

News Release

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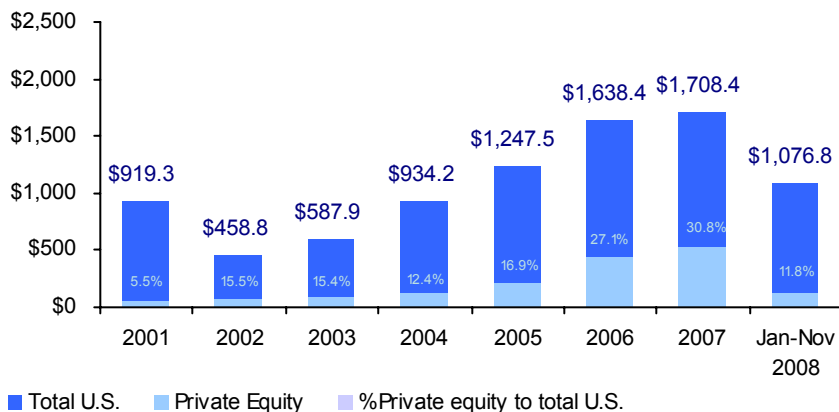
PricewaterhouseCoopers Outlook

2009 M&A activity to be fueled by 'merger of necessity'

Financing continues to be a challenge while distressed opportunities across industries are available for interested buyers. Innovation will be key for private equity as the industry evolves in the new climate

NEW YORK, December 22, 2008 — The year 2008 was a challenging period for dealmakers. Mergers and acquisitions (M&A) in the United States (U.S.) were hampered by an ever dwindling credit market. Should current conditions continue into the new year and financing remain limited, M&A activity in 2009 will be on the light side with a few silver linings. The deal landscape will be dominated by distressed investments across sectors including financial services, automotive, consumer products and retail, according to the Transaction Services group of PricewaterhouseCoopers. "Troubled companies will look to align with larger, stronger players in order to survive, creating the perfect storm for mergers of necessity," stated Robert Filek, a partner in PricewaterhouseCoopers' Transaction Services group.

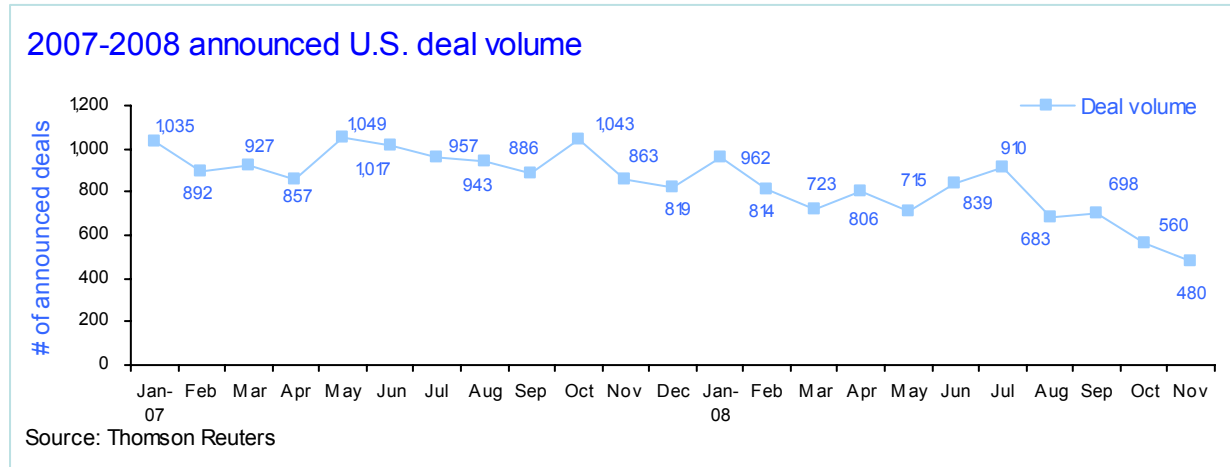
Value of announced U.S. transactions (\$ billions)



