P&M CORPORATE FINANCE, LLC

INVESTMENT BANKING FOR THE MIDDLE MARKET

Middle Market Update

FEATURES:

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M&A Snapshot: The Year Ahead

Great Lakes Region M&A Update

It Has to be Fair…Now More than Ever
PMCF Service Spotlight: Fairness Opinions

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DIVERSIFIED INDUSTRIALS
2010 YEAR IN REVIEW

About P&M Corporate Finance, LLC

P&M Corporate Finance, LLC (PMCF) is an investment banking firm providing merger & acquisition advisory services to middle market companies in North America, Asia and Europe. PMCF has dedicated industry teams providing services to the diversified industrials, plastics & packaging, metals, business services and medical technology industries. PMCF is an affiliate of Plante & Moran, PLLC.

Investment Banking Services:

- Mergers & Acquisitions
- Sales & Divestitures
- Capital Raising
- Fairness Opinions
- Strategic Assessments

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26300 Northwestern Highway, Suite 120
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Select 2010 Transactions

Progressive Plastics
has been acquired by
Alpha Packaging
a portfolio company of
Irving Place Capital
The undersigned served as financial advisor to Progressive Plastics.
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Sale

BORISCH
PSALM 115:1
has been acquired by
Amphenol®
The undersigned served as exclusive financial advisor to Borisch Manufacturing Corporation.
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Sale

$435,000,000
HILLENBRAND
has acquired
TR·N K
The undersigned served as financial advisor and provided a fairness opinion to Hillenbrand, Inc.
P&M CORPORATE FINANCE, LLC
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Acquisition/Fairness Opinion

Ames Goldsmith Corp.
has completed an equity recapitalization
The undersigned served as exclusive financial advisor to the company's largest shareholder
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Equity Recapitalization

COMAR®
has acquired
Universal Container Corporation
UNICON
The undersigned served as financial advisor to Comar, Inc.
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Acquisition

OUTSIDEHUB
has undergone a recapitalization with debt and equity capital provided by
MK capital
The undersigned served as exclusive financial advisor to Outside Hub Holdings, Inc.
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Sale

Middle Market M&A Overview

2010 Year in Review

As we reflect on 2010, the year was one that could be viewed through a multitude of lenses, each with its own perspective. Throughout the first half of the year, prognostications varied from one extreme to the other, with some predicting a "double-dip" recession and others a "V-shaped" recovery. It was not until the latter half of the year when outlooks converged somewhat, however, the final day of 2010 came and went without a definitive conclusion regarding whether the predictions of the bulls or the bears came to fruition.

Viewing 2010 through the lens of the bears, unemployment lingered above 9%, the housing market had yet to experience anything close to a full recovery and federal and state budgets remained severely strained, among other ominous signs. Viewing the year through the lens of the bulls, corporate earnings rose, manufacturing activity expanded and GDP increased for the sixth consecutive quarter, among other promising signs.

Through all of this, middle market M&A activity showed signs of early recovery, surpassing peak volume levels of 2007. Similarly, private equity (PE) activity also improved significantly from the trough of 2009.

Following double-digit declines in 2008 and 2009, M&A transaction volume rose in 2010, driven by strengthened corporate balance sheets, improved credit conditions, low interest rates, increased clarity on future results and an uptick in cross-border activity (note: U.S. transactions include those involving U.S.-based buyers, targets or sellers). Volume rose 35% to 13,450 transactions *(see Figure 1)*, representing a 7% increase from prior peak levels in 2007. Aggregate deal value also rebounded, rising 65% to $255 billion. On a quarterly basis, the fourth quarter of 2010 marked the sixth increase in volume and aggregate value over the past seven quarters *(see Figure 2)*. Overall, the data suggest that M&A activity was high in 2010, increasing significantly from 2009 and finishing near, and by some measures above, pre-recession levels.

PE activity also rebounded in 2010, yet not quite to the extent as that of the M&A market. A dearth of deal flow in 2009 on the heels of record fundraising in 2007 and 2008 resulted in nearly $500 billion of committed, yet undeployed capital, commonly referred to as the "PE overhang." Also in 2010, PE firms finally were able to shift their focus from intensely monitoring and providing life support to their portfolio companies during the downturn to putting an enormous amount of capital to work and exiting vintage investments they were unable to sell during the recession. 2010 data strongly supports this as PE capital invested, average deal size and exits all nearly doubled (albeit from low starting points); and the average holding period of exited portfolio companies increased for the third consecutive year, surpassing five years *(see Figures 3 and 4)*. Nonetheless, the number of PE investments in 2010 represented less than half of those in the peak year of 2007, and the value of PE capital invested represented less than 25% of capital invested in 2007.

