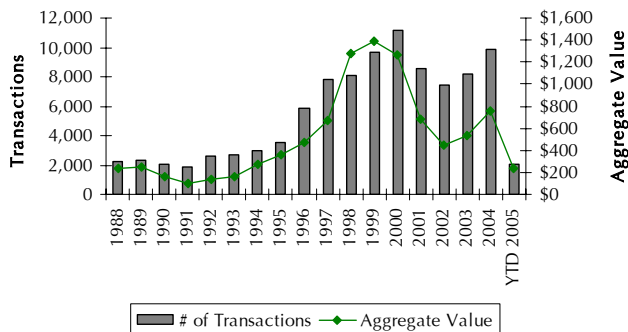


## Q1 2005 Transaction Overview

M&A activity in 2005 began at a tentative pace versus 2004. According to Mergerstat, M&A deal value totaled \$240.8 billion, with 2,049 total deals in Q1 2005 versus Q1 2004's \$227.4 billion in deal value and 2,525 total deals. For the first quarter of 2005, total M&A deals decreased 19%, however total M&A value increased 6% over the same period in 2004. Mega-deals have fueled overall values with significant transactions such as Proctor & Gamble Co's purchase of Gillette Co for \$53.5 billion, and SBC Communications Inc's acquisition of AT&T Corp for \$15.7 billion.

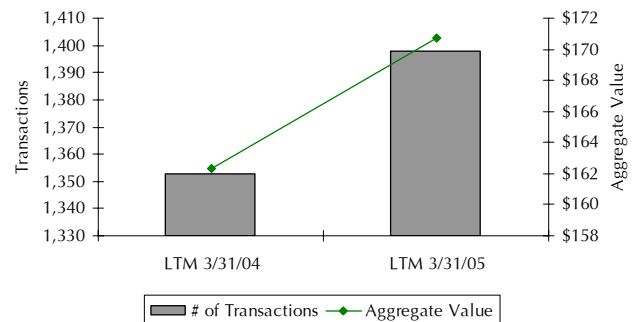
Middle-market M&A activity (defined as transactions between \$25 and \$500 million in size) remained strong for the LTM ended March 31, 2005. According to Mergerstat, middle-market M&A deal value totaled \$170.7 billion, with 1,398 total deals for the LTM ended March 31, 2005 compared to \$162.3 billion in deal value and 1,353 total deals for the LTM ended March 31, 2004. In addition to strong recent growth in deal value, the middle-market continued to grow in deal volume as well. The large number of private equity firms focusing in this space, coupled with the return of strategic buyers, has created an extremely competitive environment in the middle market. This benefits sellers because there is a larger pool of potential buyers.

All M&A Transactions



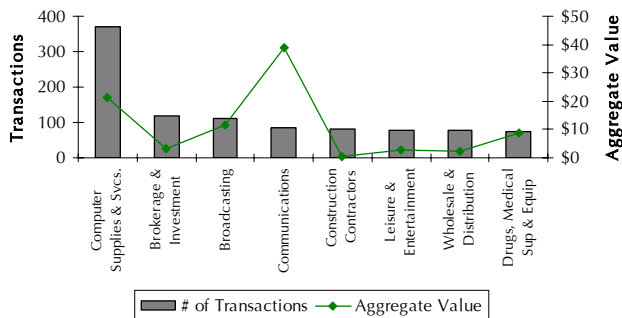
Source: Mergerstat (April 2005)  
Dollar amounts in billions

LTM Ended 3/31 Growth in Middle Market M&A Activity



LTM: Last twelve months  
Dollar amounts in billions  
Source: Mergerstat

M&A Activity By Industry – YTD 2005



Source: Mergerstat (April 2005)  
Dollar amounts in billions

In Colorado, M&A activity in Q1 2005 decreased over the same period in 2004. While M&A deal value increased to \$5.1 billion for Q1 2005 from \$879.6 million for the same period in 2004, the Coors/Molson merger, valued at \$4.23 billion, accounted for the majority of Q1 2005 deal value. Excluding that merger, M&A deal value dropped 10% in Q1 2005 versus the same period in 2004. Similarly, total M&A deal volume fell to 44 deals from 85, representing a decrease of over 44%.

## Q1 2005 Capital Markets Overview

Building upon 2004's success, private equity LBO fundraising set a blistering pace in Q1 2005. According to *Buyouts*, LBO groups raised over \$34 billion in capital in the first three months of 2005, only 21% shy of all funds raised in 2004. Fundraising was not evenly dispersed among all fund sizes as mega-funds with over \$1 billion of available capital received most of the new funding. This is good news for sellers as the private equity market is increasingly flush with capital that must be put to work.

