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STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

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WELCOME TO STRAIGHT TALK

Before writing this introduction, I looked back to what I had written in this space for our Q2/20 issue. We were in a particularly challenging time, just beginning to take our collective feet off the deal brakes towards the quarter end.

One year later, how things have changed. We started 2021 with a sprint, and haven't let up. In this most recent quarter, we continued to see record levels of deal activity across a range of sectors. Buyers were willing to initiate the largest of deals across closed borders, and Canada's mid-market deal engine continued to drive M&A activity.

In this issue of Straight Talk, we dive into Q2/21's strong results, with Miller Thomson Partners from our offices in Montreal, Toronto, and Southwestern Ontario providing their insights, supplementing the data with first-hand experiences from their respective group's practice. Our Sector Spotlight feature, an industry-focused discussion with deal makers and advisors, is on pause for the summer, but will resume in our next issue, with a focus on the Cannabis space.

Heading into the fall, pandemic related uncertainties linger. However, given the abundance of dry powder and cash on corporate balance sheets, the friendly credit environment, and the level of activity we continue to see in our practice across Canada, there is every indication that it will be a busy fall.

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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Q2 2021 MARKET INSIGHTS

Dealmaking moved at a frenetic pace through Q2/21, similar to activity levels reported in the first quarter. Volume was up very slightly over Q1/21, and outpaced Q2/19¹ by 12%. Value was, once again, propelled by a couple of significant deals: CN Rail’s bid to acquire Kansas City Southern, topping the Q1/21 bid from Canadian Pacific Railway, and Pembina Pipeline’s bid for Inter Pipeline.² While those two deals dominated the M&A headlines, activity was driven substantially by transactions in the sub-\$250 million range.

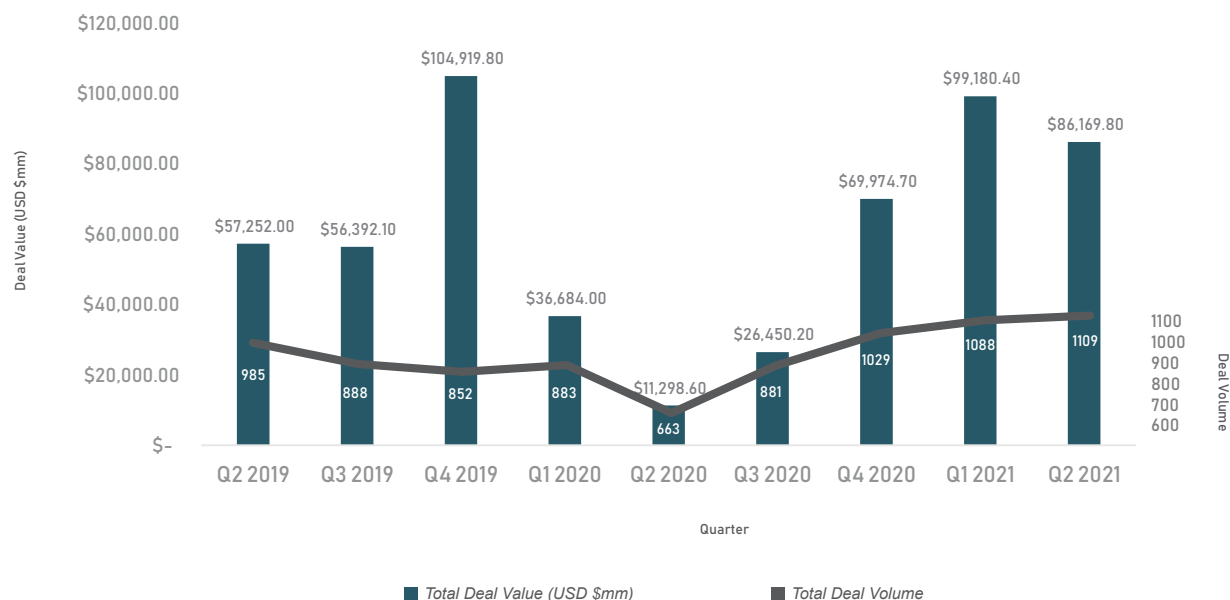
Geographically, dealmakers continued to reach across borders, with cross-border deal volume at a similar level to Q1/21. There was, however, a shift in the balance between inbound and outbound activity, as a larger proportion of Canadian buyers and investors pursued targets outside Canada.

