

## M&amp;A Monitor

## Piper Jaffray Middle Market Mergers &amp; Acquisitions

M&amp;A Monitor: Analyzing M&amp;A Activity—October 26, 2005

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**Feature Article****A Perfect Storm Fuels Boom in European M&A**by James Steel, [james.o.steel@pjc.com](mailto:james.o.steel@pjc.com), 44 020 7743-8705

Europe is currently in the midst of an M&A boom, with levels of activity threatening to approach those reached during the heady days of the dotcom era. This article looks at the reasons behind the wave of M&A activity, which, to the end of September 2005, has seen \$691 billion of M&A for European-based target companies. That is an increase of 74% over the first nine months of 2004. (Source: Thomson Financial) The third quarter of 2005 was particularly active, with M&A volumes in Europe comfortably overtaking those in the U.S. That is the first time this has happened in any quarter for two and one-half years, and it was also the second most active quarter in Europe for five years.

Unlike the M&A boom of 2000 when global economies were strong, the current surge in M&A activity is being played out within a period of low GDP growth within the major European economies. For example, the UK is currently experiencing GDP growth of just 1.5%—the lowest for 12 years. Germany, Europe's largest economy, is achieving GDP growth of less than 1%. In this economic environment, pure organic growth is harder to deliver, although, over recent years, companies have been able to deliver improvements on underlying profitability and cash flow by focusing on internal restructurings to improve efficiencies and reduce debt burdens. Consequently, cash generation has been solid and balance sheets improved. But, in order to maintain growth in profitability in the current low growth environment, companies have been turning to M&A to provide the engine of growth going forward.

A particular relevant factor is that leading European stock market indices have also performed strongly in 2005. Exhibit 1 highlights the year-to-date performance of certain key European indices, clearly demonstrating a significantly superior performance to the Dow Jones Industrial Average.

Higher share prices clearly assist with the financing of M&A transactions, but takeover activity also creates liquidity, which, in turn, is invariably reinvested in the stock market. As the pool of quoted European companies diminishes, reinvestment helps to continue to drive up share prices, further strengthening the hand of quoted companies to fund M&A activity. This is a virtual circle, which shows little sign of slowing at the present time, with, for example, some commentators suggesting that as many as 30 of the 100 companies that comprise the FTSE 100 index are being considered genuine takeover candidates.

It is also relevant that stock markets have been taking a more positive view of companies undertaking M&A. Several companies, including Adidas and Unicredito, have announced ambitious acquisitions and have seen their share prices rise significantly. Traditionally, the share price of an acquirer may have been expected to fall due to the financial strain of undertaking a sizeable acquisition.

Another crucial factor is that debt capital remains cheap and lending multiples continue to be attractive. Figures from Dealogic show that in the first eight months of 2005 total syndicated lending amounted to \$809 billion in Western Europe, an increase of 55% to the equivalent period in 2004. While much of this has been directed toward refinancing existing lines of credit, a number of European M&A deals have seen significant amounts of acquisition finance raised at eye-catching terms. For example, Pernod Ricard raised €9.0 billion at an average of just 75 basis points over Euribor when it acquired UK drinks giant Allied Domecq. This is believed to be the keenest priced loan in the drinks sector for 10 years.

**Exhibit 1**

Index	Year-to-date Performance*
FTSE 100 (UK)	+8.6%
CAC 40 (France)	+15.8%
Dax (Germany)	+14.9%
DJIA	-4.6%

\*Source: Bloomberg; as of October 19, 2005

**Feature Article, Cont.**

**A Perfect Storm Fuels Boom in European M&A**

by James Steel, [james.o.steel@pjc.com](mailto:james.o.steel@pjc.com), 44 020 7743-8705

