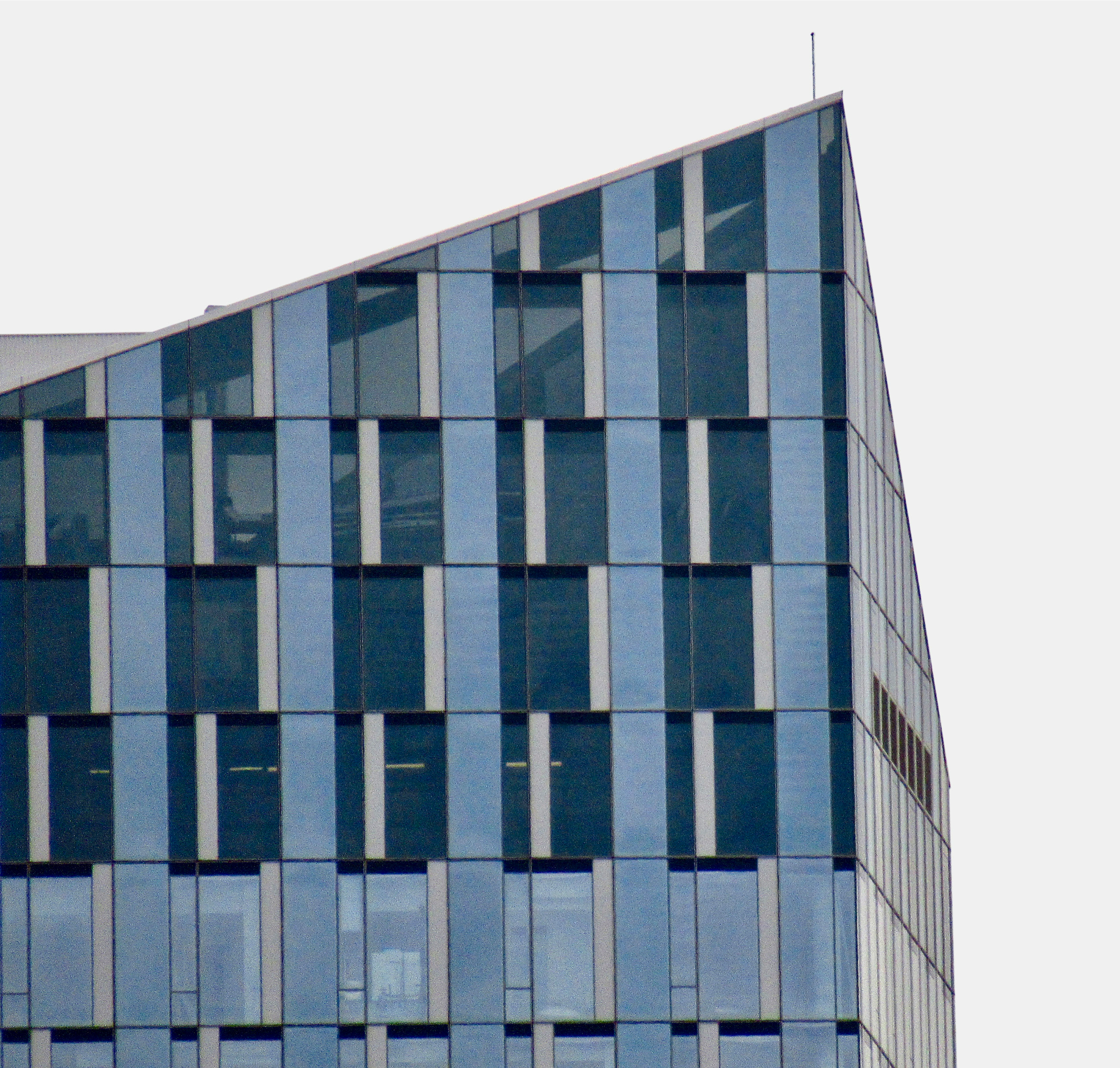
CIBC CLEARY GULL

MARKET MONITOR

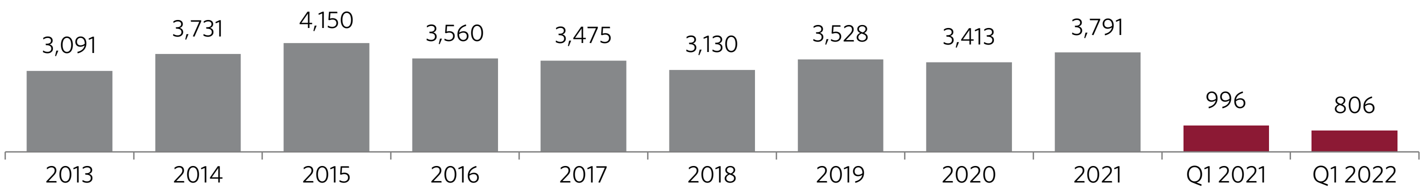
M&A and financing update
2nd Quarter 2022



Volumes are Down Compared to 2021

By nearly every measure, 2021 was an exceptional year for M&A with deal volumes surpassing pre-COVID levels and nearly exceeding record peaks achieved in last decade. In Q1 2022 we saw a pullback in M&A volumes, down nearly 20% compared to Q1 2021, according to Robert W. Baird. & Co. Supply chain challenges, the prospect of inflation continuing into 2023, and the potential further impact on supply chains and prices of sanctions due to the conflict in Ukraine, have created uncertainty which caused dealmakers to pause launching new transaction processes.

