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STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

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WELCOME TO STRAIGHT TALK

Dealmakers have adapted to pandemic conditions and closed borders. That became apparent in the fourth quarter of 2020, as domestic and cross-border Canadian M&A activity accelerated and average deal size more than doubled over the previous quarter. In this issue of Straight Talk, we delve into the M&A rebound, taking a hard look at the dynamics behind the data.

The quarter brought an increase in deal volume and value in most provinces across Canada, with sector activity up almost across the board. As a national business law firm, with 12 offices across the country, we observed that first-hand. In this issue, Miller Thomson Partners from our offices in Montreal, Toronto, Southwestern Ontario and Vancouver provide their insights, supplementing the data with first-hand experiences from their respective group's practice.

In addition to perspectives from our Partners, we spoke with Zach Waltz, Managing Director, and Mark Leeker, Senior Managing Director and Head of Acquisitions at Harbour Group, a US-based private operating company with an investment focus on the mid-market. Zach and Mark share a range of well-informed views, including how the US election result may impact deal activity through 2021, how they have adapted their deal processes to support Harbour Group's ongoing cross-border transactions, and which COVID-related deal process changes are likely to stick post-pandemic. Their interview is on pages 12-13, following our M&A review.

As we move towards warmer weather and a vaccine rollout that is becoming a reality, there is plenty of reason for optimism. Capital remains abundant, many businesses have proven to be COVID resilient, and government funding has served as a means of support for those industries that are struggling. Certainly on the M&A front, we anticipate an extremely active period of deal flow.

On a closing note, as always, please don't hesitate to reach out if you'd like to learn more about our advisory expertise in the Canadian mid-market, or to discuss this publication. We are always happy to have a conversation.

Regards,

Jay Hoffman

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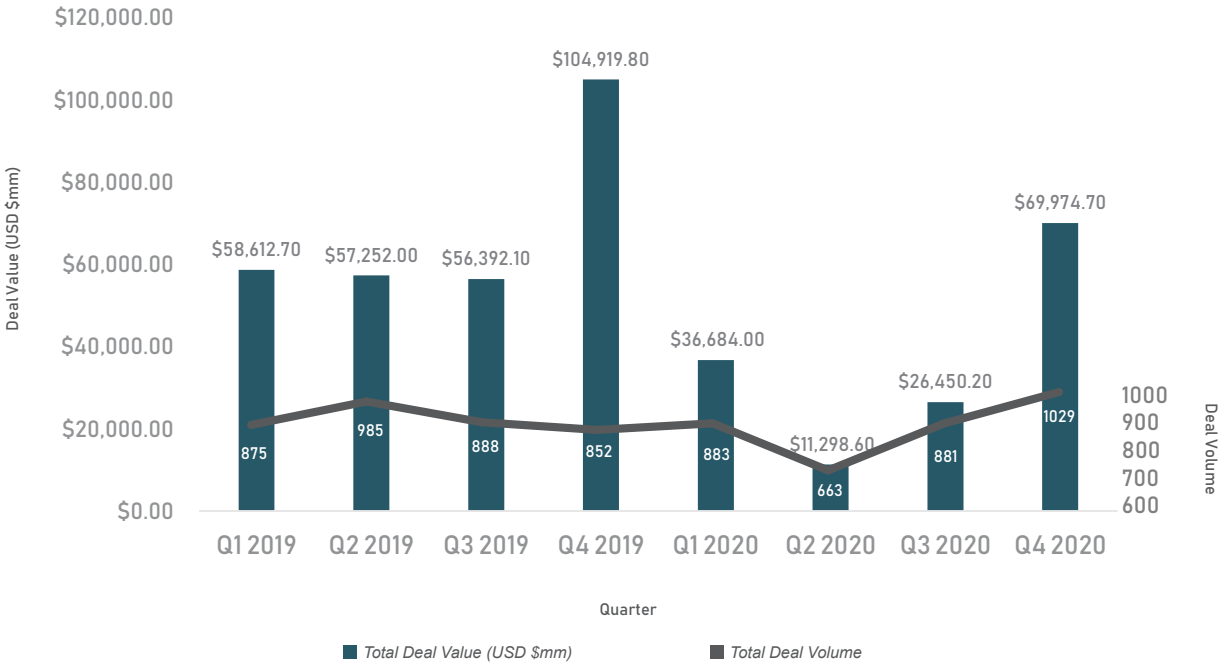
Q4 2020 MARKET INSIGHTS

The rebound in Canadian M&A accelerated through the fourth quarter of 2020, with activity outpacing both Q3/20 and Q4/19. Deal value increased as well over the prior quarter, with 15 mega-deals (\$1 billion+) announced, representing 60% of the mega-deals announced through the full year. In this issue, we focus our discussion on activity in Q4/2020 rather than the full year; full year results were skewed by the pandemic’s severe impact on Q2/20 activity, and as such, do not paint an accurate picture of the current transaction environment.

