



RSM US MIDDLE MARKET **BUSINESS INDEX**

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE

Q4 2017



U.S. CHAMBER OF COMMERCE



RSM US MIDDLE MARKET BUSINESS INDEX

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE

RSM US LLP (RSM) and the U.S. Chamber of Commerce have joined forces to present the RSM US Middle Market Business Index (MMBI)—a first-of-its-kind middle market economic index developed by RSM in collaboration with Moody's Analytics. We publish the MMBI quarterly to give voice to the middle market and raise awareness of this crucial, yet underrepresented, segment of the economy.



U.S. CHAMBER OF COMMERCE





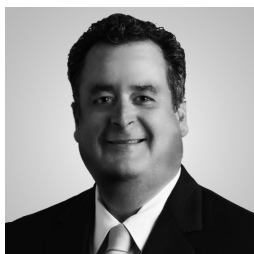
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RSM US MIDDLE MARKET BUSINESS INDEX POSTS NEW ALL-TIME HIGH

SOLID ECONOMIC GROWTH OFFSETS CONCERNS
ABOUT PROSPECTS FOR D.C. POLICY REFORMS

RSM US LLP **CHIEF ECONOMIST**



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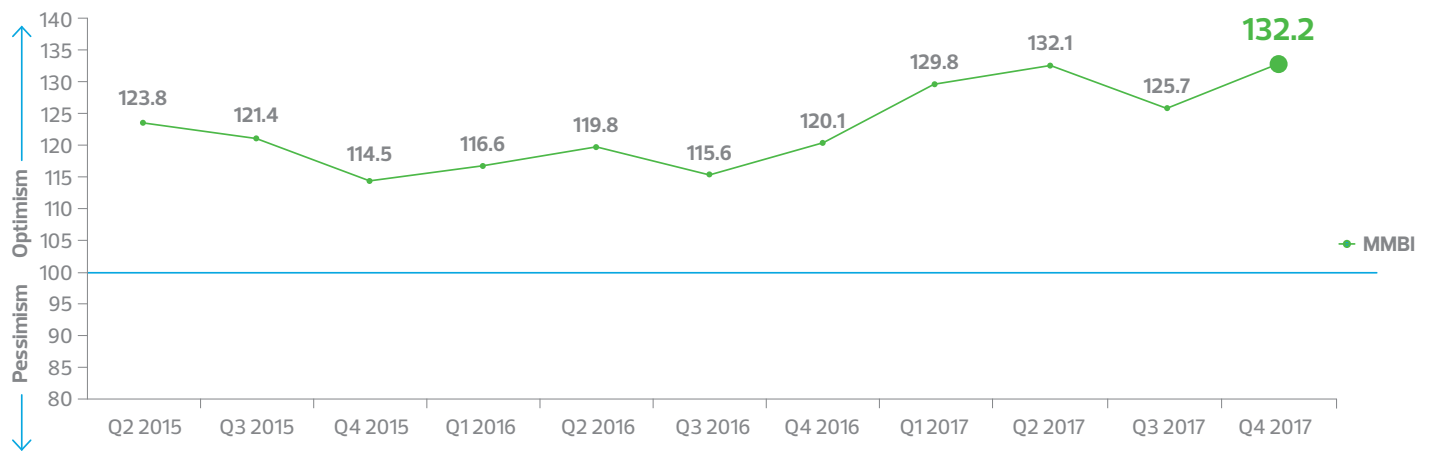


The RSM US Middle Market Business Index (MMBI) posted a new all-time high of 132.2 in the fourth quarter as the U.S. economy gains momentum heading into 2018. This suggests the decline to 125.7 in the third quarter was linked to the middle market's diminished views at the time the survey was conducted about prospects for broader economic policy reforms. Meanwhile, the pickup in economic activity in the third quarter, and strength demonstrated thus far in the final three months of the year, have helped offset lingering concerns about the prospects for meaningful policy reforms in Washington D.C.

“Mid-market employers are increasingly looking to hire new employees and raise wages. Coupled with the benefits of enacting pro-growth tax reform, this is very good news for the economy and American families.”

— Neil Bradley, Senior Vice President and Chief Policy Officer, U.S. Chamber of Commerce

RSM US Middle Market Business Index (MMBI)



Source: RSM US LLP



RSM US LLP and *Harris Poll* have collected data on middle market firms from quarterly surveys that began in the first quarter of 2015. The survey is conducted four times a year, in the first month of each quarter: January, April, July and October. The survey panel, the Middle Market Leadership Council, consists of 700 middle market executives, and is designed to accurately reflect conditions in the middle market. The data for each quarter are weighted to ensure that they correspond to the U.S. Census Bureau data on the basis of industry representation.

A reading above 100 for the MMBI indicates that the middle market is generally expanding; below 100 indicates that it is generally contracting. The distance from 100 is indicative of the strength of the expansion or contraction.

RSM US MIDDLE MARKET BUSINESS INDEX POSTS ALL-TIME HIGH

MMBI REBOUNDS AS ECONOMIC FUNDAMENTALS IMPROVE

by **Joe Brusuelas**, Chief Economist, RSM US LLP

The RSM US Middle Market Business Index posted a new high of 132.2 in the fourth quarter as the U.S. economy gains momentum heading into 2018. This suggests the decline to 125.7 in the third quarter was linked to the middle market's diminished views at the time the survey was conducted about prospects for broader economic policy reforms. Meanwhile, the pickup in economic activity in the third quarter, and strength demonstrated thus far in the final three months of the year, have helped offset lingering concerns about the prospects for policy reforms in Washington D.C.

A major area of concern continues to be the status of prospective tax reform. If the House and Senate are unable to reach a workable reconciliation between their respective plans, it will likely deflate the gross revenue and net earnings expectations for the middle market and, in turn, affect the topline business index.

Not surprisingly, a full two-thirds of middle market executives expect gross revenues to improve over the next six months, while 64 percent indicated they anticipate net earnings to improve. This, in addition to the strong outlook on middle market hiring and compensation, reflects the strong fundamental economic data across a number of industries as well as prospects for improved spending during the critical holiday shopping season.

Overall, business conditions in the middle market remain strong. This is further supported by the direction of hiring and compensation expectations during the next six months, which are positive. Middle market businesses

indicated that they continue to carefully manage their labor force. Even so, the data points toward a solid expansion in hiring over the next six months. Results of the survey show businesses stand ready to increase compensation to compete for increasingly scarce workers in what is now the tightest labor market in a generation.

In terms of pricing expectations, businesses say they are facing a modest increase in prices paid and intend to pass at least some costs on to customers. While the pricing environment will likely be constrained by global competition, the survey trend during the past few quarters indicates that prices paid are clearly on the upswing as the condition of the overall international economy has improved this year. Many basic commodities, ranging from oil to copper to lumber, have not only seen prices rise, but have established significant recoveries in demand during the past 12 months. A full 63 percent of middle market executives indicated that they expect to pay more for goods and services during the next six months, while 58 percent stated they anticipate receiving more for goods they sell downstream.

To be clear, price movements are likely a reflection of three developments. First, the initial stirrings of inflation, which have now pushed the consumer price index (CPI) to 2 percent, are in line with the U.S. Federal Reserve's inflation target. This indicates that prices paid for basic inputs and finished goods are likely to rise in coming months. Second, after the major hurricanes in the third quarter of 2017, there are indications of supply shortages in finished materials used in housing construction, auto



production and basic infrastructure, which will likely push prices higher in the near-term. Third, a global synchronous recovery is underway, driven in part by resurgent growth in the European Union, India and emerging markets.

These factors have coalesced to put upward pressure on demand for raw materials used in earlier stages of production and finished goods across the international economy, which will impact the inflation outlook for the U.S. and global middle market businesses. We anticipate pricing will be an increasingly important part of the economic narrative for the middle market in 2018.

The middle market continues to manage inventories carefully. Just under a third of all survey respondents report improvement in building stock levels, while 41 percent indicated that they expect to do so over the next six months. While borrowing conditions remain relatively stable, there were modest improvements in current and future expectations going forward.

Finally, in addition to the standing current and forward-looking expectations questions on fixed business investment, this quarter RSM included a set of special questions on capital expenditures. In the current quarter, outlays on software, equipment and intellectual capital remained relatively unchanged. In the six months ahead questions, 52 percent of middle market executives indicated that they expect to increase outlays compared with 46 percent in the previous quarter.

In the special question section on capital expenditures, 44 percent of middle market firms indicated that they intend to increase outlays to maintain core business operations, with the primary reasons being to enhance effectiveness or efficiencies of labor-saving technologies. Executives stated that computer software and hardware, machinery and equipment were the top targets for investment. Meanwhile, more than 90 percent of survey respondents indicated that their current capital expenditures are sufficient to meet marketplace demand.

Even more encouraging is that 73 percent of middle market businesses indicated that they did not defer capital expenditures during the past 12 months. However, 42 percent of respondents said they expect capital expenditures to remain flat during the next 12 months, while 9 percent expect them to decline and 5 percent anticipate making no capital expenditures at all. Given the acceleration of the integration of advanced technology—big data, artificial intelligence and machine learning—into the production of goods and provision of services into the economy, this represents both an opportunity and risk for the middle market going forward.

