Q3 2023

North American M&A Report

ORIGIN MERCHANT PARTNERS

A snapshot of the North American M&A landscape in Q3 2023 followed by a sector spotlight on the aerospace industry and an update on Origin's recent activity

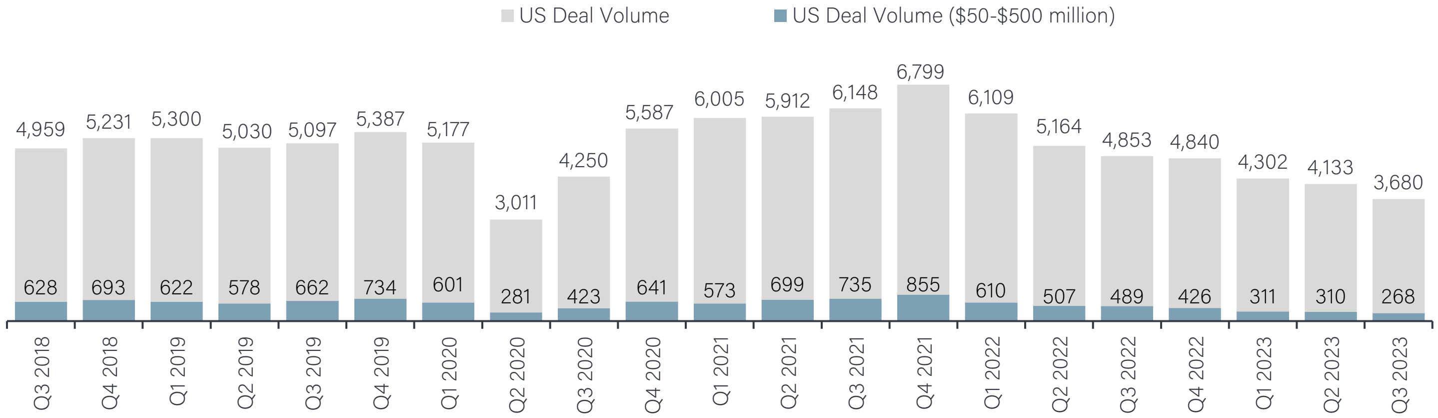
Q3 2023 Highlights:

- *Deal volume decreased across the size spectrum in Canada and the US*
- *Deal supply impacted as sellers wait out market conditions, with PE exits hitting a record low*
- *While valuations continued to soften, quality companies are still attracting strong multiples*
- *Our peak to trough analysis suggests that the North American M&A market is likely close to bottom, with a positive outlook for deal activity in 2024*
- *Despite a broader market decline in average deal value, the aerospace industry, our featured sector this quarter, continued to attract sizeable investment*
- *Origin adds Boston-based investment banker with global experience to lead Origin's US technology practice*

The North American Middle Market

Middle market activity in the US declined to its lowest level in five years, down 13.5% from Q2 2023 and 45.2% year over year. Total US volume declined to its second lowest level, down 11% quarter-over-quarter and 24.2% year-over-year.

Total US Deal Volume (Q3 2018—Q3 2023)

