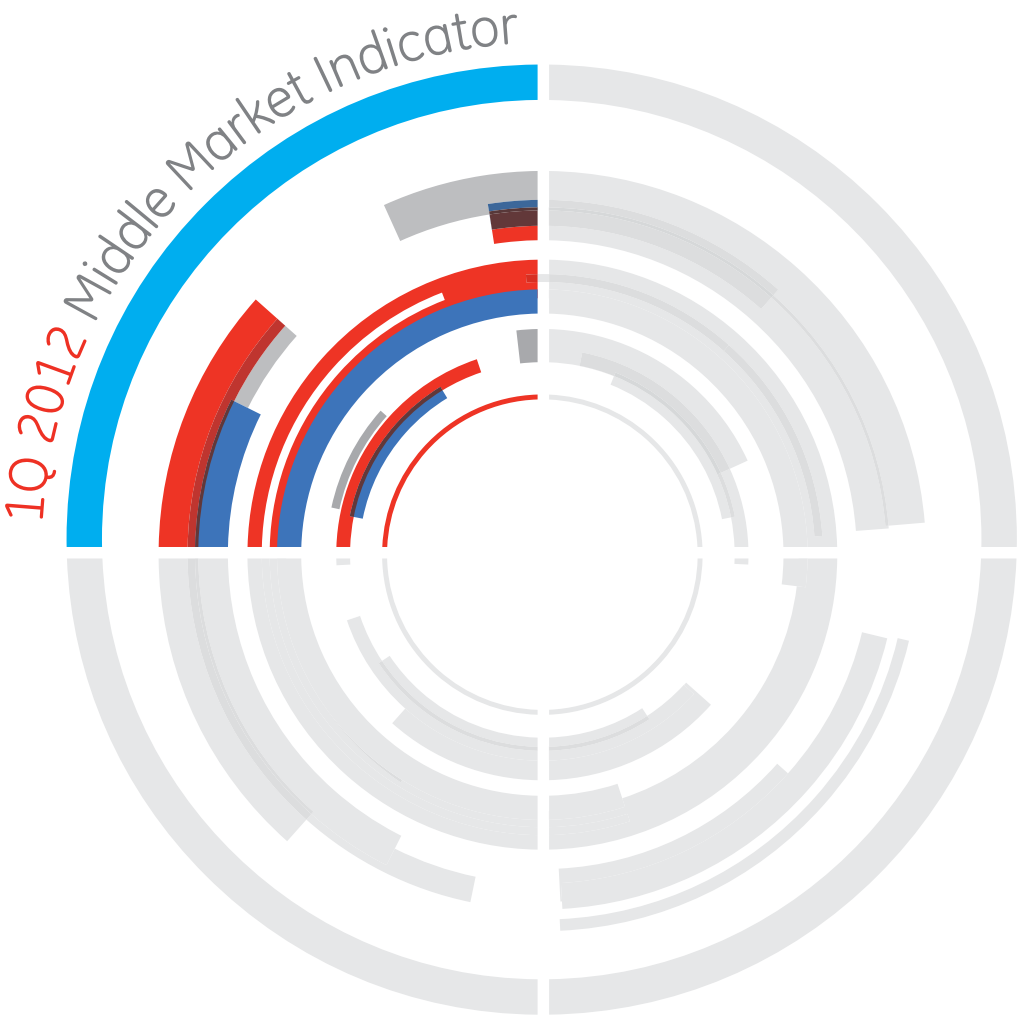




in collaboration with

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introducing the Middle Market Indicator from The National Center for the Middle Market



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

The Middle Market Indicator (MMI) from The National Center for the Middle Market is a quarterly business performance update and economic outlook survey conducted among 1,000 C-suite executives of companies with annual revenues between \$10MM - <\$1B.

