

Private Equity Market Update

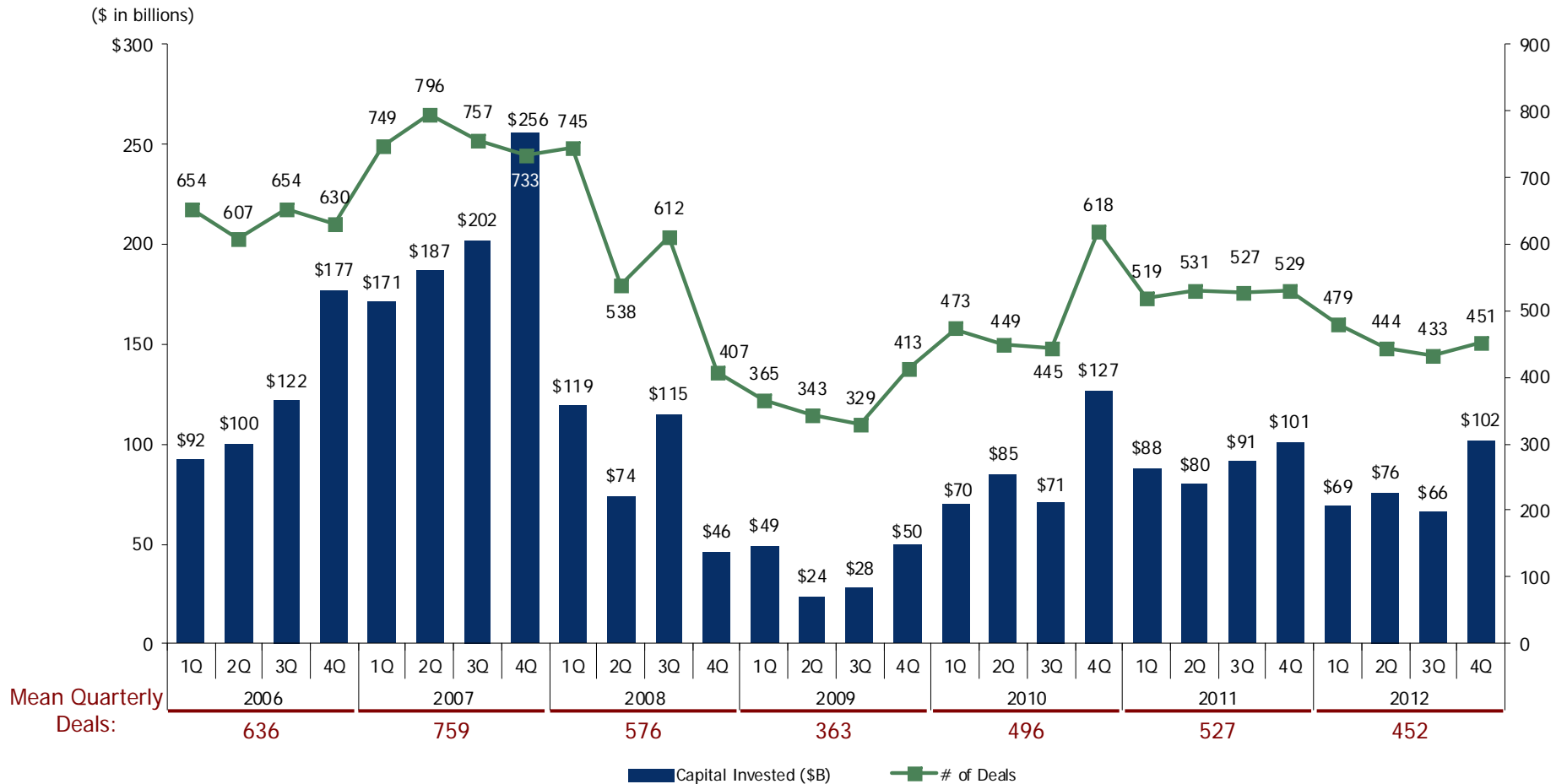
February 2013

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U.S. Private Equity Deal Activity

