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VALUATION: WHAT'S THE NEW NORMAL?

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Valuation: What's the New Normal?

The global financial crisis has impacted both public company and M&A valuation levels. In this turbulent environment, investors, sellers and buyers must make difficult assessments of the relationship between historical financial results and future performance and the resultant impact on valuation levels.

Financial Crisis Impacts Valuation Levels

The global financial crisis which began in mid-2007 has had an adverse impact on traditional valuation measures. Major U.S. stock market indices, including the S&P 500 and the Dow Jones Industrial Index are both down over 40% from their highs in the fall of 2007. Valuations have declined as investors associate a higher level of risk with companies' future earnings potential due to rising unemployment and lower consumer confidence, which is typical of a cyclical recession. Historical earnings levels or trailing twelve months "*TTM*" results no longer act as a strong indicator of the forward demand for companies' products or services.

In addition to the lower expected earnings levels associated with a typical cyclical recession, the current financial crisis has impacted company valuations due to a simultaneous banking and credit crisis. Due to high levels of bad assets on banks' balance sheets from loans made to risky borrowers, many banks have increased lending standards and decreased credit availability. The reduced credit availability serves to increase the bankruptcy risk of certain companies in cyclical industries and also slows down the expected recovery in consumer demand.

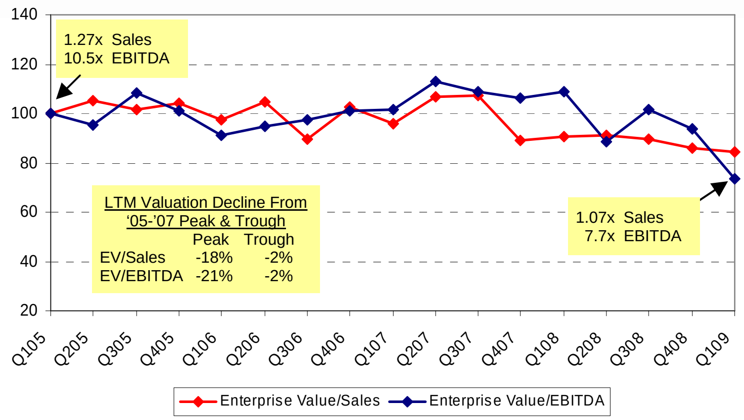
M&A Market Impact

The worldwide M&A market has not been immune from the current economic turbulence. Deal volumes and valuations have both declined during the past two quarters as decreased credit availability and uncertain financial performance have kept many buyers and sellers on the sidelines.

After reaching record Enterprise Value/EBITDA valuation levels in the second and third quarters of 2007 during the height of mortgage finance and Leveraged Buyout ("LBO") bubbles, U.S. M&A valuation multiples declined in the first quarter of 2009. Overall U.S. Enterprise Value/EBITDA multiples declined by 21% in the first quarter of 2009 versus the fourth quarter of 2008, while overall U.S. Enterprise Value/Sales multiples declined only 2%.

The decline in valuation measures during the first quarter of 2009 was coupled with a 21% decline in U.S. M&A transaction volume as compared to the fourth quarter of 2008. Global M&A transaction volumes were down a steeper 36% in the first quarter of 2009.

U.S. Target M&A Multiple Trends



Source: Standard & Poor's CapitalIQ and Raptor Partners

Are Valuations High, Low or Just Right?

Both buyers and sellers are busy trying to determine proper valuation levels in this current turbulent economic environment. Recent overall M&A valuations have certainly declined, however that fact alone does not reveal if valuations are down on an individual company basis. For example as certain companies in cyclical industries endure continued weak end-market demand, TTM cash flow results have deteriorated, resulting in bank covenant defaults. Some of these companies have been forced to divest assets or sell-out completely at distressed valuation levels, reducing overall M&A statistics.

In addition, valuations based on historical financial results may not be indicative of a target's future performance. Typically, in growth industries, forward valuation multiples, which are based on future estimated results, should be lower than historical valuation multiples, which look at trailing results. The current economic environment, however, has often caused the opposite to be true. Consider the recently announced transactions in the table below.

