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INVESTMENT BANKING SERVICES

Current State Of The M&A Market

Presentation to:
The American Bar Association
Committee on Negotiated Acquisitions

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2006 M&A Market Highlights

❖ Despite generally rising energy prices, increasing interest rates, higher raw materials costs and uncertainty over the war in Iraq, the robust M&A market that began in 2003 has continued through 2006, driven by a confluence of favorable factors:

◆ **Economic**

- Economic growth and improved business performance in most industries
- Improved corporate and consumer confidence
- Recovery and stabilization of the financial markets

◆ **Strategic**

- Corporate buyers continue to seek acquisitions to supplement internal growth
- Emphasis on core businesses, resulting in divestitures/spin-offs
- Private equity funds selling portfolio companies as funds reach maturity or to take advantage of favorable market conditions
- “Activist” hedge funds forcing changes in corporate strategy
- Increased cross-border M&A

◆ **Financial**

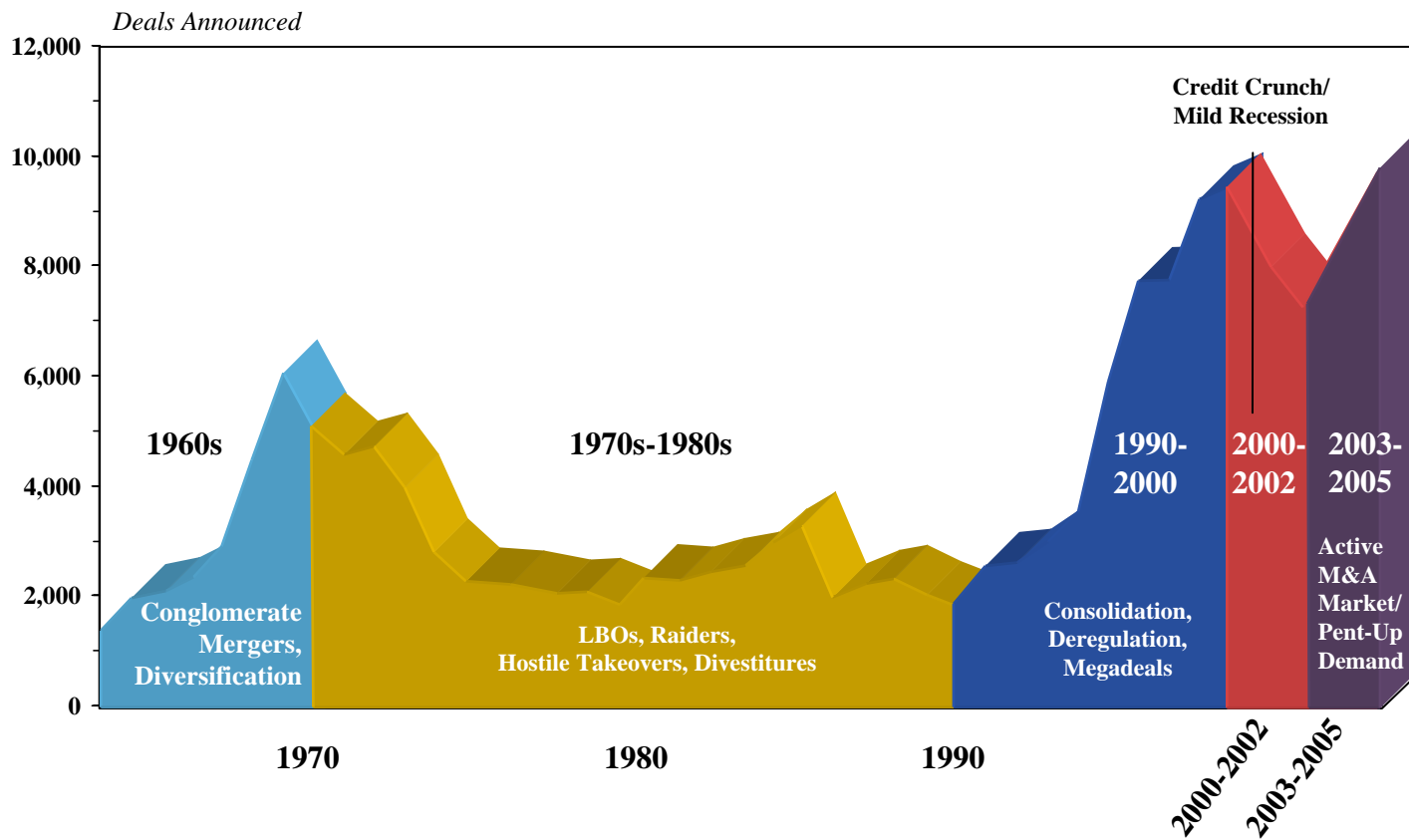
- High levels of cash on corporate balance sheets
- Robust financing markets, combined with historically attractive rates
- Tremendous amounts of uninvested private equity capital
 - Over \$160 billion raised in 2005
 - Over \$190 billion in “dry powder”

❖ The impact of these drivers will continue to be felt for the rest of 2006 and well into 2007



Historical U.S. M&A Overview

Historical Trends



Source: Mergerstat

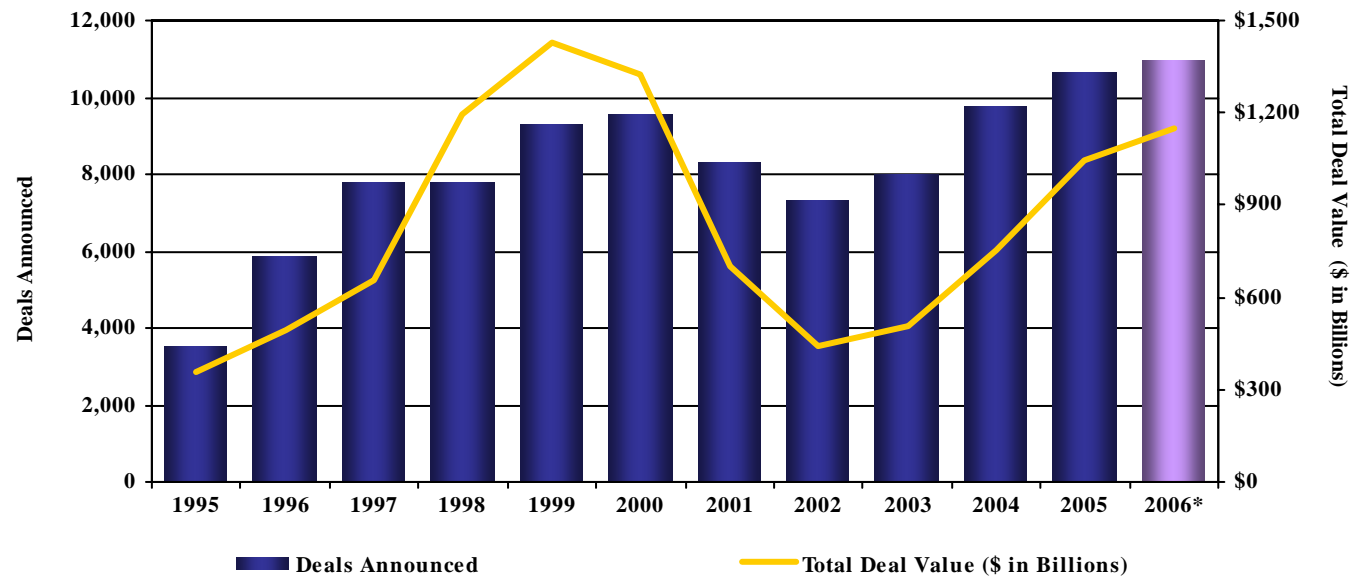


2006 M&A Market Highlights

❖ Domestic M&A activity remains strong

- ◆ Transaction volume rose approximately 9% between 2004 and 2005, while the value of transactions climbed approximately 39%. In 2006, transaction volume and value has been even higher than 2005.

Total Number and Dollar Value of Domestic M&A Transactions



*Annualized YTD through September 30, 2006.

