

2010 Capital Markets Update

VISTA Private Equity Group

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Table of Contents

1. Overview of Vista Private Equity Group, LLP
2. Overview of the 2010 Capital Markets
3. Current Assessment of Real Estate Market
4. Outlook for the Economy
5. Planning for the Exit Strategy
 - Typical Transaction Timeline
 - Discussion of the Sales Process
 - Issues to Address / Preparedness

Overview of Vista Private Equity Group, LLP

- **Investment Strategy**
 - Acquire, Build and Hold Small to Medium Size Businesses with Attractive Long-Term Execution Strategies--- Primarily Manufacturing, Distribution and Business Services
- **Transaction Types**
 - Buyouts of Family-Owned Businesses
 - Management Buyout Transactions
 - Growth Capital to Support Expanding Businesses
 - Distressed Investments
- **Investment Size of \$3 to \$20 Million Equity Investments**
- **Investment Criteria**
 - Minimum Revenues of \$15 Million
 - Prefer Businesses with Positive Cash Flow Margins of 10% or Greater
 - Management Teams with Ownership Positions
 - Majority Investment Ownership Positions
 - Primarily Texas and the Southwest U.S.
 - No Startups; Financial Institutions; Oil and Gas Exploration
- **Other Service Offerings Include Business Advisory and Turnaround Management**
- **Vista RED (VPEG's Real Estate Affiliate)—Led by Brent Mann**
 - Commercial Real Estate Development and Acquisition of Existing Properties

Overview of the 2010 Capital Markets

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Impact of the “Perfect Storm” on Business Valuations

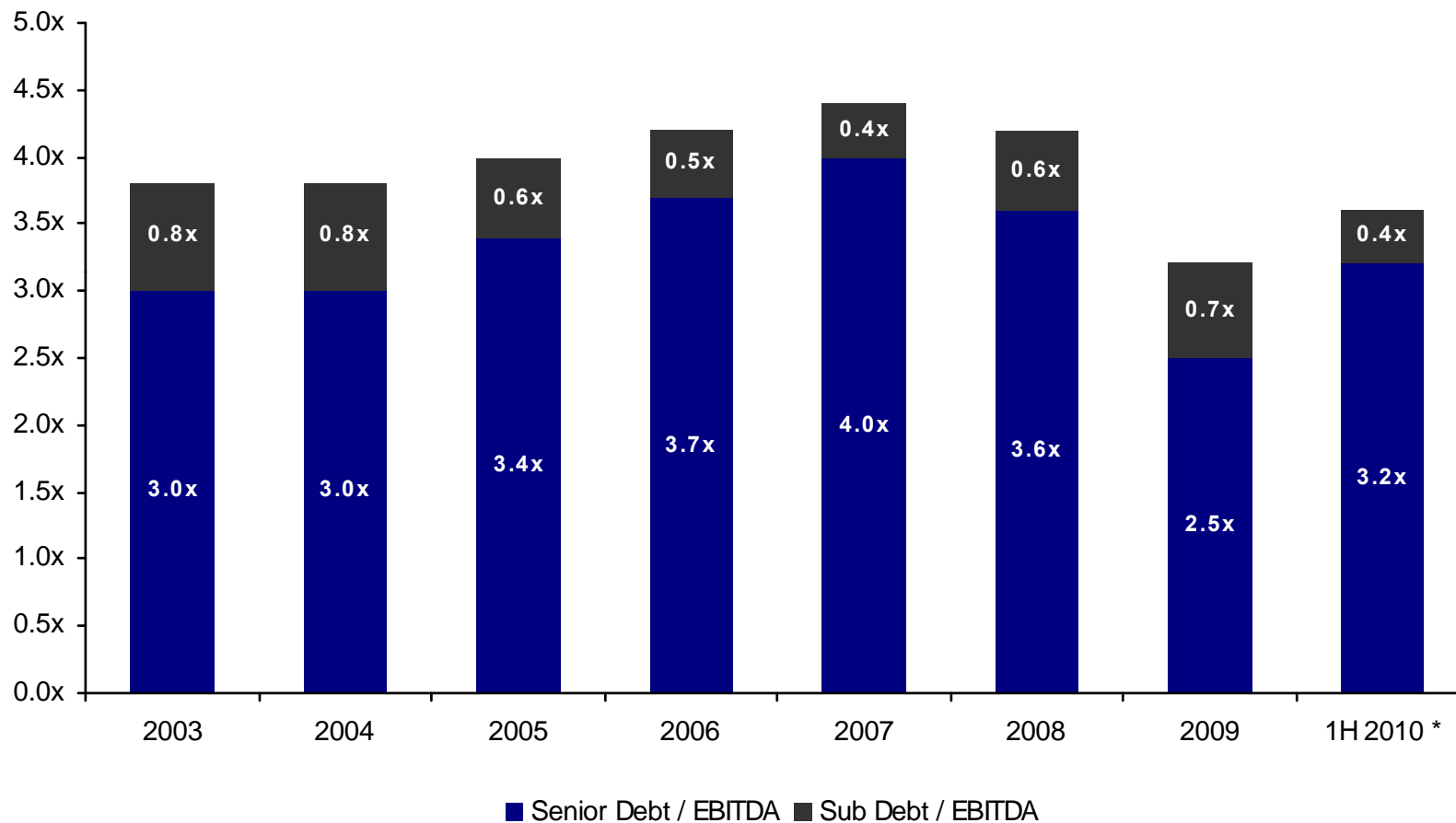
	<u>2008</u>	<u>2009</u>
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	\$ 5,000,000	\$ 4,000,000
Purchase Price Multiple	7.2	5.8
Enterprise Value	<u>\$ 36,000,000</u>	<u>\$ 23,200,000</u>

This Represents a 35.6% Reduction in Value!

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Purchase Price Multiple	7.2	5.8
Enterprise Value	<u>\$ 36,000,000</u>	<u>\$ 29,000,000</u>

This Represents a 19.4% Reduction in Value!

Average Credit Statistics of Middle Market LBO Transactions⁽¹⁾

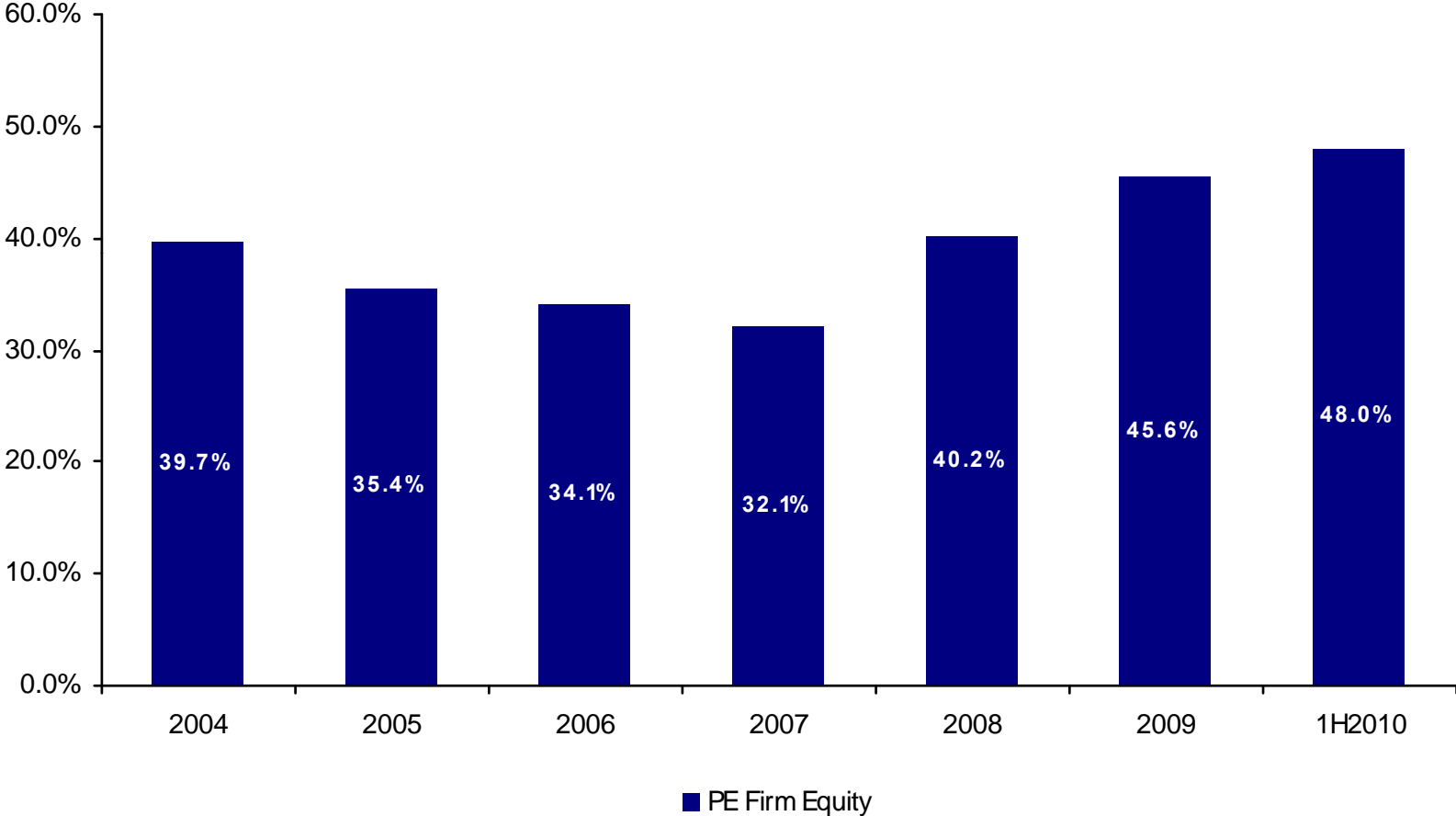


(1) Deals with EBITDA \$50 million or less

*Actual June 2010 Senior Debt/EBITDA and Total Debt/EBITDA are 3.4x and 3.8x, respectively

