

Canadian Mid-Market M&A Update

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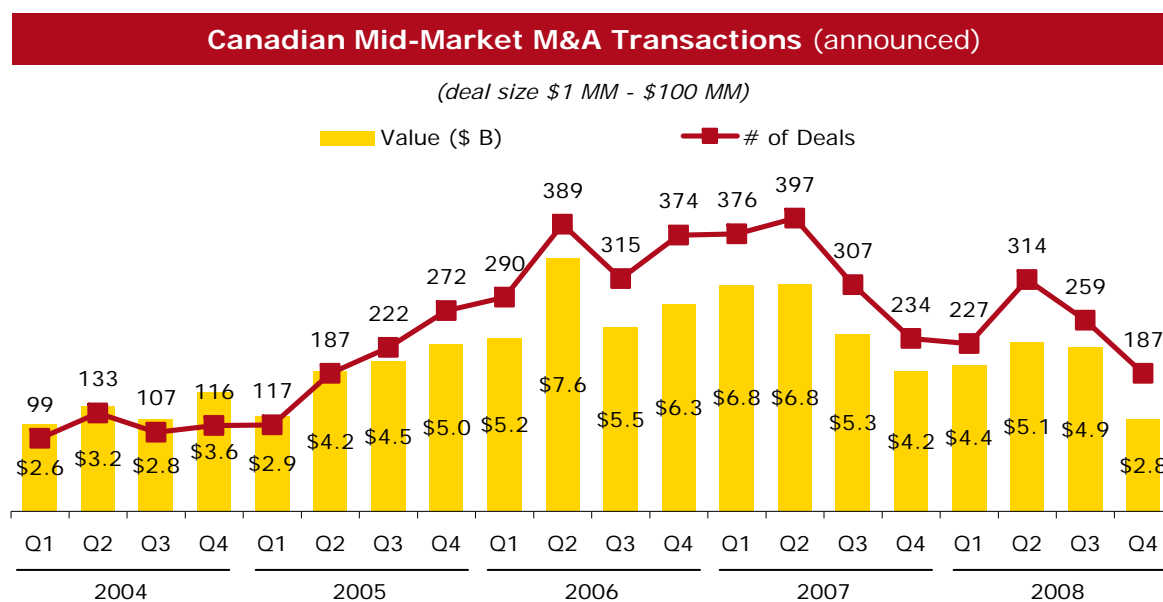
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Mid-Market M&A Activity Remained Relatively Strong in 2008

- ▲ Canadian mid-market M&A activity has demonstrated resiliency in the face of uncertain market conditions, but showed some signs of weakness in Q4
 - Deals between \$1-100 million saw 187 transactions



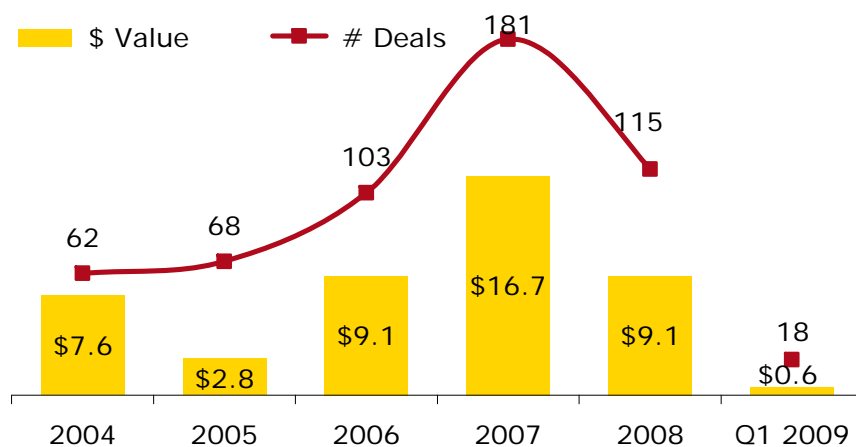
Source: Crosbie & Company



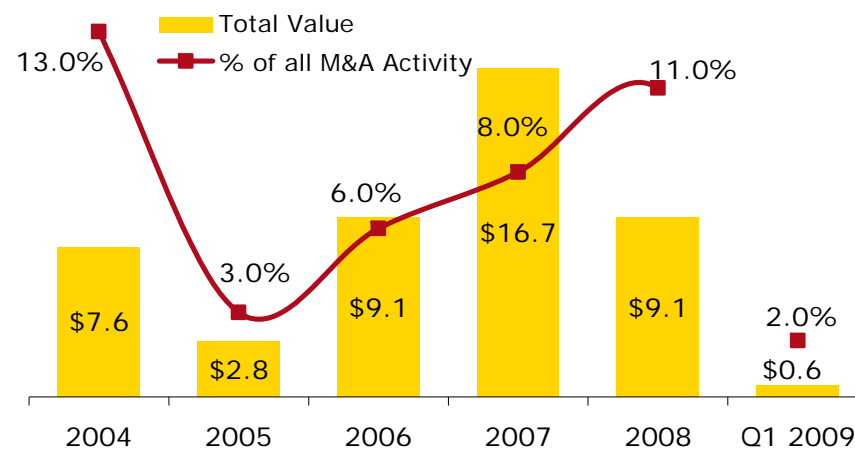
Buyout Fundraising and Buyout Deals have Stalled in 2009

