THE YEAR AHEAD:

Expectations for the North American Middle Market

ORIGIN MERCHANT PARTNERS

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North America's Middle Market
M&A Advisory Boutique.

Heading into 2023, we are burdened with considerable uncertainty, which continues to take its toll on the public markets. Private market M&A, is, like the public markets, impacted by rising rates, high inflation and ongoing geopolitical uncertainty, however, it continues to benefit from private equity's (still) abundant dry powder, and the buying power of large corporate entities.

As we move into 2023, what do these shared and different dynamics mean for the private markets?

We asked our team of Directors and Vice-Presidents, who are on the front lines on every Origin deal, where they see private M&A heading in 2023. Here is their collective view…

While larger deals will continue to be negatively impacted by changes in the macro economic environment, we expect North American middle market deal activity to remain healthy through 2023.

Seven reasons why:

1. **Buyer interest remains high**
   For business owners, there are still many potential buyers – financial sponsors and strategics (corporate buyers) - looking to acquire companies. Many of these purchasers have significant capital, often raised in the accommodative market environment of the past few years, that they are looking to deploy. Further, strategic purchasers are looking to grow via acquisition, while some financial sponsors believe the current market may be a more supportive environment in which to complete transactions.
2. **Strong deal pipeline**
   There is an ample supply of business owners looking to transition, owing to demographic factors (only ~1/3 of business owners have a robust succession plan), macroeconomic conditions and need for liquidity and/or support for ongoing growth plans
3. **Middle market benefits from shift in focus**
   Big bank credit has tightened, particularly for mega- sized transactions. With leverage more readily available in the middle market, many large funds are shifting their sights to pursue add-ons through 2023, rather than new platforms. This dynamic has the potential to heighten competitive tension for middle market businesses, providing support for valuation levels.
4. **Valuations (in some sectors) will hold up**
   There has been some valuation pullback in sectors that may have been overheated during COVID. We are not, however, seeing a material change in valuations for most of our transactions - in sectors including industrials, business services and food & ag - nor do we expect a pullback in 2023. The reason? As already noted, we continue to see many potential buyers in the market, many of whom are still hungry for strong businesses. In addition, as noted, there is the potential for heightened competition for middle market businesses through 2023.
5. **Public markets may be losing their appeal**
   Smaller cap public companies have performed poorly year to date (TSX-V down nearly 40%). As a result, private enterprises that might have considered an IPO are likely to look at a sale or merger instead. In addition, many smaller cap public companies may rethink the need to be publicly listed, which will drive further transaction activity.

6. **Manufacturing at Home**
   Supply chain issues that have persisted over the last few years will continue to haunt companies, driving further investment – by buying or building - into onshoring manufacturing processes in 2023. Companies are demanding greater flexibility in scheduling, fewer logistical constraints and more control over product quality. Manufacturing at home helps check many of these boxes.

7. **North America remains an attractive market**
   We continue to see strong interest in the North American market from our international buyer relationships, and that interest shows no sign of waning. Overall, Canada and North America are viewed as desirable markets, and in our first-hand experience, many global corporate and financial entities are highly interested in expanding in our region.

A few other middle and lower-middle market trends we expect to see in 2023:

- Increased M&A activity among sub-scale businesses (merging to cut costs and become more competitive)
- Increased bankruptcies and closures (for businesses that can't secure funding) and distressed deal making
- Value investing as an M&A strategy

Bottom line:

Despite the negative headlines and economic and geopolitical volatility, we feel cautiously optimistic heading into 2023, with plenty of opportunities for buyers and sellers to transact through the coming year.

About Us

Origin Merchant Partners is an independent investment bank that provides value added corporate finance, mergers and acquisitions and merchant banking services delivered by senior professionals. Our clients engage us for our dedicated, high level of service and independent advice to address their strategic and financial plans

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