



CALABASAS CAPITAL

2021 Private Equity M&A Review & 2022 Outlook

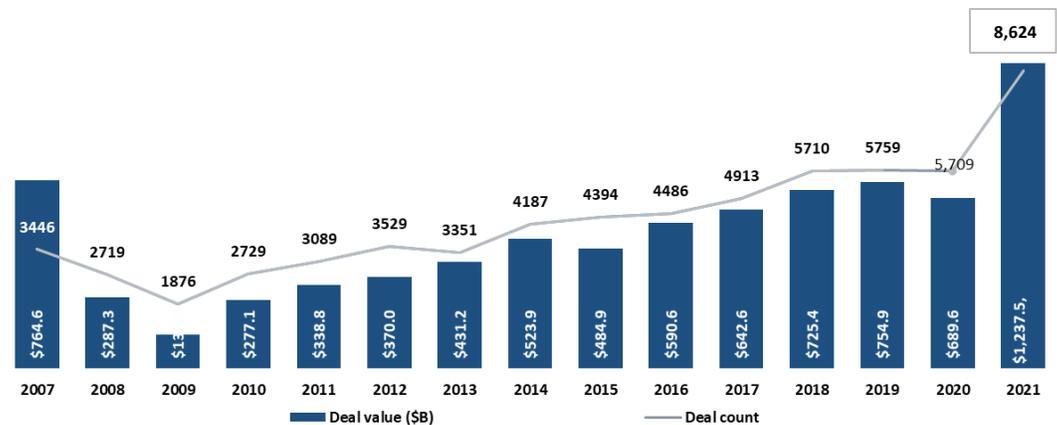
About Us

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

Private Equity M&A Momentum Continues

According to PitchBook data, private equity deal value in the U.S. surpassed \$1 trillion in 2021 for the first time, setting a record rising on the back of a strong economic recovery and availability of capital. This surge in activity was also likely due to a combination of 2020 deals being pushed out due to Covid and 2022 deals being pulled forward to avoid higher capital gains taxes. Total 2021 deal value of \$1.2 trillion was 70% higher than deal value in 2020 and 64% higher than deal value of \$755 billion in 2019, which at the time was the strongest year since 2007. The total volume of deals in 2021 of 8,624 also set a record, eclipsing each 2020 and 2019 by over 50%.

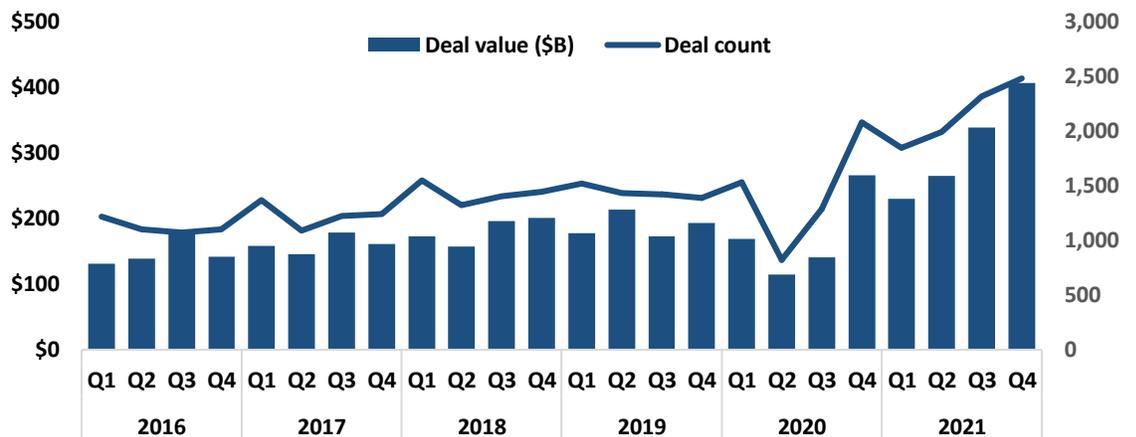
U.S. Private Equity M&A Activity (\$Bns)*



*Source: PitchBook Data 2021 U.S. Private Equity Report.

On a quarterly basis, 4Q 2021 deal activity (2,478 deals closed for \$405.7 billion) also set a record and followed a strong 3Q 2021 which set the previous record.

