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Analysis

Illinois Business Valuation Association

William Blair

Factors Affecting the M&A Environment

	Mid 1990s-2000	2000-2002	2002-2007	2008-Mid 2009	Late 2009-Today
Economic Environment	▲	▼	▲	▼	◀▶
Stock Market Performance	▲	▼	▲	▼	◀▶
Credit Market Strength	▲	◀▶	▲	▼▼	◀▶
Investor Confidence	▲	▼	▲	▼	◀▶
CEO Confidence	▲	▼	▲	▼	◀▶
Corporate Scandals/ Bankruptcies	◀▶	▼	▲	▼	◀▶
Geopolitical Situation	▲	▼	◀▶	◀▶	◀▶
Political Landscape	▲	▲	▲	◀▶	◀▶
Shareholder Activism	◀▶	◀▶	▲	▲	▲
Valuation	▲	▼	▲	▼	▲

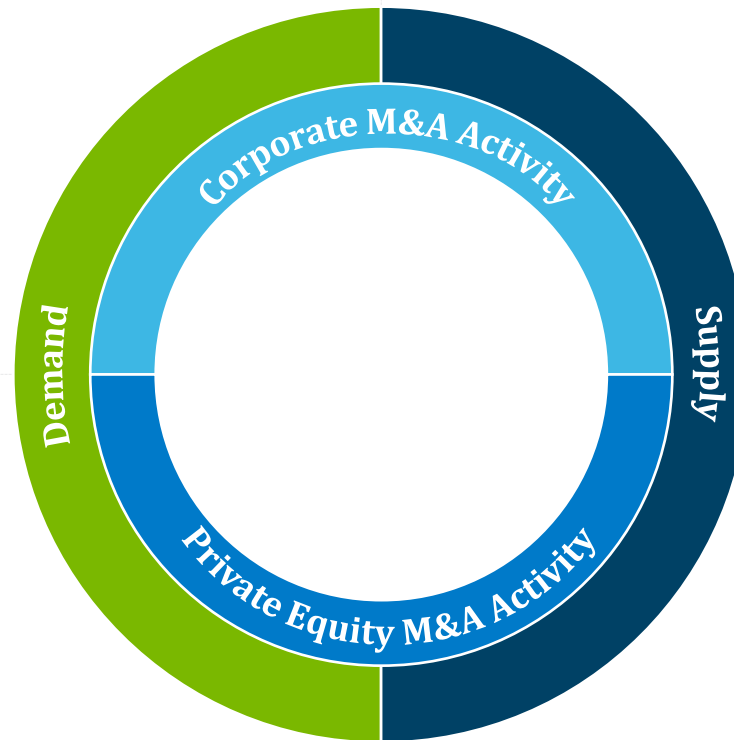
2011 M&A Activity Trends

- The M&A outlook reflected a more uncertain economic outlook and increased volatility in the equity market
- There was a significant increase in deals above \$750m
- Strategic buyers – public companies with high stock prices, clean balance sheets, and stable cash flows continue to make opportunistic transactions (Duke Energy/Progress Energy, Caterpillar/Bucyrus, Nicor/AGL Resources, etc.)
- Private Equity – experienced a significant increase in deal activity over the past several months. In addition, there remains an estimated \$400-\$500 billion of uncommitted capital still available, which should help drive increased deal activity
- Hostile deal activity continued to increase as activist shareholders and hedge funds targeted underperforming companies
- The number and volume of bankruptcy and distressed transactions continued to decline from near record levels
- Acquisition multiples continued to rise but may be near a peak
- Average deal size \$216.1 million, up from \$161.4 million in 2010

Deal Drivers

- Industry consolidation
- Globalization
- Buy vs. build decisions
- Attractive valuations
- Stable balance sheets/cash flows

- Corporate divestitures
- Going private transactions
- Family/small business succession issues
- Increased shareholder activism
- Bankruptcy and financially distressed situations



- Overall growth of asset class
- Record levels of fundraising, available capital
- Add-on acquisitions

- Demand from strategic buyers
- Aging investment portfolios
- Desire to boost performance results
- Relatively difficult IPO market for most potential candidates

Middle Market M&A Observations

Credit Markets

- Leverage multiples have jumped significantly over the past several months
- There is much more liquidity and higher leverage available for companies with more than \$50 millions in EBITDA
- Strong preference for lower risk assets less susceptible to market downturns
- Reduced number of lenders, lower appetite for risk

Deal Dynamics

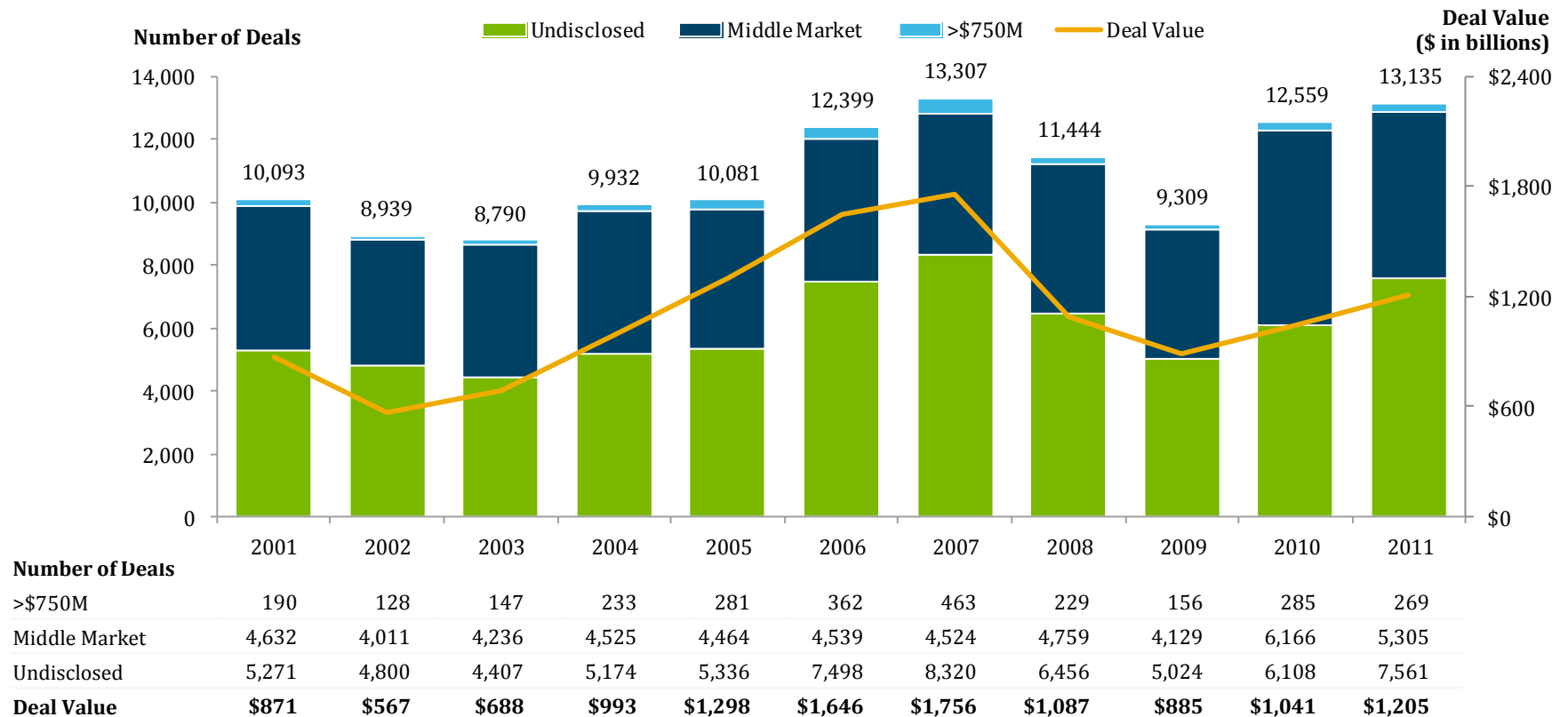
- Financial bidders are less aggressive but continue to actively bid on high quality assets
- Strategic buyers are winning more auctions
- International strategic acquirers remain very active
- More extensive due diligence and contract negotiations resulting in longer completion times

Valuation Trends

- Speculative excess of deal frenzied prices have come out of the market
- Pricing is more sensitive to performance during a process
- Premium valuations for quality, high growth companies
- Increased use of alternative financing – earn-outs, seller paper, cvr's, etc.

U.S. Mergers & Acquisitions Activity

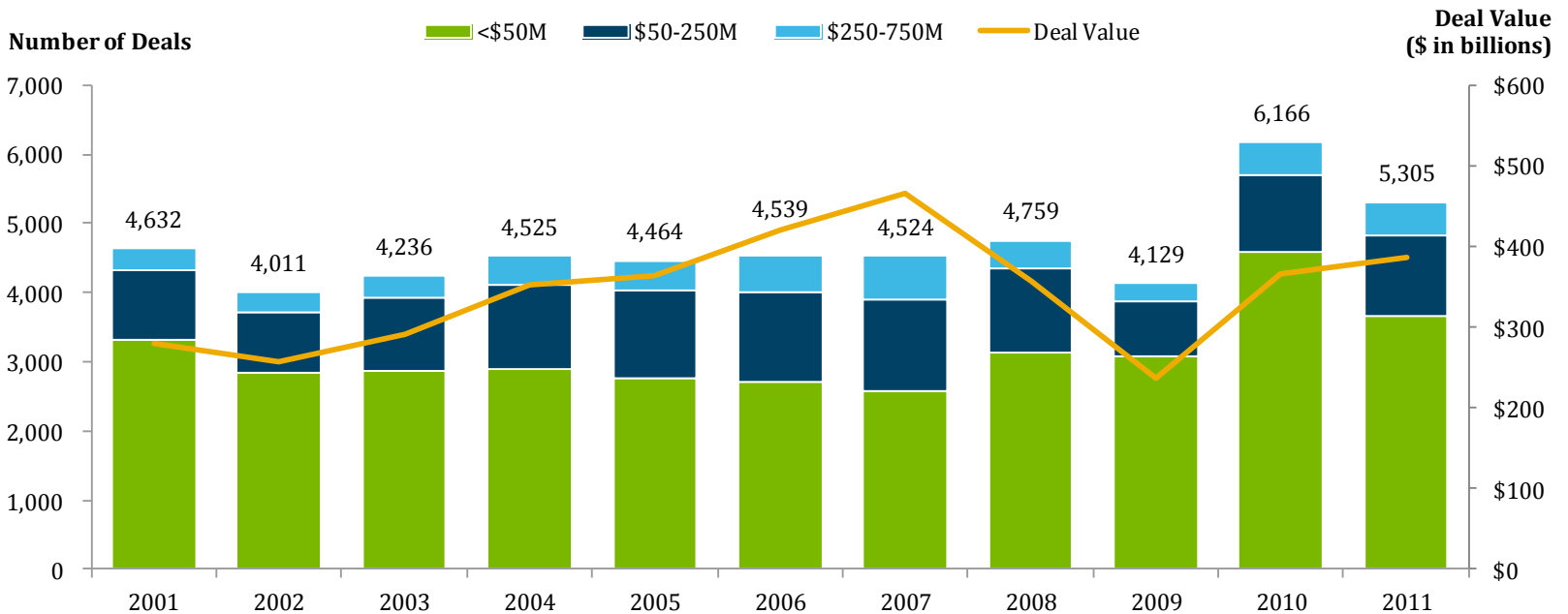
- 2011: Deals ▲ 4.6%, dollar volume ▲ 15.8%
- 2010: Deals ▲ 34.9%, dollar volume ▲ 17.6%
- 2009: Deals ▼ 18.7%, dollar volume ▼ 18.6%



Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. Mergers & Acquisitions Activity – Middle Market⁽¹⁾

- 2011: Deals ▼ 14.0%, dollar volume ▲ 5.2%
- 2010: Deals ▲ 49.3%, dollar volume ▲ 54.2%
- 2009: Deals ▼ 13.2%, dollar volume ▼ 33.1%



Number of	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
\$250 -750M	297	288	314	403	424	535	626	420	267	455	483
\$50-250M	1,008	888	1,065	1,219	1,268	1,291	1,331	1,201	787	1,119	1,154
<\$50M	3,327	2,835	2,857	2,903	2,772	2,713	2,567	3,138	3,075	4,592	3,668
Deal Value	\$279	\$257	\$291	\$352	\$364	\$420	\$465	\$356	\$238	\$367	\$386

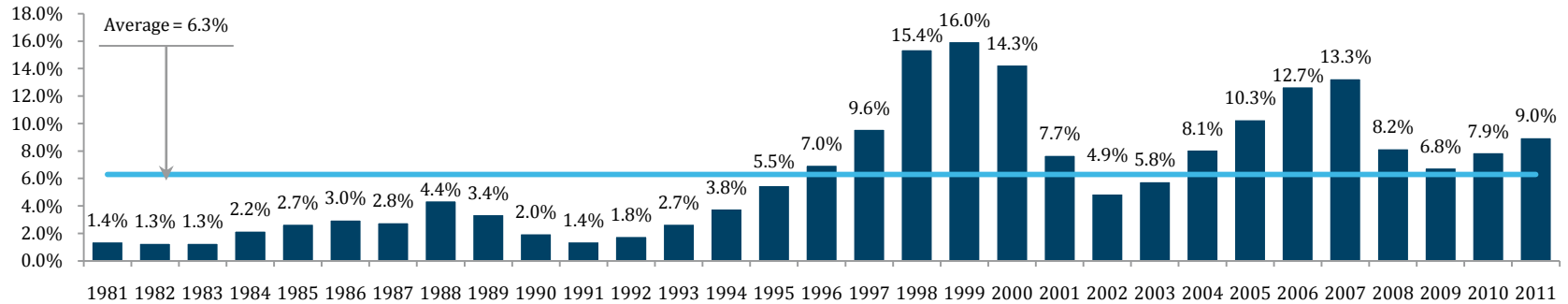
(1) Transactions less than \$750 million.

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

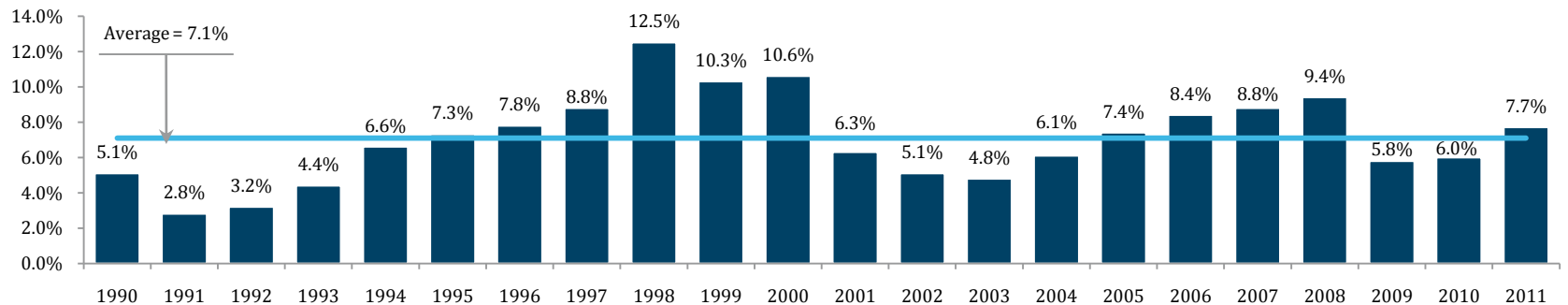
U.S. M&A Activity as a % of GDP and Equity Market Capitalization

M&A volume is running above trend but remains well below the levels of the prior peak

% of GDP

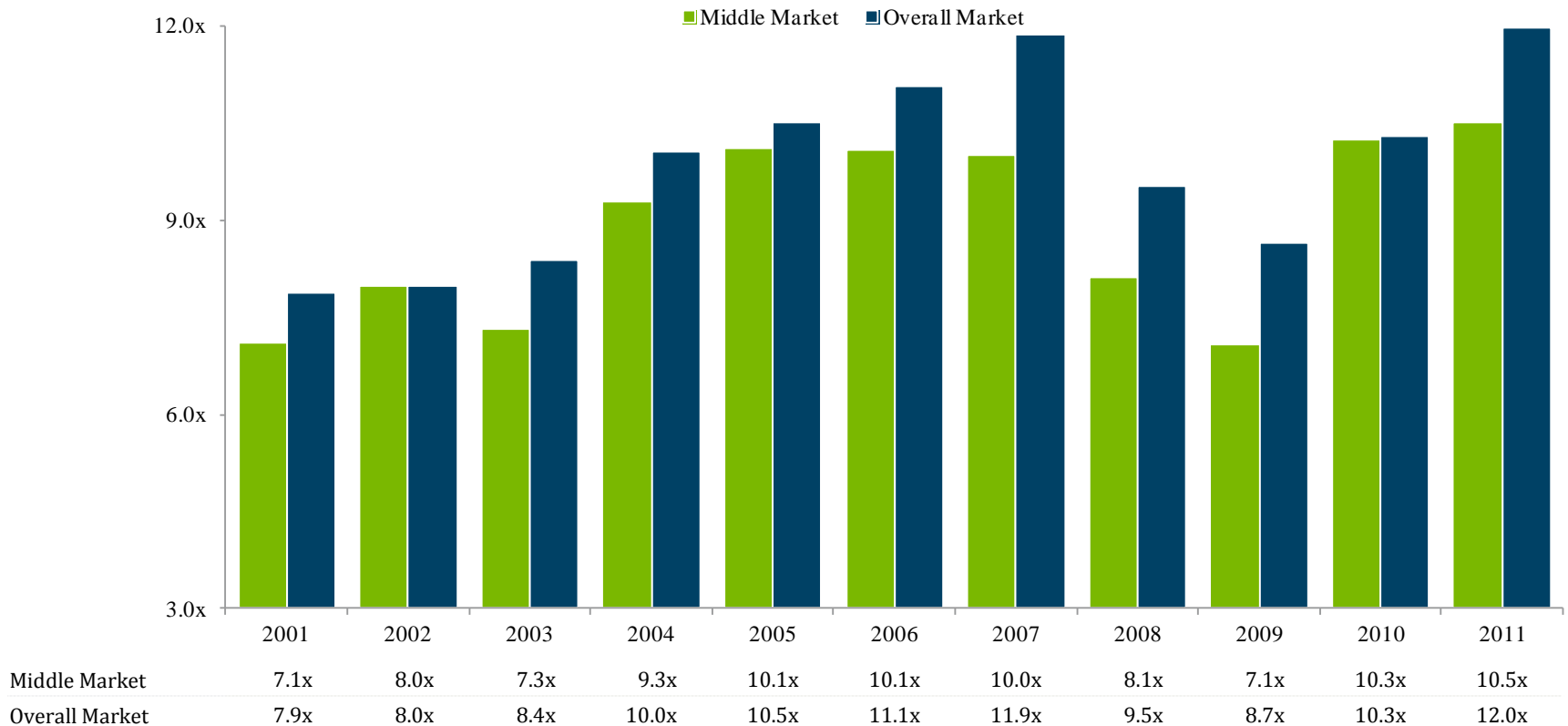


% of US Equity Market Value



U.S. EV/EBITDA Valuation Multiples

- Overall median EBITDA multiples have increased since 2010 and have leveled off with 2006/2007 EBITDA Multiples
- Multiples for middle-market transactions have expanded since 2009, but have remained flat compared to 2010



Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. EV/EBITDA Valuation Multiples (Cont'd)

