

A man in a dark blue suit, white shirt, and patterned tie is walking and talking on a mobile phone. The background is a blurred city street with glass buildings.

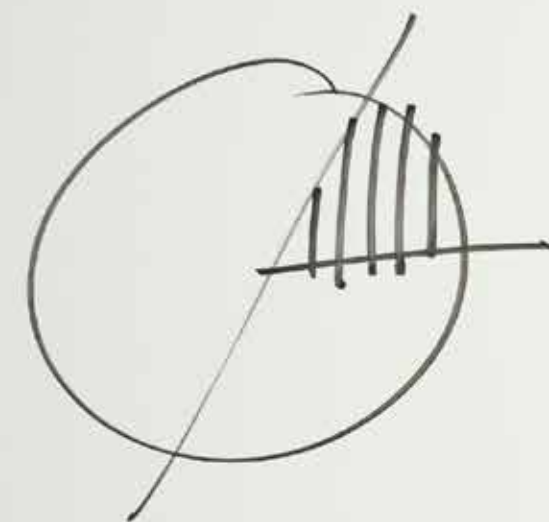
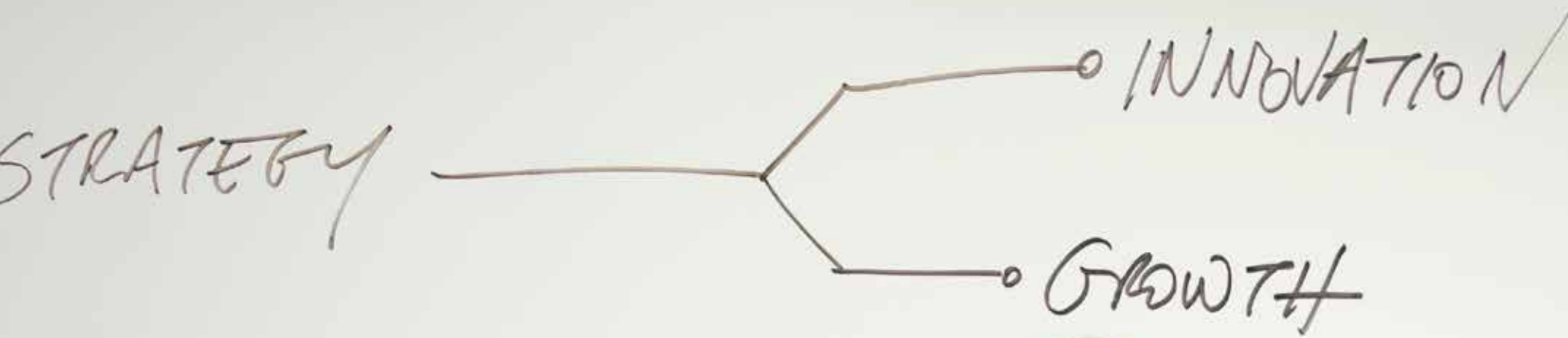
# 2013 Mid Market Outlook Survey

**Middle market companies  
drive U.S. economic growth**

[kpmg.com/us/midmarketindustry](http://kpmg.com/us/midmarketindustry)



cutting through complexity



TARGET  
MARKET  
SHARE



GROWTH %



# Table of Contents

1	An increasingly positive outlook
2	Survey highlights
4	Detailed findings
4	Expectations for the U.S. economy
5	Revenues
5	Current revenue
6	Future revenue
7	Headcount
8	Raising capital
10	Capital spending
11	Top initiatives
12	Spending in new areas
14	Likelihood of M&A participation
16	Industry challenges
17	Threats to business models
18	Taxes and regulations
18	Regulatory change
19	Technology
19	Cloud computing
20	Data and analytics
21	Actionable Insights
22	Conclusion
24	Demographics and methodology
26	Helping you achieve your vision in a changing world





## An increasingly positive outlook

We are pleased to present findings from the 2013 Mid Market Outlook Survey, now in its fourth year, which polled more than 300 middle market executives during the spring of 2013. The survey reflects perspectives from U.S. executives on the outlook for various topics, including business opportunities and challenges, new technologies, capital spending, personnel growth, and merger and acquisition (M&A) activity.

Middle market companies have experienced some positive momentum over the past year. Business confidence is growing, and executives predict an improved U.S. economy over the next year. The vast majority say their companies have increased revenue over the past year, and they expect to see continued revenue growth. Meanwhile, the growth in hiring has been slower, but a strong majority plan to add employees over the coming year. Overall, these companies are gaining a sense of stability, and they are ready to invest. There is no question that they will look to raise capital or debt, or put pent-up cash in play to invest in growth—both organically and inorganically.

As part of this investment, executives say they expect to be involved in a merger or acquisition, either as a buyer or a seller. Although the interest is there and the credit market is supportive, actual deal activity has been slow. For middle market companies, there is clearly a gap between buyers and sellers on the proper valuation of target companies, and it will take time for this to be resolved. Nonetheless, more deals are expected to be completed as the economy continues to improve.

Despite a generally positive outlook, there are several factors weighing on executives' minds. Many point to the complex regulatory environment as a top concern. The implications and compliance requirements of Dodd-Frank and the Affordable Care Act, to name a few, are significant, and companies are still grappling with exactly how their business models and processes will need to be adjusted. Notably, most executives say their companies are prepared to manage the impact of public policy and regulatory changes. Nonetheless, there is still some room for improvement, as relatively few classified their companies as very prepared.

On behalf of KPMG LLP (KPMG), we would like to thank those who participated in this survey and hope the findings are insightful and useful to you in addressing market challenges and opportunities. We also welcome the chance to discuss this study and its implications for your business in the months ahead.

### **Brian Hughes**

Partner, National Mid Market and Private Markets Group Leader  
KPMG LLP



# Survey highlights

## Growing revenue



A majority of executives say their companies are enjoying stronger revenue. Almost three-quarters (73 percent) say revenues have increased over the past year, and more than three-quarters (78 percent) expect revenues to continue to rise in 2014. Almost half (45 percent) say they added headcount over the past year, and more than half (55 percent) expect to add to headcount in 2014.

## Investing for growth



Companies are ready to invest to drive growth. Almost two-thirds (60 percent) say they will increase capital spending over the next year, and almost half (48 percent) cited geographic expansion as their highest priority investment area. Middle market companies also plan to invest in information technology (31 percent), including the use of cloud technology and data and analytics; new products or services (26 percent); and the acquisition of a business (26 percent).

## Challenges and barriers to growth



Despite their optimistic outlook, middle market executives note several growth barriers and threats to their business models. Executives cite regulatory and legislative pressures (33 percent) and pricing pressures (32 percent) as their chief concerns. Executives also cite political/regulatory uncertainty as the biggest threat to their companies' business models. Very few say their companies are very prepared to manage the impact of public policy and regulatory changes.

## Increasing use of data and analytics



Middle market companies are moving quickly to embrace data and analytics. Nearly half (44 percent) say they are rapidly becoming or currently have high analytical literacy. They identify operational excellence (33 percent) as the best use for data and analytics, followed by acquiring customers (29 percent) and competitive intelligence (28 percent). Interestingly, private companies reported having a higher level of data analytics maturity (47 percent) than public companies (39 percent).



Expectations for the U.S. economy

Almost 60 percent of executives expect the U.S. economy to improve over the next year.



Q: A year from now, what are your expectations for the U.S. economy?