Geographically, deal activity in most provinces was up over Q3/20, and in many instances, over Q4/19 as well. As always, we provide additional insights from Miller Thomson Partners across the country to get a ground-level view of the recovery through Q4/2020 and reflections on the early months of 2021.

Note: Dollar values are in USD.

Total Deal Value & Volume (2019-2020)



Source: Capital IQ Jan 7, 2021

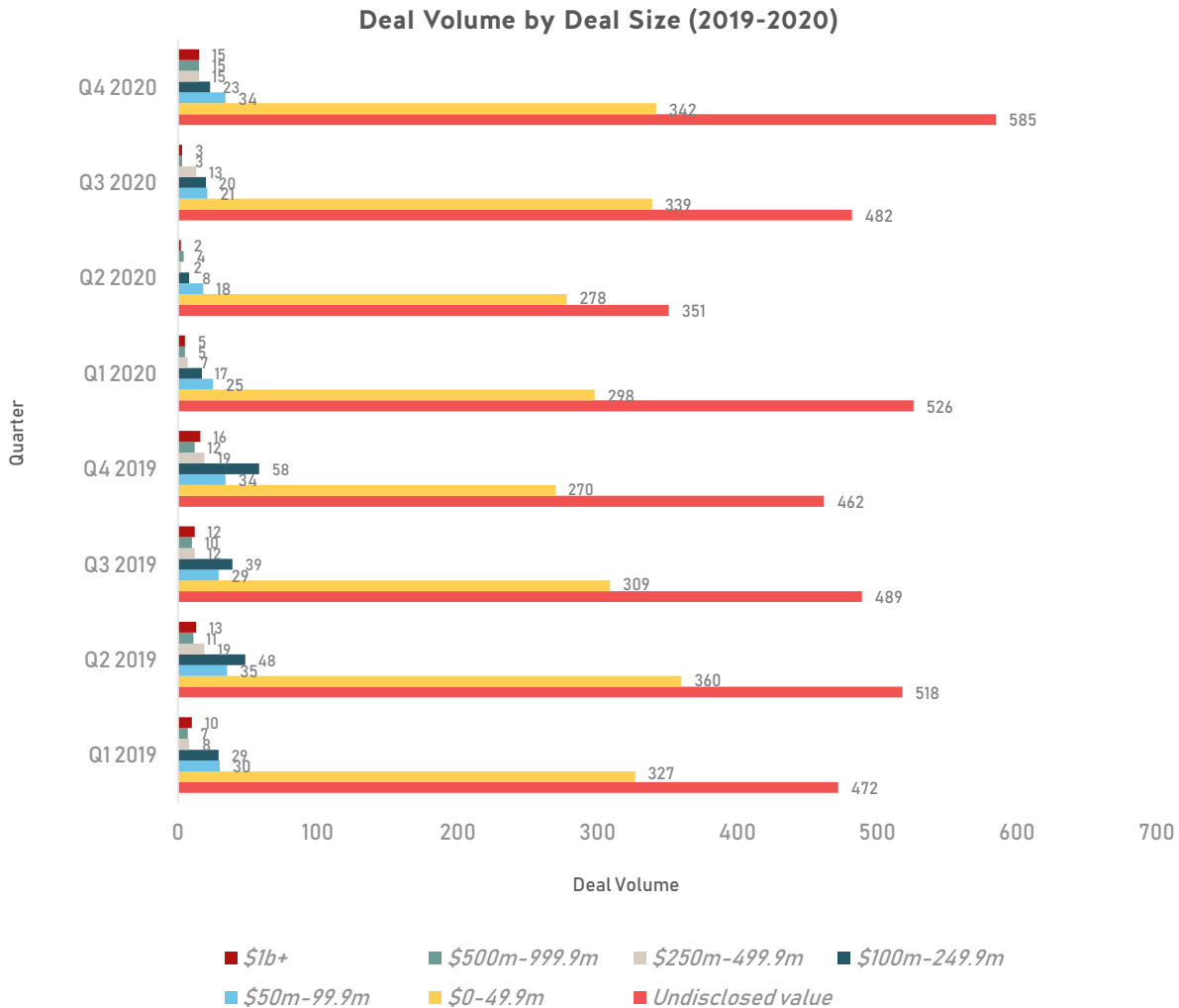
DEAL ACTIVITY

Return of the mega-deal

There were 1,029 announced deals in the quarter, up 20.8% over Q4/19, and 16.8% over Q3/20. Buyers and sellers did larger deals: at \$157.6 million, average deal size more than doubled the \$66.3 million average of the prior quarter. Sub-\$50 million deal volume dropped off as a percentage of total activity, accounting for 33.2%, down from 38.5% in Q3/20. At the opposite end of the size spectrum, deal volume in the \$500 million+ categories ramped up, increasing to 30 announced deals in Q4/20 from 6 in the prior quarter. Intact Financial Corp.’s announced \$10.4 billion acquisition of UK-based RSA Insurance Group Plc led the way on the mega-deal front, alongside multiple domestic and cross-border deals in the \$1-4 billion range.

