1Q 2014

MIDDLE MARKET INDICATOR

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 44.5 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 nearly 200,000 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

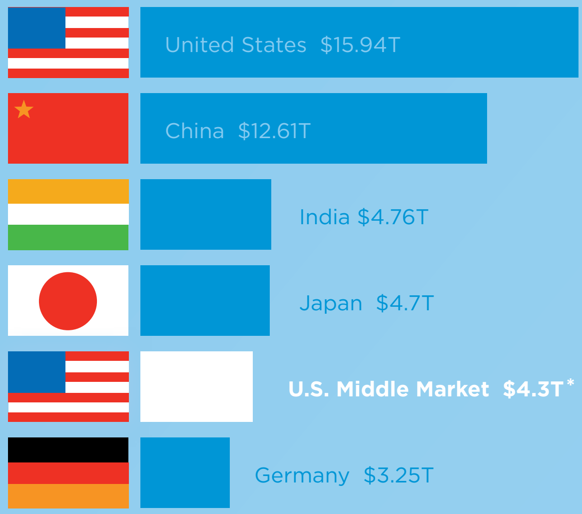
Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy. The Center provides critical data, 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.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

NEARLY
200,000
BUSINESSES

5TH LARGEST
GLOBAL ECONOMY



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

Executive Summary

The first quarter of 2014 marked a resurgence in growth for the U.S. middle market. The erosion in revenue and employment growth reported during the second half of 2013 reversed course, with companies reporting significant increases in both areas over the past 12 months. While year-over-year increases were experienced across all industry sectors, smaller middle market firms and firms in the wholesale trade industry have experienced some of the largest gains in revenue and hiring since last year. Revenue has been consistently projected to be slower than past growth; however, the future outlook for employment has improved significantly versus previous forecasts with nearly half of middle market firms anticipating an increase in the size of their workforces over the next year. These projections are in line with continued economic confidence, as well as decreasing concerns and uncertainty related to the impact of government regulations in areas such as healthcare.

For the first quarter of 2014, a majority (60%) of middle market firms reported improved overall company performance versus one year ago. The proportion of companies reporting improved performance has remained fairly stable over the past 12 months.

Middle market companies reported a year-over-year increase in revenue growth of 6.5% for the past 12 months, the largest rate of increase reported in the past four quarters. These results outpace the revenue growth for the S&P 500 as sales grew by 0.5% over the same period. The middle market continues to be a leading engine of growth.

WITH INVESTMENTS TO DEVELOP OUR PEOPLE AS WELL AS BUILD THE BEST E-COMMERCE EXPERIENCE FOR CUSTOMERS, WE HAVE SET OURSELVES UP TO ACCELERATE MARKET SHARE GROWTH.

CFO, WHOLESALE INDUSTRY, $44M ANNUAL REVENUE, 84 EMPLOYEES

In addition to revenue growth, the middle market added workers to the payroll. Thanks in part to greater transparency into the regulatory landscape, middle market companies appear to have a renewed confidence in their ability to hire, and nearly half (46%) of middle market firms employ a larger workforce than they did one year ago.

The same percentage of firms plan to add workers over the next 12 months. In fact, while employment growth has historically lagged behind revenue growth, projections indicate that the gap between the two metrics will shrink considerably over the course of the next year. With the relative increase in projected employment growth to 3.2% and the stabilization of projected revenue to 4.5%, productivity ratios are projected to decrease.

Significantly fewer companies report healthcare costs and government uncertainty as highly challenging issues this quarter, indicating that some key constraints to growth are diminishing. However, more middle market companies are shifting their focus to core business challenges related to increased growth and employment, such as their ability to access capital, manage higher salary expectations and deal with a potentially higher minimum wage.

With a current average tax rate of 19.6% for middle market firms, leaders in the middle market believe low corporate tax rates and greater simplicity are key components to a pro-growth tax code. In terms of participation in global markets, lack of demand and bureaucratic challenges continue to limit overseas expansion.

Looking forward to the next 12 months, middle market companies anticipate revenue growth of 4.5%, which is higher than the projected growth rates in the previous two quarters. The likelihood of expansion over the next 12 months is also higher than it was during the middle of 2013. More than half (57%) of firms with revenues between $50-100MM expect to introduce a new product or service in the next year, up from 39% at the end of 2013.

REVENUE GROWTH
Growth is strong, but predicted to slow

For the past 12 months, 64% of middle market companies reported an increase in gross revenues compared to one year ago. Revenue grew by 6.5% over the past 12 months, the largest year-over-year revenue increase reported in the past four quarters and reversing a year-long slide in reported growth rates. The wholesale trade industry experienced the largest increase in year-over-year revenue change, reporting 8.4% revenue growth for the past 12 months versus the 2.6% reported in the fourth quarter of last year. Retail firms also experienced a rebound.

Middle market leaders remain positive about future revenue growth and about 59% expect gross revenue to increase. Compared to growth projections of 4.3% last quarter, middle market firms are forecasting slightly better year-ahead revenue growth at 4.5%.

1Q'14 **64%** of middle market companies reported positive revenue growth — 1Q'13 63%

MIDDLE MARKET

PAST 12 MO.
1Q'14 6.5%
4Q'13 5.0% 1Q'13 5.8%

NEXT 12 MO.
1Q'14 4.5%
4Q'13 4.3% 1Q'13 4.9%

S&P 500

PAST 12 MO.
1Q'14 0.5%
4Q'13 3.9% 1Q'13 5.6%

NEXT 12 MO.
1Q'14 2.2%
4Q'13 1.9% 1Q'13 N/A

EMPLOYMENT GROWTH
Hiring trends expected to continue

In the first quarter of 2014, 46% of middle market companies reported a larger workforce than one year ago, a significant increase over the 39% of companies that said their workforce was larger in the fourth quarter of 2013. Additionally, companies reported a significantly larger percentage (3.7%) of employment growth over the past year than had been reported in the previous four quarters. The wholesale trade industry reported a 4.8% larger workforce while employment growth remained stable across other industries.

Perhaps more significantly, the future outlook for employment is just as positive, with 46% of middle market firms saying they expect to increase the size of their workforce over the next 12 months. Mean employment growth has also increased significantly to 3.2%.

1Q'14 **46%** of middle market companies expect to add jobs. — 1Q'13 38%

MIDDLE MARKET

PAST 12 MO.
1Q'14 3.7%
4Q'13 2.5% 1Q'13 2.2%

NEXT 12 MO.
1Q'14 3.2%
4Q'13 2.2% 1Q'13 2.1%

ADP [PAST 12 MO.]

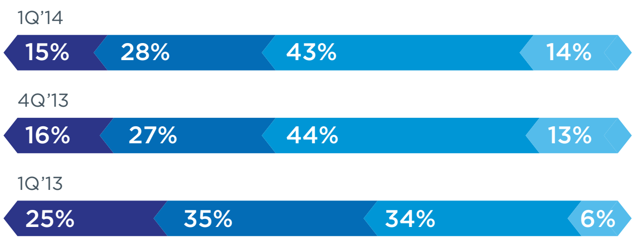
LARGE CORP.
1Q'14 2.6%
4Q'13 2.3% 1Q'13 2.3%

SMALL BUS.
1Q'14 2.1%
4Q'13 2.0% 1Q'13 1.5%

ECONOMIC CONFIDENCE
Confidence remains high

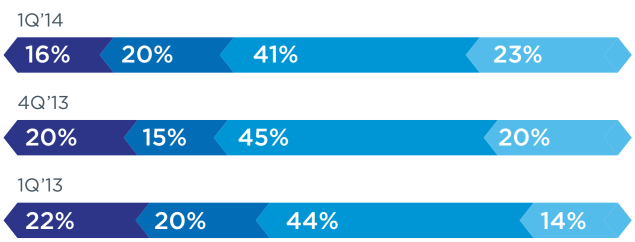
Continuing the trend from last quarter, 57% of middle market leaders remain at least somewhat confident in the global economy, up from 40% one year ago. Specifically, confidence in the global economy is increasing among middle market leaders in the services sector, with 20% expressing confidence versus just 12% three months ago. Conversely, construction industry leaders have an increasingly pessimistic view, with just 34% expecting the global economy to grow. Confidence in the U.S. economy has remained stable over the past 12 months with nearly two-thirds of middle market leaders feeling at least somewhat confident in national prospects. Of middle market executives, 81% are at least somewhat confident in their local economy, with only 9% lacking any confidence at all.

