White Oak Management Partners

“The Changing Seasons of Private Equity”

Robinson Quarterly Economic Forecasting Conference
August 21, 2003
Agenda

- Overview
- Historic Performance
- General Trends
- Implications
Private equity drivers

- Supply of capital
- Quantity and Quality of Investment Opportunities
- Seller valuation expectations / requirements
- Investor ROI expectations
Current environment improving but still very anemic.

- Record amount of cash in low-yield, safe-haven investments
- Banks are still on the sidelines particularly for small deals
- Venture capital deployment is lagging
- IPO’s are starting to improve but long recovery period with some permanent disability
- LBO activity has been stagnant with some recent improvement
- Commercial real estate activity has slowed dramatically
### U.S. Public Companies: Market Characteristics

<table>
<thead>
<tr>
<th>Market Capitalization ($MM)</th>
<th># of Companies</th>
<th>Institutional Ownership (1)</th>
<th>Average Daily Trading Volume (2)</th>
<th>Average # of Research Analysts</th>
<th>Median P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today's Micro-Cap ($10 - $50)</td>
<td>1,891</td>
<td>28.9%</td>
<td>57,484</td>
<td>0</td>
<td>-0.3x</td>
</tr>
<tr>
<td>Universe ($50 - $100)</td>
<td>919</td>
<td>14.0%</td>
<td>91,230</td>
<td>2</td>
<td>3.4x</td>
</tr>
<tr>
<td>4,107 Companies ($100 - $200)</td>
<td>808</td>
<td>12.3%</td>
<td>110,330</td>
<td>2</td>
<td>9.2x</td>
</tr>
<tr>
<td>63% of Total ($200 - $300)</td>
<td>489</td>
<td>7.5%</td>
<td>157,517</td>
<td>4</td>
<td>12.2x</td>
</tr>
<tr>
<td>$300 - $1,000</td>
<td>1,187</td>
<td>18.1%</td>
<td>343,642</td>
<td>6</td>
<td>13.7x</td>
</tr>
<tr>
<td>$1,000 - $2,500</td>
<td>592</td>
<td>9.0%</td>
<td>800,538</td>
<td>9</td>
<td>16.0x</td>
</tr>
<tr>
<td>$2,500 - $5,000</td>
<td>278</td>
<td>4.2%</td>
<td>1,404,839</td>
<td>12</td>
<td>17.7x</td>
</tr>
<tr>
<td>$5,000 - $10,000</td>
<td>174</td>
<td>2.7%</td>
<td>2,749,976</td>
<td>15</td>
<td>18.4x</td>
</tr>
<tr>
<td>$10,000 - $25,000</td>
<td>119</td>
<td>1.8%</td>
<td>4,172,878</td>
<td>17</td>
<td>19.4x</td>
</tr>
<tr>
<td>$25,000 +</td>
<td>96</td>
<td>1.5%</td>
<td>9,593,734</td>
<td>21</td>
<td>24.4x</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,553</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>1,948,217</strong></td>
<td><strong>9</strong></td>
<td><strong>13.4x</strong></td>
</tr>
</tbody>
</table>

1 Based on the average institutional ownership of 20 sample companies per category
2 Average daily trading volume for the last 30 days

Source: William Blair & Company

Source: Standard & Poor's LCD

*Equity financings include cash investments by professional venture capital firms, corporations, other private equity firms, and individuals into companies that have received at least one round of venture funding.
U.S. Middle Market M&A Activity*

*(transaction size <$1 Billion)

U.S. Middle Market Divestitures

U.S. Equity Sponsor Acquisitions

Source: Mergerstat, Capital IQ and Robert W. Baird & Co.
Quarterly U.S. Leveraged Buyout Volume

$12.1 $12.5 $15.6 $16.2

$11.1 $7.9 $6.4 $8.9

$10.6 $4.8 $4.0 $6.0

$10.0 $1.9 $3.3 $2.6

$14.5

Source: Standard & Poor's LCD
Types of Deals Mid-Market Private Equity Firms Are Considering

- LBOs: 91%
- Recaps: 87%
- Public to Private: 79%
- Industry Roll-ups: 71%
- Growth Equity: 67%
- Minority Investments: 56%
- Turnaround Situations: 46%
- PIPEs: 38%

