

1Q 2013

MIDDLE MARKET INDICATOR



NATIONAL CENTER FOR
THE MIDDLE MARKET

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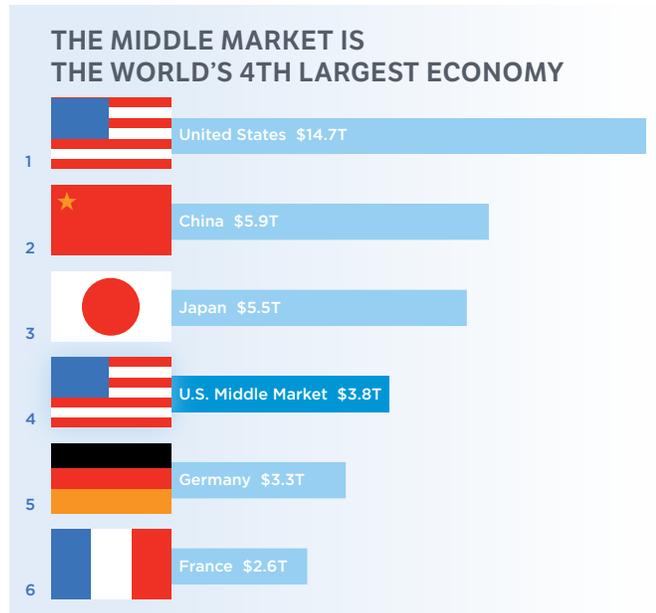
GE Capital

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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 continue to show consistent growth, although at lower levels than they were seeing at the end of 2012. Many of the same challenges – higher tax rates, a lack of clarity concerning healthcare costs, and the ability to grow margins – persist as leading concerns for managers as they move further into 2013.

Confidence among middle market managers is improving in their expectations for the global, U.S. and local economies. Companies also are increasingly planning to invest extra cash instead of holding onto it, spending that could prove to be a positive sign for the future as the middle market remains a potent engine for growth and employment for the entire U.S. economy.

Employment prospects for middle market companies also are improving with more companies indicating their likelihood to add employees in 2013 – a trend that would continue to position the middle market as a critical job generator within the U.S. Companies, however, remain challenged with finding the right workers, and managers cite a gap in skills as one of their biggest barriers to adding jobs.

Overall, the middle market remains positive about their current and future growth prospects with sentiment returning to levels seen at the beginning of last year.

“We have rolled out several new product lines in the past few years. We will continue to invest in our core products and digital offerings.”

– President, Business Services, \$20MM annual revenue, 50 employees

Key Findings:



MIDDLE MARKET COMPANIES CONTINUE TO GROW, UP 5.8% FOR THE PAST 12 MONTHS

Revenue continues to grow with 63% of firms saying that gross revenue grew during the past 12 months. That's down slightly from the fourth quarter of 2012. The mean revenue growth fell to 5.8%, with most of the decline coming from the largest middle market companies.

Companies also expect performance in the coming year to be better with 64% projecting revenue to grow, although at a slightly lower average of 4.9% than the 5.2% average at the end of the fourth quarter.



CONFIDENCE IS RETURNING

Companies slowly are becoming more confident in the global and U.S. economies, while most remain confident in their local economies. More middle market companies said they were somewhat confident in the global economy (34% up from 29% a year earlier). Those "somewhat confident" in the U.S. economy grew to 43%. Those "somewhat confident" in the local economy remained at 46%.

Middle market companies also are increasingly confident that the global and U.S. economies will grow in the next 12 months with 38% expecting growth in the global economy and 58% expecting the U.S. economy to expand.



INVESTMENT IS PREDICTED TO INCREASE

Since the second quarter of 2012, the number of managers who plan to invest extra cash has increased with 63% now looking for opportunities to invest. That's up from 50% in the second quarter. The number of companies planning to hold onto cash has steadily decreased in the same period to 37% from 49%.



EMPLOYMENT GROWTH FORECASTED TO CONTINUE

More than a third of Middle Market companies plan to add employees in the next year. The mean growth in number of employees is expected to be 2.1%, a slight decline from 2.3% in the fourth quarter, but still evidence that companies will continue to hire workers. Growth is similar across the middle market with all industry sectors anticipating at least marginal employment increases during the year.



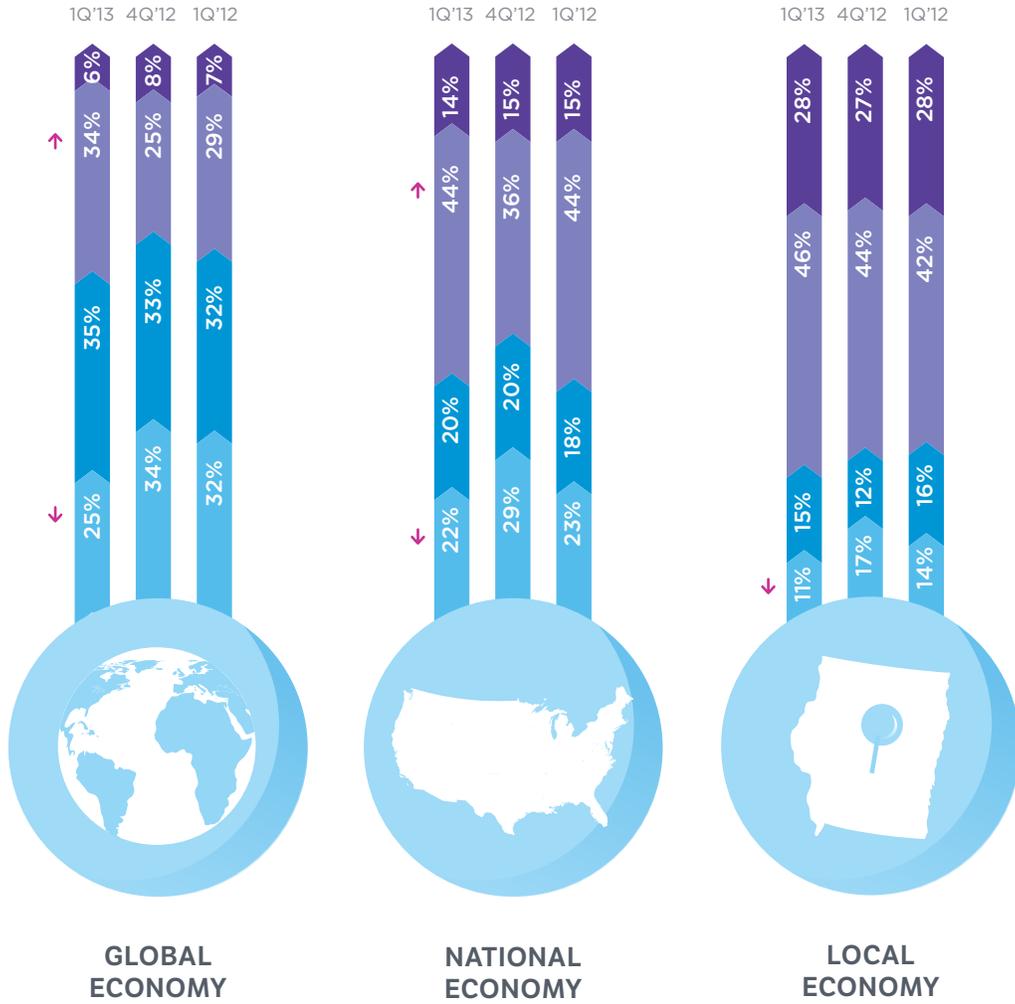
CHALLENGES INCLUDE HEALTHCARE, TAXES, AND THE SKILLS GAP

The middle market continues to cite the cost of healthcare as the main challenge to their businesses; this remains unchanged as the leading issue for these companies over the past 12 months. Companies also say the cost of doing business, the ability to continue to grow revenue, and maintaining margins will remain challenging in 2013.

Uncertainty over higher taxes and skills gap issues are also holding down growth rates: Companies say higher taxes would affect their businesses. Of those 71% that felt higher taxes would affect business, many would adopt painful mitigating strategies with 30% likely to institute a hiring freeze. Also, 30% of respondents would decrease investment, while 29% would reduce employee benefits and 20% would lay off employees.

Firms also were concerned about their abilities to maintain margins and the rising cost of doing business. This is unchanged from much of the year's responses.

Economic Confidence Indicators



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
1Q'13 5.8%	1Q'13 4.9%
4Q'12 7.0% 1Q'12 6.9%	4Q'12 5.2% 1Q'12 5.2%

Employment Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
1Q'13 2.2%	1Q'13 2.1%
4Q'12 2.7% 1Q'12 1.5%	4Q'12 2.3% 1Q'12 N/A

S&P 500

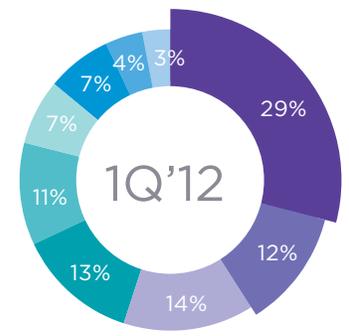
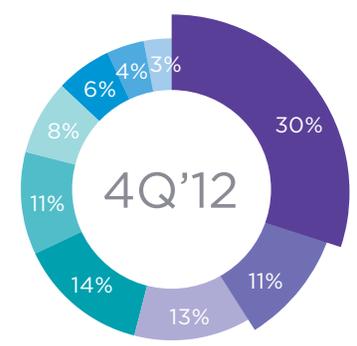
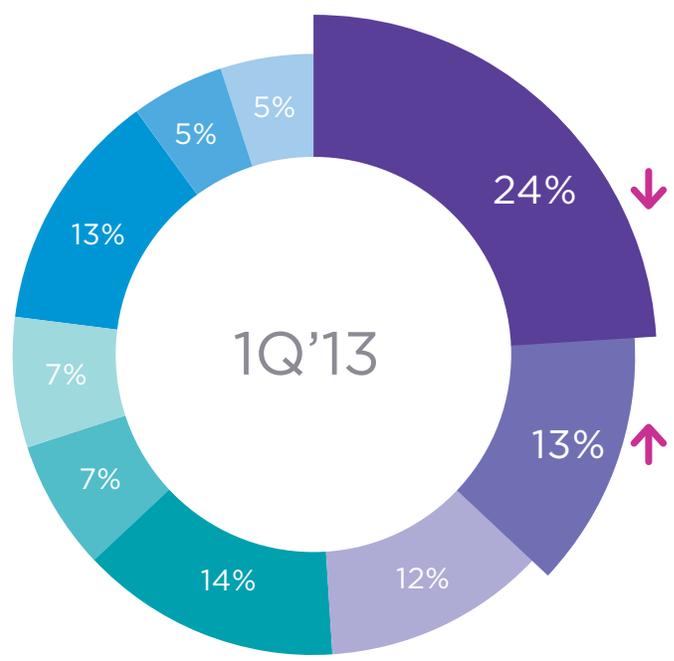
PAST 12 MO.	NEXT 12 MO.
1Q'13 5.6%	1Q'13 2.8%
4Q'12 2.9%* 1Q'12 9.4%	4Q'12 3.5% 1Q'12 4.7%

ADP (PAST 12 MO.)

LARGE CORP.	SMALL BUS.
1Q'13 2.3%	1Q'13 1.5%
4Q'12 2.1% 1Q'12 1.7%	4Q'12 1.2% 1Q'12 1.9%

*4Q Sales/Share Data not available so estimate was used for calculation.

Incremental Investment Allocation



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

Recent & Expected Growth

Revenue

The performance of middle market companies remained steady in the first quarter of 2013 compared with the same period a year ago. Of the companies surveyed, 58% said business in the first quarter improved compared with the first quarter of 2012. That's slightly down from 62% in the previous year's period. But those who said business deteriorated dropped to 10% from 13% a year ago.

Average revenue growth of 5.8% dipped marginally from 6.9% in the first quarter of 2012, but is still slightly better than the third quarter's growth of 5.5%.

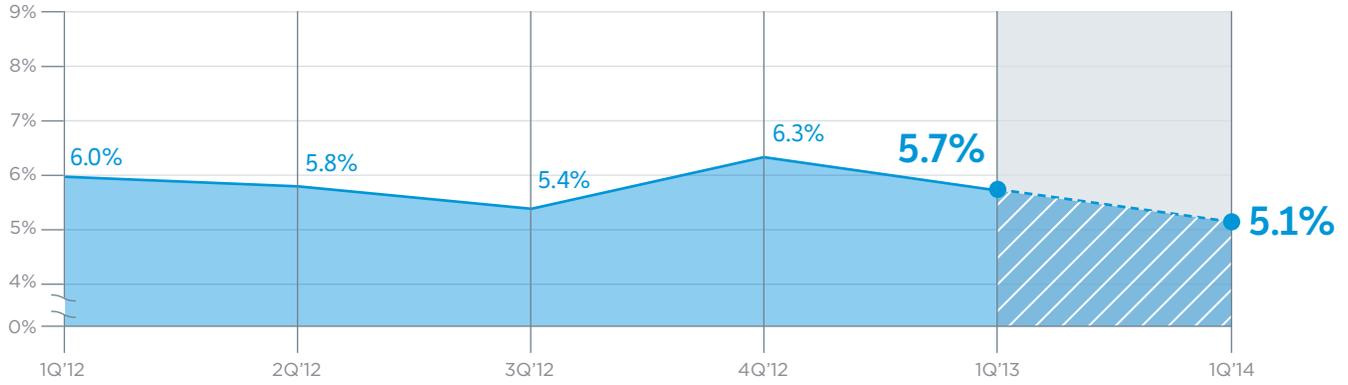
While revenue growth was down across the board, larger middle market companies, those with more than \$100 million in annual revenue, had the biggest decline in growth with the average dropping to 5.8% from 8.3% in last year's first quarter. While companies with smaller revenues also showed signs of slowing growth, they still haven't dropped below the lowest levels in 2012.

And most of the middle market expects the trend of revenue growth to continue albeit at a slower pace with an average predicted growth of 4.9% in the next 12 months. Companies of all sizes anticipate revenue growth while those with revenues less than \$100 million expect slightly higher rates of growth than their larger counterparts.

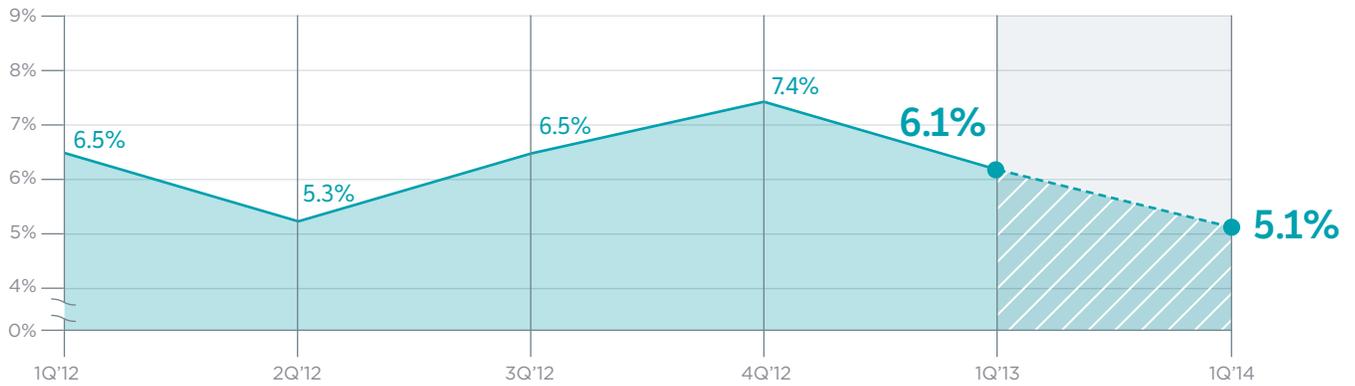
All sectors anticipate gains in the next 12 months with service companies expecting to post the strongest increases, expecting a mean growth rate of 7% in the next 12 months, up from 6.3% in the fourth quarter of 2012. Construction showed one of the larger declines in expected growth with levels returning to those at the beginning of 2012.

Revenue Growth By Segment

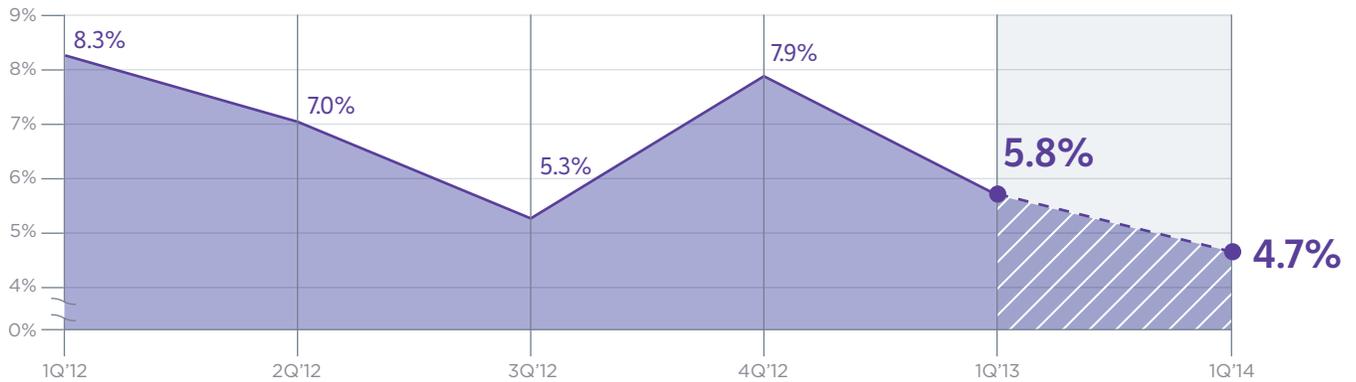
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B



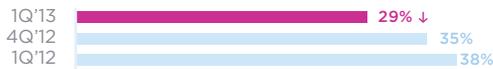
Revenue Performance

Year over year gross revenue continues to grow, although not at the higher rate reported at the end of 2012.

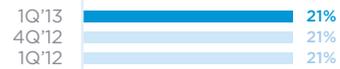
PAST 12 MONTHS

NEXT 12 MONTHS

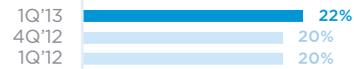
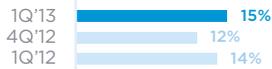
+10% OR MORE



+5% OR MORE



+1-4%



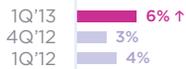
NO CHANGE



-1-4%



-5-9%



-10% OR MORE



TOTAL GROWTH

1Q'13 **5.8%**
4Q'12 7.0% 1Q'12 6.9%

1Q'13 **4.9%**
4Q'12 5.2% 1Q'12 5.2%

Revenue Performance by Industry

Revenue growth has maintained the levels seen in the fourth quarter of 2012 in all industry segments.

PAST 12 MONTHS



NEXT 12 MONTHS



Recent & Expected Growth

Employment

The middle market also is adding jobs with 38% saying their workforce has increased from the same period last year. The average growth for middle market companies was 2.2%, compared with 1.5% in the first quarter of 2012.

Companies of all sizes and across industry sectors are adding jobs. Much like revenue, the services sector added the most employees, with an average growth of 4%. Healthcare added 1.9%, which was on the lower side, but not unexpected given continued uncertainty about implementation of expected reforms.

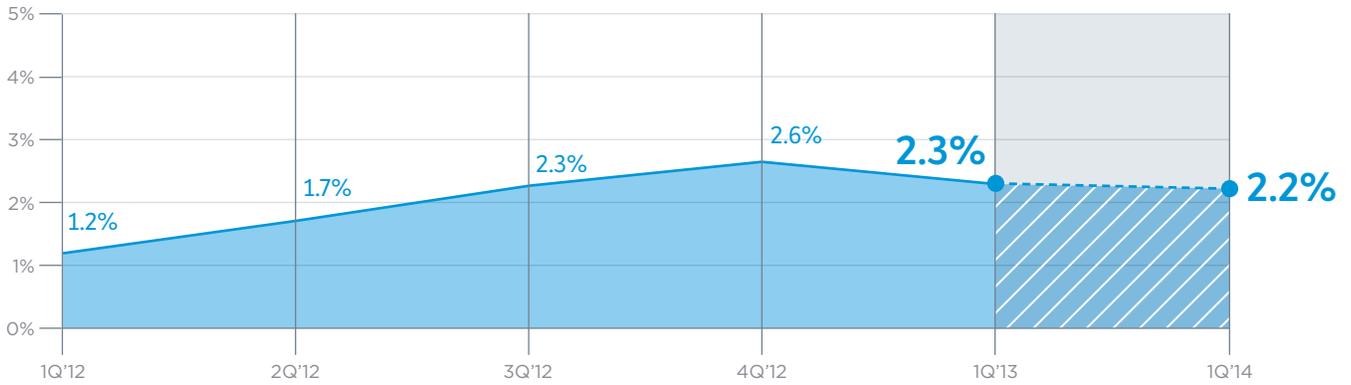
Employment gains likely will continue as 38% of middle market companies say they plan to add workers in the coming year. The overall average expected increase in employment is 2.1%, an increase from 1.8% in the first quarter of 2012. Middle market companies of all sizes and in every sector plan to add workers.

About one in five companies said they plan to introduce a new product or service in 2013, a strong signal that the middle market is healthy and poised for growth. Of executives surveyed, 18% said they would add new products while 15% planned to expand into new domestic markets.

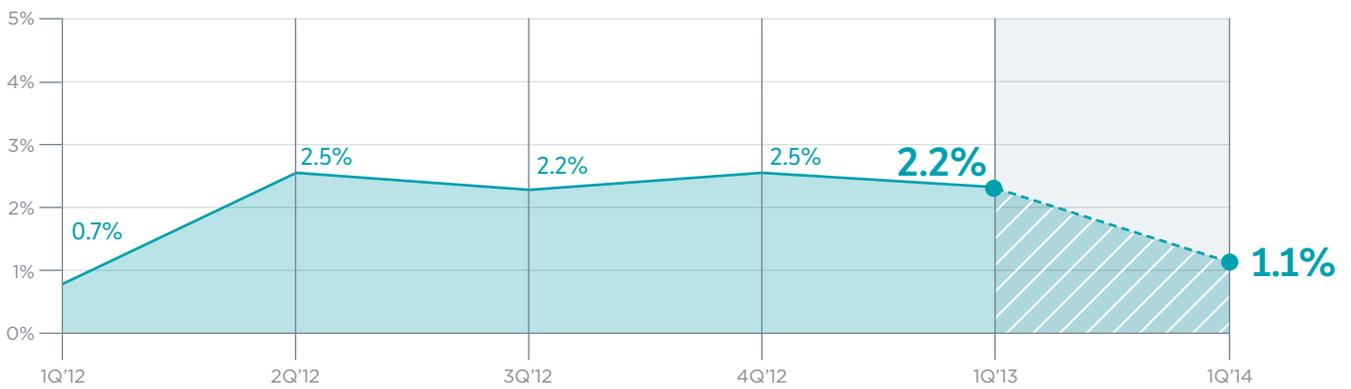
With nearly a third of the private sector GDP and employment in the U.S. coming from the middle market, such plans for expansion should help boost the U.S. economy in 2013.

Employment Growth By Segment

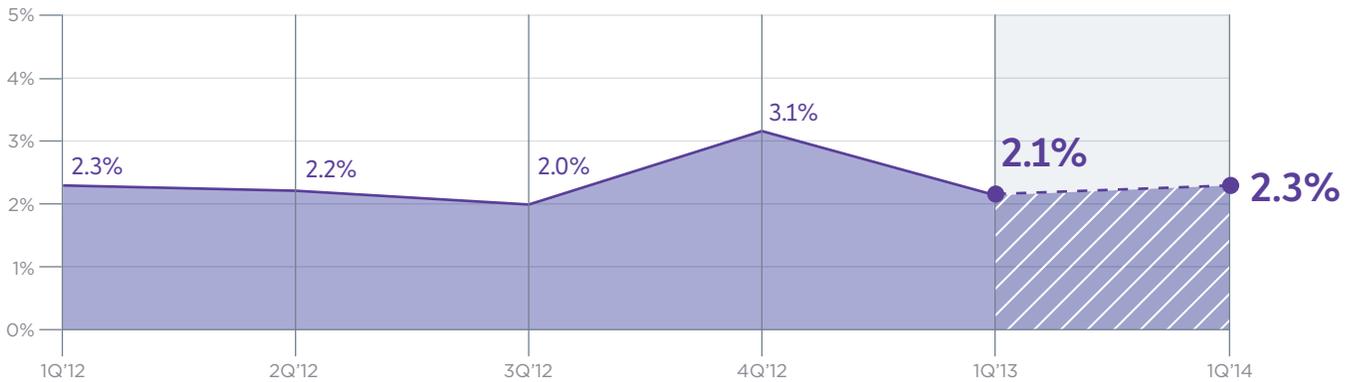
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B

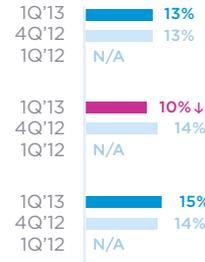
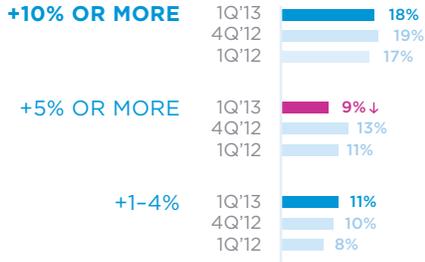


Employment Performance

Employment continues to show growth compared to the same time period one year ago.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

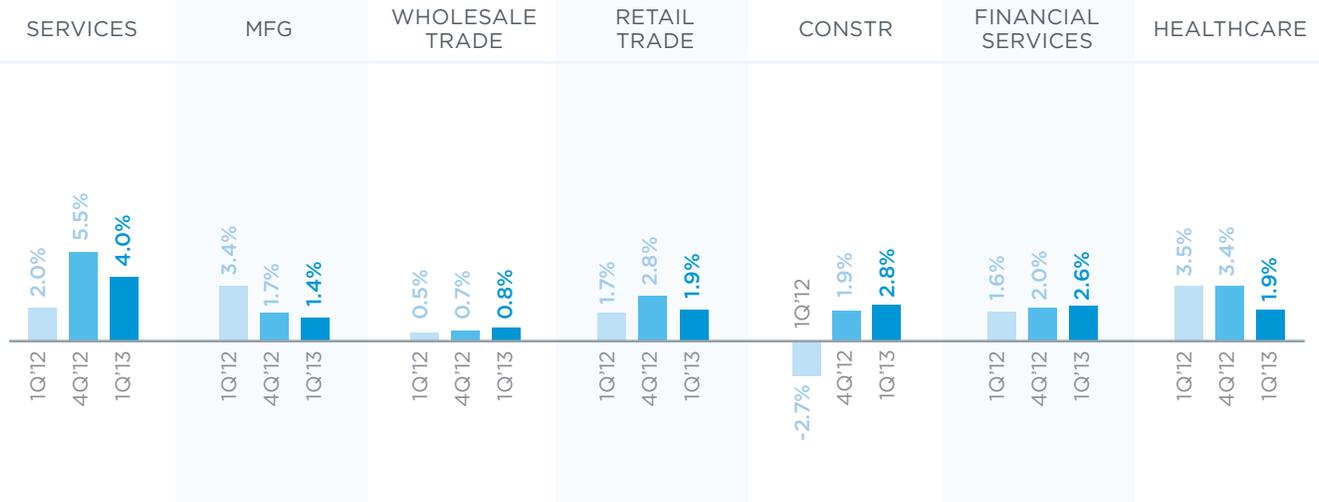
1Q **2.2%**
4Q 2.7% 1Q/12 1.5%

1Q **2.1%**
4Q 2.3% 1Q/12 N/A

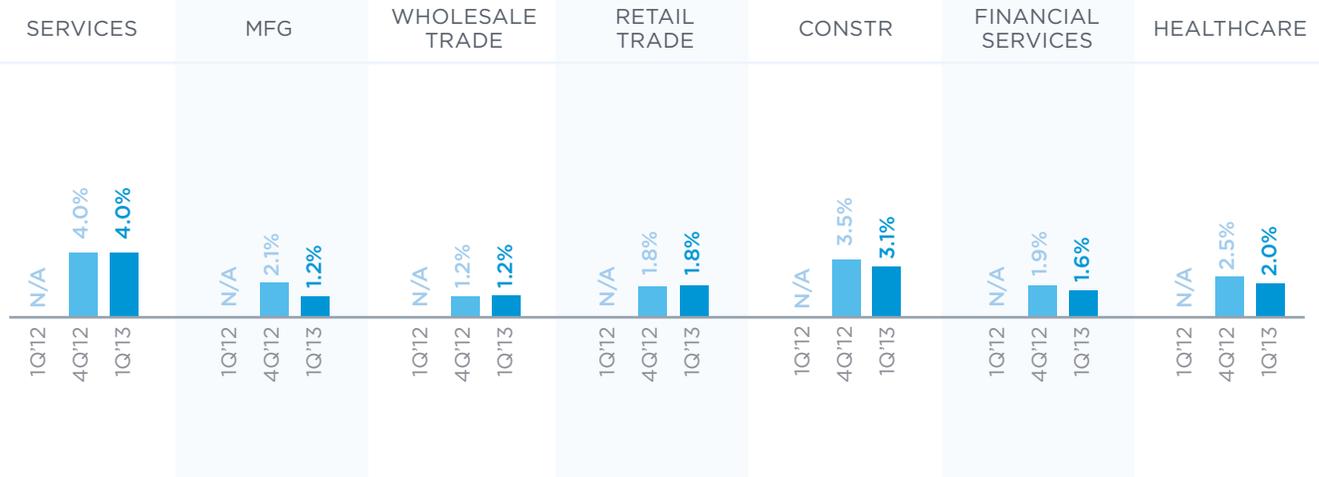
Employment Growth by Industry

All industry sectors have enjoyed at least marginal employment growth since a year ago.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Confidence in the global and U.S. economies is improving gradually, but remains close to levels reported in the first quarter of 2012. Nearly half of middle market companies are at least “somewhat confident” in the U.S. economy with companies in the middle revenue segment showing the most confidence.

