

CROSBIE & COMPANY CANADIAN M&A REPORT – Q1 2020

Strong First Quarter may be The Last Hurrah...for a While

In the first quarter of 2020, the Canadian M&A market continued to perform strongly, with 797 announced acquisitions worth an aggregate value of \$47.1B. However, as the quarter came to a close, the global COVID-19 pandemic began to take hold resulting in the shut down of many businesses, border closings, and an interruption of much M&A activity both within and outside Canada. As a result, Q2 will almost certainly look quite different, with significant uncertainty for the subsequent quarters.

Accordingly, **we are going to depart from our typical quarterly report** format and first provide some perspectives on what we see happening in the markets at the time of writing, as well as some thoughts on the implications for M&A activity in future quarters. Then, following that discussion, we will provide data and analysis of M&A activity in Q1/2020.

COVID-19 has Pushed Us Abruptly into a New Phase of the M&A Market

We have been very active over the past number of weeks having discussions with various constituents in the M&A markets, including capital providers (banks, debt funds, specialty lenders and private equity groups), advisors (lawyers, accountants and investment bankers), clients, business owners and corporate buyers. The comments below are informed by those conversations.

What is Happening with Existing Sale Processes?

The bottom line is that, for a variety of reasons we will get into, M&A activity has slowed to a trickle. While deals were still closing in the U.S. in early April, the shutdown in Canada seemed to arrive earlier. What we are seeing can be summarized as follows:

- *Deals preparing to go to market* – for most deals at this stage, the ‘pause’ button has already been hit. A handful of special situations may move forward where the impacts on the business are not significant.
- *Deals already in the market* – again many deals are being put on hold, particularly where there are material business impacts. A few are forging ahead but with timelines generally being extended given general issues that have yet to be resolved. Eventually most of these deals will need to address the buyers’ requirement for face-to-face management meetings, plant tours and other critical due diligence matters that cannot be completed while observing travel restrictions and social distancing procedures.
- *Deals that are in exclusivity* – some of these deals are moving forward but many are also going on hold as purchasers assess the company-specific impact of the pandemic. We suspect that many deals will either be repriced or pulled altogether. Buyers might get gun shy and sellers may be reluctant to be tied up in exclusivity for extended periods of time. Transactions that continue to move forward will be those involving businesses less directly impacted, and/or involving strategic or synergistic buyers that have the capability to close with little or no third part financing.

Across all of these transaction phases, there are a number of fairly fundamental issues that will need to be addressed and navigated to get deals across the line. These include:

- *Business uncertainties.* Buyers don't like uncertainty. But many businesses face a range of "unknowns", some of which will be very hard to assess in the near term. These all manifest themselves in the assessment of future cash flows, and how to forecast them with confidence.
- *Valuation.* Aside from what earnings can be expected going forward (i.e. our point above), what multiple or discount rate should be used? Valuation is being reassessed in the public markets (which may impact private company valuations) and the verdict is not yet in.
- *Financing.* For the moment, most of the financing markets relevant to private company M&A are also on pause. This includes the banks' willingness to extend credit to new borrowers. We are at least a few weeks away from understanding how private financing markets will respond.
- *Due diligence challenges.* While much due diligence can be done remotely, there is no substitute for face-to-face meetings and plant tours. Closing most deals without those ingredients will be challenging. Is there a short-term workaround?

What is the Mid-term Outlook for M&A Markets?

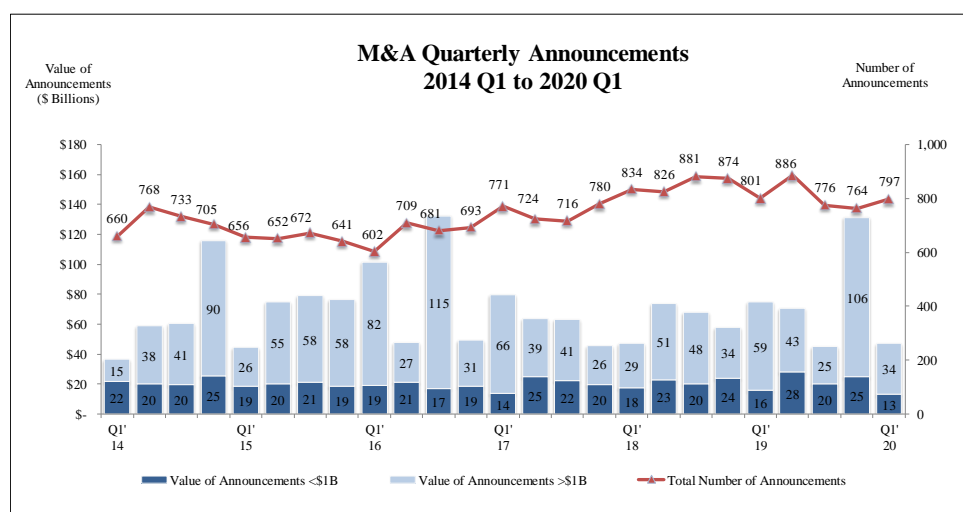
The world today is swimming in predictions. However, despite the somewhat bleak near-term outlook for M&A, history has taught us that **"this too shall pass"**. We are probably in for a few quarters with much lower overall M&A activity, but this should be followed by a strong rebound in transaction levels. A key catalyst for this rebound is seeing some of the near-term impediments we have described above resolve themselves. A return of financing markets and hopefully growth will also help support M&A activity.

