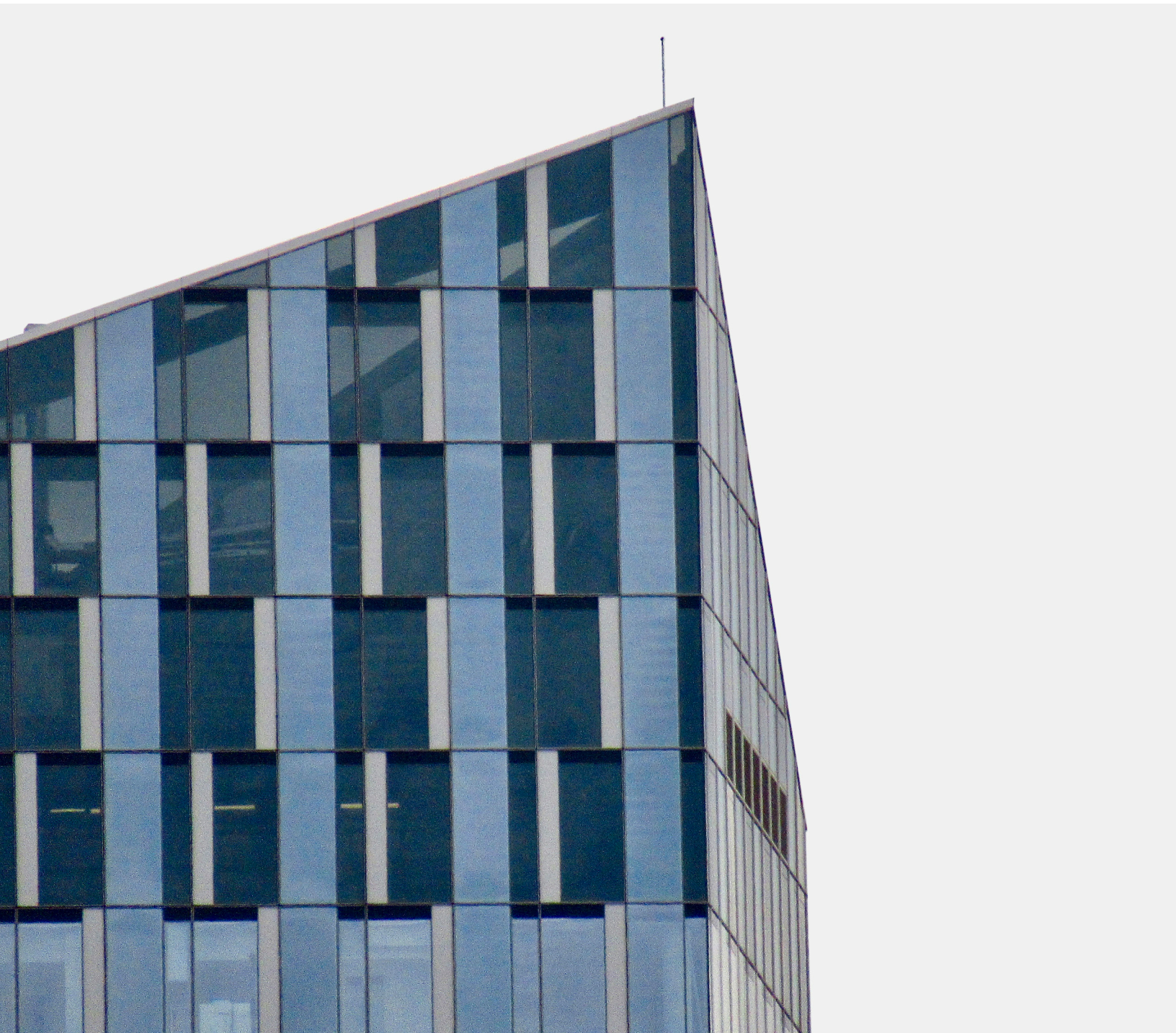




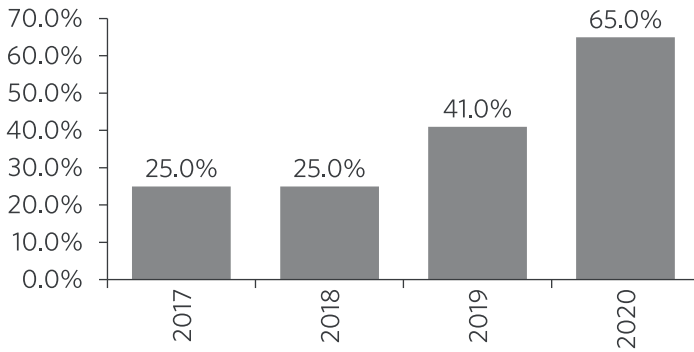
CIBC
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MARKET MONITOR

