



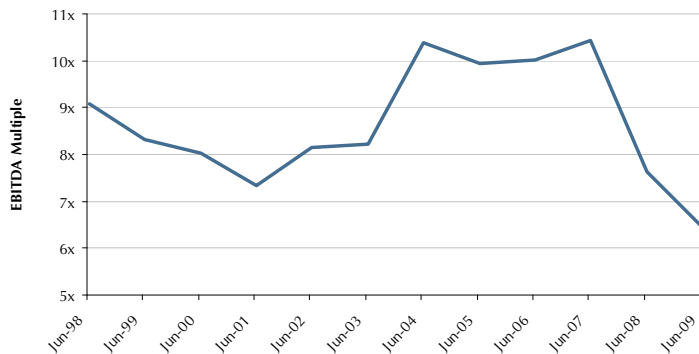
SEPTEMBER 1, 2009

Micro-Cap Rally: Now What?

The equity markets have recovered significantly since the depths plumbed earlier this year. Micro-cap stocks are no exception, as the Russell MicroCap index has increased over 60% since early March. A rally of this magnitude begs the questions of whether any investment opportunities still exist in the micro-cap sector.

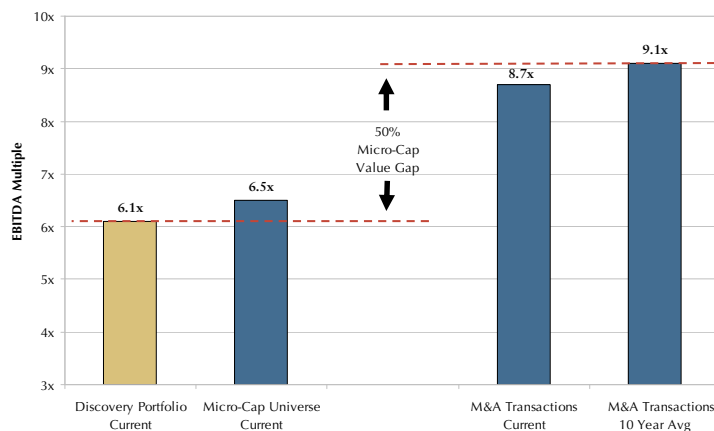
In order to answer the question, we took a long-term perspective and reviewed trading multiples for micro-cap stocks over the last decade. The data clearly shows that micro-cap stocks are still trading at valuation multiples far below historical averages. Today's median EBITDA multiple of 6.5x is dramatically lower than the 10x multiples micro-caps reached from 2003 through 2006. In fact, current valuations are even lower than the levels of 7.5x to 8.5x witnessed in 2000 through 2002, the last trough in micro-cap multiples.

Micro-Cap Multiples Are Very Low



Today's low multiples allow us to uncover significantly undervalued investment opportunities. As of August, the Partnership's portfolio had a median multiple of only 6.1x EBITDA. This is an extremely attractive valuation, especially in light of the quality of our companies and their strategic takeover appeal. Contrast this low multiple to the current and historical M&A multiple for a micro-cap transaction of approximately 9x EBITDA. This differential—or value gap—is what Discovery seeks to exploit through our investment process, and the current opportunity is what makes us optimistic about today's micro-cap environment.

M&A Transactions Unlock Value



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Discovery Equity Partners, L.P. seeks to exploit the valuation anomaly associated with small capitalization public companies that trade at deep discounts to their economic value as a result of limited research coverage, low trading liquidity and rare institutional sponsorship. The Fund accumulates meaningful ownership stakes in anticipation of an accretion in value that will result from specific company and industry develop-