

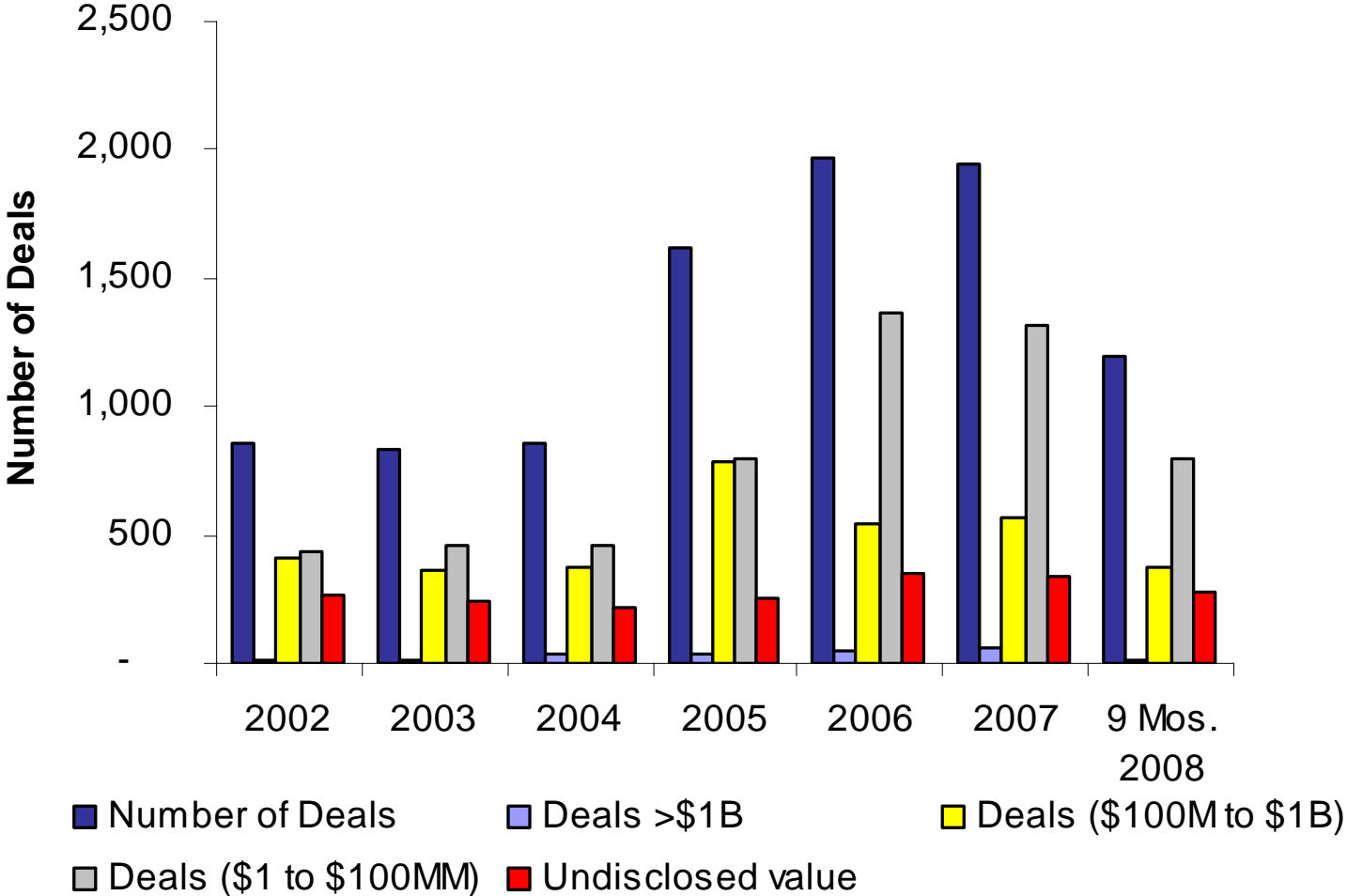
RBC Royal Bank Mid-Market Corporate Finance

