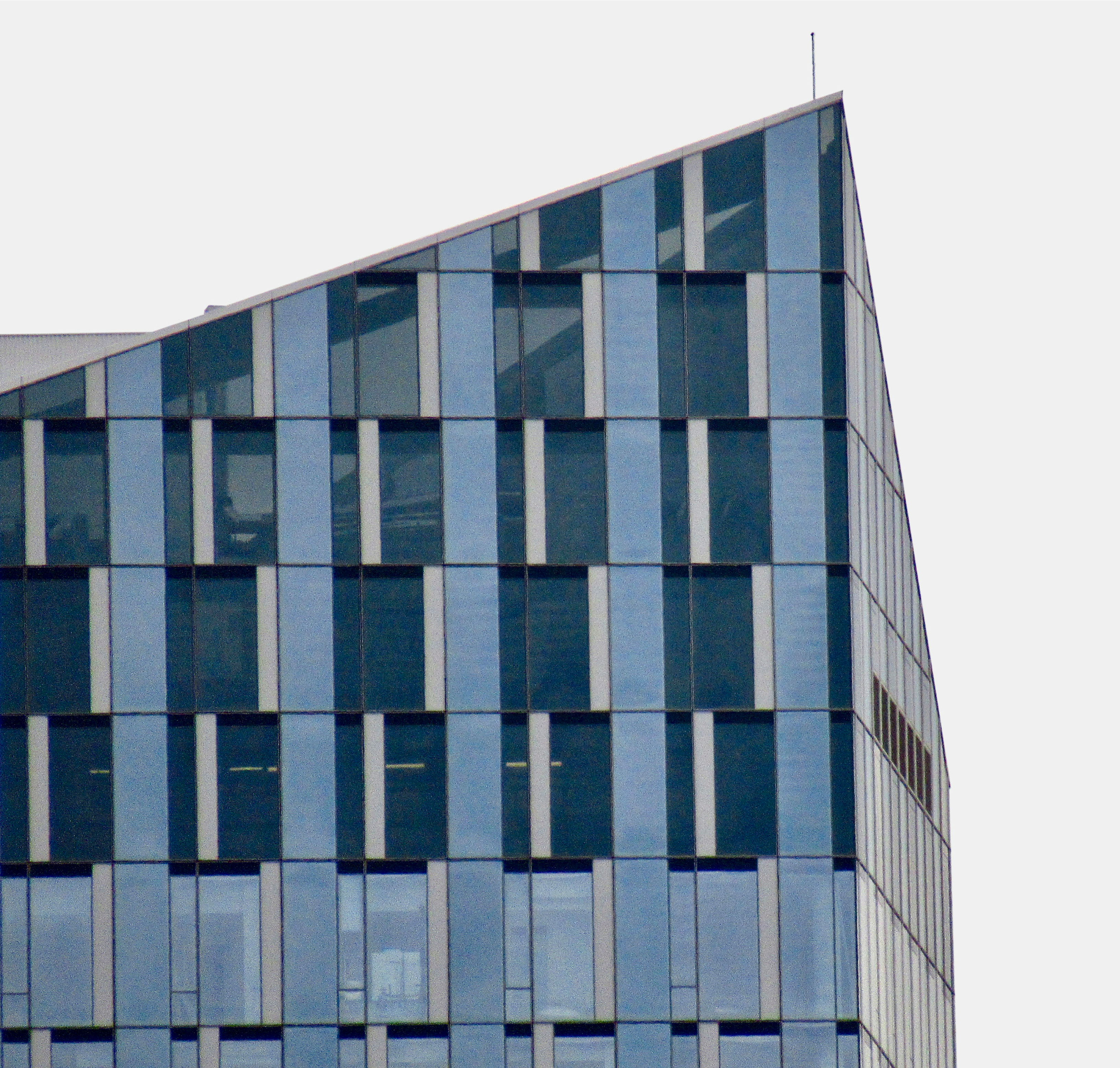
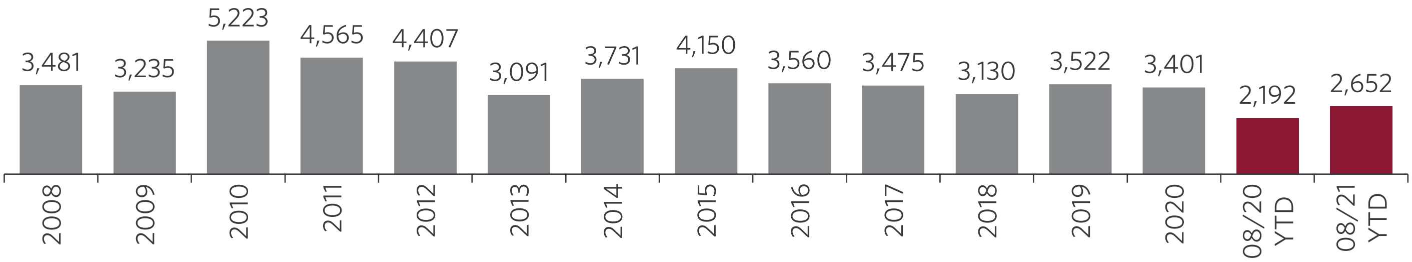
CIBC CLEARY GULL

