



The Impact of the Recent Credit Crunch on Middle Market Buyout Financing

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A key question now facing M&A professionals and private equity sponsors who focus on deal-making for lower middle market companies is whether the problems in the credit markets which are plaguing the large LBO deals will spill over to the lower middle market? How are the lending organizations which

for deals like KKR's acquisition of First Data, Cerberus's acquisition of United Rentals, and Thomas H. Lee's acquisition of Ceridian. Heading into August, the leading banks and investment banks which underwrite buy-out and other acquisition loans had a backlog totaling \$237 billion of debt awaiting buyers.

has been caused by a severe curtailment in demand for the Term Loan "B" tranche of the debt structure, known widely as the "Institutional" tranche. B term loans include loans sharing a first security interest in the assets with the Pro-Rata lenders, as well as loans secured by a second lien on assets (Junior Secured Debt). Repayment of these loans generally commences following repayment of the A term loan, with final maturity occurring 3-5 years later. The pricing spread on the B term loan tranche is higher than the revolver and A term loan, generally 25 basis points for loans sharing a first security interest with the Pro-Rata lenders, to as much as 350 basis points for Junior Secured Debt. B term loans are today mostly sold to CLO's (60%), hedge funds (15%), mutual funds (primarily for inclusion into money funds) (15%), and other types of buyers, including the banks (10%).

The growth of the Institutional loan market, particularly CLO's and hedge funds, has been the largest and fastest growing source of credit of the leveraged buyout debt market since 2004, and clearly has helped fuel the hot overall M&A market and the rise of the mega-buyouts sponsored by large private equity funds.

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finance smaller and mid-sized buy-outs reacting? How can one make sense of a credit crunch when the economy is generally healthy and very few corporate borrowers are in default? What should be expected going forward?

Large Leveraged Credit Market Landscape

By now, most are familiar with the virtual shut-down of the sub-prime residential mortgage market, while many others are cognizant of the massive log-jam in the market for syndicating large, equity sponsor-backed buy-out loans

Interestingly, the problem is not the banks, who typically participate in the revolver and term loan "A" component of the debt structure, known commonly as the "Pro Rata" tranche. The revolver and A term loans are usually secured by a first lien on all assets and call for repayment commencing in the first year with final maturity within five years. The banks continue to show strong lending appetite and are almost universally in strong financial condition with modest levels of problem loans.

The current liquidity issue

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China Sourcing: Averting Risk, Fulfilling Potential

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It's hard to miss. Almost every day, from every media outlet, we hear negative stories about the perils of China sourcing. If we are really unfortunate, we know all about it from first hand experience.

Whether it's issues of product quality, stolen IP, counterfeiting, or contamination from hazardous materials, a China sourcing play is increasingly seen as a risky one. Even if you find a supplier that satis-

risks are insurmountable?

While the negative publicity is certain to give pause, beyond the headlines are plenty of China sourcing success stories across a broad array of industries. And to balance the prevailing media-promulgated negative mind set there is the question: If not China, then where? India, Vietnam, and other low-cost locales are intriguing, and in some cases offer unique advantages, but they are by no means an easier path to cost savings or sustainable competitive advantage.

Perhaps as important as the often-noted risks, this year has brought significant Chinese-government-imposed changes in the currency exchange rate as well as a significant reduc-

of sustainable advantage.

The result is that the dynamics of successful sourcing in China have rapidly evolved, and the low-price strategies of only a few years ago have given way to a new reality. Even in China, direct and indirect costs are rising, the best suppliers are busy and the penalties of failure are greater than ever. Yet the need to manage costs and remain competitive in a global environment remain the same. So where do you go from here if low-cost sourcing, particularly in China, is a critical part of your business strategy?

For the western business, the challenge of China sourcing is balancing the opportunities for cost savings while reducing real and perceived risks.

help prevent what is often the biggest obstacle to successful sourcing: internal resistance within your organization.

—Communication and culture barriers must be overcome. One Chinese supplier we work with, a large, privately-owned company, has only one employee with a grasp of rudimentary English—and only written English at that. As a result, he lacks an understanding of business, his company's technology, and the demands of his western-based customers. Overall, the supplier is an excellent and competitive company, but the cultural and language barriers are immense. Some organizations sourcing in China will embrace these barriers and others will run the other way.

“And to balance the prevailing media-promulgated negative mind set there is the question: If not China, then where?”

fies your major concerns, sourcing efforts often fail on the tactical side due to poor communication, lack of transparency, or supplier project management skills that are virtually nonexistent.

