



CALABASAS CAPITAL

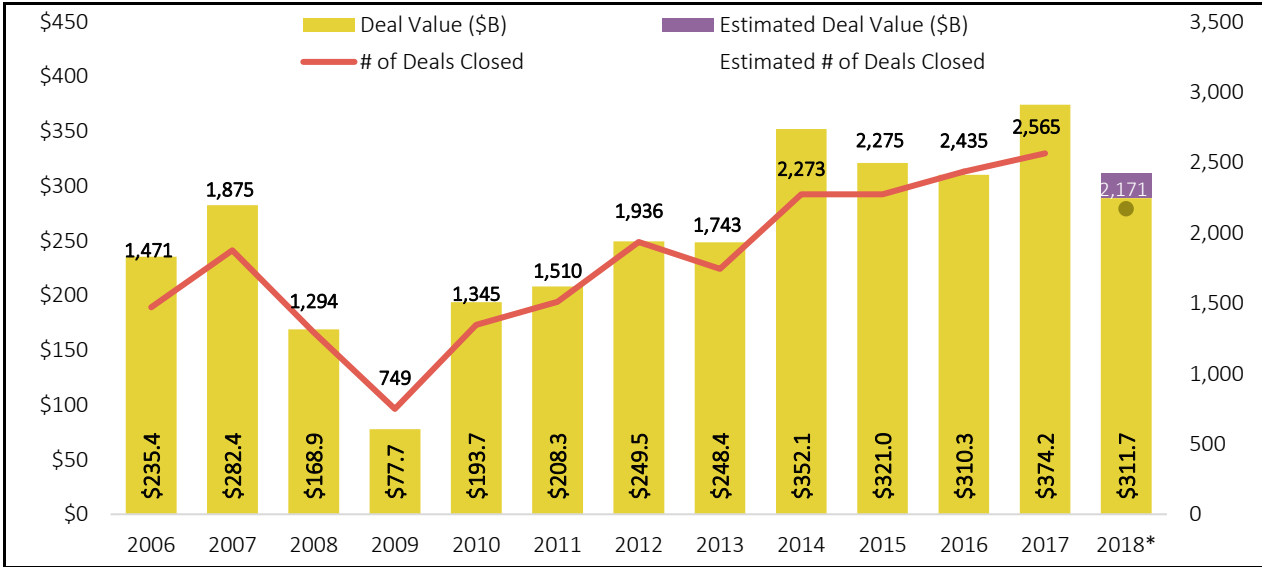
2018 Q4 M&A Market Update & Midterm Elections Impact

About Us

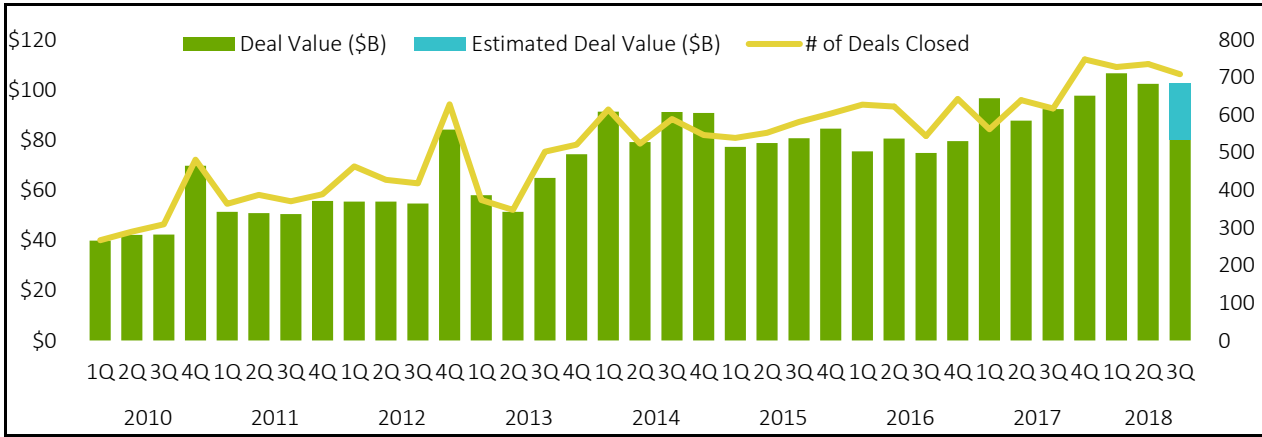
Calabasas Capital is a boutique investment banking firm focused on serving lower middle-market privately-held companies and their business owners. We specialize in representing and advising businesses on sell-side and buy-side mergers, sales and acquisitions and we raise private equity and debt capital.

