

2003

Middle-Market Outlook

A Survey of Manufacturing
Company Chief Financial Officers



Fleet Capital

A FleetBoston Financial Company

Message from Our CEO

Five years ago, Fleet Capital published its first annual Middle-Market Outlook—a survey of manufacturing company CFOs. Where we are today is very different from where we were in 1999. The Fed has lowered rates to 40 year lows. Stocks hit record highs, only to see all of the gains erased. The country entered a recession and continues to struggle toward recovery. And, we've seen the biggest bankruptcies in history. Any one of these factors alone would be enough to affect the economy. Put them all together and their impact on the economy and the business environment has been enormous.

Despite all this, the CFOs surveyed this year are more optimistic about the economy than they were in the four prior surveys, with nearly 70% saying they believe the national economy will expand in 2003. In fact, more than 71% anticipate revenue growth for their own companies in 2003, suggesting that many CFOs feel the economy has bottomed out. However, some CFOs remain cautious citing concerns about the cost of materials, equipment and labor.

This year we more than doubled our survey sample from 300 interviews to more than 650, and included an additional subgroup of larger middle-market companies with annual revenues ranging from \$500 million to \$1 billion. We sincerely thank our survey respondents for their time and valuable insights.

We look forward to continuing to provide middle-market manufacturers with the intellectual and financial capital they need to move ahead—no matter what the economic outlook.

A handwritten signature in black ink that reads "James G. Connolly". The signature is written in a cursive, flowing style.

James G. Connolly
President and CEO
Fleet Capital Corporation

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The Major Findings

Economic Outlook

- The majority of chief financial officers (CFOs) perceive the current state of the U.S. economy as good, giving it an average score of “65” on a scale ranging from 0 (extremely weak) to 100 (extremely strong). This rating reflects an increase of 12% over the “58” score cited in last year’s survey.
- Sixty-nine percent of CFOs surveyed believe the national economy will expand in 2003, a significant increase over the 43% answering “expansion” one year ago. Five percent expect contraction, the lowest percentage in the survey’s history.
- The majority of CFOs (65%) are confident about the current state of the manufacturing sector, citing a rating of “70” or better.
- Consistent with their views of the U.S. economy as a whole, 67% of those surveyed say that the manufacturing sector will expand in 2003.
- Sixty-one percent of CFOs responded that the current state of the economy has not caused them to change their plans for growth or expansion.
- Fifty-two percent expect capital expenditure spending levels to remain stable, while 35% anticipate an increase. Eleven percent expect to spend less or hold off on capital expenditures in 2003.
- CFOs’ optimism about the U.S. economy is reflected in the 71% expecting their revenues to grow, a substantially larger percentage compared to respondents’ answers in November 2001 (51%).

Financing

- When asked to cite their most significant financial concerns, CFOs mentioned a wide variety of issues including the cost of material, equipment and labor (16%), economic uncertainty (12%) and revenue/cash flow (10%).
- Supporting CFOs’ views toward economic growth in 2003, nearly half (46%) say their financing requirements will increase in the coming 12 months, compared to 32% in 2002.
- With interest rates at historical lows, it’s not surprising that 54% of CFOs surveyed expect their cost of capital to rise in 2003.
- Nearly three-quarters (71%) are considering financing to fuel their company’s growth.

The Major Findings

Financing (continued)

- Despite challenging credit markets, 40% of CFOs say that credit availability from their current lender has increased in the past 12 months, compared to 24% in November 2001.
- An overwhelming majority (90%) of CFOs surveyed say they have been able to find the financing needed to execute their business plans.
- Bank financing (55%) and internal sources (34%) are the top two types of financing CFOs plan to use in 2003. Private equity (21%) remains in third place for the third year in a row.
- Four in ten CFOs reported that their relationship with their current lender has improved, versus 25% in last year's survey.
- More than half (51%) of middle-market CFOs say they use the Internet to transact business with their lender. Viewing balance information/on-line statements (85%) and submitting financial information (63%) rose to the top of the list when asked how they use the Internet to transact business with their lender.

Mergers and Acquisitions (M&A)

- Eighteen percent of middle-market manufacturing companies expect to participate in a merger, acquisition, or divestiture in 2003.
- Forty-three percent of CFOs surveyed — the highest percentage in the past four years — believe that the purchase price for companies in their industry as a multiple of earnings will increase in 2003, compared to only 17% in 2002.

International Outlook

- Sixty-three percent of companies surveyed are involved in markets outside the U.S., with 54% exporting to foreign countries, 30% buying from foreign suppliers, and 19% having operations outside the U.S.
- Of those companies that sell to foreign markets, 62% expect sales to increase.
- Of those companies who conduct business internationally, 60% do not hedge foreign currency risks. Public companies (42%) are more likely to hedge these risks compared to private companies (27%).

Economic Outlook

On a scale ranging from 0 (extremely weak) to 100 (extremely strong), how would you rate the current state of the U.S. economy?

More CFOs are optimistic than pessimistic about the current state of the U.S. economy, giving it an average score of "65" on a scale ranging from 0 (extremely weak) to 100 (extremely strong). This rating reflects an increase of 12% over the "58" score in the 2002 Middle-Market Outlook, and confirms that CFOs view the economy in a more positive light.

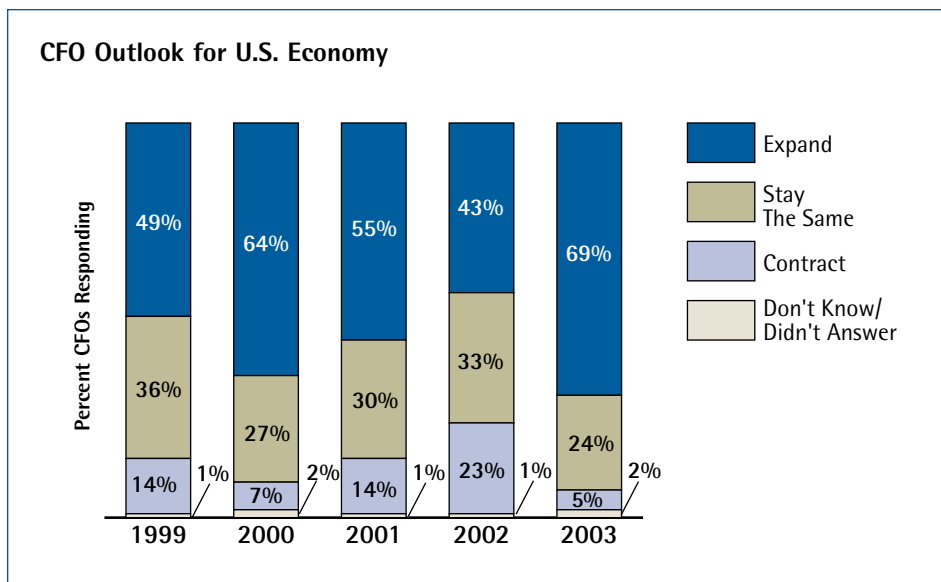
Although economic uncertainty continued throughout 2002, CFOs surveyed believe that the economic outlook has improved. In fact, 65% of CFOs rate the current state of the economy a rather solid "70" or higher while only 13% would score the economy under the "50" midpoint.