- ▲ Buyout deals have slowed significantly in Q1 2009:
 - Access to credit has tightened
 - Very few willing sellers
- ▲ The percentage of M&A deals represented by private equity buyouts was 11% in 2008
 - This compares with 8% in 2007, and 6% in 2006

Buyout Deals with Canadian Targets (US\$ billions)



Canadian Buyout Transactions as % of Total M&A



Source: Thomson Reuters

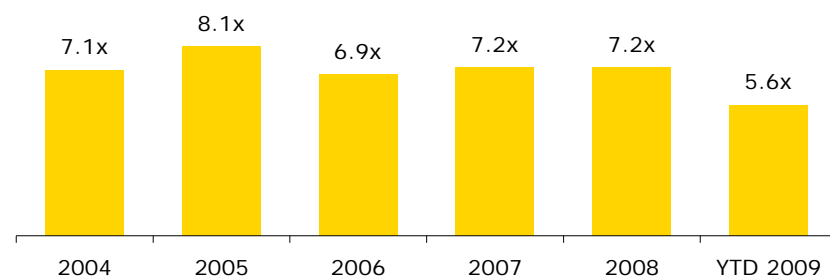


Canadian M&A Transaction Average Valuations

- ▲ The reduced availability of credit and lower public equity market valuations has had an inevitable impact on M&A valuations in 2008
 - Average purchase multiples have declined in 2008 for both strategic and financial buyer transactions

North American M&A Target Median Purchase Multiple

(TEV / EBITDA)

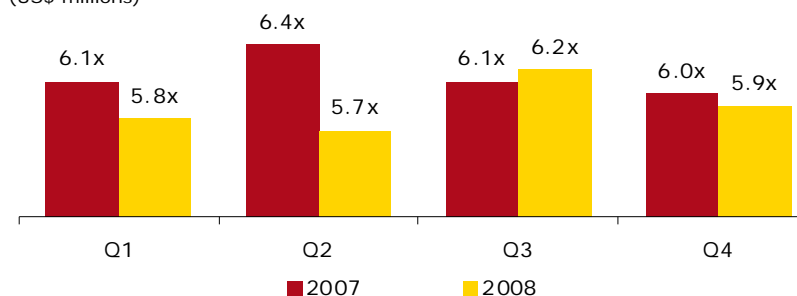


Source: Capital IQ

Financial Sponsor Average Purchase Multiple

(TEV / EBITDA)

(US\$ millions)



Source: GF Data Resources (North American private equity buyout transactions less than \$250mm in value)

Note: Smaller private companies (i.e. less than \$100 million in enterprise value) tend to trade at a discount to public companies. Recently, we have seen purchase multiples decrease to a range of **4.0x - 6.0x**, down from a range of **5.5x - 7.0x** observed back in 2007

Notes:

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

TEV – Total Enterprise Value (defined as: Market Cap plus Total Debt less Cash plus Minority Interest)



Negotiating Leverage has Shifted to the Buyers (for now)

2007

- ▲ Seller friendly
 - Competitive auctions with multiple bidders
 - Both strategic and private equity bidders on most deals
 - High valuations
 - Cash at close
 - Share deals
 - Process timetables met
 - Stapled financing

Current

- ▲ Buyer friendly
 - Fewer buyers, very selective
 - Market favours strategic bidders
 - 1–2x EBITDA lower
 - Earn-outs and holdbacks
 - Asset deals
 - Buyers dragging their feet
 - ⇒ More detailed due diligence
 - ⇒ Want to see financial performance
 - Financing outs

- ▲ When will the sellers return?
 - Once owners have visibility of future cashflow e.g. pipeline, backlog, new contracts
 - Demographics are in our favour



Credit Metrics Have Tightened Considerably Since 2007

- ▲ Canadian banks continue to lend to trusted Borrowers at the right price
- ▲ Certain Schedule II/III banks active in Canada are “shut-down”
- ▲ Spreads and fees will remain high for future new asks of the bank market
- ▲ More stringent adherence to “hold-limits” means more clubbed or syndicated transactions
- ▲ Underwriting remains challenging (i.e., robust market flex language around pricing and structure a MUST)

Representative Senior Metrics:	Mid 2007	Today
Sr. Debt/Capitalization:	➤ 40% - 60%	➤ 40% to 50%
Sr. Debt Funding Levels:	➤ Up to 3.75x	➤ Up to 2.0x – 2.5x
Pricing (RR: BB-):	➤ BAs +275bps	➤ BAs +450bps ➤ Market moving towards Standby fees 20/25% of pricing spread
Underwriting:	➤ 100 – 125bps ➤ 50 bps capped pricing flex	➤ 150 – 300 bps where available
Structures:	➤ 48 – 60 month terms ➤ Bullet payments: 30% - 50%	➤ 36 month terms ➤ Bullet payments: 45% - 65%
Representative Sub Metrics:	Mid 2007	Today
Total Debt/Capitalization:	➤ 50% - 70%	➤ 50% - 60%
Total Debt Funding Levels:	➤ Up to 4.75x	➤ Up to 3.0x – 3.5x
Pricing:	➤ IRR: 14% - 16%	➤ IRR: 16% - 20%
Fees:	➤ 200 bps Commitment	➤ 250 bps Commitment

