



FORTUNE FAVORS *the* SWIFT

Joe Berkery President, Berkery Noyes Investment Bankers

The number of Mergers & Acquisitions transactions is markedly lower than it was just 18 months ago, but the reason is only indirectly due to a weak economy.

Rather than consider selling their business in a slow economy, many owners of solid healthcare information and technology assets are on the sidelines, waiting for an improvement in overall market conditions before bringing their companies to market. Yet buyers—both strategic players with strong balance sheets and financial buyers with plenty of investable cash—are still looking for growth through acquisition.

The result is constrained supply of available acquisitions, and pent-up demand among buyers.

According to historical patterns, the pace of M&A activity will increase as the economy picks up. As it does, more sellers will enter the market, offering buyers more viable acquisition opportunities, resulting in a rebalancing of the supply/demand equation. In this environment, fortune favors the swift.

The M&A Market Dynamics chart inevitably leads to the conclusion that both the volume and value of U.S. information industry mergers and acquisitions will ramp up in 2010 and sustain a robust pace at least through 2012 and continue at that level for several years. Why? Because it always has behaved that way following a rebounding economy, and despite the severity and unusual circumstances of the current recession, there's no reason to think it won't happen again.

Economists describe this pattern as a V-shaped recovery, where a steep downturn is followed by an equally steep rise in economic activity. Whether the recovery for the national economy charts a V, a W, or a U—all patterns championed by one or another economist—the M&A market has unfailingly responded to an improved economy with a sharp uptrend. We see the economy stabilizing and improving over the near term, with M&A activity rising markedly by mid-2010.

It happened in the 1980s with the so-called Reagan Recovery, and happened again in the mid 2000's following the dot-com bust.

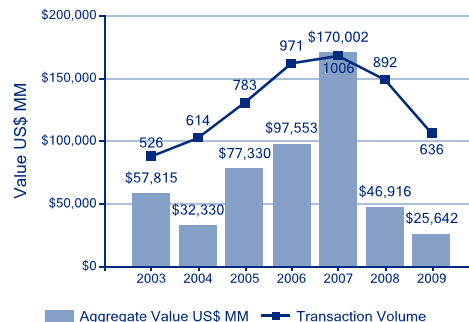
We're betting that it will happen again in 2010.

As we review our M&A Market Dynamics chart, it shows that the current slowdown in M&A transactions began in early 2008, just months after the frenzied peak in 2007 and the official start of the recession. It accelerated with the credit crisis of

"If history repeats itself, and the unexpected always happens, how incapable must Man be of learning from experience."

—GEORGE BERNARD SHAW

M&A Market Dynamics - 1st Half



last summer, making 2008 the worst year for M&A activity since 2004, when a similar plunge in activity arrived on the heels of the dot-com meltdown and the post-9/11 economic contraction.

After bouncing along the bottom during the first half of 2004, the M&A market found its footing and began to pick up toward the end of the year. By 2005, fueled by loose credit and lots of cash generated by the tsunami of available capital, deal activity was building steam, driving multiples and total deal volume ever higher.

The cycle peaked in 2007 before falling off a cliff last year and, just like in 2003-2004, bouncing along the bottom at a much lower level of activity. While 2009 is nearly three quarters over, we expect the activity to trace a pattern similar to 2005, which started slow and gathered momentum through the second half.

The logic behind our prediction is fairly straightforward: sellers who have been on the sidelines waiting for valuations to climb back to the unsustainably high levels of the 2007 bubble will finally accept that current, sensible valuations are the "new normal" (actually, the old normal, since they are consistent with historically sound multiples of revenues and EBITDA). With few quality properties available for acquisition, buyers have been largely idled. Yet buyers still need to seek growth through acquisitions, and sellers still need exit strategies and access to growth capital, creating tremendous pent-up demand to do deals.

"we're investing our own capital in expanding our firm's resources to handle the increase in dealflow."

Conditions supporting the favorable M&A forecast include buyers' strong balance sheets--both strategic and financial players are sitting on sizeable pools of investable cash--and the eventual loosening in the credit markets.

Lenders, after all, make money when they lend, and the pressure to rebuild capital to a level where lending can occur has been strong.

When sellers accept that 2007 is gone forever and the pricing bubble has burst, they will let go of their inflated expectations and begin to accept asset valuations that are strong by historical standards. We expect the trend to begin in the fourth quarter of 2009 and to consolidate in 2010 and 2011, with deal activity returning to the pre-bubble levels of 2005 and 2006.

In anticipation of a strong recovery in the M&A market, we're investing our own capital in expanding our firm's resources to handle the increase in dealflow. We're hiring senior investment bankers, beefing up our research and completing development of electronic transaction management tools that will significantly streamline our execution capabilities. This is how we profited and grew in past slowdowns, and we're sticking with that strategy this time around.

History will repeat itself in the years ahead, because it always does. Buyers and sellers will return to the marketplace, because they always do. Transaction advisors who anticipate this pattern will prosper from it, because we always have.

About Berkery Noyes

Founded in 1980, Berkery Noyes is the leading independent investment bank specializing in the information content and technology industries. The firm has initiated, managed and closed more than 400 merger and acquisition transactions for privately held and publicly traded companies in the business, technology, education, health, financial and legal information segments. Berkery Noyes is unique among investment banking firms in that we combine truly independent strategic research and industry intelligence with senior information technology banking expertise. With no equity fund or brokerage business to manage, our partners and investment banking professionals are one hundred percent focused on M&A advisory services. Berkery Noyes employs over 40 individuals with deep industry knowledge and experience who strive to exceed our clients' expectations by maximizing the full value of their information technology and content assets.

If you're considering growth through acquisition, the sale of a business, a timely exit strategy, or a financial restructuring, call Joe Berkery or John Shea. at 212.668.3022.

BERKERYNOYES
INVESTMENT BANKERS

berkerynoyes.com | One Liberty Plaza | New York, New York 10006 | 212.668.3022