Recent Deal Spotlights—Trailing vs. Forward Multiples

				P/E Multiple	
Date	Target	Acquiror	EV	Trailing	Forward
Feb-09	CF Industries	Agrium	$3.5 B	7.3x	12.7x
Jan-09	thinkorswim Group	TD Ameritrade	$0.6 B	11.8x	17.3x
Jan-09	Terra Industries	CF Industries	$2.5 B	5.0x	10.2x

Source: Standard & Poor's CapitalIQ and Raptor Partners

How Many Deals Are Getting Done?

Following record global merger and acquisition activity in 2007, total transaction volume and value declined in 2008. Global deal volume declined 8.3% while total deal value declined 39.9% in 2008 versus 2007. The pace of the decline increased significantly during the first quarter of 2009 when global deal volume fell 38.3% versus the fourth quarter of 2008 and 44.3% versus the comparable first quarter of 2008.

Tight credit market conditions, the lingering effects of the 2008 financial crisis and the deleveraging of global consumers has caused deal flow to decline and diminished the ability to close some types of transactions, including LBOs.

In the short-term, distressed opportunities due to insolvency, deleveraging of capital structures or capital raising requirements should continue to be a key driver of M&A activity.

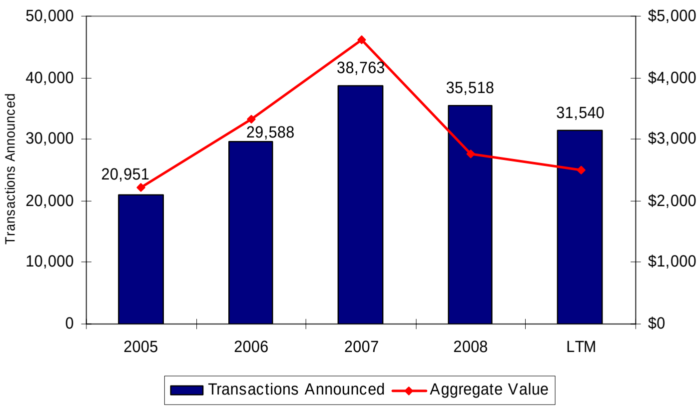
All Companies Aren't Created Equally

Despite lower M&A volumes and valuations in the first quarter of 2009, well-capitalized buyers, who aren't constrained by tight credit market conditions, are beginning to take advantage of synergistic opportunities. Also, companies in recession-resistant industries, such as healthcare and life sciences, and niche companies with strong competitive advantages and growth potential, remain attractive. Positive M&A events have begun taking place in 2009.

Pfizer's January 2009 announced acquisition of rival U.S. pharmaceutical giant Wyeth for $68 billion is the largest M&A transaction since the 2006 acquisition of BellSouth by AT&T.

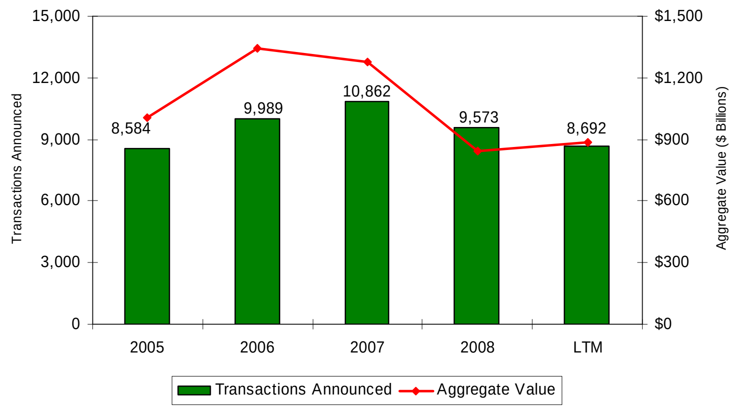
Pfizer was able to tap into investor appetite for risk to help finance the transaction, issuing $13.5 billion in notes in March. Financing for this transaction in the first quarter of 2009, along with Roche's acquisition of Genentech and Merck's announced acquisition of Schering Plough, may have been inconceivable in the midst of the global credit crisis during the fourth quarter of 2008.

