



# MID-MARKET INVESTMENT BANKING

Spring 2021



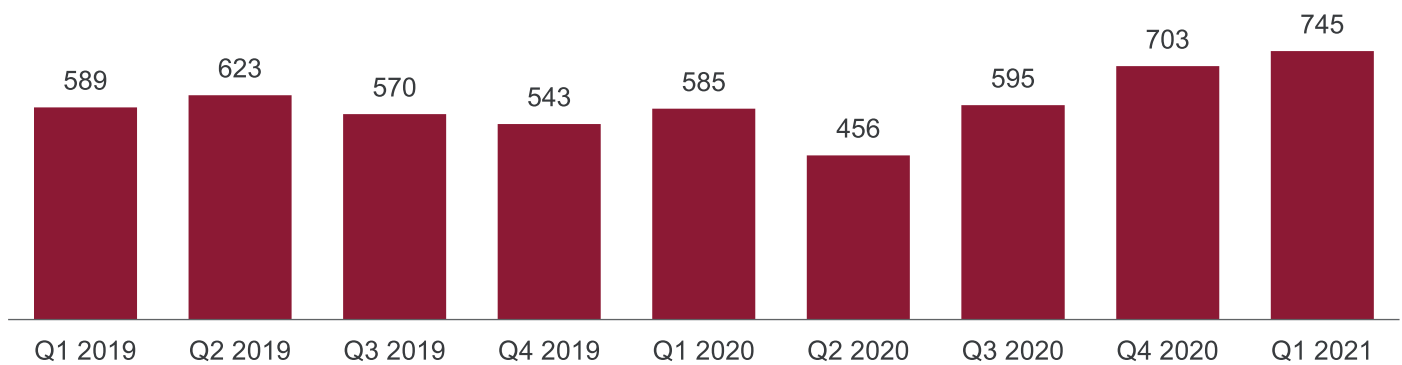
## Market update

We are pleased to share our thoughts on the M&A environment so far in 2021. The North American M&A market has fully recovered since the pandemic-induced lows of Q2 2020, with Q1 2021 showing the strongest deal flow in years and market sentiment seemingly reaching new heights.

The rise in activity has not been equally shared among sectors, with verticals such as technology, distribution and logistics, consumer products, and building supplies particularly benefiting.

## M&A activity

Canadian quarterly M&A transaction count



Source: Capital IQ.

In the latter years of the most recent economic expansion and before the arrival of COVID-19, Canadian M&A activity was relatively stable in terms of deal volume, with most quarters showing deal announcements in the high 500's to low 600's. The last four quarters stand in stark contrast – deal activity rapidly dropped in Q2 2020, before marking increases in each quarter thereafter and with Q1-21 being ~25% above pre-pandemic norms.

While some of the recent increase in activity has been driven by the resumption of transactions that stalled in the first half of last year, the increase in activity over the last two quarters more than offsets this – suggesting that this is not simply a 'catching-up' process at work. M&A interest remains extraordinarily high, and deal flow shows no sign of abatement in the near term. Our M&A advisory practice has observed sentiment in alignment with this – we are off to a very busy start to 2021.

Economic factors such as access to credit, low interest rates, and government stimulus all drive business results and M&A activity. Furthermore, the reopening of the economy may serve as an additional catalyst as the economic outlook improves for sectors heavily affected by COVID.

## Valuations remain strong

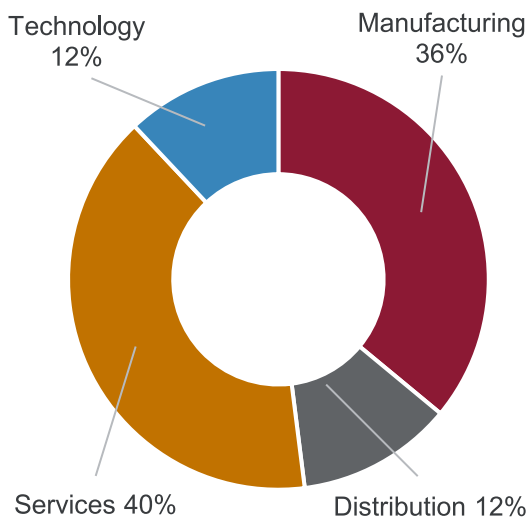
For the majority of sectors, we are observing valuation multiples comfortably at or above historic levels. We continue to see Total Enterprise Value / EBITDA multiples of approximately 7x on average in both publicly reported data and our own deals. Size of a company remains the most significant determinant of value, with larger companies attracting higher valuations.

