



# Q1 2012 Market Update

May 1, 2012



Investment Banking Solutions for the Middle Market.

# Disclaimer

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## Executive Summary

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- Following a favorable first half of 2011 (“H1 2011”) for public equity market indicators, the second half of the year was marked by initial downward trends and continued volatility
- After reaching a trough in the fourth quarter of 2011 (“Q4 2011”), the first quarter of 2012 (“Q1 2012”) was characterized by a rise in performance among the major equity indices and public offering markets
- Mergers and acquisitions (“M&A”) markets continued to improve in second half of 2011 (“H2 2011”) with both strategic buyers and financial sponsors actively pursuing acquisition opportunities
- While M&A activity declined in Q1 2012 and uncertainties remain in the global macroeconomic environment, steady M&A activity and consistent gains in M&A valuations in 2011 provide a favorable outlook for 2012
- This report will review recent trends related to the following topics:
  - Performance of the major equity indices, including performance by industry sector
  - Public offering activity, including the volume and transaction value of initial public offerings (“IPO”) and follow-on offerings (“follow-on”) and performance by industry sector
  - M&A activity, including the volume and transaction value of lower middle market strategic and sponsored transactions, performance by industry sector, and M&A valuation

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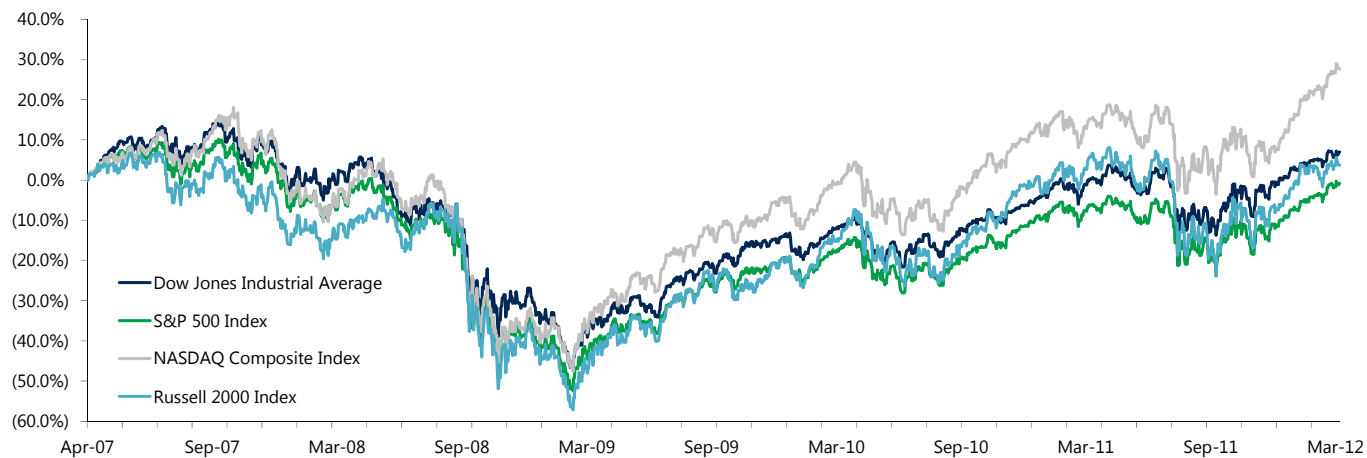
# Major Equity Index Performance

- By April 2011, following two years of consistent improvement, three of the four major equity indices had returned to and exceeded price levels observed in April 2007
  - However, a sharp decline in performance in August 2011 returned all of the major equity indices to September 2010 price levels
  - Since August 2011, performance of the major equity indices stabilized in Q4 2011 and has steadily improved through Q1 2012, providing positive momentum for the remainder of the year
- While the major equity indices followed similar trends in performance, the Dow Jones Industrial Average and the S&P 500 Index displayed less volatility than the NASDAQ Composite Index and Russell 2000 Index
  - This variability in relative performance, combined with the shift in trends observed from Q3 2011 to Q1 2012, was observed across not only the major equity indices, but also various industry sectors

## Major Equity Index Performance

April 1, 2007 – March 31, 2012

(% change in closing prices)



Source: CapitalIQ.

