Q2 2024

North American M&A Report

ORIGIN
MERCHANT PARTNERS

A snapshot of the North American M&A landscape in Q2 2024 followed by an interview with Origin's US Tech Lead, Horacio Facca, on the state of AI.

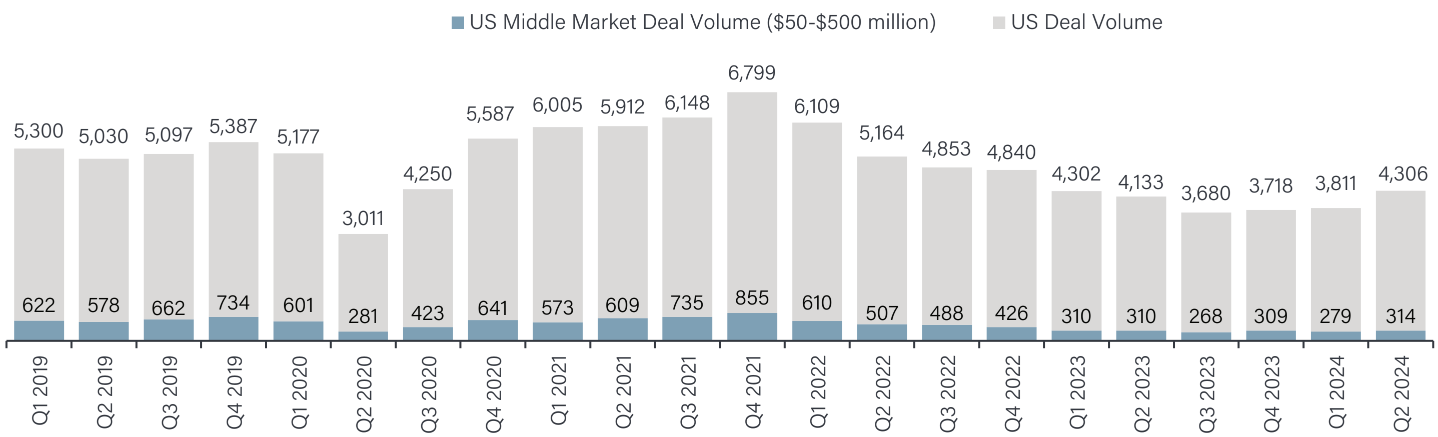
HIGHLIGHTS:

- *US Middle Market activity appears to be on a moderate recovery trajectory after bottoming out in Q3 2023.*
- *Canadian Middle Market activity continues to follow the US pattern of deal activity with more volatility since a potential market bottom in Q1 2024.*
- *Despite a slow first half of the year there are reasons to be optimistic about the M&A landscape including the potential productivity gains of AI to unlock new synergies from transactions.*
- *Origin MD and US Tech Lead, Horacio Facca, shares his thoughts on the current state of AI and developments we can anticipate in the coming years.*

THE NORTH AMERICAN MIDDLE MARKET

US middle market deal activity and overall US deal volume have started to increase (volumes up 13% in both since Q1 2024). This continues the improving trend from the lows of Q3 2023 and is consistent with our experience that market conditions are improving heading into H2 2024.

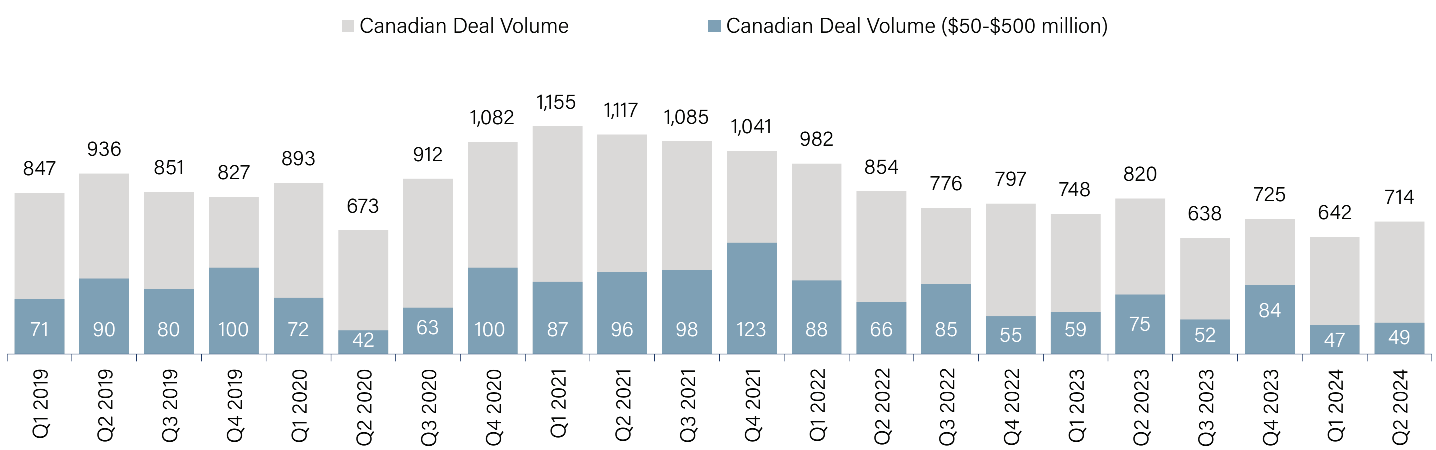
Total US Deal Volume (Q1 2019—Q2 2024)