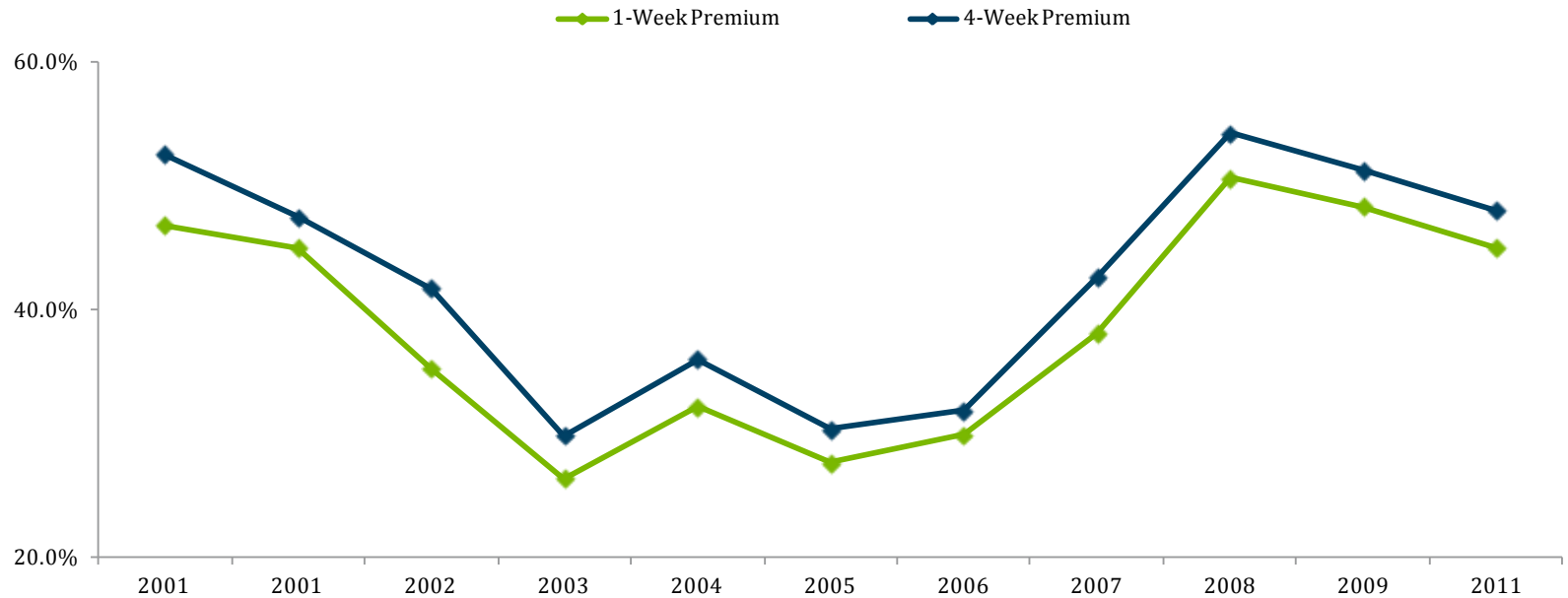
- Transaction multiples for transactions less than \$50 million have increased more dramatically than for larger transactions



Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

Median Public Company Acquisition Premiums

- Acquisition premiums continue to decline from their 2009 peak, reflecting the strong stock market performance over the past two years.

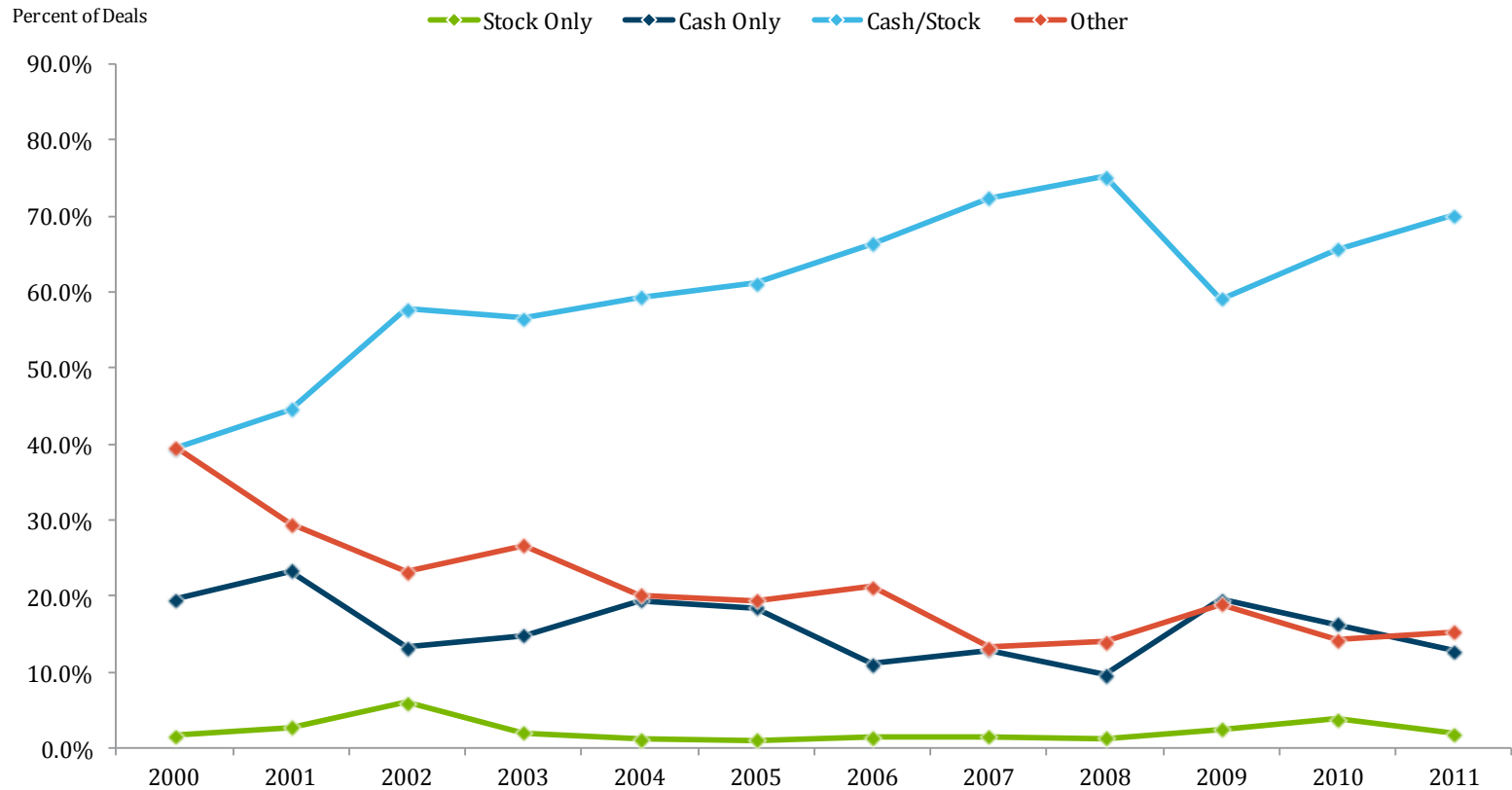


Premium

1-Week	46.8%	45.0%	35.2%	26.4%	32.1%	27.6%	29.9%	38.1%	50.7%	48.3%	45.0%
4-Week	52.5%	47.5%	41.7%	29.8%	36.0%	30.4%	31.8%	42.6%	54.3%	51.2%	48.0%

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

Transaction Consideration



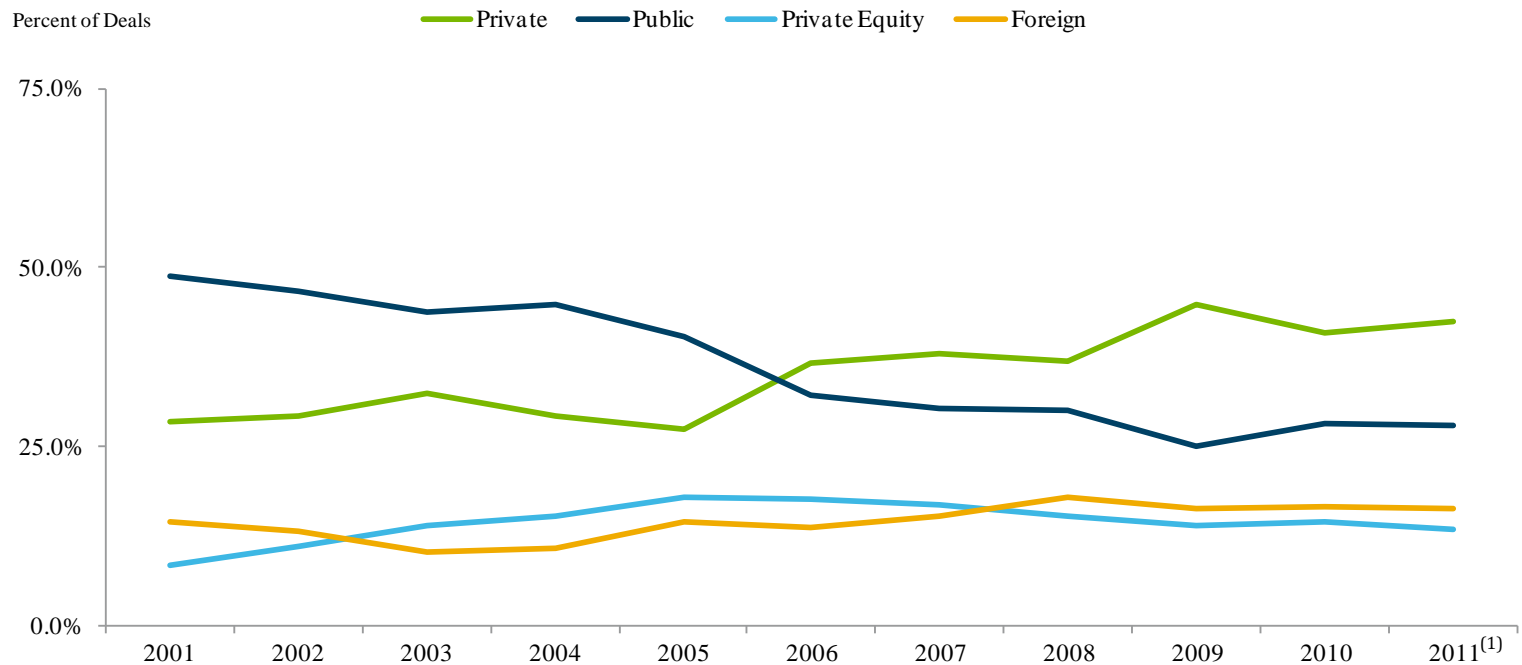
Percent of Deals

Stock Only	39.6%	29.4%	23.1%	26.7%	20.2%	19.4%	21.2%	13.2%	14.0%	18.9%	14.2%	15.3%
Cash Only	39.3%	44.6%	57.8%	56.5%	59.3%	61.2%	66.3%	72.3%	75.1%	59.0%	65.6%	70.1%
Cash/Stock	19.5%	23.3%	13.2%	14.8%	19.4%	18.4%	11.1%	12.9%	9.6%	19.6%	16.3%	12.7%
Other	1.7%	2.7%	6.0%	2.0%	1.2%	1.0%	1.4%	1.6%	1.3%	2.5%	3.8%	1.9%

