

AM&AA Annual Meeting

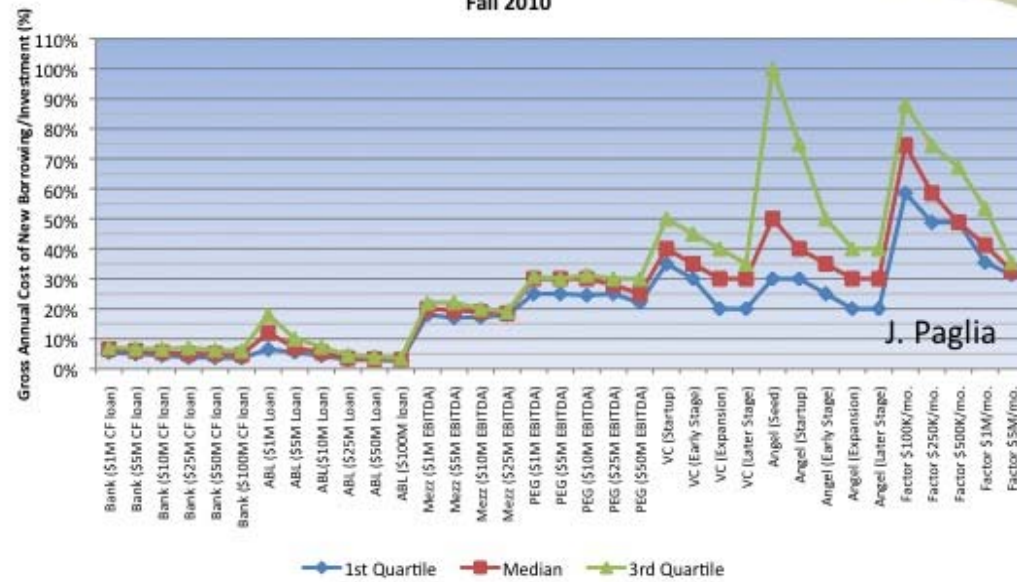
January 12, 2011

Mid-Market Trends from BVR and the new AM&AA/BVR Middle Market Deals Database

David Foster, CEO
Business Valuation Resources
www.BVResources.com



Pepperdine Private Cost of Capital Line
Expected Returns by Capital Providers on New Investments
Fall 2010



Other findings from Pepperdine Survey 11/10

388 privately-held businesses surveyed—79% expect growth in 2011

- 35% report “friends and family” are a current source for financing. This is down from the previous iteration of the survey where 56% of privately-held businesses highlighted “friends and family” as a financial source. This may be an indication that as the economy improves businesses are attempting to repay friends and family.
- 34.9% say they are looking to investors as a source of capital.
- Of the businesses planning to raise capital, 20% report they are planning to raise less than \$500,000; 19% plan to raise capital between \$3M and \$5M.
- Respondents believe that overall gross domestic product will increase by 0.5% within the next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.1%.
- Privately-held business respondents also believe the probability of a double-dip recession for the entire economy is 39.2% and 37.4% for the private economy.

Asset sales—a slight upturn...

Selling price over \$2 million...

Year	Price/Net sales	Price/gross profit
2006	.97	2.41
2007	.87	2.21
2008	.91	2.29
2009	.69	1.72
2010*	.79	1.85

Note: High was 2000 at 1.35 and 3.18 respectively



Stock sales...the same meager trend

Selling price over \$2 million...

Year	Price/Net sales	Price/gross profit
2006	1.68	3.93
2007	1.61	3.88
2008	1.58	3.42
2009	1.61	3.24
2010*	1.78	3.99

Note: High was 2000 at 3.7 and 6.0 respectively



Trends in the lower middle market from BVR

- From reviews of deal documents/financials
 - Some cause for optimism, yet
 - More lower value asset deals
 - Increased
 - contingent payouts, assumed debts, non-competes
 - “Market participant” may be one player
 - Balance sheet problems depress value
 - deferred IT, HR investment; no asset growth, etc.

AM&AA/BVR Mid-Market Deals Database

- Data back to 1990 on private deals >\$2MM; data is peer-reviewed by appraisers and brokers daily
- 89 financial datapoints (Pratt's Stats format) and complete ratio analysis capability
- BVR analysts travel to AM&AA member offices or conduct phone interviews
- Working with AM&AA survey staff, Board, and other transaction database providers like GF Data Resources



Free MMDD services for⁸ AM&AA members

- AM&AA members who contribute deals
 - Get a month free access per deal contributed
 - Receive quarterly Private Deal Update from BVR free
 - Have access to BVR staff for custom analyses or questions
 - Help the profession by increasing the flow of peer-reviewed transaction data





