



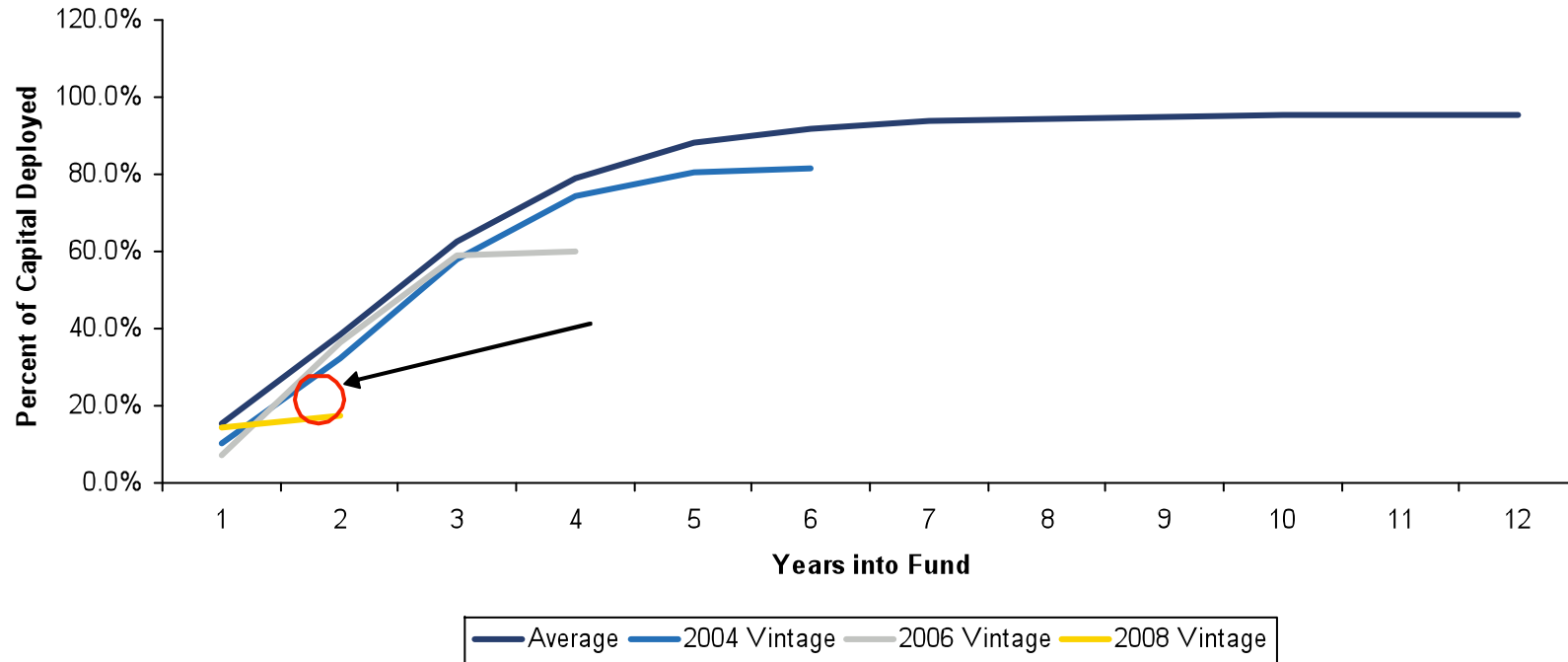
2010  
OUTLOOK ON MID-  
MARKET M&A AND  
PRIVATE EQUITY

WHAT HAPPENED?  
WHAT'S CHANGED?  
WHAT NEXT?

