



Tribal Economic Development Symposium Financing Sources & Strategies

Deloitte & Touche Corporate Finance LLC ("DTCF")

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www.investmentbanking.deloitte.com



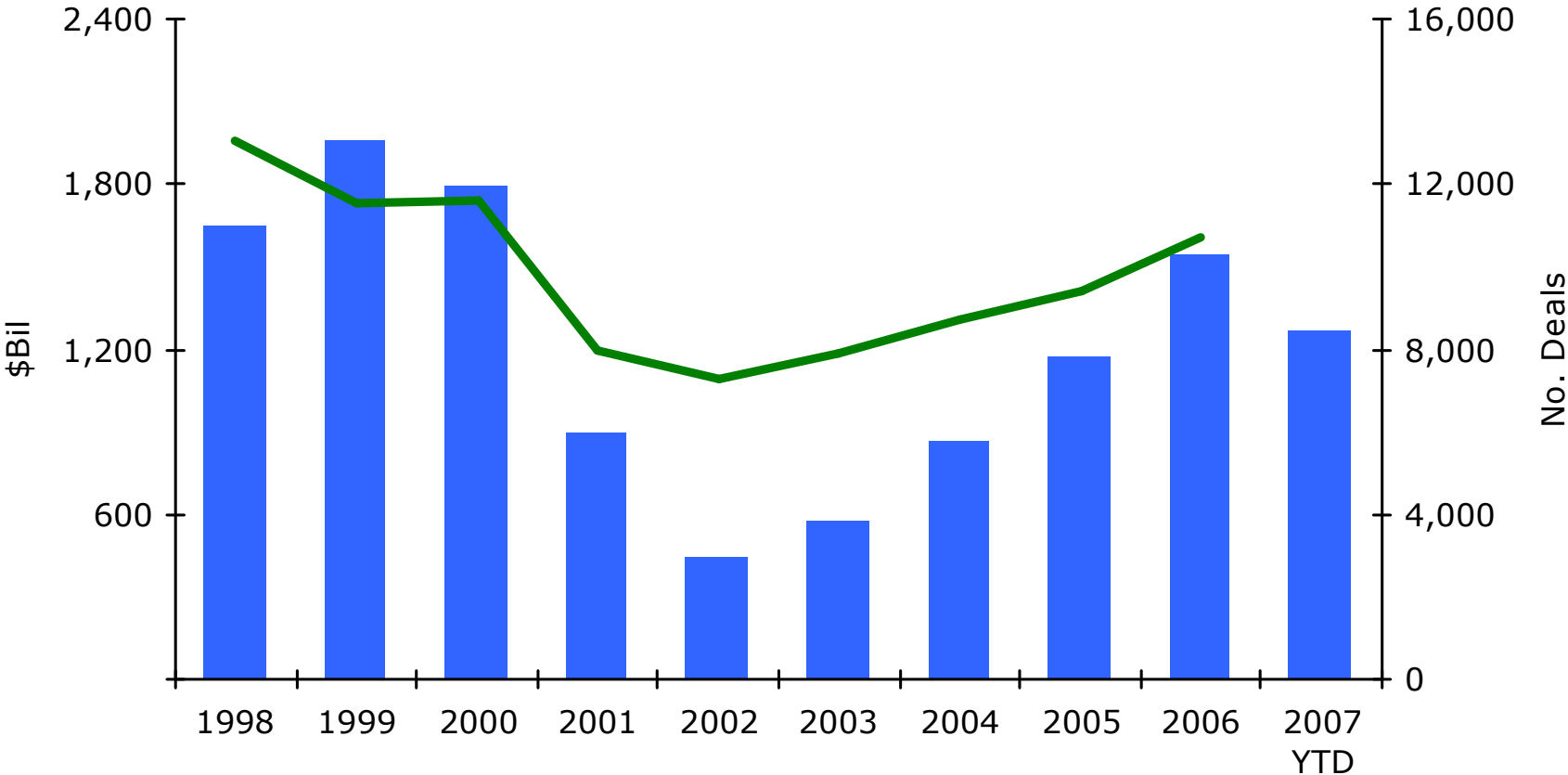


M&A Market Overview



US M&A Market

U.S. M&A Volume & Value



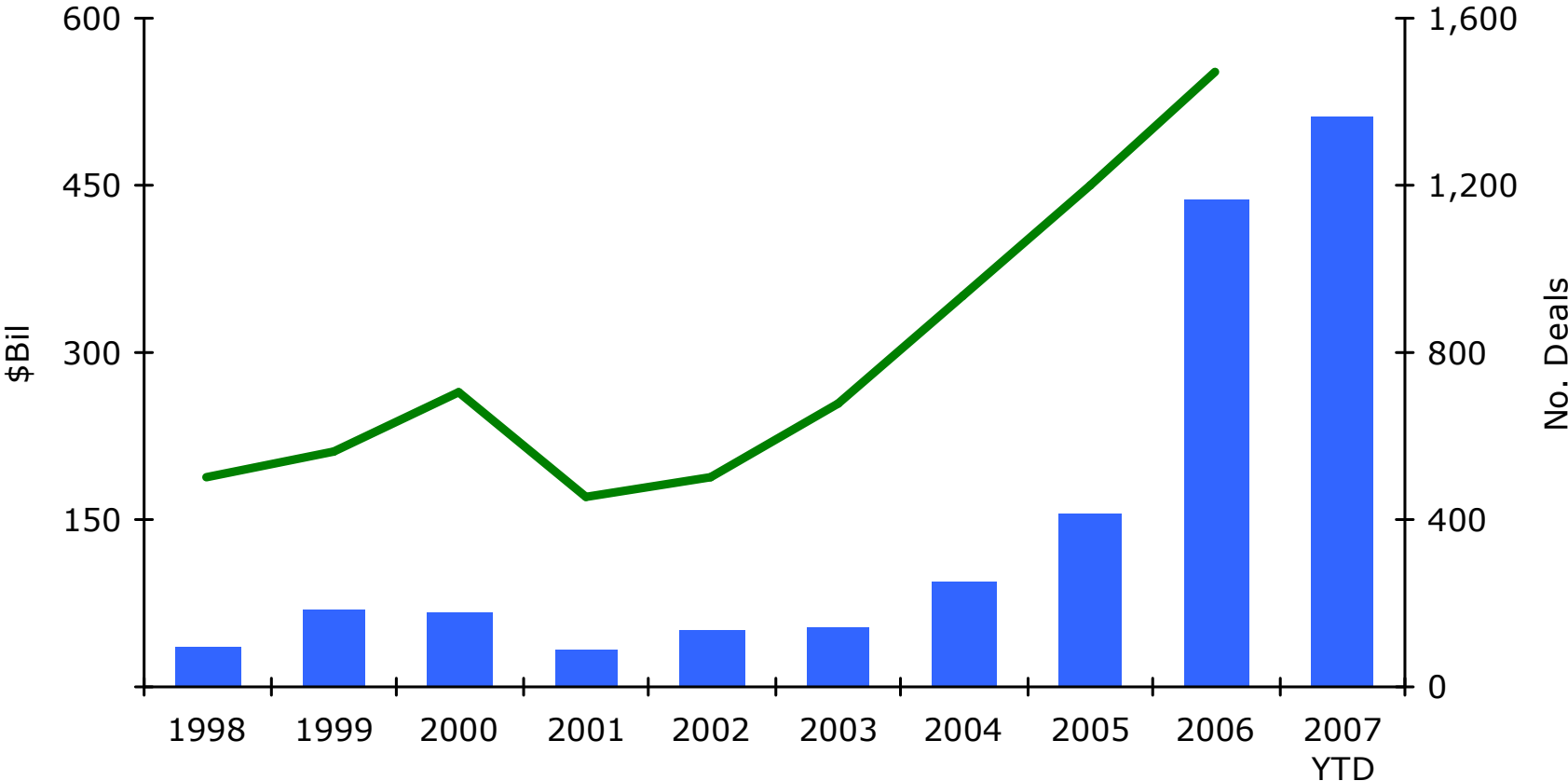
Source: Thomson Financial

Enterprise Value (\$bil)

