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STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

2021 | Issue 02

IN THIS ISSUE

WELCOME TO STRAIGHT TALK

Rebound doesn't adequately describe Canadian M&A activity in the first quarter of the year. We hit the ground running in 2021, racking up record levels of volume and value. Closed borders and deal process hurdles did little to slow the pace: cross-border activity – particularly US-Canada - accelerated, alongside an increase in domestic deal making. In this issue of Straight Talk, we dig into Q1/21's record results, taking a hard look at the dynamics behind the data. Miller Thomson Partners from our offices in Montreal, Toronto, Edmonton and Vancouver provide their insights, supplementing the data with first-hand experiences from their respective group's practice.

This issue marks the launch of our Sector Spotlight feature: an industry-focused discussion with deal makers and advisors. We kick off with a conversation about the transportation and logistics (T&L) space. In our M&A review, Miller Thomson Partner, Louis Amato-Gauci, provides T&L-focused perspectives gleaned as a legal advisor to buyers, investors and sellers. In our interview feature, we speak with two deal makers active in the T&L space: Peter Stefanovich, Managing Partner – M&A, with Left Lane Associates, a M&A advisory firm focused exclusively on the North American supply chain industry, and Robert Fedrock, Principal at Origin Merchant Partners, a leading independent Canadian investment bank. Peter and Robert share their well-informed views on the T&L space, providing insights into key growth drivers and deal dynamics in an active market. Peter's interview is on page 12, and Robert's on page 14, following our M&A review.

As we move towards the summer months, with Canada rapidly gaining ground on the vaccine front, our optimistic outlook, expressed cautiously in the last issue, is heightened. Capital remains abundant, with US private equity fundraising rebounding in the first quarter. There is a strong indication, given Miller Thomson's robust deal advisory activity across Canada, and through our conversations with numerous investors and business owners, that it is going to be a busy summer.

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

Jay Hoffman | Practice Chair, Business Law and M&A
jhoffman@millerthomson.com

Q1 2021 MARKET INSIGHTS

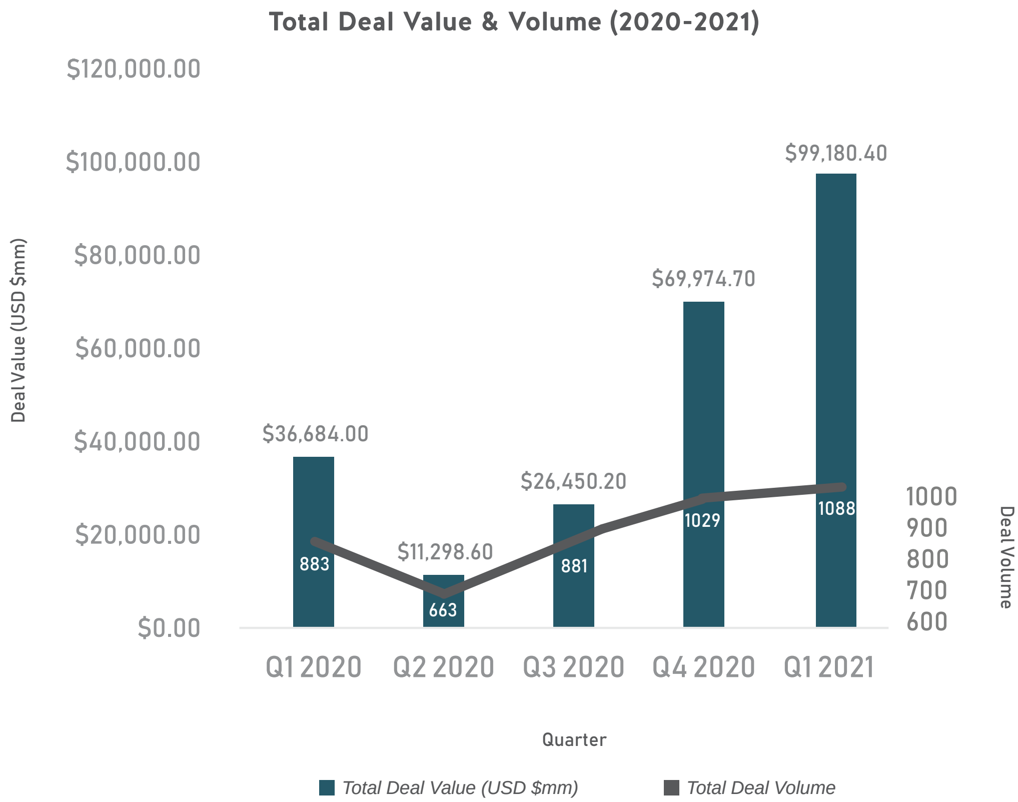
NOTE: dollar values are USD.

