

Dealmaker

Providing business owners and managers with M&A market insight Summer 2011

Deal killers



Erik Egerer
Manager, Grant Thornton Corporate Finance

Whether a company is a buyer or a seller, an M&A transaction can be a rewarding experience. Such transactions often offer a way to unlock value, capture additional market share or expand into new business lines. In an ideal transaction, both parties realize significant benefits. However, closing an M&A transaction is no simple procedure. It requires tremendous effort, experienced guidance and considerable

foresight. Issues arise constantly and must be understood, discussed, negotiated and resolved. Most are minor and easy to handle if both sides adopt a reasonable approach. Sometimes, though, a major issue will crop up that threatens to sink the entire deal. Such an issue will generally come in one of two flavors: systematic or unsystematic. Systematic issues are caused by things like a terrorist attack, an act of God, or some other *force majeure*, as lawyers like to say. Systematic issues are impossible to foresee. Unsystematic issues, on the other hand, fall into several categories and are for the most part entirely preventable. Some of these unsystematic issues can be avoided simply by exercising good judgment and others require the deft touch of an experienced professional. Avoiding these pitfalls is critical to a successful M&A transaction.

continued >

In this issue

- 1 Deal killers
- 5 Credit markets remain in the eye of the storm, for now
- 10 Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011



Whether a company is a buyer or a seller, an M&A transaction can be a rewarding experience.

Deal killers (continued)

Following are the seven deal killers we most commonly see:

1. Skeletons in the closet

When it comes to deal-making, surprises are never good. It is not the disclosed issues that cause a deal to fall apart, but the ones the buyer doesn't know about at the outset. Clearly, unknown issues can't be disclosed and therefore fit into the systematic category, but if the issue is known, the buyer needs to be told upfront. A well-written information memorandum will — albeit with a certain amount of positive spin — disclose the known environmental or litigation problems, or the fact that the entire management team is retiring within a year. Some buyers will take a pass after reading the memorandum, but those that keep looking are implicitly saying they can find a workaround. But when buyers learn during due diligence that the company is the subject of a huge lawsuit or the primary patents are expiring next year, they get spooked. Even if the issue is manageable, the buyer's first thought is "What else don't I know?" and the second thought is "Why weren't we told?" Fundamentally, this presents an issue of credibility and integrity, and if trust is violated between the buyer and the seller, the deal is unlikely to move forward.

2. Changing the deal

This caveat about integrity applies to both buyers and sellers. Nothing upsets the other side more than retrading after a letter of intent (LOI) has been signed. Before the LOI, the deal is still up in the air, and the price and other terms might change. The LOI, however, puts a stake in the ground. Some buyers are notorious for using post-LOI due diligence to find issues and then leveraging those issues to ask for a price adjustment. This is infuriating to sellers, particularly if they perceive that the buyer always intended to drag down the price. Most good buyers, whether corporate or private equity, will avoid price adjustments except in extreme cases — and if they must ask for these adjustments, they will do so very carefully.

At the same time, changes from the seller can be just as infuriating and potentially deal-killing. And price is not the only common change. Adjustments to rollover equity or ongoing owner/CEO compensation, along with nonfinancial changes such as revisions to how long a seller is willing to stay on to transition leadership, can fundamentally alter a deal. In extreme cases, changes like these can upset a buyer and sour an entire deal. The bottom line is that sellers need to define their expectations clearly and stick to them.

3. Missing your numbers

This could be the single biggest deal killer. A deal typically takes six to nine months — and sometimes longer — to complete. Because of the time involved, a buyer usually wants to see updates to the financial information as the process moves along. Buyers typically compare actual performance against what was provided in the information memorandum. Small deviations are expected because forecasting is by nature a guess, and buyers generally acknowledge that management may have been distracted by the sale process itself. But in most businesses, buyers get very worried if a company can't make reasonable guesses about near-term performance. If the actual results fall too far behind the forecast, the buyer must ask whether the full-year forecast is achievable — and, by extension, whether the company's guidance regarding long-term expectations is reasonable. Because the buyer is purchasing the company's future cash flows, significant changes to projections can cause price adjustments. It is tempting to pump up projections in order to maximize price, but that strategy nearly always ends up backfiring. The best advice is to present the best forecast that is reasonably achievable, and then strive to meet it.

