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STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

2020 | Issue 03

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WELCOME TO STRAIGHT TALK

Understating the obvious, 2020 has presented an array of challenges to date. This issue of Straight Talk reflects the impact of those challenges on Canadian M&A through the second quarter. But our M&A review also demonstrates the fortitude of buyers and investors, who ramped up activity in May and June, adjusting to unprecedented issues and hurdles created by the crisis. And it reflects the resilience of the Canadian lower mid-market, which saw disproportionate activity through the quarter.

While Canadian M&A declined significantly in the second quarter, activity levels diverged across provinces and sectors, and 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 Quebec, Ontario, Saskatchewan, Alberta and British Columbia share insights, supplementing the data with ground-level experiences from their respective group's practice.

There is considerable uncertainty ahead, however, current indications point to a more active deal environment in the Fall. There is still significant dry powder in the pockets of financial buyers, who are ramping up their pursuit of targets that have proven resilient through the crisis or that represent opportunistic acquisitions. In addition, in the coming months, as government financial aid winds down, we are likely to see more distressed deal activity, as businesses face insolvencies, restructurings and a need for recapitalization.

Whatever the remaining months of 2020 bring, the Miller Thomson team is here to support our clients through the ups and the downs, and, as always, we value our role as trusted legal advisor.

All the best,

Jay Hoffman

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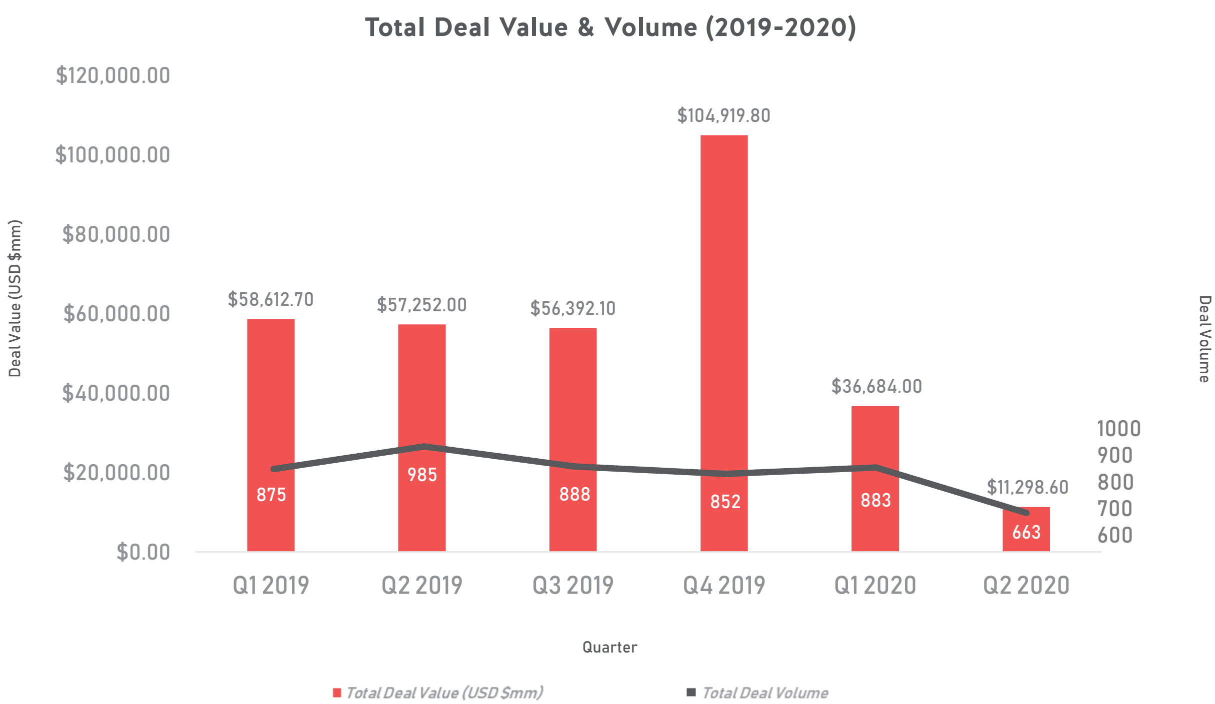
Q2 2020 MARKET INSIGHTS

With the shutdown in full swing in the second quarter, it will come as no surprise to learn that there was a decline in Canadian M&A. Deal volume was buffered somewhat by activity in the sub-$50 million range, however, deal value plummeted, reflecting a nose dive in larger transactions.

