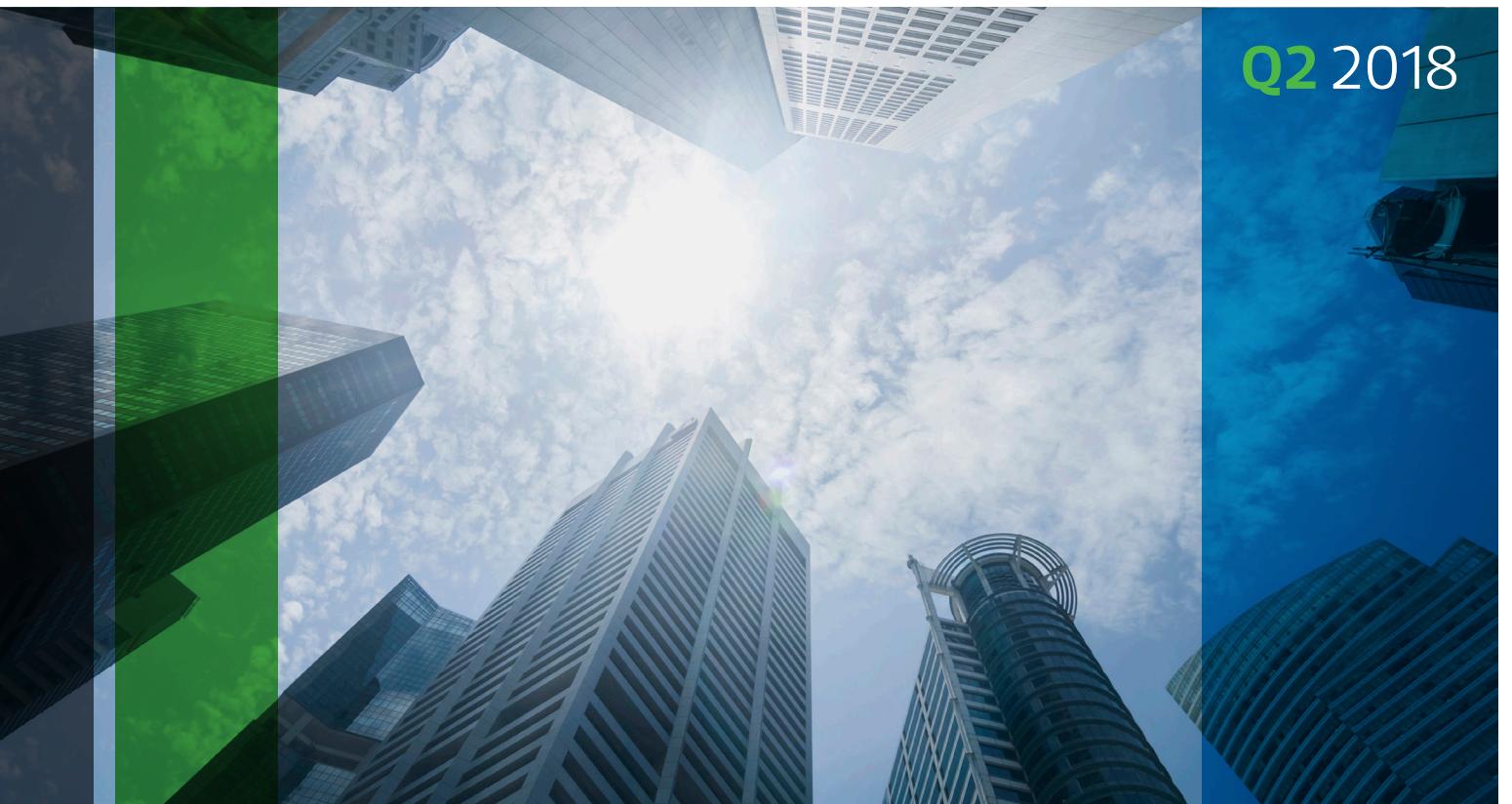


RSM US MIDDLE MARKET

BUSINESS INDEX

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE



Q2 2018



U.S. CHAMBER OF COMMERCE



RSM US MIDDLE MARKET BUSINESS INDEX

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE

RSM US LLP 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, the financial intelligence provider. 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



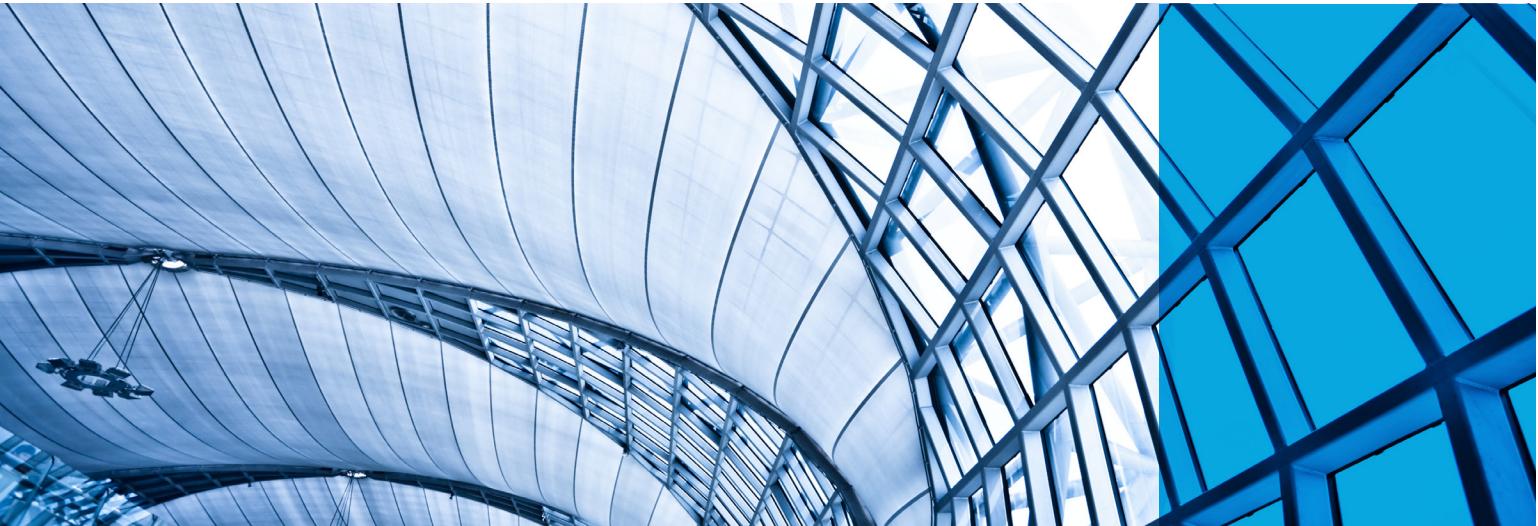
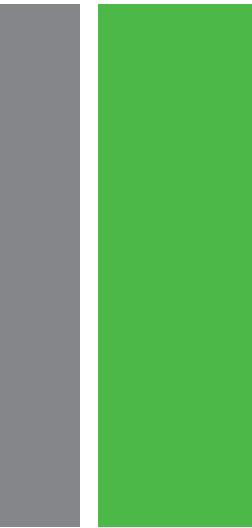


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RSM US MIDDLE MARKET BUSINESS INDEX