No. of Deals

US M&A Market

U.S. Financial Buyer M&A Volume & Value



Source: Thomson Financial

Enterprise Value (\$bil)

No. of Deals

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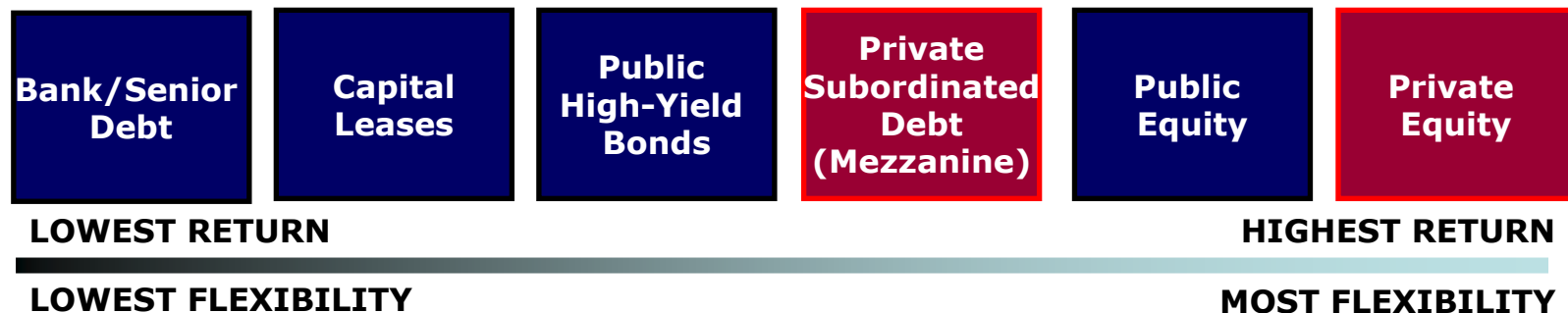
The Private Equity Model For Investing



What is Private Equity?

- For our discussion purposes today, **private equity** is privately placed subordinated debt and equity securities with a relatively high return requirement:
 - Buy-out Funds (Equity)
 - Venture Capital Funds (Equity)
 - Special Situation Funds (Equity)
 - Mezzanine Funds (Debt)

Cost & Flexibility Chart



Investment Alternatives

From an investor standpoint...

Pros

Cons

Mezzanine Debt

- Minimal existing ownership dilution aligns current investor goals
- Typically less risk assumed compared to equity
- Can be structured to fit particular transaction issues

- Increased leverage reduces flexibility
- More sensitive to economic cycles
- Lower expected return vs. equity
- Creative structuring – experience is a must