Source: S&P

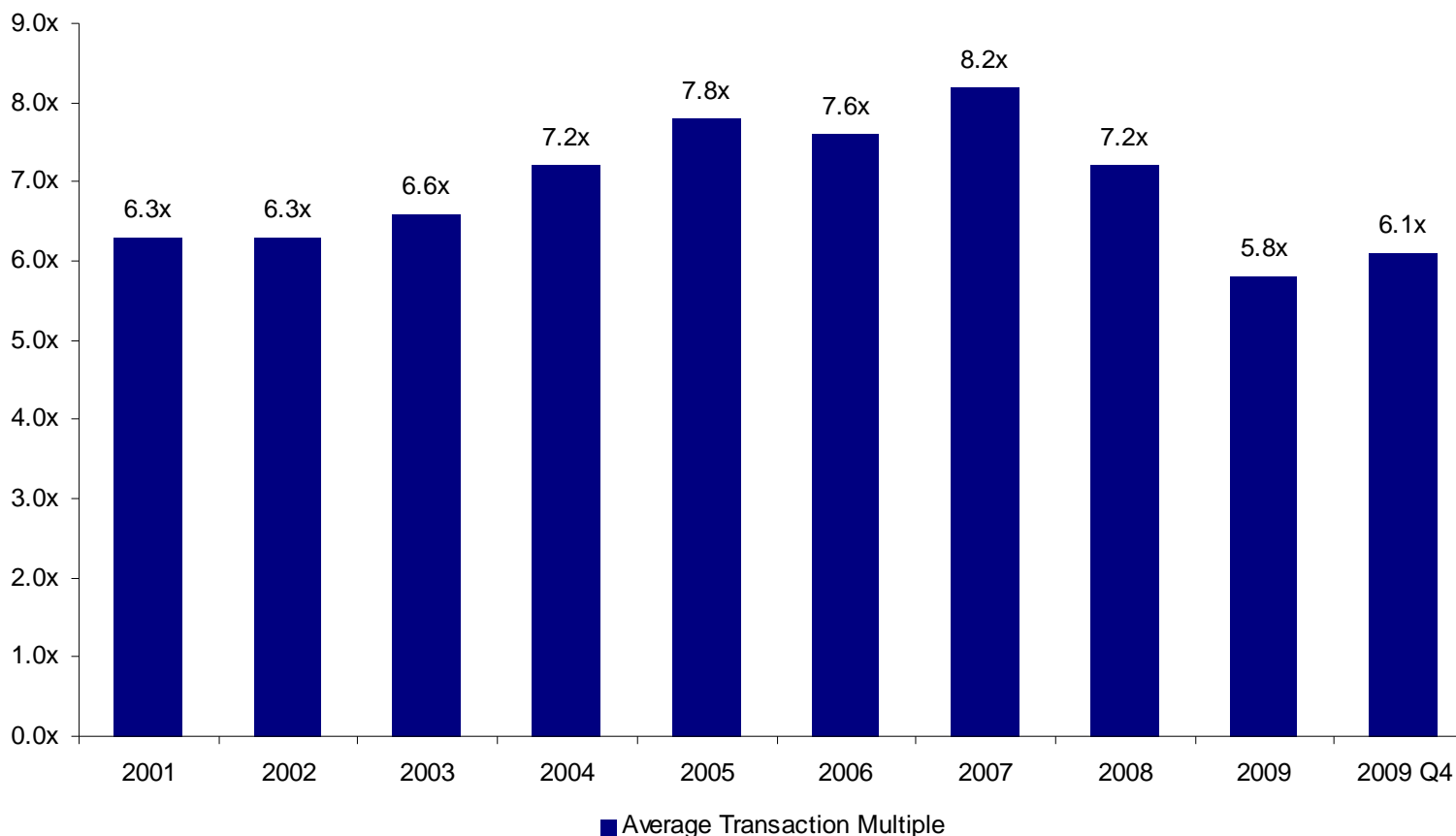
Average LBO Equity Contribution⁽¹⁾



(1) Deals with EBITDA \$50 million or less
Source: S&P

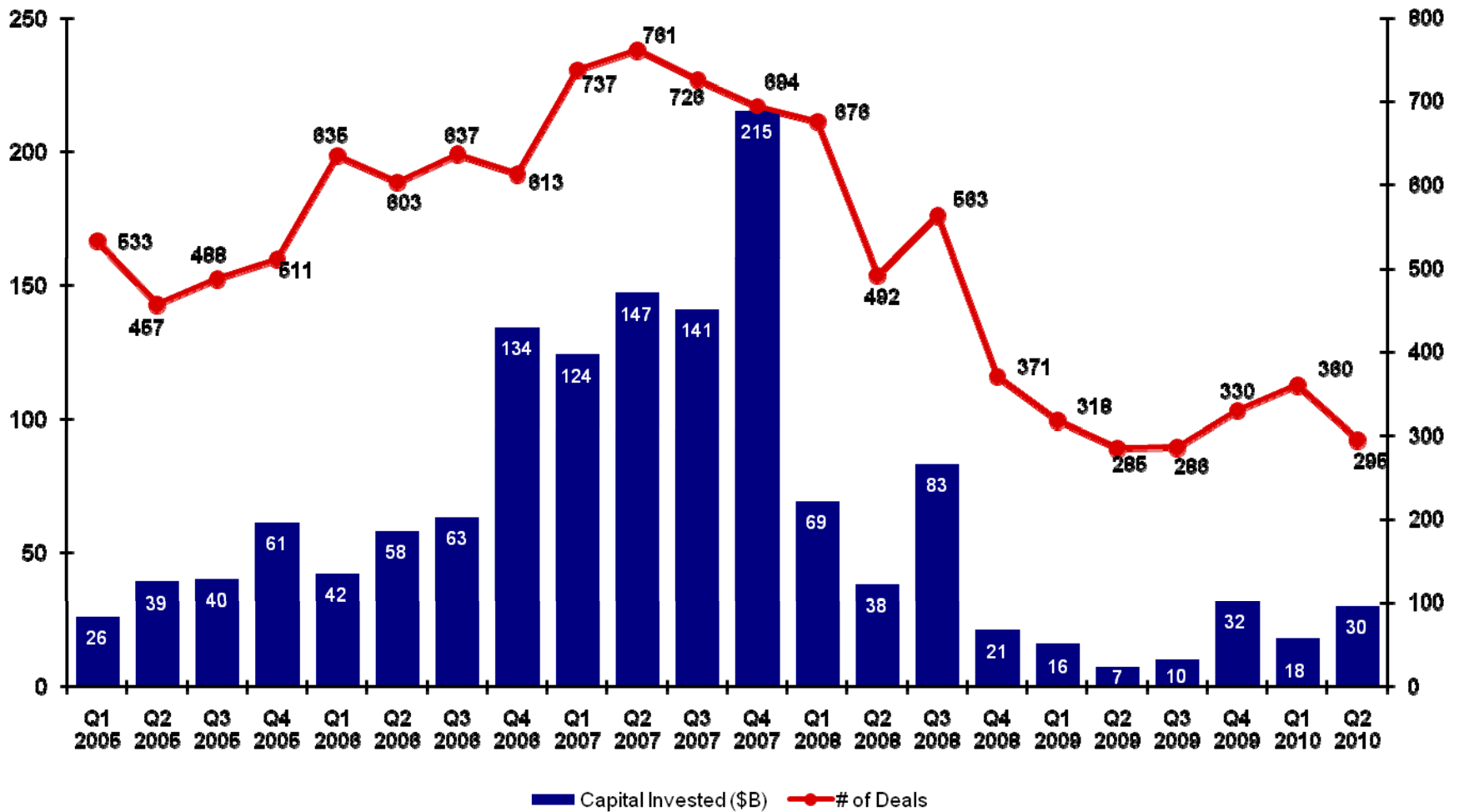
Transaction Multiples

Reduced Availability of Debt and Increased Equity Financing Results in Smaller Purchase Multiples to Achieve Desired Investment Returns; However, Multiples Increasing During 2010.



