a firm belief in the entrepreneurial spirit

CLEARY GULL

MARKET MONITOR

FINANCING UPDATE

4TH QUARTER 2011

IMPROVING LENDING AND M&A MARKETS

Supply-Demand Imbalance Favors Borrowers and Sellers

Although the headlines are filled with concerns about global credit downgrades, political gridlock in Washington, and U.S economic uncertainties, the financing and M&A markets have become quite welcoming to transactions.

Private equity controlled companies understand the current market. As one PE partner recently stated, "We are selling everything we can right now."

Commercial banks want to grow their portfolios, new non-bank lenders are entering the market at an accelerating pace, the high yield market is rebounding from its August correction, private equity funds continue to hold billions of uninvested capital, and corporations have record cash balances. All of these factors are contributing to a "supply-demand imbalance" in the market, driving competition and pricing for good credits and companies.

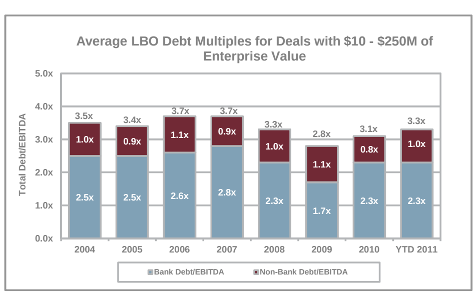
Leverage Multiples Slightly Increase

Debt market support for lower middle-market M&A transactions (enterprise values less than $250 million) improved slightly this year as compared to 2010. Average total debt/EBITDA multiples increased by 0.2x to 3.3x during the first nine months of 2011. Average senior debt/EBITDA remained the same at 2.3x during the first nine months of 2011 and in 2010.

Larger transactions attracted more leverage. Total debt/EBITDA for transactions with enterprise values between $100 and $250 million was 4.0x during the third quarter of 2011 while total debt/EBITDA for transactions with enterprise values between $10 and $25 million was 2.9x during the same quarter.

In between, transactions with enterprise values between $50 and $100 million achieved total debt/EBITDA of 3.6x and senior debt/EBITDA of 3.0x.

DEBT MULTIPLES ARE INCREASING



Source: GF Data

KEY U.S. INTEREST RATES

	12/16/2011	12/31/2010	12/31/2009
1-Month T Bill	0.01%	0.12%	0.06%
2-Year UST	0.25%	0.61%	1.14%
5-Year UST	0.86%	2.06%	2.69%
10-Year UST	1.92%	3.38%	3.85%
30-Year UST	2.91%	4.43%	4.63%
EUR/USD	$1.30	$1.33	$1.43
1-Month LIBOR	0.28%	0.26%	0.23%
Federal Funds	0.75%	0.46%	0.43%
Prime	3.25%	3.25%	3.25%

Source: Capital IQ, St. Louis Fed

Mezzanine Market is Strong

The mezzanine market has become more competitive. Fewer transactions, combined with an increased number of participants in this asset class, has put pressure on pricing.

Newly licensed Small Business Investment Companies ("SBICs") and a growing number of Business Development Companies ("BDCs") are becoming more frequent competitors to traditional mezzanine funds. The increased number of mezzanine capital providers has led to lower pricing and higher leverage, particularly for transactions supporting private equity sponsors. The terms of equity "upside" for mezzanine investors are also changing. Transactions supporting private equity sponsors now often include a coinvestment opportunity but rarely receive warrants.

For larger middle-market transactions, the high yield market has begun to recover from a very difficult August and September. New issuances rebounded slightly in October.

Pricing for Senior Debt Edges Up

With reduced loan outstandings, banks are more aggressively pursuing new borrowers. However, credit spreads can be 25 to 50 bps higher than before the August disruption.

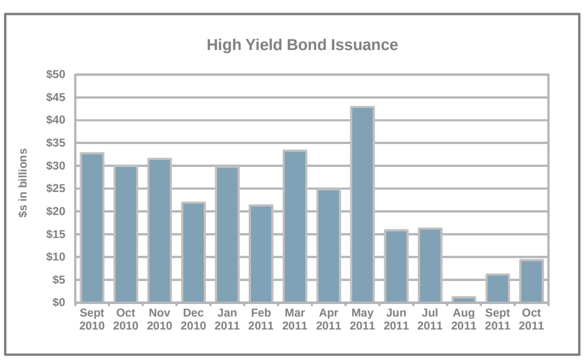
Banks are typically quoting credits at LIBOR + 250 to 450 bps, while non-bank lenders are at 450 to 600 bps over LIBOR. Although credit spreads are higher than in 2008, the near record low interest rates make borrowing extremely affordable.

