

M&A Monitor

Piper Jaffray M&A Monitor

Analyzing M&A Activity—January 2, 2008

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Feature Article**Middle Market M&A Outlook 2008 Preview**Erik Franks, 312 920-2153, erik.c.franks@pic.com

The Piper Jaffray Middle Market M&A Outlook 2008, which will be published this week, provides a review of 2007 middle market transactions and highlights the drivers that may affect M&A activity in 2008. We have contacted many participants involved in middle market dealmaking and combed through large amounts of data to develop a forecast for the M&A market in 2008. Below we have summarized the topics you will see in the Middle Market M&A Outlook 2008 as we look to replicate the accuracy of our 2007 M&A forecast.

A Macro Look

The feverish pace of M&A activity continued unabated during the first two quarters of 2007, as mega-LBO transactions dominated the headlines. Despite the credit crunch that curtailed dealmaking for large buyouts since mid-2007, M&A activity in the U.S. continues to be strong through the third quarter of 2007. We feel M&A activity in 2008 will represent more of a correction, yet not dip to the recession levels of 2002 and 2003. Large deal activity will likely be the hardest hit, as the "mega-buyouts" will have difficulty securing financing, particularly in the first half of the year. Yet overall, private equity firms are still willing buyers of strong companies with plenty of capital to put to work, and the key to the 2008 M&A market will be the health of the economy.

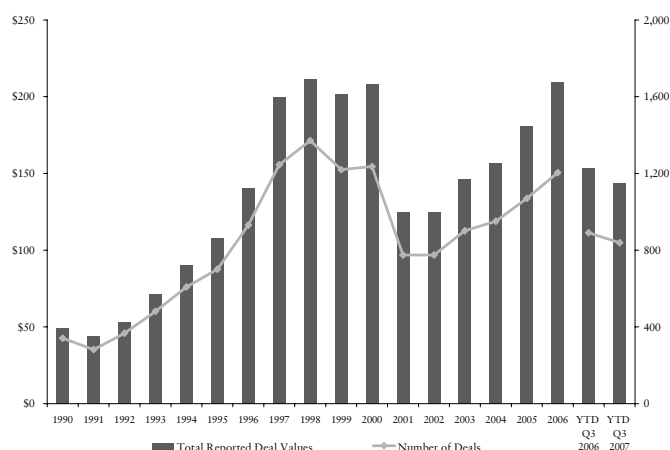
Middle Market M&A Activity

Despite the downturn, the middle market continues to be active, largely insulated from the credit influences associated with the mega-deals. The domestic middle market—which we define as transaction values in the range of \$50 million to \$500 million—again was an active segment of the broader M&A market through the first three quarters of 2007, as depicted in Exhibit 1.

The number of announced deals in the middle market through the third quarter of 2007 decreased 4% from the same period last year, with 839 announced transactions compared with 869 transactions in 2006. Many of the key factors that drove results over the second half of 2007 are predicted to continue impacting M&A market momentum through 2008. These drivers, more fully discussed in the Middle Market M&A Outlook 2008, include an uncertain economic environment, excess capital from both strategic and financial buyers, and expanding holding periods by private equity investors.

The leveraged lending markets stayed strong through the first half of 2007, but with the subprime mortgage market fallout that began in late July, many of the alternative investment vehicles evaporated. The aggressive and competitive lending environment that characterized 2006 has been replaced by a hesitant, risk-averse

Exhibit 1: U.S. Middle Market M&A Activity – 1990 to Present
 (\$ in billions)



Source: Securities Data Corporation

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Feature Article
Middle Market M&A Outlook 2008 Preview, Cont.

group of debt providers. While both average total debt and senior debt multiples remained at historically high levels through the first three quarters of 2007, at 4.8x EBITDA and 4.5x EBITDA respectively, these numbers were significantly lower in the third quarter as banks have tightened their lending standards. As a result, large deals are struggling to find financing, and we believe larger funds will begin to move down market and participate in deals that formerly fell below their radar.