There are approximately 195,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 41 million people. These businesses outperformed through the financial crisis (2007-2010 period) by adding 2.2 million jobs across major industry sectors and U.S. geographies, demonstrating their importance to the overall health of the U.S. economy. They are private and public, family owned, and sole-proprietorships, geographically diverse, and span almost all industries. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlemarketcenter.org: "Leading from the Middle," seminal research on the definition, significance and role of the middle market, Oct. 2011.)

How is the research conducted?

The MMI surveys 1,000 CEOs, CFOs and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the 195,000 U.S. firms with revenues between \$10MM and \$1B, the upper and lower limits on middle market annual revenue.

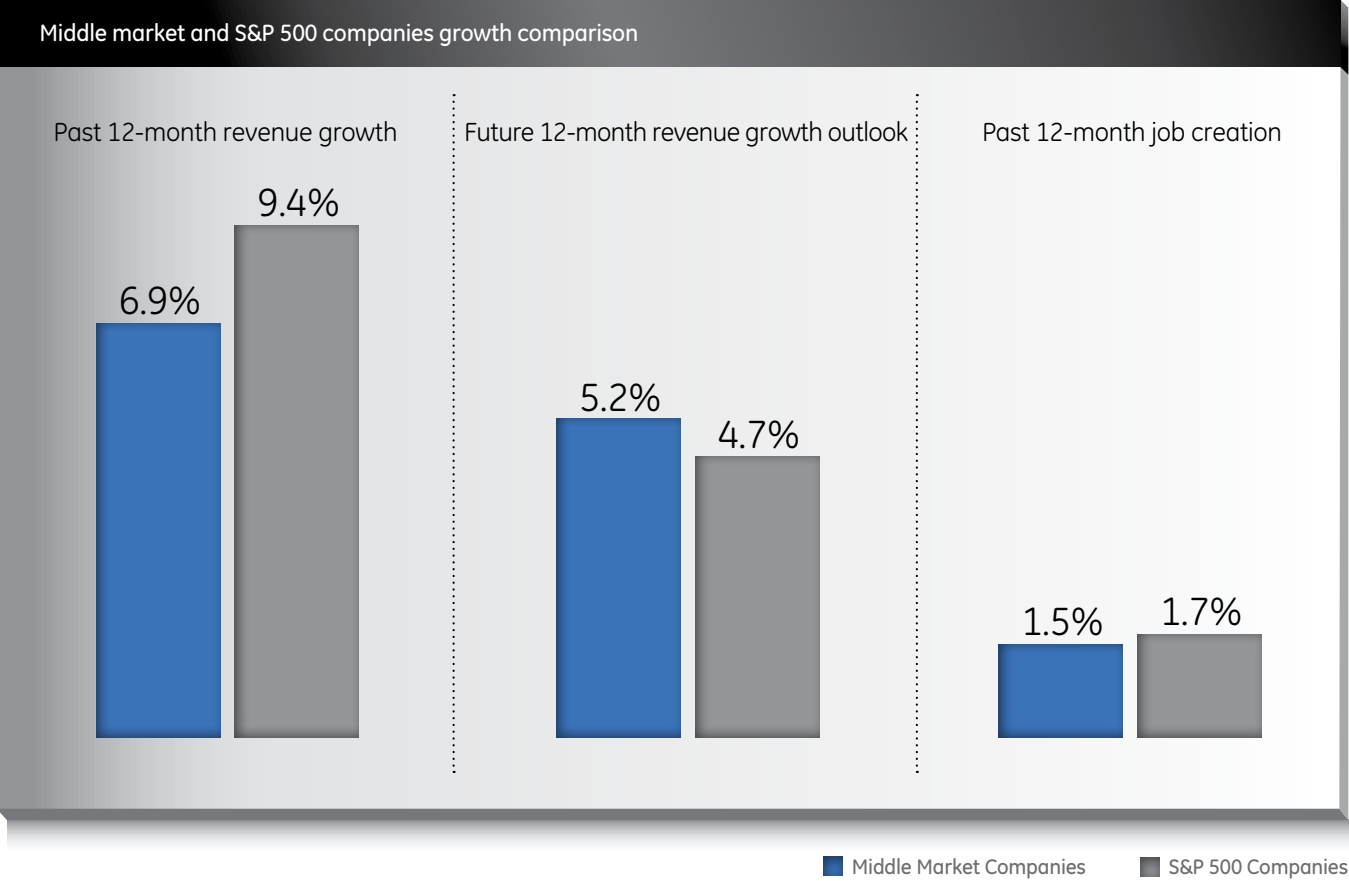
The quarterly online survey is designed and managed by The National Center for the Middle Market

