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M&A Monitor

Piper Jaffray M&A Monitor
Analyzing M&A Activity—February 25, 2008

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Feature Article

Has the Pendulum Swung Too Far?

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We all knew it last year—the financing markets were fueling an M&A market that was bordering on "euphoric." It was great for advisors, and the private equity community was loving the increased velocity, but those of us who have been in this market through a number of cycles knew the party would end. In the large cap market, not only did the party end, but they have cleaned up and put away the tables and the chairs. If not for the hundreds of billions of dollars of private equity raised in the last few years, you might not know there had ever been a "party." Of course, the middle market is different and always has been. Representing 3 percent of the press coverage and 97 percent of the deal flow, middle market deals happen across all cycles and continue to happen now. However, the abundance of credit that fueled the M&A boom of the last few years has just as quickly turned and put the brakes on M&A activity. Even in the middle market, where leverage didn't get to the crazy levels we saw in the large cap market, we have seen a reversal. Granted, credit is still available for middle market deals—which it isn't for large cap deals—but pricing has increased substantially, leverage has been reduced, and most importantly, lenders are seemingly much more skittish.

Part of the reason likely relates to the shutdown of the CLO/CDO market that many of the newer lenders have been using to finance themselves. Without access to this market, funding becomes more costly and more difficult, which has made many of these lenders more careful. Of course, it didn't help that GE bought Merrill Lynch Capital and eliminated one large productive lender from the market. This created an overreaction in the lending markets that has squeezed leverage, and therefore, purchase prices. Don't get me wrong, we won't be back to early 2007 levels for a long time, but at some point in the next 12 months, we would expect to see more normalcy in the financing market for middle market deals. In fact, even the large cap market will come back one day—there is way too much private equity that needs to be deployed for that market to remain dormant.

Private equity will have much to do with the activity level in the M&A market in 2008. As buyers, the valuation expectations of private equity firms have changed quickly. As sellers, their memories are a bit longer and they have the flexibility to time their exits. While average hold periods for private equity firms have shrunk in the recent hot market, they can generally time the market to find, if not the best, at least a "good" market to sell into. Given the number of private equity backed portfolio companies, a slowdown in exits will certainly have a noticeable impact on M&A deal flow in 2008. As buyers, private equity firms are raring to go, with plenty of dry powder and a belief that today's lower multiples will look attractive over the long term. Yet the issue in 2008 will be supply, as it seems likely that the number of companies interested in selling for suddenly lower multiples in this market will be reduced significantly.

Yet it's not all doom and gloom. While activity levels in certain industries like consumer and industrial have been hit hard by talk of a recession, certain other industries like health care and business services continue to be very strong. In addition, great companies across all industries can be sold at premium valuations in any market environment. Even if private equity activity is relatively slow in 2008, it will bounce back quickly given the huge amounts of capital that need to be invested and the strong incentives to exit in order to raise new and bigger funds.

If the financing pendulum has swung too far, history tells us it will find center again. It may be a tough few months, but in the long term, the middle market is a pretty good place to be.

Feature Transaction

eyeonics, Inc. was acquired by Bausch & Lomb Inc.
by Jeff Eberle, Associate, 612 303-6297, jeffrey.s.eberle@pjc.com

On January 20, 2008, eyeonics, Inc. ("eyeonics" or the "company") was acquired by Bausch & Lomb Inc. Terms of the transaction were not disclosed.

eyeonics develops and markets the crystalens intraocular lens (IOL), the first and only U.S. Food and Drug Administration-approved accommodating IOL for the treatment of cancer. As one ages, accommodation, the eye's method to achieve near-distance focusing, decreases, usually resulting in the need for reading glasses. The crystalen IOL replaces the eye's natural lens then mimics the accommodating characteristics of the natural lens. It has been implanted in more than 95,000 eyes worldwide.

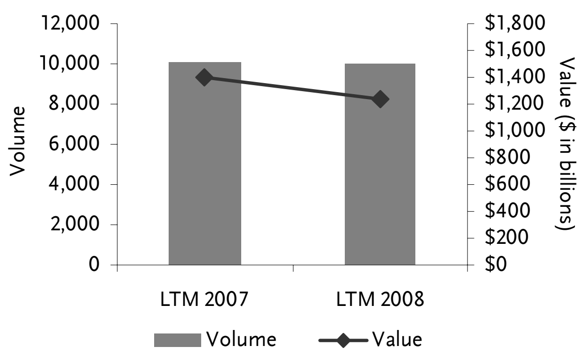
Bausch & Lomb is a global eye health company. Its core products include soft and rigid contact lenses and lens care products.

Piper Jaffray served as exclusive financial advisor to eyeonics, Inc.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2007	$1,405.7	10,071
LTM: 2008	$1,237.0	10,034

LTM 2007 vs. LTM 2008



*Total value based on deals with reported values
Source: Thomson Financial Securities Data Corporation
LTM median deal value for 2008 is $32.0 million compared to $33.6 million for 2007.

LTM Transaction Multiples

By Size ($ in millions)	EBIT	EBITDA
Less than $25	19.9x	15.8x
$25 to $100	16.4x	8.9x
$100 to $250	16.7x	12.1x
$250 to $1,000	14.8x	10.0x
Over $1,000	16.5x	11.4x

Current data as of February 22, 2008
Source: Thomson Financial Securities Data Corporation
Based on multiples between 0x and 25x; excluding media and telecom.

Public Company Premiums

1 week prior to announcement	27.3%
4 weeks prior to announcement	27.8%

Current data as of February 22, 2008
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.11%	7.90%
High Yield Bond Rate	10.43%	7.50%
Senior Debt/EBITDA*	5.4x	4.2x
Total Debt/EBITDA*	5.4x	4.7x

Leveraged Loan and High Yield data as of February 22, 2008. Debt multiple data as of February 21, 2008
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 '08	'07
Funds Raised	$19.4	$281.7
Deals Completed	29.9	454.3

Data as of February 22, 2008
Source: Buyouts

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(General and Deal Related Questions)

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