State of the Middle Market

M&A • Private Equity • Financing

January 2012

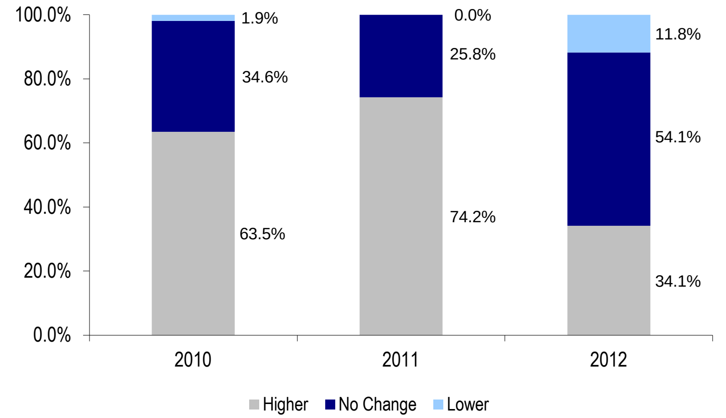
Lincoln International

DEBT ADVISORY GROUP

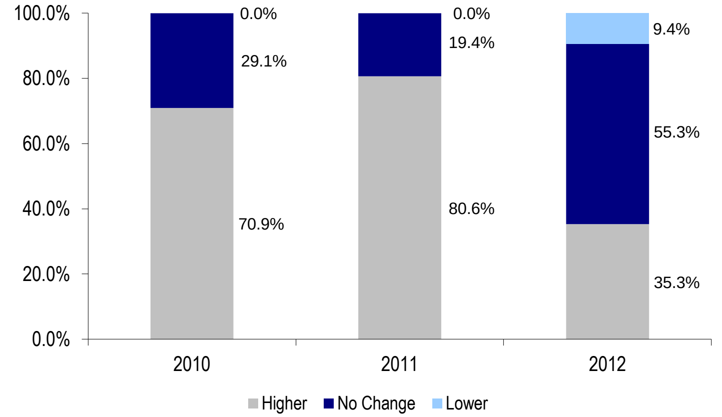
The Capital Markets Desk for the Middle Market

Results From Lincoln's 2012 Financing Market Survey

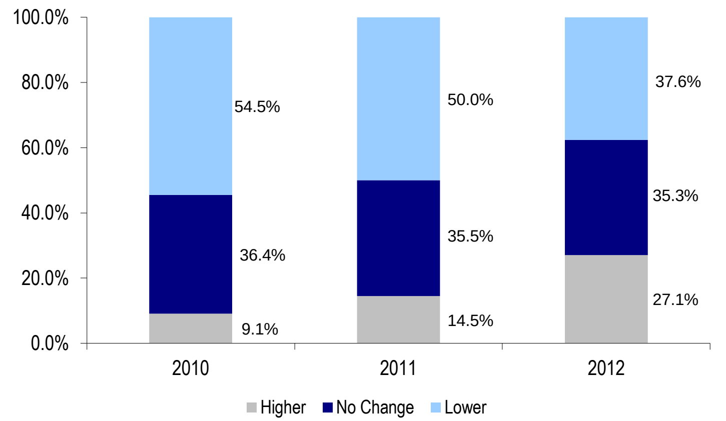
Do you believe senior leverage will be . . .



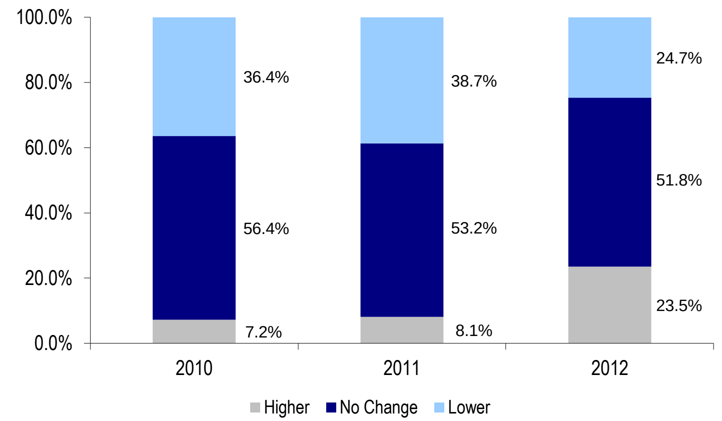
Do you believe total leverage will be. . .



Do you believe senior pricing will be . . .



Do you believe mezzanine/2nd lien pricing will be. . .

