

## M&amp;A Monitor

## Piper Jaffray Middle Market Mergers &amp; Acquisitions

M&amp;A Monitor: Analyzing M&amp;A Activity—November 23, 2005

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## Feature Article

## Middle Market M&amp;A Outlook 2006 Preview

by Jon Kreidler, [jon.w.kreidler@pic.com](mailto:jon.w.kreidler@pic.com), 612 303-6328

The Piper Jaffray Middle Market M&A Outlook 2006, to be published in early December, will provide a review of 2005 middle market transactions and highlight specific drivers that may affect M&A activity in 2006. We have begun reviewing large amounts of data, contacting many participants involved in the middle market and gathering our thoughts in order to provide our constituents with the best advice and forecast available for the M&A market this upcoming year. Below is a brief overview of the topics you will see in our upcoming Middle Market M&A Outlook 2006 report.

## Macro Drivers

The U.S. economy was relatively consistent over the course of 2005 despite considerable macro- and socioeconomic events and concerns throughout the year. The Middle Market M&A Outlook 2006 will give a general overview of the major events of 2005 that affected the M&A environment, as well as our predictions for 2006. Included in 2005 were significant increases in energy prices, uncertainty due to the war in Iraq, inflationary fears and a rising interest rate environment, as well as the devastating hurricane season that included Katrina and Rita. The long-term effects of the hurricanes in the Gulf Coast region are still up to debate, but short-term effects to date have included increased oil and gas prices in addition to increased unemployment.

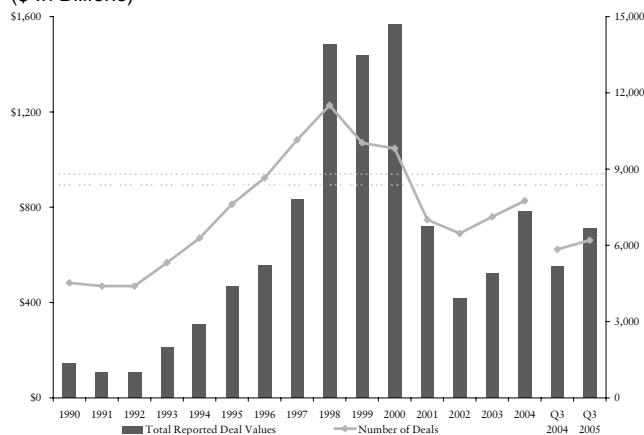
## Middle Market M&amp;A Activity

The domestic middle market (which we define as transactions in the range of \$50-500 million) has improved steadily since 2003 and was an active segment of the broader M&A market once again through the first three quarters of 2005, as depicted in Exhibit I.

The number of announced deals in the middle market through the third quarter of 2005 increased 14.5% over the same period last year, with 759 announced transactions compared to 663 transactions last year. Many of the key factors that drove the results in 2005 are predicted to continue to drive strong M&A market momentum in 2006. These drivers, more fully discussed in the 2006 Outlook, include a strong economic environment, available excess capital from both strategic and financial buyers and willing debt markets, aiding strong multiples.

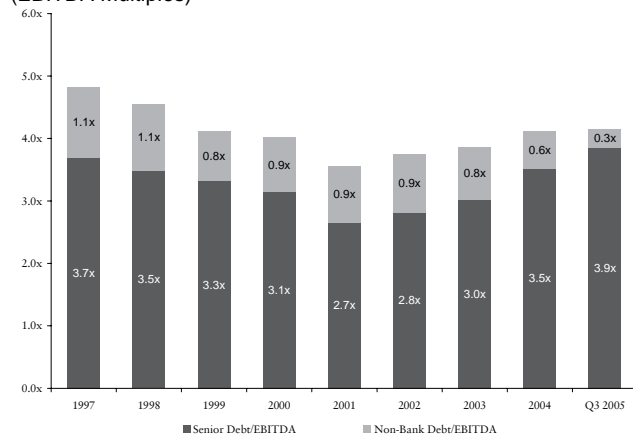
Exhibit II depicts leveraged lending multiples, with the current levels at their greatest values since the late 1990s. As can be seen, the debt market, especially the senior debt market, was especially aggressive in 2005. The large increase in senior debt levels stemmed from a combination of increasingly innovative structuring and heightened competition among large banks and numerous non-regulated finance companies.

