

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



Q1 2020 M&A Market Update

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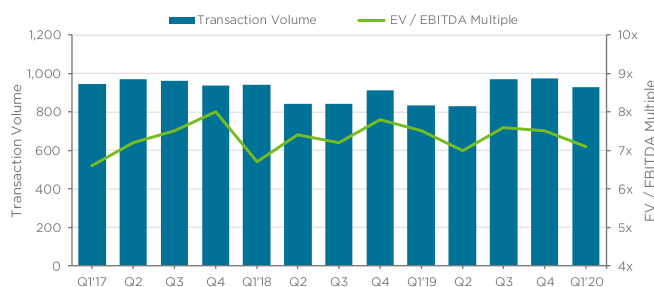
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MID-MARKET M&A TRANSACTIONS IN NORTH AMERICA

- Q1 2020 transaction volumes tapered slightly from Q4 2019 as COVID-19 began to impact deal activity late in Q1
- Average EV/EBITDA multiples decreased in Q1 2020 to 7.1x from 7.5x in Q4 2019
- Transaction volumes declined 5% from Q4 2019 and will likely continue to decline in the near term, though industries such as healthcare, consumer staples, and other "essential services" will continue to be attractive, commanding higher multiples and driving transaction activity

TRANSACTION VOLUME AND AVERAGE EBITDA MULTIPLE (\$10M to \$500M)



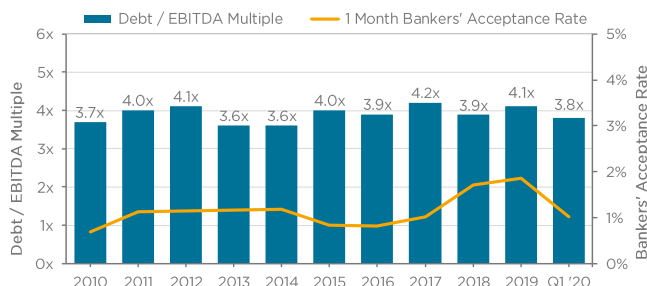
Sources: Capital IQ and GF Data

- The North American M&A market is resilient and with recently announced government stimulus packages, record amounts of private equity dry powder, and historically low interest rates, transaction activity should rebound once there is greater visibility on the re-launch of the economy

LEVERAGE MULTIPLES AND INTEREST RATES IN CANADA

- The Bank of Canada has cut interest rates three times in 2020 to stimulate and protect the economy against the impacts of COVID-19
- These emergency rate cuts are the first since the 2008/9 global financial crisis and bring the current overnight lending rate to 0.25%, the lowest in 10 years
- Leverage multiples for deals completed in Q1 2020 decreased to 3.8x as transactions began to incorporate the impact of the changing market conditions
- Capital providers will invest more time and resources into understanding the impact of COVID-19 and will likely proceed with more conservative EBITDA forecasts. Multiples on lower EBITDA figures may remain high for strong businesses

LEVERAGE MULTIPLES AND CANADIAN BANKERS' ACCEPTANCE RATES (\$10M to \$500M)

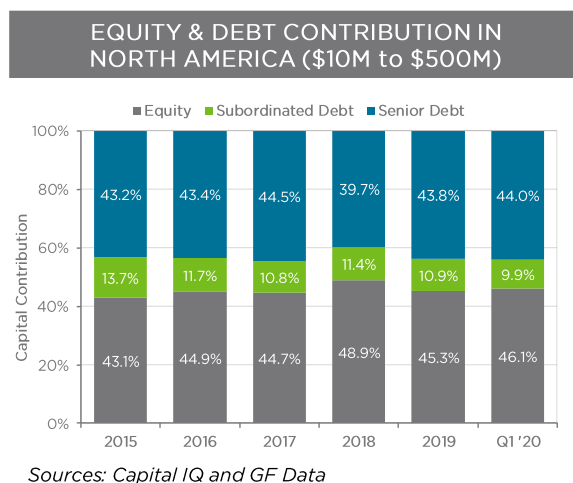


Sources: Bank of Canada, Capital IQ, and GF Data

Q1 2020 M&A Market Update (Continued)

EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- With a tightened credit environment, transactions will be funded with relatively higher proportions of equity
- Transaction structures will become more creative to accommodate for potential reductions in debt financing capacity
- Despite the challenges brought by the COVID-19 crisis, low interest rates and a large North American private equity investor base will continue to drive future deal flow with financial and strategic investors remaining active



TOP 10 M&A DEALS IN WESTERN CANADA

The top 10 Western Canadian M&A deals in Q1 2020 spanned a wide range of industries. In the quarter's biggest deal by far, Starlight Investments and KingSett Capital purchased Northview Apartment REIT for \$4.8 billion, representing a 12% premium to the prior day closing share price.

Top 10 Publicly Disclosed Western Canadian Deals in Q1 2020					
Date	Industry	Target	Target Headquarters	Buyer	Value (C\$m)
February 20, 2020	Residential REIT	Northview Apartment REIT	Calgary, AB	KingSett Capital & Starlight Investments	4,800
February 4, 2020	Steel	AltaSteel	Edmonton, AB	Kyoei Steel	191
March 30, 2020	Gold	Alio Gold	Vancouver, BC	Argonaut Gold	145
March 16, 2020	Pharmaceuticals	Correvio Pharma	Vancouver, BC	Mercury Pharma Group	98
March 2, 2020	Diversified Metals and Mining	Balmoral Resources	Vancouver, BC	Wallbridge Mining Company	92
February 27, 2020	Industrial Machinery	Dyna-Flo Control Valve Services	Edmonton, AB	Curtiss-Wright	81
January 20, 2020	Oil and Gas Exploration and Production	Granite Oil	Calgary, AB	International Petroleum	79
February 18, 2020	Diversified Metals and Mining	Advantage Lithium	Vancouver, BC	Orocobre	45
February 24, 2020	Gold	Otis Gold	Vancouver, BC	Excellon Resources	33
February 3, 2020	Consumer Finance	Rifco	Red Deer, AB	CanCap Group	25

Strategic Financings: COVID-19

The COVID-19 pandemic is a generational crisis that is having severe social and economic impacts. Almost every business is being impacted by government directives and social distancing protocols. Even very strong businesses that aren't directly affected by government shutdowns will experience turmoil as the systemic effects of the pandemic impact all aspects of the economy.

