



CALABASAS CAPITAL

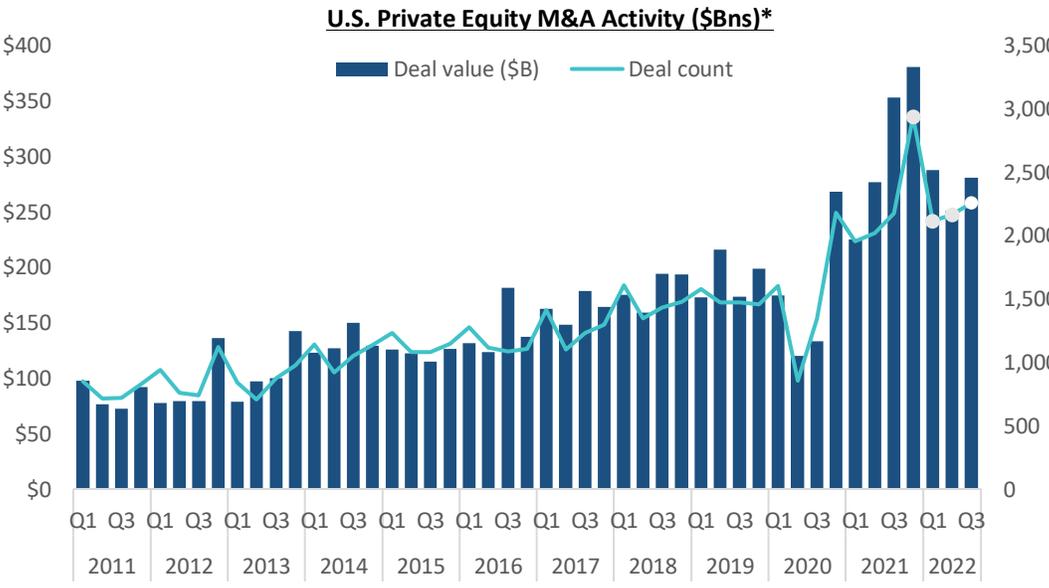
Q3 2022 Private Equity M&A Market Update

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 Activity Remains Resilient For Now

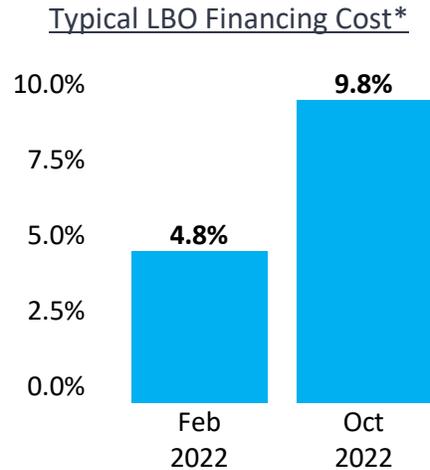
According to PitchBook data, private equity M&A activity in the U.S. in Q3 2022 continued to back off from the frenetic pace in 2021 but was still one of the most active quarters in the past 10 years. Deal value of \$280.6 billion in Q3 2022 was up 12% on a sequential basis vs. Q2 2022 but down 20% on a year-over-year basis as compared to Q3 2021. Activity in Q3 2022 based on deal volume (number of deals) however was actually up by 4% on both a sequential and year-over-year basis. Because of the strong activity in Q1 2022, year to date through Q3 2022 deal value is down 4% on year-over-year basis but deal value is up 6%.



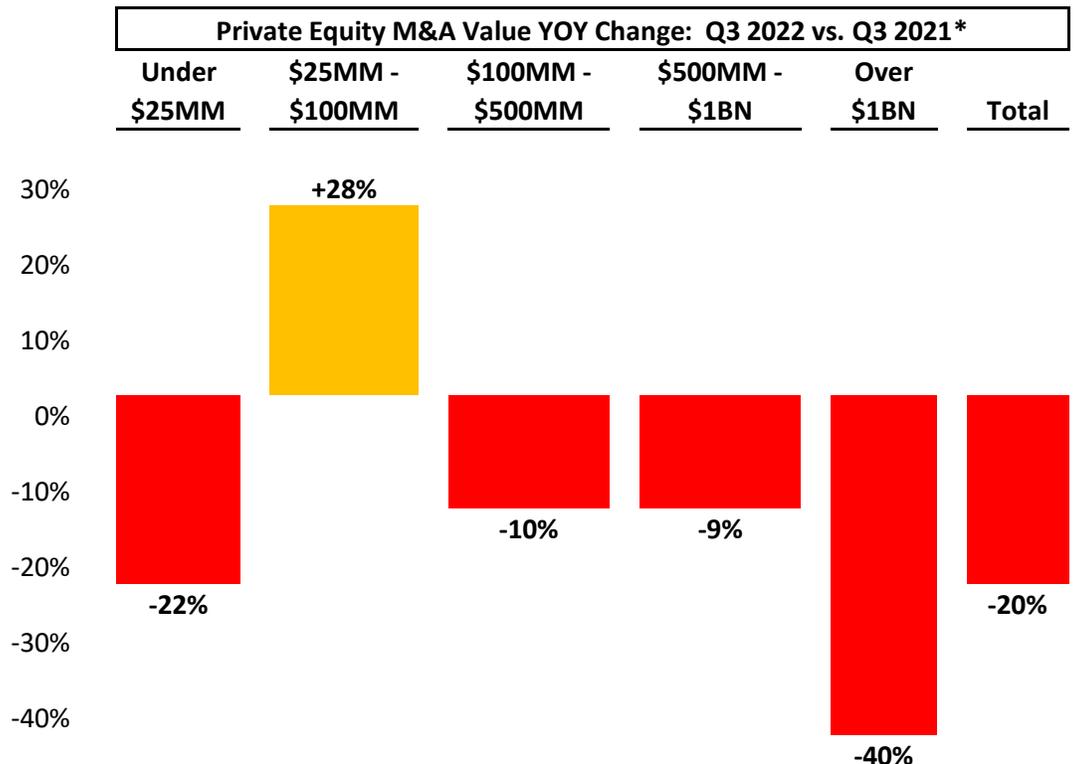
*Source: PitchBook Data Q3 2022 U.S. Private Equity Report.

