



**ACG Chicago
2009 Annual Market Trends Breakfast
March 6, 2009**

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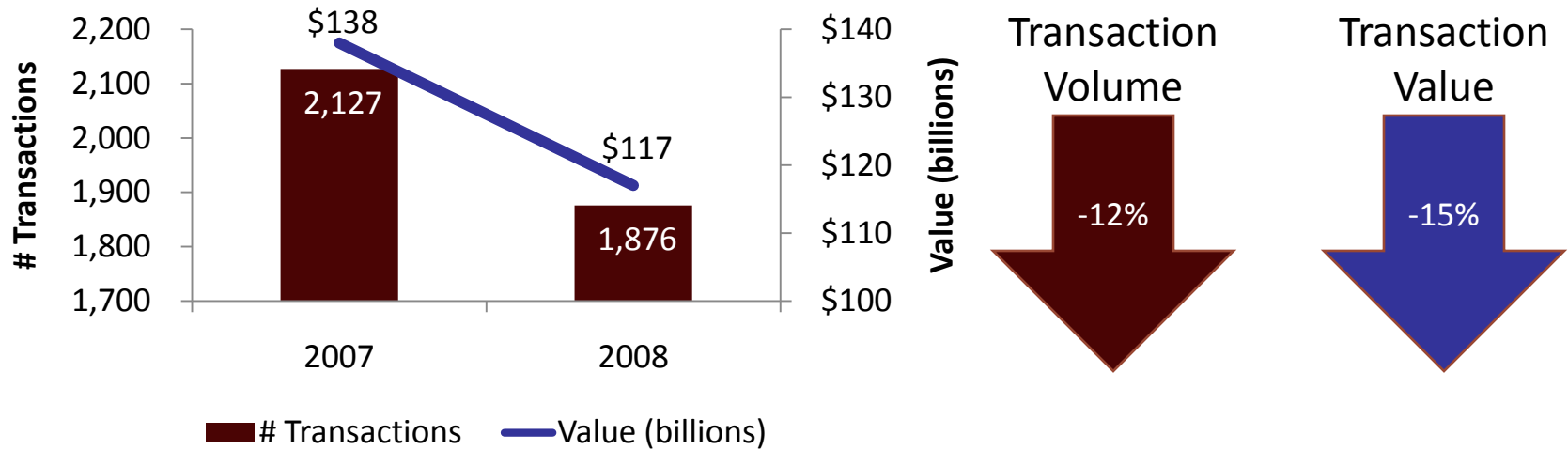
M&A WAVES

What History Tells Us About The Current and Near-Term M&A Environment

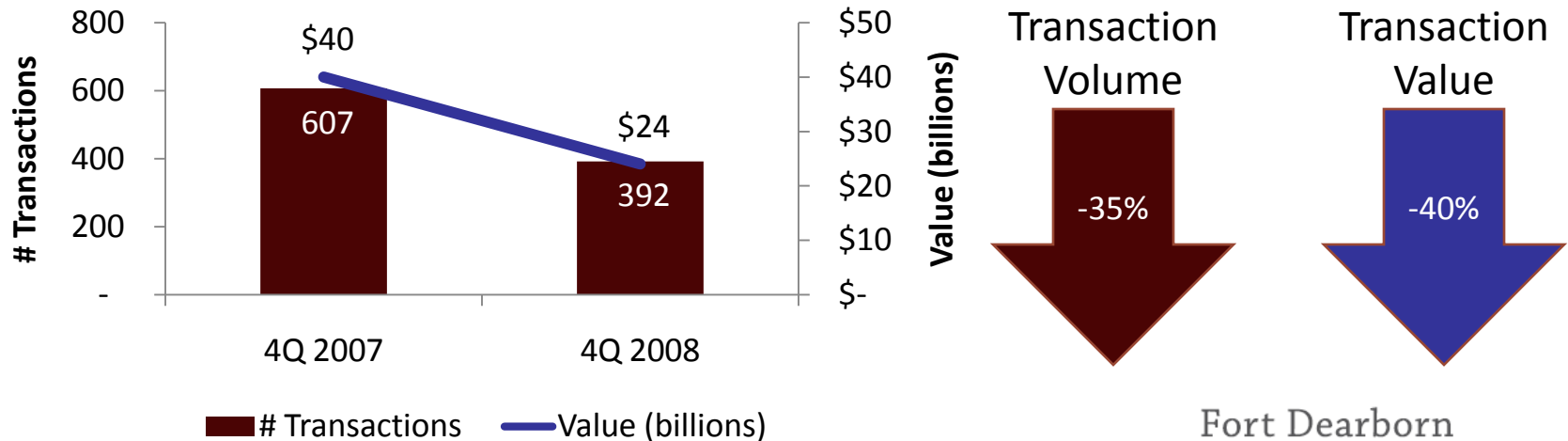
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ADVISORS