About the National Center for the Middle Market

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

executive summary

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



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



Projected 12-month growth is strong, yet slowing

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



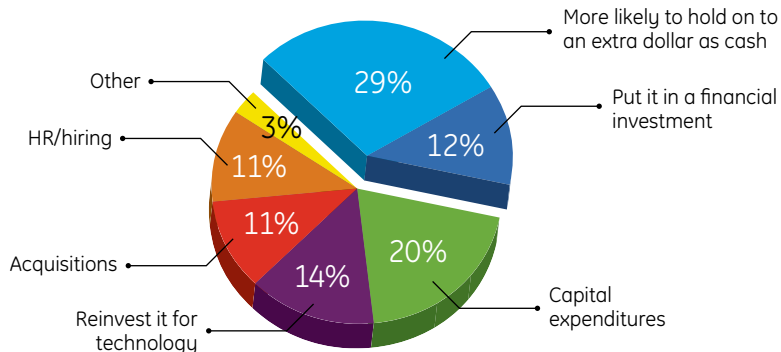
Confidence in the economy is a notable concern

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



Firms are cautious about future investment

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



Policy and regulation pose critical challenges

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

detailed research findings:

recent and expected growth

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

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

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

The 5.2% overall middle market revenue growth estimate exceeds that of S&P 500 firms by 10%, which is 4.7% for 2012.¹

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

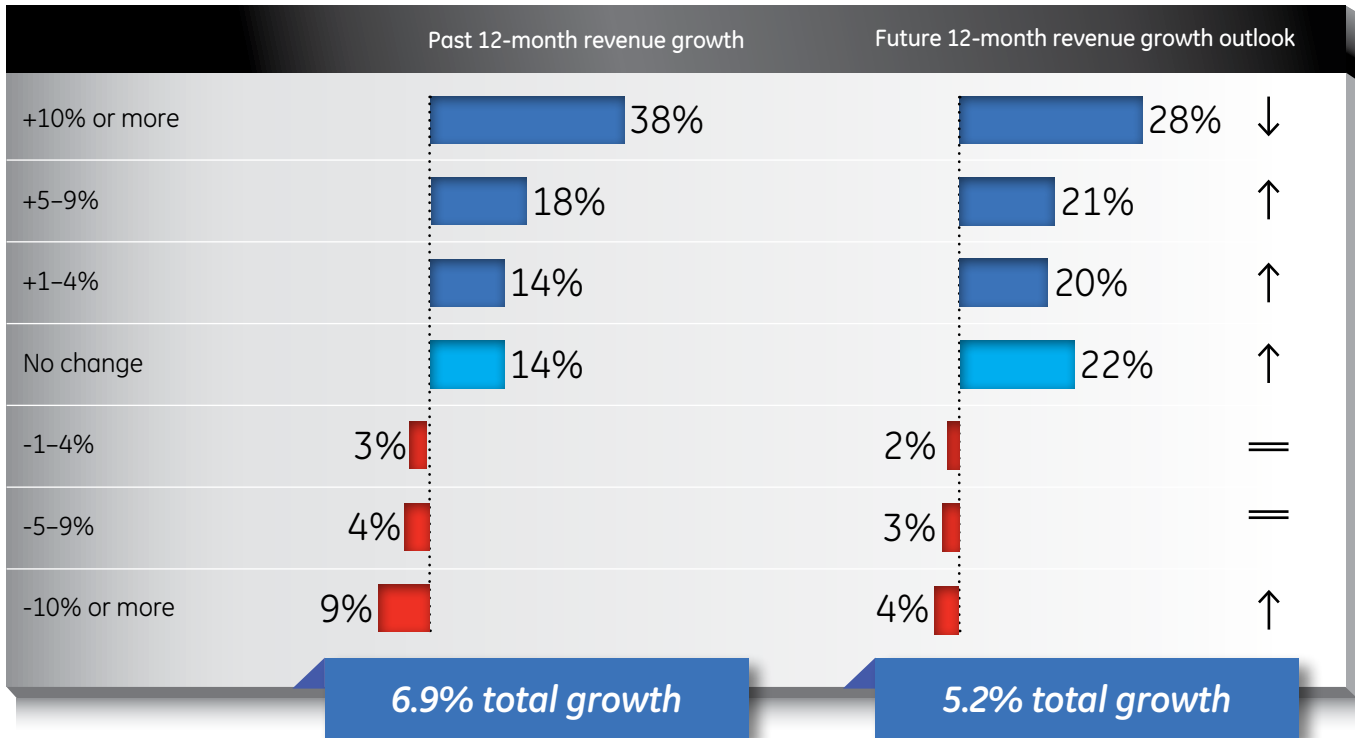
The moderation in growth is most pronounced among high-growth middle market firms. In 2011, 38% of respondents posted double-digit revenue increases and only 14% of companies in 2011 reported flat revenue. There are far fewer who expect double-digit increases in 2012. Only 28% do so, and the number of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