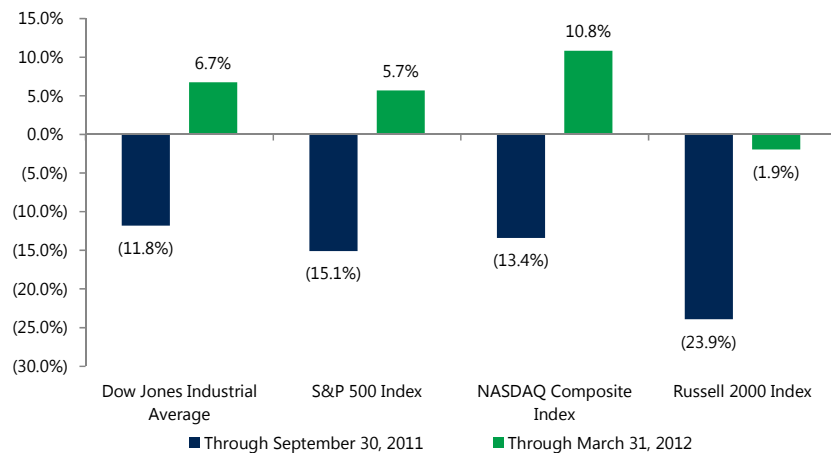
# Major Equity Index and Industry Sector Performance

- After weak performance from Q2 2011 to Q3 2011, three of the four major equity indices recovered from Q4 2011 to Q1 2012, with the NASDAQ Composite Index registering the strongest returns over the last twelve months
  - The Dow Jones Industrial Average and S&P 500 Index both showed an approximate 6% increase in returns within the last year
  - The Russell 2000 reverted close to its initial price level at the opening of Q2 2011
- All industry sectors improved from Q4 2011 to Q1 2012; however, performance varied substantially by industry sector
  - The Utilities sector showed the most consistent performance over the last twelve months, while the Information Technology sector demonstrated greatest recovery in the last six months
  - The Information Technology, Consumer Discretionary, Consumer Staples, and Healthcare sectors returned to positive levels within the last six months
  - The Industrials, Telecommunication Services, Financials, Materials, and Energy sectors have shown positive momentum in the last six months but have not fully recovered from the decline in performance from Q2 2011 to Q3 2011

## Major Equity Index Performance

Periods Began April 1, 2011 and Ended September 30, 2011 and March 31, 2012

(% change in closing prices)

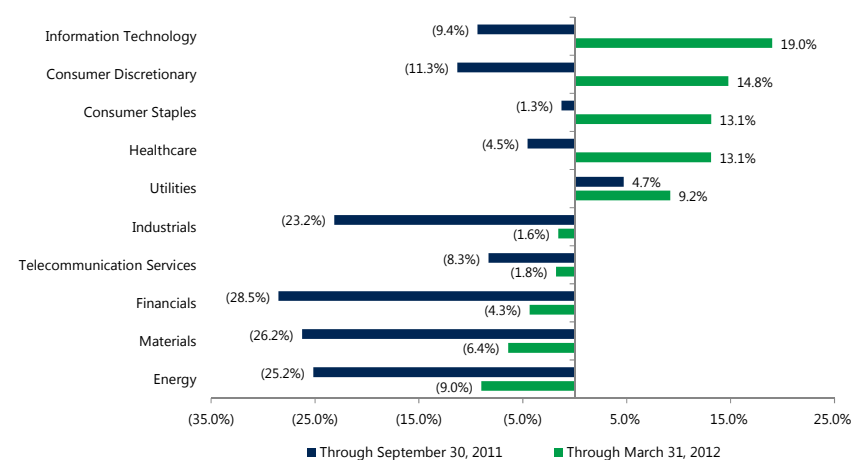


Source: CapitalIQ.

## S&P 500 Industry Sector Performance

Periods Began April 1, 2011 and Ended September 30, 2011 and March 31, 2012

(% change in closing prices)



Source: CapitalIQ.