Source: S&P CapitalIQ.

Canadian deal activity also saw similar gains in Q2 2024 with total deal volumes up 11% while middle market deal volumes are up a more moderate 4%. The Canadian market may have bottomed in Q1 2024. The Federal government's announcement of a 33% increase in the taxation rate on capital gains (applied retroactively) led to a flurry of planning in Q2 that will likely drive divestiture activity through to H1 2025.

Total Canadian Deal Volume (Q1 2019—Q2 2024)



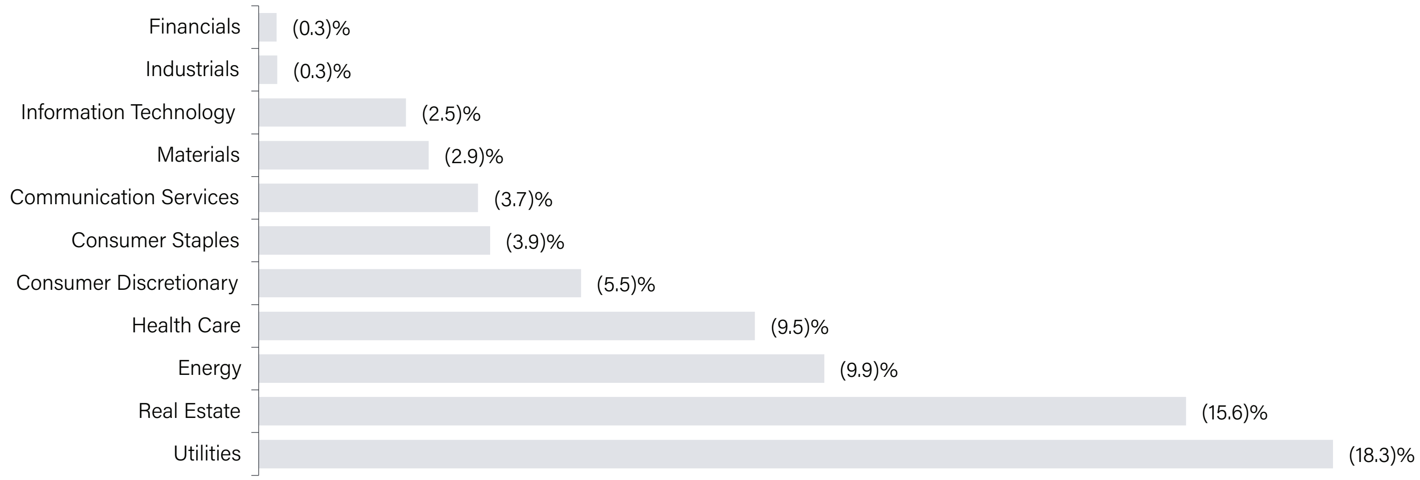
Source: S&P CapitalIQ.

In both the US and Canada middle market, deal volumes are still running 40-50% below pre-pandemic/2019 levels, suggesting there is still material room for recovery to higher activity levels ahead.

Activity by Sector

Industrials remain the sector most closely tracking pre-pandemic activity levels, driven by onshoring pressures, trade headwinds and supply chain insecurity. M&A transaction activity in the Financials sector has also been steadily improving through the past 4 quarters as the sector has become less sensitive to interest rates and instead come under increasing pressure to consolidate and innovate. Interest sensitive sectors such as Real Estate and Utilities that depend on lower financing costs continue to see sluggish activity levels of M&A.

North American M&A Activity by Sector 5-Year CAGR (Q2 2019—(Q2 2024)



Source: S&P Capital IQ.

