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SUMMER 2009

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**RAPTOR PARTNERS**  
**M&A MARKET MONITOR**

## **PREPARING FOR AN M&A REBOUND**

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# RAPTOR PARTNERS M&A MARKET MONITOR

## SUMMER 2009

### Are We at the Bottom of the M&A Market?

Global M&A deal volume stabilized slightly in the second quarter of 2009, up 5.4% from the first quarter when volume fell precipitously. The recent stabilization, however, is at a sharply lower level than 2008 volumes. Based on the first six months of activity, 2009 global M&A volume would equal approximately 22,000 transactions on an annual basis, down 39% from the 2008 level.

Growth in M&A activity tends to be a lagging indicator of overall economic improvement. As CEO's struggle with slow demand, rising unemployment, struggling consumer confidence, tight credit markets and the restructuring of their own businesses, M&A activity becomes a secondary priority. In addition sellers have been less willing to enter the market if they perceive valuations are at levels that are lower than recent averages.

After the economy turns around, however, rapid consolidation has historically taken place. M&A activity will be spurred by companies that have been hoarding cash looking to acquire competitors, weakened businesses merging, easier flowing credit, better business fundamentals, and the diversification of companies into growth areas or counter cyclical business lines.

### Preparation for the M&A Rebound

For the numerous potential buyers and sellers who have opted to remain outside the current M&A market, there is no time better than the present to prepare for the eventual sale or acquisition of a business during a rebound. There are several advance planning actions that potential buyers and sellers can take to increase the probability of a successful M&A process. Some of these items can include specific deliverables, while others entail strategic analyses.

Raptor Partners has identified a few of the key advance planning items to aid in a successful M&A process.

### Preparation Items for the Sale of a Business

- Review potential buyer categories
- Identify active buyers
- Analyze recent industry valuation metrics
- Review segment performance and benchmarks
- Develop detailed financial forecasts
- Review buyer due diligence requirements
- Review financial and operational reporting methods
- Discuss strategic positioning for optimal value
- Review senior mgmt. depth and employee positioning
- Begin preparing comprehensive data room

### Preparation Items for the Acquisition of a Business

- Discuss industries of interest for an acquisition
- Review impact of the acquisition of a competitor by another industry participant
- Develop size, location and profitability criteria of target
- Analyze recent industry valuation metrics
- Develop list of potential acquisition candidates
- Review buyer due diligence request lists
- Review financing options and current capital markets
- Review integration objectives and procedures
- Develop strategy for contacting potential targets

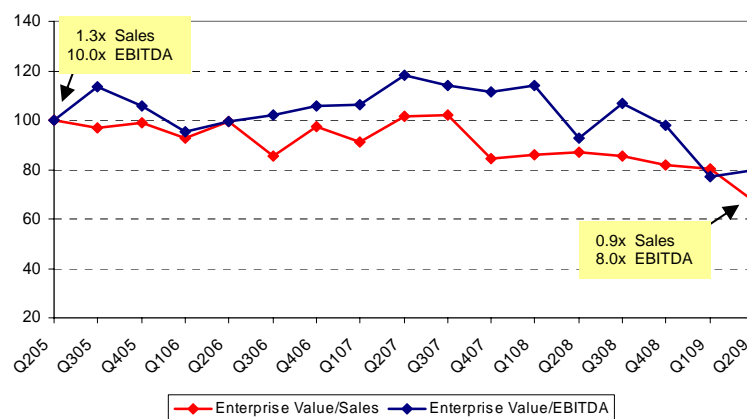
*For a confidential discussion on how Raptor Partners can assist your company in the preparation for a business sale or acquisition, please contact Craig A. Wolfanger, Executive Managing Director, at (412) 281-1101.*

### Valuation Trends

U.S. M&A valuation multiples remained below recent averages in the second quarter of 2009. The median Enterprise Value/Sale multiple declined 16% in the second quarter of 2009 relative to the first quarter of the year.

The median Enterprise Value/EBITDA multiple increased 3% in the second quarter of 2009 relative to the first quarter of the year. The increased EBITDA multiple and the corresponding decreased sales multiple, suggests businesses are being acquired with depressed profit margins with the hopes of a return to historical profitability in the future.

