



Firm Overview

FD Capital Advisors is the Corporate Finance and Investment Banking affiliate of Frazier & Deeter, LLC, one of the top 100 public accounting firms in the US. The firm's principals have over \$3bn in transaction and advisory experience and provide M&A, capital formation and general corporate finance advisory services to middle market clients.

**Senior Attention, Integrity,
Customization, and Client
Satisfaction**

FDCA Mid-Market Dashboard (2009)

(\$ in 000's)

	Period		% Change
	2009	2008	
Total # of Deals (< \$500M) ¹	3,174	3,453	-8%
\$ Volume of Deals (billions) (<\$500M) ¹	\$141	\$198	-29%
Median EV/EBITDA (weighted) (<\$500M)	7.2x	8.3x	-13%
Median EV/EBITDA (<\$100M) ¹	7.0x	7.8x	-10%
% PE Buyers ¹	23%	29%	-21%
% Equity per PE - LBO	46%	39%	17%
Median Total Debt/EBITDA	3.3x	4.5x	-27%
1- Year LIBOR ²	1.0%	2.8%	-63%
Unemployment Rate	9.7%	8.5%	14%

Notes:

1. Sources: Capital IQ, FactSet, FD Capital Advisors

4. LIBOR for the month ending

Market Commentary

General Take

- General Economy:** US economy is improving but uncertainty remains on the "shape" (i.e., V or W) of the recovery given high unemployment, tight credit, deeply depressed real estate values, low consumer spending and an end to the Bush tax cuts at year end. GDP rose for a 2nd consecutive quarter in Q4 but mostly due to slow moving inventories (GDP was down 2.4% for 2009). Most economists expect 2-3% in real GDP growth in 2010.
- Middle Market M&A Activity:** The number and value of deals was off the 2008 pace but showed positive signs of life in the last quarter of '09. Most market professionals see an increase in activity mostly due to pent up supply and demand.
- Middle Market Valuations:** In aggregate, values remain depressed as multiples on deals less than \$100M are off 13% from 2008. However, premiums are being paid for companies with strong business models and solid performance through the downturn. In addition, "Bid / Ask" spreads on deals are narrowing.
- Middle Market Leverage:** Total leverage multiples have plummeted from a peak of 5.6x in '07 to just 3.3x in '09 highlighting the continued tightness. Cash flow leverage remains scarce while ABL and sub-debt is available. PE groups, on average, have been forced to invest approximately 17% more equity per deal to make up some of the leverage shortfall further hampering multiples.
- Active M&A Industries:** A recent survey suggests the following industries are primed for significant M&A activity: Healthcare/Life sciences; Niche Manufacturing and Distribution; Specialty Financial Services; Technology; Business Services; and Consumer.

FD Capital Advisors' Perspective

Our Take

- We are not yet out of the woods on the general economy – the unknown is the impact of commercial real estate.
- We see M&A activity picking up in 2010 for the following reasons:
 - *Pent up demand for shareholder liquidity (to include PEs that need to show returns).*
 - *Significant cash on corporate balance sheets and tremendous “dry powder” in the hands of PEs (i.e., \$400Bn).*
 - *EBITDA levels are improving and seller expectations are beginning to match market realities*
- We see many operators hunkering down during this malaise and using the time to expand through expansion and acquisition often requiring outside capital – we believe this will be an active segment of the deal market in 2010. Opportunities include:
 - Minority growth investments from select PE firms
 - Mezzanine / sub-debt investments for growth and liquidity

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