CIBC CAPITAL MARKETS

US MIDDLE MARKET MONITOR

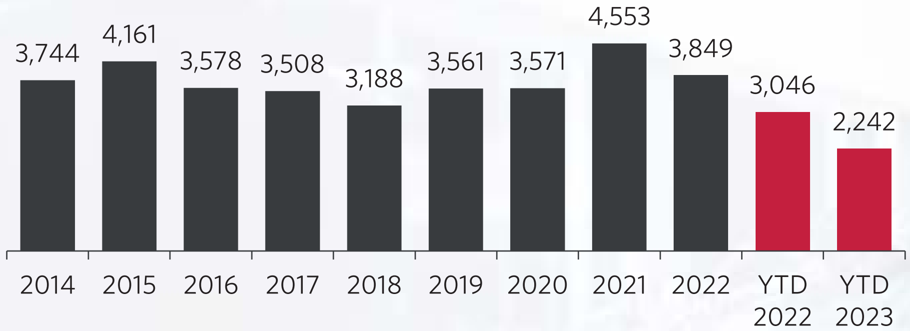
M&A and financing update

December 2023

CONFIDENTIAL

Deal volume declines

Annual number of US M&A transactions under $500mm



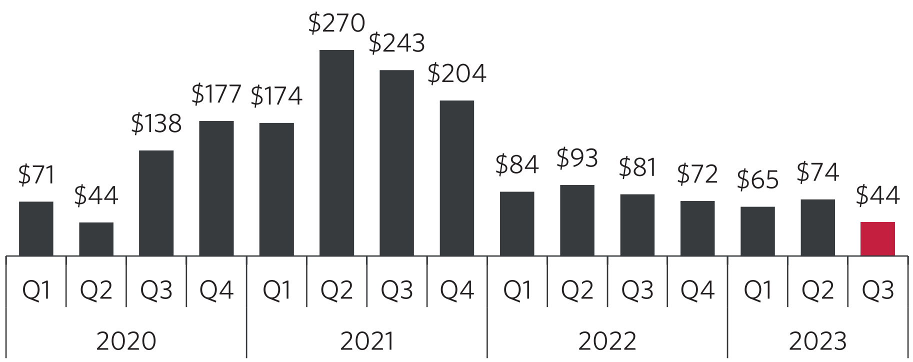
Year-to-date through Q3 2023 US middle market (under $500 million of enterprise value) deal volume was down 26% compared to the same period in 2022, according to Robert W. Baird & Co. Ongoing macroeconomic concerns, financing hurdles, and valuation discrepancies between buyers and sellers weighed on dealmaking.

While M&A activity is down year over year, there are encouraging signs for the remainder of 2023 and into 2024. Compared to the preceding quarter, Q3 2023 deal volumes were up slightly, hinting at the beginning of a potential rebound. Strategic acquirers with strong balance sheets have partially filled the void of cautious private equity (PE) firms, and certain industries, such as healthcare, software, home and facility services, aerospace and defense, clean energy, and tech-enabled business services, have attracted strong investor interest.

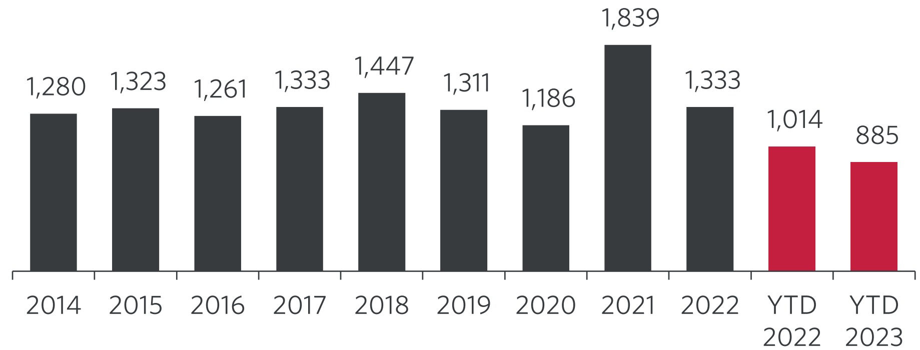
Source: Robert W. Baird & Co.