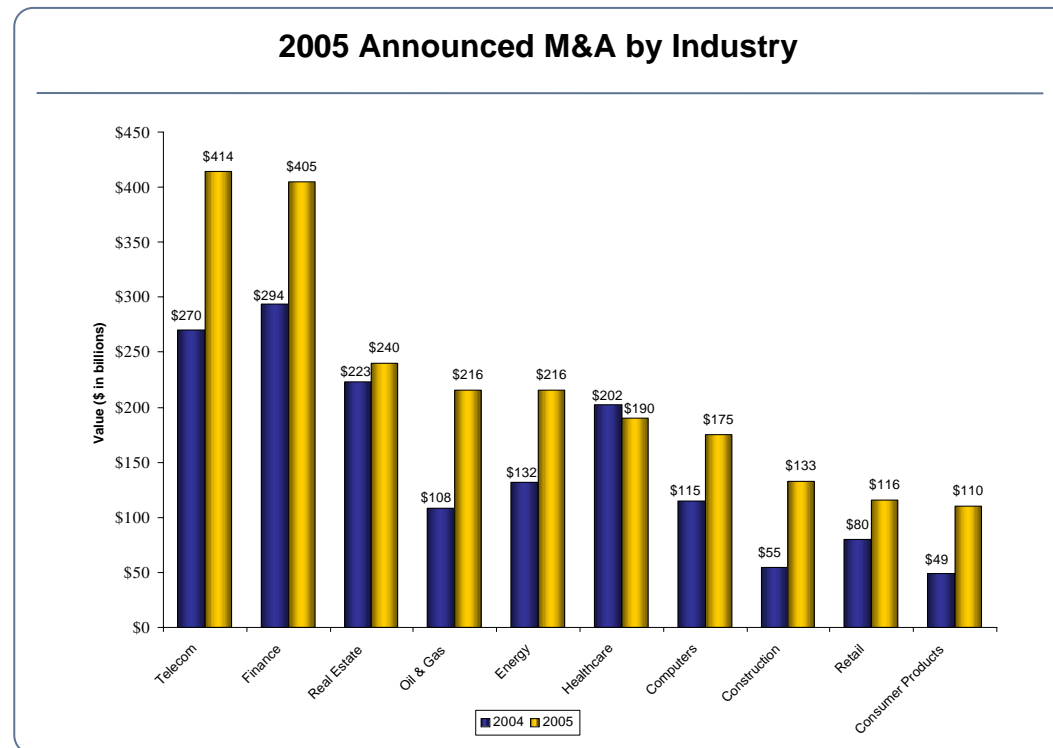
Source: Mergerstat



M&A Market Highlights

❖ M&A activity by industry

- ◆ Telecommunications and Financial Institutions led the year in M&A activity, with a number of other industries also experiencing higher levels of M&A activity during 2005.



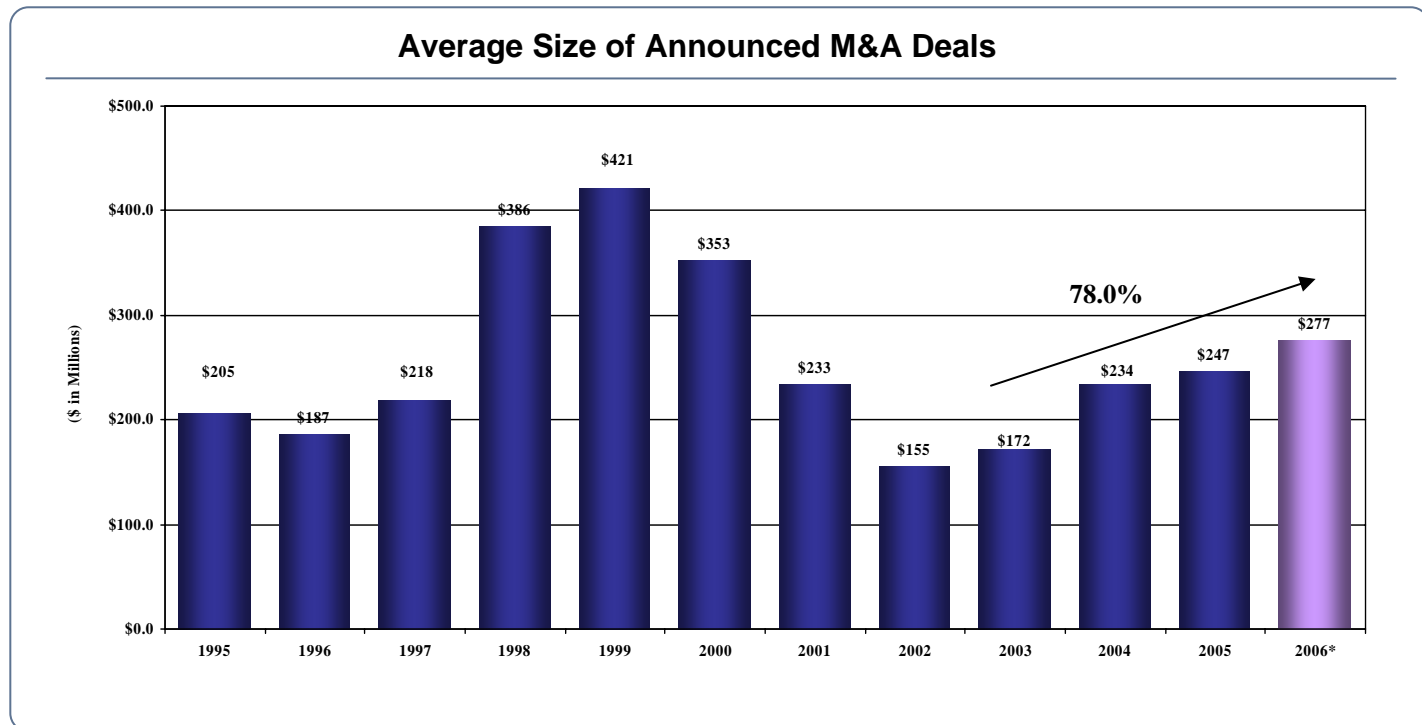
Source: Dealogic.



2006 M&A Market Highlights

❖ Average deal size increasing

- ◆ Average transaction size has increased by 78% from \$155 million in 2002 to \$277 million year-to-date.
 - Average transaction size still lags the \$421 million level seen in 1999 by 34%.



*Annualized YTD through September 30, 2006.

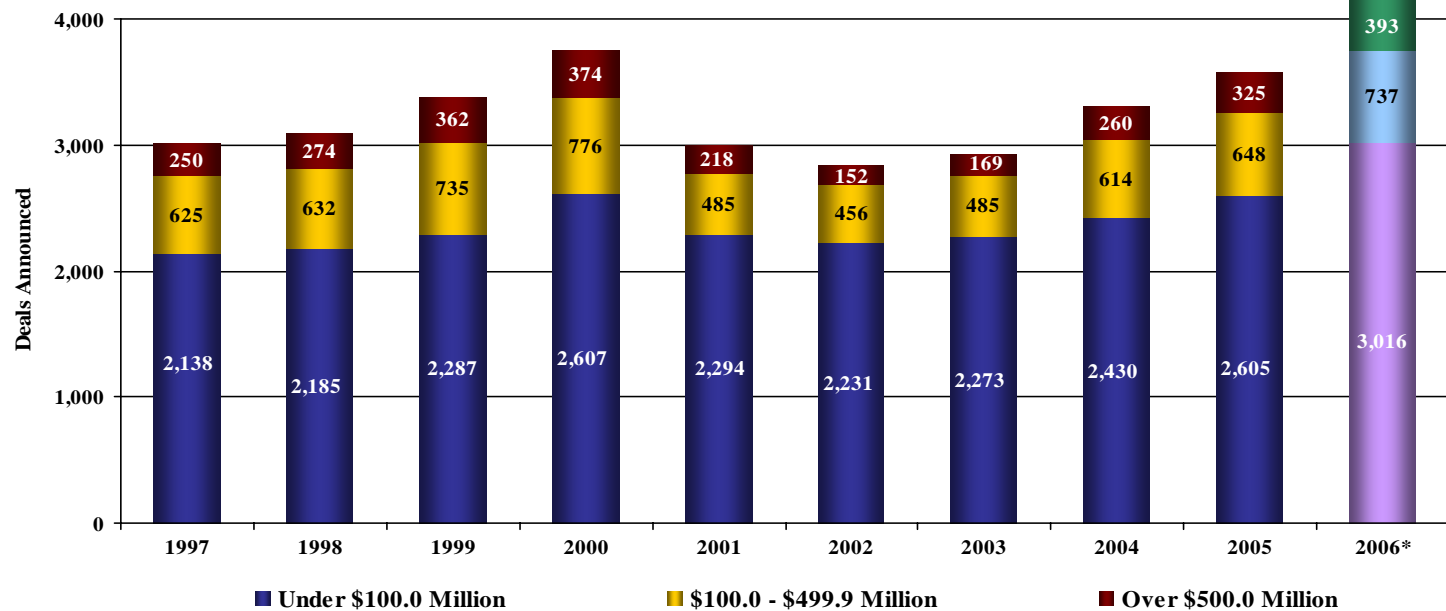
Source: Mergerstat



2006 M&A Market Highlights

- ❖ Mega-deals get the headlines, but middle market transactions predominate
 - ◆ Over 90% of all M&A transactions since 1997 have been under \$500 million.

