

M&A Environment Overview

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Overview of Today's Global M&A Marketplace

- ▶ Despite significant increases in energy prices, uncertainty over the war in Iraq, rising interest rates and the impact of hurricanes Rita and Katrina, the robust M&A market that began in 2003 continued through 2005
- ▶ Factors leading to increased M&A activity in 2005 included economic growth and improved business performance in most industries, recovery and stabilization of financial markets, and improved corporate and consumer confidence
- ▶ Strategic imperatives, resilient markets and strong balance sheets have resulted in a return to M&A as a primary corporate strategy
 - Buyers once again seeking acquisitions to supplement internal growth
 - Corporate “soul searching” and emphasis on core businesses, resulting in reversals of past acquisitions through divestitures and spin-offs (i.e., Tyco, Cendant and Viacom)
 - Consolidation continues to define certain industries (i.e., FIG, Telecom, Healthcare)
 - Increased cross-border M&A
- ▶ Cash consideration continues to be popular as financing markets have remained strong and equity markets have been somewhat volatile (i.e. Banc of America/MBNA, ChevronTexaco/Unocal)
- ▶ Rise in mega-mergers (20 largest deals account for 22% of overall M&A volume)
- ▶ Increasing role of hedge funds and activists as agitators and outcome influencers
- ▶ Financial sponsor M&A activity is at a 10-year high driven by robust financing markets, historically attractive interest rates and an abundance of cash
- ▶ The impact of these drivers will continue to be felt in 2006

Current Equity Market Overview

- ▶ Equity markets have rebounded from substantial declines
- ▶ 2000-2002: First time since 1939-1941 that major indices declined in 3 consecutive years
- ▶ 1929-1932: Only time major indices declined in 4 consecutive years

	Annual Return						
	1999	2000	2001	2002	2003	2004	2005
Dow Jones Industrial	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.1%	(0.6%)
S&P 500	19.5%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	3.0%
NASDAQ	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.4%
Russell 2000	19.6%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.3%
S&P 500 Capital Goods	28.6%	3.9%	(11.4%)	(29.0%)	31.8%	16.7%	0.2%

Source: FactSet Research Systems, Inc.

1. Global Trends in M&A

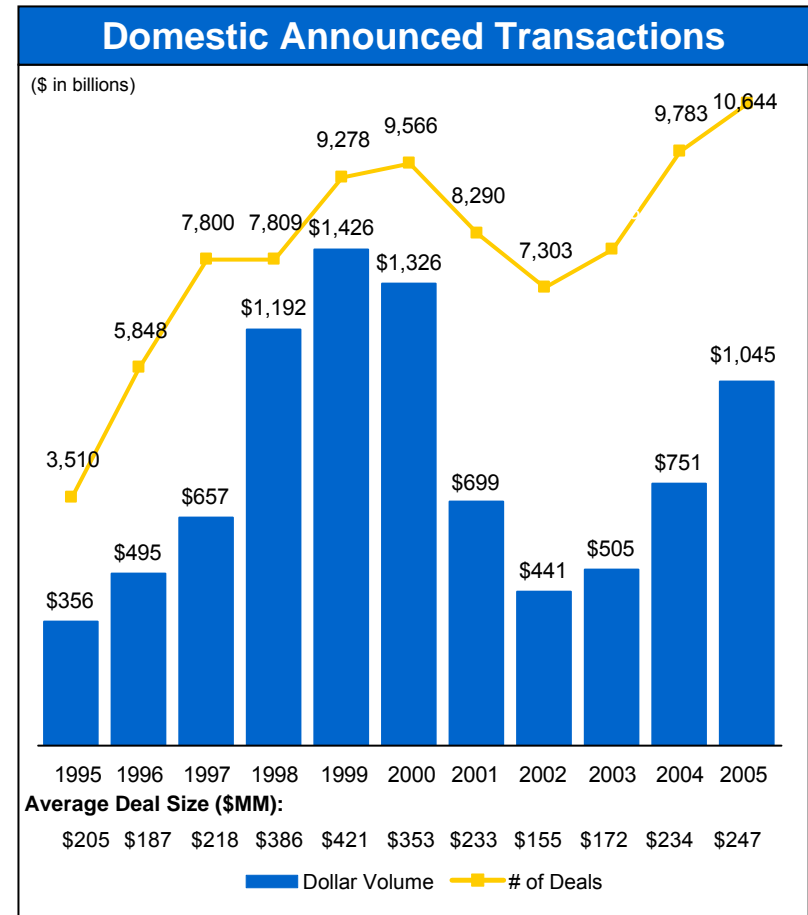
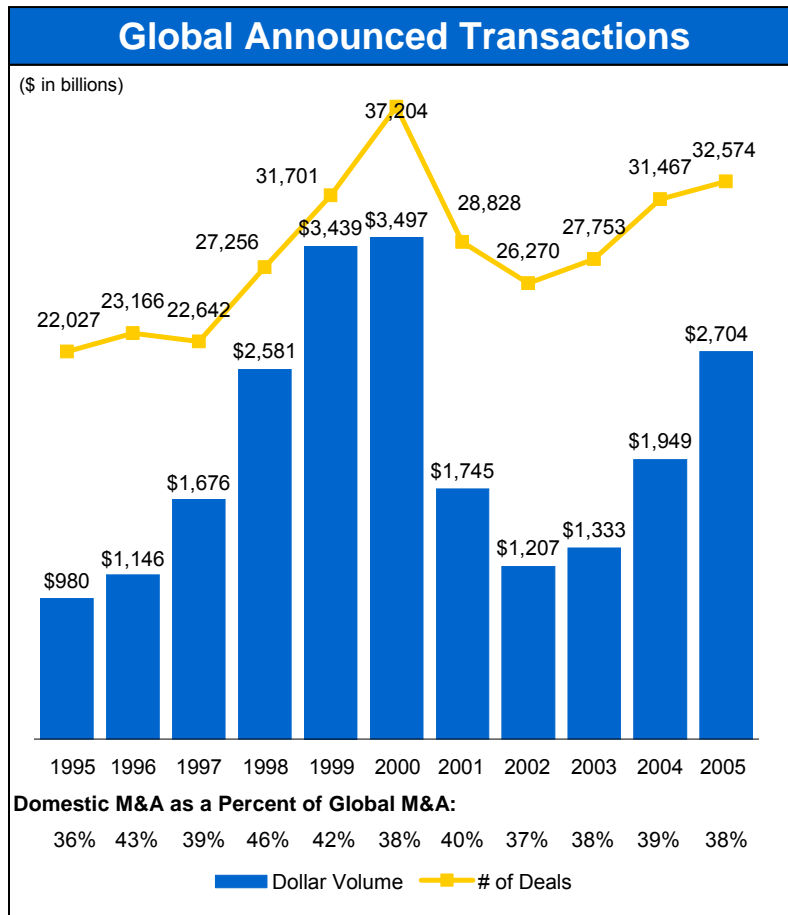
2005 M&A Overview: Year in Review

- ▶ The dollar volume of global announced transactions for 2005 was \$2,704 billion, up 38% from a year ago
- ▶ The number of deals was up 4% from 2004
- ▶ 463 deals exceeded \$1 billion in value, versus 310 deals a year ago. These deals accounted for 66% of all dollar volume
- ▶ Activity in the Americas represented 48% of global activity in 2005, while Europe and Asia Pacific represented 38% and 14% of global M&A, respectively
- ▶ Dollar volume of hostile offers decreased 2% from a year ago. The number of hostiles increased by 27%

(\$ in billions)

	2005		FOURTH QUARTER 2005		2004	
	\$/#	% VS. YAG	\$/#	% VS. YAG	\$/#	% VS. YAG
Dollar Volume:						
Domestic	\$1,015.8	31.8%	\$292.7	20.2%	\$770.9	56.3%
U.S. Cross-Border	284.3	34.3%	83.3	18.7%	211.7	27.9%
International	1,403.5	44.6%	406.7	9.4%	970.7	35.2%
Total Global Dollar:	\$2,703.6	38.4%	\$782.7	14.2%	\$1,953.3	41.9%
Deals Over \$1 billion	\$1,785.8	53.4%	\$538.8	16.2%	\$1,163.2	61.2%
Number of Deals:						
Domestic	7,934	5.6%	1,872	5.9%	7,516	10.5%
U.S. Cross-Border	2,890	5.4%	717	1.4%	2,741	21.7%
International	21,750	(18.5%)	5,323	(6.8%)	21,210	8.2%
Total Global Deals:	32,574	3.5%	7,912	(3.4%)	31,467	9.8%
Deals Over \$1 billion	463	48.9%	130	19.3%	310	34.8%

The M&A Market Has Had a Fervent Rebound...



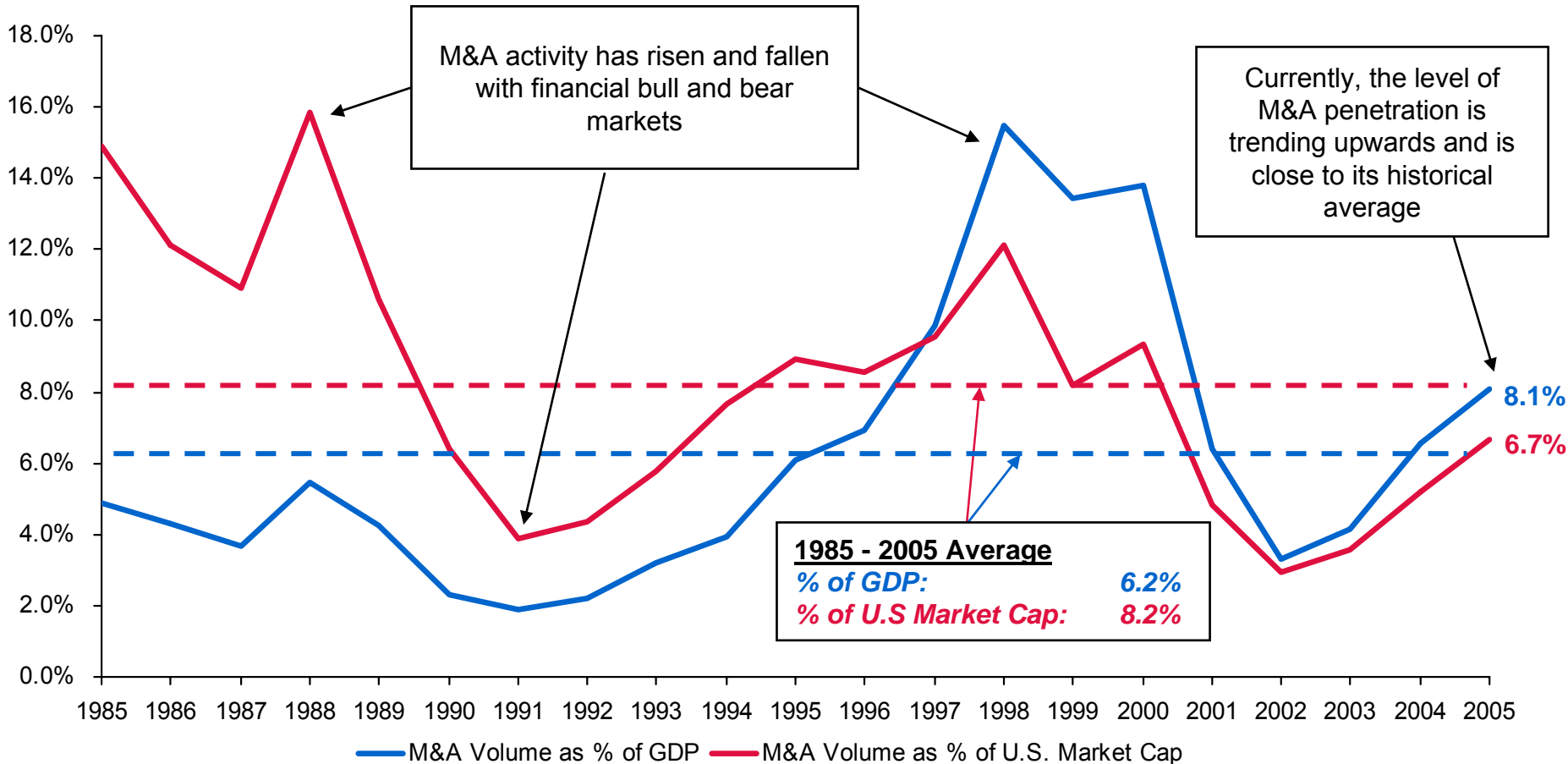
Source: Thomson Financial Securities Data Company, Inc.