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. Middle-Market M&A Activity by Acquiror⁽¹⁾

- Public companies have slightly increased their share of acquisitions over the last 12 months
- Private companies have experienced a decline as public company activity has rebounded
- Acquisitions by foreign acquirers has slowed after increasing sharply between 2004 and 2008



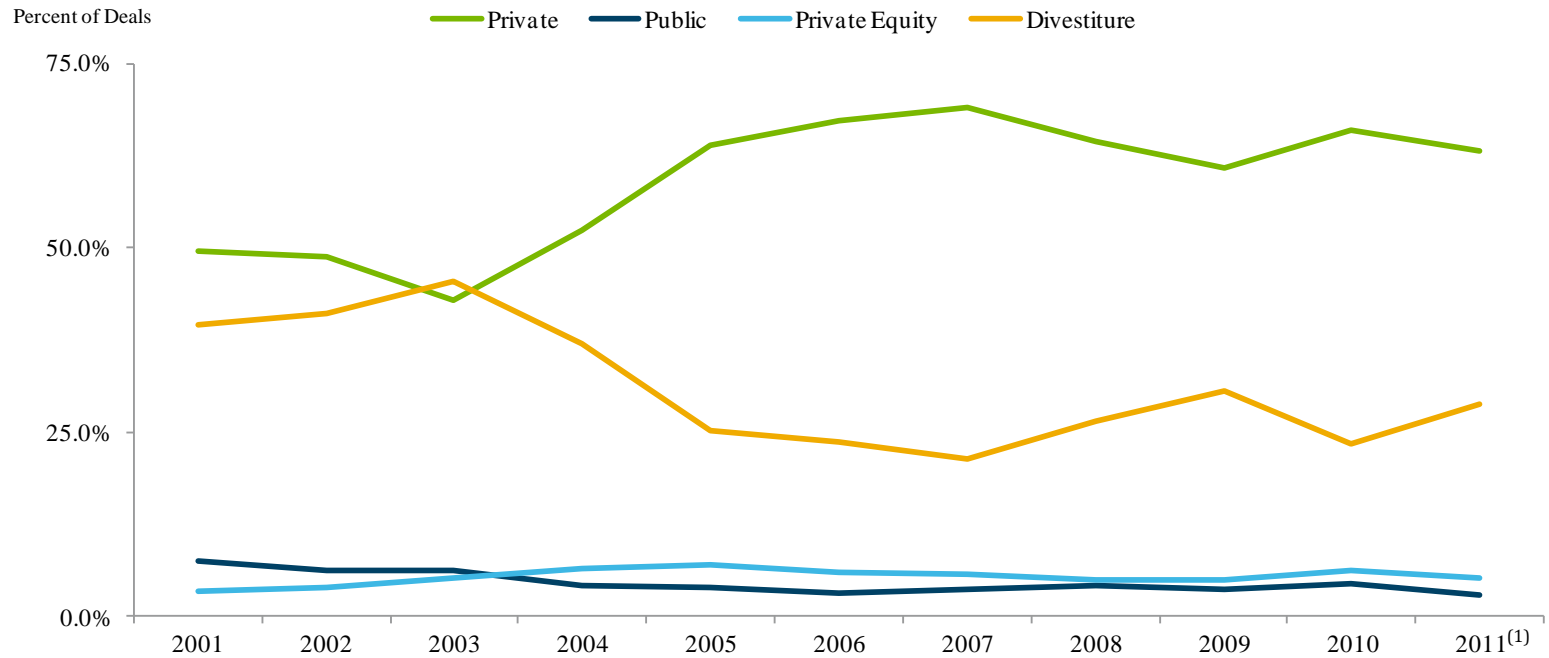
Percent of Deals	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ⁽¹⁾
Private	28.4%	29.2%	32.4%	29.1%	27.4%	36.5%	37.8%	36.8%	44.9%	40.9%	42.5%
Public	48.9%	46.7%	43.6%	44.8%	40.3%	32.2%	30.2%	29.9%	24.9%	28.2%	28.0%
Private Equity	8.3%	10.9%	13.9%	15.3%	18.0%	17.6%	16.8%	15.3%	14.0%	14.4%	13.3%
Foreign	14.5%	13.2%	10.1%	10.8%	14.3%	13.7%	15.3%	18.0%	16.3%	16.6%	16.3%

(1) Includes middle-market and undisclosed transactions.

(2) Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. Middle-Market M&A Activity by Target⁽¹⁾

- Private companies continue to account for almost two-thirds of all acquisition targets
- Divestiture activity rebounded in 2011 after a sharp drop in 2010

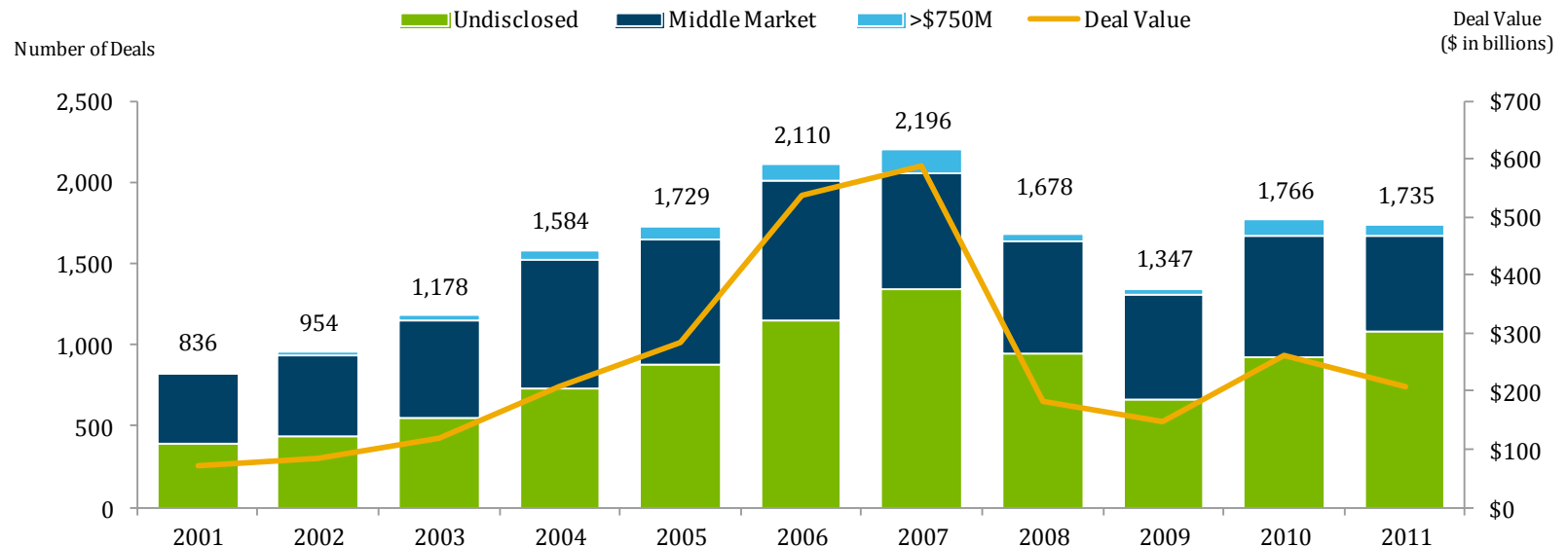


Percent of Deals	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ⁽¹⁾
Private	49.6%	48.8%	42.9%	52.3%	63.9%	67.2%	69.1%	64.4%	60.7%	65.9%	63.1%
Public	7.4%	6.2%	6.3%	4.1%	3.9%	3.3%	3.7%	4.3%	3.8%	4.5%	2.9%
Private Equity	3.4%	3.9%	5.3%	6.5%	6.9%	5.9%	5.9%	4.9%	5.0%	6.2%	5.2%
Divestiture	39.6%	41.1%	45.6%	37.1%	25.2%	23.5%	21.4%	26.5%	30.5%	23.5%	28.7%

(1) Includes middle-market and undisclosed transactions.
 Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. Private Equity Activity

- 2011: Deals ▼ 1.8%, dollar volume ▼ 20.9%
- 2010: Deals ▲ 31.1%, dollar volume ▲ 77.7%
- 2009: Deals ▼ 19.7%, dollar volume ▼ 19.1%

