White Oak Management Partners

"The Changing Seasons of Private Equity"

Robinson Quarterly Economic Forecasting Conference

August 21, 2003

Agenda

- Overview
- Historic Performance
- General Trends
- Implications

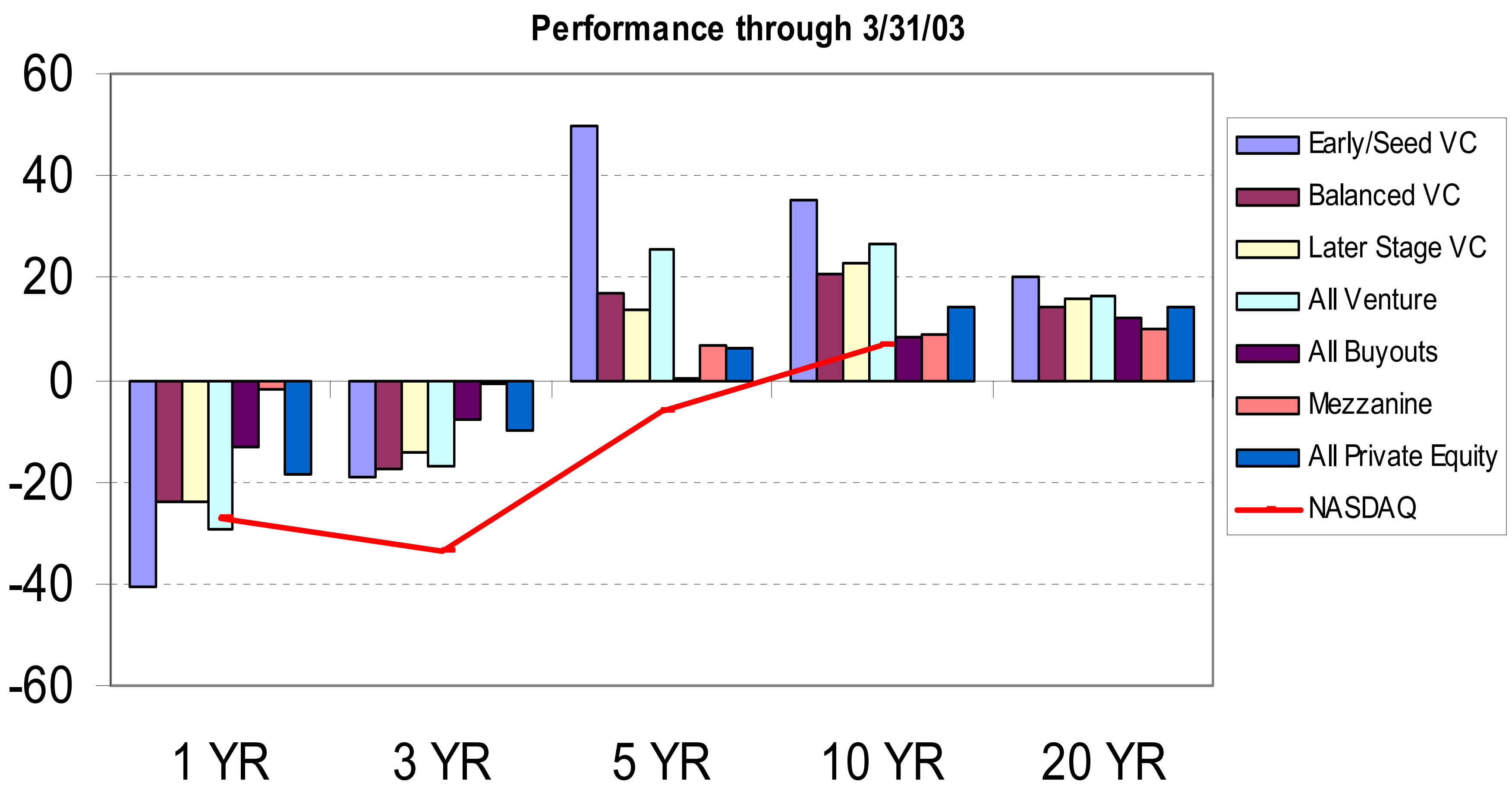
Private equity drivers

- Supply of capital
- Quantity and Quality of Investment Opportunities
- Seller valuation expectations / requirements
- Investor ROI expectations

Current environment improving but still very anemic.

- Record amount of cash in low-yield, safe-haven investments
- Banks are still on the sidelines particularly for small deals
- Venture capital deployment is lagging
- IPO’s are starting to improve but long recovery period with some permanent disability
- LBO activity has been stagnant with some recent improvement
- Commercial real estate activity has slowed dramatically

US Private Equity Performance Index (PEPI)



