



STRATEGIC ADVISORS

Middle Market Investment Bankers

Bringing Efficiency to Inefficient Markets

2010

M&A AND CORPORATE FINANCE OVERVIEW

Second Quarter

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

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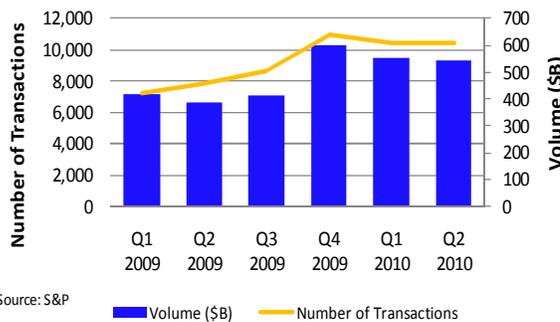
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Strategic Advisors is a middle market investment banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years of experience in advising middle market clients, our Managing Directors have experience investing in and managing portfolio companies. As such, Strategic Advisors not only has expertise in advisory services but also firsthand knowledge of what stakeholders, investors and lenders expect and desire.

Merger and Acquisition Overview

- ❖ Global M&A activity in the second quarter of 2010 essentially mirrored the activity seen during the first quarter of 2010. Overall, deal activity in the past three quarters has been very strong compared to the first three quarters of 2009.

Global M&A Activity (Announced)



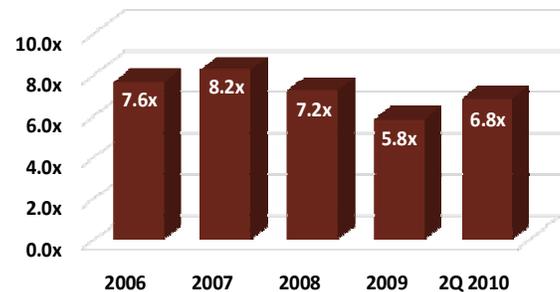
- ❖ Several factors are driving M&A volume to these increased levels. First, strategic buyers have ample cash on their balance sheet from hoarding capital during the Great Recession. Second, private equity groups (PEGs) possess \$400+ billion in capital that needs to be deployed in the next few years. Additionally, business owners, fearful of anticipated tax increases, are looking to liquefy their investment in the companies they own.
- ❖ M&A activity has increased across nearly all industry sectors year-over-year (YOY). The main exceptions are Healthcare and Utilities. On the other side of the spectrum, M&A activity in Materials and Telecommunication has essentially doubled YOY.
- ❖ PEGs were quite active in selling portfolio companies as they executed more sales in the second quarter of 2010 than any quarter in the last two years. Of the 100 deals Pitchbook recorded during 2Q 2010, 60 were sales to strategic acquirers, 28 were sales to other PEGs and 12 represented companies filing for an initial public offering.

- ❖ S&P reported that M&A leveraged loan volume in the first half of 2010 reached \$36 billion, which is inordinately higher than the \$2.8 billion registered during the same period last year, and twice the \$18 billion registered for all of 2009.

- ❖ Global buyout M&A increased, along with leveraged lending, to \$43 billion in the second quarter of 2010 from \$27 billion in the previous quarter, representing a 60% quarter-over-quarter (QOQ) increase. The total number of deals increased as well, but at a slower pace (15%), indicating average deal size increased QOQ.

- ❖ U.S. middle market transactions averaged 6.8 times EBITDA in 2Q 2010. Average purchase price multiples increased for the fourth straight quarter, climbing each period since the 4.9 times EBITDA registered in 2Q 2009. Thus far this year, the M&A market has been much more competitive compared to the first half of 2009, which has driven up purchase price multiples. As multiples are becoming aligned with historical averages and the pool of companies for sale in the second half of the year is expected to increase, the growth in multiples may slow.

