

Presentation to the American Bar Association

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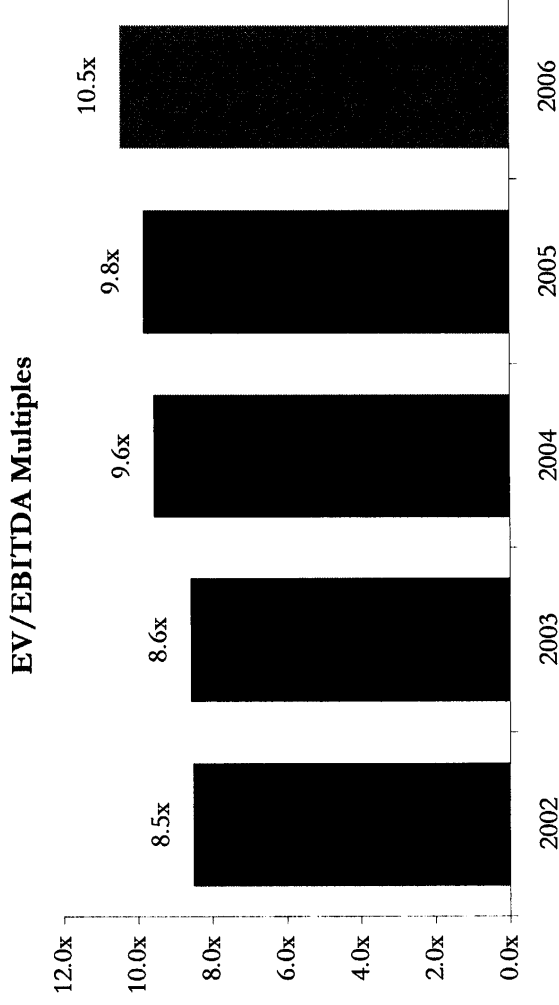
Hanging on to a Seller's Market

The M&A market continues to be frothy with many sellers hurrying to “get through the window” before it closes. Competitive bids need to be:

- Aggressively priced
- Fully financed
- Light on remaining due diligence

Valuations have continued to rise given easy leverage and lots of hungry buyers

- An average EV/EBITDA multiple for middle-market transactions in double digits feels like the “top of the market”



Source: FactSet Data Systems, Mergerstat; January 12, 2007

Execution in a Seller's Market

With PE's in hot pursuit, sellers are pushing for optimal terms:

- Tight timeframe to cover “vendor due diligence” information
- Limited or deferred exclusivity / break-up fees in return
- Virtual data rooms / transparent deal activity
- Increased feeling of equity entitlement for incumbent management
- Limited purchase price adjustments
- More staple financing – borrow more / pay more
- EBITDA based valuations enable parties to quickly hone in on price

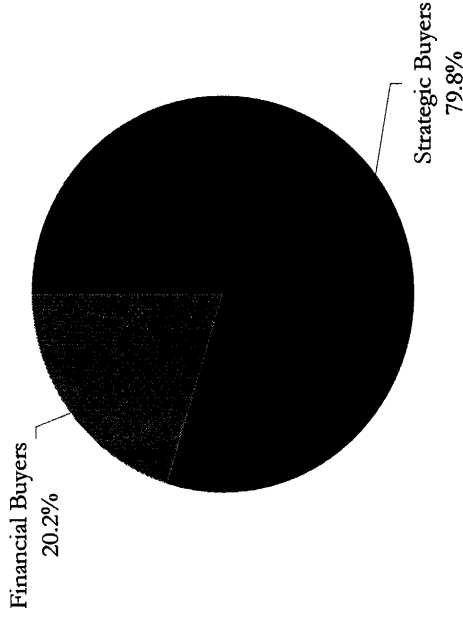
In many cases PE buyers are going direct to sellers, i.e. “disintermediation”

Financial Buyers in the M&A Environment

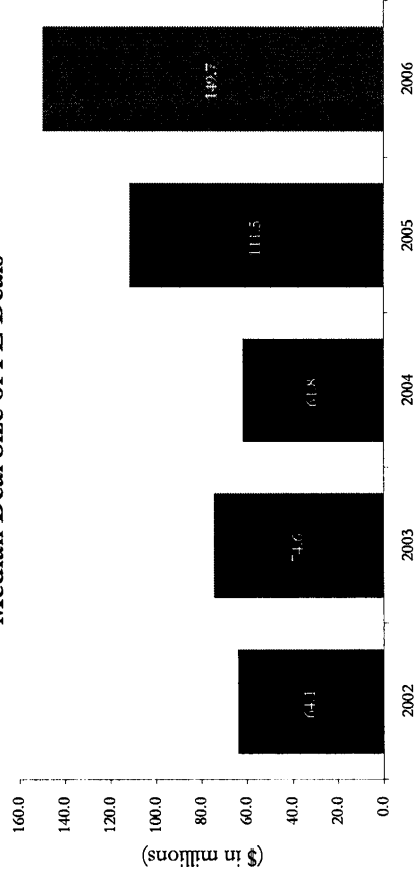
Financial buyers are a major force in the US M&A market – in many cases the “go to” option for sellers