	% in Total	% in Public	% in Private
Significantly improved	5	6	5
Moderately improved	53	60	48
About the same	29	28	30
Moderately worse	10	5	13
Significantly worse	3	1	4

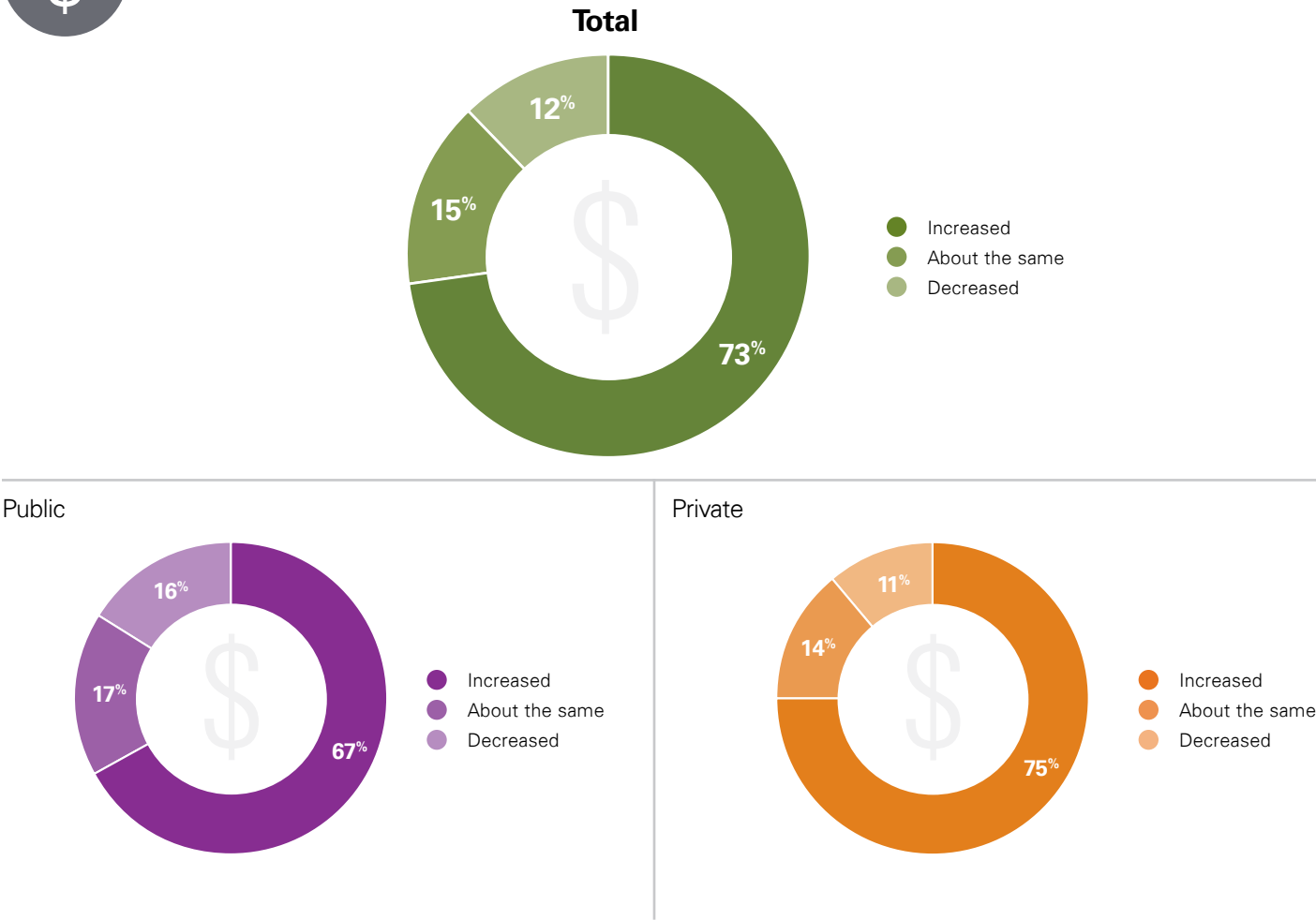
Publicly held companies are somewhat more optimistic in their outlook than privately held companies.

Current revenue

Almost three-quarters (73 percent) of executives say revenues are up from the prior year, a significant increase from 58 percent who reported such increases in 2012. A plurality in both sectors predicts growth within the 1 percent to 5 percent range.



Q: Compared with this time last year, how would you describe your company's current revenue?



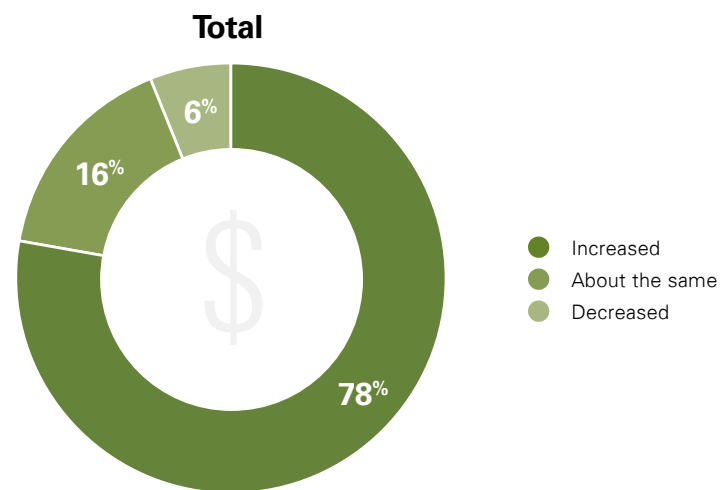
Revenues for private companies increased slightly more.

## Future revenue

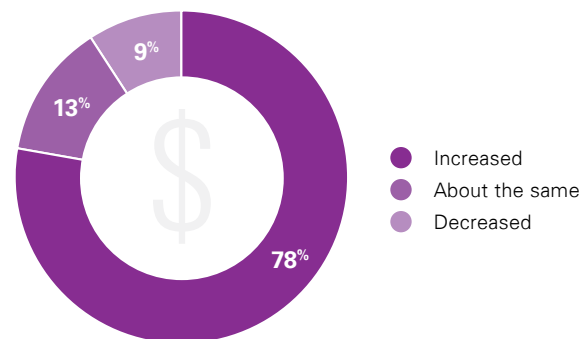
More than three-quarters (78 percent) predict their company's revenue to increase a year from now.



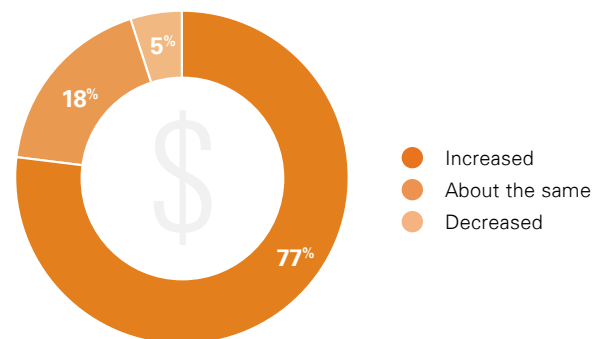
**Q: What do you expect your company's revenue to be like one year from now?**



