

Q2 2020

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



## Q2 2020 M&A Market Update

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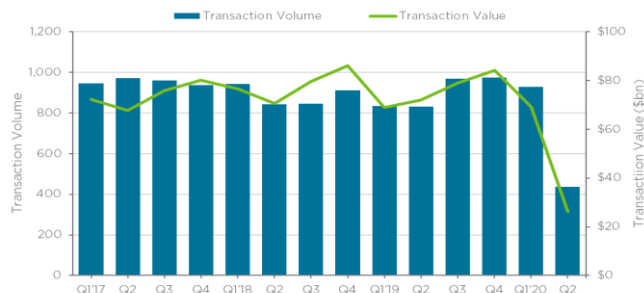
Q2 2020 M&A Market Update

Governments and Central Banks Open the Flood Gates

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

- Q2 2020 transaction volumes were lower than Q1 as the impact of COVID-19 took effect and created uncertainty in earnings forecasts and lengthy due diligence processes
- While overall transaction activity will likely be subdued for several quarters, private equity buyers continue to be active and aggressively searching for high quality businesses with good earnings visibility, and strong growth potential
- Despite the COVID-19 situation, deal activity remained above the lower points of the 2008/2009 global financial crisis as the North American M&A market is being supported by record amounts of private equity dry powder, historically low interest rates and massive fiscal stimulus from governments
- Market recovery will depend on the timing and extent of the second wave, as the US currently sits in a recession and COVID-19 cases continue to rise
- Technology and essential services sectors (e.g. healthcare, food and infrastructure) in particular have seen healthy M&A activity during the pandemic, while other sectors such as oil & gas are seeing distressed M&A activity out of necessity

TRANSACTION VOLUME AND VALUE  
(\$10M to \$500M)



Source: Capital IQ

### CAPITAL WEST ACTIVITY REMAINS ROBUST

Despite lower M&A activity globally in the last two months, Capital West has closed two transactions, reached a signed letter of intent on several other transactions, and launched the marketing of multiple other business divestiture transactions.



CONCRETE PRODUCTS

Sale to  
BM Group

**July 2020**



ROAD MAINTENANCE

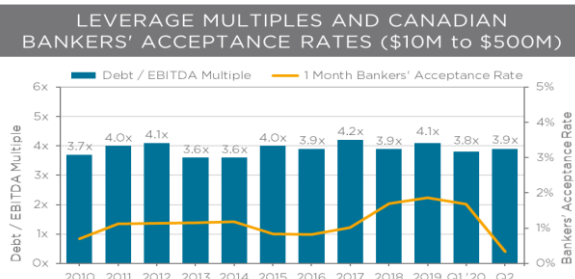
Sale to  
Emil Anderson  
Maintenance | Skeena

**July 2020**

#### Q2 2020 M&A Market Update (Continued)

#### LEVERAGE MULTIPLES AND INTEREST RATES IN CANADA

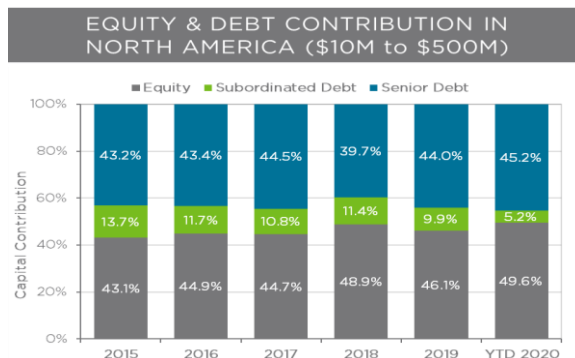
- The Bank of Canada held its overnight lending rate at 0.25% in Q2 2020, and is expected to maintain this rate until 2022
- Leverage multiples for deals completed in Q2 2020 increased slightly to 3.9x from 3.8x in Q1 2020, while the bankers acceptance rate hit a 10 year low



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

#### EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Buyers financed 2020 acquisitions with an average of 50% total debt, down from 54% in 2019
- Although the year to date total debt is lower than the previous five-year average, the percentage of senior debt has increased versus the five-year average
- Equity contributions are expected to increase, or stay at current levels as capital providers continue to seek opportunities to deploy capital



Sources: Capital IQ and GF Data

#### TOP 10 M&A DEALS IN WESTERN CANADA

The top ten Western Canadian M&A deals in Q2 2020 were concentrated within the energy, mining and healthcare sectors.

##### Top 10 Publicly Disclosed Western Canadian Deals in Q2 2020

Date	Industry	Target	Target Headquarters	Buyer	Value (C\$mm)
June 22, 2020	Oil and Gas Exploration and Production	Oryx Petroleum	Calgary, AB	Zeg Oil and Gas	125
May 25, 2020	Life Sciences Tools and Services	Altum Pharmaceuticals	Vancouver, BC	BetterLife Pharma	50
May 13, 2020	Healthcare	My Pain Sensei	Calgary, AB	Next Health	42
May 27, 2020	Healthcare Equipment	Apteryx Imaging	Vancouver, BC	Planet DDS	42
May 21, 2020	Gold	South American Resources	Vancouver, BC	Caldas Gold	37
June 23, 2020	Interactive Home Entertainment	Askott Entertainment	Vancouver, BC	FansUnite Entertainment	29
May 22, 2020	Pharmaceuticals	Indigenous Bloom	Kelowna, BC	Veritas Pharma	28
May 19, 2020	Agricultural Products	KF Hemp	Regina, SK	HTC Purenergy	20
May 15, 2020	Hotels, Resorts and Cruise Lines	Comfort Inn and Suites	Victoria, BC	BC Government	19
April 30, 2020	Oil and Gas Exploration and Production	Hyak Energy	Calgary, AB	Whitecap Resources	17

## Governments and Central Banks Open the Flood Gates

Central banks across the world have taken unprecedented action since the COVID-19 pandemic forced governments to shut economies in March. The Canadian and U.S. governments have implemented massive fiscal and monetary stimulus packages to support financial markets and instill confidence in the real economy.

