



NATIONAL CENTER FOR
THE MIDDLE MARKET

The Market That Moves America

Findings from the 2Q 2019 Middle Market Indicator Report

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

IN COLLABORATION WITH



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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Research and Expert Perspectives



Interactive Benchmarking Tools

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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 middle market continues to lead the U.S. economy in revenue growth and job creation. The annualized revenue growth rate for middle market companies is at near record levels. Private-equity-owned companies outperformed the national averages, and expect to continue to thrive.
- 2 Employment growth has rebounded and is at near-record levels.
- 3 The role of M&A in company growth is substantial—particularly for larger middle market companies—but most middle market growth is organic.
- 4 Caution flags are out. Short-term expectations are down, confidence remains off its peaks, 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.

Overview

REVENUE GROWTH

8.5%

PAST 12 MONTHS

2.21%

S&P 500

5.4%

NEXT 12 MONTHS



EMPLOYMENT GROWTH

6.4%

PAST 12 MONTHS

0.9%
SMALL
BUSINESS

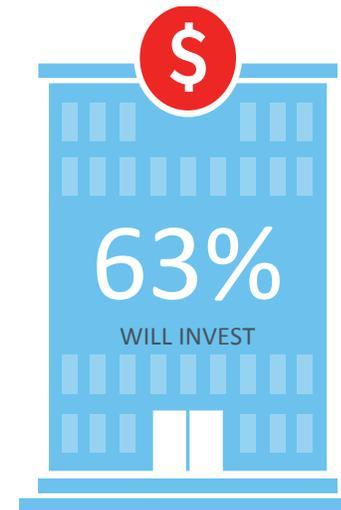
2.3%
LARGE
BUSINESS

4.8%

NEXT 12 MONTHS



CAPITAL INVESTMENT



CONFIDENCE

69%

GLOBAL ECONOMY



82%

NATIONAL ECONOMY



89%

LOCAL ECONOMY



2Q'19 MMI: Revenue Growth

PAST 12 MONTHS

8.5%

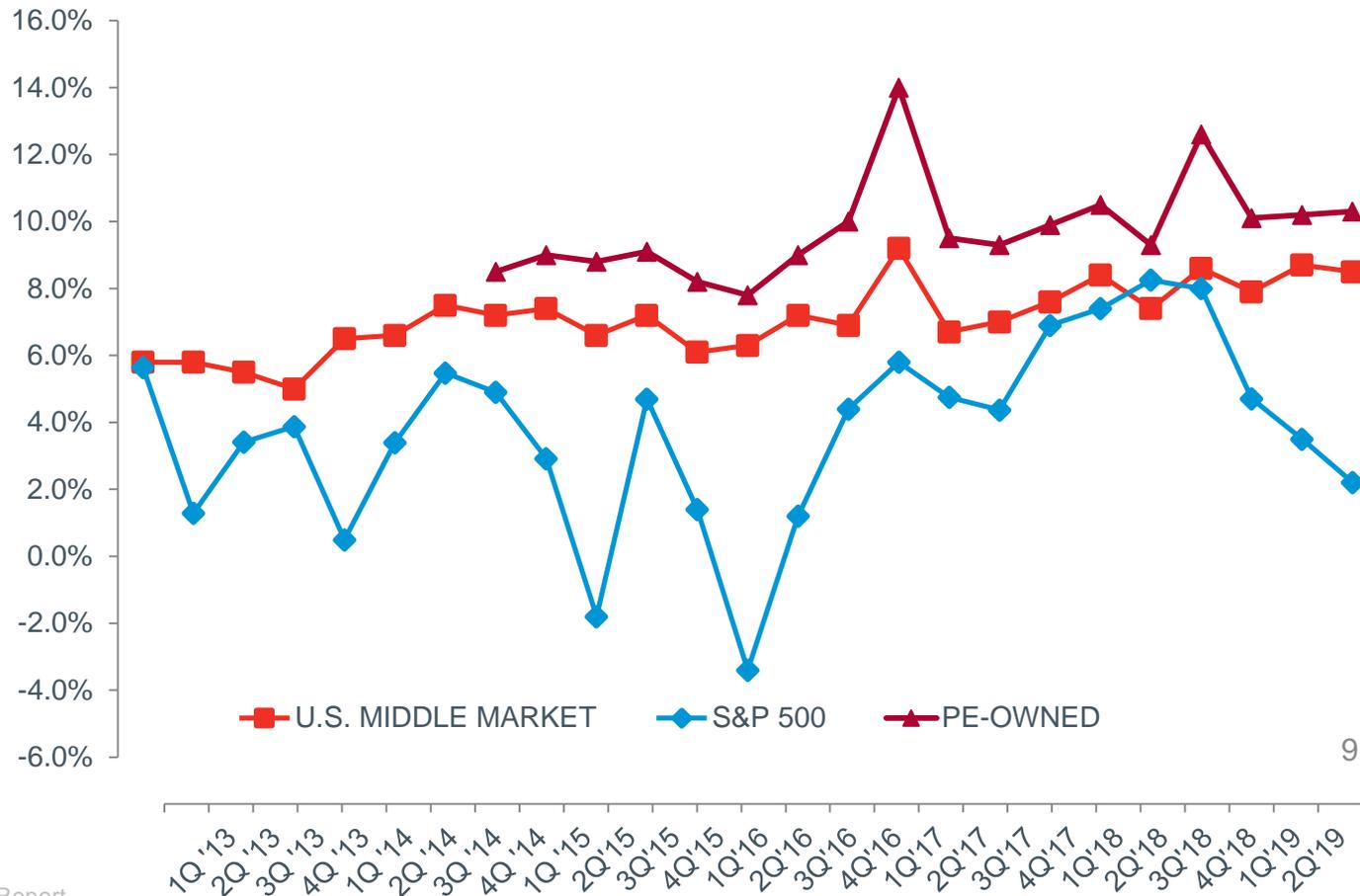
U.S. MIDDLE MARKET

10.3%

PE-OWNED FIRMS

2.21%

S&P 500*



2Q'19 MMI: Winners and Losers

	2Q 2019	1Q 2019
Performance improved	68%	67%
Performance was unchanged	26%	28%
Performance deteriorated	6%	5%