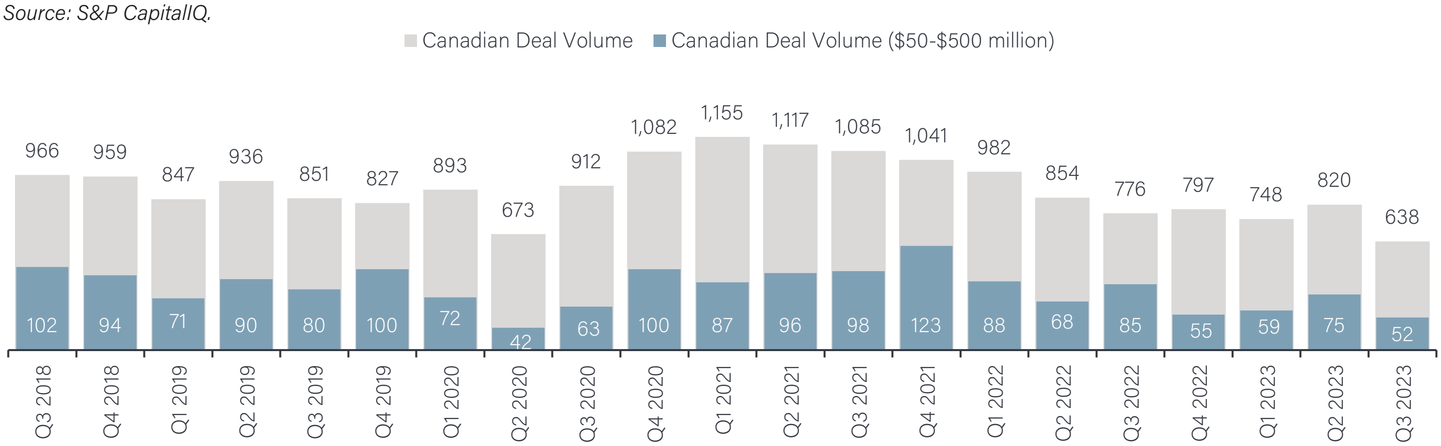


Source: S&P CapitalIQ.

Canadian dealmaking hit a low point in Q3 2023, down 22.2% over the previous quarter and 17.8% year-over-year. Middle market deal activity declined 30.7% over the prior quarter, and 38.8% year-over-year, registering as the second lowest level in the past five years.

Total Canadian Deal Volume (Q3 2018—Q3 2023)

Source: S&P CapitalIQ.