EASES SLIGHTLY IN WAKE OF TAX EUPHORIA

RSM US LLP CHIEF ECONOMIST



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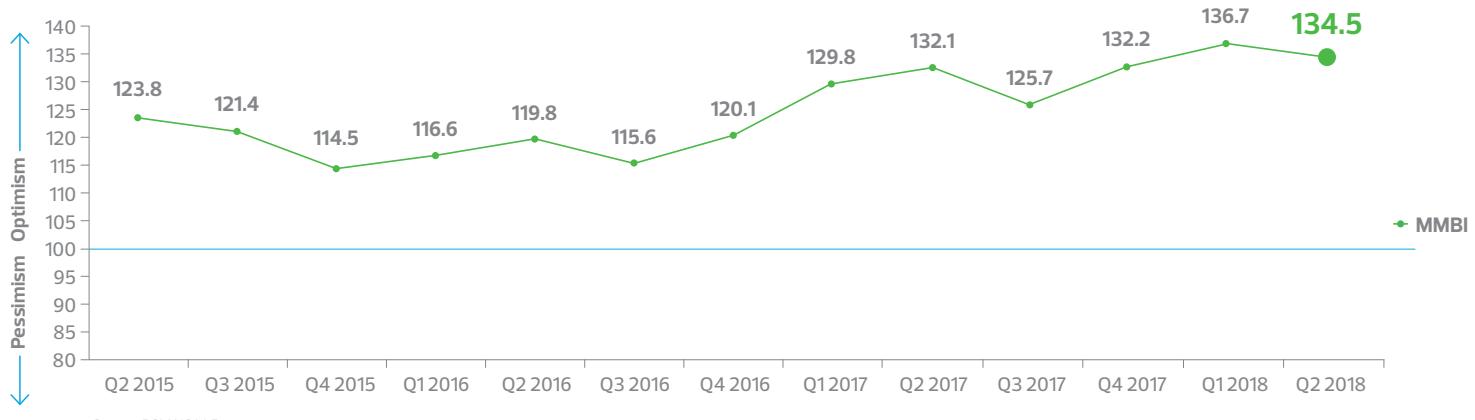
The RSM US Middle Market Business Index (MMBI) eased to a still-robust reading of 134.5 in the second quarter, down slightly from a high of 136.7 three months earlier amid euphoria over the new tax legislation. The lagged impact of procyclical fiscal stimulus in store should continue to stoke economic growth and support current middle market sentiment at these levels.

Rising international trade tensions and modest tightening of domestic and global financial conditions did little to dent overall market sentiment among middle market businesses in the second quarter. Executives say they expect to expand hiring and increase compensation amid strong revenues and net earnings.

“We expect to continue to see optimism from middle market business leaders and are excited by the growth opportunities tax reform will have on their businesses and the broader economy. Pro-growth policies, like tax reform, make American businesses more competitive, improve cash flow and encourage investment here at home.”

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

RSM US Middle Market Business Index (MMBI)





RSM US LLP and The 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 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.

MIDDLE MARKET SENTIMENT REMAINS ROBUST

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

Rising international trade tensions and modest tightening of domestic and global financial conditions did little to dent overall market sentiment among middle market businesses in the second quarter. The topline RSM US Middle Market Business Index (MMBI) eased to a still-robust reading of 134.5 from 136.7 in the first quarter. In the aftermath of the euphoria following the federal tax cut, it is natural to expect sentiment to moderate a bit. Even so, the lagged impact of the procyclical fiscal stimulus in store should continue to stoke economic growth and support current middle market sentiment at these levels.

The middle market expects to expand hiring and increase compensation amid strong revenues and net earnings. And for the second consecutive quarter, executives indicate that they are facing rising prices, and are successfully passing those prices along to customers downstream.

In the current quarter, 55 percent of middle market businesses report that the economy improved, versus 69 percent previously. Fifty-seven percent expect the economy to improve during the next six months, down from 73 percent during the first three months of the year.

The outlook on gross revenues was essentially unchanged, with 56 percent saying the outlook had improved, while 69 percent expect gross revenues to improve during the next six months, down from a cyclical high of 75 percent. Not surprisingly, 51 percent indicated an improvement in net earnings in the current quarter, and 68 percent expect earnings to improve during the second half of the year.

With the economy likely to be bolstered by the fiscal channel in the second half of the year, middle market businesses clearly expect to benefit from the policy boost going forward.

One of the major unanswered questions after the 2017 Tax Cuts and Jobs Act is how the businesses will respond to the changed incentive of a lower statutory rate. So far, the response has been mixed. About 42 percent of middle market businesses, down from a prior 45 percent, state that they increased their capital expenditures either somewhat or substantially. Fifty-five percent, with the second consecutive quarter at a cyclical high, state that they intend to do so in the second half of the year.



Hiring and compensation

The outlook for hiring and compensation remains solid, with 44 percent of executives indicating they increased the pace of hiring in the current quarter and 54 percent stating they intend to do so over the next 180 days. Fifty percent of businesses say they increased compensation in the second quarter and 60 percent indicate they intend to do so over the next six months.

The middle market expects to expand hiring and increase compensation amid strong revenues and net earnings.

It will be interesting to see how middle market businesses cope with a lack of labor supply with the U.S. economy at full employment. The major managerial challenge of middle market ownership will be how a lack of available labor changes the ratio between outlays on capital expenditures and workers, as businesses begin to substitute technology for jobs.

Pricing pressures

For the second straight quarter, middle market executives indicate they are paying more for materials used at earlier stages of production and are opting to pass through those costs downstream to customers. In the current quarter, 62 percent indicate rising prices are at hand, and the same percentage expect that to continue six months ahead. Forty-six percent increased prices for final goods and services, while 54 percent indicate that they intend to do so in the second half of the year.

Inventories

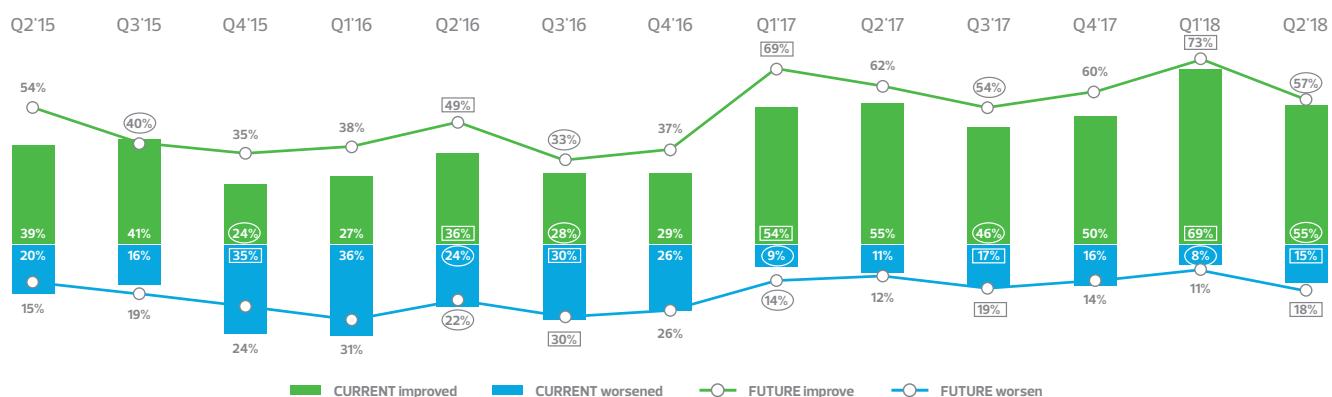
After carefully managing their existing stock of goods in the first quarter, 31 percent of middle market businesses increased inventories in the second quarter, and 42 percent indicate an intent do so ahead of what is expected to be a strong second half of growth in the U.S. economy.

Borrowing conditions

Borrowing conditions showed that 31 percent of middle market businesses anticipate increased borrowing versus 26 percent in the prior quarter.

GENERAL ECONOMY PERFORMANCE

Decreases were observed in both the percent of middle market executives who reported the general economy improved in the current quarter (55 percent) and the percent who expect it to improve in the next six months (57 percent).



