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WISCONSIN CORPORATE GROWTH PROFESSIONALS OPTIMISTIC; MORE DEALS, MORE HIRING, BETTER ECONOMY PREDICTED FOR 2011

ACG-Thomson Reuters Year-End 2010 DealMakers Survey Reveals Continued Economic Improvement and Strategic Investment

10 December 2010: CHICAGO—Economic outlook continues to improve among private capital and corporate professionals from Wisconsin, according to the twice-yearly ACG-Thomson Reuters DealMakers Survey.

The latest survey results, released by the Association for Corporate Growth® (ACG) in conjunction with Thomson Reuters, reveal increased confidence that the economy as a whole will continue to rebound, and the environment for mergers and acquisitions will improve.

84 percent of Wisconsin-based dealmakers expect an increase in M&A activity in the next six months—16 percent see a significant increase and 66 percent are calling for moderate increase. While this is a slight increase from the mid-year 2010 survey, this is a significant increase compared to 2009 numbers where at most, only 56 percent predicted an increase in M&A activity.

Another statistic pointing towards economic rebound is the jump in the hiring expectations at portfolio companies. Compared to less than one-third in the May 2010 survey, nearly 50 percent of respondents that identified as private equity, venture capital and buyout firm members anticipate job growth at their portfolio companies.

Finally, 31 percent responded that uncertainty around taxation levels has influenced their investment strategy, lending meaningful, local context to the current debate on tax policies occurring in Washington, D.C.

For the first time, we asked respondents for their long-term prognostication on the economy. In the next 24 months 88 percent of Wisconsin-based respondents believe that the economy will improve. Only 2 percent believe the economy will get worse in the next 24 months, with that number increasing to 3 percent regarding the next 36 months.

"Wisconsin members of ACG are increasingly bullish about the opportunities for economic and business growth," according to Ron Miller, President of Association for Corporate Growth Wisconsin and Managing Director of Cleary Gull Inc. "This optimism drives the expectations for job creation in their companies. While the environment is improving, there is still a fragility that exists. I speculate that's behind the concern about the uncertain tax environment."

The survey, by ACG and Thomson Reuters, reflects responses from nearly 450 investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in October 2010. The below numbers are based on all Wisconsin-based respondents.

Dealmakers expect the following sectors to experience the most merger activity in the first half of 2011:

- Industrial Manufacturing and Distribution (35 percent)
- Business Services (14 percent)
- Financial Services (12 percent)
- Healthcare/Life Sciences (12 percent)

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

- Industrial Manufacturing and Distribution (25 percent)
- Healthcare/Life Sciences (22 percent)
- Government-related (16 percent)
- Technology (14 percent)

Sixty-six percent of Wisconsin-based survey respondents identified the current environment as a buyer's market-a decrease of 14 percentage points compared to the May 2010 survey results. Confidence continues to grow in strategic investments, as 98 percent of respondents expect strategic investments to accelerate in 2011.

"While we may not be completely out of the woods of the great recession, the survey results show an increase in confidence in the economy and more importantly, an increase in confidence in making private capital investments," said Michael Carr, managing partner, BAC Investments, LLC., and current chairman of the ACG global board. "Perhaps the most noteworthy indicators coming out of the DealMakers survey speak to fundraising."

Ninety-six percent believe that raising new funds is possible, with 31 percent delineating that only top-tier firms can do so, 23 percent said yes, but the fund sizes will be smaller and 23 percent believe this will happen, but only if fund terms are more LP friendly.

Despite recent speculation that fundraising will slow down and that funds will be smaller, 46 percent plan to start raising a new fund in 2011 and not one respondent said that it would be smaller than their current fund.

"The austere fundraising environment over the last several quarters has increased the importance of next year," said Jim Beecher, Deals Publisher for Thomson Reuters, which publishes titles such as *Buyouts Magazine*, *Venture Capital Journal* and peHUB.com.

The greatest drag on M&A activity today is uncertainty over the political and tax environment, according to 33 percent of respondents. This is followed by sellers unwilling to sell at multiples offered (25 percent), weak economy (16 percent) and credit crunch (12 percent).

