SCURA PALEY AND COMPANY

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Scura Paley & Company Market Intelligence

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Disclosure: Please refer to the last page of this report for important disclosures.

2012 M&A Outlook

Ample Liquidity & Looming Tax Changes = Time for M&A

- **U.S. companies have unprecedented liquidity available to finance acquisitions.** U.S. corporations have $3.6Tn in cash, of which around $1Tn is trapped overseas. These cash balances are $670Bn more than the previous high in 2007. In combination with increased lending and other cheap credit available, U.S. companies have historic levels of liquidity. We believe that the lack of investment over the past few years and shareholders' need for growth will drive U.S. corporates to increase their market presence by expanding into different segments and geographies through inorganic means.

- **Private equity firms have $500Bn of unused capital commitments.** PE firms are under growing pressure to deploy this dry powder, particularly for vintage 2007–08 funds. Although the start to 2012 has been slow for all private equity investment, this ample liquidity, the shedding of non-core assets by public companies and the shareholder equity & estate-planning issues faced by private companies, should all drive a significant increase in PE activity in 2H12.

- **Low rates have led to more leveraged transactions.** The Fed's commitment to maintain near-zero interest rates, in combination with moderate credit spreads, has led to a rise in debt-funded transactions. Leveraged transactions accounted for >64% of the mid-market PE transactions in the U.S. last year; up from ~56% in 2007. The favorable debt conditions means that buyers are securing higher leverage (~3.3x Debt/LTM EBITDA in 2011).

- **The combination of these factors has contributed to higher multiples for attractive companies.** Mid-market transaction valuations rose from 5.9x EV/LTM EBITDA in 2010 to 6.1x in 2011. We expect deal multiples to remain high in 2012 due to competition between cash rich PE firms and corporates and yield hungry lenders offering cheap and favorable credit. These premiums should continue despite availability of ~4,000 companies for sale in the U.S.

- **Looming tax changes should cause business owners to consider divesting in 2012.** In 2013 the long-term capital gains tax rate will rise from the current 15% to 20% (absent legislative action). In addition, the unearned income of high-income couples will be taxed an additional 3.8% under the 2010 healthcare law. This means that owners selling their businesses in 2013 may pay an incremental $90,000 in tax on every $1Mn in gain.

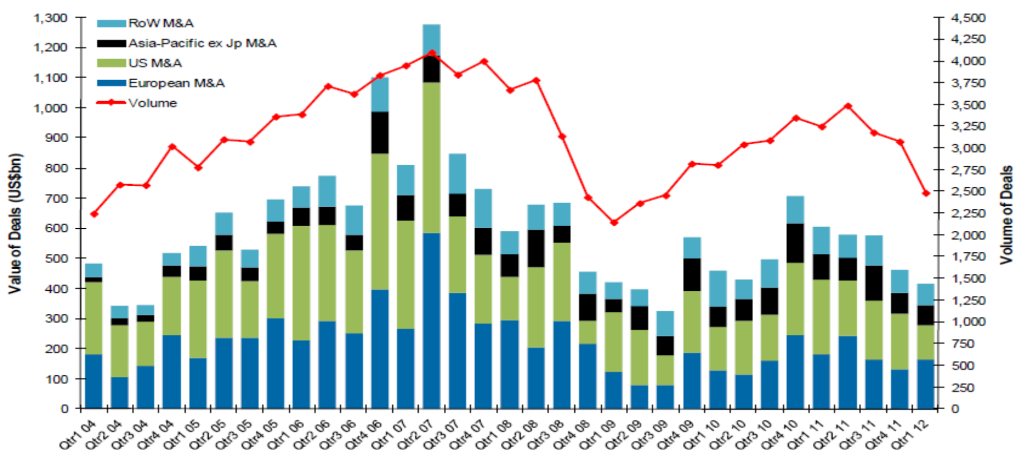
- **Scura Paley's New Capital sectors to dominate the M&A activity, led by the New Electronics and New Media markets, which have ~1,000 U.S. companies for sale.** Healthcare (New Environment) is the second most sought after sector, led by pharmaceutical companies that are likely to divest non-core assets and acquire new assets/broaden their portfolio. In the New Energy sector, we expect deal activity to continue to be driven by upstream acquisitions, as domestic and foreign energy companies are likely to expand their shale reserves, and with declining prices, we expect increased investor interest in the natural gas market.

2012 M&A Outlook

Global M&A Market Review

- **Global M&A is off to a slow start in 2012, with $415Bn invested in 2,483 deals worldwide in 1Q12.** As per mergermarket data, M&A deal value in 1Q12 stood at $415Bn, down ~10% Q/Q from $460Bn in 4Q11. The U.S. market experienced the greatest decline – at $113Bn, deal value was down -54% Y/Y. India, China and other key nations maintained their dominance over the deals in Asia-Pacific, but 1Q12 saw increased activity in smaller nations in this region, led by Perenco SA's $ 1.3Bn acquisition of the Vietnam business unit of ConocoPhillips. While North America saw the largest decline in deal volume, it was also the region with the highest premiums. Global average premium (one day before) are up from 22% in 2010 and 27% in 2011, to 33% in 1Q12; North America leads the way with average premiums of 38%, followed by Asia-Pacific (ex-Japan) at 21% and Europe the most modest at 15%. With ~$150Bn invested in the quarter, the Energy, Mining & Utilities sector maintained its dominant position in the global market, driven by the $53Bn Glencore-Xstrata deal.

