



Strategic M&A: Where We've Been, Where We're Going

A review of 2009 and the outlook for 2010

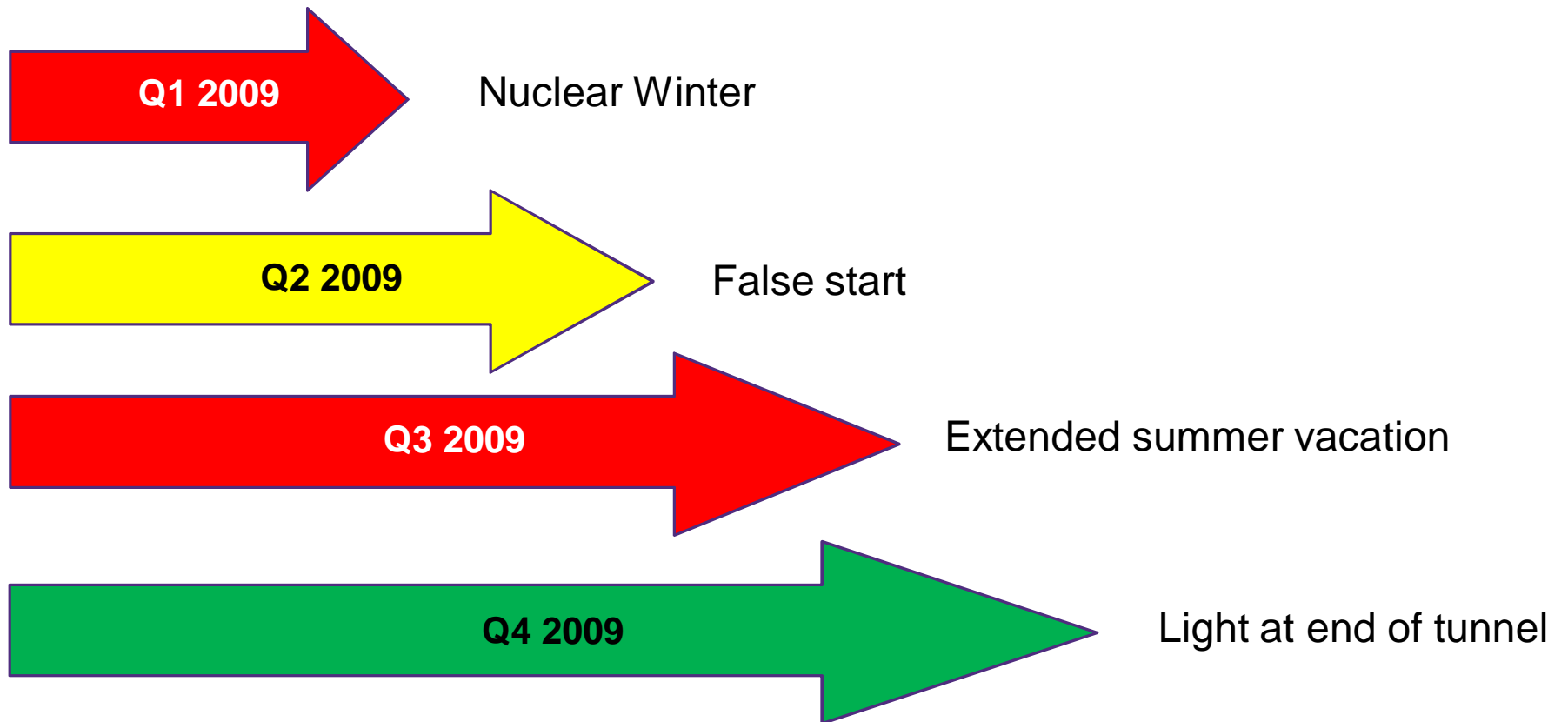
January 13, 2010

Steve Brady

National Managing Partner
Transaction Advisory Services
Grant Thornton LLP



2009 in Review – A Year of Extremes



“Man looks in the abyss, there's nothing staring back at him. At that moment man finds his character. And that is what keeps him out of the abyss.”

