

Presentation to:

Illinois Business Valuation Association
American Society of Appraisers – Chicago Chapter

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William Blair & Company®

Factors Affecting the M&A Environment

	Mid 1990s-2000	2000-200 2	2002-200 7	2008- Mid 2009	Today
Economic Environment	↑	↓	↑	↓	↔
Stock Market Performance	↑	↓	↑	↓	↑
Credit Market Strength	↑	↔	↑	↓↓	↔
Investor Confidence	↑	↓	↑	↓	↑
CEO Confidence	↑	↓	↑	↓	↑
Corporate Scandals/ Bankruptcies	↔	↓	↑	↓	↔
Geopolitical Situation	↑	↓	↔	↔	↔
Political Landscape	↑	↑	↑	↔	↔
Shareholder Activism	↔	↔	↑	↑	↑
Valuation	↑	↓	↑	↓	↑

Current M&A Activity Trends

- The current M&A outlook continues to reflect a more favorable economic outlook and the on-going rebound in equity prices
- This increased optimism and improved environment will likely drive an acceleration of announced M&A activity in 2011
- There has been 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 (Avis Budget Group/Dollar Thrifty, Duke Energy/Progress Energy, Caterpillar/Bucyrus, Nicor/AGL Resources, etc.)
- Private Equity – has experienced a significant increase in deal activity over the past several months. In addition, there is an estimated \$400 billion of uncommitted capital still available, which should help drive increased deal activity
- Take private transactions rose 56%, dollar volume rose almost 400%
- Hostile deal activity continues to increase as activist shareholders and hedge funds target underperforming companies
- The number and volume of bankruptcy and distressed transactions will likely decline from recent near record levels
- Acquisition multiples continue to rise

Review of 2010 M&A Activity

- 2010 represented the first increase in M&A activity in three years
- Number of U.S. deals rose 33.0%, dollar volume rose 24.7%
- Highest number of transactions and dollar volume since 2007
- Middle-market activity was even stronger than the overall market
- Strongest middle-market segment was transactions between \$250 million and \$750 million, up 70%
- Average disclosed deal size was \$174.0 million vs. \$207 in 2009 and \$218 in 2008
- Virtually all industry categories had increased deal activity
 - Technology was the most active sector based on deals – 23.0% of total
 - Healthcare was the most active based on dollar volume – 23.9% of total
- Divestiture activity slowed considerably as a percentage of transaction activity – 23.6% of targets in 2010 vs. 30.4% in 2009
- U.S. private equity increased significantly – deals rose 22.5% and dollar volume rose 63.7%
- Leverage compared with 2009
 - Less than \$50 million EBITDA 4.1x vs. 3.4x
 - More than \$50 million EBITDA 5.2x vs. 4.8x
- Average equity contribution for LBO's declined to 43.8% (EBITDA less than \$50 million) and 38.3% (EBITDA greater than \$50 million)
- U.S. private equity funds raised just \$86.3billion, down 16% from the prior year

Deal Drivers

Corporate M&A Activity

Demand

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

Supply

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

Private Equity M&A Activity

Demand

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

Supply

- 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

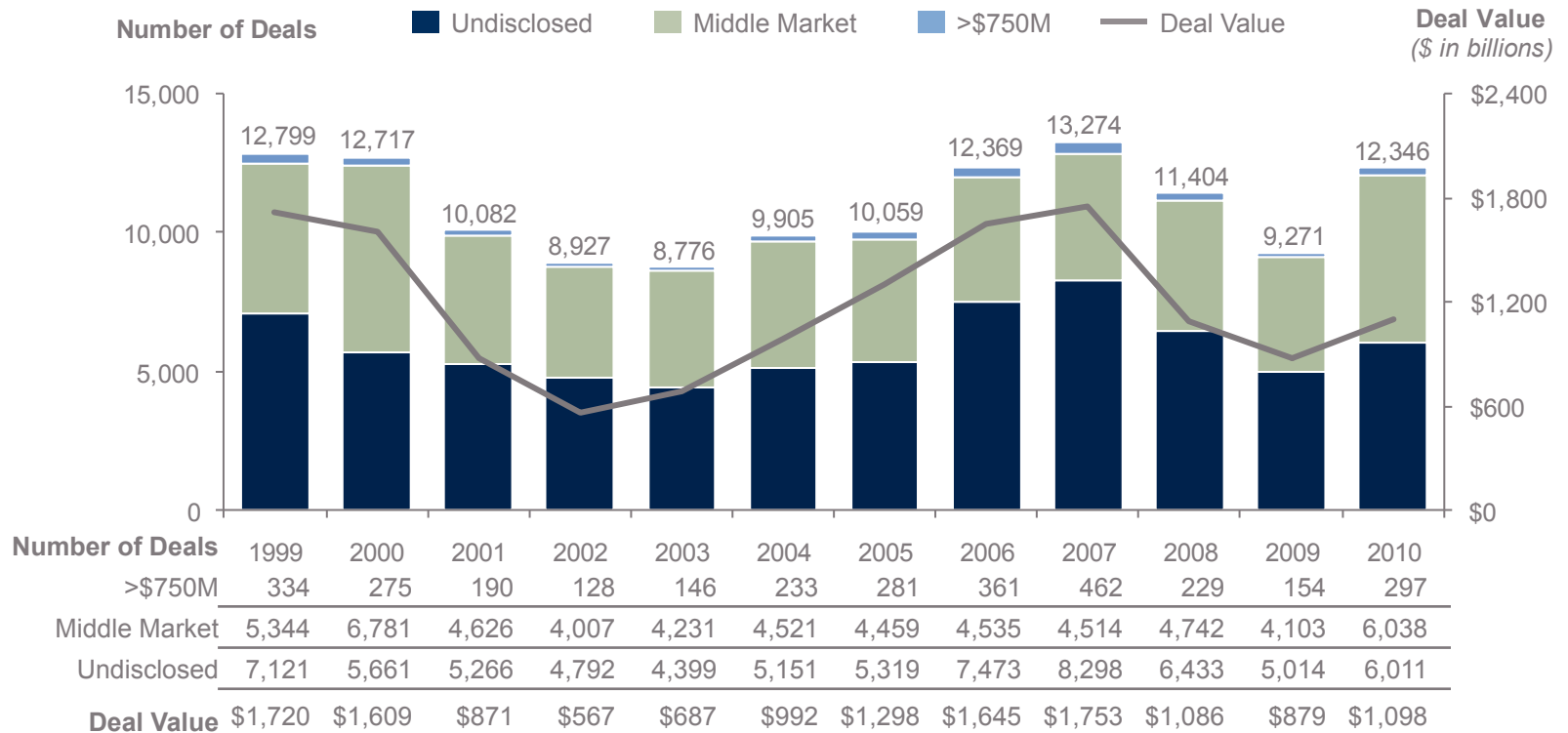
- Financial bidders are less aggressive but continue to actively bid on high quality assets
- Strategic buyers are winning more auctions
- International strategic acquirers remain very active
- Longer exclusivity periods
- More extensive due diligence and contract negotiations resulting in longer completion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