Capital providers are responding by tightening the availability of new credit and approaching financings and re-financings with caution. Lenders recognize that most businesses will rebound but may need bolstering of their balance sheets in the interim. In addition, most lenders are inclined to focus on existing clients and investing more time and resources into understanding the impact of COVID-19 on new financings utilizing more conservative financial forecasts in the near term.

As a result of the uncertainty in the capital markets and potential ongoing credit market impact of the pandemic, many businesses are looking to strengthen their balance sheets and conserve cash. The best way for a business to secure favourable lending terms in this environment is to act early from a position of strength instead of waiting until financially constrained. The following is a list of key actionable items for business owners:

- Analyze multiple downside scenarios incorporating varying levels of potential impact from COVID-19, with cash flow modelling weekly for 6 to 12 weeks and monthly for 24 months
- Initiate dialogue with lenders to determine if lending terms can be adapted to the current situation
- Structure revised terms around projected financial results incorporating the impact of COVID-19

Early action is critical, as the sooner a business understands the impact of COVID-19, the sooner it can revise lending terms and secure flexible and favourable refinancing to maximize liquidity in the short term.


Capital West Partners has extensive experience in strategic financings and can be of assistance during times such as these. Our expertise is in identifying and delivering a solution proactively, before a business falls into a more difficult situation and has fewer options. Prior strategic financing and refinancing assignments include the following:

SELECT STRATEGIC FINANCING & REFINANCING ASSIGNMENTS




SEAPLANE AIRLINE
Sale of 49% interest to Zongshen Industrial Group

Financial Advisor



POWER LINE MAINTENANCE & CONSTRUCTION
Acquisition of Carillion's 60% interest

Financial Advisor




MINING
Merger with Alio Gold

Financial Advisor



SHOE RETAILER
Sale to Town Shoes

Financial Advisor



AIRPORT AUTHORITY
Non-recourse Debt Financing

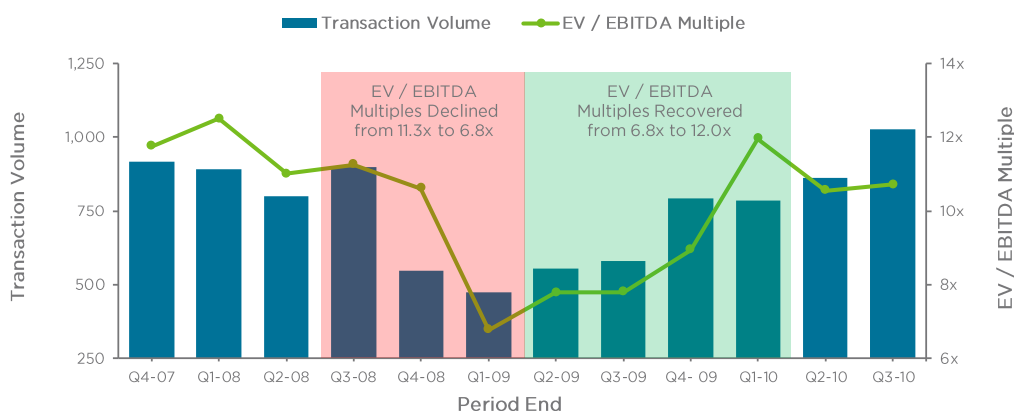
Financial Advisor

M&A Performance During Crises

The COVID-19 pandemic is a crisis with no modern comparison. When trying to assess its impact on the M&A market and the global economy, one approach is to examine the most recent major event with systemic worldwide effects – the financial crisis of 2008/9. In the months following the Lehman Brothers bankruptcy at the end of Q3 2008, there was a sharp decline in transaction activity and valuation multiples over the next six months, followed by a strong recovery in volumes and multiples in the subsequent 12 months:

- Transaction volumes and EBITDA multiples in Q1 2009 declined by 47% and 40% respectively in comparison to Q3 2008 pre-crisis levels
- Transaction volumes and EBITDA multiples rebounded by 66% and 77% respectively by Q1 2010, just 12 months after the bottom
- Within 18 months of Q1 2009, transactions volumes had recovered 116% to reach over 1,000 transactions in Q3 2010

North American M&A Transactions >\$10M - 2008/9 Financial Crisis



While it is uncertain how long the current shutdown and social distancing measures will last, there will be a recovery once the economy re-opens and the spread of the virus is contained. Using the 2008/9 financial crisis as a benchmark, we can expect to see a pull back over the next year, with the timing of the recovery ultimately dependent on the government measures taken to combat the impacts of the virus and the potential introduction of a vaccine.

Prior to the COVID-19 pandemic emerging, fundamentals in the North American economy were strong, with low interest rates, record low unemployment, and consistent GDP growth. While many market fundamentals will be severely impacted by the pandemic, the fact there was a robust economy leading into this crisis should bode well for a rebound in North American M&A sometime in the next 12 months.

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