Public



Private

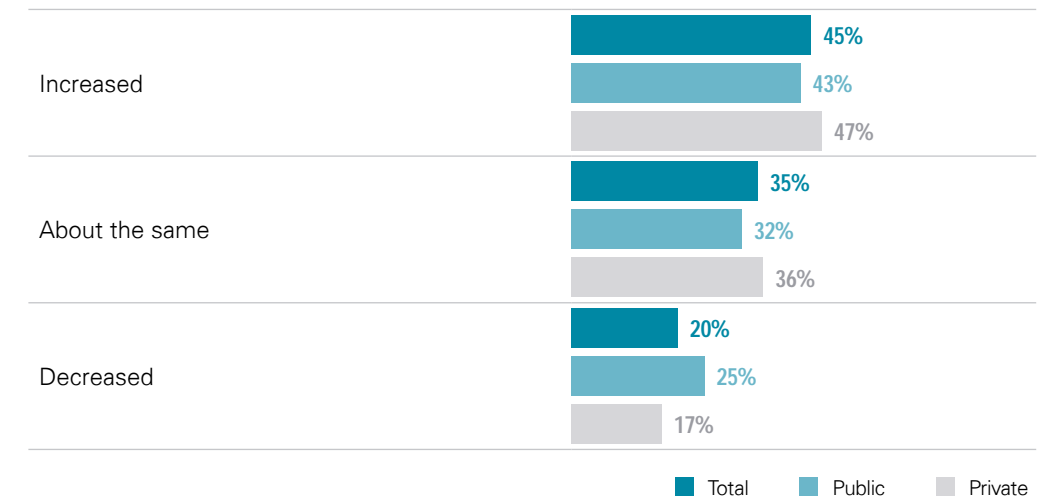


The majority of respondents in both sectors expects growth within the 6 percent to 10 percent range.

Executives are also optimistic about hiring, as nearly half (45 percent) say they added headcount over the past year.



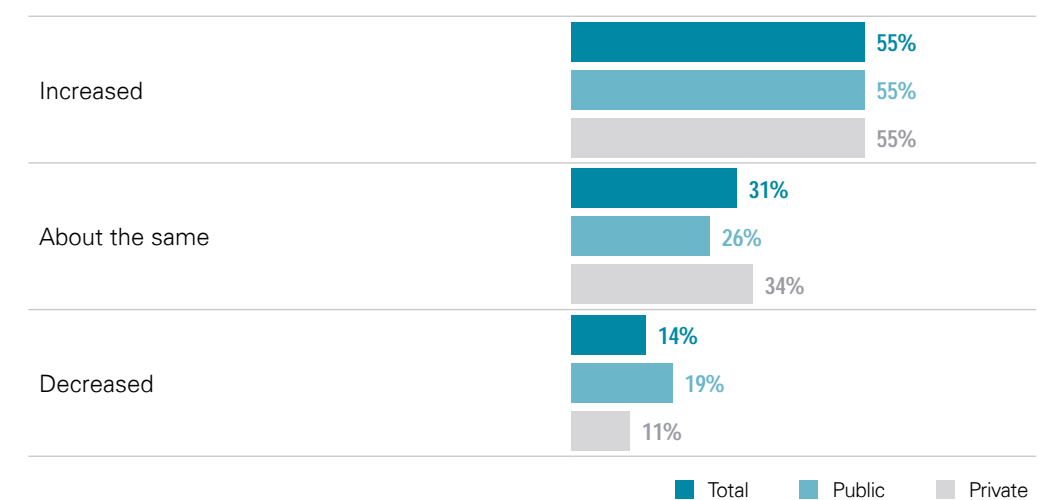
**Q: Compared with this time last year, how would you describe your company's current U.S. headcount?**



The majority of executives (55 percent) expect this hiring trend to continue in the year ahead. Most predict headcount increases within the 1 to 3 percent range.



**Q: How do you expect your company's U.S. headcount to change one year from now?**



Raising capital

A significant majority (62 percent) did not raise or refinance capital/debt in 2012, nor are they planning to do so in 2013 (59 percent).



Q: If you raised or refinanced capital/debt in 2012, which type(s) did you raise?

	% in Total	% in Public	% in Private
Senior debt	15	13	16
Secondary offering	11	18	7
High-yield debt	10	13	9
IPO	4	8	2
Other	4	2	5
Did not raise capital/debt	62	54	66

(Multiple responses allowed)

Public companies were more likely than private companies to have refinanced capital/debt in 2012.



Q: Which type(s) of capital/debt do you plan to raise or refinance in 2013?

	% in Total	% in Public	% in Private
Senior debt	15	18	13
Secondary offering	11	20	6
High-yield debt	11	11	12
IPO	5	6	5
Other	4	3	5
Do not plan to raise capital/debt	59	48	65

(Multiple responses allowed)

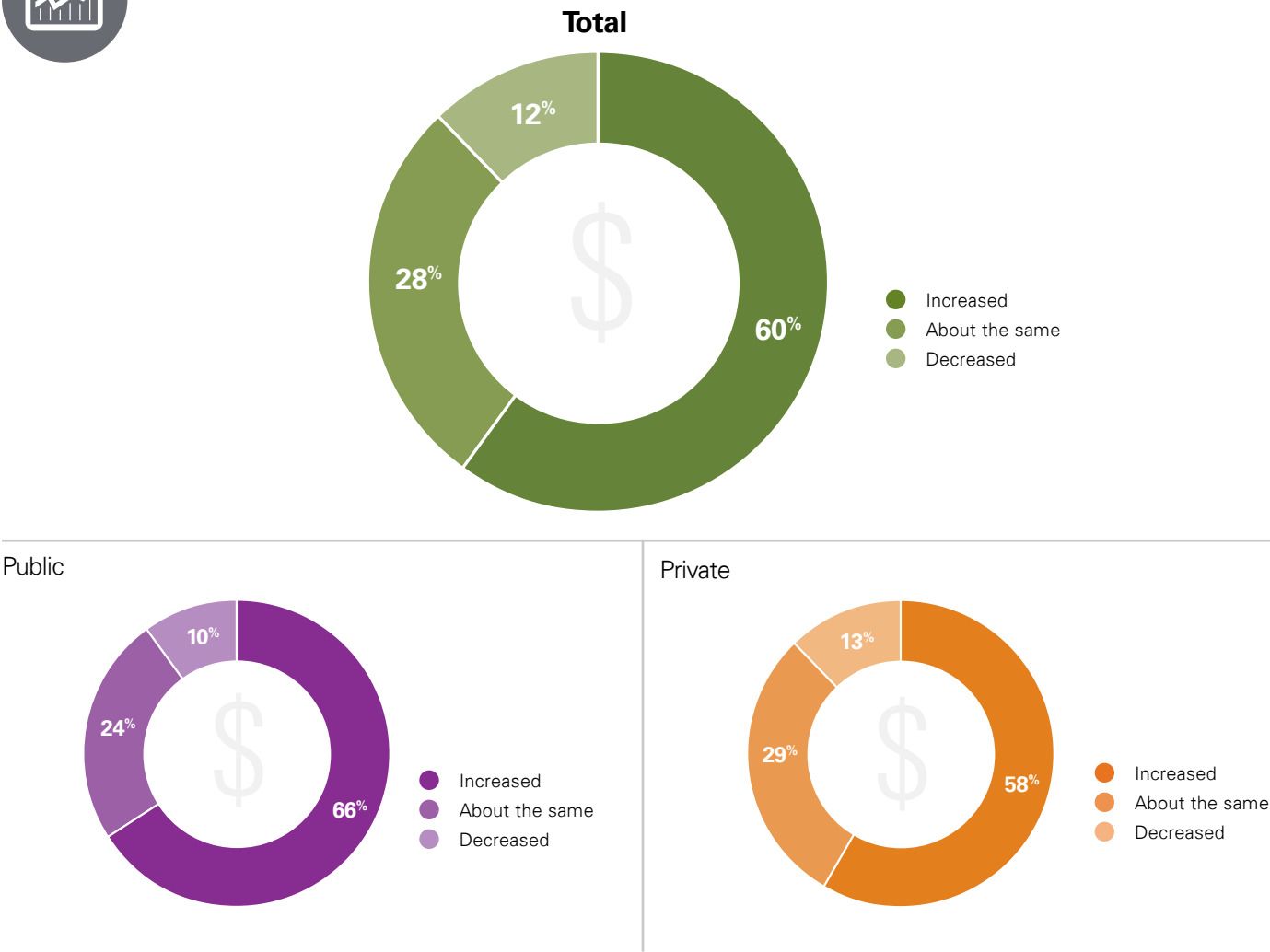


Capital spending

A strong majority (60 percent) expect to increase their company’s capital spending over the next year, with public companies slightly more likely to increase capital spending than private companies.



