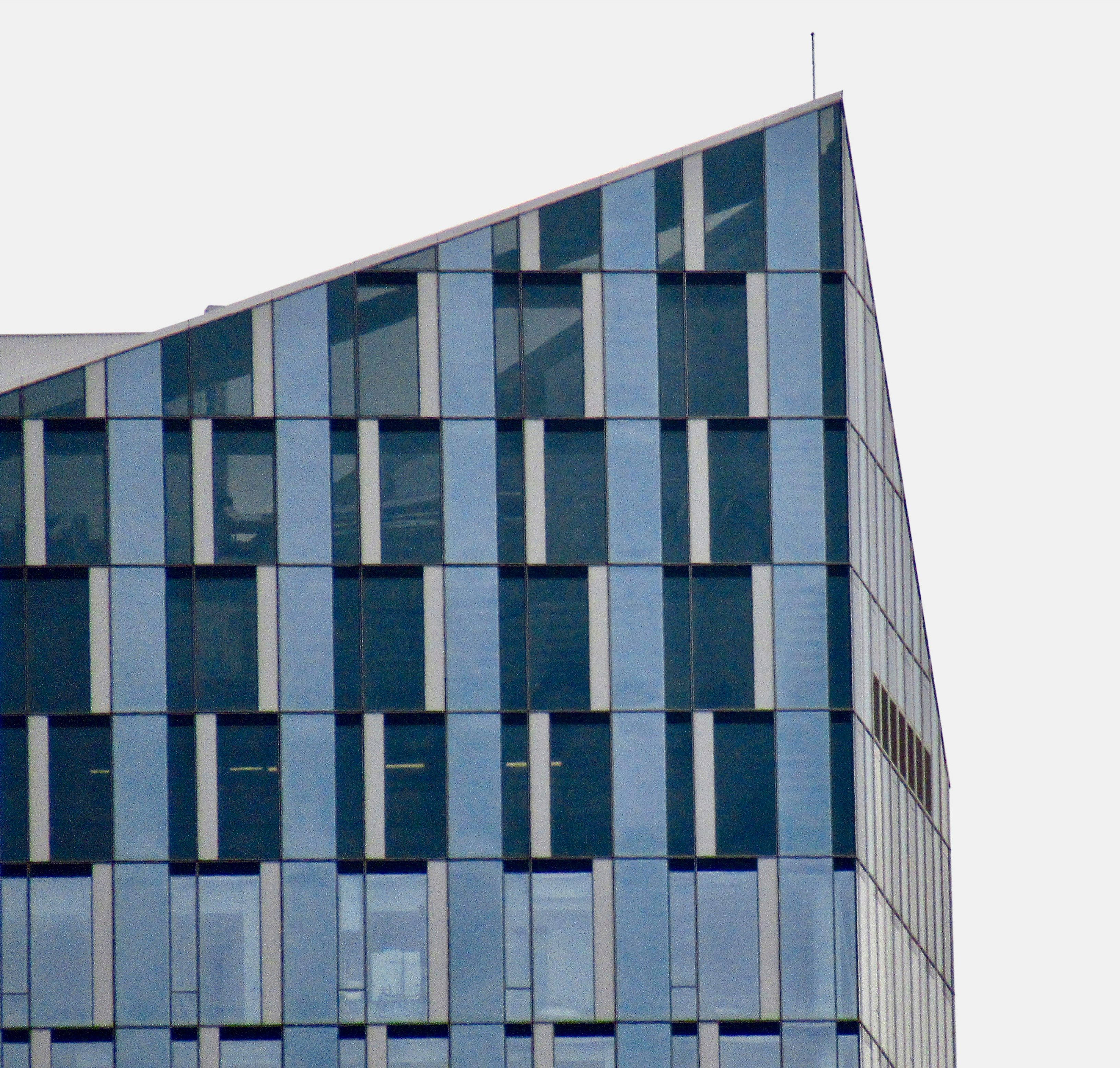
CIBC CLEARY GULL

MARKET MONITOR

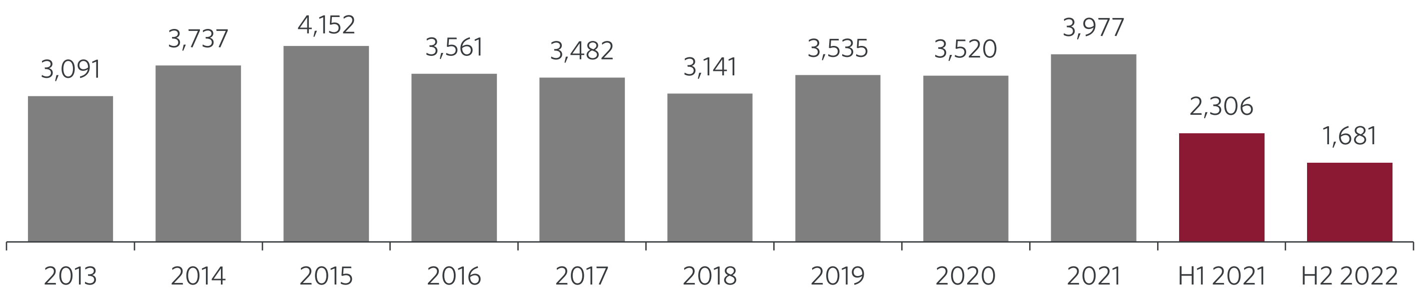
M&A and financing update
3rd Quarter 2022



Transaction volume declined while the value of completed deals remained strong

The number of middle market (under $500 million of enterprise value) M&A transactions completed in the first half of 2022 declined 27% compared to the first half of 2021, according to Robert W. Baird & Co. and, market experts link the decline in deal volume to macro-economic factors, including record inflation, the continued disruption of supply chains, lingering effects of the pandemic and related stimulus, and market volatility. In addition, some financial sponsors who were preparing to launch sell-side processes for some of their cyclical portfolio companies in 2022 have delayed those processes due to market conditions.

