



Inside the Middle Market



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No Summer Lull Here

Deal activity is continuing at a brisk pace. In the broader M&A market, August is shaping up to be the most active month so far this year, logging the busiest week in the month in four years based on deal values announced during the period. Middle market M&A activity is also heating up. Through July 2010, deal volume (794 transactions) was up 63 percent from the comparable period a year ago, with deal value (\$86 billion) up 86 percent, according to Capital IQ.

Indicators point to continued momentum in the M&A market, as both strategic and financial buyers remain intent on putting capital to work. Strategic buyers are sitting on stockpiles of cash, with the latest figure estimated at almost \$3 trillion⁽¹⁾, and have announced a number of transformational deals in recent months, evidencing that they are beginning to spend it. Private equity saw its count of \$1 billion-plus deals surge in recent weeks, following on increased investment, exit, and fundraising activity during the first half of 2010 and a doubling in the number of transactions valued between \$500 million and \$1 billion during the period, according to PitchBook. These are all strong barometers that the M&A market is gaining back what it had lost during the recent crisis—confidence.

Recession-resilient industries such as healthcare continue to draw buyer interest. PitchBook reported that private equity investing in the sector is on pace to surpass 2009 levels before we enter the fourth quarter. Even industrial sectors are seeing increased activity, such as chemicals and packaging, which are both viewed as fertile ground for M&A. The packaging sector saw the announcement of two large public acquisition targets, Pactiv Corp. and BWAY Holding Company, as well as notable private targets, such as Graham Packaging Company's pending acquisition of Liquid Container, LP—deals that are likely to spur future M&A activity. The low interest rate environment is driving cash deals, which there is plenty of in today's market.

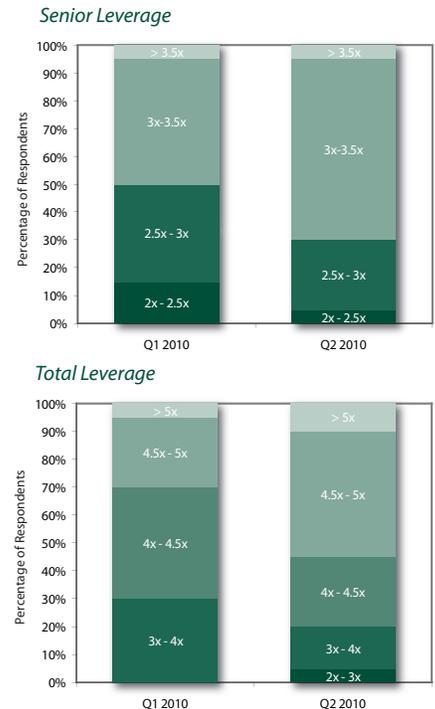
The uptick in large cap deal activity is almost certain to have a trickle down effect on the middle market. And BGL bankers say that it is. Andrew Petryk, managing director and principal, commented, "We did not see the traditional summer slow down this year due to pent up demand on both the sell side and the buy side. And speaking to our pipeline, the deal flow is widespread in terms of industries represented. We are seeing buyers return not only in the more resilient sectors like business services and healthcare but also in those harder hit by the downturn, such as materials and industrial manufacturing." The middle market (\$50 million to \$1 billion) accounted for over half of private equity deal flow in the first half of 2010, according to PitchBook, representing a majority of private equity investment during the period. PitchBook also reported a rise in valuations and deal amounts,

noting the median private equity investment increased to \$120 million, up from \$50 million in the first quarter, largely a function of the improved debt markets.

Lender appetite remains strong, and leverage and pricing trends are indicative of a competitive deal market, particularly in the traditional middle market (sub \$100 million deal size), as regional banks and smaller investors compete aggressively for deals, reported Thomson Reuters LPC. More lenders have adjusted upward their 'comfort zone' for leverage, according to a Q2 2010 Thomson Reuters LPC Middle Market Senior Lender Survey, with an increasing percentage reporting multiples in the 3x to 3.5x range and 4.5x to 5x range on senior and total leverage, respectively.

With good news always comes some caveats. "Coming off a turbulent two years, downside risk protection is on buyers' minds," commented BGL managing director and principal, John Tilson. "However, at the same time, investors have considerable buying power right now and are responding in kind because they need acquisitions to meet growth targets. They are seizing those opportunities to create value." As jittery equity markets continue to feed on conflicting economic data and fears of a double-dip recession linger, we look ahead with tempered optimism that current positive trends in the M&A market will carry over into 2011. If the M&A pipeline is any indicator—described by one observer as 'bursting' at or around the mid-year mark—there is a 'to be continued' to this story.

