

M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—May 3, 2006

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Feature Article

The Impact of Raw Material Prices on the M&A Market

by Shane McDaniel, michael.s.mcdaniel@pic.com, 312 920-3271 & Jason Roudabush, jason.m.roudabush@pic.com, 312 920-3293

Despite the continuing up-tick in raw material costs through the first quarter 2006, the M&A market remains strong. In fact, first quarter 2006 deal volume and private equity fundraising totals are on pace to beat last year's high. Activity has remained strong as most companies continue to benefit from a favorable supply/demand balance and strong pricing, but the key challenge for the remainder of 2006 will be tempering the pressure of raw material costs. Higher raw material prices, coupled with rising interest rates and modest pricing power caused by strong global competition, imply that corporate profits could come under pressure, and a pullback could be realized in the M&A market.

Raw material prices experienced unprecedented levels throughout 2005, especially in the second half of the year, and upward pressure is still mounting. Over the past six months, most raw material inputs remain at historic levels and continue to trend upward. For example, oil has increased nearly 20% since the fourth quarter of 2005, to more than \$70 per barrel. Metal prices have increased steadily as well, notably apparent in copper prices, which are up more than 40%. In regards to plastics, despite coming off highs after the Hurricane Katrina disaster, resin prices still are approximately 20 cents higher per pound today compared to mid-2005 levels.

Interest rates have increased steadily with the continued tightening by the Federal Reserve. Since July 2004, the Fed has increased the Federal Funds rate a quarter point at each consecutive meeting, resulting in a 375 basis point correction to 4.75% as of the March 2006 meeting. It is reasoned that interest rates are now near a "neutral" level, which suggests the Fed may consider ending their tightening interest rate policy. However, given the growth of the U.S. economy during the first quarter 2006, there remains the potential for additional near-term increases in the Federal Funds rate.

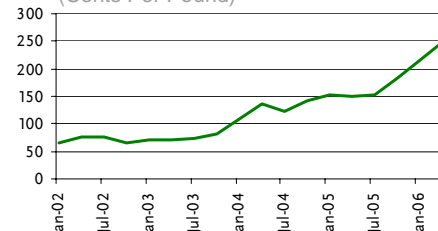
Going forward, if raw material prices continue to rise, it is uncertain how much more tolerance there will be in the marketplace. However, based on the pro forma performance of many of our middle market clients, there appears to be additional efficiency and productivity measures available to absorb higher input costs. Thus far, rising costs for raw materials and operations have been offset largely by the positive volume trends currently seen in the marketplace as evidenced by most economic indices. However, it is a trend that may not last much longer. Those who anticipate initiating a sale process in the near-term may find it beneficial to get to the market soon amidst the uncertainty regarding raw materials. This will best position sellers to benefit from momentum in the market, resulting in strong M&A multiples.

Oil (West Texas Intermediate)
 (Dollars Per Barrel)



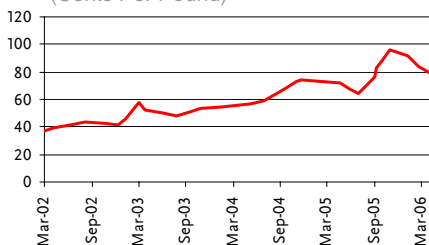
Source: Bloomberg

Copper
 (Cents Per Pound)



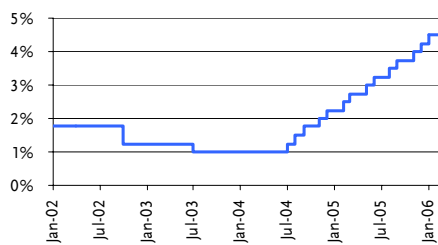
Source: Bloomberg

Resin (HDPE Blow Molding)
 (Cents Per Pound)



Source: Plastics News

Federal Funds Rate



Source: Federal Reserve

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Feature Transaction

Piper Jaffray Advises UnionTools, Inc.

by Ryan Jordan, ryan.c.jordan@pjc.com, 612 303-6831

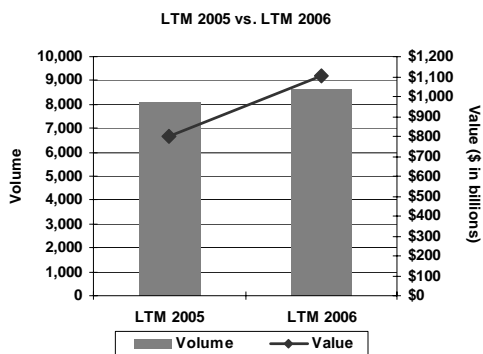
On April 7, 2006, UnionTools, Inc. (“UnionTools” or the “Company”), a portfolio company of Oaktree Capital Management, was acquired by Ames True Temper, a portfolio company of Castle Harlan. Terms of the deal were not disclosed.

UnionTools, based in Columbus, Ohio, is a leading manufacturer of branded and private label non-powered lawn and garden tools to the home improvement and commercial markets. The Company supplies products in six major product categories: (i) long-handled tools; (ii) leaf rakes; (iii) wheelbarrows/carts; (iv) striking tools; (v) snow tools and (vi) pruning tools. UnionTools has a leading market position and strong customer relationships with many of the top consumer home improvement retailers and industrial distributors and is recognized as an industry leader in both quality and innovation.

Piper Jaffray served as exclusive financial advisor to UnionTools, Inc. and Oaktree Capital Management.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$797.8	8,123
LTM: 2006	\$1,100.1	8,621



*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2006 is \$34.0 million compared to \$26.0 million for 2005.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	7.4x	4.1x
\$25 to \$100	11.2x	8.4x
\$100 to \$250	12.7x	7.0x
\$250 to \$1,000	12.0x	8.2x
Over \$1,000	14.7x	10.2x

Current data as of May 2, 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	22.3%
4 weeks prior to announcement	24.8%

Current data as of May 2, 2006

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.68%	5.47%
High Yield Bond Rate	8.09%	7.66%
Senior Debt/EBITDA*	4.0x	3.8x
Total Debt/EBITDA*	4.5x	4.0x

Current data as of May 2, 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 May 2, 2006

Source: Buyouts

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