RECENT MIDDLE MARKET M&A VOLUME AND VALUE

2007 Versus 2008

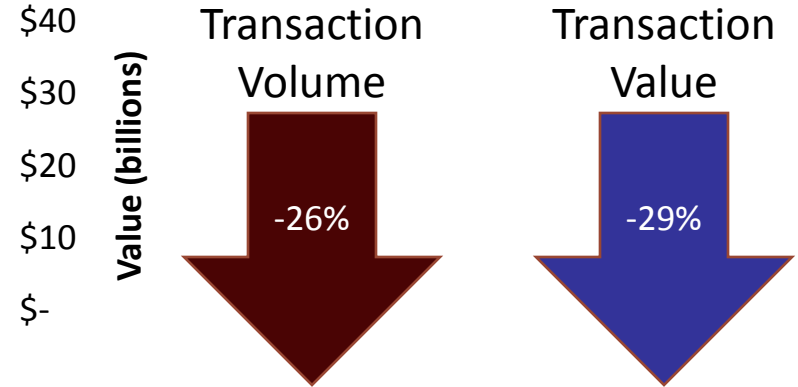
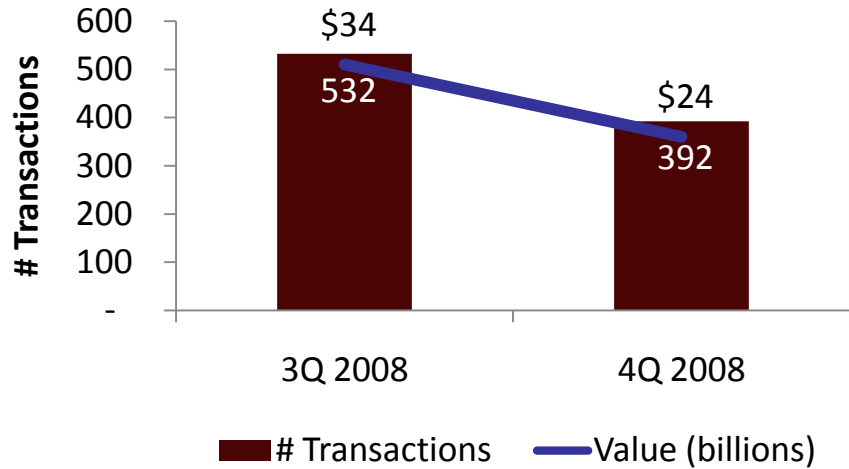


4Q 2007 Versus 4Q 2008

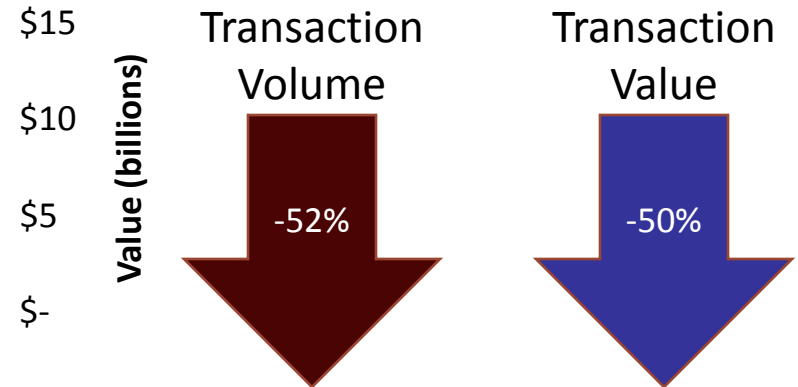
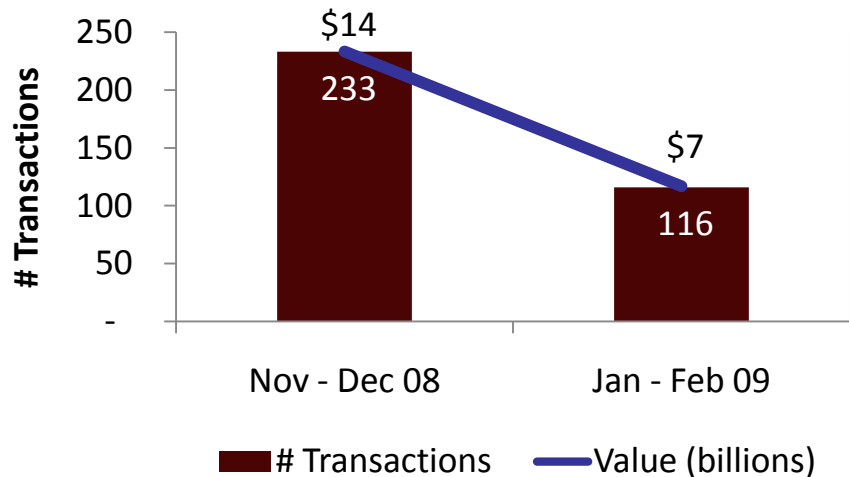


