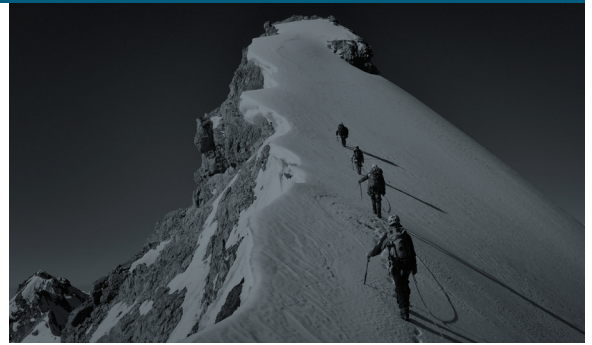


# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



## Capital West's Robust Start to 2019

### IN THIS ISSUE

Q1 2019 Mid-Market M&A Review

Earnouts - Bridging the Value Gap



sale to  
TorQuest Partners

- Prepac is a Canadian based designer and manufacturer of ready-to-assemble furniture
- TorQuest Partners is a Canadian based manager of private equity funds
- Capital West acted as exclusive financial advisors to Prepac on the deal



sale to  
Generac Holdings

- Neurio is an energy data company focused on metering technology and analytics
- Generac is a designer and manufacturer of power generation equipment and other power products
- Capital West acted as exclusive financial advisor to Neurio on the deal



acquisition of  
Integrated Designs Inc

- Crosier Kilgour is a leading structural engineering and building science consulting firm
- Integrated Designs delivers high-performance buildings through building commissioning, sustainable design and energy modeling
- Capital West acted as exclusive financial advisor to Crosier Kilgour on the deal



sale of 20% interest in  
Long Lake Hydro to  
Regional Power

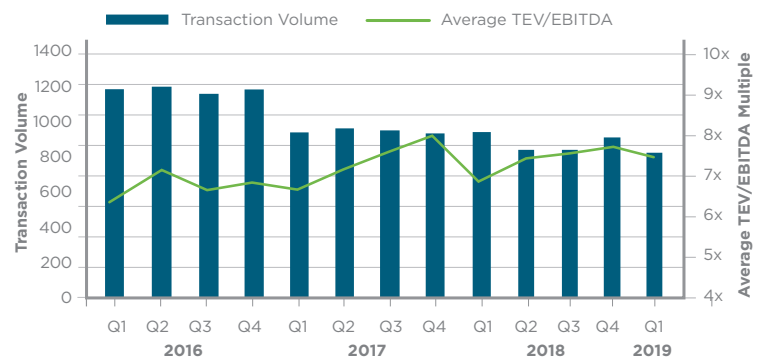
- Premier Power develops and operates hydroelectric projects
- Regional Power is a developer and operator of renewable power projects
- Capital West acted as exclusive financial advisor to Premier Power on the deal

## Q1 2019 Mid-Market M&A Review

### OVERVIEW OF MID-MARKET M&A TRANSACTIONS IN NORTH AMERICA (\$10 - 250 MILLION)

- Average EV/EBITDA multiple decreased slightly in Q1 2019 to 7.5x from 7.8x in Q4 2018
- Q1 2019 transaction volume declined slightly compared to previous quarters
- Despite a lower transaction volume compared to 2018, valuations for mid-market businesses continue to be strong and above historical averages

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

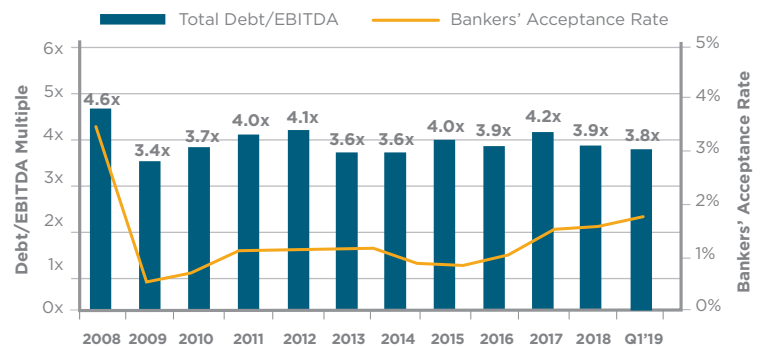


Sources: Capital IQ and GF Data

### AVERAGE DEBT/EBITDA MULTIPLES AND BANKERS' ACCEPTANCE RATES IN CANADA (\$10 - 250 MILLION)

- Increased uncertainty regarding timing of future rate hikes in both Canada and the US are impacting the total leverage used in transactions, as leverage multiples remained steady at 3.8x in Q1 2019, compared to an average of 3.9x in 2018
- The cost of borrowing remains well below historical averages which will continue to drive M&A activity

