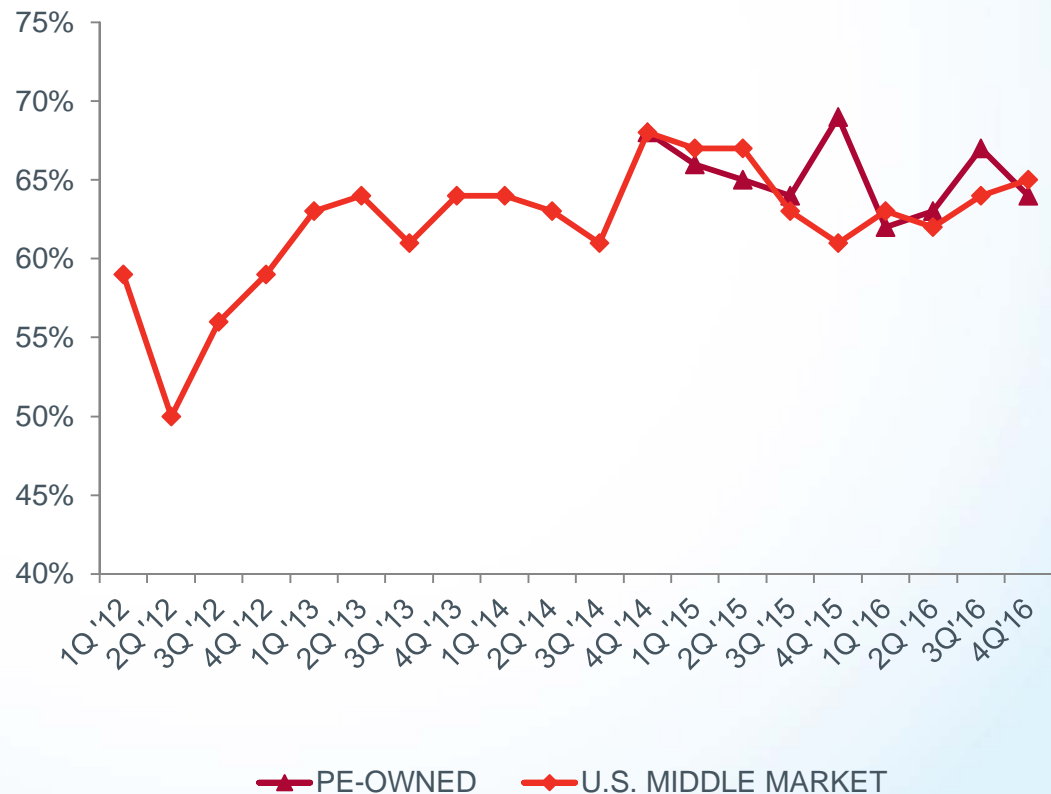


Extremely/Very Likely in Next 12 Months



Q4'16 MIDDLE MARKET INDICATOR CAPITAL INVESTMENT PLANS

FIRMS PLAN TO INVEST.



Q4'16 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 **62%**
2. STAFF/EMPLOYEES **45%**
3. COSTS **21%**
4. GOVERNMENT **16%**

EXTERNAL CHALLENGES:

1. BUSINESS **32%**
2. GOVERNMENT **27%**
3. COMPETITION **16%**
4. COSTS **15%**
5. ECONOMY **14%**

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:

1. BUSINESS **39%**
2. STAFF/EMPLOYEES **38%**
3. COSTS **16%**
4. GOVERNMENT **5%**

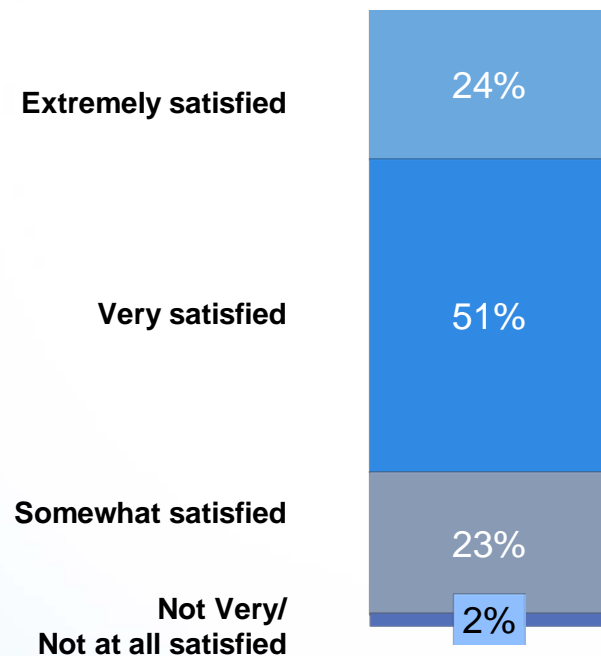
EXTERNAL CHALLENGES:

1. BUSINESS **28%**
2. GOVERNMENT **25%**
3. COSTS **13%**
4. COMPETITION **12%**
5. ECONOMY **12%**

**RECENT RESEARCH
IMPROVING CASH GENERATION, TALENT,
AND CYBER SECURITY**

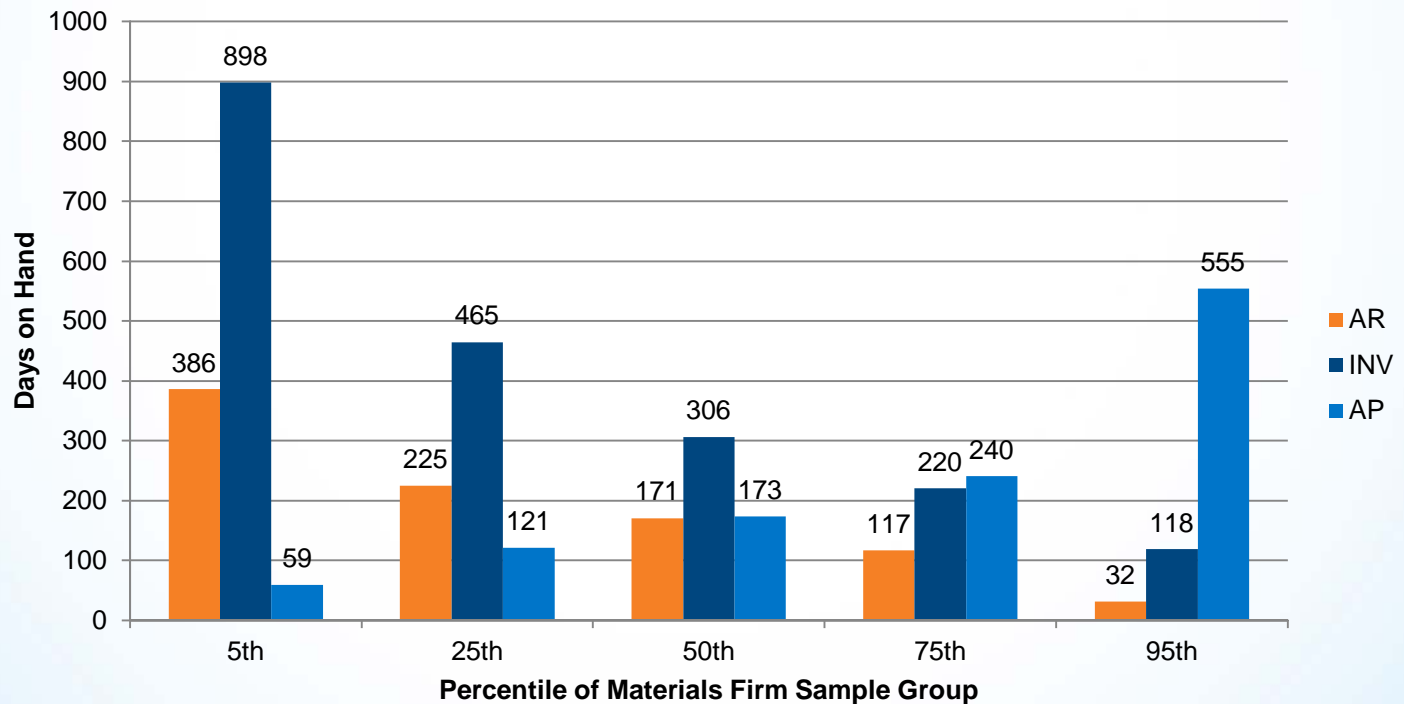
WORKING CAPITAL: MIDDLE MARKET EXECUTIVES ARE SATISFIED ...

