

Presentation to:

ACG 101

Trends in Lower Middle Market M&A and Growth Capital

APRIL 2017

DISCLOSURE

- *This presentation should not be considered in any way an offer to buy or sell a security.*
- *Buying or selling a security involves substantial risk and may be worth more or less than the original investment.*
- *This presentation is for informational purposes only.*
- *Securities offered through Fallbrook Capital Securities Corp. Member FINRA/SIPC*.*

**Calabasas Capital is a dba of Fallbrook Capital.*

INTRODUCTION TO CALABASAS CAPITAL

- We are a boutique investment banking firm serving privately held companies in the lower end of the lower middle market (\$10 million to \$100 million in revenues)
- Our professionals have significant M&A advisory and capital raising experience

Mergers & Acquisitions

- Business sales
- Subsidiary dispositions
- Business purchases
- Mergers and JVs

Capital Raising

- Private Equity
- Subordinated Debt
- Senior Debt
- Venture Capital

Securities offered through Fallbrook Capital Securities Corp., Member FINRA/SIPC

KEY INDUSTRIES OF EXPERTISE



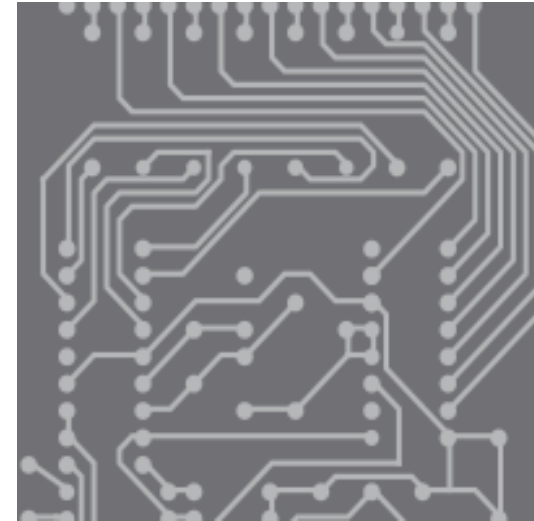
Consumer

- Retail/Restaurants
- Food & Beverage
- Apparel/Footwear
- Personal Care
- Building Products
- Household Products



Business Services

- Facilities Maintenance
- Equipment Rental
- Market Research
- Telecom & IT
- Payment Processing
- Tech-enabled Services



Technology/Media

- Online Marketing
- Hardware & Software
- IT Services
- E-Commerce
- Telecommunications
- Mobile & Ad Tech



RECENT TRANSACTIONS

CALABASAS CAPITAL



Has been acquired by



A portfolio company of



Calabasas Capital served as exclusive financial advisor to Modul Marble & Granite and initiated this transaction.

CALABASAS CAPITAL



Has been recapitalized by an affiliate of



Calabasas Capital served as financial advisor to Blue Sky Network and initiated this transaction.

CALABASAS CAPITAL



has been acquired by:



ASI Entertainment and Screen Engine are both entertainment-industry focused full-service market research services companies.

Calabasas Capital served as financial advisor to ASI Entertainment.

CALABASAS CAPITAL



Background Images, Inc. has raised \$3.6 million in financing from:



Background Images is a leading equipment rental services company to the television, motion picture, concert production and tradeshow industries.

Calabasas Capital served as financial advisor to Background Images, Inc.

CALABASAS CAPITAL



has been acquired by:



a portfolio company of:



PrintRunner and Uprinting are both leading online commercial printers.

Calabasas Capital served as financial advisor to PrintRunner, Inc.

CALABASAS CAPITAL




has raised private equity from a group of investors led by:

SJ Investment Co.


Tranzlogic is a rapidly growing provider of retail customer analytics leveraging payment processor networks.

Calabasas Capital served as financial advisor to Tranzlogic, LLC.

CALABASAS CAPITAL



Has acquired a majority interest in



VDMS is a leading provider of digital content distribution and post-production services in the U.S. while re:fine provides similar services in the U.K.