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4. Hiring inexperienced deal professionals

The family doctor can treat most common ailments, but if you need brain surgery, use a neurosurgeon. The same is true when selling a company. Inexperienced deal professionals, whether lawyers or M&A advisors, are more likely to sour a deal than get a good outcome. It's the details that matter — determining which items in a purchase agreement are worth arguing about and which are not, setting seller expectations, and documenting addbacks and other adjustments are just a few of the things that matter during the deal process. A seasoned professional can assess the situation and will know exactly where the land mines are likely to be, while a less experienced professional often focuses on the wrong issues and could miss some huge potholes. Engage a good, seasoned M&A attorney and well-regarded, experienced M&A advisors that make you feel comfortable and treat you as an equal. It's not always easy to tell which professionals are truly experienced and which are simply good presenters, but calling references and asking trusted advisors (such as lawyers and lenders) for recommendations can increase the odds of finding the former. Good chemistry with your advisor is critical as well — they will be with you every step of the way during one of the most stressful times in an entrepreneur's life, so make sure to hire someone that makes you feel they are on your side.



5. Sweating the (minor) details

Selling a middle-market company can be an emotional process. Many business owners have spent their entire career building their business. So it's important to let the M&A advisor know what the hot-button issues are upfront — maybe the seller wants to have a five-year consulting contract, maybe it's important that management stay on, or maybe maximizing price is the No. 1 goal. In any case, be upfront with the advisor and keep the ultimate goal in mind. Deals can be derailed over minor differences — for example, a \$250,000-per-year consulting contract vs. a \$300,000 contract. It's ultimately the seller's call whether a difference of \$50,000 a year will wreck a \$50 million deal — sometimes it makes sense to take a hard line, and sometimes it's better to just swallow hard and compromise.

This issue goes the other way as well. Buying a company is a risky venture, and no matter how much due diligence is performed, there is still risk involved. Good buyers know that they have to do enough investigation to catch any major issues and then take the leap of faith required to close the deal. If buyers keep looking for a reason not to do the deal, they will eventually find one. Minor issues and concerns can never be avoided completely, but buyers must ask themselves whether they want to forgo doing a potentially great deal just because of relatively minor concerns.

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Deal killers (continued)

6. Being penny-wise but pound-foolish

When it comes to houses, we all know that spending money to update some things can greatly enhance the likelihood of a good sale — you'd probably fix the hole in the roof, but you might not buy new curtains. The same is true of a company. A buyer wants to feel comfortable that the seller has invested prudently in updating equipment and facilities and that working capital is sufficient. Some sellers have been tempted to stop all capital expenditures or forgo maintenance so that expenses are reduced and the price goes up. This almost always comes out in due diligence. Similarly, some sellers try to collect all receivables or stretch payables to get more cash out. Again, this will be revealed in due diligence, and if it doesn't kill the deal, it will cost at least whatever benefit was gained.

7. Forgetting about Uncle Sam

Like it or not, we all have to pay taxes. The particular circumstances and structure of a transaction will influence the final tax bill greatly, and a good tax advisor can help both buyers and sellers use the most tax-efficient structure. Further, a tax advisor can calculate the take-home amount that a seller will receive from a transaction. Too often, sellers wait until the last minute to engage a tax advisor, and then they find out that their take-home proceeds are lower than they expected. At worst, this can sour a deal, and even if the deal moves forward, the seller may be leaving money on the table by using an inefficient tax structure. Getting tax professionals involved early can prevent a lot of headaches and remove some uncertainty.

Doing deals is a tricky business. At times it can feel like you are pushing a rock up a hill. And even if unsystematic issues are never encountered, there is no guarantee that a deal will close. But M&A can be enormously beneficial for parties on either side of the deal — indeed, for both sides. Sellers can reap the fruits of their lifetime of hard work, and buyers can gain key strategic advantages that will catapult them to a new level. Avoiding the myriad issues that stand in the way of these outcomes takes a lot of work, a great deal of experience and a goodly amount of creativity. In the end, though, the effort can be worthwhile. •



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Credit markets remain in the eye of the storm, for now



Len Batsevitsky
Manager, Grant Thornton Corporate Finance

How can you pay your bills if you don't have enough money? If you are the U.S. government you can simply print some more.

