M&A Monitor

FD CAPITAL ADVISORS

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 (Q2 2010)

	Period		% Change
Quarter End	**Q2 '10**	**Q1 '10**	
Total # of US Deals ($15M - $500M) [1, 2]	369	355	4%
$ Volume of Deals (billions) ($15M - $500M) [1, 2]	$33	$31	6%
1- Year LIBOR [3]	1.0%	0.8%	19%
Unemployment Rate [4]	9.5%	9.7%	-2%
Last Twelve Months	**LTM 6/30/10**	**2009**	
Median EV/EBITDA ($15M - $500M) [1, 2]	9.7x	7.2x	35%
% PE Buyers [1]	12%	9%	33%
% Equity per PE - LBO ($15M-$500M) [1]	47%	50%	-6%
Median Total Debt/EBITDA ($15M-$500M) [1]	4.0x	3.8x	5%

Notes:
1. Sources: Capital IQ, GF Data, FactSet, S&P LCD
2. Based upon announced deals
3. LIBOR for the month ending
4. US Dept of Labor; seasonally adjusted

Market Commentary

General Observations

- **General Economy:** US recovery has slowed to an annualized GDP growth rate of 2.4% during 2Q 2010 compared to the revised estimate of 3.7% for Q1. Analysts believe that the slowing growth in GDP will continue as stimulus money wanes and as jobs recovery continues to drain the consumer economy. This pessimistic outlook has been countered by increasingly strong corporate earnings during Q2 with 70% of companies exceeding earnings estimates. Real estate prices have bounced off of lows as mortgage rates remain at historically low levels. Other key indicators to watch are; a) the strength of EU banking after a positive "stress test", b) the ability of companies to post better earnings driven from revenue growth rather than heightened efficiency, c) the possibility of deflation, and d) the slow jobs recovery.
- **Middle Market M&A Activity ($15M-$500M):** Volume was up over a weak Q1 by 4% as quality and quantity of companies coming to market has increased with the launch of deals that had been backlogged for close to two years. This supply has been welcomed by cash rich strategic buyers and motivated private equity groups ("PEs"). PEs continue to feel pressure from investors as over one trillion dollars in buying power remains on the sidelines. As financing continues to pick up (especially for companies with EBITDA north of $7M) and the need to exit prior to the increase in cap gains, most expect volume to continue to clip along at a more healthy pace for the balance of 2010.
- **Middle Market Valuations (LTM)($15M-$500M):** Valuations increased substantially over year end levels *(Caveat: given limited deal data available and few very large multiples, results in the Dashboard above are skewed. Removing a few 25x+ multiples reveals a more normal median multiple of 8.5x for LTM through June*). Nevertheless, the strengthening of sellers' financials and the increasing competition for deals has pushed valuations upward.
- **Middle Market Leverage:** Total leverage multiples remain well off highs set in 2007. Cash flow leverage remains tight for companies below $5M EBITDA but ABL and sub-debt lenders continue to be active. Loan pricing has become more competitive among banks as they have repaid TARP and are aggressively re-entering the marketplace post-TARP paybacks.
- **Active M&A Industries:** In Q2, five of the most active industries included: Energy, IT, Financials, Healthcare, and Industrials.

FD Capital Advisors' Perspective

Our Take

- Compared to Q1, data points towards economic recovery across many crucial indicators; however, the pace of the recovery is somewhat worrisome due to fear resulting from the European credit crisis, announced government regulations (financial, healthcare), plans to address the national deficit, as well as the lingering psychological effects of the recent downturn. Since consumer spending makes up roughly 70% of our economy, the most important aspect of the recovery will be growing corporate revenues and the resultant increase in hiring activity. If these things happen our economy should, with time, return to normalcy while staving off distant fears of deflation and/or a double-dip recession.
- We should see M&A activity continuing to pick up for the balance of 2010 for the following reasons:
    - *Pent up demand for shareholder liquidity (to include PEs that need to show returns) and a year end push to close deals prior to an increasing cap gains rate.*
    - *Significant cash on corporate balance sheets and tremendous "dry powder" in the hands of middle-market PEs (i.e., approximately $450M in raised/uncommitted capital).*
- We continue to see companies strengthen both their balance sheets and P&L's, and look to expand organically through investment (i.e., capex projects, R&D, new offerings, etc) and acquisition – most of the time this requires outside capital to facilitate. Options for capital in this environment (outside of the local bank) include:
    - Minority growth investments from select PE firms
    - Mezzanine / sub-debt investments for growth and liquidity

We would be happy to discuss with you more about our capabilities and how we may be able to help with your strategic plans. Please direct all inquiries or questions to the following individuals at FD Capital Advisors:

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