Whether sourcing a single component or an entire product build, the risks of China sourcing are more visible than ever, even though the need to manage costs and remain competitive in a global economy remain the same. But does visibility mean the

tion or complete rollback of VAT and export tax rebates, which had often allowed the only profit margin left for many suppliers in China. The central government's actions may be meant less to appease those nations complaining about the trade imbalance than to nudge Chinese producers to move to higher value-added (i.e., less material-intensive, less polluting) industries. If you know whether your components or products fit into China's future road map, you'll find a higher probability

Here are some proven guidelines for China sourcing success:

—Get into the proper mind set. Move your sourcing team away from low purchase price thinking to a total landed cost mind set. This is a challenge, since different functional areas of a company are usually measured on non-aligned metrics. But adopting this mind set is critical. When QA, procurement, engineering and other functions share common measurement metrics you'll

Understanding your company's cultural aptitude or finding an intermediary company to do the heavy lifting will help you find the best path to success.

—Take Advantage of Supply Clusters. China's entrepreneurial culture and readily available capital from private sources make for some regions deep with suppliers and excess capacity. Analyze your target product's bill of materials and key required processes and use these supply clusters to your advantage.

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The Five Roles of the Chief Executive Officer

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Several years ago a private equity firm recruited me to be the CEO of a troubled company that provided apparel, camps, and competitions to the cheerleading world. As part of my duties, I was invited to speak to coaches' organizations that were made up of mostly middle and high school teachers. Generally, their knowledge of the activities of a CEO was limited to what they learned from the

exclusive. Rather, they are inseparably intertwined, and they are mutually supportive.

Chief Strategy Protagonist

Fundamentally, strategy is an iterative process built on a foundation of extensive analysis directed towards customers, competition, and economics. The result of analysis should lead, inexorably, to a clear and simple strategy statement anyone can understand. The process must involve as many people in the

of which the latter two are the most important. Good processes, such as a solid business planning process or a rigorous continuous improvement process, encourage disciplined thinking, promote corporate-wide integration, and resolve trade-offs. Culture ALWAYS comes from the top and is rooted in the personal attributes and actions the organization values. A successful organization must value open and honest communication; outspoken, challenging

as humanly possible without becoming meddlesome. The essence of teamwork is convincing individuals to set aside their own personal goals and aspirations for the greater goal of team success. Because very few teams become successful, this may well be the most difficult job a CEO has.

Chief Agenda Setter

No company has limitless resources, and the scarcest resource of all is time. The CEO must decide how best to

“When they met me, they were filled with images of CEO’s from companies such as ENRON, WorldCom, Tyco, Adelphia, and the like.”

media, which was not at all favorable. When they met me, they were filled with images of CEOs from companies such as ENRON, WorldCom, Tyco, Adelphia, and the like. Because they were educators and naturally inquisitive, they would ask me, very pointedly, “What do you really do?” It caused me to think more deeply about my job as a CEO.

Recalling the CEOs I have known, as well as my own experiences, I have come to believe that a CEO has five roles. He¹ is the chief strategy protagonist, chief organizational designer, chief talent scout and team builder, chief agenda setter, and head cheerleader. Everything he does can be placed into one of these five roles. They are not mutually

organization as reasonably possible without lapsing into paralysis or chaos. The ultimate strategy should include a “values proposition” that posits, paradoxically, profit is not the primary pursuit; it’s an outcome. The primary pursuit is excellence in products and services. To motivate people to achieve excellence, the organization must have a “loftier purpose.” At our cheerleading company our “loftier purpose” is, “We help kids grow up.” The job of the CEO is to be the catalyst in the development of a concise strategy based on demonstrable quantitative and anecdotal evidence.

Chief Organizational Designer

Organizational design consists of three elements: structure, processes, and culture,

thinking; the free flow of and widespread access to pertinent data; an inclusive as opposed to exclusionary atmosphere; the passionate encouragement of creativity; a religious fervor for measurements; and a pervasive commitment to the creation of a “meritocracy.” The job of the CEO is to install the appropriate processes and embody the values of the organization.

Chief Talent Scout and Team Builder

There are two axioms that underlie this role: the most important decision any manager ever makes is who to hire, and business is a team sport. Consequently, the CEO must get involved in the hiring process across the entire organization as deeply

deploy the collective efforts and energies of the entire organization: which processes to install; what analyses to perform; what metrics to track; what projects to undertake; and a host of other endeavors that devour time. Behind who to hire, the second most important decision a CEO makes is choice of agenda.