GLOBAL ECONOMY



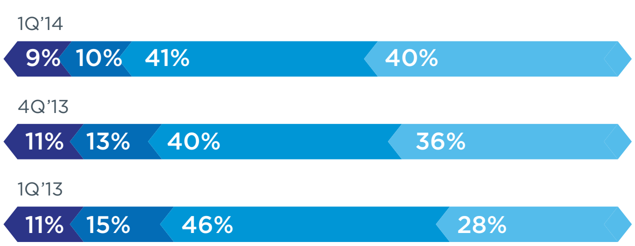
1Q'14
57%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'13 57% 1Q'13 40%

NATIONAL ECONOMY



1Q'14
64%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'13 65% 1Q'13 58%

LOCAL ECONOMY



1Q'14
81%
CONFIDENT / SOMEWHAT CONFIDENT
4Q'13 76% 1Q'13 74%

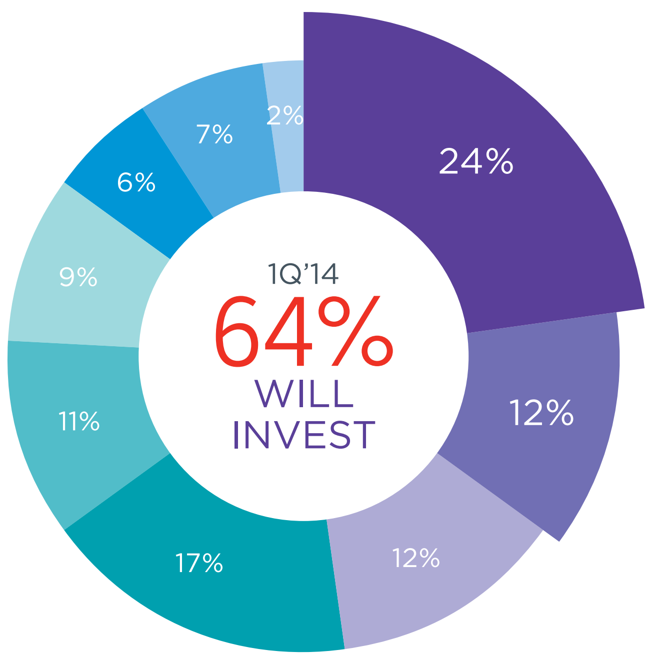
Not confident | Somewhat not confident | Somewhat confident | Confident

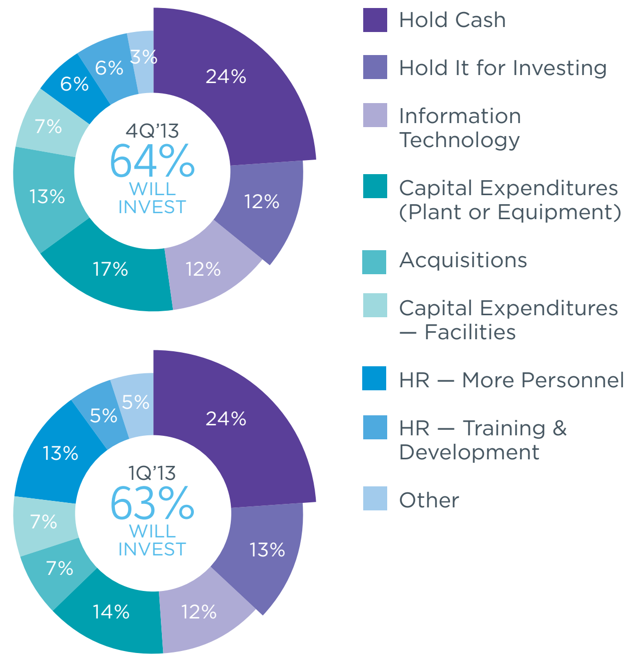
CAPITAL INVESTMENT
Plans for capital investment remain stable

Plans among middle market companies for investing capital have not changed since the past quarter—64% of middle market companies plan to invest while 36% plan to hold on to cash or invest in short term financial instruments. These percentages are virtually the same as one year ago, when 63% planned to invest and 37% planned to save.

In addition, the percentage of large middle market firms planning to invest in capital expenditures, such as plant and equipment, increased significantly to 22% in the first quarter of 2014 from 13% last quarter and 10% a year ago. Saving and spending patterns for middle market firms in each industry have been relatively stable over the past year.

ADDITIONAL INVESTMENT ALLOCATION





KEY CHALLENGES
Business challenges supplant regulatory concerns

The cost of healthcare remains the dominant challenge for middle market firms, but the intensity of this challenge is moderating. The number of companies considering healthcare costs to be "highly challenging" decreased to 46% this quarter from 55% at the end of 2013. Uncertainty about government actions is also moderating with 34% of middle market firms considering it to be highly challenging this quarter compared to 44% last quarter. As concerns over government regulations diminish, more firms list issues like ability to access capital or financing and labor difficulties as highly/somewhat challenging. Cost and wage pressures appear to be replacing government regulations as the most forceful headwinds.

TOP CHALLENGES

1. THE COST OF HEALTHCARE	**86%**
2. ABILITY TO GROW REVENUE	**83%**
3. THE COST OF DOING BUSINESS	**83%**
4. ABILITY TO MAINTAIN MARGINS	**81%**
5. THE UNCERTAINTY OF HOW GOVERNMENT ACTIONS WILL IMPACT MY BUSINESS	**76%**

Perspectives

WITH GOVERNMENT-RELATED CHALLENGES ABATING, THE MIDDLE MARKET EXPERIENCES STRONG GROWTH

During spring 2013, the macroeconomic environment was chaotic in the aftermath of tax increases from the fiscal cliff, spending cuts related to sequestration and government budgets, fears of capital problems arising out of the political gridlock over the debt ceiling, and concerns over runaway costs due to the Affordable Care Act. Today, many of those challenges have apparently eased, or at least do not appear as urgent in the minds of middle market executives. One year ago, 45% of survey respondents noted uncertainty of government action as highly challenging. Now, in Q1 2014, that percentage is down to 34%. Similarly, only 46% of respondents in this current survey consider healthcare costs a highly challenging issue as opposed to 57% a year ago. As these environmental pressures have eased, revenue growth in the past 12 months has rebounded to an impressive 6.5%. Furthermore, the projected rate of revenue growth stands at a robust 4.5% for the upcoming 12 months. Similarly, employment growth rates are higher than they have been for several quarters, having grown at 3.7% in the past 12 months and projected to grow at 3.2% in the next 12 months. Confidence in their local and regional economy, which matters most to middle market leaders, is at an all-time high in our nine quarterly surveys, with an overwhelming 81% of the respondents expressing some level of confidence. Performance and optimism are reflective of positive changes over the past year.

BACK TO BUSINESS

Instead of stressing over macroeconomic challenges, middle market firms are turning their attention to business issues. A higher percentage of respondents, relative to a year ago, consider labor difficulties, access to talent and maintaining a sharp customer focus as highly challenging. Consistent with such challenges, nearly half of the executives surveyed (48%) report that new hires are expecting higher wages than a year ago. These business challenges potentially constrain middle market firms from more expansive investment activity. The percentage of respondents who claim that they would invest an extra dollar, instead of hoarding it as cash or in short-term financial instruments, remains unchanged at 64%. Incidentally, access to capital does not rise to the top of the current challenges faced by middle market firms, perhaps because many firms are sitting on excessive cash or because capital is readily available at interest rates that remain low..

IN A REBOUNDING U.S. ECONOMY, THE MIDDLE MARKET REMAINS THE ENGINE OF GROWTH

Both over the past 12 months and in expectations for the next 12 months, middle market firms continue to hold their lead in performance compared to other segments. While middle market firms grew at 6.5%, S&P 500 firms grew at 0.5% during the past 12 months. Employment growth of 3.7% for middle market firms in the past year exceeded the growth rates of the large (2.6%) and small (2.1%) firm segments based on ADP data. Looking ahead, middle market firms say they expect to grow revenue two times faster than the S&P 500 firms, 4.5% versus 2.2%. The middle market continues to be the economic engine driving the U. S. recovery, but its full potential may still be constrained based on shifting headwinds and management's ongoing conservatism.

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.

THE OHIO STATE UNIVERSITY
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.

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 2014

MIDDLE MARKET INDICATOR

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 45.6 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 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.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

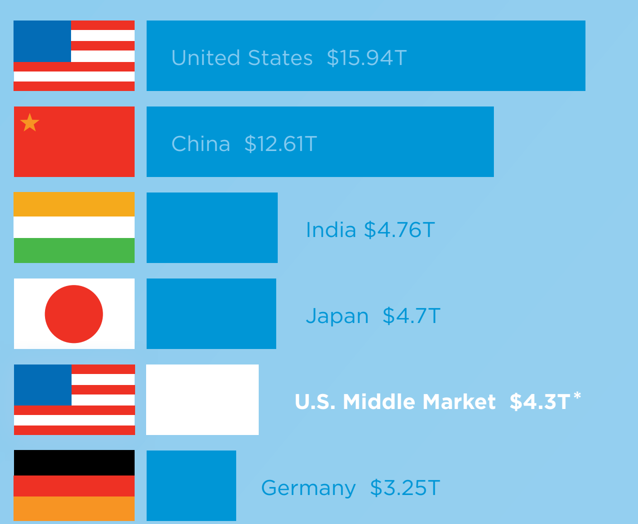
$ LOWER MIDDLE MARKET
$10MM - $50MM

$ $ 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

The second quarter of 2014 marked the second consecutive quarter of solid revenue growth for U.S. middle market firms. Virtually every industry segment reported revenue increases, with the manufacturing and healthcare sectors reporting significant year-over-year growth. In addition, firms maintained hiring increases that were reported in the first quarter of the year.

This unabated growth through the second quarter, coupled with continued economic confidence, strongly suggests that the middle market has put the recessionary period firmly behind it. Middle market leaders in general, and particularly lower middle market firms (annual revenue between $10 million and $50 million), are increasingly optimistic in their revenue growth projections for the next 12 months. While projections for employment growth remain stable, leaders in the core middle market (annual revenue between $50 million and $100 million) are showing more caution in hiring prospects for the coming year than both their larger and smaller counterparts. Across all revenue segments, middle market executives continue to be concerned about the cost of healthcare and the cost of doing business, the ability to grow revenue, and margin pressures; but they indicate lessening regulatory concerns for the second straight quarter.

