INVESTMENT THESIS: A RISING TIDE LIFTS ALL BOATS

The investment thesis for the water industry remains firmly intact. That is, there is a growing need for large expenditures in support of the nation’s water infrastructure which will in-turn benefit many companies in the industry. Specifically, much of our drinking and wastewater infrastructure is nearing the end of its useful life and needs to be upgraded and/or replaced. In addition, some areas of the country are growing rapidly and require expansions in infrastructure. The resulting numbers are staggering: an estimated $1 trillion is needed over the next 25 years to adequately restore and expand the nation’s water and wastewater systems. Looking out 40 years, through 2050, the costs are expected to exceed $1.7 trillion. The numbers don’t lie: we have officially entered the Era of Infrastructure Replacement.

While the need for spending on water infrastructure is substantial, the collection of funds available to do so is not. Slowly emerging from the recession, many states and municipalities remain in financial distress and have scarce resources to allocate for water projects. At the same time, they understand that delaying improvements in these systems will result in a degradation of water availability and quality, more service disruptions and increased spending on emergency repairs to tide the system over until it can be fully retrofitted or replaced. Eventually, delays will no longer be an option, and funds will be allocated for infrastructure replacement.

As municipalities grapple with budget deficits, they will look to a variety of sources to fund the necessary work. Such sources include higher household water fees, additional impact or development fees, higher taxes and municipal bonds. Federal and local financing programs, such as President Obama’s proposed national infrastructure bank and Chicago’s Infrastructure Trust, are also being considered to leverage private investments in public infrastructure. Another creative solution that is garnering much discussion is the use of Public Private Partnerships (PPPs) which can greatly reduce the public sector burden. These partnerships, whereby private-sector entities fund and conduct the required work in exchange for a long-term contract that repays the debt on the project, covers the cost of operations, and provides a return on investment, can turn a short-term public budget shortfall into a long-term investment for private sponsors. The water infrastructure problem is big enough that no single solution will suffice; it will likely be resolved by contributions from both public and private entities.

Whatever the source, one thing is certain – cities and states will need to access large sums of money to repair, replace and expand America’s aging water infrastructure. As this work gets underway, companies that provide water infrastructure engineering; consulting and construction services; system repairs; and infrastructure parts, all stand to benefit. With this understanding, investors have taken a keen interest in the water sector and its associated businesses.
MERGER & ACQUISITION WAVE CONTINUES IN WATER SECTOR

Mergers & acquisitions of water companies are on the rise. According to Global Water Intelligence, 128 transactions at a cumulative value of $32.5 billion were completed in 2011. These figures are up considerably from the 2009 low of about 90 transactions that totaled less than $10 billion in value. Activity is rising as firms look to accelerate growth beyond what is attainable organically. With buyers more active, prices have increased and are reminiscent of the water investment boom years of the past decade. Multiples are generally strong, especially for companies in the $20 million-plus revenue range, a space with a scarcity of businesses that represent a meaningful-size acquisition for many buyers.

On the seller side, we are seeing pent-up demand from business owners who were sidelined for several years during the weak market. Now that valuations have improved, they are moving forward with their exit plans. In addition, after several years of steady industry growth, smaller companies are now breaking through the $15 million - $20 million revenue barrier, a threshold that makes them an attractive acquisition candidate in this industry dominated by small concerns.

Of particular interest are companies with innovative technologies, such as advanced metering and sensing systems that help detect and stop water losses, systems associated with water testing and filtration, wastewater treatment and reuse systems, water technology for the oil and gas industry, and desalination processes. Asset management technologies that allow for monitoring, diagnostics and control of water infrastructure are in demand. Such systems allow owners to target network sections in urgent need of repair, enabling utilities to prioritize replacements and allocate resources while also providing the information necessary to avoid costly main breaks.

Corporate buyers are building their water portfolio in a strategic fashion, buying tuck-in companies to expand their capabilities and offerings. At the same time, private equity buyers are interested in the space, attracted by the industry’s growth prospects. These buyers are looking to make a series of smaller acquisitions in the fragmented water sector, consolidating companies into a larger platform and creating economies of scale. The interest of private equity in water businesses is of benefit, leading to higher valuations overall and offering business owners in the industry with an attractive partial-exit alternative. Private equity firms can also provide extensive operations experience, excellent marketing contacts and proven financial management controls, all of which can help to build the value of the company and lead to a second, and often higher-value, liquidity event for the owner.

