

Q4 2020

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



STRONG 2020 FOR CAPITAL WEST

- 11 M&A transactions closed, including 6 since the start of the pandemic
- Total deal value over \$600 million
- After a short pause in activity in the first few months of the pandemic, our mid-market deal activity quickly returned to normal levels

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2021 M&A Outlook

2020 was a year like no other. From an M&A perspective, the year started out strongly with deal activity pacing ahead of last year. When the pandemic hit, deal activity ground to a halt and the market saw a sharp decline in deal volumes in both Q2 and Q3. In the first few months of the pandemic, financial buyers focused on their portfolio companies and most elected not to pursue new platform investments for several months. As both strategic and financial buyers began to adjust to the new normal, deal volumes began to increase and total M&A activity in Q4 2020 was consistent with pre-pandemic levels.

Throughout the year, buyers and sellers adapted to the new virtual deal environment and were able to navigate through uncertainty. There was a wave of large deals in Western Canada during the back half of 2020, further highlighting corporate optimism for 2021. Notable deals include Cenovus Energy's \$6 billion acquisition of Husky Energy, SSR Mining's \$2.4 billion buyout of Alacer Gold Corp, and West Fraser's \$4 billion buyout of Norbord.

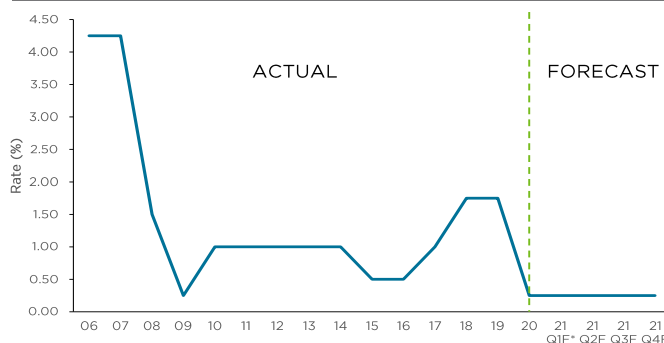
Financial buyers are still armed with over \$1 trillion in committed capital, and although many buyers took a pause in Q2 & Q3, many are now ready to deploy capital and are aggressively pursuing acquisitions.

RECORD LOW INTEREST RATE ENVIRONMENT

In response to the pandemic, the Bank of Canada ("BoC") cut its overnight interest rate from 1.25% to 0.25% in March 2020, the lowest rates since the 2008-09 financial crisis.

Since March, The BoC has held the overnight rate at 0.25% and has reiterated its pledge to maintain this level for the foreseeable future. Record low interest rates coupled with the unprecedented injection of financial stimulus into the economy will be positive forces supporting M&A activity in 2021.

CANADIAN KEY OVERNIGHT INTEREST RATE



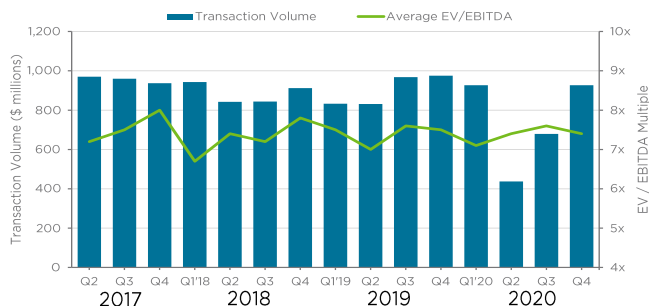
*Sources: TD, Scotiabank, BMO, and RBC

Q4 2020 Mid-Market M&A Update

MID-MARKET M&A TRANSACTION VALUES AND VOLUME IN NORTH AMERICA

- Transaction volumes in Q4 2020 returned to pre-COVID-19 levels with 927 deals completed
- Average EV/EBITDA multiple was 7.4x in Q4 2020, up from 7.0x in Q4 2019
- Overall transaction volume in 2020 decreased by 18% due to the pandemic, however, Q4 2020 deal volumes returned to pre-pandemic levels
- Valuation for mid-market businesses continue to be strong and above historical averages