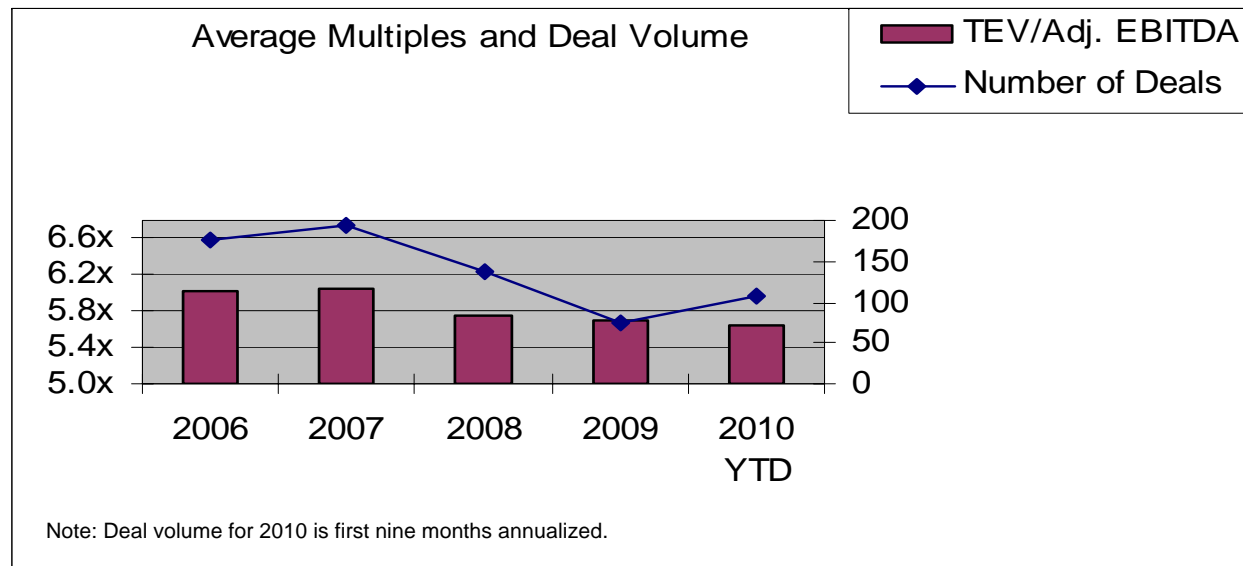
Market Update

AM&AA Winter Conference
New Orleans, Louisiana

Andy Greenberg
January 2011

Deal Volume Shows Signs of Life

- GF Data Resources LLC tracks transaction data on private equity-sponsored M&A transactions that have between \$10 and \$250mm in TEV. More than 150 active private equity sponsors contributed data for the most recent quarterly report.
- After a down year in 2009 that carried over into early 2010, deal volume has started to pick back up in the 2Q and 3Q of 2010. Valuation multiples are increasing as well.



Source: GF Data Resources LLC ©2010 www.gfdataresources.com

Valuations and Volume Tick Up in 2010

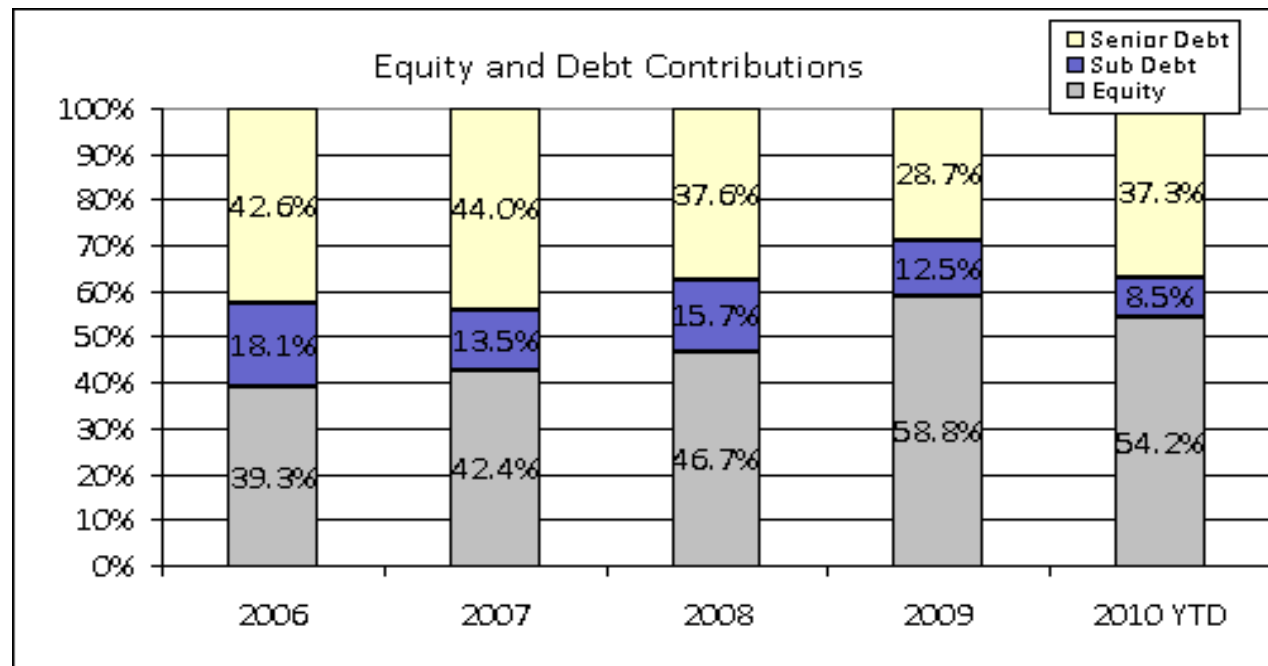
- Overall valuations for the 3Q 2010 averaged 6.0x, the highest level since 2Q 2009.
- GF Data's universe of 151 active PE contributors completed 33 deals in 3Q, more than the resurgent 2Q, and double the post-meltdown lows of early 2009. However, recent activity is still well below the highs of near 50 deals per quarter in 2007.
- Company size continues to weigh heavily in valuation: For all deals in the first nine months of 2010 in our Data base, deals in the \$10 to 25mm TEV range average 5.1x adjusted EBITDA, compared to an average of 6.2x for deals in the \$25 to 250 million range. this is the highest differential in the eight-year history of the GF Data universe. Quarterly detailed data is shown in the chart below:

