The McLean Group
INVESTMENT BANKING

M&A Market Update©

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The McLean Group is a national investment bank serving middle market businesses. For more information, visit www.mcleanllc.com.

Feature Article: *Baby Boomers & Technology: Be Prepared*

By Dennis Roberts, Chairman and Principal, The McLean Group

The ubiquitous baby boomers remain no less a driving force in middle market mergers & acquisitions today than they have been throughout their lifetimes in all other aspects of the American marketplace. The eldest of the 78 million member baby boom generation turn 65 this year. The youngest baby boomers will turn 65 in 2029, about 18 years from now.

Many baby boom generation entrepreneurs will liquidate their middle market businesses, thus constituting a major M&A driving force for at least the next 25 years. Consider this: While census data indicates that many baby boomer-owned businesses are small businesses generating less than $1 million in annual sales, slightly more than 25% of baby boomer-owned firms – some 3.2 million of them – are middle market companies generating $1 million to $1 billion in annual sales. Collectively, these 3.2 million firms generate $10.5 trillion in annual sales and have a conservative market value of $5.25 trillion.

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Expert's Corner: *The German Economic Engine*

By Richard Wottrich, Senior Managing Director, International Desk, The McLean Group

Germany's recovery continues to lead the European Union (EU), with Germany posting 3.6% in 2010 GDP growth, the country's strongest performance since 1991's reunification of East and West Germany. Europe's largest economy generated a $152 billion Euro Zone trade surplus through September 30, 2010, up $23.8 billion in a year. While roughly 60% of German exports go to its 26 EU partners, China looms large: in 2010, Volkswagen sold more cars in China than it did in Germany.

Germany is the EU's one bright spot as a sovereign debt crisis rages across southern Europe and Ireland. The EU hugely benefits Germany by offering unfettered access to more than 500 million consumers. The economic malaise hanging like London fog over much of the EU

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These demographics will create a huge number of competing transactions during the next 20 years. We estimate that 40,000 middle market businesses will compete for buyers annually, making early, (pre-)sales preparation crucial. Such preparation includes understanding what makes a middle market business more attractive than its competitors. Most businesses, even sizable ones, are sold with less than one year of preparation, particularly as sales are often motivated by lifestyle issues (i.e. age, retirement, health, stress, etc). Economics is a major factor but it is not the typical decision driver: this will be especially true for the aging baby boomer population.

Technological advances dramatically have transformed today's middle market from that of just 15 years ago. Middle market firms routinely launch new technologies that disrupt other middle- and upper-market firms, and sometimes entire industries. Light speed technological advances force survivors to become increasingly proactive and responsive with clients and prospects. Many middle market firms will adapt throughout the global economy by dramatically shortening business life cycles while firms that grow complacent based on past achievements will awaken, too late, to find themselves in "buggy whip businesses."

In capitalist economies, creative destruction always has been a reckoning force. Creative destruction ruled in the US in 1908 and 1808. But as of 2011, the ever-accelerating speed of technological advances astonishes, having dramatically shortened business life cycles (or at least "business as normal") among businesses that rely on technology more than those that develop technology. Ten years ago, the Internet was in its infancy for the vast majority of the world. Since then, the Internet has radically transformed our world, our economy, and virtually every business in the US and elsewhere. An excellent illustration is provided by the S&P 500 Index. Fifty years ago – circa 1961 – the average tenure of a company on the S&P 500 Index was 25 to 35 years. As of 2011, the average tenure of a company on the S&P 500 Index has plunged to 12 to 14 years.

The middle market business life cycle – the time elapsed from founding to exiting or growing through acquisitions of other middle market business – has fallen from 25 years or more to two to three years in some technology or technology-dependent businesses, with most of that acceleration realized in the past 10 years. The radical shortening of business life cycles in turn has had an enormous impact on middle market business operations and the timing and execution of middle market sales.

The key? Be prepared.

The sale of a middle market business is a complex transaction involving extensive and advanced preparation and planning, contract law, accounting, complex taxation, business valuation, negotiation and deal structure, finance and many other issues that can either help or hinder owners as they seek to achieve maximum value. ◆

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also depresses the value of the Euro, which also benefits Germany. If Germany relied on the Deutsche Mark, her currency would be much stronger than the Euro and her imports less attractive.

But the cost of maintaining the EU may prove to be Germany's nemesis. Political pressure to offer "unified" bonds in a "closer" Europe – doublespeak for having Germany backstop weaker EU economies – is growing. Weaker EU economies' deficit spending remains a very real threat to Europe's economic stability. Germany will resist becoming the EU's lender of last resort because Germany simply does not have sufficient resources to bail out the entire EU.

Mergers & acquisitions constitute a key problem area for Germany and the EU alike. Some $2.4 trillion in global M&A transactions closed in 2010, a 22.9% increase vs. 2009 and the best full-year M&A performance since 2008. But the EU's M&A growth rate – based on transaction counts – is failing to keep pace with Asia.

"While the US is showing good signs of recovery, Asia and the emerging markets continue to play an increasingly important role in global deal making with 60% of all IPO activity coming from Asia. By contrast, European investment banking fees dropped 13.5%, showcasing the affects of the economic crises in the region," said Neil Masterson, Global Head of Investment Banking at Thomson Reuters.

Deutsche Bank remains Germany's one major M&A firm with its solid, third-ranking 2010 performance closing $182.1 billion in global transactions but there is no doubt that M&A and IPO activities are shifting to Asia.

DZ Bank chief economist Stefan Bielmeier told Bloomberg News, "Fundamentally, it was wage restraint over the last 10 years that's responsible for Germany's success. It's questionable whether that model is sustainable in the future. Meanwhile, Frankfurt-based Commerzbank senior FX analyst Antje Praefcke observed, "The impetus for wage rises will increase in Germany in 2011."

Nevertheless, German consumers slowly have resumed spending, as indicated by the modest 0.5% growth in 2010. Germany's 2010 estimated Public Debt to GDP ratio of 74.8% outperformed seven other EU members, including France. In contrast to its regional EU counterparts, the German government's commitment to stable finances and limiting spending arguably has set the stage for solid and steady economic growth in Germany during 2011 and beyond. ◆

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* headquarters office

About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. Headquartered in Northern Virginia's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the Washington, DC area. Securities transactions are cleared through The McLean Group's affiliate, McLean Securities LLC, a FINRA registered broker dealer and member SIPC.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from $5 million to $250 million to support clients' expansions, mergers & acquisitions (M&A), refinancings, recapitalizations, leveraged buyouts and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.
- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.
- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that can have a significant impact on the value of a business.

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Investment Bankers to the Middle Market