



# Q4 2011 Market Update

February 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 the initial downward trends observed at the outset of Q3 2011, the fourth quarter was characterized by a stabilization in performance among the major equity indices and public offering markets
- Mergers and acquisitions (“M&A”) markets continued to improve with both strategic buyers and financial sponsors actively pursuing acquisition opportunities
- Steady M&A activity and consistent gains in M&A valuations in 2011 provide a solid foundation for continued improvement in 2012, but uncertainties remain in the global macroeconomic environment
- 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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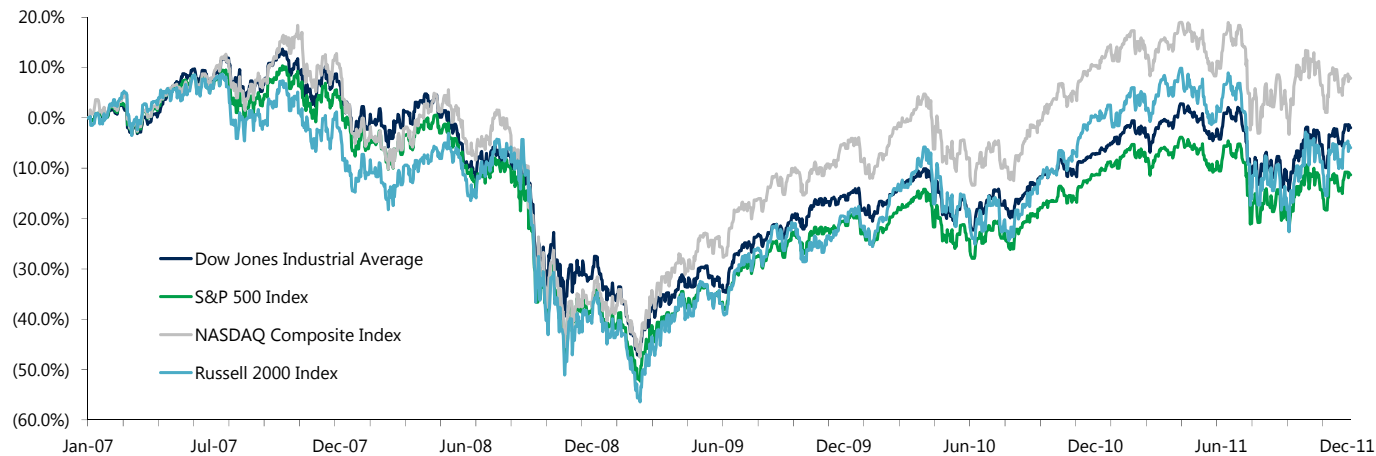
# Major Equity Index Performance

- By April 2011, following two years of consistent improvement, three of the four major equity indices had returned to and exceeded price levels observed at the beginning of 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 has improved despite continued volatility in performance, providing positive momentum heading into 2012
- 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 H1 2011 to H2 2011, was observed across not only the major equity indices, but also various industry sectors

## Major Equity Index Performance

January 1, 2007 – December 31, 2011

(% change in closing prices)



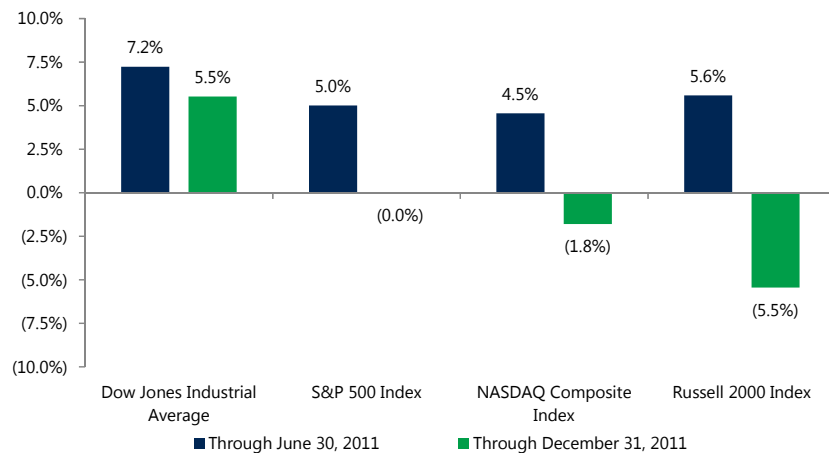
Source: CapitalIQ.