Advice given to Bud Fox in *“Wall Street”*

Status of M&A Along the Life Cycle – 2009 vs. 2010

Target

- Who have been the targets?
- In what industries?

Acquisition

- How have deal structures changed?
- Has diligence adjusted?
- Where is the debt?

Maximize Value

- Where is value being found
- How has restructuring changed the game?

Harvest Profits

- Who's buying
- Where are the take-outs?

Target

- M&A advisory
- financial and tax due diligence
- operations analysis
- technology risk assessment
- compensation and benefits plans
- internal controls/SOX

Acquisition

- M&A advisory
- deal and tax structure
- merger integration
- valuation services
- opening balance sheet
- purchase price adjustment
- financing

Transaction life cycle

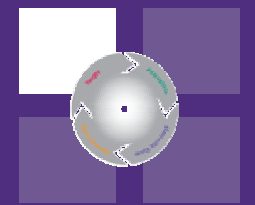
Harvest Profits

- M&A advisory
- sell-side due diligence
- operational improvement
- carve-out analysis
- tax structuring
- valuation services

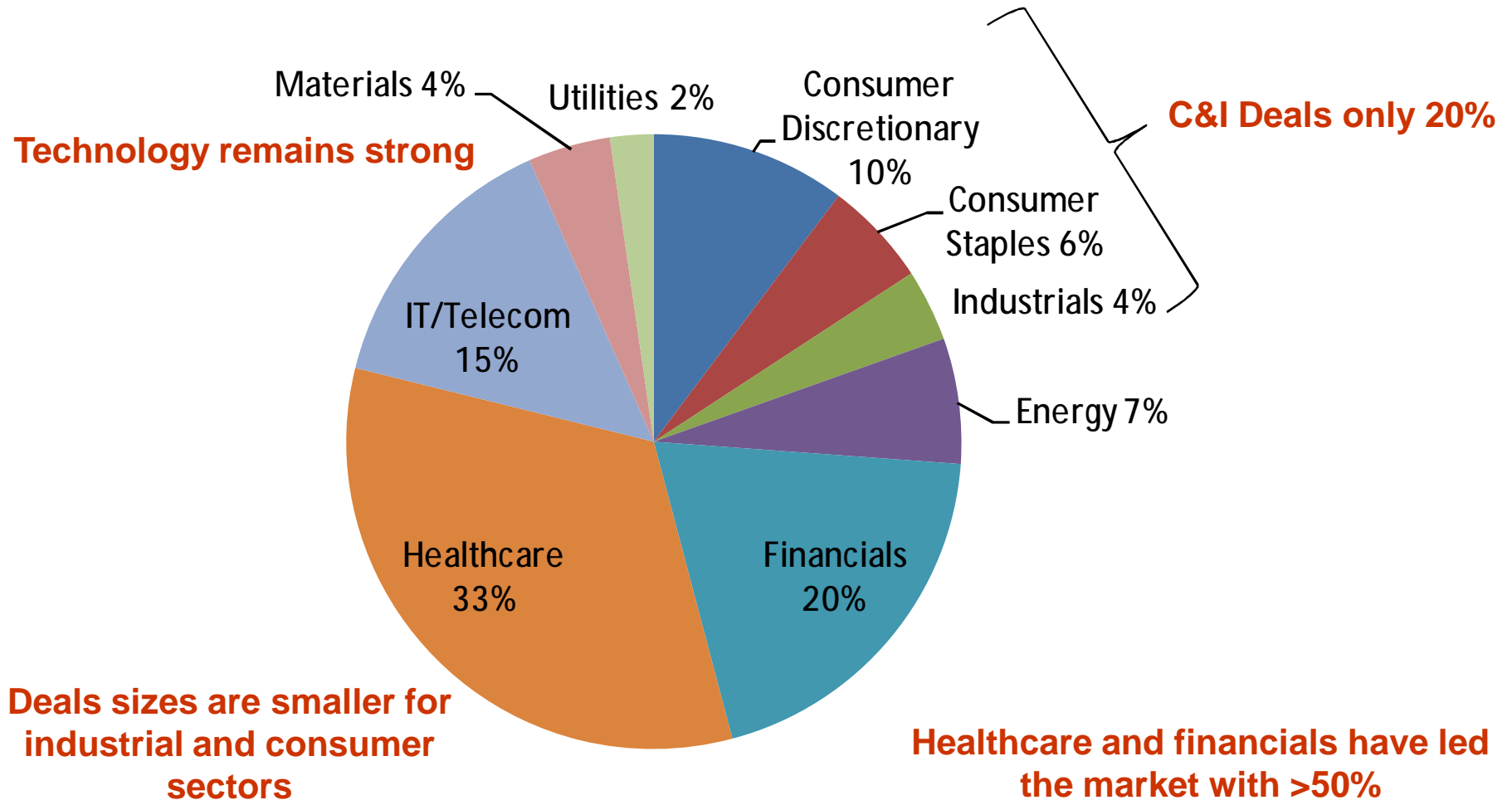
Maximize Value

- audit & tax services
- operations performance
- technology implementation
- SOX readiness/internal audit
- HR/compensation planning
- valuation services

Targets – 2009 Industry Activity



Total \$ Volume of Deals Last 4 Quarters



Source: Capital IQ

Targets 2010 – Private Meets Public

2010 Private Market Trends

Distressed Assets

- **Financial Services**
- Financial Assets
- Real Estate

Consolidation

- Retail
- **Health Care**

Opportunities

- **Technology**
- Energy
- Infrastructure
- Education

Necessity

- Manufacturing
- Automotive

Stimulus Package – Specific Areas *

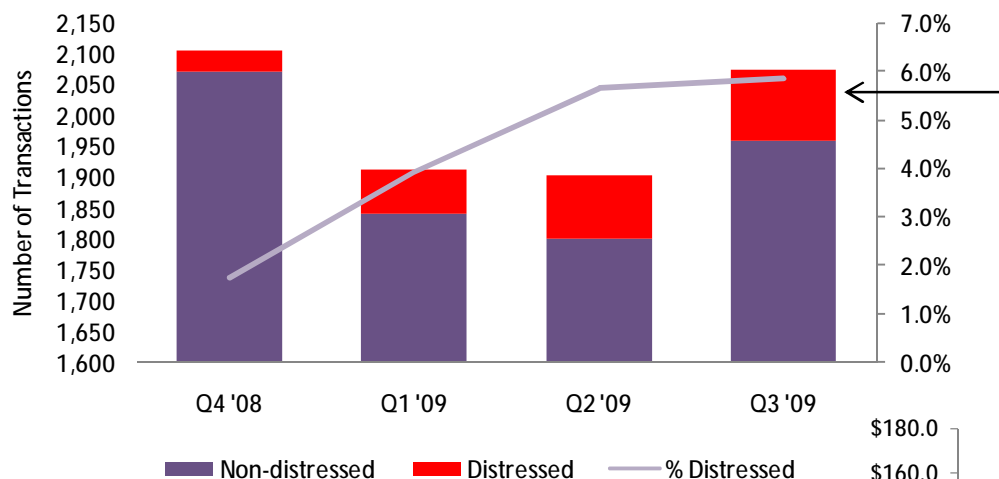
- \$22B School construction
- \$83B Cleantech
- \$20B Renewable energy efficient projects
- \$40B Broadband infrastructure
- \$58B Roads, bridges and mass transit
- \$19B Health IT
- \$11B Modernize electricity grid