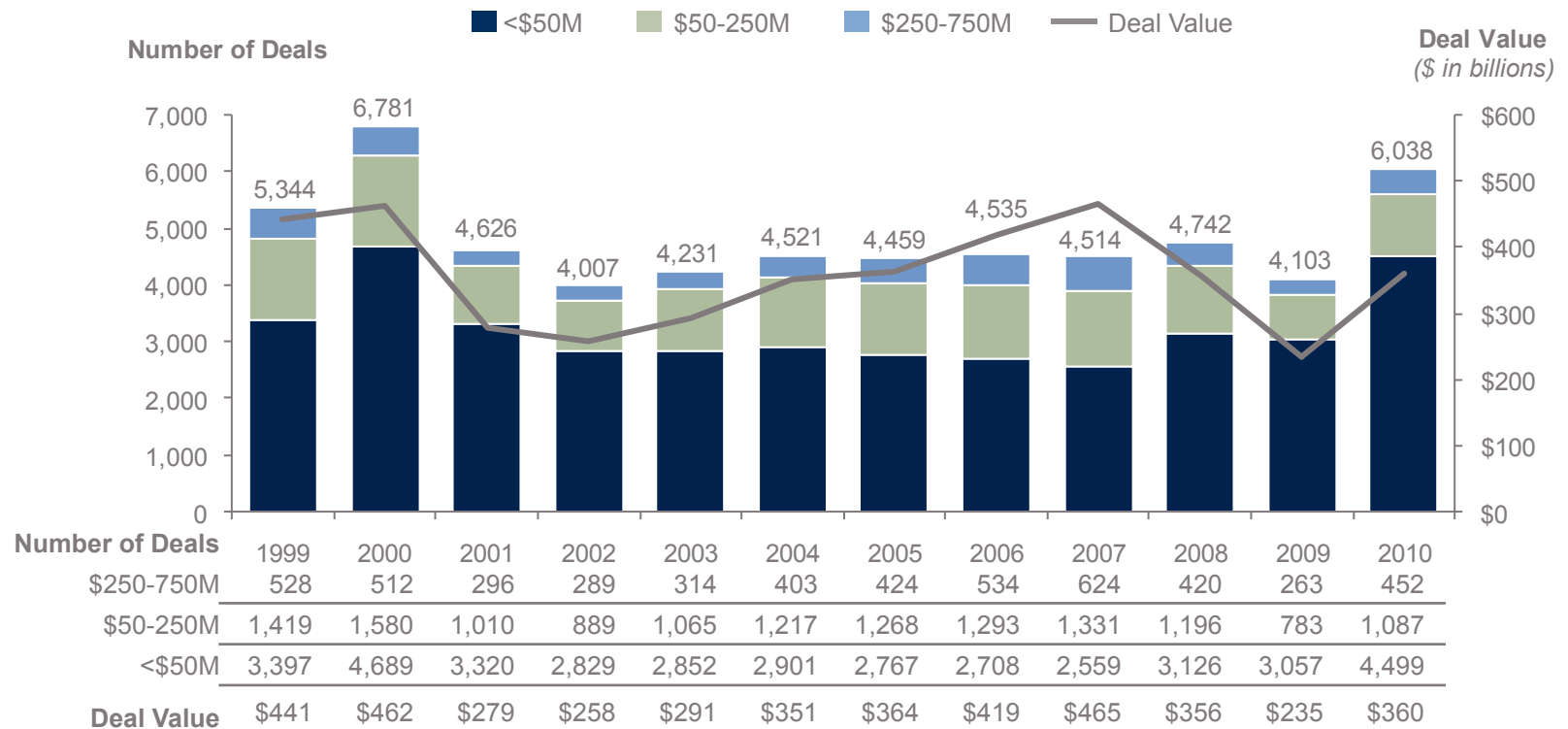
- 2010: First increase in M&A activity in three years
- 2010: Deals \uparrow 32.4%, dollar volume \uparrow 24.7%
- 2009: Deals \downarrow 18.7%, dollar volume \downarrow 19.0%
- 2008: Deals \downarrow 14.1%, dollar volume \downarrow 38.1%



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

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

- 2010: Deals ↑ 46.5%, dollar volume ↑ 52.3%
- Biggest rebound was in the upper middle-market (\$250-\$750): Deals ↑ 71.9%, dollar volume ↑ 74.9%
- 2009: Deals ↓ 13.5%, dollar volume ↓ 33.9%

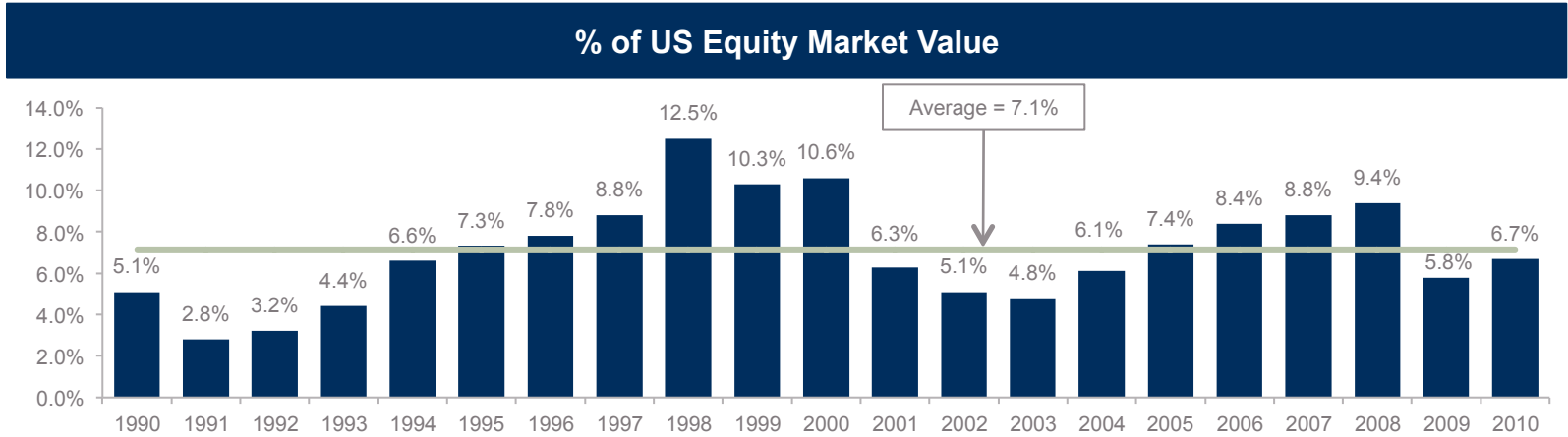
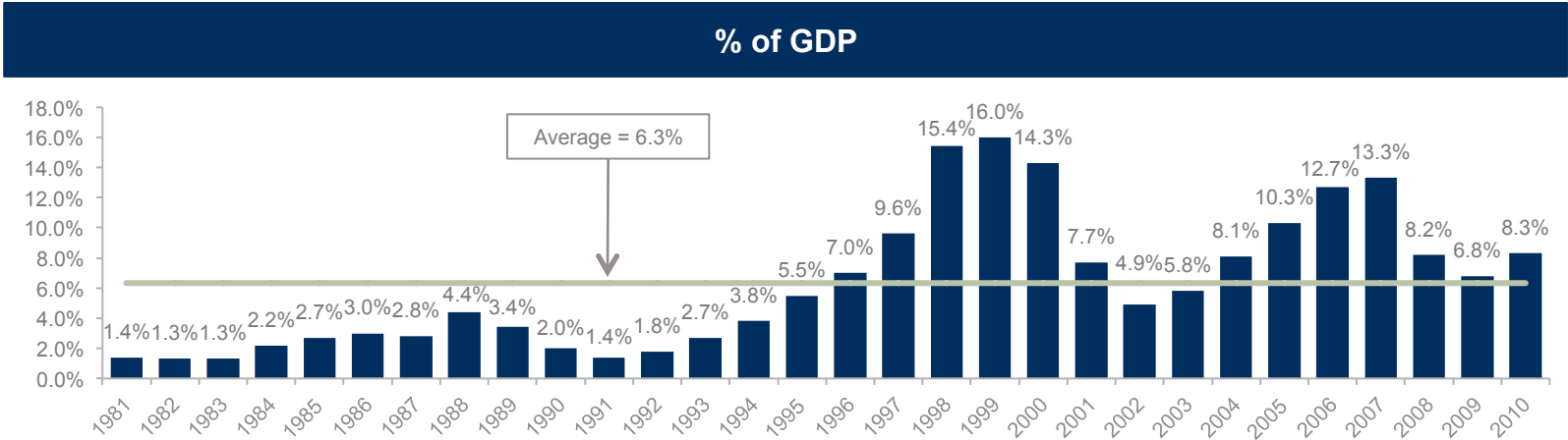


(1) Transactions less than \$750 million.