Acquisition Financing Trends
Lender Survey on Leverage



Source: Thomson Reuters LPC MM Senior Lender Survey.

SOURCE: Capital IQ, Bloomberg, PitchBook, Thomson Reuters LPC, Investment Dealers Digest.

NOTE: (1) Bloomberg figure compiled using reported values of cash and equivalents from latest filings for the 1,000 largest global companies (excluding financial services) by market value.



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Market Trends

Mergers & Acquisitions Activity

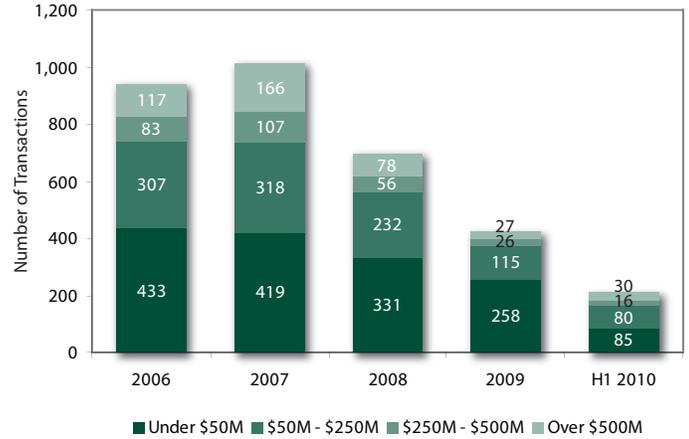
Middle Market M&A Activity



Based on announced deals, where the primary location of the target is in the United States. Middle market enterprise values between \$25 million and \$500 million.

Source: Capital IQ.

Private Equity Transaction Activity Transaction Count by Deal Size



Source: PitchBook.

Strategic Buyer Valuation Trends



*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Pooors LCD.

Financial Buyer Valuation Trends

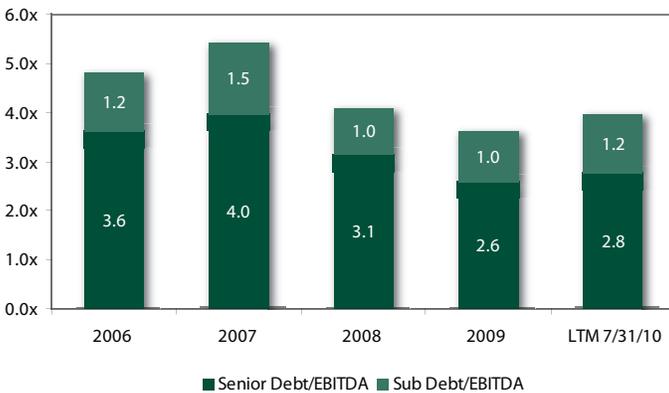


*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Pooors LCD.

Acquisition Financing Trends

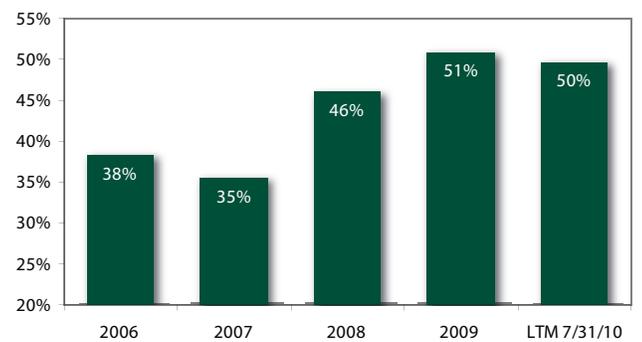
Leverage



Middle market enterprise values between \$25 million and \$500 million.

Source: Standard & Pooors LCD.

Equity Contribution



Middle market enterprise values between \$25 million and \$500 million.

Source: Standard & Pooors LCD.





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BGL's experienced professionals have an appreciation for the unique complexities of middle market businesses and the high quality and creative capital sources that support them. Founded in 1989, BGL remains true to its mission of delivering corporate finance solutions to companies with enterprise values between \$25 million and \$500 million.

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- Divestitures
- §363 Auctions
- Secured Party Sales
- Valuations

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Global M&A provides BGL with unparalleled access to global buyers, sellers, and financing sources in the middle market.

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- Plastics & Packaging
- Real Estate
- Transportation & Logistics
- Wholesale Distribution

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