

Middle Market Update

FEATURES:

Feature Article: Middle Market Credit Outlook

Great Lakes Regional M&A Update

U.S. M&A Middle Market Overview

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Middle Market Credit Outlook

Issuance Continues to Contract

Since the first quarter M&A review was released, we have seen a semblance of stabilization in the capital markets. However, issuance remains near historic lows with second quarter and the first six months U.S. loan volume down 37% over the same time period last year.

Lenders continue to be focused on amendments and improving the returns of their portfolios and are redeploying capital in select cases for companies with solid track records and in non-cyclical industries.

Middle Market Sponsored Volume Remains Depressed

Middle market sponsored issuance for the first six months of 2009 was \$1.5 billion which represented a 640% decrease over the same time in 2008. From an acquisition viewpoint, buyers and sellers continue to grapple with expectations of value. The lucky few who come to an agreement regarding valuation have found that capital is not as readily available and are forced to find alternative structures in order to complete transactions.

Lenders Push for More Conservative Structures

Middle market lenders are focused not only on price, but also the structure of transactions and leverage levels are now more conservative than in the past. From a senior leverage (Total Senior Debt/EBITDA) perspective, a majority of lenders have indicated that 2.0-2.5x is their ceiling while total leverage (Total Debt/EBITDA) is topping out at 3.0-3.5x. Senior leverage has been driven down by lenders' desire to have a minimum of 100% asset coverage from a senior secured asset basis.

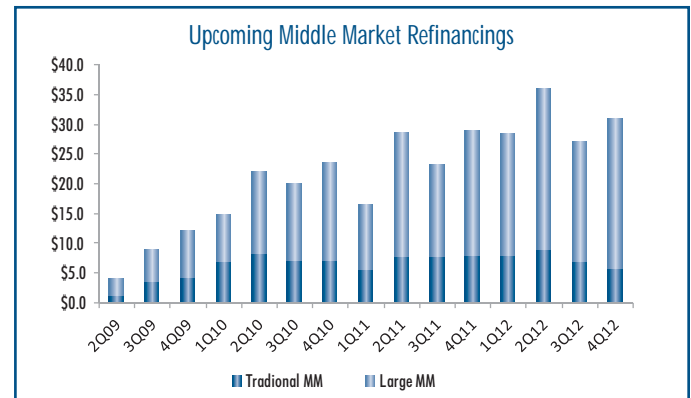
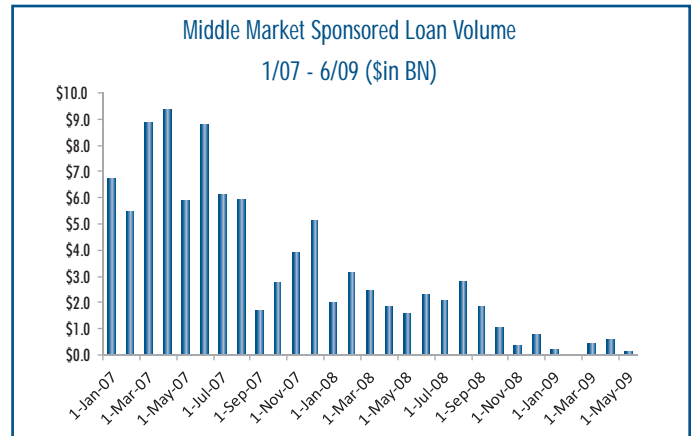
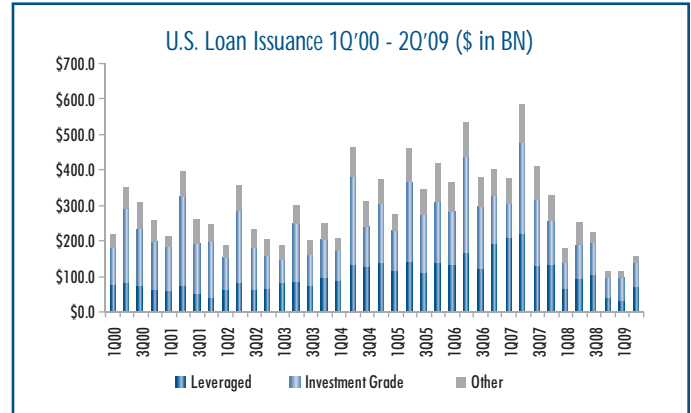
Equity contributions continue to edge higher.

