1Q 2015

MIDDLE MARKET INDICATOR

FROM GROWTH TO STABILITY

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

The Ohio State University
Fisher College of Business

GE Capital

Middle Market Indicator
from The National Center for the Middle Market

THE MIDDLE MARKET INDICATOR (MMI) FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET IS A QUARTERLY BUSINESS PERFORMANCE UPDATE AND ECONOMIC OUTLOOK SURVEY CONDUCTED AMONG 1,000 C-SUITE EXECUTIVES OF COMPANIES WITH ANNUAL REVENUES BETWEEN $10MM AND $1B.

There are nearly 200,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 47.9 million people. These businesses outperformed through the financial crisis (2007–2010 period) by adding 2.2 million jobs across major industry sectors and U.S. geographies, demonstrating their importance to the overall health of the U.S. economy. They are private and public, family owned, and sole proprietorships, geographically diverse, and span almost all industries. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlemarketcenter.org: "The Market that Moves America," seminal research on the definition, significance, and role of the middle market, Oct. 2011.)

HOW IS THE RESEARCH CONDUCTED?

The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between $10MM and $1B, the lower and upper limits on middle market annual revenue. The quarterly survey is designed and managed by the National Center for the Middle Market.

ABOUT THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

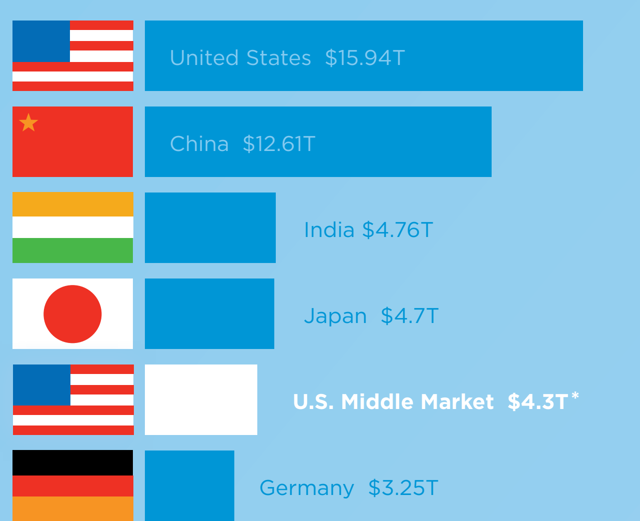
$ LOWER MIDDLE MARKET
$10MM - $50MM

$ $ CORE MIDDLE MARKET
$50MM - $100MM

$ $ $ UPPER MIDDLE MARKET
$100MM - $1B

NEARLY
200,000
BUSINESSES

5TH LARGEST
GLOBAL ECONOMY



*Source: CIA World Fact Book, *National Center for the Middle Market (estimate)*

Executive Summary

Following a year of consistently accelerating revenue and employment growth for middle market firms, in the first quarter of 2015, growth appears to be stabilizing. While revenue growth remains strong, employment growth has tapered off slightly, and many companies feel their workforce is right sized for current market conditions. The near-term outlook is positive, with many middle market firms anticipating a more favorable business environment in the next three months. Looking forward for the remainder of the year and into 2016, middle market leaders anticipate continued financial and employment growth, but at less rapid and more sustainable rates.

For Q1 2015, 64% of middle market companies reported improved past year company performance. While this represents a significant decrease from the 70% of businesses that cited year-over-year performance improvements last quarter, it's important to note that the proportion of firms reporting deteriorated performance dropped significantly as well, to just 4%. For close to one-third of middle market organizations, overall company performance appears stable.

For the majority of middle market businesses, and companies at the high end of the middle market revenue spectrum in particular, revenue performance remains strong. The middle market as a whole reported mean total past year revenue growth of 7.4%, while the largest middle market firms, with revenues between $100 million and $1 billion; grew by 9.1%. From an industry perspective, companies in the services, manufacturing, and financial services sectors reported the strongest revenue increases. All in all, the financial performance for middle market companies once again exceeded the revenue growth for the S&P 500, which was 2.9% for the same period.

While employment growth remains strong at 4.3%, the rate of growth is slowing for core and lower middle market firms. Most notably, year-over-year employment growth for companies with revenues between $50 million and $100 million dropped from 6.5% for Q4 2014 to 3.4% for the first quarter of this year. Companies in the manufacturing, retail trade, and construction industries are the exception to the slowdown, with these industries reporting increases in the rate of hiring.

Innovation is a key driver of the sustained strength of the middle market. Nearly half of firms have introduced a new product or service in the past 12 months, and 42% plan to do so in the coming year. One-third of companies also hope to expand into new domestic markets. More than two-thirds of firms say they would invest extra cash as opposed to hold it.

However, most middle market firms hold a conservative view toward debt, with the majority targeting and maintaining around a 25% debt to asset ratio.

Looking forward, projections for future revenue growth and employment growth have become more conservative across all middle market revenue segments and most industries, reflecting an expectation for stability and sustainable growth rates rather than rapid expansion. While the majority of firms do expect revenues to grow, and many are planning on increased sales and greater demand for their products and services in the next few months, they anticipate long term growth at less accelerated rates than were forecasted at the end of 2014.

In terms of employment, the majority of middle market firms expect to maintain the current size of their workforce over the next three months, and about one-quarter of middle market leaders forecast a tightening of the labor market. Over the course of the next year, 39% of companies say they will add to the size of their payrolls, but the expected mean employment growth rate has slowed considerably across all industries, with the exception of the retail trade and construction sectors.

Although global economic confidence remains muted, confidence in the local and U.S. economies continues to be strong. However, many middle market business leaders indicate that state and federal regulations will have a negative impact on growth. Other major challenges that could impact future growth include staffing issues, specifically employee retention and turnover, and competition from other businesses.

The Q1 2015 Middle Market Indicator survey represents the 13th consecutive query into the state and health of the U.S. middle market. This quarter's survey included several new and revised questions to delve deeper into the practices of middle market firms and the mindset of middle market leaders. Specifically, the survey introduced a new way to ask about key challenges, new questions related to inventory, debt, workforce size, and financing, and a new focus on the short-term (three-month) outlook in addition to projections for the year to come. The additional data will provide greater insight into the middle market, especially as we see trends emerge in coming quarters.

REVENUE GROWTH

Revenue growth remains strong, but the outlook for future growth is muted

For Q1 2015, seven in 10 middle market firms reported year-over-year increases in revenues, slightly fewer than last quarter, but up from 64% of firms reporting increases one year ago. Upper middle market firms, with revenues between $100 million and $1 billion, performed especially well over the past 12 months, with 82% of these companies citing gains. While the number of total firms reporting growth is slightly down, mean revenue growth is slightly up. At 7.4%, the growth rate is nearly one full percentage point higher than what firms reported in Q1 2014.

While most businesses anticipate future growth, the outlook has dimmed from three months ago. At the end of 2014, nearly three-quarters of middle market firms reported expectations for future growth; that number has dropped to 59% for the current period. Mean total growth expectations for the next 12 months have dropped as well, from 6.0% last quarter to 5.3% today.

1Q'15 **70%** of middle market companies reported positive revenue growth. 1Q'14 **64%**

MIDDLE MARKET

PAST 12 MO.

1Q'15 **7.4%**

4Q'14 7.2% 1Q'14 6.5%

NEXT 12 MO.

1Q'15 **5.3%**

4Q'14 6.0% 1Q'14 4.5%

S&P 500

PAST 12 MO.

1Q'15 **2.9%**

4Q'14 4.9% 1Q'14 0.5%

EMPLOYMENT GROWTH

Employment continues to rise, but at a slower pace

Since the significant jump in the percentage of firms reporting year-over-year employment growth at the end of 2014, the number of middle market companies saying their workforce is larger today than it was one year ago has dropped back to 43%. While mean total employment growth for the past 12 months has declined somewhat since last quarter, it remains over 4%, well above levels reported during the first three quarters of 2014.

Consistent with their outlook for revenue growth, companies have pulled back on their hiring expectations. About one-third of firms expect to hire in the next three months, and around four in 10 (39%) say they will hire over the next 12 months, down from 52% that reported employment growth intentions last quarter. Following a marked increase in anticipated growth rates every quarter in 2014, mean total expected employment growth for the next 12 months has settled back to 3.2%, the same as reported in Q1 2014.

1Q'15 **39%** of middle market companies expect to add jobs. 1Q'14 **46%**

MIDDLE MARKET

PAST 12 MO.

1Q'15 **4.3%**

4Q'14 5.0% 1Q'14 3.7%

NEXT 12 MO.

1Q'15 **3.2%**

4Q'14 4.0% 1Q'14 3.2%

ADP [PAST 12 MO.]

LARGE CORP.

1Q'15 **2.1%**

4Q'14 2.2% 1Q'14 2.6%

SMALL BUS.

