



M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—January 24, 2007

Sections:

Feature Article
Feature Transaction
Domestic M&A Transactions
LTM Transaction Multiples
Public Company Premiums
Deal Financing
Buyout Fund Market
Middle Market M&A Group Contacts

Feature Article

Private High-Yield, an Attractive Alternative

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An increasingly common form of financing seen in the middle market today is private high-yield debt. Much like the evolution of the junk bond market in the late 1980s and early 1990s that provided new capital to firms previously unable to issue bonds, middle market companies are finding new sources of capital in the private high-yield market. Compared to public high-yield, private high-yield is a more flexible, cost-effective and efficient form of debt that offers numerous benefits to both the issuer and investor.

Similar to public high-yield notes, private high-yield issues can be used in debt structures at the senior secured, unsecured or subordinated tranche. Other similar features to public high-yield bonds include a fixed interest rate, no required amortization, a seven- to ten-year maturity period and no maintenance covenants. However, rather than being broadly marketed to public investors such as mutual funds and asset managers, private high-yield issues are sold to hedge funds, mezzanine investors and other sophisticated private investment funds. The rapid acceptance of private high-yield can be largely attributed to the numerous advantages it offers compared to the public investments. Namely, private high-yield note issues are not registered with the SEC, thus do not require public filings or a public debt rating for the company issuing them. Additionally, private high-yield offerings are generally marketed to a limited number of investors (1 to 5 versus 30 to 50 in a public deal), resulting in a cost-effective and faster execution. A limited group of holders also allows for a more dynamic structure resulting in increased structural flexibility.

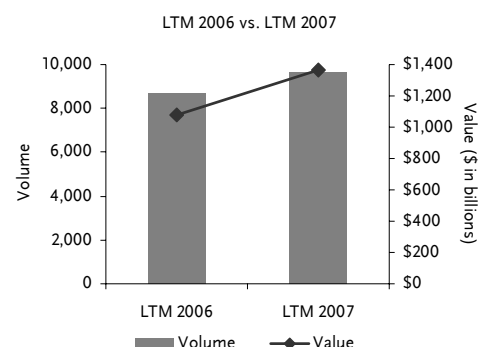
Significant advantages exist for private high-yield investors as well. Investors are able to deploy significant amounts of capital and drive deal terms and pricing to a greater degree than would be possible in public high-yield deals because of the limited consortium size involved in private high-yield offerings. Moreover, because the debt is not public, small holders' irrational selling behavior will not drive down bond prices, resulting in a more rational valuation. Lastly, greater all-in returns can be captured through rate, fees, equity co-invest and potential take-out premiums. The result is a win-win situation for both the company and the investors.

Driven by the torrid pace of the recent LBO and M&A markets, private high-yield has gained a significant foothold in the middle market financing arena. Moreover, as the tangible and intangible costs of being public continue to climb, more companies, especially those in the middle market, are finding it advantageous to remain or go private. As such, private high-yield issuances are expected to continue to gain popularity as private companies seek creative and advantageous financing solutions.

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Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2006	\$1,080.1	8,703
LTM: 2007	\$1,364.5	9,643



*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2007 is \$35.0 million compared to \$30.0 million for 2006

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	14.1x	6.5x
\$25 to \$100	11.3x	8.6x
\$100 to \$250	16.8x	12.3x
\$250 to \$1,000	16.4x	9.2x
Over \$1,000	14.7x	10.0x

Current data as of January 10, 2007

Source: Thomson Financial Securities Data Corporation

Based on multiples between 3x and 25x; excluding media and telecom.

Public Company Premiums

1 week prior to announcement	22.6%
4 weeks prior to announcement	26.2%

Current data as of January 10, 2007

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.6%	6.7%
High Yield Bond Rate	7.7%	8.1%
Senior Debt/EBITDA*	4.7x	4.4x
Total Debt/EBITDA*	4.9x	5.2x

Current data as of January 10, 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)

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