



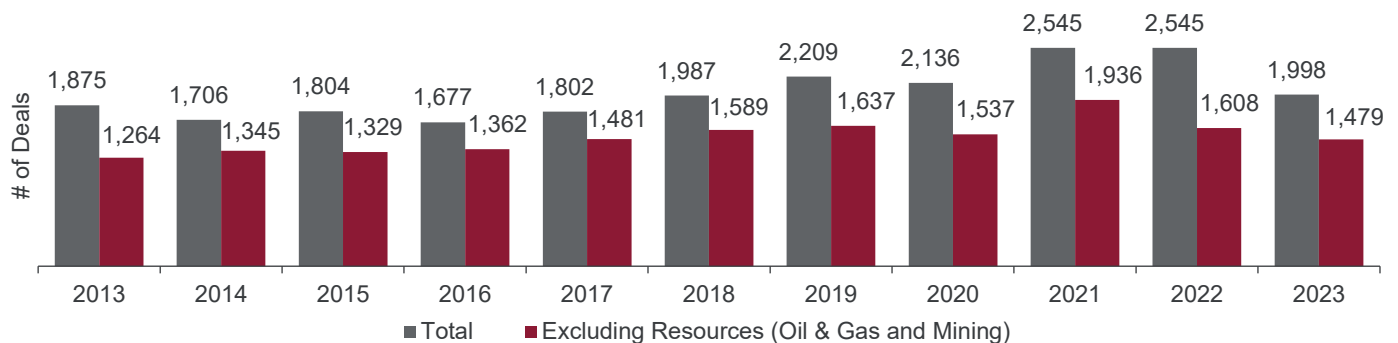
MID-MARKET INVESTMENT BANKING 2023 YEAR IN REVIEW

Market Update



We are pleased to provide a summary of Canada's M&A activity over the last year, together with our thoughts on current themes.

Annual Canadian M&A Volume

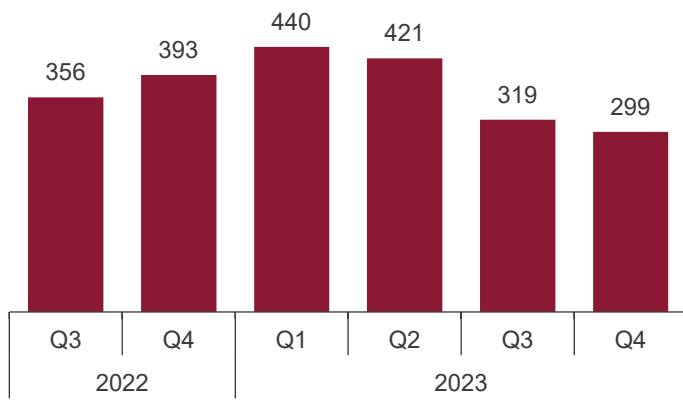


Source: Capital IQ, excludes all real estate transactions

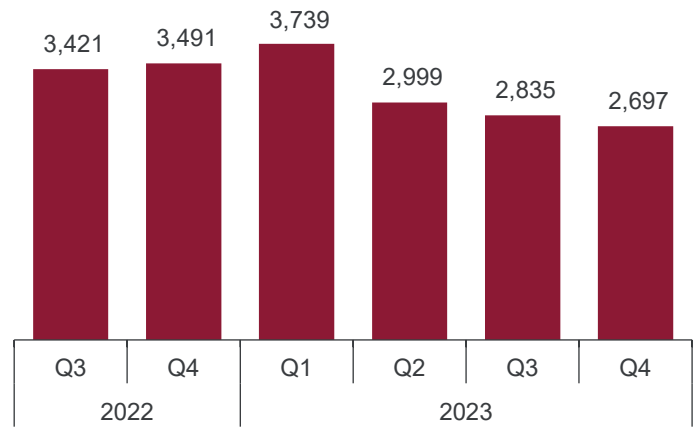
Looking Back

Canadian M&A activity in 2023 returned to pre-pandemic levels, coming off record years in 2021 and 2022. Our team experienced the same trend.