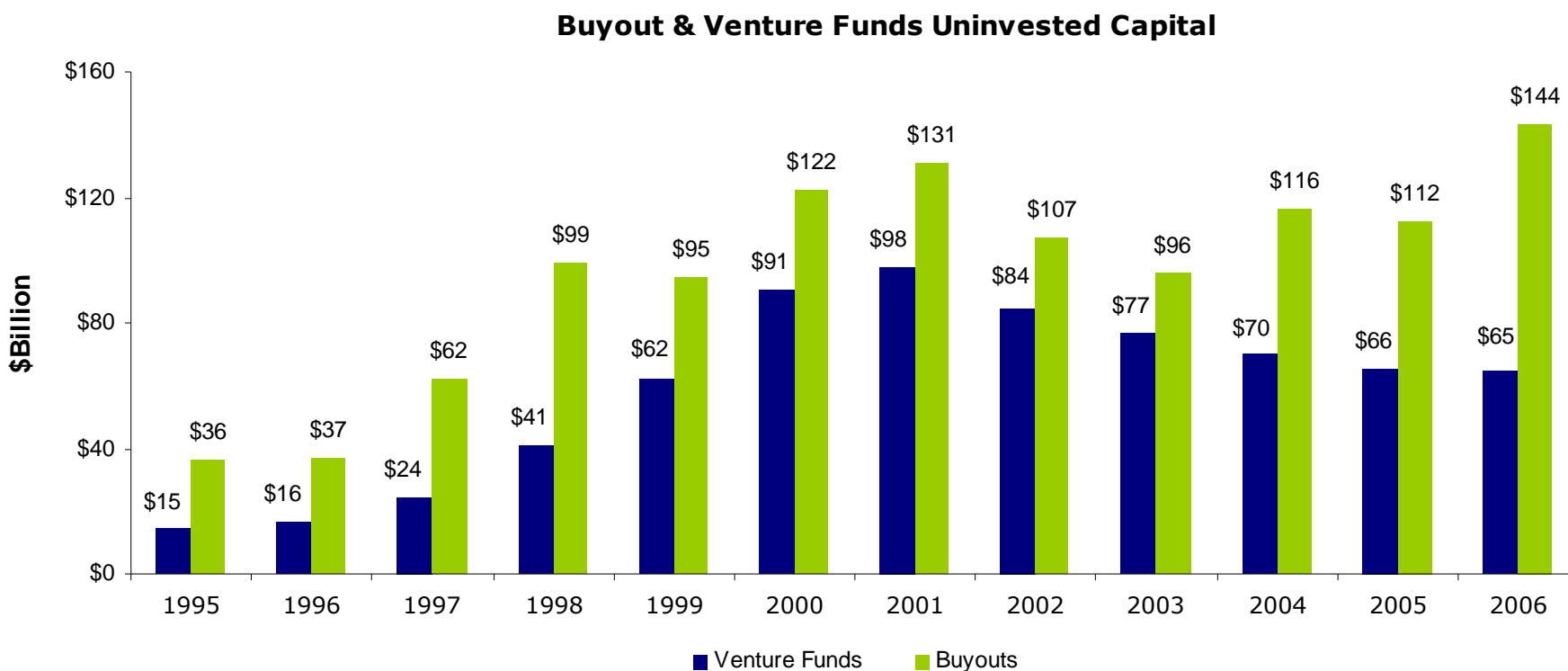
Equity Securities

- A conservative balance sheet provides operating flexibility
- Majority investment allows for greater control on important business issues
- Expected return is comparatively higher

- Typically more risk assumed compared to mezzanine
- Need to develop exit strategy in 5 – 7 years (typically)
- Ownership dilution

Private Equity Environment

- The Private Equity market is maturing globally
- Number of firms and funds are rising
- Required returns are being competed down
- Availability of equity and debt capital is substantial