While the topline data affirms that the middle market is well-positioned heading into 2018, the risk matrix around competing in a dynamic global economy will continue to revolve around investments in intellectual capital, intellectual property, software and equipment for the foreseeable future. When it comes to making current and forward-looking capital expenditure decisions, middle market businesses might want to consider asking the following question: Are we making decisions that are transitional or transformational?

MIDDLE MARKET LEADERSHIP COUNCIL SURVEY: CURRENT PERCEPTIONS AND FUTURE EXPECTATIONS

METHODOLOGY

WHO

- A total of 700 senior executives were recruited by Harris Poll via phone using a Dun & Bradstreet (D&B) sample
- These 700 panel members were invited by Harris Poll to participate in four surveys in a one-year period
- 400 executives completed the survey, which was conducted between Oct. 10 and Nov. 3, 2017
- All middle market executives were qualified as:
 - U.S. full-time senior executive decision-maker
- Selected industries:
 - Agriculture, forestry, fishing and hunting; mining, quarrying, and oil and gas extraction; utilities; construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; finance and insurance; real estate and rental and leasing; professional, scientific, and technical services; administrative and support and waste management and remediation services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; other services (except public administration)

- Nonfinancial or financial services company revenue \$10 million–\$1 billion
- Financial institution represented by AUM \$250 million–\$10 billion
- Involved or responsible for business strategy or financial management strategy

WHEN

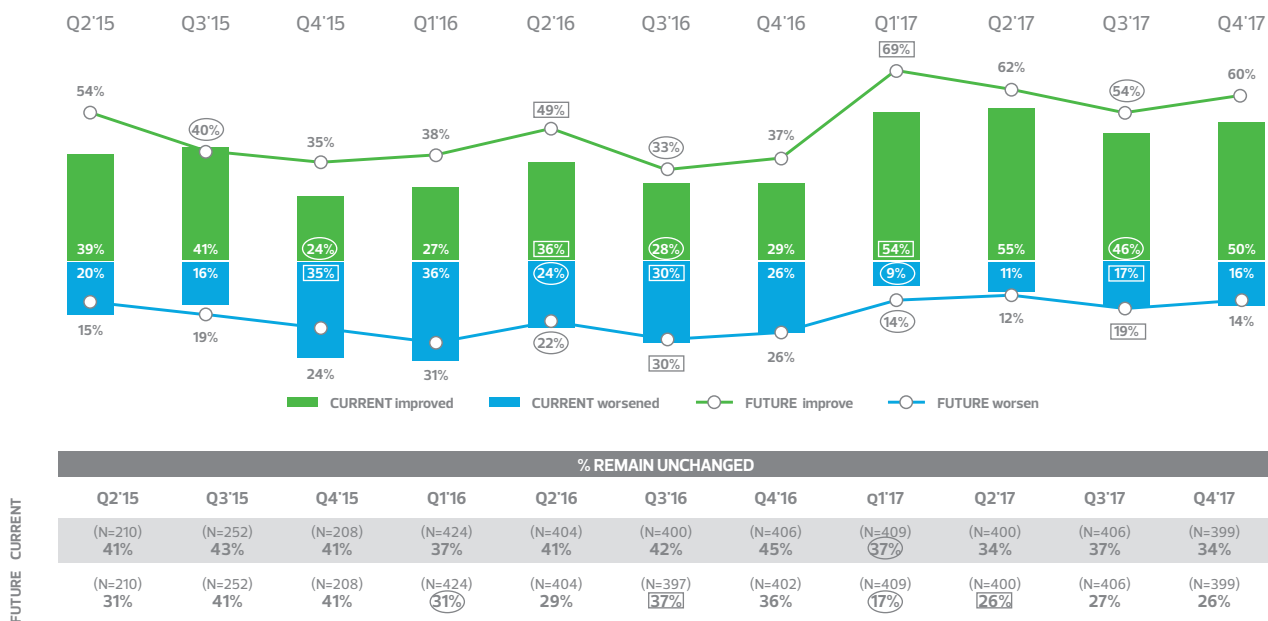
- Interviews conducted on a quarterly basis over a 12-month period

HOW

- Potential middle market executives were emailed a link to an online survey
- Follow-up calls were made to middle market executives who did not respond to the online survey; they were given the option to complete the survey via telephone

GENERAL ECONOMY PERFORMANCE

Perceptions of the general economy in the fourth quarter increased slightly compared with last quarter. Positive expectations for the next six months rose to 60 percent, while negative expectations for the next six months decreased slightly.

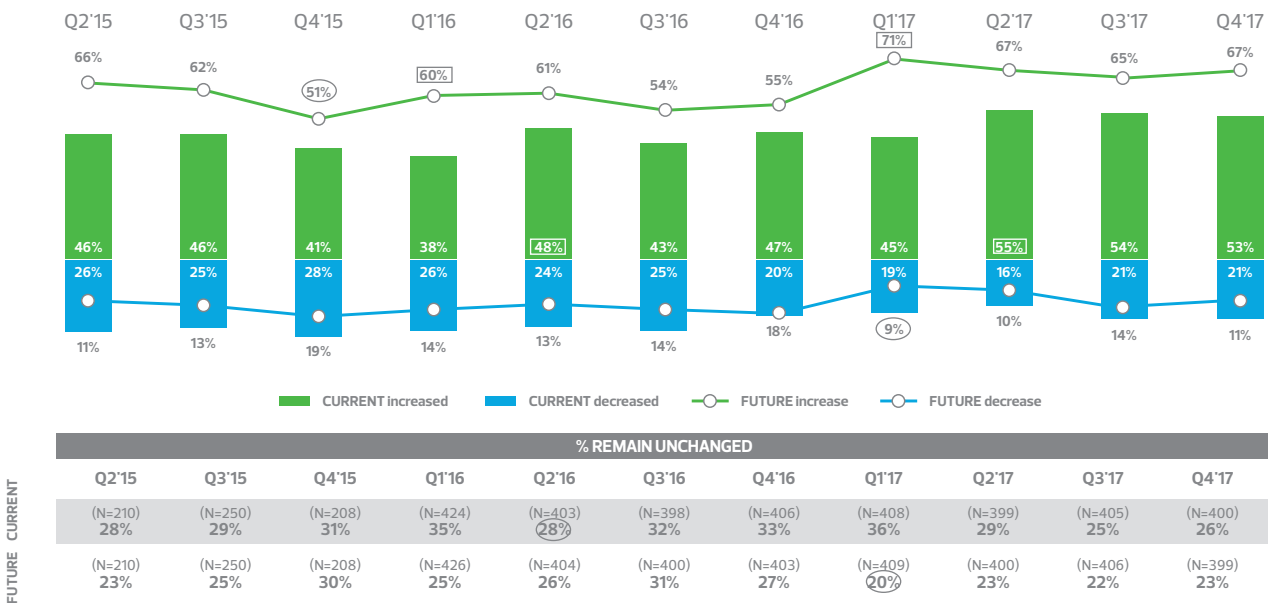


- First, thinking about the general economy this quarter versus last quarter, how would you describe the current general economy? Would you say the general economy has...
- What are your expectations regarding the general economy over the next six months? Do you expect the general economy will...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

GROSS REVENUE PERFORMANCE

Gross revenue expectations are on par with the previous two quarters, with two-thirds of all middle market executives expecting better performance during the next six months.

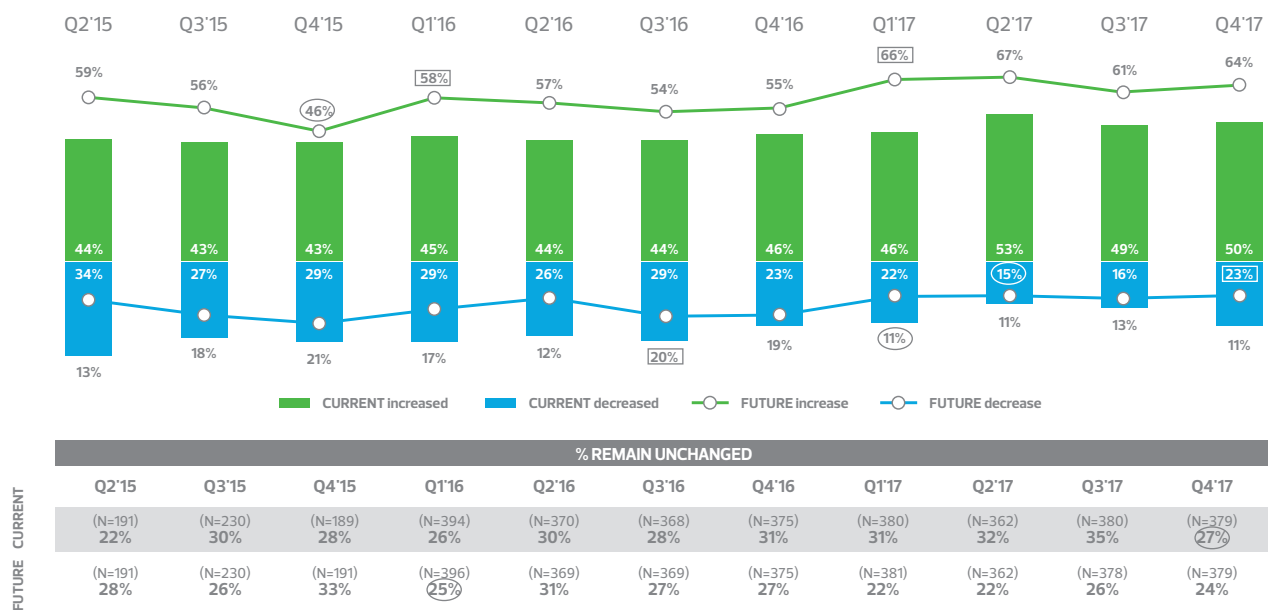


- Thinking about your organization's gross revenues/all incoming funds this quarter versus last quarter, how would you describe current gross revenues/all incoming funds? Would you say gross revenues/all incoming funds have ...
- What are your expectations regarding your organization's gross revenues/all incoming funds over the next six months? Do you expect gross revenues/all incoming funds to ...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

