



CALABASAS CAPITAL

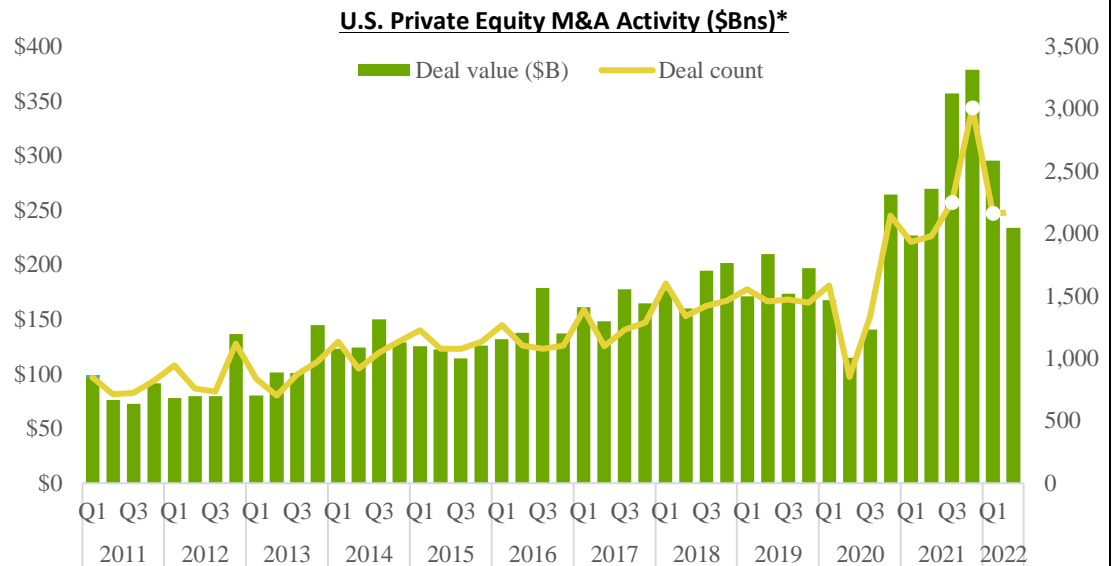
Q2 2022 Private Equity M&A Market Update

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 Slows But Remains Very Active

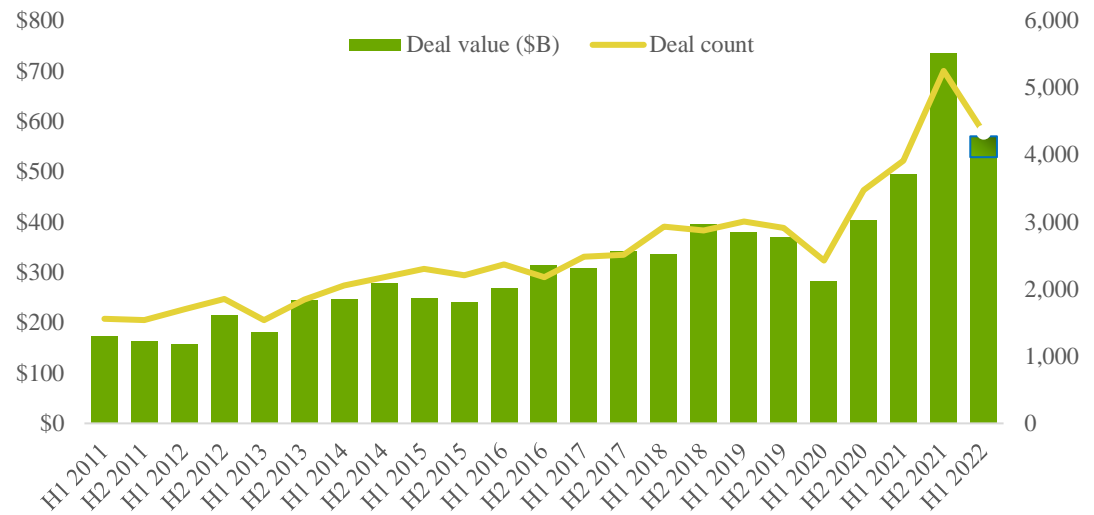
According to PitchBook data, private equity M&A activity in the U.S. in Q2 2022 continued to back off from the frenetic pace in 2021 but was still one of the most active quarters in the past 10 years. Deal value of \$234.1 billion in Q2 2022 was down 21% on a sequential basis vs. Q1 2022 and down 13% on a year-over-year basis as compared to Q2 2021. Activity in Q2 2022 based on deal volume (number of deals) however was actually up by 1% on a sequential basis vs. Q1 2022 and up by an even higher 10% on a year-over-year basis as compared to Q2 2021.