Deal activity in the first three quarters of 2012 was lower than the corresponding quarters in 2011 due to a number of factors. That trend reversed in 4Q 2012 ahead of impending tax rate hikes

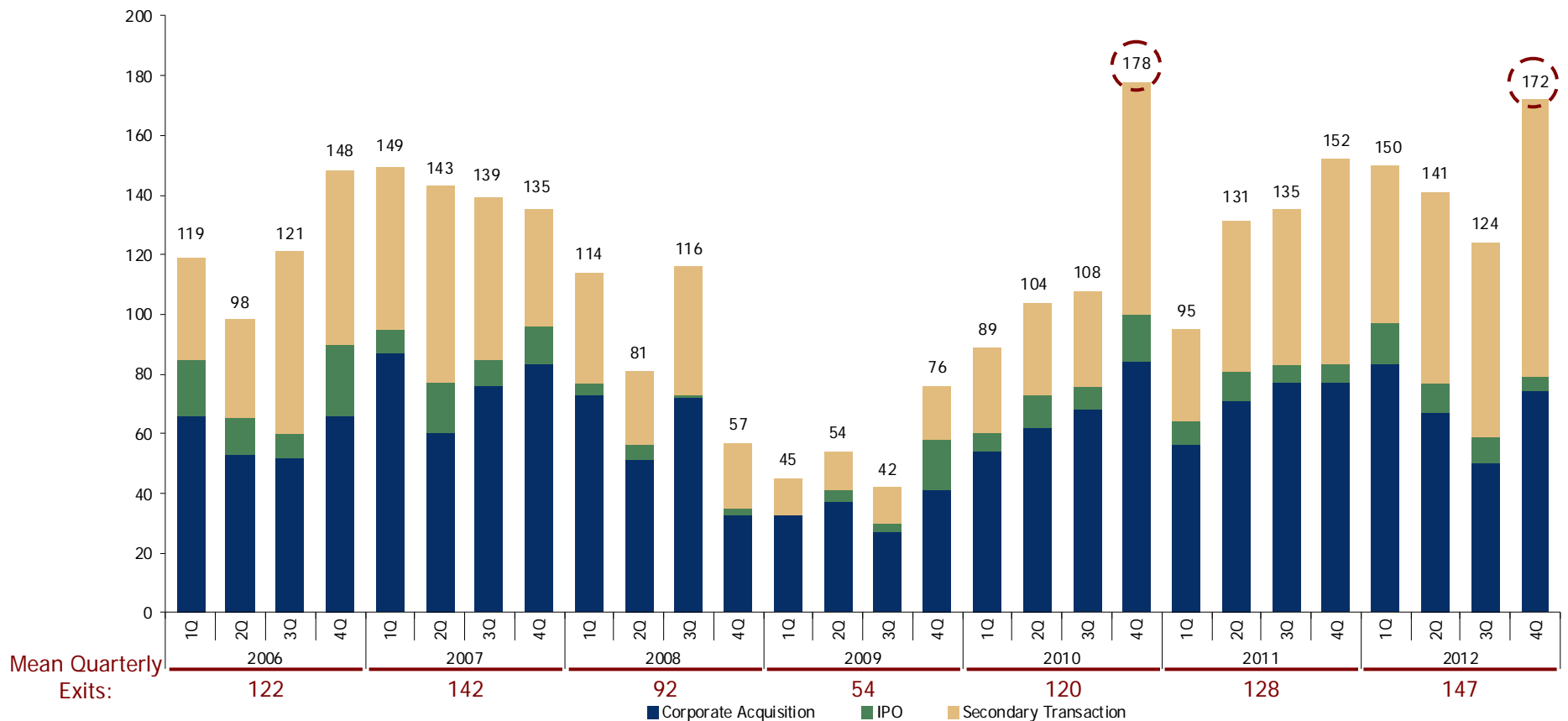
Historical Deal Activity by Quarter



Private Equity Exit Activity Continues an Upward Trend

4Q 2012 was particularly strong with 172 investment realizations, the second most ever. Notably, in 2012, secondary buyouts eclipsed corporate acquisitions for the first time, accounting for 47% of private equity exits

