

April 2010: Middle Market Quarterly

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Moving On

From 2005 to 2008, highly leveraged deals were the norm and fundamental analysis was an afterthought. Companies weren't cheap, but the money was, so why not? After all, everybody else was doing it. Then, all of a sudden, the aforementioned cheap money wasn't so cheap anymore. The seemingly endless faucet of credit ran dry and overly leveraged companies crumbled like a house of cards. Consequently, we entered 2009 handcuffed by frozen credit markets and hesitant investors. Aside from a few sectors, including pharmaceuticals, with healthy balance sheets, very few deals were getting done. However, as 2009 progressed, capital began to flow once again – largely due in part to government intervention – resulting in a spike of transaction activity in the second half of 2009.

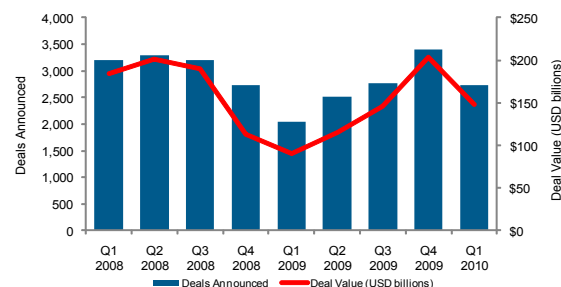
First Quarter Highlights

- Middle market M&A deal volume increased by 34% in Q1 2010 on a year-over-year basis. Aggregate deal value rose by 63% during the same period.
- As of March 31, 2010 the S&P 500 and Dow Jones Industrial Average were up 5% and 4% YTD.
- The national unemployment rate fell to 9.7% in Q1 2010.
- Nonfarm employment added 162,000 jobs in March.
- After falling for four consecutive quarters, GDP rebounded in the second half of 2009 with moderate growth.

Back to Work...Soon

Although employment levels have stabilized, a full-scale recovery has yet to be realized. The primary reason for this delay is a deliberate effort on the part of firms to maximize productivity before once again expanding their workforce. Beneficiaries of a trend such as this include BPO, IT Services, and Staffing, all of which posted strong results in the first quarter of 2010. We expect Business Services M&A activity to be concentrated in these sectors going forward.

Overall Middle Market M&A Activity



Sources: Capital IQ and 451 Group
 Note: Statistics include announced mergers and acquisitions with disclosed value of less than \$1 billion

A Healthy Start

Relatively speaking, the Healthcare M&A market held up well in 2009. Overall M&A deal volume was down only 5% 2009 from 2008, with a slight increase in deal value. 2010 got off to a strong start as well, fueled by several multi-billion dollar deals, most notably Novartis' acquisition of Alcon and Merck's acquisition of Millipore. While these larger acquisitions are undeniably encouraging, we expect heightened scrutiny from strategic buyers going forward, with a focus on the balance between efficiency and cost. We expect to see continued consolidation in two key sectors: diagnostics and medical devices.

New Players

Traditionally, M&A activity in the Instrumentation sector has been dominated by strategic buyers seeking synergistic opportunities; however, a recent influx of private equity interest has been realized in the second half of 2009 and beginning of 2010. Provided EBITDA margins in the industry remain strong, we expect this trend to continue.

Moving to the Clouds

Technology M&A activity in the first quarter of 2010 was concentrated in the software arena, as Application Software, Infrastructure Software, and SaaS all posted strong quarters. We expect SaaS M&A activity to remain especially strong, as firms continue to view tech spending as an operating expense, rather than a capital expenditure. IT Services is another sector to watch, as companies seek to automate business processes.

Business Services M&A Activity

| | Deal Volume | Transaction Value (\$mm) | Median EV / Revenue | Median EV / EBITDA |
|----------------------------------|-------------|--------------------------|---------------------|--------------------|
| BPO | 7 | \$3,465 | 2.8x | 6.6x |
| IT Services - Corporate | 23 | 1,400 | 0.8 | 11.7 |
| IT Services - Government | 2 | 135 | 1.2 | NM |
| IT Services - Offshore | 5 | 481 | 0.7 | NM |
| Management Consulting | 5 | 104 | 0.8 | NM |
| Payment & Transaction Processing | 4 | 209 | 3.2 | NM |
| Research Services | 10 | 794 | 1.3 | 7.5 |
| Staffing | 11 | 678 | 1.2 | NM |
| Total | 67 | \$7,266 | 1.1x | 9.2x |

Sources: Capital IQ and 451 Group

In the first quarter of 2010, activity was concentrated in the IT Services, Research, and Staffing sectors. We expect these sectors to continue strong performance going forward. Business Process Outsourcing only accounted for seven deals, but led the way in terms of deal value.

