

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



## Strong Start to 2018 for Capital West

### IN THIS ISSUE

Strong Start to 2018

Q1 2018 Mid-Market M&A Review

The Race for Artificial Intelligence

### SUCCESSFUL TRANSACTIONS WITH COMBINED DEAL VALUES OVER \$450 MILLION




Sale to  
TorQuest Partners

- Rubicon Pharmacies owns and operates 67 pharmacies across Western Canada under several independent retail banners
- TorQuest Partners is a Canadian based manager of private equity funds
- Capital West Partners acted as exclusive financial advisor to Rubicon



Sale to  
iA Financial Group

- PPI is one of the largest managing general agencies in Canada, operating 15 marketing and resources offices across the country
- iA Financial Group is one of the largest insurance and wealth management companies in Canada, and is the leading insurance brokerage distributor
- Capital West Partners acted as exclusive financial advisor to PPI



Sale of water division  
to Quench

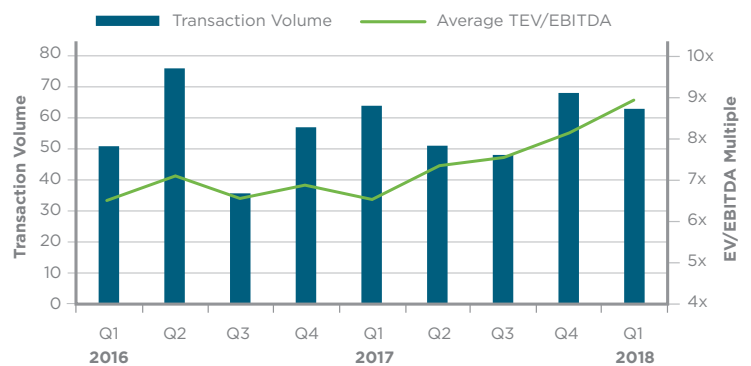
- WA-2! is Western Canada's leader in home and office water filtration and an emerging player in the office coffee space
- A division of AquaVenture Holdings, Quench is a multinational provider of water-as-a-service solutions
- Capital West Partners acted as exclusive financial advisor to WA-2!

## Q1 2018 Mid-Market M&A Overview

### OVERVIEW OF MID-MARKET M&A TRANSACTIONS IN NORTH AMERICA

- Average EV/EBITDA multiples for North American mid-market transactions increased slightly to an average of 9.1x in Q1 2018
- Transaction activity remained strong driven by increased deal volume in the energy and real-estate sectors
- Valuations for mid-market businesses are strong and well above historical averages

#### TRANSACTION VOLUME & AVERAGE EBITDA MULTIPLE (\$10 - \$250 million)

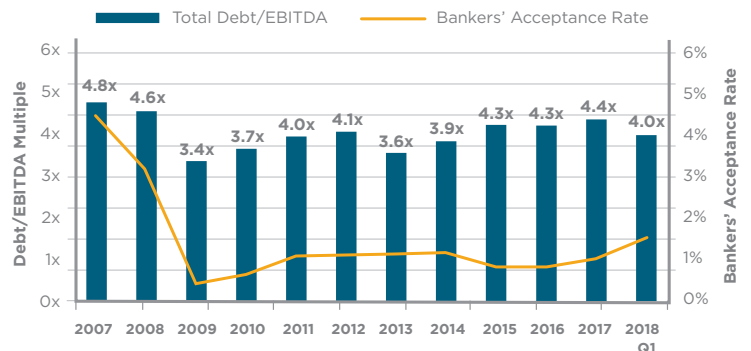


Sources: Capital IQ and GF Data

### LEVERAGE MULTIPLES AND LOW COST OF BORROWING

- Mid-market transactions are being financed with high amounts of leverage
- In Q1 2018, the average leverage was approximately 4.0x EBITDA, down from an average of 4.4x in 2017
- Recent interest rate hikes in both Canada and the United States are contributing to the slight pullback in total leverage
- Despite these rate hikes, the cost of borrowing continues to be at historically low levels

#### LEVERAGE MULTIPLES & BANKERS' ACCEPTANCE RATES (\$10 - \$250 million)

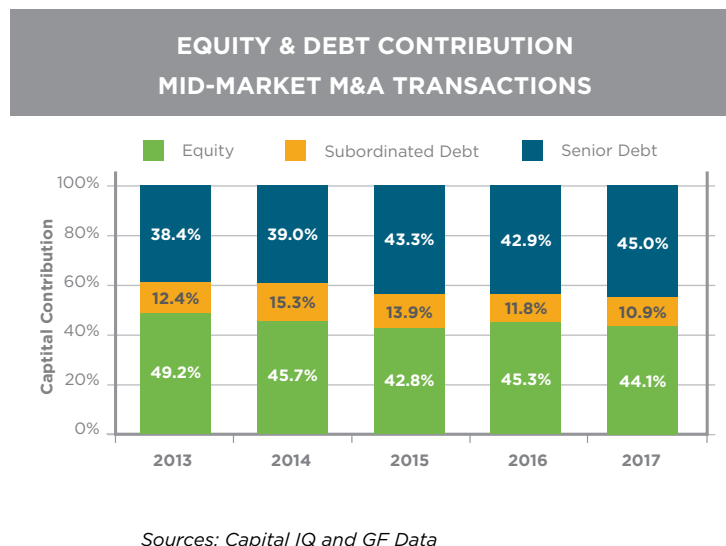


Sources: Bank of Canada, GF Data, Capital IQ

Mergers & Acquisitions Review (continued)

## EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Over the past several years, the amount of debt used by purchasers to finance a transaction has increased
- In 2013, approximately 50% of the purchase price was funded with equity, with the remaining 50% funded by senior and mezzanine debt
- As rates have remained very low and banks aggressive to lend, the amount of equity used to fund mid-market deals has fallen to an average of 44%, a 6% decline from 2013
- At the same time, the amount of senior debt used in these transactions has increased from less than 40% in 2013 to 45% in 2017



## TOP TEN M&A DEALS IN WESTERN CANADA

The top ten publicly disclosed M&A deals in Western Canada during Q1 2018 involved several industry sectors, with the real estate and energy sectors making up the majority of transactions. The most notable deal was the acquisition of Vancouver based, technology company Avigilon by Motorola. The Avigilon acquisition is a landmark deal for the burgeoning Vancouver technology sector. With Amazon expanding its presence in Vancouver, the city is emerging as one of the strongest technology hubs in the world.

### Top 10 Western Canadian Deals in Q1 2018

Date	Industry	Target	Headquarters	Buyer	Value (\$mm)
Jan. 09	Real Estate	Pure Industrial Real Estate Trust	Vancouver, BC	Blackstone	\$ 3,710
Feb. 01	Tech, Media & Telecom	Avigilon	Vancouver, BC	Motorola	\$ 1,358
Feb. 08	Energy, Mining & Utilities	Access Pipeline	Calgary, AB	Wolf Midstream	\$ 1,310
Feb. 12	Energy, Mining & Utilities	Syncrude Canada	Fort McMurray, AB	Suncor Energy	\$ 921
Jan. 23	Consumer	Keg Restaurants	Richmond, BC	Cara Operations	\$ 327
Jan. 15	Healthcare	Broken Coast Cannabis	Ladysmith, BC	Aphria	\$ 225
Mar. 19	Energy, Mining & Utilities	Rye Patch Gold Corp	Vancouver, BC	Alio Gold	\$ 205
Mar. 14	Energy, Mining & Utilities	US Cobalt Inc	Vancouver, BC	First Cobalt	\$ 136
Mar. 07	Energy, Mining & Utilities	Cona Resources	Calgary, AB	Waterous Energy	\$ 117
Jan. 15	Energy, Mining & Utilities	Red River Oil Inc	Calgary, AB	Vermilion Energy	\$ 91

## The Race for Artificial Intelligence



### *What is Artificial Intelligence?*

Artificial intelligence “AI” involves machines that have been “trained” to perform tasks characteristic of human intelligence. These tasks may include pattern recognition, problem solving, language comprehension, and conversation. To develop and achieve viable AI capable of performing such tasks, technologists typically employ machine learning, a method of feeding a machine large amounts of data from which its algorithms detect patterns to make decisions, a cornerstone of human intelligence. AI is currently utilized in various everyday activities, from autonomous vehicles to speech recognition tools.

### *How do Businesses Use AI?*

As next-generation technologies like AI rapidly evolve and increase in importance in today’s digital age, reluctance to adaptation by historically conservative industries has recently shown signs of thawing. 2018 began with Toronto-Dominion Bank’s acquisition of AI startup Layer 6, a Canadian pioneer in the delivery of responsive, personalized and insight-driven experiences for the financial services industry. With the growing number of ways customers interact with businesses, such as via smartphone apps, desktop chat, and social media (in addition to traditional telephonic and in person interactions), monitoring customer needs have become increasingly difficult and data-intensive. To keep up, Canadian companies that are not traditionally considered “high tech” have looked to AI to extend and nurture relationships with customers at scale.

### *Implications on Financing and M&A*

Canada, already a hotbed for blockchain technology innovation, enjoys a high quality of life, friendly immigration policies, government support, and a growing AI ecosystem – collectively conducive to increased deal activity with Canadian companies. Toronto-Dominion Bank’s acquisition of Layer 6 marks the beginning stages of non-tech companies’ acquiring companies with high-tech capabilities; as the former group seeks to remain competitive in an environment of technological disruption. In an economy dominated by non-tech industries such as energy, forestry, agribusiness, and mining, the growth of AI and other technologies in Canada creates the potential for increased deal activity in the years ahead.

*Subscribe to Deals West at [capwest.com](http://capwest.com)* **4**

**CapitalWest**  
P A R T N E R S

1250 - 885 W. Georgia Street  
Vancouver, BC V6C 3E8

T 604.718.6800

E [cwinfo@capwest.com](mailto:cwinfo@capwest.com)

Copyright © 2018 Capital West Partners.

Deals West is published online quarterly by Capital West Partners of Vancouver.

The publication provides a Western Canadian perspective on corporate transactions.