U.S. M&A deal volume for transactions under $500mm of enterprise value



Source: Robert W. Baird & Co.

While deal volume was down in Q1 2022, buyers continue to seek opportunities. According to a recent poll from the Alliance of Merger & Acquisition Advisors, 73% of respondents indicated that they are actively pursuing deal opportunities, which should support higher deal volumes through the balance of 2022. Corporate balance sheets and private equity dry powder remain at record levels, creating pressure for investors to seek out and pay a premium for quality companies.

Valuations Hold Steady for Quality Companies

A key phenomenon of 2022 is the disparity between the haves and have-nots. Companies that have strong financial performance post-COVID, are minimally impacted by supply chain disruptions, and have a robust growth trajectory are continuing to drive strong interest and fetching high multiples. GF Data® notes that these high-quality companies have continued to receive premium valuation multiples. According to GF Data®, not only did quality companies make up the majority of deal volume in Q1 2022, these companies also fetched a 22% "quality premium" compared to other transactions. While this is down from a record 30% premium in Q4 2021, the Q1 premium still exceeds pre-pandemic premium levels. This data suggests: (1) there is still significant demand for high-quality assets; and (2) potentially a subset of the market, "average companies", have opted out of M&A processes due to challenging macroeconomic headwinds, which has driven volume down.

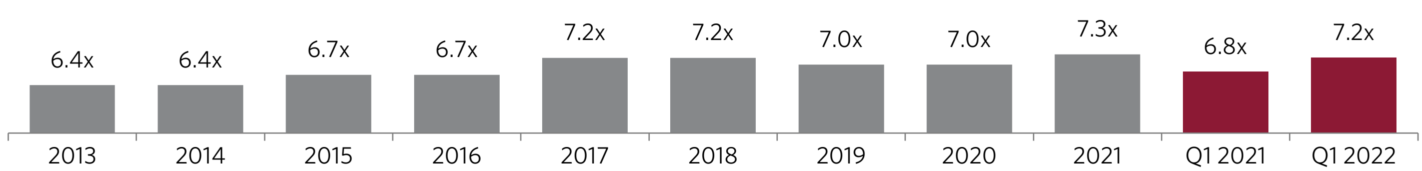
Buyout Quality Premium

Buyouts	2003 - 2017	2018	2019	2020	2021	Q1 2022
Above Average Financials	6.6x	7.8x	7.5x	7.7x	7.9x	7.7x
Other Buyouts	6.0x	6.4x	6.3x	6.1x	6.1x	6.3x
Premium / (Discount)	9%	23%	20%	27%	30%	22%
Incidence	56%	59%	52%	56%	66%	67%

Source: GF Data®

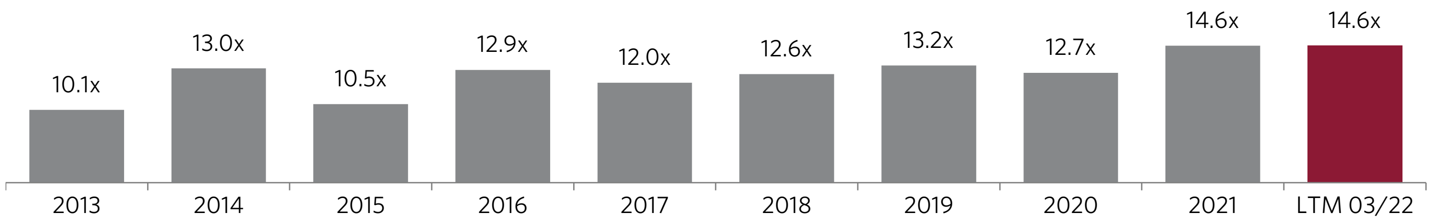
Valuation multiples continue to hold in 2022 despite increasing macroeconomic headwinds. It will be interesting to see how rising interest rates and inflation affect valuations and whether an abundance of capital will continue to support higher multiples.