Selected Business Services Transactions

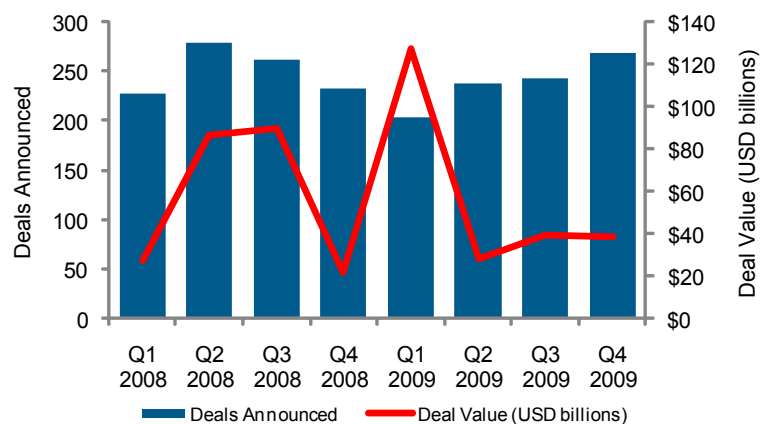
| Category | Announcement Date | Target | Acquirer | Enterprise Value (\$mm) | Enterprise Value to LTM | |
|--------------------------|-------------------|--|---|-------------------------|-------------------------|--------|
| | | | | | Revenue | EBITDA |
| BPO | Feb-10 | SkillSoft <i>E-learning and performance support solutions</i> | SSI Investments (Advent, Bain, Berkshire) <i>Private Equity</i> | \$1,071 | 3.4x | 9.2x |
| IT Services - Corporate | Feb-10 | ConVista Consulting <i>SAP consulting and systems integration</i> | Virtusa <i>IT implementation and outsourcing services</i> | 27 | NA | NA |
| IT Services - Corporate | Jan-10 | Xafinity <i>Consulting, software, and outsourcing services</i> | Advent International <i>Private Equity</i> | 308 | 1.4 | 7.3 |
| IT Services - Corporate | Jan-10 | Burton Group <i>IT research, advisory, and consulting services</i> | Gartner <i>IT, software, and communications research</i> | 56 | 1.9 | NA |
| IT Services - Government | Jan-10 | Unisys, Health Information Management Business <i>Medicaid information management systems</i> | Molina Healthcare <i>Managed healthcare services</i> | 135 | 1.2 | NA |
| Research Services | Mar-10 | Realpoint <i>Credit-ratings, research, and analytical services</i> | Morningstar <i>Independent investment research firm</i> | 52 | 4.3 | NA |
| Research Services | Mar-10 | infoGROUP <i>Business and consumer research and databases</i> | CCMP Capital Advisors <i>Private Equity</i> | 637 | 1.3 | 7.5 |
| Staffing | Mar-10 | Stepstone Solutions (UK) <i>Hosted and managed e-recruitment solutions</i> | HgCapital <i>Private Equity</i> | 148 | NA | NA |
| Staffing | Feb-10 | Xerxis Consulting <i>Temporary staffing solutions</i> | Royal Style Design (Diversified Global Holdings) <i>Custom tile and stone installation</i> | - | NA | NA |
| Staffing | Feb-10 | HotJobs.com <i>Recruiting services for employers and recruiters</i> | Monster Worldwide <i>Online employment solutions</i> | 225 | NA | NA |

Sources: Capital IQ and 451 Group

The number of Healthcare M&A transactions increased by nearly 11% in the fourth quarter of 2009. Since Q1 2009, deal volume has increased each quarter, as capital has become more accessible and markets have stabilized. Aggregate deal value decreased slightly in Q4 2009 to just under \$40 billion, after a \$12 billion increase in Q3 2009. Compared to 2008, deal volume decreased by just 5% in 2009, while aggregate deal value actually increased.