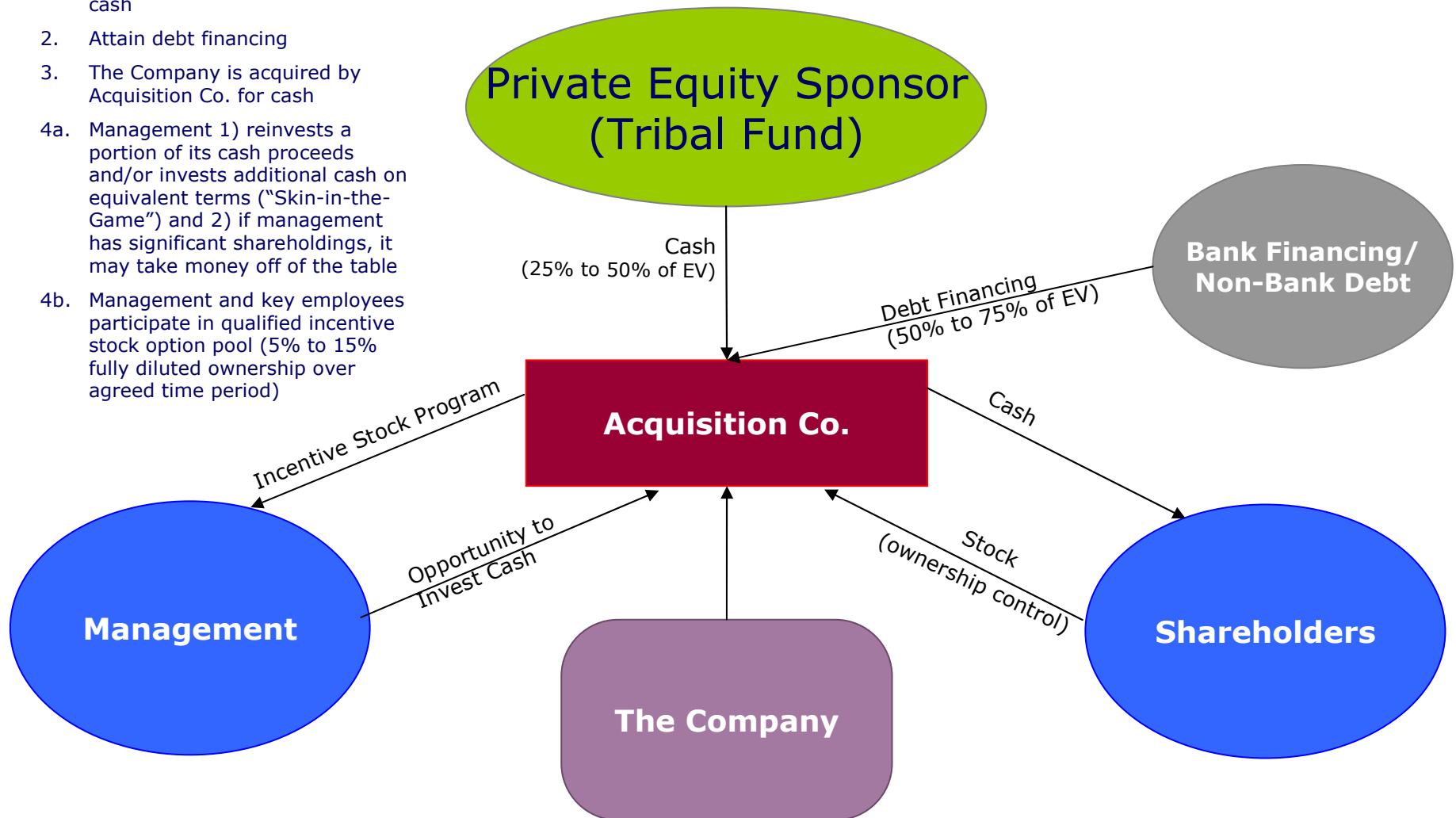


Overview of a Typical Private Equity Investment

Illustrative Transaction:

1. Equity Sponsor invests generally 25%-50% of transaction value in cash
2. Attain debt financing
3. The Company is acquired by Acquisition Co. for cash
- 4a. Management 1) reinvests a portion of its cash proceeds and/or invests additional cash on equivalent terms ("Skin-in-the-Game") and 2) if management has significant shareholdings, it may take money off of the table
- 4b. Management and key employees participate in qualified incentive stock option pool (5% to 15% fully diluted ownership over agreed time period)

Buy-out Example



Key Private Equity Investment Considerations

Item	Key Issues	
<ul style="list-style-type: none"> • Management team 	<ul style="list-style-type: none"> - Industry expertise - Depth of team, succession - Vision 	<ul style="list-style-type: none"> - Equity incentives for management and key employees - Management has "skin in the game"
<ul style="list-style-type: none"> • Equity financing feasibility 	<ul style="list-style-type: none"> - Size of equity investment - IRR expectations 	<ul style="list-style-type: none"> - Clearly defined exit strategy - Ownership control
<ul style="list-style-type: none"> • Bank financing feasibility 	<ul style="list-style-type: none"> - Leverage appropriate for the Company 	<ul style="list-style-type: none"> - Cautious vs. aggressive lending environment currently
<ul style="list-style-type: none"> • Industry fundamentals 	<ul style="list-style-type: none"> - Competitive position - Outlook 	<ul style="list-style-type: none"> - "Size of pond"
<ul style="list-style-type: none"> • Financial results 	<ul style="list-style-type: none"> - Improved gross margin, but top line contraction, in 2002 	<ul style="list-style-type: none"> - Cash generation - Customer concentration
<ul style="list-style-type: none"> • Business plan 	<ul style="list-style-type: none"> - Short term and long term - Growth opportunities 	<ul style="list-style-type: none"> - Acquisitions - Confidence in management's ability to execute
<ul style="list-style-type: none"> • Potential interlopers 	<ul style="list-style-type: none"> - Strategic buyers 	
<ul style="list-style-type: none"> • Timing 	<ul style="list-style-type: none"> - Limited vs. broad auction - Management – existing responsibilities 	<ul style="list-style-type: none"> - Parent company expectations