Satisfaction with Working Capital Management



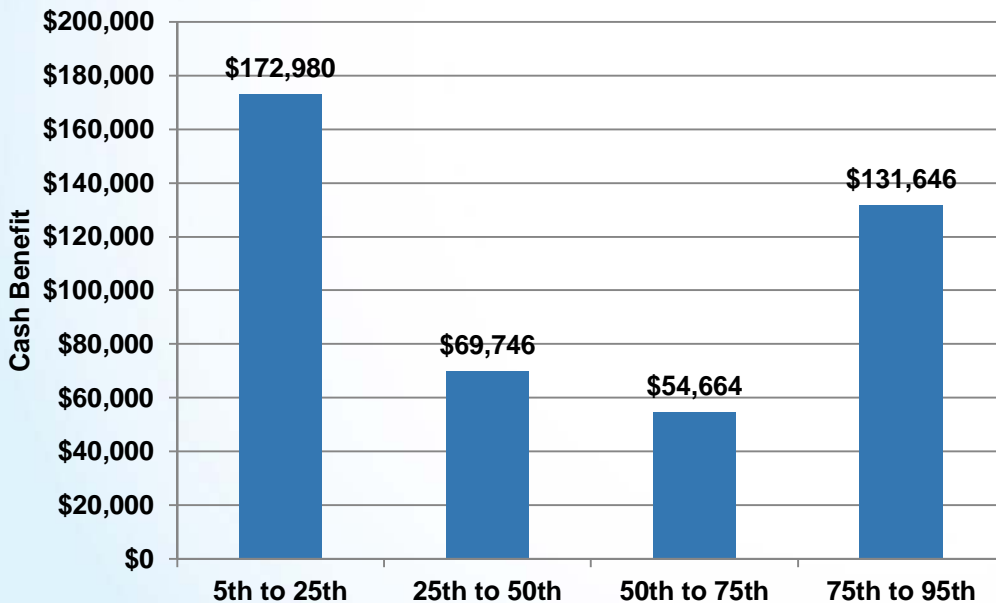
BUT THERE ARE HUGE DIFFERENCES IN WORKING CAPITAL MANAGEMENT ...

