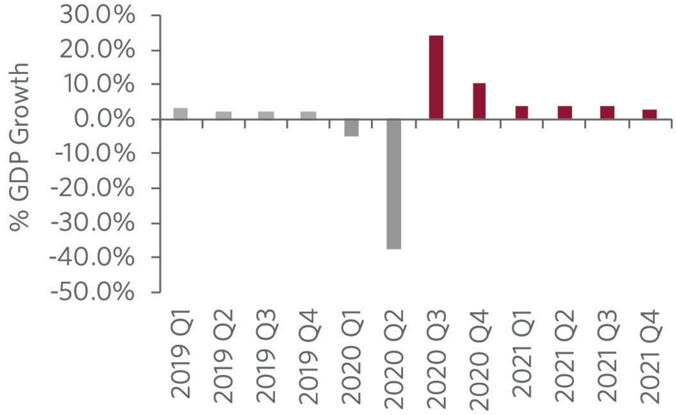
MARKET MONITOR

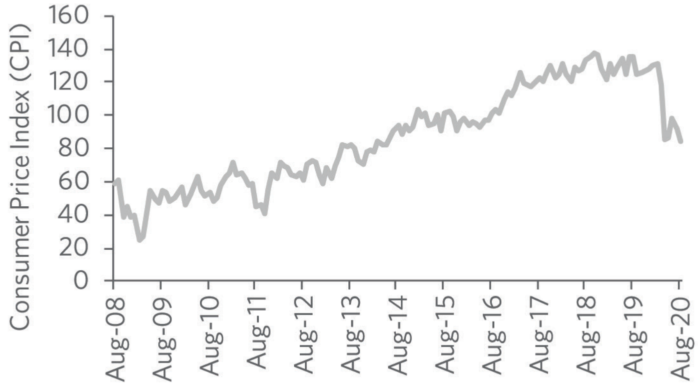
M&A and financing update
3rd Quarter 2020

Quarterly U.S. gross domestic product



Sources: U.S. Department of Commerce and Wells Fargo.

Consumer confidence



Source: Federal Reserve Bank of St. Louis.

Pockets of strong M&A activity as economic uncertainty persists

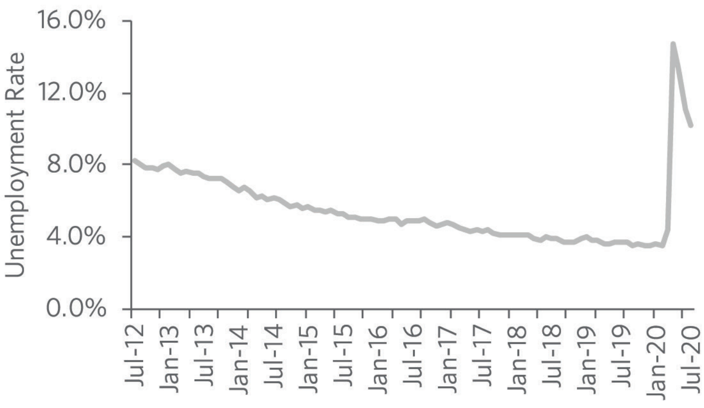
The start to the summer brought us sunshine and a glimpse of economic optimism. States began to lift "shelter-in-place" orders providing businesses, restaurants, and others with a much-needed boost and the ability to reopen. At the same time, consumer confidence was rebounding as social gatherings increased, conversations regarding in-person schooling in the fall intensified, and furloughed employees were supported by additional unemployment benefits or a return to work. Economic indicators have improved in Q3 2020. The GDP forecast for the quarter is strong at 25.4% and unemployment improved to 8.4% in August from 14.7% in April. The improvement in employment figures has been led by the industries that were the hardest hit by the pandemic, retail, leisure and hospitality. Despite the positive economic reports, consumer optimism began to deteriorate after the July 4th holiday with reports of a resurgence in the number of positive COVID-19 cases.

As the summer progressed, consumer confidence continued to erode due to the growing threat of a COVID resurgence, state governments extending "shelter-in-place" deadlines and imposing mandatory public mask policies, schools announcing their plans to start the new year virtually, and Congress' inability to extend the additional unemployment benefits before leaving for recess. Six months later, many consumers maintained the same level of personal health and economic uncertainty that was present in their lives in March.

