



M&A MARKET UPDATE

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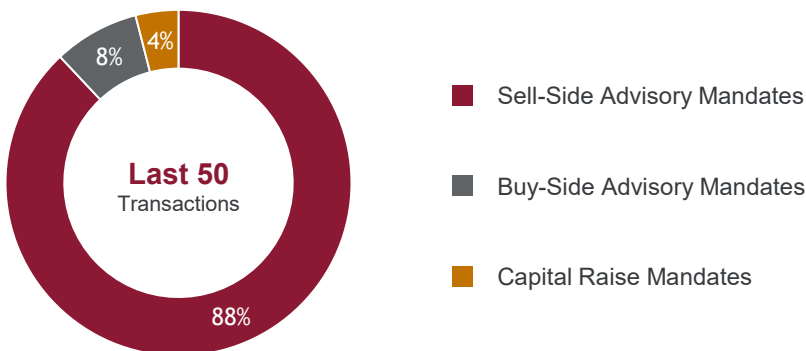
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CIBC Mid-Market Investment Banking

CIBC Mid-Market Investment Banking Overview

- Dedicated mid-market advisory team with extensive experience providing M&A and financing advice to owners and management of Canadian private companies
- Team of professionals located in Toronto, Montreal and Halifax in the east, and Vancouver, Calgary and Edmonton in the west
- We execute three types of transactions for our clients:
 1. Divestitures (“sell-side” advisory mandates)
 2. Acquisitions (“buy-side” advisory mandates, including MBOs)
 3. Capital raises (including non-bank debt and equity financing)

Extensive Experience Across Transaction Types



Leaders in Canadian Mid-Market M&A



Number of Closed Transactions in 2021: **20**



Average Transaction Size in 2021: **\$40 million**

Coast-to-Coast Investment Banking Coverage



M&A Market Update

Key Questions



Are M&A deals getting done during COVID?



Has transaction pricing been impacted?



Who are the active buyers and sellers?



Which industries are in / out of favour?



How are deal structures changing?

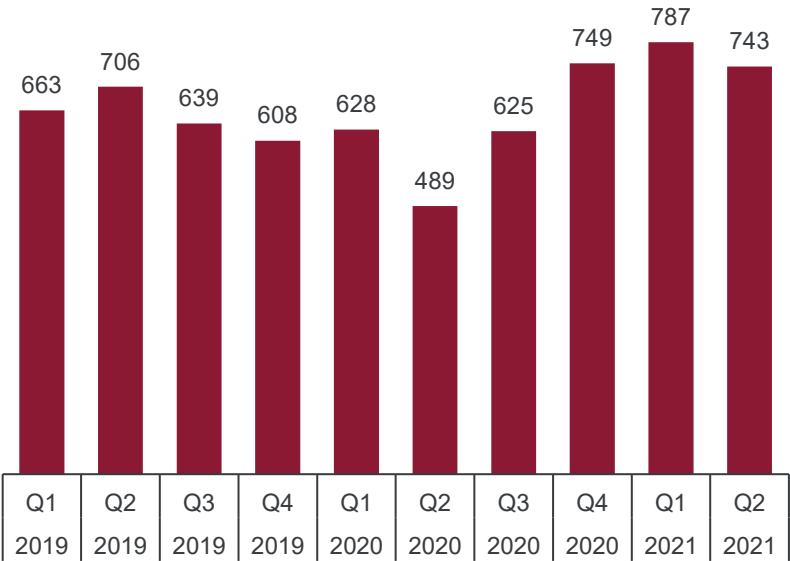
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Deal Volumes