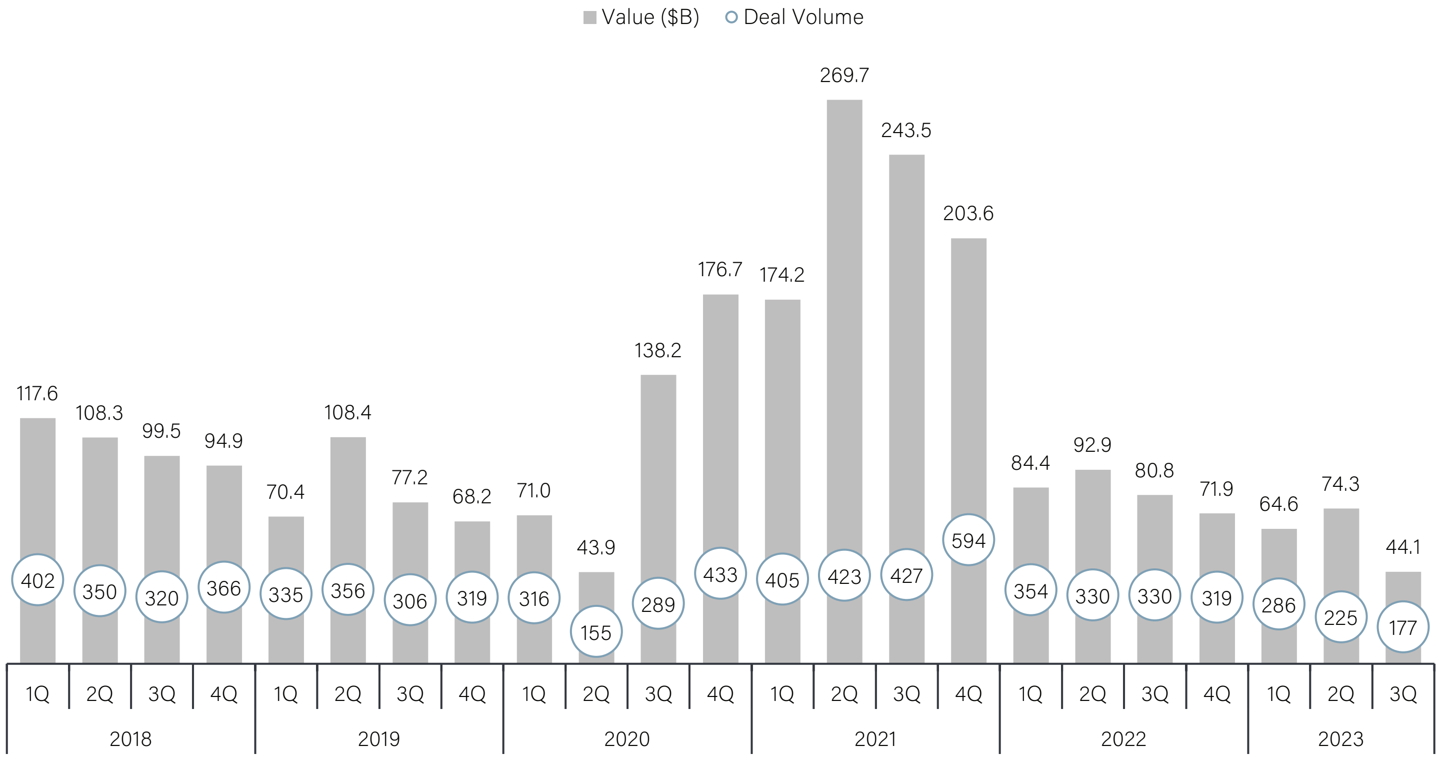


Similar to last quarter, lower deal volumes are largely the result of ongoing economic uncertainty, higher interest rates and tighter credit markets. While ample capital remains available for deployment, tough credit conditions are creating deal process hurdles, particularly for financial buyers. This is reflected in average US PE debt/EBITDA multiples[1], which have declined from 5.9x in 2022 to 5.1x in 2023 YTD.

1 Pitchbook.

On the supply side, many sponsors continue to report that quality deal flow has remained slow through the quarter as sellers and their advisors wait out poor market conditions. In a similar vein, US PE exit activity[1] hit a record low in Q3 2023, with exit value and volume declining, respectively, 40.7% and 21.3% over the prior quarter, and 45.4% and 46.4% year-over-year.

US Private Equity Exits (Q1 2018—Q3 2023)



Source: Pitchbook.

Valuations

According to Pitchbook, for the twelve months ended Q3 2023, the median combined North American and European[2] EV/EBITDA multiple declined to 12x for the twelve months ended September 30, 2023, down 5.2% from 12.7x in 2022. While the trend line is down, we are still seeing heated competition for high quality companies, and as a result, valuations for those businesses remain strong with buyers, and particularly PE firms, deploying higher levels of equity or looking to private debt to mitigate current credit market issues.

