GE Capital | Australian Mid-Market Report 2011 | What Mid-Market CFOs think of now and the future

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Contents:

A note from the CEO:

by Skander Malcolm

CEO/President GE Capital, Australia/New Zealand

In Australia, the unparalleled run of economic growth we have experienced is not because of productivity growth at either the macro or micro level. It is to a large extent directly linked to the growth of emerging markets, particularly Asia, and Australian businesses understand that this resources boom will not last forever.

Prices for our commodities are high today but exploration for resources is booming just as heavily all around the world, and with new supply – prices will eventually stabilise. With that in mind, it is now, more than ever, time to be carefully thinking through how we prepare for a strong, sustainable economic future for the whole of the country.

Work must be done to ensure that Australia effectively addresses both its biggest challenge and biggest opportunity – to capture the benefits of the boom, and prepare for a very different global economy over the next 25 years.

The question is, 'How do we do this?' How do Australia, its Government, its businesses, and its people capture the benefits of the boom, and prepare for a new global economy?

This report is about a sector of our economy that makes a big contribution to our country's growth but is often neglected – the Mid-Market. This sector also creates one of the greatest opportunities for productivity gains for our country, however, faces its own challenges in securing continued growth.

The Mid-Market is not even a term you would normally hear in Australia, but we define it as all businesses that are bigger than the Micro and SME Sector but smaller than the large multi-national corporations, businesses with an annual turnover of $10m to $250m. This sector is one of the most important drivers of the Australian economy, contributing around $425 billion in value add, yet it does not have the profile it deserves.

Small business basks in media attention as a leading indicator of the nation's entrepreneurial drive, and large multi-national corporations operate on the other end of the spectrum, as the 'headliners' of business. Both the small and the large leverage their size to influence favourable policy development. In the meantime the Mid-Market gets little attention from policy makers, the public, and even the media.

Yet, the Mid-Market has an influence on the national economy just as large – and just as significant – as the other two sectors. In fact this sector truly punches above its weight. Of Australia's two million businesses, the Mid-Market sector represents just over 27,500 businesses or about 1.4% of all businesses, but it is responsible for just over one third of business revenues, more than one-third of all employees (part time and fulltime) and nearly one fifth of all borrowings and deposits.

The Mid-Market comprises publicly traded, privately-owned, family-owned and even partnerships and sole proprietorships businesses.

This biannual study will provide a greater understanding of this sector's concerns and issues as seen by the financial decision maker of their organisation – the CFO or chief financial decision maker. The study shows that over time the Mid-Market has remained the most optimistic of any other business sectors. Much more so than the micro sector and even more than large businesses. But we also know that the next three to six months are critical to determine whether the Mid-Market, so resilient since the GFC, continues to set a direction for growth for Australian businesses. Indeed, whilst it is currently not doom and gloom for the Mid-Market, the past few months have shown us that there are emerging signs of concern among Mid-Market CFOs.

GE Capital already works with over 7,500 Mid-Market business customers across the country and each provides us with their own insights into the challenges and opportunities available to this vital sector. This journey to fully understand Mid-Market needs and challenges we believe will effectively help provide support and nurture to this under-supported sector and help build a more sustainable future for the Australian economy.

This report helps us to understand the position of the Mid-Market within the broader economy and provides a window into their future.

“This sector is one of the most important drivers of the Australian economy ... yet does not receive the profile it deserves.

SKANDER MALCOLM, PRESIDENT AND CEO, GE CAPITAL AUSTRALIA AND NEW ZEALAND

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THE MID-MARKET: the most consistently growth orientated of the wider Australian business community.

Introduction:

The Australian economy emerged from the Global Financial Crisis (GFC) stronger than most other advanced economies and has shown itself to be one of the best performing among similarly sized countries. The facts about solid growth rates, low unemployment, positive terms of trade, and low inflation are well known. Behind those great outcomes are a number of contributing factors including our wealth of natural resources, proximity to key markets, a history of market liberalisation, and solid economic and prudential management.

However, the good news about the Australian economy is not evenly spread. While some industries have seen and seized opportunities, others have struggled in the post-GFC world. Headlines announcing record profit announcements and low unemployment sit alongside stories of falling business confidence and high profile closures. There are clear winners, but below them, there is a range of experiences from solid if not stellar performance down to businesses fighting for survival.

The Australian Mid-Market – businesses with turnovers in the $10m to $250m range - offers a fascinating lens on this complex picture - and may in fact hold the drivers to the long term diversification and growth of the Australian economy.

The Mid-Market is diverse

The size of the Mid-Market belies its significance. Mid-Market businesses account for only 1.4% (27,500) of all Australian business; less than one in seventy businesses. However, they generate nearly two-fifths (37%) of all business revenue - more than one trillion dollars in 2010/11, 21% of all borrowings, 23% of all business deposits – and they employ nearly one-quarter of the full-time workforce.

The Mid-Market contributes around $425[1] billion in added value which equates to $174[2] billion in gross operating surplus. They pay the salaries of 23% of all full time employees which adds a staggering $250[3] billion into the marketplace each year. They are also amongst the biggest employers in the regional and rural areas with 20% of this sector located in these areas[4].

Despite the small numbers of businesses, the sector has a significant economic impact and should be rightfully looked upon as a real opportunity to support economic change.

The significance of the Mid-Market is not limited to its influence on the broader economy, as the sector is highly diverse. Included in the Mid-Market are all industries from primary production through manufacturing to services. The industries that are well-represented in the Mid-Market are Manufacturing, Construction and Wholesale Trade. Given the exposure of these industries to the global economy, the Mid-Market is at the forefront of some of the more challenging environments within the Australian economy.

The Mid-Market's range of sizes is also part of its diversity. With business revenues from $10m to $250m, the Mid-Market reaches down into small business and up into the corporate sector. The small end of the Mid-Market will often have only a local footprint, with strong links to local communities. At the other end of the Mid-Market are large-sized corporates operating across multiple locations and markets with sophisticated systems to support their complex operations. Some will be Australia's major institutional businesses of tomorrow.

Given the Mid-Market's influence and diversity, an understanding of its current experiences and future expectations provides a valuable insight into the economy as a whole. A strongly performing Mid-Market could act as a broader engine for growth, while the pattern of strengths and weakness within the sector is likely to mirror the pattern of performances in the economy as a whole.

[1] Australian Bureau of Statistics cat No. 8165.0 and 8155.0
[2] ABS cat No. 8165.0 and 8155.0
[3] ABS cat No. 8165.0 and 8155.0
[4] ABS cat No. 8165.0 and 8155.0

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Key Findings:

- In the current uncertain economic environment, the Mid-Market is the most positive business sector about the *overall growth outlook* (as captured in the *Index*) and most optimistic about *future growth prospects* when compared with either SME or Large businesses.
- However, CFO's *Future Expectations of growth* have been declining throughout 2011 and their confidence about the future is now at its lowest point since June 2010.
  - The *overall growth outlook* (which reflects both perceptions of *Current Conditions* & *Future Expectations*) after showing a recovery in the early part of the year has flattened to just over +0.2;
  - Perceptions of *Current Conditions* have been strengthening since Feb'11 and are now just under +0.1. The key barriers to current growth named by CFO's are the Economic environment, Managing costs, the impact of Interest rates and the restrictive nature of Government regulations. These were all named as being among CFOs' top three key concerns.
  - *Future growth expectation* with respect to revenues and staff growth has seen a downward trend, though it continues to be higher than zero at just under +0.35, *(Note the scale of the index has +1.0 as full growth and -1.0 as major contraction).*
- The overall *future growth expectation* for the sector is not evenly spread:
  - As a core group, those organisations with revenues of $20m - $50m showed the greatest decline over 2011 whilst the smaller businesses ($10m-$20m) and larger ($50m-$250m) have held a more stable view.
  - The Retail, Wholesale and Construction sectors are the most pessimistic while Business and Property Services and Manufacturing are more positive.
- The wider sub-group of Capital Resourcing issues was identified by nearly two thirds of CFOs as a concern. This group of issues included Managing cash flows, Financing growth strategies and Access to finance. Should growth opportunities arise in the next 12-24 months, Capital Resourcing will be a vital component of successful economic growth for the sector.
- The next three to six months will be critical in determining whether the Mid-Market continues setting a direction of growth for Australian business.

BUSINESS & PROPERTY: stood out as the strongest performing industry in the Mid-Market.

The Mid-Market is at an important crossroad

GE Capital's CFO survey suggests that the Mid-Market has performed more strongly than any other sector in the Australian economy. However, the Mid-Market is now at a crossroads, and the next six-12 months will tell whether its strong performance to date starts to decline, or whether it continues to make a substantial contribution to the overall level of Australian economic activity.

The study shows that the Mid-Market through 2011 has maintained a solid focus on growth. At the same time, the smaller SME sector has seen its expectations for future growth in revenues and staffing significantly deteriorate. Large business has maintained more of a focus on growth than SME's, but barriers to growth have continued to play a greater role for them than for the Mid-Market.

Overall, the Mid-Market has been the most resilient to the downward pressures that have progressively affected Australian business this year. However, as of September 2011, Mid-Market CFOs hold significantly lower expectations of growth in revenues for the next 12 months than they did in January. Staffing expectations have fallen less, but also show recent evidence of a downturn.

The downturn in future expectations of growth for the Mid-Market is particularly worrying because those expectations are often a predictor of CFOs' focus on growth – on whether CFOs are working to grow the business or instead deal with contraction. At this critical time, either outcome for the Mid-Market is possible.

From the 7,500 Mid-Market businesses GE Capital already works with, there are traits in common among those companies which are showing growth in the Mid-Market. These include:

INNOVATION

Our experience shows that Mid-Market companies in growth are more likely to invest in product development and service innovation. Despite the current climate, more than one half has continued to invest in new ideas as part of growth strategies.

FOCUS ON CASH FLOW

The research shows that organisations with a positive growth outlook have a detailed focus on cash flow and working capital to fund developments within the business.

The Growth Engines

The Mid-Market is an important story that has it seems never been told. It will produce the next generation of major Australian companies, but not until it can overcome the growth hurdles that are naturally part of the economic landscape.

SPEED AND FLEXIBILITY

Many larger organisations use the momentum of size to drive the business forward. Yet the Mid-Market acts with a sense of urgency and a degree of flexibility so that it can out-manoeuvre its bigger rivals with new ideas. This behaviour is a potential economic driver as the resource boom stabilises.

BROADER REGIONAL AND GLOBAL VISION

Successful Mid-Market firms clearly indicate a broader geographical outlook for their businesses. They feel they can compete in the international market, have strategies in place to seek new channels, new products and services or to learn from overseas innovations. This includes investing in talent and technology for emerging markets.

Our experience in working with Mid-Market companies, coupled with the survey findings, shows the challenges and barriers which exist for this sector have varying degrees of importance dependent on industry and size. In summary these are:

KEY EMPLOYEE RETENTION

- The focus on retaining talented staff is key to the Mid-Market and most of the representative industries. Training and development is widely recognised as the key to retention. Hewitts Best Employers[5] measures this at around $2,000 per employee (GE currently spends $3,300 per employee as a reference) and Mid-Market businesses have a greater ratio of employee numbers to turn over which adds a cost restraint as a potential barrier.

ACCESS TO FUNDS

- The Mid-Market has a greater challenge to access funds than its larger rivals and thus prefers using retained earnings to fund growth. The increased cost of borrowing for the sector could place growth restrictions on the marketplace in general. Funding is essential for growth and the issue of capital resourcing was raised by more than a third of CFO's, which has increased in the past six months as a concern.

GOVERNMENT SUPPORT AND INFLUENCE

- Enterprise size organisations have in-house teams and agencies to drive changes in the regulatory environment. The Small Business sector has a Minister and departments at both federal and state level to focus on the needs of that sector. The Mid-Market has no dedicated voice among Government, despite the importance of this sector to the Australian economy. The cost of compliance with Government regulation and challenging Government procurement policies are all challenges for this sector.

KEY TALENT ATTRACTION

- Leadership and management talent are absolutely necessary for any business growth, with the research showing this is an issue of major concern among Mid-Market CFOs. The Mid-Market must present a well communicated 'Employer Brand' and understand how to deliver a values driven culture to compete for talent. The ability to clearly communicate the Employee Value Proposition, or EVP, is essential for this sector. The next generation of employees are interested in more than a brand or salary.

SHARE PRICE VOLATILITY

- The well-recognised volatility of the Mid-Market sector based on liquidity and risk of failure during tough economic conditions places a barrier to success in the way of growth. Share price reputation could hinder those listed identities in raising the necessary capital to go to the next stage of evolution.

[5] Hewitts AON Employer of Choice Report, 2010.

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What does the future look like?

We know that the Mid-Market is potentially a focal point for long-term growth in the Australian economy. The success of the sector has a direct impact on the economy and should be considered as important as the Resources sector which employs 1.3%, of the workforces compared to the Mid-Market at 23%. The future will require a greater focus and support to reduce the barriers to sustainable growth and have a positive impact on employment.

The future sees key business behaviours that are the cornerstone of the continued confidence and growth.

Based on our own experience and the findings from this report, the following opportunities for the Mid-Market sector have been identified:

INNOVATION

- Investing in the future by predicting customer needs and identifying market opportunities through quality insights.

A SENSE OF URGENCY

- Successful businesses in this sector require a nimble ability to adapt and commit quickly to compete with larger players. This fast adopter attitude is characteristic of organisations which are well placed to become the next big businesses in this country.

STRONGER MANAGEMENT

- Define the employee benefits, develop the employer brand and seek to invest in the talent within the business to achieve greater productivity. Training and education opportunities for key individuals are required for sustainable business growth and are well proven ways to retain talent.

A BROADER GEOGRAPHICAL VISION

- Seek advice and expertise and learn from other markets. The need to have an objective view of the future strategy of the business is critical.

DEVELOP A GROWTH FOCUSED CULTURE

- Culture is a key driver of success, so Mid-Market businesses need to take the time to develop and review their growth strategies. Some of these businesses may need to shift the focus from a 'cost only' focus to a 'cost control and plan for growth' outlook.

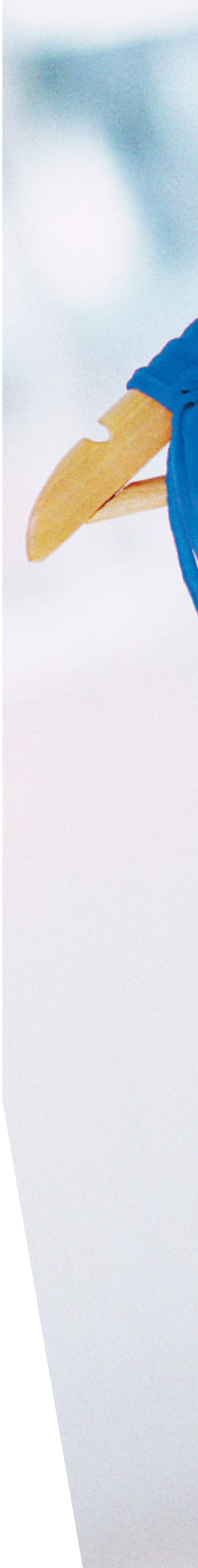
CUSTOMER CENTRICITY

- Understand the customer, what marketing works and seek the opportunities. This will include identifying regional and overseas market opportunities, along with alignment to the sectors that are showing growth.

This includes diverse areas ranging from capital to growth, developing better brand strategies, adapting new technologies and labour resourcing. Most successful growth strategies have third party input as a test of realism.

ACCESS TO FUNDS

- The challenge of being a nimble and fast acting organisation, is that when opportunities arise, you are likely to need access to funding in order to capitalise on them. Some industries will need to look beyond their current financial arrangements and invest time in new relationships to achieve quick access to capital when it is needed.



Total Mid-Market Businesses

1.4% OF ALL AUSTRALIAN BUSINESSES

37% OF BUSINESS REVENUES

23% OF FULL TIME EMPLOYEES

21% OF ALL DEPOSITS & BORROWINGS

Chart 1: Snapshot of Mid-Market's role in the Australian economy.

THE RETAIL TRADE INDUSTRY: one of only two industry groups that saw improvements in the *Business Growth Outlook Index*.

WHAT IS THIS REPORT ABOUT?

The Australian Mid-Market, representing businesses with annual revenues from $10m to $250m, is a key sector of the Australian economy. This report provides an insight into the Mid-Market based on a survey of CFOs.

The report reflects a range of experiences and expectations across the diversity of industry and size that makes up the Mid-Market. It explores that range of experiences and expectations, as well as helping understand the position of the Mid-Market within the broader economy.

