

M&A Monitor

Piper Jaffray M&A Monitor

Analyzing M&A Activity—March 28, 2007

Sections:

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

Feature Article**Canada's Tax Fairness Plan Creates Uncertainty and Opportunity to the North**by Jon Kreidler, 612 303-6328, jon.w.kreidler@pjc.com

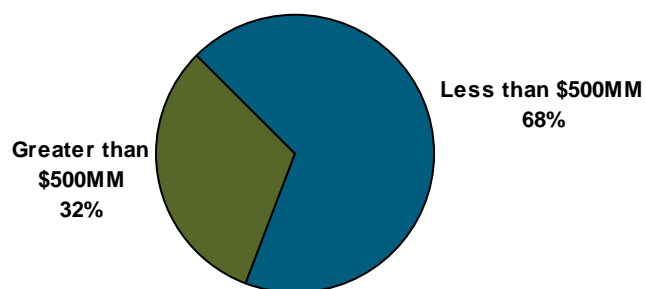
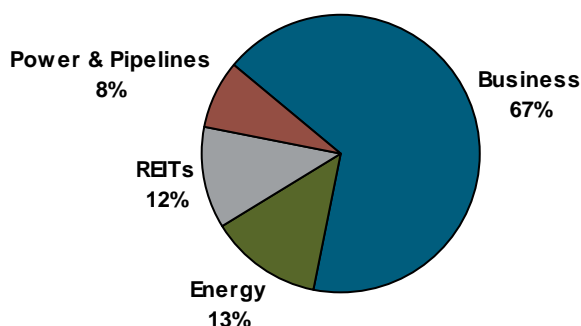
With the announcement of Canada's Tax Fairness Plan in the fall of 2006, Canada's Minister of Finance, Jim Flaherty, has left the future of the Canadian income trust market rather murky, while also creating an opportunity for acquisition-minded investors. After more than a year of speculation, the Canadian Ministry of Finance announced their plan to end the favorable taxation that income trusts receive in Canada. According to documentation released concurrently with the announcement, the Canadian government estimated that the country had lost approximately \$1.3 billion in tax revenue at both the federal and provincial levels in 2006 due to favorable tax treatment received by income trusts within the country. The favorable taxation will end in 2011 for existing income trusts, and the possibility of converting to such a structure was eliminated completely upon the announcement of the new plan. Since the announcement, many questions concerning the future of these trusts have arisen for small- and mid-cap companies structured as income trusts, and many alternatives have begun to present themselves for opportunistic investors.

Background

The basic objective of all income trusts is to provide a more tax-efficient manner in which to distribute cash flow to investors. The Canadian tax system allows income trusts to minimize or eliminate corporate taxes altogether. Investors are still subject to tax on the distributions received, but the double taxation is largely eliminated, allowing investors to increase the efficiency of their investments on an after-tax basis. Since the majority of cash flow generated by these trusts is paid out to stockholders (unit holders), typical income trusts consist of stable, relatively mature businesses with predictable cash flow. Industries where this structure is prevalent include energy, power and pipelines, real estate and assorted other businesses.

Income Trust Sector Breakdown

(253 Total Income Trusts)

Trusts by Market Capitalization**Trusts by Sector**

Source: Toronto Stock Exchange; as of December 31, 2006

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

Feature Article, Cont.

Canada's Tax Fairness Plan Creates Uncertainty and Opportunity to the North

by Jon Kreidler, 612 303-6328, jon.w.kreidler@pic.com

In the fall of 2005, Canada's Finance Department began looking at the favorable tax structure of Canadian income trusts and the lost taxes associated with them. The announcement and subsequent suspension of advance tax rulings for trusts led to a sell-off in the market, with the trust index trading down significantly. In early 2006, the new government leadership concluded that no actions would be taken on the taxation of income trusts. As a result, the market rebounded slightly. On October 31, 2006, the new government announced a Tax Fairness Plan; however, which altered the trust landscape in Canada and sent the trust market into a sharp decline.

Options

In broad terms, existing Canadian income trusts have two options going forward if they want to remain independent and publicly traded: (1) continue operating as an income trust and enjoy the favorable tax treatment until 2011; or (2) convert to a corporate structure. Although existing income trusts will not be affected from a taxation standpoint until 2011 when the new plan takes affect, they have already begun to be affected due to decreased interest from the greater investor community and subsequent fall in prices. There is an increasing possibility of a lack of exposure, as analysts potentially drop coverage due to the difficulties associated with comparing the structures to their peers and a general lack of interest and demand for coverage. The larger issue is the end of the favorable tax treatment in 2011; however, which may result in trusts being at a disadvantage relative to their peers who elect to convert to a corporate structure.