PE exits slow to record lows

US PE exit value ($b)



Number of US PE exits



Q3 2023 continued the downward trend for US PE exit activity. The slight reopening of the IPO window in late Q2 offered a glimmer of hope, but the looming threat of a government shutdown and the Federal Reserve's hawkish stance on interest rates dampened investor sentiment. With the traditional leveraged buyout (LBO) lending market regaining stability, stalled exit activity emerged as the new focal point.

According to Pitchbook, exit value plummeted 41% from Q2, matching its lowest quarterly level achieved during the pandemic-induced lockdown of Q2 2020. This activity level reversed gains made in Q2 2023 with a staggering 84% decline from the Q2 2021 peak.

Exit activity is a pillar of the PE capital formation cycle and a crucial indicator of industry health. In addition to determining fund performance, it provides cash flows that investors recycle into new fund investments and dry powder that drives transaction demand. A prolonged imbalance between selling and buying can disrupt this cycle.

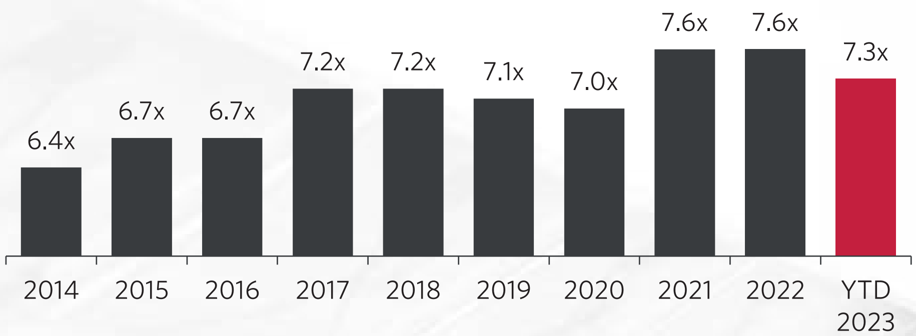
According to Pitchbook, while buying continued to surge in 2022, selling faltered. In 2023, both buying and selling have retreated by around 25%. While the gap between exits and investments has shrunk in 2023, there remains a significant deficit in exit activity.

As more funds approach their end of life, the industry must develop innovative liquidity solutions and exit offramps. More creative liquidity alternatives are necessary due to current contraction in the debt markets (up to 2.0x debt/EBITDA). Secondary sales and continuation vehicles offer promising avenues, and we anticipate an acceleration in these deals and announcements.

Source: Pitchbook.

Valuation multiples remain above pre-COVID levels

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



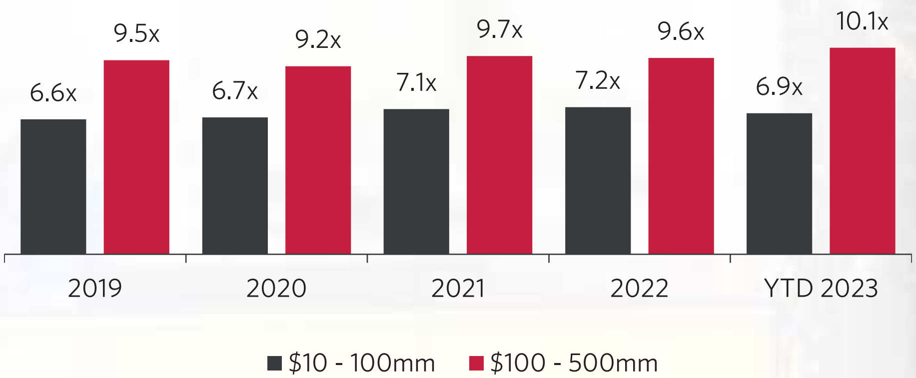
EBITDA valuation multiples for private equity-backed LBOs under $250 million averaged 7.3x year to date through Q3 2023, a 0.3x decline from the 7.6x multiple recorded in 2021 and 2022. High interest rates, economic uncertainty, and increased buyer scrutiny provided downward pressure on valuations. However, current multiples remain higher than pre-Covid valuations. While more lower-quality assets have traded this year, their valuation multiples have been offset by the premiums paid for higher-quality companies.