The report examines:

- The significance of this small but very important sector of the economy
- The views of the senior financial decision makers [CFOs] in terms of how businesses are currently performing and their outlook for the next 12 months
- How these views have changed over the past two years
- How these views differ from other sectors

The report introduces the GE Capital Mid-Market CFO *Business Growth Outlook Index*. The *Index* offers a unique measure that combines perceptions of current business conditions and Future Expectations. Longitudinal analysis has showed this *Index* to be a potential lead indicator of business growth.

HOW WAS THE SURVEY CONDUCTED?

The GE Capital Mid-Market CFO *Business Growth Outlook Index* is based on DBM Consultant's Business Financial Services Monitor (BFSM)[6]. The monitor is the largest business survey in Australia and includes interviews with more than 19,000 businesses annually.

The Mid-Market research draws from the BFSM, a representative sample of n=5,290 Mid-Market CFOs, (organisations with a turnover between $10m – $250m), surveyed over two years up until the end of September 2011. The sample includes all industries, sizes and states. For further information about the survey and the *Business Growth Outlook Index* see Appendix 1.

[6] **ABOUT BFSM - DBM's Business Financial Services Monitor (BFSM) is based on an annual survey of 19,250 decision makers in business banking, it is the largest survey of its type and the only one that covers Micros, SMEs, Mid-Market and Corporate and Institutional businesses, using the same performance measures. The BFSM is conducted continuously throughout the year and asks about decision makers' key current concerns, satisfaction with any financial institutions they deal with, focusing on their Main Financial Institution (MFI).**

ABOUT DBM - DBM Consultants is a leading Australian market research company engaged by many of the largest private and public sector organisations in Australasia.

1. Australian Mid-Market: CFO *Business Growth Outlook Index*

1.1 Economic backdrop

Whilst the demand from the resources boom has benefited the Australian economy as a whole, the benefits have not been evenly felt. Some industry sectors, notably Mining, have gained directly and significantly. Large businesses have also generally done better in the post-GFC environment.

On the other hand some industries have faced new and growing challenges with the strengthening economy flowing through to a stronger Australian dollar, making exporting a more difficult proposition. Post-GFC, there has been a sustained period of weaker growth in consumer demand, together with strong activity in some industry sectors, which has led to increased demand for limited labour and capital resources. This has served as a partial brake on growth.

As a result, the strong business sentiment figures seen immediately following the end of the GFC have since softened significantly. More recently, sovereign debt concerns in Europe and continued weakness in the US economy has led to a period of wide swings and general falls in global equity and financial markets that have flowed through to Australian markets and impacted business confidence.

Recognition of the strength of Australia's economic fundamentals and the likelihood of continued demand for our resources has been reconciled with worries about the range of contractionary factors by a general acceptance of a 'two-speed recovery'. While there is no doubt that some industry sectors are doing relatively well, the experience of Australian business is probably better described as being a range from strong to weak. Clearly, some industries have been 'winners', but other industries, while not seeing the very robust growth of mining, are still enjoying solid growth.

Industry sector is not the only factor differentiating business experience. There is good evidence that small business as a whole faces more challenges (see Chart 2 and commentary below). Geographical factors also come into play with those states endowed with significant metal and mineral natural resources enjoying much stronger growth rates.

In summary, the experience of the Australian business environment at this point in time is variable and complex. The 'two speed economy' flags that variability, but does not do justice to its complexity.

The Mid-Market in the Australian business environment is at the centre of this complex picture. Its influence on overall business revenue, employment and business finance gives it real significance in its own right. But more than that, the breadth of its industry representation, its coverage of business from the relatively small to medium-size corporations and its presence across Australia means that it experiences many of the issues faced across the broader economy. The results of the survey analysis reported here canvases the full spectrum of the Mid-Market, and can help in an understanding of this complex, key sector.

Note: Results for all sectors are monthly excepting Large Business which is six-monthly rolled. Sectors defined by revenue with proportional representation of all businesses are: Micro, <$1m, Small, $1m-$10m Mid-Market $10m-$250m, Large $250+.

1.2 Mid-Market CFOs are more positive about growth

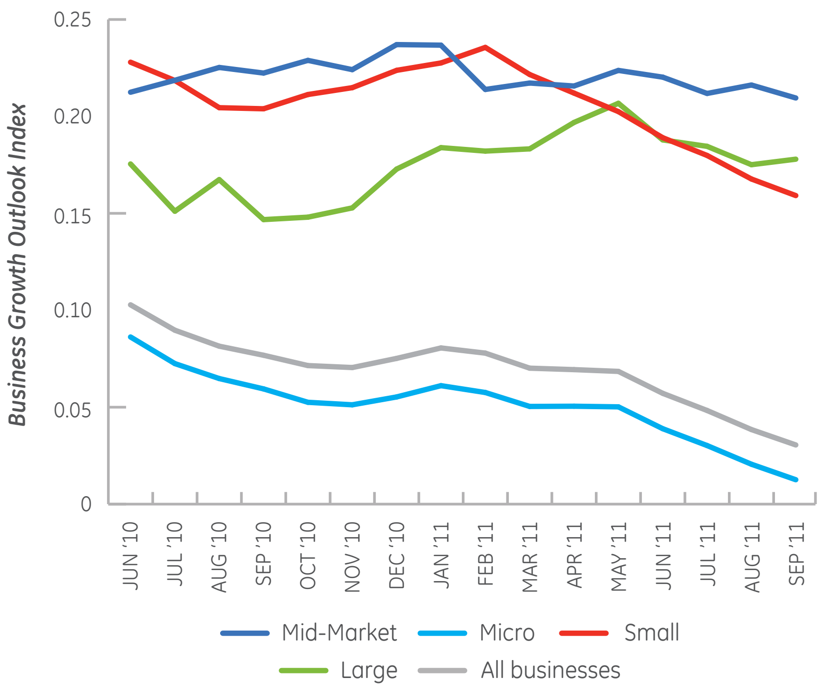
The Mid-Market has proved to be the most consistently growth oriented sector of the Australian business community. It currently has the highest *Business Growth Outlook Index* with an *Index* value of +0.21[7] for September 2011 placing the Mid-Market slightly above the Small business sector at +0.16, the Large business sector at +0.18 and well above the Micro sector at +0.01. (see page 16 for details of *Index*).

The Mid-Market has also been the most consistent performer across all business sectors over the past 12 to 18 months. For nearly the entire survey period period from June 2010 to the present, the *Index* has been more positive than any of the three other sectors. For most of the second half of 2010 the *Index* was well above that of both Large business and Micro business. Since March 2011, it has drawn further ahead of the *Index* for the Small segment.

MID-MARKET	▼	from 0.215 to 0.21
LARGE	▲	from 0.175 to 0.18
SMALL	▼	from 0.23 to 0.16
MICRO	▼	from 0.09 to 0.01
ALL BUSINESSES	▼	from 0.10 to 0.03

MARKET	% BUSINESSES
Micro	88.6%
Small	9.9%
Mid-Market	1.4%
Large	0.1%
Total	100%

Chart 2: The *Business Growth Outlook Index* is computed as the sum of the *Current Conditions Index* and the *Future Expectations Index* with each contributing equally.



[7] The *Business Growth Outlook Index* ranges between -1.0 and +1.0. A score of +1.0 indicates a very strong orientation towards growth, both in the focus on growth-related current issues and expectation of future growth of revenue and employment. A value of-1.0 indicates a strongly negative growth orientation with a focus on addressing current barriers to growth and expectations of contraction of both revenue and employment. Further details of the *Index* can be found in the Background to the CFO Business *Growth Outlook Index* section above and in the Appendices.

As seen by the *Business Growth Outlook Index*, the Mid-Market has also been the most resilient to the downward pressures of the past six months that have affected all other business sectors.

- Over the past 12 to 18 months, the Micro market *Index* has fallen consistently, starting at a lower value than any other sector in mid-2010; the Micro market *Index* has declined nearly every month except in the lead up to Christmas 2010.
- The Small business *Index* has been most similar to the Mid-Market with the two tracking close to each other up until March 2011. Since March the Small market *Index* has been falling gradually.
- The Large business market has shown the most variability. Unlike all other markets, the Large Business *Index* rose for most of the earlier part of the survey period, reaching a peak in May 2011. That peak was only just below the value reached by the Mid-Market at the same time. However, since then, the Large Business *Index* has been declining, although there are signs that it has steadied in recent months.

The resilience of the Mid-Market appears to depend on a combination of factors.

- Micro business has fewer labour options for dealing with the challenges of a dynamic economic environment. There has also been evidence[8] that Micro businesses have found Access to finance more difficult, and their size has meant that they are often pushed to the back of the queue when it comes to payments by creditors[9]. Micro business has less opportunity to control its circumstances.
- Large business has generally been a winner in the Australian post-GFC world due to its market strength and ability to engage with the opportunities afforded by the strength in the Asian economies. However, the sector also has a much higher exposure to foreign trade and the strengthening of the Australian dollar and turmoil in global markets during 2011 seems to have undermined its confidence.
- The strength of the Small and Mid-Market business markets appears to be a combination of being small enough to operate in domestic markets and avoid the difficulties of foreign trade recently faced by larger business, while being large enough to have some control over their commercial circumstances. In the case of Small business, the recent downturn could reflect greater exposure of the sector to industries such as Construction and Retail trade, which have been hit hard by the general economic downturn.

[8] **'Access for Small and Medium Business to Finance: Report to the Parliamentary Joint Committee on Corporations and Financial Services, April 2011'. The report sets out evidence from a range of players describing difficulties and concludes that while post-GFC, lending to SMEs has held up, there have been a number of specific issues that have caused particular problems.dices.**

[9] **D&B Quarterly Trade Payments Analysis – September Quarter 2011.**

BACKGROUND TO THE CFO *BUSINESS GROWTH OUTLOOK INDEX*:

Business Growth Outlook Index measures *Current Concerns* & *Future Expectations*

- The *Index* is positive when CFOs are focused on growth-related issues and are expecting growth in the near future
- The *Index* is negative when CFOs' main current concerns are Barriers to Growth and are expecting contraction in the near future
- The *Index* ranges from -1 (contraction) to +1 (growth)

(Further details are presented in the Appendix.)

This *Index* is based on the *'Current Conditions Index'* which measures current perception/concerns and the *'Future Expectations Index'* which measures future growth expectations for their own business.

EXPECTATIONS FOR NEXT 12 MONTHS

CONTRACTION — GROWTH

REVENUE

\+

STAFFING

=

FUTURE EXPECTATIONS

The *Business Growth Outlook Index* is computed as the sum of the *Current Conditions Index* and the *Future Expectations Index* with each contributing equally.

2. Key Issues:

To compile the GE Capital Mid-Market CFO *Business Growth Outlook Index*, CFOs were asked to identify the 'top three' issues currently facing their business. CFOs selected from a list of 20 items. A ranking of those issues provides insights into the major concerns across the Mid-Market (see Chart 3).

The **single most important concern** was the economic environment, identified by one-in-three CFOs. This includes concerns about the general level of economic activity and from that consumer and commercial demand. The economic environment was most often identified by CFOs who also identified other direct cost barriers to growth, such as exchange rates and access to finance.

The **second issue of greatest concern** to CFO's was growing revenue. Revenue growth was named by 29% of CFOs. These respondents were also more likely to mention other growth oriented issues, such as competition from other businesses among their concerns. It reflects attempts by firms to get on with business operations, rather than attempting to deal with potential barriers to growth.

Finding staff was the **third biggest concern** for CFO's, mentioned by just over one-quarter of respondents as a top three priority. It reflects the tightness in the labour market, particularly for skilled workers, and reflects optimism in the business.

MANUFACTURING INDUSTRY: strong representation in the Mid-Market also places it at the forefront of a sector facing difficult issues.

A group of three factors were all equally mentioned by one-quarter of businesses: Managing costs, Managing cash flow, and Competition from other businesses. Managing cash flow and competition are both associated with business growth.

Chart 3: Top issues of current concern to Mid-Market CFOs.

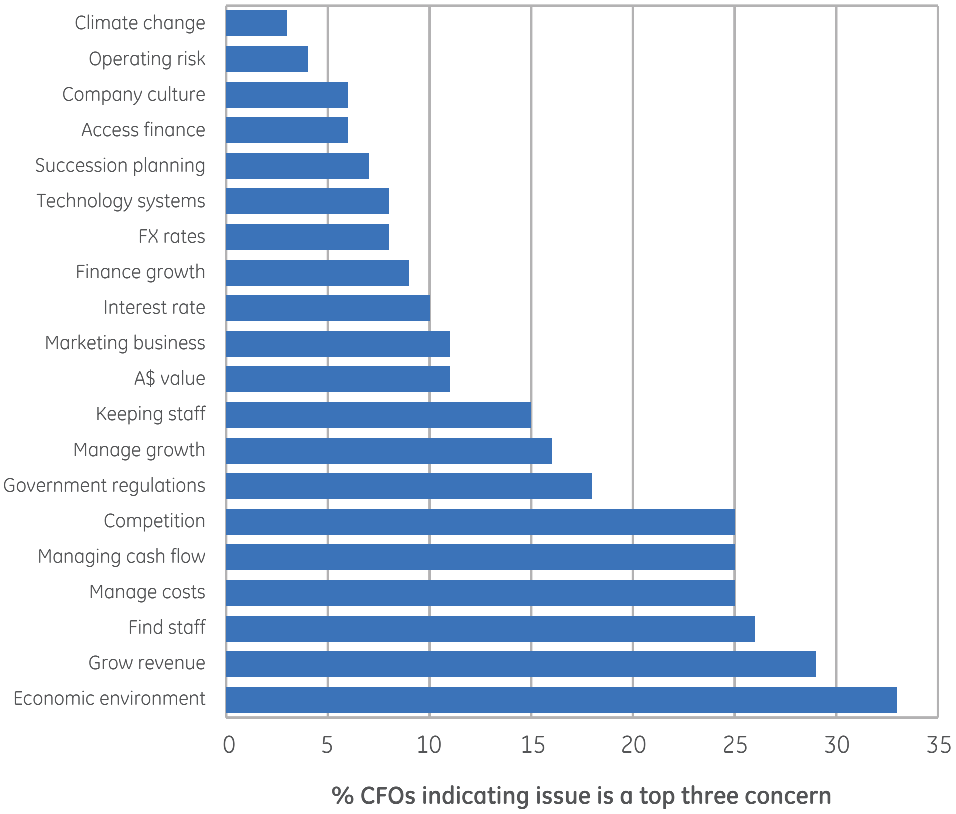
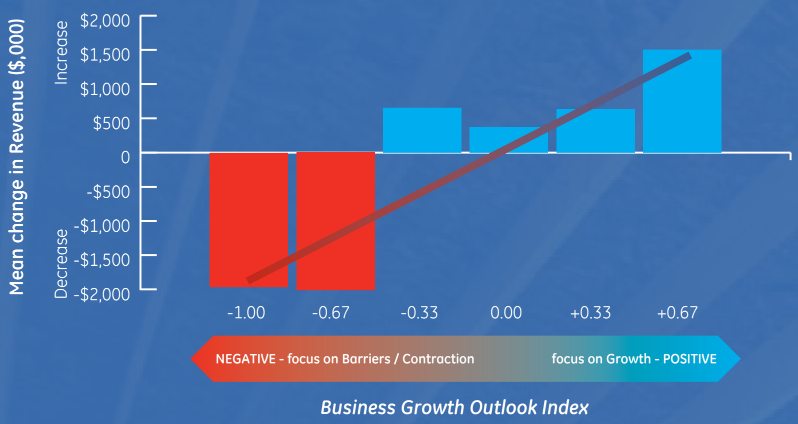


Chart 4: Change in Revenue as a function of *Business Growth Outlook Index*



Business Growth Outlook Index as a Lead Indicator of Future Revenue

The *Business Growth Outlook Index* is a powerful **indicator of revenue growth** for the Mid-Market.

Validation Research

- The growth outlook measured in the survey research has been established to be a good indicator of actual future outcomes – such as revenue growth or decline.
- Positive values of the *Index* given by CFOs are strongly associated with subsequent growth in their business' revenue with **a correlation in excess of 0.6.**

(Further details are presented in the Appendix.)

2.1 Current Issues of Concern: Capital Resourcing

From the 20 issues ranked by CFO's, a sub-group of Capital Resourcing issues were found to be a central concern of Mid-Market CFOs. This sub-group was made up of four specific issues, namely:

- Managing cash flow
- Capacity to finance growth
- Access to finance
- Interest rates

Any one of these four Capital Resourcing issues were identified by nearly two-in-five (39%) of Mid-Market CFOs, making it one of the most important groups of current concerns among CFOs (see Chart 5).

Managing cash flow was the most commonly mentioned of the four issues making up Capital Resourcing with one-quarter of Mid-Market CFOs indicating it was one of their top three concerns. The other three issues were less commonly mentioned, with Interest rates and Financing growth each being cited by about one-in-ten CFOs and Accessing finance for growth mentioned by 6% of Mid-Market CFOs.

