



STRATEGIC ADVISORS

Middle Market Investment Bankers

Bringing Efficiency to Inefficient Markets

2010

M&A AND CORPORATE FINANCE OVERVIEW

First Quarter

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

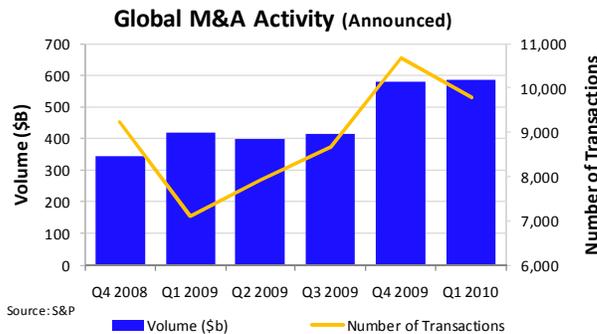
400 Southpointe Boulevard, Plaza I, Suite 440
Canonsburg, PA 15317 • Tel. 724-743-5800
Fax 724-743-5870 • www.strategicad.com

An Affiliate of BPU Investment Management, Inc.
One Oxford Centre, 301 Grant Street, Suite 3300
Pittsburgh, PA 15219 • Tel. 412-288-9150
www.bpuinvestments.com • Member FINRA, SIPC

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 first quarter of 2010 was comparable to that exhibited in 4Q 2009. Total transaction volume ticked up, but the overall number of deals decreased. Activity in each of the last two quarters was well above the activity seen 4Q 2008 through 3Q 2009.

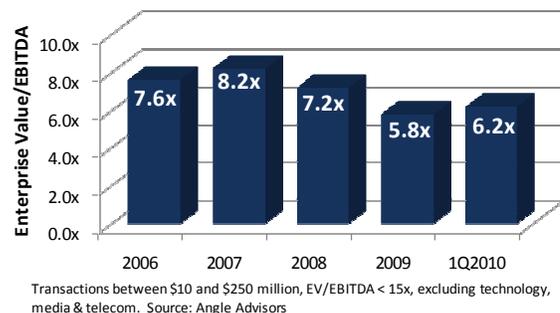


- ❖ M&A activity varied across industries. From 1Q 2009 to 1Q 2010, the Energy and Financials sectors saw the number of transactions increase by 50%. The Industrial Telecomm, Industrial Staples and Industrial Discretionary were less active in 1Q 2010 as they experienced a similar number of transactions year-over-year.
- ❖ Global Leveraged Buy-Out (LBO) activity fell off from the previous quarter. Deal volume decreased from \$41.2 billion to \$26.6 billion, and the total number of transactions declined by approximately 35%, according to Preqin. M&A activity from strategic buyers was more consistent quarter-over-quarter.
- ❖ The lower-middle and middle-market (companies with less than \$250 million in sales) represented 85% of U.S. private equity group (PEG) investments in 1Q 2010. Many PEGs geared their strategies toward industry consolidation which led to a rise in smaller transactions. Exemplifying this point, add-on acquisitions accounted for 32% of PEG deals during the quarter, which is the highest level since 3Q 2007.

- ❖ As PEGs have added to portfolio companies, some strategic buyers have, and will continue to, divest non-core business segments. The recent economic slow-down prompted many companies to re-evaluate their core strengths. Carving out non-core entities allows companies to focus on their core operations while proceeds from sale of these entities can be used to pay down debt or pursue strategic initiatives. In addition to PEGs, strategic buyers ripe with cash view these acquisitions as opportunities to gain market share or expand operations.

- ❖ U.S. middle market transactions averaged 6.2 times EBITDA in 1Q 2010. This continued the upward trend of transaction multiples, which were 6.1x in 4Q 2009 and 5.8x for all of 2009.

U.S. Middle-Market Deal Statistics



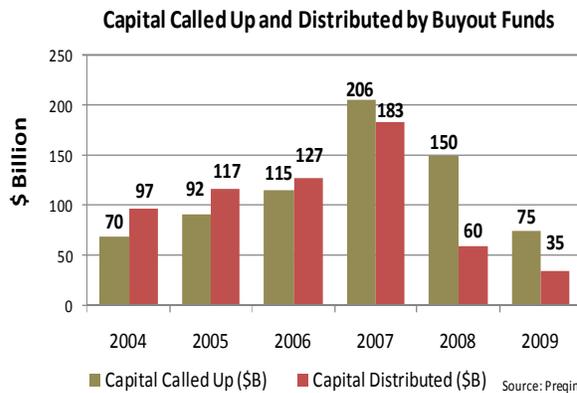
- ❖ Business owners who have been contemplating the sale of their businesses but were uncomfortable with recent lower valuations may see this as an opportune time to sell. Valuations have rebounded from last year and have stabilized to levels more in-line with historical levels. With the Tax Increase Prevention and Reconciliation Act set to expire at the end of 2010, it is expected that capital gains taxes will increase by 5% or more next year.