Looking forward, we expect both corporate and private equity group buyers to remain active in the space. M&A demand is anticipated to continue, especially for quality companies in attractive sectors. In fact, we expect the supply-demand imbalance to endure, making for attractive valuations and a generally healthy seller’s market.
## SELECT WATER INFRASTRUCTURE M&A TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Acquiror</th>
<th>Target Business Description</th>
<th>Enterprise Value (mm)</th>
<th>EV / LTM</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-12</td>
<td>McLaughlin Water Engineers, Ltd.</td>
<td>Merrick &amp; Company, Inc.</td>
<td>Provides civil and environmental engineering services, specializing in water</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jun-12</td>
<td>ENAQUA</td>
<td>Grundfos Pumps Corporation</td>
<td>Manufactures membrane solutions and ultraviolet disinfection equipment for municipal water treatment markets.</td>
<td>$16.8</td>
<td>2.5x</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>May-12</td>
<td>ista North America, Inc., Multifamily Services Group</td>
<td>Yardi Systems, Inc.</td>
<td>Provides energy and water metering, billing and management services.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>May-12</td>
<td>Aqua New York, Inc.</td>
<td>American Water Works Company, Inc. (NYSE:AWK)</td>
<td>Provides water and wastewater services to residents in various NY towns.</td>
<td>$65.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Apr-12</td>
<td>PolyPipe, Inc.</td>
<td>Dura-Line Holdings, Inc.</td>
<td>Manufactures polyethylene (PE) pipes for water and wastewater and other uses.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Apr-12</td>
<td>Sensorex Inc.</td>
<td>Halma plc (LSE:HLMA)</td>
<td>Manufactures sensors for applications in water and wastewater treatment and industrial applications.</td>
<td>$37.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Apr-12</td>
<td>Cosense, Inc.</td>
<td>Measurement Specialties Inc. (NasdaqGS:MEAS)</td>
<td>Manufactures ultrasonic sensors and systems for fluid measurement and control applications including water and waste water.</td>
<td>$11.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Pump &amp; Power Equipment, Inc.</td>
<td>DXP Enterprises, Inc. (NasdaqGS:DPPE)</td>
<td>Distributes pump products for use in water and municipal and wastewater treatment plants and other applications.</td>
<td>$1.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Hunter Disposal, LLC</td>
<td>GreenHunter Water, LLC</td>
<td>Provides water disposal services in the Appalachian Region of the United States.</td>
<td>$10.6</td>
<td>0.8x</td>
<td>3.2x</td>
<td>-</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Southern Water Consultants, Inc.</td>
<td>General Chemical Performance Products LLC</td>
<td>A contract and specialty chemical formulator, specializing in products for the water treatment industry.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Cambridge Water Technology, Inc.</td>
<td>Siemens Water Technologies Corp.</td>
<td>Produces technology solutions for the purification of wastewater and production of process water to industries and municipalities.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jan-12</td>
<td>The Engineering Company</td>
<td>Farnsworth Group, Inc.</td>
<td>Provides consulting engineering services to municipalities, specializing in water, wastewater, drainage and water resources.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jan-12</td>
<td>CAS Constructors, LLC</td>
<td>Alberici Corporation</td>
<td>Builds, repairs, renovates and rehabilitates water and wastewater treatment plants.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jan-12</td>
<td>Pennichuck Corp.</td>
<td>City of Nashua, NH</td>
<td>Engages in the collection, storage, treatment and distribution of potable water and provides wastewater treatment services.</td>
<td>$197.5</td>
<td>5.4x</td>
<td>13.7x</td>
<td>-</td>
</tr>
<tr>
<td>Jan-12</td>
<td>Ecologic Analytics, LLC</td>
<td>Landis+Gyr AG</td>
<td>Provides meter data management system (MDMS) solutions for water and other utilities.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>PUR Water Purification Products, Inc.</td>
<td>Helen of Troy Limited (NasdaqGS:HELE)</td>
<td>Offers drinking water purification systems.</td>
<td>$160.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Danzik Hydrological Sciences, LLC</td>
<td>Ridgeline Energy Services Inc. (TSXV:RL-E)</td>
<td>Provides hydrological services and methods for treating contaminated water for the oil, gas and other industries.</td>
<td>$24.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Amisto Separation Products, Inc.</td>
<td>ACS-Amistco</td>
<td>Manufactures separation solutions for customers in water and wastewater, surface water, water well and other industries.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Park Water Company Inc.</td>
<td>The Carlyle Group LP (NasdaqGS:CG)</td>
<td>A public water utility in southeast Los Angeles County.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Strategic Diagnostics Inc., Water Quality Division</td>
<td>Modern Water Inc.; MW Monitoring Ip Limited</td>
<td>Markets products and services to determine toxicity and detect contaminants in water and soil.</td>
<td>$4.5</td>
<td>0.9x</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Nalco Holding Co.</td>
<td>Ecolab Inc. (NYSE:ECL)</td>
<td>Manufactures chemicals and technology used in water treatment and other industrial processes.</td>
<td>$8,198.7</td>
<td>1.8x</td>
<td>11.3x</td>
<td>-</td>
</tr>
<tr>
<td>Dec-11</td>
<td>Applied Water Management, Inc.</td>
<td>Natural Systems Utilities, LLC</td>
<td>Designs, constructs and operates decentralized water and wastewater facilities.</td>
<td>$2.9</td>
<td>0.1x</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Oct-11</td>
<td>Ameron International Corporation</td>
<td>National Oilwell Varco, Inc. (NYSE:NOV)</td>
<td>Manufactures water transmission pipes and other engineered products.</td>
<td>$803.9</td>
<td>1.3x</td>
<td>19.3x</td>
<td>-</td>
</tr>
<tr>
<td>Sep-11</td>
<td>Hydro-Guard</td>
<td>Mueller Co., Ltd.</td>
<td>Develops flushing systems for use in the automation of potable water distribution line flushing programs for utilities.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sep-11</td>
<td>YSI Incorporated</td>
<td>ITT Corporation (NYSE:ITT)</td>
<td>Manufactures sensors, instruments, software and data collection platforms for water quality monitoring and testing applications.</td>
<td>$309.0</td>
<td>3.1x</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aug-11</td>
<td>JWRC Environmental, LLC</td>
<td>Windjammer Capital Investors LLC</td>
<td>Provides wastewater, storm water and sewage treatment products worldwide.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jul-11</td>
<td>Eureka Environmental Corporation</td>
<td>Measurement Specialties Inc. (NasdaqGS:MEAS)</td>
<td>Provides multi-parameter instruments and software solutions for water quality monitoring applications.</td>
<td>$4.3</td>
<td>2.1x</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Mean** 2.0x 11.9x  
**Median** 1.8x 12.5x  
**Harmonic Mean** 0.6x 7.6x