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

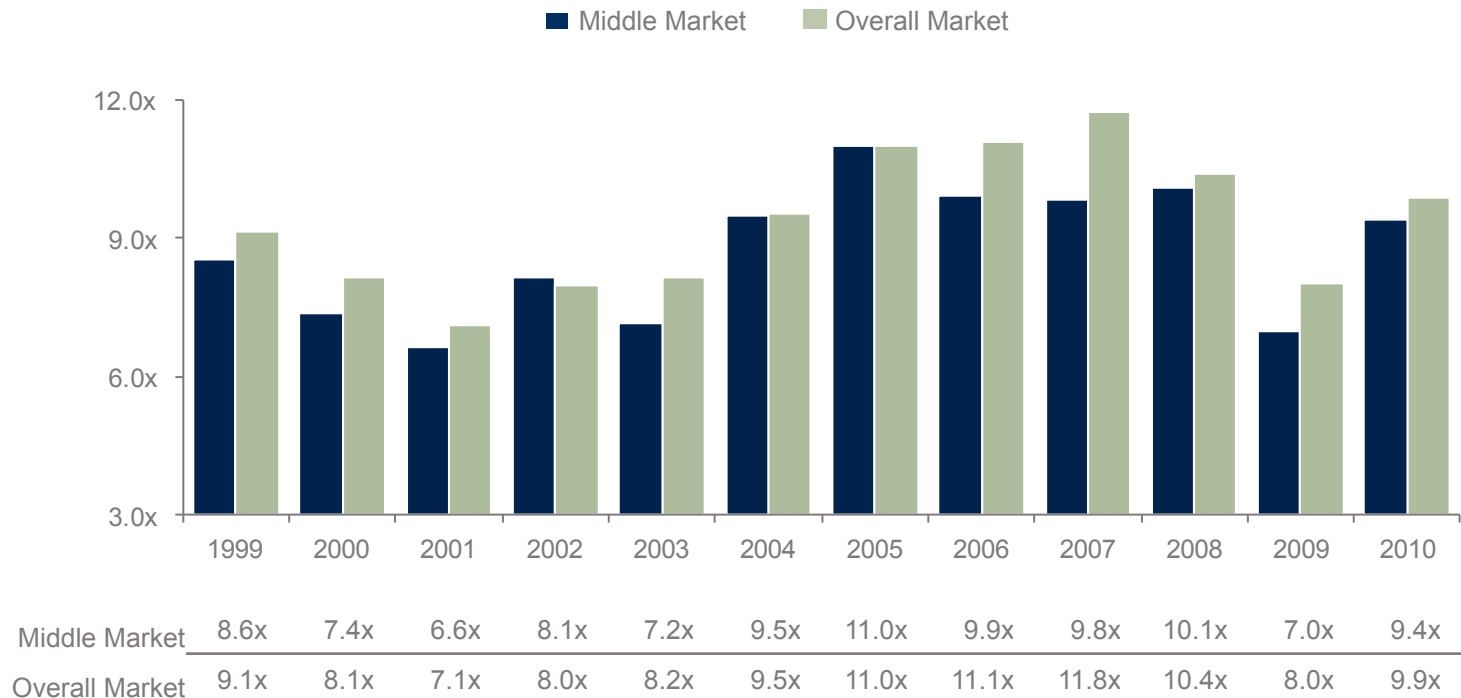
U.S. M&A Activity as a % of GDP and Equity Market Capitalization

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



U.S. EV/EBITDA Valuation Multiples

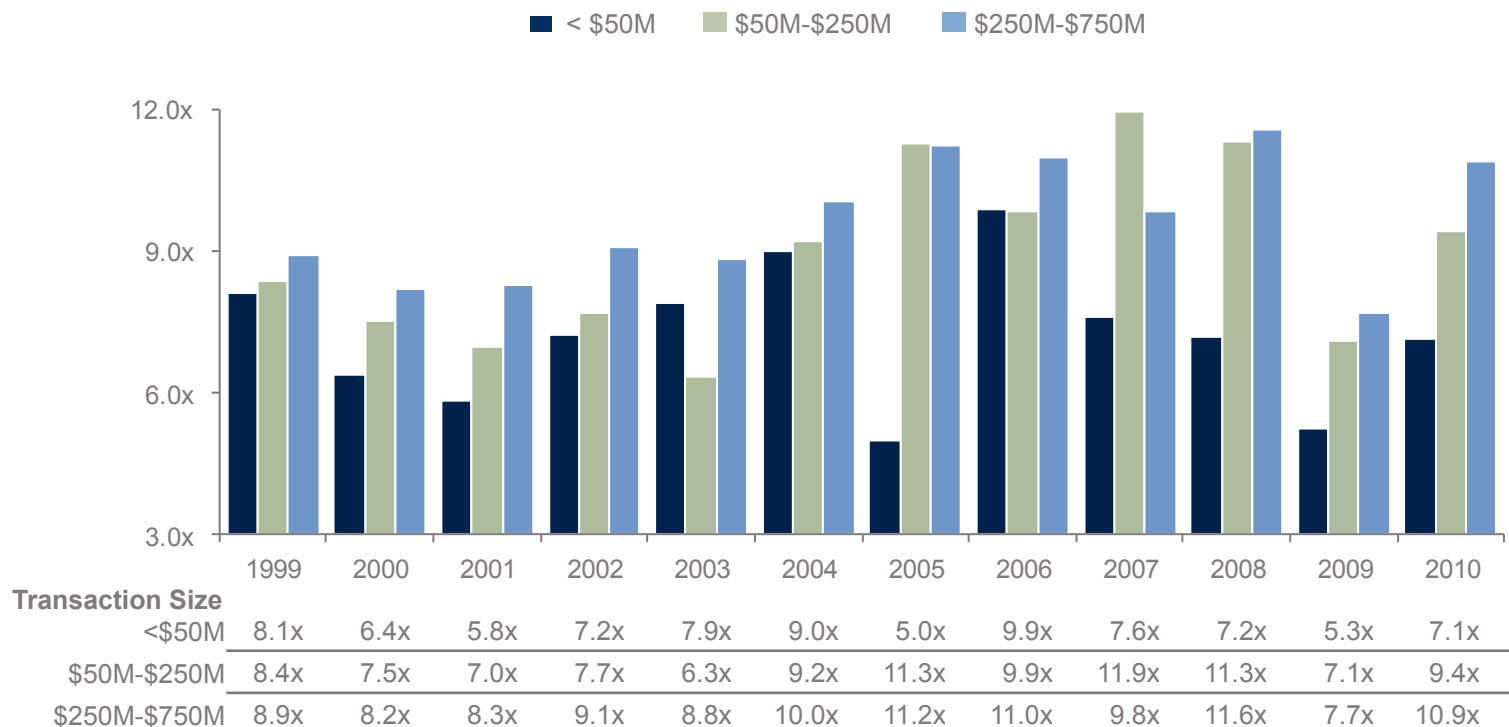
- Overall median EBITDA multiples have rebounded significantly over the past 12 months, although they remain well below 2007/2008 levels.
- Multiples for middle-market transactions have expanded more than multiples for the overall market