M&A and financing update
1st Quarter 2021

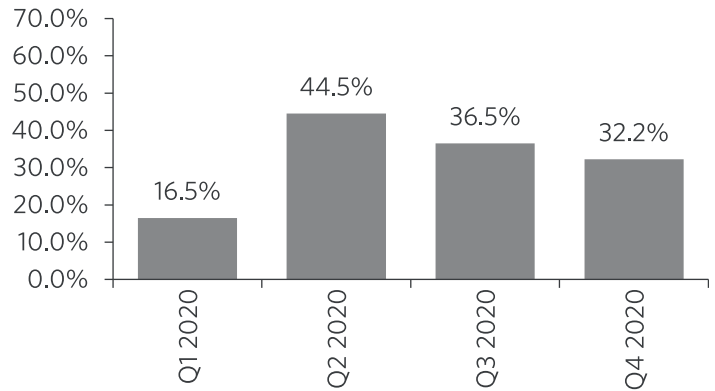


Average share of customer interactions that are digital in North America (%)



Source: McKinsey & Company.

Seasonally Adjusted Quarterly U.S. e-commerce Retail Sale Growth (%)



Source: U.S. Census Bureau.

Pandemic-accelerated technology adoption

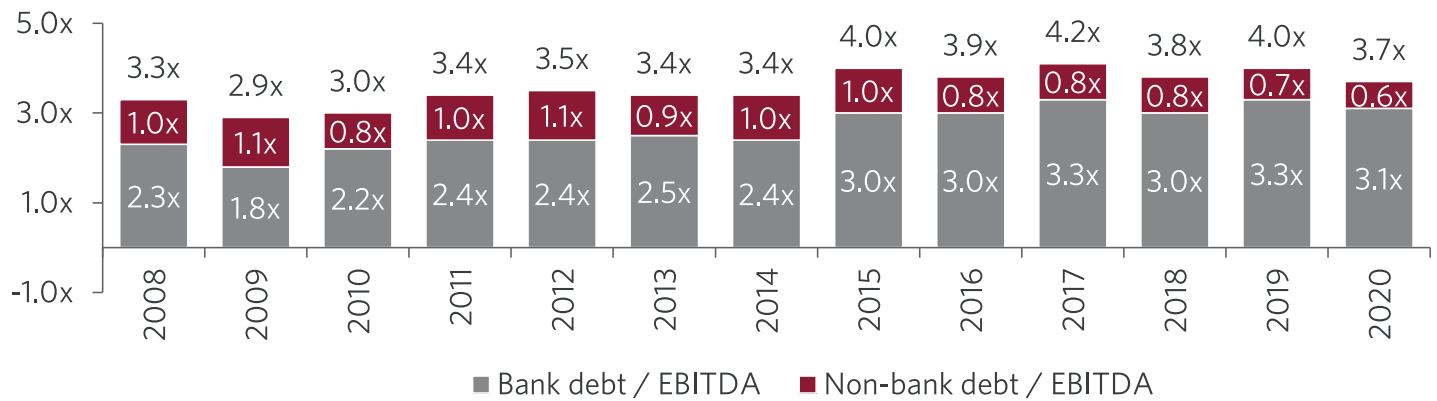
As we mark the first anniversary of “work-from-home”, it is noticeable and quite remarkable, how both consumers and companies leveraged technology to efficiently order and deliver products and services during the pandemic. Technology applications like Zoom, Teams, SharePoint, and Google Docs have become essential to everyday work. Effective companies learned to leverage these tools to network, sell, and collaborate with colleagues, clients, and customers. Many employees and employers have already forgotten the early technology challenges of last March and April caused by networks flooded with unexpected volume, as management and information technology teams mobilized remotely to solve software, hardware, and network issues.