While it's tough to find a silver lining in these results, activity did pick up through the quarter as investors and sellers acclimated to the unusual times and economies started to reopen. Additionally, while many sectors were hit hard through the shutdown – most notably, consumer discretionary, real estate and industrials – others showed resilience, and in one case, thrived. And geographically, while activity in most provinces was down, there was a single province that bucked the trend. In this issue, we supplement the data with insights from Miller Thomson Partners across the country, to get a ground-level view of how the COVID-19 crisis impacted Canadian M&A through Q2 2020 and in the months following.

Note: Dollar values are in USD.

DEAL ACTIVITY



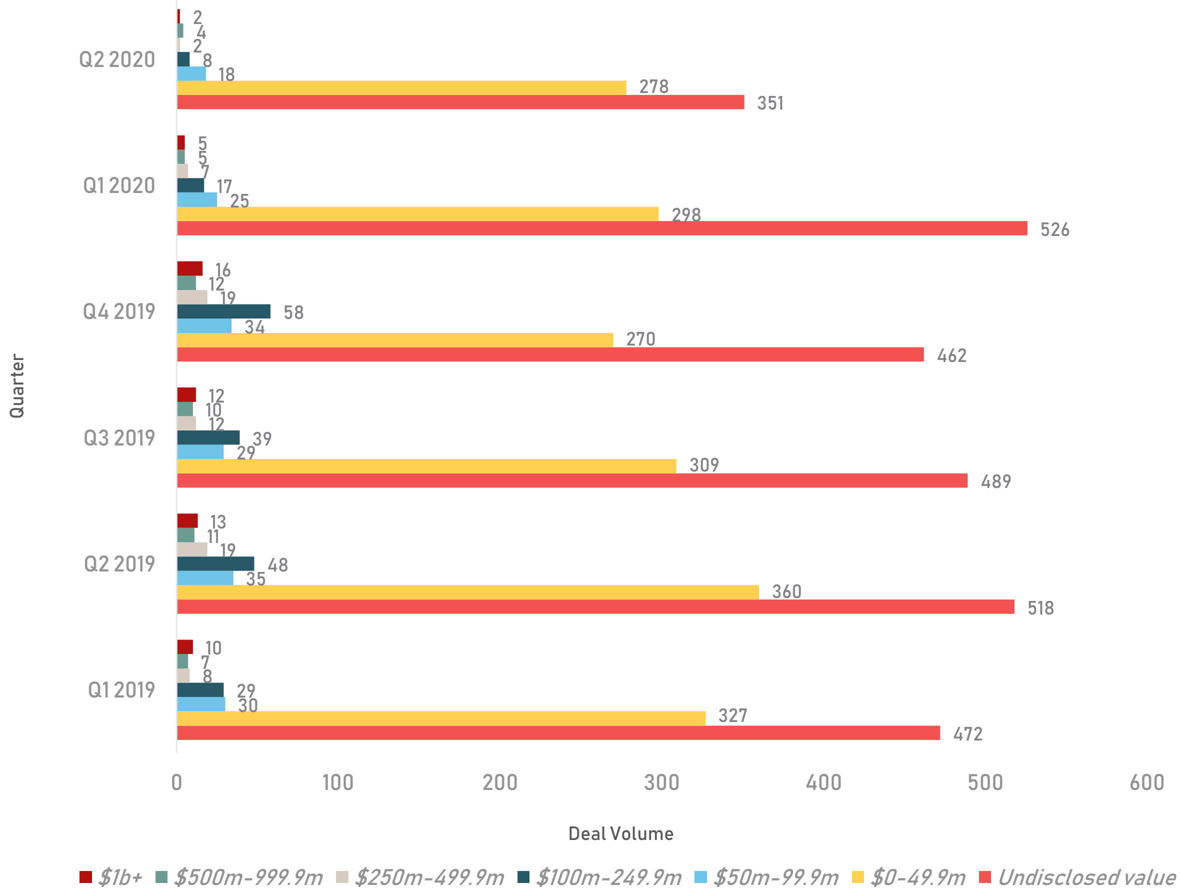
Source: Capital IQ, August 6, 2020

Resilience in the Lower Mid-Market

There were 663 announced deals in the quarter, a decline of 32.7% from Q2/2019. As noted, volume was propped up by smaller deals (sub-$50 million), which accounted for 42% of total activity, up from 33.7% in Q1/2020, and 35.2% in 2019.