2Q'19 MMI: Revenue Growth by Industry

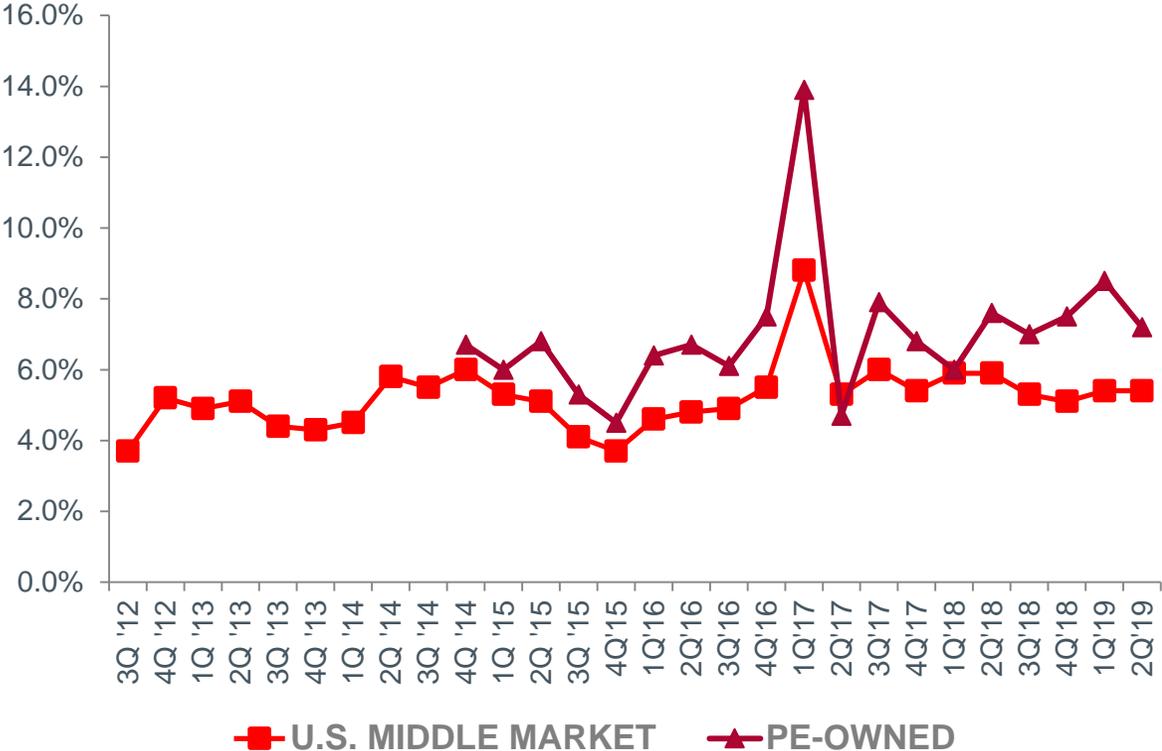


2Q'19 MMI: Revenue Growth *Forecast*

NEXT 12 MONTHS

5.4%
U.S. MIDDLE MARKET

7.2%
PE-OWNED FIRMS



Source: 2Q'19 Middle Market Indicator Report

2Q'19 MMI: Employment Growth

PAST 12 MONTHS

6.4%

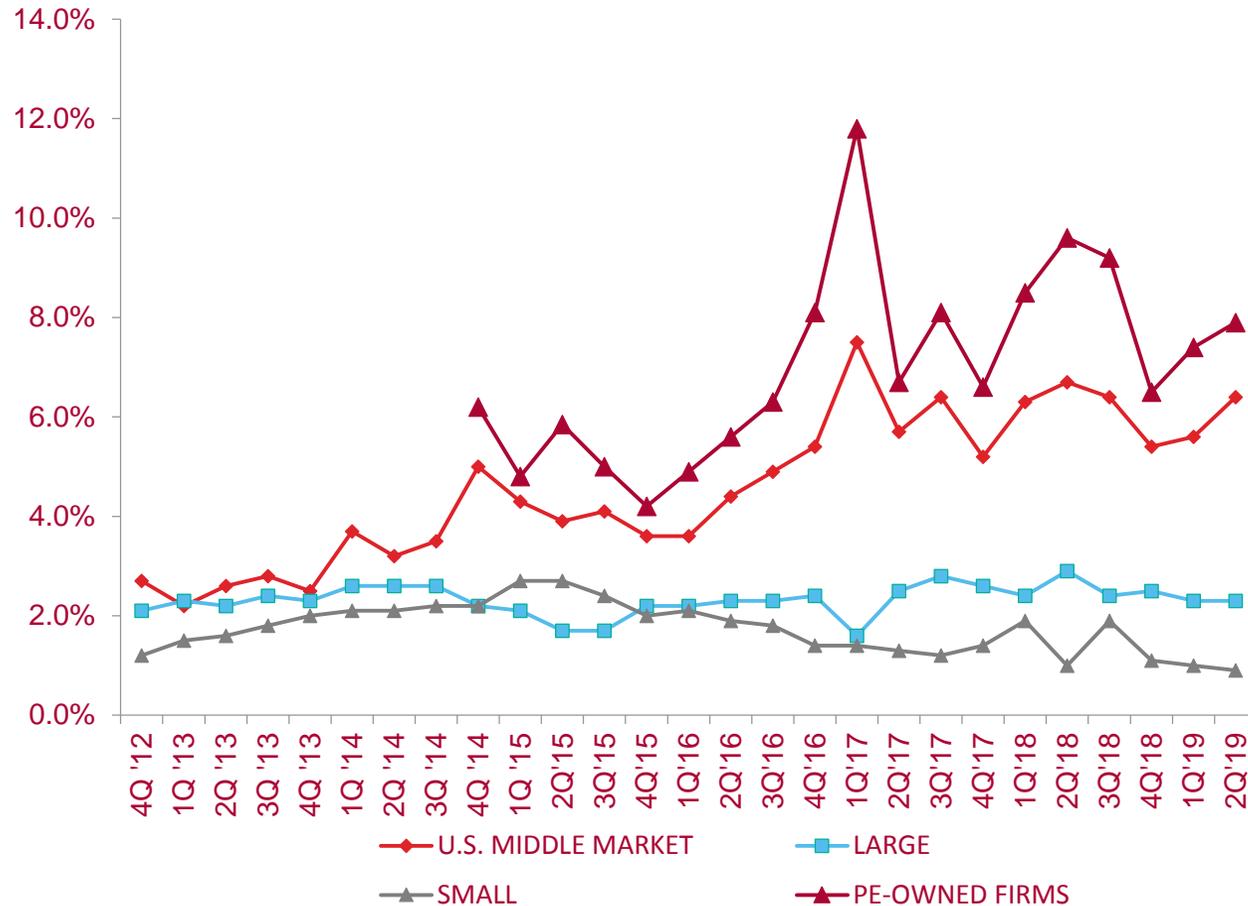
U.S. MIDDLE MARKET

0.9%
SMALL
BUSINESS

2.3%
LARGE
BUSINESS

7.9%

PE-OWNED FIRMS



Source: 2Q'19 Middle Market Indicator Report

2Q'19 MMI: Employment Growth by Industry



