

From: Calabasas Capital <david@calabasacapital.ccsend.com> on behalf of Calabasas Capital <david@calabasacapital.com>
Sent: Tuesday, March 17, 2015 11:39 AM
To: David Bonrouhi
Subject: Calabasas Capital Market Outlook & Event Invite

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CALABASAS CAPITAL

2015 Market Outlook & Event Invite

March 2015

Dear David,

We hope you find our latest market outlook to be insightful and would you like to invite you to a great event coming up on M&A.

U.S. Middle Market M&A*



- According to Capital IQ, 433 middle market M&A transactions were completed in the 4th quarter of 2014, the lowest quarterly volume since the 2nd quarter of 2013 and the fourth lowest since 2011.
 - According to a recent Thomson Reuters poll, the strengthening economy is rendering some companies more confident that it will pay to wait. Two-thirds of mid-market leaders feel their market valuation will rise over the next 12 months, according to the survey results.
 - With increased growth prospects in sight, fewer concerns about performance and the expectation that a business will be worth more tomorrow, pressure to sell today is muted. That said, the survey indicates there are at least two noteworthy factors likely to contribute to more selling. One, with the youngest baby boomers reaching retirement age, this represents a segment of owners that will be looking to sell. And two, this year nearly two-thirds of sellers are considering selling the entire business or company versus a partial sale as compared to only 47% in 2014.
- PE investors in the U.S. middle market invested approximately \$385 billion in 2014, an all-time record high. Last year, 1,748 transactions were completed according to Pitchbook, close to the all-time high of 1,816 during the buyout boom of 2007.
 - The middle market was responsible for 78% of overall PE activity in the year. Aided by the strong seller's market, PE firms also exited approximately \$95.7 billion in investments during the year, another all-time high, and were able to raise a post-financial crisis high of \$135.5 billion in new money-up 17% over 2013 levels-through 165 funds.
 - With a limited timeframe in which to invest this capital, PE firms will continue to be active and competitive buyers in the market.
- Potential strategic acquirers now have approximately \$1.5 trillion dollars on their balance sheets, according to Moody's Investors Service.
- Credit Markets - Although the Federal Reserve likely will start gradually raising interest rates this year, the credit markets remain wide open with both traditional banks and alternative non-bank financing providers aggressively seeking opportunities to put capital in the market, including via M&A transactions. This relatively "cheap" and plentiful source of money for investors is allowing buyers to finance acquisitions at valuation multiples higher than what otherwise would be viable.
- M&A Cycle - Historically, there has been a roughly seven-year M&A cycle in the middle market. We are essentially in Year Five of that cycle currently, which would indicate another expected 12 to 24-month window for this overall positive M&A environment.

*Source: Capital IQ.

Conclusion

- Given the continued supply-demand imbalance (lots of money chasing a few good

deals), companies with scale that have maintained or improved revenue and profitability over the past three to five years can be highly valued in today's M&A environment and take advantage of this attractive window in the cycle-while it lasts.

- On the other hand, buyers are being very patient. Cash-heavy buyers are not overpaying for unremarkable businesses.
- In summary, the market remains very attractive for strong companies but overall activity in the middle market may be showing early signs of plateauing---more reason than ever for business owners thinking about an exit over the next two to three years to accelerate their timing and hit the market now.

Recent Calabasas Capital Activity

- 2014 was another good year for Calabasas Capital (see [press release](#)) and we currently have a number of sell-side M&A and capital raising deals in the market and a growing pipeline. In addition, we are seeing ever-increasing interest in buy-side M&A advisory services from both strategic and financial acquirers.

ACG 101 Event on M&A

Wednesday, April 1, 2015

Westlake Village Inn

Join us for a panel discussion about mergers and acquisitions from the perspective of business owners and executives, including:

- Andy Mandel, President, ValleyCrest Landscape Development
- Jeff Trigilio, Co-Founder, President & CEO, Key Health Group
- Doug Briskie, Senior Vice President and Chief Strategy Officer, National Technical Systems.

Our moderator will Larry Braun, corporate M&A partner at the law firm, Sheppard Mullin Richter & Hampton LLP

To register please click [here](#)

Calabasas Capital is an Annual Sponsor of ACG 101 (the 101 Corridor Chapter of the Association for Corporate Growth).

About Calabasas Capital

Calabasas Capital is a boutique investment banking firm that provides the following financial advisory services primarily to lower-middle-market privately-held companies, business owners and entrepreneurs:

- Sell-Side and Buy-Side Mergers & Acquisitions
- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring
- Late-stage Venture Capital Raising
- Sales of non-core assets/divisions of larger public and private companies

Our principals have significant investment banking and private equity experience working with companies in a broad range of manufacturing and services industries with particular expertise in:

- Consumer products and services (i.e., food, apparel, footwear, electronics, household goods)
- Retail (including restaurant chains)
- Business Services (online and offline, including but not limited to financial, marketing, printing, equipment rental, post-production, and facilities maintenance);
- Technology (i.e., eCommerce, software, IT services, digital media, hospitality)
- Healthcare Services
- Entertainment
- Telecom

Thank you for continuing to keep us in mind for opportunities.

Regards,

David Bonrouhi Brandt Blanken Leslie Lum

Tel (818) 657-6130; Cell (213) 500-4135 | david@calabasascapital.com | <http://www.calabasascapital.com>

Calabasas Capital
26610 Agoura Road, Suite 120
Calabasas, CA 91302

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Calabasas Capital | 26610 Agoura Road | Suite 120 | Calabasas | CA | 91302

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