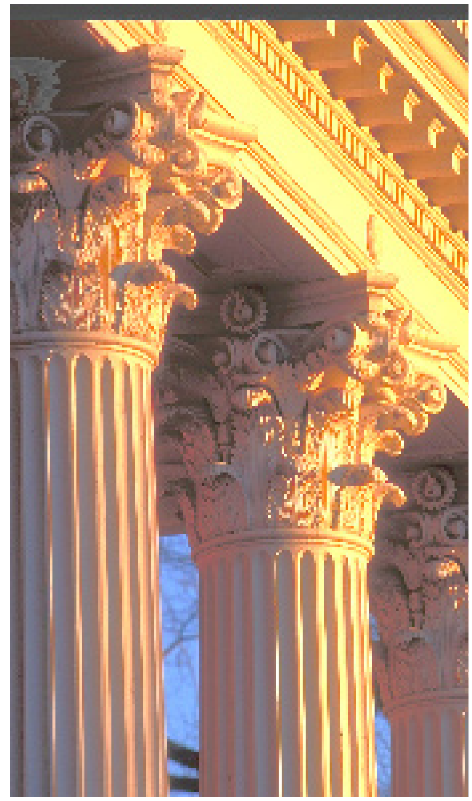
Todd D. Peter, Evarts Capital

M&A Forecast – Partly Sunny Today, Mixture of Sun and Clouds for Next 3 Years

Timing Issues in Selling A Company – 2010-2012



In 2005 we admonished private owners (correctly we might add!) to "Catch the Wave" and sell in the 2005-2007 period. We admit no prediction of the calamity that followed in 2008-2009, but feel it appropriate to update on views on the M&A market for mid market private companies in the coming 2-3 years.

Unlike 2005, the picture is much more complex and subtle and we are counseling owners that capturing the trophy deal will take a close eye on the weather. The most distinctive characteristic of the deal market is a remarkable study in contrasts between clouds and sunshine. Carefully selecting the right time and approach to the market is critically important to a wonderful outing and avoiding lingering thunderstorms.

Deal Market Forecast – If You Can......
.....Grab the Good Weather Today

Demand for good deals greatly exceeds today's supply

Supply of equity capital is enormous

Economy is showing solid rebound and near term strength

Companies showing strong performance are in a good position to sell now.

EVARTS CAPITAL
Private Investment Banking

Todd Peter is a partner of Evarts Capital, a Cleveland based investment bank serving lower mid market companies.

Again as in our earlier guidance we focus on 4 critical factors that drive valuations and pricing of transactions in any market and the implications of these on the next few years. We summarize the four drivers of "timing" in this executive summary and will expand on each point over the next weeks.

The characteristics of the supply and demand for business acquisitions.
The supply and cost of capital to support those acquisitions.
The overall state of the economy from a macro economic perspective.
Specific company performance related variables.

Deal Supply & Demand

Today the demand for good deals exceeds the supply. A critical recognition is the definition of a good deal – one that traversed the recession with reasonable or better performance or has fully recovered and is not subject to a bank workout, forbearance or other distress. In the short term, private equity firms, flush with cash are extraordinarily hungry for deals. Supply has been restricted as performance in general is down and exits have been postponed by owners of all sorts. In the next 2-3 years, improved company performance PLUS the boomer demographics PLUS the maturing of the 2005/6/7 vintage PE portfolios, will all combine to dramatically increase the supply of deals. The net result is that supply/demand balance in favor of sellers today will shift to the buyers over the next three years.

Capital Supply

Today the supply of equity capital in PE funds and cash in corporate balance sheets is enormous and with economic stability improving it is ready to be deployed. This huge overhang will likely decline as new LP fund raising is difficult and corporations resume a normal level of capital/longterm investment. Debt capital, especially from banks for small mid market deals remains challenged. Bank balance sheets and thus lending appetites are slowly repairing and will gradually improve over the next 2-3 years. The net result is an overall offset, resulting in a stable capital supply where the aggregate capital to support deals will shift in mix, but in total remain stable.

Economy

The year 2010 is showing considerable rebound and strength especially across the industrial Midwest and South. Concerns continue especially from the banking sector and huge governmental deficits from systemic factors and lingering poor tax receipts from the great recession. Positive worldwide growth particularly in India and China offset uncertainty in US domestic consumption patterns. Despite the prognostications of many a doom purveyor, economic growth appears likely to perk upward in a gradual and moderate fashion, but remain tempered as long term government deficit issues require tough and non-simulative actions.

Company

The greatest determinant of company value has always been and will continue to be tied to that company's financial performance and strategic profile. Sellers expecting strong interest and pricing will have weathered the great recession with good performance or have a clearly demonstrated return from the trough.

Summary

If your company performance is back on track, or never fell of track, it is a FALLACY that the "time to sell " will clearly improve over the next few years and that you should kick the process out a few years.

Conditions today (for all the reasons discussed above) are likely to be as favorable to sellers as we can expect for the next 2-3 years.

Sellers looking to come to market should carefully gauge the availability of capital for THEIR deal and seek to establish deal processes that focus attention with key buyers.

The current market requires specific deal by deal eavaluation.

Contact Todd D. Peter or G. William Evarts
Evarts Capital 20600 Chagrin Blvd. #495
Cleveland OH 44122 216-991-1201