Source: 2Q'19 Middle Market Indicator Report

2Q'19 MMI: Employment Growth *Forecast*

NEXT 12 MONTHS

4.8%

U.S. MIDDLE MARKET

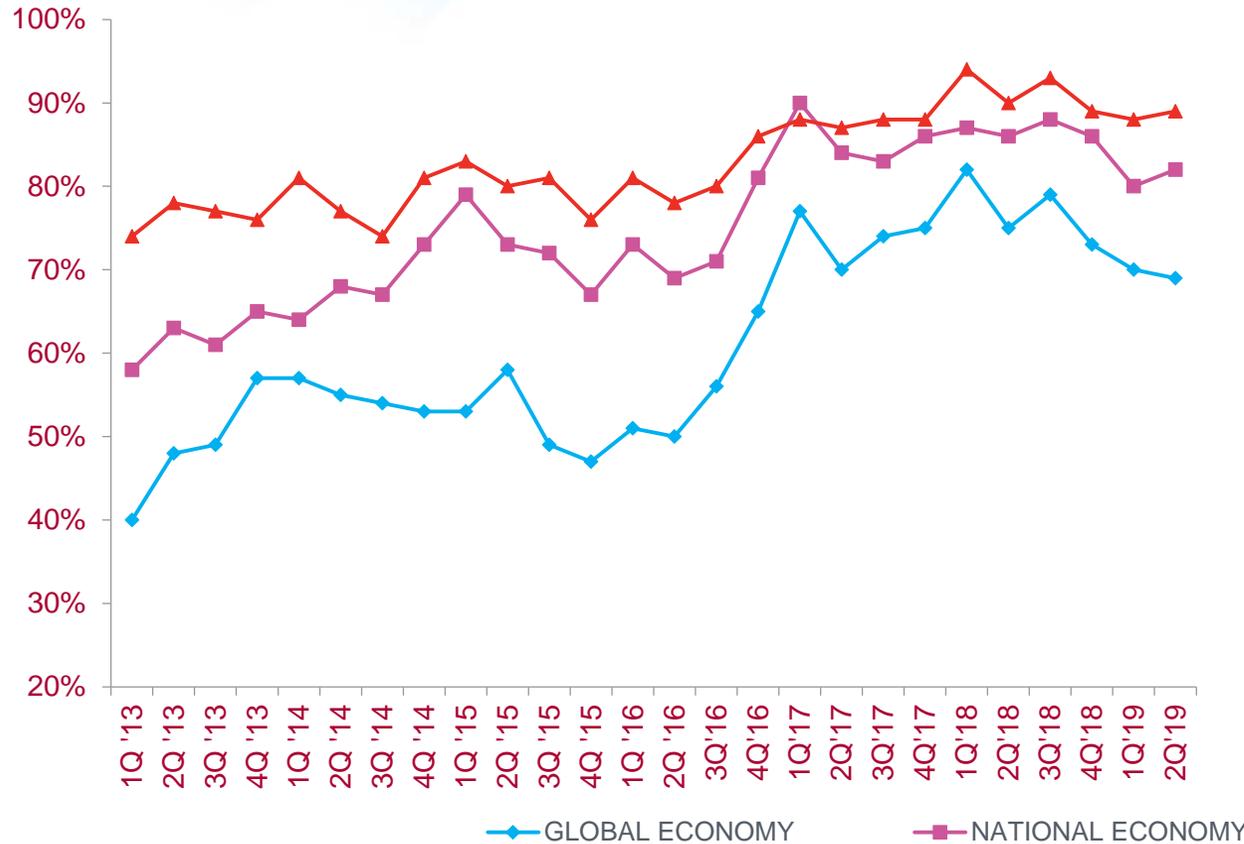
6.0%

PE-OWNED FIRMS



Source: 2Q'19 Middle Market Indicator Report

2Q'19 MMI: Economic Confidence Remains Off Its Peak



GLOBAL ECONOMY

69%

80% PE-OWNED



U.S. ECONOMY

82%

85% PE-OWNED



LOCAL ECONOMY

89%

91% PE-OWNED

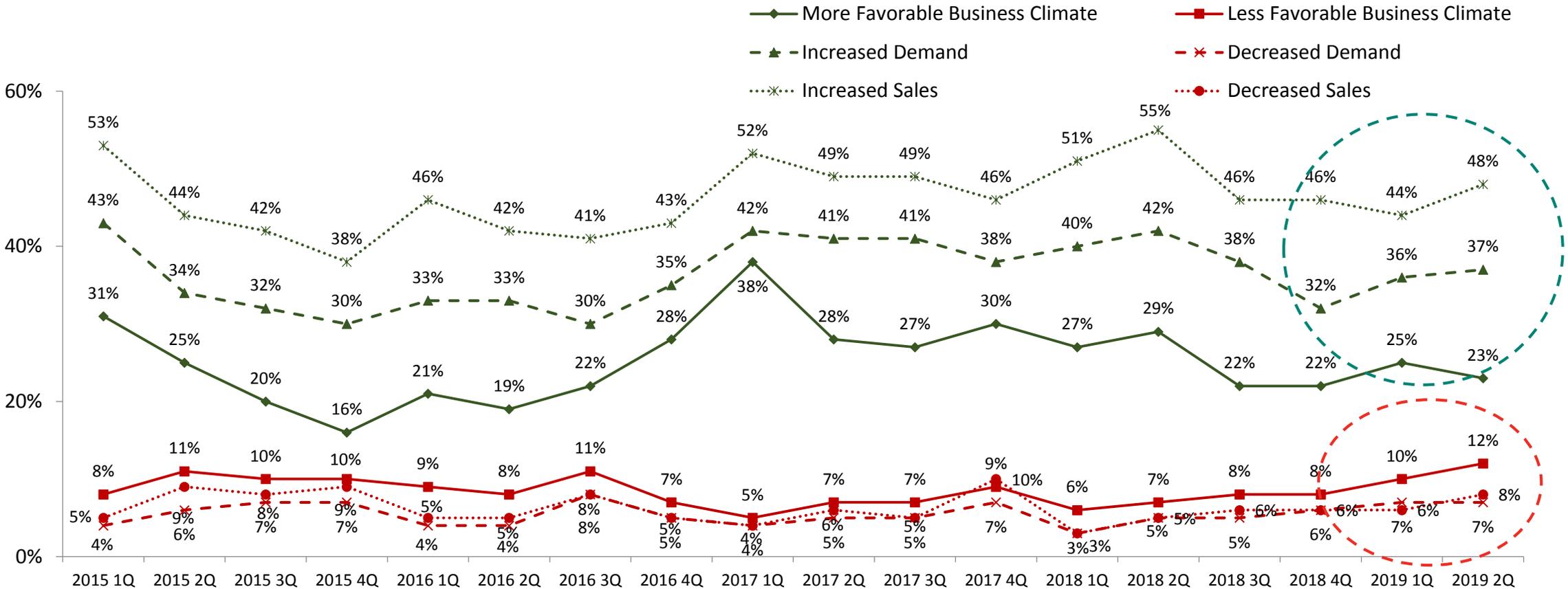
2Q'19 MMI: Short Term Index Has Deteriorated

