

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

MARKET MONITOR

FINANCING UPDATE



2ND QUARTER 2011

CAPITAL MARKETS ARE OPEN FOR BUSINESS

Slow Growth Ahead

Although GDP increased only 1.8% during the first quarter of 2011, the Federal Reserve Bank of Philadelphia survey of economists expects GDP to grow 2.7% for all of 2011. This growth rate would be higher than 2010 but lower than typical recoveries.

The unemployment rate has begun to decline slowly. However, housing is unlikely to improve anytime soon and has historically been an important contributor to job creation in recoveries.

On the positive side, the U.S. trade balance declined slightly in April to \$43.7 billion compared to \$46.8 billion in March. The weaker dollar made goods from the U.S. less expensive overseas while exports climbed in price as demand rose in developing countries. U.S. exports increased 18.8% in April compared to the same period a year ago.

KEY U.S. INTEREST RATES

	6/14/2011	12/31/2010	12/31/2009
3-Month T Bill	0.05%	0.12%	0.06%
2-Year UST	0.41%	0.61%	1.14%
5-Year UST	1.58%	2.06%	2.69%
10-Year UST	2.99%	3.38%	3.85%
30-Year UST	4.18%	4.43%	4.63%
EUR/USD	\$1.41	\$1.33	\$1.43
1-Month LIBOR	0.19%	0.26%	0.23%
6-Month LIBOR	0.39%	0.46%	0.43%
Prime	3.25%	3.25%	3.25%

Source: Capital IQ, St. Louis Fed

Healthy Markets Have Returned

How rapidly times can change. Almost no one predicted the depths of the 2009 recession. Corporate profits tumbled, the stock market collapsed and the banking system nearly failed. Without a government bailout, we might have faced another great depression.

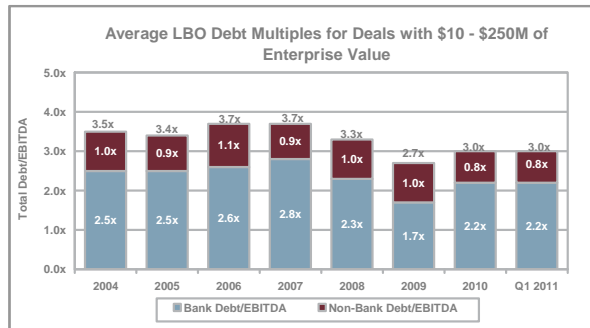
In less than two years, the stock market has recovered, the credit markets are healthy, the M&A market is strong and the IPO market is drawing comparisons to the 2001 internet bubble.

Liquidity has returned with banks. Corporations and financial buyers are sitting on record amounts of cash looking for acquisitions or other ways to deploy their capital.

However, we have all learned that markets do not stay open forever, the outlook is not always positive and, in some periods of time, the simplest of transactions can prove very difficult to consummate. Additionally, with the presidential election talk beginning, uncertainty is likely to increase in 2012.

If you or one of your clients are considering a capital markets transaction – whether an acquisition, debt recapitalization or sale – the capital markets are clearly open for now.

DEBT MULTIPLES HAVE STABILIZED



Source: GF Data Resources

M&A Lending Remains Strong

Debt market support for lower middle-market M&A transactions (enterprise values less than \$250 million) remained stable in the first quarter of 2011 compared to 2010. Average total debt/EBITDA multiples stayed at 3.0x during the first quarter of 2011, the same ratio as the average during 2010. Average senior debt/EBITDA also remained the same at 2.2x in the first quarter of 2011 and 2010.

Averages can be deceiving. For a “sponsored” M&A transaction, we are often seeing senior debt for companies with less than \$10 million in EBITDA in the range of 2.25x to nearly 3.0x EBITDA. For companies with EBITDA greater than \$10 million, senior debt can be 3.0x to 3.5x.

Although the averages are lower, total debt can reach as high as 3.5x to 3.75x EBITDA for companies with less than \$10 million in EBITDA and 4.0x, to even 4.5x, for companies with greater than \$10 million in EBITDA.

M&A Volume Declined in Q1 2011

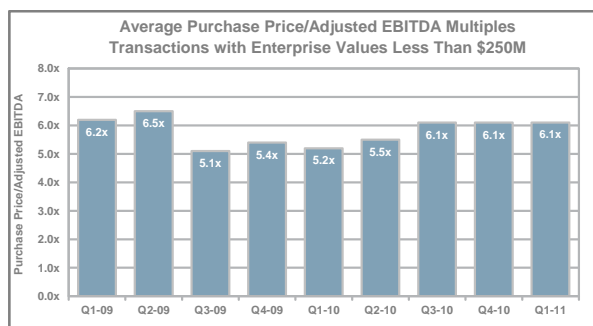
The first quarter of 2011 saw a noticeable decline in M&A volume compared to the fourth quarter of 2010, after five consecutive quarters of increased middle-market deal activity.

