CIBC Commercial Banking

Mid-Market Investment Banking

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"...the mid-market is the engine that is driving the Canadian M&A market."

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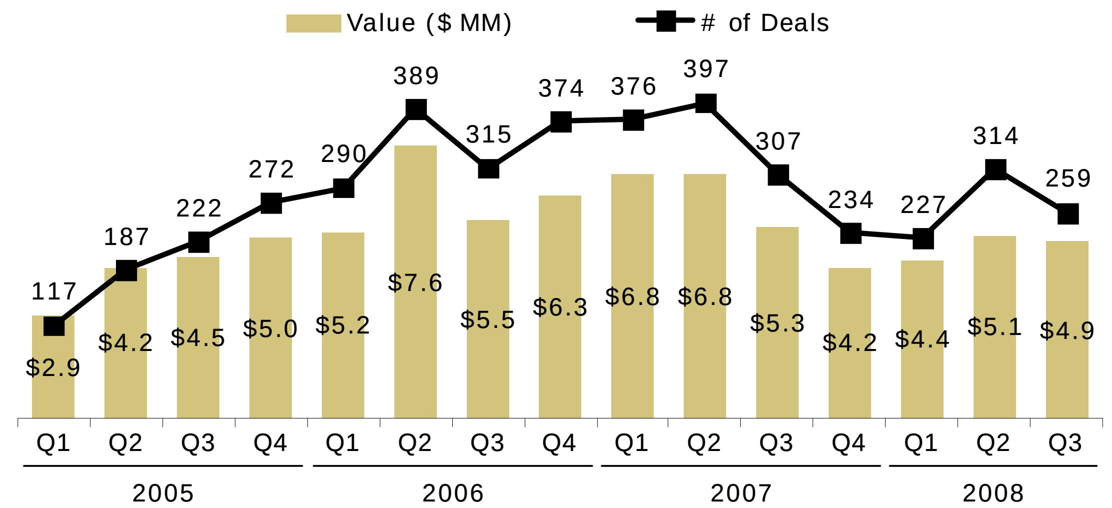
Are Mid-Market M&A Deals Getting Done in Today's Market?

News of the ongoing credit crisis that has resulted in tightened credit and reduced liquidity in the marketplace continues to dominate headlines globally more than a year after the first signs of a crack in the sub-prime mortgage market. What does this mean for mid-market M&A activity? Credit availability and market liquidity have a direct impact on M&A volumes and valuations – buyers need credit to finance transactions, and to the extent that public markets have corrected the value of their equity, buyers have reduced currency to make acquisitions. In tough economic times purchasers may also place priority on preserving their capital to wait out the uncertainty and volatility in the market.

Does this mean mid-market transactions are on-hold? The statistics tell us no. While the number of deals are down from the highs of 2006-07, the activity levels have returned to those seen in 2005. Indeed the mid-market continues to be the engine that drives the Canadian M&A activity accounting for over 2/3rds of all activity and, as in the past, is experiencing less volatility than the overall M&A market.

Canadian Mid-Market M&A Activity



Deal Size: $1 million - $100 million
Source: Financial Post Crosbie

So how is it that mid-market M&A deal activity is holding up relatively well compared to large corporate transactions in the face of a credit crisis and a slowing economy? The mid-market M&A market is fueled by strategic buyers who don't need to raise additional capital from the banks or the equity markets to complete a tuck-under acquisition. Thus, if the transaction makes strategic sense for the parties involved and the valuation expectations of the vendor are reasonable, mid-market transactions will continue to get done in this challenging market.

The reduced availability of credit and lower public equity market valuations has had an inevitable impact on M&A valuations in 2008. The average TEV/EBITDA multiple for financial sponsor-backed transactions year-to-date has been 5.8x vs. an average of 6.4x in 2007[1]. While this does not specifically address valuations that strategic purchasers are paying, it is our view that valuation multiples have corrected in a similar fashion for transactions with strategic buyers.

Where is the market headed from here? It is impossible to predict the future in these uncertain times, but the combination of realistic price expectations of sellers and continued availability of debt financing for strong companies will continue to present M&A opportunities in this unique market environment.

[1] Source: GF Data Resources (Private equity transactions $25-$100mm in value)

SELECTED TRANSACTIONS IN 2008

Tutti Frutti Sale to MTY Food Group Inc. *Exclusive Financial Advisor* *2008*	Roche Consulting Engineers Acquisition of Certain Assets of IMS Experts Consultants *Exclusive Financial Advisor* *2008*	The Shumka Group Acquisition of the Canadian P&C Insurance Claims and Risk Management Services Division from CGI Group Inc. *Exclusive Financial Advisor* *2008*
Burnco Concrete Products Ltd Sale to Armtec Infrastructure Income Fund *Exclusive Financial Advisor* *2008*	A.E. Concrete Precast Products Ltd. Sale to Armtec Infrastructure Income Fund *Exclusive Financial Advisor* *2008*	Oryx Pharmaceuticals Inc. Sale to Sepracor Inc. *Exclusive Financial Advisor* *2008*
uniPHARM Wholesale Drugs Ltd. Acquisition of Prairie Supply Co-Operative & Dale and Douglas Distribution Services Inc. *Exclusive Financial Advisor* *2008*	NOCO Sale of Certain Assets to Parkland Income Fund *Exclusive Financial Advisor* *2008*	Navtel Communications Inc. Sale to EXFO Electro-Optical Engineering Inc. *Exclusive Financial Advisor* *2008*
QMI Management Systems Registration Sale to SAI Global Ltd. *Exclusive Financial Advisor* *2008*	Tredegar Corporation Sale of Certain Assets to H.I.G. Capital *Exclusive Financial Advisor* *2008*	The Delta Group xfo Sale to Hammond Power Solutions Inc. *Exclusive Financial Advisor* *2008*