Average deal size has trended upwards as the number of deals has increased

...And M&A Transaction Penetration Has Increased

Domestic Announced Transaction Penetration

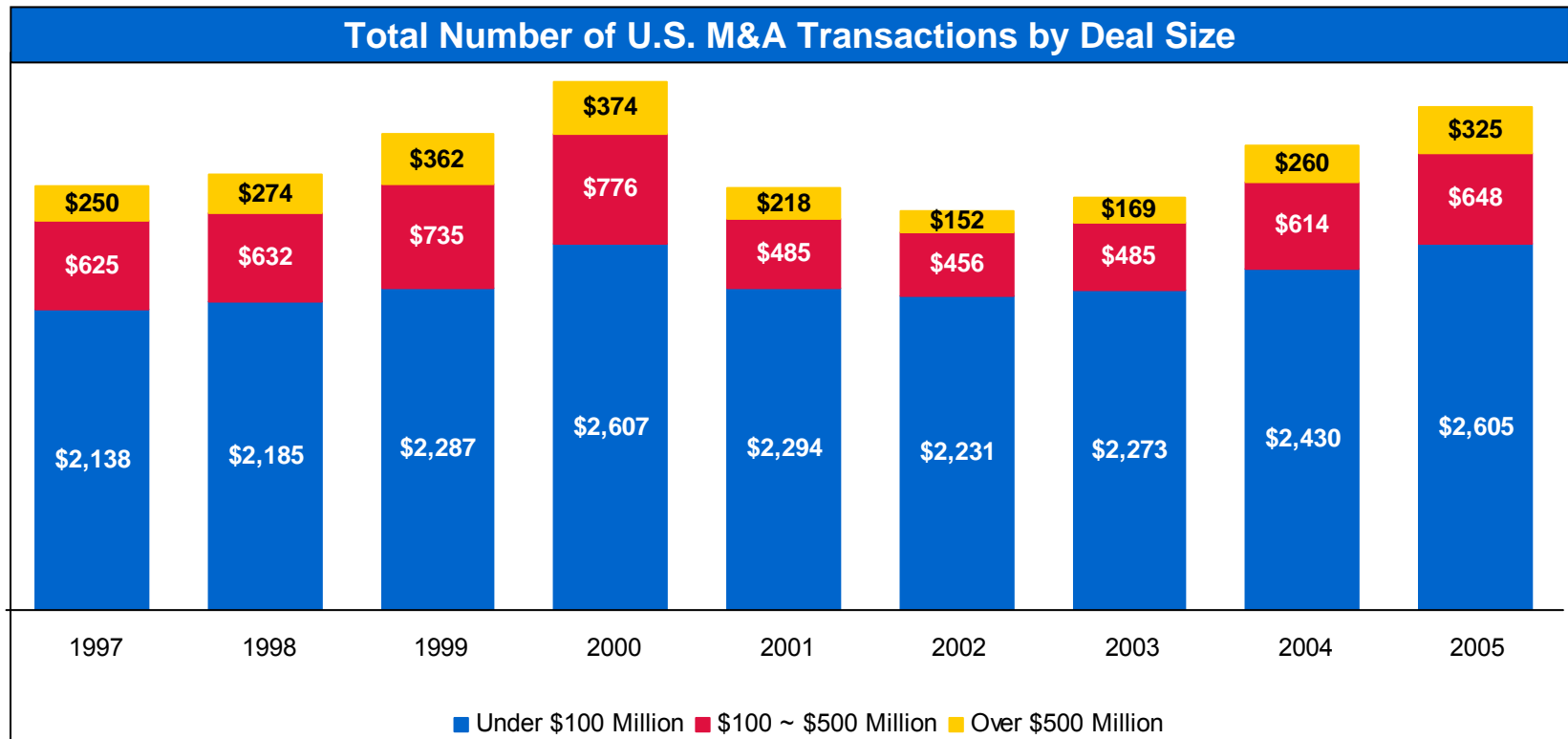
Percentages by Dollar Volume



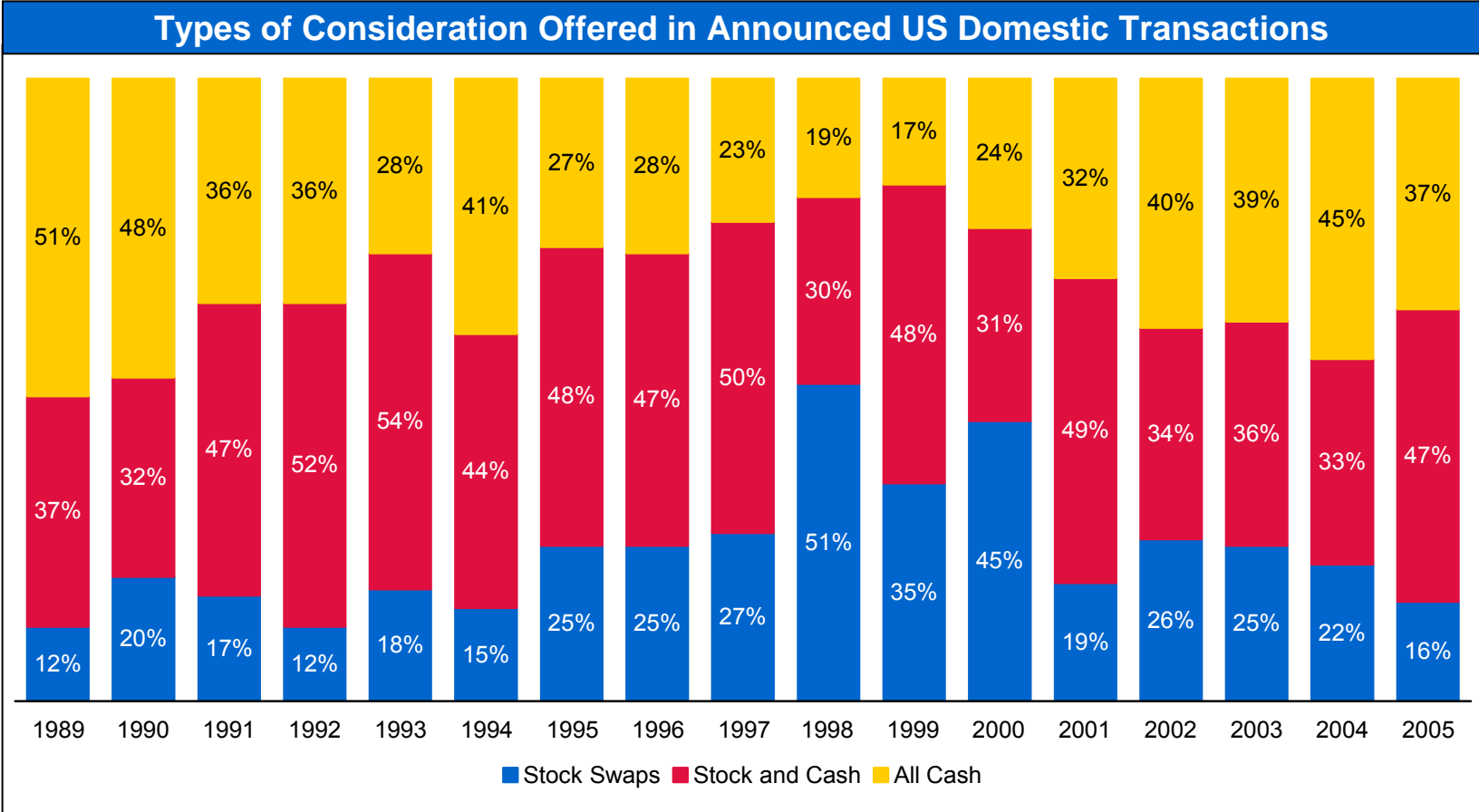
Source: Securities Data Corporation and FactSet Research Systems.

While Mega-Deals Get The Headlines, Middle Market Transactions Dominated

- ▶ Over 90% of all M&A transactions since 1997 have been middle market deals with values under \$500 million
- ▶ The number of larger deals has accelerated due to improved stock prices (the currency of choice in larger deals)



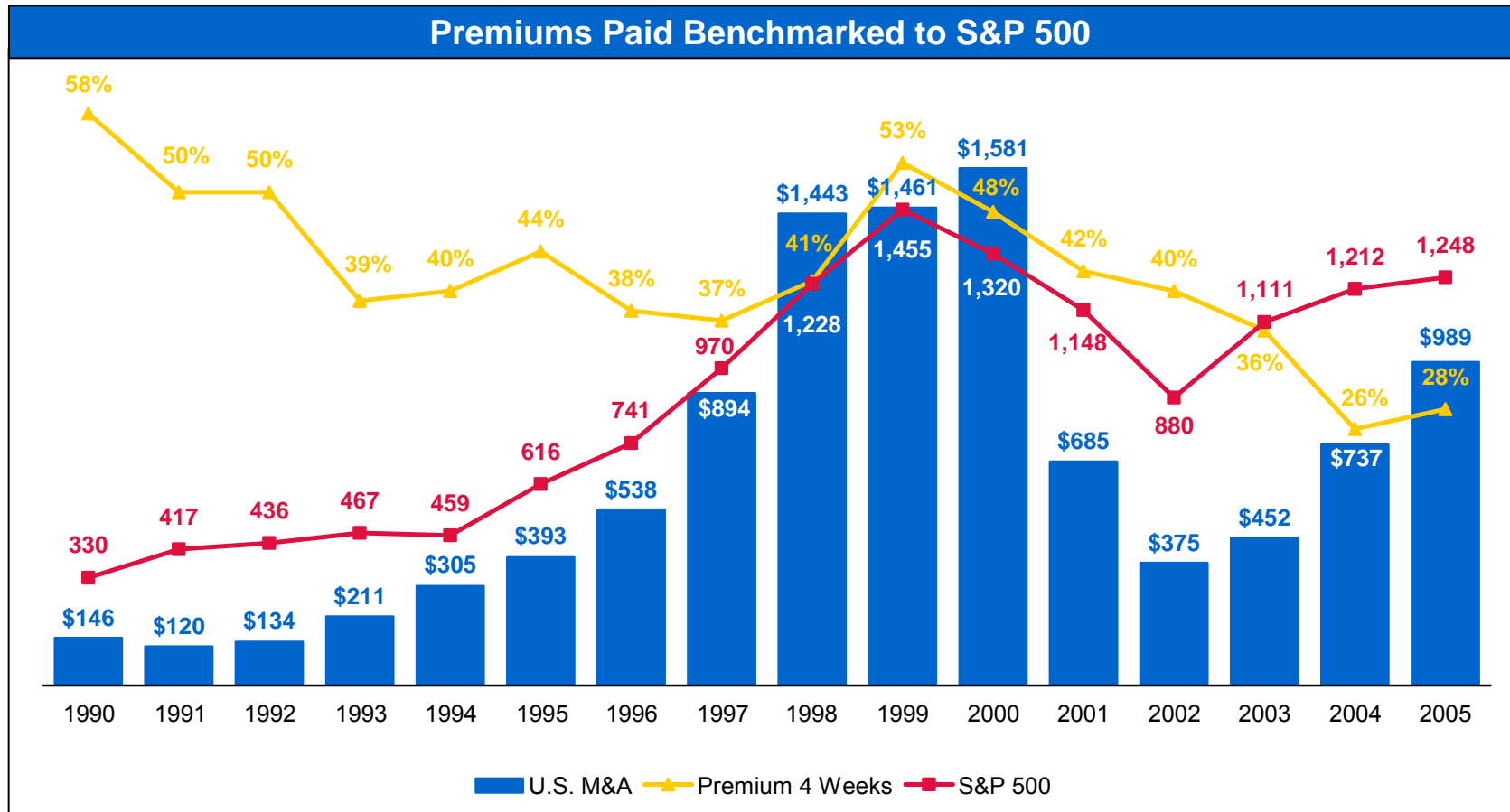
Cash and Cash/Stock Combinations Were Preferred Forms of Consideration in 2005



Source: Thomson Financial Securities Data Company, Inc.
 Note: Percentages by dollar volume of US domestic transactions of \$50 million or more in value.

