

Q4 2021

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



2021 M&A Review

2021 was an exceptional year for M&A activity with robust deal values and volumes. After a pause in deal activity during the onset of COVID-19, volumes returned to pre-pandemic levels in late 2020 and continued to build throughout 2021 with over \$3 trillion of announced deals in North America, 72% higher than 2020.

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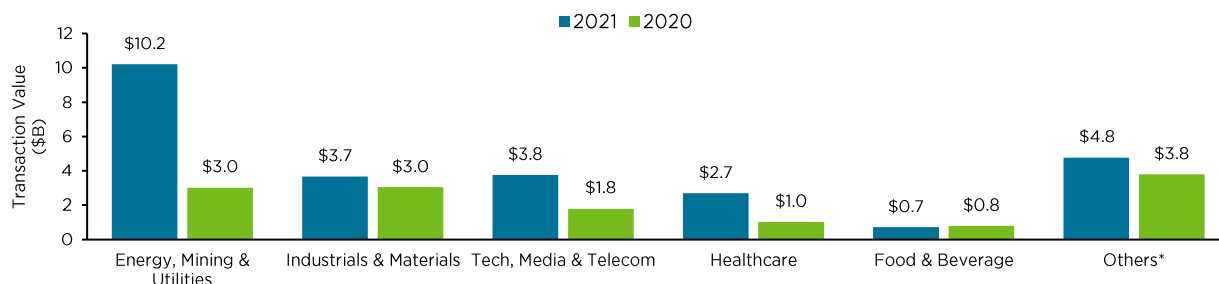
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2021 CANADIAN MID-MARKET M&A REVIEW BY INDUSTRY

- 2021 Canadian mid-market M&A activity saw \$25.9 billion in completed transactions, an increase of 92% compared to 2020 (\$13.5 billion)
- Total deal value rose across nearly all industries, with the energy, mining, and utilities sectors experiencing the largest increase during 2021 at 240% (67% over 2019), fueled by the oil and gas sector which rebounded in 2021 as a result of the rise in oil prices and re-opening of economies


2021 vs. 2020 CANADIAN MIDDLE MARKET M&A TRANSACTION VALUES (\$25M to \$500M)



Source: Capital IQ

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

While M&A activity was strong across the board in 2021, certain (sub)sectors such as healthcare, better-for-you food products, and software & technology-enabled businesses experienced even more significant tailwinds driven by the pandemic. Increased consumer and buyer focus on health, wellness, and an ability to function remotely has translated to high demand and attractive valuations for companies in these spaces. Notable deals Capital West completed in 2021 in such sectors included:



CARSONAIR

AIR AMBULANCE SERVICES

Sale to
Exchange Income Corporation

Advised the Seller

Confidential Client

ONLINE MUSIC STREAMING

Sale of
minority interest

Advised the Shareholder

Confidential Client

NUTRACEUTICAL & VITAMIN MANUFACTURER

Sale to
Canadian private equity

Advised the Seller



The SilvaGro Partnership

SILVICULTURE

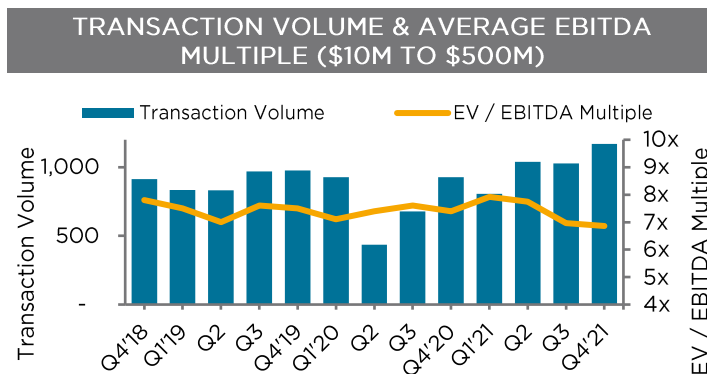
Sale to
PRT Growing Services

Advised the Seller

Q4 2021 Mid-Market M&A Update

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

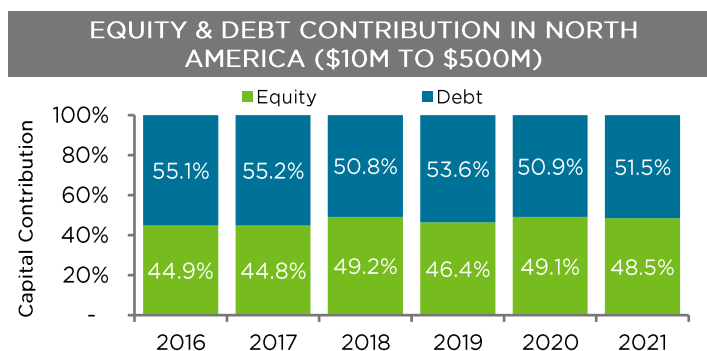
- Q4 2021 saw ~1,200 mid-market deals with an average deal size of \$108 million, up from ~900 transactions in Q4 2020
- The average EV / EBITDA multiple in Q4 2021 was 6.9x, consistent with the Q3 average of 7.0x
- Buyers are expected to continue to complete deals at a rapid pace as the economy continues to recover from the COVID-19 pandemic and the cost of capital remains well below historical averages