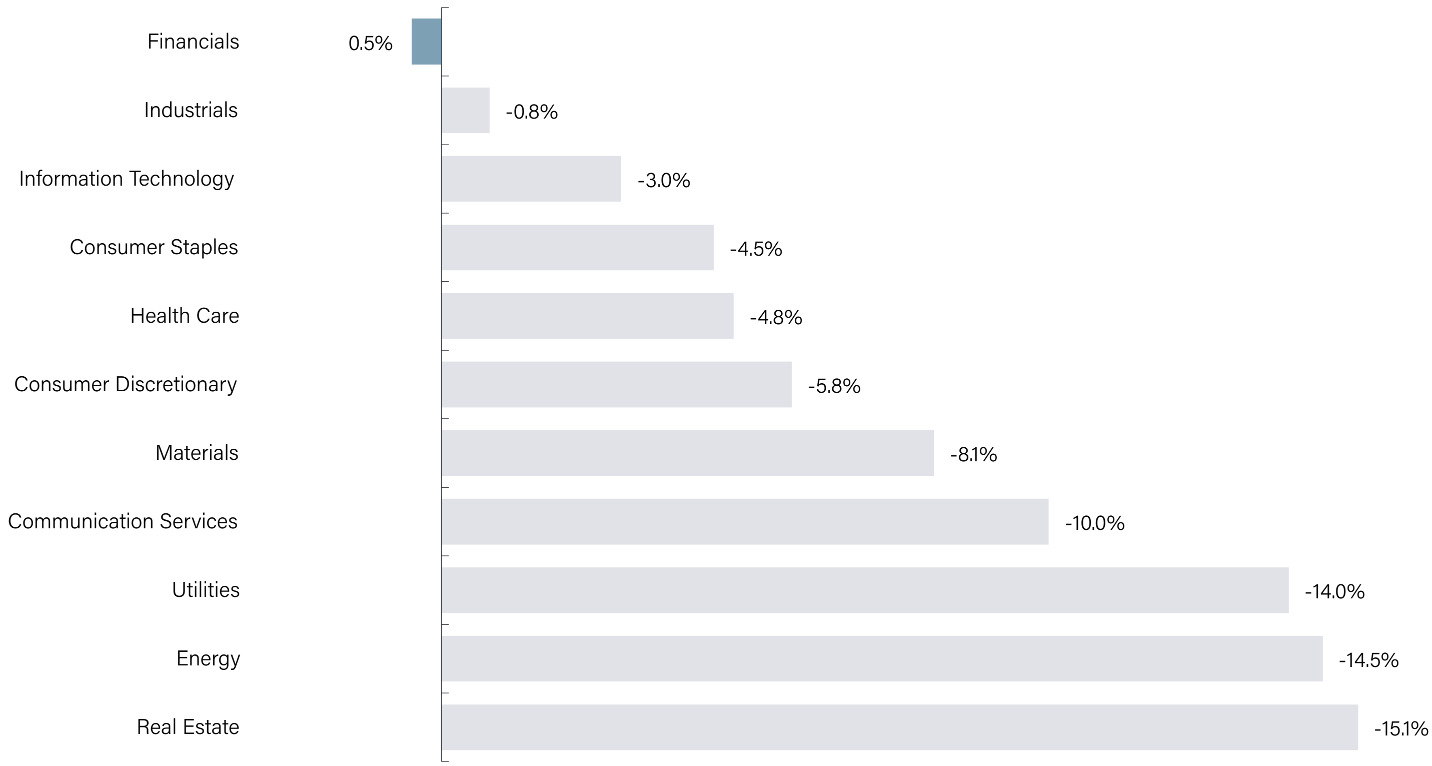
1 Pitchbook.
2 While the focus of this report is North American, we are including Europe in our valuations discussion to expand the sample size as private company data related to deal valuations is limited, and broad valuation trends across the two continents are similar.

Activity by Sector

Activity slowed in virtually every sector over the 5-year period from 2018-2023 , with Industrials and Financials proving most resilient. Similar to the prior quarter, Industrials remained the largest and most active sector for M&A as onshoring trends and consolidation of fragmented sectors continued to drive dealmaking. Technology slowed but, as in the prior quarter, represented a large and active market for M&A activity. The Real Estate sector experienced the largest 5-year decline, with high interest rates, a tight credit market and unfavourable commercial vacancy rates having a dampening effect on M&A.

The peak to trough sector performance reflects similar themes. From the peak of Q4 2021 to trough of Q3 2023, Industrials and Financials sector activity declined least, respectively, 34.6% and 34.3%, reflecting a shifting focus to value and cash flow. In contrast, Real Estate activity declined 66.8%. Information Technology held the middle ground, declining 42.6% over the same period.

North American M&A Activity by Sector
5-Year CAGR (Q3 2018—Q3 2023)



Source: S&P CapitalIQ.

Look Ahead (with Historical Context)

Using history as a guide, the average market contraction since Q1 2000 is 8-9 quarters, with a 37% decline in activity. We are seven quarters into the current market contraction, with activity down 46% to date. Based on historic trends, it appears that we are likely close to bottom.

Peak to Trough Analysis (2000—2023)

Peak Date	Deal Volume	Trough Date	Deal Volume	Peak to Trough Quarters	Volume % Decline	Trough + 1 Year	
						Deal Volume	%
Q1 2000	3,674	Q3 2002	1,957	10	-47%	2,264	16%
Q4 2005	3,927	Q3 2006	2,816	3	-28%	3,990	42%
Q4 2006	4,454	Q1 2009	2,795	9	-37%	4,225	51%
Q4 2012	6,402	Q2 2013	5,037	2	-21%	5,995	19%
Q4 2015	6,304	Q2 2020	3,011	19	-52%	5,912	96%
Q4 2021	6,799	**Q3 2023?**	**3,680**	**7**	**-46%**	**5,336**	**45%**
Mean				**8.6**	**-37%**		**45%**

Projection Using Mean

Source: S&P CapitalIQ.

