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# M&A Markets Update

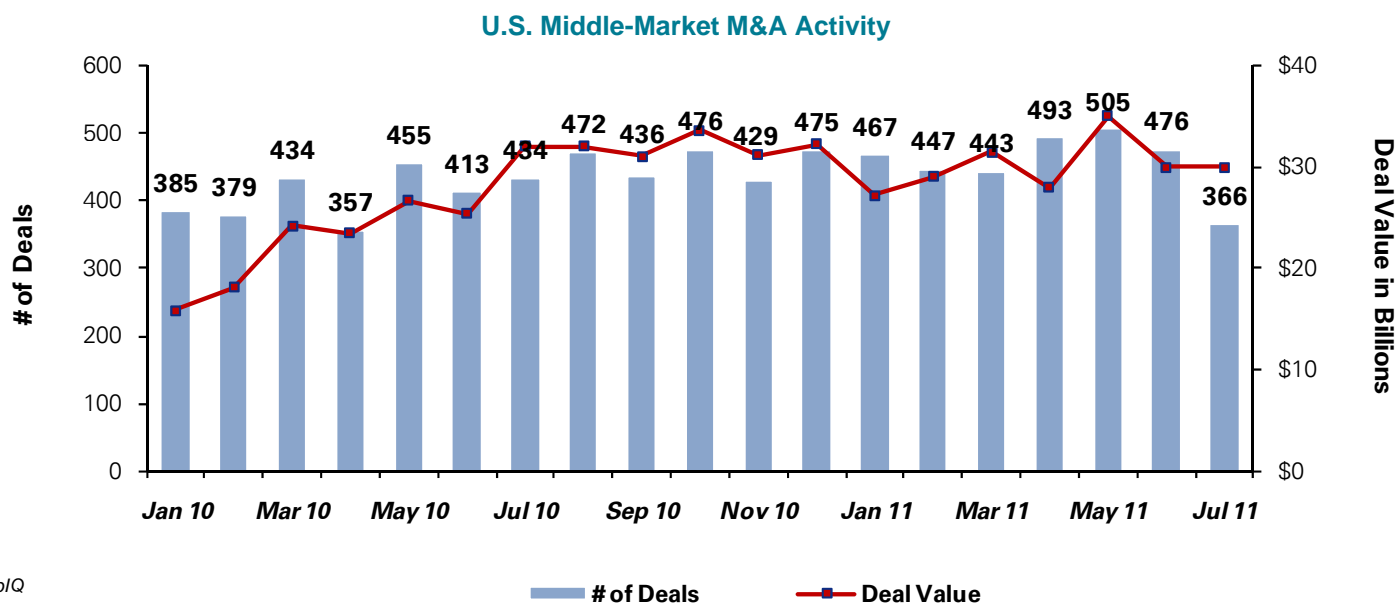
KPMG Corporate Finance LLC

August 2011



## U.S. middle-market M&A overview (financial and strategic buyers)

- The U.S. middle-market (less than \$1B) experienced a robust recovery in 2010 with deal count of 5,145 which represented a 59% increase over the 2009 level.
- The surge at the end of 2010 was largely due to the anticipated capital gains tax increase. This was followed by a quiet period in the early part of 2011 and an acceleration in M&A activity in the Spring. However, the momentum appears to be waning.

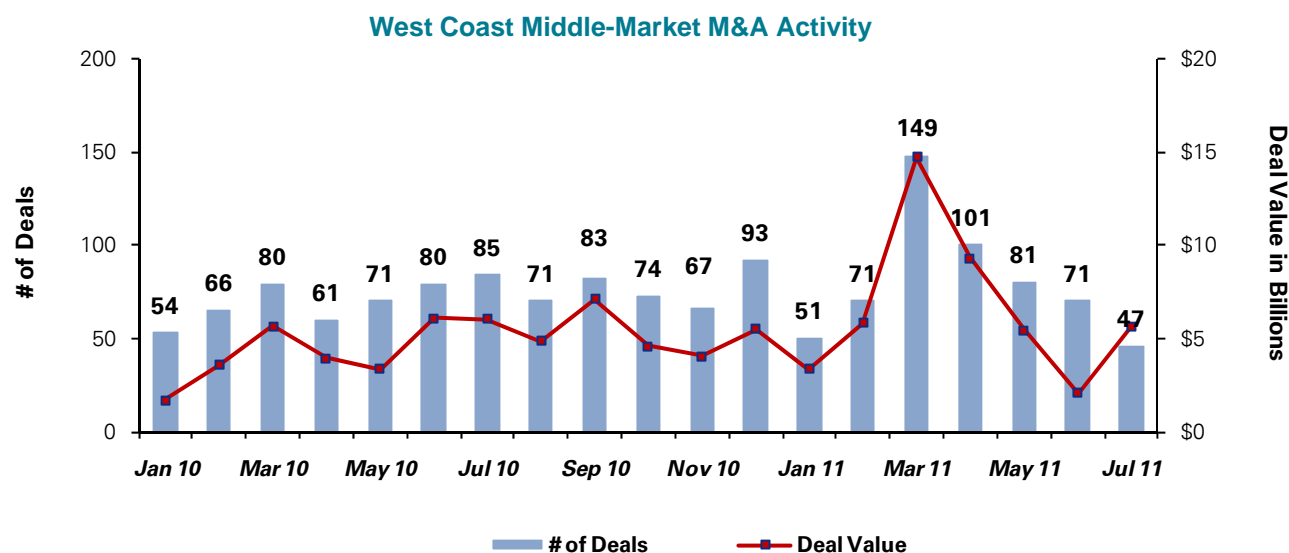


Source: CapIQ

Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion.

