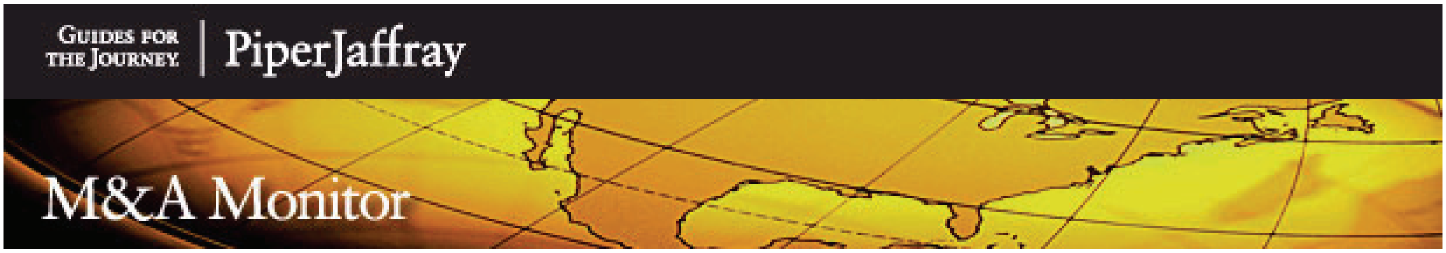

Piper Jaffray M&A Monitor
Analyzing M&A Activity—August 10, 2007

Sections:

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Feature Article

High-Yield Bond Backlog and the Effect on LBOs

by Luke Webb, 312 920-2136, lucien.g.webb@pjc.com

In recent weeks, the financing markets have experienced significant turbulence. A confluence of factors, ranging from sub-prime uncertainty to sudden lack of demand for high-yield issuances, has M&A professionals questioning the sustainability of deal making at the recent unprecedented levels. The sudden change in the market has forced banks to reevaluate their approach to financing M&A activity. While many of the immediate consequences of rising high-yield spreads will mainly affect large-cap high-yield issuances, the effect on overall LBO activity is pertinent to the middle market.

Over the course of a few weeks, investment banks shouldered $11-13 billion of unwanted debt overlooked by hedge funds and institutional investors. The narrow high-yield loan spread, which hit record lows towards the beginning of 2007, has fueled a robust M&A environment where acquirers commanded a seemingly unlimited source of financing. Although the primary source behind the turbulence in the market is unclear, the highly publicized sub-prime mortgage debacle of past weeks and the sudden drop in the creation of new CLO funds certainly attributed to investor wariness. Additionally, investor confidence was further slighted by growing concerns over the long-term sustainability of the recent buyout trend.

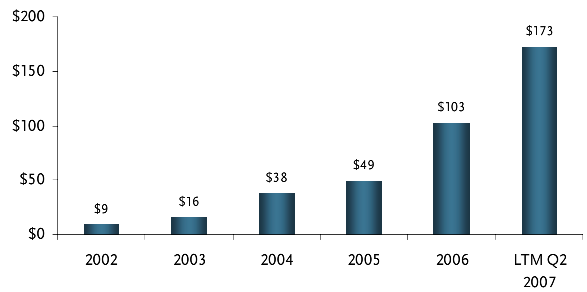
The problem now facing investment banks, which are suddenly weighed down by unwanted high-yield paper, is how to go about continued financing and syndicating of M&A deals already in the pipeline. Banks are finding themselves in a tenuous position as they have committed to LBO financings on particularly favorable terms, while at the same time underestimating demand for these covenant light loans. It will likely be difficult for banks to shed these so-called bridge loans before fiscal year end. A situation could arise where mark-to-market losses are inevitable, as banks will be forced with a decision to either dump the newly acquired debt at a discounted price, or hold onto it until a more desired buyer situation surfaces.

Doling out bridge-loans and holding onto unwanted high-yield debt is just one factor that could lead to the end of the so-called "LBO Golden Era," but this does not mean LBO activity will come to a halt. More likely, the M&A market will slowly tighten as the backlog of loans is worked out of the system and the market works itself towards equilibrium. It is important to remember that while raising debt has been more difficult in recent weeks, terms remain extremely favorable.