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



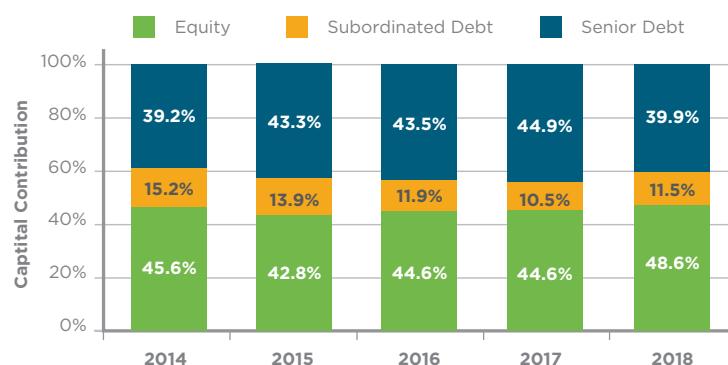
Sources: Bank of Canada, GF Data, Capital IQ

Mergers & Acquisitions Review (continued)

## EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Equity contribution by year increased in 2018 and is at its highest level since 2014, partially driven by record levels of dry powder
- Deal values in the \$50 - \$100M range continue to require the highest portion of equity share at 55.3%, indicating the competitiveness of deals in this range
- With the Bank of Canada expected to continue holding and potentially cut interest rates in the near future, capital structures are expected to remain at current levels until signs of a robust and growing economy are evident

### EQUITY & DEBT CONTRIBUTION MID-MARKET M&A TRANSACTIONS



Sources: Bank of Canada, GF Data, Capital IQ

## TOP 10 M&A DEALS IN WESTERN CANADA

The top 10 M&A deals in Western Canada during Q1 2019 were dominated by Energy, Mining & Utilities transactions. The most notable deal in the Vancouver area was the announced acquisition of Goldcorp by Newmont Mining. Newmont is the world's second largest gold producer. Canadian mining M&A is expected to increase as producers continue to consolidate in order to create value, increase quality of portfolios, boost reserves and increase operational savings.

### Top 10 Western Canadian Deals in Q1 2019

Date	Industry	Target	Headquarters	Buyer	Value (C\$MM)
Jan. 14	Energy, Mining & Utilities	Goldcorp	Vancouver, BC	Newmont Mining	\$ 17,368
Feb. 11	Information Technology	Solium Capital	Calgary, AB	Morgan Stanley	\$ 1,149
Mar. 10	Energy, Mining & Utilities	Red Chris Development	Vancouver, BC	Newcrest Mining	\$ 1,083
Jan. 10	Energy, Mining & Utilities	Meritage Midstream	Calgary, AB	KKR, SemGroup	\$ 646
Jan. 20	Energy, Mining & Utilities	ZCL Composites	Edmonton, AB	Shawcor	\$ 322
Jan. 14	Cannabis	Whistler Medical Marijuana	Whistler, BC	Aurora Cannabis	\$ 156
Feb. 28	Energy, Mining & Utilities	Fort Hills Energy	Wood Buffalo, AB	Suncor Energy	\$ 145
Feb. 24	Energy, Mining & Utilities	Core Gold	Vancouver, BC	Titan Minerals	\$ 78
Jan. 24	Cannabis	Cannadara Canada	Edmonton, AB	Westleaf	\$ 50
Jan. 07	Energy, Mining & Utilities	IDM Mining	Vancouver, BC	Ascot Resources	\$ 45

## Earnouts – Bridging the Value Gap

Buyers and sellers can often have large differences in how they value a business. Buyers typically value a business on recent historical performance whereas sellers typically value businesses based on future projections - thus driving a higher valuation. The valuation gap can prevent a deal from occurring and will sometimes lead to the parties agreeing to an earnout structure to bridge the gap.

An earnout is a future payment to sellers if certain financial targets are hit. For example, if next year's revenues surpass a certain threshold the sellers will receive an additional cash payment. Earnouts are relatively common in the private company M&A market. Per a 2017 ABA Private Target Deal Study, earnouts have been utilized in 25% of private company transactions over the past decade.

If considering utilizing an earnout in the sale of your business, the following are some key factors to consider in negotiating.

### Key Factors for Earnout Negotiations

- Duration - the shorter the better
- Measurability - need clear definitions and formula
- Collectability - ensure you get paid



### Duration

Earnouts that span several years are harder to manage and delay the timing of additional proceeds on the sale of your business. If considering an earnout, a term of 1 to 2 years is recommended given there is typically greater visibility on financial performance in the near term.

### Measurability

Earnouts based on subjective or complicated variables should be avoided. Criteria that are clearly defined and measurable will help mitigate any confusion down the road and increase a seller's ability of receiving the earnout. For example, earnouts based on revenue targets are more easily measured and less subjective to interpretation, whereas earnouts based on EBITDA targets can often be more challenging given costs and charges the new owners of the business can flow through the income statement.

### Collectability

It is also important to alleviate any risk of non-payment, if possible. In defining the payment terms of the earnout, buyers will often want to pay the earnout over several years from the cash flows of the business. If there is a perceived risk of inability to pay the earnout, you want to ensure you have adequate security. One possible solution to mitigate this risk is to require the buyer to put the earnout dollars into escrow at closing.

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