According to a McKinsey & Company survey published in Q4 2020, companies accelerated the digitization of their customer, supplier, and employee interactions by three to four years during COVID, and their investments and the percentage of digitally enabled products by seven years. The chart above on the left highlights the digital transformation that occurred in 2020 with the percentage of digital customer interactions increasing a staggering 24% in a matter of months to 65% of total customer interactions. The chart above on the right shows the rapid increase in e-commerce retail sales over the year. The pandemic completely transformed how and when many product and service deliveries occurred, taking the “Amazon Effect” to a whole new level.

Companies with and without a history of embracing change were forced to adapt in 2020. Here are just a few examples of significant business model shifts that occurred with the aid of digital technology: Companies that used to rely on trade shows to reach customers switched to digital marketing campaigns. Restaurants developed efficient e-commerce business models with delivery services and curbside pick-up. Manufacturers responding to RFQs posted on LinkedIn for parts and components to fill urgent shortfalls. Retail brands invested more in the e-commerce channel to support and complement their “brick and mortar” stores. The list of stories about companies that were able to leverage technology to redefine their business models and embrace digital technology to survive and thrive is impressive.

As the economy continues to rebound in 2021, there are three key takeaways from the great digital shift of 2020 that should prove to be lasting. First, quick decisions in a crisis are often correct. McKinsey noted in its survey that, prior to March 2020, it would have taken management teams more than a year to make the decision to invest in the hardware and software to facilitate remote working, but during the crisis these decisions were implemented in an average of 11 days. Second, consumers have embraced the online shopping and delivery to their door experience, making a trend that was originally driven by fear of COVID a normal convenience. Finally, technology and digital solutions have been reclassified from cost saving tools to growth investments. Pandemic-driven changes in remote working and the digital economy will influence the office of the future, and the technology tools that companies will need to offer to attract and retain employees and foster significant growth for companies participating in cloud computing, data security, and artificial intelligence. The companies that were able to adapt to, learn from, and implement technology through the pandemic have become more valuable and should continue to attract premium valuations from buyers in 2021 and beyond.

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



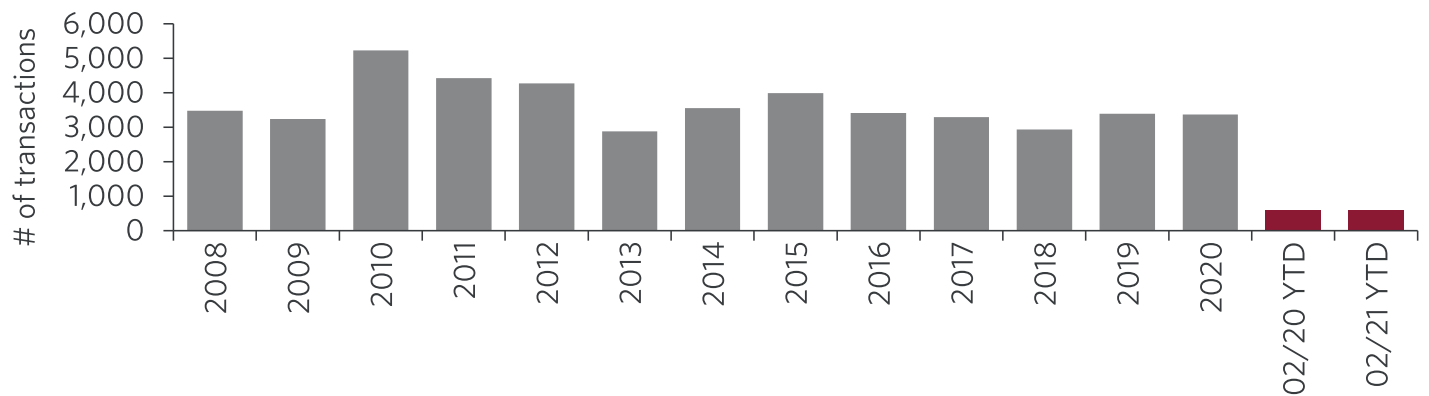
Source: GF Data®.