- The perceived strategic buyer premium has evaporated as financial buyers move faster and reach higher
- The distinction between the strategic and financial buyer categories has blurred as PE portfolios grow larger and larger
- “Clubbing” between strategic and financial buyers is increasing – the best of both worlds
- PE’s are not only competing more aggressively on price, but they are also joining forces to execute larger deals
- Potential anti-trust issues

US Deals by Acquiror Type in 2006



Median Deal Size of PE Deals



Source: FactSet Data Systems, *Mergerstat*; January 2007

Club Deals

2006 Club Deals Over \$10 billion

8 TRANSACTIONS

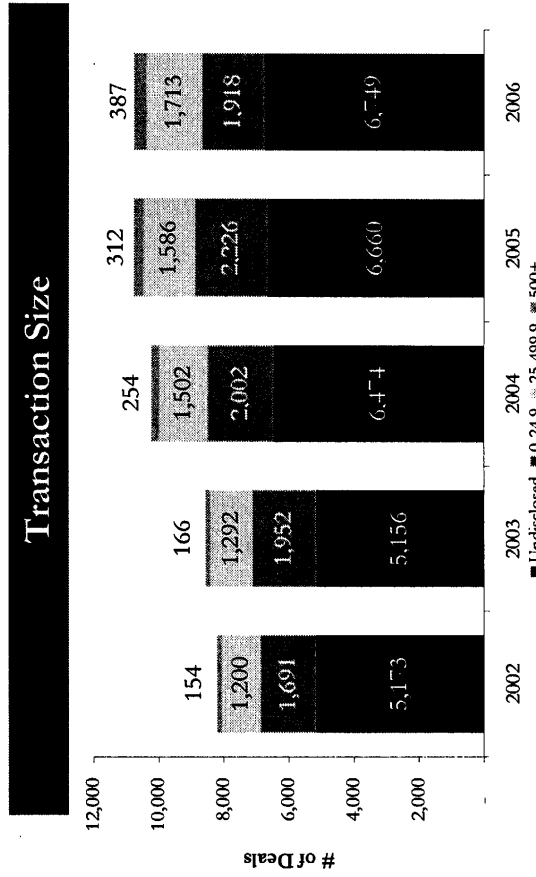
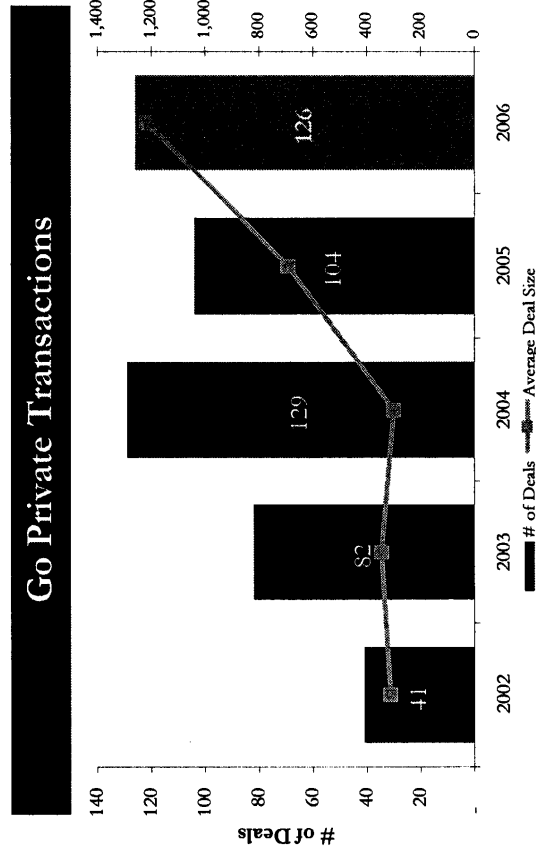
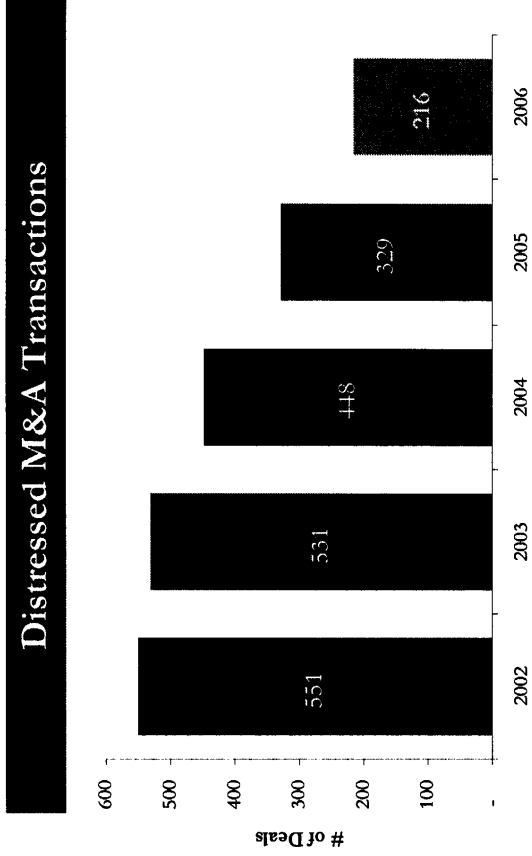
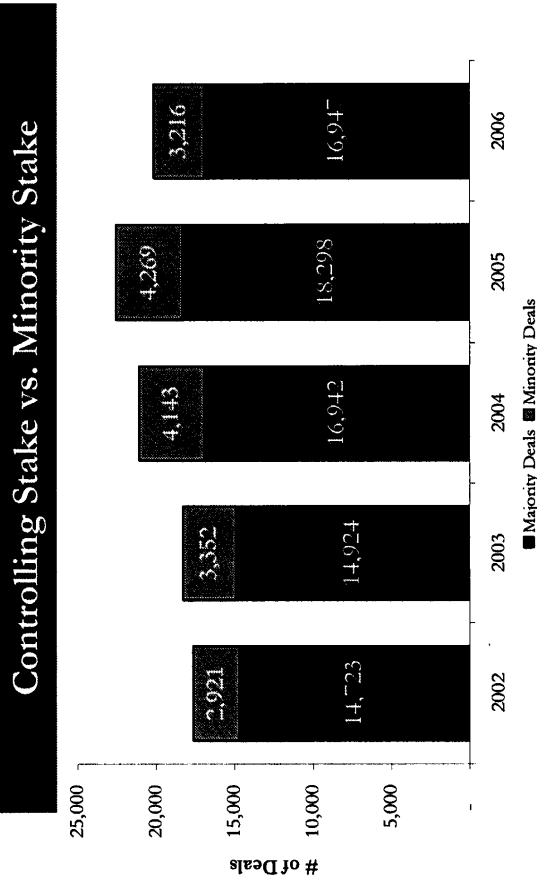
- \$31.7 billion acquisition of HCA by Bain Capital, KKR and Merrill Lynch
- \$26.6 billion acquisition of Clear Channel Communications by Thomas H Lee Partners and Bain Capital
- \$21.2 billion acquisition of Goldman Sachs, American International, Carlyle and Riverstone
- \$17.4 billion acquisition of Albertson's by Supervalu, CVS and Cerberus
- \$16.7 billion acquisition of Harrah's Entertainment by Apollo Management and Texas Pacific Group
- \$16.3 billion acquisition of Freescale Semiconductor by Blackstone Group, Carlyle, Permira Funds and Texas Pacific Group
- \$12.4 billion acquisition of Univision Communications by Madison Dearborn, Providence Equity, Texas Pacific Group, Thomas H Lee Partners and Saban Capital Group
- \$10.8 billion acquisition of Biomet by Goldman Sachs, KKR, Blackstone, and Texas Pacific Group

2005 Club Deals Over \$10 billion

3 TRANSACTIONS

- \$15 billion acquisition of Hertz by Clayton Dubilier & Rice, Carlyle Group and Merrill Lynch
- \$13.9 billion acquisition of TDC A/S by Nordic Telephone Company, with Apax Partners, Blackstone, KKR, Permira and Providence Equity
- \$10.2 billion acquisition of SunGard Data Systems by Bain Capital, Blackstone, Goldman Sachs, KKR, Providence Equity, and Texas Pacific Group