## West Coast middle-market M&A (financial and strategic)

- West Coast middle-market M&A activity saw a sizable increase in the first half of 2011 with a 27% increase in the number of deals closed and a 67% increase in deal values compared to the first half period of 2010.
- However, 253 transactions were announced in Q2 2011 which represented a 7% decrease compared to Q1 2011 and a modest slow down measured by deal value.



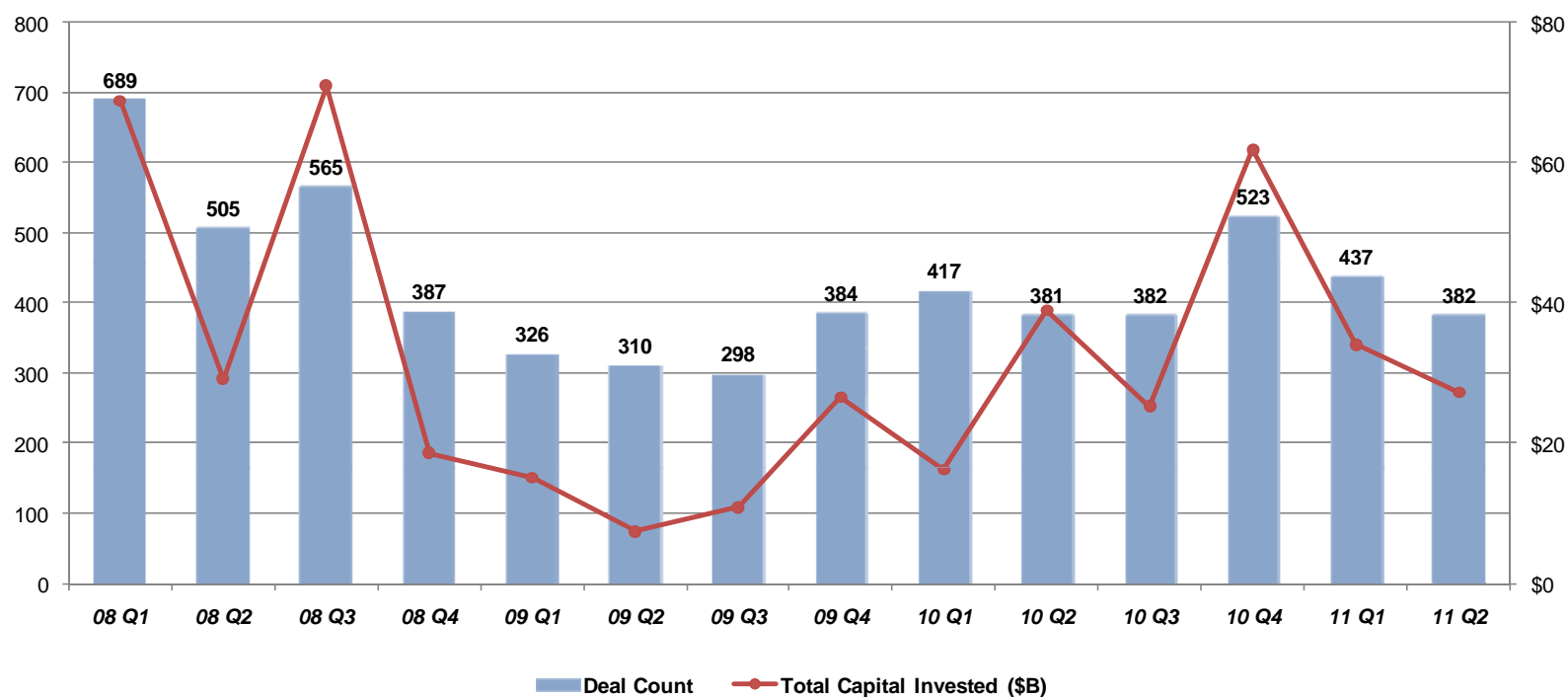
Source: CapIQ

Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion.

# Private equity M&A and capital invested

- 1H 2011 best start to year since 2008.
- 2011 capital invested continues an upward trend compared to 2010 but appears to be decelerating .

