

# GREEN MANNING & BUNCH

## INVESTMENT BANKING SERVICES

MERGERS & ACQUISITIONS | PRIVATE FINANCINGS | FINANCIAL ADVISORY SERVICES

A QUARTERLY REVIEW

### MERGERS & ACQUISITIONS OUTLOOK

Q1 2006

#### Q1 2006 Transaction Overview

Q1 2006 deal flow remained robust in both aggregate transaction value and volume. There has been a positive year-over-year increase in almost every category of transactions announced and aggregate value thereof. US deal value rose to \$273.1 billion in the first quarter of 2006 compared to \$253.3 billion in the first quarter of 2005. Meanwhile, US transactions announced increased from 2,342 to 2,492 over the same period. March proved to be the busiest month in this past quarter as deal announcements rose to 849 from 821 in February and 822 in January. Aggregate deal value in March was more than both January and February combined at \$139.7 billion. Over the last twelve months, the aggregate number of deals across all value ranges has increased, with 10,679 deals completed as of 3/31/06 as compared to 10,182 deals in the 12 months ending 03/31/05. Aggregate deal value over these periods was \$1,026 billion and \$768.4 billion, respectively.

The overall number and value of deals when compared to Q4 2005's historically high levels were slightly lower—but still strong. Deal volume decreased slightly from 2,536 in Q4 2005. Aggregate deal value was also slightly lower in Q1 2006 at \$273.1 billion as compared to Q4 2005 at \$281.9 billion.

The number of middle market<sup>1)</sup> deals in Q1 2006 fell slightly from Q1 2005, although the value of these transactions rose substantially. 2,415 transactions worth \$57.5 billion in value were announced in the quarter, in comparison to 2,477 deals worth \$43.2 billion in Q1 2005.

EBITDA multiples continued to be high relative to historical trends, although mixed relative to 2005's record levels. EBITDA multiples for LTM 2006 were down when compared to the previous 12 months with the exception of deals valued between \$25mm-\$100mm. Even so, multiples remain at a 10-year high with the average multiple for the middle market segment being at 8.5x<sup>2)</sup>, as compared to 5.9x in 2001. GMB has generally been able to close transactions for its clients at multiples ranging from 6x to 10x EBITDA.

#### LTM EBITDA as of March 31, 2006

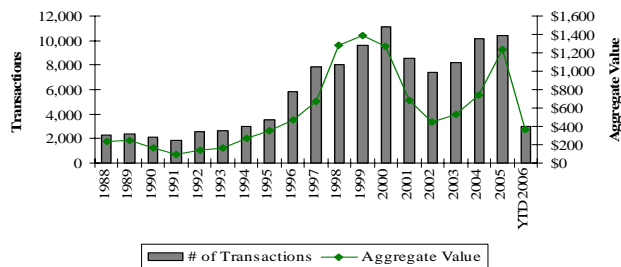
	<\$25	\$25-100	\$100-250	\$250-1,000
2006	4.1x	8.1x	7.1x	8.1x
2005	4.7x	7.6x	8.4x	10.1x

#### LTM EBIT as of March 31, 2006

	<\$25	\$25-100	\$100-250	\$250-1,000
2006	7.4x	10.0x	12.7x	13.2x
2005	5.9x	11.8x	11.8x	14.4x

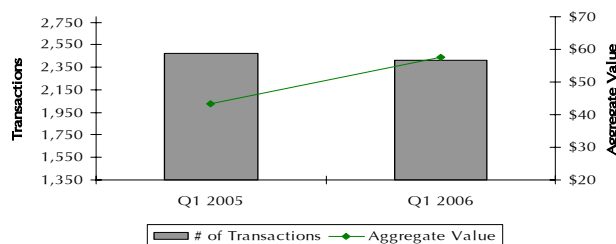
LTM: Last twelve months  
Source: Thompson Financial Securities Data Corp.  
Dollar amounts in millions

#### US Domestic and Cross-Border Transactions



Source: Mergerstat (April 2006)  
Dollar amounts in billions

#### US Middle Market Aggregate Deal Growth

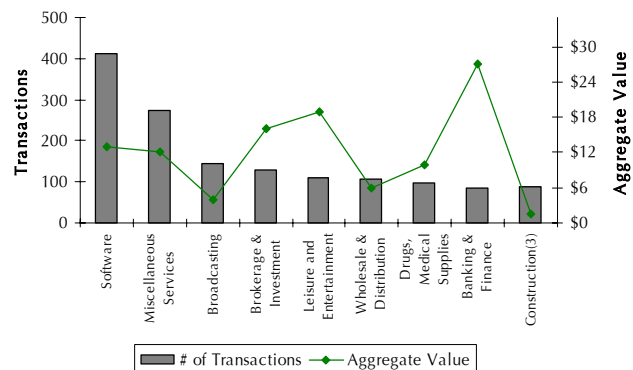


Source: Mergerstat (April 2006)  
Dollar amounts in billions

1. Middle market defined as deals from \$1mm to \$500mm, Mergerstat (April 2006).
2. Buyouts, 3 April 2006 issue.
3. Construction includes: Building Products and Construction Contractors & Engineering Services.

