

MID-MARKET INVESTMENT BANKING

Fall 2021

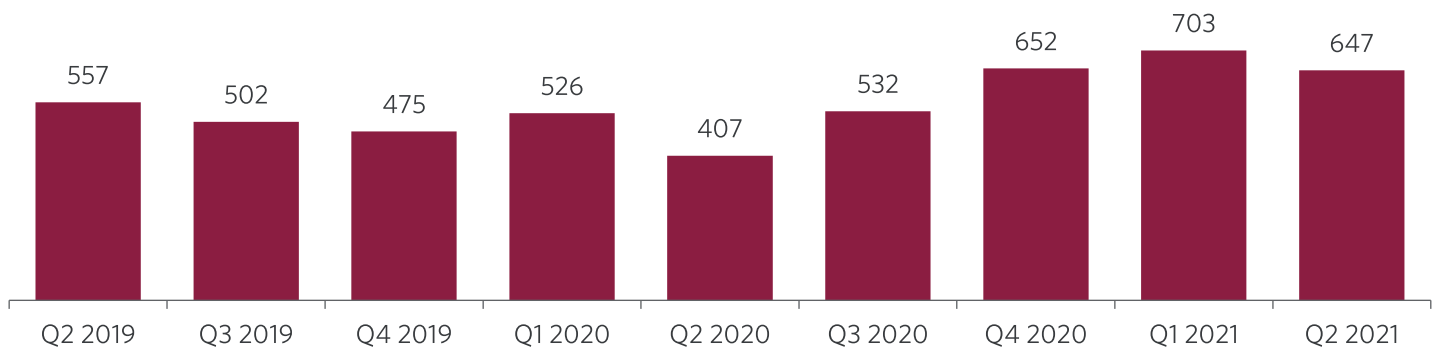


Market update

We are pleased to share our thoughts on the M&A environment so far in 2021.

M&A activity

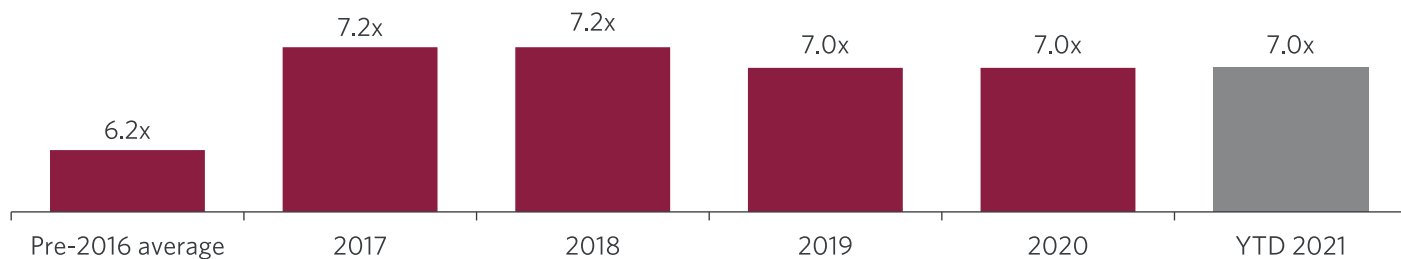
Canadian Quarterly M&A transaction count



Source: Capital IQ.

M&A activity continues at a strong pace with the number of Canadian deals closed in Q2 at elevated levels compared with the longer term average of ~500 per quarter. Many deal conversations are moving on from the impact of COVID to discussions around labour constraints, supply chain issues and inflationary pressures.

Mid-Market acquisition multiples (Enterprise value / EBITDA)

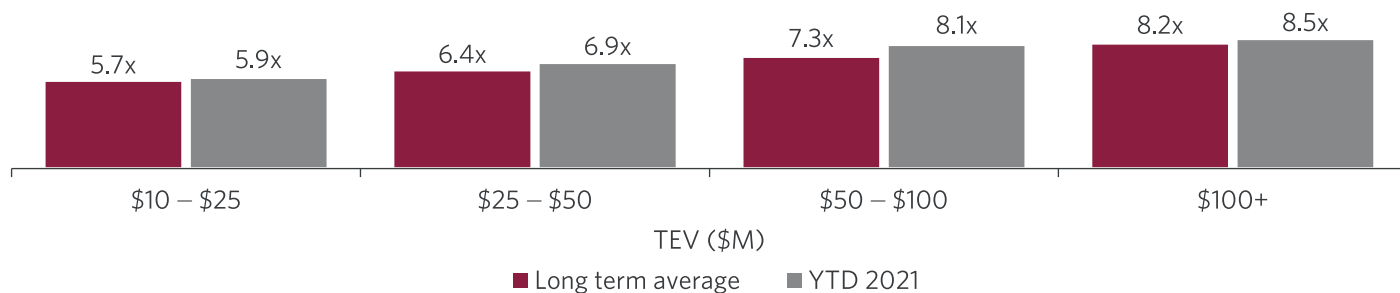


Source: GF Data.