** Most dollars not yet spent in these areas*

**M&A shortens “Time to market”
to gain access to stimulus dollars**

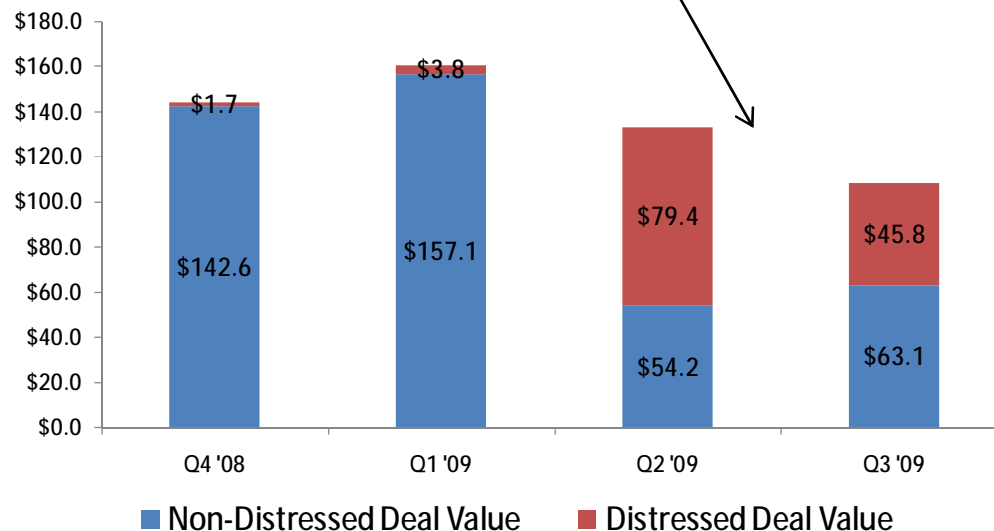
Targets – Bankruptcy Major Shift in M&A Underway?