### U.S. Target M&A Multiple Trends



Source: Standard & Poor's CapitalIQ and Raptor Partners



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### Transaction Volumes Have Levelled

Global M&A transaction volume increased 5.4% during the second quarter of 2009 to 5,498 transactions from 5,215 transactions in the first quarter. The second quarter transaction volume, although stabilized, remained down a sharp 42% from the second quarter of 2008. Transaction volume for the first six months of 2009 was also off 42% from the 2008 comparable period.

Despite the stabilization in transaction volume during the second quarter of 2009, the aggregate value of deals announced continued to decline. \$268 billion in transactions were announced during the second quarter of 2009, down from \$329 billion in the first quarter. Excluding Pfizer's \$68 billion acquisition of Wyeth and Merck's \$41 billion acquisition of Schering Plough, both announced in the first quarter, aggregate deal value was up in the second quarter.

In the current environment, lower middle market deals (below \$100 million) should continue to fare better than their larger transaction counterparts. Smaller deals benefit from more creative financing techniques (e.g. earn-outs); more equity capital; and lower overall

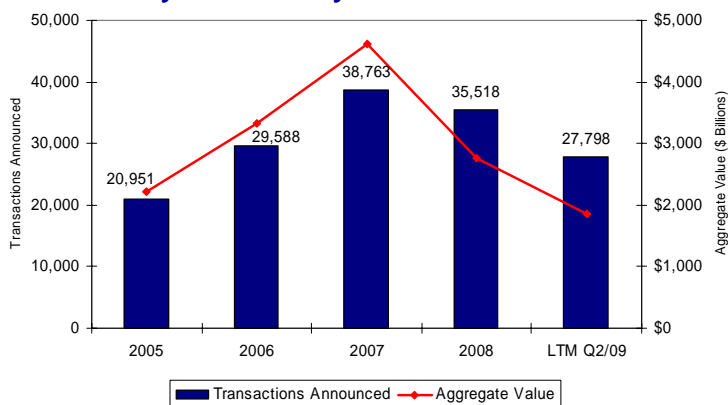
integration and financial risk. Multi-billion transactions which helped fuel the record M&A activity during 2007 and early 2008 will continue to lag the rest of the market as the appetite for risk on such deals remains low from both company management and financing sources.

### Acquisitive CEO's Signaling A Rebound

The slight uptick in deal volume during the second quarter, along with comments from typically acquisitive CEO's may be signaling the beginning of a thaw in the M&A market. In recent commentary, the CEO's of two highly acquisitive companies, Illinois Tool Works and Danaher, both indicated a growing appetite for acquisition.

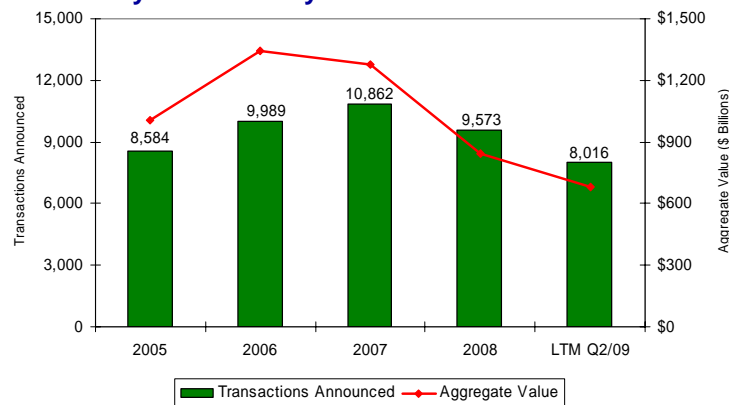
As the credit and equity markets become healthier, such environment will make it easier for well-capitalized strategic buyers to finance transactions. Numerous strategic buyers have been hoarding cash for several months due to a lack of significant deal flow and tight capital markets. Although the timing is difficult to predict, a resurgence of acquisitions will be a significant component of the "growth story."

