



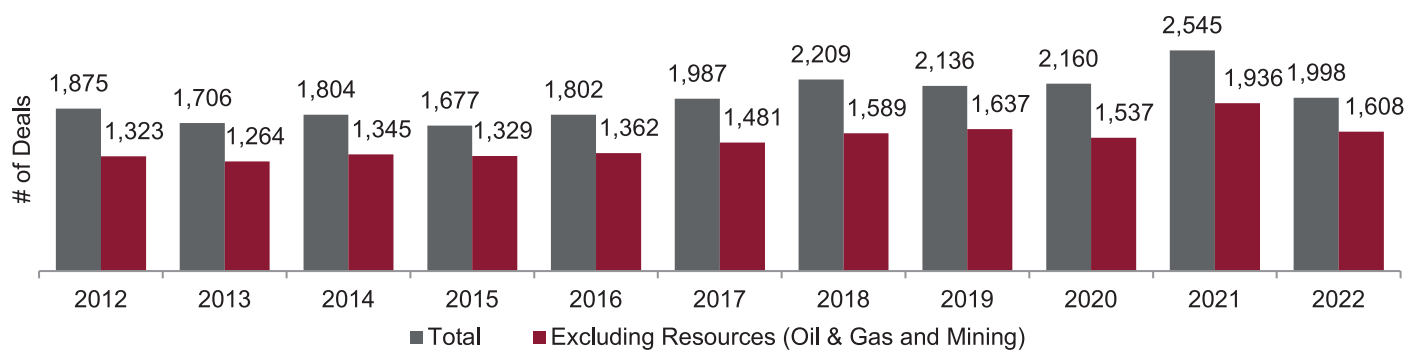
# MID-MARKET INVESTMENT BANKING 2022 YEAR IN REVIEW

Market update



We are pleased to provide a summary of Canada's M&A activity over the last year, together with our thoughts on current themes.

## Annual Canadian M&A volume

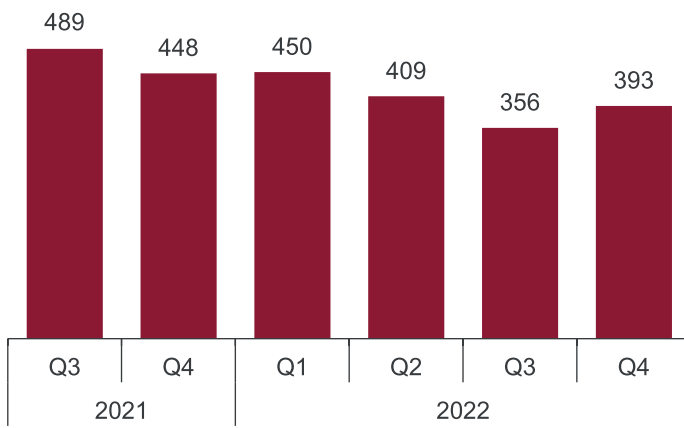


Source: Capital IQ, excludes all real estate transactions

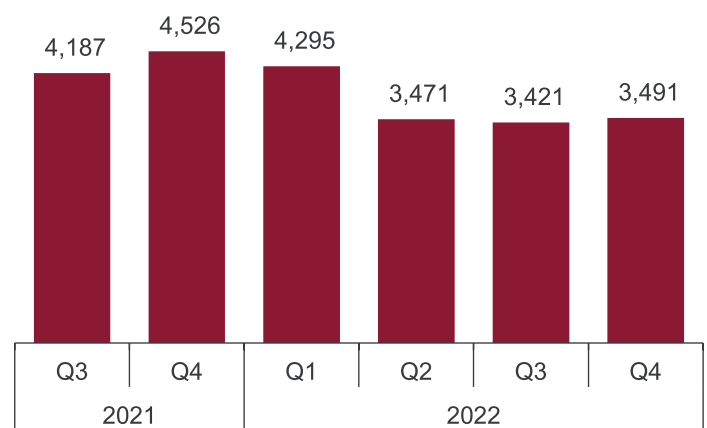
## Looking back

While lower than the record highs seen last year, M&A activity in Canada in 2022 fell back to pre-COVID levels. Our team experienced the same trend.