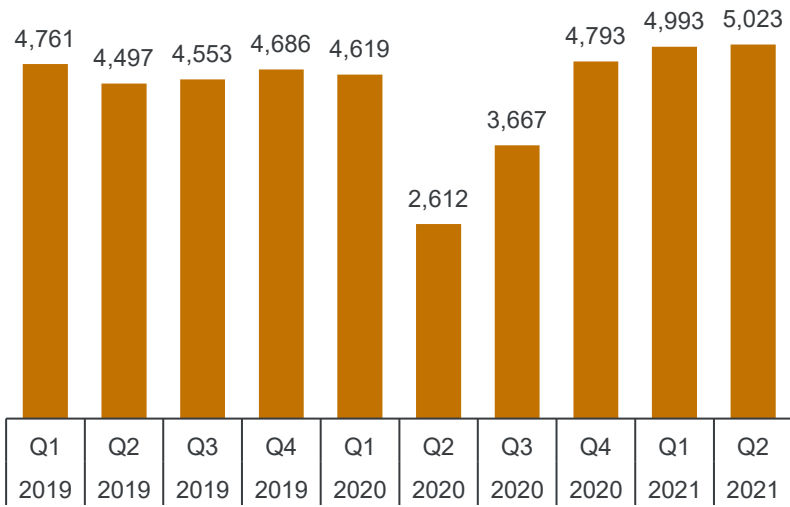
M&A Activity Has Fully Rebounded

- M&A activity declined significantly in Q2 of 2020 and remained depressed for 6+ months in mid-2020
- By Q4 of 2020, transaction volume had rebounded with buyers and sellers once again keen to transact
- Given a strong economy, there is renewed optimism and more visibility on a return to a “new normal”
- After a slow 2020, our mid-market M&A group found Q2-Q3 2021 to be exceptionally busy for M&A deal announcements – we have closed a record number of transactions in 2021 to date

