

Market volatility means opportunity for patient strategic buyers.

Tighter Credit

Since the onset of the turmoil in the credit markets, cash flow lending has tightened significantly. The deterioration in the markets has been rapid and unprecedented. According to Standard & Poor's LCD, the average debt/EBITDA multiple for highly leveraged loans has dropped substantially in recent months from a ten-year peak of 5.3x during 2007 to a current ten-year low of 3.8x. Multiples have continued their decline as many financial institutions have found themselves burdened by problems with subprime mortgages and mortgage backed securities, which has restricted their desire, and ability, to extend credit to businesses.

Declining Valuations

With the volatility in the capital markets and the scarcity of acquisition financing, transaction multiples have shown a broad decline. This decline has been most pronounced in the lower middle market (transactions with Enterprise Value less than \$100m), as median EV / EBITDA multiples have decreased by approximately two full turns. Transaction volumes are also down year over year by over 15%.

Opportunity?

Private Equity firms are primarily observers in the current M&A market. Because of the leverage they require to finance transactions, they have effectively been shut out of the market. As a result, strategic acquirers with healthy operations and strong balance sheets could be in position to find good buying opportunities in the near term. Additionally, the decline in demand for target companies has helped drive down valuation multiples, making acquisitions more feasible for many potential acquirers and presenting

opportunities for attractive ROI over the long term. It will be critical for strategic buyers to assess their own balance sheets and financial strength in order to be properly prepared when the right opportunity presents itself.

