

Issue 5
2007 Mid-Year Issue

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Broker-Dealer Focus

Freeman & Co. LLC

Inside this Issue:

| | |
|---|------|
| Looking Forward... | p. 2 |
| North America | p. 3 |
| North America: Middle Market Investment Banking | p. 4 |
| Europe | p. 5 |
| Asia & The Middle East | p. 6 |
| Global Acquisition & Market Data | p. 7 |
| Public Comps | p. 8 |

Indices at September 14, 2007

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|-------------------|--------|
| DJIA | 13,443 |
| NASDAQ | 2,602 |
| S&P 500 | 1,484 |
| FTSE 100 | 6,289 |
| 10-yr U.S. T-Bond | 4.46% |
| USD per GBP | \$2.01 |
| USD per Euro | \$1.38 |

Selected Recent Advisory Roles:

- **Leerink Swann's** sale of a minority interest to Lovell Minnick and the March Group (7/07)
- **ESP Technologies'** private equity capital raise from Bear Stearns, Credit Suisse and Susquehanna affiliates (5/07)
- **MatlinPatterson's** investment in **First Albany** (5/07)
- **First Albany's** sale of its Municipal Capital Markets division to Depfa Bank (3/07)
- **Panmure Gordon's** acquisition of ThinkEquity Partners (2/07)
- **Carlin Financial Group's** sale to RBC Capital Markets (10/06)
- **GTCR's** investment in BNY ConvergEx, a combination of BNY Securities Group and Eze Castle Software (6/06)

Bold indicates Freeman & Co. advisory clients

Post Labor Day: Back to School, Hopefully not Schooled!

Over the last year there has been record setting mergers and acquisition (M&A) activity within the financial services sector fueled by the boom in alternative investment funds, highly liquid credit markets and cash reserves built up over several years of industry wide growth. However, by the end of August the market has begun to shift away from the unsustainable level of M&A activity as credit woes in the sub-prime mortgage market have triggered a re-pricing of risk, sapping liquidity in the leverage loan market and driving up volatility in the broader markets. Strategic acquisition interest remains strong but further losses in the fixed income or proprietary trading areas could drain the ability of many financial institutions to complete their strategic plans. In the second half of 2007 we expect to see winners and losers emerge as the broker-dealer industry refocuses on innovative ways to generate revenue in a changed market cycle.

Several trends have characterized the industry over the 12 months ending this June:

1. **Record M&A activity** involving broker-dealer firms during the last 12 months became a global phenomenon with 252 acquisitions from July '06 to June '07 compared to 152 acquisitions over the comparable prior 12 month period
2. **A focus on entering the middle market** through acquisitions by large financial institutions and global boutiques of middle market investment banks, driven by a bid to expand the suite of offerings to mid-market companies and establish market share
3. **Sovereign Wealth Funds (SWFs) extended their reach** through a number of ground breaking investments including Blackstone and Barclays. Look for continued investments by SWFs in the broker-dealer industry
4. **Continued exchange consolidation** as seen in acquisitions of Borsa Italiana, ISE, CBOT and NYBOT by LSE, Deutsche Bourse, CME and ICE respectively

In the third quarter, market turbulence has brought several new trends to the fore:

1. **A destabilization of financial institutions** as the market's reassessment of risk has forced an adjustment in the fundamental value drivers of M&A activity
2. **The lack of CLO new issuance** has eliminated significant underpinnings of the leveraged loan new issue market
3. **Volatility has increased trading volumes** benefiting brokers, exchanges and alternative trading systems (ATS), many of which are likely to show strong third quarter results
4. **Lack of available financing for leveraged acquisitions** already in the pipeline will create new opportunities for willing investors and hard choices for underwriters and private equity firms

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