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

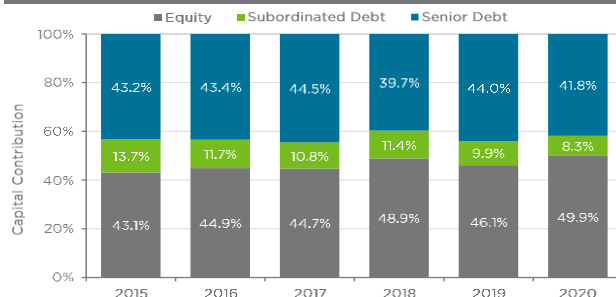


Sources: Capital IQ and GF Data

EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Average equity contributions increased slightly in 2020 as lenders initially took a more conservative approach in response to COVID-19
- Mid-market transactions in 2020 saw buyers contribute 50% equity on average, up from 46% in 2019
- With near record low interest rates and strong competition for deals, debt contribution levels are likely to increase in 2021

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

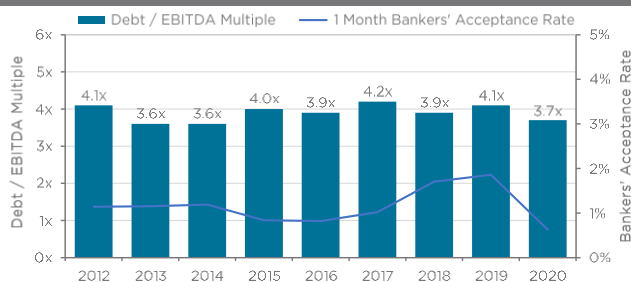


Source: GF Data

LEVERAGE MULTIPLES AND INTEREST RATES IN CANADA

- Total leverage decreased from 4.1x EBITDA in 2019 to 3.7x in 2020
- While average debt multiples declined slightly, businesses that have been resilient through the pandemic have become more desirable and able to obtain attractive financing
- The cost of borrowing remains well below historical average and will continue to drive M&A activity in 2021

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



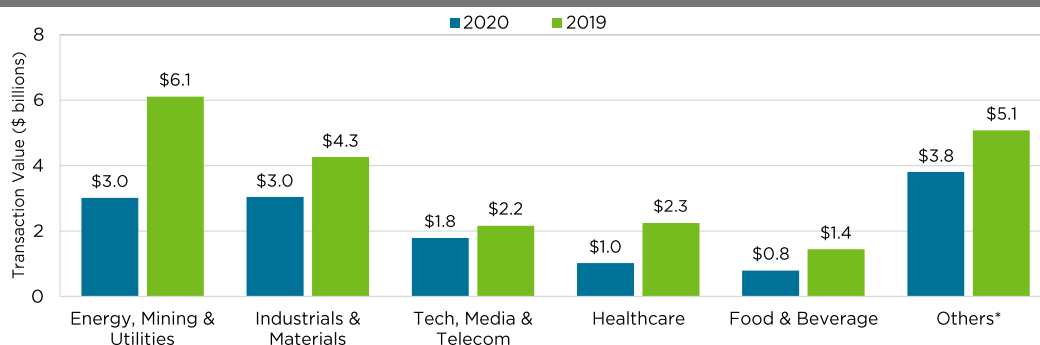
Sources: GF Data and IIROC

Q4 2020 M&A Market Update (Continued)

2020 CANADIAN MID-MARKET M&A REVIEW BY INDUSTRY

- Canadian mid-market M&A experienced a sharp decline in 2020 due to the economic impact of COVID-19: a total of \$13.4 billion in completed transactions compared to \$21.3 billion in 2019, a decrease of 37%
- The energy, mining and utilities sector experienced the sharpest decline in transaction value - declining by over 50% from 2019

2020 vs. 2019 CANADIAN MIDDLE MARKET TRANSACTION VALUES (\$25M to \$500M)



Source: Capital IQ

* Others include: Consumer Products and Services, Financials, Hospitality, and Transportation

TOP 10 M&A DEALS IN WESTERN CANADA

The top 10 M&A deals in Western Canada in Q4 2020 included transactions from a diverse range of industries. The largest transaction was Cenovus Energy's acquisition of Husky Energy for \$6 billion, representing a 20% premium over the prior day closing share price.