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.



Rising Negatives Are Pulling the Index Down

Short Term Outlook
(Next 3 Months)

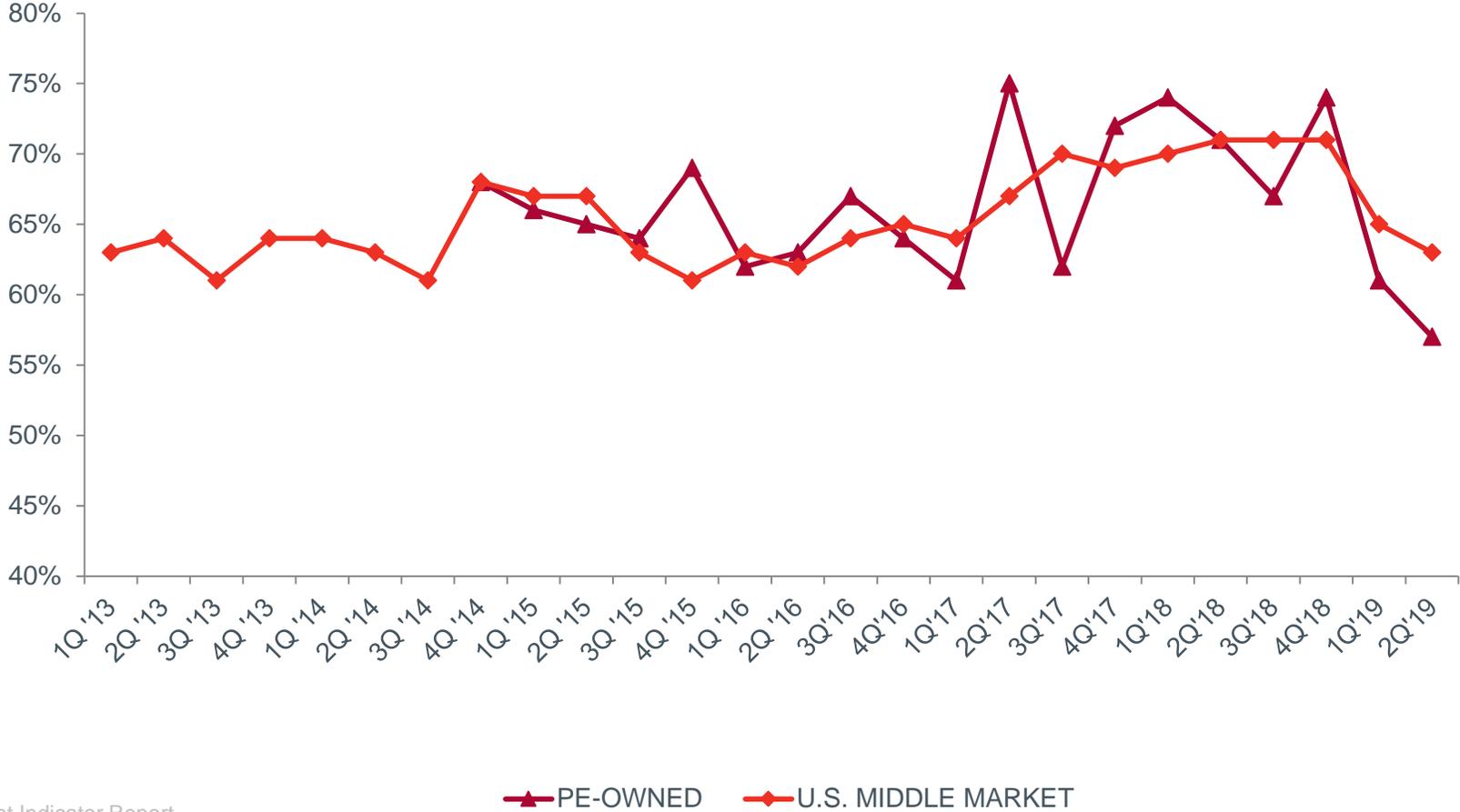


Source: 2Q'19 Middle Market Indicator Report

2Q'19 MMI: Investment Appetites Have Weakened

WHAT WOULD YOU DO WITH AN EXTRA DOLLAR?