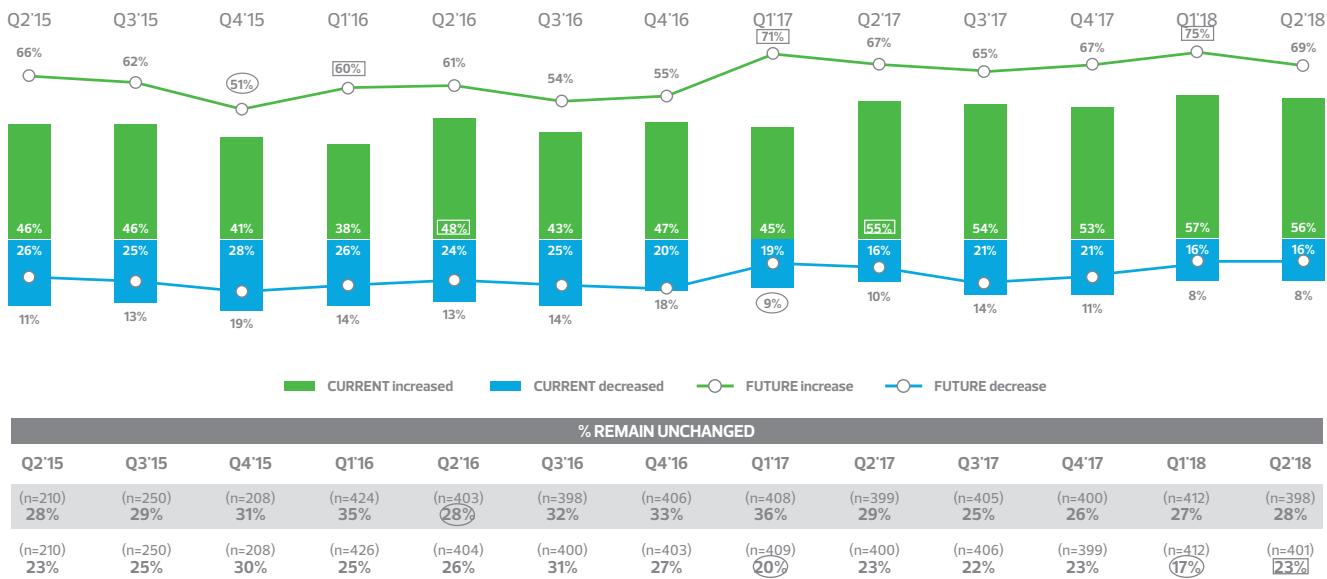
% REMAIN UNCHANGED															
CURRENT		FUTURE		CURRENT		FUTURE		CURRENT		FUTURE		CURRENT		FUTURE	
Q2'15	(n=210) 41%	Q3'15	(n=252) 43%	Q4'15	(n=208) 41%	Q1'16	(n=424) 37%	Q2'16	(n=404) 41%	Q3'16	(n=400) 42%	Q4'16	(n=406) 45%	Q1'17	(n=409) 37%
CURRENT	(n=210) 41%	FUTURE	(n=252) 41%	CURRENT	(n=208) 41%	FUTURE	(n=424) 31%	CURRENT	(n=404) 29%	FUTURE	(n=397) 37%	CURRENT	(n=402) 36%	FUTURE	(n=409) 17%

- 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

Fifty-six percent of executives reported increasing revenue performance in the current quarter, while 69 percent indicated they expect gross revenue to increase in the next six months.



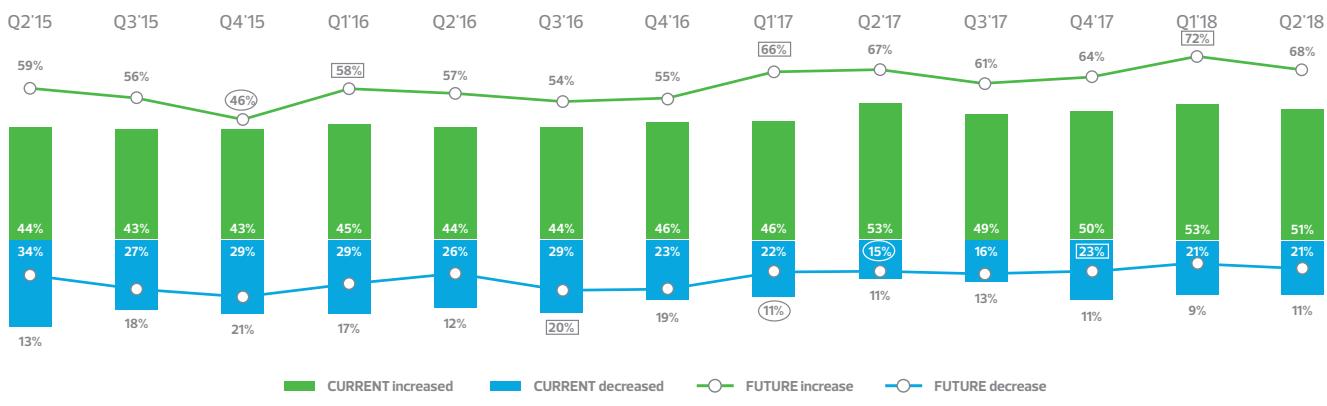
CURRENT		% REMAIN UNCHANGED												
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
	(n=210)	28%	29%	31%	35%	28%	32%	33%	36%	29%	25%	26%	27%	28%
	(n=210)	23%	25%	30%	25%	25%	26%	31%	27%	20%	23%	22%	17%	23%

- 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

Fifty-one percent of executives reported increased net earnings in the current quarter, while 68 percent indicated they expect net earnings to increase in the next six months.



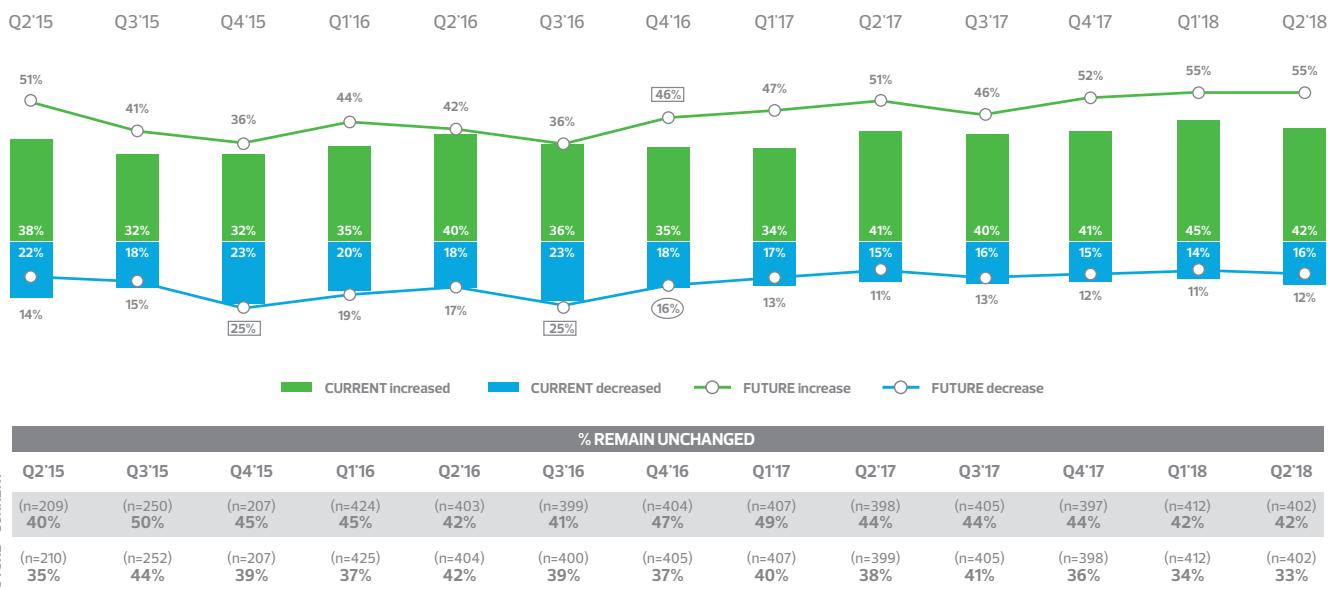
CURRENT		% REMAIN UNCHANGED												
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
	(n=191)	22%	30%	28%	26%	30%	28%	31%	31%	32%	35%	27%	26%	28%
	(n=191)	28%	26%	33%	25%	25%	31%	27%	22%	22%	26%	24%	19%	21%

- 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

Current perceptions and future expectations regarding capital expenditures are comparable to the levels observed in the first quarter.