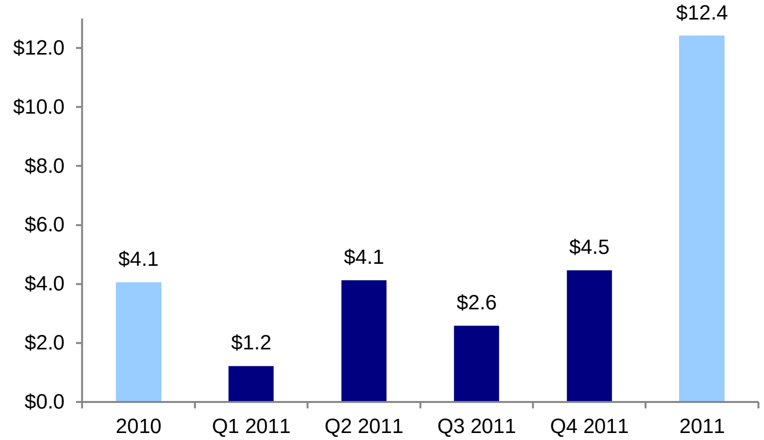


Stabilizing Liquidity Conditions in U.S. Debt Market

Observations

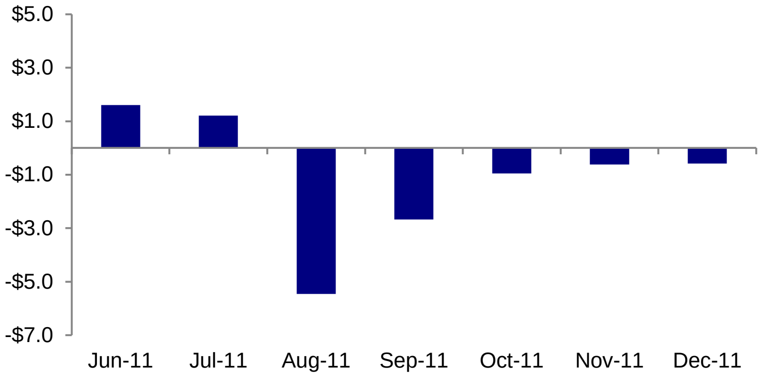
- Since the volatility experienced in summer 2011, liquidity has stabilized within the leveraged loan market:
  - CLO volume increased in 2H 2011 with issuances of $9.6 billion, bringing the year-end total to $12.4 billion
  - Prime and high yield fund flows improved from significant outflows experienced in Q3 2011
- With their capital base stabilizing, lenders are well-positioned to put more capital to work
- As debt markets calm, conditions are increasingly favorable for sponsor-backed M&A

Volume of CLO Issuances ($Bn)



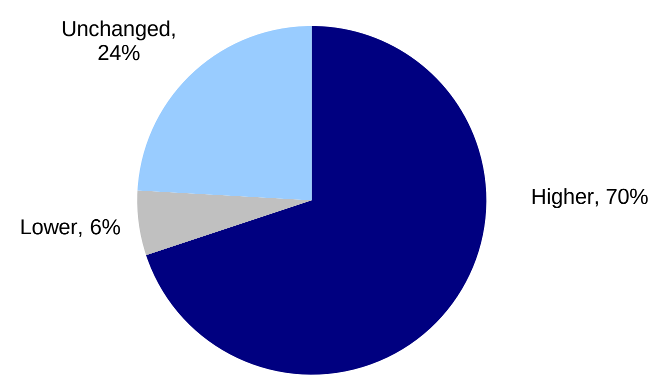
Source: Standard & Poor's Leveraged Commentary and Data

Monthly Loan Prime Fund Flows ($Bn)



Source: Standard & Poor's Leveraged Commentary and Data

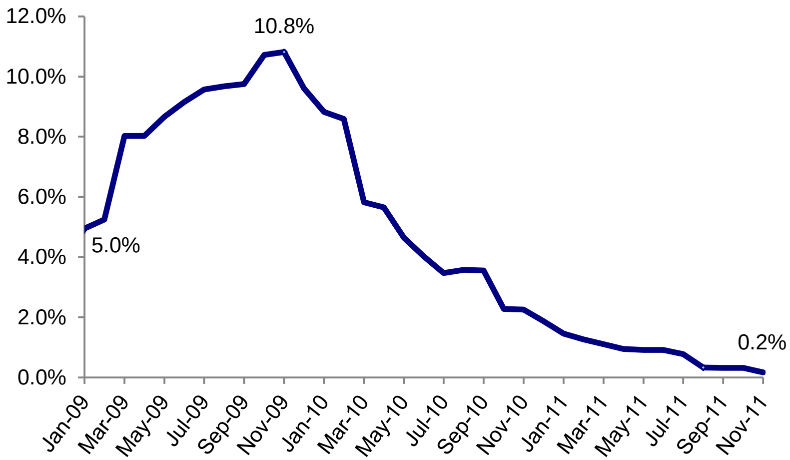
Survey Result: 2012 LBO/Control Transactions Will Be…



Source: Lincoln International 2012 Financing Market Survey

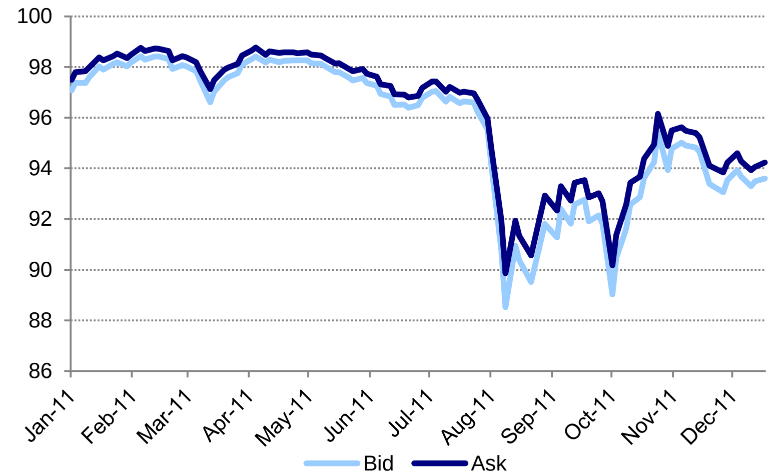
Multiple Other Indicators Support Favorable Lending Conditions