Canadian transaction count



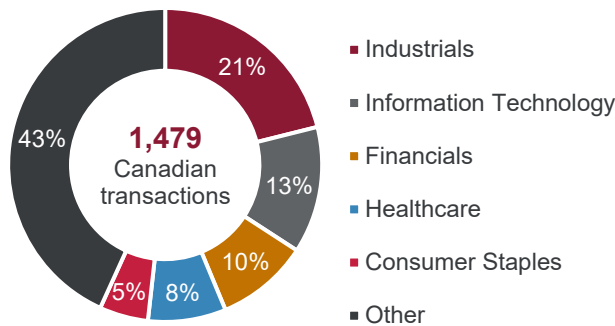
US transaction count



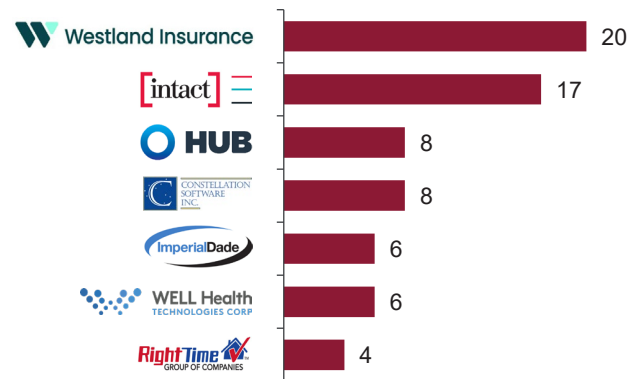
Source: Capital IQ, excludes real estate and resource transactions

The Canadian and US quarterly data shows declining deal count through the year as higher interest rates and economic uncertainty took hold.

Most active industries 2023



Most active acquirors of Canadian businesses 2023



Source: Capital IQ, excludes real estate and resource transactions

As in 2022, the most active sectors were Industrials, Information Technology, Financials and Healthcare, collectively making up over 50% of transaction volume.

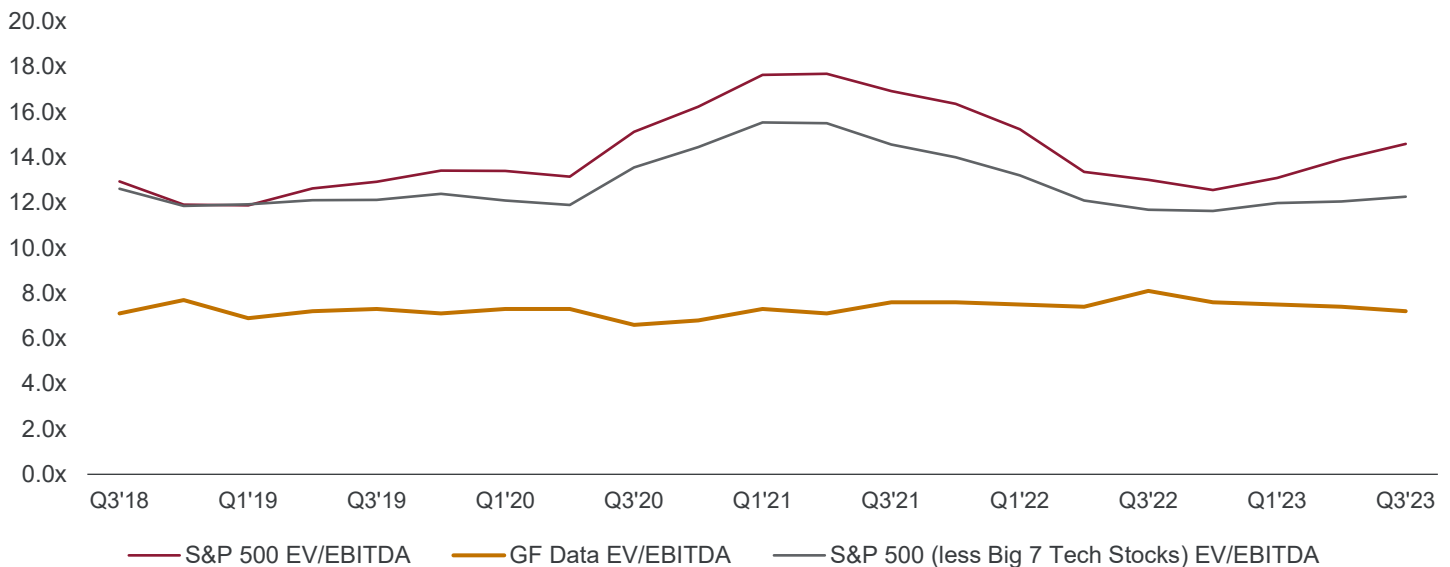
- Still lots of activity in insurance space with Westland, Intact and Hub taking the top three spots in terms of deal count this year
- Imperial Dade, a leading distributor of foodservice packaging, paper and janitorial supplies, has been a very acquisitive company, making 75+ acquisitions since 2007
- Consolidation in the HVAC sector has been a theme across Canada and the US for many years and Right Time Group, a US PE-backed provider of home comfort solutions, makes the leaderboard this year
- Within healthcare, the pharmacy sector has continued to see consolidation. Recent transactions of note include:
 - Calgary Co-op definitively agreeing to acquire Care Pharmacies, a large network of 50+ locations in Ontario and Western Canada (CIBC advised Calgary Co-op)
 - Neighbourly Pharmacy agreeing to be taken private by T.I.D. Acquisition Corp. (an entity controlled by Persistence Capital Partners)

Notably, each of these acquirors serves as an example of consolidators consistently deploying capital to acquire smaller targets at attractive valuations relative to their own platform valuation.