Chart 1. Global M&A Activity



Sources: Scura Paley, mergermarket

Chart 2. Global M&A Activity – Industry Breakdown

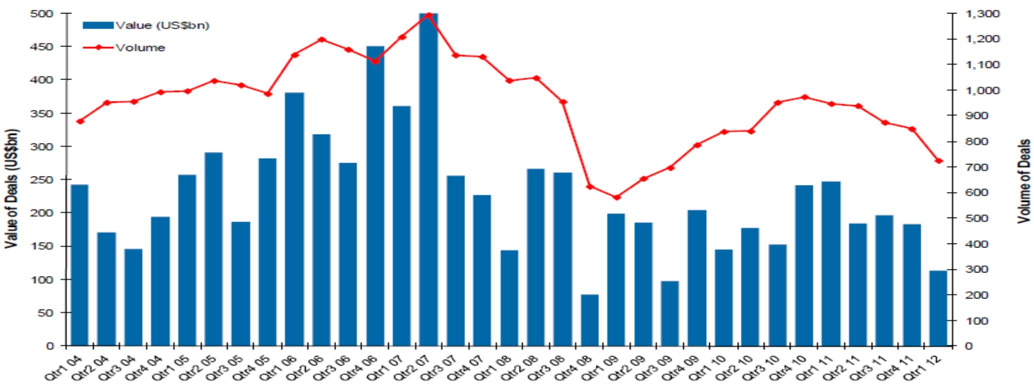
	Q1 2012			Q1 2011			change	
Sector	Value (US$bn)	Market share	Deal count	Value (US$bn)	Market share	Deal count	Value (%)	Deal count
Energy, Mining & Utilities	149.5	36.0%	227	163.6	27.1%	294	-8.6%	-67
Industrials & Chemicals	57.7	13.9%	542	116.5	19.3%	640	-50.5%	-98
Financial Services	36.5	8.8%	199	61.2	10.1%	266	-40.5%	-67
Technology	26.7	6.4%	273	28.5	4.7%	359	-6.0%	-86
Consumer	25.8	6.2%	336	53.4	8.8%	418	-51.7%	-82
Pharma, Medical & Biotech	24.2	5.8%	184	32.5	5.4%	263	-25.4%	-79
Business Services	22.9	5.5%	275	20.3	3.4%	439	12.6%	-164
Construction	19.2	4.6%	95	12.3	2.0%	119	55.3%	-24
Real Estate	15.0	3.6%	50	42.0	7.0%	51	-64.2%	-1
Transport	10.8	2.598%	81	19.1	3.2%	99	-43.4%	-18
Agriculture	9.1	2.2%	25	1.9	0.3%	46	377.8%	-21
Media	7.1	1.7%	85	15.2	2.5%	91	-53.2%	-6
Telecommunications	5.7	1.4%	22	24.9	4.1%	44	-77.0%	-22
Leisure	5.2	1.3%	82	7.0	1.2%	107	-26.2%	-25
Defence	0.01	0.002%	7	5.5	0.9%	12	-99.8%	-5
Total	*415.4*		*2,483*	*604*		*3,248*	*-31.2%*	*-765*

Sources: Scura Paley, mergermarket

U.S. M&A Market Review

- **At $113Bn, the U.S. market accounted for ~28% of the global deal value; however, deal value in the country was down 38% on a Q/Q basis.** Inbound cross-border deals[1] totaled $28Bn, -15% Y/Y from $33Bn and the lowest since the 4Q09 value of $18Bn; while outbound cross-border deals totaled $34Bn, -44% Y/Y from $61Bn in 1Q11. In line with the global trends, the Energy, Mining & Utilities sector dominated the deals in the U.S. accounting for >25% share, led by US-based PE firms Apollo Global Management, Riverstone Holdings and Access Industries, $7.2Bn offer to buy El Paso Corporation's US-based oil and gas exploration and production assets, EP Energy Corporation.

Chart 3. U.S. M&A Activity



Sources: Scura Paley, mergermarket

Chart 4. U.S. M&A Activity – Industry Breakdown

Sector	Q1 2012			Q1 2011			Change	
	Value ($bn)	market share	Deal count	Value ($bn)	market share	Deal count	Value (%)	Deal count
Energy, Mining & Utilities	29.8	26.3%	54	80.7	32.6%	77	-63.0%	-23
Industrials & Chemicals	22.1	19.5%	135	55.3	22.4%	165	-60.0%	-30
Pharma, Medical & Biotech	17.2	15.2%	87	23.2	9.4%	121	-25.5%	-34
Technology	10.4	9.2%	123	20.1	8.1%	159	-48.3%	-36
Consumer	7.5	6.64%	75	5.6	2.28%	88	33.3%	-13
Business Services	7.4	6.5%	84	9.38	3.79%	126	-21.6%	-42
Financial Services	6.0	5.3%	68	6.1	2.5%	93	-1.8%	-25
Real Estate	4.7	4.2%	8	33.53	13.56%	11	-85.9%	-3
Leisure	3.4	3.0%	27	0.8	0.3%	19	335.3%	8
Telecommunications	2.2	2.0%	4	0.2	0.1%	5	1,301.3%	-1
Media	1.0	0.9%	26	5.0	2.0%	28	-79.0%	-2
Construction	0.7	0.6%	15	1.4	0.6%	29	-49.0%	-14
Transport	0.6	0.5%	14	0.93	0.37%	15	-37.6%	-1
Defence	0.01	0.01%	4	5.0	2.01%	7	-99.8%	-3
Agriculture	-	-	1	0.02	0.01%	4	-100.0%	-3
Total	*113.2*		*725*	*247.2*		*947*	*-54.2%*	*-222*

Sources: Scura Paley, mergermarket

- **We believe that the 1Q M&A activity in the U.S. was a victim of uncertainty in global markets over the Euro crisis and low level of investor confidence post the prolonged recession.** We believe that that 1Q12 was unique for the U.S. M&A market, as deal volume and value declined despite good fundamentals and improved domestic macroeconomic conditions. We believe that the primary reasons for this decline include: 1) lack of investor and corporate confidence; 2) slow growth in China – at 8.1%, 1Q GDP growth was the

[1] Inbound refers to deals where the dominant geography of the target is X and the dominant geography of the bidder is outside X; Outbound refers to deals where the dominant geography of the target is outside X and the dominant geography of the bidder is X.

slowest for the country in the past two years; and 3) continued uncertainty in the Eurozone, which had many pundits believing that a worldwide *double-dip* recession could occur. We believe that weak sentiment emanating from the Euro crisis had its affect on the markets worldwide (including the U.S.), as banks remain relatively conservative in lending, and corporate executives are delaying the deployment of capital for organic and inorganic (acquisitions) opportunities, despite sitting on record cash piles and having strong fundamentals in their respective domestic markets. However, with the second Greek bail-out, we feel that the uncertainty around the condition in the Euro region will subside (even if temporarily), thereby paving the way for stronger deal volumes in the remainder of 2012.