TEV/EBITDA -- Quarterly Splits								
TEV	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	N=
10-25	5.8	6.6	4.7	4.7	4.4	4.8	5.8	69
25-50	6.4	6.3	5.8	5.6	4.9	6.6	6.0	49
50-100	7.2	6.9	5.7	4.6	6.4	6.0	6.9	27
100-250	NA	5.9	4.9	8.8	6.8	7.0	5.7	9
Total	6.2	6.5	5.1	5.2	5.2	5.5	6.0	
N =	15	16	20	23	17	30	33	154

Source: GF Data Resources LLC ©2010 www.gfdataresources.com

Equity and Debt Contributions

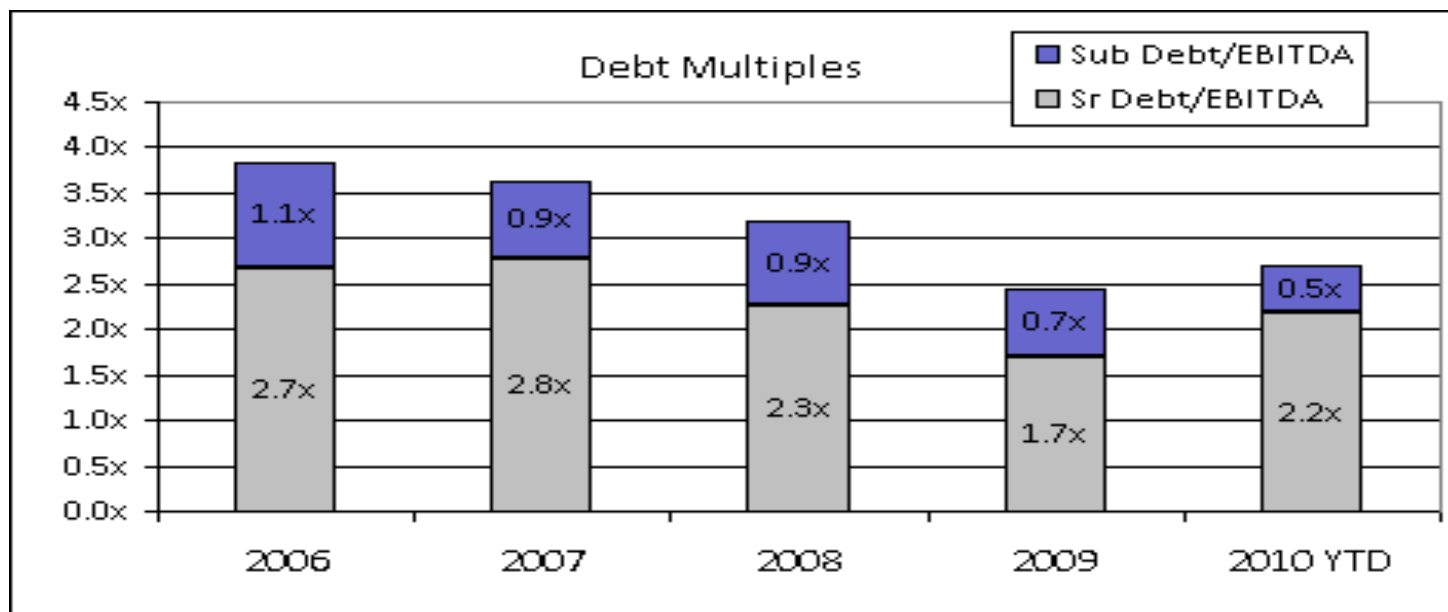
- Average equity contribution as a percentage of the total capital structure for the year to date is 54.2%, down from the 60+% levels during the 3rd quarter of 2009 (as a year, 2009 averaged 58.8% equity).
- Equity contribution has fluctuated over the course of 2010 – Total debt increased in 1Q to 3.0x Ebitda, dropped in 2Q to 2.3x EBITDA, then increased again in 3Q to 2.9x EBITDA.
- In 2Q 2010, equity contribution % increased as valuations rose with no corresponding increase in leverage.
- In 3Q, with debt levels rising slightly ahead of valuations, equity accounted for 53% of the capital structure.