According to GF Data®, fewer than half of all LBOs through the third quarter this year were high-quality “A” assets, representing a reversal of the last two years. Although these high-quality assets continue to command a premium (27%) to the average for all deals, the data also suggests companies that delayed sale processes throughout 2021 and 2022 came off the sidelines. We observed that many of these “B” and “C” assets obtained lower valuation multiples during 2023 for company or owner-driven reasons.

Source: GF Data®.

Size continues to affect valuations

Buyout size premium



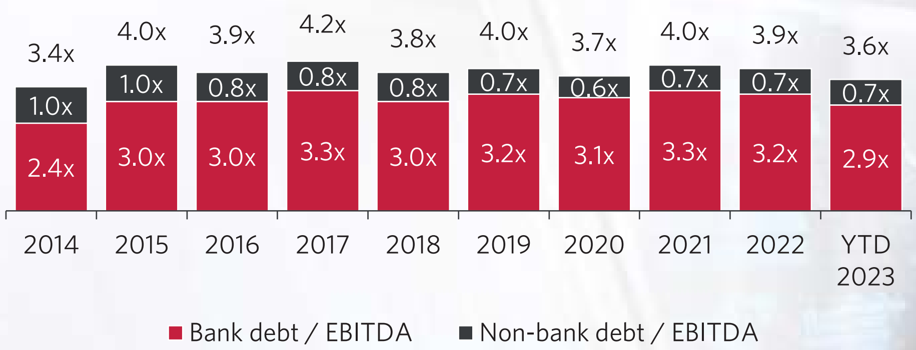
Larger companies (over $100 million of enterprise value) continue to trade at premium multiples despite the overall downward pressure on valuations throughout 2023. The spread between $10 to $100 million and $100 to $500 million deals decreased from 3.4x in Q1 to 3.2x year to date through Q3. This is still a significant premium compared to 2.4x for all of 2022 and highlights buyers' continued flight to quality.

Larger companies' premia are driven by their proven strategies, more developed management teams, customer and product diversification, established infrastructure, and lower cost of capital, all of which contribute to lower perceived risk, higher investor confidence, and greater access to resources. Although less common, smaller companies that have these same characteristics typically fetch higher multiples than their average peers.

Source: GF Data®.

Debt market challenges continue

Average LBO debt multiples for $10mm -$250mm LBOs



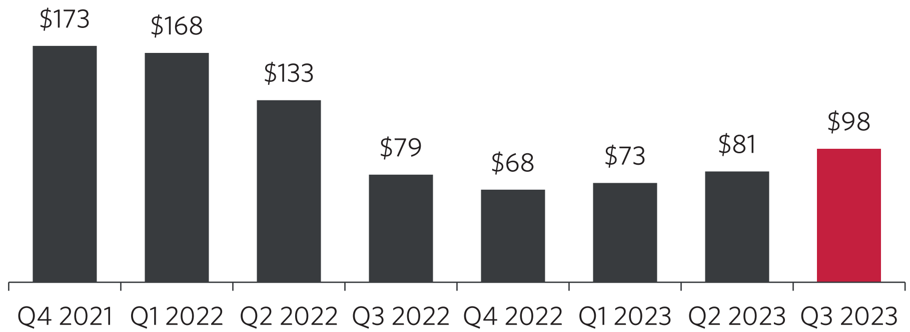
Average year-to-date LBO leverage multiples remained unchanged from H1 2023. The senior debt to EBITDA ratio for all deals was 2.9x, a decrease in the use of senior debt across all deals in the last nine months. Subordinated debt multiples remained unchanged at 0.7x. The average total debt across all deals remained at 3.6x in the first nine months of 2023, down from 3.9x for all of last year and below the historical average of 3.7x.

Despite senior debt interest rates averaging 10.5% in the third quarter, up by another percentage point compared to the previous quarter, debt coverage ratios improved. Platform deals received an average multiple of 3.5x in total debt last quarter, up two-tenths from the second quarter, and 2.7x coverage for senior debt, up half a turn from the previous quarter. However, the total leverage remains constrained by internal risk factors within traditional bank lenders and the bank syndication market.