Bank of America/MBNA, ChevronTexaco/Unocal, Comcast/TimeWarner, and Federated/May are examples of deals involving a combination of cash and stock as consideration

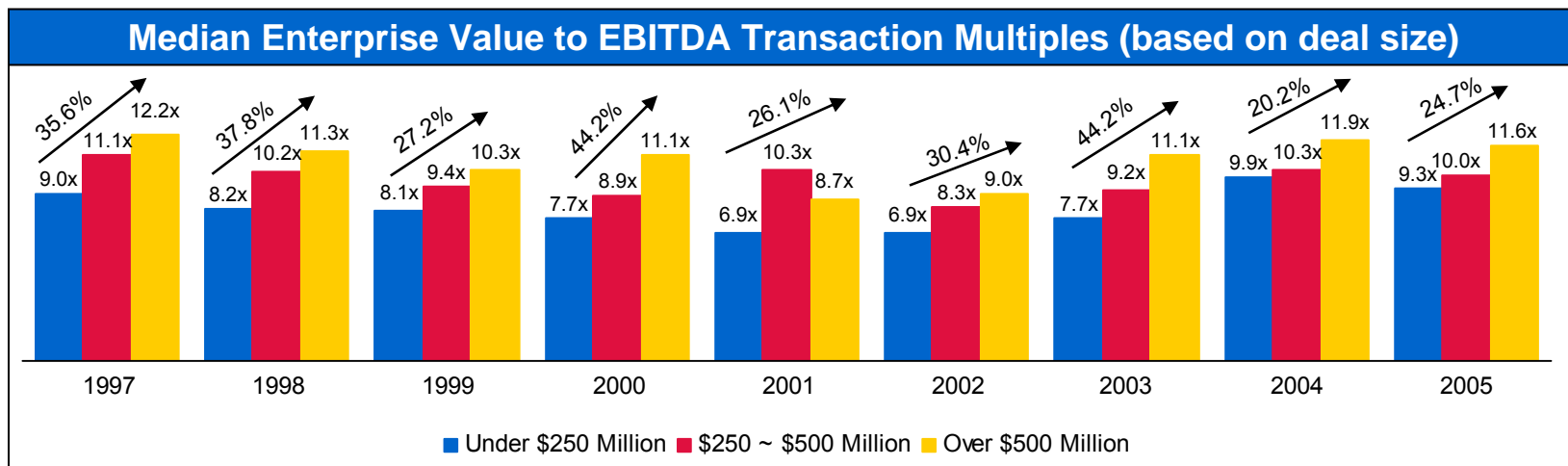
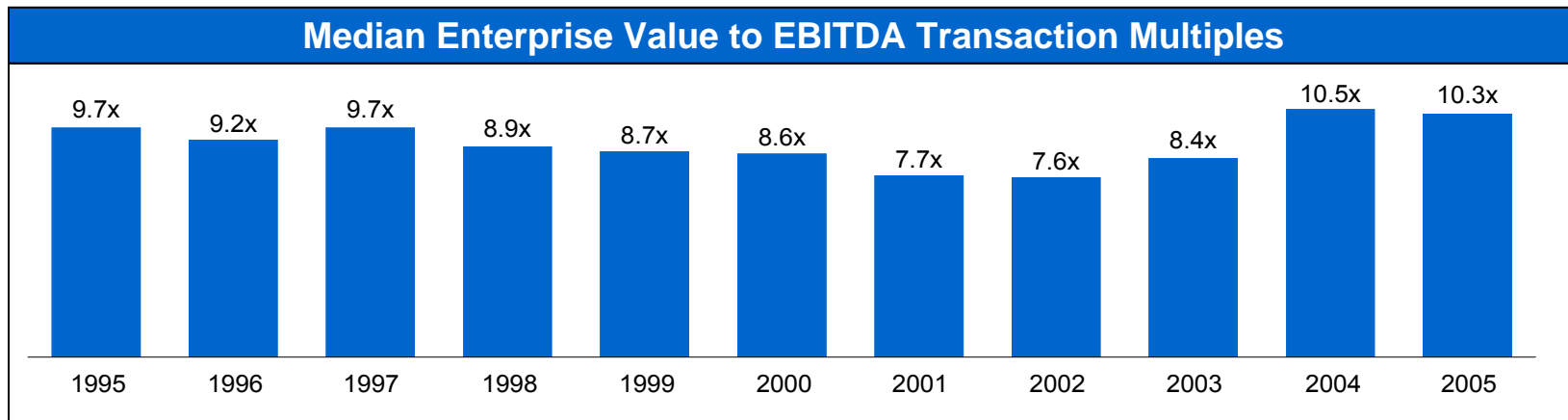
Premiums Have Increased Year-Over-Year for the First Time in More Than Half a Decade



Source: Thomson Financial Securities Data Company
 Note: Based on U.S. domestic deals >\$50MM.

Although premiums paid are up from 2004, acquirors are still exercising pricing discipline

Transaction Multiples Have Risen As the Level of M&A Activity Has Increased the Past Few Years



Although larger companies continue to be valued at a significant premium to middle market companies, the spread has narrowed recently to its lowest level in several years





















2. Hotspots of 2005

A Variety of Factors That Were Not Prevalent Several Years Ago Have Re-Emerged, Facilitating M&A Activity

	Mid 1990s - 2000	2000 - 2002	Today
Economic Environment	↑	↓	↑
Stock Market Performance	↑	↓	↑
Credit Market Strength	↑	↔	↑
Investor Confidence	↑	↓	↑
CEO Confidence	↑	↓	↑
Corporate Scandals / Bankruptcies	↔	↓	↑
Geopolitical Situation	↑	↓	↔
Regulatory Environment	↑	↓	↑
Shareholder Activism	↔	↔	↑

Industry Consolidation Is Driving the Biggest Deals

(\$BN)

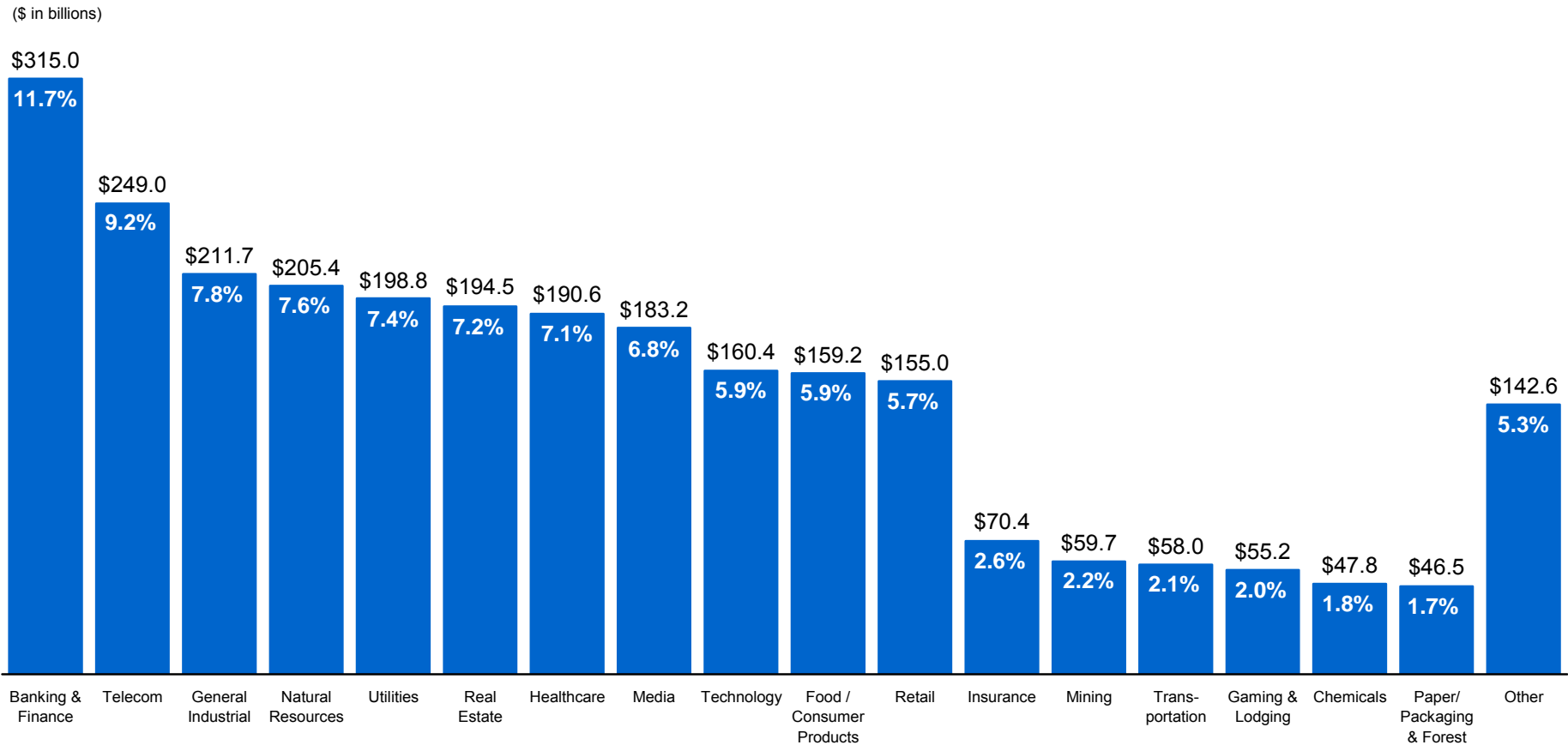
2005 TOP 10 ANNOUNCED U.S. TRANSACTIONS			
ACQUIROR	TARGET	VALUE	INDUSTRY
		\$57.3	Consumer Retail
		\$36.1	Energy *
		\$35.4	Financial Institutions
		\$22.3	Telecom
		\$20.4	Basic Materials
		\$20.0	Energy
		\$16.6	Retail
		\$14.8	Energy *
		\$13.7	Energy *
		\$11.7	Financial Institutions

Source: Bloomberg.

* Intended / Pending transactions.

The Top Five Sectors Represented 44% of Global Volume

Announced Global Transactions 2005 – Dollar Volume and Total Market Share



Source: Thomson Financial Securities Data Company, Inc.

Banking and Finance remains a dominant industry with 12% market share of global volume

Consolidation Drivers are Unique and Reflect Specific Industry Dynamics

Media

Deregulation
Content/distribution
Broadband and Internet
Deconsolidation
Going Private Transactions

Telecom

Cost consolidation
Evolving network requirements
Bundling of services
Consumer wireline declines

Technology

Bias toward integrated solutions
Customer desire for fewer vendors
Search for growth

Healthcare

Product/distribution complementarities
Search for growth
Economies of scale
Fulfillment of pipeline holes

Financial Institutions

Distribution economies
Cost consolidation
Acquisition footprint
Scale benefits
Risk diversification

