

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE



1st QUARTER 2013

TIMING IS EVERYTHING

When contemplating a capital markets transaction, it is essential to be aware of economic trends, and specifically data which might predict performance of a business or industry. Simply knowing whether the financial performance leads, lags or if it is coincident with the overall economy can be important.

According to Wells Fargo Securities, “the latest signs on the economy suggest an improving environment.” Despite the continued budget impasse sequestration, the economy seems to be rebounding.

The February jobs report was extremely favorable. Nonfarm payroll employment surged by 236,000 and the unemployment rate declined to 7.7%, the lowest since December 2008.

Retail sales pulled out a 0.1% increase in January, despite the increase in personal income taxes. Housing continued to improve, with 1.08 million starts in the fourth quarter, a 20% increase over the same period in 2011.

In addition to the Federal budget negotiations, which have dominated the headlines, two other factors continue to provide headwinds. Oil prices have risen significantly, with the average price of a gallon of gas increasing almost 15% since the beginning of the year. The Eurozone also continues to suffer, with Eurozone GDP declining 0.6% in the fourth quarter of 2012, the fifth consecutive quarterly drop.

Nonetheless, most economists expect modest GDP growth in 2013, with Wells Fargo predicting 1.7% growth for the full year.

Further evidence of the recovery is the recent increase in the 10-year U.S. Treasury yield, which has risen from 1.60% at the beginning of December to approximately 2.00% currently. This increase is despite Fed policy which continues to exert downward pressure on rates through their \$45 billion monthly purchase program.

KEY INTEREST RATES

	3/8/2013	12/31/2012	12/31/2011
1-Month T Bill	0.09%	0.02%	0.01%
2-Year UST	0.25%	0.25%	0.25%
5-Year UST	0.81%	0.72%	0.83%
10-Year UST	1.95%	1.78%	1.89%
30-Year UST	3.15%	2.95%	2.89%
EUR/USD	\$1.30	\$1.32	\$1.30
1-Month LIBOR	0.20%	0.21%	0.30%
Federal Funds	0.75%	0.75%	0.75%
Prime	3.25%	3.25%	3.25%

Source: Capital IQ

DEAL VOLUME DOWN MODESTLY



Source: Robert W. Baird & Co.

SUPPLY/DEMAND IMBALANCE CONTINUES TO SUPPORT SELLER'S MARKET

Tax Motivated Selling Fuels Strong Finish to 2012

M&A volume declined slightly from 2011 to 2012. According to Robert W. Baird & Co., the number of middle-market transactions (enterprise values less than \$500 million) declined 4.4% compared to 2011.

The year finished strong with fourth quarter transaction volume up 21.2% over the same period in 2011, as many sellers took advantage of lower tax rates before year end. While 2013 has started out slowly, many dealmakers still expect 2013 volumes to equal 2012 levels.

A modest supply of quality companies, combined with significant demand and low interest rates, has sustained strong purchase price multiples for quality companies.

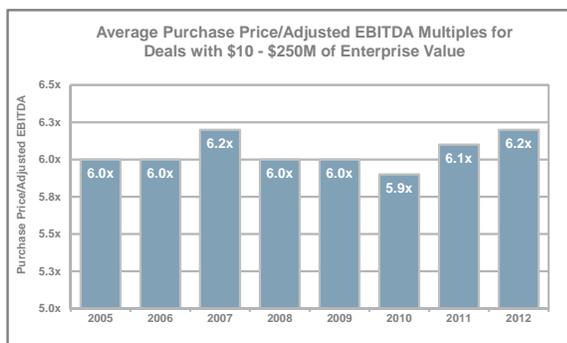
Purchase Price Multiples Up Slightly

Middle-market purchase price multiples for LBOs increased to 6.2x EBITDA for the full year of 2012, compared to 6.1x for the full year of 2011, according to GF Data.

Larger transactions continue to realize significantly higher multiples. Average enterprise value/EBITDA multiples reported for LBO transactions with enterprise values between \$100 million and \$250 million were 7.5x EBITDA during 2012 compared to 5.6x EBITDA for transactions with enterprise values between \$10 to \$25 million in EBITDA.

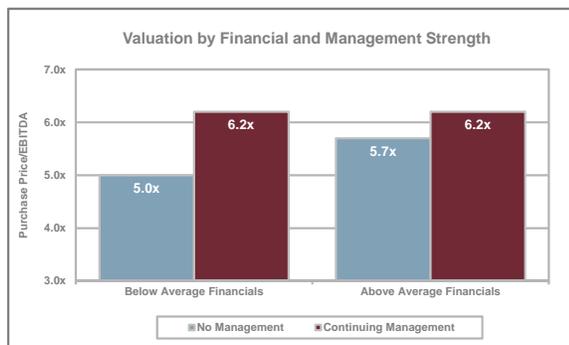
The gap in valuations between larger and smaller middle-market LBO transactions remained significant at 1.9x EBITDA, although down from 2.5x in 2011.

PURCHASE PRICE MULTIPLES STRONG



Source: GF Data Resources

PREMIUM FOR STRONG COMPANIES WITH CONTINUING MANAGEMENT FOR LARGER DEALS



Source: GF Data

GF Data Quantifies Benefit to Sellers with Strong Performance and Continuing Management

According to a recent GF Data analysis, LBO purchase price multiples in 2012 were 1.2x EBITDA higher for companies with above average financial characteristics and continuing management post-transaction. Companies with both these characteristics sold for 6.2x EBITDA compared to 5.0x EBITDA if neither attribute was present.

For the purposes of these calculations, “above average financial characteristics” is defined as companies having either latest twelve months (LTM) EBITDA margins and LTM revenue growth above 10%, or both metrics above 8% and combined metrics greater than 20%.

Companies with above average financials and continuing management sold in LBOs for 6.2x EBITDA compared to 5.7x if management was not continuing.

Attractive Market for M&A and Financing Transactions

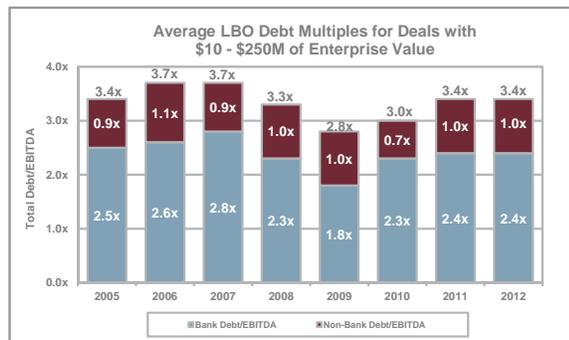
Total debt market support for lower middle-market M&A transactions (enterprise values less than \$250 million) remained stable during 2012 compared to 2011. Average total debt/ EBITDA multiples remained at 3.4x during 2012, the same as 2011.

Total leverage for \$100 - \$250 million transactions was 4.1x in 2012, compared to 3.2x for companies with \$10 - \$25 million. Mezzanine debt also remained stable at 1.0x EBITDA.

Despite low interest rates, subordinated debt coupons crept up to 12.7% in 2012, a small increase from 12.6% in 2011.

The combination of low interest rates and stable to expanding lending criteria makes it an attractive time for companies to borrow money.

STABLE DEBT MARKET



Source: GF Data

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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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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