% 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	Q1'18	Q2'18	
	(n=209)	(n=250)	(n=207)	(n=424)	(n=403)	(n=399)	(n=404)	(n=407)	(n=398)	(n=405)	(n=397)	(n=412)	(n=402)	
FUTURE	(n=210)	35%	44%	(n=207)	39%	(n=425)	37%	(n=404)	42%	(n=400)	39%	(n=405)	41%	(n=402)
	(n=210)	44%	44%	(n=252)	39%	(n=207)	37%	(n=425)	37%	(n=400)	39%	(n=405)	41%	(n=402)

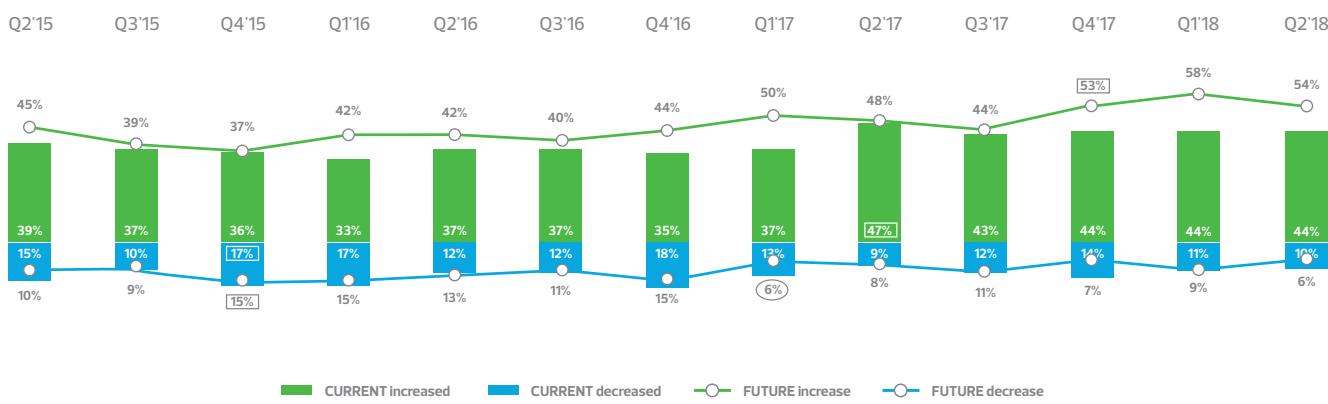
Thinking about your organization's aggregate capital expenditures or investments this quarter versus last quarter, how would you describe your organization's current capital expenditures/investments? Would you say capital expenditures/investments have ...

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

Current perceptions and future expectations regarding hiring are comparable to the levels observed in the first quarter.



% 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	Q1'18	Q2'18	
	(n=210)	(n=251)	(n=209)	(n=426)	(n=404)	(n=400)	(n=405)	(n=409)	(n=409)	(n=400)	(n=406)	(n=400)	(n=412)	(n=402)
FUTURE	(n=210)	46%	53%	47%	51%	51%	47%	50%	44%	45%	42%	44%	46%	40%
	(n=210)	45%	48%	48%	43%	44%	41%	43%	44%	45%	45%	40%	33%	40%

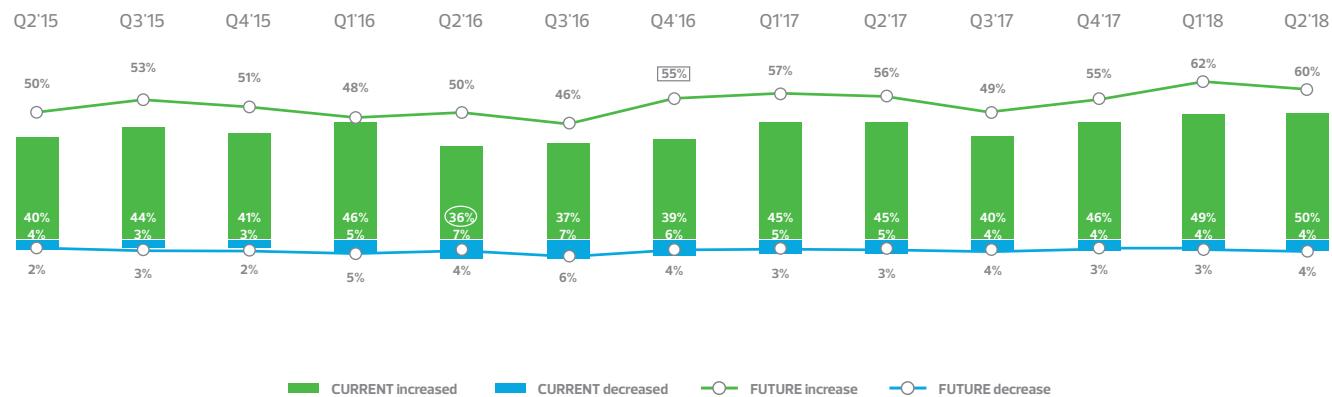
Thinking about your organization's overall hiring levels this quarter versus last quarter, how would you describe your current hiring levels? Would you say hiring levels have ...

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

Half of middle market businesses reported increasing compensation. Sixty percent of middle market businesses expect to increase compensation over the next six months.



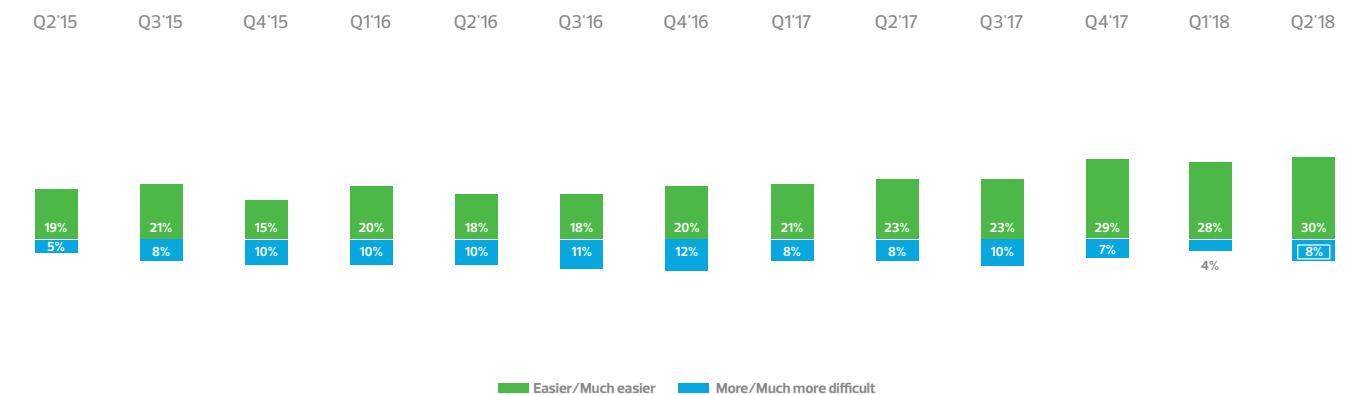
% REMAIN UNCHANGED													
CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
	(n=210)	(n=252)	(n=208)	(n=424)	(n=403)	(n=399)	(n=406)	(n=407)	(n=400)	(n=404)	(n=400)	(n=412)	(n=402)
FUTURE	(n=209)	(n=252)	(n=208)	(n=426)	(n=404)	(n=400)	(n=406)	(n=409)	(n=400)	(n=405)	(n=400)	(n=412)	(n=402)
	48%	44%	47%	48%	46%	48%	40%	40%	41%	47%	42%	35%	37%

- 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

A higher percent of executives reported that access to credit was more difficult (8 percent versus 4 percent) this quarter versus last quarter.

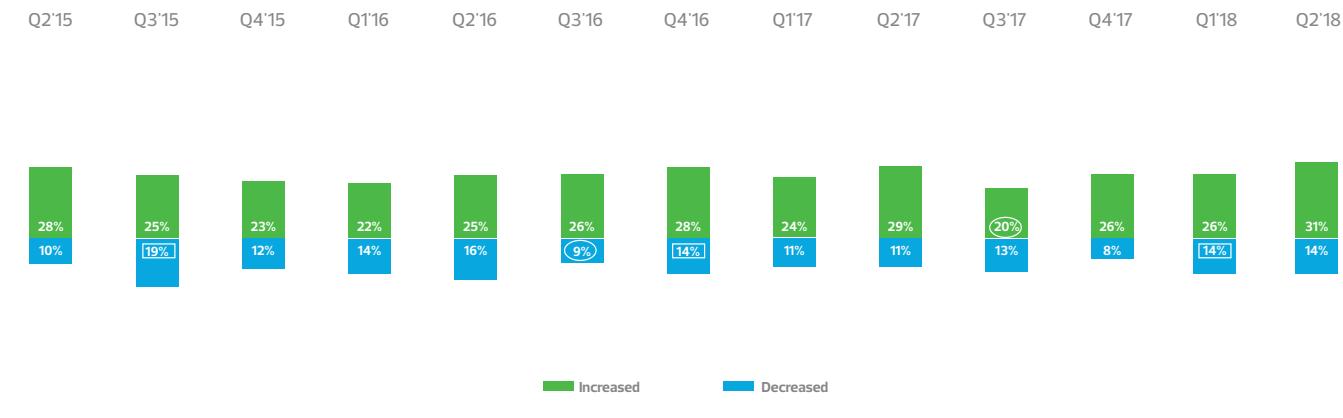


% REMAIN UNCHANGED													
CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
	(n=210)	(n=247)	(n=202)	(n=420)	(n=398)	(n=394)	(n=397)	(n=397)	(n=405)	(n=394)	(n=400)	(n=397)	(n=394)
FUTURE	(n=209)	(n=247)	(n=202)	(n=426)	(n=398)	(n=394)	(n=397)	(n=397)	(n=405)	(n=394)	(n=400)	(n=397)	(n=394)
	76%	71%	75%	70%	72%	71%	69%	71%	69%	68%	64%	68%	62%

- 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...