As always, we supplement the data with insights from Miller Thomson Partners across the country, in this issue, from Ontario and Quebec, providing a ground-level view on what proved to be another strong quarter for Canadian M&A.

Note: Dollar values are in USD.

DEAL ACTIVITY

Total Deal Value & Volume (2019 – 2021 YTD)



Source: Capital IQ July 12, 2021

¹We are using Q2/19 rather than Q2/20 as a comparable, as the latter quarter results was skewed by the early months of pandemic.

²Inter Pipeline (“IPL”) ultimately chose to pursue a higher bid by Brookfield Infrastructure Partners, and in the wake of this decision, Pembina terminated its deal with IPL after quarter end.

Where the deals are...

Canada's mid-market continued to drive activity in Q2/21, with sub-\$250 million transactions up 4.3% over Q1/21, and comprising more than 90% of Q2/21 deal volume.³ Deal volume also increased at the high end of the spectrum, with 27 announced deals in the \$500 million+ range, versus 19 in Q1/21.

From his Southwestern Ontario⁴ based practice, Miller Thomson Partner Ryan Done continues to see plenty of deal volume and a robust pipeline of mid-market sized deals. Toronto-based Partner, Max Spearn is looking at a similar pipeline: "There is lots of activity in the lower end of the mid-market," he says, "with strategic acquisitions focused on building out capacity with respect to employees and contractors." Spearn expects this will be sustained as a trend, particularly in the technology sector, as a solution for businesses struggling to hire to keep pace with activity levels. Both Done and Spearn report that private equity (PE) buyers, particularly from the US, remain active in looking for new targets or add-ons for existing platforms.

On the sell side of the equation, Done notes that there is considerable variability. "We continue to see companies that have thrived despite the pandemic challenges, and others that have really struggled and are looking for a lifeline. In addition, we have seen many larger companies execute carve-out transactions to divest of certain assets, divisions or whole business lines in order to find liquidity or re-focus on core business strengths, creating opportunities for buyers seeking to build up existing businesses or portfolios."

This active market is also notable for its valuations. Montreal-based Partner, Philippe St.-Louis, notes that accessible, low cost debt financing (alongside an abundance of dry powder and cash on corporate balance sheets) is driving valuations to sky high levels. He and his Montreal-based partners have seen valuations as high as 15X EBITDA for resilient, well-managed businesses. And in this high valuation environment, Toronto-based Spearn is seeing PE firms pursuing advantageous exits that provide liquidity for their investors.