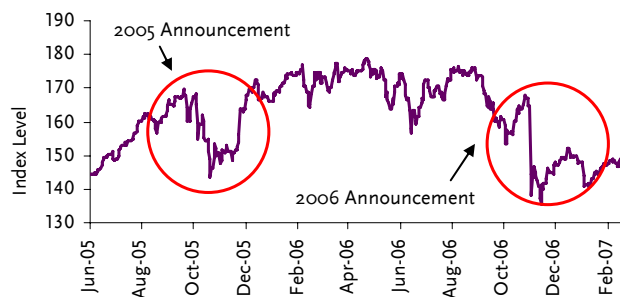
Outcomes

In the ten months of 2006 prior to the announced changes to the tax laws, five income trusts had been acquired. For the five months following the plan, the number of trusts acquired has more than doubled, and numerous additional trusts have publicly announced that they have begun strategic reviews of their business in light of the recent events. It is quite apparent that the trusts most affected by the new regulations and investor sentiment, those taking the largest hits in valuations, are primarily the smaller trusts.

While 67% of the current income trusts in Canada have a market capitalization of less than \$500 million, 17 of the 20 trusts (85%) that experienced the largest price declines since the October announcement were in this group. As indicated in the adjacent chart, when looking across the broader universe of Canadian companies and income trusts on the Toronto Stock Exchange (TSX), there is a clear bifurcation of valuations of companies below and above the \$500 million market cap level, with those below exhibiting significantly lower multiples. It is interesting to note that the spread based on size for the public companies is much larger than for income trusts. Once again, as many of these income trusts consider converting to a public structure, they will have to take this into account. In particular, small trusts that convert, or effectively become corporations at the expiration of the favorable tax treatment in 2011, will be faced with potentially significant valuation declines. Furthermore, the stable, mature businesses with low capital requirements that were once attractive as income trusts may lose favor with traditional equity investors as a small company's ability to grow will typically trump another small company's ability to pay large, consistent dividends.

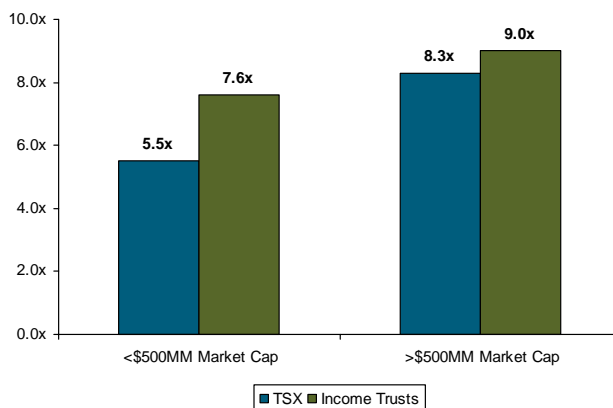
Analogous to the situation in Canada, where many companies are soon to be affected by an increased cost structure, was the introduction of Sarbanes-Oxley legislation in the U.S. With the introduction of Sarbanes-Oxley legislation, it has become much more difficult for small-cap companies to remain public, especially those in mature lines of business with low growth characteristics, due to the additional expenses associated with being public. Many of these U.S. small-cap companies have become orphaned over recent years as there is simply not a compelling enough story to attract and keep investors' interests. This appears to be a very similar situation to the one about to affect the majority of income trusts in Canada as corporate level taxes will soon make it more expensive for them to continue distributing such a large proportion of income to its investors, the very reason that they have become so popular over the years.

S&P/TSX Capped Income Trust Index



Source: Capital IQ; as of February 20, 2007

TSX Valuation Multiples by Market Capitalization
 (Median Enterprise Value / EBITDA Multiples)



Source: Capital IQ and Piper Jaffray; as of February 20, 2007

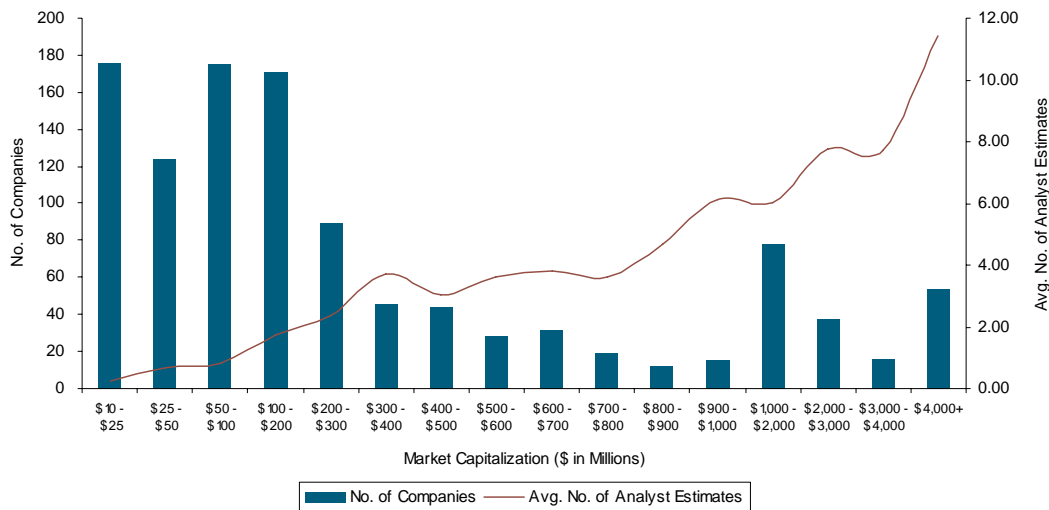
Feature Article, Cont.

