Newbury Piret & Co.

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Middle Market Insights

Second Quarter 2010

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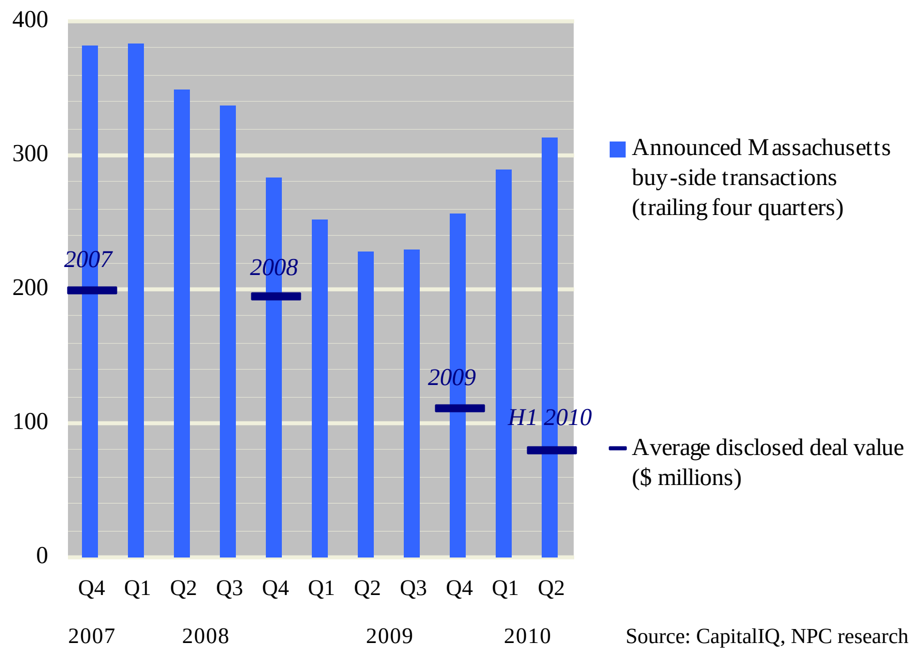
The Massachusetts M&A market: buying low and selling high

Massachusetts companies have been acquiring businesses at a rate not seen since 2008. In the first half of 2010, Massachusetts-based corporate buyers, excluding private equity and real estate funds, did 158 deals, compared with 101 for the first half of 2009 – an increase of 56%. Active local buyers include Thermo Fisher Scientific with six announced transactions and Beacon Roofing, Nuance Communications, and TechTarget with three deals each. This year continues the trend towards smaller acquisitions, with the average announced Massachusetts buy-side deal valued at $78 million, down from $110 million in 2009 and nearly $200 million in 2007 and 2008.

Local companies are acquiring more, and smaller, businesses in 2010

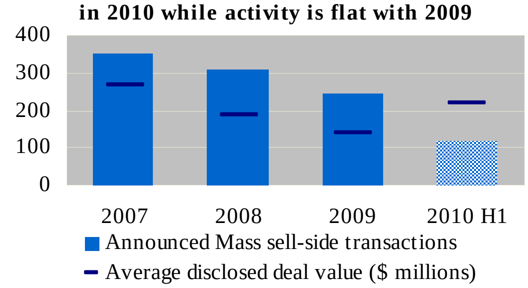


Source: CapitalIQ, NPC research

Massachusetts sell-side deal making slowed with the rest of the US in 2009 and 2010, however deal size has started trending higher.

Average disclosed valuations have increased for local sellers, reaching $217 million in 2010, up from $136 million for 2009. Five deals with transaction value over $500 million have been announced so far in 2010, tying the total for all of 2009.

Aggregate sell-side valuations are up in 2010 while activity is flat with 2009



If doing more frequent, and smaller, acquisitions is the hallmark of a good acquirer, then it seems Massachusetts industry is following the right path.

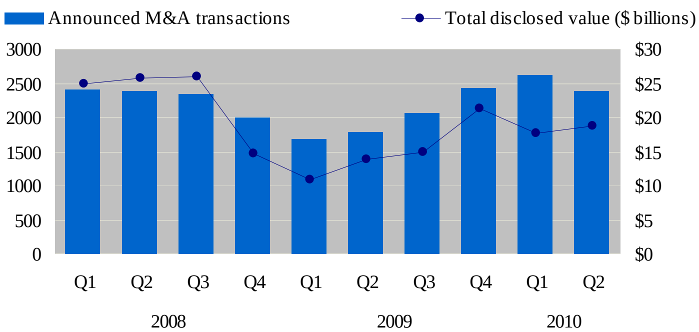
The M&A market pulls back in the second quarter

After a strong start to the year, the M&A market slowed in the second quarter. According to Dealogic, the $553 billion in global M&A value generated in the second quarter was down almost 7% from the first quarter.