Calabasas Capital served as financial advisor to VDMS in the transaction.

CALABASAS CAPITAL



has raised

Debt Financing

From a Private Investment Firm

Revolution Eyewear is a branded manufacturer and distributor of proprietary eyeglass frames.

Calabasas Capital served as exclusive financial advisor to Revolution and sourced the capital.

CALABASAS CAPITAL

i.e. distribution

has acquired the assets of World Industries



With \$3.5MM in Mezzanine Debt Financing Raised From:



World Industries is a leading action sports footwear brand.

A managing director of Calabasas Capital served as financial advisor to i.e., distribution while at a previous firm.

CALABASAS CAPITAL

Stix Holdings, LLC has acquired the assets of:



FRESH ASIAN FLAVORS

from **CARLSON**
Carlson Restaurants, Inc.

Pick Up Stix is a chain of fast casual Chinese restaurants, including 70 company-owned stores and 4 franchises.

Calabasas Capital served as financial advisor to Stix Holdings, LLC an affiliate of Mandarin Express, Leeann Chin & Chin's Asia Fresh.

CALABASAS CAPITAL



NTN Wireless Communications


has been acquired by:



NTN Wireless Communications is one of the largest manufacturers and distributors of restaurant paging systems.

A managing director of Calabasas Capital served as financial advisor to NTN Wireless Communications while at a previous firm.

CALABASAS CAPITAL



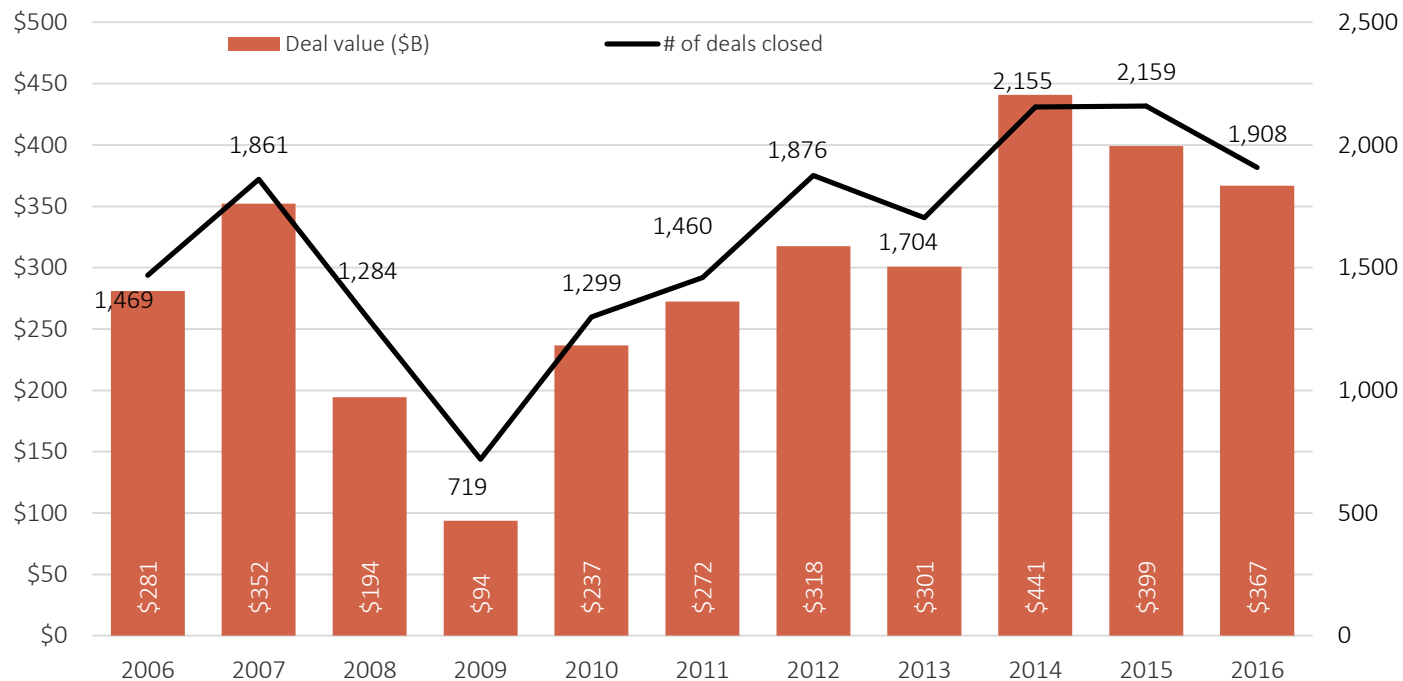
Hamlet Group, Inc. & Subsidiaries have been acquired by:

A Private Investment Group

Hamlet Group is an iconic national casual dining restaurant chain.

A managing director of Calabasas Capital served as financial advisor to Hamlet Group while at a previous firm.

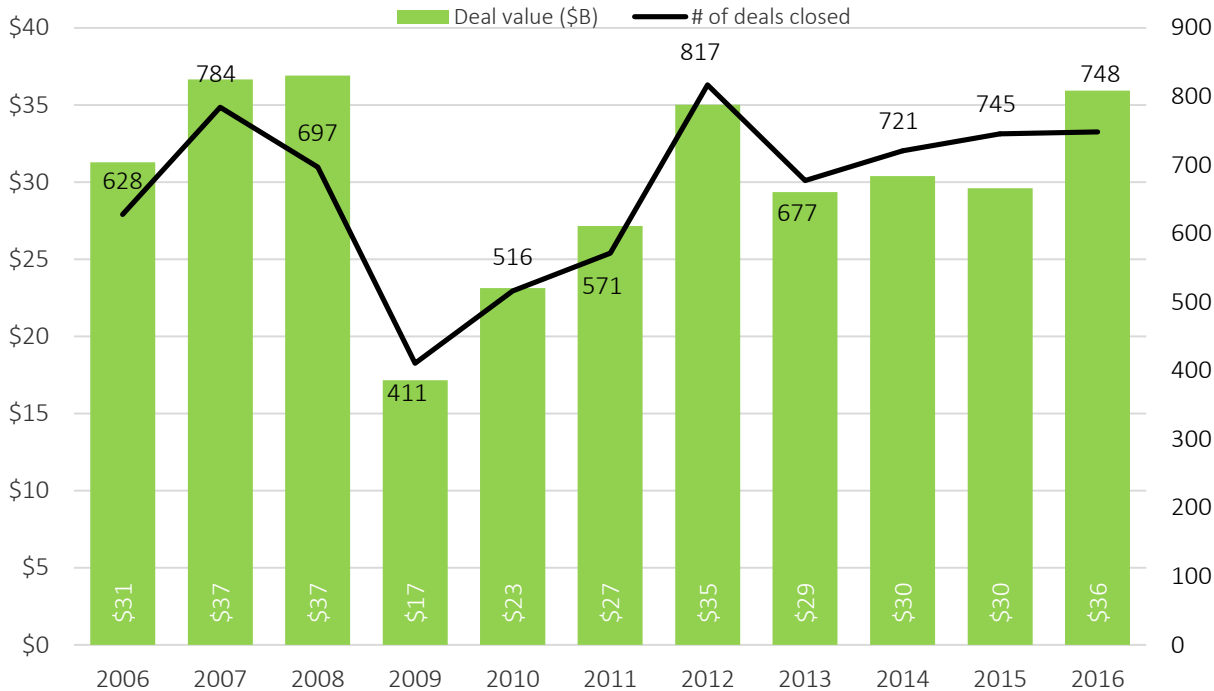
U.S. MIDDLE MARKET PE ACTIVITY - ANNUAL



- \$367 billion was invested by PE firms in the U.S. Mid-Market in 2016 across 1,908 completed deals, representing a year-over-year decline of 8% in terms of total value and 12% in terms of volume

Source: PitchBook Data deal sizes \$25 million to \$1 billion.

