

“I made my money by selling too soon”

- Bernard Baruch

# THE MARKET

## FOR PRIVATELY HELD COMPANIES

### Topics Relevant to Middle Market Mergers & Acquisitions

#### M&A Activity – Q3 2008 Data

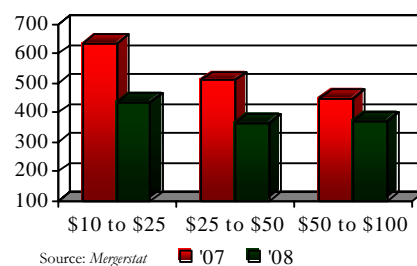
Merger and acquisition activity remains **extremely active in software, business services, distribution and construction**. Although active, transaction volume has moderated relative to the same period in 2007. Transaction volume (including public and private companies of all sizes) for the TTM ended June 2008 was 24% lower than the same period in 2007. Although volume is lower, pricing remains competitive with historic levels.

#### Transaction Volume for the Lower Middle Market

The chart below includes both public and private transactions for the lower middle market and reveals that transaction volume has moderated in all three size categories.

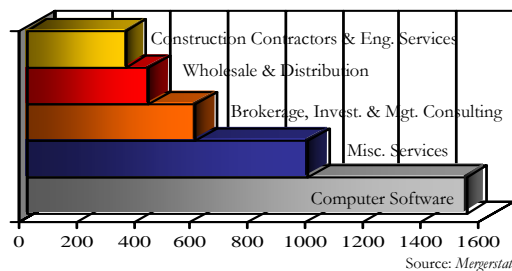
The number of transactions in the \$50 to \$100 million enterprise value category fell 17% compared to the prior year. Transactions in the \$25 to \$50 million enterprise value category decreased 28%, and transaction volume in the smallest category (\$10 to \$25 million) slowed 31%. The number of deals with undisclosed values dropped 22%. It is highly likely that most of these deals are under \$25 million in value.

Transaction Volume by Size  
TTM Ending September 30, 2008



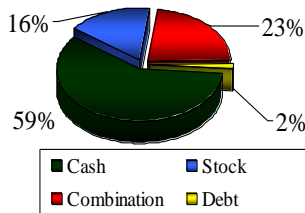
#### Which Industries are Most Active?

Activity in most industries remains robust, and **the chart below reveals the five most active industries** in terms of transactions closed for the **12 months** ended September 30, 2008. In addition to the industries listed in the chart, the following industries also exhibited high transaction volume: Drugs, Medical Supplies & Equipment; Insurance; Leisure & Entertainment; Retail; Health Services; and Banking & Finance.



#### Pricing and Structure

In spite of the slowdown in transaction volume, **valuations remain attractive** for private companies. EBITDA multiples are approximately 10% below those observed in 2007 and similar to those observed in 2006. **Another positive note** - cash is still king. 59% of the transactions completed in the three months ending September 2008 were all-cash transactions.



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