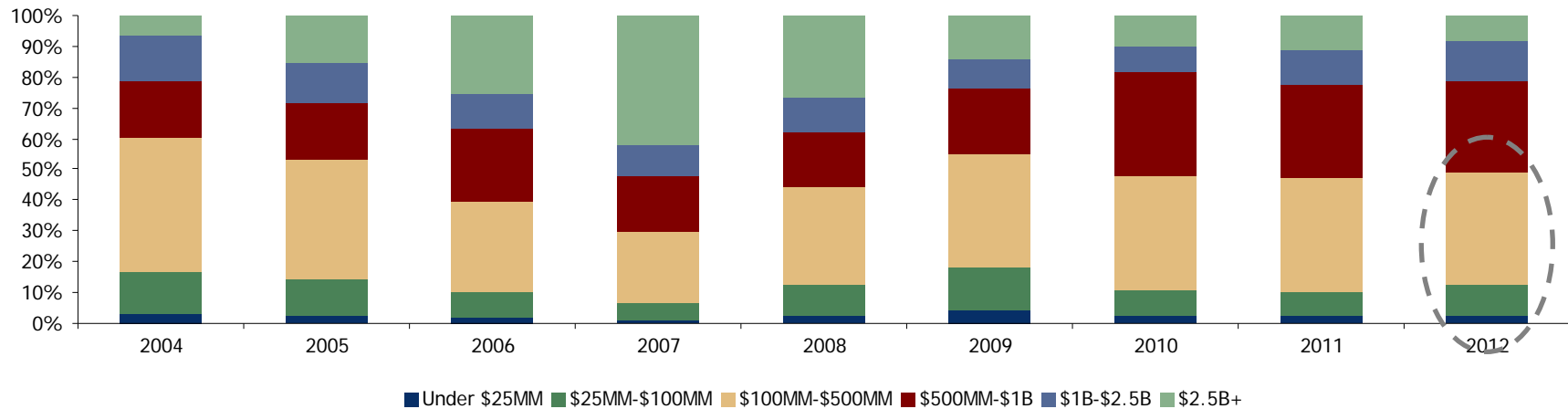
Private Equity Exits by Quarter



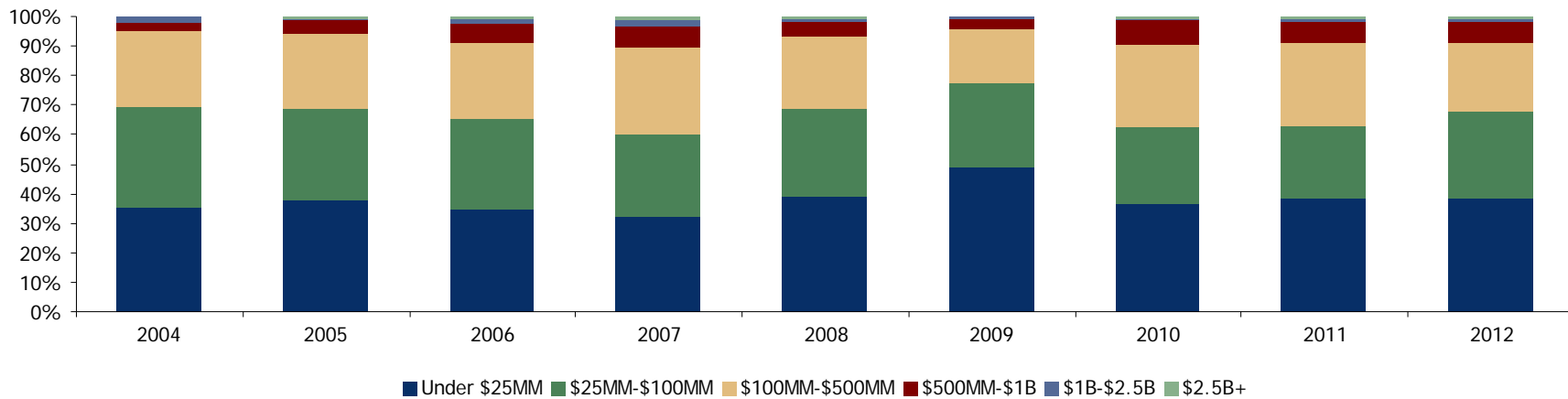
Core Middle Market Continues to Dominate Deal Flow