January 2010



## Cumulative Amount Invested



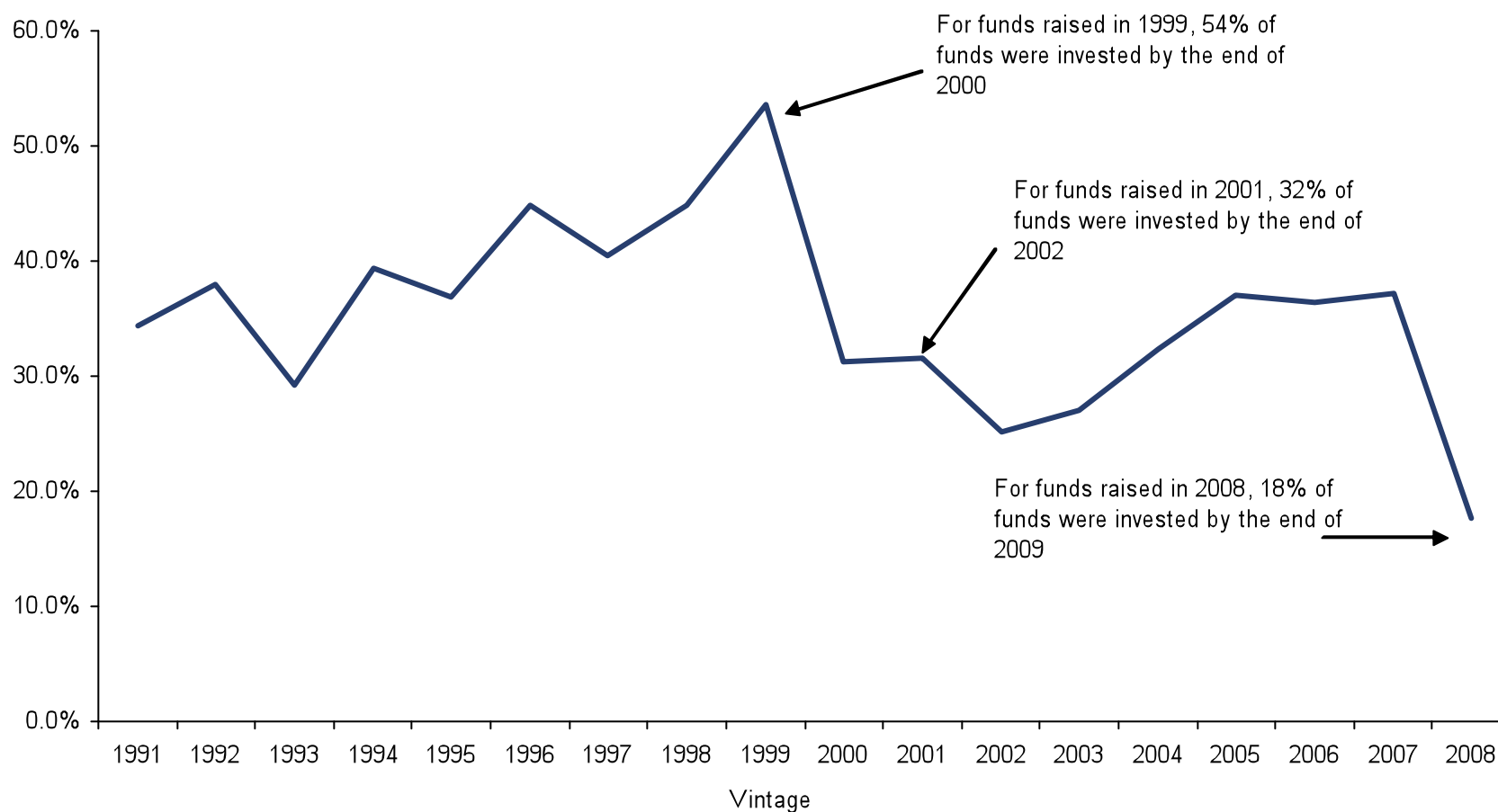
- On average, 80% of capital is deployed in the first four years of the fund's life
- Recent funds have invested at a much slower rate than prior funds

