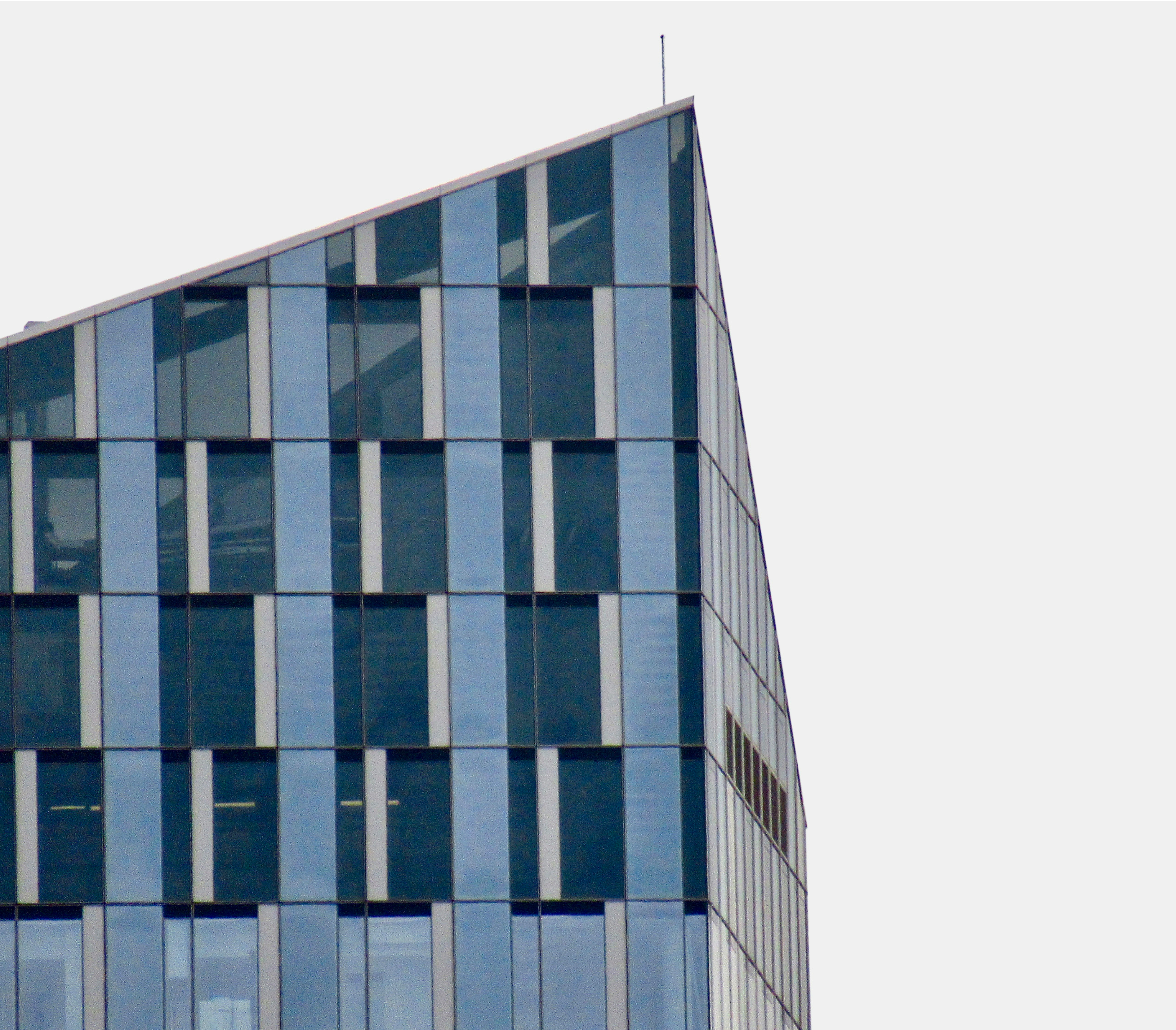
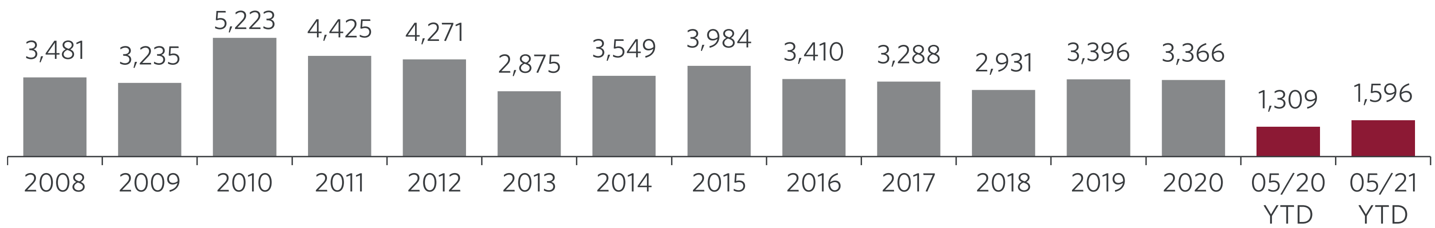
CIBC Cleary Gull