Deal makers hit the ground running in 2021. Canadian M&A activity set a record high in the first quarter of 2021 with 1088 announced deals, outpacing both Q4/20 and Q1/20. Deal value increased significantly as well, propelled by the announcements of two massive deals: Rogers Communications' proposed $21.3 billion takeover of Shaw Communications, and Canadian Pacific Railway's $25 billion bid to acquire Kansas City Southern[1]. While those two deals garnered most of the media attention, much of the activity was driven by transactions in the sub-$250 million range.

Geographically, deal makers reached across closed borders, driving up inbound and outbound activity over the previous quarter. Across Canada, M&A activity in many provinces increased over Q4/20, and in all provinces, increased over Q1/20. As always, we provide additional insights from Miller Thomson Partners across the country to get a ground-level view on what was a record setting quarter for Canadian M&A.

DEAL ACTIVITY

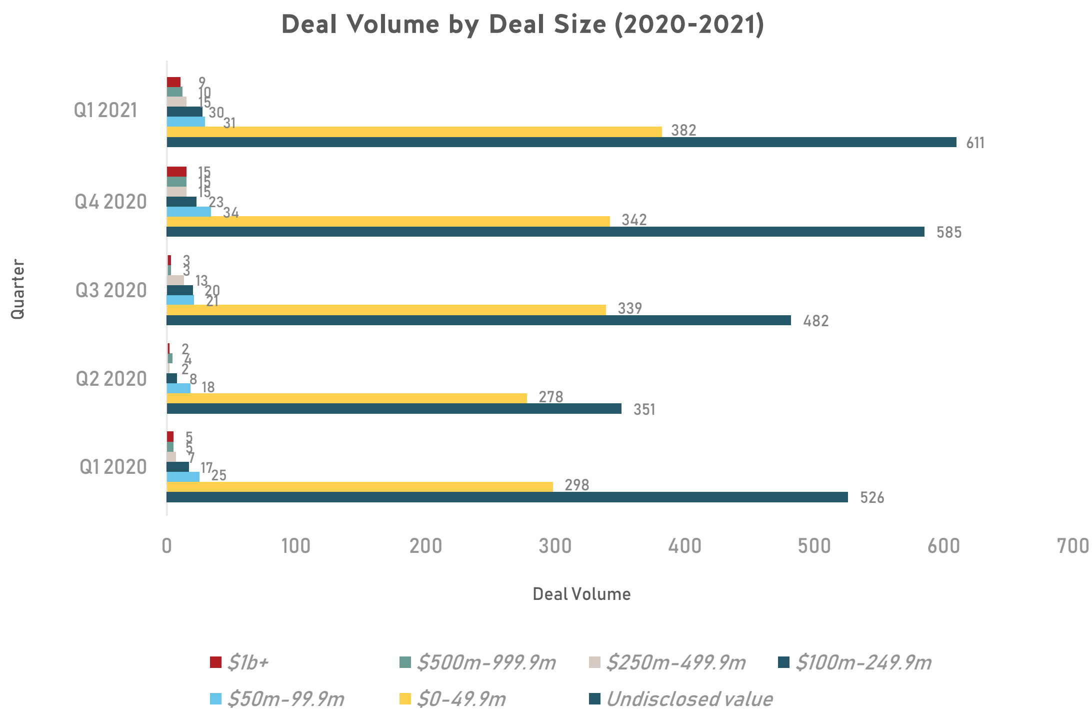
Where the deals are...