Loans Outstanding Under Default (Percent of Principal)



Source: Standard & Poor's Leveraged Commentary and Data

Average Bid and Ask of Flow Name Leveraged Loans

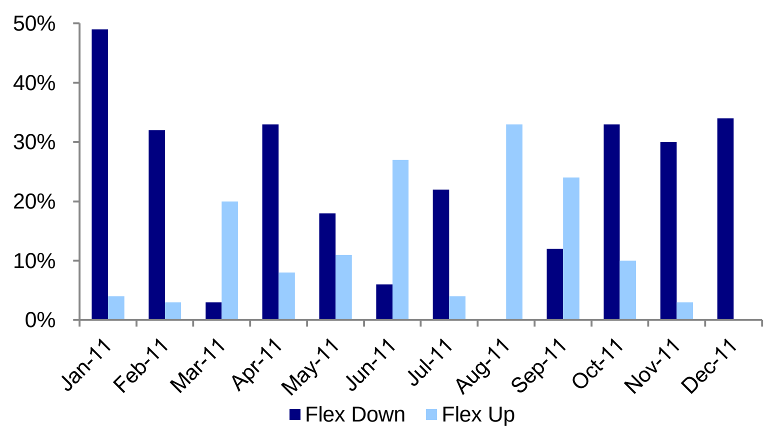


Source: Standard & Poor's Leveraged Commentary and Data

Market Dynamics

- Record low default levels indicate stronger company fundamentals and appropriate capital structures
  - As a result, lenders are currently predisposed to deploy capital
- The secondary market has improved, making primary issuances more attractive
- Flex statistics through the fourth quarter, an indication of recent market sentiment, demonstrate improved market conditions

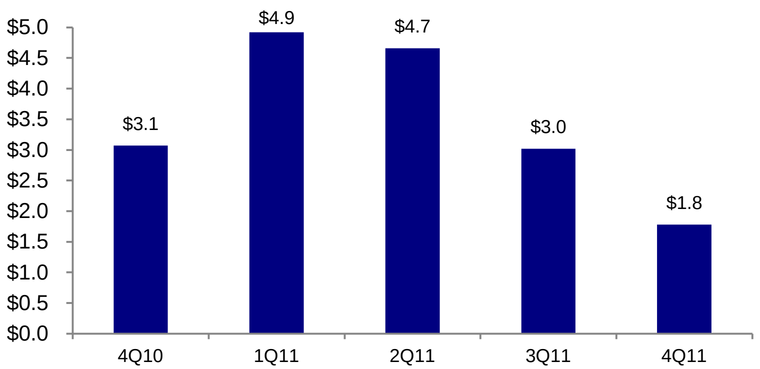
Flex Statistics



Source: Standard & Poor's Leveraged Commentary and Data

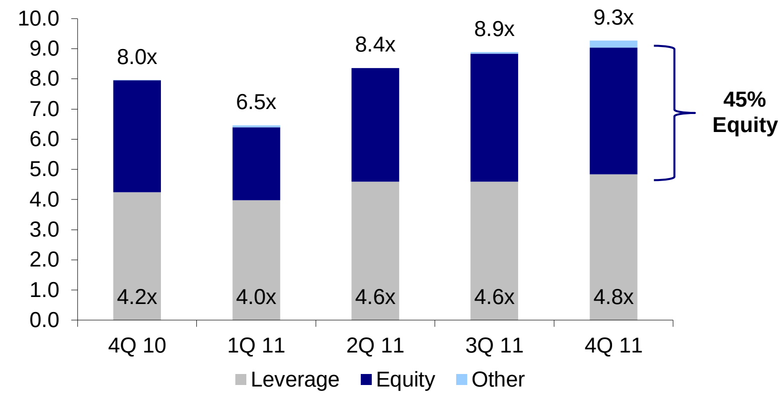
Despite Improved Conditions, Middle Market Volume Declined

Middle Market Leveraged Loan Volume ($Bn)



Source: Standard & Poor's Leveraged Commentary and Data

Middle Market LBO Transaction and Leverage Multiples



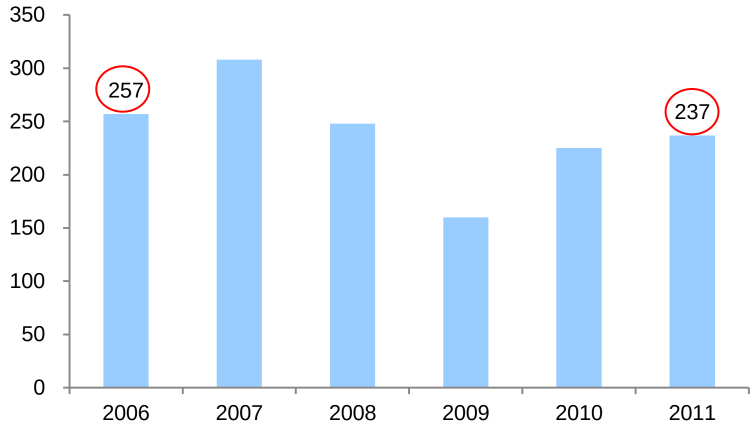
Source: Standard & Poor's Leveraged Commentary and Data

