

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

# MARKET MONITOR

M&A UPDATE



3RD QUARTER 2009

## LIGHT AT THE END OF THE TUNNEL?

### Few Completed Transactions During First Half

The number of middle market transactions closed during the first half of 2009 declined 45%, compared to the same period in 2008, to levels not seen since 1992. Although each company and transaction is unique, among the most frequently mentioned reasons for this downturn in activity are the severe recession, depressed stock prices, weak lending markets and an uncertain economic outlook.

Transaction timelines extended as buyers and their lenders and investors required a high level of due diligence while seeking a clearer picture of the business and the general economy.

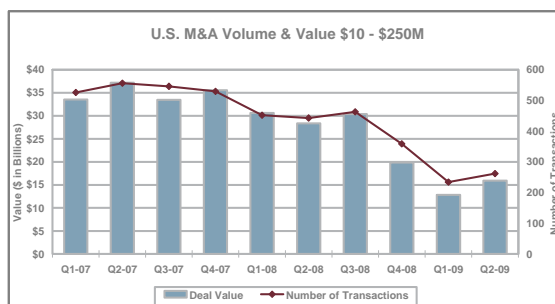
### You Can't Fall Off the Floor

Transaction volume rebounded (slightly) in Q2 2009, increasing 14% compared to Q1 2009. Stressed/distressed transactions remained strong for the second quarter.

Although the financing markets remain tight, well capitalized strategic buyers were able to complete transactions in the first half of 2009. Financial buyers, although very eager to deploy capital, were not particularly active as the lending markets hampered their ability to be competitive.

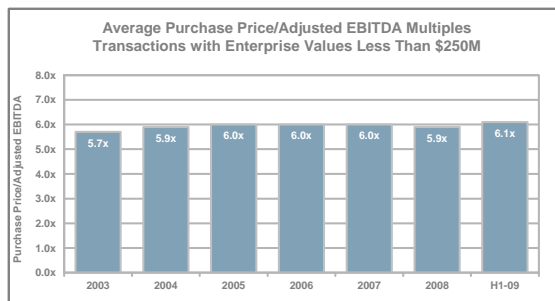
Looking ahead, some commentators have begun to predict a strong rebound in M&A activity as early as 2010.

## MIDDLE MARKET DEAL VOLUME BEGINS TO REBOUND



Source: Thomson Financial

## PURCHASE PRICE MULTIPLES IMPROVE SLIGHTLY



Source: GF Data Resources

### Middle Market Purchase Prices Hold Steady

During the first half of 2009, the average EBITDA purchase price multiple for lower middle market leveraged buyout transactions was 6.1x, slightly higher than the 5.9x average for 2008.

Upon closer analysis, the market was slightly bifurcated. EBITDA multiples for \$10 - \$25 million transactions declined from 5.3x in 2008 to 5.0x during the first half of 2009, likely due to difficulties associated with obtaining traditional bank financing. However, multiples for larger transactions, those with \$50 - \$100 million values, actually increased from 6.6x to 7.0x. We suspect the buyers of these larger middle market companies were strategic with a broader range of financing alternatives and/or immediate synergies.

### Debt Markets Remain Difficult

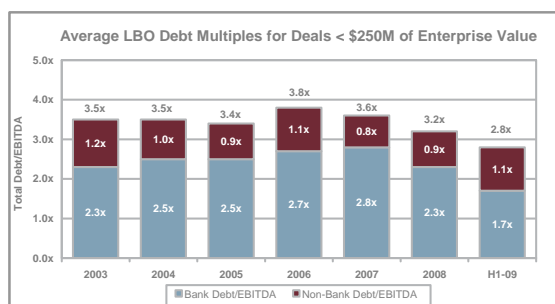
Despite a rebound in M&A activity in the second quarter, the debt markets for middle market companies remain difficult.

Average Total Debt/EBITDA multiples declined 0.4x to 2.8x during the first half of 2009 compared to 2008, which is more than explained by a 0.6x decline in Senior Debt/EBITDA from 2.3x in 2008 to 1.7x during the first half of 2009. Unlike M&A volume, the data does not show any improvement in Q2 over Q1.

However, lenders who have been out of the market have begun to return, credit spreads have begun to narrow and the debt markets for larger issuers are returning.

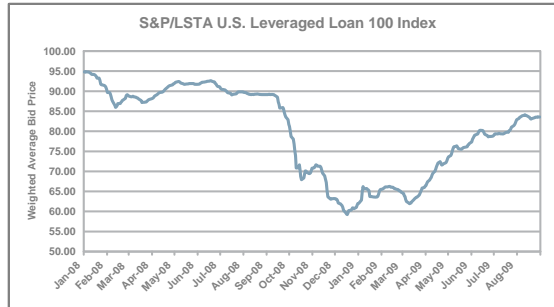
All signals suggest continued slow improvement in the debt markets during the second half of the year.

## DEBT MULTIPLES CONTRACT



Source: GF Data Resources

## LEVERAGED LOANS IMPROVING



Source: Bloomberg

### Larger Financing Market Recovering, Not Middle Market

Despite weakness in middle market lending, the credit markets have improved substantially for larger companies. According to Thomson Financial, \$59.2 billion of high yield bonds were issued in the first half of 2009, a 59% increase from the first half of 2008.

The bid on large names in the S&P/LSTA leveraged loan index is almost 85, compared to below 60 in January, another sign of returning health.

However, middle market loan issuances fell 49% to \$27.7 billion in the first half of 2009, according to Thomson Reuters. Most of the lending for middle market companies comes from regional commercial banks which have been particularly hard hit by their commercial loan portfolios and are still deleveraging.

Nonetheless, we expect the improvement in the larger lending markets to slowly work its way into the middle market.

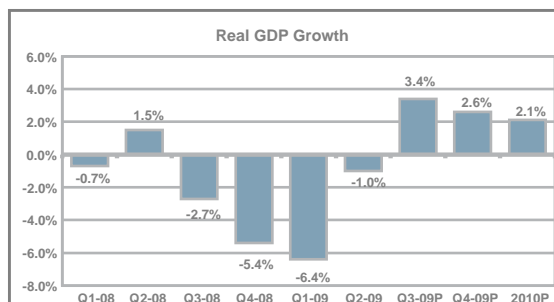
### A Recovery or Just Stock Market Rally?

The news media seems to have declared that economic recovery is in full force. The stock market is up 50% from its March bottom, consumer confidence is increasing, home prices are stabilizing, productivity is surging, job loss numbers are declining and “cash for clunkers” appears to have provided a temporary boost to our ailing auto industry.

Economists are increasing their growth estimates for Q3 and beyond. Although the stock market might be up, it is still likely to take some time for businesses to see a return to robust times. Earnings growth is coming from expense reductions, not sales gains. Credit is still tight and the long term impact of trillions of dollars of deficits is unknown.

It is clearly a better picture than three or six months ago, but the road to recovery will be slow.

## U.S. GDP GROWTH



Source: Wells Fargo Securities Economics Group

## 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 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, and delivering superior results.

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## CONTACT

The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing approximately \$6 billion in transaction value. We are dedicated to providing unbiased, conflict-free advice to middle market companies.

Contact us for more information on Cleary Gull and our Investment Banking services.

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