Debt markets experience a “V” recovery

The debt markets have rebounded, and lenders are more aggressively supporting companies with strong credit profiles than they were before the pandemic. According to GF Data®, the average total debt/EBITDA multiple for private equity-based leveraged buyouts (“LBOs”) with \$10 to \$250 million enterprise value was 3.8x for Q4 2020 and 3.7x for all of 2020. The average total debt/EBITDA multiple in Q4 was 0.5x higher than the multiple in Q2 2020, which was only 0.2x lower than the average in Q2 2019. This remarkable recovery is a testament to strong lender balance sheets, borrowers’ sound fiscal management, and the power of trillions of dollars of stimulus from the U.S. government. In hindsight, the stimulus provided “bridge financing” to many companies and employees, allowing them to pivot business models to support a digital world and a “work-from-home” business model.

In 2020, savvy private equity investors took advantage of their strongest lender relationships to capitalize on the “V” recovery in the debt markets. In 2020, according to GF Data®, lenders supported private equity platform acquisitions with an average total debt/EBITDA multiple of 3.9x and portfolio add-on investments with debt levels that averaged 4.7x EBITDA. These averages are particularly impressive, considering that 58% of the private equity transactions completed in 2020 were financed with a more conservative level of debt than the market offered. Faced with persistent economic uncertainty, private equity investors were able to use their record level of uncalled capital to invest higher amounts of equity, leaving excess borrowing capacity to support growth initiatives as the Pandemic lifted. We anticipate that the debt markets will remain strong throughout 2021 in support of the economic reopening.

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



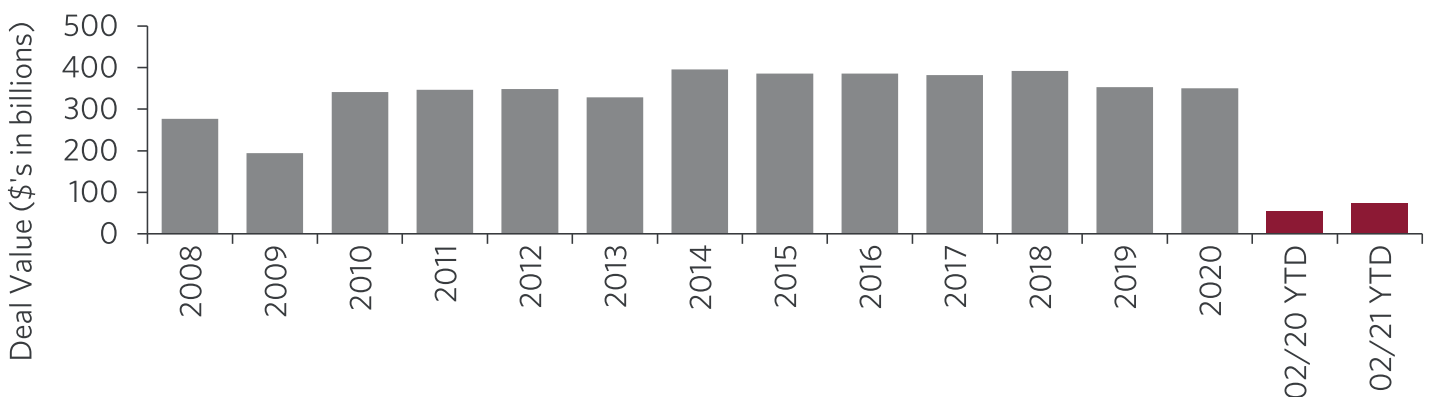
Source: Robert W. Baird & Co.

SPACs contributing to mega deal volume records

In February 2021, the number of completed transactions under \$500 million with reported data increased 15.8% compared to February 2020 and total year-to-date 2021 deal volume was also slightly (0.9%) ahead of 2020. However, the year-to-date volume for transactions that closed without disclosed values was 40.1% lower year than in 2020, according to Robert W. Baird & Co. While any uptick in volume is good news for buyers, the ongoing supply/demand imbalance favoring sellers is reflected in the decrease in the volume of deals with undisclosed values.