Head Cheerleader

The role of head cheerleader is all about accessibility and approachability inside and outside the “corner office”: around the offices, on the factory floors, in customer meetings, in vendor visits, in the community. It’s mostly comprised of one-on-one, informal conversations with a wide range of the organization’s constituencies to obtain

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Successful Turnarounds are Growth Stories—Cost Cutting Alone Does Not Create Long Term Shareholder Value

by **Raynard D. Benvenuti** | managing director, Concord Investment Partners, LLC | p 978-371-9500 | e rdb@cipequity.com

Contrary to popular opinion, successful turnarounds do not result from simple “slash and burn” activities that dramatically reduce costs. Cost restructurings often create temporary improvements in company performance that aren’t sustained in the long term. In fact, if taken to extreme, draconian cost actions implemented by interim managers can permanently damage a business beyond repair.

Successful turnarounds that result in significant increases in shareholder value are usually orchestrated by committed management teams that balance cost

in significant value creation for the company’s shareholders.

Stellex Aerostructures, Inc. was formed by a private equity firm in 1997, with the acquisition of four aerospace companies. By 1999, through a series of acquisitions and financings, Stellex had grown to eight divisions, segmented into two operating groups, Electronics and Structures.

In 2000, due to a softening in the aerospace and electronics segments combined with a highly leveraged balance sheet, the company was forced to file for bankruptcy protection. Through the bankruptcy pro-

cess, I assembled a new management team to execute a complete operational and financial reorganization of the company.

In 2002, Stellex was a collection of six divisions. The core of the business produced large structural components and assemblies for commercial and military aircraft. The activities of these divisions were uncoordinated, and revenues and profits fell precipitously due to a 9/11 driven decline in the commercial aerospace industry. Divisional revenues collapsed from pre 9/11 highs of over \$150 million, to

team in other portfolio companies. This team was committed to the company’s success.

- 2 Selling two non-core divisions without any outside advisory assistance.
- 3 Closing one seriously under performing and cash draining division, generating divisional positive cash flow in the process.
- 4 Substantially improving quality and delivery performance, facilitating a resurgence in new sales and ending a three year new order drought at the company’s Wichita division.

“Cost restructurings often create temporary improvements in company performance that aren’t sustained in the long term.”

reduction activities with sound strategies to restore long term revenue growth.

A good example of this thesis is Stellex Aerostructures, Inc., a reorganization and growth success story, which began with the company’s management restructuring in 2002, and culminated with its sale in 2006. In four years revenues, bookings and earning all expanded dramatically, resulting

in significant value creation for the company’s shareholders. In 2000, due to a softening in the aerospace and electronics segments combined with a highly leveraged balance sheet, the company was forced to file for bankruptcy protection. Through the bankruptcy pro-

cess, the Electronics group was sold, and the Structures group emerged from bankruptcy in September 2001 as Stellex Aerostructures, Inc., controlled by its senior bank lenders. Shortly following this reorganization, a reconstituted board of directors recognized the need to bring in new leadership to execute a turnaround and grow the business. I was named COO of the company in

below \$80 million and break even EBITDA in 2003.

In the first phase of this reorganization, we were able to stabilize the business by:

- 1 Rapidly upgrading and streamlining senior management. Seven senior managers were terminated and replaced within one year. I had worked with several members of the newly recruited management

team in other portfolio companies. This team was committed to the company’s success.

- 5 Significantly reducing production costs through re-engineering and lean activities.
- 6 Establishing a strong corporate finance group to direct consistent financial forecasting and reporting practices across all divisions.
- 7 Paying down senior debt through centralized cash management, aggressive working capital manage-

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Finding a Safe Harbor From the 409A Tax

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Few of us enjoy paying taxes, but it may alleviate a bit of the pain to think of a tax bill as evidence of good news. You may have received a big bonus or made a good investment, and now the IRS is asking for its share of the gain.

Service regards the option award as a form of compensation. The IRS expects you to pay taxes on it, just as you would on a bonus, and they are not inclined to wait for a payoff that may or may not occur sometime in the future.