Key drivers of M&A activity we expect to see once markets reopen will likely include the following:

- Deals that went on pause. The relaxation of current social distancing restrictions should allow some of the deals that were put on pause to resume.
- We expect many deals to involve businesses that were significantly impacted and need to sell. Some of these will be full-on distressed situations but others will be the so-called "walking wounded" – those that need to do something but won't be quite as rushed.
- Companies with impaired balance sheets. Many companies will need fresh capital. M&A will be a serious alternative for some of these companies.
- Consolidation within many industries will likely accelerate. Stronger players will lead that charge.
- Opportunistic bids for public companies with depressed share prices and broad shareholder bases (i.e. no controlling shareholder or group of shareholders).
- Private equity will be chomping at the bit to take advantage of potential buying opportunities at a 'discount' to previous valuation levels. Once private equity groups move past their initial focus on their existing portfolios, they will turn their attention to new opportunities.
- Succession will emerge as a stronger driver than it has been. Many owners will decide, in the wake of COVID-19, that they need to get out.

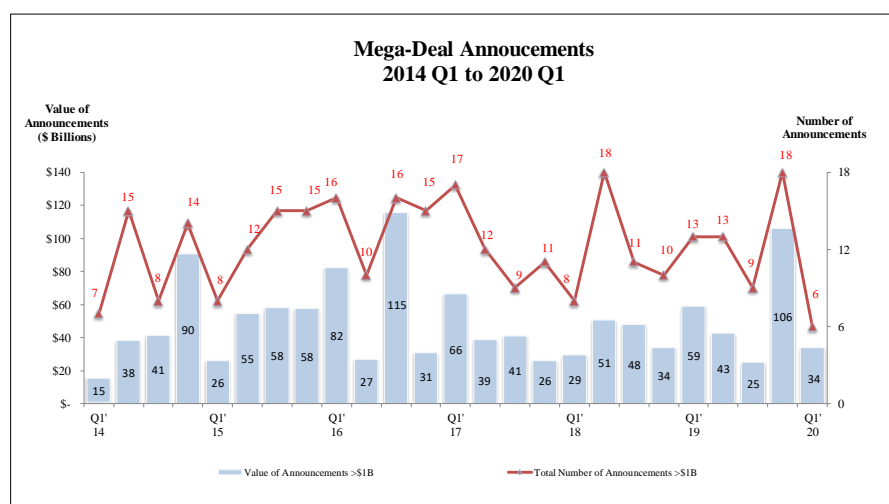
However, having said all this, M&A deals do have long lead times; typically, 6 to 12 months. This means that we are unlikely to see a return to more robust activity levels for a few quarters at least.

Q1 2020 M&A Report



Overview

- Deal activity increased slightly in the first quarter of 2020 with 797 announced transactions and an aggregate deal value of \$47.1B
- The value of all non mega-deals declined to \$13.3B, the lowest amount in the last six years
- Cross-border M&A activity remained strong with 309 announced acquisitions
 - Aggregate cross-border deal value was \$26.3B



Mega-Deals

- There were 6 mega-deals announced in the first quarter of 2020 with an aggregate value of \$33.8B, the fewest number of mega-deals in a quarter in the last 6 years
- The largest acquisition this quarter was the **\$12.0B** acquisition of **Terra Forma Power** by **Brookfield Renewable Partners**
- The second largest transaction was **Bombardier Inc.**'s sale of its train division to **Alstom SA**, as the company seeks to deleverage its balance sheet and focus on its corporate jet business

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Industry Sector Activity

- **Real Estate** was the most active sector this quarter with 107 announced deals valued at \$10.6B, exceeding the 100-transaction threshold for the 7th consecutive quarter
- The **Industrials** sector remained robust with 103 transactions valued at \$12.3B
- The **Precious Metals** sector also experienced strong activity in the first quarter with 93 announced acquisitions as gold prices returned to recent highs

Breakdown by Transaction Size

- 94% of transaction activity in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- There were 301 mid-market transactions valued at \$6.9B or approximately 15% of total M&A value
- Mega-deal activity declined in the first quarter of 2020, with only 6 announced transactions valued at \$33.8B

Domestic versus Foreign M&A

- For the 10th consecutive quarter, more than 500 Canadian companies were acquired, with 515 announced acquisitions in Q1 2020
- Canadian companies continued to be highly acquisitive, making 638 acquisitions both domestically and abroad in the first quarter
- Foreign acquisitions of Canadian companies declined to the lowest level since Q1 2015

Cross-Border Deals

- Outbound cross-border activity remained robust while inbound cross-border activity declined by 30%
- Cross-border deals represented 39% of total activity and 56% of total deal value
- As a percentage of total cross-border activity, Canada/US transactions represented 58% of activity and 69% of aggregate deal value

