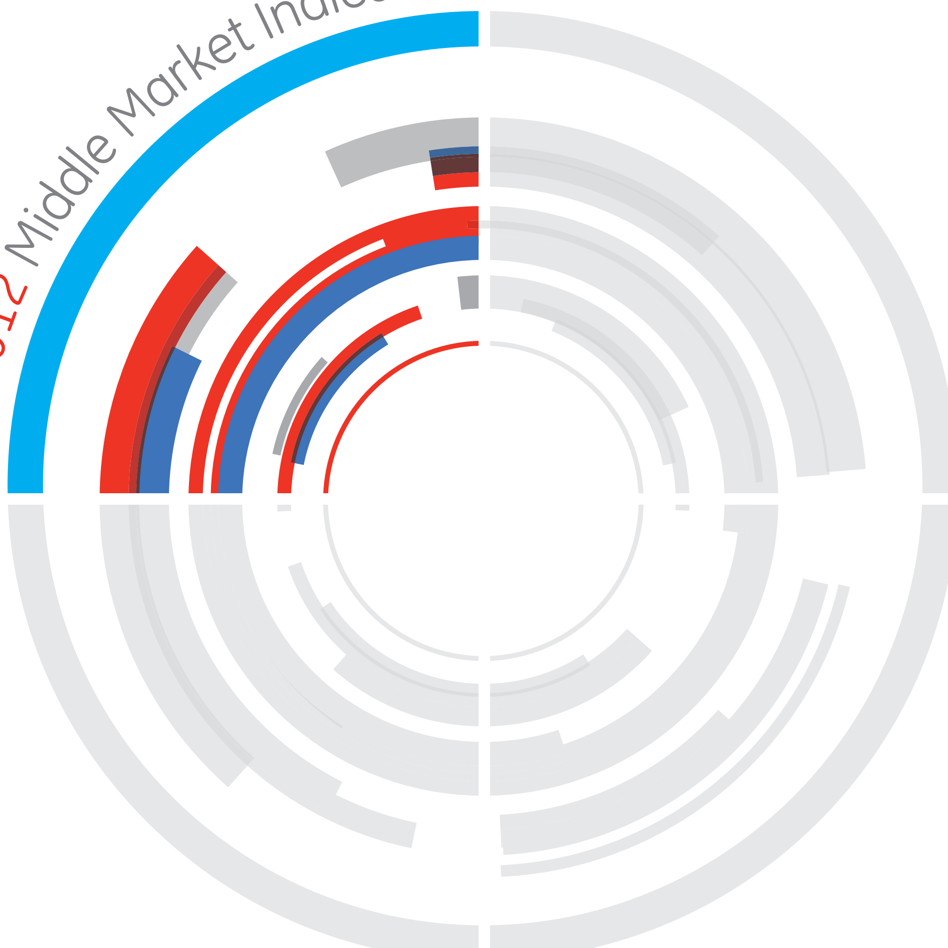
NATIONAL CENTER FOR THE MIDDLE MARKET

1Q 2012 Middle Market Indicator



in collaboration with

THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

GE Capital

contents

introducing the Middle Market Indicator

from The National Center for the Middle Market

Source: CIA World Fact Book, BEA, U.S. Census, National Center for the Middle Market survey

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 - <$1B.

There are approximately 195,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 41 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**: "Leading from the Middle," 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 195,000 U.S. firms with revenues between $10MM and $1B, the upper and lower limits on middle market annual revenue.

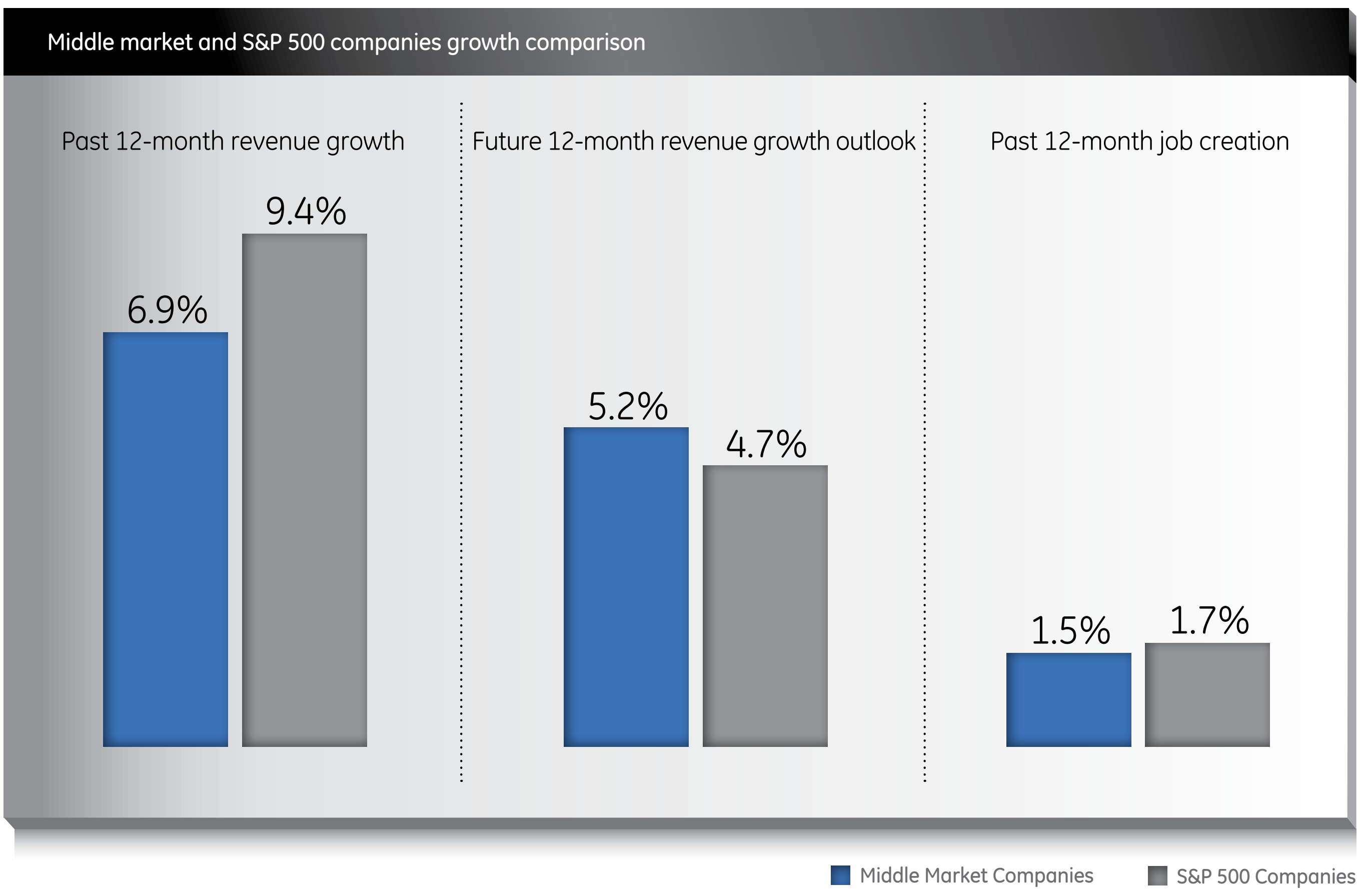
The quarterly online survey is designed and managed by The National Center for the Middle Market

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**.

executive summary

Middle market companies expect to grow 5.2% over the next 12 months, exceeding the S&P 500 projected growth rate by nearly 10%.

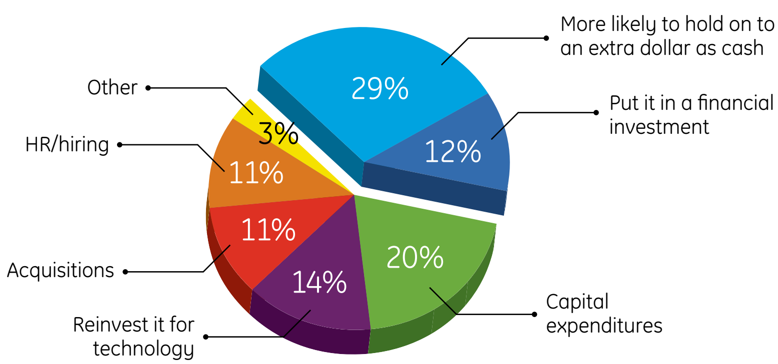


Key findings from our proprietary, comprehensive, C-level survey:

Projected 12-month growth is strong, yet slowing
While middle market firms will continue to outpace the U.S. economy, they will do so at a slower rate than over the last year when they grew at 6.9%. All major industry sectors are projecting slowing growth, with the exception of construction. (see page 7)

Confidence in the economy is a notable concern
As businesses look beyond their local economies, their confidence levels deteriorate. Only 15% of middle market businesses are confident in the U. S. economy, only 7% are confident in the global economy, yet 28% are confident in their local economy. (see page 8)

Firms are cautious about future investment
Among middle market executives, 41% said they would save extra cash, either to bolster cash reserves or to make future investments. The remainder would reinvest either for capital expenditures (20%), technology (14%), acquisitions (11%), HR/hiring (11%), or other (3%). (see page 10)



Policy and regulation pose critical challenges
More than half (52%) of middle market companies see the regulatory environment as more restrictive than previously, with only 4% indicating it is less restrictive. Middle market companies cited four major challenges as more intense than others; reported as highly or somewhat challenging were: the cost of health care (92%), uncertainty over how government actions will impact business (81%), the ability to maintain profit margins (86%), and ensuring compliance with new regulations (69%). (see page 9)

detailed research findings:
recent and expected growth

In the first quarter of 2012, middle market companies said they outperformed results from the year-earlier quarter. Some 70% of all companies surveyed reported gross revenue in the first quarter of 2012 had improved compared with the first quarter of 2011. Fewer than two in ten, or 16%, said that revenue had deteriorated.

The 5.2% overall middle market revenue growth estimate exceeds that of S&P 500 firms by 10%, which is 4.7% for 2012.

For 2012, middle market companies forecast an overall average of 5.2% revenue growth, with 69% of respondents projecting growth and only 9.0% expecting declines. Manufacturing, health care, and retail trade expect the highest revenue growth in 2012, 6.5%, 5.8% and 5.7%, respectively. Construction and wholesale trade expect more modest 2012 revenue gains of 5.1% and 5.2%, respectively.

The 5.2% overall middle market revenue growth estimate exceeds that of S&P 500 firms by 10%, which is 4.7% for 2012.[1]

Even so, a 5.2% revenue gain in 2012 would represent a slowdown for middle market companies from the 6.9% revenue growth they reported for the sector in 2011.

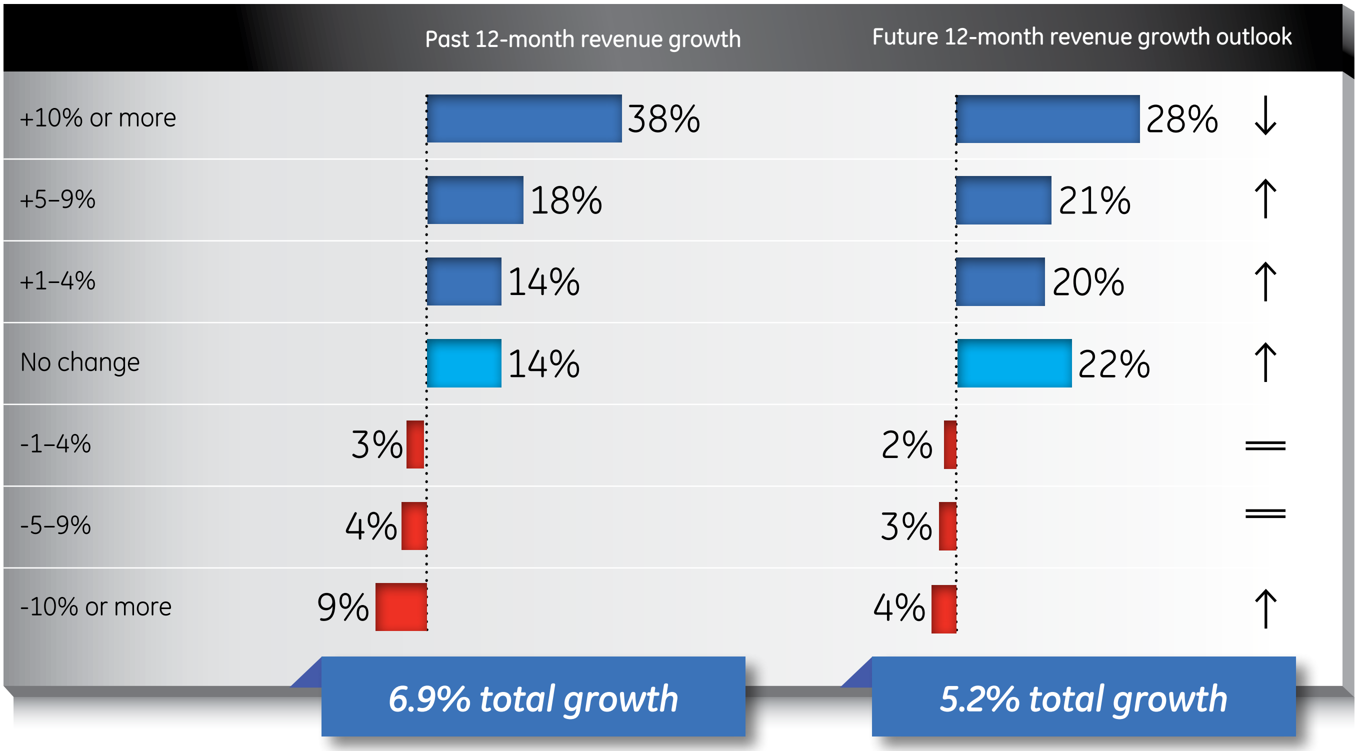
The moderation in growth is most pronounced among high-growth middle market firms. In 2011, 38% of respondents posted double-digit revenue increases and only 14% of companies in 2011 reported flat revenue. There are far fewer who expect double-digit increases in 2012. Only 28% do so, and the number of companies expecting little-to-no change in revenue rose to 22%. This could be a function of starting from a higher baseline in 2012, plus the overall policy and regulatory uncertainty.

Taken together, the picture of middle market businesses is a positive one, but expectations for a repeat of 2011's best results are decidedly absent. **This is a sector that is cautiously optimistic about near-term operating performance.**

1 Bloomberg

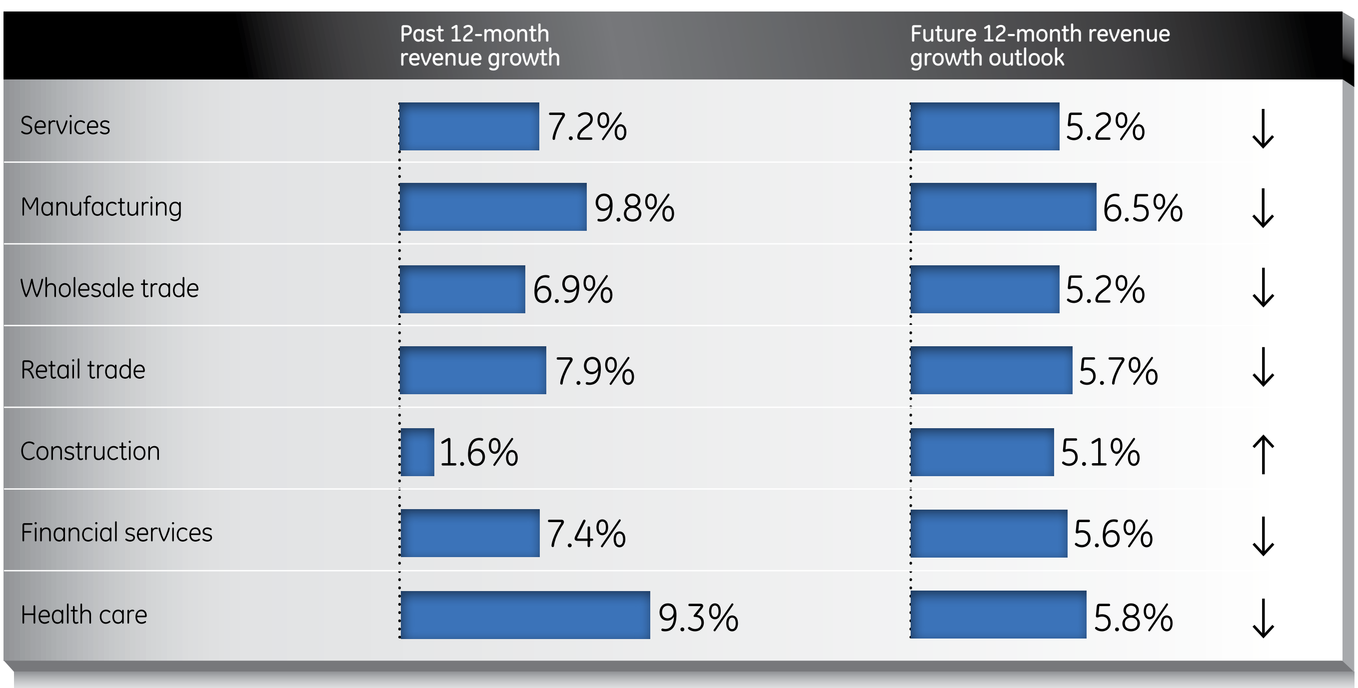
Revenue projections

Gross revenue projections show growth rates will moderate, but the vast majority of middle market firms do project growth.



Base: Total respondents=1,002
Q1. What is the percentage of change in your company's current gross revenues compared to the same time period a year ago?
Q11a. How would you assess the next 12 months gross revenue growth on an annualized basis?

Industry revenue projections



confidence

Middle market companies are wary of the global economic outlook, with only 7% expressing a high degree of confidence in the global economy.

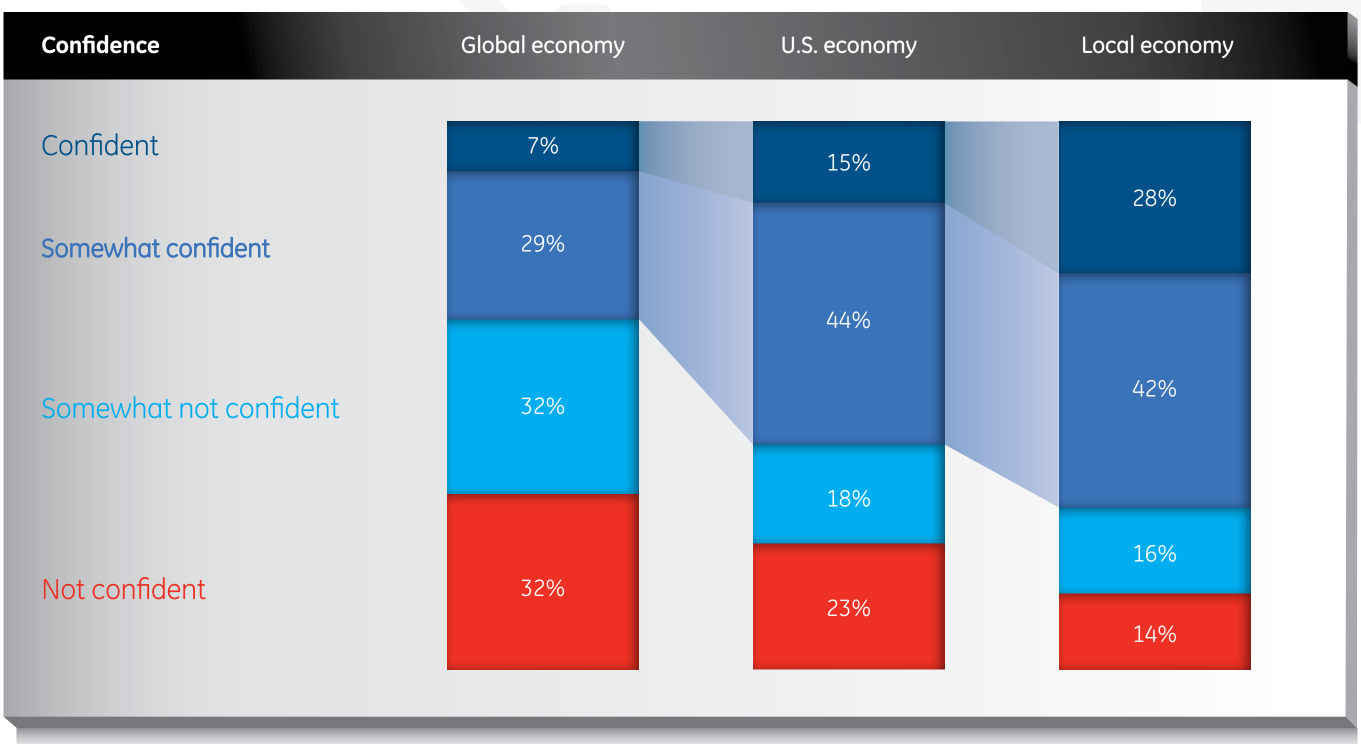
Almost a third (32%) of middle market companies have a high degree of uncertainty about the global economy, while only 7% say they are confident.

Sentiments rise as respondents rate prospects closer to home. One of seven respondents, or 15%, said they are confident about the U.S. economy while 28% expressed confidence in their local economy. The percentage of middle market companies that are uncertain about prospects for the U.S. economy was 23% and only 14% expressed a lack of confidence in their local economies.

Manufacturing and service sector companies are more confident in the prospects for the U.S. economy than were counterparts in other industries, especially construction and health care companies. The lack of confidence among health care companies was striking, considering that sector holds better-than-average revenue growth expectations.

Even high-growth middle market companies–those forecasting double-digit revenue gains in 2012–remain cautious in their outlook both for the global and U.S. economies. Only 13% of the higher-growth companies said they were confident in the global economy and 24% of that group expressed confidence in the U.S. economy. Overall, the middle market anticipates annualized U.S. economic growth of 2.1%, in line with consensus GDP estimates.

Confidence in the global economy is a notable concern. While confidence in the U.S. economy outstrips that of the global economy, middle market leaders remain cautious despite the growth they have experienced.



Base: Total respondents=1,002
Q7. How confident are you in each of the following? (Select one answer for each.)

challenges

The most significant challenges to the middle market are largely confined to macro or environmental concerns, as opposed to operating issues.

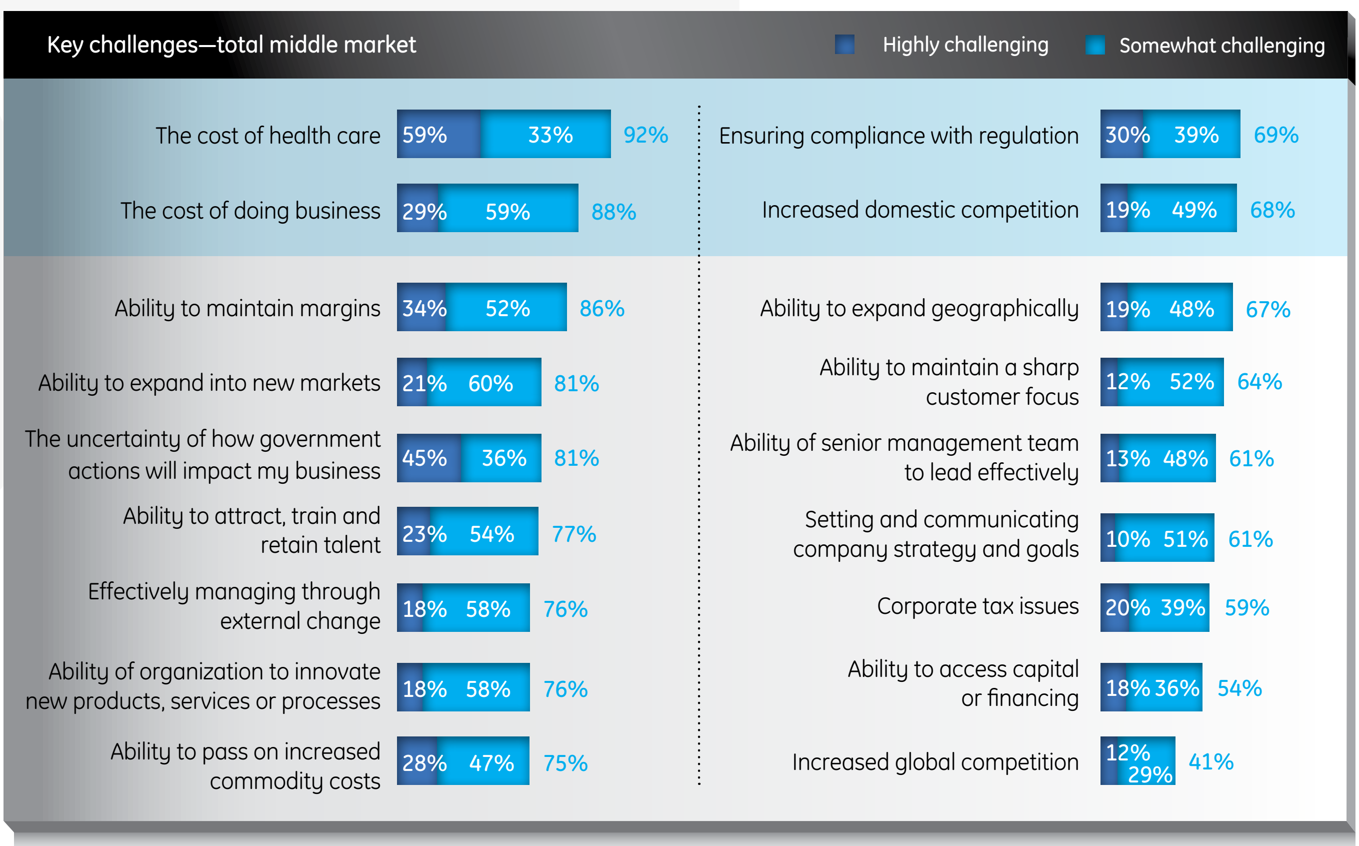
An overwhelming percentage (92%) of respondents, across all sectors, cited the cost of health care as a challenge. Fifty-nine percent categorized health care costs as "highly challenging"–the item ranked highest by the largest number of executive respondents. This concern is elevated the most among smaller middle market companies, participants in the construction and wholesale trade industries, and those with less than $50 million in annual revenue.