PLANNED BORROWING

Middle market businesses continue to anticipate an increase in planned borrowing over the next six months.



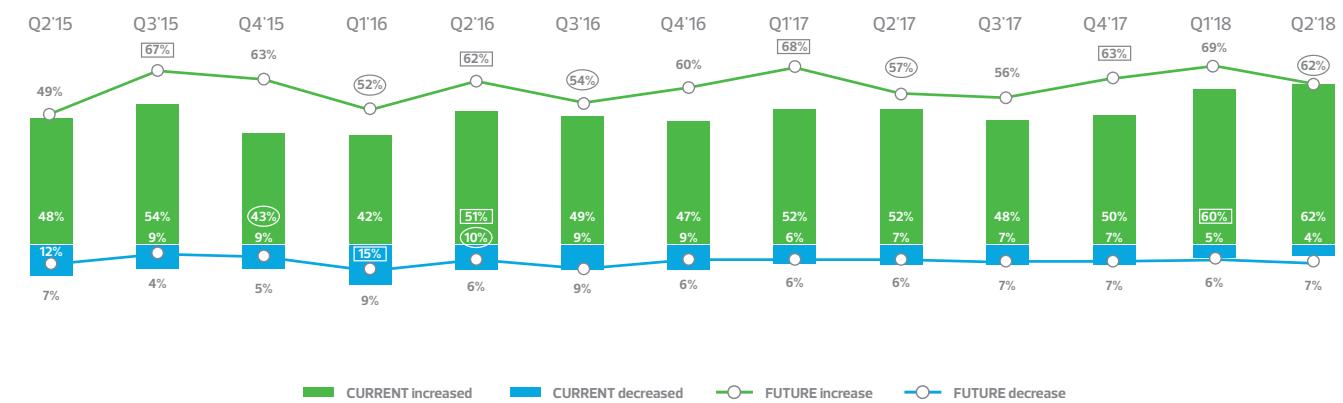
FUTURE	% REMAIN UNCHANGED													
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	
	(n=209) 61%	(n=251) 56%	(n=203) 64%	(n=419) 64%	(n=401) 59%	(n=399) 65%	(n=400) 58%	(n=406) 65%	(n=396) 60%	(n=400) 68%	(n=398) 66%	(n=411) 61%	(n=396) 55%	

· 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)

The percentage of middle market companies anticipating an increase in the amount paid for goods and services over the next six months decreased significantly in the current quarter (62 percent vs. 69 percent).



CURRENT	% REMAIN UNCHANGED													
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	
CURRENT	(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=411) 35%	(n=400) 34%	
FUTURE	(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%	(n=411) 25%	(n=401) 31%	

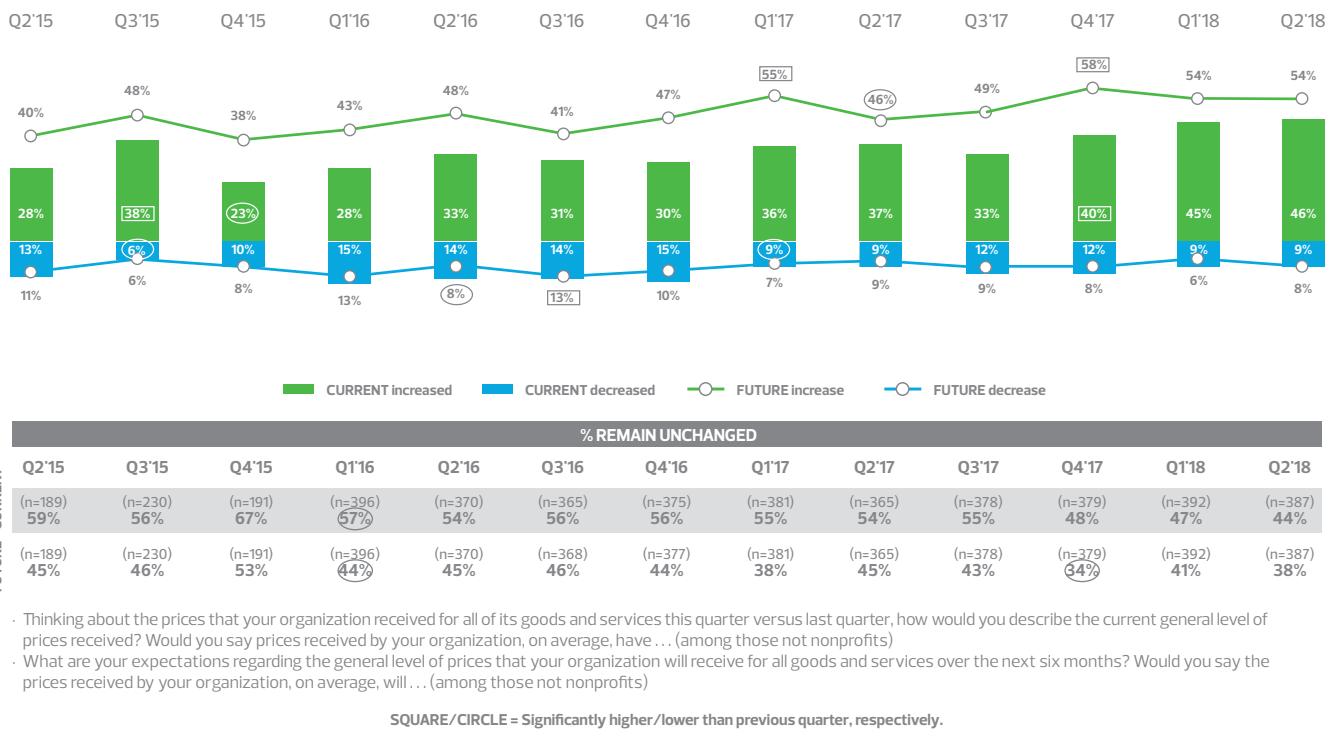
· Thinking about the prices that your organization pays for all goods and services, except labor, this quarter versus last quarter, how would you describe the current general level of prices paid? Would you say prices paid, on average, have...

· 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.

