MID-MARKET INVESTMENT BANKING

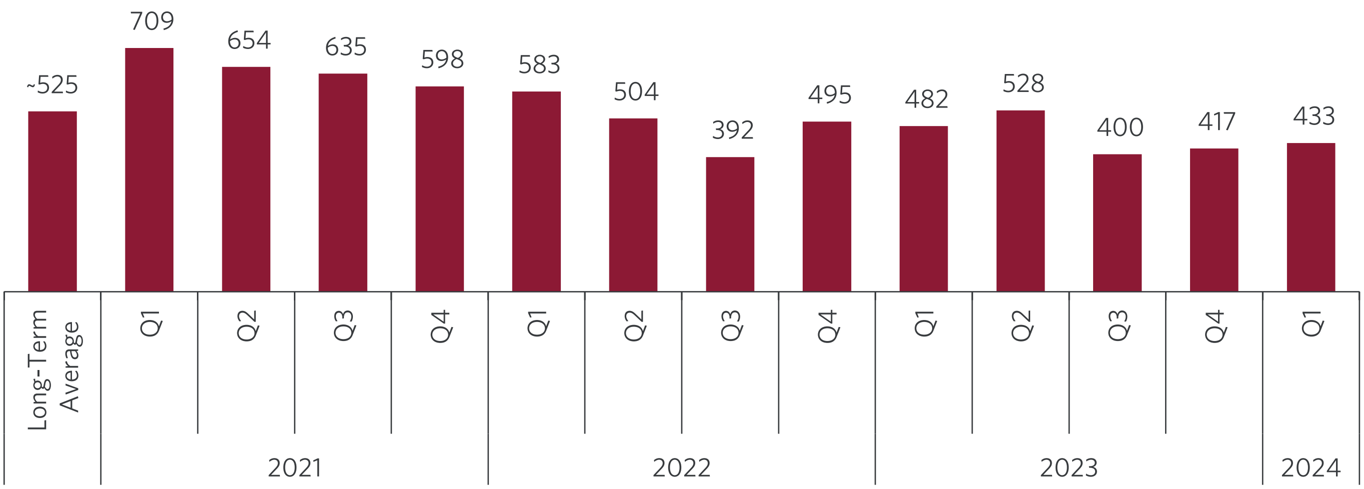
Spring 2024

Market update

We are pleased to share our views on the M&A environment so far in 2024.

M&A activity

Canadian quarterly M&A transaction count



Source: S&P Capital IQ.

Transaction volumes in Canada remain stable having come off the highs seen a few years ago. Our team are getting retained and closing deals at our usual pace – the mid-market keeps ticking along as owners are continuing to explore the sale of all, or a majority, of their business.

Buyers remain cautious, looking for the perfect fit. They are conducting more detailed due diligence which is causing deals to take longer to close. Valuation multiples seem to be holding up, with negotiations placing greater emphasis on determining the target's level of sustainable EBITDA. We continue to see some form of deferred consideration in deal structures as a way to bridge buyers' caution - earn-outs and vendor loans being the most common.

The Federal Government's proposal to increase the capital gains tax inclusion rate from one half to two-thirds for capital gains realized on or after June 25, will reduce the net proceeds owners receive upon the sale of their business. As expected, deal professionals are very busy trying to close transactions before this date.

Trends in Private Equity

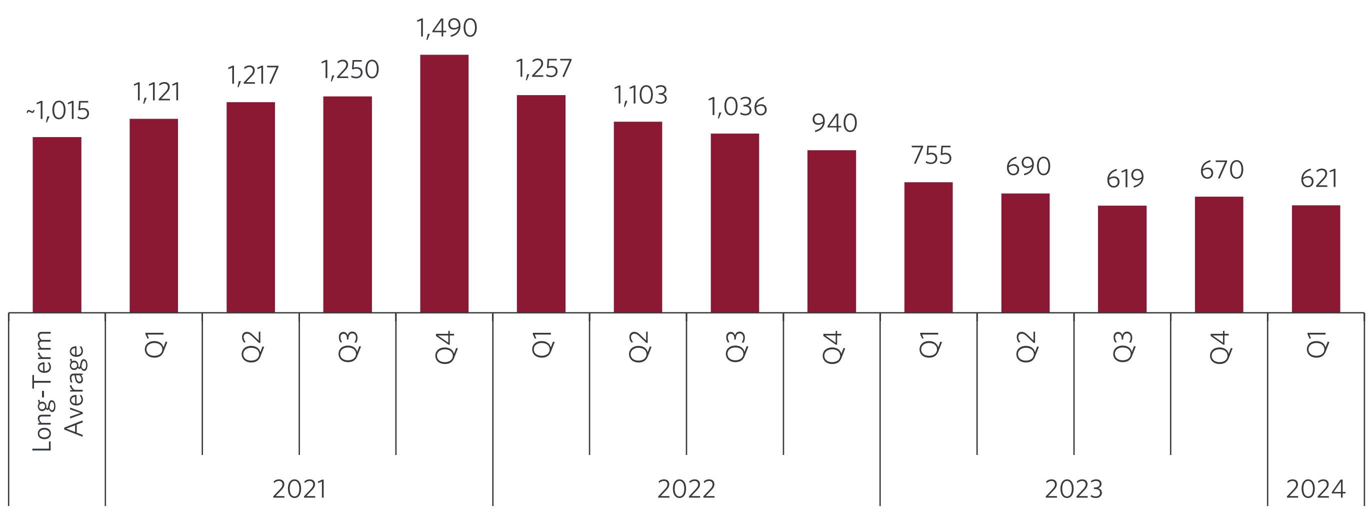
Private equity continues to play a key role in the M&A market. The chart below shows quarterly volumes remain below the long term average.