This cautious optimism about the current state of the U.S. economy extends uniformly across all regions of the country. The scores are very consistent across a variety of key subgroups, including publicly owned companies (rating of 65) and those that sell their products overseas (rating of 66). CFOs who expect to participate in a merger or acquisition in 2003 rated the current state of the economy at a very positive "74".

Economic Outlook

Looking ahead, do you think the U.S. economy will expand, contract, or stay the same in 2003?

The majority of middle-market CFOs are positive about the U.S. economy in 2003. This optimism creates the foundation for CFO responses throughout the rest of the survey as it relates to areas such as growth plans and capital spending. Nearly 7 out of 10 CFOs (69%) believe the national economy will expand in 2003. This is a significant increase over the 43% citing "expansion" in 2002, and the highest percentage seen for expansion in the survey's five-year history. About one-quarter (24%) of the CFOs surveyed expect the U.S. economy to stay the same in 2003, while only 5% expect "contraction", the lowest percentage in the history of the survey.



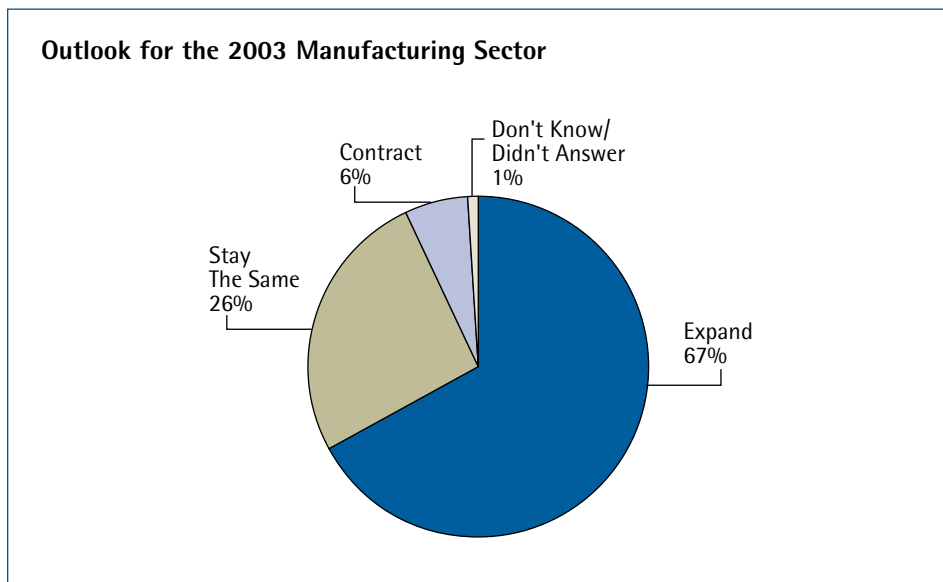
These numbers are consistent among several key segments. Noteworthy, however, are companies that sell to foreign markets and companies with annual revenues greater than \$500 million, with expectations for expansion 76% and 84% respectively.

Economic Outlook

On a scale ranging from 0 (extremely weak) to 100 (extremely strong), how would you rate the current state of the manufacturing sector?

As with their outlook for the U.S. economy in general, the majority of CFOs are confident about the current state of the U.S. manufacturing sector, with 65% citing a rating of "70" or better. Over 90% rated it above the "50" midpoint.

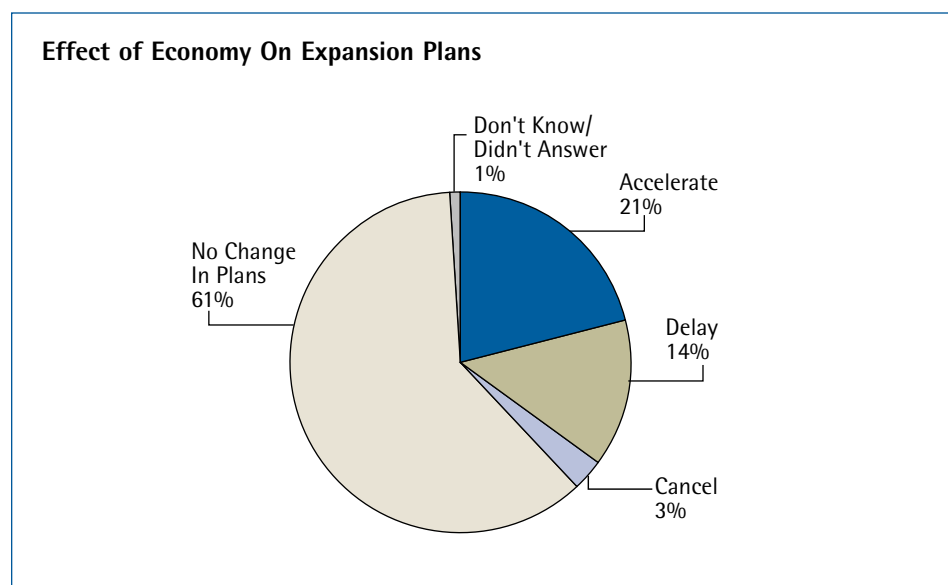
When asked whether the manufacturing sector would expand, contract or stay the same in 2003, the majority of CFOs (67%) say that this sector will expand in 2003, while 6% expect contraction. Twenty-six percent believe it will stay the same. These numbers are consistent with their view of the U.S. economy as a whole.



Economic Outlook

Has the current state of the economy caused you to alter your plans for growth or expansion?

Less than one in five reported delaying or canceling growth or expansion plans as a result of the current state of the economy. Fourteen percent reported delays and 3% reported



cancellation of their plans altogether. Twenty-one percent accelerated their growth plans, while the majority (61%) reported that the state of the current economy has not caused them to change their plans for growth or expansion.

A company's ability to obtain adequate capital clearly has an impact on its growth and expansion plans. Thirty-nine percent of CFOs who have seen increased credit availability from their lenders report an acceleration of growth plans.

