

PRIVATE EQUITY PARTNERS | MARKET UPDATE

January – February 2008

2008 M&A Outlook

As a part of Piper Jaffray, we regularly leverage the expertise of the firm's investment bankers and research analysts. In this edition of our market commentary, we would like to share excerpts of Piper Jaffray's M&A group's 2008 outlook.

With major economic and geopolitical uncertainty looming, the key term used to describe 2008 will be "volatility." Against this economic backdrop, we expect M&A activity to cool in 2008, though it will remain well above the recession levels of 2002 and 2003.

- Large deal activity will be the hardest hit, as firms will have difficulty securing financing for mega-buyouts, particularly in the first half of the year.
- Foreign buyers will continue to play an increasingly important role, boosted by strong global growth, a weak dollar and the increasing prominence of sovereign wealth funds.
- Domestic middle market M&A activity will remain steady, though the first half of the year will likely be weaker than the second.

Moreover, all signs point to a slowdown in private equity deal volume in 2008.

- Despite record fundraising in 2007, "dry powder" is decreasing – the amount of uninvested private equity capital was down 9% at the end of Q3 2007 from the 2006 yearend total.
- Subprime exposure continues to plague the lending community, making LBOs of "B" properties more difficult and generally leading to longer hold periods.
- LBO dollar volume has nowhere to go but down – the \$152 billion of LBOs in Q2 2007 exceeded the annual totals of 2000, 2001, 2002 and 2003...combined.

However, as the saying goes, "for every cloud there is a silver lining."

- Moody's and S&P are both predicting significantly higher default ratios, roughly 3.5x-4.5x higher than current default ratios, by yearend. After several years of below average default rates, distressed funds should be "pigs in mud" in 2008.
- Funds investing at the lower end of the middle market will remain largely unaffected by lackluster credit markets and should have little trouble financing attractive investment opportunities in 2008.
- The aforementioned economic and geopolitical uncertainty will force many sellers to lower their valuation expectations and should present a number of attractive buying opportunities for LBO firms in 2008.

For those who would like to learn more about the topic, please click [here](#) for the full article.

First Closing Set for Private Equity Partners IV

Offering documents for Private Equity Partners IV became available today and will be distributed to investors who have previously identified themselves to us. PEP IV already has received strong indications of interest based on our initial meetings with existing investors and select new potential investors. We are scheduling a first closing on March 31 and a second closing no later than June 30. Based on early indications, we anticipate the CleanTech fund of funds will be oversubscribed by mid-summer. The other three investment options (VC FFs, LBO FFs and CleanTech Direct Fund) are expected to close in late Q3/early Q4. If you have questions or need subscription materials, please contact Gretchen Postula at (612) 303-6331 or gretchen.s.postula@pjc.com.

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Upcoming Events

We are regular speakers and attendees at key industry conferences. We hope to see you at one of the upcoming conferences:

- **February 6-7, 2008:** 4th Annual Clean Edge Clean-Tech Investor Summit, Palm Springs, California www.cleantedge.com
 - **February 20, 2008:** Piper Jaffray Clean Technology & Renewables Conference at The New York Palace in New York www.piperjaffray.com/cleantechnology2008
 - **February 25-27, 2008:** Cleantech Forum XVI, San Francisco, CA www.cleantechnetwork.com
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Piper Jaffray was established in 1895 and has grown to become a nationally and internationally recognized firm serving growth companies and growth company investors. We have a significant commitment to alternative assets through our series of fund of funds and direct investment program.