So where do we go from here? Average deal volume growth one year post-market trough is 45%. Assuming that we have hit, or are close to bottom, this bodes well for deal activity in 2024. In addition to the quantitative, history-driven analysis, however, there are other compelling reasons to expect a pick-up in activity through the coming year.

Pent up Demand for M&A

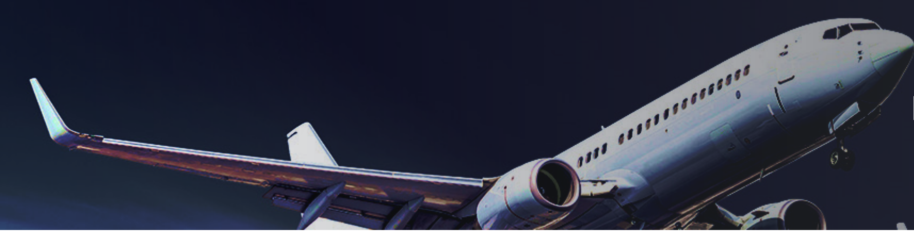
There is pent up demand for M&A — anecdotally, 2023 has been a year signified by premium businesses trading at premium valuations (likely why the decline in reported valuations has been limited, even in a tough market). With private equity firms under increasing pressure to deploy the record amounts of capital raised in recent years, there is compelling reason for sellers sitting on the sidelines to test the waters in 2024.

Liquidity Issues

Many companies that raised large amounts of capital in 2021 will face liquidity issues in 2024. With weak IPO and equity markets and high interest rates, an outright sale or corporate carveout may be the most attractive alternatives, helping to fuel the supply side of the deal equation.

Record Middle-Market Fundraising

According to Pitchbook, US middle-market funds are outperforming the broader US PE market, and are on track for a record year, adding to the already lofty levels of dry powder and fuelling demand for middle-market targets.

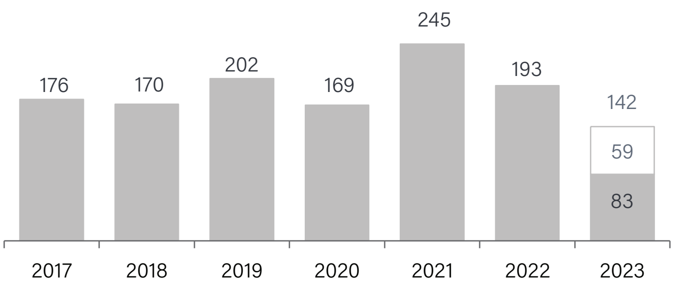


Sector Spotlight on Aerospace

North American Deal Landscape

Slight Turbulence, But Clearer Skies Ahead

Total Number of Transactions[1,2]

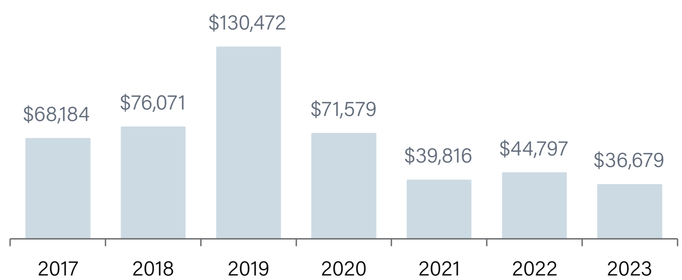


Source: CapIQ.

At the current run rate, we expect transaction volume in 2023 to be down ~22% vs. 2022, roughly in line with the broader slowdown in M&A volume. Given the geopolitical landscape, however, we anticipate increasing tailwinds for Aerospace and Defense through 2024, with protracted massive spending as countries ramp up their defensive and offensive capabilities. Many aerospace tier 1 and tier 2 suppliers manufacture parts for global defense customers, and are likely to look to acquisitions to bolster their production capabilities.