Source: Capital IQ

EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

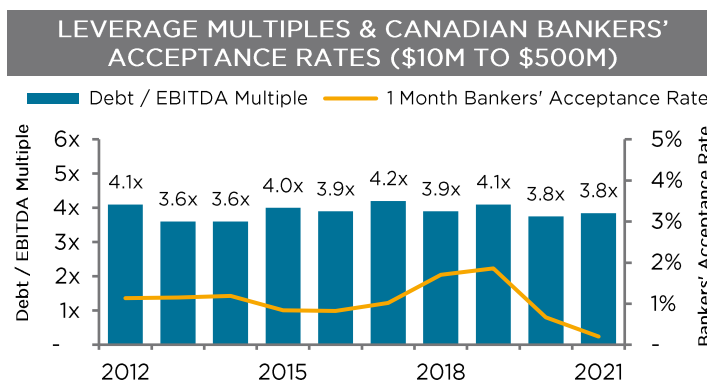
- Mid-market transactions in 2021 saw buyers contribute 52% debt on average, up slightly from 51% in 2020
- Capital structures are expected to remain consistent through 2022 as buyers continue to borrow using low interest rates, easily accessible capital, and attractive debt financing terms



Sources: Capital IQ and GF Data

LEVERAGE MULTIPLES AND INTEREST RATES IN CANADA

- 2021 mid-market transactions had an average debt / EBITDA multiple of 3.8x
- 1-month bankers acceptance rate remains at historically low levels at 0.2%
- The Bank of Canada ("BoC") is expected to begin raising interest rates in Q1 2022, sooner than previously expected



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

NOTABLE M&A DEALS IN WESTERN CANADA

The top 10 mid-market Western Canadian M&A deals in Q4 2021 included companies from a broad range of industries. The largest transaction was the sale of Telus' financial solutions business to Dye & Durham, a leading provider of cloud-based software and technology solutions for legal and business professionals.

Other notable deals include the sale of technology businesses Motion Metrics, a provider of 3D imaging and artificial intelligence solutions for the mining industry, and Preciseley Microtechnology, a manufacturer of micro-electromechanical systems primarily for telecommunication applications.

M&A activity for technology enabled businesses remained strong throughout 2021 as sustained demand for technology products and services supported strong growth and attractive valuations.

TOP 10 PUBLICLY DISCLOSED WESTERN CANADIAN DEALS IN Q4 2021 (<\$500M)

Date	Industry	Target	Target HQ	Buyer	Value (C\$M)
Dec 6, 2021	Technology	TELUS - Financial Solutions Assets	Vancouver, BC	Dye & Durham (TSX:DND)	500
Nov 1, 2021	Mining	Millennial Lithium (TSXV:ML)	Vancouver, BC	Lithium Americas (TSX:LAC)	479
Dec 16, 2021	Forestry	Millar Western - Solid Wood Assets	Edmonton, AB	Canfor (TSX:CFP)	420
Dec 13, 2021	Mining	New Gold - BC Blackwater Gold Stream	Blackwater, BC	Wheaton Precious Metals (TSX:WPM)	384
Oct 8, 2021	Logistics	Mid-Nite Sun Transportation	Edmonton, AB	General Logistics Systems	360
Nov 30, 2021	Oil & Gas	Cenovus Energy - 181 Retail Fuel Sites	Calgary, AB	Federated Co-operatives	264
Nov 5, 2021	Technology	Motion Metrics	Vancouver, BC	The Weir Group (LSE:WEIR)	248
Dec 1, 2021	Technology	Preciseley Microtechnology	Edmonton, AB	Hankook & Company (KOSE:A000240)	222
Nov 5, 2021	Building Products	PFB Corporation	Calgary, AB	The Riverside Company	188
Dec 15, 2021	Oil & Gas	Crestwynd Exploration	Calgary, AB	Tamarack Valley Energy (TSX:TVE)	182

Source: Capital IQ

2022 M&A Outlook

Several factors facilitated the robust deal activity seen amongst both strategic and financial buyers in 2021:



High levels of corporate liquidity



Readily accessible capital



Record low interest rates



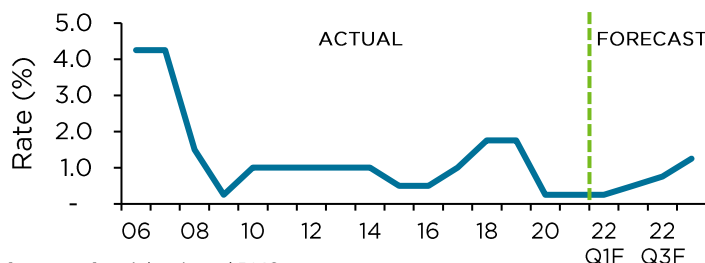
Global economic fiscal stimulus

The BoC held its overnight interest rate at 0.25% throughout 2021, the lowest level since the 2008 financial crisis.