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

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

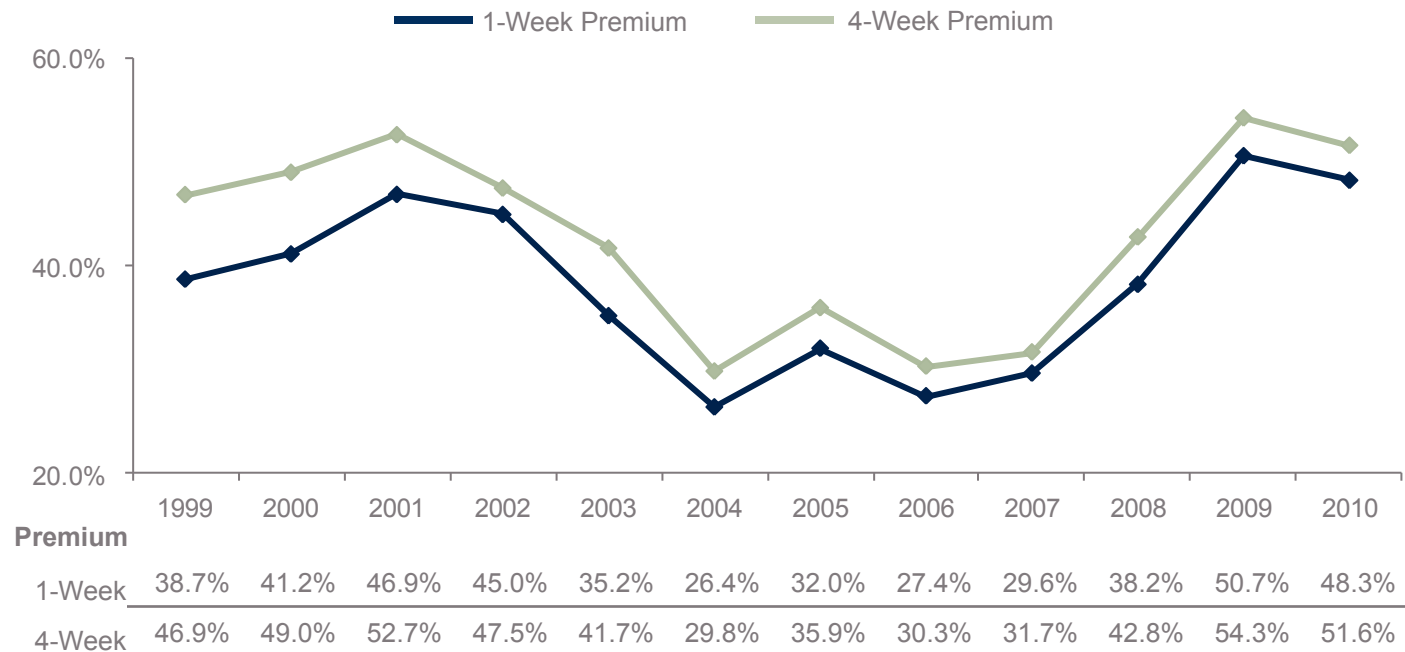
- Transaction multiples for larger transactions have increased more dramatically than for transaction less than \$50 million



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

Median Public Company Acquisition Premiums

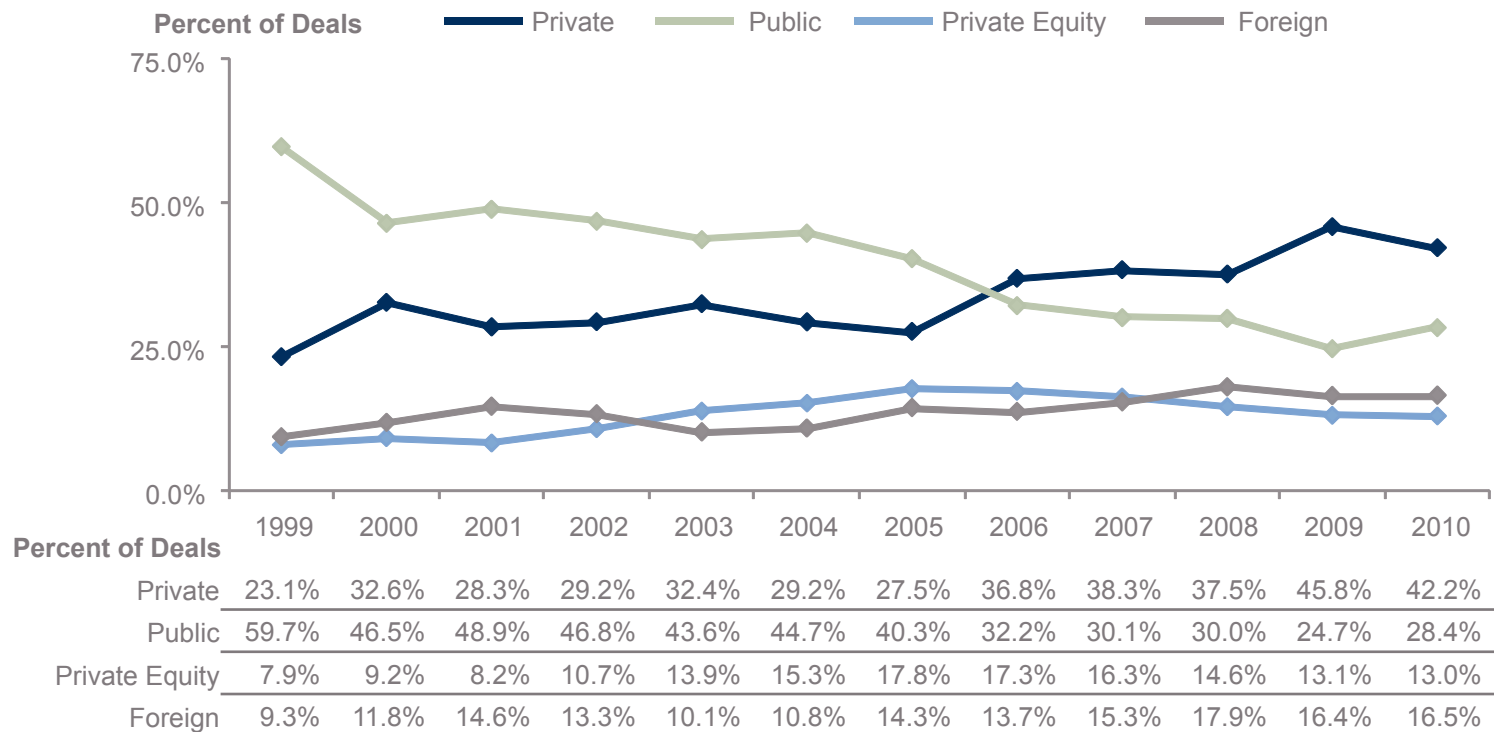
- Acquisition premiums have begun to decline from recent highs as equity prices continue to increase
- Acquisition premiums rose significantly in 2008 and 2009 as equity prices declined



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 dramatically 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 over the past two years

