

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



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## Capital West Continues to be Active in the Market



imprint plus

Sale to  
CCL Industries

- Imprint is one of North America's leading manufacturers and distributors of name badge systems, signage systems, accessories and other related products
- CCL Industries is the largest label company in the world
- Capital West Partners acted as exclusive financial advisor to Imprint



Rye Patch  
GOLD CORP.

Sale to Alio Gold

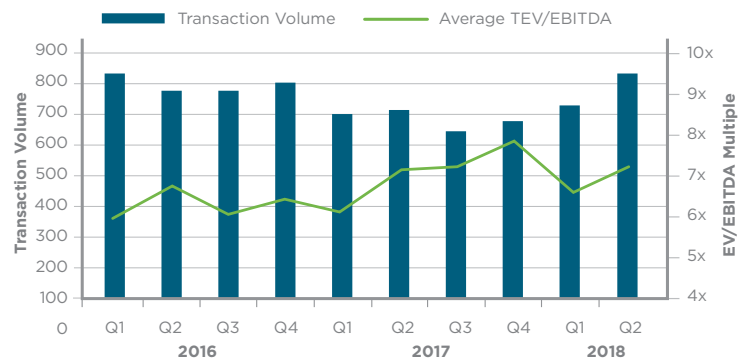
- Rye Patch Gold Corp is a gold and silver exploration and mining company with all of its assets located in Nevada, USA
- Alio Gold is a growth oriented gold mining company focused on exploration, development and production in Mexico
- Capital West Partners acted as exclusive financial advisor to Rye Patch

## Q2 2018 Mid-Market M&A Review

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

- Average EV/EBITDA multiples increased in Q2 2018 to 7.5x from 6.9x in Q1
- Q2 2018 transaction volume was the highest quarter in two years, nearing 850 deals
- The Real Estate and Natural Resources sectors continue to be the most active in North America and accounted for 51% of total transaction volumes in Q2
- According to Mergermarket, 2018 has been the strongest first half for M&A activity since 2001

**TRANSACTION VOLUME & AVERAGE EBITDA MULTIPLE**  
(\$10 - \$500 million)

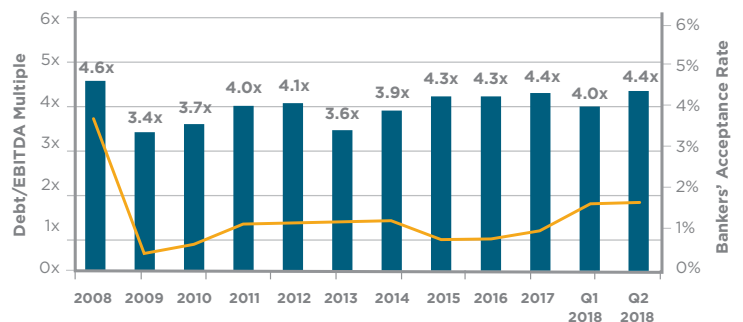


Sources: Capital IQ and GF Data

### AVERAGE DEBT/EBITDA MULTIPLES AND BANKERS' ACCEPTANCE RATES IN CANADA

- Leverage multiples increased to 4.4x in Q2 2018, up from 4.0x in Q1
- Due to recent hikes, the Bankers' Acceptance rate has reached its highest point since the downturn in 2009
- The Bank of Canada recently implemented its fourth interest rate hike since 2017, with the possibility of more to come this year
- Despite recent increases, the cost of borrowing is low and continues to drive healthy M&A activity

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

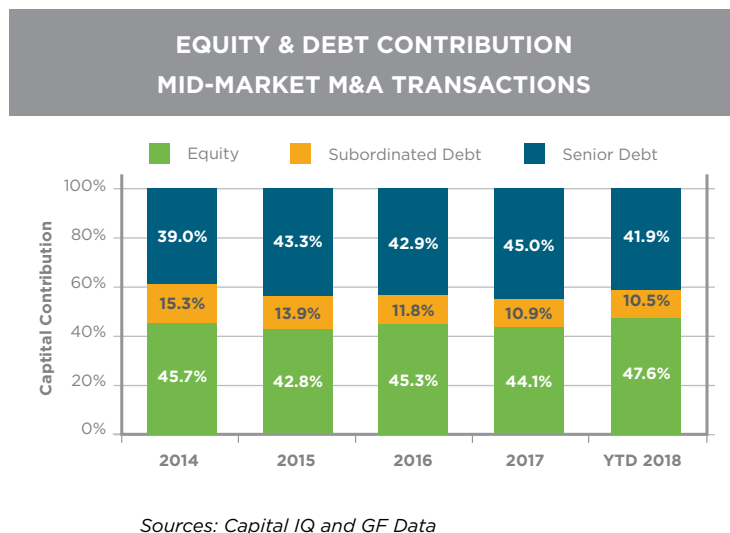


Sources: Bank of Canada, GF Data, Capital IQ

*Mergers & Acquisitions Review (continued)*

## EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Traditional banks and financial institutions continue to be aggressive as they compete to deploy capital to finance M&A transactions
- As the Bank of Canada continues to hint at additional rate hikes, transaction capital structures have shifted slightly to higher levels of equity



## TOP TEN M&A DEALS IN WESTERN CANADA

The top ten M&A deals in Western Canada during Q2 2018 involved several industry sectors, with Energy, Mining & Utilities making up more than half the transactions. The most notable deal in Vancouver was the acquisition of Hyperwallet by PayPal. Hyperwallet is a global payout platform providing a fast and efficient way to distribute funds to payees almost anywhere in the world. This transaction represents continued interest in the Canadian fintech sector, which is one of the fastest growing industries in Canada.

