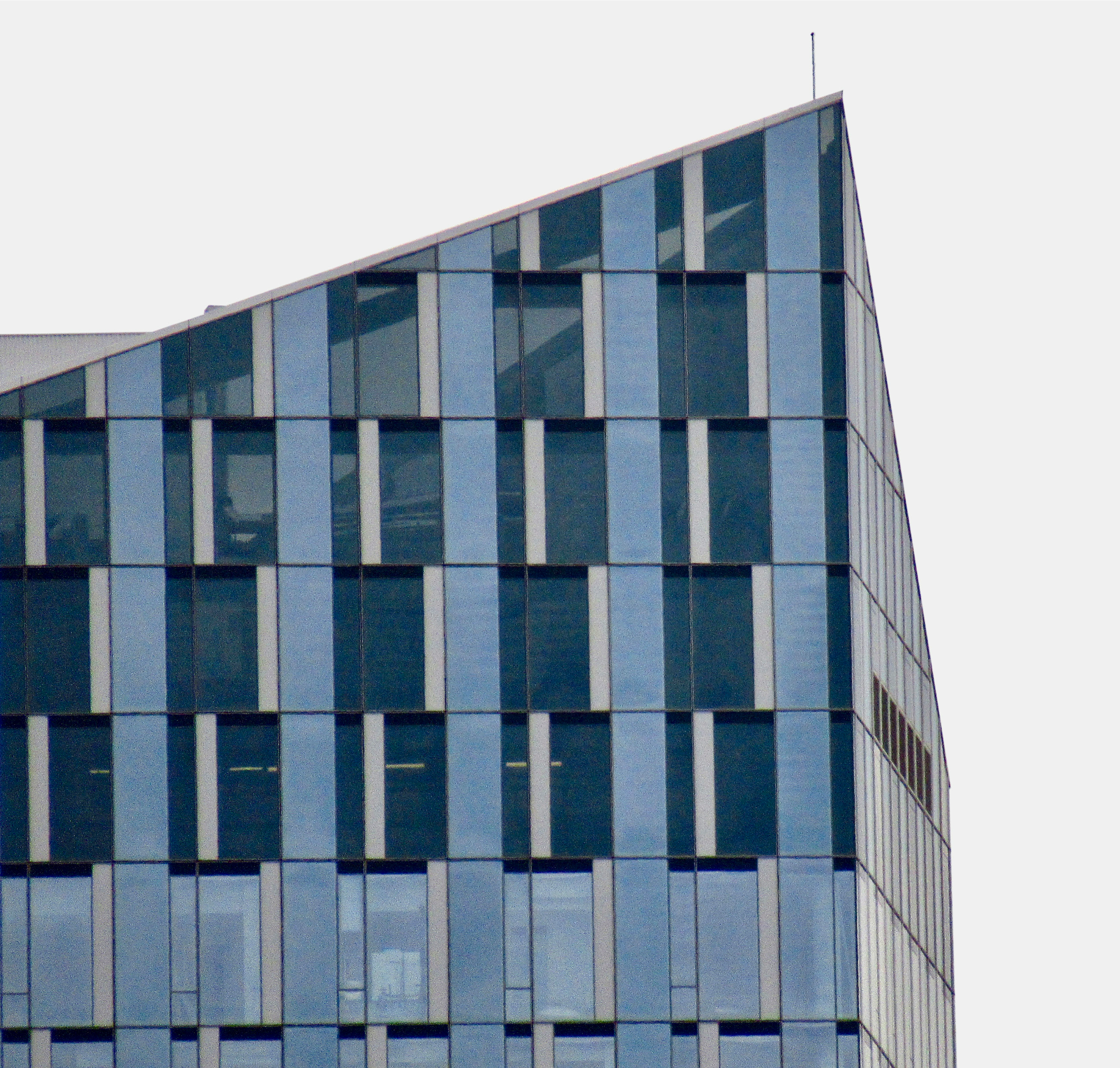
CIBC CLEARY GULL

MARKET MONITOR

M&A and financing update
1st Quarter 2022



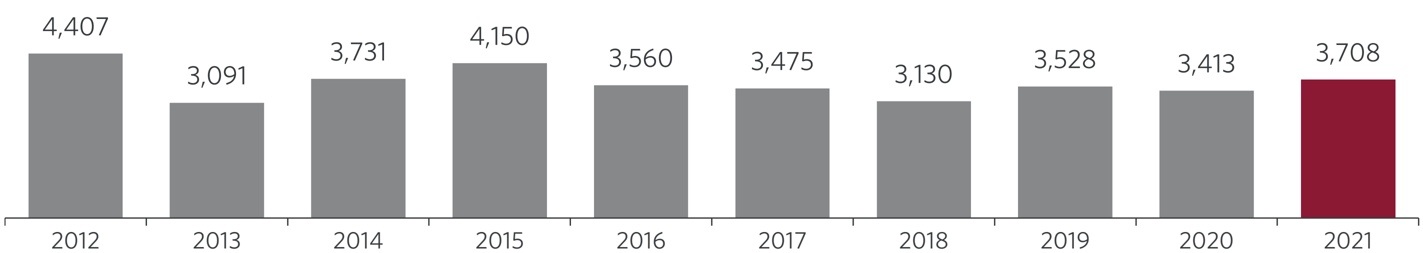
2021 was the year of the private equity exit