Through the first half of 2009, financial buyers have increased their equity contributions to 42.3% (with rollover equity of approximately 0.4%) up from 38.9% in 2008.

Middle Market Maturities Loom — Where Will the Liquidity Come From?

With lenders selectively deploying capital and the new issue market limited to highly structured, higher rated, non-cyclical businesses, there is a significant uncertainty concerning debt maturing over the next 12 months. With the liquidity in capital markets still scarce, how will borrowers refinance these upcoming maturities? Some borrowers have had success in amending their existing credit facility to allow extending maturities, but this does not alleviate all of the refinancing pressure.

As an order of magnitude, over the next two and a half years over \$326 billion of loans will mature with over



\$25.4 billion in 2009. Borrowers will need to find alternative ways to refinance upcoming maturities without the abundant sources of liquidity generated from institutional lenders as well as collateralized loan obligations ("CLOs").

Defaults Continue to Rise but Default Forecast Declines

Defaults continue to rise with 107 defaults YTD. However, Moody's expects defaults to peak at 13.5% in November down from an earlier estimate of 14.6% at the end of the first quarter.

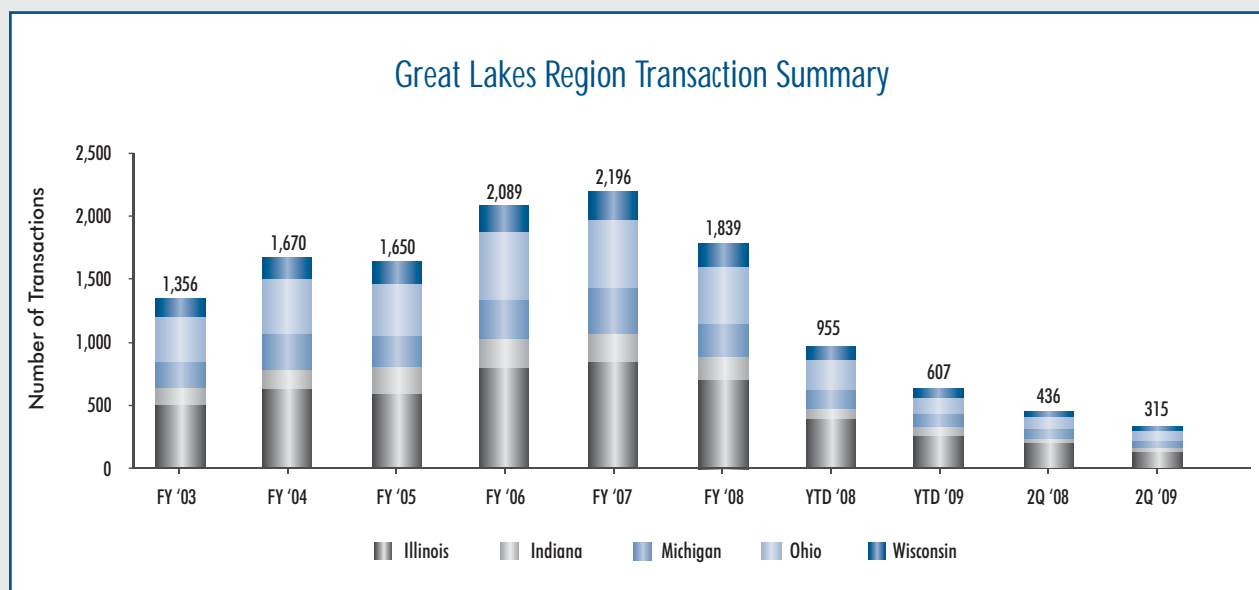
Great Lakes Regional M&A Update

GLR Deal Volume Shows Intra-Year Improvement

- Q2 2009 deal volume rose 7.9% from Q1 2009 and fell 27.8% from Q2 2008.
- YTD 2009 deal volume fell 36.4% from YTD 2008 (and represents less than a third of total 2008 volume)
- Illinois experienced the greatest decline (37.9%) from the previous year when compared to other states that comprise the region, including Indiana, Michigan, Ohio and Wisconsin.
- Despite this, Illinois continues to lead the GLR in deal volume, with 35.9% and 39.2% of transactions in the second quarter and first half of 2009, respectively; Ohio was second with 21.3% and 18.5% of the transactions in the second quarter and first half of 2009, respectively.

Notable Deals in the Second Quarter:

- April 1: Dow Chemical Co. (NYSE:DOW) announced the sale of Morton International, Inc. (Illinois) to K+S AG (DB:SDF) for \$1.7 billion. The purchase price will be paid in cash and used to help pay down debt from the acquisition of Rohm & Haas (\$19.0 billion), which included debt of \$12.5 billion.
