



CALABASAS CAPITAL

3rd Quarter 2020 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.

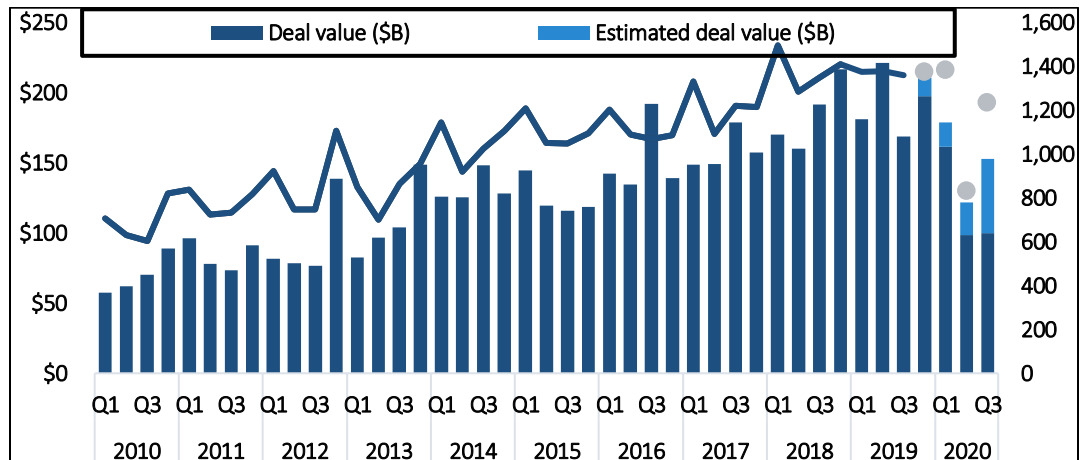
M&A Activity Bounces Back in 3rd Quarter

Private Equity M&A

U.S. private equity deal activity, while still behind pace overall because of Covid, has begun to rebound. According to PitchBook Data, **deal activity in Q3 2020 was up versus Q2 2020 by 48%** in terms of volume (number of deals) and 26% in terms of value. While Q2 2020 deal activity was down about 40% year over year, deal activity was down by only 9% in Q3 2020 on a year over year basis.

U.S. PE deal activity registered 3,444 deals worth a combined \$453.2 billion year to date Q3 2020—declines of 16.2% and 20.6% compared year to date Q3 2019. Registering the lowest deal value since 2015, Q2 2020 seems to have been the trough in deal activity.