Source: Venture Economics

U.S. Public Companies: Market Characteristics

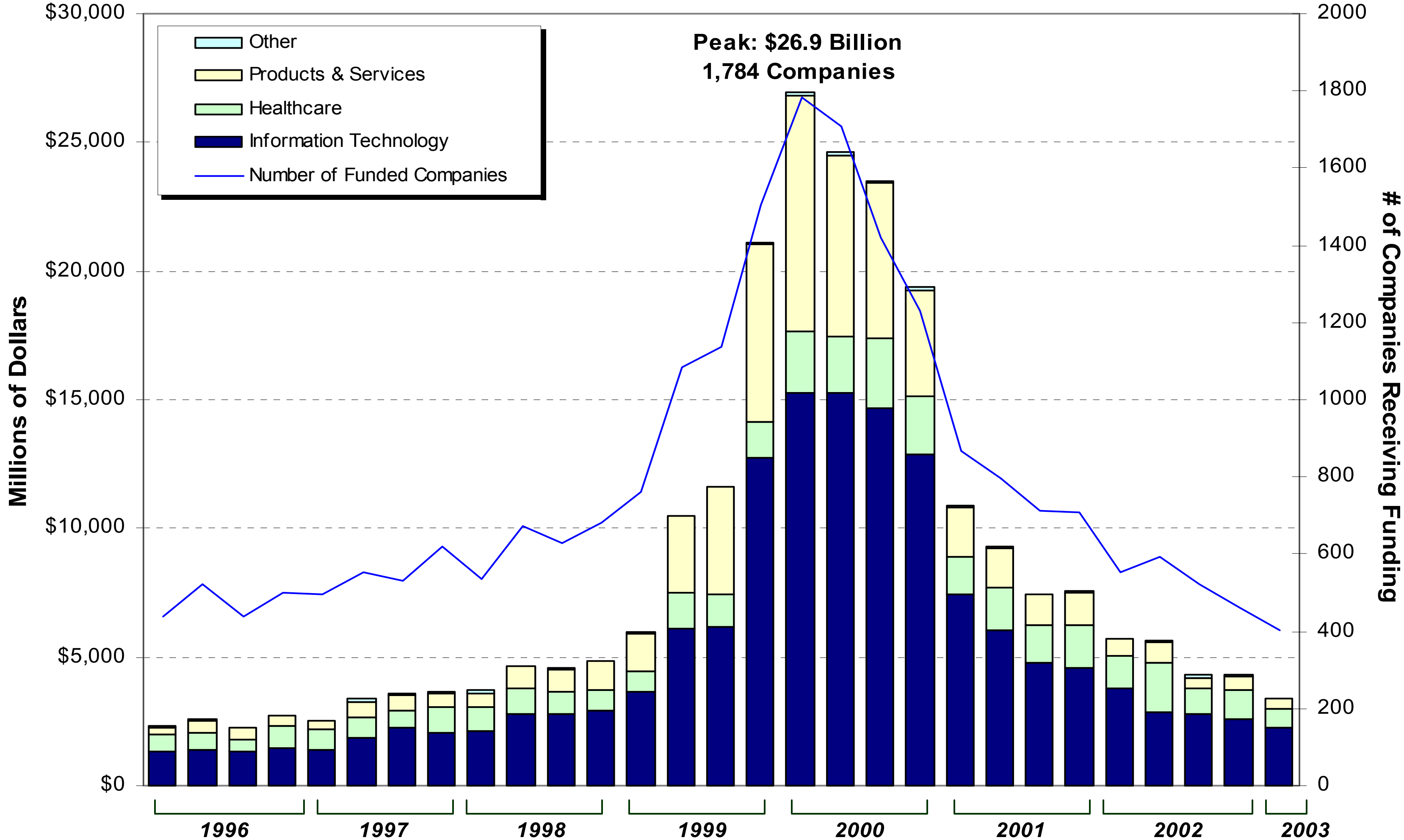
	Market Capitalization ($MM)	# of Companies #	# of Companies %	Average Institutional Ownership (1)	Average Daily Trading Volume (2)	Average # of Research Analysts	Median P/E Multiple
Today's Micro-Cap Universe	$10 - $50	1,891	28.9%	17.6%	57,484	0	-0.3x
	$50 - $100	919	14.0%	26.2%	91,230	2	3.4x
4,107 Companies	$100 - $200	808	12.3%	35.6%	110,330	2	9.2x
63% of Total	$200 - $300	489	7.5%	40.8%	157,517	4	12.2x
	$300 - $1,000	1,187	18.1%	44.6%	343,642	6	13.7x
	$1,000 - $2,500	592	9.0%	55.0%	800,538	9	16.0x
	$2,500 - $5,000	278	4.2%	60.6%	1,404,839	12	17.7x
	$5,000 - $10,000	174	2.7%	64.2%	2,749,976	15	18.4x
	$10,000 - $25,000	119	1.8%	66.0%	4,172,878	17	19.4x
	$25,000 +	96	1.5%	55.3%	9,593,734	21	24.4x
	Total	6,553	100.0%				
	Mean				1,948,217	9	13.4x
	Median				572,090	8	14.9x

[1] Based on the average institutional ownership of 20 sample companies per category