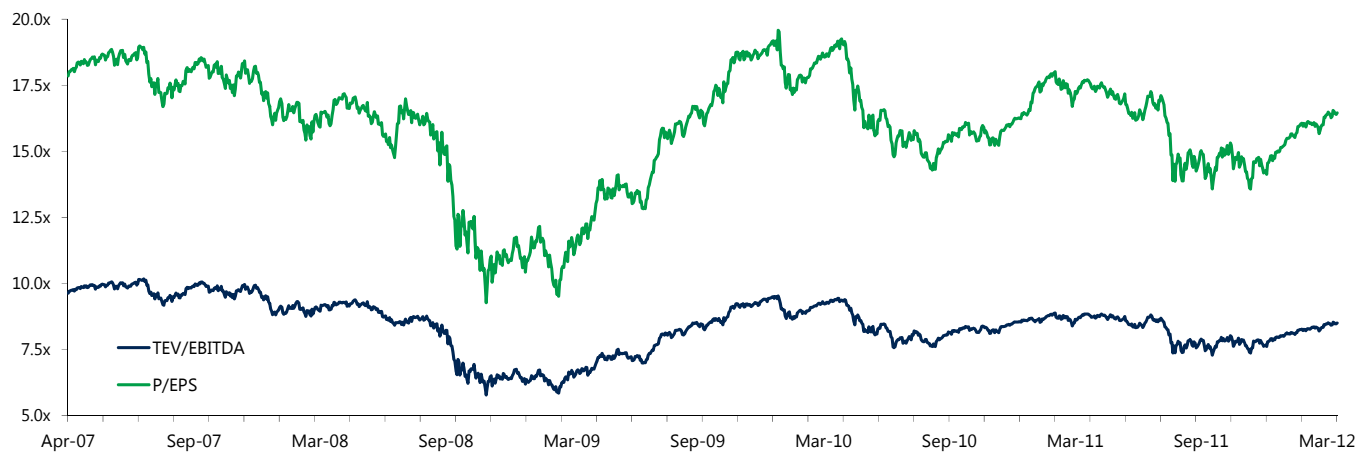
## Public Valuation Trends

- Public valuation trends are based on multiples of total enterprise value to earnings before interest, taxes, depreciation, and amortization (“TEV/EBITDA”) and price to normalized earnings per share (“P/EPS”)
  - By January 2010, the S&P 500 Index had returned to similar valuations as those observed in early 2007
  - However, subsequent declines in TEV/EBITDA and P/EPS multiples in May 2010 and August 2011 held valuations below the levels observed in early 2010
- On March 31, 2012, TEV/EBITDA and P/EPS multiples reached 8.5x and 16.5x, respectively
  - While valuation multiples observed in H2 2011 are lower than those observed throughout H1 2011, they are roughly on par with H2 2010 multiples
  - The stabilization of valuation multiples observed in H2 2011, followed by a steady recovery through Q1 2012, provides a foundation for increasing confidence and more favorable valuations going forward

### S&P 500 Index Valuation Multiples

Period Began April 1, 2007 and Ended March 31, 2012

(multiples of TEV/EBITDA and P/EPS)



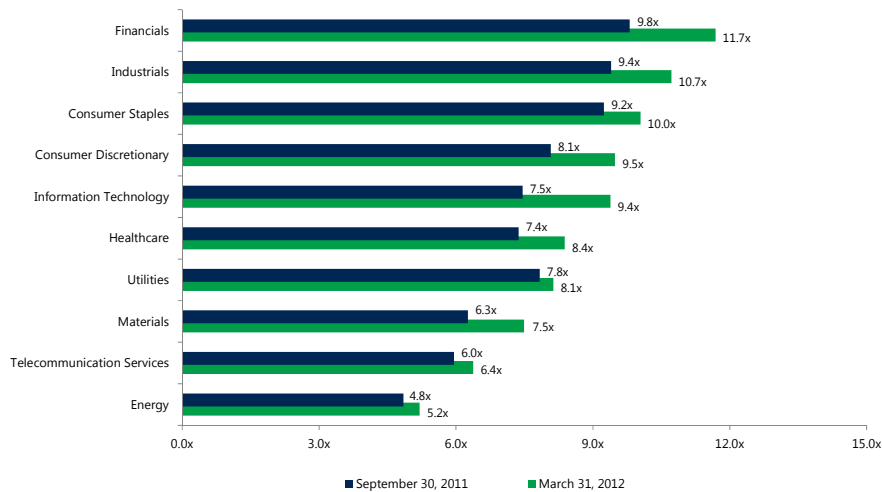
Source: CapitalIQ.

# Public Valuation and Industry Sector Trends

- Following the declined TEV/EBITDA multiples in August and September 2011, all industry sectors recovered from Q4 2011 to Q1 2012, with the Information Technology sector registering the strongest recovery over the last six months
  - The Financials, Industrials, Consumer Discretionary, Healthcare, and Materials sectors demonstrated meaningful recovery in valuation multiples
  - The Consumer Staples, Utilities, Telecommunication Services, and Energy sectors remained consistent over the last six months
- P/EPS multiples for all industry sectors improved from Q4 2011 to Q1 2012
  - The Industrials, Consumer Discretionary, Information Technology, Materials, and Telecommunication Services sector multiples increased by more than 20%, while the Financials sector showed the highest gain with approximately 30% increase
  - While the Consumer Staples and Healthcare sectors increased in valuation multiples, the Utilities and Energy sectors remained consistent over the last six months