While the economic uncertainty persists, the M&A markets are showing signs of normalcy for "pandemic-resistant" businesses. Deal flow and pitch activity improved in August and September. Sellers and their investment bankers are launching full and targeted processes for "COVID winners". Lenders are selectively lending to high performing companies and long-term relationships. Government stimulus created the fastest recovery from a "bear" market in the history of the stock market and provided much needed liquidity to employees and businesses that were negatively impacted by the shutdown.

The combination of willing sellers, buyers with significant capital to spend, and resilient capital markets is creating a path forward for M&A in the face of continued uncertainty and "cloudy" future forecasts. As we head into Q4 2020, there's no sign the M&A market will close again, so we expect that deal flow will improve, albeit, at depressed levels when compared to the past few years.

U.S. unemployment

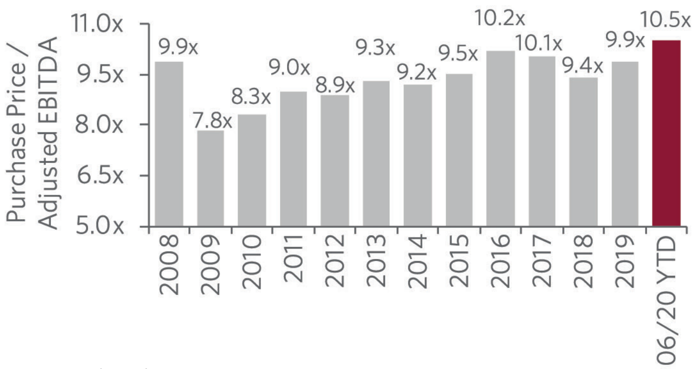


Sources: Federal Reserve Bank of St. Louis.

Job loss by industry (in millions)

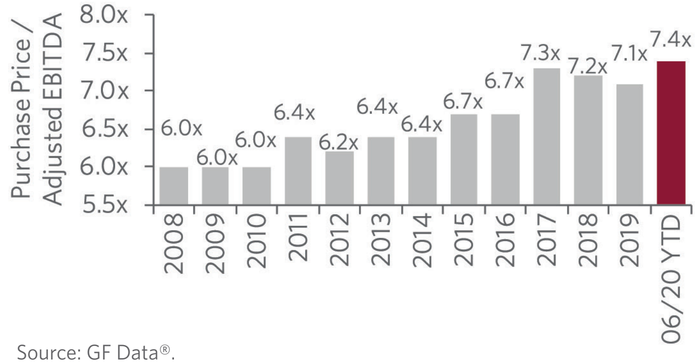
Source: U.S Bureau of Labor Statistics and Wells Fargo.

U.S. M&A transaction multiples



Source: PitchBook.

Avg. purchase price/adj. EBITDA multiples for PE-backed LBOs with $10mm - $250mm of EV



Source: GF Data®.

LBO valuation multiples extend their rally despite COVID disruption

Valuation multiples maintained their lofty levels in Q2 2020 (as we predicted in the issue of Q2 2020 Market Monitor) despite the late Q1 and early Q2 market dislocation caused by the shutdown. The strong multiples were driven by transactions involving COVID-resistant companies. According to GF Data®, the average enterprise value/EBITDA multiples for $10 to $250 million enterprise value leveraged buyouts ("LBOs") in Q2 remained at 7.4x. Pitchbook® reported the average enterprise value/EBITDA multiple for all U.S. M&A transactions year-to-date Q2 increased to 10.5x, a record level.

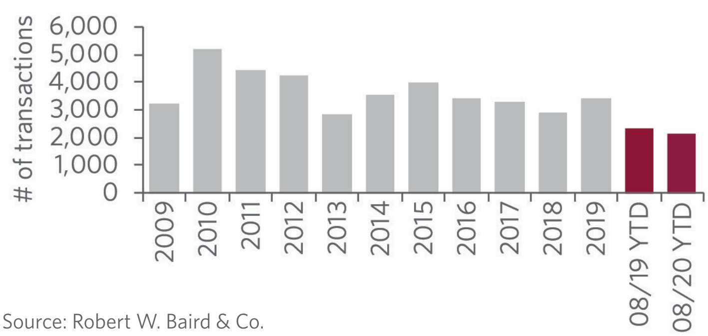
A headwind to the "frothy" valuations was a reduction of 0.6x in average total debt/EBITDA availability for cashflow loans supporting LBOs. It has been commonly assumed in the M&A market that debt availability was directly correlated (almost on a dollar-for-dollar basis) to the enterprise values LBO buyers were willing to pay. The Q2 data belied this theory as debt availability declined over 0.5x EBITDA and average enterprise value/EBITDA multiples increased by almost the same amount.

