



# M&A Monitor

## Piper Jaffray Middle Market Mergers & Acquisitions

M&A Monitor: Analyzing M&A Activity—December 21, 2005

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### Feature Article

#### The Increasing Role of Hedge Funds in European Public Company M&A

by Matthew Flower, [matthew.j.flower@pic.com](mailto:matthew.j.flower@pic.com), 44 020 7743-8702

While private equity groups and trade buyers will continue to dominate the M&A landscape in Europe for the foreseeable future, recently we have seen greater involvement from hedge funds in the M&A arena. Market participants increasingly have to sit up and take notice.

As the number of hedge funds continues to rise, with a subsequent increase in the amount of money invested in them, the competition for investors' cash has intensified, so it is important for hedge funds to generate investment strategies that generate attractive returns. This has led to some event-driven funds to become more closely involved in the return opportunities presented by public company M&A.

Traditionally, hedge fund involvement in public company M&A has been through the holding of derivatives, such as contracts for difference (CFDs). In a public takeover, it is not unusual for CFDs to cover a significant percentage of a target or bidding company's ordinary shares soon after announcement of a possible takeover as equity arbitrage strategies are employed. While CFDs do not generally carry any voting rights over the underlying ordinary shares, some quarters believe that the holders of these underlying shares follow the voting wishes of the CFD holder, thus giving the CFD holder a quasi voting right and significant influence over the outcome of public M&A transactions. For example, in Philip Green's unsuccessful offer for Marks & Spencer in 2004, it is believed that pressure from hedge funds holding CFDs was instrumental in getting the Marks & Spencer board to open the books to due diligence.

In the UK, the Takeover Panel responded to this situation in November 2005 by requiring public disclosure of derivative positions during an offer period in the same way as is required for holders of ordinary shares. This rule change by the Takeover Panel is indicative of the general recognition of the increase in the influence hedge funds have in M&A transactions. The highest profile case to demonstrate this so far was that of Deutsche Börse where, following the proposal to acquire the London Stock Exchange earlier this year, it is believed that pressure applied by at least two hedge funds that opposed the bid (The Children's Investment Fund and Atticus) led to the withdrawal of the proposed offer. In this instance, the hedge funds appear to have adopted a stance similar to that of a more traditional activist investor, and this role will possibly become more common as hedge funds seek to encourage corporate action.

In Europe we have not yet seen a case of a hedge fund obtaining direct control of a public company, but a number of market commentators believe it to be only a matter of time before this happens. In the U.S. we have seen ESL Investments acquire majority control in Kmart through acquiring distressed debt in the retailer. Activity appears to be heading in this direction in Europe. A recent example of greater hedge fund involvement occurred in the UK and saw the MBO for discount retailer Peacocks receive financial support (through the provision of subordinated debt) from hedge funds Och-Ziff, Perry Capital and Echelon Capital. This type of involvement is significant in that the financing was in support of a direct bid for Peacock's equity. Och-Ziff and Perry Capital were also involved in the Glazer family bid for Manchester United earlier in 2005 on a similar basis.

Whatever happens in the short-term, hedge funds cannot be ignored in the European M&A environment and are a factor that will need to be actively considered when planning public M&A transactions.

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**Feature Transaction**

**Piper Jaffray Advises United Road Services, Inc.**

by Shane McDaniel, [michael.s.mcdaniel@pjc.com](mailto:michael.s.mcdaniel@pjc.com), 312 920-3292

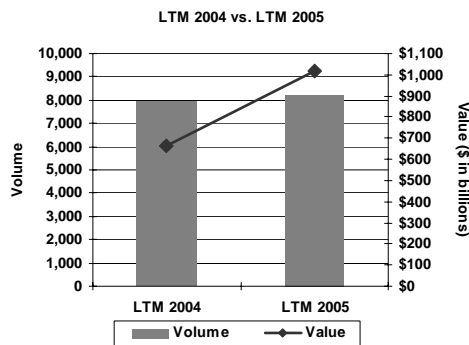
On November 25, 2005, United Road Towing (URT), previously a division of United Road Services, Inc., a portfolio company of Charterhouse Group was acquired by an affiliate of Milestone Partners. URT, headquartered outside of Chicago, Illinois is the largest automotive towing company in the United States. The Company is the only unified national platform in the highly fragmented \$7 billion towing and recovery industry with 23 towing facilities in nine major markets. URT maintains majority share in each of the markets it serves with a primary focus on municipalities, commercial fleet operators and automotive auctioneers. With approximately 900 non-union employees and a highly utilized fleet of more than 550 tow trucks and specialty recovery equipment, URT is projecting revenues of approximately \$85 million in 2005. Terms of the deal were not disclosed.

Charterhouse Group is a privately owned investment firm that actively acquires and manages middle-market companies and makes private equity investments in established businesses with enterprise values between \$100 million and \$500 million. They currently manage in excess of \$1.3 billion in capital through their limited partnerships.

Piper Jaffray served as exclusive financial advisor to United Road Services, Inc. and Charthouse Group.

**Domestic Transactions**

(\$ in billions)	Value*	Volume
LTM: 2004	\$765.3	7,950
LTM: 2005	\$1,024.0	8,439



\*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 December 21, 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	22.8%
4 weeks prior to announcement	24.9%

Current data as of December 21, 2005

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	6.65%	5.26%
High Yield Bond Rate	8.14%	6.88%
Senior Debt/EBITDA*	3.9x	3.2x
Total Debt/EBITDA*	4.5x	4.2x

Current data as of December 21, 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 December 21, 2005

Source: Buyouts

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