Consistent with the past 12 months, a solid majority of middle market leaders continue to report improved overall company performance versus one year ago. For the second quarter of 2014, the proportion of companies reporting improved performance is up slightly to 63% from 60% last quarter, the highest level over the past year.

“The hardest part about going global was taking the first step. Once we did, everything else fell into place. Exports are a growing portion of annual revenues.”

Chairman of the Board, Manufacturing Company, $53MM Annual Revenue, 160 Employees

Companies have sustained the rate of increase in year-over-year revenue growth as reported in the last quarter, with a mean total revenue growth of 6.6% for Q2 2014. Following the dip in revenue reported at the end of 2013, revenue growth has stabilized at higher levels with 33% of middle market firm reporting growth of 10% or more for the past 12 months. Once again, the middle market has clearly demonstrated its resiliency and its importance to the overall economy by outpacing revenue growth for the S&P 500, which was 3.4% for the same period.*

While the proportion of middle market firms experiencing revenue growth consistently outpaces the proportion that added workers in the past year, middle market firms have maintained the significant increase in hiring reported in the first quarter of 2014. For Q2 2014, more than 40% of firms report increased employment compared to one year ago.

Looking forward, almost half (47%) of middle market firms expect to add workers over the next 12 months, projecting a mean total growth of 3.3%. This represents a stabilized employment outlook, compared to the significant increase in the proportion of firms expecting to hire in the last quarter.

While employment projections remain steady, middle market leaders are much more likely to expect notable increases in revenue growth for the next 12 months. In fact, 70% of leaders say revenue will grow, which is dramatically higher than the 59% who projected an increase in yearly revenues last quarter.

Leaders also expect to grow at a greater rate—5.8% versus the 4.5% growth rate projected last quarter. A more positive outlook in a broad range of sectors—including services, manufacturing, construction, financial services, and healthcare—is driving these increases in projected revenue growth. In addition, lower middle market firms are particularly optimistic about future revenue growth, with mean revenue growth of 6.1% expected.

*Based on sales/share data for the S&P 500

REVENUE GROWTH
Revenue growth is stable and predicted to surge

Nearly seven in 10 middle market firms (69%) reported an increase in gross revenues over the past 12 months with a mean total revenue growth of 6.6%. These numbers represent a slight increase over last quarter's figures (6.5%), indicating that firms are maintaining the significant year-over-year growth that occurred in Q1 2014.

Projections for future revenue growth and growth rates are the highest they have been in over a year. This quarter, 70% of middle market leaders say they expect revenue to increase in the next 12 months, up significantly from 59% last quarter. The rate of expected growth also increased significantly to 5.8% from 4.5% last quarter. Specifically, lower middle market firms are much more optimistic about their prospects for revenue growth then they were at the end of 2013 and early 2014 (4.2%).

2Q'14 **69%** of middle market companies reported positive revenue growth. 2Q'13 65%

MIDDLE MARKET

	PAST 12 MO.	NEXT 12 MO.
2Q'14	6.6%	5.8%
1Q'14	6.5%	4.5%
2Q'13	5.8%	5.1%

S&P 500

	PAST 12 MO.
2Q'14	3.4%
1Q'14	0.5%
2Q'13	1.3%

EMPLOYMENT GROWTH
Companies maintain hiring increases

Middle market firms have maintained the significant gains in employment reported in Q1 2014, with 44% of companies indicating that their workforce is larger today than it was one year ago. While mean total employment growth for the past 12 months dropped slightly, year-over-year workforce increases are still stronger than in any quarter of 2013.

Following a significant jump in future employment expectations reported last quarter, the outlook has stabilized. Nearly half (47%) of middle market executives expect to hire over the next 12 months with a mean total expected growth rate of 3.3%. However, core middle market firms are more cautious: only about four in 10 (39%) say they plan to increase their workforce, down significantly from 53% last quarter.

2Q'14 **47%** of middle market companies expect to add jobs. 2Q'13 43%

MIDDLE MARKET

	PAST 12 MO.	NEXT 12 MO.
2Q'14	3.2%	3.3%
1Q'14	3.7%	3.2%
2Q'13	2.6%	2.5%

ADP [PAST 12 MO.]

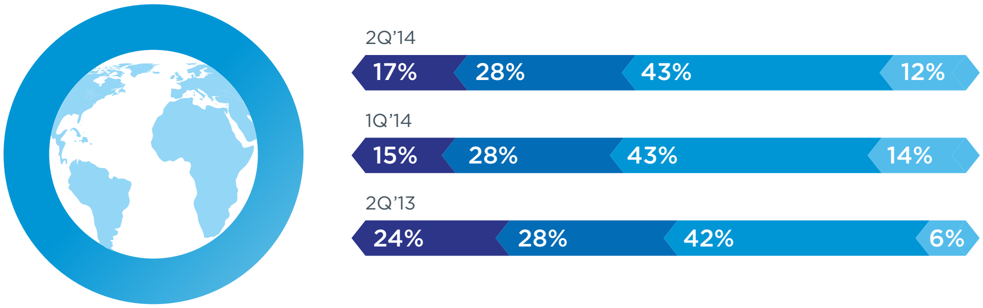
	LARGE CORP.	SMALL BUS.
2Q'14	2.6%	2.1%
1Q'14	2.6%	2.1%
2Q'13	2.2%	1.6%

ECONOMIC CONFIDENCE
Confidence remains high

Middle market leaders from all revenue segments continue to express higher levels of confidence in the global, U.S., and local economies. This quarter, over half (55%) expressed at least some confidence in the global economy, while an impressive 68%—just over two-thirds—reported being at least somewhat confident in the U.S. economy. The percentage of respondents expressing some level of confidence in the local and regional economy is an impressive 77%.

Leaders in the manufacturing segment in particular have shown a significant surge in confidence in both the global and U.S. economies. Consistent with these findings, the percentage of middle market leaders expecting the global, U.S., and local economies to grow is up significantly from last quarter. However, leaders in core middle market firms are less likely to expect domestic economic growth than they were last quarter.