Q: What is the outlook for capital spending by your company over the next year?



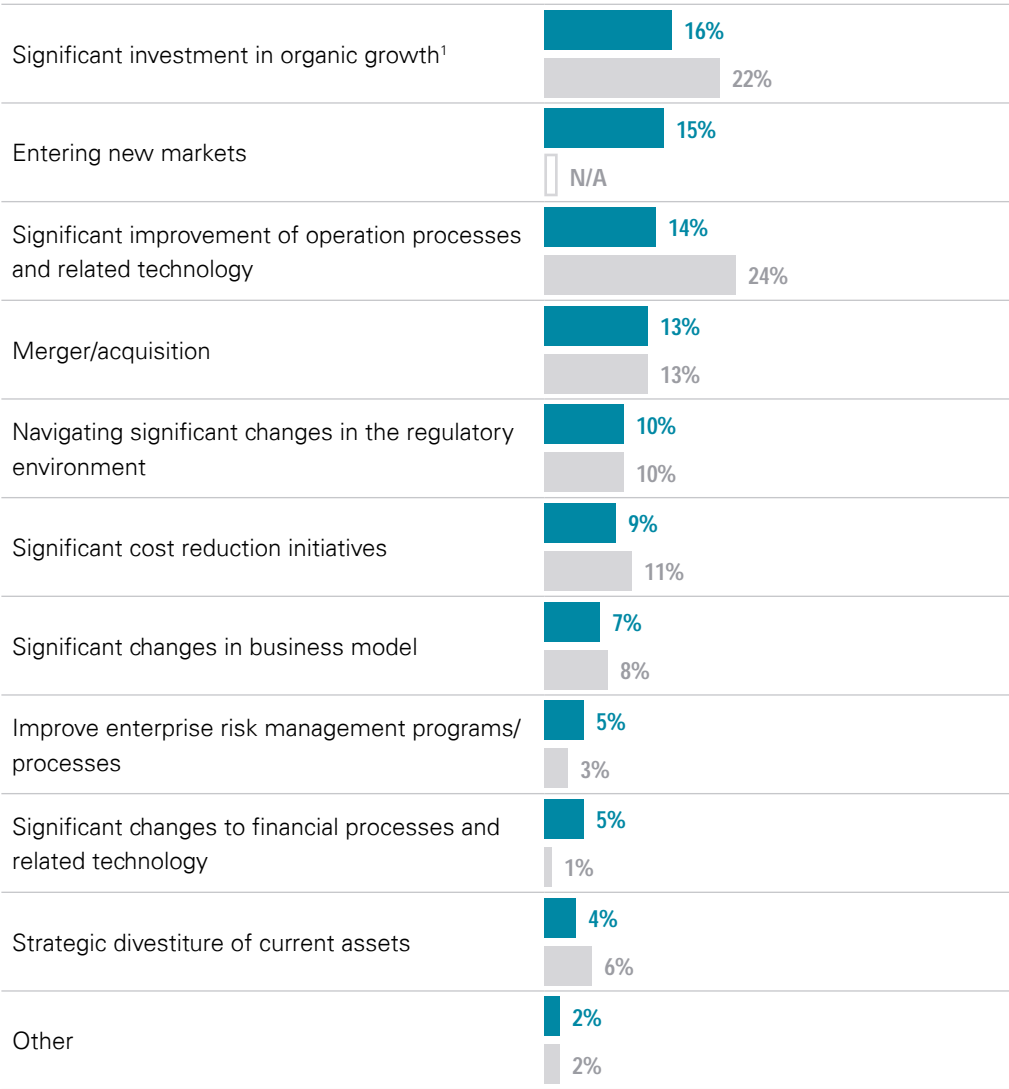
Most companies with a positive outlook expect an increase in the 1 to 5 percent range.

Top initiatives

Significant investment in organic growth was the top initiative on the mind of management, followed closely by entering new markets.



Q: What initiative do you expect to undertake over the next year that will consume the most time, energy, and resources, from a management perspective?



<sup>1</sup> (new product development, pricing strategies, geographic expansion)

■ 2013 ■ 2012

Significant improvement of operation processes and related technology, which was the top choice in 2012, fell to third.

The responses were largely the same for both publicly and privately held companies.

