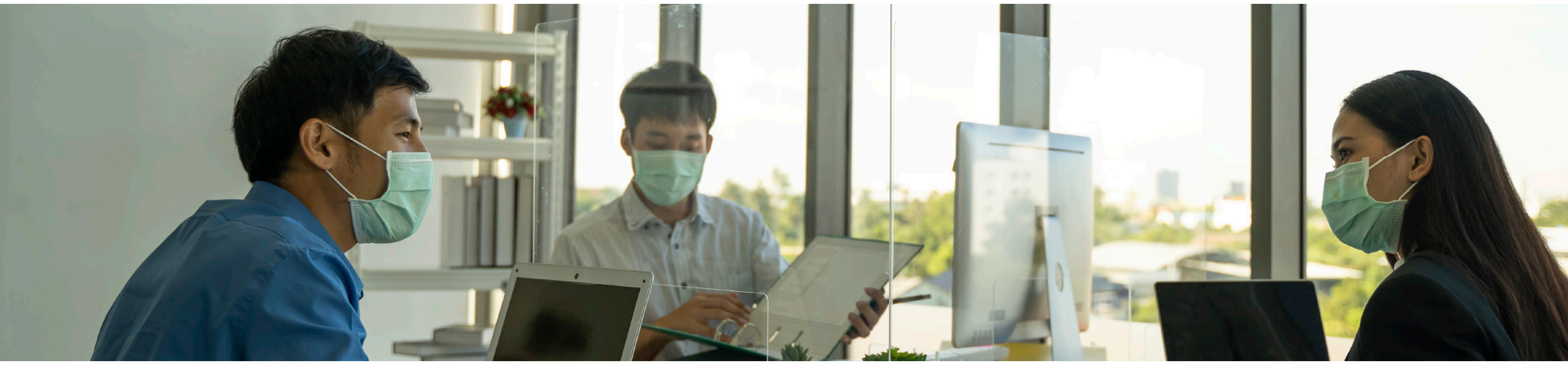
MID-MARKET INVESTMENT BANKING 2020 YEAR IN REVIEW

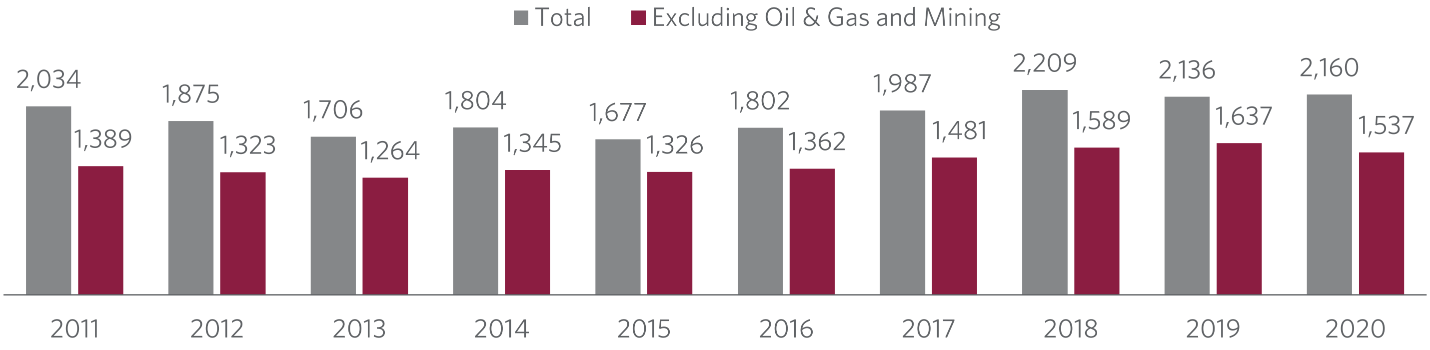
Market Update



For the first two months of 2020, we felt on track to repeat the high watermark of closed transactions in 2019 ... and then everything changed.