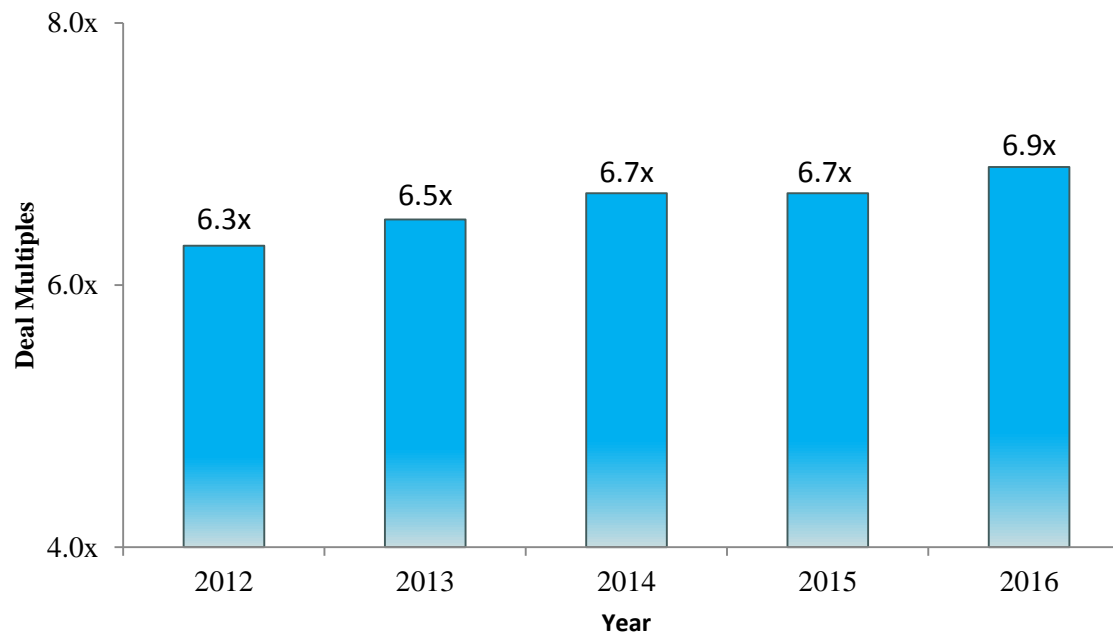
LOWER MIDDLE MARKET PRIVATE EQUITY ACTIVITY



- With PE buyers being squeezed out by strategics in auction processes, we've seen more PE firms move down to the LMM where transaction volume remains strong.
- While deal activity was down in the overall middle-market, PE in the LMM was up by 21% in value last year and while deal volume also increased ever so slightly

Source: PitchBook Data deal values \$25 million to \$100 million.