The cost of doing business and the ability to maintain margins are additional major challenges facing companies, with 88% and 86% of all respondents, respectively, citing those concerns.

Uncertainty and concern about government regulation was high. Eighty-one percent of respondents said uncertainty about how government actions will affect their business is either highly or very challenging.

Other than the common challenge of health care costs, different sectors face specific challenges based on their industry dynamic. Service and manufacturing companies are concerned with the ability of their senior management to lead effectively. Construction companies fear domestic competition and corporate tax issues. Health care companies are focused on ensuring compliance with looming regulation and the uncertainty of government actions. Wholesale trade companies are most concerned about their ability to maintain margins. **Finally, ensuring compliance with changing regulatory requirements is especially concerning among firms with purely domestic operations.**

The most significant challenges to the middle market are largely confined to macro or environmental concerns, as opposed to operating issues.



Base: Total respondents=1,002
Q11b. Shown below are different challenges confronting businesses. Please indicate how much of a challenge each is for your business.

impact

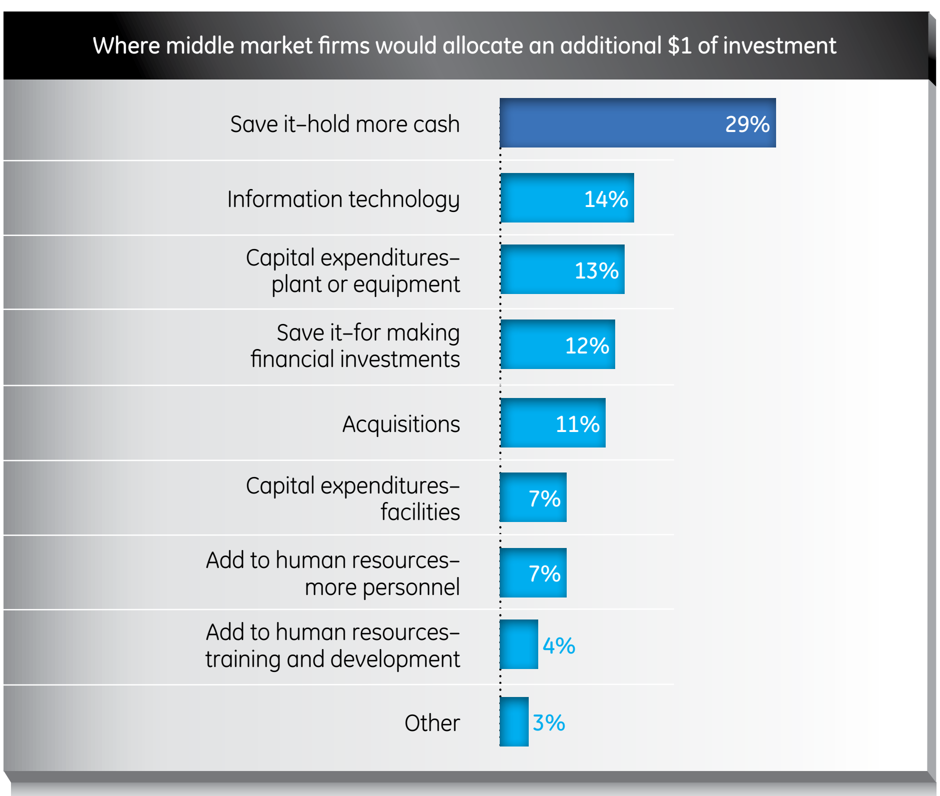
Though middle market companies expect to outpace the broader economy with an average 5.2% annual gain in revenue, concerns about slowing growth, health care costs and regulatory changes mean that the companies are taking a cautious approach to investing in future growth. Only 7% of all respondents say they would allocate excess cash to adding employees in 2012. This may have a pronounced impact on hiring since middle market companies have outpaced the rest of the economy in creating jobs.

A plurality of companies say they are likely to simply hold on to excess cash; 41% of respondents say they will keep cash on hand in case they need it, rather than invest it in any equipment or staff. Construction companies were the most likely to stockpile cash; 53% of all respondents said they would set aside any additional income. That compares with 38% of manufacturers who said they would deploy any additional cash into capital expenditures such as new equipment or facilities. The service sector was the sector most likely to show a willingness to hire, but even so, only 14% of those respondents said they would consider doing so with extra cash.

The lack of a commitment to hiring spells trouble for the U.S. economy, as the middle market companies proved to be a major job generator while the economy gathered steam in 2011. Middle market companies added jobs at a 1.5% rate[2].

Larger middle market companies outpaced the increase for middle market businesses, adding jobs at a 2.3% annual rate last year. Health care and manufacturers added the most jobs in 2011, growing their employment by 3.5% and only 3.4%, respectively. Construction firms pared their ranks by 2.7% in 2011, and wholesale trade companies grew by 0.5%.

2 U.S. Bureau of Labor Statistics



Base: Total respondents=1,002
Q12a. If you had an extra $1 of investment where would you allocate it? (Please select one answer.)

conclusion

In this inaugural survey of the performance and mood of U.S. middle market firms, there is a clear picture of cautious optimism. Companies across sectors and of varying sizes report a very impressive 2011, but show less confidence in a repeat performance in 2012. Still, the sector's tempered expectations outpace that of the broader economy.

The more modest expectations hinge mainly on challenges that do not relate to operations or competition, but rather to regulation and health care costs. These concerns are affecting how companies treat excess cash. If given the choice, companies are much more likely to put extra cash aside rather than invest it in new equipment or higher staffing levels.

These expectations put a significant damper on the prospects for the overall U.S. economy, since middle market firms have led the U.S. in hiring and growth, and their ongoing financial health and confidence is critical to the overall economy.

NATIONAL CENTER FOR THE MIDDLE MARKET
www.middlemarketcenter.org

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Fisher College of Business at The Ohio State University is dedicated to training the next generation of business professionals through world-class faculty and a highly innovative curriculum elevated by close partnerships with industry leaders. The market has spoken: a recent survey of corporate recruiters conducted by The Wall Street Journal ranked Fisher second in the nation among business schools with the most sought-after graduates. Stay connected to Fisher via Twitter.

GE Capital

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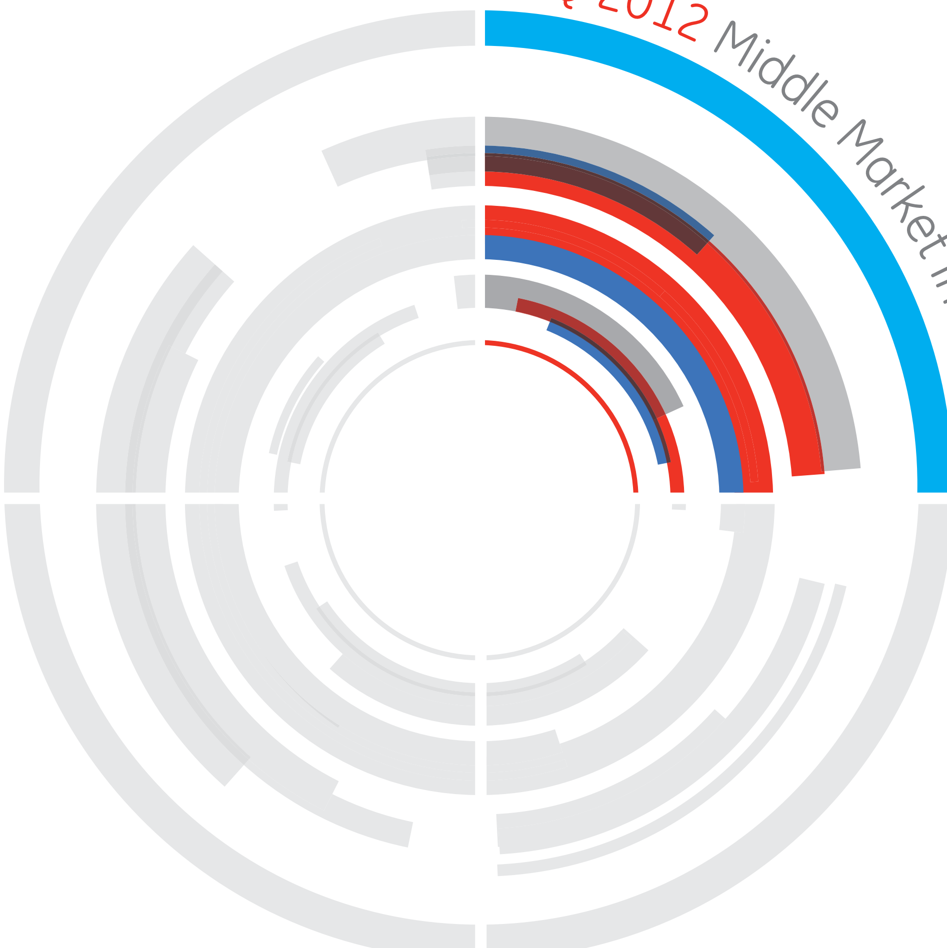
NATIONAL CENTER FOR THE MIDDLE MARKET

2Q 2012 Middle Market Indicator



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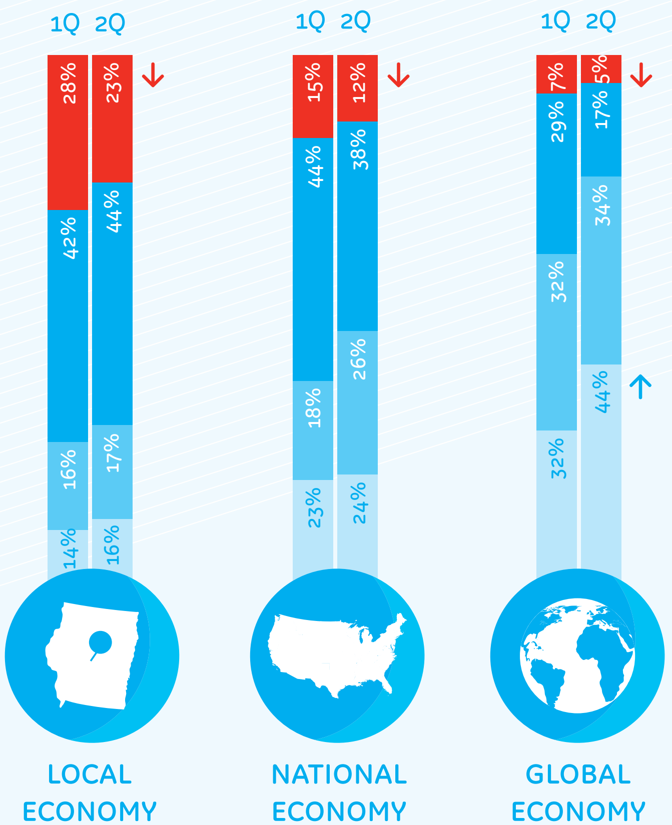
MIDDLE MARKET INDICATOR

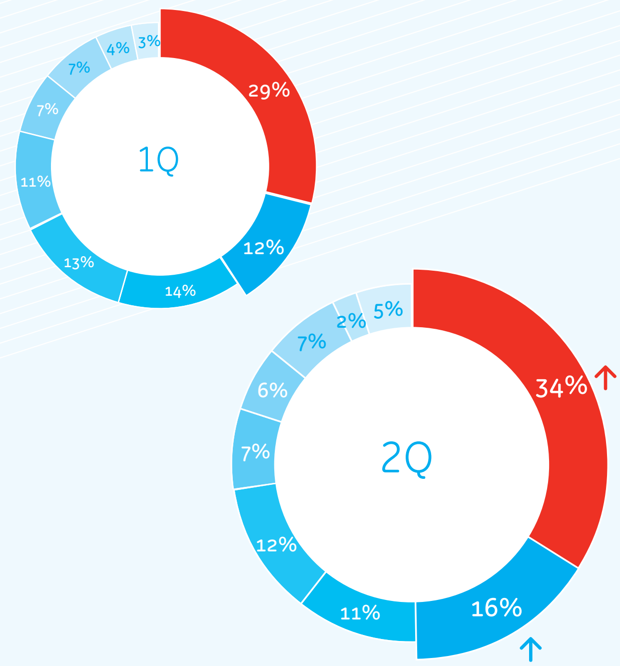
$10MM–$1B

Economic confidence indicators



- Confident
- Somewhat confident
- Somewhat not confident
- Not confident

Incremental investment allocation



- Hold cash
- Hold it for investing
- Information technology
- Capital expenditures—plant or equipment
- Acquisitions
- Capital expenditures—facilities
- HR—more personnel
- HR—training & development
- Other

Growth indicators

REVENUE GROWTH	1Q	2Q
MIDDLE MARKET		
PAST 12 MO.	6.9%*	6.1% ↓
NEXT 12 MO.	5.2%*	4.8% ↓
S&P 500		
PAST 12 MO.	9.4%	4.8% ↓
NEXT 12 MO.	4.7%	4.0% ↓

EMPLOYMENT GROWTH	1Q	2Q
MIDDLE MARKET		
PAST 12 MO.	1.5%*	2.0% ↑
NEXT 12 MO.	N/A	1.8%
S&P 500 (PAST 12 MO.)		
LARGE CORP.	1.7%	1.0% ↓
SMALL BUS.	1.9%	1.0% ↓

*Revised. See appendix (p. 15).

executive summary

Middle market companies express increased pessimism about global and U.S. prospects and a rising propensity to hold cash due to headwinds. Companies are holding more cash, and feel most challenged by the cost of health care, the uncertainty around government actions, and the impact these factors will have on their business. The latest revenue performance and projection figures indicate a slowing of revenue growth into next year for most industries. Middle market companies are hiring and intend to grow net jobs. In fact, 90% of businesses expect either no change or increases in hiring over the next 12 months. Stronger jobs growth is expected for the services sector, construction, and health care, with a contraction in payroll expected in retail. Middle market companies are hiring at two times the rate of both large corporations and small businesses.[1]

Key findings:

The middle market continues to lose confidence in the global and U.S. economies
Only 5% of survey respondents expressed confidence in the global economy, compared with 44% saying they were not confident at all. Those numbers are slightly better for the U.S. economy, with 12% responding that they were confident compared with 24% not at all. The waning confidence in the global and U.S. economies from the first quarter to second spans every major industry segment measured.

Future investment to remain limited; businesses continue to hold cash in the face of uncertainty
In the second quarter, 50% of middle market companies said they planned to hold any extra dollars instead of investing them, up from 41% in the first quarter.

Revenue growth seen but slowing
Year-over-year (YOY) revenue performance from 1Q to 2Q has slowed from 6.9% to 6.1% and projected revenue growth for the next 12 months is down from 5.2% to 4.8% quarter over quarter. Middle market companies expecting revenues to increase 10% or more in the next 12 months dropped to 23%, compared with 28% who expected double-digit growth in the previous quarter's survey. Of note is that middle market businesses expect higher rates of revenue growth in the next 12 months (4.8%) than the S&P revenue projections (3.4%).[2]

Employment growth is stable and projected to hold into next year
Net YOY jobs growth increased from 1.5% in 1Q to 2.0% in 2Q and the expectations for the next 12 months are stable at 1.8%. Middle market payroll growth rate for 2Q is two times the level reported for both large corporations (1%) and small businesses (1%). Nearly 90% of middle market companies anticipate stable or increased hiring in the next 12 months, with only 11% reporting they expect to shrink payrolls. Services, construction, and health care expect to be most aggressive at hiring, with retail businesses expecting a contraction in their payrolls.

Challenges to middle market business performance persist
A large majority of middle market companies cited uncertainty about health care costs and new government actions as either very or somewhat challenging in the second quarter. These challenges persist from last quarter as the most vexing issues—not surprising since there was little clarity from the U.S. government around changes to health care and other laws at the time of the survey.

1 ADP Jobs Report (large companies 500+ employees, small companies <50 employees; July '11–June'12)
2 S&P Index Services (June '11–July '12)

detailed research findings:
recent and expected growth

PAST 12 MO. REVENUE	1Q	2Q	
BY REVENUE SEGMENT			
$10MM–<$50MM	6.0%	5.8%	=
$50MM–<$100MM	6.5%	5.3%	↓
$100MM–$1B	8.3%	7.0%	↓

NEXT 12 MO. REVENUE	1Q	2Q	
BY REVENUE SEGMENT			
$10MM–<$50MM	5.4%	4.4%	↓
$50MM–<$100MM	4.8%	4.4%	↓
$100MM–$1B	5.0%	5.5%	↑

Moderation in revenue growth

Revenue growth has slowed in the past 12 months compared with growth in the first quarter, dropping annualized rates from 6.9% to 6.1%. During 2Q, there has been an increase in the proportion of companies reporting flat YOY growth from 14% to 22% and a corresponding decrease in companies reporting double-digit revenue growth performance—from 38% to 32%. Looking at the data by industry shows mixed results, with business services, financial services, and construction leading year-over-year gains. Manufacturing, wholesale trade, retail, and health care all posted declines in revenue during the second quarter.

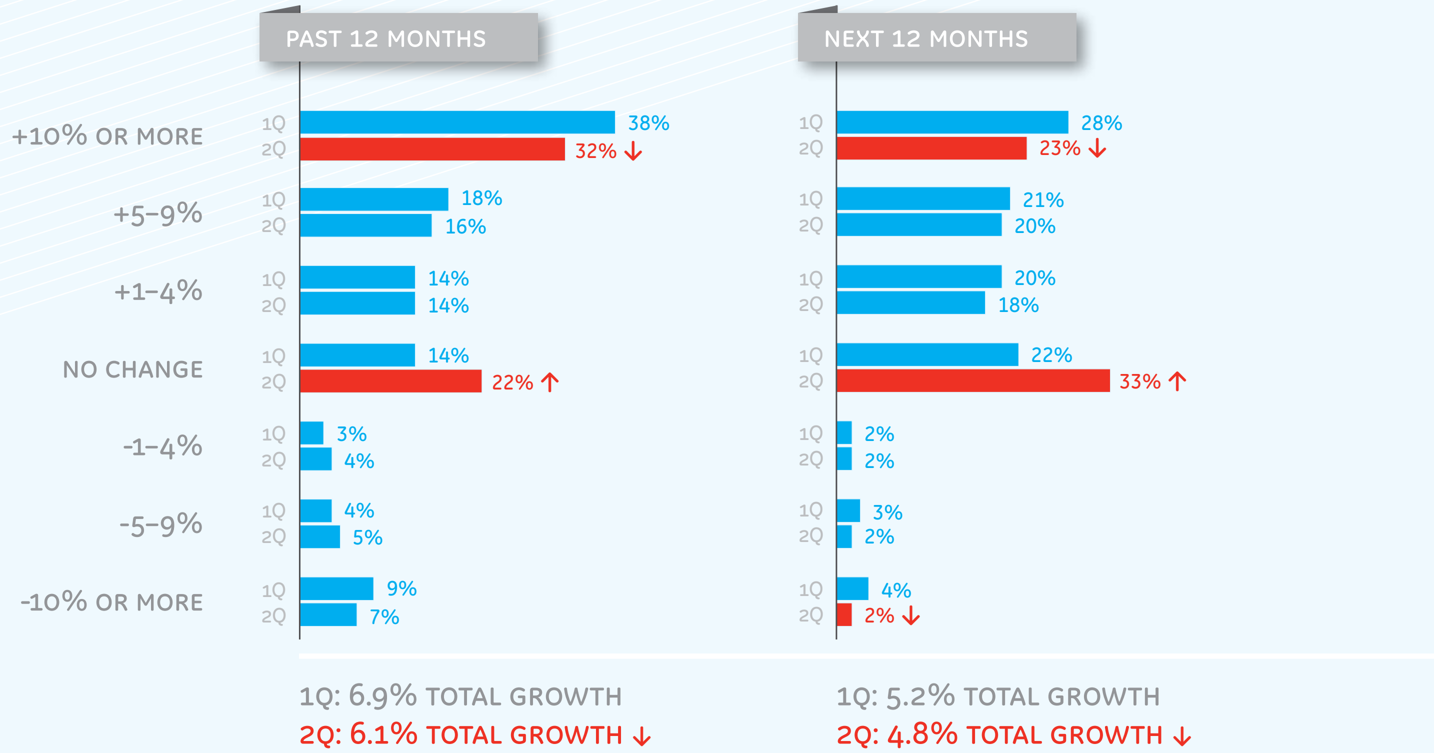
In the next 12 months, revenue growth is also expected to moderate—from 5.2% to 4.8%. The percentage of middle market companies expecting revenues to increase 10% or more in the next 12 months dropped to 23% of the middle market compared with 28% in the previous quarter's survey, and one-third of businesses expect flat YOY growth, compared with 22% in 1Q.

Overall, revenue projections are down among a wide range of companies with revenues spanning $10MM–$100MM. This revenue distribution accounts for 95% of all middle market companies.[3]

3 U.S. Census

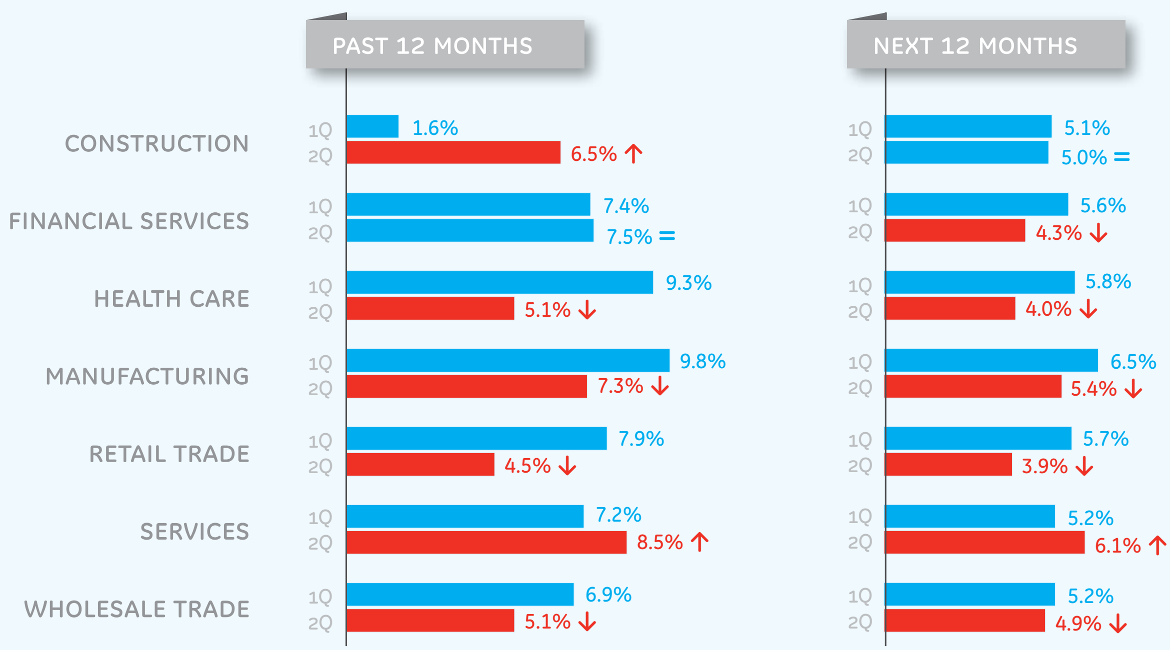
Revenue performance

The proportion of companies indicating growth in YOY revenues is lower in the second quarter (particularly those indicating strong growth). While overall anticipated growth is stable, fewer companies expect to grow 10% or more.



