



# CALABASAS CAPITAL

## 3Q 2019 M&A Market Update

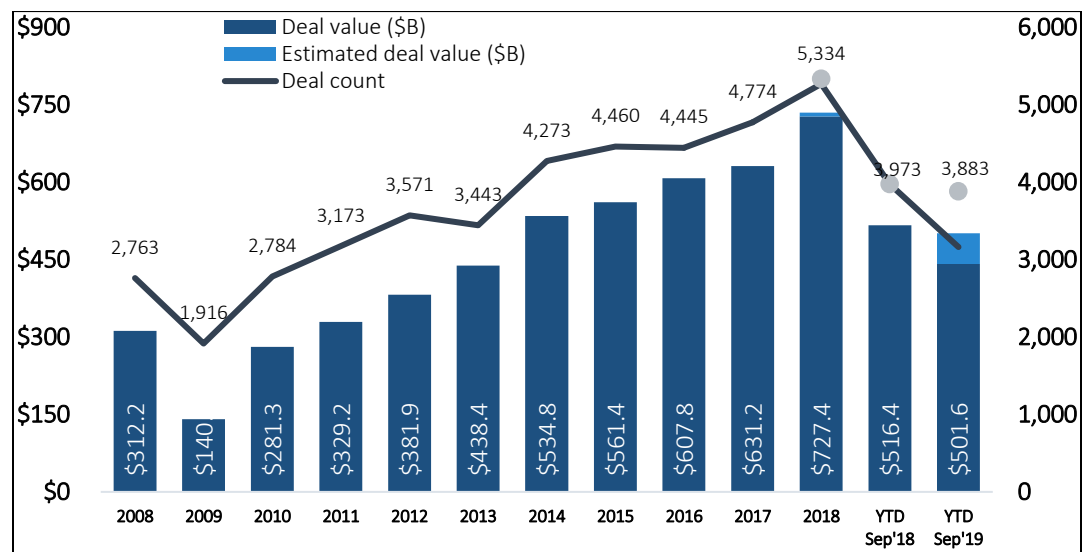
### About Us

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.

## U.S. Private Equity M&A Activity Stays Strong

According to PitchBook Data, after a record level of activity in 2018, U.S. Private M&A activity in the first nine months of 2019 was only down 3% in terms of value over the same period in 2018 and only down 2% in terms of deal volume (the number of deals). The average deal size stayed roughly the same at about \$130 million.

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

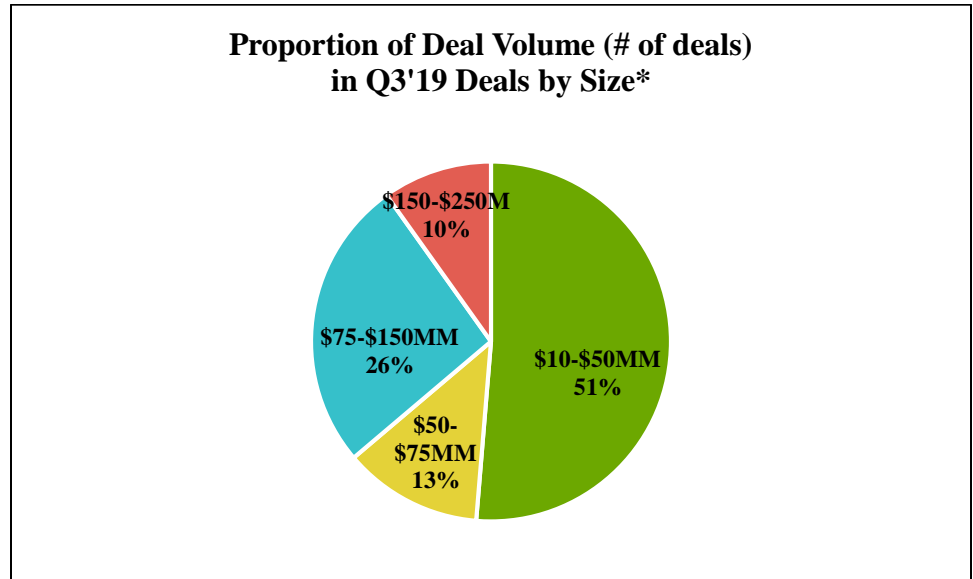


\*Source: PitchBook Data 3Q 2019 Private Equity Breakdown.