Middle market companies express the most confidence about their local areas with 28% “confident” in the economic outlook, little changed from most of 2012. Services, retail trade and healthcare companies showed the biggest gains in sentiment about the global economy.

In terms of future outlook, most companies believe that their local economies will grow. Gains seen at the company level in the fourth quarter of 2012 have held steady with 64% of firms expecting to grow in the next 12 months. Lower and mid-sized middle market companies are growing more confident about the prospects for the global economy with 63% of mid-sized companies (\$50MM - \$100MM) believing the U.S. economy will get better.

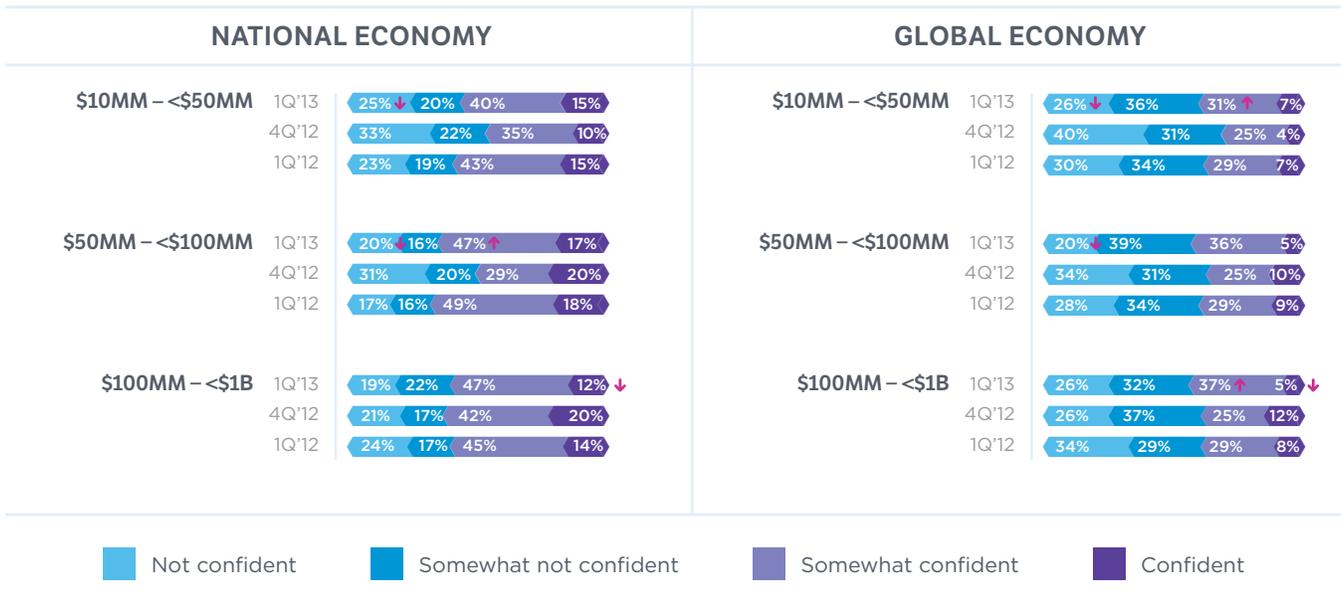
The services and financial sectors are the most optimistic about growth in the U.S. and global economies with 68% of services companies and 62% of financial companies saying the U.S. economy will expand.

“We have previously sourced some products from China but with environmental concerns, plant shutdowns, and supply chain disruptions we are being asked by customers to make more and more products. We have identified a few to make domestically and supply to North American customers.”

— CFO, Manufacturing, \$55M annual revenues, 450 employees

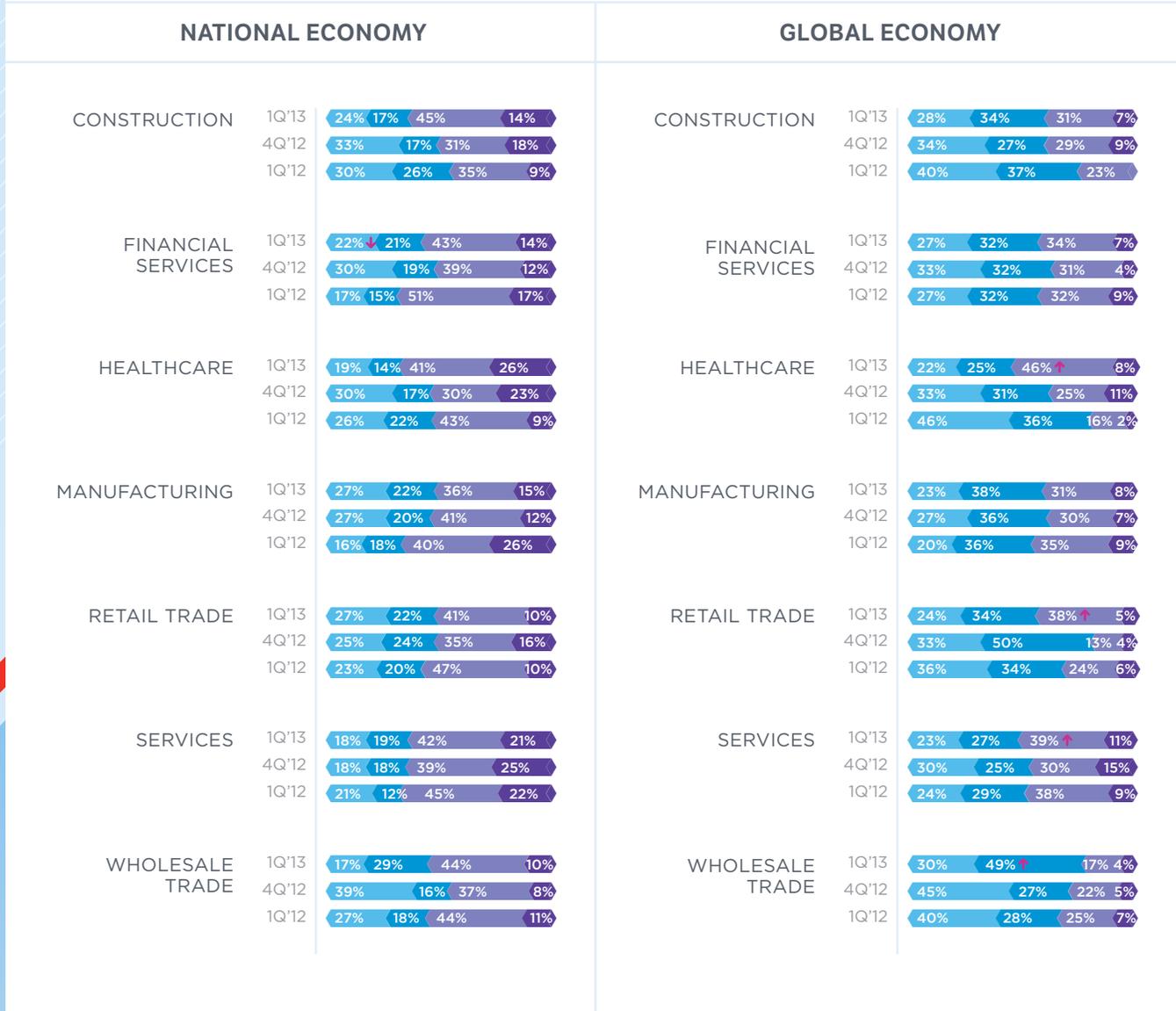
Confidence by Revenue Segment

Middle market companies of all sizes are becoming more confident in the global economy. Core middle market firms are driving increasing confidence in the national economy.



Confidence by Industry

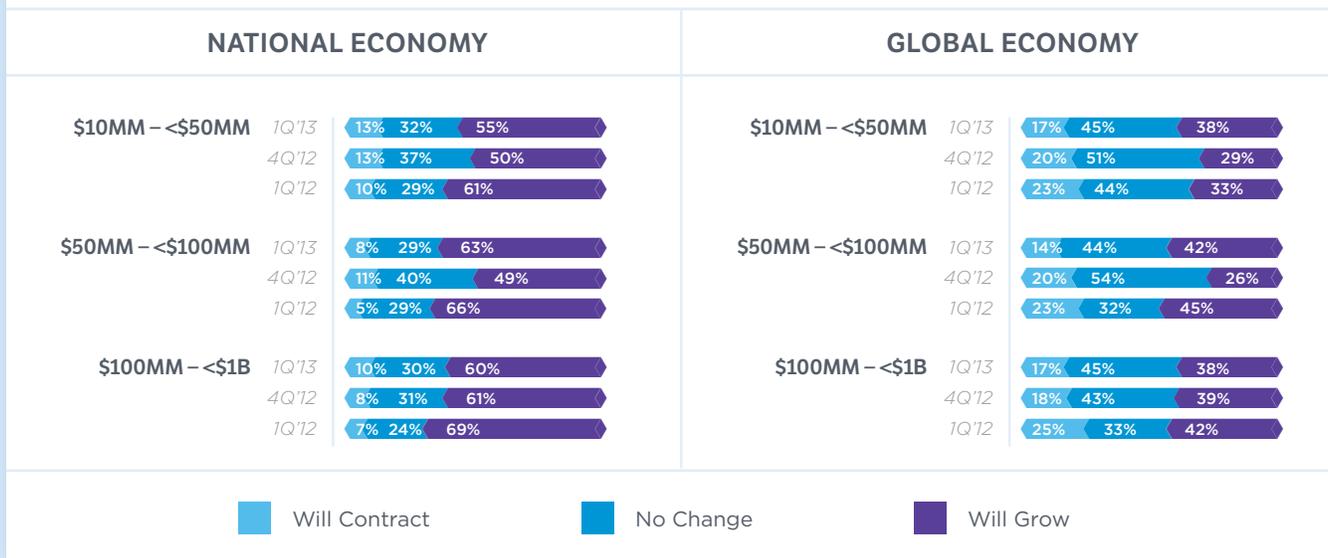
Increases in confidence in the global economy are most apparent in the services, retail trade and healthcare industries.



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

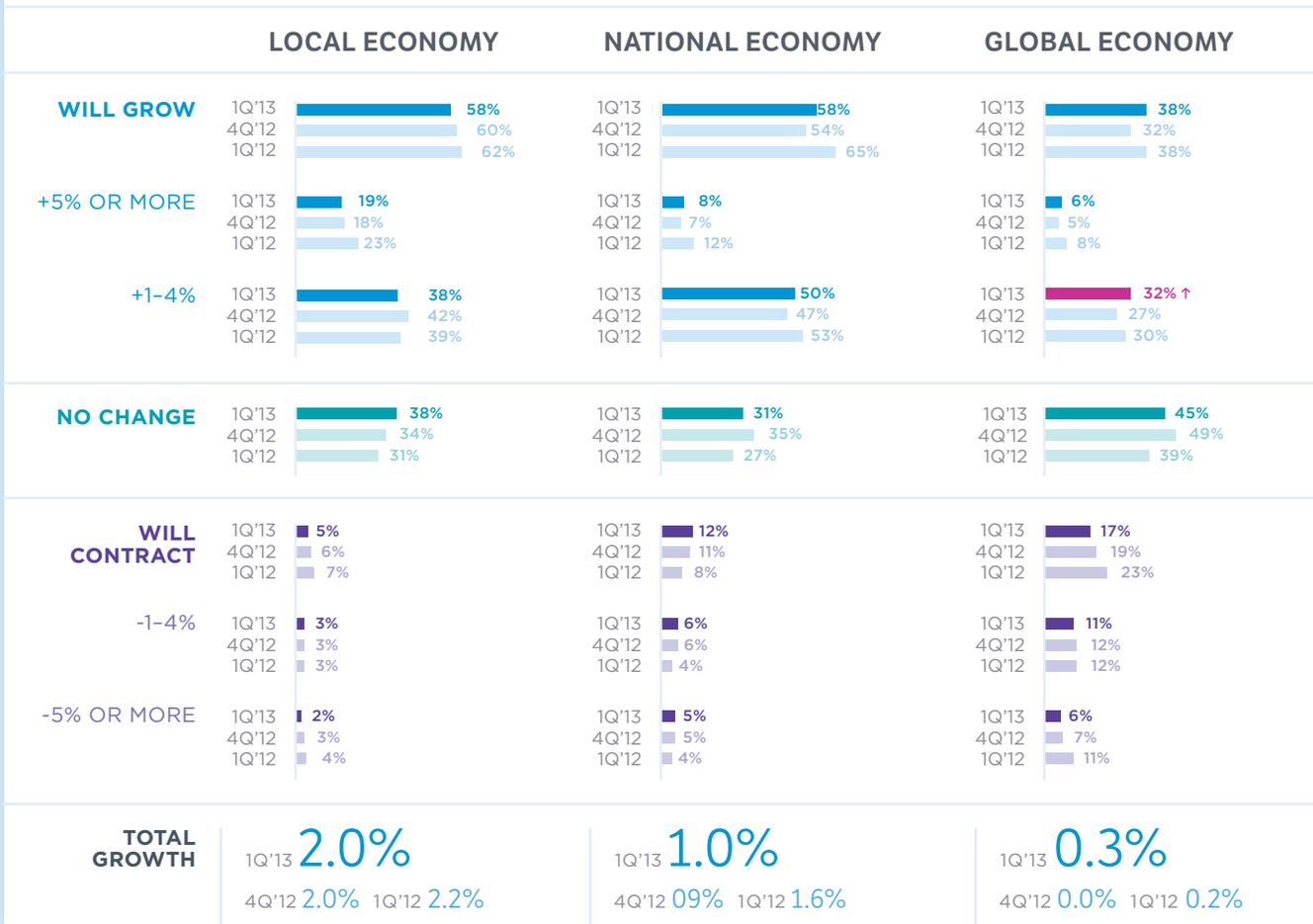
Economic Growth Outlook by Revenue Segment

Small and mid-size middle market firms are increasingly optimistic about the growth prospects of the global economy. More mid-size companies are also indicating an expectation of national economic growth.



Economic Growth Outlook

The increases in assessments for positive growth at the local economy and firm level observed in the fourth quarter of 2012 have held steady, while the number of companies expecting global and US economy growth has continued to climb steadily since the second quarter of 2012.



Economic Growth Outlook by Industry

The outlook for the global and national economy is most improved in the services and financial sectors.



Challenges

Despite receiving some clarity around new healthcare laws, the U.S. debt debate and budget negotiations, middle market companies expressed concern about lingering challenges going into 2013.

Uncertainty over healthcare costs remains the biggest challenge for the middle market with 92% of respondents calling it somewhat or highly challenging. This is unchanged from previous quarters and remains a constant across size, industry and confidence level.

Besides healthcare, executives are concerned about the cost of doing business (89% of respondents called this highly or somewhat challenging) and the ability to continue to grow revenue (88%). Margins also are coming under pressure, with 84% of managers citing it as an area to watch.

While many companies continue to face the same pressures, a healthy majority of the middle market plans to invest extra cash in 2013. Companies have increasingly said they plan to invest cash instead of holding onto it. As of the first quarter, 63% of middle market companies plan to invest cash, up from a low of 51% in the second quarter of 2012.

In looking at projected spending by industry, the construction sector reversed the fourth quarter trend and now plans to spend more cash than it will hold. Financial Services companies also are more likely to invest extra money than they were in the fourth quarter.

One other area to watch will be how companies handle tax increases. The vast majority of respondents said that higher tax rates would cause them to hold off on hiring full-time workers, decrease investment, reduce employee healthcare benefits and could lead to lay-offs.

“We’ll do what we can to avoid additional taxes, especially by avoiding hiring unless absolutely necessary. We can’t pass on any additional costs, so increased taxes will reduce our profits.”

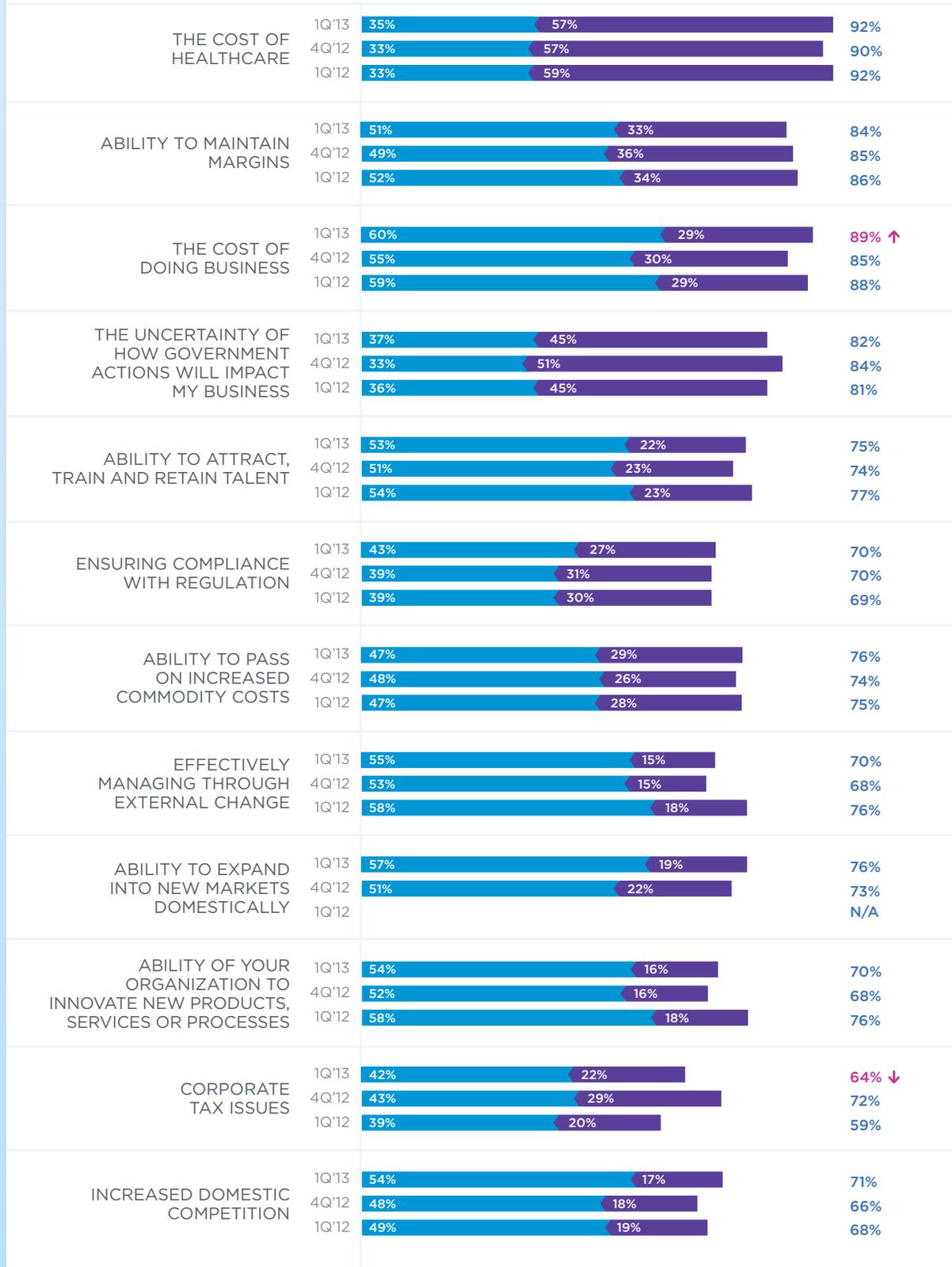
— *President, Business Services, \$20MM annual revenue, 50 employees*

“We are planning on keeping our health and medical programs as close to before as possible. Our biggest concern is how much additional everyone will have to pay because of this program that will not benefit our employees.”

— *CFO, Manufacturing, \$55MM annual revenues, 450 employees*

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.



■ Somewhat Challenging

■ Highly Challenging

Perspectives

Despite challenges, middle market firms continue to hire new workers and perform during a crucial moment for U.S. economic growth. Employment and revenue growth continue to outpace average national growth.

With average revenue growth over the past 12 months of 5.8%, the middle market continues to show robust growth. In an economy that overall experienced a mere 0.4% GDP growth in the fourth quarter of 2012, the growth of the middle market is nothing short of remarkable. Even so, it is not all good news. The corresponding growth rate in the Q4 2012 survey was much higher, 7.0%, so that the current growth rate constitutes a softening of the middle market. Indeed, projected revenue growth rates for the next 12 months are also down, 4.9% in this survey relative to 5.2% in the previous survey. We attribute this softening to some lingering challenges faced by the middle market. In particular, there are concerns about healthcare costs, higher burdens arising out of tax reform, and a skills gap in the workforce. These concerns are later addressed in more detail.

ACTUAL GROWTH IN 2012 FOR THE MIDDLE MARKET HAS DONE WELL RELATIVE TO EXPECTATIONS

In the first quarter of 2012, middle market firms projected an average growth of 5.2% in the coming year. When asked about past year's growth at the beginning of 2013, firms reported an average of 5.8% increase in revenue. This is consistent with what we have noted before. Middle market managers display a conservative disposition, making subdued forecasts and delivering better performance.

Companies were able to continue hiring new workers, adding 2.2 million people to the payrolls from 2007 to 2011. Given that large business shed over 3 million jobs during the recession, middle market firms continued to be an important part of the economy, helping drive the recovery. The recent survey results are consistent with the ability of the middle market to create jobs during recessionary and normal periods. In this survey, we find that middle market grew employment by 2.2% in the past 12 months, and is projected to grow by 2.1% in the next 12 months. With a base likely in excess of 44 million jobs, that suggests this segment will add more than 900,000 jobs in the next year.

However, productivity, measured by the relationship of revenue to employees, may be reaching its limits since the gap between revenue and employment growth continues to narrow. As we go farther out in the recovery, this is not surprising.

FOR FUTURE GROWTH, GREATER CAPITAL INPUT MAY BE AN ALTERNATIVE FRUITFUL CHANNEL

And, there are signs that middle market firms are raising their investment levels. Middle market firms are now reporting the lowest percentage of respondents willing to hold an extra dollar as cash (or short-term securities) in the five quarters of our survey. Only 37% of the managers said that they would not invest the extra dollar. This percentage had been as high as 49% at one point in 2012. This shows that many firms are beginning to invest in future growth amid increased confidence in the environment.

But this willingness to invest could be temporary since increasing business costs may cause companies to again hold back from investments, and revert to holding cash. Middle market confidence in the U.S. and global economies has grown slightly, but still remains low. Since confidence and hiring are closely related, we could see firms pull back on the number of workers they add in 2013.

SOME OF THE UNCERTAINTY IS VERY LIKELY RELATED TO CONCERN OVER HEALTHCARE COSTS

With 92% of firms surveyed citing it as the most challenging issue they face, it appears that there is insufficient clarity or control yet on these costs.

We also see that middle market managers are concerned about tax reform and a skills gap in the workforce. Some 71% of the respondents reported that tax increases will affect their business decisions. To mitigate the effects of a tax increase, some 30% would consider a hiring freeze and 30% decreased investment. In addition, 29% would reduce employee benefits, and 20% would consider layoffs.

As larger firms cut workers during the recession, middle market companies were able to hire top talent, giving them an advantage as the economy picks up. Despite these gains, a third (37%) of executives cited finding qualified employees as a challenge. And among these managers, 84% feel that the skills gap has an adverse effect on their growth, 76% on their productivity, 74% on their ability to maintain current business, 73% on their competitiveness, 72% on creating a culture of innovation, and 69% on maintaining margins. Sales, operations, skilled trades and information technology were listed as some of the most difficult areas to find skilled employees.

Going forward, middle market companies will have to overcome challenges in several areas in order to continue growing. While confidence is increasing and companies indicate they're more willing to invest, significant challenges remain, dampening productivity and actual revenue growth.