Chart 5: Concern by Mid-Market CFOs on Capital Resourcing and associated issues (September 2011)

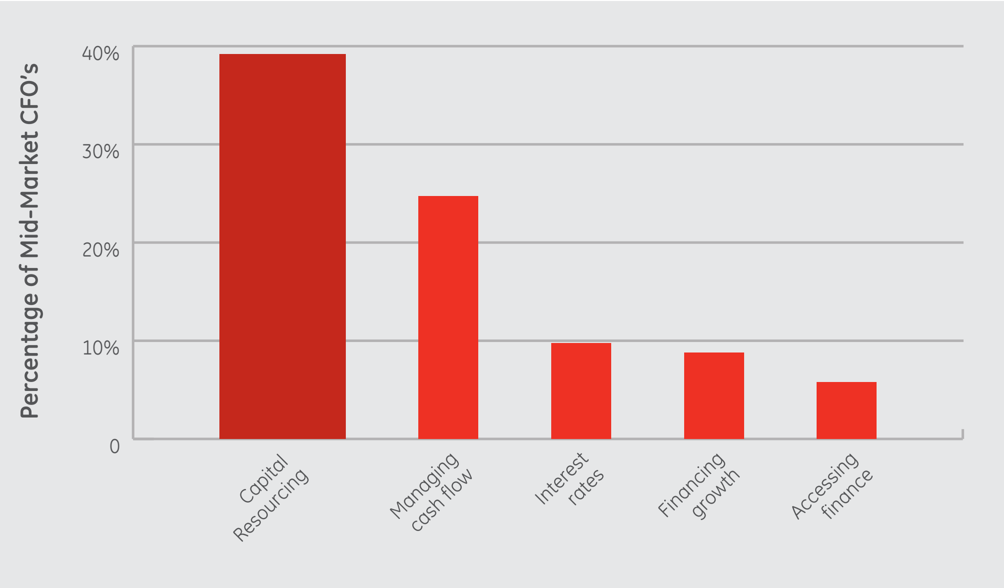
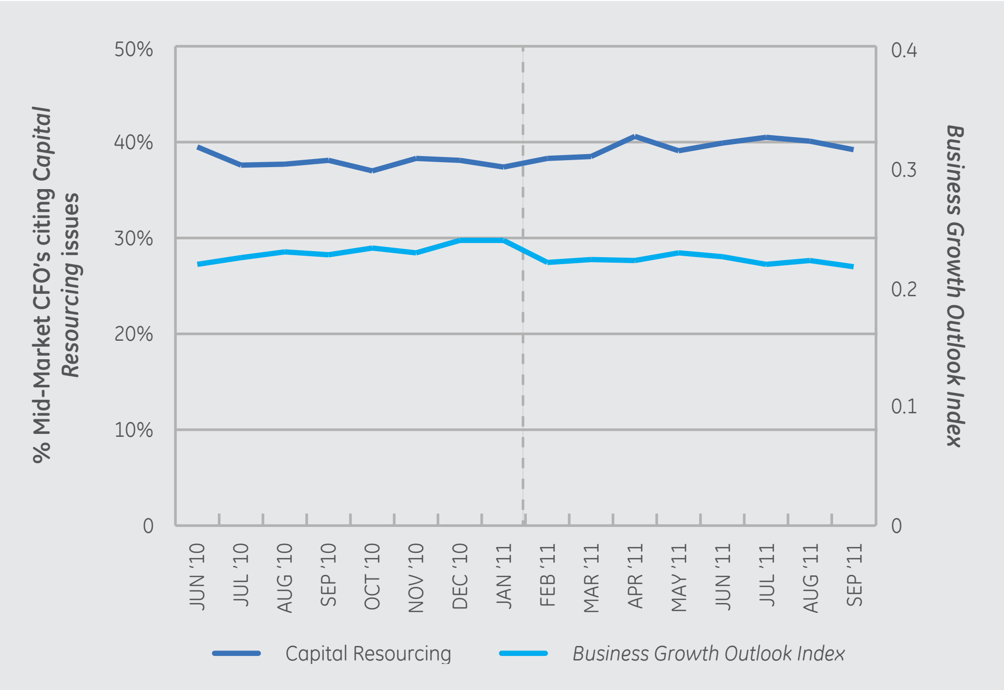


Chart 6: Mid-Market - Capital Resourcing



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2.2 Current Issues of Concern: *Talent Management*

The Talent Management sub-group is also a central concern for Mid-Market CFOs. Talent Management issues are reflected in a range of current concerns addressed by the *Business Growth Outlook Index*, namely:

- Finding suitable staff
- Keeping staff
- Company culture
- Succession planning

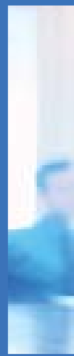
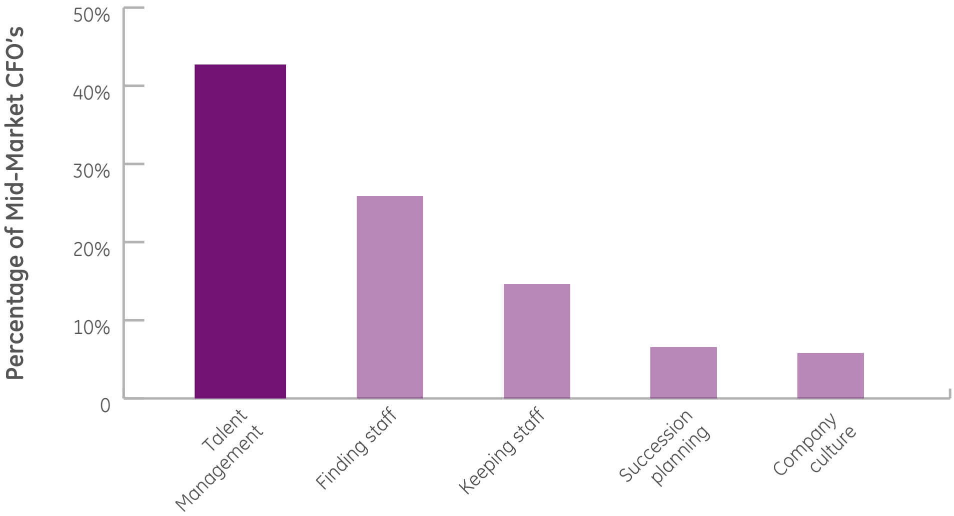


Chart 7: Concern by Mid-Market CFOs about Talent Management and associated issues (September 2011)



“

The Mid-Market in Australia contributed nearly $425 billion in value added and nearly 3.2m full-time equivalent jobs in 2009-10. This amounts to approximately 35% of all industry value added and approximately 33% of all jobs across all business sizes, and highlights its nationwide significance.

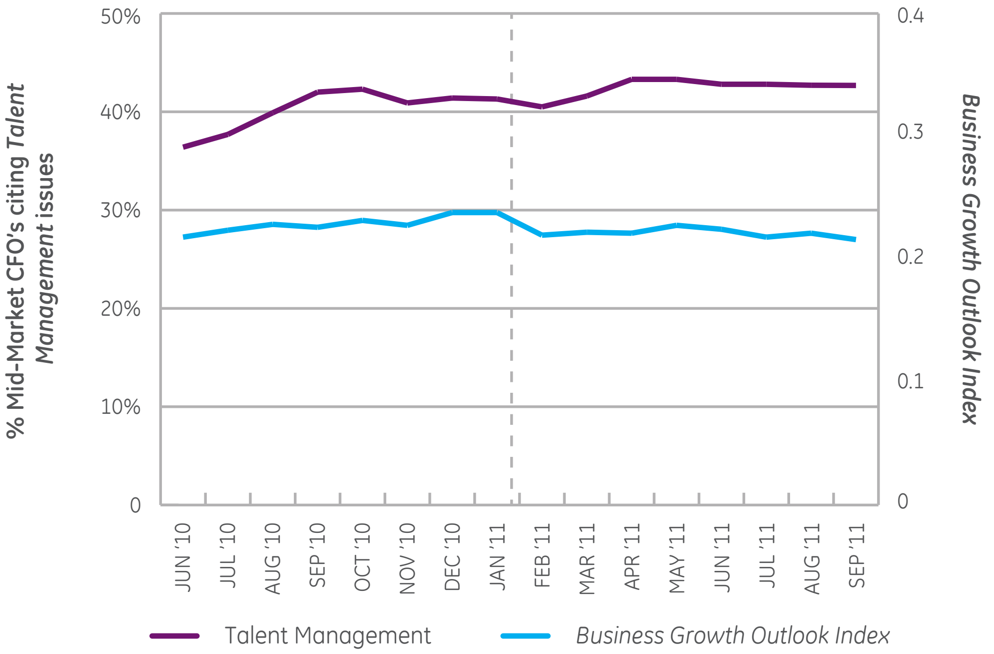
SKANDER MALCOLM PRESIDENT AND CEO, GE CAPITAL AUSTRALIA AND NEW ZEALAND

Talent Management issues were cited by slightly more than two-in-five (43%) Mid-Market CFOs (see Chart 7). Like Capital Resourcing, Talent Management is a major concern for this group.

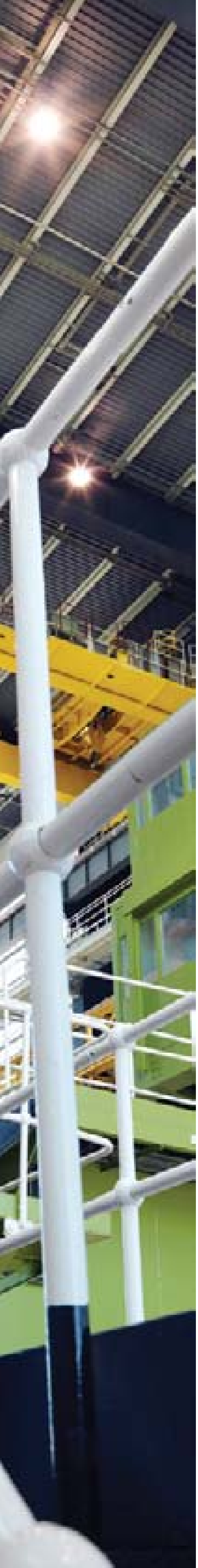
Within the Talent Management sub-group, Finding staff was the most commonly mentioned issue by Mid-Market CFOs, followed by Keeping staff. (About one-third of the CFOs who had identified Keeping staff as an issue also identified Finding staff as an issue.) The longer term issues of Company culture and Succession planning were each identified by 6-7% of CFOs as one of their top three concerns.

Concern with Talent Management issues has also increased over 2011. At the beginning of the year about 40% of CFOs identified it as a key issue, following a significant increase in concern about Talent Management during 2010. There was a further increase in concern during Q1 of 2011, since then, the level of concern has remained steady.

Chart 8: Mid-Market - Talent Management



OTHER INDUSTRIES (INCLUDES MINING AND FINANCE & INSURANCE): is the second strongest performing group in the Mid-Market.

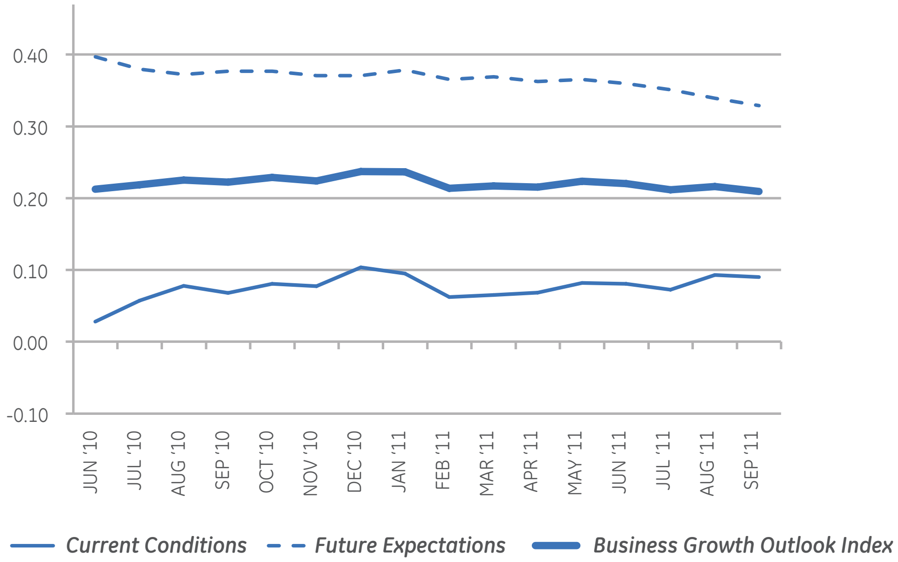


3. Future Outlook

3.1 More positive but concerned about the future

The resilience of the Mid-Market has not totally insulated the sector from events in the broader economy. There has been a decline, albeit small, in the *Index* for the sector. Analysis of the two components of the *Index* – the *Current Conditions Index* and *Future Expectations Index* suggests that while Mid-Market CFOs are generally focused on growth, they are concerned about the future.

Chart 9: Mid-Market *Business Growth Outlook Index* and its two component measures (June 2010 to September 2011)

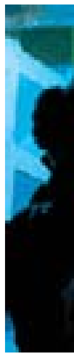


Over the survey period the CFO focus has shifted slightly towards 'Managing for Growth' orientation, during August 2011, which held steady in September (see Chart 9). The recent rise follows a longer period of gradual improvement through most of 2011. The only period of falling results for the *Current Conditions* measure was in the December/January period of 2010/11.

While Mid-Market CFOs have maintained a growth-oriented outlook with respect to *Current Conditions*, they have shown increasing concern about future conditions over the next 12 months. The *Future Expectations Index* has been in decline for the Mid-Market for all of the survey period. Beginning in June 2010, about 40% of Mid-Market CFOs expected growth across revenue and employment; by September 2011, that figure had fallen to 33%.

The generally steady result in the overall *Business Growth Outlook Index* reflects a balance between gradually improving perceptions of *Current Conditions* and gradually declining *Future Expectations of Growth* over the next 12 months.

This combination of *Current Conditions* and *Future Expectations* suggests that Mid-Market CFOs recognise the solid current conditions in which they operate and are still, on balance positive about the future. But, they are becoming concerned about the impact of factors such as global volatility and the uncertainty of exchange rates in the near future.



Beginning in June 2010, about 40% of Mid-Market CFOs expected growth across revenue and employment; by September 2011, that figure had fallen to 33%.

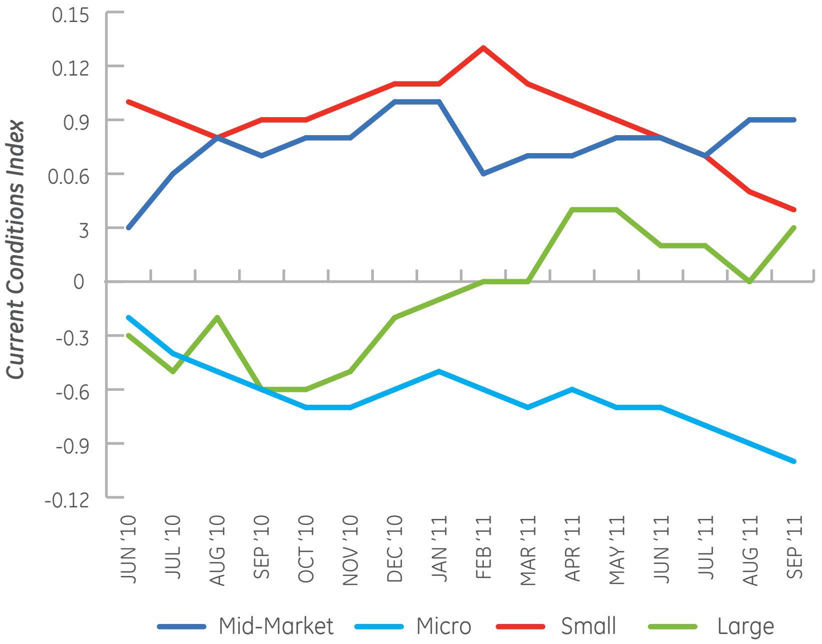
Mid-Market's Growth Outlook compared to other sectors

Perceptions of *Current Conditions* and *Future Expectations* in the Mid-Market are similar, but less extreme than in the Small and Large business markets.

