STRATEGIC ADVISORS
Middle Market Investment Bankers

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2012

M&A AND CORPORATE FINANCE OVERVIEW

First Quarter

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

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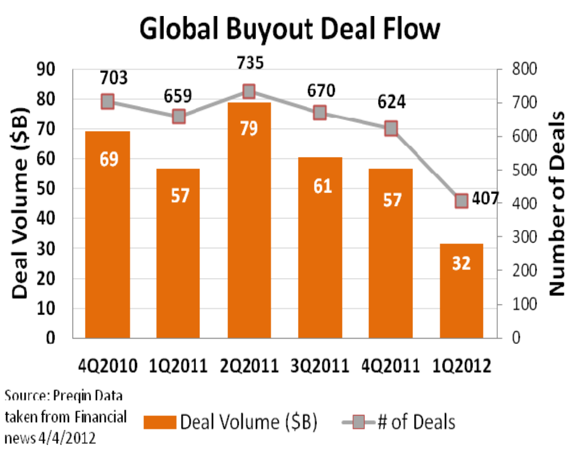
Strategic Advisors is a middle market investment banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years of experience in advising middle market clients, our 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 volume in the first quarter of 2012 (1Q 2012) declined for the third consecutive quarter. The drop in deal volume followed the heightened tension in the euro zone in the second half of 2011. This led to a significant decline in activity in high-yield bond issues, which is a popular way for buyout firms to finance large buyouts. According to the April 12, 2012 Prequin Equity Spotlight, the total value of deals fell to $31.5 billion across 407 transactions in the first quarter. Deals in North America accounted for $13 billion, which is the lowest level since the first quarter of 2010 when deal values stood at $12.3 billion. Europe accounted for $12.8 billion of deals in 1Q 2012, similar to the figures achieved in 4Q 2011.



- U.S. private equity activity is off to a slower start in 2012 compared to recent years. 321 deals, totaling $55 billion, closed during the first quarter of 2012, down from 426 deals and $89 billion in the fourth quarter of 2011. Pitchbook (an independent and impartial research firm dedicated to providing premium data, news and analysis to the private equity and venture capital industries) in their 2Q 2012 Private Equity Breakdown attributes the slowdown in investment activity to the ambiguity in the debt market and the uncertainty overseas.

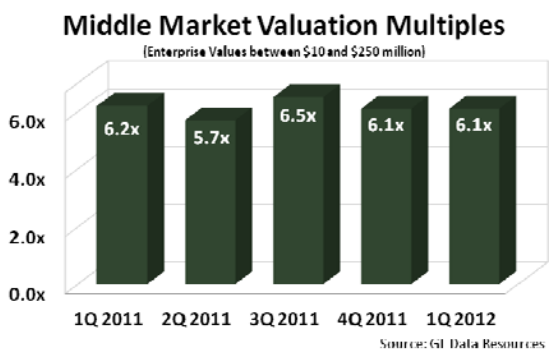
- The middle market continues to lead private equity deal flow and could likely continue to attract large amounts of capital throughout the year. This is especially true as the window will soon be closing for some General Partners (GPs) to invest a significant amount of the older dry powder, part of the $425 billion capital overhang. Deals under $500 million represented 95% of the investment activity.

- Private Equity Groups (PEGs) continued to be dissuaded from completing transactions by fear of the U.S. potentially entering into another recession. Despite declines in private equity investment, exit activity in 1Q 2012 remained strong. Private equity exits may likely be a major conduit for activity for the remainder of 2012. However, the impending and uncertain change in tax law is putting pressure on private equity (PE) firms to exit their investments and distribute capital back to limited partnerships (LPs).

- Add-ons accounted for more than half (54%) of the buyout activity in 1Q 2012, with private-equity-backed companies adding on 135 companies. Since 2003, add-ons, as a percentage of yearly buyout activity, have been on a steady upward trend. Five years ago, add-on transactions comprised approximately 41% of all U.S. PEG transactions.

- For the fourth consecutive quarter, U.S. PEGs exited over 100 investments. Overall in 2011, U.S. PEGs exited approximately 420 investments. While this activity was slightly lower than in 2010, it was over double the exits transacted in 2009. Sales to strategic acquirers (corporate acquisitions) remained the most common exit strategy; with 66 such exits completed in 1Q 2012 totaling $16 billion of capital.

- Competition from strategic buyers remains a significant hurdle for PEGs. According to a March 2011 Summer Survey Report conducted by Pepperdine University, investment bankers indicated strategic buyers paid a premium between 1% and 20% in over half of recent transactions.