# Major Equity Index and Industry Sector Performance

- After strong year to date (“YTD”) performance in H1 2011, all major equity indices declined in H2 2011, with the Dow Jones Industrial Average registering the strongest full-year returns in 2011
  - The S&P 500 Index reverted to the same price level as it opened 2011
  - The NASDAQ Composite Index and Russell 2000 Index both fell below their respective year-opening price levels
- Likewise, performance varied substantially by industry sector
  - The Utilities and Consumer Staples sectors demonstrated continued improvement in H2 2011, while Healthcare maintained its historically steady performance
  - The Consumer Discretionary, Energy, Information Technology, and Telecommunication Services sectors slowed in H2 2011 relative to their H1 2011 performance
  - The Industrials, Materials, and Financials sectors declined substantially in H2 2011

## Major Equity Index Performance

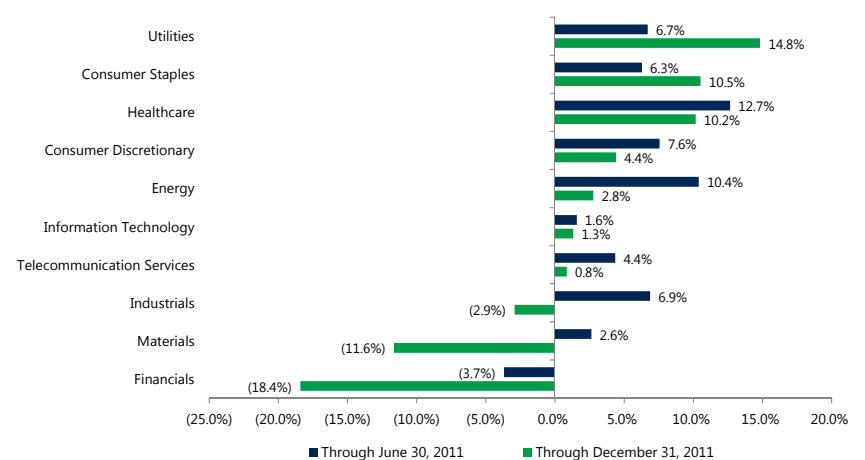
Periods Began January 1, 2011 and Ended June 30, 2011 and December 31, 2011  
 (% change in closing prices)



Source: CapitalIQ.

## S&P 500 Industry Sector Performance

Periods Began January 31, 2011 and Ended June 30, 2011 and December 31, 2011  
 (% 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
- In H2 2011, TEV/EBITDA and P/EPS multiples reached 8.0x and 15.0x, respectively
  - While H2 2011 multiples are lower than those observed throughout H1 2011, they are roughly on par with H2 2010 multiples
  - The stabilization of performance following the sharp decline at the outset of H2 2010 provides the basis for more favorable valuations heading into 2012

### S&P 500 Index Valuation Multiples

January 1, 2007 – December 31, 2011

(multiples of TEV/EBITDA and P/EPS)