Why it matters...

THE WALL STREET JOURNAL.

Indian Tribes Seek to Diversify Wealth

In Indian country, demand is growing for financial advisers who can help tribes hedge their bets beyond casinos.

After hundreds of years of poverty, tribes flush with casino cash are eager to branch out into restaurants, real estate and even hedge funds. Wells Fargo & Co. is in discussions with unnamed tribal investors to create a private-equity fund to invest in businesses in the Western U.S. with between \$1 million and \$5 million in earnings before taxes, depreciation and amortization.

"Tribes are looking to diversify into areas where they can make attractive returns, and they also want to be viewed as good tribal corporate citizens by making investments in local communities," says Steve Stallings, director of Native American Banking Services at Wells Fargo, a provider of capital and financial services to more than 150 tribes.

Tribal Private Equity Examples

Southern Ute Growth Fund

- Founded in 1999 as a private equity fund established and operated by the Southern Ute Indian Tribe
- Value of portfolio of companies and investments exceeds \$1 billion
- Key investments include:
 - Energy
 - Real estate
 - Construction materials
- GF Private Equity Group
 - Merchant banking arm of the Growth Fund
 - Transactions ranging from early-stage venture capital to leveraged buyouts, special situations and investments in private equity funds

The Multi-Tribal Enterprise Fund

- Inter-Tribal Economic Alliance (ITEA) formed to create new businesses in Indian Country by organizing a series of subsidiary or sister companies in seven business areas:
 - Energy Development
 - Information Technology Services
 - Natural Beef and Bison sales
 - Housing Construction
 - Forest Health
 - Employee Training & Support Services
 - Private Equity Management
- In 2007 ITEA formed The Multi-Tribal Enterprise Fund (MTEF I) to manage and invest tribal capital in a diverse portfolio of interests
- The fund is controlled by Native American tribes and employs Native American professionals as key officers