Total Number of U.S. M&A Transactions by Deal Size



*Annualized YTD through September 30, 2006.

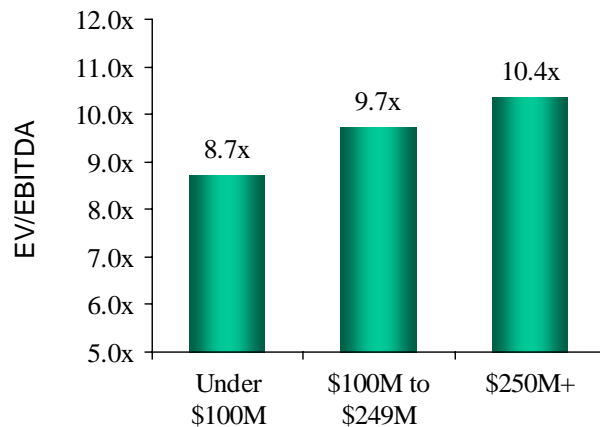
Source: Mergerstat. Includes only transactions for which values were disclosed



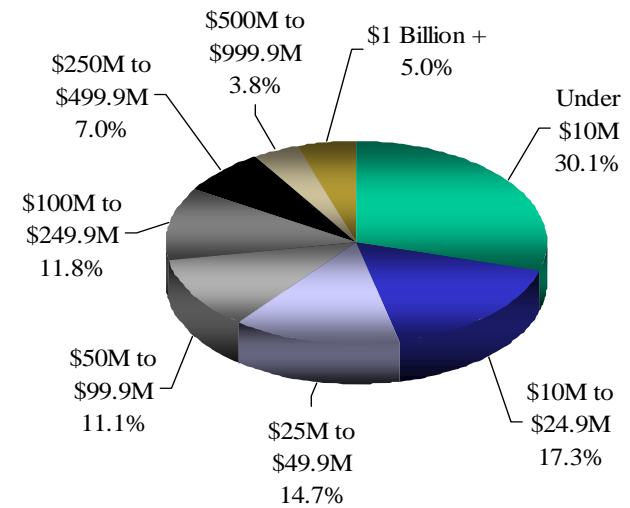
Size Really Matters

- ❖ A target's size and scale are major factors that affect valuation
 - ◆ Buyers pay substantially more for businesses with critical mass.

Average EV / EBITDA Multiple by Deal Size



Number of Deals by Size



Source: Mergerstat. Includes only deals with disclosed information for the year ended December 2005

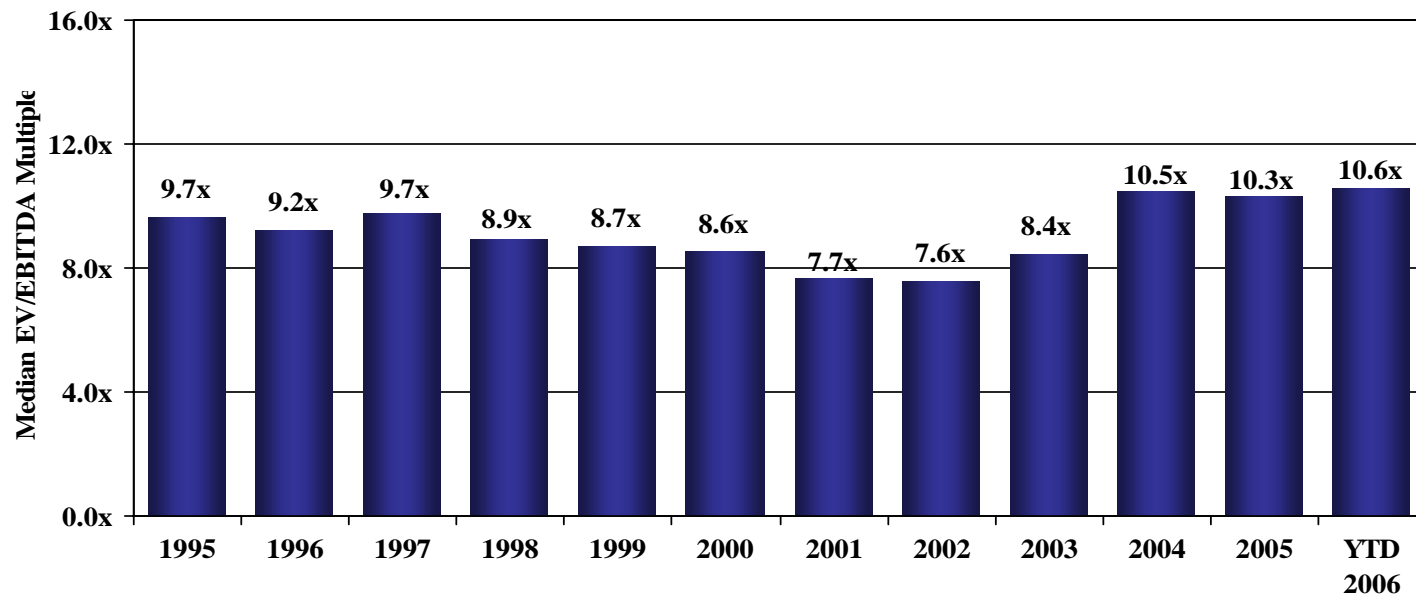


2006 M&A Market Highlights

❖ Transaction multiples on the rise

- ◆ Enterprise Value (“EV”) to EBITDA multiples have risen as the level of M&A activity has accelerated since 2002. Current pricing remains at its 10-year high at 10.6x.