While the numbers shed favorable light on the 2010 M&A environment, we caution against concluding that M&A experienced a full recovery in 2010. Instead, we suggest that 2010 was the year that saw basic M&A fundamentals begin to stabilize. PE funds re-emerged, banks began lending and the broader economy improved, setting the stage for what we believe will be a more robust 2011 and 2012 M&A environment.

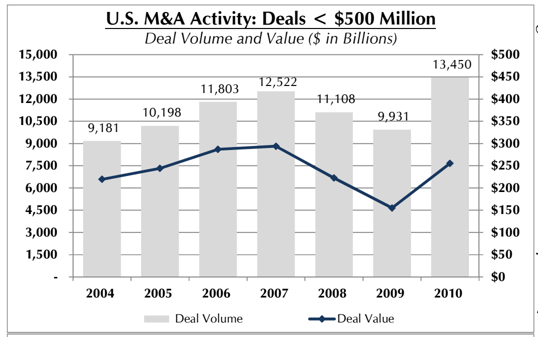


Figure 1 Source: Capital IQ

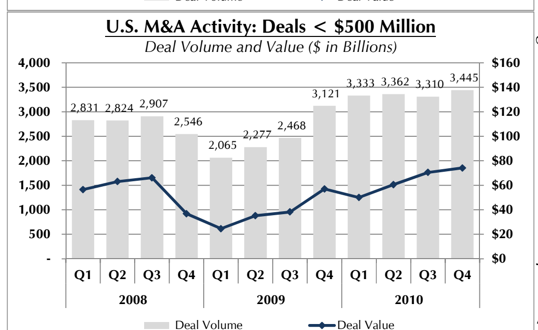


Figure 2 Source: Capital IQ

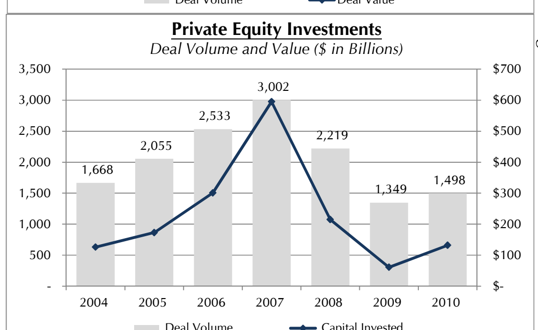


Figure 3 Source: PitchBook

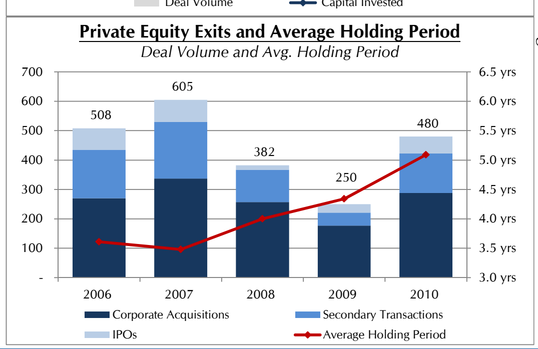


Figure 4 Source: PitchBook

M&A Snapshot

The Year Ahead

Last year we predicted a long-term M&A recovery would begin in 2010 and continue throughout 2011 largely due to the following six factors:

1. Companies putting their cash to work
2. Private equity groups holding record amounts of committed but undeployed capital
3. Banks loosening credit restrictions
4. Management seeking international growth opportunities via acquisitions
5. Companies remaining competitive and not relying on organic growth alone
6. Businesses diversifying due to an uncertain or negative industry outlook

While market sentiment did not start to reflect signs of a meaningful recovery until the second half, and in some cases the fourth quarter, of 2010, our prediction about key M&A drivers generally proved to be correct. And while we saw only a modest recovery last year, we believe that the same factors will continue to generate a more sustained increase in M&A activity in 2011 and 2012. However, we have made one adjustment to our list given the slowly-improving economic environment. Specifically, we are replacing our sixth factor – *businesses diversifying due to an uncertain or negative industry outlook* – with a new one – *companies pursuing M&A in core growth segments*. We believe that improving economic fundamentals combined with improving, but still depressed valuations will create attractive buying opportunities, for corporate buyers in particular.