## S&P 500 Industry Sector TEV/EBITDA Multiples

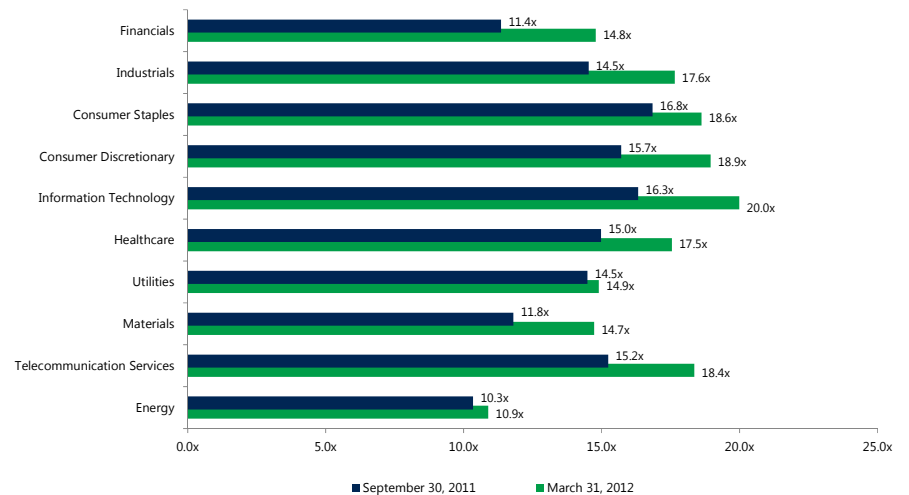
Periods Ended September 30, 2011 and March 31, 2012  
(multiples of TEV/EBITDA)



Source: CapitalIQ.

## S&P 500 Industry Sector P/EPS Multiples

Periods Ended September 30, 2011 and March 31, 2012  
(multiples of P/EPS)



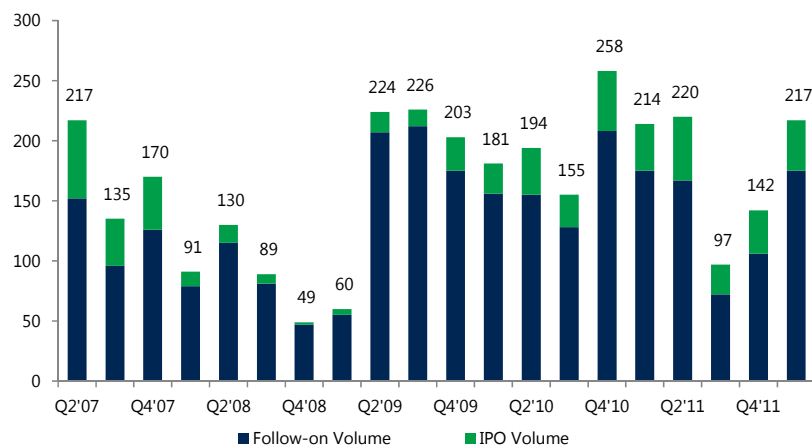
Source: CapitalIQ.

# Public Offering Activity

- Since the economic downturn in 2008, initial public offering (“IPO”) and follow-on offering activity maintained an improved level of performance from Q2 2009 through Q2 2011
  - Following similar trends as the major equity indices, the total volume and transaction value of public offerings decreased significantly in Q3 2011
  - Public offering activity rebounded in Q4 2011 and continued to improve in Q1 2012, providing positive momentum for the remainder of the year
  - Furthermore, Q1 2012 witnessed more public offering activity than any first quarter since 2007
- In 2011, IPO volume accounted for approximately 23% of all public offerings – the first time since 2007 that IPOs represented more than 20% of total public offering volume
  - However, IPO transaction value represented only 24% of total value across all public offerings in 2011 compared to 49% in 2007

## Public Offering Transaction Volume

Quarters Ended June 30, 2007 – March 31, 2012  
(number of transactions)

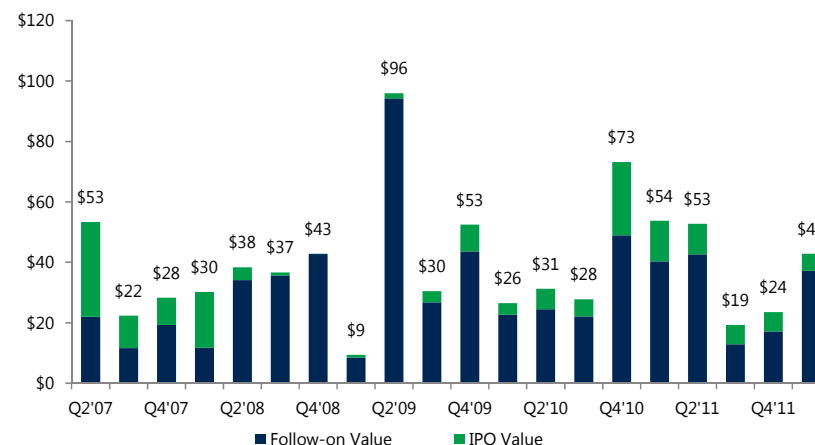


Includes public offerings closed from June 30, 2007 through March 31, 2012, with the issuer and exchange based in the United States.

Source: CapitalIQ.