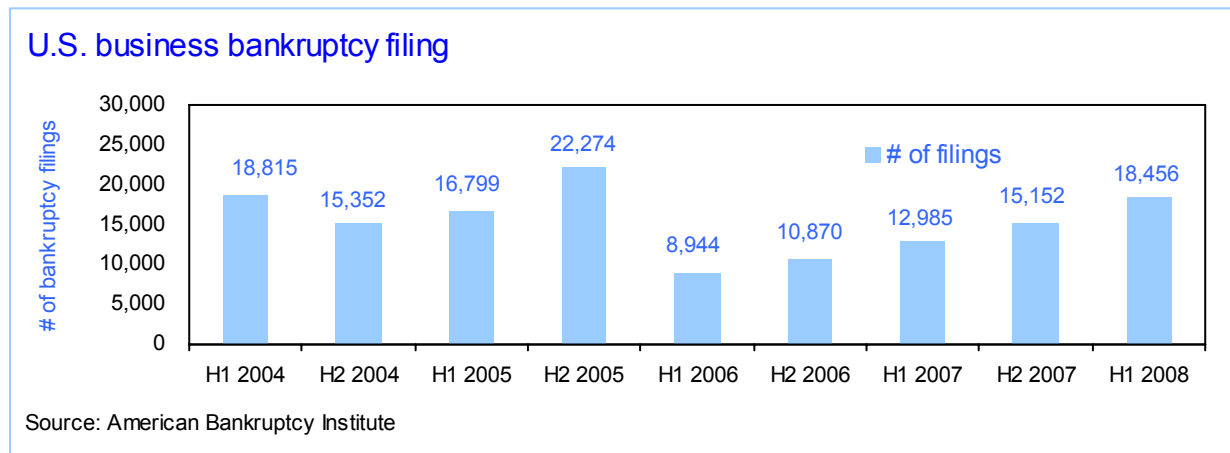
Source: Thomson Reuters

According to Thomson Reuters, announced U.S. activity through November 30, 2008 totaled roughly \$1.1 trillion as compared to \$1.6 trillion for the same period in 2007. Total deal volume for the 11 months of 2008 was 8,190, a 22 percent decrease from the same period in 2007. Trailing monthly deal volume from 2007 to November 2008 revealed a grim picture. During 2008, the lack of liquidity had

affected acquirers' ability to do deals, especially private equity. The number of transactions by private equity acquirers through the end of November 2008 fell by 24 percent to 1,383; while deal value plummeted by 75 percent to \$127.4 billion from \$501.7 billion during the same period. Thus, private equity presented just 12 percent of the 2008's deal value, a significant plunge from 2007.



“Private equity players will be challenged to find new and innovative ways to put their money to work and to find deal mechanisms that can drive the kinds of returns their limited partners expect,” stated Greg Peterson, a partner in PricewaterhouseCoopers’ Transaction Services group. “Historically, it has been during a downturn when strategic buyers and private equity firms have their best buying opportunities, yielding the best returns. The key will be the availability of financing.”

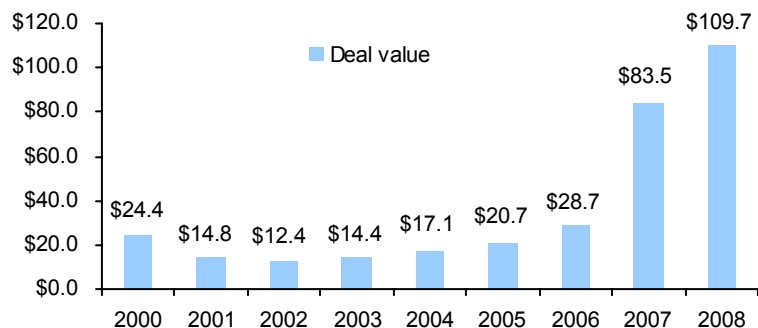


The latest available U.S. bankruptcy data shows there are growing opportunities in buying troubled assets. The number of U.S. businesses filing for bankruptcy has been on the rise. In the first half of 2008, business bankruptcy filings totaled 18,456, the highest half year total since the second half of 2005 (*American Bankruptcy Institute*). It has been widely reported private equity firms are actively raising distressed funds to invest in these assets. According to Private Equity Intelligence, distressed funds have raised a total of \$36.8 billion in the first half of 2008, signaling activity to come.

