

DEAL VOLUME DOWN



Source: Robert W. Baird & Co.

SIGNIFICANT DEMAND; ESPECIALLY FOR LARGER AND/OR HIGH QUALITY COMPANIES

Favorable Market for Sellers

The first half of 2012 saw a modest decline in M&A volume compared to the same period in 2011. According to Robert W. Baird & Co., the number of middle-market transactions (enterprise values less than \$500 million) declined 9% in the first half of 2012 compared to the year earlier period.

However, we believe deal volume will increase in the fall, as sellers try to achieve liquidity before the election and/or potential year-end tax increases.

Anecdotally, the quality of the companies for sale is not as high as last year despite this expected increase in deal volume, and many companies are revising their forecasts down for the remainder of the year due to the broader economic weakness.

Nonetheless, we continue to see strong demand, at very attractive prices, for quality companies.

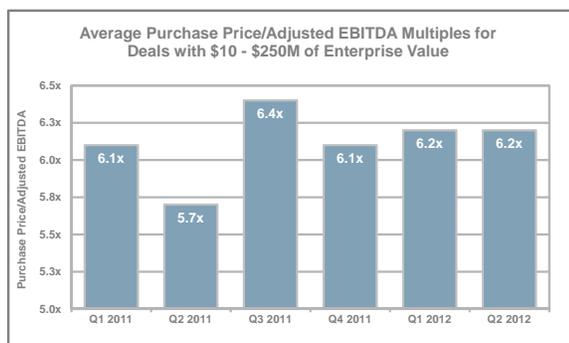
Purchase Price Multiples Remain Stable; Size Premium Continues

Middle-market purchase price multiples remained at 6.2x EBITDA during the second quarter of 2012, the same as the first quarter and the same as the full year of 2011.

Larger transactions continue to garner significantly higher multiples. Average enterprise value/EBITDA multiples reported for transactions with enterprise values between \$100 million and \$250 million were 7.5x during the first half of 2012 compared to 5.4x EBITDA for transactions with \$10 to \$25 million enterprise values. The 2.1x EBITDA gap is reasonably consistent with historical averages.

In contrast, for the five year period from 2003 – 2007, larger transactions traded at 7.2x EBITDA compared to 5.5x EBITDA for smaller transactions, a 1.7x gap.

PURCHASE PRICE MULTIPLES REMAIN STRONG



Source: GF Data Resources

PREMIUM FOR LARGER DEALS



Source: GF Data

TIGHT MARKETS DRIVING FAVORABLE LEVERAGE AND CONTRACT TERMS

Active Leveraged Loan Market

Debt market support for lower middle-market M&A transactions (enterprise values less than \$250 million) improved during the first half of 2012 compared to 2011. Average total debt/EBITDA multiples increased by 0.1x to 3.3x during the first half of 2012 compared to 2011. Average senior debt/EBITDA declined to 2.2x from 2.3x during 2011.

Mezzanine debt has more than picked up the difference from the lower senior debt, increasing to 1.1x EBITDA during the first half of 2012 compared to 0.9x during 2011. Borrowers are comfortable using leverage but seem to favor non-amortizing mezzanine.

However, higher leverage is only available for a “sponsored” M&A transaction, with senior debt leverage for companies with less than \$10 million in EBITDA ranging from 2.25x to nearly 3.0x EBITDA and total debt leverage from 3.5x to nearly 4.0x.

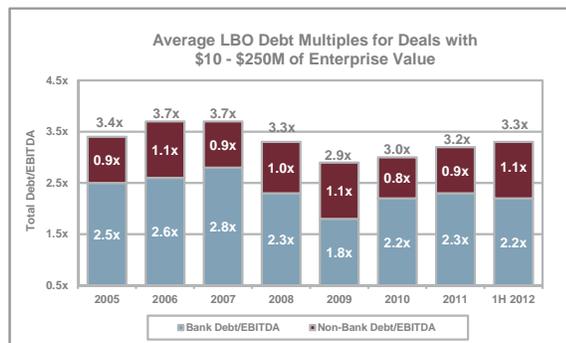
Improved Contract Terms

Price is not the only important element of a successful transaction. Other terms and conditions, as well as qualitative factors, are also critical.

Almost all contract terms improved for sellers during the last six months. According to a recent GF Data study, average rep and warranty indemnification limits for LBOs with less than \$250 million enterprise values declined during the first half of 2012 to 17.5%, compared to 19.6% in 2011.

And, the average indemnification period declined slightly to 18.2 months during the first half of 2012 compared to 19.1 months during 2011. Escrow/holdbacks declined to 6.5% compared to 7.3% during the same two periods. Average “baskets” is the only contract term that remained stable, unchanged at 0.9% during both the first half of 2012 and 2011.

IMPROVING DEBT MARKET



Source: GF Data

FIRM OVERVIEW

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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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