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



Source: GF Data®

Average U.S. M&A EBITDA multiples



Source: Pitchbook

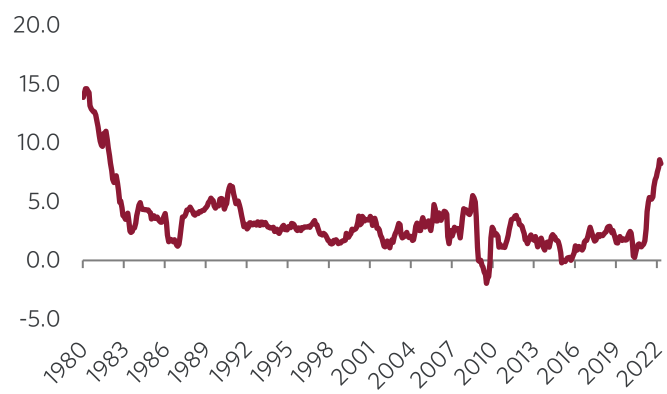
Increasing Macroeconomic Headwinds to M&A

After a phenomenal 2021, many M&A professionals started the year with high expectations for 2022, but so far 2022 appears to be a perfect storm of macroeconomic headwinds. Ongoing supply chain disruptions, rising inflation, volatile commodity markets, a potential recession, and the war in Ukraine are causing increasing uncertainty in global markets.

COVID disrupted supply chains and governments and central banks responded by flooding the monetary system with significant amounts of liquidity. This translated into more demand while supply was limited, which has been a factor in inflation. In March 2022, the U.S. Consumer Price Index posted an 8.5% year-over-year increase, notching the fastest rate of inflation since 1981. To combat inflation, the U.S. Federal Reserve has signaled its intent to raise interest rates over the course of 2022 and 2023. The Federal Reserve raised short-term interest rates by 0.25% on March 16th and again by 0.75% on June 15th with the expectation of additional hikes at each of the five remaining meetings this year.

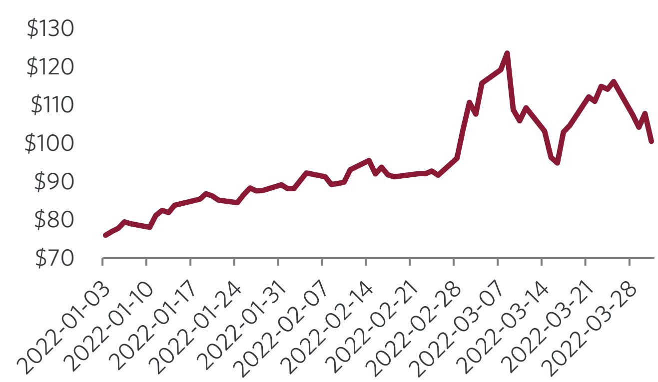
Other factors impacting the current M&A markets include the conflict in Ukraine and a second round of COVID lockdowns in Shanghai. The combination of these global challenges are further exacerbating supply chains and fueling inflationary pressures. According to the World Trade Organization, the most immediate economic impact from the Russian invasion of Ukraine was sharply rising commodity prices for essential goods, including food, energy, and fertilizer. Crude oil nearly topped $130 per barrel in early March, rising more than 15% from a month earlier. The lockdown in Shanghai represented the most significant COVID restriction in China since the beginning of the pandemic. The full impact of this shutdown will not be felt until late summer and early fall, at which time it is expected to add another material shock to the global supply chain. According to the Russell Group, the Shanghai lockdown has an estimated cost of $28 billion across the global economy and it is expected to drive even longer lead times, inventory shortages, and even higher inflation.

U.S. Consumer Price Index (YoY%)



Source: Federal Reserve Bank of St. Louis

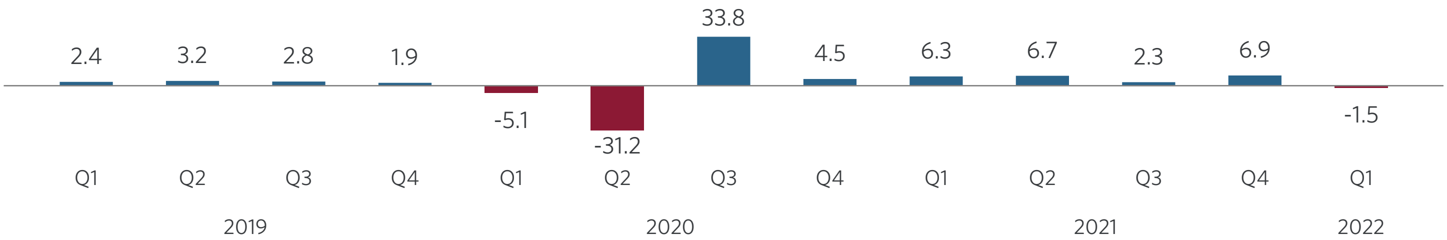
Crude Oil Prices: WTI



Source: Federal Reserve Bank of St. Louis

The combination of these macroeconomic trends and geopolitical uncertainty has led to trade disruptions and the inability of companies to meet demand. As a result, the U.S. economy experienced its first quarter of economic contraction since Q2 2020 as GDP declined at an annualized rate of 1.5% in Q1 2022; while the outlook for Q2 2022 GDP is projected to rebound to an annualized rate of 2.5%, according to CIBC.