Observations

- While most market participants expected a robust fourth quarter, loan volume declined
- Although no definitive reason for the volume decline has been cited, factors contributing to the softness in middle market leveraged loan volumes likely include:
  - Low growth expectations
  - Lack of visibility towards future earnings
  - Continued global macroeconomic uncertainty
  - European debt crisis
  - Increase in M&A activity from strategic buyers
- With fewer opportunities to deploy capital, buyers competed on price although lenders continued to require significant equity

Shifting Landscape of Active Lenders Transforms Capital Structures…

Investor Base – Institutional Lenders

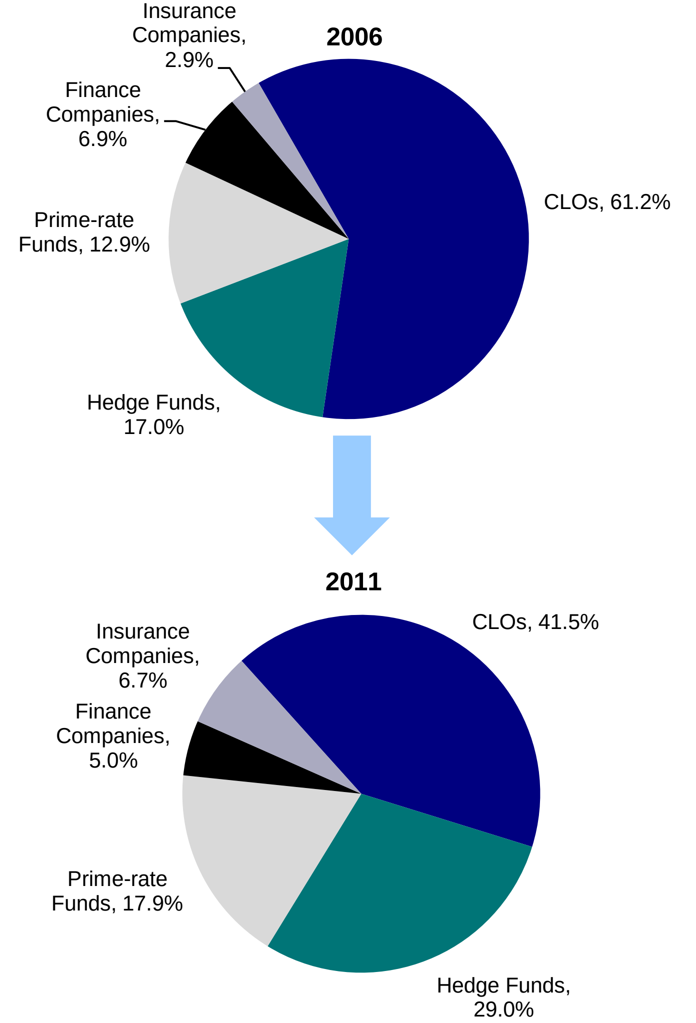


Source: Standard & Poor's Leveraged Commentary and Data

Market Dynamics

- Although the number of active lenders has remained largely unchanged, the composition of capital providers has changed dramatically from 2006 to 2011
- The current lender base consists of a larger percentage of BDCs, alternative investment funds and relative value players whose investors have higher return requirements
- As a result, more alternative structures (i.e. unitranche) are being placed in the market to satisfy the need for higher yields
- Since many CLOs are nearing the end of their reinvestment periods and new CLO formation activity is very limited in the middle market, the prevalence of non-traditional financing structures is expected to continue

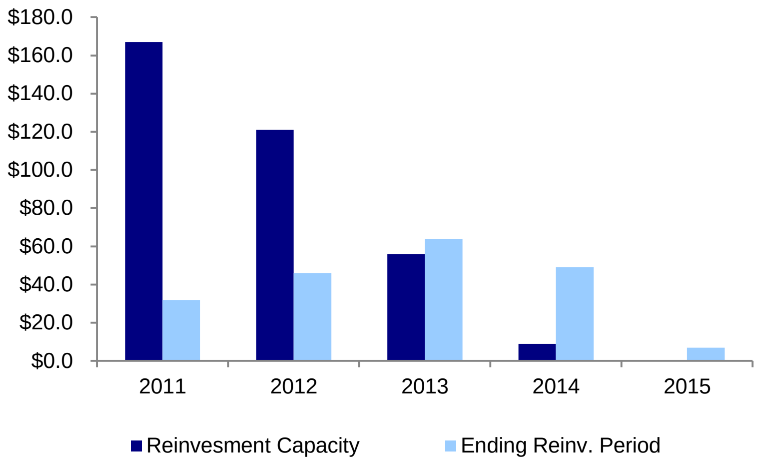
Lender Activity in the Primary Market (% Volume; excl. banks)