- **With improving global macroeconomic conditions and a recovering domestic economy, <u>we feel that the three pillars – fundamentals, sentiments, and valuations – are now right for a revival of M&A activity in the U.S.</u>** We believe that the following will be the key fundamental drivers of U.S. M&A activity in the near future:
  - **Revival of the U.S. stock market – inline or better 2Q earnings**
  - **Major indices find support after tough two months**
  - **Increasing, yet supportive company valuations**
  - **Ample liquidity for acquisitions with corporates**
    - **U.S. corporations are sitting on cash piles worth >$3Tn**
    - **Leading U.S. corporates hold >$1Tn in overseas profits**
    - **Large companies have easier access to capital vs. small companies**
  - **PE firms need to deploy ~$500Bn of committed capital**
  - **Availability of cheap debt – interest rates are at historically low levels**
  - **Proposed increase in capital gains tax from 15% in 2012 to 20% in 2013**
  - **U.S. banking regulations to turn from inhibitors to drivers (JP Morgan's $2Bn loss is clearly a recent headwind to any chance of easing regulations)**

This cautiously optimistic sentiment was also echoed in a recent survey of decision-makers at U.S. corporations, PE firms and investment funds by Wharton & KPMG. As per the results of the survey, 34% respondents were optimistic about the deal environment in 2012, as compared to a year ago, and mentioned that improving business and consumer confidence, coupled with a strong liquidity position, will be the key drivers of deal activity this year.

Chart 5. Optimism about today's deal environment vs. a year ago

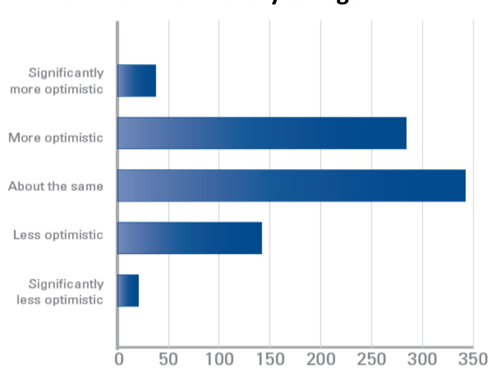
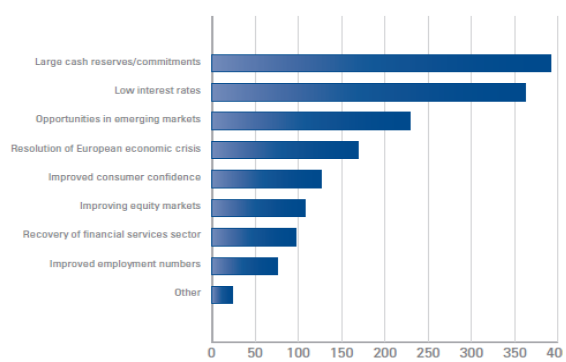


Chart 6. Which two factors do you think will facilitate deal activity the most in 2012?



Sources: Scura Paley, Wharton & KPMG Survey of 825 decision-makers at U.S. corporations, PE firms and investment funds

Key Drivers for U.S. M&A Activity

- **We believe that the better than expected 1Q12 earnings and an improving stock market will boost investor confidence.** As per Factset, 72% of the S&P 500 companies reported 1Q12 earnings above their mean estimates, with reported earnings exceeding street expectations by 5.2% in aggregate. Overall, earnings growth in the quarter stood at 6.1%, with nine out of the ten sectors reporting earnings growth. In line with earnings growth, revenue grew by 5.3% in the past quarter, marking the tenth consecutive quarter of revenue growth for the index. Even though earnings growth is projected to slow down in the coming quarter, we believe that a better than expected quarter will further boost investor confidence to levels required to rekindle M&A interest more broadly. However, stock market indices must reverse recent trends, or at least stabilize in order to create positive conditions for increased M&A activity.

U.S. Equity Market – Key Indices	
Index	**Trailing Total Returns – Year-to-Date***
DJIA	+3.11%
S&P 500	+5.70%
NASDAQ Composite	+8.92%
S&P MidCap 400	+6.88%
Russell 2000	+10.70%

Chart 7. CY 2012 Earnings Growth

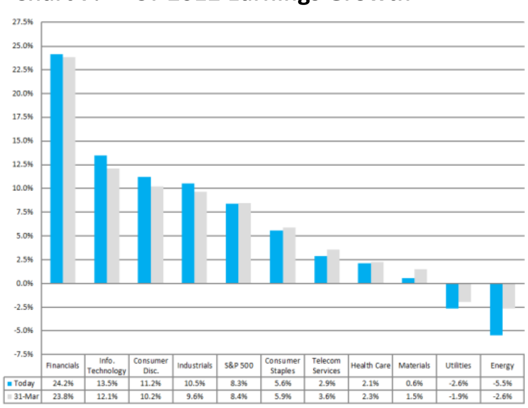
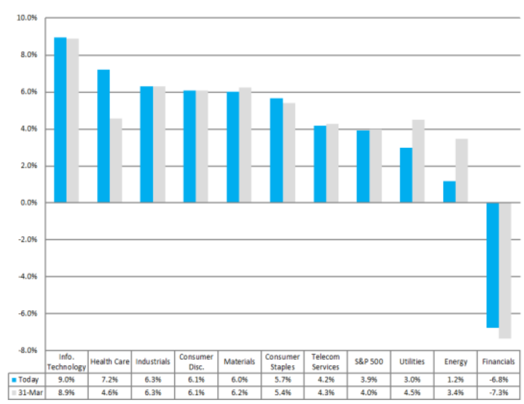