Canada's Tax Fairness Plan Creates Uncertainty and Opportunity to the North

by Jon Kreidler, 612 303-6328, jon.w.kreidler@pic.com

We expect that small-cap Canadian trusts will trade similarly to U.S. small-cap companies and suffer from low liquidity, low valuations and limited research coverage, yet incur a disproportionate level of fixed public company costs. Smaller distributions and falling valuations will likely lead to diminished interest from the investing community, which may present an ideal opportunity for a wide range of potential buyers.

**Number of Companies and Average Analyst Coverage
 (by Market Capitalization)**



Note: Only companies with primary listing on the TSX included
 Source: Capital IQ and Piper Jaffray; as of February 20, 2007

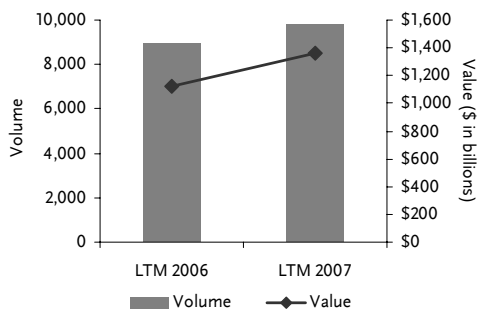
Opportunities

Although there isn't an immediate need for existing income trusts to make a decision upon their capital structure, many are proactively seeking advice and solutions for their impending decisions. The thought of remaining under the existing structure contains many uncertainties and risks. Looking forward, it appears that there will be ample opportunity for both strategic and financial investors to take advantage of the current valuations and trends taking place in the Canadian market. Leveraged buyouts and management buyouts appear to be a few of many options available to many of these income trusts over the ensuing years.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2006	\$1,126.5	8,947
LTM: 2007	\$1,366.4	9,830

LTM 2006 vs. LTM 2007



*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 \$30.6 million for 2006.

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	17.6x	8.5x
\$25 to \$100	11.9x	9.1x
\$100 to \$250	15.7x	10.6x
\$250 to \$1,000	17.4x	10.7x
Over \$1,000	15.1x	10.1x

Current data as of March 27, 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	23.1%
4 weeks prior to announcement	26.7%

Current data as of March 27, 2007

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.8%	7.5%
High Yield Bond Rate	7.5%	8.1%
Senior Debt/EBITDA*	4.1x	4.4x
Total Debt/EBITDA*	4.6x	5.2x

Current data as of March 27, 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 March 28, 2007

Source: Buyouts

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

M&A Monitor Contacts

(General and Deal Related Questions)

United States	Europe	China
Jeff A. Rosenkranz Group Head 312 920-2133 jeff.a.rosenkranz@pjc.com	David I. Wilson CEO, Piper Jaffray Ltd. +44 20 3142-8701 david.i.wilson@pjc.com	Mark M. Pols Principal +86 21 6135-7370 mark.m.pols@pjc.com
Michael R. Dillahunt Managing Director 612 303-6337 michael.r.dillahunt@pjc.com	Matthew J. Flower Principal +44 20 3142-8702 matthew.j.flower@pjc.com	
Robert D. Frost Managing Director 612 303-8248 robert.d.frost@pjc.com	James O. Steel Vice President +44 20 3142-8705 james.o.steel@pjc.com	
John A. Lonquist Managing Director 612 303-6308 john.a.lonquist@pjc.com		
Walter D. Murphy Managing Director 312 920-2147 walter.d.murphy@pjc.com		
Scott M. Hasley Principal 312 920-2139 scott.m.hasley@pjc.com		

The M&A Monitor is published every two weeks by the M&A Group within the Investment Banking Department at Piper Jaffray. To report any technical difficulties with this e-mail transmission, please contact Cindy Zebro at cynthia.k.zebro@pjc.com. Visit our Web site—no password required: www.piperjaffray.com/ma.

Information contained in this publication is based on data obtained from sources we deem to be reliable, however, it is not guaranteed as to accuracy and does not purport to be complete. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information contained herein intended to constitute an analysis of any company or security reasonably sufficient to form the basis for any investment decision. Nothing contained in this publication constitutes an offer to buy or sell or the solicitation of an offer to buy or sell any security.

Notice to customers in Europe: This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorized persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorized by Piper Jaffray Ltd. as intermediate customers under the rules of the Financial Services Authority.

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.