### Global Yearly M&A Activity



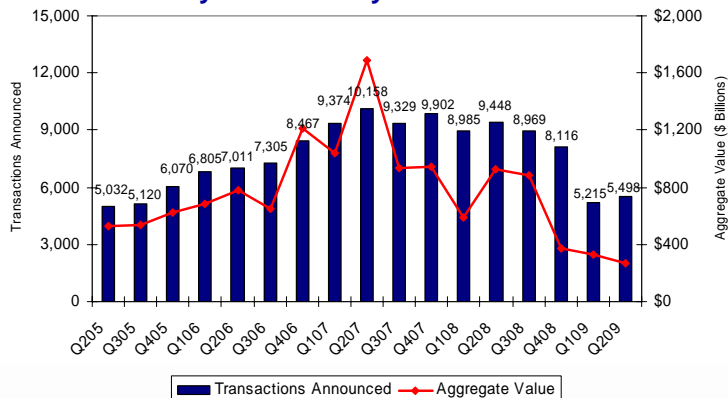
Source: Standard & Poor's CapitalIQ

### U.S. Yearly M&A Activity



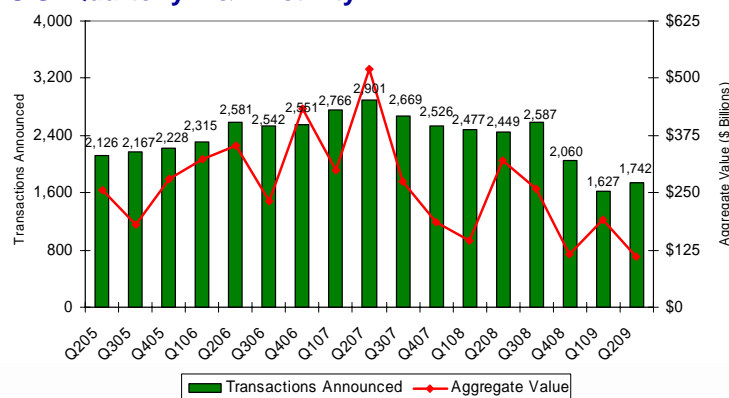
Source: Standard & Poor's CapitalIQ

### Global Quarterly M&A Activity



Source: Standard & Poor's CapitalIQ

### U.S. Quarterly M&A Activity



Source: Standard & Poor's CapitalIQ



# RAPTOR PARTNERS M&A MARKET MONITOR

## SUMMER 2009

### Sector Spotlight

Enterprise Value/Sales multiples paid for U.S. targets in all major industry sectors tracked by Raptor Partners declined or remained flat during the Trailing Twelve Month ("TTM") period ended June 30, 2009 as compared to 2008. M&A valuation levels reached a recent high in the second and third quarters of 2007 during the height of mortgage finance and LBO bubbles.

Several recently announced strategic transactions illustrate typical acquisition strategies during a recession. In an effort to improve margins in a tough pricing environment, Pepsico has agreed to acquire its two largest bottlers for a combined enterprise value of \$18 billion. Boeing acquired a major structural component supplier for its 787 Dreamliner for \$1 billion to control its supply chain and improve margins. Two of the largest HR consulting firms, Watson Wyatt and Towers Perrin, agreed to a merger of equals in a deal reflecting recession-induced consolidation in the consulting industry.

### Business Services U.S. Deal Statistics

	2005	2006	2007	2008	TTM 6/09
EV/Sales	1.18x	1.14x	1.22x	0.91x	0.91x
EV/EBITDA	10.4x	10.2x	11.9x	9.7x	10.9x
Volume	1,796	2,182	2,494	2,028	1,542

Group Median Multiples

#### Significant Business Services Transactions:

Date	Target	Acquiror	EV	EV/	
				Sales	EBITDA
7/13/2009	IDS Scheer AG	Software AG	\$0.4 B	1.0x	16.8x
6/29/2009	Towers Perrin	Watson Wyatt	\$1.9 B	1.2x	NA
6/25/2009	Malcolm Pirnie	Arcadis NV	\$0.2 B	0.8x	NA
6/20/2009	Voyager Learning	Cambium Learning	\$0.1 B	1.3x	NM
6/19/2009	Wood Mackenzie	Charterhouse Capital	\$0.9 B	5.7x	14.6x
5/9/2009	MedServe	Stericycle	\$0.2 B	NA	NA

■ = Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

### Consumer Products & Services U.S. Deal Statistics

	2005	2006	2007	2008	TTM 6/09
EV/Sales	0.90x	0.92x	0.95x	0.93x	0.82x
EV/EBITDA	9.9x	10.1x	10.2x	9.7x	9.5x
Volume	2,045	2,485	2,794	2,181	1,699

Group Median Multiples

#### Significant Consumer Products & Services Transactions:

Date	Target	Acquiror	EV	EV/	
				Sales	EBITDA
6/24/2009	Tween Brands	Dress Barn	\$0.2 B	0.3x	5.6x
6/7/2009	BPP Holdings plc	Apollo Global	\$0.3 B	2.0x	11.2x
5/19/2009	Sadia	Perdigao	\$5.6 B	0.9x	9.6x
5/10/2009	SC Johnson Shave Bus.	Energizer Holdings	\$0.3 B	1.8x	NA
5/7/2009	Oriental Brewery	KKR	\$1.8 B	NA	NA
4/19/2009	PepsiAmericas	Pepsico	\$5.2 B	1.0x	7.4x
4/19/2009	Pepsi Bottling Group	Pepsico	\$12.8 B	0.9x	7.0x
4/7/2009	Centex	Pulte Homes	\$3.4 B	0.9x	NM

■ = Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

### Healthcare & Life Sciences U.S. Deal Statistics

	2005	2006	2007	2008	TTM 6/09
EV/Sales	1.84x	1.81x	1.85x	1.62x	1.32x
EV/EBITDA	11.4x	13.4x	14.7x	13.3x	9.9x
Volume	2,567	3,017	3,266	3,069	1,739

Group Median Multiples

#### Significant Healthcare & Life Sciences Transactions:

Date	Target	Acquiror	EV	EV/	
				Sales	EBITDA
7/26/2009	Varian	Agilent Technologies	\$1.4 B	1.5x	11.3x
6/22/2009	Monogram Biosciences	Laboratory Corp of America	\$0.2 B	2.5x	NM
6/16/2009	Arrow Group	Watson Pharmaceuticals	\$1.8 B	2.7x	NA
6/5/2009	Concateno plc	Inverness Medical	\$0.3 B	3.2x	12.6x
5/21/2009	Cougar Biotechnology	Johnson & Johnson	\$0.9 B	NM	NM
5/8/2009	VNUS Medical	Covidien	\$0.4 B	3.7x	21.8x
4/20/2009	Steifel Laboratories	GlaxoSmithKline	\$3.3 B	3.7x	NA
4/15/2009	BiPar Sciences	Sanofi-aventis	\$0.5 B	NM	NM
4/13/2009	NextRx	Express Scripts	\$4.7 B	0.3x	NA

■ = Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

### Industrial & Material U.S. Deal Statistics

	2005	2006	2007	2008	TTM 6/09
EV/Sales	0.92x	0.91x	0.95x	0.87x	0.83x
EV/EBITDA	8.9x	8.5x	9.9x	8.5x	7.5x
Volume	1,157	1,531	1,758	1,506	1,138

Group Median Multiples

#### Significant Industrial & Material Transactions:

Date	Target	Acquiror	EV	EV/	
				Sales	EBITDA
7/6/2009	SC Ops. of Vought Aircraft	Boeing Co.	\$1.0 B	NA	NA
7/5/2009	Alcan Food Americas	Bemis	\$1.2 B	0.8x	7.2x
6/29/2009	RMG Group	Honeywell	\$0.4 B	1.4x	NA
6/22/2009	Duralex SA	Satipel Industrial	\$1.5 B	1.3x	5.0x
5/20/2009	Down Calcium Chloride Bus.	Occidental Petroleum	\$0.2 B	NA	NA
5/4/2009	Quadrant AG	Mitsubishi Plastics	\$0.3 B	0.6x	9.7x
4/1/2009	Morton International	K+S	\$1.7 B	1.4x	6.3x

■ = Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

### Technology & Software U.S. Deal Statistics

	2005	2006	2007	2008	TTM 6/09
EV/Sales	1.56x	1.57x	1.62x	1.37x	1.19x
EV/EBITDA	11.5x	11.4x	12.9x	10.9x	10.0x
Volume	1,955	2,053	2,225	1,832	1,426

Group Median Multiples

#### Significant Technology & Software Transactions:

Date	Target	Acquiror	EV	EV/	
				Sales	EBITDA
7/27/2009	SPSS Inc.	IBM	\$0.8 B	2.7x	10.3x
7/22/2009	Bankrate, Inc.	Apax Partners	\$0.5 B	3.4x	12.8x
7/7/2009	MSC Software	Symphony Tech/Elliott Mgmt	\$0.2 B	0.8x	9.2x
7/6/2009	Data Domain	EMC Corp.	\$2.4 B	8.3x	97.3x
6/4/2009	Axsys Technologies	General Dynamics	\$0.6 B	2.4x	12.6x
6/4/2009	Wind River Systems	Intel Corporation	\$0.8 B	2.2x	20.8x
5/8/2009	Verizon Wireless Assets	AT&T	\$2.4 B	NA	NA
4/19/2009	Sun Microsystems	Oracle	\$5.6 B	0.4x	8.2x
4/16/2009	M/A-Com Private Radio	Harris Corp.	\$0.7 B	1.5x	7.8x
4/15/2009	Gmarket	eBay	\$1.2 B	4.5x	21.7x

■ = Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners



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## SUMMER 2009

### Public Takeover Premiums Remain High

Public company acquisition takeover premiums remained at their highest levels in the past five years. Following several years of takeover premiums in the mid-20% range, four-week premiums increased to 31.3% in 2008 and to 45.8% in the first six months of 2009. Depressed public company equity prices have resulted in an increase in the premium that shareholders and boards of directors require in order to entice them to sell. Premiums may return to a more normalized level in the coming months as public equity prices have rebounded significantly from their March lows.

### Public Company Takeover Premiums

	2005	2006	2007	2008	6 Mos. 09
One Day Premium	22.2%	21.1%	22.4%	33.6%	37.4%
One Week Premium	23.8%	23.6%	23.0%	33.8%	42.2%
Four Week Premium	25.7%	26.4%	25.0%	31.3%	45.8%

Source: Standard & Poor's CapitalIQ and Raptor Partners

### Lower Middle Market Deals Faring Better

Despite significantly lower overall M&A activity during the first half of 2009, transactions below \$100 million continue to fare better than larger transactions. Deals below \$100 million accounted for over 86% of all transactions announced, with disclosed values, versus 82% during the first half of 2008. Transactions of over \$1 billion declined over 67% in the first half of 2009. During the highly-levered, mega-billion-dollar merger period of 2007, 748 transactions were announced with an enterprise value over \$1 billion. The number of large deals has since declined rapidly as access to credit returned to more normal levels due to decreased demand for these securities from investors. Smaller deals are easier to finance through existing cash, creative financing techniques, and have lower overall integration and financial risk.

### Transactions by Deal Size

	2005	2006	2007	2008	6-Mos. 2008	6-Mos. 2009
Above \$1.0 Billion	411	567	748	413	241	78
\$500 Million - \$1.0 Billion	268	401	571	363	212	75
\$100 Million - \$500 Million	1,477	1,826	2,460	1,929	1,069	369
Below \$100 Million	7,440	10,076	15,788	13,367	7,052	3,306