Exhibit I—Merger Activity—1990 to Present  
 (\$ In Billions)



Source: Securities Data Corporation

Exhibit II—Leveraged Lending Multiples  
 (EBITDA Multiples)



Source: Portfolio Management Data LLC

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Feature Article

Middle Market M&A Outlook 2006 Preview, Cont.

by Jon Kreidler, [jon.w.kreidler@pic.com](mailto:jon.w.kreidler@pic.com), 612 303-6328

Additionally, the continued participation of the private equity community is especially important to the middle market M&A activity. Private equity buyers have remained extremely active during the past two years, largely due to the aforementioned favorable lending markets and large amounts of uninvested capital. Adding to the aggressiveness of the private equity community has been the promising trend of increased activity among strategic buyers over the past few years. Strategic buyers have jumped back into the M&A market with full force, driving up multiples and creating a frothy environment in certain industries. While this trend can be discouraging to the private equity community on the buy-side, the resurgence is positive news on the sell-side. Despite this increased competition from strategic players, the LBO volume over the past twelve months has significantly outperformed 2004 levels, as shown in Exhibit III.

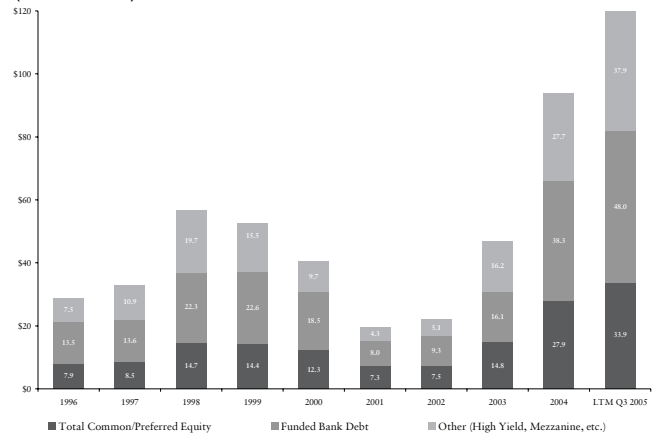
Growth Industry Sector Review

The Middle Market M&A Outlook 2006 will also provide a sector review of growth industries with a focus on the middle market M&A activity therein. The sectors we plan to cover include:

- Agriculture
- Automotive Aftermarket
- Building Products
- Consumer (Consumer Products, Food Processing & Distribution, Hardlines & Specialty Retail, Restaurants, Softlines Retail & Apparel)
- Financial Institutions (Banks, Financial Technologies & Services, Specialty Finance & Specialty Insurance)
- Flow & Process Control
- Health Care (Biopharmaceuticals, Services & Medical Technology)
- Packaging
- Specialty Chemicals
- Technology (Hardware & Communications, Internet, Software Technology & Business Services)

We believe the Piper Jaffray Middle Market M&A Outlook 2006 will be a useful resource for those who participate in the middle market. We look forward to sharing our thoughts on what we expect will be an active M&A environment in 2006.

Exhibit III—LBO Volume  
(\$ In Billions)



Source: Portfolio Management Data LLC

Feature Transaction

Piper Jaffray Advises America's Body Company

by Ryan Jordan, [ryan.c.jordan@pic.com](mailto:ryan.c.jordan@pic.com), 612 303-6831

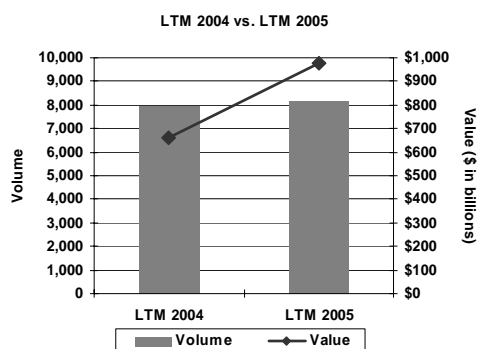
On October 28, 2005, America's Body Company ("ABC") was acquired by Leggett & Platt Inc., a diversified manufacturer that conceives, designs and produces a broad variety of engineered components and products for customers worldwide. ABC was a portfolio company of Linsalata Capital Partners, a Mayfield, Ohio based private equity firm. Terms of the deal were not disclosed.