President-elect Obama's stimulus plan may generate opportunities for both private equity and corporate buyers. The plan emphasizes investments in the nation's infrastructure (roads, bridges, hospitals and schools), energy efficiency and technology to increase broadband access and effectiveness in

healthcare. The investment in infrastructure appeals to private equity acquirers as they have been active in seeking infrastructure opportunities and raising funds to focus on this sector. Peterson stated, "There are also strong financial incentives for state and municipal governments to enter into public-private partnerships in infrastructure to limit the stress on their finances."

U.S. PIPE transactions (\$ billions)



Source: PlacementTracker (as of December 12, 2008)

During 2008, companies not only turned to sovereign funds for cash infusions, but they are relying on PIPEs (private investment in public equities) as well. As of December 12th, PIPE transactions totaled \$109.7 billion, surpassing the 2007 full year amount of \$83.5 billion (*PlacementTracker, a unit of Sagient Research Systems, Inc.*). This trend is likely to carry into 2009. Both Filek and Peterson concurred that executing deals in 2009 will be challenging and the biggest issue for private equity and corporate buyers alike remains financing.

Sectors that continue to present opportunities include...

- **Financial services** – According to the Sovereign Wealth Fund Institute, from March 2007 to April 2008, sovereign funds poured \$44.9 billion into banks. With results to date under scrutiny, we look for more traditional consolidation to drive results in 2009. Banks of scale have significant cost advantages in a challenging market; it will be hard for small mid tier banks to go alone in this market. Look for continued government encouraged consolidation. Insurance companies will also look to shore up financial strength through consolidation. Asset Management companies will also likely continue to see interest from acquirers.
- **Energy** – The decline in stock prices over the past several months has created opportunities to acquire regulated utility or merchant companies and generation assets at a discount versus historical multiples. Strategic buyers with sufficient liquidity may be positioned to take advantage of these circumstances. The timing of the economic turnaround and the impact of President-elect Obama's Energy policy should also have a significant impact on sector M&A activity.

In the oil and gas sector, commodity price volatility has widened the gap between buyer and seller expectations. Until this gap narrows, oil and gas M&A activity will be on the quiet side.

- **Automotive** – With the industry facing one of its toughest battles to ward off the potential of bankruptcy, look for activity to be on hold until there is visibility to a long term U.S. automotive restructuring plan.
- **Consumer products** – Watch for the stability of consumer products to attract corporate buyers to execute on their long term strategic plans. As many high quality companies may get thrown out with the bath water, patient consolidators will take advantage of favorable pricing to achieve their strategic goals.

- **Healthcare** – The new administration's goals include expanding access to quality and affordable health insurance, modernizing healthcare, reducing costs, and promoting public health, prevention and wellness. This will create an uptick in 2009. There will be opportunities across healthcare sectors including healthcare information technology, Medicaid managed care, pharmaceuticals with drug companies seeking to fill their pipeline through acquisitions and medical devices, with larger companies acquiring smaller, capital constrained, device companies.
- **Technology** – Look for aggressive acquisition activity from industry leaders in Internet, Software, Computers and Networking as they take advantage of once in a decade low prices to pursue strategic portfolio fill-ins as well as cross-sector transformative deals. With venture capital and IPO funding sources effectively closed, smaller players will increasingly look to partnerships, alliances and all out acquisitions for exit, further feeding the pipeline. Semiconductors will likely sit-out the first half of the year as they focus on internal restructurings but look for divestitures and possible consolidation later in 2009. Clean technology will either continue to simmer or come to a full boil, pending early decisions on infrastructure and incentives by the incoming Obama administration. The President elect's plan to increase broadband access, improve healthcare technology and focus on broader "green" technologies has the potential to spur additional activity across all industry subsectors.
- **Retail** – The cutback in consumer spending has led retail businesses to file chapter 11 or feel the pinch in their balance sheets. Everyone is anxious to see which retailers will perform well over the holiday season. The key will be who did the best job anticipating consumer demand and adequately stocked their stores while not over extending their balance sheet. After the holiday season, this sector may present opportunities for distressed investors. Retail companies looking to grow may find opportunities in discounted lease rates on prime real estate.

