

## CROSBIE & COMPANY CANADIAN M&A REPORT – Q2 2020

### *Second Quarter M&A Markets Demonstrate Resiliency*

In the second quarter of 2020, Canadian M&A activity declined to 600 announced acquisitions worth an aggregate value of \$14.2B. Although transaction activity declined 25% relative to the previous quarter, it appears that COVID-19 has not impacted the M&A market as significantly as many had previously anticipated. While the global COVID-19 pandemic forced many businesses to shut their doors and countries to close their borders, Canadian companies were still looking to make acquisitions both domestically and abroad throughout the quarter. It will be interesting to see if this trend continues in Q3 as the economy gradually reopens and companies focus on carefully managing their cashflows.

Similar to the previous quarter, we will provide some perspectives on what we currently see happening in the markets, 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 Q2/2020.

#### **COVID-19's Impact on the M&A Market to Date**

We have been very active since the start of the pandemic 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.

#### ***Key Themes in Q2***

- *First the Brakes then the Gas* – the shutdown began in mid-March and deal activity immediately decelerated as buyers and sellers ‘hit pause’ and assessed the situation. However, as the quarter progressed and portions of the economy were reopening or planning to reopen, M&A activity regained its momentum. This is clearly illustrated in the monthly transaction data:
  - *April – 168 deals, \$0.7B*
  - *May – 204 deals, \$6.9B*
  - *June – 228 deals, \$6.6B*
- *Smaller Transactions* – despite deal volume remaining reasonably strong, total deal value fell to recent lows. Transactions that moved forward were predominantly smaller acquisitions by larger strategic players or private equity portfolio companies making modest tuck-under acquisitions. The transformative mega-deal type transactions were almost entirely absent. This simply reflects buyers managing their risk in the current environment by making smaller bets and focusing on sectors and business models where they have a high degree of comfort.
- *Sector Focus* – The sectors that were only modestly impacted by the economic effects of COVID-19 (or have benefited from the pandemic economy) were also the most active sectors. This included mining, technology and healthcare. Sectors that were directly and severely hit by the effects of COVID-19, such as industrials, consumer discretionary and real estate, experienced the most significant declines in M&A activity.

- *Absence of Distressed Deals* – although certain high-profile bankruptcies and restructurings have grabbed the headlines recently (Cirque de Soleil, Hertz, Neiman Marcus, J. Crew, and David’s Tea to name a few), there has been a noticeable absence of distressed M&A transactions. We suspect that there are several contributing factors:
  - Government aid programs (both loans and subsidies) are helping businesses keep their head above water by providing near term liquidity.
  - Commercial banks have been largely accommodative to their borrower clients, extending further liquidity, deferring principal and interest payments, and providing debt covenant waivers and amendments.
  - Not enough time has passed since the pandemic started for most companies to have properly assessed their current financial situation and taken pre-emptive action by pursuing M&A either as an exit strategy or as an alternative to raising capital. In addition, lenders do not appear to have pushed borrowers to pursue that route...yet.

### *Dynamics Impacting the M&A Markets*

Like any economic ecosystem, there are numerous factors that drive M&A activity:

#### *Supply-Side Factors*

- *Valuation Multiples* – it is too early to tell what impact the pandemic is having on valuation multiples which were at cyclical highs pre-COVID-19. Attractive multiples are often a key factor as business owners consider pursuing liquidity events such as M&A exits. One of the high-level factors that may impact multiples is a shift from what had been a ‘seller’s market’ to more of a ‘buyer’s market’.
- *Business Performance* – many businesses are experiencing weak earnings which can be expected to put downward pressure on valuations and act as a drag on M&A activity.
- *Business Owner Psychology* – the negative impact of COVID-19 could be the ‘last straw’ for some business owners who may decide that now is the time to get out. Others may defer sale processes as they attempt to rebuild the value in their businesses that has been lost due to the pandemic.
- *Selling Pressure* – many companies have holes in their balance sheets and will need fresh capital. A M&A sale process will be a serious alternative for some of these companies.