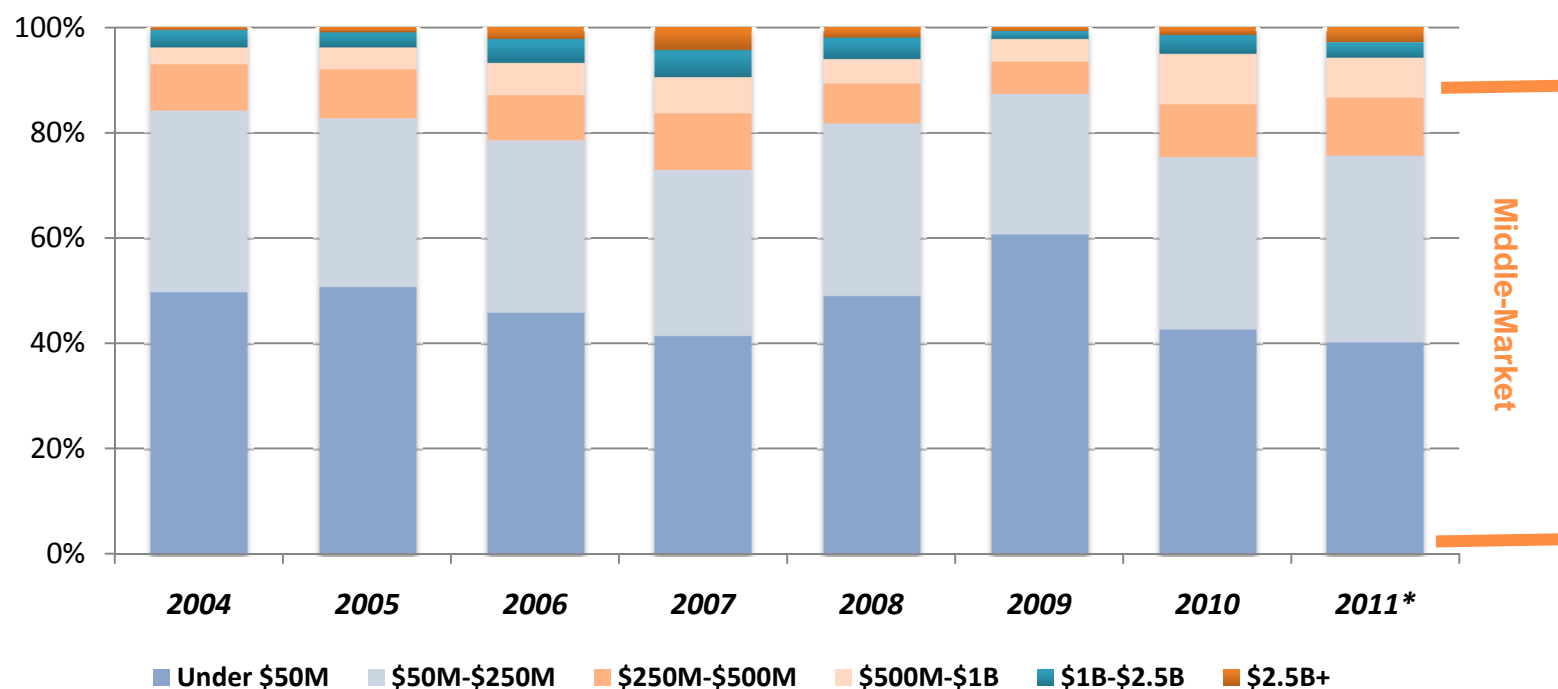
Number of Deals Closed and Total Capital Invested by Quarter



Source: PitchBook

## PE activity by transaction value size

- Private equity continues to be dominated by lower- and middle-market investments, with deals under \$250 million accounting for 75% of total deal flow.

