

A quarterly review

### Mergers & Acquisitions Outlook

Q2 2007

**M&A activity in the second quarter continued at a robust pace as valuations reached record levels due to:**

- Continued strength in the global economy and relatively low financing costs,
- Continued abundance of capital available from both institutional investors and lenders, and
- A strong stock market and demand for domestic equities tied to takeover speculation and earnings growth.

*“Driven by the buying power of private equity firms and continued strength in the credit markets, we continue to see a high level of M&A activity with attractive valuations. However, a tightening in the public credit markets towards the end of the second quarter may pressure valuations for middle market deals in the second half of the year.”*

**Barry Capoot, Director**

#### Q2 2007 Overview

**Q2 2007 proved to be another strong quarter for M&A across all transaction sizes and industries.** With \$558 billion in announced transactions in the second quarter of 2007, US M&A activity continued to be extremely active. In the middle market, strong valuations helped maintain total dollar volume despite a 16% decline in the number of transaction versus the second quarter of 2006. The Construction Contractors & Engineering Services industry showed the largest relative increase in activity from the same period in 2006. The Computer Software, Supplies & Services industry also showed strong M&A performance in Q2 2007.

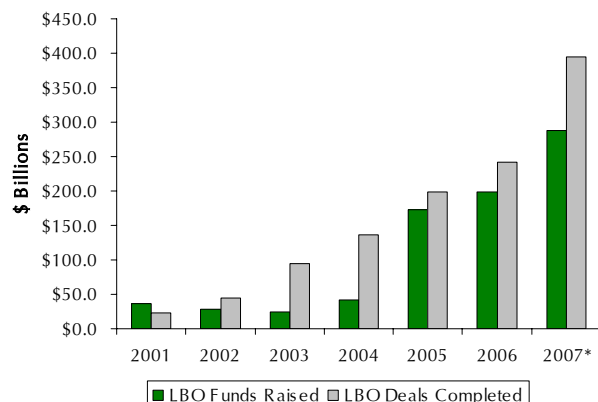
**Middle market transaction EBITDA multiples continued to increase in Q2 2007.** EBITDA multiples averaged 11.5x for the three months beginning April 1, 2007 and ending June 30, 2007, compared to 9.6x in the same period in 2006. It is likely that buyout firms will remain active for the throughout 2007, but it is possible that current valuation levels are not sustainable. Debt investors and rating agencies are beginning to re-evaluate covenant-lite and covenant-free offerings used to finance larger transactions, and are adjusting their risk premium expectations to compensate for the current economic and lending environment. As a result, financing costs for leveraged buyouts are likely to increase, placing pressure on valuation for financial buyers.

For larger transactions, banks are experiencing more resistance to securitizing bridge loan offerings, and are increasingly running the risk of keeping the debt on their balance sheets. In the second quarter of 2007, banks struggled to syndicate debt required to support larger transactions, such as the buyouts of Thomson Learning and U.S. Foodservice. This is the first indication of a slow-down in the lending markets, which may place pressure on private equity firms to complete deals in Q3 and Q4 of 2007.

**Despite a potential slowdown in credit markets, private equity continued to drive M&A activity.** Financial sponsors completed 302 control-stake transactions in Q2 2007, representing a 7% increase over the first quarter. The buying power of private equity firms continues to increase as 33

public US companies were taken private, worth a combined \$135 billion. In June, the five largest transactions were all driven by financial buyers: The Carlyle Group / Bain Capital / Clayton Dubilier & Rice consortium purchase of HD Supply from Home Depot for \$10.3 billion, Silver Lake Partners / TPG Capital’s \$7.9 billion purchase of Avaya, Fortress Investment Group’s acquisition of Penn National Gaming for \$5.7 billion, Carlyle’s \$5.6 billion purchase of Allison Transmission from General Motors, and Madison Dearborn Partners’ offer to acquire Nuveen Investments for \$5.2 billion.

The private equity industry continues to redefine its existence; the most telling change may be reflected in Blackstone’s initial public offering. Private equity firms are seeking additional ways to increase liquidity and create more efficient channels to exit investments. As shares are floated on the open market, private equity firms will face increased scrutiny as they are required to disclose more information. Future public offerings by private equity firms may be delayed or cancelled due to the nature of oversight and exposure associated with being a public company in the US. Additionally, despite the high-level of M&A driven by financial buyers, buyout activity will be pressured if access to credit markets and cheap debt financing tightens.