An employee stock option provides that employee with a right to acquire shares of common stock at a fixed price, called the “strike price” or “exercise price.” If the shares are privately held, employees often decide to wait for a “liquidity event” before exercising the option. After all, shares in a privately-held

legally binding right in one taxable year to compensation that is or may be payable in a subsequent taxable year.” All amounts deferred are includible in gross income to the extent they are not subject to a substantial risk of forfeiture. In addition to having to pay regular income tax, the recipient is subject to a 20% tax even if the recipient has not yet received the income in cash.

Fortunately, the regulations provide a few “safe harbors” from the tax. The tax is due only if the exercise price on the option is less than fair

is not publicly traded”)

The benefit of the “presumption of reasonableness” is that the value is assumed to be fair market value unless it can be shown that the valuation is grossly unreasonable.

No new employee wants to be handed a tax liability on his first day of work. If you’ve been promised stock options, it is reasonable to ask a few questions. What is the strike price? How does the strike price compare to the fair market value of the common stock? How was the value of the common stock

“No new employee wants to be handed a tax liability on his first day of work.”

That is, unless you’re paying taxes on non-cash compensation. In that case, you’re handed a tax bill without any of the cash to pay it.

Suppose you’ve recently been recruited to join a private equity-backed company. The compensation package included options to buy shares in the unregistered common stock. In fact, the options were a reason you took the job in the first place. The strike price was low, the company’s prospects seemed bright, and it was not hard to imagine an acquirer paying a big premium somewhere down the road. The problem is, if the IRS agrees that the price was low, lower than fair market value, the

company are nearly impossible to sell, and their value could go down as well as up. If the tax were due upon exercise, one would at least have the cash on hand to pay the bill.

Under the Jobs Creation Act of 2004, the IRS issued regulations under Code Section 409A. According to these rules, the tax is due at vesting, not at exercise. The tax is based on the difference between the exercise price on the option and the fair market value of the underlying common stock. A penalty tax may be imposed as well.

According to the regulation, “a right to deferred compensation generally refers to a

market value. The determination of fair market value is presumed to be reasonable if:

- A valuation is done by an independent appraiser and the appraisal is not more than 12 months old and it takes into account information material to determining the value or
- It is based on a formula that is assumed to be fair market value provided that the formula is applied to any transfer of shares or
- The valuation is made in good faith, evidenced by a written report, for an “illiquid stock of a start-up corporation.” (Defined as a business less than 10 years old that

determined? Is there a written report? Who prepared it?

If there is an appraisal report on file, you can begin to feel better. The IRS will expect the report to consider the following factors:

- The value of tangible and intangible assets
- The present value of anticipated cash flows
- The market value of stock in similar corporations
- Recent arm’s length transactions in the stock
- Other relevant factors such as control pre-

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— Due diligence is essential. Many experienced hands at China sourcing have raised an eyebrow at the large number of ISO certified companies. Even if all of the ISO certifications are real, remember this: just because the potential supplier may have passed the “exam”, it doesn’t mean he’s implementing the procedures. Go beyond quality system audits. Dig deeper by mapping of process steps and sub-component and material

— Look for the Hidden Gems. Depending on the complexity of your products, it’s best to avoid the Chinese state owned enterprises (SOE’s) where structuring a deal and getting results can be complex and difficult.

— When it comes to component and product sourcing, we have found that the most competitive suppliers are privately owned Chinese companies, with sound capabilities,

work towards real peer to peer relationships and target transparency. A little patience in the beginning can bring successful, long-term results.

— Follow the lead of global brands. When outsourcing complete products, follow the lead of such global leaders as Apple, Dell and Motorola and use a non-mainland Asian contract manufacturer such as Mandarin-speaking Taiwanese-

(sub-component) suppliers operating in China, which are very competitive and have proven quality. Caveat: Be careful to find the right fit.

There may be no magic formula for China outsourcing success, but there are many proven indicators that can boost the potential rewards while balancing the risks. China’s large population, low labor cost foundation, deeply held values regarding educa-

“Even if all of the ISO certifications are real, remember this: just because the potential supplier may have passed the ‘exam’, it doesn’t mean he’s implementing the procedures.”

suppliers. Know process cycle times and yields. Realize also that while your supplier may be vertically capable, he may be sub-contracting everything from tooling to components to meet your cost and volume demands. Due diligence is essential. Trust but verify.

ties and a good product—but perhaps not quite export ready. These private companies have survived without government support and tend to be more focused on productivity and profit. Think “supplier development” instead of “off the shelf” ready-to-go. Manage

or Singaporean-owned companies operating in China, and let them bring their experience in project management, QA and cost containment to the table. Hong Kong companies operating in south China also fit this model. For components, uncover the Taiwanese tier-two

tion, and an entrepreneurial culture will continue to make it an important provider and competitor on the world sourcing stage long after the current headlines fade. ■

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unfiltered, frank perspectives and assessments; to provide encouragement and reinforcement; and to offer constructive criticism in a positive manner. It involves the element of inspection in a rather subtle way, and it requires a selfless commitment

in terms of time and travel.