The perceptions of *Current Conditions*:

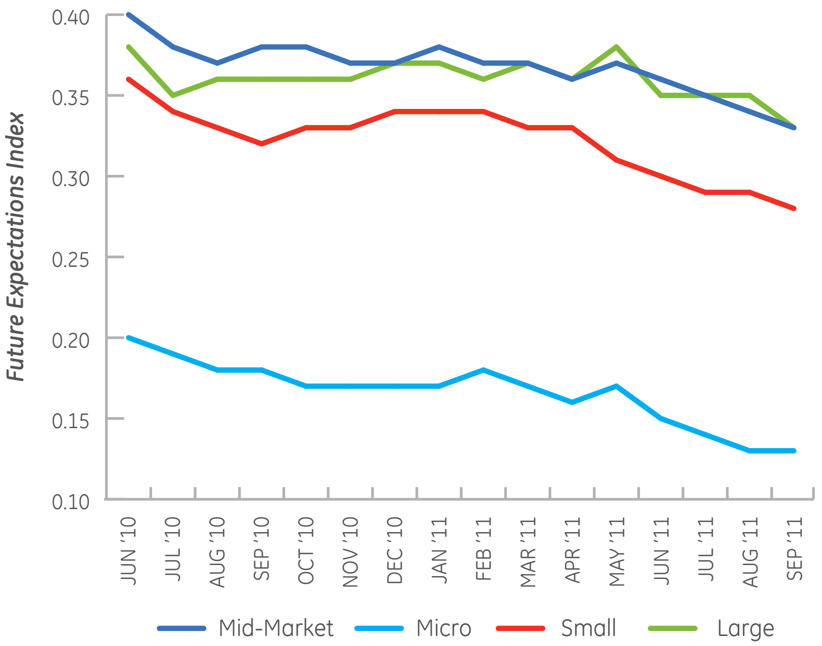
- The Large business market has also been generally climbing and has done so more dramatically than the Mid-Market over the survey period. Around Jul-Aug 2010, the measure for the Large business market was -0.06, indicating a small tendency towards dealing with *Barriers to Growth* and away from a *Managing for Growth* orientation. That score improved for the Large business market over the intervening period reaching positive values around March 2011. The rise has slowed since then.
- Small business perceptions rose until around February 2011, soon after the time when they peaked in the Mid-Market, but have been falling since then.

Chart 10: *Current Conditions Index* comparing Mid-Market with Micro, Small and Large business sectors



Future Expectations in all markets have been in decline over the survey period with the level of *Future Expectations* in the Large business market and the Mid-Market at about the same level.

Chart 11: *Future Expectations Index* comparing Mid-Market with Micro, Small and Large business sectors



3.2 Components of CFO *Business Growth Outlook Index: Current Conditions Index*

Mid-Market CFOs are concerned most about *Direct Barriers to Growth*

The overall *Current Conditions Index* is an aggregate of measures of four growth-related themes.

The four themes in the *Current Conditions Index* offer a more detailed understanding of CFOs perceptions of Current Conditions. CFOs were asked what the top three issues currently facing their business are. The four themes were grouped based on these issues.

There are two 'growth oriented' themes that focus on *Managing for Growth*; i.e. ensuring the business' internal systems are prepared for growth; and that the business is geared up externally for growth by marketing itself and competing with other businesses, with goals of growing revenue and managing cash flow.

Each of the four themes of *Current Conditions* measures are characterised by 20 issues that reflect the current concerns of Mid-Market CFOs. These are:

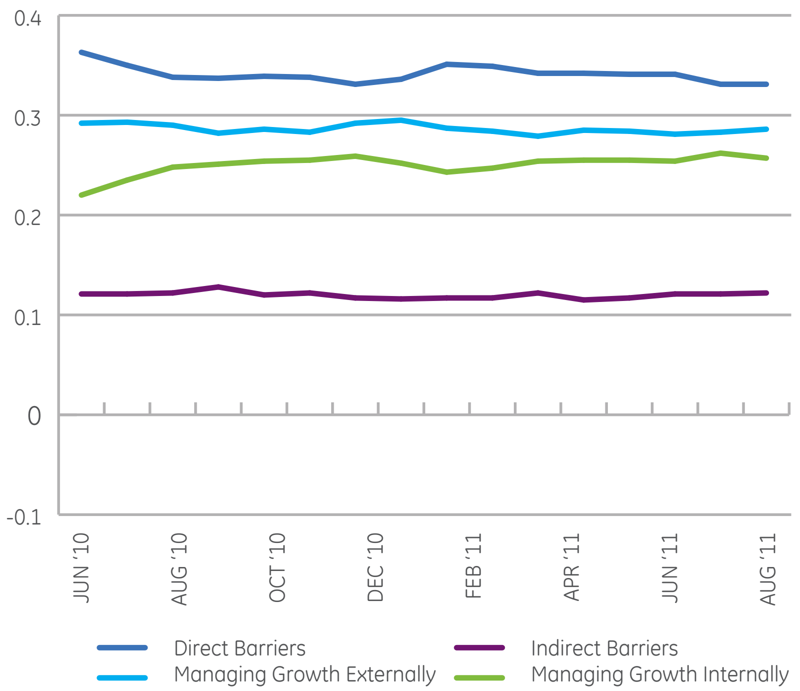
	BARRIERS TO GROWTH	MANAGING FOR GROWTH	
DIRECT	*Direct Barriers to Growth* include concerns about the Economic environment, Managing costs, Value of the A$, Exchange rates, Financing growth and Access to finance.	*Managing for Growth Internally* refers to Finding and Keeping staff, Succession planning and Company culture, as well as Managing for growth and Technology, Systems and e-commerce.	INTERNAL
INDIRECT	*Indirect Barriers to Growth* comprises Government regulation (and associated costs), Interest rates, Operating risks and Climate change.	*Managing for Growth Externally* comprises Growing revenue, Competition from other businesses, Marketing the business and Managing cash flow.	EXTERNAL

The other two themes are concerned with *Barriers to Growth*. The first focuses on *Direct Barriers to Growth* such as the challenges of the Economic environment, Foreign exchange rates and the Value of the Australian Dollar[10], Managing costs and gaining Access to finance. The second theme is concerned with *Indirect Barriers to Growth*, such as Government regulation and Climate change.

A positive value on the *Current Conditions Index* indicates an overall *Managing for Growth* orientation. This means that CFOs are more likely to be indicating issues from one or both of the *Managing for Growth* themes and in general are more focused on ensuring that the business will grow. Conversely, a negative score on the *Current Conditions Index* indicates an overall orientation towards *Barriers to Growth*. This means CFOs are more likely to be indicating issues from the direct and/or indirect *Barriers to Growth* themes as among their top three concerns and in general are more focused on dealing with factors that would contract the business.

Among the four themes, *Direct Barriers to Growth* was more commonly mentioned by CFOs than any of the three other themes (see Chart 12). This theme was just ahead of *Managing for Growth **Externally***, which in turn was just ahead of *Managing for Growth **Internally***. Concern about *Indirect Barriers to Growth* was a distant fourth.

Chart 12: *Current conditions - Managing for Growth* vs. *Barriers to Growth* for Mid-Market CFOs (June 2010 to September 2011)



[10] The 'Value of A$' and 'Foreign exchange rate' issues while related, differ in their breadth. The value of A$ value is specifically focused on the relative cost of the Australian dollar to other currencies. Concerns about foreign exchange rates might not directly involve the Australian dollar at all (eg. a mining industry CFO might be concerned about the exchange rate between the US dollar and Chinese RMB if their contracts with Chinese buyers are denominated in US dollars). Foreign exchange rate issues could also include volatility in rates, not simply a particular rate. Rates volatility creates uncertainty, which is generally not good for business.

GE Capital

Mid-Market's outlook of *Current Conditions* compared with Small and Large Business

For the Mid-Market, concern about *Direct Barriers to Growth* has waned slightly over 2011, while a focus on *Managing for Growth Internally* has increased slightly, particularly when compared with June 2010.

The slight downward trend in concern about *Direct Barriers to Growth* is one of the points of difference of the Mid-Market from other sectors. In both the Small and Large business sectors, *Direct Barriers to Growth* has been an increasing concern over 2011.

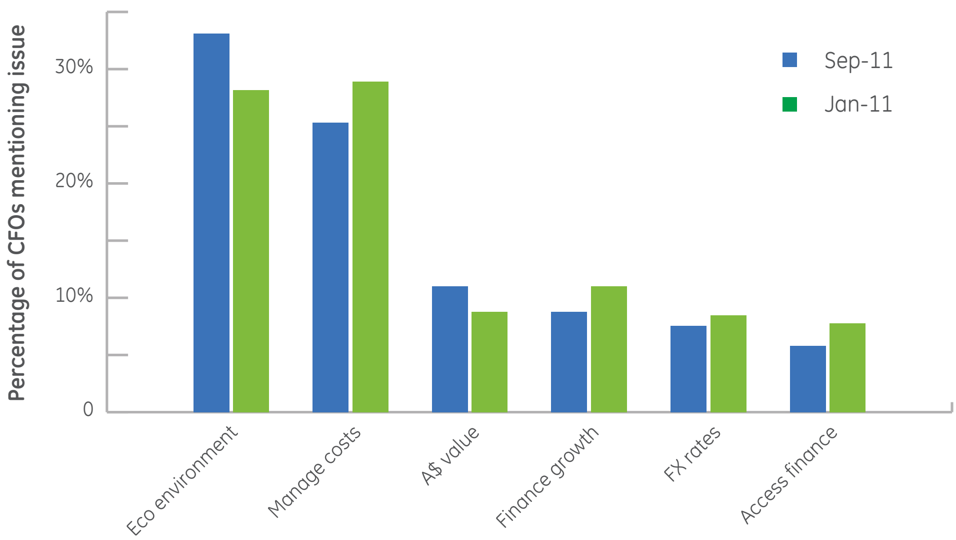
Among Small business, there has also been a marked decline in focus on *Managing for Growth Internally* over 2011, which contrasts with the Mid-Market. In the Large business market, there has been a growing concern towards *Direct Barriers to Growth*; mainly, the Economic environment, Financing growth, and Managing costs. Yet the focus on *Indirect Barriers to Growth* has declined over the year and there is now less concern with Government regulation and Interest rates. All this again demonstrates the resilience of the Mid-Market. Declining concerns about *Direct Barriers to Growth* have been shown at a time when both Small and Large businesses are showing increasing concern.

Direct Barriers to Growth Internally

Two issues – the Economic environment and Managing costs – dominate the concerns of Mid-Market CFOs within the *Direct Barriers to Growth* theme (see Chart 13).

The decline in focus on *Direct Barriers to Growth* over 2011 has been due to a small decrease in the number of Mid-Market CFOs identifying cost issues as the primary concern, e.g. Managing costs, Financing growth and Accessing finance. The only issues that became more of a concern were the Economic Environment and the Value of the Australian dollar.

Chart 13: Current Conditions - *Direct Barriers to Growth* among Mid-Market CFOs (January and September 2011)



In comparison, the Small business market was most concerned with the Economic environment and Managing costs. In the Large business market, there were higher levels of concern with Foreign exchange rates and the Value of the Australian dollar than in the Mid-Market.

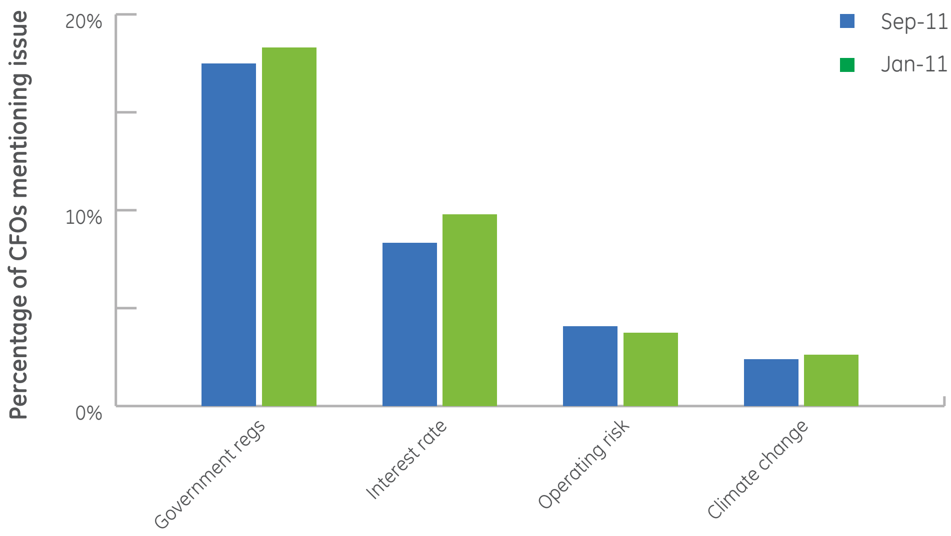
Mid-Market businesses appear to be large enough to avoid some of the issues faced by Micro and Small businesses. At the same time, they also generally seem to have less difficulty with Large business issues such as foreign trade due to the smaller size of their operation.

Indirect Barriers to Growth

The level of concern about *Indirect Barriers to Growth* in the Mid-Market was relatively low and has changed little over 2011. The main concern over this period was Government regulation with Interest rates cited as the next most common concern (see Chart 14).

Mid-Market CFOs were generally less concerned about Interest rates than Small business, but more concerned than Large business CFOs. This suggests that the range of funding options available to the Mid-Market is smaller than for Large business. Mid-Market CFOs seem to be feeling somewhat more vulnerable to movements in interest rates.

Chart 14: Current Conditions - *Indirect barriers to Growth* (January and September 2011)

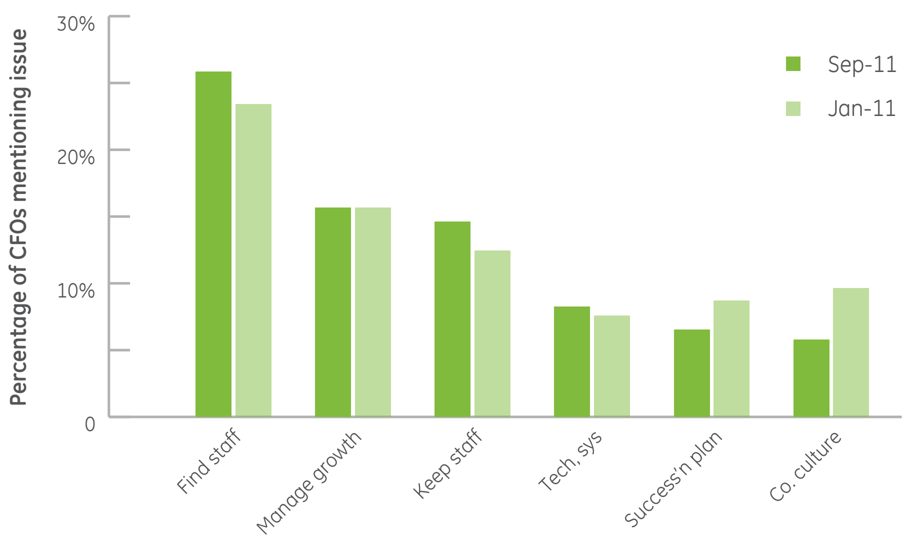


Managing for Growth Internally

Finding staff was the most common issue of concern among Mid-Market CFOs in the *Managing for Growth* category (see Chart 15). Staffing issues have grown as a concern with both Finding and Keeping staff increasing since January 2011. At the same time, the broader issues of Succession planning and Company culture have both become less of a concern, possibly being replaced by the more immediate HR issues.

While there has been little change in focus on *Managing for Growth Internally* during 2011 among the Mid-Market, this has significantly declined as an issue among Small business, led by decreases in the percentages of CFOs indicating that Finding staff, or *Managing for Growth* was an issue.

Chart 15: Current Conditions - *Managing for Growth Internally* (January and September 2011)

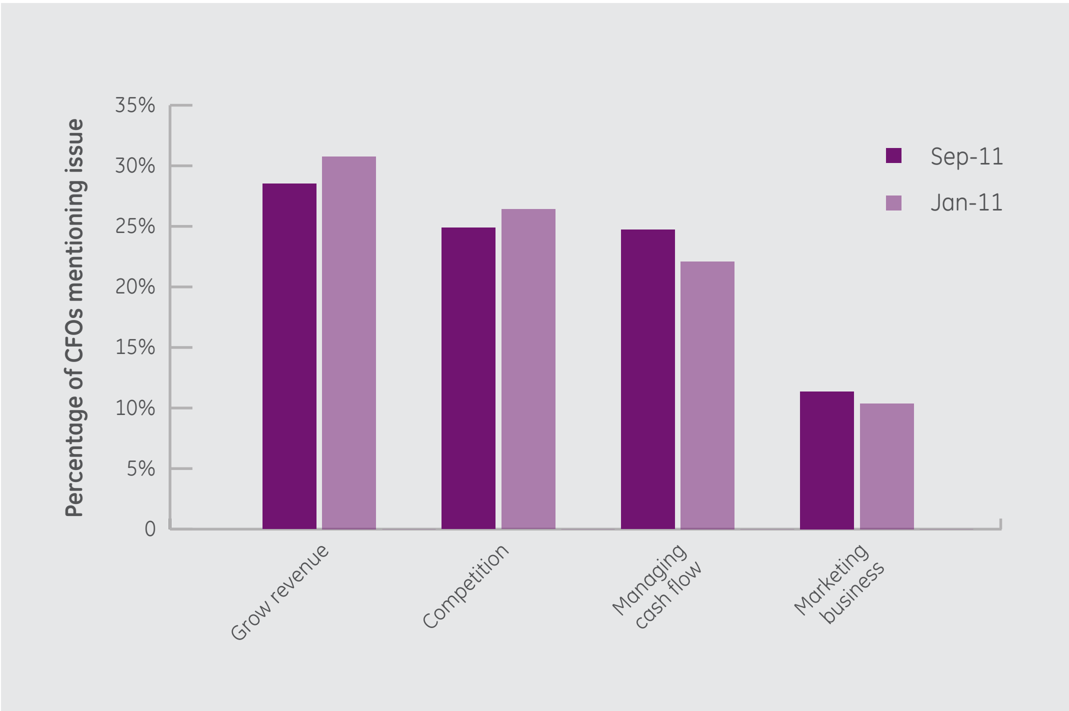


Across this category, Mid-Market CFOs expressed greater concern than Small business financial decision makers, but were less concerned than their Large business counterparts. In particular, Mid-Market CFOs were more concerned than the Small Businesses about Keeping staff, Technology, systems and e-commerce, and Company culture. The one area in which they were more concerned was Finding staff.