MARKET MONITOR

M&A and financing update
2nd Quarter 2021



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



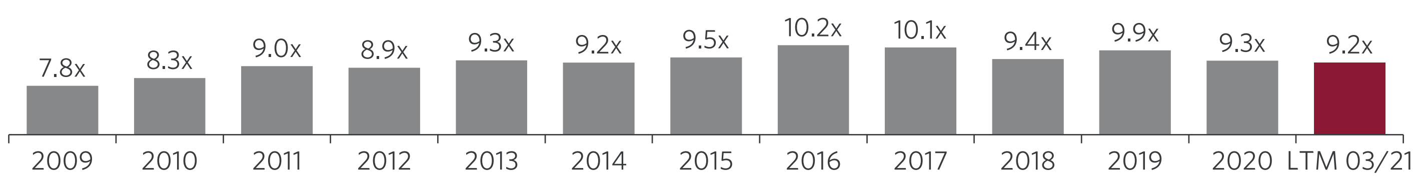
Source: Robert W. Baird & Co.

Noise in the Numbers

May 2021 year-to-date (YTD) M&A market activity comparisons to 2020 tell vastly different stories, depending how the data is parsed. In terms of volume, according to Robert W. Baird & Co., the number of $100-$500 million transactions increased over 180% compared to the same period in 2020, transactions under $100 million were basically flat with the prior year, and transactions without disclosed values (presumably the smallest) declined almost 20%. While it is tempting to conclude that "size matters" in M&A (and no doubt size is a factor), we believe there is more to the story.

Segmented valuation data is also inconsistent. Through Q1 of 2021, both GF Data® and Pitchbook® unexpectedly report little change in overall average enterprise value/EBITDA multiples. According to GF Data® the average multiple for all private equity-backed leveraged buyouts (LBOs) from $10-$250 million was an insignificant 0.3x lower than in Q1 2020, and according to Pitchbook® the average multiple for all US M&A transactions was essentially the same as in the prior year. GF Data® also noted a growing disparity in the valuation of high-performing and average companies, with the former receiving a 6% increase, to a record 34% premium multiple of 7.6x, while the rest experienced a decline of 10% to a 5.7x EBITDA multiple.