These roles require equal parts science and art. With considerable help from my teammates, I employed all of them as we, together, turned around our cheerleading company. The beloved Chinese philosopher,

Lao Tzu, said it perfectly, “The best of all leaders is the one who helps people so that, eventually, they don’t need him. When he is finished with his work, the people say, ‘It happened naturally.’” We should have zero tolerance for the “Imperial” or “Celebrity”

CEO. Organizational success, itself, must be the real reward.

¹ I use the pronoun “he” throughout this article in that I am a “he.” I fully believe, however, that a woman can perform the roles of the CEO equally as well as or better than a man. ■

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miums or discounts for lack of marketability

— And whether the valuation method is used for other purposes that have a material economic effect on the service recipient.

If the report is prepared by a qualified appraiser, it is likely to consider all of these factors, though it may put more emphasis on some than others. If the company is less than 10 years old, it is not necessary that the report be prepared by an appraiser. The report may be prepared by an independent qualified individual with significant experience. “Significant experience” for

a “qualified individual” is defined as at least five years of relevant experience in business valuation, financial accounting, investment banking, private equity, secured lending, or other comparable experience.

Some companies with private equity backing have complicated equity structures with multiple layers of preferred stock. In these situations, it may be necessary to find an appraiser capable of navigating through the intricacies of liquidation preferences, participation rights and other features of preferred securities.

Companies with audited financial statements have

found that a “409A appraisal” may also serve as a “123R appraisal.” The latter refers to an accounting standard for reporting the compensation expense associated with stock options. It has become routine for auditors to ask management to document in writing how the strike price for options was determined. A report from a qualified appraiser can help smooth this phase of the audit.

If management elects to hire an independent appraiser for a combination 409A/123R appraisal, it’s reasonable to ask the following questions: Has the appraiser been accredited by a national organization, such as the American Society

of Appraisers? Has the appraiser had experience with the company’s auditors? Does the appraiser’s fee include a provision for responding to auditor comments? Will the opinion be provided as a letter or as written report documenting all the calculations and assumptions?

Taxes may be inevitable, but it is not inevitable that taxes are due as soon as options vest. If a company offers you options, ask to see the valuation report. If the company doesn’t have one, it could be handing you a tax bill. ■

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ment and asset sales.

8 Re-establishing credibility with core customers through improved performance and demonstrated senior management commitment to building customer relationships.

By early 2004, management had transformed a break-even EBITDA business to profitability with essentially no debt. The business was now operationally positioned to win major machining and integrated assembly awards on two new aircraft, Boeing’s 787 and Lockheed’s Joint Strike Fighter (F-35). Senior management recognized the need to recapitalize the business; Stellex’s bankruptcy legacy was limiting its ability to demonstrate the financial stability required to compete for large production programs. More importantly, the company

needed to migrate upstream, from simple component manufacturing to delivering complex integrated assemblies.

In the second phase of the Stellex reorganization, management recapitalized the company and put in place a program to dramatically grow revenues and contractual backlog on new programs. During this reorganization phase, management:

- 1 Designed and implemented a tender process to recapitalize the company. Management ran an auction among seven private equity firms. The Carlyle Group won the auction, and successfully tendered, in cooperation with management, for nearly 80% of the outstanding common stock in October 2004.
- 2 Aggressively grew new sales bookings by targeting large

structural assembly projects on the 787 and F-35 development programs, and winning significant additional market share on existing aircraft programs. We transformed the business from individual divisions providing fabricated parts to an integrated operation providing complete, complex assemblies. Driven by this transformation and strong corporate leadership in customer development, Stellex became one of the largest Tier II structures providers on these new aircraft, booking over \$600 million of new production awards. At full production rate, Stellex will deliver ten 787 floor assemblies per month, a landmark award for the company. In total, newly awarded backlog will increase company revenues by 50% in just a few years.

- 3 Drove rapid sales and earn-

ings growth. Through winning substantial new market share and taking advantage of the gradual recovery in the commercial aerospace market, Stellex increased revenues by over 60% and EBITDA by over five times within two years.