Source: GF Data Resources LLC ©2010 www.gfdataresources.com

Senior and Sub-Debt Multiples

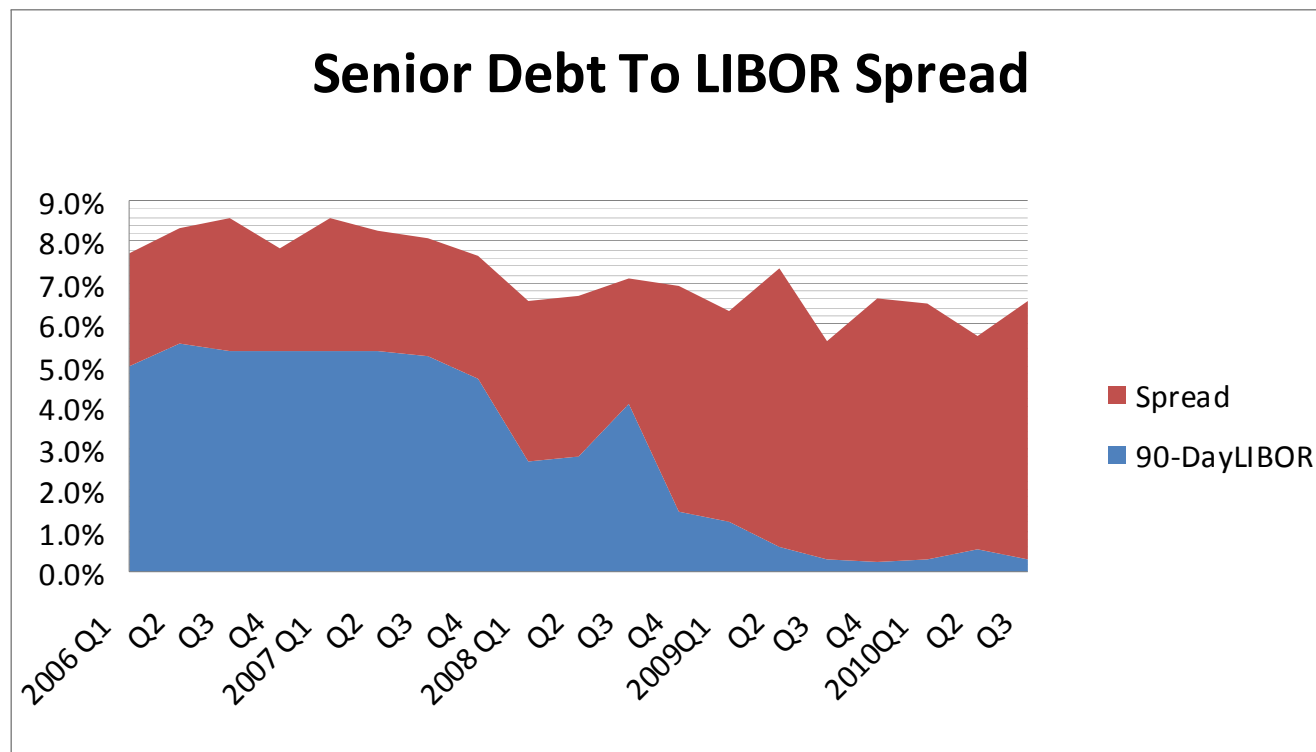
- Debt markets continue on a path to recovery.
- Total Debt levels are suppressed by PE buyers choosing to under leverage their acquisitions (in 2010, 31% of deals were completed with senior debt and no junior capital, compared with only 12% in the 2009 sample).
- We expect many buyers will finance out of initial structures with more appropriate leverage levels as market conditions improve.



Source: GF Data Resources LLC ©2010 www.gfdataresources.com

Debt Pricing Spreads Remain Wide

- Debt pricing spreads remain as wide as they have ever been, with 90-day LIBOR at 0.29% as of Sept. 30.
- 3Q initial pricing on senior debt remained even with 2Q at 7.1%.



Source: GF Data Resources LLC ©2010 www.gfdataresources.com

4Q 2010 and 2011 Forecast

- Although GF Data focuses on historical, factual data, we work with many data contributors and subscribers who are middle market M&A professionals.
- Based on conversations with them and our own deal experience as well as on the data, we expect deal momentum to continue into the early months of this year.
- There is a widespread sense of not a lot of new product coming to market in last few months of '10 – all things being equal, this would translate into a mid-year lull in completed deal volume.