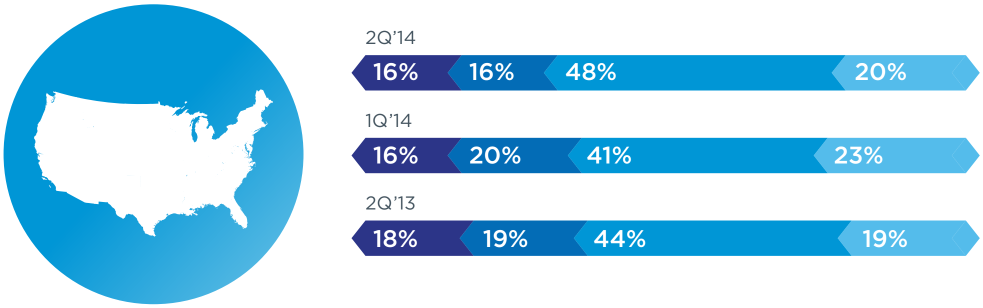
GLOBAL ECONOMY



2Q'14
55%
CONFIDENT / SOMEWHAT CONFIDENT

1Q'14 57% 2Q'13 48%

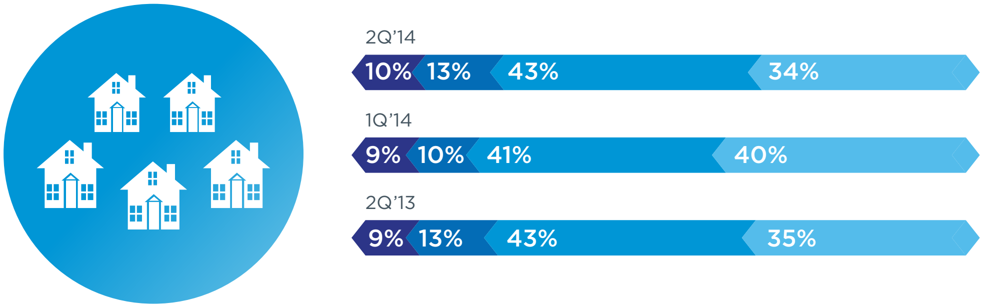
NATIONAL ECONOMY



2Q'14
68%
CONFIDENT / SOMEWHAT CONFIDENT

1Q'14 64% 2Q'13 64%

LOCAL ECONOMY



2Q'14
77%
CONFIDENT / SOMEWHAT CONFIDENT

1Q'14 81% 2Q'13 79%

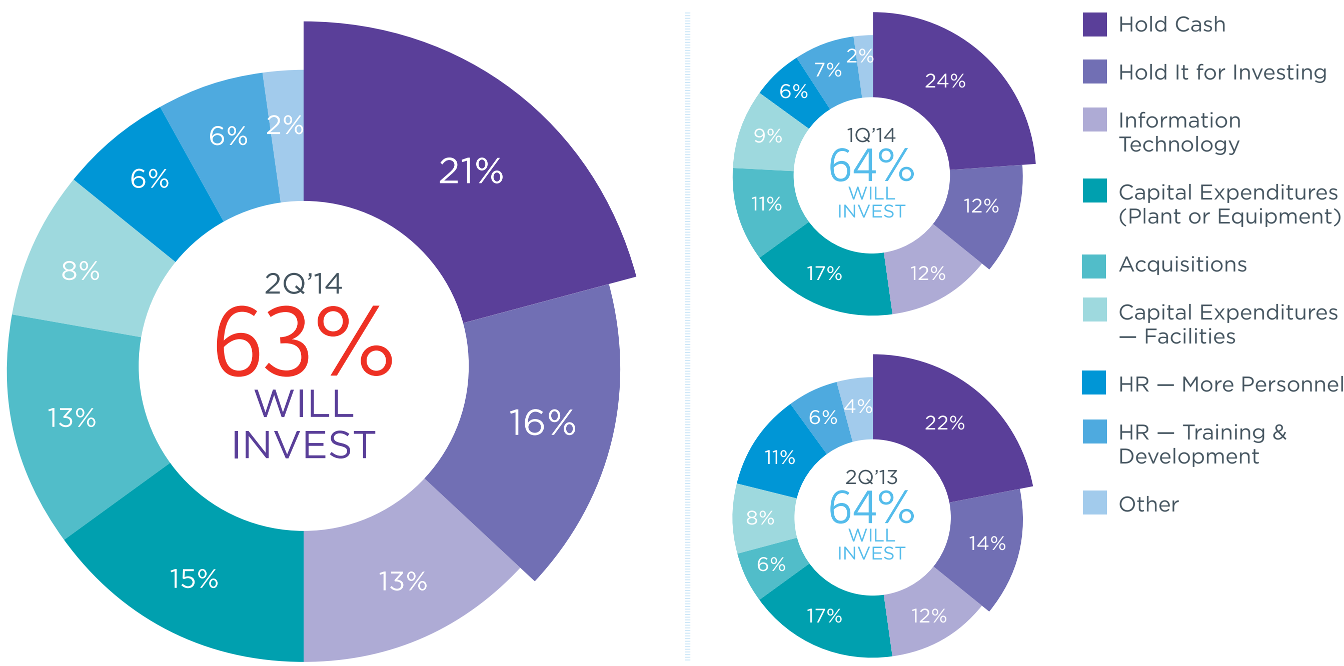
Not confident | Somewhat not confident | Somewhat confident | Confident

CAPITAL INVESTMENT

Capital investment plans remain the same

Over the past year, middle market leaders have not altered their capital investment plans. The number of firms likely to invest additional dollars today is 63%, just one percent off from the 64% that indicated they were likely to invest in Q2 2013. Correspondingly, the 37% of middle market firms currently planning to hold cash is nearly identical to the 36% of firms that said they planned to save one year ago. Not surprisingly, saving and spending patterns have remained relatively stable in each industry. Lower middle market firms are more inclined to hold cash than their larger counterparts, which are more likely to spend on plants, equipment, or IT.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Concerns about the regulatory environment continue to subside

Top challenges for middle market firms have remained consistent this past year. Healthcare costs still top the list, with other margin pressures following closely behind. While uncertainty about government actions remains a key challenge, the significant decrease in middle market leaders who consider this issue "highly challenging" has sustained since last quarter. Just 35% of leaders listed regulatory concerns as highly challenging this quarter, versus a yearly high of 47% in Q3 2013. Lessening concerns over external factors appear to be giving way to growing concerns about business execution: the ability to attract, train, and retain talent now ties government uncertainty for the number five spot on the list of top challenges.

TOP CHALLENGES

1. THE COST OF HEALTHCARE	87%
2. ABILITY TO GROW REVENUE	84%
3. THE COST OF DOING BUSINESS	82%
4. ABILITY TO MAINTAIN MARGINS	82%
5. THE UNCERTAINTY OF HOW GOVERNMENT ACTIONS WILL IMPACT MY BUSINESS	77%

Perspectives

THE MIDDLE MARKET MARCHES AHEAD

If the U.S. economy has turned the corner, it's clear that the middle market led the way. We now have two consecutive quarters of six-and-a-half percent year-over-year revenue growth in the middle market and large gains in confidence: Confidence in their own performance, with 70% saying they expect revenue to grow in the year to come, vs. 59% just three months ago; confidence in their local economies, and, at last, much increased confidence in national and global conditions. Once again, the middle market is outperforming the S&P 500, too: Middle market companies report 6.6% revenue growth, compared to 3.4% for the big firms. It's therefore no surprise that executives appear to be laying plans to continue to push the top line aggressively.

But the ruddy revenue growth and rosy outlook do not seem to have changed the innate caution of the middle market. Executives continue to be close-fisted about new investment and the number who expect to add to payrolls is essentially unchanged. This looks like a productivity play: Companies seem to be determined to consolidate their gains by holding the line on investments in both capital and labor.

One telling indication of the fact that business is good: While 82% of middle market executives list "ability to maintain margins" as one of their top challenges (it's #4 on the list), the percentage who say it is highly challenging has dropped from 33% to 28%, while the percentage who say maintaining margins is only somewhat challenging jumped from 49% to 52%.

GDP DROP? WHAT GDP DROP?

What are we to make of the continued—even accelerating—growth of the middle market in comparison to the performance of the economy as a whole? In particular, what accounts for the middle market's performance in the first half of 2014 vs. the 2.9% decline in GDP during the first quarter? (Preliminary second-quarter GDP figures will appear after the MMI's release.) Part of the answer lies in the fact that MMI data capture year-on-year growth, not quarter-to-quarter data. But there is more to consider. Also, the latest national employment figures (a robust addition of 288,000 jobs in June) and strong earnings reports tell us that the GDP dip may be a localized first quarter phenomenon rather than a broad trend.

Clearly the middle market is not immune to trouble in the broader economy, but several factors explain the middle market's continued strong growth despite the GDP contraction in the first quarter. For one, the entire drop in first quarter GDP could be attributed to a decline in exports and inventory investment, according to the Council of Economic Advisors. The former affects the middle market less than the broader economy, because only 40% of middle market companies take in any revenue from outside the U.S. In the long run, this parochialism is a problem for the middle market—our research shows that companies that seek and serve global markets outperform stay-at-homes. But it insulated the middle market from the first quarter's export troubles. Like the broader economy, the middle market did show first quarter weakness in healthcare. That industry rebounded sharply this quarter, with 68% reporting year-on-year revenue growth, vs. just 52% three months ago, perhaps because people newly insured under the Affordable Care Act are starting to seek more medical care. Looking ahead, the exceptionally strong performance of middle market manufacturing companies—72% report increased year-over-year revenue growth, up from 63% in the first quarter—bodes well for the larger economy and for American competitiveness.

One piece of this generally cheerful picture bears watching, however. Companies in the core of the middle market are noticeably more cautious than their lower and upper middle market siblings. Sixty-one percent expect revenue growth, compared to 70% for lower and 73% for upper middle market companies. The percentage of this group predicting the U.S. economy will grow is down nine points from the first quarter. Thirty-nine percent expect to hire more, compared to 47% and 51% for the other groups. These numbers may reveal nothing more than an abundance of caution in the core of the middle market. Or maybe executives are just catching their breath, since 40% of them (in contrast to 34% and 28% of the lower and upper middle market firms, respectively) reported revenue growth of 10% or more in the past 12 months. Indeed, overall these core middle market executives' mean growth expectations are unchanged, for example, and the number who expect to reduce payrolls has declined since the first quarter.

MIDDLE MARKET AS A GROWTH PLATE

Perhaps most importantly, the data underscore the importance of the middle market to economic growth in America and around the world. Many small businesses—such as dry cleaners, gas stations, hairdressers, clinics, small contractors—grow within relatively narrow bands. Job creation in these sectors is more a matter of new business formation than of adding to payrolls. Above the middle market, in the S&P 500 for example, organic growth slows under the influence of the law of large numbers. Many studies have documented the gap between the organic growth rates of large companies and the growth expectations embodied in their stock prices. Management closes the gap with M&A—inorganic growth. Plenty of companies are exceptions to the rule, of course, but in aggregate it's the middle market where organic growth chiefly occurs.

For now, the middle market's performance seems to suggest it can have the best of both worlds: top line growth that is significantly faster than increases in spending on labor or capital. The conservative management philosophy that seems innate in this sector—with its large percentage of family ownership and deep roots in local economies and communities—has stood it in good stead so far. That stance may be put to the test if the economy picks up steam and global rivalries (and opportunities) become more important.

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.

THE OHIO STATE UNIVERSITY
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.

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

3Q 2014

MIDDLE MARKET INDICATOR

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 45.6 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 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.