Source: WY Campbell & Company Market Analysis
Excludes Technology, Media, Telecom—Transactions between \$10-\$250 million

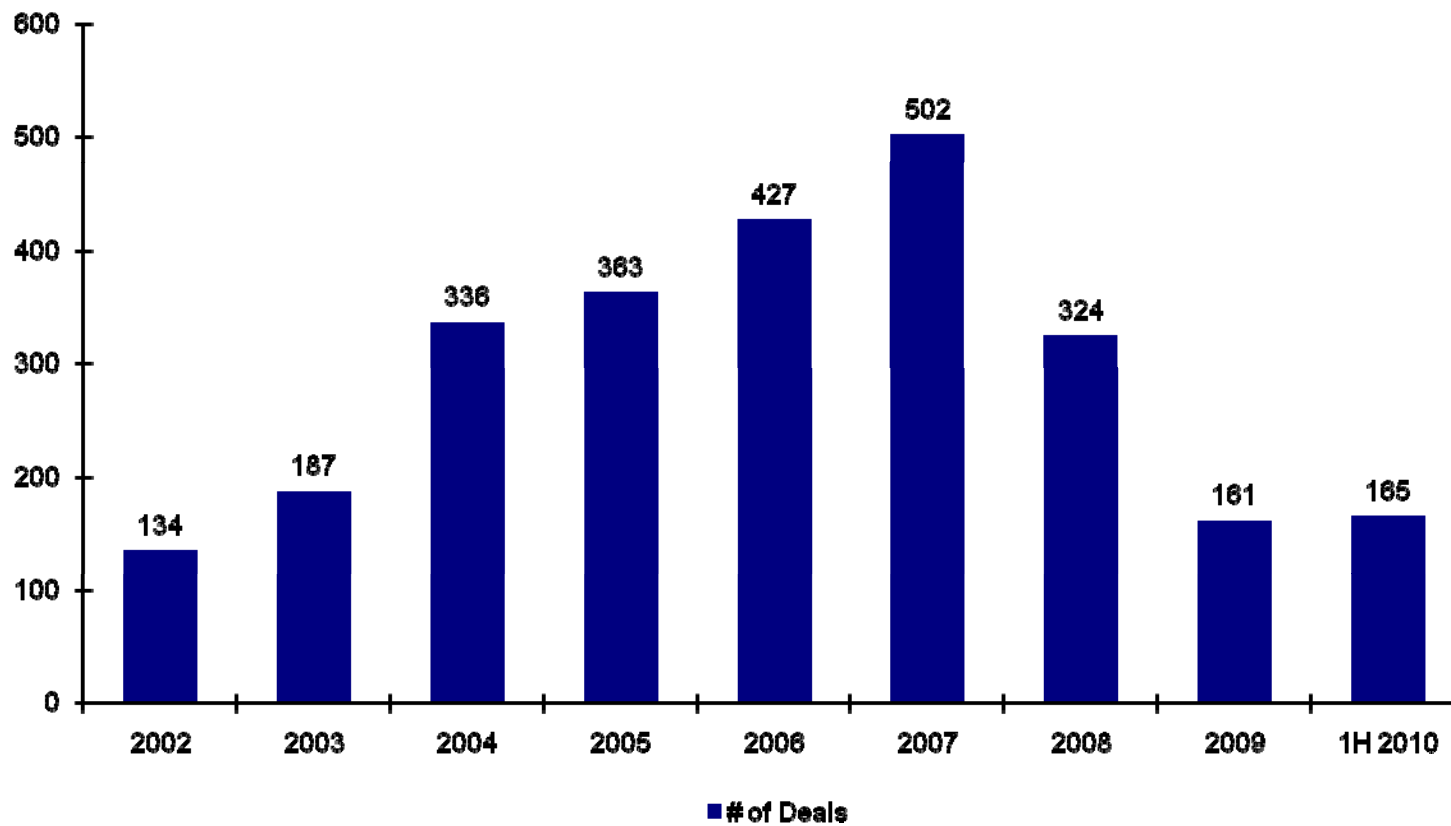
U.S. Private Equity Deal Flow – Quarterly



Source: Pitchbook 2010

U.S. Private Equity Exits Per Year

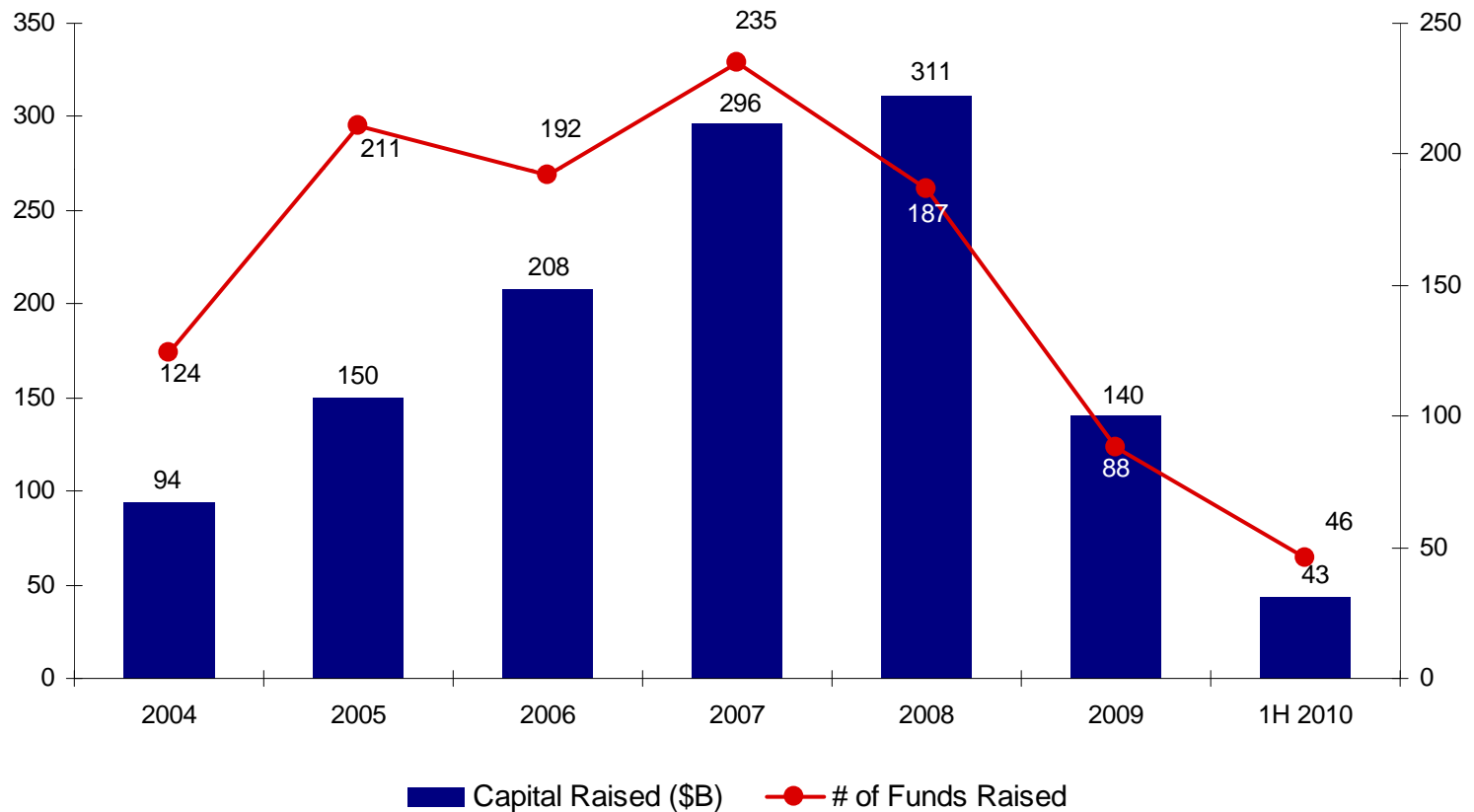
Credit Market Upheaval and Lower Valuations Have Significantly Reduced M&A Transaction Activity during 2009; However 2010 Activity is Improving



Source: Pitchbook 2010

Private Equity Fundraising by Year

Private Equity Fundraising has Slowed Considerably due to the Capital Overhang (Estimated at \$400 Billion) Resulting From Reduced M&A Activity