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

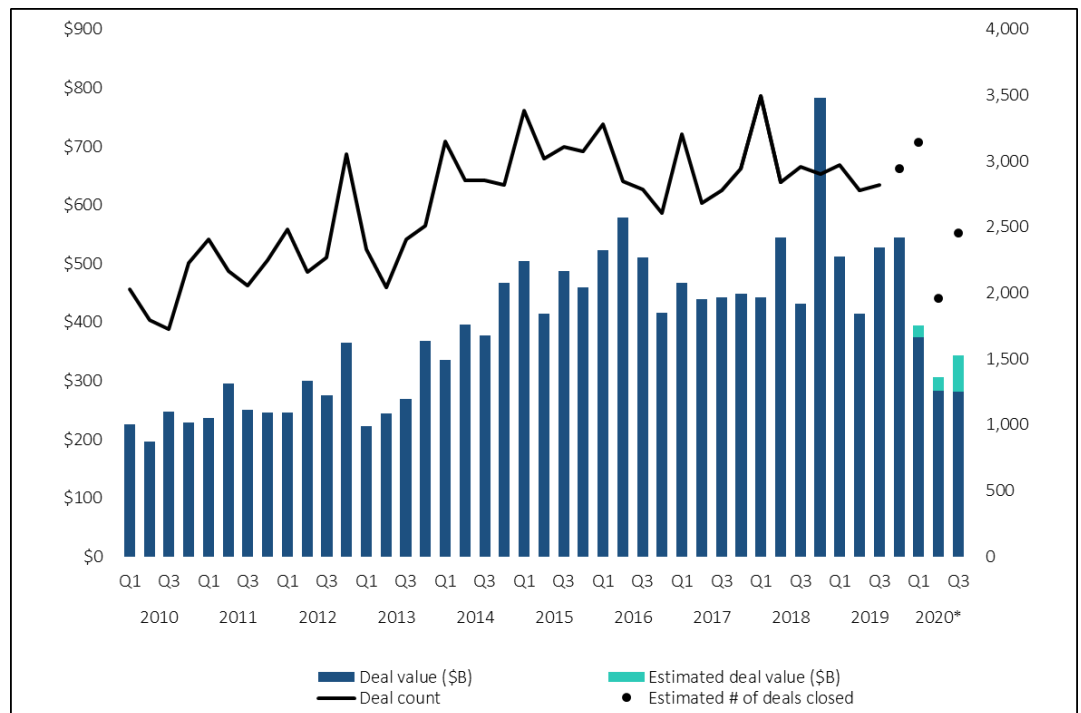


*Source: PitchBook Data 3rd Quarter 2020 Private Equity Middle Market Report.

Overall U.S. M&A

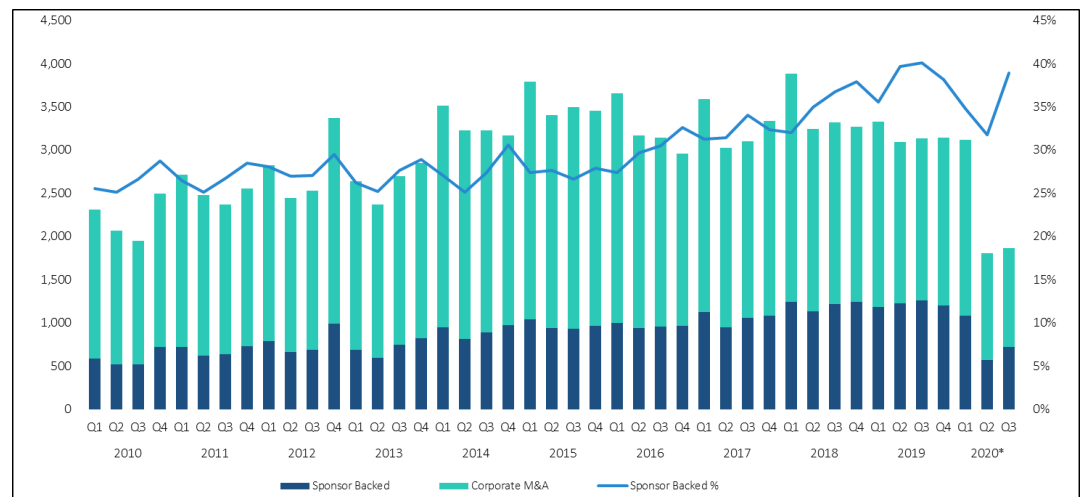
Overall M&A activity in the U.S. (including private equity M&A noted above) rebounded in 3Q 2020 as well but not by quite as much as just the private equity sector. Overall **U.S. M&A deal volume increased by 26%** on a quarterly sequential basis from 2Q 2020 to 3Q 2020 (compared to a 48% increase for the private equity component of M&A activity in the U.S.) and deal value increased by 12% from quarter to quarter (compared to a 26% increase for the private equity component of M&A activity in the U.S.).

U.S. Middle Market M&A Activity (\$Bns)*



*Source: PitchBook Data 3rd Quarter 2020 North American Middle Market M&A Report.

Trends in Buyer Type: Strategic vs. Financial



*Source: PitchBook Data 3rd Quarter 2020 North American Middle Market M&A Report.

According to PitchBook Data, sponsors represented 39% of deal flow in 3Q 2020, a dramatic increase from 32% in 2Q 2020. There could be several theories for why private equity M&A activity is rebounding quicker than overall M&A activity. We believe it's a combination of: (1) strategics being more cautious during the pandemic as they may be focused more internally, and (2) sponsors' eagerness to deploy capital as they continue to sit on a lot of dry powder.

Valuations

Surprisingly, valuation multiples have held steady although more deals involve seller notes and earnouts in the Covid era. According to GF Data, the average valuation multiple for private equity acquisitions in the \$10 - \$250 million range in 2Q 2020 deal range **held steady between 7.0x and 7.5x**, consistent with the past few years.

Leverage

The resilience in valuation multiples is even more intriguing when considering the drop in leverage. According to GF data, the average debt multiple of private equity acquisitions in the lower mid-market (\$10-\$250MM) **dropped to about 3.5x Total Debt/EBITDA in 2Q 2020 from 4.0x-4.5x the last few years**. Sponsors, who still hold billions of dollars in dry powder, are either putting in a little more equity into their deals or they are plugging the leverage gap with seller financing.

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

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