#### *Demand-Side Factors*

- *Availability of Debt Financing* – The major commercial banks and most non-bank lenders spent most of Q2 performing triage on their existing lending portfolios and coordinating the delivery of government loan programs. Obtaining new loans, particularly for new borrower clients, was particularly difficult given the challenges facing lenders in the current environment, such as effectively conducting due diligence and assessing credit risk. Our sense is that lenders have gradually started to refocus on new credits, although they are taking a cautious approach.
- *Private Equity* – there is in excess of \$1.4 trillion of dry powder in private equity funds (source: RBC Capital Markets). While most private equity groups spent the early days of COVID-19 assessing their portfolio companies and addressing problem areas, many have started to actively look at new opportunities. There has been a particular focus by private equity investors on smaller tuck-under acquisitions for existing platforms or new platform investments in sectors where they have deep

expertise and pre-existing relationships with the target management teams. This represents a lower risk strategy in relatively volatile and uncertain markets.

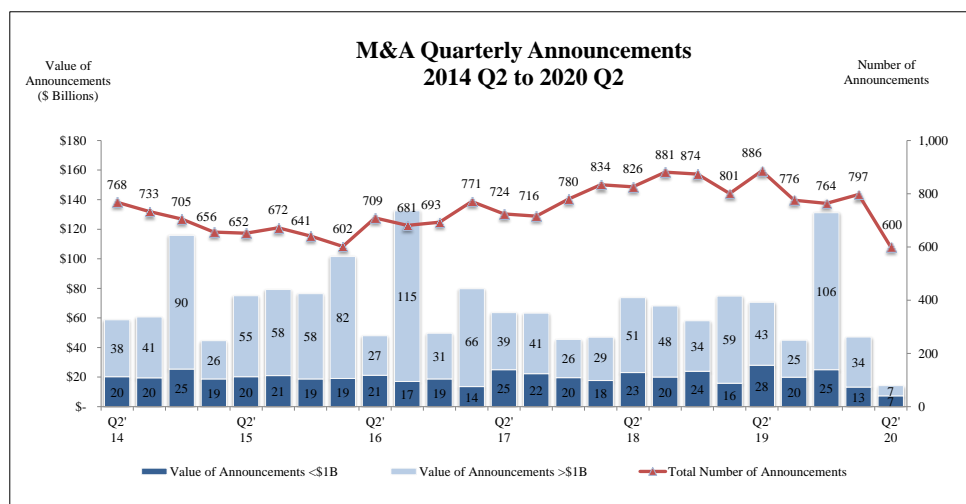
- *Balance Sheet Fitness* – corporate balance sheets had reached record leverage levels even before the impact of COVID-19. It remains to be seen if corporate buyers have the financial firepower required to fund acquisition strategies.
- *Deal Structures* – one of the likely consequences of COVID-19 will be in how deals are structured and documented. In general, we expect buyers will want to be better protected in light of the challenges in completing thorough due diligence and being able to gain the same level of comfort with future business conditions / business performance. As one example, non-cash consideration and purchase price adjustment mechanisms will likely become more common.

### ***When Will Activity Begin to Return to ‘Normal’?***

There are a number of events that likely need to occur in order for M&A activity to rebound near prior levels:

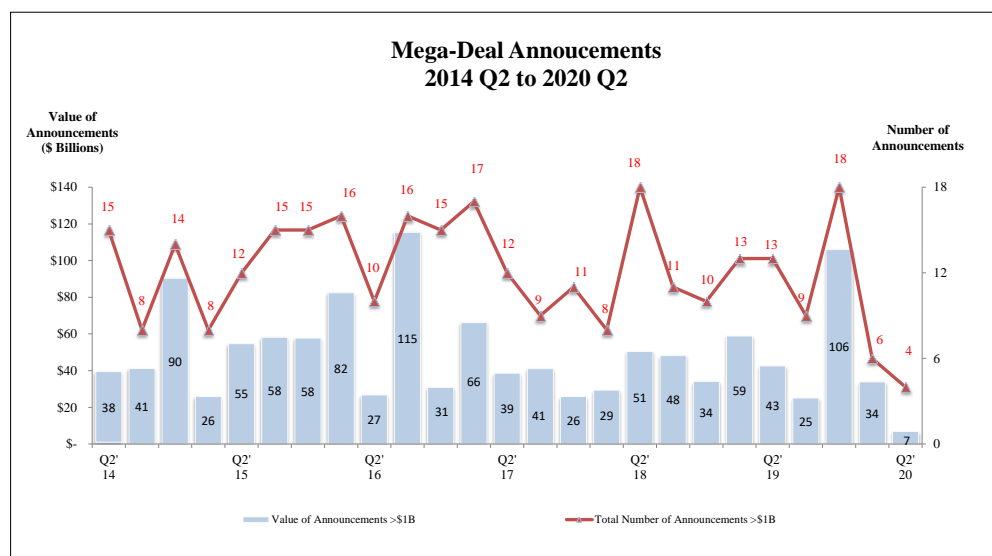
- *Travel Restrictions* – while US buyers still seem warm to entertaining M&A opportunities in Canada, an easing of travel restrictions, particularly across the Canada-US border, should facilitate greater flow of cross-border deals.
- *Social Distancing Rules* – although Zoom calls and virtual meetings have become the new normal, they do not entirely replace face-to-face interaction, particularly for buyers assessing the management team of a target. As social distancing guidelines begin to relax, this should allow for an improved level of transaction activity.
- *Access to Capital* – in the pre-COVID-19 era, debt and equity capital were both abundant and generally available on attractive terms, contributing to the robust levels of transaction activity. Improved availability of capital will be needed in order for the M&A market to fully rebound.
- *Confidence* – general confidence of buyers and capital providers in the broader economy is an important driver of M&A activity. The emergence of a COVID-19 vaccine or therapeutic, or the success of curve-flattening efforts will help to provide the market participants with the confidence needed to move forward with M&A transactions.

