

The State of the U.S. Middle Market

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Private Equity and the U.S. Middle Market

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The Access Modern Business Framework

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The Future of Modern Businesses

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# ACCESS Insights

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## Building Modern Businesses

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We are partners to our businesses. What drives their growth drives ours. The six building blocks of the “Access Modern Business Framework” provide our partner companies with the guidance and support needed to thrive in today’s fast-changing business environment.



## The State of the U.S. Middle Market

The middle market is the backbone of the U.S. economy. Defined as businesses with annual revenues between \$10 million and \$1 billion, the U.S. middle market is composed of nearly 200,000 businesses and employs nearly 50 million Americans. These businesses generate one-third of the country's private sector GDP but are facing obstacles maintaining the robust growth rates they've achieved in the past.

The business environment is being rapidly transformed in ways that challenge middle market companies. There are new technologies (e.g. generative AI) and shortening innovation cycles, shifting customer preferences and a rising generation of digital-savvy consumers, an explosion in data availability that can be beneficial to those who know how to take advantage, and heightened competition from new digital-native competitors and sophisticated tech giants. Middle market businesses will find it difficult to protect against disruption and take advantage of these trends due to a limited ability to deploy capital to invest in new technologies and transformation initiatives and difficulty attracting modern skill sets and resources that can help support their modernization journey.

To overcome these challenges, middle market entrepreneurs need to build modern businesses that can do the following:

- Achieve steady and predictable growth
- Leverage data and digital tools to move with speed and make smarter decisions
- Embrace and adapt to change by constantly monitoring and evaluating evolving market conditions

At Access, our mission is to build enduring businesses, and that means building modern businesses that can survive and thrive in today's fast-changing business environment. To that end, we invest in building modern, proprietary capabilities that we lift and shift into our portfolio businesses to help them advance across the six building blocks of the "Access Modern Business Framework."

## Private Equity and the U.S. Middle Market

Private equity has undergone significant change over the past three decades. In the 1990s, new technologies and shifting customer preferences combined with cheap debt, high leverage, productivity gains, and expanded access to capital translated to increased valuations at portfolio companies. This transformation enabled private equity to drive outperformance relative to other asset classes and helped establish new legitimacy as an "industry" that could deliver business growth and value creation.

What got us here, however, will not advance us. The cheap debt and high leverage that once fueled value creation are relics of the past. Instead, American enterprises of all shapes and sizes face a rapidly changing business landscape, driven by AI in particular. Private equity will need to address and embrace these changes to deliver and exceed past returns.

In the future, most private equity capital will go to a small number of established large-cap private equity funds with a global deal reach and that offer investors a large and safe assembly of co-investors and a relatively liquid secondary market. Mid-cap and small-cap funds will find it more difficult to show they bring the proprietary deal generation, outperformance, and unique capabilities needed to attract investor capital.

The middle market has provided most of the private equity industry's growth over the past 30 years. Many new mid-market funds have emerged, riding the wave of a once-in-a-generation low interest rate environment, which inflated valuations across all asset categories. That allowed mid-market funds to acquire companies at full valuations with cheap leverage, modestly tinker with their operational performance, and remain relatively competitive. Then, they could exit the companies at higher valuations (typically thanks to acquisitions by other private equity funds) simply because market valuations had increased, generating attractive risk-adjusted returns for their investors and management teams.