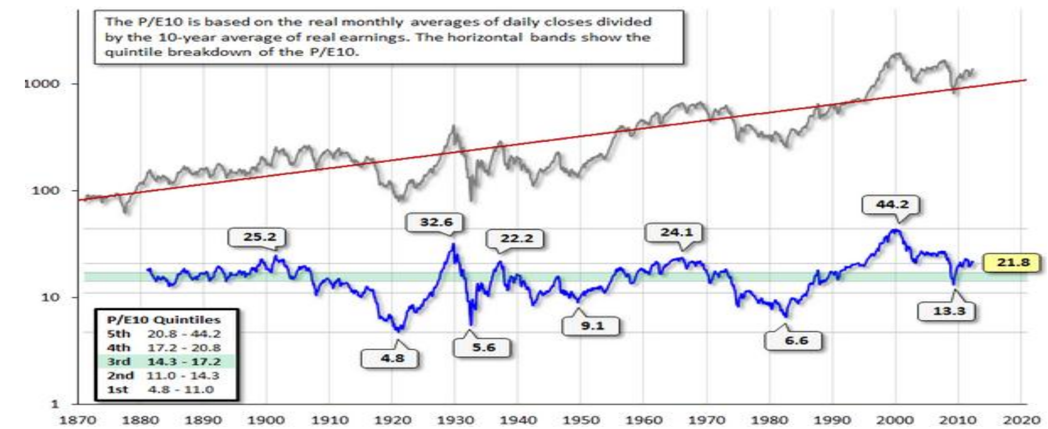
Chart 8. CY 2012 Revenue Growth



Sources: Scura Paley, Factset, S&P, Morningstar – *all returns are for the YTD period ended May 25, 2012, except for Russell 2000 (Apr 30, 2012)

- **We believe that U.S. equity valuations, although high by historical standards, are tight enough to support an abundance of accretive M&A opportunities. We believe this is the right time for buyers to take advantage of supportive valuations and reduced uncertainty in the market.** Run-rate earnings and current prices suggest companies might be undervalued as compared to average valuations over the last 12 years, current P/E of 15x, vs. the 12 year average multiple of 21x. However, U.S. corporates are sitting on record levels of cash, and some might argue that with the market trading at a cheaper P/FCF vs. P/E (an infrequent occurrence) that many corporates are under-investing in capital expenditures and employment growth. Underinvestment is cyclical and limited thus we believe a better valuation metric is current price to average earnings over the past 10 years. The chart below charts this metric over the past 140 years to demonstrate that valuations are high by historical standards, currently at 22x P/E10. In fact, current valuations suggest prices are in the most expensive quintile experienced over the past 140 years. So, unless one can make the assertions that run-rate earnings are defensible and likely to continue growing on a multi-year trajectory, equities are at best fairly valued, and at worst overvalued. Further, improving buyer confidence is also reflected in the premium paid for North American companies by investors – at 38%, the premium is highest in the world (ex-Japan) and has clearly recovered from the lows of 2010. We feel that the combination of rising buyer confidence and improving valuations will attract more acquirers to the market, and drive up premiums even further in the remaining part of 2012. Therefore, we feel that this is the right time for buyers to acquire targets at reasonable prices, as any further delay is likely to result in increased competition and thus higher prices for the same targets.

Chart 9. S&P 500: Inflation Adjusted Price with P/E10 Ratio (1871-Present)



Sources: Scura Paley, dshort.com; updated through May 2012

Chart 10. U.S. P/E10 Ratios by Percentile

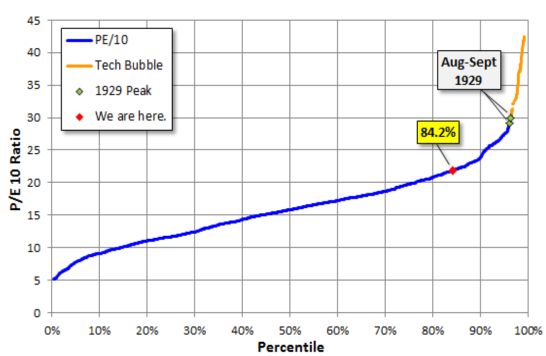
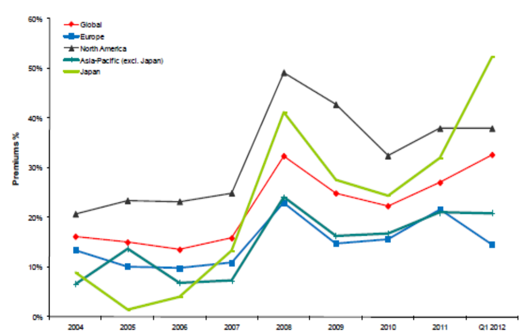


Chart 11. Global M&A Average Premium



Sources: Scura Paley, dshort.com, mergermarket

- **We believe that availability of ample liquidity U.S. corporations is likely to be one of the key drivers of M&A activity this year.**
  - **U.S. corporations currently have $3.6Tn in cash balances, and are likely to make acquisitions to expand and/or improve market share and thus, satisfy shareholders.** The $3.6Tn cash balances with U.S. corporations are $670Bn more by than the previous high in 2007, before the market went into the recession mode. As per some estimates, non-financial corporations account for ~1/3rd of this amount. While a lot of that capital is either held overseas (thanks to unfavorable tax rates in the U.S.), or is likely to go towards dividends and buy-backs this year, we believe that shareholder's need for growth will drive U.S. corporates to increase their market presence by expanding in different segments and geographies through the inorganic route. In a recent survey by

E&Y, ~50% of U.S. companies that have either re-engaged in M&A or are considering deals, said that they will use cash as their primary source of funding. The majority of this cash is with companies in the technology, industrials or healthcare sectors and therefore it does not come as surprise to us that these three sectors combined accounted for >60% of the deal value in 1Q12, a trend that we expect to continue for the remainder of the year. Further, financial services firms (banks) that had been very conservative in lending during the recession are beginning to adopt a more liberal approach and are easing credit norms slightly with the recovery in the market.

