



Ohio Dealmakers Expect Strategic Investing To Lead Pickup in M&A Activity in 2010

ACG-Thomson Reuters Year-End 2009 DealMakers Survey Reveals Obstacles and Opportunities for M&A and Private Equity Investing

CINCINNATI, December 8, 2009 – Merger professionals from Ohio say the current M&A environment remains moribund, yet express guarded optimism about a pickup in the first half of 2010, with strategic investors leading the way.

The latest twice-yearly survey by the Association for Corporate Growth (ACG) and Thomson Reuters reveals that negative sentiment about the deal making environment has not changed during the last year, with 94% of dealmakers from Ohio saying the current M&A environment is fair or poor.

Over the next six months, however, 79% of dealmakers from Ohio expect an increase in merger activity.

The ACG-Thomson Reuters Year-End 2009 DealMakers Survey polled investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in October and November 2009.

85% of survey respondents identified the current environment as a buyer's market. 83% of respondents said the current market favors strategic investors. And 94% of respondents expect strategic investments to accelerate in 2010. 52% of respondents are actively pursuing distressed and undervalued companies.

Dealmakers expect the following percentage of M&A deals to be distressed in the first half of 2010:

- 0-10% (4%)
- 11-25% (29%)
- 26-50% (53%)
- More than 50% (13%)

“To say the last eighteen months have been interesting is to state the obvious” said Tom Anthony, President of ACG Cincinnati, and Corporate Attorney with Frost Brown Todd LLC “but there is some cautious optimism out there depending upon who you are talking with. The numbers from this survey are not surprising, especially the types of deals that are being sought.”

While the credit crunch has decreased in importance as the biggest obstacle to M&A activity (35%), the gap between the prices at which companies are willing to sell and the prices that buyers are willing to pay has been rising in importance (26%).

Although average middle-market EBITDA levels have fallen to 8.4 today from a high of 10.1 in 2007, dealmakers are still looking for bargains. In fact, 87% expect to pay no more than 5x EBITDA for companies over the next six months.

Ohio dealmakers expect the following sectors to experience the most merger activity in the first half of 2010:

- Manufacturing and distribution (35%)
- Healthcare/life sciences (20%)
- Business services (15%)

They expect the following sectors to experience the most organic growth:

- Healthcare/life sciences (31%)
- Government-related (18%)
- Technology (16%)

According to Thomson Reuters, the volume of all worldwide mergers and acquisitions totaled \$1.8 trillion in announced deals through November 30, 2009, a decrease of 33% over the comparable period in 2008. Of this total, M&A deals in the mid-market, defined by Thomson Reuters as transactions under \$500 million, fell 31% from the 2008 level, totaling \$461.9 billion.

Through November 30, 2009, strategic M&A activity totaled \$1.7 trillion, a 32% decline from the comparable period in 2008. Overall, strategic merger activity accounts for 94% of total announced M&A this year, the highest percentage since 2001.

Dealmakers See Improved Debt Markets, But Plan on Increased Equity

Dealmakers are optimistic that the debt markets will continue to rebound, with 60% saying they will improve over the next six months, 38% saying they will remain the same and 2% saying they will worsen.

Respondents say the maximum leverage level in today's environment is:

- 1-2x (31%)
- 2-2.5x (41%)
- 2.5-3x (22%)
- 3-3.5x (6%)
- More than 3.5x (0%)

Most deal professionals (51%) expect leverage levels to decrease in the next six months.

Despite an expected improvement in access to credit, 56% of dealmakers expect to put more equity into deals over the next six months, with almost half (45%) saying they expect to invest 41% or more equity in companies in the next six months.

Private Equity Eyes Opportunities

Dealmakers say the best strategy for success in the current environment is:

- Focus more on add-on acquisitions than platform acquisitions (21%)
- Focus more on deal sourcing/marketing (13%)
- Focus on our portfolio companies (13%)
- Cut costs at our portfolio companies (13%)

Industries that present the best opportunities for buyouts are:

- Manufacturing and distribution (35%)
- Healthcare/life sciences (20%)
- Business services (12%)
- Consumer products and services (12%)

Industries that present the best opportunities for distressed investing are:

- Manufacturing and distribution (50%)
- Real estate (18%)
- Consumer products and services (8%)
- Financial services (8%)
- Retail (8%)

Respondents say they have written down their portfolio company values in the last 12 months by:

- 15% or less (26%)
- 16-25% (17%)
- More than 25% (17%)
- Held steady (39%)
- Marked up (0%)

More than half (71%) of private equity professionals say they expect to maintain portfolio company values at year-end 2008 levels; while the remainder forecast write-ups over 2008 year-end levels of:

- 15% or less (19%)
- 16-25% (10%)
- More than 25% (0%)

65% of respondents say that 51% or more of their portfolio companies are performing below their prior year in EBITDA.

In 2010, private equity will change in the following ways:

- Significant consolidation, winnowing out (48%)
- Increased need for PE firms to differentiate themselves (32%)
- No change (16%)

Some 35% of respondents are concerned about the public's perception of private equity.

“The value of middle market private equity comes through loud and clear in this survey,” said Gary A. LaBranche, CAE, ACG President & CEO. “Even as the growth community works to recover from the Great Recession, dealmakers are confident in the future of free enterprise and the job growth and opportunity that it provides to society. That speaks volumes about why middle market private equity is so vital to our economy.”

Survey Methodology

The twice-yearly survey, conducted in October and November 2009, was completed by 921 ACG members and Thomson Reuters customers, including 48 from Ohio. Respondents from Ohio were comprised of private equity, venture capital and buyout firm members (21%); investment bankers, intermediaries, brokers (25%); lenders, finance providers (8%); and service providers, such as lawyers, workout specialists, accountants and consultants (46%). For a copy of the full global survey results, please go to: www.acg.org.

About ACG

The Association for Corporate Growth (ACG) is the global community for middle market M&A dealmakers and business leaders focused on driving growth. ACG members have access to data, content and networking opportunities to find the opportunities, capital and knowledge they need to drive and sustain corporate growth. Founded in 1954, ACG has grown to more than 12,000 members organized in 54 chapters throughout North America, Europe and Asia. For more information, please visit www.acgcincinnati.org.

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Editors Note: ACG leadership are available for interviews. Please contact Jen Dowd for assistance.