

M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—February 28, 2007

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Feature Article**The Boom in Going-Private Transactions**by Garry Vaynberg, 612 303-6348, garry.x.vaynberg@pjc.com

In the M&A Monitor feature article published in February 2006, "Is There a Renewed Prospect of Going-Private Transactions?" we speculated that going-private transactions were about to gain significant momentum. At that time, we came to the conclusion that the introduction of the Sarbanes-Oxley Act in 2002, and especially the more recent adoption of Section 404, had a dramatic impact on the cost of being a public entity, particularly for small-caps. Not only has our prediction come true, but the level of activity has surprised many people in the financial industry. In 2006, the number of going-private transactions increased by 73% to 239 transactions above \$25 million, exceeding the previous high of 199 transactions reached in 1999, according to Capital IQ. And so far in 2007, the trend continues unabated with several transactions already making splashes in the media.

Going-private transactions are beneficial to those companies who find that the additional costs and risks of being public outweigh the positives. In addition, we believe that such a transaction should only be undertaken if it allows the company's shareholders to extract full value for their interests. This last part is critical in differentiating a going-private transaction from other forms of M&A activity. We foresee two methods of accomplishing the full value task:

1. Management pairs up with a financial sponsor and performs a leveraged buyout of the company in order to exit the public markets. The resulting company's operation and management team, for the most part, remains intact, allowing it to focus on its business without the pressures exerted by the public markets.
2. The company sells itself to a strategic acquirer for a cash consideration. The key differences in this scenario are that the role of the target's management team is uncertain and the operation, for the most part, is no longer independent as the acquirer extracts synergies from the merger.

Stock-for-stock transactions often tend to be counted as part of the going-private trend. Although these types of transactions might be beneficial to the target company's shareholders in the long-term, they do not guarantee a full extraction of value. The former shareholders are still subject to the vagaries associated with the public markets, as well as, various costs associated with being public.

Additionally, we do not include in the definition of a going-private transaction situations where a company "goes dark" or, in other words, deregisters its shares from the public markets after falling below certain shareholder and asset thresholds. While "going dark" allows these companies to escape the costs associated with being a public entity, it does not appear to result in improved valuations for their shareholders. A recent five-year analysis conducted at the University of Pennsylvania's Wharton School of Business estimates that the impact of deregistering securities results in a 9-12% discount in value, compared to a substantial premium received by companies completing a going-private transactions.

In summary, although there are significant benefits to a going-private transaction, including escaping the burdens imposed by Sarbanes-Oxley and other costs of being public, there are various ways to accomplish that task. In evaluating a potential transaction, management and shareholders need to make sure that it allows them to achieve their goals and maximize value. While stock-for-stock or "go dark" transactions can partially meet their objectives, neither one guarantees the same probability of success as selling to a strategic or financial acquirer for cash. With the abundance of capital available to private equity firms, the excess cash held by strategic acquirers looking for growth opportunities and attractive lending multiples, there are plenty of opportunities for shareholders to achieve a high premium, as well for management to find an attractive partner to perpetuate future growth. Given that, we expect going-private transactions to be plentiful again in 2007.

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Feature Transaction

Piper Jaffray Advises PlayCore Holdings, Inc.

by Shane McDaniel, 312 920-3271, michael.s.mcdaniel@pjc.com

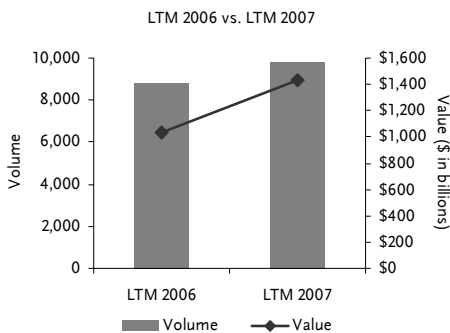
On February 14, 2007, PlayCore Holdings, Inc. (“PlayCore” or “the company”), a portfolio company of Chartwell Investments was acquired by Bear Stearns Merchant Banking. Terms of the transaction were not disclosed.

PlayCore is a premier designer, manufacturer and marketer of innovative playground equipment, accessories and related play products. The company’s core business is manufacturing commercial playgrounds sold to municipal parks and recreation departments, public and private schools, daycare centers and landscape architects. The commercial business has two well-known trade brands which hold the largest market share position in the U.S. commercial playground market. Additionally, the company manufactures branded consumer ready-to-assemble and do-it-yourself wooden play systems sold primarily through large home centers.

Piper Jaffray served as exclusive financial advisor to PlayCore Holdings, Inc. and Chartwell Investments.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2006	\$1,027.8	8,765
LTM: 2007	\$1,424.3	9,748



*Total value based on deals with reported values
 Source: Thomson Financial Securities Data Corporation
 LTM median deal value for 2007 is \$35.6 million compared to \$30.0 million for 2006.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	16.4x	7.6x
\$25 to \$100	11.6x	9.4x
\$100 to \$250	15.7x	10.6x
\$250 to \$1,000	17.0x	9.9x
Over \$1,000	15.0x	10.1x

Current data as of February 26, 2007

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	23.0%
4 weeks prior to announcement	27.0%

Current data as of February 26, 2007

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.97%	7.39%
High Yield Bond Rate	7.36%	8.06%
Senior Debt/EBITDA*	4.16x	4.4x
Total Debt/EBITDA*	4.72x	5.2x

Current data as of February 26, 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)	2006	2005
Funds Raised	\$197.6	\$183.8
Deals Completed	\$314.8	\$199.4

Data as of January 8, 2007

Source: Buyouts

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