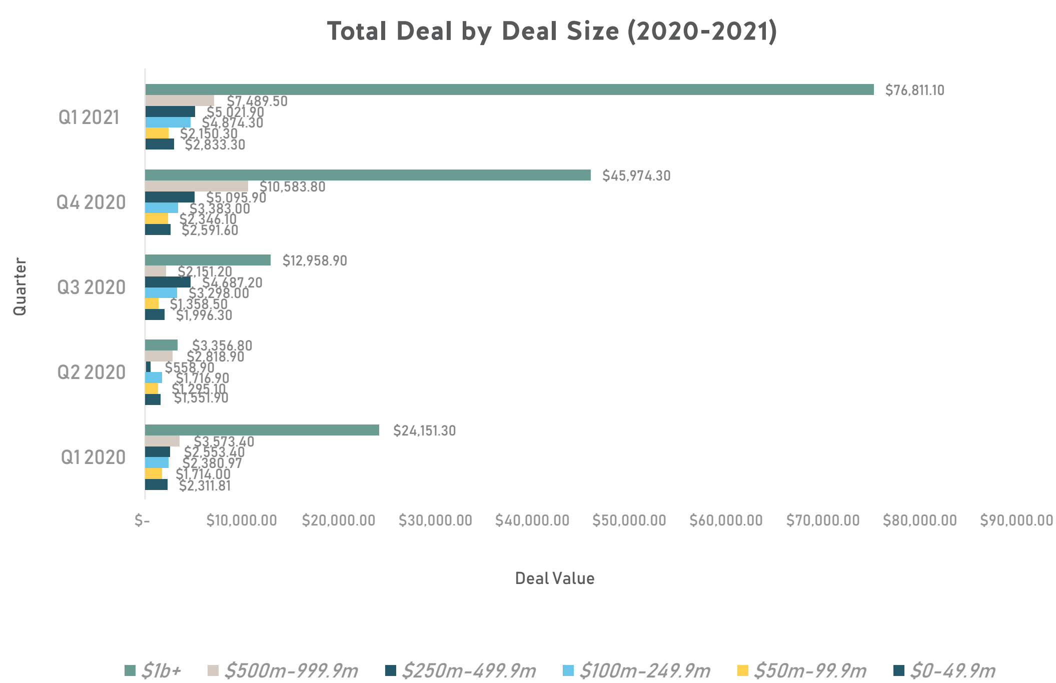


Source: Capital IQ April 12, 2021

[1] At the time of writing, CP's $25 billion bid has been spurned in favour of a $30 billion offer from Canadian National Railway.

Canada's mid-market took it up a notch in Q1/21. As noted, media attention was focused on the two aforementioned mega deals, which ranked first and second in announced deal size in the US[2] and Canada. However, the number of transactions in the $500 million+ range actually declined almost 37% from the prior quarter, while volume in the sub-$250 million range increased 11%.





Source: Capital IQ April 12, 2021

[2] S&P Global Market Intelligence

Expedited processes, abundance of capital

Despite COVID challenges, there is anecdotal evidence that deal timelines are often being shortened. According to Vancouver-based Partner **Stefan McConnell:** "Deal timelines are moving at a fast pace as a result of the competitive nature of the bidding process. The significant increase in the availability of credit and large pools of investor funds have resulted in multiple bidders pursuing the same target company. Buyers need to be able to act quickly to close the deal." And adding to the competitive tension, McConnell notes that "publicly traded companies have also been very active in their pursuit of private M&A.

Montreal-based Partner **Philippe St-Louis** was also seeing some expedited deal processes through Q1/21, driven by rumors of changes to capital gains tax rules ahead of the 2021 federal budget, which ultimately didn't transpire. He observes that in Quebec, like BC, there is plenty of active capital: "Institutional and private equity investors such as Caisse de dépôt et placement du Québec, Investissement Québec and Desjardins Capital have been very active in Q1, in certain cases, dipping into budgets that were not fully used up last year."