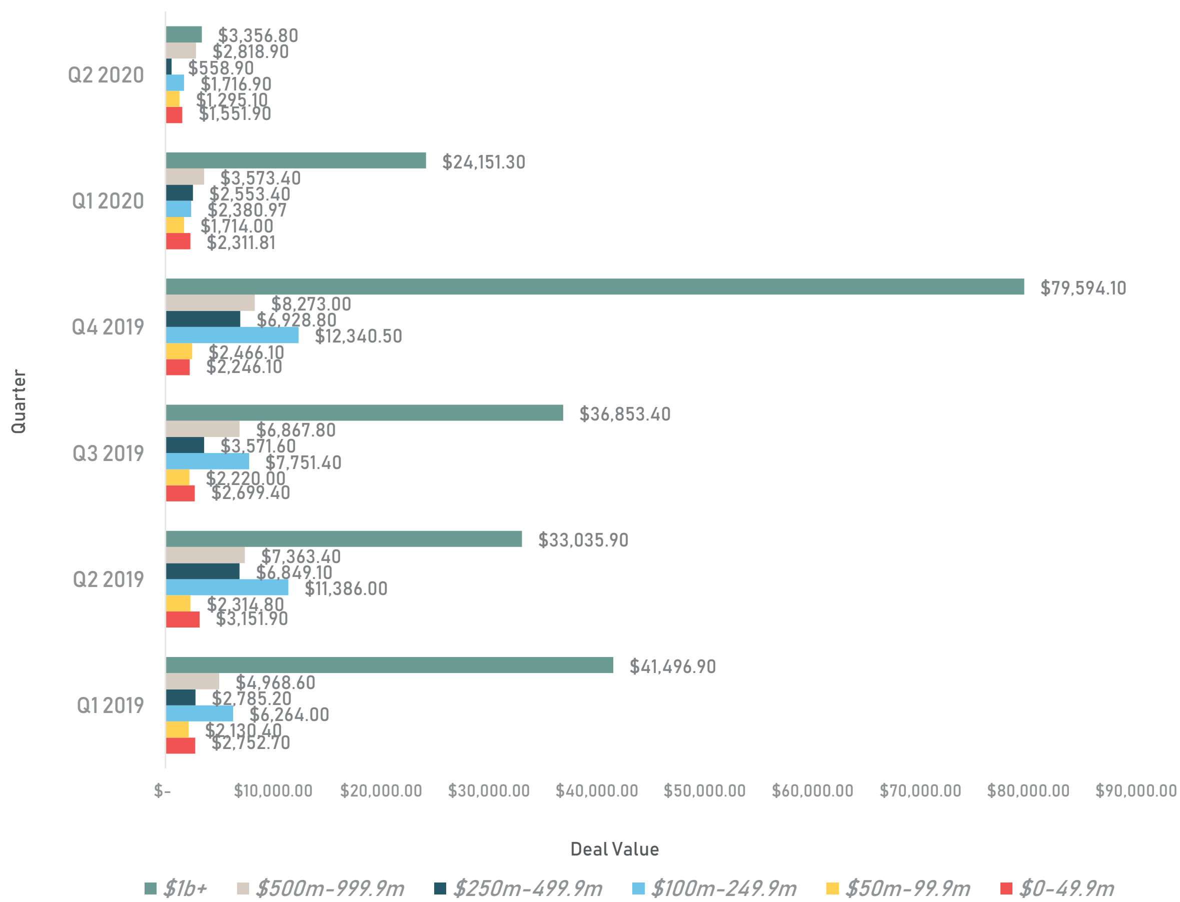
With substantially fewer transactions in the $100 million+ range, and only two mega deals ($1 billion+) announced in the quarter, deal value plunged in Q2/2020, down 80.3% over Q2/2019, and 69.2% over the previous quarter.