Median EV/EBITDA Multiples



YTD through September 30, 2006

Source: Mergerstat

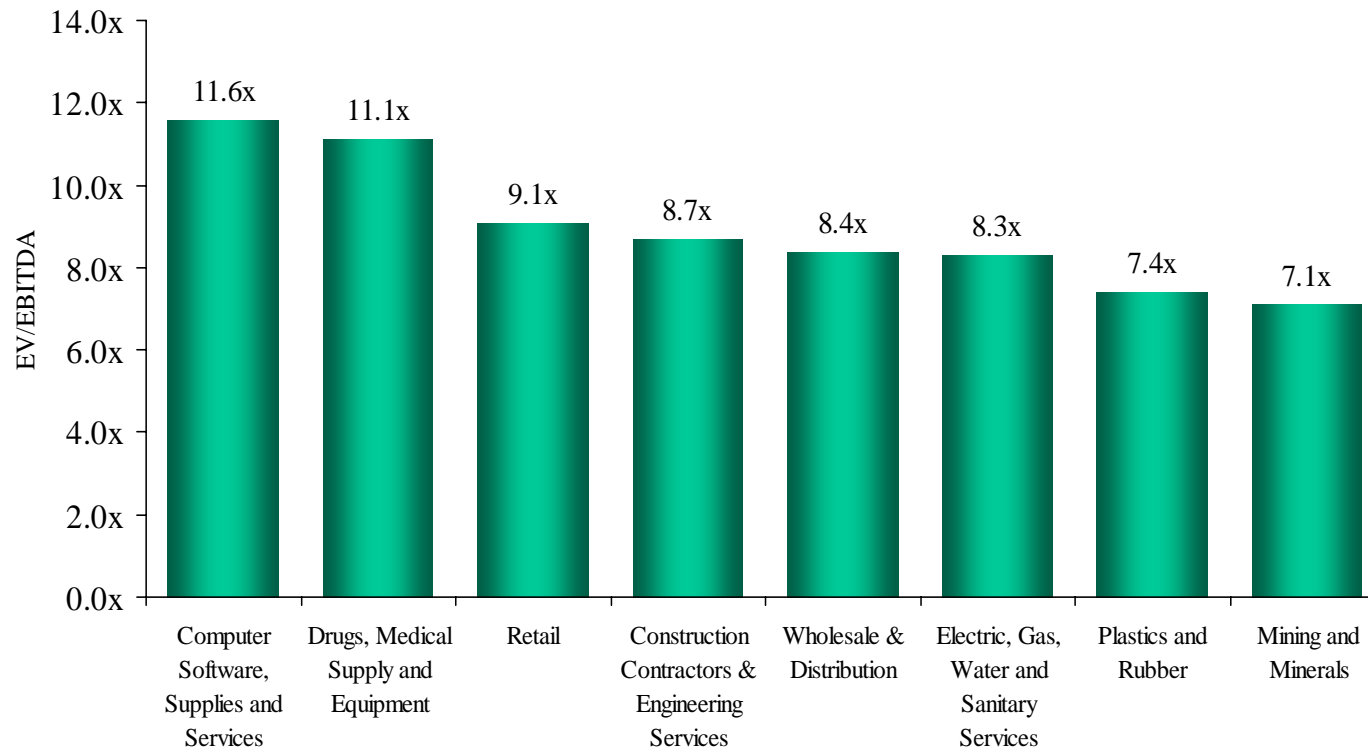
Excludes negative EV/EBITDA multiples and multiples larger than 25.0x



Industry Impacts Valuation

❖ Industry dynamics and prospects have a profound impact on valuation

Median EV/EBITDA Multiples by Industry



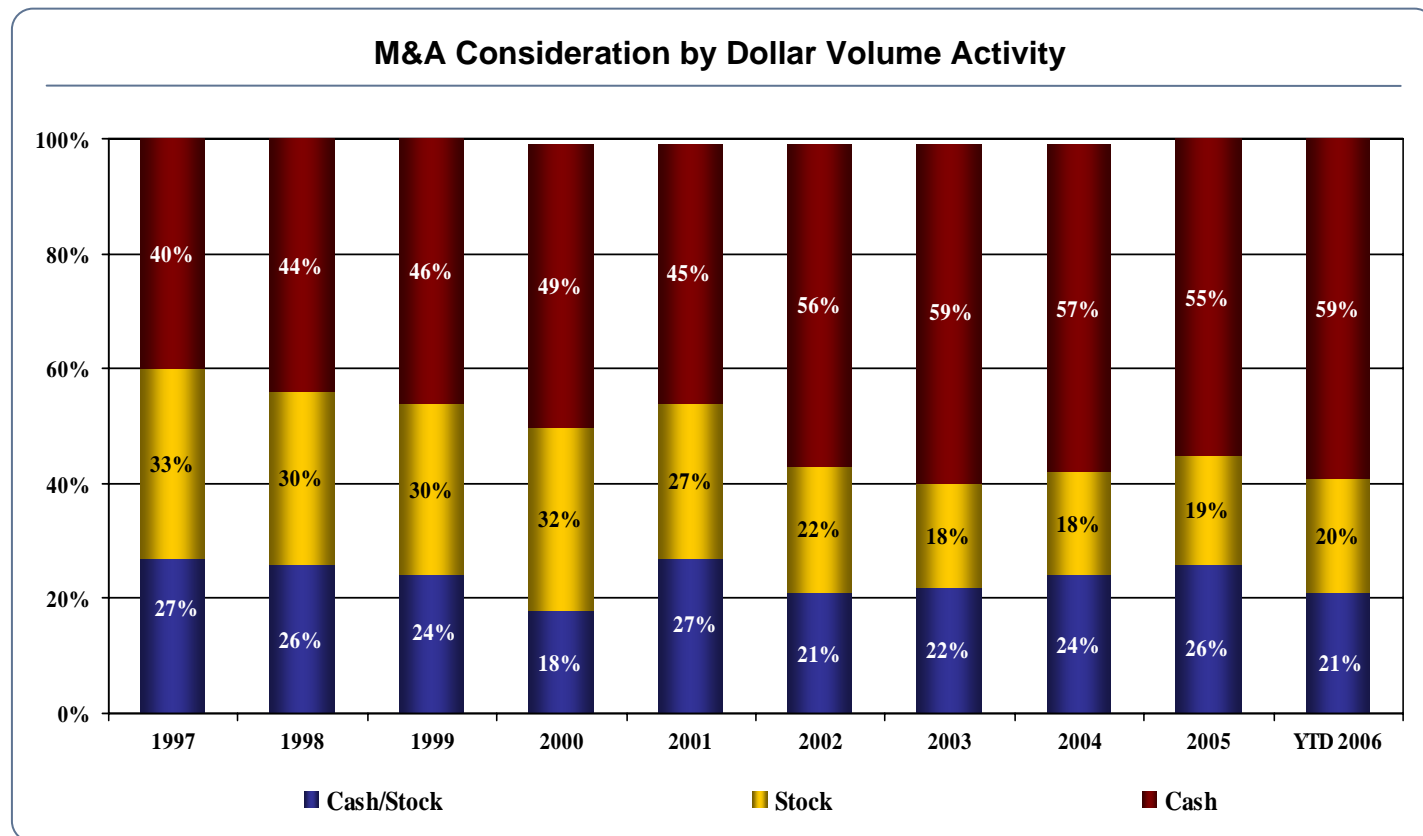
Source: Mergerstat. Data for LTM 6/30/2006



2006 M&A Market Highlights

❖ Cash continues to be the favored form of consideration

- ◆ The demise of “pooling of interests” accounting and the relatively low cost and ready availability of debt financing has lessened the attractiveness of all-stock deals.



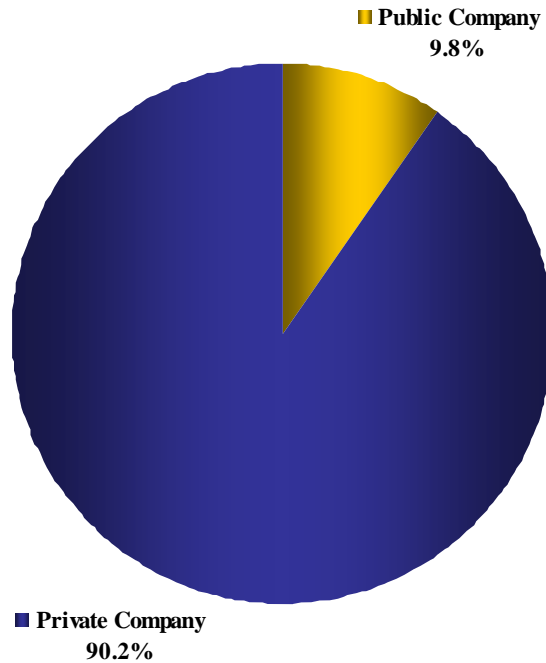
YTD through September 30, 2006
Source: Mergerstat