Working Capital Metrics of Materials Firms with \$100M-\$1B Revenue, 2016



... AND COMPANIES ARE TYING UP MILLIONS OF DOLLARS UNNECESSARILY

Improvement to Working Capital by Percentile Change*



Cash benefit of just one day's improvement*

A/R	\$274,000
Inventory	\$260,000
A/P	<u>\$260,000</u>
Total:	\$795,000

*Based on a \$100-million-in-sales materials company with average debt

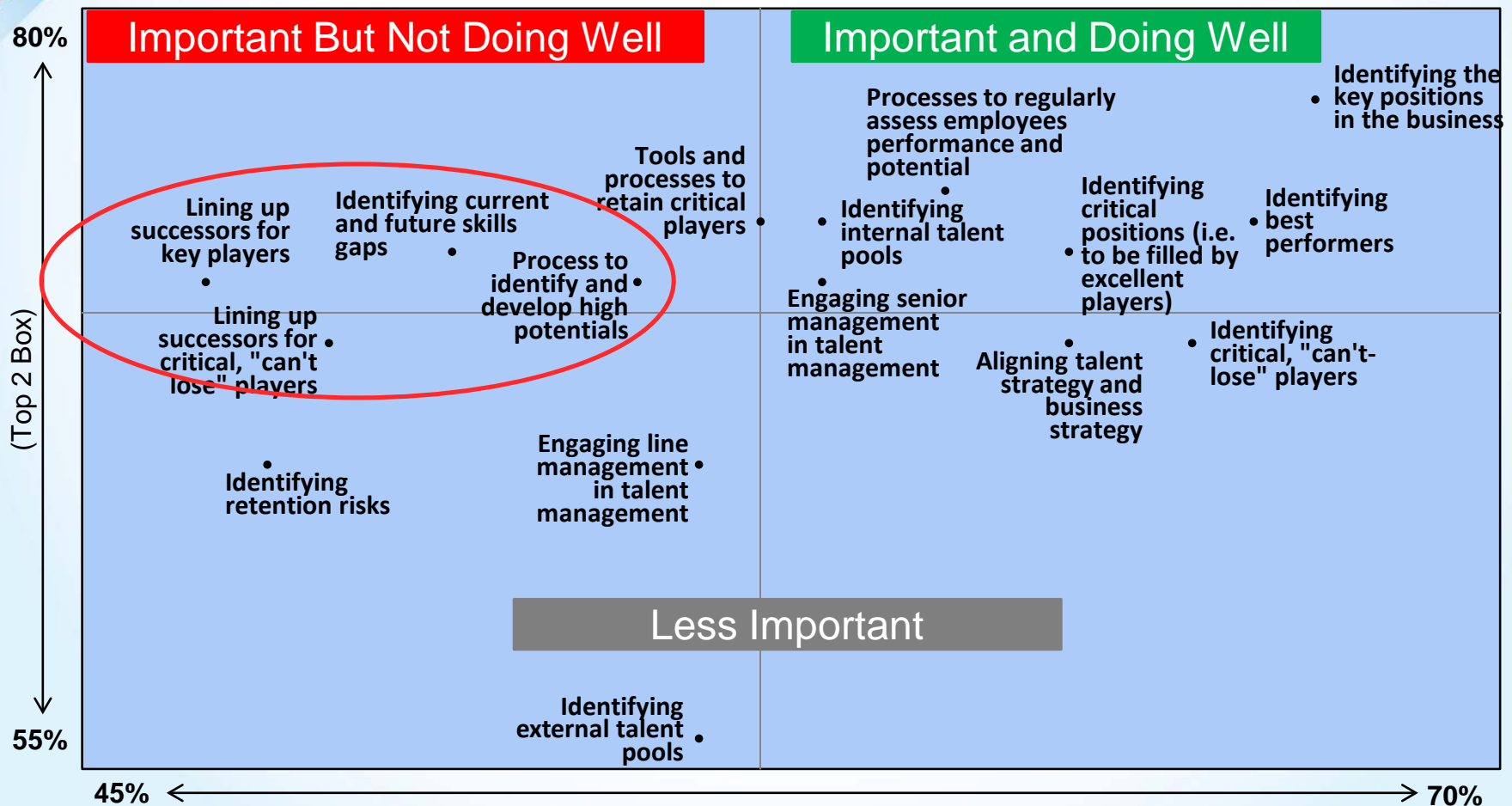
TALENT PLANNING AND ITS IMPORTANCE

ORGANIZATIONS WILL BE MUCH MORE SUCCESSFUL IF THEY KNOW

- + The types of talent they need and where they need it, both today and going forward
- + Their existing talent situation, including open or soon-to-be open positions, internal talent ready for a move or promotion, and development needs to prepare staff to fill key positions
- + The processes and policies to ensure that top talent is identified, developed, rewarded, and retained.