In November 2010, the Federal Reserve began its controversial quantitative easing (QE2) policy which involved gradually purchasing \$600 billion in Treasuries as a way to increase the money supply, stimulate lending and thereby boost the overall economic recovery. Many of these financial asset purchases were funded by new money that was created electronically, typically by crediting a bank's reserve account with the Fed.

The ultimate effect of QE2 is being hotly debated in the financial community. It has been criticized for raising inflation fears and artificially weakening the U.S. dollar while at the same time providing little relief to average middle-market businesses seeking to access the credit markets. In fact, as a result of a weak dollar many consumers are feeling a pinch in their wallets as their purchasing power has been eroded.

One thing we do know is that QE2 has helped to maintain low yields on Treasuries that have cascaded through the financing markets, resulting in historically low borrowing costs. Since the 10-year note's yield topped out at a record high near 16% during September 1981 in the wake of rampant inflation, the yield has gradually declined until it reached a record low in December 2008 of just over 2% following the collapse of Lehman Brothers in September 2008 and the ensuing flight to quality assets that resulted. Today the yield is approximately 2.0%. Treasury yields generally affect fixed-rate borrowing costs such as those on mortgages and fixed-rate corporate bonds.

Pumping money into the economy coupled with an expansionary fiscal policy has resulted in low short-term interest rates and a relatively steep yield curve. Additionally, the Fed's near zero Fed Funds Rate (currently at 0.10% with a target rate of between 0% and 0.25%) and a discount rate which currently stands at 0.75% has resulted in lower floating interest rates. Despite loan spreads being

In this issue

- 1 Deal killers
- 5 **Credit markets remain in the eye of the storm, for now**
- 10 Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011

somewhat higher today than they were a few years ago, the total all-in interest cost of debt for most businesses is dramatically lower on LIBOR-based (or other floating-rate) loans. As an example, as of today, 1-month and 3-month LIBOR rates are 0.23% and 0.34%, respectively. Just three years ago (in September 2008) these rates were 2.93% and 3.12%, respectively (with a historical average of around 4%).¹

The Federal Reserve's latest round of stimulus ended on June 30, 2011. So what will happen now that the QE2 program is over? Are interest rates set to shoot up while at the same time borrowing availability is set to tighten? Many economists say no. There are a couple of important facts to consider.

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¹ Source: Bloomberg.com

Credit markets remain in the eye of the storm, for now (continued)

First, although the Fed will no longer be making new purchases of Treasury securities, it will still roll over existing Treasury holdings by reinvesting principal payments to maintain its balance sheet at the current level. Second, the financial markets have known that QE2 would be coming to an end in June 2011 since November of 2010 and thus have had ample opportunity to price in the ultimate impact of the end of this stimulus program. Third, Federal Reserve Chairman Ben Bernanke has not taken the option of a future stimulus program – QE3 – off the table should it be needed. Actually, many observers believe it's probably not a question of if it will be needed but more a question of when it will be needed.

Additionally, at the most recent Federal Open Market Committee (FOMC) meeting in August, the committee indicated that based on the current state of the economy, it expects the Fed Funds Rate to remain at low levels for an extended period of time.² As long as monetary policy remains accommodative (as indicated by the

FOMC) while inflation is held in check, we probably won't see a large spike in interest rates in the near term. Given the continued softness in economic conditions with a high unemployment rate (9.1% currently) and prolonged trouble in the housing market, most economists believe that the Fed is still a long way from raising rates or tightening monetary policy – at least for now.

There are some positive factors in the economic picture that should not be overlooked. Corporate profits continue to be robust. According to S&P, the percentage of loans in payment default or bankruptcy currently stands at less than 3% – the lowest level since December 2007 – as compared with nearly 10.7% in December 2009.³ Inflation has moderated in some sectors and is not currently posing a significant challenge to policymakers. Both consumers and businesses have become more prudent with the use of credit. Many businesses have been able to augment spending and capital investment decisions, reduce costs, and improve the health of their balance sheets with growing levels of cash.