Recent data suggest the recovery we started to see in late 2010 is gaining momentum. The number of first-time jobless claims, for example, is at a two-year low. Further, the Dow Jones Industrial Average and S&P 500 indices are at two-year highs, and U.S. manufacturing grew in December 2010 for the 17th consecutive month. Industry overcapacity, while still present, is beginning to shrink as demand for industrial goods and services increases. These factors have supported an improving sentiment in M&A circles and have led to renewed optimism in the market, supporting our view that M&A activity will become more robust in 2011 and 2012.

We anticipate the following sectors will be key contributors to a resurgence of M&A activity. Further, the key drivers within sectors described below will provide support for the new addition to our list above - companies pursuing M&A in core growth segments:

Technology: Increasing demand for mobile connectivity is creating a "smart" economy. Established companies in this space have been gaining positions in emerging technologies (e.g., cloud computing) led by serial acquirers, such as Google, Oracle, IBM and HP. Further, high-profile capital raises for Facebook and Groupon, to name just a couple, have triggered heightened capital raising activity in the space. Within the Great Lakes Region, technology M&A in 2010 experienced a greater than 60% increase in volume over 2009 and we expect similar growth this year.

Energy: 2010 was one of the most active years in energy M&A since 1998. Key drivers included rising oil prices, rapid growth and industrialization of emerging markets, new drilling techniques and discoveries, and consolidation within the power and utilities sector. We anticipate the BP oil spill may affect M&A, increasing the attractiveness of onshore assets amid rising operating costs and stricter regulatory scrutiny for offshore drilling. For example, within the Great Lakes Region, Linn Energy Holdings, LLC, a Texas-based oil and gas company, acquired HighMount Exploration & Production Michigan LLC, a Michigan-based company that owns and operates natural gas properties in Michigan's Antrim Shale, for $330 million in 2010. Moreover, as the recovery continues, manufacturers of industrial equipment selling into energy related sub-sectors will benefit from increasing demand, leading to a more buoyant M&A environment.

Healthcare: The sector continues to be a strong driver of M&A activity across most sub-sectors. Key drivers of activity include heightened demand from an aging population, expiring patents and healthcare reform (especially attractive to companies that will benefit from growing volumes of insured patients with limited reimbursement/pricing risk). We also anticipate M&A from biotech firms looking to supplement their products with expiring patents with promising new products that are hard to replicate. Within the Great Lakes Region, healthcare M&A volume rose significantly in 2010, increasing 37% from 2009.

M&A Snapshot

The Year Ahead

Financial Services: Many financial services companies that survived the financial crisis find themselves re-trenching and ridding themselves of risky or out-of-favor assets. This will drive significant divestiture activity across real estate, finance and consumer credit sectors, even as the Dodd-Frank legislation continues to take shape. We expect to see the "low hanging fruit" acquired and rolled into healthier financial services businesses, positioning companies to take advantage of an industry that is in its earlier stages of stabilizing. The Great Lakes Region echoed this trend in 2010, with transaction volume up 50%.

Despite our view that M&A will continue to strengthen in 2011 and 2012, we are cautiously optimistic rather than enthusiastic about the prospects for an improving M&A landscape. A number of concerns remain top-of-mind and will keep valuations somewhat controlled until the risks outlined below dissipate or are mitigated.

Regulation/Legislation: Following the financial crisis in 2008, the U.S. government began pushing for controls to combat future market collapses. Heading into 2011, financial regulatory reforms (e.g., Dodd-Frank Regulatory Reform and Consumer Protection Act) have dominated the headlines. The general uncertainty created by regulatory interpretation, together with other uncertainties surrounding healthcare reform, will make it difficult for business owners to gauge the impact from political winds.

Perceived Instability: We have seen a remarkable recovery in public markets and positive growth fundamentals in international and emerging markets, including in Brazil, India and China. However, any sign of instability across financial markets may create downward pressure on global valuations and sentiment. For example, the European sovereign debt crisis in early 2010 illustrates the interconnectivity of global markets and their sensitivity to global unrest. When Greece threatened to default on its debt, the cost of credit default swaps spiked and its debt was downgraded to junk status by S&P. As a result of the announcement, stock markets worldwide declined, thus demonstrating the precarious nature of the global recovery.

The Barbell Effect: We use the term "barbell" to illustrate a relatively challenging M&A market for middle sized industrial companies (EBITDA between $2-$10 million) compared to that for small/underperforming and large, financially healthy companies in the middle market. Specifically, the first half of 2010 saw transactions involving companies with low valuations being driven by necessity (i.e., distressed transactions), whereas companies with high valuations (i.e., those with defensible positions in strong, non-cyclical markets) tended to attract significant attention from both strategic and financial buyers. As a result, the amount of transaction activity has been weighted towards the two ends of the spectrum, highlighting the difficulty in completing deals involving companies with mid-range valuations.