## Q2 2020 M&A Report



### Overview

- Deal activity declined 25% in the second quarter of 2020 with 600 announced transactions
- Aggregate deal value of \$14.2B hit a six-year low and was down 70% from Q1
- Cross-border M&A activity declined to 240 announced acquisitions, but continued to represent 40% of aggregate deal activity which is comparable to prior quarters
  - It appears that border closures have not completely inhibited M&A activity between countries



### Mega-Deals

- There were 4 mega-deals announced in the second quarter of 2020 with an aggregate value of \$6.9B, the fewest number of mega-deals in a quarter in the last 6 years
- The largest transaction this quarter was the **\$3.3B** merger of **Alacer Gold Corp.** and **SSR Mining Inc.**, an all-share deal
- Another noteworthy transaction was **GFL Environmental's** acquisition of a **\$1.1B** portfolio of waste collection, transfer, recycling and disposal assets from **Waste Management Inc.** and **Advanced Disposal Services**

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## Industry Sector Activity

- **Precious Metals** and **Metals and Mining** were the two most active sectors this quarter with 111 and 87 announced deals, respectively
- **Information Technology** and **Healthcare** were sectors that demonstrated some resistance to the effects of COVID-19. Both sectors remained active but experienced declines relative to the same quarter last year
- The **Industrials** and **Real Estate** sectors experienced the most significant declines in activity (65% and 69%) and value (93% and 86%) relative to the same quarter in 2019

INDUSTRY GROUPS	2019 Q2		2020 Q2	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Precious Metals	58	1,518	111	4,533
Metals and Mining	81	2,304	87	315
Healthcare	99	3,548	82	1,359
Information Technology	88	2,157	62	2,280
Industrials	113	17,256	39	1,168
Financial Services	62	1,905	37	1,385
Real Estate	110	12,501	34	1,763
Consumer Staples	44	1,003	30	157
Energy	59	7,615	28	334
Other	22	229	27	237
Communication Services	50	4,728	26	147
Consumer Discretionary	60	9,527	16	352
Materials	19	486	14	0
Utilities	21	5,773	7	143
<b>TOTAL</b>	<b>886</b>	<b>70,548</b>	<b>600</b>	<b>14,175</b>
Services	127	26,991	52	2,573

## Breakdown by Transaction Size

- 95% of transaction activity in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- There were 268 mid-market transactions valued at \$3.7B or approximately 26% of total M&A value
- Mega-deal activity declined in Q2 of 2020, with only 4 announced transactions valued at \$6.9B

Size	2019 Q2				2020 Q2			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	324	37	5,148	7	261	44	2,846	20
\$101m-\$250m	24	3	3,905	6	7	1	870	6
\$251m-\$500m	20	2	7,194	10	8	1	2,612	18
\$501m-\$1b	16	2	11,734	17	1	0	994	7
>\$1b	13	1	42,567	60	4	1	6,853	48
Undisclosed	489	55	n/a	n/a	319	53	n/a	n/a
	<b>886</b>		<b>70,548</b>		<b>600</b>		<b>14,175</b>	

## Domestic versus Foreign M&A

- Acquisitions of Canadian companies declined approximately 30% relative to Q2 2019, while aggregate deal value dropped 88%
- Canadian companies made 486 acquisitions in the second quarter including domestic and foreign transactions
- Foreign acquisitions of Canadian companies declined to the lowest level since Q1 2015