**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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GE Capital

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2Q 2013

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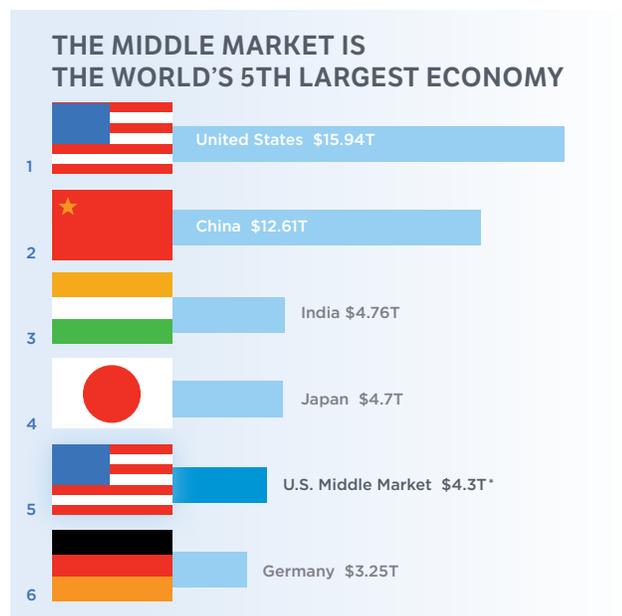
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Source: CIA World Fact Book, *National Center for the Middle Market (estimate)

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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

U.S. middle market companies posted solid revenue gains and added workers in the second quarter of 2013 – trends expected to continue in the next 12 months – sending a clear signal that business conditions for the segment have stabilized and serving as an indicator that the overall economy continues to improve.

Middle market companies, defined as those with annual revenues of \$10 million to \$1 billion, reported sustained increases in revenue and employment during the period, reversing declines seen earlier in the year. Stabilizing top-line growth and increased employment are fortifying optimism. Middle market executives increasingly feel confident about prospects for global, national and local economic activity. As a result they expect revenue growth to continue and they expect to add jobs in the next twelve months at a more rapid pace.

The gains in revenue, employment and confidence among this group could prove to be a harbinger for a broader economic rebound. The middle market serves as a critical engine for the U.S. economy, accounting for approximately one-third of non-government GDP and more than one-of-three domestic jobs. Middle market revenue increases of 5.8% for the first half of 2013, and expectations for greater than 5% increases for the next 12 months, far outpace analysts' 1.2% revenue growth estimate for the S&P 500 Stock Index, underscoring the importance of these businesses.

Despite strong performance and forecasts, challenges remain. Healthcare policies mandated by new legislation are chief among the concerns of middle market managers. The group also cites concerns about other government regulations and finding the right workers, a gap in skills that is preventing them from adding even more jobs. There has been little improvement in the severity of these concerns in recent quarters.

There is little middle market companies can do to solve these lingering issues – but if they are resolved, growth can accelerate at a more significant pace. In part, that's because middle market companies now report a 2-1 margin in their willingness to invest cash, an increase from a year ago.

“We’ve been able to grow the top line as our customer base continues to make more investments in products like ours. In turn, we’ve been able to invest several million dollars in new products over the past 18 months and develop solutions that perform more efficiently.”

– CEO, Technology Services, \$55MM annual revenues, 270 employees

Key Findings:



COMPANY PERFORMANCE CONTINUES POSITIVE MOMENTUM

Revenue growth continues as 65% of middle market companies reported positive gross revenue performance during the past 12 months. That's up marginally from 63% in the first quarter of 2013 and 62% in the second quarter of 2012. The mean revenue growth remained static at 5.8%, with the core of the middle market – those businesses with between \$50 million and \$100 million fueling much of the gains. Manufacturers reported strong growth, offsetting sluggish results in the retail sector.

Companies also expect performance in the coming year to improve with 65% projecting revenue to grow, up from 64% in the previous quarter. Further, these companies expect increases to be bigger – a 5.1% growth rate, up from expectations of 4.9% growth in the first period of 2013.



EMPLOYMENT GROWTH EXPECTED TO CONTINUE

In the second quarter, there was a significant rise in the percentage of middle market companies reporting an expectation to add jobs in the next 12 months, with 43% of companies anticipating adding workers in the year ahead, up from 38% in the first quarter. That marks a 13% gain in the number of companies looking to expand.

In addition, these companies plan on ramping up their hiring to a 2.5% clip, almost one-fifth ahead of the 2.1% gain they had forecast in the first quarter of the year.

Employment growth expectations are dispersed across the middle market with all industry sectors anticipating adding workers during the year. Larger middle market companies forecast that they will add the most workers – those companies that have at least \$100 million in revenue projecting mean growth increases of 3.3%, up from 2.2% in the year earlier period.



CONFIDENCE IS RISING STEADILY

Companies are becoming more confident in the global, U.S. and local economies. Almost half of surveyed companies say they are at least somewhat confident in the global economy, more than double the 22% that reported similar sentiments a year ago. Almost two-thirds of respondents said they are at least partly confident in prospects for the U.S. economy, up from 50% a year earlier. And a resounding 78% of companies are confident or somewhat confident of their local economies, up from 67% a year earlier.

Confidence is growing across middle market companies of all sizes. Executives in services, manufacturing, wholesale trade and construction businesses were especially optimistic about global prospects, while service industry executives fueled confidence gains in the U.S. economy.



CAPITAL INVESTMENT POISED TO SURGE

Middle market companies are sending a strong message that they are poised to invest capital to add jobs, equipment, make acquisitions or train employees – signaling continued growth.

The percentage of company executives who say they will invest rather than hold extra cash on hand increased from 49% a year ago to 64% in the second quarter of 2013. This trend correlates with increasing confidence and stems from the stability of their revenue and employment base.

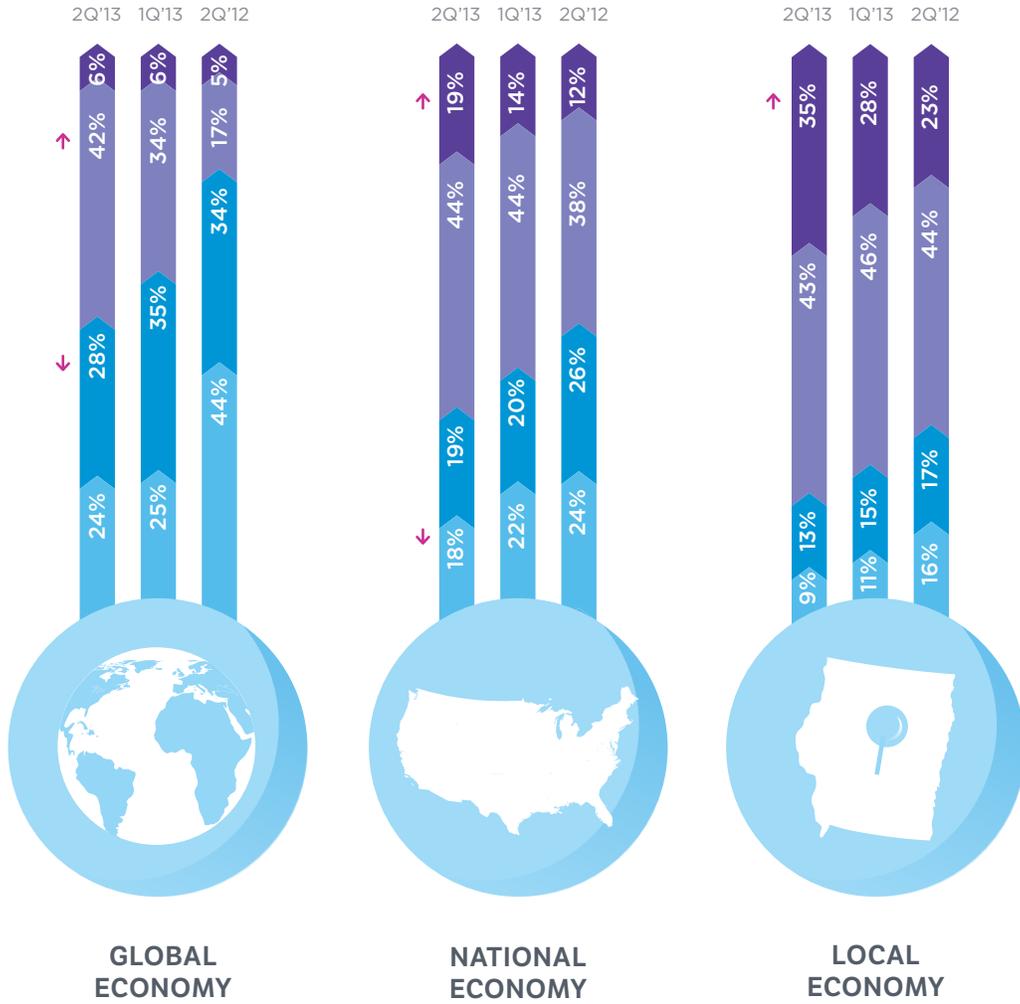


CHALLENGES PERSIST

The impact of healthcare legislation continues to be the main concern among middle market executives of companies of all sizes. Despite a delay in the implementation deadline as the new legislation approaches, companies remain unclear as to its impact.

Uncertainty over other government actions and the ongoing ability to grow revenue and maintain margins also continue to rank among the leading concerns of middle market executives.

Economic Confidence Indicators



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.

2Q'13 **5.8%**

1Q'13 5.8% 2Q'12 6.1%

NEXT 12 MO.

2Q'13 **5.1%**

1Q'13 4.9% 2Q'12 4.8%

Employment Growth

MIDDLE MARKET

PAST 12 MO.

2Q'13 **2.6%**

1Q'13 2.2% 2Q'12 2.0%

NEXT 12 MO.

2Q'13 **2.5%**

1Q'13 2.1% 2Q'12 1.8%

S&P 500

PAST 12 MO.

2Q'13 **3.1%***

1Q'13 5.6% 2Q'12 4.8%

NEXT 12 MO.

2Q'13 **1.2%**

1Q'13 2.8% 2Q'12 4.0%

ADP (PAST 12 MO.)

LARGE CORP.

2Q'13 **2.2%**

1Q'13 2.3% 2Q'12 2.4%

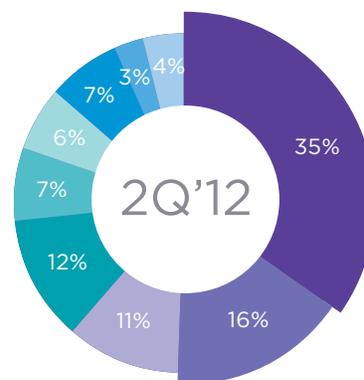
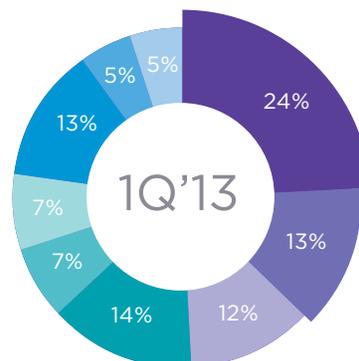
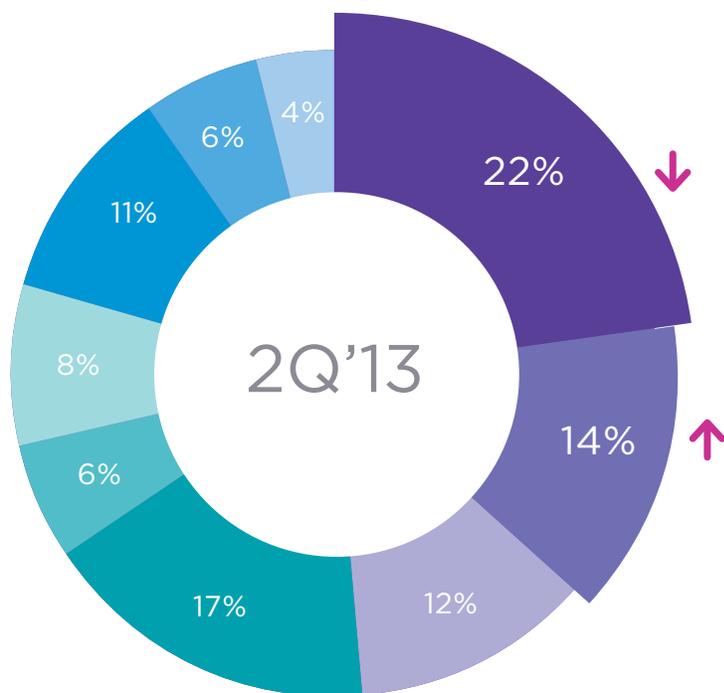
SMALL BUS.

2Q'13 **1.6%**

1Q'13 1.5% 2Q'12 2.3%

*2Q Sales/Share Data not available. Figure based on estimate.

Incremental Investment Allocation



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

Recent & Expected Growth

Revenue

The performance of middle market companies and revenue growth improved in the second quarter of 2013. Of the companies surveyed, 60% said business in the period improved compared with the first quarter of 2012.

That reverses the decline in the first quarter, when 58% reported improved company performance (down from 62% in the fourth quarter of 2012). Only 8% of those surveyed said that business deteriorated compared with 10% in the first quarter.

Average revenue growth remained steady at 5.8% for the first two quarters of 2013. That is down from the 7% rise in the fourth quarter of 2012 and marginally below the 6.1% revenue growth in the second quarter of 2012. The results, while below highs hit last year, indicate a foundation of sustainable annual revenue growth in excess of 5%.

It was the larger middle market companies – those with more than \$100 million in revenue – that powered the top-line gains in the period. Revenue growth among those companies rose to 6.9%, up from 5.8% in the previous quarter.

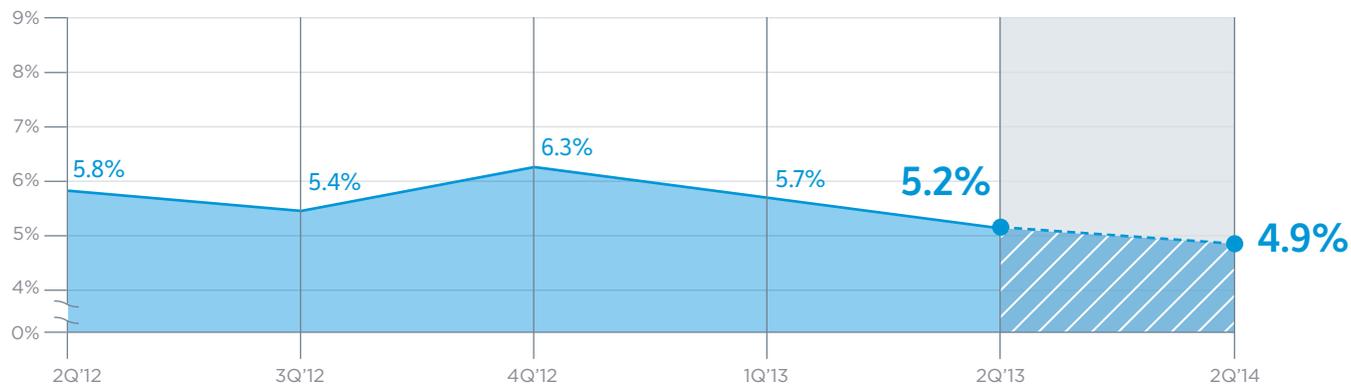
Moving forward, the core of the middle market – the companies with annual sales between \$50 million and \$100 million – anticipates contributing heavily to growth. Seven out of 10 of these respondents said they expect revenue gains in the next 12 months, and only 4% expect declines (down from 8% in the previous quarter).

Overall, the middle market expects revenue growth to taper off a bit, but remain above 5% (5.1% according to the survey). That's an uptick from the 4.9% anticipated revenue growth estimate in the first quarter, and an increase from the 4.8% estimate issued a year earlier.

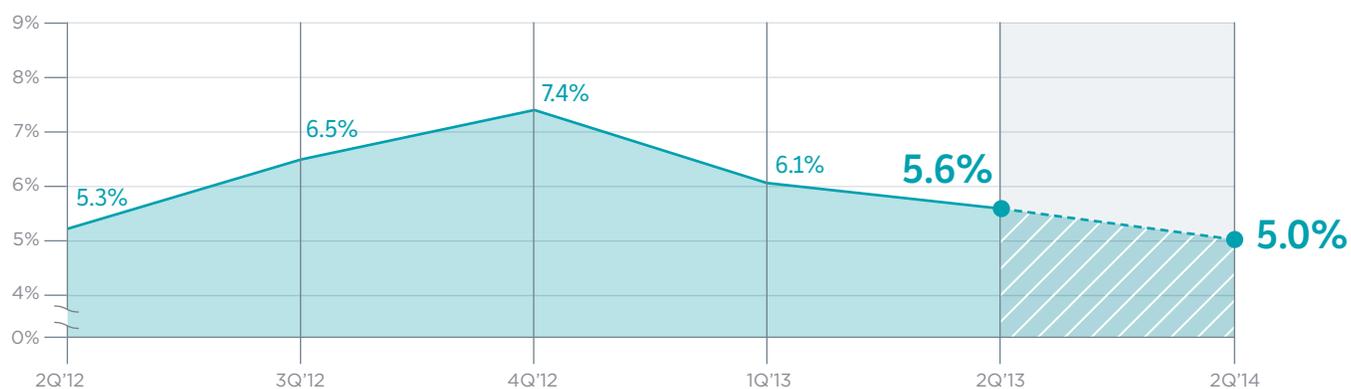
Service and financial firms project the highest revenue gains, with forecasts of 6% and 6.2%, respectively. Conversely, retail trade and healthcare companies anticipate revenue gains of 4.2% and 4.8%, respectively.

Revenue Growth By Segment

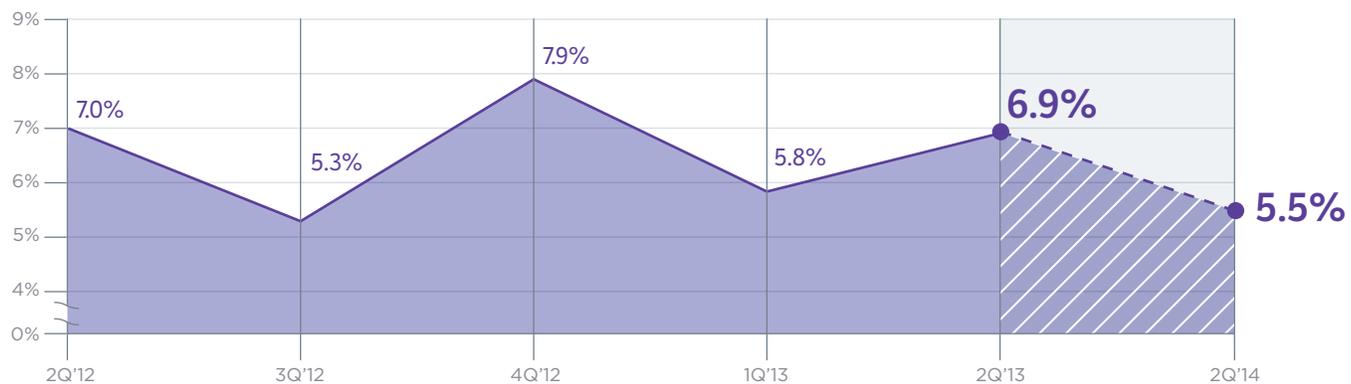
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B

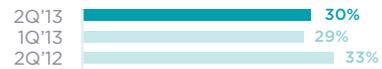
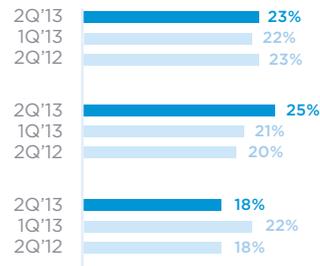
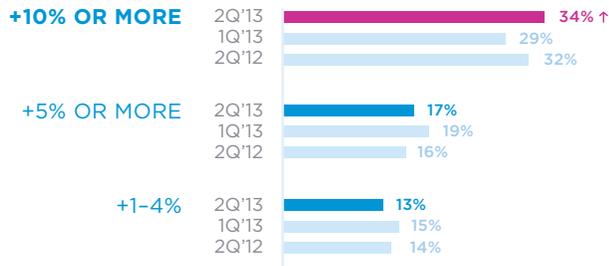


Revenue Performance

The positive growth seen last quarter has continued into the second quarter of 2013.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

2Q'13 **5.8%**
1Q'13 5.8% 2Q'12 6.1%

2Q'13 **5.1%**
1Q'13 4.9% 2Q'12 4.8%

Revenue Performance by Industry

Middle market manufacturers have partially recovered from the drop in revenue seen in the first quarter of 2013.

PAST 12 MONTHS



NEXT 12 MONTHS



Recent & Expected Growth

Employment

Keeping in line with forecasts for sustained revenue growth, middle companies expect to pick up their pace of adding workers. Of the survey respondents, 43% said they will hire workers, a 13% increase from the 38% that said they would add jobs in the previous quarter. The mean total employment growth forecast surged from 2.1% to 2.5%, up 20% from the first quarter.

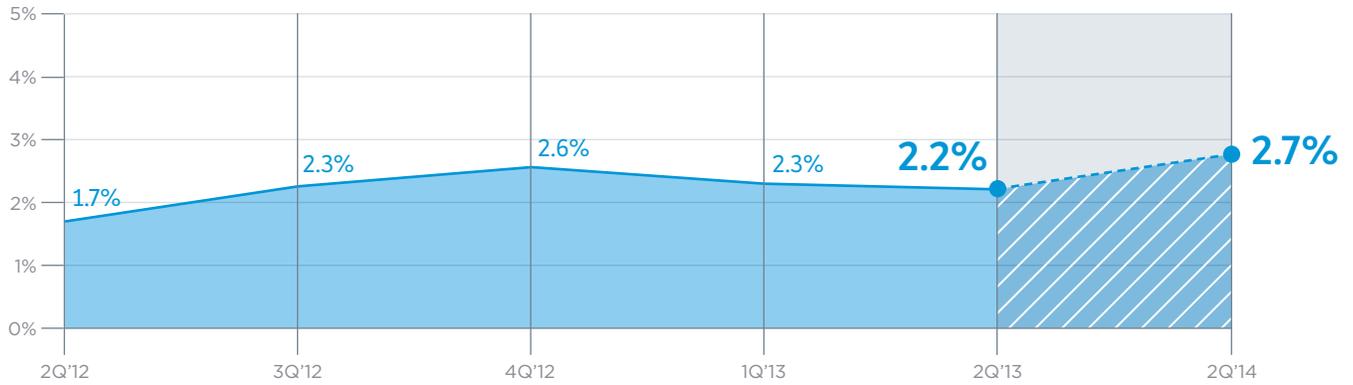
Expectation for job growth among the core middle market firms rose to 39% from 32% in the quarter and they expect to add jobs at a 2.6% clip, more than double the 1.1% rate in the first quarter and well above the 1.5-1.6% range forecasted last year.

After a dip in the first quarter, the hiring expectations of respondents in the manufacturing sector rebounded. In the second quarter this group said they expect mean total employment growth to be 2.2%, up from 1.2% in the first quarter. The services sector continues to have the strongest expectation for adding jobs, forecasting a 4.1% gain in employment, the third consecutive quarter of at least 4% job growth expectations.

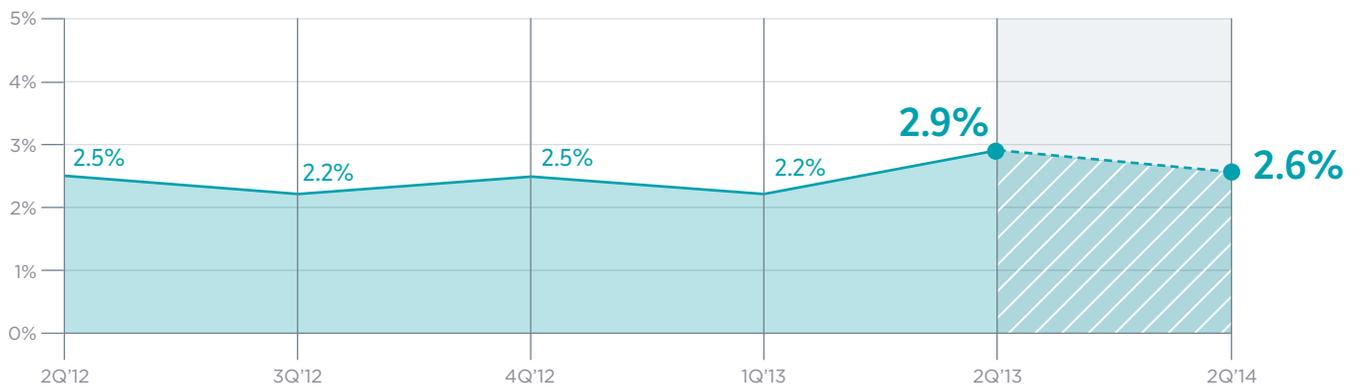
With nearly a third of the private sector GDP and employment in the U.S. coming from the middle market, such plans for job expansion should help boost the U.S. economy in the remainder of this year and into 2014.

