



# STRATEGIC ADVISORS

Middle Market Investment Bankers

*Bringing Efficiency to Inefficient Markets*

2011

## M&A AND CORPORATE FINANCE OVERVIEW

Fourth Quarter

Merger & Acquisition  
Corporate Finance Advisory  
Strategic Consulting

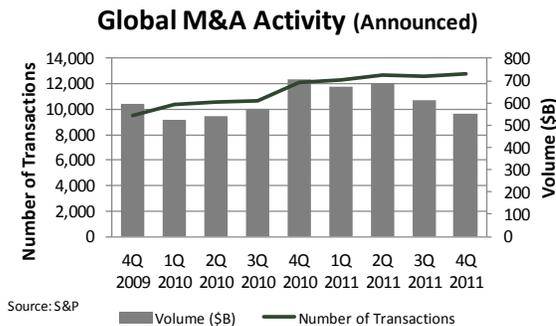
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Strategic Advisors is a middle market investment banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years 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 fourth quarter (4Q) of 2011 declined for the second consecutive quarter as substantial economic uncertainty arose in the second half of the year. According to S&P, there were just under 13,000 transactions announced in 4Q 2011, representing approximately \$550 billion in volume worldwide.



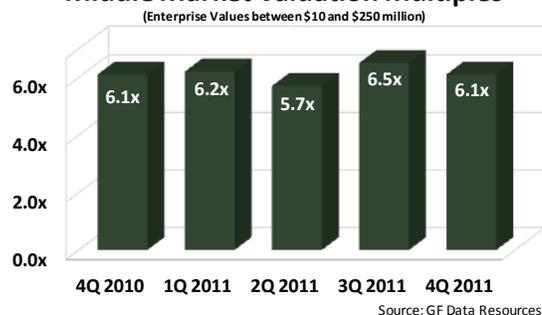
- ❖ From 2010 to 2011, global M&A deal value increased by over 20% in the Consumer Discretionary, Financials, Information Technology and Materials sectors. Only three of the nine sectors listed by S&P experienced year-over-year deal volume decline: Telecommunications (-40%), Industrials (-14%) and Consumer Staples (-7%).
- ❖ Private equity activity within the U.S. decreased from 411 deals in 3Q 2011 to 361 deals in 4Q 2011 (12% decline), according to PitchBook. Despite a very strong first half of 2011, U.S. private equity deal activity dropped year-over-year as private equity groups (PEGs) were dissuaded from completing transactions by the fear of the U.S. potentially entering into another recession.
- ❖ Competition from strategic buyers remains a significant hurdle for PEGs. According to a recent survey conducted by Pepperdine University, investment bankers indicated strategic buyers paid a premium between 1% and 20% in over half of recent transactions. Just 19% of respondents did not witness a premium paid by strategic buyers.

- ❖ For the first time on record, in 2011 U.S. PEGs performed as many add-on transactions as platform transactions. Five years ago, add-on transactions comprised approximately 41% of all U.S. PEG transactions; add-on transaction activity has steadily climbed since that time.

- ❖ For the third 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 last year's, it was over double the exits transacted in 2009. With respect to exit method, 57% of companies were sold via corporate acquisition, 36% were sold to other PEGs, and just 7% went public via an initial public offering.

- ❖ U.S. middle market transaction multiples averaged approximately 6.1x EBITDA in the fourth quarter of 2011, according to GF Data Resources. Valuations have oscillated around 6.0x EBITDA throughout the year as seesawing economic indicators made it difficult to forecast where the economy was heading. One theme clearly exhibited was 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.

