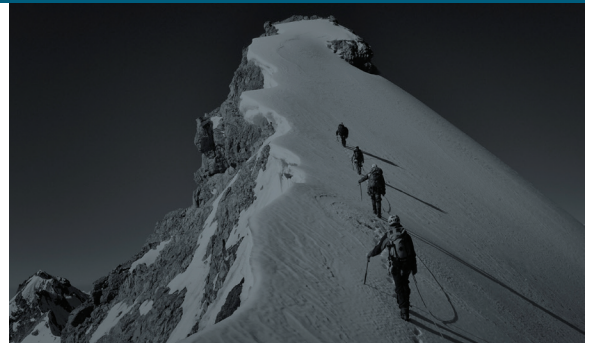


Q4 2018

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



2018: Capital West completes \$700+ million in transactions

IN THIS ISSUE

A Successful 2018

2018 M&A Review

Canadian 2019 M&A Outlook

Sector Update: Food & Beverage

Q1



Sale to
TorQuest Partners

RETAIL PHARMACIES


Q1



Sale to
iA Financial Group

INSURANCE DISTRIBUTION

Q1



Sale of Water Division
to Quench

WATER FILTRATION

Q2



Sale to Alio Gold

MINING

Q2



Sale to
Avery Products

LABEL MAKING SYSTEMS

Q3



Acquisition of Carillion's
60% interest

POWERLINE CONSTRUCTION


Q3



Sale to
DuBois Chemicals

SPECIALTY CHEMICALS

Q4



Fairness opinion on
sale of assets to
SPX Corporation

SIGNAL & SOLAR LIGHTING

Q4



Sale to
Foley's Chocolates & Candies

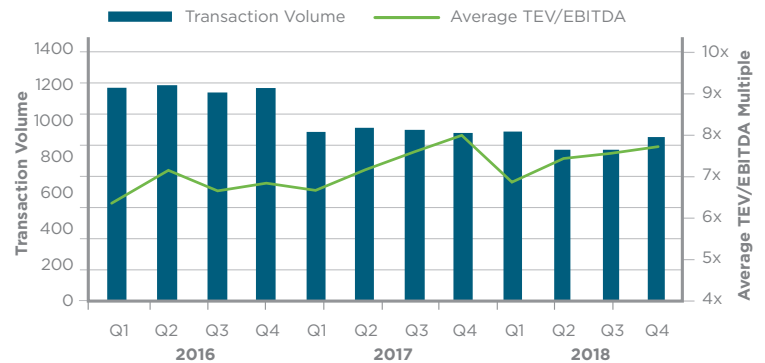
CHOCOLATE MANUFACTURER

Q4 2018 Mid-Market M&A Review

NORTH AMERICAN MID-MARKET M&A

- Average EV/EBITDA multiples increased slightly in Q4 2018 to 7.5x from 7.3x in Q3 2018
- Transaction volumes have been stable at over 800 transactions per quarter for the past three years
- Although overall transaction volume was slightly lower than 2017, valuations for mid-market businesses continues to be strong and above historical averages
- Overall, total North American transaction volume increased by 14% year over year, reaching \$358 billion in 2018