PE VALUATIONS IN THE LOWER MID-MARKET

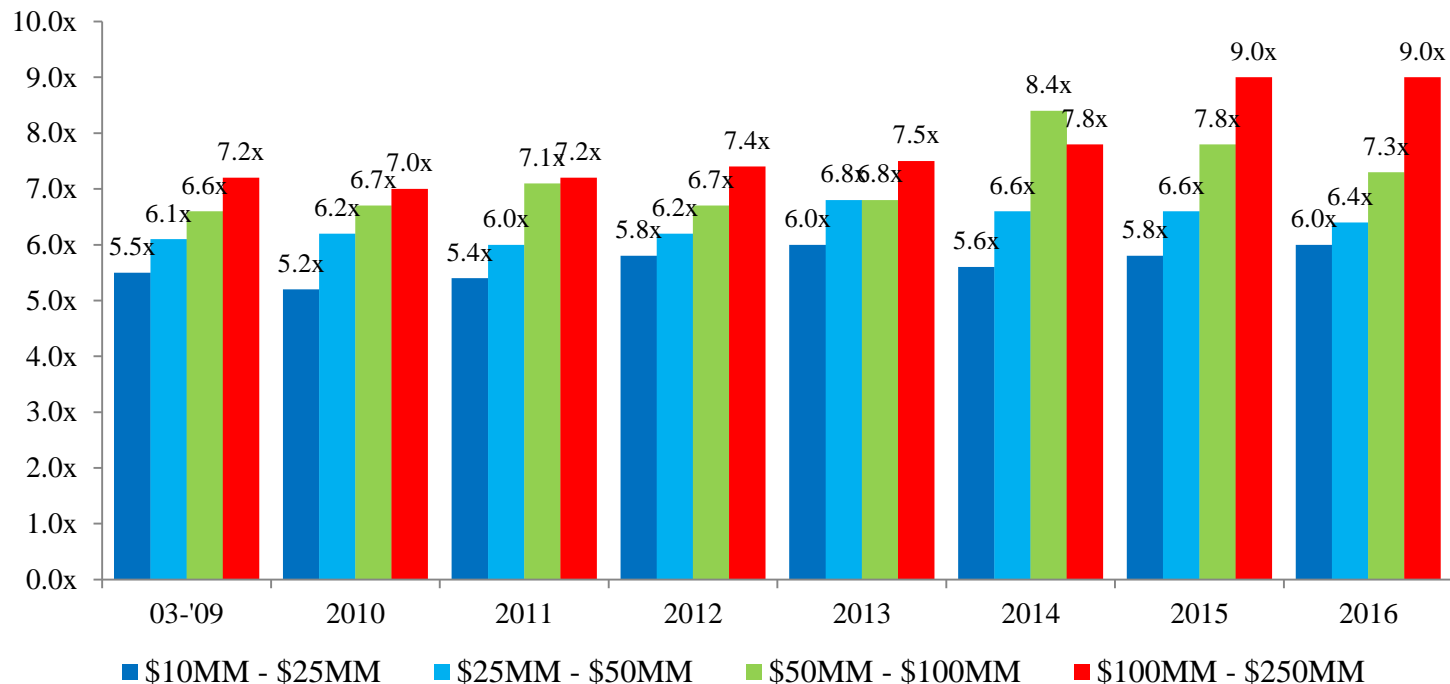


- Deal multiples increased in 2016 after hitting a plateau in 2015
- These higher prices being paid by PE funds reflect the urgency in deploying un-invested capital, the availability of debt financing as well as the scarcity of “good” deals.

Source: GF Data (deals valued \$10MM to \$250MM).