2021 was a strong year for M&A transaction volume and an incredible year for M&A deal value. According to Robert W. Baird & Co., in 2021 the reported volume of transactions with disclosed values grew 8.6%, but M&A deal value grew a staggering 65.8%, when compared to 2020. The strong year for deal value was the result of a record number of larger transactions and the SPAC phenomenon of early 2021.

One of the most interesting statistics from 2021 was the volume of private equity sellers. According to Pitchbook, U.S. private equity funds exited 1,809 deals in 2021, which was a 79% increase compared to 2020 and a 38% increase over the previous peak of 1,313 in 2018. Part of the increase was undoubtedly due to some processes in 2020 that were delayed during the pandemic. However, based on private equity exit volumes from 2012 to 2019, COVID delays explain only a small part of the increase in private equity exits in 2021.

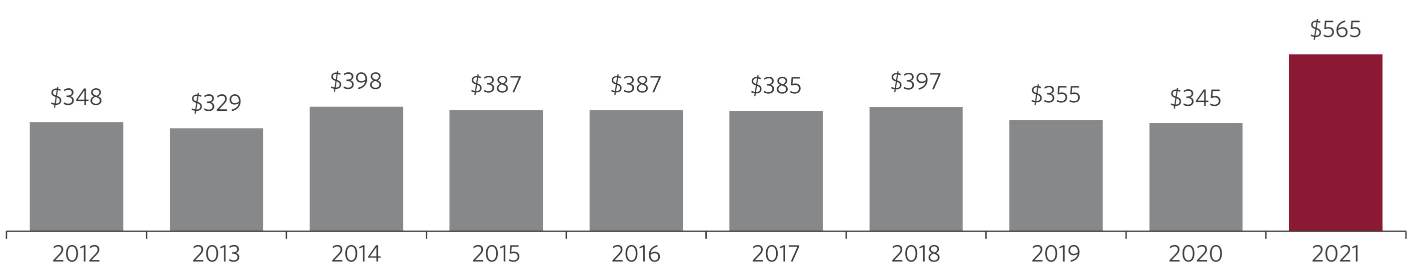
In 2020, private equity exit volume only declined 11% from 2019 and was within the historical range of 1,000 and 1,300 per year since 2012. Based on our experience, there were two factors driving private equity exits in 2021. First, average valuation multiples were at record levels in 2021. Second, private equity firms were selling their winners to post strong results to support raising their next fund before the fundraising frenzy slowed. In 2021, 461 funds raised $312.8 billion, which was a 12% increase over 2020. The strong fundraising efforts will continue to support new LBOs, however so far in 2022 we are hearing that deal volume has declined compared to the late 2021 surge. There is no indication if the current tepid pace of deals will continue, but last year showed us that volume trends can change quickly.

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



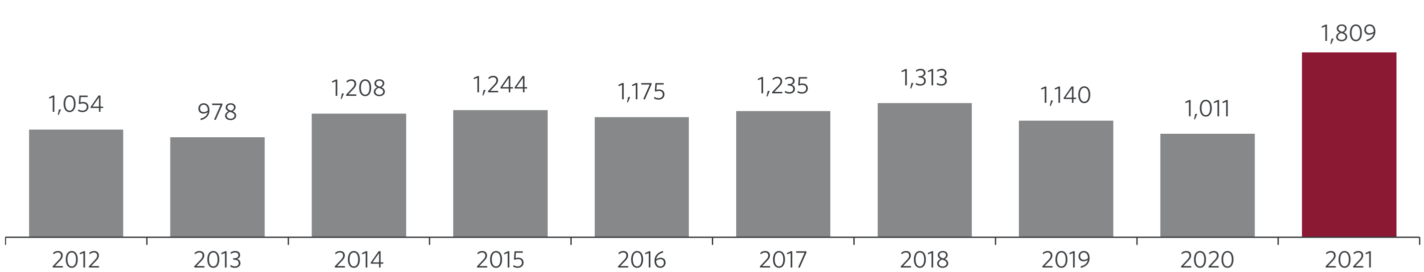
Source: Robert W. Baird & Co.

U.S. M&A deal value



Source: Robert W. Baird & Co.