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

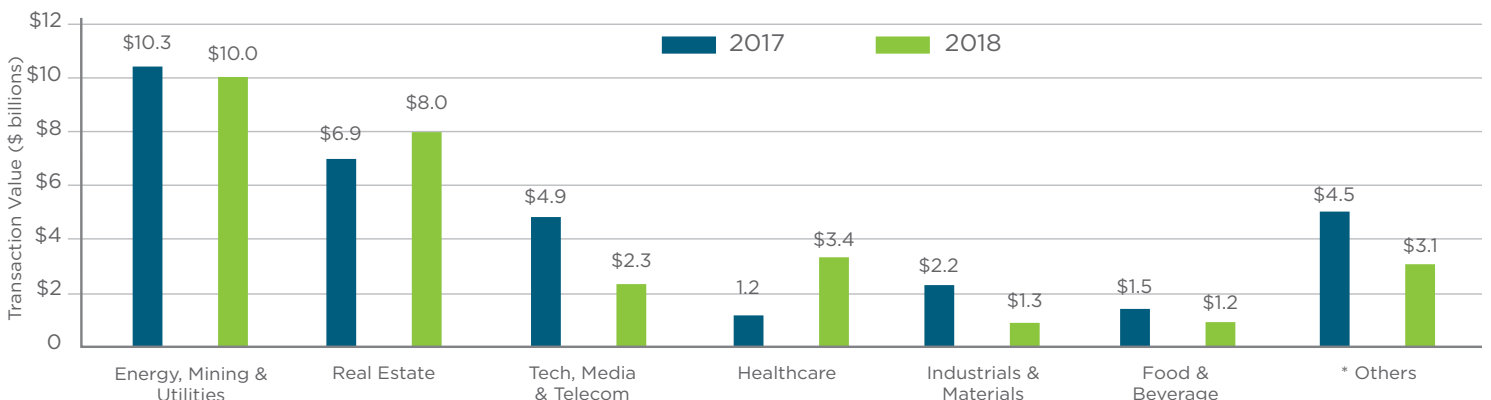


Sources: Capital IQ and GF Data

CANADIAN MID-MARKET M&A

- 2018 was another strong year for Canadian mid-market M&A transactions; a total of \$29.3 billion in overall transaction value
- This activity was led primarily by the real estate and energy sectors
- M&A activity in the healthcare sector was supported by several cannabis deals as industry players jockeyed for position prior to the legalization of recreational cannabis in Q4 2018
- Canadian mid-market M&A activity remains healthy:
 - Private equity firms boast record levels of capital with over \$800 billion to deploy
 - Attractive lending terms for borrowers are available
 - Limited organic growth resulting in acquisitions to fuel growth
 - Increasing M&A consolidation activity in the public markets as evidenced by large multi-billion dollar deals in Q4 2018

2018 vs. 2017 Canadian Middle Market Transactions Values (\$25 - \$500 million)



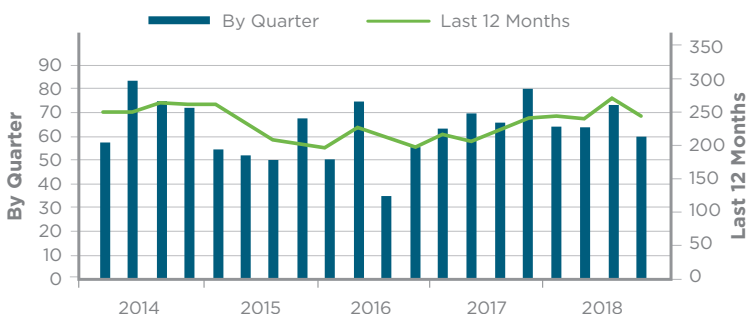
Source: Capital IQ *Others include: Consumer Products & Services, Financials and Hospitality & Transportation

Mergers & Acquisitions Review (continued)

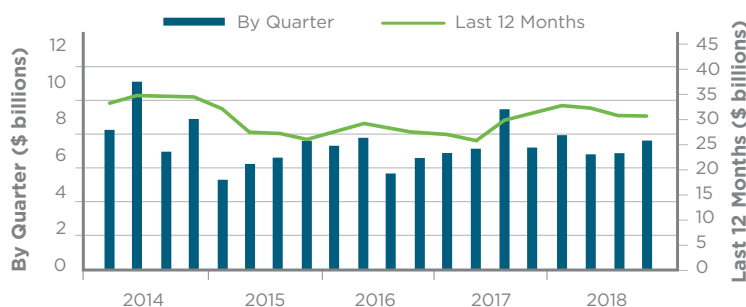
CANADIAN MID-MARKET M&A (CONTINUED)

- Deal volume has been steadily increasing since Q2 2017. The continued momentum indicates a positive outlook going into 2019
- In Q4 2018, Canadian mid-market M&A activity saw a notable 13% increase in transaction value compared to Q3 2018
- Energy, mining & utilities and real estate were the most active sectors, accounting for approximately 57% of transactions in Canada
- Average deal value remained steady at \$110 million in 2018 (compared to \$114 million in 2017)

**MID-MARKET ACQUISITIONS IN CANADA
NUMBER OF TRANSACTIONS
(\$25 - \$500 million)**



**MID-MARKET ACQUISITIONS IN CANADA
VALUE OF TRANSACTIONS
(\$25 - \$500 million)**



TOP CANADIAN DEALS

In Q4 2018, the top 10 deals involving Canadian targets were diversified across several sectors as noted below:

Top 10 Canadian Deals in Q4 2018

Date	Industry	Target	Buyer	Value (\$mm)
Nov. 06	Food & Beverage	Natural Cheese Business of Kraft Canada	Parmalat	\$ 1,620
Dec. 13	Electric Utilities	Hydro Electric Facility (AltaGas)	Axiom Infrastructure	\$ 1,390
Dec. 18	Industrials & Materials	Neo Performance Materials	Luxfer	\$ 815
Oct. 10	Oil & Gas	Blackpearl Resources	International Petroleum	\$ 706
Oct. 18	Consumer Discretionary	MPX Biocetical	iAnthus Capital	\$ 653
Nov. 14	Real Estate	Agellan Commercial REIT	ELAD Genesis	\$ 628
Oct. 04	Industrials & Materials	Daishowa-Marubeni	Mercer International	\$ 463
Nov. 07	Renewable Energy	Wind Farm in Ontario	Axiom Infrastructure	\$ 432
Nov. 08	Transportation	Dash 8 Assets of Bombardier	Longview Aircraft Company	\$ 393
Dec. 04	Oil & Gas	Enbridge Gas New Brunswick	Liberty Utilities	\$ 331