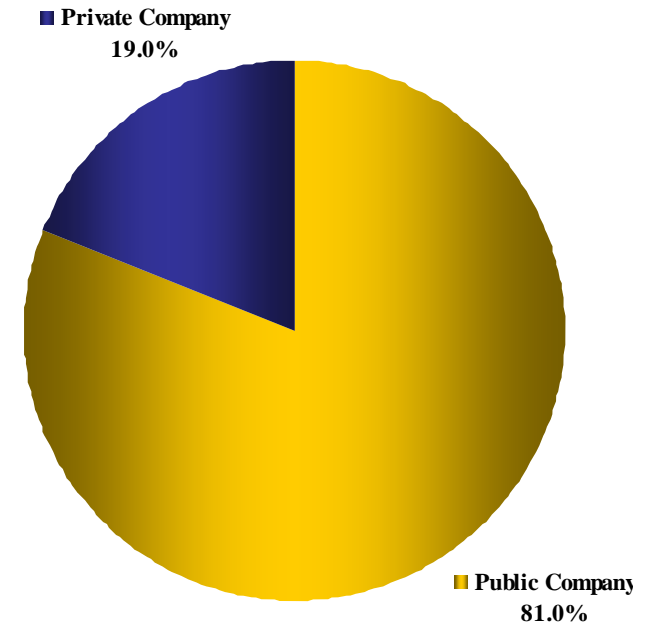
2006 M&A Market Highlights

❖ Private company transactions dominate in number, but trail in value

Number of Transactions YTD 9/30/2006



YTD 9/30/2006 Dollar Value



Source: Mergerstat

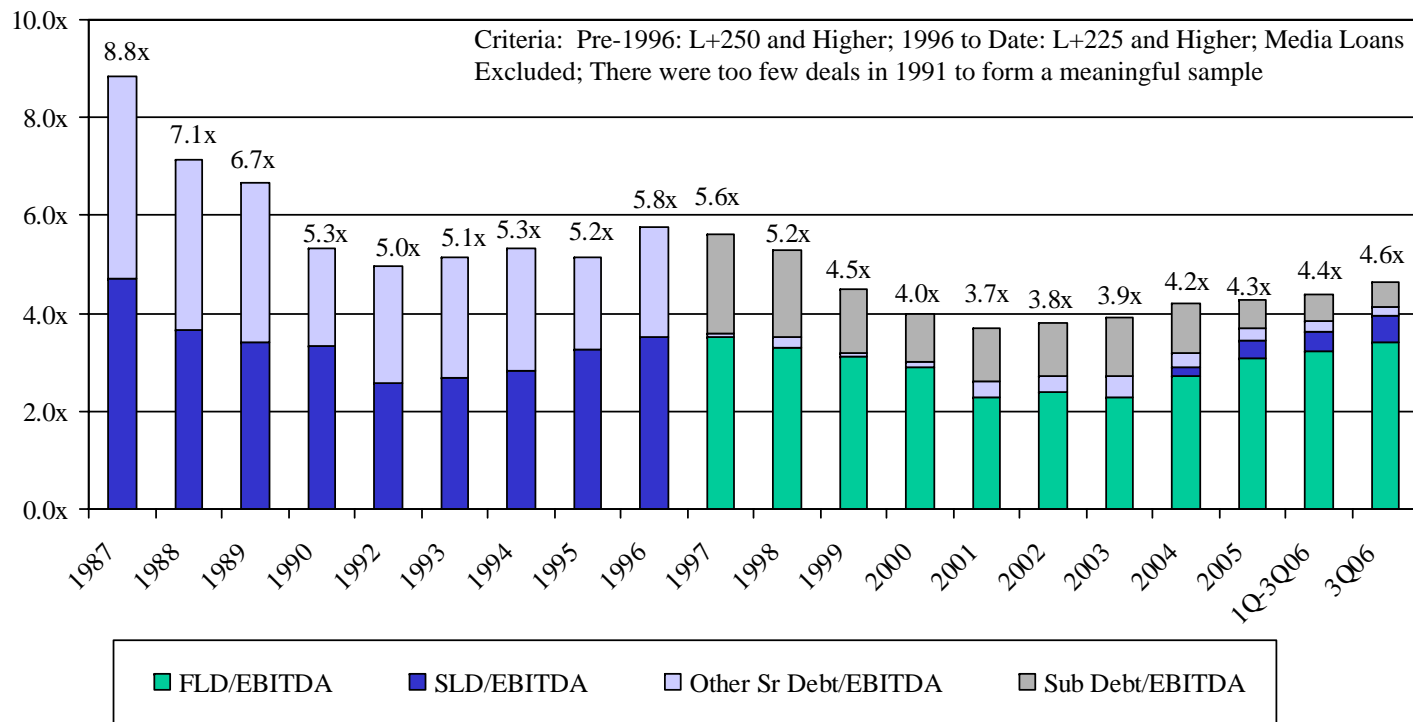
Data does not include announcements of divestitures by public companies, or sales of public foreign companies to a U.S. entity