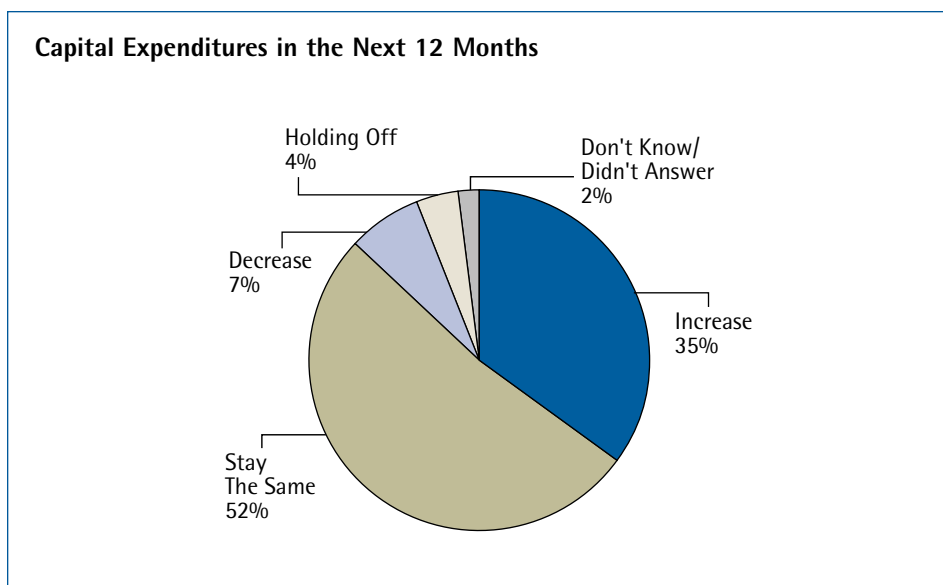
There are significant differences across other subgroups. Smaller companies (those with annual revenues less than \$75 million) are less likely to report acceleration of growth plans (15%) compared to 21% overall. Fifty-eight percent of companies that anticipate M&A activity in 2003 accelerated growth plans.

Economic Outlook

Do you expect that your company's level of capital expenditures over the next 12 months will increase, decrease or stay the same as the past 12 months?

Thirty-five percent of CFOs surveyed anticipate an increase in capital expenditures. Fifty-two percent expect capital expenditure spending levels to remain stable, while 11% plan to spend less or hold off on capital expenditures altogether.

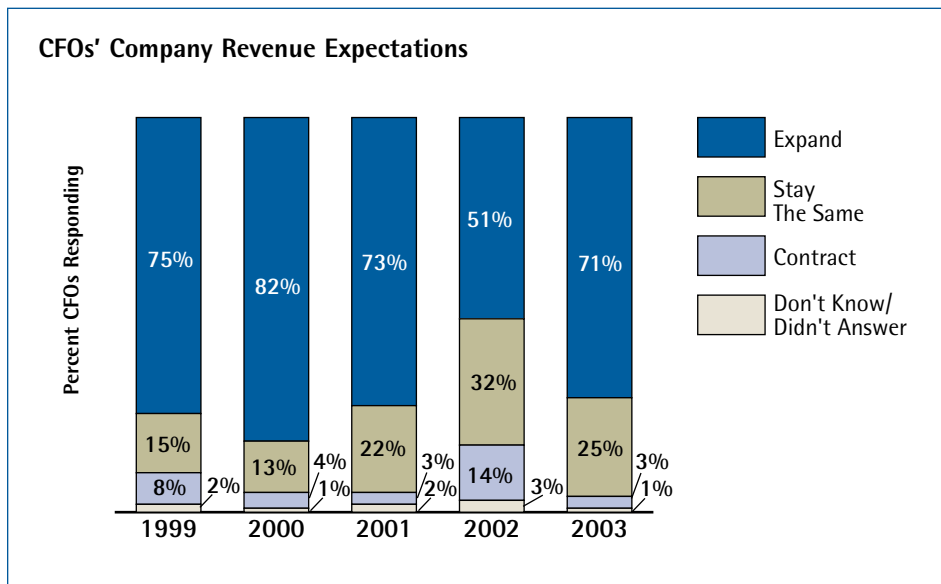
However, companies anticipating higher foreign sales (52%), companies with revenues greater than \$200 million (51%), and companies who have seen increased credit availability within the past 12 months (56%) expect to increase capital expenditures at significantly higher rates.



Economic Outlook

Do you expect your company's revenues to grow, contract or stay the same in 2003?

Again, it appears that CFOs believe that the economy has hit bottom and are more optimistic about their own growth plans in 2003. The 71% citing revenue growth is a



substantially larger percentage compared to 51% in the 2002 Middle-Market Outlook. Exactly one-quarter say their revenues are likely to stay the same, while only 3% expect their revenues to contract. In the 2002 Middle-Market Outlook, 14% of CFOs expected a revenue contraction.

Several key sub-groups show significantly higher growth expectations. Seventy-seven percent of companies that sell to foreign markets expect revenue growth in 2003. Larger companies, those with annual revenues greater than \$200 million, are more likely to forecast an increase in revenues (80%) compared with 70% of companies with less than \$200 million in sales.

Ninety-six percent of CFOs answered either "expand" or "stay the same", virtually the same high levels achieved in the 2000 and 2001 surveys.

Economic Outlook

What are your most significant financial concerns?

When asked to cite their most significant financial concerns, CFOs mentioned a wide range of issues. The most frequently cited concerns include cost of material, equipment and labor (16%), economic uncertainty (12%) and revenue/cash flow (10%).

Other financial concerns include:

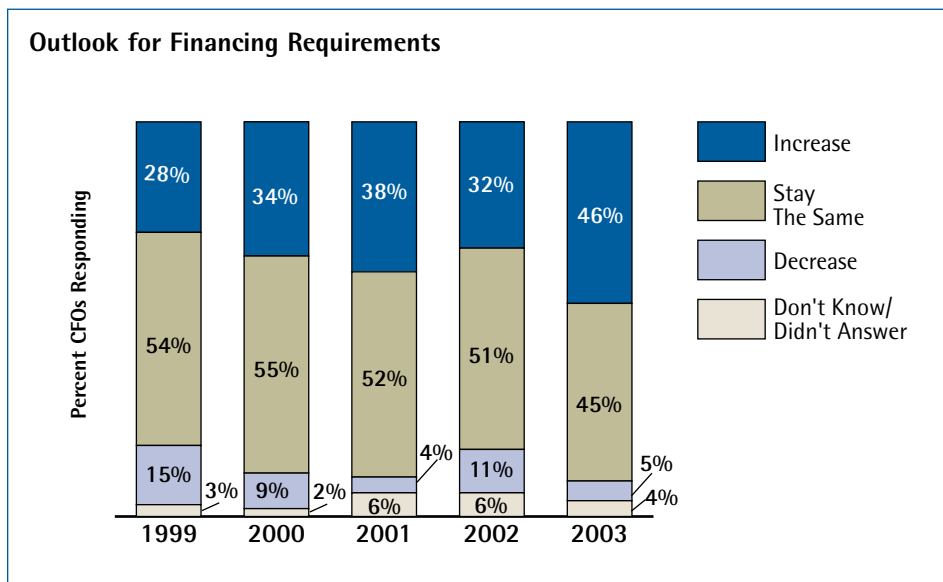
- Strength of the dollar
- Insurance cost
- Foreign competition
- Credit availability
- Accounting rules

Financing

Will your company's financing requirements increase, decrease or stay the same in 2003 as compared to 2002?