M&A Activity - Distressed Transactions



Small but growing proportion of deals becoming majority of dollar volume

Deal Values - Distressed vs. Non-Distressed

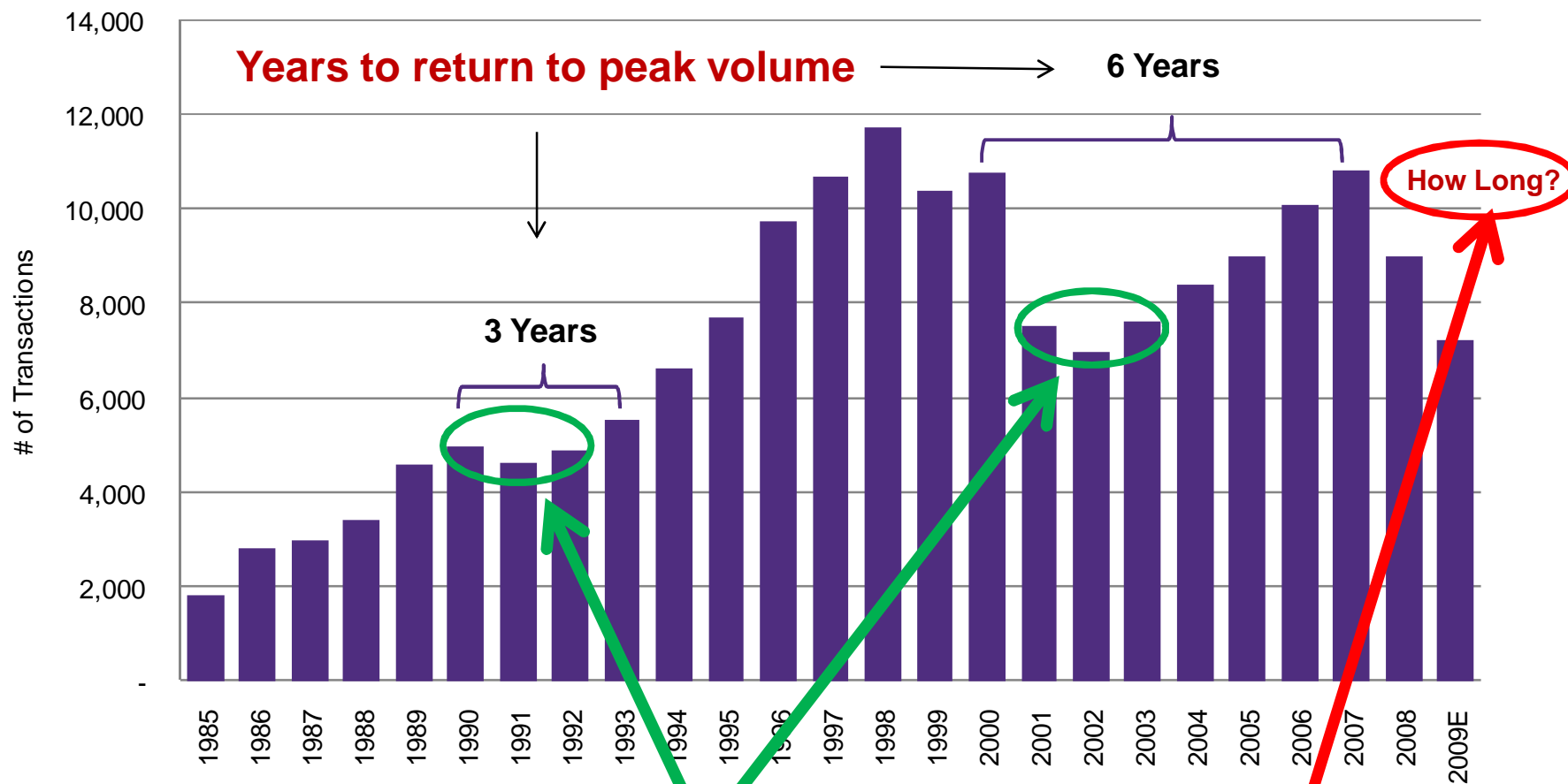


- Importance of Distressed (e.g. Bankruptcy) Deals
- Financial sponsors limited due to current financing markets
- Strategic investors have reentered the M&A market