1Q'15 **2.7%**

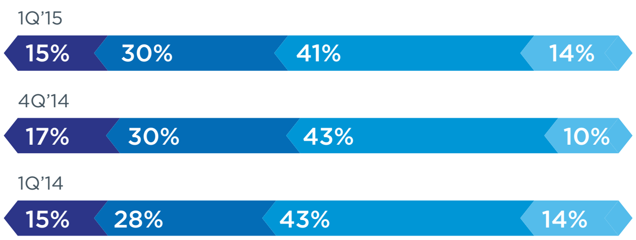
4Q'14 2.2% 1Q'14 2.1%

ECONOMIC CONFIDENCE

Global confidence continues to lag behind growing national and local confidence

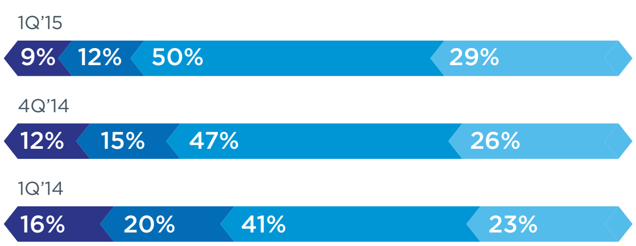
Middle market leaders are clearly confident in their local economies and in the U.S. economy as a whole. Confidence in the economic landscape close to home has remained fairly stable since the beginning of 2014, with over 80% of leaders maintaining a positive outlook about their local markets. Confidence in the national economy has risen steadily since the beginning of last year and is approaching levels of local confidence: today, 79% of middle market leaders are at least somewhat confident in the economic picture for the U.S. Yet, attitudes toward the global economic scene continue to be weak in comparison. Global confidence levels have remained flat since the beginning of 2014, with 55% of middle market leaders expressing some confidence in the global economy, and 15% saying they are not confident at all. These numbers, however, represent a marked improvement in the perspective toward the global economy since 2012 and early 2013.

GLOBAL ECONOMY



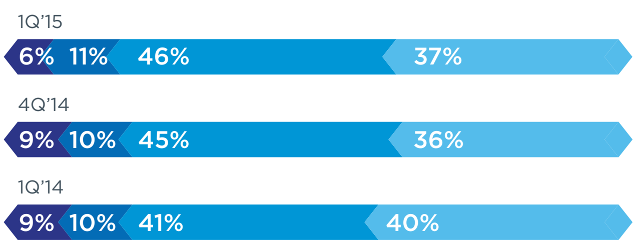
1Q'15
55%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'14 53% 1Q'14 57%

NATIONAL ECONOMY



1Q'15
79%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'14 73% 1Q'14 64%

LOCAL ECONOMY



1Q'15
83%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'14 81% 1Q'14 81%

Not confident Somewhat not confident Somewhat confident Confident

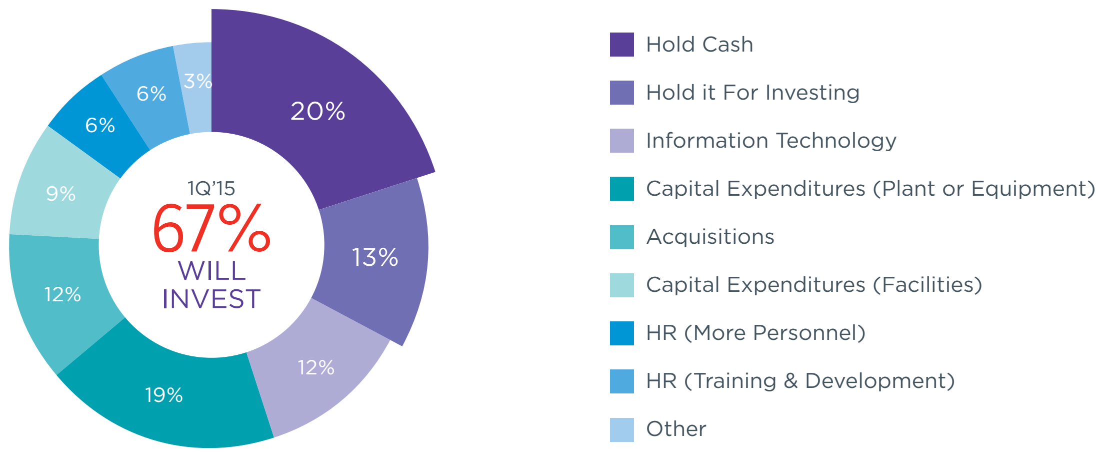
CAPITAL INVESTMENT

Two-thirds of firms remain willing to invest

For the second straight quarter, just over two-thirds of middle market firms express a willingness to invest additional cash rather than save it. During 2013 and most of 2014, the number of companies likely to invest versus save hovered around 60%. At the end of last year, that number jumped to 68%, and the increase has held. Today, 67% of firms say they would invest and 33% say they would keep their cash.

Over the next 12 months, capital investment is most likely to come in the form of innovation, with 42% of middle market companies saying they will introduce new products or services. About the same proportion of companies—39%—expect to see an increase in company revenues derived from these new offerings.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Talent and regulation issues are top of mind for middle market leaders

For the first time, we asked executives to write their greatest internal and external challenges for both the near and long term, as opposed to responding to a pre-defined list of issues; we then coded and analyzed the responses. From an internal perspective, a cluster of talented-related concerns emerged, including acquisition, retention, and training. External factors most likely to have the greatest impact on performance over the next three months and throughout the year include increasing competition and government regulations.

SHORT TERM CHALLENGES (Next 3 months)

INTERNAL CHALLENGES:

1. STAFF/EMPLOYEES	**46%**
2. BUSINESS GROWTH	**32%**
3. FINANCES	**23%**
4. COSTS	**16%**
5. GOVERNMENT REGULATIONS	**10%**

EXTERNAL CHALLENGES:

1. COMPETITION	**20%**
2. GOVERNMENT REGULATIONS	**19%**
3. FINANCES	**14%**
4. ECONOMIC FACTORS	**12%**
5. BUSINESS GROWTH	**10%**
6. NEW MARKETS	**10%**

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:

1. STAFF/EMPLOYEES	**43%**
2. BUSINESS GROWTH	**18%**
3. FINANCES	**14%**
4. COSTS	**14%**
5. GOVERNMENT REGULATIONS	**4%**

EXTERNAL CHALLENGES:

1. GOVERNMENT REGULATIONS	**17%**
2. COMPETITION	**16%**
3. FINANCES	**12%**
4. ECONOMIC FACTORS	**11%**
5. COSTS	**11%**
6. NEW MARKETS	**9%**

Perspectives

STEADY AS SHE GOES, WITH A FEW WOBBLES

Middle market revenue and employment continue to grow smartly and faster than the U.S. economy as a whole. "Stable growth" is the right term to describe what's happening: The annualized growth rate, though a quick 7.4%, is not accelerating as it did most of last year. Annual job growth checked in at 4.3%, lower than last quarter's ebullient 5% but still higher than in any other period since we launched the Middle Market Indicator in April 2012. Growth is less frothy, but more consistent. Between the 4th quarter and this one, the percentage of companies reporting improved overall performance dropped to 64 from 70—but the number of companies saying performance deteriorated also dropped, from 8% to just 3%. Revenue and payrolls show the same: softer on the top, firmer on the bottom. The pattern holds across most industries. Paradoxically, wholesale trade, volatile as it has been in the past, turned in the worst performance of the industries we track, while retail was among the strongest. Healthcare, manufacturing, and services also turned in strong year-over-year results.

We've remarked before on the financial caution of the middle market. Data we've collected for the first time sheds new light on this by showing how middle market companies used the profits they turned in last year. The middle market doesn't like debt and prefers to finance growth from retained earnings—especially those in the lower middle market, which may have more to fear from a bad quarter. Accordingly, companies used their strong 2014 performance to pay debt down, not to lever up for growth. Three out of ten say they have less debt than they did a year ago; just one out of eight say they carry more. And though their debt-to-asset ratio is low (an average of 25.1%) they want it lower (23.4%). That does not constrain their appetite for growth much. The middle market is holding firm in its desire to invest an extra dollar of revenue rather than save it; at 67%, just a point less than the high reached last quarter.

The job market is starting to pinch employers, who confront a shrinking pool of unemployed, growing employee bargaining power, and increased pressure on retention as current employees become targets for other companies. Executives cite talent acquisition and retention as their #1 and #2 internal challenges for both the short and long term. (Rivals and regulators top the list of external woes.) Companies are watching payrolls closely. Last quarter, more than half the middle market expected to be adding to staff; this quarter, 39% say so. Retailers, manufacturers, and healthcare companies are most adamant about drawing the line, but the vast majority—79%—say the size of their workforce is just right. If overall job creation rebounds after its slump in March, the U.S. could approach full employment late this year or early next, which would make the people-pinch sharper.

CYBER SECURITY: OUTLIERS OR OSTRICHES?

Speaking about computer security, FBI Director James Comey said, "There are two kinds of big companies in the United States. There are those who've been hacked…and those who don't know they've been hacked." Are things different in the middle market?

When asked, 10% of respondents said that they've been hacked, 6% were unsure, and 84% said they haven't. While nearly half (46%) of all middle market companies are very to extremely concerned about the impact of a security breach, concern over security strongly correlates with size: 54% of upper middle market firms say they are extremely or very concerned and nearly that many (49%) plan to increase cyber security spending in the coming year. The corresponding numbers for the lower middle market segment are 39% and 32%. Unsurprisingly, retail and healthcare companies are most likely to be increasing cyber security spending.

It's impossible to know if the middle market has mostly been spared or is mostly in the dark. (Many statistics showing hacking to be ubiquitous come from companies selling cyber security services.) Nearly half of middle market companies report using cloud-computing services (this number, too, rises with company size) and in that sense they may be outsourcing security without raising spending. Whatever the current threat, it's likely that mid-sized companies will tighten the security of their IT systems, if for no other reason than demands of big companies they do business with.