INVEST VS. HOLD CASH

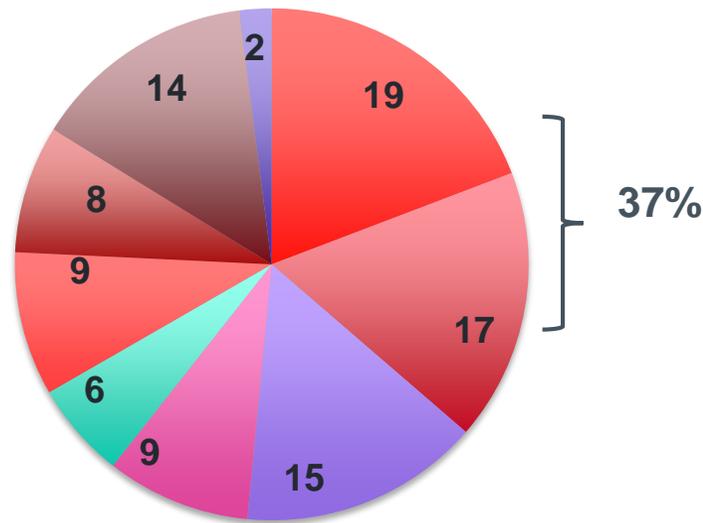


Source: 2Q'19 Middle Market Indicator Report

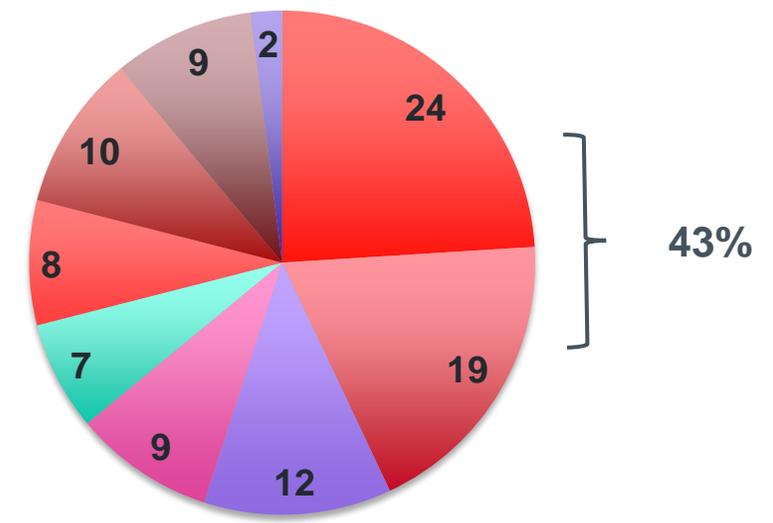
2Q'19 MMI: Investment Appetites Have Waned