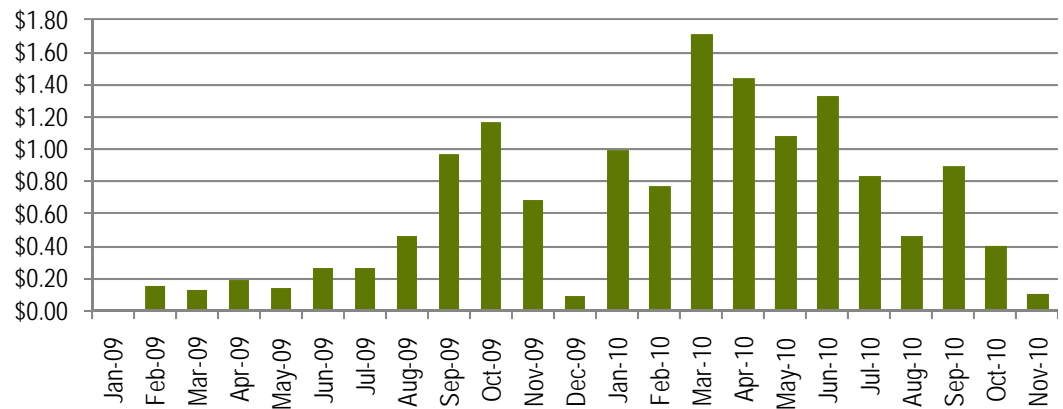
AMAA Market Update

David Burke

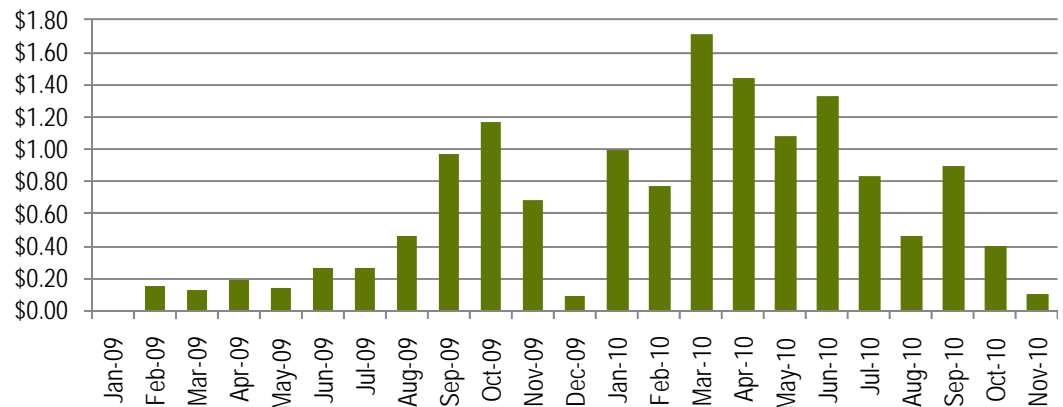
Loan Volume

- New issue loan volume for the 11 months ended November 2010 totaled \$191.0 billion; up 178% from the \$68.6 billion issued during the same period 2009
- Institutional and pro rata loans were split nearly 50/50 in 2009; this year institutional loans account for over 67% of new issues
- New loans in the middle market (companies under \$250 million in revenue) totaled \$10.0 billion through November 2010; up 126% from the same period 2009

Total New Issue Loan Volume (\$B)



Middle Market New Loan Volume (\$B)

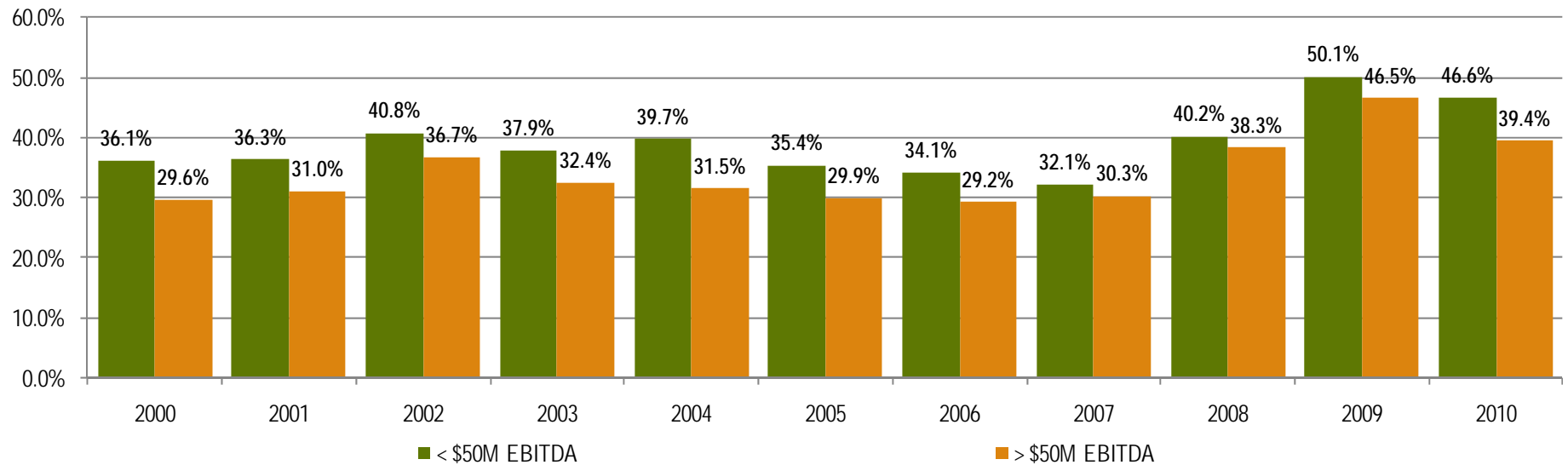


Source: Standard & Poor's LCD

Equity Contribution

- The average equity contribution for both large cap and middle market transactions declined in 2010 after hitting a peak in 2009

Average Equity Contribution for U.S. LBO Transactions

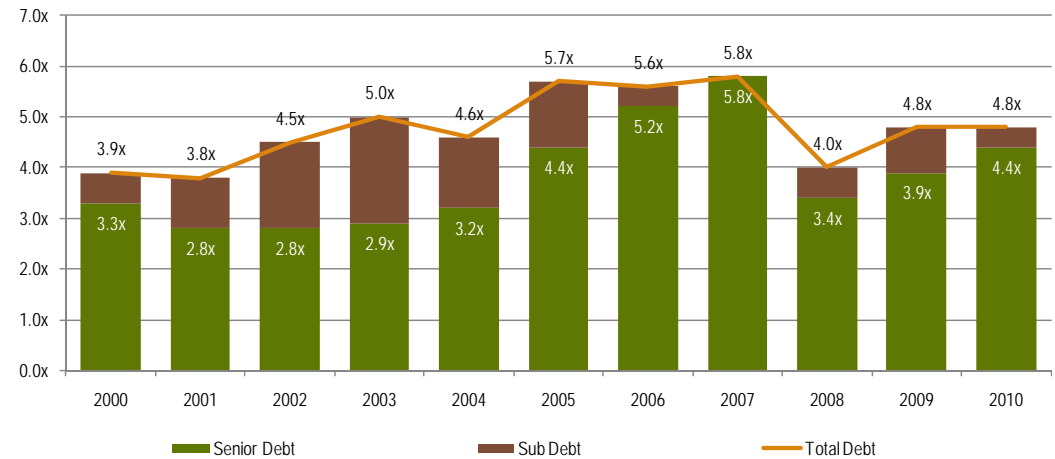


Source: Standard & Poor's Leveraged Lending Review and McGladrey Capital Market Estimates

