



# CALABASAS CAPITAL

## About Us

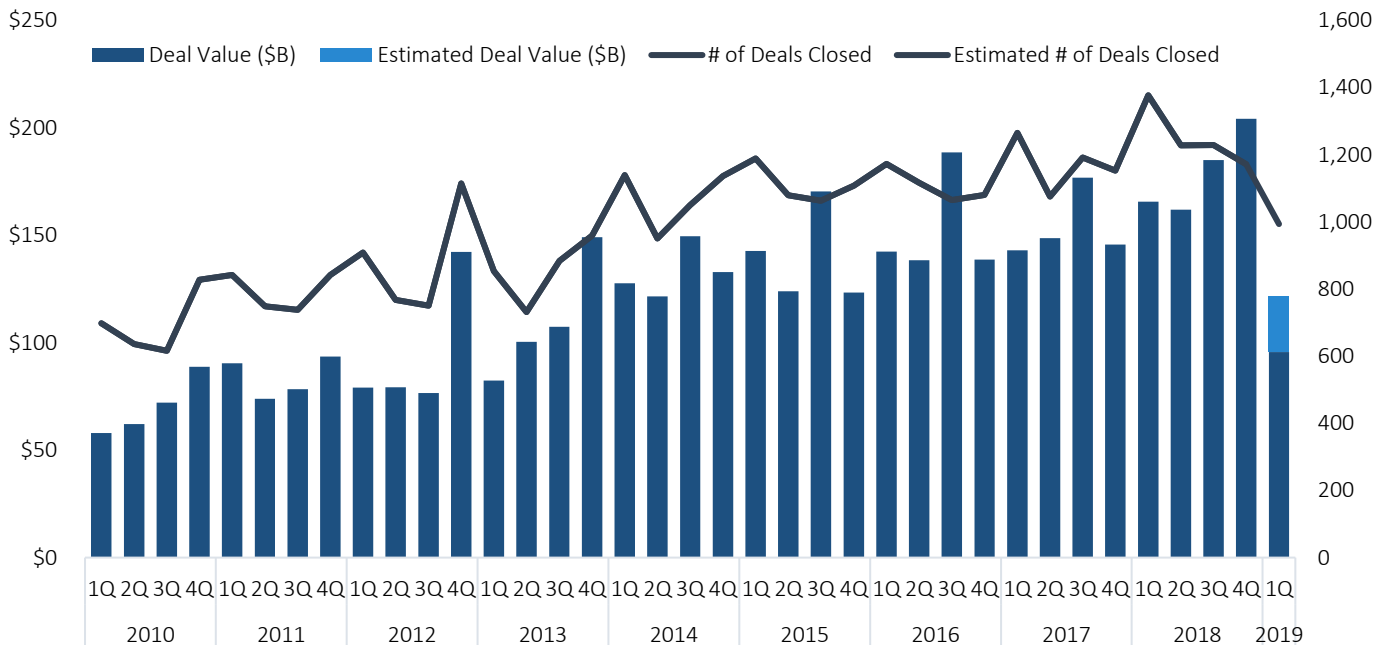
### 1Q 2019 M&A Market Update

Calabasas Capital is a boutique investment banking firm focused on serving lower middle-market privately-held companies and their business owners. We specialize in representing and advising businesses on sell-side and buy-side mergers, sales and acquisitions and we raise private equity and debt capital.

### Deal Activity Started off Slowly in 2019

According to PitchBook Data, after a record level of activity in 2018, U.S. quarterly private equity deal activity was off to the slowest start since 2013. During the 1<sup>st</sup> quarter of 2019, 993 deals closed representing \$121.4 billion in deal value; declines of 28% and 27%, respectively from the 1<sup>st</sup> quarter of 2018.

#### U.S. Private Equity Deal Activity (\$Bn)\*



\*Source: PitchBook Data 1<sup>st</sup> Quarter 2019 Private Equity Report. Includes deals valued from \$10MM to \$1Bn.

According to Capital IQ, in 1Q 2019 overall M&A deal activity for companies with between \$10MM and \$250MM in revenue was also down 26.4% from 1Q 2018.

