KEY FINDINGS

2013 Chase Middle Market Business Leaders Outlook

OVERVIEW
Chase Commercial Banking surveyed senior business leaders at nearly 1,000 middle market (MM) companies with annual revenue between $20 million and $500 million in March 2013 to assess current business challenges, future expectations and issues affecting their strategic decision-making. The results show that sentiment toward the economy is one of guarded confidence, tempered by uncertainty surrounding the regulatory and political environments. Despite perceived challenges, business leaders remain confident in the future performance of their companies, are focused on growth and possess an upbeat global outlook.

ECONOMY
What is your outlook on the following for the next 12 months?

- The outlook of middle market businesses on the global economy reveals a neutral stance, with a slight increase in optimism and a significant decline in pessimism since 2012.
- Despite a less optimistic outlook this year, confidence levels increase closer to home: More than one-third of respondents are optimistic on the national economy, more than half express a positive view of their local economy and more than three-fourths are bullish regarding their own company’s performance.

- More than two-thirds of respondents cite revenue growth as the most critical challenge facing their business, up 4% from 2012.
- Other key challenges impacting MM companies include addressing regulatory requirements/changes (40%), managing labor costs (35%) and adjusting to the limited supply of skilled talent (28%).
- Although not named as a principal challenge, corporate or sub-chapter S taxes were selected by 20% of respondents and displayed a significant increase year over year.

TOP BUSINESS CHALLENGES
Top three most important challenges facing your business in 2013

- Revenue / sales growth
- Regulatory requirements
- Labor costs
- Talent
- Cost of commodities
- US competition
- Taxes
- Consumer confidence
- Foreign competition
BUSINESS PROJECTIONS AND GROWTH STRATEGIES

What are your expectations for your business in the next 12 months?

- Although confidence levels have waned slightly, respondents remain secure in the continued strong performance of their businesses with 74% of mid-sized companies projecting an increase in revenue/sales and 64% forecasting an uptick in profits.
- The bulk of companies are taking a cautious approach to capital expenditures and accessing credit. About one-third of respondents anticipate augmenting capital investments, and even fewer envision an increased need for credit.
  - For those companies planning expenditures, financing will be required primarily for capital equipment (36%), acquisitions (25%) and working capital (23%).
- Nearly 30% of mid-sized businesses report no need for financing in the next 12 months.
  - Increased revenue is the leading reason cited for not seeking financing (64%).
  - Other factors mitigating the need for credit include economic uncertainty (20%) and regulations/taxes (14%), both of which increased significantly year over year.

What is the primary focus of your company’s growth strategies over the next 12 months?
(Respondents could choose more than one option)

- The majority of respondents will focus their attention on attracting new customers (59%) and expanding their product and service offerings (54%), in line with growth strategies reported in 2012.
- Expansion is a less prevalent course for growth as 34% intend to expand domestically and 22% set their sights on global expansion.

INTERNATIONAL GROWTH

Do you have sales or operations outside the United States?
(Respondents could choose more than one option)
- 61% of middle market respondents are active in global markets, up from 58% in 2012 and 43% in 2011.
- Of the 39% of respondents not currently active in the international arena, 87% have no plans to become active in the next three years.
- 53% of respondents name direct exporting as the most common route of entry into foreign markets.
- Consistent with 2012 findings, the majority (70%) of respondents indicate access to new markets and customers is the primary purpose for their international activity.
- Results reveal that the main challenges companies face when conducting their business internationally are managing a global supply chain and mitigating currency risk.

**What percentage of your total sales comes from overseas?**

**What percentage of your total sales do you expect to come from overseas in five years?**

*Respondent 5-year projection

- 55% of middle market respondents expect to hire additional full-time employees and 66% intend to increase wages at least moderately (up 3% from 2012).
- Of note is the significant increase over prior years in plans to add part-time employees, perhaps reflecting trepidation to commit to full-time employees until there is more clarity around the impact of proposed healthcare mandates.
- An overwhelming majority (88%) named expected sales growth as the impetus for augmenting headcount.
- Increased efficiency (46%), worries about the sustainability of the economic recovery (42%) and uncertainties regarding regulations/government policies (42%) were identified as primary factors in the decisions to delay hiring plans.
**REGULATORY UNCERTAINTY**

Is the current regulatory environment making it easier or more difficult for small and mid-sized businesses to expand and hire workers?

- Nearly three-fourths of respondents feel the regulatory environment is having a negative impact on business growth and expansion. This sentiment is significantly more pervasive in 2013 than in prior years.
- Healthcare (81%) and fiscal policy (75%) are the key policies/regulations that respondents view as threats to their prospects for business growth.
- In-line with 2012 trends, more than two-thirds of middle market respondents believe that increased government focus on reducing the federal deficit and reducing regulations would best support the growth of MM companies.

Do you cover health insurance for employees? Are you considering dropping employer sponsored coverage and paying the penalty?

- Virtually all respondents provide healthcare for employees. Of those, nearly one-quarter are actively considering dropping employer coverage and paying the penalties as a cost-cutting measure, up from 20% reported in last year’s survey.
- Other actions businesses cited as taking to offset the higher costs of healthcare include imposing higher deductibles (68%) and shifting a greater percentage of the costs to employees (55%).