Other factors influencing M&A activity in 2009 may include the following scenarios:

- **Always excited about emerging markets, but thought the prices were too high?** – The next 18 months may be the chance for interested parties to join the game. Watch for the less commodity dependent emerging markets to lead us out of the slump in deal activity. Brazil, India and China will begin to look attractive to those who sat on the sidelines over the last five years.
- **Private equity evolves as an industry** – One of the key issues facing the industry will be any potential change in tax policy in the U.S. around carried interest and capital gains. And with the dry spell in M&A activity and lack of financing, the new year will test the private equity business model. However, private equity is creative; look for innovative structures and niche financing to drive activity in 2009.
- **The wild card** – Could public company valuations get so low that the public to private transaction could re-emerge? Consider public companies where the stock price is equal to the cash value of their shares; at some point valuations are just too compelling and these transactions could emerge.



How accurate was our 2008 forecast?*

"If debt markets hold up" disruption in the U.S. credit markets would create some favorable valuation opportunities for buyers in 2008.

Correct. Debt markets went dry in 2008, Average multiples (deal price to target's EBITDA) on U.S. targets for the 4th quarter of 2008 stood at 11.7x as of November 17, 2008, a drop from 12.6x in the third quarter of 2008 and from 13.2x in the fourth quarter of 2007 (*Dealogic*). However, valuations did not come down in line with liquidity; nonetheless, we are seeing competitive valuations in the infrastructure area.

U.S. M&A activity would be dominated by cross-border and corporate activity.

Correct. For the first 11 months of 2008, total corporate deal value was \$949.4 billion, representing 88 percent of the U.S. total, up from 2007's annual contribution of 69 percent. Foreign activity in the U.S. was going strong up to the last quarter of 2008. For the first nine months of 2008, foreign activity totaled \$314.6 billion, up from \$287.5 billion for the same period in the prior year (*Thomson Reuters*). However, foreign interest dropped sharply in October and November of 2008.

The middle market will continue to be active in 2008.

Partially correct. Despite the credit crunch, U.S. middle market activity (deals valued up to \$1 billion) held steady during the most part of 2008, but eventually slowed due to continued financial woes.

Private equity firms would need to reinvent themselves in the challenging credit environment.

Correct. Private equity firms looked for alternative ways to deploy capital focusing on distressed investing, PIPEs, partnering with corporate buyers and minority investments. According to PlacementTracker, as of November 14th, 2008, private equity invested about \$19.1 billion in PIPEs compared with just \$3.4 billion in 2007.

Energy, healthcare, financial services, consumer products, media entertainment and technology would present the most M&A opportunities.

Partially correct. Five out of six correct. The six most active sectors, measured by deal value for the 11 months of 2008, were financial services with \$231.1 billion, healthcare with \$170.0 billion, energy with \$148.2 billion, consumer products with \$142.1 billion, technology with \$127.6 billion and industrial products with \$119.8 billion.

Private equity and corporate strategic venture combinations would continue to evolve.

Correct. Private equity proved to be very patient money in 2008, but in 2008 there were partnerships between private equity and corporate for specific sector opportunities. For example, NBC Universal partnered with Blackstone and Bain Capital to acquire the Weather Channel for \$3.5 billion, and the investor group consisting of Fortress Investment Group, Centerbridge Partners, Deutsche Bank and Wachovia partnered to buy Penn National Gaming for \$1.3 billion.

Sovereign wealth funds would play an active role in M&A.

Correct. Sovereign funds stepped up with capital for cash-strapped banks, pouring \$30.8 billion into just three financial services firms: Citigroup, Merrill Lynch and Morgan Stanley from March 2007 to April 2008 (*Sovereign Wealth Fund Institute*).

If U.S. businesses continued to file for bankruptcy at the rate of filings in the first three months of 2008, distressed M&A activity would rise.

Correct. The continued recession drove further bankruptcies, with M&A now likely to be dominated by activity in distressed sectors.

**The accuracy of our previous forecast does not guarantee future accuracy.*

The **Transaction Services** group of PricewaterhouseCoopers offers a deal process that helps clients bid smarter, close faster and realize profits sooner on mergers, acquisitions, sales and financing transactions. For companies raising money on U.S. or overseas capital markets, we offer a strategic perspective, practical solutions and a holistic service approach that helps management anticipate and resolve a broad array of transaction, financial reporting, and registration process challenges before they can have a negative impact on deal value or timing. Our global network of over 4,000 transaction professionals and more than 400 capital markets specialists operate from 16 U.S. cities and some 90 locations in North America, Latin America, Europe and Asia.

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