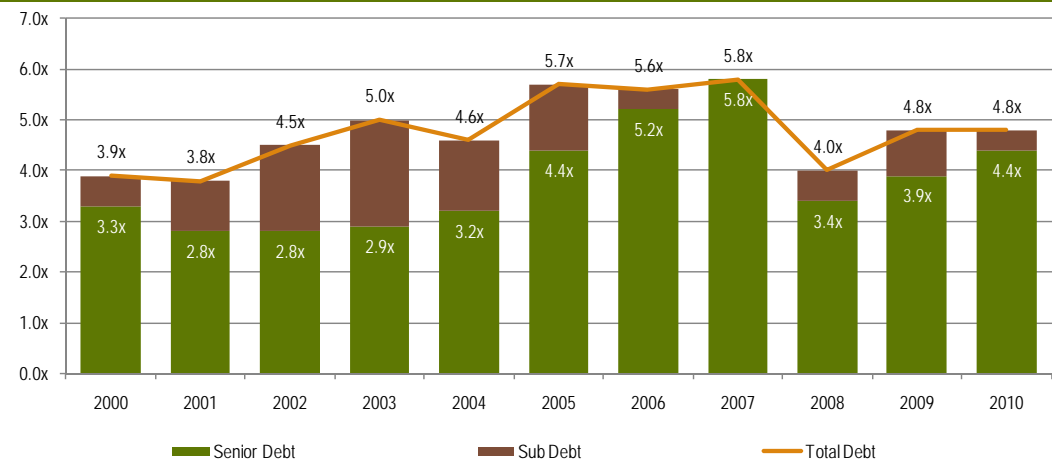
Leverage

- Improved liquidity has driven average debt multiples for both large cap and middle market LBO transactions up from their 2008-2009 lows
- Lenders are still more conservative in the middle market, with total debt multiples roughly a half turn lower than large cap transactions

Average Debt Multiples (< \$50M EBITDA)



Average Debt Multiples (> \$50M EBITDA)

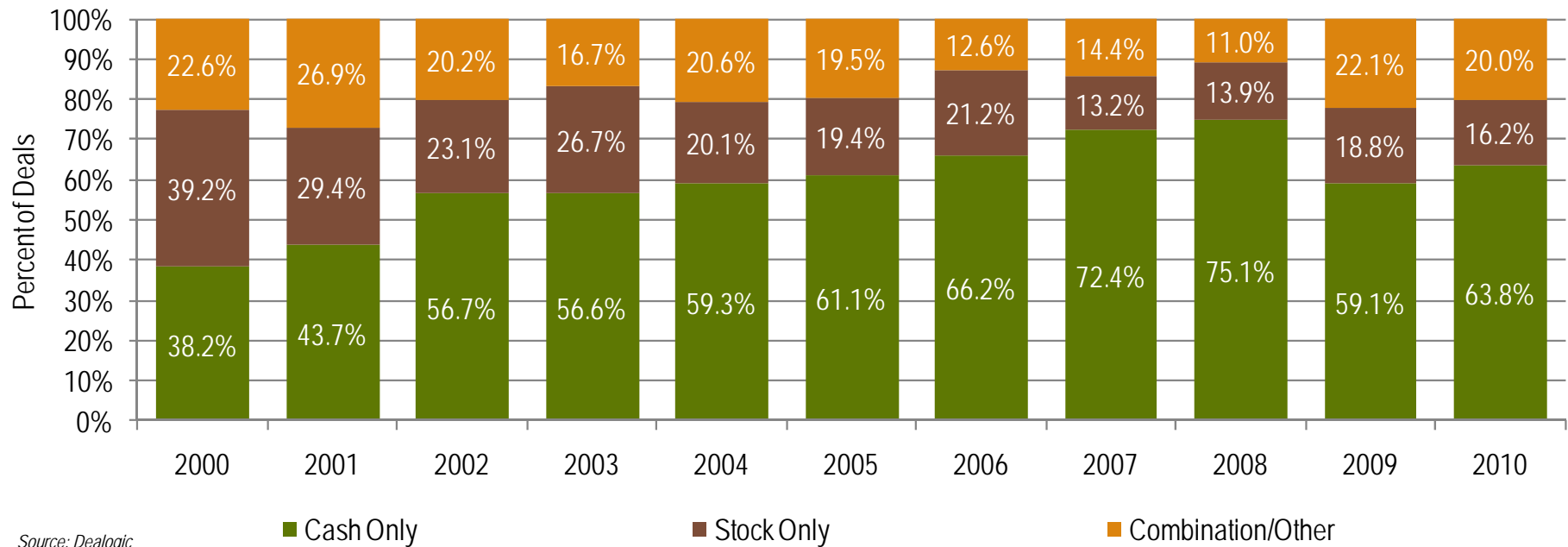


Source: Standard & Poor's Leveraged Lending Review

Transaction Consideration

- The percentage of “cash only” transactions increased every year since 2003 before declining in 2009
- All cash transactions rose again in 2010, indicating improved access to capital