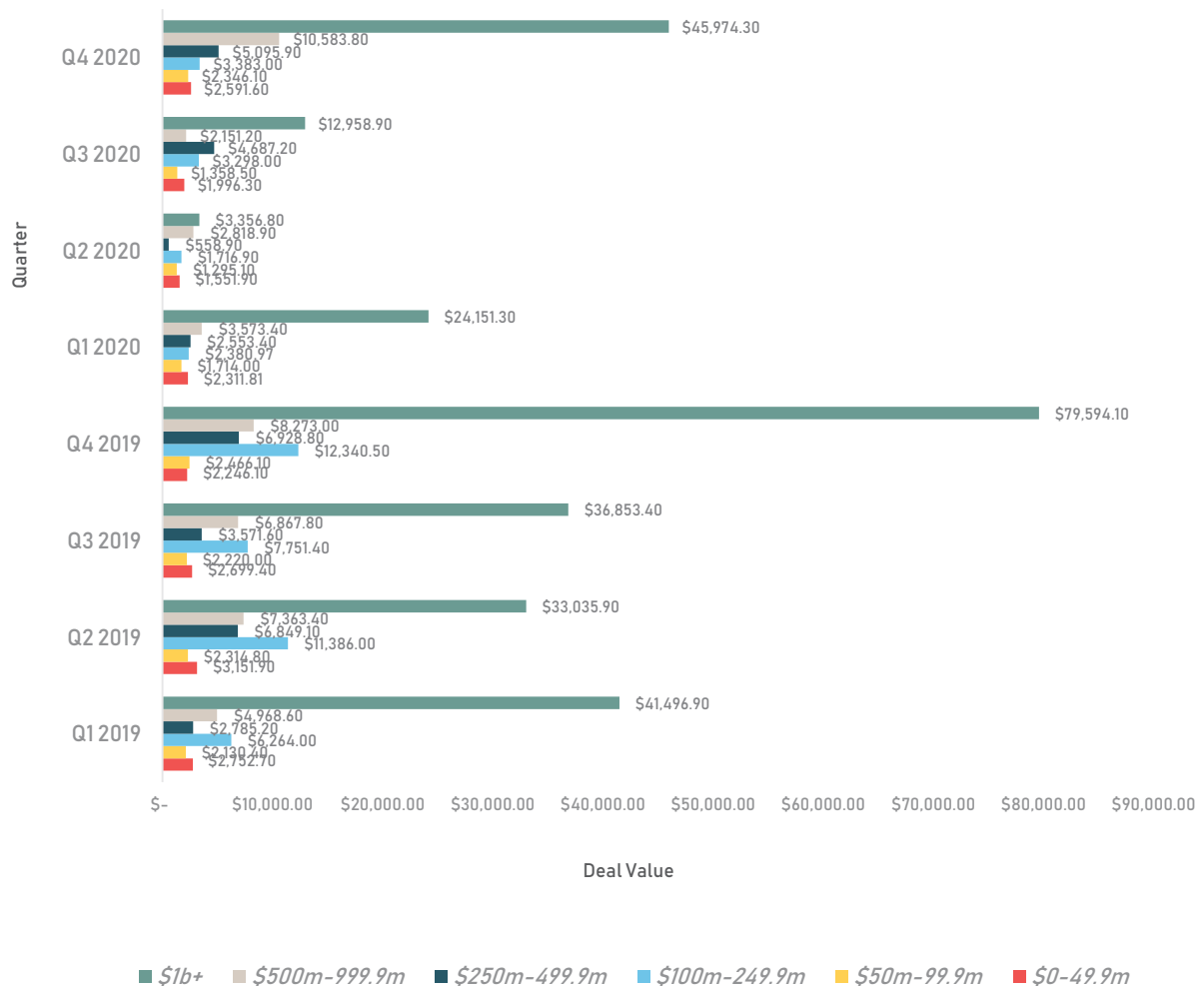
The increase in sizeable deals drove higher aggregate value in the quarter. Deal value was almost \$70 billion in Q4/20, up 165% from the prior quarter, and well above each of the first three quarters of 2019, though down from Q4/19, which included Charles Schwab’s \$28.4 billion acquisition of TD Ameritrade.

Vancouver-based Partner **Stefan McConnell’s** experience is consistent with the data. “In the BC market,” he says, “deal size and volume continued to be high in Q4, with both the size of the transactions and number of deals above 2019 levels.”



