

“I made my money by selling too soon”

- Bernard Baruch

January 2010

WATERVIEW ADVISORS  
M&A ADVISORY • VALUATIONS • CAPITAL SOURCING

For further information:  
Larry S. Starks  
Senior Managing Director  
12201 Merit Drive, Suite 700  
Dallas, Texas 75251  
Office: 972.690.5400  
Fax: 972.690.5403  
larry.starks@waterviewadvisors.com

www.waterviewadvisors.com

© 2010 by Waterview Advisors

# THE MARKET

## FOR PRIVATELY HELD COMPANIES

### Topics Relevant to Middle Market Mergers & Acquisitions

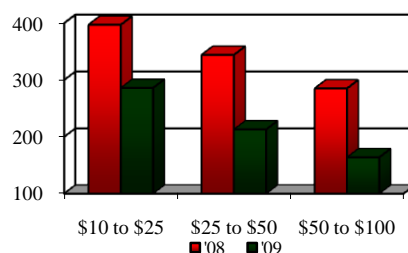
#### M&A Activity – Q4 2009 Data

Transaction volume for the three months comprising Q4 2009 was down 13% relative to Q4 2008. Overall transaction volume (including public and private companies of all sizes) for the trailing twelve months ended December 31, 2009 was 26% lower than the same period in 2008. As evidenced by the Q4 data, the overall decline in M&A activity is moderating.

#### 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 softened in all three size categories. The number of deals with undisclosed values (74% of all deals) dropped only 11.1%. It is highly likely that most of these deals are under \$100 million in value. The number of reported transactions in the \$50 to \$100 million enterprise value category fell 42.51% compared to the prior year. Transactions in the \$25 to \$50 million enterprise value category decreased 38.1%, and transaction volume in the smallest category (\$10 to \$25 million) slowed 28%.

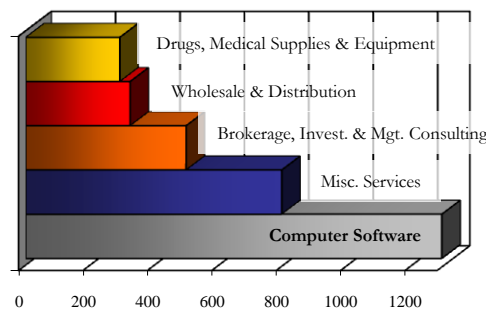
Transaction Volume by Size  
TTM Ending December 31, 2009



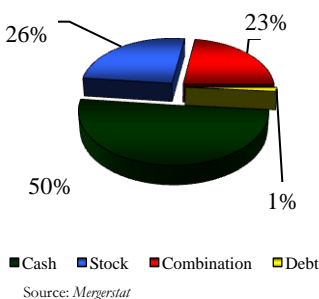
Source: Mergerstat

#### Which Industries are Most Active?

The chart to the right reveals the five most active industries in terms of transactions closed for the 12 months ended December 31, 2009. In addition to the industries listed in the chart, the following industries also exhibited high transaction volume: Health Services; Banking & Finance; Construction Contractors and Engineering Services; Leisure & Entertainment; and Insurance.



Source: Mergerstat



Source: Mergerstat

#### Pricing and Structure

In spite of the slowdown in transaction volume, **valuations remain attractive** for healthy private companies. EBITDA multiples for lower middle market companies, although lower than the peaks experienced 18 months ago, continue to be competitive with long term averages. **Another positive note** - cash is still king. 50% of the transactions completed in the three months ending December 31, 2009 were all-cash transactions.

#### Waterview Advisors is a Financial Advisory Services firm focused on Investment Banking and Valuation Services

- The Investment Banking Division serves client companies with revenue between \$5 million and \$150 million:
  - ◆ Sell Side Representation (marketing to both strategic and financial buyers)
  - ◆ Capital Sourcing (senior debt, mezzanine and equity)
- The Valuation Advisory Division provides the following services:
  - ◆ Fairness Opinions
  - ◆ Business Valuations for Gift & Estate Tax purposes
  - ◆ Valuations and Financial Analysis to Support Business & Tax Planning