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Sent: Sunday, March 03, 2013 5:50 PM
To: David Bonrouhi
Subject: Calabasas Capital Market Update & Outlook

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Dear David,

According to Capital IQ, mid-market M&A volume was down 7% in 2012 vs. 2011 although the number of transactions was up 2%. The year was shaping up to be a more significant down year as volume was down approximately 20% through the first three quarters but the fourth quarter was very strong as owners sought to beat the tax increases.

2013 Mid-Market M&A Outlook

According to the RBS Citizens Middle Market M&A Outlook 2013 report (which was based on a recent survey of more than 300 business owners and decision makers, supplemented by a series of in-depth interviews among the target population), 2013 is expected to be a strong year for M&A volume due to the presence of the following:

- A slow but improving economy,
- Historically low interest rates, and
- A strong appetite among many businesses for growth through acquisitions.

The report also discussed the perspectives of buyers vs. sellers:

- Buyers' Perspectives:
 - Nearly 80% of mid-market firms say they are currently engaged in or are open to making an acquisition.
 - About one-quarter of these firms are currently in the process of making an acquisition,
 - An additional 14% are actively seeking purchase targets.
 - The remaining four in ten firms are not actively looking to buy but would consider an acquisition if presented with the right opportunity.
 - Sellers' Perspective::
 - One in three mid-market firms saying they are open to being fully or partially acquired by an outside investor;
 - Many sellers are unsure of their value, and what the market will bear. Being undervalued is the top concern among current and potential sellers, especially among smaller firms with between \$5MM and \$50MM in annual revenue;
 - Executives seeking a full sale oftentimes lack a full understanding of the various structures available to maintain a majority or partial ownership stake while also raising the funds they need or providing the liquidity they desire; and
 - Only a minority of sellers engage "the experts." About four out of 10 sellers have or would consider having an external provider manage their

selling process. Among the number of tasks these firms would engage a provider to handle, valuation is by far the most mentioned, though help with bidding strategies and due-diligence is also widely sought.

Restaurant Industry

- According to the National Restaurant Association Restaurant Industry Forecast for 2013:
 - Restaurant and foodservice sales are expected to reach a record high of \$660.5 billion this year. The sales projection represents a 3.8% increase from 2012 in current dollars. Adjusted for inflation, the figure represents a 0.8% increase.
 - This year is expected to be the third straight year of sales growth for full-service operations.
 - Limited-service sales are projected to rise 4.6% in 2013.
 - Dealing with Obamacare is also a significant concern for restaurant operators, many of whom are planning to shift full-time workers to part-time employees to mitigate the impact of rising costs.

Food Industry

According to the 2013 Food & Beverage Industry Outlook report published by L.E.K. Consulting, the following are key issues and opportunities for the industry in 2013:

- **Commodities** -- Commodity costs will continue to be volatile due to the droughts of last summer so managing hedges on raw materials, optimizing supply chains, passing on pricing and innovating package size will all be center stage in 2013.
- **Consumer Priorities** -- Food companies will need to continue to manage their product and channel exposure to capitalize on consumers' interest in premium products and also address the growing demand for value-priced alternatives.
- **Product Innovation** -- Food & beverage companies will continue to challenge conventional wisdom to find new breakthrough products and better leverage their existing portfolios to meet consumer needs.
- **Mergers & Acquisitions** -- Given the challenges of rising commodity costs, the hourglass economy and the need for a strong innovation portfolio, the food & beverage industry is set for another strong wave of consolidation in 2013 as manufacturers try to realize the benefits of scale in dealing with these issues.

Technology Industry

According to Deloitte's 2013 Outlook on Technology, key industry drivers for 2013 include:

- Internally, companies need to continue to manage costs. In addition to the traditional tools of headcount and discontinuing product lines, companies can begin using tools, like social media, to improve operational performance.
- It may seem counterintuitive, but this is a time to expand partner networks rather than contract, to rely on more participants rather than fewer. Broader ecosystems better spread the risks and provide nimbleness and flexibility to respond to changing demand and conditions. The ecosystem also provides opportunities for talent and innovation.
- To foster innovation and growth, companies are:
 - Creating an incredible customer experience and innovative products. That is really the core of the tech sector.
 - They are following demand, which means smart phones and mobile devices. Tech companies are shifting focus to get their components and software integrated into those products and to create or expand this market.

- Innovation is going to come from continuing to actively participate in the ecosystem, to tap into ideas and talent outside of the company, but also create structures where innovation can flourish.

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

Regards,
David Bonrouhi
Andre Stokes
Leslie Lum

About Calabasas Capital

Calabasas Capital is a boutique financial advisory firm providing the following investment banking 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 (food, apparel, footwear, electronics, household goods), retail (including restaurant chains), healthcare, business services (online and offline, including financial, marketing, printing, equipment rental, post-production, and building maintenance), digital and traditional media, telecom, technology (eCommerce, software, IT services) and industrial manufacturing and distribution.

Regards,



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