Middle-market transactions, as defined by an enterprise value of less than \$500 million, have reached 49% of capital invested, the highest since 2009

Percentage of Deal Volume (Capital) by Deal Size



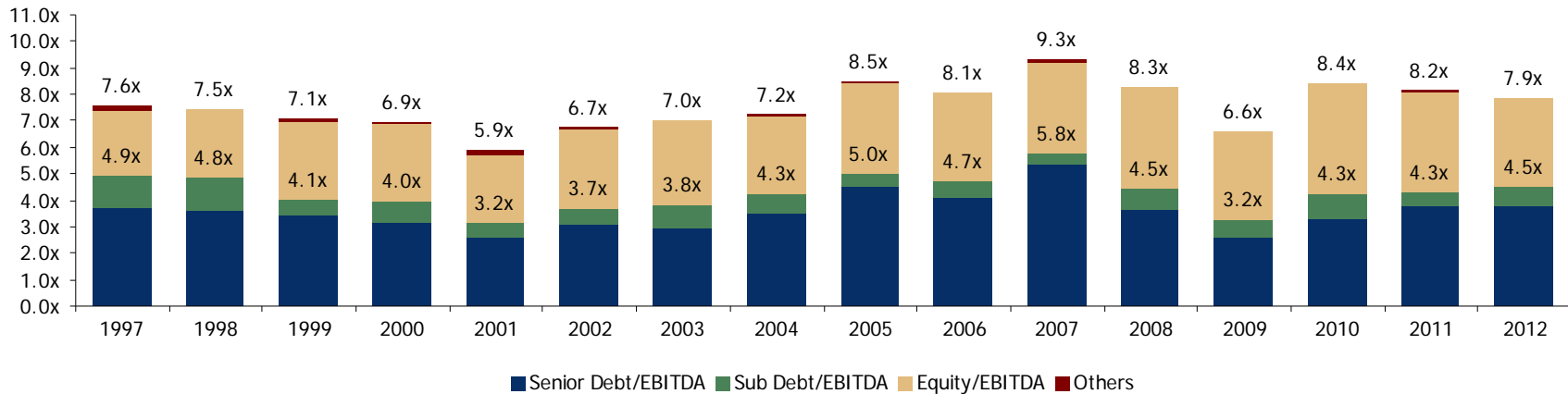
Percentage of Deal Volume (Count) by Deal Size



