

# M&A REVIEW



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## IMAP Ranks No. 4 in Global Middle Market M&A for 2007

Core Capital Group has been an active member/partner in the International Network of M&A Partners (IMAP) since 2003. IMAP is an exclusive global organization of leading Merger & Acquisition Advisory firms. Formed in 1973, IMAP is comprised of 57 firms with 101 offices in 40 countries including North and South America, Eastern and Western Europe, Australia, and Asia.

IMAP ranked No. 4 among the global middle market advisory organizations for 2007 according to the recently-released Thomson Financial League tables. Thomson (NYSE: TOC) is a leading provider of information-based services to the global business community. Results for 2007 show IMAP ranked 4th for worldwide deals with a value of up to \$50 million (based on volume of completed transactions). IMAP was listed 6th for completed transactions of up to \$100 million worldwide. IMAP ranked No. 6 in Europe, No. 7 in the U.S., No. 6 in Eastern Europe, No. 9 in Hinchina and No. 1 in the Nordic region for completed transactions up to \$100 million.

IMAP recently published its pricing survey results for transactions completed by IMAP partner firms in the NAFTA region for 2007.

Category	Transactions Completed	Median EBIT Multiple
Non-Proprietary Mfg.	13	6.1
Proprietary Consumer Mfg.	10	7.1
Proprietary Industrial Mfg.	11	5.1
Technology, Non-Proprietary Mfg.	2	6.5
Technology, Proprietary Mfg.	12	4.8
IT Services	7	6.3
Non-IT Services	18	6.9

## Government Spending in 2009 & Beyond

We at Core Capital Group have no better crystal ball than those issued to other concerned citizens, but we've given thought to the manner in which federal spending and contracting might change, depending on whether a McCain or Obama presidency is elected.

We foresee little change from "business as usual" in a McCain presidency, in that a Democratic Congress and Republican President will likely produce a degree of gridlock that will keep major initiatives from being enacted. However, some controls on discretionary spending necessitated by previous deficits and tax revenue shortfalls will likely reduce some Federal Government *(Cont. Col 2)*

## Government Spending in 2009 & Beyond

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technology deployments badly needed by several agencies. If McCain were able to trade-off some of the tax cuts scheduled to expire in 2010 for a lower corporate tax rate, companies would have more resources available for M&A activity, thereby boosting their acquisition of strategically valuable businesses.

An Obama presidency is likely to bring about a reduction in spending for major weapons systems, already at an historical low point, with any excess funds underwriting "green" technologies, healthcare services, training benefits, and federal employment. To the extent that protectionist legislation is put into law, companies with a heavy international exposure—either buying from or selling to—will be impacted.

Neither an Obama nor a McCain presidency is likely to lead to restoring the value of the dollar, which will continue to make US companies attractive acquisition targets for European and east Asian companies. Either would lead to continued support for companies with distinctive capabilities in information technology, especially for healthcare and anti-terrorism intelligence. It will not be a good time for companies offering commoditized services or products.

## Why Retain an M&A Intermediary?

We're often asked by potential sellers of middle market companies why they should consider engaging an intermediary to assist them in selling their business rather than just handle the sale themselves. There are many valid reasons to engage an intermediary but here are just a few that we offer potential clients for their consideration:

- An intermediary can conduct a competitive, yet controlled, auction process for your business. Competition always produces the best value.
- Use of an intermediary allows the company's management team to stay focused on running the business during the process.
- Knowledgeable and experienced buyers prefer to deal with an experienced intermediary on the other side of the transaction. Intermediaries ensure reasonable valuation expectations, expedite the flow of information and help get the deal done faster.
- Qualified intermediaries know how to present your company to the market in the manner that will attract the most truly qualified buyers—not the "tire kickers".
- There is an old adage that goes "you can name the price if I can name the terms". A qualified intermediary will ensure that you don't find yourself in that situation.
- The intermediary will stand between you and the potential buyer helping to ensure that emotion does not sour the process. Remember, you may well have some form of employment contract with the buyer post closing—the intermediary won't. *(Cont. pg 2)*



## Why Retain an M&A Intermediary?

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- A qualified intermediary will manage the due diligence process to achieve a speedy closing and protect the agreed-to purchase price to the maximum degree possible. Once the Letter of Intent is signed time becomes your enemy until the deal is closed.
- A qualified intermediary will be able to provide you with independent, knowledgeable and unemotional advice as to the current market value of your company.