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



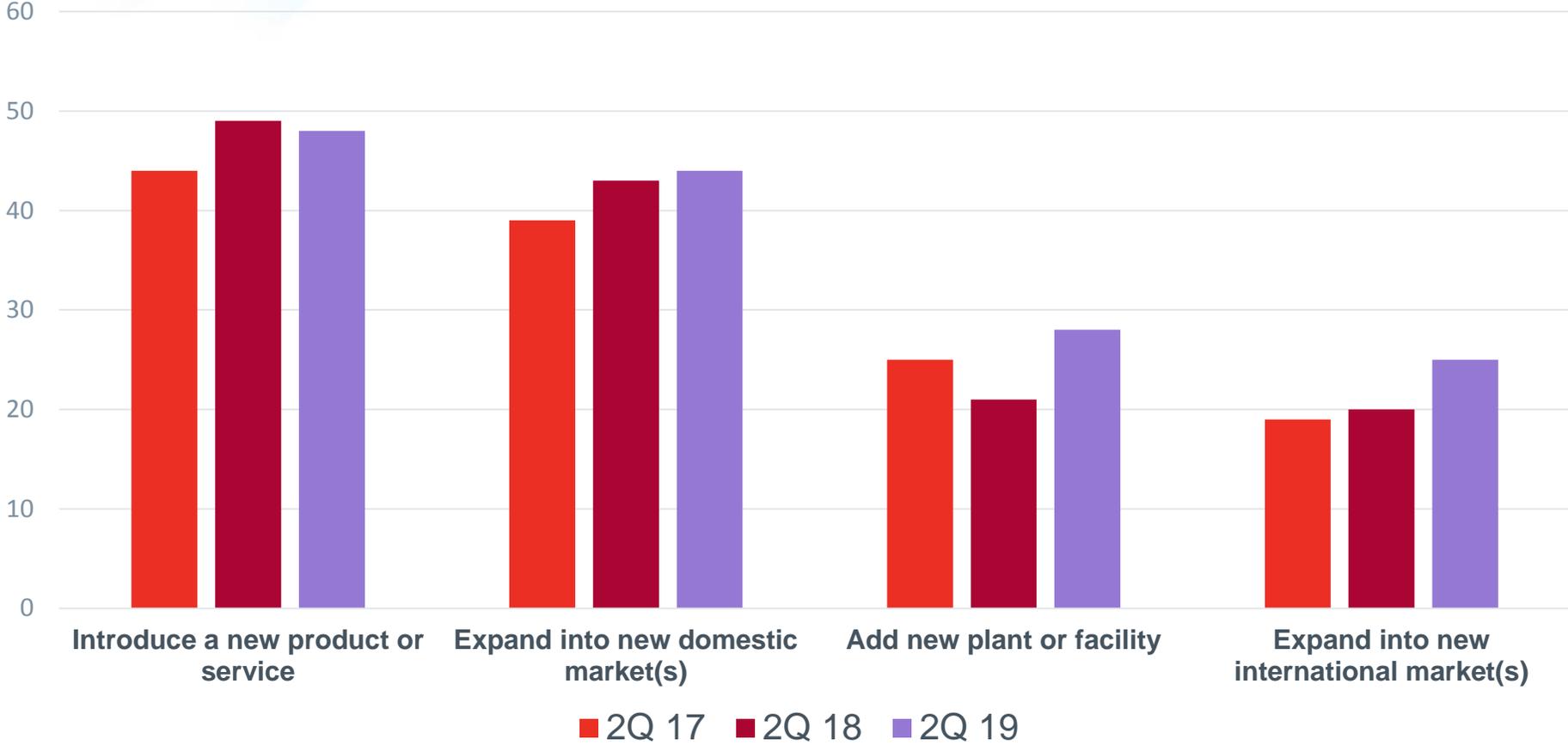
U.S. MIDDLE MARKET



PE-OWNED

2Q'19 MMI: Expansion Plans Remain Robust

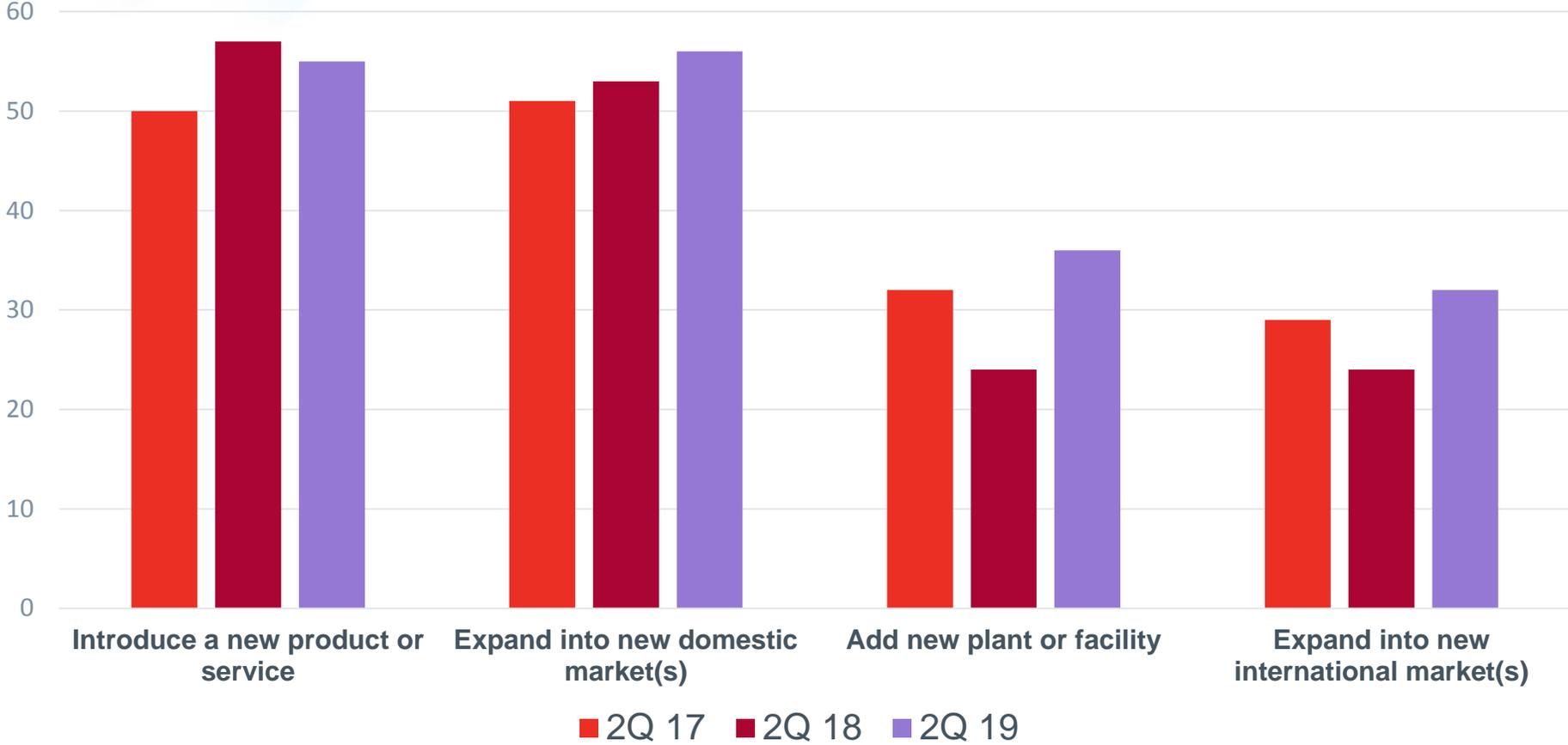
Extremely/Very Likely in Next 12 Months



Source: 2Q'17, 18, 19 Middle Market Indicator Reports

2Q'19 MMI: Expansion Plans For PE Firms

Extremely/Very Likely in Next 12 Months



Source: 2Q'17, 18, 19 Middle Market Indicator Reports

Historically, Middle Market Companies with Revenues Above \$100 Million Have Grown Fastest

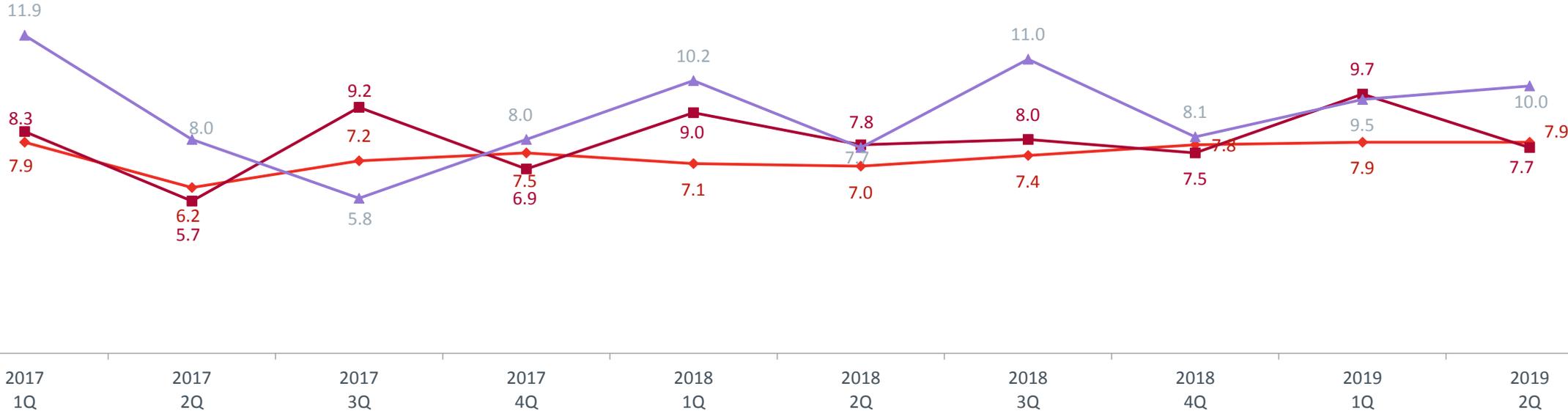
Revenue Growth

Avg \$10M to <\$50M = 6.5

Avg \$50M to <\$100M = 7.1

Avg \$100M to <\$1B = 7.7

- ◆ \$10M to <\$50M Revenue
- \$50M to <\$100M Revenue
- ▲ \$100M to <\$1B Revenue



M&A Explains Almost Half the Superior Growth of Upper Middle Market Companies

	Total Middle Market	Revenue \$10MM- \$50MM	Revenue \$50MM- \$100MM	Revenue \$100MM- \$1Bn
Average Growth Rate All Companies, 1Q 2015-2Q 2019	7.4%	6.8%	7.6%	8.4%
Average Growth Rate, Companies with No M&A in Previous 12 Months, 1Q 2015- 2Q 2019	6.6%	6.3%	6.6%	7.1%