Source: Thompson Reuters

Funds are investing at a slower rate

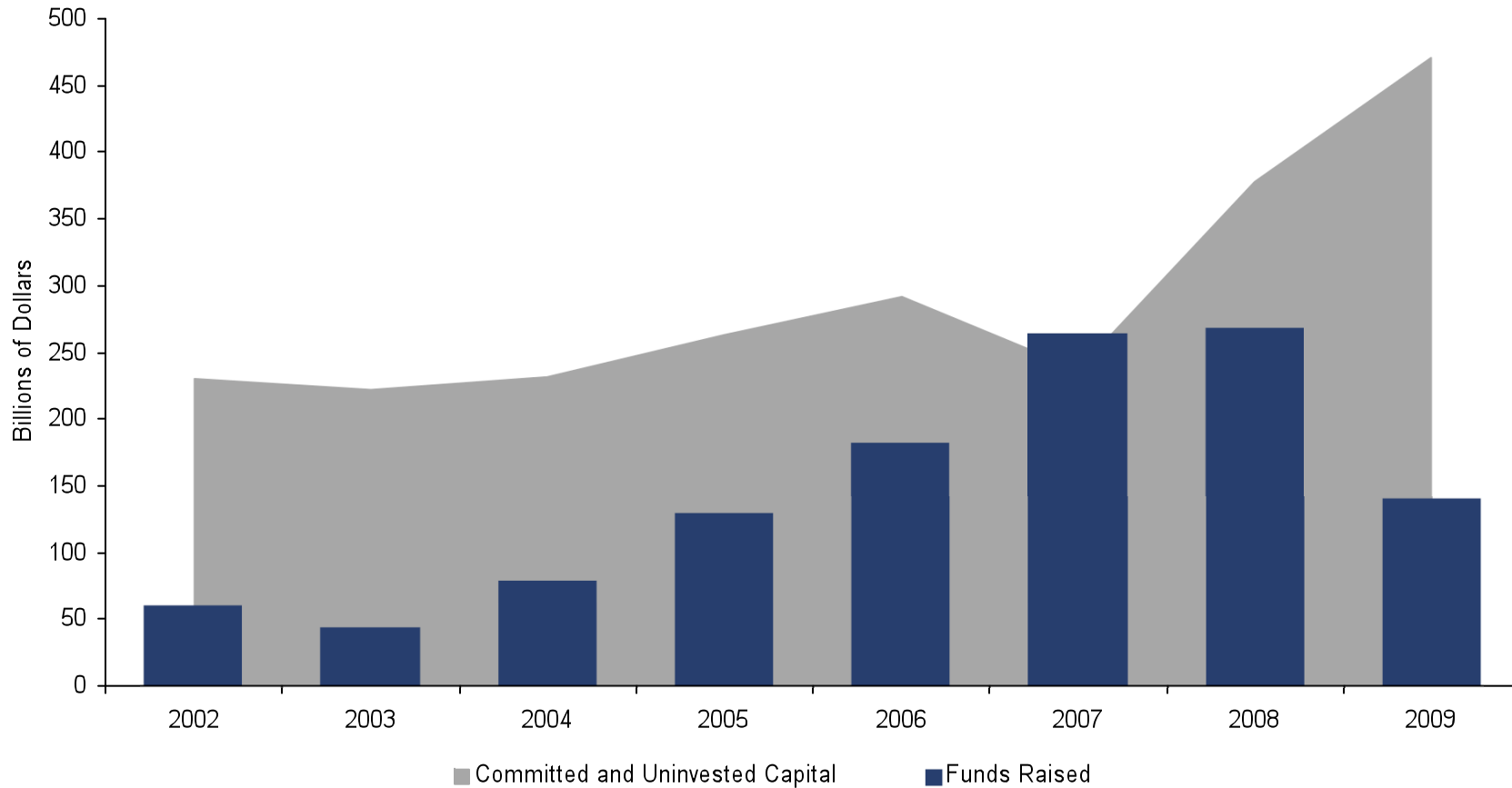
# Historical Low of Rate of Investment

## Amount Invested by the End of the Second Year



Source: Thompson Reuters

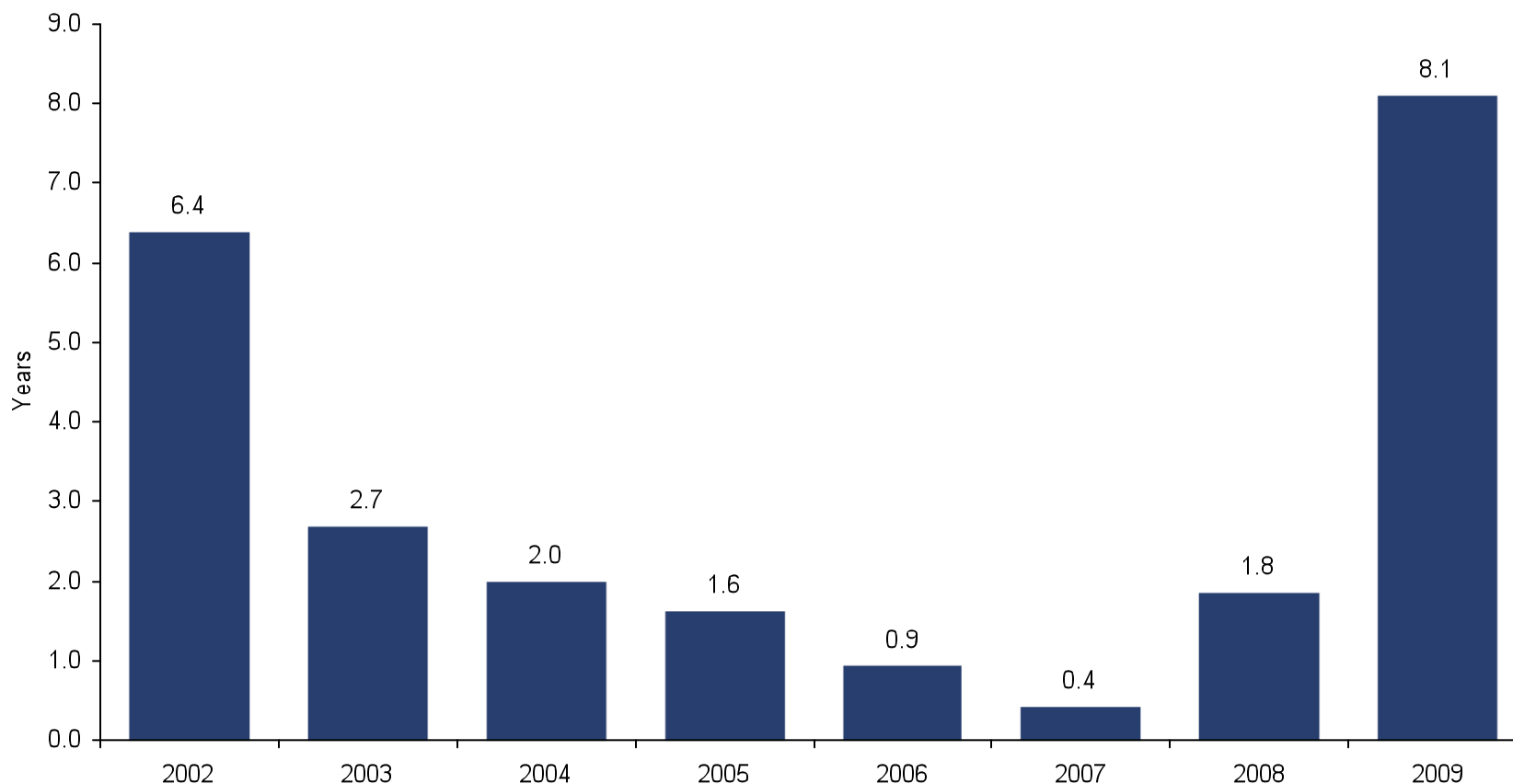