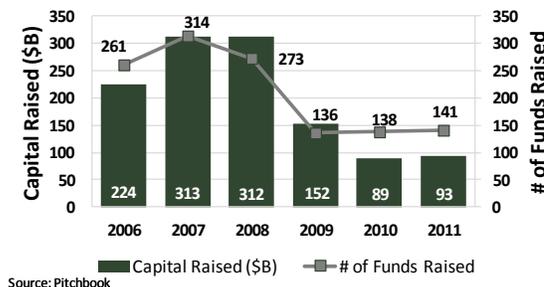
### Middle Market Valuation Multiples



## Capital Markets Overview

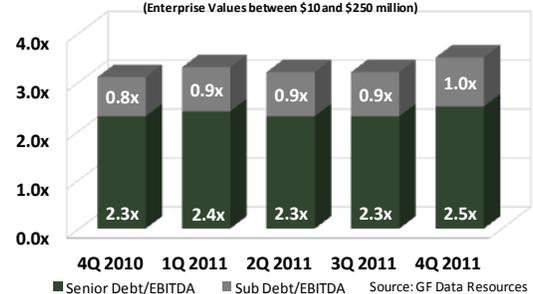
- ❖ U.S. private equity fundraising increased marginally from \$17 billion in 3Q 2011 to \$19 billion in 4Q 2011. Like PEG M&A activity, the fundraising in the second half of the year was disappointing after a strong first half of the year. Of the \$141 billion raised by U.S. PEGs in 2011, over 57% was raised in the first half of the year. However, even with a weak second half of fundraising, total capital raised increased 5% from 2010 to 2011.

### U.S. Private Equity Fundraising



- ❖ Fundraising for PEGs will continue to be arduous as limited partners remained concerned with the asset class. PEG investors, such as pensions and endowments, have balked at increasing investment in the sector due to a combination of high fees and erratic and sometimes lackluster returns. Nevertheless, there are over 1,700 PEGs currently attempting to raise new funds globally. This represents the highest number on record.
- ❖ Debt structures for middle market leveraged deals increased in the 4<sup>th</sup> quarter. Escalating competition in the lending market and a more positive outlook on the U.S. economy has not only driven up leverage multiples, but has also pushed down pricing. In the senior debt market, banks have gained confidence in their portfolio as just 0.2% of outstanding leveraged loans were under default at the end of 2011. In comparison, towards the end of 2009, over 10% of leveraged loans were under default. In the subordinated market, the growing presence of the one-stop financing approach, as well as an increasing number of mezzanine lenders, is amplifying the competitiveness of the market.

### Middle Market Debt Multiples



- ❖ PEGs have benefitted from banks' and subordinated lenders' willingness to increase leverage multiples. In 2011, PEGs funded deals with 48.2% equity, on average. In both 2009 and 2010, equity as a percentage of average capital structure was above 50%. Nevertheless, as M&A activity has waned, so has the leveraged loan market. Just \$1.8 billion in leveraged loan volume was registered by S&P in 4Q 2011. This is less than half of the average leveraged loan volume recorded in the prior 4 quarters.
- ❖ The downward pressure on senior debt pricing persists as all-in pricing for middle market deals was approximately 4.7% in 4Q 2011, according to GF Data Resources. Just two quarters ago, pricing was nearly 6%.
- ❖ In forecasting M&A activity in 2012, the overall health of the global economy must be evaluated. The action plan for the debt crisis in the European Union has calmed investors for the time being, but certainly no one is ready to turn the page on this issue. From employment and housing starts to manufacturing indices, the U.S. economic indicators suggest a promising year. However, oil is back above \$100. Increasing prices at the pump reduce consumer confidence and subtract from the disposable income that fuels the U.S. consumer-driven economy. Another factor impacting M&A activity is the potential change in capital gains taxes. If it appears these taxes will increase in 2013, there could be another push to complete deals by the end of the year, just like in 2010.

For more information, please contact any of the professionals listed below or visit our website at [www.strategicad.com](http://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.

## 2011 Completed Engagements



*has recently completed  
a Recapitalization*

*The undersigned served as financial advisor to  
Management for the transaction*



Securities and Advisory Services are offered through RPI Investment Management, Inc.  
member FINRA/SIPC, and a registered investment advisor

December 2011



*has been acquired by*



*The undersigned acted as financial advisor to the  
shareholders of Interface Solutions.*



Securities and investment advisory services are offered through RPI Investment Management, Inc.  
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December 2011

A Family Office Private Equity Group



*was formed by the owners of*



*The undersigned acted as consultant and financial  
advisor in the formation of Elk Lake Capital.*



Securities and investment advisory services are offered through RPI Investment Management, Inc.  
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October 2011



*A portfolio company of*



**FETTEROLF GROUP, INC.**

*has been acquired by*



and



*The undersigned acted as financial advisor to the  
shareholders of Pyott-Boone Electronics, Inc.*



Securities and investment advisory services are offered through RPI Investment Management, Inc.  
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April 2011