Impact of Lower Leverage & Higher Rates

According to PitchBook data, the average cost of financing used in a leveraged buyout has more than doubled from 4.8% in February 2022 to 9.8% in October 2022. On top of this, lenders are becoming more conservative with the amount of leverage being provided to buyers in M&A deals.

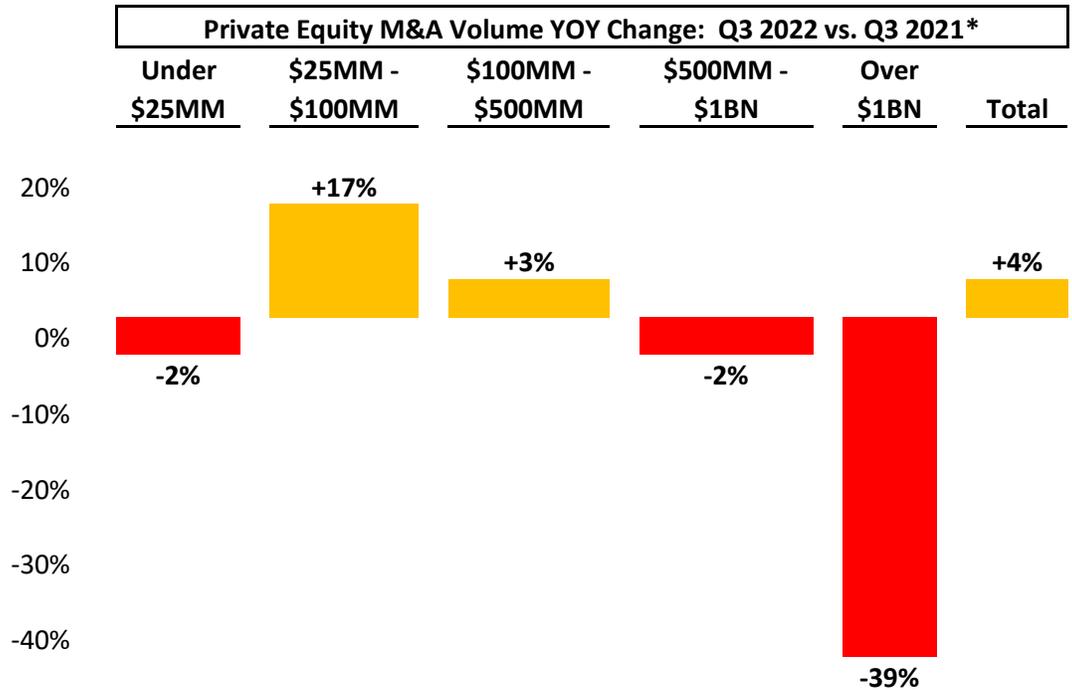


The net effect is that the slowdown in deal value and volume has been much more pronounced in the larger deal market vs. the smaller deal market. The strongest sector in fact has been deals under \$100MM which partly explains why firms like ours remain extremely busy. The \$25MM to \$100MM deal size range is the only sector that saw an increase in deal value in Q3 2022 vs. Q3 2021.



*Sources: PitchBook Data Q3 2022 PE report and "How private equity has adapted to a higher-rate environment" PitchBook Data article written by Tim Clarke on October 22, 2022.

When looking at deal volume (the number of deals), as previously noted activity was up 4% in Q3 2022 on a year over year basis vs. Q3 2021. The \$25MM - \$100MM deal value range was still the strongest sector compared to other deal size ranges, but the outperformance was not quite as pronounced as compared to the chart above showing deal values.



*Source: PitchBook Data Q3 2022 U.S. Private Equity Report.

We believe the larger deal market has been much more severely impacted by higher rates and lower leverage because these larger deals tend to rely on more leverage relatively speaking than smaller deals and because multiples in the larger deal market have always been dramatically higher than smaller deals.

At the same time, valuations across the board continue to gradually come down from the hysteria of 2021. We have observed decreases in valuations of approximately 10 - 15% in deals under \$100MM, decreases of 20 – 25% in much larger deals and in the SaaS industry revenue multiples are down approximately 30%.

For those sellers in the market who are temporarily generating lower than typical gross margins (usually because of inflation and the inability to take price fast enough) and declining EBITDA, beware of buyers looking for deep values – there is an increasing number of these types of buyers in today’s market.

Summary

Despite the prevalence of several headwinds in the economy, M&A activity at the lower end of the middle market remains healthy although valuations have started to come back down to earth.

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:

- Industrial Manufacturing & Distribution
- Consumer Products & Services
- Software & Ecommerce
- Business Services
- Aerospace & Defense
- Food & Restaurants

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