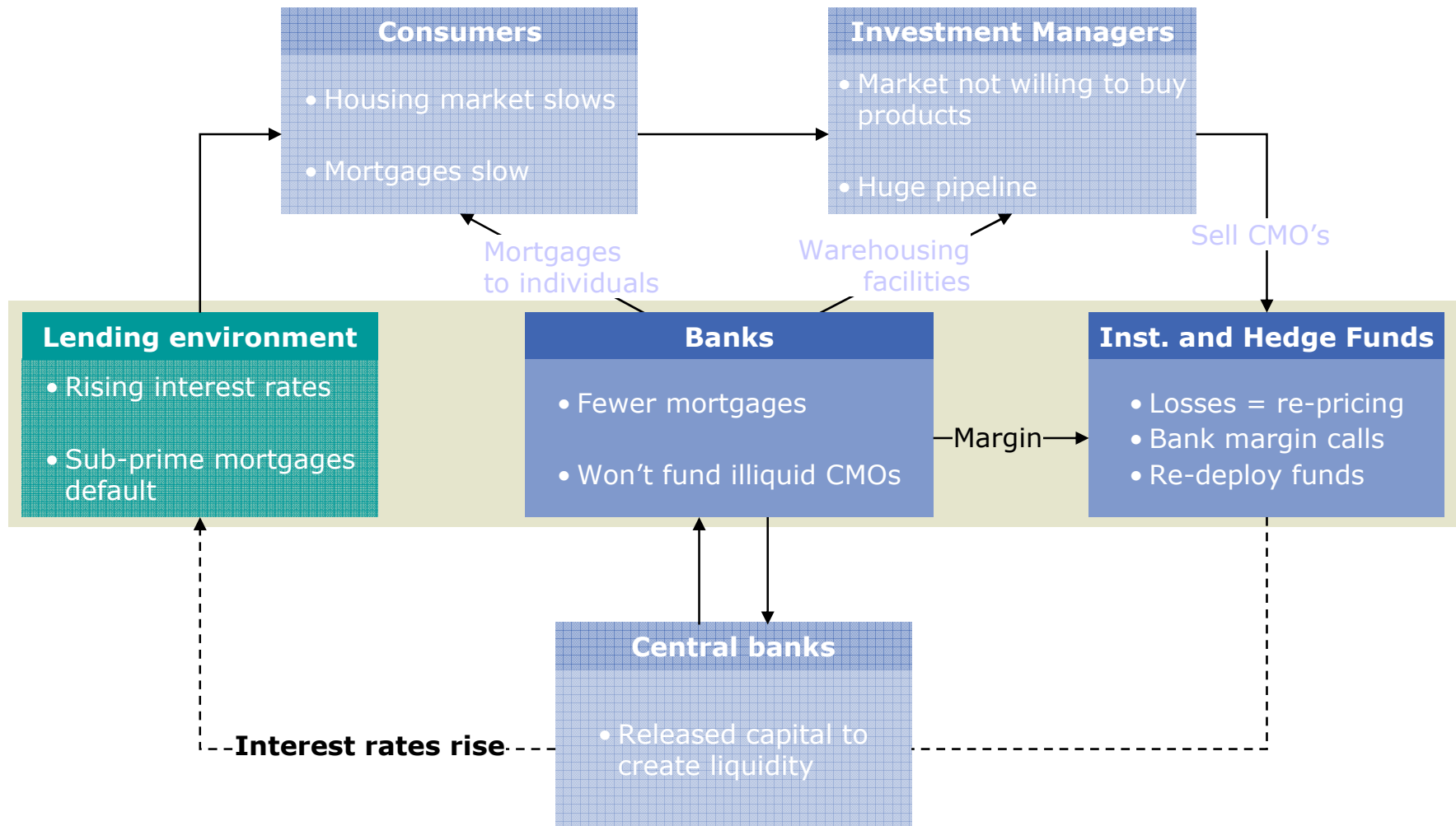
Current Lending Conditions



Capital Markets – Pre-June 2007

- 
- Improving Economy
 - Strengthening Portfolios
 - Increased M&A Activity
 - Increased Capital Allocation
 - Loosening Credit Standards
 - New Market Entrants
 - Significant Liquidity
 - Increased Leverage
 - Lower Pricing