- April 7: Pulte Homes Inc. (NYSE:PHM, Michigan) announced the acquisition of Centex Corporation (NYSE:CTX) for \$1.4 billion in stock in a deal that will create the nation's largest homebuilder. The combined company will have revenue of \$9.2 billion (last 12 months), far exceeding its next largest competitor, D.R. Horton Inc. (\$5.8 billion in the last 12 months). Both Centex and Pulte have been severely impacted by the recession, posting a combined net loss of \$2.7 billion over the past 12 months.
- April 9: Express Scripts Inc. (NasdaqGS:ESRX) announced the acquisition of WellPoint Inc.'s Next Rx, LLC (Ohio) for \$3.6 billion in cash and stock. The acquisition combines the third and fourth largest pharmacy benefit management (PBM) companies, creating a company that manages approximately 750 million prescriptions per year, rivaling CVS Caremark (the second largest PBM, managing 755 million prescriptions per year). The deal also includes a 10-year contract for Express Scripts to provide PBM services to WellPoint, the largest health insurer.
- June 1: General Motors Corporation (OTCPK:MTLQ.Q, Michigan) announced the acquisition of four plants and the global steering business of Delphi Corp. (OTCPK:DPHI.Q, Michigan) for \$1.1 billion in debt assumption in a deal designed to ensure GM a steady supply of parts and allow its former subsidiary to exit bankruptcy. GM also agreed to provide Delphi with up to \$250 million of pre-emergence liquidity through July 31, 2009, to support Delphi's plan for reorganization.



U.S M&A Middle Market Overview — First Quarter 2009

Mixed Signals Remain Prevalent

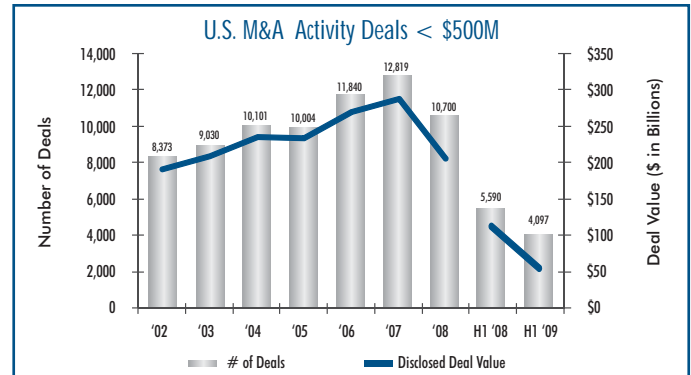
- The markets are pointing towards better days ahead...
 - The Dow was up 11% in the second quarter, the first quarterly gain since the third quarter of 2007 and its biggest since the fourth quarter of 2003
 - The S&P 500 jumped 15% in the second quarter, its best quarter since the fourth quarter of 1998
 - The Nasdaq and Russell 2000 were both up 20% in the second quarter
- ... Other recovery indicators have yet to play out
 - Reports on shaky consumer confidence, fears of disappointing earnings announcements and a prolonged recession are still at the forefront of investors' minds
 - Unemployment is projected to rise through year-end and possibly beyond
 - M&A activity in the middle market, often foreshadowing an economic recovery, remains sluggish