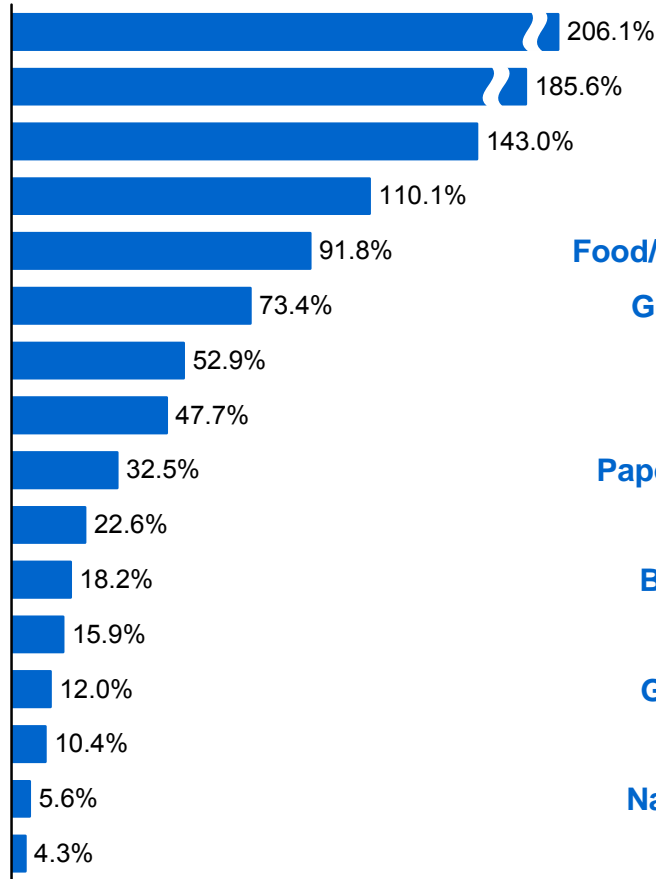
Energy & Power

Improve cost competitiveness
Product diversification
Global footprint

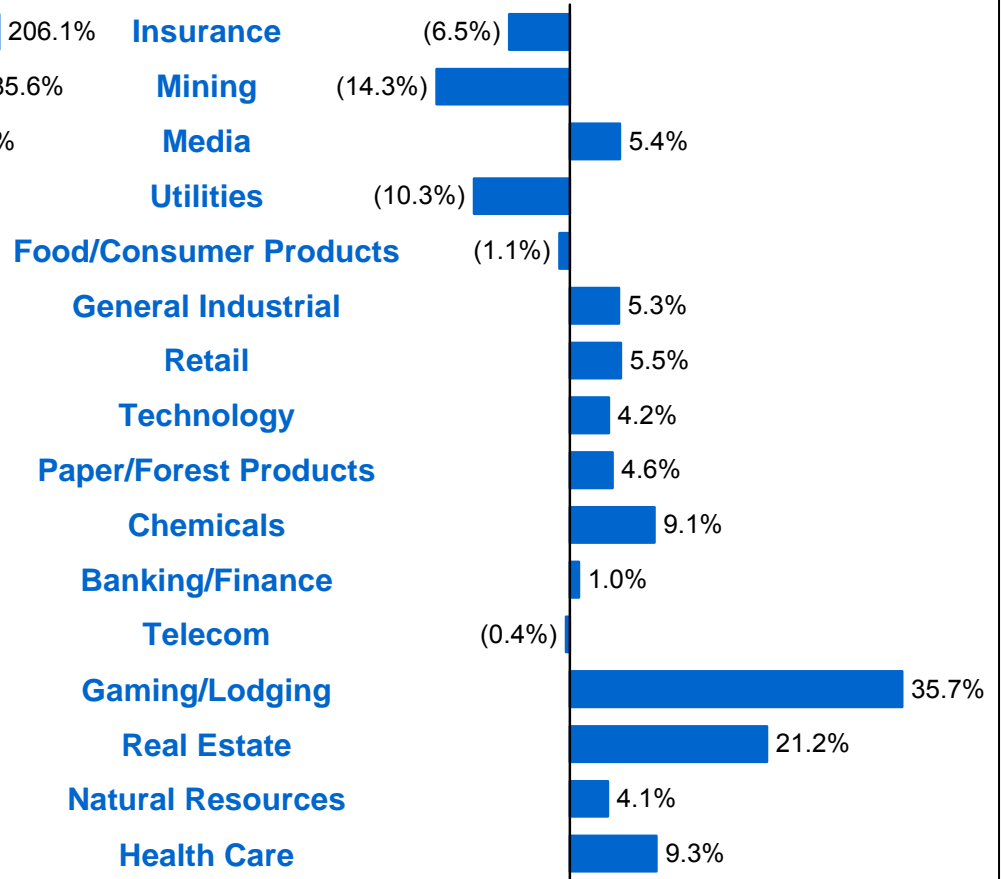
Industry Dollar Volume was Up, With Some Significant Increases Compared to 2004 Volume

Global Announced Transactions – 2005 Versus 2004

Dollar Volume



Number of Deals



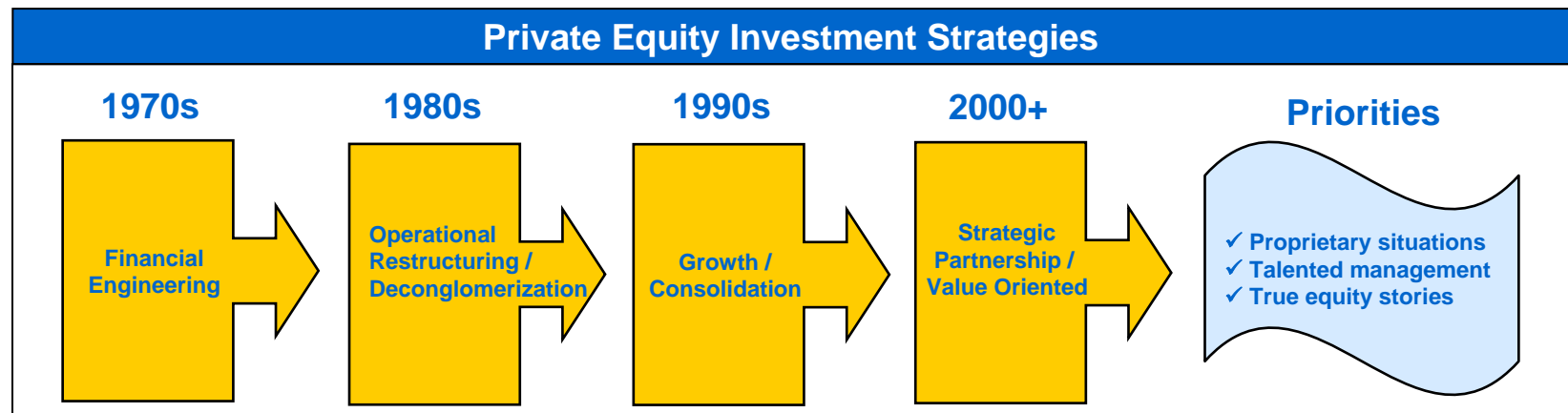
3. Private Equity

Private Equity Overview

A New Class of Asset Managers

Since the early 1970s, the private equity industry has evolved from small “deal shops” into a highly competitive and increasingly institutionalized class of asset managers

- ▶ More than \$150B in untapped equity commitments
- ▶ Diverse investment strategies, styles, and degree of industry specialization
- ▶ View deal environment as extremely competitive, especially as deal sizes increase
- ▶ All seek proprietary situations, with management talent viewed as the key value driver



Many buyout firms have been and are still willing to consider non-control investments. Recently, however, LBO firms have shown a strong preference to “return to their roots”

Role of Private Equity Firms in 2005 M&A Market

- ▶ Significant growth in private equity funds (over 1,800 buyout firms; 200+ firms have over \$1 billion in capital)
- ▶ Consortium bidding more prevalent as investor groups pool equity to pursue large targets
 - 5/10 largest LBO transactions announced this year were consortium deals
 - Consumer/ Retail, TMT and Industrial sectors combined accounted for 8/10 largest LBO targets
 - European deals accounted for 52% of LBO activity
- ▶ Average EBITDA multiples rose to 8.4x from a recent low of 6.4x in 2001 for large LBOs and to 8.1x from 6.3x in 2001 for middle market LBOs
- ▶ Despite the favorable conditions in the high yield market, public and 144A high yield debt financing of LBOs accounted for 6.2% of total sources, down from 9.9% in 2004

As Acquirors

- ▶ Undervalued targets
- ▶ Private companies with a need to satisfy shareholder liquidity requirements and succession and estate-planning issues
- ▶ Corporate divestitures shedding non-core operations
- ▶ Consortium deals reduce exposure and increase the universe of obtainable targets

As Sellers

- ▶ Attractive valuations
- ▶ Return of strategic buyers
- ▶ Aging portfolios
- ▶ Desire to boost returns to aid fund raising

Sponsor-to-Sponsor Deals Are Becoming Increasingly Prominent

In the Upper Middle Market

Selected 2005 Sponsor-to-Sponsor Deals
≥ \$500mm

(\$ in millions)

TARGET	SELLER	BUYER	SIZE
Vanguard Health Systems	Morgan Stanley	Blackstone	\$1,750
Metals USA	Citadel	Apollo	817
Norcross Safety Products	Investor Group	Odyssey	730
American Tire Distributors	Charlesbank	Investcorp	714
CCC Information Services	Capricorn	Investcorp	680

Source: CapitalIQ.

And in the Lower Middle Market

Selected 2005 Sponsor-to-Sponsor Deals
< \$500mm

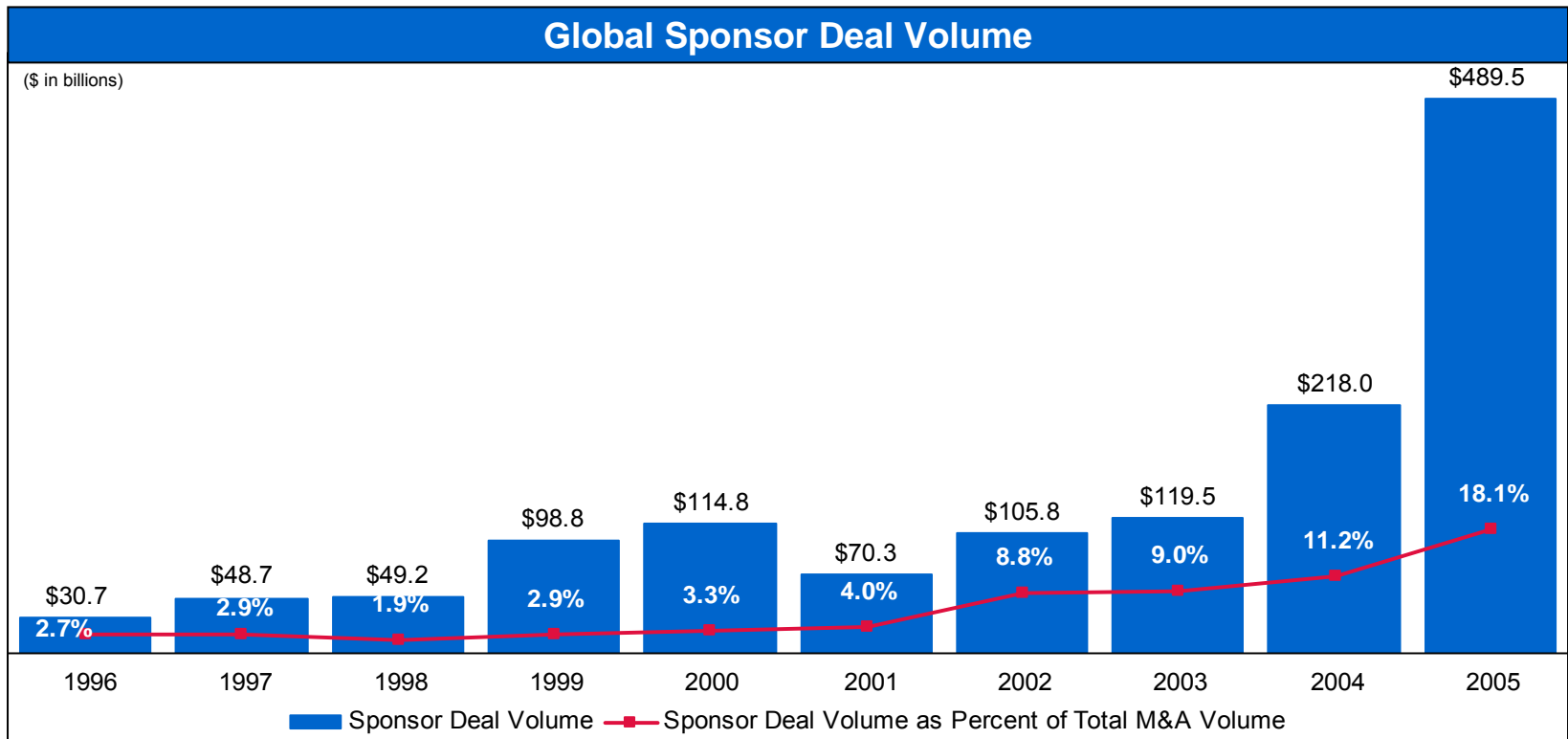
(\$ in millions)

TARGET	SELLER	BUYER	SIZE
Targus Group	Apax	Fenway	\$383
Argo Tech Corp.	Aerostar	Greenbriar, Vestar	350
NEP Broadcasting	Wachovia	Apax	320
Shari's	Windjammer	Circle Peak	300
Soil Safe	Halifax	American Capital Strategies	147

Source: CapitalIQ.