Consideration for U.S. LBO Transactions

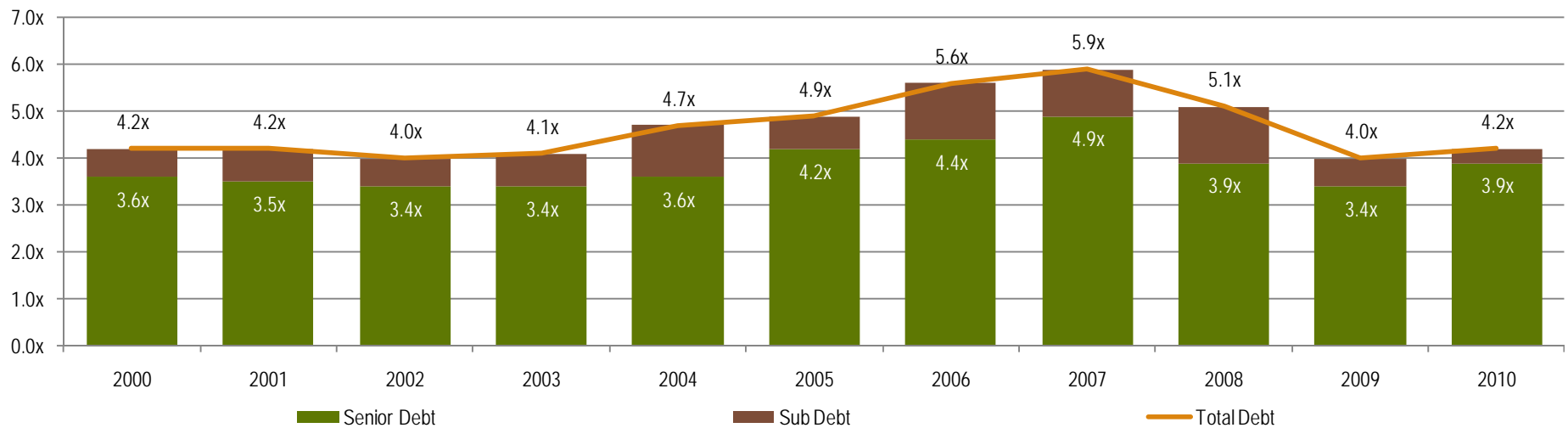


European Markets

Average Equity Contribution for European LBO Transactions



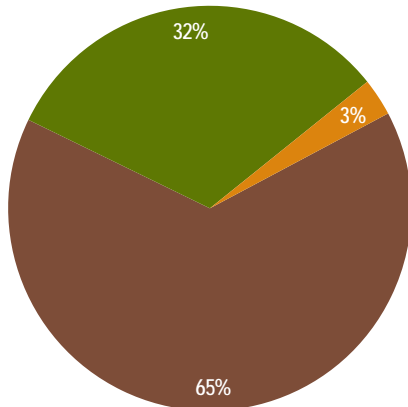
Average Debt Multiples European LBO Transactions (< €50M)



Source: Standard & Poor's Leveraged Lending Review

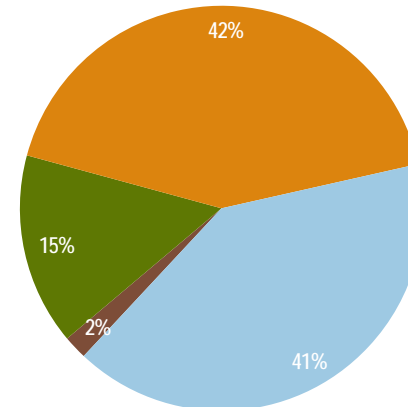
What PEGs and Lenders are Saying

Credit Availability Over the Next 12 Months



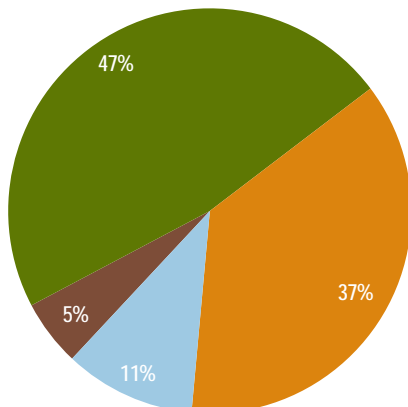
■ Improve ■ Stay the Same ■ Worsen

Debt Multiples Over the Next 12 Months



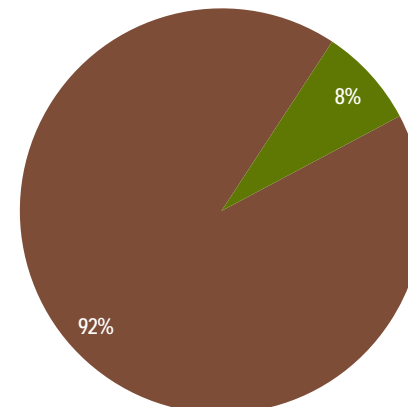
■ 2.5x ■ 3.0x ■ 3.5x ■ >3.5x

Equity Contribution Over the Next 12 Months



■ 30% ■ 40% ■ 50% ■ >50%

Lending Goals Over the Next 12 Months



■ Portfolio will Grow ■ Portfolio will Stay the Same

Source: McGladrey Capital Markets Symposium (65 Groups polled)



mergermarket Heat Charts: future dealflow

mergermarket, the mergers and acquisitions origination news and information service, provides insights into global opportunity hot spots via its unique Heat Charts

