EXCERPTS OF RECENT MEDIA COVERAGE

PRIVATE EQUITY PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q1 2012

PEHUB.COM

GOVERNMENT CUTS COULD HURT SNFs

By **Jeffrey R. Manning, Managing Director of the Special Situations Practice at BDO Capital Advisors** and **Jerry Shapiro, a Managing Director at BDO Consulting Corporate Advisors**


Jeffrey R. Manning


Jerry Shapiro

The challenges aren't just coming from the re-regulation and in the Supreme Court: the healthcare industry faces more uncertainty due to major changes in Medicare reimbursement. Resembling the way a villain in a B-rated horror movie keeps unexpectedly popping up to claim its next victim, unfavorable changes to Medicare reimbursements threaten the future of Skilled Nursing Facilities (SNFs).

...The industry's reliance on state and federal government insurance programs exposes it to recurring battery from the Center for Medicare and Medicaid Services Administration, which often looks for ways to slow escalating costs...[Recently] CMS announced an 11.1 percent cut in federal Medicare reimbursement rates, which is about double of what was expected. Such a large and unforeseen blow can be attributed to the after effects of the economic downturn – a reality that has punished many businesses. Over a ten year period that reduction will translate to a loss of $79 billion. In an industry with already unimpressive profit margins, this reimbursement cut will put further strain on margins...

...In the wake of cuts to government insurance programs, SNFs will be forced to cut costs and favor private payers (i.e., individuals and HMOs, insurers, and self-insured employer sponsored plans) who can afford their services to make up for lost revenue – but even that solution doesn't solve the greater problem. With a 3.1 percent annual decline in SNF companies over the past five years, and a 3.3 percent decrease in brick-and-mortar facilities, indicators give little reason to believe this will improve. If additional cuts in government payments are made, many forecast that the industry will suffer zero or negative profit margins...

CFO

M&A DOLLAR VOLUMES DROP 80%

By Vincent Ryan

...As of January 20, [2012], 221 deals had been announced in North America, compared with 396 at this point in 2011, according to data provided to *CFO.com* by *mergermarket*. Dollar volume is down 80 percent, with $24.9 billion in transactions so far this year, compared with $124.6 billion at the same point in 2010...

The view from the suites of private-equity fund managers is optimistic, but not overly

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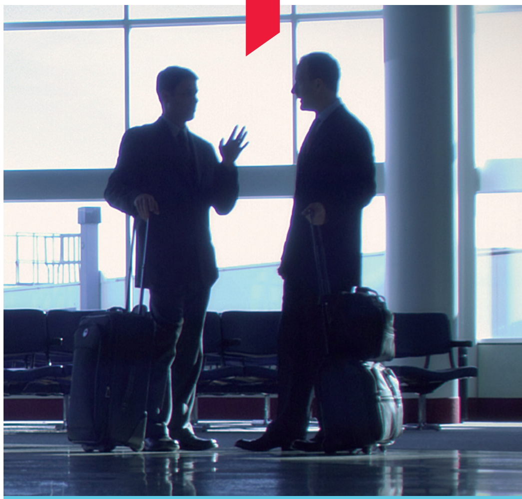

Strategically focused and remarkably responsive, for more than 100 years the experienced, multidisciplinary partners and directors of BDO's Private Equity practice have provided value-added assurance, tax and consulting services for all aspects of a fund's cycle, wherever private equity firms are investing.

so. In a **survey of more than 100 private-equity firm senior executives released by BDO USA…** 70 percent of respondents (from all fund sizes) expect to close two to three deals this year. Two to three sounds lethargic, but if these executives follow through, 2012 would be an improvement over 2011…

However the activity level shakes out, financial sponsors are focused on bolt-on mergers, according to the BDO USA survey. That could mean fewer transformative deals and smaller transaction sizes overall. During the past 12 months, 13 percent of firms directed the most capital toward add-ons, compared with 6 percent in 2010. This year, 95 percent of firms will at least seek add-on deals, up from 88 percent last year.

