

Recent acquisition activity viewed as a positive sign for M&A

First Mergers Group Celebrates 15th Year Anniversary

First Mergers Group is on track for another record year with three (3) success fees already this year, several companies in the advanced stages of the M&A process and two (2) companies under no-shop Letter of Intent Agreements. This comes on the mark of our 15th year in business and on the heels of our best year in business in 2010.

We believe these milestones are substantial and testimony to our unique business model, especially since we have weathered two of the worst economic cycles in American history--the dot-com crash in 2001-2002 and the 2008 Financial Crisis that lead to a more than three-year recession.

The recent transactions were with strategic buyers at above market multiples.



EMCOR Acquires Government Infrastructure Contractor

First Mergers Group is pleased to announce that its client Harry Pepper & Associates, Inc. (HPA) has been acquired by EMCOR Group, Inc. (NYSE: EME).

About HPA—HPA, with 2010 estimated revenues of approximately \$100 million and an estimated current backlog of \$150 million, is a leading infrastructure company offering diversified prime contracting services to Federal and State government agencies. Having been in business since 1918, Pepper has strong relationships with clients such as the Department of Navy, The Army Corps of Engineers, and the US Marine Corps.

About EMCOR—EMCOR is a Fortune 500 company with estimated 2010 revenues of \$5.0 billion and is considered a global leader in mechanical and electrical construction, energy infrastructure, and facilities services.

Recent acquisition news and substantial increases in contracting multiples have signaled an M&A recovery. This combined with recent offerings and closed transactions by First Mergers Group, confirms our view that the outlook for M&A activity in the facility, power/energy services and contracting space is positive.



Who is buying and why...

Public market earnings multiples for contractors hit the bottom in 2009 with the rest of the market. The market improved for contractors in 2010 with a flurry of deals at year end confirming buyer demand for quality companies is increasing. This demand is from a diverse group of buyers including strategic buyers, global buyers and private equity groups. ABM's, EMCOR's and Perini's recent acquisition news are examples of current interest. We believe this activity is a positive sign for owners of privately held contracting companies that are considering divestiture strategies.

First Mergers has conducted an exhaustive search of sellers from M&A subscriptions and we believe that there is a lack of strong sellers in the marketplace. Correspondingly, competition for quality targets is fierce which is increasing valuations for those highly attractive properties. We, therefore, believe that M&A activity is in the early stage of the rebound.

Recent acquisition activity also confirms the level of interest by large market cap companies of mid-market cap companies in the energy and facility services space. We maintain a strong client portfolio in this space and will have additional transaction news in the coming months.

Recent valuation report shows a marked increase in purchase price multiples for small and mid-market transactions.

According to GF Data Resources' third-quarter report deal multiples showed a significant increase. Philadelphia-based GF Data, which tracks transactions of 163 participating mid-market PE firms, reported that the number of deals in the third quarter represented the highest figure over the past seven quarters. Meanwhile the average purchase price multiple reached 6x trailing 12-month EBITDA, up significantly from the previous four quarters that saw valuations reside in the 5x times EBITDA range. GF Data specializes on the small and mid market, tracking deals between \$10 million and \$250 million in size.

Share prices of power/energy services and contracting companies surged along with the broader market following the earlier lows in 2010. Power/energy service and contracting companies increased substantially higher in the second half of 2010. This resurgence comes on the heels of the significant decline among power/energy services and contracting companies share prices that began in the second half of 2008 and continued through 2009 and the first quarters of 2010.

This continued strong performance has resulted in an almost full recovery for power/energy services and contracting companies. While the sectors still lag behind the all-time highs and robust growth seen throughout the decade, much of the expectations regarding slow growth in future construction spending cycles have been priced into the market. Most power/energy services and contracting companies announced earnings that were either in-line or ahead of analysts' expectations as they continue to work off strong backlogs. Companies with substantial construction exposure have lowered expectations throughout this economic downturn while companies with service-orientated revenues are viewed more favorably.

Bush tax cuts to remain and keep long term capital gains at 15% for 2 more years—good news for sellers.

After months of wrangling Republicans and Democrats in Washington, DC compromised and agreed to extend the Bush tax cuts for another two years. This compromise keeps long-term capital gain rates at 15%.

Positive economic outlook signals increased interest in deal volume from corporate and private equity buyers.

Corporate and Private Equity buyers have expressed strong interest in seller opportunities from First Mergers Group in recent months. First Mergers Group believes this is a direct result of increased confidence in the economy and improved leverage for transactions.

This comes at a time when sellers have been taking a time out for varied reasons. Some sellers have been reluctant to consider a sale for fear that the market reception would be poor. Other sellers have seen a downturn in their businesses and are concerned about unfavorable valuations where the greatest weight is placed on a down year. The lack of strong acquisition targets provides liquidity opportunities for business owners of privately held companies who are represented by a consulting firm that understands the complexity of valuing a closely-held enterprise.

Valuations typically do not take into account one year alone or a down year. Buyers who are have a sound acquisition strategy will tend to blend the earnings of several years and even toss out a down year as an outlier in their valuation model for an attractive strategic target.

First Mergers believes the above represents a once in a life time opportunity for sellers especially those sellers sectors that First Mergers Group closely monitors including outsourced services, government contracting, utility/energy/power services, construction, engineering, mechanical services, facility services and technical services. Comprehensive knowledge of service sectors by an M&A team that specializes in these sectors can facilitate competitive pricing and a favorable outcome. For immediate consideration and a confidential marketplace value of your business, please contact First Mergers Group.