LIBOR floors, which were common during the last couple years, have either disappeared or are being reduced to 1.5% or less.

Unitranche lenders are pricing at 11% to 13% and can typically provide total leverage of 3.0x to 3.5x EBITDA.

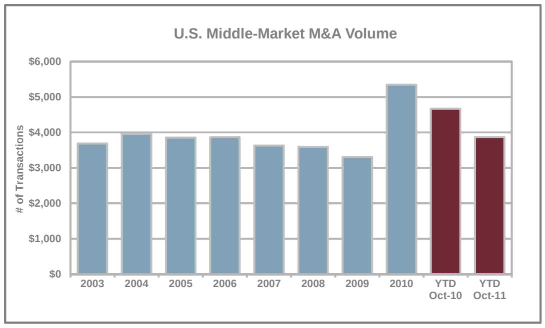
The markets remain more aggressive for high-quality issuers than for lesser credits, although credit is readily available for middle-market transactions.

HIGH YIELD MARKET DOWN



Source: Barclays Capital

2011 DEAL VOLUME BELOW 2010



Source: Robert W. Baird & Co.

SUPPLY-DEMAND IMBALANCE DRIVING M&A PRICING HIGHER

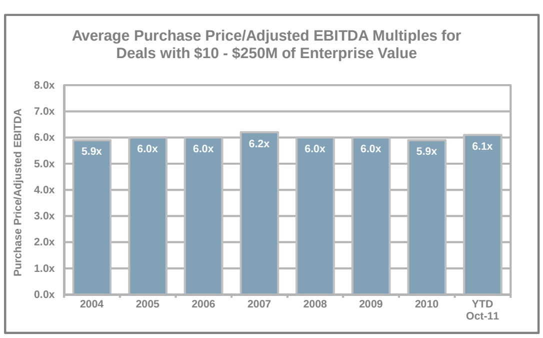
M&A Deal Volume Down

The first ten months of 2011 saw a noticeable decline in M&A volume compared to the same period in 2010. According to Robert W. Baird & Co., the number of middle-market transactions (enterprise values less than $1 billion) declined 17% for the 10 month period, with September and October being particularly weak months.

The August credit market correction, global political uncertainties (particularly surrounding European debt), a political stalemate over U.S. deficit reduction efforts, and concerns about continued economic weakness have dampened transaction volumes.

However, certain pockets of strength continue to exist. Companies that manufacture cars, trucks, agricultural and mining equipment and their suppliers, most companies providing commodities (energy, agriculture, or other natural resources), and health care technology providers, are a few areas of strength.

PURCHASE PRICE MULTIPLES REMAIN STRONG



Source: GF Data Resources

M&A Deal Pricing Up

Middle-market purchase prices increased for all transaction sizes during the third quarter of 2011.

Average enterprise value/EBITDA multiples reported for transactions with enterprise values between $50 million and $100 million were 6.9x during the first nine months of 2011 compared to 6.7x for all of 2010. Multiples for transactions with $100 to $200 million enterprise values averaged 8.3x EBITDA, a large increase compared to 6.2x for all of 2010.

Overall, purchase price multiples reported for transactions with enterprise values less than $250 million increased 0.2x EBITDA during the first nine months of 2011 to 6.1x EBITDA compared to 2010.

The upcoming election year should have interesting effects on the M&A market. In addition to speculation over how much and how soon taxes will increase, many companies have the potential to suffer (or benefit) if "regime change" does (or does not) occur.

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.

Cleary Gull's investment bankers help our clients throughout the U.S. achieve their financial and business goals with advice on exclusive sales, mergers, acquisitions, raising debt and equity in private capital markets and other transactions, working through complex financial, legal, tax, accounting and other technical issues.

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Cleary Gull is a member of the International Association of Investment Bankers. The IAIB *(www.iaib.org)* is an affiliation of investment banking firms from Europe and North and South America working together to broaden their reach and leverage their expertise.

IAIB
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CONTACT

The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing over $6 billion in transaction value.

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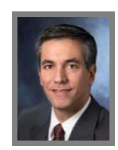

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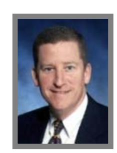

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