Revenue performance by industry

Overall YOY revenue growth is most evident in construction, but the proportion indicating positive YOY revenue is down significantly in four industry sectors. Revenue growth is expected across the categories, but the proportion of health care and wholesale trade companies expecting growth has declined since first quarter.



Q1. (Past 12 months) What is the percentage of change in your company's current gross revenues compared to the same time period a year ago? Please record a number to the nearest whole percentage.

Q11a. (Next 12 months) How would you assess the future outlook for your company?

detailed research findings:
recent and expected growth

PAST 12 MO. EMPLOYMENT	1Q	2Q
BY REVENUE SEGMENT		
$10MM–<$50MM	1.2%	1.7% ↑
$50MM–<$100MM	0.7%	2.5% ↑
$100MM–$1B	2.3%	2.2% ↓

NEXT 12 MO. EMPLOYMENT	1Q	2Q
BY REVENUE SEGMENT		
$10MM–<$50MM	N/A	1.8%
$50MM–<$100MM	N/A	1.5%
$100MM–$1B	N/A	1.8%

Employment growth is stable and projected to hold

Net jobs growth YOY increased from 1.5% in 1Q to 2.0% in 2Q, and the expectation for next 12 months is stable at 1.8%.

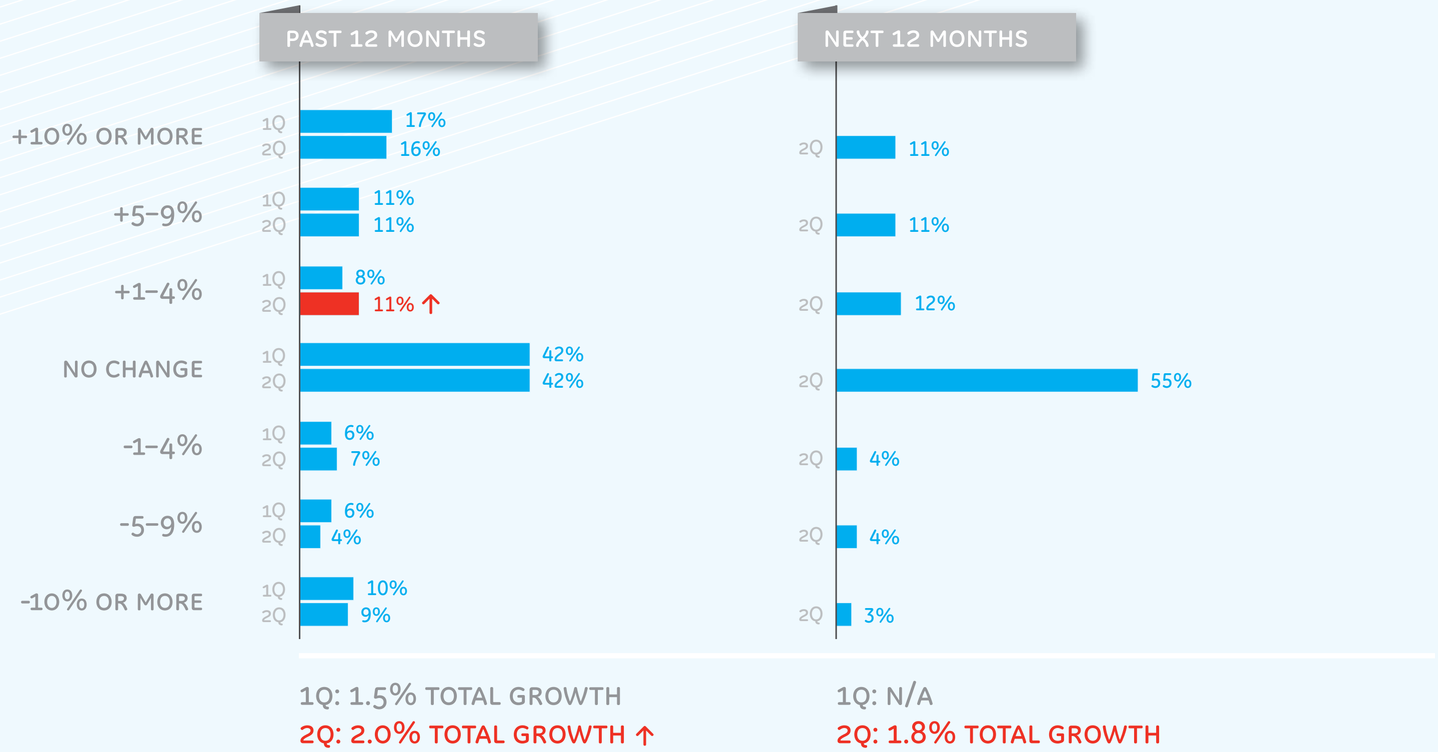
YOY employment contribution increased across all three middle market revenue segments. Business services, construction, and financial services posted the biggest employment growth rate gains compared to those reported in the first quarter. Hiring was slower for health care, retail trade, and manufacturing sectors.

Going forward, one in three middle market businesses expect to contribute positive net job growth in the next 12 months. This translates to net positive payroll growth of 1.8%, consistent with previously reported levels. Expected employment growth will vary by industry with services, health care, and construction expecting the highest hiring rates in the coming year with expansions of 3.5%, 2.2%, and 2.9%, respectively. Retail trade is the only sector to expect a contraction in payroll of -0.1%.

In terms of geography, the middle market projects above-average job creation in the Midwest and the South, both at 2.0%. The Northeast is expected to only add 1.3% in employment and the West plans to add jobs at 1.6%.

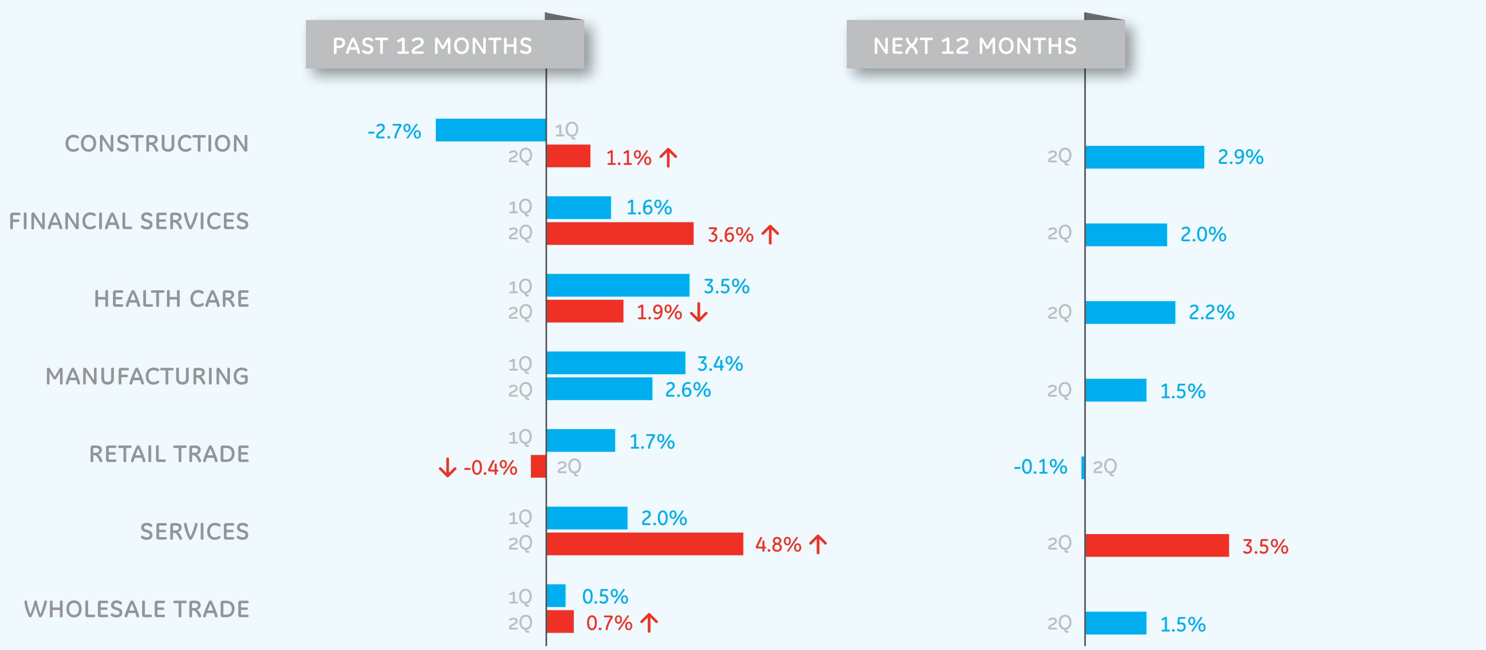
Employment performance

Despite headwinds, the middle market continues to add jobs at the same rate as first quarter. By a margin of two to one, more companies anticipate adding jobs than contracting. On average, the middle market workforce is expected to grow 1.8%.



Employment performance by industry

Employment growth expectations are stronger among services, health care, and construction businesses.



Q11a1. During the next 12 months, do you anticipate that the size of your company's workforce will...?
Q11a2. How many employees do you expect to hire in the next 12 months as a percentage of your total workforce?
Q11a3. How many employees do you expect to let go in the next 12 months as a percentage of your total workforce?

detailed research findings:
confidence and economic growth outlook

Increased pessimism in the global outlook

Middle market companies are uniformly and increasingly pessimistic about the global economic outlook, with only 5% expressing a high degree of confidence in future prospects, down from 7% reported last quarter. Meanwhile, 44% of companies have no confidence in the global outlook.

Sentiments remain bleak closer to home, as 12% of respondents expressed confidence in the U.S. economy, a drop from 15% in the previous quarter. Companies feel somewhat better about their local economies, with 23% expressing confidence.

Broad sectoral deterioration in U.S. confidence

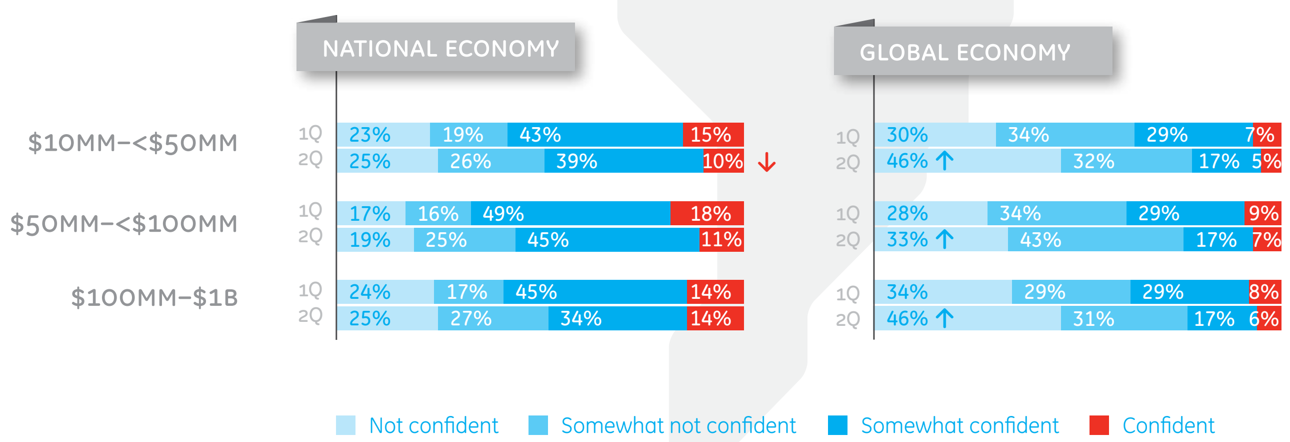
Confidence in the U.S. economy by managers in manufacturing, financial services, and wholesale trade has eroded the most. This would make sense given that the latest June Institute of Supply Management Index levels fell from 53.5 (May) to 49.7, the lowest level since July, 2009.[4]

Middle market companies are predicting the economy to slow down across the board from local to global levels. This is true across revenue segments and for those expecting growth, as well as those anticipating revenue decline.

4 ISM Manufacturing Index

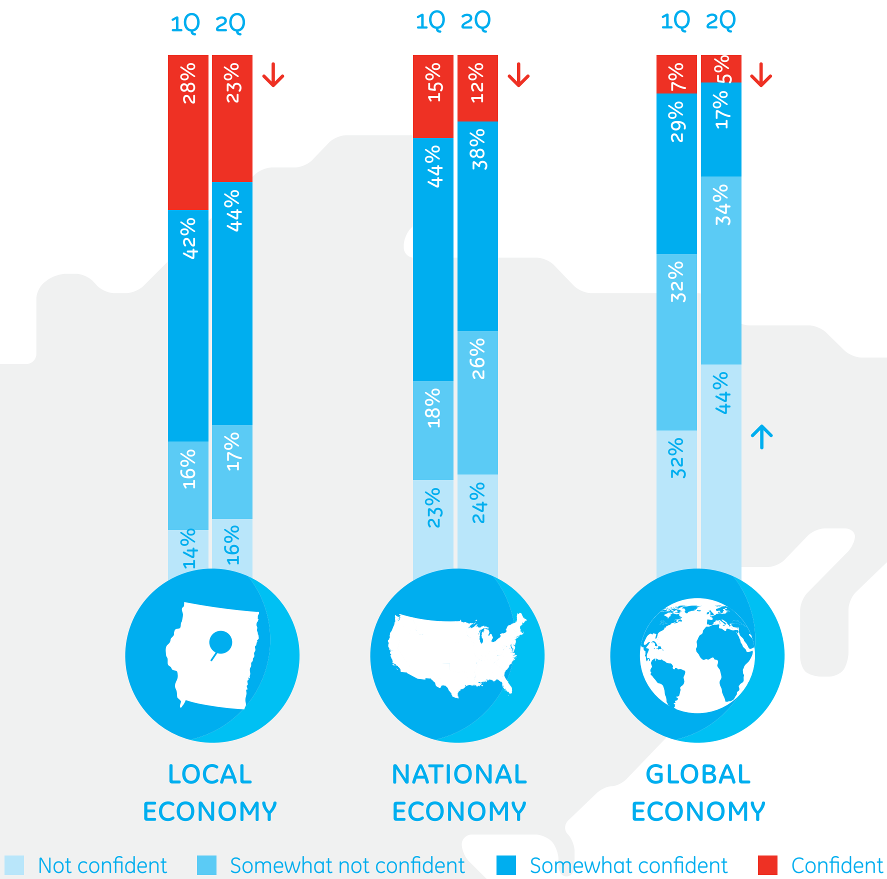
Confidence by revenue segment

Confidence in the global economy is down across the board.



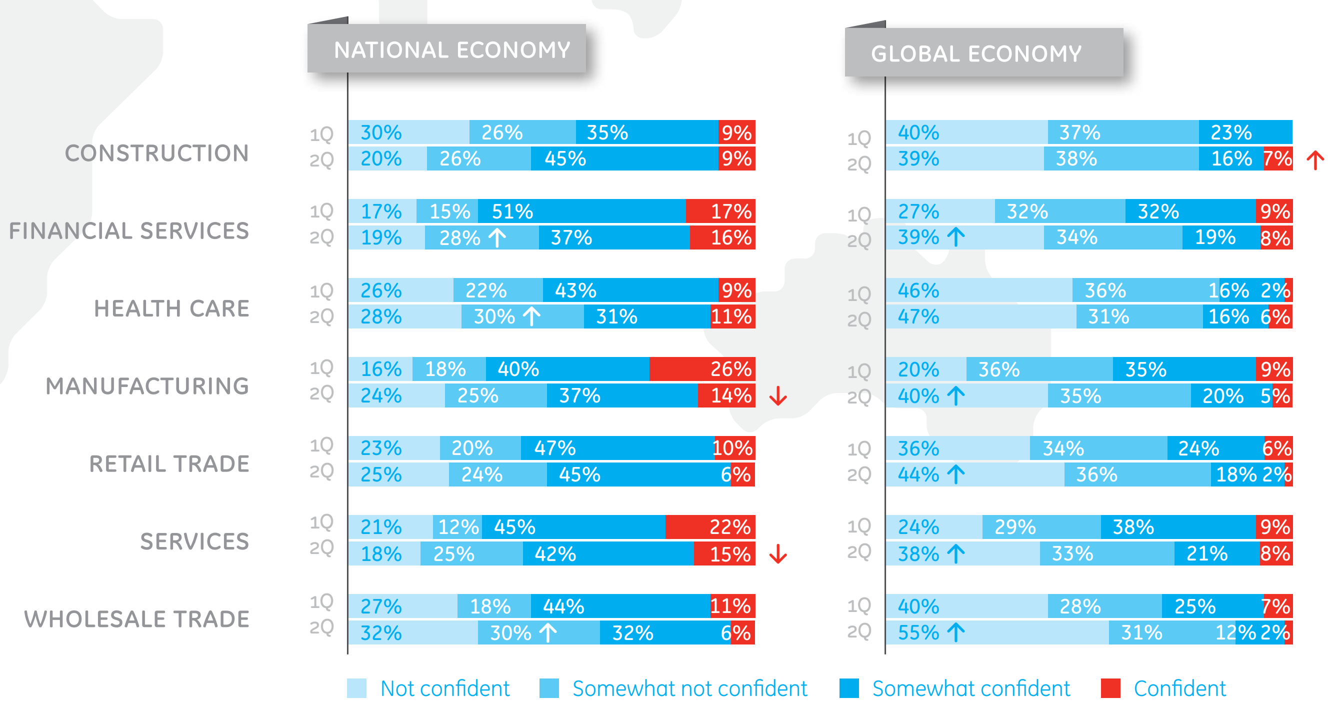
Confidence

Confidence in both the global and national economies is dramatically lower than in the first quarter.



Confidence by industry

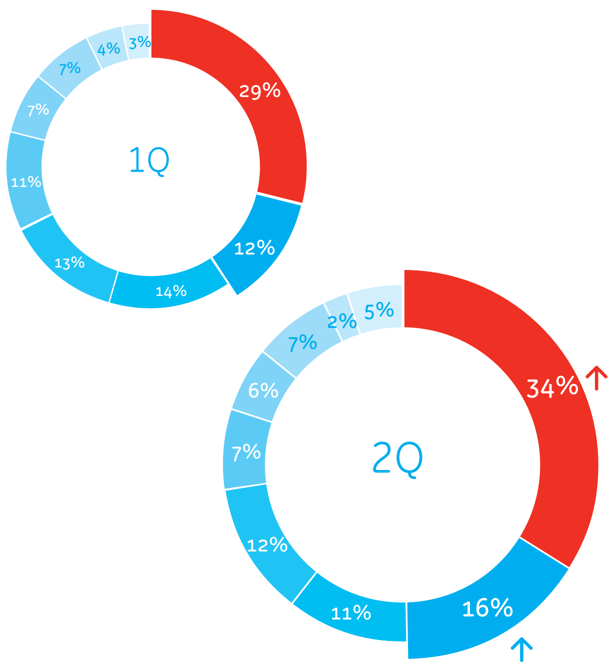
Most notable is the decline of confidence in the U.S. economy by the manufacturing sector, which had been a bright spot in the recovery to date.



Q7. How confident are you in each of the following (industries)?

detailed research findings:
confidence and economic growth outlook

Incremental investment allocation

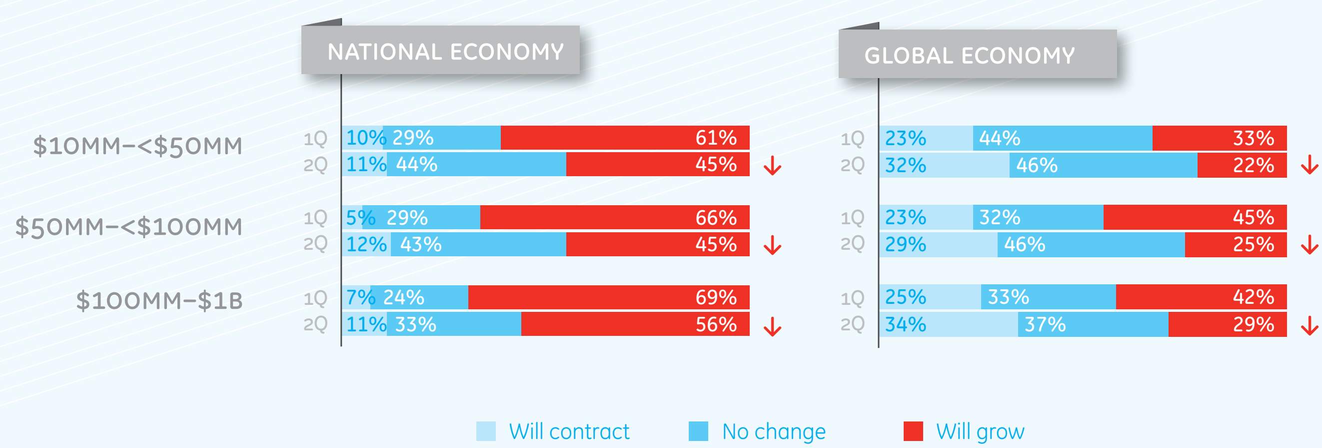


Higher tendency to hold cash

The percentage of businesses that plan to hold cash rather than invest in either IT, HR/talent, capital expenditures, or acquisitions has grown dramatically, from 41% in 1Q to 50% in 2Q. Of those, manufacturers showed the greatest increase in saving. In the first quarter, they were the most likely to spend. Their willingness to invest in capital expenditures dropped as well, signaling a retraction in this sector, which is a large part of the midwestern U.S. economy.

Economic growth outlook by revenue segment

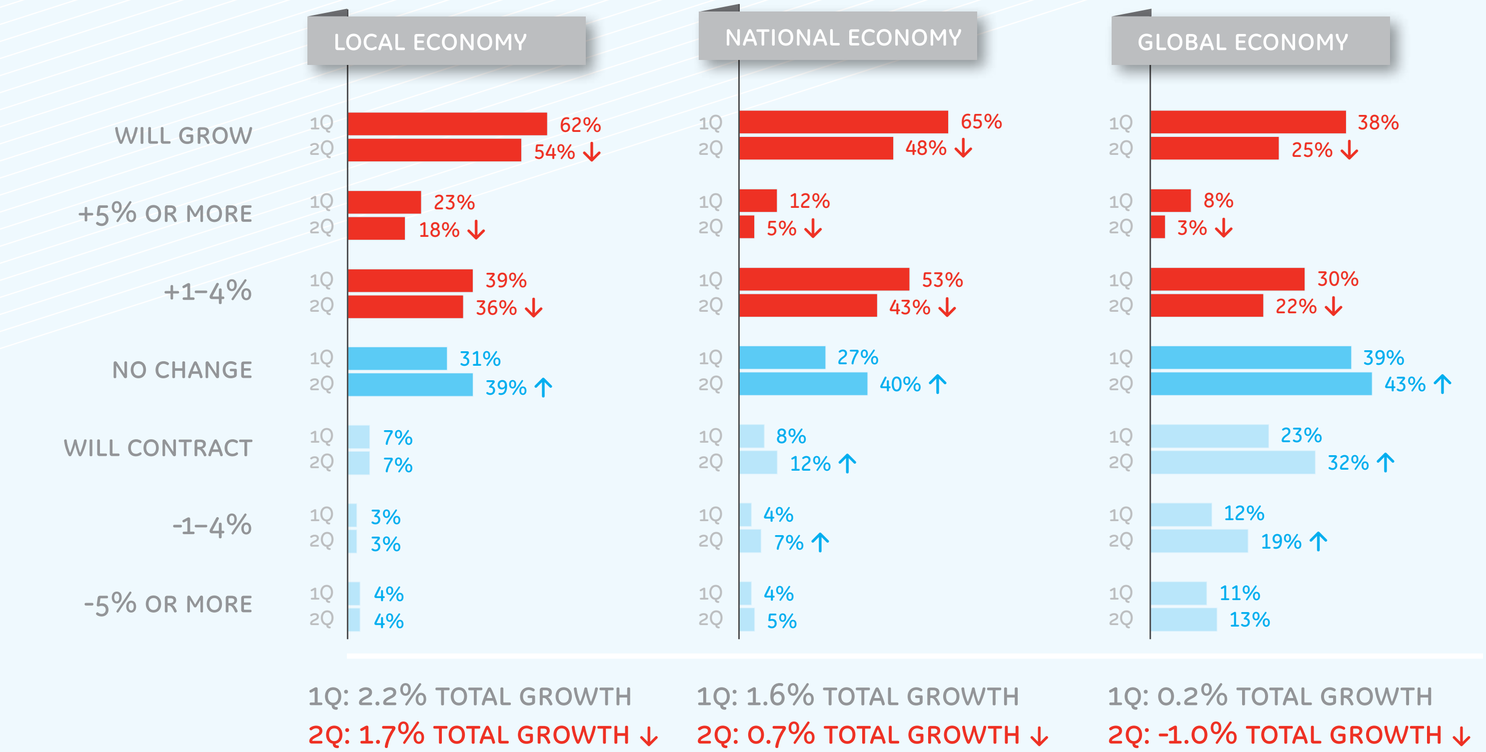
Pessimism is evident across revenue segments.