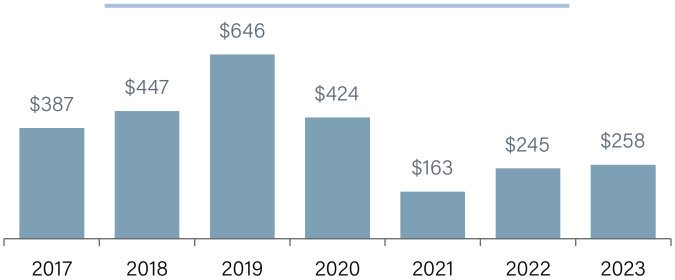
While transaction volumes aligned with the broader market decline, at its current 2023 run rate, the sector's total transaction value is displaying impressive resilience, falling only ~18% compared to a ~44% decrease in the overall market.

Total Transaction Value[1,2,3] (C$M)



Source: CapIQ.

Average Transaction Value[1,2] (C$M)

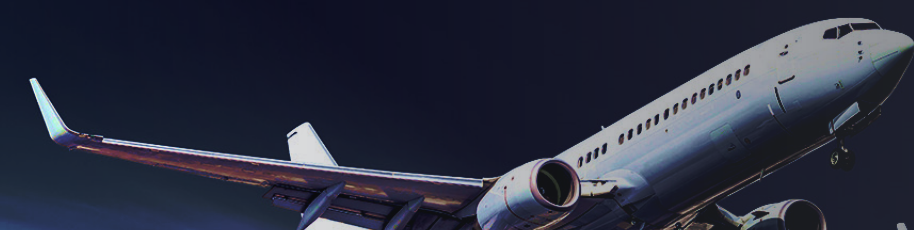


Source: CapIQ.

The industry's average transaction value continues to climb, evidence that investors are willing to make sizeable investments in the sector, despite tighter credit markets. With consumer demand remaining robust and supply chain and labor issues gradually resolving, the outlook for deal activity is positive.

Our conclusion: currently, while buyers are being more selective, they are willing to make sizeable investments in the sector, despite tighter credit markets. Through 2024, we expect sector tailwinds will drive deal activity to higher levels.

1 Data for targets from United States and Canada, taken from Capital IQ Pro, as of July 31st, 2023.
2 Dotted portion represents annual run rate based on data up to July 31st, 2023.
3 Only publicly disclosed transaction values presented.



Recent Aerospace Experience

Origin Merchant Partners Advises Dishon Limited on its sale to Thrust Capital Partners

DISHON LIMITED

Has been sold to

THRUST CAPITAL PARTNERS

July 2023

The Company

Dishon is a world class supplier of complex precision machine components and assemblies for North America, Europe and Asia, serving the aerospace, nuclear, sub-sea oil & gas and medical industries. The company has strong engineering and manufacturing capabilities, with manufacturing processes optimized to increase production flow rates. Dishon has over 35 years of expertise in complex machining and employs 70,000 square ft of space in Toronto, Canada and 14,000 sq ft in Orlando, Florida.

Connect With The Team

DARREN WILLIAMS
Managing Director
Bio | Email

ADAM SMITH
Vice-President
Bio | Email

Background

With burgeoning demand for its expertise, Dishon was experiencing rapid growth, which had pushed the company to capacity at its existing facilities. Dishon sought a strategic partner with the resources to support its continued growth, and further strengthen its positioning in the aerospace industry.

Process and Outcome

Origin ran a broad process, reaching out to strategic and financial buyers with an interest in the aerospace and metal fabrications industries. Dishon's stellar management team along with its excellent business performance and industry dynamics attracted numerous strong bids. Thrust Capital Partners, a private equity buyout firm exclusively focused on the Canadian aerospace industry and its supply chain, was ultimately selected because of its alignment in culture, focus on quality, and its team's deep experience in the aerospace industry. With this investment by Thrust, Dishon is well positioned to continue its rapid growth and further solidify its position as a critical and leading player in the aerospace and space ecosystem.

> "From navigating the CIM to understanding the legal and tax ramifications negotiating the SPA, Origin really provided a white glove service."
>
> *— Ilan Dishy, CEO; Adir Dishy, CFO*

DISHON LIMITED

Our Summer 2023 Spotlight on Aerospace can be downloaded here.

And from Origin's advisory practice...