RECENT MIDDLE MARKET M&A VOLUME AND VALUE

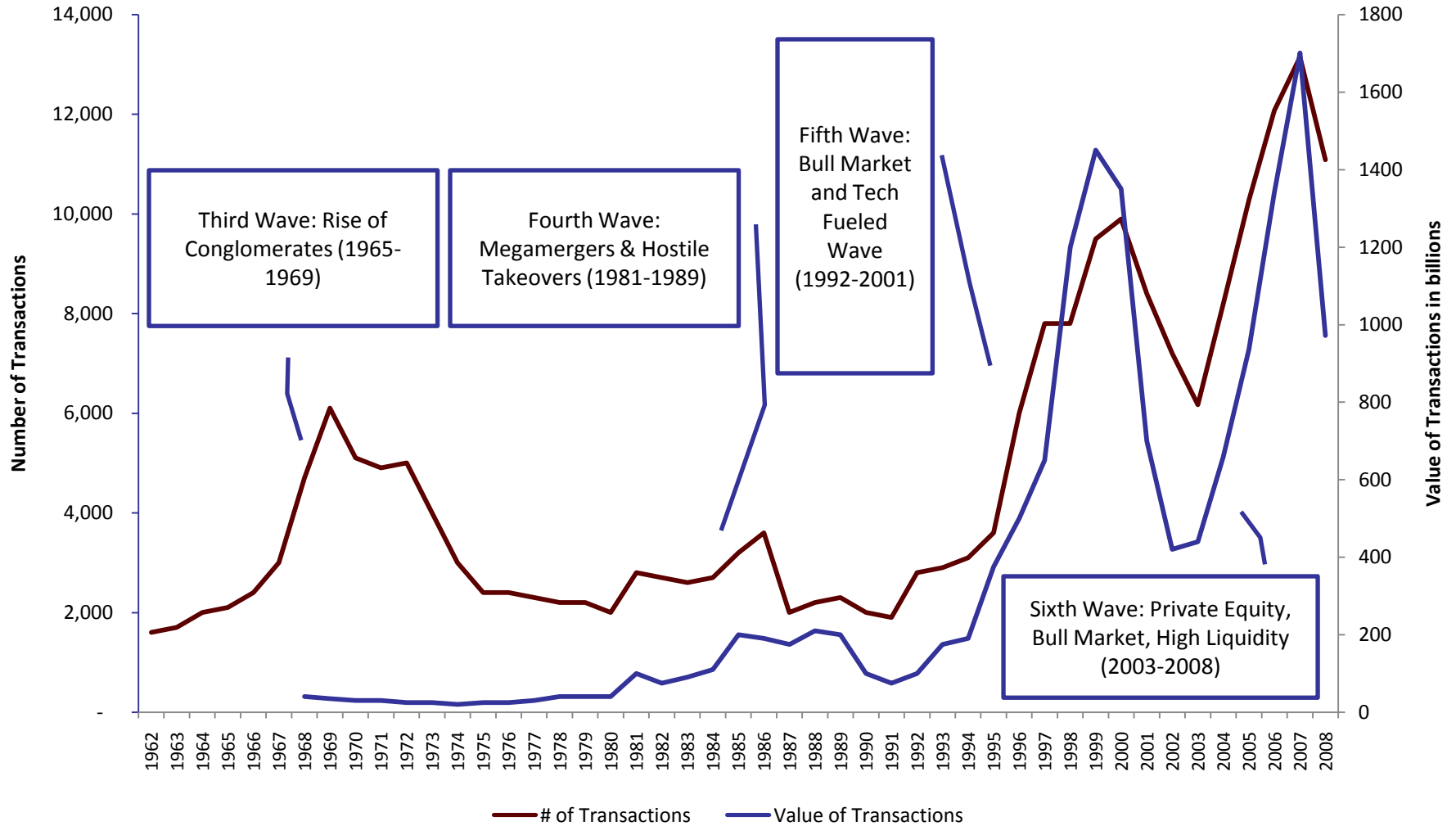
3Q 2008 Versus 4Q 2008



November and December 2008 Versus January and February 2009



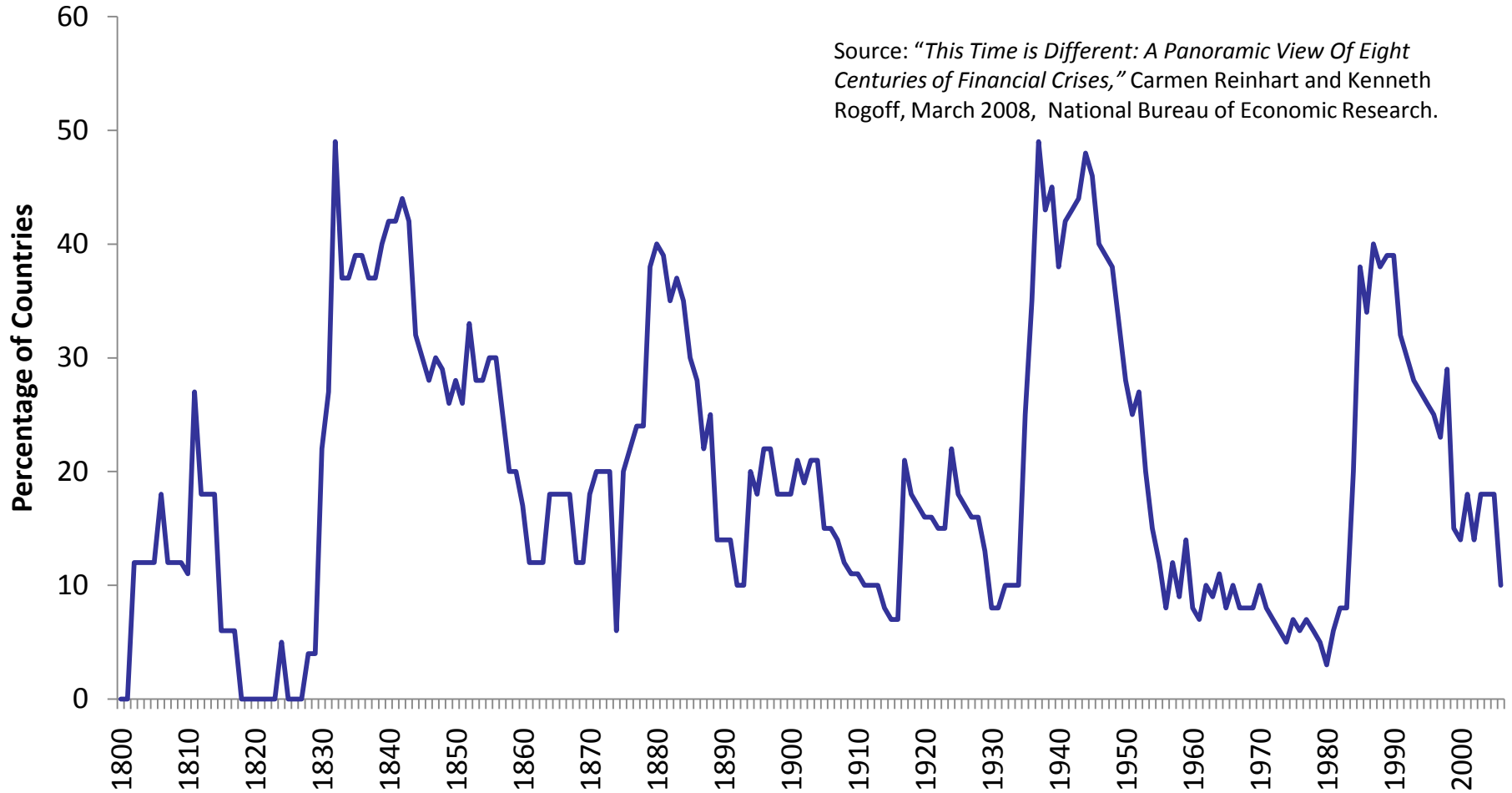
M&A TRANSACTION HISTORY (ALL TRANSACTIONS W/U.S. TARGET)