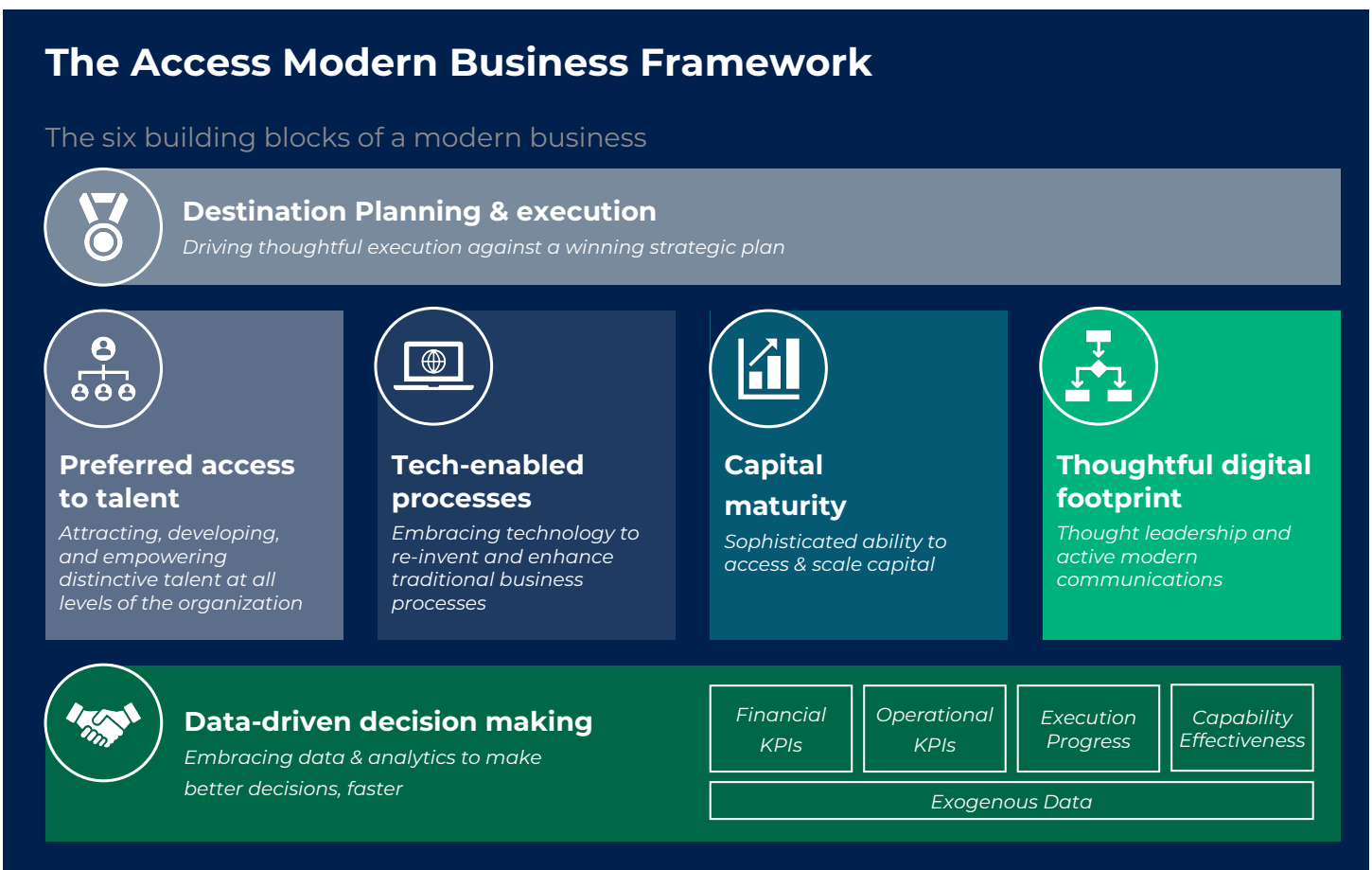
Just as the broader private equity industry must change, so too must middle market businesses to reflect the rapid changes underway in how customers are sourced and sold. It's critical for these businesses to leverage the opportunities presented by innovations such as generative AI and the explosion of available digital exhaust (i.e., customer and competitor data). Data can be monetized, the customer experience can be improved, and greater operational efficiency can be delivered—all of which help drive higher growth.

## The Access Modern Business Framework

We are partners to our businesses. What drives their growth drives ours. The six building blocks of the “Access Modern Business Framework” provide our partner companies and ourselves with the guidance and support needed to thrive in today’s fast-changing business environment.

### 1. DESTINATION PLANNING AND EXECUTION

Modern businesses drive thoughtful execution against a winning strategic plan. This starts by defining the vision for the business and then working backward to create a strategy that outlines where to play and how to win. This strategy must be informed by a deep and continuously refreshed understanding of market trends, customer behavior, competitive dynamics, and value chain structure. At Access, we call this process “Destination Planning.” Before entering a formal partnership, our deal teams and portfolio company executives work together to map out a shared end-state vision for the business and define the critical strategic choices and roadmap needed to achieve it. Just as important is building the right execution infrastructure to turn strategy into action. In each of our portfolio businesses, we put robust strategic program management in place and continuously monitor the external environment changes to adapt our strategy as needed.





“Private equity and the middle market must adapt to changing environments to remain competitive and drive value.”