Canadian Transaction Count



U.S. Transaction Count



Source: S&P Capital IQ



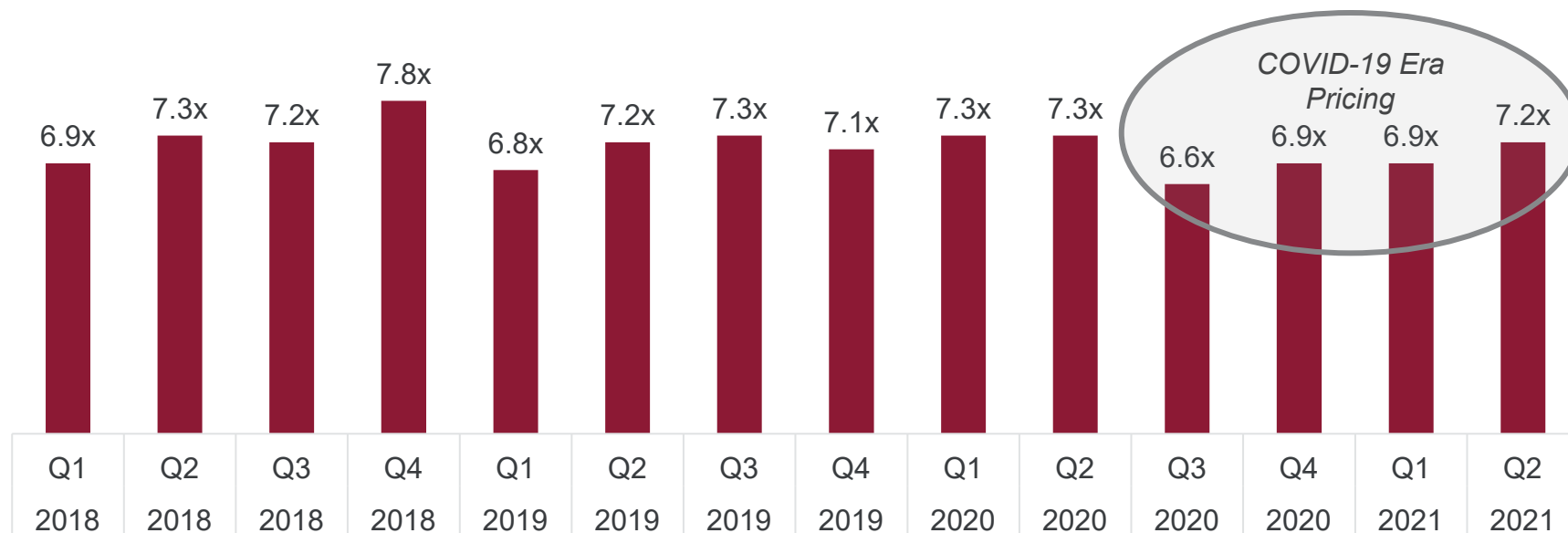
M&A Market Update

Deal Pricing

Deal Pricing Has Held Up Surprisingly Well Through the Pandemic

- Pricing metrics for deals have held up surprisingly well during the COVID-19 crisis
- Q3 saw a slight dip in average pricing, potentially due to the sale of distressed assets and increased uncertainty
- We have observed valuations holding steady in 2021 on our transactions – we continue to see private company deals generally completed in the Total Enterprise Value (“TEV”) / EBITDA range of 6-8x

North American Private Equity Buyout Transaction Pricing (TEV / EBITDA)



Source: GF Data
TEV = Total Enterprise Value



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Deal Pricing

Size Matters

- Size of target is a key factor in value
- Larger companies attract higher valuations due to:
 - Increased scale
 - Lower risk profile
 - Quality management
 - Diversified products / customers / suppliers
 - Scarcity premium
- The gap in multiples between companies at <\$100 million and >\$100 million has somewhat lessened
- Valuation multiples for companies at TEV <\$50 million remains largely unchanged
- Valuation multiples for transactions with TEV <\$10 million continue to decrease with size, but TEV / EBITDA multiples are less relevant on small deals

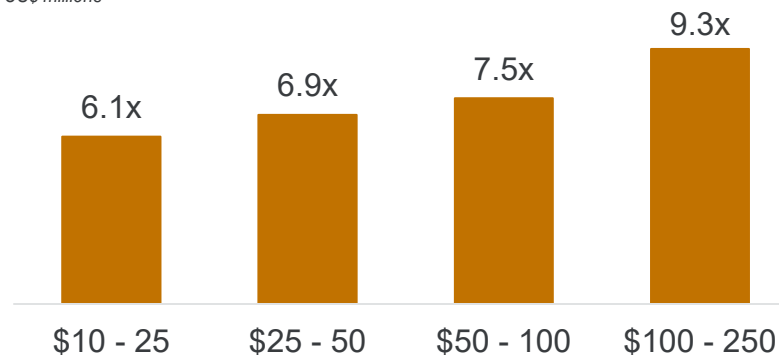
Source: GF Data
TEV = Total Enterprise Value



P.E. Buyout Transactions (TEV / EBITDA)