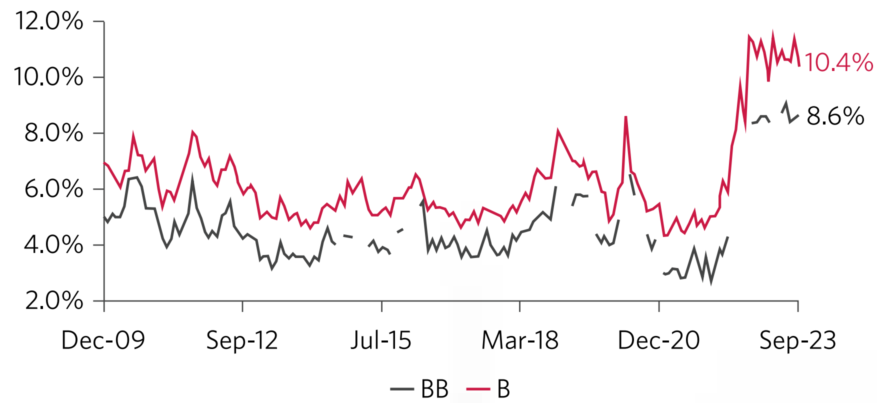
Source: GF Data®.

Leveraged loan market rebound

Quarterly new-issue leveraged loan volume ($b)



New-issue first-lien yield-to-maturities



Q3 2023 witnessed a significant rebound in the issuance of leveraged loans, reaching a five-quarter high. Compared to the average of Q1 and Q2, the volume of new loans surged 28%, exceeding expectations and demonstrating renewed investor confidence. According to Robert W. Baird & Co., the increase was primarily driven by an increase in leveraged buyouts, accounting for 37% of all issuance, a notable increase from the 25% observed in H1 2023.

The momentum generated in the latter part of Q3 is expected to carry over into Q4 2023, with moderate optimism surrounding the market's continued stability. However, long-term prospects are heavily reliant on the Federal Reserve's monetary policy decisions, particularly its stance on interest rates. As the Fed signals three rate cuts in 2024, adopting a more dovish stance, this could further boost market confidence and potentially trigger another wave of strong issuance.

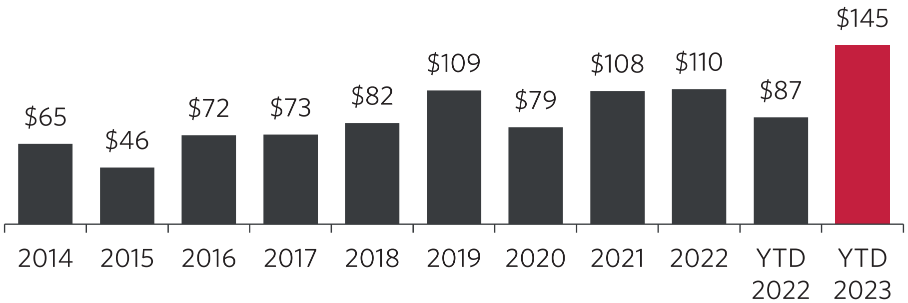
Yields remained elevated in Q3 2023, ending the quarter at 10.4% for leveraged loans, mirroring broader market sentiment and influenced by Fed policy and economic concerns. Despite elevated yields , the leveraged loan market demonstrated resilience with a surge in issuance, fueled by investor confidence and M&A activity.

Looking ahead, yields will depend on the evolving economic landscape, the Fed's policy decisions, and broader market sentiment. The future path of yields will be determined by the interplay of these factors, making it an interesting space to watch over the next few quarters.

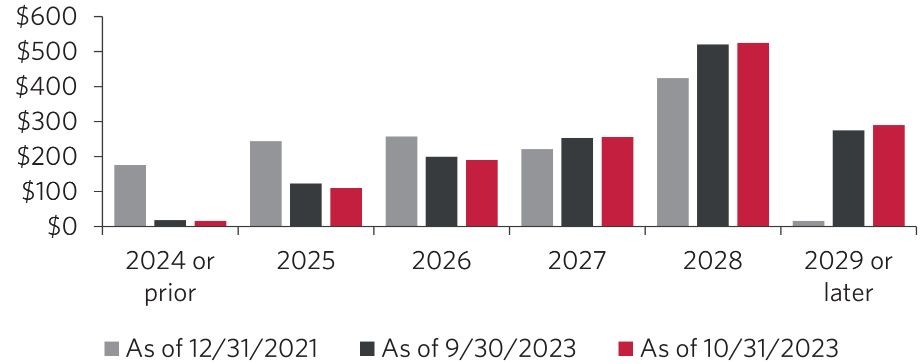
Sources: GF Data®, Pitchbook, Robert W. Baird & Co.