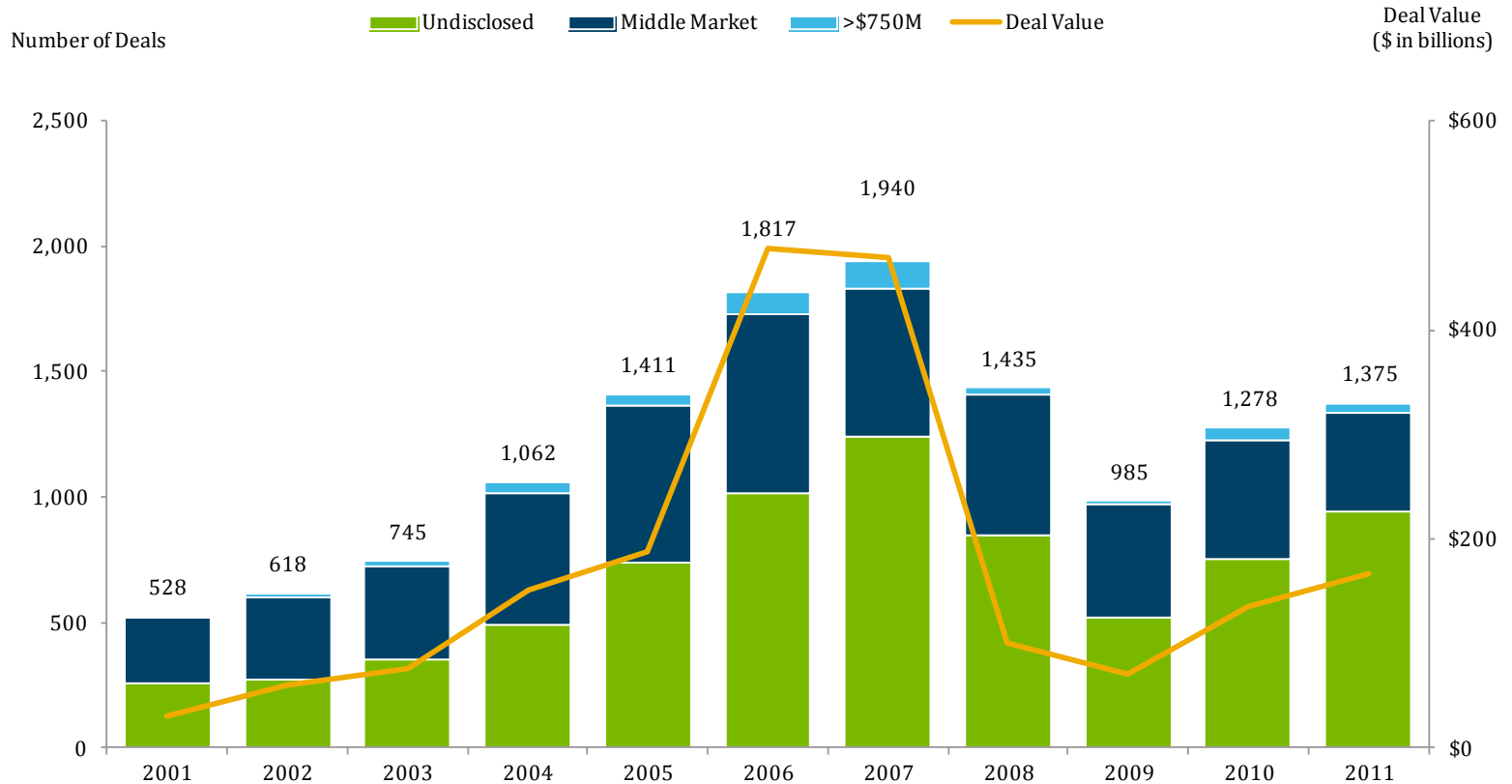


Number of Deals

>\$750M	16	25	32	62	79	106	140	43	34	91	68
Middle Market	428	497	596	786	773	860	718	690	649	747	588
Undisclosed	392	432	550	736	877	1,144	1,338	945	664	928	1,079
Deal Value	\$71	\$85	\$119	\$209	\$283	\$537	\$589	\$183	\$148	\$263	\$208

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

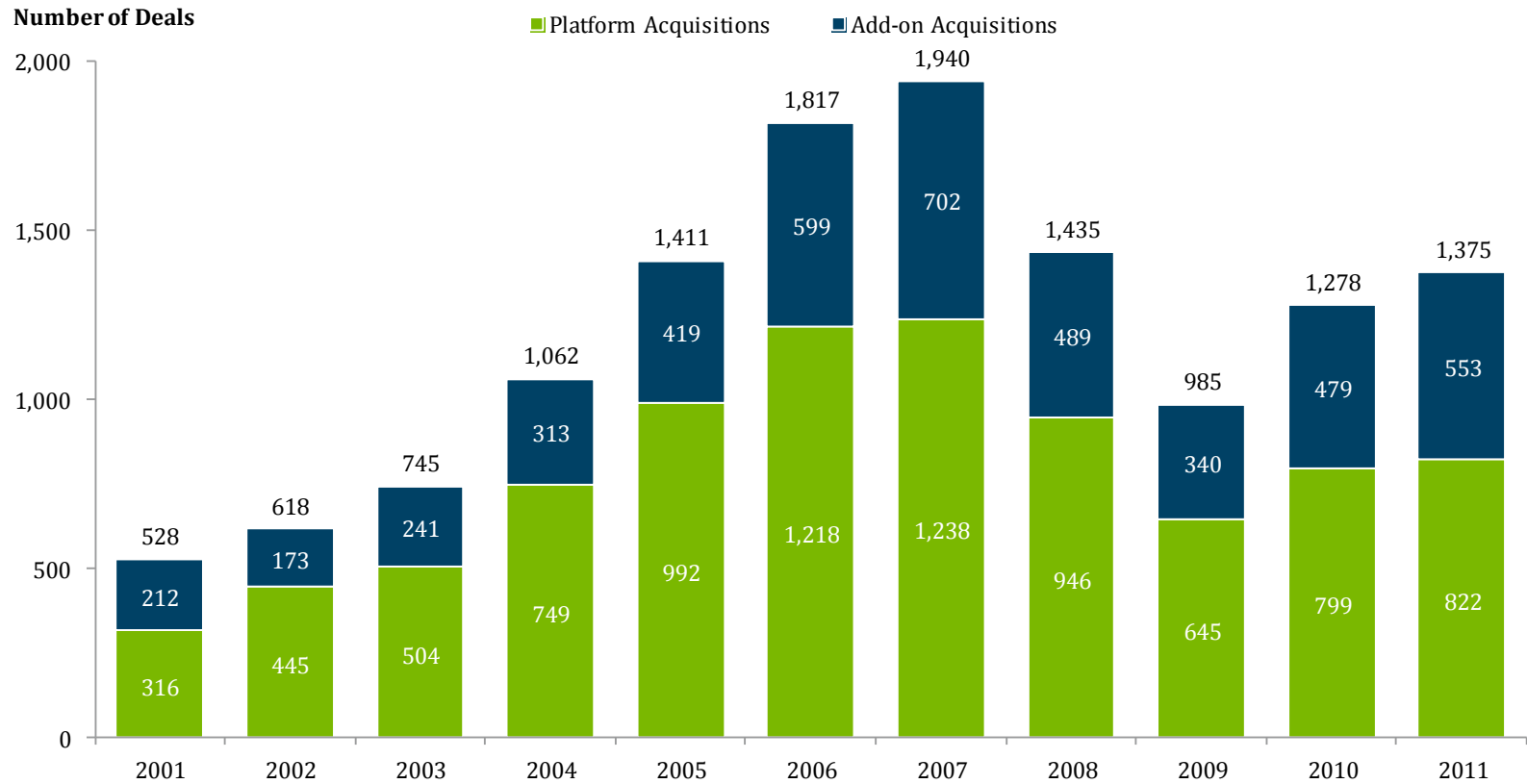
U.S. Private Equity Buy-Side Activity



Number of Deals

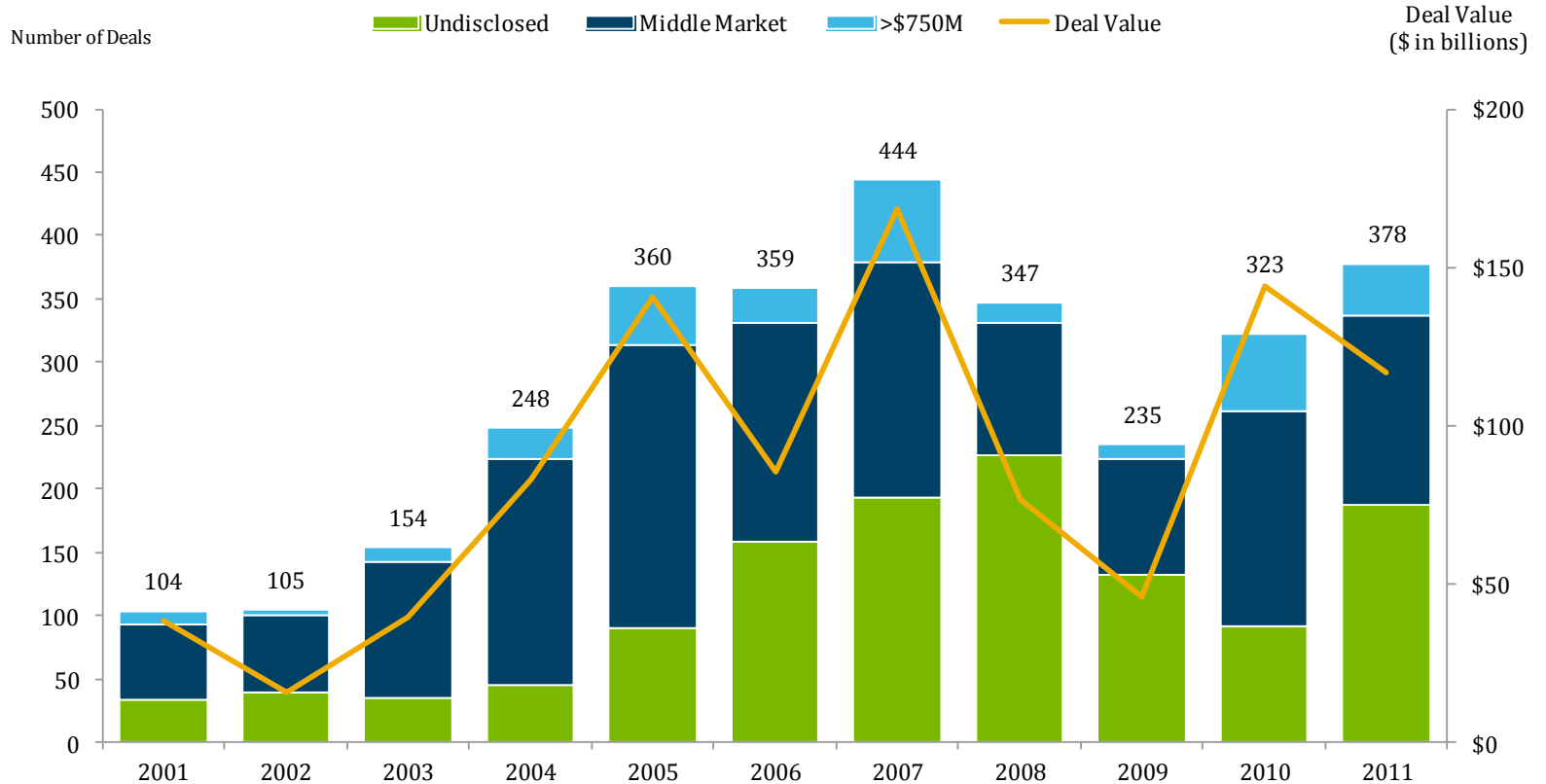
>\$750M	8	17	24	48	49	91	109	27	14	48	40
Middle Market	260	327	370	524	621	711	592	559	452	473	392
Undisclosed	260	274	351	490	741	1,015	1,239	849	519	757	943
Deal Value	\$30.6	\$61.0	\$76.3	\$151.1	\$187.0	\$477.7	\$468.9	\$100.6	\$70.1	\$135.8	\$166.7