[2] Average daily trading volume for the last 30 days

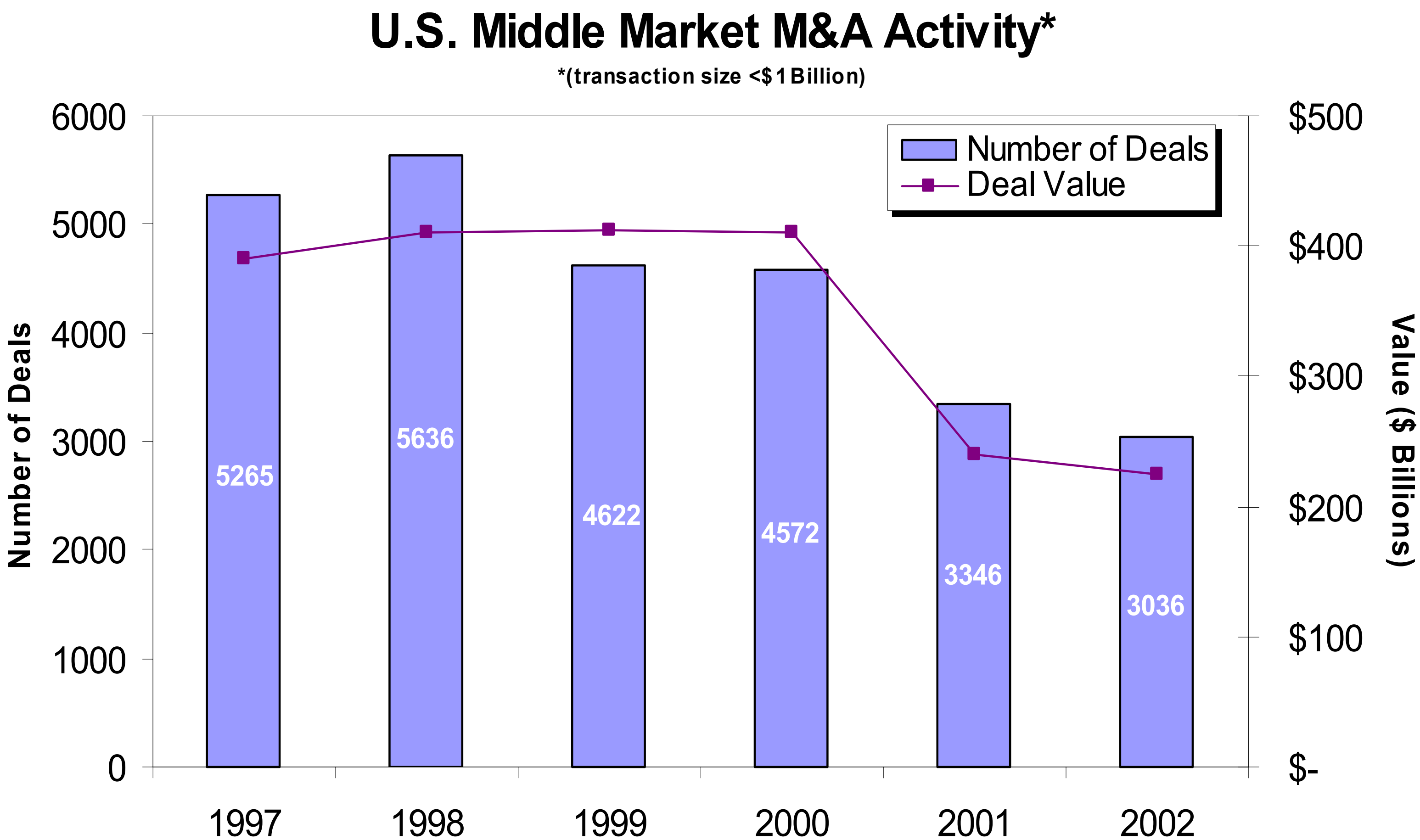
Source: William Blair & Company

Equity Financings* for US Venture-Backed Companies, by Industry Group (1996-1Q 2003)



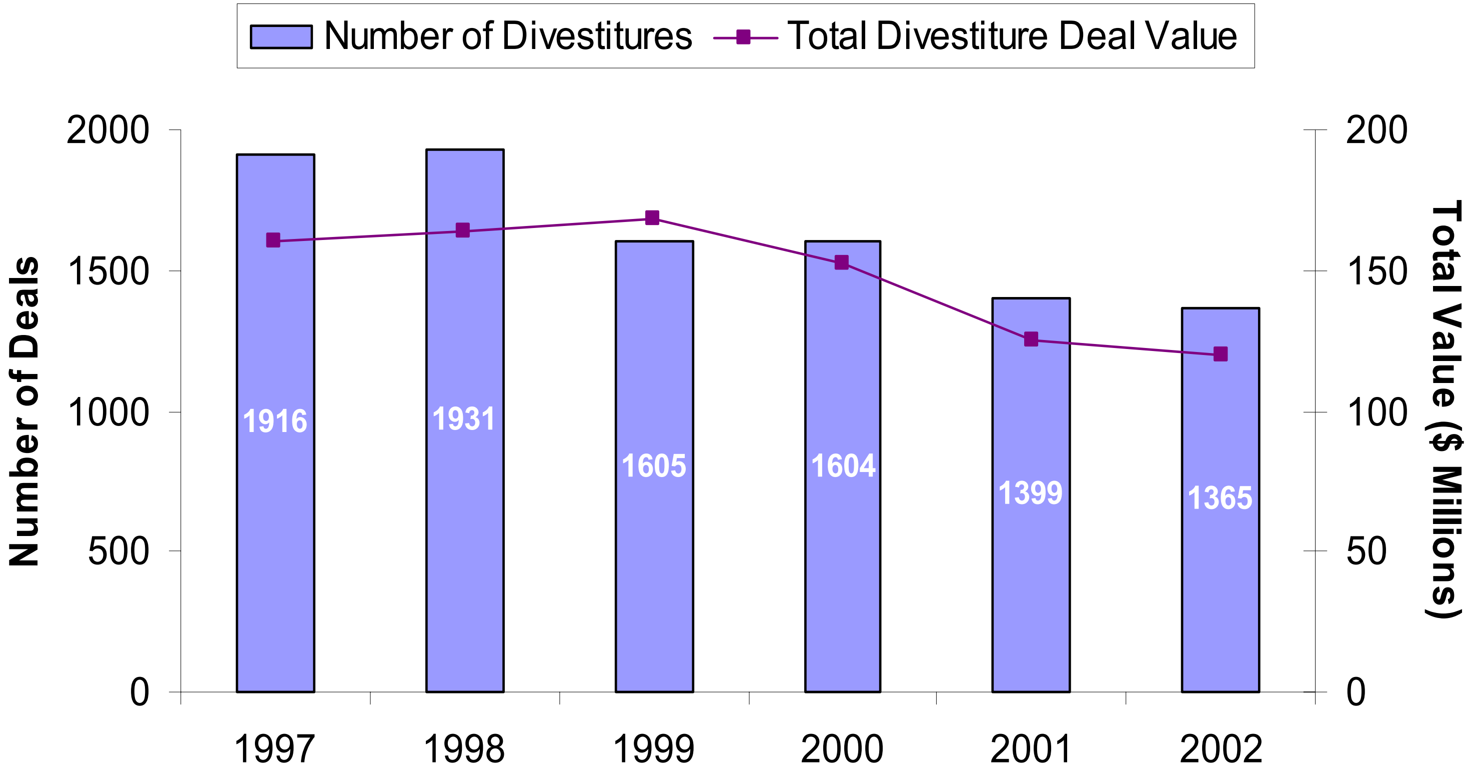
Source: Standard & Poor's LCD

**Equity financings include cash investments by professional venture capital firms, corporations, other private equity firms, and individuals into companies that have received at least one round of venture funding*