Nearly half of CFOs surveyed (46%) say that their financing requirements will increase in 2003 compared to 32% in 2002. This is the highest percentage citing an increase in the five-year history of this survey, and a full 14 percentage points above last year's findings. This supports the CFOs' optimistic view of economic growth in 2003. With many CFOs predicting revenue growth for their companies, they may see a need for additional funds to finance capital expenditures, acquisitions or their working capital needs. A slightly

smaller percentage (45%) expect that their financing requirements will be unchanged, while only 5% cite that their financing needs will decrease.

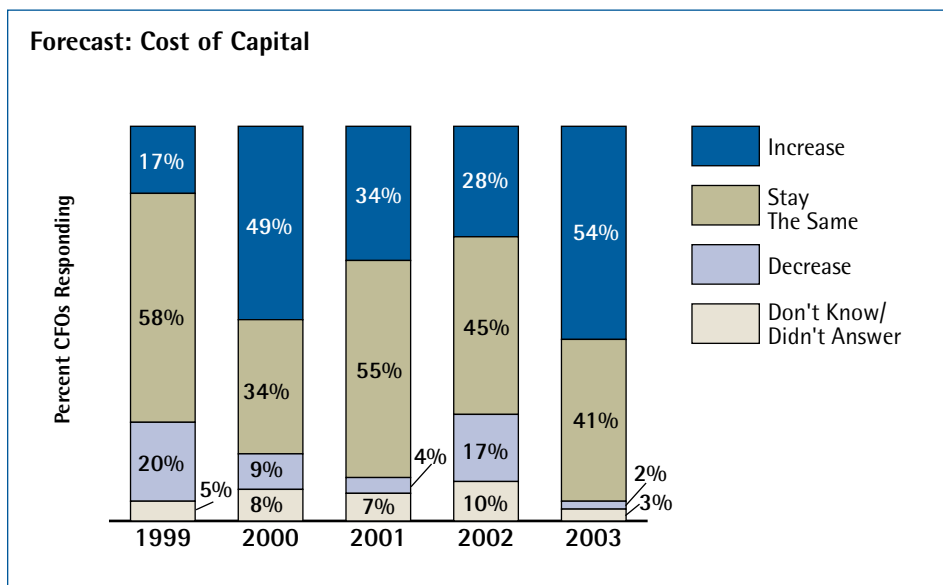


Financing

Do you expect your cost of capital to increase, decrease or stay the same in 2003 as compared to 2002?

With interest rates at their lowest point in over 40 years, it's no surprise that 54% of CFOs expect their cost of capital to rise in 2003, compared with 28% in 2002 and 34% in 2001.

Six out of ten public companies project a rise in the cost of capital in 2003, compared to roughly half of the private companies surveyed (52%). Sixty-five percent of companies with revenues above \$200 million anticipate an increase in their cost of capital in the next 12 months.

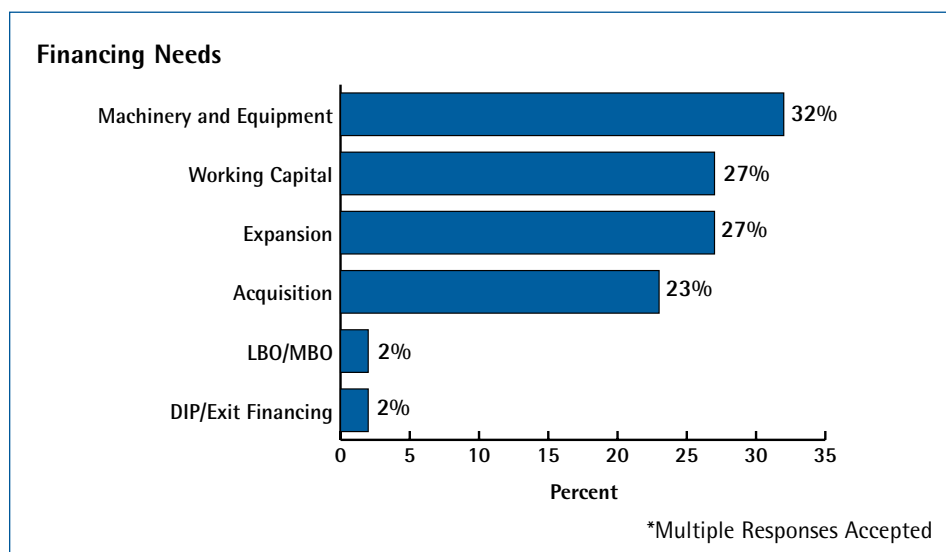


Financing

Are you currently considering financing for any of the following:

- Acquisition
- Expansion
- Working Capital
- Machinery & Equipment
- Leveraged Buyout/Management Buyout (LBO/MBO)
- Debtor-in-Possession (DIP)/Exit Financing

Seventy-one percent of CFOs surveyed are currently considering financing to fuel their company's operations. Slightly more than three in ten (32%) say they are considering financing to purchase machinery & equipment. Working capital and expansion came in second with 27% each, while 23% indicate they are seeking financing to support future acquisitions.