U.S. Private Equity Buy-Side Activity: Platform Vs. Add-On



Platform	59.8%	72.0%	67.7%	70.5%	70.3%	67.0%	63.8%	65.9%	65.5%	62.5%	59.8%
Add-On	40.2%	28.0%	32.3%	29.5%	29.7%	33.0%	36.2%	34.1%	34.5%	37.5%	40.2%

U.S. Private Equity Exits

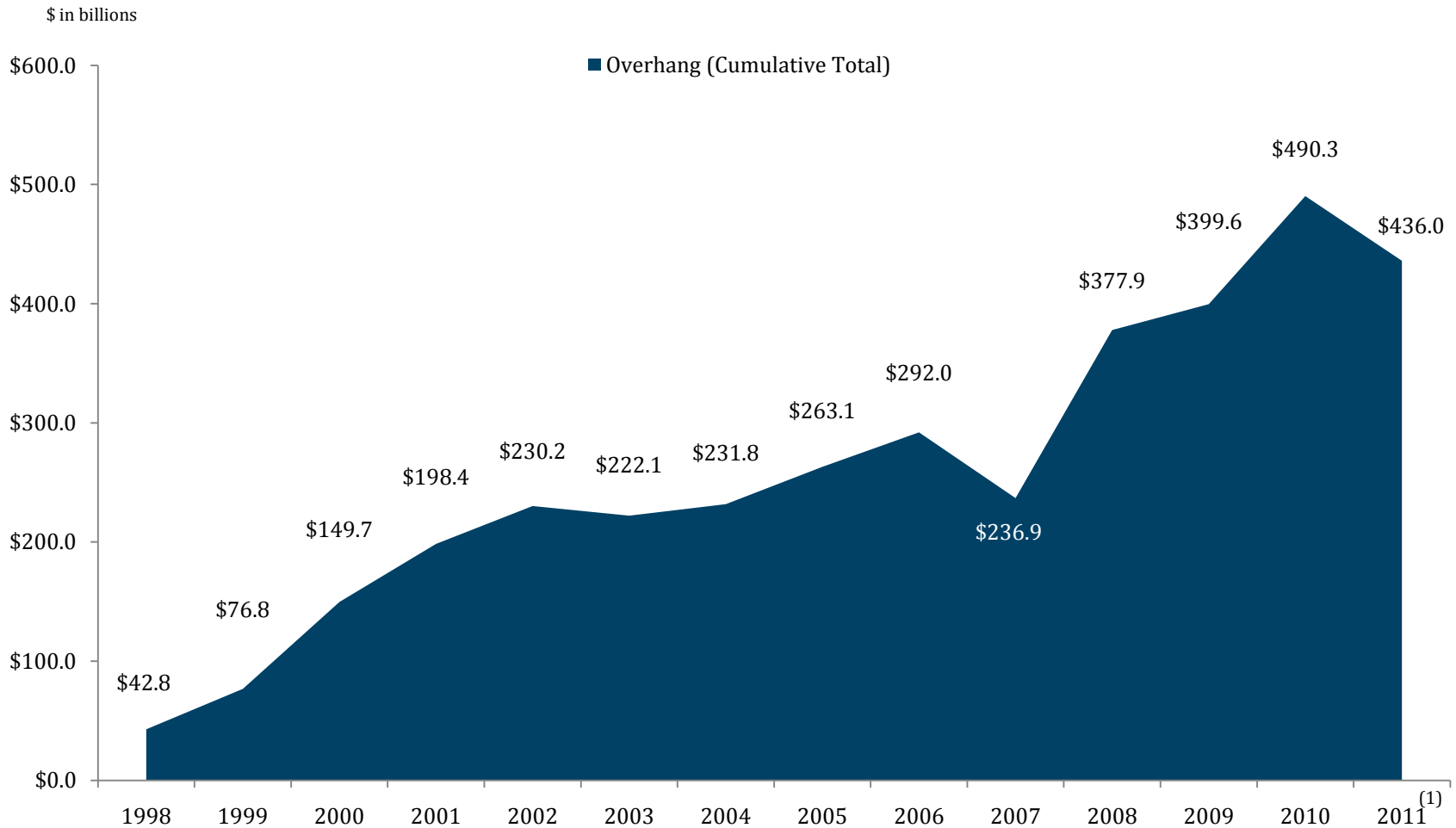


Number of Deals

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
>\$750M	11	4	12	24	47	28	65	16	12	62	41
Middle Market	60	61	107	178	223	172	186	105	91	169	149
Undisclosed	33	40	35	46	90	159	193	226	132	92	188
Deal Value	\$38.3	\$15.8	\$39.5	\$83.1	\$140.3	\$85.6	\$168.2	\$76.6	\$45.7	\$144.1	\$116.6

Private Equity Overhang

Significant Money to Put to Work

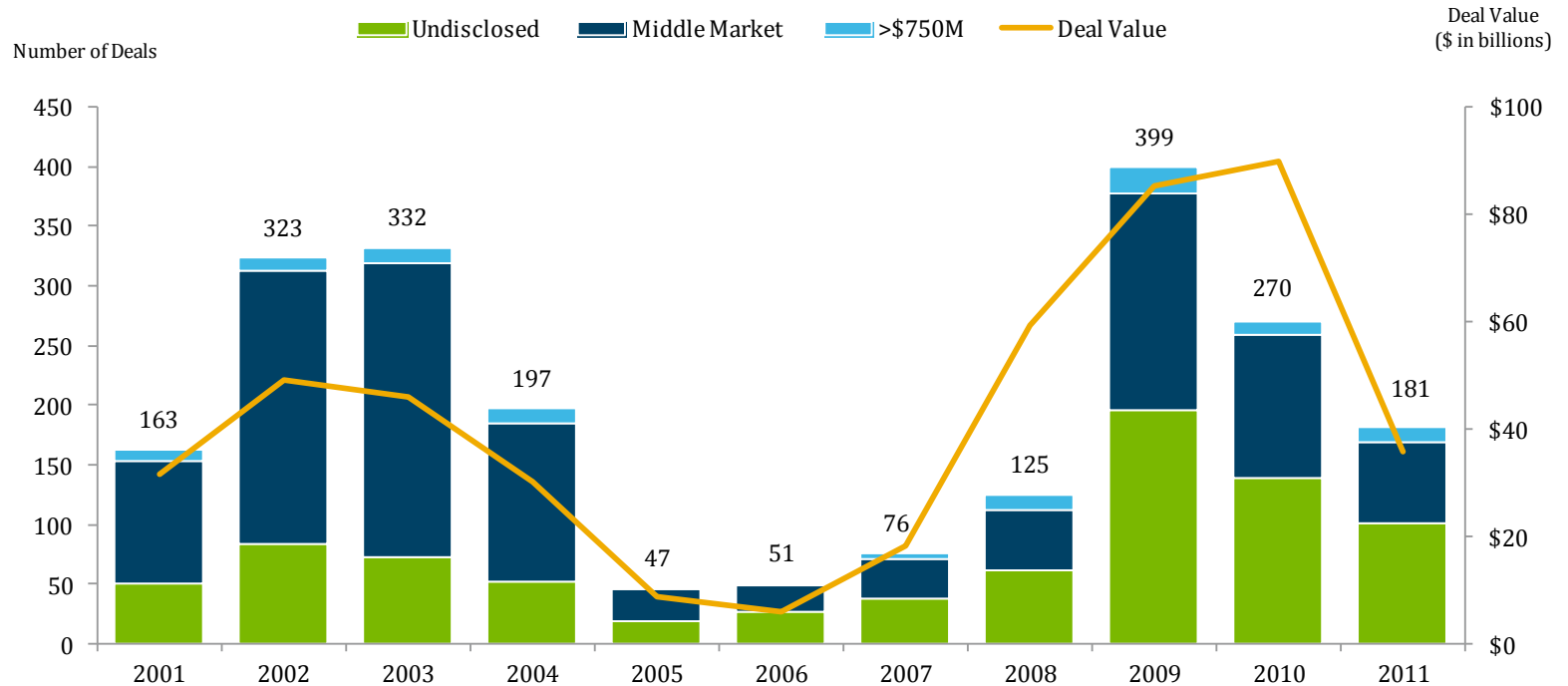


(1) Date through September 30, 2011.

Source: Pitchbook Data, Inc.

Distressed U.S. M&A Deals

- Distressed M&A activity deal flow and dollar value has dropped significantly in 2011



