MARKET INSIGHT: M&A REVIEW Q3 2012

I. America Leads the World in Mid-Market M&A Activity in 2012

Middle Market M&A transactions in the USA grew by 10.3 % in Q1 – Q3 2012 by comparison with the same period of 2011. Total Global deal value increased 31% from $208.8 billion in Q2 2012 to $273.3 billion in Q3. This growth was buoyed by additional deal making activity in the middle market. Moreover, the growth in the US middle market contrasted with a decline in the global market over the same nine months. Both major corporations and private companies took part in this acquisition of firms in the US. The US is clearly seen by many as a safe haven for investment and the place for expansion opportunities, with less exposure to global macroeconomic uncertainty. Optimism in the U.S middle market has also been aided by an increase in consumer confidence, consistent GDP growth through the first nine months of the year, a reduction of the US unemployment rate to 7.9% as of November 2nd and a revival of the housing market with foreclosures down, and prices increasing in many geographical areas across the country.

II. Impact of the US Elections on Mid-Market M&A

The morning after the US Presidential and Congressional elections of 2012 finds the Country in very much a similar situation as it was prior to the elections. The Democrats remain in control of the White House and the Senate, while the Republicans maintain control of the House of Representatives. In the Senate, the Democrats fell short of the 60 seats needed to make a super-majority and override senatorial blocking tactics. The House will maintain its Republican majority, but several Freshman Tea Party Congressmen who won in 2010 have been ousted in favor of more moderate candidates.

So what does it all mean? We anticipate more of the same however there will be greater focus on fiscal issues and taxation, encouraging many private company sellers to execute transactions before the so called “Fiscal Cliff” is addressed when more than $500bn in across the board spending cuts will be imposed as a result of the failure of Congress to reach agreement on spending cuts and tax increases following last year’s Debt Ceiling debate. The President has already indicated the he is unwilling to agree to a deal that does not impose tax increases on upper income Americans – a stance that will likely impact business owners and investors.

We believe that the election will be a stimulus for accelerated divestments by private companies in the near term who wish to capitalize on both current taxation and better valuation due to the prevalence of lower interest rates. We are already witnessing an increase in valuation activity as a number of private potential sellers are appraising the value of their businesses. Furthermore, the ability to obtain attractive long term financing is facilitating acquisitions.

Mid-Market transactions lead…in America and elsewhere

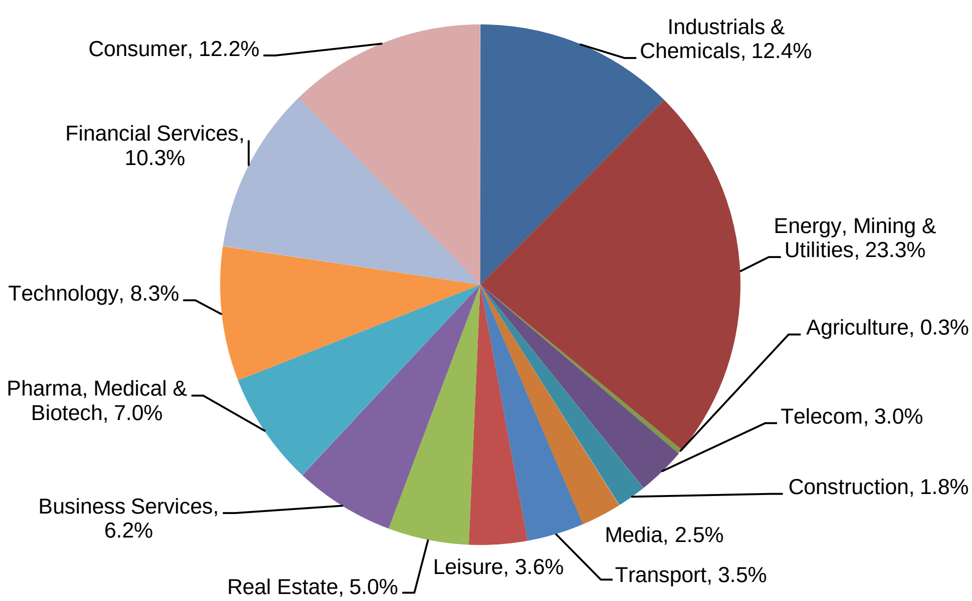
The US has been fortunate as one of the few regions to see an increase in the activity level of mid-market transactions thus far in 2012. Compared with Q2 2010, transaction volumes in Q2 2012 increased more than 47%. Private equity investors helped to fuel this increase in middle market deals as firms sought liquidity from older vintage holdings and opportunities to deploy newly raised funds. In addition, conditions have been ripe for a return of buyout deals:

- Private Equity firms have already raised more than $4 billion in 2012 for US focused middle market funds
- There is an estimated $96bn in unfunded new investment commitments from 2007 and 2008 vintage funds
- 2007 / 2008 vintage funds are reaching the upper end of their investment window.
- As a result, there may be more capital seeking transactions than there are deals in this marketplace
- The US Private Equity industry has increased leveraged buyouts by 15.6% in the first three quarters of 2012