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

¹ Bloomberg

Revenue projections

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

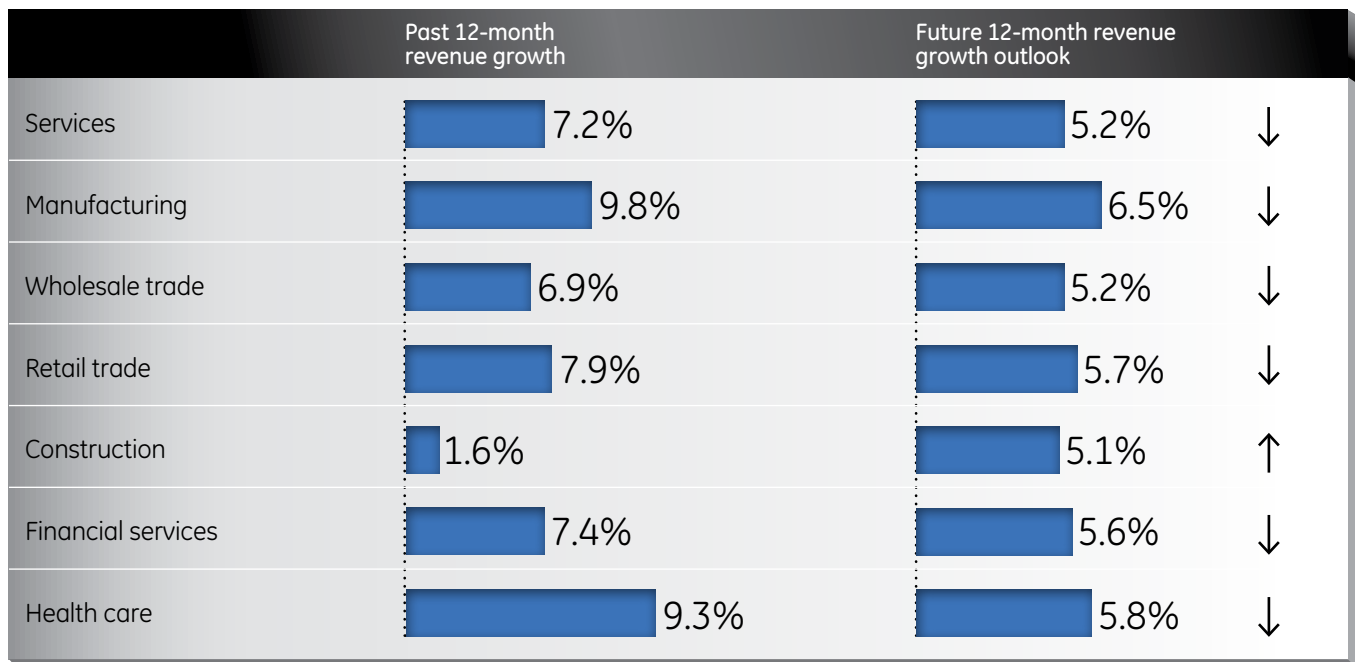


Base: Total respondents=1,002

Q1. What is the percentage of change in your company's current gross revenues compared to the same time period a year ago?