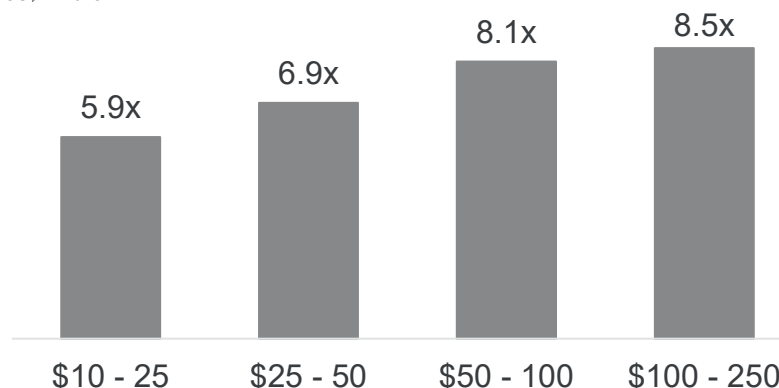
2019 Data

US\$ millions



H1-2021 Data

US\$ millions



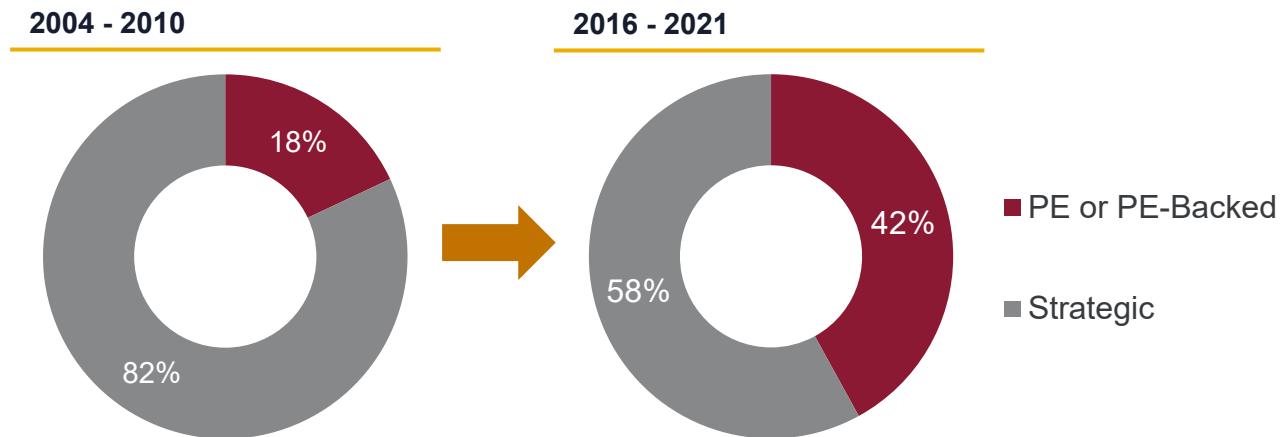
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Buyer Activity

Buyers Quickly Returned to Seeking Acquisitions

- Corporate and private equity buyers initially paused acquisition activity in the early months of COVID to focus on their existing business interests
- Within a few months they resumed deal sourcing activities – first seeking “pandemic discounts”, and then simply looking for high quality acquisitions of businesses that have done well through the COVID period
- Private equity (including private equity funds, family offices, etc.) have become a much larger part of the buyer market in recent years, being the acquiror on over 40% of CIBC's transactions

Buyer Type on CIBC Transactions



Source: CIBC transactions through April 2021

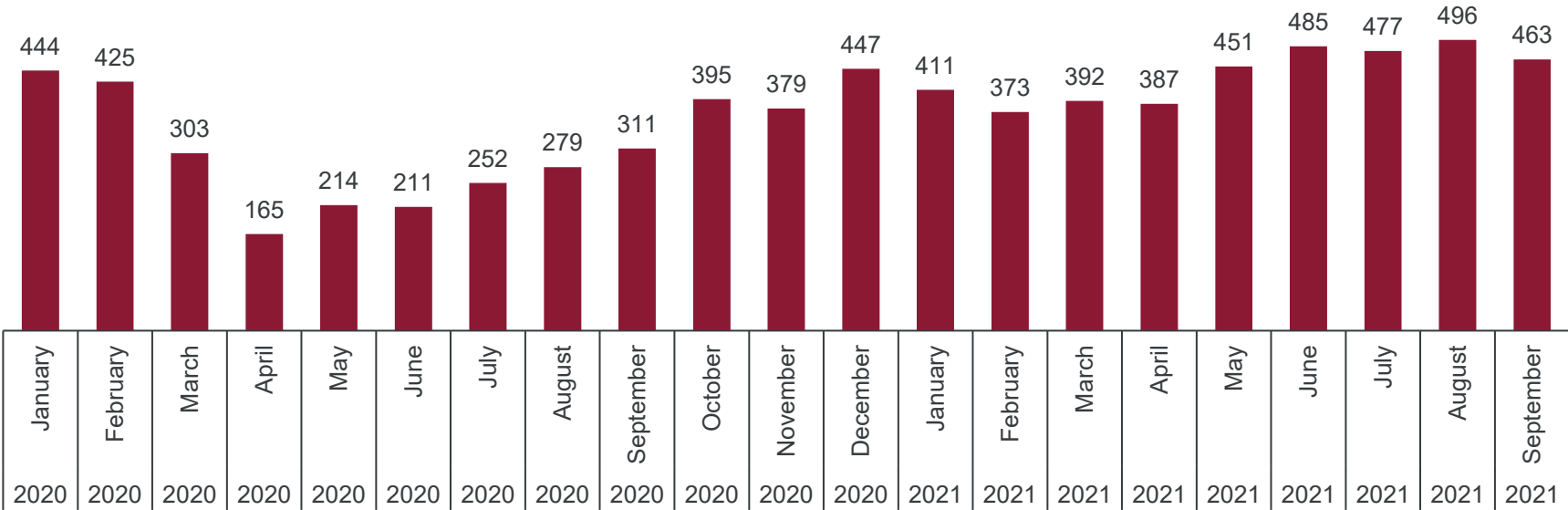
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Buyer Activity