Employment Growth By Segment

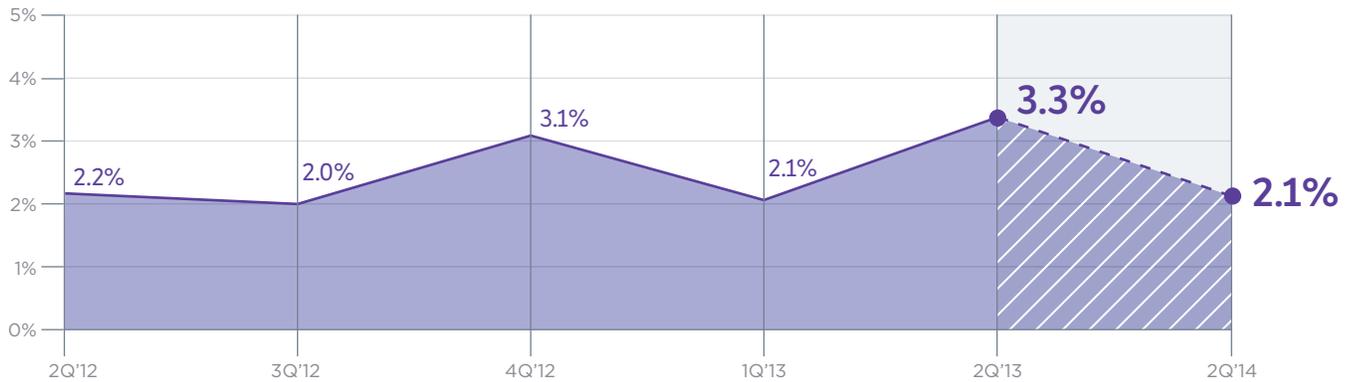
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B

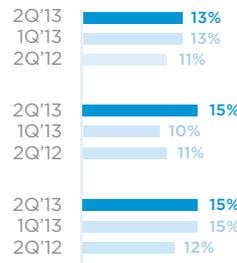
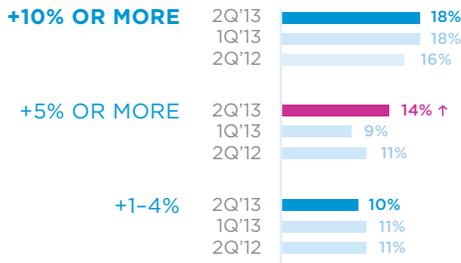


Employment Performance

Employment continues to show growth compared to the same time period one year ago.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

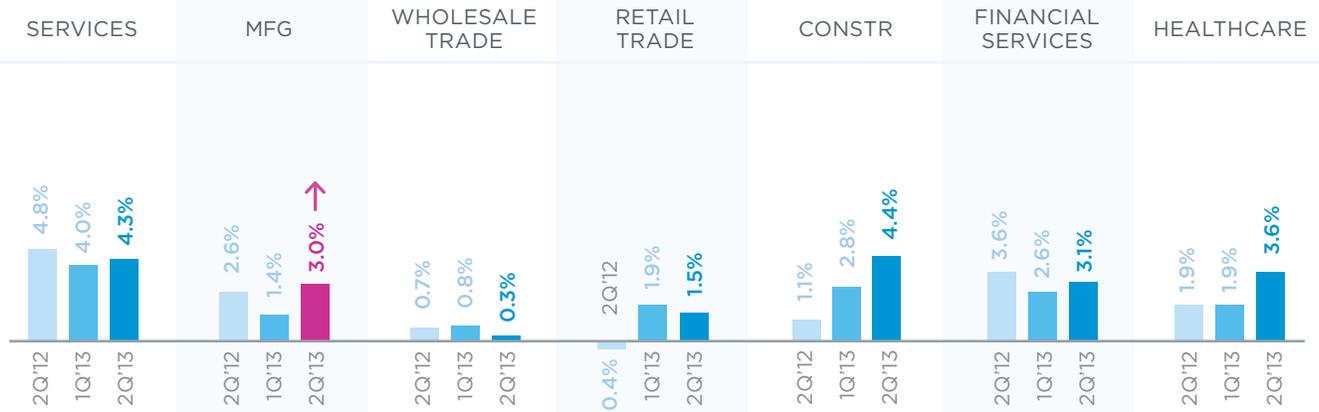
2Q **2.6%**
1Q 2.2% 2Q/12 2.0%

2Q **2.5%**
1Q 2.1% 2Q/12 1.8%

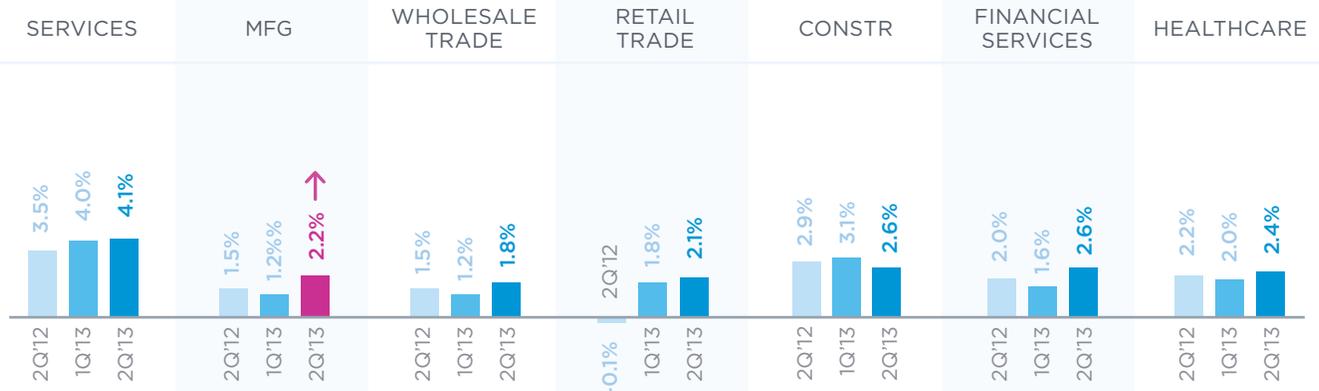
Employment Growth by Industry

All industry sectors have enjoyed at least marginal employment growth since a year ago.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Financial decision makers at middle market companies of all sizes are gaining confidence in the economy – on a global, national and local basis.

The year-over-year increase in the number of respondents who say they are somewhat confident or confident in economic conditions reveals a notable shift in sentiment. The number surged to 48% for those asked in the second quarter of 2013 about their confidence on the global economy, more than double the 22% who responded in kind in the second quarter of 2012. For the U.S. economy, 63% of respondents said they were at least somewhat confident, up from 50% a year earlier; for the local economy, 79% are at least somewhat confident, a rise from 67% in the year-ago period.

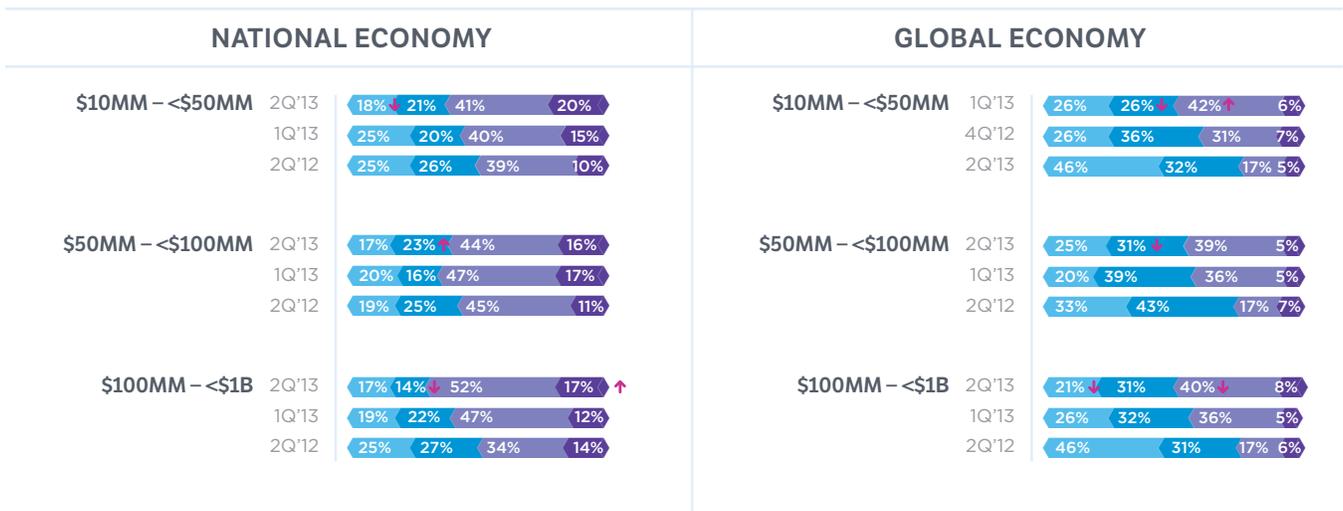
Within the middle market, companies of all sizes are showing buoyed optimism. Decision makers within the services, manufacturing, wholesale trade and construction sectors report particularly large increases in their confidence for global economic prospects. Leaders within the services sector fueled gains in confidence for the U.S. economy.

“While we have historically only served the U.S. market, we have grown our reach outside our borders as the clients we serve in the food industry have expanded their production with international sales.”

– CEO, Business Services, \$25MM annual revenues, 500 employees

Confidence by Revenue Segment

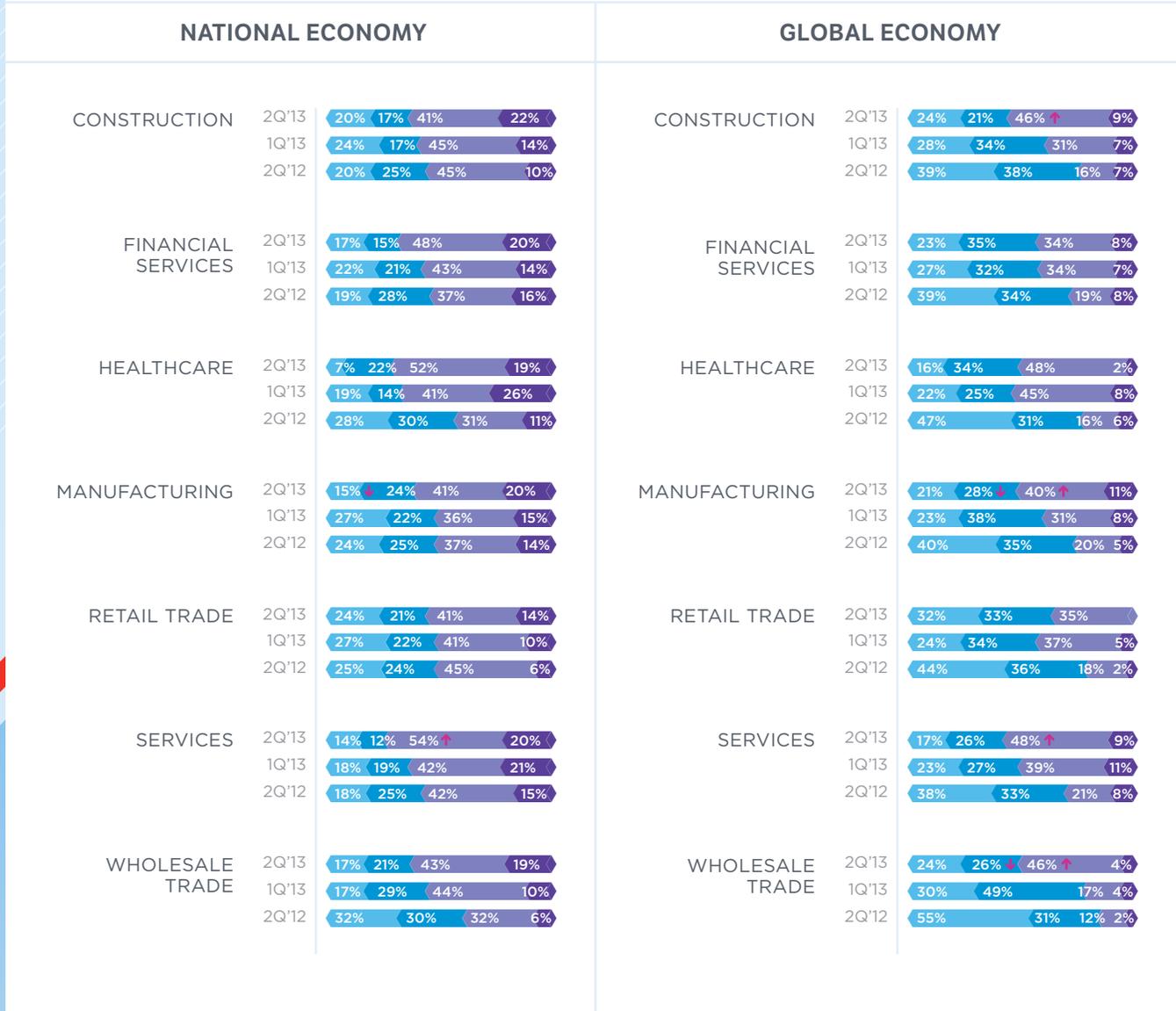
Confidence in both the global and U.S. economy has been rising steadily over the past year across all revenue segments.



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

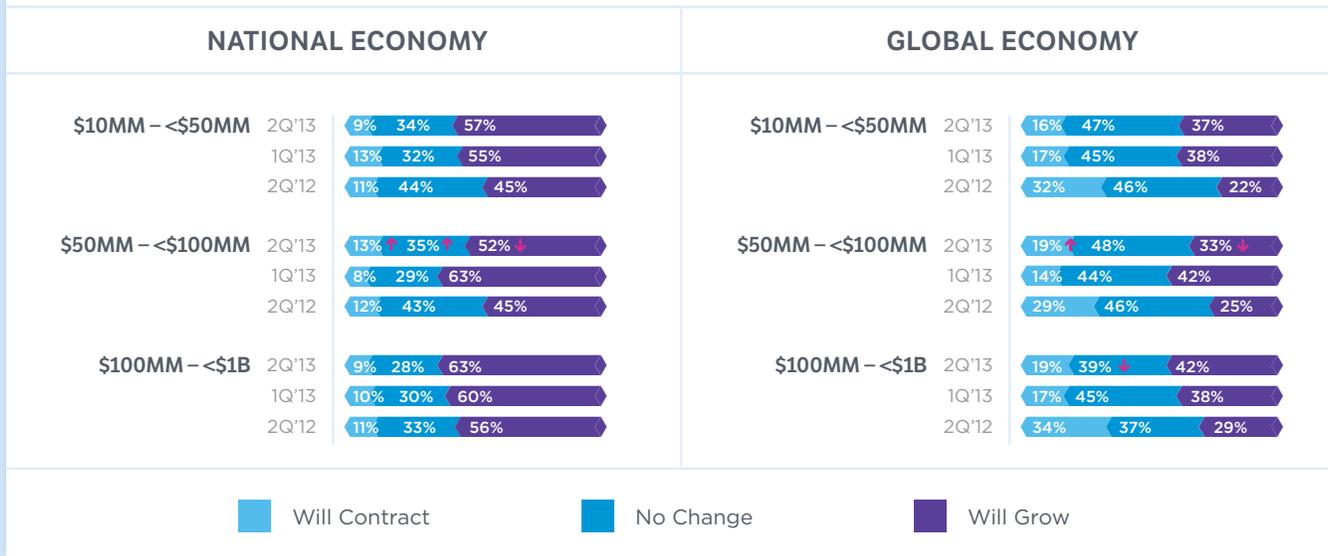
Confidence by Industry

Financial decision makers in the services, manufacturing, wholesale trade and construction industries exhibited especially big increases in confidence in the global economy.



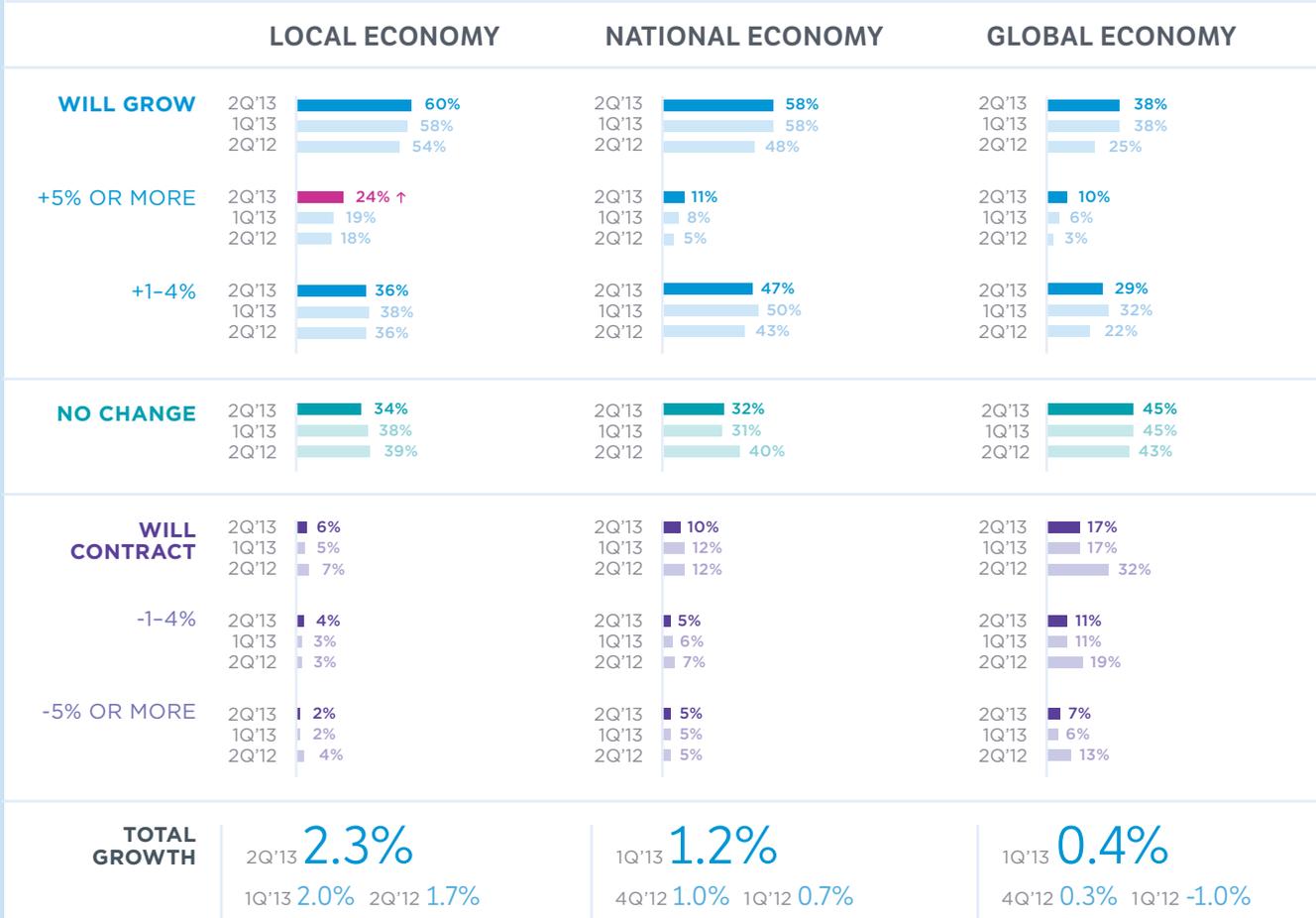
Economic Growth Outlook by Revenue Segment

The optimism for global and U.S. economic growth among small and core middle market leaders evident in the first quarter of 2013 has been somewhat tempered in 2Q 2013. Still, expectations for growth are higher than they were a year ago.



Economic Growth Outlook

Middle market leaders expect their firm to grow faster than the local, national and global economies.



Economic Growth Outlook by Industry

Leaders in the manufacturing sector have a higher expectation for U.S. economic growth than they did in 1Q 2013.



Will Contract No Change Will Grow

Challenges

“The uncertainty around healthcare reform has created a multitude of questions and doubts. And since regulations are still being drafted, there are very few, if any, answers. This climate is making it very challenging to budget and plan into the future.”

— CEO, Retail Trade, \$10MM annual revenues, 50 employees

“In the past year, we’ve experienced the highest percentage increase of benefits cost in our 12-year history.”

— CEO, Technology Services, \$55MM annual revenues, 270 employees

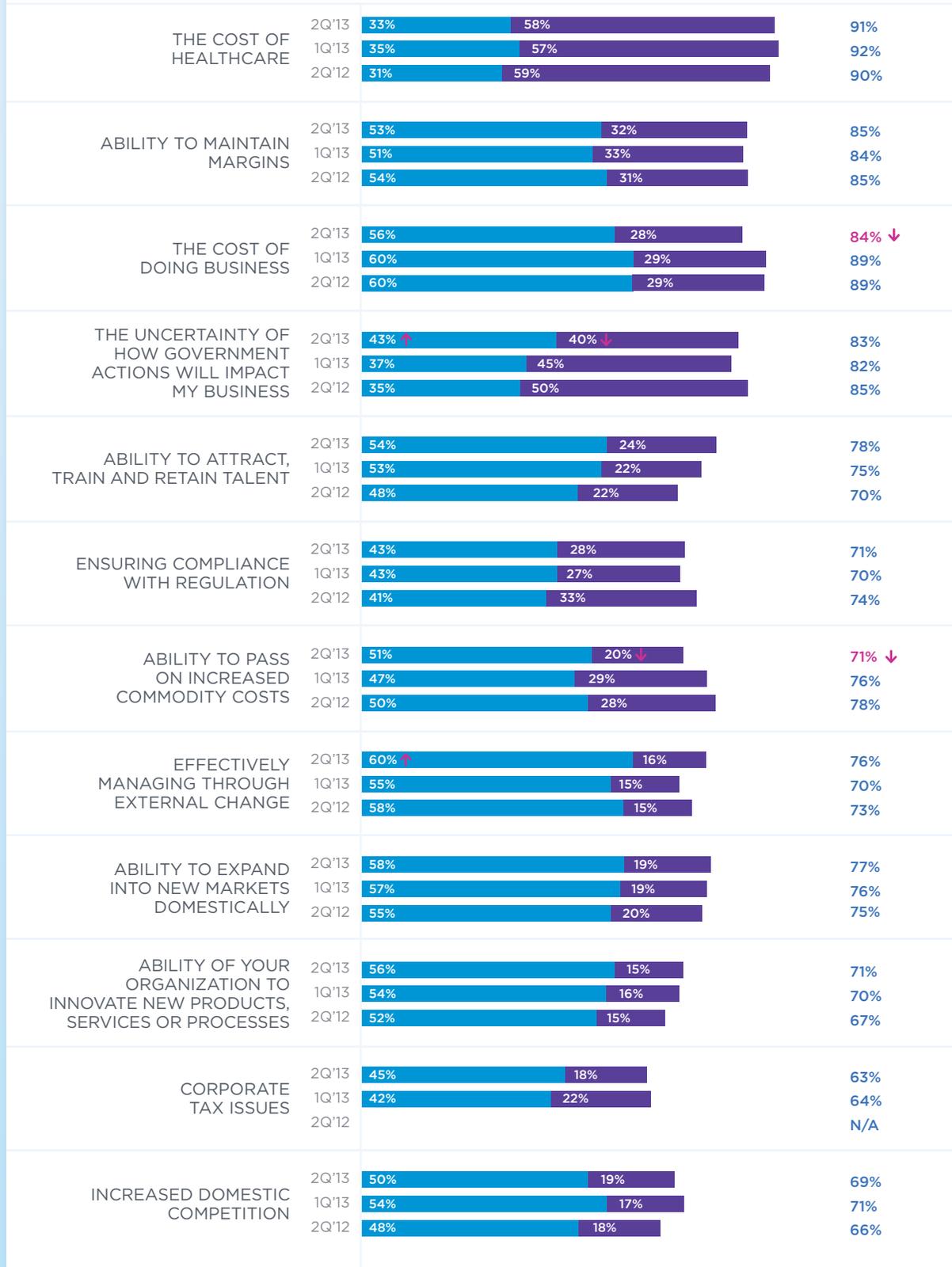
The cost of healthcare – even as the U.S. inches towards implementation of new legislation – persists as the major challenge facing middle market companies. Other concerns include the ability to grow revenue and maintain margins and the cost of doing business.

But 91% of all respondents cited healthcare uncertainty as their chief challenge, with more than 58% saying the topic was highly challenging. No other issue registered more than 40% of respondents citing it as a key issue.

The concern about healthcare has remained largely unchanged over the past year, cited more than 90% of the time as either highly or somewhat challenging over the past five quarters.

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.



■ Somewhat Challenging

■ Highly Challenging

Perspective

It appears the lasting effects of the Great Recession, officially from 2007 to 2009 but followed by many years of disappointingly low GDP growth, may finally be coming to an end. According to the Conference Board, consumer confidence in June was the highest in over five years. The Department of Commerce reports that new home sales in May were the highest since July 2008 and based on the S&P/Case Shiller Index, home prices hit the largest annualized gain in seven years in April. Durable goods orders and business spending are also remarkably up, also according to the Department of Commerce. Overall, the Federal Reserve is now forecasting real GDP growth up to 2.6% this year, with further expansion up to 3.5% in 2014. But, what will continue to drive this improvement?

Exports appear to be an unlikely source of growth. The Eurozone has contracted for the sixth consecutive quarter and China, the world's second largest economy, is slowing down, evidenced by manufacturing activity there contracting for the second month in a row. More ominously, Beijing is trying to constrain overly easy credit from banks, which may produce a credit crunch and dampen growth.

On the domestic front, the projected rate of revenue growth for large firms remains low at 1.2%, according to Bloomberg. There are signs that small firms are lagging in the economic expansion as well. In fact, confidence among small firms remains at recessionary levels.¹

It will come as no surprise to those who follow the middle market as to the engine behind this recovery. In the latest survey from the National Center for the Middle Market, the middle market continued to grow revenues at a healthy 5.8% in the last 12 months, and is expected to grow at 5.1% in the coming year. Employment in the middle market grew at 2.6%, and is expected to grow at 2.5% in the next 12 months. Economic confidence at all levels – global, national, and local—were the highest among the six quarterly surveys to date. The largest proportion of middle market managers in our six surveys (64%) would invest if given an extra dollar. Relative to other segments, these indicators are consistent with the middle market as the front runner of the recovery.

A NEW CHALLENGE FOR THE MIDDLE MARKET: A POSSIBLE CREDIT CRUNCH

Unfortunately, a number of challenges put the middle market and the economic recovery at risk. The latest problem to emerge is the likely return of costly credit. Recently, Fed Chairman Ben Bernanke commented that the “taper off” of quantitative easing would begin from December 2013 and end by mid-2014. The Chairman’s remarks had an immediate market effect, as rates on 10-year Treasuries spiked to a two-year high, and the stock market dropped significantly. Middle market firms in particular are adversely affected by tight credit markets. They have neither government subsidized schemes or the influence of large firms to command more affordable credit. Although the Fed faces an understandable dilemma, it might reconsider its position and remove the stimulus only after the economic recovery is firmly in place.

A LONG-STANDING TOP CONCERN FOR THE MIDDLE MARKET: HEALTHCARE COSTS

There are other long-standing problems that hinder growth in the middle market, healthcare costs in particular. Healthcare costs have been consistently ranked as the top challenge for middle market managers in every quarterly survey since the beginning of 2012. In past surveys, it was pointed out that the Patient Protection and Affordable Care Act (PCACA, but popularly called Obamacare) may have some unintended negative business consequences. Middle market managers have said that higher healthcare costs will dampen investment and reduce employment. Now, through follow-up investigation, we further know that the managers who worry about adverse effects of healthcare reform also predict lower revenue growth rates. Such managers also report lower confidence at all levels: global, U.S., and local economies. The recently announced delay in the enforcement of a major PCACA requirement that all employers with more than 50 employees provide coverage to their workers means more companies will have time to consider the best strategies for implementation.

1. “Small firms to keep lagging back in U.S. Expansion: Economy,” by Alex Kowalski & Jeanna Smialek, Bloomberg.com, Jan. 14, 2013.

SO, WHAT CAN MIDDLE MARKET FIRMS DO TO SPUR GROWTH?

With relatively little influence on government policy, middle market firms have had to historically “grin and bear it” when it comes to the consequences of government action. In contrast, small firms have formal advocacy in the form of the Small Business Administration, and large firms have greater resources to support lobbying efforts and other measures. There are, however, other avenues for middle market firms to drive growth and The National Center for the Middle Market has been highlighting such strategies for growth. In its research on the characteristics of so-called Growth Champions (firms with sustained 10% revenue growth), globalization has emerged as an effective path toward increasing revenues as well as employment. The latest MMI survey findings show that middle market firms with some international operations (606 respondents) are projecting revenue growth for the next 12 months at 5.6%, while those with operations entirely within the U.S. (394 respondents) are expecting an average revenue growth rate of 4.3%. In terms of employment projections, the corresponding rates of growth are 2.7% versus 2.3%, respectively. The recent experience over the last 12 months, in terms of both revenue and employment growth, also shows greater growth among firms with international operations. This is particularly impressive in light of economic challenges in Europe and China.