Q11a. How would you assess the next 12 months gross revenue growth on an annualized basis?

Industry revenue projections



confidence

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

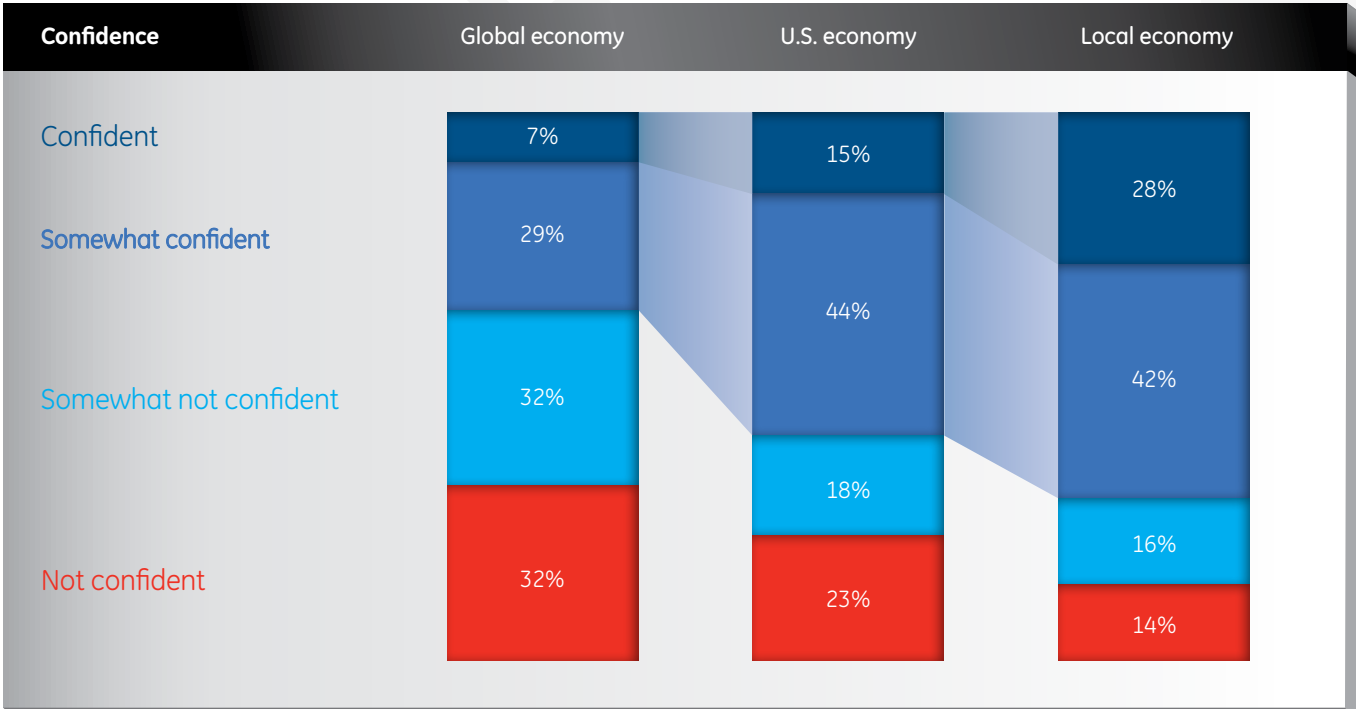
Almost a third (32%) of middle market companies have a high degree of uncertainty about the global economy, while only 7% say they are confident.