Not to paint too rosy a picture, there remains considerable uncertainty about the health and pace of the economic recovery with some seriously troubling events on the horizon that could affect the finance markets. When and how job creation will improve and what will happen with the housing market are the most pressing longer-term concerns. Moreover, recent global trends may be threatening to kill off an already delicate and challenged recovery in the United States. By now everyone has heard of the credit problems in Greece with both Moody's and S&P cutting the country's credit rating, saying the country is likely to default. Greece is now the lowest-rated sovereign nation in the world. Moody's and S&P also just warned of ratings action on Italy, and Moody's recently downgraded the credit ratings of Spain and Ireland.

Even more troubling, in August 2011, S&P downgraded the U.S. sovereign credit rating from AAA to AA+ for the first time since granting the rating in 1917. Both Moody's and Fitch have placed the U.S. credit rating on review for possible downgrade but, as of yet, have not taken any ratings actions. Moreover, last November, China's leading credit rating agency, the Dagong Global Credit Rating Company, lowered the U.S. credit rating to A+ and has since lowered it again to A. China is the largest foreign owner of U.S. debt with holdings estimated to be worth nearly \$1.2 trillion. China, with substantial foreign exchange reserves of \$3.2 trillion, has chosen to hold U.S. Treasury bonds to help offset currency risk.

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Recent global trends may be threatening to kill off an already delicate and challenged recovery in the United States.

² Source: Federal Reserve Board Monetary Policy Press Release; August 9, 2011

³ Source: S&P Loan stats

Credit markets remain in the eye of the storm, for now (continued)

S&P noted that the primary reason for its credit rating downgrade is that the U.S. fell short in developing a credible plan to attack the country's long-term debt problem. Political disagreements between the Democratic and Republican Parties over the method to achieve deficit reduction highlight the risks of political partisanship. S&P has noted that this polarization between the political parties has increased uncertainty that lawmakers will be able to agree on a roadmap to reduce the deficit. Currently, the government borrows nearly \$4 billion daily to pay bills which represents more than 40 cents of each dollar it spends. The U.S. national debt is in excess of \$14.3 trillion and climbing with the annual deficit representing approximately 10% of total annual GDP.

S&P also noted that although the recent deal to increase the debt ceiling which was passed and signed into law helped the United States avoid a default, it may not do enough to make a real dent in the budget deficit. The deal calls for over \$2 trillion in debt reduction over the next 10 years. More than half of the cuts will be determined by a new joint committee in Congress; however, if the committee fails to find areas for reductions, it would trigger automatic cuts of \$1.2 trillion. Critics of the compromise (which include S&P) say that the cuts will not significantly slow the growth of the deficit and do not meaningfully address the real long-term drivers of the country's debt problem which include entitlement programs such as Social Security and Medicare. Additionally, many believe that tax increases, which are not part of the current deal reached by lawmakers, will be necessary to help the United States generate enough revenue to meet spending needs.



For now Moody's and Fitch have not changed their credit ratings on U.S. debt and have reaffirmed the AAA status. However, these agencies along with S&P have left the door open for further downgrades from their present ratings. Such downgrades would occur if the U.S. government should make smaller spending reductions than those it has agreed to make or if other fiscal or economic challenges should surface. Any additional reductions in ratings could further decrease the value of the U.S. dollar and jeopardize its status as the world's reserve currency while increasing borrowing costs for the U.S. government.

Could these events threaten the cheap capital that businesses have enjoyed over the past several years with interest rates set to explode? The answer is maybe. No one knows what will ultimately happen on the jobs and housing fronts; most people are just keeping their fingers crossed and hoping for improvement. The sovereign debt crisis is certainly not over but many of the struggling European countries, such as Greece, are expected to receive some form of bailout financing in exchange for structural reforms which may take some immediate pressure off credit markets. In the United States, the credit rating downgrade is likely to be far-reaching, affecting everything from the dollar to borrowing rates and bond yields.