## 2. PREFERRED ACCESS TO TALENT

Modern businesses attract, develop, and empower distinctive talent at all organizational levels. This is increasingly important given the variety of trends disrupting traditional labor markets: increasing employee turnover, the decline in corporate-sponsored training programs, the rapid technological change creating the need to upskill large portions of the workforce, and the displacement of traditional skillsets and workflows by AI. At Access, we leverage recruiting capabilities like the Access Creating Executives (ACE) program to inject elite strategy, digital, business development, and functional talent into our portfolio businesses. Middle market businesses also need effective leaders with the ability to implement these frameworks, scale functional expertise across the business, and advance a high-performing culture. We also believe talent development starts with continuous communication. Across the Access ecosystem, our partner businesses utilize modern communication channels like video and podcasting to communicate with employees and share messages directly from leadership.

## 3. TECH-ENABLED BUSINESS PROCESSES

Modern businesses embrace technology to reinvent and enhance traditional business processes. Strategic decisions are guided by research, with more data available to inform these decisions and more sophisticated technological processes are available to help implement these decisions. Emblematic of the tech-enabled opportunities for middle market businesses are the implementation of customer intelligence tools—i.e., collecting and leveraging customer data—to gain insights on current customers, determine “want to own” customer profiles, drive wallet share and retention, and optimize

sales and marketing investments. Digital marketing and lead generation tools create outreach and engagement at scale with customers and channel partners. Modern businesses also leverage data and analytics to drive operational efficiencies like route optimization, labor optimization, and asset utilization at scale.

## 4. CAPITAL MARKETS MATURITY

Modern businesses have a sophisticated ability to access and scale capital. There is often a gap between the capital firms want and the capital they can access from lenders. Middle market businesses often struggle to obtain quality financing, given the diminished presence of smaller banks that have traditionally serviced them. Capital allocations have also become more selective and moved upmarket. Given the importance of proactive capital management for a modern business, owners should consider financing solutions that meet strategy, scale, and maturity needs. That is why we have in-house capital markets and real estate capabilities to support growth financing and optimize enterprise value creation.

## 5. THOUGHTFUL DIGITAL FOOTPRINT

Modern businesses treat their digital footprint as an asset. Whitepapers, videos, podcasts, social channels, and web content communicate a business' brand and legitimacy. Consistent messages relay reliability and value that attract customers, employees, and partners. Through our Access Research Center (ARC), we offer our portfolio businesses insightful economic analyses and thought leadership to add value to their operations. It's a core of our “Communications Excellence” strategy, a modern approach to advancing how businesses communicate with their networks and the public. When crafting communications, modern businesses must

determine the objective and audience, develop content, understand the best channels to reach target audiences, and continually measure success through quantitative metrics like open rates and qualitative feedback on how messages are perceived.

### 6. DATA-DRIVEN DECISION MAKING

Modern businesses embrace data and analytics to make better decisions faster. Key performance indicators (KPIs) ensure that business performance is continually tracked against expectations, allowing leaders to better identify areas of opportunity. At Access, we have designed a common data architecture across all of our portfolio businesses that encompasses four layers: 1) financial (e.g., EBITDA forecast vs. underwrite); 2) operational KPIs (e.g., sales pipeline, customer NPS, labor efficiency); 3) strategic execution (e.g., the completion rate of milestones in the Destination Plan); and 4) capability effectiveness (to measure and continuously improve the value generated by our proprietary capabilities). We have also developed Cortex, a modern data platform that can be readily deployed and used to drive data aggregation, data quality, governance, reporting, and advanced analytics. Emerging AI technologies also offer the opportunity for

predictive and generative use cases. Across our portfolio, we are boosting AI capabilities by deploying a prototype AccessGPT, a secure and proprietary large language model to synthesize information, automate workflows, and generate content.

## The Future of Modern Businesses

Private equity and the middle market must adapt to changing environments to remain competitive and drive value. As Rear Admiral Grace Hopper said, “The most dangerous phrase in the language is ‘we’ve always done it this way.’” The same lesson applies to the middle market businesses and private equity firms that have made a living for the past 30 years through traditional approaches. Those who fail to understand today’s technologies and data-driven opportunities and adopt them will quickly fade. But those businesses that continually adopt the new tools at their disposal will thrive. Access has made this technology and data transformation the cornerstone of our strategy to drive long-term growth across our portfolio businesses. We have made this our fiduciary mission and are seeing the results through reduced risk and superior growth metrics.



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