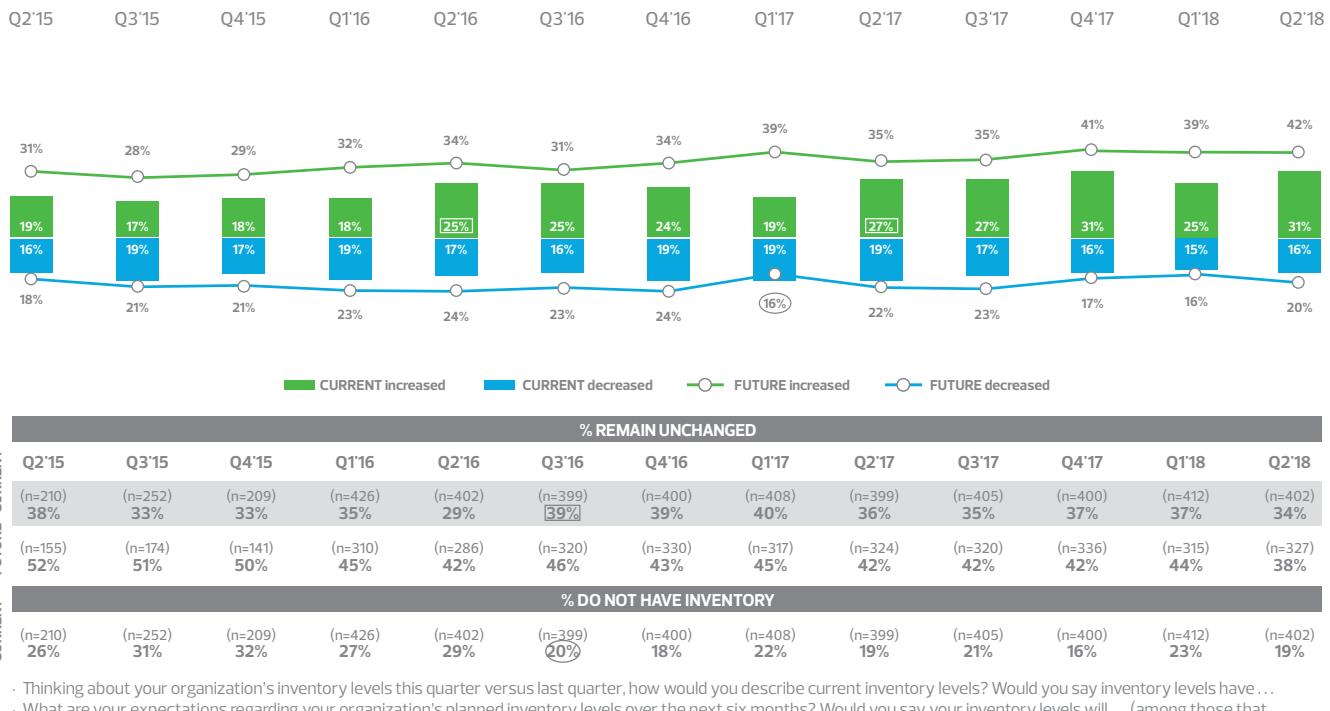
AMOUNT RECEIVED FOR GOODS AND SERVICES

Current perceptions and future expectations regarding the amount received for goods and services are comparable to the levels observed in the first quarter.



INVENTORY LEVELS

Current perceptions and future expectations regarding inventory levels are comparable to the levels observed in the first 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.

MIDDLE MARKET TAX CUT RESPONSE: CAUTIOUS ON CAP-EX, MORE OPTIMISTIC ON GROWTH

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

Fostering business investment in productivity-enhancing areas such as software, machinery, computers and intellectual property was a primary impetus for the 2017 Tax Cuts and Jobs Act (TCJA). Our recent data finds that while a plurality of middle market businesses are willing to increase the overall pace of investment in capital expenditures, the majority are not currently planning to increase the dollar volume of their investment over the next three years.

This reluctance may be due, in part, to a lack of understanding on how certain provisions of the TCJA could benefit their companies and provide opportunities to accelerate capital expenditures.

With respect to the TCJA's impact on growth, 58 percent of executives polled in the second-quarter 2018 proprietary RSM US Middle Market Business Index (MMBI) say the legislation will have a moderate or strong impact on overall growth conditions, while slightly less, 52 percent, expect the changes to improve their after-tax cash flows.

Of the middle market leaders expecting the changes to improve their after-tax cash flows, 71 percent report that increasing capital investments is a priority. Yet when the full group of middle market executives surveyed are asked about increasing capital investments in the future as a result of the expensing provisions enacted as part of TCJA, only 38 percent expect to increase outlays over the next three years. Of those, 52.3 percent are pulling forward plans to make capital expenditures, while 47.7 percent expect to increase outlays that would not have happened prior to the passage of the TCJA.

The responses are consistent with other MMBI survey data from special questions on capital expenditures in fourth quarter 2017, which suggest the middle market is somewhat risk averse to capital investment. This sentiment may be related to the broader technological dynamics at play in the economy. Technology investments may be beyond the reach of some businesses, too expensive for others or not yet applicable to the majority in the middle market. Only 44 percent of executives polled in the second quarter MMBI state they increased outlays on capital expenditures, tracking above the six-quarter moving average of 40.5 percent.

The responses are consistent with other MMBI survey data from special questions on capital expenditures in fourth quarter 2017, which suggest the middle market is somewhat risk averse to capital investment.

Another interesting set of responses that could impact the broader tax discussion: While 75 percent of executives say tax simplification is important or very important, only 52 percent indicate that the guiding principle of tax policy should be enhancing efficiency. Forty-eight percent indicate the guiding principle should be fairness, even if it results in more complexity. These findings imply that the middle market may be in the process of an attitudinal shift on taxes and inequality, which likely carries important policy and political implications.

Middle market views on growth conditions and select tax features are of note to policymakers for a number of reasons. For example, middle market executives appear to be less responsive to reductions in capital gains tax rates, with 56 percent indicating they would produce no impact or only a slight impact on firm growth, versus 44 percent stating they would positively impact growth. This may be driven by the fact that the majority of respondents' firms are structured as sole proprietorships, partnerships, S corporations or limited liability corporations, with the earnings taxed on the owner's personal returns.

Lower interest rates would not spur an increase in borrowing for these businesses. This is not surprising, since most middle market businesses self-fund. Thus, the 52 percent that state lower rates would not alter borrowing, versus the 48 percent that say they would, is consistent with our survey findings on borrowing conditions and what our client base has communicated to us over the years.

Similarly, because most middle market businesses do not carry debt, a greater ability to deduct interest debt was not a priority for survey respondents, with 59 percent stating it would have no impact or only a slight impact, versus the 41 percent who state it would.

Modest majorities favored the opportunity to expense or accelerate depreciation or further reductions in the personal income tax, with 46 percent favoring the former and 54 percent favoring the latter. Fifty-four percent state that lower operating income taxes would create better

growth conditions. Not surprisingly, 54 percent state that further reductions in the corporate tax rate would improve growth conditions. Of the cohort familiar with the tax cut and expecting it to have a strong impact, 62 percent intends to increase hiring, 65 percent to increase compensation and 54 percent to give a one-time bonus or payment to labor. These findings are consistent with our survey data that indicate a lack of available labor as the number one issue facing middle market businesses. Of those in this cohort, about 75 percent states they would hire salaried or hourly workers, with only 22 percent indicating they would turn to temps.

As an aside, only one in four respondents indicate they are changing the structure of their business to a C corporation.

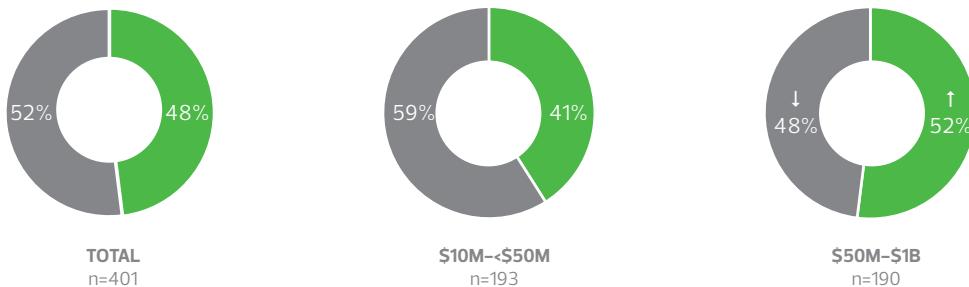
That said, 64 percent expects to increase investor returns, 72 percent sees improving corporate balance sheets through the reduction of debt or increased cash holdings, and as noted above, 71 percent intends to increase capital expenditures.

Of the plurality of executives who intend to increase capital expenditures, 55 percent intend to increase the purchase of computer hardware, 52 percent will purchase or upgrade machinery or equipment excluding computer hardware, 48 percent indicate a willingness to acquire new software and 49 percent say they will upgrade software.

About 50 percent of that cohort says they would increase merger activity, with 62 percent stating they would acquire another firm and 29 percent indicating they would merge with another firm.

GUIDING PRINCIPLES: COMPLEXITY, EFFICIENCY AND FAIRNESS OF TAX SIMPLIFICATION

Executives at larger organizations are more likely than those at smaller organizations to stress fairness over efficiency as a guiding principle of tax simplification.



