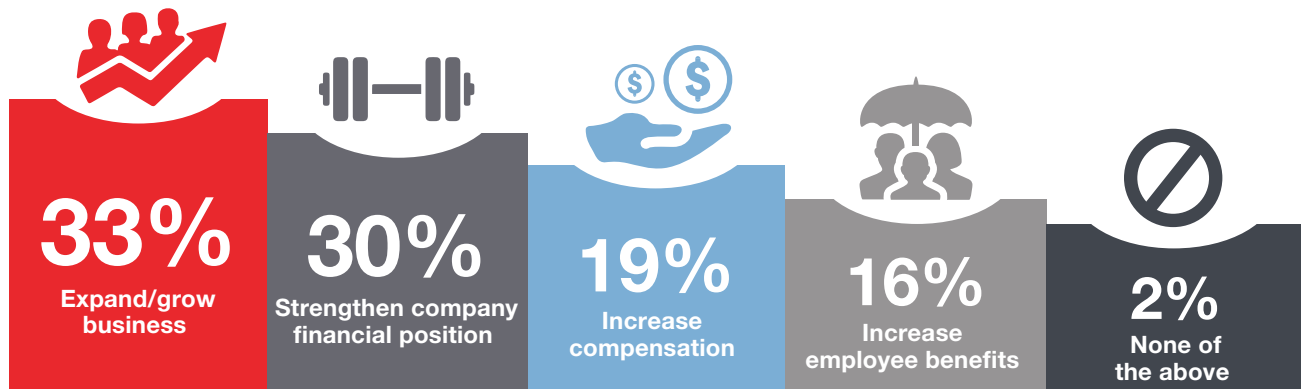




Middle Market Business Sentiment Report

Each quarter, KeyBank surveys owners and executives* of middle market businesses—those in the \$20 million to \$4 billion range—to gain insights into selected topics and find out how they feel about their companies in light of leading economic indicators, as well as the current political and business climates. Corporate tax reform, an issue that has stirred debate and excited owners and executives, is already impacting the way middle market companies plan to spend and invest in the future. This quarter’s survey reveals the practical effects of the new tax regulations.

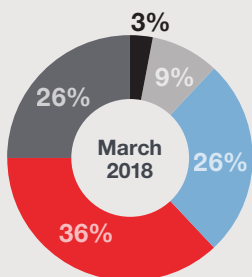
How majority of expected savings will be used



Economic snapshot versus December 2017

U.S. economic outlook

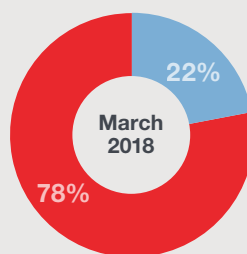
■ Excellent ■ Very good ■ Good ■ Fair ■ Poor



Optimism about the U.S. economy continues to increase, with nearly 90% of respondents saying their outlook is good or better. [Bruce McCain, Chief Investment Strategist for Key Private Bank, shares his view.](#)

Expansion considerations

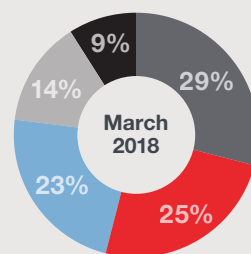
■ Plan to expand ■ No expansion plans



More than three quarters of respondents plan to expand in the next six months, primarily by adding employees, followed by purchasing equipment, adding locations, and renovating facilities.

Acquisition considerations (next 6 months)

■ Extremely likely ■ Very likely ■ Somewhat likely
■ Very unlikely ■ Extremely unlikely

