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## California Dealmakers' Confidence Reaches All-Time Low

*ACG-Thomson Reuters Year-End 2008 DealMakers Survey Reveals Obstacles and Opportunities for M&A and Private Equity Investing in First Half of 2009*

## California Dealmakers Most Bullish on Financial Services, Healthcare, Technology Debt Markets Projected to Improve

**LOS ANGELES -- December 8, 2008** – The latest twice-yearly survey of middle market merger professionals by the Association for Corporate Growth (ACG) and Thomson Reuters reveals the most negative outlook in the history of the survey, with 86% of California dealmakers saying the current M&A environment is fair or poor. The percentage of those who say the current deal environment is good or excellent has fallen to 14% in December 2008, down from 47% in June 2008 and 74% in December 2007.

Most do not see it getting better anytime soon. Looking out six months, dealmakers expect the M&A environment to be:

- Worse (39%)
- The same (29%)
- Better (33%).

The middle market investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants polled say the greatest obstacle to M&A activity is:

- Credit crunch (34%)
- Sellers unwilling to sell at multiples offered (30%)
- Weak economy (17%)

The latest data from Thomson Reuters supports the survey findings. The volume of all worldwide mergers and acquisitions totaled \$2.4 trillion in announced deals during the first three quarters of 2008, a decrease of 28% over the record-breaking first three quarters of 2007, according to Thomson Reuters. Of this total, M&A deals in the mid-market, defined by Thomson Reuters as transactions under \$500 million, fared better. Less reliant on the global credit markets, they declined only 16%, with a total value of \$569.6 billion.

As for which sectors will experience the most M&A activity in the next six months, dealmakers are most bullish on:

- Financial services (31%)
- Healthcare/life sciences (19%)

- Technology (13%)
- Manufacturing and distribution (12%)

Scott Kolbrenner, president of ACG Los Angeles and a director at Houlihan Lokey in Los Angeles, an international investment bank, commented, “The results of the survey are hardly surprising and confirm what many of us in the industry are hearing on a daily basis as we visit clients, lenders, investors and buyers. The negative sentiment is overwhelming. However, history shows that companies able to see beyond the current turmoil and capitalize on it by investing in growth well before the market turns will be extraordinarily positioned to benefit as the markets normalize. Through regular monthly meetings and informal gatherings, our ACG Los Angeles members continue to develop innovative methods to enhance value for their firms and their clients in this difficult environment through organic and inorganic (mostly mergers, not acquisitions) growth.”

### **Private Equity Firms’ Greatest Threats, Best Strategies**

Among survey respondents, private equity professionals say the sectors with the greatest opportunities for buyout investments over the next six months are:

- Healthcare/life sciences (17%)
- Financial services (17%)
- Technology (14%)

Private equity professionals believe today’s greatest threats to their business are:

- Credit crunch (54%)
- Overall economy (39%)
- Lack of exit opportunities (37%)

Private equity professionals say they are modifying their investment strategy less now (37%), versus June 2008 (41%). They say the best strategies for success in the current environment are:

- Focus on portfolio companies (38%)
- Focus more on add-on acquisitions than platform acquisitions (33%)
- Cut costs at portfolio companies (30%)

The lack of acquisition financing has affected 93% of private equity professionals, and 43% expect to put more equity into their deals in the next six months. They are primarily securing debt financing from:

- Commercial banks (58%)
- Mezzanine lenders (53%)
- Seller debt (45%)

Six months from now, private equity professionals expect the debt markets will be:

- Better (71%)
- The same (17%)
- Worse (12%)

Most private equity respondents say they have not adopted fair value accounting standards consistent with FAS 157.

- Have adopted (38%)
- Plan to adopt (25%)
- Do not plan to adopt in near term (36%)

Many private equity firms plan to mark down their portfolio company values in their next quarterly statements.

- Plan to mark down (36%)
- Plan to hold steady (55%)
- Plan to mark up (8%)

### **Survey Methodology**

The twice-yearly survey, conducted in November 2008, was completed by 970 ACG members and Thomson Reuters customers. Respondents were comprised of private equity, venture capital and buyout firm members (19%); investment bankers, intermediaries, brokers (26%); lenders, finance providers (12%); corporate professionals, entrepreneurs (13%); hedge funds (1%); Limited Partners (2%); and service providers, such as lawyers, workout specialists, accountants and consultants (28%). The majority of respondents were from the United States (926), where 42 states were represented. Internationally, executives from 11 countries completed the survey. For a copy of the full survey results, please go to: [www.acg.org](http://www.acg.org). The mid-year 2009 survey results will be released at ACG InterGrowth at the Wynn Las Vegas, May 12-14, 2009 ([www.acg.org/Conferences/InterGrowth](http://www.acg.org/Conferences/InterGrowth)). News releases were created for states with 30 or more responses.

### **About ACG**

Founded in 1954, the Association for Corporate Growth (ACG) is the global community for M&A and corporate growth professionals, helping connect capital with opportunity. ACG provides its members with the research, tools and networking opportunities to grow their businesses and themselves professionally. ACG has grown to more than 12,000 members from corporations, private equity, finance, and professional service firms representing Fortune 1000, FTSE 100, and mid-market companies in 53 chapters in North America and Europe. For more information, please visit [www.ACG.org](http://www.ACG.org). For more information about ACG Los Angeles, please visit [www.acgla.org](http://www.acgla.org).

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