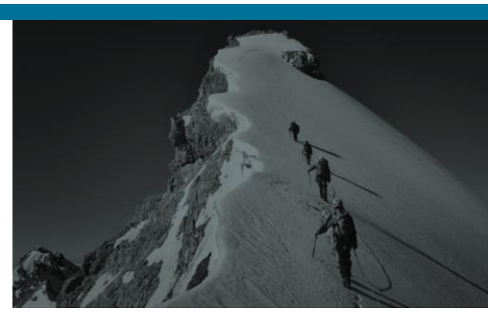
Q3 2022

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



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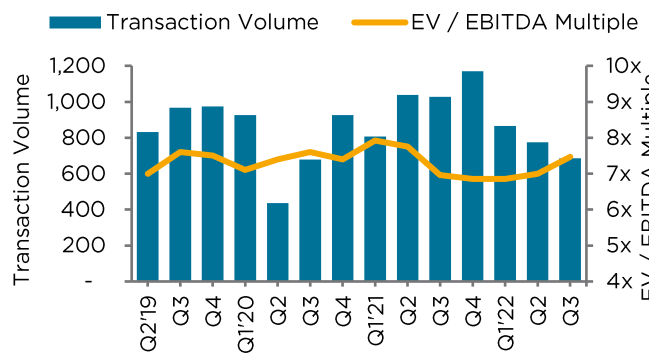
## Q3 2022 M&A Market Update

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

- Q3 2022 average EBITDA multiples increased slightly from recent quarters to 7.5x
- Transaction volumes in Q3 2022 fell 13% from the prior quarter and declined 33% from the record activity experienced in Q3 2021
- Despite a slowdown in transaction activity, deal volumes and multiples are still very healthy and in line with long-term averages

**TRANSACTION VOLUME & AVERAGE EBITDA MULTIPLE ($10M TO $500M)**

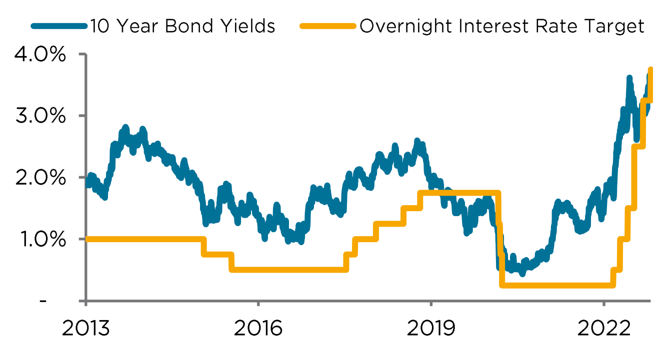



*Source: Capital IQ*

### CANADIAN INTEREST RATES

- The Bank of Canada has raised interest rates six times since the start of the year to the current overnight rate of 3.75% as it attempts to reduce inflation
- Another rate hike is anticipated in December and potential further increases in Q1 2023
- Government of Canada 10-year bond yields continue to rise as the market anticipates further rate increases
- While interest rates have increased rapidly this year, there is a potential for rate cuts later in 2023 if inflation starts cooling

**GOVERNMENT OF CANADA 10-YEAR BOND YIELD & DAILY OVERNIGHT TARGET RATE**



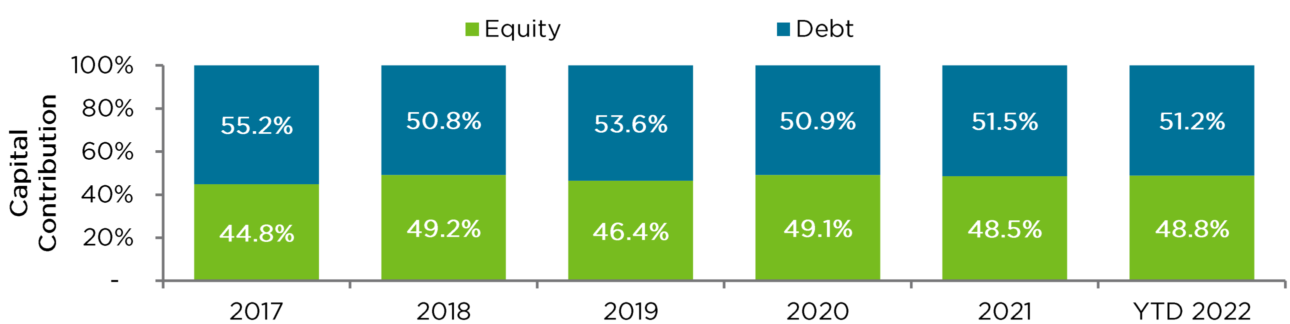

*Source: Bank of Canada*

*Q3 2022 M&A Market Update (Continued)*

## EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA

- Despite higher interest rates, equity contributions on mid-market transactions have remained stable
- While equity contribution percentages have remained stable, it is likely that this will rise in 2023 driven by higher interest rates

### EQUITY & DEBT CONTRIBUTION IN NORTH AMERICA ($10M TO $500M)




*Source: GF Data*

## TOP 10 M&A DEALS IN WESTERN CANADA

The top 10 Western Canadian M&A deals continued to be led by the energy sector, driven by robust energy prices and strong balance sheets. Four of the five largest deals in Q3 2022 involved energy companies, led by Strathcona Resources' $2.3B acquisition of Serafina Energy – a heavy oil producer with operations across Western Canada. The second largest transaction was Nasdaq-listed Semtech's acquisition of Sierra Wireless, a Richmond, BC-based Internet of Things (IoT) solutions provider for $1.75B.

