

M&A INTERNATIONAL INC.

Thousands of potential opportunities were discussed during 850 one-on-one meetings between professionals from M&A International member firms and the 115 guest delegates who attended the third M&A International Forum in Dublin on October 10th. Amongst the guest attendees, mainly from Europe and North America, were CEOs, and their direct reports, often the CFO, Corporate Counsel, and/or the Corporate Development Officer; lawyers from firms seeking global, cross-border work; representatives from Private Equity Groups; and even some competitors, exploring cooperation or possible membership. Each of the delegates was asked in advance about their interests involving divestitures, acquisitions and/or corporate finance, either industry-specific, or geographic. Meetings were then arranged with the most appropriate intermediary from the 120 individuals attending from 36 M&A International firms. This Forum proved extremely successful, a win-win for all attendees. Dublin followed equally successful Forums in Rome in 2001 and Prague in 2002, and the fourth is scheduled to occur in Amsterdam in the Fall of 2004.

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Specialists in mid-market acquisitions, divestitures,
 strategic alliances, valuations, and corporate finance —
 member of M&A International,
 global network of 35+ firms

Asset-Based Loans An Increasingly Useful Liquidity Tool

-- Michael J. Walker, President Janus Corporate Finance

Since its introduction in Canada well over a decade ago, the asset-based lending industry has been plagued by a pervasive image that their product represents the "last resort" for borrowers. This view was born during a time when securing a loan only with inventory and accounts receivable and tracking these assets on a daily or weekly basis simply wasn't practiced by Schedule A banks, or undertaken by "creditworthy" businesses; and, when asset-based loans were just starting to be offered by a handful of lesser-known lenders, largely with off-shore roots. However, many of the common perceptions about asset-based loans from the early 90s are, in fact, misconceptions today.

At Janus Corporate Finance, we see asset-based loans as flexible, versatile and competitively priced...and especially suited for mid-market businesses. More importantly, this product is offered today as a fundamental financing tool primarily aimed at the Canadian mid-market by a majority of financial institutions that are well known to us, including most Schedule A and Schedule B banks. Similarly, asset-based loans are becoming increasingly popular with borrowers of all kinds who now are beginning to view them as a solution for a wide array of liquidity issues. As is the case with most things in our industry, the proof is in the numbers...an informal poll of some major asset-based lenders indicates portfolio growth in the 400% - 600% range over the past 5 - 7 years...and most institutions seem happy with the overall credit quality.

Despite some lingering stigma about asset-based loans, the product continues to enjoy wider acceptance and growing demand within the Canadian business community...especially for mid-sized firms; and we see this trend continuing for the following reasons:

- 1) Healthy borrowers can go anywhere for financing, but many creditworthy companies increasingly are turning to asset-based lenders because they are competitively priced, typically offer flexible loan structures, and overall can help a business maximize its borrowing capacity.
- 2) In view of the high cost of alternative "equity" capital, many growing mid-market companies consciously use as much leverage as possible to finance the expansion of their businesses. In fact, it is not unusual for enlightened mid-market firms to use a leverage strategy when planning acquisitions; and structuring asset-based loans to maximize available capital can sometimes make the difference between a "go, no-go" decision.

Unlike in the early 1990s, becoming an asset-based borrower does not reflect poorly on a company today. Many businesses seek out asset-based loans because of the benefits they offer in comparison to other forms of financing.

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CORNER

CLARITY



In an effort to reduce the complexity in M&A and Corporate Finance terminology, M&A Monitor includes a few definitions of terms whose meaning may not be obvious to those outside the industry:

GOING CONCERN:

A business that is financially viable as opposed to one that cannot meet its debts. Also used to describe a business that has good prospects for success as opposed to one that has run its course.

GOODWILL:

In the abstract, it means the inherent value of a business, or a name, attributable to widespread positive recognition (for high quality product and/or level of service) of the business/name by customers and/or the public, generally by virtue of having been in existence for a long period of time. In technical financial terms, Goodwill is the excess of the Purchase Price over the Book Value of a business or assets sold.

HOCKEY STICK:

A metaphor for an aggressive Income Statement forecast. Specifically, sales and/or earnings are projected to "take off" in future years well beyond the trend based on actual levels attained currently and in the recent past.

INTERMEDIARY:

A financial advisor, retained by a company and/or its Principal(s) to conceive, initiate, facilitate, negotiate, or perform all of the above with regards to a merger, acquisition, divestiture, or one of many types of fund raising or restructuring. An intermediary does not act as principal to the transaction, but is working for a fee.

EXPANSION CONTINUES – EASTERN EUROPE & EUROPE’S CORPORATE HEADQUARTERS

Three new member firms were admitted as provisional members during the M&A International conference held in Dublin October 9 to 11.

LHV is the leading investment banking and securities firm in the Baltics, with headquarters in Tallinn, Estonia. Established in 1999, LHV covers Latvia and Lithuania as well.

Copernicus Finance Ltd., headquartered in Warsaw Poland, provides investment banking services throughout Eastern Europe. Activities include asset management, corporate finance, and real estate. An affiliate of the Copernicus Group, which was established in 1995, the firm has approximately US \$200 million in funds.