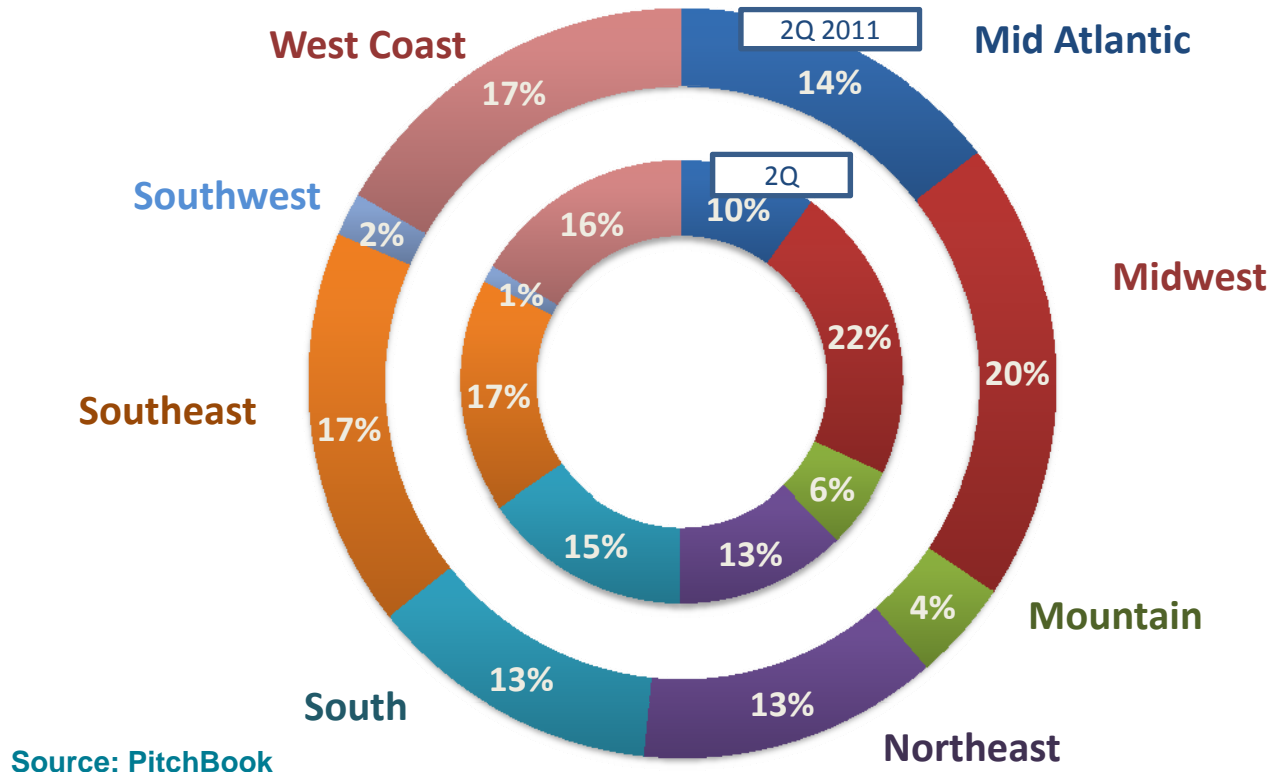


Source: PitchBook

\*Through 2Q 2011

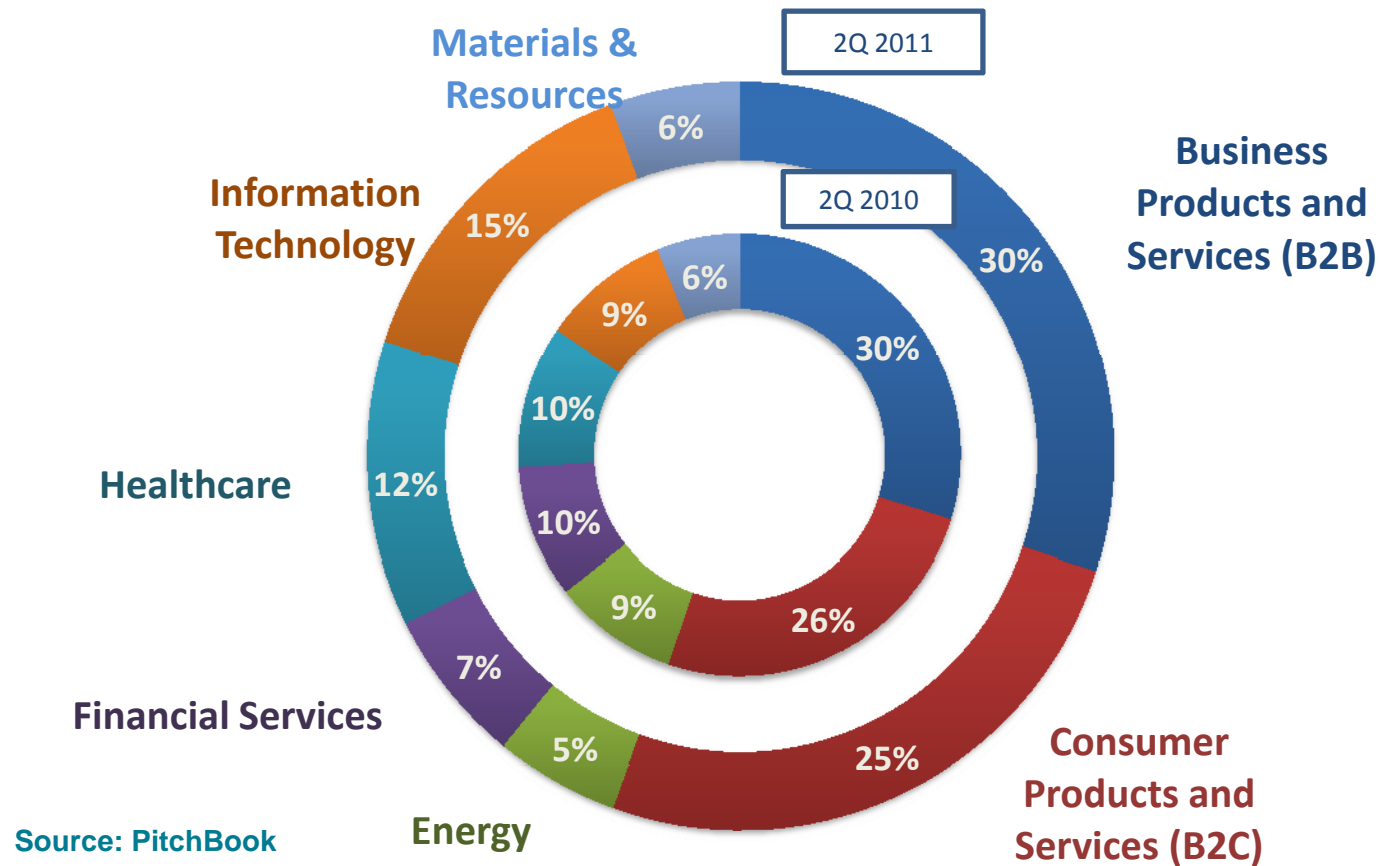
# PE transactions by region 2Q 2010 vs 2Q 2011

- The most popular regions continue to be the Midwest and Southeast (37%), but the West Coast and Mid Atlantic regions (31%) are close behind.