February 5, 2009



Canadian M&A Market

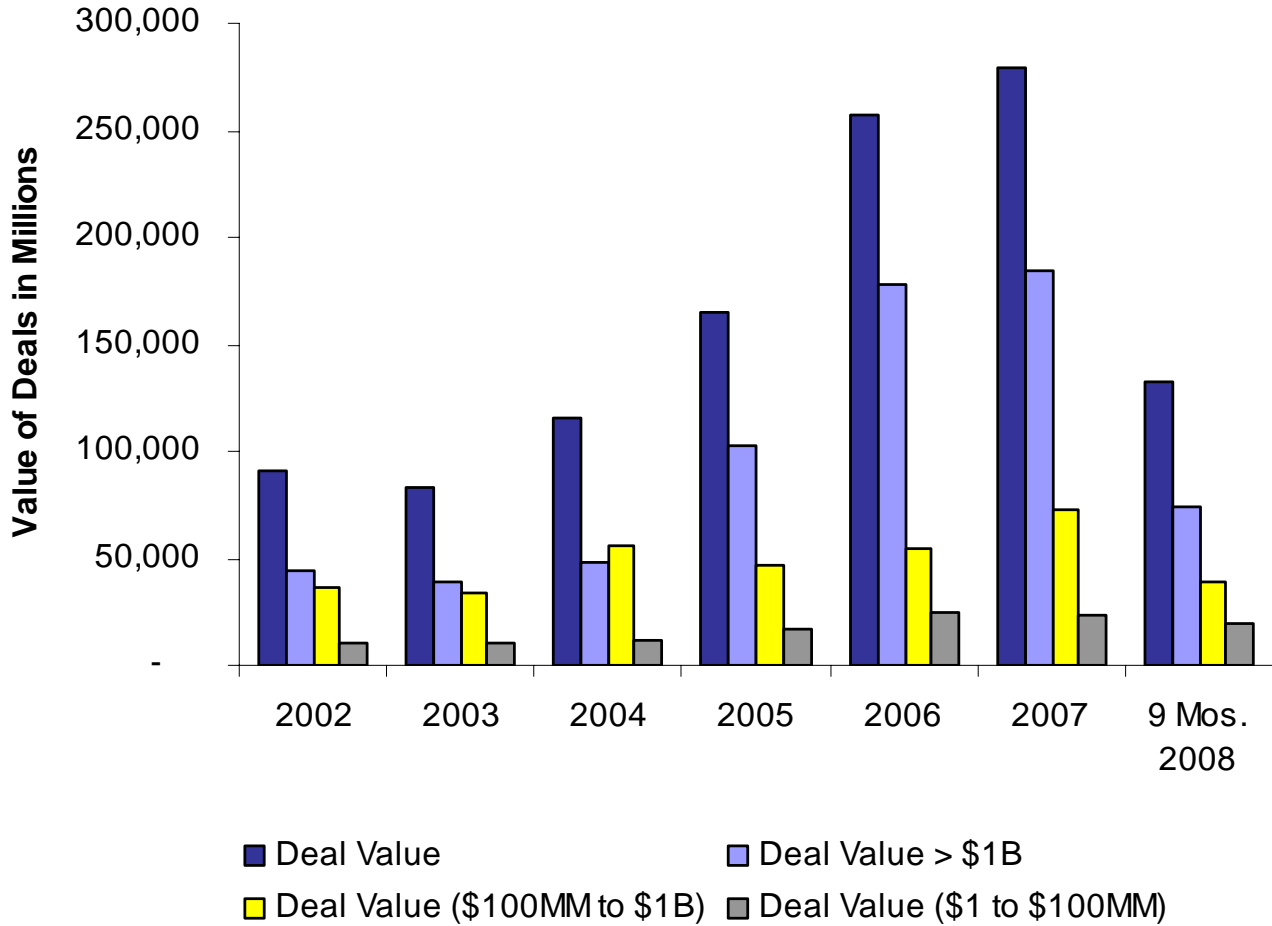
Number of deals



Source: Financial Post Crosbie: Mergers & Acquisitions in Canada

Canadian M&A Market

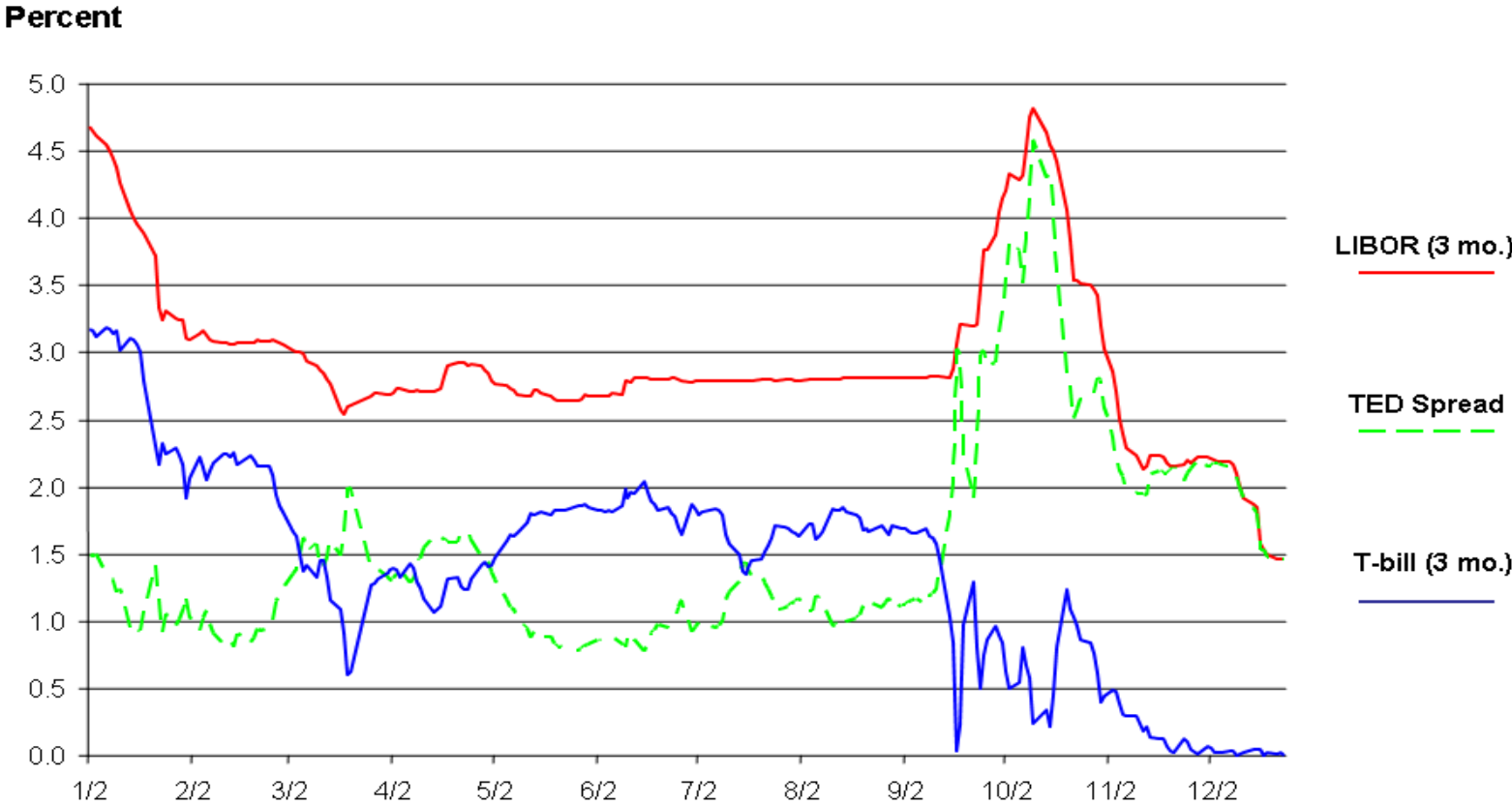
Value of deals in Millions



Source: Financial Post Crosbie: Mergers & Acquisitions in Canada

Scarcity of Liquidity

Decrease in TED spread suggests that the tightened credit markets are loosening



Sources: S&P Leveraged Commentary and Data, Wikipedia and Bloomberg (3-month LIBOR data)

M&A in Canada

Mid-market M&A is still active, but less so

- Ongoing credit crisis has resulted in tightened credit and reduced liquidity
 - Increasingly difficult for buyers to raise capital & price deals
 - Fiscal 2009 results are uncertain
 - Uncertainty has lead to inactivity on behalf of buyers
 - Negative sentiment on valuations
- Mid-market M&A is often a function of larger strategic buyers that can often finance acquisitions with cash on hand (and therefore are less likely to need to raise additional capital from the banks or equity markets)
- Despite deteriorating economic conditions, there is still mid-market M&A activity

Buying or selling a business

What creates a premium valuation

- Predictable, quality, growing cash flow
- Customer/product/supplier/margin diversification
- Strong management team
 - Definite plus for buyer; limits risk
 - Second-level management
- Extent and diversity of the customer base
 - Who owns the customer relationships; departing shareholder, management or the Company?
 - Customers will be called during due diligence; problems will be identified
- Well positioned in the market