## Small Deals Dominate

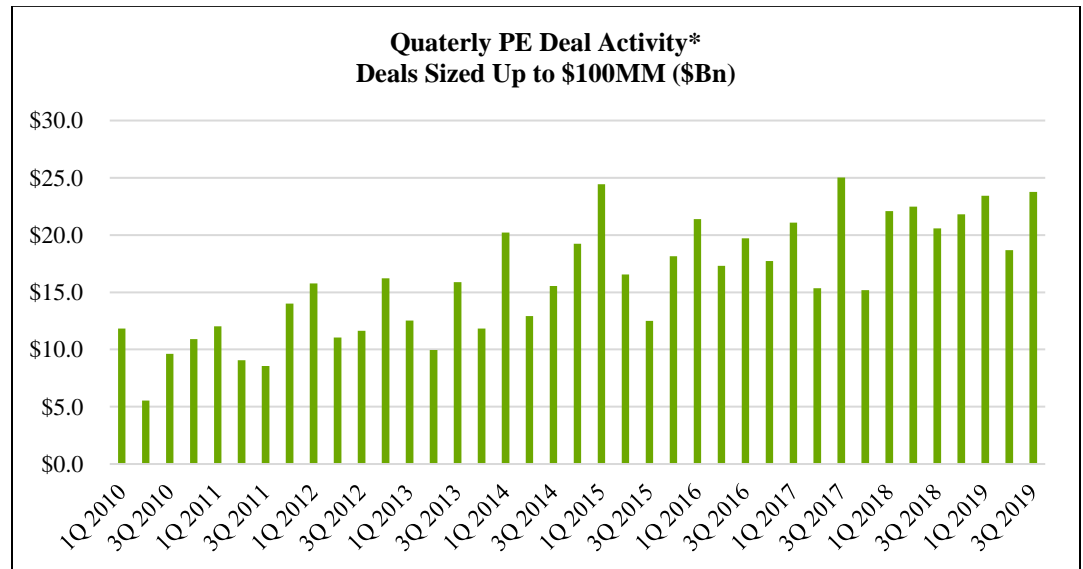
According to Capital IQ, of the deals closed in 3Q 2019 in the \$10MM - \$250MM range, over half were at the lower end, in the \$10MM - \$50MM range. We believe this is continued evidence of:

- Buyers going down market to avoid the nose bleed multiples at the higher end of the market, and
- In our opinion, this also reflects the increased supply of deal flow at the lower end of the market. Owners of these smaller companies are noticing it's a good time to sell especially if they see some economic headwinds over the next 12 to 24 months.



\*Source: Capital IQ.

Analysis from Pitchbook Data also reinforces the strength of the lower end of the middle market. While overall private equity activity as shown above is down so far this year, total activity in sub \$100MM sector is up 1% so far this year. For the first three quarters of 2019, \$65.9 billion in deals sub \$100MM were completed, 1% more than the \$65.1 billion in deals completed in the first three quarters of 2018.