Soon after the M&A pause in March and April, buyers reengaged in processes for companies that proved to be COVID "winners" or "pandemic-resistant". According to GF Data®, the industries that have experienced a surge in purchase price multiples include distribution, media & telecom, technology, and some sub-sectors of manufacturing, such as food, infrastructure, and products associated with the home and/or home office. We believe that valuation multiples could potentially increase further for "pandemic-resistant" businesses as private equity firms look to invest in a limited universe of high performing companies.

2020 deal volume remains below historical levels

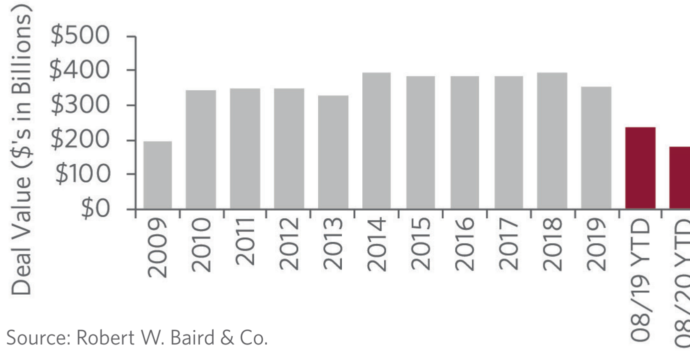
In July, the number of completed transactions under $500 million declined 10.3% compared to July 2019, according to Robert W. Baird & Co. This is an improvement from April and May, when deal volume was at its lowest levels since December 1996. The increased summer volume was attributable to the resumption of transactions paused by the sudden cloud of uncertainty presented by COVID in March and April. Closed transactions continue to be weighted towards COVID-resilient. The wave of distressed transactions that many turnaround investors expected during the shutdown has not materialized. For the rest of the year, we are expecting monthly year-over-year declines in transaction volume while a significant part of the economy remains uncertain and the anticipated wave of distressed transactions begins.

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



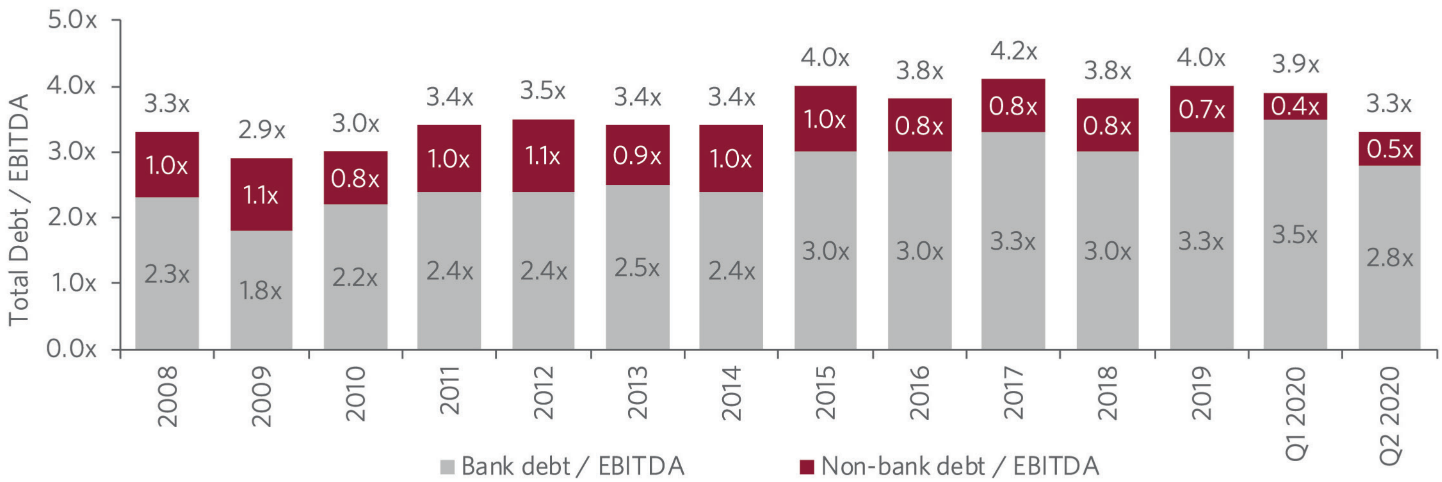
Source: Robert W. Baird & Co.

