Links Capital

Links' List of Multiples and Buyers

June 2020

Links Capital

Divestitures • Acquisitions • Financings

Current North America Private Equity Purchase Multiples Q1/20

TANGIBLE ENTERPRISE VALUE/EBITDA									
TEV ($ millions)	**2Q 2018**	**3Q 2018**	**4Q 2018**	**1Q 2019**	**2Q 2019**	**3Q 2019**	**4Q 2019**	**1Q 2020**	**Total**
10-25	6.5	5.7	5.6	6.1	6.4	6.1	5.7	5.7	**5.7**
25-50	6.5	7.0	7.3	6.7	6.5	6.5	7.3	6.9	**6.4**
50-100	9.6	8.3	9.4	7.3	7.8	7.8	7.3	8.1	**7.2**
100-250	8.4	8.2	9.4	8.8	10.3	10.3	9.2	9.6	**8.1**
TOTAL	**7.3**	**7.0**	**7.7**	**6.9**	**7.3**	**7.2**	**7.1**	**7.4**	**6.5**

Data Source: GF Data®

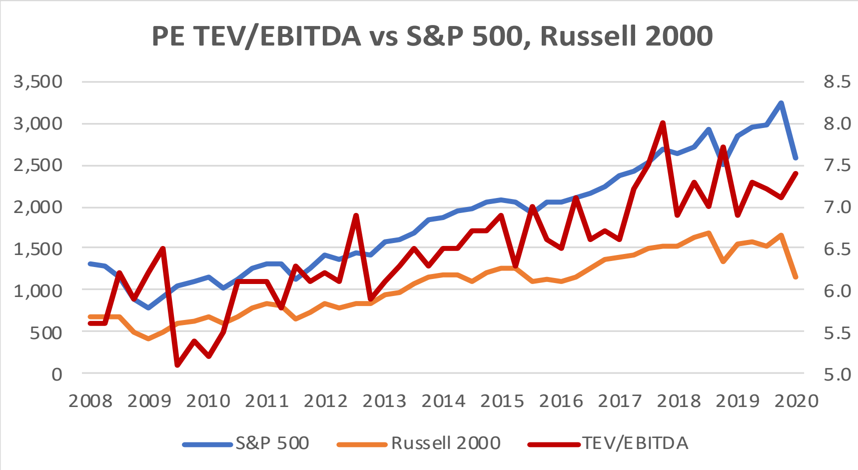
In the first two months of Q1, 2020, deal activity was comparable to the previous quarter with TEV/EBITDA multiples maintaining values above the long-term historical average bolstered by higher than average Debt to EBITDA multiples. In March, when the COVID-19 pandemic began to impact the North American Market, all deal activity came to a screeching halt. Deals that were near being closed may have been completed, most other deals have hit the pause button waiting for more certainty.

Outside of the distressed investor, private equity investors are placing a priority on their current portfolio before looking towards new investments. Some businesses may have been in the right industry to take advantage of the crisis, others have had to pivot their business into new target areas, and the ones that are stuck in the middle are generating below-average revenue or have closed. Private equity may trend towards more minority equity positions to capitalize companies positioned for growth, as good companies may have short-term balance sheet impairment. Deal activity will be focused on opportunistic and situational transactions as the crisis continues.

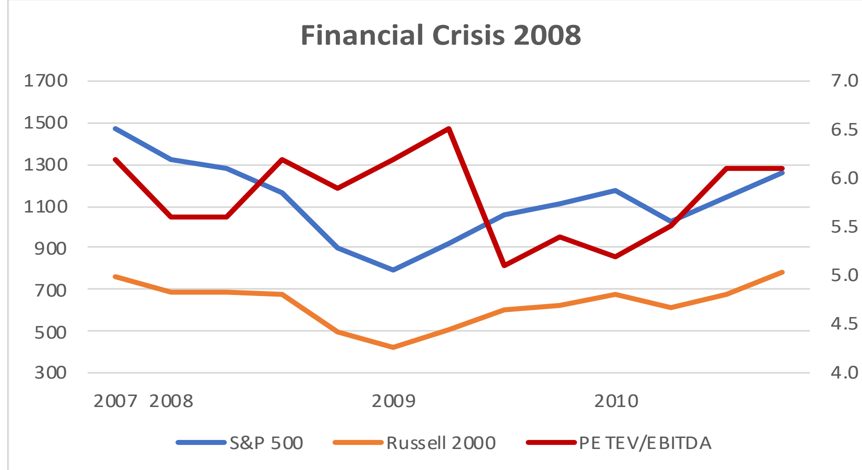
The expectation is that valuation and debt multiples will pull back until there is more certainty in the market. The debt multiple pullback may be the result of both tighter debt constraints coupled with the philosophy of purchasers avoiding taking on as much debt on transactions being more risk-averse.

It is important to understand why private equity multiples on average have gone up in the last quarter when COVID-19 has had such a negative impact on stock markets.

Looking Forward at Private Equity Multiples



Data Source: GF Data®, Yahoo Finance



Data Source: GF Data®, Yahoo Finance

TEV/EBITDA multiples edged up in Q1, 2020 from 7.1x to 7.4x, very similar to what happened during the financial crisis of 2008 when markets were in freefall. During the financial crisis, markets hit their lowest point on March 6th, 2009 and TEV/EBITDA multiples not only increased in Q1 but also increased again in Q2, 2009. During 2009, deal closings were approximately half of what they were in 2008 with mostly premium deals getting done due to lack of available debt.

