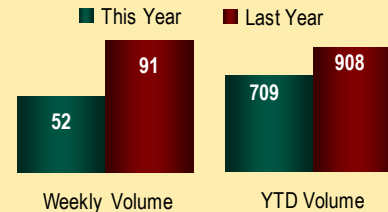


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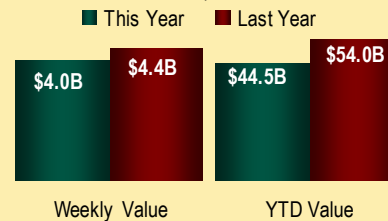
## Mid-Market Volume

\* Deals \$1 - \$500 million, no undisclosed



## Mid-Market Values

\* Deals \$1 - \$500 million, no undisclosed



## Hot Sectors This Week

- #1 – **Computer Software, Supplies & Services**  
(11 Deals)
- #2 – **Brokerage, Investment & Management Consulting**  
(3 Deals)
- #3 – **Printing & Publishing**  
(2 Deals)

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## On the Wire This Week...

### PE Viewpoints: What Lies Ahead for '05

Money to spend, increased competition among shoppers, and more aggressive strategic buyers are all part of the private equity landscape at the start of the second quarter, according to a Baird survey of 56 Middle Market private equity firms and several mid-market private equity firm directors contacted by *Flashwire Weekly*.

[\(see page 2 or click here for full story\)](#)

### Defense Sector Armed for Consolidation; Small Aerospace Deals May Take Off

The prognosis is good for defense sector M&A in 2005 despite slowing US Defense Department spending, according to a Banc of America Securities research report released last week. The Aerospace & Defense supplier sector overview issued by lead analyst Robert Stallard and his associates declared the defense side of the house the stronger M&A prospect overall, but pointed to possible deal opportunities for mid-sized aerospace supply companies as well.

[\(see page 3 or click here for full story\)](#)

### Takeover Defenses Declining Among S&P 500 Companies

By the end of 2005, it's likely that a majority of the companies in the S&P 500 will not have a classified board or poison pill in place for the first time in 17 years, according to recent data from *Sharkrepellent.net*.

[\(see page 5 or click here for full story\)](#)

## Quest for the Title

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## Heavyweights of the Week

**\$455 MILLION** Okabe captures the Water Gremlin

**\$397 MILLION** HiMart to sell 80% of company to investor group

**\$357 MILLION** Mission Resources gets tapped by Petrohawk Energy

**\$314 MILLION** Computer Associates Intl inks a deal for Concord Comm

**\$185 MILLION** Questex Media Group scores five divisions



## PE Viewpoints: What Lies Ahead for '05

Money to spend, increased competition among shoppers, and more aggressive strategic buyers are all part of the private equity landscape at the start of the second quarter, according to a **Baird** survey of 56 Middle Market private equity firms and several mid-market private equity firm directors contacted by *Flashwire Weekly*.

"I'd be very surprised, absent some sort of catastrophic event in the marketplace, if 2005 doesn't turn out to be at least as strong or stronger than 2004," said Charlie Gwirtsman, managing director & co-founder of **KRG Capital**, a private equity investment firm that consolidates middle market companies. His views are consistent with the Baird survey, which found 60% of respondents expecting a stronger economy over the next year.

"We think 2005 is going to be a very strong year for sales of our platform companies," Gwirtsman added. "We've begun to retain advisors and position companies for sales later in the year."

"Our LPs want us to get returns on investment of a certain magnitude, and if the M&A markets are hospitable and we think we can get those in a shorter timeframe, we think it's our obligation to at least seriously consider an exit for one or another of our companies," he said.

Gwirtsman said KRG plans to be a net seller of med-tech and health services sector companies in the next 12 to 18 months, capitalizing on the high-multiple selling environment. The firm, which in the first quarter negotiated to buy companies that will finish out its Fund II and worked to raise monies for a Fund III, has been looking for purchases in niche areas of infrastructure, including oil services and fire suppression, and in financial services niches.

“I'd be very surprised, absent some sort of catastrophic event in the marketplace, if 2005 doesn't turn out to be at least as strong or stronger than 2004.”

Charlie Gwirtsman  
KRG Capital

In addition, KRG did one dividend-paying recap of a portfolio company last quarter.