Target Profiles

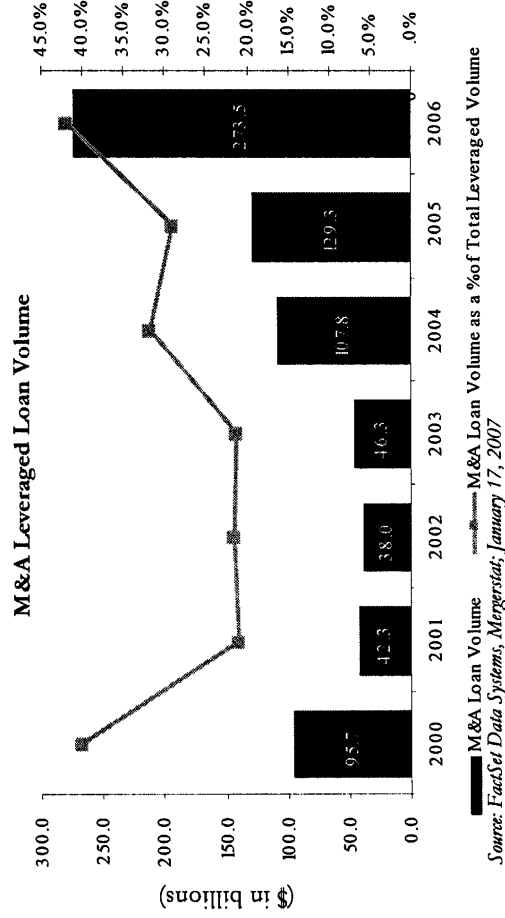
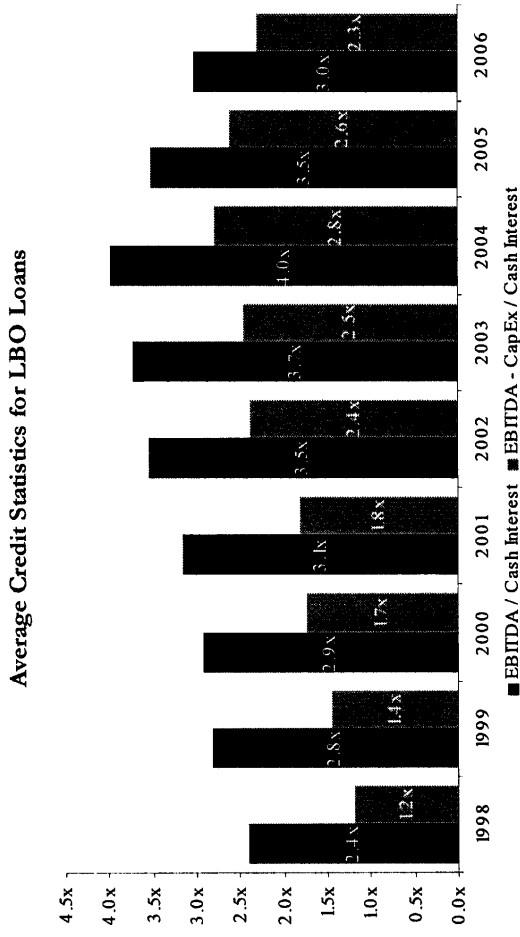


Source: FactSet Data Systems, Mergerstat; January 2007

The Benefit of Leverage

Lenders are absorbing ever escalating amounts of loan volume to fuel deal prices and activity

- Statistics indicate that leverage ratios are down, but market reality feels different
- PE investors speak of staple financing packages that exceed their perceived enterprise values for sell-side deals
- Restructuring advisors are anxiously awaiting the forthcoming “speed bumps”

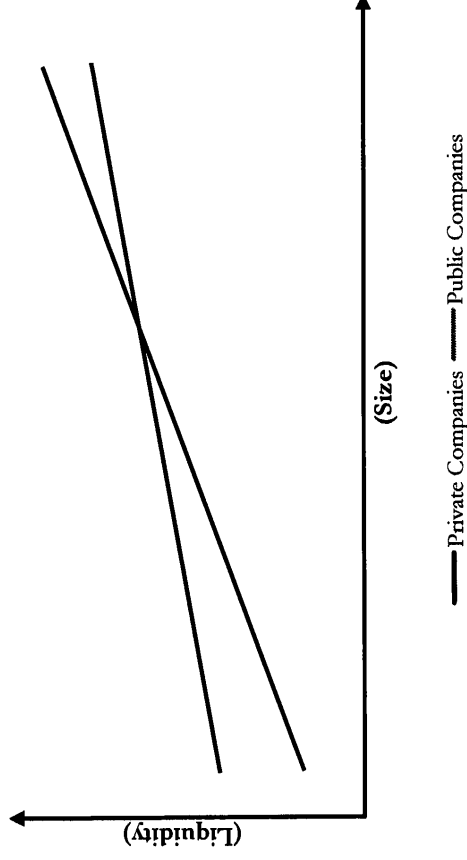


Source: *FactSet Data Systems, Mergers&Acquisitions*; January 17, 2007

Liquidity

In the current middle market, liquidity can be better for private companies than public companies

