



Inside the Middle Market



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The BGL Middle Market Insider is published by Brown Gibbons Lang & Company, a leading independent investment bank serving middle market companies and their owners throughout the U.S. and internationally.

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Market on the Mend

The first quarter of 2010 brought a welcome rebound in the M&A market. The middle market⁽¹⁾ saw a sharp increase in deal activity, with the number of transactions up 65% from Q1 2009 levels. Activity through the end of May has already surpassed Q2 2009 levels, marking a comparatively strong first half and setting the stage for a solid year. Commenting on current trends, BGL managing director and principal, Andrew Petryk, said, "Middle market M&A is on the mend as deals coming to market accelerate across the spectrum of participants: tax driven sellers; private equity groups shifting focus toward acquisitions and away from portfolio company issues; strategic buyers with strong balance sheets; lenders becoming more proactive in moving covenant breach borrowers from their portfolios."

Private equity buyers have become more acquisitive. Add-on activity in Q1 2010 was at its highest level since Q3 2007, according to PitchBook, accounting for 32 percent of deal flow in the quarter. The bulk of private equity deal activity is still in the middle market, with deals under \$50 million (buyouts and growth equity transactions) accounting for roughly 50 percent of transaction activity during the period. Transaction size is slowly increasing and private equity exit activity is on the rise, both signs of a recovering deal market.

The debt markets are loosening and capital providers are lending again. Leverage multiples for middle market LBOs are inching up. Standard & Poors Leverage Commentary and Data (S&P LCD) reported average total leverage of 4.0x EBITDA through May 2010, with senior leverage multiples increasing modestly during the period. Subordinated debt (mezzanine debt in the current market) and equity continue to account for a growing percentage of acquisition financing in deals. Healthy middle market companies can garner leverage multiples starting at 4.0x to 4.5x, according to some industry sources.

Improved debt markets, coupled with an abundance of unspent capital that needs to be put to work, is driving what participants are terming a "cash-rich" environment for still too few high-quality middle market acquisition opportunities. As a result, increased competition is driving up purchase multiples, and in certain situations, robust valuations despite the current economic climate, market participants say. S&P LCD reported average middle market purchase multiples of 7.5x and 7.8x on strategic and financial buyer transactions, respectively, on par with levels seen in 2007.

The wildcard is the economy. The speed and sustainability of the recovery will dictate whether momentum can be maintained in the deal market. Companies are healthier, and sellers of businesses that performed through the recession and are positioned for growth are garnering attractive valuations in the current environment.

⁽¹⁾ Middle market defined as transactions involving U.S. targets with enterprise values between \$25 million and \$500 million.

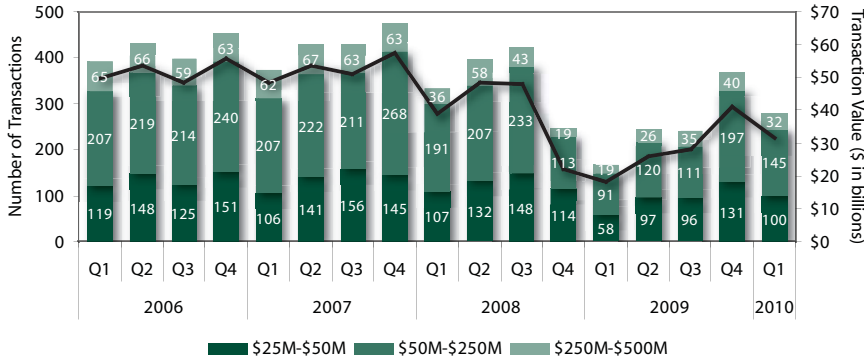


Inside the Middle Market

Market Trends

Mergers & Acquisitions Activity

Middle Market M&A Activity

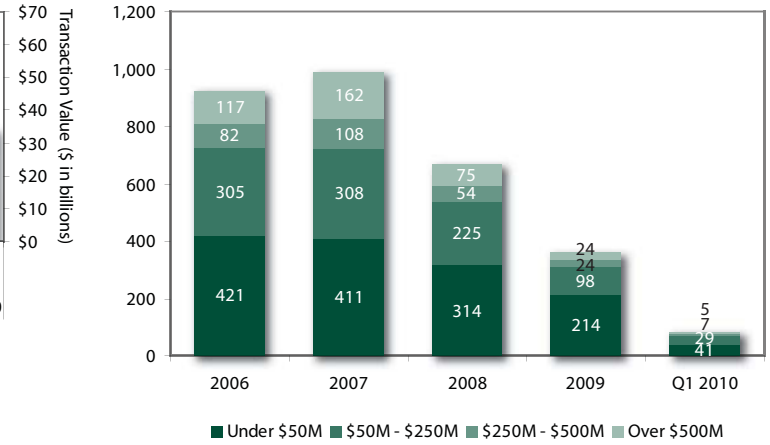


Based on announced deals, where the primary location of the target is in the United States. Middle market enterprise values between \$25 million and \$500 million.

Source: Capital IQ.

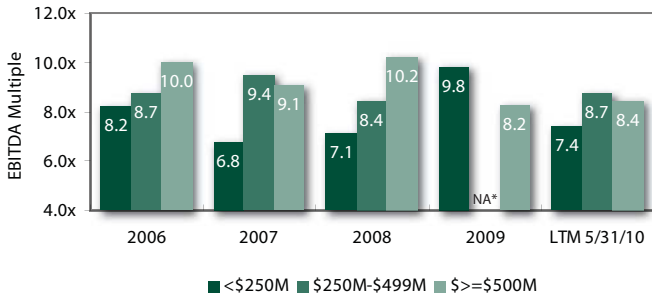
Private Equity Transaction Activity

Transaction Count by Deal Size



Source: PitchBook.