Q12a. If you had an extra $1 of investment, where would you allocate it?
Q8. How would you assess the future outlook of the global economy?
Q9. How would you assess the future outlook of the overall U.S. economy?

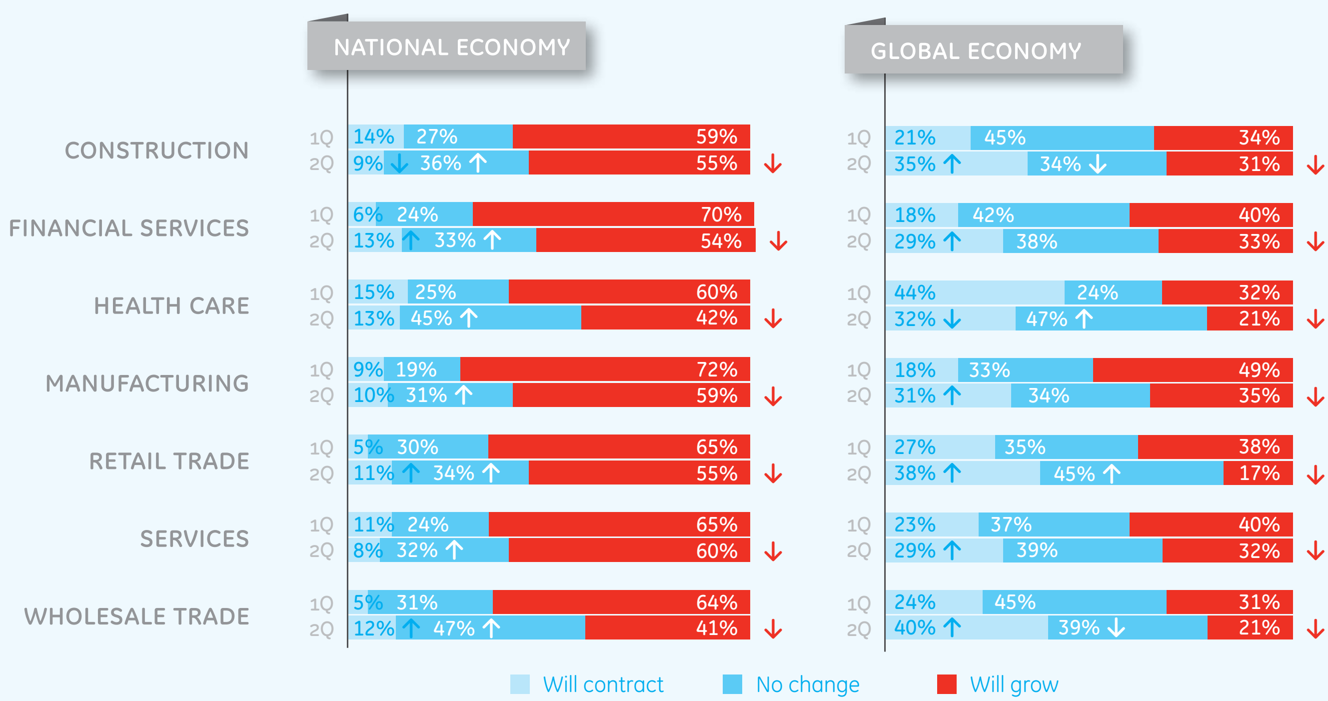
Economic growth outlook

Pessimistic assessments about economic growth abound.



Economic growth outlook by industry

Pessimism is evident across most sectors of the middle market.



Q8. How would you assess the future outlook of the global economy?
Q9. How would you assess the future outlook of the overall U.S. economy?
Q10. How would you assess the future outlook of your local economy?

detailed research findings:
challenges

The biggest challenge for middle market companies remains the cost of health care, with 90% considering it either very or somewhat challenging, about the same as the previous quarter. This concern remained prominent across size, industry, and confidence level, which is not surprising since there was no change in the status of government action since the first quarter of this year at the time of the survey.

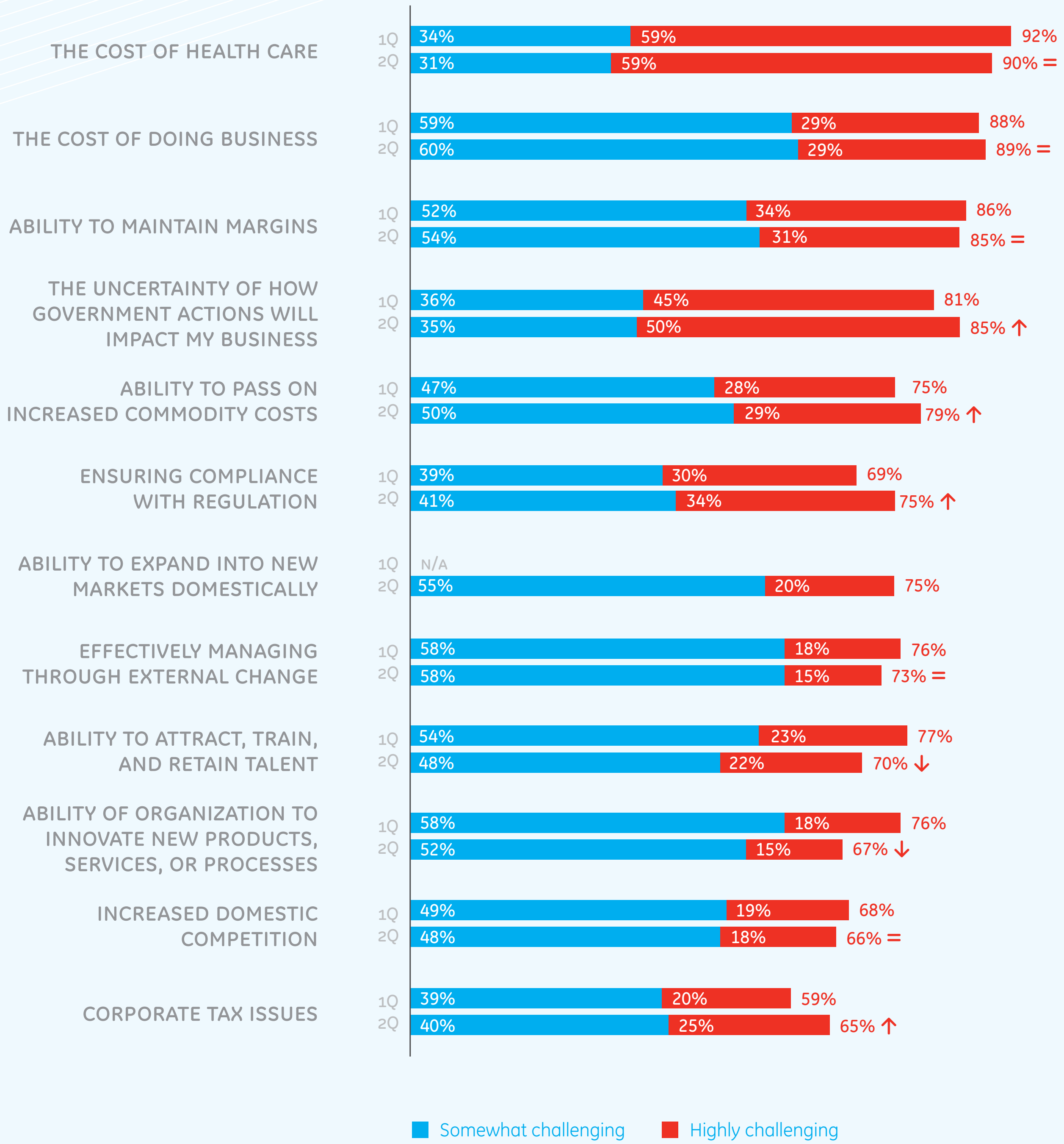
Another challenge cited by middle market companies of all sizes was regulatory in nature, involving factors largely out of their control. Uncertainty about how government actions will impact their business was cited by 85% of companies as either very or somewhat challenging, an increase from 81% in the first quarter. Of those, 50% considered it very challenging—up from 45% a quarter ago—showing that lack of clarity is becoming an even larger problem for the middle market.

Closely following health care are concerns surrounding the cost of doing business, with 89% of executives deeming it very or somewhat challenging. Company leaders are feeling the pressure of these increased costs on their margins, with 79% of survey respondents calling it very or somewhat challenging to pass those costs onto consumers.

The issue of corporate taxes was also cited more this quarter. On the whole, it rose to 65% from 59%, as uncertainty around government actions remains high.

Key challenges

Health care costs and other margin pressures are most challenging to middle market leaders. Regulation and uncertainty of government actions are also key issues.



Q11b. Shown (above) are different challenges confronting businesses. Please indicate how much of a challenge each is for your business.

middle market performance perspective

Despite headwinds and moderating confidence, middle market companies still anticipate both impressive revenue growth and continued hiring over the next 12 months.

As revenue expectations for middle market companies drop to a 4.8% annual growth rate from 5.2% in the first quarter, we expect economic recovery for the U.S. to remain anemic. This is corroborated by employment data. Employment growth for the segment is expected to slow slightly, with expectations of growing employment by 1.8% for the next 12 months relative to 2.0% for the previous 12 months.

If there is a silver lining in these data for the middle market companies, it is their performance relative to other segments. Growth expectations for revenues for large firms are lower, with firms in Standard and Poor's 500 predicting around 4% growth.[5] Similarly, middle market firms are generating employment at twice the rate of large and small firms. While middle market firms grew employment by 2%, larger and smaller firms grew at only 1% in the last 12 months.[6] Though subdued, middle market firms deserve attention because they continue to be the leading segment by many measures, and because they represent a significant component of the U.S. economy. Middle market firms account for nearly one-third of the non-government GDP and private sector jobs.

The ability of middle market companies to continue to grow and to outperform other segments, despite uncertainties related to government action and the global economy, is a testament to structural and operational distinctions of middle market companies that include:

OWNERSHIP

Only 14% of middle market companies in our survey are publicly listed, compared with 67% of large corporations.[7] This allows leadership to be more autonomous and maintain longer-term focus without the pressures of quarterly earnings reporting required of publicly listed corporations.

INSULATION

Middle market companies are less exposed to the global economy, with only 27% of them operating globally versus 60% of large corporations. About 23% of middle market companies source globally versus 9% of large corporations.[8]

DIVERSIFICATION

The middle market is more balanced across industry type and geography than either large or small companies, helping minimize exposure to U.S. economic shocks. Large companies are more reliant on manufacturing and more likely to be located in the Midwest and West. Small companies are highly dependent on the services sector, with almost one-fourth operating in the Southeast.[9]

These advantages have helped the middle market outperform large and small businesses during the recent financial crisis. From 2007 to 2010, the middle market added an average of 20 jobs per business compared with a loss of an average 2,000 jobs per large company.

Middle market companies' relative insulation from the broader economy is particularly important since U.S. corporate profits from abroad dropped **$48.1 billion in the first quarter.**[10] That's a 12% drop from last year's first quarter, showing how declines in the global economy are affecting the profitability of U.S. companies. The middle market is poised to remain an important contributor to economic growth since these firms are less exposed to global markets. But, they remain vulnerable to risks arising out of the uncertainties of government actions.

5 Bloomberg forecast
6 ADP Jobs Report; Large (small) firms are those with >500 (<50) employees
7 Dunn & Bradstreet
8 Dunn & Bradstreet
9 Dunn & Bradstreet
10 U.S. Department of Commerce, Bureau of Economic Analysis release June 28, 2012

appendix

Explaination of revision in 1Q numbers (p. 4):

Revisions to the 1Q mean revenue and employment scores have been adjusted using the Winsorization Method to adjust outlier values in the distributions. The extreme values have been *replaced by* trimmed minimum and maximum values (representing the middle 95th percentile of each overall distribution within the survey instrument). In addition, the means have also been rebased so that they are reflective of the Middle Market as a whole and not solely the proportion of the market experiencing growth or contraction.

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused 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. Stay connected to The Center by contacting middlemarketcenter@fisher.osu.edu.

Fisher College of Business at The Ohio State University is dedicated to training the next generation of business professionals through world-class faculty and a highly innovative curriculum elevated by close partnerships with industry leaders. The market has spoken: a recent survey of corporate recruiters conducted by *The Wall Street Journal* ranked Fisher second in the nation among business schools with the most sought-after graduates. Stay connected to Fisher via Twitter.

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3Q 2012

MIDDLE MARKET INDICATOR

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

GE Capital

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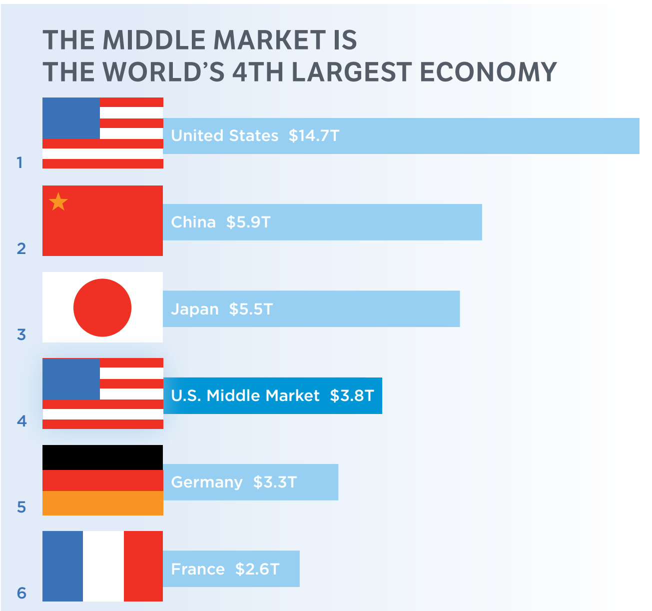
Middle Market Indicator
from The National Center for the Middle Market



Source: CIA World Fact Book, BEA, U.S. Census, National Center for the Middle Market survey

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 approximately 197,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 43 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: "Leading from the Middle," 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 197,000 U.S. businesses with revenues between $10MM and $1B, the upper and lower 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.

Executive Summary

Middle market companies plan to expand payrolls over the next 12 months, even as revenue expectations weaken and broad economic concerns persist. In a September survey, middle market executives said they added jobs during the previous 12-months at a 2.2% rate – translating into 950,000 new jobs and outpacing the national average of about 1.7%[1] – and expect to continue to create jobs going forward albeit at a decelerating rate, underscoring the group's resiliency. In the next 12-months middle market companies expect to expand payrolls at a rate of 1.3%, down from 1.8% in the previous quarter but still committed to growth in a very uncertain economic environment.

As a group, middle market company executives continue to express widespread concern for the global and domestic economies, citing uncertainties about regulations, taxes and their ability to maintain margins. Healthcare costs are on the top of their concerns. The dim outlook was especially prevalent in larger middle-market companies – those with revenues from $100 million - $1 billion in revenue – which account for more than half of all middle market company employment. The weak confidence is taking a toll; middle market companies expect to slow down their hiring in the coming year.

The middle market posted 5.5% revenue growth in the third quarter compared with the year earlier period. This outperforms the corresponding rate of 1.6% for the S&P 500. However, the 5.5% growth rate extends a deceleration from the first two quarters of the year. Going forward, the middle market anticipates annual revenue growth to slow by a third to 3.7%, still more than double the anticipated 1.5% growth of the S&P[2].

Slowing revenue and employment growth bodes poorly for the overall U.S. economy, as the middle market contributes almost one third of all private sector employment and GDP.

"There is real concern as to the condition of the economy today due to the uncertainties. The potential for substantial tax changes after Jan 1st is effecting everyone's attitude toward positive business growth. As a result hiring and capital expenditures are on hold by many in the mid market."

— CEO, Manufacturing, $40 million annual revenues, 250 employees, privately owned

[1] U.S. Bureau of Labor Statistics, Employment Situation, September, 2012

[2] S&P/Case-Schiller Home Price Index, September 25, 2012; National Association of Realtors, September

Key Findings:

GLOBAL AND U.S. CONFIDENCE REMAINS MUTED:

The middle market overall continues to show a lack of confidence in the global and U.S. economies – highly concerned about health care costs, the ability to maintain margins, the cost of doing business and uncertainty regarding government actions. More than 70% of the middle market said they were not confident or somewhat not confident about global economic prospects. Concerns about the U.S. economy worsened slightly in the quarter; 52% of respondents said they were not confident or somewhat not confident about the domestic economic outlook, compared with 50% in the previous quarter.

FUTURE INVESTMENT OUTLOOK REMAINS CAUTIOUS:

Middle market companies remain hesitant to invest additional cash, extending their habit of postponing investment opportunities. The number of companies who said they would hold cash dropped in the third quarter from 49% to 44%, providing a glimmer of hope that the middle market may start investing in capital expenditures, expansion or other areas that could fuel growth. However, that number lags first-quarter results when 41% said they would hold excess cash.

NEXT 12-MONTH REVENUE GROWTH EXPECTED TO SOFTEN:

Middle market companies expect gross revenue to gain 3.7% in the next 12 months, a decline from second quarter expectations of 4.8% and 5.2% for 1Q expected growth. All revenue segments expect some decline and there was a sharp drop off in the number of firms expecting to grow more than 10%. Only 17% of all respondents in the survey said they expect double-digit revenue growth compared with 23% in the prior quarter, and 28% in Q1.

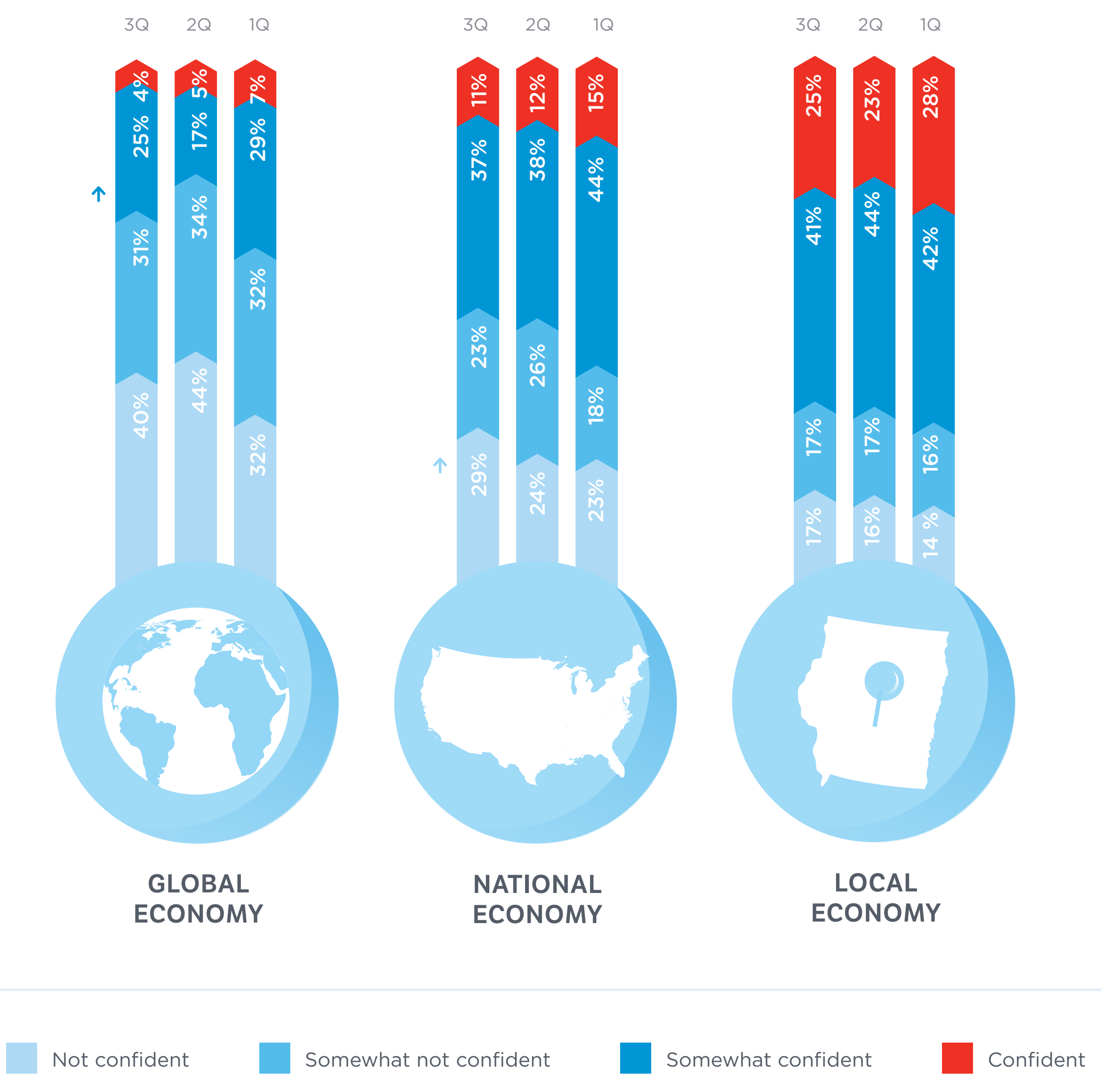
HIRING EXPECTED TO CONTINUE, BUT AT LOWER LEVELS:

Despite macroeconomic headwinds and related business challenges threatening growth, middle market companies intend to continue to increase payrolls across all revenue segments and most industry sectors in the next-12 months. Only retail trade is forecasting a small contraction (-0.2%).

CHALLENGES PERSIST:

A large majority of leaders at middle market companies cited uncertainty about healthcare costs as their major challenge, a persisting concern as healthcare and other regulations remain in flux. The same concerns were highlighted in Q1 and Q2 surveys. In addition, middle market company leaders expressed a rising concern with their ability to maintain margins and the cost of doing business, indicating that they are having trouble and foresee difficulties in rising prices and passing on increased costs to customers.

Economic Confidence Indicators



Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
3Q 5.5%	3Q 3.7%
2Q 6.1% 1Q 6.9%	2Q 4.8% 1Q 5.2%

Employment Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
3Q 2.2%	3Q 1.3%
2Q 2.0% 1Q 1.5%	2Q 1.8% 1Q N/A

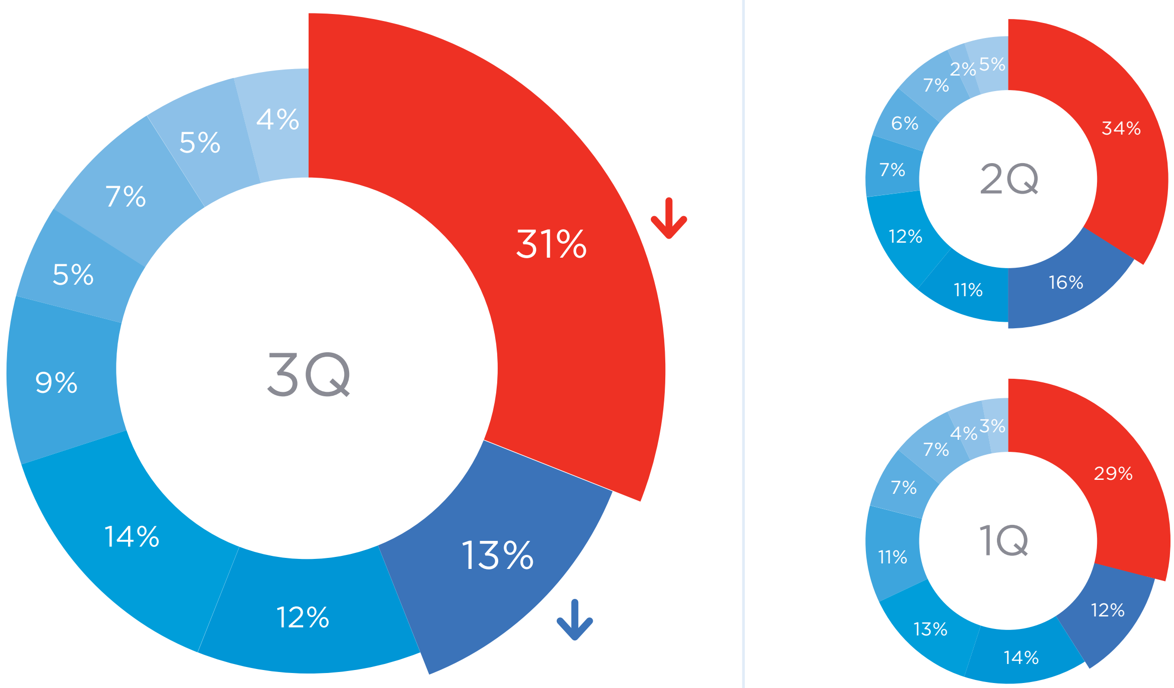
S&P 500

PAST 12 MO.	NEXT 12 MO.
3Q 1.6%	3Q 1.5%
2Q 4.8% 1Q 9.4%	2Q 4.0% 1Q 4.7%

S&P 500 (PAST 12 MO.)