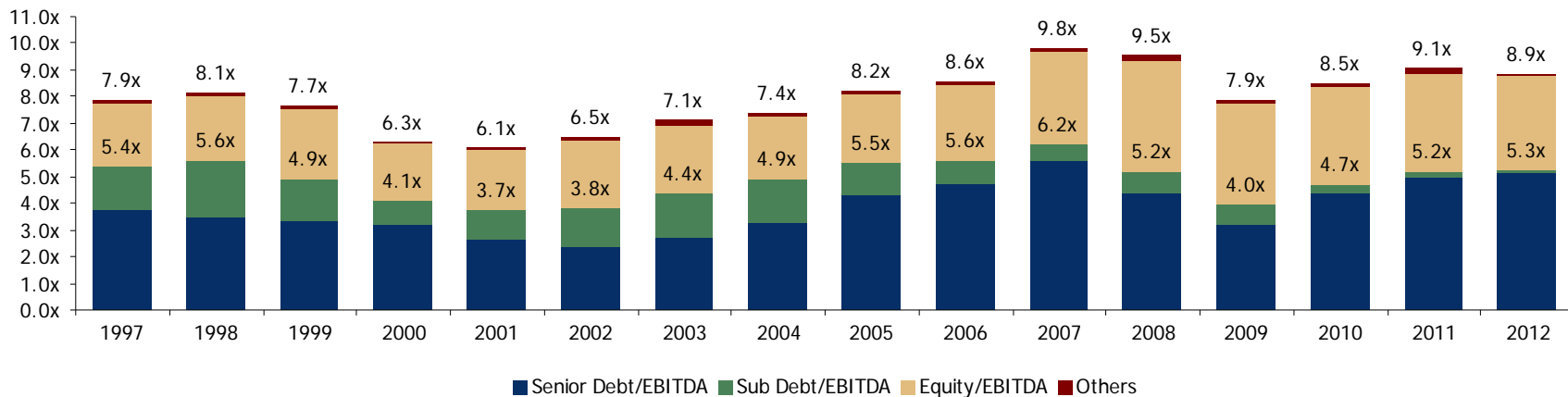
LBO Historical Leverage Trends

Leverage multiples for both middle-market and large LBOs have continued to increase over the past three years, while valuation has stayed within a relatively narrow band. Furthermore, larger transactions continue to command a higher purchase price multiple

LBO Multiples – Less than \$50MM of EBITDA ⁽¹⁾



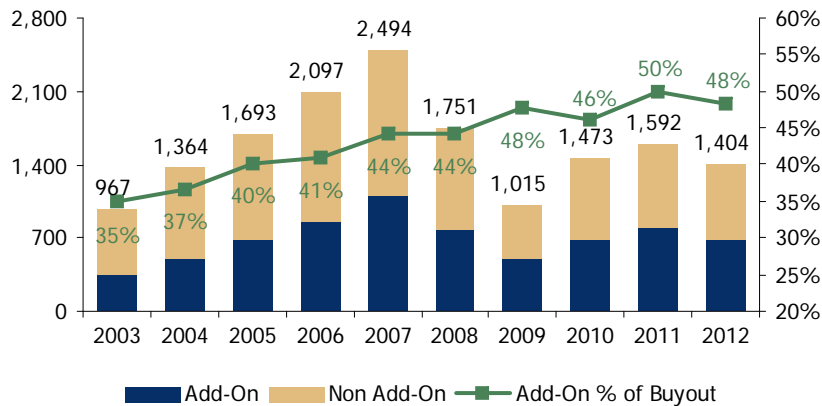
LBO Multiples – \$50MM or More of EBITDA ⁽¹⁾



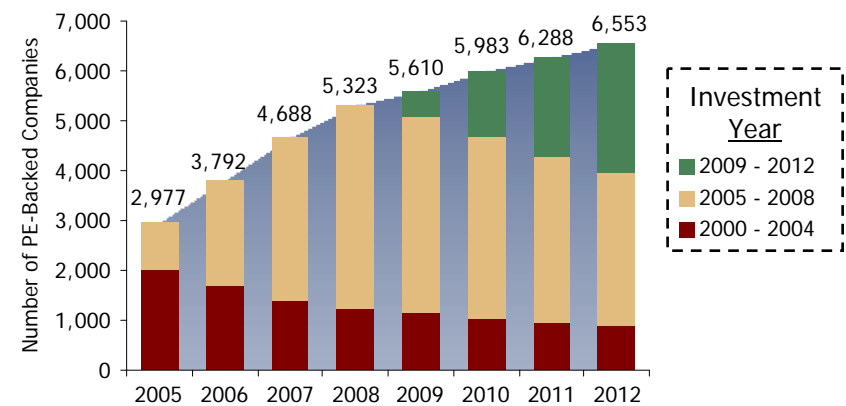
Private Equity Investment Trends

Buy-and-build strategy remains popular among PE firms. Furthermore, inventory has doubled since 2006 and the median hold time has surpassed five years for the first time