Notable transactions involving BC-based targets during 2020 include:

- BBTV Holdings acquired 51% stake in BroadbandTV from RTL Group for **\$159 million** in October
- Leaf Mobile acquired East Side Games for **\$150 million** in October

Top 10 Publicly Disclosed Western Canadian Deals in Q4 2020 (C\$ Millions)

Date	Industry	Target	Target HQ	Buyer	Value
October 25, 2020	Energy	Husky Energy	Calgary, AB	Cenovus Energy	6,100
November 2, 2020	Real Estate	Northview Apartment REIT	Calgary, AB	KingSett Capital	4,560
December 8, 2020	Oil & Gas	TORC Oil & Gas	Calgary, AB	Whitecap Resources	909
December 18, 2020	Energy	Jupiter Resources	Calgary, AB	Tourmaline Oil Corporation	606
October 6, 2020	Energy	Painted Pony Energy	Calgary, AB	Canadian Natural Resources	504
October 28, 2020	Media	BroadbandTV	Vancouver, BC	BBTV Holdings	159
October 7, 2020	Technology	East Side Games	Vancouver, BC	Leaf Mobile	150
November 2, 2020	Energy	Modern Resources	Calgary, AB	Tourmaline Oil Corporation	144
November 23, 2020	Media	A Thinking Ape	Vancouver, BC	Embracer Group Lager	138
November 16, 2020	Energy	TransCanada Turbines	Airdrie, AB	TC Energy Corporation	88

Emerging Role of Family Offices in M&A

Historically, the majority of buyers participating in private M&A transaction processes have been private equity groups and strategic buyers. Over the past 10 years, family office buyers have become more prevalent and active and are now participating in many transaction processes.

WHAT IS A FAMILY OFFICE?

A family office is a private wealth management firm that is established by high net worth families to manage their investments. Over the years, wealthy families have set up an investment arm and hired external investment professionals to identify, execute and manage investments across a broad spectrum of asset classes including private companies.

Since 2008, the number of family offices globally has increased by over 700% to an estimated 7,300 active family offices managing over \$4 trillion in assets at the end of 2020. In the past three years alone, the number of family offices have increased by nearly 30%. Currently 70% of the world's family offices are located in North America or Western Europe.

FAMILY OFFICE KEY STATISTICS

7,300 family offices globally

\$4 trillion in total assets

Source: Virobel

The significant growth in family offices has occurred during the economic expansion following the financial crisis in 2008. Family offices have previously participated in private M&A as limited partners in private equity funds, however, many are now seeking to assume greater control of their direct investments.

Family offices have become a legitimate and active buyer category and are playing an increasingly larger role in private M&A transactions.

FACTORS DRIVING FAMILY OFFICE PARTICIPATION IN PRIVATE M&A

- 1 Greater control and decision-making ability – increased control over investment drivers
- 2 Reduced costs by avoiding private equity fee structures
- 3 Ability to leverage existing network and previous experience to drive growth
- 4 Hedge against volatility in public markets
- 5 Ability to invest in businesses for a longer time horizon

Emerging Role of Family Offices in M&A (Continued)

Some of the key advantages of family offices are as follows:

No need to raise sequential funds

Ability to hold investments for longer periods of time (i.e. not required to exit in 5-7 years)

Flexible transaction structures with no set mandate

Efficient decision making

As the majority of family office wealth has been generated through past family ventures, this group can bring significant operational experience, key insights and industry relationships that can have a major impact on the growth of a business going forward.

CAPITAL WEST PERSPECTIVES

When considering a potential transaction, it is becoming increasingly important to include family office investors as a potential buyer for the business. Not only can this group be the successful buyer, but they will also help ensure that maximum value is achieved in your sale process by further increasing competitive deal tension.

Capital West has built strong relationships with hundreds of family offices who are actively seeking acquisition opportunities across a wide range of industries.

Capital West Promotions & New Hires



Promotion of Ivan Ma to Vice President

We are pleased to announce the promotion of Ivan Ma to Vice President. Ivan has been with Capital West for four years and has been a major contributor to our team on many transactions and other important firm initiatives. Congratulations Ivan!



New Associate – Mahmoud Hannoud

We are excited to announce the addition to our team of Mahmoud Hannoud. Mahmoud is our newest Associate and comes to us from a major accounting firm where he was part of their Corporate Finance Advisory team in Calgary. Mahmoud hails from Vancouver and is a CPA, CA as well as a Level 3 candidate for the Chartered Financial Analyst designation. Welcome Mahmoud!