GUIDES FOR THE JOURNEY | PiperJaffray

M&A Monitor

Piper Jaffray M&A Monitor
Analyzing M&A Activity—May 23, 2007

Sections:

Feature Article

Going-Private and Public Take-Out Transactions

by Garry Vaynberg, 612 303-6348, garry.x.vaynberg@pjc.com

Piper Jaffray recently published an M&A Insights Report entitled *Going-Private and Public Take-Out Transactions*. Below is a brief overview of the topics we address in the report. We hope you find our thoughts on the going-private and public take-out activity useful and thought provoking. We encourage you to contact us with any questions or comments that you may have.

Executive Summary
The sale of a public company can take many forms. These forms include: (i) going-private transactions, (ii) public take-out transactions and (iii) public mergers. We define a going-private transaction as the sale of a public company to a private equity group in an all-cash transaction. Similarly, we define a public take-out as a transaction in which the acquired (target) company's shareholders receive cash as the form of consideration in a sale to a strategic acquirer. Conversely, we define stock-for-stock transactions in the public market as public mergers. In this report, we focus on going-private transactions and public take-out transactions that result in shareholders receiving cash as the form of consideration in a sale.

Over the last few years, there has been a clear trend of public companies across various industries and sizes exiting the public markets as stand-alone entities by either selling to strategic buyers or private equity groups in all-cash transactions. In fact, the number of such transactions increased to 239 in 2006 from 138 in 2005, or 73% *. In this report, we explore the reasons for the rise in going-private and public take-out activity, as well as the rationale behind our belief that the trend will persist. We will also highlight our basis for our belief that small- and mid-cap companies have additional reasons for seeking going-private and public take-out opportunities.

Public companies have both "internal" and "external/market-driven" motivations for pursing going-private and public take-out transactions. The following are among the more important "internal" motivations behind this trend:

- Increased corporate governance requirements due to the burdens imposed by Sarbanes-Oxley
- Increased costs associated with operating as a public company
- Heightened emphasis by boards of directors to seek the value-maximizing strategy
- Substantial strain on management resources, including:
  i. Reporting and investor relations requirements—quarterly and annual reports, press release issuances, research analyst discussions, shareholder discussions and investor conferences
  ii. Business and operating strategy diversion resulting from being public—near-term focus, such as managing quarterly results

Moreover, there are several "external/market-driven" factors that suggest going-private and public take-out activity will accelerate in the future. The following are some of the "external/market-driven" factors that may provide the underpinnings for further growth in going-private and public take-out activity:

- General stability of the M&A markets, which is feeding the confidence of boards of public companies and acquirers to engage in transactions
- Strong financial performance of potential targets over the last few years, which makes realization of "full value" in a going-private or public take-out transaction more likely
- Abundance of capital available to private equity firms
- Renewed focus on growth by potential strategic acquirers, as well as a historically high level of available cash to execute acquisitions
- Attractive lending multiples
- Relatively high valuations attainable in going-private and public take-out transactions compared to the recent past
- Increased shareholder activism

*Source: Capital IQ, Securities Data Corporation & Piper Jaffray

Feature Article, Cont.

Going-Private and Public Take-Out Transactions
by Garry Vaynberg, 612 303-6348, garry.x.vaynberg@pjc.com

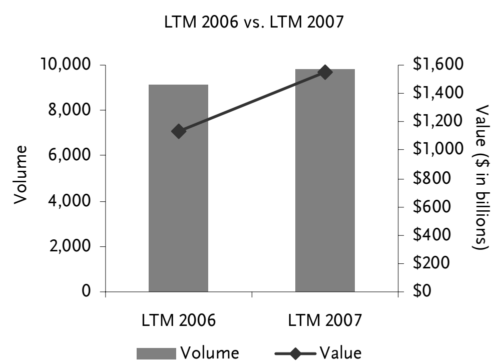
Moreover, small-cap and, to a lesser extent, mid-cap companies tend to have unique reasons for seeking going-private or public take-out transactions. These motivations include the following:

- Disproportionate impact of Sarbanes-Oxley and public company costs
- Several key benefits of being a publicly traded company are not realized
    - i. Research coverage typically limited relative to larger companies
    - ii. Trading volume/liquidity tends to be lower
    - iii. Limited access to capital markets for growth capital
- Valuation discrepancy relative to larger counterparts

While excellent opportunities exist for any public company to consider a going-private or public take-out transaction, the motivations are even stronger for many small- and mid-cap companies. As a result, an increasing number of small- and mid-cap companies are considering a sale transaction.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2006	$1,162.2	9,131
LTM: 2007	$1,555.2	9,814



*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 $31.5 million for 2006.

LTM Transaction Multiples

By Size ($ in millions)	EBIT	EBITDA
Less than $25	18.5x	9.4x
$25 to $100	11.6x	9.3x
$100 to $250	14.6x	10.1x
$250 to $1,000	17.4x	10.8x
Over $1,000	14.0x	10.5x

Current data as of May 23, 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	23.5%
4 weeks prior to announcement	27.1%

Current data as of May 23, 2007
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.82%	7.64%
High Yield Bond Rate	7.48%	8.1%
Senior Debt/EBITDA*	4.6x	4.0x
Total Debt/EBITDA*	5.1x	4.5x

Current data as of May 23, 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 May 23, 2007
Source: Buyouts

M&A Monitor Contacts
(General and Deal Related Questions)

United States	Europe
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
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. Lonnquist Managing Director 612 303-6308 john.a.lonnquist@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.