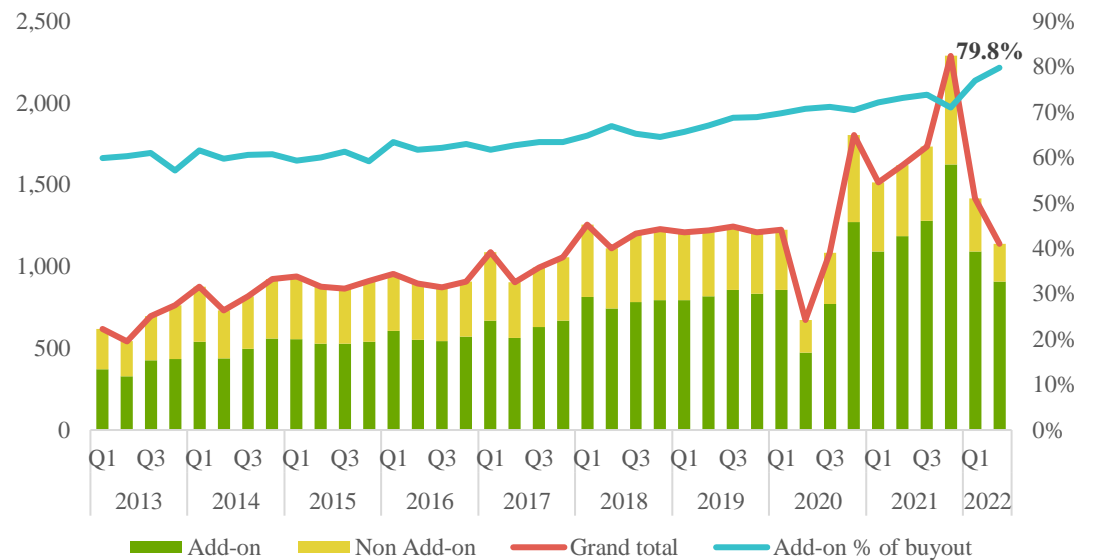
*Source: PitchBook Data Q2 2022 U.S. Private Equity Report.

This means either valuations are lower, or the average deal size is down. The data indicates the latter is true as the average deal size is definitely down since the lower end of the middle market has been much less impacted by macroeconomic factors than the core middle market and upper middle market. Our own anecdotal evidence supports this notion as our deal flow (below \$100 million) has never been stronger.

Deal flow for the first half of 2022 (H1 2022) was stronger than any half year period other than H2 2021. Deal value of \$529 billion in H1 2022 was down 27% on a sequential basis as compared to H2 2021 but up 7% on a year over year basis over H1 2021. Deal volume of 4,337 deals was down 17% on a sequential basis as compared to H2 2021 but up 11% on a year over year basis over H1 2021.



Add-On Activity Further Demonstrates Resiliency of LMM

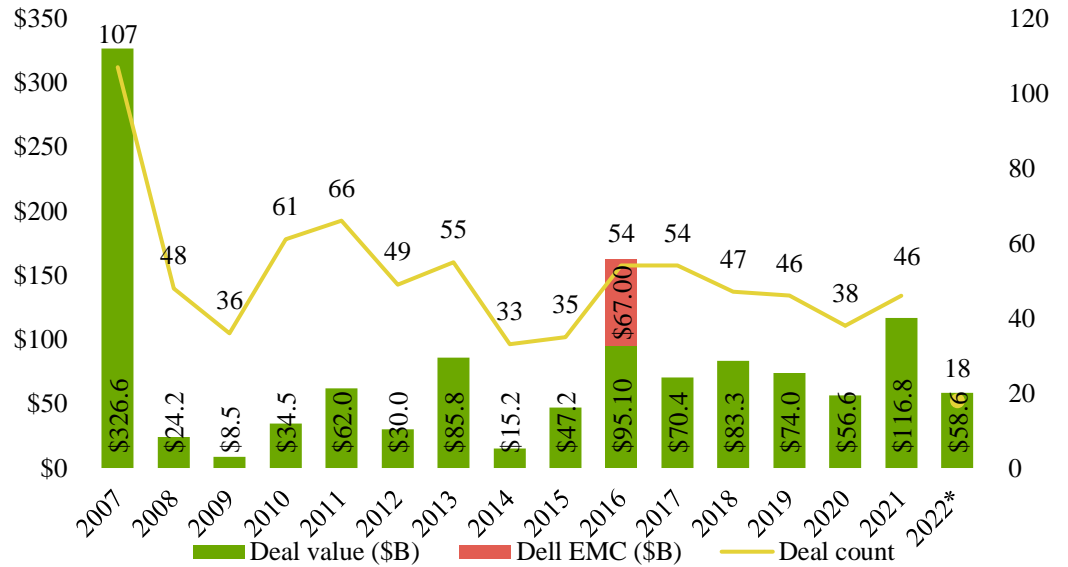


According to PitchBook Data, the percentage of private equity deals representing add-on acquisitions by existing portfolio companies as compared to acquisitions of platform companies accelerated to a record 80% in 2Q 2022. While the primary cause is likely the continued benefit of multiple arbitrage, this also demonstrates the relative strength of the lower middle market as compared to the core and upper middle market segments where companies are much more impacted by macroeconomic factors.

