April – May 2007

Public-to-Private Commentary

As a part of Piper Jaffray, we regularly benefit from the expertise of the firm's investment bankers and research analysts. In this edition of our market commentary, we would like to share an insightful piece by Piper Jaffray's M&A group that examines the reasons public companies are receptive to "take-private" offers from private equity firms. Below are pertinent highlights of this article.

Public companies have both "internal" and "external/market-driven" motivations for pursuing going-private transactions. Internal factors include:

- Increased corporate governance requirements and costs due to Sarbanes-Oxley
- Heightened emphasis by boards to seek the value-maximizing strategy
- Substantial strain on management resources, including:
  - Reporting and investor relations requirements
  - Business and operating strategy diversion resulting from being public—near-term focus, such as managing quarterly results

There are also several external/market-driven factors that suggest going private activity will accelerate in the future.

- Abundance of capital available to private equity firms
- Attractive lending multiples
- Relatively high valuations compared to recent past
- Increased shareholder activism
- General stability of the M&A markets, which is feeding the confidence of boards of public companies and acquirers to engage in transactions
- Strong financial performance of potential targets over the last few years, which makes realization of "full value" in a going-private transaction more likely

Moreover, small-cap and, to a lesser extent, mid-cap companies tend to have unique reasons for seeking going-private transactions. These include:

- Disproportionate impact of Sarbanes-Oxley and public company costs
- Several key benefits of being a publicly traded company are not realized
  - Research coverage typically limited to larger companies
  - Trading volume/liquidity tends to be lower
  - Limited access to capital markets for growth capital
- Valuation discrepancy relative to larger counterparts

For those who would like to learn more about the topic, please click here for the full article.

Private Equity Partners III Update

We have $175 million closed or hard circled for PEP III. The next **closings will be held on May 4, June 1 and July 20.** A PEP III diligence site is available on IntraLinks. To gain access to this site or to reserve your allocation, please contact Gretchen Postula at 612 303-6331 or gretchen.s.postula@pjc.com.

The most recent underlying commitments for PEP III are to IVP and Riverside. In total, 80% of the fund has now been committed or reserved for commitment with highly sought after, top tier VC and LBO fund managers. There are two IPO registrations already in the portfolio – Flagstone (Ticker: FSR) and Limelight Networks (Ticker: LLNW). Flagstone is a portfolio company of Lightyear Capital II (LBO). Limelight is a portfolio company of Oak XII (VC). In addition, several other investments have had valuation increases.

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.

Private Capital

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