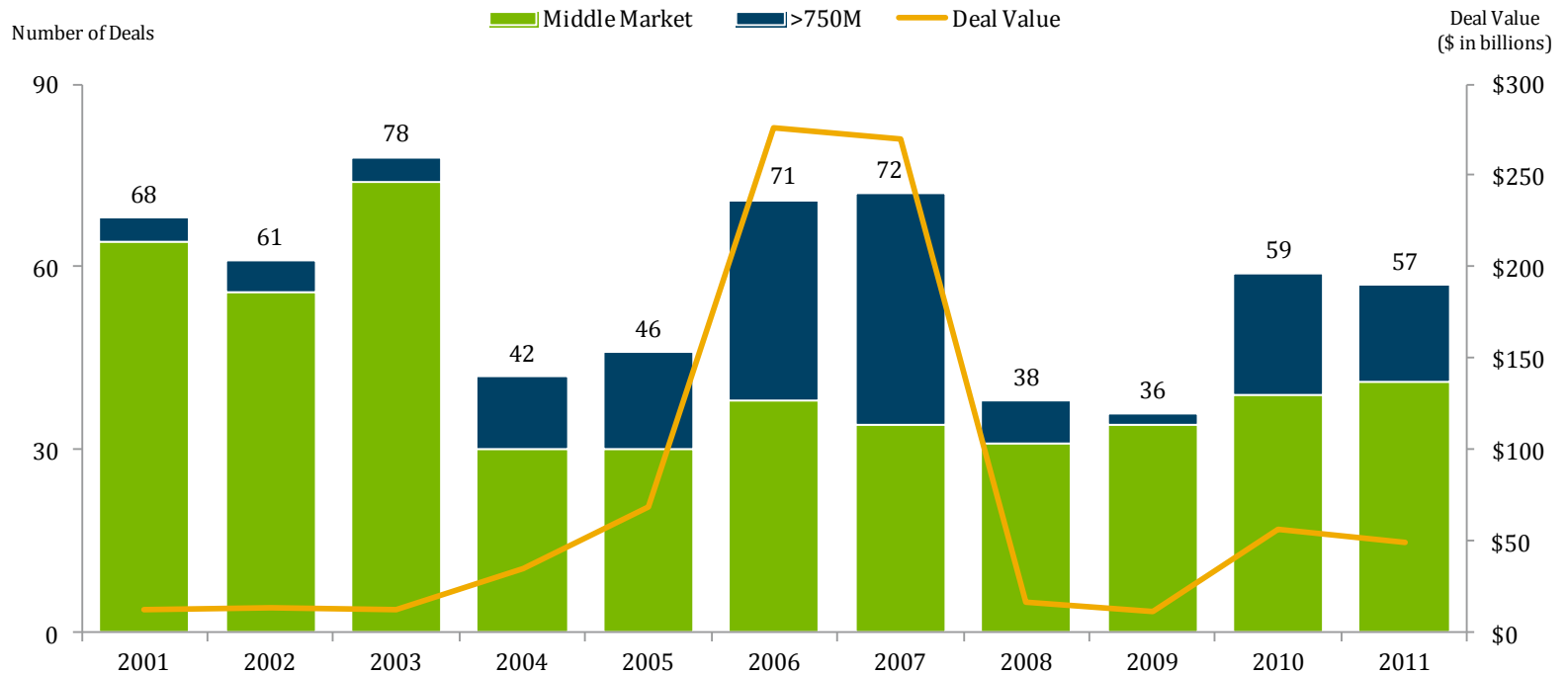
Number of Deals

>\$750M	10	10	13	13	2	2	5	13	22	11	12
Middle Market	102	230	246	132	27	23	33	50	181	121	68
Undisclosed	51	83	73	52	18	26	38	62	196	138	101
Deal Value	\$31.7	\$49.0	\$46.0	\$30.0	\$8.7	\$6.0	\$18.2	\$59.3	\$85.4	\$89.8	\$35.7

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

U.S. Take Private Activity

- Take private transactions rebounded sharply in 2010 and 2011 following two years of virtually non-existent activity



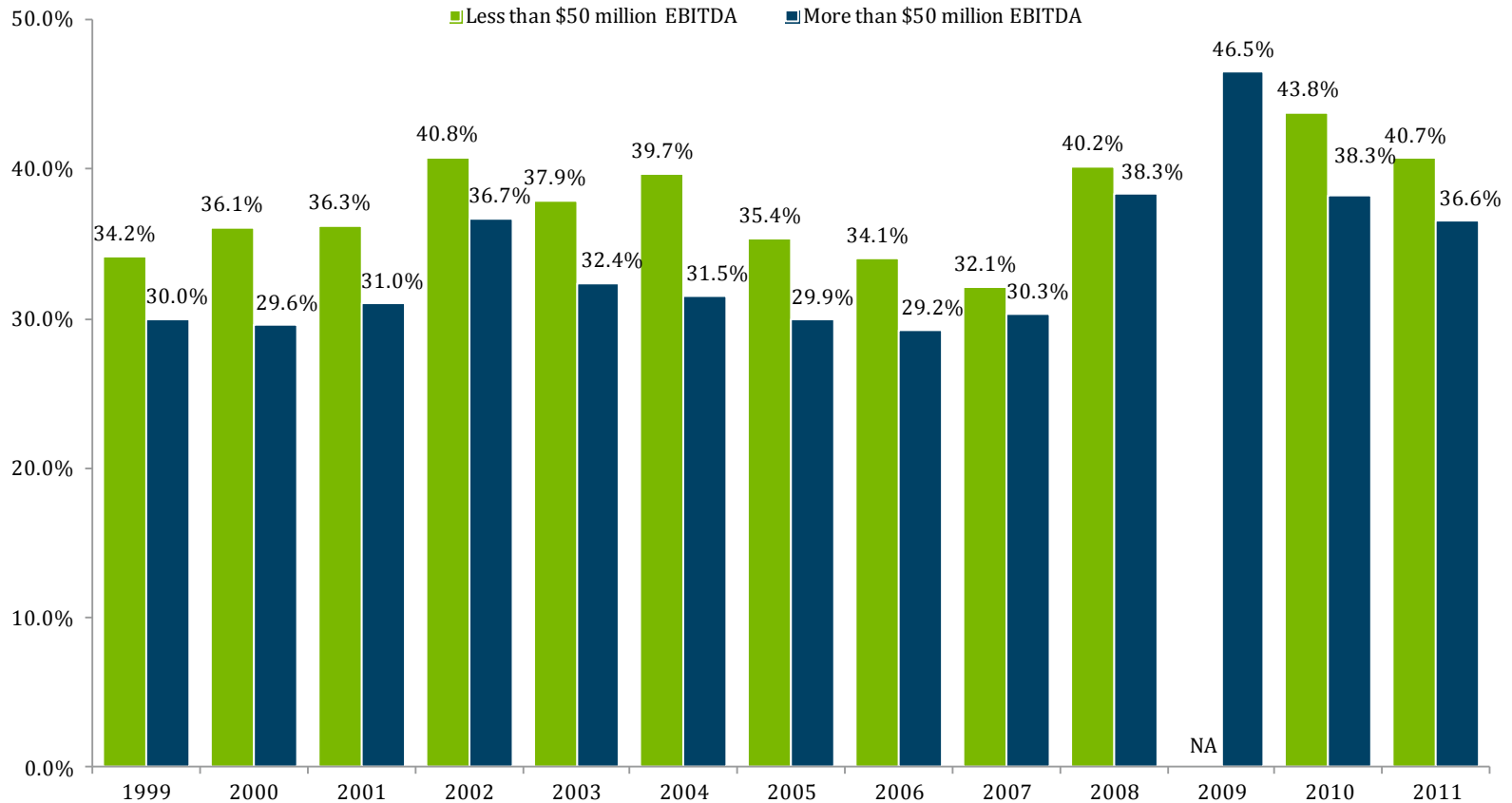
Number of Deals

>\$750M	4	5	4	12	16	33	38	7	2	20	16
Middle Market	64	56	74	30	30	38	34	31	34	39	41
Deal Value	\$12.8	\$13.5	\$12.1	\$35.4	\$69.2	\$276.0	\$270.3	\$16.2	\$11.8	\$57.0	\$49.1

Source: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

Average Total Equity Contribution for LBOs

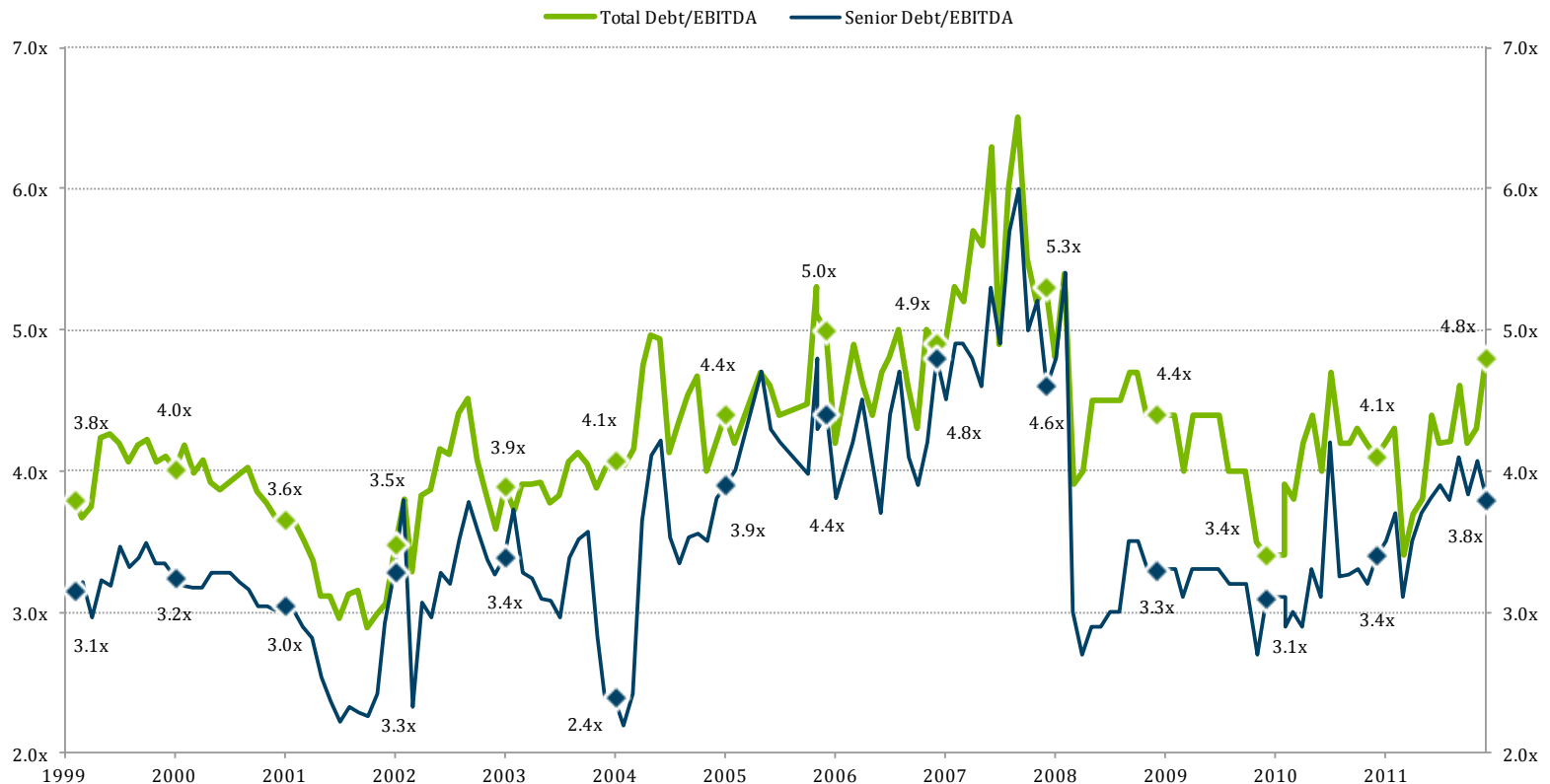
- The average equity contribution further declined in 2010 after record levels in 2009
- Over the last 12 months, average equity contribution has decreased for both smaller and larger deals



Source: S&P's Leveraged Lending Review.