This article provides our observations and insights on the Canadian M&A market as we draw a line under 2020 and wonder what 2021 has in store.

Annual Canadian M&A Volume (number of deals)

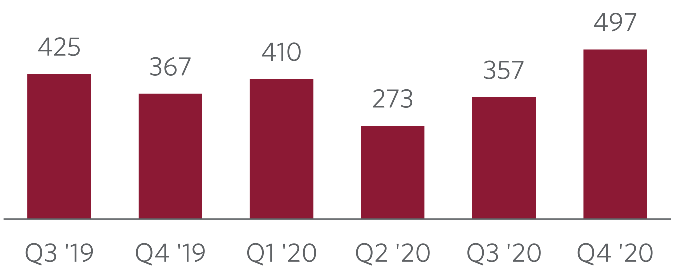


Source: Capital IQ, excludes all real estate transactions.

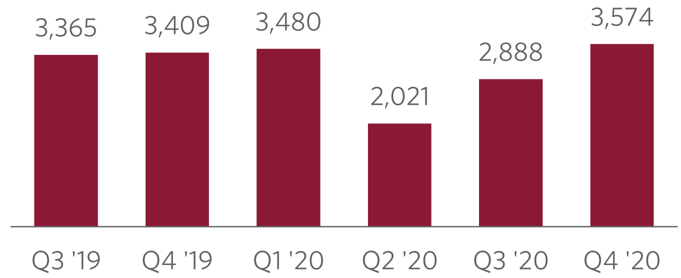
Looking back

From the 10 year chart above, M&A activity in 2020, at least on an annual basis, was very respectable. Though not as strong as 2019 for diversified businesses (excluding real estate and resources), volumes were comfortably above the long term average. As we all know, the real story lies in the quarterly data.

Canadian transaction count (Q3-19 to Q4-20)



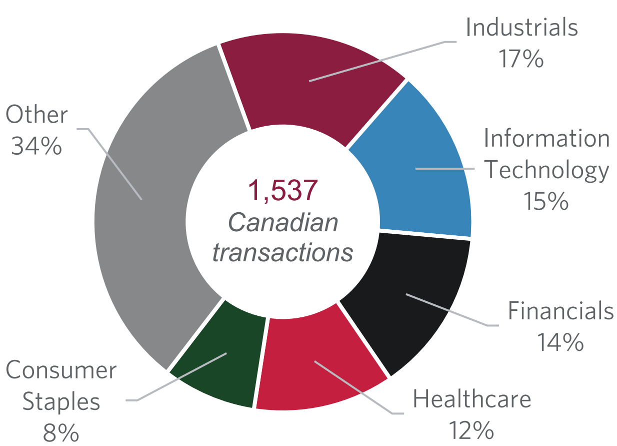
U.S. transaction count (Q3-19 to Q4-20)



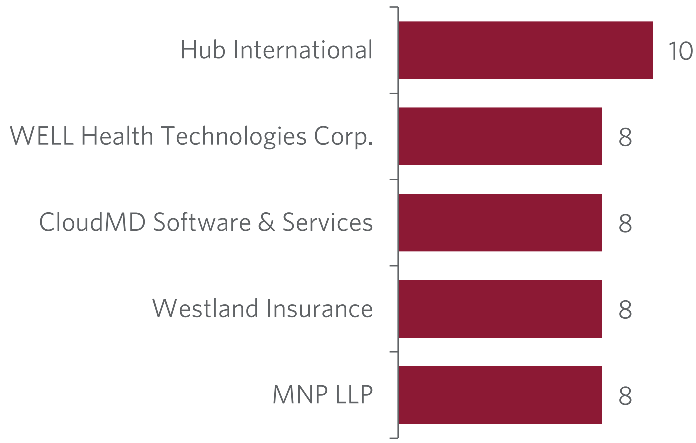
Source: Capital IQ, excludes real estate and resource transactions.