NET EARNINGS PERFORMANCE

Half of businesses in the fourth quarter indicated net earnings increased in the current period, while significantly more (23 percent versus 16 percent prior) said earnings declined.

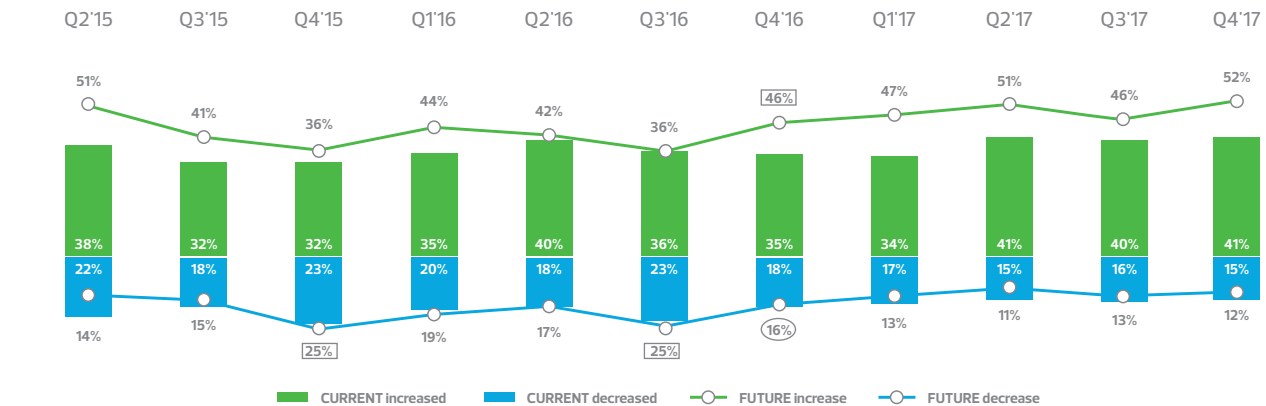


- Thinking about your organization's net earnings (after expenses, etc.) for the most recent quarter results versus the prior quarter results, how would you describe the level of your most recent quarter net earnings results? Would you say net earnings results have ... (among those not nonprofits)
- What are your expectations regarding your organization's net earnings results (after expenses, etc.) over the next six months? Do you expect net earnings results to ... (among those not nonprofits)

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

The percentage of businesses anticipating increasing capital investments, rose to a new cyclical high (52 percent) in the fourth quarter.



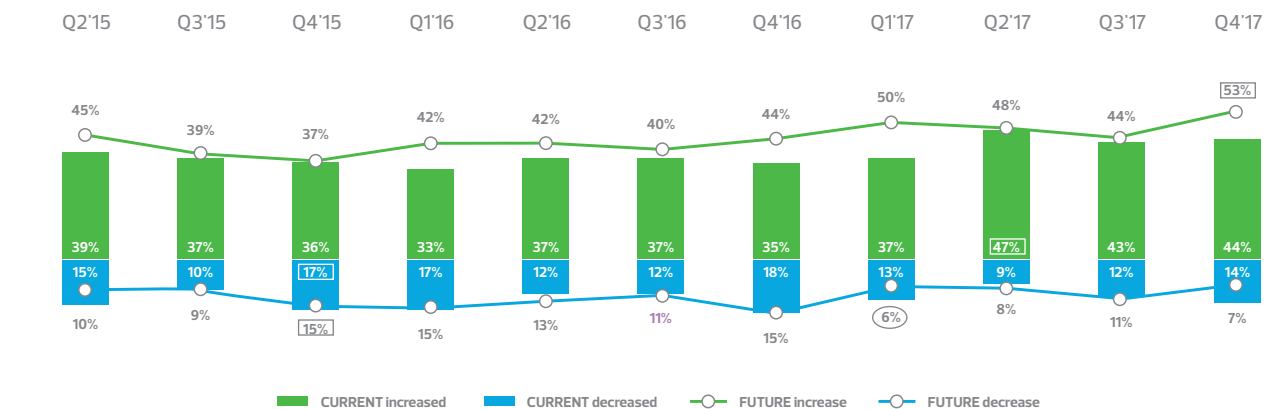
		% REMAIN UNCHANGED										
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
		(N=209) 40%	(N=250) 50%	(N=207) 45%	(N=424) 45%	(N=403) 42%	(N=399) 41%	(N=404) 47%	(N=407) 49%	(N=398) 44%	(N=405) 44%	(N=397) 44%
		(N=210) 35%	(N=252) 44%	(N=207) 39%	(N=425) 37%	(N=404) 42%	(N=400) 39%	(N=405) 37%	(N=407) 40%	(N=399) 38%	(N=405) 41%	(N=398) 36%

- Thinking about your organization's aggregate capital expenditures or investments this quarter versus last quarter, how would you describe your organization's current capital expenditures/investments? Would you say capital expenditures/investments have ...
- What are your expectations regarding your organization's aggregate capital expenditures or investments over the next six months? Would you say capital expenditures/investments will ...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

OVERALL HIRING LEVELS

Businesses anticipating an increase in hiring levels for the next six months rose sharply to 53 percent, a new cyclical high, while readings for the fourth quarter compared with the prior quarter remained steady (44 percent versus 43 percent prior).



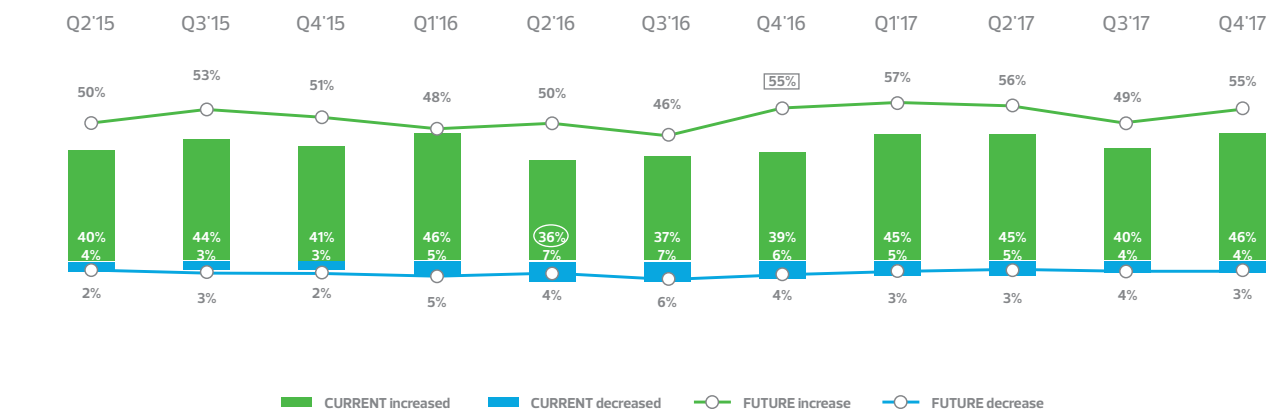
		% REMAIN UNCHANGED										
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
		(N=210) 46%	(N=251) 53%	(N=209) 47%	(N=426) 51%	(N=404) 51%	(N=400) 51%	(N=405) 47%	(N=409) 50%	(N=400) 44%	(N=406) 45%	(N=400) 42%
		(N=210) 45%	(N=251) 48%	(N=209) 48%	(N=426) 43%	(N=404) 44%	(N=400) 50%	(N=405) 41%	(N=409) 43%	(N=400) 44%	(N=406) 45%	(N=399) 40%

- Thinking about your organization's overall hiring levels this quarter versus last quarter, how would you describe your current hiring levels? Would you say hiring levels have ...
- What are your expectations regarding your organization's overall hiring levels over the next six months? Do you expect hiring levels to ...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

EMPLOYEE COMPENSATION

Compensation levels, both present and six months ahead, showed directional increases from the previous quarter.



