

M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—July 26, 2006

Sections:

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

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Feature Article**Consequences of the Implementation of the Takeover Directive on UK Public Company Takeovers**by Jim Steel, 44 020 7743-8705, james.o.steel@pic.com

In May 2006, the Takeover Directive, which applies to takeovers of companies registered in a Member State of the EU and admitted to trading on a regulated market in the EU or EEA, came into effect. The Takeover Directive legislation has resulted in a number of changes being made to the traditional UK public company takeover regime, which is governed by the Panel on Takeovers and Mergers ("the Panel").

The first point to mention is that the Takeover Directive now provides the Panel with statutory rights. Therefore, should it so wish, the Panel can apply to the courts to enforce rules derived from the Takeover Directive. The Panel operated historically under a nonstatutory regime with no ability to take action through the courts to ensure compliance.

It is important to note, however, that companies admitted to AIM, which is categorized as an Exchange-regulated market, fall outside the provisions of the Takeover Directive. These companies will continue to be governed by the Panel on a nonstatutory basis as long as the Takeover Code applies to the companies, which are, basically, UK-registered, controlled and managed companies.

Certain criminal offenses have also been introduced under the terms of the Takeover Directive. For instance, it is now a criminal offense to publish an offer document that does not comply with offer document rules. It is also a criminal offense to publish a response document that does not comply with response document rules. The criminal offense in relation to offer documents is likely to result in the termination of the UK custom of investment banks making offers on behalf of offeror companies (bidders).

For example, in the past, if Piper Jaffray had been acting as adviser to an offeror, the offer documentation would have stated that "Piper Jaffray is making the offer on behalf of X plc for Y plc." After implementation of the Takeover Directive, some investment banks have continued to make offers on behalf of offerors where the target has been an AIM-quoted company. As such, companies are not covered by the Takeover Directive and the threat of criminal proceedings does not exist.

Another significant change since the Takeover Directive was enacted is that squeeze-out provisions, being the route by which offerors can acquire minority shareholdings, are no longer governed by sections 428-430 of the Companies Act 1985 and instead fall under the Takeover Directive. The calculation of the thresholds for both squeeze-out and sell-out now involve a dual test, so that the bidder must be acquired or unconditionally contracted to acquire both 90 percent in value of all of the voting shares to which the offer relates (being the Companies Act requirement) and 90 percent of any voting rights attaching to the shares to which the offer relates.

The Takeover Directive dictates that an offer document must also be made available to employee representatives or employees of the target and the bidder, whereas offer documents traditionally were sent to only shareholders of the target. A target must now include in its circular a separate opinion from representatives of its employees on the effects of the offer on employment. The Panel, however, has clarified that this provision will not include an obligation to consult with employees, which would have been unmanageable on many fronts, including timing and the release of price-sensitive information.

Another change worth mentioning is the impact of the Takeover Directive on the issue of target management teams retaining interests, which includes shareholdings, share options packages or a board position on the offeror's board, following any takeover. In such circumstances, the Panel now requires that an independent adviser provides a "fair and reasonable" and such arrangements will require the approval of shareholders. Before the Takeover Directive, the Panel had some discretion over whether to require a "fair and reasonable," and the shareholder approval requirement would apply only when the offeror and management together held more than 5 percent of equity share capital.

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Feature Article

Consequences of the Implementation of the Takeover Directive on UK Public Company Takeovers, Cont.

by Jim Steel, 44 020 7743-8705, james.o.steel@pic.com

The Panel took the opportunity—independently of the Takeover Directive—to remove the Substantial Acquisition Rules (“SARs”), which had been an integral part of the UK regulatory landscape for a number of years. The SARs applied restrictions upon the speed at which a potential offeror could acquire shares in a company that would give it an aggregate holding of between 15 percent and 30 percent. Now the Panel, however, restricts the acquisition of shares in a company over the 30 percent threshold level, which clearly brings back the possibility of significant “dawn raids” as a strategic option for potential offerors.

Feature Transaction

Piper Jaffray Advises Andersen Corporation

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

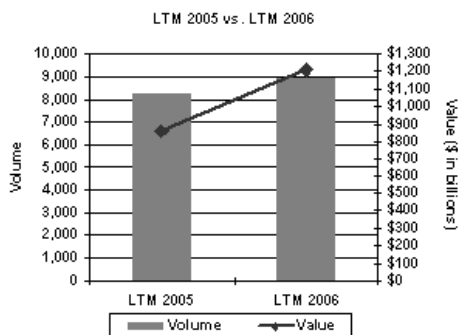
On June 30, 2006, Andersen Corporation completed its acquisition of Silver Line Building Products Corporation. Silver Line is North America's leading manufacturer of vinyl windows and patio doors. Founded in 1947, Silver Line is based in New Jersey, with additional facilities in Massachusetts, North Carolina, Georgia, Ohio, Texas and Illinois. The expansion of Andersen Corporation's product portfolio through this acquisition allows Andersen to provide windows and doors across virtually any price point and application to any area of the country. Terms of the transaction were not disclosed.

Andersen Corporation, located in Bayport, Minnesota, is the world's largest manufacturer of wood windows, patio doors and storm doors for the residential new construction, replacement and commercial market segments. The Andersen® brand is the most recognized brand in the window and patio door industry. The company is privately owned and has a strong history of commitment to its business partners, employees, community and the environment.

Piper Jaffray served as exclusive financial advisor to Andersen Corporation.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$857.3	8,194
LTM: 2006	\$1,209.5	8,936



*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.

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LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	5.9x	2.3x
\$25 to \$100	12.0x	8.3x
\$100 to \$250	13.4x	7.5x
\$250 to \$1,000	12.4x	7.9x
Over \$1,000	14.5x	9.2x

Current data as of July 24, 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 24, 2006

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.40%	5.84%
High Yield Bond Rate	8.52%	7.52%
Senior Debt/EBITDA*	4.2x	4.6x
Total Debt/EBITDA*	4.8x	4.7x

Current data as of July 24, 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 July 24, 2006

Source: Buyouts

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