*Source: PitchBook Data 2nd Quarter 2022 Private Equity Report.

Take-Private Activity Expected to See an Uptick

Given the drop in public equity valuations, most M&A professionals expect to see an increase in take-private acquisitions by private equity firms who still are sitting on billions of dollars in dry powder. This has not yet shown up in the data but in sectors like technology which has seen the biggest drop in public valuations on a relative basis, we believe many are now the radar of larger private equity firms.

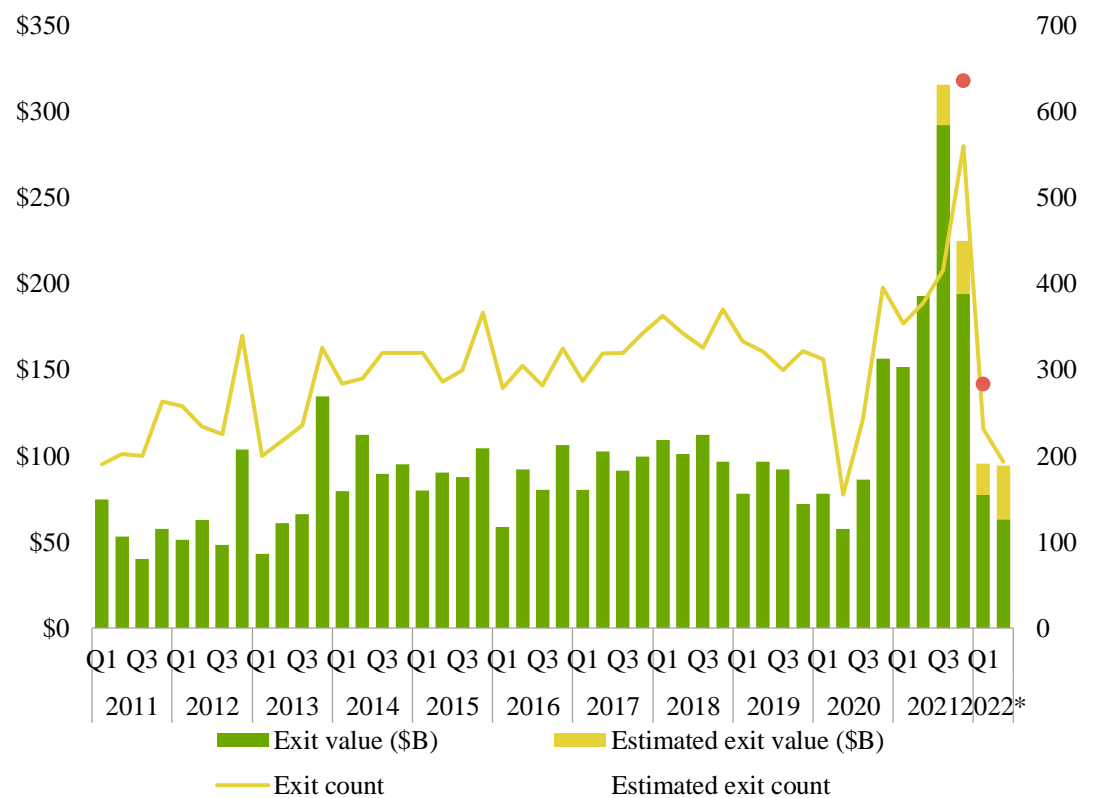


*Source: PitchBook Data 2nd Quarter 2022 Private Equity Report.

Growth Equity and VC Carnage Should Drive M&A

The drop in public equity valuations in the tech sector, especially in areas like Fintech, is also anticipated to represent a significant driver of continued M&A activity. Companies that either have had to shelve their own IPO plans or cannot raise their next round of financing at an attractive valuation are beginning to consider M&A as a liquidity alternative to continue to fund their growth. This is more the case in pre-IPO and other later stage transactions as opposed to early stage. Deal flow and valuations for Series A rounds, for example, have helped up well.

The following chart demonstrates the slowdown in private equity exit activity.



*Source: PitchBook Data 2nd Quarter 2022 Private Equity Report.

Summary

Despite the existence of a number of headwinds in the economy, M&A activity at the lower end of the middle market remains healthy. The deal dynamics around a \$30 million target operating primarily domestically simply are much less impacted by interest rates, inflation, labor shortages, and supply chain issues than those related to a \$300 million or a \$3 billion target company operating globally.

Calabasas Capital

Our comprehensive services include:

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- 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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