LARGE CORP.	SMALL BUS.
3Q 3.4%	3Q 1.2%
2Q 1.0% 1Q 1.7%	2Q 1.0% 1Q 1.9%

Incremental Investment Allocation



- Hold Cash
- Hold It for Investing
- Information Technology
- Capital Expenditures — Plant or Equipment
- Acquisitions
- Capital Expenditures — Facilities
- HR — More Personnel
- HR — Training & Development
- Other

Recent & Expected Growth

Past 12 Mo. Revenue

BY REVENUE SEGMENT	3Q		2Q	1Q
10MM–<$50MM	5.4%	=	5.8%	6.0%
$50MM–<$100MM	6.5%	↑	5.3%	6.5%
$100MM–$1B	5.3%	↓	7.0%	8.3%

Next 12 Mo. Revenue

BY REVENUE SEGMENT	3Q		2Q	1Q
10MM–<$50MM	3.8%	↓	4.4%	5.4%
$50MM–<$100MM	3.5%	↓	4.4%	4.8%
$100MM–$1B	3.7%	↓	5.5%	5.0%

Revenue growth, while still outpacing the overall economy, continues to decelerate, dropping to 5.5% from 6.1% and 6.9% in the first three quarters of 2012. Slightly more than half (51%) of middle market companies indicated that their business performance improved versus a year ago; that proportion is down markedly from 58% in the second quarter and 62% in the first quarter.

Larger businesses, those with revenues between $100 million – $1 billion, showed the largest decline, with revenue growth falling to 5.3%, down from 8.3% in 1Q. This is the group that accounts for half of all middle-market employment.

There also was a sharp decline in the revenue growth for the fastest-growing middle market companies—those that forecast revenue gains of 10% or higher. The number of companies reporting double-digit increases in revenue for the past 12 months dropped to 26% in the third quarter from 32% in the second quarter and 38% in the first quarter.

Looking at the data by industry shows largely stable results in the services, wholesale trade and construction sectors. There were sharper declines in manufacturing and healthcare. Only financial services saw a notable gain. The decline in manufacturing also mirrors a recent 3-month contraction as reported by The Institute for Supply Management PMI that tracks and reports monthly on 18 manufacturing industries. The August figure was 49.6%. Any reading below 50 indicates contraction in the sector.

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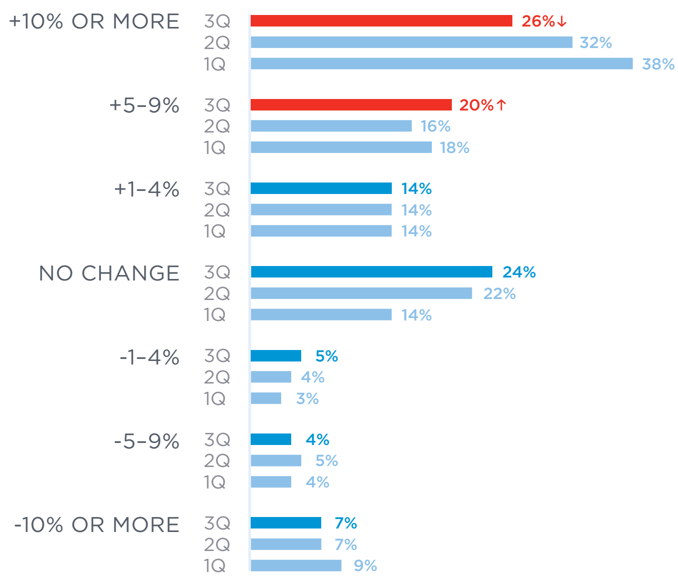
Revenue Performance

Revenue growth continues to slow (vs. the same time period a year ago) and is significantly lower in the 3rd Quarter than in either preceding time period.

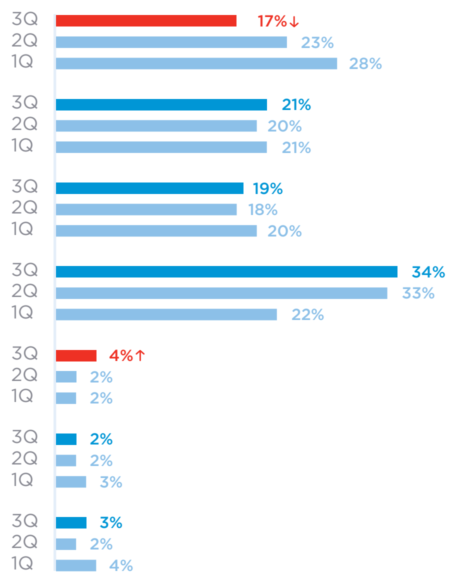
PAST 12 MONTHS



TOTAL GROWTH

3Q 5.5% 2Q 6.1% 1Q 6.9%

NEXT 12 MONTHS



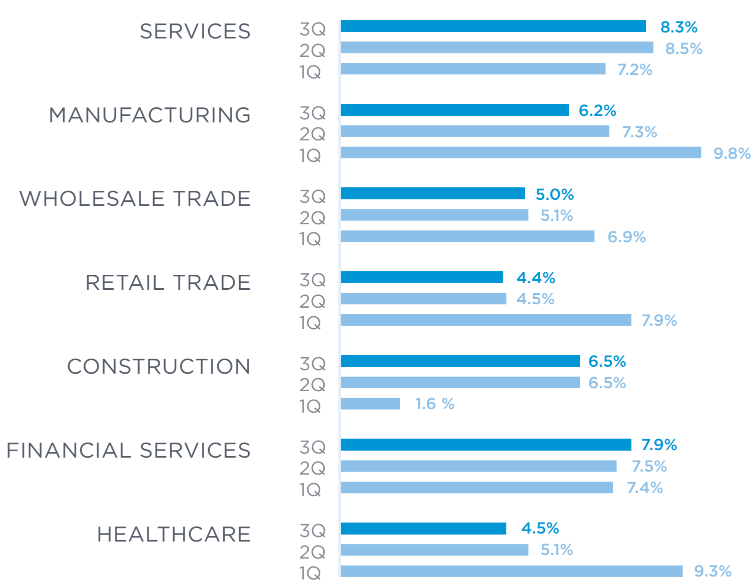
TOTAL GROWTH

3Q 3.7%↓ 2Q 4.8% 1Q 5.2%

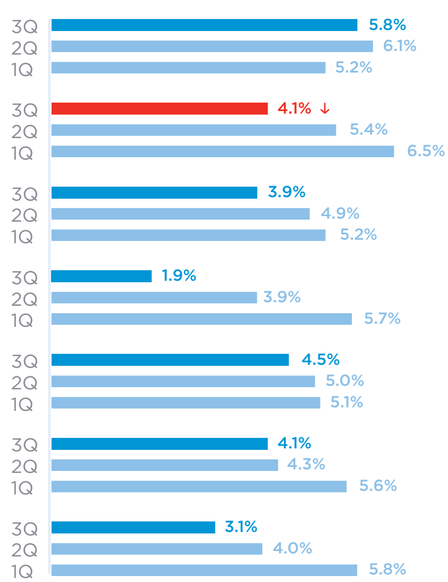
Revenue Performance by Industry

Overall revenue growth is stable in services and construction, but weakness (to one degree or another) is seen in all remaining sectors.

PAST 12 MONTHS



NEXT 12 MONTHS



Recent & Expected Growth

Past 12 Mo. Employment

BY REVENUE SEGMENT	3Q		2Q	1Q
10MM–<$50MM	2.3%	↑	1.7%	1.2%
$50MM–<$100MM	2.2%	↓	2.5%	0.7%
$100MM–$1B	2.0%	↓	2.2%	2.3%

Next 12 Mo. Employment

BY REVENUE SEGMENT	3Q		2Q	1Q
10MM–<$50MM	1.6%	↓	1.8%	N/A
$50MM–<$100MM	1.6%	↓	1.5%	N/A
$100MM–$1B	0.7%	↓	1.8%	N/A

Continued from previous page...

In the next 12 months, revenue growth is expected to continue to soften, with survey respondents forecasting gains of 3.7% down from 4.8% in the second quarter and 5.2% in the first. That marks a substantial slowdown, but still is more than double the forecasted 1.5% gain for the S&P 500.

The deceleration in revenue growth likely will come from middle market companies of all sizes and cuts across all industry sectors, particularly manufacturers, retailers and healthcare providers. The number of middle market companies expecting revenues to increase 10% or more in the next 12 months dropped to 17% of the middle market, compared with 28% in the first quarter and 23% in the second quarter.

Despite the moderation in revenue growth, the middle market continues to add jobs. Employment grew at a 2.2% clip in the third quarter, ramping up from 2.0% in the second and 1.5% in the first period of 2012. That equates to about 950,000 new jobs.

Smaller middle market companies, those with revenue from $10 million to $50 million added jobs at a 2.3% rate, almost double the 1.2% rate posted in the first quarter. Construction led the way in terms of employment growth.

Going forward, one in three middle market businesses expect to add jobs over the next 12 months, roughly the same number as the previous quarter, reflecting the ongoing role of the middle market in jobs creation despite slowing revenue and challenges in the economy.

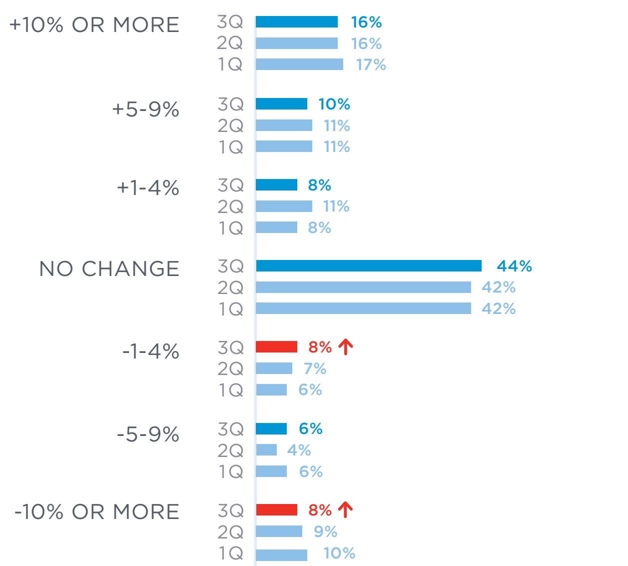
Fewer of the largest middle-market companies expect to add jobs, with only 33% of survey respondents from this group saying they expect to add jobs, down from 39% in the second quarter. Expected employment growth will vary by industry. Employment growth expectations are strongest among services, construction and healthcare firms, as a larger number of companies in each of these industries said they expect to ramp up hiring in the next 12 months.

S&P/Case-Schiller Home Price Index, September 25, 2012; National Association of Realtors, September 2012 report

Employment Performance

Despite headwinds, the middle market continues to add jobs at the same rate at the same rate as the previous two quarters.

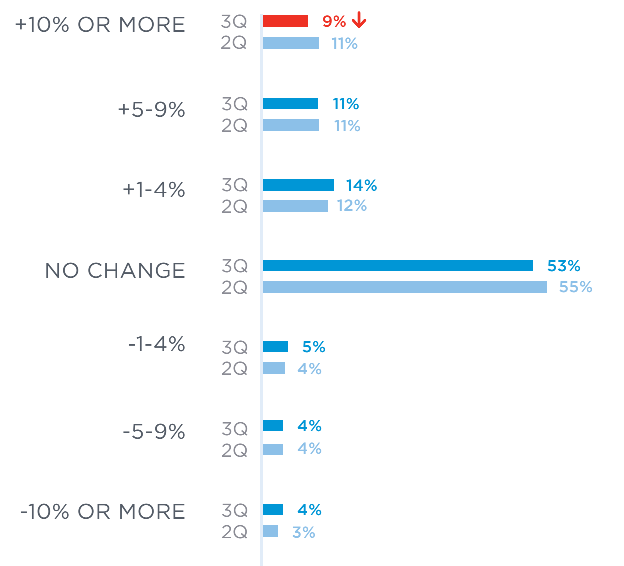
PAST 12 MONTHS



TOTAL GROWTH

3Q 2.2% ↑ 2Q 2.0% 1Q 1.5%

NEXT 12 MONTHS



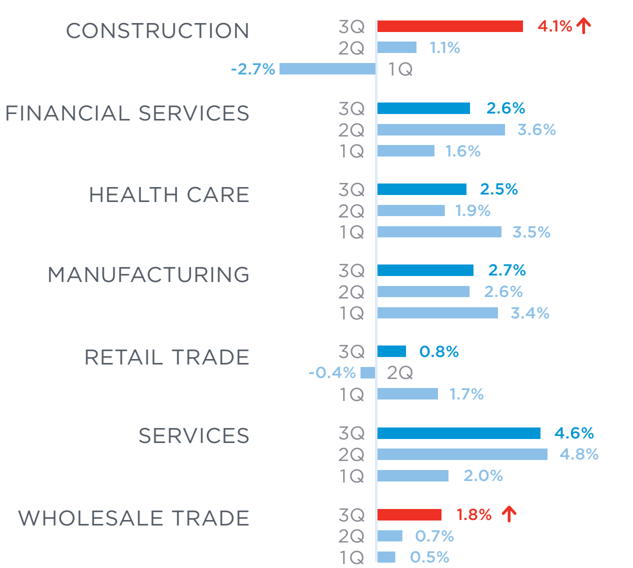
TOTAL GROWTH

3Q 1.3% ↓ 2Q 1.8% 1Q N/A

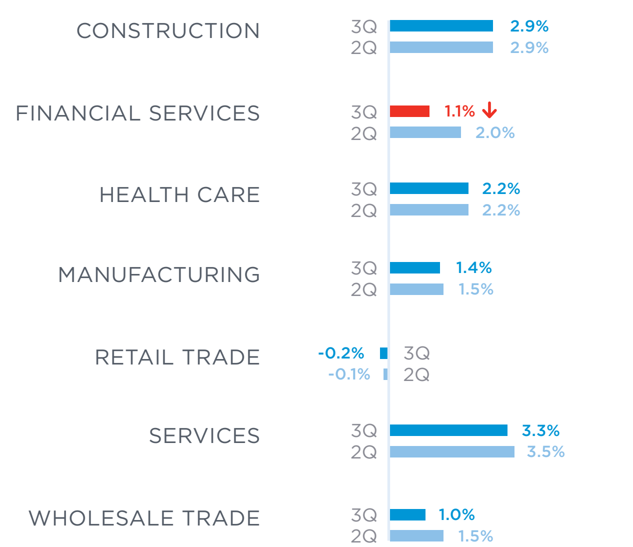
Employment Performance by Industry

Relative to the 1st Quarter, employment growth is significantly higher in both services and construction.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

On whole, middle market companies remain largely pessimistic about the global economic outlook with 71% of respondents saying they are not confident or somewhat not confident about global prospects. Confidence in the U.S. economy is better, but remains largely bleak with 52% of respondents not confident or somewhat confident in the domestic economy. Sentiments are better for local economies, as 66% of respondents expressed at least some confidence in local prospects, down slightly from 67% in the prior three months.

No specific sector displays overwhelming confidence either in the U.S. or global economy. However, across the board each sector displayed a nominal increase in mild confidence about the global economy.

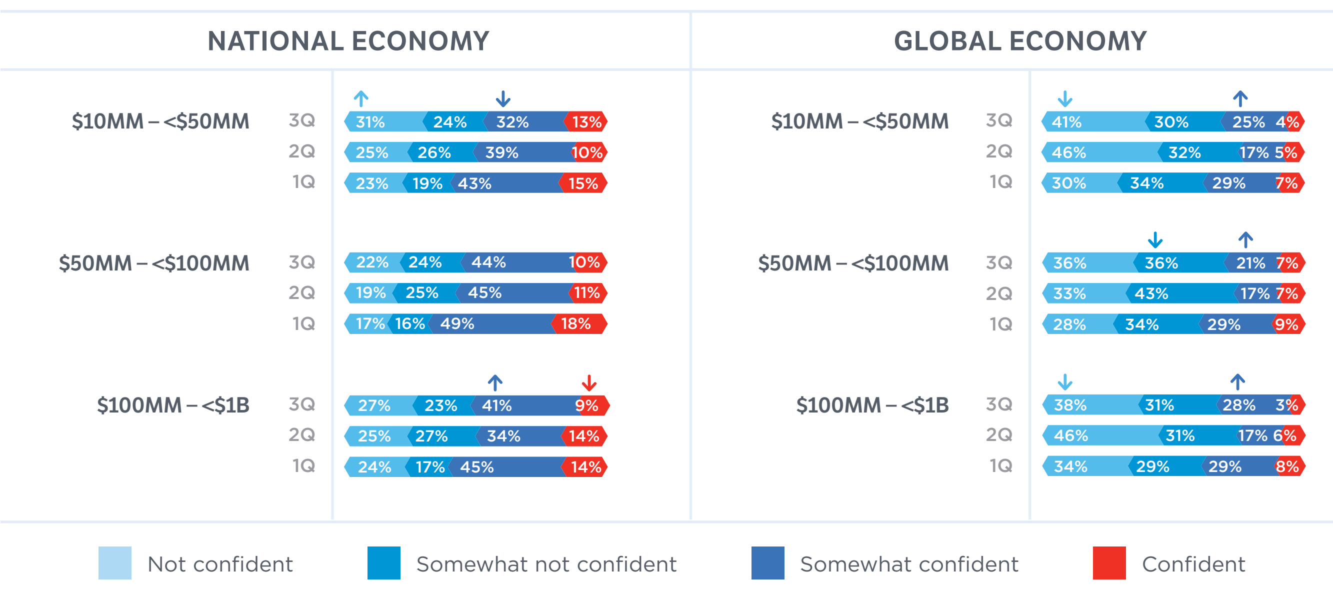
As for the U.S. economy, all sectors also showed increases in mild confidence – with the two notable exceptions of construction and financial services where there were large increases in the lack of confidence in both sectors.

Middle market companies increasingly expect moderating future growth across the board from local to global levels, a continuing trend from last quarter. Executives anticipate declining growth of -0.3% on the global level and flat growth of 0.7% and 1.7% growth on the national and local levels, respectively.

The middle market remains cautious on spending excess cash, though there is an indication that the group may be more willing to invest. The percentage of respondents willing to invest excess cash rose in the third quarter to 56% from 51% but still lags the 59% results of the first quarter survey. Only 19% of respondents said they would spend excess cash on capital expenditures and 12% on information technology upgrades. The number of manufacturers and construction companies which said they would hold cash dropped sharply in the third quarter, indicating potential strength for these sectors.

Confidence by Revenue Segment

Confidence in the US remains relatively muted across the board.

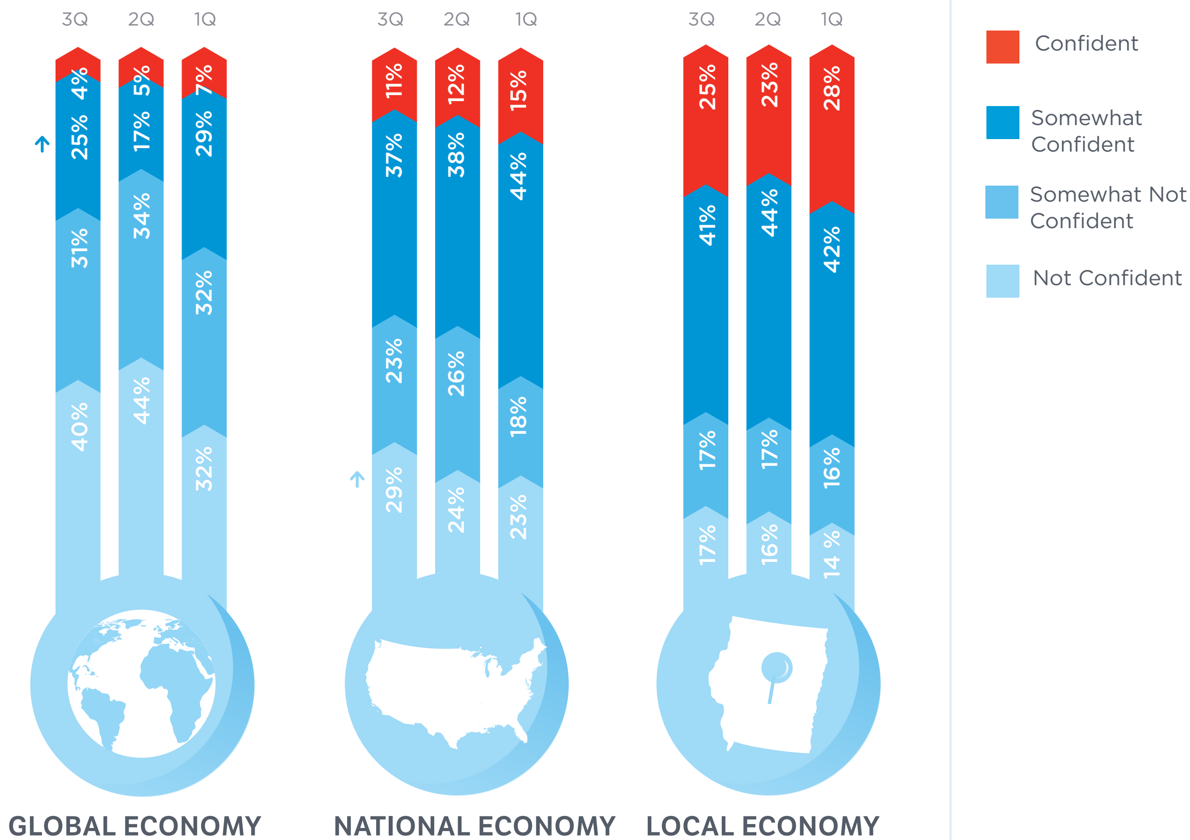


Base: Total Respondents: 3Q=1000; 2Q=1000; 1Q=1002.

Note: Arrows indicate significant difference compared to immediate previous time period

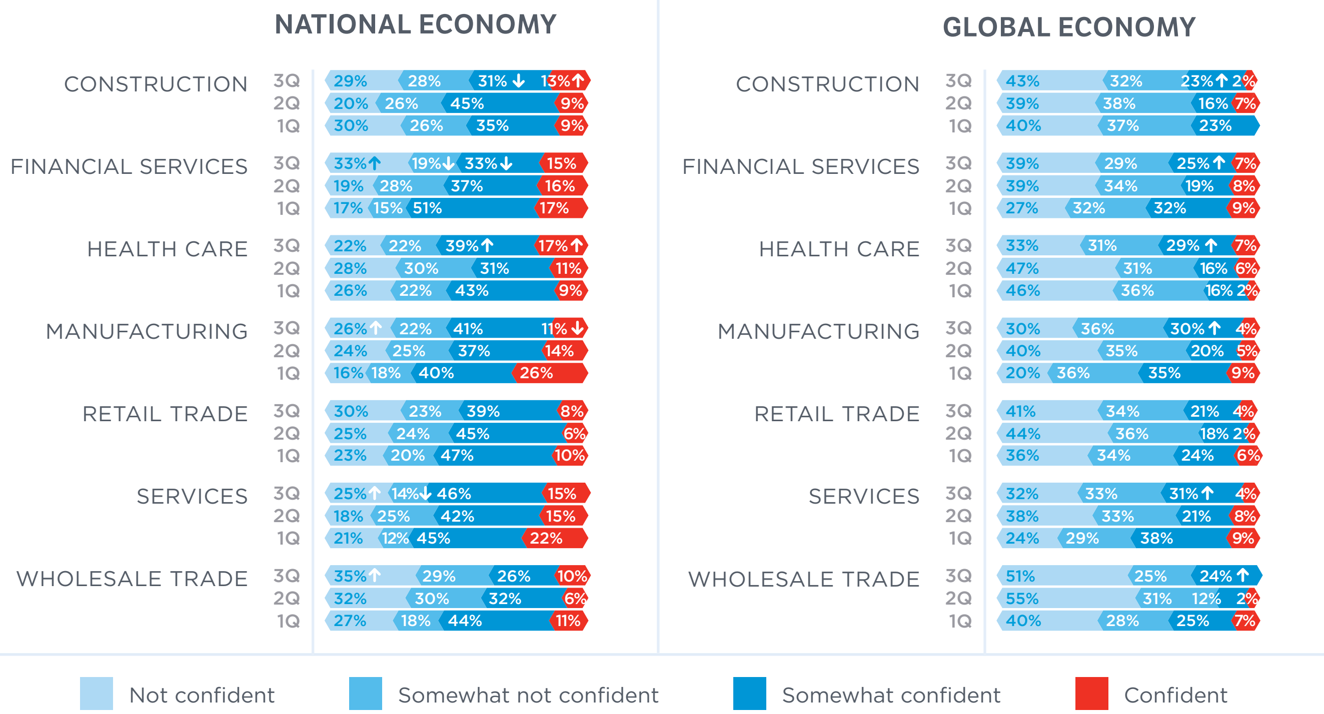
Q7. How confident are you in each of the following?

