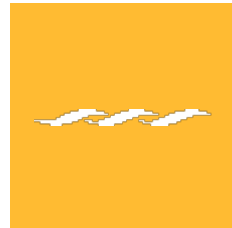


Brian Begert

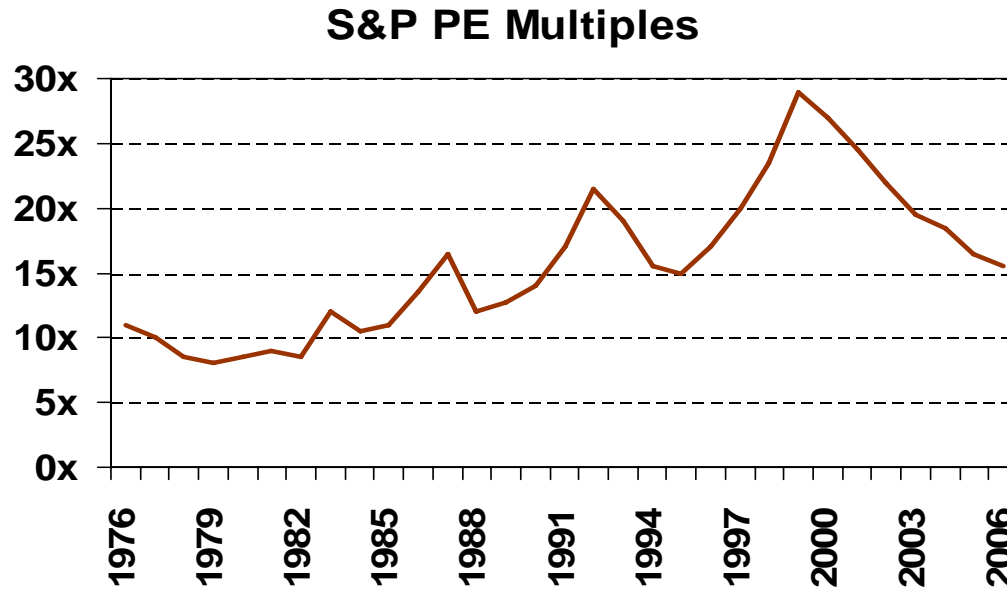
Yellow Point  
  
EQUITY PARTNERS



# Discussion Topics

- **Where Are Values Today?**
  - Public Companies
  - Private Companies
- **Trends Positively Affecting Values**
- **Trends Negatively Affecting Values**
- **Conclusions**

# Current Public Company Valuations

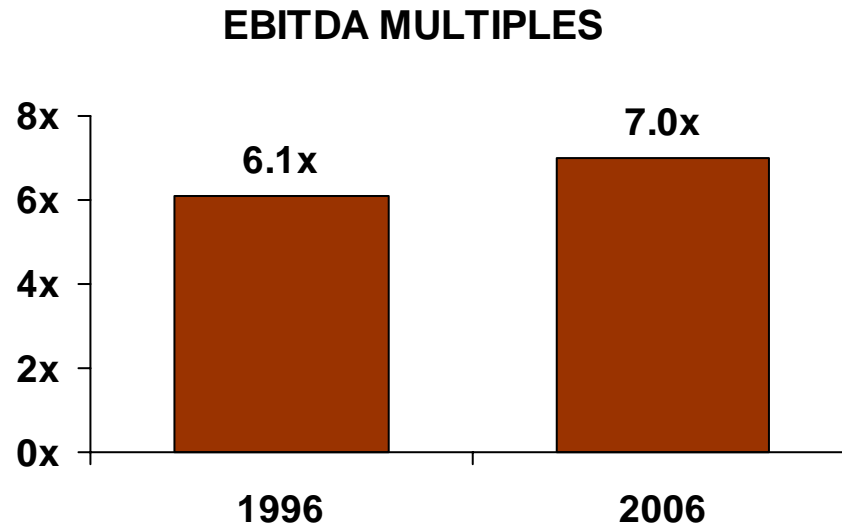


- **Key Variables Affecting Valuations:**

- Interest rates;
- Perception of earnings growth;
- Perception of earnings stability; and
- Supply / Demand