- 4 Funded all CAPEX and working capital requirements with internally generated cash flow. In a very capital intensive industry, Stellex was able to generate significant cash flow from operations to meet the high CAPEX requirements for new program bookings. During the four year period, the company eliminated all its senior debt and never required equity funding for growth.

In summary, the Stellex Aerostructures turnaround focused on balancing prudent restructuring actions with

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The impact of the squeeze on larger syndicated acquisition financings, per statistics provided by S&P, has been most apparent in a decline in new loan issuance from a steady monthly average of about \$70 billion experienced in February, March and April to about \$26 billion in July and August, as well as rising pricing spreads. Spreads for Pro Rata loans have risen about 25 basis points since February, while spreads for Institutional loans have increased by 50 basis points, and spreads for Junior Secured debt have risen by 75 basis points.

Middle Market Leveraged Credit Trends

Published market data for leveraged middle market transactions typically includes deals where EBITDA is \$50 million or less. The statistics for leveraged middle market transactions show significantly better trends than for the larger market:

— New loan issuance has been steady in 2007 at about \$6.5 billion in the first and second quarters, and \$5.7 billion issued in the third quarter through early August. The number of new deals for the latest 12 months ending August 8 was 178 compared to 152 through August 4, 2006.

— Pricing spreads for Pro Rata and Institutional debt tranches have risen by only 15 basis points from June lows. For deals presently making their way through the syndication process, however, pressure is mounting from potential participants for higher spreads, which will likely increase by an additional 25 basis points.

— Leverage multiples (i.e. Debt/EBITDA) remained aggressive through early August with Senior Debt/EBITDA and Total Debt/EBITDA for all leveraged middle market transactions averaging 5.2x and 5.6x, respectively, up from 4.7x and 5.0x year ago.

Key Observations

From recent conversations Consilium has held with numerous lending organizations including banks and finance companies who participate actively in financing lower middle market buy-out transactions, a number of key observations have emerged:

1 The appetite of most banks and finance companies for new sponsor-backed middle-market LBO loans remains strong, although they have all seen and welcome an upward trend in loan pricing spreads and up-front fees.

2 Certain smaller banks

who were active players in 2005 and 2006 have pulled back from loans with aggressive cash flow structures in favor of more conservative asset-based structures.

3 All the lenders report that they are doing more due diligence and are being more selective, generally favoring more established sponsor groups.

4 Leverage multiples for lower middle market transactions have increased over the past year but remain modest compared to the upper middle market and major market deals. Most lenders will remain comfortable with opening Senior Debt/EBITDA of 3.0x to 3.5x and Total Debt/EBITDA of 4.0x to 4.5x for lower middle market deals with a solid operating profile.

5 The lenders are becoming more conservative with regard to covenant structures, and are looking to set cash flow coverage test (EBITDA less capex/total debt service) levels closer to the traditional 1.25x level after a competitive market drove covenant levels to nearly 1.1x over the past year.

6 Loan structures without an Institutional tranche are favored by the lenders, with aggressive competition for

these opportunities. This means that the term loan component must fit within a five or six-year amortization schedule.

7 The Institutional and Junior Lien tranches are often being replaced with traditional subordinated debt. Subordinated lenders are also buying equity alongside equity sponsors in lieu of warrants as a way to increase yield and achieve desired IRRs.

8 Most lenders report that their existing portfolios are in good shape, although there are concerns that the soft housing market will cause problems for consumer products-oriented companies, which in turn could lead to credit downgrades and tighter lending standards in 2008.

In conclusion, while many dealmakers have witnessed a significant slowdown in new deal activity in the larger market, we believe activity in the lower middle market should continue at a brisk pace as middle-market lenders continue to aggressively pursue well-structured sponsor-backed opportunities. ■

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aggressive revenue expansion strategies. Over four years (2002-2006) revenues increased from approximately \$80 million to \$130 million, and EBITDA increased by over 10 times, from approximately \$2 million to over \$25 million.

Beginning in early 2006, management led an auction process which resulted in the sale of Stellex Aerostructures, Inc. to GKN, plc in September 2006. The sale generated a significant increase in shareholder value for its investors: The

Carlyle Group and management received over 8x invested capital within 23 months of their initial 2004 investment.

The Turnaround Management Association recently selected Stellex Aerostructures Inc,

and Ray Benvenuti to receive the 2007 Turnaround of the Year Award for a Mid-size Company Turnaround. ■