# ...Leading to a Surge in Dry Powder



Source: PitchBook Data Service

# Funds Must Go Somewhere

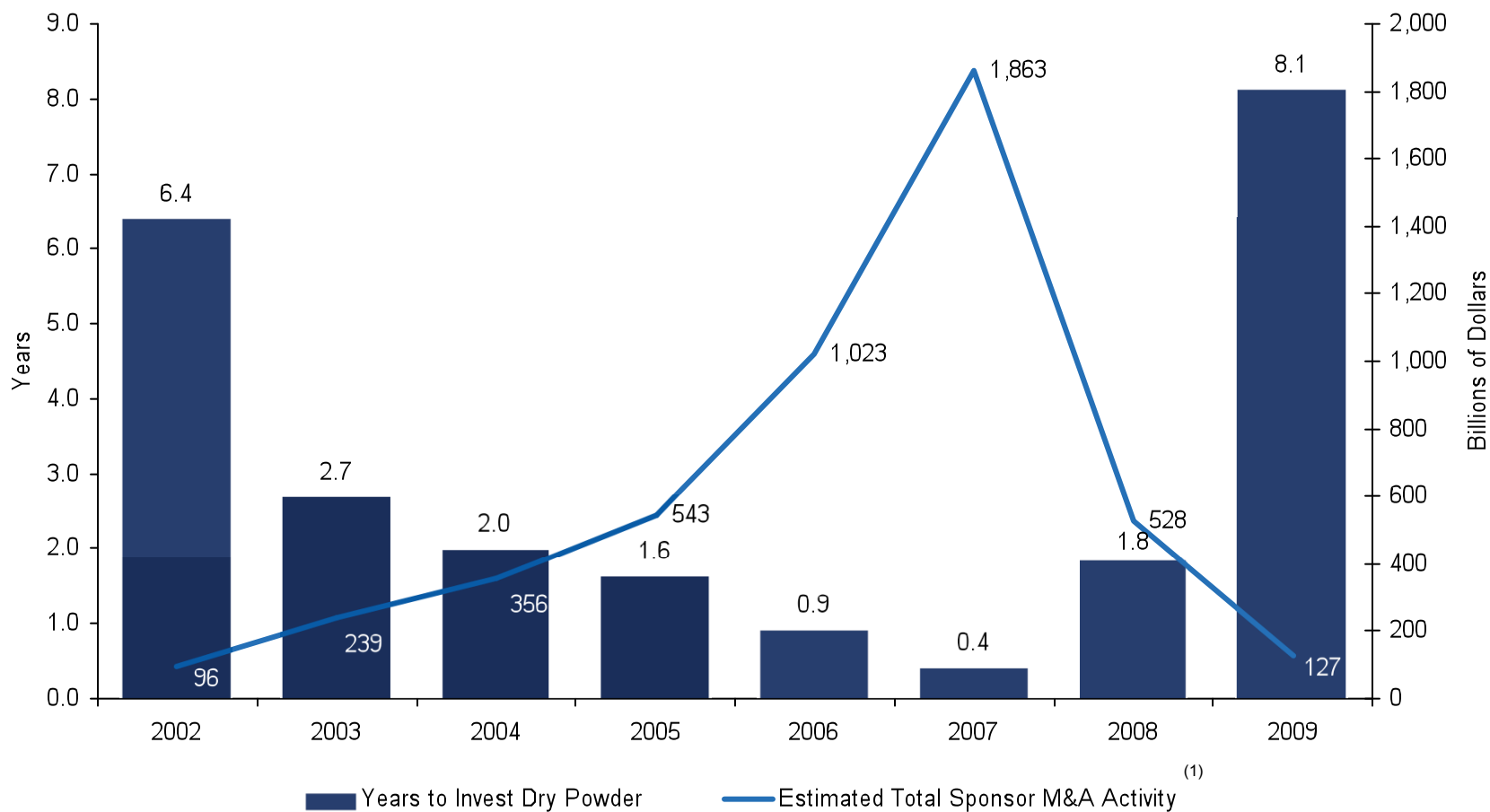
Years to Invest Dry Powder at Annual Rates  
(Uninvested Capital / Annual PE Capital Investment)