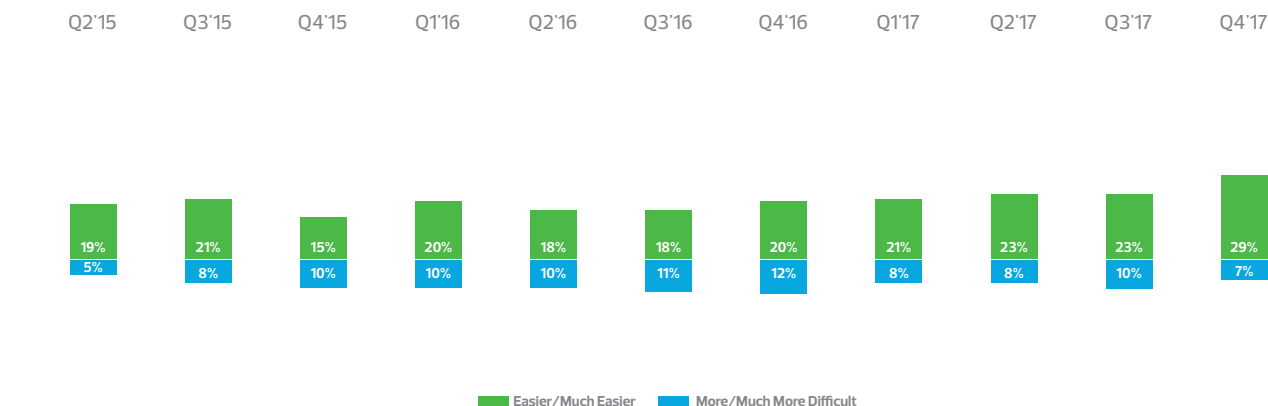
		% REMAIN UNCHANGED										
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
		(N=210) 56%	(N=252) 53%	(N=208) 56%	(N=424) 49%	(N=403) 57%	(N=399) 56%	(N=406) 55%	(N=407) 50%	(N=400) 49%	(N=404) 56%	(N=400) 50%
		(N=209) 48%	(N=252) 44%	(N=208) 47%	(N=426) 48%	(N=404) 46%	(N=400) 48%	(N=406) 40%	(N=409) 40%	(N=400) 41%	(N=405) 47%	(N=400) 42%

- Thinking about employee compensation at your organization this quarter versus last quarter, how would you describe the current employee compensation level on average? Would you say employee compensation, on average, has...
- What are your expectations regarding your organization's employee compensation over the next six months? Would you say employee compensation, on average, will...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

ACCESS TO CREDIT

Similar to previous quarters, middle market businesses reported access to credit increased slightly.



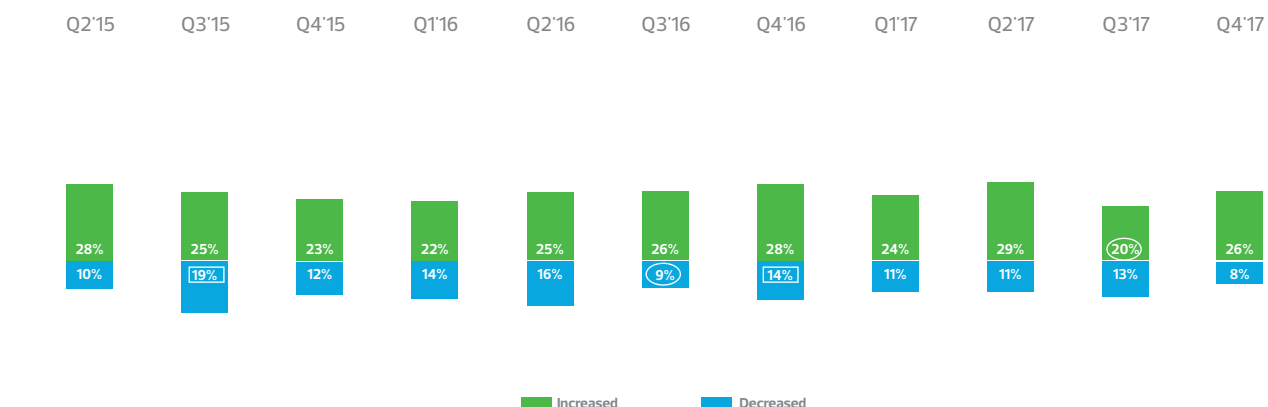
		% REMAIN UNCHANGED										
CURRENT		Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
		(N=210)	(N=247)	(N=202)	(N=420)	(N=398)	(N=394)	(N=397)	(N=405)	(N=394)	(N=400)	(N=397)
		76%	71%	75%	70%	72%	71%	69%	71%	69%	68%	64%

- Thinking about the availability or ease with which your organization can borrow money this quarter versus last quarter, how would you describe current access to credit? Would you say that accessing credit is...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

PLANNED BORROWING

Planned borrowing increased slightly versus the previous quarter.



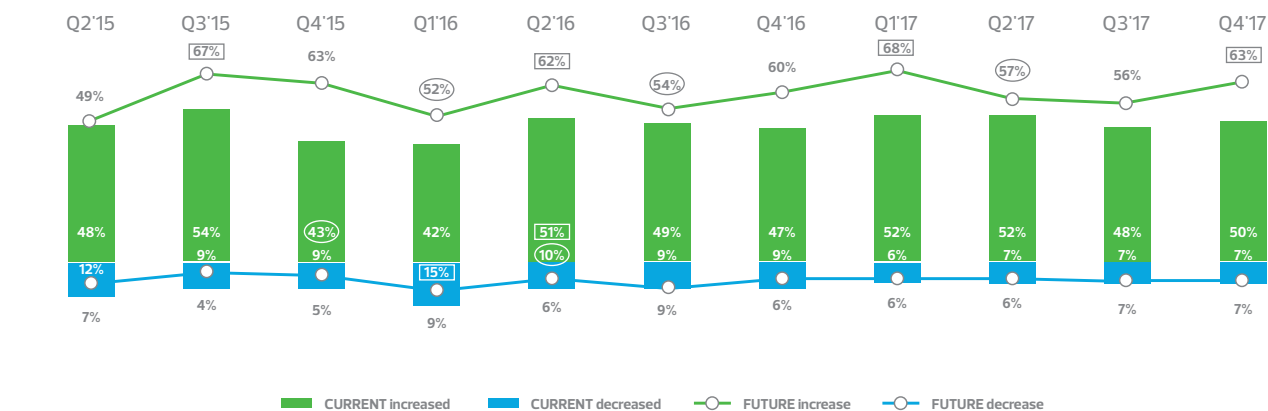
% REMAIN UNCHANGED										
Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
(N=209) 61%	(N=251) 56%	(N=203) 64%	(N=419) 64%	(N=401) 59%	(N=399) 65%	(N=400) 58%	(N=406) 65%	(N=396) 60%	(N=400) 68%	(N=398) 66%

What are your expectations regarding your organization's planned borrowing over the next six months? Would you say your organization's borrowing will ...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

AMOUNT PAID FOR GOODS AND SERVICES (EXCEPT LABOR)

Significantly more businesses are expecting the amount paid for goods and services to increase during the next six months (63 percent versus 56 percent prior).



% REMAIN UNCHANGED										
Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
(N=209) 40%	(N=252) 37%	(N=208) 48%	(N=426) 43%	(N=401) 39%	(N=399) 42%	(N=406) 44%	(N=408) 43%	(N=399) 41%	(N=405) 45%	(N=400) 42%
(N=210) 44%	(N=252) 29%	(N=208) 32%	(N=426) 38%	(N=403) 33%	(N=399) 37%	(N=406) 34%	(N=407) 26%	(N=399) 36%	(N=404) 37%	(N=400) 29%