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THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

From business as usual to business unusual, Fisher College of Business prepares students to go beyond and make an immediate impact in their careers through top-ranked programs, distinguished faculty and a vast network of partnerships that reaches from the surrounding business community to multinationals, nonprofits and startups across the globe. Our students are uniquely prepared and highly sought, leveraging Fisher's rigorous, experiential learning environment with the resources of Ohio State, a premiere research university with 500,000 proud Buckeye alumni.

GE Capital

GE Capital offers consumers and businesses around the globe an array of financial products and services. For more information, visit gecapital.com or follow company news via Twitter. GE (NYSE:GE) is a diversified infrastructure, finance, and media company taking on the world's toughest challenges.

MIDDLEMARKETCENTER.ORG

2Q 2015

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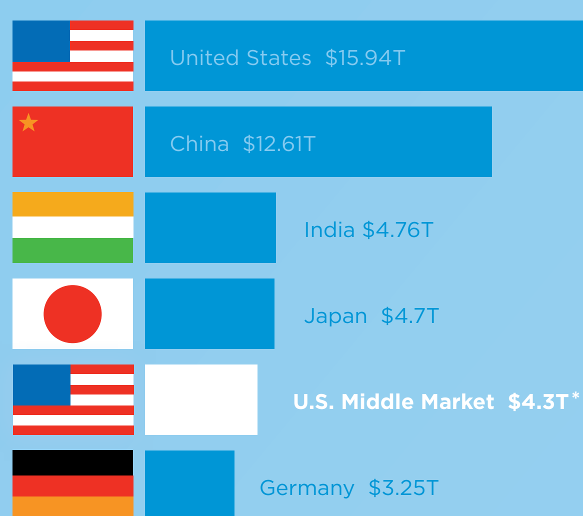


*Source: CIA World Fact Book, *National Center for the Middle Market (estimate)*

Executive Summary

While the performance of U.S. middle market companies remains undeniably strong expectations for future rates of revenue and employment growth have declined for the second straight quarter. Additionally, the rates of year-over-year mean total revenue and employment growth slipped for most middle market firms this quarter. The healthcare, financial services and construction industries are the exception, with revenue growth remaining above 8% and strong year-over-year employment increases. Overall, the majority of middle market firms anticipate continued revenue growth at moderate, sustainable rates, however more than eight in 10 (81%) believe their workforce is currently sized right.

For Q2 2015, two-thirds of middle market companies across all revenue and industry segments report improved past year company performance, up from 63% in the second quarter of 2014. In particular, core middle market firms, with revenues between $50 million and $100 million, appear to have rebounded from last quarter.

This quarter, a record high 75% of middle market companies report increased year-over-year revenue growth; but they are growing at a slower rate than experienced over the previous three quarters. After a spurt of rapid expansion, growth appears to be stabilizing across most industries, although healthcare, construction, and financial services industries continue to enjoy higher rates of growth. On the other end of the spectrum, the services and manufacturing segments report the most notable slowdowns in growth. Yet, across the board, the middle market continues its trend of significantly outpacing the S&P 500, where revenue actually declined 1.8%.

After achieving a high of 5% in Q4 2014, year-over-year mean total employment growth has slipped to just under 4% for Q2 2015, continuing the downward trend that began last quarter. Since the end of last year, employment growth has slowed across all middle market revenue segments and all industries, with the exception of construction, which reports 6.5% mean total year-over-year employment growth this quarter. Employment increases remain strong in the healthcare segment as well, at 5.7%.

While close to half of firms experienced some form of expansion in the past year, executives' expectations of future expansion decreased last quarter, and these muted numbers hold for Q2 2015. Still, 40% of companies expect to introduce a new product or service in the next 12 months and 31% anticipate geographic domestic expansion. Two-thirds of firms indicate an appetite for investing additional cash on hand and most firms target and maintain a low debt to asset ratio of about 22%.

The short-term outlook for middle market firms in most industries has declined from last quarter. Fewer middle market business leaders anticipate a more favorable business climate and stronger demand over the next three months. Additionally, less than half of firms predict a short-term increase in sales, with the retail trade industry posting the largest drop in sales expectations. At the same time, over one-third of companies believe their costs will increase in the next three months, and the majority of these businesses expect the increase to affect pricing. Despite these projections, nearly one-third of firms expect to add to their workforce in the short term, with construction and healthcare companies most likely to be hiring.

Looking further into the future, expectations for the rate of revenue and employment growth continue the decline reported last quarter, most notably among firms with more than $100 million in annual revenues. Middle market leaders also anticipate low increases in profitability over the next 12 months. While the majority of businesses do expect some revenue expansion, and 37% anticipate workforce increases over the course of the year, companies continue to struggle with finding and retaining qualified candidates. They also contend with the impact of increasingly complex government regulations.

On a positive note, middle market business leaders believe a strengthening dollar and a slowdown in the rise of healthcare costs will benefit their companies. The majority of middle market leaders remain confident in the local and U.S. economies, and global economic confidence is beginning to rise marginally.

REVENUE GROWTH
More middle market firms are growing, but a slower rate

For Q2 2015, three-quarters of middle market firms reported year-over-year increases in revenues, up from 70% last quarter and 69% one year ago. While more middle market companies are currently experiencing growth than at any other time in the history of the Middle Market Indicator, the rate of growth is tapering off. After reporting mean year-over-year revenue growth above 7% for the past three quarters, companies now report growth rates of 6.6%, the same as one year ago. In particular, the largest middle market firms, with revenues between $100 million and $1 billion, report a significant decrease in the rate of year-over-year growth, from 9.1% last quarter to 6.4% this quarter.

The reduced expectations for future growth seen in the first quarter of the year continue today. Six in 10 firms expect to grow revenues over the next 12 months, however at a slower growth rate of 5.1%. This anticipated revenue growth rate is the lowest level measured over the past year.

2Q'15 **66%** of middle market companies reported positive revenue growth. 2Q'14 69%

MIDDLE MARKET

PAST 12 MO.

2Q'15 **6.6%**

1Q'15 7.4% 2Q'14 6.6%

NEXT 12 MO.

2Q'15 **5.1%**

1Q'15 5.3% 2Q'14 5.8%

S&P 500

PAST 12 MO.

2Q'15 **-1.8%**

1Q'15 2.9% 2Q'14 3.4%

EMPLOYMENT GROWTH
Slower employment growth persists

While middle market firms continue to hire, with close to half (46%) of companies reporting year-over-year increases in the size of the workforce, the rate of growth has continued the decline reported last quarter. Mean total employment growth slipped to 3.9% from 4.3% reported in Q1 2015, with the most notable decreases in the largest middle market firms. However, mean employment growth remains above the levels reported one year ago.

Expectations for employment growth over the next 12 months continue to soften, with the largest middle market firms anticipating the greatest decrease in the future rate of hiring. Additionally, significantly more lower middle market firms (revenues between $10 million and $50 million) expect to downsize over the course of the year. For the overall middle market, close to four in 10 middle market firms expect to increase the size of their staffs, but at a reduced growth rate of 2.7%.

2Q'15 **38%** of middle market companies expect to add jobs. 2Q'14 47%

MIDDLE MARKET

PAST 12 MO.

2Q'15 **3.9%**

1Q'15 4.3% 2Q'14 3.2%

NEXT 12 MO.

2Q'15 **2.7%**

1Q'15 3.2% 2Q'14 3.3%

ADP [PAST 12 MO.]

LARGE CORP.

2Q'15 **1.7%**

1Q'15 2.1% 2Q'14 2.6%

SMALL BUS.

2Q'15 **2.7%**

1Q'15 2.7% 2Q'14 2.1%

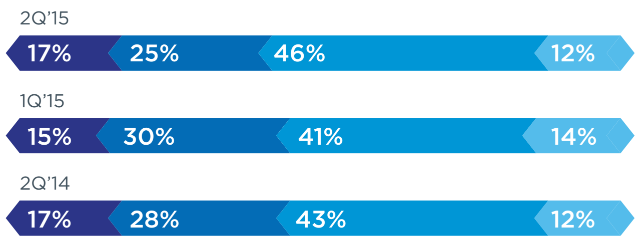
ECONOMIC CONFIDENCE

National and local confidence continue to outpace global confidence

Over the past 12 months, middle market leaders' confidence in the national economy has increased steadily, approaching the high levels of local economic confidence that have persisted over the past three years. However, global economic confidence has remained relatively flat since the first quarter of 2014. Interestingly, in Q2 2015, confidence in the U.S. economy has taken a slight step back, and local confidence has declined slightly as well from three months ago; but global perspectives have improved marginally.

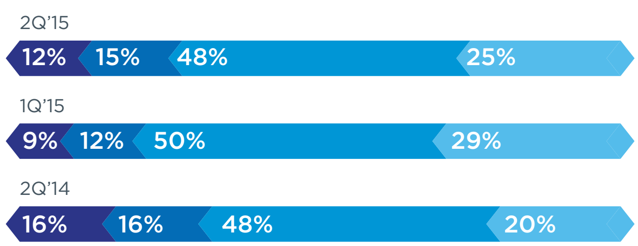
Despite these fluctuations, attitudes toward local and national conditions remain notably stronger than the global outlook. Nearly three-quarters (73%) of middle leaders remain somewhat positive about the national state of affairs, and eight in 10 leaders report at least some confidence in local conditions. Global confidence lags behind at 58%, but the gap continues to narrow, and global confidence remains well above levels reported in 2012 and early 2013.