LBO Activity by Investment Type ⁽¹⁾

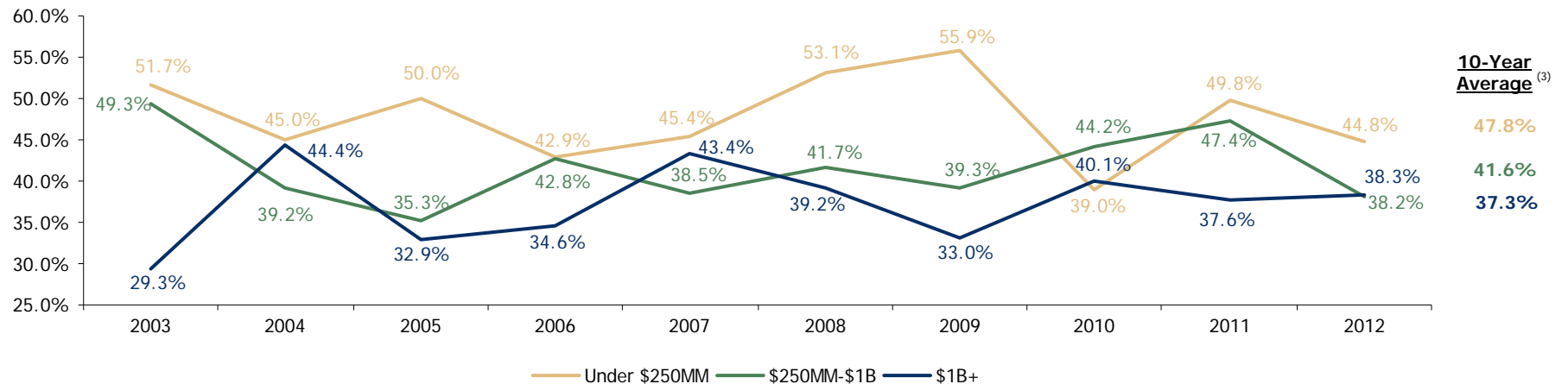


Portfolio Company Inventory ⁽²⁾



Equity contribution for middle market LBOs trended down from 2011 levels

LBO Equity Contribution by Sponsors ⁽¹⁾



Source: PitchBook.

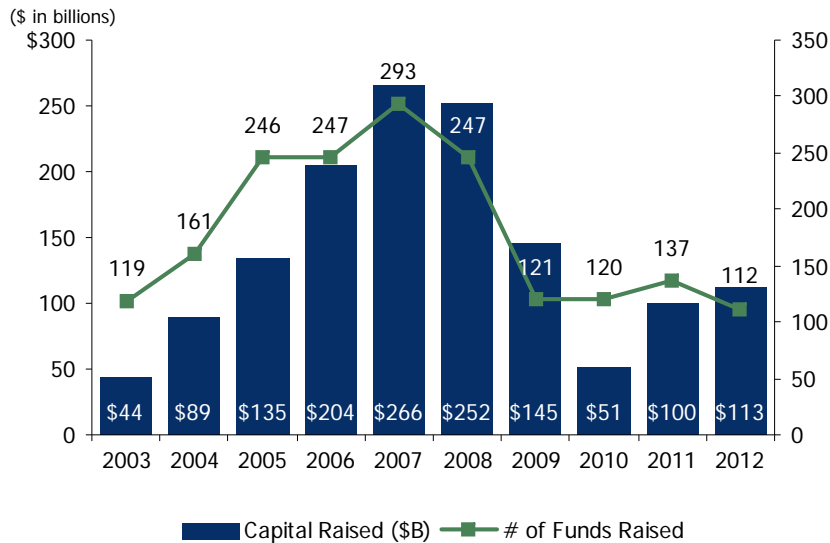
(1) Represents U.S. activity for buyout, growth equity, management buyout, secondary transaction, asset acquisition, acquisition financing, corporate divestiture, private investment in public entity, public to private, recapitalization and bankruptcy financing deals.

(2) Represents U.S. companies majority-owned by private equity firms and excludes add-on companies.