Source: PitchBook Data Service  
Note: 2009 reflects LTM as of 3Q09

# Funds Must Go Somewhere

Years to Invest Dry Powder and Estimated Sponsor M&A Activity<sup>(1)</sup>

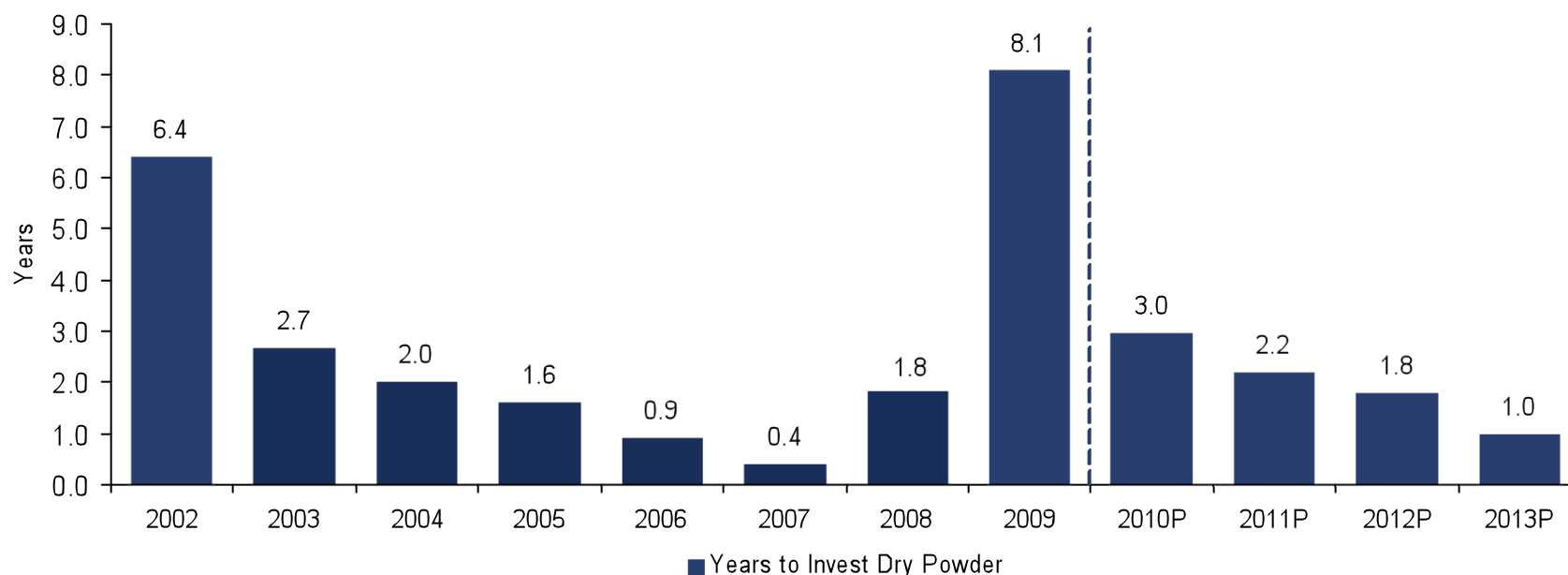


Source: PitchBook Data Service; S&P Leveraged Commentary and Data

(1) M&A activity estimated based on Sponsor capital deployed and average equity contribution to buyouts