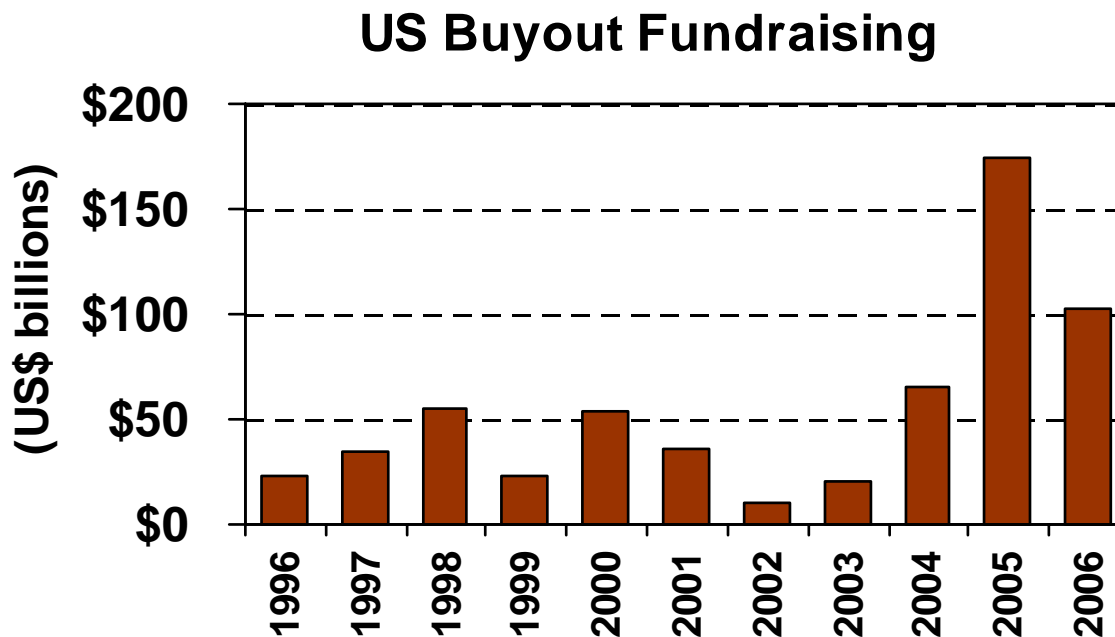
- amount of new money purchasing stocks vs new issue activity.

# Current Private Company Valuations



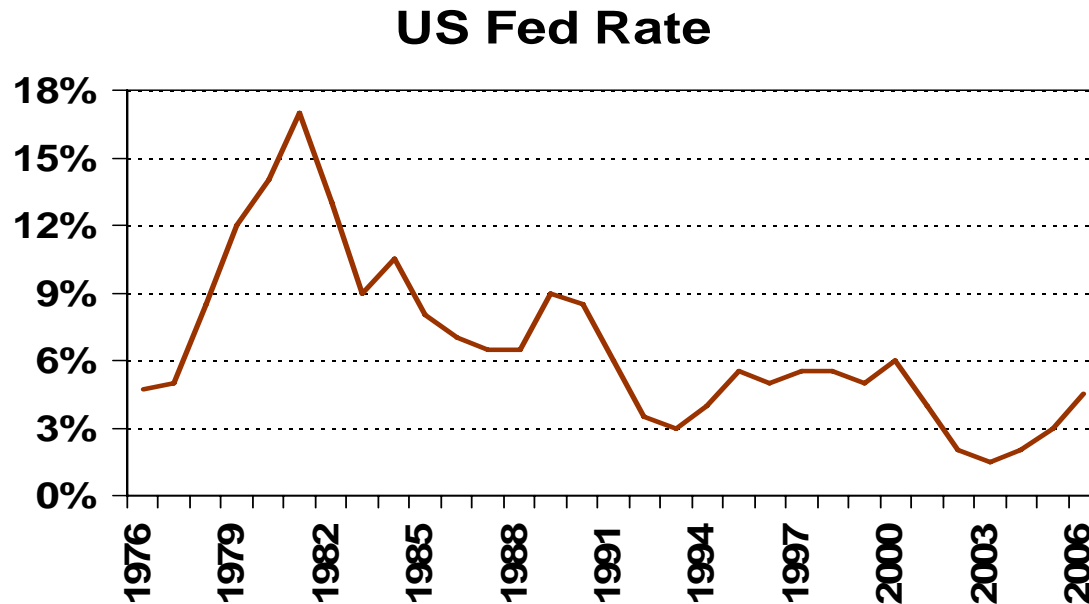
- Accurate data difficult to obtain for private companies;
- Same factors that influence public valuations will influence private valuations; and
- Greatest change in the past 10 years is the advent of private equity which has caused valuations to rise (Increased Demand).