U.S. MIDDLE MARKET DEFINED

ANNUAL REVENUE
RANGING FROM
$10MM – $1B

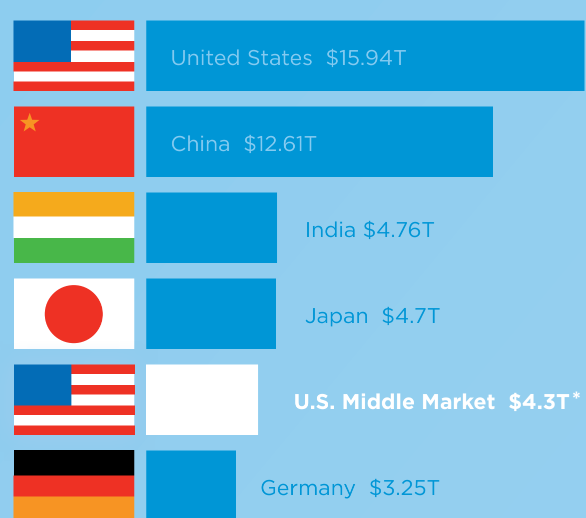
$ LOWER MIDDLE MARKET
$10MM - $50MM

$ $ 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

While year-over-year revenue growth continued to accelerate significantly in the third quarter of 2014 for U.S. middle market firms—7.5% as compared to 6.6% reported last quarter—the increases are driven primarily by the lower middle market—firms with annual revenues between $10 million and $50 million. Growth among the largest middle market firms has remained fairly stable. However, growth is softening among core middle market firms with annual revenue between $50 million and $100 million. This uneven distribution across middle market revenue segments is also reflected in overall company performance, employment growth, and future prospects for continued growth and hiring, with core middle market firms lagging behind their smaller and larger counterparts in all key metrics.

On one hand, strong financial performance and sustained hiring increases for the overall middle market for the third straight quarter clearly indicate that the middle market continues to perform well post-recession. Yet, the declining growth and more cautious outlook of core middle market firms, coupled with less confidence in the global economy, suggests that the middle market continues to contend with significant challenges to sustained growth.

A majority of middle market leaders (62%) continue to report improved company performance over the last 12 months. However, only 51% of core middle market firms say their company is performing better than one year ago, a significant decrease from the 65% of core firms that reported improved year-over-year company performance just last quarter.

"As a manufacturer that provides equipment to contractors in the construction industry, we're seeing increased investment in new machines, rather than just repairs. This is a good indication that the economy is accelerating."

Chief Executive Officer, Manufacturing Company
$18.5MM Annual Revenue
80 Employees

Furthermore, while the percentage of overall middle market firms reporting year-over-year increases in revenue in 3Q 2014 remained near 70% for the second straight quarter, just over half (57%) of core middle market firms reported improved financial performance over the last 12 months, down significantly from 74% last quarter. These core firms grew by 5.3% versus the 8.9% growth experienced by smaller middle market firms and the 6.4% growth reported by larger middle market firms since the third quarter of 2013. Even so, revenue growth for all middle market firms once again outpaced revenue growth for the S&P 500, which was 5.5% for the same period.*

Since the significant increase in employment reported in 1Q 2014, employment growth has remained stable at this higher level for the second straight quarter, with more than 4 out of 10 middle market firms adding employees over the past 12 months. The healthcare industry in particular has seen a significant year-over-year increase in hiring with employment gains near 6%. While the proportion of firms experiencing revenue growth continues to outpace the proportion that added workers in the past year, the gap is narrowing slightly.

In general, the middle market remains optimistic about the potential for both revenue growth and employment growth over the next 12 months. Core middle market firms are more cautious, which helps explain the overall decrease in firms expecting revenue growth in the next year—from 70% last quarter to 64% this quarter. Mean total expected revenue growth for the next 12 months dropped slightly from 5.8% last quarter to 5.5% in total; but dropped significantly among core middle market firms, from 5.4% to 3.1%. Nonetheless, revenue growth projections remain a full 1% higher than at the end of 2013 and the first quarter of 2014.

While confidence among middle market leaders in the global economy is decreasing, most middle market executives remain confident in the national and local economies. This suggests middle market leaders do not view global issues as having a direct impact on their firms.

*Based on Sales/Share data for the S&P 500

REVENUE GROWTH

Smaller middle market firms drive surge in revenue growth

The majority of middle market firms (68%) continue to report year-over-year increases in revenue growth this quarter with mean total revenue growth of 7.5%— the highest percentage of growth reported since the beginning of the survey in 2012. While growth is evident in a broad cross-section of industries, the growth is not evenly distributed across all middle market revenue segments. Growth in smaller middle market firms is accelerating, and the largest middle market firms are experiencing stable growth; however, growth is slowing in core middle market firms.

Core middle market firms are also more cautious about growth prospects for the coming year than their larger and smaller counterparts. Less than half (49%) of core firms expect to grow revenues over the next 12 month, as compared to 67% of organizations on both the smaller and larger ends of the middle market revenue spectrum. Additionally, core middle market firms expect only 3.1% mean total growth over the coming year, whereas the overall middle market expects 5.5% mean total growth.

3Q'14 **68%** of middle market companies reported positive revenue growth. 3Q'13 63%

MIDDLE MARKET

PAST 12 MO.

3Q'14
7.5%

2Q'14 6.6% 3Q'13 5.5%

NEXT 12 MO.

3Q'14
5.5%

2Q'14 5.8% 3Q'13 4.4%

S&P 500

PAST 12 MO.

3Q'14
5.5%

2Q'14 3.4% 3Q'13 3.4%

EMPLOYMENT GROWTH

Employment growth remains strong

For the second straight quarter, middle market firms have sustained the significant employment gains reported in 1Q 2014. Companies reported 3.5% mean total workforce growth over the past 12 months, as compared to 2.8% mean growth reported a year ago. As with revenue growth, core middle market firms lag behind their smaller and larger counterparts. While more than 40% of small and large middle market firms report increased employment compared to one year ago, in the core middle market, just over one-third report increased employment.

Future employment growth expectations remain stable for the overall middle market with 47% of firms expecting to hire over the next 12 months and a mean total expected growth rate of 3.6%. Smaller middle market firms continue to anticipate larger increases in the workforce. However employment expectations in the core middle market have begun to slip: these core firms expect to grow by 2.6% over the next year, down from 2.8% last quarter and 3.0% reported by core firms in 1Q 2014.

3Q'14 **47%** of middle market companies expect to add jobs. 3Q'13 40%

MIDDLE MARKET

PAST 12 MO.

3Q'14
3.5%

2Q'14 3.2% 3Q'13 2.8%

NEXT 12 MO.

3Q'14
3.6%

2Q'14 3.3% 3Q'13 2.1%

ADP [PAST 12 MO.]

LARGE CORP.

3Q'14
2.6%

2Q'14 2.6% 3Q'13 2.4%

SMALL BUS.

3Q'14
2.2%

2Q'14 2.1% 3Q'13 1.8%

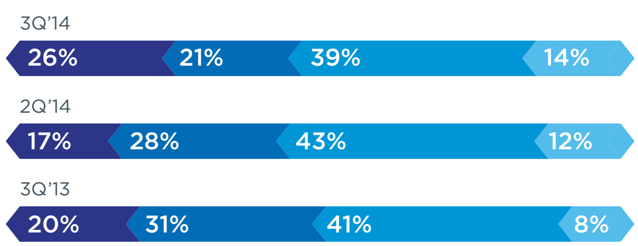
ECONOMIC CONFIDENCE

Confidence in the global economy dips

While the majority of middle market executives remain confident in the global, U.S., and local economies, the number of leaders reporting no confidence in the global economy increased significantly to 26% in the third quarter of 2014, versus 17% in 2Q 2014. This increase is driven specifically by leaders of small and large middle market firms.

Interestingly, the decline in global confidence is not reflected at the national or local level, where confidence remains strong. Approximately 6 of 10 executives at small and large middle market firms believe the U.S. economy will continue to grow in the coming year; however that number drops to 4 of 10 for core middle market firms. At the local level, nearly 75% of executives across all revenue segments are at least somewhat confident in the economy, and only 12% report no confidence at all in their local economies.