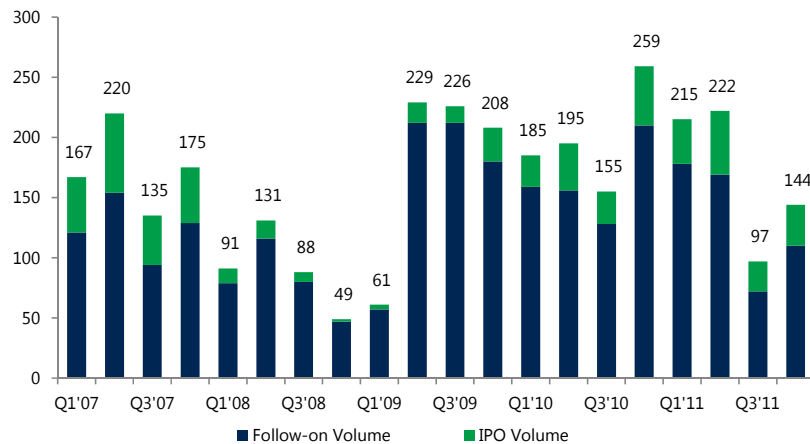
Source: CapitalIQ.

# Public Offering Activity

- Since the economic downturn in 2008, follow-on and IPO 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
  - However, public offering activity rebounded in Q4 2011, providing positive momentum heading into 2012
- In 2011, IPO volume accounted for approximately 22% 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 23% of total value across all public offerings in 2011 compared to 49% in 2007

## Public Offering Transaction Volume

Quarters Ended March 31, 2007 – December 31, 2011  
(number of transactions)

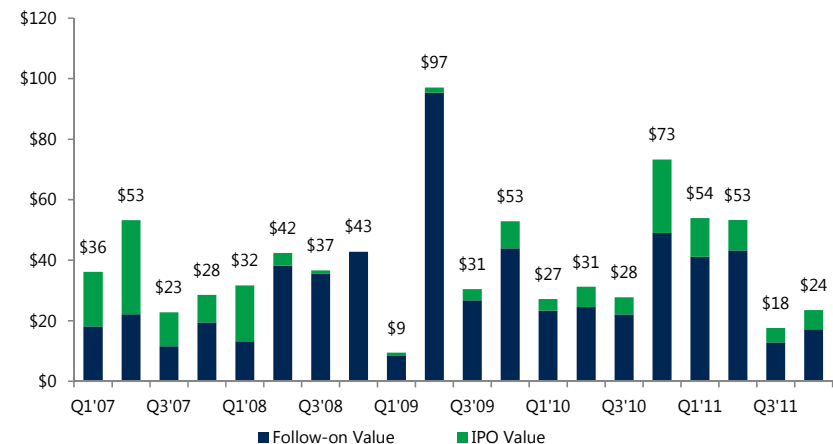


Includes public offerings closed from January 1, 2007 through December 31, 2011, with the issuer and exchange based in the United States.

Source: CapitalIQ.

## Public Offering Transaction Value

Quarters Ended March 31, 2007 – December 31, 2011  
(\$ in billions)



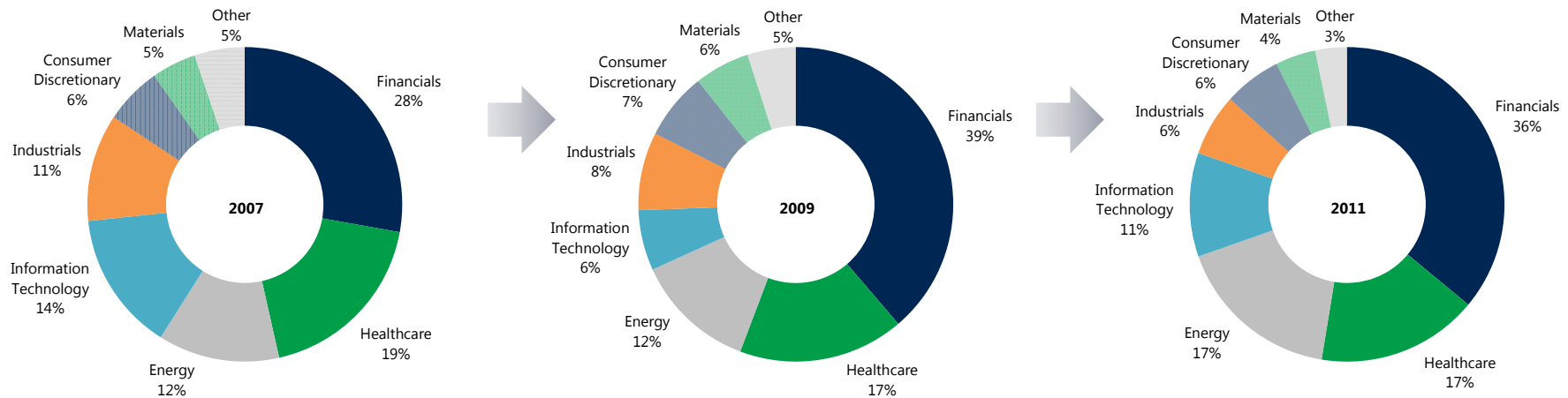
Includes public offerings closed from January 1, 2007 through December 31, 2011, with the issuer and exchange based in the United States.