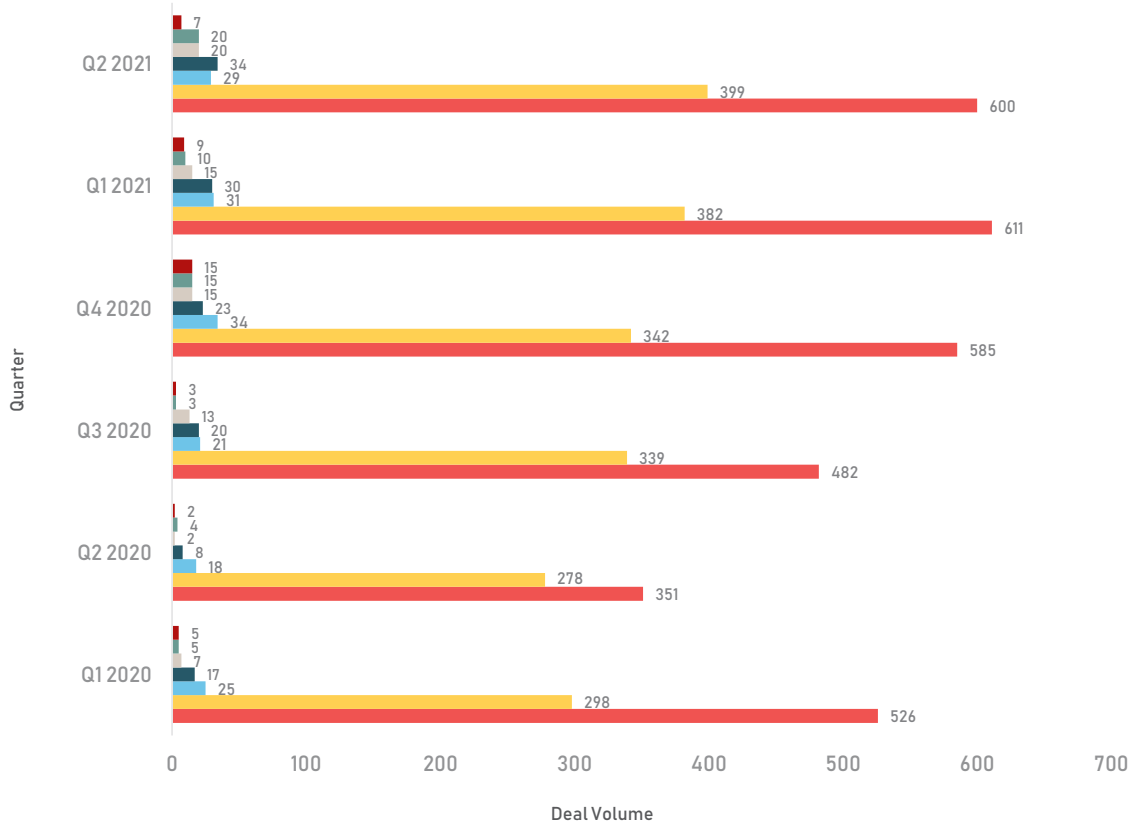
Adapting Deal Structures

With soaring valuations (and seller expectations), buyers are often looking to deal structure to mitigate risk. As Done reports: "We continue to see an increased prevalence of earn-outs or other deferred purchase price structures, primarily designed to bridge valuation gaps and, often, to give the buyer some additional runway to confirm that any pandemic-related 'blips' are not the new norm." Done notes that "these structures, of course, give some pause to sell-side advisors and often lead to extensive negotiations over the deferred payment metrics to try and maximize the likelihood that these payments will ultimately be earned and made."

³In this case, volume includes all transactions with disclosed value.

⁴For our US and international readers less familiar with the Ontario landscape, Southwestern Ontario, a large region west of the Greater Toronto Area and extending to the US-Canadian border with Detroit, Michigan, is home to numerous automotive suppliers, food production companies, and other manufacturing interests, many with skilled labour forces. These are predominantly privately-held companies, an increasingly large number of which are owned by an aging cohort of operators who are actively pursuing succession plans and partial or full liquidity of their ownership.