Financing Market Is Very Strong

- ❖ Debt multiples continue to rise
- ❖ Unprecedented liquidity in the market

Average Debt Multiples of Highly Leveraged Loans



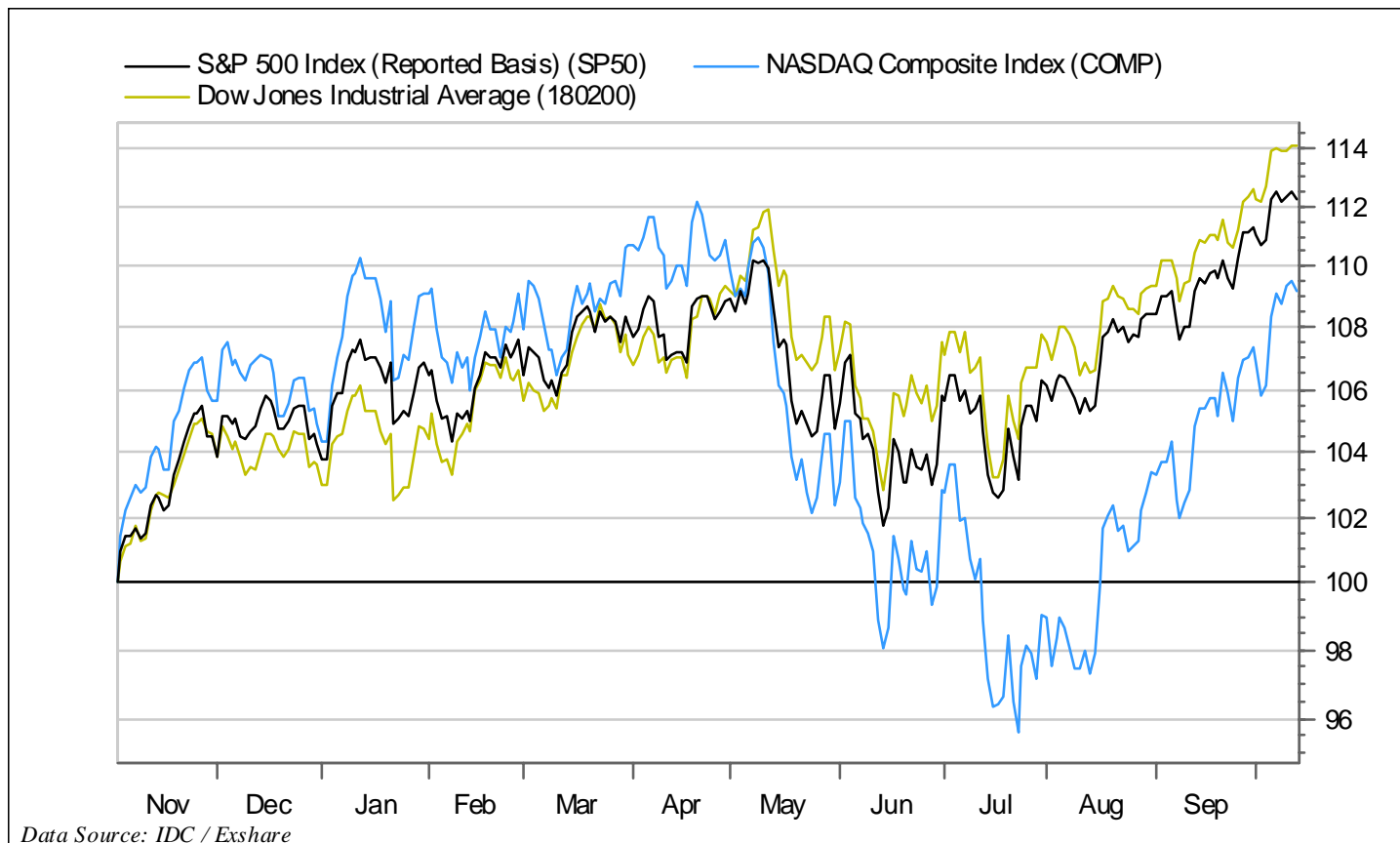
Source: Standard & Poor's

Note: For years 1987-1996 Other Sr Debt/EBITDA reflects all Non Bank Debt/EBITDA



Equity Markets Have Recovered from Earlier Lows

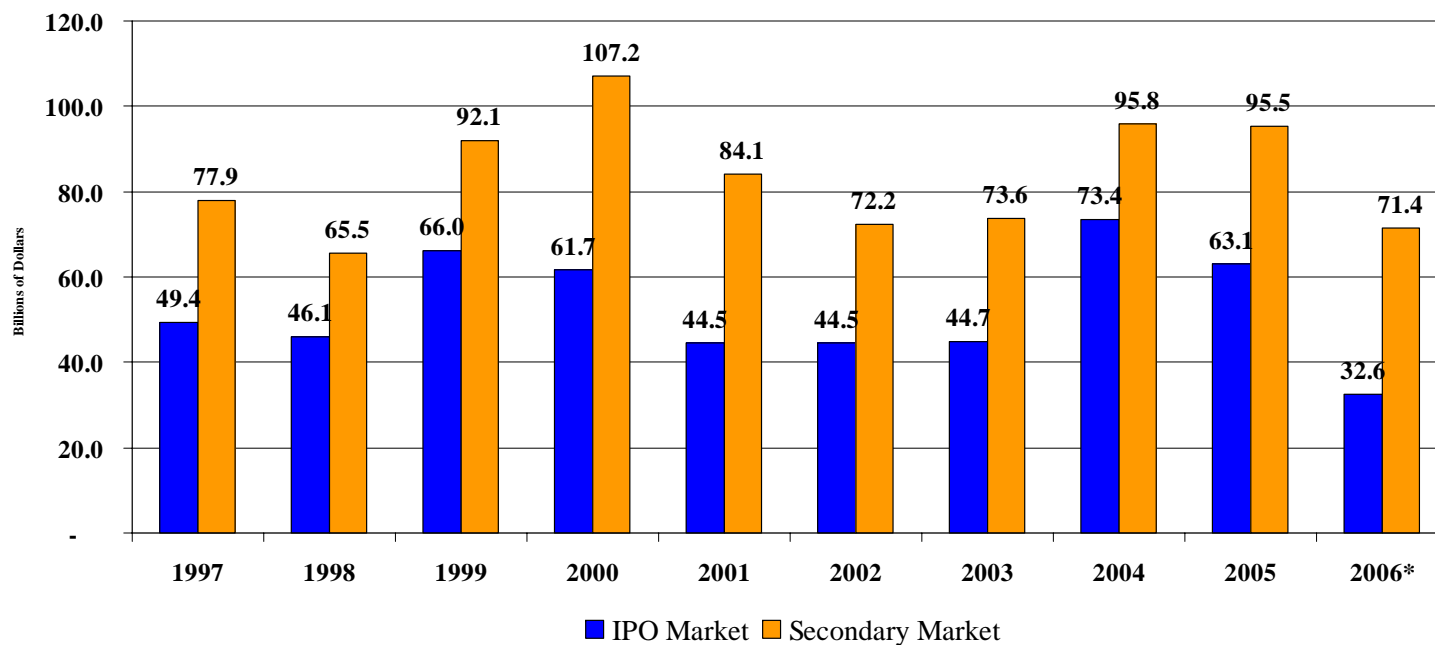
Major Market Indices
(November 2005 – September 2006)





Common Equity Offerings

Common Equity Offerings

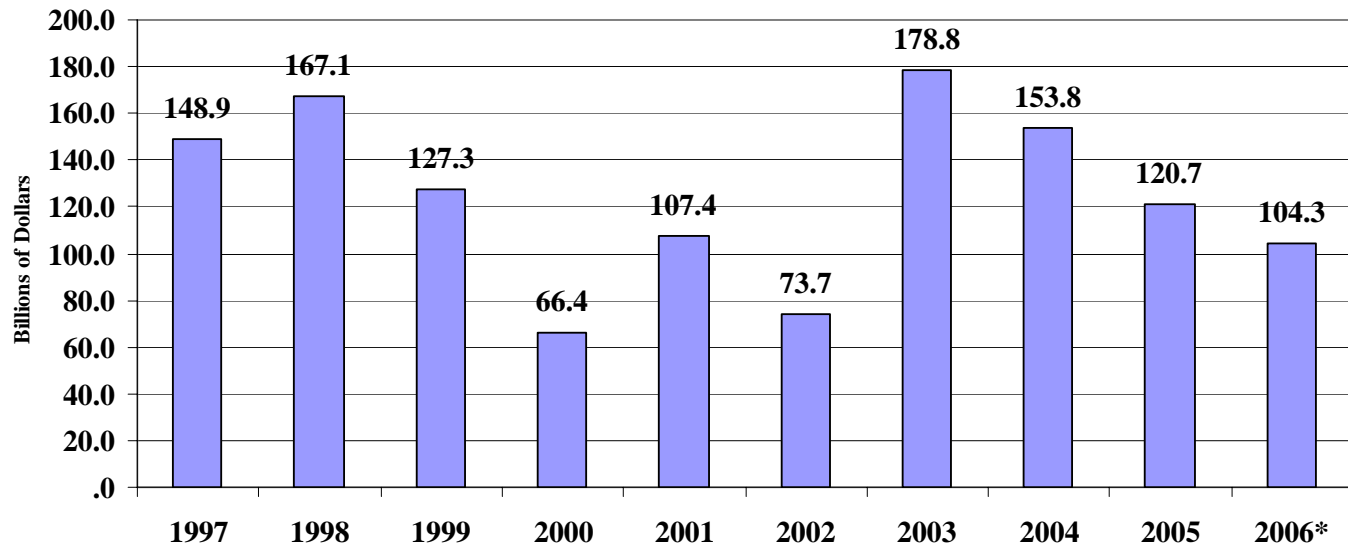


* YTD through October 10, 2006
Source: Thomson Financial



High Yield Offerings

High Yield Offerings



* YTD through October 10, 2006
Source: Thomson Financial



2006 M&A Market Highlights

❖ Private equity purchasing power

- ◆ More than 1,800 buyout firms.
- ◆ More than 200+ firms have over \$1 billion in capital compared to five firms in 1989.
- ◆ Private equity is being used at record rates, and new fundraising is re-filling its coffers.
- ◆ More than \$160 billion in new money raised in 2005.
- ◆ More than \$190 billion in “dry powder” translates into approximately \$600 billion of “buying power.”
- ◆ Consortium bidding on the rise as investors pool resources to pursue larger targets.
- ◆ 2 of the 3 largest transactions in the U.S. in the third quarter of 2006 involved buyout shops.
- ◆ The acquisition of HCA, Inc. by a consortium of buyout shops will be the biggest LBO transaction in history, but will be followed closely by Kinder Morgan.

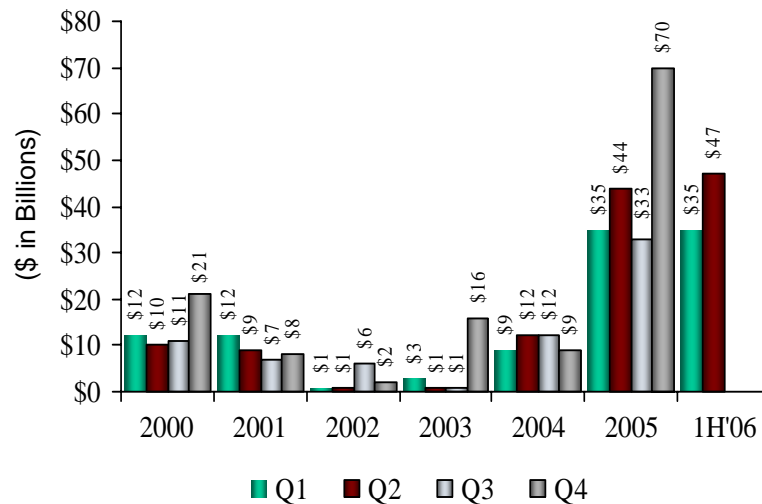




Private Equity Fund Raising

- ❖ While private equity is being invested at record rates, new fundraising is MORE THAN re-filling the coffers