Average Pro Forma Adjusted Credit Statistics of Middle-Market LBO Loans (Issuers with EBITDA of Less Than \$50M)

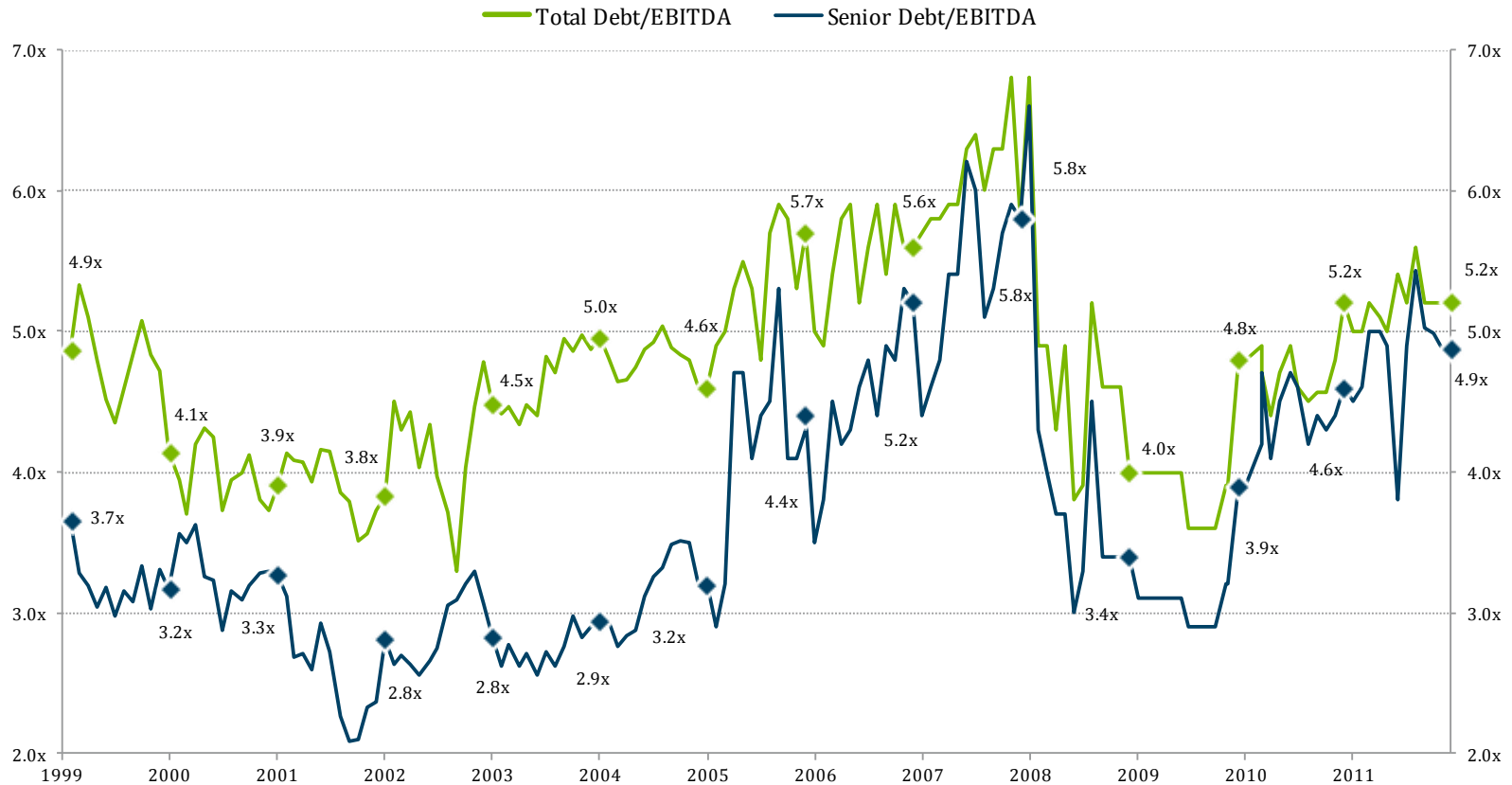
- Leverage multiples continue to rebound, reflecting better credit market liquidity
- Total debt to EBITDA has increased to 4.8x from 4.1x a year ago
- Senior debt is currently 3.8x, up from 3.5x at the beginning of 2011
- Total leverage still remains well below the peak levels experienced in 2007-2008



Source: Standard & Poor's.

Average Pro Forma Adjusted Credit Statistics of Middle-Market LBO Loans (Issuers with EBITDA of More Than \$50M)

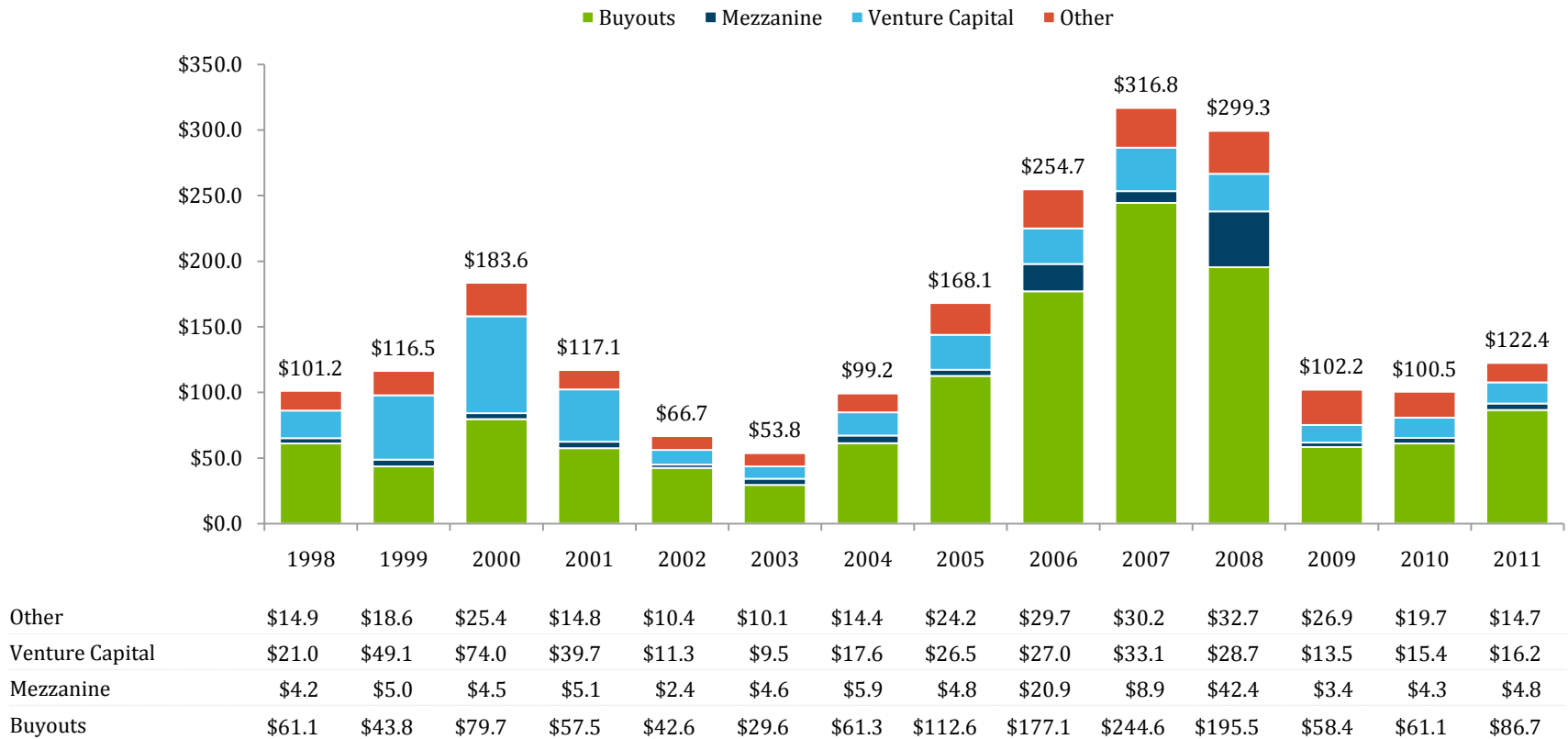
- Leverage multiples for larger transactions have risen significantly from previous lows
- Currently, total leverage is 5.2x with senior debt at 5.0x. This compares to 5.2x total and 4.6x senior a year ago



Source: Standard & Poor's.

Capital Commitments to U.S. Private Equity Funds

- 2011 private equity fund raising increased for the first time in four years
- Buyout funds accounted for 70.8% of the 2011 total, up from the 60.8% in 2010
- Despite the lack of fundraising, there remains an estimated \$400-\$500 billion of committed but uninvested capital



Source: Dow Jones and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

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Director of M&A Market



Joined Blair

2008

Years Experience

22 years

Prior Experience

Robert W. Baird & Co.
U.S. Bancorp Piper Jaffray
First Union Securities/
EVEREN Securities

Education

Washington (BS)

Biography

Steven joined William Blair & Company in May 2008 to develop and direct the firm's M&A research effort. His work involves researching and analyzing the state of the M&A and capital markets, as well as providing insight and analysis of consolidation activity in a variety of industries. Before joining William Blair, he was most recently director of M&A market analysis at Robert W. Baird & Co. for the past six years; vice president in charge of M&A research at U.S. Bancorp Piper Jaffray; and a sell-side equity research analyst for 12 years. Steven has been widely quoted in the media, appearing on CNBC, Bloomberg Radio and Television, CBS MarketWatch, and The Nightly Business Report on PBS, and has been widely quoted in leading national business publications, including The Economist, Investor's Business Daily, Forbes, Business Week, American Banker, and The Wall Street Journal Online as well as numerous M&A-related publications. He graduated from Washington University in St. Louis with a B.S. in business administration, is a chartered financial analyst, and is a member of the Association for Investment Management and Research, the CFA Society of Chicago, and the Association for Corporate Growth (ACG). Steven currently serves on the Board of Directors for the Chicago Chapter of ACG and is the Vice President and co-chair of its M&A/Private Equity Network.