The first quarter of 2010 featured a series of multibillion dollar acquisitions in the BioPharma sector. Teva expanded its footprint in the generic pharmaceutical space with its acquisition of ratiopharm. Merck's acquisition of Millipore and Novartis' acquisition of Alcon demonstrated Big Pharma's push into medical device and diagnostics sectors through cross-functional acquisitions. This trend should continue, as the desire for more accurate diagnosis continues to grow.

Healthcare M&A Activity



Source: Irving Levin Associates

Selected Healthcare Transactions

| Category | Announcement Date | Target | Acquirer | Enterprise Value (\$mm) | Enterprise Value to LTM | |
|-------------------|-------------------|---|---|-------------------------|-------------------------|--------|
| | | | | | Revenue | EBITDA |
| BioPharma | Mar-10 | ratiopharm GmbH <i>Generic pharmaceutical products</i> | Teva <i>Global provider of pharmaceutical products</i> | \$4,936 | 2.3x | 11.8x |
| BioPharma | Feb-10 | Millipore <i>Life science technology, services, and tools</i> | Merck <i>Pharmaceutical products and laboratory chemicals</i> | 6,903 | 4.2 | 16.9 |
| BioPharma | Feb-10 | OSI Pharmaceuticals <i>Molecular-targeted therapy development</i> | Astellas Pharma <i>Global provider of pharmaceutical products</i> | 2,953 | 7.3 | 20.2 |
| BioPharma | Jan-10 | Alcon <i>Ophthalmic pharmaceutical products and devices</i> | Novartis <i>Diagnostic testing solutions</i> | 50,996 | 7.8 | 20.6 |
| Diagnostics | Feb-10 | Home Diagnostics <i>Blood glucose monitoring systems</i> | Nipro <i>Medical equipment and pharmaceutical products</i> | 200 | 1.6 | 16.5 |
| Diagnostics | Jan-10 | Standard Diagnostics <i>Diagnostic tools and test kits</i> | Inverness Medical Innovations <i>Medical and diagnostic products</i> | 250 | 5.0 | 10.1 |
| Diagnostics | Jan-10 | Diagnostic HYBRIDS <i>Cellular and molecular diagnostic test kits</i> | Quidel <i>Diagnostic testing solutions</i> | 130 | NA | NA |
| Healthcare IT | Mar-10 | TranSenda International <i>Clinical trial software and solutions</i> | BioClinica <i>Core lab and eClinical technologies</i> | 3 | NA | NA |
| Healthcare IT | Mar-10 | AMICAS <i>Medical image and information management</i> | Merge <i>Healthcare data and diagnostic workflow software</i> | 240 | 2.7 | 36.4 |
| Healthcare IT | Jan-10 | Global Med <i>Blood center information management software</i> | Haemonetics <i>Blood management supplies and solutions</i> | 57 | 1.8 | 21.6 |
| Medical Devices | Mar-10 | Sierra Scientific Instruments <i>Pressure imaging products</i> | Given Imaging <i>Diagnostic imaging systems</i> | 35 | 1.9 | NA |
| Medical Devices | Mar-10 | Orthofix, Vascular Business and AV-Impulse® <i>Maintenance of blood circulation in limbs</i> | Covidien <i>Diversified suite of healthcare equipment</i> | 28 | NA | NA |
| Medical Devices | Jan-10 | Invatec <i>Vascular intervention systems</i> | Medtronic <i>Medical devices and equipment</i> | 500 | 4.2 | NA |
| Services | Feb-10 | Excelsyn Limited <i>Drug substance research and development</i> | Albany Molecular Research <i>Drug discovery contract services</i> | 19 | 1.3 | NA |
| Services | Feb-10 | Kroll Laboratory Specialists <i>Substance abuse testing services</i> | Inverness Medical Innovations <i>Medical and diagnostic products</i> | 110 | NA | NA |
| Tools & Equipment | Jan-10 | Cezanne <i>Markers for cancer, prenatal diagnosis, and sepsis</i> | Thermo Fisher <i>Analytical instruments, equipment, and reagents</i> | 480 | NA | NA |
| Tools & Equipment | Jan-10 | AcroMetrix <i>Molecular and serological diagnostic products</i> | Life Technologies <i>Biotechnology tools & instruments</i> | - | NA | NA |