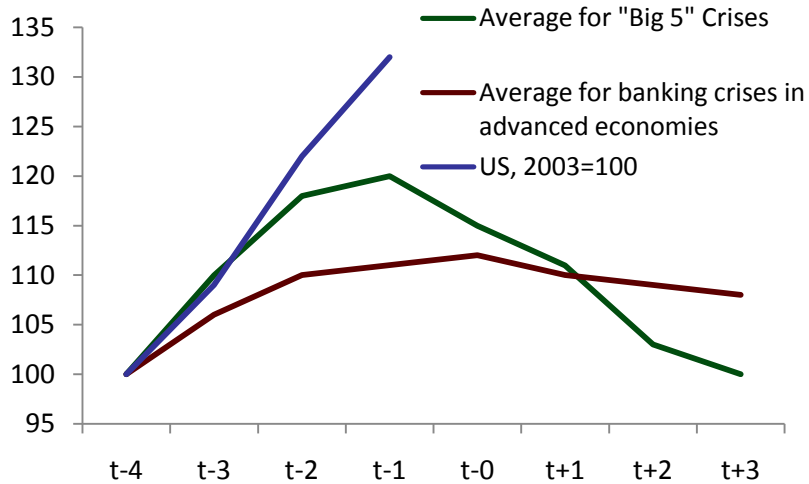
Sources: M&A Waves are discussed in detail in *Mergers, Acquisitions, and Corporate Restructurings*, Fourth Edition by Patrick Gaughan. Transaction data is from Mergerstat (1962 to 2002), Capital IQ (2003 to 2008).