Deal Volume Broken Down by Deal Size (2019-2020)



Source: Capital IQ, August 6, 2020

Total Deal Value Broken Down by Deal Size (2019-2020)



Source: Capital IQ, August 6, 2020

Investors Acclimate, Deal Activity Rises

At the end of Q1 and through April of Q2, buyers went “pens down”, trying to understand the implications of the new unknown. Private equity firms shifted focus to their portfolio companies, and strategics to their operations. For the most part, unless deals were at a later stage, they simply stalled. But in May and June, as signs of reopening emerged, alongside a degree of acclimatization to the crisis, M&A activity accelerated.

Q2 2020 Total Deal Value & Volume

Period	Volume	Total Value (USD $mm)
April 2020	187	$635.20
May 2020	227	$4,996.00
June 2020	249	$5,667.40
2020 YTD	663	$11,298.60

Source: Capital IQ, August 6, 2020

The experience of Miller Thomson Toronto-based partner, **Max Spearn**, reflects this drop off and recovery:

“By April 2020 the early impact of Covid-19 had all but upended my active M&A files with most files going “pens down” and fewer new mandates or visibility to upcoming deal activity,” he said. “But in June and July I have seen an uptick in activity and have reviewed a number of term sheets for deals targeted to close in the fall.”

The timing of deal recovery is not uniform across the country. For example, **Dezarae Senft**, a partner in the firm’s Regina, Saskatchewan offices notes that “we didn’t see any uptick in May, June and July. Currently, however, clients are signalling interest in moving ahead with potential transactions in the fall, suggesting that activity may pick up in the coming months.”

Partner, **Dwayne Kuiper**, is seeing a different pattern in Miller Thomson’s Waterloo, Ontario office. “Generally, we haven’t seen a change in the number of transactions,” he says, “however, in our experience, transactions are more likely to terminate before closing [compared to pre-pandemic]. There are novel issues arising which no one can currently provide firm opinions on, and purchasers are unwilling to assume that risk.”

Distressed Transactions

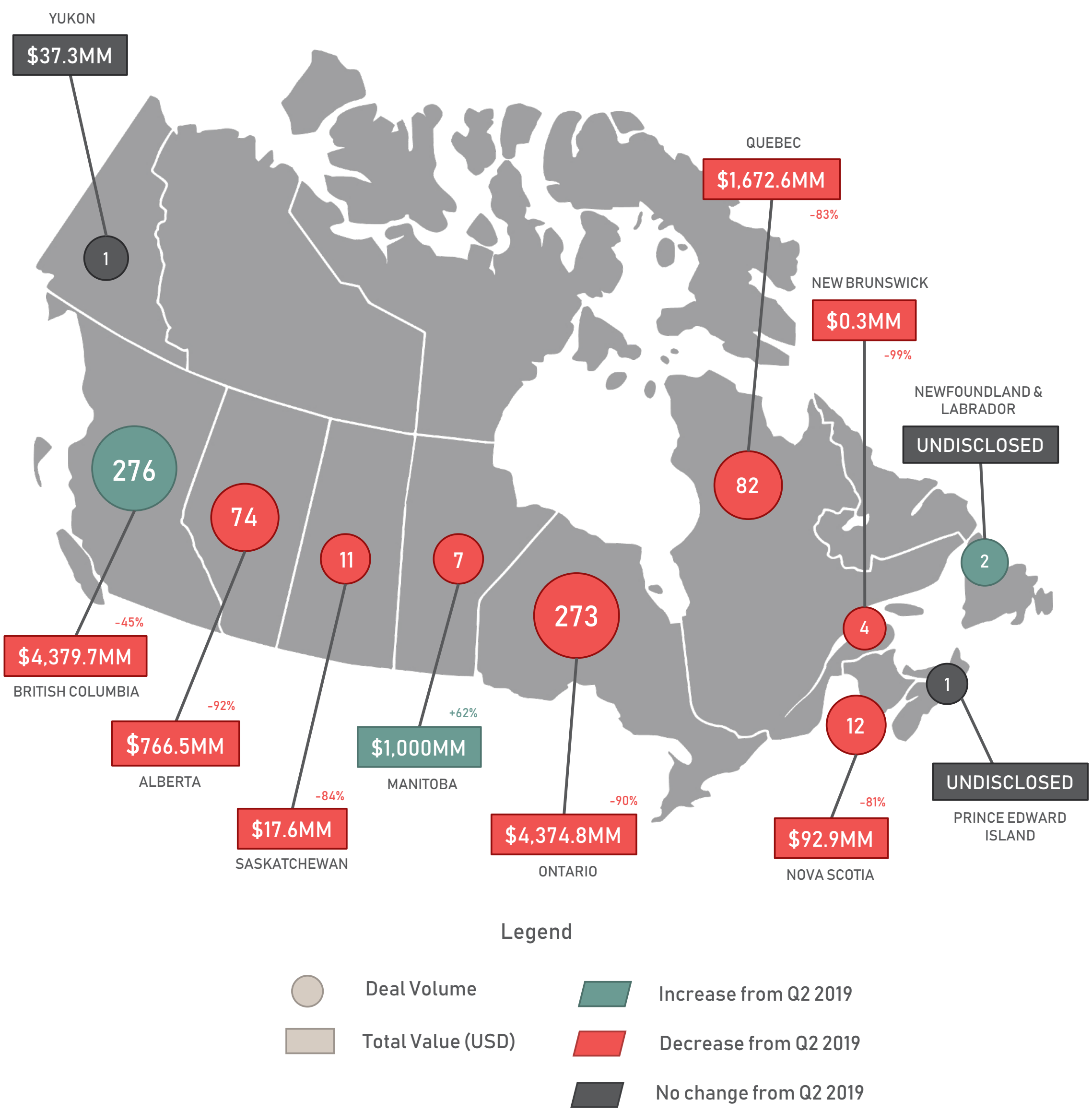
This section should more aptly be titled "The Surprising Absence of Distressed Transactions". With the exception of the Arts & Recreation, Retail and Management sectors (with headline grabbers that include Cirque du Soleil, Aldo Shoes, David's Tea, and a number of high-profile US retailers), according to the most recent data, June BIA[1] fillings are down over 2019.