Global Yearly M&A Activity



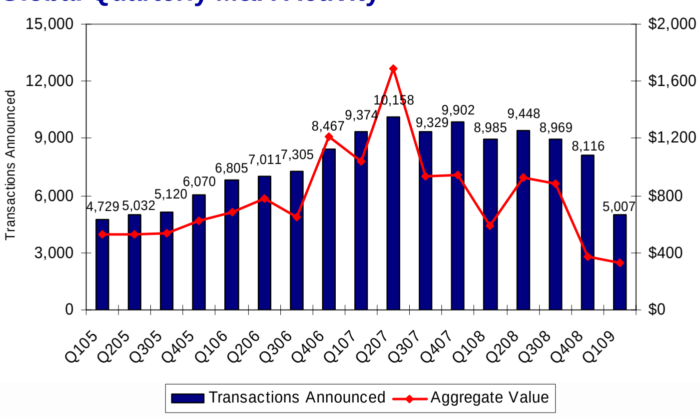
Source: Standard & Poor's CapitalIQ

U.S. Yearly M&A Activity



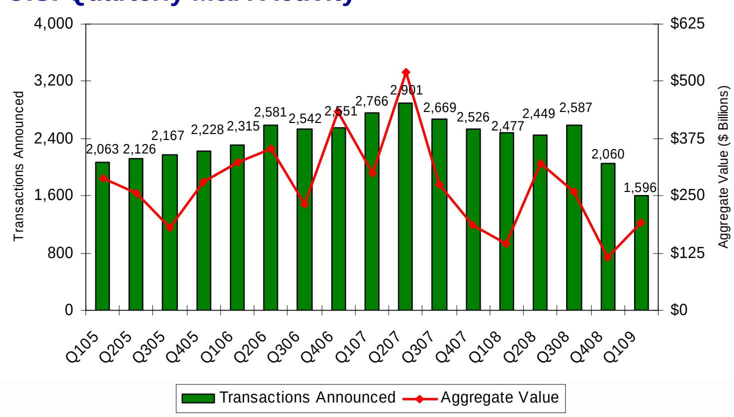
Source: Standard & Poor's CapitalIQ

Global Quarterly M&A Activity



Source: Standard & Poor's CapitalIQ

U.S. Quarterly M&A Activity



Source: Standard & Poor's CapitalIQ

Sector Spotlight

After reaching record Enterprise Value/EBITDA valuation levels in the second and third quarters of 2007 during the height of mortgage finance and LBO bubbles, U.S. M&A valuation multiples in all major industry sectors tracked by Raptor Partners declined for the TTM period ended March 31, 2009.

Despite declines in overall transaction multiples, several recent transactions commanded premium multiples in the various industry sectors analyzed. Companies in recession resistant industries, such as healthcare and life sciences, and those with unique growth platforms or attractive niches still garner attractive valuations.

Well-capitalized strategic advisors are continuing to be active searching for attractive bolt-on opportunities and new market platforms. Financial buyers remain constrained on higher valuation deals due to tight credit markets.

Business Services U.S. Deal Statistics

	2005	2006	2007	2008	TTM 3/09
EV/Sales	1.18x	1.14x	1.22x	0.91x	0.92x
EV/EBITDA	10.4x	10.2x	11.9x	9.7x	9.4x
Volume	1,796	2,182	2,494	2,028	1,764

Group Median Multiples

Significant Business Services Transactions:

				EV/	
Date	Target	Acquiror	EV	Sales	EBITDA
3/31/2009	Metavante Technologies	Fidelity Natl Info Svcs	$4.6 B	2.7x	10.9x
5/12/2009	Quebecor World	RR Donnelley	$1.4 B	NA	NA
12/23/2008	Cerved Bus Info S.p.A.	Bain Capital	$0.7 B	NA	7.7x
12/2/2005	Logistics Ops of IBM	Geodis SA	$0.4 B	NA	NA
3/23/2009	BearingPoint Public Svcs.	Deloitte	$0.4 B	NA	NA
2/6/2009	Republic Services Assets	Waste Connections	$0.3 B	2.4x	NA

= Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

Consumer Products & Services U.S. Deal Statistics

	2005	2006	2007	2008	TTM 3/09
EV/Sales	0.90x	0.92x	0.95x	0.93x	0.92x
EV/EBITDA	9.9x	10.1x	10.2x	9.7x	9.5x
Volume	2,045	2,485	2,794	2,181	1,885

Group Median Multiples

Significant Consumer Products & Services Transactions:

				EV/	
Date	Target	Acquiror	EV	Sales	EBITDA
12/19/2008	SANYO Electric	Panasonic	$16.1 B	0.7x	6.4x
5/19/2009	Sadia	Perdigao	$5.6 B	0.9x	9.6x
12/19/2008	Distribucion y Servicio	Wal-Mart	$3.7 B	1.2x	14.1x
4/7/2009	Centex	Pulte Homes	$3.4 B	0.9x	NM
5/7/2009	Oriental Brewery	KKR	$1.8 B	NA	NA
2/10/2009	Ticketmaster Entertainment	Live Nation*	$0.9 B	0.6x	3.7x
3/19/2009	Pure Digital Tech	Cisco Systems	$0.6 B	NA	NA

*Merger of Equals

= Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

Healthcare & Life Sciences U.S. Deal Statistics

	2005	2006	2007	2008	TTM 3/09
EV/Sales	1.84x	1.81x	1.85x	1.62x	1.52x
EV/EBITDA	11.4x	13.4x	14.7x	13.3x	11.6x
Volume	2,567	3,017	3,266	3,069	2,450

Group Median Multiples

Significant Healthcare & Life Sciences Transactions:

				EV/	
Date	Target	Acquiror	EV	Sales	EBITDA
1/25/2009	Wyeth	Pfizer	$64 B	2.8x	8.0x
3/8/2009	Schering-Plough	Merck	$47 B	2.6x	9.9x
4/20/2009	Steifel Laboratories	GlaxoSmithKline	$3.3 B	3.7x	NA
1/11/2009	Advanced Medical Optics	Abbott Labs	$2.7 B	2.3x	10.1x
3/12/2009	CV Therapeutics	Gilead Sciences	$1.4 B	9.0x	NM
5/21/2009	Cougar Biotechnology	Johnson & Johnson	$0.9 B	NM	NM
2/23/2009	CoreValve	Medtronic	$0.7 B	20.0x	NA
5/8/2009	VNUS Medical	Covidien	$0.4 B	3.7x	21.8x

= Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

Industrial & Material U.S. Deal Statistics

	2005	2006	2007	2008	TTM 3/09
EV/Sales	0.92x	0.91x	0.95x	0.87x	0.83x
EV/EBITDA	8.9x	8.5x	9.9x	8.5x	7.8x
Volume	1,157	1,531	1,758	1,506	1,328

Group Median Multiples

Significant Industrial & Material Transactions:

				EV/	
Date	Target	Acquiror	EV	Sales	EBITDA
2/25/2009	CF Industries*	Agrium	$3.5 B	0.9x	3.1x
2/23/2009	Nova Chemicals	IPIC	$2.2 B	0.3x	8.9x
4/1/2009	Morton International	K+S	$1.7 B	1.4x	6.3x
2/27/2009	HR Textron	Woodward Governor	$0.4 B	1.4x	NA
2/1/2009	Corrpro Companies	Insituform Tech	$.1 B	0.4x	5.4x

*Hostile

= Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

Technology & Software U.S. Deal Statistics

	2005	2006	2007	2008	TTM 3/09
EV/Sales	1.56x	1.57x	1.62x	1.37x	1.31x
EV/EBITDA	11.5x	11.4x	12.9x	10.9x	10.7x
Volume	1,955	2,053	2,225	1,832	1,617

Group Median Multiples

Significant Technology & Software Transactions:

				EV/	
Date	Target	Acquiror	EV	Sales	EBITDA
4/19/2009	Sun Microsystems	Oracle	$5.6 B	0.4x	8.2x
5/20/2009	Data Domain	NetApp	$1.7 B	5.6x	66.3x
4/15/2009	Gmarket	eBay	$1.2 B	4.5x	21.7x
4/16/2009	M/A-Com Private Radio	Harris Corp.	$0.7 B	1.5x	7.8x
1/22/2009	Interwoven Inc.	Autonomy Corp.	$0.6 B	2.2x	13.1x
4/21/2009	Emulex*	Broadcom	$0.5 B	1.1x	6.4x

*Hostile

= Multiples Above TTM Median

Source: Standard & Poor's CapitalIQ & Raptor Partners

Public Company Takeover Premiums Rise

Following several years of public company four-week acquisition takeover premiums in the mid-20% range, four-week premiums increased to 31.3% in 2008 and to 43.8% in the first quarter of 2009. Sharply 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. In addition, the ability for sellers to convince buyers to focus on normalized earnings as opposed to the most recent results can cause increased deal premiums.

Public Company Takeover Premiums

	2005	2006	2007	2008	Q1 2009
One Day Premium	22.2%	21.1%	22.4%	33.6%	42.9%
One Week Premium	23.8%	23.6%	23.0%	33.8%	43.4%
Four Week Premium	25.7%	26.4%	25.0%	31.3%	43.8%

Source: Standard & Poor's CapitalIQ and Raptor Partners

Lower Middle Market Deals Fairing Better

During 2008, the number of transactions below $100 million declined by a significantly lower percentage than larger transactions. During the highly-levered mega-billion merger period of 2007, 748 transactions were announced with enterprise values over $1 billion. The number of large deals declined nearly 45% in 2008 as access to credit returned to more normal levels due to decreased demand for these securities from hedge funds and institutions. Lower middle market deals, however, declined a lower 15% from 2007 to 2008. Smaller deals are easier to finance through existing cash and have lower overall integration and financial risk. Larger multi-billion dollar "club deals" which require financing from multiple private equity and bank sources, that were common in 2007, have become more difficult to syndicate.

Transactions by Deal Size

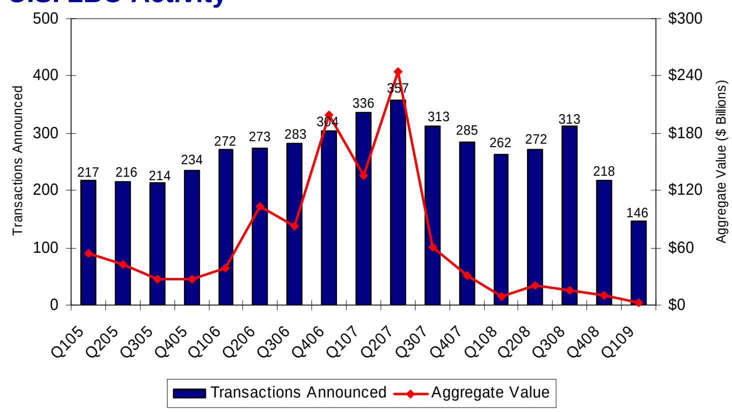
	2005	2006	2007	2008	% Change 2007-2008
Above $1.0 Billion	411	567	748	413	-44.8%
$500 Million - $1.0 Billion	268	401	571	363	-36.4%
$100 Million - $500 Million	1,477	1,826	2,460	1,929	-21.6%
Below $100 Million	7,440	10,076	15,788	13,367	-15.3%

Source: Standard & Poor's CapitalIQ

LBO Activity

U.S. LBO acquisition activity, which significantly depends on active credit markets, faired worse than strategic acquisition activity in the first quarter of 2009. U.S. LBO transaction volume declined 33% in the first quarter of 2009 versus the fourth quarter of 2008, as compared to a 20% decline in strategic transaction volume during the same period.