Source: Thomson ONE Banker

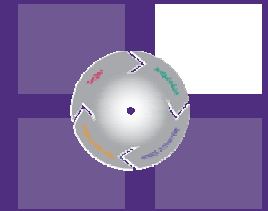
Targets – M&A Middle Market History

of Deals

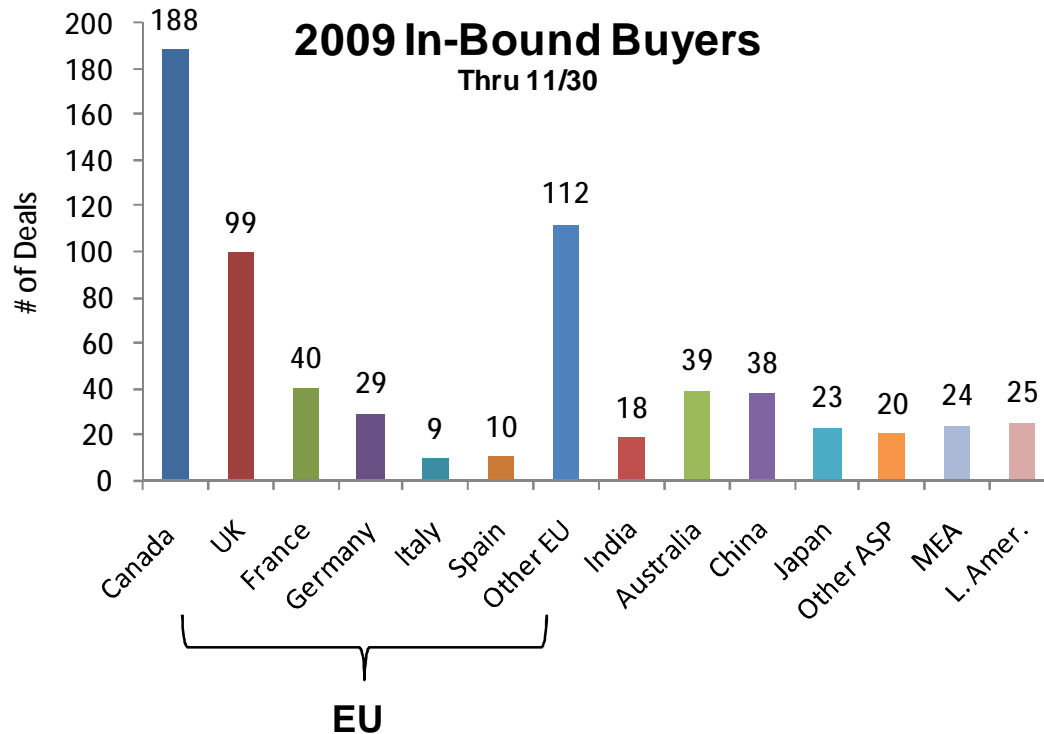


We are past the average 18 month M&A recovery cycle

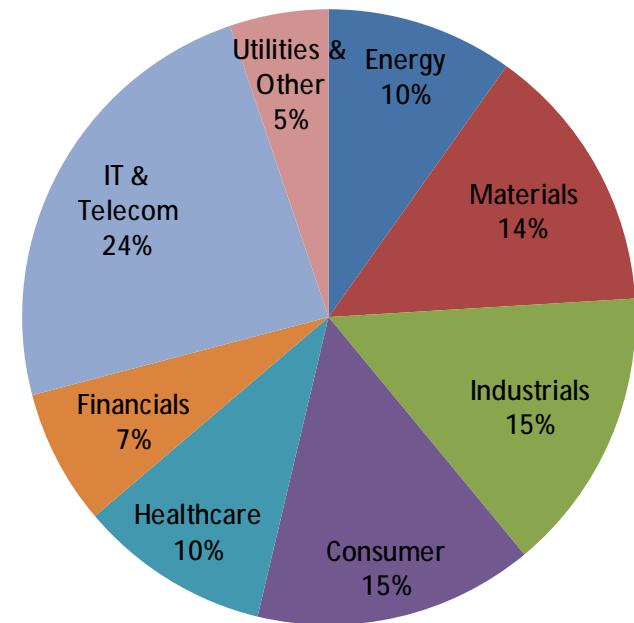
Acquisition – Foreign Buyers



Weak dollar and distressed assets continue to attract foreign strategic buyers



- Canada & UK main buyers of IT
- Australia buyers of energy
- China player in financials
- Mid. East/Afr. buying IT & telecom



- EU (\$38.2B) & Canada (\$10.1B) continue to lead
- \$62.4B of disclosed value – 55% *not disclosed*

Acquisition – What does it take to Close?

Technology Strategic Buyer

“We closed 2 deals in 2009. About 25 went to diligence (1 in 12) and we looked at over 500 (1 in 250). It’s not getting any easier”.

2009 into 2010

Deja Vu

Deal Structures

- Earn-outs and seller paper
- Higher equity components

Process

- Longer timelines & higher transaction costs
- Due diligence - Buy side, sell side & lender

Documentation

- Reps & warranties broader
- Longer indemnification periods

Acquisition – Lack of Debt Favors Strategics with Cash

Failed or Acquired



Remaining Lender Pool



Amend, extend & pretend will continue well into 2010

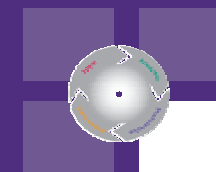
Acquisition - Bankruptcy Opportunities

Bankruptcy or “Distressed” opportunities will likely be a major M&A market force over the next 24 months

Section 363 Sales

- **Public auction**
 - **Assets sold in pieces**
 - **“Stalking Horse” bidder - receives break up fee and bid protection**
 - **Timing: 30-60 days from filing for bankruptcy**
-
- Goal of bankruptcy: **Cleanse the assets** – sold **“free and clear”** of essentially all liens, claims, and liabilities (few exceptions: i.e., environmental)
 - Process is **complicated** and moves **quickly** – good value can be obtained but need to secure advisors to execute

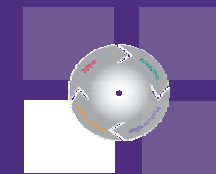
Maximize Value – Restructuring is Central



Restructuring need	Area of emphasis	Outcome
Balance Sheet	<ul style="list-style-type: none">ü AR - concentrationsü Inventory - obsolescenceü PP&E - utilization	Lender ready
Operational	<ul style="list-style-type: none">ü Supply chain – risk managementü Floor plan - optimizationü Procurement - consolidationü Distribution - outsource	Cost control
Strategic	<ul style="list-style-type: none">ü Product lines - rationalizeü Markets - exit or expandü Customers - profitability	Competitive advantage