US M&A deal volume for transactions under $500mm of enterprise value

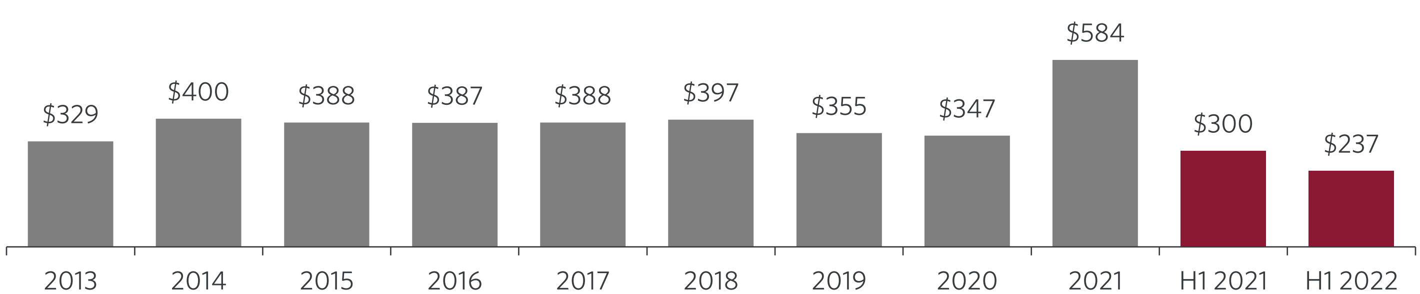


Source: Robert W. Baird & Co.

According to Pitchbook, many of the deals that closed during Q2 2022 were negotiated before some of the current uncertainties came fully into view and recession concerns ramped up in late summer. Transaction volume in June 2022 was at its lowest monthly total since the pandemic, which may portend further declines in activity for the remainder of the year, especially when you consider that both Q3 and Q4 2021 represented two of the highest deal volume quarters in the last decade. Despite the headwinds, willing buyers are still active including financial sponsors who raised record-breaking amounts of capital in 2021 and strategic buyers aggressively pursuing targets aligned with their strategic initiatives.