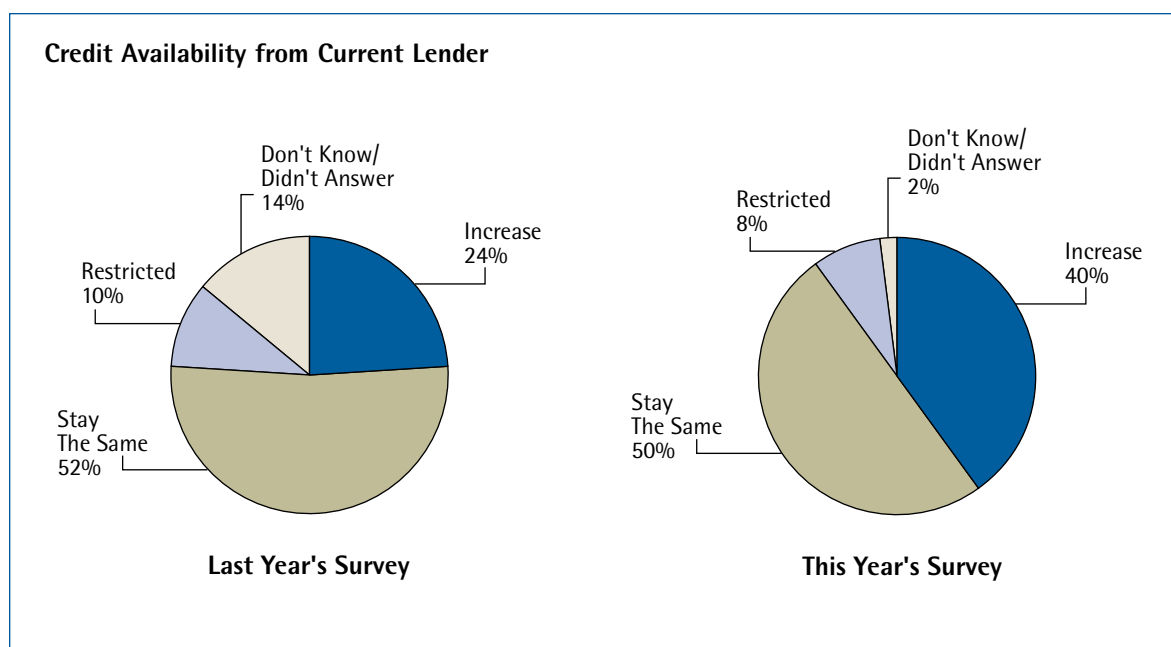
There are significant differences in some subgroups. Thirty-nine percent of public companies expect to need financing to support working capital, as compared with only 22% of private companies. For companies with sales exceeding \$200

million, 42% say they will need financing to fuel expansion, while only 23% of companies with sales less than \$200 million currently seek financing for this same purpose.

Financing

Thinking about the credit availability from your current lender, would you say that your lender has increased, maintained or restricted credit availability compared to a year ago?

Despite the challenging credit markets this past year, 40% of CFOs say that credit availability from their current lender has increased in the past 12 months, compared with only 24% surveyed last year. Half of CFOs surveyed are seeing credit availability at the same level as one year ago. Only 8% reported that availability from their current lender has tightened in 2002.



Not surprisingly, nearly three-quarters (74%) who reported an acceleration in their growth plans saw an increase in their credit availability. This compares with 21% who have delayed or cancelled growth or expansion plans.

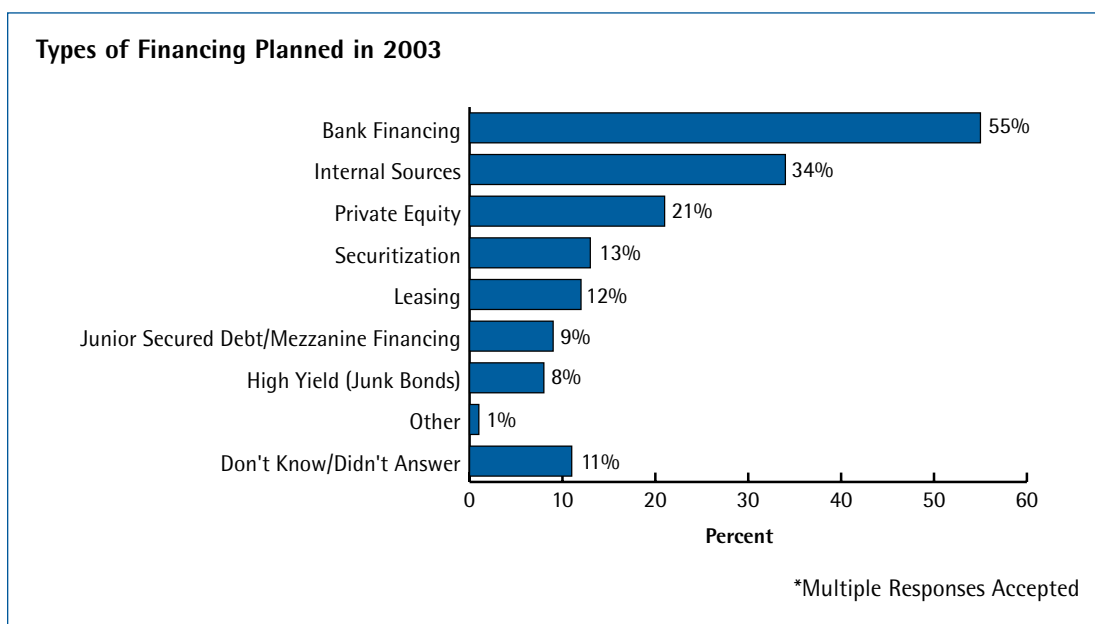
When asked "Has your company found adequate financing in order to execute your business plans?", an overwhelming majority (90%) of CFOs surveyed say they have been able to find the financing needed.

Financing

Which of the following types of financing does your company plan to use in 2003?

The top two types of financing middle-market manufacturing companies plan to use in 2003 are bank financing (55%) and internal sources (34%). Private equity remains in third place (21%) for the third year in a row.

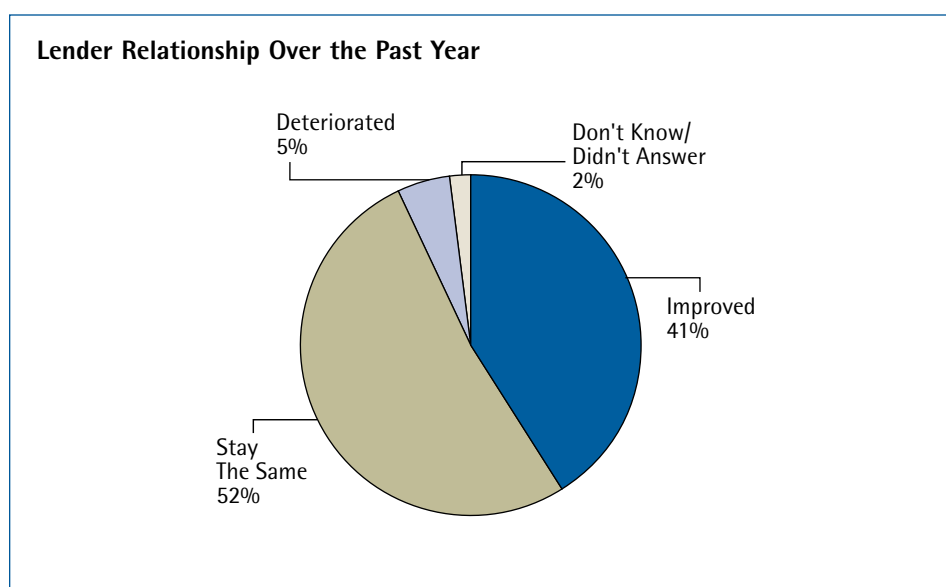
Those companies who expect their cost of capital to decrease, as well as those planning to be involved in Merger and Acquisition activity are more likely to use private equity as a source of financing.