"Our business is very cyclical, and it's obvious that we are closer to the top of a cycle than a bottom of a cycle," said a senior principal at a New York-based buyout firm with more than 15 years of private equity experience. In contrast to Gwirtsman, he expressed skepticism that the market will remain at its current height, predicting slowing later in 2005 "due to debt market and capital market pullbacks."

Helping to fuel the current activity level is a private equity sector awash with cash, according to some PE sources. The Baird survey found that, on average, only 53% of current PE funds are invested. Moreover, in the next 12 months, PE firms plan a median 33% increase in the number of investments and a 60% increase in the dollars invested, when compared to the previous year.

"There is more money in private equity than there ever has been," said Braun Jones, president and cofounder of **The McLean Group** and a partner with **Prime Assets LLC**, an affiliated private equity investment company. "A trend I've seen developing over the last couple years is that the huge amount of capital is increasing the competition among private equity firms for quality deals."

Among the sectors that are his specialties, he has seen increasing PE interest in government contractors, particularly in defense and homeland security, but he believes IT services are still comparatively slow. Still, he said Chief Information Officers are spending money again, especially on system security and backups, which could drive future deals such as the recent acquisition of SunGard Data Systems by a consortium of seven large private equity firms.

Larger private equity transactions and financial buyers competing directly with strategic buyers on price are also noteworthy trends in the industry, Jones said.

Paradoxically, perhaps, strategic buyers have been credited with being newly aggressive in competing for deals, but M&A insiders also note that financial

buyers have shown a greater willingness to match multiples or outbid strategic buyers on price.

“It happens all the time and has been going on for decades, but gets most apparent when debt and capital markets are very good,” the New York firm principal said, attributing the phenomenon to “either the strategic buyer being conservative or the financial buyer being aggressive.”

Bruce Rogers, another managing director and co-founder at KRG, said his firm has seen large cap financial buyers paying multiples comparable to what historically would have been expected of strategic buyers alone.

“It’s the megafunds that we see paying the higher multiples comparable to what the strategics are paying,” Rogers said, contrasting those buyers with the lower middle market arena where KRG operates.

One strategy KRG has used to address increasing competition among buyers is assigning its directors to cultivate relationships with dealmakers in particular industry sectors.

“Literally every deal person in our firm is working to try to originate deals on a proprietary basis and also work the deal intermediaries,” Gwirtsman said. “I’m not only talking about Goldman Sachs and Lehman Brothers, but I’m talking about the third and fourth tier of dealbrokers and intermediaries. You’ve got to court everybody.”

## Defense Sector Armed for Consolidation; Small Aerospace Deals May Take Off

The prognosis is good for defense sector M&A in 2005 despite slowing US Defense Department spending, according to a **Banc of America Securities** research report released last week. The Aerospace & Defense supplier sector overview issued by lead analyst Robert Stallard and his associates declared the defense side of the house the stronger M&A prospect overall, but pointed to possible deal opportunities for mid-sized aerospace supply companies as well.

“We think that every mid- and small-cap defense company could conceivably be a target,” said the report,

As for the future, our sources predict the market is likely to cool in the longer term.

“Contraction in the credit markets and/or a slowing economy will end this cycle, as is usually the case,” the New York-based principal said. “Given the rising interest rate environment and the Fed’s policy on rates, I’d be surprised if within 18 months from now one of those things didn’t happen.”

He speculated that some of the current private equity trends will survive that downturn, including the raising of larger funds and the partnering of PE firms on larger deals, while others, such as “hedge funds as PE investors, never-ending multiple expansion, and quick flips,” will not.

More than half of firms that responded to the Baird survey expect multiples for deals under US\$500 million to increase as much as 0.5x by the end of the year. The survey also noted that PE firms continue to see further pressure on investment return requirements.

Gwirtsman said some of the high-multiple deals and additional leverage being added to companies now could come back to haunt their owners in a rising interest rate environment.

“One could argue that 18 to 24 months from now, there may be a situation where there’s more financing risk,” he said. “And we don’t do this at all, but people who play in the distressed side of things in late 2006-2007 may have good times.”

which touted cash-laden balance sheets among top US contractors as one factor contributing to a likely continuation of defense industry consolidation. The report noted that contractors also are looking for ways to maintain earnings growth as defense spending growth slows.

The report came after a first quarter in which the Aerospace, Aircraft & Defense industry reported a moderate pace of six announced transactions, according to FactSet Mergerstat data, compared to 11 in the fourth