### Canadian transaction count



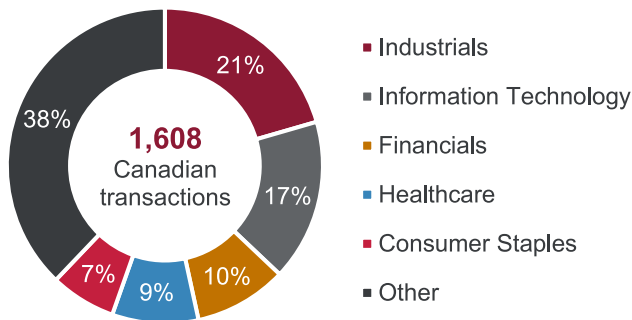
### US transaction count



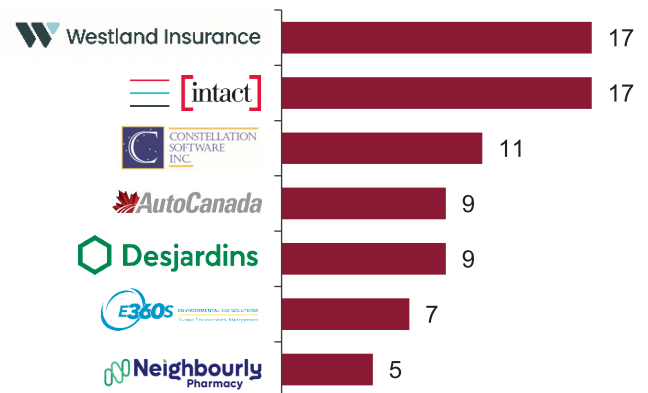
Source: Capital IQ, excludes real estate and resource transactions

The quarterly data in Canada and the US shows a lower but steady deal count for Q2-Q4. Deals already in the market got to the finish line in spite of the interest rate rises and economic headwinds that began to take hold in the latter part of the year.

### Most active industries 2022



### Most active acquirors of Canadian businesses 2022



Source: Capital IQ, excludes real estate and resource transactions

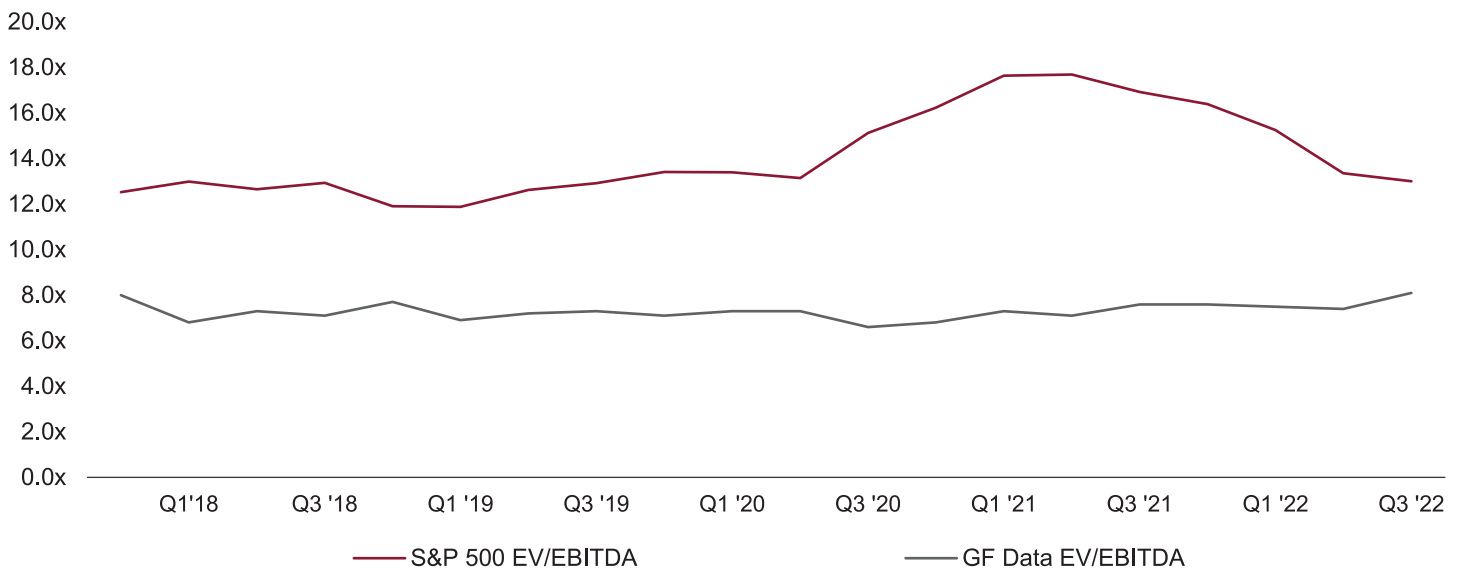
As in 2021, the most active sectors were Industrials, Information Technology, Financials and Healthcare, collectively making up over 50% of transaction volume. It is somewhat surprising that Tech retained its second spot given the downdraft in the sector. That said, deal count was much lower in the second half of the year compared to the first 6 months, as many software companies looked inward, rightsizing unsustainable cost structures to conserve cash, rather than make acquisitions.