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

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

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

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



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

challenges

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

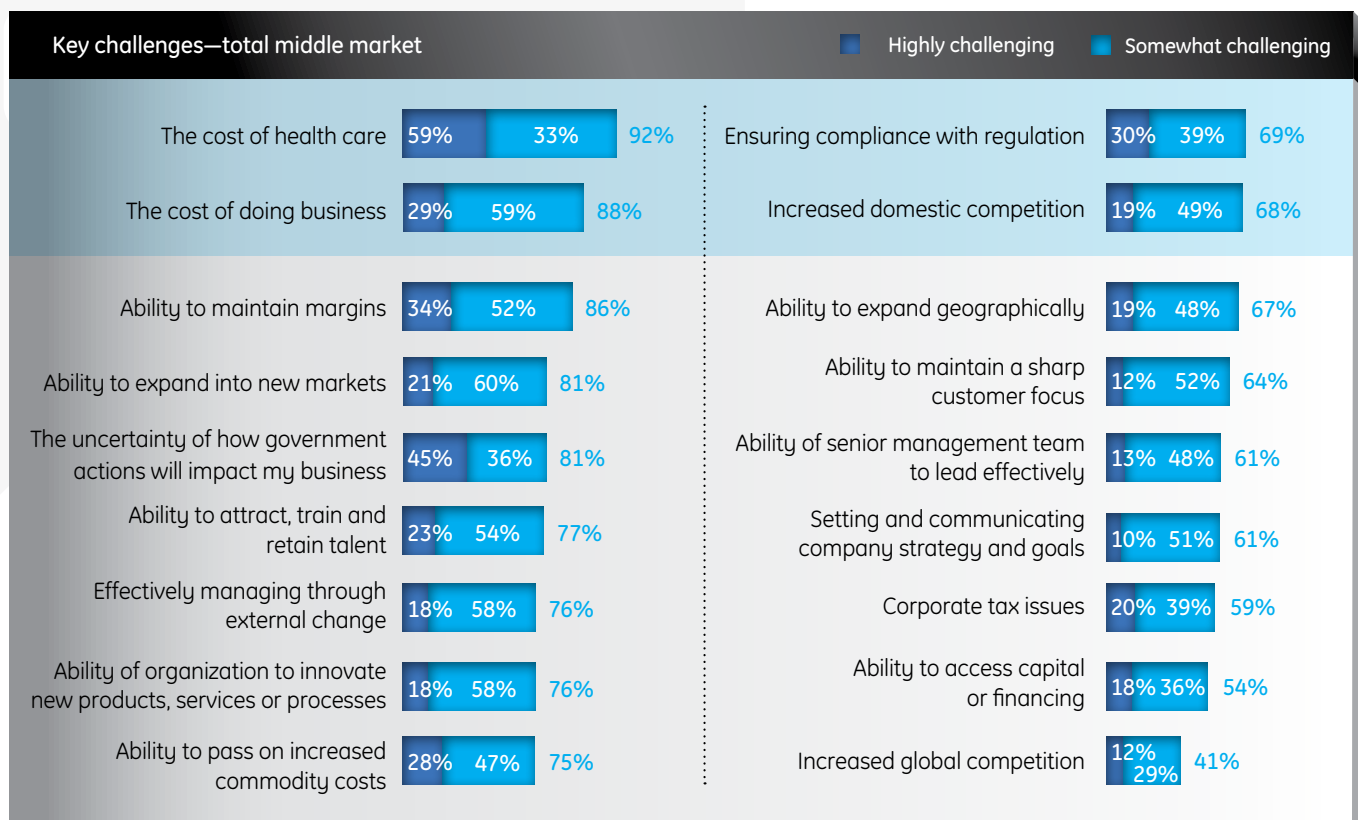
An overwhelming percentage (92%) of respondents, across all sectors, cited the cost of health care as a challenge. Fifty-nine percent categorized health care costs as “highly challenging”—the item ranked highest by the largest number of executive respondents. This concern is elevated the most among smaller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

