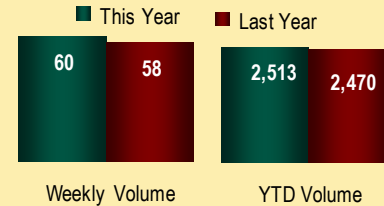


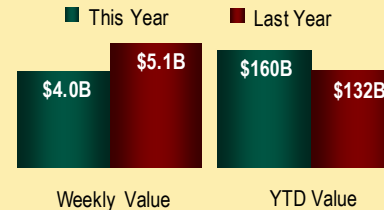
Mid-Market Volume

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



Mid-Market Values

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



Hot Sectors This Week

- #1 – **Computer Software, Supplies & Services** (10 Deals)
- #2 – **Electrical Equipment** (4 Deals)
- #3 – **Banking & Finance** (3 Deals)

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On the Wire This Week...

Voice of the Deal Community: Pat Haden Tells How to Choose a Star CFO

This week *Flashwire Weekly* introduces a brand new column entitled the “Voice of the Deal Community”. This new feature showcases the expertise of contributing authors from various perspectives in the US middle-market community. Our first contributing voice is Pat Haden, sharing from his experiences in choosing the best CFO for a portfolio company to optimize growth and performance.

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

The Mid-Market Dichotomy of the Food & Beverage Industry

At this point in 2004, food processors and beverage makers can only reminisce about the days when their industries saw billion-dollar brands or bottling businesses changing hands. But while neither industry is burgeoning with big deals, they each have an individual story to tell when it comes to the Middle Market.

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

New Study on S&P500 Further Corroborates Strategic Buyer Return

A new FactSet Mergerstat study on the buying activity of the companies in the Standard & Poor’s 500 index is the latest corroboration of reports that 2004 marks the official return of strategic buyers. After three years of remarkable declines in M&A activity by the S&P500 companies, this recent study shows that our nation’s leading corporate constituents are currently on pace to officially increase their annual M&A output.

[\(see page 4 or click here for full story\)](#)

One-on-One

One-on-One with Braun Jones, Co-Founder of The McLean Group, on Why Defense and Intelligence M&A Is Red Hot

Deal Alerts

Private Equity Alert
Financing Alert
Hiring Alert

Rumor Mill

Host Marriot talks about future M&A
MBSL hires new CFO for new acquisition purposes
Resolution Life Group on the lookout for new opportunities

Recent Mid-Market Deals to Watch

Synopses of this past week’s transactions that have values between \$1 million and \$500 million

Heavyweights of the Week

\$425 Petrohawk Energy to buy Wynn-Crosby Energy
MILLION

\$320 Abbot Labs buys a unit from North Castle Partners
MILLION

\$300 Alliance Data Systems snatches unit of Relizon Co
MILLION

\$280 Penn National Gaming strikes deal for Mohegan Tribal
MILLION

\$227 Fox Paine expands with Penn-America Group deal
MILLION



One-on-One with Braun Jones, Co-Founder of The McLean Group, on Why Defense and Intelligence M&A Is Red Hot

Q: Can you give our readers an overview of the McLean Group?

A: Sure, the McLean Group is a boutique investment bank based in McLean, Virginia focused on the lower Middle Market, typically deals ranging from US\$5 million to US\$300 million. For the most part, our transactions over the last several years have been found in the US\$10 million to US\$100 million range. Our bread and butter business is really sell-side M&A, but we do buy-side work and capital formation as well. We also have a thriving, robust valuation practice and an executive advisory services group that focuses on troubled business transitions and turnarounds. Geographically, I would say 70-80% of our client base is in the Mid-Atlantic region; however, we have reached out for our clients internationally.

Q: What has dealflow been like for you this year compared to years past?

A: In 2000, we had a record year of closing 12 solid transactions. The following years, 2001 and 2002, were probably just a little better than half that volume, but we were still able to grow through those years. In 2003, we really began to spring back, we closed seven transactions last year and this year we've closed seven or eight solid transactions and by year end should complete at least 10. So, our volume should be up about 30-50% in 2004 versus 2003.

Q: Does the McLean Group focus on particular industry segments?

A: Our industry specializations have mostly grown out of our regional work. Government contracting is big in the Washington DC area so we have a strong presence there and it's been a hot market for the last several years. We also specialize in telecommunications, IT

services (both commercial and government contracting), software, and we have a specialty group in travel, transportation, hospitality, and food services as well. But like I said, government contracting has been on a run the last couple of years. It really helped our firm survive through the downturn. Several years ago, we were doing a lot of telecommunications business and that dried up and went away just as government contracting was increasing rather nicely.

Q: What is really driving the demand for companies in the government contracting space?

A: The government is spending heavily on defending our country from a homeland security standpoint. Since 9/11 our domestic assets, government and private buildings and transportation systems and infrastructure, all have to be protected. There needs to be better surveillance, counter surveillance, signal processing, and physical and technology security services. All of these services are in demand to protect these assets domestically and there are large amounts of dollars going toward these contracts. Where we have seen the highest multiples are in defense and intelligence. The consolidation of 22 government agencies into the Department of Homeland Security has created an intense demand for high-end intelligence IT capabilities. There is a premium being paid for cleared personnel because many of the large contractors have work, but need more personnel with the appropriate clearances to do the job. The intelligence agency contracts in particular are in very high demand by corporate acquirers.

Q: What are the hottest assets in defense and intelligence? What are buyers looking for?