Source: Capital IQ Jan 7, 2021

Total Deal by Deal Size (2019-2020)



Source: Capital IQ Jan 7, 2021

Different industries, different impacts

A year into the pandemic, it is clear that the impact on businesses and industries has ranged from acutely negative to highly positive. While pandemic-resilient companies are enjoying plenty of buyer attention, Southwestern Ontario-based Partner **Ryan Done** is also seeing deals get done with businesses “significantly impaired by the pandemic, but that still meet a longer-term investment thesis held by the buyer.” Done says that “in many of those cases, larger companies are hiving off certain discrete or non-core businesses from their portfolio via asset sales, allowing them to shore up cash or deal with larger debt issues without having to sell the entire company.” Buyers benefit in this scenario as well, **Done** explains: “In many cases, the buyers are portfolio companies of private equity firms that see these divestitures as an opportunity to add value to existing businesses in the same space. The carve-outs allow buyers to acquire the specific business or assets that they want.”

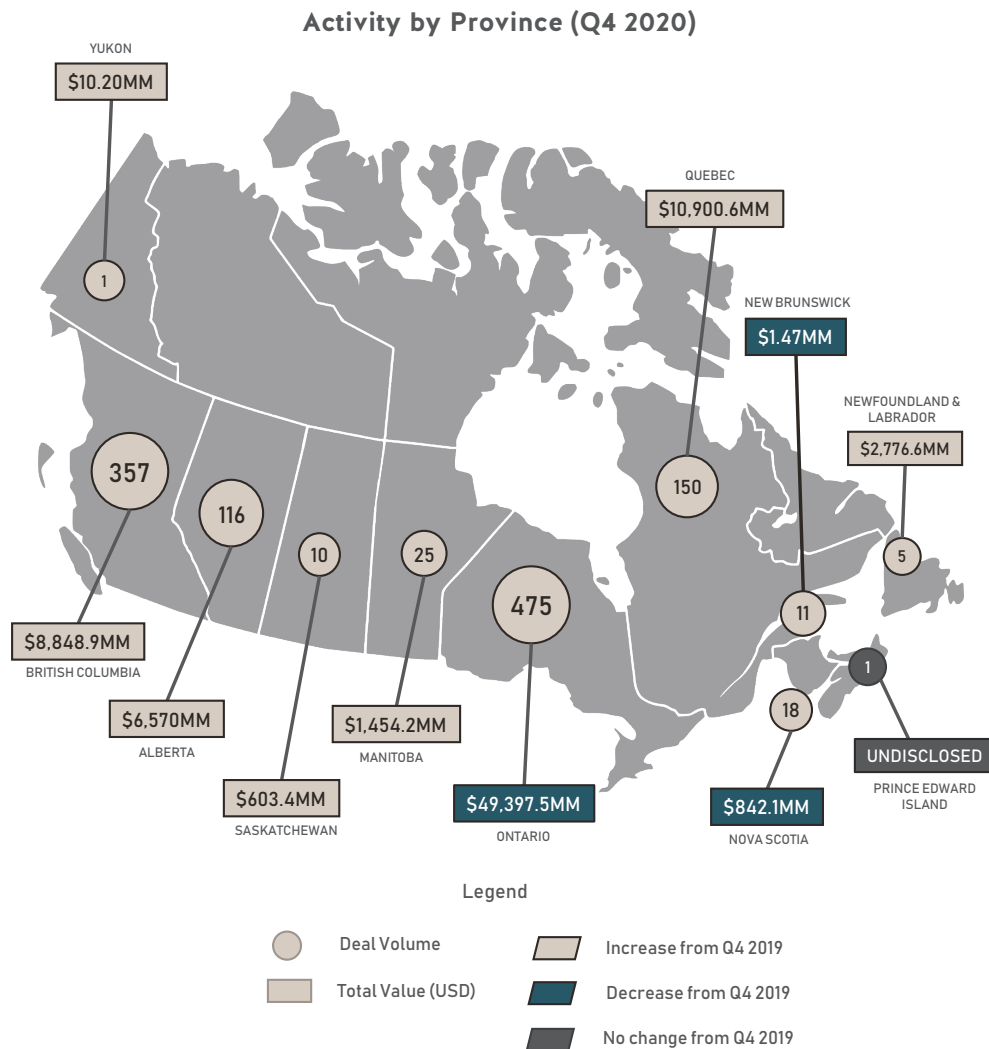
GEOGRAPHIC TRENDS

Dealmaking across Canada

M&A activity increased over Q3/20 in most provinces across Canada, and in many provinces, activity was up over Q4/19 as well. While each of the four largest provinces saw gains in deal volume, Ontario led the way, up in value and volume by 285% and 31% respectively, over Q3/20, Ontario's deal value was elevated by the aforementioned Intact Financial Corp.'s announced \$10.4 billion acquisition of UK-based RSA Insurance Group Plc, the largest mega deal of the quarter.