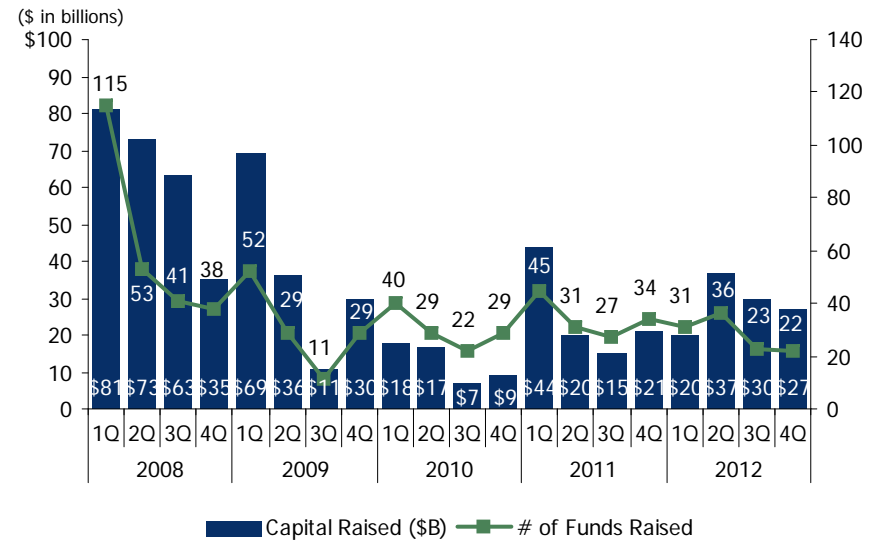
(3) Represents 10-year average from 2003 – 2012.