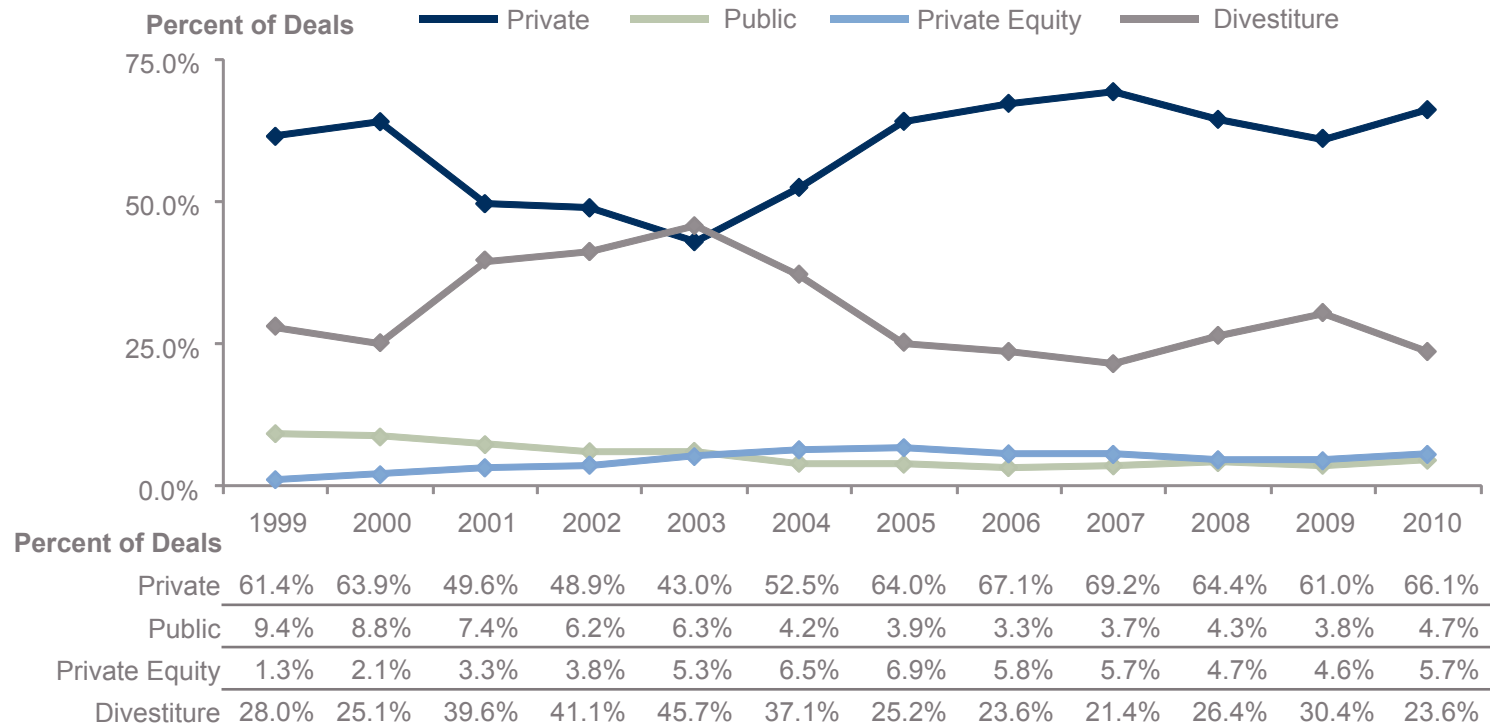


(1) Includes middle-market and undisclosed transactions.

(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 approximately two-thirds of all acquisition targets
- Divestiture activity slowed dramatically as companies complete previously announced restructurings

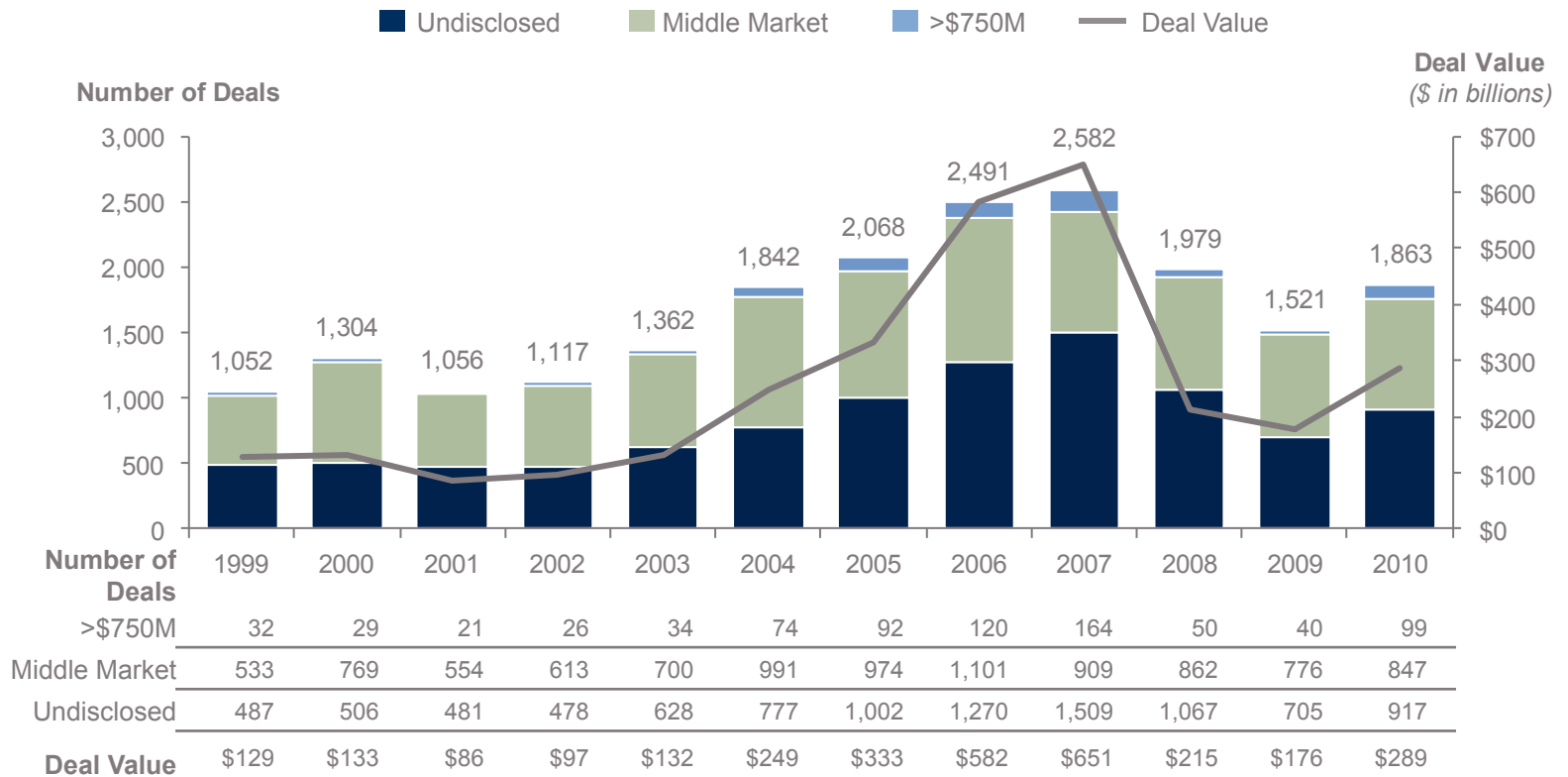


(1) Includes middle-market and undisclosed transactions.