U.S. M&A deal value



Source: Robert W. Baird & Co.

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



Source: GF Data®.

Debt markets retrench in response to the economic shutdown

The debt markets reacted to the pandemic shutdown by shifting the focus of lenders from business development and loan growth to credit quality and their current loan portfolios, bringing the five-year run of aggressive new business development that drove "borrower friendly" debt multiples to an end during Q2 2020. From 2015 to Q1 2020, the average total debt/EBITDA multiple was 4.0x. For Q2 2020, the average total debt/EBITDA multiple for private equity-backed LBOs from $10 to $250 million was 3.3x, according to GF Data®. Unlike past debt market corrections, this one arrived without warning and impacted both large and small transactions.

The 0.7x decline in total debt/EBITDA availability was driven by lenders recalibrating their risk appetite for borrowers because of the economic uncertainty and lack of visibility created by the pandemic shutdown. The lingering effects of the shutdown and the lack of clarity regarding when the world economy might return to "normal" made it virtually impossible for management teams to produce credible financial forecasts or predict their near- or long-term liquidity needs with any level of confidence. This persistent lack of visibility in turn leads to credit committee decisions to "slow play" the process to fund LBOs, tighten loan terms, increase pricing, reduce hold sizes, increase or reintroduce loan covenants, and request additional collateral support.

While the market has tightened, LBOs are alive and well in pandemic-resistant industries. The corporate bond market remains "white hot" for investment grade credits. The U.S. corporate bond market has already set an annual record with $1.4 trillion of bonds issued. The high yield market is very strong with over $300 billion of debt issued year-to-date, putting it on pace to eclipse the 2013 record volume of $368 billion. Historically, the strength or weakness of the investment grade and high yield markets trickle down to middle market lending. However, during the 2020 pandemic this "trickle-down effect" has not materialized for the middle market.

Despite the uncertainty, deals are moving forward, lenders are selectively lending, and transactions are closing. We expect that the lender's bar for new deals will remain high through the balance of 2020 as lenders pay attention to the performance and liquidity needs of their current customers. Based on discussions with business owners and the current pace of the reopening, we are hearing that the lending market may be challenged in late 2020 by a wave of companies experiencing covenant violations and liquidity challenges without further government stimulus. A major unknown is whether the government will provide it. If Congress gets to the October recess without passing a new stimulus bill, it would not be a surprise if the debt markets respond with a contraction in late 2020.

Comparison of U.S. Government Stimulus in the Pandemic versus the Great Recession

($'s in Billions)	2009 TARP & ARRA	2020 CARES Act	Additional Stimulus: Democrats	Additional Stimulus: Republicans
Individuals & Small Business	$ 358	$ 1,489	$ 703	$ 258
Unemployment Compensation	64	260	437	219
State and Local Governments	0	150	1,000	0
TARP - Financial Industry	308	0	0	0
Industry Bailout	80	61	0	0
Healthcare	152	153	280	62
Education & Food	146	31	90	105
Infrastructure & Energy	80	25	0	0
Research & Development	36	0	0	0
Housing	0	0	200	0
FEMA	0	45	0	0
Other	0	131	690	6
Total	**$ 1,224**	**$ 2,345**	**$ 3,400**	**$ 650**
Less: Revenue and Repayments	**$ (645)**	**$ 0**	**$ 0**	**$ 0**
Less: Unused CARES Act Funds	**$ 0**	**$ 0**	**$ 0**	**$ (350)**
Net Total	**$ 579**	**$ 2,345**	**$ 3,400**	**$ 300**

Source: U.S. Treasury, Congressional Budget Office, and USA Today.

Will there be more government stimulus?