PERCENT OF COUNTRIES IN DEFAULT

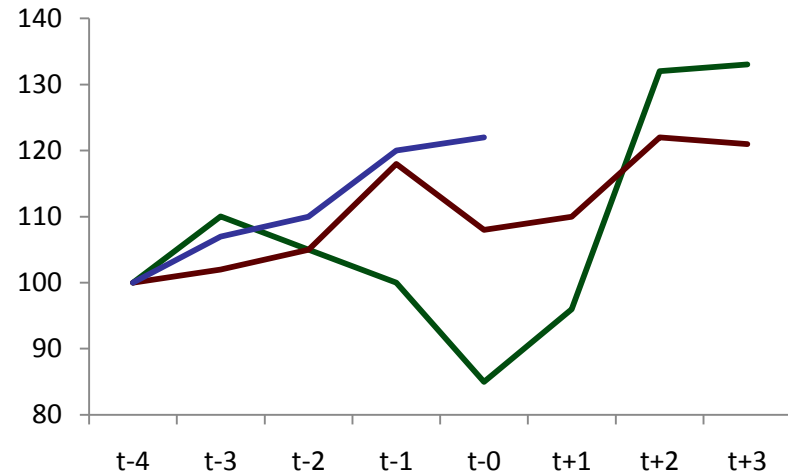
% of Countries in Default or Restructuring



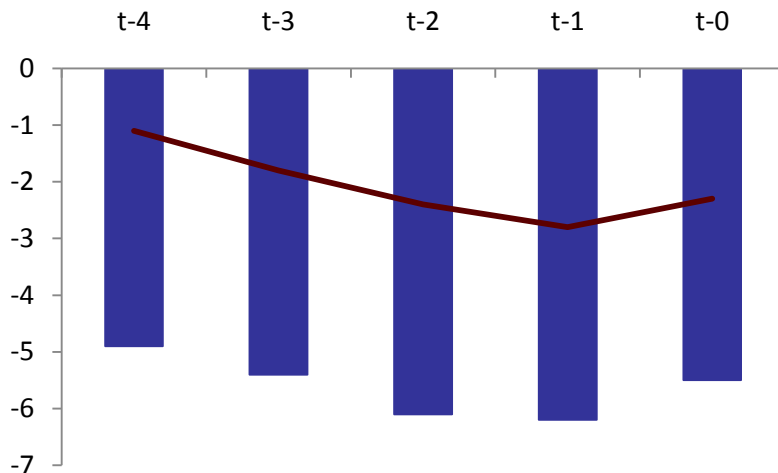
REAL HOUSING PRICES



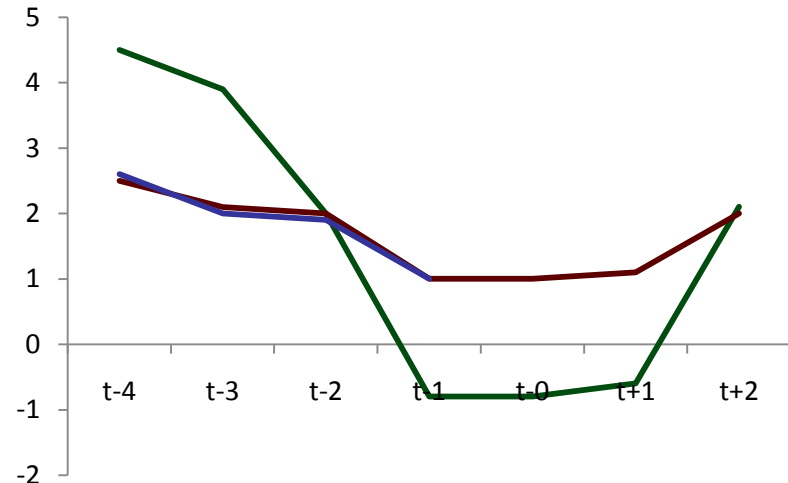
REAL EQUITY PRICES



CURRENT ACCOUNT BALANCE/GDP



REAL GDP GROWTH PER CAPITA



Source: "Is the 2007 US Sub-Prime Financial Crisis so Different?, An International Historical Comparison," Carmen Reinhart and Kenneth Rogoff, National Bureau of Economic Research, January 2008.