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

U.S. Private Equity Activity

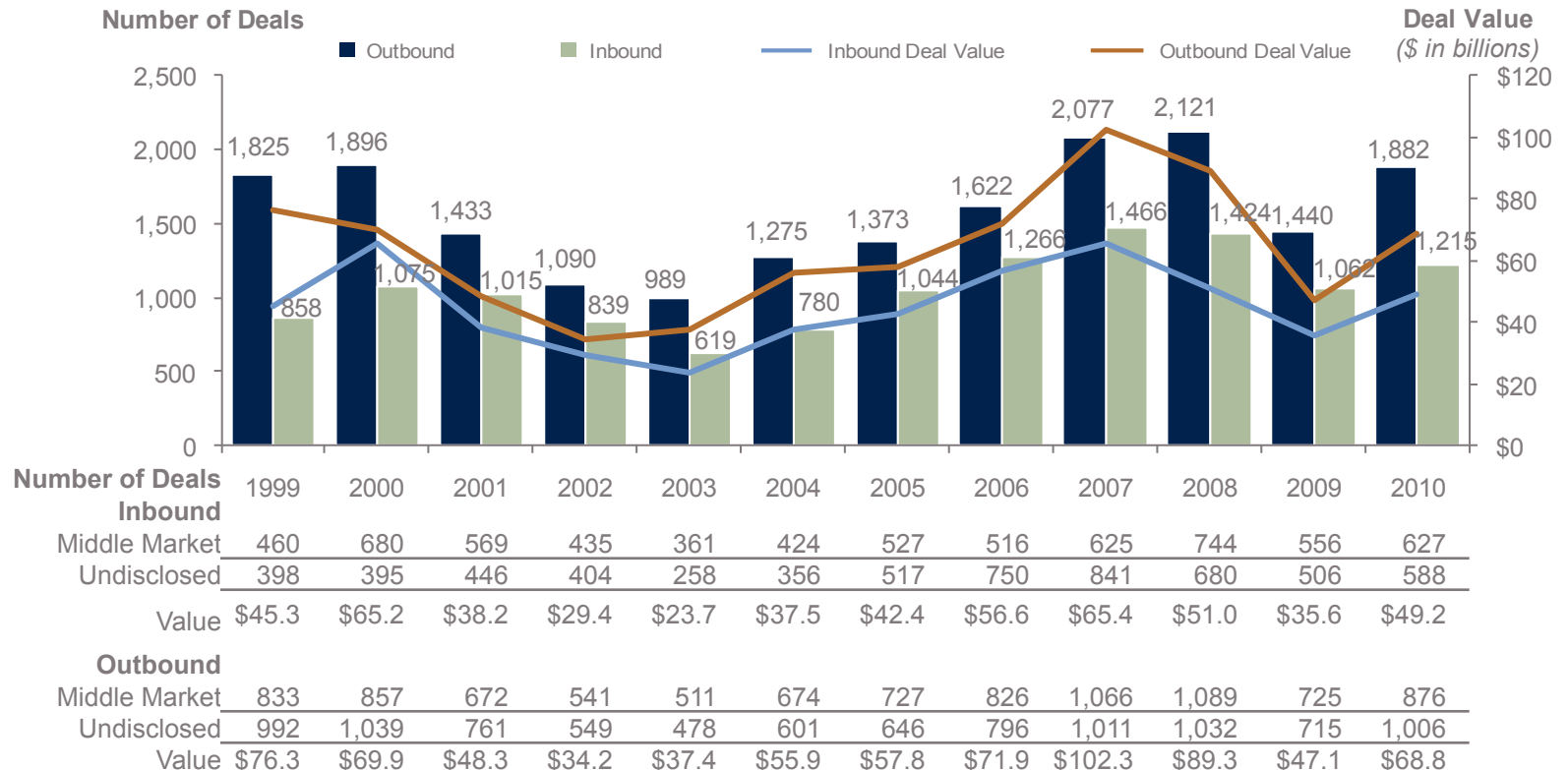
- 2010: Deals ↑22.5%, dollar volume ↑63.7%
- Private equity deals greater than \$750 million ↑147%, dollar volume ↑73%
- 2009: Deals ↓24.9%, dollar volume ↓24.9%
- 2009 activity was lowest since 2003



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

U.S. Cross Border M&A Activity

- 2010 U.S. cross border activity was up from 2009 levels for both deals and dollar volume
- Outbound transactions represented 60.7% of the total, up from 57.6% in 2009
- Outbound dollar volume was 58.3% of the total, up from 57.0% in 2009
- Total U.S. cross border activity increased 23.8% in 2010
 - Inbound deals \uparrow 14.4%, dollar value \uparrow 38.2% compared with 2009
 - Outbound deals \uparrow 30.7%, dollar value \uparrow 38.2%



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

U.S. Cross-Border M&A Activity

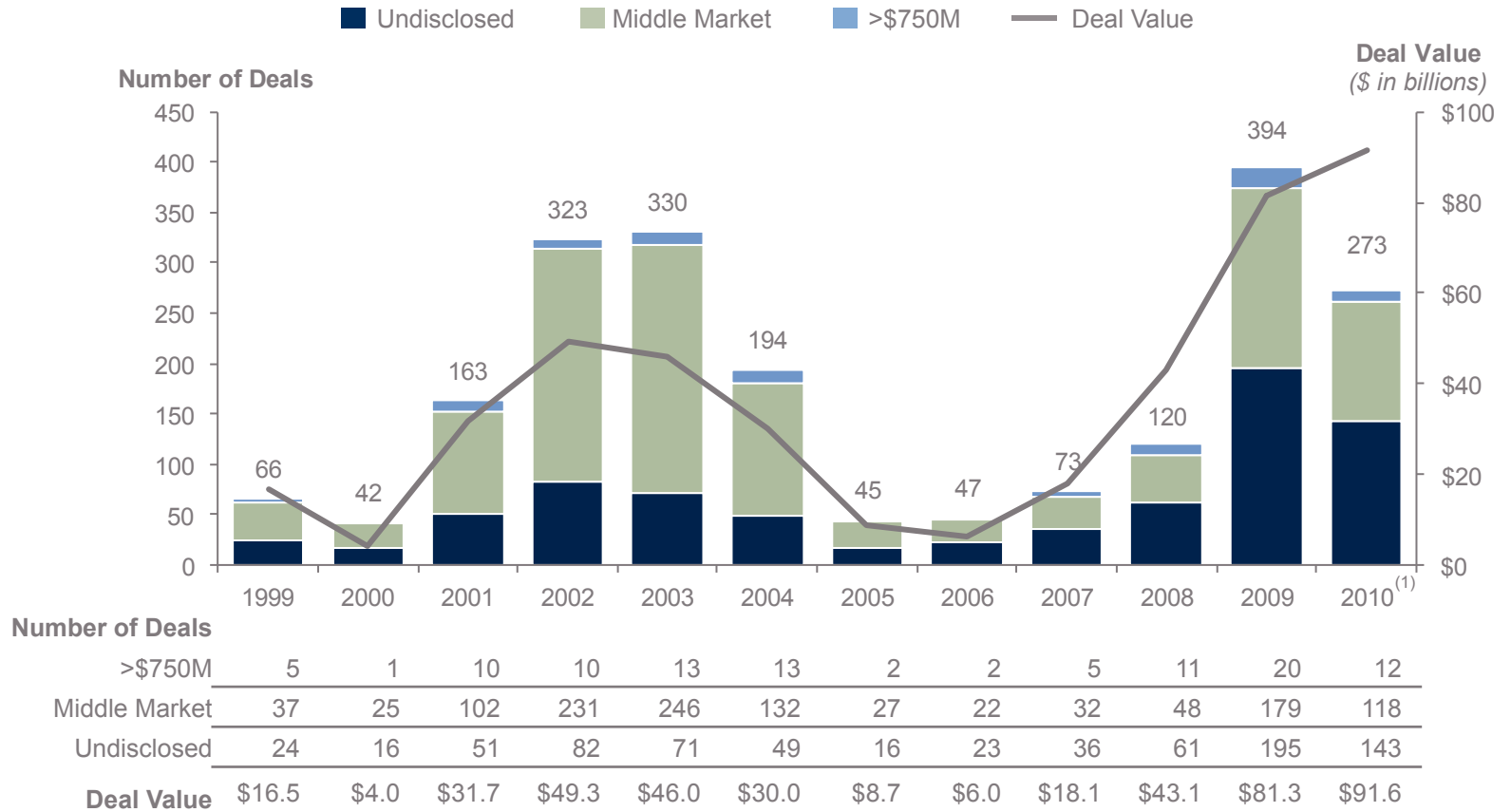
	INBOUND			OUTBOUND			TOTAL		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Middle Market	744	556	627	1,066	1,089	725	1,833	1,281	1,503
> \$750M	53	19	52	63	38	26	91	45	102
Undisclosed	680	506	588	1,011	1,032	715	1,712	1,221	1,594
Total	1,477	1,081	1,267	2,140	2,159	1,466	3,636	2,547	3,199

	INBOUND			OUTBOUND			TOTAL		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Middle Market	\$51,036	\$35,556	\$49,160	\$89,269	\$47,078	\$68,787	\$140,304	\$117,947	\$117,947
> \$750M	\$232,911	\$41,788	\$156,995	\$86,460	\$69,784	\$114,881	\$319,371	\$271,876	\$271,876
Undisclosed	-	-	-	-	-	-	-	-	-
Total	\$283,947	\$77,344	\$206,155	\$175,728	\$116,862	\$183,668	\$459,675	\$389,823	\$389,823