Chart 12. Top 10 Cash Rich U.S. Corp (ex-Fin, $Bn)

Company Name	Cash and Short Term Investment 1Q 2012	Long Term Investment 1Q 2012	Agregate
General Electric Company (NYSE:GE)	83,650	65,963	149,613
Apple Inc. (NasdaqGS:AAPL)	28,538	81,638	110,176
Microsoft Corporation (NasdaqGS:MSFT)	58,155	9,068	67,223
Exxon Mobil Corporation (NYSE:XOM)	18,670	34,527	53,197
Cisco Systems, Inc. (NasdaqGS:CSCO)	48,412	1,047	49,459
Google Inc. (NasdaqGS:GOOG)	47,616	880	48,496
Chevron Corporation (NYSE:CVX)	19,768	23,226	42,994
ConocoPhillips (NYSE:COP)	4,215	33,222	37,437
Johnson & Johnson (NYSE:JNJ)	33,847	1,745	35,592
Pfizer Inc. (NYSE:PFE)	23,993	11,436	35,429

Chart 13. Top 10 Cash Rich U.S. Fin. Corp ($Bn)

Company Name	Cash and Short Term Investment 1Q 2012	Long Term Investment 1Q 2012	Agregate
JPMorgan Chase & Co. (NYSE:JPM)	869,939	386,326	1,256,265
Citigroup, Inc. (NYSE:C)	808,596	297,323	1,105,919
Bank of America Corporation (NYSE:BAC)	643,881	311,339	955,220
The Goldman Sachs Group, Inc. (NYSE:GS)	845,885	667	846,552
Morgan Stanley (NYSE:MS)	625,362	37,216	662,578
MetLife, Inc. (NYSE:MET)	39,397	386,660	426,057
Wells Fargo & Company (NYSE:WFC)	165,232	244,322	409,554
American International Group, Inc. (NYSE:AIG)	46,708	306,597	353,305
Prudential Financial, Inc. (NYSE:PRU)	46,986	273,388	320,374
The Bank of New York Mellon Corporation (NYSE:BK)	125,018	90,535	215,553

Sources: Scura Paley, Capital IQ

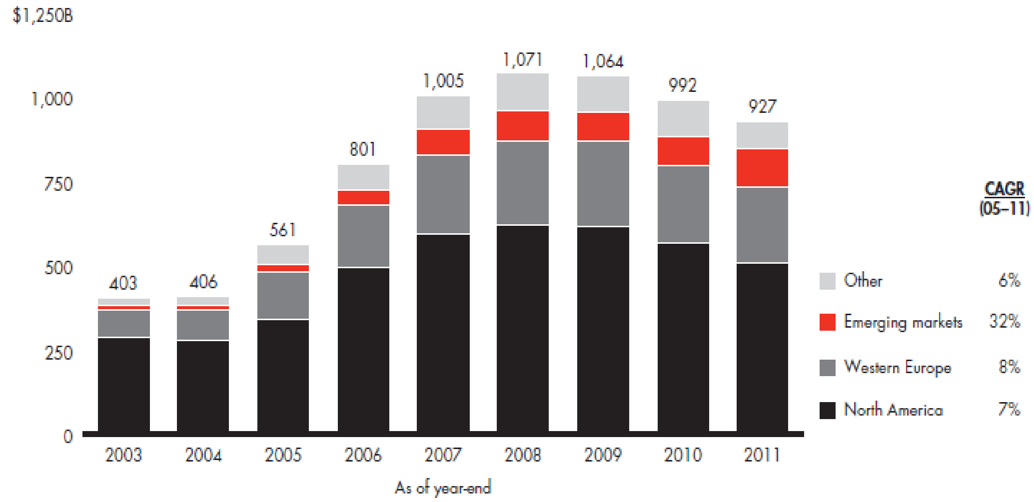
- **Leading U.S. companies also hold $1.2Tn in foreign profits, which could be used to fuel M&A activity.** As per Bloomberg, 70 U.S.-based companies added $187Bn in untaxed overseas profits in 2011, +18% on a Y/Y basis, thus taking the value of their cumulative overseas cash to $1.2Tn. These companies prefer to park their profits in low-tax overseas locations to avoid the 35% corporate tax charged by the U.S. government. For example, Apple has opened offices in low-tax countries such as Ireland, the Netherlands, Luxembourg and the British Virgin Islands to beat the U.S. tax authorities. GE, with $102Bn in overseas profits, and Pfizer, with $63Bn, are the leading companies in this regard, followed by Apple, Google, and Microsoft – these five giants increased their overseas profit by >40% last year. We believe this strategy help these corporations avoid tax, and also gives them high purchasing power in the global market. In fact, spending on an acquisition is a better alternative for these organizations, as opposed to brining the money back to the U.S. and getting taxed on the same amount.

- **Further, large companies (likely acquirers) also have easier access to cheap capital as compared with the smaller companies.** As per The Wall Street Journal, the 2011 cumulative sales, profits and employment of S&P 500 members exceeded the totals of 2007, before the recession and financial crisis. Therefore, these large companies with healthy balance sheets are finding it easier to take on additional debt or refinance at historically low rates. On the other hand, lending to small businesses is still very tight – as per Biz2Credit, large banks approve on an average only 10% of the requests they receive from small businesses, making it difficult for the smaller companies to stay competitive or to obtain financing.

Therefore, with existing large cash piles – domestic as well as overseas profits – and easier access to capital, we expect U.S. corporates to channelize these funds towards expansion and growth (both organic and inorganic), and believe that this will drive M&A activity in 2012.