Pressure to Invest Funds Has Spurred Deal Volume

- ▶ High quality, small companies with low valuations, limited trading volume, limited research coverage, and negligible investor interest trade at significant discounts to the broader market, their industry peers and their historical valuations despite attractive profitability and long-term growth prospects
- ▶ The costs associated with Sarbanes-Oxley compliance have prompted an increasing number of such companies to pursue going private transactions

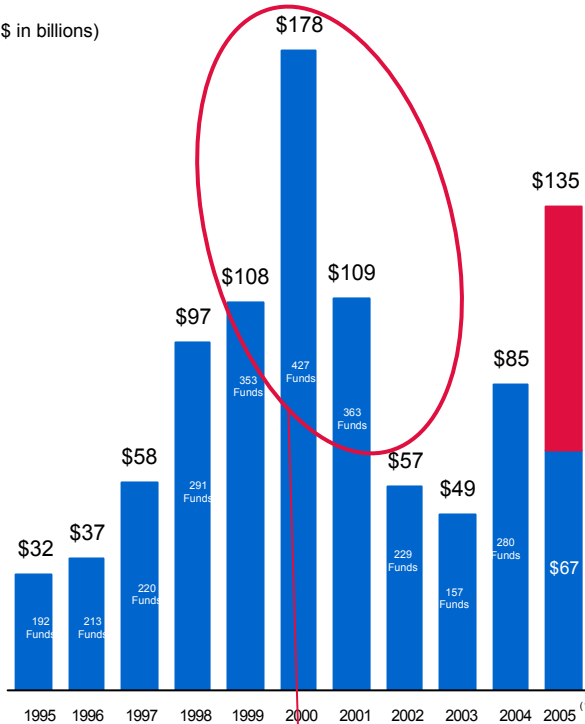


LBO sponsors have become significant players in most every M&A situation

Private Equity Has Been a Key M&A Driver

Buyout Funds Raised

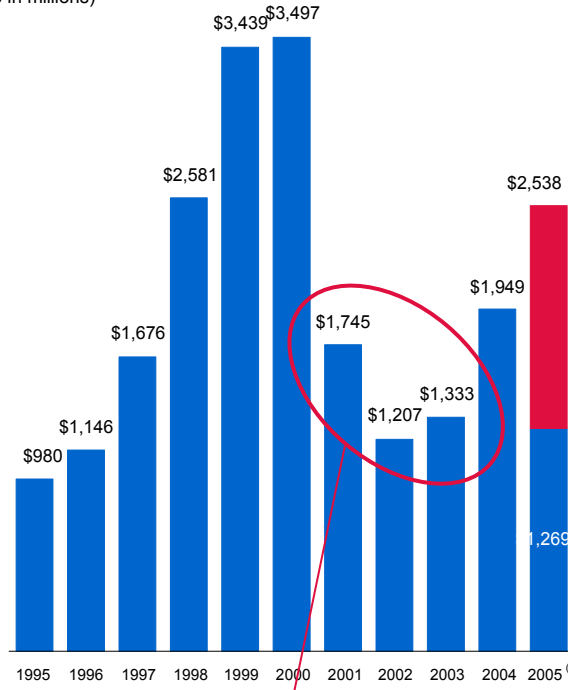
(\$ in billions)



Significant investments in new private equity funds...

Global M&A Transactions

(\$ in millions)



...coupled with depressed M&A activity in recent years...

Annual New High Yield Issuance

(\$ in millions)



...and financing markets exhibiting continued strength.

This confluence of events has created an environment in which financial sponsors have become increasingly aggressive acquirors

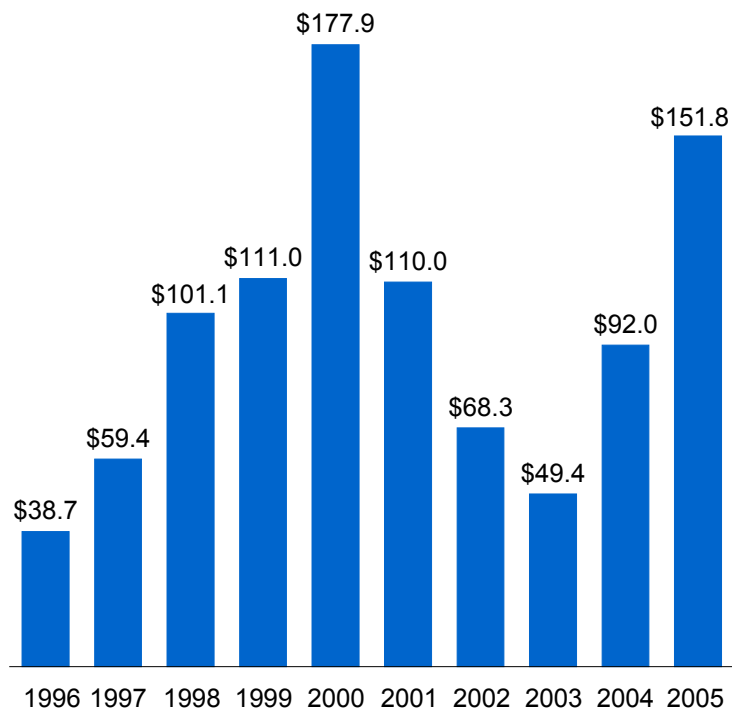
Source: The Private Equity Analyst, Thomson Financial Securities Data Company, Inc. and CSFB High Yield Research.

(1) Dollar volume annualized as of 6/30/05.

2005 Private Equity Fundraising Surpassed 2004

Private Equity Funds Raised

(\$ in billions)



Source: Private Equity Analyst.

Selected Recently Reported Fund Raises

(\$ in billions)

SPONSOR	FUND	AMOUNT
Recently closed		
Carlyle (+ Europe)	Fourth	\$10.10
Goldman Sachs	Fifth	8.50
Warburg Pincus	Ninth	8.00
CVC Europe	Fourth	7.30
BC Partners	Eighth	7.30
Apax Partners Worldwide	Sixth	5.20
PAI Partners	Fourth	3.50
Advent International	Fifth	3.30
CVC Capital Partners Ltd. (Asia-Pacific)	Second	2.00
Credit Suisse	Third	2.40
Sun Capital Partners Inc.	Fourth	1.50
Currently being raised		
Blackstone Group	Fifth	\$12.00
Apollo Advisors	Sixth	10.20
Warburg Pincus LLC	Fifth	8.00
Thomas H. Lee Partners LP	Sixth	7.50

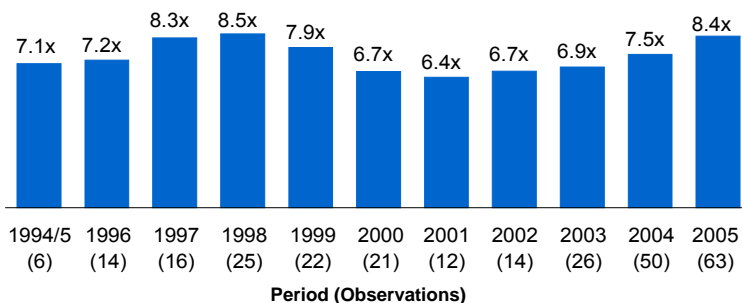
The amount of private equity investment capital raised increased greatly in 2004/2005 after three years of rapid decline

Leveraged Buyout Transaction Multiples Have Steadily Increased

Average Leveraged Buyout Purchase Price as a Multiple of LTM EBITDA ⁽¹⁾

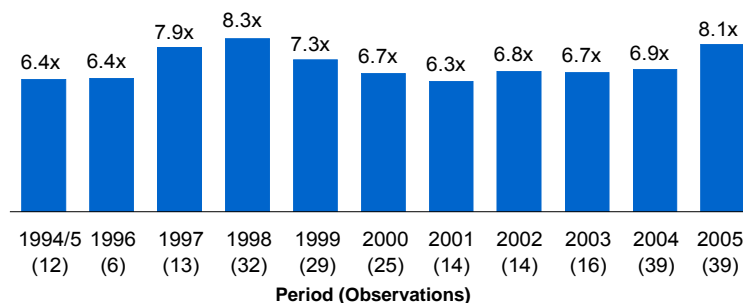
\$500MM or More

(multiples of EBITDA)



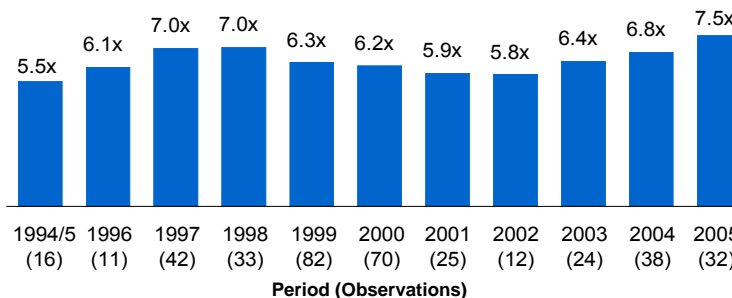
\$250-\$499MM

(multiples of EBITDA)



Less than \$250MM

(multiples of EBITDA)

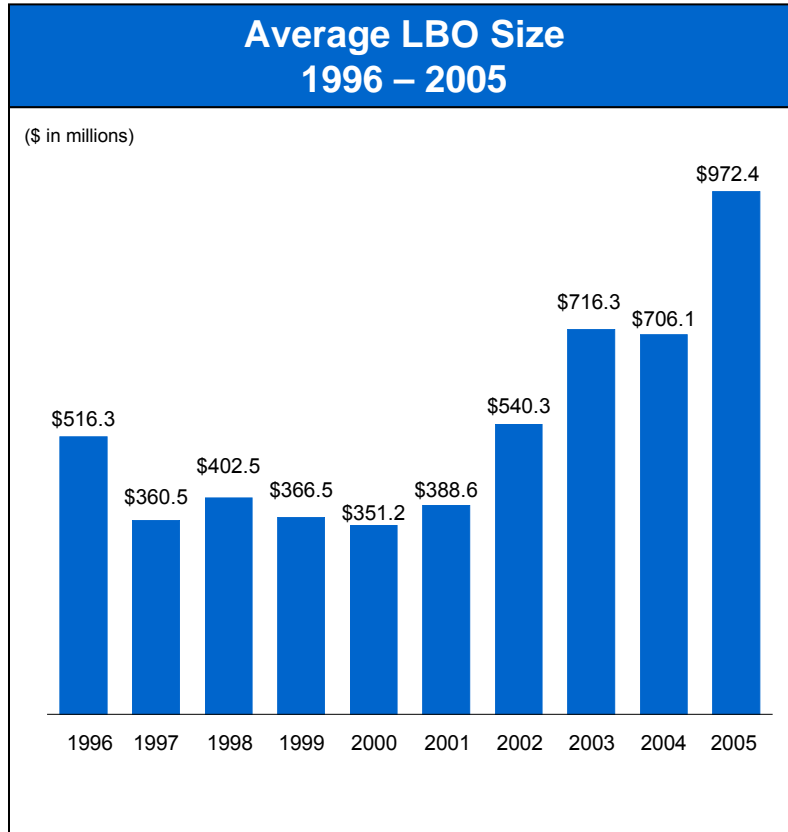


Source: Standard & Poor's.

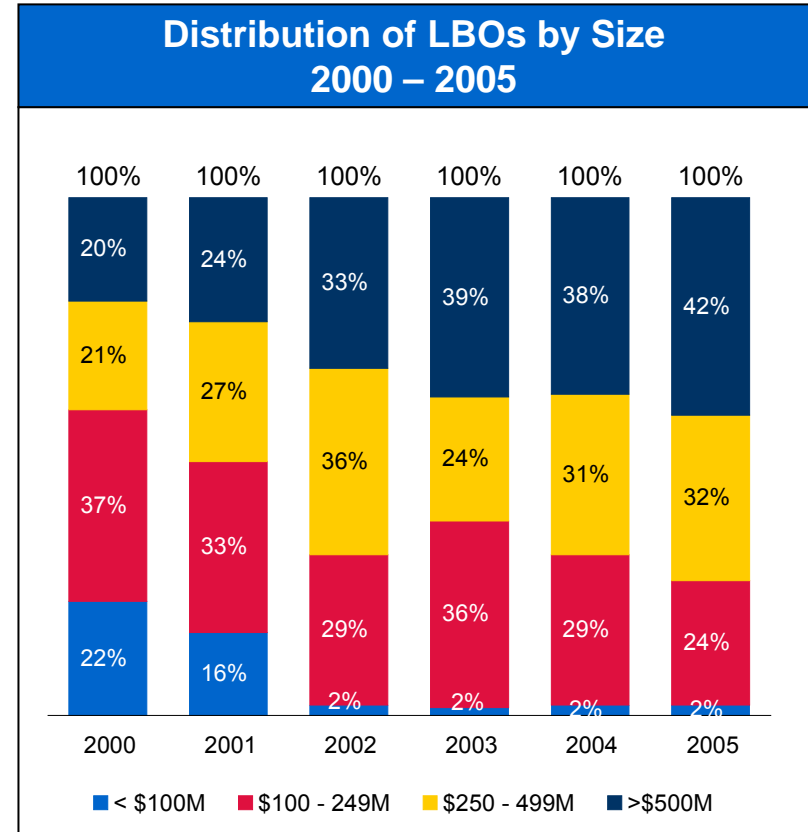
(1) Excludes fees/expenses.