For middle market US deals under $200 million, the second quarter of 2010 ended a four-quarter run of increasing activity. The total number of middle market deals fell 8.5% from the first quarter, even as the aggregate disclosed value of announced deals climbed back 5.5%. The second quarter of 2010 was up 34% from the dismal second quarter of 2009.

Middle market M&A activity takes a step back in the second quarter

(US deals under $200 million excluding REITs and other real estate companies)



Source: CapitalIQ, NPC research

Key drivers of middle market deal activity include capital market conditions such as the availability and cost of capital, the P/E and cash flow multiples of acquirers, the expected health of the economy in general and of specific industries in particular. With major indicies off sharply since the end of April (the S&P 500 declined 15% from April 30 to June 30), it's not surprising that deals are being delayed or in many cases not initiated as boards consider the weakened market conditions.

Private equity activity – down, but not for long?

At the peak of their activity, private equity sponsors represented approximately 17% of all M&A deals – either as buyer or seller or both. Private equity firms were involved in over 2,000 deals in 2007. Overall middle market buyout leverage levels peaked in 2007 at about 5.6x and valuations in the double digit EBITDA multiples were not unheard of in some sectors of the middle market.

Then, with the fallout from the credit crisis of 2008, PE activity fell off dramatically.

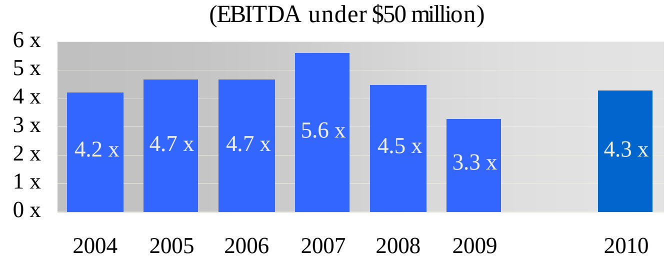
PE fundraising is at its lowest rate since 2003. The $53.7 billion raised last year was down over 70% from the $195.5 billion raised in 2008. During the first half of 2010, the industry raised just $21 billion, down 35% from the first half of 2009. At the same time, the investment pace declined significantly, leaving nearly $500 billion of committed capital on the sidelines as the clock ticks on the investment period for PE funds. The worst may be behind the PE community as capital markets, concerns about higher taxes, and the business environment align to support buyout activity in the coming quarters.

Middle market buyout activity to accelerate in 2010 as leveraged lending and business confidence return

While leveraged cash flow lending was almost unheard of this time last year, it returned dramatically earlier this year, with total leverage multiples up a full turn over 2009.

Total debt for middle market LBOs

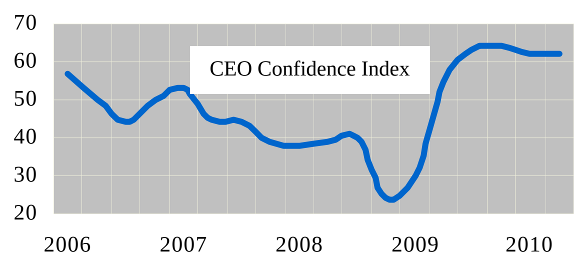
(EBITDA under $50 million)



Source: S&P

LBO loan pricing also improved early in the year, to about 550 bps over LIBOR, however overall middle market loan activity continues to be a fraction of the levels seen in 2007. On balance, the situation seems to be improving for middle market buyouts. Another positive trend – CEO confidence has significantly improved over the past few quarters.

CEO confidence climbs back



Source: Conference Board

A combination of modest economic performance in the second half of 2010 with a return of leveraged cash flow lending and business confidence should drive more middle market M&A activity. We expect to see a slow but steady increase in M&A transactions and their valuations continuing in 2010.

Newbury Piret is a leading Boston-based private investment bank to companies in business services, manufacturing, healthcare, financial services, and technology.