- **Private equity firms are estimated to have $500Bn of committed capital to deploy largely for M&A deals in the U.S.** PE firms, which had drastically reduced their deal activity during the recession period, are estimated to be sitting on investment capital worth ~$500Bn to be invested in the U.S., and are under pressure to deploy their remaining capital, especially for vintage 2007–08 funds. We believe that the urgency to deploy this capital will increase further as the equity market stabilizes. While shedding of non-core assets will drive PE activity among public companies, we believe that issues around shareholder equity and estate-planning will stimulate the deal activity in the private company segment.

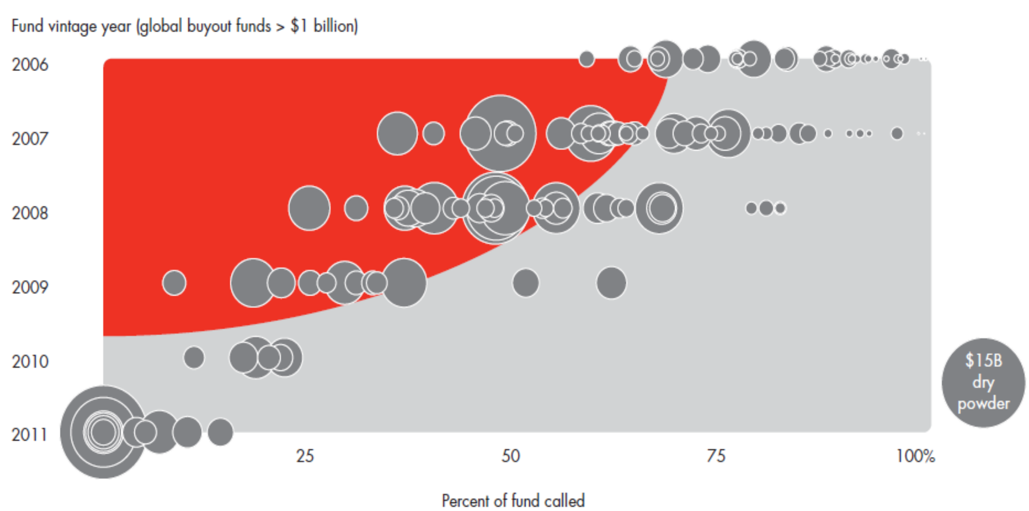
Chart 14. Global PE Dry Powder by Investment Region Focus



Note: "Other" includes developed countries outside of North America and Western Europe

Sources: Scura Paley, Preqin, Bain & Company

Chart 15. Dry Powder with PE Firms – 2011

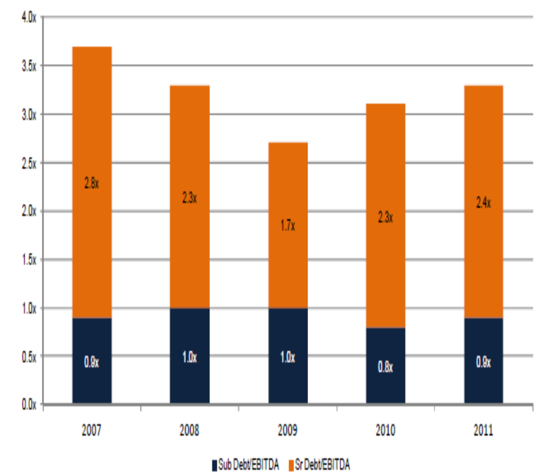


Sources: Scura Paley, Preqin, Bain & Company

- **We believe that the availability of cheap debt (near zero interest rates) will also boost M&A activity, as well as keep deal multiples elevated.** The Federal Reserves are committed to maintaining low rates, in large part to inflate the debt capital market. In its latest policy announcement, the Fed committed to keeping the short-term interest rates at near zero levels through 2014, which has been maintained since 2008 (6 years). Although many experts question the validity of this promise, to put this in historical context, rates remained below 3% for over 20 years following the Great Depression to fund World War II. Further, investment grade corporate bond yields are at record low of ~3.4% and the 10 year swap rates are at ~4.4%. We believe that these conditions provide a very good opportunity for investors (both corporate as well as financial) looking for debt-financed deals.

Chart 16. Interest Rate – 10-Y Treasury Notes

Chart 17. Debt Multiples – US Mid. Mkt PE Deals



Sources: Scura Paley, multpl.com, GF Data Resources

- **Private equity players in the U.S. have, in particular, used the favorable debt market conditions to their advantage over the past few years**, as the easy access to credit means that PE firms have been able to secure financing on favorable terms even for riskier deals. With many loans imposing few covenant restrictions and creditors more willing to take a second-lien position, debt financed deals accounted for >64% of the mid-market PE transactions in the U.S. last year, up from ~56% in 2007, as per GF Data Resources. The favorable debt conditions meant that buyers were able to secure senior debt with leverage ratios equal to ~3.3x in 2011, in line with the multiples for deals that took place in 2008; we believe this as a key driver of rise in valuations – while the overall buy-out deals paid premium as much as 8.5x in 1H11, aggregate mid-market deal valuations went up from 5.9x in 2010 to 6.1x in 2011. However, we observe that size has replaced financial performance as the key criteria for commanding a premium as PE firms, flush with cash, are paying higher multiples to acquire large firms, while the premium for "above-average financial performance" is on a decline. In 2011 mid-market PE deals, firms valued between $50-250Mn were able to command average multiples of 7.7x total enterprise value (TEV) / trailing twelve months (TTM) adjusted EBITDA, while the same number for firms valued between $10-50Mn stood at 5.5x – this 2.2x spread is much higher than the five year range of 0.7-1.2x. On the other hand, quality premium for above-average financial performers based on their revenue growth and EBITDA margins, fell from the traditional average of 3% to <0% in 2011; however, even here, the relatively larger companies were able to attract some premium based on size of their business. Further, this trend is not limited to mid-market PE deals only – larger companies across the board have commanded better multiples, especially in the last twelve months (depicted in the charts below), both from strategic as well as financial buyers.