Source: Standard & Poor's Leveraged Commentary and Data

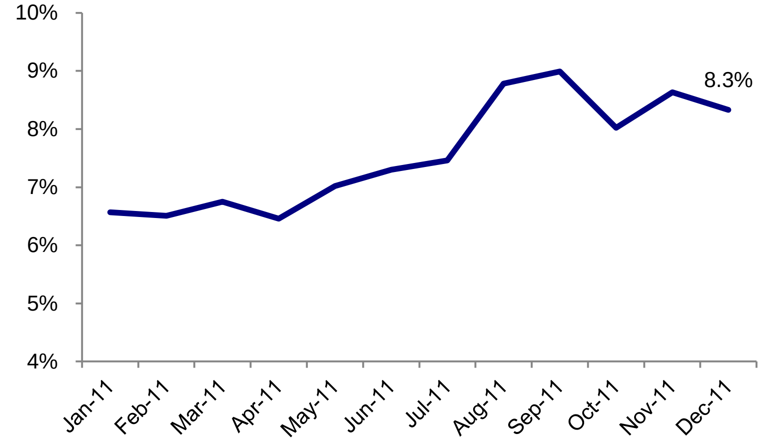
…and Return Expectations, Leading to Higher Yields

CLO Investment Capacity ($Bn)



Source: Thomson Reuters

BDC Dividend Yields



Source: BB&T Capital Markets

Market Dynamics

- The current universe of CLOs will essentially be out of capital by 2014
  - Assuming $20-25 billion of annual CLO formation, investment capacity will still dramatically decline from current levels
- The capital previously provided by CLOs (which, historically, had low funding costs and benefited from significant leverage) now largely comes from BDCs, hedge funds and other relative value players
  - The pricing and leverage levels attained by CLOs generally are not available to these alternative investors, who typically have hurdle rates of at least 8% to 10%
- As a result of these return expectations, even though lenders are well-positioned to fund middle market deals and the current demand for capital is relatively low, pricing levels are not expected to decline significantly
  - If deal flow picks up substantially, pricing may increase even further

`

Lincoln INTERNATIONAL

Alternative Structures Currently Prevalent in the Middle Market

Traditional Structures		Alternative Structures
Revolver	Secured	Club Term Loan B
Senior Term Loan		Unitranche – Pro Rata
Traditional Sub Debt		Unitranche – First-out / Last-out
		Second Lien Term Loan
		Rate Only Sub Debt
		Private High Yield
	Unsecured	

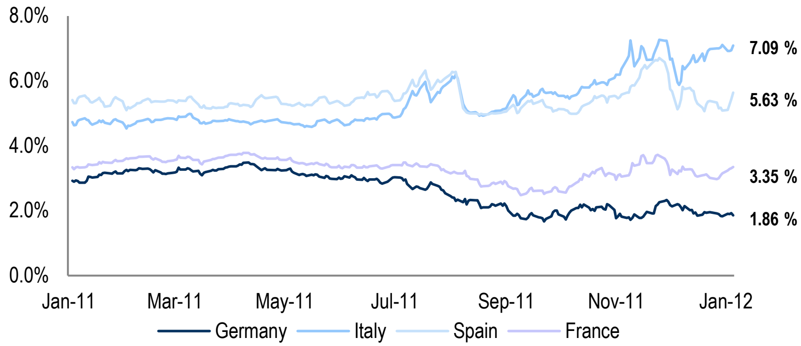
Overview of U.S. Middle Market Pricing and Terms

Lincoln's View on Pricing and Terms

	Borrowers with less than \$10 - \$15mm EBITDA		Borrowers with at least \$10 - \$15mm EBITDA	
	Pricing	**Multiples**	**Pricing**	**Multiples**
Asset Based Senior	• L + 200 – 300 • LIBOR Floor: none	• *n/a*	• L + 175 – 250 • LIBOR Floor: none	• *n/a*
Cash Flow Senior	• L + 550 – 650 • LIBOR Floor: 100 - 150	• 2.00x – 3.00x EBITDA	• L + 500 – 600 • LIBOR Floor: 100 - 150	• 3.00x – 3.50x EBITDA
Unitranche	• L + 800 – 900 • LIBOR Floor: 200	• 3.50x – 4.50x EBITDA	• L + 800 – 900 • LIBOR Floor: 200	• 4.00x – 5.00x EBITDA
2nd Lien Loans	• Unlikely		• L + 900 – 1100 • LIBOR Floor: 200	
Sub Debt	• Cash of 11% - 13% • PIK of 2% - 4% • All-in of 14% - 16%		• Cash of 11% - 13% • PIK of 1% - 3% • All-in of 13% - 15%	
Equity	• *n/a*	• 40%	• *n/a*	• 35% - 40%

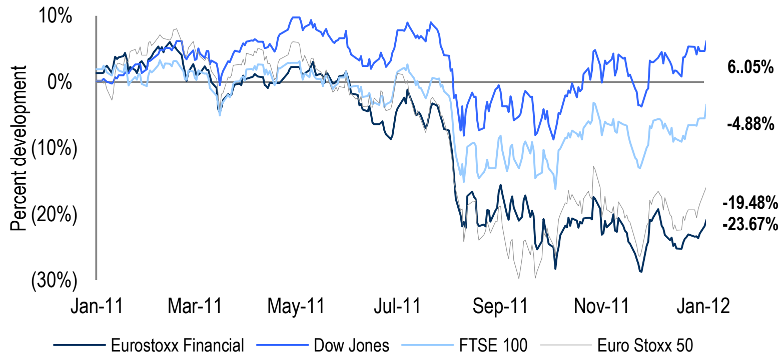
Volatile European Macroeconomic Environment with…

Development 10yr Government Bonds 2011 (% yield)