U.S. Private Equity exit activity



Source: Pitchbook

2021 M&A valuations set new records

Middle market valuations set records in 2021 following a pullback in 2020. Strong economic and company performance, an abundance of senior and mezzanine debt, low interest rates, a rising stock market, and record amounts of uninvested capital available to private equity groups and on corporate balance sheets have all contributed to an uptick in valuations.

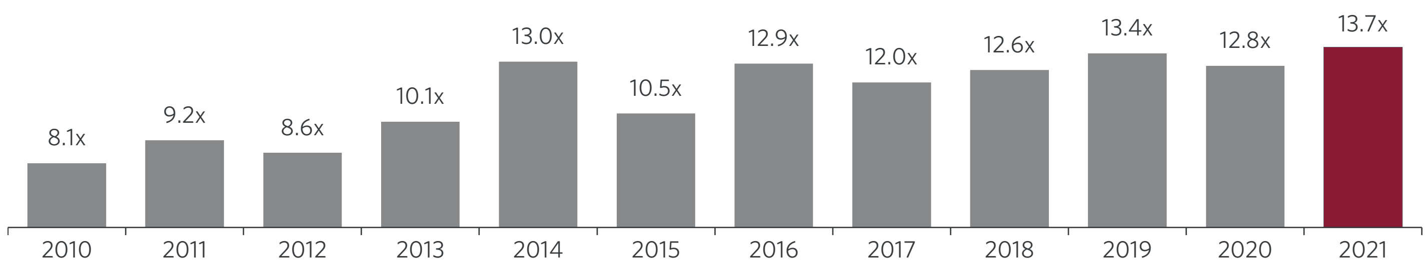
According to Pitchbook®, the average EBITDA multiple for all M&A transactions in 2021 was 13.7x, an increase of 0.9x EBITDA from 2020 and exceeding the previous record of 13.4x in 2019. The 2021 increase in multiples was not just seen in large transactions. According to GF Data®, the average EBITDA multiple for private equity-backed leveraged buyouts ("LBOs") with $10 to $250 million enterprise value, was a record 7.3x for 2021.

As is frequently the case, crucial details are embedded in and concealed by the averages. For example, size matters as much as ever. According to GF Data®, during 2021 LBOs valued between $100 million and $250 million sold at an average EBITDA multiple of 9.0x, which was 2.8x above the 6.2x average for $10 to $25 million companies.

Quality also matters. GF Data® tracks transaction multiples for companies with outstanding financial performance, which they define as having both EBITDA margins and TTM revenue growth above 10%, or one of these metrics above 12% and the other above 8%. Using this definition, GF Data® calculated a record 30% "quality premium" in the LBO enterprise value multiple for these high-performing companies as compared to all others. GF Data® noted that a higher proportion of high performing companies sold last year, which also supports the increase in average EBITDA multiples paid.

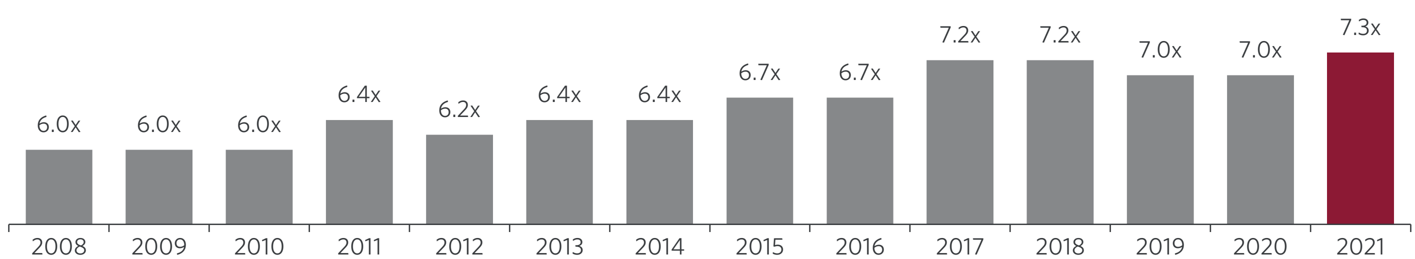
With rapidly rising interest rates, continued supply chain challenges and commodity and labor inflation at the beginning of 2022, it will be interesting to see where valuations trend this year. Nonetheless, the private capital markets remain fundamentally strong and the M&A market remains receptive for companies that can successfully navigate these challenges.