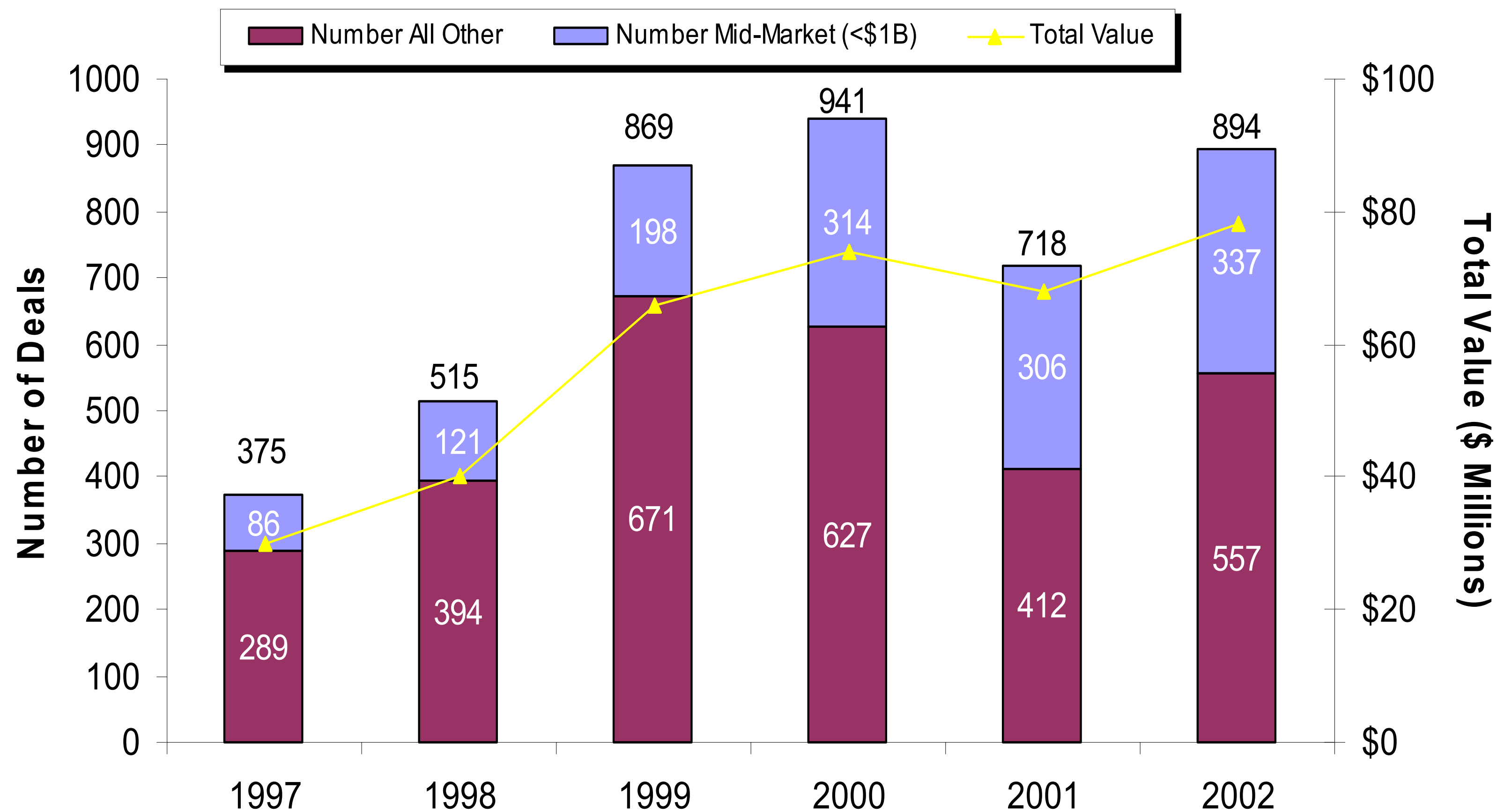
Source: Thompson Financial and Robert W. Baird & Co.

U.S. Middle Market Divestitures



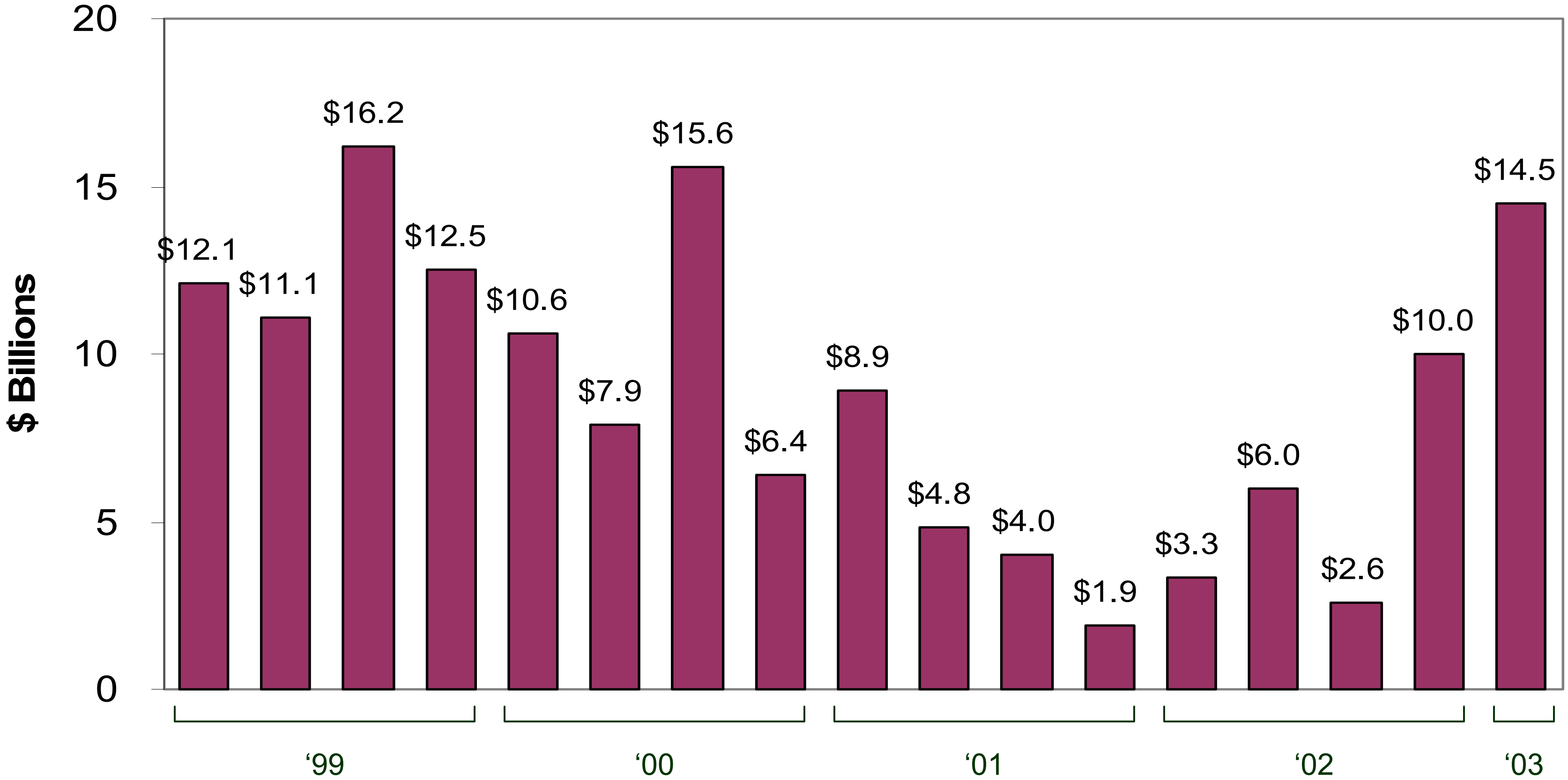
Source: Thompson Financial and Robert W. Baird & Co.