Managing for Growth Externally

Three separate issues were commonly cited by Mid-Market CFOs with respect to *Managing for Growth Externally*: Competition from other businesses, Managing cash flow and Growing revenue (see Chart 16). Competition from other business and Growing revenue both decreased slightly over the year.

Chart 16: Current Conditions – *Managing for Growth Externally* (January and September 2011)



The shift in focus from Growing revenue and Competition towards Managing cash flow reflects a movement from a 'pure growth' orientation towards a more conservative outlook.

There were a number of important differences between Mid-Market and Small and Large businesses. Mid-Market CFOs were about twice as likely as Large business CFOs to identify Managing cash flow as a key issue. On the other hand Small business financial decision makers were much more concerned with Marketing the business than Mid-Market CFOs.

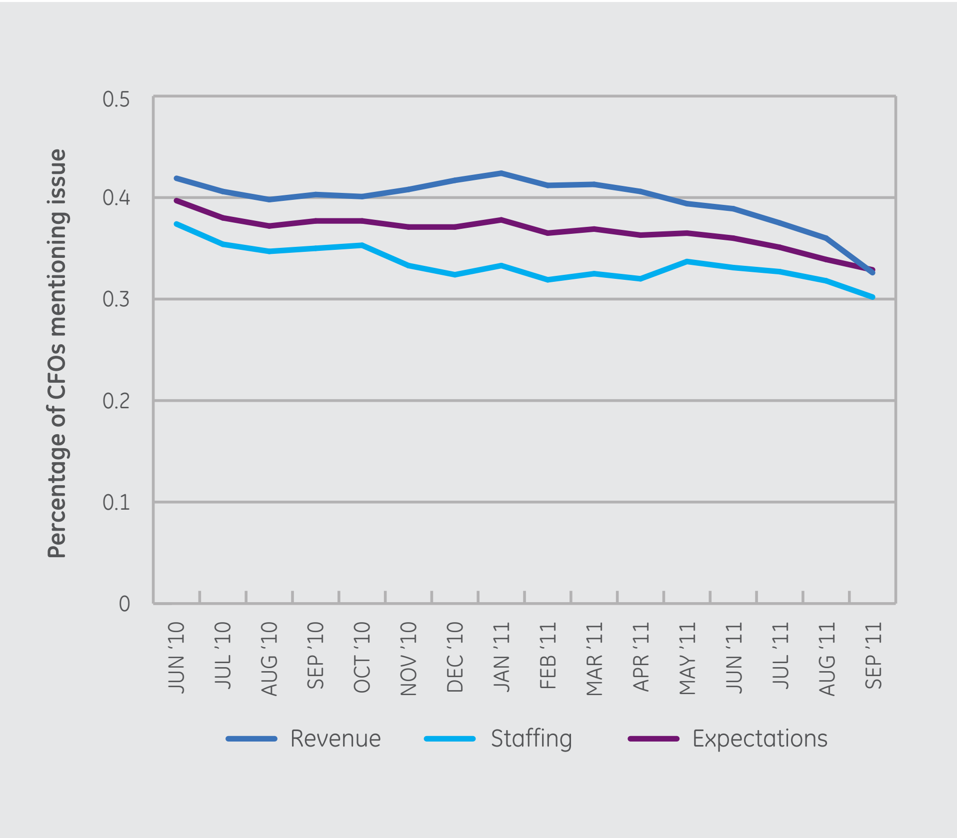
3.3 *Future Expectations Index*: second component of the CFO *Business Growth Outlook Index*

Positive for now, but problems in the future.

The second component of the CFO *Business Growth Outlook Index* is the *Future Expectations Index*. There has been a fall in *Future Expectations* over the survey period suggesting concern about the future (see Chart 17). Notwithstanding the declines, there is still a strong positive expectation about growth over the next 12 months among Mid-Market CFOs.

Although the overall *Future Expectations Index* has been falling for most of the survey period, each of the sub-components (expectations of revenue growth and staffing growth) have had periods when expectations remained relatively steady and other periods when they declined more steeply.

Chart 17: *Future Expectations Index* for Mid-Market including Revenue and Staffing Expectations (June 2010 and September 2011)



Through most of 2010, staffing growth expectations were positive but declining, while revenue growth expectations were broadly constant.

Entering into 2011, expectations of revenue growth began to fall, accelerating in the most recent quarter. While a range of factors affect staffing and revenue expectations, the decline in revenue expectations in the Mid-Market has been occurring throughout 2011 . Overall *Future Expectations* remain firmly positive, but there has also been a clear deterioration that shows no sign of abating, with the possibility of acceleration in the future.

Future Expectations of the Mid-Market has been consistently stronger than in the Small business sector, and at about the same level as those in the Large business market. They are substantially above *Future Expectations* in the Micro business market where staffing expectations are approaching neutral – neither growth nor contraction.

TRANSPORT & STORAGE INDUSTRY: Large falls in the *Business Growth Outlook Index* for this sector have been largely reversed in the past couple of months.

4. Mid-Market: Industry representation

Mid-Market businesses are represented in all industries from primary production through Manufacturing, Construction and Transport to service-based industries.

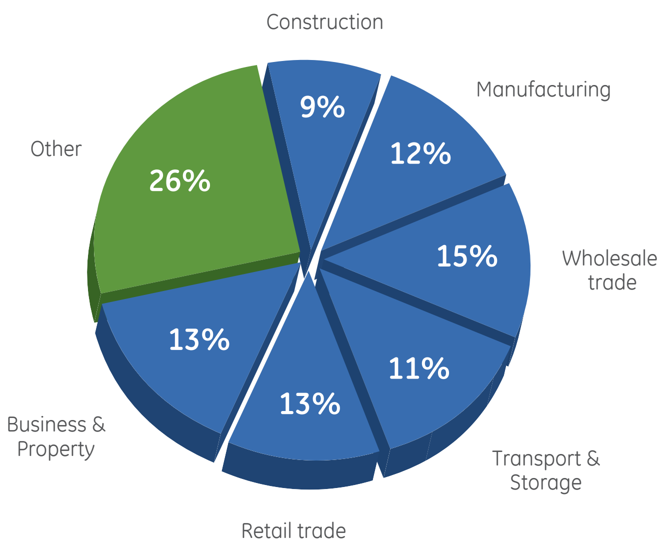
Although present in all sectors, the Mid-Market is over represented in Wholesale trade, Manufacturing and Mining. Representation in some of these industries places the Mid-Market at the forefront of the most dynamic aspects of the Australian economy.

The strong representation of the Mid-Market in Manufacturing also places it at the forefront of a sector facing difficult issues of structural change with significant import competition and a historically high Australian dollar demanding ever greater flexibility.

Within the Mid-Market, six industry groups account for three-quarters of the sector (see Chart 18). The six major industries include traditional secondary industry with Construction, Manufacturing and Transport & Storage, as well as service sector industries, such as Retail trade and Business & Property.

A seventh industry grouping brings together a range of industries with smaller individual representation in the Mid-Market. The high profile Mining sector is included within this group, because it represents a very small proportion of all businesses.

Chart 18: Mid-Market industry breakdown

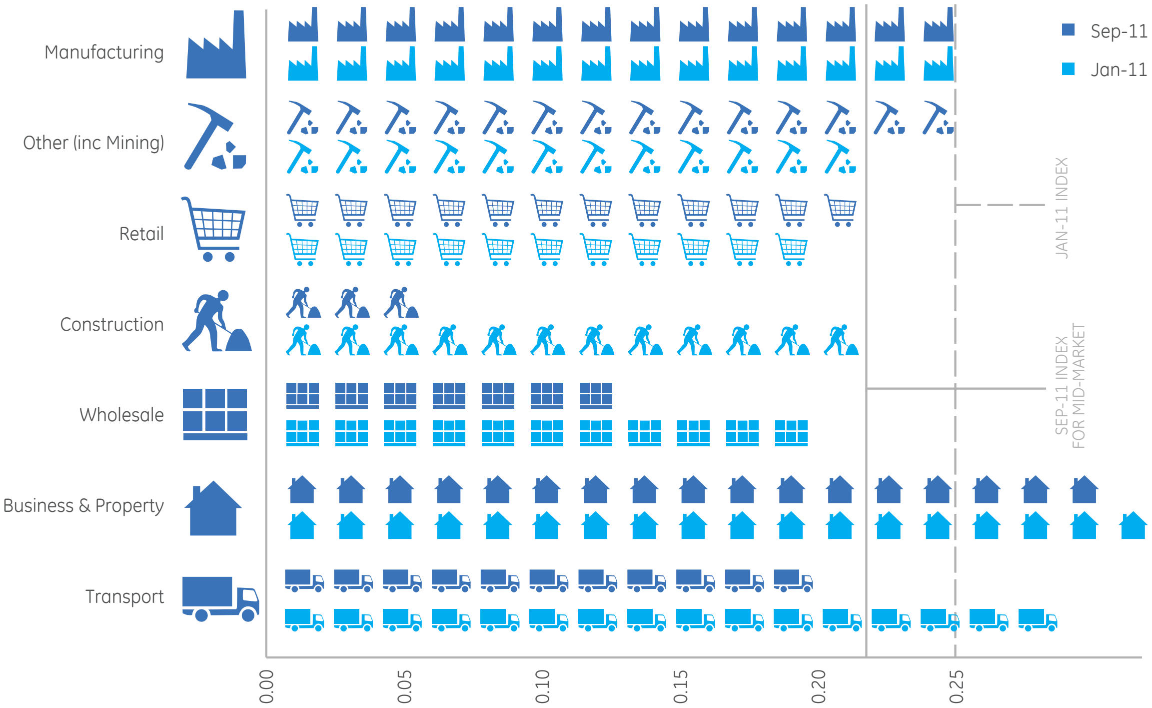


Note: 'Other' includes Agriculture, Health & Community, Mining, Utilities, Accommodation, Cafes & Restaurants, Community services, Education, Cultural & Recreation services, Personal & other services.

The Mid-Market is diversified and there is a wealth of evidence demonstrating industry-based differences in experiences and expectations for growth.

Some of the factors underlying those differences, such as differing domestic and foreign demands for specific goods and services, exposure to shifting exchange rates, and structural issues impacting on cost structures, affect all players in an industry regardless of size, and therefore will be seen across the Mid-Market.

Chart 19: ***Business Growth Outlook Index*** **by Mid-Market Industry**



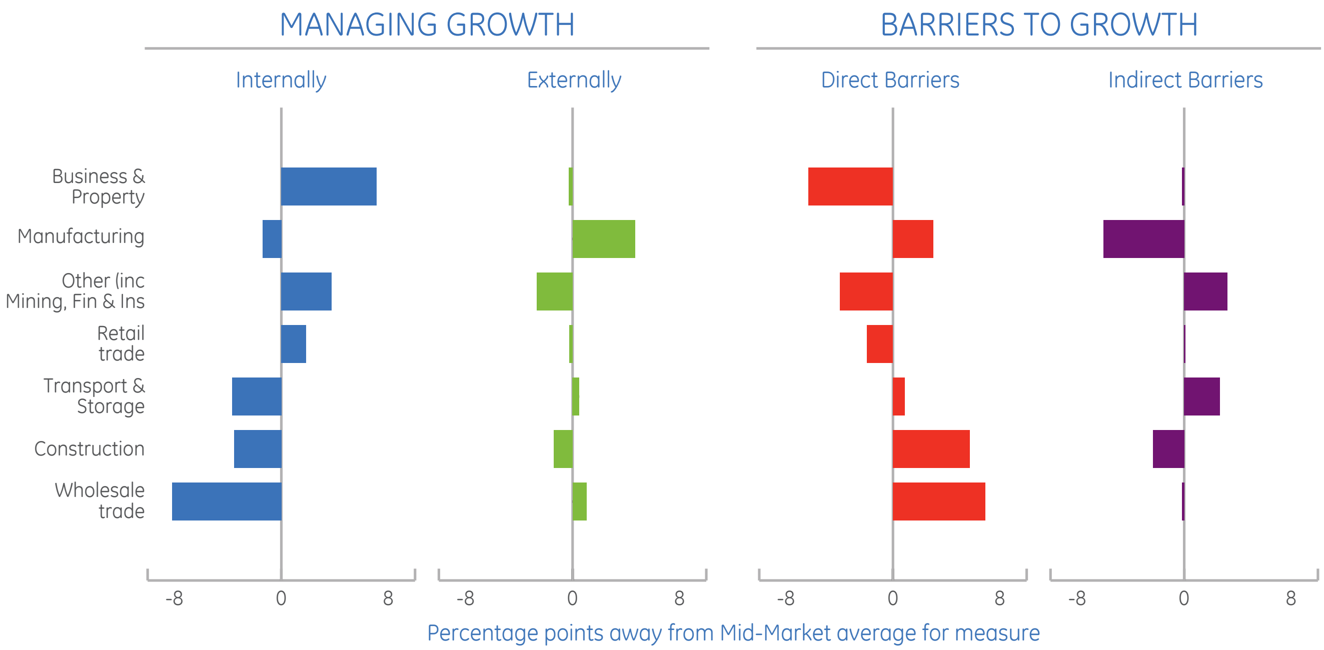
The Mid-Market **Construction** industry has seen a collapse of confidence during 2011, more so than any other industry group. Both *Future Expectations* and *Current Conditions* for growth among industry's CFOs turned markedly downward. Expectations started falling in April and have fallen steeply since then. Construction CFOs are now as much concerned with *Barriers to Growth* as they are with *Managing for Growth* issues.

Both revenue and staffing expectations have fallen markedly and growth expectations are the poorest of any Mid-Market industry.

The issues of greatest concern to Mid-Market construction CFOs are *Direct Cost Barriers*, particularly the Economic environment, Access to finance and to a lesser extent, Managing costs.

MARKET	BUSINESSES	REVENUE
Construction	9%	6%
Manufacturing	12%	13%
Business & Property	13%	12%
Retail trade	14%	13%
Transport & Storage	12%	8%
Wholesale trade	15%	14%
Other (inc Mining, Fin & Ins)	26%	34%

Chart 20: Industry comparison of *Current Conditions* measures



Manufacturing has performed above the Mid-Market *Business Growth Outlook Index* average. The value in September 2011 is essentially unchanged from January although over this period, the *Index* rose to a peak in May and has been falling since.

The *Growth Outlook* has strengthened over 2011 after a period of very strong growth in 2010. In fact, the change in outlook over the survey period is the largest of any industry group.

Business & Property stood out as the strongest performing industry in the Mid-Market. The overall *Business Growth Outlook Index* for September was 0.21 among all Mid-Market businesses, compared with 0.31 among the Business & Property industry. The *Business Growth Outlook Index* for Business & Property has remained largely unchanged over 2011 and growth expectations for the industry remain well above the Mid-Market.

During the year expectations for growth in Business & Property fell, with most of that decline occurring since May 2011. The downward movement reflects falls in both revenue and staffing expectations, with revenue expectations falling over most of the year and accelerating since June. Staffing growth expectations had little net movement in the first half of the year, but also began falling around July.

Business & Property CFOs in the Mid-Market have significantly increased their growth outlook over 2011. The increasing outlook has been driven by two changes: CFOs have become much more focused on *Managing for Growth*, while their focus on *Direct Cost Barriers* has declined substantially.

The **Retail trade** industry was one of only two industry groups that saw improvements in the *Business Growth Outlook Index* between January 2011 and September 2011. Retail began the year well below the Mid-Market *Index* value, but, with the increase in Retail's outlook and the decrease among broader Mid-Market businesses, the September Retail Growth Outlook *Index* is at about the same level as the broader Mid-Market.