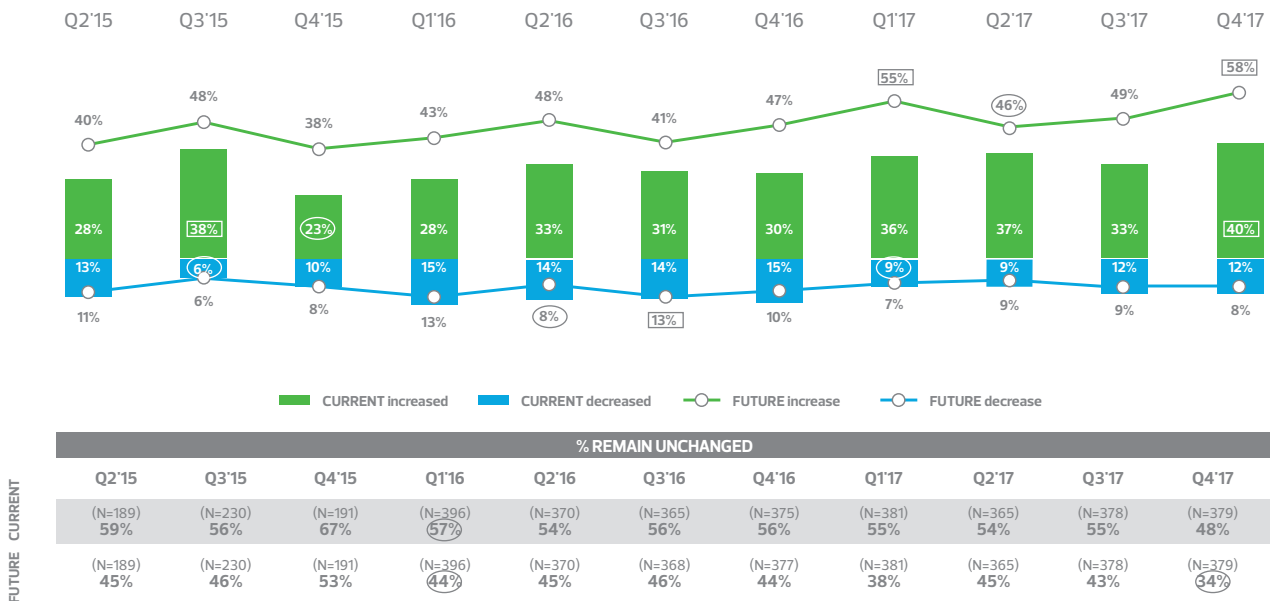
Thinking about the prices that your organization pays for all goods and services, except labor, this quarter versus last quarter, how would you describe the current general level of prices paid? Would you say prices paid, on average, have ...

What are your expectations regarding the general level of prices that your organization will pay for all goods and services, except labor, over the next six months? Would you say prices paid, on average, will ...

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

AMOUNT RECEIVED FOR GOODS AND SERVICES

Future expectations for the amount received for goods and services also rose significantly in the fourth quarter (58 percent versus 49 percent prior).

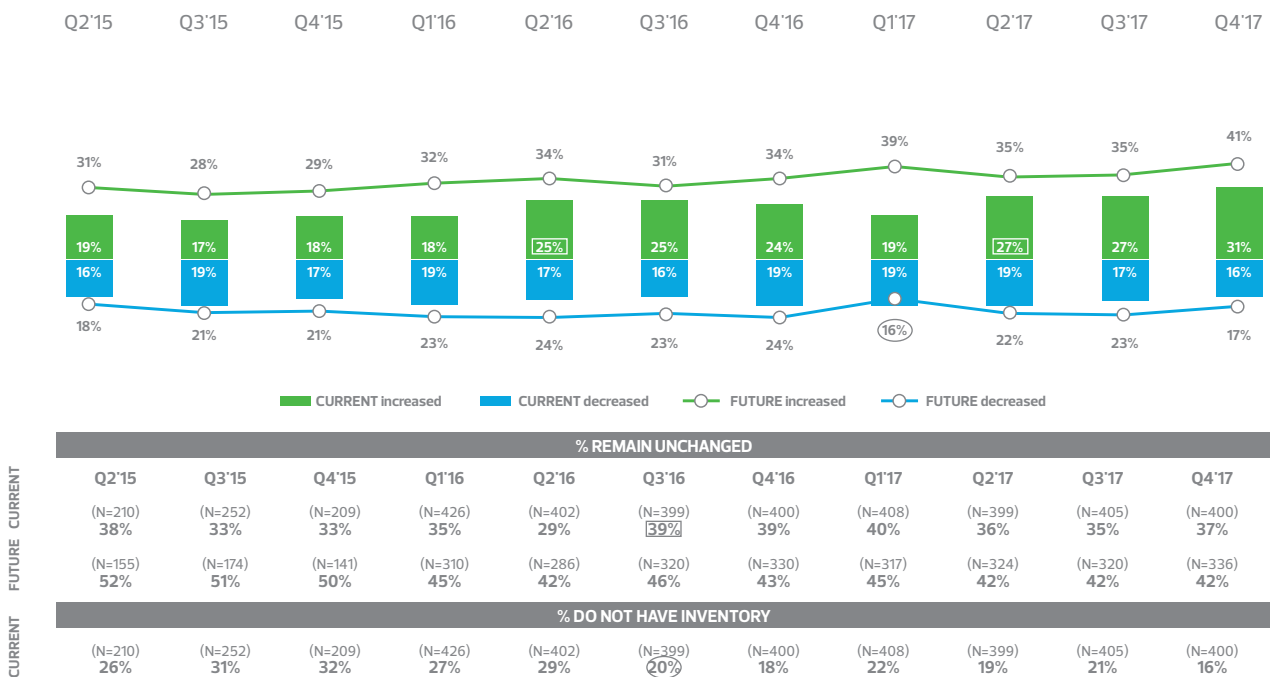


- Thinking about the prices that your organization received for all of its goods and services this quarter versus last quarter, how would you describe the current general level of prices received? Would you say prices received by your organization, on average, have ... (among those not nonprofits)
- What are your expectations regarding the general level of prices that your organization will receive for all goods and services over the next six months? Would you say the prices received by your organization, on average, will ... (among those not nonprofits)

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

INVENTORY LEVELS

Inventory level expectations increased, both for the current period and the next six months, in the fourth quarter.



- Thinking about your organization's inventory levels this quarter versus last quarter, how would you describe current inventory levels? Would you say inventory levels have ...
- What are your expectations regarding your organization's planned inventory levels over the next six months? Would you say your inventory levels will ... (among those that have inventory)

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively.

2018 MIDDLE MARKET M&A ACTIVITY TO REMAIN STEADY

ONE-THIRD SAY ACQUISITIONS LIKELY OR SOMEWHAT LIKELY

The fourth quarter RSM US Middle Market Leadership Council forward-looking special question on mergers and acquisitions (M&A) indicates activity among middle market businesses will remain solid. One-third (33 percent) of middle market executives say their company is likely or somewhat likely to acquire another company during the next 12 months.

The data show that larger companies are more likely (19 percent for companies in the \$50 million to \$1 billion revenue range compared with 9 percent for companies in the \$10 million to under \$50 million range) to acquire a company. Those companies reporting that they are somewhat likely to acquire another company are more evenly distributed (20 percent for larger companies versus 22 percent for smaller companies).

While 72 percent of executives said they are unlikely to merge with or be acquired by another organization, 18 percent reported that they are likely or somewhat likely

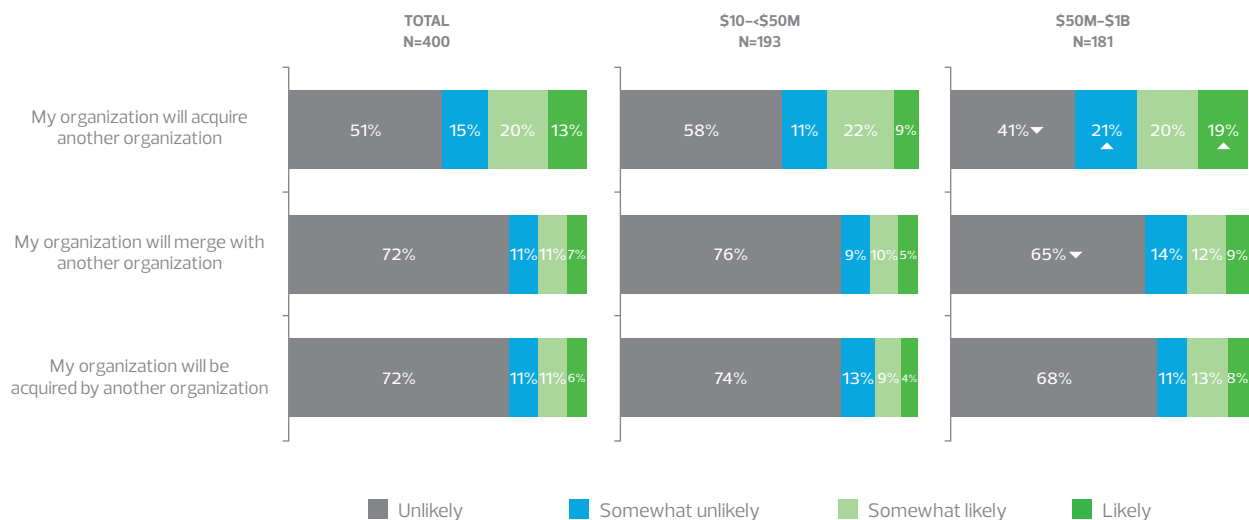
to merge with another organization and 17 percent said they are likely or somewhat likely to be acquired.

While total M&A deal flow and volumes are down so far this year versus 2016, Michael Fanelli, a partner in the transaction advisory services at RSM US LLP, said some of that may be due to general policy and regulatory uncertainty surrounding major policy outcomes, such as tax reform, which was reflected in the third quarter decline in the RSM US Middle Market Business Index (MMBI). "We're going through a transition right now where we think tax reform is going to happen," Fanelli said. "Warren Buffet recently came out and said, 'Why would I sell something this year and pay \$350 million in taxes when I could sell it next year and pay \$250 million in taxes?'"

Meanwhile, this data surrounding M&A plans, along with the increase in the fourth quarter MMBI to a new cyclical high, bodes well for middle market deal activity going forward.