The U.S. economy is finally in a meaningful recovery mode, and middle market firms are major players in this recovery. Research from the National Center for the Middle Market offers prescriptive strategies for growth. In fact, these strategies do not depend on being in certain industries or geographies. Rather, they depend on the actions of the firm. Specifically, organizations with superior customer focus, management culture, talent management, investment in innovation, and geographic expansion have demonstrated sustained high growth in the past, and should be poised for future success.





**NATIONAL CENTER FOR
THE MIDDLE MARKET**

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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.



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3Q 2013

MIDDLE MARKET INDICATOR



NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS



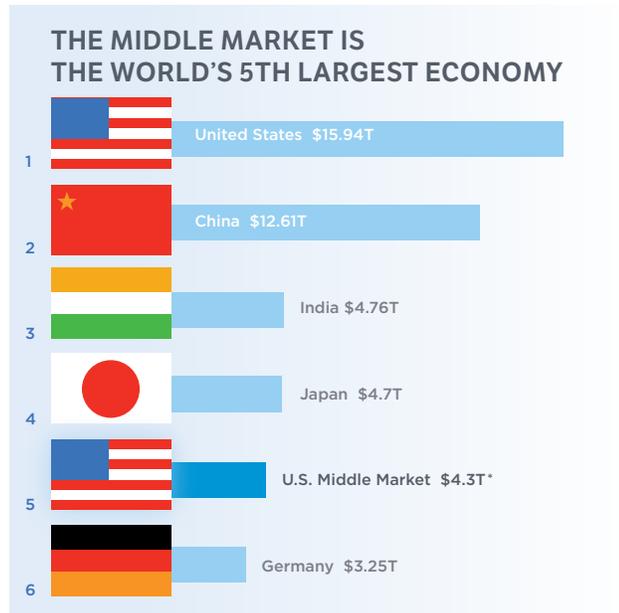
GE Capital

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Middle Market Indicator

from The National Center for the Middle Market



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

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.

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Executive Summary

U.S. middle market companies extended their string of solid revenue and employment gains during the third quarter of 2013 and anticipate those trends will continue over the next 12 months, albeit at a decelerating pace. Though markedly improved from the same period a year earlier, revenue increases, employment gains and confidence in the global and local economy all appear to have hit plateaus.

Nearly two out of three middle market companies – defined as those with annual revenues between \$10 million and \$1 billion – reported improved company performance. Overall revenue increased 5.5% in the third quarter, which matches gains in the third-quarter of 2012 but marks the slowest rate of increase over the past four quarters. Employment also grew with four in ten companies expanding their workforce. Employment at middle market companies increased 2.8% in the quarter, a marginally higher pace than that of the past four quarters.

Prospects for future growth – while up significantly from a year ago – have moderated over the past three months as middle market executives face strong headwinds both at home and abroad. Concerns about impending health care and other regulation on the domestic front, destabilization in the Middle East, and economic turbulence in former fast-growing markets (India, Brazil and Turkey, among them) are giving middle market leaders pause, and could lead to more restrained hiring and spending.

Middle market companies anticipate that revenue will grow 4.4% over the next year, a sharp drop from the 5.1% estimated growth in the prior quarter. That would represent the first time in more than a year that top-line growth would dip below 5% for the segment.

The recent results and tempered growth outlook still outpaces by nearly two-fold the performance of the broader market – underscoring the middle market’s critical role as an economic driver. Analysts anticipate a 2.6% increase for the S&P 500 Stock Index in the third-quarter (down from 3.0% estimated at the end of the second quarter). And analysts expect revenue gains for the S&P 500 during the fourth quarter to be a scant 1.0%.

A significant proportion of middle market executives continue to express confidence in local, national and global economic conditions – though the steady gains in confidence have come to at least a temporary halt. The most severe factors that are muting company confidence largely, if not entirely, are geo-political in nature, over which these companies have little sway. If these issues are resolved, growth might accelerate at a more rapid clip. In the interim, though, fewer middle market companies anticipate introducing new products or services or adding plants or facilities.

“The government shutdown has had very little if any impact on us so far. However, an extended shutdown could affect the mortgage markets, which would then trickle down to our company.”

— CEO, Business Services, \$55MM annual revenues, 270 employees

Key Findings:



COMPANIES EXTEND PERFORMANCE GAINS:

Revenue growth continued during the quarter as 63% of middle market companies reported top-line improvements during the past 12 months. That's up from 60% in the third quarter of 2012, a decline to the 65% in the prior quarter. The mean revenue growth declined to 5.5%, its lowest gain since hitting that number a year earlier. There was a giant surge in revenue gain in the retail sector, where mean growth soared to 6.3% from 4.3% in the prior quarter and 4.4% a year earlier.

Companies also expect performance to improve in 2014, with 60% projecting revenue to grow. These companies expect increases to be 4.4%. That's down from 5.1% in the second quarter of this year, but still an increase from the 3.7% forecast back in the previous year.



EMPLOYMENT GROWTH CONTINUES, BUT COULD SLOW:

In the third quarter, four of 10 companies said they added workers, on par with results over the previous quarter, and up from 35% a year earlier. These companies reported mean job growth of 2.8%, up from 2.2% a year earlier and 2.6% in the second quarter.

The largest middle market companies fueled the gains, with 45% of respondents in the \$100 million to \$1 billion segment adding workers. Retail trade added workers at a 3.2% rate, up substantially from 0.8% a year earlier and 1.5% in the prior quarter. Construction companies also added workers, offsetting declines in hiring within the wholesale trade, manufacturing and financial service sectors compared to a year ago.

Looking ahead, the middle market expects hiring to slow to 2.1%, down from 2.5% a quarter ago. The core middle market, representing firms with \$50 - \$100 million in revenue, expects hiring to slow to 1.5% in the year ahead, down from 2.6% in just three months. Services companies forecast 2.7% growth, down from 4.1% in the second quarter. In contrast, retail companies expect to increase employees by 2.4%, compared to expecting to shed 0.2% a year earlier.



CONFIDENCE HAS LEVELED OFF:

Confidence measures leveled off in the third quarter. While considerably higher than a year ago, the steady increases in confidence for the global, U.S. and local economies has halted, though the numbers have not declined.

Still, 48% of surveyed companies report they are somewhat confident in the global economy. That's unchanged from the second quarter of 2013, but up from 29% a year earlier. Almost two-thirds of respondents said they are least somewhat confident in prospects for the U.S. economy, up from less than half a year earlier. A resounding 77% of companies are confident or somewhat confident in their local economies, up from 66% a year earlier, though down slightly from 79% in the prior three months.



CAPITAL INVESTMENT STRONG, BUT MODERATING:

Middle market companies plan to invest additional capital, rather than hold onto excess cash by a margin of 61% to 39%. That's up from 56% planning to invest a year earlier. The percentage of companies likely to invest is down for the second consecutive period, from 63% and 64% in the previous two quarters respectively.

Companies in the \$50 - \$100 million segment are more likely to hold cash, though a growing number of lower middle market companies plan to save cash for making financial investments down the road.

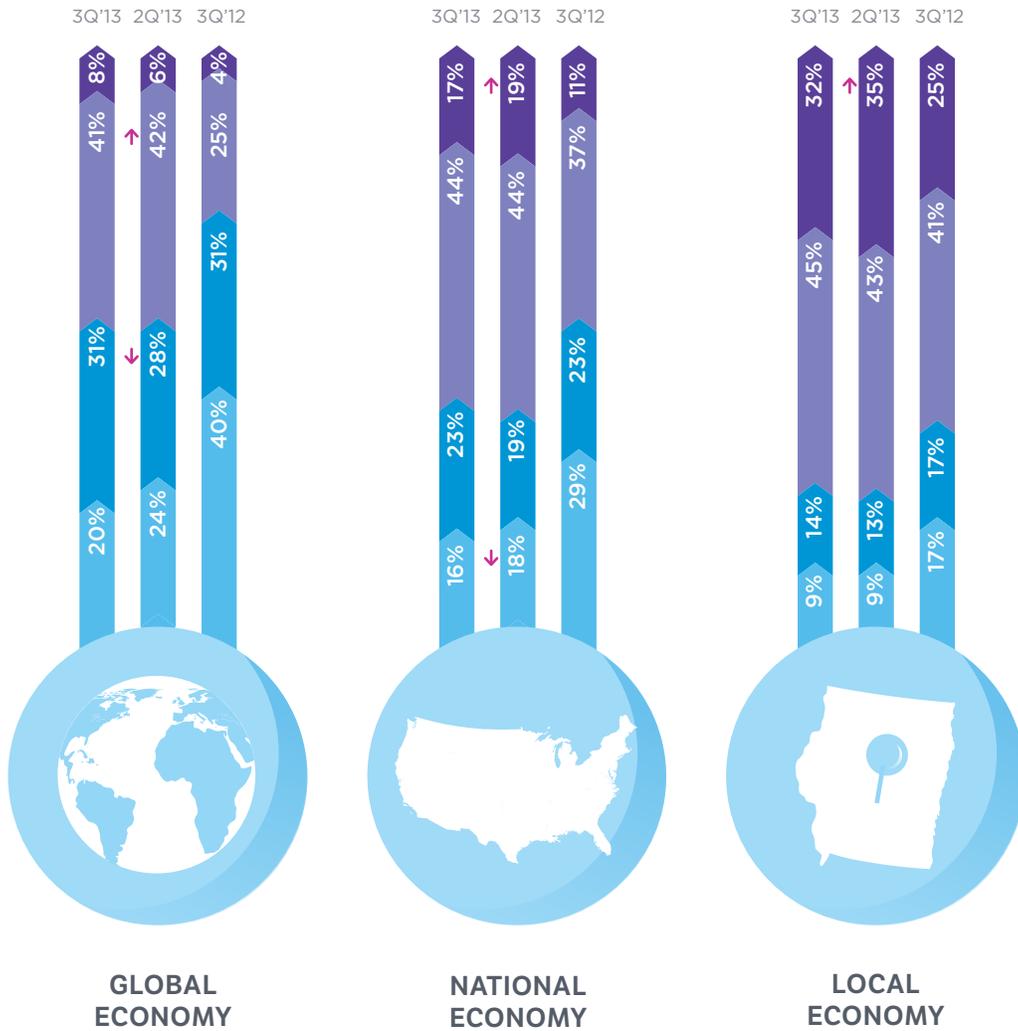


CHALLENGES PERSIST:

Domestically, the impact of healthcare legislation continues to concern almost all middle market executives. Leaders of middle companies also expressed concern about another fiscal cliff.

Globally, concern about escalating tensions in the Middle East and socio-political unrest in key developing markets (including Brazil and India) have combined to put a cloud over potential growth.

Economic Confidence Indicators



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

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

Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
3Q'13 5.5%	3Q'13 4.4%↓
2Q'13 5.8% 3Q'12 5.5%	2Q'13 5.1% 3Q'12 3.7%

Employment Growth

MIDDLE MARKET

PAST 12 MO.	NEXT 12 MO.
3Q'13 2.8%	3Q'13 2.1%
2Q'13 2.6% 3Q'12 2.2%	2Q'13 2.5% 3Q'12 1.3%

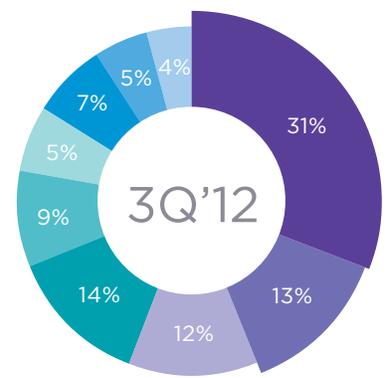
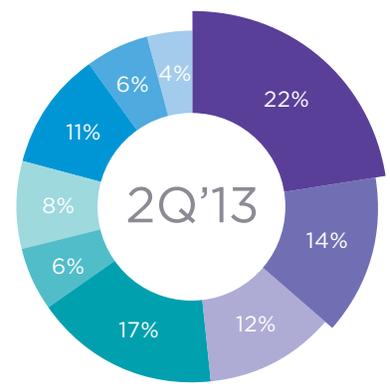
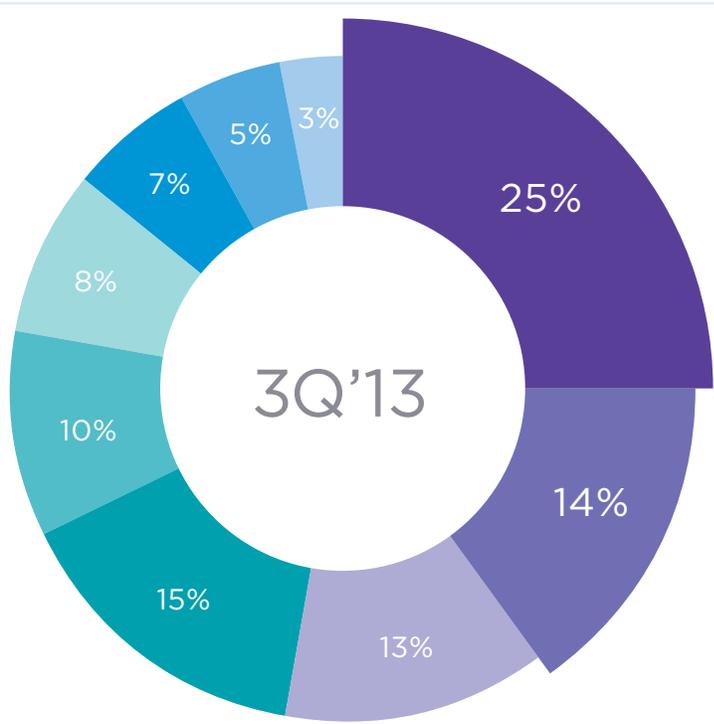
S&P 500

PAST 12 MO.	NEXT 12 MO.
3Q'13 2.6%	3Q'13 1.0%
2Q'13 3.1% 3Q'12 1.6%	2Q'13 1.2% 3Q'12 1.5%

ADP (PAST 12 MO.)

LARGE CORP.	SMALL BUS.
3Q'13 2.4%	3Q'13 1.8%
2Q'13 2.2% 3Q'12 3.4%	2Q'13 1.6% 3Q'12 1.2%

Incremental Investment Allocation



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

Recent & Expected Growth

Revenue

The overall performance of middle market companies stabilized during the third quarter of 2013. Of the companies surveyed, 62% said business in the period improved. That remains in the range of 58% to 62% over the preceding three quarters, but still represents a notable increase from the 51% in the third quarter a year ago. Only one in ten middle market companies said that business deteriorated compared with 8% in the prior quarter and down from 13% a year earlier.

Average revenue growth decelerated moderately to 5.5% in the period. That's below the 5.8% reported during the first two quarters of 2013. While it's well below the 7.0% surge in revenue reported during the fourth quarter of 2012, it's on par with the 5.5% showing during the third quarter of 2012.

The results, while below highs hit last year, indicate a foundation of sustainable annual revenue growth in excess of 5% – at least for now.

It was the core middle market companies that powered the top-line gains in the period. Revenue growth among those with revenues of \$50 - \$100 million rose to 5.9%, up from 5.6% in the previous quarter. That offset a decline among the larger middle market companies, which reported revenue gains of 5.6% down notably from 6.9%.

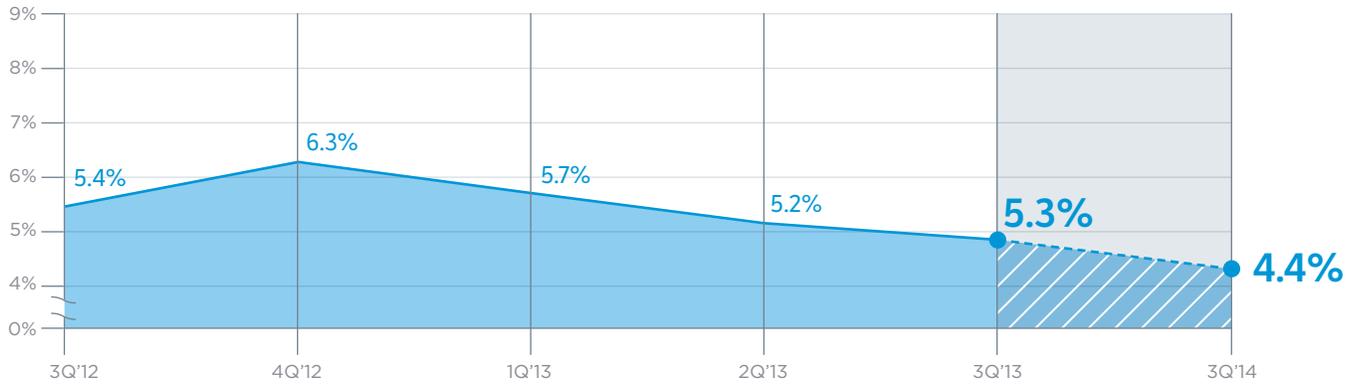
Moving forward, all segments of the middle market anticipate that revenue growth will slow. The core of the middle market anticipates 3.8% revenue gains, down from just 5.0% in the last quarter. Only 56% of these companies expect revenue to grow; 70% projected revenue gains just a quarter ago. Smaller middle market companies expect to taper to 4.4%, down from 4.9%; the largest middle market companies expect top-line growth to slow to 4.6%, from 5.5%.

These projections – while markedly higher than the forecasts a year ago – would mark the first time that revenue growth decelerated to below 5%.

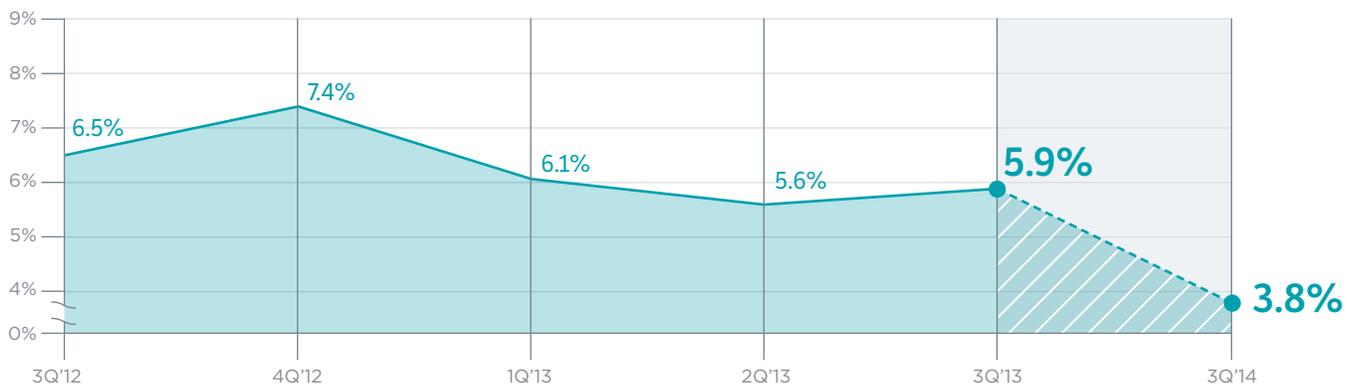
The retail sector stands alone in forecasting increased gross revenue, anticipating 4.6% growth, up from 4.2% in the second quarter, and well above the 1.9% in the year-earlier comparable period. Financial services and healthcare expect the biggest declines, among other sectors.

Revenue Growth By Segment

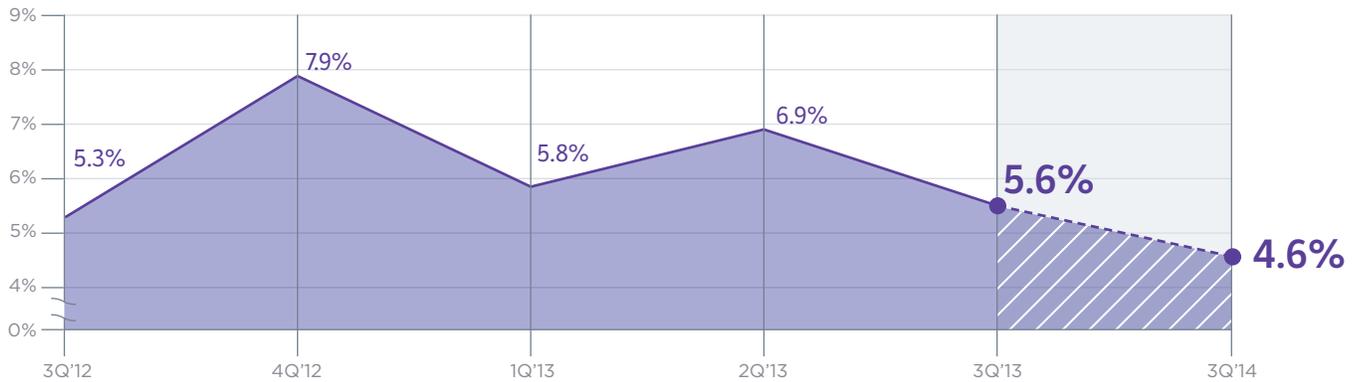
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B

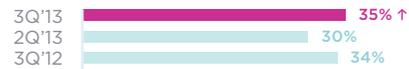
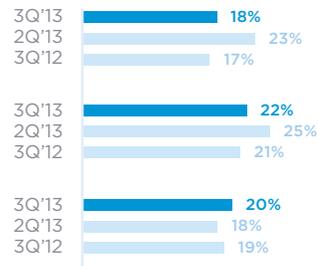
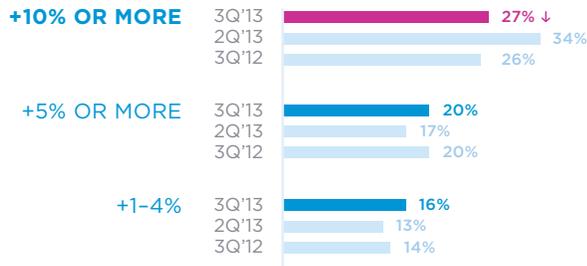


Revenue Performance

Revenue growth remains stable since 2Q 2013.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

3Q'13 **5.5%**
2Q'13 5.8% 3Q'12 5.5%

3Q'13 **4.4% ↓**
2Q'13 5.1% 3Q'12 3.7%

Revenue Performance by Industry

Revenue remains steady vs. last quarter in all industry sectors.

PAST 12 MONTHS



NEXT 12 MONTHS



Recent & Expected Growth

Employment

As companies temper their revenue growth forecasts they also expect to slow the pace of hiring. Of the survey respondents, 40% said they will hire workers, down from 43% in the prior quarter. One in ten companies said they would reduce their workforce. The mean total employment growth forecast – which surged 20% from 2.1% to 2.5% in the second quarter of the year – reverted back to the 2.1% forecast this period.

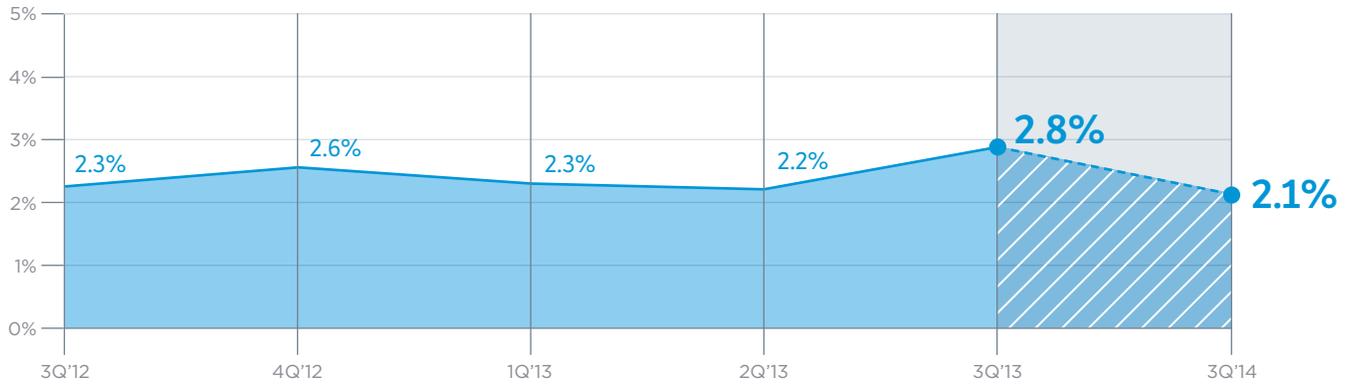
Expectations for job growth slowed among the lower and core middle market firms, while rising nominally among the larger firms, where 46% of respondents said they plan to hire, up from 45%.

The hiring expectations of respondents in the services sector slowed dramatically in the period. While 55% of service sector respondents last quarter said they planned to increase hiring, only 47% expressed a similar sentiment this quarter; hiring is expected to slow to 2.7% among services companies, down from 4.1% just a quarter earlier. Wholesale trade and financial service respondents also said they planned to slow hiring. Only retailers expect increased hiring, up to 2.4% from, 2.1% a quarter earlier.

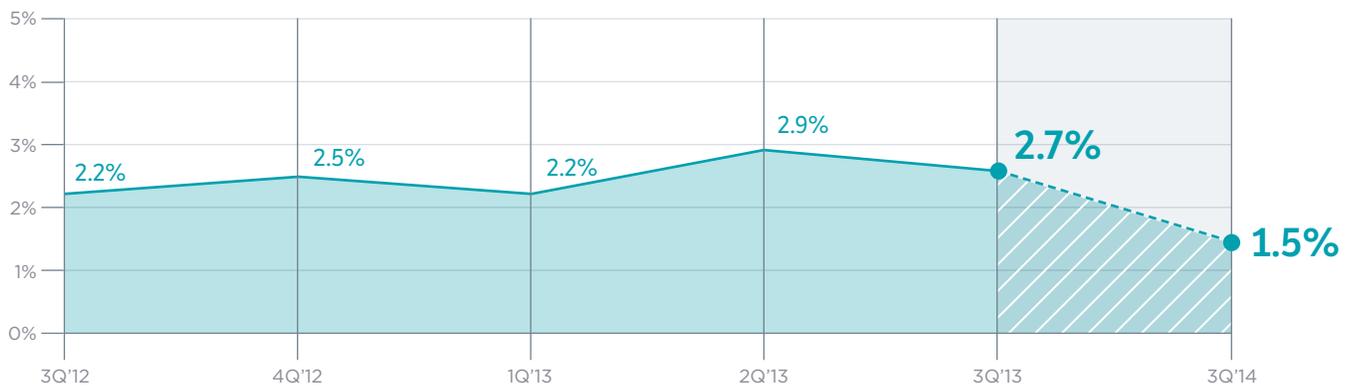
With nearly a third of the private sector GDP and employment in the U.S. coming from the middle market, a slowdown in job expansion could prevent the U.S. economy from accelerating the remainder of this year and into 2014.