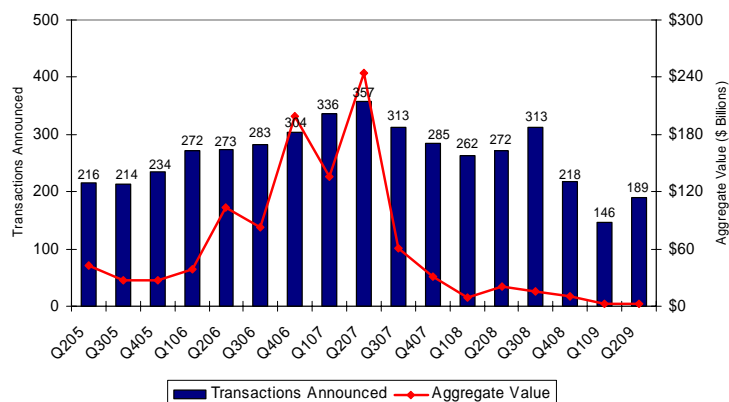
Source: Standard & Poor's CapitalIQ

### Private Equity ("PE") Activity

U.S. PE acquisition volume increased nearly 30% in the second quarter of 2009 from the first quarter. Despite the second quarter increase, U.S. PE volume remained significantly below 2007 and 2008 levels. The reported aggregate value of U.S. PE transactions announced declined to a four-year low of \$2.0 billion in the second

quarter of 2009 from \$2.3 billion in the first quarter. This represents a significant decline from the \$21.1 billion of U.S. PE transactions that were announced in the second quarter of 2008. The ability to complete large, highly leveraged transactions in the current credit environment, with reduced debt ratios and stricter loan covenants from banks, continues to be more difficult. Smaller buyout transactions that can be completed with an increased amount of equity from PE sponsors have been more successful. The ability to refinance these transactions at better credit terms when business conditions and debt markets improve can serve to increase the returns of the sponsors.

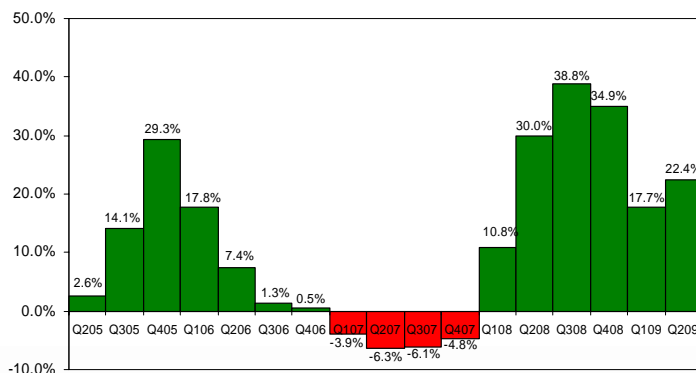
### U.S. Private Equity Activity



Source: Standard & Poor's CapitalIQ

The Enterprise Value/EBITDA premium paid by strategic buyers relative to financial buyers remained consistent in the second quarter of 2009. During 2007, when credit flowed more freely and lending terms were less restrictive, PE transactions were being completed at a slight premium to strategic transactions. This trend reversed in 2008 as credit markets tightened sharply. Historically, strategic buyers have been able to pay a premium multiple due to synergies that exist between the target and its existing business versus a financial buyer acquiring an initial platform.

### Strategic Buyer Valuation Premium vs. Private Equity



Source: Standard & Poor's CapitalIQ and Raptor Partners



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**PHILIPS**  
has acquired  
**MEDEL SpA**

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*Raptor Partners acted as financial advisor to Philips Home Healthcare Solutions and assisted in the negotiations.*



**Kennywood**  
has been acquired by  
**PARQUES REUNIDOS**

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*Raptor Partners acted as financial advisor to Kennywood and rendered a fairness opinion.*



**RESPIRONICS**  
has been acquired by  
**KONINKLIJKE PHILIPS  
ELECTRONICS N.V.**

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*Raptor Partners acted as a financial advisor to Respirationics and rendered a fairness opinion.*



**MAYNARD**  
has been acquired by  
**ACCENTURE**

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*Raptor Partners acted as financial advisor to H.B. Maynard and assisted in the negotiations.*



**COMBINENET**  
The Optimal Solution  
**FINANCIAL ADVISORY**

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*Raptor Partners provided financial advisory services to CombineNet.*



**NABCO**  
has been acquired by  
**MAIN STREET CAPITAL  
HOLDINGS**

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*Raptor Partners acted as financial advisor to NABCO and assisted in the negotiations.*



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