A glut of private equity capital and competition from strategic buyers are driving valuation multiples

Deal Size Has Also Significantly Increased



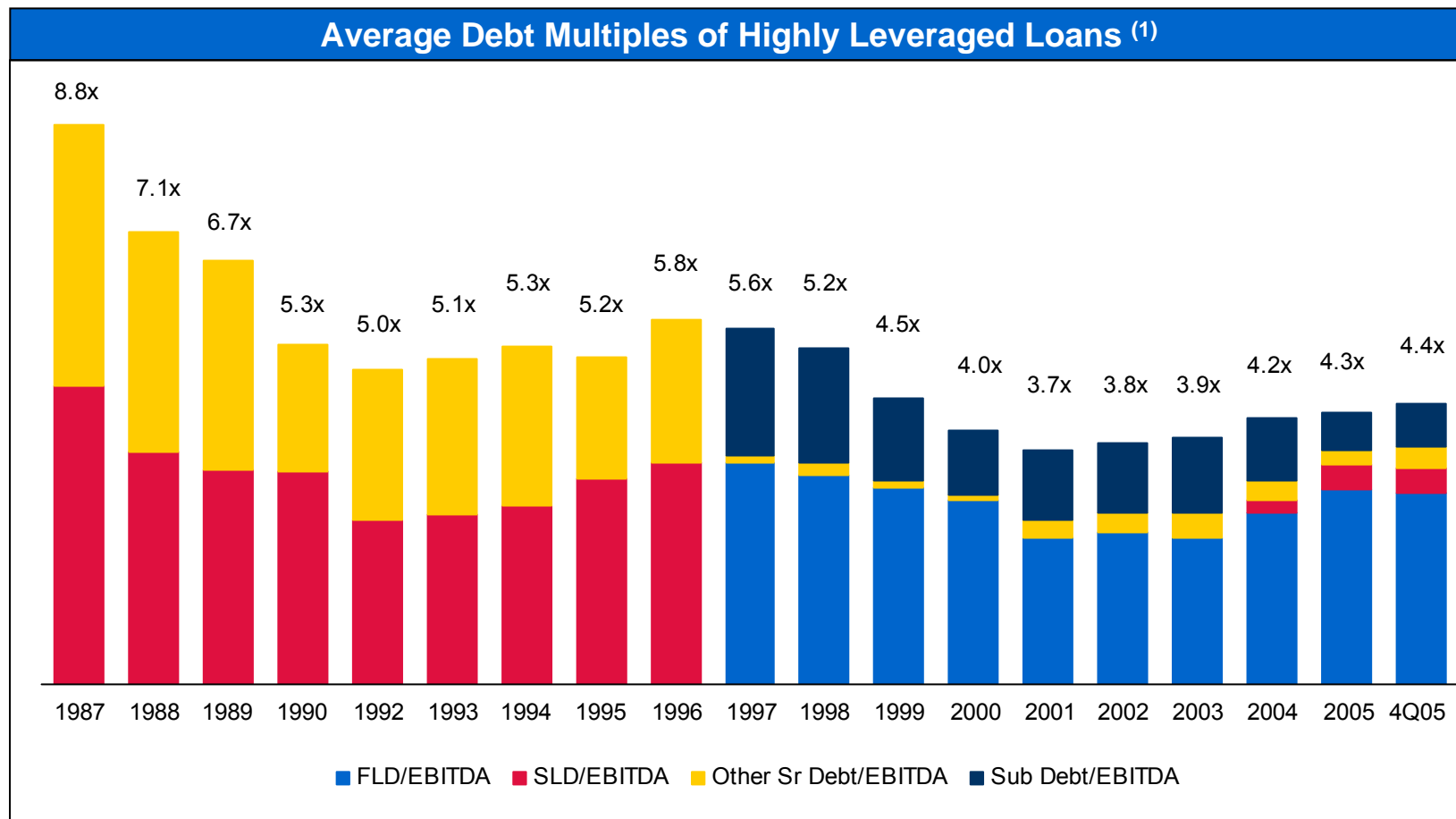
Source: Standard & Poor's Q4 2005 Leveraged Buyout Review.



Source: Standard & Poor's Q4 2005 Leveraged Buyout Review.

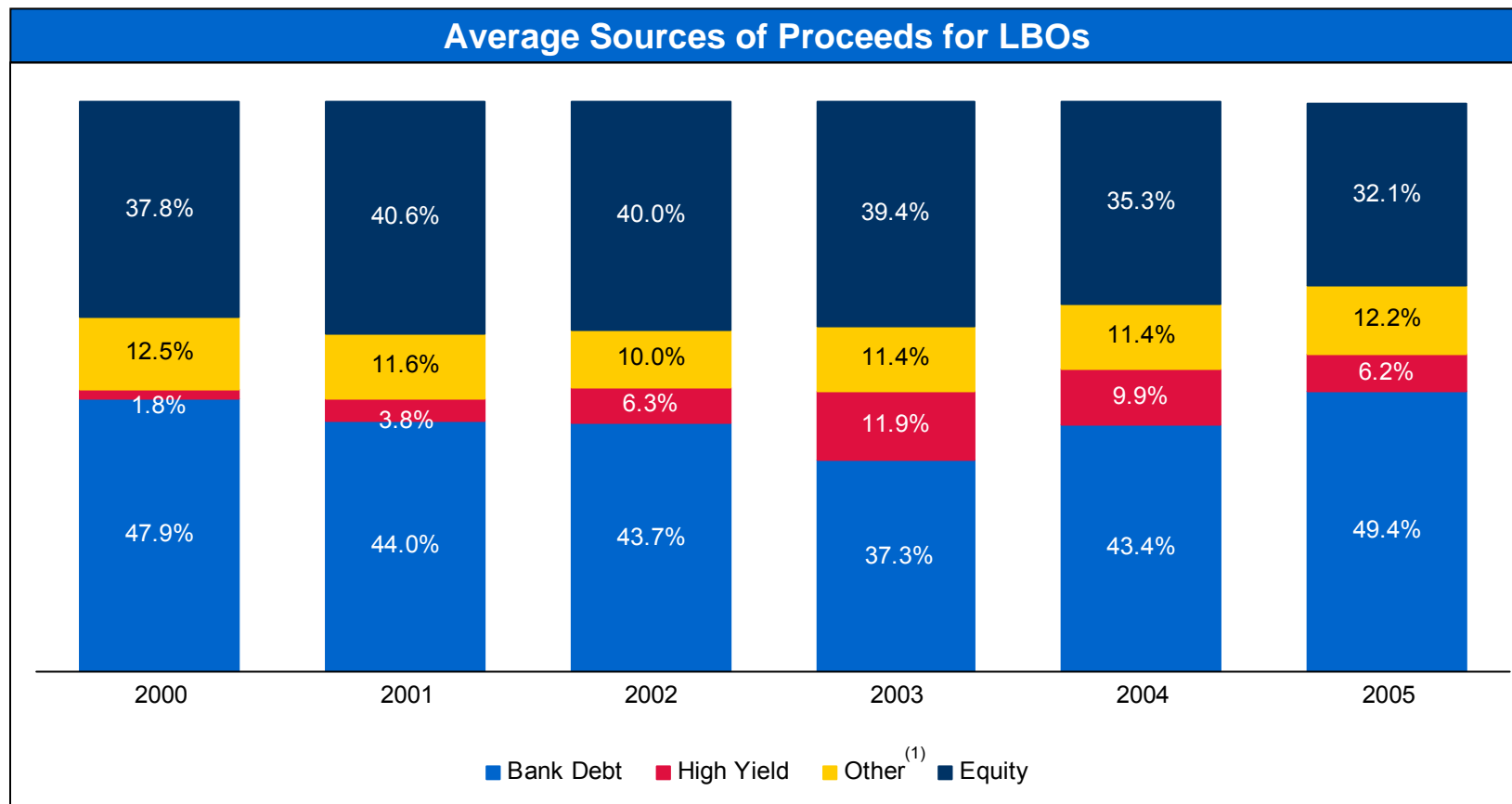
While historically predominantly a middle market phenomenon in mature sectors, LBOs are becoming commonplace in the every sector and size

Overall Leverage Multiples Remained Fairly Flat, But Senior Debt Multiples Rose in 2004 and 2005



¹ Defined by Standard & Poor's as LIBOR + 225 basis points and greater; media loans excluded. There were too few deals in 1991 to form a meaningful sample.

New Sources of Financing Have Complicated Balance Sheets, But Have Simplified the Financing of Buyouts

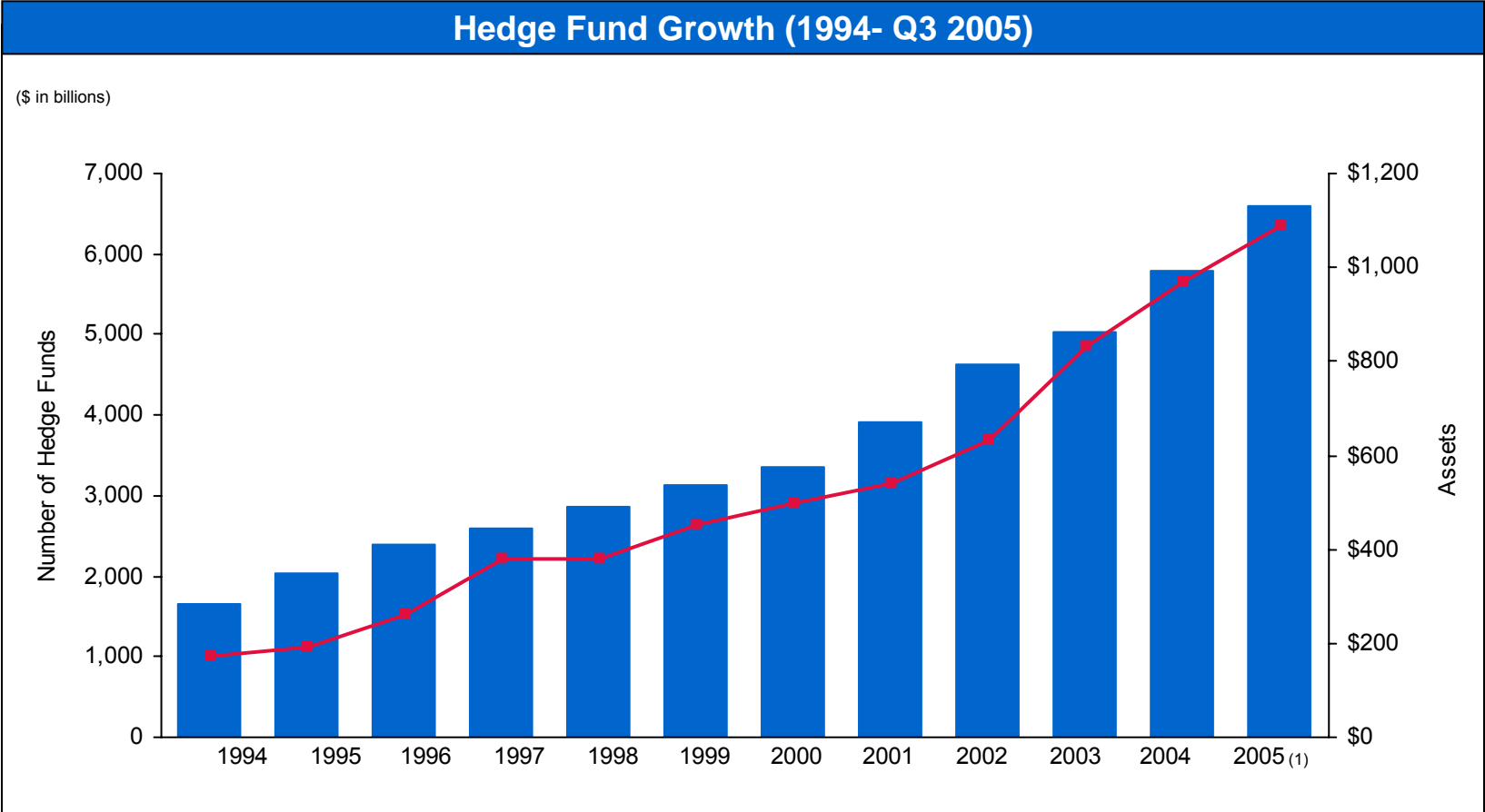


Source: Standard & Poor's Leveraged Buyout Review.
 (1) Other includes senior secured and unsecured debt, bridge loans, second lien, mezzanine and other.