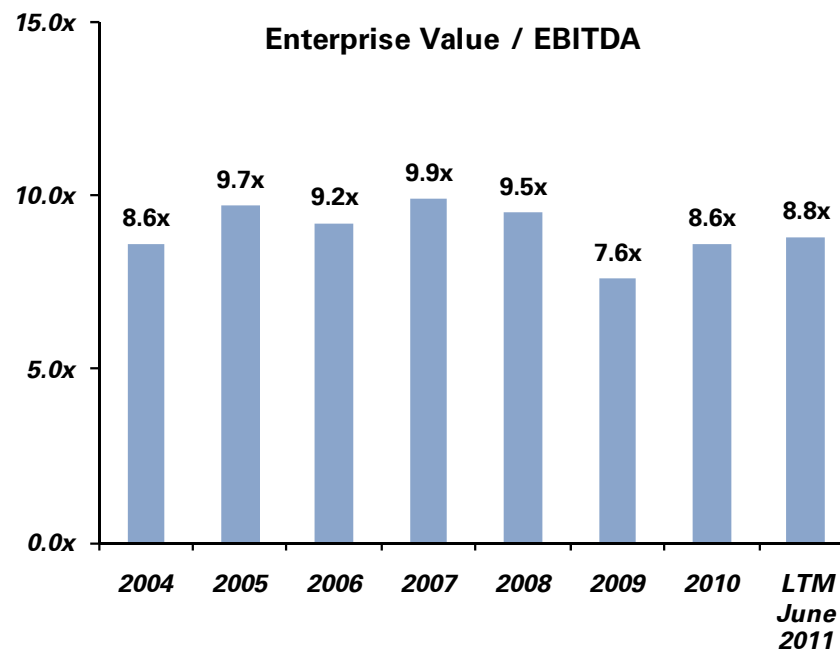
# PE transactions by industry sector 2Q 2010 vs 2Q 2011

- The IT Industry saw its share of deal flow increase from 9% to 15% and invested capital rise from \$1.8 billion in 2Q 2010 to \$7.2 billion in 2Q 2011.



## U.S. middle-market valuation

- U.S. middle-market valuation levels experienced an impressive rebound in 2010; the median EBITDA transaction multiple increased from 7.6x in 2009 to 8.8x LTM June 2011.
- A major catalyst was the return of cash flow lenders to the buyout market.



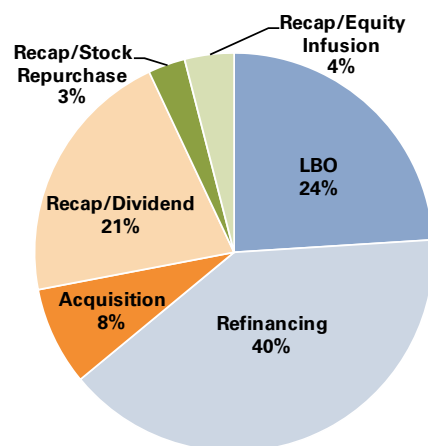
Source: S&P LCD, CapIQ

Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion.

## U.S. middle-market M&A financing

- Refinancings (49%) followed by LBO's (24%) and dividend recaps (21%), represented the majority use of proceeds of new debt issuances in Q2.
- Lending standards and terms continued to ease, reflecting a gradual return toward pre-melt down conditions.

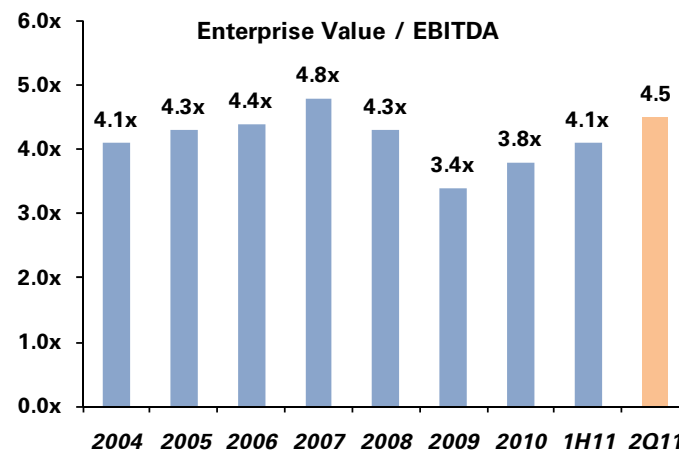
2<sup>nd</sup> Quarter 2011 Total New-Issued Volume  
(\$4.06 Billion)



