

**"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.

Presenters:



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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

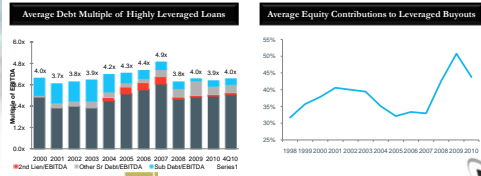


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And Credit Statistics Remain Very Conservative

- 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

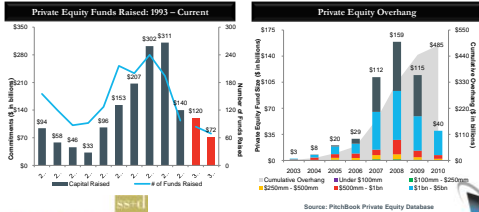
- Balance sheet strength and debt service management became a critical focus across all industries during the recession, but top-line organic growth remains largely anemic and input cost pressures are tightening margins, leading companies to shift that focus toward acquisition to increase profitability

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%+



Due Diligence

- Due Diligence is INCREASINGLY important



Key Issues to Consider

- **Cost of Capital**
- **Availability**
 - What is the cost of not having sufficient capital to run your business/lost opportunities?
- **Covenants/Restrictions/Controls**
- **Compatibility/Philosophy**



Thank You for Your Participation in today's webinar:
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