Source: Pitchbook 2010

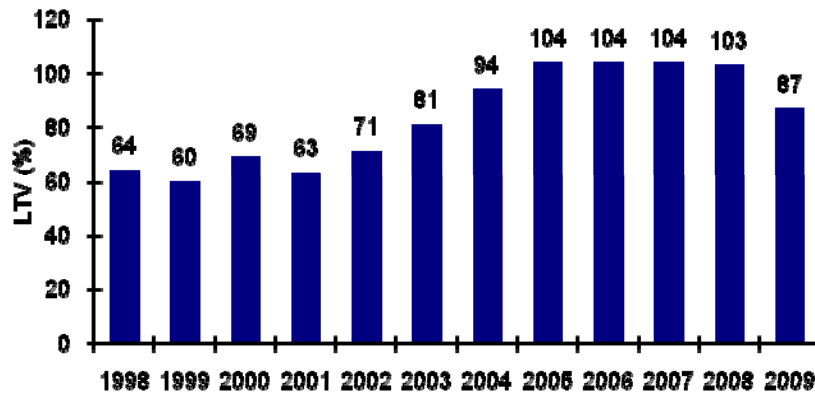
Current Assessment of Real Estate Market

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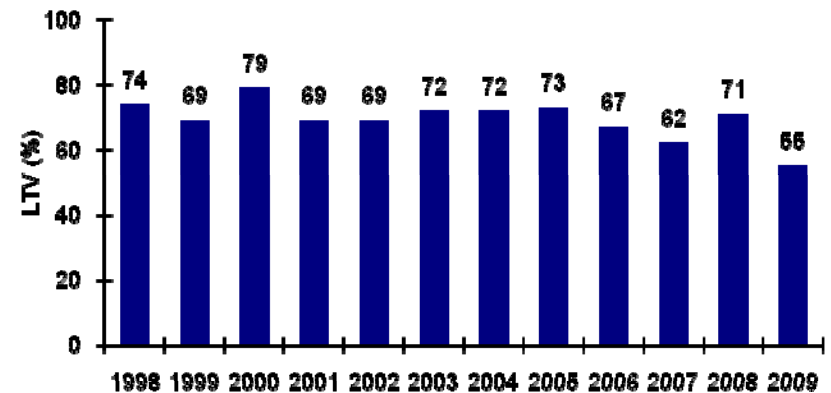
LTV for CMBS Loans by Vintage Year

Collateral Value Underpinning Outstanding Commercial Real Estate Debt has Decreased from \$6.0 Trillion at Height of Housing Bubble in 2007 to \$3.0-\$3.5 Trillion at Beginning of 2010

Current LTVs by Vintage



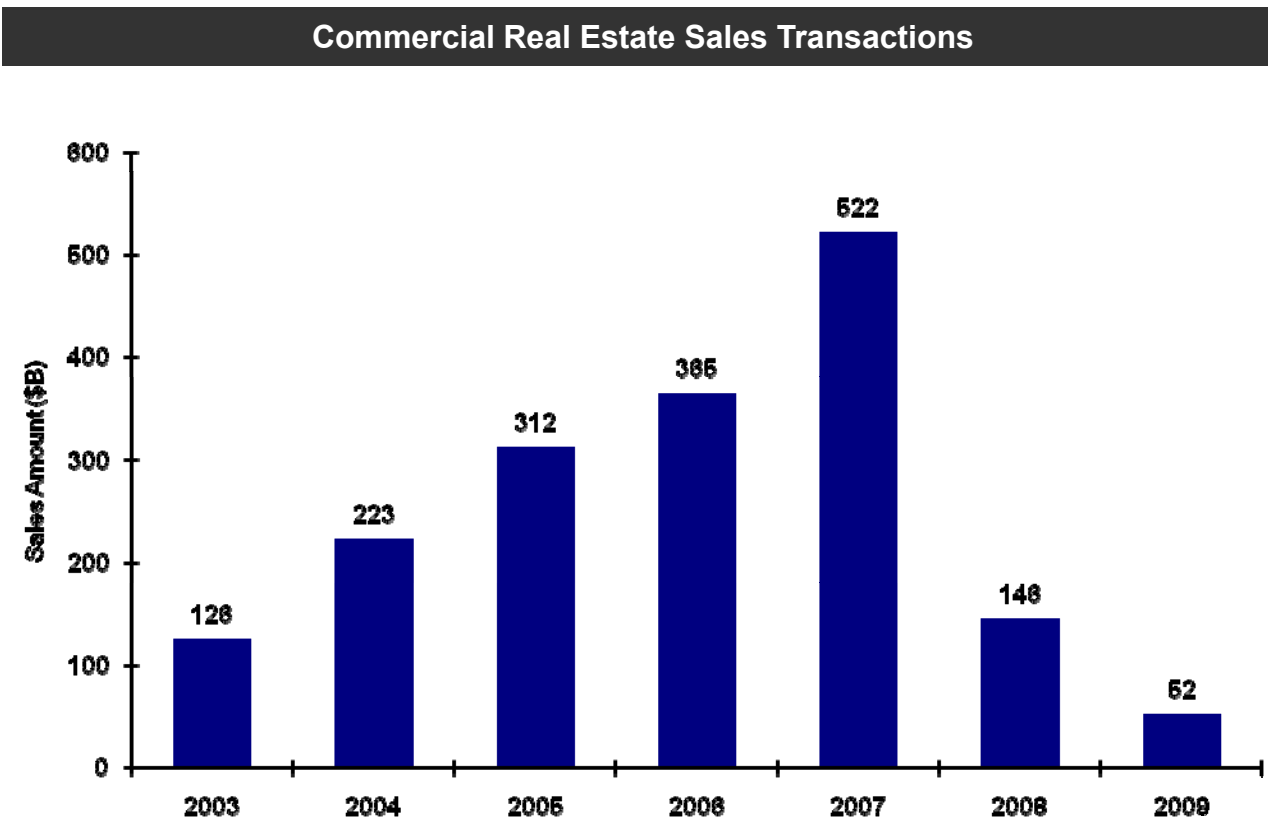
Original LTVs



Source: Trepp and KBW estimates

Making Matters Worse

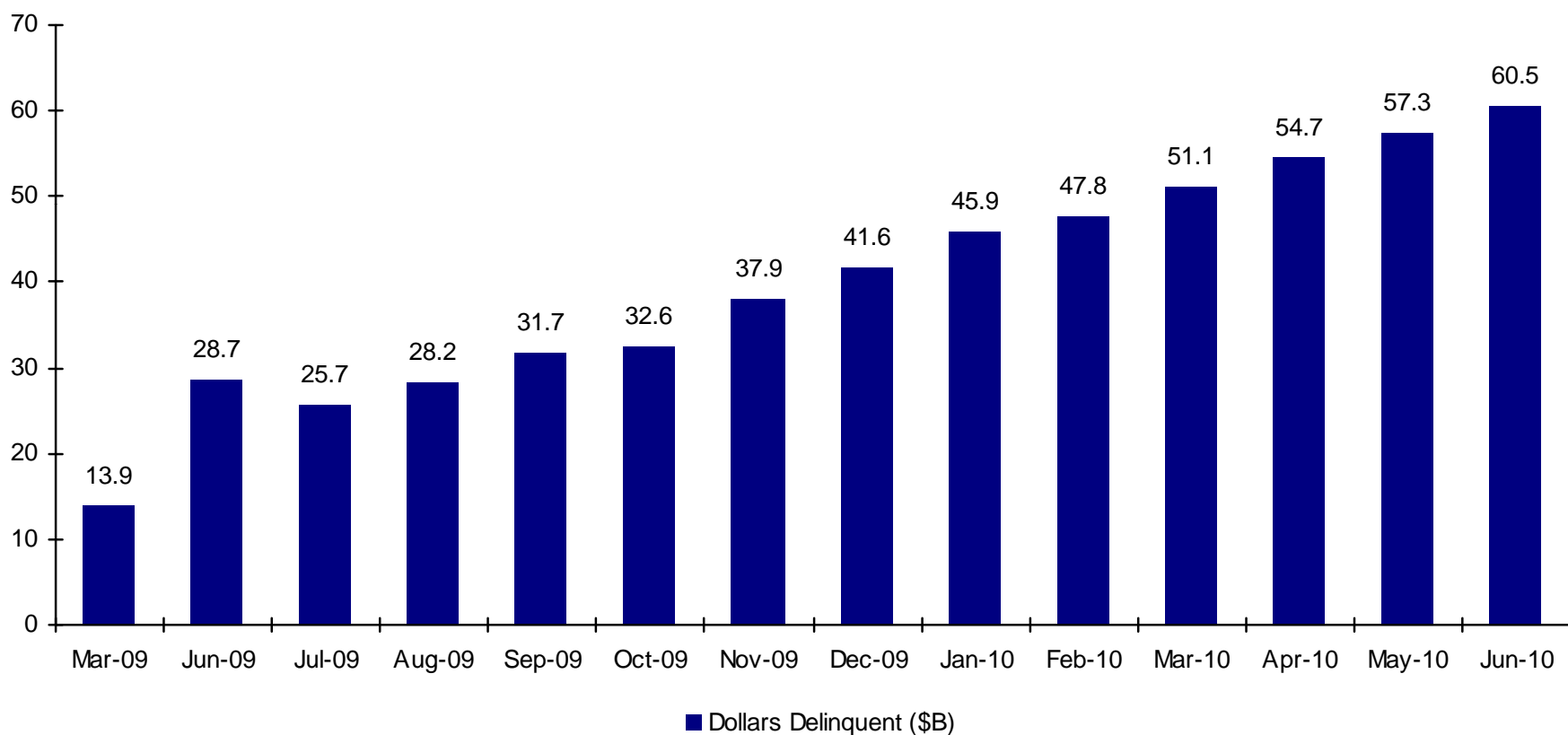
Commercial Real Estate Transactions Collapsed 90% from 2007 to the end of 2009