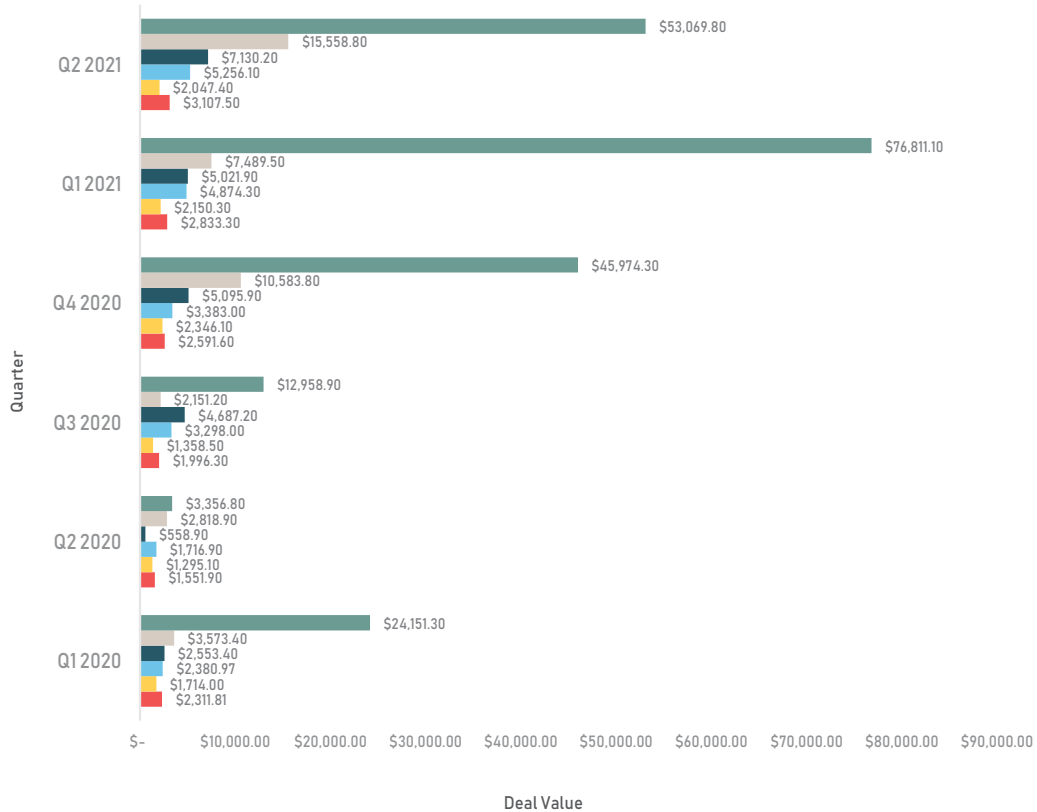
Deal Volume by Deal Size (2020-2021)



■ \$1b+
 ■ \$500m-999.9m
 ■ \$250m-499.9m
 ■ \$100m-249.9m
■ \$50m-99.9m
 ■ \$0-49.9m
■ Undisclosed value

Source: Capital IQ July 12, 2021

Deal Value by Deal Size (2020 - 2021)



■ \$1b+
 ■ \$500m-999.9m
 ■ \$250m-499.9m
 ■ \$100m-249.9m
 ■ \$50m-99.9m
■ \$0-49.9m

Source: Capital IQ July 12, 2021

Transaction timelines

In our discussions with financial buyers, some note that truncated transaction timelines have become a factor in winning deals in this competitive market. Ryan Done notes that he and his colleagues have seen high-performing companies run auction processes that are extremely accelerated. In addition, Done says that the “buyers’ use of representation and warranty insurance, including, in one recent transaction, a ‘zero recourse’ deal for the seller (save for fraud) allows for certain transactions to ‘run downhill’ very quickly”.

On the other hand, Done is seeing many buyers take more time with due diligence, especially in analyzing pandemic-related risks and effects. And of course, he points out that in every transaction, seller preparedness (or lack thereof) will always be a huge contributor to enabling shorter or longer timelines.