Financing: Banks generally are loosening credit standards and the asset-based loan (ABL) market is stronger than it has been in years. However, the cash flow (CF) lending market remains tight for companies in select industries. In some cases, banks are viewing $10 million or even $15 million of EBITDA as a minimum, thus shutting out countless middle market companies. Moreover, toward the end of 2010, the number of active CF lenders was less than 15% of what it was in 2007. Until the CF lending market improves across all industries and experiences a recovery similar to that of the ABL market, deal activity in 2011 may once again be at the mercy of the credit markets.

Throughout this *M&A Snapshot,* we highlighted six key factors and four industry sectors that likely will drive deal activity over the next two years and, perhaps more importantly, discussed macro-level concerns that could have a dramatic impact on the magnitude of the short-term recovery. While we remain cautiously optimistic heading into this year, we believe that M&A fundamentals are continuing to improve and compelling reasons exist for a prolonged recovery in 2011 and 2012.

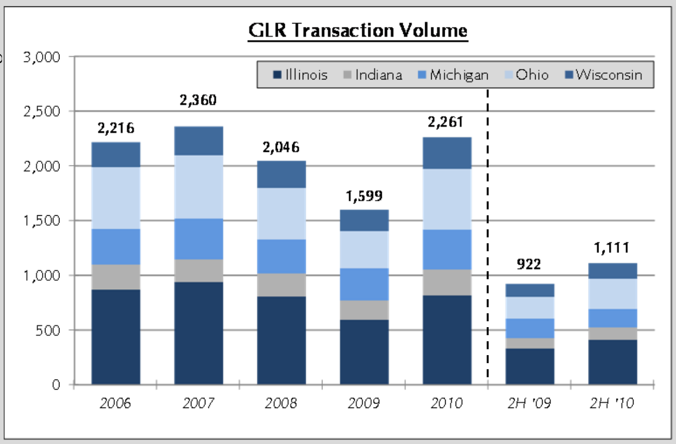
Great Lakes Region (GLR) **M&A Update**

- ***2010 GLR deal volume increased 41% to 2,261 deals from 1,599 deals in 2009*** *(see Figure 5)*
  - All five states that comprise the GLR reported significant increases in volume *(see Figure 6)*
- Volume increased 20% in 2H '10 when compared to 2H '10; and 7% in 4Q '10 when compared to 3Q '10

- In 2010, transaction volume increased across all major sectors *(see Figure 7)*
  - Industrials (leading sector by volume in 2009 and 2010) experienced a 37% increase in volume in 2010
  - Information technology and financial institutions experienced increases of 64% and 51%, respectively

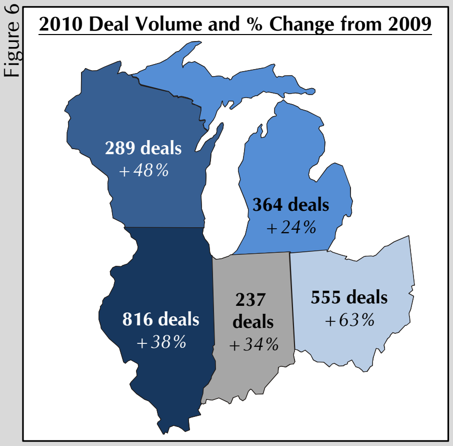
- Median TEV/EBITDA multiples fell by approximately 0.5x to 9.2x in 2010 *(see Figure 8)*
  - Some transactions in 2009 were priced off of normalized, rather than depressed, EBITDA values, thus resulting in an inflated multiple when computed based on actual LTM EBITDA
    - Economic rebound has driven an increase in nominal EBITDA values, thus lowering EBITDA multiples