The strong volumes observed in Q4 made up for some, but not all, of the declines in Q2, as many of the transactions that had stalled were restarted mid-year and closed by year end. The US saw a steeper decline in Q2 and has experienced a slower restart to M&A activity.

Most active industries in 2020



Most active acquirors in 2020

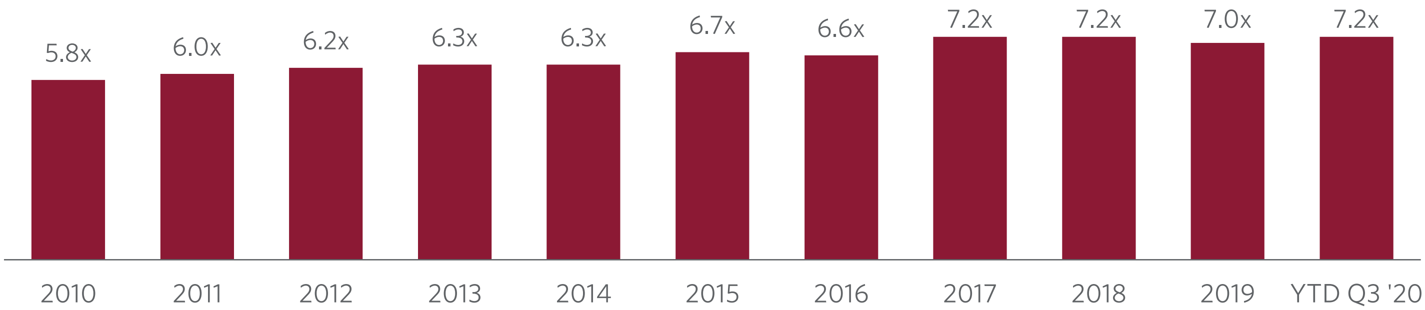


Source: Capital IQ, excludes real estate and resource transactions.

As in 2019, the most active sectors continued to be Industrials, Information Technology, Financials and Healthcare, collectively making up over 50% of transaction volume. Perhaps not surprisingly, Consumer Staples replaced Consumer Discretionary as the next most active sector. Notably, Hub International repeated as the most active acquiror of Canadian assets with 10 roll-up acquisitions completed in the insurance brokerage sector. WELL Health made the leaderboard this year and was the buyer in one of our deals.

From a valuation perspective, the available data indicates that acquisition multiples have held up. According to GF Data, multiples paid by private equity firms for North American mid-market companies have continued to average just above 7x EBITDA, which is consistent with the previous three years.

North American buyout transactions – Enterprise value/EBITDA multiples



Source: GF Data, Mid-Market M&A Transactions up to $250 million.

Our team experienced the same trends:

- The majority of our pre-COVID transactions had restarted by September as the companies had performed well which led to a very busy Q4 with transaction closings. By the end of December, we had also closed deals that were signed up and started in this post-COVID environment.
- Food, software, health and wellness tech, logistics, cleaning supplies were examples of sectors represented in our closed deals.
- Valuations have held up. For transactions that restarted, none experienced a re-trade in price and only a few had some renegotiations around more sharing of risk between buyer and seller, such as an earn-out. Just before the holiday break, we held bid dates for a number of M&A processes we are running. In each of them, we received multiple offers from interested buyers, and at valuation ranges well within expectations we would have had pre-COVID.

Looking forward

Notwithstanding the continued uncertainties of regional lockdowns, travel restrictions, challenges experienced by certain sectors, etc., there are reasons for optimism. Companies are now battle-tested, government programs continue to provide support, vaccinations are picking up pace and there is the prospect of warmer days ahead – both literally and metaphorically.

We share these sentiments and are anticipating a busy year now that there appears to be broad consensus and confidence in the future, a key ingredient for any M&A market.