Software and Miscellaneous Services had the most deals in Q1 2006 at 412 and 274, respectively. The industry with the greatest deal value was Banking and Finance with \$27 billion. Communications experienced the largest quarterly decline in transactions reporting 49 deals in Q1 2006 valued at \$70 billion, as compared to 316 in Q4 2005 valued at \$109 billion.

#### M&A Activity by Industry – Q1 2006



Source: Mergerstat (April 2006)  
Dollar amounts in billions

## Q1 2006 Capital Markets Overview

Several factors have combined to result in the M&A market's currently high multiples. Over the past four years, default rates have declined while debt-to-EBITDA multiples have risen steadily. These forces, combined with intense competition amongst lenders, have resulted in relaxed credit standards, thus allowing for more deals at higher multiples. Some Wall Street firms have commented that it is now not uncommon to see deals with EBITDA multiples upwards of 8.0x–10.0x, as some industries support debt to EBITDA multiples of up to 7.0x. An increase in demand from strategic and financial sources and the existing capital overhang indicate that high levels of M&A activity will continue.

The first quarter of 2006 saw private equity groups complete 225 deals with approximate deal value of \$42 billion. These figures are a slight improvement over Q4 2005 numbers when 221 deals closed with a disclosed value of \$40 billion. The quarter was fueled largely by the \$9 billion mega buyout of a 78% stake in GMAC by KKR, Five Mile Capital Partners and Goldman Sachs Capital Partners. Private equity fundraising also continues to be strong as groups have raised \$35 billion year to date, approximately an equal amount as the same period last year. Bain Capital closed its \$8 billion ninth fund and plans to close another \$2 billion fund at quarter end. The Blackstone Group was also in the process of closing the largest buyout fund ever at the end of Q1, with commitments of approximately \$13.5 billion. Texas Pacific Group was also attempting to raise \$14 billion for its latest fund.

New trends in the private equity world appear to be changing the face of the M&A market. A greater proportion of deals are being sold from one private equity group to another. Simultaneously, it is more common for private equity groups to sell portfolio companies after holding them for shorter periods, in some cases 12-18 months. Limited partners have become concerned about these issues as asset prices may be inflated due only to the prospect of quick sales from the currently large amount of capital available for such investments.

Private equity groups' strategies now seem to be putting more emphasis on add-on acquisitions to bolster existing portfolio companies' operations and increase market share. US-based private equity groups have completed at least 50 add-on acquisitions in the past three months. The figure equates to one out of every 4.5 deals, in line with 2005, which had 182 add-on transactions, or one out of every 4.6 deals. In comparison, 2004 and 2003 resulted in one add-on out of every 6.5 and 7 deals, respectively.

IPO activity improved over Q4 2005 and is in line with the previous two years' average of 15.5 IPOs per quarter. Q1 of 2006 saw 16 IPOs priced from private equity groups raising \$3.70 billion. These numbers are comparable to the 15 transactions priced in Q1 2005 at \$3.38 billion and are a significant improvement over Q4 2005 which saw only 10 companies go public. The average aftermarket performance for the Q1 backed IPOs was 12.8%, with nine companies trading above their IPO offering price, six trading below and one trading at its offering price.

Some market analysts predict that the high purchase multiples have led to a buyout bubble. Over the past three years, private equity groups have enjoyed elevated returns as low interest rates combined with high returns and quick flips have allowed for such an environment. Bank debt multiples have risen from an average of 3.7x EBITDA in 2001 to 4.3x recently. The figures have led institutions such as pension funds to pour money into the private equity market in hopes of generating high returns. Some market analysts are concerned that these groups will have to sell an estimated \$500 billion in assets over the next three years in order to meet return expectations. Year on year, this level would outpace even the highest level of assets ever sold in any year, currently at \$153.2 billion.

## Q1 2006 M&A Outlook

We expect M&A activity to remain strong in the near future for the following reasons:

- Strategic buyers are flush with cash as they have worked to strengthen balance sheets by reducing debt levels.
- Private equity groups have raised ample capital to invest and are continuing to do so.
- Demand for the companies we sell is at a historical high.
- Investors are expected to continue to push company executives to enhance corporate growth and boost share price through acquisitions.

*"Aggressive private equity fund investment continues to drive a record setting M&A pace. With lending multiples where they are and strategic acquirers once again actively pursuing deals, it remains as good a time as ever to be a seller. Everyone has an investment banker, big or small. Anyone and everyone thinks their company is worth a fortune -- and in many cases they are right. It really is crazy, but amazingly I do not see a slow down coming anytime soon."*

**Aaron B. Bachik, Managing Director  
GMB Construction Industry Practice**

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