 - Proprietary technology, patents or other
 - Provides customer with a compelling offering that is hard to duplicate vs. price sensitive offering
- Industry dynamics
 - Certain industries are more favourable than others

Buying or selling a business

What creates a premium valuation

- Buyers will focus on the most recent historical results and next years projections
 - 4 or 5 years of growth, last year's results key
 - Next year's projections
 - Capital expenditures
 - Management team
 - Strategy
- Problems and uncertainty create risk in the buyer's mind and may have a negative impact on value

Conclusions

Now is the time to position yourself

- All situations are different... ...there is still activity in the market
- Understand what creates value and take steps to increase it
- Focus on customer wants and needs and provide it... ...minimize the other
- Fix the obvious problems, eliminate risk for the buyer
- Plan for the sale, it gives you some options
- Be reasonable in your expectations

Group Head



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Paul Morgan serves as Managing Director, Mid-Market Corporate Finance for Royal Bank of Canada. Paul has been advising management teams of middle market companies during capital raises, management buyouts, partner buyouts, acquisitions, mergers, divestitures and succession planning for over 12 years. Paul has advised companies in a wide variety of industries, including manufacturing, technology, distribution, retail, and service. Paul has a Bachelor of Science Degree, is a Chartered Accountant and has received the Corporate Finance Specialist designation from the Canadian Institute of Chartered Accountants.