Financing

Do you think that, over the past year, your relationship with your current lender has improved, remained the same or deteriorated?

More than four in ten (41%) CFOs reported that their relationship with their current lender has improved, versus 27% in 2002—a fourteen percentage point change. Fifty-two percent indicate that their lender relationship is unchanged, compared with 61% last year. Only 5% feel that their lender relationship has deteriorated.



Not surprisingly, 81% of those companies who have seen an increase in their credit availability also indicate that their relationship with their lender has improved.

Those companies expecting an increase in capital expenditures, and those who expect increased revenue

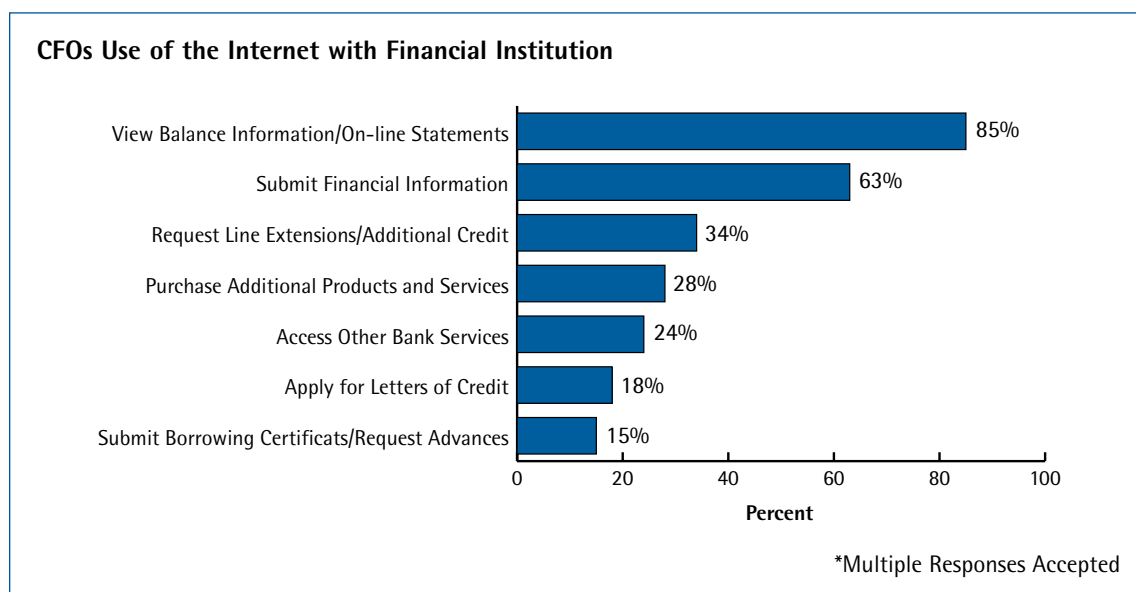
growth in 2003 are more likely to indicate an improvement in their lender relationships over the past year.

Financing

Do you use the Internet to transact business with your lender or financial institution?

More than half (51%) of middle-market CFOs surveyed use the Internet to transact business with their lender.

When asked in what way they use the Internet to transact business with their lender, viewing balance information/on-line statements (85%) and submitting financial information



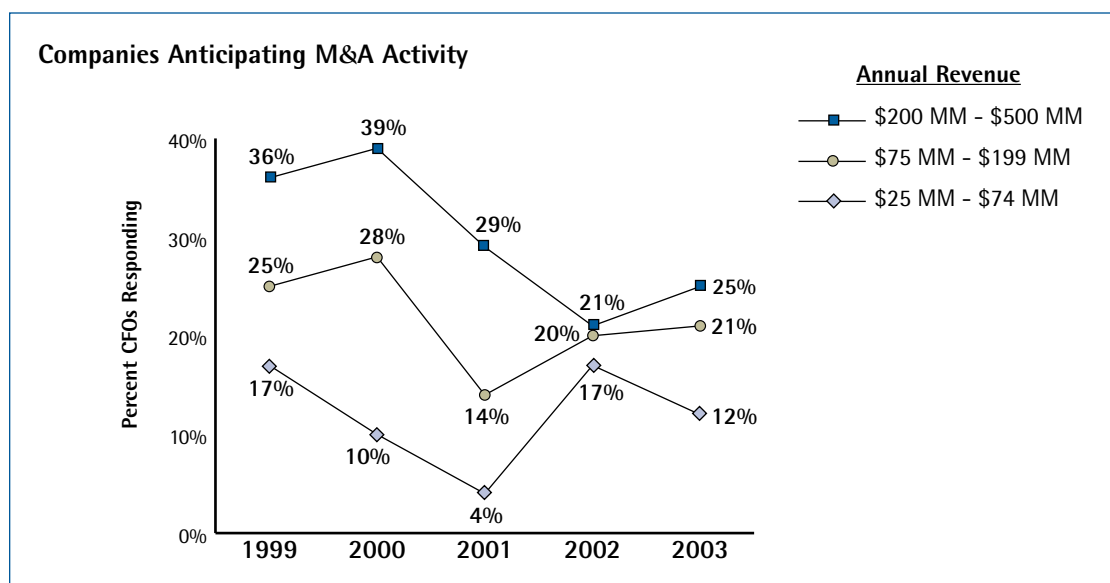
(63%) topped the list. Purchasing additional products, accessing bank services, applying for letters of credit, and submitting borrowing certificates/request advances were also cited by CFOs who use the Internet to transact business with their lender.

Of companies using the Internet to transact business with their lender, 80% of larger companies (those with revenues exceeding \$200 million) submit financial information, compared to 58% of companies with revenues below \$200 million. Similarly, smaller companies are less likely to request line extensions or additional credit from their lender using the Internet.

Mergers and Acquisitions

Will your company participate in any mergers or acquisitions in 2003?

Similar to 2002, 18% of middle-market manufacturing companies expect to participate in a merger or acquisition in 2003. Of these companies, 30% expect to buy, while 14% anticipate selling. The majority (53%) expect to both buy and sell.