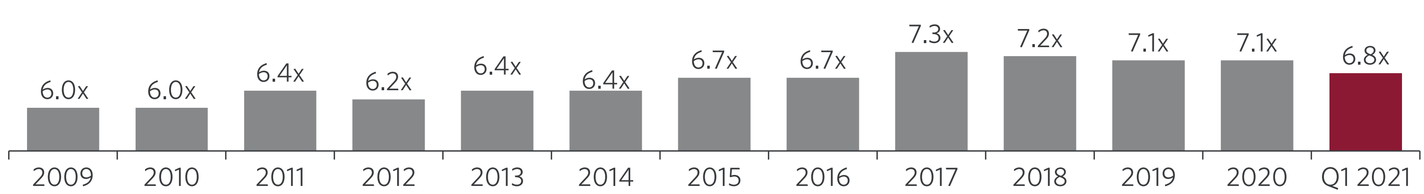
Average U.S. M&A EBITDA multiples



Source: Pitchbook

Blame it on COVID: much of these disparities, incongruities, and inconsistencies can be added to "the list" of how the pandemic has affected us. Company financial statements for 2020 show how the pandemic caused companies to either prosper or struggle. Almost all businesses were affected by supply, demand, logistics, technology, and other influences and forces (both positive and negative) beyond their control. What the full year results do not show is what part of the year was affected, whether pandemic effects were temporary or ongoing, or when or how well a company responded. Discussions about the winners and losers in the deal community have been focused on end markets, but more in-depth work is required to analyze the impact of COVID which may have correlations to a company's size, management team and depth, and speed by which it developed and executed a COVID strategy.

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



Source: GF Data

Buyout Quality Premium

	2003 - 2016	2017	2018	2019	2020	05/2021 YTD	Total
Above Average Financials	6.4x	7.8x	7.8x	7.6x	7.8x	7.6x	6.8x
Other Buyouts	5.9x	6.4x	6.3x	6.3x	6.1x	5.7x	6.0x
Premium / (Discount)	109%	121%	124%	121%	128%	134%	114%
Incidence	56%	57%	59%	52%	55%	57%	56%

Source: GF Data

Noise in the Numbers (continued)

The M&A market has already begun to adapt as a post-pandemic "new normal" begins to emerge, but unfortunately in ways that make the data hard to interpret. Over 40% of transactions completed in 2020 and YTD May 2021 involved some form of seller note or earnouts, which is a classic technique to bridge uncertainty but it makes reported transaction values hard to interpret. Also, as we noted in the Q1 2021 Market Monitor, there were several transactions over $250MM in enterprise value that closed during the pandemic with sellers who made the decision to accept lower values rather than delay their sale processes.

We are expecting valuation multiples to increase as 2021 progresses and buyers and sellers have more visibility and confidence in the long-term outlook for the economy. Only time will tell what is really driving the scattered transaction data in early 2021, but one thing is certain: the supply/demand imbalance continues, and it is a good time to be a seller.

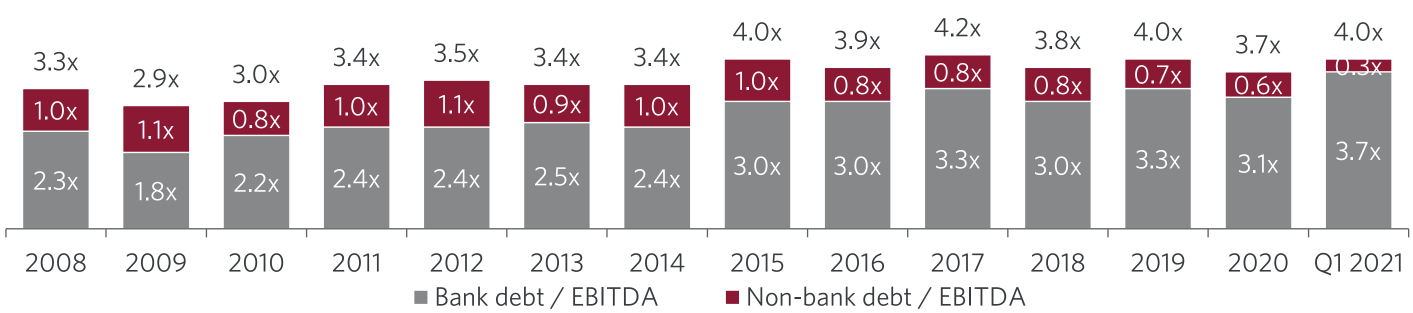
Debt Markets are Open and Aggressive

According to GF Data®, the average total debt/EBITDA multiple for LBOs with $10 to $250 million enterprise value was 4.0x for Q1 2021, representing a 0.3x improvement from the 2020 average. Total debt/EBITDA multiples have rebounded quickly from an average of 3.2x in Q2 2020, during the pandemic, led by senior debt availability which has increased 0.5x to 3.7x EBITDA in Q1 2021. This is 1.0x higher than the average senior debt multiple reported in Q2 and Q3 2020. This improvement can be partially attributed to an increase in the percentage of add-on transactions completed, which typically have higher debt multiples than platform company transactions.