The continued participation of the private equity community is especially important to middle market M&A activity. The favorable market conditions of 2006 spilled over into the first half of 2007, yielding another record year for private equity and LBO transactions. LBO volume over the first nine months of 2007 has already outpaced the 2006 full year total, driven once again by large, take-private transactions. However, the second half of the year brought about a swift change in market conditions, as the frenzied financing market suddenly slowed. In general, it is important to keep some perspective during the latest highly publicized “catastrophe” to hit the market. The \$152 billion in LBOs in the second quarter was greater than the 2000, 2001, 2002 and 2003 annual totals...combined. Given the frenzied market of 2007, LBO volume had no where to go but down. Although all signs point to a slowdown in deal volume in 2008 as financing for large LBOs will remain challenging, it is unlikely we will see the collapse of the market that some fear.

Strategic acquirors also played an integral role in 2007 M&A activity as they looked to aggressively expand through external growth strategies to meet aggressive Wall Street growth expectations. Foreign buyers will play an increasing role as large foreign companies seek to take advantage of the cheap dollar to expand their global capabilities. Strong financial performance and significant levels of cash, combined with potentially lower target valuations and lower leverage multiples for private equity buyers, should enable strategic buyers to remain highly acquisitive in 2008.

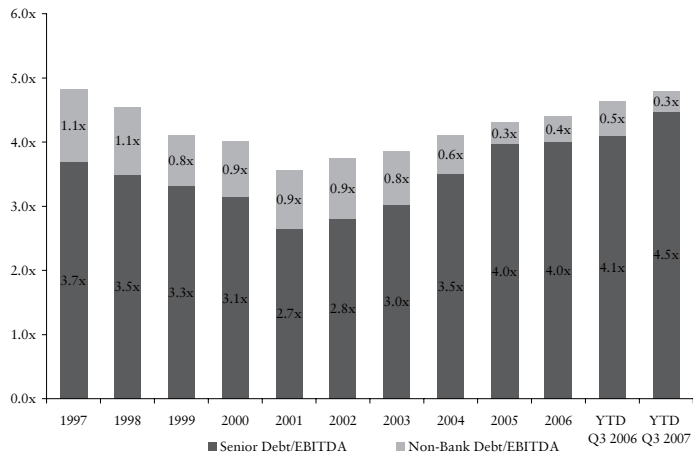
M&A Sector Analysis

The Market M&A Outlook 2008 will also provide a sector review of growth industries with a focus on the middle market M&A activity therein. The sectors we cover include:

- Business Services: Environmental Services, Facilities Services
- Clean Technology & Renewables: Biofuels, Solar
- Consumer: Consumer Products, Food Processing & Distribution, Hardlines & Specialty Retail, Restaurants, Softlines Retail, Footwear & Apparel
- Financial Institutions: Asset Management, Broker-Dealer, Depository Institutions, Insurance, Specialty Finance, Technology & Services
- Health Care: Biopharmaceuticals, Health Care Services, Info-Driven Health Care, Life Sciences Tools & Diagnostics, Medical Technology
- Industrial Growth: Building Products, Janitorial & Sanitation Supply, Packaging, Specialty & Industrial Distribution, Specialty Chemicals, Specialty Vehicles
- Technology: Communications Equipment, Hardware & Semiconductors, Internet, IT Services, Software
- Restructuring: Distressed M&A Outlook

