



After a busy year highlighted by a number of successful deal closings, the team at Relay Transition Partners has been actively working on a handful of sell-side transactions in the final quarter of 2023. Heading into the holidays is a good time to reflect on recent trends and what we expect to come in 2024.

But first a holiday joke (courtesy of Chat GPT)

*Why did the Canadian M&A advisor bring maple syrup to the holiday party?
...Because they heard it sweetens the deal! 😊*

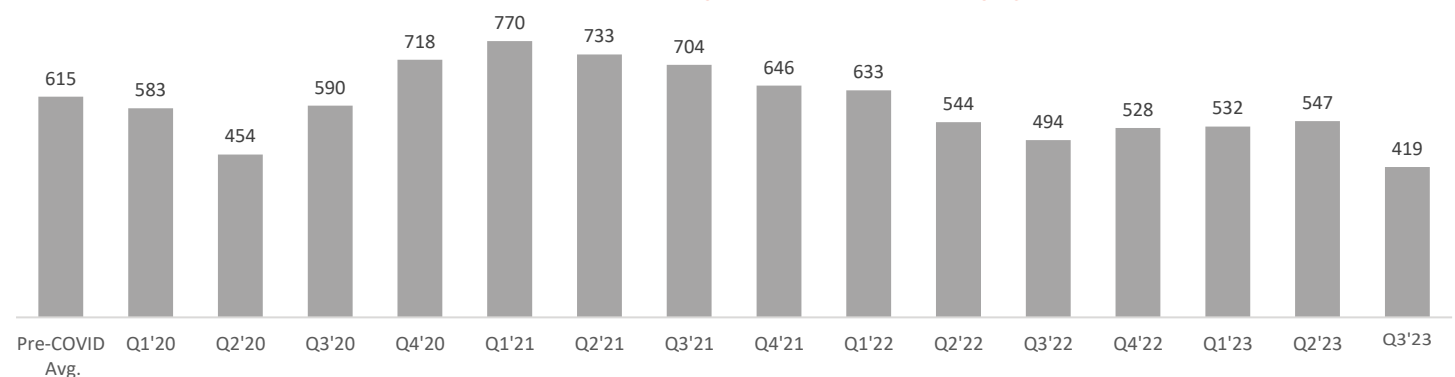
Market Update for Q4 2023

Overall, despite the negative global headlines, it's been a fairly typical year for private company mergers and acquisitions in Canada.

The stock market, always a barometer for market sentiment, is flat for the year in Canada. While supply chain issues and labour challenges were the dominant themes in prior years, those issues have largely been resolved and replaced with inflation and the resulting interest rate increases. Geopolitical disruption is increasingly concerning. The economic outlook remains uncertain and economists continue to believe a recession is likely.

Despite these concerns, the private company M&A world remains resilient and we continue to see a strong level of buyer demand for the acquisition of high-quality companies. Companies we represent are typically attracting multiple offers and good businesses are successfully being sold at attractive prices.