Deal Activity

According to PitchBook Data, dealmakers in the U.S. middle market are on pace to surpass \$400 billion in total deal value for the first time in 2018, having closed 2,171 deals with a total value of \$312 billion through September of this year.



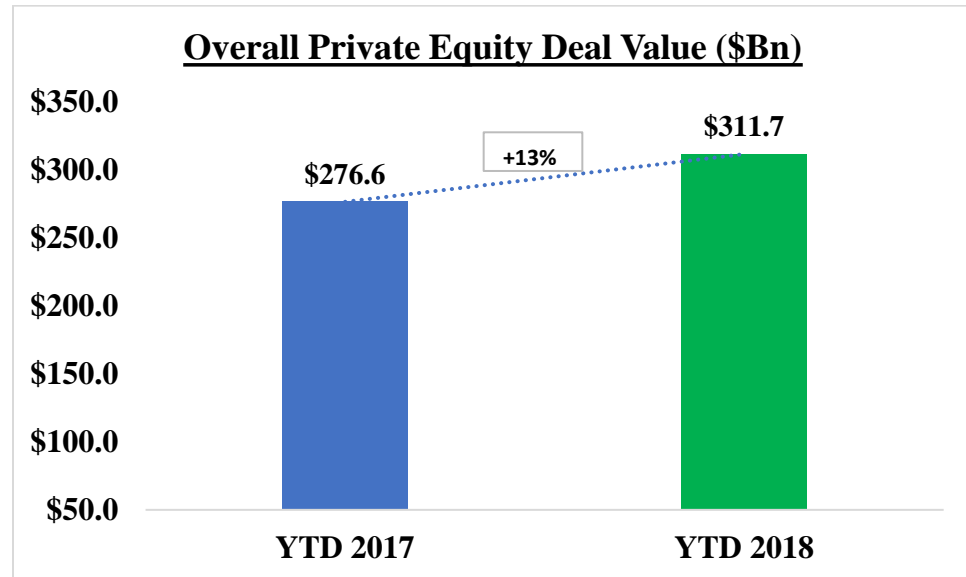
In 3Q, PE deal-making totaled \$102.8 billion across 708 deals.



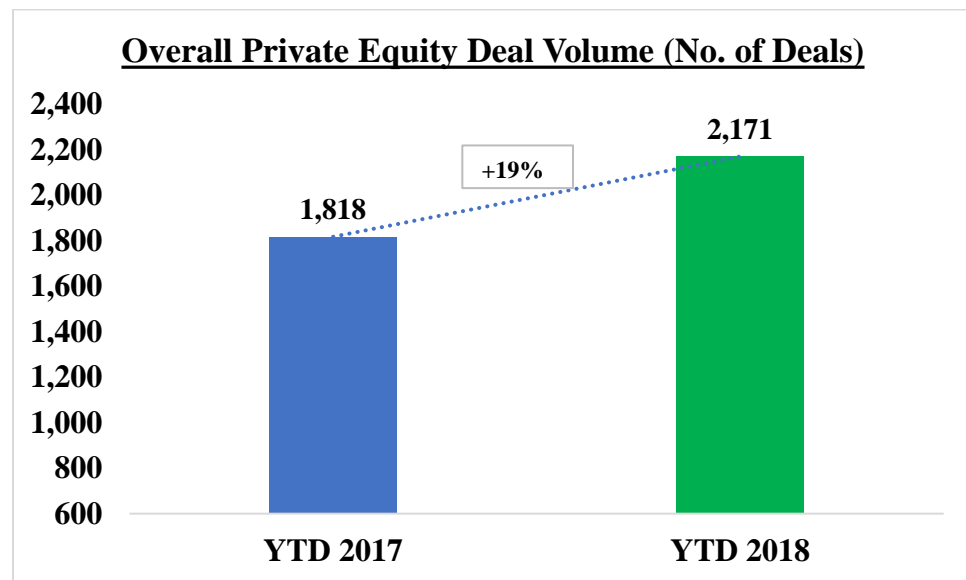
Source: PitchBook Data, U.S. PE Middle Market 3Q2018 covering deals ranging in value from \$25 million to \$1 billion.