Given the steady increase in available leverage, private equity firms have been able to reduce the amount of equity contributed to transactions

4. Hedge Funds

Hedge Fund Activity



Source: HFRI.
 (1) Data is YTD Q3 2005.

Hedge fund growth has been unrelenting over the past decade with assets now exceeding \$1 trillion

Hedge Funds vs. Mutual Funds vs. Private Equity

	HEDGE FUNDS	MUTUAL FUNDS	PRIVATE EQUITY FUNDS
Committed Capital / AuM	\$1 trillion	\$8 trillion ⁽²⁾	\$1.02 trillion (\$460 billion committed)
Estimated Leverage	1.5 or 2 to 1 ⁽¹⁾	None	2 or 3 to 1
Financing	Lines of Credit per Fund	None	Deal-by-Deal
Estimated Buying Power	\$2.5 – 3.5 trillion	\$8 trillion ⁽²⁾	\$3 – 4 trillion
Number of Funds	> 8,000	6,000 ⁽²⁾	~3,000
Largest Fund	Bridgewater Associates – \$17.7Bn	American Funds Growth Fund of America – \$117.1Bn	Blackstone Capital Partners V – \$12.5Bn
Return Requirement	Absolute (~15+% IRR)	Versus Benchmark	20 – 25% IRR
Fees	Based on AuM and performance (e.g., 2%/20%)	Based on AuM (e.g., 0.5-2.0%)	Based on AuM and performance (e.g., 2%/20%)
Carry Calculations	Once a year	N.A.	End of investment
(1)	CS estimates based on Hennessey Group LLC data; many funds employing arbitrage strategies have leverage of 4 to 1.		
(2)	Excludes close-end mutual funds.		
(3)	Largest actively managed mutual fund.		
	HEDGE FUNDS	MUTUAL FUNDS	PRIVATE EQUITY FUNDS
Long Stock Positions	Yes	Yes	Generally No
Short Stock Positions	Yes	No	No
Minority Stake / Board Positions	Yes	Generally No	Sometimes
Control Stakes	Yes, but not critical	No	Yes
Proxy Contests	Yes	Generally No	No
Hostiles	Yes	No	No
Due Diligence	Variable by fund and type of Investment	Moderate, based on public information	Typically extensive, including confidential information

Hedge Funds and Private Equity Funds have emerged as formidable agents of M&A

The Hedge Fund as Activist

Common Features of an Activist

- ▶ Relentless focus on capital allocation
- ▶ Acquisition of significant "toehold" positions, quickly and with stealth
- ▶ Use of derivatives and hedging to minimize economic exposure and increase leverage
- ▶ Sophisticated review of target's strengths and vulnerabilities
- ▶ Challenges to announced transactions
- ▶ Attempts to sway press, research analysts, ISS and other proxy voting organizations
- ▶ Willingness to pursue aggressive tactics
- ▶ Acquisition of entire company is often not ultimate goal
- ▶ Shareholder activism migrating to Europe

Why Activism Now

- ▶ Certain hedge funds have begun to focus on corporate activism due to:
 - Declining returns
 - Increased competition among funds to retain assets
 - Growing preference among fund of funds/investors for event-driven over arbitrage strategies
 - Larger funds need to take larger stakes and thus have a greater need to control the outcome
- ▶ Due to changes in the proxy solicitation rules, several hedge funds are able to act together to agitate for change, enabling them to focus on even larger companies
- ▶ Once one hedge fund or group is involved, others often follow their lead, further increasing pressure on management to pursue requested changes

What Activists Focus On

The funds are increasingly advocating for actions including:

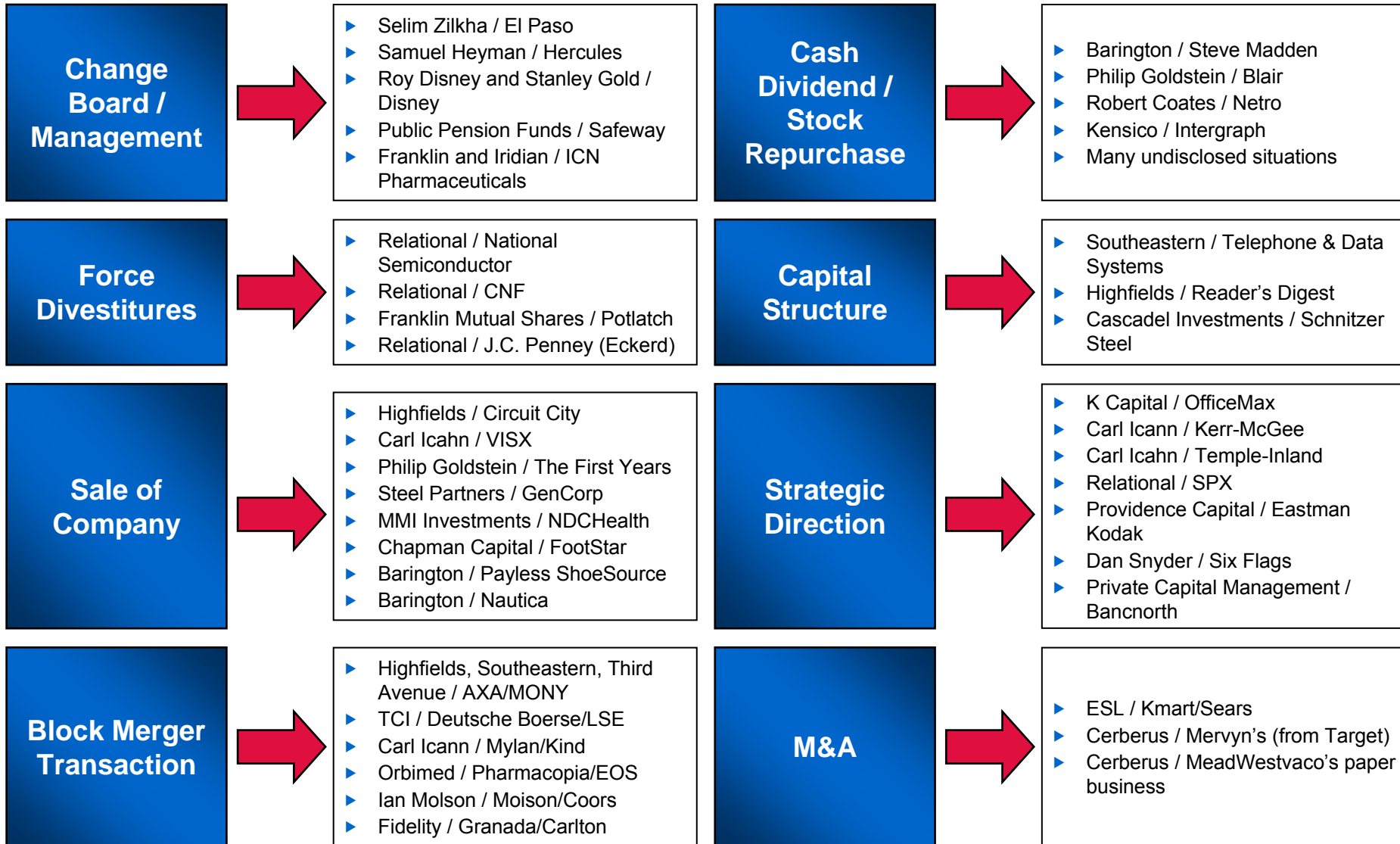
- ▶ Significant share buybacks or an extraordinary dividend
- ▶ Sale or spin-off of an underperforming or non-strategic business
- ▶ Corporate governance changes including change in management and Board seats
- ▶ Sale of target company to them or the highest bidder

Factors attracting hedge funds include:

- ▶ Large cash balances
- ▶ Actual or perceived inefficient use of capital
- ▶ Undervaluation (absolute, relative to comparables/indices)
- ▶ Board and/or management weakness

By focusing the market's attention on undervalued public companies, the ultimate payoff to the hedge fund agitator can be significant

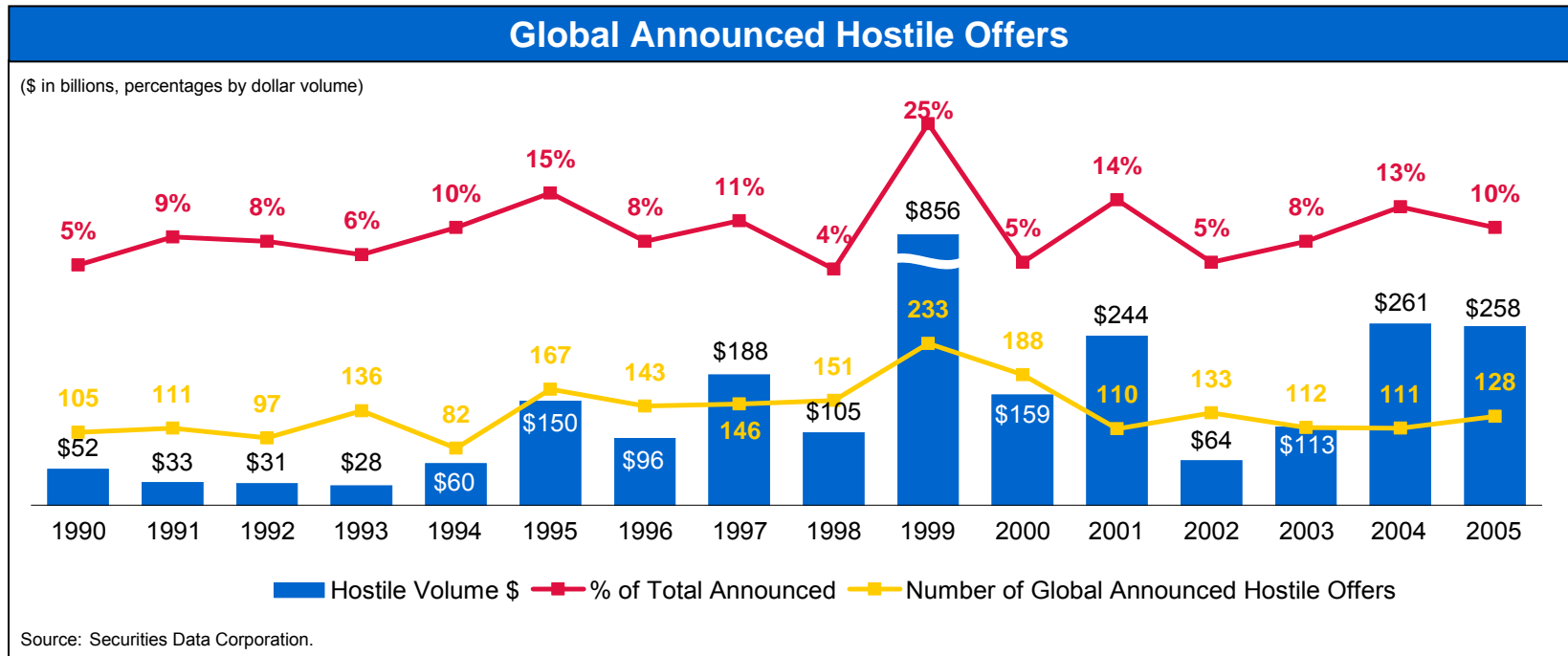
Summary of Shareholder Activism



5. Tactical Considerations:

- Hostile Activity
- Club Deals and Staple Financing
- Developments in the Regulatory Environment