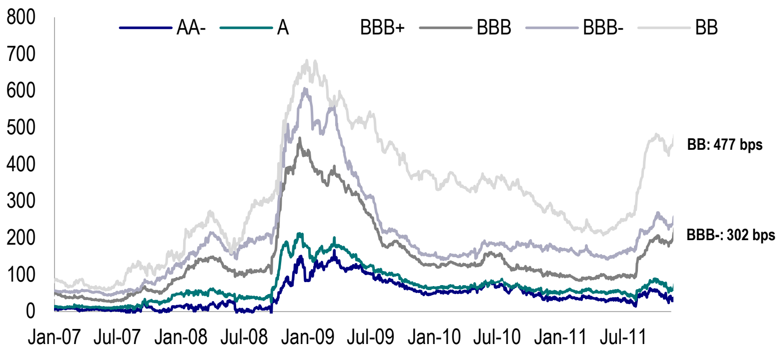
Source: Bloomberg
Note: Greece 10yr government bond yield currently at 35.15%

Volatility in Global Equity Markets Ensues (% change)



Source: Bloomberg

Spreads of Corporate Bonds vs. 5yr Swap (bps)



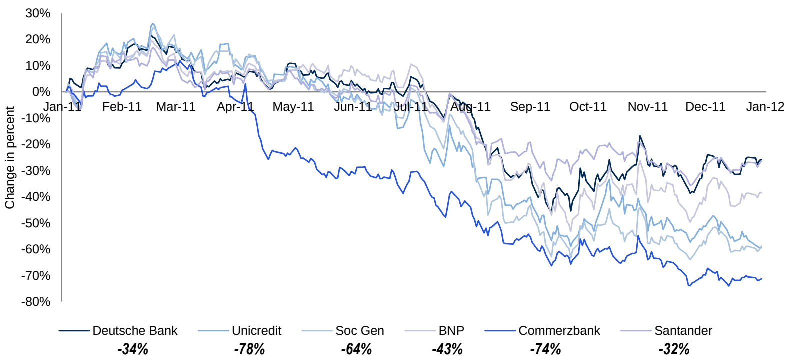
Source: Bloomberg

Commentary

- After a swift recovery in the first half of 2011, markets declined since July 2011 and traded with high volatility with the financial sector showing the worst performance with a decline of 22.11%
- In light of the sovereign crisis, yields for 10yr government bonds have increased significantly over the past 6 months
- This led to increasing yields in the secondary market and to a shutdown of the high yield bond market in 2H 2011
- Polkomtel (Euro 990 million) and Orange Switzerland (CHF 550 million) are the first attempts in 2012 to reopen high yield bond market

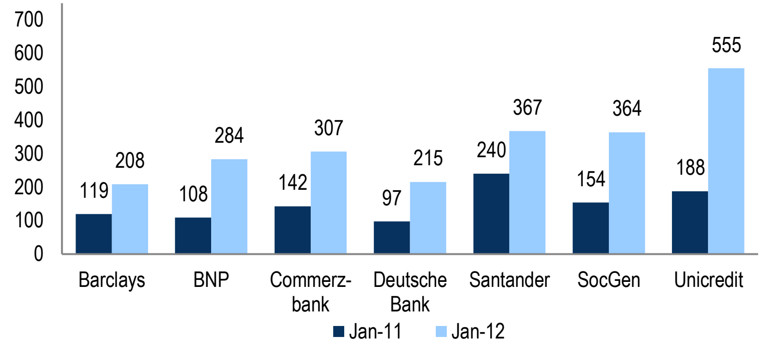
…European Financial Sector Heavily Impacted Created…

Share Price Development of Selected Banks (% change)



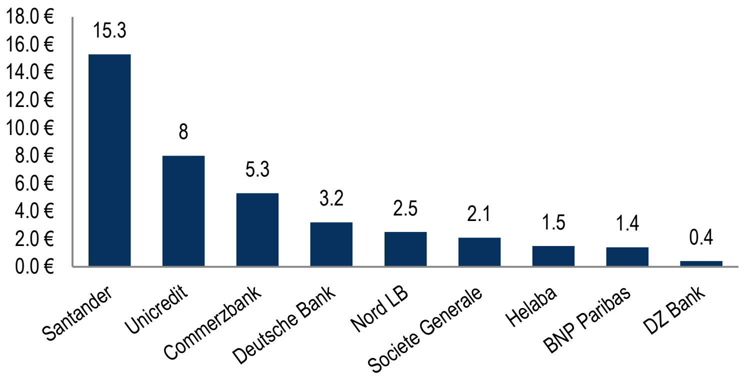
Source: Bloomberg

CDS Spreads of Selected European Banks (bps)



Source: Bloomberg

Required Capital of Selected Banks on New Stress Test (€Bn)



Source: EBA

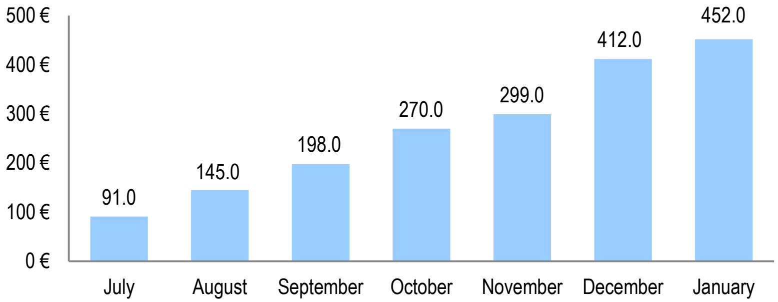
Note: Capital requirement based on the market valuation of the respective bond portfolio and a core capital ratio of 9%; numbers rounded to one decimal