GLOBAL ECONOMY



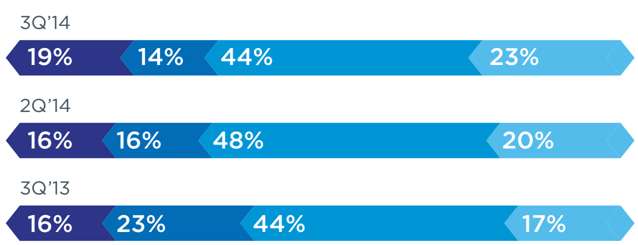
3Q'14

53%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'14 55% 3Q'13 49%

NATIONAL ECONOMY



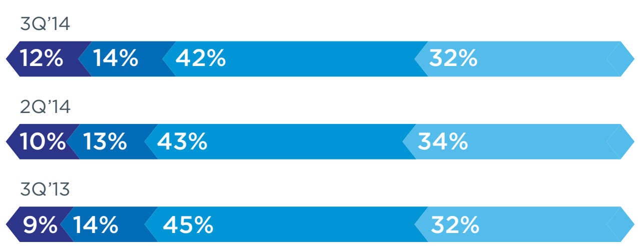
3Q'14

67%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'14 68% 3Q'13 61%

LOCAL ECONOMY



3Q'14

74%

CONFIDENT / SOMEWHAT CONFIDENT

2Q'14 77% 3Q'13 77%

Not confident | Somewhat not confident | Somewhat confident | Confident

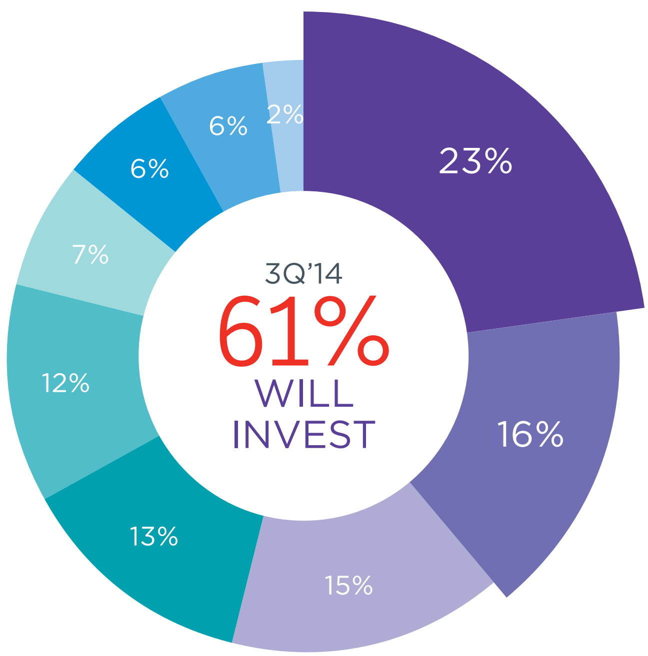
CAPITAL INVESTMENT

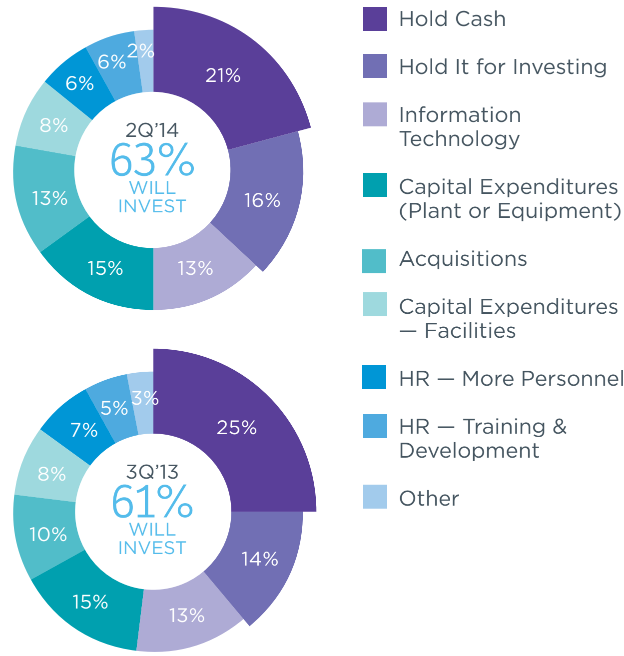
Capital investment plans have not changed

Since 2012, the percentage of middle market leaders planning to hold cash versus those who plan to invest has remained quite stable. Specifically, in 3Q 2014, 61% say they would invest additional dollars while 39% plan to hold on to cash, identical to the numbers reported in 3Q 2013. The inclination to hold cash is similar across all middle market revenue segments and spending and saving patterns are relatively stable across industries.

Capital expenditure is likely to increase over the next 12 months, with 44% expecting to introduce a new product or service, 41% expecting to expand domestically and 24% of middle market firms likely to add a new plant or facility.

ADDITIONAL INVESTMENT ALLOCATION





KEY CHALLENGES

Concerns about healthcare costs are easing

While healthcare costs and other margin pressures, including the cost of doing business, remain the most significant challenges for middle market firms, the percentage of executives indicating healthcare costs as "highly challenging" decreased significantly in 3Q 2014 to 47%, down from 54% last quarter. In addition, concerns over government actions have remained somewhat muted throughout 2014 as compared to mid-to-late 2013. Looking at internal challenges, 70% of firms find it at least somewhat challenging to attract, train, and retain talent, and it is becoming increasingly difficult to fill senior positions. Furthermore, nearly two-thirds (62%) of firms are experiencing wage pressures including paying more to retain existing workers.

TOP CHALLENGES

1. THE COST OF HEALTHCARE	**84%**
2. THE COST OF DOING BUSINESS	**83%**
3. ABILITY TO GROW REVENUE	**82%**
4. ABILITY TO MAINTAIN MARGINS	**78%**
5. THE UNCERTAINTY OF HOW GOVERNMENT ACTIONS WILL IMPACT MY BUSINESS	**75%**

Perspectives

ACCELERATING GROWTH

U.S. unemployment has at long last fallen below 6%. Gross domestic product growth has recovered following a stumble early in the year. The economy seems to have settled into a decent growth rate—better than desultory but worse than ideal.

Things are different in the middle market, which continues to outperform the economy as a whole. America's mid-sized companies have completed a remarkable run in which revenue growth has accelerated for four quarters in a row: 5.0% in the fourth quarter of 2013, then 6.5%, 6.6%, and now 7.5%. For the last year, employment growth in the middle market has averaged about three and a half percent—a full percentage point higher than the average in the eight previous quarters. The middle market has found a higher gear.

But like a car that develops a shimmy above a certain speed, the middle market shows some unevenness in its growth. Three months ago, executives from companies in the core of the middle market expressed less confidence in their future growth than the rest of middle market, and they were right. In the quarter just ended, these firms enjoyed notably lower growth (5.3%) than smaller (8.9%) and larger (6.4%) companies. Now, within this group only one of eight executives say business is getting worse, and that number has not increased; but the number saying business is *better* has fallen from two-thirds to half. It's not clear where the problem is or whether it's temporary; but core middle market executives are, again, conspicuously more cautious in their future revenue projections than the other groups.

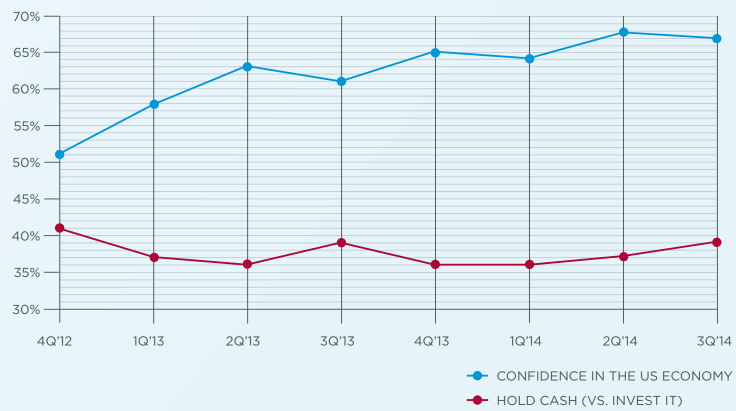
Balancing that out is ebullient growth in the lower end of the middle market and steady progress among firms in the upper middle market—those with revenues between $100 million to $1 billion. The smaller firms are now projecting 6.5% revenue growth, a forecast that is 67% higher than their prediction a year ago. It's also encouraging that almost every industry shows growth that's at least as high as its second-quarter growth. The exception is financial services, where, it should be noted, second quarter-numbers were anomalously high.

THE PRODUCTIVITY PLAY

One possible explanation for somewhat slower going in the middle of the middle market: These companies may be pushing against the limits of the strategy of trying to grow without increasing investments in people or capital equipment. We've noted before that sooner or later, executives will have to open one or both purse strings. There's some evidence that core middle market companies are facing the choice now, especially in the talent market. They are more likely than either smaller or larger firms to say that it is becoming more difficult to attract and retain entry-level and STEM workers. They are also the most likely to say that they'd rather hold onto an additional dollar of revenue as cash than invest it. And they are more concerned than the other groups about their ability to maintain margins, which might indicate they feel pressure to increase wages, capital spending, R&D and marketing budgets, or all of these.

THE CASE OF THE MISSING CAPEX

What are we to make of the middle market's apparent reluctance to make capital investments? Consistently—one might say stubbornly—nearly 40% of middle-market executives tell us they would hold additional revenue as cash rather than invest it, even as their revenue and confidence have increased.



Partly the middle market is reflecting broader realities; in the economy as a whole, net business investment is where it was in 2007, which means it is lower as a share of GDP—though corporate profits have never been higher in relation to GDP.*

But there exist more optimistic explanations for the middle market's low appetite for capital investment. First, rising revenues means that CapEx is increasing in dollars terms even if not as a percentage of sales. Second, a number of trends are lowering the capital intensity of business. There's the long-term move toward a services economy. More intriguing is the rapid rise of cloud-based information technology services. No longer do middle-market companies (and others) have to invest billions in servers, switches, and software; instead, they can rent what they need as they need it. Economists may have underestimated the speed with which the cloud is affecting IT capital spending, though it's evident in the flat sales of enterprise computing companies like IBM and Hewlett Packard. If companies can acquire capabilities without CapEx, that's a good thing for everyone except equipment sellers.

The second explanation has to do with discipline. Jim Collins has documented the fact that the most successful middle market companies manage their finances conservatively to provide stability against crosswinds. We see that discipline in the middle market's focus on investing to strengthen the core business. They want to put money to work to introduce a new product or service (44%) or expand into new domestic markets (41%) more than to expand abroad or add a new facility (25%) or make acquisitions (24%). They are most likely to tap close-to-home sources of funds like local banks or their own profits.

The seemingly low rate of capital expenditure results from a combination of cyclical, structural, and self-imposed factors. Judging from the growth of the middle market, executives have so far done an admirable job of sorting through their choices.

*http://www.stephens.com/PDF/Stephens-Viewpoint-4Q2014.pdf

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.