Copernicus provided an excellent detailed status report on Poland, and we'd be delighted to provide a copy to you. Please email giulia@jrjanus.com.

Brussels is the head office of Capital Advice, a leading European corporate finance firm, specialized in advising mid-market clients on their private equity, M&A, and corporate finance transactions. Founded in 1990, it is one of the fastest growing independent Belgian asset managers.

These additions contribute further to M&A International being the pre-eminent network of mid-market investment bankers, bringing the total membership of the organization to 36 firms in 26 countries. In 2002, the network completed just under 150 transactions, for a transaction value of US \$6 billion.

BEHIND THE NUMBERS: ENCOURAGING SIGNS THE M&A MARKET IS IMPROVING

Activity in the M&A market, especially the middle market, is not declining but in fact showing signs of improvement, according to information published recently by US Bancorp Piper Jaffray.

A closer look at the numbers reveals that although the deal value for transactions has dropped, the number of transactions has actually increased. Year-to-date, there have been 5,440 transactions, a modest 2% increase over the 5,317 transactions over the same period in 2002. The third quarter showed a similar increase over Q3 2002.

And because of the rare "mega mergers" that occur during the course of the year, the results of the overall value of the transactions are skewed. If the Pfizer transaction (\$59.5 billion) in 2002 is excluded, the average deal value remained stable, while the transaction activity increased.

Only transactions involving public or larger private targets have the transaction value released, says Piper Jaffray, and there have been fewer transactions with disclosed values (2,005 to 2,108), so it is likely that more smaller, private mid-market transactions are occurring.

ASSET-BASED LOANS

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STRUCTURE. Typically, the restrictive nature of loan covenants can hamper a company's ability to operate freely, particularly in a down economy. Many financial performance measures found in traditional cash flow loans are irrelevant in an asset-based facility. Generally, the asset-based lender is concerned more with the value of a company's collateral, securing the loan principal, as well as the excess borrowing base availability, which can often give a borrower more opportunity to react in the event of a downturn.

Fewer covenants are a primary reason that asset-based loans are considered more flexible than cash flow loans; and, they are often more flexible as to how to use the proceeds. For example, asset-based loans may permit a company to buy back a portion of its term debt or acquire other assets that are not a part of the security package.

SECURITY. In the process of assessing a credit facility, asset-based lenders attempt to understand the company's business as a whole; as well as the dynamics of the industry. This knowledge often enables lenders to be more patient with the ups and downs of a business cycle. From our experience, it seems that asset-based lenders appear to work much more closely with borrowers to anticipate problems, and future opportunities. They typically try to provide credit facilities to meet current obligations, plus sufficient liquidity in the event of deterioration in performance. Credit facilities from asset-based lenders are leveraged at a higher level, and thereby offering more liquidity than traditional bank loans.

Obviously, collateral security is the foundation for any asset-based loan. Inventory and accounts receivable are the common assets pledged; however, a company's property, plant and equipment; and intellectual property such as patents, trademarks or other forms of intangibles can also be used to secure the loan. Because most asset-based lenders get to know the borrower and its business, they are in the best position to appraise the collateral accurately, sometimes finding value where other lenders may not, and thereby maximizing a company's borrowing power.

REPORTING. Since the asset-based loan facilities are typically supported only by related collateral security, most lenders generally feel that it is important for them to be aware of its current value as accounts receivable and inventory accounts change each day. Accordingly, borrowers are usually required to report those changes either daily, weekly, or monthly depending on their risk profile. The good news is that recent improvements in automation and electronic communication have made this process much less onerous. Today, such information can even be transmitted via internet, making reporting much easier and considerably less time-consuming.

In the early days of asset-based lending, most reporting requirements used to be applied to borrowers unilaterally, but today, our experience with most lenders is that they are much more flexible, attempting to customize the process for each borrower whenever possible. As a general rule, healthy companies have more leeway when it comes to reporting while distressed companies need to check in more frequently.

On balance however, it is our experience at Janus Corporate Finance that many companies have found that reporting adds a discipline to their businesses that ultimately is much more positive than negative.

PRICING. Pricing is, and will always be, largely a function of relative risk for lenders. Today's asset-based loans are priced competitively, and may even be less expensive than some other senior debt facilities, because of the plethora of new entrants into this sector over the past 5-7 years. In addition, as a result of the number of unsecured loans that have underperformed in recent years, most major lending institutions have come to realize that there should be a higher premium on leveraged cash flow loans than on asset-based loans. Clearly, the risk of principal loss is buffered by collateral security that can be turned into cash with relative ease.

Asset-based lenders, by their nature, can be comfortable helping businesses through tough times as well as prosperous ones; and thus can be an essential source of liquidity during a period when other funding sources may be less attractive...or not available at all.

IT'S STILL NOT NIRVANA....