Fundraising Environment Expected to Gradually Improve

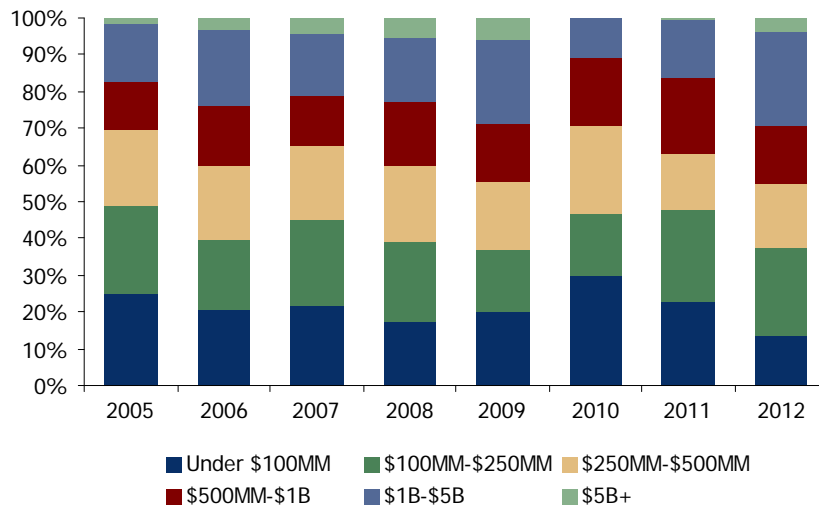
Annual U.S. PE Fundraising Activity



U.S. PE Fundraising Activity by Quarter



Percentage of U.S. PE Funds (Count) by Size

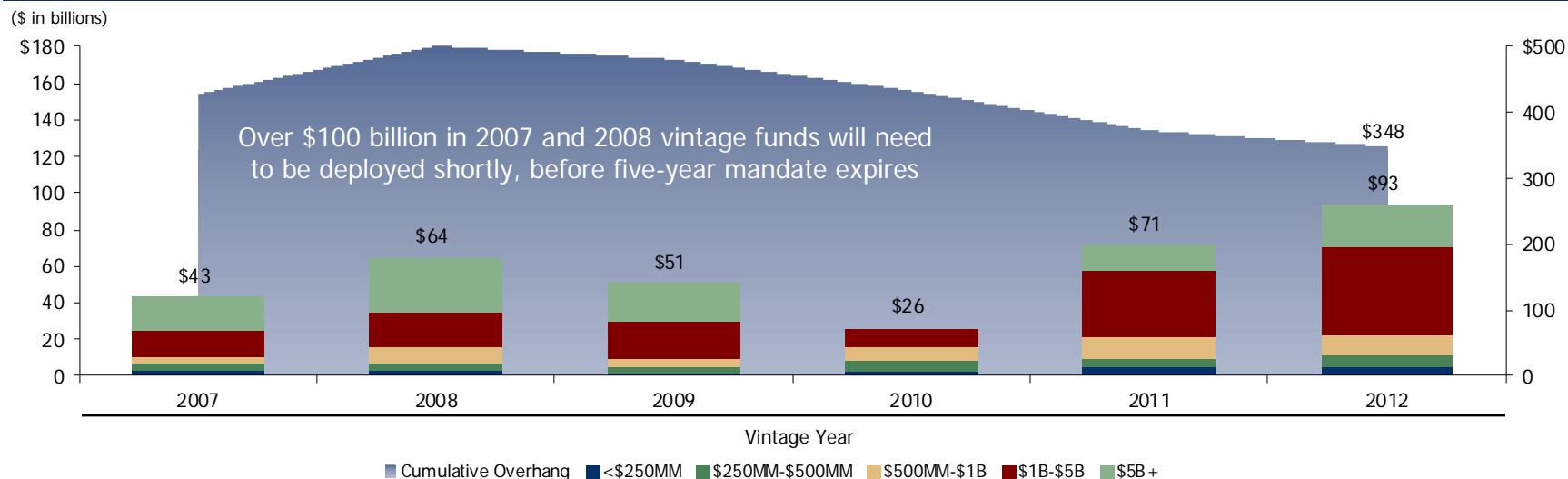


Commentary

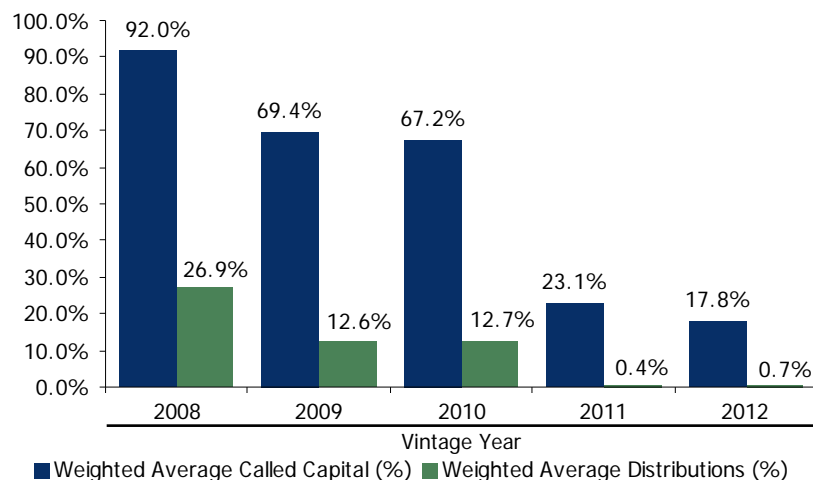
- The fundraising environment proved to be difficult in 2012, with only 112 funds closed in 2012, the fewest since 2003
- However, of the funds that closed in 2012, the average fund size surpassed the \$1 billion mark, a level not seen since 2009
 - Four mega funds accounted for 26% of the total capital raised
 - Funds between \$1-\$5 billion represented the largest proportion of activity in both fund count (25%) and capital invested (52%)
- LPs will continue to focus on larger vehicles and will be selective as they look to consolidate their PE portfolio
 - The average LP commitment size was \$83 million, which has more than doubled since 2010
 - LPs continue to gravitate towards top performing funds, making it difficult for first-time funds to reach a final close

Pressure to Invest Continues to Persist

Cumulative U.S. Private Equity Overhang ⁽¹⁾



Capital Called and Distributions ⁽²⁾



Commentary

- **Capital overhang is below \$350 billion, the lowest in more than six years**
 - Cumulative capital overhang is down 31% from its peak in 2008
 - 42% of capital is held by \$1-\$5 billion funds
- **Dry powder in 2007 and 2008 vintage funds could lead to more mega deals in the near-term as firms try to deploy capital before investment horizon ends**
 - However, some GPs have been granted extended investing timelines
- **Due to the building pressure to invest capital prior to the expiration of their five-year investment timeline, sponsors are increasingly acquiring assets from other sponsors**