Debt maturity wall shifts

Leveraged loan amend-and-extend volume ($b)



Upcoming loan maturities ($b)



The amend-and-extend ("A&E") strategy is back in favor for lenders in 2023. A&E deals allow borrowers to avoid high refinancing costs and to push out their debt maturities. Typically, borrowers offer lenders a higher interest rate and/or other covenant concessions in exchange for extending the maturity date of their loans, which allows borrowers to avoid refinancing in a high-yield environment and provides them with more time to repay debt.

A&E activity has been particularly strong in 2023, with a record-breaking $145 billion of deals completed year to date through Q3, with a focus on extending 2025 and 2026 maturities. As a result, the immediate maturity wall has been significantly mitigated, with only $16.1 billion in loans due before the end of 2024.

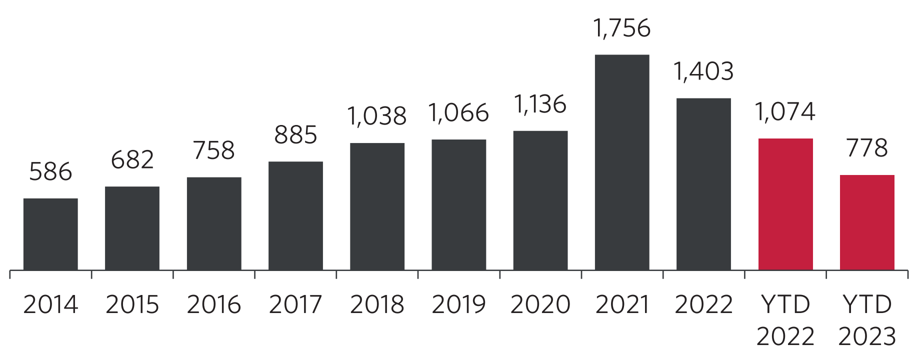
Although the immediate maturity wall has been significantly mitigated, the long-term risk profile has shifted as the overall maturity wall has been pushed further into the future with a significant amount of debt due in 2028 and later. According to Pitchbook, the amount of debt due in 2028 and later has increased by $370 billion since 2021.

Additionally, the profile of these maturities has become riskier, with a larger share of lower-rated borrowers. This means that the market could be more vulnerable to defaults if economic conditions deteriorate. The long-term sustainability of the maturity wall will depend on continued proactive management by borrowers, supportive investor demand, and a stable economic environment.

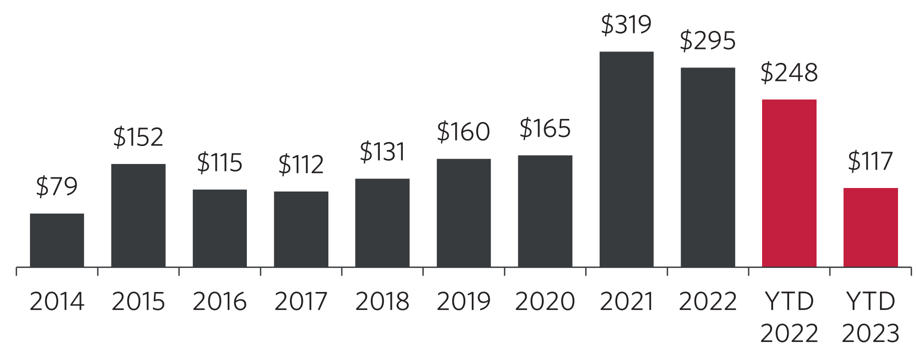
Sources: Pitchbook, LCD.