### Top 10 Western Canadian Deals in Q2 2018

Date	Industry	Target	Headquarters	Buyer	Value (\$mm)
Jun. 18	Energy, Mining & Utilities	Raging River Exploration	Calgary, AB	Baytex Energy	\$ 1,868
Jun. 18	Energy, Mining & Utilities	Arizona Mining	Vancouver, BC	South 32 Limited	\$ 1,773
May 07	Energy, Mining & Utilities	Nevsun Resources	Vancouver, BC	Lundin Mining	\$ 1,712
Apr. 03	Real Estate	Pure Multi-family REIT	Vancouver, BC	Electra America	\$ 1,550
Apr. 16	Energy, Mining & Utilities	Spartan Energy	Calgary, AB	Vermilion Energy	\$ 1,398
Jun. 19	Technology	Hyperwallet	Vancouver, BC	PayPal	\$ 531
May 14	Healthcare	BC Tweed Joint Venture	Langley, BC	Canopy Growth	\$ 375
Apr. 16	Energy, Mining & Utilities	Aveda Transporation	Calgary, AB	Daseke Companies	\$ 148
May 22	Energy, Mining & Utilities	Iron Bridge Resources	Calgary, AB	Velvet Energy	\$ 117
Jun. 12	Healthcare	Anandia Labratories	Vancouver, BC	Aurora Cannabis	\$ 115

## US Tax Reform Adds Firepower to North American M&A Market

In December 2017, US President Donald Trump followed through on his campaign promise of tax reform and signed into law the Tax Cuts and Jobs Act ("TCJA"). Although the tax reform aimed to increase investment in the US, the overall Canadian M&A landscape has remained highly active and is expected to be further stimulated by the TJCA's impact on US dry powder and on the attractiveness of asset (vs. stock) deals.

### Increased Liquidity and Cash Levels

The TCJA has given US multinational corporations a tax break on profits earned in foreign countries, allowing repatriated cash to be taxed at 15.5% versus the current 35%. Significant amounts of cash is expected to flow back into the US (Forbes estimates US\$2.6 trillion in foreign bank accounts), to be used for stock repurchases, deleveraging, and M&A.

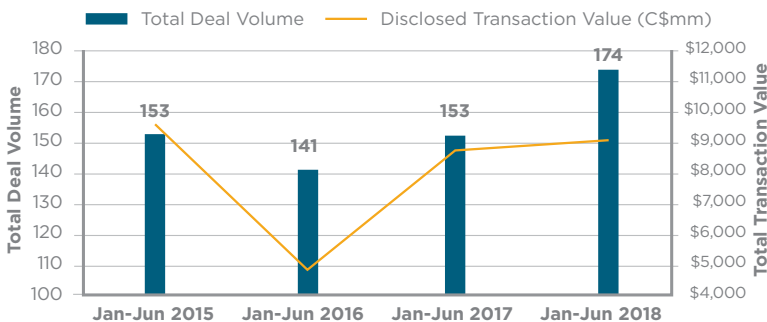
### Bonus Depreciation

Although it is uncertain how much repatriated cash will be deployed on M&A, asset-heavy target companies will see an uptick in interest as US buyers are now allowed to immediately expense the entire cost in the year of purchase of qualified property. This bonus depreciation (to be stepped down in 2023 and phased out in 2026) is expected to provide US buyers with added liquidity and flexibility while driving M&A activity in asset-heavy industries across North America.

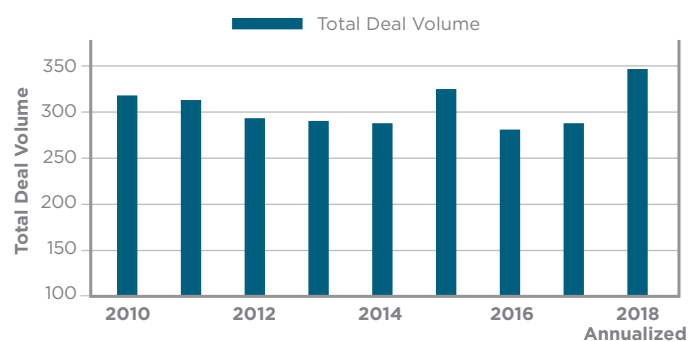
### Results

Canada is just starting to feel the impact of the TCJA, and the factors outlined above only partially explain the potential implications of the US tax reform on Canadian M&A. Regardless of US tax reforms, Canadian businesses with consistent earnings, strong management teams, and growth opportunities will continue to garner significant interest from both strategic and financial US buyers.

US INVESTMENTS IN CANADIAN COMPANIES DURING FIRST HALF OF PAST FOUR YEARS



YEAR-OVER-YEAR US INVESTMENTS IN CANADIAN COMPANIES



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