On the Wire This Week…

Demand for M&A Financing Fuels Asset-Based Lending
M&A sources have been talking for months about the coming tightening of the lending market. Now that we’re in to 2006, they still see that coming, but there are few signs of it yet. What they are seeing is huge amounts of available capital, cut-throat competition and more asset-based lending. (see page 2 or click here for full story)

Postcards from Macau: An M&A Advisor On Dealmaking in Asian Gaming Mecca
Gerald Mars, vice president of Mergers & Acquisitions at Roth Capital Partners, recently returned from a week-long visit to Macau and Australia to work on two pending deals. Here, he shares his experiences in Asia’s gaming mecca with Flashwire Weekly. (see page 3 or click here for full story)

Banking & Finance M&A Ends a Quiet Year, But 2006 May Be Brighter
For US banking and finance mergers, last year was quieter than most. While many US industries saw a relative jump in dealflow in 2005, the normally prolific US banking and finance industry saw its dealflow fall to its fourth-lowest level in the 2000s and eighth-lowest in the last decade. (see page 5 or click here for full story)
Roth Capital Partners V.P. Talks Dealmaking in Macau

Gerald Mars, Vice President of Mergers & Acquisitions at Roth Capital Partners, recently returned from a week-long visit to Macau and Australia to work on two pending deals. He shared his field experiences with Flashwire Weekly.

Why Macau and Australia?

The trip was for a client Roth is retained for. It was buy-side advisory work for a public company, an equipment manufacturer, a supplier to the gaming industry that wants to expand its product line into China, Macau, and Australia. I spent equal time in China and Australia. Gaming is big in Australia and the target company we’re looking at is Australian based and supplies products through Asia and the US.

Our client had already acquired some technology from this company previously, and they’re looking to acquire this company and utilize their manufacturing presence in the region to expand products, mostly in Macau, for the growth seen there in gaming.

Macau’s Gaming Boom

There’s a lot of capital investment in Macau from some of the bigger casinos we have in the US, as well as some of the big heavyweights located in Australia. One of the bigger ones is a joint venture between Melco International Development Ltd and Publishing and Broadcasting. The group is building two casinos; the Crown Macau and the City of Dreams, which is a huge project. Publishing & Broadcasting is Australia-based and its primary shareholder was Kerry Packer, who recently passed away. Melco traded on the Hong Kong exchange. Melco’s Lawrence Ho and Publishing’s Packer got together and they are developing Macau. There really is a huge opportunity. When people think of gaming, they think of the US, but it’s dwarfed in size to what’s going on in Asia, and in Europe.

When it came to gaming, Macau was considered one step below the Gulf Region. At the top of the list was Vegas, then Atlantic City, then the Gulf Region. That’s how Macau had been. Now they’re taking a step forward with the new Wynn that’s scheduled to open this year, as well as the Crown. These are star properties. The Venetian in Macau is very similar to the one in Las Vegas. If you see pictures of the Wynn Macau, it’s also very similar, just smaller. Macau is elevating its status. You can see a picture of what’s going on at www.macauresorts.com.

Slow Going

Asian clients’ way of doing business is different from that of the United States. The approval process requires a lot more layers to go through. Even though the decision process is longer, we still see opportunity. We’re seeing this now, with our client, who has a couple orders out to casinos. It takes about 50 percent longer for deals to come to fruition than what we in the US would consider normal.

Asian Enthusiasm for US Buyouts

The Asian companies we’ve dealt with are opportunistic. We’re seeing interest both ways. We are in a global market and we’re seeing that not just with gaming. Asian companies are coming to the US for financing and looking for us to do fairness opinions. We did the PIPE in September for China BAK which was a $45.3 million PIPE for a battery manufacturer in China. That was a little larger than our average PIPE.

Obviously we’re seeing the opportunity of what’s happening in Asia. People say pay attention to your backyard, and we do. Roth looks first to Orange County, then California, then domestically, within the
US, but we don’t want to forget about and be left behind what’s happening in Asia.

M&A in Macau today

There’s not a lot of M&A in Macau now. There are a lot of larger companies building infrastructure. If you’re some smaller company that is a supplier, like the company that I’m representing, you want to be able to get in there and be positioned and be ready to go when they make purchasing decisions.