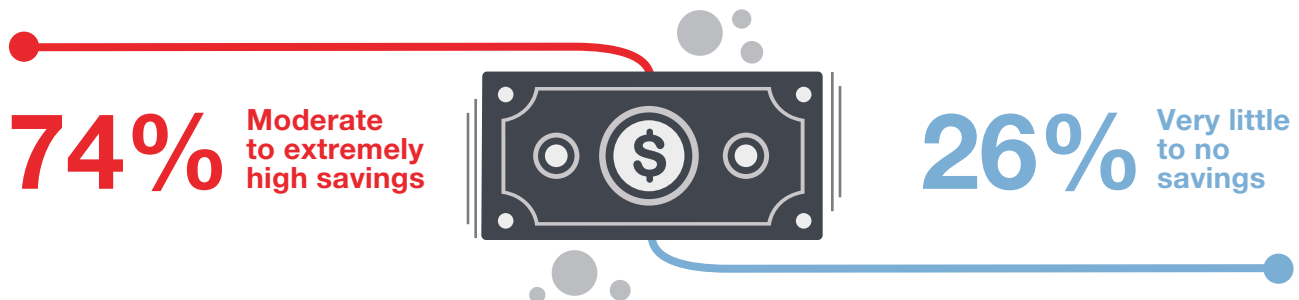


Almost 80% of owners and executives are somewhat to extremely likely to complete an acquisition in the next six months. See what [The Wall Street Journal](#) predicts for M&A in 2018.

Unlike many large U.S. public companies, the middle market plans to invest the savings from tax reform into their businesses.

Among those respondents who expect at least moderate savings from the tax reform, one-third plan to expand or grow their businesses, 30% plan to strengthen their financial positions, 19% plan to increase compensation of employees, owners, or shareholders, and 16% plan to increase employee benefits. In contrast, many large U.S. corporations are using tax savings for aggressive stock buyback programs that boost stock prices and benefit executives or large shareholders. A recent *New York Times* [article](#) by Matt Phillips examines this trend.

Expected savings from tax reform changes



How are companies planning to expand their businesses and strengthen their financial positions?

Although the sample sizes were smaller, as we probed into how respondents would expand, grow, finance, or reinvest in employees, directionally this information is still relevant. The most popular use of the expected tax savings for middle market business owners and executives is to fund business expansion and growth. Of those who plan to expand their businesses, approximately one half plan to do so by either adding new employees and/or new facilities. A smaller percentage plan to make significant equipment purchases, expand or renovate current facilities, or acquire or merge with another company. Some specific changes in tax law make financing new equipment a very smart move for many businesses. [Read more about the advantages in KeyBank's new white paper.](#)

For those who plan to strengthen their financial position, most indicated they would do so by increasing their cash reserves, while others will pay down debt or implement a stock buyback program. Interestingly, however, none of these steps are likely to contribute to spurring the economy.

What about increased employee investment?

While some financial experts predicted employees would receive the largest portion of the tax savings, only 19% of middle market leaders indicated they plan to increase employee compensation. Similarly, only 16% planned to enhance employee benefits.

Leaders are feeling comfortable with the intricacies of new tax policy.

Tax law historically has been viewed as complex and challenging for any business. Part of what this latest tax reform aims to do is simplify the process and enable businesses to free up more cash to invest in the economy. The goal of making it all easier seems to be coming to fruition, as a full 85% of survey respondents say they have a moderate to high understanding of the tax reform.

This understanding extends to expectations of a positive impact. In fact, 74% of those surveyed say they expect moderate, high or extremely high savings as a result of the new policy, which bodes well for the anticipated effect of an economic boost.

What does this mean?

When we last polled middle market leaders about the [pending tax reform](#) toward the end of 2017, they expressed enthusiasm and hope about the potential impact. With this round, we find that respondents feel confident in their understanding of the new law as well as its ability to free up money for investments in business growth, employees, benefits and more. If you own or run a middle market business, you have many options to consider and many decisions to make about how you will leverage these new-found savings.

Whether you decide to increase cash reserves, acquire new assets or even implement a stock buyback program, there will be implications on business opportunities. The effects of tax reform vary greatly depending on the size of your company, your industry and the goals of your leadership team. A recent article in [The Economist](#) examined some of the uneven ways tax reform will affect different businesses.



KeyBank can help you navigate the new tax reality.

Investing in new equipment? We have equipment finance specialists who can consult with you on the nuances of the new tax law, such as 100% expensing, tax ownership and more. Our experts understand tax reform and can help you determine if a lease or loan is the best alternative for your organization. [Read more from our experts about tax reform and its impact on equipment acquisition strategies.](#)

No matter your plans, KeyBank makes it a point to understand your business, your industry and your goals to bring in value-added strategic ideas, insight and capital to help your business grow.

Let's talk about your business.

For more information on KeyBank's middle market capabilities, contact a regional executive.

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Use the red key.®

*Business Owners/Executives—This sample group represents the opinions of respondents who are specifically business owners, C-suite professionals, or have the title of SVP, VP, controller or treasurer (\$20M to \$4B revenues).

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