PAST CHANGES IN THE US BANKING MARKET

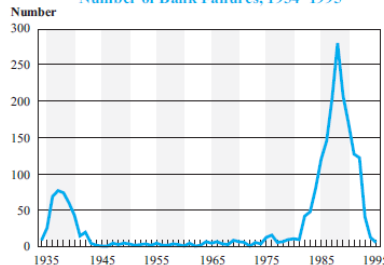
Chapter 1

The Banking Crises of the 1980s and Early 1990s: Summary and Implications

Introduction

The distinguishing feature of the history of banking in the 1980s was the extraordinary upsurge in the number of bank failures. Between 1980 and 1994 more than 1,600 banks insured by the Federal Deposit Insurance Corporation (FDIC) were closed or received FDIC financial assistance—far more than in any other period since the advent of federal deposit insurance in the 1930s (see figure 1.1). The magnitude of bank failures dur-

Figure 1.1
Number of Bank Failures, 1934–1995



Note: Data refer to FDIC-insured commercial and savings banks that were closed or received FDIC assistance.

Published by the FDIC for a
January 1997 Symposium

Chapter 7

Continental Illinois and “Too Big to Fail”

Introduction

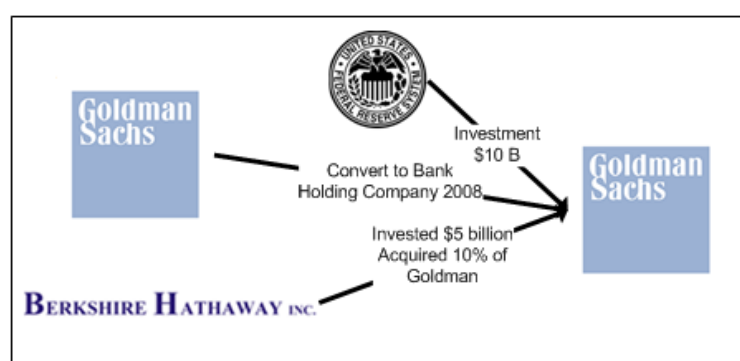
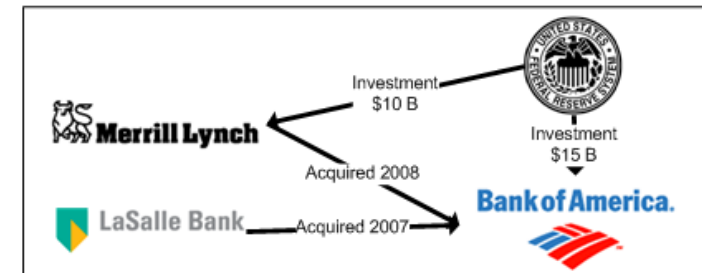
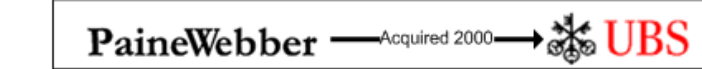
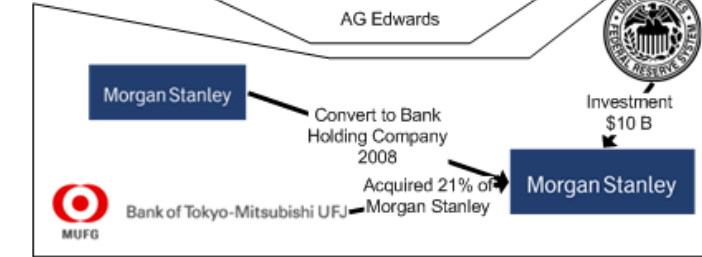
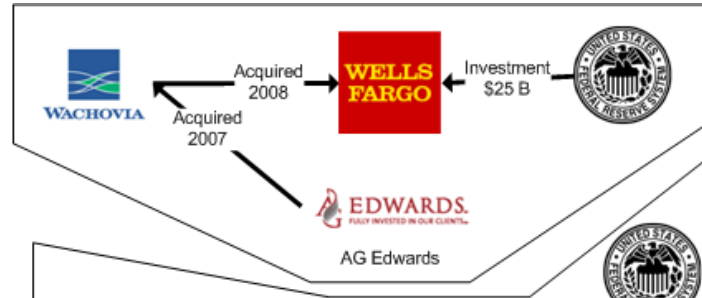
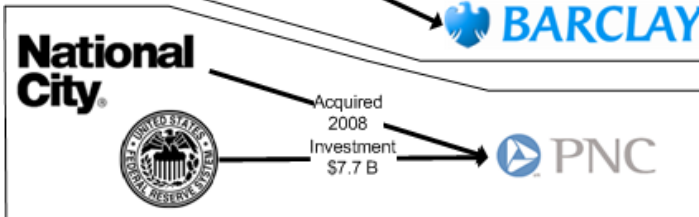
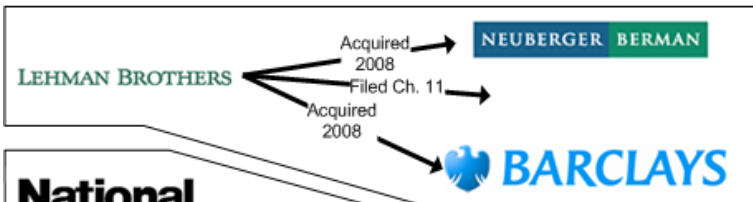
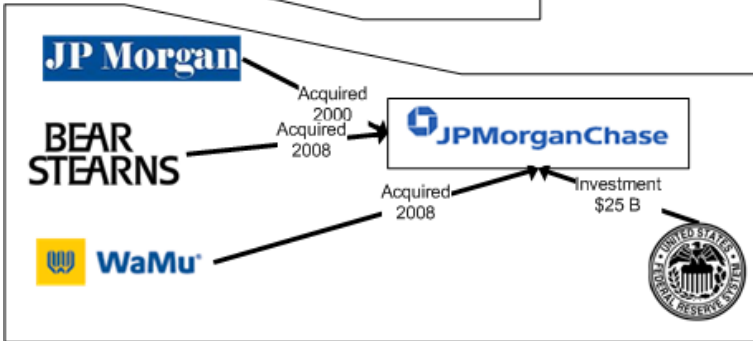
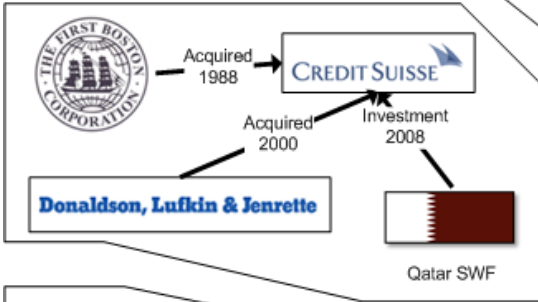
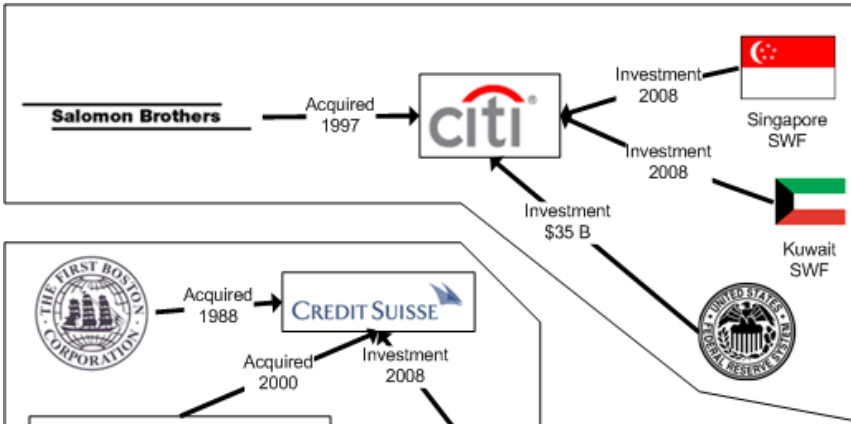
One of the most notable features on the landscape of the banking crises of the 1980s was the crisis involving Continental Illinois National Bank and Trust Company (CINB) in May 1984, which was and still is the largest bank resolution in U.S. history. Although it took place before the banking crises of the decade gathered strength, the Continental episode is noteworthy because it focused attention on important banking policy issues of the period. Among the most significant of these was the effectiveness of supervision: in the wake of the bank's difficulties, some members of Congress questioned whether bank regulators (in this case, the Office of the Comptroller of the Currency in particular) could adequately assess risk within an institution. The economic dislocation such a large bank failure might bring also engendered increased scrutiny of the supervisory process. In addition, Continental was a particularly telling example of the problem that bank regulators faced when attempting to deal with safety-and-soundness issues in an institution that had already been identified as taking excessive risks but whose performance had not yet been seriously compromised.

Continental's size alone made it consequential. Large-bank failures in the 1980s and early 1990s would prove to have serious consequences for the Bank Insurance Fund (BIF). For example, although only 1 percent of failed institutions from 1986 to 1994 had more than \$5 billion in assets, those banks made up 37 percent of the total assets of failed institutions and accounted for 23 percent of BIF losses during that period.¹ Moreover, continuing industry consolidation can only serve to make the issues involved in the handling of large-bank failures more significant.²

¹ FDIC, *Failed Bank Cost Analysis 1986–1994* (1995), 12, 32.