Average U.S. M&A EBITDA multiples



Source: Pitchbook

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



Source: GF Data

Valuation size premium

Transaction Size	2003 - 2016	2017	2018	2019	2020	2021
$10-25 million	5.6x	6.3x	5.9x	6.1x	5.9x	6.2x
$100 - 250 million	7.7x	9.0x	8.7x	9.3x	8.6x	9.0x
Premium / (Discount)	38%	43%	47%	52%	46%	45%

Source: GF Data

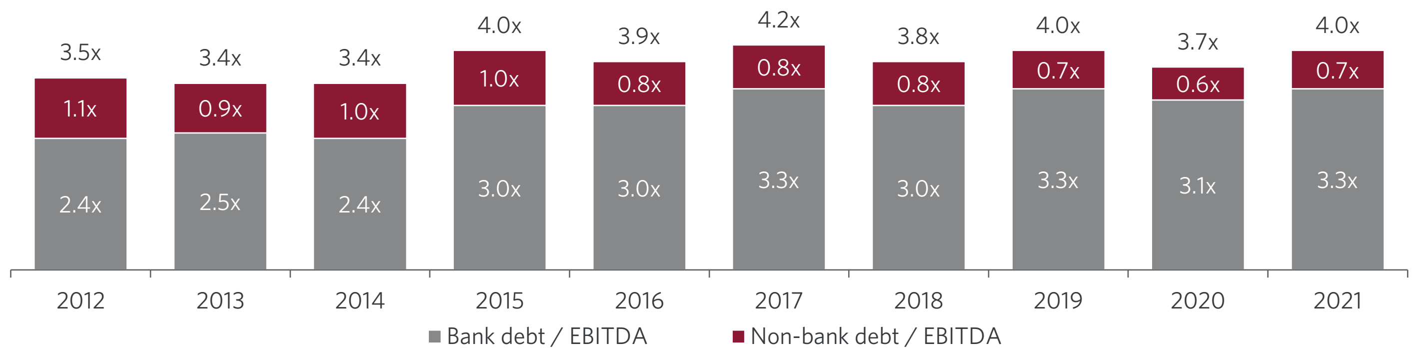
Debt Markets remain supportive despite economic headwinds

According to GF Data®, the average total debt/EBITDA multiple for LBOs with $10 to $250 million enterprise value rebounded to 4.0x for 2021. This average was consistent with the 2019 pre-pandemic total debt/EBITDA level and a 0.3x increase over the pandemic-impacted total debt/EBITDA multiple in 2020. When 2021 is analyzed by quarter, the highest average total debt/EBITDA multiple was achieved in Q4 2021 at 4.2x. The Q4 peak was supported by add-on activity in the $10 to $25 million enterprise value category where the total debt/EBITDA multiple for the quarter was 4.8x.

Building on the add-on theme, 2021 saw lenders aggressively support existing borrowers' acquisition strategies with an average total debt/EBITDA multiple of 5.3x. In contrast, new platforms were supported with an average of 3.5x total debt at close. The 1.8x variance between platform and add-on leverage can be explained by: 1) private equity owners and lenders increased confidence in a portfolio company's ability to meet or exceed forecasts; 2) expected synergies which supported a lower pro forma debt multiple; and 3) scale. As a platform company grows its EBITDA beyond $15 to $20 million, lenders are willing to take more risk based on the assumption that larger companies with greater earnings will outperform smaller companies in an economic downturn.

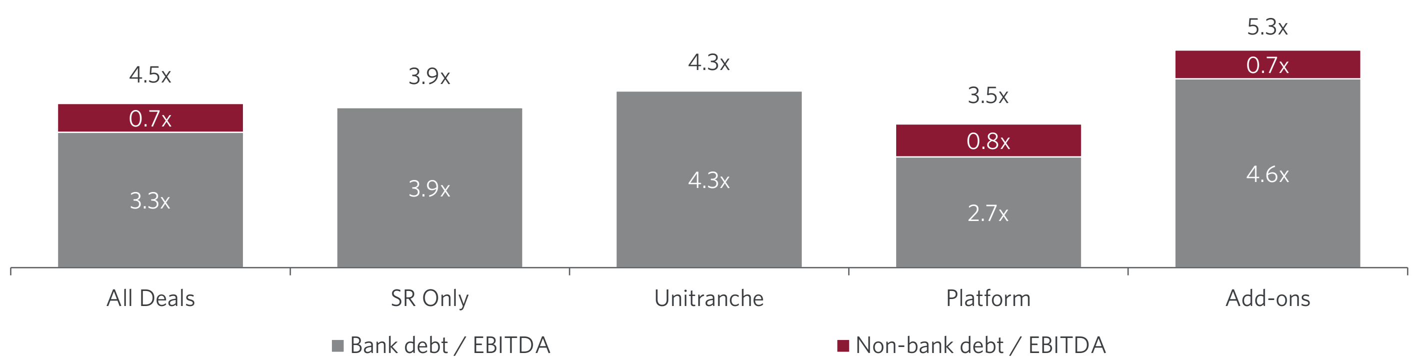
What does the future hold? So far in 2022, debt levels remain stable despite some potential headwinds from supply chain challenges, inflation, the conflict in Ukraine, and rising interest rates.

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



Source: GF Data

Average LBO debt multiple drill down



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 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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