Toronto-based Partner **Jay Sernoskie's** experience is reflective of the Ontario data: "Q4 was busier [in my practice] than it has been for a number of years" he says, attributing that, in part, to year-end closings and the closing of a large data centre acquisition in Quebec.

Quebec was the only large province to see a significant decline (22.6%) in deal value over the prior quarter; however, its Q3/20 value included almost \$10 billion related to two of that quarter's three announced mega deals¹. Notably, deal volume and value were up over Q4/19, 13.6% and 2.1% respectively, and as Montreal-based Partner **Philippe St-Louis** reports, in Miller Thomson's Quebec M&A practice, "there has been a steady increase in deal flow."



Source: Capital IQ Jan 7, 2021

Domestic Dealmaking

Domestic deal activity surged in the quarter, up 18.3% over Q3/20 and well ahead of every quarter in 2019. Similar to Q3/20, domestic deals continued to represent a higher proportion of total deal volume at almost 48%, in contrast to 43.1% for Q4/19, and 44.3% for the whole prior year. While, as we discuss below, cross-border transactions accelerated in the quarter, the higher proportion of domestic deals likely continues to reflect the relative ease of getting domestic deals done in a closed border environment. Value was up almost 58% over the prior quarter, reflecting buyers' renewed interest in pursuing larger transactions as they adapt to pandemic deal norms.

Canadian Domestic Deals (2019-2020)

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic								
Volume	381	459	388	367	435	332	416	492
Value (US\$mm)	6,482.4	15,211.4	11,931.9	24,676.6	6,214.1	1,197.3	7,689.2	12,121.20

Source: Capital IQ Jan 7, 2021

Where are we globally?

Top Three Cross-Border Partners by Deal Volume (2019-2020)

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Inbound								
United States	99	91	101	92	60	52	79	101
Asia/Pacific	7	14	12	14	18	11	10	12
Europe	26	37	27	23	26	21	26	27
Outbound								
United States	128	157	135	132	143	99	142	159
Asia/Pacific	13	16	16	18	16	20	23	25
Europe	44	49	56	44	52	24	43	55

Source: Capital IQ Jan 7, 2021

Despite closed borders, cross-border – and particularly inbound - activity continued its rebound. Volume and value increased, respectively, 21.7% and 396% for inbound and 3.2% and 132% for outbound over the prior quarter. This ramp up in value suggests that even in the face of pandemic-related deal challenges, buyers are getting more comfortable with virtual diligence and other work-arounds, as they demonstrate a willingness to transact across borders with larger targets.

As always, US deals continued to lead the pack in the cross-border category, with inbound and outbound volume up, respectively, 28% and 12% over Q3/2020, and representing 69% of total inbound and 61% of total outbound deal volume.

Stefan McConnell notes that Miller Thomson’s Vancouver team is seeing a range of international buyers. “We are seeing strong activity in the BC market from both US and European buyers,” he says, “including strategics and private equity.” In Southwestern Ontario, **Ryan Done** says that he is seeing strong buyer interest expressed by US private equity (or their portfolio companies), as well as US strategics looking to roll up Canadian targets or assets.

SECTOR ACTIVITY

Miller Thomson is seeing and advising on deals spanning multiple sectors, involving targets in manufacturing, agribusiness, technology, industrials, pharmaceuticals, financials, real estate and mining.

More specifically, from their practices across Canada:

Stefan McConnell, Vancouver, British Columbia: “Technology has been the most active sector by far, however, we have also seen strong activity in health care, natural health products, manufacturing & distribution, mining and bitcoin.”

Jay Sernoskie, Toronto, Ontario: “While we are seeing activity across a range of sectors, worth mentioning is that over the last few months, a number of trucking/transportation transactions have closed or come online.”

Philippe St-Louis, Montreal, Quebec: “The tech sector and video game space continue to be very active, both in terms of M&A and equity financing.”

According to the data...

Sector Activity (Q4 2019 v. Q4 2020)

	Q3 2020	Q4 2020
Total Deal Volume	881	1029
Energy	46	40
Materials	270	232
Industrials	79	121
Consumer Discretionary	52	49
Consumer Staples	41	46
Healthcare	72	87
Financials	63	87
Information Technology	97	124
Communication Services	38	46
Utilities	15	26
Real Estate	68	102
Total Deal Value (US\$ mm)	26,450.2	69,974.7
Energy	2,752.9	5,695.7
Materials	1,611.6	8,434.4
Industrials	9,525.3	6,657.5
Consumer Discretionary	222.8	4,818.4
Consumer Staples	208.9	2,590.7
Healthcare	1,120.2	2,378.4
Financials	130.6	13,410.7
Information Technology	1,821.9	7,177.8
Communication Services	4,972.8	4,186.7
Utilities	399.4	3,844.8
Real Estate	3,368.3	9,604.9

Source: Capital IQ Jan 7, 2021

Most sectors performed well in Q4/20: deal value increased over the prior quarter in all sectors, with the exception of Industrials and Communications Services, while deal volume increased in many.