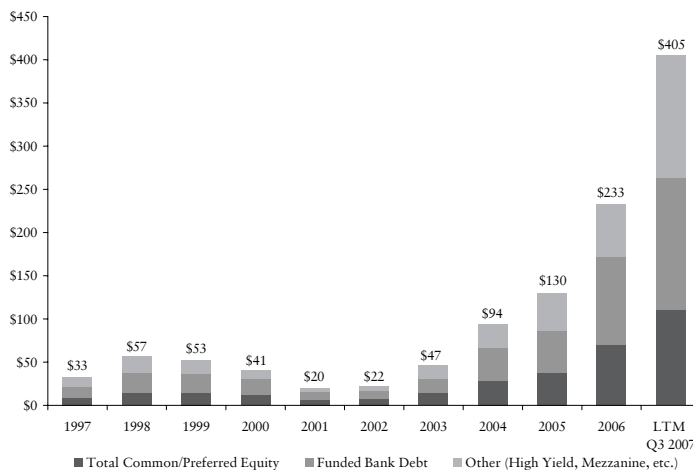
We believe our Market M&A Outlook 2008 will be a useful resource for those who participate in the middle market by providing an informative and in-depth review and preview of the M&A market. We hope you enjoy our insights, and we welcome your questions and comments.

Exhibit 2: Leveraged Lending Multiples
(EBITDA multiple)



Source: Portfolio Management Data LLC

Exhibit 3: LBO Volume
(\$ in billions)



Source: Portfolio Management Data LLC

Feature Transaction

Code Hennessy & Simmons Acquires Kele, Inc. from Thompson Street Capital Partners

by Garry Vaynberg, Associate, 612 303-6348, garry.x.vaynberg@pic.com

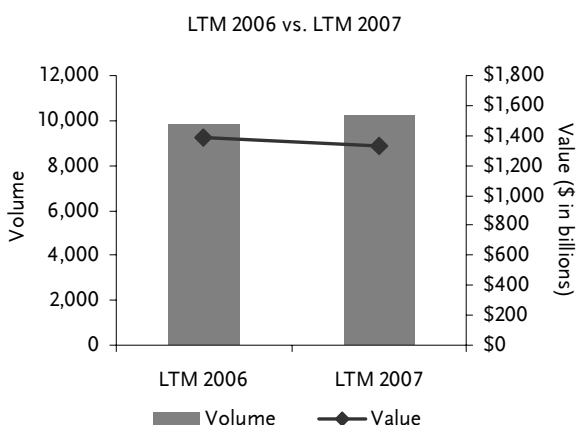
On November 30, 2007, Kele, Inc. ("Kele"), a portfolio company of Thompson Street Capital Partners, was acquired by Code Hennessy & Simmons LLC. Terms of the transaction were not disclosed.

Kele is a leading value-added supplier of peripheral control products and services to the building automation systems industry. Kele specializes in non-residential building HVAC and building automation control products, as well as peripheral controls for the lighting and security and access markets. Kele's product offering includes over 15,000 interface products, including transmitters, sensors, switches, gauges and relays from over 200 manufacturers. The company's 800-page catalog is regarded as the premier catalog and reference guide in the industry.

Piper Jaffray served as exclusive financial advisor to Kele and Thompson Street Capital Partners.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2006	\$1,383.2	9,868
LTM: 2007	\$1,326.4	10,229



*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2007 is \$32.0 million compared to \$33.2 million for 2006.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	19.4x	12.6x
\$25 to \$100	14.9x	9.2x
\$100 to \$250	16.4x	11.8x
\$250 to \$1,000	15.0x	10.2x
Over \$1,000	16.1x	11.0x

Current data as of December 28, 2007

Source: Thomson Financial Securities Data Corporation

Based on multiples between 0x and 25x; excluding media and telecom.

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Public Company Premiums

1 week prior to announcement	25.7%
4 weeks prior to announcement	26.9%

Current data as of December 28, 2007
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
High Yield Bond Rate	9.49%	7.70%

Senior Debt/EBITDA*	5.3x	4.4x
Total Debt/EBITDA*	5.6x	5.0x

Current data as of December 28, 2007
Source: Portfolio Management Data, The Wall Street Journal and LCD Comps
*Represents leverage statistics for middle market LBOs (less than \$50 million of EBITDA)

Buyout Fund Market

(\$ in billions)	YTD '07	'06
Funds Raised	\$256.4	\$197.6
Deals Completed	456.3	319

Data as of December 28, 2007
Source: Buyouts

M&A Monitor Contacts

(General and Deal Related Questions)

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