Real GDP (% change from preceding quarter)

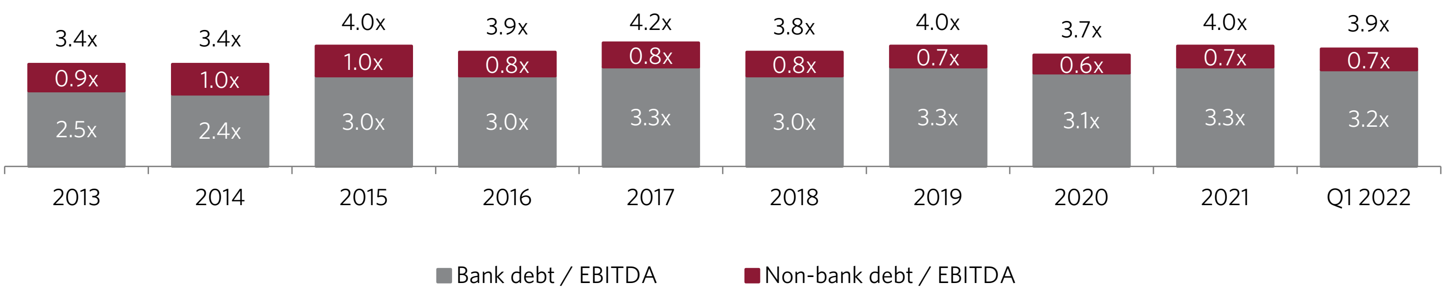


Source: U.S. Bureau of Economic Analysis

Debt Markets Remain Supportive

According to GF Data®, the average total debt/EBITDA multiple for LBOs with $10 to $250 million in enterprise value remained nearly flat at 3.9x. This average held steady with pre-COVID total debt/EBITDA levels over the last several years. Similarly, add-on acquisitions continue to support higher debt multiples, with total debt/EBITDA multiples for the quarter remaining nearly flat with the prior quarter at 5.2x.

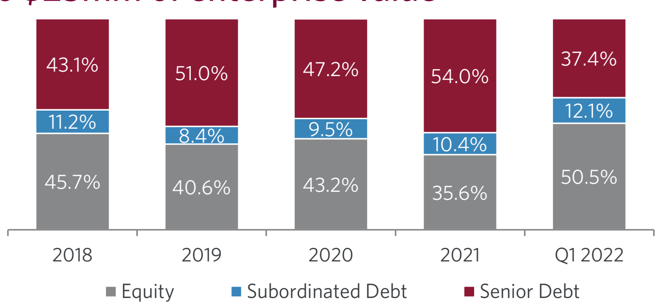
Average LBO debt multiples for deals with $10mm – $250mm of enterprise value



Source: GF Data®

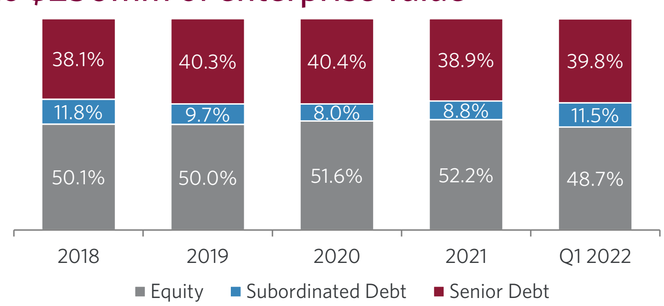
The most marked change occurred within the sources of capital within the capital structure during Q1 2022. According to GF Data®, for LBOs with $25 to $250 million in enterprise value the average percentage of equity dropped 3.5% from 52.2% to 48.7%. However, LBOs with $10 to $25 million in enterprise value saw the average percentage of equity meaningfully increase 15% from 35.6% to 50.5%. The increase in equity contribution for small transactions highlights the uncertainty amid rising interest rates and economic headwinds. Due to higher valuations and market risk, lenders are taking a more conservative approach in the current environment, and we would not be surprised to see the conservative capital structures being used to support LBOs in small deals start to materialize in the larger deal market.

Equity and debt structure for deals with $10 to $25mm of enterprise value



Source: GF Data®

Equity and debt structure for deals with $25 to $250mm of enterprise value



Source: GF Data®

For the balance of 2022, increasing interest rates and more selective underwriting will be the focus of private equity and lenders. Although the private market lags the public market, it is expected that the private market will continue to converge with the rated debt markets, resulting in pricing expansion and the contraction of LBO leverage multiples.

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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