



M&A Monitor

Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—November 15, 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

Feature Article

SPACs Enlarge the Buyer Universe

by Daniel Efron, 612 303-6438, daniel.a.efron@pjc.com

In a broad auction process, investment banks representing sellers seek to create a buyer list that is as extensive as possible without including unlikely buyers who would unnecessarily consume transaction resources. Typically the list will include a range of financial buyers (mostly private equity firms), strategic buyers (operating companies), and quasi-strategic buyers (operating companies with private equity backing) who have the financial wherewithal and suitable sector interest to complete a transaction. Increasingly, investment bankers have been adding another bucket of acquirers, Special Purpose Acquisition Corporations, or SPACs, to their buyer lists.

SPACs are public company investment vehicles that differ in meaningful ways from the blind pool and public shell acquirers of the past. There are SPACs that target most industries, including health care, consumer, technology, financial and energy. Including SPACs that have a pending transaction, there are more than 100 SPACs in registration to go public or are already public (typically listed on either the AMEX or the OTC Bulletin Board).

A SPAC is a blank-check company formed to acquire an as-of-yet unidentified operating business in a selected industry through a merger, capital stock exchange, asset acquisition or other similar business combination. A SPAC is created through an equity IPO in which shares and warrants of the blank check company are sold as a unit to investors. Subsequently, the unit trades as a whole until the shares and warrants separate and trade separately.

Most of the cash raised from the IPO is placed in a trust after expenses have been deducted. The SPAC typically then has 18 months to effect a suitable business combination (24 months if a letter of intent, agreement in principle or definitive agreement has been executed within 18 months). If this is not accomplished, the money in the trust is returned to shareholders. The SPAC management is rewarded only when a transaction is completed by receiving up to 20 percent of the post-combination entity for a heavily discounted purchase price.

Also, SPAC sponsors frequently will invest significant personal cash on the same basis as other market investors in the SPAC. If a transaction is not completed, management will not receive a management fee or money in the dissolution of the trust other than their side-by-side investment. SPACs range in net asset value from around \$25 million to more than \$200 million. A SPAC must acquire a business utilizing at least 80 percent of the SPAC's net asset value. A SPAC can acquire an entity much larger than its net asset value by issuing debt or completing a Private Investment in Public Equity (PIPE) simultaneously with the business combination. SPAC shareholders can vote for or against the transaction, or they can opt out entirely by exercising their conversion rights to a pro rata cash portion of the trust. Greater than 50 percent of the SPAC shareholders must vote in favor of the transaction, with fewer than 20 percent of the SPAC shareholders requesting conversion so that the business combination can be consummated.

While investing in a SPAC can be complicated, selling a company to a SPAC is not. The merits from a seller's vantage point are considerable. SPACs are highly motivated buyers who pay cash (and can pay stock when appropriate). The SPAC's management will receive a considerable reward (approximately 20 percent of the equity) if, and only if, they complete a transaction, yet they have only a short time to identify a prospect (18 months from the IPO). Once interested, a SPAC's management can move quickly through the transaction process from an LOI to due diligence to the signing of a final transaction agreement.

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

Feature Article, Cont.

SPACs Enlarge the Buyer Universe

by Daniel Efron, 612 303-6438, daniel.a.efron@pjc.com

The primary disadvantages of a SPAC as a buyer are: (i) because the buying company is already public and the selling company will be public after the business combination, the SEC is likely to give the transaction documents and public filings the same scrutiny as it would to documents and filings for an IPO of the selling company, and (ii) ultimately, the transaction itself is subject to SPAC shareholder approval. The time from signing of the transaction agreement to the close of the transaction can be unpredictable and can last from a couple of months to six months or longer, which is a significant disadvantage over selling to a private equity firm and probably a disadvantage over selling to a strategic acquirer as well.

Nevertheless, to maximize value for the seller in a broad merger and acquisition process, it is important to consider as wide a variety of compelling potential acquirers as possible. SPACs provide yet another important bucket of potential buyers to evaluate for any transaction.