A: Anything to do with high-end communications, information technology, linking together the various law



Braun Jones is the President and a co-founder of **The McLean Group** and a partner with Prime Assets LLC, an affiliated private-equity investment company. Mr. Jones specializes in initiating, structuring, and negotiating capital formation and merger and acquisition transactions. His primary expertise is with software and services companies within the telecommunications and information technology sectors. Mr. Jones earned his BS in Finance from Virginia Tech in 1987 and an MBA from James Madison University in 1988. He is a National Association of Securities Dealers (NASD) registered representative and firm principal (Series 7, 24, and 63).

enforcement and intelligence agencies so they can communicate and share information and data; these are the major projects that are going on in the government and they are using various middle-market and larger contractors to get those tasks accomplished. So M&A is mostly technology-related contracts and security-cleared personnel motivated.

Q: Who is buying in the defense and intelligence space right now?

A: The active buyers are a lot of the established big players and a lot of the companies that have more recently gone public. Certainly it's Lockheed Martin, BAE, and other very large companies that are looking to pick up properties, although they prefer larger middle-market targets. Then you have players such as **Anteon Corporation, CACI International, SI International, SRA International, PEC Solutions**, a lot of those companies are based right here in Washington DC and have recently gone public. SI International, for example, just did a very successful secondary offering. All of these companies are actively looking at the deals we are marketing.

Q: What about from the private equity community, what is their attraction level to defense and intelligence companies?

A: The private equity community in general is not focused on general government contracting, although given the attractiveness of it lately, some more players are looking into the space. Some of the traditional firms like **GTCR Golder Rauner** and **CM Equity Partners** are private equity players that have been interested and successful in the government contracting space.

Q: What are the valuations like for middle-market companies in government contracting and which direction do you see them going?

A: All of the multiples across the board in government contracting have increased. For private, middle-market government contracting companies, the historical multiples going back about 20 years are in the four to seven times EBITDA range, but we've seen multiples now in the five to 10 range with premium products fetching even nicer multiples. We had a deal close that was 15 times EBITDA which is very strong for a small, private government contracting company. I would definitely say that the multiples have increased, but I'm not sure how much upside is left for further increases.

Dealmaking Insight of the Week

"While it is wise to learn from experience, it is wiser to learn from the experience of others."

-Rick Warren

In this week's One-on-One feature interview, **Braun Jones**, co-founder of boutique investment bank the **McLean Group**, told us that in the Middle Market, from the lower end to the upper echelon, government contracting M&A is a hot place to play. But dealing with companies that do the US Government's bidding is certainly a different ballpark to play in than the commercial zone. This week in our Dealmaking Insight, we asked Mr. Jones what makes government contracting dealmaking different from commercial M&A?

"There are major differences between government contracting and the commercial world," said Jones, admitting that often times a company's work can be so top secret that, even as the banker with the sell-side mandate, his firm may not be aware of all of the company's operations.

Continuing to expand on the differences from governmental and commercial, Jones says: "Even at the entrepreneur and operator level, government contractors have difficulty developing commercial business and vice versa, they are just very different worlds. In the government contracting world, there are many rules and regulations around pricing, there is preferred status given to minority-owned and small companies, and contractors are often audited by the government to ensure compliance. All of these regulations make for a very regimented environment. You have to be familiar with the ins and outs of those regulations and as an M&A professional, you have to know about contract novation issues and the different valuation parameters between an 8(a) contract and a contract that does not have preferred status and between prime- and sub-contracts."

The good news, according to Jones, is that once you take a company to market the process is absolutely the same as the commercial side.

For more information see this week's One-on-One interview or contact Braun Jones of the McLean Group at 703-827-0200 or bjones@mcleangroup.com.

We don't see a downturn either, however, especially at the high end of the defense and intelligence markets, anytime soon. There is a lot to be done to protect the homeland and there are a lot of government dollars being allocated toward those defense measures, so the contractors are seeing that.

Q: Can you point out some of the "homerun" deals your firm has closed in government contracting/ defense and intelligence?

A: Well, when you get them closed, they are all homeruns! (Laughs) Recently, over the summer, we did two in the defense and intelligence sectors. Most recently it was **Practical Imagineering** which was acquired by **BAE Systems** [The deal closed August 17]. Practical Imagineering is a signal intelligence processing company that was very sought after. Another transaction was **Defense Systems Inc**, an RFID technology company that was acquired by **Wireless Facilities Inc** [The deal closed August 4]. RFID is something a lot of people have heard about in conjunction with Wal Mart making the ultimatum for all the products in its stores to have RFID tagging because it is the next generation of bar coding. Well, RFID is also being used in defense with soldiers and other applications. RFID is a hot technology in both the commercial and government sectors.

Q: Looking ahead at 2005, what does the pipeline look like at your firm?

A: We think the pipeline is pretty strong. Our visibility is about six to nine months and things look very strong. We're not seeing dramatic increases in valuation on the commercial side. Government contracting valuations have remained steady at a lofty level, but on the commercial side we are seeing gradual increases. We are seeing more software and IT transactions lately, but mostly in the US\$10-US\$50 million [deal size] range.

Q: We frequently ask about hiring because it can be real indicator of anticipated M&A growth. Do you have intentions to expand the staff anytime soon?

A: I would say that we are expanding cautiously right now. We have been mainly hiring at the entry level, hiring more on our research and analyst staff, but everyone is pretty busy and we might be looking to hire again in the first half of 2005.

For more information contact Braun Jones of the McLean Group at 703-827-0200 or bjones@mcleangroup.com.

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