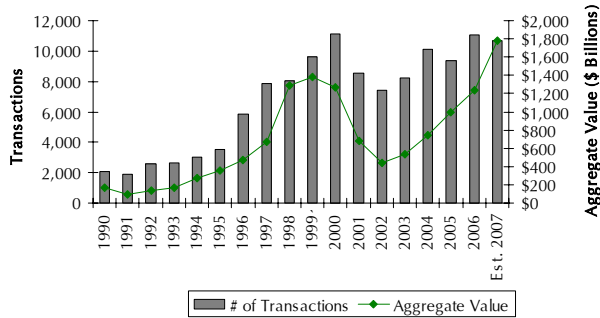


Source: Buyouts (July 2007)  
\*2007 figures are annualized

## Q2 2007 Transaction Statistics

### US Domestic and Cross-Border Transactions

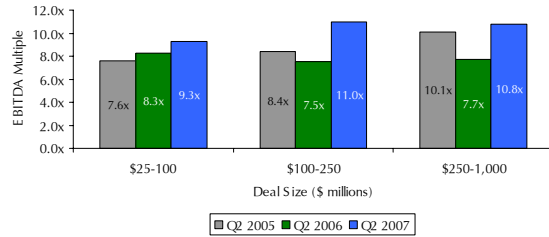
On an annualized basis, 2007 FY deal activity is expected to reach \$1.8 trillion.



Source: Mergerstat (July 2007)  
Dollar amounts in billions

### LTM EBITDA Multiples as of June 30, 2007

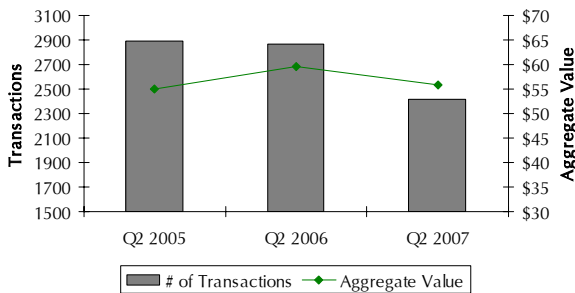
Purchase price multiples have continued to increase across all deal sizes over the last two years. However, deals in the \$100-\$250 million range have posted the most significant gains over the period.



LTM: Last twelve months  
Source: Thompson Financial Securities Data Corp.  
Based on multiples between 0x and 25x; excluding media and telecom

### US Middle Market Aggregate Deal Growth

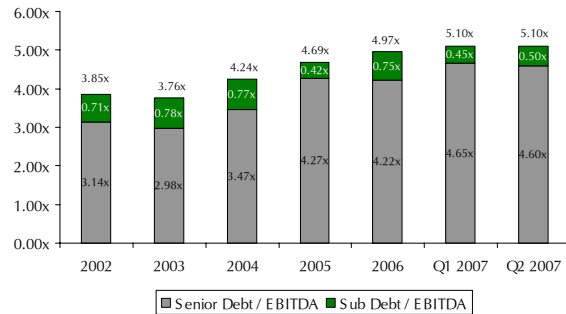
In Q2, 2,414 middle-market M&A transactions valued at an aggregate amount of \$55.9 billion were closed, resulting in an average deal value of approximately \$23.2 million.



Source: Mergerstat (July 2007)  
Dollar amounts in billions  
Middle market defined as deals from \$1mm to \$500mm.

### Q2 Leverage Multiples in M&A Transactions

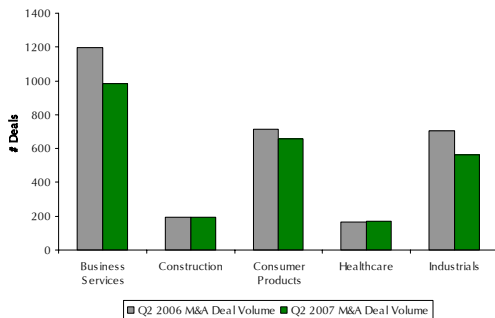
Buyers continue to benefit from flexible lenders and liquid credit markets.



Source: S&P

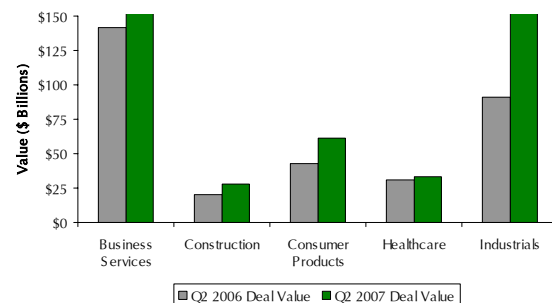
### Q2 M&A Activity by Volume

The following graphs show Q2 M&A activity (by deal volume and deal value) in the industries in which GMB focuses on providing M&A advisory services.



Source: Mergerstat (July 2007)

### Q2 M&A Activity by Value



Source: Mergerstat (July 2007)

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