GLOBAL ECONOMY



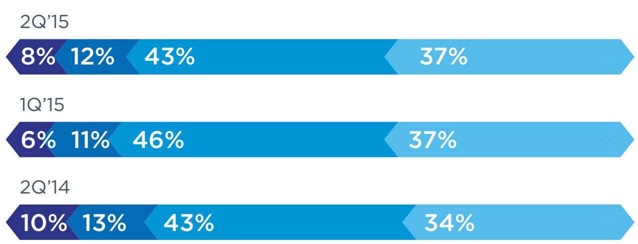
2Q'15
58%
CONFIDENT / SOMEWHAT CONFIDENT
1Q'15 55% 2Q'14 55%

NATIONAL ECONOMY



2Q'15
73%
CONFIDENT / SOMEWHAT CONFIDENT
1Q'15 79% 2Q'14 68%

LOCAL ECONOMY



2Q'15
80%
CONFIDENT / SOMEWHAT CONFIDENT
1Q'15 83% 2Q'14 77%

Not confident · Somewhat not confident · Somewhat confident · Confident

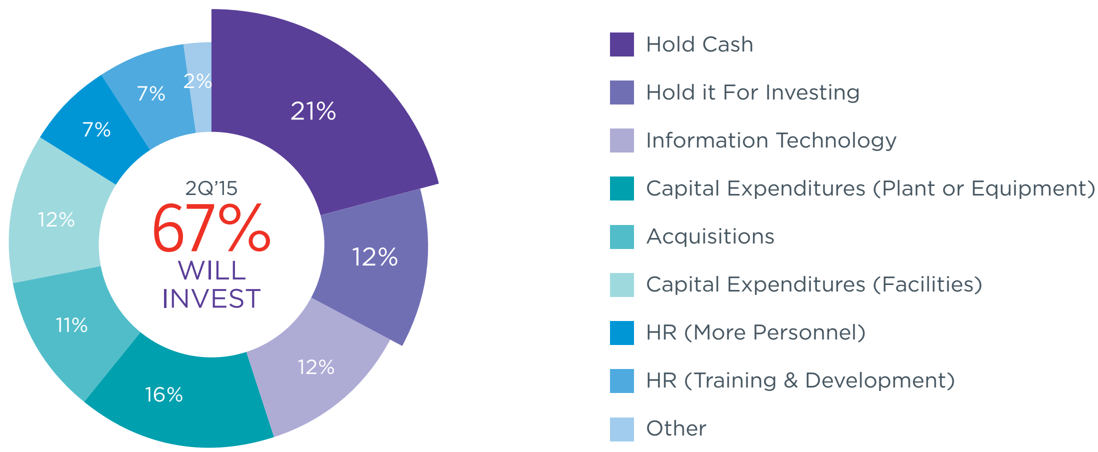
CAPITAL INVESTMENT

Appetites for investment remain consistent

About two-thirds (67%) of middle market companies remain willing to invest additional dollars as opposed to saving cash, a percentage that has remained consistent since increasing from 61% to 68% at the end of 2014. One-third of companies prefer to hold onto cash. Over the coming year, middle market firms are most likely to invest in new products or services or expansion into new domestic markets.

However, local competition, regulations, and limited resources will be challenges to geographic expansion. For those companies that increase their offerings, many expect the investment to pay off: about two in five firms—or 42%—anticipate an increase in the proportion of company revenues that will come from newly introduced products and services.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Talent and regulation concerns are growing

For the second straight quarter, middle market leaders had the opportunity to write in their key challenges for both the near and long term as opposed to responding to a pre-defined list of issues. Once again, employment issues—including hiring, retention, and workforce qualifications—remain the top internal concerns facing companies right now and over the coming year. Externally, leaders are expressing growing concerns related to competition and the impact of government regulations. Leaders expect these challenges to be the greatest hurdles to overcome over the next three months and throughout the year ahead.

SHORT TERM CHALLENGES (Next 3 months)

INTERNAL CHALLENGES:	
1. STAFF/EMPLOYEES	44%
2. BUSINESS GROWTH	30%
3. FINANCES	21%
4. COSTS	19%
5. GOVERNMENT REGULATIONS	10%
EXTERNAL CHALLENGES:	
1. COMPETITION	25%
2. GOVERNMENT REGULATIONS	22%
3. COSTS	15%
4. ECONOMY	15%
5. BUSINESS GROWTH	13%
6. FINANCES	13%

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:	
1. STAFF/EMPLOYEES	47%
2. BUSINESS GROWTH	22%
3. FINANCES	15%
4. COSTS	17%
5. GOVERNMENT REGULATIONS	5%
EXTERNAL CHALLENGES:	
1. GOVERNMENT REGULATIONS	24%
2. COMPETITION	19%
3. COSTS	14%
4. ECONOMY	14%
5. BUSINESS GROWTH	13%
6. FINANCES	11%

Perspectives

SPEED ZONE AHEAD

The middle market, still cruising quickly, has lifted its foot off the accelerator. The rate of middle market growth has softened, with middle market companies averaging revenue growth of 6.6%, down from 7.4% in the previous quarter, which is still impressive. Middle market growth is also widespread: 75% of middle market executives report increased revenue, and the construction, healthcare, and financial services industries reported revenue growth rates of about 8.5%.

Still, the cautious sentiment perceived three months ago has persisted, manifested clearly in hiring behavior and plans. In the last three quarters, mean year-on-year employment growth has slipped from 5.0% to 4.3% to 3.9%. The middle market is also less ebullient about prospects for profits than it was at the start of the year. Though the vast majority (86%) expects profit margins to grow or stay the same, the average projected increase in profitability is down from 3.1% to 2.4%.

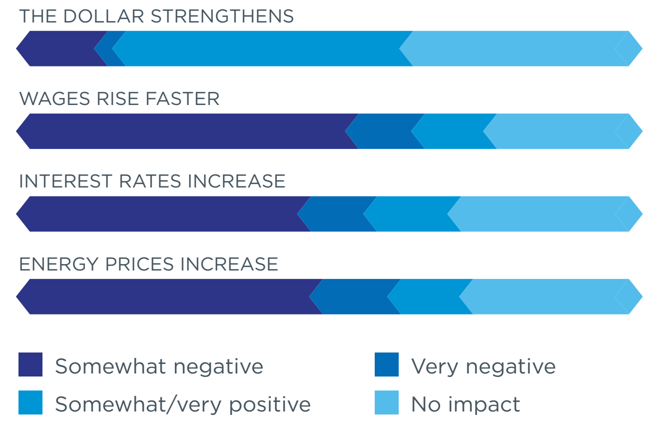
None of this is alarming. While the economic recovery has been slow, it is now six years old and slower rebounds are considered normal. More important, the middle market's appetite for investment remains strong—67% say they'd invest an extra dollar vs. save it; 18% say they have opened a new plant or facility in the last year; R&D spending is solid, and 36% of manufacturers say it is increasing.

SO WHY THE LONG FACE?

Three things appear to be weighing heavily on executives' minds. First is the availability and price of labor. Minimum wage increases and a tighter labor market have made workforce issues a top challenges for executives. Second and more immediately, middle market executives worry whether the pace of the economy and overall business climate will continue to support growth. For only the second time since the MMI began, confidence in both local and national economies has dipped slightly. And the Canadian economy—the middle market's largest trading partner—has also been sluggish.

Finally, the middle market is anxious about the potential impact of increases in interest rates and energy prices. Forty-eight percent of executives would welcome a stronger dollar because it would reduce the cost of imported raw materials (see chart). If wages, interest rates, and energy prices all went up, the hat trick would squeeze profits and tamp down growth. These factors are largely outside management's control, with the exception of labor costs. They can be held down by restraining hiring itself, which appears to be what executives have in mind.

WHAT WOULD BE THE IMPACT ON YOUR BUSINESS IF....



PUBLIC MATTERS

While executive gatherings can often turn into gripe sessions against the government, it is important to keep these complaints in perspective. By a wide margin executives are more worried about the invisible hand of the market than the heavy hand of the state. Business and competitive issues—expanding geographically, foreign rivals, financing growth—lead executives' list of challenges by a wide margin over government: more than 3 to 1 in the short term, nearly 3 to 1 in the long run.

Still, there are grounds for grousing. Discernable in the data are four points of a middle market policy agenda:

Tax fairness: Middle market executives tell us their effective tax rates are 17.9% (federal) and 8.9% (state). While these self-reported numbers are impossible to compare to the overall effective corporate tax rate, it is clear that the complexity of the tax code bedevils middle market companies, which are often too big to qualify for exemptions and too small to exploit tax arcana.

Regulatory burden: Middle market executives are caught in the middle: unable to claim exemption from requirements and forced to pile the cost of compliance on a lower revenue base than larger companies. Policymakers should reexamine the distribution of tax and regulatory burdens, at whatever level they are set.

Infrastructure: Seventy-three percent of middle market executives say investment in physical infrastructure—roads, bridges, airports—should be a top priority for government; a third say it should be the top priority. Three out of five prioritize public investment in digital infrastructure (e.g., broadband and cybersecurity) and 15% say it should be job one.

Human capital: One in four middle market executives cite education as the top need; 50% say workforce training should be a public priority, with 14% putting it first on the list. Middle market executives struggle most in finding qualified candidates (57% say it is a major challenge) and hiring new talent (49%).