Note: 2009 reflects LTM as of 3Q09

## Historical and Projected Years to Invest Dry Powder

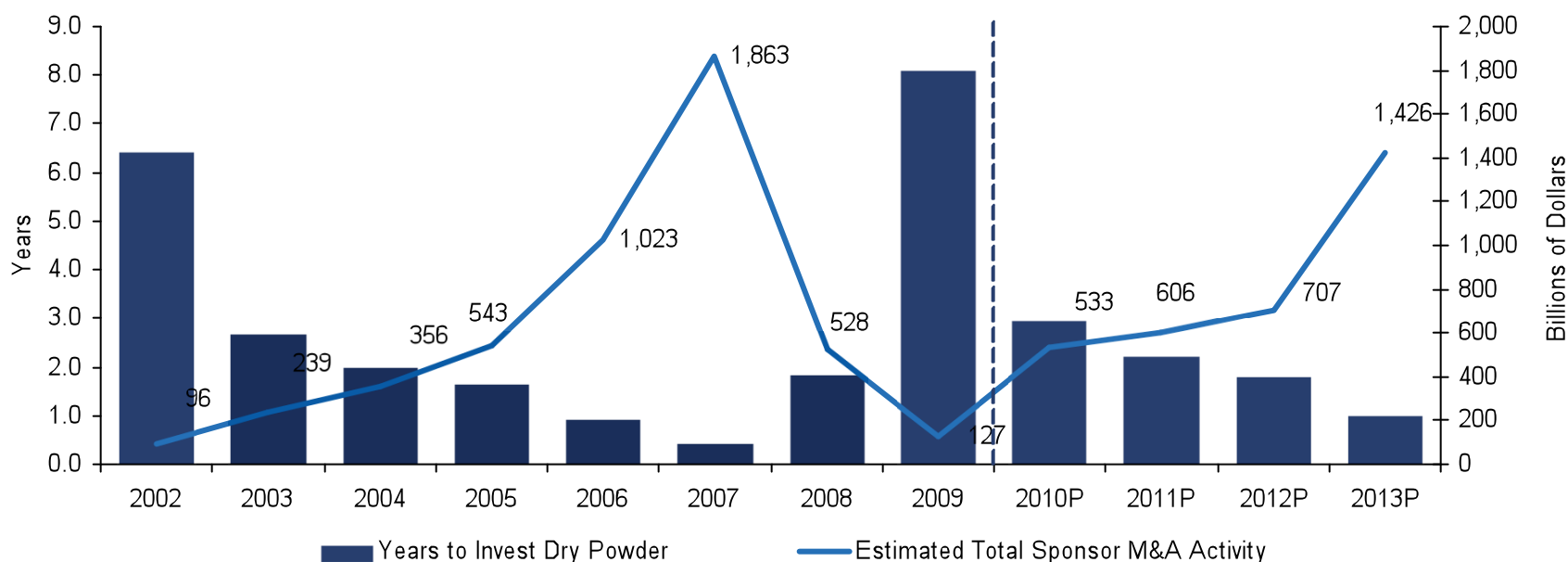


### ASSUMPTIONS

- Years to invest declines to a rate of 1 year over the next four years
- Rate of decline equivalent to the experience following the prior recession
- Fundraising grows at the same rate as it did following the prior recession

Source: PitchBook Data Service; S&P Leveraged Commentary and Data  
 Note: 2009 reflects LTM as of 3Q09

## Historical and Projected Estimated Sponsor M&A Activity



### ASSUMPTIONS

- Years to invest declines to a rate of 1 year over the next four years
- Rate of decline equivalent to the experience following the prior recession
- Fundraising grows at the same rate as it did following the prior recession
- Total M&A value estimated by dividing funds deployed by the average equity contribution to deals each year
- Average equity contribution forecast at historical average of 35%

### CONCLUSIONS

- 2010 could see Sponsor M&A activity on par with 2008 & 2005
- Sponsor M&A activity is projected to grow slowly through 2012, before accelerating in 2013
- Even in 2013, Sponsor M&A activity is not anticipated to return to 2007 levels

Source: PitchBook Data Service; S&P Leveraged Commentary and Data  
 Note: 2009 reflects LTM as of 3Q09

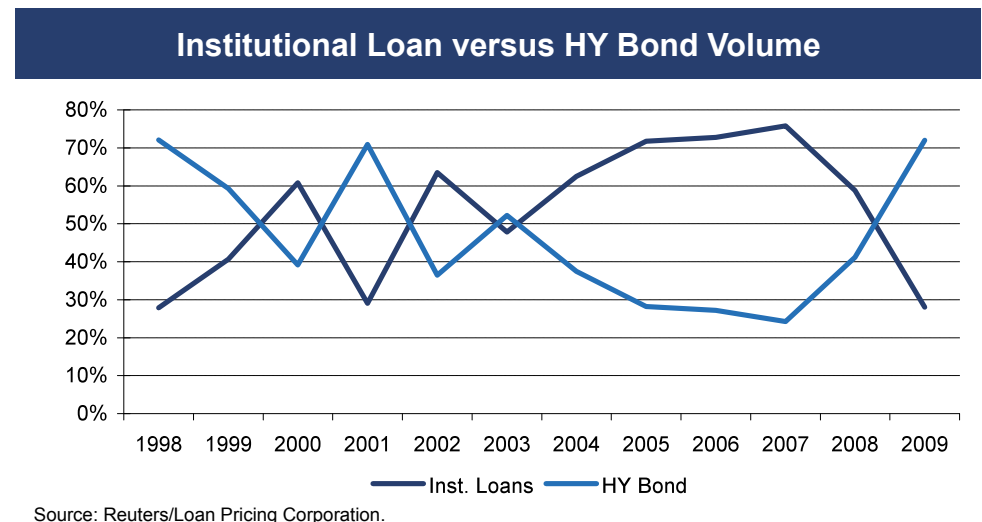
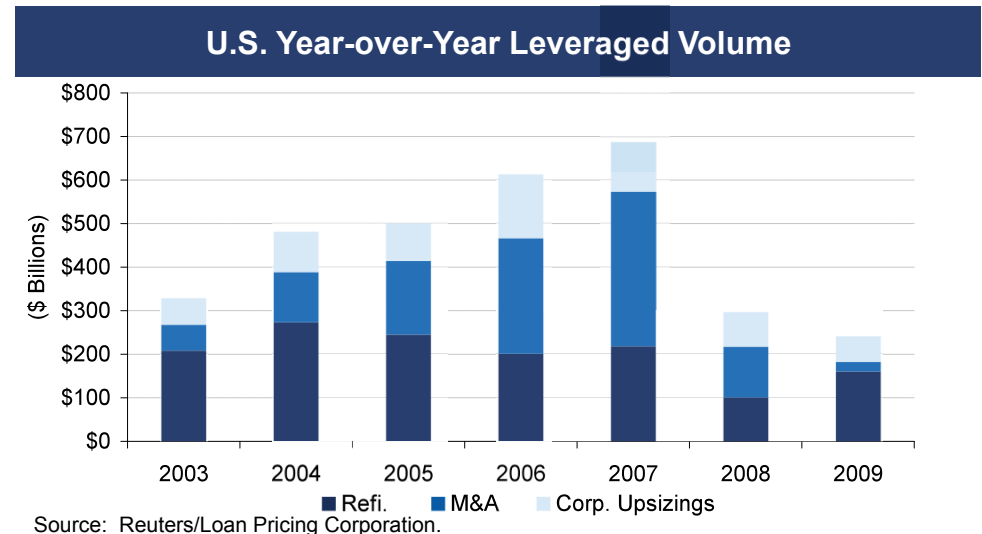
# Current State of the Syndicated Loan Market