### TOP 10 PUBLICLY DISCLOSED WESTERN CANADIAN DEALS IN Q3 2022

| Date | Industry | Target | Target HQ | Buyer | Value (C$M) |
|---|---|---|---|---|---|
| July 29, 2022 | Oil & Gas | Serafina Energy | Calgary, AB | Strathcona Resources | 2,300 |
| Aug 2, 2022 | Communications | Sierra Wireless | Richmond, BC | Semtech | 1,750 |
| Sept 2, 2022 | Oil & Gas | Deltastream Energy | Calgary, AB | Tamarack Valley Energy | 1,443 |
| July 14, 2022 | Oil & Gas | TransGlobe Energy | Calgary, AB | VAALCO Energy Canada | 436 |
| July 5, 2022 | Oil & Gas | Petrogas Energy | Calgary, AB | AltaGas | 285 |
| July 11, 2022 | Gold | Aris Mining Holdings | Vancouver, BC | Aris Mining Corporation | 279 |
| July 27, 2022 | Gold | Great Bear Royalties | Vancouver, BC | International Royalty | 196 |
| July 5, 2022 | Oil & Gas | Rising Star Resources | Calgary, AB | Tourmaline Oil | 193 |
| July 28, 2022 | Silver | Alexco Resource | Vancouver, BC | Hecla Mining | 115 |
| Aug 25, 2022 | Healthcare | Bevo Agtech | Vancouver, BC | Aurora Cannabis | 110 |

# Onshoring Trends Driving M&A

Driven by unprecedented supply chain challenges and global instabilities over the past two years, many North American businesses relying on overseas manufacturing are looking to increase their production capabilities at home. The majority of North American based manufacturing businesses are focused on increasing their local manufacturing capacity and reducing their dependence on facilities overseas.

A significant shift towards onshoring is underway that will materially impact the global manufacturing landscape going forward. After World War II, there was a rapid increase in globalization and free trade which led to a 50+ year trend of moving manufacturing overseas to reduce costs. This trend is now reversing with a significant focus to bring manufacturing back onshore.

Factors driving North American onshoring:

**Rising Overseas Labour Costs**

Wages in China have increased at an annual average of 13% over the past 20 years [1], decreasing the cost advantages of offshoring to the region

**Global Shipping**

Supply chain challenges due to the COVID-19 pandemic resulted in the cost to ship a container from China to North America increasing 16x from pre-COVID levels to a peak in late 2021 [2]

**Automation**

Advancements in machinery automation are driving manufacturing efficiencies and thus reducing the labour cost advantage of overseas production

**Political Uncertainty / Transparency**

Russia's invasion of Ukraine and rising geopolitical tensions with countries such as China make North America a more stable economy to operate in

**Lack of Intellectual Property Rights**

Intellectual property protection is lackluster in many low-cost countries, leaving companies vulnerable to theft and replication

**54% of US-based manufacturers are considering moving production from China to the US [3]**

**Construction of new manufacturing facilities in the US increased 116% over the past year [3]**

In Canada, a recent survey of 10 manufacturing industry associations noted that 77% of respondents were seeking diversification in their supply chain [4]. From an M&A perspective the significant shift to onshoring is impacting deals. Businesses with strong local manufacturing and that are investing into increasing this local capacity will be considerably more attractive to private equity and strategic buyers than those businesses with a higher dependence on overseas manufacturing.

Capital West has advised numerous manufacturing businesses in the past 10 years, many of which had meaningful production capacity in North America and thus garnered considerable buyer interest.

*Sources:*
*(1) National Bureau of Statistics of China; (2) Freightos; (3) Firmex and Bloomberg; (4) Reshoring Canada*

# Client Spotlight: Harbour Air

Capital West is proud to have advised many of Western Canada's leading businesses over the past 30+ years. We have had the privilege to work with Harbour Air, one of the world's largest seaplane airlines, on multiple transactions over its history.

| 2010 | 2015 | 2020 |
|---|---|---|
| WESTCOAST AIR | HARBOUR AIR SEAPLANES | HARBOUR AIR SEAPLANES |
| Sale to Harbour Air Seaplanes $11 million | Sale of 49% interest to Zongshen Industrial Group | Sale of control to Birch Hill Equity Partners |
| **Advised the Seller** | **Advised the Seller** | **Advised the Seller** |

Harbour Air recently celebrated its 40th anniversary and continues to be a leader and pioneer in the aviation industry. Over its history, Harbour Air has had numerous notable achievements including:

- First operator to provide regularly scheduled seaplane flights between Vancouver and Vancouver Island
- Numerous aircraft upgrades and modifications that have been approved by Transport Canada, and then used by other airlines around the world
- In 2007, became the first airline in North America to be carbon neutral by purchasing carbon offset credits on all its flights

Harbour Air has now embarked on its most ambitious goal to date – to become the world's first airline operating a full fleet of electric powered aircraft. The Company has partnered with Seattle-based maginX, a world leader in the development of electric propulsion systems for the aviation sector.

In December 2019, Harbour Air and maginX completed the world's first fully electric commercial aircraft when a Harbour Air de-Havilland Beaver completed a 4-minute flight in Richmond, BC. Harbour Air and maginX have continued to develop the technology and recently completed the world's first point-to-point flight of an electric commercial aircraft – a 24 minute flight from Richmond, BC to Vancouver Island. The development of the technology is ongoing and Harbour Airs next targeted milestone is to carry its first passengers on electric aircraft by summer 2024.

We are proud to see Harbour Air's innovation and success in this significant step to become a green airline. Congratulations!



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