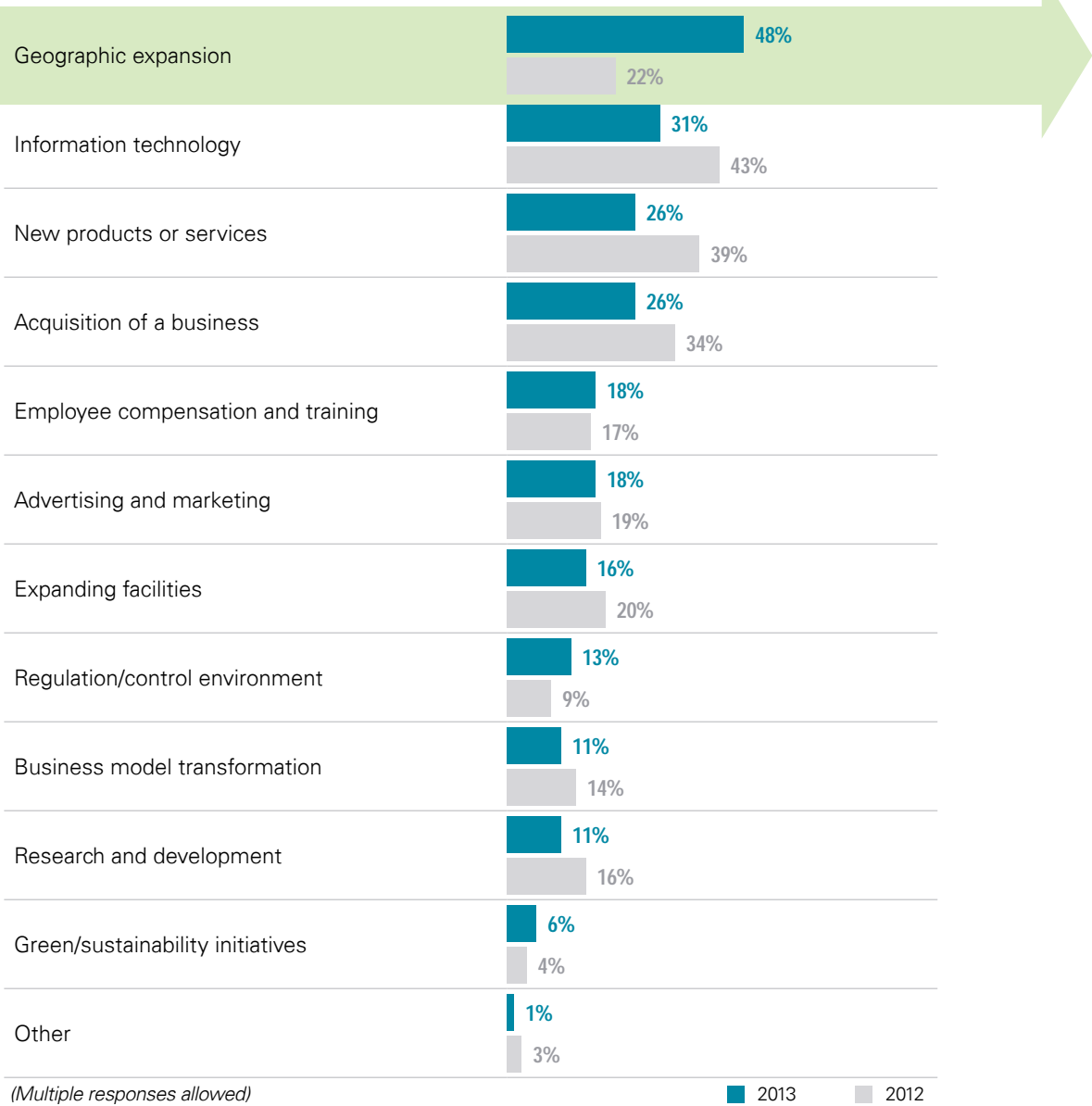


Spending in new areas

Geographic expansion was the highest priority investment area for nearly half of respondents (48 percent), compared to only 22 percent in 2012.

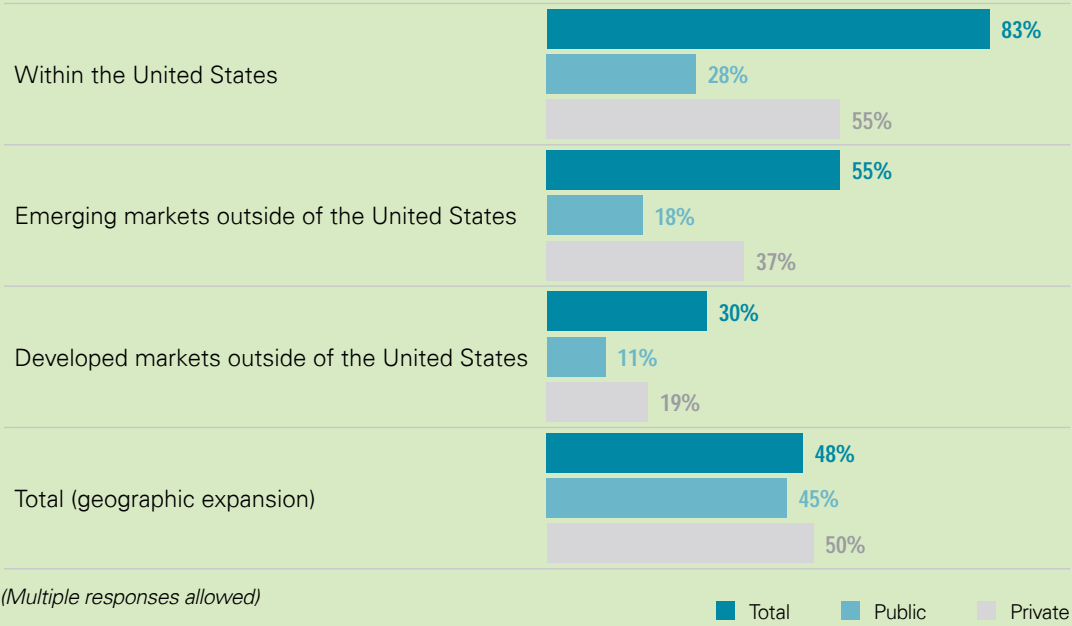


**Q: In which areas do you expect your company to increase spending the most over the next year?**



This was followed by information technology, new products or services, and acquisition of a business. The results were similar for both public and private companies. Of those who cited geographic expansion, the vast majority (83 percent) said their companies plan to expand within the United States.

Geographic expansion – breakout



Likelihood of M&A participation

Supporting the investment in acquisition findings, more than half of the executives (54 percent) say their companies will likely be involved in a merger/acquisition in the next year.



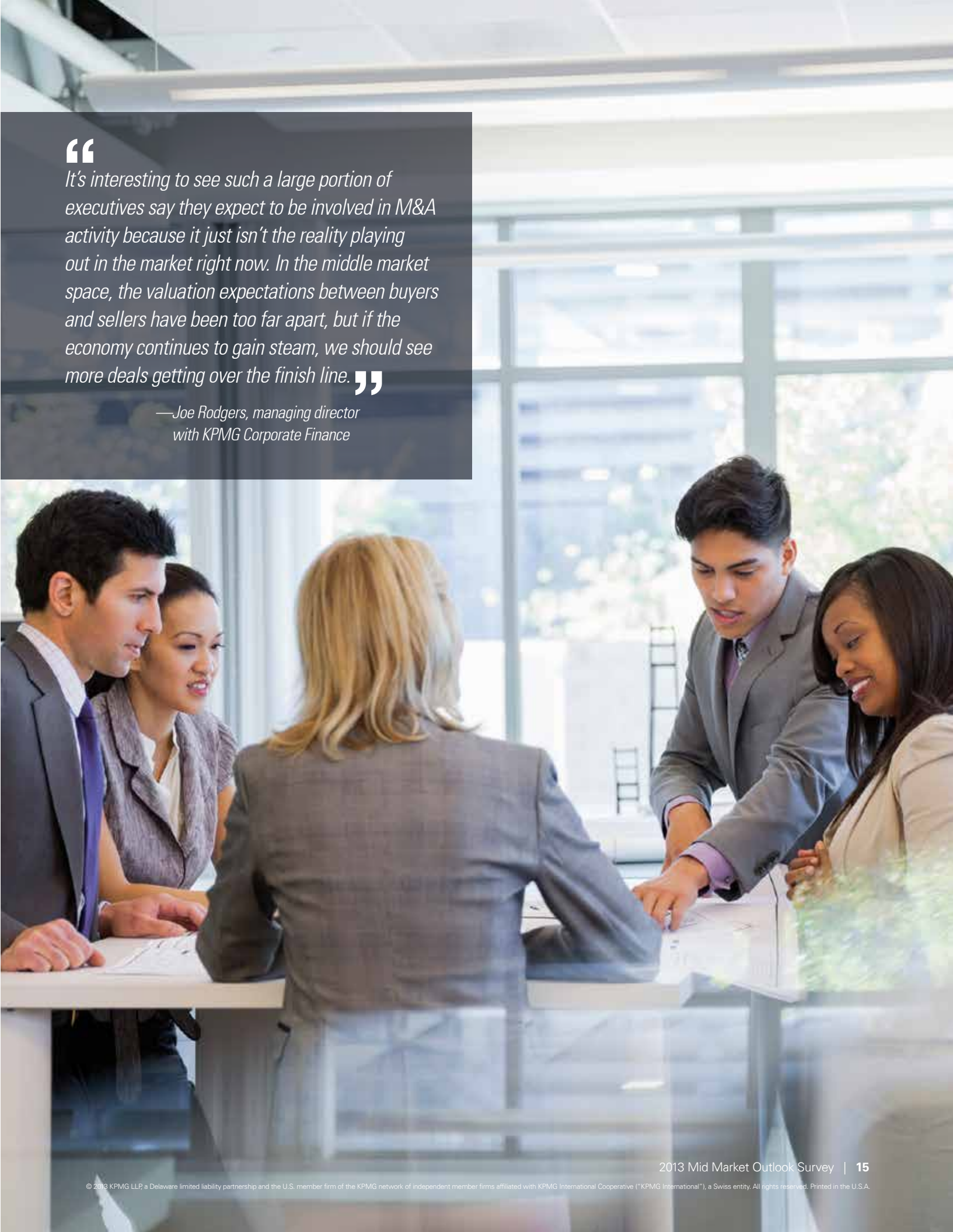
Q: What is the likelihood that your firm will be involved in a merger or acquisition in the next year?