  Overall, we expect deal multiples to remain high in 2012 due to 1) competition between cash rich PE firms and corporates; 2) yield hungry lenders offering cheap and favorable credit; and 3) availability of companies for sale *(discussed later).*

Chart 18. Median Implied Enterprise Value / EBITDA – North American Targets

	Last Twelve Months Ending April 30th of:									
	2008		2009		2010		2011		2012	
Target's Sector	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M
Consumer Discretionary	9.7x	11.4x	8.6x	7.3x	8.6x	11.0x	13.0x	8.7x	9.6x	9.1x
Consumer Staples	8.3x	12.6x	7.4x	9.0x	12.7x	9.6x	6.4x	8.2x	9.3x	8.6x
Energy	6.6x	11.6x	5.7x	9.7x	7.0x	9.9x	10.2x	12.3x	8.3x	11.2x
Financials	11.7x	14.7x	14.4x	11.3x	11.0x	10.9x	12.9x	14.1x	11.4x	14.0x
Healthcare	15.3x	16.8x	8.9x	11.5x	10.1x	13.4x	12.1x	11.5x	11.8x	19.5x
Industrials	8.7x	12.2x	9.0x	10.9x	5.9x	9.1x	7.2x	10.4x	8.6x	10.5x
Information Technology	16.4x	15.0x	9.6x	12.2x	8.2x	12.7x	12.9x	16.6x	10.0x	15.3x
Materials	9.9x	8.7x	9.4x	11.1x	10.2x	11.6x	5.7x	13.7x	7.8x	9.9x
Telecommunication Services	8.4x	9.6x	9.6x	6.7x	4.6x	7.0x	5.9x	8.9x	9.5x	6.5x
Utilities	12.9x	8.8x	6.5x	11.0x	18.0x	10.8x	9.8x	9.4x	6.8x	12.3x

Sources: Scura Paley, S&P Capital IQ (as of 4/30/12)

Chart 19. Median Implied Equity Value / LTM Net Income – North American Targets

	Last Twelve Months Ending April 30th of:									
	2008		2009		2010		2011		2012	
Target's Sector	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M
Consumer Discretionary	13.1x	24.5x	11.9x	25.6x	12.1x	23.0x	18.1x	17.7x	16.1x	22.4x
Consumer Staples	7.5x	27.7x	12.6x	20.0x	21.1x	14.5x	15.2x	14.2x	13.6x	19.3x
Energy	16.1x	27.0x	12.9x	21.7x	12.3x	26.4x	18.9x	24.8x	10.7x	27.1x
Financials	21.8x	22.6x	23.0x	19.9x	14.4x	18.9x	18.1x	18.3x	14.6x	14.3x
Healthcare	21.8x	48.3x	10.9x	22.2x	18.1x	30.6x	22.3x	23.9x	16.7x	60.9x
Industrials	15.1x	28.5x	11.7x	19.1x	16.5x	20.0x	15.1x	23.9x	12.1x	19.9x
Information Technology	21.0x	34.3x	18.7x	24.0x	16.4x	34.7x	20.5x	40.8x	12.2x	42.9x
Materials	12.0x	16.9x	16.2x	27.3x	12.1x	24.9x	10.5x	16.8x	14.7x	17.3x
Telecommunication Services	14.2x	31.4x	28.1x	N/A	0.0x	44.9x	45.9x	27.0x	N/A	114.7x
Utilities	40.5x	20.1x	13.7x	30.6x	124.2x	N/A	12.5x	17.5x	16.1x	23.4x

Sources: Scura Paley, S&P Capital IQ (as of 4/30/12)

- **For business owners inclined to optimize their after-tax dollars, we believe this is the right time to engage in a deal, as the legislated cuts to capital gains tax are set to expire at the end of 2012.** Currently, the two lowest income tax brackets pay 0% on long-term capital gains and dividends, with all other brackets paying 15%. However, this equation is set to change in 2013; as per the new tax regime proposed by the Obama administration, long-term capital gains will be charged a top rate of 20%, an increase of 33%. Further, as part of the 2010 health- care law, the unearned income of couples earning $250,000 and individuals making at least $200,000 will be taxed an additional 3.8%. This effectively means that owners selling their businesses will pay $90,000 in additional tax on every $1Mn in proceeds. Therefore, we believe that 2012 is the right time for owners looking to exit (completely or partially), as the impending tax rates might even offset any potential rise in valuations – we believe this will be a key driver of M&A deals this year. We advise owners to start the sale process now, as a business sale could take anywhere from six to nine months.

- **We believe that recent steps taken by the Fed are likely to change the investor perception of new banking regulations from inhibitors to drivers of M&A activity.** The Dodd-Frank Act, including the Volcker Rule, was designed to ensure that banks (and the economy) do not end up in situations similar to the recent recession; however, given the sheer volume of these new rules, they were not well received by the financial services community and banks who will have to make changes to their business models to meet much tougher regulatory restraints, that might result in loss of business, as well as fewer transactions. However, recent developments show that these rules are likely to trigger M&A activity, as opposed to hamper it. In December 2011, the Fed cleared PNC's $3.5Bn bid for the U.S. arm of the Royal Bank of Canada, and in February this year, it approved Capital One's $9Bn acquisition of ING Direct. The importance of these two deals can't be overstated, since both these were cleared by the Fed once it had run its financial stability test on these deals, and gave confidence to buyers that the Fed will not only look at and analyze transactions closely, but will also clear them, provided they are good for the banking system. In another positive development, most of the 19 biggest U.S. banks cleared the stress tests comfortably. While this is good news for shareholders and banks, which are likely to benefit from dividends and buybacks, we believe it also sends a positive signal to the market about the capital that these banks have to fund potential M&A deals. With interest rates at record lows, we believe that these regulatory developments (for a change) are likely to boost M&A activity in the U.S. in the coming months.