NATIONAL CENTER FOR
THE MIDDLE MARKET

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3Q 2015

MIDDLE MARKET INDICATOR

STEADY GROWTH – CAUTIOUS OUTLOOK

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

THE OHIO STATE UNIVERSITY
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Middle Market Indicator

from the National Center for the Middle Market

THE MIDDLE MARKET INDICATOR (MMI) FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET IS A QUARTERLY BUSINESS PERFORMANCE UPDATE AND ECONOMIC OUTLOOK SURVEY CONDUCTED AMONG 1,000 C-SUITE EXECUTIVES OF COMPANIES WITH ANNUAL REVENUES BETWEEN $10MM AND $1B.

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HOW IS THE RESEARCH CONDUCTED?

The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between $10MM and $1B, the lower and upper limits on middle market annual revenue. The quarterly survey is designed and managed by the National Center for the Middle Market.

ABOUT THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

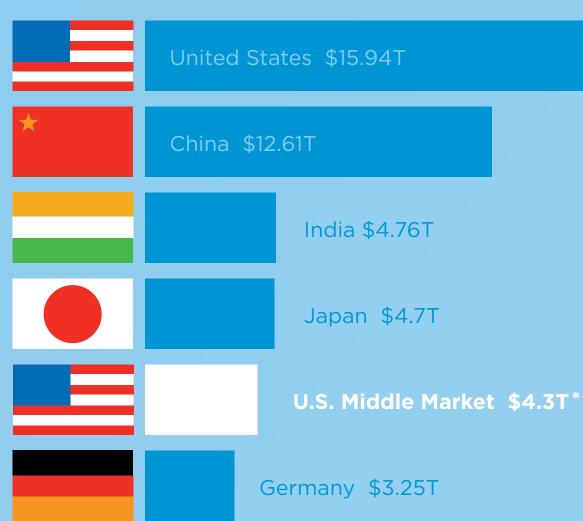
LOWER MIDDLE MARKET
$10MM - $50MM

CORE MIDDLE MARKET
$50MM - $100MM

UPPER MIDDLE MARKET
$100MM - $1B

NEARLY
200,000
BUSINESSES

5TH LARGEST
GLOBAL ECONOMY



*Source: CIA World Fact Book, *National Center for the Middle Market (estimate)*

Executive Summary

U.S. middle market firms continue to report improved company performance along with increases in revenue and employment. However, the outlook for the future—both in the short term and over the course of the next year—continues to soften across the middle market. In some industries, company performance and leader sentiment are much stronger in some industries than in others, with the retail, financial services, and services sectors outperforming segments such as wholesale trade and construction. The largest middle market firms are experiencing the greatest year-on-year growth (averaging 8.3%), while companies in the core middle market—with revenues between $50 million and $100 million) grew slower (5.4%) and are least likely to expect revenue to grow in the year to come.

For Q3 2015, nearly two-thirds of middle market companies report improved company performance versus one year ago—a percentage that has remained stable over the course of the year. Performance among core middle market firms has fluctuated over the last four quarters with significantly more companies reporting a deterioration in performance this quarter. The wholesale trade industry also experienced a sharp drop in the proportion of companies reporting improved performance. Conversely, more companies in the retail trade and financial services sectors say performance improved.

Seven in 10 middle market companies continue to report increases in year-over-year revenue growth. Following a slight dip in the rate of growth reported last quarter, mean revenue growth has returned to above 7%, and the middle market continues its ongoing trend of outperforming the S&P 500, which experienced -6.2% revenue growth for the same period. As with performance, clear differences exist between industries. Services, retail trade, construction, and financial services companies report the strongest rates of growth, while the healthcare, manufacturing, and wholesale trade industries indicate declining growth rates this quarter.

While the overwhelming majority of middle market firms (78%) feel their workforce is the right size for current market conditions, a significant and stable proportion of companies continue to increase the size of their staffs at a respectable rate. Mean total year-over-year employment growth has remained near 4% for the first three quarters of 2015. The service and retail trade sectors experienced the strongest employment growth this year, with both segments reporting year-over-year employment growth rates of 5.4% for Q3 2015.

Despite improved performance and revenue gains for most middle market firms, many leaders are cautious about the future. Global confidence has slipped and more firms plan to hold their cash as opposed to invest it. Only one in five business leaders expect a more favorable business climate in the short term, and just one third of companies expect demand to increase in the next three months. Sales expectations are also muted for the time being, with fewer than half of middle market companies expecting higher sales in the coming quarter.

For the next 12 months, anticipated revenue growth is at the lowest level measured in the past year. Expectations have dropped significantly since last quarter, with the most profound drop coming from core middle market companies. The outlook for hiring, however, remains stable: lower anticipated hiring rates among core middle market firms are offset by a rebound in hiring expectations among larger companies.

Major headwinds for middle market firms in both the short and long term will continue to be staffing challenges, government regulations, and competition. To offset staffing difficulties, many firms will focus on salaries, flexible work arrangements, and training and education as ways to retain talent.

Despite the challenges, middle market leaders do expect profit margins to increase modestly over the next 12 months, with financial services companies anticipating the greatest profitability gains. Companies across all revenue segments and industries also plan on continuing to invest about 10% of annual revenue in research and development in the hopes that new products and services will play an ongoing key role in fueling revenue growth.

REVENUE GROWTH
Growth remains strong, but future expectations continue to weaken

For Q3 2015, 71% of middle market firms reported year-over-year increases in revenue, a slight increase from one year ago. The 7.2% rate of growth has rebounded from its dip last quarter. The largest middle market firms, with revenue between $100 million and $1 billion, are driving the rebound. Likewise, the service and retail trade sectors experienced significant jumps in revenue growth. Growth remained strong—well above 8%—in the construction and financial services sectors.

Despite sustained healthy growth, expectations for future revenue increases continue to drop since plunging earlier this year. For the first time, fewer than 50% of firms say they anticipate revenue growth in the next 12 months. Those that do except growth believe it will come at a slower rate—4.1% for the coming year versus 5.1% reported last quarter. Revenue projections are down in nearly every industry with the exception of financial services.

3Q'15 **71%** of middle market companies reported positive revenue growth. 3Q'14 **68%**

MIDDLE MARKET

PAST 12 MO.

3Q'15 **7.2%**

2Q'15 6.6% 3Q'14 7.5%

NEXT 12 MO.

3Q'15 **4.1%**

2Q'15 5.1% 3Q'14 5.5%

S&P 500

PAST 12 MO.

3Q'15 **-6.2%***

2Q'15 -1.8% 3Q'14 5.5%

EMPLOYMENT GROWTH
Employment growth remains stable

Since leveling off in the first quarter of 2015, the percentage of middle market firms growing their workforces has remained relatively stable. Slightly more than four in 10 companies have expanded their headcounts over the past 12 months. Since falling from a high of 5% in Q4 2014, the rate of year-over-year employment growth has remained consistent at around 4%. As with revenue growth, service and retail trade businesses are experiencing the strongest employment gains.

The number of firms expecting to increase the size of their workforce in the coming year has also remained stable throughout 2015. Today, 36% of middle market companies say they have plans to hire in the next 12 months, and firms anticipate a modest growth rate of 3.2%—the same as reported at the beginning of 2013. In the short term, the majority of middle market leaders across revenue segments expect their workforce to remain the same size.

3Q'15 **42%** of middle market companies expect to add jobs. 3Q'14 **47%**

MIDDLE MARKET

PAST 12 MO.

3Q'15 **4.1%**

2Q'15 3.9% 3Q'14 3.5%

NEXT 12 MO.

3Q'15 **3.2%**

2Q'15 2.7% 3Q'14 3.6%

ADP [PAST 12 MO.]

LARGE CORP.

3Q'15 **1.7%**

2Q'15 1.7% 3Q'14 2.6%

SMALL BUS.

3Q'15 **2.4%**

2Q'15 2.7% 3Q'14 2.2%

**3Q numbers include only companies who have reported 3Q earnings results. Numbers change as more businesses report financial results.*

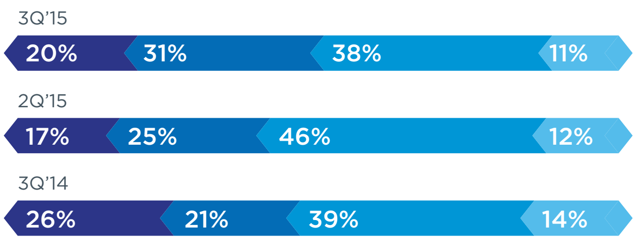
ECONOMIC CONFIDENCE

Global confidence falls while confidence remains solid closer to home

After trending relatively flat since the end of 2013, global confidence dropped significantly for the third quarter of 2015. Today, fewer than half—or 49%—of middle market leaders say they are somewhat to very confident in the global state of affairs, down from 58% last quarter. Two in 10 leaders are not at all confident in the global economy. Despite this setback, global confidence remains much higher than in 2012 and early 2013.

Closer to home, confidence in the national and local economies remains strong. U.S. confidence has dipped just slightly since a four-year high reported at the beginning of this year. However, close to three-quarters (72%) of middle market executives continue to express at least some confidence nationally. For the fourth straight quarter, local confidence levels remain in the 80th percentile. Just 9% of leaders lack any confidence in their local markets.