In addition, the rebound in the manufacturing economy in late 2020 has had a positive effect on debt availability. According to GF Data®, the average total debt/EBITDA multiples for companies in the manufacturing sector increased from 3.6x in 2020 to 4.0x in Q1 2021.

The combination of strong debt markets and trillions of dollars waiting to be invested in private equity and corporate balance sheets should continue to support stronger debt multiples and deal flow for the balance of 2021 as the global economy continues to reopen.

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



Source: GF Data

Pandemic-Related Productivity Acceleration

Sector	2017 Share of Economy	Pandemic-Related Productivity Acceleration Potential (2019-2024 CAGR)	Main Contributors to Potential Productivity Growth Driven by COVID-19
Healthcare	10%	1.6% - 3.0%	- Telemedicine, operational efficiency
Construction	5%	1.7% - 2.5%	- Operational efficiency, industrialization, digital construction
Retail	7%	1.0% - 2.4%	- E-commerce, warehouse automation, advanced analytics
ICT	10%	1.2% - 2.3%	- Online channels, online advertising, demand for online services
Pharmaceutical	20%	0.8% - 2.3%	- Digitization of sales channels, automation of manufacturing, AI for vaccine discovery
Banking	8%	0.9% - 2.0%	- Hybrid working, online channels, shift to digital payments
Automotive	3%	0.4% - 1.2%	- Electric vehicles, connected car, online sales
Travel and logistics	13%	0.3% - 0.5%	- Digital interaction, agile working, automation of tasks
Other	42%	0.3% - 0.9%	- Automation of tasks, digital channels, lower real estate costs

Source: McKinsey & Company

Sector Focus – Tech-Enabled Business Services

- 2020 a year of disruption and accelerating trends
  The year 2020 introduced many new practices as the COVID virus caused a significant disruption to everyday life, including how work is done. Companies transitioned to work-from-home, increased on-line ordering, accepted virtual trade shows and sales meetings, and generally accelerated the use of technology-enabled processes to leverage, reduce or eliminate the amount of labor involved in certain tasks. Many of these practices were growing in popularity, but the pandemic dramatically accelerated the adoption of many tech-enabled business services and demonstrated the efficiency of utilizing technology. This acceleration resulted in above-average growth in many tech-enabled service businesses during the last three quarters of 2020.

- 2021 a year of establishing a new normal
  2021 is proving to be a time of transition. Some business models have fundamentally changed, and some will need to find a new equilibrium between tech-enabled and in-person alternatives. Businesses are evaluating needs for office space and labor, adopting tech-enabled processes, and adapting to new consumer behaviors and preferences. Some tech-enabled service businesses have experienced a deceleration or decline in growth during 2021 because their business model was not resilient to rapid change. Despite this volatility, the overall trends are extremely positive for tech-enabled businesses. Many sectors are expecting accelerated productivity gains for the next few years driven by the continued adoption of technology and tech-enabled services. It appears that the pandemic provided a boost in the expected adoption rate and accelerated consumer acceptance by several years.

- Current state of the M&A market
  Opportunities exist for buyers and sellers in this transformational marketplace. It is important for buyers to focus on the long-term growth trends and not to concentrate on the monthly or yearly fluctuations. Sellers must also realize that some COVID-peak earnings may not be sustainable, and that value can only be realized by demonstrating the current “run rate” post-COVID to support the long-term growth rate. Mergers and acquisitions will be a key element in how companies continue to navigate the COVID disruption and opportunities going forward. There are real opportunities for sellers of top-performing technology-enabled services companies to achieve outlier valuation multiples for their companies sooner than expected. There are also opportunities for buyers to quickly acquire the key technology-enabled service offerings to help propel them forward in this time of technology acceleration. The challenge for the M&A market is finding a way for sellers and buyers to agree upon a reasonable valuation and simultaneously achieve their objectives.

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

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Contact us for more information on CIBC Cleary Gull and our Investment Banking services.

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