GUIDES FOR THE JOURNEY. | PiperJaffray

M&A Monitor

Piper Jaffray M&A Monitor
Analyzing M&A Activity—July 25, 2007

Sections:

Feature Article

Will the Fat Lady Ever Sing?

by Jeff Rosenkranz, 312 920-2133, jeff.a.rosenkranz@pjc.com

For the last year or two, we have all wondered when the market would crack and the deal frenzy would come to an end. Frankly, if someone had told me that gas would be at $3.25 per gallon, that housing starts would crater and the sub-prime market would implode, I would have been pretty certain the deal market would have suffered. Yet amazingly, it hasn't.

In the first half of 2007, there were 5,057 deals totaling $891 billion in disclosed value. We have also seen plenty of interest in the huge public offerings of Fortress and Blackstone with other private equity firms and hedge funds lined up in the wings. Clearly, the recent story has been "Big Multiples for Big Deals." Public to private activity has been torrid, and we have seen the equity and debt markets expand to accommodate larger and larger deals. And while the large cap market has overshadowed the activity in the middle market, the middle market continues to be where the action is. In the first half of this year, there were 248 deals over $500 million and 4,809 deals under $500 million. Much of this activity continues to be driven by very accommodating financing markets—where multiples have continued to rise and covenants have continued to loosen. Concepts like "Covenant Lite" and "Toggle Notes" have gained increasing acceptance. Until now. Just recently investors pushed back on some large financings including U.S. Foodservice, Thomson Learning, and Dollar General. Widespread panic has not been a result, but it appears to be the first real sign of resistance in a market that has been on a steady climb for the last few years. If investors stand firm on these large cap deals, we can expect credit terms to tighten in the middle market also.

So is this the beginning of the end? Who knows? People have said the sky is falling in the deal market more times than the Cubs lose, yet both the deal economy and the Cubs keep chugging along and improving—while everyone anticipates them both to fall apart. This may not be the turning point in the market everyone fears, but it does seem noteworthy as investors display the first real sign of resistance. Given how the M&A market has been built on the back of the most aggressive credit market we have ever experienced, any sign of pushback is noteworthy. Let's not forget that these markets are cyclical, so while this may not be the beginning of the down cycle, it certainly may be the top. The fat lady may not be singing yet, but she will.

Feature Transaction

Piper Jaffray Advises Jonathan Engineered Solutions

by Adam Kroll, 312 920-2149, adam.b.kroll@pjc.com

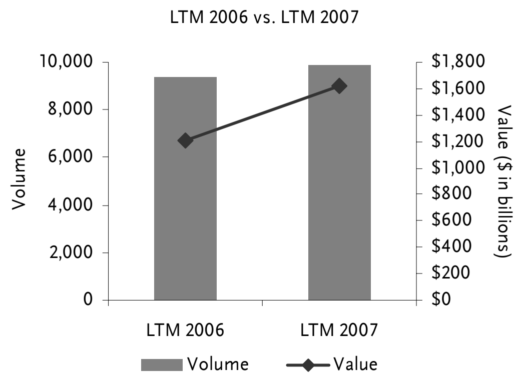
On June 29, 2007, Jonathan Engineered Solutions was acquired by Chicago Growth Partners. Terms of the transaction were not disclosed.

Jonathan Engineered Solutions, ("JES" or the "Company"), a portfolio company of Industrial Growth Partners, is a leading engineering and manufacturing company specializing in customized precision linear movement and access control solutions. The Company supplies high performance industrial−grade mechanical slides, integrated kits that bundle slides with peripheral components, and subassemblies that incorporate JES' slides and components with vendor supplied parts. The Company sells to blue-chip OEMs in the military/homeland security market, server technology market, and numerous industrial markets such as medical, commercial aerospace, telecommunications, material handling equipment, and emergency response vehicles. JES maintains its headquarters, along with its engineering and sales teams, in Irvine, California, while its manufacturing sites are located in Mexico and Asia.

Piper Jaffray served as exclusive financial advisor to JES and Industrial Growth Partners.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2006	$1,206.8	9,364
LTM: 2007	$1,625.4	9,868



*Total value based on deals with reported values
Source: Thomson Financial Securities Data Corporation
LTM median deal value for 2007 is $37.0 million compared to $32.0 million for 2006.

LTM Transaction Multiples

By Size ($ in millions)	EBIT	EBITDA
Less than $25	19.4x	10.3x
$25 to $100	12.0x	8.7x
$100 to $250	14.9x	10.8x
$250 to $1,000	15.3x	9.7x
Over $1,000	15.8x	11.0x

Current data as of July 17, 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	23.6%
4 weeks prior to announcement	27.8%

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

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.16%	8.40%
High Yield Bond Rate	7.95%	8.52%
Senior Debt/EBITDA*	5.9x	4.2x
Total Debt/EBITDA*	6.2x	4.8x

Current data as of July 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)	YTD ’07	‘06
Funds Raised	$103.4	$197.6
Deals Completed	$177.8	$319.7

Data as of June 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.