Our current pipeline is strong

- We have the highest number of active mandates than we have had for many years and anticipate the few deals that are still on hold will restart and add to this list during the year.
- Private equity and corporate buyers returned 3-6 months ago with capital in hand. For high quality companies, it remains a sellers market. We are now seeing business owners return to the market, buoyed by attractive valuations as well as COVID fatigue.
- Many companies are performing well financially and the 'new normal' EBITDA is being evidenced. With Q3 and Q4 in the books, buyers are gaining confidence upon which to base their valuations. Our clients now have comfort over their financial budgets and expect to be able to deliver consistent results as we move through sale processes in 2021.
- In addition to sectors that have benefitted from the pandemic, we are now seeing a broadening of industries and sub-sectors undertaking transactions. Of particular interest has been the increase in product distribution businesses which now account for over 30% of our transaction pipeline (average 10% typically). Examples include industrial, consumer, fuel, lumber, steel, and hardware.
- Certain sectors such as travel, hospitality, retail, some manufacturing, as well as some businesses operating in regions heavily impacted by lock-downs have been harder hit by the pandemic. We anticipate M&A activity in these industries will remain muted for the near-term as owners will prefer to wait for a recovery before deciding to transact.

Debt market is competitive again, for the right business

- For much of last year, lenders focused on supporting the needs of existing clients, pausing new deal activity. With portfolios performing better than perhaps anticipated, lenders began to selectively review new opportunities by Q3.
- Now, for companies that operate in a sector that has seen no permanent shift in consumer behaviour and have shown themselves to be resilient in their financial performance, leverage is available at pre-COVID levels and there is little, and in some cases no, tightening of debt terms.
- Much attention is being paid to understanding the impact of COVID on the financials. Careful examination of the sustainability of favourable results on the one hand, as well as assessing the aggressiveness of normalizing COVID-related adjustments.

Robust appetite for tech-focused M&A expected to continue

- US$1T+ of dry powder is held by PE firms and strategic buyers to fund tech M&A.
- The record pace of tech M&A activity resumed after the briefest of pauses in Q2 and now accounts for approximately 1 in 4 of our transactions.
- We are seeing strong interest and rising multiples within healthcare IT and eCommerce, as well as SaaS aimed at small and medium-sized business, software that helps communication and collaboration amongst employees and DevOps which help shorten software development life cycles.
- CIBC digital healthcare client Insig is a perfect example of this trend. In November, we acted as exclusive financial advisor on its $50 million sale to WELL Health.

Getting deals done remotely, seems to be working

- The continued closure of the U.S.-Canada border remains a challenge for some deals, particularly if parties have not met before. This should favour Canadian buyers, although it is worth noting that over half of the transactions we closed in 2020 were with U.S. or international buyers.
- We have all become accustomed to working remotely. Management presentations via video conference, virtual site tours and Zoom diligence meetings are commonplace now. One example of evolving practices is that some clients are hiring corporate production firms to produce videos for our M&A process to be included with our usual sell-side marketing materials to help position the acquisition opportunity.

Our 2020 credentials

Below are some of the transactions that we have closed in the last 12 months. We wish you all the best for a safe and successful 2021 and look forward to speaking with you in the near future.

Software and technology

BasicGov Sale to EXPLORA PARTNERS 2020	shiptrack Sale to DESCARTES 2020	insig Sale to WELL Health TECHNOLOGIES CORP 2020

Food

VANTAGE FOODS Sale of its U.S. service center to Cargill 2020	VANTAGE FOODS Sale of its Canadian service center to JBS CANADA 2020	essences Bonnie & Don Flavours ULC Sale to NATIONAL FLAVORS 2020

Business services

88co Acquisition of NETRIUM 2020	cci wireless Mezzanine Financing from CROWNCAPITAL PARTNERS INC. 2020	NELSON Sale of its Canadian higher education textbook business to TOP HAT 2020

Distribution

SNELLING 1915

Sale to

BUNZL

2020

Construction

stuartolson

Sale to

BIRD

2020

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

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