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

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

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

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



Base: Total respondents=1,002

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

impact

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

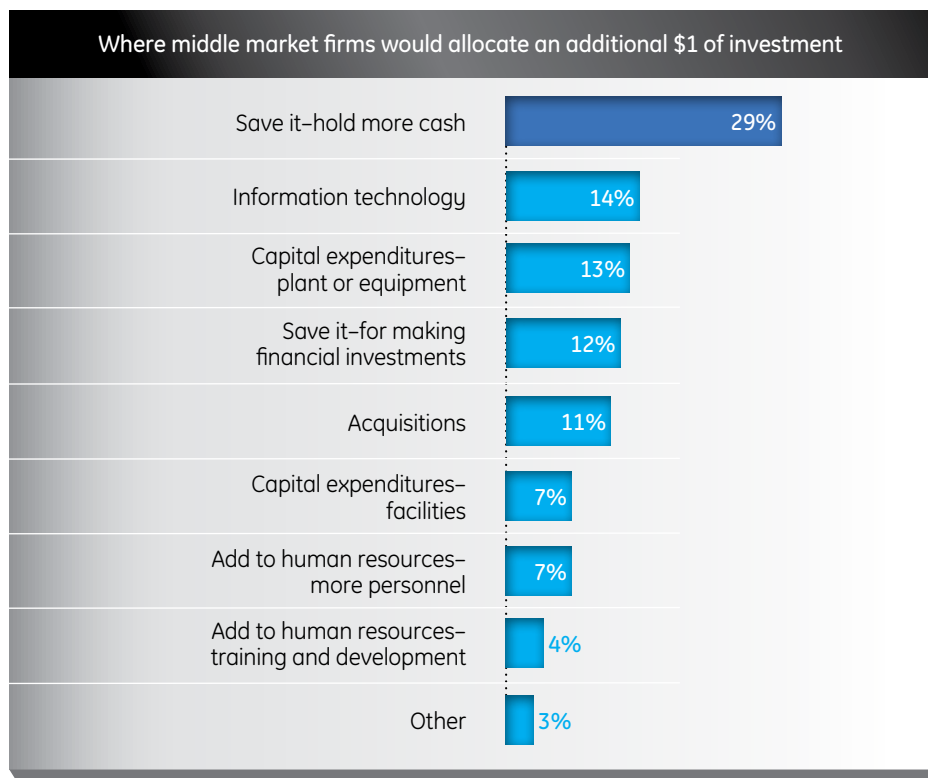
A plurality of companies say they are likely to simply hold on to excess cash; 41% of respondents say they will keep cash on hand in case they need it, rather than invest it in any equipment or staff. Construction companies were the most likely to stockpile cash; 53% of all respondents said they would set aside any additional income. That compares with 38% of manufacturers who said they would deploy any additional

cash into capital expenditures such as new equipment or facilities. The service sector was the sector most likely to show a willingness to hire, but even so, only 14% of those respondents said they would consider doing so with extra cash.

The lack of a commitment to hiring spells trouble for the U.S. economy, as the middle market companies proved to be a major job generator while the economy gathered steam in 2011. Middle market companies added jobs at a 1.5% rate².

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

2 U.S. Bureau of Labor Statistics



Base: Total respondents=1,002

Q12a. If you had an extra \$1 of investment where would you allocate it? (Please select one answer.)

conclusion

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

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

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



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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