U.S. Equity Sponsor Acquisitions



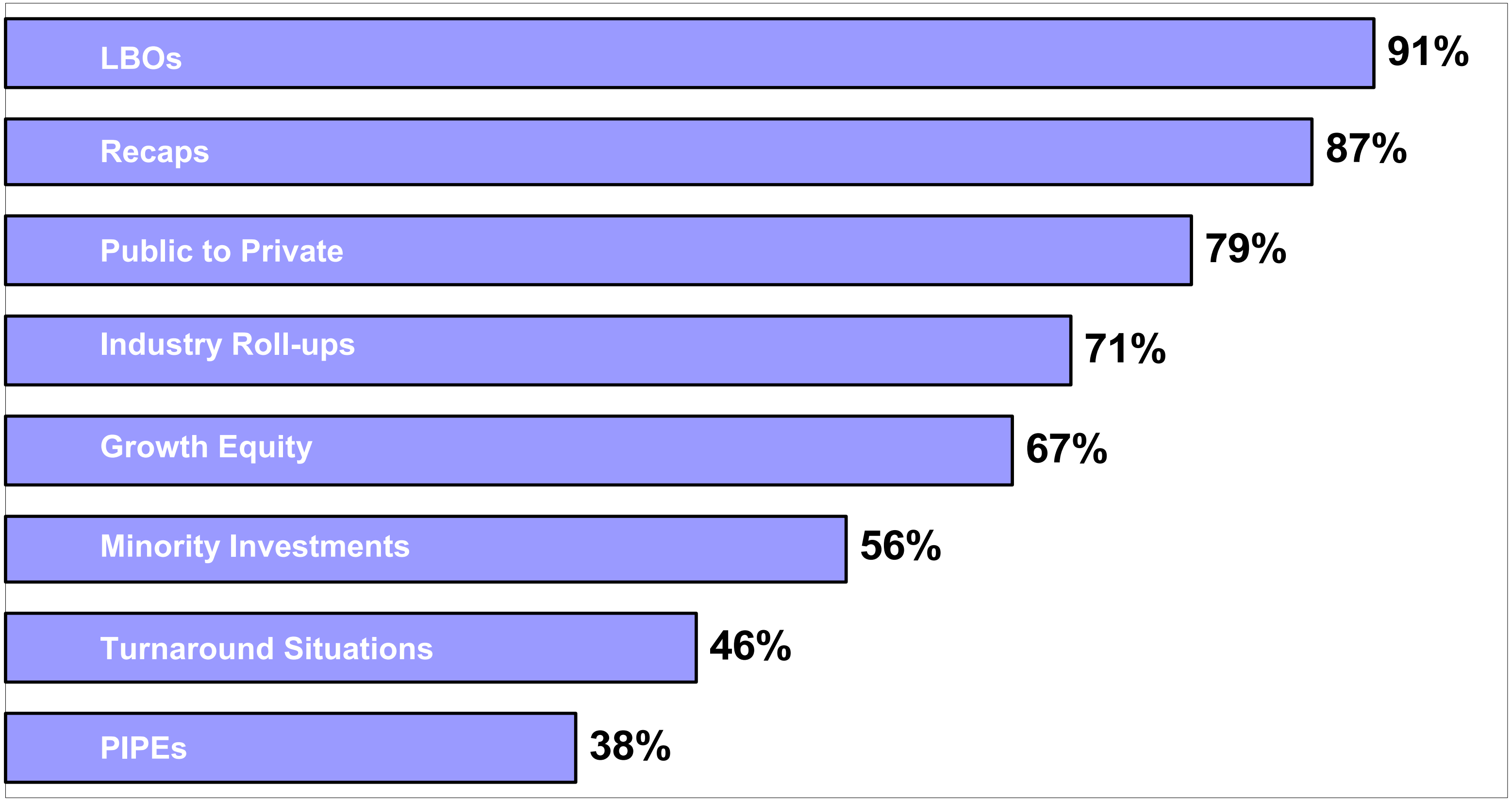
Source: Mergerstat, Capital IQ and Robert W. Baird & Co.