Software transaction volumes are down, but valuations remain strong

US software PE deal activity



US software PE value ($b)



After a record year for software dealmaking in 2021, there was a path of slowing transaction volume and lower values in 2022 that continued into 2023. According to Pitchbook, Q3 2023 YTD software PE deal value was down 53% compared to the same period in 2022. Deal volume was similarly down 28% YTD in 2023 when compared to 2022. H2 2023 is shaping up to be slow for software transaction activity, with Q3 information technology deal value and volume down 24% and 16% over the prior quarter, according to Pitchbook.

It's not all doom and gloom, however, as software M&A activity remains strong in the context of longer-term averages. Relative to the first nine months of 2017-2019, Q3 2023 YTD software deal value is actually up by 18%, demonstrating the staying power of software as part of the overall economy and M&A. In addition, private equity and strategic investors remain highly interested in deploying capital into the software industry, albeit with some challenges related to bid-ask spreads with sellers anchoring on 2021 and early 2022 ARR and revenue multiples.

A notable trend in software dealmaking in 2023 was the resurgence of take-private transactions, which was driven in part by large software-focused private equity funds looking to the public market for companies to invest in as private sellers continue to wait out the M&A market for higher valuations. Interestingly, software M&A value would have likely been lower in 2023 without marquee take-private transactions such as Qualtrics ($12.5b), Coupa ($8b), Cvent ($4.6b), and EngageSmart ($4b).

Sources: GF Data®, Pitchbook.

CIBC US Middle Market at-a-glance

Highlights

Nationally recognized middle market investment banking team with global reach.

Experienced and talented team has completed hundreds of transactions representing billions in transaction value

Clients include **private companies, private equity funds, and corporations.**

Differentiated approach to achieving client goals through disciplined and transparent transaction processes.

Investment banking services

M&A Advisory

- Execute transactions up to $500 million in enterprise value
- Specialize in sell-side transactions
- Conduct targeted buy-side advisory services

Capital Placement

- Raise up to $250 million in debt and/or equity
- Provide capital structure advice for management buyouts and recapitalizations

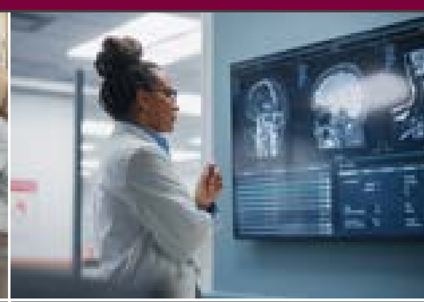
Financial Advisory

- Strategic alternative analyses
- Special situations transactions

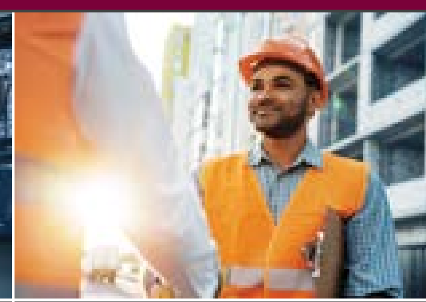
Focus industry verticals

Consumer

Business Services



Healthcare



Industrials

Software & Technology

Recent CIBC US Middle Market transactions

Mobile Vantage
a portfolio company of
SAFE FLEET
has been acquired by
OAK HILL CAPITAL

pfi InStore
a portfolio company of
CFB
CAPITAL FOR BUSINESS
has been acquired by
ONWARD | CAPITAL

MUTHIG INDUSTRIES, INC.
has been acquired by
LFM capital

STOCKD
has been acquired by
BLACKHAWK INDUSTRIAL

AAR
has acquired
Trax

LAKE AIR PRODUCTS
has been acquired by
P4G CAPITAL

GT GOLF SUPPLIES
a portfolio company of
HADLEY
has been acquired by
KINZIE CAPITAL PARTNERS

TRANSHIELD
has been acquired by
PATRICK

AMEREQUIP
has been acquired by
JMC FAMILY OFFICE

KORE OUTDOOR
a portfolio company of
FULCRUM CAPITAL PARTNERS
has been acquired by
Ironbridge EQUITY PARTNERS

LIGCHINE
a portfolio company of
Blue Sage Capital
HANOVER PARTNERS, INC.
has been acquired by
RAF

united envelope
has been acquired by
CenterGate CAPITAL

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