ABC, based in Oakwood Village, Ohio, is the nation's leading manufacturer and upfitter of commercial truck equipment, serving the \$1.5 billion light and medium duty commercial truck equipment industry, with ten locations across the country. ABC specializes in manufacturing and upfitting truck equipment in six product areas: van interiors, van bodies, service bodies, landscape and stake bodies, dump bodies and snow plows. The company was also the first in the industry to incorporate the use of lightweight composite materials in many of its products. ABC has the leading market position and upfits more light and medium duty commercial trucks than any other company in the nation.

Piper Jaffray served as exclusive financial advisor to America's Body Company and Linsalata Capital Partners.

### Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2004	\$668.2	7,936
LTM: 2005	\$997.9	8,292



\*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 \$28.0 million for 2004.

### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	8.9x	5.8x
\$25 to \$100	10.0x	9.5x
\$100 to \$250	12.7x	7.8x
\$250 to \$1,000	16.2x	9.9x
Over \$1,000	15.1x	10.1x

Current data as of November 22, 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	24.9%

Current data as of November 22, 2005

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	6.53%	5.13%
High Yield Bond Rate	8.39%	6.88%
Senior Debt/EBITDA*	3.9x	3.2x
Total Debt/EBITDA*	4.5x	4.2x

Current data as of November 18, 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)

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### 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

### Middle Market M&A Group Contacts

(General and Deal Related Questions)

Minneapolis	Chicago	London
<p><b>Glenn A. Gurtcheff</b> Co-Head of Middle Market M&amp;A 612 303-5548 <a href="mailto:glenn.a.gurtcheff@pjc.com">glenn.a.gurtcheff@pjc.com</a></p>	<p><b>Jeff A. Rosenkranz</b> Co-Head of Middle Market M&amp;A 312 920-2133 <a href="mailto:jeff.a.rosenkranz@pjc.com">jeff.a.rosenkranz@pjc.com</a></p>	<p><b>David I. Wilson</b> Chief Executive Officer Piper Jaffray Ltd. 44 20 7743-8701 <a href="mailto:david.i.wilson@pjc.com">david.i.wilson@pjc.com</a></p>
<p><b>John A. Hogan</b> Head of Financial Sponsors 612 303-6380 <a href="mailto:john.a.hogan@pjc.com">john.a.hogan@pjc.com</a></p>	<p><b>Douglas J. Lawson</b> Principal 312 920-2139 <a href="mailto:douglas.j.lawson@pjc.com">douglas.j.lawson@pjc.com</a></p>	<p><b>Matthew J. Flower</b> Principal 44 20 7743-8702 <a href="mailto:matthew.j.flower@pjc.com">matthew.j.flower@pjc.com</a></p>
<p><b>Michael R. Dillahunt</b> Managing Director 612 303-6337 <a href="mailto:michael.r.dillahunt@pjc.com">michael.r.dillahunt@pjc.com</a></p>	<p><b>Walter D. Murphy</b> Principal 312 920-2147 <a href="mailto:walter.d.murphy@pjc.com">walter.d.murphy@pjc.com</a></p>	<p><b>James O. Steel</b> Vice President 44 20 7743-8705 <a href="mailto:james.o.steel@pjc.com">james.o.steel@pjc.com</a></p>
<p><b>Robert D. Frost</b> Principal 612 303-8248 <a href="mailto:robert.d.frost@pjc.com">robert.d.frost@pjc.com</a></p>		
<p><b>Daniel A. Efron</b> Vice President 612 303-6438 <a href="mailto:daniel.a.efron@pjc.com">daniel.a.efron@pjc.com</a></p>		
<p><b>Matthew M. Szniewajs</b> Vice President 612 303-2030 <a href="mailto:matthew.m.szniewajs@pjc.com">matthew.m.szniewajs@pjc.com</a></p>		

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