Source: S&P LCD

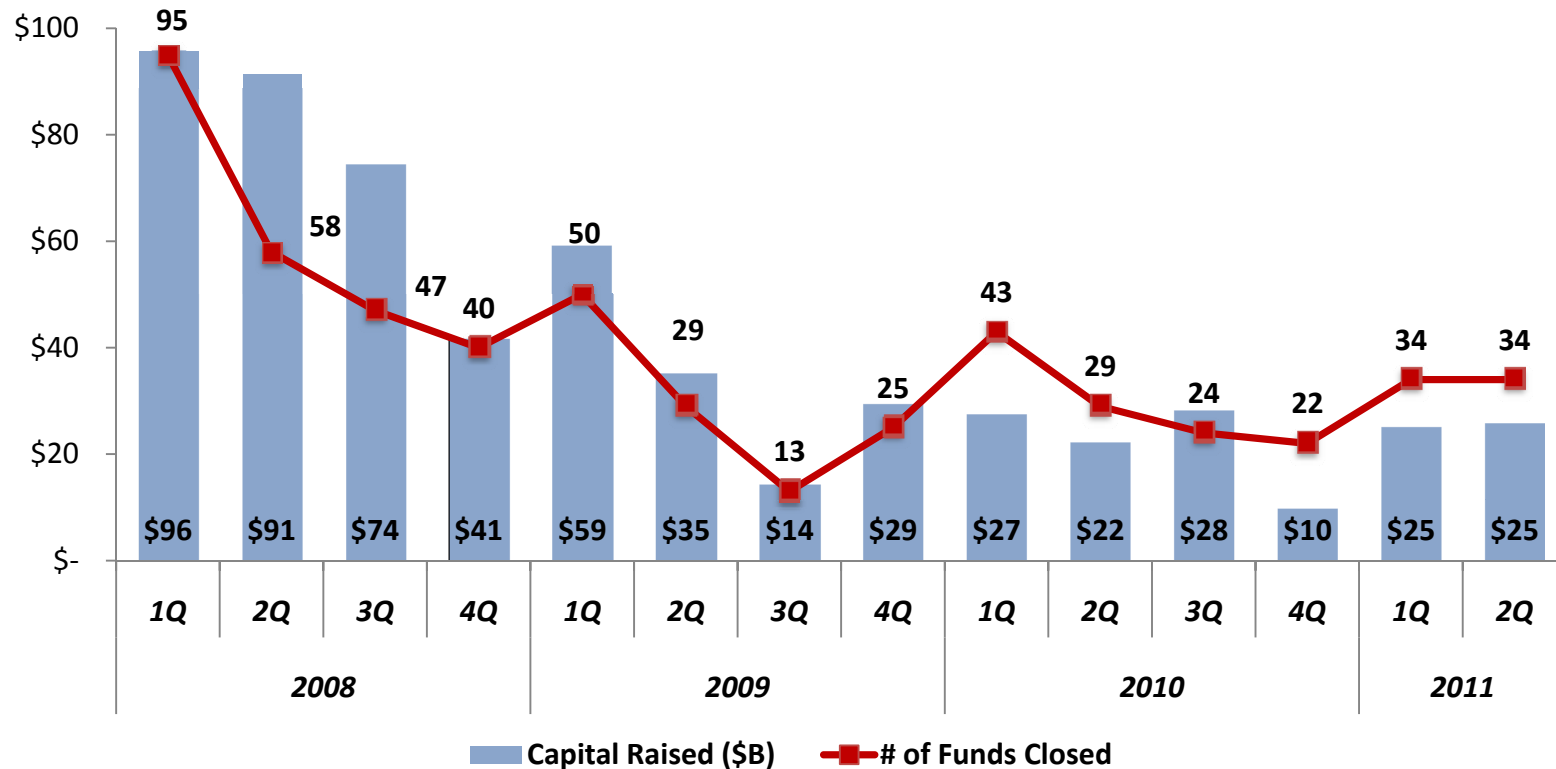
Note: Defined as Issuers with EBITDA of \$50 Million or Less.

Debt Multiples of Middle-Market Loans (total debt)