Top 3 sectors by volume and value

Materials deal activity led the way with 232 announced transactions, followed by Information Technology (124) and Real Estate (102). Deal value was highest for the Financials sector at \$13.4 billion, in large part attributable to the Intact Financial/RSA Insurance mega-deal. Real Estate ranked second in value (\$9.6 billion), boosted by Blackstone Property Partners Life Sciences' announced \$3.45 billion acquisition of a significant portfolio of lab office buildings from Brookfield Asset Management. Materials closed out the top three in value (\$8.4 billion), a figure that includes the \$3.7 billion acquisition of Norbord Inc, an international producer of wood-based panels, by West Fraser Timber.

LOOKING AHEAD

In our Q3 issue, we observed that deal pipelines were full, there was an abundance of capital to deploy, and advisors and investors were adapting to pandemic-related deal process challenges. Those dynamics came together to drive an exceptionally active fourth quarter, and will continue to fuel deal activity in 2021. In addition, moving further into this new year, we expect that greater visibility on the vaccine roll-out and post-pandemic world will bolster confidence for buyers and sellers, and business owners that hit pause on 2020 sale processes will re-enter the market.

At Miller Thomson, we are here to support and advise our clients along the path ahead, whether they are considering an acquisition, looking to refinance and address liquidity issues, or facing strategic decisions related to their business. We understand how to effectively navigate the deal-related hurdles of the pandemic, and ultimately, help our clients get their deals across the finish line.

Look for our next issue, with insights on Q1/2021, coming in the Spring.

¹The \$4.2 billion unsolicited takeover offer by Rogers Communications Inc. to acquire Cogeco Inc. and Cogeco Communications Inc, and the \$5.2 billion unsolicited offer by Garda World Security Corporation to acquire UK-based G4S plc. Both bids were unsuccessful.

INVESTOR PERSPECTIVES: A US VIEWPOINT

Interview with Zach Waltz, Managing Director, and Mark Leeker, Senior Managing Director and Head of Acquisitions, Harbour Group

Harbour Group is a US-based private operating company with a focus on the mid-market. Since 1976, the firm has partnered with management teams to grow 214 businesses across 47 industries.

Miller Thomson: *Let's talk about M&A activity past and present. In your view, has anticipation of the Democrats' win, and their ultimate success, impacted the volume of deal activity?*



Zach Waltz: People think Democrat and they think tax increases. But it's unclear how much that concern will drive activity in 2021. We did see a bump up in deal flow towards the end of 2020 and through early 2021, but I associate that more with pandemic issues than with the concern about tax increases – though they may be interrelated to a degree.



Mark Leeker: That's a very good point. Sometimes when you get an administration change, as we have, and anticipation of a tax code change, it's the single biggest factor at play. But in today's world, there is this huge other thing happening, and that's the recovery from the pandemic. In my view, the strength of the back half of 2020 reflected a bounce back from the pandemic – it wasn't necessarily tax or party changes.

Miller Thomson: *Can you talk about your outlook for 2021?*

Mark Leeker: For multiple reasons, we think 2021 is going to be a very strong year. There was a deferral of 2020 deals, so those are going to pile onto the 2021 transactions. Of course, there's a lot of capital and appetite out there to do deals. In addition, I do think there will be decisions by business owners in anticipation of regulatory changes. But on that last point, there is a bit of wait and see: there is a great deal on the new administration's plate, the House and Senate are incredibly close, and only a month into the new administration, people are already focussing on the mid-term elections. So the idea of drastic tax change remains a big question mark.

Miller Thomson: *Let's focus on Canada. You've done 7 deals here over the past 5 years. How has the pandemic and closed borders impacted your Canadian deal activity?*

Zach Waltz: Closed borders haven't slowed us down in Canada. If we identify a good business and it's for sale, we're going to chase it.

We're working on a Canadian deal right now, with six locations across a couple of different provinces. We have strong trusted advisor relationships like Miller Thomson, and rely on them to help us find the necessary local resources to get our diligence done. In addition, we have portfolio companies with operations in various countries and, where appropriate, we rely on them as our boots on the ground. Lastly, like everyone, we've had to get really comfortable with technology to help us through our diligence. We very much miss building relationships with potential partners in person and think there is an enormous benefit for both sides to break bread together, but do the best we can with videoconferences for now.