An Affiliate of BPU Investment Management, Inc.

One Oxford Centre, 301 Grant St., Suite 3300, Pittsburgh, PA 15219 • Tel. 412-288-9150 • www.bpuinvestments.com • Member FINRA, SIPC

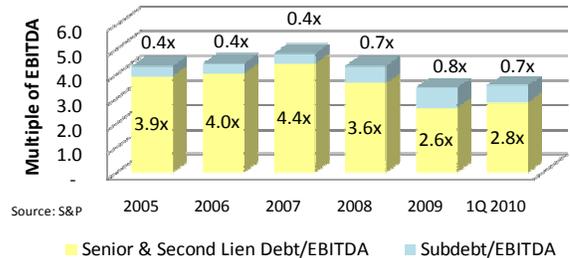
Capital Markets Overview

- ❖ From 2004 to 2007, PEGs distributed and called up a comparable amount of funds from investors. This trend has changed during the past two years as the capital called up has been more than double the capital that has been distributed. Limited partners are hesitant to invest more in PEGs until they receive some of their previously invested capital. This difficulty in fundraising is evidenced by Preqin, which indicated PEGs, on average, have taken 19.1 months to reach final close on funds thus far in 2010. This is longer than any previous year.



- ❖ According to Private Equity Council, the default rate for PE-backed companies through 2008 and 2009 was 2.84% versus 6.20% for “similarly-financed businesses,” illustrating a victory for the asset class. However, as \$770 billion in leveraged loans will mature by 2015, PEG-backed companies are still far from out of the woods.
- ❖ According to J.P. Morgan Chase, there is almost a trillion dollars of cash on the balance sheets of corporate America. On average, cash constitutes 11% of the total assets of companies in the S&P 500, which is the highest level in 40 years. These funds, accrued for insurance against a flailing economy, are available to be deployed for capital expenditures and for deals that were perhaps put off amid the economic slow-down.
- ❖ As more banks are strengthening and lending more aggressively, companies are seeing pricing come down. Pricing for leveraged loans decreased to LIBOR + 392bps in 1Q 2010 for B+/B rated companies, according to S&P, after being above LIBOR + 400bps much of 2009.

Average Debt Multiples of Middle Market Loans
(Issuers with EBITDA of less than \$50MM)



- ❖ The credit markets have stabilized after improving in the latter half of 2009. Middle market banks held their Debt/EBITDA ratio slightly above the 2.6x exhibited in 2009. Subordinated lenders, in turn, reduced their positions but still remain a vital part of financing for companies recovering from a difficult couple of years.
- ❖ Banks have responded well to the declining percentage of outstanding leveraged loans in default of bankruptcy. According to Standard & Poors (S&P), the default/bankruptcy rate for leveraged loans fell from 10.7% at the end of 2009 to 8.3% at the end of the first quarter.
- ❖ The Labor Department reported the U.S. economy created 230,000 jobs in March and 290,000 jobs in April, the largest seasonally adjusted increase in non-farm payrolls in three years. Though these figures were buoyed by temporary hiring for the census, they are far more promising than a year ago when U.S. payrolls were falling by an average in excess of 700,000 jobs per month.
- ❖ M&A activity and the credit markets have stabilized the past two quarters, providing some degree of comfort for business owners and dealmakers alike. As credit markets continue to ease throughout the course of the year, PEGs, with substantial capital to deploy, are likely to play a larger role in M&A activity. Strategic buyers still have ample cash available to pursue acquisitions. Strategic Advisors believes M&A activity will continue to outpace the activity seen last year and pick up towards the end of the year as business owners sell before capital gains taxes increase in 2011.

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

<i>Andy Hays</i>	<i>Managing Director and Founder</i>	arhays@strategicad.com	724-743-5810
<i>Andy Bianco</i>	<i>Managing Director and Founder</i>	ajbianco@strategicad.com	724-743-5820
<i>Matt Dalton</i>	<i>Associate</i>	mmdalton@strategicad.com	724-743-5840
<i>Matt Steve</i>	<i>Associate</i>	masteve@strategicad.com	724-743-5830

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.

Sources

- **Private Equity Council**, based in Washington, DC, is an advocacy, communications and research organization and resource center established to develop, analyze and distribute information about the private equity industry and its contributions to the national and global economy.
- **Preqin Ltd.**, based in London, provides data and analysis services in the areas of private equity, real estate, infrastructure, and hedge funds through online databases, publications, and data requests for alternative investment companies.