Deal Activity by Size

The \$312 billion in deal flow so far this year mentioned above, represented an impressive 13% year-over-year increase over the same period in 2017.

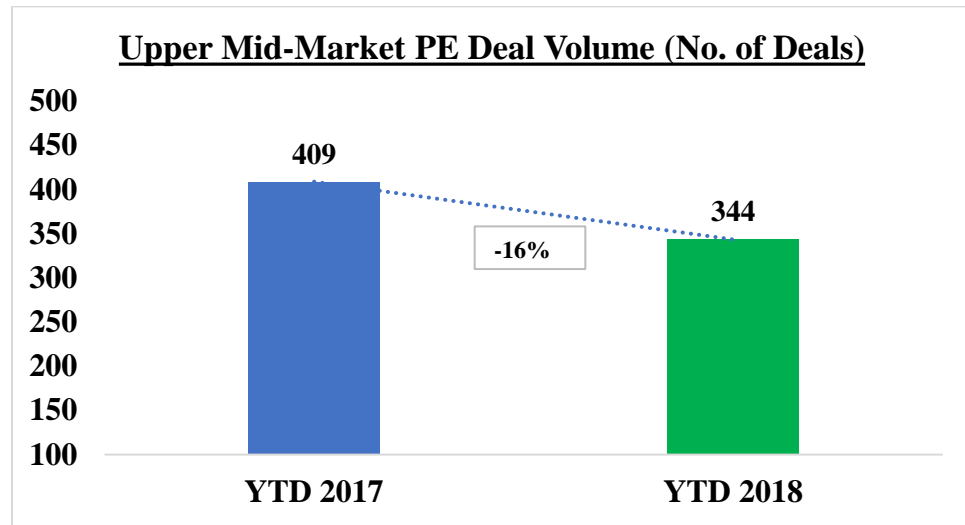


At the same time, overall middle market PE deal volume (number of deals) was up 19%.

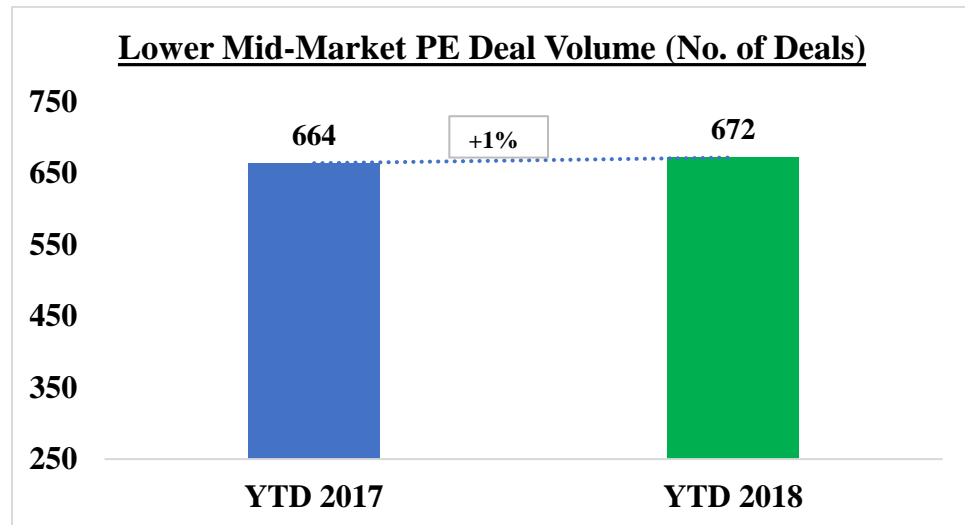


But the story is in the details, where the core middle market (deal sizes of \$100MM to \$500MM) dominated both the upper middle market (\$500MM to \$1B) and the lower middle market (\$25MM to \$100MM).