Uncertainty Still Impacting Middle Market Deals

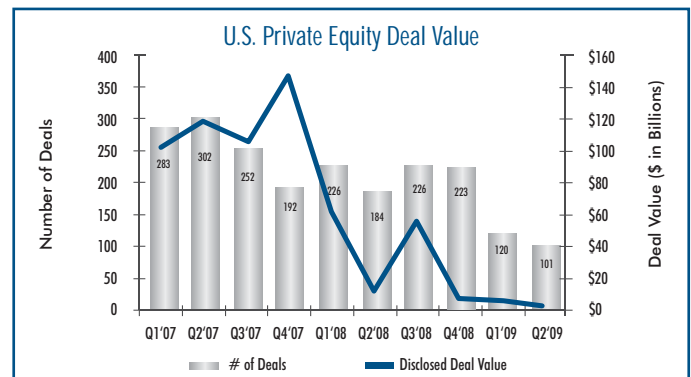
- Although there was a slight quarter over quarter improvement from Q1 2009 to Q2 2009, transaction volume in the first half of 2009 was well off the volume for the same period in 2008
 - 4,097 transactions were announced, representing a drop of approximately 27% over 1H 2008
 - Disclosed deal values fell from \$115 billion to \$57 billion, a 51% drop over 1H 2008

Private Equity Activity Remains Stilted

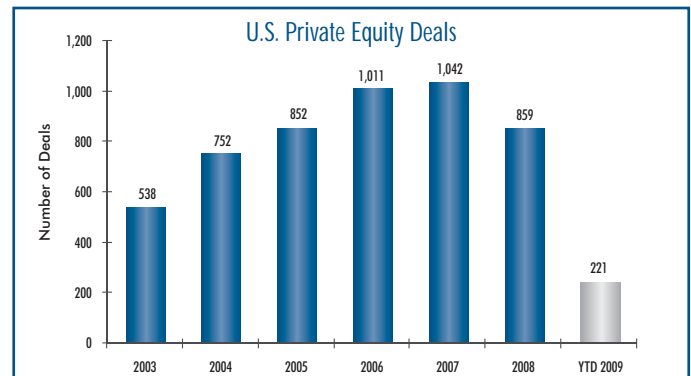
- Private equity firms are focused on smaller deals because they require less leverage
 - Companies under \$250 million in revenue are receiving more attention
 - Add-on acquisitions continue to occur
- The first half of 2009 was the slowest six months since 2002 for private equity investing
 - Only 101 deals were completed in Q2 2009, bringing the total number of completed transactions to 221 in 1H 2009
 - Represents a 46% decline when compared to the 410 deals completed in 1H 2008
 - Only 3.5% of announced transactions in 1H 2009, lowest percentage since 1H 2000



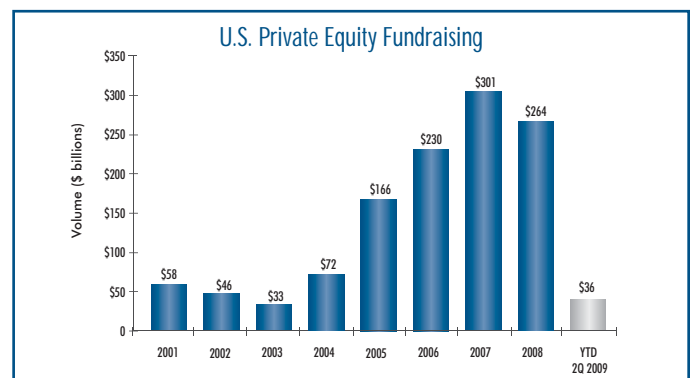
Source: Capital IQ, Thomson Financial SDC Platinum



Source: Buyouts



Source: Buyouts



Source: Buyouts

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