...but both the M&A International professionals and their 115 guests agreed that there has been definite improvement in the global M&A mid-market during 2003. Transaction activity is higher than at any time since the euphoria of 2000, in some measure because the gap between sellers' expectations and buyers' willingness to pay has shrunk to a manageable level, where good faith negotiations are most often able to bridge the difference. Many of the transactions are "going privates", as it becomes apparent that the old fashioned way of building a business to scale, with profits, is still more sensible than "float the concept, and get all the money you can." There was however a universal observation that prudence is the order of the day, and transactions are taking significantly longer to complete, as both parties pay increased attention to due diligence, to avoid post-closing surprises which most of often of late have proven to be negative.

The increased activity has been most pronounced in biotech, financial services, and some resurgence in IT. At the same time, what was disparagingly referred to as "old economy" businesses have taken on a new shine, as buyers are reminded that positive performance, including profit and cash flow is the reality. (Perhaps "old economy" should become known as the "steadfast economy.") Network members also flagged a dramatic increase in interest in Eastern Europe as those economies experience rapid growth, privatization occurs, and the regulatory environments advance to Western standards. Many leading global corporations are voting with their wallets that these countries will generate substantial opportunity over the next decade.

In parallel, China has become too important to ignore. Major growth is taking place in industrial, commercial and consumer sectors, fueled by domestic demand, and additionally by the inherent advantages of serving exports markets via Chinese manufacturing capabilities. As Chinese governments spin off their ownership of ventures into private sector hands, excellent opportunities abound, assuming one is able to access knowledgeable professional advice. China is no different in this regard than the ROW. Understanding culture and "standard operating procedures", both of which may be unique, is mandatory if one is to understand and contain risk.

**CURRENT / PENDING
SALE MANDATES**

POP Display Manufacturer

This Canadian private company was founded in 1968 and is now a multi-million dollar enterprise. It is the supplier of choice for a number of the world's leading market-oriented consumer goods manufacturers. Eighty per cent of sales are display product, and the company also manufactures some specialty equipment and is a contract manufacturer of certain original equipment components such as BBQ, fireplace, electronics, furniture, and refrigeration parts and products.

ACQUISITION MANDATES

Manufacturer / Distributor of Pumps, Motors, Valves & Controls

Formed in 1937, the Company's head office is in Toronto with manufacturing facilities in Canada, the US, and Britain. Annual sales are in excess of US \$ 100 million with top quartile industry margins. The Company seeks to expand via acquisition along existing and/or complementary product lines, with a focus on expanding coverage of distribution channels. Targets should have a purchase price in the range of US \$10 - 25 million. The Company's product groups include: pumps, circulators, heat exchangers, expansion tanks, engineered plumbing and HVAC systems, engineered fire systems, and valves, meters and electronic controls for flow management systems. Products are for water based system applications only and specifically do not include larger industrial applications such as waste water, major industrial cooling systems for nuclear and other power applications, and / or applications for chemicals, petro-chemicals and other corrosives.

Buyer Seeks Food Businesses in NA

Interest in either shelf stable or frozen, branded or private label, based in North America, and available for acquisition. Will consider any business with revenues of \$25 million to \$1 billion.

Acquisition or Merger-Minded Client

Our Canadian based client is seeking acquisition or merger candidates as complementary add-ons to their existing office products distribution business in Canada. They currently sell hard copy and digital storage consumables, and related technology products for the office, direct to corporate end-user accounts. Acquisition or merger candidates should distribute similar or complementary products to the same end-user channel in Canada as a first priority, or the United States as second priority. Candidate size can range from \$10 to \$50 million in revenues.

**JANUS CORPORATE FINANCE
MANDATES**

Nutraceuticals

This Canadian private company was formed in 1997 and has developed and patented (or has patents pending on) 10 separate nutraceutical product formulations with medical treatment applications for Cancer, Type II Diabetes and Cardiovascular disease, including cholesterol reduction and anti-inflammatory capabilities. Fully tested in clinical trials, these nutraceuticals will compete head-to-head on a global basis with leading pharmaceutical products from multinational drug companies. The Company is self-sustaining and seeks a financial/strategic investor in a minority role to accelerate the development of its in-house product pipeline.

Canadian Manufacturer

A private mid-market company, located in Toronto, is seeking strategic add-ons, with revenue of \$3 to \$10 million. Profitable operations are preferred. The candidate business (entity, division or product line) should involve printing, textiles and/or should be manufacturing and marketing products relating to merchandising or promotion.

Investors for Asian hotel chain

A luxury hotel chain in Yunan province is looking for investors and a hotel management group to build a 6 star boutique style hotel in Asia. Looking for someone with a strong link in Asia and Europe or North America.

Joint Venture Partner

This international food company seeks a joint venture partner for the exclusive Canadian rights to distribute a proprietary patented food product. The technology creates a uniquely superior food experience to be consumed in non-conventional settings. The parent company is already established in some global markets, but has limited exposure in the Canadian marketplace to date. The joint venture would operate as an independent company managed by the investor.

Entrepreneur Buyers

We always have a roster of qualified individuals seeking mid-market businesses in the \$5 to \$20 million range of value. They cover diverse industries and geographic preferences. A few will consider turnarounds.



For detailed information on any of these opportunities, we can be reached via:

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