LIKELIHOOD OF MERGER AND ACQUISITION ACTIVITIES DURING NEXT 12 MONTHS

One third of middle market executives report they are likely or somewhat likely to acquire another company in the next 12 months.



Please indicate how likely each of the following merger and acquisition activities are for your organization during the next 12 months.

ARROWS = Significantly higher/lower than \$10M-\$50M
Note that arrows used here differ from arrows in other charts

MIDDLE MARKET LEADERSHIP COUNCIL SURVEY SPECIAL QUESTIONS

TRANSITIONAL OR TRANSFORMATIONAL: CAPITAL EXPENDITURE SURVEY SHOWS CHALLENGES FACED BY MIDDLE MARKET

by **Joe Brusuelas**, Chief Economist, RSM US LLP

The fourth quarter RSM US Middle Market Leadership Council Survey asked a special set of questions surrounding outlays on capital expenditures or purchases of equipment, software and intellectual property. While the data affirms that the middle market continues to engage in capital expenditures to effectively meet current demand, the survey also suggests that the quickly changing environment in innovation and productivity will likely present significant challenges to middle market businesses in the medium term.

The integration of advanced technology—big data, artificial intelligence and machine learning—is rapidly altering the nature and type of capital expenditures necessary to remain competitive. With a majority of firms indicating that they intend to keep capex either flat, unchanged or decrease during the next 12 months, the risks to the outlook could rapidly shift if middle market businesses fall behind the curve with respect to outlays on equipment, software and intellectual property.

While nine out of 10 firms believe that their organization's capital investments and expenditures are sufficient to meet current demand, the concern is whether this reflects a sense of complacency creeping into the business outlook. When it comes to business-level decisions on capital expenditures, perhaps the necessary question that needs to be asked is: Are middle market businesses making transitional decisions, or transformational decisions that will facilitate the ability to anticipate, adapt and drive downstream demand going forward?

A majority of middle market executives in our survey said they would either slow, make no change or reduce outlays in critical business investments during the next 12 months, while data covering the broader economy shows a strong and increasing trend in spending on productivity-enhancing equipment and software.

About 44 percent of firms indicated they are likely to increase the overall level of capital expenditures during the next 12 months, which is consistent with the 52 percent of respondents who indicated they would step up outlays during the next six months in our topline RSM US Middle Market Business Index (MMBI) survey. However, one-quarter of respondents indicated that they delayed or

deferred capital investments during the past year with small firms pointing toward difficulties in obtaining capital, political or economic uncertainty, a planned deal falling through or a softening of demand as primary reasons. Larger middle market businesses identified changes in the regulatory environment, uncertainty over tax reform, the economy, anticipated funding and a change in the strategic direction of the firm as causes of delaying capital investments.

To put this in perspective, during the past year overall fixed business investment spending is up 6.3 percent and nonresidential business outlays are up 5.8 percent. However, outlays in equipment are up 7.4 percent, while spending on computers and peripheral equipment are up 17.7 percent. Spending on software is up 5.5 percent, research and development 3.8 percent, and outlays on overall intellectual property products 4.6 percent. Spending on equipment is up 6.2 percent, industrial equipment 8.6 percent, transportation equipment 1.5 percent and a broader aggregate of equipment jumped 8.1 percent.

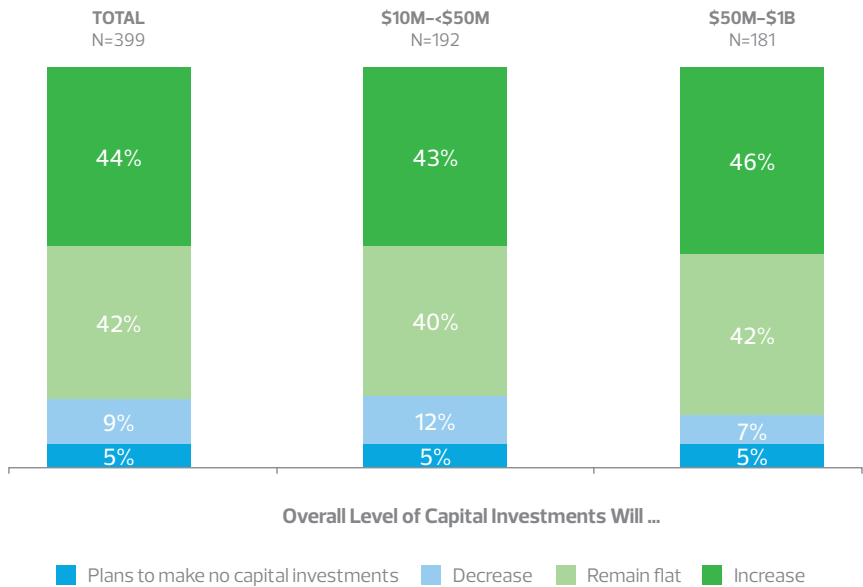
The varied performance of the survey data suggest that the middle market may face increasing competitive challenges just over the horizon.

Where firms anticipate making capital expenditures, trends somewhat mirror those in the overall economy: outlays on computer hardware, machinery and equipment, software, buildings, vehicles and furniture. Smaller middle market businesses with revenues between \$10 and \$50 million are more likely to engage in the purchase or lease of productivity-enhancing investments. However, larger businesses are more likely to allocate a greater proportion of investment dollars to build, create or replace outdated capital investments. Smaller businesses are willing to allocate a larger proportion of dollars to buy, enhance or upgrade existing assets.

While we prefer to focus on systematic and time-series data, the anecdotal evidence from the survey tends to reinforce our view that the tightening labor market, policy and financial market uncertainty tend to be the significant barriers to increased capital investments for middle market businesses. Growing competition, which tends to restrict pricing power, and current and future constraints on available funding may contribute to an uneven outlook on future capital investments and expenditures for the middle market.

ORGANIZATION'S PLANS REGARDING OVERALL LEVEL OF CAPITAL INVESTMENT/ EXPENDITURE OVER NEXT 12 MONTHS

Forty-four percent of middle market businesses say they are likely to increase the overall level of capital investments during the next 12 months.



· Which of the following best describes your organization's plans regarding the overall level of capital investment or expenditure over the next twelve months?

PROPORTION OF TOTAL PLANNED INVESTMENT DOLLARS IN FOLLOWING AREAS

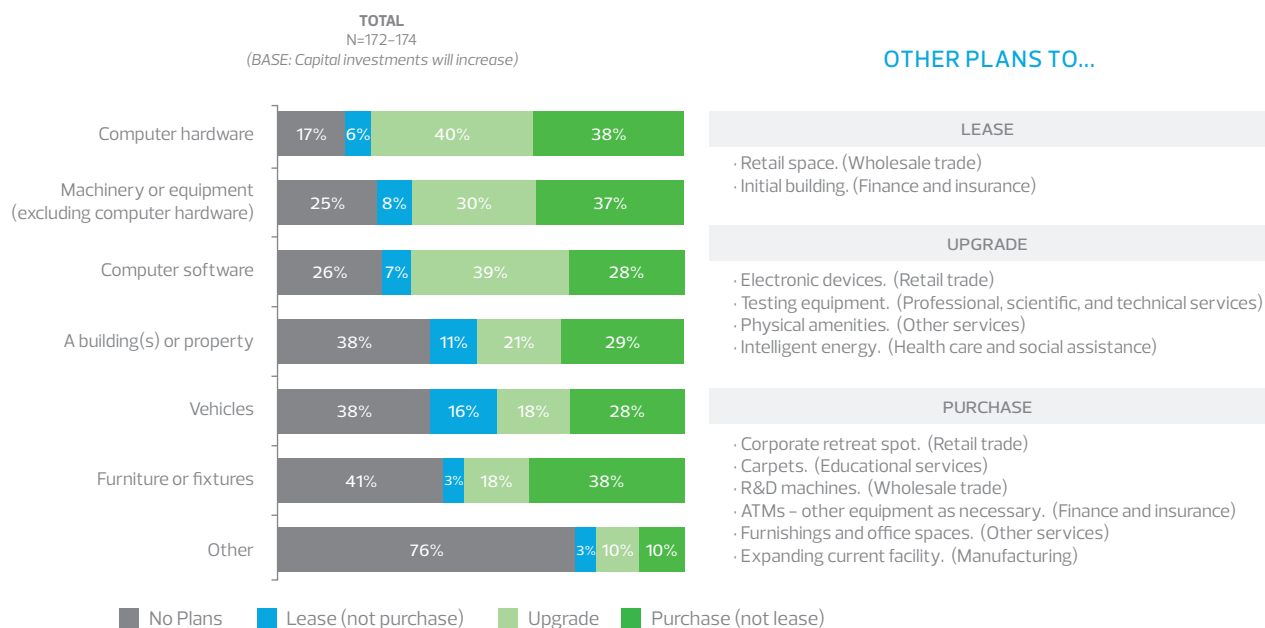
Larger companies are more likely to allocate a greater proportion of investment dollars to build/create or replace assets; smaller companies are more likely to allocate a bigger proportion to buy or enhance/upgrade existing assets.