Mergers & Acquisitions Review (continued)

TOP CANADIAN DEALS (CONTINUED)

There were five notable transactions involving Vancouver based targets during 2018:

- Pure Industrial REIT was acquired by The Blackstone Group for **\$3.7 billion** in January
- Zijin Mining acquired its remaining stake in Nevsun Resources for **\$1.8 billion** in September
- South32 acquired its remaining stake in Arizona Mining for **\$1.6 billion** in June
- Avigilion was acquired by Motorola Solutions for **\$1.2 billion** in February
- Hyperwallet Systems was acquired by PayPal for **\$400 million** in June

Canadian 2019 M&A Outlook

We begin 2019 with the continued trade conflict between the U.S. and China, and a Federal Election looming in late 2019. In light of these factors, the following key market trends will help minimize market impact and support ongoing strength in the Canadian M&A market.

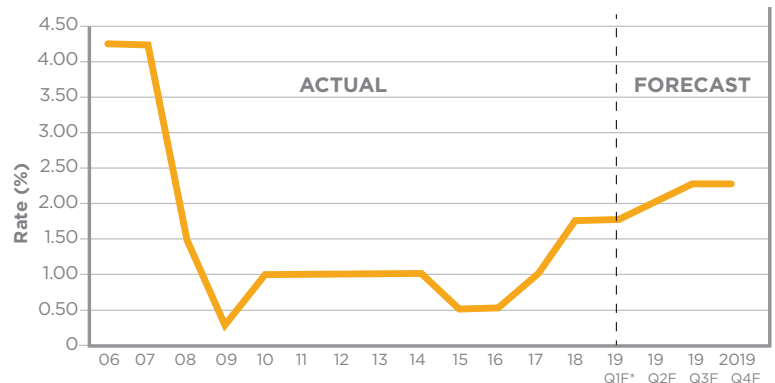
LOW INTEREST RATE ENVIRONMENT

There has been considerable speculation regarding the Bank of Canada's position on raising interest rates in 2019. Due to uncertainty in the housing market, lower oil prices, ongoing trade conflicts and high personal and household debt, the BoC have conservatively held overnight interest rates in January 2019, after an October 2018 increase to 1.75%.

The BoC reiterated in January 2019 that interest rates must ultimately increase over time, however given the current headwinds, it is likely rates will remain stable until oil prices recover and the economy returns to growth.

Borrowing costs for buyers remain at historically low levels, which will continue to support a strong M&A market in 2019.

Canadian Key Overnight Interest Rate



Source: Bank of Canada

*Average of estimates from CIBC, RBC, TD, and Scotiabank

Mergers & Acquisitions Review (continued)

LOOMING FEDERAL ELECTION WILL IGNITE GROWTH

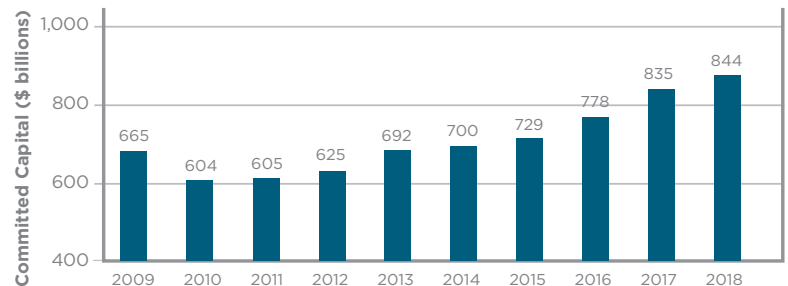
The Canadian Government navigated through a lot of uncertainty in 2018 and signed multiple trade agreements (United States-Mexico-Canada Agreement and Comprehensive and Progressive Agreement for Trans-Pacific Partnership). Although these agreements were signed, many believe the economy will continue to be one of the focal points of the upcoming Federal election. Possible effects of the Federal election are:

- Push to approve the Transmountain pipeline and boost Canada's energy sector
- Additional corporate tax cuts to fuel growth and competitiveness of Canadian businesses
- Securing new trade deals to bolster Canadian exports

STRONG VALUATIONS THROUGH RECORD PRIVATE EQUITY UNDEPLOYED CAPITAL

Private equity firms begin 2019 with higher levels of committed capital than 2018, having accumulated over \$800 billion waiting to be invested. Combined with a low interest rate environment and weak Canadian dollar, North American private equity firms will continue to drive strong valuations for Canadian businesses.