## Southeast Venture Funding by Subregion – 2Q 2003

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Dollars Invested</th>
<th>Pct. of Total</th>
<th>No. of Cos.</th>
<th>Pct. Of Total</th>
<th>Average Deal Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>$5,800,000</td>
<td>2.30%</td>
<td>1</td>
<td>2.50%</td>
<td>$5,800,000</td>
</tr>
<tr>
<td>Florida</td>
<td>$76,200,000</td>
<td>30.90%</td>
<td>7</td>
<td>17.50%</td>
<td>$10,885,714</td>
</tr>
<tr>
<td>Georgia - Atlanta</td>
<td>$62,750,000</td>
<td>25.40%</td>
<td>11</td>
<td>27.50%</td>
<td>$5,704,545</td>
</tr>
<tr>
<td>Georgia - Other</td>
<td>$1,500,000</td>
<td>0.60%</td>
<td>1</td>
<td>2.50%</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>NC - Charlotte</td>
<td>$5,000,000</td>
<td>2.00%</td>
<td>2</td>
<td>5.00%</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>NC - Raleigh/Durham/Chapel Hill</td>
<td>$24,000,000</td>
<td>9.70%</td>
<td>3</td>
<td>7.50%</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>NC - Other</td>
<td>$51,700,000</td>
<td>20.90%</td>
<td>10</td>
<td>25.00%</td>
<td>$5,170,000</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$12,000,000</td>
<td>4.90%</td>
<td>2</td>
<td>5.00%</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$8,000,000</td>
<td>3.20%</td>
<td>3</td>
<td>7.50%</td>
<td>$2,666,667</td>
</tr>
<tr>
<td><strong>Totals:</strong></td>
<td><strong>$246,950,000</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>40</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>$6,173,750</strong></td>
</tr>
</tbody>
</table>
U.S. Median EBITDA Multiples

Source: Thomson Financial
Average Equity Contribution to Leveraged Buyouts

Source: Standard & Poor’s LCD
### Leverage Multiples

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>5.7</td>
</tr>
<tr>
<td>1998</td>
<td>5.3</td>
</tr>
<tr>
<td>1999</td>
<td>4.5</td>
</tr>
<tr>
<td>2000</td>
<td>4.4</td>
</tr>
<tr>
<td>2001</td>
<td>3.5</td>
</tr>
<tr>
<td>LTM (9/30/02)</td>
<td>3.7</td>
</tr>
</tbody>
</table>

#### Source
Standard & Poor's Leveraged Commentary & Data
Average Debt/EBITDA Multiples of Highly Leveraged Loans

Source: S&P/Portfolio Management Data
Trend over the next couple of years

- Lower corporate earnings growth
- On-going reorganization of over-leveraged / under-performing companies
- Lack of pricing power / margin erosion
- Lower return expectations for private equity
- Scarcity of financing – especially for smaller companies
- Increasing disintermediation of smaller public companies from general equity markets
- Continued search for yield by investors
- Global capital markets will continue to emerge and offer new competitors
- Risk capital will continue to command significant ownership rights
- Increased focus on distressed debt
Implications for Private Equity

- High IRR’s will be few in number
- Traditional LBO model may not work
- Seller financing returns
- Shift to new structures for minority investments and PIPE’s
- Mezzanine investors will continue to drive the market
- Equity firms will have to shift their focus to the operational capability of their partners and their portfolio management teams
- Fund focus on survival of existing portfolio companies
Implication for capital creation

- Size will play a significant role in driving deals and structure at an individual company level
- Regulatory environment will severely hurt available capital for smaller companies
- Securitizations and traditional balance sheet approaches will change
- Hybrid securities will become more popular
Implications for Middle Market Debt Capital

- Deals will be highly dependent on bank financing
  - Traditional lenders exiting or moving up-market
  - New market entrants require much higher returns on deployed capital
  - Senior leverage ceiling = 2-2.5X
  - Total leverage ceiling = 3.5X

- Junior debt capital available
  - Traditional mezzanine lenders are very active
  - Growing need for “one-stop” lenders for small deals

- Average equity capital ~ 40%
What has changed in Private Equity?

- Difficulty in generating returns through deal arbitrage
- Need to focus on adding intrinsic operational value
  - New management
  - New revenue streams
  - Tight oversight on transition
  - More focused management incentives
- Renewed attention to the middle market
Implications to companies and management

Companies
- Expect more daily involvement from PE firms
- Expect to provide seller financing

Management
- Expect to “write a personal check”
- Expect the use of options and restricted stock to be focused on significant OVERACHIEVEMENT of the investment plan
Summary

- Gradual improvement over next 18-24 months
- New players
- New rules
- New Tools
- More conservative process
- Lower returns on average
- New approaches to creating shareholder value