Reasons for Optimism

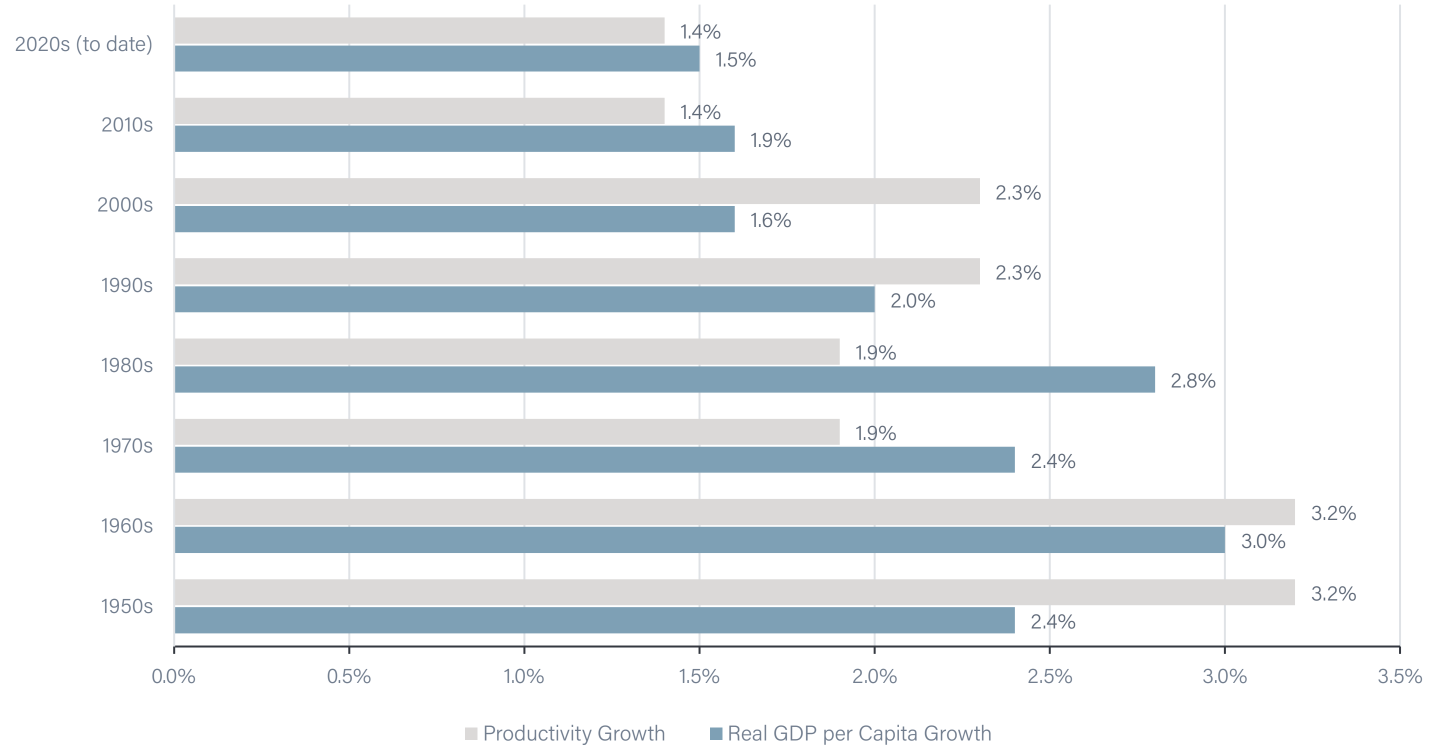
Despite an uneven start to the year, we see clear signs of improvement going into H2 of 2024. US markets hit new all-time highs in July and most indexes are reaching historically strong valuation levels. At the end of July, the S&P 500 price equity multiple was around 29x, which is 20% above the average for the last decade. Enthusiasm for new AI technologies is driving much of this optimism. Past tech booms indicate that AI advancements could lead to productivity gains. With more optimism and more productivity comes the ability to be more aggressive in acquisitions, driving increased M&A activity.

Strong public market valuations drive up private M&A values. The public markets set a key benchmark for valuations in the private markets. Public strategic buyers with stronger trading multiples are better positioned to pay competitively for acquisitions. Institutional investors try to balance their public and private market investments. When public market valuations increase, so does their overweighting towards public market investments. This then drives the deployment of capital into the private markets to bring them back into balance.

Advancements in AI could already be contributing to productivity gains which could, in turn, lead to productivity booms. In the 1950s and 60s, strong productivity growth (3.2%), driven by post-war economic expansion and technological advancement, lead to average real GDP per capita growth of 2.4% and 3.0% respectively. The following decades experienced much lower levels of productivity and real GDP per capita growth.