Source: Real Capital Analytics

Monthly CMBS Delinquency – March 2009 through June 2010

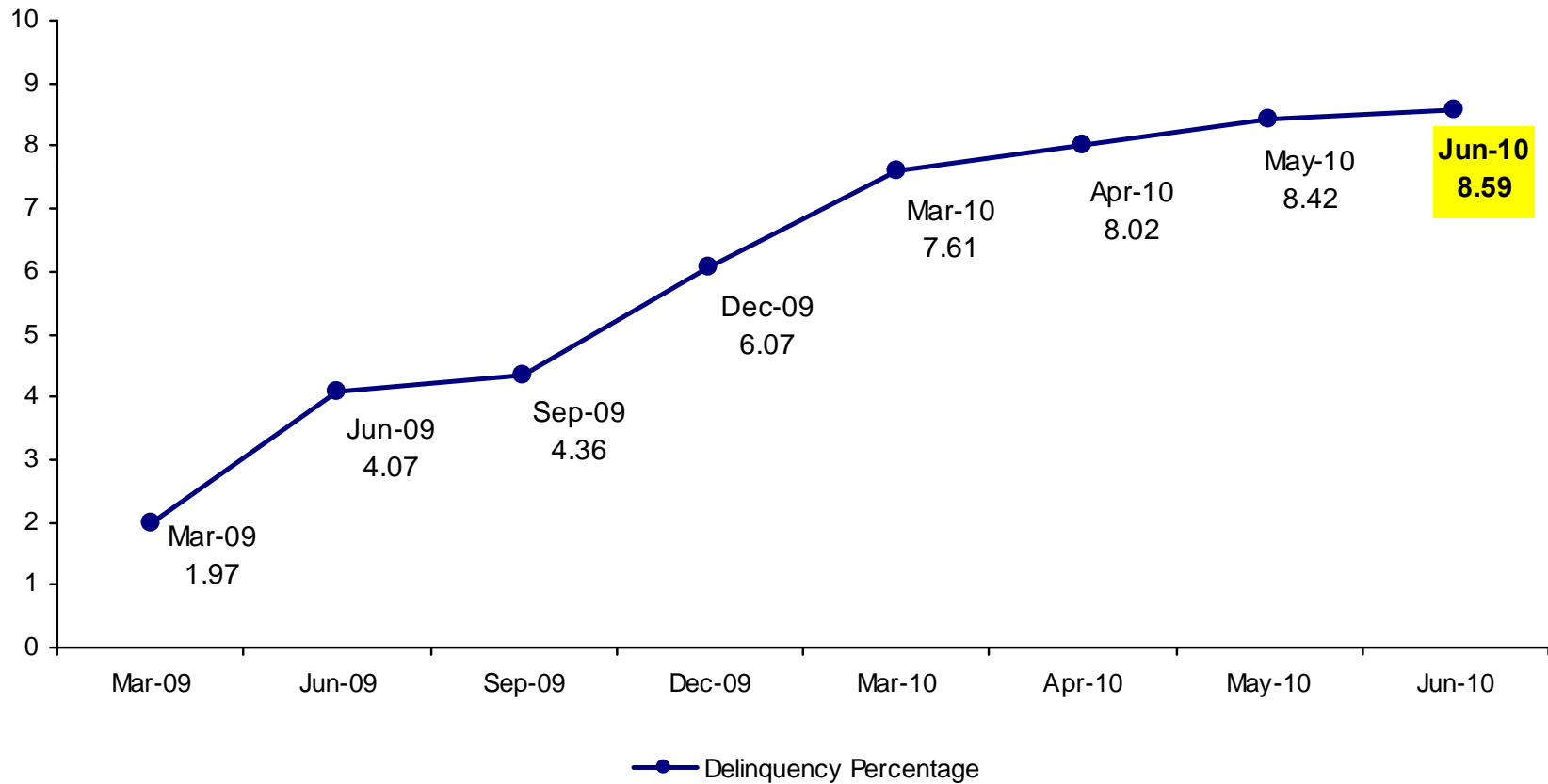
Over \$780 Billion of CMBS Loans are Outstanding with a Large Percentage Maturing Through 2012



Source: RealPoint Research July 2010

Commercial Mortgage Backed Securities (“CMBS”) Delinquency Rates

RealPoint Research Projects the Delinquency Percentage to Approach 11%-12% by Year-End 2010



Source: Treppwire, July 2010

All Major Property Types Weaker

- Multifamily rate up 482 Bps in the first half of 2010---delinquency rate now 14.09%
- Hotel delinquencies up 56 Bps in June 2010---above 19% for the first time
- Industrial rate is lowest of major property types at 5.48%---up 14 Bps in June 2010
- Office delinquencies surpass 6%---up 23 Bps in June 2010
- Retail only major property type to improve---rate drops 18 Bps

Property Types - % 30 Days +						
	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09
Industrial	5.48	5.39	3.98	2.97	2.12	1.43
Lodging	19.01	16.89	13.87	6.72	4.24	2.19
Multifamily	14.09	13.19	9.27	7.05	5.40	3.86
Office	6.04	4.73	3.42	2.70	1.91	1.27
Retail	6.68	6.03	5.50	4.41	5.86	2.11

Source: Treppwire, July 2010

From a Historical Perspective

- One year ago, the delinquency rate was 4.07%
- Since June 2009, delinquency rate up over 100%
- The delinquency rate for commercial real estate loans showed signs of moderating in June. While the rate was up 17 Bps, that was the best reading since July 2009.
- June 2010 CMBS delinquency rate of 8.59% is the highest ever recorded

Source: Treppwire, April 2010

What is Driving the CMBS Delinquencies?

- Falling Commercial Real Estate Values
 - Lower Rental Rates
 - Higher Vacancies
 - Appraisals Beginning to Reflect Reduced Valuations
- Buyers Paid Too Much—Oversupply of Capital
- Excess Supply of Properties
- Loans Maturing
- Very Limited Refinancing Opportunities
- Owners “Underwater” and Walk
- Impact of Non-Recourse Financing

Real Estate Summary

- Commercial Banks Continue to Reduce Their Exposure to Commercial Real Estate
 - The Smaller the Bank, the Greater Concentration in Real Estate Lending
- Limited Ability to Refinance Problem Real Estate Loans—Limited Capacity in the System
- Increased CMBS and Other Commercial Real Estate Defaults (“Tsunami of Debt Defaults”)
 - Future Projected Bank and CMBS Losses on the \$3.5 Trillion of Real Estate Debt Outstanding will be 10%-15% or \$350-\$500 Billion.
- “Cash is King”.....Eventually
 - Cash Buyer’s can buy Quality Assets at Discount to Replacement Cost with Good Positive Cash Flow after Debt Service
 - Distressed Assets Require Cash Buyers to Move Quickly

Real Estate Summary (continued)