While PE activity is down, much of their current focus is seeking add-on acquisitions to their existing portfolio companies. We can see this in our closed deal database as the buyer has been a PE-backed strategic in 33% of our deals in the last few years, up from 15% historic average. Such a buyer has the advantage of providing options to our business owner clients who can choose to exit the business completely or stay on and retain some ownership by rolling a portion of the proceeds into the buying company.

As commented in our previous newsletter, we anticipate PE leading an uptick in deal activity in the latter half of 2024. PE groups that raised their latest fund 2+ years ago may begin to feel pressure to deploy this capital. Additionally, many PE groups that have held off selling companies they own, will need to sell at some point to return liquidity to their investors.

In speaking with Firmex, a provider of virtual data rooms used in M&A deals, they noted that new data room openings were up 6% in Q1/24 compared to the same quarter last year. This may be a leading indicator of more deals closing towards the back end of this year.

North American PE-backed transaction count



Source: S&P Capital IQ.

Debt market update

Private equity transactions typically use debt as a key source of capital to facilitate acquisitions and continued growth. The amount of debt a lender is willing to provide impacts the valuations PE buyers can offer. As can be seen in the table below, the amount of leverage as a multiple of EBITDA has tightened over the past several quarters.

Multiple of total debt/EBITDA

Total Enterprise Value	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
$10-25	3.9x	2.8x	3.5x	3.3x	3.3x	2.9x	3.2x	3.1x
$25-50	2.9x	3.4x	3.4x	3.1x	3.0x	3.7x	3.2x	2.5x
$50-100	3.5x	3.6x	3.6x	2.9x	3.5x	3.1x	3.0x	3.2x
$100-250	4.1x	4.9x	3.5x	3.8x	3.7x	4.1x	3.9x	3.7x
Average	3.6x	3.5x	3.5x	3.3x	3.3x	3.5x	3.3x	2.9x

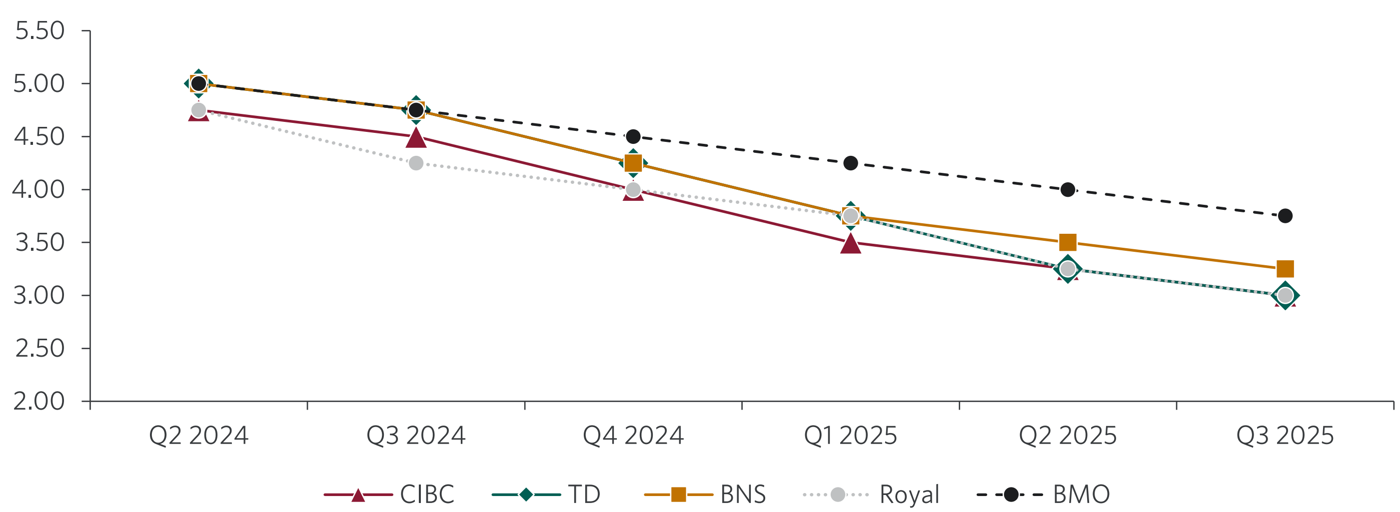
Source: GF Data, platform investments only.

In addition to the changes in debt availability, another key theme has been the increased cost of borrowing due to the Bank of Canada raising it's overnight rate over the past 2 years to control inflation.

On June 5, the Bank of Canada announced a 0.25% decrease in it's overnight rate to 4.75%. The chart below indicates a consensus among the 5 largest Canadian banks that interest rates will continue to decline over the next ~18 months.

Lower borrowing costs on deals, together with increased confidence that will likely be felt across the economy, should bode well for more M&A activity as the year progresses.

Bank of Canada overnight rate forecast



Source: CIBC Economics, June 4th, 2024.

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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