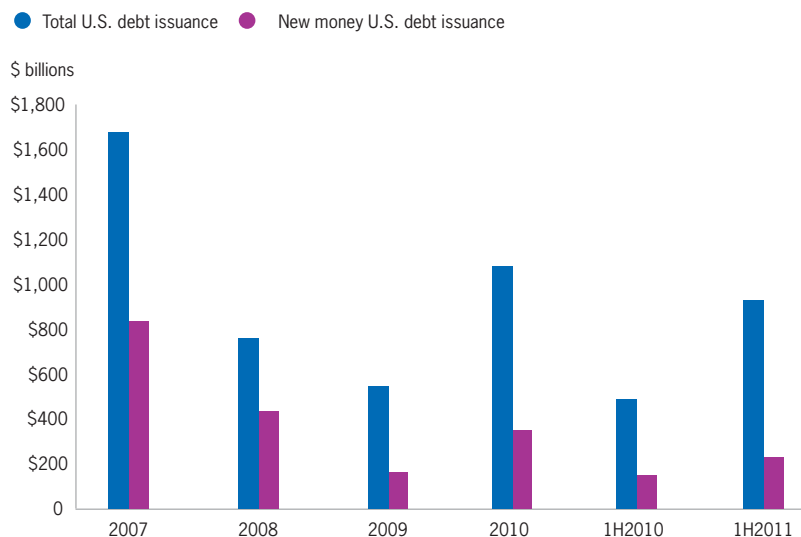
With a lower credit rating (implying a higher level of risk), conventional theory would suggest that investors will require a higher yield to buy U.S. Treasuries. However, on the first trading day following the S&P credit downgrade announcement, the yield on the 10- and 30-year Treasuries declined slightly to 2.33% and 3.66%, respectively.⁴ The equity markets fared considerably worse with the Dow Jones Industrial Average declining 634 points (about 5.5%) and the S&P 500 declining nearly 80 points (about 6.7%).⁵ Investors apparently feel that the United States remains a fairly riskless borrower and are highly confident in the country's ability to meet its financial obligations at least for now. That being said, in the future, it is fairly likely that the U.S. government will have to pay more interest on its debt to continue to attract lenders due to the lower credit rating. A new report from JP Morgan Chase says a 60 to 70 basis point rise in lending rates could end up costing the United States an extra \$100 billion in interest payments on Treasury debt.

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^{4,5} Source: Bloomberg.com

Credit markets remain in the eye of the storm, for now (continued)

Debt issuance



Source: Thomson Reuters LPC, U.S. 2Q11 press release, June 30, 2011

Investors, including sovereign nations, have to put their money somewhere and looking around the world there are no obvious alternatives to U.S. debt. The market for U.S. Treasuries remains one of the world's most secure, liquid and broad which explains why it presently remains a safe haven for global investors despite the first-ever credit rating downgrade on the U.S. In any case, we will have to keep a close watch on Treasury yields as rises could negatively impact lending rates to businesses as well as increases in the cost of mortgages, credit card borrowing, education loans, etc. Basically, the cost of every type of credit product in America could increase if there were a spike in Treasury yields. Since no one has a crystal ball, we will just have to wait and see how it all plays out.

So what does all of this economic data mean for the typical middle-market business owner or manager? For now, conditions remain attractive for those

who want to and who can borrow money. Access to debt for many middle-market companies continues to improve. Total U.S. debt issuance nearly doubled in the first six months of 2011 as compared with the same period last year with new money issuance up over 50%. In fact, the total U.S. debt issuance in the first half of 2011 alone is nearly at the total level for the full year in 2010.

According to S&P, borrowing by middle-market companies as measured by middle-market loan volume increased nearly 40% to \$8.5 billion for the first half of 2011 compared to \$6.1 billion for the first half of 2010.⁶ It appears that banks, business development companies (BDCs), mezzanine capital providers, opportunity funds, small business investment companies (SBICs) and other nonbank commercial lenders are all competing to provide various forms of debt which bodes well for those seeking financing.