Miller Thomson: *Have you seen a shift in valuations through the pandemic?*

Mark Leeker: I can't make a blanket statement about that. There are businesses that have had a lift from COVID, and are performing particularly well, while of course, there are others that have been hit hard. Businesses that have performed well through 2020 have definitely become more valuable - they've proven they have a resilience, and as a result, are well positioned in the market. Those that have performed poorly often had issues going into COVID (unless they were in particularly vulnerable sectors). While valuations haven't fundamentally changed, good businesses are getting really good values, and those that are struggling just have to sit tight for a while.

Miller Thomson: *How do you value those companies that have accelerated performance because of COVID related demand for their product or service?*

Zach Waltz: Figuring out what is a normalized earnings base presents a whole set of challenges in this environment. In the healthcare space, for example, I've seen businesses that are 4X larger than they were a year ago for no other reason than that there's a pandemic. How do you put a value on that? Our approach: we look back at pre-COVID performance to determine what the base business earnings were and extrapolate what earnings would likely have been without COVID, then assign a multiple to that. We assume anything related to COVID is a one time bump, and give the company credit accordingly. On the downside, it's the same principle. And if necessary, we'll use structures like earn-outs to bridge the gaps in value expectations.

Miller Thomson: *The deal process has changed out of necessity during COVID. Do you think any of those changes will stick post-pandemic?*

Mark Leeker: Looking back over the past 10 years, M&A advisors have developed approaches to shorten the process and level the playing field, and because of COVID, we're seeing even more of that. For example, we now do management presentations by zoom, which is very efficient for the buyer and seller, and management visits are limited to a final few that are really interested in the deal, also improving efficiency for the process and management teams. I think these things will stick, although the shorter timeline means the risk will go up for buyers.

Ultimately, while some of the new approaches are here to stay, we will return to in-person meetings with prospective sellers. There are volumes written about the impact of culture on the success and failure of acquisitions, and it's very difficult to assess the culture of a business without actually meeting the people. The dinner, the one-on-one time - nothing can replace that.

REPRESENTATIVE 2020 TRANSACTIONS

Represented

Bulldog Capital Partners
\$1 billion

A member of a consortium led by Northern Private Capital and including Bulldog Capital Partners to support the acquisition of MDA (once-known as MacDonald, Dettwiler and Associates), Canada's leading space-tech company from Colorado-based Maxar Technologies (TSX: MAXR; NYSE: MAXR)

Maxar Technologies

Represented

Vantage Data Centers LLC
USD\$1.2 billion

Equity investment in Vantage Data Centers LLC a leading global provider of hyperscale data center campuses, by a consortium of investors led by Colony Capital (NYSE: CLNY)

Represented

Simply Group Home Services Inc.
\$511 million

Acquisition of SNAP Financial Group, a payment solutions provider, by Simply Group Homes Services Inc., which included \$412 million of consumer loan assets and cash consideration of \$73.5 million.

SNAP Financial Group

Represented

Shareholders of Canaccede Financial Group

Acquisition of Canaccede Financial Group, the largest buyer of charged-off consumer receivables and insolvencies in Canada, by Jefferson Capital Systems LLC, a portfolio company of J.C. Flowers & Co. (leading private investment firm and principal shareholder of Jefferson Capital).

Jefferson Capital Systems LLC

Represented

Caisse de dépôt et placement du Québec and Investissement Québec
\$53 million

Series C round of financing by Caisse de dépôt et placement du Québec and Investissement Québec, in AddEnergie, a North American charging network operator for electric vehicles and a major provider of smart charging software and equipment.

Represented

Lithium Americas Corp-Special Committee of Independent Directors

Joint venture with Ganfeng Lithium Co., involving sale of shares of Minera Exar S.A., their joint venture company.

Represented

Rubicon Research Private Limited

Cross-border acquisition of Impopharma Canada Ltd. by Rubicon Research Private Ltd., a leading global specialty pharmaceutical company.

Impopharma Canada Ltd.

Represented

nventive

Merger of nventive, a leading Canadian mobile and web application studio with Les Applications Mobiles Agyl Inc. (doing business as Cortex, a digital innovation studio).

Les Applications Mobiles Agyl Inc.

REPRESENTATIVE 2020 TRANSACTIONS

Represented

Backwoods Energy Services Limited Partnership/ Indigenous Communities Syndicate LP and Alexis Nakota Sioux Nation
\$93 million

Loan arrangement with a consortium of Alberta-based First Nations from Alberta Treasury Branches with a Guarantee from the Alberta Indigenous Opportunities Corporation, including the establishment of a holding vehicle and subsequent investment in the Cascade Power Project, a \$1.5 billion Natural Gas Co-Generation Facility construction project.

Represented

Explorex Resources Inc.