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

Distressed U.S. M&A Deals

- Distressed M&A activity deal flow slowed in 2010, although dollar volume was at record levels

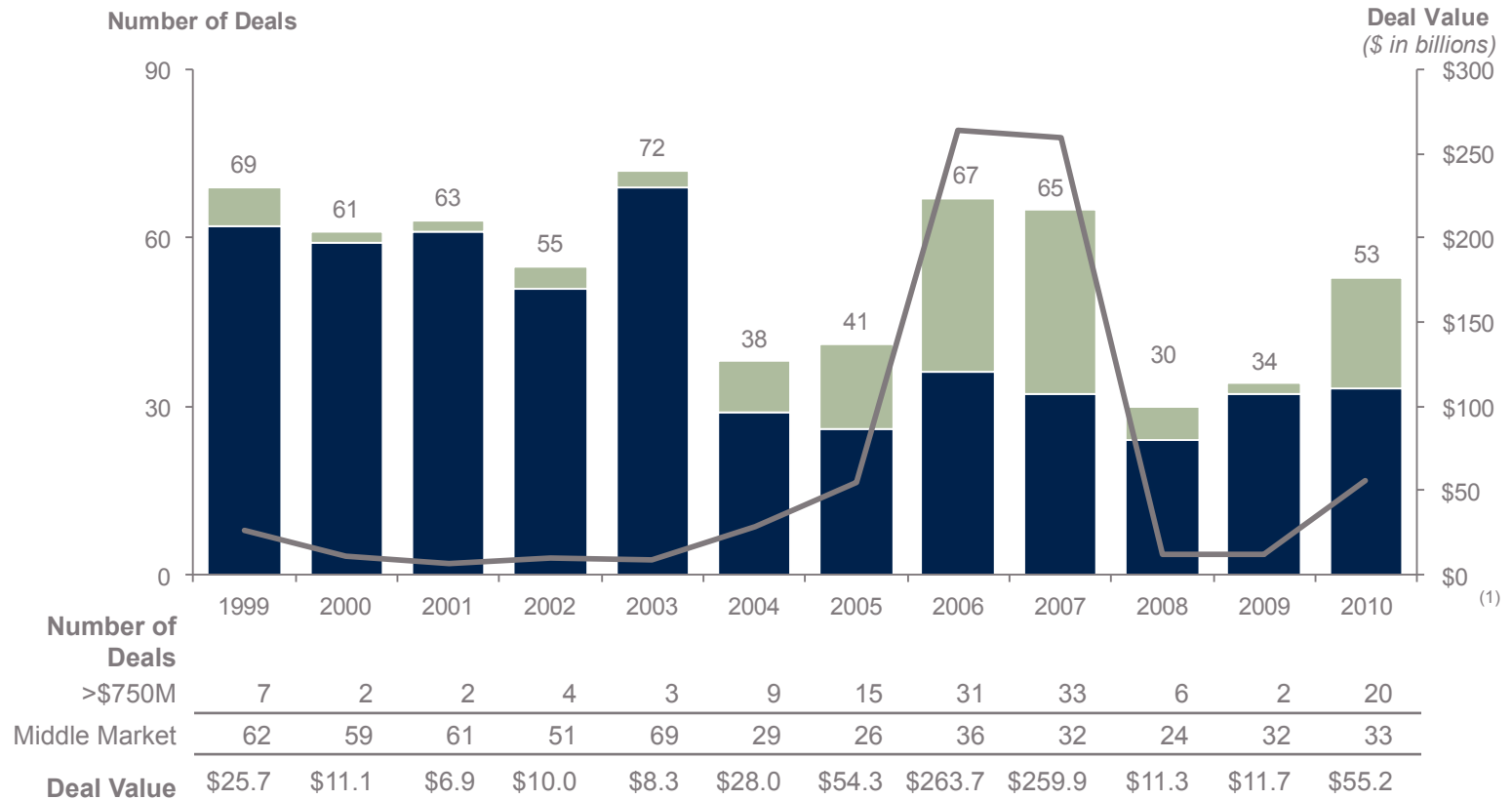


(1) YTD as of 12/31/10.

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 following two years of virtually non-existent activity
- Rebound was especially strong for larger, billion dollar plus transactions

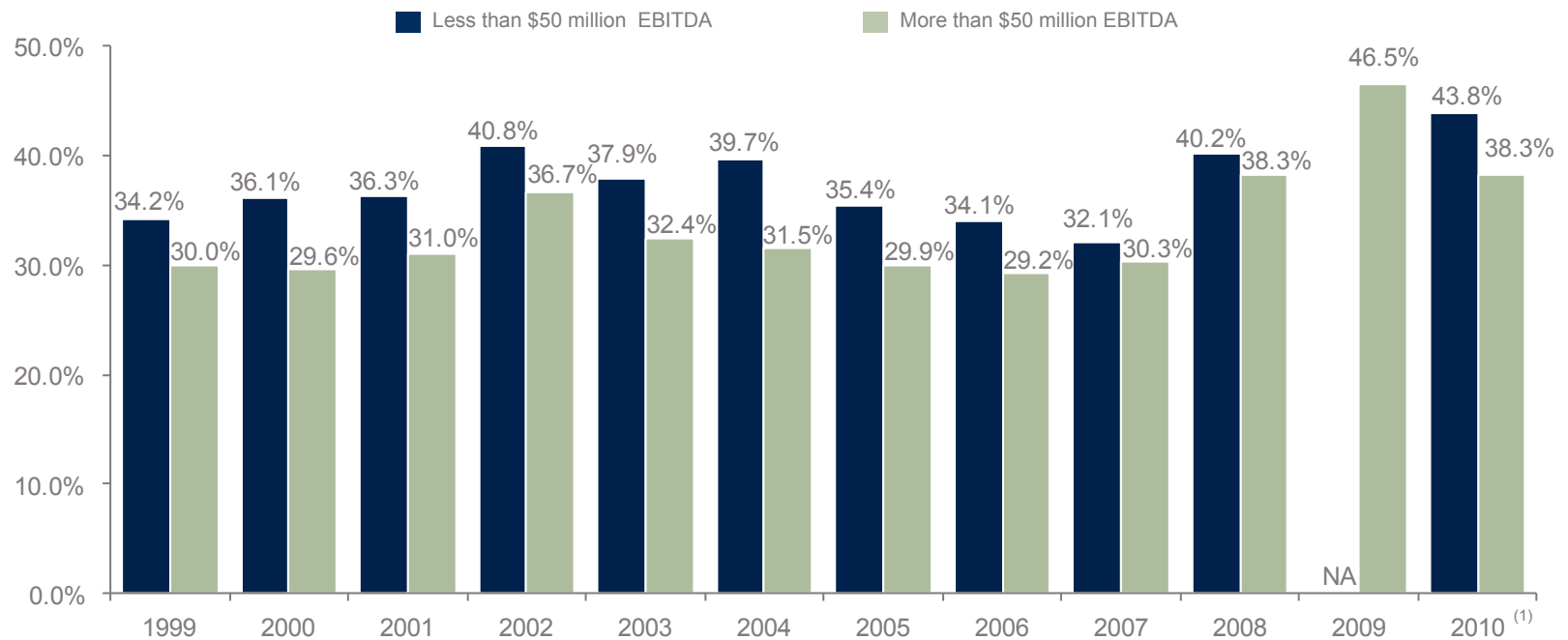


(1) YTD as of 12/31/10.

