

Middle Market Business Pulse

April 2016 Report



Executive Summary

A new KeyBank Commercial Banking Business Pulse survey reveals that more than two thirds of middle market businesses are likely to expand in the next six months—by adding new employees, expanding facilities, investing in new equipment, or merging with or acquiring another company. This number is up from six months ago, despite an uncertain start to 2016.

The survey also shows that the financial outlook for company, state and national economic performance was fairly flat from six months ago, with just a slight increase in those reporting a negative outlook.

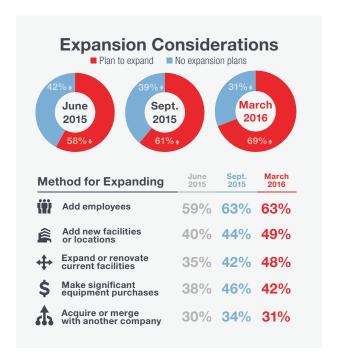
And finally, more than half of respondents view the falling energy prices of the past two years as having a positive impact on business.

Finding 1

Despite stock market volatility, concerns about China and a slightly less optimistic economic outlook, more middle market businesses plan to expand in the next six months.

The survey saw an 8% increase in middle market businesses likely to expand—to 69%. Of those looking to expand, most will add more employees, expand/add new facilities or make significant capital equipment purchases.

This finding shows that despite some of the prevailing economic indicators and a depressed stock market in early 2016, businesses are still optimistic about expansion. Although actual M&A completions are down as we begin this year, companies in the survey indicate that intention to grow through expansion has stayed mostly steady in the past year.





As we have seen with prior periods of capital markets volatility, as markets normalize, sentiment for M&A activity will likely increase and deals will follow.

- Paul Schneir, Managing Director and Group Head, Mergers & Acquisitions, KeyBanc Capital Markets

Finding 2

Overall economic outlook remains steady with a slight drop in optimism, particularly at the state and national level.

Asked to characterize their individual outlook for the financial performance of their company, state and the country, respondents were slightly less confident than they were when asked in September 2015, with only 25% feeling excellent or very good about the U.S. economic outlook for the next 12 months. The exception to the trend came from businesses in the West, where leaders were roughly 10% more positive about their companies and states. Businesses in the Midwest were notably less positive about their state and national economies.

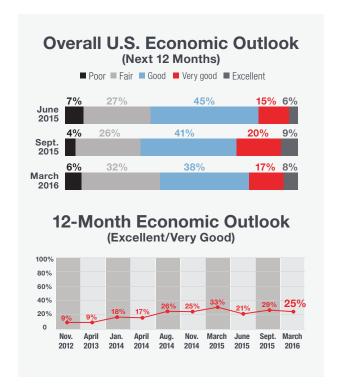
With 38% of those surveyed saying the economic outlook is fair or poor, this trend of negativity about the economy is one that has held for the past four quarters. It reflects overall consumer concern about the economy, and the issue is already playing a central role in the presidential elections. Middle market business leaders will likely continue to watch the market and responses from the Fed as they plan for the coming year.

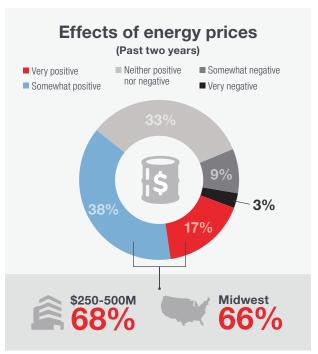
Finding 3

Companies have seen lower overall energy prices as an advantage for business performance.

As the price of a barrel of oil dropped to just over \$30 for the first time in nearly 14 years, businesses have been able to take advantage of these savings and look to reinvest that money into activities such as hiring, construction, renovation and capital purchases. Lower energy prices have helped to reduce expenses in many areas, from operating costs and transportation to raw materials and manufacturing.

Almost 55% of those leaders surveyed pointed to the lower energy prices as having a positive effect on performance, and most don't expect any significant change in prices until at least next year. This finding was particularly high among businesses in the \$250M to \$500M revenue range and in the Midwest, where nearly two-thirds of companies viewed the lower prices as positive.





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I think the overall benefit for the economy is a net positive, whether it's lower gasoline prices, lower utility bills, cheaper inputs to make electricity, reduced fuel cost for the transportation sector, all of those are going to benefit from lower energy prices.

Keith Buchanan, Managing Director and Segment Head,
Oil & Gas, KeyBanc Capital Markets



Let's talk about your business.

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