The recovery in Retail has been driven by a strengthening growth outlook, yet both revenue and staffing expectations have changed little over the year.

The relatively strong performance of the industry is also off a below average base. Expectations in January in Retail were well below those for the Mid-Market, yet by September, revenue growth expectations were nearly at the same level as the broader Mid-Market. Staffing growth expectations in September were still below the average for the sector.

The **Transport & Storage** industry suffered a large fall in the *Business Growth Outlook Index* from January to September. This fall was largely driven by a shift in focus away from *Growing Revenue* and an increase in focus on *Direct Cost Barriers*. These changes have been largely reversed in the past couple of months.

Growth in Revenue expectations have also fallen over 2011, however, Staffing expectations, which began the year much lower, have remained fairly constant.

Wholesale trade is the second worst performing industry in the Mid-Market. It began the year with a *Business Growth Outlook Index* below average for the sector, but has declined at a greater rate so that it is now behind all industries except Construction.

The growth outlook for Wholesale trade began the year at about average levels for the Mid-Market. However, from April onward, growth outlook declined rapidly.

CFO's have shifted their focus away from Growing revenue and has an increased focus on *Direct and Indirect Cost Barriers*.

Revenue and staff growth expectations have roughly followed the pattern for the Mid-Market as a whole, with expectations holding up or falling only slightly until July, and then falling more rapidly. Staffing growth expectations are well below those of revenue growth.

Other Industries, which includes Mining and Finance & Insurance, is the second strongest performing industry group in the Mid-Market, behind only Business & Property. Other Industries began the year below average yet increased throughout the year.

The improvement in Other Industries was driven by both improving staff and revenue growth expectations and a positive growth outlook.

Growth expectations have been increasing since about May, with both staffing and revenue expectations improving after both fell in the earlier part of the year.

The shift towards growth over 2011 has been due to a reduction in concern about Indirect Barriers to Growth and increase in focus on Growing Revenue.

4.1 Industries differ in their *Future Expectations of Growth*

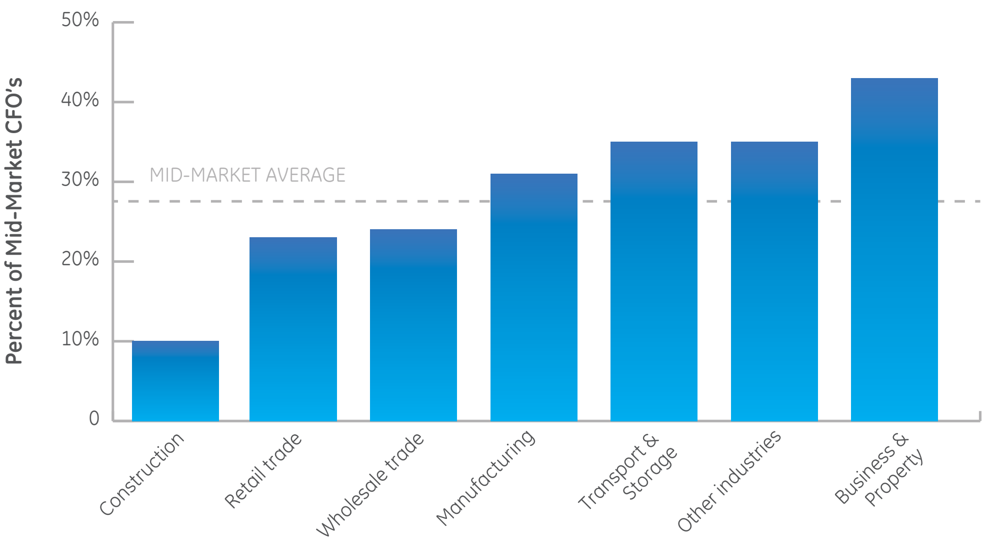
Overall, Mid-Market CFOs held positive *Future Expectations* for growth in both revenue and staffing (see Chart 21 & 22). However, there were industry differences.

Two industry groups: Transport & Storage and Other Industries (including Mining, Finance & Insurance) held the most positive Expectations for Revenue Growth, closely followed by Manufacturing, Wholesale trade, Business & Property, and then Retail trade. The Construction industry trailed all other industries in their expectations for revenue growth.

The Business & Property industry held the most positive expectations for growth in staffing. Other industries, which includes Mining, Manufacturing and Transport & Storage also held relatively positive staffing growth expectations. Wholesale trade, Construction and Retail trade all had relatively pessimistic expectations for growth in staffing.

Chart 21: Expect growth in Revenue

Chart 22: Expect growth in Staffing



4.2 Current Issues of Concern by Industry: Capital Resourcing & Talent Management

There is a substantial difference in the levels to which Capital Resourcing is a concern as expressed across Mid-Market industries. Transport & Storage were most concerned about Capital Resourcing issues (56% of CFOs identified one or more Capital Resourcing issues as among their top three concerns), followed by the Construction industry (49% identified Capital Resourcing issues).

There was a strong association between differences in industry *Growth Outlook Indices* and the level of concern expressed about Talent Management. Those industries that were most likely to identify Talent Management issues were also the ones with the highest *Business Growth Outlook Index*.

Chart 23: Capital Resourcing and *Business Growth Outlook Index* by Industry

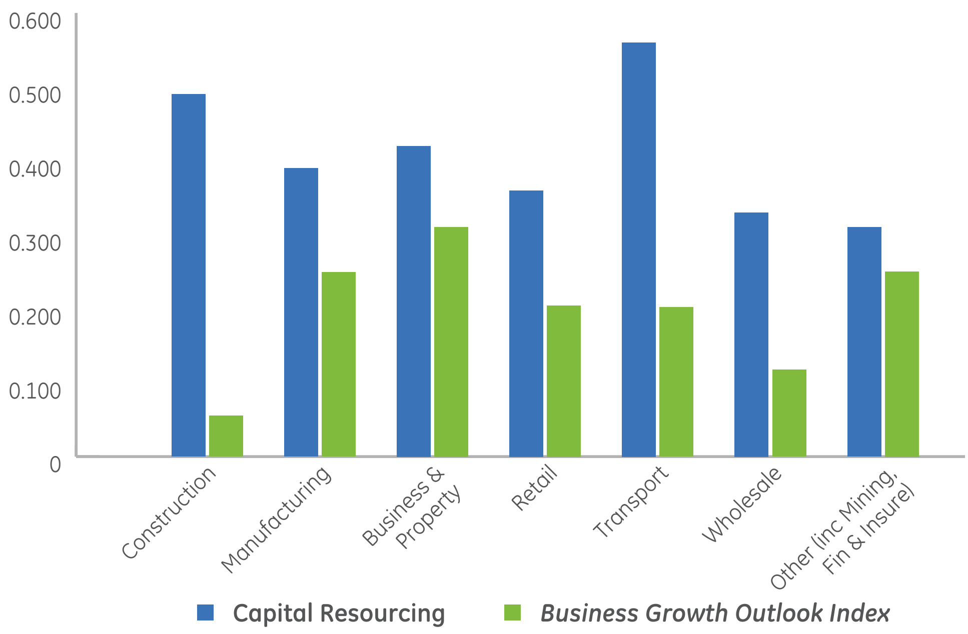
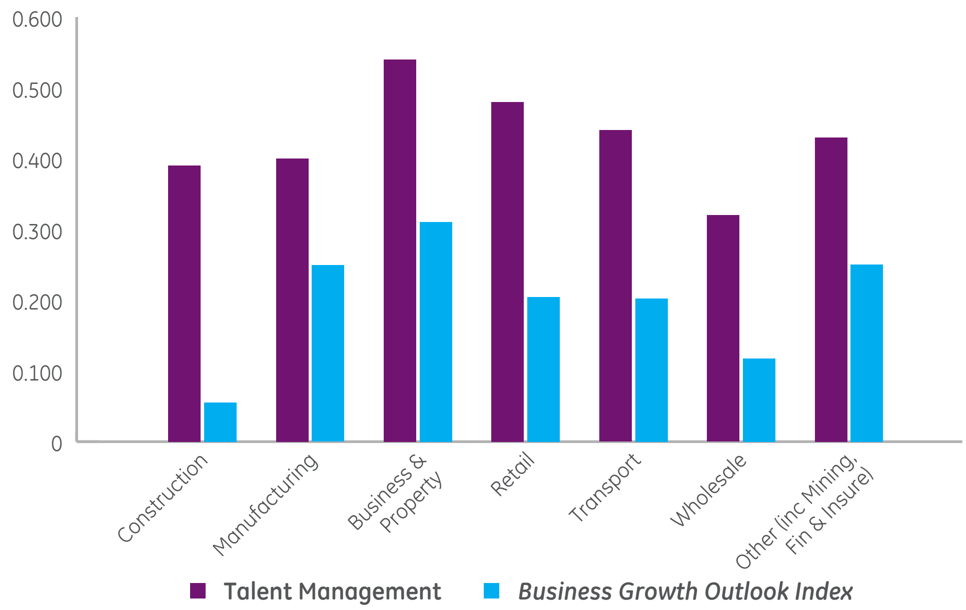


Chart 24: Talent Management and *Business Growth Outlook Index* by Industry



CONSTRUCTION INDUSTRY: Construction faced the largest decrease in the *Business Growth Outlook Index*.

5. The Growth Outlook is not shared evenly among Mid-Market CFOs

The Mid-Market overall has a positive growth outlook. Although there are worrying signs around future expectations for growth in both revenue and staffing, these remain positive and Mid-Market CFOs are still currently maintaining a solid growth orientation in their current concerns.

5.1 Size of business within the Mid-Market

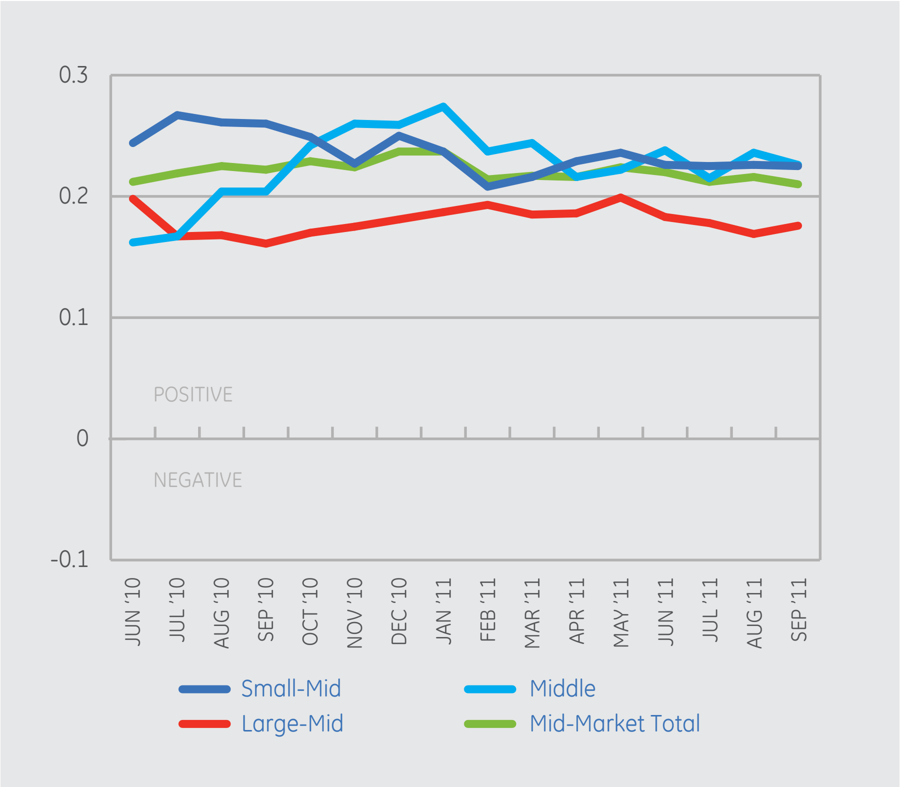
Within the Mid-Market is a diverse range of business sizes that have different issues dependent on the scale of their operation. Smaller Mid-Market businesses are much more similar to Small business sector organisations, while the largest of the Mid-Market businesses operate more like Large business. As we have seen in the previous section, the Small and Large business market sectors differ on a number of significant points in their *Current Conditions Index* and in their *Future Expectations* for growth. Some of these differences are reflected across the Mid-Market.

The smallest of the Mid-Market businesses – the Small-Mid sub-sector with turnovers of $10m-$20m – account for one-half of all Mid-Market businesses. Like the Mid-Market as a whole, the Small-Mid sub-sector has seen a gradual strengthening in the *Current Conditions Index* through 2011 after a significant fall in 2010 (see Chart 25). Underlying that shift towards *Managing for Growth* has been an even stronger move from concerns about *Direct Barriers To Growth* (particularly Financing growth and Accessing finance) and a greater shift towards *Managing for Growth Internally* (particularly Keeping staff) than was seen in the Mid-Market sector as a whole (see Chart 26).

The lower level of concern about *Direct Barriers to Growth* has been due to fewer Small-Mid CFOs expressing concern about the Economic environment. Fewer Small-Mid CFOs were also concerned about Foreign exchange rates, although there was a slightly higher level of concern about the Value of the Australian dollar.

MARKET	% BUSINESSES	% REVENUE
Small Mid ($10-$20MM)	50%	19%
Middle Mid ($20- $50MM)	33%	26%
Large Mid ($50-$250MM)	17%	55%

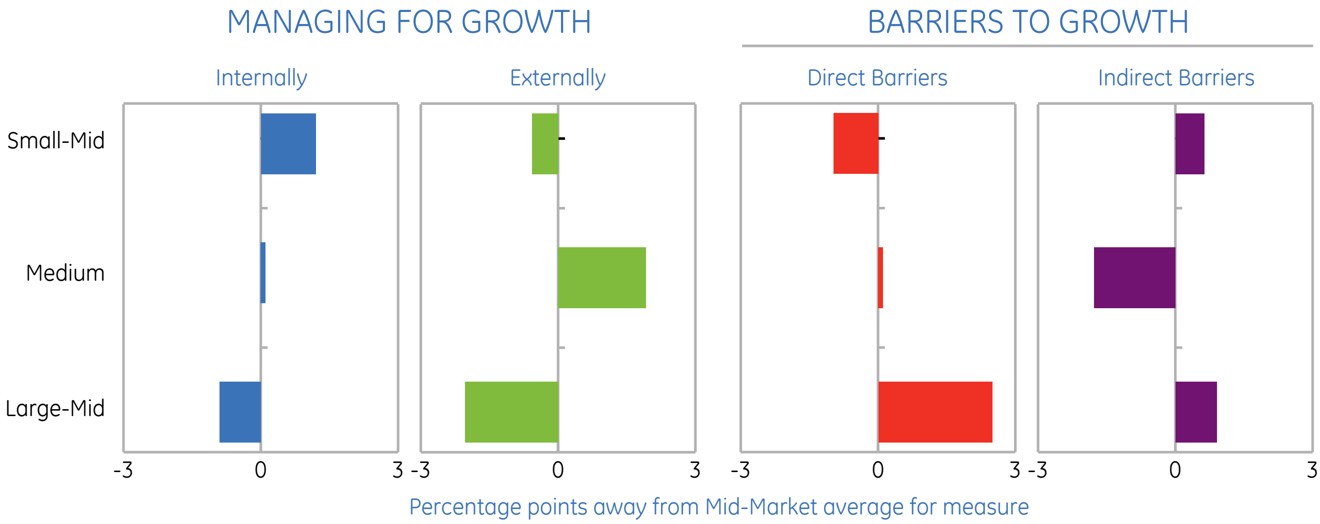
Chart 25: *Business Growth Outlook Index* by Mid-Market size sub-sectors (June 2010 to September 2011)



The **Middle Mid-Market** sub-sector (turnovers of $20m-$50m, 33% of businesses) have suffered the greatest decline in the *Business Growth Outlook Index* over 2011, however, most of that fall occurred early in 2011, and the *Index* value has remained constant since April. The current *Index* value is slightly above that for the Mid-Market sector as a whole.

The Middle Mid-Market sub-sector has a stronger *Current Conditions Index* than either of the two other sub-sectors. Although the *Current Conditions Index* fell in September, the *Index* improved more strongly for the Middle sub-sector through 2011 than for either the Small-Mid or Large-Mid sub-sectors. That strength in growth orientation is reflected by a strong improvement that was mainly driven by CFOs in this sub-sector being more focused on Growing revenues and Managing cash flow. Compared with the Mid-Market as a whole, the Middle Mid-Market sub-sector is also less concerned about *Indirect Cost Barriers*, particularly Government Regulation and Interest rates.