The availability of cheap and plentiful debt is also a key factor in keeping the hand of the cash rich private equity players in the M&A game. The value of European private equity investments in the first six months of 2005 was 54% higher than the comparable period. With the strategic buyers also back in play and the equity markets healthier than they have been for a while, there is considerable impetus for private equity groups to auction portfolio companies. The return of strategic buyers in European M&A is clearly demonstrated by the fact that over the last 12 months, European financial sponsors completed 234 exits to strategic buyers (aggregate value of \$37 billion) compared to just 120 deals (aggregate value of \$23 billion) in the comparable period. (Source: Dealogic)

One final point worth raising is that the level of protectionism over homegrown industries within Europe continues to decline. Consequently, M&A is rife within sectors like utilities where the European Commission is striving towards creating a single EU market for gas and electricity. The race is on therefore for gas and electricity suppliers to have a presence in all EU member states and M&A is the quickest way to achieving this goal.

Overall, many of the factors are currently in place within Europe for a sustained spell of M&A activity. However, while factors like strong balance sheets, low economic growth, healthy stock markets and debt markets are all conducive to heightened M&A activity, the key issue is often sentiment, which is currently being tested by weakening stock markets across Europe.

**Feature Transaction**

**Piper Jaffray Advises Industrial Container Services, LLC**

by Luke Webb, [lucien.q.webb@pjc.com](mailto:lucien.q.webb@pjc.com), 312 920-2136

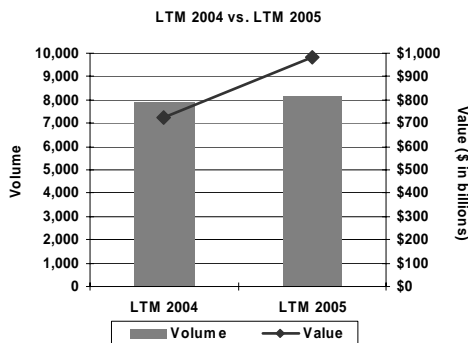
On September 30, 2005, Industrial Container Services, LLC (“ICS”) was acquired by Wingate Partners, a Dallas, Texas-based private equity firm. ICS was a portfolio company of CIC Partners, a Dallas, Texas-based private equity firm. Terms of the deal were not disclosed.

ICS, based in Montebello, California, is the largest supplier of products and services in the highly fragmented \$600 million steel drum reconditioning industry, a subsegment of the \$1.9 billion industrial container industry. Within the container reconditioning industry, ICS is the market leader with net sales of approximately \$80 million. ICS is the only nationwide steel drum reconditioner, serving as a single-source provider of procurement and disposition services to meet the needs of its diverse, blue-chip customer base, including leading food processing, chemical, petroleum, paint and adhesive companies.

Piper Jaffray served as exclusive financial advisor to Industrial Container Services and CIC Partners.

**Domestic Transactions**

(\$ in billions)	Value*	Volume
LTM: 2004	\$725.0	7,929
LTM: 2005	\$983.4	8,188



\*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2005 is \$30.0 million compared to \$27.5 million for 2004.

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### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	8.9x	5.8x
\$25 to \$100	10.0x	8.8x
\$100 to \$250	12.0x	7.1x
\$250 to \$1,000	16.2x	9.7x
Over \$1,000	15.0x	10.1x

Current data as of October 25, 2005

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	22.7%
4 weeks prior to announcement	25.1%

Current data as of October 25, 2005

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	6.27%	4.97%
High Yield Bond Rate	7.98%	7.26%

Senior Debt/EBITDA*	3.9x	3.0x
Total Debt/EBITDA*	4.5x	4.2x

Current data as of October 14, 2005

Source: Portfolio Management Data, The Wall Street Journal and Gold Sheets Daily

\*Represents leverage statistics for middle market LBOs (less than \$50 million of EBITDA)

### Buyout Fund Market

(\$ in billions)	2005	2004	2003
Funds Raised	\$109.1	\$42.2	\$24.0
Deals Completed	\$139.7	\$136.5	\$94.8

Data as of October 17, 2005

Source: Buyouts

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