



Middle Market Metrics



DRESNER PARTNERS
INVESTMENT BANKING

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The Fallout from Subprime Mortgages: Where bad is good and less is more

“What do subprime mortgages have to do with my business, and why should they affect my ability to complete a transaction?”. That’s a question we’re hearing a lot lately as business owners look back upon a successful 2007 and contemplate the opportunity to consummate a merger, sale or acquisition in 2008. Contrary to popular belief, we believe the answer to this question, while admittedly complex, may be a positive one – with a silver lining for business owners.

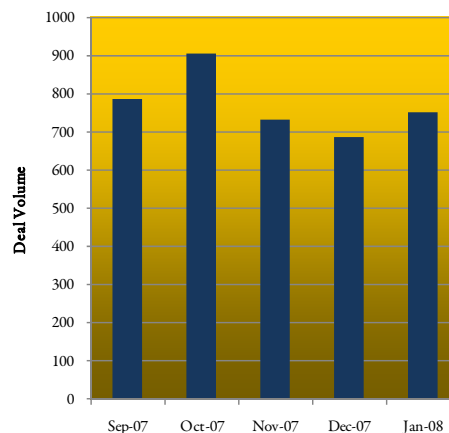
While the issues with subprime residential mortgages are easy to summarize – lax underwriting policies leading to delinquencies, tighter mortgage underwriting standards and lower home prices – their impact on merger & acquisition transactions, particularly in the middle market, are more complex and require a closer look.

From a broad economic perspective, the problems in the adjustable rate subprime mortgage markets have been significant, with total losses (direct and indirect) estimated to be in the neighborhood of \$400-\$600 billion. At first blush, this would seem to be a catastrophic hit from which our economy could surely not easily recover. Indeed, many pundits have tried to compare the current subprime crisis with the S&L crisis of the late 80s and early 90s. However, upon closer analysis, the two situations are quite different. While the S&L losses were comparable in aggregate value (\$520 billion in losses), they were actually significantly greater as a percentage of the US economy at the time – representing somewhere on the order of 8% to 10% of the then current US GDP. In contrast, the subprime losses would today represent something like 3.5% to 5% of the US GDP, which stands today at roughly \$14 trillion.

In the context of mergers & acquisitions, the subprime mortgage issues have impacted one of the critical underpinnings of any transaction: access to financing. Mortgage originators are having difficulty securitizing many of their loans, and holding these loans in their bank portfolios has impacted their ability to actively pursue new transaction financing opportunities. This has been particularly true for larger transactions. High yield debt markets, an important source of financing for large merger & acquisition transactions, have contracted significantly as well. This too has impacted the ability of banks to syndicate loans they have made to finance transactions, particularly bridge loans to large private equity clients. The longer these loans stay on banks’ balance sheets, often at a discount to par value, the greater the potential impact on banks’ ability to actively pursue financing new transactions.

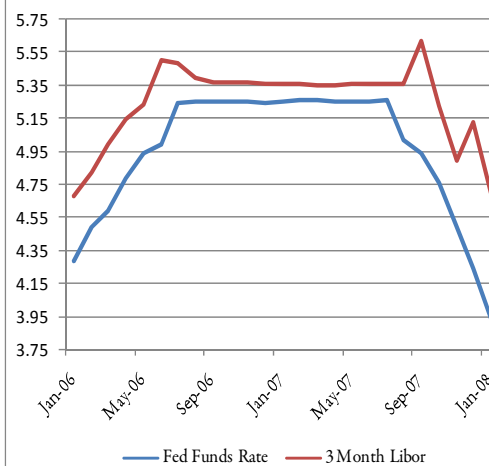
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Recent M&A Activity



Source: Mergerstat

Fed Funds vs. 3 Month Libor







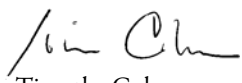

MIDDLE MARKET METRICS

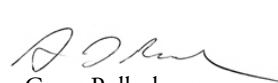
The Fallout from Subprime Mortgages (continued)

So, is there anything positive that can be gleaned from the subprime mortgage debacle? There is, although the thought process sounds more like Alice in Wonderland than fundamental economic theory: bad is good and less is more. "Bad is good" can be evidenced by the equity capital markets' reaction to the large write-offs announced by major banks, the ensuing c-level housecleaning at Citigroup and Merrill Lynch, and the injection of foreign sovereign investment capital into these bellwether institutions. The takeaway is that, despite the negative news, some fairly sophisticated overseas investors, many of whom already have significant exposure to subprime loans, appear to believe that the worst is over and are viewing this as a buying opportunity among the US financial institutions. And "less is more" describes the approach many middle market lenders are taking in 2008. The "less", which refers to smaller middle market financings that can be easily syndicated, are "more" attractive to financial institutions that lend into the middle market and, in some cases, are actively pursuing middle market transaction opportunities in 2008. As a result, we believe the window for middle market companies looking for transaction solutions to address their shareholder and corporate objectives is still open.

Regards,


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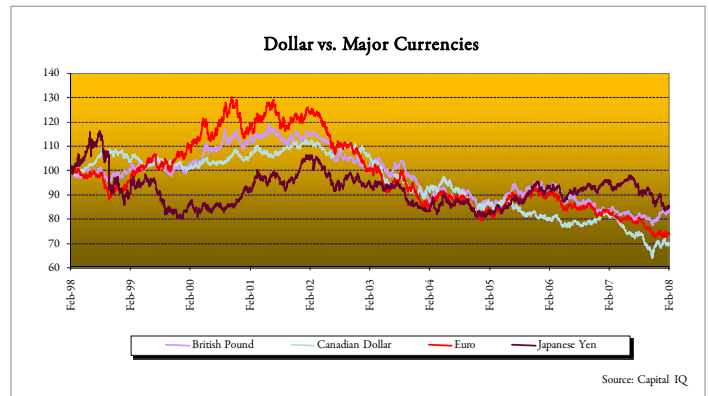
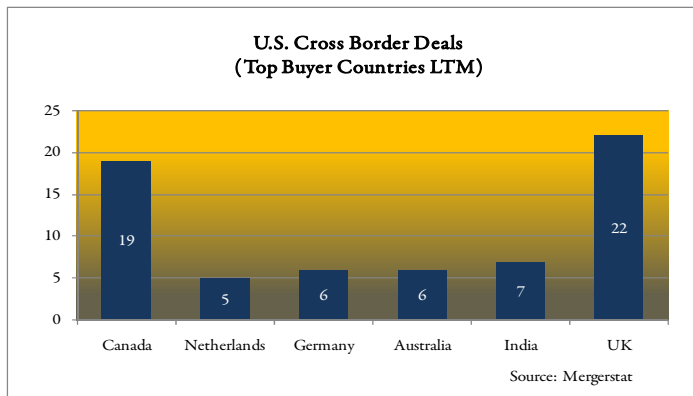

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Dresner Partners has Advised Metalico (AMEX: MEA)

Dresner Partners has advised Metalico (AMEX: MEA) in its pending acquisition of substantially all of the operating assets of two affiliated catalytic converter recyclers located in Texas and Mississippi. Vince Pappalardo, managing director of Dresner Partners' Metal Group, led this transaction for Dresner. The Metals Group is active in providing investment banking services to middle market companies in the metals and metals-related industries.

International Metrics



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