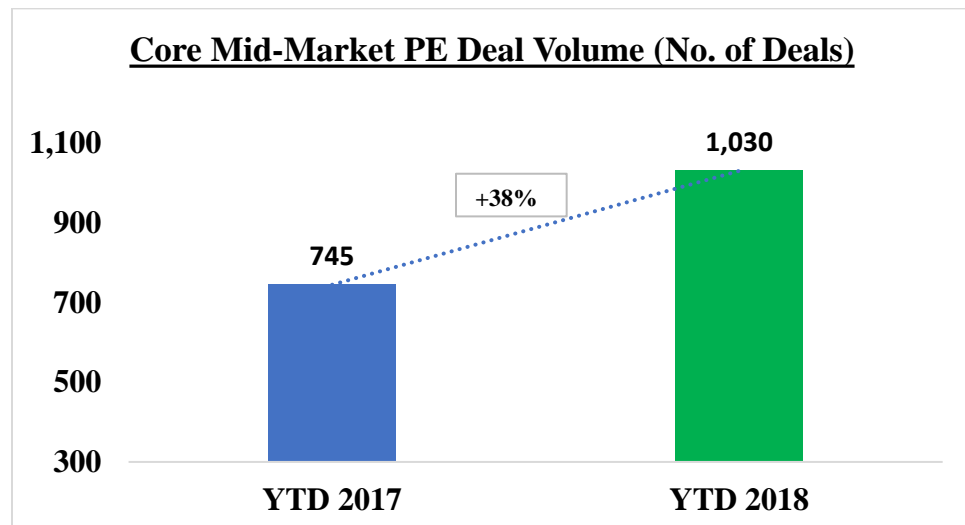
The upper middle market saw a decrease in deal volume of 16%.



While activity in terms of volume in the lower middle market was essentially flat.



But in the core middle market, total deal volume spiked almost 40%.



The sweet spot in middle market PE deal activity therefore so far in 2018 has been the core middle market (deal sizes in the range of \$100MM to \$500MM). As large PE players who have historically played in the upper middle market (over \$500MM) have had trouble finding quality deals at reasonable values, they have come down market. The hundreds of billions that have been raised have to be put to work.

Based on our own personal experience, the data has not yet shown what we have seen, which is a dramatic increase in volume in the lower middle market. We believe this will show up in the data in the next one to two quarters as the significant increase in deals below \$100MM in value that have come to market over the past six months are successfully closed.

Impact of Midterm Elections

Effect of Mid-term Elections on the M&A Market

According to a recent article in *Mergers & Acquisitions*, since the results of the midterm elections were generally in line with market expectations, most in the M&A and private equity communities do not anticipate any major implications going forward in the short to medium term. That being said, with a more balanced Congress, it's safe to say the pace of deregulation we've seen in financial services will likely abate and optimistic hopes of another round of tax cuts will also wane. In fact, to the extent the 2020 election appears uncertain, some sellers may be concerned the tax cuts could be reversed causing them to come to market before the next Presidential election.

We believe the general economy and the pace and impact of rising interest rates remain the key factors to watch in evaluating the longevity of the bull market for private equity and M&A in the lower middle market.

Cannabis

The mid-term elections saw the failed re-election bid of one of Congress' most vocal opponents of pot legalization, Pete Sessions, a Republican Representative from Texas, who used his position as Chairman of the House Rules Committee to block House floor members from voting on a significant number of marijuana amendments during his leadership tenure. The recent resignation of another Mr. Sessions, the former Attorney General, Jeff Sessions, who refused to consider removing marijuana from the list of Title 1 substances, is also bullish for the cannabis industry. With these changes in leadership, observers are expecting a more hands-off approach from the federal government is an easier bet to make, and investors will most definitely get more comfortable with making an investment in cannabis related companies.

Calabasas Capital

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- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring

Our industries of expertise include:

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- Business Services
- Industrial Manufacturing & Distribution
- eCommerce & Software

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