There has been plenty of M&A activity in the insurance brokerage sector again this year with Westland and Intact as the two most active buyers. Neighbourly Pharmacy made the leaderboard this year and was the buyer in one of our deals. Notably, each of these acquirors are examples of consolidators continuing to deploy capital by acquiring smaller targets at attractive valuations relative to their own platform valuation.

From a valuation perspective, as the cost of capital rises and economic activity slows, profits forecast in future years are valued much less than more near-term profits. This particularly hits the valuations of high growth companies such as software and tech-based businesses with longer dated cashflow, as evidenced by the Nasdaq declining far more than the S&P 500 in 2022 (28% v 16%).

Multiples for private companies have not experienced the correction seen in the public markets. The graph below shows valuation multiples over the last 5 years. The S&P 500 shows the volatility in the public markets with a high-low difference of 6.0x EBITDA. By contrast, private company valuations, as paid by North American private equity groups, only has a high-low difference of 1.5x EBITDA for the same period – a much more stable environment.

## Public and private company multiples - Enterprise Value / EBITDA



Source: GF Data, Mid-Market M&A Transactions up to \$250 million, S&P Capital IQ

## Looking forward

Some of the current market themes we see continuing include:


- Many owners we meet remain quite upbeat as their companies continue to perform well financially. Broadly speaking, supply chain issues have been resolved and higher borrowing costs have yet to dampen optimism. Concerns have moved to the demand side with increased commentary on the severity of a recession rather than if there will be one. Companies may now have too much inventory and will likely see pressure on profit margins.
- From an M&A perspective, this translates to more caution from buyers and we are seeing fewer corporate buyers at the table in certain sectors e.g. building products, consumer discretionary, cyclical end markets. We are spending more time early on in the process engaging with buyers to qualify their level of interest.
- Private equity groups are focusing more on the investments they have already made and seeking to grow through add-on acquisitions, rather than making large platform investments in new sectors. We have certainly seen a lot of interest from these PE-backed strategic buyers.
- Even though we are approaching 3 years since March 2020, the positive COVID bump has continued for many businesses and determining the sustainable EBITDA upon which valuations are based, remains a challenge for a lot of deals. Earn-outs continue to be a way to bridge the bid/ask spread between buyer and seller.
- On a more positive note, companies that are resilient and can demonstrate an ability to perform well during periods of a downturn will command premium valuations and have a greater certainty of closing a deal. Sectors such as food, healthcare, infrastructure, mission critical industrial products and business services (e.g. safety, inspection, compliance, regulatory-driven), will be attractive targets in the coming year.



# Our 2022 Credentials

Below are some of the private company M&A transactions that CIBC closed in the last 12 months. We wish you all the best for a safe and successful 2023 and look forward to speaking with you in the near future.

## Business services

  
 Sale to  
  
 A portfolio company of  
  
 2022

  
 Sale to  
  
 2022

  
 Sale to  
  
 2022



## Manufacturing

  
 A portfolio company of  
  
 Sale to  
  
 2022



## Healthcare

  
 Sale to  
  
 2022

  
 A portfolio company of  
  
 Sale to  
  
 2022

  
 Acquisition of  
  
 2022

## Technology



  
 Sale to  
  
 2022



## Food

  
 Sale to  
  
 2022

  
 Investment in  
  
 2022

## Distribution

  
 Sale to  
  
 2022



  
 Sale to  
  
 2022



## Construction services

  
 Sale to  
  
 2022

  
 A portfolio company of  
  
 Sale to  
  
 2022

## Transportation

  
 Sale to  
  
 2022

  
 Sale to  
  
 2022

# 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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