■ Greater fairness even if it means more complexity and less efficiency

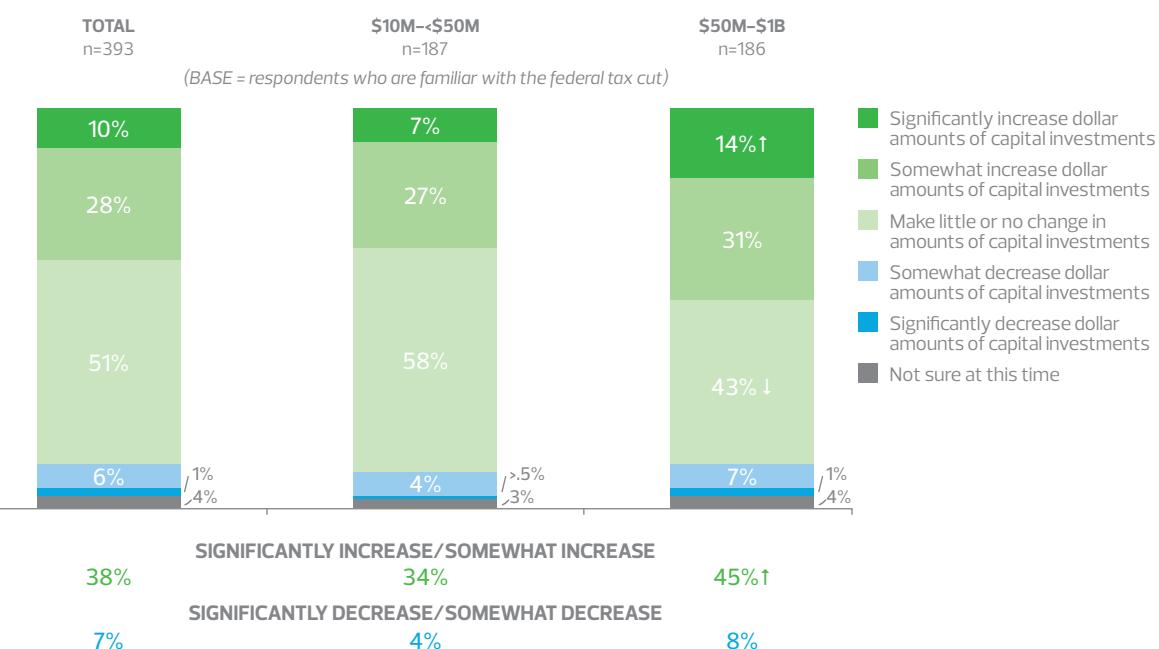
■ Greater efficiency even if it means some inequities may persist in the tax code

· If the goal of tax simplification is finding an appropriate balance between complexity, efficiency and fairness—which of the following would you prefer as the guiding principle?

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

IMPACT OF PROVISION ALLOWING FOR ACCELERATED EXPENSING/DEPRECIATION ON PLANNED DOLLAR VOLUME OF CAPITAL INVESTMENTS OVER NEXT 3 YEARS

Among those familiar with the TCJA, 38 percent indicated they will increase capital investments over the next three years. Executives at larger organizations are more likely to do so (45 percent versus 34 percent) than smaller organizations.



· Overall, how would you rate your level of familiarity with the recent federal tax cut also known as the Tax Cuts and Jobs Act of 2017 (TCJA)?

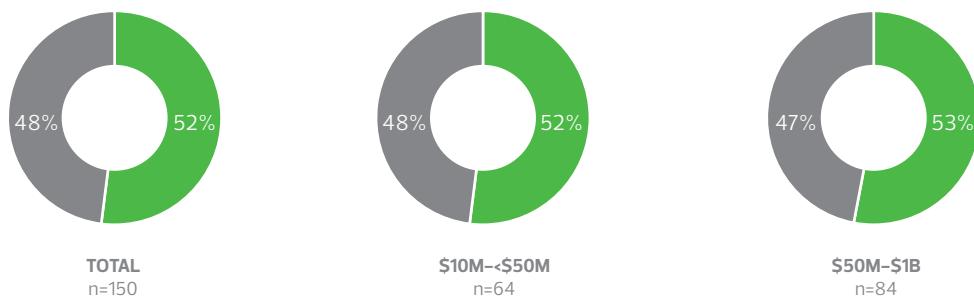
· The TCJA permits the immediate expensing of many capital investments. What impact, if any, will the provision allowing for accelerated expensing or depreciation have on the planned dollar volume of your organization's capital investments over the next three years?

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

PERCENT OF INCREASE ATTRIBUTABLE TO PLANNED AND NEW CAPITAL INVESTMENTS

Among middle market executives who indicated the dollar amount of capital investments will increase, half were making planned capital investments sooner and half were making capital investments that were not previously planned.

(BASE = respondents who said dollar amount of capital investments will significantly/somewhat increase and familiar with the federal tax cut)



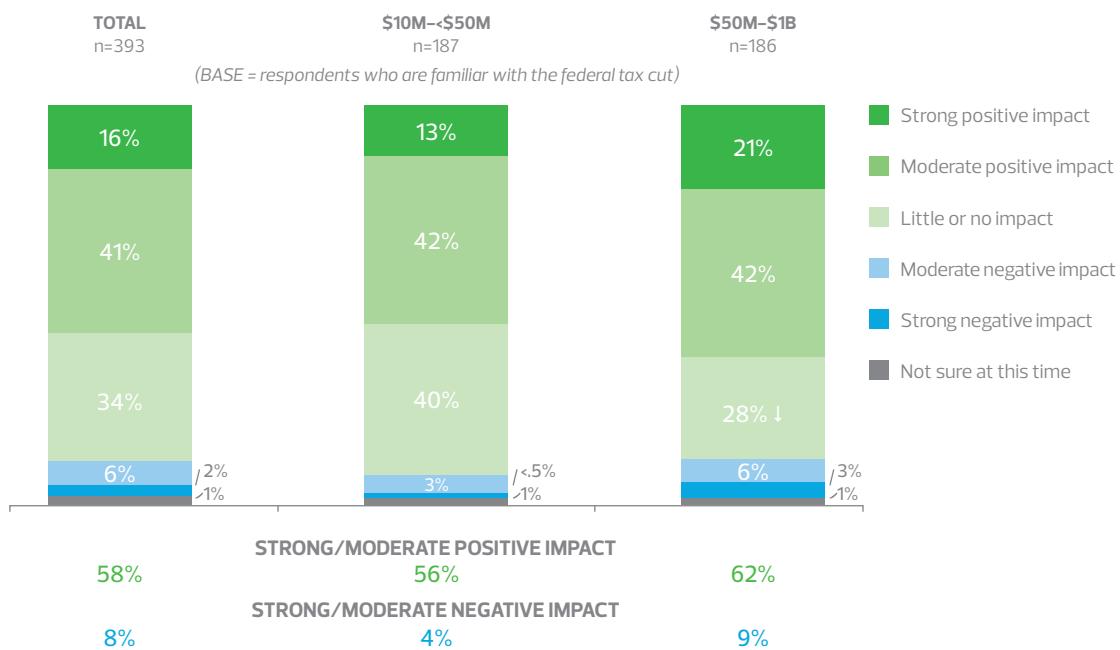
■ Making planned capital investments sooner

■ Making new capital investments that were not previously planned

- The TCJA permits the immediate expensing of many capital investments. What impact, if any, will the provision allowing for accelerated expensing or depreciation have on the planned dollar volume of your organization's capital investments over the next three years?
- Thinking about your organization's increase in planned capital investments over the next three years due to the TCJA provisions allowing immediate expensing of many capital investments, approximately what percent of the increase will be attributable to each of the following? Your best estimate is fine. Total must add to 100 percent.

IMPACT NEW U.S. TAX LAW WILL HAVE ON ORGANIZATION'S FUTURE GROWTH

Among middle market executives familiar with TCJA, 58 percent indicated the new tax law will have a positive impact on the organization's future growth.



- Overall, how would you rate your level of familiarity with the recent federal tax cut also known as the Tax Cuts and Jobs Act of 2017 (TCJA)?
- What impact, if any, do you anticipate the new U.S. tax law will have on your organization's future growth?