# More Private Equity Chasing Acquisitions



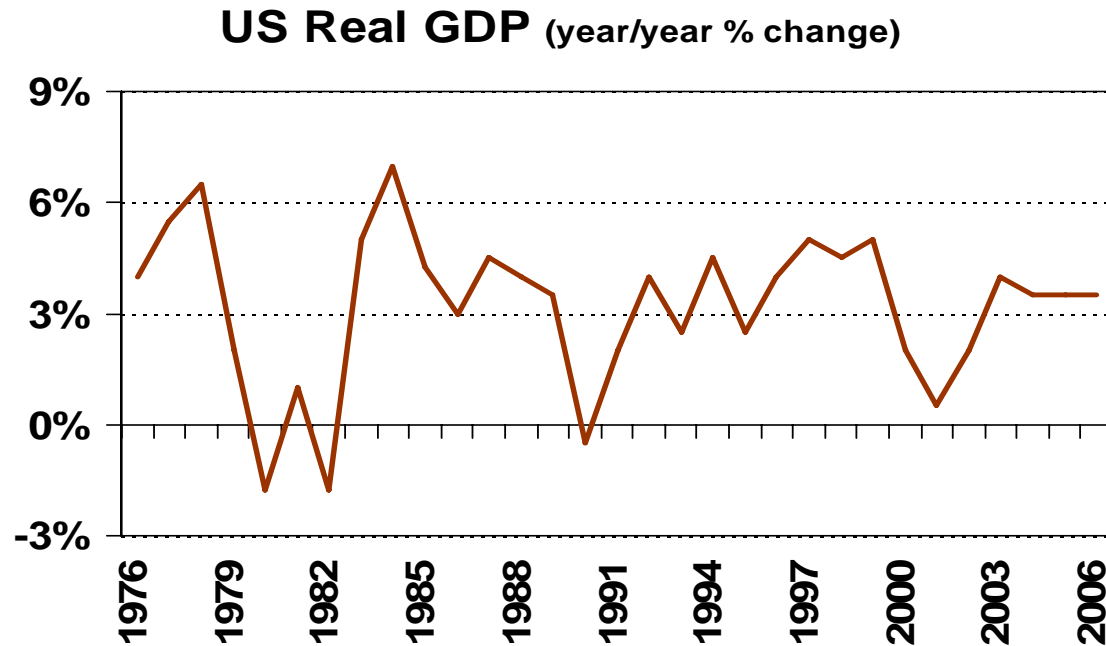
- Pension funds moved into private equity in early '90s;
- Positive returns of late will sustain capital inflows (IRR of +20% for Canadian buyout funds over the last 10 years);
- Public markets starting to embrace private equity and hedge fund industries – Fortress IPO.

# Low Interest Rates



- US Fed rate likely to remain below 6% for the foreseeable future;
- Primary reason – low inflation targets by central banks (BCA); and
- Demographics – Aging population desires yield investments (Demand factor).

# Stable Economic Growth



- Growth in major foreign markets (ie China, India, etc) provide North American companies with more diverse customer base;
- Governments and central banks doing a better job managing the economy;
- Investors willing to pay more for consistent earnings.