	% in Total	% in Public	% in Private
Involved in M&A as buyer	34	37	33
Involved in M&A as seller	12	12	14
Involved in M&A as buyer and seller	8	10	7
No plans/not sure	46	41	46

“

It's interesting to see such a large portion of executives say they expect to be involved in M&A activity because it just isn't the reality playing out in the market right now. In the middle market space, the valuation expectations between buyers and sellers have been too far apart, but if the economy continues to gain steam, we should see more deals getting over the finish line.”

—Joe Rodgers, managing director with KPMG Corporate Finance

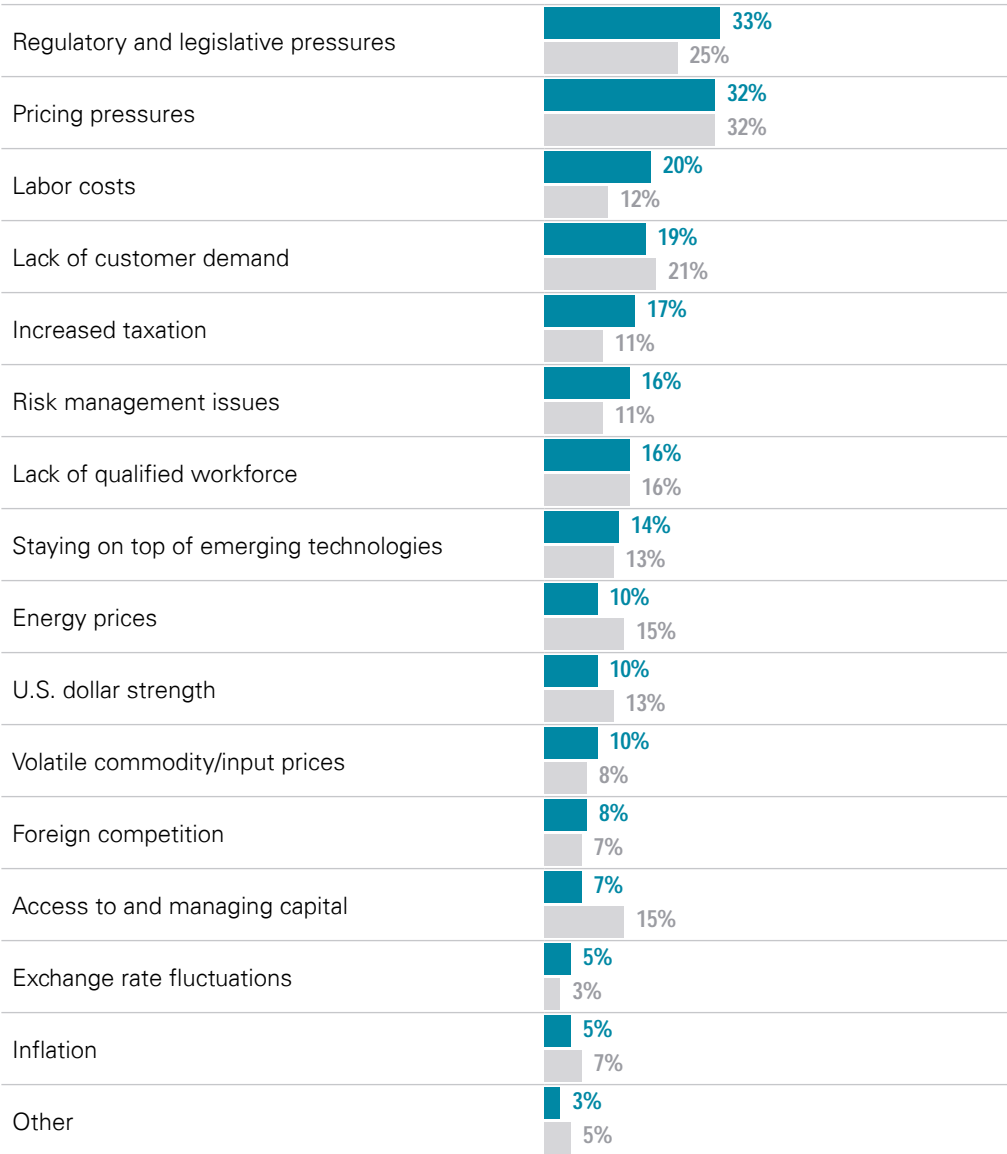


Industry challenges

Respondents say regulatory and legislative pressures are the most significant growth barriers for their companies over the next year, followed by pricing pressures, which was the top response in 2012.



Q: Which of the following are the most significant growth barriers facing your company over the next year?



(Multiple responses allowed)

2013 2012

The responses were largely the same for both publicly and privately held companies.

Threats to business models

More than a third of respondents (38 percent) cite political/regulatory uncertainty as the biggest threat to their company's business model.

Q: What issues pose the biggest threat to your business model?

The results were similar for both public and private companies.



38%

Political/regulatory uncertainty  
Public: 40% | Private: 37%



24%

Losing share to lower-cost producers  
Public: 30% | Private: 20%



16%

Lack of a qualified workforce  
Public: 16% | Private: 17%



13%

Inability to find visionary leadership  
Public: 15% | Private: 12%



12%

Disruptive technologies  
Public: 16% | Private: 10%



12%

Customer/employee mobility  
Public: 13% | Private: 11%



12%

Ability to find capital  
Public: 10% | Private: 13%



9%

Energy costs  
Public: 9% | Private: 10%



3%

Other  
Public: 2% | Private: 4%

(Multiple responses allowed)

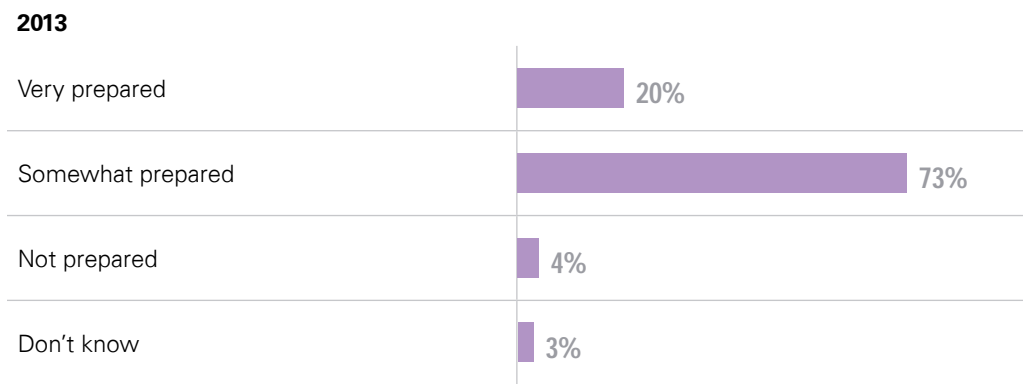


Regulatory change

Only 20 percent of executives say their company is very prepared to manage the impact of public policy and regulatory changes.