## Public Offering Transaction Value

Quarters Ended June 30, 2007 – March 31, 2012  
(\$ in billions)



Includes public offerings closed from June 30, 2007 through March 31, 2012, with the issuer and exchange based in the United States.

Source: CapitalIQ.



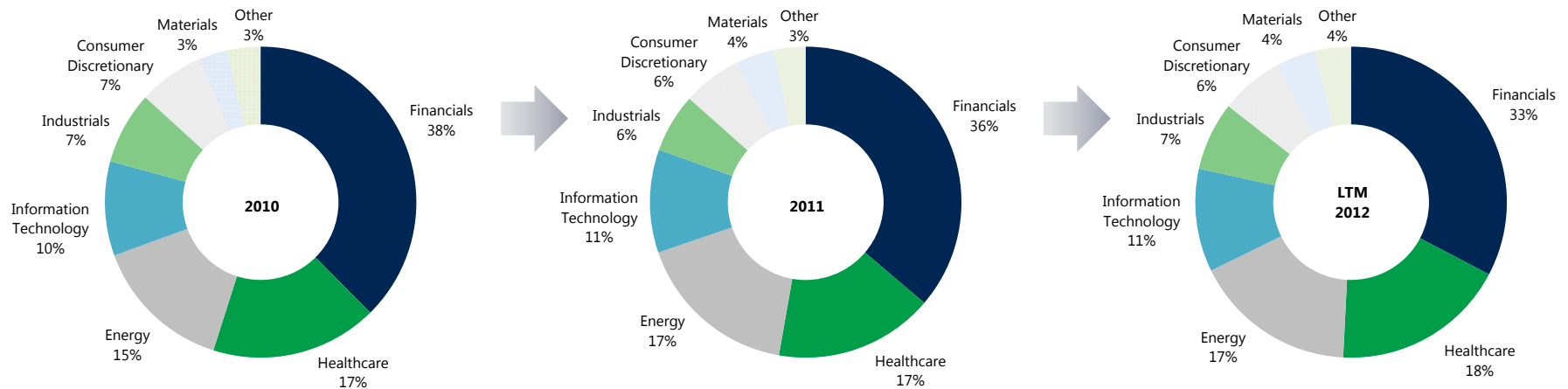
# Public Offerings by Industry Sector

- In the last twelve months ended March 31, 2012, the Financials, Healthcare, Energy, and Information Technology sectors accounted approximately 80% of overall public offering activity
- While the Financials sector accounts for the largest share of public offerings, this sector experienced a decrease in activity in the last twelve months relative to other sectors
  - Increases in public offering activity were observed in the Healthcare, Energy, Information Technology, Materials, and Other sectors from 2010 through 2012
  - Conversely, the Consumer Discretionary sector demonstrated a decrease in public offering activity, while the Industrials sector has been most susceptible to fluctuations

## Public Offerings by Industry Sector

Years Ended December 31, 2010 – 2011 with LTM Ended March 31, 2012

(% of transactions)



Includes public offerings closed from January 1, 2010 through March 31, 2012, with the issuer and exchange based in the United States.

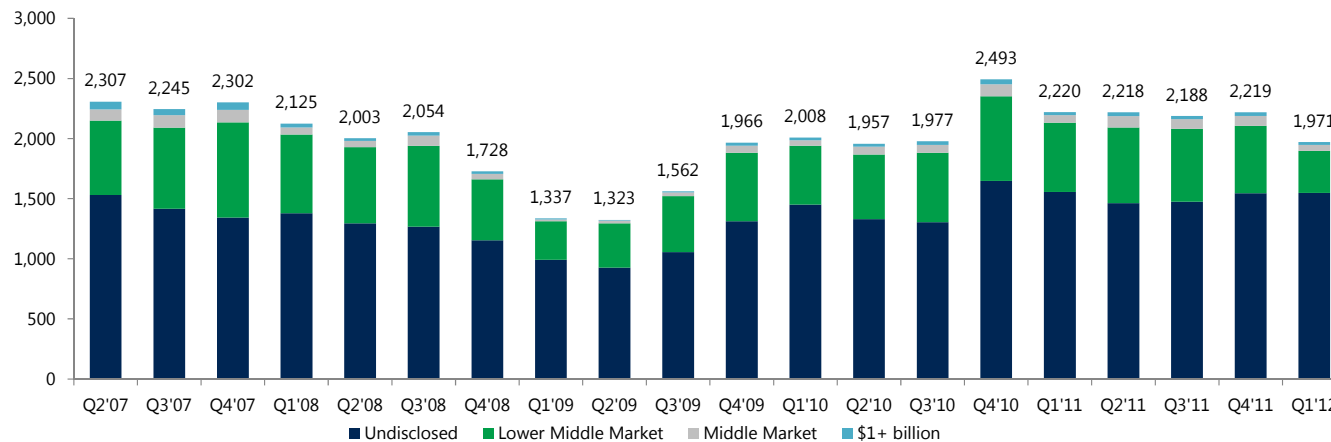
Source: CapitalIQ.