Economic Confidence Indicators



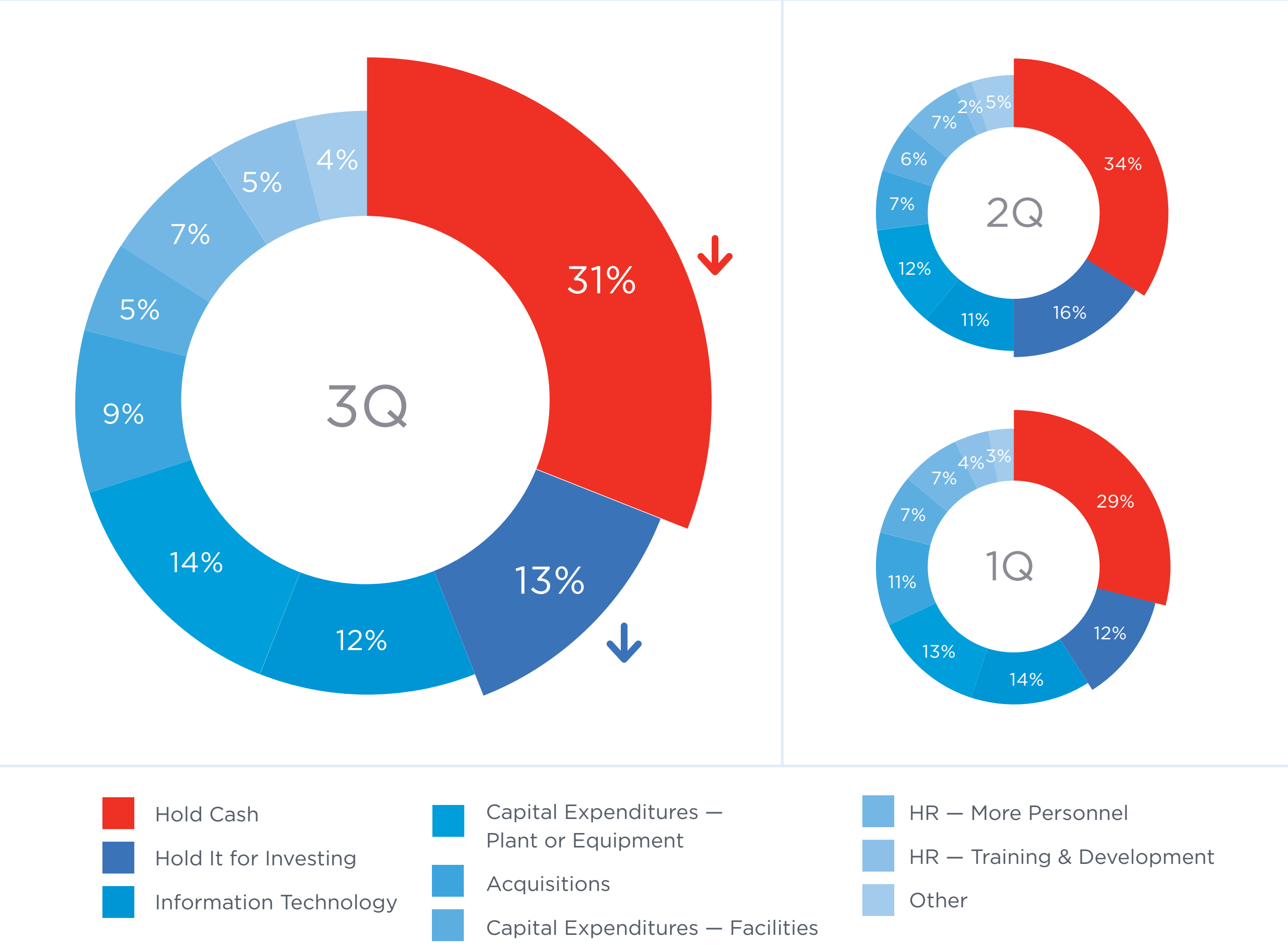
Confidence by Industry

No one sector displays an overwhelming confidence in either the Global or US economies.



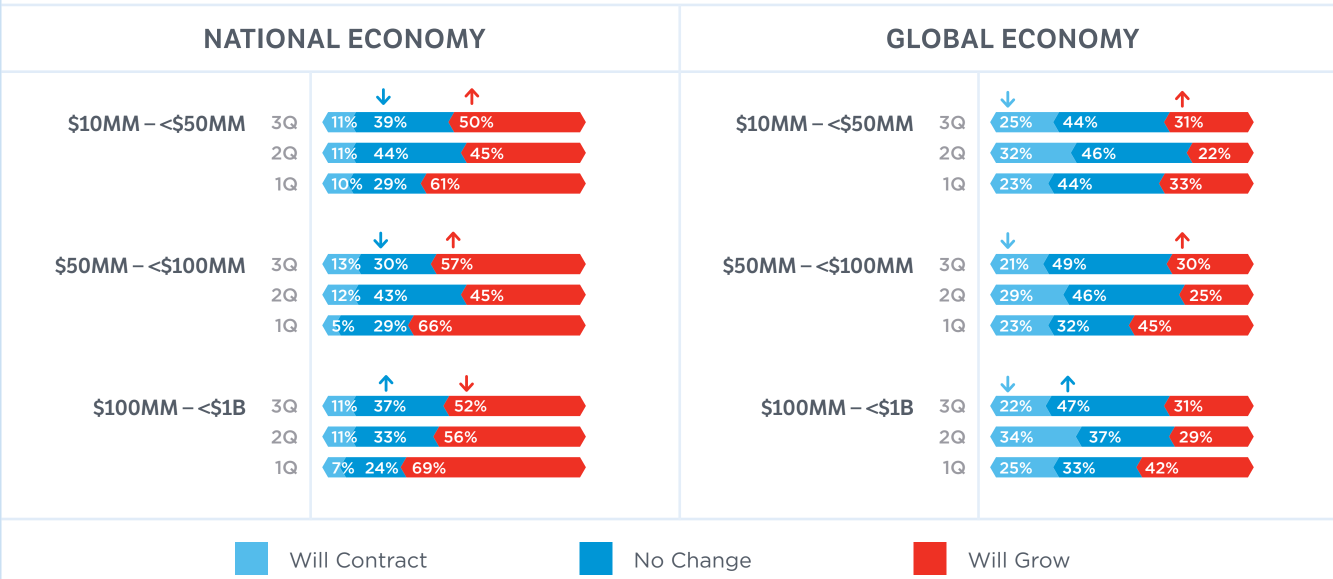
Base: Total Respondents: 3Q=1000; 2Q=1000; 1Q=1002. Q7. How confident are you in each of the following?

Incremental Investment Allocation



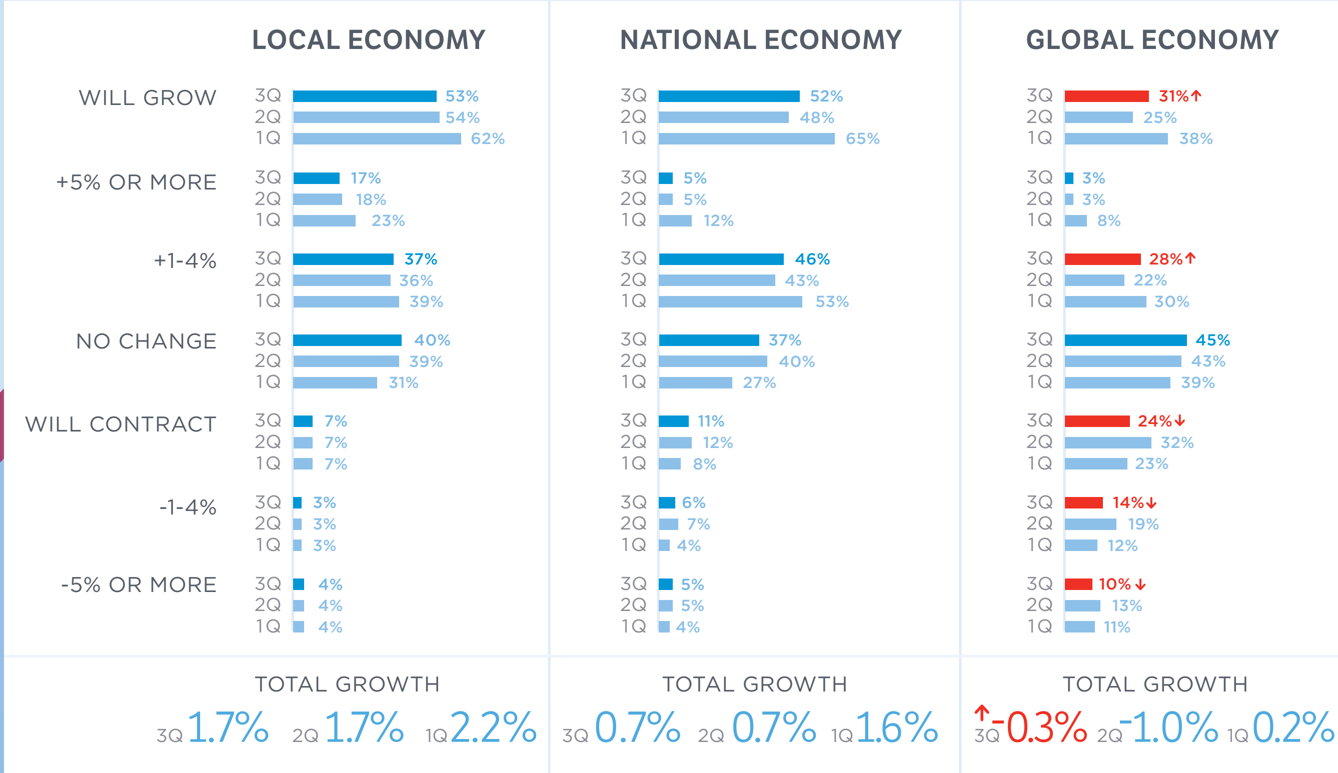
Economic Growth Outlook by Revenue Segment

Though improved over 2nd Quarter, pessimism is evident across revenue segments.



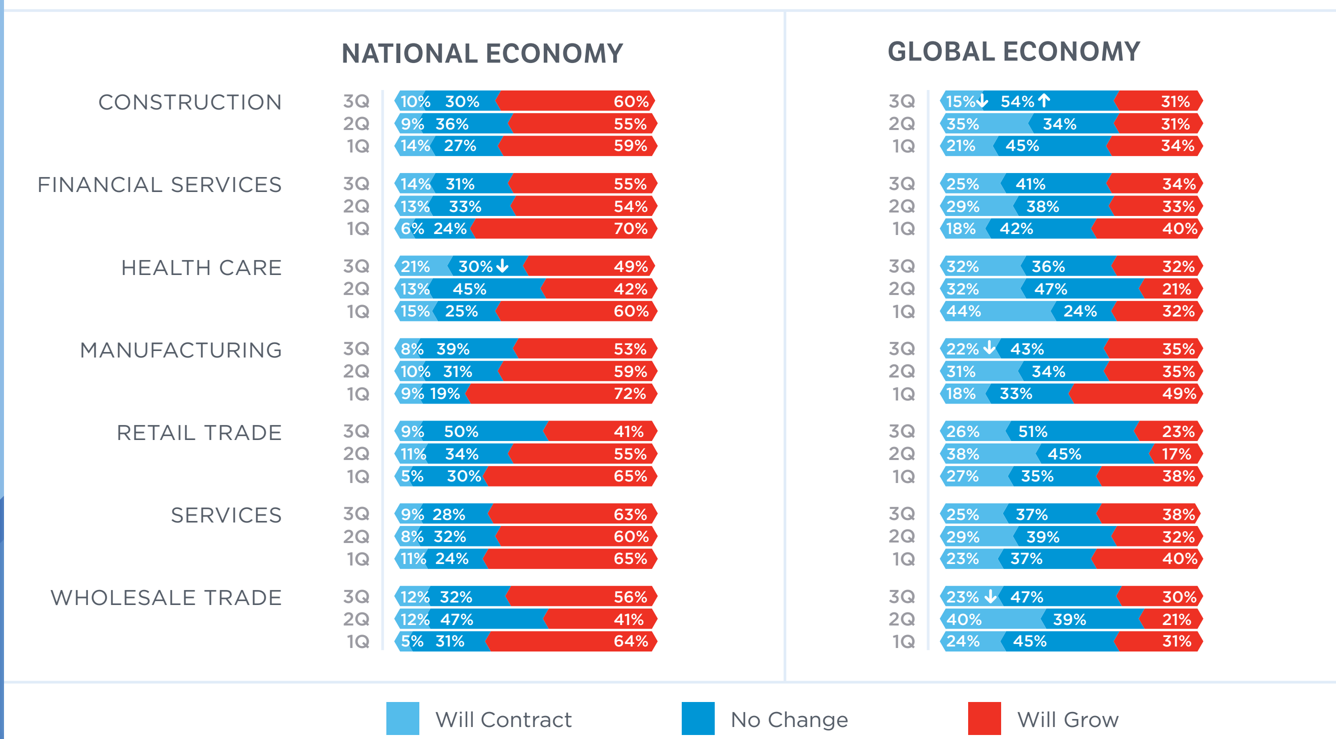
Economic Growth Outlook

Pessimistic assessments about positive growth in the US economy abound. However, firm level growth projections far outstrip anticipated GDP growth.



Economic Growth Outlook by Industry

And most sectors of the middle market.



Challenges

"We are assessing alternative employee healthcare options. This is not our preference. We want to offer superior health care benefits to attract better employees but the competitive marketplace may not allow us to do so."

— CEO, Communications,
$20 million annual revenues, 75 employees, privately held

Many of the stiffest challenges cited by middle market companies of all sizes were regulatory, factors that remain largely out of their control. Uncertainty about how government actions will impact their business was cited by 84% of companies as either highly or somewhat challenging. The biggest challenge for middle market companies remains the cost of healthcare, with 91% considering it either highly or somewhat challenging, a slight increase from the previous quarter. This concern remained prominent across company size and industry.

Closely following healthcare are concerns surrounding the cost of doing business with 89% of executives deeming their ability to maintain margins as highly or very challenging. Larger middle-market companies expressed the most significant increase in concerns about margin pressure.

There also is mounting concern on corporate taxes, with 67% of respondents citing this challenge as a highly or very challenging, up from 59%, at the beginning of the year.

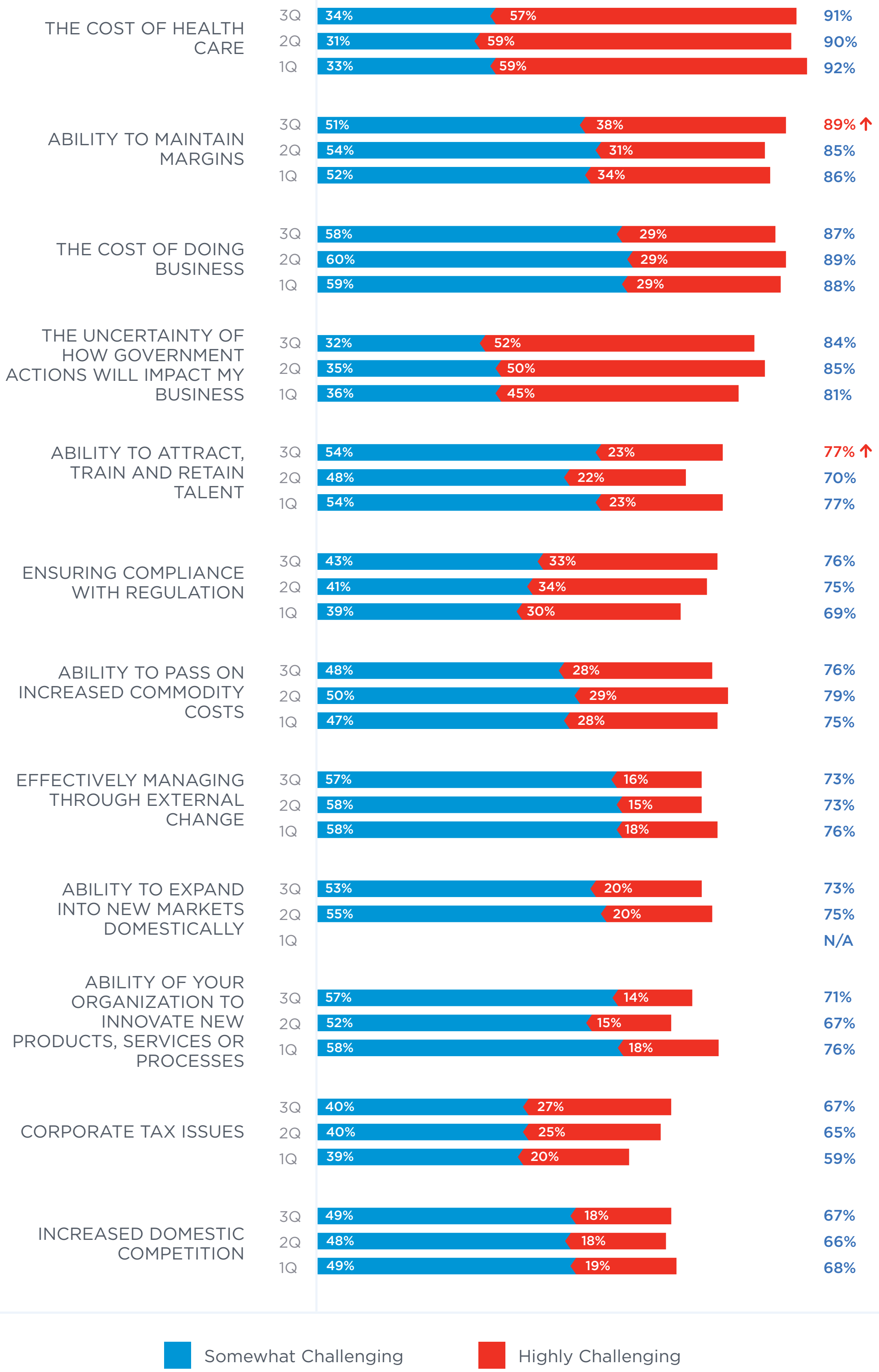
Base: Total Respondents: 3Q=1000; 2Q=1000; 1Q=1002.

Note: Arrows indicate significant difference compared to immediate previous time period.

Q11b. Shown below are different confronting businesses. Please indicate how much of a challenge each is for your business.

Key Challenges

Healthcare costs and other margin pressures are most challenging to middle market leaders. Regulation and uncertainty of government actions are also key issues.



Perspective

Third quarter data for the middle market show its continuing resilience as an engine of growth in employment and revenue. This is remarkable since confidence in the U. S. and global economies is weak, and middle market executives also report several daunting challenges. But, this weak confidence and the serious challenges are taking a toll; forward-looking employment and revenue growth are slowing substantially over the next 12 months. This does not bode well for the overall economy since the middle market contributes nearly one-third of the private sector GDP and employment.

MIDDLE MARKET CONTINUES TO CREATE JOBS AND GROW REVENUE

According to BEA data, U.S. GDP growth has been tepid. The economy grew at 2.0% in the first quarter, and at a revised estimate of 1.3% in the second quarter. The forecast is equally subdued. UCLA Anderson predicts a GDP growth rate of 1.3% for the third quarter and 1.5% in the fourth. In this environment of anemic growth, the middle market continues to show robust growth. In the crucial area of job creation, based on our survey, in the third quarter middle market firms have shown resilience with job growth of 2.2% over the last 12 months, which translates into nearly 950,000 additional jobs. This significantly outpaces job creation by the economy as a whole (1.8%, based on BLS data).

For Q3, middle market executives reported a mean growth rate of 5.5% in revenues for the previous 12 months, which may compare well with the performance of large firms given the recent reports of downturn in S&P 500 revenues. This would then be a part of a continuing pattern from the first two quarters of 2012 in which middle markets have exhibited an ability to outstrip large firms in revenue growth.

All this, even as confidence in the global, national or local economy is abysmal.

This ability to outperform in difficult times is a testament to the structural and operational advantages of middle market firms. As mostly privately-held organizations, they are more autonomous and can take a longer-term focus, instead of fixating on the next quarterly earnings. With their limited exposure abroad, they are also less exposed to global pressures, a fortunate circumstance at this moment. Another factor contributing to the resilience of this segment is its diversified presence across many industries and regions of the country.

BUT A MODERATING OUTLOOK FOR THE MIDDLE MARKET

There are reasons to worry about the ability of middle market firms to outperform in the future. In all three surveys —first, second, and third quarter-- middle market executives have been noting some serious headwinds. They are concerned about health care costs, ability to maintain margins, costs of doing business, uncertainty of government action, etc. Much of this is beyond their control, and unlikely to go away soon. These problems likely affect smaller and larger firms too, and may well be holding back the economy as a whole. There are also global influences, such as the European crisis and the slowdown in China. The sum weight of these ongoing problems means that the outlook for middle market firms is not as rosy any more.

Middle market executives are now predicting a revenue growth of just 3.7% for the upcoming year. The corresponding rate of growth for the S&P 500 is a mere 1.5%. They forecast an annual job growth rate of only 1.3%. These numbers should be a wake-up call for policy-makers. After all, many of the headwinds faced by this engine of the U.S. economy arise out of government policies.

A GLIMMER OF A MORE HOPEFUL CHANGE

When asked in the first and second quarter surveys where they would put an extra dollar of cash, 41% and 49%, respectively, of the middle market executives chose to hold it in cash or put it in marketable securities. The environment was apparently too uncertain to put it in investments, which may explain the lowered forecasts for jobs and revenues. Now, in the Q3 survey, that figure has dropped to 44%, with more going into various investments. One quarterly change surely does not constitute a trend. Nevertheless, it is difficult not to notice such a hopeful change.

NATIONAL CENTER FOR
THE MIDDLE MARKET

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused 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. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.

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FISHER
COLLEGE OF BUSINESS

Fisher College of Business at The Ohio State University is dedicated to training the next generation of business professionals through world-class faculty and a highly innovative curriculum elevated by close partnerships with industry leaders. The market has spoken: a recent survey of corporate recruiters conducted by The Wall Street Journal ranked Fisher second in the nation among business schools with the most sought-after graduates. Stay connected to Fisher via Twitter.

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4Q 2012

MIDDLE MARKET INDICATOR

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

GE Capital

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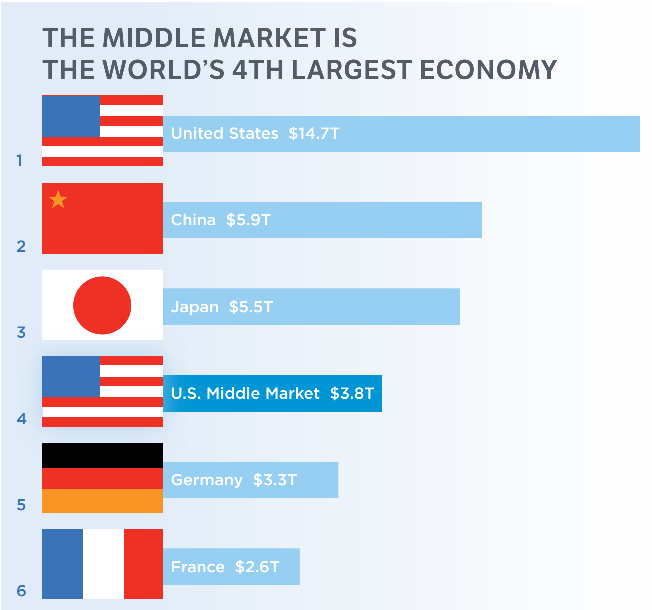
Middle Market Indicator
from The National Center for the Middle Market



Source: CIA World Fact Book, BEA, U.S. Census, National Center for the Middle Market survey

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 approximately 197,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 43 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: "Leading from the Middle," 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 197,000 U.S. businesses with revenues between $10MM and $1B, the upper and lower 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.

Executive Summary

Middle market companies showed average revenue growth of 7% during the past year, a gain after three quarters of decline. The group also forecasts a gain of 5.2% in revenue in 2013, a strong increase from the previous quarter when respondents anticipated a 3.7% gain over the next 12 months. At that rate, the middle market will pump at least an estimated $520 billion into the U.S. economy in 2013.

Companies in the middle market added 2.7% to their workforce in the previous 12 months, outpacing the 2.1% expansion for large U.S. firms and the 1.2% growth by small U.S. firms as reported in ADP data.

Overall, three out of five middle market companies surveyed in December said that business performance has improved from last year's fourth quarter. The biggest jump in confidence levels was in the larger segment of the middle market with 12% confident in the global economy compared with just 3% in the previous quarter.

"We are moderately optimistic about the U.S. economy … it appears we are slowly recovering from the recession."

— CFO, Pharmaceuticals, $10 million annual revenues, 40 employees, privately held

Key Findings:

PAST 12-MONTH GROWTH WAS STRONGER THAN INDUSTRY PREDICTIONS:

Middle market companies posted average gross revenue increases of 7% for the past 12 months compared with predictions that companies will see gross revenue grow 5.2% during the next year.