Figure 5



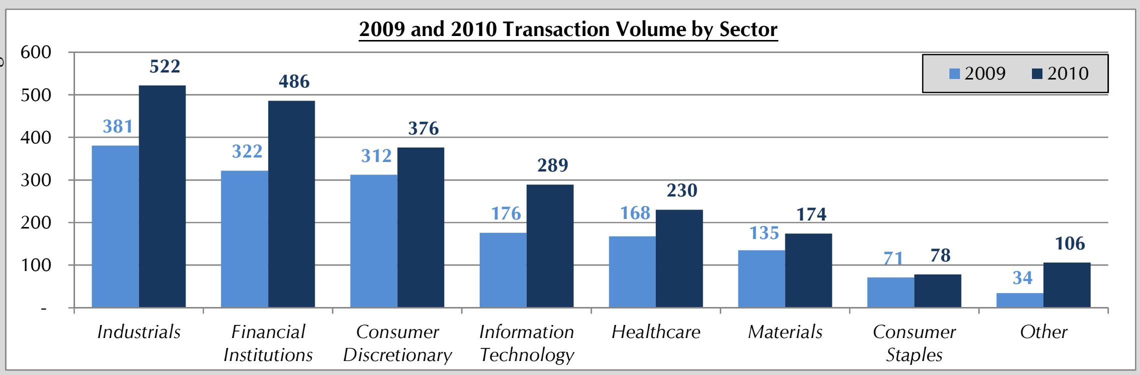
Source: Capital IQ

Figure 6



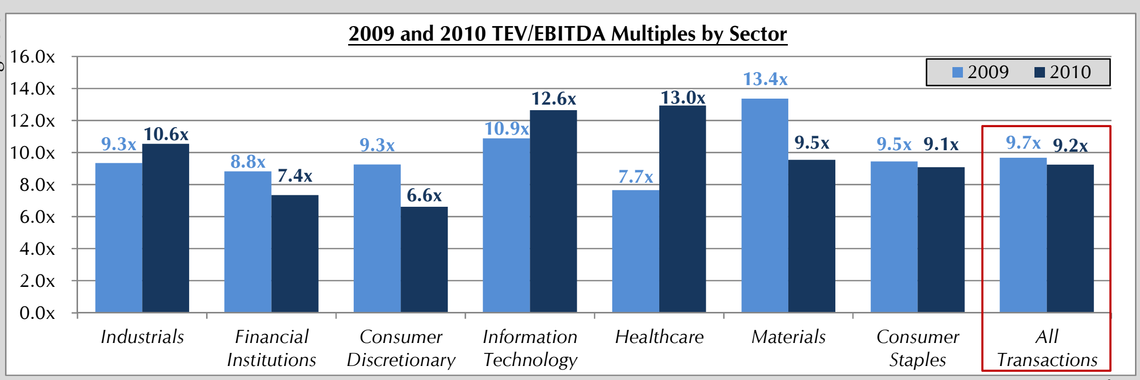
Source: Capital IQ

Figure 7



Source: Capital IQ

Figure 8



Source: Capital IQ

It Has to be Fair…Now More than Ever

PMCF Service Spotlight: Fairness Opinions

The Great Recession has taught us many lessons. Some of them are new, while others are simply reminders of old lessons that we may have forgotten or ignored despite the known risks. In the world of M&A, chief among these reminders is the importance of strong corporate governance, especially in today's environment – one in which shareholders demand that board members work with renewed vigor to fulfill their fiduciary duties.

And with attractive opportunities for growth few and far between, many companies are undoubtedly considering M&A or other transaction strategies to grow or, in some cases, survive. This reality, coupled with the heightened scrutiny that companies face, means that an objective, third-party assessment of a transaction's fairness is now more important than ever.

PMCF has an experienced fairness opinion team that can provide this kind of objective and unbiased assessment for companies and their boards of directors when consummating a transaction.

- PMCF provides a company and its board of directors with the independent analysis it needs to fulfill its fiduciary duties and help mitigate the risk of potential shareholder lawsuits.
- Given the nature and size of our firm, PMCF is able to quote a fee for this type of opinion that will be significantly below what other firms will demand. In most recent cases, our fairness opinion fee quotes have come in at less than half what larger firms have quoted despite the significantly higher level of attention and service we are able to provide.
- PMCF is able to prepare and deliver the fairness opinion on a highly-expedited basis (usually within 3-4 weeks). We commit to our clients that we will work as quickly as feasible, as long as the information that we request or otherwise require is provided on a timely basis.
- PMCF's fairness opinion committee is comprised of highly experienced investment bankers with over 85 years of combined investment banking, fairness opinion and valuation experience. One of our Managing Directors, Scott George, has personally completed over 40 fairness opinions while at Salomon Brothers, Morgan Stanley, Ernst & Young Corporate Finance and PMCF.
- PMCF is the investment banking affiliate of Plante & Moran, the nation's 12th largest accounting and business advisory firm. Together we have extensive experience in delivering to both public and private companies formal valuation and fairness opinions associated with M&A and other types of transactions.

PMCF is committed to providing a thorough and objective fairness opinion to companies' boards of directors. If you are interested in learning more about PMCF and the services we provide, we would be happy to meet with you whenever and wherever it is convenient.

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