Q: How prepared is your company to proactively manage the impact of public policy and regulatory changes?



However, nearly three-quarters (73 percent) say their companies are at least somewhat prepared. The results were similar for both publicly and privately held companies.

“There is no question that this complex regulatory environment is weighing on executives’ minds. The implications and compliance requirements of Dodd-Frank and the Affordable Care Act, to name a few, are significant and companies are grappling with exactly how their business models and processes will need to be adjusted.”

— Brian Hughes,  
Partner, National Mid Market and Private Markets Group Leader

Cloud computing

The use of cloud computing is clearly increasing.



Q: When it comes to cloud adoption, which of these statements is most true for your organization?

	% in Total	% in Public	% in Private
Adopted and integrated	12	8	15
Adopted with minor challenges	32	31	30
Adopted with major challenges	12	14	11
Plan to adopt and expect integration	15	11	18
Plan to adopt and expect challenges	9	12	7
No plans to adopt	13	12	14
Don't know	7	12	5

More than 40 percent of executives say they have adopted cloud and found little to no challenges integrating it into their business strategy and operations.

Data and analytics

Mid market companies are embracing data and analytics, as nearly half of executives (44 percent) rate the data analytics literacy of their company’s management and workforce as either high or rapidly moving toward high, up from 35 percent in 2012.



Q: Which of the following best characterizes the data analytics maturity of your company?

	% Total	% Public	% Private
High data analytics literacy	21	19	23
Rapidly moving toward high analytical literacy	23	20	24
Average when it comes to utilizing analytics	37	36	37
Average to low analytical literacy	15	21	12
No formal data analytics capabilities	3	4	3
Don't know	1	0	1

Privately held companies report having a higher level of data analytics maturity, as 47 percent of private companies rate themselves as either high or rapidly moving toward high compared to 39 percent of public companies.

Actionable insights

Executives identify improving operational excellence as the best use for data and analytics, followed by acquiring customers and competitive intelligence.

Q: Considering the relevance of data and analytics at your company, which of the following items represents the best use of data and analytics in driving actionable insights?



(Multiple responses allowed)



# Conclusion

**M**iddle market companies are reporting increased confidence in the U.S. economy and increased revenues over the past year. More importantly, they expect these trends to continue in the coming year. As a result, the majority of companies expect to increase hiring over the next year as well as to increase capital investment to drive growth.

To take advantage of this potential growth, middle market companies are looking to geographic expansion, notably within the United States, as a top investment area. M&A activity may also be part of a growth strategy for many companies over the next year. In addition, companies plan to invest in information technology, including in cloud technology and data and analytics. The use of these technologies has increased over the past year and is likely on an upward trend.

While the overall outlook is improving, many remain concerned that regulatory and legislative pressures could hold them back. Notably, political and regulatory uncertainty was cited as the biggest threat to companies' business model. Companies are generally prepared to manage the impact of public policy and regulatory changes, but few consider themselves to be very prepared.

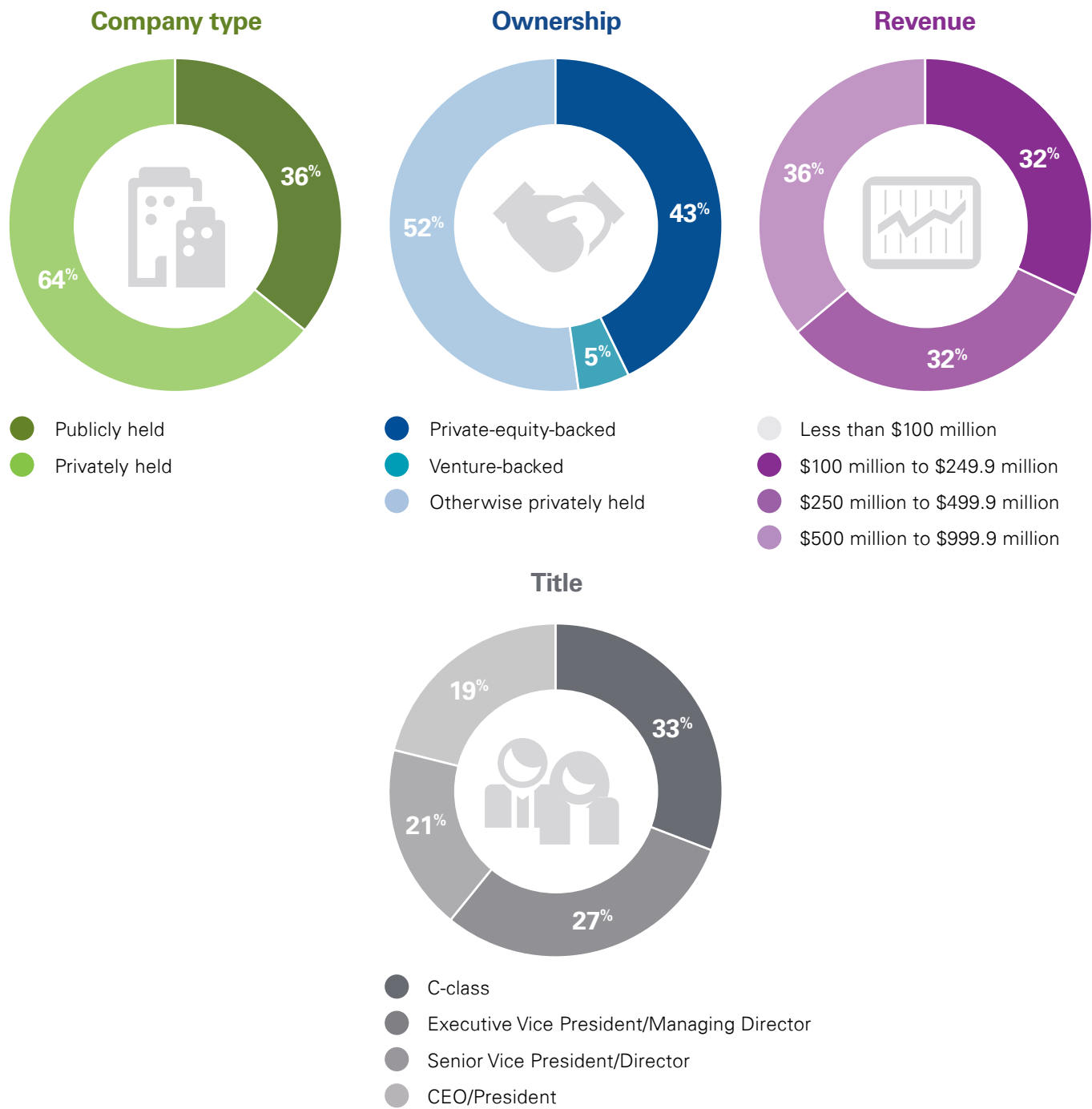
There is a sense of stability in the market, as fundamentals are improving. Overall, middle market companies are gaining positive momentum and becoming increasingly confident in the recovery.



