



## Quarterly M&A Update

Third Quarter 2010

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## Strategy – What’s Next?

An often overlooked part of being a prudent and successful business owner is developing a long-term strategy that includes planning for your exit from the business. This may seem counterintuitive, but eventually all businesses face the reality of management and ownership change. Following are three reasons why having a firm and clear strategy in place allows owners to make smarter and more efficient decisions for their business *today*.

First, companies should not forget to assess business decisions from an outside point of view. A new business theory making the rounds from Harvard to Main Street is to run your business as though it is currently for sale. A house looks its best when it is for sale, and your used car looks best when it’s brought for trade-in. By the same logic, operating a business like it is being reviewed by an outside, active buyer can make the company more efficient, thus providing greater cash flow to be used today or for future growth. Through a recent Market Assessment Study, a client learned that competitors, Private Equity Funds and other potential buyers viewed and valued firms in their space dramatically differently than they expected. To avoid undue bias, the study was done on a blind basis and yielded the following regarding the buyer universe: growth was valued over high “cash cow” margins, greater value was placed on steady growth over spiked growth, and an expanded customer list with slightly lower margins garnered favor over a high concentration of more profitable clients. Our client learned that a strategic initiative they had been investing in was NOT valued by the market. It was a great warning that the firm was investing in a market segment that was not highly regarded by potential acquirers. This information allowed the company to make slight revisions to its strategic plan and become a potentially more stable, better focused growing company. Clearly understanding the exit plan can help a company operate more efficiently and build value.

Second, 2010 marked the beginning of a fundamental shift in the demographics of available workers. A report on “baby boomer retirement” by J.J. L’Allier and Kenneth Kolosh shows that in 2015, “the 65-and-over age group starts to grow at a faster rate than the 20-to-64 age group.” A smaller pool of potential leaders coupled with the changing moods and attitudes of the “Gen X & Gen Y” offspring of business owners, means greater uncertainty for the firm in the long term. Mapping out a clear vision for a business takes time and should be in place as part of an exit strategy.

Finally, both private equity and public companies are sitting on veritable mountains of cash. Private equity “overhang,” or capital that has yet to be invested, was recently estimated by PitchBook to be around \$418 billion. Further, corporate America has close to \$2 trillion in cash on its collective balance sheets, triggering a supply/demand scenario that sees profitable companies “drawing multiples of 8, 9, or even 10 times EBITDA,” as reported in the Cincinnati Business Courier. More than likely, these staggering numbers fueled Thomson Reuters and Freeman Consulting Services expectations that global M&A activity will jump 36% to \$3.02 trillion in 2011.

Developing a comprehensive strategy *before* the offers come helps owners make the right decision for the future of the business and their ownership interests. ■

National Middle Market M&A Summary			
Third Quarter 2010			
Total Number of Transactions	2,771	Total Deal Value (\$mm)	161,601.3
Percentage Change from 2nd Quarter 2010	0.72%	Percentage Change from 2nd Quarter 2010	3.22%
Percentage Change from 3rd Quarter 2009	55.5%	Percentage Change from 3rd Quarter 2009	137.34%