Quarterly U.S. Leveraged Buyout Volume



Source: Standard & Poor's LCD

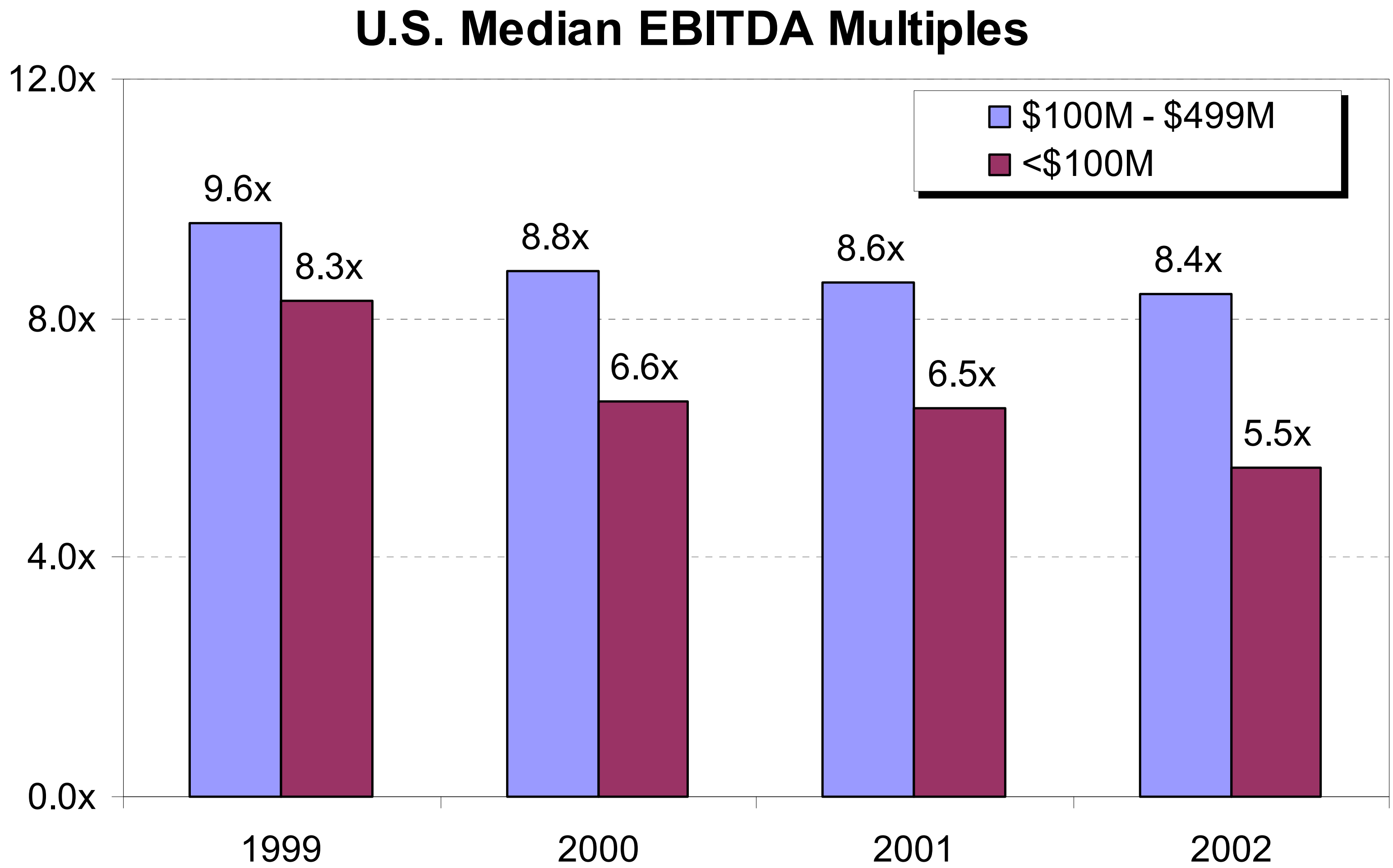
Types of Deals Mid-Market Private Equity Firms Are Considering



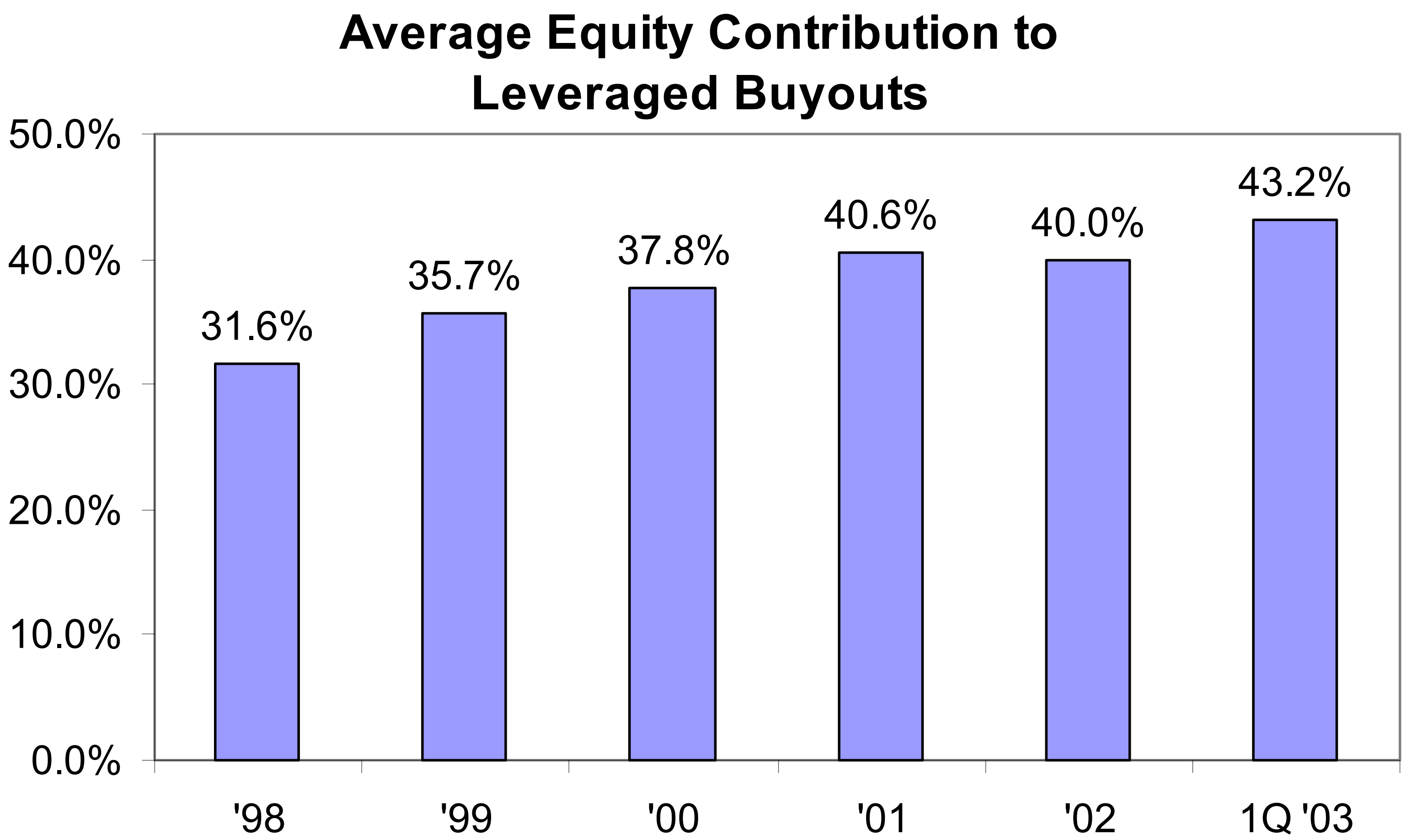
Source: Robert W. Baird 2003 U.S. Mid-Market Private Equity Survey