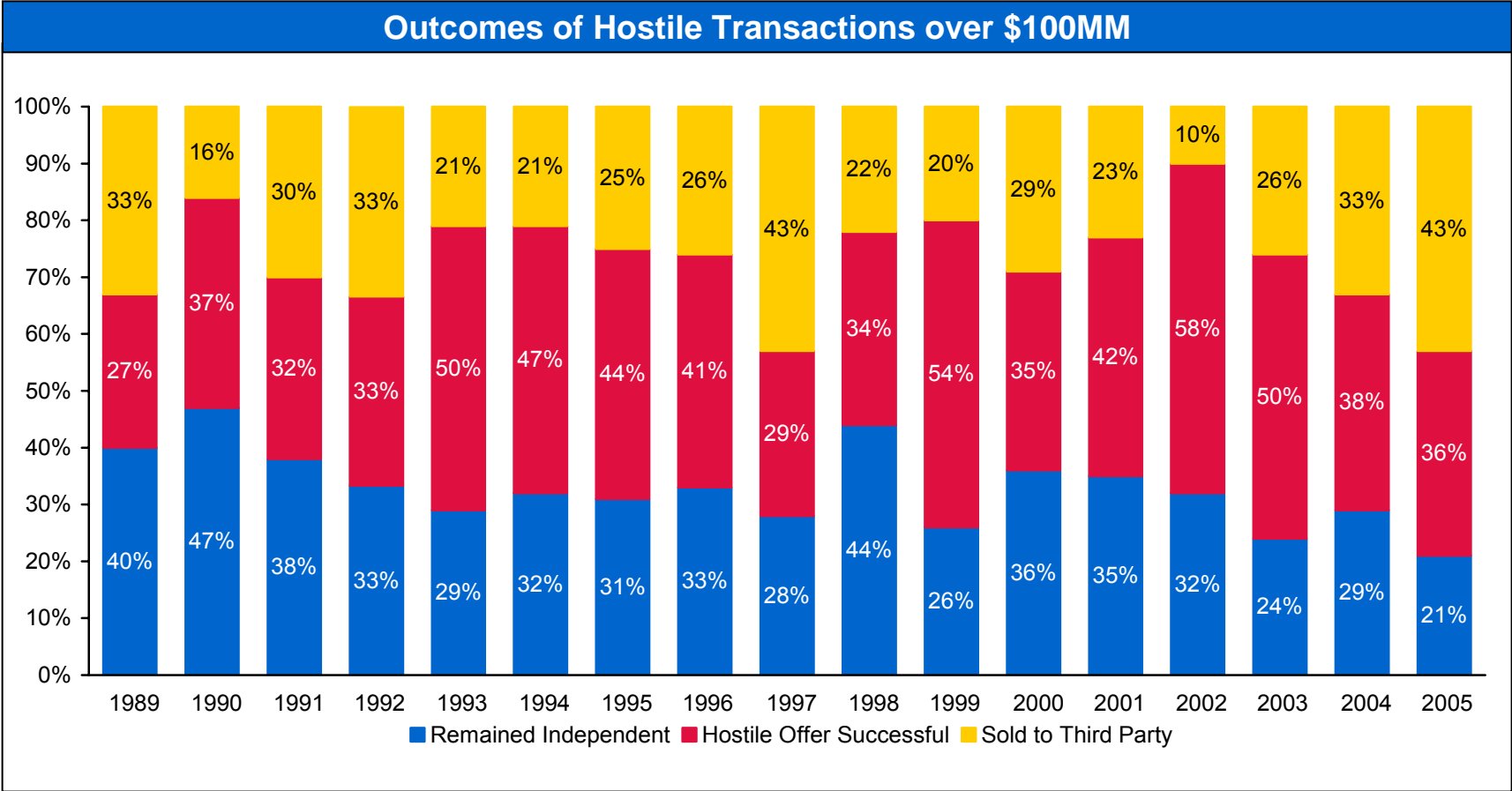
Hostile Activity in Historical Context



M&A Backdrop

1990 – 1994	1995 – 2000	2001 – Present
<ul style="list-style-type: none"> ▶ Followed prolonged 80s expansion ▶ Activity dampened by recession and corporate bankruptcies ▶ Acquisition financing was difficult to obtain given pervasive corporate defaults 	<ul style="list-style-type: none"> ▶ Expanded activity driven by globalization and technological developments ▶ Significant deal volume in the telecom / media / technology space ▶ As market valuations rose, the incidence of stock as merger consideration also increased 	<ul style="list-style-type: none"> ▶ Broad market correction and economic slowdown in '01/'02 led to a decline in M&A activity ▶ Midway through the decade, strategic M&A activity has recovered and become more prominent, as CEO confidence has improved ▶ Financial sponsors are participating in the M&A market in a meaningful way

Most Unsolicited Bids Lead to a Loss of Independence





























Note: Transactions more than \$100 million resolved through 12/31/05.

Private Equity Firms Have Increasingly Partnered In Large Transactions to Share Risk and Deploy Equity Capital

Club Deal Considerations

- ▲ Increase aggregate bid price and diversify risk
- ▲ Bolster debt financing - selling high-yield bonds and syndicating bank loans is often facilitated when several large, well-known sponsors attach their names to a deal
- ▲ Better able to deal with shocks to debt markets
- ▲ Enhance and supplement expertise in specific sector focus areas
- ▼ May dampen competition - when and how do you allow firms to partner?
- ▼ Multiple party consideration effort involving diligence, negotiations, etc.
- ▼ Equity commitments from sponsor and impact on limited partners
- ▼ Governance and lead positions amongst partners
- ▼ Tension between information sharing and confidentiality obligations

Selected Examples

Target	Date	Transaction Value	Consortium
	9/13/05	\$15	  
SUNGARD	3/28/05	\$11	      
	3/17/05	\$7	  
	8/15/05	\$3	  
	5/19/05	\$2	     

Stapled Finance Remains An Important Tool For Target Companies Trying To Obtain the Highest Possible Price

	Pros	Cons
Seller Perspective	<ul style="list-style-type: none"> ▲ Seamless with sale process; expedites diligence process – credit / financing diligence during sale process ▲ Enhances certainty around buyer’s ability to secure financing – eliminates financing as a buyer’s bargaining tool ▲ Provides credible benchmark for financeability of business and insight into financing market ▲ Limits risk of unwanted leakage of confidential information to market and to Rating Agencies 	<ul style="list-style-type: none"> ▼ Potential conflicts of interest perceived to be present at the seller’s investment bank due to dual sell-side advisory and financing roles ▼ Potential for any negative valuation messages ▼ Cost and time commitment of seller, including possible need to obtain indicative ratings
Buyer Perspective	<ul style="list-style-type: none"> ▲ Accelerates process and frees resources ▲ Provides a level of certainty around ultimate financing for the deal from early stages <ul style="list-style-type: none"> – Financing commitment ready prior to second round, with indicative financing levels available before first round ▲ May lead other financing sources to compete more aggressively than they otherwise would 	

Despite concerns regarding conflicts of interest, stapled finance remains an important tool for companies trying to obtain the highest possible price for a business being sold

Developments in Regulatory Environment

“Spitzer Legacy”

- ▶ Research more careful and conservative
- ▶ More balanced coverage may result in greater credibility
- ▶ Cutbacks in number of analysts
- ▶ Gravitation towards the largest, most liquid companies
- ▶ Certain IPO candidates will struggle to get attention

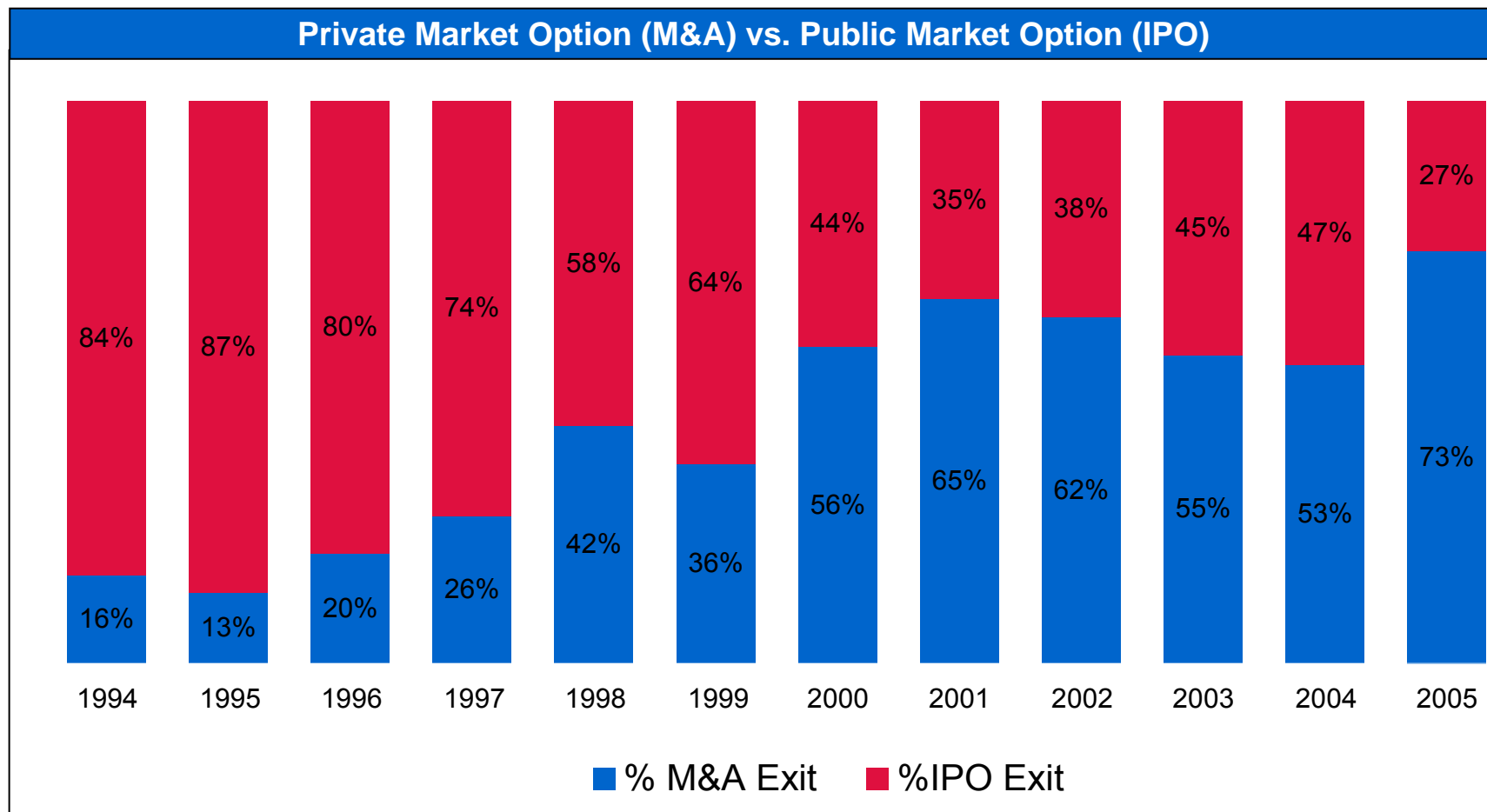
Sarbanes-Oxley

- ▶ Management teams are held accountable for financial results
- ▶ Greater transparency in company operations
- ▶ Increased operating costs
- ▶ Distracts management from running the business

Best Price Rule Clarification

- ▶ SEC proposed clarification of tender offer “Best Price Rule”
- ▶ Applies only to the consideration paid for securities tendered in an offer by an issuer or third party tender
 - Does not apply to employment compensation, severance or other employee benefit arrangements entered into with the target’s directors / employees
 - Makes clear that there is no time restriction on its application
 - Provides specific safe harbor for compensatory arrangements approved by the bidder / target independent compensation committee
- ▶ Proposed clarification amendments should facilitate the use of tender offers as acquisition tools

Impact of Spitzer Reforms and SOX Legislation Has Increased The Hurdle for IPOs, Causing M&A to be the Preferred Exit for Private Companies



Source: Securities Data Company as of September 30, 2005. 2005 figures annualized.

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