

M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—July 12, 2006

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Feature Article**Summer Lull? Not this year ...**by Jeff Rosenkranz, 312 920-2133, jeff.a.rosenkranz@pic.com

Typically, as the weather gets warmer, the private equity community starts thinking about Friday afternoons at Wrigley or weekends in the Hamptons, but this year appears to be different.

The torrid pace we have seen in the M&A market over the last few months seemingly will continue throughout the summer as sellers rush to take advantage of the frothy market. Market practitioners expect a slowdown at some point, but when that will occur is a much-debated question. The slowdown is inevitable as eventually an increased level of defaults drives a reduction in the availability of financing that in turn will lower purchase price multiples and cause sellers to sit on the sidelines.

But judging by the recent level of activity and the mood in the market, the inevitable slowdown is certainly not imminent. In addition to providing full employment for investment bankers, the high level of activity means that the M&A market is "crowded." With a plethora of deals to look at, buyers are forced to focus on situations where they have an angle and are willing to commit the time—and money—required in today's market.

The high level of activity also means that bankers have been forced to become more creative to make their deals stand out in the market. The days of sending out a teaser and waiting for the phone to ring are long over. While a particular deal may generate fewer bids today than it might have in the past, the indications are more meaningful because bidders today tend to be more serious. The frothy market also allows sellers—and yes, bankers—to be more demanding.

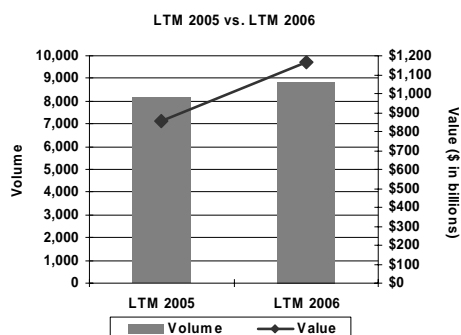
Targets that are in high demand can force bidders to do the vast majority, if not all, of their diligence without receiving exclusivity, which has obvious advantages to the seller in terms of certainty but can be costly to the losing bidders. This situation is just another in a long list of signs that the M&A market is strong. And since sellers don't want to miss their opportunity to sell into market strength, companies continue to come to market at a rapid rate.

So this year, as the temperature rises, everyone in the deal business will be hard at work. And while some complaining may be heard this summer, it won't be nearly as loud as the complaints in some future summer when deal flow is light and deals are tough to get done.

Our luck, that summer it will probably rain.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$858.3	8,162
LTM: 2006	\$1,162.4	8,871



*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 \$27.0 million for 2005.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	5.9x	2.3x
\$25 to \$100	11.2x	8.4x
\$100 to \$250	13.6x	7.9x
\$250 to \$1,000	12.9x	8.4x
Over \$1,000	14.7x	10.0x

Current data as of July 10, 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	22.8%
4 weeks prior to announcement	24.0%

Current data as of July 10, 2006

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.17%	5.64%
High Yield Bond Rate	8.56%	7.71%
Senior Debt/EBITDA*	4.0x	4.7x
Total Debt/EBITDA*	4.5x	4.7x

Current data as of July 10, 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)

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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 July 10, 2006

Source: Buyouts

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