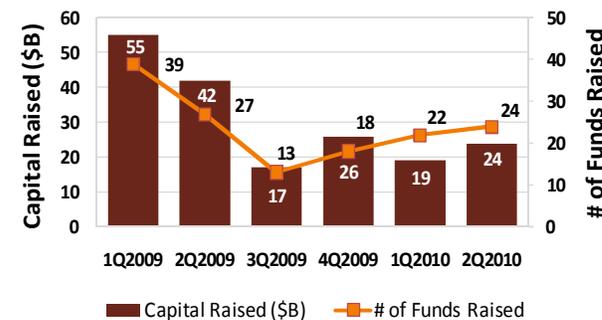
Middle Market Purchase Price / EBITDA Multiples



Capital Markets Overview

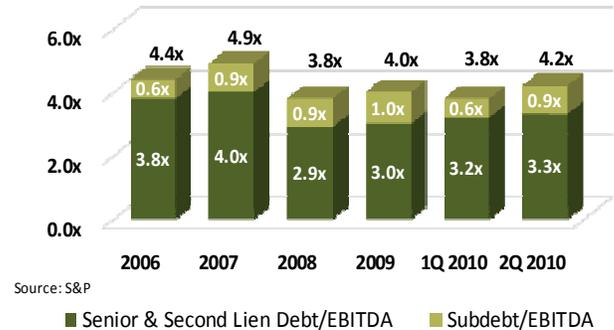
- ❖ According to Pitchbook, U.S. PEG fundraising expanded to \$24 billion in the second quarter, up from \$19 billion during the first quarter of 2010. Nearly 70% of the capital raised by PEGs this year has been by funds in the \$1 to \$5 billion size range, indicating limited partners have strong interest in these upper middle market funds. As PEGs continue to divest portfolio companies and funds are returned to limited partners, fundraising may improve as limited partners have more cash to invest with PEGs (and elsewhere).

U.S. Private Equity Fundraising



- ❖ Mezzanine groups also experienced success in fundraising as they raised \$4.4 billion for 14 funds in the first half of 2010, according to Dow Jones LP Source. This is more than triple the \$1.4 billion 10 mezzanine funds raised during the first half of 2009.
- ❖ After peaking at 14.5% in January, the U.S. speculative-grade bond default rate dropped to 7.9% in May from 9.5% in April. Moody's forecasts the default rate to continue to decline, falling to 2.7% by the end of the year. However, should a pessimistic economic scenario transpire, default rates could linger at 5.8% at year's end.
- ❖ In the first half of 2010, approximately \$131 billion of leveraged loan volume was issued globally, according to S&P. The U.S. accounted for nearly 80% of this volume, followed by The U.K., Germany and France. The \$131 billion issued in the first half of the year was nearly 35% more than the \$97 billion of leveraged loans issued in all of 2009.

Average Debt Multiples of Highly Levered Loans



- ❖ The credit markets loosened from the previous quarter and average debt multiples are above the averages evidenced during the previous two years. Average pricing for B+/B loans, however, increased from LIBOR+392 in 1Q 2010 to LIBOR+416 in 2Q 2010, according to S&P.
- ❖ As senior and mezzanine lenders both increased their EBITDA leverage multiples, PEGs were able to complete deals while investing less equity. On average, PEGs invested 42.1% equity into leveraged buyouts in 2Q 2010, down from 50.7% in the previous quarter and 51.9% in all of 2009. The 42.1% exhibited in 2Q 2010, however, is still above the equity contribution levels seen in the 2000's prior to the credit crunch.
- ❖ After a fairly promising close of 2009 and beginning of 2010, whisperings of a double dip recession have grown louder. The Fed's recent comments on the outlook of the economy as "unusually uncertain" did not help to quell the public's fears. Unemployment has eased slightly but initial monthly unemployment claims have stayed in a narrow bandwidth, reducing the consumers' ability to help grow the economy. Loosening credit and fairly inexpensive debt will help drive M&A activity, as will the capital on-hand with PEGs and corporations. As experienced during the past few years, visibility is rather low. We believe M&A activity will hold above levels exhibited during the first half of 2009 but do not see a profound increase in the near future.

For more information, please contact any of the professionals listed below or visit our website at www.strategicad.com

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When considering a sale of your business, the acquisition of a business, or the restructuring or recapitalization of your balance sheet, the best pathway for achieving your expectations is a well-run sale process that addresses all your business and personal goals. Strategic Advisors is accustomed to working with business owners to determine the best pathway to achieve their goals and objectives. Give us a call to discuss your possibilities.