Looking at the relationship between private equity multiples and the stock market over the last 12 years, a strong relationship exists. The highest correlations are found when comparing multiples with the S&P 500 and the Russell 2000. The analysis indicates that the correlation between markets and multiples increase as the TEV/EBITDA multiple lags. When the TEV/EBITDA multiple is lagged by two to three quarters the highest correlation is achieved with the markets.

As an example, during the financial crisis of 2008, there were substantial changes in lost value in Q3 2008 through Q1 2009. Through 2008 and 2009, stock markets were decreasing when the TEV/EBITDA multiple was increasing. Two quarters after the stock markets hit bottom, TEV/EBITDA multiples adjusted downwards swiftly.

The stock market is not a perfect predictor of TEV/EBITDA multiples. It is believed what currently happens in the market influences private equity investors in the valuation of deals but not immediately. Private equity investors may structure deals now and close those deals in the future with little change in valuation. In the upcoming quarters, the following will continue to impact purchase multiples: COVID uncertainty, stock market performance and available debt multiples which is further discussed on the next page.

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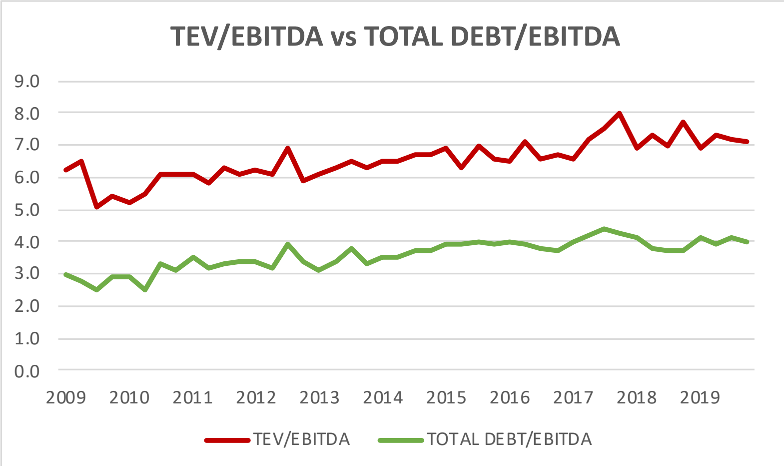
How Debt Multiples Impact Valuation



Data Source: GF Data®

A strong relationship exists between the debt available to companies and the overall TEV/EBITDA multiple that a private equity purchaser is willing to pay. The same relationship also exists with strategic purchasers. Uncertainty in the market leads to questions by both funders and purchasers around the ability to repay debt resulting in lower Total Debt/EBITDA multiples.

During the financial crisis of 2008, according to GF Data, private equity funded total debt multiples fell as low as 2.5x. In the last quarter, Total Debt/EBITDA was at 3.9x compared to the long-term average of 3.6x.

In the upcoming quarter, contraction of total debt multiples is expected which will likely put some downward pressure on TEV/EBITDA multiples paid by both private equity and strategic purchasers.

Things to Focus on During COVID

Reforecasting- Reforecast the financial statements understanding the impacts of COVID on the balance sheet and working capital. Focus on cost controls and labour, limit downside risk moving forward. Adapt to changes in inventory management and logistics for order fulfillment. Evaluate backlog, have conversion rates changed? Normalize one-time COVID related costs on EBITDA.

Supply Chain Management- Where are inputs coming from? Is supplier concentration too high with any one supplier, how can you diversify to minimize risk? Are there increased risks from overseas suppliers? Can domestic suppliers produce the same product and what are the associated costs and logistics? Are you able to use new technologies to increase efficiencies and reduce costs in the logistics of your supply chain?

Focus on Customer Relationships- Communication and transparency are important to customer relationships especially during uncertain times. Checking in on customers on their well being, understand how you can work together to weather the storm. Provide value-added services and other industry information in order to stay top of mind and improve customer retention.

Disruption Planning- Expect increased due diligence in transactions, make sure a plan is in place for disruptions like COVID and natural disasters. Does the plan address working from remote locations, dealing with health and safety for your employee/customers and working with a skeleton staff?

Private Equity Platform

Investments and Buyouts

Investors Seeking Strong Stable Cash Flows with Growth Oriented Niche Industries
(>$3 million EBITDA)

Distressed Balance Sheets
($2-$10 million Historical EBITDA)

Home and Commercial Services
($2-$20 million EBITDA)

Public Infrastructure Maintenance Services
($2-$20 million EBITDA)

Facility and Industry Maintenance
($2-20 million EBITDA)

Healthcare Services & HCIT
($2-$20 million EBITDA)

Food Services
($2-$20 million EBITDA)

Current Add-on Investments

Strategic and Private Equity Investors

Commercial HVCR

Retail Propane

Industrial Distribution Services

Medical Device Manufacturing

Food Manufacturing and Services

IT Support

Engineering Services for Regulated Industries

Live/Virtual Event Technology for
Healthcare and Financial Industries

Chemical and Adhesives Manufacturers

Healthcare Services
Orthodontists & Dental Labs

Building Materials Manufacturing/Distribution

DIVESTITURES

FINANCINGS

ACQUISITIONS

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