Middle market firms added an estimated 1.17million jobs in 2012 based on a reported growth in employment of 2.7%. They anticipate adding a million more jobs in 2013.

Revenue for the past 12 months improved from third quarter in all industry sectors except for wholesale trade and financial services.

CONFIDENCE IS LOW, BUT IMPROVING:

While confidence remains depressed, the middle market is slowly becoming more optimistic about the global and U.S. economy. Of the firms surveyed, 25% said they were "somewhat confident" in the outlook for the global economy, while 8% are confident. The picture is even better for confidence in the U.S. economy with 36% of respondents "somewhat confident." Those who are confident in the U.S. prospects rose to 15%, up from 11% in the third quarter.

CAPITAL INVESTMENT IS LIKELY TO PICK UP SLIGHTLY :

Across industries, middle market companies are investing in their businesses instead of hoarding cash, continuing a trend seen in the previous two quarters of 2012. From December's survey responses, 59% of respondents said they would invest extra money instead of holding it in reserve, up from 56% in the third quarter. Among the largest middle market companies the most commonly cited use of cash was to make acquisitions. But smaller middle market companies said they planned to use the money for technology and capital expenditures.

FIRMS PLAN TO HIRE:

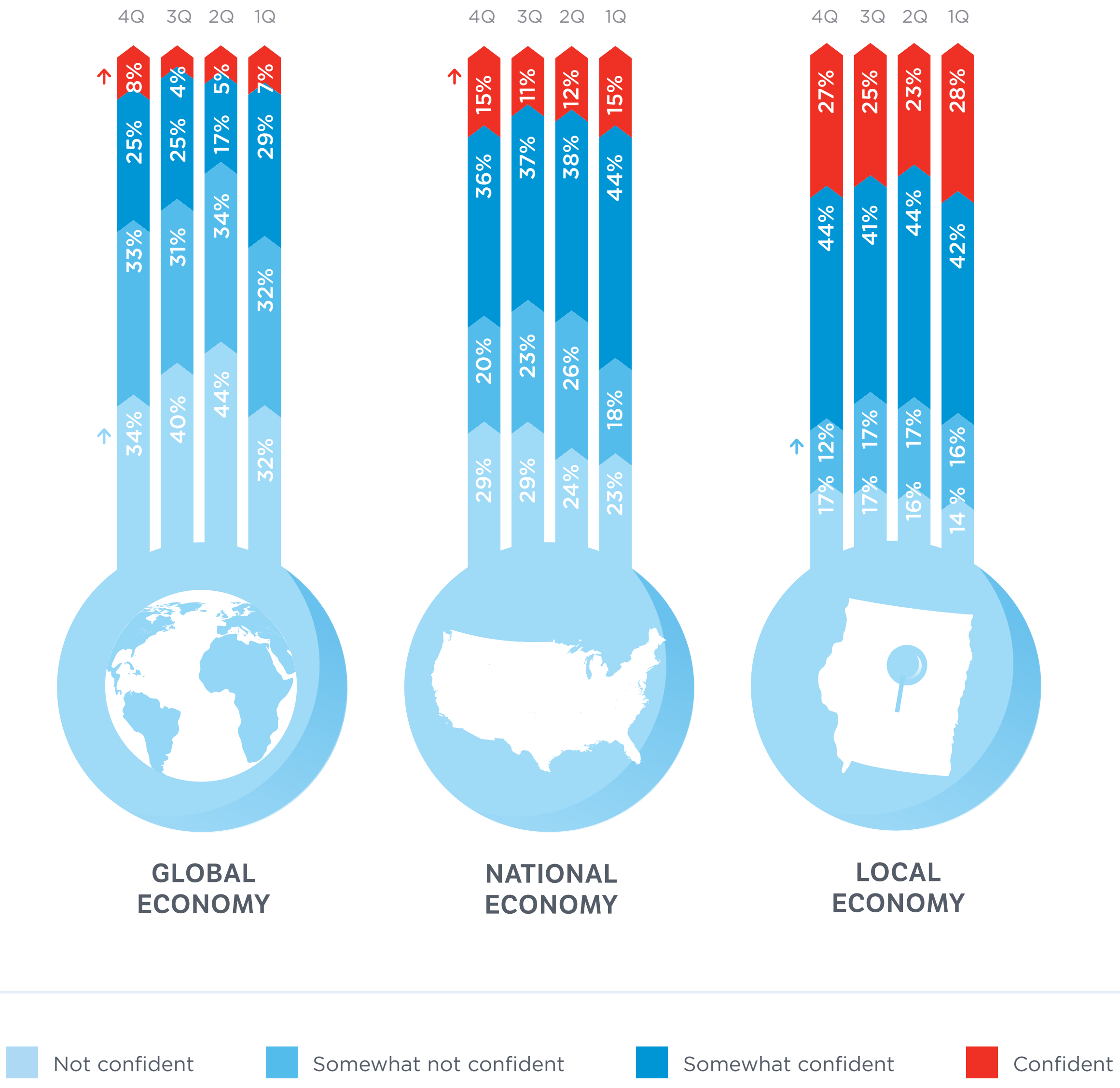
The middle market added 1.17 million net new jobs in 2012. Of those companies surveyed, 42% said their workforce has increased from the same period last year. The average employment growth for middle market companies was 2.7%, compared with 2.1% for large U.S. firms according to ADP numbers.

CHALLENGES REMAIN:

Healthcare costs and regulations persist as the biggest challenge to success among all respondents irrespective of their size or sector. Companies also cited uncertainty about government actions and passing on commodities costs, all of which are factors out of their control.

Firms also said they were concerned about their abilities to maintain margins and the rising cost of doing business, making it harder for them to grow revenue. This is unchanged from much of the year's responses.

Economic Confidence Indicators



Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
4Q 7.0%	4Q 5.2%
3Q 5.5% 2Q 6.1% 1Q 6.9%	3Q 3.7% 2Q 4.8% 1Q 5.2%

S&P 500

PAST 12 MO.	NEXT 12 MO.
4Q 2.9%*	4Q 3.5%
3Q 1.6% 2Q 4.8% 1Q 9.4%	3Q 1.5% 2Q 4.0% 1Q 4.7%

*Q4 Sales/Share Data not available so estimate was used for calculation.

Employment Growth

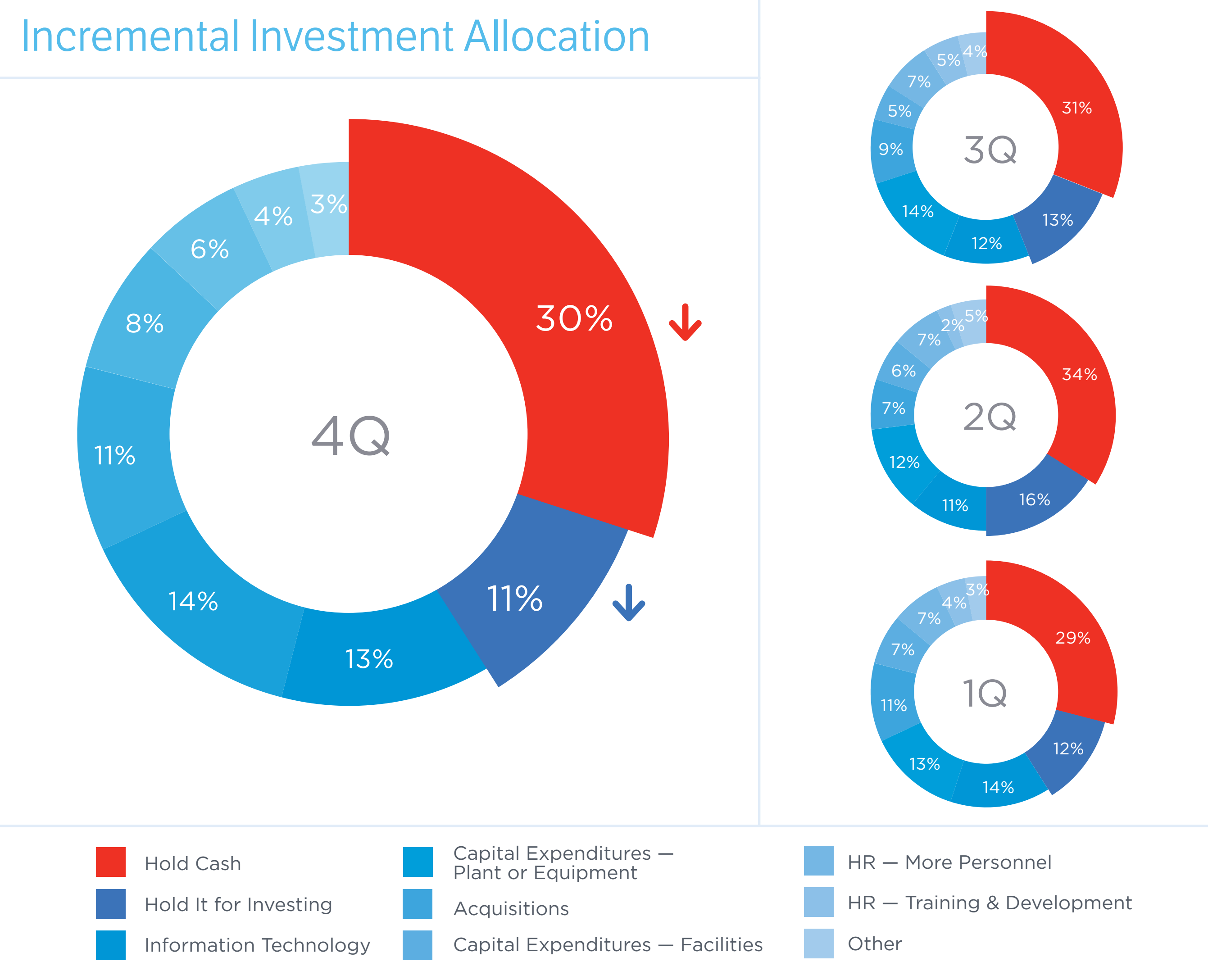
MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
4Q 2.7%	4Q 2.3%
3Q 2.2% 2Q 2.0% 1Q 1.5%	3Q 1.3% 2Q 1.8% 1Q N/A

S&P 500 (PAST 12 MO.)

LARGE CORP.	SMALL BUS.
4Q 2.1%	4Q 1.2%
3Q 3.4% 2Q 1.0% 1Q 1.7%	3Q 1.2% 2Q 1.0% 1Q 1.9%

Incremental Investment Allocation



Recent & Expected Growth

Past 12 Mo. Revenue

BY REVENUE SEGMENT	4Q	3Q	2Q	1Q
10MM–<$50MM	6.3%↑	5.4%	5.8%	6.0%
$50MM–<$100MM	7.4%↑	6.5%	5.3%	6.5%
$100MM–$1B	7.9%↑	5.3%	7.0%	8.3%

Next 12 Mo. Revenue

BY REVENUE SEGMENT	4Q	3Q	2Q	1Q
10MM–<$50MM	5.0%↑	3.8%	4.4%	5.4%
$50MM–<$100MM	5.0%↑	3.5%	4.4%	4.8%
$100MM–$1B	5.6%↑	3.7%	5.5%	5.0%

The performance of middle market companies clearly is improving compared with a year ago, mirroring signs of growth in the broader economy. All the sectors polled are doing better, although some at a greater rate than others.

Average revenue growth of 7% has picked up from the year's low of 5.5% in the third quarter and surpassed the 6.9% posted in the first quarter.

That means the middle market added an estimated $650 billion in net revenue to the economy, underscoring that these companies are a significant contributor to GDP.

Southern and western states were the bigger drivers of revenue growth for the middle market in the fourth quarter. In addition, larger middle market companies, those with more than $100 million in annual revenue, led the increase with an average growth of 7.9%, up from 5.3% in the third quarter but still lagged the first quarter's 8.3% growth rate. Another good sign for the economy is that an increasing number of companies said that revenue grew more than 10%, making bigger gains an important driver for the middle market's overall health.

And most of the middle market expects the trend of increasing revenue to continue with an average predicted growth of 5.2% in 2013. That's a significant jump from the third quarter's projection of 3.7% growth and is back to levels expected at the beginning of 2012. At that rate of revenue growth, the middle market will add an estimated $520 billion in revenue in 2013.

All sectors anticipate gains in the next 12 months, except for manufacturing which is holding steady, with retailers projecting the biggest revenue increase at 5.2% compared with projections of 1.9% in the third quarter. No matter what size the firm, more than half expect growth in 2013.

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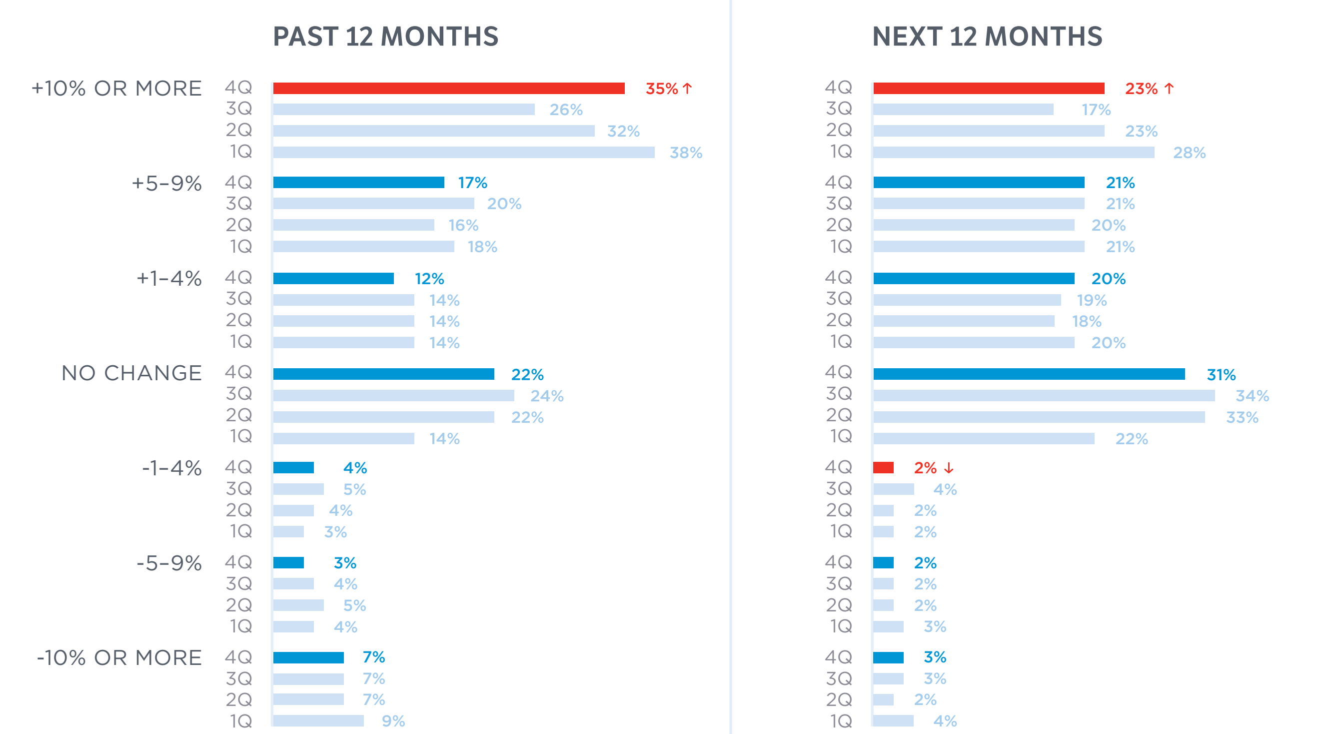
Revenue Performance

Revenue growth continues to slow (vs. the same time period a year ago) and is significantly higher in the 4th Quarter than in the preceding time period.



TOTAL GROWTH (past 12 months)

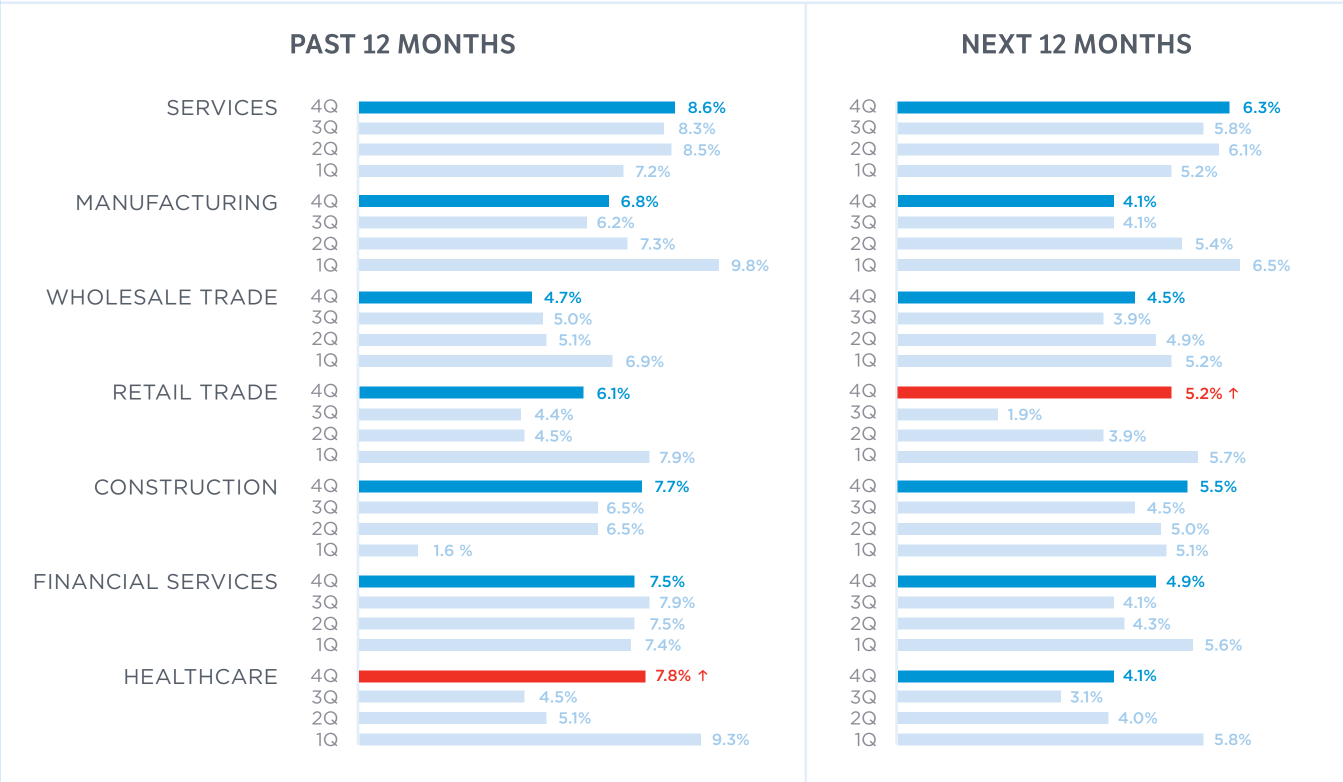
4Q 7.0% ↑ 3Q 5.5% 2Q 6.1% 1Q 6.9%

TOTAL GROWTH (next 12 months)

4Q 5.2% ↑ 3Q 3.7% 2Q 4.8% 1Q 5.2%

Revenue Performance by Industry

Overall revenue growth has gained in all industry sectors with the exception of Wholesale and Retail Trade.



Recent & Expected Growth

Past 12 Mo. Employment

BY REVENUE SEGMENT	4Q	3Q	2Q	1Q
10MM–<$50MM	2.6%=	2.3%	1.7%	1.2%
$50MM–<$100MM	2.5%=	2.2%	2.5%	0.7%
$100MM–$1B	3.1%↑	2.0%	2.2%	2.3%

Next 12 Mo. Employment

BY REVENUE SEGMENT	4Q	3Q	2Q	1Q
10MM–<$50MM	2.5%↑	1.6%	1.8%	N/A
$50MM–<$100MM	1.5%=	1.6%	1.5%	N/A
$100MM–$1B	2.4%↑	0.7%	1.8%	N/A

Continued from previous page...

The middle market also is adding jobs with 42% saying their workforce has increased from the same period last year. The average employment growth for middle market companies was 2.7%, compared with 2.1% for large firms according to ADP numbers. An estimated 1.17 million jobs were added by the middle market in 2012.

Companies of all sizes and across industry sectors are adding jobs. Retail trade added the most workers in the fourth quarter compared with the third, much of which likely is seasonal workers. While these additions are positive, they are modest in terms of overall numbers and middle market companies remain cautious about the outlook for their businesses.

Still, many middle market companies didn't add jobs during 2012 as they waited to see how much if any the overall economy will improve. Some may have increased overtime as opposed to hiring additional workers. This can be expensive and eventually many will have to evaluate their staffing levels.

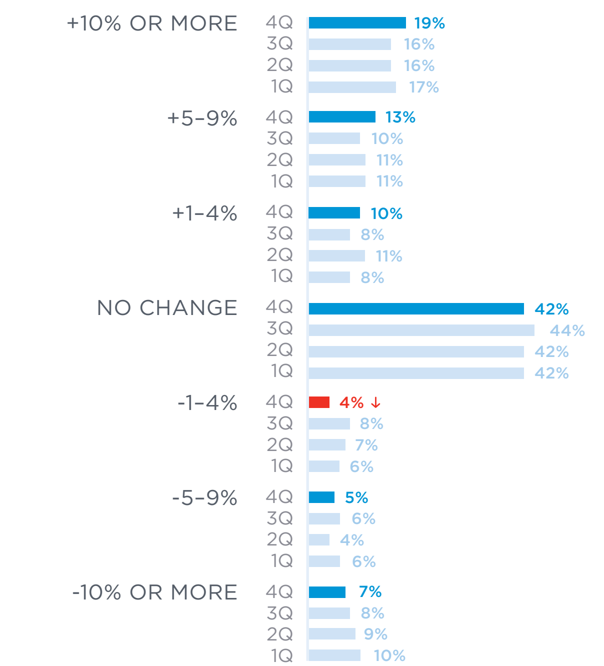
Much of the gains in employment are likely to continue with 42% of middle market companies saying they plan to add workers in the coming year. The overall average expected increase in employment is 2.3%, or about one million additional jobs in 2013. These additions are expected across sectors and in firms of all sizes.

With nearly a third of the private sector GDP and employment in the U.S. coming from the middle market, such an outlook augurs well for the national economy.

Employment Performance

Employment growth relative to the 3rd Quarter is up. 42% say their workforce has increased since the same time period one year ago.

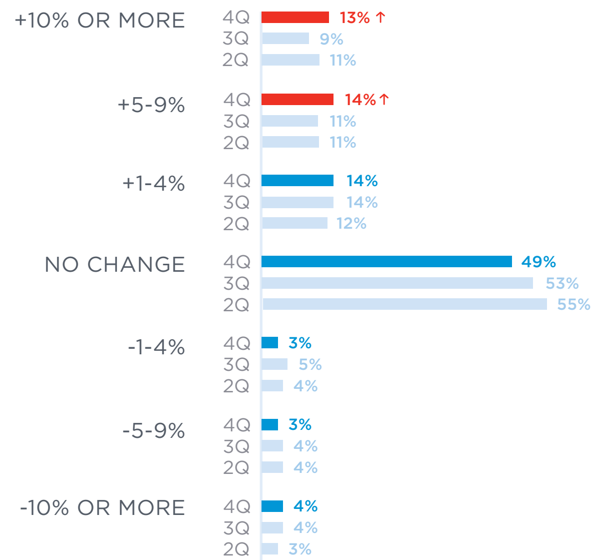
PAST 12 MONTHS



TOTAL GROWTH

4Q 2.7% ↑ 3Q 2.2% 2Q 2.0% 1Q 1.5%

NEXT 12 MONTHS



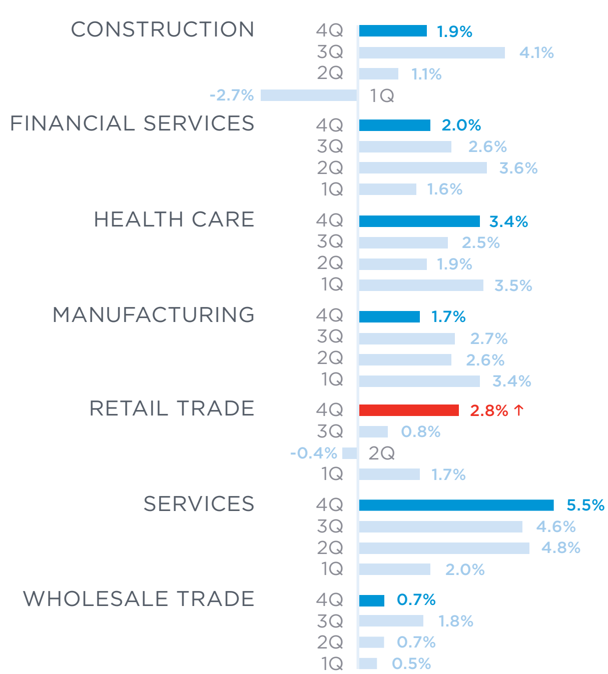
TOTAL GROWTH

4Q 2.3% ↑ 3Q 1.3% 2Q 1.8% 1Q N/A

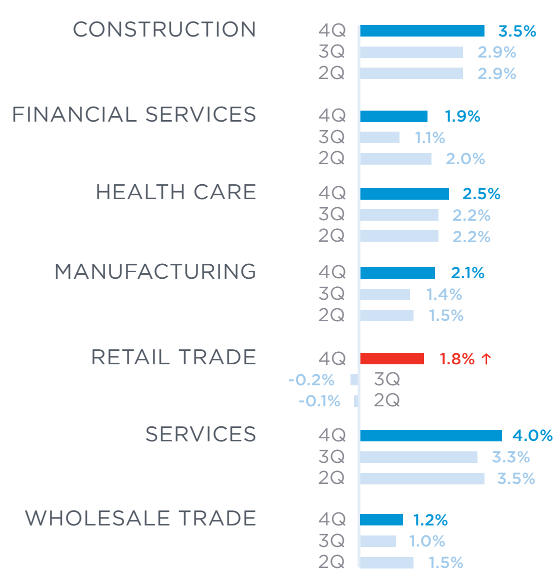
Employment Performance by Industry

Relative to the 3rd Quarter, Employment growth is significantly higher for retail trade and stable in other industry sectors.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Confidence in the economy and business improved in the fourth quarter from the middle of the year, but not dramatically. Roughly half of middle market companies are at least "somewhat confident" in the U.S. economy with larger organizations showing the biggest increase.