Environmental, Social and Corporate Governance

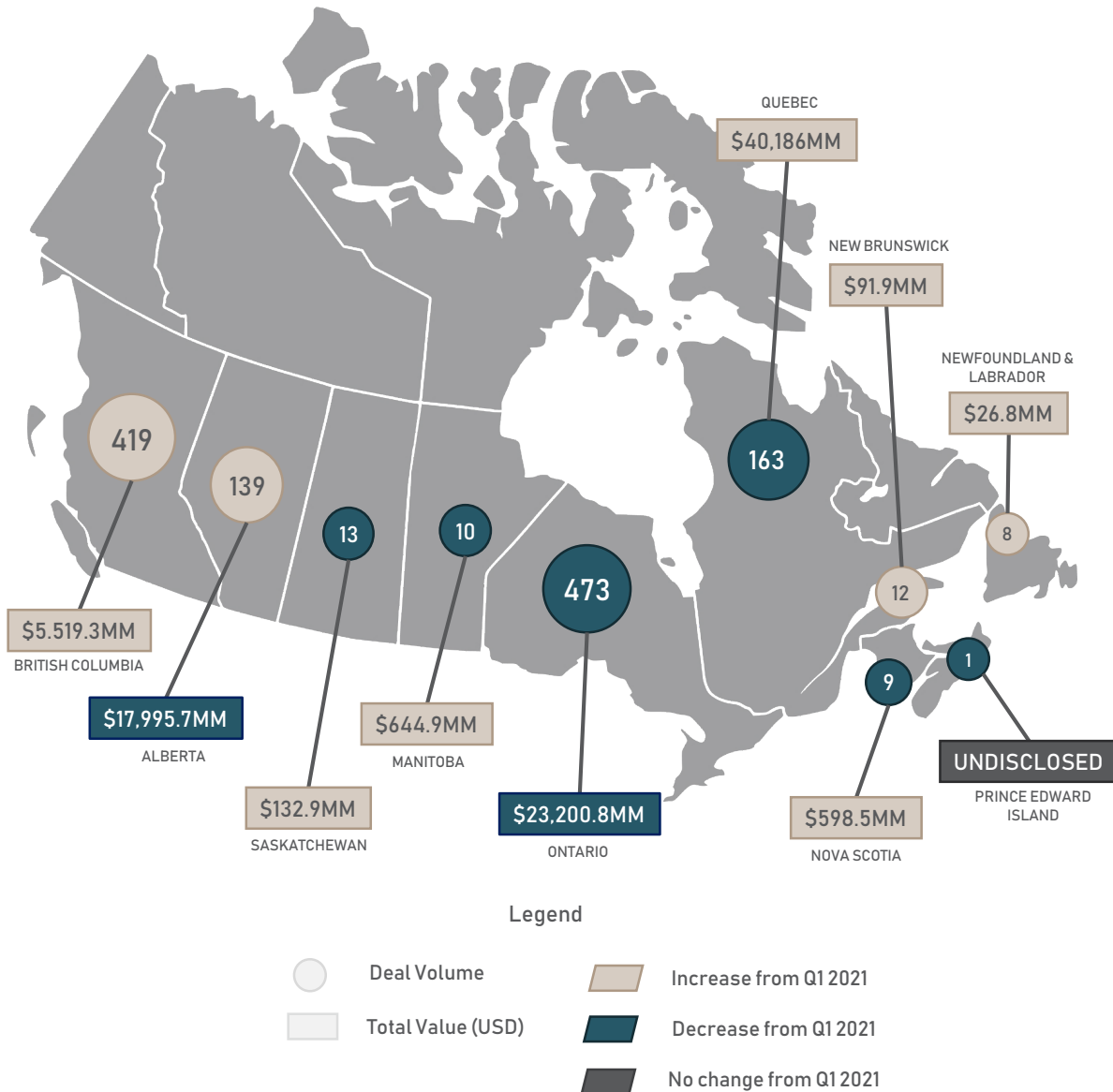
Environmental, Social and Corporate Governance (ESG) is playing a recurring role in deal processes and fundraising. Philippe St-Louis and his colleagues are seeing an increasing number of institutional investors focus on ESG, both in terms of carrying out due diligence on targets and in implementing special programs or funds centred around ESG.

GEOGRAPHIC TRENDS

Dealmaking across Canada

Ontario, BC and Quebec saw the highest level of deal activity in Q2/21, while Quebec, Ontario and Alberta led in deal value. While each of the four largest provinces saw gains in deal volume over Q2/19, BC led the way, up 15% over Q1/21 and almost 64% over Q2/19. Deal values in Quebec and Alberta were elevated by, respectively, the aforementioned CN Rail bid for Kansas City Southern, and the Pembina bid for Inter Pipeline.

Activity by Province (Q2 2021)



Source: Capital IQ July 12, 2021

Domestic Dealmaking

Domestic deal activity remained strong in the quarter, relatively flat with Q1/21, and up almost 18% over Q2/19. Deal value increased 47% over Q2/19, but declined 38% from Q1/21, where value was propelled by the Rogers/Shaw \$21.3 billion mega-deal.