Private Equity Activity has Rebounded

- North American private equity deal count dropped precipitously in April 2020, and began a slow and steady recovery starting in May
- Most deals completed early in the pandemic were already close to completion and were in industries not highly affected by COVID-19
- Private equity deal activity has been stable in 2021, peaking at elevated levels in the summer months – this is consistent with what we have experienced in our own practice this year

North American Private Equity Transaction Count



Source: S&P Capital IQ



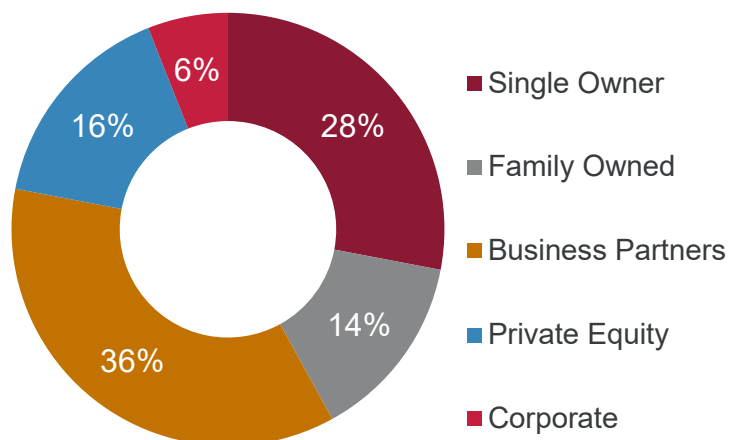
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Seller Activity

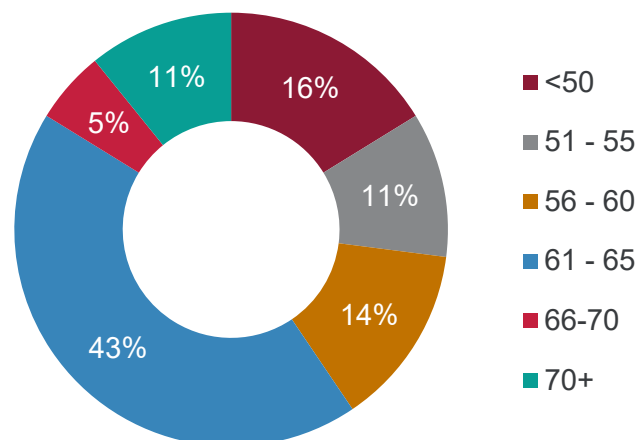
Sellers were Slower to Return to the Market