Commentary

- CDS spreads of European banks have increased significantly, reflecting the exposure to sovereigns and the existing weak capital structure
- Banks are forced to increase their Tier 1 capital ratio to 9% until mid 2012 in order to strengthen their capital base
- Consequently, banks have to de-risk balance sheets by reducing lending, selling assets or attempting capital increases
- Recent attempt of Unicredit to raise Euro 7.5 billion of capital was only possible with massive discount of 43% to actual share price

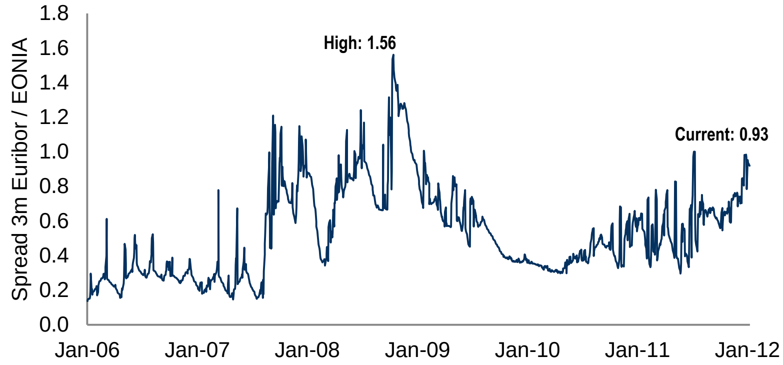
…Weakening Trust Amongst Banks and Repricing of Risk

ECB Overnight Deposits by Banks (€Bn)



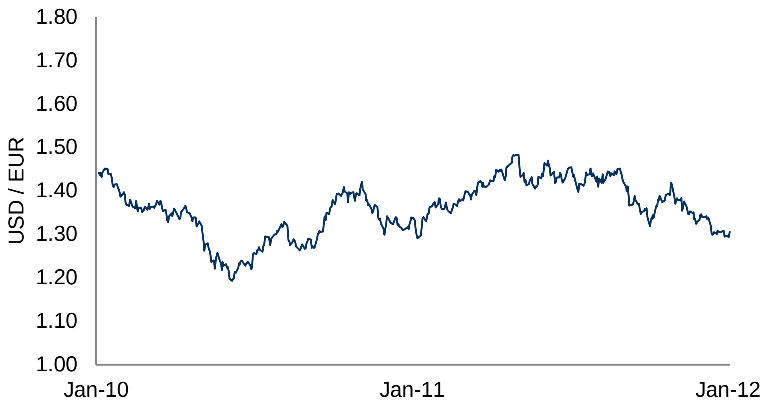
Source: ECB

Spread 3-month Euribor vs. EONIA (bps)



Source: Bloomberg

EUR / USD Development



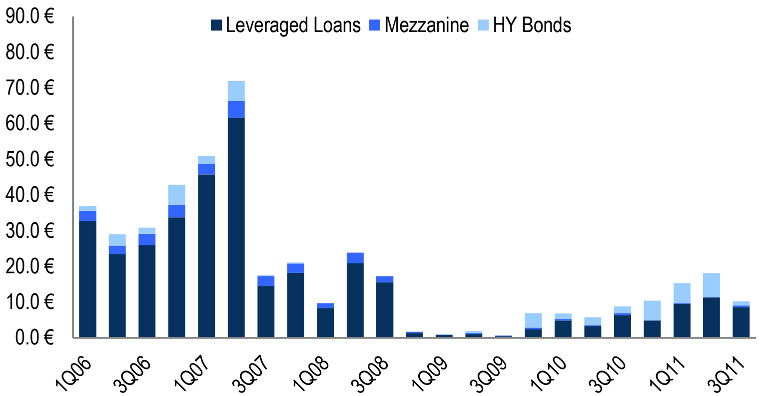
Source: Bloomberg

Commentary

- The increase in spread between EURIBOR / EONIA and overnight deposits of banks with ECB show lack of trust amongst European banks
- This results in little to zero underwriting appetite of banks, making larger financings very difficult to structure
- Euro / USD exchange rate dropped to 1.27 in January 2012 marking a 2 year low to the US dollar

Snapshot of European Leverage Market

European Leverage Finance Volume (€Bn)

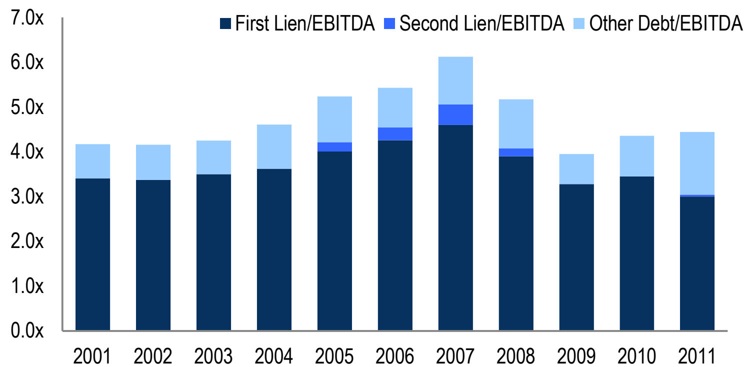


Source: Standard & Poor's Leveraged Commentary and Data

Current LBO Pricing Trends

Senior A	E+425bps – 475bps / 6 yrs
Senior B	E+475bps – 525bps / 7 yrs
Senior C	n.a.
Second lien	n.a.
High Yield Bond	c.7% (BB+) to 12% (CCC)
Mezzanine	E+ 1,100bps – 1,200bps incl. warrants
Fees	400bps – 500bps
OIDs	3% – 5% (where applicable)
- Average equity contribution in current deals is 50%
- Deals are structured on a club deal basis with a take and hold of Euro 25 million, as no underwritings are available