GLOBAL ECONOMY



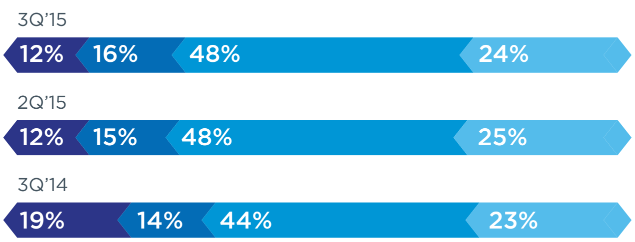
3Q'15

49%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'15 58% 3Q'14 53%

NATIONAL ECONOMY



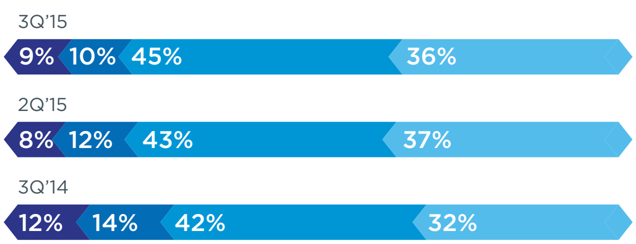
3Q'15

72%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'15 73% 3Q'14 67%

LOCAL ECONOMY



3Q'15

81%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'15 80% 3Q'14 74%

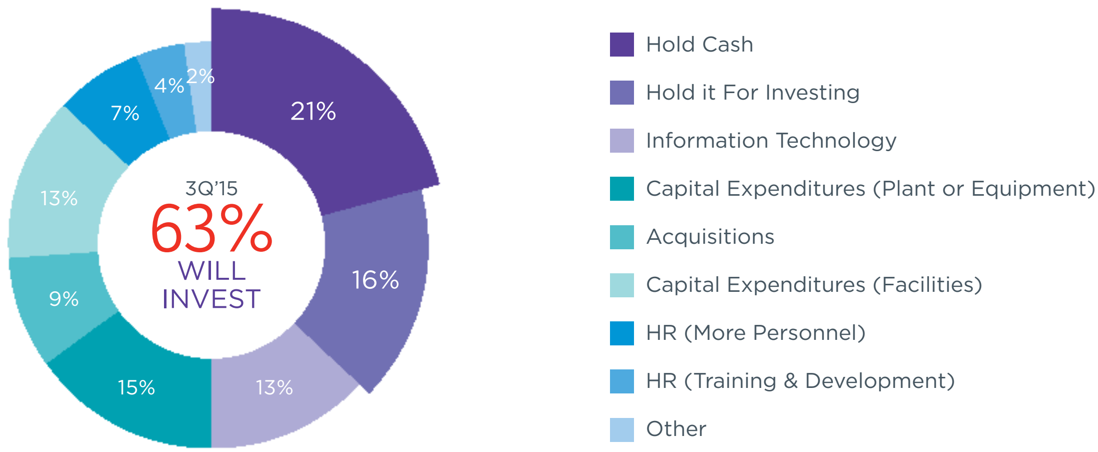
Not confident | Somewhat not confident | Somewhat confident | Confident

CAPITAL INVESTMENT

More firms will hold on to cash

The proportion of middle market firms willing to invest extra money fell slightly this quarter from 67% in Q2 2015 to 63% today. The appetite for investment peaked in the fourth quarter of 2014 and held steady for nine consecutive months before tapering off. Fewer middle market firms have future expansion plans as compared to the end of 2014. However, two in five companies (39%) do intend to introduce a new product or service in the next 12 months, and 33% of firms expect to increase the proportion of revenues coming from new products and services this year. Just under one-third (32%) of firms hope to expand into new domestic markets. Strict regulations and local competition will remain barriers to such expansion.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Talent, regulations, and competition remain the greatest hurdles

For the third straight quarter, staffing issues—including recruiting, assimilating, and retaining quality professionals—are the leading internal challenges for middle market executives. Externally, concerns over government regulations remain top of mind, and the majority of firms in every industry report at least some negative consequences as a result of such regulations. Competition is an equally difficult challenge for many middle market leaders. Leaders are contending with each of these key issues in the short-term, and they expect the issues to remain the top challenges throughout the course of the coming year.

SHORT TERM CHALLENGES (Next 3 months)

INTERNAL CHALLENGES:	
1. BUSINESS GROWTH	57%
2. STAFF/EMPLOYEES	49%
3. COSTS	16%
4. GOVERNMENT REGULATIONS	16%

EXTERNAL CHALLENGES:	
1. BUSINESS GROWTH	35%
2. GOVERNMENT REGULATIONS	22%
3. COMPETITION	21%
4. COSTS	15%
5. ECONOMY	15%

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:	
1. STAFF/EMPLOYEES	39%
2. BUSINESS GROWTH	25%
3. COSTS	12%
4. GOVERNMENT REGULATIONS	5%

EXTERNAL CHALLENGES:	
1. BUSINESS GROWTH	27%
2. GOVERNMENT REGULATIONS	19%
3. COMPETITION	13%
4. ECONOMY	13%
5. COSTS	12%

Perspectives

HOLDING BACK

It's fun to drive downhill in a Prius or other hybrid, lifting your foot and letting gravity do the work, so that the fuel-economy display shows that you are getting infinite miles per gallon. That cannot last, of course. Sooner or later you need to put your foot down and ask for fuel. U.S. middle market companies had a Prius-on-a-slope kind of summer in 2015. Average year-over-year revenues grew 7.2%—tied for third-best in the 14 quarters the NCMM has been tracking this number. Employment growth also turned in its third-best performance: Payrolls are 4.1% bigger than they were a year ago.

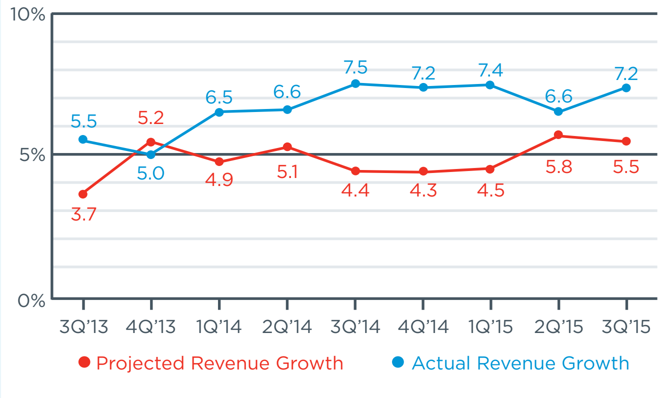
While racking up these impressive gains, middle market executives are flashing indications that they see hills and hazards ahead. The number who express confidence in the global economy plunged to 49%, from 58% just three months before. The abrupt change is clearly a response to the widely publicized difficulties in the Chinese economy (the fourth-biggest export destination for middle market companies and a key source of imports); but economies are sluggish in Canada (the middle market's number-one trading partner), Mexico (number two), Brazil, and other key markets. The Chinese-induced tremor that shook Wall Street in August—just before our survey went out—affected the middle market only tangentially, since 85% is privately held. To the degree that the confidence drop reflects real conditions rather than market sentiment, therefore, it becomes of even greater concern.

To be sure, executives have kept faith with the U.S. and their local economies—both are strong, and stronger than they were a year ago. Last year, however, middle market companies were forecasting 5.5% top-line growth for the year ahead; this quarter, they predict just 4.1% (a 25% drop). A year ago, they were forecasting 3.6% growth in employment; this quarter, they predict 3.2% (a 10% decline).

Should they be as worried as they are? Should we? Perhaps not: The middle market continues to outperform the S&P 500 by a substantial amount. Executives also say that their biggest challenges are adjusting to growth and attracting, assimilating, and retaining employees—which are not the problems of companies in trouble. Few people expect the business climate to deteriorate or demand to fall; instead, substantial majorities expect them to stay the same.

Further, middle market leaders have a track record of under-promising and over-delivering. Historically, middle market managers have projected revenue growth 1 to 3 percentage points lower than the actual rate of growth, with an average understatement of 1.6 percentage points. The data for employment growth are similar. Adjusting for the middle market's ingrained pessimism, however, still leaves us with a lower rate of growth ahead.

WHAT THEY SAID, WHAT THEY DID



Executives also are canceling, cutting, or delaying investments. Compared to this time last year, middle market companies are less likely to be planning to introduce a new product or service (39% this quarter vs. 44% in 3Q14), add a new plant or facility (21% vs. 24%), open new domestic markets (32% vs 41%) and expand internationally (18% vs. 25%).

Not for the first time, then, we see the middle market keeping cool and putting its foot on the accelerator—i.e. investing in people, projects, or assets—only when the business case is clear cut.

GREENER PASTURES

In November 2015, a crucial meeting of the United Nations Conference on Climate Change opens in Paris. The United States has announced greenhouse gas reduction targets of about 17% by 2020 and 26-28% by 2025. Most of that opportunity (or burden, depending) will come in power generation, but there will be substantial roles for transportation, industrial, and agriculture.[1] Energy efficiency in transportation, industrial production, and commercial real estate are also key parts of the plan. All affect the middle market, and the middle market—the fastest-growing third of the private sector—affects them all.

We therefore asked companies about their attitudes and actions concerning sustainability and energy efficiency. About a fifth (19%) put sustainability and energy efficiency among their top five priorities. Another 43% say they are important but other things come first. Retailers, interestingly, are most likely to rank them among their five highest priorities (27% do), with manufacturers next.