# PE fundraising activity

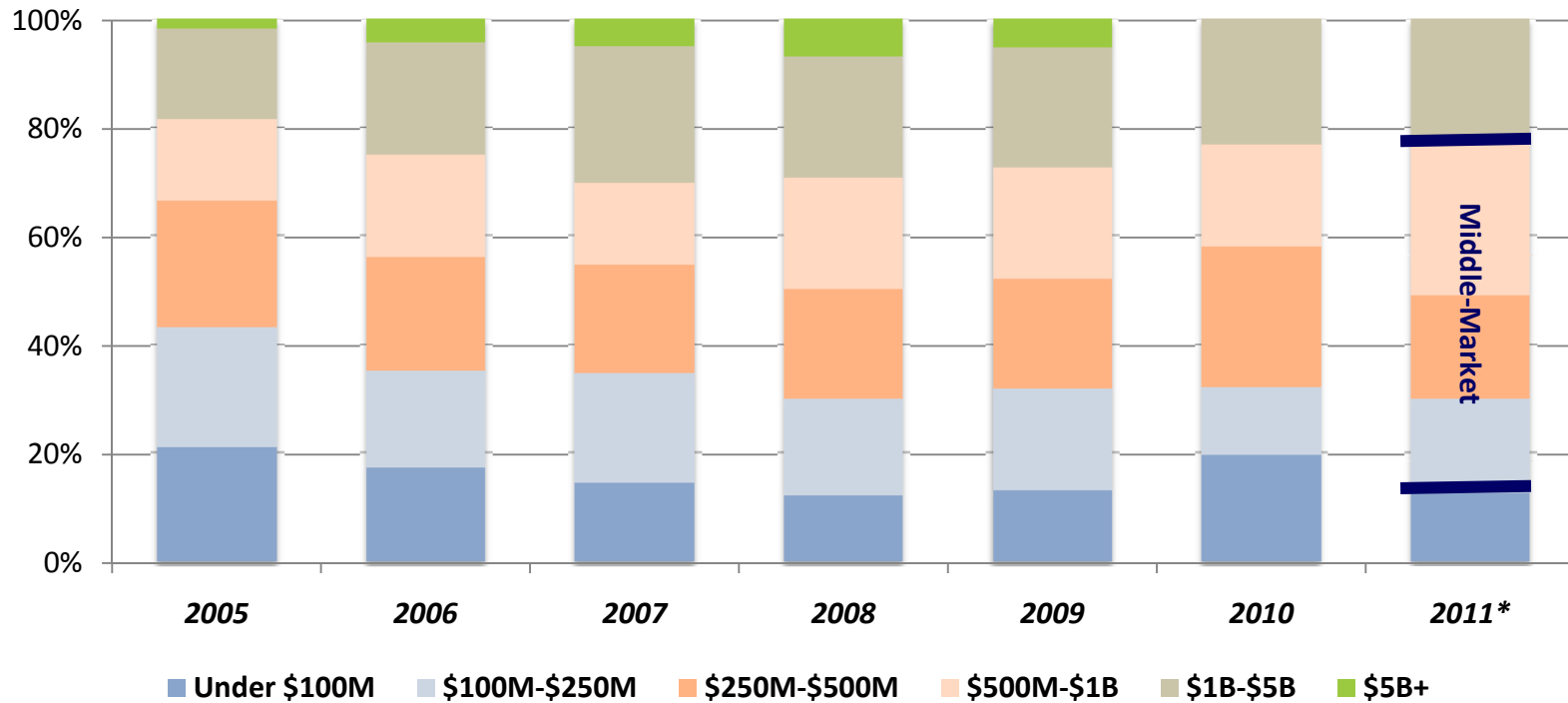
- PE fundraising on track to top 2010.
- Total capital raised in 2Q 2011 held steady from the first quarter and increased 15.7% from the same period last year.



Source: PitchBook

# Middle-Market raising majority of funds

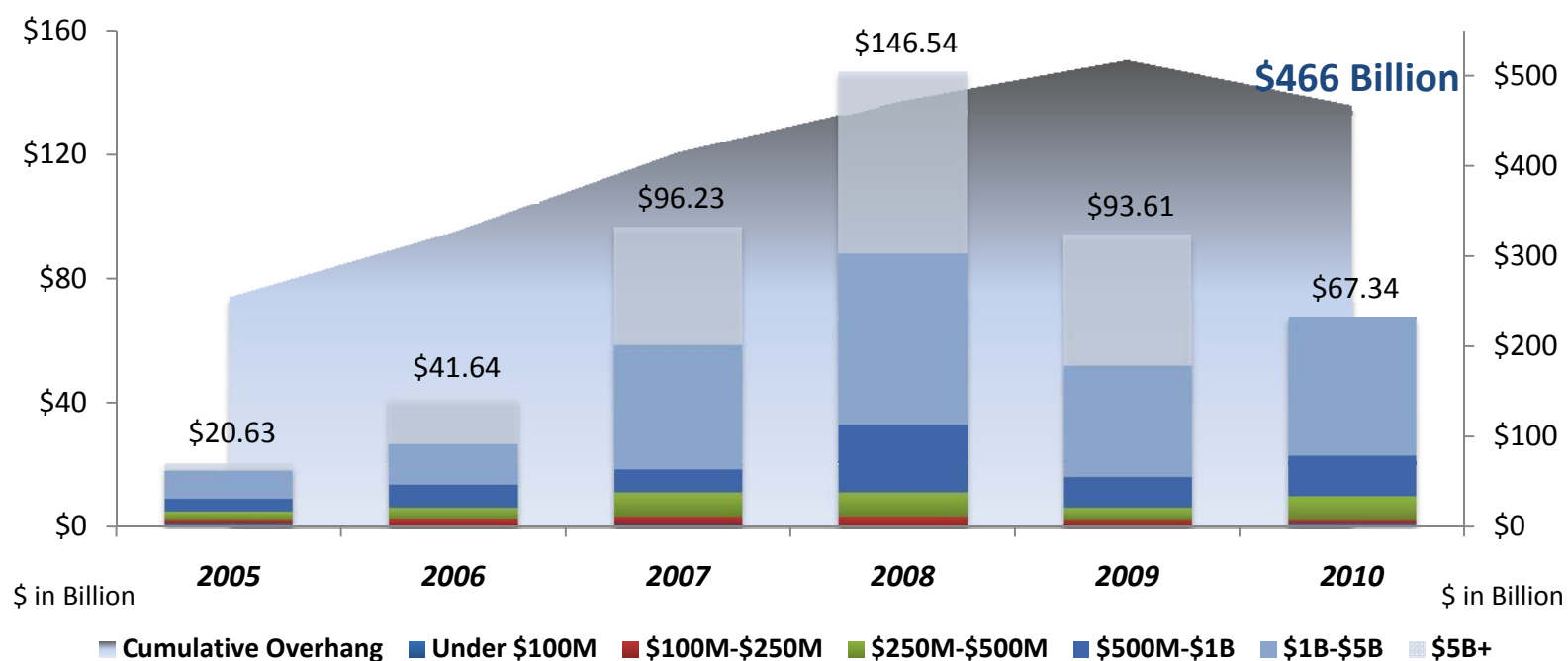
- Middle-market fundraising continues to outpace activity at the upper end of the market as no funds above \$5 billion held a close during the quarter.
- The median fund size for funds closed in 2Q 2011 was \$456 million.



