



THE COVE MONTHLY

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Global M&A

Activity in the M&A and capital markets in the first quarter of 2010 may provide indications about what the rest of the year (and perhaps 2011) will bring.

First quarter 2010 M&A saw a continuation of the growth in European M&A deal activity that began toward the end of 2009. Companies are once again exploring strategic M&A opportunities across Europe with some enthusiasm. Also, we saw a return of M&A activity in the emerging markets, particularly Russia and China. There is an increasing willingness to consider structuring transactions using paper (equity securities) as a substantial component of the overall consideration being offered to target shareholders, including in hostile takeovers. Furthermore, the modest return of lending activity in 2010 has given strategic buyers the ability to consider offering cash as part of the consideration, which is a significant change from 2009. On the private equity front, we have seen sufficient interest in European deal activity by funds to suggest that there should be a pickup in activity during the year, although much will depend on the stability of the credit markets.

We are optimistic that M&A activity by strategic buyers will continue to increase in Europe during the rest of the year. There continues to be a need for consolidation across several industries in Europe, and the improving market outlook should facilitate activity by compa-

nies that have been waiting for a more stable environment.

However, while the low interest rate environment should provide a further incentive for companies to spring into action, the Greek debt crisis has been a reminder that the state of public finances of certain Euro economies remains vulnerable.

We believe, therefore, that some companies will remain on the sidelines for a while longer and observe how European governments address their growing budget deficits and public debt in the coming months. It seems clear that U.S. companies are emerging from the Great Recession faster than their European counterparts and so that should create opportunities for U.S. companies to acquire targets in Europe. That said, M&A activity may be hampered in Europe by the protectionist winds blowing through several of the principal European economies, including some of the traditionally most active cross-border M&A markets (e.g., the recently published U.K. Labour manifesto promising increased takeover protection for British companies in the wake of Kraft/Cadbury).

Turning to Asia, it is clear that the dramatic pickup in equity capital markets that began in earnest in the fourth quarter of 2009 has translated into an increase in M&A activity. Outbound cross-border M&A, by Asian bidders to the rest of the world, features targets in Europe, Africa and

South America, in addition to the United States. The most active sectors continue to be energy, natural resources and commodities.

China in particular is fueling enormous growth in the M&A market, as it sits on \$2.5 trillion of foreign exchange reserves and, in addition, its financial institutions are sitting on hundreds of billions more. It will seek to start to invest, rather than “park” its dollars and euro in non-bond investments. It is forecast that in 2010, China will outwardly invest upwards of \$60 billion and that may be understated, given that official Chinese government data is sometimes revised sharply higher.

Based on the foregoing, we expect M&A activity to strengthen. Indeed, absent any significant deterioration in the equity capital markets, we should see a significant pick up in both outbound and inbound M&A.

U.S. M&A

First quarter 2010 M&A activity outpaced 2009 levels, although perhaps not at the levels expected following the surge of activity in the fourth quarter of 2009. A robust stock market and healthier credit markets resulted in public market transactions of all types, including stock mergers (such as Schumberger/Smith International and Allegheny Energy/First Energy), cash acquisitions (such as Merck/Millipore), hostile bids (Simon Properties/General Growth, Air Products/Airgas, and OSI/Astellas), as well as public LBO acquisitions (ABRY/RCN) and hedge fund activity

(Elliot/Novell). Although the economy has not fully recovered, companies have more confidence than they have had in the recent past and the improvement in the credit markets has made debt financing for acquisitions more readily available. The number of private M&A transactions also increased during the quarter from the same period in 2009, as sellers took advantage of greater market confidence and better valuations than in 2009.

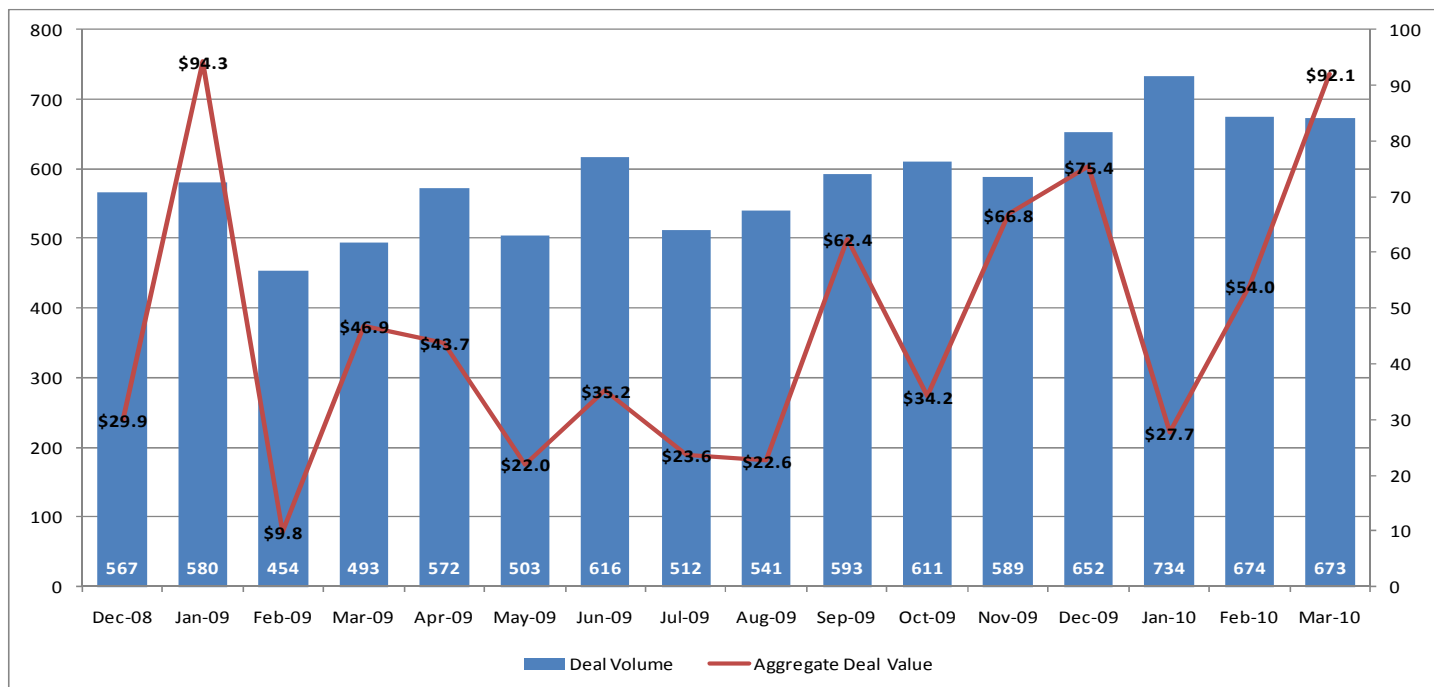
After having dropped to a six-year low at the beginning of 2009, deal activity picked up steadily in 2009, suggesting a return to ‘normalcy’ The fourth quarter of 2009 saw the announcement of 831 deals with a total value of US\$221.7bn. It was the most active quarter by volume for the year and may act as the catalyst to re-ignite M&A in the region.