Employment Growth By Segment

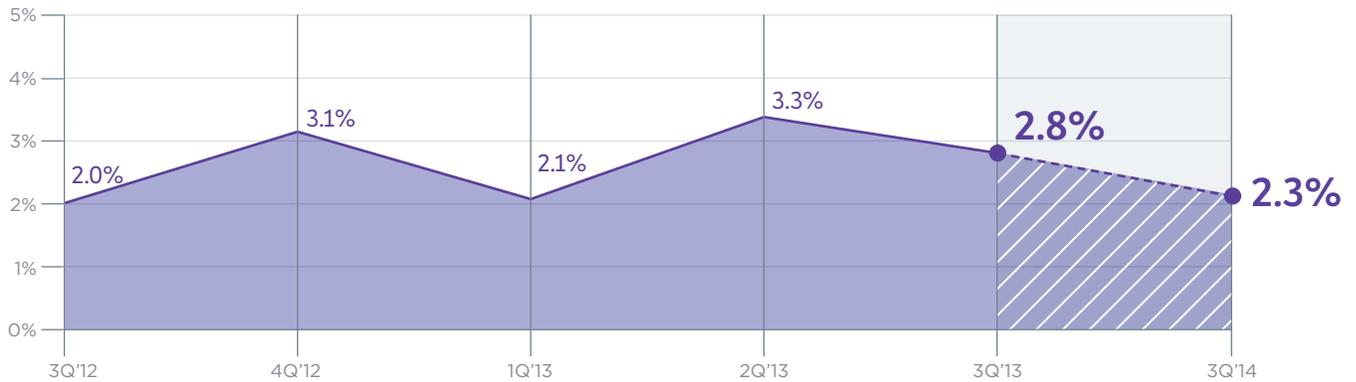
\$10MM–<\$50MM



\$50MM–<\$100MM



\$100MM–\$1B

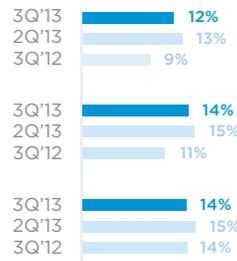
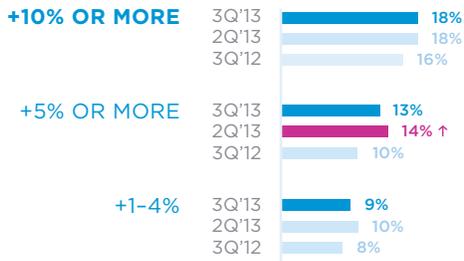


Employment Performance

Employment growth is stable over the past year.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

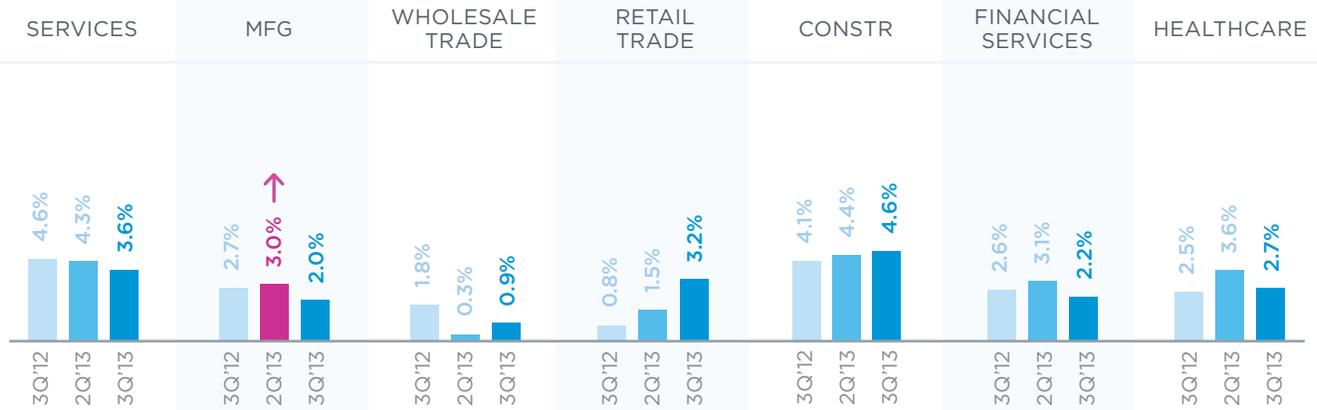
3Q'13 **2.8%**
2Q'13 2.6% 3Q'12 2.2%

3Q'13 **2.1%**
2Q'13 2.5% 3Q'12 1.3%

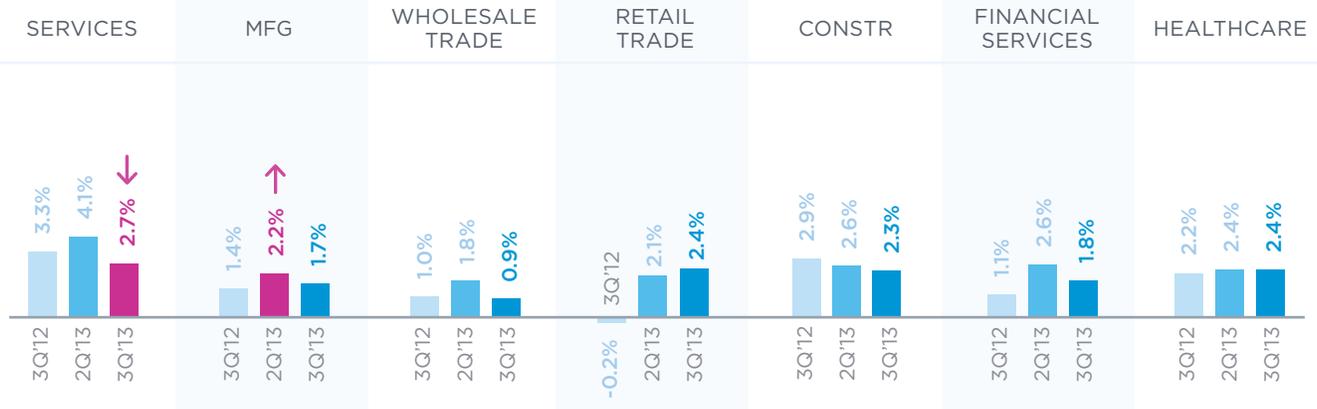
Employment Growth by Industry

Employment growth is stable across industries.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Financial decision makers at middle market companies of all sizes remain confident in the economy, though the increases in confidence that had marked the previous several quarters have halted, at least for now.

The year-over-year increase in the number of respondents who say they are somewhat confident or confident in economic conditions still reveals a marked shift in sentiment. For the second straight quarter 48% of those asked are at least somewhat confident on the global economy, up from 29% who responded in kind in the third quarter of 2012. For the U.S. economy, 62% of respondents said they are at least somewhat confident, up from 48% a year earlier; for the local economy, 77% are at least somewhat confident, a rise from 66% in the year-ago period. But those numbers have stabilized over the last three months.

Confidence in the U.S. economy appears to be most notably weakening among the smaller middle market companies, where 14% of respondents said they were confident in prospects, down from 20% in just one quarter. There also are concerns among the larger

companies, where the percentage of executives who said they are somewhat not confident in U.S. prospects surged to 26% from 14% in this quarter.

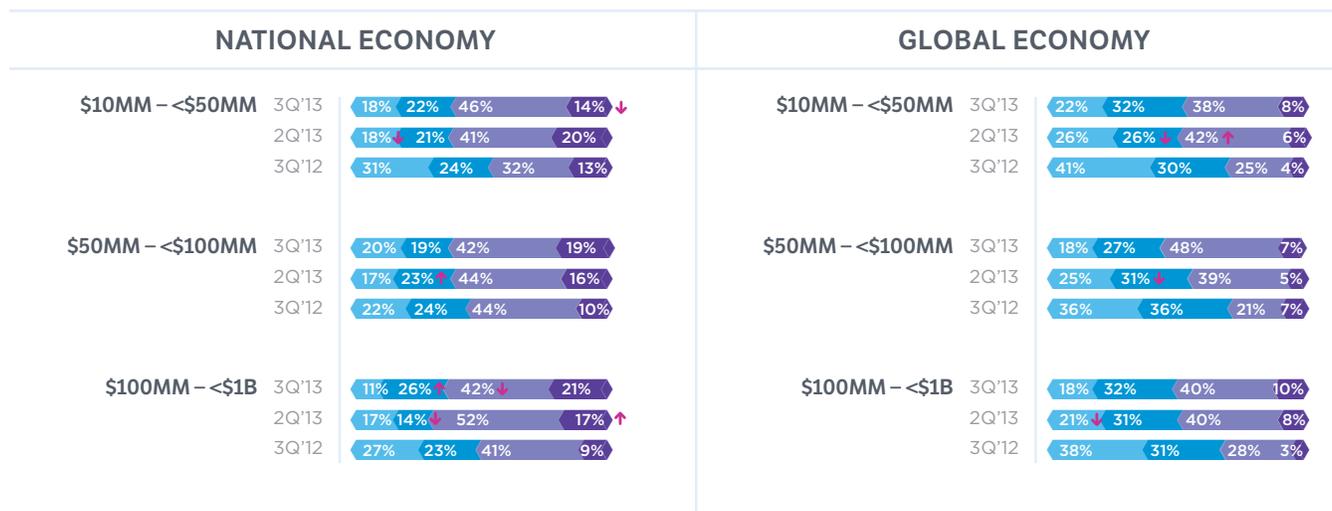
Decision makers within wholesale trade reported the largest decreases in confidence. Only 6% of that group said they were confident about the U.S. economy, down from 19% a quarter ago, while 37% of that group said they were somewhat not confident, up from 21% in three months. Retail leaders expressed the largest increases in confidence.

“All of our global operations continue to evolve due to the changes underway in our industry. Overall, I am more optimistic about the economy than I was one year ago.”

— Chairman, Communications, \$25MM annual revenues, 150 employees

Confidence by Revenue Segment

Confidence in the U.S. economy is waning among leaders of smaller MM firms.



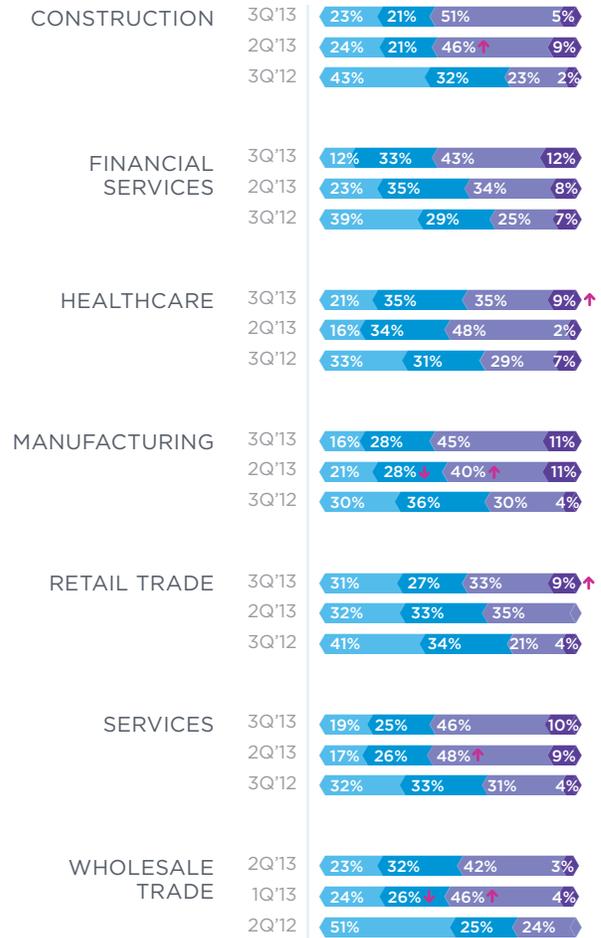
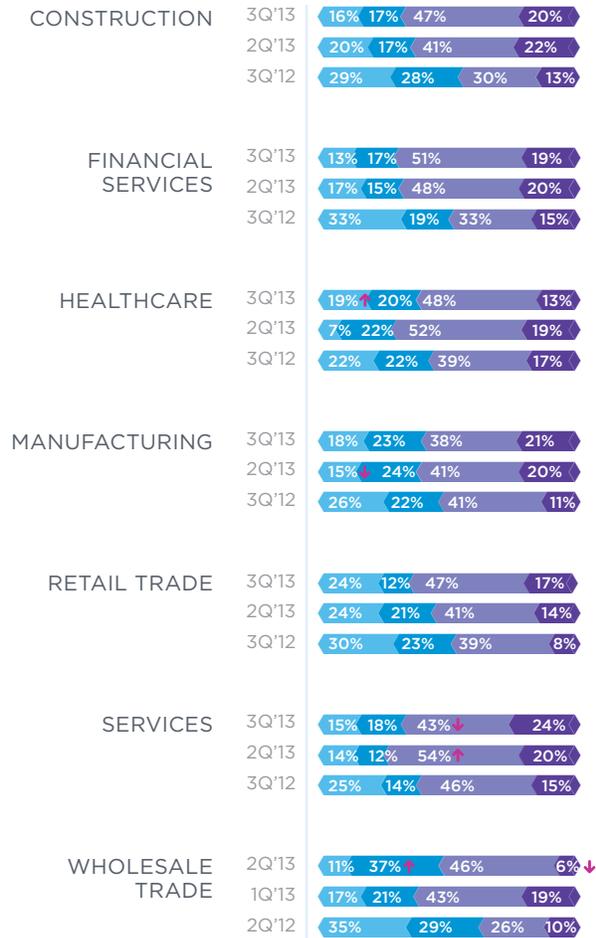
■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

Confidence by Industry

Failing confidence in the U.S. economy is most evident in the Wholesale Trade sector.

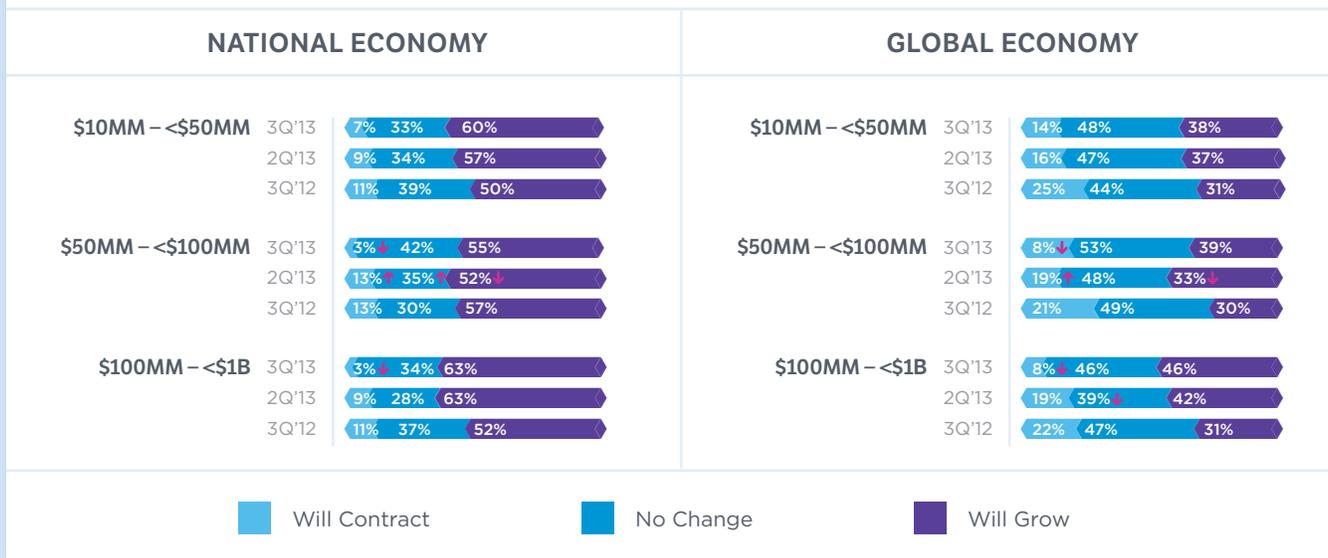
NATIONAL ECONOMY

GLOBAL ECONOMY



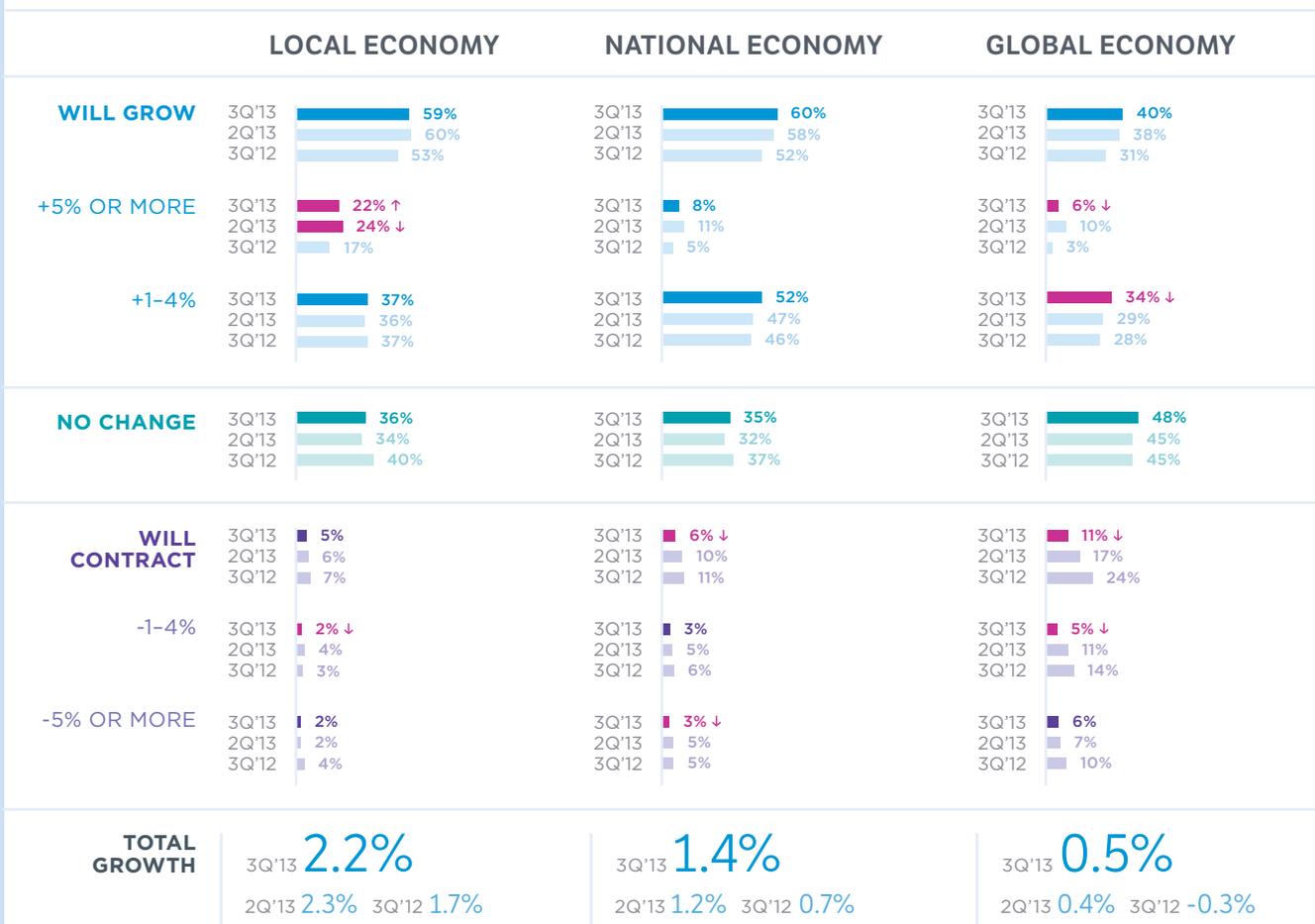
Economic Growth Outlook by Revenue Segment

Growth expectations for the Global and U.S. economies are similar to what they were in 2Q 2013. The number of MM leaders of Core and Emerging MM businesses expecting Global and U.S. economies to contract is lower than in 2Q 2013.



Economic Growth Outlook

Middle market leaders expect their firm to grow faster than the local, national and global economies.



Economic Growth Outlook by Industry

Leaders in the construction sector have a higher expectation for Global economic growth than they did in 2Q 2013.



■ Will Contract
 ■ No Change
 ■ Will Grow

“Our primary challenges have resulted from legislative and regulatory issues. This has resulted in an increase of activity with our trade associations and lobbying teams in an attempt to advocate on our behalf.”

— CEO, Business Services, \$55MM annual revenues, 270 employees

Challenges

Persisting concerns over the cost of healthcare – even as the U.S. enters the implementation stage– is the major challenge facing middle market companies. The ability to grow revenue and maintain margins and the cost of doing business follows as other major concerns.

Nine of 10 of all respondents cited healthcare uncertainty as their chief challenge, with 56% saying the topic was highly challenging. It was the lone concern in which more than half of respondents said the issue was highly challenging.

Few middle market leaders feel their companies are prepared to implement the new health care laws. Only 43% of companies said they were mostly or completely prepared to implement the law. One quarter of businesses said that modifying the employer mandate part of the health care legislation would help their business. That’s the same percentage of respondents that said avoiding a government shutdown through budget negotiations also would help. Secondary concerns include financial regulatory reform, immigration laws and the debt ceiling.

The unrest in the Middle East and growth slowdown in emerging markets is having a negative impact on about one in four middle market companies. Most firms impacted by the tensions in the Middle East are holding or curbing investments to combat supply chain disruptions, diminished prospects for international growth and reduced access to capital.

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.

Challenge	Quarter	Somewhat Challenging	Highly Challenging	Total
THE COST OF HEALTHCARE	3Q'13	34%	56%	90%
	2Q'13	33%	58%	91%
	3Q'12	34%	57%	91%
ABILITY TO MAINTAIN MARGINS	3Q'13	51%	33%	84%
	2Q'13	53%	32%	85%
	3Q'12	51%	38%	89%
THE COST OF DOING BUSINESS	3Q'13	58%	28%	86%
	2Q'13	56%	28%	84% ↓
	3Q'12	58%	29%	87%
THE UNCERTAINTY OF HOW GOVERNMENT ACTIONS WILL IMPACT MY BUSINESS	3Q'13	37% ↑	47% ↑	84%
	2Q'13	43% ↑	40% ↓	83%
	3Q'12	32%	52%	84%
ABILITY TO ATTRACT, TRAIN AND RETAIN TALENT	3Q'13	53%	23%	76%
	2Q'13	54%	24%	78%
	3Q'12	54%	23%	77%
ENSURING COMPLIANCE WITH REGULATION	3Q'13	46%	30%	76%
	2Q'13	43%	28%	71%
	3Q'12	43%	33%	76%
ABILITY TO PASS ON INCREASED COMMODITY COSTS	3Q'13	47%	25% ↑	72%
	2Q'13	51%	20% ↓	71% ↓
	3Q'12	48%	28%	76%
EFFECTIVELY MANAGING THROUGH EXTERNAL CHANGE	3Q'13	58%	14%	72%
	2Q'13	60% ↑	16%	76%
	3Q'12	57%	16%	73%
ABILITY TO EXPAND INTO NEW MARKETS DOMESTICALLY	3Q'13	56%	18%	74%
	2Q'13	58%	19%	77%
	3Q'12	53%	20%	73%
ABILITY OF YOUR ORGANIZATION TO INNOVATE NEW PRODUCTS, SERVICES OR PROCESSES	3Q'13	56%	15%	71%
	2Q'13	56%	15%	71%
	3Q'12	57%	14%	71%
CORPORATE TAX ISSUES	3Q'13	40%	18%	58%
	2Q'13	45%	18%	63%
	3Q'12	40%	27%	67%
INCREASED DOMESTIC COMPETITION	3Q'13	55%	16%	71%
	2Q'13	50%	19%	69%
	3Q'12	49%	18%	67%



Perspective

A RECOVERY AT RISK

The U.S. economy has experienced a tepid recovery so far. After nudging along at a disappointing pace of 1.1% annualized real growth in GDP in the first quarter of 2013, the economy showed some promise when it grew at 2.5% in the second quarter. However, early results for the third quarter suggest an annualized growth rate of less than 2%. Indeed, large firms (those in the S&P 500) saw revenues grow at 2.6% for the past twelve months. Looking ahead the S&P 500 firms are projected to grow revenue at a mere 1%.

In contrast, the middle market has been a shining light in this recovery to date with revenue growth rates typically well above 5%. But the data for Q3 suggests that growth is tapering off. The rate of growth of revenues for the past 12 months was 5.5%. Unfortunately, the latest survey from the National Center for the Middle Market shows that the expected rate of growth of revenues in the middle market is only 4.4% for the upcoming year. When it comes to job creation, the good news is employment grew at a stable rate of 2.8% in Q3. What is less reassuring, however, is that executives predict slower employment growth of 2.1% in the year ahead. The percentage of middle market executives willing to invest an extra dollar, a figure that had been increasing for the previous six quarters, has now dipped from 64% for Q2 to 61% in Q3. Not a large change, but significant because of change in direction. Similarly, the percentage of middle market managers expressing some confidence in the local/regional economy, the main hub of operations for middle market firms, has dipped from 79% in Q2 to 77% in Q3. Altogether, the middle market, thus far an engine of growth in the economy, seems to be “peaking out.”

THE ECONOMIC DRAG FROM GOVERNMENT UNCERTAINTY

A clear drag on the economy is the relentless creation of man-made uncertainty, which cannot be good for investment and growth. Within the past year, markets have been roiled by uncertainties arising out of the fiscal cliff (recall the Bush era taxes?), the ongoing saga of sequestration, the threat of government shut down, and debt ceiling debates. A default by the U.S. government on its debt on account of a failure to relax the debt ceiling is the latest potential problem, and it

has serious consequences. Currently, the interest rate on U.S. 10-year Treasury bonds is about 2.7%. In other words, we are financing the operations of the U.S. government at very favorable rates. All of us, businesses included, are beneficiaries of the good faith and standing of the U.S. government. A default would surely raise these government interest rates with an impact on other rates, consequently increasing interest costs for businesses. It would also shake the confidence of those around the world that have financed our deficits. An increase in interest rates would automatically lower the value of the bonds now held by the Chinese and the Japanese, for example. Their losses could be enormous, since they hold \$1.28 Trillion and \$1.14 Trillion of U.S. Treasuries, respectively. Imagine the impact on the willingness of foreign investors to buy U.S. government bonds and on the future borrowing costs to the U.S. government and businesses!

IMPACT OF U.S. DEBT DEFAULT ON MIDDLE MARKET FIRMS

While middle market managers seem to have taken the government shutdown in stride (only 15% say that it will have a negative impact on business), a U.S. default on debt is an entirely different matter. Nearly half of middle market executives surveyed claim that government default would have a negative impact on business. In our survey, they tell us that default can lead to higher interest rates, reduced consumer confidence, reduced confidence among businesses, reduced foreign direct investment, and reduced confidence in the creditworthiness of the country. Some 94% of middle market executives consider higher interest rates as the most adverse impact of a U.S. default on its debt. At the time of this report, the current debt ceiling crisis appears to have been averted. However, ongoing uncertainty in Washington will continue to put pressure on this vital segment of the economy.

In sum, in a cross-sectional comparison, the middle market is doing well relative to other segments. But in an inter-temporal comparison, its growth has hit a plateau. Instead of its intended role as a facilitator, government seems to be instead playing the role of spoiler in this case, at a time when the unemployment rate is still hovering around 7.3%.