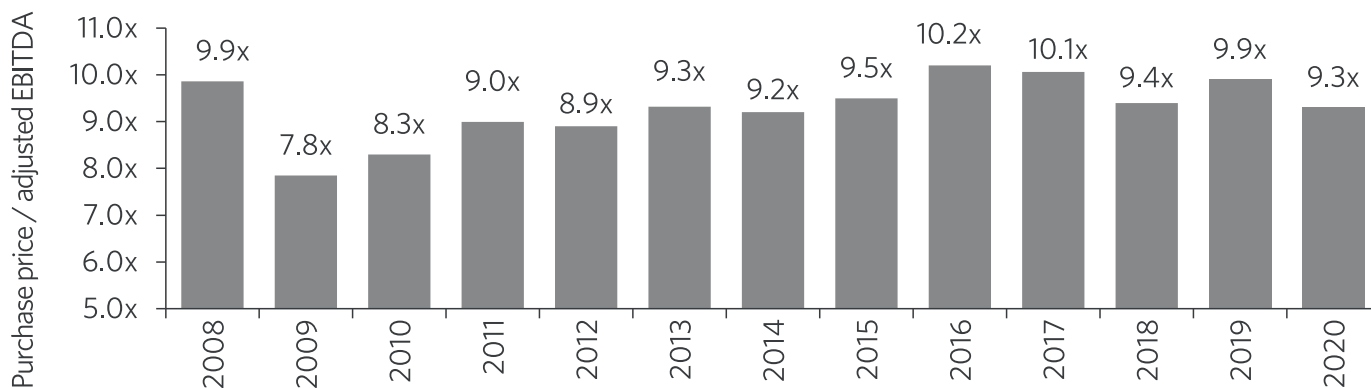
Even though deal volume has been slow to recover, deal value is surging. With the emergence of special purpose acquisition corporations (“SPACs”), the \$1.0+ billion deal market has taken the “white hot” market baton formerly held by issuers in debt capital markets. For those who do not know, a SPAC is essentially a shell company set up by investors with the sole purpose of raising money through an IPO to eventually acquire another company. However, most are focused on high growth industries and in transaction greater than \$1 billion. In February 2021, there were 76 deals completed with values over \$1.0 billion, which was 55% higher than the previous record of 49 deals completed two months earlier in December 2020. The mega deal market has spurred an increase in middle market investment bank pitch volume during Q1 2021, which signals that there is a high probability of robust deal volume during the second half of 2021.

U.S. M&A deal value



Source: Robert W. Baird & Co.

Average U.S. M&A EBITDA multiples



Source: PitchBook.

LBO multiples rebound from Pandemic dip

As expected, Q4 2020 multiples rebounded from their COVID-induced decline in Q3 2020. According to GF Data®, the average enterprise value/EBITDA multiples for \$10 to \$250 million enterprise value LBOs in Q4 was 7.0x, a 0.3x increase from Q3 2020. For the full year 2020, the 7.1x average remained the same as the full year 2019 average, which is impressive because the 2020 average included the decline for transactions that occurred from May through August 2020 during a period of significant economic uncertainty.

Pitchbook®, which tracks all reported U.S. M&A transactions, noted a 2020 average enterprise value/EBITDA multiple of 9.3x, which was a 0.6x decline from the 2019 average and a 0.9x EBITDA decline from the peak average multiple of 10.2x recorded in 2016. The Pitchbook-reported decline in average enterprise value/EBITDA multiple is more consistent with what was expected from the year, due to the COVID shutdown. The difference between the Pitchbook® and GF Data® multiples for 2020 may be because Pitchbook included transactions over \$250MM in enterprise value of which more may have closed during the heart of the pandemic as sellers made the decision to accept lower values rather than delay transaction processes, an outcome that seemed more prevalent in the lower middle market.

For the first half of 2021, the tone of the M&A market suggests LBO multiples will experience the same “V-shaped” recovery the debt markets experienced during the second half of 2020. This is due to the scarcity of great companies with superior margins, growth-oriented management teams, an actionable acquisition pipeline, and the vast amount of capital (both debt and equity) pursuing this small pool of great acquisition candidates. It would not be surprising to see this imbalance cause a record quarterly average enterprise value/EBITDA multiples during 2021.

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



Source: GF Data®.

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.

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