Even with the more promising fourth quarter in 2009, overall year-on-year values were down by just under 7% (only rescued by a number of blockbuster life sciences deals). While 7% may not seem too bad considering the economic climate, it was the massive drop in deal volume that proved far more telling – a decrease of 26% from 2008. Comparisons with 2007 – possibly more indicative given the turmoil that enveloped much of 2008 – showed a far steeper drop of almost half by value in 2009.

Conclusion

We project that the second half of 2010 will see significant increases in M&A across the board in many countries, especially the EU and China.

US Mergers & Acquisitions Market Index



Deal volume in the U.S. M&A market held steady in March, settling at 673 deals compared to 674 in February. The market continues to show signs of sustained improvement with four consecutive quarters increasing deal volumes; 1q10 is up 12.4% from Q409 and 36.3% from Q109. Aggregate M&A spending nearly doubled from February, increasing to \$92.1 billion in March from \$54.0 billion and recording the second highest level in the prior 16 months, just shy of January 2009's \$94.3 billion total.

Over the past 3 months, the industries that have seen the biggest increases in M&A deal activity, relative to the same three month period one year ago, have been:

- ◆ Computer Software, Supplies Services (428 vs. 290),
- ◆ Wholesale & Distribution (119 vs. 67),
- ◆ Banking Finance (84 vs. 47), and
- ◆ Brokerage, Investment & Management Consulting (154 vs. 117).

Continuing the upward momentum, 37 of the 49 industries tracked by FactSet Mergerstat posted positive relative gains in deal flow over the last three months compared to the same three months one year prior.

Over the past 3 months, the industries that have seen the biggest declines in M&A deal volume, relative to the same three month period one year ago have been:

- ◆ Beverages (7 vs. 16),
- ◆ Plastics & Rubber (10 vs. 18), and
- ◆ Real Estate (13 vs. 19).

Ten of the 49 industries tracked by FactSet Mergerstat posted negative relative losses in deal flow over the last three months compared to the same three months one year prior, for a combined loss of only 43 deals.

Topping the list of the largest deals announced in March were:

- ◆ Prudential PLC's \$34.5 billion deal for American International Assurance from AIG;
- ◆ MetLife's \$9.8 billion deal for AIG's American Life Assurance unit;
- ◆ BP PLC's deal for Devon Energy Corp's Brazil, Azerbaijan, and US Deepwater operations for \$7.0 billion;
- ◆ CF Industries' \$4.7 billion deal for Terra Industries Inc; and
- ◆ CONSOL Energy's \$3.5 billion deal for the natural gas and oil exploration business of Dominion Resources Inc.

U.S. private equity volume continues to hold relatively steady, increasing 11% for March and scoring the third highest level in the prior 12 month period. Aggregate base equity for March nearly tripled to \$5.9 billion from \$2.0 billion in February. The number of new announcements for Q110 reached its highest level for the prior four quarters with 150 deals and a 22% improvement from 4q09. Transaction value for Q110 was \$11.6 billion, down 7% from Q409's \$12.5 billion.

Canadian firms once again were the biggest buyers of U.S. companies in March. They announced 19 deals for the month, with U.K. companies in second with 12 deals, followed by Germany, Australia, and Israel. On the other hand, U.K. firms continue to be the biggest sellers to U.S. companies in March, with 27 deals. Canadian firms came in second with 16 deals, followed by Germany, France, and Australia. Based on deal value for March, deals for U.K. and Australian firms were \$4.0 billion and \$3.5 billion, respectively. Conversely, the aggregate value of top purchasers for the month was \$42.7 billion for U.K. firms and \$1.3 billion for Indian firms.

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RECENT TRANSACTIONS



has sold



EXCEL
MERIDIAN
DATA, INC.
Est. 1992



INVESTMENT BANKING

March 2010

Sunlight Direct LLC

has acquired the assets of



COVE PARTNERS LLC

INVESTMENT BANKING

March 2010



ASC 350 Valuation



INVESTMENT BANKING

March 2010



ASC 350 Valuation



INVESTMENT BANKING

February 2010



Corporate Valuation



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