INDUSTRY GROUPS	2019 Q1		2020 Q1	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Real Estate	120	5,815	107	10,579
Industrials	94	929	103	12,321
Precious Metals	51	17,675	93	1,560
Information Technology	98	17,404	92	3,203
Metals and Mining	80	1,742	62	1,241
Healthcare	70	3,784	62	413
Financial Services	50	8,475	50	685
Communication Services	34	8,254	44	695
Consumer Staples	44	3,132	42	428
Other	31	558	40	204
Consumer Discretionary	45	99	39	305
Energy	36	1,211	30	610
Utilities	20	5,144	20	12,163
Materials	28	581	13	2,737
TOTAL	801	74,803	797	47,144
Services	105	2,868	118	1,435

Size	2019 Q1				2020 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	288	36	4,574	6	283	36	4,336	9
\$101m-\$250m	16	2	2,554	3	18	2	2,596	6
\$251m-\$500m	16	2	5,678	8	7	1	2,567	5
\$501m-\$1b	4	0	3,058	4	5	1	3,801	8
>\$1b	13	2	58,940	79	6	1	33,844	72
Undisclosed	464	58	n/a	n/a	478	60	n/a	n/a
	801		74,803		797		47,144	

	2019 Q1		2020 Q1	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	441	9,172	422	3,379
With Foreign Buyers	132	24,535	93	10,083
Domestic M&A	573	33,707	515	13,462
Foreign Targets (Canadian Buyer)	207	37,636	216	16,207
Canadian Foreign Subsidiaries Sold to Foreign Buyers	21	3,460	66	17,475
Foreign M&A	228	41,096	282	33,682
	801	74,803	797	47,144

	2019 Q1		2020 Q1	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	207	37,636	216	16,207
Inbound M&A (Foreign Buyer/ CDN Target)	132	24,535	93	10,083
Total Cross Border	339	62,171	309	26,290
Outbound : Inbound Ratio	1.57	1.53	2.32	1.61
Cross Border as % of Total Activity	42%	83%	39%	56%
Canada / US Activity				
US Target	128	25,895	126	14,377
US Buyer	92	22,323	53	3,686
Total Canada/US	220	48,218	179	18,063
Canada/ US as % of Cross Border	65%	78%	58%	69%
	801	74,803	797	47,144

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Target by Province

- **Ontario** remains the most active province this quarter with 182 deals valued at \$3.2B
- **British Columbia** was also active in the first quarter with 127 deals valued at \$1.0B
- **Alberta** had the largest aggregate deal value of \$5.3B, comprised of 57 transactions

	2019 Q1				2020 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	207	38	6,528	19	182	33	3,235	10
British Columbia	145	26	20,449	61	127	23	1,046	3
Quebec	84	15	3,416	10	104	19	3,527	10
Alberta	71	13	2,692	8	57	10	5,314	16
Newfoundland	3	1	-	0	10	2	224	1
Saskatchewan	9	2	42	0	9	2	21	0
Undisclosed Province ⁽²⁾	10	2	68	0	8	1	39	0
Manitoba	7	1	422	1	8	1	30	0
Nova Scotia	7	1	68	0	5	1	12	0
New Brunswick	5	1	14	0	3	1	8	0
Northwest Territories	2	0	5	0	1	0	0	0
Yukon Territory	2	0	3	0	1	0	6	0
Nunavut	-	0	-	0	-	0	-	0
Prince Edward Island	-	0	-	0	-	0	-	0
	<u>552</u>		<u>33,707</u>		<u>515</u>		<u>13,462</u>	

Mega-Deals in Q1 2020

Target Industry	Announced		Target	Role	Transaction Status
	Date	Value			
Utilities	13-Jan-20	\$11,998	TerraForm Power, Inc. (NasdaqGS:TERP) Brookfield Renewable Partners L.P. (TSX:BEP.UN)	Target Acquiror	Announced
Industrials	17-Feb-20	\$10,678	Bombardier Transportation GmbH Alstom SA (ENXTPA:ALO) Bombardier Inc. (TSX:BBD.B); Caisse de dépôt et placement du Québec	Target Acquiror Vendor	Announced
Real Estate	20-Feb-20	\$4,531	Northview Apartment Real Estate Investment Trust (TSX:NVU.UN) KingSett Capital; Starlight Investments	Target Acquiror	Announced
Information Technology	18-Feb-20	\$2,751	RSA Security LLC AlpInvest Partners B.V.; Symphony Technology Group, LLC; Ontario Teachers' Pension Dell Technologies Inc. (NYSE:DELL)	Target Acquiror Vendor	Announced
Materials	3-Feb-20	\$2,656	Kissner Group Holdings LP Stone Canyon Industries Holdings Inc. Metalmark Capital LLC; Silverhawk Capital Partners, LLC; Demetree Salt LLC	Target Acquiror Vendor	Closed
Precious Metals	23-Mar-20	\$1,229	SEMAFO Inc. (TSX:SMF) Endeavour Mining Corporation (TSX:EDV)	Target Acquiror	Announced