Chart 26: Comparison of levels of concern about *Managing for Growth* and *Barriers to Growth* issues by size sector in Mid-Market



The **Large Mid-Market** sub-sector (turnovers of $50m-$250m, 16% of businesses) has been the least positive of the three sub-sectors with the lowest *Business Growth Outlook Index* in September 2011 (see Chart 25). The main factor leading to this relatively poor score is their *Current Conditions Index*. CFOs in the Large-Mid sector were only marginally positive in their perception of *Current Conditions* in September after being neutral (score of zero) in August.

Underlying this low *Current Conditions Index* is a reduced focus on either *Growing revenue* or *Managing for growth*. Instead, CFOs are more focused on *Direct* and *Indirect Barriers to Growth*. As might be expected for these relatively larger businesses, concerns about the Exchange rate and Value of the Australian dollar drove concerns about *Direct Barriers to Growth*. A higher level of concern about Government regulation and Operating risk underpinned concerns about *Indirect Barriers to Growth*.

The **Large Mid-Market** sub-sector is also much less concerned about Finding staff (though there were slightly more concerned about Keeping staff) than other Mid-Market CFOs. They are much more concerned about their Technology, systems and e-commerce. Another key difference distinguishing this group was their relatively low level of concern about Managing cash flow.

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MANUFACTURING: The Growth Outlook for Mid-Market Manufacturing has strengthened during 2011.

Appendix 1: How the CFO *Business Growth Outlook Index* is calculated

How was the survey conducted?

The GE Capital Mid-Market CFO *Business Growth Outlook Index* is based on DBM Consultant's Business Financial Services Monitor (BFSM)[11]. The Monitor is the largest business survey in Australia and includes interviews with more than 19,000 businesses annually.

The Mid-Market Growth Outlook research draws from the BFSM, a representative sample of n=5,290 Mid-Market CFOs, surveyed over two years up until the end of September 2011. The sample includes all industries, sizes and states.

Survey results were projected to the total population of Mid-Market enterprises using the Australian business population defined by the Australian Bureau of Statistics.

Telephone interviews were used to find the decision maker – CFO, Financial Controller, Treasurer, Finance Director, etc. Online interviews were used to conduct the survey.

The survey measured CFOs' concerns and expectations on a wide range of topics; covering 20 issues. The *Business Growth Outlook Index* was developed from these measures.

A longitudinal study was also conducted to establish the validity of the *Index*. A sample of n=2,500 were re-interviewed after an average of six months.

The CFO *Business Growth Outlook Index* is a single value ranging from -1.0 to +1.0. The *Index* reflects CFOs overall feeling about their business's current orientation towards growth and future prospects for growth.

- A value of +1.0 indicates a strong orientation towards current growth and strong expectations for future growth over the next 12 months.
- A value of -1.0 indicates a strong orientation towards dealing with *Barriers to Growth* and strong expectations for contraction in the next 12 months.
- A value of 0.0 indicates a net neutral position, often involving a sharing of focus between growth and dealing with *Barriers to Growth*, while holding neutral expectations for growth over the next 12 months.

The *Current Conditions* aspect and the *Future Expectations* aspect contribute equally to the *Business Growth Outlook Index*. Each of the *Current Conditions* and *Future Expectations* is measured by a subsidiary *Index*, each of which also ranges between -1.0 and +1.0.

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[11] ABOUT BFSM - DBM's Business Financial Services Monitor (BFSM) is based on an annual survey of 19,250 decision makers in business banking, it is the largest survey of its type and the only one that covers Micros, SMEs, Mid-Market and Corporate and Institutional businesses, using the same performance measures. The BFSM is conducted continuously throughout the year and asks about decision makers' key current concerns, satisfaction with any financial institutions they deal with, focusing on their Main Financial Institution (MFI).

ABOUT DBM - DBM Consultants is a leading Australian market research company engaged by many of the largest private and public sector organisations in Australasia.

GE Capital

Current Conditions Index measures four categories

The *Current Conditions Index* is based on an item that asks CFOs to nominate their three main current concerns for the business. The three items are selected from a set of 20 specific issues as found in Chart 3 (page 18).

Statistical analysis provided four groupings of these concerns based on the patterns of issues nominated by CFOs. Examination of each of the four groupings suggested a common theme or meaning that summarised each grouping and which distinguished it from the other groupings.

Two of the groupings were focused on CFOs *Managing for Growth* while the other two were focused on CFOs dealing with *Barriers to Growth*. One of the *Managing for Growth* groupings was more concerned with the business's external activities, while the other grouping was concerned with activities directed at internal systems.

The two *Barriers to Growth* groupings were focused on CFOs dealing with direct cost barriers such as economic conditions and managing costs, while the second Barriers grouping was focused on indirect barriers such as government regulations.

The analysis indicated that the four groupings were organised around two pairs of groupings where each pair involved on *Managing for Growth* grouping and one *Barriers to Growth* grouping. The following table summarises groupings, lists the constituent items and shows the underlying structure:

Each of the four themes of *Current Conditions* measures are characterised by 20 issues that reflect the current concerns of Mid-Market CFOs. These are:

	BARRIERS TO GROWTH	MANAGING FOR GROWTH	
DIRECT	*Direct Barriers to Growth* include concerns about the Economic environment, Managing costs, Value of the A$, Exchange rates, Financing growth and Access to finance.	*Managing for Growth Internally* refers to Finding and Keeping staff, Succession planning and Company culture, as well as Managing for growth and Technology, Systems and e-commerce.	INTERNAL
INDIRECT	*Indirect Barriers to Growth* comprises Government regulation (and associated costs), Interest rates, Operating risks and Climate change.	*Managing for Growth Externally* comprises Growing revenue, Competition from other businesses, Marketing the business and Managing cash flow.	EXTERNAL

Each item was scored dichotomously (0/1) and grouping scores for each respondent computed as the sum of the item scores weighted according to analysis results. Groupings were then rescaled to ensure they contributed equally compensating for the different numbers of items in each grouping. *Managing for Growth* items were scored positively, and *Barriers to Growth* items were scored negatively.

A total score across items was computed for each respondent. That total score was the respondents *Current Conditions Index* value.

Future Expectations for Growth vs. Contraction in Revenue & Staffing

The *Future Expectations Index* is based on two items asking each CFO how much they expected revenue and staffing in their business to grow or contract over the next 12 months.

Expectations for revenue and staffing are asked separately and each is scored from -1 to +1, where -1 indicates contraction and +1 indicates expansion. For revenue, a distinction is drawn between strong growth/contraction (score +1 or -1) and 'grow/ contract somewhat' (score +0.5 or -0.5).

Scores from each item are combined to produce a single *Future Expectations Index* and rescaled to range from -1 to +1. Each of the two elements contributed equally to the final *Index* score.

Computing the *Business Growth Outlook Index*

The *Business Growth Outlook Index* is computed as the sum of the *Current Conditions Index* and the *Future Expectations Index*. Each of the two constituent indices is scored between -1.0 to +1.0. Therefore the sum of the two is rescaled to give the range of -1.0 to +1.0. Both the *Current Conditions Index* and the *Future Expectations Index* contribute equally to the *Business Growth Outlook Index*.

Appendix 2: Australian Mid-Market: Facts & Figures

2.1 Structure of the Mid-Market

The Mid-Market covers businesses from small firms with annual turnovers of $10m up to corporations with turnovers of over $250m. Businesses across that range will differ markedly in the scale of their operations, the complexity and maturity of their internal systems and cultures, the links with their markets, and the sophistication of their financial requirements.

Small Mid-Market businesses will retain strong ties with their originating communities. Their systems, sufficient for the small scale of their operations, will be relatively simple.

Chart 27: Breakdown of the Mid-Market by Revenue

MARKET	% OF BUSINESSES	% OF REVENUE	% OF EMPLOYEES
Small Mid ($10-$20MM)	50%	19%	30%
Middle Mid ($20- $50MM)	33%	26%	36%
Large Mid ($50-$250MM)	17%	55%	34%

However, the survey data demonstrates that many are growing, and demonstrating increasing sophistication of internal systems and expanding horizons of activity. Large Mid-Market businesses share characteristics with larger corporations, operating across multiple markets and locations, and with mature and sophisticated systems designed to support the complexity of their operations. Some of these organisations could be the major players in specific markets while others are likely to become future national or multinational corporations.

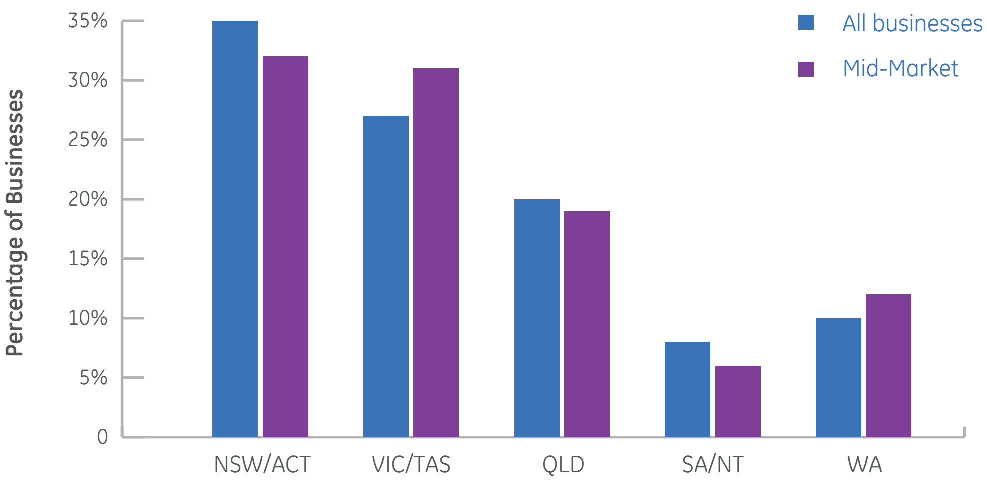
This range of Mid-Market business sizes can be thought as covering several distinct sub-sectors, reflected in their turnovers (see Chart 27).

2.2 Business profile: Geographic spread

The Mid-Market is represented all across Australia with significant representation (21%) outside of major metropolitan areas, mostly in inner and outer regional centres.

Mid-Market businesses are over-represented in Victoria and Western Australia; two of the most economically dynamic regions in recent times (see Chart 28).

Chart 28: Mid-Market representation by State compared with All Australian Businesses



Revenue, Employment and Account balances in the Mid-Market

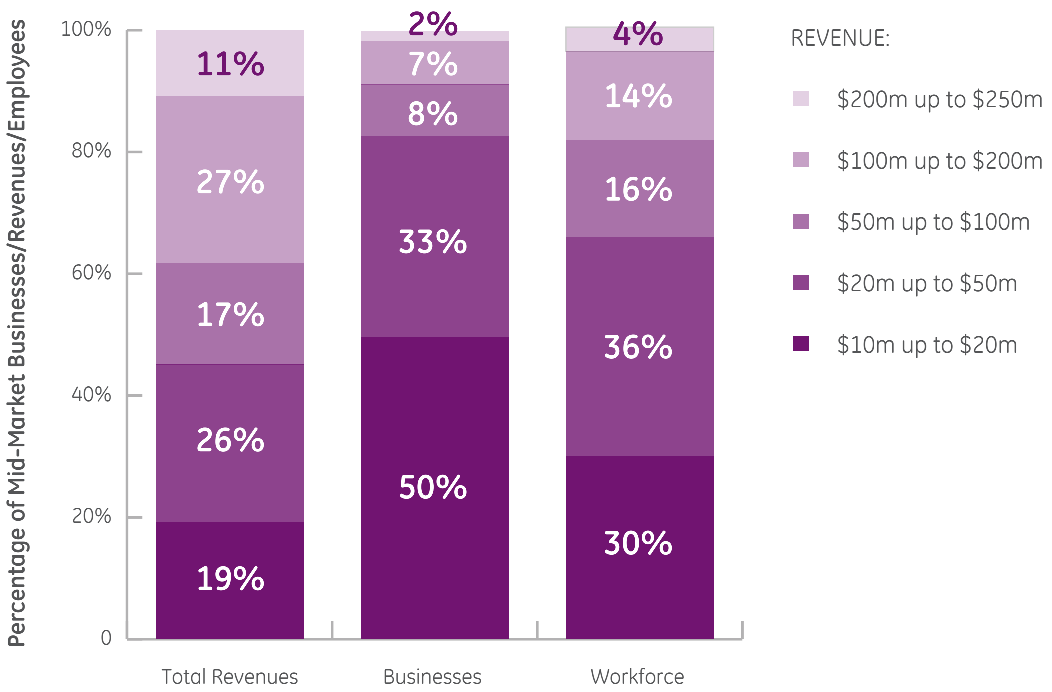
The diversity of Mid-Market businesses is clearly reflected in the distributions of revenue, employment and aggregate deposit and lending balances. About one-half of Mid-Market businesses have turnovers of $10m-$20m. A further third have turnovers of $20-$50m, with the remaining one-sixth with turnovers between $50m and $250m.

Despite their small numbers, the largest Mid-Market businesses account for the greatest shares of total revenue, employment and lending (see Chart 29 and Chart 30).

The Mid-Market accounted for $1,074bn in total turnover for FY 2010/11. Of that total, nearly two-fifths (38%) was earned by the top 9% of Mid-Market businesses (turnovers of $100m-$250m) (see Chart 29). By contrast, the smallest Mid-Market businesses with turnovers of $10m-$20m accounted for only 19% of the total turnover.

This distribution is also reflected in full-time employment. Overall, the Mid-Market sector gave full-time employment to about 3.2m individuals. The largest 9% of Mid-Market businesses employed about 18% of all full-time employees. In contrast, the smallest 50% of Mid-Market businesses employed only 30% of the Mid-Market full-time workforce.

Chart 29: Mid-market Revenue and Workforce distributions by Business size (September 2011)



NOTE: Business count, revenue and workforce estimates based on BFSM figures for period Jun-10 to Jul-11. BFSM estimates use weightings based on broad turnover categories to ABS Australian Business Counts (catalogue 8165.0) publication. BFSM figures interpolated to estimate turnover break points at $250m and revenue estimates based on mid-points of reported revenue bands.

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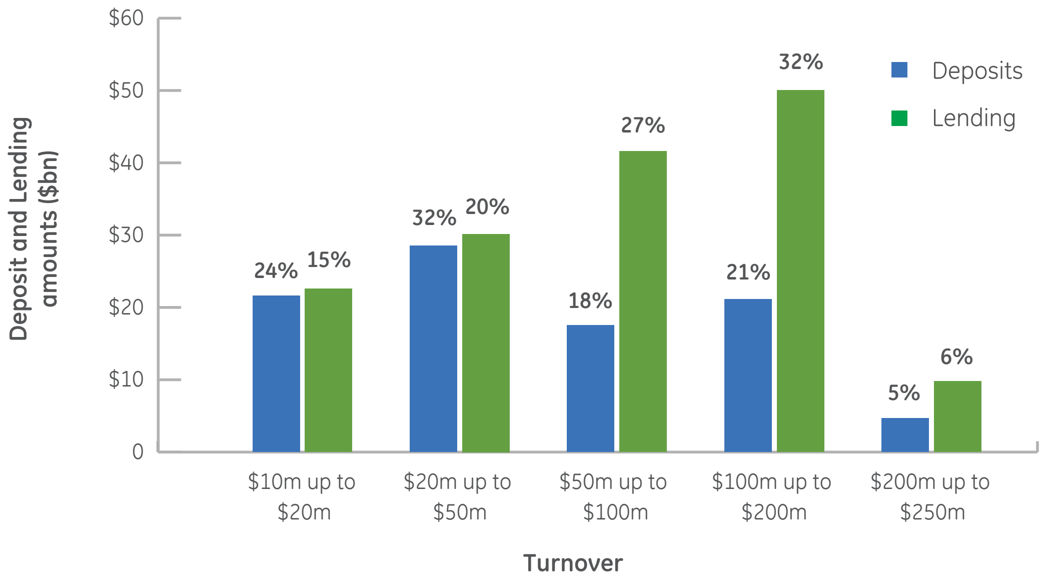
Access to capital

The distribution of total lending also followed a similar pattern (see Chart 30). Once again, the smallest businesses have a relatively low share of total lendings – the bottom 50% of businesses had only 15% of lendings. Larger Mid-Market businesses held increasingly larger shares of total lending while accounting for progressively smaller proportions of Mid-Market businesses. Even the largest Mid-Market businesses ($200m-$250m), which represent only 1.7% of all Mid-Market businesses, accounted for about 6.4% of lendings, making their average outstanding borrowings per business about 13 times larger than the average business borrowing than for the smallest Mid-Market business.

Interestingly, the average business borrowing for those businesses in the $100m-$200m range is even larger, about 15.5 times the size of the borrowing of the smallest Mid-Market businesses. It is likely that access by the largest Mid-Market firms to a wider range of funding options means a lower reliance on debt funding by this group.