Sources: Capital IQ and 451 Group

Selected Instrumentation Transactions

| Category | Announcement Date | Target | Acquirer | Enterprise Value (\$mm) | Enterprise Value to LTM | |
|--------------------|-------------------|--|---|-------------------------|-------------------------|--------|
| | | | | | Revenue | EBITDA |
| Flow Control | Mar-10 | CIC Engineering <i>Control systems and instrumentation</i> | Grenland Group <i>Engineering and process solutions</i> | - | NA | NA |
| Life Sciences | Mar-10 | Sebia <i>Electrophoresis-based diagnostic equipment</i> | Cinven <i>Private Equity</i> | 1,101 | 6.7 | 13.3 |
| Test & Measurement | Feb-10 | Nova Analytics <i>Laboratory, field, and online instrumentation</i> | ITT <i>Engineered instruments for industrial use</i> | 390 | 2.9 | NA |
| Test & Measurement | Feb-10 | NovaWave Technologies <i>Laser-based chemical detection systems</i> | Thermo Fisher <i>Analytical instruments, equipment, and reagents</i> | - | NA | NA |
| Test & Measurement | Feb-10 | Dantec Dynamics <i>Integrated measurement systems</i> | Nova Instruments <i>Non-destructive test and measurement instruments</i> | 22 | 0.7 | NA |
| Test & Measurement | Jan-10 | Ahura Scientific <i>Handheld optical chemical ID systems</i> | Thermo Fisher <i>Analytical instruments, equipment, and reagents</i> | 145 | 3.2 | NA |

Sources: Capital IQ and 451 Group

Technology M&A Activity

| | Deal Volume | Transaction Value (\$mm) | Median EV / Revenue | Median EV / EBITDA |
|---------------------------|-------------|--------------------------|---------------------|--------------------|
| Application Software | 43 | \$3,241 | 2.8x | 16.0x |
| Infrastructure Software | 34 | 3,912 | 3.7 | 9.2 |
| Internet & Digital Media | 25 | 2,097 | 2.4 | 8.5 |
| IT Services - Corporate | 23 | 1,400 | 0.8 | 11.7 |
| IT Services - Government | 2 | 135 | 1.2 | NM |
| IT Services - Healthcare | 13 | 496 | 2.2 | 13.7 |
| IT Services - Offshore | 5 | 481 | 0.7 | NM |
| Network Communications | 19 | 520 | 1.0 | 3.9 |
| SaaS | 30 | 1,990 | 2.1 | 6.1 |
| Semiconductor & Equipment | 16 | 2,914 | 1.6 | 18.2 |
| Total | 210 | \$17,187 | 1.7x | 9.3x |

Sources: Capital IQ and 451 Group

Software was the focus of Technology M&A activity in the first quarter of 2010, as Application Software, Infrastructure Software, and SaaS were the leaders in terms of deal volume. The Semiconductor & Equipment sector posted average deal value of \$182 million, with a median EBITDA multiple of 18.2x.