Interest rates will continue to have an impact on both valuation and overall M&A activity. While the US Fed has given guidance towards three cuts in the second half of the year, at the time of writing most analysts are forecasting a more significant decrease in US rates on the back of positive inflation and unemployment numbers. The Bank of Canada has been less specific but close observers expect some downward movement in the third quarter of 2024. In general, we would expect lower interest rates to improve M&A activity.

From a valuation perspective, multiples for private companies have not experienced the volatility seen in the public markets. The graph below shows valuation multiples over the last 5 years. We have seen a significant increase in public market indices, which are trading at or close to record highs, at the time of writing. Public markets are typically a leading indicator and as interest rates decrease, we would expect private company valuations to show an uptick.

Public and private company multiples - Enterprise Value / EBITDA



Source: S&P Capital IQ; GF Data

Notes: Mid-Market M&A Transactions up to \$250 million; The Big 7 Tech Stocks are Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla

Looking Forward

Current market themes we expect to persist include:

- Founder and owner managed businesses will continue to transact with volumes in line with previous years. Owners of these businesses are typically more event-driven than market-driven. For well-run companies that have demonstrated robust earnings over the past three years, there remains many willing buyers.
- PE backed businesses on the other hand typically try to time the market to maximize proceeds. Given the slightly lower valuation multiples, we have seen fewer exits over the last 18 months - the reported median holding period for PE owned portfolio companies is a record 5.6 years¹. The likely outcome of this extended hold period is that when the overall economic environment improves, we are likely to see a significant uptick in activity as PE funds need to generate liquidity for their investors.
- The financial health of the Canadian consumer will be a theme throughout 2024. Home owners who are renewing their mortgage this year are likely to face increased funding costs of between 20 and 60 per cent which will have a significant impact on household budgets. For those businesses that rely on discretionary consumer spending, we expect a negative impact to earnings, and in turn, depressed valuations.
- Despite many of the post-COVID supply chain issues having been resolved we are seeing evidence that many businesses are carrying much higher levels of working capital than they did pre-COVID. Many owners have mentioned that they are reluctant to return to 'just in time' levels of inventory and there is a shift to 'just in case'. This is impacting M&A deal terms with buyers negotiating higher net working capital targets.
- Given the various challenges in forecasting the outlook for a business, we are finding that determining the sustainable EBITDA upon which valuations are based, remains a challenge for a lot of deals. Earn-outs continue to be a way to bridge the bid/ask spread between buyer and seller.
- On a more positive note, and as referenced above, there are more buyers than sellers and for businesses that have demonstrated resilience in the face of the various COVID and economic related challenges in the past 3 years, these companies can command premium valuations and have a greater certainty of closing a deal.

Our 2023 Credentials

Below are some of the mid-market M&A transactions that CIBC closed in the last 12 months. We wish you all the best for a safe and successful 2024, and look forward to speaking with you in the near future.

Business services


A Western Intermodex Enterprise

Sale to


Western Intermodex
A Western Group Enterprise

2023


FINNOVY

Sale to


ARTELIA

2023



Acquired


KEYSTONE CAPITAL

2023

Energy Sector Consulting Firm

Sale to

Undisclosed North American Family Office

2023

Healthcare


CALGARY CO-OP


Acquired
[Announced and Pending]


CarePharmacies

2023


WOMEN'S ULTRASOUND CLINIC

Sale to


canada diagnostic centres


2023

Industrials


Project Gateway
Oil and Gas Heavy-Equipment Parts Distributor

Sale to
International Strategic Buyer

2023


HUB EQUIPMENT

Sale to


COOPER EQUIPMENT RENTALS

2023


Manufacturing


ICOR TECHNOLOGY


Sale to
[Announced and Pending]


CADRE HOLDINGS

2023


MF Paints

Sale to


PROTECH GROUP


2023


PRECISION PORTES D'ACIER


Management Buyout

2023


Software


CompTrak

Sale to


HRSoft

A portfolio company of


BOW RIVER CAPITAL

2023

Retail / Food


COUNTRY GROCER

Sale to


49th Parallel GROCERY


2023


freshii


Sale to


FOODTASTIC

2023



Commercial Bakeries Corp.

Sale to



GRAHAM PARTNERS


2023

Technology


MSP CORP

Sale to


Alfar Capital


WALTER

2023

About us

CIBC Mid-Market Investment Banking is a leading M&A advisor, providing services to private companies:

- Divestitures
- Acquisitions and management buyouts
- Raising equity capital and securing debt financing

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¹ Source: www.privateequityinfo.com

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