

## M&amp;A Monitor

## Piper Jaffray Middle Market Mergers &amp; Acquisitions

M&amp;A Monitor: Analyzing M&amp;A Activity—November 29, 2006

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## Feature Article

## Middle Market M&amp;A Outlook 2007 Preview

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

The *Middle Market M&A Outlook 2007*, to be published in early December, will provide a review of 2006 middle market transactions and highlight specific drivers that may affect M&A activity in 2007. 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 the upcoming *Middle Market M&A Outlook 2007*.

## A Macro Look

The frenetic pace of M&A activity which has taken place over the past few years continued unabated during the first three quarters of 2006. Overall, 2006 M&A played out across a wide swath of industries and deal sizes as both buyers and sellers benefited from an abundance of available capital, strong business fundamentals and a supportive global economy. The surprise, however, has been the market's tremendous resilience, despite the peaks in oil and other commodities, and the large move in short-term interest rates.

## Middle Market M&amp;A Activity

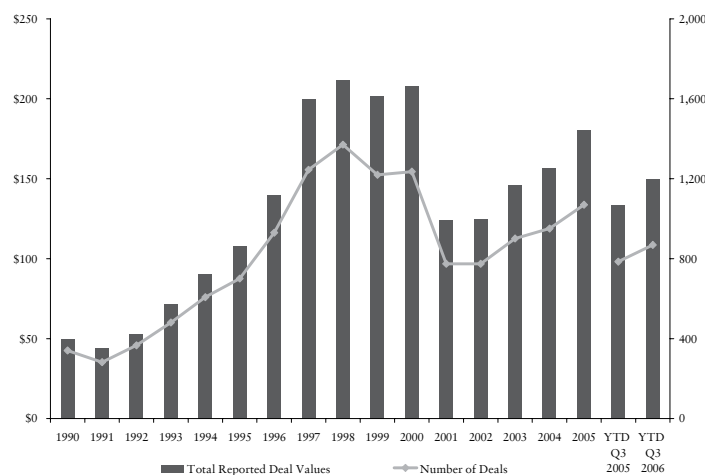
The domestic middle market—which we define as transactions in the range of \$50 million to \$500 million—has improved steadily since 2002 and was an active segment of the broader M&A market once again through the first three quarters of 2006, as depicted in Exhibit I.

The number of announced deals in the middle market through the third quarter of 2006 increased 10.7% over the same period last year, with 785 announced transactions compared to 869 transactions last year. Many of the key factors that drove the results in 2006 are predicted to continue to drive strong M&A market momentum in 2007. These drivers, more fully discussed in the 2007 Outlook, include a strong economic environment, available excess capital from both strategic and financial buyers and willing debt markets, aiding strong multiples.

As shown in Exhibit II, leveraged lending multiples have remained strong in 2006 after particularly active years in 2004 and 2005. While total debt multiples were down slightly from the previous year, average senior debt multiples employed in transactions remained at historically high levels, holding above four times EBITDA, while average mezzanine debt multiples strengthened slightly. The continuation of senior debt levels from 2005 stemmed from a combination of increasingly innovative structuring and heightened competition among large banks and numerous nonregulated finance companies.

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 few years, largely because of the aforementioned favorable lending markets and large amounts of uninvested capital. Adding to the aggressiveness of the private equity community has been the 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

Exhibit 1: Middle Market M&A Activity – 1990 to Present  
 (\$ in Billions)



Source: Securities Data Corporation

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**Feature Article, Cont.**

**Middle Market M&A Outlook 2007 Preview**

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

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 12 months has significantly outperformed 2005 levels, as shown in Exhibit III.

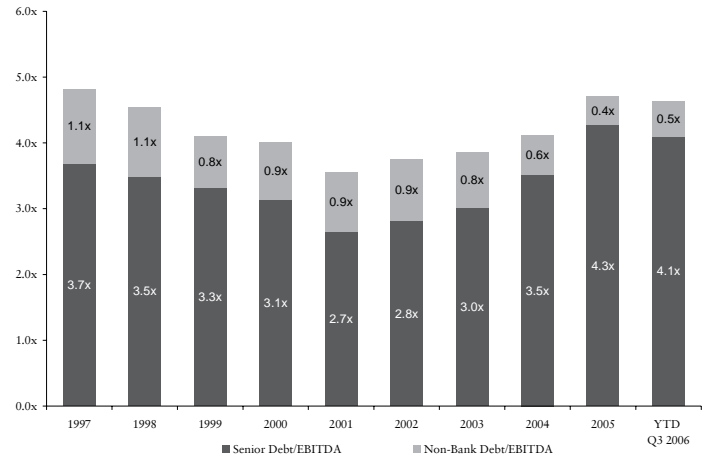
**M&A Sector Analysis**

The Middle Market M&A Outlook 2007 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:

- Alternative Energy: Biofuels
- Business Services: Employer Services, Security & Safety Services
- Consumer: Consumer Products, Food Processing & Distribution, Hardlines & Specialty Retail, Restaurants, Softlines Retail, Footwear & Apparel
- Financial Institutions: Asset Management, Broker–Dealer, Depository Institutions, Insurance, Specialty Finance, Technology & Services
- Health Care: Biopharmaceuticals, Health Care Services, Information-Driven Health Care, Life Sciences Tools & Diagnostics, Medical Technology
- Industrial Growth: Aerospace & Defense, Automotive Aftermarket, Building Products, Industrial Distribution, Packaging, Specialty Chemicals, Specialty Vehicles
- Technology: Communications Equipment, Hardware & Semiconductors, Internet, IT Services, Software
- Restructuring: Distressed M&A Outlook

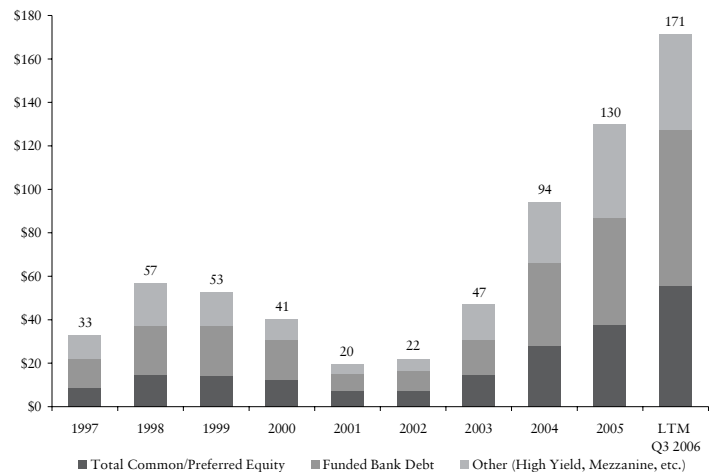
We believe our *Middle Market M&A Outlook 2007* will be a useful resource for those who participate in the middle market. We look forward to sharing our thoughts on what we expect will be an active M&A environment in 2007.

**Exhibit II: Leveraged Lending Multiples (EBITDA Multiples)**



Source: Portfolio Management Data LLC

**Exhibit III: LBO Volume (\$ in Billions)**



Source: Portfolio Management Data LLC

**Feature Transaction**

**Piper Jaffray Advises Jamba Juice Company**

by Bennett Monson, 415 277-1560, [bennett.f.monson@pjc.com](mailto:bennett.f.monson@pjc.com)

On November 29, 2006, Jamba Juice Company (“Jamba Juice”) completed its merger with Services Acquisition Corp. International (AMEX: SVI) (“SACI”). The transaction was approved by SACI’s shareholders on November 28, 2006. SACI acquired all of the outstanding securities of Jamba Juice for total consideration of \$265 million in cash, and the combined company was renamed Jamba, Inc. and listed on the NASDAQ Global Market under the ticker JMBA.

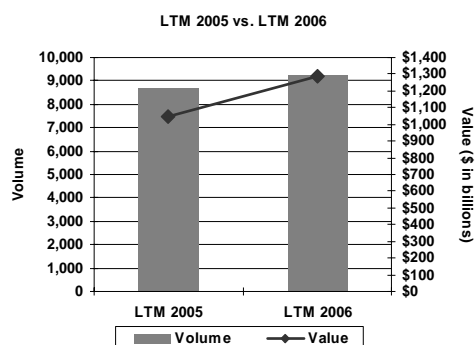
Jamba Juice, based on San Francisco, California, is the category-defining leader in healthy blended beverages, juices and good-for-you snacks. Founded in 1990, today Jamba Juice has more than 585 company and franchised stores in 23 states nationwide with approximately 9,000 team members. SACI, based on Charlotte, North Carolina, is a blank check company that was formed for the specific purpose of consummating a business combination. SACI raised net proceeds of approximately \$127.0 million through its initial public offering in July 2005. The management of SACI includes former executives from organizations such as Blockbuster Entertainment Group, AutoNation and Boca Resorts.

Piper Jaffray served as exclusive financial advisor to Jamba Juice Company.

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### Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$1,043.6	8,657
LTM: 2006	\$1,290.0	9,255



\*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2006 is \$33.7 million compared to \$29.0 million for 2005.

### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	NM	NM
\$25 to \$100	10.5x	6.8x
\$100 to \$250	15.1x	13.1x
\$250 to \$1,000	15.6x	8.6x
Over \$1,000	13.5x	9.7x

Current data as of November 29, 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	23.0%
4 weeks prior to announcement	26.8%

Current data as of November 29, 2006

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.18%	6.53%
High Yield Bond Rate	7.83%	8.39%
Senior Debt/EBITDA*	4.4x	3.9x
Total Debt/EBITDA*	5.0x	4.5x

Current data as of November 29, 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)

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### 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

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(General and Deal Related Questions)

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