Canadian Private Company M&A Transactions by Quarter

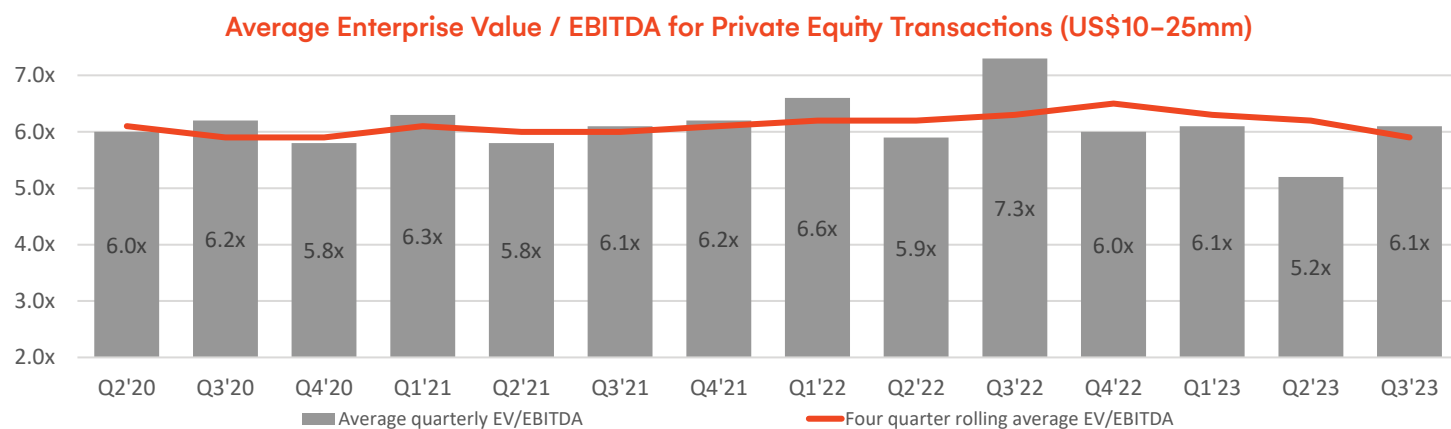


Source: Capital IQ

Canadian M&A transaction volume in the first three quarters of 2023 was down 10% vs last year and hit a multi-year low in the latest quarter. There were 1,498 transactions reported through Q3 this year versus 1,671 through Q3 in 2022. This decline is largely due to a somewhat slower market for larger transactions (i.e. >\$50 million), while smaller deals continue to get done.

Private equity investment activity in Canada has remained stable in comparison to historical averages, but remains well below the buoyant years of 2021 and 2022. There have been 481 private equity deals in Canada in the first three quarters of 2023, down from 699 for Q1–Q3 2022, but up slightly from 397 for same period in a more normal year in 2019. The primary change is that private equity deal sizes are significantly smaller this year with an average equity investment of \$12 million, as compared to \$40 million in 2019 and \$16 million in 2022. We expect this is largely due to increased borrowing costs disproportionately affecting the more highly-leveraged large cap deals.

Source: CVCA



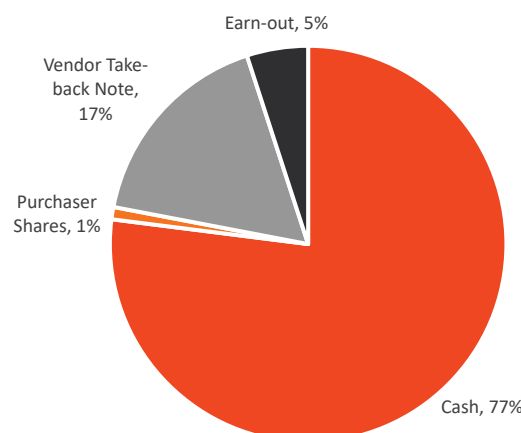
For North American transactions in the US\$10–25 million range, GF Data indicates that after a dip in Q2–2023, average Total Enterprise Value / EBITDA multiples in Q3 returned to the more representative average of 6.1x EBITDA, which is in line with the long-term average of 5.9x EBITDA. We find the four-quarter rolling average (also 5.9x EBITDA through Q3–2023) to be most representative of the current valuation environment as it removes quarterly fluctuations from the data.

While highly situation specific, we continue to see a healthy level of interest amongst buyers for deals that we have in the market, and transaction pricing in the 4–7x EBITDA range in our own deal flow in general.

2023 Relay Transactions – Forms of Consideration

We continue to see a mix of transaction proceeds consideration in sell-side deals. While majority of consideration is paid in cash on closing, some transactions in our market size also include vendor take-back notes used to bridge financing gaps, as well as earn-outs to enable sellers to be compensated for future growth. In our own transactions this year, cash on closing comprised 77% of proceeds, followed by vendor take-back notes at 17% on average.

Source: Relay Transition Partners



We expect to continue to experience a balanced market in 2024. It is anticipated that we'll see a modest increase in deal activity as interest rates stabilize and the economic outlook improves. Deal pricing in the mid-market is expected to remain attractive for sellers, in line with historical averages.

Relay News

Relay and Fort Capital participated in the Business Transitions Forums in both Vancouver and Winnipeg this quarter. The sentiment at both conferences was generally optimistic, with many buyers and sellers in attendance focused on preparing for future transactions.

Relay will be hosting Exit Planning Essentials seminars in Langley on February 1st, 2024 and in Vancouver on February 29th, 2024. Each session will feature expert local speakers to provide an overview of the key areas of focus when selling a business in order to avoid common pitfalls and ensure a successful outcome. Please visit relaytp.ca/events for registration details — we hope to see you there.



Exit Planning Essentials

Langley

February 1st, 2024

Vancouver

February 29th, 2024

About Relay

Relay Transition Partners is solely focused on serving owners and entrepreneurs in the sale of their small to medium sized businesses. Our dedication to the preparation and execution of the sale of these companies delivers exceptional results for our clients when passing a business to its next owners. Home to advisors who have decades of experience working with SMBs, Relay builds on the experience and infrastructure of Fort Capital Partners, an investment banking firm serving mid to large private and public clients.

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