Confidence in the local economy remains higher than sentiment about the U.S. with 27% of firms confident about their local areas compared with 15% confident about the U.S. That drops to 8% when talking about the global economy. While these numbers are low, they are better than the third quarter and similar to first quarter levels.

Responses regarding investment decisions, which indicate how companies feel about the future, somewhat align with the improved outlook on revenues and employment among middle market firms. If given an additional dollar, 59% of middle market executives in the fourth quarter survey would choose to invest it, which is more than the 56% in the third quarter.

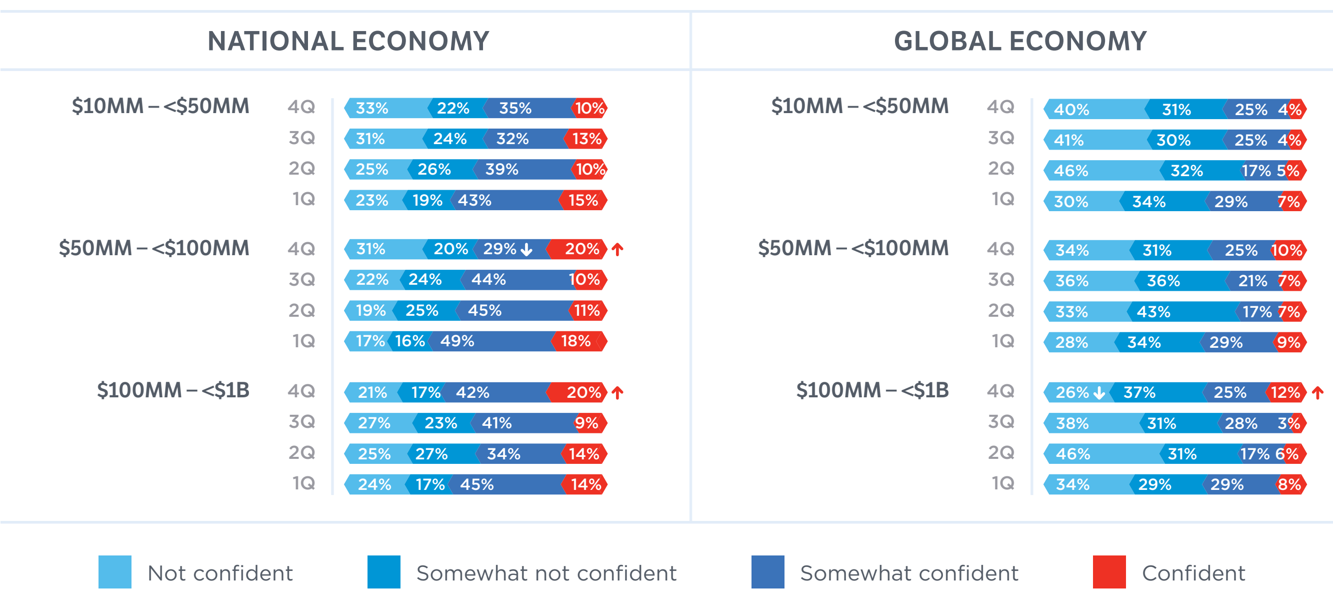
While an improvement, a high proportion, 41%, of the executives continue to choose to hold the extra dollar as cash or as marketable securities. Of those who plan to invest their capital, most intend to use it for growth, expansion or acquisitions. Companies also are looking at using cash for technology or capital expenditures.

> *"We are trying to invest in advanced equipment to increase our capacity and reduce our manual workforce to help offset the increasing costs of health care and pensions."*

— CFO, Wholesale & Distribution, Manufacturing, $100 million annual revenues, 625 employees, privately held

Confidence by Revenue Segment

Confidence in the US among middle and large size firms is increasing.



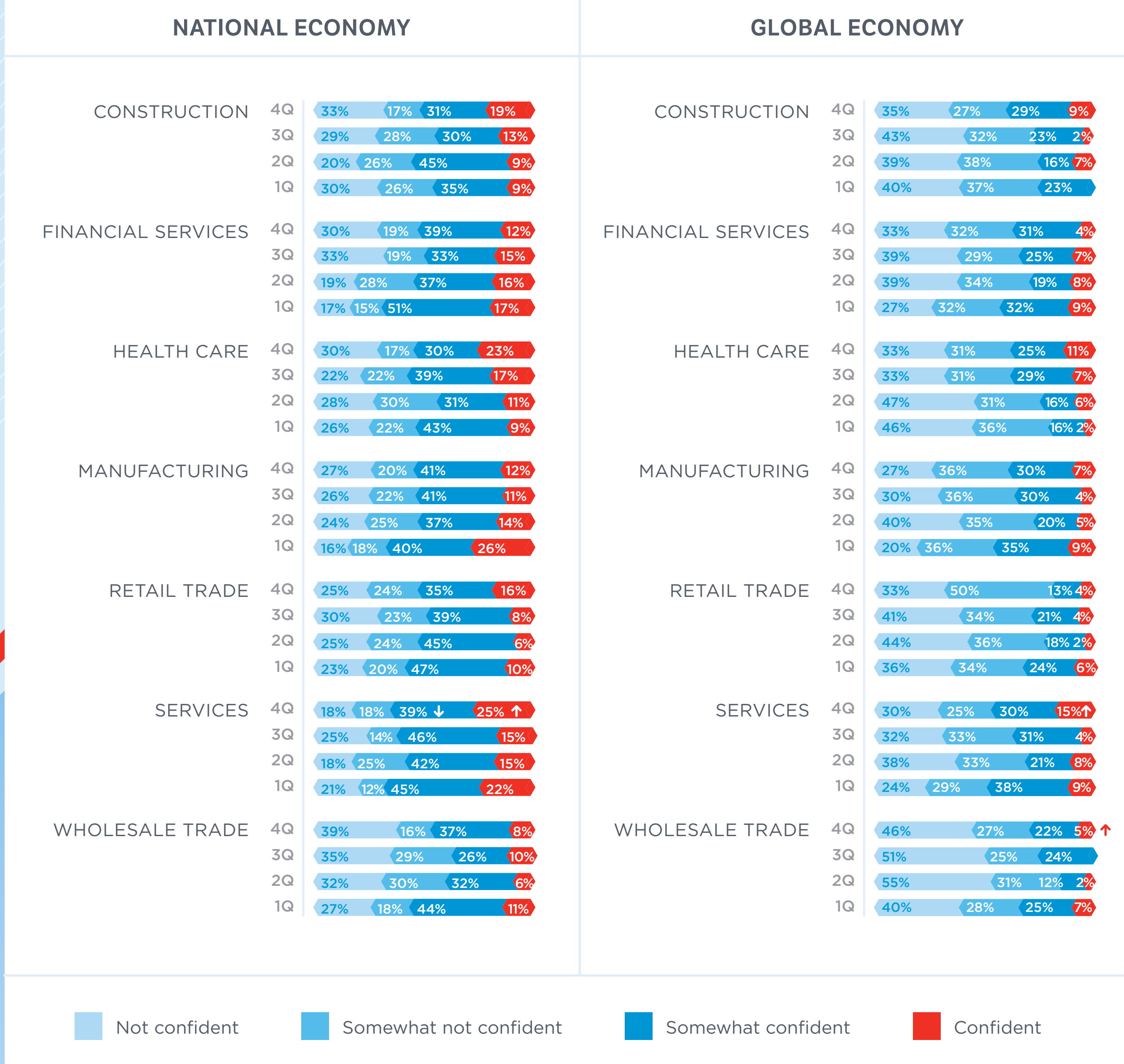
Base: Total Respondents: 4Q=1000; 3Q=1000; 2Q=1000; 1Q=1002.

Note: Arrows indicate significant difference compared to immediate previous time period.

Q7. How confident are you in each of the following?

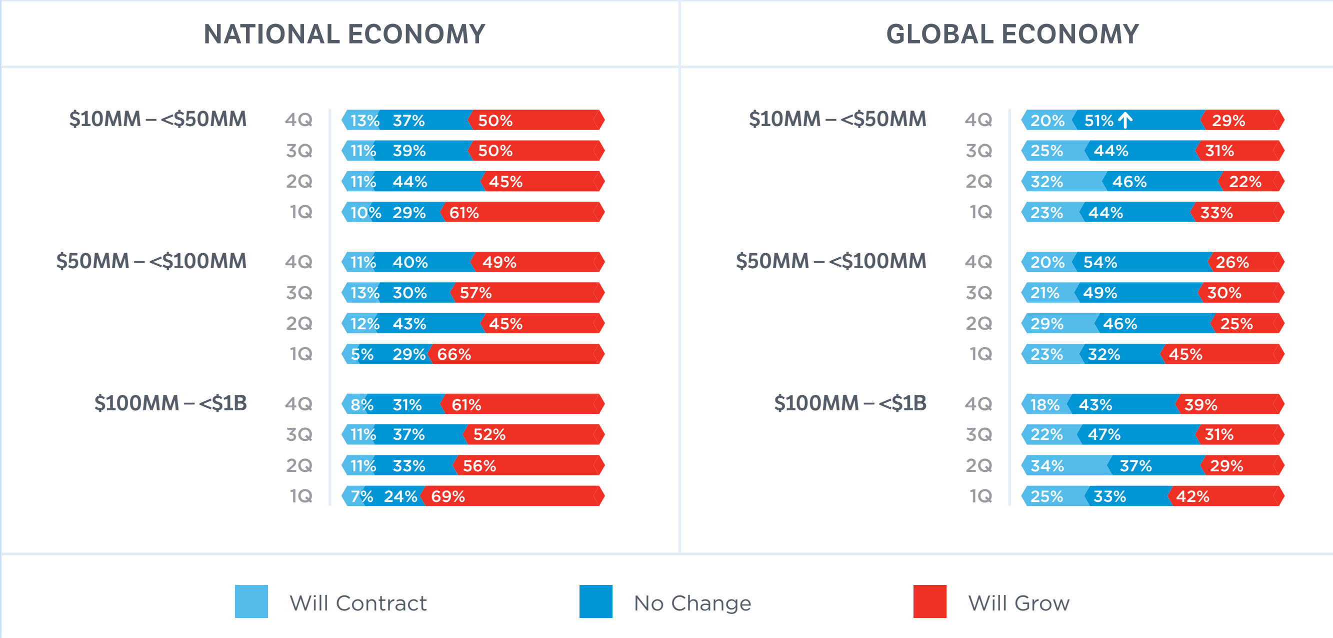
Confidence by Industry

With the exception of services, no one sector displays an overwhelming confidence in either the Global or US economies.



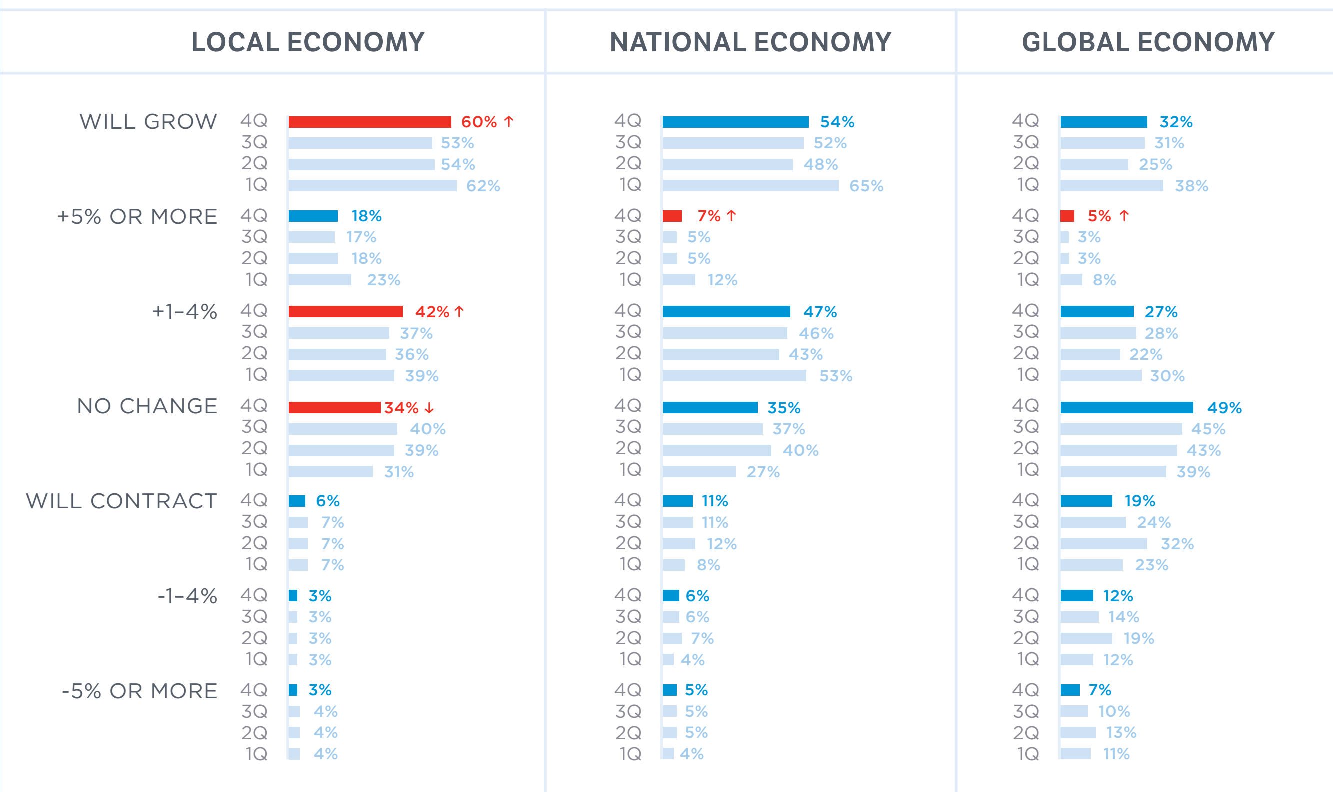
Economic Growth Outlook by Revenue Segment

Across the revenue segments, the future economic outlook for the Global and US Economy is unchanged since the prior period.



Economic Growth Outlook

Assessments for positive growth are evident in the local economy and on the firm level.



	LOCAL ECONOMY	NATIONAL ECONOMY	GLOBAL ECONOMY
TOTAL GROWTH 4Q	2.0% ↑	0.9%	0.0% ↑
3Q	1.7%	0.7%	-0.3%
2Q	1.7%	0.7%	-1.0%
1Q	2.2%	1.6%	0.2%

Economic Growth Outlook by Industry

The outlook is stable for most sectors of the middle market.

Challenges

Despite events in the fourth quarter, such as the outcome of the U.S. presidential election, middle market executives say they are facing most of the same challenges as earlier this year. This means that the majority of respondents still feel their businesses are affected by factors largely out of their control.

Not surprising, the cost of healthcare remains the biggest challenge for middle market firms with 90% of respondents calling it somewhat or highly challenging. This is unchanged from most of the year and remains a constant across size, industry and confidence level. This is likely to weigh heavily on staffing and other employee-related decisions in 2013, with 47% of respondents indicating that would be the case.

Healthcare costs are causing managers to weigh their options and to reconsider what types of investments they'll make going forward. Only 35% of respondents said it would have no impact on how they do business. Besides freezing hiring, managers are considering putting less money into technology and operations.

Besides healthcare, executives are concerned about the ability to continue to grow revenue and the cost of doing business with 86% and 85% respectively calling it highly or somewhat challenging. Margins are also coming under pressure as 85% of managers citing it an area to watch.

There were a couple of areas that managers felt less pressure from in the fourth quarter. The number of executives saying that complying with new regulations was challenging fell to 70% in the fourth quarter from 76% in the third quarter. Those who found managing through external change a problem fell to 67% from 73% in the previous period.

"Health care cost is a critical unknown factor going forward."

— CEO, Manufacturing, $20 million annual revenues, 75 employees, privately held

"Depending on how Washington handles the so-called 'debt ceiling,' it might be a minor plus or minor negative year — perhaps a continual state of 'wait and see.'"

— Chairman, Media & Entertainment, $100-$250 million annual revenues, 625 employees, privately held

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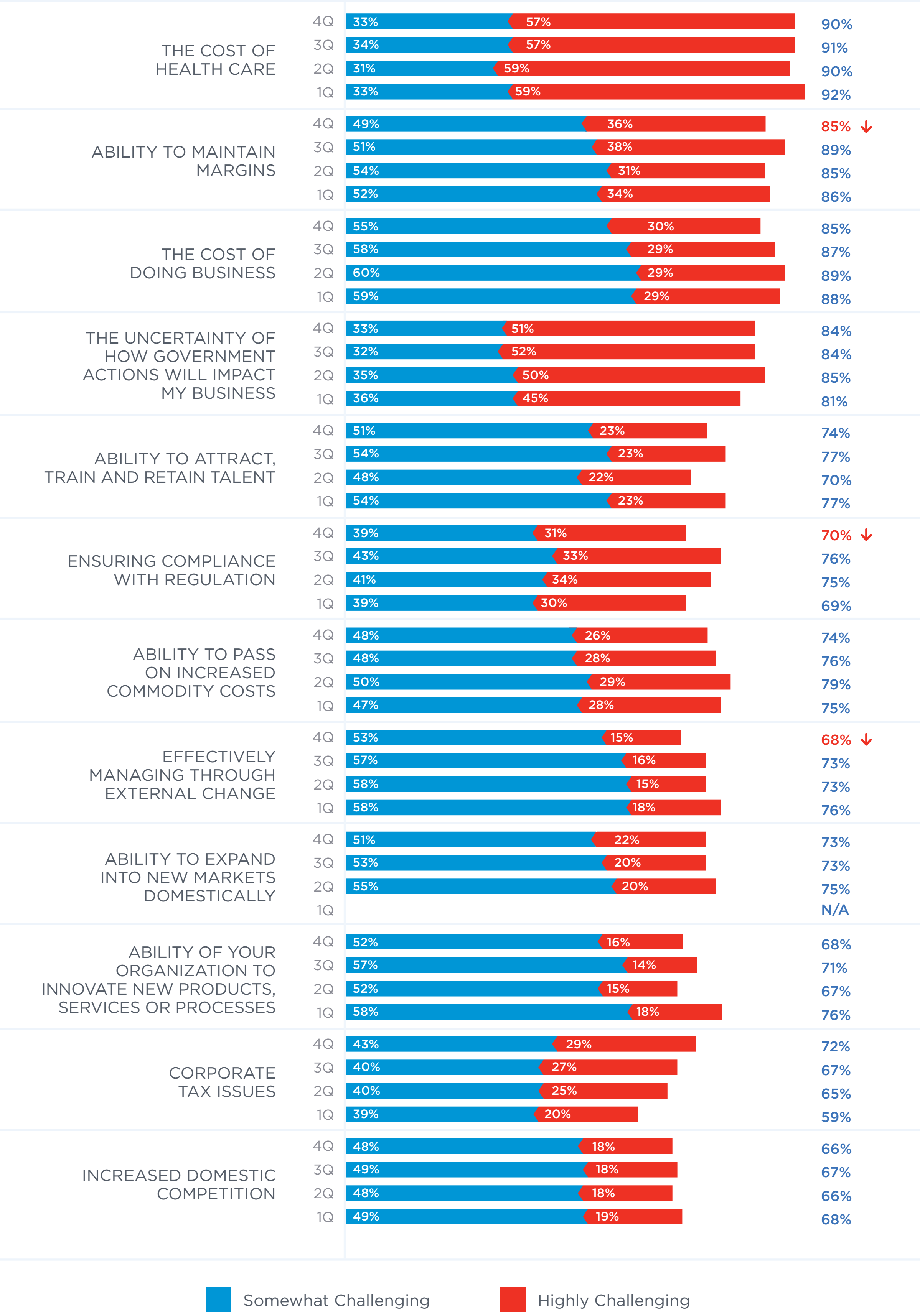
Base: Total Respondents: 4Q=1000; 3Q=1000; 2Q=1000; 1Q=1002.

Note: Arrows indicate significant difference compared to immediate previous time period.

Q11b. Shown below are different confronting businesses. Please indicate how much of a challenge each is for your business.

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. Regulation and uncertainty of government actions are also key issues.



Perspectives

The middle market continues to be an important component of the economy, driving growth in the U.S. and locally. Since actual and predicted revenues have been better than gains in the S&P 500, these companies also are critical to the economic recovery. Despite challenges such as the cost of healthcare and maintaining margins, most companies plan to hire more workers with the potential to add one million jobs in 2013. Another positive sign is that companies aren't hoarding as much cash and making plans to put it to work and invest in their businesses. Revenue grew at about 7% for the past 12 months and is expected to remain strong in 2013. Most executives tend to underestimate their projected revenue, meaning that the 5.2% prediction likely will be surpassed.

MIDDLE MARKET INDICATES STRONGER GROWTH FOR THE U.S. ECONOMY

The fourth quarter results for the middle market suggest a notable change in trends that point to increasing expansion in the broader economy after a year of mostly tepid GDP growth. Talk and fears of a double-dip recession are quietly receding.

The resolution of the U.S. presidential election and the fiscal cliff debate and increased confidence in the global economy are all likely factors contributing to higher growth levels and predictions for 2013. Middle market companies reacted favorably to the clarity provided by the elections and the resolution of the fiscal cliff, and positive news coming from global economies.

Global economies have been growing strong, suggesting positive growth for Middle Market company exports. The World Bank recently increased its estimate for China's GDP growth to 8.4% for 2013, citing fiscal stimulus and faster approval of large investments (East Asia and Pacific Economic Update, December 19, 2012). India also cleared contentious reform that opened a vast market in retail to FDI, leading Goldman Sachs to increase India's GDP growth estimate. While the short-term expectations for Europe remain bleak, in its November European Economic Forecast, the European Commission now predicts a gradual recovery through 2013 and GDP growth of about 1.5% in 2014 (Autumn 2012 report).

BUT UNCERTAINTIES AND CHALLENGES PERSIST

The uncertainty of future government actions, healthcare costs, ability to grow revenue, the cost of doing business, and ability to maintain margins are all top challenges for middle market firms. In various ways, these challenges are tied to uncertainties in the environment. It remains to be seen how healthcare regulations will be applied and costs levied, and what options middle market companies can effectively use in response.

Commodity prices rose significantly last year, and they might impact the cost of doing business and the ability of middle market companies to maintain margins. Unlike large firms, middle market firms largely don't have the leverage to control price swings.

One way to grow revenues is to go abroad, which many middle market companies consider quite risky (see NCMM sponsored research, "U.S. middle market firms and the global marketplace: Should I stay or should I go?"). Finally, it is notable that access and affordability of capital are not reported among the top challenges. This is understandable in light of many continuing to hoard cash.

IMPROVED INVESTMENT PLANS REMAIN DAMPENED BY UNCERTAINTIES

While the number of respondents planning to invest extra cash rose, a large number continue to hold onto their money. From just the uncertainties attached to the fiscal cliff, executives have reported a mean drop of nearly 5% in investment (survey question: "How much have you reduced your investment spending because of uncertainties for your industry due to the fiscal cliff?"). Clarity from the elections notwithstanding, many uncertainties persist, which is depressing investment.

Overall, in the fourth quarter survey we see positive changes in the middle market that can be the basis of cautious optimism for the U.S. economy in 2013.

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