Acquisition multiples paid for North American mid-market companies remain steady at 7.0x EBITDA. The detail behind this average would show that those businesses that have performed well during the pandemic are attracting premium multiples whereas those that have struggled, perhaps relying on government subsidies, are being discounted.

Our sense is that multiples have ticked up and this is perhaps hidden within the multiples above as they do not include deferred consideration, e.g. earn-outs, which we have seen increase in the structuring of deals.

Notwithstanding the nature of a business, the size of the deal continues to be an important determinant of the multiple paid, as can be seen in the chart below. The larger the deal, the higher the multiple, is something we see consistently across all sectors.



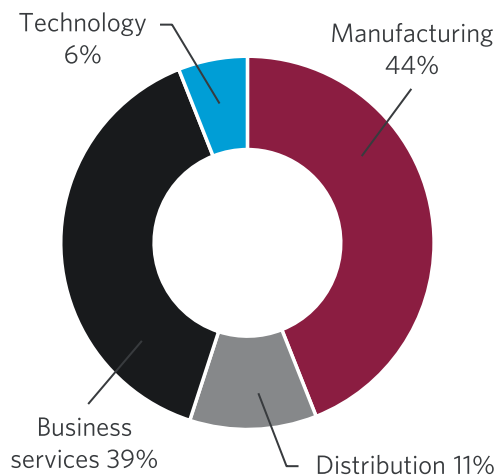
Source: GF Data.

CIBC transactions

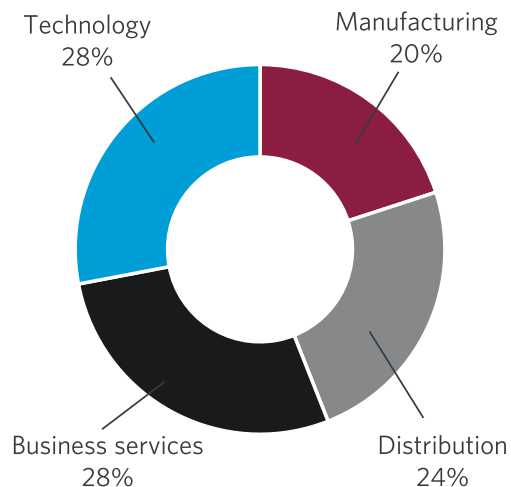
It's been 18 months now since COVID first hit and we thought it would be interesting to share some observations from our own deal database, comparing the 3 years pre-COVID to the period since March 2020.

A trend we highlighted earlier this year with regard to the type of companies we are advising has continued. That being, the shift away from manufacturing, and towards distribution and software/technology businesses. Companies with these core activities have performed well, although we will likely see more manufacturers come to market as time passes and greater confidence can be shown in the EBITDA being sold to buyers.

Pre-COVID transactions



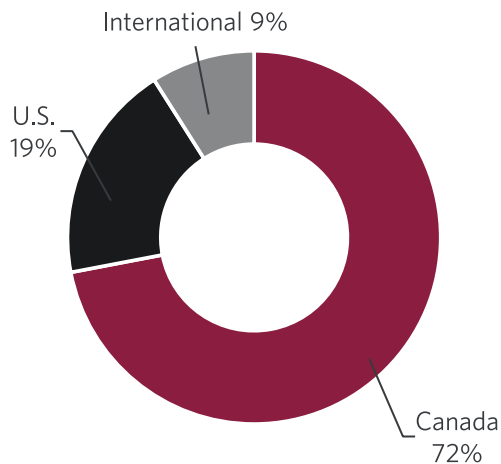
Since COVID (March 2020 on)