Deals of Regional Interest			
Target	Buyers/Investors	Deal Value	Geographic Location
Sterling Commerce, Inc.	International Business Machines Corp.	\$1,400,000,000	Columbus Area
Dugan Realty, LLC	Duke Realty LP	308,200,000	Indianapolis Area
SMobile Systems, Inc.	Juniper Networks, Inc.	69,500,000	Columbus Area
The Metropolis Shopping Center	Aviv Arlon Ltd.	52,000,000	Indianapolis Area
Heartland Jockey Club Ltd.	Penn National Gaming Inc.	37,000,000	Columbus Area
Ohio Community Media LLC	Allied Irish Banks plc; Brown Brothers Harriman & Co.; The Huntington National Bank; Prudential Financial, Inc.; Wells Fargo Bank, National Association; PNC Bank, National Association	21,750,000	Dayton Area
Data Image, Inc.	DANTOM Systems, Inc.	21,000,000	Columbus Area
Chapman Kelly, Inc.	HMS Holdings Corp.	13,000,000	Louisville Area
Lamplight Inn of Dayton	Lamplight Communities LLC	4,000,000	Dayton Area
E.J. Thomas Company	-	Undisclosed	Columbus Area
TCS Software, Inc.	Mad Gravity LLC	Undisclosed	Columbus Area
Advanced Drainage Systems, Inc	American Securities	Undisclosed	Columbus Area
Immke Northwest, Inc.	Germain Motor Co.	Undisclosed	Columbus Area
Max & Ermas Restaurants Inc.	American Blue Ribbon Holdings, LLC	Undisclosed	Columbus Area
Bass & Co. Mgmt Consultants	Computer Sciences Corporation	Undisclosed	Columbus Area
Influent, Inc.	PCCW Teleservices (Hong Kong) Limited	Undisclosed	Columbus Area
Taylor Lumber, Inc.	Resilience Capital Partners LLC	Undisclosed	Columbus Area
Paradigm Management Corp.	Focus Business Solutions, LLC	Undisclosed	Dayton Area
Lee & Associates Indianapolis	Lee & Associates Licensing & Administration Co., LLC	Undisclosed	Indianapolis Area
Crystal Flash Petrol (12 stores)	Mac's Convenience Stores, LLC	Undisclosed	Indianapolis Area
RealMed Corporation	Availity, L.L.C.	Undisclosed	Indianapolis Area
DCL Medical Laboratories, LLC	Laboratory Corp. of America Holdings	Undisclosed	Indianapolis Area
McCready And Keene, Inc.	OneAmerica Financial Partners, Inc.	Undisclosed	Indianapolis Area
Lexington Surgery Center, Ltd.	Catholic Health Initiatives; Saint Joseph Health System, Inc.	Undisclosed	Lexington Area
Lifeline HealthCare Harrodsburg	LHC Group, Inc.	Undisclosed	Lexington Area
Voltaic, Inc.	Hensley, Elam & Associates, LLC	Undisclosed	Lexington Area
FireKing Security Group	Pfingsten Partners, L.L.C.	Undisclosed	Louisville Area
I M I South LLC	Hunter Marine Transport Inc.	Undisclosed	Louisville Area
Compassco Inc.	Pyramyd Air Ltd.	Undisclosed	Louisville Area
Print Manage, Inc.	Officeware, Inc.	Undisclosed	Louisville Area
SinglePipe Communications, Inc	Integrated BroadBand Services, LLC	Undisclosed	Louisville Area
Bluegrass Dairy & Food, LLC	Dubilier & Co.; Merit Capital Partners	Undisclosed	Louisville Area
Verdict Research Group, Inc.	ALM Media, Inc.	Undisclosed	Louisville Area
A & T Industrial Services, Inc.	Thompson Industrial Service, LLC	Undisclosed	Louisville Area
JFT Precision Fabrication, Inc.	Bramco Inc.	Undisclosed	Louisville Area
Hawkins Company CPA's, LLC	Mountjoy Chilton Medley	Undisclosed	Louisville Area
The Care Group LLC	St. Vincent Health	Undisclosed	Indianapolis Area

Sources of data include CapitalIQ, BVMarketData, Thomson Reuters, and other news organizations. The factual statements herein have been taken from sources believed to be reliable, but we do not guarantee such statements as accurate or complete. This report was prepared by The Malibu Group for informational purposes only; this is not a solicitation or offer to purchase or sell securities. Recipients of this report should not interpret the information herein as sufficient grounds for any type of decision, investment or otherwise. Historical data is not in indication of future results

Deals of Local Interest (Cincinnati-based Buyers or Sellers)		
Target	Buyers/Investors	Deal Value
Nantucket Apartments	Inland Real Estate Acquisitions, Inc.	\$ 35,000,000
Hummingbird Coaching Services, LLC	Humana Inc. (NYSE:HUM)	8,500,000
RINA Technologies, LLC	TradeStation Technologies, Inc.	4,990,000
enVu, LLC	Stratacache, Inc.	Undisclosed
Bramble Savings Bank	Foundation Bank (Cincinnati, OH)	Undisclosed
HawkLine Nevada LLC	Behlen Mfg. Co.	Undisclosed
Great American Advisors, Inc.	Lincoln Investment Planning, Inc.	Undisclosed
Ethicon Endo-Surgery, Inc., Breast Care Business	Devicor Medical Products, Inc.	Undisclosed

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Our specialized expertise helps our clients achieve better value, identify better transaction partners, reach smarter decisions, and negotiate more favorable outcomes.

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