Much of the productivity growth in the 50s and 60s was driven by technological innovation, as North American manufacturing focused on meeting pent-up post war demand. Although the late-90s and early 2000s saw some productivity growth due to the adoption of the internet, it did not lead to the same levels of productivity or real GDP per capita growth. The optimistic case for AI is that it has the potential to bring about a return to a higher level of productivity growth and prosperity.

Productivity Growth and Real GDP Per Capita Growth



Source: S&P CapitalIQ.

DISCUSSION WITH HORACIO FACCA ON THE CURRENT STATE OF AI

HORACIO FACCA
MANAGING DIRECTOR, HEAD OF US TECH

Origin's US tech lead, **Horacio Facca**, discusses his thoughts on the current state of Artificial Intelligence ("AI") technology and its deployment across industries..

Q: What is the current state of AI and what advancements do you predict will occur over the next year?

Horacio Facca: AI is at its core a learning program growing at the exponential rate of chip development, so the pace of growth will only accelerate. Gen AI tools have enabled significant improvements in data analysis, automation, and decision-making processes, leading to increased efficiency and innovation across industries and applications. A recent report from IBM found that, last year, over 80% of enterprise-scale companies were either exploring, experimenting with, or in the act of deploying AI technologies.[1] The only impediment to rapid deployment is the scarcity of AI talent, and the challenges of working with complex data.

At the moment AI deployment is industry, sub-sector, and use-case dependent. In data-rich industries like the financial services industry, AI is already playing a major role in banking and payments. AI is becoming deeply embedded in risk management and compliance, sales, customer engagement and marketing, operations, and reporting. In financial services there has been advanced AI adoption. Healthcare is another data-rich sector where AI is playing a major role in diagnostics, treatment recommendations, and personalized medicine which is leading to better patient outcomes and more efficient healthcare delivery.

We can anticipate several key advancements in AI in the next few years. First, we can expect substantial progress in natural language understanding. This will enable more sophisticated and human-like interactions with AI systems, which will enhance the capabilities of virtual assistants and chatbots by making them more intuitive and effective.

The integration of AI with the Internet of Things (IoT) will also lead to significant growth, with smarter and more autonomous systems in industries such as manufacturing, logistics, and smart cities, optimizing operations and reducing costs.

As AI presents an incredible opportunity for entrepreneurs to completely reinvent business processes and workflows, it opens new synergies and value creation strategies from M&A.

Q: Is there a risk that the productivity gains from the adoption of AI in business are overblown? Are there certain businesses or sectors you feel are better suited for AI productivity gains?

Horacio Facca: AI has the ability to augment human decision-making in such a powerful way, that it is likely the productivity gains will exceed what we can foresee today.

In finance, AI excels at risk management and fraud detection. AI can process and analyze financial transactions in real-time, flagging suspicious activities with high accuracy. This not only reduces the risk of fraud, but also improves the efficiency of financial operations.

1 [Data Suggests Growth in Enterprise Adoption of AI is Due to Widespread Deployment (multivu.com)]

AI-driven automation is also revolutionizing industries like manufacturing and logistics. By optimizing supply chains, predictive maintenance, and robotic process automation, AI helps companies reduce costs, improve productivity, and maintain a competitive advantage.

AI's ability to analyze and interpret large datasets also makes it invaluable in personalized marketing. Businesses can leverage AI to understand consumer behavior, predict trends, and create highly targeted marketing campaigns, thereby enhancing customer engagement and conversion rates.

Ultimately, the best use case for AI is in domains where it can augment human capabilities, handle complex data analysis, and automate repetitive tasks, leading to improved efficiency, accuracy, and strategic insights. That aspect per se ensures efficiency gains across multiple sectors and thus makes AI adoption inevitable.

Q: What sectors will be the early adopters and what sectors will lag?

Horacio Facca: Industries like finance, healthcare, and retail are rapidly adopting AI due to the immediate benefits such as enhanced data analysis, personalized services, and operational efficiency. These sectors have the infrastructure and data availability to quickly implement AI solutions. In contrast, data-poor industries and physical labor industries, like construction and agriculture, may face slower AI adoption due to the high initial costs paired with lower short-term benefits.

AI is most efficient where it can augment human capabilities. For example, customer service will see immediate improvements with AI-powered chatbots and virtual assistants, providing 24/7 support, resolving common queries, and enhancing customer satisfaction.

Education, transportation, and manufacturing may be slower to adopt AI solutions, but the potential from AI remains enormous. Education can benefit from AI-driven personalized learning experiences, adaptive curriculums, and efficient administrative processes, leading to more effective and inclusive education systems. The transportation sector faces a revolutionary change with the development and deployment of autonomous vehicles, leading to safer, more efficient, and eco-friendly transportation networks. Advanced robotics, predictive maintenance, and smart factory initiatives in manufacturing increases productivity, reduces downtime, and creates higher-quality outputs.