Southeast Venture Funding by Subregion – 2Q 2003

	Dollars Invested	Pct. of Total	No. of Cos.	Pct. Of Total	Average Deal Size
Alabama	$5,800,000	2.30%	1	2.50%	$5,800,000
Florida	$76,200,000	30.90%	7	17.50%	$10,885,714
Georgia - Atlanta	$62,750,000	25.40%	11	27.50%	$5,704,545
Georgia - Other	$1,500,000	0.60%	1	2.50%	$1,500,000
NC - Charlotte	$5,000,000	2.00%	2	5.00%	$2,500,000
NC - Raleigh/Durham/Chapel Hill	$24,000,000	9.70%	3	7.50%	$8,000,000
NC - Other	$51,700,000	20.90%	10	25.00%	$5,170,000
South Carolina	$12,000,000	4.90%	2	5.00%	$6,000,000
Tennessee	$8,000,000	3.20%	3	7.50%	$2,666,667
Totals:	**$246,950,000**	**100.00%**	**40**	**100.00%**	**$6,173,750**

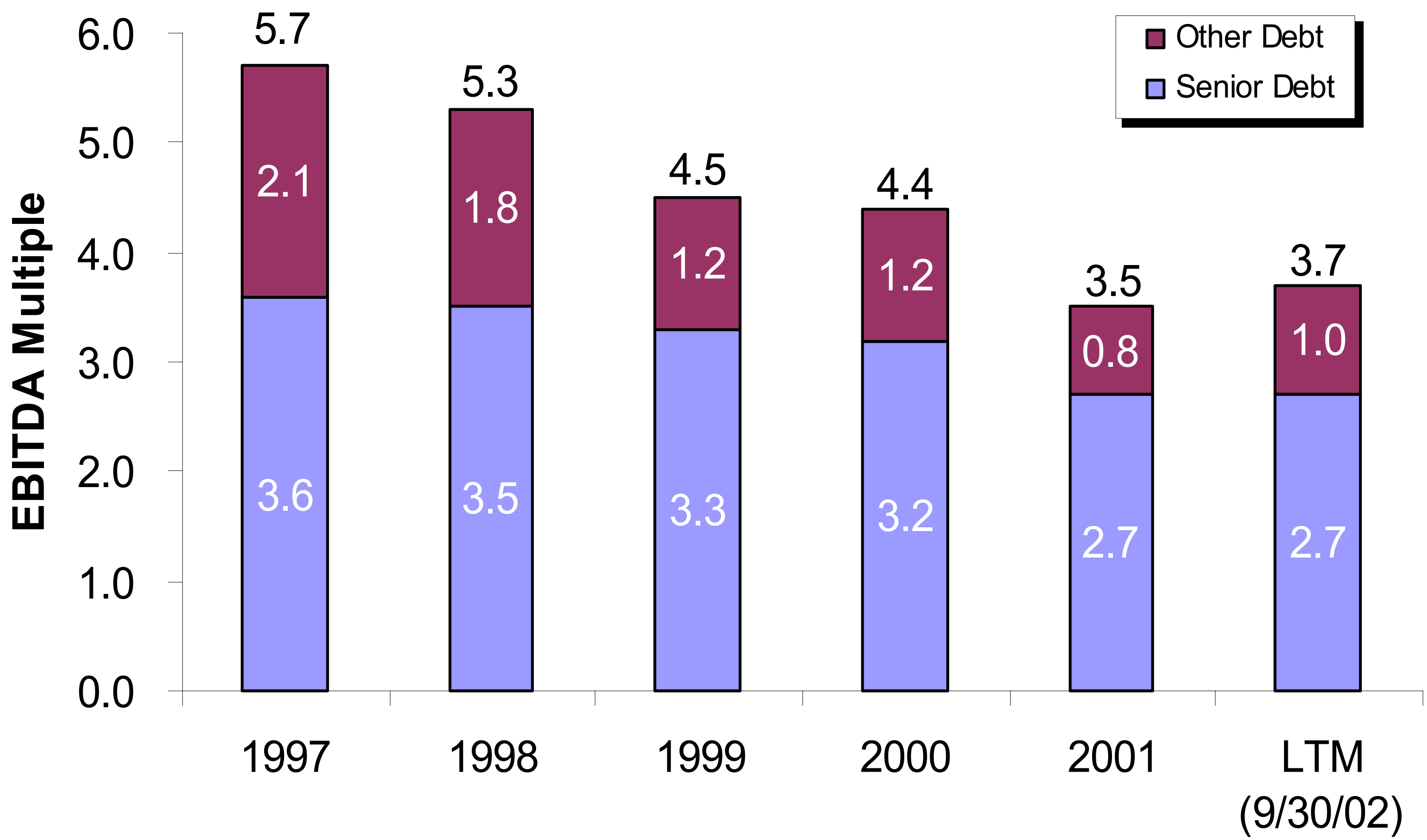


Source: Thomson Financial



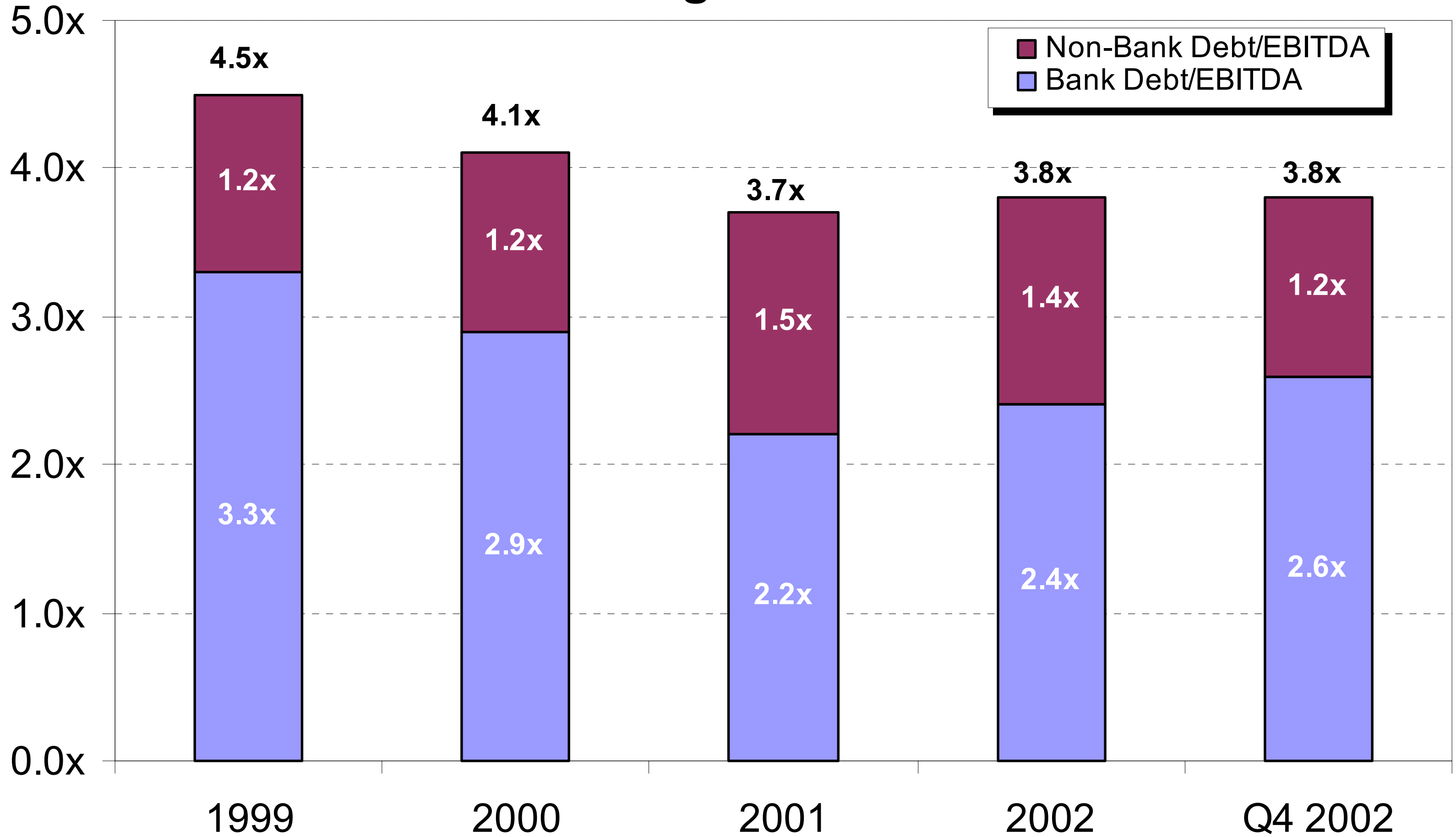
Source: Standard & Poor's LCD

Leverage Multiples



Source: Standard & Poor's Leveraged Commentary & Data

Average Debt/EBITDA Multiples of Highly Leveraged Loans



Source: S&P/Portfolio Management Data

Trend over the next couple of years

- Lower corporate earnings growth
- On-going reorganization of over-leveraged / under-performing companies
- Lack of pricing power / margin erosion
- Lower return expectations for private equity
- Scarcity of financing – especially for smaller companies
- Increasing disintermediation of smaller public companies from general equity markets
- Continued search for yield by investors
- Global capital markets will continue to emerge and offer new competitors
- Risk capital will continue to command significant ownership rights
- Increased focus on distressed debt

Implications for Private Equity

- High IRR's will be few in number
- Traditional LBO model may not work
- Seller financing returns
- Shift to new structures for minority investments and PIPE's
- Mezzanine investors will continue to drive the market