Domestic deal volume continued to represent a higher proportion of total deal volume than pre-pandemic years, tallying 48.8% of total activity, up from 45.2% and 44.3% for full years 2018 and 2019 respectively, and level with full year 2020. As we've noted previously, the higher proportion of domestic deals likely reflects the relative ease of getting domestic deals done in a closed border environment.

Where are we globally?

The active cross-border deal environment serves as a clear indication that buyers have adapted to closed borders. As Max Spearn observes: “Border restrictions do not seem to have impacted the ability of buyers to complete due diligence. They have, however, created obstacles that require some creativity in terms of ensuring there are boots on the ground to conduct certain onsite diligence.”

Cross-border deal volume and value increased slightly over a strong Q1/21, with a shift in the balance between inbound and outbound transactions. Deal value and volume were up significantly, 39.6% and 97% respectively over Q2/19, with the value increase largely attributable to the CN Rail/KCS mega-deal. Canadian buyers reached across borders in Q2/21, as outbound volume increased 20.1% over Q1/21, comprising 69.5% of cross-border activity, up from 60.5% in the prior quarter. Offsetting this increase, inbound activity declined 19.5% over Q1/21.

Top Three Cross-Border Partners by Deal Volume (2019 – 2021 YTD)

	2019			2020				2021	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Inbound									
United States	91	101	92	60	52	79	101	130	111
Europe	37	27	23	26	21	26	27	42	37
Asia/Pacific	14	12	14	18	11	10	12	31	16
Outbound									
United States	157	135	132	143	99	142	159	193	239
Europe	49	56	44	52	24	43	55	68	77
Asia/Pacific	16	16	18	16	20	23	25	35	31

Source: Capital IQ July 12, 2021

Top Three Cross-Border Partners by Deal Value (US\$mm) (2019 – 2021 YTD)

	2019			2020				2021	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Inbound									
United States	8,637.1	11,641.7	1,617.1	2,763	1,223.7	2,591.8	11,280.8	15,173	6,569
Europe	2,355.2	4,366.1	11,501.2	1,693.9	107.2	473.6	2,692.3	3,058.4	3,153.9
Asia/Pacific	2,274.3	53.2	1,878.7	239.6	624.6	11	57	1,176.1	279.2
Outbound									
United States	4,462.6	12,787.9	14,191.3	13,590.8	5,459.5	2,783.6	13,984.3	44,403.7	45,878.7
Europe	10,932.9	1,685.4	3,427.7	1,349.9	421.5	8,571.2	12,074.9	1,451.5	9,542.9
Asia/Pacific	376.3	701.7	9,139.1	78.2	47.2	1,435.1	6,237.6	1,082.9	1,368.5

Source: Capital IQ July 12, 2021

As always, US deals continued to lead pack in the cross-border category, representing 61.6% of total cross-border volume. Similar to the overall cross-border trend, however, outbound activity outpaced inbound, increasing 23.8% over Q1/21, while inbound decreased 14.6%.

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, a glimpse at select Partners' practices:

Ryan Done, Southwestern Ontario: "We continue to see a lot of action in manufacturing, automotive suppliers, and food production. We have also seen some interesting deals in the media and entertainment space."

Philippe St-Louis, Montreal, Quebec: "In our deal flow, we are seeing an uptick in consolidation in the areas of television production and natural resources."

According to the data...