Over the past five years, the survey has shown that smaller companies are less likely to participate in mergers or acquisitions. One-quarter of larger companies (those with annual revenue between \$200-\$500 million) anticipate increased M&A activity, while companies with revenues below \$75 million expect less M&A involvement in the coming 12 months.

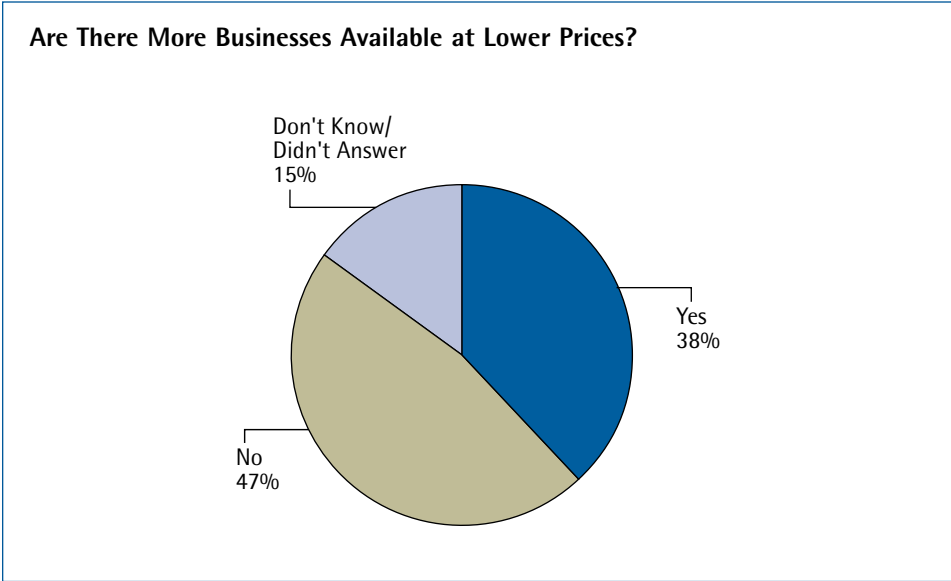
As company size increases, so does the likelihood that they will be involved in mergers or acquisitions. In fact, in a subgroup surveyed for the first time this year, 30% of companies with revenues exceeding \$500 million expect to participate in M&A activity in 2003.

Of those companies who will be selling, an overwhelmingly majority (73%) indicate that they will be divesting of one or more divisions or product lines in 2003, as opposed to those CFOs saying they will be selling the entire company.

Mergers and Acquisitions

Are there more businesses available at lower prices and attractive multiples compared to a year ago?

Forty-seven percent of those surveyed do not believe there are more businesses available at lower prices and attractive multiples compared to one year ago when 23% answered “No” to this same question. Less than four in ten (38%) believe pricing will be more attractive, compared to 50% in 2002.

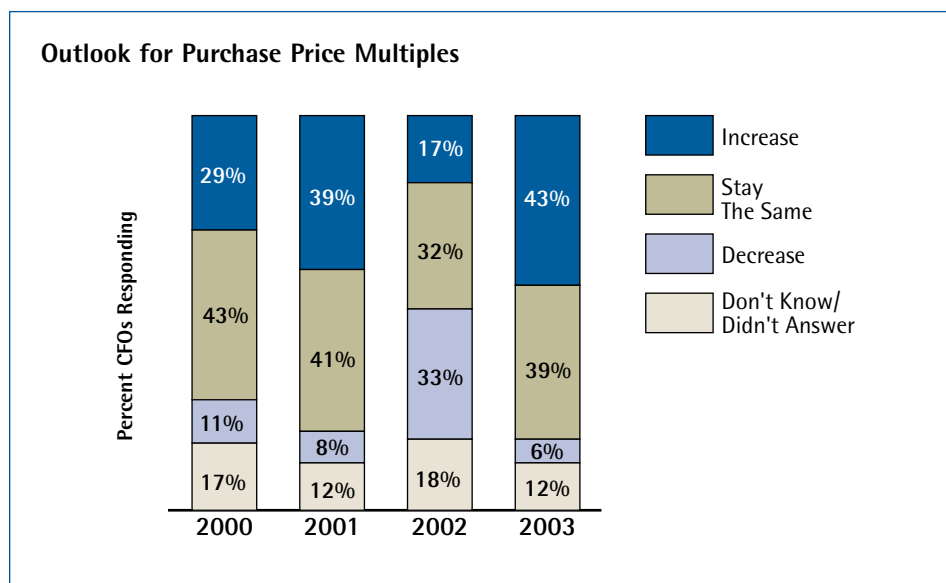


Mergers and Acquisitions

Do you think that the purchase price for companies in your industry as a multiple of earnings before income, taxes, depreciation and amortization (EBITDA) will increase, decrease or stay the same in the year 2003 compared to 2002?

Forty-three percent of CFOs believe that the purchase price for companies in their industry as a multiple of EBITDA will increase in 2003, compared to only 17% in 2002. This is the highest percentage cited by CFOs in the past four years. Thirty-nine percent expect pricing to remain constant, while only 6% anticipate a "decrease" compared with 33% citing "decrease" one year ago.

Of those CFOs who indicated that the state of the economy caused them to accelerate their growth or expansion plans, 65% believe the purchase price for companies as a percent of EBITDA will increase in 2003. This belief may have been one of the factors that caused



them to accelerate their expansion plans. Given the low level of middle-market M&A activity over the past two years, CFOs may now believe that this trend will reverse and competition to buy companies will heat up, driving EBITDA multiples higher.

Companies with annual sales exceeding \$200 million are more likely to believe that the purchase price will increase (52%), while only 40% of smaller companies share this belief.