Feature Transaction

Piper Jaffray Advises C.H. Guenther & Son, Inc.

by Michael Wattles, 415 277-1507, michael.t.wattles@pjc.com

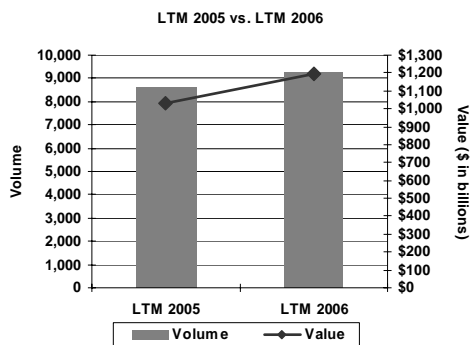
On October 10, 2006, C.H. Guenther & Son, Inc. ("CHG") announced they entered into a definitive merger agreement to sell The White Lily Foods Company ("White Lily"), a wholly owned subsidiary of CHG, to The J.M. Smucker Company.

White Lily, located in Knoxville, Tennessee, produces and markets premium packaged flour along with a focused product line of cornmeal and baking mix products primarily to the retail grocery channel. White Lily also markets frozen dough products, which utilize White Lily Flour as a key ingredient, that were introduced in the Fall of 2003 as an extension of the brand portfolio. White Lily is a premium southern brand with a 123-year heritage. The brand maintains a significant share within the key product classes of flour and cornmeal inside of its core marketing area.

Piper Jaffray served as the sole financial advisor to C.H. Guenther & Son, Inc. on the sale of The White Lily Foods Company.

Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$1,033.8	8,624
LTM: 2006	\$1,192.9	9,237



*Total value based on deals with reported values
 Source: Thomson Financial Securities Data Corporation
 LTM median deal value for 2006 is \$32.9 million compared to \$29.5 million for 2005.

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	NM	NM
\$25 to \$100	11.3x	6.9x
\$100 to \$250	15.1x	13.1x
\$250 to \$1,000	16.1x	8.4x
Over \$1,000	14.6x	9.5x

Current data as of November 13, 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	23.6%
4 weeks prior to announcement	27.0%

Current data as of November 13, 2006

Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.16%	6.00%
High Yield Bond Rate	7.91%	8.21%
Senior Debt/EBITDA*	4.4x	3.9x
Total Debt/EBITDA*	5.0x	4.5x

Current data as of November 13, 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 November 13, 2006

Source: Buyouts

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.

M&A Monitor Contacts

(General and Deal Related Questions)

Minneapolis	Chicago	London
John A. Hogan Head of Financial Sponsors 612 303-6380 john.a.hogan@pjc.com	Jeff A. Rosenkranz Head of Business Services Head of Industrial Growth 312 920-2133 jeff.a.rosenkranz@pjc.com	David I. Wilson Chief Executive Officer Piper Jaffray Ltd. 44 20 7743-8701 david.i.wilson@pjc.com
Michael R. Dillahunt Managing Director 612 303-6337 michael.r.dillahunt@pjc.com	Scott M. Hasley Principal 312 920-2139 scott.m.hasley@pjc.com	Matthew J. Flower Principal 44 20 7743-8702 matthew.j.flower@pjc.com
Robert D. Frost Managing Director 612 303-8248 robert.d.frost@pjc.com	Walter D. Murphy Principal 312 920-2147 walter.d.murphy@pjc.com	James O. Steel Vice President 44 20 7743-8705 james.o.steel@pjc.com
John A. Lonquist Managing Director 612 303-6308 john.a.lonquist@pjc.com		
Daniel A. Efron Vice President 612 303-6438 daniel.a.efron@pjc.com		
Matthew M. Szniewajs Vice President 612 303-2030 matthew.m.szniewajs@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.

Information contained in this publication is based on data obtained from sources we deem to be reliable, however, it is not guaranteed as to accuracy and does not purport to be complete. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information contained herein intended to constitute an analysis of any company or security reasonably sufficient to form the basis for any investment decision. Nothing contained in this publication constitutes an offer to buy or sell or the solicitation of an offer to buy or sell any security.

Notice to customers in Europe: This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e., persons who are authorized persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorized by Piper Jaffray Ltd. as intermediate customers under the rules of the Financial Services Authority.

Since 1895. Member SIPC and NYSE. Securities and products are offered in the United Kingdom through Piper Jaffray Ltd., which is an affiliate of Piper Jaffray & Co., incorporated under the laws of England and Wales, authorized and regulated by the Financial Services Authority and a member of the London Stock Exchange.