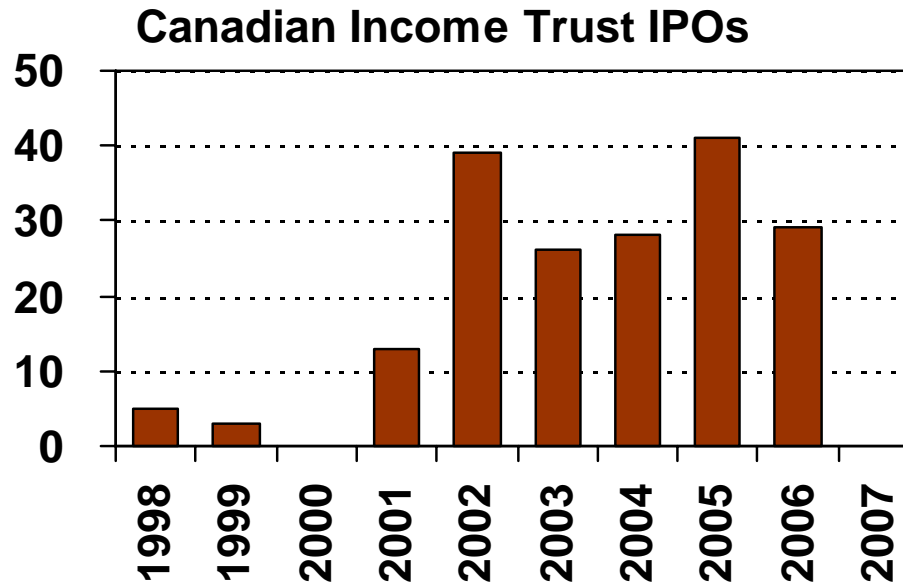
# Number of Public Companies Shrinking

- **Total buyouts of \$100 billion in Canada alone in the past two years:**
  - Inco;
  - Falconbridge;
  - Terasen;
  - Four Seasons;
  - Fairmont Hotels; and
  - Intrust.
- **Increased costs of being a public company and heightened corporate governance have caused trend to go private;**

## What are the implications?

- **Simple, as with any asset, prices will increase if there is more demand than supply.**
- **If prices rise in the public market then there will be a ripple effect to private company valuations.**

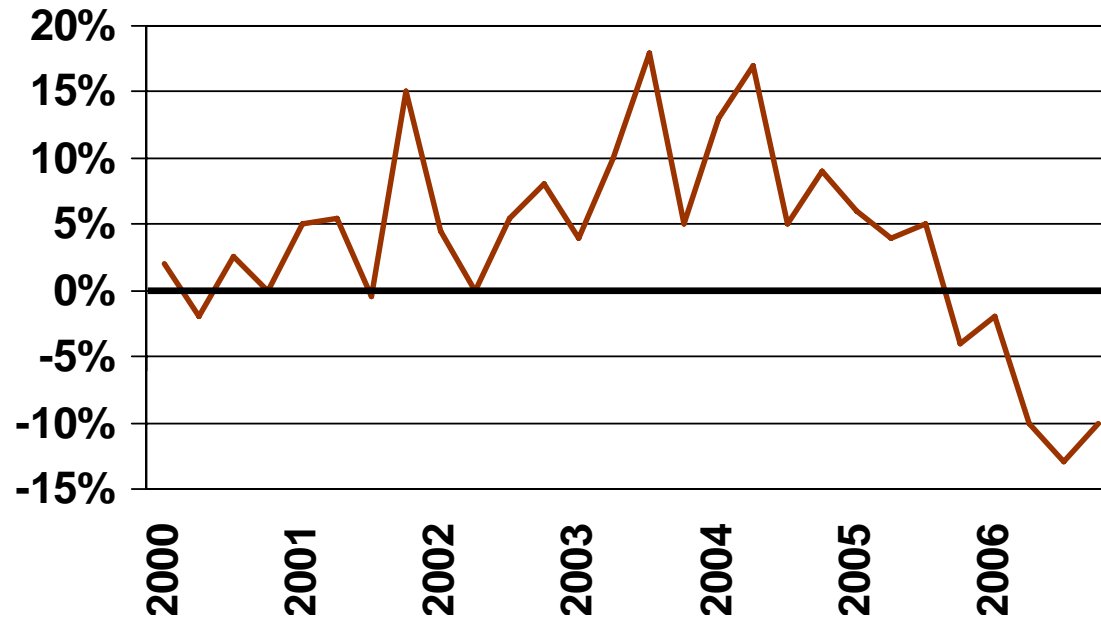
# Income Trust Legislation



- New government legislation has negatively impacted values of income trusts;
- Many trusts that adopted a growth through acquisition strategy will no longer be buying private companies;
- Private companies with stable income are no longer income trust candidates

# Existing Home Sales

**US Home Sales** (year/year % change)



- If US housing collapse worsens, a US recession could result thereby negatively affecting Canadian company valuations.
- A US recession could tip the rest of the world into a global downturn.

# CONCLUSIONS

- **The explosion in private equity and hedge funds is not a short term phenomenon;**
- **The US housing collapse may slow the increase in company valuations but the longer term trend is for further increases in valuations of both public and private companies.**



## Current Private Equity Market