Digital Capabilities, Strategic Sophistication Help Bigger Companies

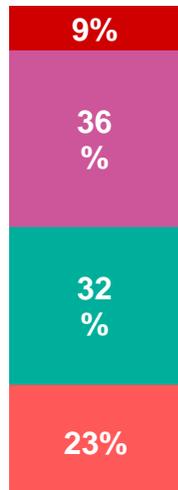
Advanced digital capabilities

Well defined strategies

APPROACH

- Strategic
- Advanced
- Defensive
- Not there/Denial

GROWTH RATE LAST 12 MONTHS



10.2%

9.3%

6.7%

6.3%

GROWTH RATE LAST 12 MONTHS

6.8%

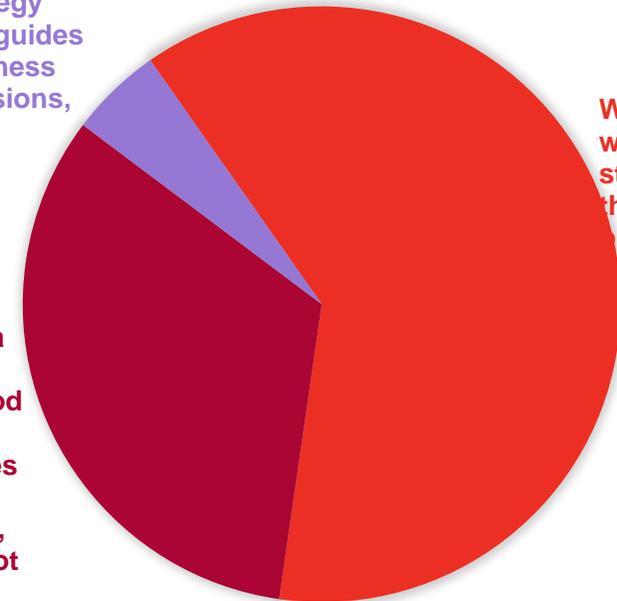
We don't have an overarching strategy that guides business decisions, 5%

We have a generally understood strategy that guides business decisions, but it is not well defined, 33%

We have a well-defined strategy that guides business decisions, 22%

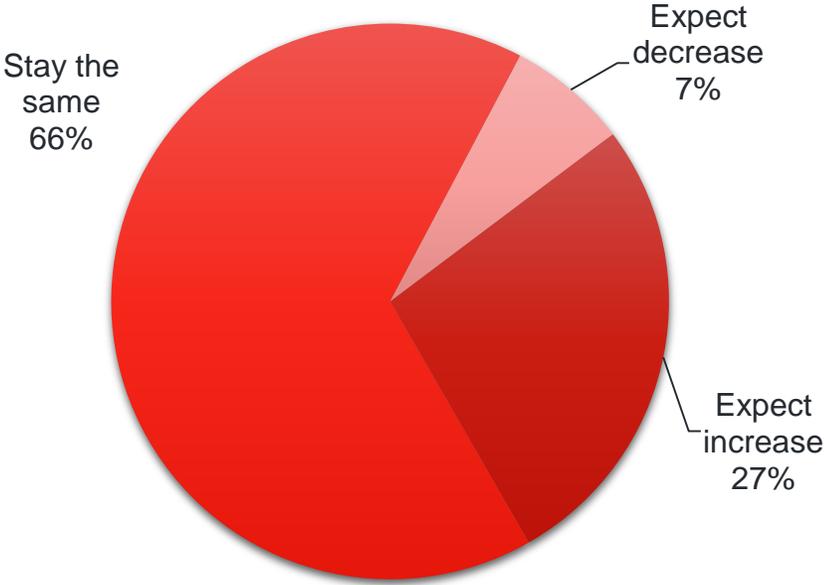
GROWTH RATE LAST 12 MONTHS

8.6%



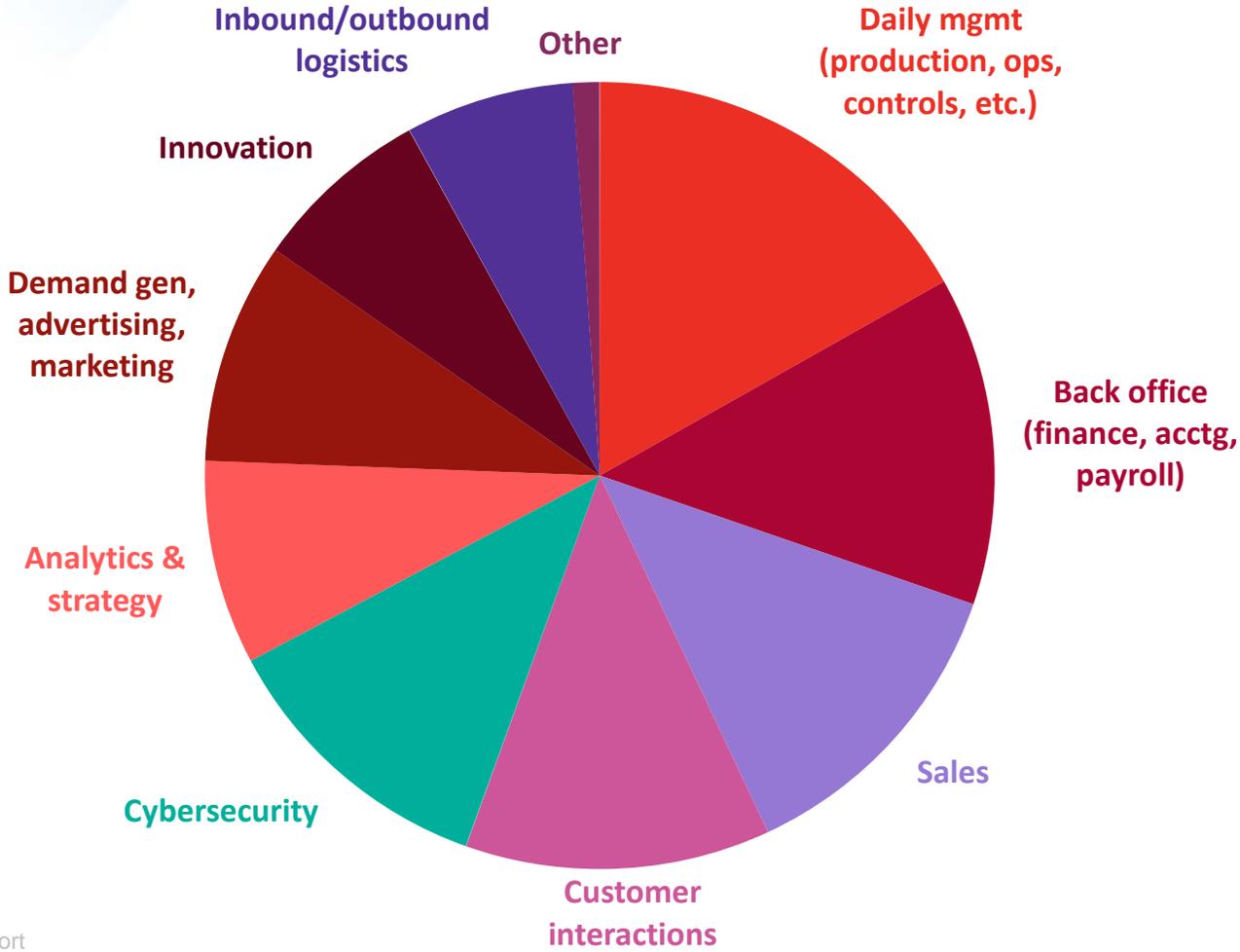
2Q'19 MMI: R&D Spending Continues Strong