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%

STRENGTHS AND WEAKNESSES IN TALENT PLANNING



THE ABLE FRAMEWORK FOR TALENT PLANNING

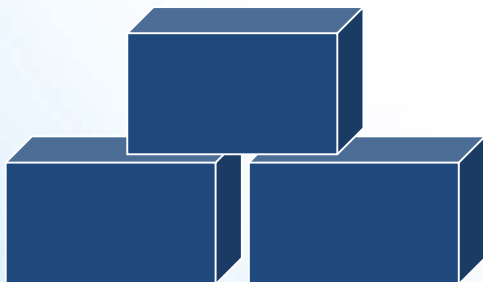
Align
Talent Strategy
with Strategy



Lead
by Example



Build
Processes to Enable
Successful Talent Planning

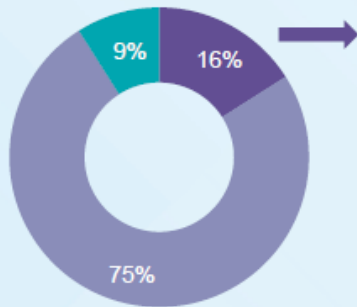


Engage
the Organization



CYBERSECURITY: MOST MIDDLE MARKET FIRMS DO NOT THINK THEY HAVE BEEN HACKED

WHETHER COMPANY HAS BEEN TARGET OF A HACK



Profile of Hack Targets:

- *Faster past year and projected employment growth*
- *More likely to have expanded into new international markets (26%)*
- *Have greater difficulty accessing capital*

- Company has been target of hack
- Company has not been target of hack
- Don't know

Healthcare, construction and services companies are most likely to be aware of having been hacked.

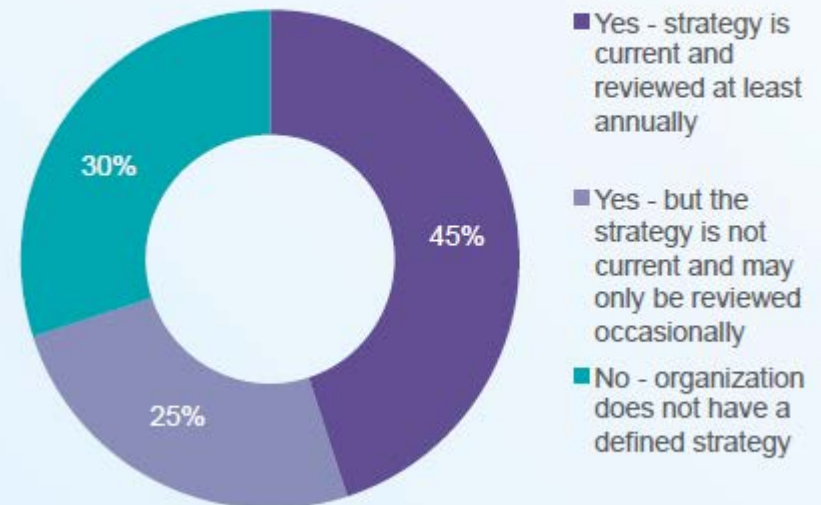


CYBERSECURITY CONCERNS ARE NOT MATCHED BY PLANS

IMPORTANCE OF CYBERSECURITY



WHETHER ORGANIZATION HAS DEFINED CYBER RISK STRATEGY



THE NCMM'S NEW CYBERSECURITY RESOURCE CENTER

Dedicated to helping middle market companies manage cyber risks

Additional Support Glossary Contact RSS

NATIONAL CENTER FOR
THE MIDDLE MARKET

CYBERSECURITY RESOURCE CENTER

**UNDERSTAND
YOUR RISK**

**MANAGE THE
HUMAN FACTOR**

**IMPLEMENT
ROBUST
PROCESSES**

**MAKE SMART
TECHNOLOGY
CHOICES**

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



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