

Q3 2020

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



## Q3 2020 M&A Market Update

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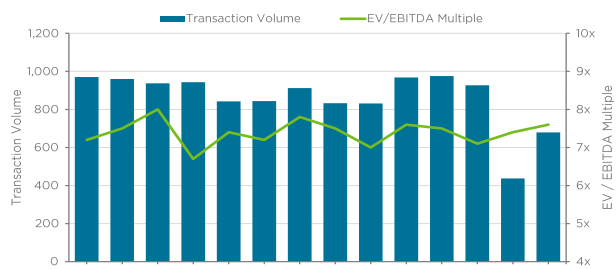
Q3 2020 M&A Market Update

Managing an Unsolicited Offer

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

- Q3 2020 M&A volumes rebounded from the impact of COVID-19 shutdowns with a 54% increase over Q2
- Average EV/EBITDA multiples increased slightly to 7.6x in Q3 2020
- Transaction volume is expected to continue rising as governments stimulate the economy with fiscal and monetary policy, though the timing and scale of the recovery will depend on developments regarding the pandemic

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



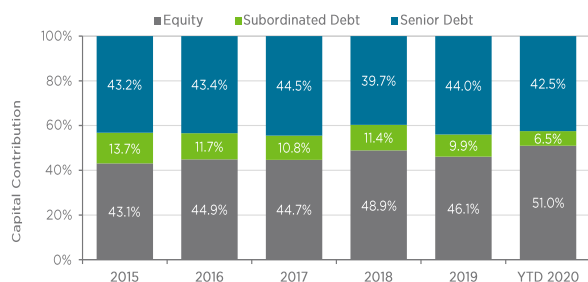
Source: Capital IQ

- Robust M&A volume continues to be supported by historically low interest rates, record amounts of available capital, and businesses adapting to the “new normal”

### EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

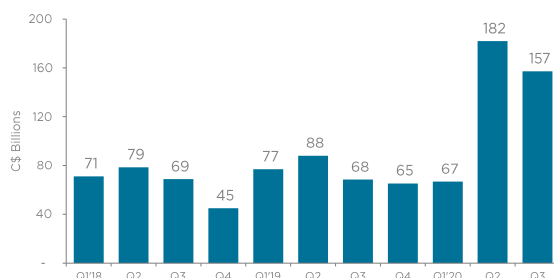
- Buyers financed 2020 acquisitions with an average of 49% debt, down from the five-year average of 54%; this was primarily driven by banks tightening lending criteria in response to pandemic impacts
- Increased equity funding of M&A transactions is related to the flood of equity offerings including Special Purpose Acquisition Companies (SPACs), with Q2 and Q3 2020 reporting more than double the 2019 average
- Equity contributions are expected to remain consistent in the near-term and return to historical averages as government stimulus support flows through the market and lenders ease credit terms, allowing companies to utilize record low interest rates

EQUITY & DEBT CONTRIBUTION IN NORTH AMERICA (\$10M to \$500M)



Source: GF Data

NORTH AMERICAN PUBLIC EQUITY OFFERINGS



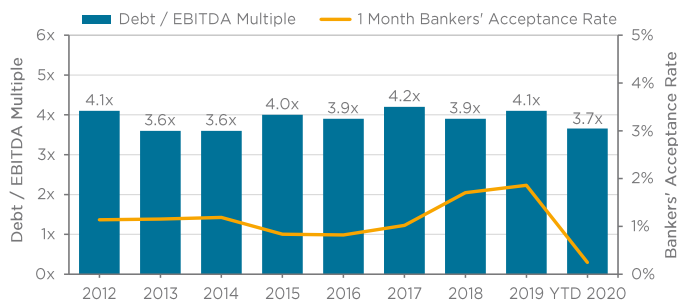
Source: Capital IQ

### Q3 2020 M&A Market Update (Continued)

## LEVERAGE MULTIPLES AND INTEREST RATES IN CANADA

- The Bank of Canada held its policy interest rate at 0.25% in Q3 2020 and reiterated that interest rates will remain at this level through 2023
- Average leverage multiples for deals completed in 2020 decreased to 3.7x, as lenders remain cautious to underwrite new deals as they focus on the health of their existing loans

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



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

## TOP 10 M&A DEALS IN WESTERN CANADA

The top ten Western Canadian M&A deals in Q3 2020 included transactions from a diverse set of sectors. The largest transaction was Canadian Natural Resources' acquisition of Painted Pony Energy for \$505 million, representing a 30% premium over the twenty-day volume weighted average trading price. Another notable deal in Q3 was the acquisition of Mountain Equipment Co-op by Los Angeles-based Kingswood Capital. The acquisition was completed under CCAA proceedings and will transform MEC from its signature co-operative structure to a private corporation.