Proportion of Revenue Spent on Product Development



Source: 2Q'19 Middle Market Indicator Report

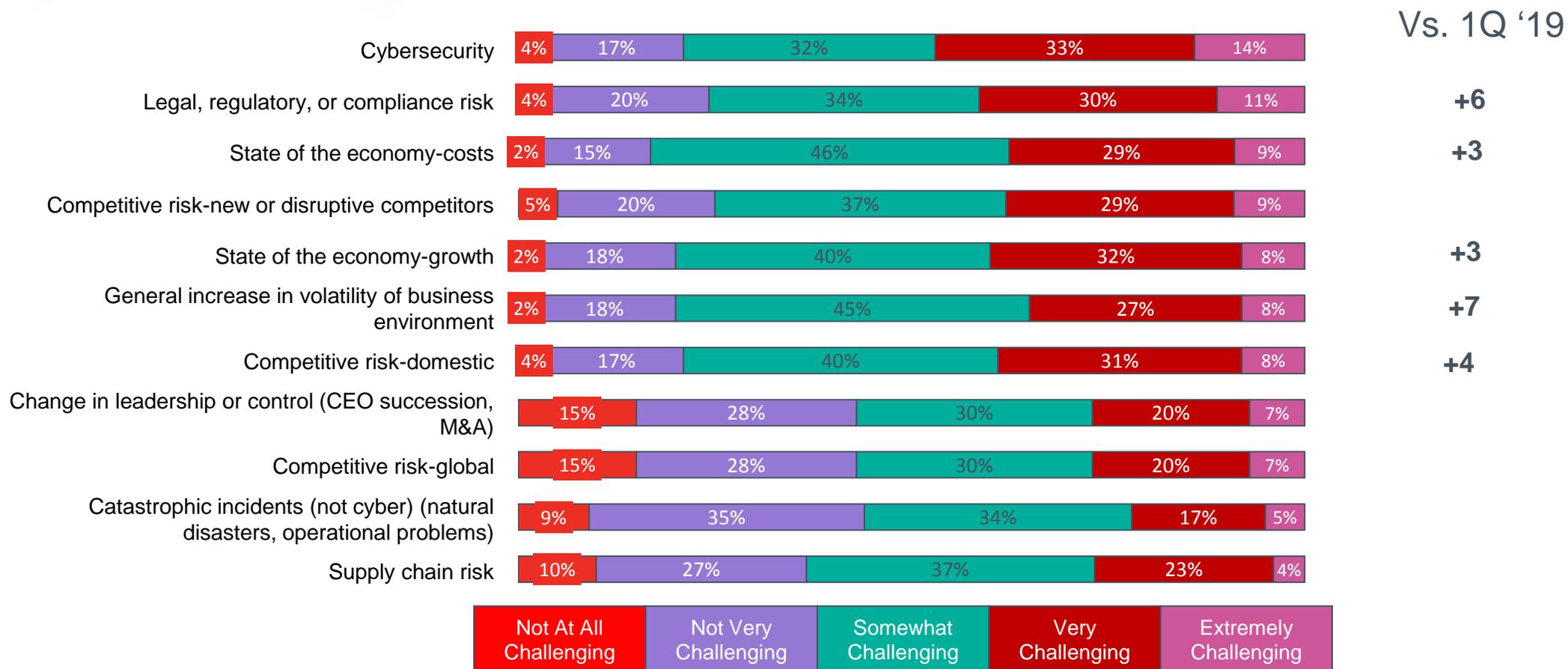
2Q'19 MMI: Where IT Spending Goes



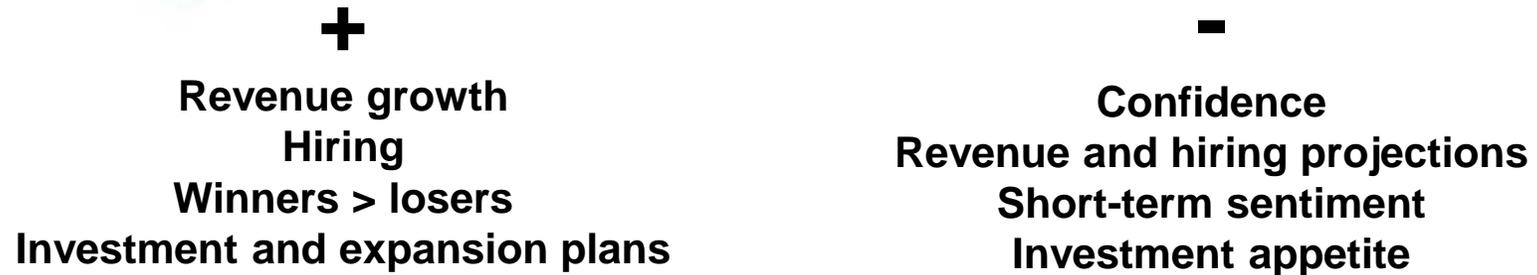
Source: 2Q'19 Middle Market Indicator Report

Cybersecurity and Costs Are Top Risks

Level Of Challenge of Managing Risk



Actions or Attitudes? Pick 'Em





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