

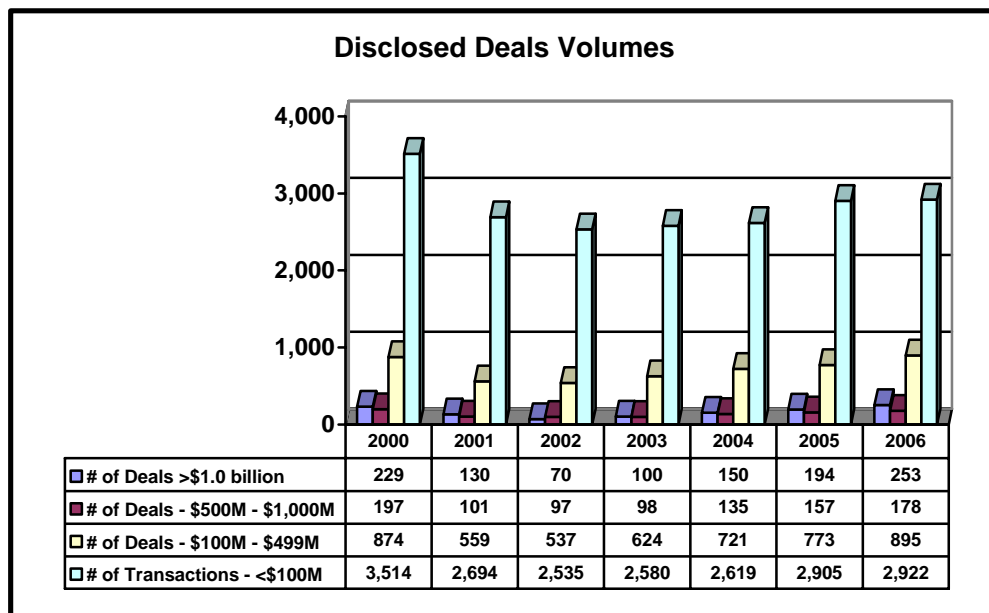


**To:** NEPC  
**From:** Alternatives Research Team  
**Date:** March 29, 2007  
**Subject:** March Thoughts for Alternatives

**Private Equity Market Commentary**

**Mergers and Acquisitions – Volumes and Multiples – Sellers’ Market**

The U.S. Mergers and Acquisition’s market has seen increases in both volume and purchase price multiples over the last six years. As a flood of cheap debt has flown in to the space, buyers have been able to leverage the deals to the hilt in order to pay higher and higher purchase prices. And sellers of these companies have been more than willing to accept these high purchase prices to cash out some tremendous profits. While the huge deals (Dunkin’ Donuts, Hertz, Equity Office Properties, Harrah’s, etc.) receive the most attention from the press, middle market deals (defined as those with transaction values under \$1 billion) are far more numerous and quite active, as well. *Thomson Financial and Robert W. Baird & Co M & A Market Analysis* of number of transactions by size for disclosed deals supports this observation.





The disclosed deal volumes show the bulk of the M&A activity, in terms of number of deals, is in the lower end of the middle market where deal sizes are less than \$100 million.

Additionally, an analysis of disclosed deal pricing indicates the current market is a sellers’ market as purchase price multiples continue to grow. While the purchase price multiples have grown in excess of 30% on the larger end of the market, purchase price multiples have also grown on the lower end of the market, as well. As purchase price multiples grow, companies will need to generate much stronger earnings in order to produce the same returns for private equity limited partners that investors have grown accustomed to over the past few years.