Source: CapitalIQ.

# Public Offerings by Industry Sector

- In 2011, the Financials, Healthcare, Energy, and Information Technology sectors accounted for more than 80% of overall public offering activity
- The Financials sector accounts for the largest share of public offerings and experienced a significant increase in activity relative to the other industry sectors coming out of the economic downturn
  - A significant increase in public offering activity was also observed in the Energy sector from 2007 through 2011
  - Likewise, the Healthcare, Consumer Discretionary, and Materials sectors demonstrated the most consistent public offering activity during the last five years
  - Conversely, the Information Technology sector has been most susceptible to fluctuations in overall public offering activity, while activity in the Industrials sector has decreased substantially over time

**Public Offerings by Industry Sector**  
 Years Ended December 31, 2007, 2009 and 2011  
 (% of transactions)



*Includes public offerings closed from January 1, 2007, 2009 and 2011 through December 31, 2007, 2009 and 2011, with the issuer and exchange based in the United States.*

Source: CapitalIQ.

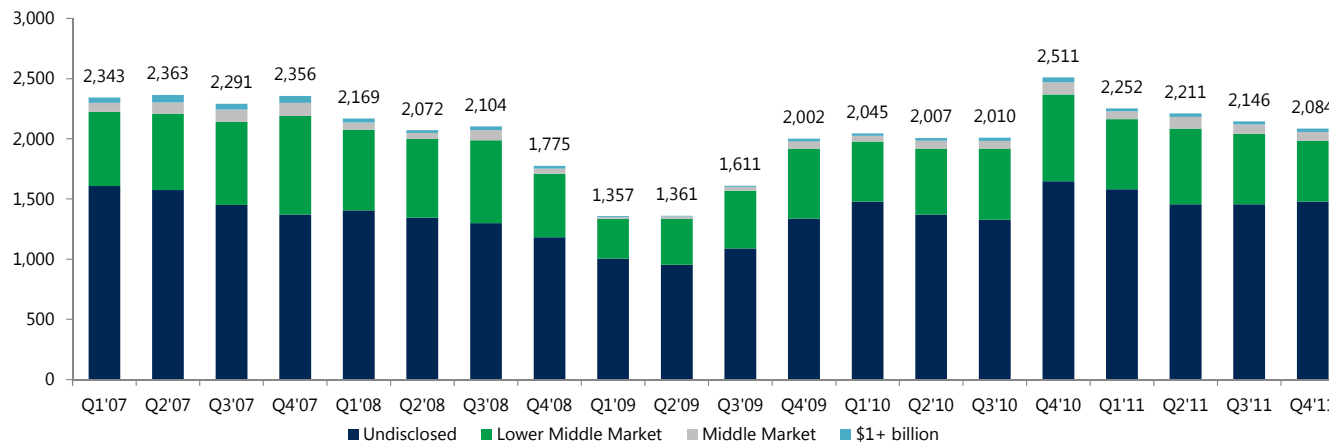


# M&A Activity

- Since the economic downturn in 2008, overall M&A activity has increased consistently year over year for comparable periods from 2009 through 2011, with Q4 being the most active quarter for M&A transactions
  - M&A volume declined in Q4 2011, which may be at least partially the result of transactions that have yet to be reported
- M&A transaction activity decreased 28% from 2007 to 2009, but successfully rebounded in 2010 and 2011, and continues to track toward 2007 performance
