

## M&amp;A Monitor

**Piper Jaffray Middle Market Mergers & Acquisitions**

M&amp;A Monitor: Analyzing M&amp;A Activity—March 22, 2006

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**Feature Article****Preparing For Sale: Issues to Consider**by Andrew Schwartz, [andrew.h.schwartz@pic.com](mailto:andrew.h.schwartz@pic.com), 312 920-3273

For sellers seeking to capitalize on the current highly favorable M&A market, it is important to consider several topics before undertaking a sale process. Anticipating potential areas of question or concern and ensuring sellers are adequately prepared to address these issues throughout the sale process helps to drive a successful outcome focused on maximizing value and minimizing execution risk. This article examines several topics that sellers should carefully consider prior to going to market.

- **Growth**—Sellers should understand the key drivers of historical and projected growth. Preparing a detailed financial model that examines historical and projected growth on a micro level helps to more effectively frame the opportunity for potential buyers and support the growth story going forward. While not applicable to all businesses, potential buyers will likely seek to examine the following aspects of a company's growth: organic versus acquisition; recurring versus nonrecurring revenue; unit volumes; pricing fluctuations, including those attributable to the pass-through of raw material costs; and growth by major divisions, customers, product segments or end markets.
- **Financial Performance/Profitability Margins**—Sellers should have defensible explanations of the company's financial performance and key drivers of profitability, including the ability to explain profitability margin fluctuations and variations across product offerings, customers and facilities. In addition, sellers should be able to explain drivers of the company's cost of sales and selling, general and administrative expenses, including material, labor, sales and overhead expenses. Sellers also should be prepared to explain initiatives in place to improve profitability, including helping buyers get comfortable with the expected timing and financial impact of those improvements.
- **Acquisition Strategy**—Clearly articulating the company's acquisition strategy helps to drive value in the M&A process. Buyers will expect a clear understanding of what the company is looking to acquire (e.g., expanded product offering, customer base, end market penetration, geography), the potential for synergies, the proven ability of the management team to successfully integrate target companies into existing operations and a list of potential targets, including those with whom the company has had prior discussions.
- **Capital Expenditures**—Sellers should be able to present detailed and specific plans for projected maintenance and growth-oriented capital expenditures. Sellers also should understand the expected return on investment for each project and how these capital expenditures are expected to improve the company's capabilities and efficiency.
- **Products/Services**—Understanding how the company's products are differentiated in the market and unique among competitors' offerings can provide potential buyers a level of comfort that the company's products are proprietary and insulated from pricing pressures. Sellers also should be able to clearly articulate plans for new product development, including the expected sales opportunities of new products, cost-saving opportunities and any expected cannibalization of existing products.
- **Customers**—Sellers should be prepared to address any significant customer concentration issues by providing insight into the company's relationships with key customers. Sellers often will need to help underscore the importance of the company's product offering to its customers. Buyers also will want to understand the nature, length and terms of any contracts the company has with its key customers (e.g., sole source provider, pricing arrangements).
- **Management**—Investors seek to invest in proven management teams that they believe are highly capable of successfully executing on the company's strategic growth initiatives. The company should ensure that it has the right individuals in place who can lead a growing business and are committed to working on an ongoing basis with a new partner. If some members desire to step away from the business in the near-term, buyers will want to clearly understand timing considerations and transition arrangements, as well as assess other managers within the organization capable of stepping into a leadership role.

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**Feature Article, Cont.**

**Preparing For Sale: Issues to Consider**

by Andrew Schwartz, [andrew.h.schwartz@pic.com](mailto:andrew.h.schwartz@pic.com), 312 920-3273

While there are a number of other topics in addition to those mentioned above that sellers must carefully consider prior to initiating a sale process, our experience suggests that achieving a highly successful outcome in an M&A transaction involves anticipating potential issues, questions and concerns, and ensuring sellers are adequately prepared to address them. With the help of a knowledgeable and experienced investment banker to identify areas of concern and, with the sellers, effectively address issues with thoughtful positioning and analysis, sellers can take advantage of an extremely seller-friendly M&A market to maximize value and achieve an outstanding result.

**Feature Transaction**

**Piper Jaffray Advises Dave & Buster's, Inc.**

by Mike Wattles, [michael.t.wattles@pic.com](mailto:michael.t.wattles@pic.com), 415 277-1507

On March 8, 2006, Dave & Buster's announced that the company consummated the merger of WS Midway Acquisition Sub, Inc., an affiliate of Wellspring Capital Management LLC, with and into the company. Pursuant to the merger, each issued and outstanding share of Dave & Buster's common stock, other than shares owned by the company, WS Midway Holdings, Inc. or its subsidiaries, and other than dissenting shares, were converted into the right to receive \$18.05 per share in cash. The surviving company will continue to be known as Dave & Buster's, Inc. The transaction was financed with a \$53 million senior credit facility and a \$175 million high yield offering.

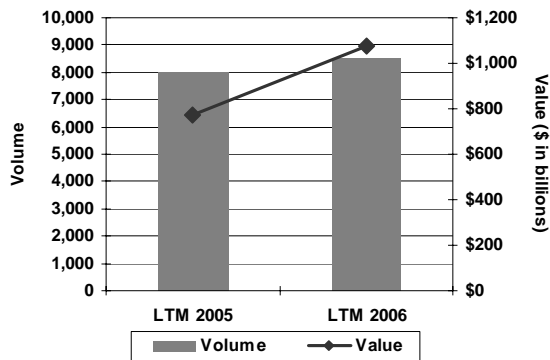
Founded in 1982, Dave & Buster's engages in the ownership and operation of large format, high-volume, regional restaurant/ entertainment complexes under the Dave & Buster's and Jillian's names, with 46 locations throughout the United States and Canada. Dave & Buster's entertainment complexes offer an array of entertainment attractions, such as pocket billiards, shuffleboard, interactive simulators, virtual reality systems, and traditional carnival-style games of skill as well as special event rooms designed for hosting private social parties and business gathering. In addition, Dave & Buster's provides a menu of food and beverages, which include gourmet pastas, steaks, seafood, chicken, sandwiches, salads, and a selection of desserts.

Piper Jaffray served as exclusive financial advisor to Dave & Buster's in connection with the merger transaction and has rendered a fairness opinion to the Dave & Buster's Board of Directors.

**Domestic Transactions**

(\$ in billions)	Value*	Volume
LTM: 2005	\$770.2	7,983
LTM: 2006	\$1,073.2	8,482

LTM 2005 vs. LTM 2006



\*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2006 is \$32.0 million compared to \$26.5 million for 2005.

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### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	7.4x	4.5x
\$25 to \$100	10.3x	8.3x
\$100 to \$250	12.3x	7.1x
\$250 to \$1,000	14.5x	8.9x
Over \$1,000	13.8x	9.6x

Current data as of March 20, 2006

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	22.9%
4 weeks prior to announcement	24.6%

Current data as of March 20, 2006

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.39%	5.47%
High Yield Bond Rate	8.10%	7.57%
Senior Debt/EBITDA*	4.4x	3.4x
Total Debt/EBITDA*	5.2x	4.6x

Current data as of March 20, 2006

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)	2005	2004	2003
Funds Raised	\$173.5	\$42.2	\$24.0
Deals Completed	\$198.0	\$136.5	\$94.8

Data as of March 20, 2006

Source: Buyouts

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