Acquisition of Raffles Financial Pte. Ltd., a Singapore based financial services company, by Explorex Resources Inc. (CSE:EX)(OTCMKTS:EXPF). The resulting company trades under the name Raffles Financial Group Limited (CSE:RICH).

Raffles Financial Pte. Ltd.

Represented

Highlight Motor Group
\$55 million

Minority stake investment in Highlight Motor Group, by Crédit Mutuel Equity, the private equity arm of Crédit Mutuel Alliance Fédérale, one of the largest banking groups in France.

Crédit Mutuel Equity

Represented

Majority Shareholder of Canadian Rapid Treatment Centre of Excellence Inc.

Sale of Canadian Rapid Treatment Centre of Excellence Inc., a licensed administrator of ketamine treatments to AltMed Capital Corp. and subsequent exchange for shares in Champignon Brands Inc., a pharmaceutical company specializing in medicinal mushrooms.

AltMed Capital Corp

Represented

Ucore Rare Metals

Acquisition of Innovation Metals Corp., a private Canada-based company and developer of the proprietary RapidSX™ Rare Earth Elements Separation Technology, by Ucore Rare Metals Inc. (TSXV:UCU) (OTCQX:UURAF)

Innovation Metals Corp.

Represented

Farmers Business Network (FBN) Canada, Inc.

Cross-border acquisition of Cibus Ltd., a San Diego-based agricultural technology company and Haplotech Inc., a Canadian company specializing in seed research and development, by FBN Canada Inc., resulting in FBN's entry into the canola business.

Cibus Ltd.; Haplotech Inc.

Represented

Pluribus Technologies Inc.

Cross-border acquisition of LogicBay Corporation, an American Partner Relationship Management solutions provider, by Pluribus Technologies Inc., a technology company specializing in acquiring and enhancing B2B software companies.

LogicBay Corporation

Represented

Curve Digital Entertainment Limited

Cross-border acquisition of IronOak Games, by UK-based Curve Digital Entertainment Limited, a subsidiary of the Catalis Group.

IronOak Games

REPRESENTATIVE 2020 TRANSACTIONS

Represented

**CIBC Capital Markets,
Cormark Securities Inc.,
Goldman Sachs, National
Bank Financial Inc.**
\$231.5 million

Bought deal financing of Boyd Group Services Inc. the largest collision repair operator in Canada, by CIBC Capital Markets, Cormark Securities Inc., Goldman Sachs and National Bank Financial Inc.
Boyd Group Services Inc.

Represented

**Stifel GMP and Cormark
Securities Inc.**
\$120 million

Sale of common shares and warrants of Equinox Gold Corp. (TSE: EQX) through Yamana Gold Inc. (TSE: YRI), by Stifel GMP and Cormark Securities Inc.

Represented

Keyword Studios
£100 million

Non-brokered private placement of common shares of Keywords Studios, an Irish technical and creative services provider, raising gross proceeds of approximately £100 million

Represented

**Canaccord Genuity Corp.
and TD Securities Inc.**
\$60 million

Private placement of subscription receipts of WeCommerce Holdings Ltd. (TSXV: WE), by Canaccord Genuity Corp. and TD Securities Inc., in connection with the going public transaction of WeCommerce, an issuer that builds, grows and acquires businesses serving the Shopify partner ecosystem.

Represented

**Stifel GMP and Clarus
Securities Inc.**
\$45.2 million

Block trade bought deal through the sale of common shares of Novo Resources Corp. (TSX: NVO) held by Kirkland Lake Gold Ltd. (TSX: KL; NYSE: KL) by Stifel GMP and Clarus Securities Inc.

Represented

Alexco Resource Corp
\$30 million

Bought deal shelf prospectus offering of common shares of Alexco Resource Corp. (NYSE American/TSX: AXU) for gross proceeds of \$30,013,620.

Represented

Midas Gold Corp.
US \$35 million

Offering of senior unsecured convertible notes of a wholly-owned subsidiary.

Represented

**Ministère des Finances du
Québec**
CAD \$500 million

Fifth green bond issuance for the financing of a clean transportation initiative.

Represented

**Ministère des Finances du
Québec**
USD \$2.5 billion

Global bond issuance for the revenue fund of Québec.

Represented

Stifel GMP
\$11.5 million

Bought deal prospectus offering of ordinary shares of Royal Road Minerals Ltd (CVE: RYR)

Represented

**Appnovation
Technologies Inc.**
\$10.5 million

Series B financing of Appnovation Technologies Inc., a global, full service digital consultancy firm.

Represented

**Haywood Securities Inc.,
PI Financial, Sprott Capital
Partners LP, Canaccord
Genuity Corp.**
\$11.52 million

Bought deal private placement of subscription receipts of Treasury Metals Inc. (TSE: TML)