However, with inflation reaching its highest level in over 18 years, the BoC has indicated that interest rates will rise approximately 100 bps in 2022.

Despite the anticipated increases, interest rates are still expected to remain historically low through 2022.

CANADIAN KEY OVERNIGHT INTEREST RATE



Sources: Scotiabank and BMO

Therefore, the positive factors that supported M&A activity in 2021 are expected to persist throughout 2022, which we anticipate will lead to continued high deal volumes and strong valuations.

The Increasing Influence of ESG Considerations on M&A

Environmental, Social, and Governance ("ESG") considerations are becoming increasingly important to M&A activity and the due diligence process as purchasers seek investments that are not only profitable, but also have ESG attributes which are thought to increase the overall strategic value of an investment.

WHAT IS ESG?

ESG is the consideration of environmental, social and governance factors in the investment decision making process in addition to financial, operational and other traditional investment considerations.



Environmental – energy use, waste, pollution, natural resource conservation, animal welfare



Social – business relationships, company values, philanthropy, employee health and safety



Governance – corporate practices, shareholder transparency, gender diversity and equity

FACTORS DRIVING INCREASED CONSIDERATION OF ESG IN M&A

- 1 Climate change and resource scarcity
- 2 Safe working conditions and living wages
- 3 Employee diversity and inclusion
- 4 Differentiator for private equity firms to attract and retain capital

THE IMPACT OF ESG CONSIDERATIONS ON M&A

65% of dealmakers say ESG is important when considering an investment

72% of private equity firms screen target companies for ESG risks and opportunities

51% of dealmakers say ESG factors impact the value of a potential investment / M&A target

49% of private equity firms integrate ESG considerations into commercial due diligence

Sources: Mergermarket and PwC Global Private Equity Responsible Investment Survey 2021

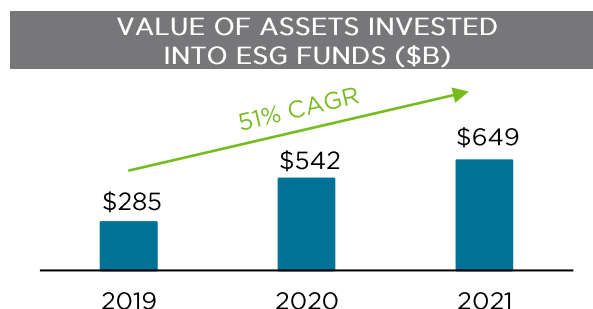
Despite the growing role of ESG considerations in the M&A process, challenges remain as the benefits of ESG initiatives can be difficult to quantify, while the associated costs are not. Nevertheless, it is evident that ESG is increasingly influencing the investment decisions of both strategic and financial purchasers.

The Increasing Influence of ESG Considerations on M&A (Continued)

In addition to the rise in ESG factors being considered in most deals, demand for funds which seek to make investments in ESG focused businesses are rapidly gaining traction.



Source: Thomson Reuters - Refinitiv Lipper



CAPITAL WEST PERSPECTIVES

M&A tailwinds are particularly favourable for businesses with an ESG focus or traditional businesses implementing an ESG framework. Capital committed to ESG-focused funds in 2021 has more than doubled compared to 2019 and is expected to continue to grow as consumers and investors place increasing emphasis on ESG considerations and buyers are compelled to deploy capital accordingly.

When considering a potential transaction, it is critical to communicate to buyers the positive ESG characteristics which will help maximize value, while proactively addressing potential concerns to support a smooth negotiation process.

Capital West has advised on numerous recent transactions where ESG factors were considered by purchasers when evaluating the acquisition opportunity. We have significant experience with positioning the ESG characteristics of businesses across a wide range of industries to support a successful transaction at maximum value.

Capital West Promotions



Promotion of Chris Haughn to Senior Vice President

We are pleased to announce the promotion of [Chris Haughn](#) to Senior Vice President. Chris joined Capital West in 2021 following eight years of experience at national banks where he successfully executed over \$10 billion in M&A and strategic financing mandates across various industries. Congratulations Chris!



Promotion of Roneil Gounder to Vice President

We are excited to announce the promotion of [Roneil Gounder](#) to Vice President. Roneil 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. He is a Chartered Professional Accountant and is currently pursuing the Chartered Business Valuator designation. Congratulations Roneil!

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