# M&A Activity

- Since the economic downturn in 2008, overall M&A activity has increased consistently year over year for comparable periods from Q1 2009 through Q3 2011, with Q4 2010 being the most active quarter for M&A transactions
- A preliminary analysis showed a meaningful decline in M&A activity in Q1 2012, with the lower middle market (i.e., deals with transaction values less than \$250 million) being hit the hardest as transaction volume declined 38% compared to Q4 2011
  - Key drivers of the decline in M&A activity include the debt crisis in Europe, concerns over the global economy, and greater stability in the public markets
  - Uncertainty in the global economy has weakened the confidence of strategic buyers contemplating acquisitions
- However, M&A activity is anticipated to recover in H2 2012, driven by the continued strengthening of the domestic economy and the ongoing reconciliation of the debt crisis abroad

## M&A Transaction Activity

Quarters Ended June 30, 2007 – March 31, 2012  
(number of transactions)



*Includes qualified M&A transactions closed from April 1, 2007 through March 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector. No transaction value provided for undisclosed deals. Lower middle market deals have transaction values less than \$250 million. Middle market deals have transaction values ranging from \$250 million to \$1 billion.*

Source: CapitalIQ.

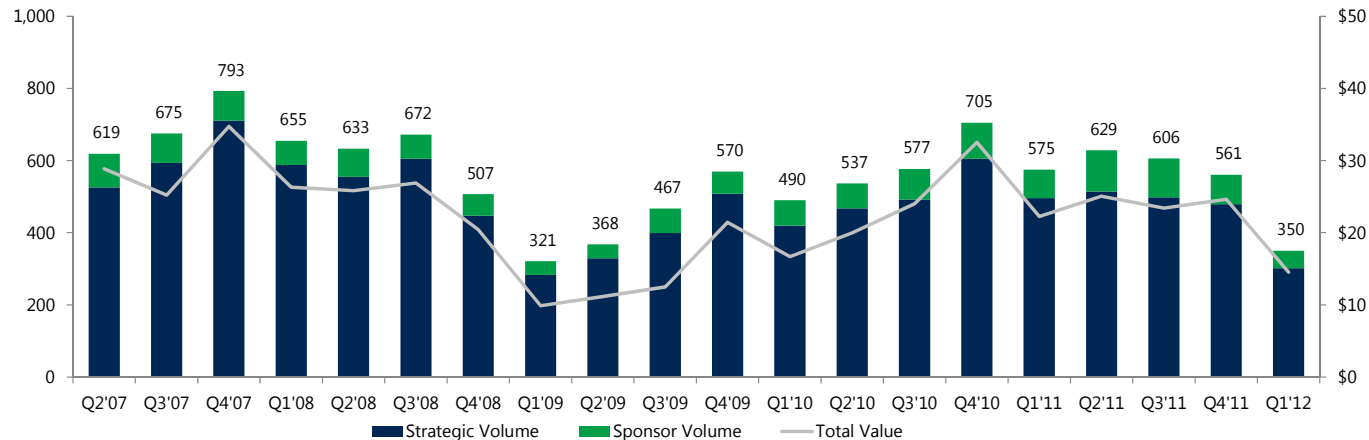
## Lower Middle Market M&A Activity

- Since Q2 2007, qualified lower middle market M&A transactions have followed the same general trends as those observed in overall M&A activity
- While the volume of strategic and sponsored lower middle market M&A transactions decreased 32% and 26%, respectively, from 2008 to 2010, sponsored M&A activity has recovered from 2010 through 2012
  - Lower middle market M&A activity declined in Q1 2012 to levels last observed in H1 2009
  - Sponsored deals account for a growing share of all lower middle market M&A transaction activity, increasing from 11% in 2008 to 16% in the last twelve months
  - These trends may be at least partially the result of transactions that have yet to be reported and are subject to variations in reporting practices from year to year

### Lower Middle Market M&A Transaction Activity

Quarters Ended June 30, 2007 – March 31, 2012

(number of transactions, \$ in billions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from April 1, 2007 through March 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