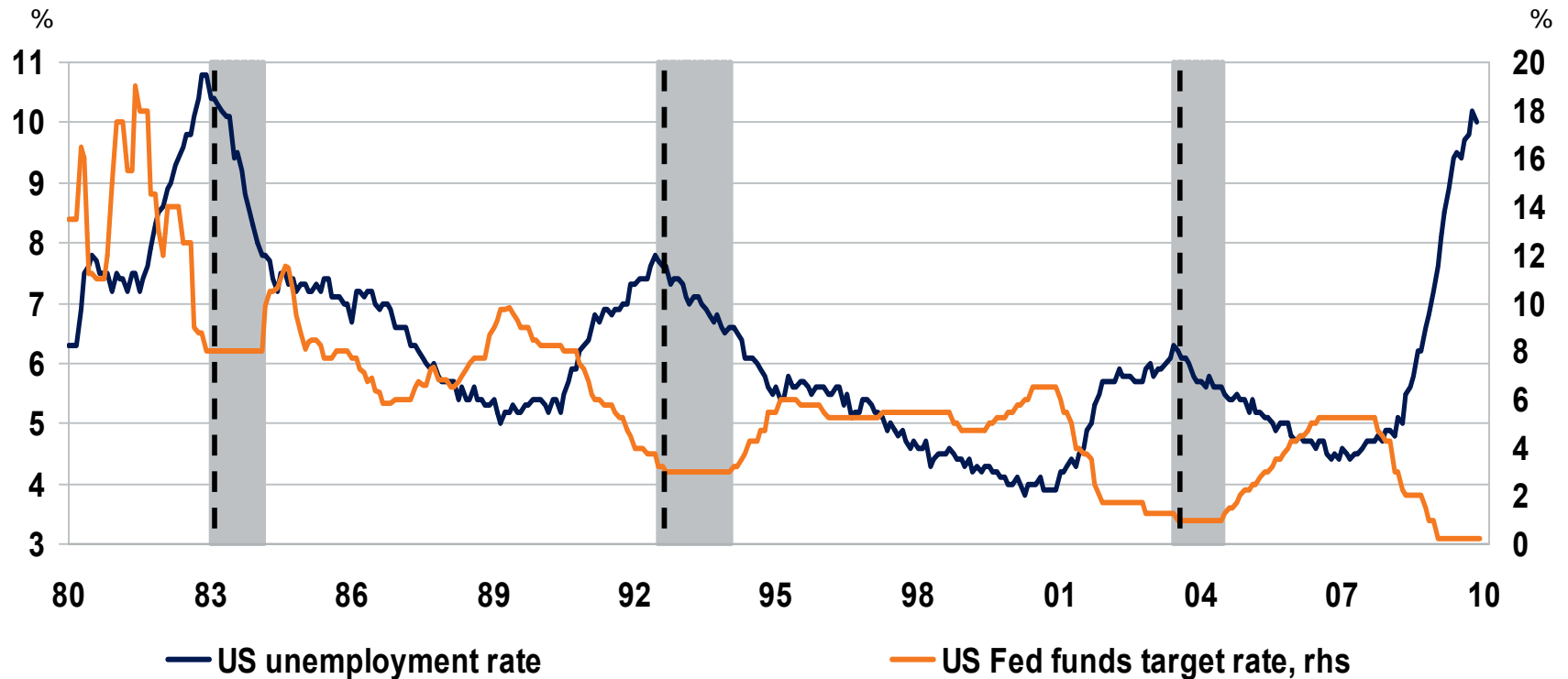
- New Construction of almost any Type has Slowed Significantly and Will Eventually Result in Increased Rents and Absorption
- Cap Rates have Stabilized After Steep Increases Over the last Two Years-----Expect Future Increases in Cap Rates as Interest Rates Move up
 - Interestingly, Have Seen a Recent Decrease in Cap Rates on Class A Properties Due to a “Flight to Quality” and Investors Looking for Yield.
- Job Growth and Credit Availability Very Important to Stabilize the Real Estate Markets
- “Extend and Pretend” Lender Mentality Resulting in Limited Investment Opportunity for Hard Real Estate Assets—Significant REIT and Private Equity Cash on the Sidelines

Outlook for the Economy

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When Will Interest Rates Rise?

Rates normally rise after the peak in unemployment



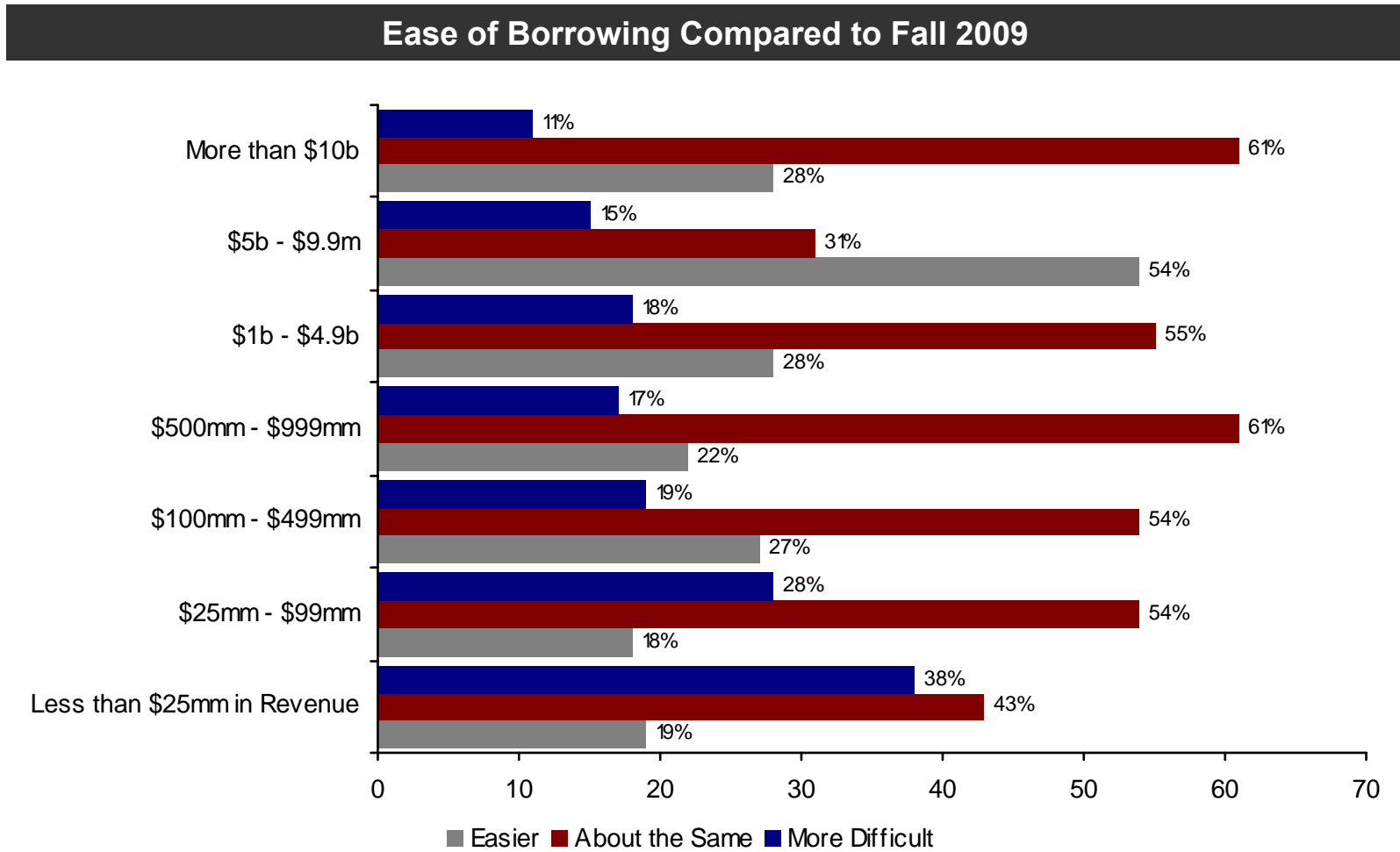
Vertical dotted lines indicate peak in unemployment rate

Source: Thomson Datastream, January 6, 2010.

Shaded areas show the period between the peak in the unemployment rate and the first interest rates rise. Chart is shown for illustrative purposes.

The opinions stated include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized.