## Shifting sector focus

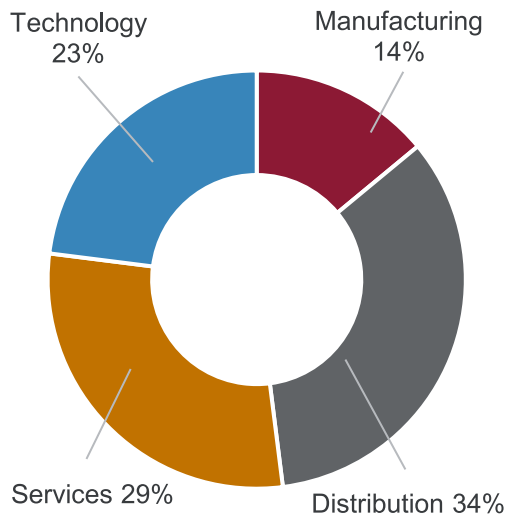
Since the start of the pandemic we have seen a significant shift in M&A activity away from manufacturing, and towards distribution and technology in our own deal flow. While distribution and technology transactions each made up 12% of our deal activity pre-COVID, these sectors currently comprise 34% and 23% of our post-COVID mandates respectively. This seems to correspond with increasing valuations in those two sectors.

## CIBC transactions by company type

Pre-COVID transactions



Since COVID (March 2020 on)



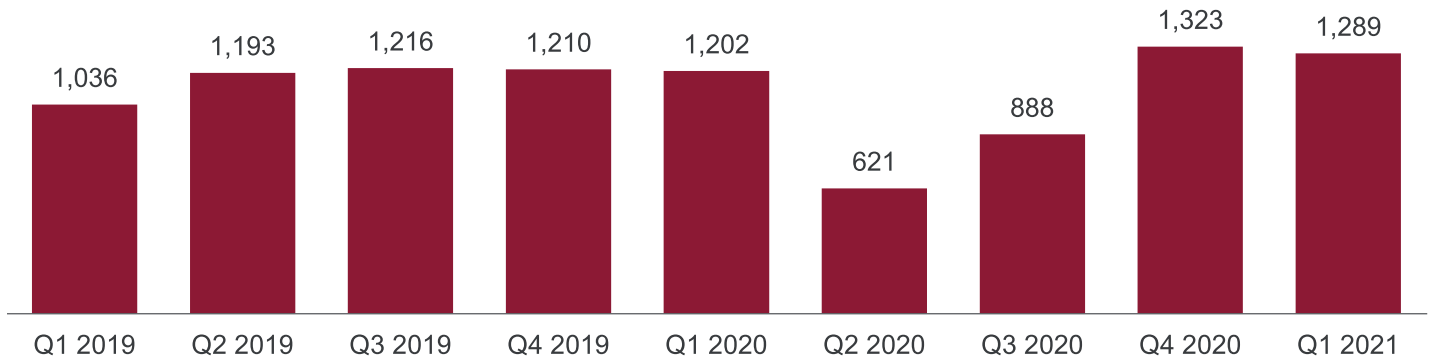
Source: CIBC transaction database.

## Trends in private equity

Private equity continues to play a key role in Canadian M&A despite a 13% drop in the volume of PE transactions in 2020 compared to 2019. Aggregate transaction value saw a greater drop – from \$8.3 billion in disclosed equity investment value in 2019 to \$2.5 billion in 2020. This was largely driven by more smaller add-on investments and the absence of mega-deals. [Source: CVCA]

The back end of 2020 and Q1-21 has seen a significant rebound in private equity activity with regular transaction announcements and the resumption of mega-deals including FFL Partners' and Caisse de dépôt et placement du Québec's \$780 million acquisition of New Look Vision Group.

### North American sponsor-backed transaction count



Source: Capital IQ.

## Strained M&A ecosystem

While the shift to remote work and virtual meetings has led to some efficiencies in the M&A process, the substance of the work undertaken by various professional advisors to close an M&A deal is largely unchanged. M&A remains a human capital-intensive process at all stages, from deal marketing at the beginning, right through to negotiating the legal purchase agreement.

As deal activity has ramped up sharply, we've seen the emergence of some capacity constraints in the M&A ecosystem. Lawyers, tax advisors and lenders are all reporting long hours with many transactions on the go. We have observed due diligence teams experiencing particular constraints with environmental inspections, background checks, financial due diligence and quality of earnings reports all backing up. Consequently, it is taking longer than normal for deals to close and costs have increased. As M&A activity is anticipated to continue at this heightened pace, it is important to build an advisory team and put in the preparation work in advance so that the deal can be completed in a timely and cost-effective manner.