Energy, Mining & Utilities lead middle market deal flow

Within the mid-market, the Energy, Mining & Utilities sector had the largest deal flow, accounting for 23.3% of all transactions by value. Over the past quarter, Retail, Communications, and Leisure saw the biggest increases in deal volume. The chart below details the breakdown in transactions by value within the mid-market:

Mid-Market M&A Industry Breakdown: Q1-Q3 2012 - Value



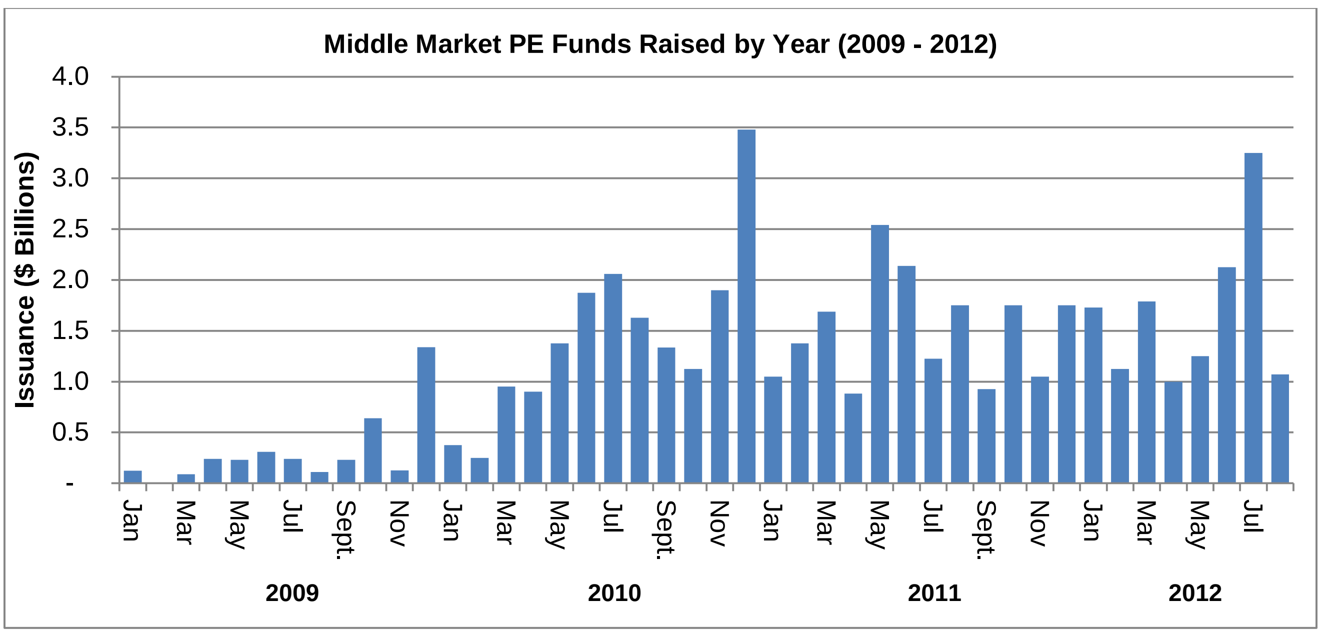
Source: Merger Market Quarterly Update

Increased debt financing and possible US tax changes also drive middle market in America

The lower middle market, with deals between $50m and $150m, continued to see strong growth from 2011 to 2012. In the first six months of 2012, there were 159 transactions in the lower middle market, with total deal value of $15.2bn, up from $14.8bn for the same time period in 2011. Many of these transactions were scheduled to close before December 31st or sooner in order to benefit from the current capital gains tax rate. Current US tax rates will expire on December 31st. At that time, rates will revert to the higher levels that prevailed before the Bush tax cuts unless Congress takes action to prevent the increase.

Middle market M&A activity also continues to be bolstered by the return of debt financing. Over the second quarter, average leverage multiples (Total Debt to EBITDA) increased from 4.1x to 4.7x. This increase has been attributed to growing interest in the middle market and strong competition among buyers according to Reuters. As yields in traditional investment asset classes such as corporate bonds, sovereign debt and the private placement market remain constrained, investors are showing greater appetites to fund LBOs in order to achieve greater returns. It is interesting to note that in July, middle market LBO issuances soared to $3.8bn, their highest level since June of 2007.

Leveraged buyouts in the US nearly doubled in the third quarter of 2012 to $28.87 billion. This is a 96% increase from the volume in the prior year. This increase in the US greatly outpaced the 32% growth seen in global leveraged buyouts over the year. The US buyouts market accounted for 46% of total global buyouts, with the mid-market representing the majority of these transactions. In fact, 52.7% of all transactions were in deals of $2bn or less (mid-market).