Despite challenging market conditions, the total value of completed middle-market M&A transactions has remained relatively strong. According to Robert W. Baird & Co., dollar volumes declined by 6% from H1 to H2 2022, which was largely due to the decrease in the number of deals completed in June. However, if H1 2022 dollar volumes were annualized, it would represent the second highest year on record, trailing only 2021. The significantly larger decline in volume, as compared to the value, of completed transactions, indicates smaller deals were more affected than larger ones as the average deal size increased.

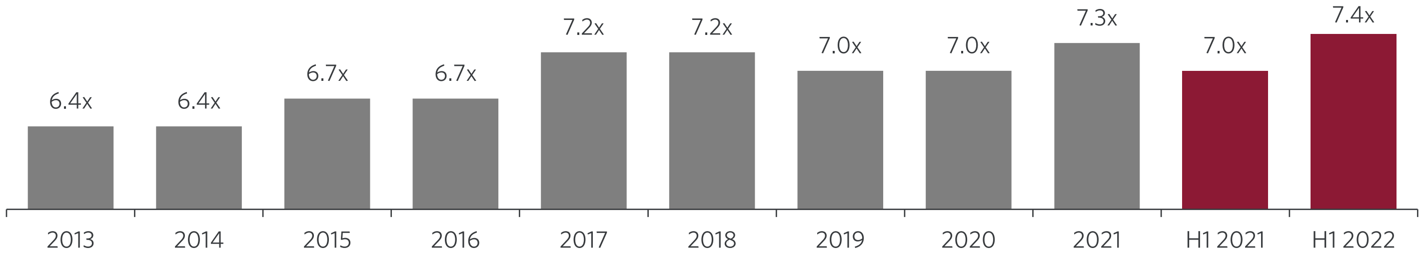
US M&A deal value



Source: Robert W. Baird & Co.

Middle market M&A valuation multiples also remained strong in H1 2022 despite the decline in activity levels.

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



Source: GF Data®

There is a growing sense among M&A professionals that the resilience of valuation multiples is due to a mix shift toward higher quality companies, which typically receive premium valuations, as compared to lower quality assets. This mix shift was evident in reported private equity-backed leveraged buyout transactions ("LBOs"). According to GF Data® and using their definitions, "high-quality" companies comprised 68% of transactions for the first half of 2022, up from 66% in 2021 and well above the historic average of 57%. According to GF Data®, valuations of H1 2022 LBOs involving high-quality companies fetched a 26% quality premium.

Buyout Quality Premium

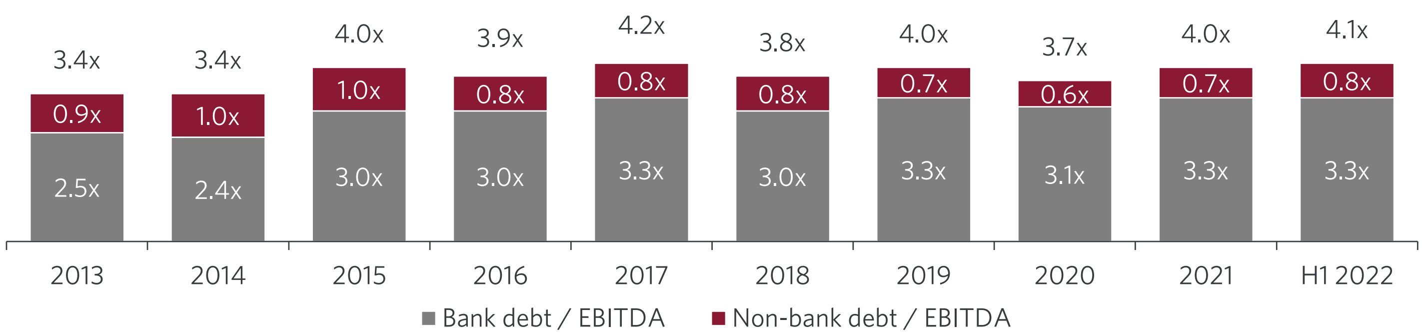
Transaction Size	2003 – 2017	2018	2019	2020	2021	H1 2022
Above Average Financials	6.6x	7.8x	7.6x	7.7x	8.0x	7.7x
Other Buyouts	6.1x	6.4x	6.2x	6.1x	6.1x	6.1x
Premium / (Discount)	8%	23%	21%	26%	31%	26%
Incidence	56%	59%	52%	55%	66%	68%

Source: GF Data®

LBO debt availability holds steady but composition changes

According to GF Data®, total and senior debt multiples for LBOs in the first half of 2022 remained nearly flat at 4.1x and 3.3x, respectively. While lenders have continued to prioritize incremental debt to companies that have already been through due diligence, average debt multiples for add-on acquisitions by private equity-backed companies fell from 5.3x to 4.8x total debt. If this trend is sustained, it remains to be seen whether this decline is due to waning enthusiasm of borrowers or increased caution on the part of lenders.