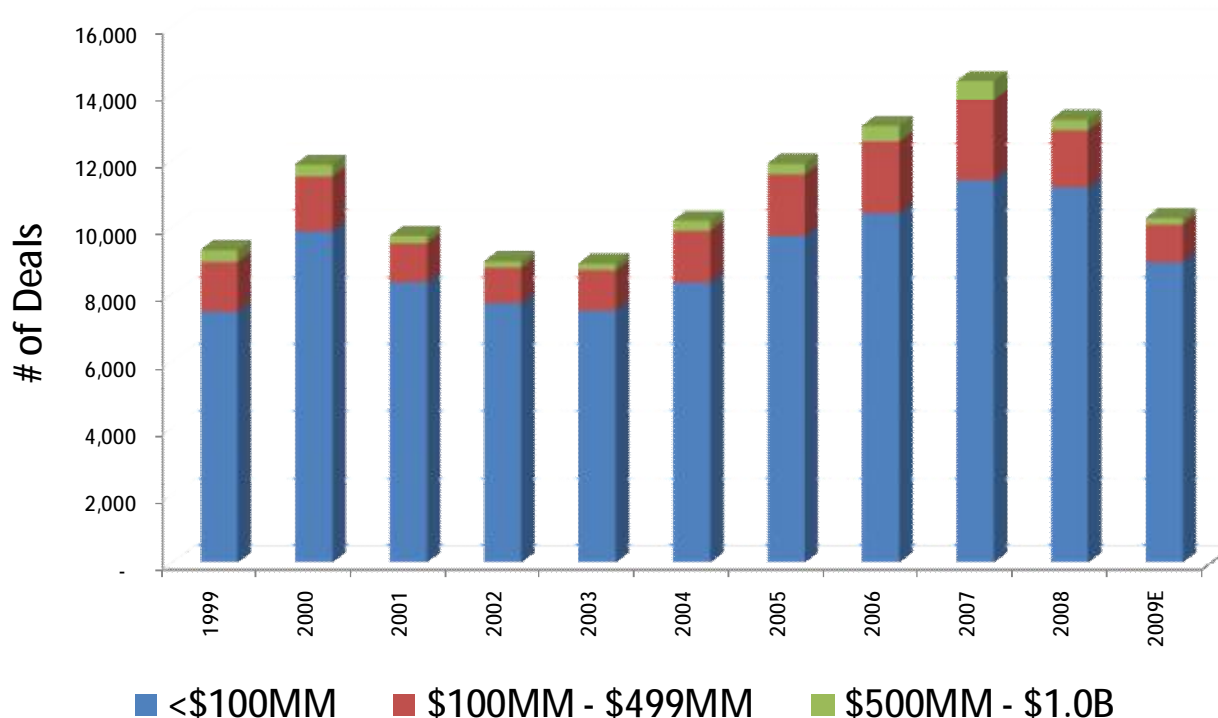
Most companies need restructuring in at least 2 of 3

Harvest Profits – Where are the Buyers?



Global Middle Market M&A Activity

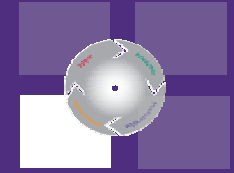
2010 Exits



- Strategic appetite continues to grow and likely will lead 2010
- Sponsor-to-Sponsor transactions to return slowly
- IPO market limited