Chart 30: Deposit and Lending in the Mid-Market by Business Size (September 2011)

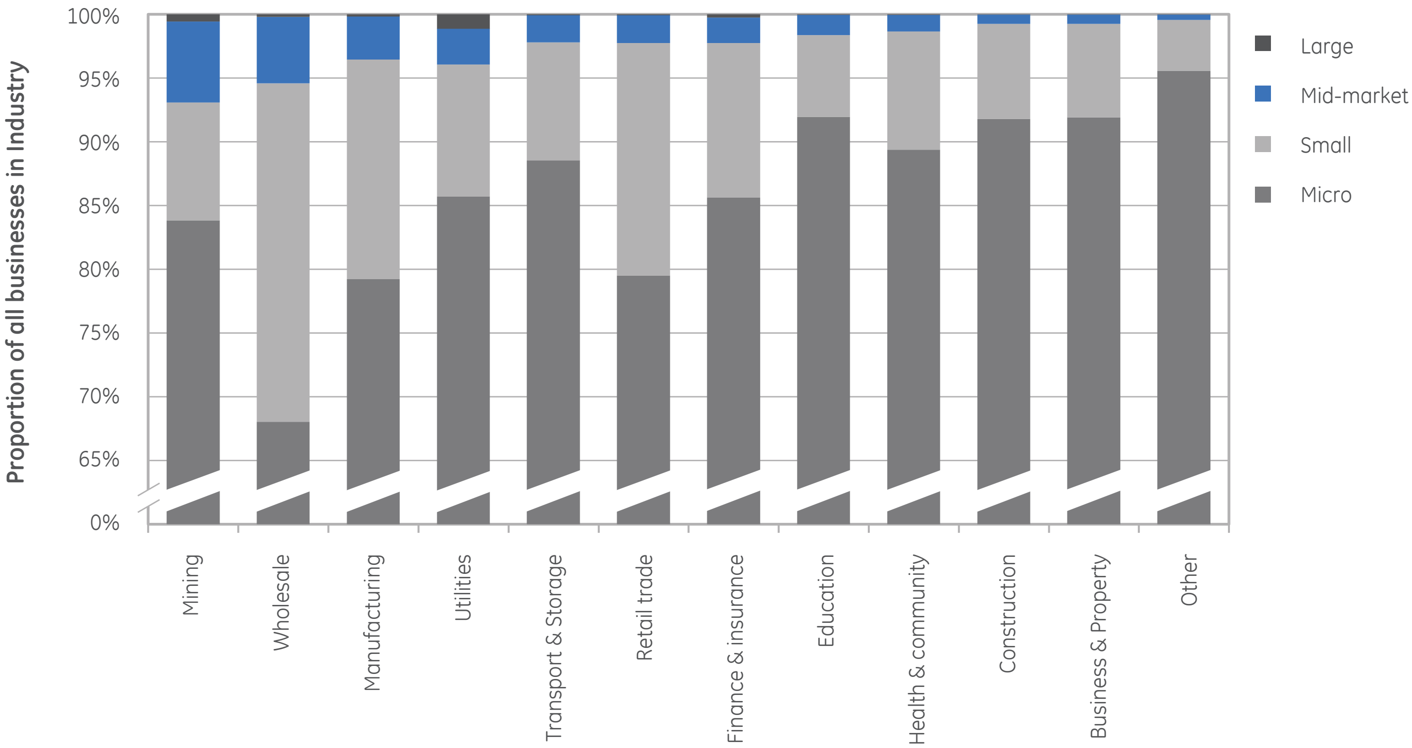


NOTE: Deposit and lending dollars based on amounts held in Australian banks over the period Oct-10 to Sep-11. Amounts exclude government and financial corporations. Lending products exclude commercial bonds and other bond-like instruments. Percentages for each of lending and deposits represent the proportion of all lendings and deposits respectively associated with Mid-Market businesses.

Appendix 3: Industry Profile of the Australian Mid-Market

Mid-Market businesses are more strongly represented in some industries, such as Wholesale trade, Manufacturing, Mining and Utility businesses (see Chart 31). By contrast, Mid-Market businesses are relatively under-represented in Construction, Business & Property and a range of Other industries (e.g. Agriculture, Personal & Other services, Communication services, Accommodation, Cafes and Restaurants).

Chart 31: Representation of the Mid-Market by Industry[12]



The large size of some of these industries, such as Business & Property, means that although the Mid-Market has below average representation, the total number of Mid-Market businesses in that industry is relatively high. Other industries such as Mining in which the Mid-Market is strongly represented are very small, and therefore represent only a small component of the total Mid-Market. Chart 32 summarises these relationships.

[12] 'Other' includes Agriculture, Personal & Other services, Communication services, Accommodation, Cafes & Restaurants, and Culture & Recreational services.

Chart 32: Size of select industries in total Australian industry with comparisons against Mid-Market

INDUSTRY	ALL AUSTRALIAN INDUSTRY		% BUSINESSES IN MID-MARKET
	BUSINESSES	PERCENT	
Business & Property	508,721	25%	0.7%
Construction	314,165	16%	0.8%
Retail trade	220,296	11%	1.7%
Finance & Insurance	132,133	7%	1.7%
Transport & Storage	122,827	6%	2.1%
Manufacturing	108,881	5%	3.1%
Health & Community	91,547	5%	1.6%
Wholesale trade	85,071	4%	4.8%
Education	36,149	2%	2.1%
Mining	7,597	0.4%	7.9%
Utilities	5,589	0.3%	2.1%
Other	378,858	19%	7.1%

Six industry groups account for three-quarters of the Mid-Market. These industry groups, together with a seventh representing all other industries are summarised in the body of the report (see Chart 32).

The following summarises the industry groups:

1. **Business & Property** (13% of all Mid-Market businesses) includes businesses providing a range of business services such as legal and accounting services, equipment hire and non-financial asset investments. Property services include real estate agents and property operators and developers.

2. **Construction** (9% of all Mid-Market businesses) includes all businesses involved in building and building support.

3. **Manufacturing** (12% of all Mid-Market businesses) includes all businesses that manufacture goods: food and beverages, textiles, timber and paper and with that publishing, the chemical, metals and non-metallic minerals industry, transport and other technical equipment, homewares, and pre-fabricated buildings.

4. **Retail trade** (14% of all Mid-Market businesses) include all businesses involved in the selling of goods to consumers.

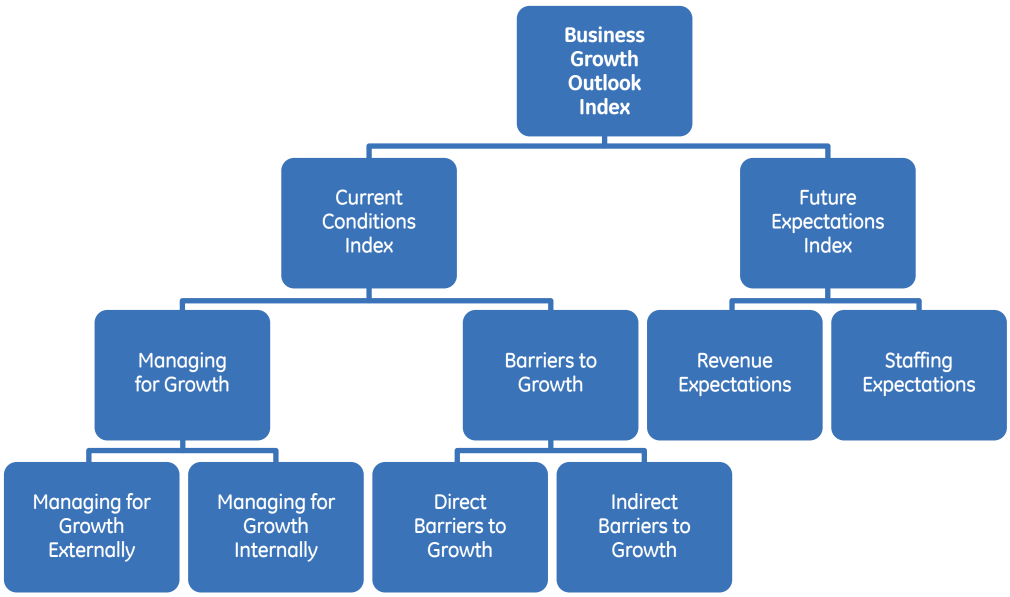
5. **Transport & storage** (15% of all Mid-Market businesses) include all businesses involved in the transport by air, rail, road or water, and businesses involved in the provision of services to those involved in transport.

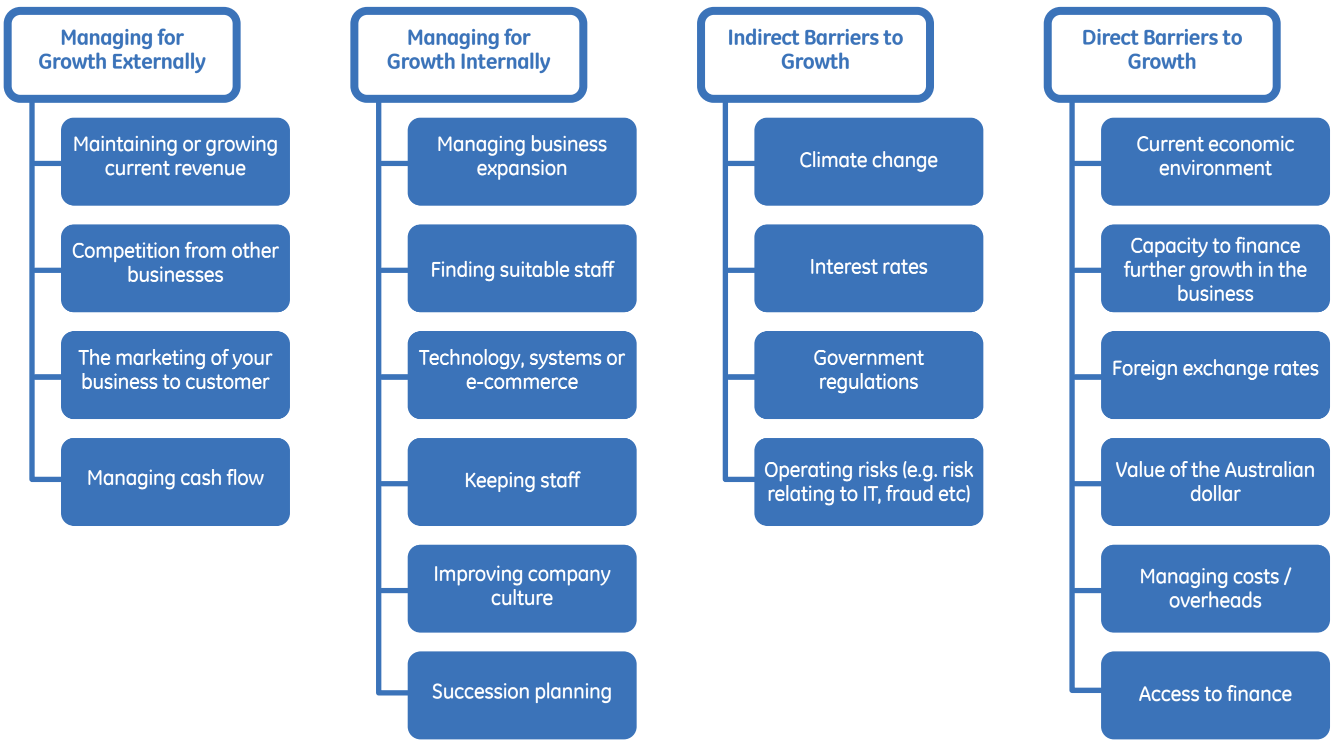
6. **Wholesale trade** (15% of all Mid-Market businesses) include all businesses involved in the preparation and sale of goods to other businesses, with primary products, building and manufactures and vehicles, food and beverages, textiles and homewares.

7. The seventh industry grouping brings together a range of industries with smaller individual representation in the Mid-Market. '**Other industries**' is primarily represented by Finance & Insurance and by Health & Community services. It also includes Mining, Education, Personal & Other services and Culture & Recreational services. A number of very small industries are also included: Agriculture, Utilities (electricity, gas, water and sewerage), Accommodation, Cafes & Restaurants and Communication.

Appendix 4: Glossary of Terms

The following figures show the 30 measures used in the *Business Growth Outlook Index* research. The relationships among the terms are summarised by the tree structures.





Appendix 5: Lead indicator research

Lead indicator research

The aim of the Lead indicator research was to investigate if the *Business Growth Outlook Index* was correlated with subsequent changes in revenue. The Business Financial Services Monitor (BFSM) survey with the CFO *Business Growth Outlook Index* captures a wide range of information from respondents including their business' current annual revenue. Over time, businesses were surveyed multiple times to allow for comparisons on measures such as annual revenue. The lead indicator research used that information to seek a correlation between the *Business Growth Outlook Index* and changes in revenue.

A correlation between the *Business Growth Outlook Index* and subsequent changes in revenue would validate the *Index* as a measure of subsequent growth.

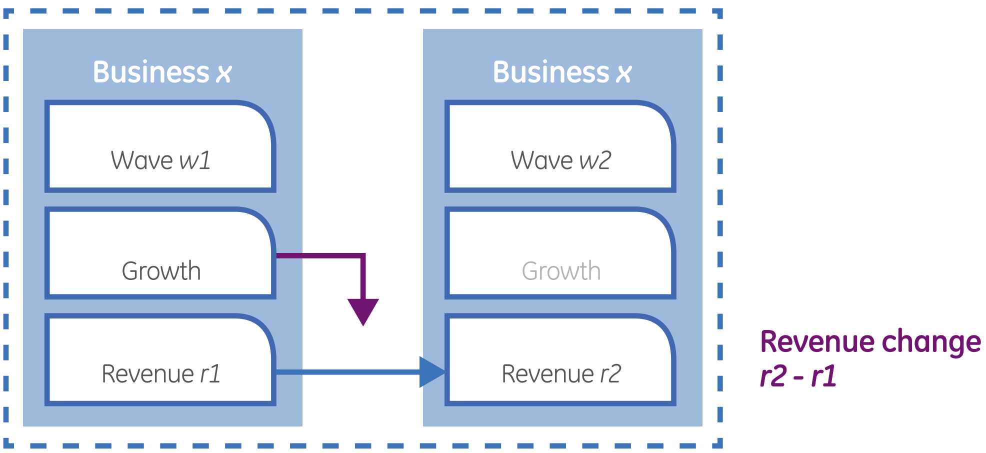
Longitudinal methodology

Over the period July 2010 to September 2011 (period covered by this analysis), over 2,500 businesses included in the Mid-Market range were surveyed a second or third time. The average period between repeats was around six months.

For each of those repeat surveys, the initial *Business Growth Outlook Index* value is known together with their reported initial revenue and subsequent revenue.

The initial *Business Growth Outlook Index* can be related to the subsequent change in revenue for each business to determine if a positive *Index* is associated with increased revenues and vice versa. The following figures summarises the approach.

Chart 33: Change in Revenue as a function of Growth Outlook Index

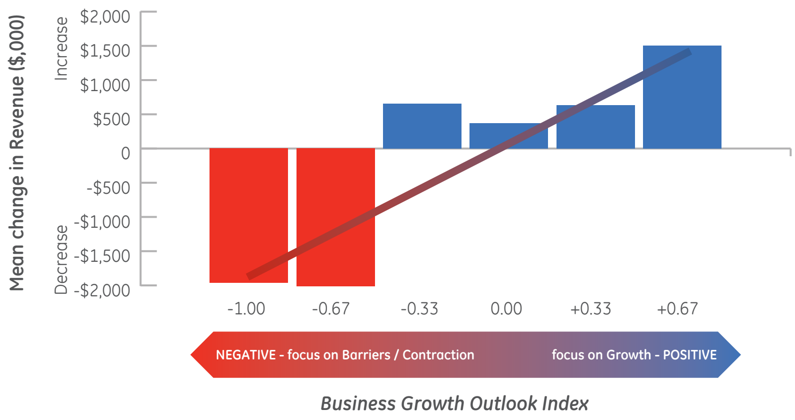


The analysis was limited to intervals of 12 months or less. Comparisons between revenues were limited to those in which the initial and subsequent revenues were separated by 12 months or less, as expectations for the next 12 months were surveyed.

To help visualise the data, the *Growth Outlook indices* were divided into ranges of 0.33 points (-1.0 to -0.67, -0.67 to -0.33, ... , +0.67 to +1.00) and the mean change in revenue over businesses with Growth Outlook Indices in that range was computed. The following chart summarises the findings.

The results show that there was a strong, positive correlation between the *Business Growth Outlook Index* and subsequent changes in revenue.

Chart 34: Change in Revenue as a function of *Business Growth Outlook Index*



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