The June 2007 Meltdown



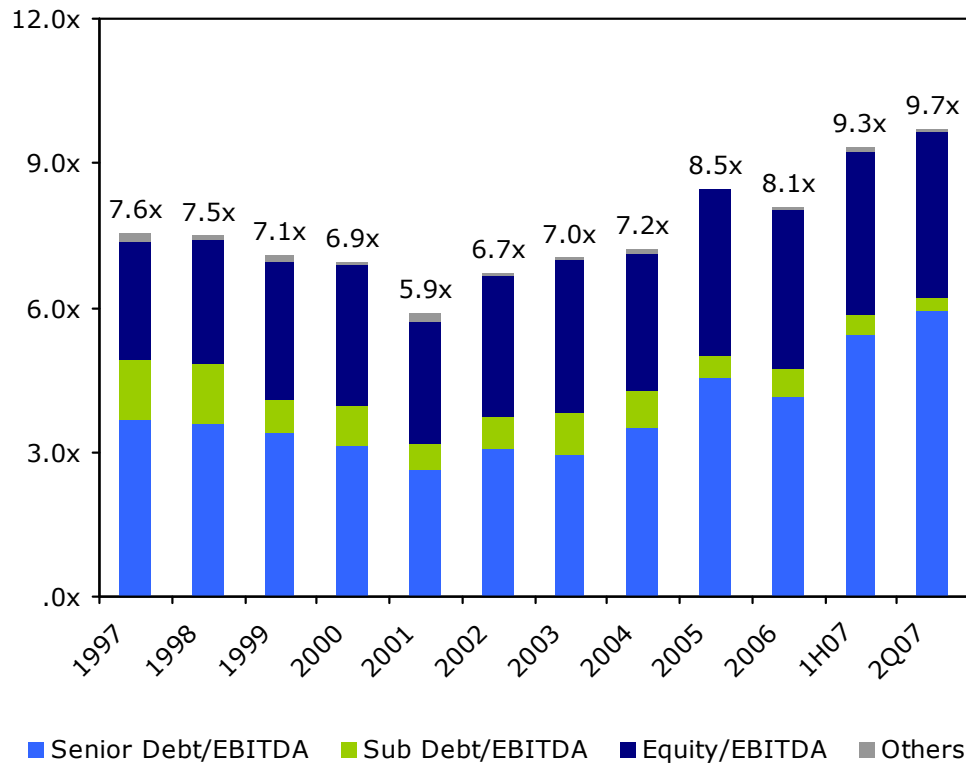
The Credit Crunch – Everything will be all right

Capital	Typical Holders	Post-June '07 Returns	Status
Operating lines of credit	Global banks	5.6% → 2.5%	👍
Term A			
Term B			
Term C / second lien	Institutions / Hedge funds	5.6% → 3.5%	👍
High yield		5.6% → 4.25%	👎
Mezzanine	Specialized funds	11.0% to 20.0%	👍
Equity	Strategic buyers Private equity firms	20.0% to 100.0%+	👍

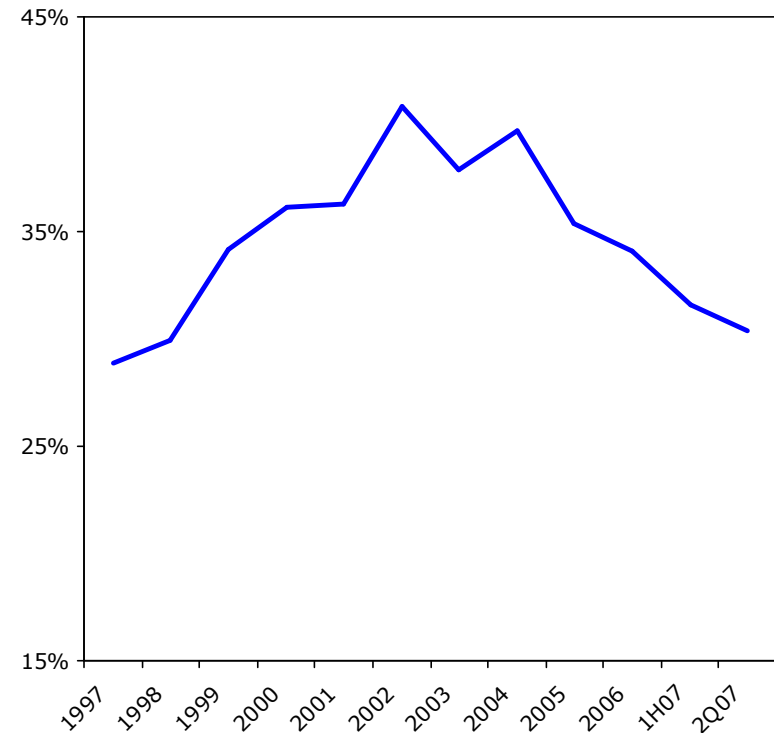
Transaction Capital Structures

Average Purchase Price and Equity Contribution by Sponsors for Deals With EBITDA of \$50M or less

Purchase Price Breakdown



Equity Contribution



* Excludes Media, Telecom, Energy and Utility Deals

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