### Top 10 Publicly Disclosed Western Canadian Deals in Q3 2020 (C\$ Millions)

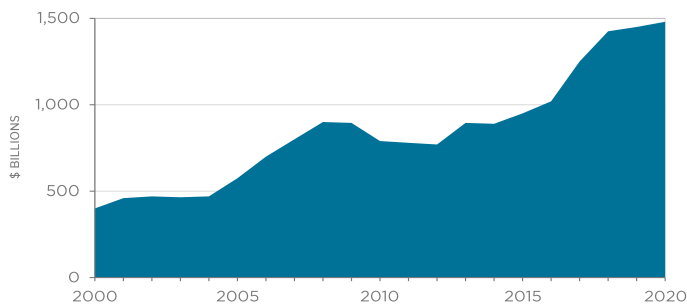
Date	Industry	Target	Target HQ	Buyer	Value
August 10, 2020	Oil & Gas	Painted Pony Energy	Calgary, AB	Canadian Natural Resources	505
August 31, 2020	Oil & Gas	Bonterra Energy	Calgary, AB	Obsidian Energy	336
July 29, 2020	Construction	Stuart Olson	Calgary, AB	Bird Construction	292
August 31, 2020	Oil & Gas	NAL Resources	Calgary, AB	Whitecap Resources	147
August 12, 2020	Agricultural	Input Capital	Regina, SK	Bridgeway National	107
September 14, 2020	Retail	Mountain Equipment Co-op	Vancouver, BC	Kingswood Capital	>100
September 8, 2020	Cannabis	Pure Sunfarms	Delta, BC	Village Farms	81
September 1, 2020	Oil & Gas	ESI Energy Services	Calgary, AB	Battery Mineral Resources	39
September 2, 2020	Cannabis	All Nations Cannabis	Chilliwack, BC	Alchemist Mining	20
August 4, 2020	Life Sciences	Coastal Genomics	Burnaby, BC	Yourgene Health	18

## Managing an Unsolicited Offer

There has been a strong recent rebound in transaction volumes as strategic buyers look to leverage all-time low interest rates and private equity firms are compelled to deploy record levels of committed capital ("dry powder").

Buyers are aggressively seeking attractive acquisition opportunities in North America and the shortage of quality acquisition opportunities in the market due to the global pandemic has increased the likelihood of buyers extending unsolicited purchase offers, with the intent to circumvent a competitive sales process.

### GLOBAL PRIVATE EQUITY DRY POWDER



Source: Preqin

***What should you do if approached by a private equity firm or an industry buyer promising a quick and efficient transaction at maximum value?***

The interested party will often be backed by a team of advisors with extensive M&A experience and the unsolicited offer is likely to contain a value and terms that are favourable to the purchaser. The buyer's ideal acquisition is one where the seller does not engage an M&A advisor to ensure value is maximized. Therefore, even if the offer seems attractive, it is critical to engage an M&A advisor to guide you through the complex process of selling a business, avoid common mistakes that can result in lost value, unfavourable deal terms or a failed process, and negotiate the best price and terms on your behalf.

Some of the key benefits of engaging an M&A advisor are as follows:

### COMPETITIVE TENSION & MAXIMUM VALUE



Engaging an M&A advisor demonstrates commitment to the sales process and plays a key role in creating competitive tension, which is critical to a successful transaction as it allows you to maximize value and control the deal timeline. It also demonstrates you are well organized and able to engage with other buyers if the interested party does not meet your desired financial objectives and timelines.

### EXTENSIVE TRANSACTION VALUE KNOWLEDGE



An M&A advisor will utilize strategies and tactics to ensure a premium over the initial unsolicited offer is achieved. Extensive transaction experience and knowledge allows the M&A advisor to efficiently review comparable company valuations and transactions to determine the improvements required in the unsolicited offer. Furthermore, an M&A advisor has experience negotiating commercial terms other than just price (such as consideration, escrow, structure, timing, and working capital) that can significantly impact the value achieved.

## *Managing an Unsolicited Offer (Continued)*



### UNBIASED & OBJECTIVE STRATEGIC ADVICE

Negotiating the sale of your business can be an emotional process – an M&A advisor provides an objective perspective in assessing an unsolicited offer. Ideally an M&A advisor is also independent of potential purchasers, allowing them to provide unbiased advice free of any conflicts of interest.



### SAFEGUARD CONFIDENTIAL INFORMATION

An M&A advisor is well-versed in the proper precautions necessary to protect your business' most valuable information. They will utilize tactics to maintain confidentiality and only share the right information, at the right time, to maximize value and keep the confidence of key stakeholders. Experienced M&A advisors will identify potential commercial sensitivities around sharing confidential information while maintaining an efficient process.



### BROAD GLOBAL NETWORK

An experienced M&A advisor has an extensive network of M&A experts, such as legal counsel and tax advisors, who will help you to attain the best legal terms and an optimal tax structure. Established M&A advisors are also connected to a broad global network of strategic and financial buyers to ensure all potential logical buyers are identified and determine whether the buyer at the table is the best strategic fit and able to pay the highest price.



### BANDWIDTH & DEEP BENCH STRENGTH

M&A advisors have significant bandwidth and deep bench strength to manage all aspects of a sales process. This allows business owners and management teams to focus their time on what is most important – running and investing in the business to deliver the best possible financial results throughout the transaction.

The benefits of engaging an M&A advisor range from levelling the playing field and streamlining the sale process to value maximization. If you are thinking of selling your business or have received an unsolicited purchase offer, engaging an M&A advisor is one of the most important steps you can take toward the successful execution of an efficient transaction at the best possible value and terms.

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