Horacio Facca Joins Origin Merchant Partners to Lead US Technology Practice

HORACIO FACCA
Managing Director
Bio | Email

Mr. Facca joins Origin from a leading US-based middle-market investment bank where he built an extensive network of domestic and international client relationships, and originated and led capital advisory and M&A transactions with a particular focus on the technology sector. Based in Boston, Mr. Facca will build on the success of Origin's technology practice, with a focus on the US and select international markets. Drawing on his 20+ years of global experience in the technology sector, Mr. Facca adds immediate breadth and expertise to the firm's US business, which has expanded over the past year following Origin's acquisition of Chicago-based InterOcean Advisors. Read the full press release here. Read the Globe & Mail coverage here.

Origin completed a range of mandates in Q3 2023, spanning sectors including Real Estate, Technology & Industrials. Year-to-date, Origin has completed fifteen mandates as follows:

Transaction	Transaction Type	Sector	Geography
Extruded Aluminum	Sell-Side	Industrials	*Buyer:* *Seller:*
Velocity Trade	Sell-Side	Technology, Media and Telecom	*Buyer:* *Seller:*
Northview	Buy-Side	Real Estate	*Buyer:* *Seller:*
Dishon	Sell-Side	Industrials	*Buyer:* *Seller:*
Coinsquare	Combination	Financial Services, Technology, Media and Telecom	*All Parties:*
Centricity	Sell-Side	Healthcare and Pharmaceutical	*Buyer:* *Seller:*
Myland Soil Health	Financing	Environmental and Sustainability, Food and Agriculture	*Investor:* *Investee:*
VEGA.education	Financing	Education and Skills Training	*Investor:* *Investee:*
Silverware POS	Sell-Side	Technology, Media and Telecom	*Buyer:* *Seller:*
Copper Mountain	Sell-Side	Metals and Mining	*Buyer:* *Seller:*
SDR Distribution	Sell-Side	Industrials and Industrial Tech	*Buyer:* *Seller:*

Transaction	Transaction Type	Sector	Geography
Teck Resources	Board Advisory	Metals and Mining	
ICPEI	Sell-Side	Financial Services	*Buyer:* *Seller:*
Kivuto	Sell-Side	Education and Skills Training, Technology, Media and Telecom	*Buyer:* *Seller:*

EAC Extruded Aluminum *
Has been acquired by
METRA
a portfolio company of
KPS Capital Partners, LP

Velocity Trade
Has received a significant investment from
Wedbush

Northview
$742 million
Financial Advisor to the Special Committee regarding the acquisition of 3 property portfolios and REIT conversion

coinsquare
Has combined with
coinsmart
WonderFi

Dishon Limited
Has been acquired by
Thrust Capital Partners

PCP Persistence Capital Partners
& Mgmt Shareholders have sold
Centricity Research
Including
LMC Manna Research, iact Health, Aventiv Research
to
Trinity Hunt Partners

MyLand
Has received an equity investment from
WPL
Climate Innovation Capital

VEGA.education
IBU International Business University
Raised growth capital from a group of investors led by
JKR

Silverware
Has a been acquired by
Fullsteam

Copper Mountain Mining Corporation
US$439 million
Financial advisor to the Special Committee and the Board of Directors on its combination with
Hudbay

SDR Distribution Services Inc.
Has been acquired by
NFI

Teck
Financial Advisor to the Special Committee with respect to the proposed reunification of the Dual Class Share structure

ICPEI
Financial Advisor to the Special Committee on the Acquisition by a consortium led by
Desjardins

Kivuto
Has been acquired by
Valsoft

Visit Origin's website for our full transaction history.

Weeks into the fourth quarter of 2023, our pipeline is full with sell-side, capital raising and advisory mandates in sectors including Agrifood, Education, Environmental, Healthcare, Industrials, Mining & Metals and Technology. Please contact Karen Fisman, Director of Business Development to enquire about our current mandates.

Watch for our Q4/23 M&A review, coming this winter.

* Certain members of Origin Merchant Partners are registered representatives of and conduct securities transactions through StillPoint Capital, LLC, Tampa, FL. StillPoint Capital and Origin Merchant Partners are not affiliated.

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