Source: PitchBook

## Significant equity capital overhang

- PE investors sitting on \$466B of “dry powder”.
- Strategic acquirers are holding an additional \$1.1 trillion in investable cash.



Source: PitchBook

## Outlook - conclusion

- **Fierce competition to invest the \$1.6 trillion of “dry powder” in quality deals is anticipated to sustain M&A volume and support healthy valuations through 2011.**
- **While the debt environment surrounding the middle market has improved, smaller middle market deals tend to be more difficult to finance and the situation still remains uncertain for deals where the target company’s EBITDA is less than \$10 million.**
- **Recent volatility in the US capital markets and political landscape coupled with a looming European economic restructuring, create strong headwinds that could derail our M&A recovery.**

# Ricardo S. Chance

## Managing Director – Pacific Southwest Region and Special Situations



**Ricardo S. Chance**

*Managing Director and Group Head, Special Situations*

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### Function and Specialization

Pacific Southwest regional coverage, mergers and acquisitions, divestitures, financings, special situations and restructurings

### Education, Licenses & Certifications

- Bachelor of Commerce, McGill University, Montreal, Canada
- MBA, University of California, Los Angeles, California
- General Securities Representative (Series 7)
- Registered Principal (Series 24)
- Securities Agent (Series 63)
- Investment Banking Representative (Series 79)

### Background

Rick joined KPMG Corporate Finance in 2006. He has over 20 years of experience in corporate finance, domestic and cross-border mergers and acquisitions, divestitures, private equity investments, financings, valuations, strategic assessments and corporate restructurings.

Rick provides investment banking advice to both high growth and underperforming companies seeking to maximize shareholder value and/or optimize their capital structure. He represents clients in a wide range of industries including automotive, business services, consumer markets, financial services, industrial markets, real estate and technology.

### Professional and Industry Experience

Prior to joining KPMG Corporate Finance, Rick was a Managing Director at BDO Capital Advisors where he led the firm's western region M&A practice. Prior to this period, he held senior management positions for various divisions of the Blackrock Group, where he built and managed an advisory team, raised private equity and debt capital, and sourced and executed acquisitions.

In connection with Rick's professional activities, he has authored and been quoted in numerous national and regional publications, including The Wall Street Journal, The Daily Deal, Dow Jones, Bloomberg, Corporate Finance Week, ABF Journal, The M&A Advisor, and the LA Times. Rick is also a member and frequent speaker at various professional organizations, including the ABI, TMA, CBF, and Provisors.

### Representative Transactions

- Advised Anajet on its sale to Chicago Growth Partners
- Advised MMFX Technologies on its Plan of Reorganization sponsored by Fourth Third Capital
- Advised Facil on its acquisition of Flexalloy, an Acument division and Platinum Equity portfolio company
- Advised Fremont General on its Plan of Reorganization sponsored by Signature Capital
- Advised Caprius on its take private transaction sponsored by Vintage Capital
- Advised A. Raymond et Cie on its acquisition of Tinnerman Palnut Engineered Products
- Advised Lloyds Bank on the sale of a senior note to Varde Capital
- Advised Stravina, a portfolio company of American Capital on its sale to Marlin Equity
- Advised Mitsubishi Heavy Equipment on several acquisition targets
- Advised MKA Capital on its out-of-court-restructuring
- Advised Concordia Homes on its out-of-court restructuring
- Advised Second Chance Body Armor on its sale to Armor Holdings
- Advised Pillowtex on its sale to GGST
- Advised Bike on its sale to Russell Athletic
- Advised Napster on its sale to Roxio



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