New Capital Sectors to lead M&A Activity

- **Scura Paley's New Capital sectors are expected to dominate the deal activity in the U.S. in 2012, led by the New Electronics and New Media markets, which have ~1,000 U.S. companies for sale.** Other leading sectors are Healthcare (pharma, medical & biotech) and Energy, Mining & Utilities. As per our analysis and PwC's 2012 U.S. M&A outlook, we believe that TMT (New Media & New Electronics) will witness the highest deal activity due to 1) enterprise vendor consolidation; 2) convergence of computing, communications and entertainment on consumer devices; 3) the disruptive impact of cloud computing. The key sub-sectors to watch out for will be storage, mobile devices and social networking.

  Healthcare (New Environment) is the second most sought after sector, led by pharmaceutical companies that are likely to divest non-core assets and acquire new assets/broaden their portfolio that can leverage existing distribution networks. Further, uncertainty around President Obama's healthcare reforms and expiry of patents and drugs in the coming years is likely to be a driving force behind consolidation in the pharma sector. In the New Energy sector, we expect deal activity to continue to be driven by upstream acquisitions, as domestic and foreign operators are likely to expand their shale reserves, and with declining prices, we expect increased investor interest in the natural gas sub-segment. In the New Finance sector, domestic deals are likely to be driven by spinoffs by leading FS firms to boost their capital levels, thereby attracting corporate and PE buyers, like the HSBC-Capital One deal in 2011. International deals, on the other hand, are likely to driven by the desire of European banks to sell their non-core U.S. banking operations to leading U.S. banks, so that the European banks can meet more critical funding requirements at home.

Chart 20. US Companies for Sale by Sector – M&A Heat Chart

Sector	USA	Canada	Brazil	Central America	South America (excl Brazil)	North America (excl USA & Canada)	Total
TMT	980	53	44	35	34	3	1,149
Pharma, Medical & Biotech	643	15	12	10	4		684
Energy, Mining & Utilities	429	337	76	26	62	12	942
Industrials & Chemicals	407	42	40	33	18	3	543
Consumer	399	43	66	31	30	3	572
Business Services	378	23	35	12	9	1	458
Financial Services	311	19	28	21	24	10	413
Leisure	154	8	12	35	15	2	226
Transportation	71	20	17	32	13	4	157
Defence	52	1			1		54
Real Estate	50	9	12	2	4		77
Construction	48	5	7	36	4	1	101
Government	40	1	1				42
Agriculture	7	4	3	1	3	1	19
Total	3,969	580	353	276	222	40	5,440

Sources: Scura Paley, mergermarket. Heat Chart is based on "companies for sale" tracked by mergermarket between 15 September 2011 and 15 March 2012. Opportunities are captured according to the dominant geography and sector of the potential target company.

Appendix

Chart 21. US M&A 1Q12 Overview: Top Deals

Announced Date	Bidder Company	Target Company	Seller Company	Deal Value (US$m)
24-Feb-12	Apollo Global Management, LLC; Riverstone Holdings LLC; and Access Industries Inc	EP Energy Corporation	El Paso Corporation	7,150
25-Jan-12	Roche Holding Ltd	Illumina Inc		6,846
28-Mar-12	Tyco Flow Control	Pentair Inc		5,230
27-Jan-12	Eastman Chemical Company	Solutia Inc		4,600
30-Jan-12	ABB Ltd	Thomas & Betts Corporation		3,770
15-Feb-12	Kellogg Company	Procter & Gamble Company (Pringles snack business)	Procter & Gamble Company	3,545
17-Feb-12	Advent International Corporation; and GS Capital Partners	TransUnion Corp	Madison Dearborn Partners LLC; and Pritzker family	3,178
23-Jan-12	Apache Corporation	Cordillera Energy Partners III LLC	EnCap Investments LLC	2,850
19-Mar-12	Williams Partners LP	Caiman Eastern Midstream LLC	Caiman Energy LLC	2,500
03-Jan-12	Sinopec International Petroleum Exploration and Production Corporation	Devon Energy Corporation (33.3% stake in five US oil and gas projects)	Devon Energy Corporation	2,500

Sources: Scura Paley, mergermarket

Chart 22. US Private Equity Buyout Activity

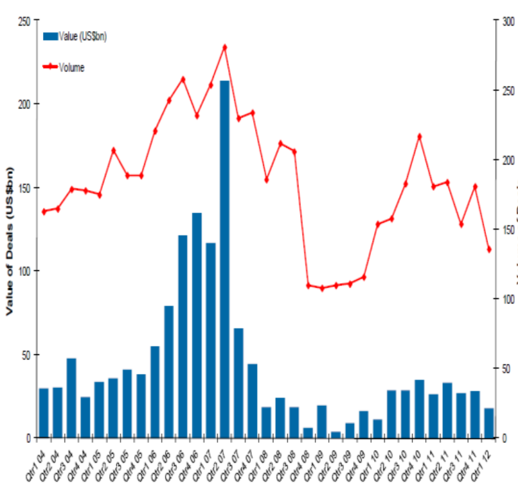
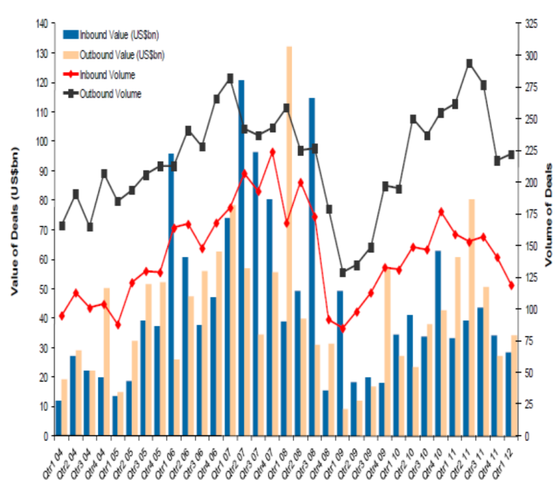


Chart 23. US Inbound/Outbound M&A



Source: Scura Paley, mergermarket

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