Sector Activity (Q1 2021 v. Q2 2021)

	Q1 2021	Q2 2021
Total Deal Volume	1088	1109
Energy	51	62
Materials	251	251
Industrials	122	110
Consumer Discretionary	56	51
Consumer Staples	45	55
Healthcare	97	107
Financials	74	71
Information Technology	141	160
Communication Services	48	55
Utilities	22	14
Real Estate	117	108
Total Deal Value (US\$ mm)	99,180.4	86,169.8
Energy	7,113.4	16,631
Materials	3,590.8	2,763.9
Industrials	31,353.1	36,586.3
Consumer Discretionary	2,196.5	1,733.3
Consumer Staples	2,443.1	1,050.8
Healthcare	1,461.5	2,665.8
Financials	2,781.5	5,411.8
Information Technology	12,080.1	3,430.6
Communication Services	21,969.1	1,803.2
Utilities	475.9	2,506.9
Real Estate	10,148.1	8,074.2

Source: Capital IQ July 12, 2021

Top sectors by volume and value

Materials deal activity led the way once again with 251 announced transactions, followed by Information Technology (160) and Industrials (110), with Real Estate (108) and Healthcare (107) coming in just behind. Deal value was highest for the Industrials sector at \$36.6 billion, in large part attributable to the CN Rail/KCS mega-deal. Energy ranked second in value (\$16.6 billion), boosted by the now defunct Inter Pipeline/Pembina deal, while Real Estate (\$8.1 billion) rounded out the top three.

LOOKING AHEAD

We're moving into the back end of 2021 with strength. While pandemic-related uncertainties linger, abundant dry powder and a friendly credit environment will likely foster plenty of deal activity in the coming months. Max Spearn is certainly seeing that for Q3/21. He and his colleagues are anticipating another strong quarter for mid-market M&A based on their pipeline of deals that are well underway or under LOI.

At Miller Thomson, we are here to support and advise our clients along the path ahead, whether they are considering an acquisition or a sale, looking to finance and address liquidity issues, or facing strategic decisions related to their business. We understand how to effectively and creatively 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 Q3/2021, coming in the Fall.

REPRESENTATIVE H1 2021 TRANSACTIONS

Represented

Silent-Aire Manufacturing Inc.
\$1.1 billion

Cross-border sale of Silent-Aire Manufacturing Inc., a Canadian hyperscale cloud and colocation provider with offices and manufacturing facilities in Canada, the United States and Ireland, to Johnson Control International plc (NYSE: JCI), the global leader for smart, healthy and sustainable buildings.

Johnson Control International plc

Represented

Liberty Health Sciences
US\$290 million

Acquisition of Liberty Health Sciences Inc., (CSE: LHS, OTCQX: LHSIF) a U.S.-based medical marijuana manufacturer by Ayr Wellness Inc. (CSE: AYR.A, OTCQX: AYRWF)

Ayr Wellness Inc.

Represented

Ebro Foods S.A.
\$165 million

Sale by Ebro Foods S.A. (EBRO.MC), a Spanish-based global leader in the rice and pasta sectors, of its indirect ownership of the 'Catelli' dry pasta business in Canada to Barilla Group, an Italian multinational food company.

Barilla Group

Represented

Heniff Transportation Systems

Cross-border acquisition of Premier Bulk Systems, an Ontario-based bulk motor carrier, truckload and LTL logistics provider, by Heniff Transportation Systems, a U.S.-based leader in liquid bulk transportation, food grade and rail transloading.

Premier Bulk Systems

Represented

Yaletown Partners and Bank of Montreal
US\$100 million

Strategic Investment by Sumeru Equity Partners in Tasktop Technologies, a Vancouver-based SaaS start-up and provider of the leading Value Stream Management (VSM) platform with Yaletown Partners and Bank of Montreal as significant shareholders.

Represented

Robertet S.A.
US\$100 million

Acquisition of Ecom Food Industries Corporation by Robertet S.A. (RBT.PA), a French public company specializing in fragrance, flavour and ingredient manufacturing, through Robertet USA, Inc.

Ecom Food Industries, Inc.

Represented

LQwD Financial Corp.

Acquisition of LQwD Financial Corp. by LQwD FinTech Corp (formerly Interlapse Technologies Corp.- TSXV: LQWD), to create a Lightning Network focused company developing payment infrastructure and solutions.

Represented

Game On Creative Inc.

Cross-border sale of Game On Creative, Inc., a motion capture, cinematics and audio services provider in the gaming industry, to Polish company PCF Group S.A. (People Can Fly), a leading AAA-games developer.