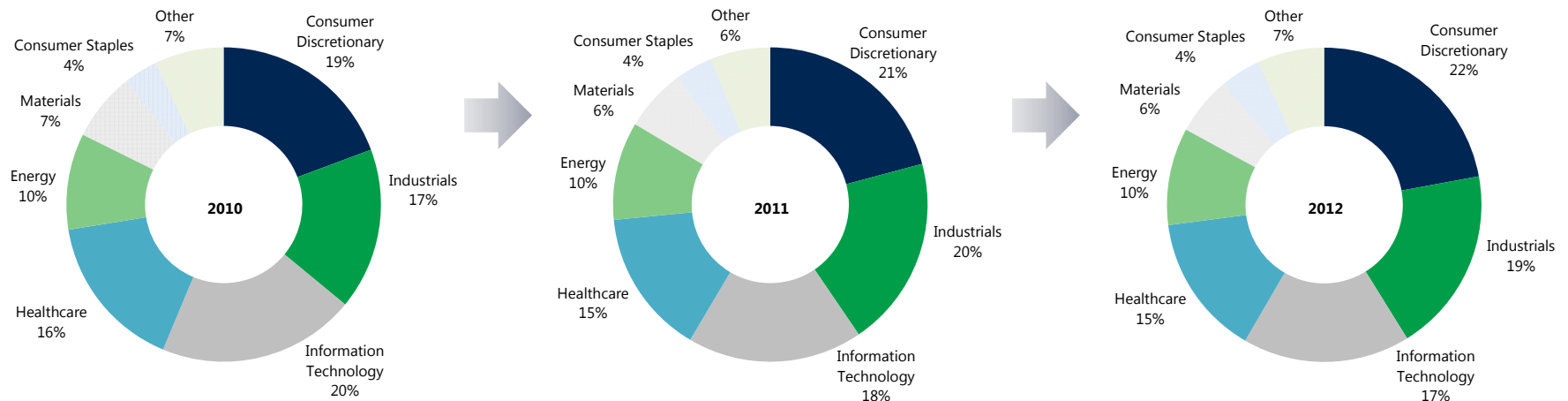
## Lower Middle Market M&A Activity by Industry Sector

- In the last twelve months ended March 31, 2012, the Consumer Discretionary, Industrials, Information Technology, and Healthcare sectors accounted for 73% of M&A transactions in the lower middle market
- The Consumer Discretionary sector accounts for the largest share of lower middle market M&A transactions and experienced an increase in activity over the last three years
  - Conversely, the Information Technology, Healthcare, and Materials sectors demonstrated a decrease in transaction activity over the last three years
  - Meanwhile, M&A activity in the Industrials, Energy, Consumer Staples, and Other sectors have been most susceptible to the economy and fluctuations in overall M&A activity

### Lower Middle Market M&A Transaction Activity by Industry Sector

Years Ended December 31, 2010 – 2011 with LTM Ended March 31, 2012

(% of transactions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2011 through March 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

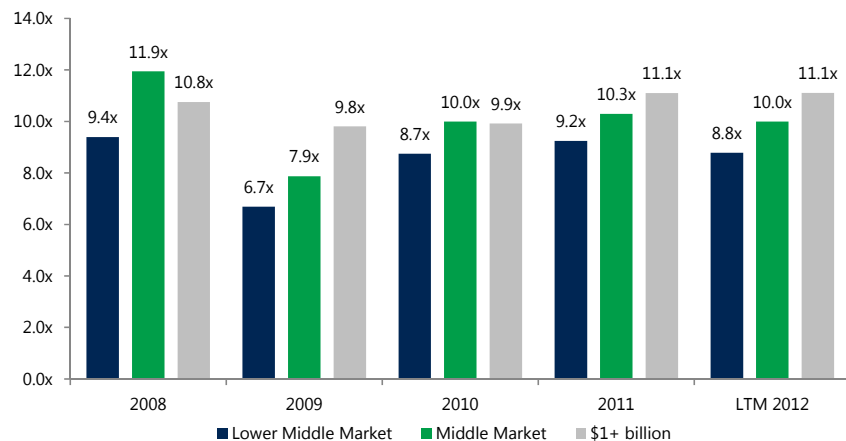
## M&A Valuation Trends

- M&A valuations have improved from Q1 2009 through Q1 2012, with the highest TEV/EBITDA multiples preserved among transactions greater than \$1 billion
  - Since Q1 2009, a recovery and stabilization of TEV/EBITDA multiples has been observed for lower middle market and \$1+ billion transactions, where valuations have returned to nearly the same levels as those observed in 2008
  - TEV/EBITDA multiples for middle market deals remain approximately two full turn of EBITDA lower than valuations observed prior to the recession
- During the last twelve months, lower middle market M&A valuations were highest in the Utilities, Information Technology, and Consumer Staples sectors, with TEV/EBITDA multiples equal to or greater than 10.0x
  - The Healthcare, Materials, Industrials, and Consumer Discretionary sectors also performed well with TEV/EBITDA multiples ranging from 8.4x – 9.5x for the last twelve months

### Valuation Multiples by Transaction Size

Twelve Months Ended March 31, 2008 – 2012

(multiples of TEV/EBITDA)