Causes of the 1<sup>st</sup> quarter slowdown appear to be rooted in a change in market sentiment towards the end of 2018. In the 4<sup>th</sup> quarter of 2018, the stock market dipped in response to signs of global economic weakness, uncertainty surrounding trade talks, and rising interest rates. This led to weakness in the leveraged loan market as fund flows weakened considerably and spreads widened. Since private equity activity is highly reliant upon loose and abundant credit markets, and activity in private equity often lags activity in the debt markets, this softness in the debt

markets in late 2018 was one cause of the decline in acquisition activity in early 2019. According to Capital IQ, in the \$10MM to \$250MM market, the average Debt/EBITDA multiple in 1Q 2019 was just 1.8x, down from an average of 3.2x in 2018.

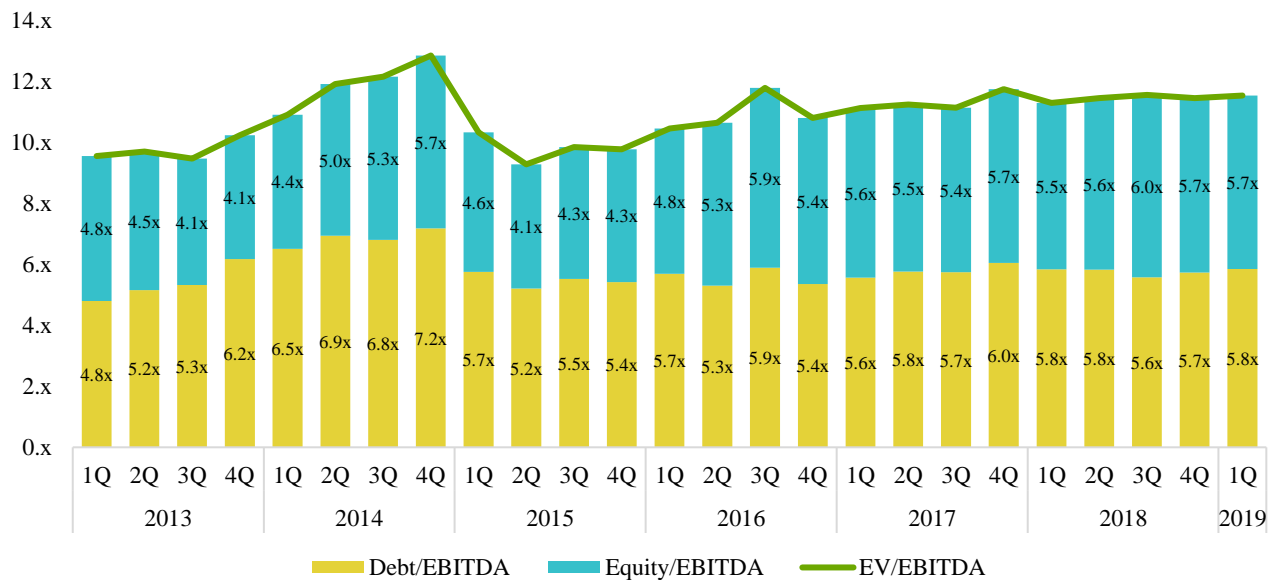
Although second quarter data on M&A activity is yet forthcoming, anecdotal evidence suggests that like the stock market, the slowdown in PE and M&A activity overall was likely temporary.

## Have Valuations Peaked?

We believe this does signal a change in sentiment in middle market M&A. While deal flow has remained robust, we have begun to observe less of an imbalance between the supply of quality deals and the demand for deal flow from the abundance of capital available to be deployed. In other words, we believe valuation multiples have peaked but so far this has not slowed down overall activity and it may not for at least a few more quarters.

The following chart shows that according to PitchBook Data, enterprise value multiples (split between debt and equity) of private equity deals overall, including lower middle market deals, core middle market deals and upper middle market deals (\$10MM to \$1Bn) have hovered in the 11.5x range for several quarters. In the lower middle market (\$10MM to \$250MM deal values), according to GF Data, the valuation multiples have peaked in the range of 7.0x to 7.5x.

### U.S. Private Equity Enterprise Value/EBITDA Multiples\*



\*Source: PitchBook Data, U.S. PE Middle Market 1Q2019 covering deals ranging in value from \$10MM to \$1Bn.

## Summary

Activity remains robust however the supply of deal flow has begun to catch up with the demand causing valuations, albeit still extremely attractive, to level off.

### Calabasas Capital

Our comprehensive services include:

- Sell-Side and Buy-Side Mergers & Acquisitions Advisory
- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring

Our industries of expertise include:

- Consumer Products & Services
- Business Services
- Industrial Manufacturing & Distribution
- IT & Software

### Contact Us

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