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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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MIDDLE MARKET INDICATOR



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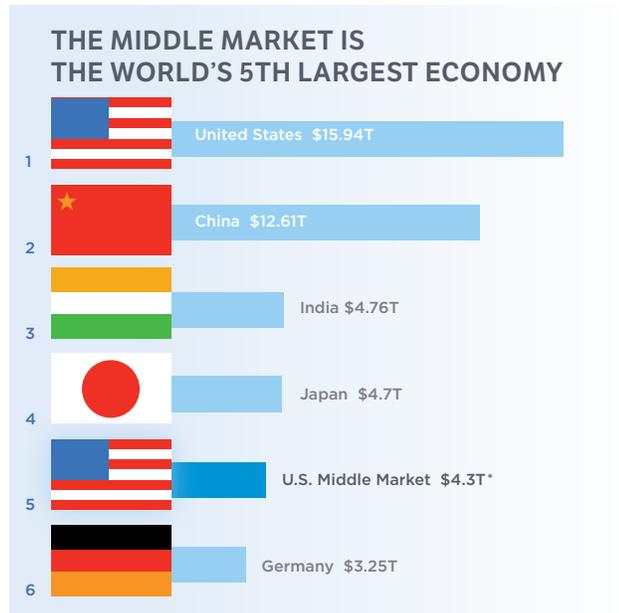
GE Capital

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Middle Market Indicator

from The National Center for the Middle Market



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

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.

Executive Summary

The U.S. middle market continued its revenue and employment growth during the fourth quarter of 2013, though with a slower pace that could remain tempered during 2014. Certain sectors within the middle market – manufacturing and construction, for example – wrapped up 2013 in strong fashion; that contrasts with retailers and healthcare providers which reported slowing growth and diminished prospects looking forward. Confidence in the global economy has improved, while it has leveled off both for the U.S. and local outlook. Meanwhile, a majority of middle market leaders said they are holding back on hiring and putting capital to work because they lack clarity on federal regulations.

More than half of middle market companies – defined as those with annual revenues between \$10 million and \$1 billion – reported improved company performance in 2013. Overall there was a slight decline in the number of middle market companies reporting improved performance, 56% down from 62% three months earlier.

Revenue grew at 5.0% in the fourth quarter, which marks the slowest rate of increase over the past four quarters and a notable decline from the year earlier rate of 7.0%, when companies were rebounding from the recession. Those results, however, outpace the performance of the broader market by a wide differential – underscoring the middle market’s stability and its critical role as a driver of the U.S. economy. Analysts anticipate a meager 1.0% increase in revenue for the S&P 500 in the fourth-quarter (flat to the 0.9% estimated at the beginning of the period and a fraction of the growth expected from the middle market).¹

Employment gains remain steady, as the middle market continues to generate jobs. Roughly four in ten companies expanded their workforce in the quarter. Employment at middle market companies increased 2.5% in the period, in line with gains over the past year.

Prospects for future growth have stabilized, and are lower than earlier in the year as middle market executives face strong headwinds. Healthcare costs, domestic regulations and the ability to generate revenue and maintain margins dominate concerns. Almost three of five executives say that federal policy uncertainty has impacted their business planning.

Looking ahead, middle market companies anticipate revenue growth of 4.3%, a decline from the 5.2% estimated growth a year earlier and 5.0% reported growth for the previous twelve months. The subdued outlook, impacted mainly by the retail sector, still outpaces broader market expectations.

“We would invest in strategies or opportunities to expand our footprint with franchisees as well as in tools and technologies that supplement our growth.”

– CFO, Services Industry, \$220MM annual revenue, 3,000 employees

¹http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_12.20.13E

Key Findings:



COMPANIES REPORT CONTINUED PERFORMANCE GAINS:

Revenue for middle market companies increased during the fourth quarter of 2013 with 56% of companies reporting improvements, down slightly from 62% in the third quarter and the fourth quarter of last year, but in line with results earlier in the year. The mean revenue growth declined to 5.0%, extending a year-long slide. Smaller middle market companies – those with revenue between \$10 and \$50 million – drove the trend, with only half reporting improvement, down from 59% three months ago.

Companies continue to expect improvement in the coming year with 57% projecting revenue growth, leveling off from 60% last quarter. These companies expect increases of 4.3%, down from 5.2% last year, but roughly the same as the third-quarter forecast.



EMPLOYMENT GROWTH STABILIZES:

In the fourth quarter, 39% of middle market companies said they added workers, consistent with results over the previous four quarters. Companies reported mean job growth of 2.5%, down from 2.7% a year ago, but up from 2.2% during the first quarter. Large middle market companies – those with more than \$100 million in revenue – added workers at an average rate of just over 3.0%.

Looking ahead, the middle market expects 2.2% job growth in 2014. Of manufacturers, 48% expect increased hiring, up from 38% a quarter ago. On the other hand, retailers expecting to increase hiring dropped to 36% in the fourth quarter, down from 51% in three months and only 29% of healthcare providers expect to increase hiring, down from 49% last quarter.



CONFIDENCE LANDSCAPE HAS SHIFTED:

The confidence outlook has changed noticeably in the past year with increased optimism in the global economy and a leveling-off of confidence in both the local and U.S. economies. Only 16% of respondents reported no confidence in the global economy in the fourth quarter of 2013, less than half the 34% a year ago. In the period, 56% said they were at least somewhat confident in global prospects, up from 33% a year earlier. Confidence in the U.S. economy remained steady – 64% of respondents expressed some degree of confidence in domestic prospects in the fourth quarter of this year, compared with 62% a year earlier. Confidence in the local economy improved marginally; 76% expressed at least some confidence compared with 71% a year earlier.



CAPITAL INVESTMENT, HIRING RESTRAINED BY POLICY UNCERTAINTY:

A majority of middle market companies said that uncertainty regarding government policies is impeding their ability to grow and their willingness to hire and spend. Almost three in five (58%) of all middle market companies say that federal policy uncertainty has impacted their business planning, with 63% of those respondents saying they are less likely to hire new workers and more likely to trim expenses as a result, and 56% saying they are less likely to make capital investments.

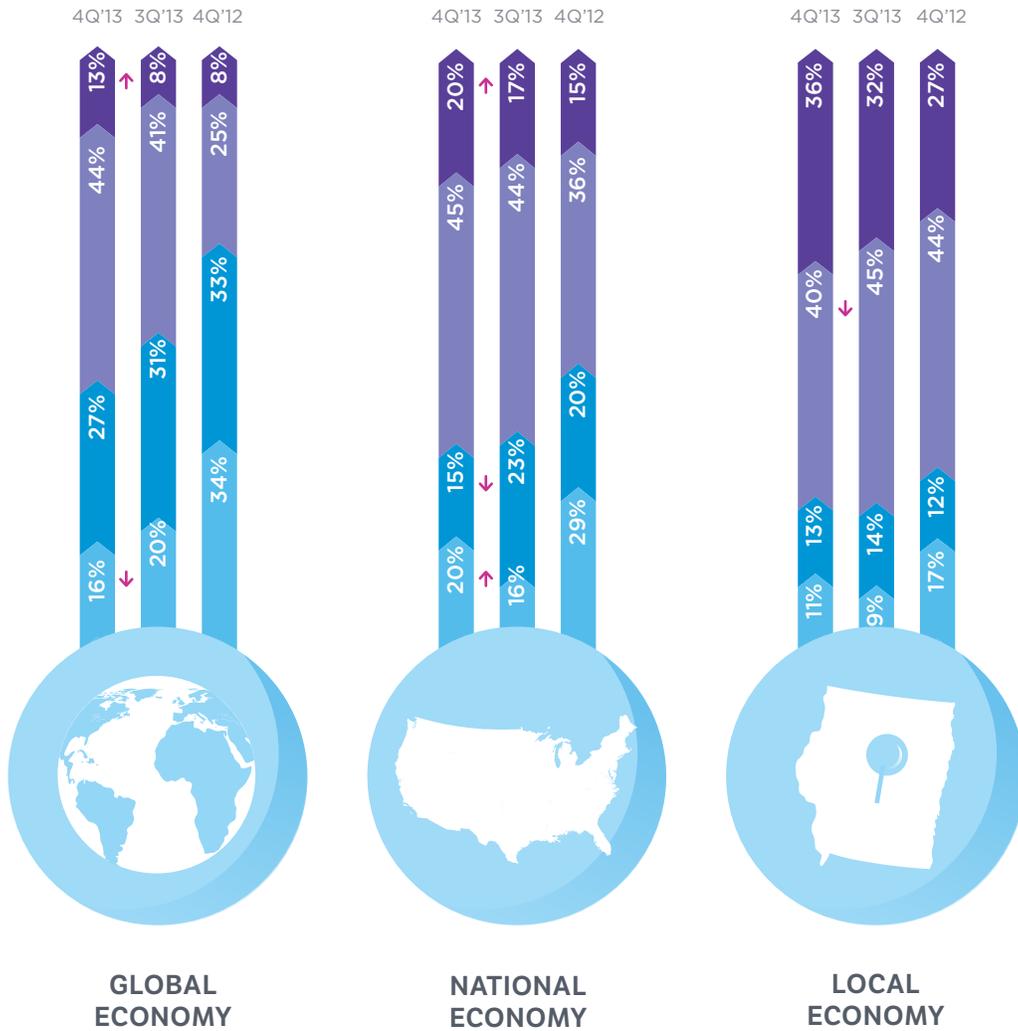
Middle market executives also cited high corporate taxes and a lack of tax incentives as impediments to growth. Nonetheless, 64% of respondents said they would spend rather than save excess cash, returning to levels last seen in the second quarter of 2013, the highest level in the past five quarters.



CHALLENGES PERSIST:

The challenges facing middle market companies remained fairly static. The impact of healthcare legislation continues to be the largest concern, with 88% of all respondents saying that healthcare costs are at least somewhat challenging and more than half saying they are highly challenging. The ability to grow revenue and maintain margins follow closely behind as major challenges.

Economic Confidence Indicators



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

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

Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.

4Q'13 **5.0%**

3Q'13 5.5% 4Q'12 7.0%

NEXT 12 MO.

4Q'13 **4.3%**

3Q'13 4.4% 4Q'12 5.2%

Employment Growth

MIDDLE MARKET

PAST 12 MO.

4Q'13 **2.5%**

3Q'13 2.8% 4Q'12 2.7%

NEXT 12 MO.

4Q'13 **2.2%**

3Q'13 2.1% 4Q'12 2.3%

S&P 500

PAST 12 MO.

4Q'13 **1.0%**

3Q'13 2.6% 4Q'12 2.9%

NEXT 12 MO.

4Q'13 **0.8%**

3Q'13 1.0% 4Q'12 3.5%

ADP (PAST 12 MO.)

LARGE CORP.

4Q'13 **2.3%**

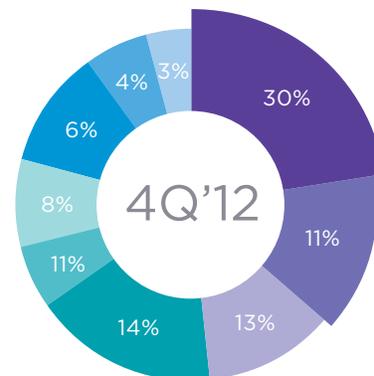
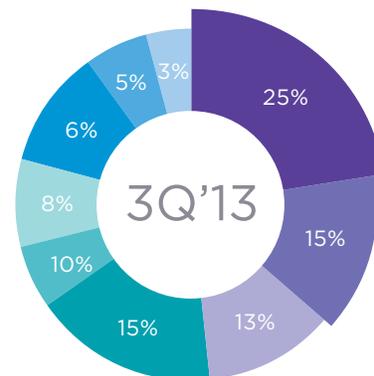
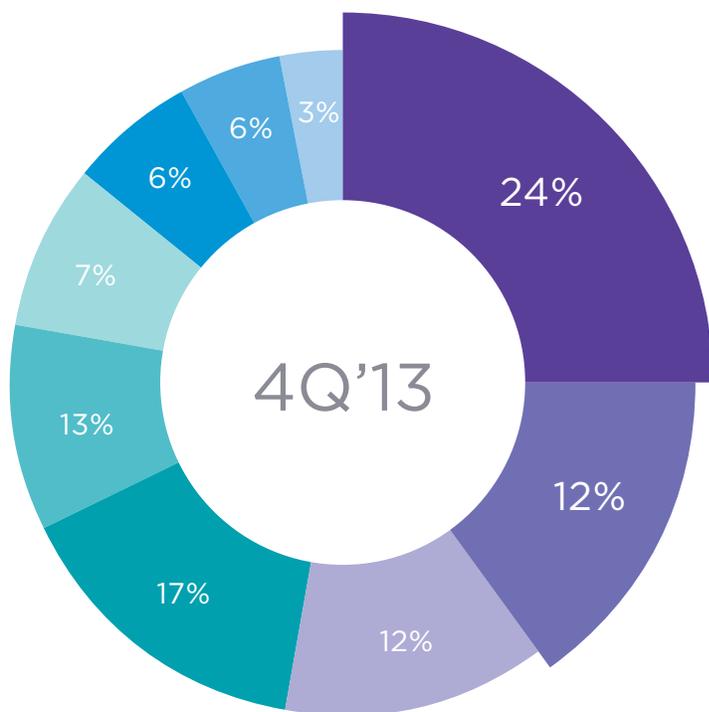
3Q'13 2.4% 4Q'12 2.3%

SMALL BUS.

4Q'13 **2.0%**

3Q'13 1.8% 4Q'12 1.6%

Incremental Investment Allocation



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

Recent & Expected Growth

A majority of middle market companies reported improved revenue growth from a year earlier and more than half anticipate improved results in 2014. Of the companies surveyed, 56% said business in the period improved. That's below the 62% that reported improved growth in the third quarter. Smaller middle market firms dragged down results, with only 50% reporting improved revenue in the quarter, down from 59% in the three months. Only one in ten middle market companies said that business deteriorated, unchanged from the prior period.

Mean revenue growth decelerated to 5.0% in the quarter, from 5.5% in the third period. Retailers dragged down results. While 77% of retailers reported year-over-year revenue gains in the third quarter, only 54% reported such gains in results this period. Fewer healthcare companies reported improved year-to-year revenue gains in the period; (53% in the fourth quarter vs. 64% in the third).

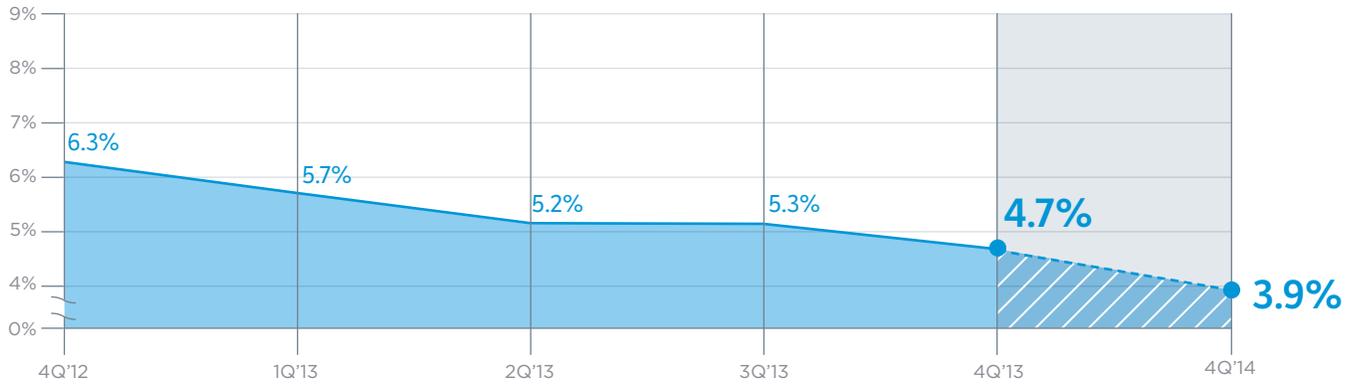
Moving forward, prospects for future revenue growth appear to have leveled off, after slipping in the third quarter. The middle market anticipates 4.3% revenue gains, down marginally from 4.4% in the last quarter. Some 57% of companies expect revenue to grow, down slightly from 60% a quarter earlier. Smaller middle market firms expect to bear the brunt of the deterioration in revenue growth, with only 51% anticipating growth, down from 58% in the third quarter. These companies also only expect revenue to increase 3.9% in the year ahead. That's a sharp drop from 5.0% in the fourth quarter of 2012 and 4.4% three months ago.

Disappointing growth expectations in the retail trade sector, and to a lesser extent healthcare, are driving the anticipated lower revenue expectations. Fewer than half of retailers, or 49%, expect revenue to grow in 2014; that's down from 72% in the third quarter. Overall, retailers expect revenue growth of 3.7%, down from 4.6% three months earlier and down from 5.2% a year ago.

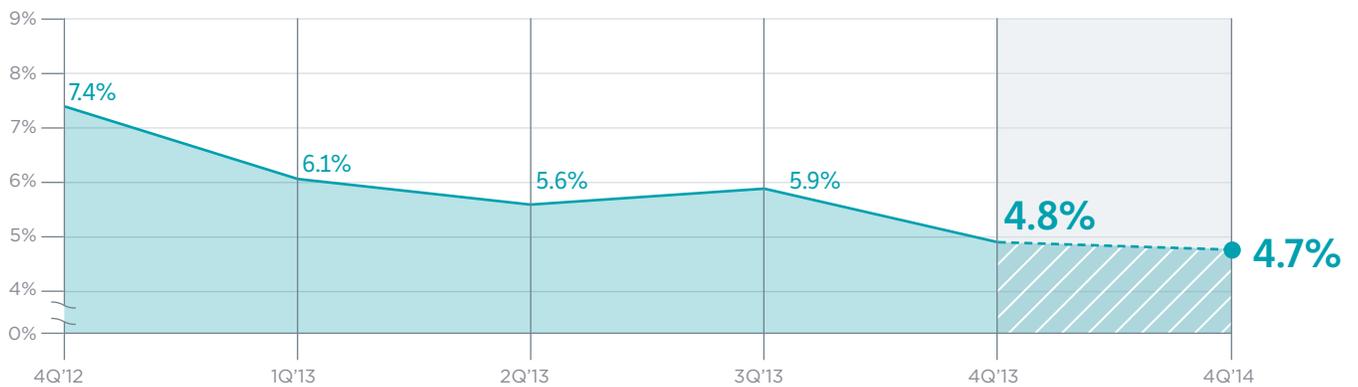
Healthcare providers anticipate revenue growth will decelerate to 3%; a year earlier this group reported expectations for growth of 4.1%. The percentage of healthcare companies forecasting revenue gains slid to 46% from 55% in the third quarter. On the flip side, construction companies expect revenue to grow 5.7%; just a quarter ago they had forecast gains of 3.7%. Similarly, financial service companies said they see revenue increasing 4.7%, up from 4.1% in three months.

Revenue Growth By Segment

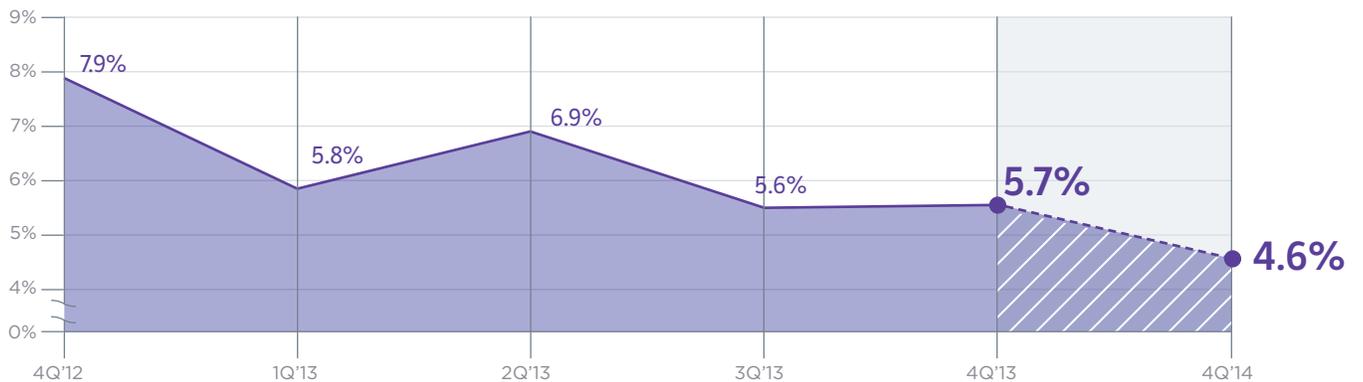
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B



Revenue Performance

Some erosion in revenue growth is evident over the last few quarters.

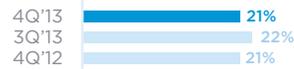
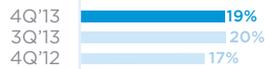
PAST 12 MONTHS

NEXT 12 MONTHS

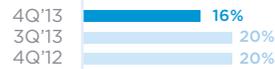
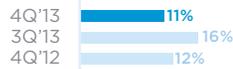
+10% OR MORE



+5% OR MORE



+1-4%



NO CHANGE



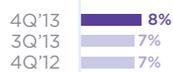
-1-4%



-5-9%



-10% OR MORE



TOTAL GROWTH

4Q'13 **5.0%**
3Q'13 5.5% 4Q'12 7.0%

4Q'13 **4.3%↑**
3Q'13 4.4% 4Q'12 5.2%

Revenue Performance by Industry

The number of retail trade firms reporting increased revenue vs. a year ago dropped significantly and now stands at less than half.

PAST 12 MONTHS



NEXT 12 MONTHS



Recent & Expected Growth

Employment

Despite tempering revenue growth forecasts, the middle market does not expect to slow the pace of hiring. Of the survey respondents, 38% said they will hire workers, barely down from 40% in the prior quarter. Only one in ten companies said they would reduce their workforce. The mean total employment growth forecast ticked up slightly to 2.2% from 2.1% in the fourth quarter, remaining in a narrow 2.1-2.5% range throughout the year.

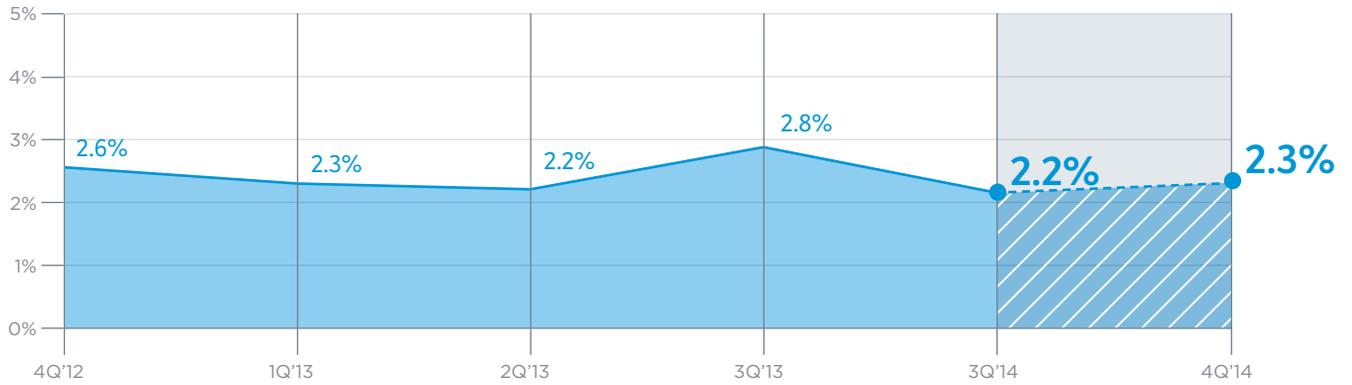
Expectations for job growth are fairly consistent across all sizes of middle market firms.

The hiring expectations of respondents in the manufacturing sector surged dramatically in the period. While only 38% of manufacturers last quarter said they planned to increase hiring, 48% expressed a similar sentiment this quarter. That offsets a steep decline in hiring expectations among retailers, where only 36% of respondents anticipate hiring, down from 51% a quarter ago.

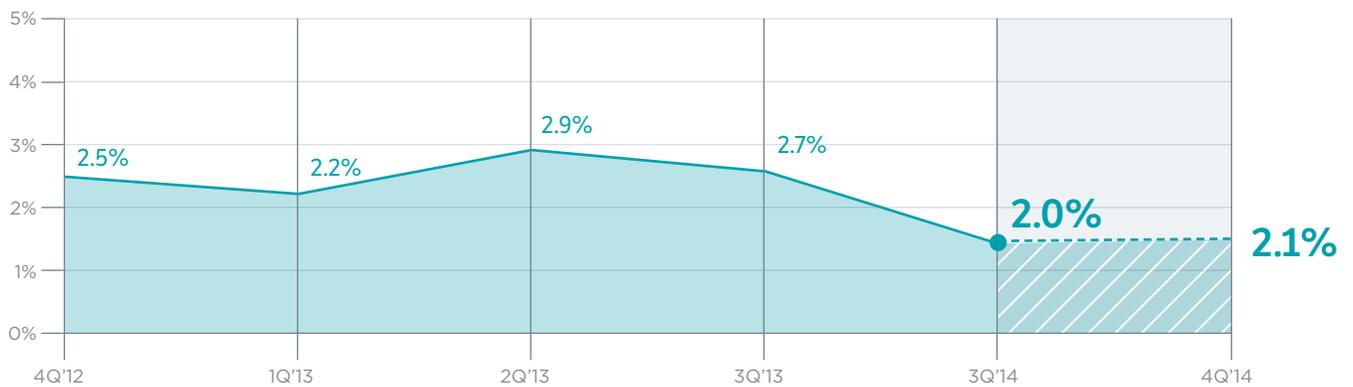
With almost a third of the private sector GDP and employment in the U.S. coming from the middle market, a slowdown in job expansion could prevent the U.S. economy from accelerating in 2014. The stabilizing employment outlook, even in the face of a decelerating revenue outlook, bodes well for job creation.

Employment Growth By Segment

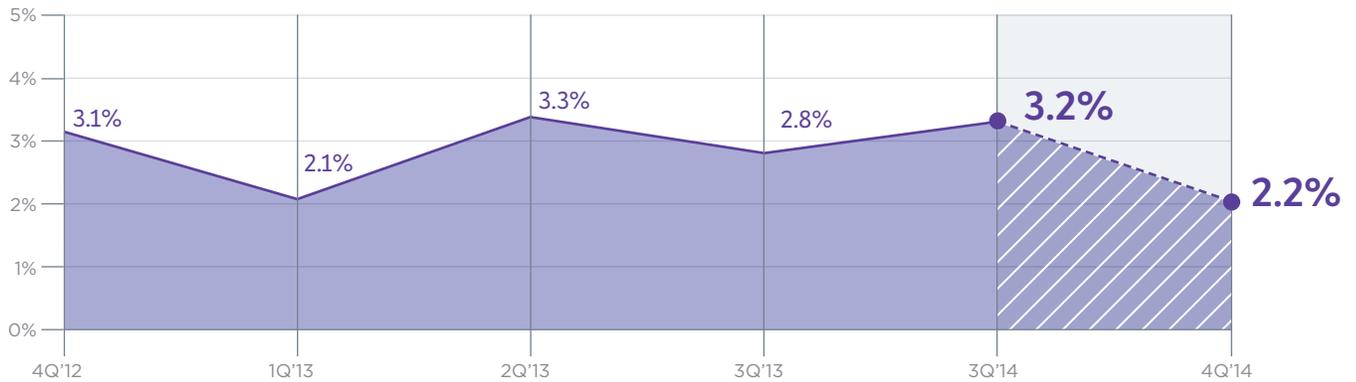
\$10MM-<\$50MM



\$50MM-<\$100MM



\$100MM-\$1B

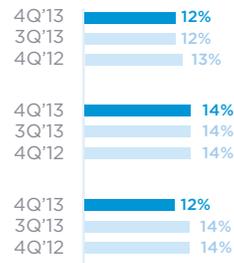
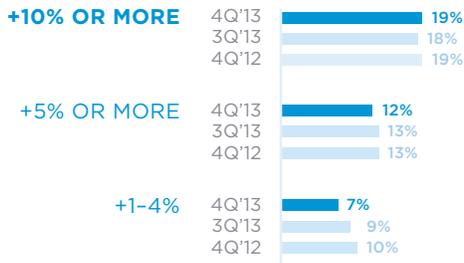


Employment Performance

Employment growth is stable over the past year.