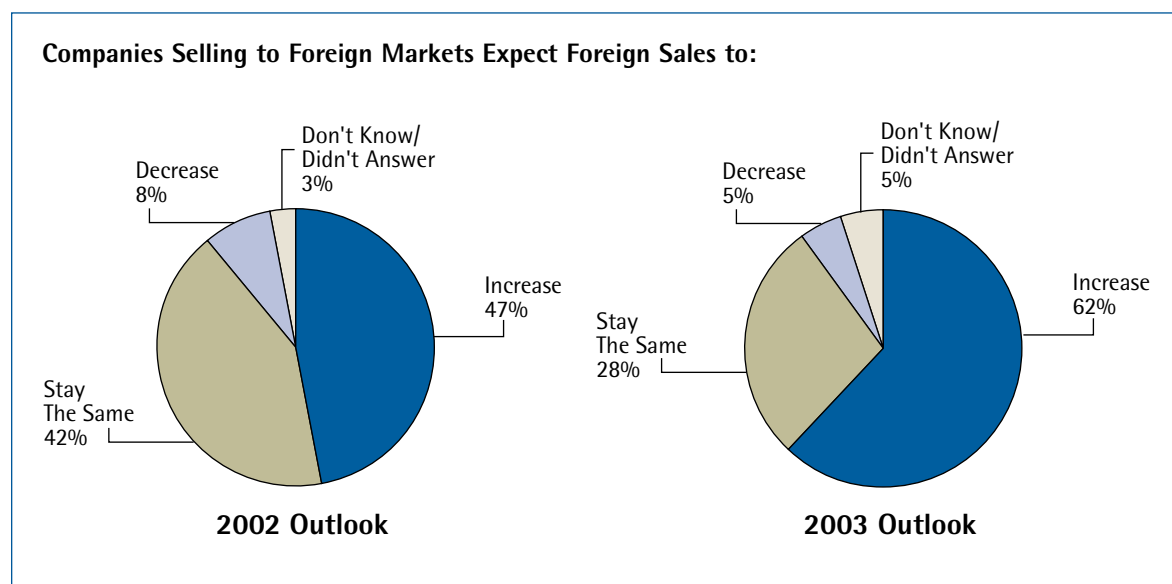
International Outlook

Regarding foreign markets, do you export, import or have operations in foreign countries?

Sixty-three percent of companies surveyed are involved in markets outside the U.S. Of those companies, 54% export to foreign countries, 30% buy from foreign suppliers, and 19% have operations outside the U.S.

Public companies are more likely to be involved in foreign markets (72%) compared with 59% of private companies.

Not surprisingly, larger companies with sales above \$200 million are more likely to be involved in foreign markets (74%), compared with 60% of companies with sales less than \$200 million.



Of those companies that sell to foreign markets, 62% expect sales to increase in 2003, compared to only 47% in 2002. Twenty-eight percent anticipate foreign sales will remain the same, and only 5% expect a decrease in foreign sales in 2003.

Smaller companies (those with annual sales under \$75 million) are less likely to report an increase in foreign sales (54%) compared to 70% of companies with sales north of \$75 million.

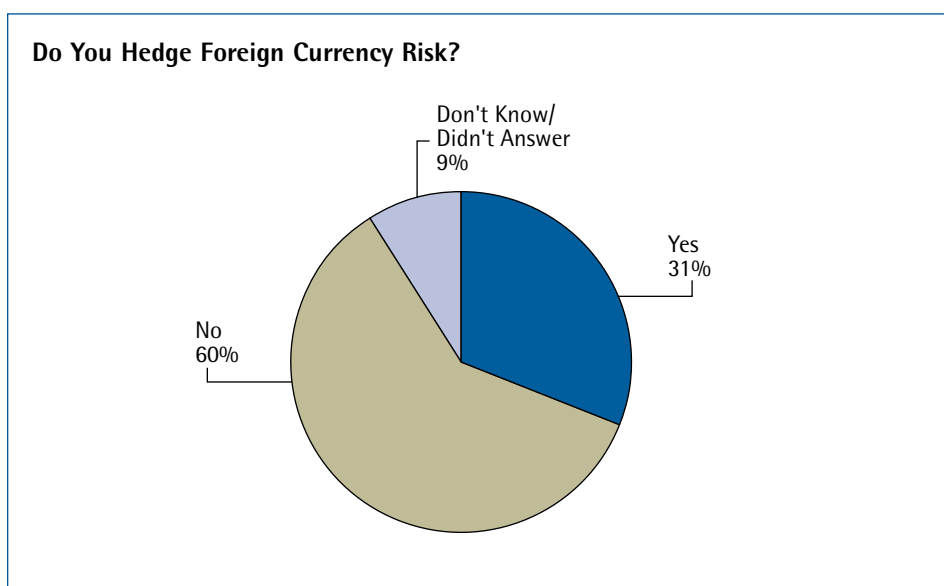
International Outlook

If you conduct business internationally, do you hedge foreign currency risks?

Sixty percent of manufacturers who transact business in foreign markets do not hedge foreign currency risks.

Public companies are more likely to hedge foreign currency risks (42%), compared to private companies (26%). Thirty-six percent of larger companies, those with annual

sales exceeding \$200 million, hedge foreign currency risks compared to only 30% of companies with revenues below \$200 million.



Appendix

The Survey Sample

This is the fifth annual survey of middle-market manufacturer CFOs commissioned by Fleet Capital Corporation. During October 2002, an independent market research firm completed phone interviews with 673 chief financial officers drawn from a random sampling of manufacturing companies (SIC codes 2000 to 3999) with annual revenues between \$25 million and \$1 billion. The purpose of this proprietary research project was to determine how manufacturing CFOs view the U.S. economy overall, the outlook for their company, financing, plans for M&A activity, and their involvement in foreign markets. The statistical range of error for the total sample is plus or minus 3.78%.

Survey Demographics

Is your company public or private?

- 74% Privately owned
- 24% Publicly owned
- 2% Refused or don't know

What type or types of product does your company manufacture?

- 12% Electric equipment/electronics
- 12% Food products
- 9% Fabricated metal products
- 8% Primary metal industries
- 7% Rubber & plastics
- 7% Chemicals
- 6% Textiles & apparel
- 5% Printing/publishing
- 5% Industrial machinery & equipment
- 5% Paper products
- 4% Furniture
- 4% Stone, clay & glass products
- 4% Miscellaneous manufacturing
- 3% Lumber & wood products

Appendix

- 3% Automotive parts
- 3% Transportation equipment
- 2% Medical equipment
- 1% Petroleum/coal products

Sales

- 54% \$25 million to \$74,999,999
- 25% \$75 million to \$199,999,999
- 15% \$200 million to \$499,999,999
- 6% \$500 million to \$1 billion

Region

- 31% Central
- 24% West
- 17% Southeast
- 11% Mid-Atlantic
- 10% Southwest
- 7% Northeast

Gender

- 67% Male
- 33% Female

Appendix

About Fleet Capital

Fleet Capital Corporation, based in Glastonbury, CT, is part of FleetBoston Financial, the nation's seventh largest financial holding company with more than \$187 billion in assets. As one of the largest asset-based lenders in the country, Fleet Capital delivers senior secured loans up to \$500 million and other commercial financing services to domestic middle-market companies and their foreign subsidiaries.

For additional information, please contact Myles Cohen, Chief Marketing Officer, at 1-866-287-4098, or call any of the Fleet Capital offices listed on the back cover of this report. Click on the links below to visit www.fleetcapital.com.

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