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

4Q 2014

MIDDLE MARKET INDICATOR

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

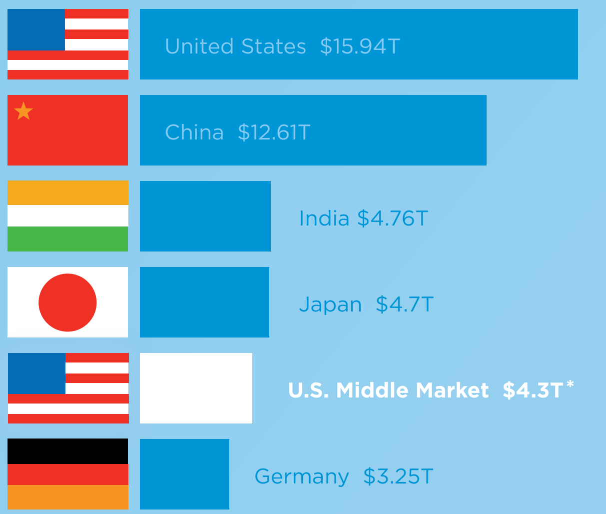
LOWER MIDDLE MARKET
$10MM - $50MM

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

As 2014 draws to a close, performance in the middle market is strong across all revenue segments, capping off a solid year of growth. The outlook for 2015 is equally positive. While core middle market firms (annual revenues between $50 million and $100 million), reported a more cautious outlook in Q3 2014, those concerns have not materialized. In fact, performance in the core segment has reversed course across all key indicators, demonstrating that core firms, as well as larger middle market firms (annual revenues between $100 million and $1 billion), are beginning to reap the rewards of the improving economy. These sizable firms are matching, if not exceeding, the increases reported last quarter by lower middle market firms (annual revenues between $10 million and $50 million).

At the end of 2014, the percentage of firms indicating improved year-over-year company performance jumped significantly to 70% from 62% last quarter. Core and large middle market firms with revenue of $50 million or more drove the increase, with approximately three-quarters of these firms saying performance has improved. All industry sectors reported performance improvements.

Compared to a year ago, the rate of revenue growth is higher across all revenue segments. Lower middle market firms ended the year with a 6.3% growth rate, compared to 4.7% the year before. The core middle market reported 7.9% revenue growth for the year versus 4.8% growth in 2013, while the largest mid-sized firms experienced 8% growth in 2014, compared to 5.7% revenue growth the year before. Additionally, revenue growth for the entire middle market once again outpaced revenue growth for the S&P 500, which was 4.9% for the same period.

"The more we grow, the more the rules seem to change to our disadvantage. As a consequence, we have to take into consideration, the tax implications when planning for growth."

CEO, Manufacturing Company
$13MM Annual Revenue

While revenue growth remains strong, employment growth has accelerated. Significant hiring increases occurred in the core middle market, as well as the manufacturing, wholesale trade, and financial services industries. Employment gains seen since the beginning of 2014 have increased. In fact, the rate of employment growth has doubled since a year ago, with middle market firms adding twice as many jobs in 2014 as they did in 2013. Employment growth, which had been lagging considerably behind financial performance, is beginning to approach rates of revenue growth.

As the majority of middle market firms have experienced sustained success, middle market leaders are more likely to plan on expansion in the coming year. More than two-thirds of leaders indicate a willingness to invest extra cash as opposed to save it. While saving and spending patterns for middle market firms in each industry have been relatively stable over the past years, significantly more firms in the services sector now indicate a willingness to invest.

The number of middle market leaders forecasting growth in both revenue and employment in 2015 has also increased significantly since last quarter. Nearly three-quarters of middle market leaders expect revenues to grow and over half plan to add workers. However, leaders predict slightly lower percentages of growth for both metrics in 2015 than they experienced in 2014. Additionally, almost two-thirds expect the U.S. and local economies to grow.

In an otherwise bright economic landscape, the only apparent shadow is global economic growth expectations. While middle market leaders show increased confidence in the U.S. and their local economies, they are increasingly dubious about the prospects for the global economy, reflecting the slowdowns in Asia and continued sluggishness in Europe.

Healthcare costs and other margin pressures continue to be the top challenges middle market executives face. External factors, such as uncertainty related to government actions, continue to be usurped by internal issues including the ability to attract, train, and retain talent. Middle market business leaders view tax code reform and domestic infrastructure as top issues deserving the attention of the federal government. Specifically, leaders report that a lower federal tax rate and simplified federal tax code are important to their businesses, and nine in 10 middle market executives believe that the current infrastructure could use at least some level of improvement.

REVENUE GROWTH
Core middle market firms rebound after a dip in revenue growth

For Q4 2014, significantly more middle market firms (73%) reported a year-over-year increase in revenue growth than last quarter, and core and large firms are driving the surge. Specifically, 79% of firms with revenue between $50 million and $100 million reported year-over-year revenue growth in Q4 2014 versus 57% last quarter. Since last quarter's jump in mean total revenue growth for the overall middle market, the numbers remain fairly stable at 7.2%, up from 5.0% in Q4 2013.

Nearly three-quarters (74%) of middle market firms expect revenue to increase in 2015, up 10% from Q3 2014. While firms across all revenue segments expect to grow, the core middle market has shown a dramatic turnaround in future outlook. Eight in 10 core firms currently anticipate growth, versus less than half (49%) that reported expected future growth last quarter. The overall middle market expects to grow by 6% over the next 12 months.

4Q'14 **73%** of middle market companies reported positive revenue growth. 4Q'13 59%

MIDDLE MARKET

PAST 12 MO.

4Q'14 **7.2%**

3Q'14 7.5% 4Q'13 5.0%

NEXT 12 MO.

4Q'14 **6.0%**

3Q'14 5.5% 4Q'13 4.3%

S&P 500

PAST 12 MO.

4Q'14 **4.9%**

3Q'14 5.5% 4Q'13 3.9%

EMPLOYMENT GROWTH
Employment growth approaches revenue growth

While the rate of revenue growth has consistently outpaced the rate of employment growth in the middle market, in Q4 2014, the gap narrowed noticeably. Almost half (49%) of middle market leaders reported an increase in staff over the past year, and mean total year-over-year employment growth increased significantly to 5.0%, doubling since Q4 2013. As with revenue growth, the surge in employment growth is most noticeable in the core middle market, where 52% reported past year employment increases, up dramatically from 36% last quarter. These firms reported 6.5% past year employment growth, versus 2.4% in Q3 2014.

For the first time since the beginning of the MMI in 2012, more than half (52%) of firms expect employment to increase over the next year. At the end of 2013, less than 4 in 10 firms expected to hire. Additionally, the rate of expected growth for the coming year is nearly double what it was a year ago, with firms expecting to grow employment by 4% in 2015.

4Q'14 **52%** of middle market companies expect to add jobs. 4Q'13 38%

MIDDLE MARKET

PAST 12 MO.

4Q'14 **5.0%**

3Q'14 3.5% 4Q'13 2.5%

NEXT 12 MO.

4Q'14 **4.0%**

3Q'14 3.6% 4Q'13 2.2%

ADP [PAST 12 MO.]

LARGE CORP.

4Q'14 **2.2%**

3Q'14 2.6% 4Q'13 2.3%

SMALL BUS.

4Q'14 **2.2%**

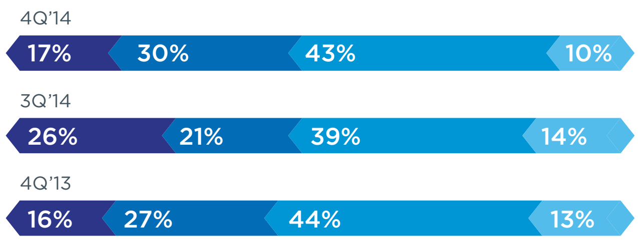
3Q'14 2.2% 4Q'13 2.0%

ECONOMIC CONFIDENCE

Global confidence weaker than national and local confidence

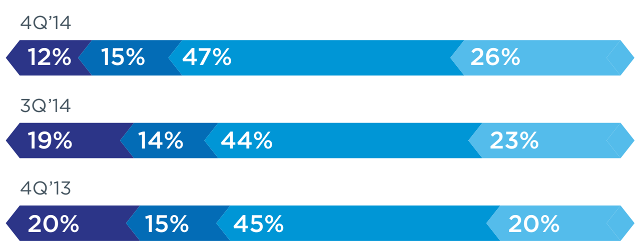
Eight in 10 middle market leaders express confidence in the local economy and nearly three-quarters are confident in the U.S. economy. Yet, just over half have a positive or somewhat confident outlook regarding the global economy. Even so, while global economic confidence has slipped slightly since the first quarter of 2014, current global confidence levels remain well above those reported in 2012 and early 2013. Global economic growth expectations have been relatively flat throughout 2014, but expectations for growth in the U.S. and local economies have risen steadily. This quarter, significantly more middle market leaders said they expect the U.S. and local economies to grow than last quarter. The leaders also expect a significantly higher percentage of U.S. economic growth. In particular, firms with $50 million or more in revenues have become increasingly optimistic about the future of the U.S. economy. The manufacturing, construction, and financial services sectors also share heightened expectations.