Average EBIT/EBITDA Multiples by Size of Transaction – LTM as of March 30, 2005

	<\$25	\$25-100	\$100-250	\$250-1,000
EBIT	5.9x	11.8x	11.8x	14.4x
EBITDA	4.7x	7.6x	8.4x	10.1x

Source: Thompson Financial Securities Data Corp.  
Dollar amounts in millions

## Leveraged Buyout Market

	2001	2002	2003	2004	YTD
LBO Funds Raised	\$36.9	\$29.0	\$24.0	\$42.2	\$34.8
LBO Deals Completed	\$23.1	\$44.0	\$94.6	\$136.5	\$38.9

Source: Buyouts April 11, 2005  
Dollar amounts in billions

### Deals involving private equity firms as both the buyer and the seller are increasingly common in the marketplace.

Given the vast increase in private equity firms and a still soft but improving strategic buyer market and IPO market, more deals are being completed between private equity firms. According to *Buyouts*, 2004 saw 90 sponsor-to-sponsor transactions valued at \$29 billion, up from 43 deals valued at \$11.4 billion in 2003, representing increases of 109% and 154%, respectively.

### Improved IPO market opens an additional exit strategy to private equity.

The IPO market has returned somewhat as an exit strategy for private equity after a significant down period since 2000. Private equity-backed IPOs completed in Q1 were valued at \$6.2 billion over 15 IPOs, an 84% increase over Q4 2004. Overall, IPOs were up 218% in 2004 over 2003 in terms of the number of IPOs completed, and Q1 2005 was slightly better than the same period in 2004.

**Lending markets continue to facilitate deal flow.** Deals are being levered at the highest multiples since 1998. Senior Debt/EBITDA leverage multiples have risen from 2.9x a year ago to 3.4x today. Total Debt/EBITDA leverage multiples are also up, having increased from 4.1x a year ago to 4.6x as of the end of March. This increased access to leverage allows both financial and strategic buyers to complete deals that may have been beyond their reach a couple of years ago.

## Due Diligence

### Legislation poses a difficult challenge for the due diligence process.

The Sarbanes-Oxley Act of 2002 was Congress' response to corporate scandals. Written primarily to address corporate accounting standards, Sarbanes-Oxley's reach extends into the M&A market, most noticeably in the due diligence portion of a transaction. Much more stringent reporting requirements for public companies result in a need for a more rigorous review of a target company's financial history and controls which slows the pace of M&A due diligence.

The increasing adaptation of virtual data rooms is acting as a counter measure speeding up the deal process by allowing due diligence information to be viewed electronically. This enables multiple parties to view the same documents at the same time from any location, while also offering increased monitoring and security for the seller. Time and money are saved in this process as interested parties are no longer required to travel to a physical location to conduct due diligence. One leading provider of virtual data rooms, Merrill Corporation, reports significant growth over the past year. After logging 13,000 users in all of 2004, Merrill already has 62,000 users in Q1 2005.

## 2005 M&A Outlook

**We expect middle-market M&A activity to maintain its pace and 2005 to be a very good year for sellers, due to:**

- Increased competition from financial buyers as strategic buyers take advantage of favorable interest rates and a more stable economy;
- The entrance of hedge funds into the LBO market, bringing with them increased competition as well as increased flexibility and speed in the deal-making process;
- Increased access to financing for mergers and acquisitions from both public and private sources;
- Private equity's contractual need to put their capital to work before it must be returned to investors;
- Increased leverage multiples and increasingly competitive providers of debt capital.

**Companies are going to have many options when looking for an exit, due to:**

- Strategic buyers reentering the market;
- Unprecedented LBO fundraising levels means more financial buyers competing with more capital to put to work;
- Increasingly aggressive lenders making capital available at attractive rates;
- A rebound of the IPO market.

"At some point I have to believe there will be a shake out in the private equity community. There are now so many funds with so much money that proprietary deal flow is almost non-existent and pricing on just about any deal is expensive. Until then however, it's great to be a seller." – Aaron Bachik, Managing Director, GMB

#### MANAGING DIRECTORS

Warren R. Henson, Jr.  
Scott H. Maierhofer  
Thomas J. Fencil (AZ)  
Alan L. Mayer  
Aaron B. Bachik

#### VICE PRESIDENTS

Monica L. Liley  
Barry T. Capoot

#### SENIOR ASSOCIATE

Scott M. McIntosh

#### SENIOR ANALYST

Mark B. Langer

#### ANALYSTS

Jeremy E. Barron  
H. Anthony Holmes  
W. Andrew Phipps  
Peter A. Eklund

#### CO-PRESIDENTS

John R. Green  
James T. Bunch

**GREEN MANNING & BUNCH**  
INVESTMENT BANKING SERVICES