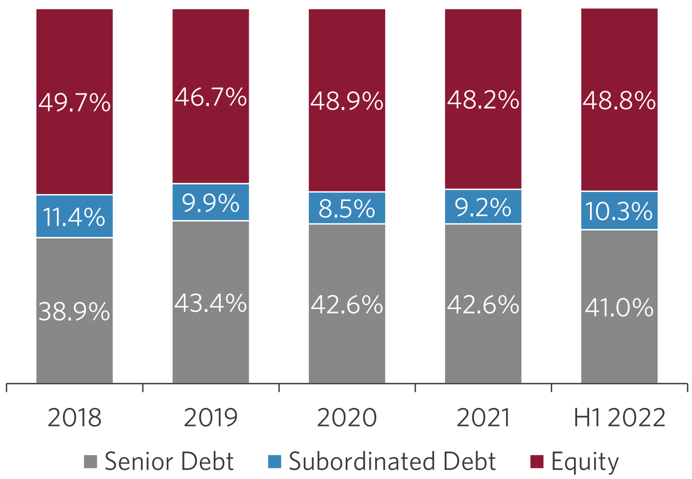
Average LBO debt multiples for deals with $10mm – $250mm of enterprise value



Source: GF Data®

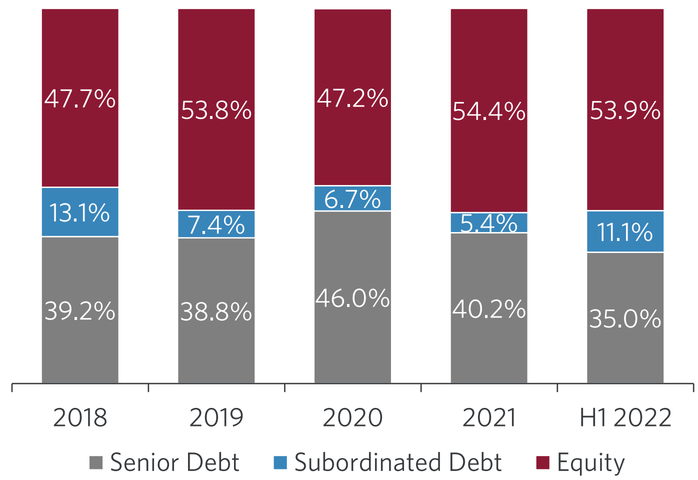
Market share for LBO debt financing continues to shift from banks to direct lenders. According to Pitchbook, for LBOs with $100 to $250 million in enterprise value, where aggressive senior debt levels have been more prevalent, direct lenders share of the middle market increased from 56% in H1 2021 to 70% in H1 2022. At the same time, the share of subordinated debt for these transactions has increased by nearly 6% from 2021 to H1 2022. In the current rising interest rate environment, the increased usage of fixed-rate, non-amortizing subordinated debt at 11% is not surprising because it represents an inexpensive way to lock in "cheap" debt compared to 9% to 10.5% SOFR-based senior rates which are subject to further rate increases in 2022 and 2023. Experts anticipate that continued rate hikes in 2022 to slow inflation will have a material impact on the debt markets during the second half of 2022.

Equity and debt structure for deals with $10 – $250mm of enterprise value



Source: GF Data®

Equity and debt structure for deals with $100 – $250mm of enterprise value



Source: GF Data®

For the second half of 2022, we expect market uncertainty to have a continued impact on transaction volumes and value. While buyers have been factoring in higher debt pricing for years, economic uncertainty provides additional factors for both buyers and sellers to consider before launching a sale process or deploying capital.

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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