Overall, the M&A sector is buoyant and we anticipate the strong market with above average activity levels and robust valuations will continue for the remainder of the year.

# About us

CIBC Mid-Market Investment Banking is a leading M&A advisor, providing services to private companies:

- Divestitures
- Acquisitions and management buyouts
- Raising equity capital and securing debt financing

[cibc.com/mmib](http://cibc.com/mmib)

## Toronto

Trevor Gough  
[416 980-7341](tel:416-980-7341)  
[trevor.gough@cibc.com](mailto:trevor.gough@cibc.com)

Christian Davis  
[416 980-3268](tel:416-980-3268)  
[christian.davis@cibc.com](mailto:christian.davis@cibc.com)

Iain Gallagher  
[416 784-7652](tel:416-784-7652)  
[iain.gallagher@cibc.com](mailto:iain.gallagher@cibc.com)

Wes Zimmerman  
(Financial Sponsor Coverage)  
[416 306-9166](tel:416-306-9166)  
[wes.zimmerman@cibc.com](mailto:wes.zimmerman@cibc.com)

Daniel Lee  
(Technology)  
[416 243-5694](tel:416-243-5694)  
[daniel.lee@cibc.com](mailto:daniel.lee@cibc.com)

Dylan Moran  
[416 780-7579](tel:416-780-7579)  
[dylan.moran@cibc.com](mailto:dylan.moran@cibc.com)

Jarred Seider  
[416 313-3490](tel:416-313-3490)  
[jared.seider@cibc.com](mailto:jared.seider@cibc.com)

Asha Soares  
(Technology)  
[416 242-1525](tel:416-242-1525)  
[asha.soares@cibc.com](mailto:asha.soares@cibc.com)

## Montreal

Philippe Froundjian  
[514 876-2998](tel:514-876-2998)  
[philippe.froundjian@cibc.com](mailto:philippe.froundjian@cibc.com)

Gabriel Fugere  
[514 876-6651](tel:514-876-6651)  
[gabriel.fugere@cibc.com](mailto:gabriel.fugere@cibc.com)

## Calgary

Amun Whig  
[403 221-5512](tel:403-221-5512)  
[amun.whig@cibc.com](mailto:amun.whig@cibc.com)

## Edmonton

Graham Drinkwater  
[780 420-4843](tel:780-420-4843)  
[graham.drinkwater@cibc.com](mailto:graham.drinkwater@cibc.com)

## Vancouver

Grant Wallace  
[604 665-1380](tel:604-665-1380)  
[grant.wallace@cibc.com](mailto:grant.wallace@cibc.com)

## Halifax

Adrian Snow  
[902 428-4759](tel:902-428-4759)  
[adrian.snow@cibc.com](mailto:adrian.snow@cibc.com)

This document has been prepared by CIBC Capital Markets FOR DISCUSSION PURPOSES ONLY. CIBC Capital Markets expressly disclaims any liability to any other person who purports to rely on it. These materials may not be reproduced, disseminated, quoted from or referred to in whole or in part at any time, in any manner or for any purpose, without obtaining the prior written consent of CIBC Capital Markets. The materials described herein are provided "as is" without warranty of any kind, either express or implied, to the fullest extent permissible pursuant to applicable law, including but not limited to the implied warranties of merchantability, operation, usefulness, completeness, accuracy, timeliness, reliability, fitness for a particular purpose or non-infringement. The information and data contained herein has been obtained or derived from sources believed to be reliable, without independent verification by CIBC Capital Markets, and we do not represent or warrant that any such information or data is accurate, adequate or complete and we assume no responsibility or liability of any nature in connection therewith. CIBC Capital Markets assumes no obligation to update any information, assumptions, opinions, data or statements contained herein for any reason or to notify any person in respect thereof.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates provide products and services to our customers around the world. Securities and other products offered or sold by CIBC Capital Markets are subject to investment risks, including possible loss of the principal invested. Each subsidiary or affiliate CIBC is solely responsible for its own contractual obligations and commitments. Unless stated otherwise in writing CIBC Capital Markets products and services are not insured by the Canada Deposit Insurance Corporation, the Federal Deposit Insurance Corporation, or other similar deposit insurance and are not endorsed or guaranteed by any bank. The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license. All other trademarks are owned by their respective trademark owners.