

**"Winning Business Strategies"
Webinar Series**



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**"Winning Business Strategies"
Webinar Series**



**Sources of Financing/Capital
to Fund a Growing Business**

Presented by:
Cliff Bishop & John Glankler



Join as Cliff and John discuss the improving debt and equity markets and the sources of capital that are available for growing businesses.

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Strategic Buyer M&A Trends

- In 2010, strategic M&A activity increased 11.0% by value, and was relatively flat in number compared to 2009
 - By contrast, in 2009, strategic M&A deal activity declined 35% by value, and 15.2% by number compared to 2008
- The uptick in strategic M&A activity was driven by companies eager to demonstrate growth in an economic environment where organic growth has been particularly difficult to achieve
- Corporates are gaining confidence in the economy and are more willing to deploy the cash they have been accumulating, marking a shift from the conservatism that defined 2009
 - In 2010, non-financial companies had more cash on their balance sheets than at any time on record



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Total Loan Volume Soared in the 4th Quarter, Though M&A Loan Volume Struggled

- Total loan volume rose to a 3-year high in the fourth quarter to \$70 billion, up from \$27 billion in the last quarter of 2009
- Refinancings and dividends led the growth, with dividends setting a record by accounting for 16% of total issuance in 2010
- M&A loan volume increased significantly in 2010 but still meaningfully lags historical averages

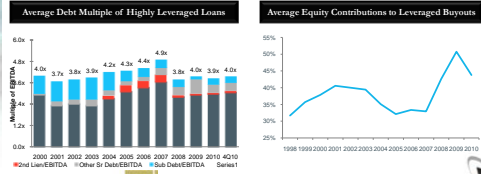


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And Credit Statistics Remain Very Conservative

- Credit quality, measured by leverage multiple or equity contribution into LBOs, remains very conservative by historical standards
- Senior debt to EBITDA is now in the 3.0x range, with total leverage on average at 4.0x for middle market borrowers
 - With new CLO formation stagnant, companies have increased the use of mezzanine debt to fill out capital structures
- Bank credit spreads decreased significantly during 2010, but are still high by historical standards
- Though total LBO volume increased significantly from 2009's record low of \$13 billion, the amount of equity required to support new LBO's remained almost as high as 2009's level of 46%, the highest level on record



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... And U.S. Corporate Liquidity Should Create M&A Activity

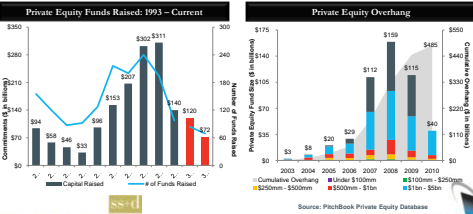
- Balance sheet strength and debt service management became a critical focus across all industries during the recession, but top-line organic growth remains largely anemic and input cost pressures are tightening margins, leading companies to shift that focus toward acquisition to increase profitability

| Measures of Corporate Liquidity | | | | | |
|---------------------------------|-------------------|---------------|----------------------|-------------|--------------------|
| Industry | Total Debt/EBITDA | Current Ratio | EBITDA/Interest Exp. | Debt/Equity | Debt/Total Capital |
| Consumer - Discretionary | 2.4x | 1.2x | 2.5x | 93.0% | 45.8% |
| Consumer - Staples | 2.3x | 1.2x | 8.6x | 76.5% | 41.7% |
| Energy | 2.1x | 1.4x | 4.0x | 65.3% | 38.0% |
| Financial Services | 3.0x | 2.1x | 4.6x | 130.2% | 54.1% |
| Healthcare | 1.0x | 2.1x | 15.4x | 23.9% | 18.7% |
| Industrials | 4.2x | 1.1x | 4.0x | 128.0% | 51.4% |
| Information Technology | 1.2x | 1.2x | 1.6x | 54.7% | 41.4% |
| Materials | 2.8x | 1.2x | 7.7x | 78.7% | 41.7% |
| Telecommunications | 1.3x | 0.7x | 10.5x | 78.1% | 41.2% |
| Utilities | 3.3x | 1.3x | 6.6x | 101.0% | 47.9% |



... As Should Private Equity Funds With So Much Dry Powder

- Private equity fund raising has slowed but the market still has plenty of "dry powder"
 - In 2010, the fund raising environment was less favorable than in previous years, with 97 funds raising \$140 billion (\$311 billion raised by 194 funds in 2008)
 - Through 3Q 2010, 69 funds raised \$72 billion compared to 84 funds having raised \$120 billion through 3Q 2009
- Private equity firms still have an estimated \$485 billion in uninvested private equity capital



The World Really Has Changed...

Sources of Capital

- **Senior Debt**
 - Traditional Bank: 4-7%
 - Finance Companies/Specialty Lenders: 6-11%
- **Mezzanine/Subordinated Debt:** 12-18%
- **Equity:** 18%+