MARKET MONITOR

M&A and financing update
3rd Quarter 2021



U.S. M&A deal volume for transactions under $500MM



Source: Robert W. Baird & Co.

One hot summer for M&A

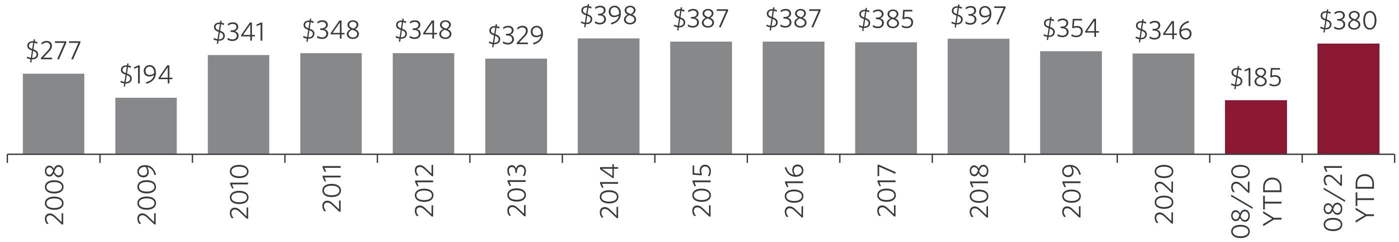
Traditionally during the summer months there have been fewer pitches and deal closings, providing deal professionals an opportunity to celebrate their success from the first half of the year and recharge their batteries for the post-Labor Day pitch season and the push for year-end deal closings. History did not repeat itself this year. Instead, for the M&A markets, it was "One Hot Summer" in 2021.

There was an unprecedented level of M&A activity this summer. The traditional August family vacation may have still occurred in 2021 but deal professionals' days were filled with marketing materials, legal documents, and video calls instead of waves, sunshine, and relaxation. If there was a silver lining, it was the remote office change of scenery both for those on "vacation" and the other participants in video calls.

Year-to-date ("YTD") M&A activity levels for small- and medium-sized transactions surged after a mixed start to the year. In the Q2 2021 Market Monitor, we reported that the YTD May 2021 volume of transactions without disclosed values (most likely including most smaller deals) had declined by 20%, compared to the same period in 2020. That gap no longer exists. According to Robert W. Baird & Co., YTD August 2021 reported transaction volume for transactions without disclosed values has now caught up and *increased* slightly (1.2%), compared to the same period in 2020. The 2021 volume statistics for medium-sized transactions (under $500 million in enterprise value) are beginning to show the increases that were expected when compared to the COVID period in 2020. Through August 2021, the number of completed transactions under $500 million increased by 21%, led by $100 to $500 million transactions which have increased by 105%, compared to the same period in 2020.