Selected Technology Transactions

| Category | Announcement Date | Target | Acquirer | Enterprise Value (\$mm) | Enterprise Value to LTM | |
|-------------------------|-------------------|--|---|-------------------------|-------------------------|--------|
| | | | | | Revenue | EBITDA |
| Application Software | Mar-10 | Plato Learning <i>Online instruction and educational software</i> | Thoma Bravo <i>Private Equity</i> | \$115 | 1.8x | 35.6x |
| Application Software | Mar-10 | Chordiant Software <i>Software applications, tools, and services</i> | Pegasystems <i>Business process automation software</i> | 104 | 1.4 | NA |
| Application Software | Feb-10 | RiskMetrics Group <i>Risk management and corporate governance products</i> | MSCI <i>Portfolio risk and performance analytics</i> | 1,624 | 5.4 | 16.0 |
| Application Software | Feb-10 | Mimosa Systems <i>Information and content archiving solutions</i> | Iron Mountain <i>Record protection and data management</i> | 112 | 5.1 | NA |
| Application Software | Jan-10 | Sawion <i>Business process management software</i> | Progress Software <i>Application and infrastructure software</i> | 49 | 2.3 | NA |
| IT Services - Corporate | Feb-10 | Intelligent Wave <i>Software development and systems integration</i> | Dai Nippon Printing <i>Printing, packaging, and various media services</i> | 59 | 1.1 | 12.0 |
| IT Services - Corporate | Feb-10 | COMSYS IT Partners <i>IT staffing solutions</i> | Manpower <i>Permanent, temporary, and contract recruitment</i> | 431 | 0.7 | 16.4 |
| IT Services - Corporate | Jan-10 | Xafinity <i>Consulting, software, and outsourcing services</i> | Advent International <i>Private Equity</i> | 308 | 1.4 | 7.3 |
| SaaS | Feb-10 | SkillSoft <i>E-learning and performance support solutions</i> | SSI Investments (Advent, Bain, Berkshire) <i>Private Equity</i> | 1,071 | 3.4 | 9.2 |
| SaaS | Feb-10 | Inform Business Impact <i>SaaS-based human capital analytics and services</i> | SuccessFactors <i>Cloud-based business execution software</i> | 41 | 2.7 | NA |

Sources: Capital IQ and 451 Group

Optimistic Outlook

After record performances in 2006 and 2007 followed by two years of rampant uncertainty, the M&A market looks to regain its footing on its way to a sustained recovery. The second half of 2009 and beginning of 2010 have given us reason to believe that this recovery is underway. While certain industries, such as Pharmaceuticals and Technology, have weathered the storm relatively well due to their strong balance sheets, most sectors have only shown signs of promise recently. The global recession has shifted the focus of companies from unbridled expansion to the maximization of cost efficiencies. This paradigm is manifested in the expansion of margins, in a time when top line growth is flat in most industries. M&A activity has picked up over the past 6 months and employment levels have stabilized.

The major factor that will determine the speed and extent of the recovery of the M&A market is the availability of credit. Essentially frozen for the better part of the last 18 months, debt markets have recently begun to thaw, resulting in an uptick in M&A activity. The debt markets are particularly important to financial buyers, as many of their deals tend to be highly leveraged. We have recently seen indications of the return of private equity investors, but remain skeptical of their activity levels until credit becomes more readily available.

Overall, the M&A market is undeniably in a better place than it was one year ago. The last two quarters have shown an uptick in deal volume and hints of the return of the private equity investor to the broad marketplace. While some sectors have and will recover quicker than others, we believe overall M&A activity will continue to improve as 2010 progresses.

Covington Associates

Recent Transactions

| | | | |
|---|--|---|--|
|  <p>acquired by</p>  <p>\$133,000,000</p> |  <p>entered into a development partnership with</p>  |  <p>acquired by</p>  |  <p>acquired by</p>  <p>\$63,400,000</p> |
|  <p>acquired by</p>  <p>\$12,500,000</p> |  <p>acquired by</p>  |  <p>acquired by</p>  <p>\$6,500,000</p> |  <p>acquired by</p>  <p>\$78,400,000</p> |

Industry Expertise

Business Services

- Consulting
- Government
- Payment & Transaction Processing
- Real Estate Services
- Research

Healthcare

- Clinical Trial Services
- Diagnostics
- Disease Management
- Healthcare Information Technology
- Medical Product Outsourcing
- Medical Devices
- Tools and Reagents
- Therapeutics

Consumer and Industrial

- Analytical Instrumentation
- Consumer Products
- Energy
- Manufacturing & Distribution
- Transportation & Logistics

Technology

- Communications
- Digital Media Technologies
- Enterprise Software
- Hardware
- IT Services
- Reseller/Distribution

About Covington

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Focused on mergers and acquisitions, debt and equity capital raising, debt and equity restructuring, and strategic advisory assignments for middle market companies, Covington Associates has completed transactions ranging in value from \$10 million to close to \$2 billion for both private and publicly traded companies.

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