GLOBAL ECONOMY



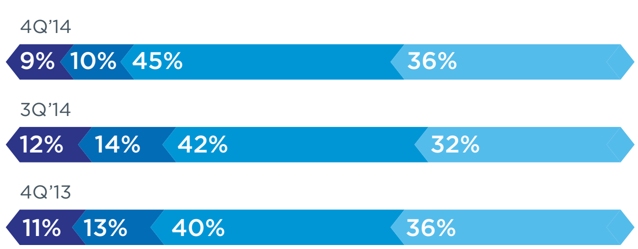
4Q'14
53%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'14 53% 4Q'13 57%

NATIONAL ECONOMY



4Q'14
73%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'14 67% 4Q'13 65%

LOCAL ECONOMY



4Q'14
81%
CONFIDENT / SOMEWHAT CONFIDENT
3Q'14 74% 4Q'13 76%

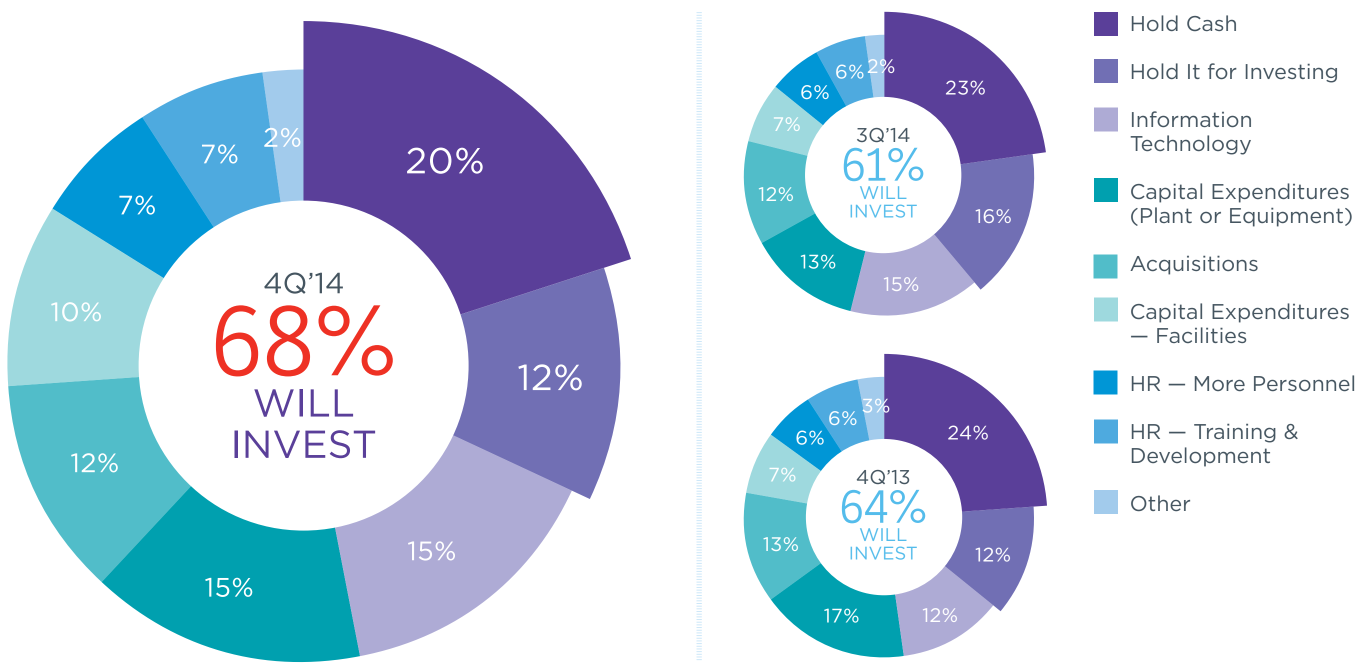
Not confident   Somewhat not confident   Somewhat confident   Confident

CAPITAL INVESTMENT
More firms are willing to invest

For the first time since the fourth quarter of 2012, there is a noticeable increase in the number of middle market leaders who say they would invest additional revenue rather than save it as cash. In Q4 2014, more than two-thirds (68%) say they would invest, while 32% say they would keep their cash, nearly a 10% difference from the end of 2012.

Specifically, significantly more lower middle market firms (with less than $50 million in revenues) say they would invest extra money in plant/equipment or facilities. For the overall middle market, 24% of firms plan to add a new plant or facility in 2015, while half of firms intend to introduce a new product or service, and 43% hope to expand domestically.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES
Firms remain focused on managing their businesses

Challenges faced by middle market firms have remained consistent throughout 2014, with the cost of healthcare still topping the list. However, the number of leaders listing healthcare costs as "highly challenging" has remained somewhat muted over the last two quarters. Middle market leaders primarily contend with issues related to growing and managing their businesses, such as controlling costs, growing revenues, and maintaining margins. The ability to find and keep talent reversed its dip from last quarter, returning to its spot in the top five challenges. Uncertainty related to government actions has lessened since 2013, with just 32% of leaders saying the issue is "highly challenging" versus 44% in Q4 2013.

TOP CHALLENGES

1. THE COST OF HEALTHCARE	**88%**
2. THE COST OF DOING BUSINESS	**84%**
3. ABILITY TO GROW REVENUE	**82%**
4. ABILITY TO MAINTAIN MARGINS	**80%**
5. ABILITY TO ATTRACT, TRAIN AND RETAIN TALENT	**77%**

Perspectives

THE WALLETS OPEN

Last quarter we wrote about a "productivity play" in the middle market: Executives were enjoying strong revenue growth but holding the line on new hiring and capital spending. This way top-line gains would, as much as possible, fall straight to the bottom; this way, too, companies could postpone new investment until they were sure as sure that the recovery was real and solid.

That productivity play could not go on much longer, we suggested. We were right. Responding to sustained, strong growth and increasingly confident about the American economy (though more cautious about global markets), middle market executives have opened their wallets to invest in both human capital and capital equipment significantly more than in the past.

Employment growth in the middle market accelerated each quarter of 2014, foreshadowing and driving job growth in the U.S. economy as a whole. The cumulative impact: 5% year-on-year job growth, exactly twice as much as the 2.5% increase we reported a year ago, and the highest we have seen in the three years the NCMM has been producing the Middle Market Indicator.

Digging inside the employment figures reveals that companies are investing in jobs to increase productive capacity, not just filling gaps in the ranks. First, the percentage of new hires who are full-time employees, which was in the low 70s two years ago, has risen to an average of 76% in 2014, suggesting that companies are increasingly hiring for the long term. Second, more companies report hiring in operations and IT than in the past, indicating that they are staffing up in response to continued sales growth. (Hiring in finance, HR, and marketing and sales has remained pretty steady—however, some of the IT hiring is almost certainly related to marketing and sales activities like analytics.)

Capital spending shows a similar increase in confidence with 68% of executives saying they would invest an extra dollar of revenue rather than save it. Again, this is the highest number we have seen in three years. Interestingly, the stronger appetite for investment is entirely explained by organic growth: Lower, core, and upper middle market companies all say they will invest more in new equipment, facilities, and IT; but their desire to acquire other companies has actually diminished compared to this time last year. Only in the wholesale trade industry does it appear that inorganic growth is a significantly higher priority than it was last year.

NEW, BIGGER, OR BOTH?

Precisely half of middle market companies say they plan to introduce a new product or service in 2015. That, too, is a bullish figure and the highest in the MMI's three-year history. It is up from 43% in the fourth quarter of 2013. Companies also are more likely to expand domestically (43%, vs. 40% a year ago), add a new plant or facility (24% vs. 21%), and expand internationally (23% vs. 19%), but it's clear that the emphasis is innovation first, scale second.

The emphasis is different for the fastest-growing mid-sized companies. They are more likely to introduce new products or services than their counterparts, of course, but they are also much more aggressive about building scale by expanding into new markets or increasing capacity, whether for new offerings or old ones. This table compares the expansion plans of companies that forecast top line growth above 10% next year with the middle market as a whole, which forecasts 6% growth.

PLAN TO:	ALL MIDDLE MARKET *(MEAN PROJECTED GROWTH 6.0%)*	FAST GROWERS *(MEAN PROJECTED GROWTH >10%)*	DIFFERENCE
Introduce a new product or service	50%	60%	+20%
Expand into new domestic markets	43%	56%	+30%
Add a new plant or facility	24%	32%	+33%
Expand into new international markets	23%	29%	+26%

TO BE SURE

Every silver lining has its clouds. The main message of the fourth quarter MMI is that the U.S. middle market had a remarkably strong year. Every industry experienced growth, some at varying points of the year and others at varying rates. Lower, core, and upper middle market companies all did well, and the hesitancy we saw in the core middle market last quarter appears to have been just that—a hesitation before renewed strong progress.

Growth is not without pains, however. Talent gaps are becoming more critical in managerial, professional, and technical fields. A growing number of middle market executives say that neglect of the nation's infrastructure is inhibiting their ability to grow. Indeed, 9 out of 10 say infrastructure needs improvement, and half say they'd support tax increases to pay for it--though they also say that taxes are too high and too complicated. They are, as always, concerned about costs. Most middle market companies are benefiting from lower oil prices—but not energy producers and distributors, of course. And as the middle market becomes increasingly global, the continued weakness in Europe and Asia is a concern for a growing number of firms.

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.

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