U.S. LBO Activity

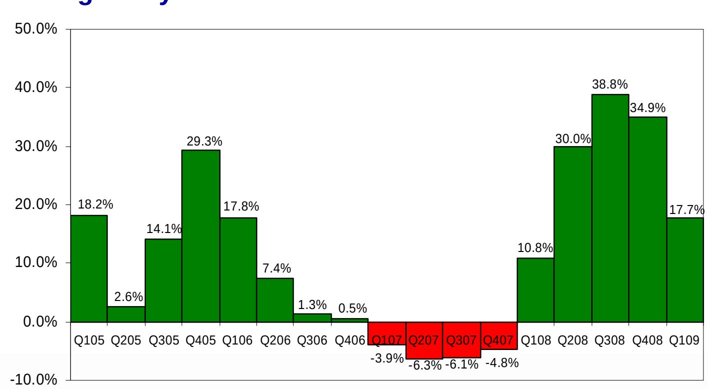


Source: Standard & Poor's CapitalIQ

Strategic buyers have continued to pay a higher Enterprise Value/ EBITDA multiple as compared to financial buyers in recent quarters. During 2007, when credit flowed more freely and lending terms were much less restrictive, LBO transactions were being completed at a slight premium to strategic transactions. Typically, strategic buyers have been able to pay a premium for targets, due to potential expense and sales synergies that exist between its current business and the company being acquired. When a financial buyer is acquiring an initial platform company, these synergies don't exist.

In the current credit environment with reduced leverage ratios and stricter loan covenants, financial sponsors have been required to invest an increased amount of equity, lowering their rate of return and limiting their ability to aggressively compete. Well-capitalized strategic buyers, on the other hand, may have unprecedented opportunities to acquire strong targets at attractive valuations.

Strategic Buyer Valuation Premium vs. LBOs



Source: Standard & Poor's CapitalIQ and Raptor Partners

Raptor Partners M&A Commentary

For sellers, buyers and financiers, "the new normal" valuation metrics continue to remain fluid and evolving. All relevant stakeholders must attempt to reconcile the correlation between historical and future earnings levels. In certain cyclical industries, buyers and financiers can no longer rely on "trailing twelve month" results as a predictor of current or future profitability. Investors are evaluating quarterly or even monthly results to derive the current annual run-rate for businesses. For certain industries typical valuation metrics and levels based on historical results are no longer relevant. Now more than ever the individual company's "story" and business pipeline will drive the ultimate valuation.

In order to complete a successful transaction in today's market, visibility into future results is critical. Predictability of future results based on existing backlog, bookings rates, delivery schedules and potential contract wins are essential to finding willing buyers and financing sources to complete a transaction at a strong valuation.