U.S. Private Equity M&A Quarterly Activity (\$Bns)*

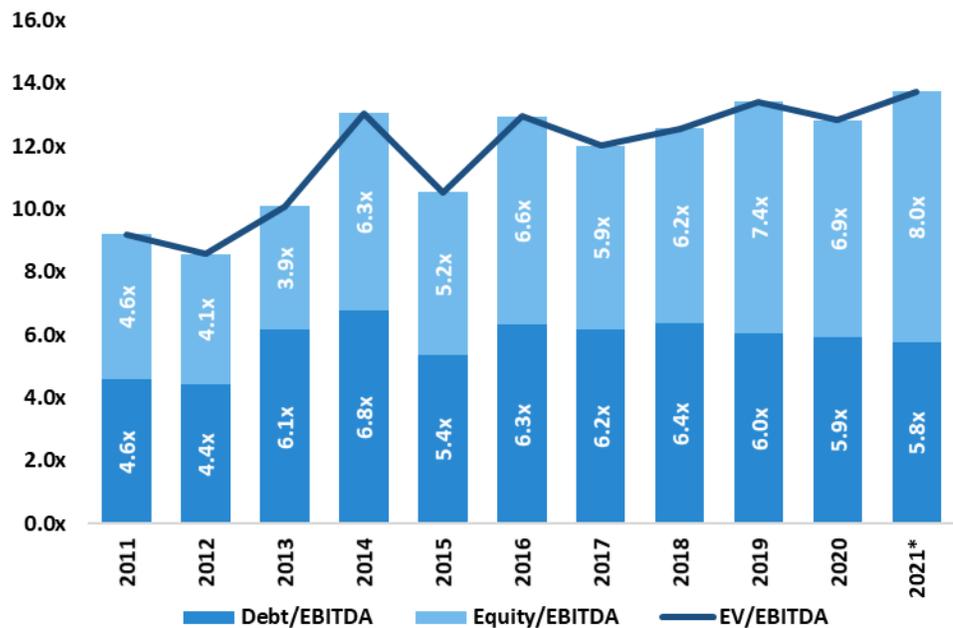


*Source: PitchBook Data 2021 U.S. Private Equity Report.

Valuation Multiples Set Annual Record

According to PitchBook Data, middle market PE valuation multiples (covering deals from \$10MM to \$1Bn) also set a record in 2021 with a median of 13.7x, which was even higher than the previous peak of 13.4x in 2019. According to GF Data, the multiples for lower middle market deals (\$10MM to \$250MM) was also strong at 7.2x but below the record set in 2019 of 7.4x.

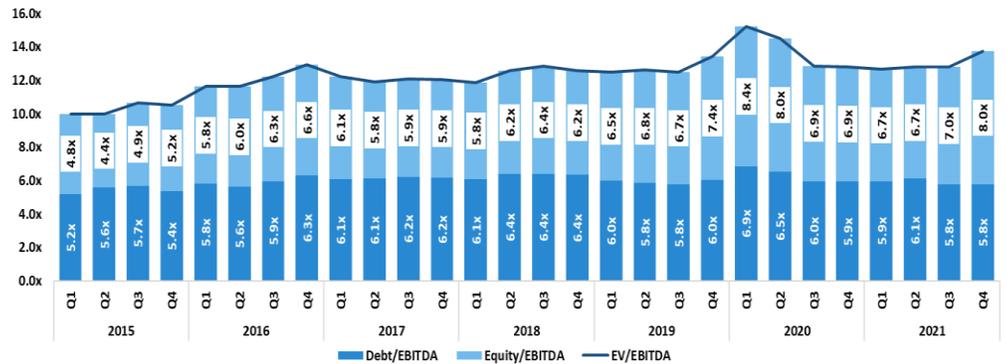
Median PE Buyout EV/EBITDA Multiples - Annual*



*Source: PitchBook Data 2021 U.S. Private Equity Report.

Median PE Buyout EV/EBITDA Multiples - Quarterly*

While 2021 set a record in terms of multiples on an annual basis, the peak on a quarterly was pre-covid in 1Q of 2020.

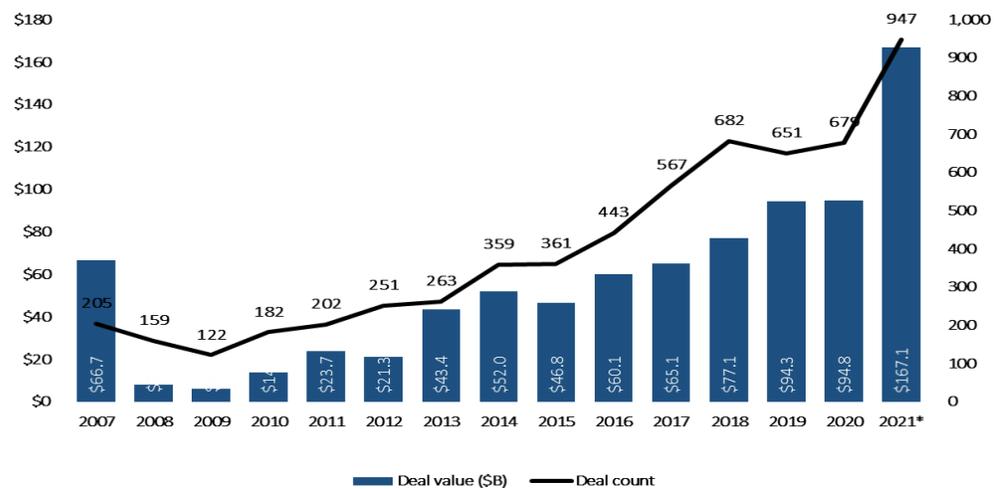


*Source: PitchBook Data 2021 U.S. Private Equity Report.