Why act? Cost reduction is the single most motivating factor—the savings can be significant. However, three out of five retailers say their customers care at least a little about their environmental responsibility.

Perhaps the most revealing datum is that the most motivated middle market companies are the biggest: 72% say sustainability and efficiency are at least important, 24% in the top five. By contrast, smaller companies are most likely to say that the only barrier standing in their way is the determination to act. They just don't care—yet.

[1] For the U.S. plan, see http://www.state.gov/documents/organization/219039.pdf. For a fact sheet and analysis from The World Resources Institute, see http://www.wri.org/sites/default/files/WRI14_Fact_Sheet_US_GHG_singles.pdf

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4Q 2015

MIDDLE MARKET INDICATOR

SLOWER BUT SUSTAINED GROWTH

NATIONAL CENTER FOR
THE MIDDLE MARKET

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Middle Market Indicator

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There are nearly 200,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 47.9 million people. These businesses outperformed through the financial crisis (2007–2010 period) by adding 2.2 million jobs across major industry sectors and U.S. geographies, demonstrating their importance to the overall health of the U.S. economy. They are private and public, family owned, and sole proprietorships, geographically diverse, and span almost all industries. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlemarketcenter.org: "The Market that Moves America," seminal research on the definition, significance, and role of the middle market, Oct. 2011.)

HOW IS THE RESEARCH CONDUCTED?

The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between $10MM and $1B, the lower and upper limits on middle market annual revenue. The quarterly survey is designed and managed by the National Center for the Middle Market.

ABOUT THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

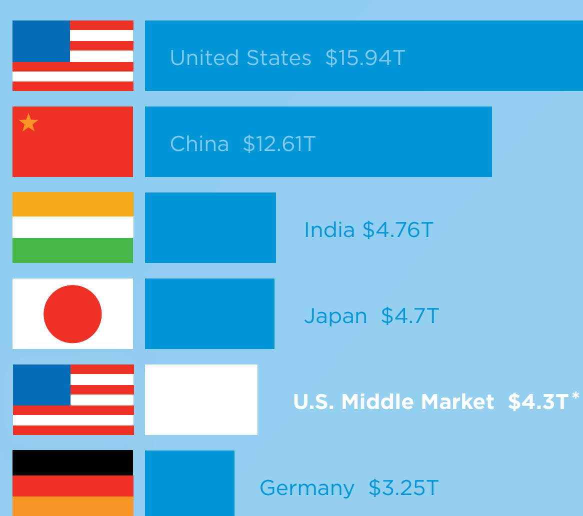
$ LOWER MIDDLE MARKET
$10MM - $50MM

$ $ CORE MIDDLE MARKET
$50MM - $100MM

$ $ $ UPPER MIDDLE MARKET
$100MM - $1B

NEARLY
200,000
BUSINESSES

5TH LARGEST
GLOBAL ECONOMY



*Source: CIA World Fact Book, *National Center for the Middle Market (estimate)*

Executive Summary

Since the end of 2014, U.S. middle market business leaders have forecast a slowdown in the rate of both revenue and employment growth. At the end of 2015, those expectations have materialized, indicating that the middle market has moved from a period of accelerated growth to a steadier, more sustained rate of expansion.

While middle market businesses continue to grow, and to grow faster than their larger counterparts, year-over-year growth rates slowed for Q4 2015. Expectations for growth in 2016 remain stable relative to last quarter, but they continue to be muted, and the outlook for short-term sales and demand has declined. These slowdowns cut across all industries and revenue segments. However, declines are most pronounced among the smallest middle market firms (revenue between $10 million and $50 million), while the largest mid-sized businesses (revenue between $100 million and $1 billion) have maintained relatively steady performance throughout 2015.

The majority of middle market companies in most industries and all revenue segments continue to report improved company performance versus one year ago. However, the proportion of companies reporting improved performance dropped significantly in Q4 2015 to 57%, down from 70% reported at the end of 2014. The smallest middle market companies and businesses in the financial services and retail trade sectors are most likely to have subdued perceptions of company performance.

Nearly 70% of companies continue to report year-over-year revenue increases, a percentage that has remained about the same throughout 2015. However, the rate of past-year revenue growth dropped to 6.1% after remaining near or above 7% for the past 12 months. The smallest middle market companies drove the decline. Still, the middle market outperformed the S&P 500, which experienced -9.6% revenue growth for the same period.

As with revenue growth, the rate of employment growth experienced a downward trend in 2015, but at a more gradual pace. Compared to the end of 2014, the proportion of firms indicating workforce growth is down 10 percentage points for Q4 2015. However, rate of employment growth, while down slightly for the overall middle market in the fourth quarter, has remained fairly consistent throughout the year at around 4%.

Looking ahead, fewer than one in five business leaders expect a more favorable business climate in the next three months. However, more than twice as many—or 38%— expect an increase in short-term sales. Most middle market business leaders believe costs will remain the same for the time being, and the majority of companies will maintain the current size of their workforce, at least through the first quarter of 2016.

Since dropping last quarter, the outlook for revenue growth in the next 12 months remains muted. At the end of 2014, companies optimistically projected 6% revenue growth for the year ahead; actual growth in 2015 met or exceeded those expectations. Today, companies foresee future revenue growth of just 3.7%. Similarly, expectations for future hiring fell to 3.2% at the beginning of 2015 and have remained relatively consistent throughout the year.

As the middle market continues to grow slowly but steadily in the year ahead, companies will continue to contend with staffing issues, government regulations, and competition—key challenges they have faced all year long. Companies also anticipate pressure on profit margins in the coming year.

REVENUE GROWTH
Healthy growth continues, but at a notably slower rate

More than two-thirds (69%) of middle market firms report year-over-year revenue increases for Q4 2015. The rate of growth remains healthy at 6.1%, however, it is more than one full percentage point lower than what was reported at the end of 2014. While the largest middle market firms have maintained relatively steady revenue growth since the end of last year, the smallest middle market firms saw a decreased in the rate of growth from 6.3% at the end of 2014 to 4.7%.

Half of middle market businesses say they will grow revenues in the coming year. Revenue projections for the next 12 months have remained around 4%--about the same as last quarter but significantly lower than projections six months ago. The smallest middle market firms have the lowest expectations for future growth, and firms in every industry have scaled back their growth projections since the beginning of 2015.

4Q'15 **69%** of middle market companies reported positive revenue growth. 4Q'14 73%

MIDDLE MARKET

PAST 12 MO.
4Q'15
6.1%
3Q'15 7.2% 4Q'14 7.2%

NEXT 12 MO.
4Q'15
3.7%
3Q'15 4.1% 4Q'14 6.0%

S&P 500

PAST 12 MO.
4Q'15
-9.6%*
3Q'15 -6.2% 4Q'14 4.9%

EMPLOYMENT GROWTH
Employment growth slows marginally

The proportion of firms increasing their workforce compared to one year ago has continued to decline slightly to 39%, compared to 42% last quarter. The rate of employment growth also receded gradually throughout 2015 with firms reporting 3.6% past year employment growth for the fourth quarter. From an industry perspective, services, manufacturing, wholesale trade, and financial services have most notably slowed employment growth. Conversely, job growth in the construction and retail trade industries has increased slightly since the end of 2014.

Looking forward, nearly one-third of middle market firms expect to grow the size of their workforce in the coming year. These companies anticipate increasing employment by a rate of 2.7%. The largest middle market companies have the greatest hiring expectations. Retailers have the most bullish outlook on hiring.

4Q'15 **32%** of middle market companies expect to add jobs. 4Q'14 52%

MIDDLE MARKET

PAST 12 MO.
4Q'15
3.6%
3Q'15 4.1% 4Q'14 5.0%

NEXT 12 MO.
4Q'15
2.7%
3Q'15 3.2% 4Q'14 4.0%

ADP [PAST 12 MO.]

LARGE CORP.
4Q'15
2.0%
3Q'15 1.7% 4Q'14 2.2%

SMALL BUS.
4Q'15
2.2%
3Q'15 2.4% 4Q'14 2.2%

**4Q numbers include only companies who have reported 4Q earnings results. Numbers change as more businesses report financial results.*

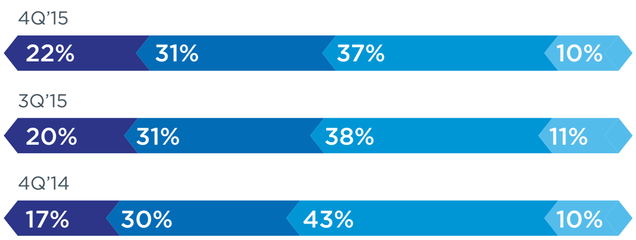
ECONOMIC CONFIDENCE

Confidence is tapering off but remains strong nationally and locally

Since peaking in early 2015, confidence in the global, national, and local economies has declined throughout the year. Fewer than half (47%) of middle market leaders express confidence in the world economy, while close to a quarter (22%) of leaders say they are not confident at all in the state of international affairs. For domestic firms, political uncertainty, homeland security, and threats abroad have the greatest impact on global confidence. Businesses that source one-fifth or more of their revenue internationally are more concerned with cybersecurity threats and weakness in the Eurozone economies.