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

- Stick with the original strategy (51 percent)
- Focus on portfolio companies (49 percent)
- Proactively communicate with LPs (43 percent)
- Focus more on deal sourcing/marketing (43 percent)

They say the best strategies for portfolio company success are:

- Focus more on marketing (45 percent)
- Cut costs (41 percent)
- Stick with the original strategy (37 percent)
- Hire business development professionals (27 percent)

In the past 12 months, 24 percent of private equity firms say they have marked down their portfolio company values, 41 percent have held values steady, and 34 percent have marked them up.

Portfolio companies are showing signs of significant improvement. Ninety four percent (an increase of 20 percentage points) are performing above their prior year Ebitda, while 6 percent are performing below last year's Ebitda.

"Seeing such marked improvement in portfolio companies' Ebitda is demonstrating that the strategies implemented by private equity firms during this recent economic duress have been successful," said Den White, senior counsel at McDermott Will & Emery LLP and immediate past chairman of ACG's global board.

Industries that present the best opportunities for buyouts are:

- Industrial Manufacturing and Distribution (33 percent)
- Business Services (27 percent)
- Healthcare/Life Sciences (16 percent)

Industries that present the best opportunities for distressed investing are:

- Industrial Manufacturing and Distribution (33 percent)
- Financial Services (22 percent)
- Real Estate (22 percent)

Maximum leverage saw marked improvements. Respondents saying the maximum leverage level in today's environment is:

- 1-2x (8 percent)
- 2-2.5x (33 percent)
- 2.5-3x (21 percent)
- 3-3.5x (25 percent)
- More than 3.5x (12 percent)

The greatest threats today for private equity firms:

- Competition with other private equity firms (45 percent)
- Overall economy (41 percent)
- Regulatory changes and enforcement (35 percent)
- Competition with corporate/strategy buyers (35 percent)
- Negative multiple arbitrage from purchase prices paid (35 percent)

As a further sign of economic recovery, only 2 percent of respondents anticipate that the debt markets will be worse in six months, with 63 percent believing they will be better.

The maximum senior leverage level available in today's environment:

- 1-2 times: 8 percent
- 2-2.5 times: 33 percent
- 2.5-3 times: 21 percent
- 3-3.5 times: 25 percent
- More than 3.5 times:12 percent

With this in mind, 44 percent of respondents believe that leverage levels will continue to increase in the next six months.

Cross-border M&A also saw heightened activity, and respondents believe that it will continue to rise. Twenty-eight percent of respondents reported increased cross-border activity in the past six months and 49 percent say that it will continue to rise in the next six months. When asked where this growth will take place, responses were varied:

- Continental Europe (37 percent)
- Canada (22 percent)
- China (20 percent)
- South America (20 percent)

Given these marked improvements prognostications about continued growth are more guarded. Forty-four percent of respondents saying they will continue to improve over the next six months and 56 percent saying they will worsen.

Concern regarding the public's perception of private equity continues to rise. Some 56 percent of private equity respondents are concerned about the public's perception of private equity. Year after year, this statistic continues to rise.

"With continued uncertainty surrounding policies currently in play, these survey results underscore the important role that middle-market private capital plays in our economy and how integral this role is to continued economic recovery," said Gary A. LaBranche, CAE, ACG President & CEO. "We at ACG will continue to support the middle market and the efforts of private equity firms, corporations and capital providers to put investments to work to grow jobs and support the economic recovery."

ACG
Association for Corporate Growth

Survey Methodology
The twice-yearly survey, conducted in October 2010, was completed by 473 ACG members and Thomson Reuters customers. Respondents were comprised of private equity, venture capital and buyout firm members (10 percent); investment bankers, intermediaries, brokers (26 percent); lenders, finance providers (12 percent); corporate professionals, entrepreneurs (17 percent); and service providers, such as lawyers, workout specialists, accountants and consultants (34 percent). Respondents that identified as private equity, venture capital and buyout firm members were asked additional questions specific to their field. 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 56 chapters throughout North
America, Europe and Asia.

For more information, please visit: http://www.acg.org/wisconsin.

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Editors Note: ACG Global and ACG WI leadership are available for interviews. Please contact John Scheibel, ACG WI Vice President of Communications and CEO of Scheibel Halaska, Inc.