- While huge PE deals gain the headlines, PE investors are aggressively pushing liquidity into the medium size private company sector
- Private companies are able to avoid public company expenses and focus on longer term ROI horizon
- Institutional investors are increasingly allocating money into alternative investments (PE / Hedge) and away from small stocks with limited liquidity
- Sarbanes-Oxley has also spurred:
 - More go-private deals
 - Foreign (AIM) listings

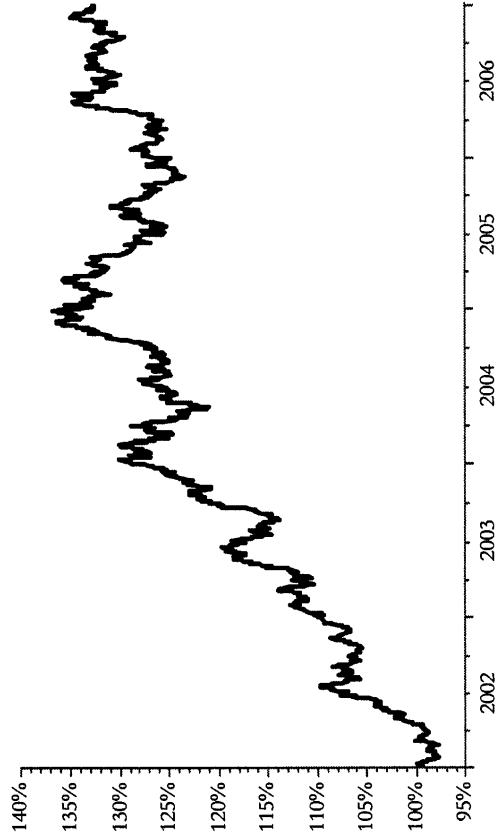


Foreign Buyers in US Markets

Foreign companies are actively buying in the US, but language still makes a difference.

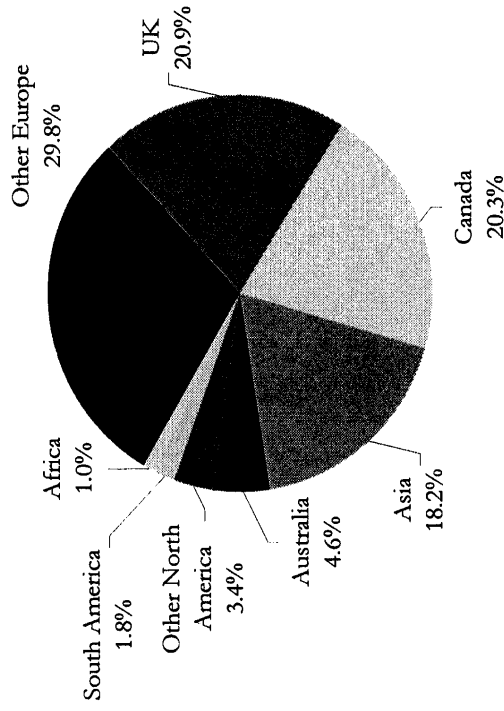
- For foreign buyers, US companies are more than 30% cheaper than five years ago – enabling more “overbidding”
- Interest is picking up from the rapidly growing developing countries as they put foreign currency reserves to work, with the added ability to offshore labor intensive tasks

Foreign Currency Bundle vs. USD



Notes: Foreign currency bundle used includes GBP, JPY, EUR, and CAD
Source: FactSet Data Systems, Mergerstat; January 17, 2007

US Targets Acquired by Foreign Buyers



Notes: Total number of US targets acquired by foreign buyers in 2006 was 1,275
Source: FactSet Data Systems, Mergerstat; January 17, 2007

Responding to the Cross-Border Opportunity / Challenge

With prospective clients “going global”, financial advisors are being required to do the same

- Multiple options for addressing global market:
 - Organic expansion
 - Join existing M&A network
 - Build own alliance

- Cross-border capabilities are hot topic in the M&A community:
 - Stage 1 – market cross-border capability to get domestic business
 - Stage 2 – actually work proactively to generate incremental cross-border deals and fees

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