



STRATEGIC ADVISORS

Middle Market Investment Bankers

Bringing Efficiency to Inefficient Markets

2011

M&A AND CORPORATE FINANCE OVERVIEW

Second Quarter

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

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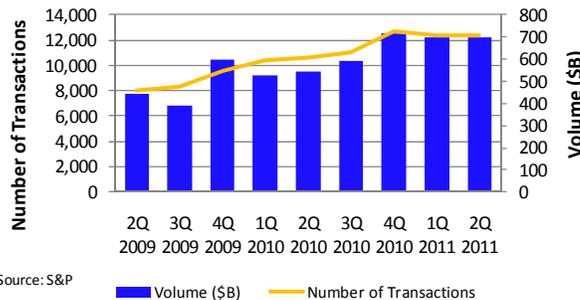
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Strategic Advisors is a middle market investment banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years 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 (2Q) of 2011 held steady with the level experienced during the previous quarter. According to S&P, there were over 12,000 transactions announced in 2Q 2011, representing approximately \$700 billion in volume worldwide

Global M&A Activity (Announced)



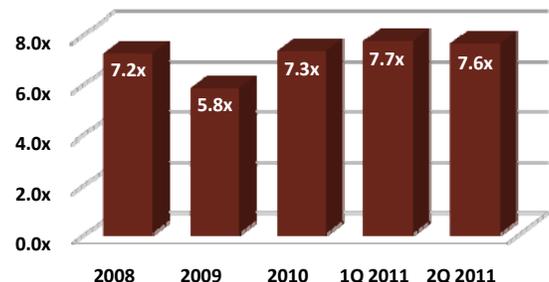
- ❖ From 2Q 2010 to 2Q 2011, M&A transaction volume increased by over 25%. Nearly all business sectors have seen an increase in activity over this period; the sectors that have seen the most activity include Financials, Consumer Discretionary and Industrials.
- ❖ Within the U.S. market, strategic buyers have been much more active over the past few years than private equity groups (PEGs). According to Dealogic, U.S. leveraged buyouts have accounted for approximately 10% of U.S. M&A transactions since 2008. In 2006 and 2007, U.S. leveraged buyouts accounted for over 25% of U.S. M&A transactions.
- ❖ U.S. PEG deal flow dropped from 438 deals in 1Q 2011 to 373 deals in 2Q 2011, representing a 15% decline. The 373 deals registered by PitchBook in the second quarter this year is the lowest number of quarterly transactions since 3Q 2009. U.S. PEGs are dealing with an environment in which the inventory of quality companies for sale has decreased over the past few quarters.

- ❖ U.S. PEG exit activity held just above 100 completed exits for the second consecutive quarter, according to Pitchbook. The mix of exit strategies stayed consistent with long-term averages as 63% of companies were sold to strategic buyers, 29% of companies were sold to other PEGs and 8% were taken public. With the recent volatility of the stock market, PEGs may temporarily shift their exit strategies away from initial public offerings.

- ❖ Add-on acquisitions represented 33% of deals announced during 2Q 2011 and 14% of total deal value, according to Prequin. Compared to the second quarter of 2010, this represents an increase of 44% in the number of add-on transactions and a 64% increase in add-on deal value. This illustrates a growing strategy of acquiring platform companies and making smaller add-on acquisitions in order to grow market share more rapidly.

- ❖ U.S. middle market transaction multiples averaged approximately 7.6x EBITDA in the second quarter of 2011. This is slightly lower than the 7.7x EBITDA averaged during the previous quarter. As the public stock markets have becoming increasingly unpredictable of late, it is difficult to determine where valuations will be at the end of the 3rd quarter.

Middle Market Purchase Price / EBITDA Multiples

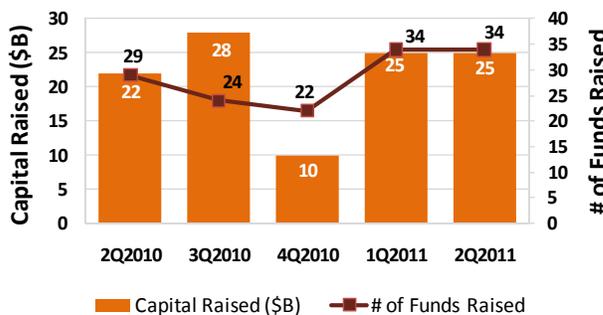


Source: Angle Advisors

Capital Markets Overview

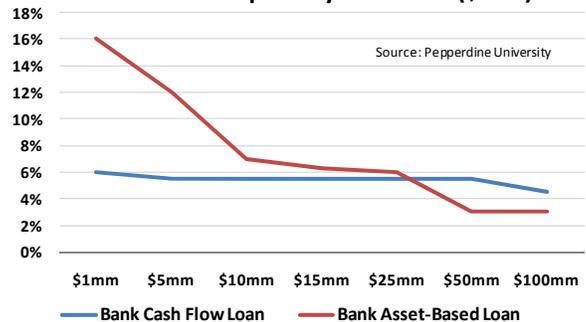
- ❖ U.S. companies continue to increase cash balances, preferring to hold on to profits rather than spending them. Holdings of cash and other liquid assets reached \$1.91 trillion in the second quarter of 2011. This represents 6.8% of total assets, a level not seen since the early 1960s.
- ❖ Like U.S. companies, PEGs continue to hold an ample supply of dry powder. Prequin estimates that buyout fund managers are currently sitting on \$390 billion to invest. This overhang has held steady for the last year as money invested in new acquisitions has balanced out new funds raised from limited partners.
- ❖ PEGs are focusing on acquiring companies by spending pledged capital within the time frame agreed to with limited partners. The result of this is less time being spent on raising new funds. As seen below, U.S. PEG fundraising in the second quarter of the year matched the prior quarter at approximately \$25 billion of capital raised. This is approximately one-third of the quarterly fundraising levels seen just three years ago.

U.S. Private Equity Fundraising



- ❖ Larger buyout deals are benefitting from accommodative credit markets when financing new deals. Transactions valued at less than \$250 million have been completed with 43% debt, on average, so far this year. The next bracket of deal sizes, between \$250 million and \$1 billion, have financed deals with 62% debt, on average, year-to-date.

Median Cost of Capital by Loan Size (\$mm)



- ❖ A recent study performed by Pepperdine University of over 2,500 participants globally tracked the cost of various types of capital by loan size. As seen above, the cost of cash flow loans did not vary much by loan size; however, there is a large variance in the cost of asset-based loans depending on the size of the facility.
- ❖ Pitchbook estimates that at the end of 2010 PEGs had ownership of approximately 6,000 U.S. companies. Total assets under U.S. PEG management were \$1.36 trillion. The asset class has grown significantly since 2001, when assets under management (\$424 billion) were less than a third of level at the end of last year. During this 10-year period, U.S. PEGs raised a total of \$1.5 trillion through 1,674 funds.
- ❖ Although there was a sigh of relief when the U.S. government passed the new debt deal, thus avoiding a potential default, many issues remain for the global economy. Fear surrounds growing debt problems in Europe. While the U.S. economy is continuing to grow, analysts are disappointed with the rate of growth. Unemployment remains elevated. The Fed has indicated it will keep interest rates low through mid-2013, signaling that growth in the economy is not expected to have a profound improvement in the near-term. The word business owners abundantly fear, "recession", is becoming more and more discussed; however, odds of this occurring are estimated at 50% or below by most. Strategic Advisors believes that M&A activity and valuations alike will trend with the economy in the short term. Let's hope that direction is up.

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.