- While buyers returned to the market within months of COVID, private sellers were focused on operations in 2020 and have been slower to re-focus on M&A transactions
 - We are now seeing a significant increase in sellers as they have more visibility on business results
- Most sellers are private individuals (sold owners / families / business partners) - ~80% of CIBC's sell-side transactions are representing non-corporate sellers
- Traditionally, the average age of selling business owner on our transactions was late 50's – this has shifted into early 60's, perhaps due to COVID putting sale plans on hold for 12+ months
 - That said, we have seen a trend toward business owners generally selling earlier to maximize value

Owner Type



Age Bucket



Source: Last 50 CIBC transactions through April 2021



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Hot and Cold Industries

Companies with Robust Performance through COVID are In-demand

- Buyers are seeking companies that have performed well through COVID, or will benefit for the long-term from changing dynamics due to the pandemic
 - Buyers typically wouldn't give credit for a short-term bump in results from COVID, nor for increased profitability due to government assistance (i.e. CEWS)
 - Supply chain disruption and staffing challenges are seemingly affecting most industries
- Since the start of COVID, CIBC has experienced a decrease in the number of traditional manufacturing industry transactions, and a significant increase in technology and distribution sector transactions

The “Haves”



- Health Care



- Food & beverage



- Infrastructure



- E-commerce



- Software & IT



- Financial Services

Mixed Results



- Manufacturing



- Education



- Restaurants



- Apparel

The “Have-Nots”



- Travel & Tourism



- Hotels



- Bricks & Mortar Retail

M&A Market Update

M&A Processes & Deal Structures

M&A Processes and Deal Structures are Evolving

M&A Process Considerations

Travel Restrictions

- Challenges:
 - Corporate travel bans (even within Canada)
 - Closure of the US-Canadian border
- Stop-gap solutions:
 - Virtual due diligence (on-line data rooms have long been the norm)
 - Critical in-person due diligence using local service providers
 - Video conferencing for management meetings
 - Pre-taped video site tours
- Inability of US buyers to meet in person with Canadian targets has been challenging

Normalizing Adjustments

- Potential for using EBITDAC
--VS--
- Disregarding 2020 results as an irrelevant year for valuation analysis... base valuation on 2019 and post-pandemic run rate results

Deal Structures

Earn-outs

- Given economic uncertainty (positive and negative) and in an effort to de-risk deals, we have seen an increase in the use of earn-outs to bridge valuation expectations

Vendor Equity Rollovers

- Private equity buyers may require a greater equity roll-over from sellers, both to de-risk the deal and more fully align management and investor interests

Vendor Financing

- For smaller deals, we anticipate a greater use of vendor financing (i.e. vendor take-back notes) to fill any valuation or financing gaps

M&A Market Update

Outlook

The M&A Pipeline is Very Active

- It's a robust M&A market currently...
 - Economic confidence has returned
 - Our M&A group has closed a record number of transactions in 2021
 - Private equity and corporate buyers returned to the market in fall 2020 with capital in hand
 - Many companies are performing well and the “new normal” EBITDA is being evidenced
- ... with some exceptions
 - Fourth wave of COVID-19 continues to create uncertainty by affecting the results and outlook of some companies
 - Certain sectors such as travel, hospitality, retail, some manufacturing and businesses operating in regions continuing to be impacted by lock-downs have been harder hit and M&A activity is expected to remain muted
- Overall, 2021 is anticipated to be a strong year, if not a record, for M&A activity

Debt Markets

- For much of 2020 lenders focused on supporting the needs of existing clients, pausing new deal activity
- For companies with resilient financial performance, leverage is available at pre-COVID levels

Tech-focused M&A

- Robust appetite for tech M&A fueled by US\$1 trillion of dry powder held by private equity and strategic buyers to fund tech deals
- Strong interest and rising valuation multiples for healthcare IT, e-commerce and SaaS sectors

Remote Working

- Remote and virtual ways of closing transactions are becoming commonplace and have largely gained acceptance
- Closure of the US-Canadian border has been challenging (but not an impossibility) for cross border transactions

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