Private Equity Fund Raising



Source: Buyouts Magazine

Selected Recently Reported Fund Raises

| Sponsor | Fund | Amount (\$Bill) |
|-----------------------------------|--------|-----------------|
| <i>Recently closed</i> | | |
| Blackstone Group | Fifth | \$ 15.60 |
| Texas Pacific Group | Fifth | 14.30 |
| Apollo Advisors | Sixth | 10.10 |
| Goldman, Sachs & Co. | Fifth | 8.50 |
| Bain Capital | Ninth | 8.00 |
| Warburg Pincus LLC | Fifth | 8.00 |
| Carlyle Group * | Fourth | 7.85 |
| CVC Capital Partners Ltd. | Fourth | 7.30 |
| BC Partners | Eighth | 7.00 |
| Madison Dearborn Capital Partners | Fifth | 6.50 |
| Bear Stearns Merchant Banking | Third | 2.70 |
| <i>Currently being raised</i> | | |
| Kohlberg Kravis & Roberts & Co. | Second | 15.60 |
| Thomas H. Lee Partners LP | Sixth | 9.00 |

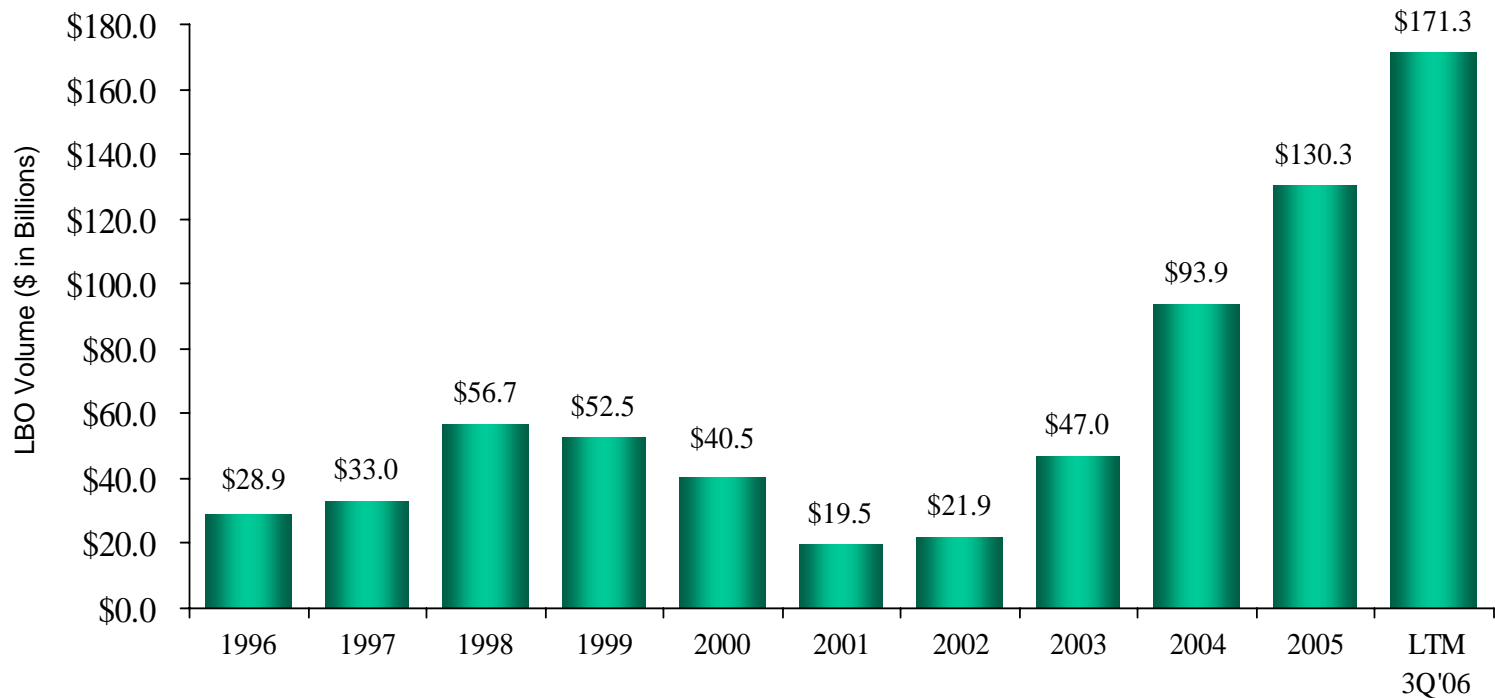
Source: The Deal, Capital IQ, Buyouts Magazine

* Rumored to be raising a \$15 billion fund in 2007



Private Equity Volume Is Large and Growing

Total U.S. Leveraged Buyout Volume

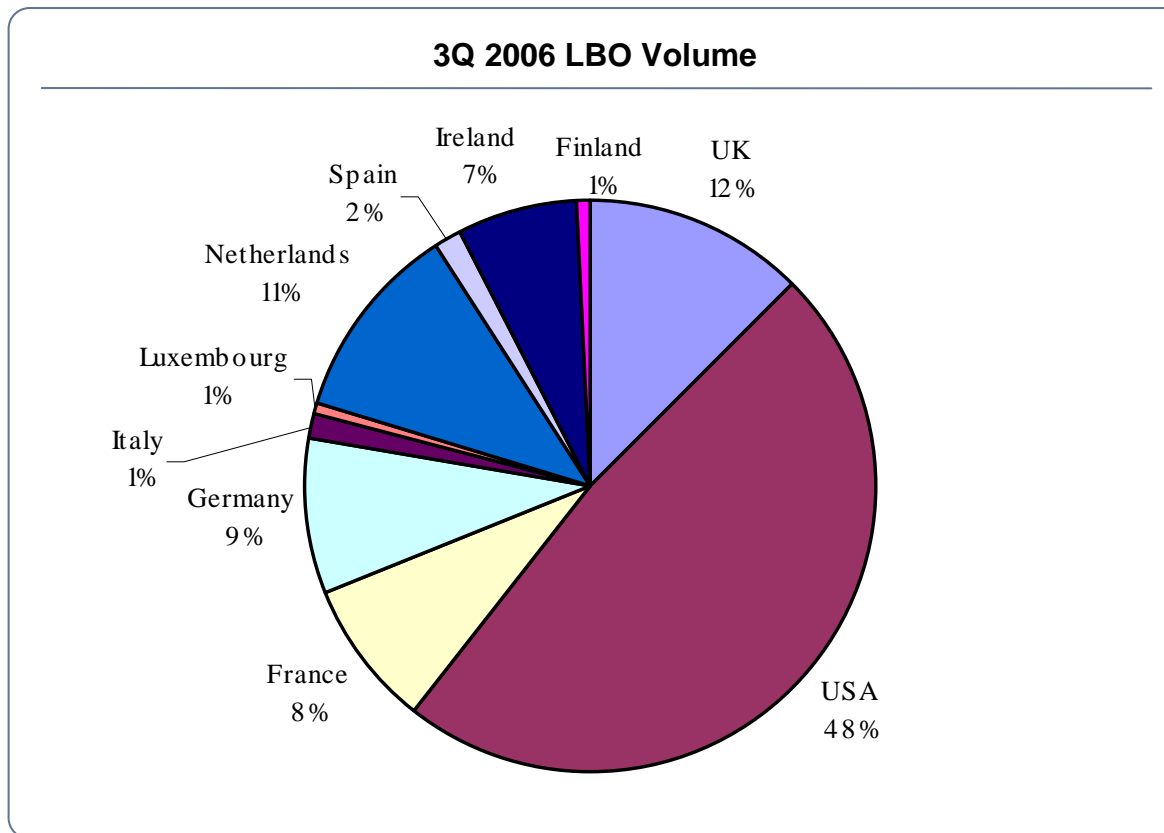


Source: Standard & Poor's LBO



A Global Product

❖ Private equity investing is increasingly globalized



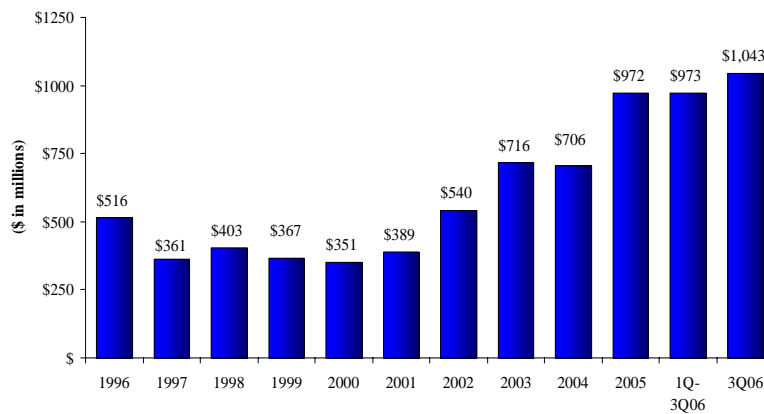
Source: Standard & Poor's
Volume: \$93.2B US dollar equivalent volume