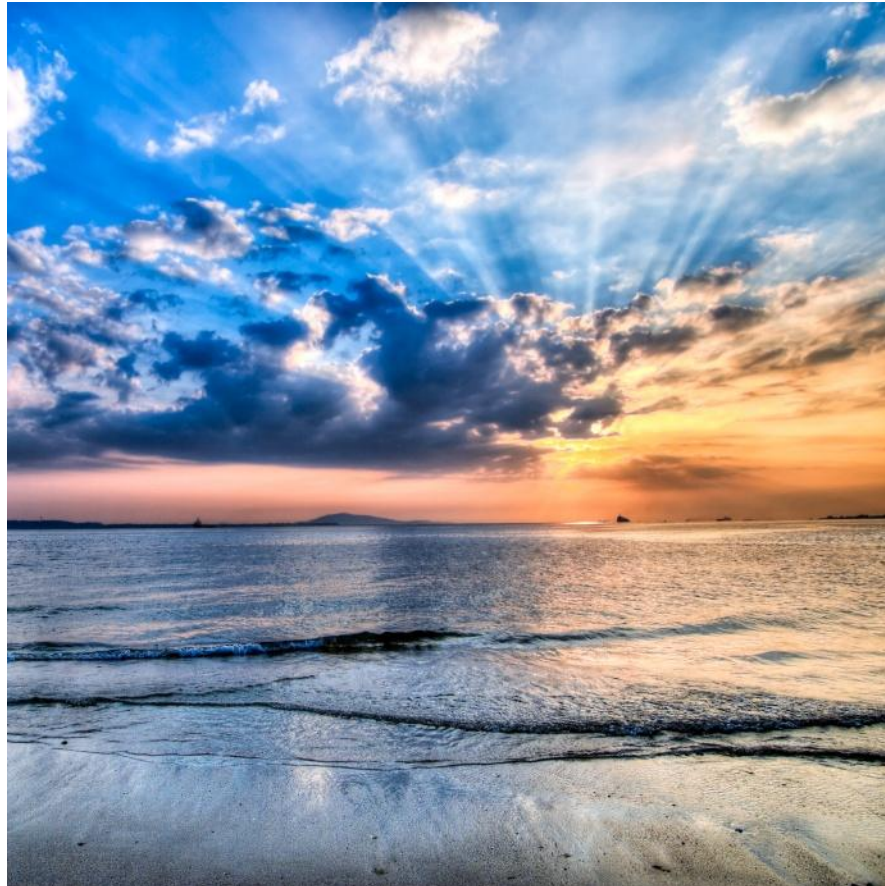
² At year-end 1984, only 24 commercial banks had more than \$10 billion in assets; by year-end 1994, the number was 64. During the same ten-year period, total assets at such banks had risen from \$865 billion to \$1.94 trillion.

SELECT RECENT CHANGES IN THE US BANKING MARKET



CONCLUSION “UNIQUE” OR “WE’VE ALREADY SEEN THIS MOVIE?”

“There is nothing new under the sun.”



OUTLOOK

| <u>Item</u> | <u>Historically</u> | <u>Current</u> | <u>2009 Outlook</u> |
|---------------------|---|---|---|
| Federal Funds | 5.25% (12/06) | 0.25% | 0.25% |
| Unemployment | 4.4% (12/06) | 7.6% | Peaking between 9% and 10% in 2009 |
| M&A Volume | ≈11,000 (1999 and 2000) ≈5,500 (2002) | 11,000 (2008) | 6,000 to 8,000 transactions |
| Bankruptcy filings | ≈39,000/year (2000 & 2001) | ≈28,000 (2007) | Return to 2001-2002 levels |
| Strategic Acquirers | Competed with private equity | Cautious on outlook for 2009 | Less competition from private equity. An opportunity to strengthen company. |
| GDP Growth | 0% to 7.5% (past 10 years, with exceptions) | -6.2% annual rate during 4Q 2008 (first revision) | Below -0.0% to -2.0% for 2009. |

CAVEATS TO POSITIVE OUTLOOK



Economic climate in Eastern Europe continues to deteriorate



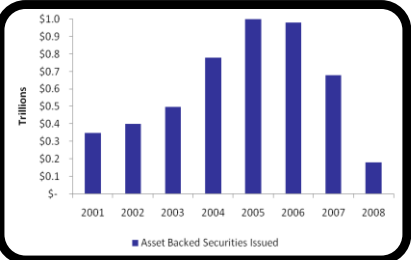
Rise of economic nationalism (i.e., protectionism in various forms)



Unrest in China as a result of slowing economy and large unemployment



Increasingly belligerent North Korea (e.g., missile test)



TALF program proves ineffective



Over regulation of banking sector



U.S. consumer remains very cautious



Unknown