Wisconsin Dealmakers More Optimistic About M&A Environment

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ACG-Thomson Reuters Mid-Year 2010 DealMakers Survey Reveals Obstacles and Opportunities for M&A and Private Equity Investing

MILWAUKEE, May 7, 2010 – After 18 months of pervasive gloom, dealmakers from Wisconsin are increasingly more positive about the M&A environment, according to the twice yearly ACG-Thomson Reuters DealMakers Survey.

The latest survey results reveal a sunnier sentiment about the dealmaking environment. While the last three surveys were consistently dreary, with more than 80% of dealmakers reporting a fair to poor M&A environment, the most recent survey reports that 91% of Wisconsin dealmakers expect an increase in M&A activity in the next six months.

"The M&A market is clearly getting stronger," said Ronald Miller, ACG – Wisconsin President and Managing Director at Cleary Gull Inc. "The lending market is slowly beginning to rebound and both strategic buyers and financials buyers are actively looking for acquisitions."

According to Thomson Reuters, the volume of all worldwide mergers and acquisitions totaled $573.3 billion during the first quarter of 2010, a 21% increase over the first quarter of 2009.

Eighty-eight percent of survey respondents identified the current environment as a buyer's market. 95% expect strategic investments to accelerate in 2010.

While the overall tone of the survey results were positive, survey respondents acknowledge several headwinds that must still be overcome. A significant drag on M&A activity today is the credit crunch, according to 32% of dealmakers. This is equal in importance to the perceptions on the part of potential buyers that sellers are unwilling to sell at multiples offered (also 32%).

The survey, by the Association for Corporate Growth® and Thomson Reuters polled investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in March and April 2010.

Dealmakers expect the following sectors to experience the most merger activity in the second half of 2010:

- Manufacturing and Distribution (48%)
- Business Services (23%)
- Financial Services (5%)
- Healthcare/Life Sciences (5%)

They expect the following sectors to experience the most organic growth:

- Manufacturing and Distribution (29%)
- Government-Related (20%)
- Business Services (15%)
- Healthcare/Life Sciences (12%)

Private Equity Strategies for Success

Private equity professionals across the country say the best strategy for success in the current environment is:

- Focus on portfolio companies (57%)
- Focus more on deal sourcing/marketing (47%)
- Proactively communicate with LPs (45%)

They say the best strategies for portfolio company success are:

- Cut costs (59%)
- Focus more on marketing (44%)
- Diversify by industry (25%)

Private equity executives say that this year they expect the majority of their portfolio companies to experience:

- Job growth (30%)
- Job cuts (7%)
- Same staffing levels (63%)

In the past 12 months, 35% of private equity firms say they have marked down their portfolio company values, 43% have held values steady, and 22% have marked them up.

Portfolio companies are showing signs of improvement. Seventy-four percent are performing above their prior year EBITDA, while 26% are performing below last year's EBITDA.

Industries that present the best opportunities for buyouts are:

- Business Services (32%)
- Healthcare/Life Sciences (19%)
- Manufacturing and Distribution (15%)

Industries that present the best opportunities for distressed investing are:

- Manufacturing and Distribution (41%)
- Financial Services (17%)
- Real Estate (15%)

"As the economy improves, the business services sector is expected to gear up quickly to help companies grow, while real estate, finance and manufacturing present good opportunities for distressed investing," said Jim Beecher, publisher of *Buyouts,* a Thomson Reuters publication.

Private Equity Professionals Forecast Increasing Leverage Levels

Private equity professionals are optimistic that the debt markets will continue to rebound, with 73% saying they will improve over the next six months, 22% saying they will remain the same and only 5% saying they will worsen.

Respondents say the maximum leverage level in today's environment is:

- 1-2x (14%)
- 2-2.5x (38%)
- 2.5-3x (32%)
- 3-3.5x (12%)
- More than 3.5x (4%)

Most private equity professionals (52%) expect leverage levels to increase in the next six months, but at the same time, more than half (55%) expect to invest 40% or more equity in companies in the next six months.

Some 53% of private equity respondents are concerned about the public's perception of private equity. This is an increase from 47% in December 2009.

Three quarters of private equity firms are concerned about a draft U.S. bill that would require advisors of private equity funds and hedge funds to register with the SEC, thus forcing more disclosure to regulators and investors.

"Middle market private equity firms play a vital role in our economy, adding financing and strategic assistance to help companies grow and add jobs," said Gary A. LaBranche, CAE, ACG President & CEO. "As we move beyond the recession, it is essential that policy makers support the efforts of private equity firms, corporations and capital providers to put investments to work to grow jobs and support the economic recovery."

Survey Methodology

The twice-yearly survey, conducted in March and April 2010, was completed by 681 ACG members and Thomson Reuters customers, including 41 from Wisconsin. Respondents from Wisconsin were comprised of private equity, venture capital and buyout firm members (10%); investment bankers, intermediaries, brokers (22%); lenders, finance providers (7%); corporate professionals, entrepreneurs (32%); limited partners (0%); and service providers, such as lawyers, workout specialists, accountants and consultants (29%). For a copy of the full survey results, please go to: www.acg.org.

About ACG

The Association for Corporate Growth (ACG) is the global community for middle market M&A dealmakers and business leaders focused on driving growth. ACG members have access to data, content and networking to access capital, make deals and drive corporate growth. Founded in 1954, ACG has grown to more than 13,000 members organized in 54 chapters throughout North America, Europe and Asia. For more information, please visit http://www.acg.org/wisconsin

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