  - Lower middle market transactions (i.e., deals with values less than \$250 million) represented 84% of disclosed M&A transactions in 2011
  - Middle market (i.e., deals with values ranging from \$250 million to \$1 billion) and \$1+ billion transactions accounted for 12% and 4% of disclosed M&A transactions, respectively, in 2011

## M&A Transaction Activity

Quarters Ended March 31, 2007 – December 31, 2011  
(number of transactions)



*Includes qualified M&A transactions closed from January 1, 2007 through December 31, 2011, 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.

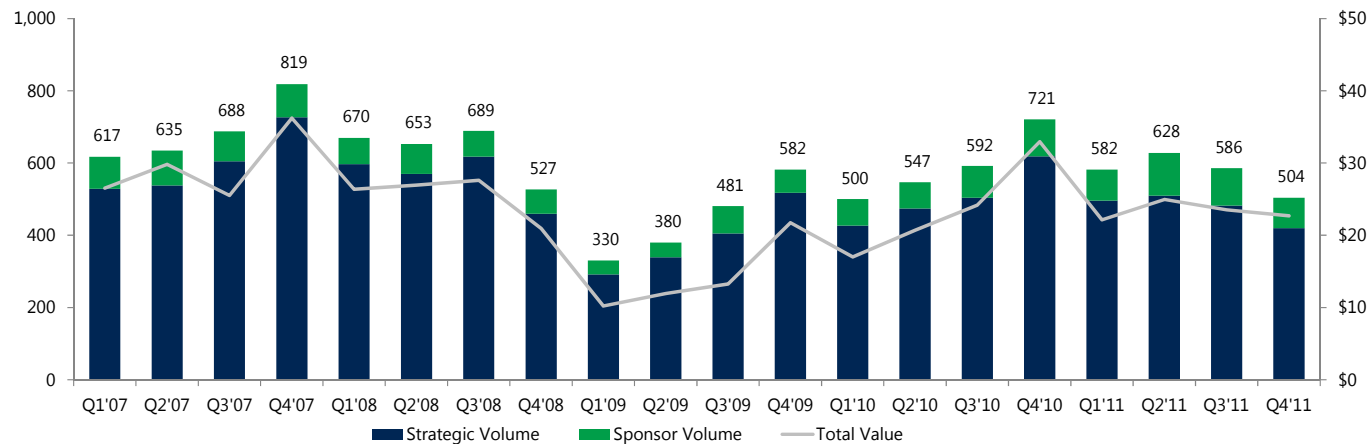
## Lower Middle Market M&A Activity

- Since 2007, qualified lower middle market M&A transactions (i.e., deals with values less than \$250 million) 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 35% and 39%, respectively, from 2007 to 2009, sponsored M&A activity has recovered at a faster rate from 2009 through 2011
  - Sponsored M&A transaction volume in 2011 exceeded the number of sponsored deals closed in 2007, while strategic M&A transaction volume in 2011 remained below that observed in 2007
  - Sponsored deals account for a growing share of all lower middle market M&A transaction activity, increasing from 13% in 2007 to 17% in 2011
  - These trends are subject to variations in reporting practices from year to year

### Lower Middle Market M&A Transaction Activity

Quarters Ended March 31, 2007 – December 31, 2011

(number of transactions, \$ in billions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2007 through December 31, 2011, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