- Volume in the first three quarters of 2009 was down due to limited M&A activity and issuers not refinancing until necessary
- A number of M&A and LBO transactions have emerged, along with dividend recapitalization transactions for higher quality issuers
- Pricing has started to contract, leverage multiples have been expanding, and tenors have started to widen
- Bank loan rating upgrades outpaced downgrades for the first time in over a year during November 2009
- Investors of all types, including banks, fin co's and institutional buyers are awash in liquidity and looking to put capital to work, new deals are clearing based on the following:
  - Clean credit stories / larger companies
  - Seasoned, higher-rated issuers with good visibility
  - Market pricing and opportunities for ancillary business
  - Leveraging lending relationships

Loan market conditions improved significantly during the final four months of 2009  
Smaller deals still are less attractive to many investors

# Leveraged Loan Market Volume

- Throughout 2009 capital typically put to use in LBOs was instead committed to amend-to-extend deals, where issuers extended a portion of their institutional term loans to longer tenors and higher priced tranches
  - In 2009, over 27% of total leveraged issuance was amend-to-extend financings
  - Sponsored volume was down 38% year-over-year, however, 40% of 2009 sponsor volume came in 4Q09
- The positive momentum in the leveraged loan market in the last two quarters has not changed the market desire for clean credit
- Investors continue to deploy capital on a selective basis
- Greater liquidity will drive prices down from inflated 09' levels

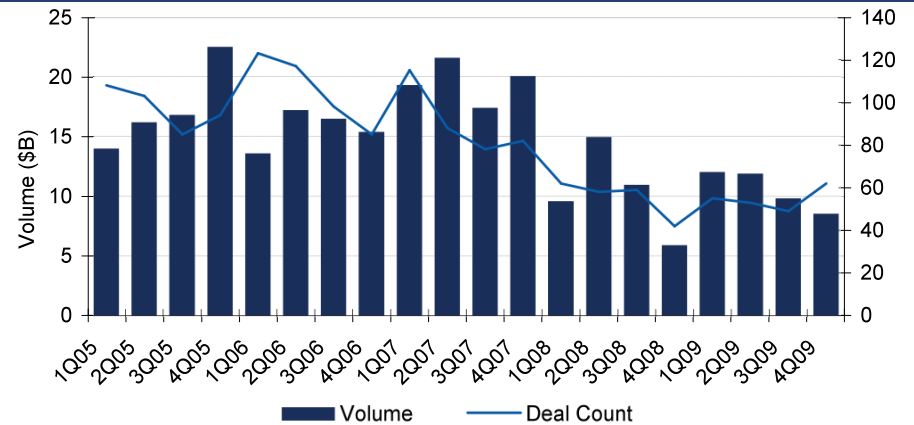


A majority of leveraged loan volume for 2009 occurred in the fourth quarter

# Asset-Based Lending Conditions

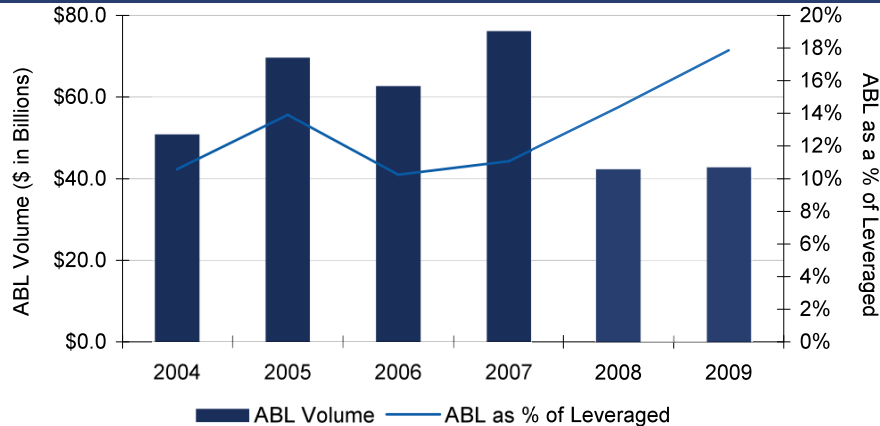
- The ABL market has remained resilient relative to the broader loan market
- Pricing dramatically increased with issuers being more reliant than ever on ABL lenders