LOWER MIDDLE MARKET PE DEAL VALUATIONS

Private Equity EV/EBITDA Multiples by Deal Size

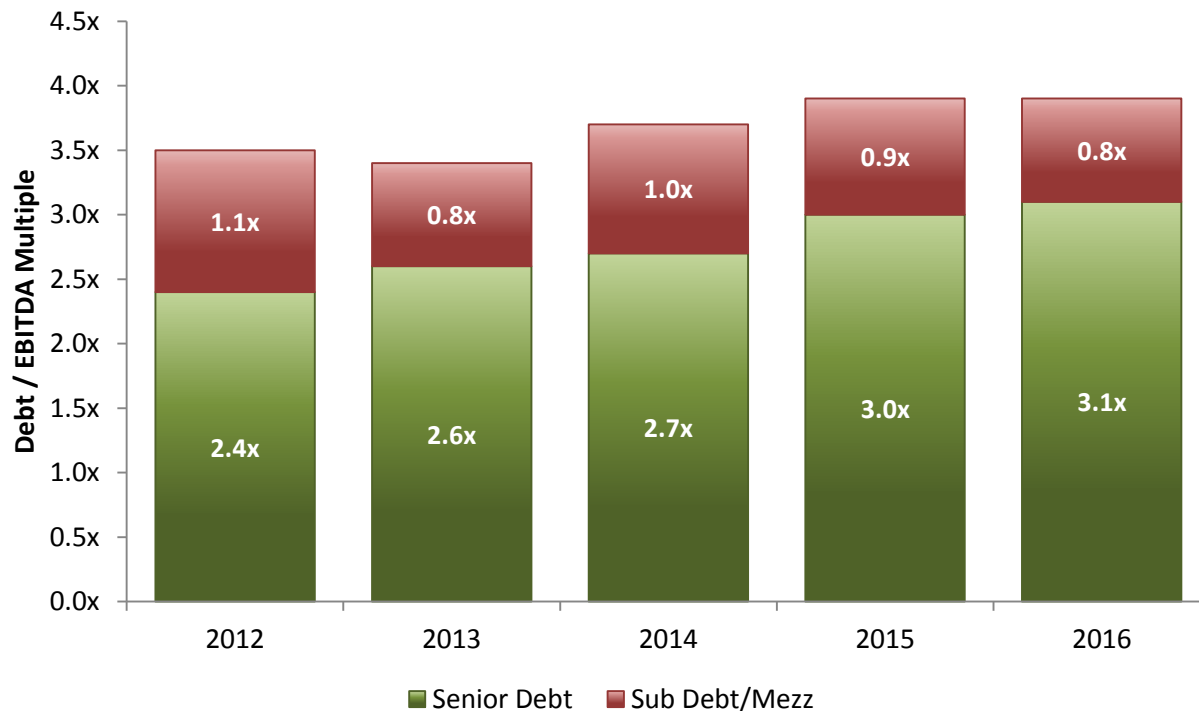


- Private equity deal valuations indicate a continuing trend of bigger is better.
 - For the most part, deals of all sizes in the LMM have seen an increase in multiples with the largest increases seen in deals of over \$100MM
 - Valuations for small deals however (less than \$25MM) finally ticked up in 2015 as activity at the lower end tends to lag activity and trends at the upper end

Source: GF Data.

LOWER MIDDLE MARKET PE LEVERAGE MULTIPLES

PE Debt / EBITDA Multiples



- High valuations paid by PE firms in the LMM were facilitated by continued strength in the debt markets
- Although many BDCs struggled in 2016 because of low NAVs in the public markets, newly formed credit funds picked up the slack and then some

Source: GF Data.

BUSINESS OWNER SURVEY BY CITIZENS BANK

For the fifth year in a row, in early 2017, Citizens Commercial Banking conducted a survey of 600 U.S.-based middle market business decision-makers who are open to or currently engaged in some form of corporate development activity, including mergers, acquisitions and raising capital. For the purposes of this survey, middle market businesses are defined as private or public companies with annual revenue between \$5 million and \$2 billion.

- Like last year, this year there is a sense of urgency among buyers who are feeling increased **pressure to show growth** and Sellers who are eager to **get the most for their business** while valuations are still high.
 - However, potential tax policy and regulatory changes proposed by the incoming administration may signal opportunities for a resurgence in economic growth, and even higher valuations, which have implications for Buyers and Sellers alike.
 - This has recently caused some Sellers to delay their exit timing as they believe valuations may continue to rise
- Activity and interest among both Buyers and Sellers increased from last year
 - 53% of Sellers are currently involved in or open to making a deal in 2017 (up from 34% in 2016)
 - 73% of Buyers are currently involved in or open to considering making an acquisition (up from 60% in 2016)
- In 2016, the greatest worry among middle market sellers was being underpaid for their firms with 50% of respondents saying this was their biggest concern but that was not the case in 2017
 - Only 30% cited valuation as their biggest concern given the rise in valuations
 - The biggest concern now are (1) meeting financial targets after the sale, and (2) losing key employees during or after the sale
- More respondents today see clouds on the horizon than last year
 - Today, 58% of business owners believe there will be a financial crisis within the next 3 years while last year it was only 41%.