Annual Pro Forma Debt / EBITDA Ratio of LBOs



Source: Standard & Poor's Leveraged Commentary and Data

Outlook 2012

- We expect the European sovereign crisis to continue at least until 1H 2012 with banks expected to further reduce lending activity
- European corporates with US exposure will increasingly try to raise financing in US markets to access larger liquidity
- Total leverage multiples range from 3.5x for cyclical businesses to 4.5x for businesses with healthcare assets
- Large LBOs (above c Euro 250 million) will remain difficult to finance due to lack of underwriting appetite

Bringing Efficiency to the Middle Market

Lincoln International U.S. Advised on Over $1 Billion of Financings in 2011

Atlas Holdings
has refinanced its portfolio company
Forest Resources LLC
$45,000,000
Senior Credit Facilities
$48,000,000
Junior Capital

KPS Capital Partners
has acquired
A&E Innovate. Create. Deliver.
Revolving Credit Facilities
Unitranche Term Loan

Industrial Opportunity Partners
has acquired
TRANTECH RADIATOR PRODUCTS, INC.
$16,000,000
Senior Credit Facility
$9,000,000
Junior Capital

Exponent Private Equity
has financed the U.S. subsidiary of its portfolio company
pattonair
Senior Credit Facility

Private Equity Group
has acquired
Two Portfolio Companies
$65,000,000
Senior Credit Facilities

KPS Capital Partners
has recapitalized its portfolio company
Attends HEALTHCARE PRODUCTS
$20,000,000
Revolving Credit Facilities
$113,000,000
Unitranche Term Loan

Atlas Holdings
has refinanced its portfolio company
BRIDGEWELL RESOURCES
$50,000,000
Senior Credit Facility

Industrial Opportunity Partners
has refinanced its portfolio company
center manufacturing, inc.
$27,000,000
Senior Credit Facilities
$7,500,000
Junior Capital

Shareholders
have refinanced
THE STRIVE GROUP
$44,500,000
Senior Credit Facilities
$28,000,000
Second Lien Facilities

Gryphon Investors
has recapitalized its portfolio company
Intelligrated
$155,000,000
Senior Secured Credit Facilities

Graham Partners
has acquired
SP
Senior Credit Facilities
Junior Capital

Platinum Equity
has refinanced its portfolio company
POMEROY infrastructure. optimized.
$40,000,000
Junior Capital

Lincoln International U.K. 2011 Capital Raise Assignments

Tinopolis
A portfolio company of
Vitruvian Partners
has raised acquisition financing
£39,000,000
Senior Debt
£10,000,000
Accordion
£4,000,000
Revolving Credit Facility

Undisclosed
Covenant restructuring
£48,000,000
Senior Debt
£14,000,000
Mezzanine
£14,000,000
Revolving Credit Facility

H.I.G. Capital
has refinanced
ENGINE
£32,000,000
Senior Debt
£13,000,000
Acquisition Facility
£22,500,000
Accordion
£10,000,000
Overdraft + Guarantee

H.I.G. Capital
has refinanced
FIBERCORE LIMITED
$16,000,000
Senior Debt
$4,000,000
Revolving Credit Facility

Vitruvian Partners
has acquired the company
OpenBet
£65,000,000
Senior Debt
£4,000,000
Revolving Credit Facility

Lincoln's Debt Advisory Group adds the following value to each assignment:

- Robust process ensures *best available pricing and terms*
- Strong relationships with *over 300 capital sources throughout the world*
- Multiple capital structure alternatives are generated which *enhances certainty of closing*
- Provides clients with *transparency and control over financing process*
- Lincoln's independence assures there is *no conflict of interest*
- *Maximum leverage of time and resources* for management team and financial sponsor

Lincoln INTERNATIONAL
DEBT ADVISORY GROUP

Lincoln International U.S. DAG Team

Ron Kahn
Managing Director
(312) 580-6280
rkahn@lincolni.com

Robert Horak
Managing Director
(312) 580-2804
rhorak@lincolni.com

Christine Tiseo
Director
(312) 580-6287
ctiseo@lincolni.com

Natalie Marjancik
Vice President
(312) 506-2729
nmarjancik@lincolni.com

David Graham
Associate
(312) 506-2757
dgraham@lincolni.com

Ryan Deegan
Associate
(312) 506-2754
rdeegan@lincolni.com

Dylan Lyons
Analyst
(312) 506-2760
dlyons@lincolni.com

Justin Malina
Analyst
(312) 506-2785
jmalina@lincolni.com

International DAG Heads

Dominik Spanier
Managing Director - Germany
+49 (69) 97105-428
D.Spanier@lincolninternational.de

Jonathan Broome
Managing Director – U.K.
+44 (0) 20 7632 5238
jbroome@lincolni.com