Q: Finally, how will AI technology impact M&A decision making?

Horacio Facca: It already is. M&A is driven by the opportunity to create more value from a business whether through bringing greater focus to a business unit, sourcing new capital for growth, financing more efficiently, or unlocking synergies when combined with another business. AI has the ability to add value in each of these areas. AI can identify inefficiencies in capital deployment and make existing processes more efficient (e.g. customer support) or effective (e.g. internal sales). In a competitive M&A process these benefits and savings translate into better value for sellers and more value creation potential for buyers.

AND FROM ORIGIN'S ADVISORY PRACTICE...

Origin has seen an increase in activity (both in deal closings, and new mandates) in the North American Market towards the end of Q2 and strong levels of activity in the early weeks into Q3 (especially for summer). Active sectors included: Industrials, Technology, Environmental, and Healthcare.

Quarter	Transaction	Transaction Type	Sector	Geography
Pending	**UGE**	Take Private	Financials	/
Q3'24	**Private Contract Research Organization**	Sell-Side	Healthcare	*Buyer:* *Seller:*
Q3'24	**Nexii**	Sell-Side	Environmental & Sustainability, Industrials & Industrial Tech	*Buyer:* *Seller:*
Q2 '24	**Jump+**	Sell-Side	Technology, Media & Telecom	*Buyer:* *Seller:* /
Q2 '24	**RYCOM**	Sell-Side	Industrials & Industrial Tech	*Buyer:* *Seller:*
Q1 '24	**Burke & Co., & Orion Audit**	Sell-Side	Healthcare	*Buyer:* *Seller:*
Q1 '24	**FanTuan**	Buy-Side	Technology	*Buyer:* *Seller:*
Q4 '23	**Buhler Industries**	Sell-Side	Food & Agriculture	*Buyer:* *Seller:*
Q4 '23	**Teck Resources**	Sell-Side	Metals & Mining	*Buyer:* *Seller:*
Q3 '23	**Extruded Aluminum**[1]	Sell-Side	Industrials	*Buyer:* *Seller:*
Q3 '23	**Velocity Trade**	Sell-Side	Financials	*Investor:* *Investee:*

1 Securities transactions conducted through StillPoint Capital, LLC, Tampa, FL

ORIGIN MERCHANT PARTNERS' Q1 2023—Q2 2024 TRANSACTIONS

UGE
Financial Advisor to the Special Committee with respect to the take-private transaction by
NOVA INFRASTRUCTURE

Private Contract Research Organization
Has been sold to a private buyer

NEXII
Has been sold to a Private Investor Group

Exclusive Financial Advisor on the sale of
jump+

RYCOM
Exclusive Financial Advisor to RYCOM on its sale to
GDI AINSWORTH

饭团 FANTUAN
Has acquired the Food Delivery business of
chowbus

Burke & Company Ltd
&
orionaudit
Have been acquired by
NAVACORD

bühler
Has been acquired by
ASKO

Teck
$12 billion
Financial Advisor to the Special Committee with respect to the sale of Elk Valley Resources to Glencore plc

EAC Extruded Aluminum Corporation *
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

DISHON LIMITED
Has been acquired by
THRUST CAPITAL PARTNERS

coinsquare
Has combined with
coinsmart
and
WonderFi

PCP Persistence Capital Partners
CENTRICITY Research
Exclusive Financial Advisor to Persistence & Management Shareholders of Centricity on its sale to
TRINITY HUNT PARTNERS

MyLand
Has received an equity investment from
WPL
Climate Innovation Capital

COPPER MOUNTAIN MINING CORPORATION
US$439 million
Financial advisor to the Special Committee and the Board of Directors on its combination with
HUDBAY

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

SILVERWARE
Has been acquired by
FULLSTEAM

SDR DISTRIBUTION SERVICES INC.
Has been acquired by
NFI

Teck
Financial Advisor to the Special Committee with respect to the separation of Teck Resources into Teck Metals Corp. and Elk Valley Resources Ltd.

Teck
Financial Advisor to the Special Committee with respect to the proposed unification 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 third quarter of 2024, our pipeline is full with sell-side, buy-side, and capital raising mandates in sectors including transportation & logistics, financial services, industrials, environmental & sustainability, food & ag, healthcare, technology, power & utilities, and education. Please contact our Business Development Associate, Adrienne Butler, to enquire about any of our current mandates by industry.

Watch for our Q3/24 M&A review, coming this fall.

* Securities transactions conducted through StillPoint Capital, LLC, Tampa, FL

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