### UNPRECEDENTED MONETARY AND FISCAL STIMULUS

#### Canada

The Canadian Government rolled out numerous fiscal initiatives to support businesses and individuals with the two key programs being the Canada Emergency Wage Subsidy and the Canada Emergency Response Benefit – total cost of ~\$160 billion. To complement the increase in government spending, the Bank of Canada (“BoC”) also cut its key overnight interest rate to 0.25%.

The BoC has also commenced an unprecedented bond buying program to keep borrowing costs low and ensure access to low cost capital. As part of this program the BoC has authorized up to \$5 billion of weekly purchases of government bonds as well as introducing a corporate bonds purchase program of up to \$10 billion.

#### United States

The Government’s flagship fiscal initiative is the \$2.2 trillion CARES act which was followed by a \$484 billion “interim CARES” act – this act provides emergency loans and various aid for companies and individuals, as well as governments.

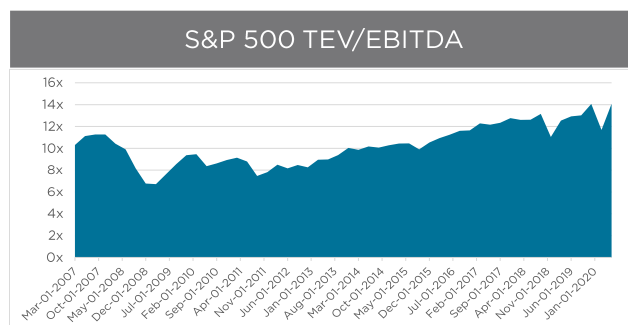
Additionally, the Federal Reserve has implemented a number of emergency initiatives including rate cuts, increasing credit facilities, reducing reserve requirements for banks and lending programs – all with the potential to inject a total of \$6 trillion into the financial system (~30% of the US GDP). The Fed has indicated they will do “whatever it takes” to support and stimulate markets including unlimited government bond purchases for the duration of the crisis. The Fed also announced for the first time in history that they will purchase up to \$750 billion of corporate bonds.

### What Does This Mean?

#### LOW COST DEBT AND HIGH EQUITY VALUATIONS

The unprecedented monetary and fiscal stimulus being injected into the system has driven borrowing costs to record lows and equity valuations to all-time highs. As treasuries and corporate bonds continue being purchased by governments at an unprecedented rate, investors will continue to re-allocate capital to equities. As this aggressive monetary and fiscal stimulus continues, valuations for public equities and private M&A transactions will remain elevated.

As illustrated in the adjacent chart, the average EV/EBITDA multiple for the S&P 500 reached 14.1x at the end of Q2 2020 which is up from the 2007 peak of 11.3x and more than double the multiple of 6.8x in 2009.



Source: Capital IQ

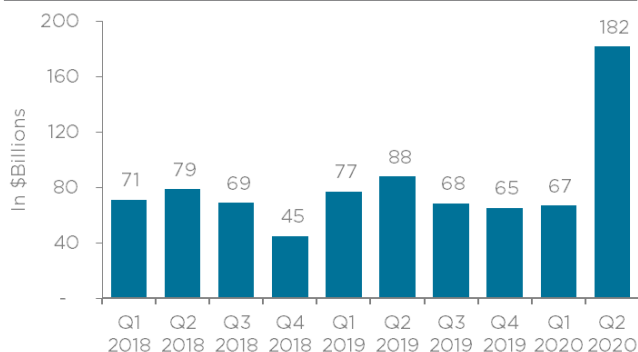
## Governments and Central Banks Open the Flood Gates (Continued)

### ROBUST DEBT AND EQUITY FINANCING ACTIVITY

Q2 2020 experienced a major increase in debt and equity financing activity as companies capitalized on the lower interest rate environment and record high equity valuations. During Q2 2020 \$1.3 trillion of public debt offerings were announced in North America, up from \$844 billion in Q1 2020 and \$617 billion in Q2 2019.

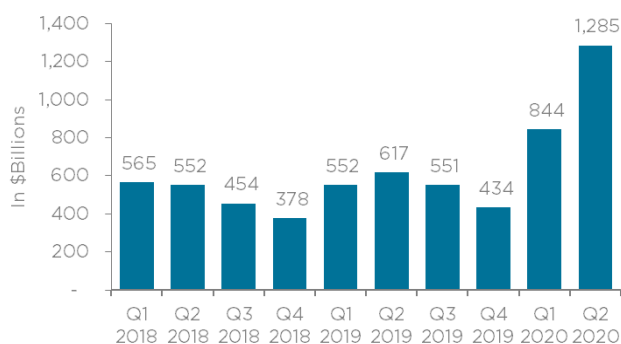
Similarly, North American public equity financings saw its largest volume in years with \$182 billion of announced IPO's and secondary offerings in Q2 2020, up 172% and 107% respectively, when compared to Q1 2020 and Q2 2019.

#### NORTH AMERICAN PUBLIC EQUITY ACTIVITY



Source: Capital IQ

#### NORTH AMERICAN PUBLIC DEBT ACTIVITY



Source: Capital IQ

### CONCLUSION

Unprecedented monetary and fiscal support have created conditions to support strong capital markets and M&A activity in the near term, despite the on-going pandemic.

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