The important takeaway is that in the near future, investment banks will have to assume more of the risk associated with financing their fee-generating deals. Although the trend is unclear, we can only assume that the increase in uncertainty will impact pricing aggressiveness and terms in the middle market.

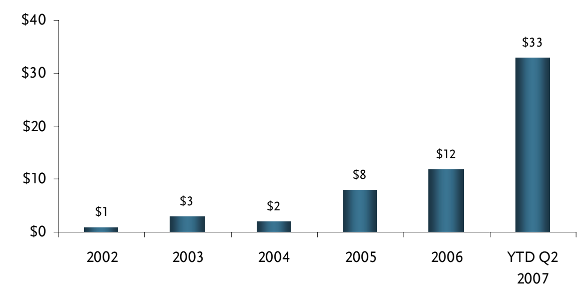
U.S. Leveraged Buyout Loan Volume

($ in billions)



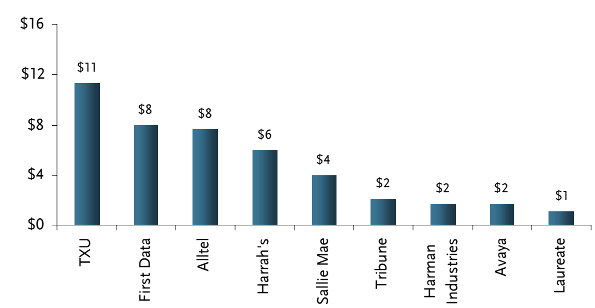
Bridge Loans Used to Finance LBOs

($ in billions)



High-Yield LBO Backlog

($ in billions)



Source: Bloomberg, LCDComps, Reuters, The Wall Street Journal

Feature Transaction

Piper Jaffray Advises The Harris Soup Company

On July 20, 2007, The Harris Soup Company (“Harry’s”), a portfolio company of TSG Consumer Partners was acquired by Basic American Foods ("BAF"). Harry's, headquartered in Portland, Oregon, develops and packages a range of high quality fresh prepared foods including soups, chilis, stews, side dishes, entrées, sauces, gravies and desserts sold to retail and food service customers. The company uses a unique small kettle cooking method and each batch is packaged using a state-of-the-art chill process to lock in freshness with no preservatives for superior purity and gourmet quality.

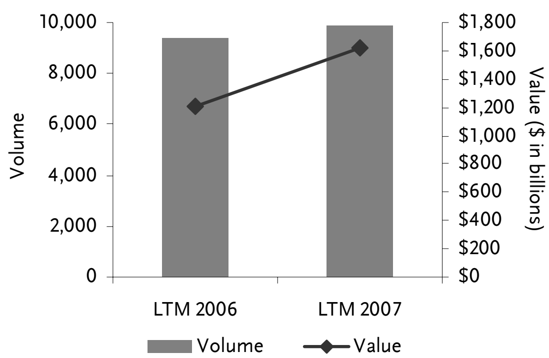
BAF is one of the world’s leading suppliers of convenience food products, including dry potato and dry bean products, and refrigerated potato products. Some of the company’s leading brands include: Nature’s Own® Potato Pearls® Premium Mashed Potatoes; Golden Grill Russet™ Premium Hashbrown Potatoes; Potato Pearls®; Quick-Start® Chili; and Santiago® refried and black beans; and the Naturally Potatoes® brand of refrigerated potato products. Founded more than 75 years ago, Basic American Foods serves foodservice distributors, commercial, non-commercial foodservice operators, industrial, wholesale club, and retail customers in domestic and international markets.

Piper Jaffray served as exclusive financial advisor to The Harris Soup Company. Terms of the transaction were not disclosed.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2006	$1,206.8	9,490
LTM: 2007	$1,625.4	9,887

LTM 2006 vs. LTM 2007



*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	15.5x	10.8x
$250 to $1,000	15.3x	9.7x
Over $1,000	15.9x	10.9x

Current data as of August 08, 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	23.8%
4 weeks prior to announcement	26.9

Current data as of August 08, 2007
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.28%	8.16%
High Yield Bond Rate	8.78%	8.31%
Senior Debt/EBITDA*	5.2x	4.7x
Total Debt/EBITDA*	5.3x	5.3x

Current data as of August 09, 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	$157	$197.6
Deals Completed	215	319

Data as of August 09, 2007
Source: Buyouts

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