## Q1 2008 M&A Results—What We Can Expect Going Forward?

Middle-market deal volume decreased 28% in Q1 2008 versus Q1 2007, as the impact of the global credit crisis worked its way down to middle-market deal financing. Leverage multiples for middle-market deals decreased from 4.4x in 2007 to 3.8x in Q1 2008. This decline in debt financing has had a negative impact on valuation for middle-market businesses in recent transactions although buyers, both strategic and financial, remain interested in acquiring quality middle-market businesses. For example, companies in the Federal contractor marketplace with no material small-business preference contracts are being actively sought after by many buyers and are still commanding premium prices. Transaction values as high as 10 to 14 times EBITDA are being reported in many such transactions.

We are seeing buyers of middle-market companies aggressively seeking to mitigate risk through structured transactions, reduced valuations and much more extensive due diligence while private equity firms are often delaying the sale of select portfolio companies in hopes of exiting investments during improved market conditions. Both total value of transactions and deal activity dropped to 15-month lows in the US M&A market in March. From Q1 2007 to Q1 2008 it's reported that total spending slid from \$306 billion to \$180 billion and the number of deal announcements fell from 2,951 to 2,104 -- the third consecutive quarterly decline in aggregate deal value and the fourth consecutive quarterly decline in deal volume. For comparable trailing 12-month periods ending March 31, 2008 and March 31, 2007, deal activity in the US was down 15% and aggregate M&A spending was off by 12%. Foreign investors, both strategic and financial, continue to show strong interest in purchasing firms driven heavily by the continued weakness in the US dollar.

So what can we expect going forward in 2008? We believe that restricted credit markets will continue to have an impact on both volume and multiples in the middle-market M&A although middle-market deals will continue to be completed as financial buyers look to put the large amounts of capital raised in previous years to work and strategic buyers look to capitalize on attractive valuations. In the government contractor market, slowing growth in government spending will make organic growth more difficult to achieve which would suggest that strategic buyers, particularly those that are publicly traded, will continue to be aggressive in the M&A marketplace as the following statistics on government contractor M&A transactions indicate.

Period	<\$50M	\$50m-\$100M	>\$100M	Total Deals
YTD 2008	17	7	7	31
2007	23	6	5	34

## Recent Transactions

**Carlyle Group [DC] agreed to acquire majority stake in US Government Business of Booz Allen Hamilton, Inc. [VA]** Carlyle Group [DC] agreed to acquire majority stake in US Government Business of Booz Allen Hamilton, Inc. [VA]. Booz Allen Hamilton, Inc., US Government Business provides management consulting, engineering, information technology, and systems development and integration services supporting mission-critical programs for the US government.

**Accenture Ltd [Bermuda] acquires Origin Digital Inc [NJ]** Accenture Ltd (New York:ACN), which provides technology, management consulting and business process outsourcing services, agreed to acquire Origin Digital Inc, a developer of scalable and secure network-based video application solutions and software.

**Hewlett-Packard Co [CA] acquires Electronic Data Systems Corp [TX]** Hewlett-Packard Co (New York:HPQ), which manufactures computers, electronic testing and measuring equipment, medical electronic equipment, calculators and other personal information products, and solid state components and instrumentation for chemical analysis, definitively agreed to acquire all the outstanding common stock of Electronic Data Systems Corp (New York:EDS), a provider of information technology services, for USD 25 in cash per share, or a total value of USD 12.6bn.

**Embarcadero Technologies Inc [CA] acquires CodeGear [CA]** Embarcadero Technologies Inc, developer of database software, definitively agreed to acquire CodeGear, a developer of software, from Borland Software Corp, for an estimated USD 23.0mn.

**Stanley, Inc. acquired Oberon Associates, Inc.** for \$170mn.

**General Dynamics Corporation acquired HLTH Corporation (ViPS, Inc. subsidiary)** for \$225mn.

**Ultra Electronics Holdings plc acquired ProLogic, Inc.** for \$50 mn.

**Finmeccanica SpA acquired DRS Technologies** for \$5.2 bn.

**SRA International acquired ERA Corporation** for an undisclosed price.

**Lockheed Martin Corporation acquired Eagle Group International** for an undisclosed price.

**Raytheon Corporation acquired SI Government Solutions** for an undisclosed price.

**Barracuda Networks Inc [CA] acquires Sourcefire Inc [MD]** Barracuda Networks Inc, manufacturer of email and Web security appliances, planned to acquire all the outstanding common stock of Sourcefire Inc (Nasdaq:FIRE), a developer of real-time network security software, for USD 7.5 in cash per share, or a total value of USD 187.4mn.

*Source of data in M&A Review: Capital IQ & IMAP*

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