Despite competition in the commercial finance market, underwriting standards remain relatively conservative. Most loan covenants remain structured to give lenders strong downside protection should a borrower's financial performance deteriorate; however, leverage multiples (as measured by debt/EBITDA) have recently increased. According to S&P, as of June 2011, the average total funded debt/EBITDA for middle-market companies was approximately 4.6x as compared to 3.9x in January 2011.⁷ Total funded debt includes first lien, second lien, mezzanine/subordinated, and other senior debt.

According to the July 2011 *Senior Loan Officer Opinion Survey on Bank Lending Practices* issued by the Federal Reserve Board during Q2 2011, "banks continued to ease standards and terms for C&I (commercial and industrial) loans." For large and middle-market firms, about 80% of banks reported keeping underwriting standards basically unchanged while about 20% reported easing standards somewhat from the end of Q1 2011. Only 2% of lenders reported increasing pricing during the period. For large- and middle-market borrowers (greater than \$50M in revenue), 62% of survey respondents reported keeping pricing unchanged while 36% reported easing pricing somewhat. For small firms (borrowers with less than \$50M in revenue), 77% of respondents reported keeping pricing unchanged while 21% reported easing pricing somewhat.

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^{6,7} S&P Loan stats

Credit markets remain in the eye of the storm, for now (continued)

Displayed in the chart below are key terms prospective borrowers can expect in today's credit environment. The metrics are for leveraged cash flow-based loan structures with other structures (e.g., asset-based loans) having somewhat different terms and pricing.

The credit quality of most borrowers continues to improve. Loans to C&I borrowers are rising modestly, but lending to small businesses continues to be soft due to weaker demand. During the first half of the year, most of the loan demand resulted from M&A activity or to support inventory/capital expenditure financing. Overall, larger borrowers are still finding it considerably easier and less expensive to obtain financing as compared to smaller companies. With that

being said, the credit market is certainly more open today to smaller company borrowers, even those with somewhat storied operating performance, than it has been in quite some time.

Those who haven't already taken advantage of the current situation are now pondering if it is the right time to do so. Government intervention and monetary policy have played, and continue to play, no small part in helping to stabilize the credit environment in the United States. One thing most market observers agree on is that interest rates are currently at unsustainable lows, so now may be the time to refinance or obtain less expensive debt than may be available in the future. •



Debt metrics	July 11	Dec 10	July 10
Senior debt/EBITDA	1.5x-4.0x	1.5x-3.0x	1.5x-3.0x
Total debt/EBITDA	3.0x-5.0x	3.5x-4.5x	3.0x-4.5x
Senior debt pricing	L+2.50%-5.50%	L+2.25%-5.00%	L+3.00%-5.00%
Subordinated debt pricing	12%-17%	15%-19%	15%-18%
LIBOR floors	"Somewhat typical (1.00%)"	"Somewhat typical (1.00%-2.00%)"	"Typical (1.00%-2.00%)"
Minimum equity component	25%-35%	30%-40%	30%-40%
Recap availability	Available but limited by leverage (generally 2.5x pro forma max)	Available but limited by leverage (generally 2.0x pro forma max)	Available but limited by leverage (generally 2.0x pro forma max)
Covenants and guarantees			
Personal guarantees	Somewhat required	Somewhat required	Somewhat required
Interest coverage	High (>2.50x)	High (>2.50x)	High (>2.50x)
Fixed charges coverage	High (>1.30x)	High (>1.30x)	High (>1.30x)
Debt service coverage	High (>1.30x)	High (>1.30x)	High (>1.30x)

Source: GTCF research

Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011



Ari Goldschneider
Senior Associate, Grant Thornton Corporate Finance

Summary

Signs that continue to point to a robust M&A market include:

- M&A volume consistently trending upward over the past three years;
- Valuations approaching pre-recession levels;
- Strategic buyers flush with cash;
- Financial buyers holding record quantities of uninvested capital ready to be deployed; and
- Credit market for leveraged buyouts (LBOs) improving.