REPRESENTATIVE H1 2021 TRANSACTIONS

Represented

Shareholders of ASL Distribution Services Ltd.

Sale of ASL Distribution Services Limited, a transportation, warehousing, distribution and final mile service provider, to Fastfrate Group.

Fastfrate Group

Represented

Rubik's Brand Ltd. *US\$50 million*

Cross-border acquisition of Rubik's Brand Ltd., the owner of the Rubik's Cube®, by Canadian toymaker Spin Master Corp. (TSX: TOY)

Spin Master Corp.

Represented

Vintex Inc

Sale of Vintex Inc., a manufacturer of technical textiles and custom coated fabrics, by Cooley Group Inc. and J.H. Whitney Capital Partners.

**Cooley Group Inc. and
J.H. Whitney Capital
Partners.**

Represented

Numinus Wellness Inc.

Acquisition of Mindspace Psychology Services Inc., a leader and pioneer in psychedelic programming, by Numinus Wellness Inc. (TSXV: NUMI.V)

**Mindspace Psychology
Services Inc.**

Represented

American Process Group *\$50 million*

Sale of all of the issued and outstanding shares in the capital of American Process Group, an Alberta-based environmental leader, to SANEXEN Environmental Group Inc., a subsidiary of LOGISTEC Corporation (TSE: LGT.B)

**SANEXEN Environmental
Group Inc.**

Represented

Deloitte LLP

Acquisition of Groundswell Group Inc., an AI and data integration firm by Deloitte LLP.

Groundswell Group Inc.

Represented

Highcourt Partners Limited

Highcourt Partners Limited acquired a majority ownership interest in Breckles Group of Companies Inc., a Canadian independent insurance brokerage.

Represented

Waveform Entertainment Inc.

Acquisition of Waveform Entertainment Inc., a Canadian esports entertainment company, by Groupe Solotech, a global leader in audiovisual and entertainment technology.

Groupe Solotech

Represented

Stifel GMP *US\$100 million*

Private placement of common shares of Voyager Digital Ltd. (CSE: VYGR) by Stifel GMP.

Represented

Syndicate of underwriters led by Mackie Research Capital Corporation *US\$46 million*

Bought deal public offering by Theratechnologies Inc. (TSE: TH), including the full exercise of the over-allotment option.

Represented

Numinus Wellness Inc. *\$40.25 million*

Bought deal unit offering by Numinus Wellness Inc. (TSXV: NUMI.V) including the exercise of the underwriters' over-allotment option.

Crédit Mutuel Equity

Represented

Titanium Transportation Group *\$35 million*

Treasury offering and secondary bought deal offering by Titanium Transportation Group (CVE: TTR).

REPRESENTATIVE H1 2021 TRANSACTIONS

Represented

Alpha Lithium Corporation
\$23 million

Oversubscribed bought deal offering by Alpha Lithium Corporation (TSXV: ALLI).

Represented

Mydecine Innovations Group
\$17.25 million

Bought deal offering by Mydecine Innovations Group (NEO: MYCO), a biotech and life sciences company, including the full exercise of the over-allotment option.

Represented

Bear Creek Mining Corporation
\$34.5 million

Bought deal shelf prospectus offering of common shares by Bear Creek Mining Corporation (TSXV: BCM), including full exercise of the underwriters' over-allotment option.

Represented

Optimi Health Corp.
\$20.7 million

Oversubscribed initial public offering of Optimi Health Corp. (CSE: OPTI).

Represented

Alexco Resource Corp.
\$28.75 million

Bought deal public offering by Alexco Resource Corp. (NYSE American / TSX: AXU)

Represented

Stifel GMP
\$21 million

Bought deal financing by Arizona Metals Corp. (CVE: AMC), with Stifel GMP as the underwriter.

Represented

Canaccord Genuity Corp.
\$16 million

Subscription receipt financing by Playmaker Capital Inc., a digital sports media company, with Canaccord Genuity as the lead agent.