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

Average Total Equity Contribution for LBOs

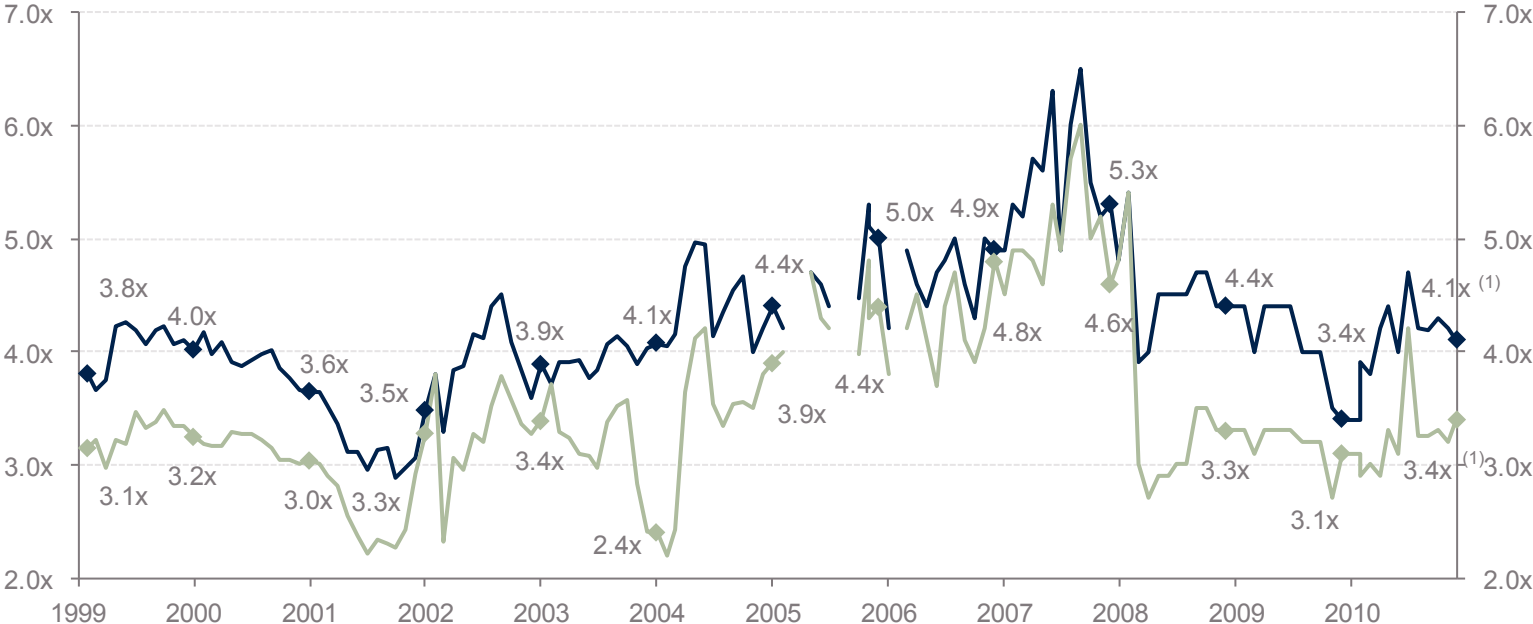
- The average equity contribution declined in 2010 after record levels in 2009
- Smaller deals have not seen as dramatic a decline, reflecting less favorable debt markets for smaller transactions



(1) LTM data as of 11/30/10.
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 4.1x from 3.4x at the beginning of the year
- Senior debt is currently 3.4x, up from 3.1x at the end of 2009
- Total leverage still remains well below the peak levels experienced in 2007-2008



(1) As of November 30, 2010.
Source: Standard & Poor's.

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

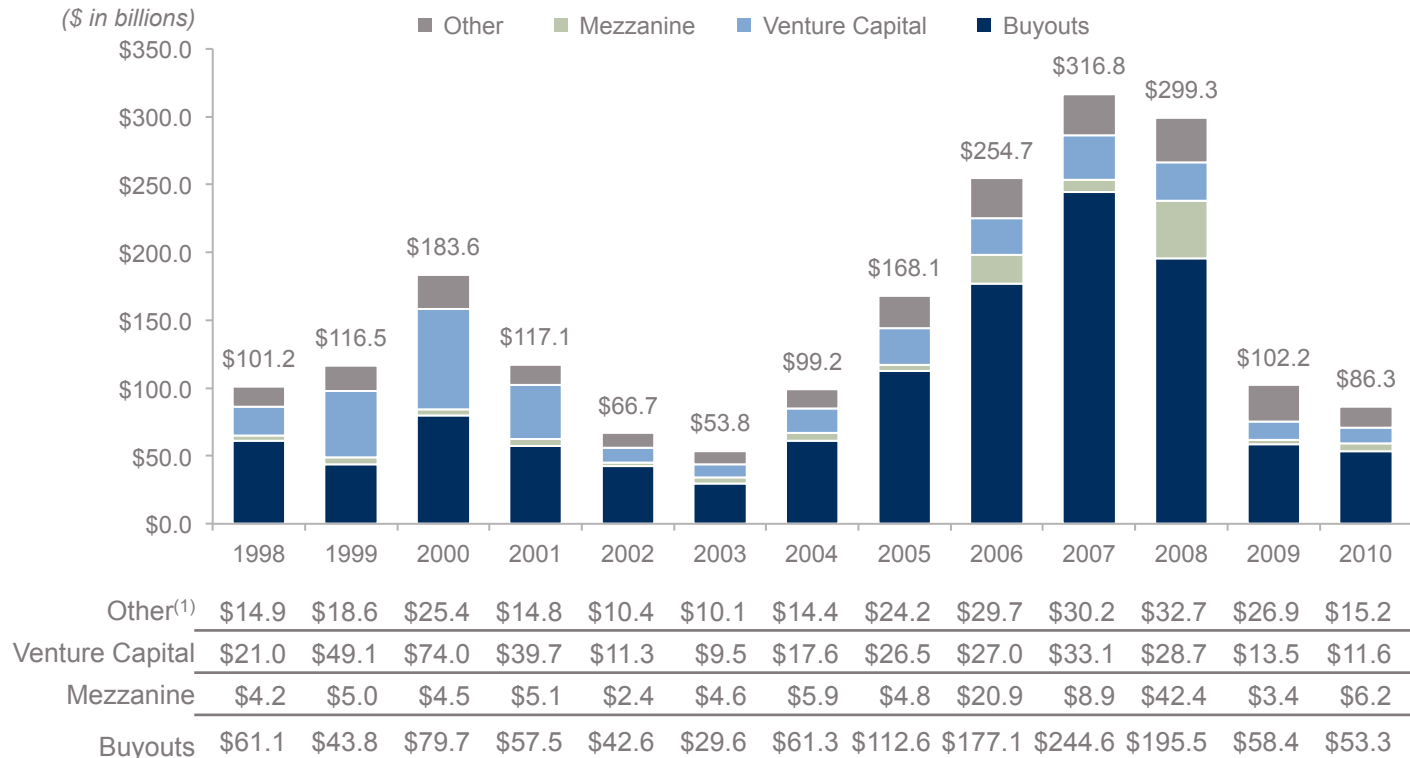
- Leverage multiples for larger transactions have risen significantly from previous lows
- Currently, total leverage is 5.2x with senior debt at 4.6x. This compares to 4.8x total and 3.9x senior a year ago



(1) As of November 30, 2010.
Source: Standard & Poor's.

Capital Commitments to U.S. Private Equity Funds

- 2010 private equity fund raising declined for the third straight year
- Buyout funds accounted for 61.8% of the 2010 total, up from the 56.1% in 2009
- Despite the lack of fundraising, there remains an estimated \$400-\$500 billion of committed but uninvested capital



* 2010 Totals are 9 month results annualized.

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

(1) Other consists of funds of funds.

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Joined Blair: 2008

Prior Work Experience:

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

Education:

Washington University (B.S.)

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). He also served as a member of the ACG Intergrowth Planning Committee.