LTM = last twelve months; EV = enterprise value;  
Sources: Capstone Partners LLC research; Capital IQ;  
public filings and press releases
Capstone Partners maintains an active Infrastructure practice in the middle market, having represented clients across various specialties including water, roadways, geo-technology, utilities, energy, solar, and communications. This focus allows Capstone to provide infrastructure companies with real-time transaction feedback and immediate access to key decision makers among the industry’s most active acquirers and investors.

**CAPSTONE PARTNERS: A SAMPLING OF COMPLETED INFRASTRUCTURE TRANSACTIONS**

- E.H. Wachs: has been acquired by TW
- Cascade Drilling, Inc.: has recapitalized with Environmental Capital Partners
- COBHAM: has been acquired by

- KEX, Inc.: has been acquired by
- E-Mon: a division of Hunt Capital
- Lappet & Mittz: Innovation Redefined

- Realtime Utility Engineers: has been acquired by
- Dankoff Solar: has been acquired by
- Conergy: has been acquired by

- InfraSource: has been acquired by
- Cenergy: has been acquired by

- L-com: has recapitalized with Riverside
- Antel: has been acquired by

- Milestek: has been acquired by
- Castle Island Partners, LLC

- Bostom Irrigation Supply Company: has recapitalized with

- Jarex Distribution LLC: has been acquired by

- CONFIDENTIAL CLIENT: is pursuing a corporate sale and is currently in market

- Water Distribution System Solutions: has been acquired by CASTLE ISLAND PARTNERS, LLC

Q2 2012 Water Infrastructure
THE INFRASTRUCTURE TEAM

Ted Polk, Managing Director
tpolk@capstonellc.com • (312) 674-4531

Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuemetrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.

Lisa Tolliver, Director
ltolliver@capstonellc.com • (312) 674-4532

Lisa has 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone’s Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within the technology, manufacturing, consumer products and outsourced business services industries. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.
ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading national investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in Infrastructure, with a focus on the Water sector. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

NATIONAL AND REGIONAL LEADERSHIP TEAM

NATIONAL
John Ferrara
President, Managing Partner
(617) 619-3325
jferrara@capstonellc.com

NORTHEAST REGION
Kevin Jolley
Managing Director
(617) 619-3330
kjolley@capstonellc.com

MIDATLANTIC REGION
Eric Williams
Managing Director
(215) 854-4065
ewilliams@capstonellc.com

MIDWEST REGION
Ted Polk
Managing Director
(312) 674-4531
tpolk@capstonellc.com

WESTERN REGION
David Bench
Managing Director
(949) 460-6431
dbench@capstonellc.com

TECHNOLOGY & TELECOM
David Michaels
Managing Director
(858) 926-5950
dmichaels@capstonellc.com

CORPORATE RESTRUCTURING
Brian Davies
Managing Director
(617) 619-3328
bdavies@capstonellc.com

VAUATION ADVISORY
Ron Adams
Managing Director
(617) 619-3367
radams@capstonellc.com