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

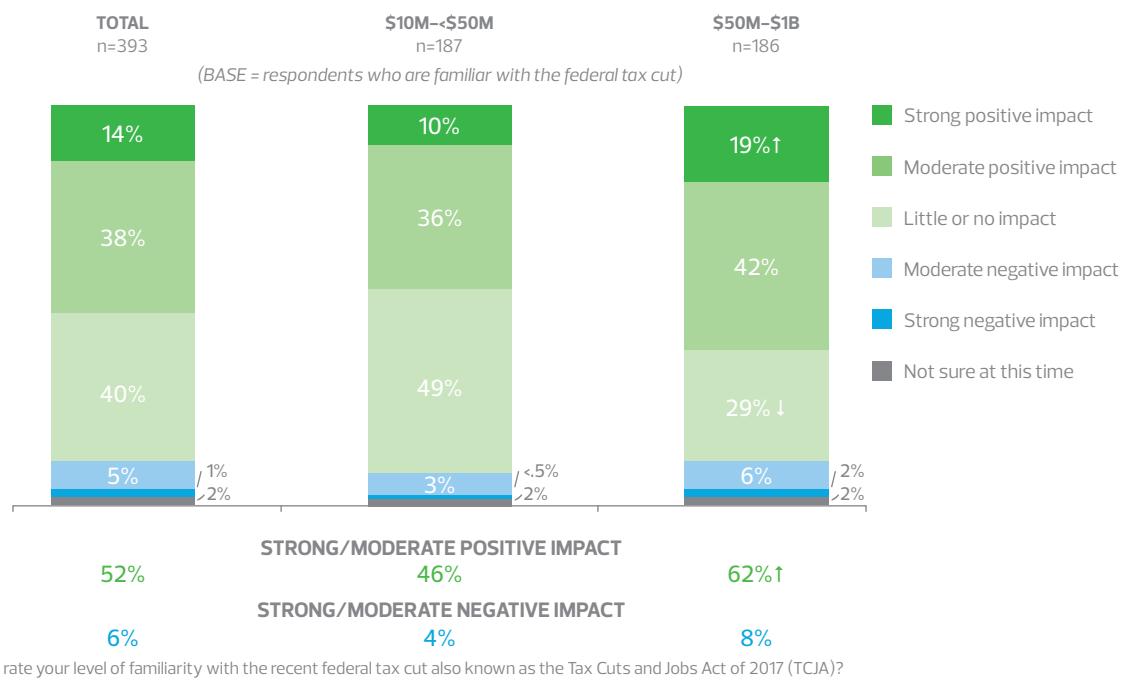
IN PARTNERSHIP WITH
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RSM US MIDDLE MARKET
BUSINESS INDEX Q2 2018



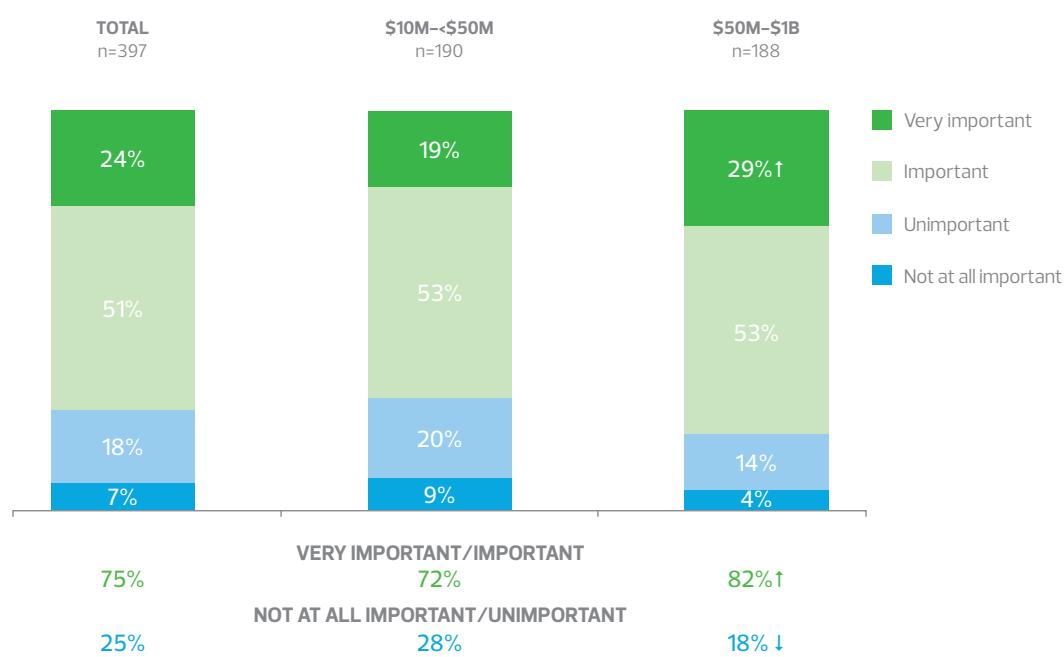
IMPACT NEW U.S. TAX LAW WILL HAVE ON ORGANIZATION'S AFTER-TAX CASH FLOW

Among middle market executives familiar with TCJA, half (52 percent) indicated the new tax law will have a positive impact on their organization's after-tax cash flow. Executives in larger companies are more likely to say the new law will have a positive impact on after-tax cash flow than smaller companies (62 percent versus 46 percent).



IMPORTANCE OF TAX SIMPLIFICATION AND REDUCING TOTAL COST OF TAX COMPLIANCE

Three-quarters (75 percent) of all middle market executives indicated that tax simplification and reducing total cost of tax compliance is important. Executives at larger companies are more likely to claim these dimensions are important (82 percent versus 72 percent).



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 the 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.

Now that enough observations exist, each question in the index will be seasonally adjusted using the Census X-13 method in order to remove periodic fluctuations associated with recurring calendar-related events. Seasonally adjusted values for questions will make it easier to observe underlying fundamental changes, particularly those associated with economic expansions and contractions.

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?

MIDDLE MARKET LEADERSHIP COUNCIL SURVEY: CURRENT PERCEPTIONS AND FUTURE EXPECTATIONS

METHODOLOGY

WHO

- A total of 700 senior executives were recruited by The Harris Poll via phone using a Dun & Bradstreet (D&B) sample
- These 700 panel members were invited by The Harris Poll to participate in four surveys in a one-year period
- 402 executives completed the survey, which was conducted between April 12-30, 2018
- All middle market executives were qualified as:
 - U.S. full-time senior executive decision-makers
- 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; waste management and remediation services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services (except public administration)

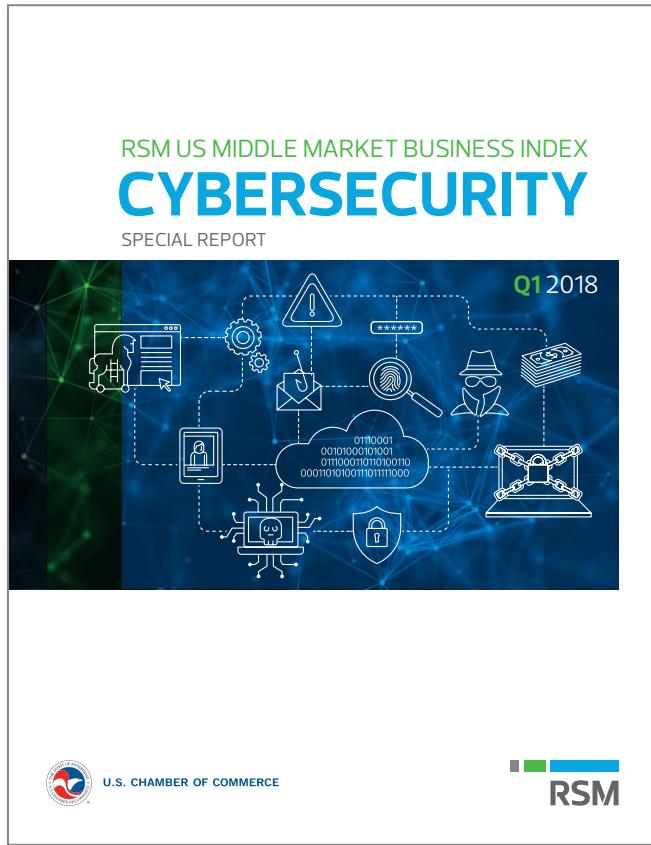
- Nonfinancial or financial services companies revenue \$10 million-\$1 billion
- Financial institutions represented by AUM \$250 million-\$10 billion
- Involved or responsible for business strategy or financial management strategy

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



RESEARCH SHOWS MIDDLE MARKET AT PARTICULAR CYBERRISK

Read the RSM US MMBI; Cybersecurity Special Report

Nearly 50 percent of midsize companies expect they will face unauthorized users attempting to breach their data or systems this year, according to executives RSM surveyed.

Despite incidents of rising cybercrime, just half of the businesses surveyed carry cyber insurance policies to protect against internet-based risk. Our study shows that many of those policies may fall short of comprehensive coverage.

Meanwhile, the C-level executives we surveyed may be overly confident in their firms' internal abilities to thwart an attack. Some 93 percent of respondents were confident in their organizations' ability to safeguard customer data. The reality—based on actual incident reports—is proving that confidence may be misguided.

Download the full report at <https://rsmus.com/economics/rsm-middle-market-business-index-mmbi.html>

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

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