Surprisingly Modern

My understanding with Macau is that it’s been cleaned up quite a bit; that it used to be quite a rough region. The transformation occurred after China came in. One of Macau’s first casinos was the Lisboa, which was owned by the Ho family. Now Macau is experiencing more of a free market with competition coming into play.

When people plan visits to places like Macau, China, Australia, maybe even Shanghai or Hong Kong, people might think that it will be backwards, but you’re very surprised by how clean and modern these places are. I was surprised by how similar it was to the United States. What surprised me most was how festive the cities were for the holiday season. I couldn’t believe all the Christmas decorations in Hong Kong, Macau, and Australia. The decorations were everywhere. That took me by surprise.

Advice

If someone wants to do any kind of business, whether it’s to sell a product, procure resources or product from the area, the first step is to retain a consultant who has worked in the region and has worked with people. The individual will be able to guide them through the process. Working with the Asian market is not as easy as a sales guy picking up the phone all the time. It doesn’t always work that way. Sometimes you have to know certain people to help ease the process.

In China there is government involvement and it is still very much about knowing certain government officials to gain approval on some things. That’s still commonplace on the mainland. Depending on the town or jurisdiction, if you want to set up a facility or a facility is going to switch hands, if you’re going to sell the manufacturing plant, it has to be blessed by the local mayor, or whatever his title is in that area.

Technology in Gaming

Over the last four or five years, technology has entered the gaming industry with player tracking systems. Three or four years ago technology arrived in the form of TITO – ticket in, ticket out – in the slot machines. Now you’re seeing a big push in downloadable games brought to a casino from a server so you can walk up to a slot machine and you can pick from between one and 75 different games. The display will change according to the game you’re playing. That’s a big thing.

Another thing is rapid betting. That’s where the odds-makers set different lines, which they call exotics or propositions, where you can bet instantly within a game. Progressive Gaming Intl just introduced a trial into the Palms Casino in Las Vegas. You have odds-makers constantly changing things so you can go to a kiosk within the casino and if a game’s going on and you think they’re going to punt, you bet. Each time it’s different and you don’t know what it’s going to be. You’ll have an opportunity to say, “He’s going to throw a pass next play.”

Macau’s Economy

The economy is progressing. Last quarter was probably its slowest growth. Macau had been growing at 8% a quarter. Macau’s other big industry was textiles, but textiles have been moving out of Macau and moving
to Mainland China where they can still get the cheaper labor.

Obviously with gaming, I still believe most patrons are from Mainland China where gambling and gaming is not legal. If Macau continues to build, the infrastructure will follow suit and the people will come for the jobs. It’s kind of like Field of Dreams. If you build it, they will come.

**Banking & Finance M&A Has a Quiet 2005, But May Brighten in ‘06**

For US banking and finance mergers, last year was quieter than most. While many US industries saw a relative jump in dealflow in 2005, the normally prolific US banking and finance industry saw its dealflow fall to its fourth-lowest level in the 2000s and eighth-lowest in the past decade.

The amount of money invested in US banking and finance deals also declined, dropping to its fourth-lowest level in the 2000s and sixth-lowest in the past decade. Year-over-year, the biggest decreases in dealflow came in three of the industry’s most statistically significant M&A segments: state commercial banking, loan brokers, and federally chartered savings institutions.

State commercial banking typically comprises the biggest area of dealflow for the industry. In 2005, deal announcements in that segment slumped to 144 announcements from 163 in 2004. But despite the lower dealflow numbers, the segment did show an overall increase in aggregate dollar value on its deals to US$16.2 billion from US$12 billion. Three major deals contributed to over half the deal value in the segment in 2005: Sovereign Bancorp Inc’s agreement to acquire Independence Community Bank Corp for approximately US$3.5 billion in cash; Banco Santander Central Hispano SA’s deal to buy a 19.8% minority stake in Sovereign Bancorp for approximately US$2.4 billion in cash; and TD Banknorth Inc’s decision to acquire Hudson United Bancorp for approximately US$1.9 billion in cash and stock.

The second-most active segment in the Banking & Finance industry last year involved deals for loan brokers, but the numbers of deal announcements in that segment declined to 56 announcements from 76 in

### Banking & Finance M&A

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