In this issue

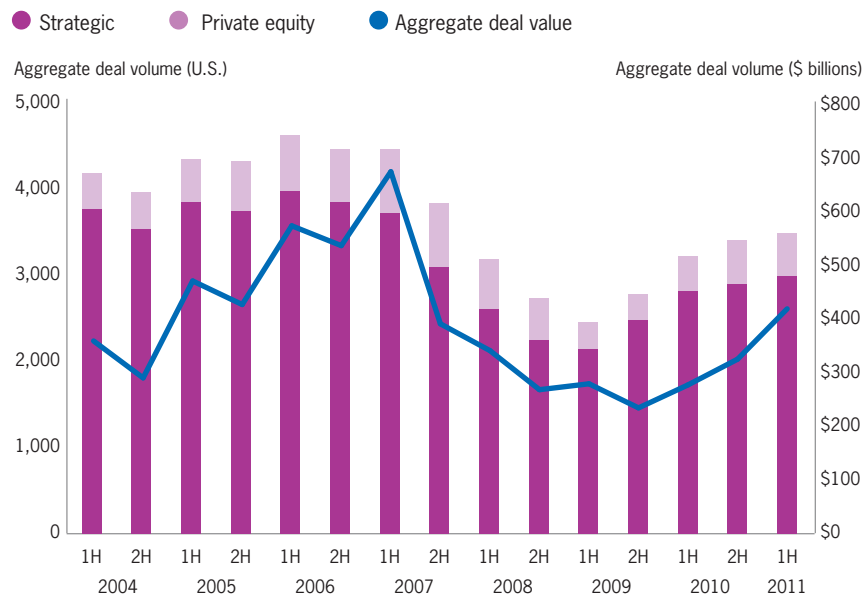
- 1 Deal killers
- 5 Credit markets remain in the eye of the storm, for now
- 10 **Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011**

M&A activity continues to rise

M&A activity in the United States continued to increase in 2011, with more than 3,500 deal announcements taking place during the first half of the year. The first half of 2011 saw an 8% increase in the number of deal announcements as compared with the same period in 2010. Aggregate disclosed deal value also improved, reaching \$417 billion. That amount represents a 52% increase from 1H 2010 and the highest half-year deal value recorded in four years (since 1H 2007). Billion dollar-plus transactions (66 in total) accounted for nearly three-quarters of total deal value in the period and have consistently increased in number over the past three years.

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U.S. aggregate deal volume and value (2004–2011)



Source: FactSet Mergers

Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011 (continued)

Valuation multiples improve

As the deal market has become more competitive, valuations have continued to trend upward, with median enterprise value EV/EBITDA multiples climbing to around 9.0x in 1H 2011 (excludes outliers of >15.0x). Within the lower middle market, transactions with an EV under \$50 million changed hands at just over 7.0x during the same period. Readers should bear in mind that these valuation multiples reflect only publicly disclosed deals, which are typically about 1.0x–2.0x EBITDA higher than private transactions.

In addition, valuation multiples vary significantly based on industry. For example, businesses in the high-growth technology products and services sector are trading above the overall median, while businesses in industrial services, retail and transportation are trading at a discount.

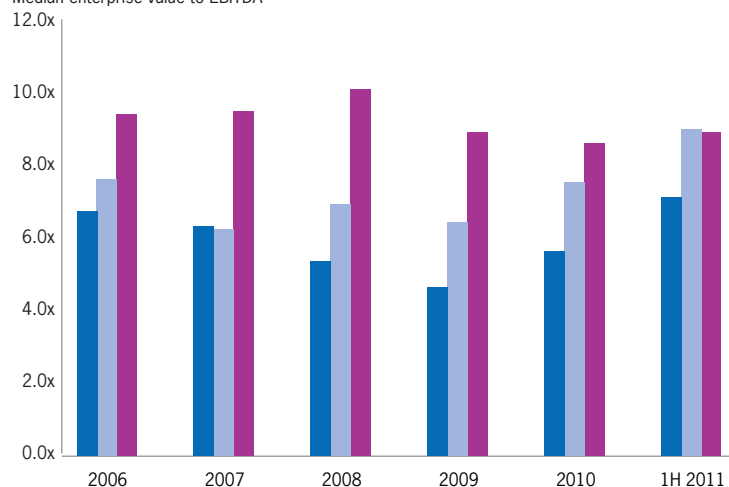
M&A volume growth driven by private equity