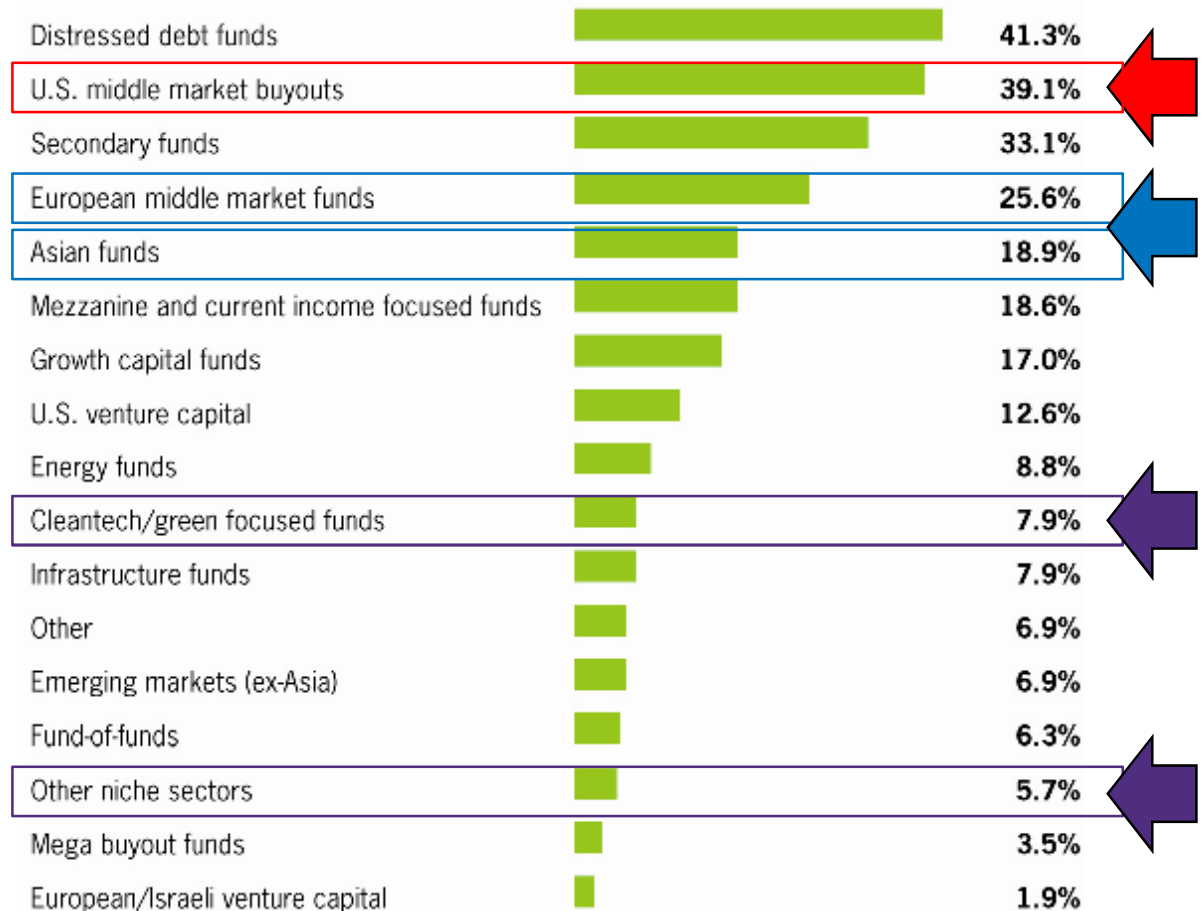
Source: Capital IQ

Harvest Profits – Private Equity Competition



- *“Middle market private equity shops are going to be the winners.”* – Josh Lerner, Harvard Business School
- **Mid-market expected to fare better**
- **In-bound buyers**
- **Industry Niches**

Figure 17
Areas of LP interest



Summary for 2010

Highlights

- Pent up demand and supply
- Credit market sensitive
- More **asset deals** and carve-out
- Companies facing **restructuring**
- Conditions favor **strategic buyers**
- Due **diligence** and merger integration/restructuring telescoped
- Valuation of **hard assets** is fundamental to be lender ready
- Time is of the essence but required **due diligence** is multifaceted
- Deleveraging will continue resulting in breaking companies into pieces

Market Indicators

- Investment banks pipeline up
- Sell-side activity up
- Demographics of supply favor volume
 - Privately held businesses
 - Private Equity funds

Light at the end of the tunnel...just not sure how the long tunnel is