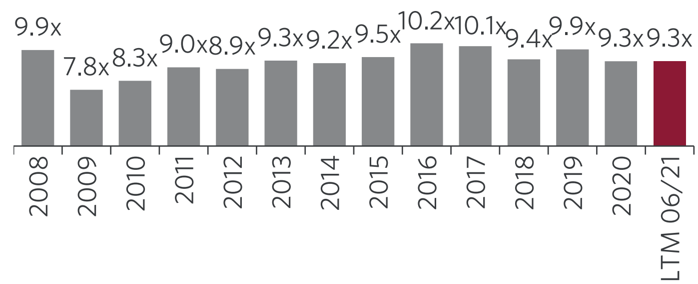
Currently, there are no signs of a slowdown in deal activity for the remainder of 2021. If the "hot summer" continues into the fall and winter, we may have to conclude climate change is affecting the M&A markets too.

U.S. M&A deal value ($ in billions)



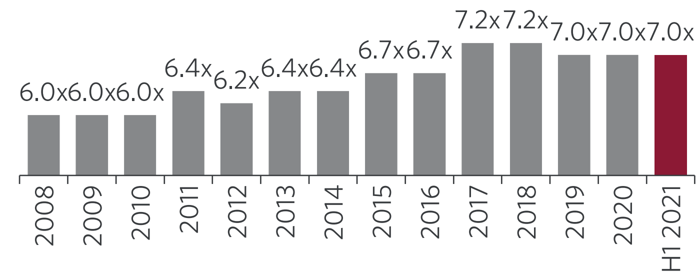
Source: Robert W. Baird & Co.

Average U.S. M&A EBITDA multiples



Source: Pitchbook

Average EBITDA multiples for $10mm - $250mm PE-backed LBOs



Source: GF Data

Multiple consistency concealing "barbell" valuations

A 30+ year private equity veteran recently said the efficiency of M&A processes has turned the private market sale of a high growth, high margin, recurring revenue private company into an initial public offering ("IPO") equivalent for the sellers. In some ways the statement is not far from the truth. For a recurring revenue service company with $15+ million of EBITDA and a strong organic and inorganic growth strategy, the enterprise value/EBITDA multiple can be at an IPO-like "mid-teens" level. With representations and warranty insurance policy, the sellers can also have an IPO-like "clean" walkaway legal deal. The frequent occurrence of high valuation, no recourse deals is forcing private equity firms and other buyers to find new competitive angles beyond price and terms to win deals.

Not all sellers are benefiting from these IPO-like valuations, however. While average EBITDA valuation multiples this year have remained relatively flat, the averages conceal an increasing disparity between "have" and "have not" companies. According to GF Data®, the average EBITDA multiple for private equity-backed leveraged buyouts ("LBOs") with $10 to $250 million enterprise value was 7.0x for H1 2021, which is about the same in 2019 and 2020. However, the average includes both lower valuation multiples paid for businesses that buyers consider out-of-favor, distressed, or "plain vanilla" with a lack of true differentiation, and increasing premiums for high-performing companies. LBO valuations for "out-of-favor" businesses are averaging 5.8x EBITDA in 2021, which represents a 0.25x to 0.5x discount to the average EBITDA multiples paid by buyers for these types of businesses over the last five years. For H1 2021, the average LBO valuation multiple for high-performing companies was 7.8x, a record 33% premium to their less fortunate peers. In addition, the market is experiencing a material increase in the proportion of above-average to below-average companies selling. At the same time, owners of undifferentiated businesses are being influenced to go-to-market by the headlines about outlier valuations. While these sellers are not experiencing frothy valuations, transactions at more modest valuations are still occurring, which is not always the case after past economic corrections.

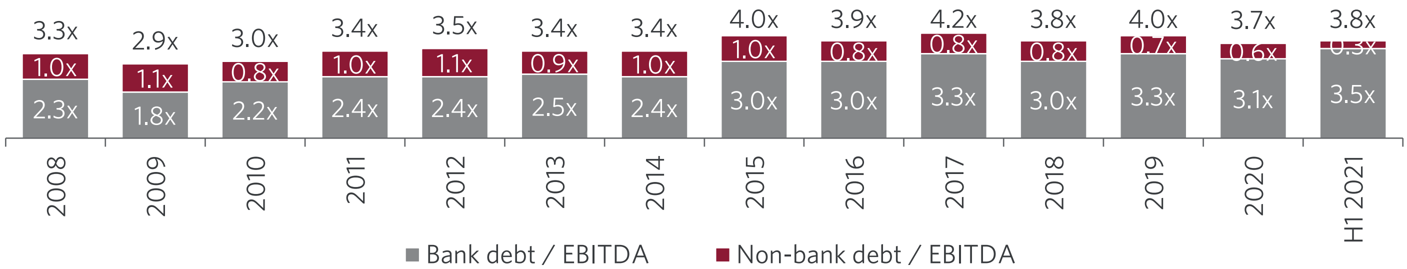
Based on market feedback, we anticipate that M&A processes will continue to provide "IPO like" outcomes for companies with differentiated, high-performing business models and good value for buyers of companies with less compelling business models.