	Q4'17		
	TOTAL N=161	\$10M-<\$50M N=74 (Caution - small base)	\$50M-<\$1B N=80 (Caution - small base)
	(BASE: Capital investments will increase)		
	AVERAGE:	AVERAGE:	AVERAGE:
Building or creating asset(s)	22.5	20.6	24.3
Buying asset(s)	32.7	36	29.2
Enhancing or upgrading existing asset(s)	23.1	25.2	21
Replacing existing asset(s)	21.8	18.2	25.4

· Which of the following best describes your organization's plans regarding the overall level of capital investment or expenditure over the next twelve months?
 · Thinking about your organization's total planned capital investments or expenditures for the next twelve months, what proportion of your total planned investment dollars are for...?

AREAS ORGANIZATION PLANS TO MAKE CAPITAL INVESTMENTS/EXPENDITURES OVER NEXT 12 MONTHS

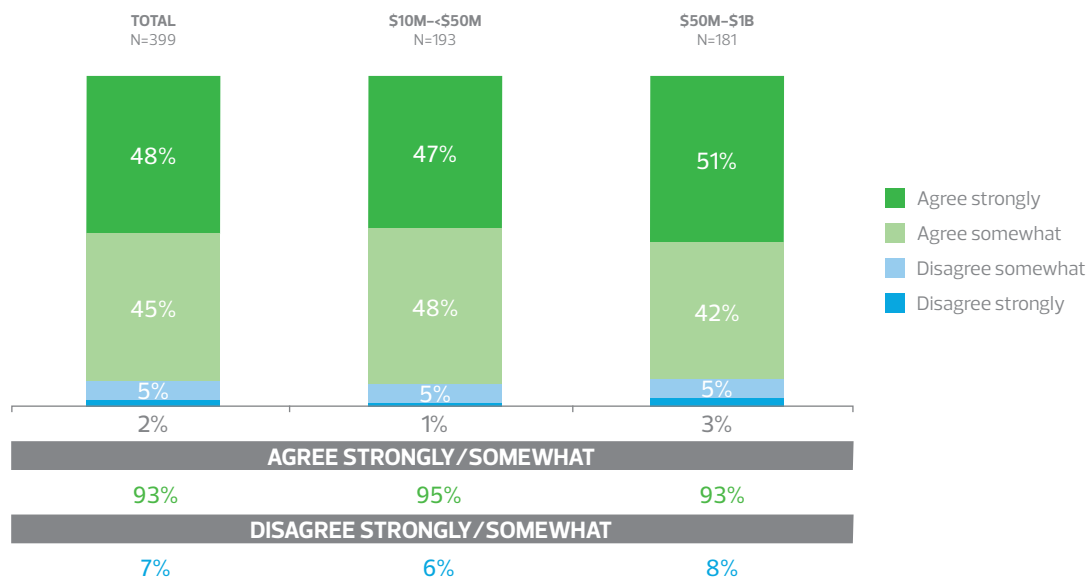
Most executives said they plan to upgrade or purchase computer hardware, machinery/equipment, and computer software during the next 12 months.



- Which of the following best describes your organization's plans regarding the overall level of capital investment or expenditure over the next twelve months?
- In which of the following areas, if any, does your organization plan to make capital investments or expenditures over the next twelve months?
- You indicated that you plan to lease/upgrade/purchase something other than the response options listed. Can you specify what that is (open end)?

ORGANIZATIONS BELIEVE CAPITAL INVESTMENT/EXPENDITURE SUFFICIENT TO MEET DEMAND FOR PRODUCT/SERVICE OFFERINGS

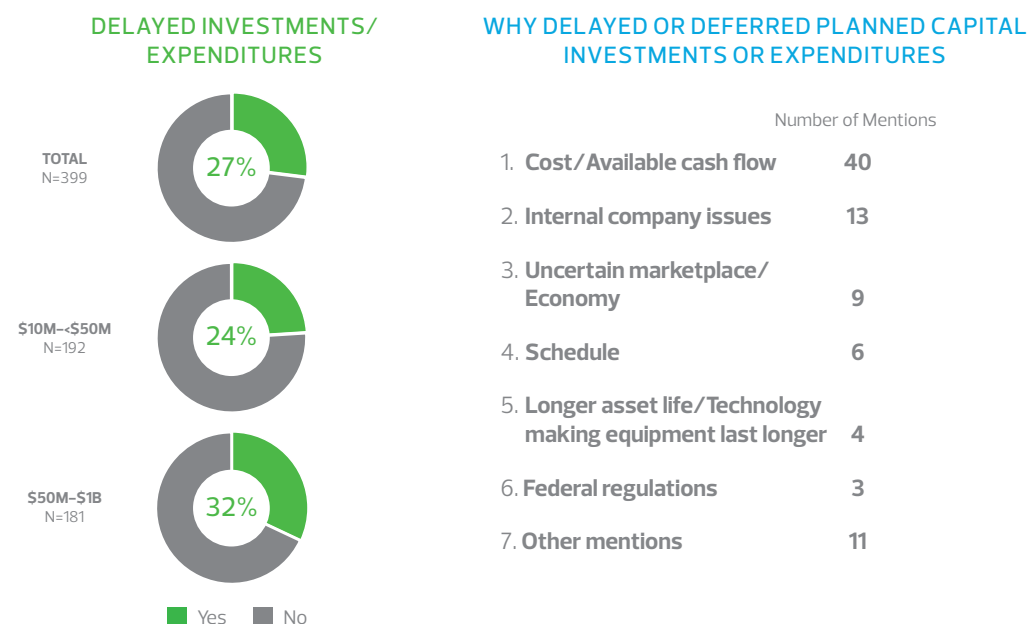
Regardless of company size, nine in 10 middle market executives believe that their capital investments or expenditures are sufficient to meet demand.



- Please indicate your level of agreement with the following statement: "My organization's capital investments or expenditures are sufficient to ensure we can meet demand for our product or service offering(s)"

INTENTIONALLY DELAY OR DEFER PLANNED CAPITAL INVESTMENTS/EXPENDITURES

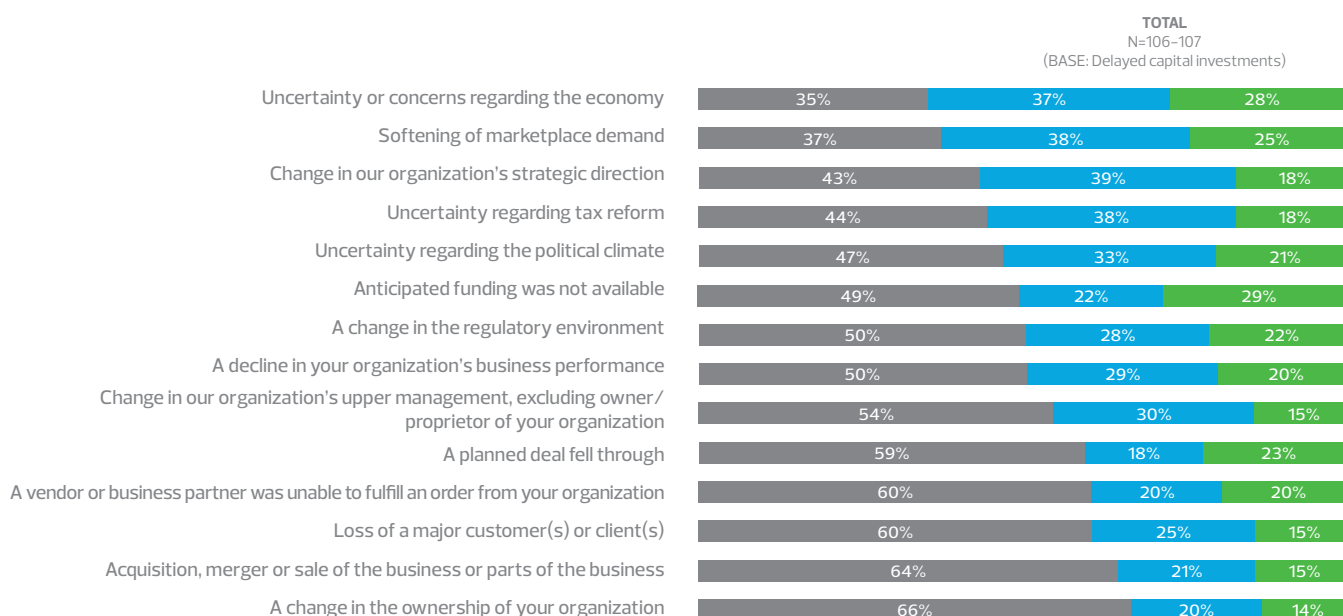
In an open-ended question, about a fourth of executives said they had intentionally delayed planned capital investments in the past year. Cost or available cash flow were most frequently cited as reasons.



- During the past twelve months, did your organization intentionally delay or defer any previously planned capital investments or expenditures?
- Please explain why you delayed or deferred planned capital investments or expenditures (open end)?