According to Robert W. Baird, the number of middle-market transactions for the first four months of 2011 was 7.2% below the same period of 2010 and, on an annualized basis, was 9.0% below full year 2010 results.

Despite the weak beginning to 2011, most deal experts expect a trend of increasing deal volume during 2011 with year-end totals rivaling 2010 levels.

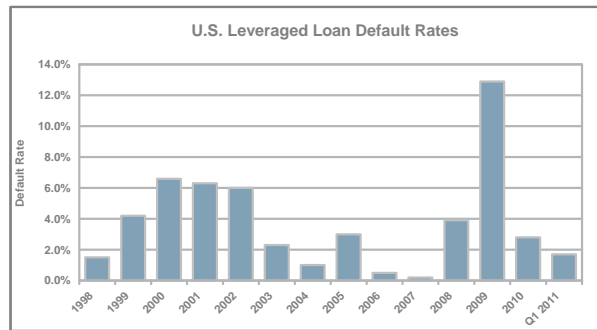
Average EBITDA purchase price multiples reported for transactions with enterprise values less than \$250 million remained stable at 6.1x, the same multiple as all of 2010. Improved company performance, extended private equity hold periods and entrepreneurs looking for liquidity should drive M&A volume in 2011 and into 2012.

“REPORTED” PURCHASE PRICE MULTIPLES REMAIN SOLID



Source: GF Data Resources

DEFAULT RATES ARE DECLINING



Source: Moody's Investors Service

Current Loan Volume Strong; but Europe (Greece) is a Wild Card

The leverage loan market remains strong. According to Standard & Poor's LCD, total U.S. leveraged buyout loan volume during Q1 2011 was \$30 billion compared to \$85 billion for all of 2010. Although well below 2006-2007 activity levels, the current volume is very strong.

The default rate for U.S. speculative-grade issuers has dropped dramatically. Moody's now forecasts that the default rate will reach 1.5% by December 2011, down from more than 12% in 2009.

Although U.S. corporate fundamentals are strong and improving, borrowers should watch the European sovereign debt situation carefully. If Greece (and/or other European countries) restructures its debt, the capital adequacy of many European banks potentially could be called into question leading to a global credit crisis. Although recent events suggest that this is not imminent, borrowers should keep an eye on developments in Europe.

Highly Competitive Pricing

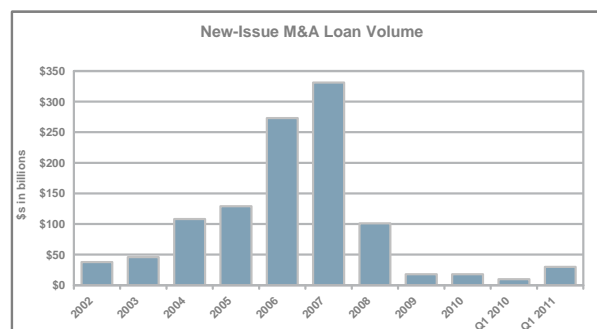
With reduced loan outstandings, banks are becoming very aggressive in pricing their credits, well below their non-bank competitors.

Banks are typically quoting credits at LIBOR + 200 – 375 bps and non-bank lenders typically at 450 – 600 bps over LIBOR. Although credit spreads are higher than in 2008, the near record low interest rates make borrowing extremely affordable.

LIBOR floors, which were common during the last couple years, have either disappeared or been reduced to 1% or less at most others.

Although more expensive than banks, non-bank lenders are more active in lending to companies with less than \$10 million in EBITDA. Several business development companies (BDCs) have taken advantage of the public markets and now have capital to support leveraged lending for middle-market companies. Credit is clearly available for middle-market transactions.

NEW ISSUE M&A LOAN VOLUME IS IMPROVING



Source: S&P LCD

FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned firm providing specialized financial services since 1987 to individuals, institutional investors, and middle-market companies through two operating divisions: Investment Banking and Investment Management Services. "A Firm Belief in the Entrepreneurial Spirit" is our core ideology and the foundation for all of our client engagements.

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CONTACT

The Cleary Gull Investment Banking team has completed more than \$6 billion in transaction value since 1995. We are dedicated to providing unbiased, conflict-free advice to middle-market companies.

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