Charlie Welsh
AM&AA Winter Conference, New Orleans, Louisiana



Global Heat Chart- H2 2010

	Europe	Asia	North America	Latin America	Total
TMT	643	415	676	53	1,787
Industrials & Chemicals	633	782	347	41	1,803
Energy, Mining & Utilities	460	465	639	68	1,632
Consumer	621	436	310	51	1,418
Pharma, Med & Biotech	240	291	494	8	1,033
Financial Services	384	334	305	48	1,071
Business Services	268	197	239	41	745
Leisure	247	166	181	12	606
Transportation	187	157	77	40	461
Real Estate	101	239	45	13	398
Construction	147	152	41	22	362
Agriculture	37	91	5	10	143
Defense	16	2	112	3	133
Government	10	2	7	1	20
Other	6	14			20
TOTAL	4,000	3,743	3,478	411	11,632



Asian Heat Chart- H2 2010

	China & Hong Kong	South East Asia	South Asia	Australasia	Japan	South Korea	TOTAL
Industrials & Chemicals	434	98	96	33	67	54	782
Energy, Mining & Utilities	148	115	54	126	11	11	465
Consumer	202	75	57	46	34	22	436
TMT	209	47	52	44	25	38	415
Financial Services	134	84	37	29	20	30	334
Pharma, Med & Biotech	125	27	44	67	16	12	291
Real Estate	123	81	18	11	3	3	239
Business Services	53	24	46	32	19	23	197
Leisure	66	36	19	23	10	12	166
Transportation	45	48	20	20	20	4	157
Construction	42	63	27	3	5	12	152
Agriculture	30	19	6	36			91
Other	1	8	2	2	1		14
Defense			1	1			2
Government	1	1					2
TOTAL	1,613	726	479	473	231	221	3,743

European Heat Chart- H2 2010

	CEE/CIS (excl. Russia)	UK	Germanic	Benelux	Russia	Middle East & North Africa	Nordic	France	Italy	SEE	Iberia	TOTAL
TMT	68	100	72	142	24	50	48	67	25	16	31	643
Industrials and Chemicals	122	56	123	83	30	28	60	43	45	30	13	633
Consumer	94	83	74	75	36	27	38	52	57	61	24	621
Energy, Mining, & Utilities	89	101	39	18	60	40	37	11	26	24	15	460
Financial Services	68	65	42	27	31	49	3	21	34	31	13	384
Business Services	38	60	36	24	9	11	39	14	12	9	16	268
Leisure	35	77	24	6	10	10	7	8	28	32	10	247
Pharma, Med, & Biotech	19	29	50	19	9	24	24	16	7	11	32	240
Transportation	31	12	8	5	75	11	11	5	8	17	4	187
Construction	30	20	15	9	8	14	20	10	8	9	4	147
Real Estate	14	5	19	15	5	23	2	6	2	6	4	101
Agriculture	13	2	4	2	4	2	5	1	2	2		37
Defense	5	1	1		1	1		2	2	3		16
Government	2				4	4						10
Other			2			3				1		6
TOTAL	628	611	509	425	306	297	294	256	256	252	166	4,000



Latin American Heat Chart- H2 2010

	Brazil	Mexico	Colombia	Rest of LatAm	Chile	Argentina	Peru	Venezuela	TOTAL
Energy, Mining & Utilities	36	7	11	1	5	2	6		68
Consumer	26	14	1	1	4	3	2		51
TMT	21	13	8	2	4	4	1		53
Financial Services	22	13	5	4		2		2	48
Industrials & Chemicals	14	20	4		1	1		1	41
Business Services	29	3		6	1	2			41
Transportation	9	19	3	8			1		40
Construction	8	10	1		1	1	1		22
Leisure	3	3	1	3		1	1		12
Real Estate	6	2		2		2	1		13
Agriculture	2	2		1	4	1			10
Pharma, Med & Biotech	7	1							8
Defense				3					3
Government				1					1
TOTAL	183	107	34	32	20	19	13	3	411



North American Heat Chart- H2 2010

	West	South	Mid-Atlantic	Midwest	Canada	New England	TOTAL
TMT	276	138	106	50	38	68	676
Energy, Mining & Utilities	126	185	41	45	214	28	639
Pharma, Med & Biotech	135	99	95	69	28	68	494
Industrials & Chemicals	66	70	49	102	38	22	347
Consumer	73	56	62	68	28	23	310
Financial Services	50	114	58	66	8	9	305
Business Services	64	76	40	29	16	14	239
Leisure	49	60	25	28	15	4	181
Defense	20	42	23	14		13	112
Transportation	10	28	9	20	8	2	77
Real Estate	15	10	5	12	2	1	45
Construction	14	11	2	6	7	1	41
Government	1	6					7
Agriculture		1		1	3		5
TOTAL	899	896	515	510	405	253	3,478