Source: Thomson Reuters LPC

III. Private Equity Fund Raising Activity Remains Robust; US Firms Willing to Deploy Capital

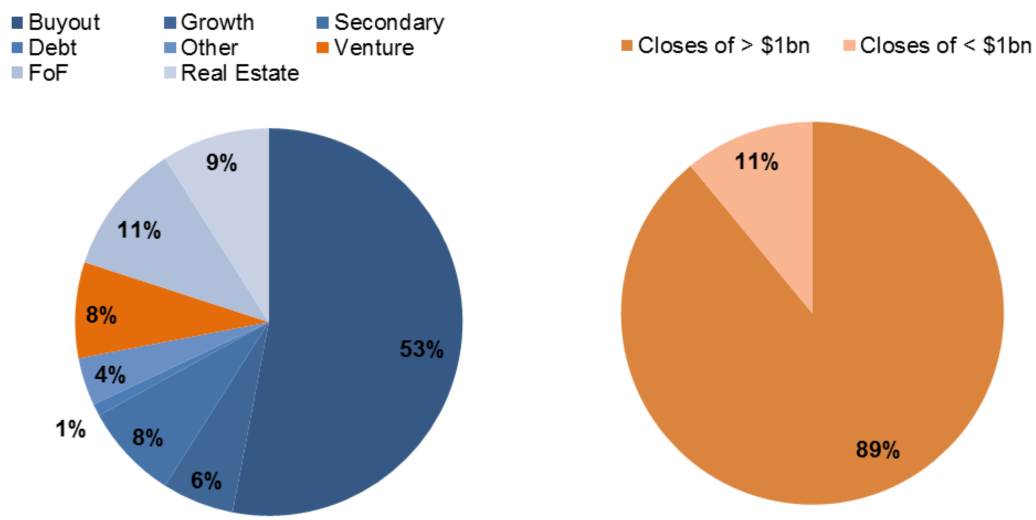
According to a recent study by PWC, the ten most active sponsors for M&A within the private equity space were all mid-market firms. A recent KPMG study said "the U.S has seen optimism on both the corporate and private equity fronts and a willingness to deploy capital" and "based on current activity levels, the second half is on track to be more active than the first half of 2012 in the U.S middle market".

Private Equity fund raising activity remains robust according to a recent report by Dow Jones LP Source. Fund raising in the US for the first three quarters of 2012 has nearly equaled the volume of funds raised in all of 2011. According to the report, a total of $130.1bn was raised in the first three quarters of 2012, which was a 36% increase in capital raised this year. The report also concluded that fund raising will continue to remain strong in part because "U.S private equity firms have worked hard to return capital to their investors over the past two years and that's given investors both additional capacity and confidence to fund new commitments". This indicates a robust market for new private equity funds, even though there remains a large amount of capital tied-up in late vintage funds must liquidate their investments in order to achieve their returns and return capital to investors.

Secondary fund raising increased 42% over the first three quarters of 2011

One of the main sources of private equity fund raising was the secondary fund market. In 2012, secondary fund raising increased by 42% over the first three quarters of the year of 2011 to a total of $5.4bn in the US alone. Additionally, Coller Capital in the UK raised a new fund of $5.5bn and US-based Landmark Partners has just launched fund raising activity for a new $2.5bn fund. As illustrated in the chart below, secondary funds accounted for 8% of all private equity fund raising globally representing total capital of $14.7bn in new money.

Private Equity Fund Raising (2012) – By Fund Investment Style



Source: Bloomberg

Divestments surge; US premiums are highest / European premiums decline somewhat

In the first quarter of 2012, private equity firms either sold or took public 112 companies, generating roughly $21bn and achieving the highest number of first quarter exits since 2007. There were 705 private equity-backed buyout deals in Q2 2012 valued at an aggregate $60.4bn, a 37% increase in deal value from Q1 2012 and a 6% increase from the $56.8bn in Q4 2011. In addition, 293 private equity-backed exits were announced in Q2 2012, with an aggregate value of $77.7bn, a significant rise from the $47.2bn in exit value recorded in the previous quarter.

Exit premium values continued to be the highest in the US at 63.7%; however, European exit premium values declined, falling to 13.1% from a 2011 figure of 30%. The US's exit premiums for H1 2012 were at the second-highest level since 2004. Globally, premiums were 24.8% in the first half of the year, down slightly from the 2011 full-year total of 32.8%.

IV. Conclusions

Present market offers excellent circumstances for business development or liquidity strategies

We believe that there are combinations of political and economic factors which suggest a continuing trend in middle market M&A transactions that will extend into Q1 2013. From a buyer's perspective, buyers will try to take advantage of available financing in the marketplace. For overseas buyers, the continued weakness of the US dollar as measured against the pound, euro, and yen over will remain attractive for valuation as well as the ability to finance USA mid-market acquisitions in Europe and Asia at lower prevailing domestic rates. On the sell side, this also means that sellers will be able to retrieve value while the current fair winds prevail in the market.

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