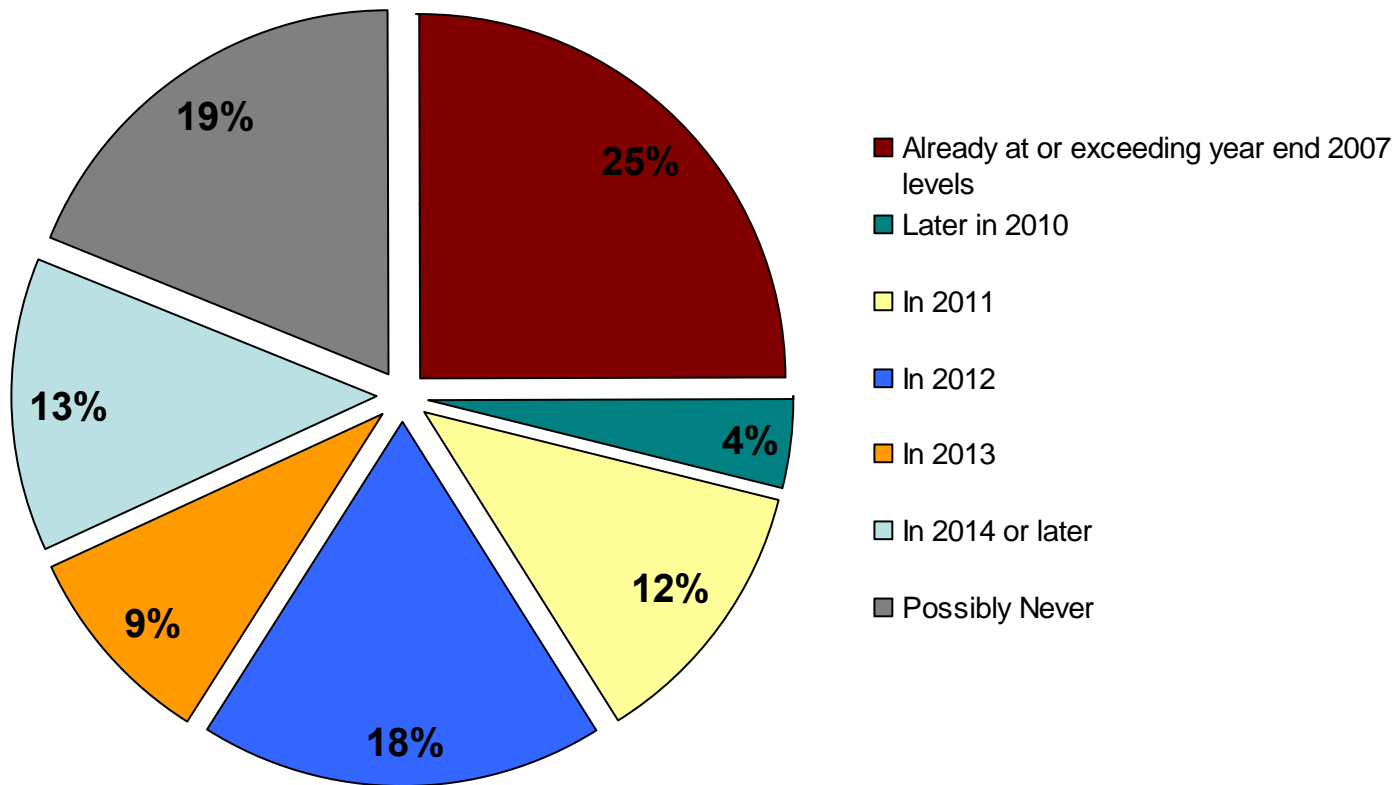
Credit Crunch



Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,102 CFOs (July/August CFO Magazine)

Employment Outlook

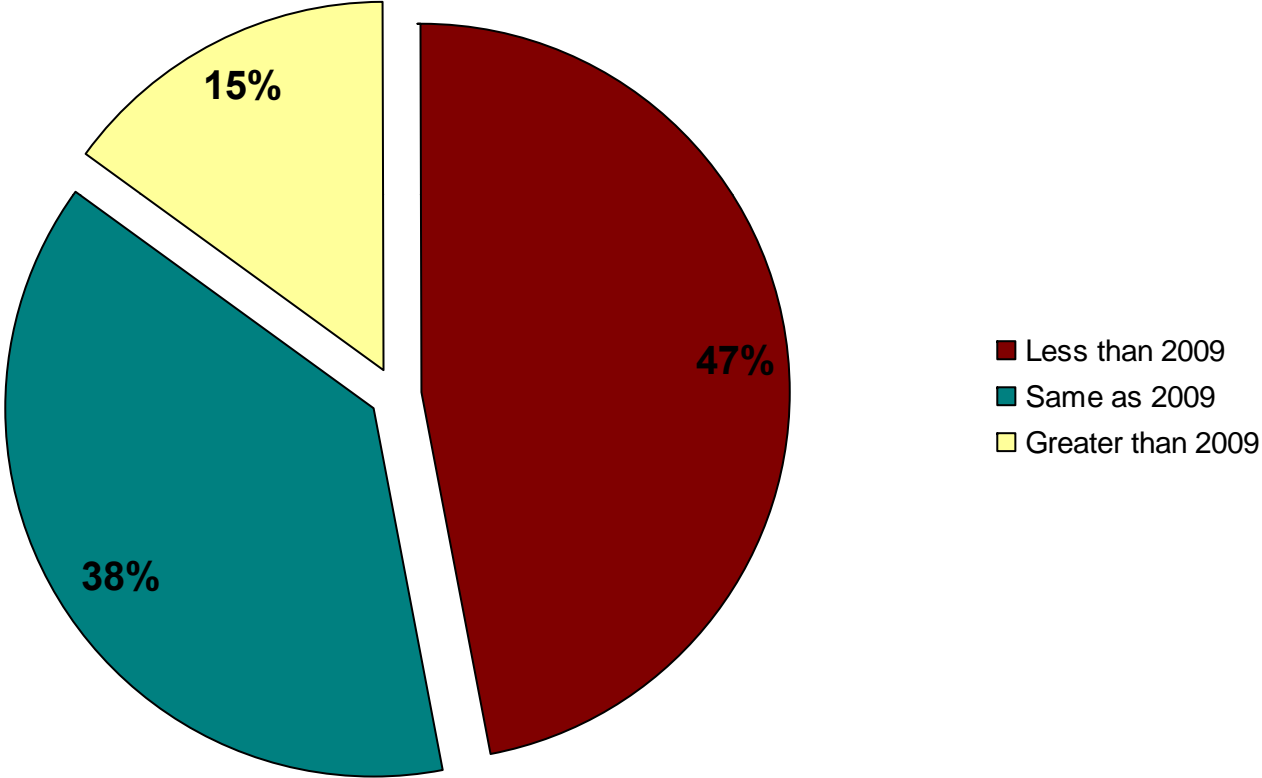
When Will Employment Return to Pre-recession Levels?



Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,102 CFOs (July/August CFOMagazine)