- Equity firms will have to shift their focus to the operational capability of their partners and their portfolio management teams
- Fund focus on survival of existing portfolio companies

Implication for capital creation

- Size will play a significant role in driving deals and structure at an individual company level
- Regulatory environment will severely hurt available capital for smaller companies
- Securitizations and traditional balance sheet approaches will change
- Hybrid securities will become more popular

Implications for Middle Market Debt Capital

- Deals will be highly dependent on bank financing
  - Traditional lenders exiting or moving up-market
  - New market entrants require much higher returns on deployed capital
  - Senior leverage ceiling = 2-2.5X
  - Total leverage ceiling = 3.5X
- Junior debt capital available
  - Traditional mezzanine lenders are very active
  - Growing need for "one-stop" lenders for small deals
- Average equity capital ~ 40%

What has changed in Private Equity?

- Difficulty in generating returns through deal arbitrage
- Need to focus on adding intrinsic operational value
  - New management
  - New revenue streams
  - Tight oversight on transition
  - More focused management incentives
- Renewed attention to the middle market

Implications to companies and management

- Companies
  - Expect more daily involvement from PE firms
  - Expect to provide seller financing
- Management
  - Expect to “write a personal check”
  - Expect the use of options and restricted stock to be focused on significant **OVERACHIEVEMENT** of the investment plan

Summary

- Gradual improvement over next 18-24 months
- New players
- New rules
- New Tools
- More conservative process
- Lower returns on average
- New approaches to creating shareholder value