It only took Congress two weeks from the economic shutdown on March 13th to the President signing the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law on March 27th. The CARES Act provided direct and immediate financial assistance to furloughed employees and small- to mid-sized businesses that were directly impacted by the mandated shutdown. Unlike its Great Recession predecessors, the Troubled Asset Relief Program ("TARP") and the American Recovery and Reinvestment Act ("ARRA"), the CARES Act appears to be a true government expense that will eventually be funded by U.S. taxpayers. While a $4 trillion deficit in a single year is staggering, the fact that the government acted quickly to postpone what could have been an inevitable economic disaster not seen since the Great Depression was fortuitous.

The stimulus programs created during the Great Recession helped the U.S. financial sector avoid a collapse with programs designed to create profits for the government. Both TARP and ARRA had mechanisms built-in to the program to entice entities that received money to repay it or the investment was designed to create an economic return for the government. In essence the government provided a "rainy day" investment or loan to save financial institutions and avoid the pending liquidity crisis. In contrast, the CARES Act was designed to be funded by a tax on future generations.

Thus far it appears the CARES Act accomplished exactly what it was intended to do. The government stimulus package supported a record number of unemployed workers and non-essential businesses and was spent to support the U.S. economy despite unemployment reaching historic levels in weeks. The stimulus in partnership with the Fed's action to lower interest rates drove the stock market to its fastest recovery from a "bear" market in history without the benefit of strong earnings or the promise of future growth.

As we enter September several states are experiencing a resurgence in COVID cases which is delaying the full reopening of state economies. The CARES Act stimulus money is drying up before the economy is back in full gear threating to undo the benefits that the Act provided over the summer. The current situation is reminiscent of the line in the movie JAWS: "We're gonna need a bigger boat!" Absent a vaccination or a cure for COVID, there is no end in sight to the economic slowdown. As a result, Congress is negotiating a second round of stimulus with a $3.1 billion bid/ask spread between Republicans and Democrats. Many believe another round of stimulus is needed to avoid a wave of bankruptcies and a resurgence in unemployment.

A near term potential silver lining for the M&A markets is a presumption that a tax increase could drive a wave of M&A activity in advance of any tax law changes, similar to what occurred in 2012.

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 the International Association of Investment Bankers. The IAIB (iaib.org) is 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.

Contacts:

Kevin Li
Managing Director and Head,
U.S. Investment Banking
312 564-2957
kevin.li@cibc.com

Ronald Miller
Managing Director and Head,
CIBC Cleary Gull
414 291-4528
ronald.miller@cibc.com

Patrick Bremmer
Managing Director
414 291-4548
patrick.bremmer@cibc.com

Ryan Chimenti
Managing Director
414 291-4531
ryan.chimenti@cibc.co

Rob Gjerlow
Managing Director
312 564-2785
rob.gjerlow@cibc.com

Gregory Gorlinski
Managing Director
414 291-4559
gregory.gorlinski@cibc.com

Ryan Olsta
Managing Director
414 291-4555
ryan.olsta@cibc.com

John Peterson
Managing Director
414 291-4551
john.peterson@cibc.com

Eric Reuther
Managing Director
312 564-2786
eric.reuther@cibc.com

Christopher Larsen
Executive Director
414 291-4547
christopher.larsen@cibc.com

James Olson
Executive Director
414 291-4552
james.olson@cibc.com

Patrick Ringsred
Executive Director
414 291-4553
patrick.ringsred@cibc.com

This presentation does not constitute a solicitation, an offer to buy or sell any security or a commitment to underwrite any securities or to arrange or provide any equity, debt, credit or other financing. CIBC Capital Markets employees are prohibited from offering to change or otherwise influence any research report, rating or price target to any company as inducement for the receipt of any business or compensation.

All values are expressed in U.S. dollars, unless otherwise noted.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC World Markets plc) provide products and services to our customers around the world. In the U.S., CIBC Capital Markets also provides investment banking services under the brand name CIBC Cleary Gull. Securities and other products offered or sold by CIBC Capital Markets are subject to investment risks, including possible loss of the principal invested. Each subsidiary or affiliate of CIBC is solely responsible for its own contractual obligations and commitments. Unless stated otherwise in writing CIBC Capital Markets products and services are not insured by the Canada Deposit Insurance Corporation, the Federal Deposit Insurance Corporation, or other similar deposit insurance and are not endorsed or guaranteed by any bank.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.