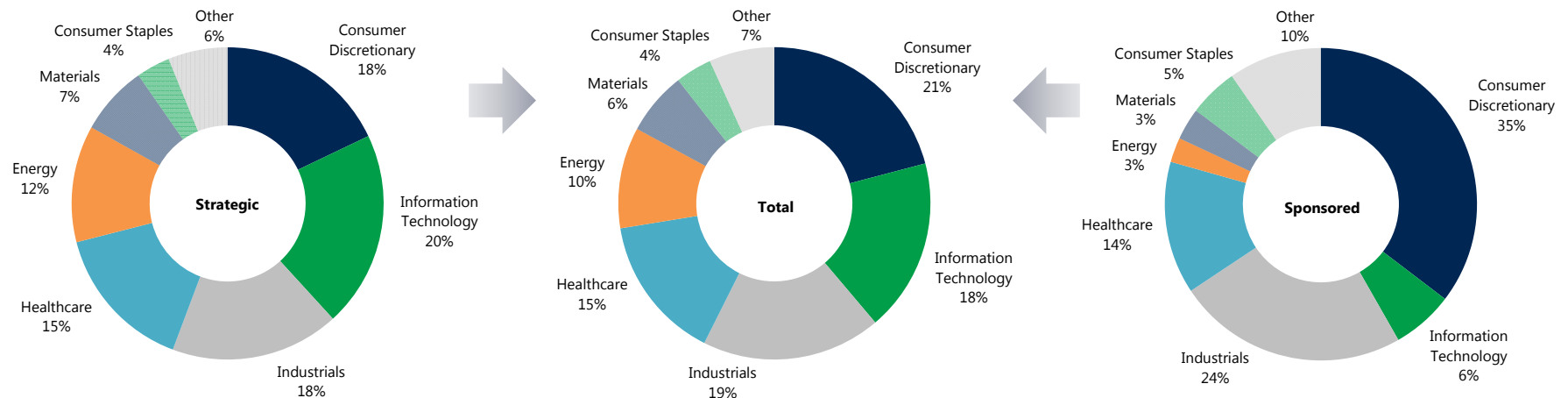
## Lower Middle Market M&A Activity by Industry Sector

- The Information Technology, Consumer Discretionary, Industrials, and Healthcare sectors contribute approximately even shares to 71% of strategic M&A transactions
  - Since 2007, the distribution of strategic deals has shifted away from the Consumer Discretionary and Information Technology sectors in favor of the Healthcare, Energy, and Materials sectors
- The investment interests of sponsored buyers are more focused than their strategic counterparts, with the Consumer Discretionary and Industrials sectors alone accounting for 59% of sponsored M&A transactions
  - Meanwhile, the Information Technology and Energy sectors represent only 9% of sponsored deals compared to the 32% share these sectors account for among strategic deals
  - Recently, the distribution of sponsored deals has shifted away from the Consumer Discretionary, Information Technology, and Materials sectors in favor of the Industrials, Healthcare, and Other sectors

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

Year Ended December 31, 2011

(% of transactions)



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

Source: CapitalIQ.