While private equity volume isn't back to pre-recession levels, activity from financial buyers continued to increase in 1H 2011, accounting for 15% of total activity (vs. 12% in 1H 2010) but nearly 40% of total growth in overall M&A. Finding a willing financial buyer is becoming more feasible as funds keep chipping away at their large quantities of uninvested capital and the debt market for sponsor-backed deals remains stable. Active financial buyers are extremely important to the overall health of the M&A markets, as they provide sellers with a valuation floor, create competition, and can be vital to the sale of businesses in niche markets that have few industry players and no obvious strategic buyers.

Median EV/EBITDA multiples (2006–2011)

● Under \$50M ● Between \$50M–\$250M ● Over \$250M

Median enterprise value to EBITDA



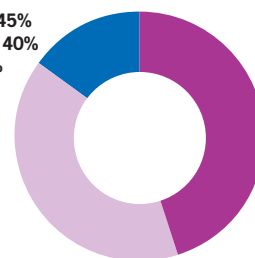
Excludes transactions with EV/EBITDA > 15x
Source: FactSet Mergers

Publicly held businesses have also been extremely acquisitive, accounting for approximately 36% of the increase in M&A volume during 1H 2011. All-cash transactions made up roughly 50% of acquisitions, while all-stock and cash/stock combination transactions each comprised nearly 25%. This buying spree is likely to continue as public companies currently hold record quantities of cash on their balance sheets.

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Buyers by ownership type – 1H 2011

● Public companies 45%
● Private companies 40%
● Private equity 15%



Source: FactSet Mergers

Finding a willing financial buyer is becoming more feasible as funds keep chipping away at their large quantities of uninvested capital and the debt market for sponsor-backed deals remains stable.

Private equity takes advantage of seller's market: U.S. M&A update — 1H 2011 (continued)

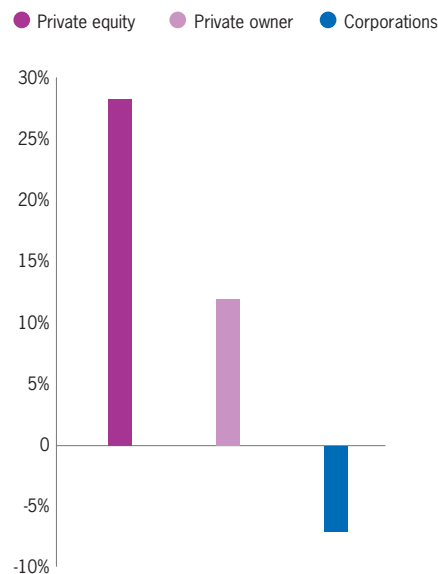
Changing composition of sellers

Current data shows that private equity firms as well as private business owners believe that now is as good a time as any to sell their businesses. That belief is underscored by the 28% increase in divestitures of PE portfolio companies between 1H 2010 and 1H 2011, as well as the 12% rise in sales of privately held companies over the same period. Private equity exits will likely remain prevalent due to the large quantity of portfolio company inventory (currently more than 6,000 businesses) combined with the disproportionate number of portfolio companies approaching the end of their holding period (over 4,500 have been held in excess of three years). Sales by private business owners will also be driven by the large quantities of capital available for acquisitions as well as potential future changes to capital gains tax rates.

Corporate divestitures, on the other hand, declined 7% between 1H 2010 and 1H 2011, likely because the majority of noncore or underperforming assets were sold during the recession. Further, with cash stockpiles increasing and the economic outlook improving, businesses are now seeking to deploy rather than accumulate excess cash. •

Growth in sellers by ownership type 1H 2011 vs. 1H 2010

Percentage increase/decline



Source: FactSet Mergers

Current data shows that private equity firms as well as private business owners believe that now is as good a time as any to sell their businesses.

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Stephen McGee
National Practice Leader
Grant Thornton Corporate Finance LLC
T 617.848.4988
E stephen.mcgee@us.gt.com

www.GrantThornton.com/Dealmaker

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