Inventory Outlook

2010 Inventory Levels vs. 2009 Inventory Levels

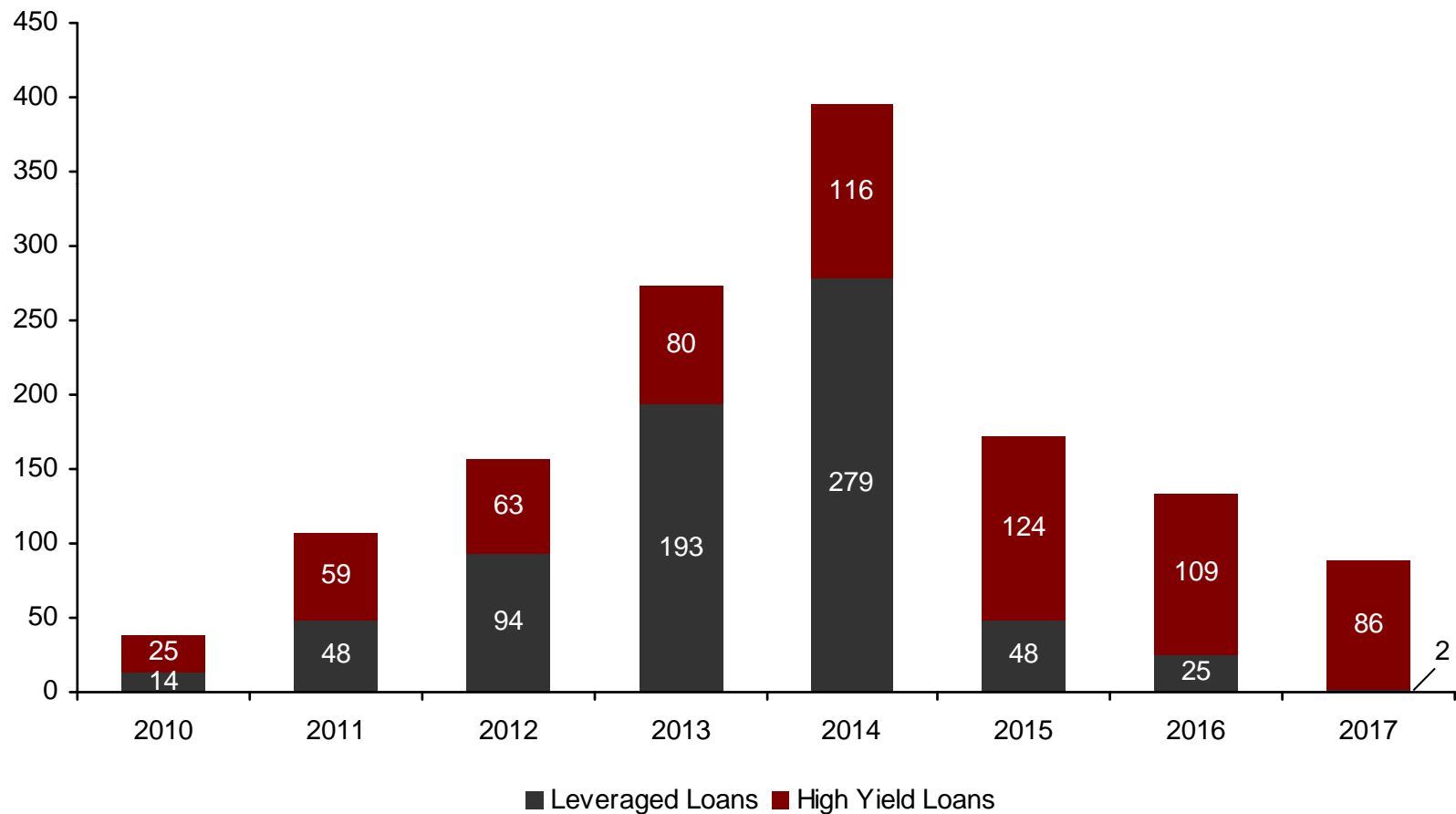


Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,389 CFOs

Debt Maturity Profiles

High Yield and Leveraged Loan Debt Maturity Profiles

Refinancing Overhang Progression as of 9/30/2009 (\$ Billions)



Source: Neuberger Berman, Credit Suisse – As of 9/30/09

Near-Term Trends / Risks

- National Debt Increasing to Unsustainable Levels, and Ongoing Concerns About Global “Debt” Shocks to the System
- Interest Rates Heading Higher (Potentially MUCH Higher)
- Inflation Pressure Due to Growth in Money Supply to Fund Deficit
- Job Growth and Credit Availability Will Continue to Improve—But it Will be Slower than Anticipated
- Tax Rates are Heading Higher—Bush Tax Cuts Rescinded and Higher Capital Gains Rates
- National Value-Added Tax (“VAT”)—Don’t be Surprised!
- Increased State and Local Bond Defaults/Bankruptcy Risk---What happens when the TARP Money is Spent?

Planning for the Exit Strategy

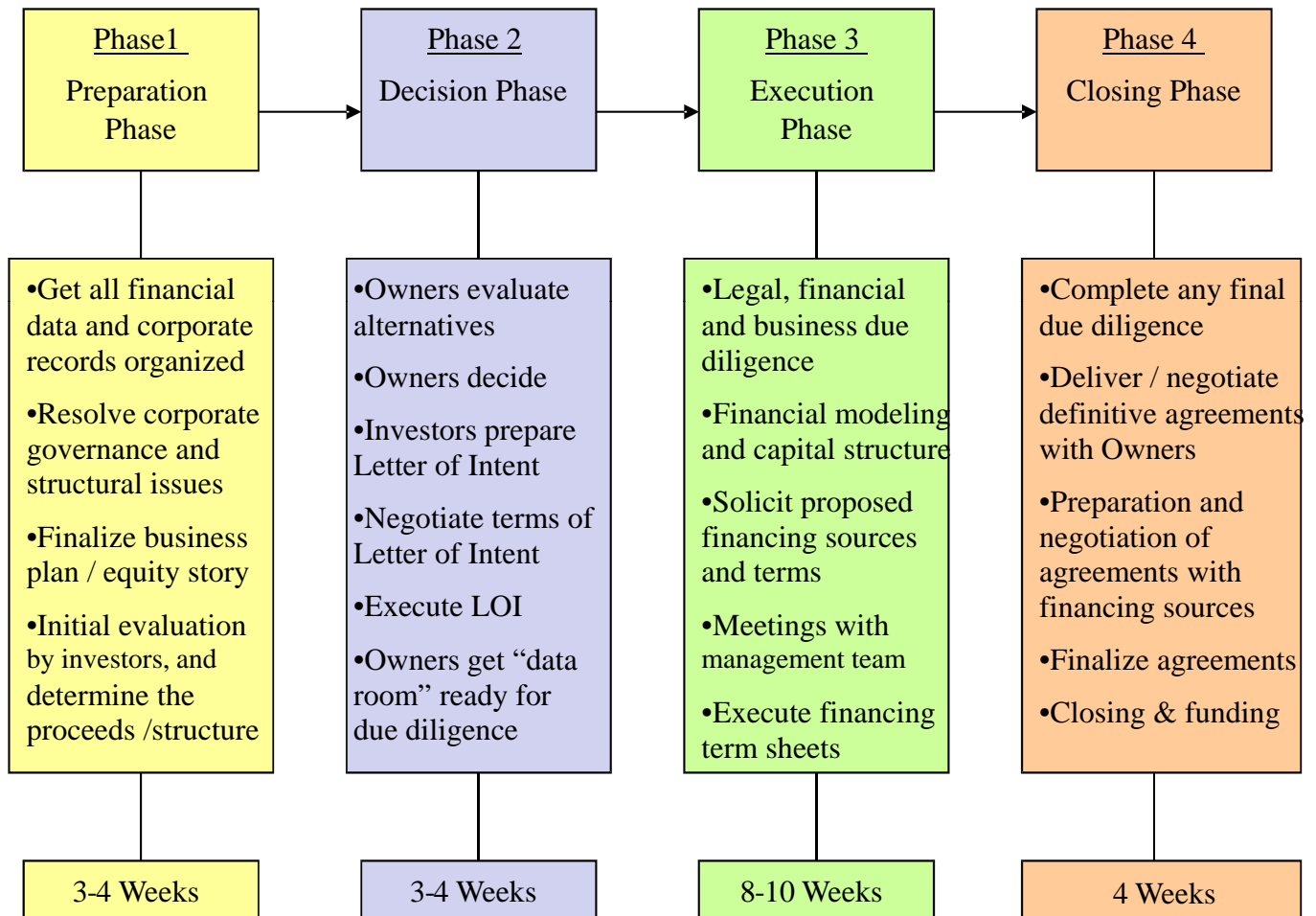
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Prelude

- The transaction process can be very time-intensive
- A well-orchestrated transaction process requires good planning and good partners / resources to:
 - Allow management to run the daily business; and
 - Conduct the transaction process effectively
- Continual delays in the transaction process can often lead to substantial excess costs and frustrations for the Company as well as its advisors / attorneys

Typical Transaction Timeline⁽¹⁾

- Four main phases of Transaction process
- Process typically takes 4-5 months to complete (in total)
- Once owners have prepared and made decisions, process should generally only take 3-4 months



(1) After receiving initial buyer inquiry

General Comments

- The biggest variables in timing normally depend upon: (i) the general state of preparedness by the Company for diligence, and (ii) the time required by the Owners to make initial decisions
- Generally require 3-4 months following Owner decision to Transact
- Efficiency of each phase depends on execution of prior phases
- Owners/Company should plan to identify and select an experienced M&A attorney, tax advisor, and estate planning expert

Exit Strategy: Proactive or Reactive?

- Start Thinking About Your Exit Strategy When You Write the Business Plan
 - Exit Strategy is Different for each Person Depending on Circumstances
 - Pass Business to Children
 - Sell Business to Employees
 - Sell to a Third Party and Pocket the Cash

- Consider a Sell-Side Due Diligence Review Prior to A Sale
 - Allows Current Management to Focus on Day-to-Day Operations While Outside Professionals Review the Business for Operational and Accounting Issues
 - Allows for Clean-up and Formatting of the Financial Statements to Ensure a Buyer can Quickly Understand Key Financial Information
 - Transparency is the Key to Sell-Side Due Diligence
 - Uncover Issues that need to be Corrected Prior to a Sale Process or Communicated to the Buyer Early in the Process---NO SURPRISES
 - Sell-Side Due Diligence is Cost Effective and Will Result in a Higher Sales Price

Exit Strategy: Proactive or Reactive? (cont.)

- Key Areas of Focus in a Sell-Side Due Diligence Review
 - Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)
 - Identification and Presentation of Non-Recurring Items (“Addbacks”)
 - Personal Expenses Not Associated with the Business
 - Insurance Settlement/Litigation/Environmental Cleanup/Excess Compensation
 - Large Inventory or Receivable Write-offs
 - Quality of Earnings
 - Gross Margins
 - Profitability by Product/Customer
 - Customer Concentration Issues
 - Management Succession Planning Issues
 - Outstanding Litigation
 - Environmental Exposure

Exit Strategy: Proactive or Reactive? (cont.)

- A Proactive, Highly Managed Exit Will Result in:
 - Less Disruptive Impact to the Business
 - Clearer Understanding of Value Expectations
 - Knowledge of the Business Issues and Ability to Respond Prior to Buyer Raising Concerns
 - Quicker Close

ULTIMATELY
MAXIMIZING THE SALES PRICE

Questions

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