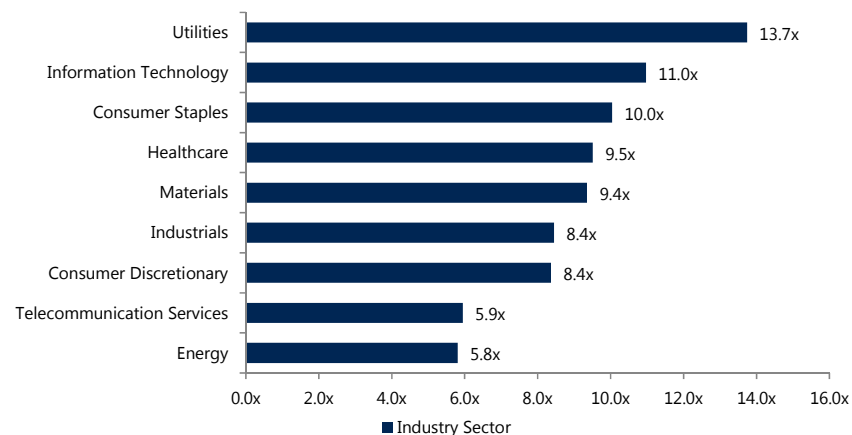
Includes qualified M&A transactions with disclosed and meaningful transaction values, closed from January 1, 2008 through March 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.

Source: CapitalIQ.

### Lower Middle Market Valuation Multiples by Industry Sector

Twelve Months Ended March 31, 2012

(multiples of TEV/EBITDA)



Includes qualified lower middle market M&A transactions with disclosed and meaningful transaction values less than \$250 million, closed from April 1, 2011 through March 31, 2012 with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.

Source: CapitalIQ.
























## Recent M&A Observations

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*League Park's professionals have observed several trends in M&A activity that are applicable across all industry sectors*

- Private equity firms are increasingly adopting a focused approach to their portfolios, seeking to invest in niche market leaders with defensible positions
- Potential changes in tax legislation are becoming increasingly important to small business owners as a key consideration for long-term estate planning
- Senior lenders have tighter leverage guidelines for financing deals, resulting in more discipline in valuation practices and deal structures
- Increasing regulatory oversight from the Environmental Protection Agency ("EPA"), Occupational Safety and Health Administration ("OSHA"), and other federal government agencies has resulted in environmental, human resources, legal, and related issues becoming a focal point of due diligence

# Recent Transactions

 <p>has been acquired by</p>  <p>League Park acted as financial advisor to Lexi-Comp on the transaction</p>	 <p>has been acquired by Praxair, Inc.</p>  <p>League Park acted as financial advisor to American Gas Group on the transaction</p>	 <p>has been acquired by</p>  <p>League Park acted as financial advisor to Global Security Glazing on the transaction</p>	 <p>has been acquired by</p>  <p>League Park acted as financial advisor to Cardinal Fastener on the transaction</p>	 <p>has been acquired by</p>  <p>League Park acted as financial advisor to Neway on the transaction</p>
 <p>has been acquired by</p>  <p>League Park acted as financial advisor to TPC Metals on the transaction</p>	 <p>has been acquired by</p>  <p>League Park provided strategic advice to Dots in connection with the transaction</p>	 <p>a portfolio company of</p>  <p>has been recapitalized by</p>  <p>League Park acted as financial advisor to VanDeMark on the transaction</p>	 <p>has redeemed the membership interest of</p>  <p>League Park acted as financial advisor to Beech Technology Systems on the transaction</p>	 <p>Debt Recapitalization</p> <p>League Park acted as financial advisor to ASC Signal on the transaction</p>
 <p>Ongoing Strategic Advisory</p> <p>League Park serves as financial advisor to Safeguard Properties in connection with ongoing acquisition strategies</p>	 <p>Ongoing Strategic Advisory</p> <p>League Park serves as financial advisor to Campbell Hausfeld in connection with ongoing acquisition strategies</p>	 <p>Ongoing Strategic Advisory</p> <p>League Park serves as financial advisor to PreEmptive Solutions</p>		

# About League Park

League Park is a boutique investment bank that professionally and ethically advises clients on strategies aimed to maximize shareholder value. We assist middle market companies with transactions that generate value through mergers and acquisitions, recapitalizations, capital raising, and outsourced corporate development.

Whatever the transaction, our clients receive specialized attention from senior bankers at every step in the deal process. Our team has decades of investment banking, corporate development, private equity, and operational experience, completing over 300 transactions across a diverse range of industries in the past 25 years.

## Advisory Capabilities

- Mergers and Acquisitions
- Recapitalizations
- Capital Raising
- Outsourced Corporate Development

## Industry Expertise

- Business Services
- Healthcare
- Industrial
- Technology
- Retail and Consumer Products

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