Software Deal Flow Takes Off to New Heights

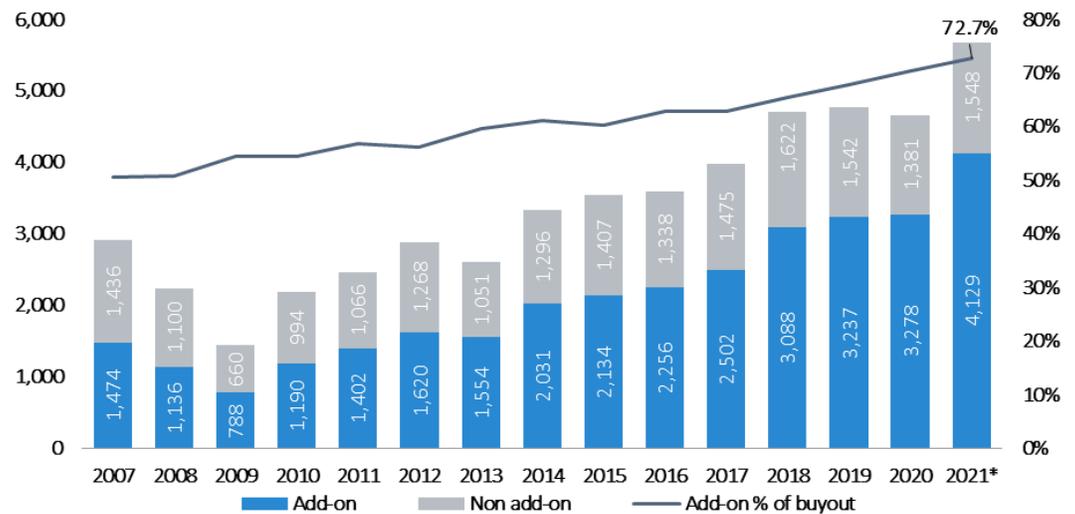
According to PitchBook Data, private equity M&A activity in the software industry continued its robust growth jumping to 947 deals (an increase of 39% over both 2020 and 2018, which had the previous record) at an aggregate of \$167.1 billion (an increase of 76% over the record set in 2020) by the end of the year. The sector experienced a tremendous increase in activity due to the proliferation of attractive targets with robust earnings and along with the lofty valuations of publicly traded software companies. Emerging areas of investment for private equity include workplace management software and supply chain software.

Software Private Equity Deal Activity*



*Source: PitchBook Data 2021 U.S. Private Equity Report.

Add-Ons More of a Focus Than Ever



*Source: PitchBook Data 2021 Private Equity Report.

According to PitchBook Data, the percentage of deals representing add-on acquisitions by existing portfolio companies as compared to acquisitions of platforms accelerated to a record 73% in 2021 as firms sought to take on less risk by investing in known quantities. With valuations for larger platforms remaining high, acquiring smaller add-ons can usually be accomplished at lower valuations allowing sponsors to average down their acquisition multiples for their platforms.

2022 Outlook

There are clearly a variety of potential headwinds for M&A as we enter 2022, including:

- Inflation of just about all input costs, most notably labor,
- Increasing interest rates and Fed tapering,
- Increased regulation,
- A never-ending pandemic, and
- Volatile public equity markets.

Therefore, the M&A market will likely not match the record-setting performance of 2021. We do not believe potential Fed actions will have any significant impact on lower middle-market M&A in 2021 since even a 100 – 150 bps increase from zero should not be a hindrance to deal-making. Although regulation is an issue for large deals in certain sectors, regulation does not materially impact the lower middle market. The pandemic, knock on wood, is on its last legs. The public equity markets may have an impact if we see a prolonged and significant downturn, but this only affects a certain segment of buyers. That leaves the biggest risk, inflation. Persistent inflation may cause sellers to push out their exit plans beyond this year. The aging demographic of business owners also persists. There is also significant momentum so far in 1Q 2022 from deals that spilled over from 2021 and capital gains taxes have not yet been raised. All said, we foresee , an active year in M&A stronger than 2018, 2019 and 2020 but down from 2021.

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
- Aerospace & Defense
- Software & Ecommerce
- Industrial Manufacturing & Distribution
- Food & Restaurants

Contact Us

Team

- David Bonrouhi, Managing Director, David@CalabasasCapital.com
- Andrew Williamson, Managing Director, Andrew@CalabasasCapital.com
- Brandt Blanken, Managing Director & Principal, Blanken@CalabasasCapital.com

For more information, please visit our website at www.calabasascapital.com

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

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