Private Equity Undeployed Capital



Source: Pitchbook

SUMMARY:

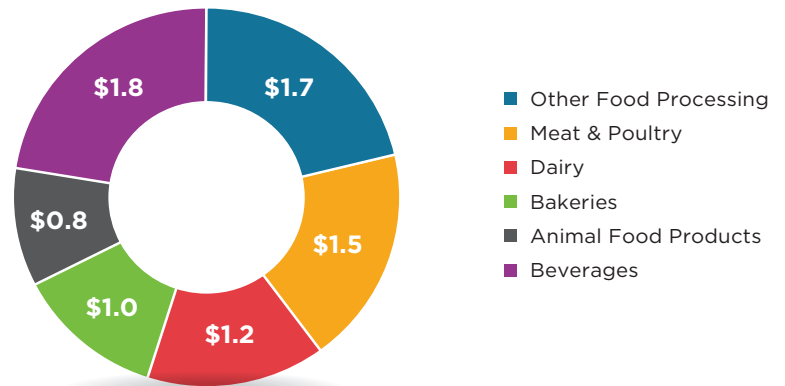
Capital West anticipates another strong year for Canadian M&A in 2019. Deal activity should be robust, supported by continued strong demand in the mid-market and consolidation within the energy sector leveraged off weak oil prices. 2019 will continue to be a seller's market as a result of strong buyer demand and near historically low interest rates.

Canada's Second Largest Manufacturing Industry and Growing: Food & Beverage

Food & beverage processing is one of the largest manufacturing sectors in Canada, generating more than \$112 billion in production value a year. The food & beverage processing industry accounts for the largest share (16.4%) of the total. The businesses in this sector directly employ more than 270,000 Canadians across a range of sub-sectors. The adjacent chart highlights the diverse product mix that British Columbia has to offer. Meat, dairy and other food processing lead all sectors generating \$4.4 billion in sales.

The Canadian government recognized the importance of the food & beverage sector's role as a key driver of the economy and announced a number of initiatives in the Fall Economic Update 2018 to further support the sector's growth. These initiatives include tax and investment incentives that will drive growth.

BC Food & Beverage Sales Mix (\$ Billions)



NEW TAX DEDUCTION



TRADE DIVERSIFICATION STRATEGY

OBJECTIVES	INITIATIVES
<ul style="list-style-type: none"> Accelerate Business Investment in Canada 	<ul style="list-style-type: none"> Equipment Tax Write-offs Accelerated Capital Cost Allowances
<ul style="list-style-type: none"> Increase Canada's Overseas Exports by 50% Grow Canada's Agri-foods Exports to \$75 Billion Per Year By 2025 	<ul style="list-style-type: none"> \$11 Billion in New Government Funding to Secure Access To International Markets

IMPACT ON BUSINESS VALUATIONS

- New tax deductions will provide Canadian businesses with additional support to invest in capital equipment needed to scale operational growth, thus increasing their attractiveness to potential acquirers
- The Trade Diversification Strategy will help Canadian businesses compete globally by providing access to new international distribution channels and allowing penetration of high growth and emerging markets. The resulting benefits of both new customers and geographies will be attractive features for many private equity firms and industry players seeking global distribution channels in an acquisition target

STRONG M&A MARKET: FOOD & BEVERAGE

In 2018, there were over 100 announced North American mid-market food & beverage deals this marked the fourth consecutive year of growth for deal volume in the sector, which was primarily driven by large strategic buyers seeking to expand or enter into organic and plant based product lines, diversifying business to meet consumer demands.

Rapid shifts in consumer preferences towards organic, and natural options, have resulted in a strong and continual surge of food & beverage transactions over the past two years as producers try to create or anticipate the next trend, which show no signs of slowing down.

These trends coupled with the government initiatives described above will drive future growth and support a strong M&A market in food & beverage for 2019.

CAPITAL WEST TRACK RECORD

Capital West has extensive experience advising on transactions in the food & beverage sector and anticipates more deal activity in this sector going forward.

 VITALUS	 <i>Foley's</i> Chocolates & Candies	 <i>Brockmann's</i> CHOCOLATES	 Nalley
DAIRY INGREDIENTS	CHOCOLATE	CHOCOLATE	FOOD MANUFACTURER
Debt & Equity Financing from BMO & Fulcrum Capital Partners	Sale to Yellow Point Equity Partners	Sale to Foley's Chocolates & Candies	Nalley's Canada Ltd Debt restructuring
Advised Vitalus	Advised Foleys	Advised Brockmann's	Advised Nalley's

Subscribe to Deals West at capwest.com 7