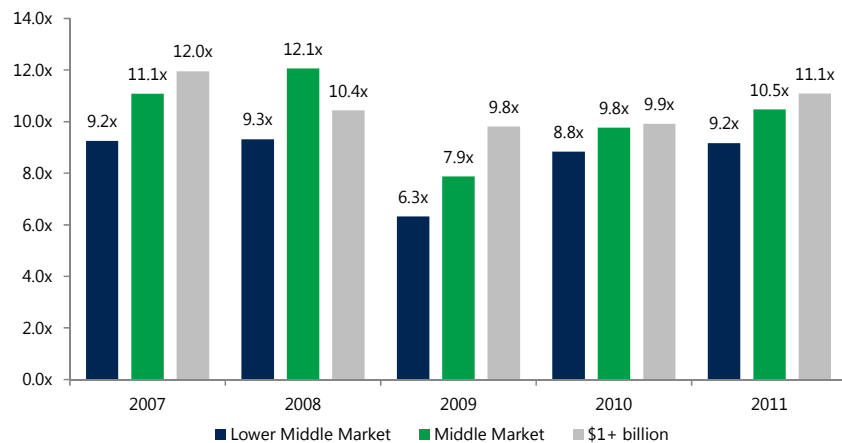
## M&A Valuation Trends

- M&A valuations declined significantly from 2007 through 2009, with the highest TEV/EBITDA multiples preserved among transactions greater than \$1 billion
  - Since 2009, the strongest recovery in TEV/EBITDA multiples has been observed in lower middle market transactions, where valuations have returned to approximately the same levels as those observed in 2007 and 2008
  - However, TEV/EBITDA multiples for middle market and \$1+ billion deals remain approximately half to a full turn of EBITDA lower than valuations observed in 2007
- In 2011, lower middle market M&A valuations were highest in the Information Technology and Consumer Staples sectors, with TEV/EBITDA multiples greater than 10.0x
  - The Energy, Healthcare, Consumer Discretionary, Materials, and Utilities sectors all have TEV/EBITDA multiples greater than 9.0x

### Valuation Multiples by Transaction Size

Years Ended December 31, 2007 – 2011

(multiples of TEV/EBITDA)



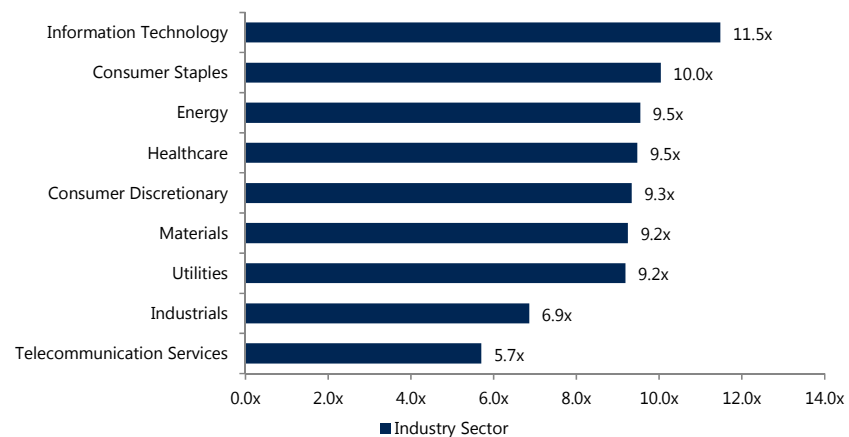
Includes qualified M&A transactions with disclosed and meaningful transaction values, closed from January 1, 2007 through December 31, 2011, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.

Source: CapitalIQ.

### Lower Middle Market Valuation Multiples by Industry Sector

Year Ended December 31, 2011

(multiples of TEV/EBITDA)



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

Source: CapitalIQ.

# League Park's Recently Closed Transactions



has been acquired by



League Park acted as financial advisor to Lexi-Comp on the transaction



has been acquired by Praxair, Inc.




League Park acted as financial advisor to American Gas Group on the transaction




has been acquired by



League Park acted as financial advisor to Global Security Glazing on the transaction



has been acquired by



League Park acted as financial advisor to Cardinal Fastener on the transaction




a portfolio company of




has been recapitalized by



League Park acted as financial advisor to VanDeMark on the transaction



has been acquired by



League Park acted as financial advisor to Neway on the transaction



has been acquired by



League Park acted as financial advisor to TPC Metals on the transaction



has redeemed the membership interest of



League Park acted as financial advisor to Beech Technology Systems on the transaction



has been acquired by



League Park provided strategic advice to Dots in connection with the transaction



Debt Recapitalization

League Park acted as financial advisor to ASC Signal on the transaction

# 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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