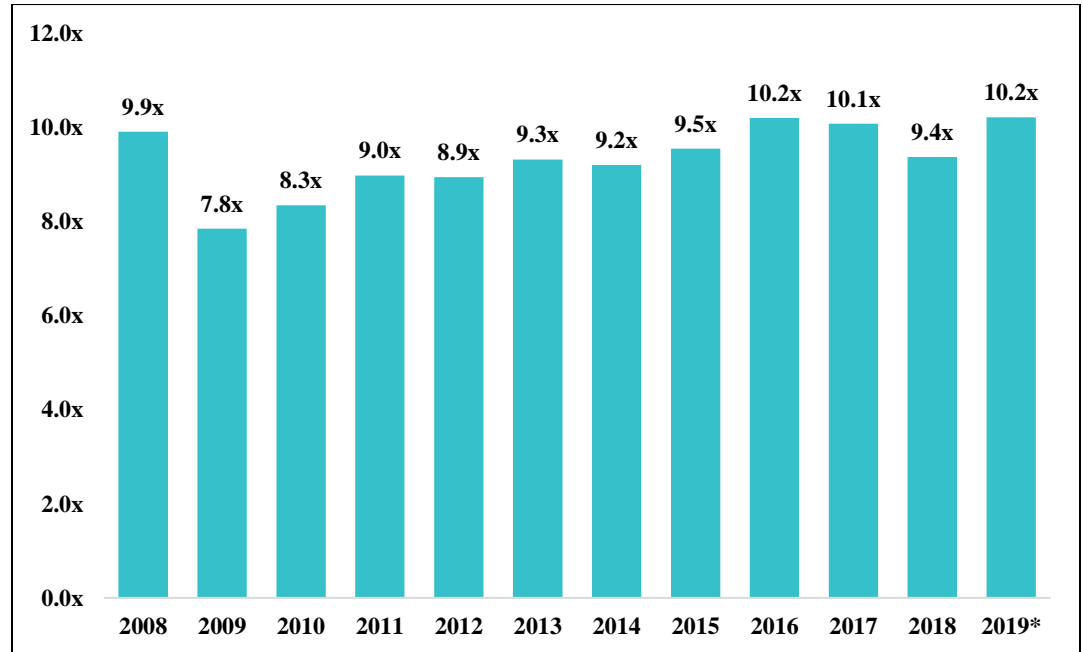


\*Source: PitchBook Data 3Q 2019 Private Equity Breakdown.

## Valuation Multiples Rebound

According to PitchBook Data, after two years of slight declines, North American M&A valuation multiples ticked back up to 10.2x in 1H 2019 to match the previous record high.

### M&A EV/EBITDA Multiples\*



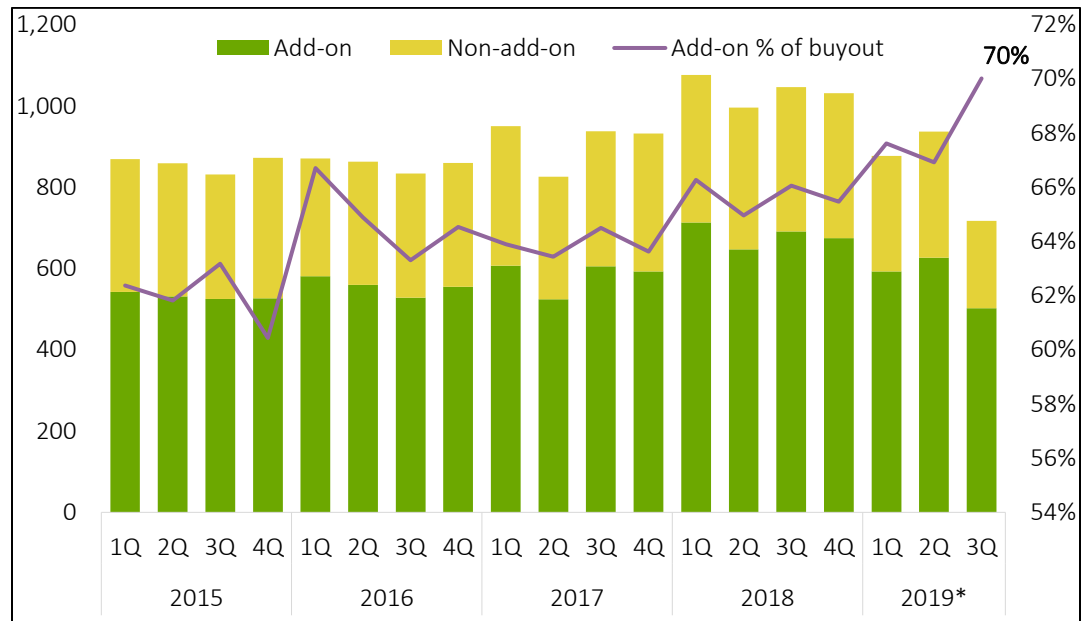
\*Source: PitchBook Data 2nd Quarter 2019 North American M&A Report. Through June 2019.

These multiples however reflect the overall market including public company deals and multibillion-dollar transactions. According to GF Data, the average multiples paid by private equity buyers in the lower middle market (deals between \$10mm and \$250mm in value) have remained in the **7.0x to 7.5x range**.

## Add-ons Continue to Outpace New Platform Buys

Observers who are still not convinced that the lower middle market is where the action is, need to look no further than the next chart. According to Pitchbook Data, in 3Q 2019, add-on acquisitions represented a record 70% of all private equity acquisitions with new platform acquisitions at 30%. After all, if financial buyers are being compelled to pay double digit multiples for \$10MM+ EBITDA platform investments, it pays to average down the overall multiple for that platform by picking up several smaller add-ons which can be acquired for mid-single digit multiples.

**PE Add-Ons as Proportion of Buyout Activity\***



\*Source: PitchBook Data 3Q 2019 Private Equity Breakdown.

## 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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