Buyout quality premium

	2003 - 2016	2017	2018	2019	2020	H1 2021	Total
Above Average Financials	6.4x	7.8x	7.8x	7.5x	7.7x	7.8x	6.9x
Other Buyouts	5.9x	6.4x	6.3x	6.3x	6.1x	5.8x	6.0x
Premium / (Discount)	109%	122%	123%	121%	128%	133%	115%
Incidence	56%	56%	59%	52%	55%	62%	56%

Source: GF Data

Average LBO debt multiples for deals with $10mm – $250mm of enterprise value



Source: GF Data

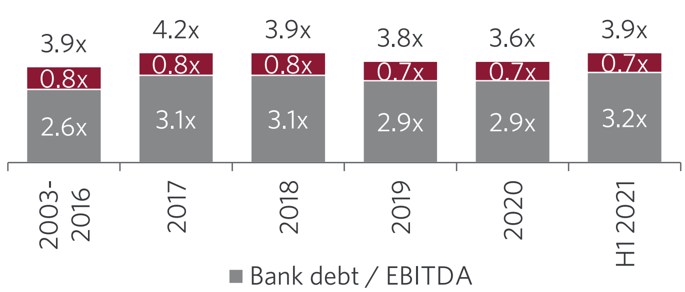
Debt Markets Remain Supportive

According to GF Data®, the average total debt/EBITDA multiple for LBOs with $10 to $250 million enterprise value was 3.8x for H1 2021, essentially the same as the 2020 average, with the debt markets normalizing after a period of uncertainty. The return to normal risk assessment during underwriting is led by conservative borrowers who choose to take less than the maximum amount of available debt, increasing their initial debt usage from a multiple of 3.3x EBITDA in 2020 to 3.6x EBITDA through YTD June 2021. Family offices represent the most significant contributor to the increase in conservative leverage multiples and have increased their total leverage usage a full turn to 3.6x EBITDA in H1 2021 when compared to 2020. In addition, lenders are supporting add-on transactions with an average total debt/EBITDA multiple of 4.9x EBITDA in 2021.

According to GF Data®, LBOs for both manufacturing and business services companies are experiencing total debt/EBITDA debt multiples consistent with pre-pandemic levels and strong senior debt support. The average total debt/EBITDA multiple for manufacturing LBOs is 3.9x, which is 0.3x higher than 2020, the average total debt/EBITDA multiple for business services is 3.8x, which is consistent with the average from 2018 to 2020, and the average senior debt/EBITDA multiple for both manufacturing and business services LBO is at the highest levels in the last several years.

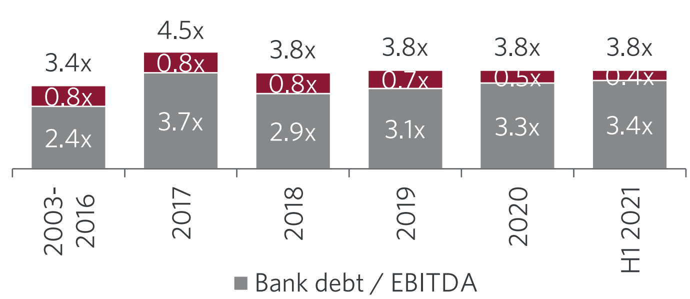
The increase in the senior debt multiples is likely being driven by an increased usage of unitranche senior debt from direct lenders, BDCs and structured finance divisions within commercial banks. Direct lenders are using speed, low amortization and "stretch senior" unitranche structures to support high growth, high free cashflow business services transactions.