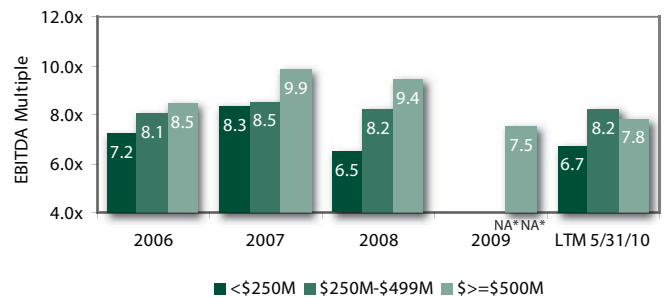
Strategic Buyer Valuation Trends



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

Source: Standard & Poors LCD.

Financial Buyer Valuation Trends

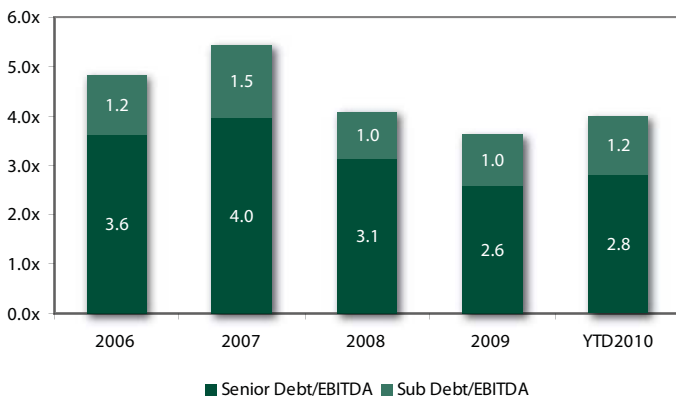


*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Poors LCD.

Acquisition Financing Trends

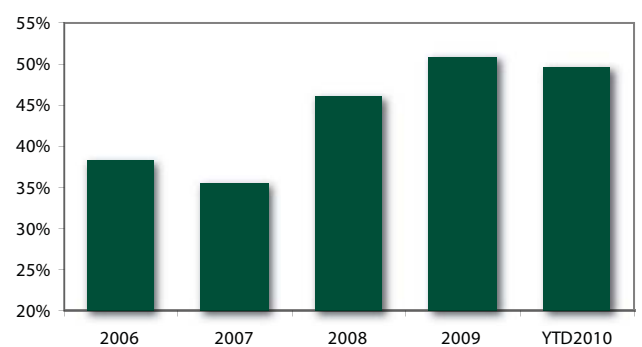
Leverage



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

Source: Standard & Poors LCD.

Equity Contribution



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

Source: Standard & Poors LCD.





Global Leaders

Brown Gibbons Lang & Company is a leading independent investment bank serving middle market companies in the U.S. and internationally. Founded in 1989, BGL has remained true to its mission of delivering corporate finance solutions to companies with enterprise values between \$25 million and \$500 million.

What We Do

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- Financial Restructurings
- Valuations
- Fairness Opinions

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BGL In the Market

Recent Financing Transaction

SECURITY PRINTERS
ASHTON POTTER

has obtained
**Senior and Subordinated
Credit Facilities**
provided by

Citizens Bank
and
F.N.B. Capital Corporation

Client:

Ashton Potter USA Ltd.

Ashton Potter is a leading high security printer and one of the world's largest manufacturers of postage stamps. Since 1991, the company has been a trusted supplier of stamps to the United States Postal Service ("USPS"). Ashton Potter also prints stamped envelopes and cards for the USPS as well as tax/revenue stamps for domestic and foreign governments. In addition, the company is expanding its business into the large and growing brand protection industry, a market focused on preventing fraud and counterfeiting activities.

Results:

BGL assisted Ashton Potter in securing new senior and subordinated credit facilities provided by RBS Citizens, N.A. and F.N.B. Capital Corporation, LLC. The transaction resulted in a significant improvement of Ashton Potter's cost of capital and will allow the company to pursue growth opportunities which leverage its best-in-class secure printing capabilities.

"BGL's experience and relationships in the capital markets allowed us to significantly improve our cost of capital and enabled our team to focus on running the business."

—Barry Switzer

President and CEO, Ashton Potter

Recent Sell-Side Transaction

NOVAPAK
PVC Container Corporation
a portfolio company of

KCP
has merged with

PRETIUM
PACKAGING

which has been acquired by

CASTLE HARLAN, INC.

Client:

PVC Container Corporation d/b/a Novapak

Novapak is a leading custom blow molder of small to medium volume quantities of high quality bottles and containers for consumer and industrial products.

Results:

BGL managed a global marketing process, creating a competitive sale environment which resulted in multiple preliminary indications and final bids with leading private equity and strategic buyers with strong interest in the plastic packaging market. In connection with the transaction, BGL also provided a fairness opinion to Novapak's Board of Directors.

"BGL worked tirelessly to complete the transaction, their efforts helped to return significant value to Novapak's shareholders."

—John Nestor

Kirtland Capital Partners

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