Storm clouds are likely brewing, however, particularly as government emergency funding programs terminate. And opportunistic buyers are waiting on the sidelines. As **Alex Hébert** notes: "[In Montréal], we are starting to see companies that survived COVID may be looking for distressed acquisitions." Partner, **Robert Anderson** sees a similar indication in Edmonton. "There are some signs of interest in distressed transactions," he says, "[but] it seems like a lot of clients remain on the fence, waiting to see if this is the bottom."

GEOGRAPHIC TRENDS

Dealmaking across Canada

Activity by Province (Q2 2019 v. Q2 2020)



Source: Capital IQ, August 6, 2020

M&A activity was down across Canada with one exception: British Columbia, where volume was up 7.8% from Q2/2019. **John Ferber**, a Partner in Miller Thomson's Vancouver office, recounts: "For us, Q2 was extremely busy, with a high volume of deals and no drop in valuations or deal size." By way of explanation, Ferber notes that the Vancouver office is active in sectors proving to be "COVID resistant", such as healthcare, technology and consumer staples.

At the other end of the activity spectrum, Quebec has seen Q2/2020 deal volume decline 45% over Q2/2019. At this stage, Montréal-based partner **Alex Hébert** is seeing "a small recovery in the number of deals", but that is still limited. While he has seen "pens down" transactions revived, in those instances, deal terms were renegotiated, for example, turning a fixed purchase price into an earn-out based structure.

Domestic Dealmaking

Canadian Domestic Deals (2019-2020)

	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Domestic						
Canada	381	459	388	367	435	332

Source: Capital IQ, August 6, 2020

Consistent with the broader trend, Canadian investors did fewer, smaller deals in Canada in Q2. Volume declined 27.7% year over year, and 23.7% over the previous quarter. Value dropped precipitously, down 92.1% from Q2/2019, and 80.7% from Q1/2020.

Where are we globally?

Top Three Cross-Border Partners (2019-2020)

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

Source: Capital IQ, August 6, 2020

Cross-border deals declined in Q2/2020, with inbound and outbound transactions down, respectively, 42% and 31%. While US deals continued to lead pack in the cross-border category, inbound and outbound volume declined in Q2/2020, respectively, 43% and 37% year over year. Consistent with the overall value trend, US inbound deal value dropped almost 86%. However, with significant dry powder available to be deployed, private equity's global fundraising in H1/2020 exceeding H1/2019[2], and private equity firms actively ramping up their outreach[3], we expect that, despite ongoing cross-border due diligence challenges, inbound and outbound M&A activity is likely to accelerate through the balance of Q3.