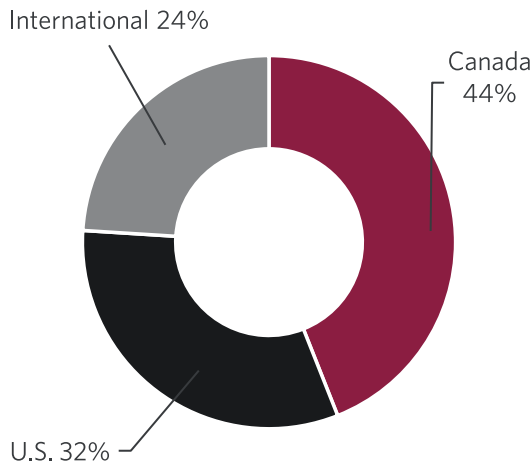
Source: CIBC transaction database.

When we look at the buyers, there are some interesting observations. In terms of where buyers are located, US and international acquirers have been playing a more significant role. Too early to tell if this is a longer-term trend but buyers outside of Canada are knocking on doors and we are getting these deals closed in spite of the travel and border restrictions.

Pre-COVID transactions



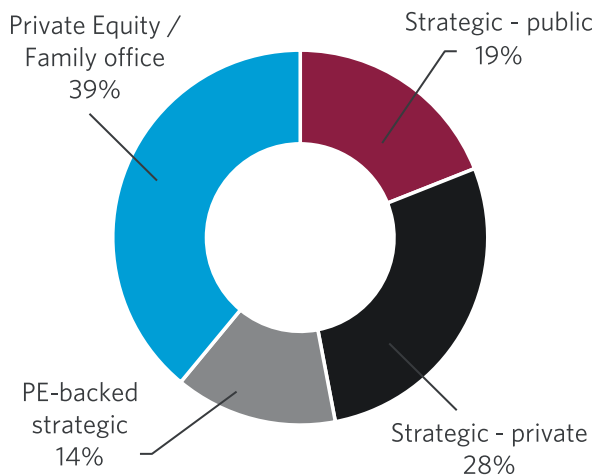
Since COVID (March 2020 on)



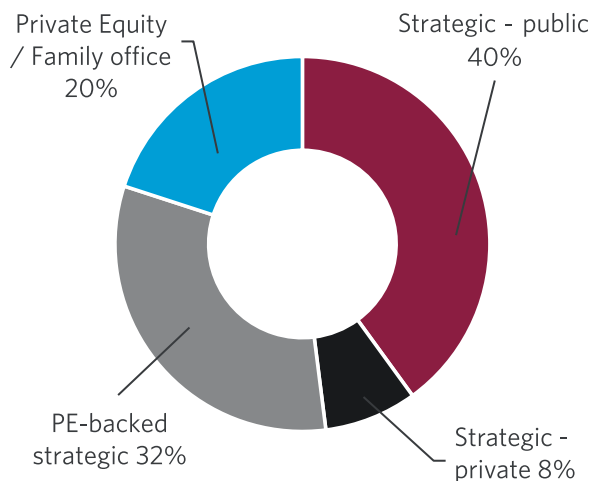
Source: CIBC transaction database.

As for the type of buyer, here we see two observations in the charts below. Firstly, an increase in the number of public company buyers, buoyed by stock market highs and surplus cash reserves. Secondly, the rise of the PE-backed strategic buyer. Given the capital raised and the increasing role PE groups have been playing in the M&A market, it makes sense that a larger proportion of companies are now owned by PE. Additionally, a focus for many PE groups during the pandemic has been to seek add-on acquisitions to their existing companies to accelerate growth. We see this to be the case for approximately 1 in 3 of our transactions now and a trend that will likely continue for the foreseeable future.

Pre-COVID transactions



Since COVID (March 2020 on)



Source: CIBC transaction database.

Finally, a comment on deal structures. Purchase price comes in the form of cash at close plus deferred consideration, e.g. earn-outs. Whenever there is uncertainty over the sustainability of EBITDA, a buyer will seek to share this risk and so we had expected earn-outs to be more common in negotiations due to the pandemic. We have seen this to be the case with 1 in 3 of our transactions having an earn-out, up from the long-term average in our deal database of 1 in 4. Out of interest, for deals with an earn-out, it has represented an average of 16% of the purchase price.

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

Toronto

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

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

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

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

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

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

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

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

Montreal

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

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

Calgary

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

Edmonton

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

Vancouver

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

Halifax

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

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