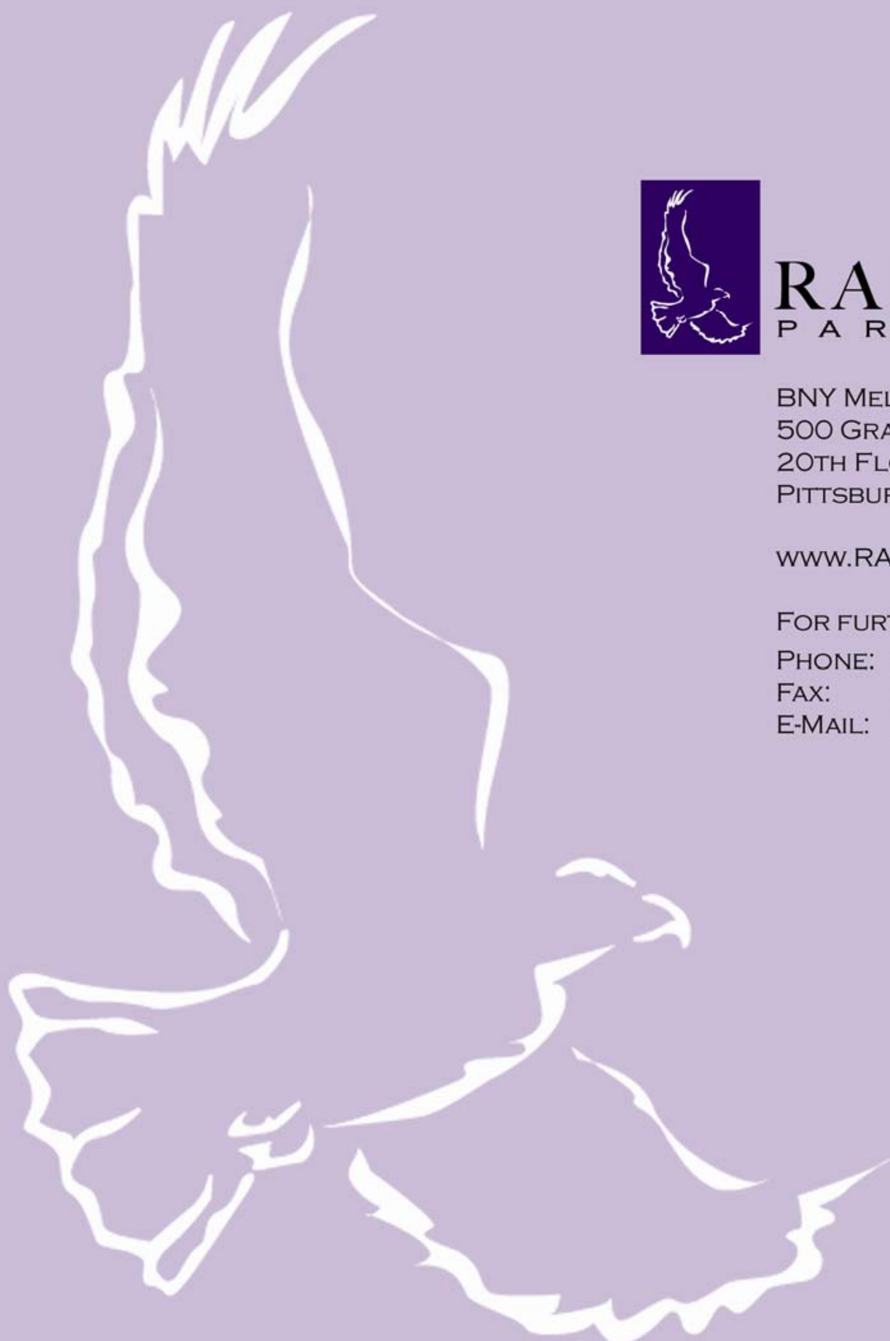
Strong valuations continue to be paid for companies that are more resistant to the economic downturn, operate in niche growth segments, and are expected to lead the economy out of the current recession. In addition, sectors of the economy that are expected to directly benefit from the Obama Administration's stimulus plan, such as healthcare information technology, "green" solutions and infrastructure garner strong interest.

M&A transactions in the current turbulent environment require a level of creativity between the buyer and seller. The tighter credit markets are driving buyers to use increased levels of cash, seller-financing, equity retention, and contingent consideration to clear valuation and financing hurdles. Lower senior-debt availability has resulted in the increased use of sub-debt or mezzanine debt financing, at equity-like return expectations.

Purchase agreements in the current environment are becoming increasingly challenging as the result of recently litigated transactions including Dow Chemical's acquisition of Rohm & Hass, which had difficulty closing due to the downturn in the financing markets. The ability of a buyer to walk away from a transaction as a result of a "financing out" will continue to be a hotly contested issue in M&A transactions.

As advisors with direct involvement in the M&A market, the level of inquiries into target availability by active strategic and financial buyers has increased significantly in the past several months. A shortage of strong target companies appears to be resulting in a build-up of demand, which is a positive for well-positioned sellers. Sellers considering the sale of their business should start actively preparing early for the transaction. In today's era of heightened buyer due diligence, changing valuation dynamics and creative acquisition structures, advanced preparation is critical to assure a strong valuation and successful closing.

For a confidential discussion on how Raptor Partners can assist your company please contact Craig A. Wolfanger, Executive Managing Director, at (412) 281-1101.



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