SECTOR ACTIVITY

Across Canada, until the onset of the pandemic, Miller Thomson was seeing and advising on deals spanning multiple sectors, involving targets in manufacturing, agribusiness, technology, pharmaceuticals, specialty chemicals, medical devices, financials, real estate and mining.

From their practices across the country, partners from Montreal, Edmonton and Vancouver commented on where deal activity has been sustained through the shutdown, and where, in their practices, it has dropped off:

Alex Hébert, Montréal, Quebec: "In my experience, the technology sector has been far less affected. But I am still seeing deals suspended in other sectors, for example, where companies are in the event hosting business (entertainment and esports). This area was very active for me pre-COVID, but has been completely halted as government measures essentially prevent these businesses from operating."

Robert Anderson, Edmonton, Alberta: "We've seen activity in the assisted living space segment, and also with respect to new plant construction in the oil patch."

John Ferber, Vancouver, BC: "Healthcare is especially active here, and we are also seeing a wave of consumer staple retail chain consolidation. Deals in the restaurant sector have been lower than usual."

According to the data...

Sector Activity (Q2 2019 v. Q2 2020)

	Q2 2019	Q2 2020
Total Deal Volume	933	636
Energy	55	33
Materials	168	238
Industrials	135	43
Consumer Discretionary	69	16
Consumer Staples	54	30
Healthcare	96	92
Financials	59	41
Information Technology	97	66
Communication Services	51	31
Utilities	28	8
Real Estate	121	38
Total Deal Value (USD $mm)	56,968.8	11,129.1
Energy	5,700.2	260.2
Materials	3,538.4	3,915.7
Industrials	13,949.8	859.1
Consumer Discretionary	9,506.9	258.9
Consumer Staples	757.5	112.8
Healthcare	1,915.2	988.7
Financials	1,589.8	1,011.4
Information Technology	2,762.2	2,162.6
Communication Services	1,353.2	88.6
Utilities	5,220.5	101.8
Real Estate	10,675.1	1,369.3

Source: Capital IQ, August 6, 2020

While most sectors were down in Q2/2020, Materials, bolstered by metals and mining deals, bucked the trend, featuring the largest deal of the quarter: the US$2.4 billion all-stock merger of Alacer Gold Corp. and SSR Mining Inc.

As noted, all other sector activity declined, however, the Healthcare, Technology and Financials sectors held up better than the rest. Healthcare proved most resilient, with volume down 4.2% year over year, while Technology and Financials activity declined, respectively, 32% and 30.5%.

WHERE DO WE GO FROM HERE?

Almost uniformly, based on what they are seeing in their practices, the Miller Thomson partners we spoke with are anticipating an uptick in deal activity in the Fall. Their outlook is bolstered by external factors: private equity investors have had time to address the pandemic-related issues of their portfolio companies, and supported by an abundance of dry powder, are ramping up their search for targets; and buyers with a more opportunistic bent are likely to step into the market in the fall, as distressed deal activity increases.

At Miller Thomson, we are here to support and advise our clients along the path ahead, whether they are looking to refinance and address liquidity issues, considering an opportunistic acquisition, or facing strategic decisions related to their business. As we move into the fall, let's proceed with cautious optimism: as Toronto partner, **Max Spearn**, puts it: "While the [current environment] remains cloudy, there are signs that sunshine may be around the corner."

Look for our next issue, with insights on Q3/2020, coming in the Fall.

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[1] Canada's Bankruptcy and Insolvency Act; Data source: Office of the Superintendent of Bankruptcies

[2] According to Pitchbook's *Private Fund Strategies Report, Q2 2020*

[3] Anecdotal, based on conversations with our stakeholder networks

H1 2020 MILLER THOMSON REPRESENTATIVE 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

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

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.

Represented

Explorex Resources Inc.

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

Raffles Financial Pte. Ltd.

Represented

Ucore Rare Metals
$5.8 million

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

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

H1 2020 MILLER THOMSON REPRESENTATIVE TRANSACTIONS

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
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
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.