PAST 12 MONTHS

NEXT 12 MONTHS



TOTAL GROWTH

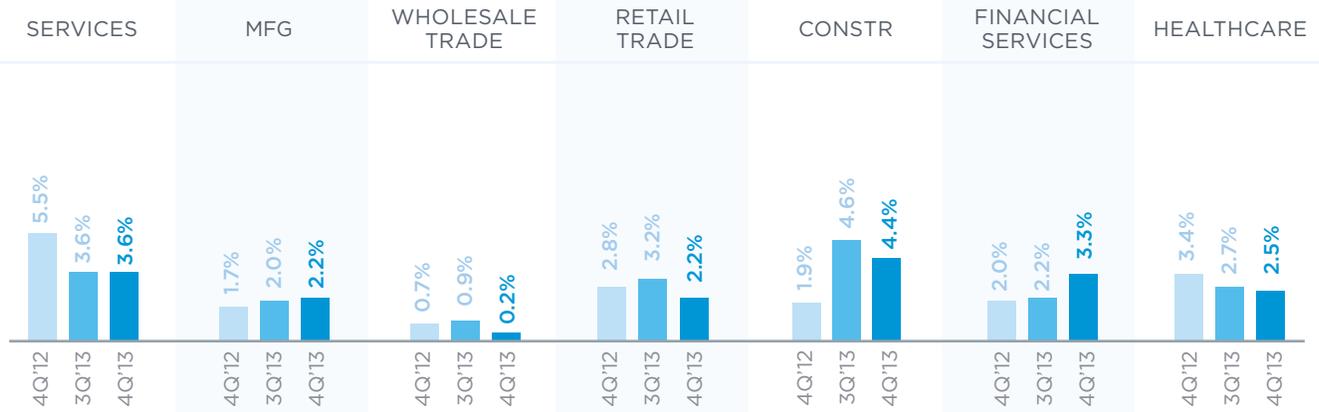
4Q'13 **2.5%**
3Q'13 2.8% 4Q'12 2.7%

4Q'13 **2.2%**
3Q'13 2.1% 4Q'12 2.3%

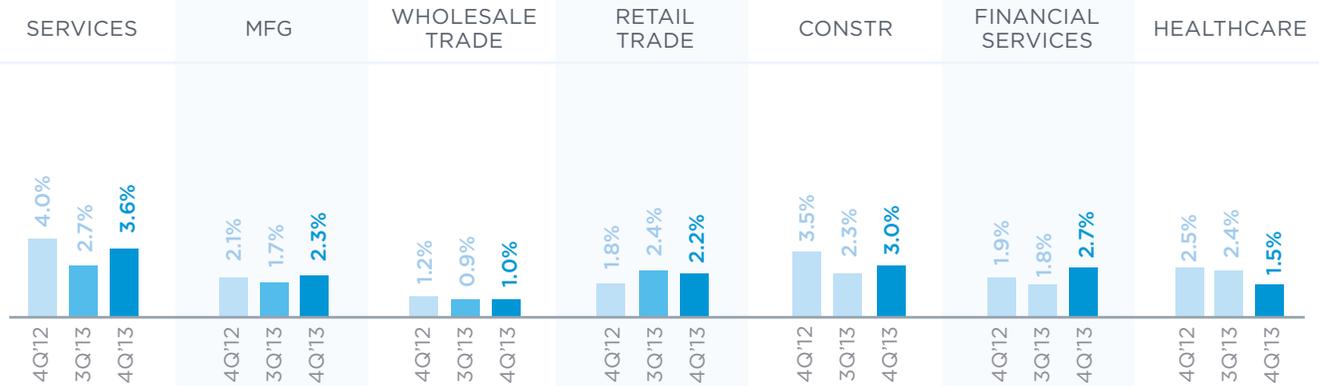
Employment Growth by Industry

Employment growth is stable across industries.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Financial decision makers at middle market companies increasingly are confident in the global economy. A year ago, more than two-thirds of respondents were at least partially not confident about the global economic outlook. That sentiment has almost completely reversed, with 56% of executives saying they are at least somewhat confident in their global outlook.

However, there was a 25% increase in just three months in the number of executives who said they lacked confidence in the U.S. economy. The percentage of executives at least partially confident in the domestic economy overall increased slightly from 62% in the third quarter to 64% in the fourth. On a local level, there appears to be some stability in confidence, with 76% of middle market executives at least somewhat confident in the fourth quarter, compared with 77% in the prior quarter and 79% in the period before that.

Retail trade respondents had a far less negative outlook on the global economy. Only 12% of retailers said they lacked confidence in the global economy during the fourth quarter, down from 31% three months earlier.

Wholesalers had an increasingly negative outlook for the U.S., with 28% of respondents reporting they are not confident in the period, up from 11% in the third quarter.

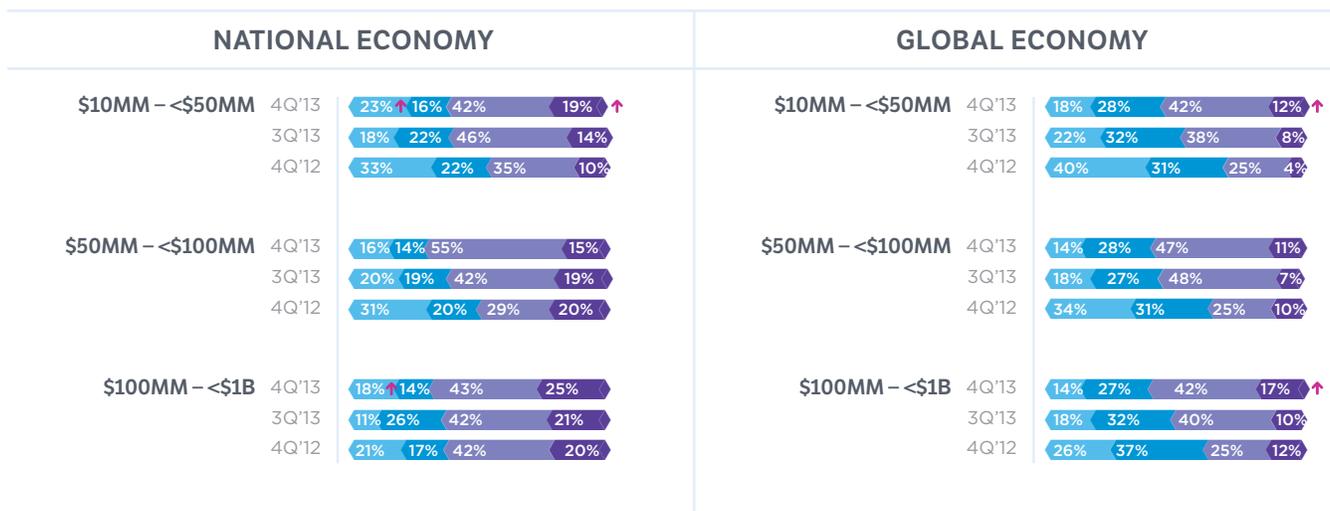
Growth expectations of the US economy are deteriorating among leaders of the smaller middle market firms, with 51% reporting in the fourth quarter that the U.S. economy will grow, down from 59% in the past three months.

“We anticipate top-line growth of 20% and hiring close to 15%. We do have momentum in spite of Washington and the economy as we have re-engineered the organization and executed on opportunities successfully.”

— CFO, Services, \$220MM annual revenue, 3,000 employees

Confidence by Revenue Segment

Confidence in the global economy is higher among all revenue segments.



■ Not confident
 ■ Somewhat not confident
 ■ Somewhat confident
 ■ Confident

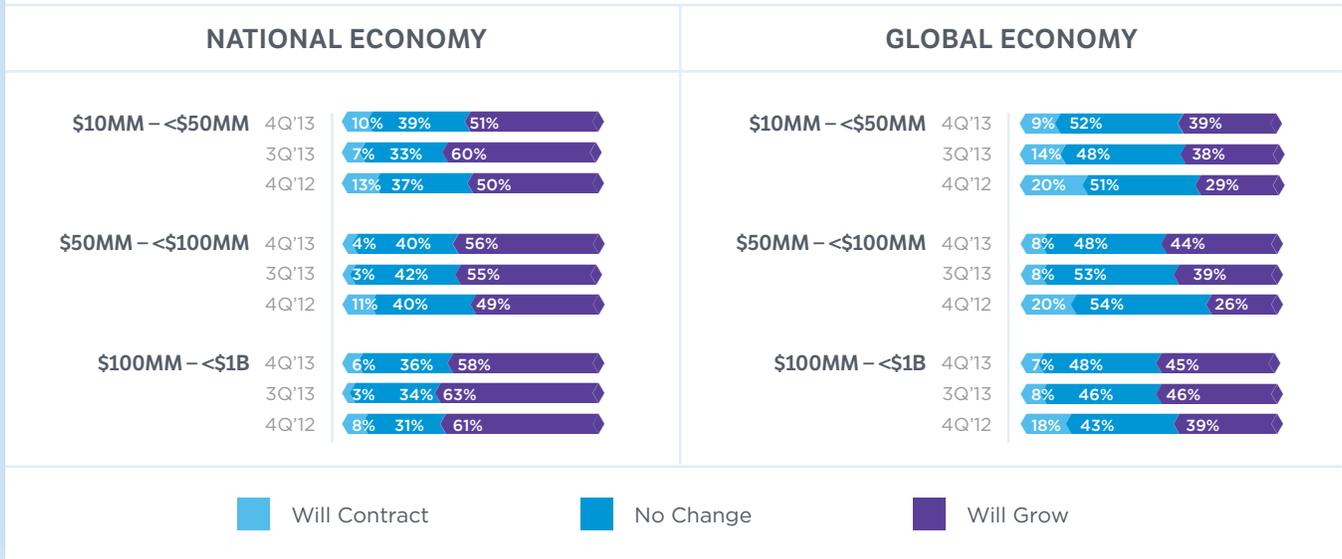
Confidence by Industry

The proportion of retail trade business leaders with a negative outlook on the global economy has decreased significantly.



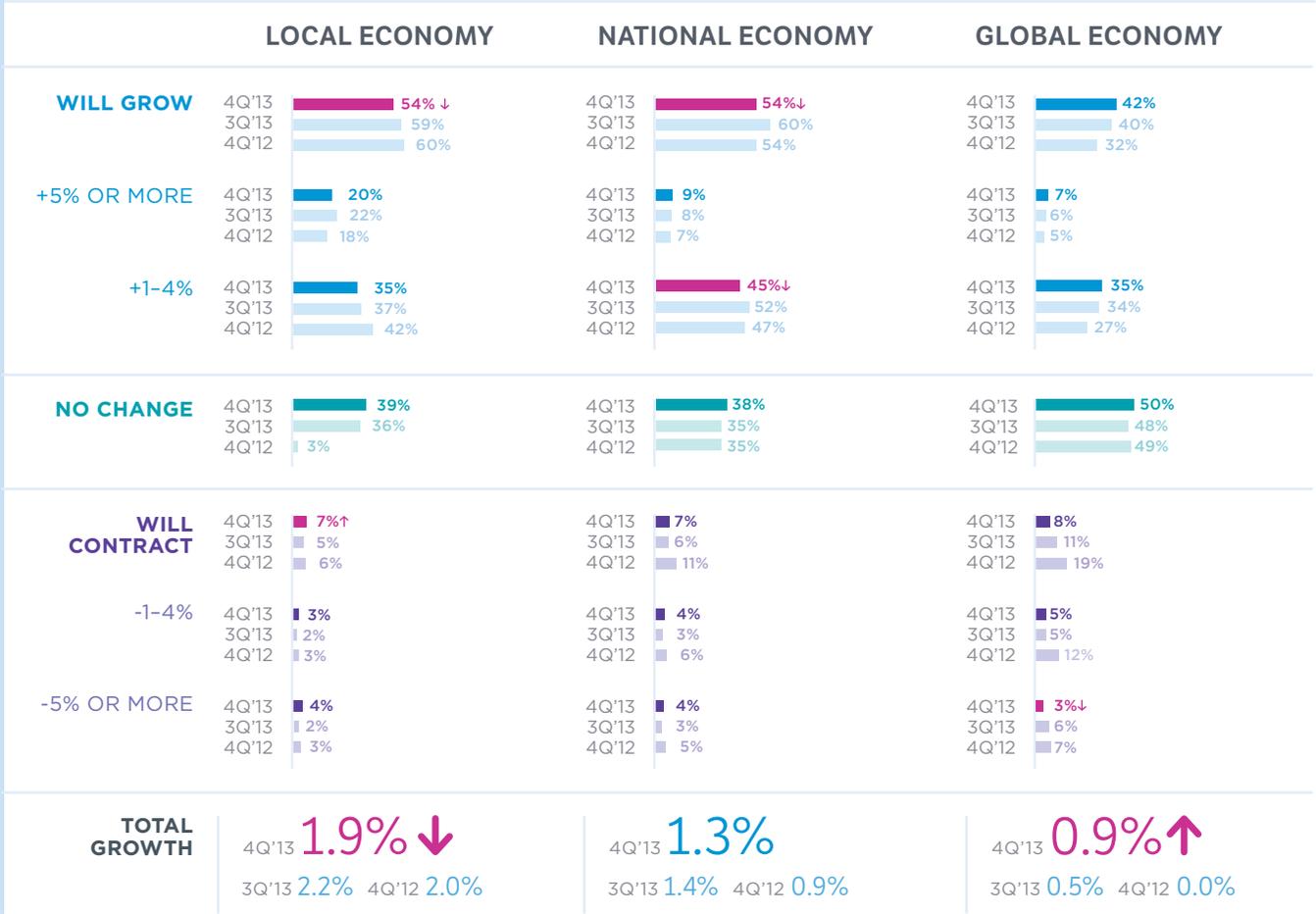
Economic Growth Outlook by Revenue Segment

Growth expectations of the U.S. economy are deteriorating among leaders of smaller MM firms.



Economic Growth Outlook

Despite decreasing expectations of the local economy growth rate, MM leaders expectations' for their own business growth remains strong.



Economic Growth Outlook by Industry

Global and U.S. economic growth expectations are stable across industries.



■ Will Contract
 ■ No Change
 ■ Will Grow

Challenges

The most challenging issue to middle market executives remains healthcare costs, even as the U.S. enters into the implementation stage of the Affordable Care Act. Almost nine in ten executives cited the cost of healthcare as somewhat or highly challenging, extending its ranking as the No. 1 concern to more than a year. More than half of all respondents cited healthcare as highly challenging; it was the lone concern in which more than half of respondents said the issue was highly challenging.

The ability to grow revenue and maintain margins and the cost of doing business follow as other major concerns with 86% of all respondents citing both.

For the first time the Middle Market Indicator survey asked respondents about the impact of federal policy and 58% responded that uncertainty about federal policy impacts their business planning and almost two-thirds of those respondents said it has resulted in holding off on hiring, cutting back on expenses like travel and bonus, and shelving plans to invest their capital.

Middle market leaders expressed overwhelming disapproval of the rollout of the ACA, with 79% of respondents saying they disapproved of the President's rollout of the healthcare plan with most respondents (85%) saying the rollout was poorly handled and 66% disagreeing with having the individual mandate provision.

Debt ceiling concerns also continue to cast a shadow over the middle market with most respondents anticipating a serious negative impact on their business if the government defaults on its debt. The most likely outcome relates to decreased confidence in the creditworthiness of the U.S. economy.

Access to capital has remained stable overall. For healthcare providers and construction firms, the restrictive lending environment in the third quarter appears to have eased, with only half of respondents in those sectors saying that lending is more restrictive, down from 74% and 68%, respectively, in the third quarter for healthcare and construction respondents.

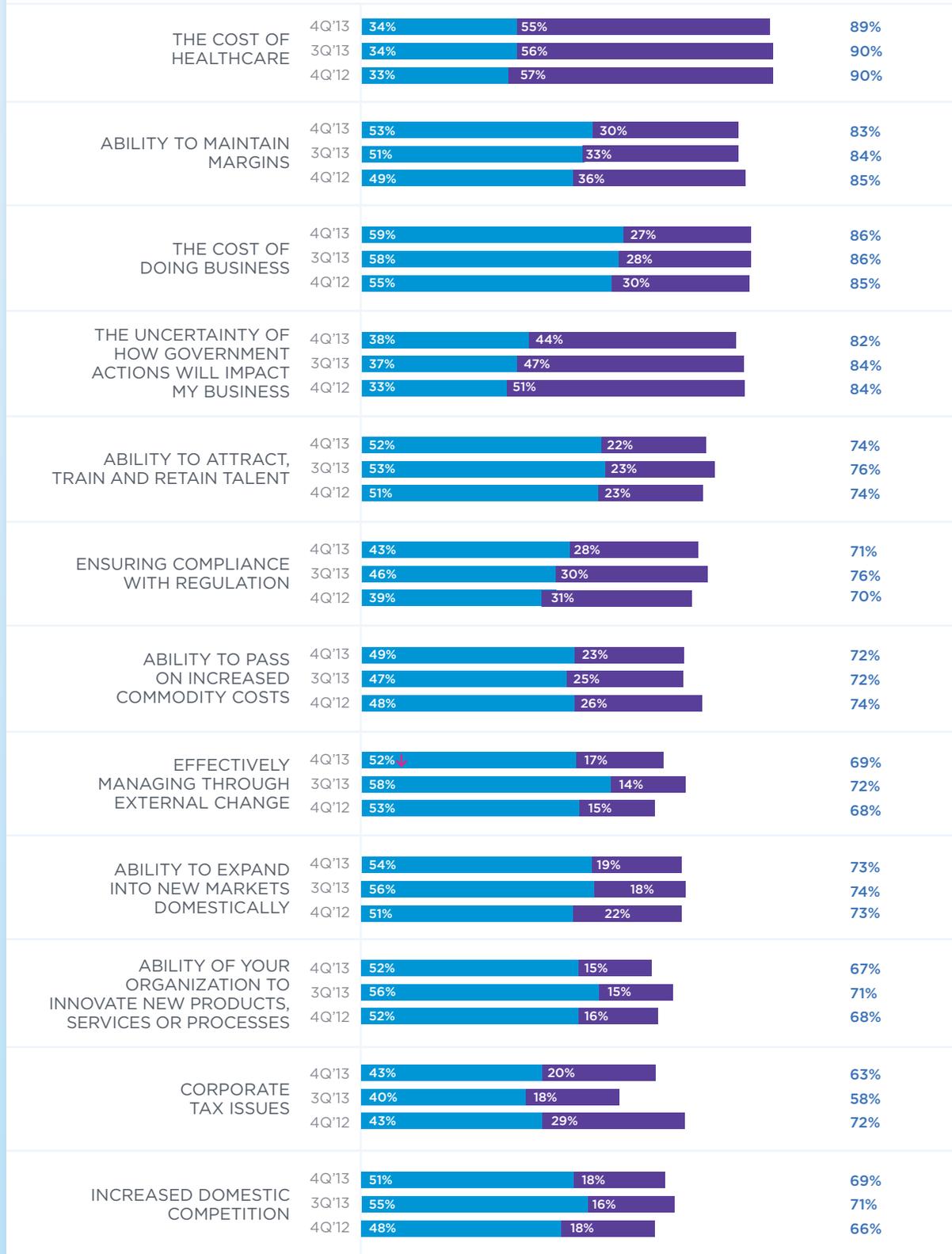
Meanwhile, executives said they are more likely to invest excess cash than hold it by a margin of almost 2-to-1. The percentage of those saying they are more likely to invest rose to 64%, matching the second quarter number, the highest level of the past five quarters.

“We’ll invest in technology before people...government is making it too costly to hire people. Healthcare cost uncertainty only adds to the problem.”

— CEO, Business Services, \$55MM annual revenue, 270 employees

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.



■ Somewhat Challenging

■ Highly Challenging

Perspective

MIDDLE MARKET CONTINUES TO DELIVER CONSISTENT, STEADY, AND STRONG PERFORMANCE

One of the notable attributes of the middle market is that it has continued to deliver consistently strong performance in both recessionary and growth periods for the overall economy. When the annualized revenue growth for S&P 500 firms was meager (e.g., only 0.9% and 1.0% in Q3 and Q4 2013, respectively), middle market firms in our survey report growing revenue at an impressive 5.0% rate over the past 12 months. Going forward, there are signs that the U.S. economy may continue to gain momentum. According to the Conference Board, U.S. GDP is forecasted to grow at 2.3% in 2014 after growing at 1.6% in 2013. The upper range for GDP growth according to Morning Star is 2.5%. This is relatively slow compared to China's growth rate of 7.0%, but represents a marked change for the U.S. economy which was stuck at 2% in 2011 and 2012. So, it may be surprising for some that middle market growth is predicated to slow over the next 12 months - 4.3% in our survey - in a faster growing economy. However, to put this in perspective, a couple of observations are worth highlighting. One, we have seen a consistent pattern of conservative forecasting by middle market managers in past surveys. Thus, the 4.3% growth rate prediction is likely understated. Two, even at the 4.3% growth rate, the middle market is expected to grow at a significantly higher rate than revenue growth rates predicted for large firms. Thus, the middle market has been the bedrock of the economy, delivering strong performance throughout this recovery.

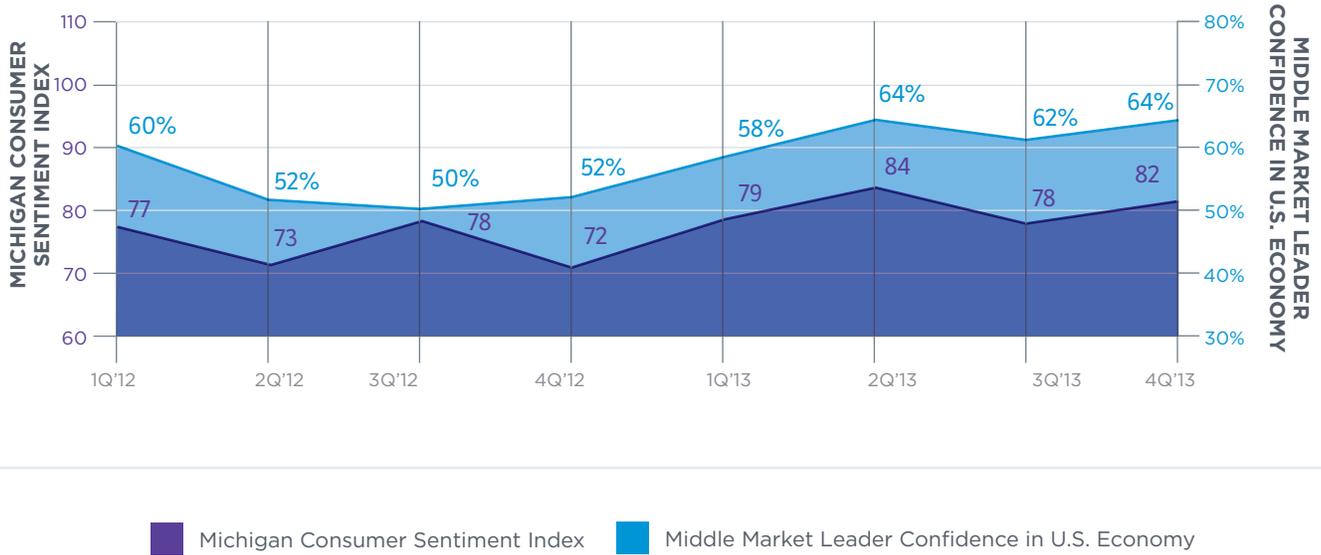
In terms of job creation, the middle market continues to show similarly remarkable performance. Employment grew at 2.5% in the previous 12 months and is expected to grow at a comparable rate in the next 12 months. The ability of the middle market to create jobs in good and bad times is particularly striking when we review its performance during the period 2007 to 2010. The National Center for the Middle Market has previously reported that during this period, which contains the Great Recession, middle market firms added 2.2 million jobs, even as large firms lost 3.7 million jobs over the same period.

GOVERNMENT IS ADVERSELY AFFECTING THE MIDDLE MARKET, LEADING TO STRONG DISAPPROVAL OF PRESIDENT OBAMA'S PERFORMANCE

To understand the extent of confidence middle market managers have in the U.S. economy, we regularly ask about the challenges they face. One of the challenges consistently raised is the uncertainty of government action and its impact. So, in the Q4 survey we also asked how it was impacting business: an overwhelming percentage of middle market managers (87%) report that uncertainty of government action is stifling growth. In particular, nearly two-thirds (63%) state that it has adversely affected hiring. Also, about two-thirds (63%) claim to have cut back on discretionary expenses (e.g., travel) to conserve resources in an uncertain environment. Some 56% of the respondents report that they are less likely to undertake capital outlays. With the fundamental ways in which uncertainty arising out of government actions is impacting business, it is not surprising that a large proportion of middle market managers (68%) disapprove of how President Obama is handling the U.S. economy.

Consumer vs. Business Sentiment

Consumer and business leader confidence runs in tandem.



INTRODUCING A NEW BAROMETER OF CONFIDENCE IN THE U. S. ECONOMY: MIDDLE MARKET EXECUTIVE SENTIMENT

With the eighth quarterly survey of the middle market, there are now growing data to start examining how well the middle market captures overall confidence in the U.S. economy. While 8 points are clearly not enough yet to statistically compare our MM Leader Confidence Index (percentage of middle market managers that are confident or somewhat confident in the U.S. economy) with other indexes, we can at least begin to graphically see how our index moves relative to other indexes, such as the Michigan Consumer Sentiment Index. The adjoining plot shows that the two indexes generally

move together, although our MM Leader Confidence Index shows smoother trends (“less jerky”). While the Michigan Consumer Sentiment views confidence from the consumer’s perspective, our index is based on views from the producer’s point of view. Arguably, their similarities and differences complement to provide a more holistic view of the economy. Apparently, consumer confidence has grown faster in recent days relative to the confidence exhibited by middle market managers.



**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.



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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