	2019 Q2		2020 Q2	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	443	18,047	324	1,505
With Foreign Buyers	130	16,182	78	2,704
<b>Domestic M&amp;A</b>	<b>573</b>	<b>34,229</b>	<b>402</b>	<b>4,210</b>
Foreign Targets (Canadian Buyer)	250	24,707	162	7,568
Canadian Foreign Subsidiaries Sold to Foreign Buyers	63	11,613	36	2,397
<b>Foreign M&amp;A</b>	<b>313</b>	<b>36,320</b>	<b>198</b>	<b>9,965</b>
	<b>886</b>	<b>70,548</b>	<b>600</b>	<b>14,175</b>

## Cross-Border Deals

- Outbound cross-border activity declined 35% while inbound cross-border activity declined by 40% compared to the same quarter in 2019
- Cross-border deals represented 40% of total activity and 72% of total deal value
- As a percentage of total cross-border activity, Canada/US transactions represented 59% of activity and 83% of aggregate deal value

	2019 Q2		2020 Q2	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	250	24,707	162	7,568
Inbound M&A (Foreign Buyer/ CDN Target)	130	16,182	78	2,704
<b>Total Cross Border</b>	<b>380</b>	<b>40,889</b>	<b>240</b>	<b>10,272</b>
<b>Outbound : Inbound Ratio</b>	<b>1.92</b>	<b>1.53</b>	<b>2.08</b>	<b>2.80</b>
<b>Cross Border as % of Total Activity</b>	<b>43%</b>	<b>58%</b>	<b>40%</b>	<b>72%</b>
<b>Canada / US Activity</b>				
US Target	154	5,205	92	6,887
US Buyer	81	10,577	49	1,672
<b>Total Canada/US</b>	<b>235</b>	<b>15,783</b>	<b>141</b>	<b>8,559</b>
<b>Canada/ US as % of Cross Border</b>	<b>62%</b>	<b>39%</b>	<b>59%</b>	<b>83%</b>
	<b>886</b>	<b>70,548</b>	<b>600</b>	<b>14,175</b>

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### Target by Province

- **Ontario** remains the most active province this quarter with 147 deals valued at \$1.7B
- **British Columbia** was also active in the first quarter with 112 deals valued at \$773M
- **Alberta** had the second largest aggregate deal value of \$1.4B, comprised of 42 transactions

	2019 Q2				2020 Q2			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Ontario	236	41	11,050	32	147	37	1,654	39
British Columbia	120	21	3,487	10	112	28	773	18
Quebec	63	11	4,000	12	70	17	119	3
Alberta	99	17	13,404	39	42	10	1,394	33
Saskatchewan	16	3	11	0	11	3	20	0
Nova Scotia	4	1	1,644	5	5	1	49	1
New Brunswick	4	1	0	0	5	1	12	0
Manitoba	16	3	565	2	5	1	11	0
Newfoundland	4	1	0	0	3	1	0	0
Northwest Territories	0	0	n/a	-	1	0	177	4
Prince Edward Island	1	0	0	0	1	0	n/a	-
Nunavut	0	0	n/a	-	0	0	n/a	-
Undisclosed Province	8	1	67	0	0	0	n/a	-
Yukon Territory	2	0	0	0	0	0	n/a	-
	<u>573</u>		<u>34,229</u>		<u>402</u>		<u>4,210</u>	

Mega-Deals in Q2 2020

Target Industry	Announced		Target	Role	Transaction Status
	Date	Value			
Precious Metals	11-May-20	\$3,309	Alacer Gold Corp. (TSX:ASR) SSR Mining Inc. (TSX:SSRM)	Target Acquiror	Announced
Financial Services	29-Jun-20	\$1,370	Personal Capital Corporation Empower Retirement, LLC Institutional Venture Partners; CrossLink Capital, Inc.; VR Adviser, LLC; United Services	Target Acquiror Vendor	Announced
Industrials	24-Jun-20	\$1,134	Portfolio of Vertically Integrated Solid Waste Collection, Transfer, Recycling and GFL Environmental Inc. (TSX:GFL) Waste Management, Inc. (NYSE:WM); Advanced Disposal Services, Inc. (NYSE:ADSW)	Target Acquiror Vendor	Announced
Communication Services	1-Jun-20	\$1,041	Portfolio of 13 Data Centers Across Canada Equinix, Inc. (REIT) (NasdaqGS:EQIX) BCE Inc. (TSX:BCE)	Target Acquiror Vendor	Announced