What could slow PE firms down? Half of the executives said 41 percent to 60 percent of the value of their next deal would be funded by debt. But…[p]roblems in Europe are not going away, and the BDO survey found that the largest percentage (45 percent) of respondents said they expect the cost of capital to increase by up to 200 basis points in the next 12 months...

▶PE INTERNATIONAL

GPs FORECAST DEARTH OF DEALS IN 2012

By Graham Winfrey

A majority of private equity GPs are anticipating closing just three deals or less this year, with nearly 40 percent saying they will likely deploy less than $100m in capital, according to research conducted by BDO…

Still, the forecasted levels of investment activity would represent an increase compared to reported deal flow in 2011 from the survey's respondents. During the previous year, 47 percent of GPs reported closing no new deals and 19 percent reported closing just one deal.

"I think it's a relatively optimistic view," **BDO Capital Advisors managing director Jack Kearney** told Private Equity International. "This is an indication that perhaps toward the end of [2011] they were beginning to see transactions and conditions in the marketplace which will enable them to do more investing…"

While the majority of respondents to the survey said they saw the overall value of their portfolio increase in 2011, 22 percent said that more than 20 percent of their portfolio companies are currently underperforming.

"There is a slight down trend in the increase in value, but 21 percent of the respondents indicate that none of their portfolio companies are performing below forecast, versus 10 percent a year ago," Kearney said. "I think that's awfully good…"

▶PE MANAGER

BUYOUT FIRMS COOL HIRING PLANS

By Nicholas Donato

The market's stutter in the latter half of 2011 has resulted in more than half of US private equity firms (58 percent) putting on pause any plans to increase employee headcount in 2012.

BDO's annual survey of private equity executives revealed 44 percent of firms had increased their rosters in 2011, a slight uptick from the 42 percent of firms who said they had expected to do so in the professional services firm's 2010 survey.

However, the difference between expected hiring and actual hiring in 2011 was more pronounced for firms of a certain size.

The biggest mismatch was for firms managing $500 million to $1 billion in commitments. At the end of 2010, around half (55 percent) of GPs in this category expected to hire more employees in 2011, but 68 percent had actually done so when asked again one year later, suggesting better than expected performance for mid-market firms last year.

Lee Duran, a private equity partner at BDO, suggested this was the result of a relatively active mid-market arena and the more fluid nature of these firms when hiring or shedding in-house operating partners...

AUSTIN/SAN ANTONIO BUSINESS JOURNAL

PRIVATE EQUITY FUND MANAGERS SHARE THEIR OUTLOOK FOR 2012

By **Scott Hendon, Partner in the Private Equity Practice at BDO**

…[T]he third annual BDO USA, LLP PErspective Private Equity Study asked senior private equity executives to weigh-in on the outlook for the industry in the coming year. Here are three significant trends that emerged:

1. **Deal Flow Will Remain Slow:** …[T]he majority of private equity fund managers (70 percent), regardless of fund size, indicated they expect to close only two or three deals during the next 12 months…While seemingly low, fund managers' expectations for deal flow in 2012 actually represent an increase from 2011 when nearly half (47 percent) of fund managers reported closing no deals and another 19 percent reported closing only one new deal...

2. **Manufacturing & Healthcare Identified As Prime Investment Targets:** As private equity firms look for quality investment opportunities, there are two key sectors they should pay attention to in the coming year:

   Manufacturing: U.S. manufacturing finished the year strong, growing at its fastest pace in six months in December of 2011. Continued expansion in the sector, combined with the need to seek out growth opportunities, will open the door for private equity investments in 2012…

   Healthcare:...According to our recent study, 21 percent of private equity professionals (the second largest percentage of respondents) see the greatest opportunities for new investments during the next 12 months in the healthcare and biotech industries.

3. **U.S. Funds Look South of the Border for New Investments:** In contrast to 2010, the largest percentage of respondents (36 percent) believe that, other than North America, South and Central America will have the greatest opportunities for new investments during the next 12 months, followed by Asia, which 27 percent of respondents indicate will provide the greatest international investment opportunities...

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