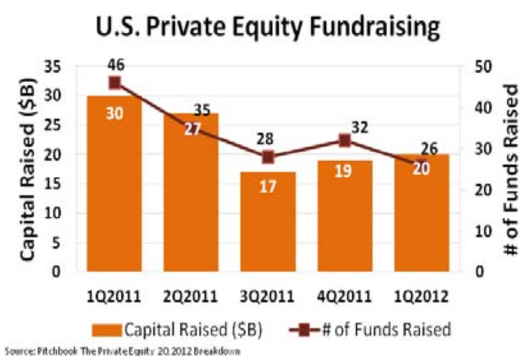


U.S. middle-market transaction multiples averaged approximately 6.1x EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) in the first quarter of 2012, according to GF Data Resources. Valuations continue to oscillate around 6.0x EBITDA as seesawing economic indicators make it difficult to forecast where the economy is heading. The one theme that clearly continues to be exhibited is that buyers were willing to pay higher multiples for larger lower middle market companies ($50 to $250 million enterprise value) than those with enterprise values below $50 million. The most active industries for add-ons were Business Products and Healthcare. Business products accounted for 56% of all add-on investments.

- Private equity exit activity fell slightly in 1Q 2012 with 112 companies sold or taken public for a total of $21 billion. In 4Q 2011, 120 companies were sold while 96 companies were sold a year ago in 1Q 2011.

Capital Markets Overview

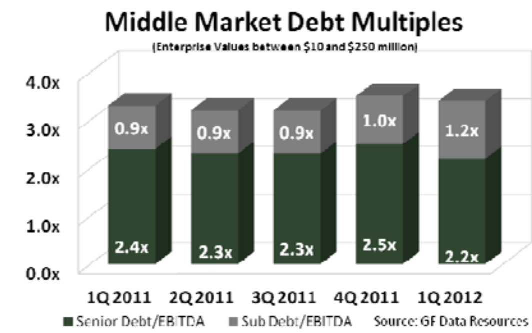
- U.S. Private Equity fundraising increased marginally from $19 billion in 4Q 2011 to $20 billion in 1Q 2012. Fundraising activity remains sluggish following the slowing trend, which began in the second half of 2011. In 1Q 2012, 26 funds closed totaling $20 billion in commitments. This ebbing is partially the result of bulging private equity portfolios and the lingering $425 billion capital overhang, both of which have tied up LP's capital from new funds. The closed funds were relatively spread out across all fund size groups, the one exception being the $5 billion plus group, as mega-funds continue to be elusive. Six funds in the $100 million to $250 million group closed last quarter, while three closed in the $1 billion to $5 billion group. Of the $20 billion closed during the quarter, approximately 55% was committed within the $1 billion to $5 billion size group.



- Fundraising for PEGs will continue to be arduous as limited partners remain concerned with the asset class. PEG investors, such as pensions and endowments, are balking at increasing investment in the sector due to a combination of high fees and erratic and sometimes lackluster returns.

- Debt structures for middle market leveraged deals decreased in 1Q 2012 compared with 4Q 2011. An uncertain outlook on the U.S. economy has caused lenders to step back and be more cautious. However, the scarcity of high quality deals has pushed down pricing as lenders are aggressively competing. The debt market clearly bifurcates at $10 million of EBITDA where lenders become more flexible in structure and pricing, and are generally more lenient regarding their equity requirements.

- The growing presence of the one-stop financing approach, as well as an increasing number of mezzanine lenders, continue to expand their share of capital structures and stand ready to fill any void in the market.



- PEGs have benefitted from banks' and subordinated lenders' willingness to increase leverage multiples. In 1Q 2012, PEGs funded deals with 39.8% equity, on average. In both 2009 and 2010, equity as a percentage of average capital structure was above 45%.

- On average, senior debt pricing has taken a small step back as all-in pricing for middle market deals was approximately 5.3% in 1Q 2012, up from 4.7% in 4Q 2011. According to GF Data Resources May 2012 Report, this represents the first spread expansion after a year of compression.

CONCLUSION

- In forecasting M&A activity in 2012, the overall health of the global economy must be evaluated. The volatility of the action plan for the debt crisis in the European Union has caused concern amongst investors. Various European countries seem to have revealed additional signs of weakness and appear to be further deteriorating. Compounding matters is the recent contraction of the U.S. economy and the uncertainty of the tax environment which has caused investors to pause and proceed with extreme caution. At this point, the question that remains is whether buyers will be aggressive in 2012. The answer will largely be dependent on the stability of Europe and a more favorable business climate in the U.S.

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

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Sources: Preqin Special Report: US Private Equity, April 2012; The Preqin Quarterly, April 2012; GF Data Resources May 2012 Report; Private Equity Spotlight, April 2012; Pepperdine University March 2011 Summer Survey Report

Important Information

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