Average Deal Size

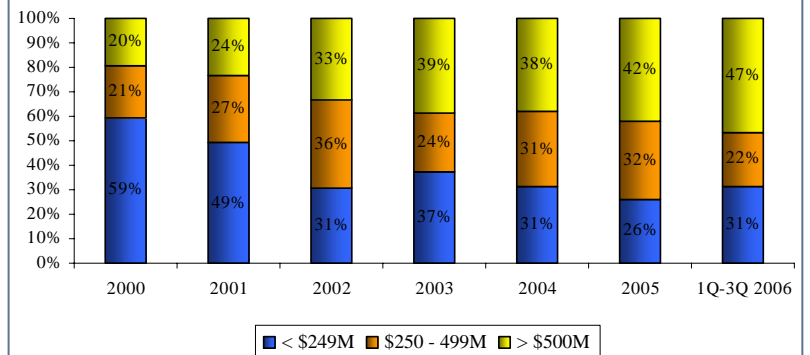
❖ The average deal size of a leveraged buyout has been growing

Average LBO Size



Source: Standard & Poor's Q3 2006 Leveraged Buyout Review

Distribution of LBOs by Size



Source: Standard & Poor's Q3 2006 Leveraged Buyout Review



Hedge Fund Activism: Getting “Muscular”

❖ Common features of Shareholder Activism

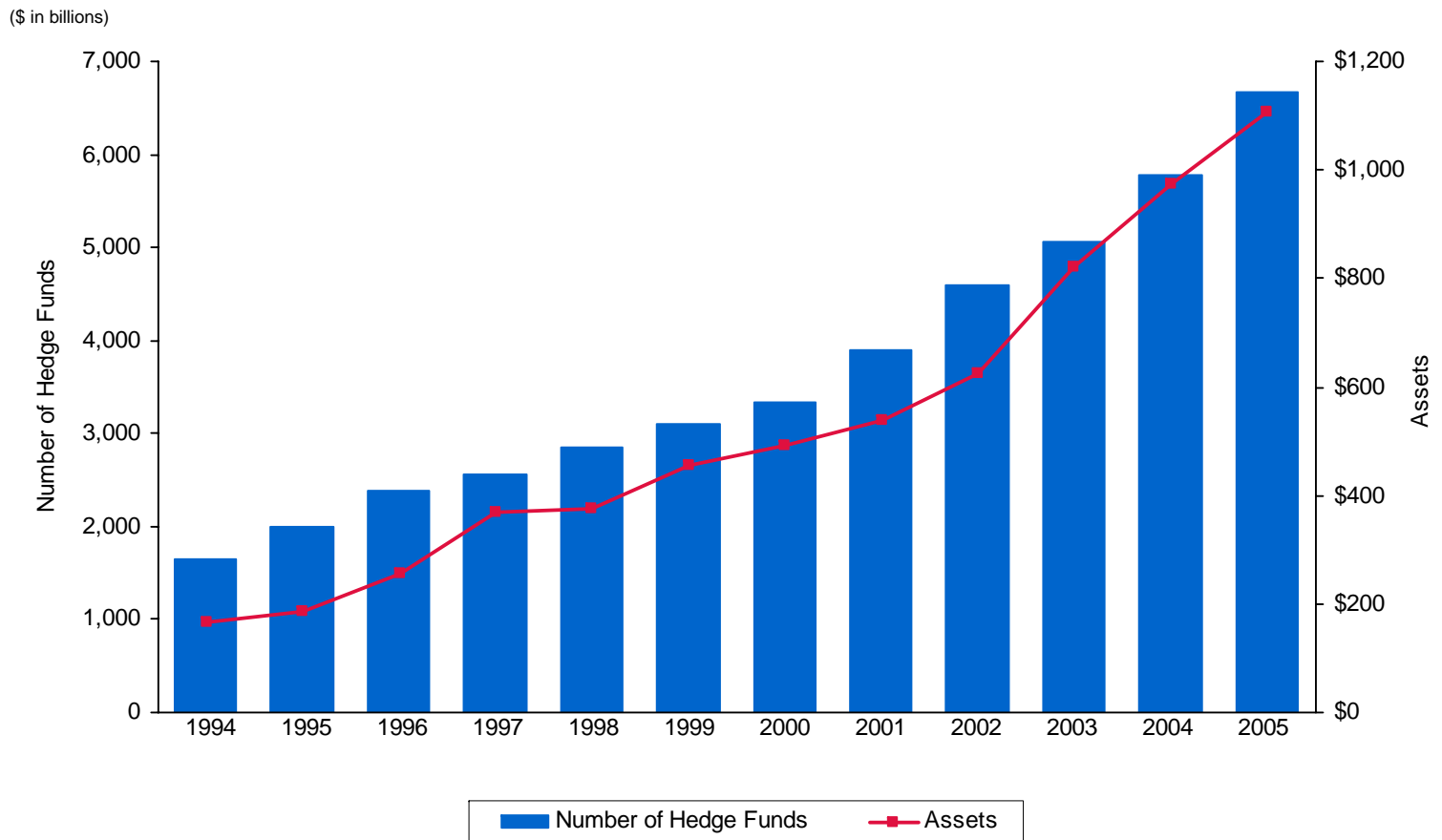
- ◆ Relentless focus on capital allocation
- ◆ Acquisition of significant “toehold” positions, quickly and with stealth
- ◆ Use of derivatives and hedging to minimize economic exposure and increased leverage
- ◆ Sophisticated review of target’s strengths and vulnerabilities
- ◆ Promoting board and management changes
- ◆ Challenges to announced transactions
- ◆ Attempts to sway press, research analyst, ISS and other proxy voting organizations
- ◆ Willingness to pursue aggressive tactics
- ◆ Acquisition of entire company is often not ultimate goal
- ◆ Shareholder activism migrating to Europe





Hedge Fund Growth

Hedge Fund Growth (1994 – 2005)



Source: HFRI



Hedge Fund Convergence

- ❖ Hedge funds have been increasingly active in the buyout market

Select Hedge Funds Active in Control Equity Market

| Fund | Size (\$Bill) |
|---------------|---------------|
| Angelo Gordon | \$ 11.5 |
| Citadel | 11.0 |
| Cerberus | 9.3 |
| Soros | 8.0 |
| Fortress | 5.0 |

Source: HLHZ

Select Hedge Funds Active in Financing Others' Buyouts

| Fund | Size (\$Bill) |
|--------------------------------|---------------|
| Angelo Gordon | \$ 11.5 |
| Goldman Sachs Asset Management | 11.2 |
| Citadel | 11.0 |
| Cerberus | 9.3 |
| Soros | 8.0 |
| Highbridge | 7.4 |
| Canyon Partners | 7.0 |
| Amaranth Advisors | 6.7 |

Source: HLHZ



Conclusion

- ❖ Global M&A market continues to be healthy based on fundamental industry drivers
- ❖ Buyout firms have become major contributors to M&A
- ❖ Deal volume is bolstered by stronger economic conditions, corporate optimism and balance sheet, and a return to M&A as primary growth strategy
- ❖ Strength is driving:
 - ◆ Price
 - ◆ Terms
 - ◆ Timing / Process
- ❖ Consolidation continues to define certain industries (e.g., Financial Institutions, Telecom, Healthcare)
- ❖ Global M&A perspective gaining traction with increased focus on emerging regions such as India and China
- ❖ Strong financial markets allow structured flexibility
- ❖ Hedge funds and alternative funding sources continue to provide liquidity
- ❖ Companies (and transactions) are receiving greater scrutiny from shareholders seeking more influence