REASONS TO DELAY OR DEFER CAPITAL INVESTMENT/EXPENDITURE

Among those deferring capital investments, about one in four rated as major reasons: unavailability of anticipated funding; a planned deal falling through; economic uncertainty and softening of demand.

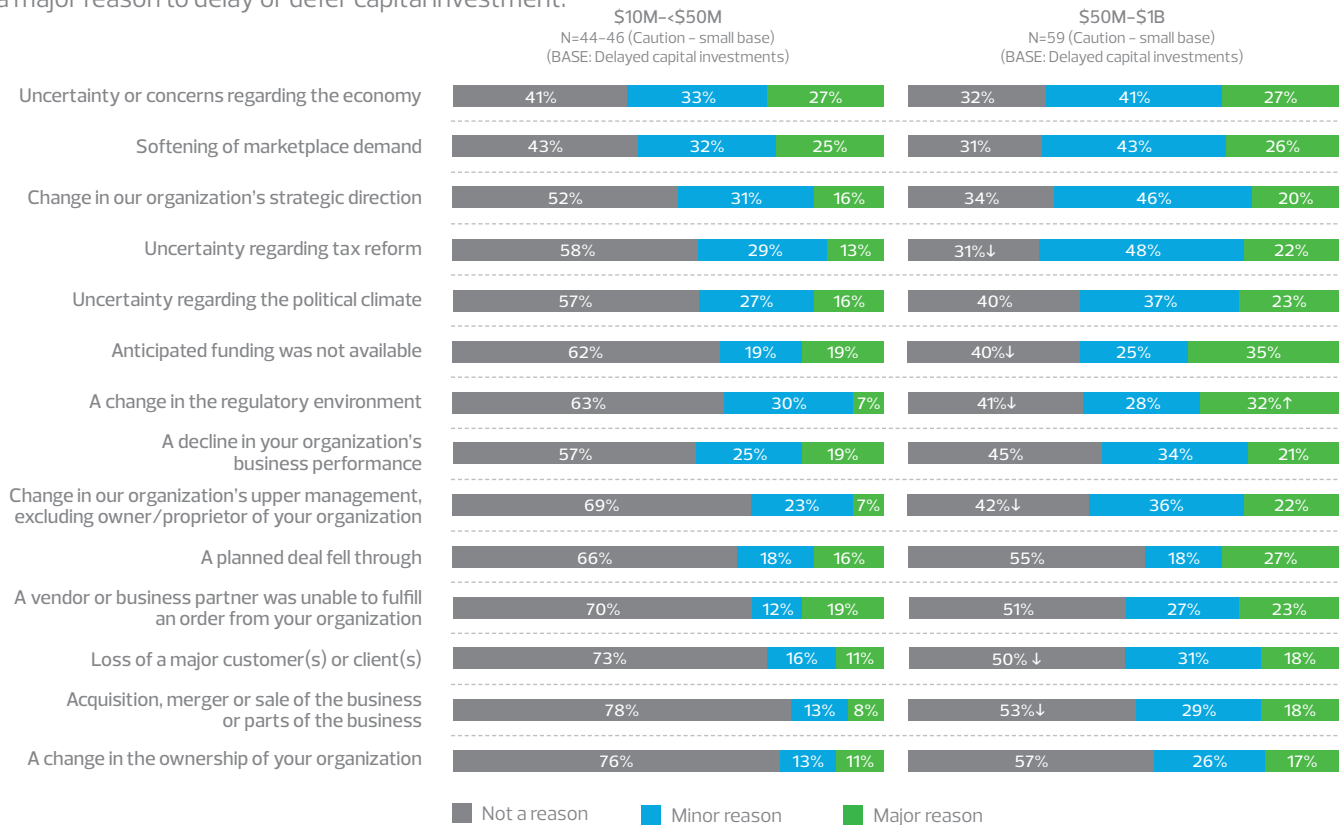


- During the past twelve months, did your organization intentionally delay or defer any previously planned capital investments or expenditures?
- The following are potential reasons for delaying a capital investment or expenditure. For each reason below, please indicate if it was a **major reason**, a **minor reason**, or **not a reason at all** for your organization to delay or defer capital investment or expenditure.

■ Not a reason ■ Minor reason ■ Major reason

REASONS TO DELAY OR DEFER CAPITAL INVESTMENT/EXPENDITURE (CONT'D)

Compared with smaller companies, significantly more larger companies reported a change in regulatory environment as a major reason to delay or defer capital investment.

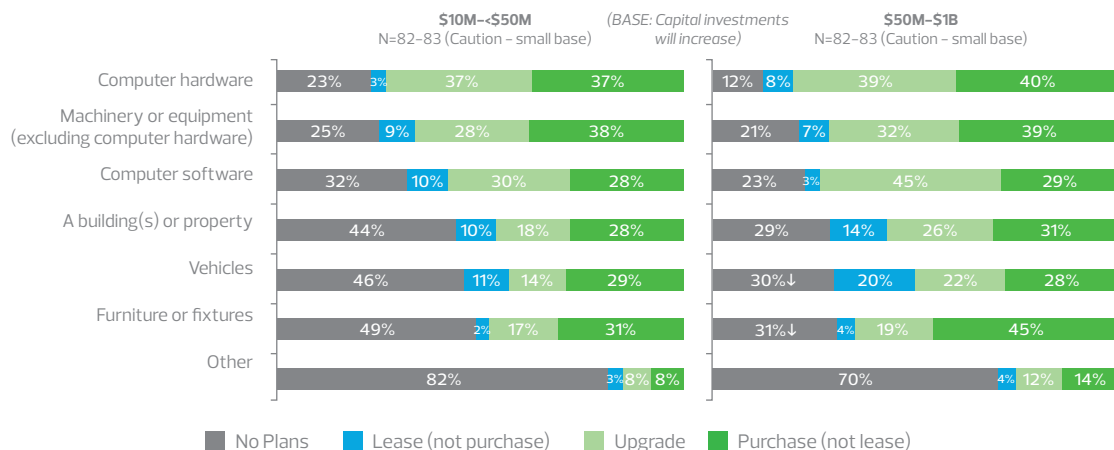


ARROWS = Significantly higher/lower than \$10M--<\$50M

- During the past twelve months, did your organization intentionally delay or defer any previously planned capital investments or expenditures?
- The following are potential reasons for delaying a capital investment or expenditure. For each reason below, please indicate if it was a **major reason**, a **minor reason**, or **not a reason at all** for your organization to delay or defer capital investment or expenditure.

AREAS ORGANIZATIONS PLAN TO MAKE CAPITAL INVESTMENTS/EXPENDITURES OVER NEXT 12 MONTHS (CONT'D)

Larger companies are significantly less likely to have no plans to upgrade, lease, or purchase vehicles or furniture/fixtures during the next 12 months compared with smaller companies.



ARROWS = Significantly higher/lower than \$10M--<\$50M

- Which of the following best describes your organization's plans regarding the overall level of capital investment or expenditure over the next twelve months?
- In which of the following areas, if any, does your organization plan to make capital investments or expenditures over the next twelve months?

HOW THE **MMBI** IS CONSTRUCTED

The MMBI is borne out of the subset of questions in the survey that ask middle market executives to report the change in a variety of indicators. Middle market executives are asked a total of 20 questions patterned after those in other qualitative business surveys, such as those from the Institute of Supply Management and National Federation of Independent Businesses.

The 20 questions relate to changes in various measures of their business, such as revenues, profits, capital expenditures, hiring, employee compensation, prices paid, prices received and inventories; middle market executives are asked to report the change from the previous quarter and to state the likely direction of these same indicators six months ahead. (See Table 1).

The MMBI is a composite index computed as an equal weighted sum of the diffusion indexes for 10 survey questions plus 100 to keep the MMBI from becoming negative. The index is designed to capture both current and future conditions, with five questions on middle market executives' recent experience and five on their expectations for future activity.

Once enough observations exist, each question in the index will be seasonally adjusted when stable seasonality is detected. The seasonal adjustment will be based on the Census Bureau's X-12 additive procedure and will utilize a logistic transformation.

For this adjustment, the "increase" and "decrease" percentage components of each index question will be tested for seasonality separately and adjusted accordingly if such patterns exist. If no seasonality is detected, the component will be left unadjusted.

TABLE 1: RSM US Middle Market Business Index Questions

- | |
|--|
| 1. What are your expectations regarding the general economy? |
| 2. What are your expectations regarding your organization's gross revenues? |
| 3. How would you describe the level of your organization's most recent quarter net earnings results? |
| 4. What are your expectations regarding your organization's aggregate capital expenditures or investments? |
| 5. What are your expectations regarding your organization's overall hiring levels? |
| 6. How would you describe your organization's current employee compensation level on average? |
| 7. How would you describe current access to credit? |
| 8. What are your expectations regarding your organization's planned borrowing? |
| 9. How would you describe the current general level of prices received? |
| 10. What are your expectations regarding your organization's planned inventory levels? |

For more information on RSM, please visit www.rsmus.com.

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