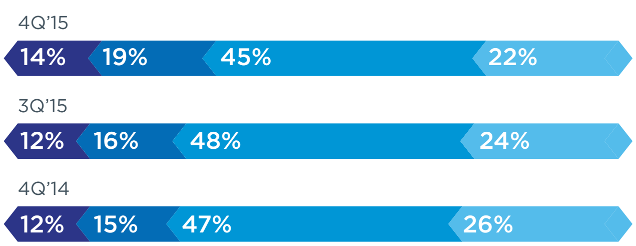
Nationally and locally, confidence remains relatively high, with more than two-thirds (67%) of leaders expressing confidence in the national economy and upwards of three-quarters (76%) of leaders feeling optimistic about the local environment. However, confidence in both areas is waning. U.S. economic confidence for Q4 2015 is 13 percentage points lower than reported at the start of the year.

GLOBAL ECONOMY



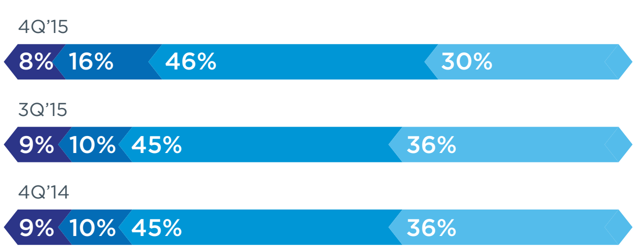
4Q'15
47%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'15 49% 4Q'14 53%

NATIONAL ECONOMY



4Q'15
67%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'15 72% 4Q'14 73%

LOCAL ECONOMY



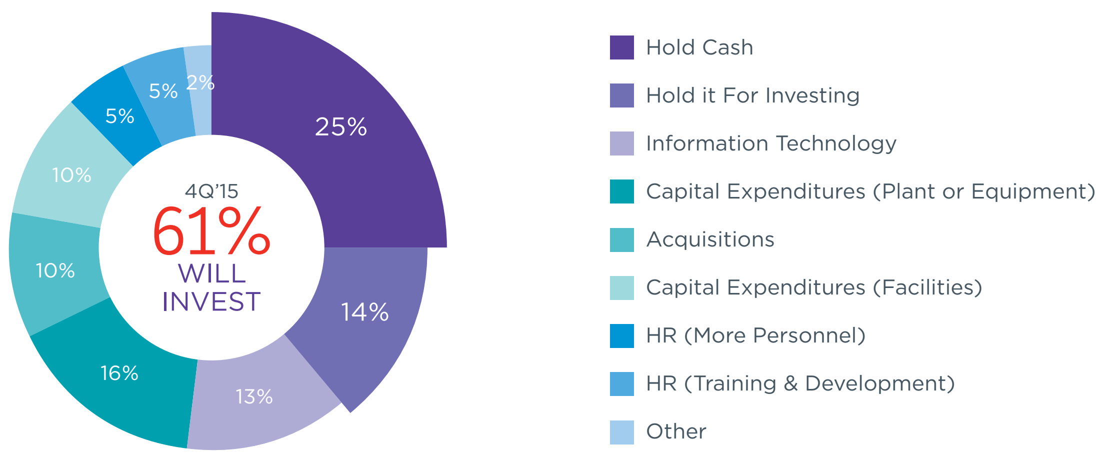
4Q'15
76%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'15 81% 4Q'14 81%

Not confident Somewhat not confident Somewhat confident Confident

CAPITAL INVESTMENT
Firms are less likely to invest

The proportion of middle market firms willing to invest extra money has declined since the end of 2014. Currently, six in 10 companies (61%) say they would allocate extra dollars toward investments while nearly four in 10 (39%) plan on keeping cash. Since declining significantly at the beginning of the year, the percentage of firms planning on expansion in the next 12 months has remained steady throughout 2015, although slightly fewer firms have plans to introduce a new product or service. Those middle market companies that do have expansion aspirations for 2016 are most likely to launch new offerings or expand into new domestic markets. However, regulations and competition continue to present obstacles to expansion.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES
Businesses continue to contend with staffing issues and regulatory burdens

Throughout 2015, training and retaining qualified employees has been a top internal challenge for the middle market. More than half of firms say staffing issues will affect performance in the short term, and nearly as many believe staffing will be an issue all year long. Middle market companies rely on their reputations and benefits packages to attract employees, and they primarily leverage salary increases and flexible work arrangements to keep people onboard. Uncertainty over government actions coupled with increasing competition remain the top external challenges both near and long-term. Three-quarters of firms believe that state and federal regulations have at least some negative impact on business performance.

SHORT TERM CHALLENGES (Next 3 months)

INTERNAL CHALLENGES:	
1. BUSINESS	60%
2. STAFF/EMPLOYEES	51%
3. COSTS	23%
4. GOVERNMENT	13%
EXTERNAL CHALLENGES:	
1. BUSINESS	34%
2. GOVERNMENT	22%
3. COMPETITION	21%
4. ECONOMY	16%
5. COSTS	12%

LONG TERM CHALLENGES (Next 12 months)

INTERNAL CHALLENGES:	
1. STAFF/EMPLOYEES	45%
2. BUSINESS	38%
3. COSTS	19%
4. GOVERNMENT	6%
EXTERNAL CHALLENGES:	
1. BUSINESS	29%
2. GOVERNMENT	19%
3. COMPETITION	18%
4. ECONOMY	16%
5. COSTS	11%

Perspectives

GROW YOUR OWN, OWN YOUR GROWTH

In the twelve months ended November 2015, the U.S. private sector added 2.5 million jobs, a 2.1% increase to 120.9 million, according to the St. Louis Fed. Middle market companies, which employ about a third of private-sector workers, added to payrolls at a 3.6% rate in the same period, according to the latest Middle Market Indicator. That translates into approximately 1.4 million new jobs, more than half the total.. If U.S. private employment as a whole had grown that fast, an additional 1.8 million people would have jobs today.

As the most aggressive hirer, the middle market feels the most pressure from the fact that U.S. unemployment has fallen to 5%. Finding, retaining, and developing staff is the top long-term challenge middle-market executives cite. It is complicated by the fact that millennials comprise the largest pool of potential talent. Six out of seven middle market leaders say that millennials pose a challenge of one kind or another; primarily, companies find it hard to attract them in the first place and have doubts about their long-term commitment. These sentiments vary little across industries or by company size. Improved salaries and more flexible work arrangements are the most widely used tools to improve attraction and retention, but . executives also say that company reputation trumps any specific program. That being so, the single best thing companies can do to attract and keep talent is to grow.

WHAT'S AHEAD?

We should keep past performance in mind when looking at this quarter's MMI. The U.S. has experienced 78 straight months of economic growth; by March, assuming growth continues, this expansion will move into third place in history, passing the one fueled by World War II. It's unsurprising that the rates of growth in revenue and employment have slowed; this is typical of long expansions. The absolute numbers, however, remain impressive, and confirm the middle market's role as the most powerful engine of growth in the American economy—and by extension, the world.

From the perspective of several years—this is our 16th quarter of data—we see another characteristic of the middle market: a combination of resilience and agility. It's an oversimplification, but a useful one, to say that big companies are resilient—they can take a punch—but not quick. Small businesses are agile but fragile: Only 57% survived the 2008-2010 crisis, our analysis shows, compared to 82% for the middle market and 97% for large companies. With its combination of agility and resilience, the middle market was first and fastest out of the gate when recovery began six and a half years ago, and has delivered growth above 6% for eight straight quarters.

Macroeconomic indicators are hard to read. On the one hand, U.S. auto sales and holiday retail numbers were strong; however, China's important manufacturing sector continues to weaken. The recent small increase in the Fed rate is more meaningful psychologically than economically—money is about as inexpensive as it has ever been. So, though it (slightly) increases the cost of capital for the middle market, it also indicates that the Fed is more confident.

HOW FAST, HOW HARD?

If tailwinds are uncertain, companies must grow on their own steam, so to speak. In this context, it's notable that the upper middle market—companies with revenues between $100 million and $1 billion—is substantially more likely to invest for future growth by introducing new products or services (45% for the upper middle market, 33% for the core, 32% for the lower), adding plants or facilities (24%, 14%, 14%), and entering new international markets (27%, 14%, 11%). R&D spending as a percentage of revenue follows the same pattern: From big to small, it is 11.3%, 10.5%, and 7.9%. All of these numbers declined during the course of 2015, but they have fallen off more for the smaller companies.

It is consequently not surprising that the upper middle market delivered the strongest performance in 2015 and expresses the most confidence about the year to come.

	$100M-$1B	$50M-$100M	$10M-$50M
Mean Revenue Growth (Last 12 Months)	7.9	6.7	4.7
Projected Revenue Growth (Next 12 Months)	3.8	3.8	3.5
Mean Employee Growth (Last 12 Months)	5.2	3.2	2.5
Projected Employee Growth (Next 12 Months)	3.9	2.1	2.0

Lower middle market companies appear to have used their profits to pay down debt: 37% say they carry less debt than a year ago, vs. 31% for large middle market companies. Going forward, 23% of larger companies say they intend to take on new debt this year, compared to just 13% for the lower middle market.

These numbers add nuance to a pattern we have noticed before. In general, middle market executives place a premium on keeping their options open. At this juncture, options appear to be dependent on company size. Smaller outfits want to maximize financial options via cash in their wallets, few commitments, and minimal debt. Larger outfits—while significantly more conservative than they were at this time last year—favor investments that create real options, like new products, plants, staff, and markets. The former, presumably, figure that they can make up in agility what they might have short-changed in investment; the latter are putting down bets they expect to cash in.

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