## ABL Volume and Deal Count



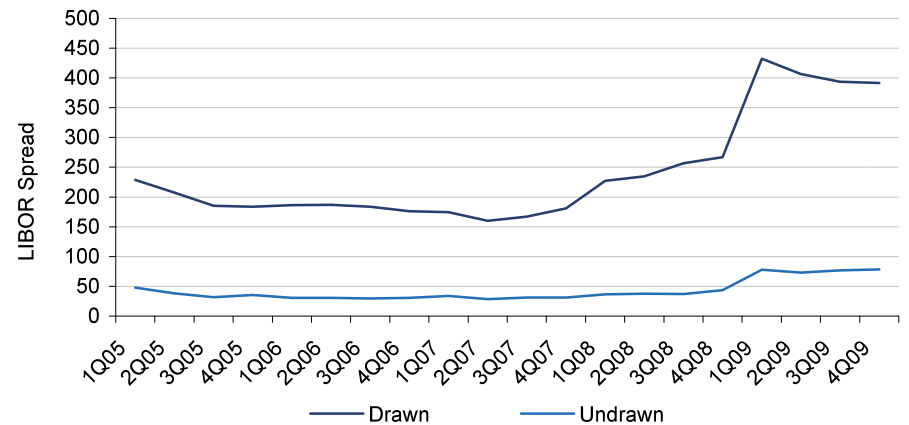
Source: Thomson Reuters/Loan Pricing Corporation.

## ABL Volume as a Percentage of Leveraged Volume



Source: Thomson Reuters/Loan Pricing Corporation.

## Pro Rata Pricing on ABL Loans



Source: Thomson Reuters/Loan Pricing Corporation.

Despite overall market turmoil, the ABL market has remained very active

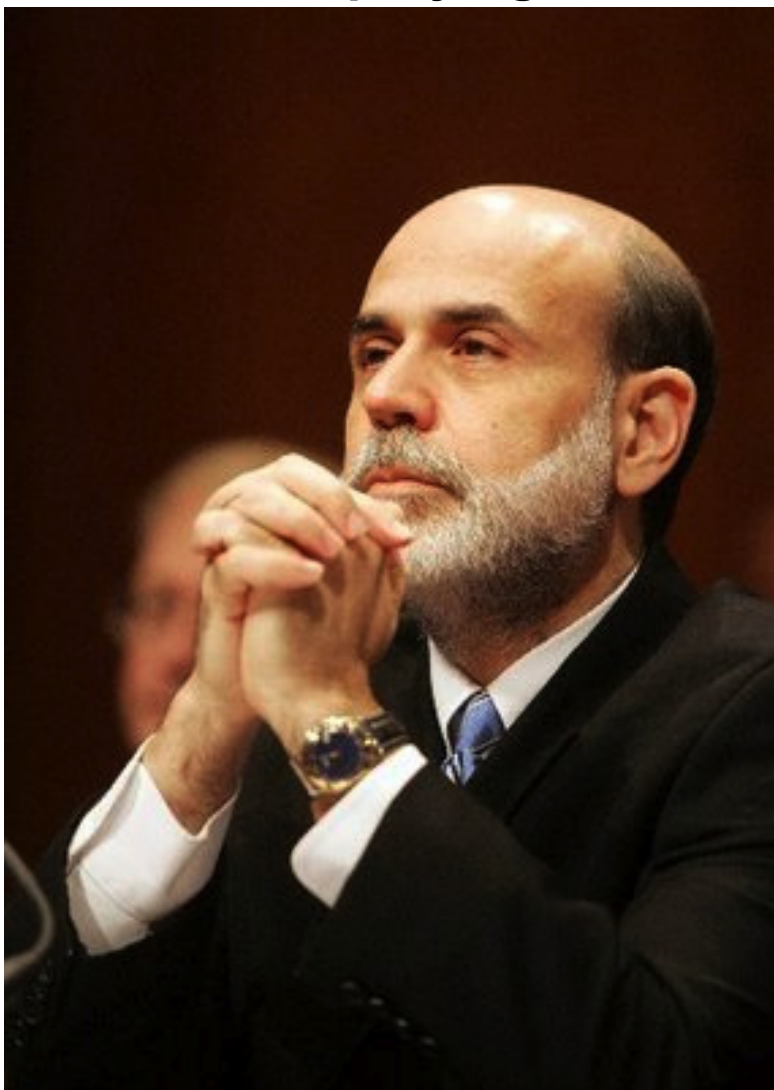


Taking one for the team



But its not passing the "smell" test

Is he praying?



Is he staying?



Is he running things?



“The single most important contribution banks have made in the last 25 years was introducing...”  
- Paul Volker



...the ATM Machine”



He Didn't Even Mention On-line Bill Payment!

## Key Points

- Too big to fail now means just too big
- Major de-risking is coming to the banks
- Bipartisanship is back
  - Both parties racing to the lowest common denominator against banks
- Other financial firms (PE funds and hedge funds) will not escape



Tell People You Are a Teacher

- We need to take more risk – not less – just more informed risk
  - Risk for capital providers of debt
  - Risk for capital providers of equity
- Growth is within our control – lets get it right this time
  - Advisors – need to take the long term client view
  - Capital providers – less emphasis on financial engineering – more emphasis on long-term value creation from operations