Average debt multiples for manufacturing LBOs



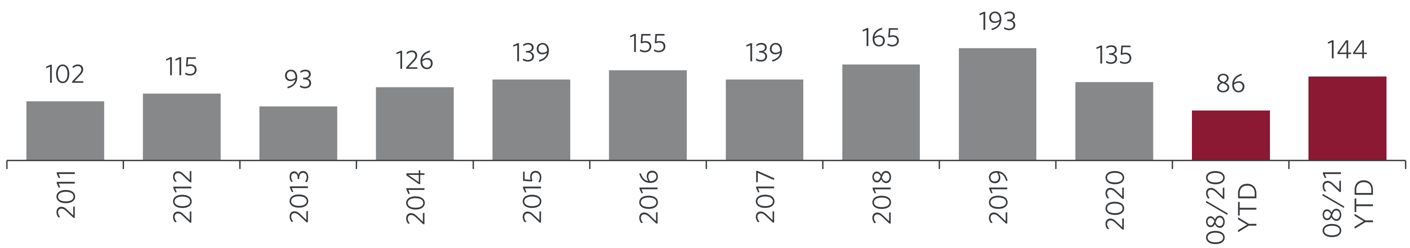
Source: GF Data

Average debt multiples for business services LBOs



Source: GF ata

Consumer products transaction volume



Source: Robert W. Baird & Co.

Sector Focus – Consumer Products

The consumer sector has recovered well in 2021. According to Robert W. Baird & Co., transaction volume has increased 67% through August 2021 when compared to the same period in 2020, and YTD 2021 deal volume exceeds the total number of transactions completed in 2020.

- 2021 a transition year
  During 2020, the consumer sector focused more on essential than non-essential goods and services. 2021 is a transition period. As consumers resume in-person social activities, they realize a need to update their personal appearance with things like clothes, make up, and accessories. Consumers are now more regularly leaving their homes and have focused on finding the right vehicle to accommodate their pandemic lifestyles, which has resulted in overpriced used car prices and record low inventories. While entertainment and related services like travel, restaurants, and sporting events are operating a little differently with vaccine passports and mask requirements, participation is trending in the right direction, despite significantly lagging pre-pandemic levels. Rising costs are a major concern and in many cases outpace the revenue recovery. Labor shortage, supply chain issues, higher raw material costs, and out-of-control overseas shipping container fees have all taken a bite out of profits. To be successful, consumer companies need to adapt to the new normal and be strategic as to how they source, manufacture, and deliver their products.

- Current state of the consumer sector M&A market
  CIBC Cleary Gull has seen strong M&A activity in consumer subsectors, including pet products, retail food and beverage, household goods, outdoor enthusiast products, and cleaning supplies. We expect M&A activity to remain strong for essential sectors and the non-essential sector to recover, due to pent-up demand which should drive deal activity for the rest of 2021 and into 2022. There are real opportunities for sellers of top-performing consumer companies to achieve outlier valuation multiples for their companies sooner than expected. It will be important for buyers and sellers to focus more on the long-term trends than the monthly or yearly fluctuations. They will need to think carefully about whether COVID-affected earnings represent a sustainable "new normal" or whether they need to agree on a different post-COVID "run rate" to support the long-term outlook. As always, the challenge for the M&A market is finding a way for sellers and buyers to agree upon a reasonable valuation and simultaneously achieve their objectives.

Firm overview

CIBC Cleary Gull is a nationally recognized boutique investment banking firm with a global reach. We advise private equity funds, entrepreneurs, and small publicly traded companies on mergers and acquisitions, private debt and equity financings and recapitalizations and other transactions.

Our talented team has completed hundreds of middle market transactions delivering more than $8 billion in value. With an average of more than 20 years of deal experience, our skilled senior investment bankers bring knowledge, integrity and relentless determination to deliver great outcomes for our clients.

CIBC is a 150 year-old financial institution that provides US clients with tailored commercial banking, wealth management, personal and small business financial solutions, as well as cross-border banking services to clients with North American operations.

Global reach

CIBC Cleary Gull is a member of Orion International Advisors (orion-ia.com); a global network of investment banking firms in Asia, Australia, Europe, and North and South America working together to broaden their reach and leverage their expertise.

Contact us for more information on CIBC Cleary Gull and our Investment Banking services.

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