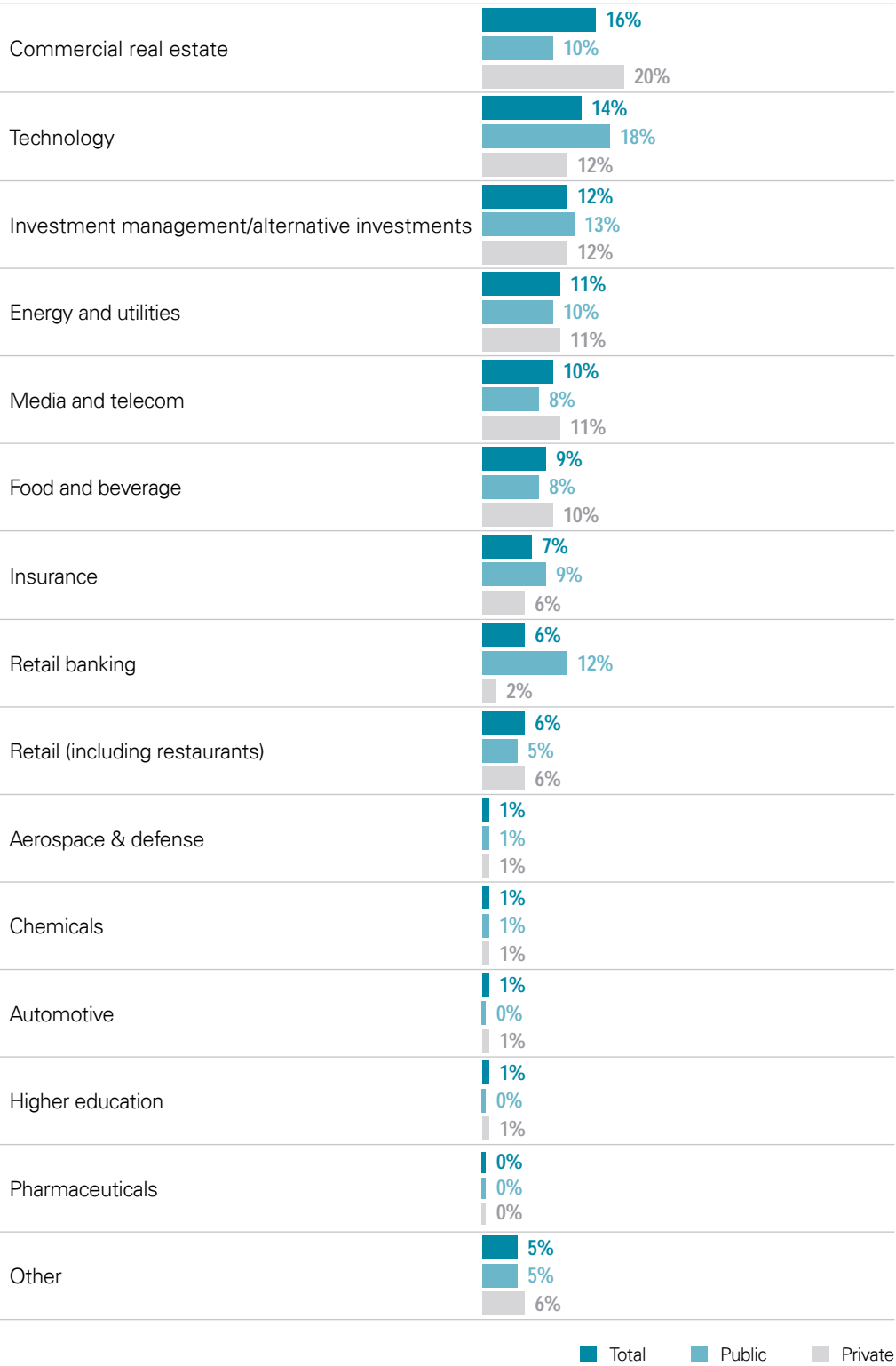


# Demographics and methodology

KPMG’s 2013 Mid Market Outlook Survey reflects the responses of 349 senior executives from U.S. companies during the spring of 2013.



## Industry



Note: Mid Market is referred to as aggregate, which includes companies having revenue less than \$1 billion.

# Helping you achieve your vision in a changing world

**As your company changes, its needs will change. KPMG can help.**

KPMG’s Mid Market practice has the knowledge and insight to help middle market companies address complex marketplace challenges and drive growth in today’s global economy. Focused on serving the public and private middle market, including private equity and venture capital-backed companies, our global network of professionals offers audit, tax, and advisory services tailored to meet the needs of growing enterprises. By providing industry perspectives and proactive guidance, our KPMG teams help our clients achieve their strategic objectives through each stage of the business life cycle.

**The right range of services. Right sized for you.**

When you work with KPMG, you can be sure you won’t be getting a one-size fits-all approach. We provide cross-functional audit, tax, and advisory services tailored for middle market companies. Some specific areas where we offer support include:

- Accounting change services
  - Cloud strategy
  - Contract compliance
  - Corporate finance
  - Economic and valuation services
  - Federal tax, including closely held business services
- Finance transformation
  - Financial management, including quality close and reporting
  - Governance, risk, and compliance
  - Individual, gift, and estate tax
  - International corporate services
  - International executive services
- IPO services
  - Private company audit services
  - Regulatory change and public policy
  - Risk management, including fraud and forensic services
  - State and local tax
  - Transaction services

**Thought leadership and industry insights.**



**KPMG and Forbes Private Markets Survey 2013**  
KPMG teamed with Forbes Insights to poll almost 500 executives of private companies from a range of industries to see how private companies are fueling the U.S. economy.



**IPO Pulse Survey Infographics**  
Produced in conjunction with KPMG’s Semiannual IPO Webcast series, this survey polls hundreds of entrepreneurs and investors to highlight key trends in the investment and start-up space.



**Credit Market Pulse Survey Infographics**  
Produced in conjunction with KPMG’s Semiannual Credit Market Webcast series, this survey polls hundreds of financial executives and investors to highlight key trends in the credit markets.



**2013 Industry Outlook Surveys**  
KPMG’s Industry Outlook Surveys take the pulse of key industry sectors to provide our distinct insight into ongoing challenges and emerging trends being reported by top industry executives. From banking to technology, healthcare to energy, you’ll find valuable perspectives on the key issues facing your industry.

**Contributors**

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

- Charlie Garbowski  
Director  
Primary Research

Lisa Heuston  
Marketing Director  
Mid Market/Private Markets Group

Brian Hughes  
Partner,  
National Mid Market and Private Markets Group Leader
- Paul Pullara  
Associate Director  
Design

Joe Rodgers  
Managing Director  
KPMG Corporate Finance LLC
- Joanna Vargas  
Director  
Content Creation

Lyndsay Wheeler  
Marketing Manager  
Mid Market/Private Markets Group

For other relevant insights and perspectives impacting your organization, please visit [www.kpmg.com/us/midmarketindustry](http://www.kpmg.com/us/midmarketindustry).

**About KPMG**

KPMG LLP, the audit, tax and advisory firm ([www.kpmg.com/us](http://www.kpmg.com/us)), is the U.S. member firm of KPMG International Cooperative (“KPMG International”). KPMG International’s member firms have 152,000 professionals, including more than 8,600 partners, in 156 countries.

**For more information, contact**

**Brian Hughes**

Partner, National Mid Market and Private Markets Group Leader

267-256-1820

[bfhughes@kpmg.com](mailto:bfhughes@kpmg.com)

[kpmg.com](http://kpmg.com)

The views and opinions from the survey findings are those of the survey respondents and do not necessarily represent the views and opinions of KPMG LLP.

© 2013 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. NDPPS 190291