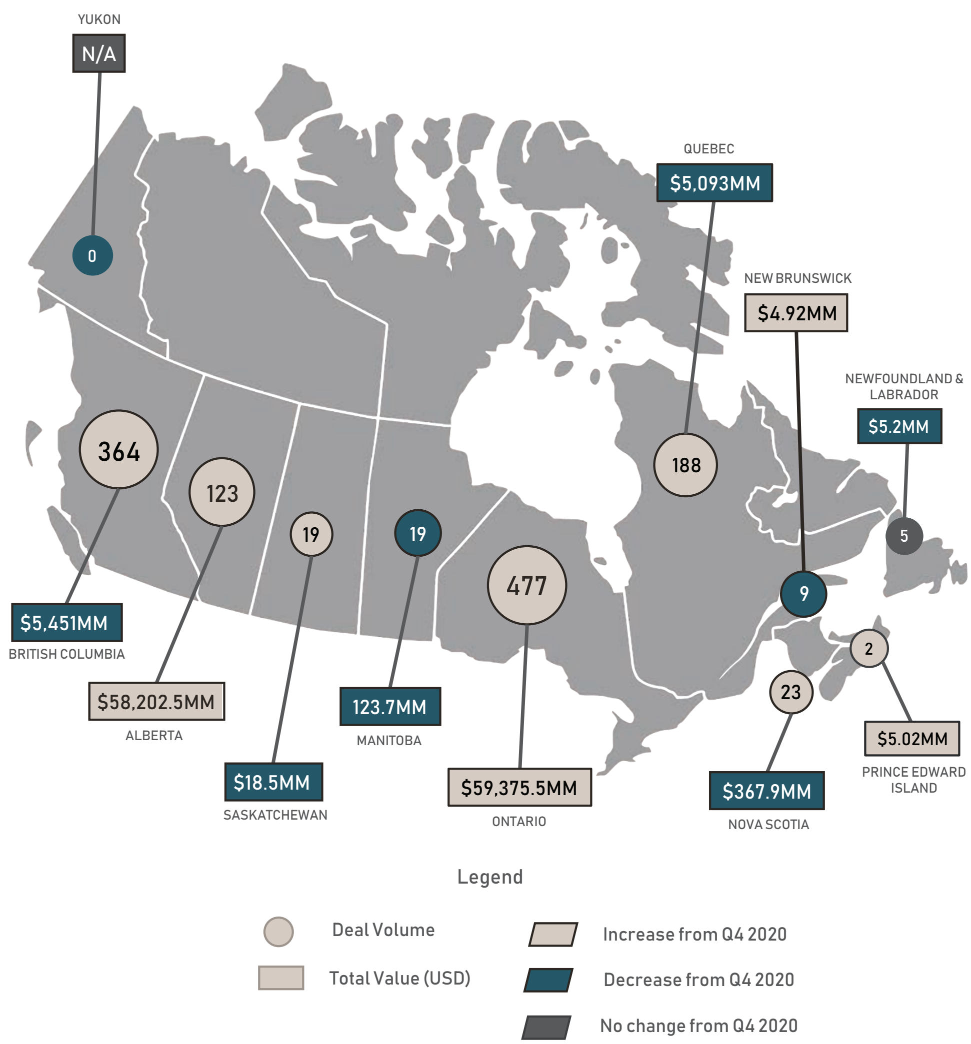
GEOGRAPHIC TRENDS

Dealmaking across Canada

M&A activity increased over Q4/20 in most provinces across Canada, and was up over Q1/20 in every province. Ontario topped the chart, with 477 transactions and $59.4 billion in deal value, elevated by the Rogers Communications' proposed takeover of Shaw Communications. Alberta, which ranked fourth in deal volume, scored second in deal value at $58.2 billion, a figure which includes CP Railway's sizeable bid for KC Southern.

Reflecting on the Alberta deal environment, Edmonton-based Partner **David McCalla** reports that "we have been very busy this spring on transactions." Similar to the experience across Canada, he adds that "there continues to be an abundance of available capital in the market". McCalla notes that buyer and investor demand have been particularly strong "for income producing businesses and assets, with no significant downward price adjustment related to a generalized sense of risk, despite well-publicized challenges to the Alberta economy."

Activity by Province (Q1 2021)



Source: Capital IQ April 12, 2021

Domestic Dealmaking

Domestic deal activity continued to show strength in the quarter, up 11% over Q4/20. In addition, domestic deals represented a higher proportion of total deal volume at just over 50% of total deal activity, as compared to the mid-40% range for full year 2018 and 2019[3] .

As we've surmised in prior issues, the higher proportion of domestic deals likely reflects the relative ease of getting domestic deals done in a closed border environment. It is clear, however, that buyers and sellers across borders are adapting to pandemic deal norms. As we discuss below, cross-border activity is on the rise as well.

Canadian Domestic Deals (Q4 2020 v. Q1 2021)

	Q4 2020	Q1 2021
Total Deal Volume	1169	1229
Alberta	116	123
British Columbia	357	364
Manitoba	25	19
New Brunswick	11	9
Newfoundland & Labrador	5	5
Northwest Territories	0	0
Nova Scotia	18	23
Nunavut	0	0
Ontario	475	477
Prince Edward Island	2	2
Quebec	150	188
Saskatchewan	10	19
Yukon	1	0
Total Deal Value (USD $mm)	81,404.97	128,647.24
Alberta	6,570.00	58,202.50
British Columbia	8,848.90	5,451.00
Manitoba	1,454.20	123.70
New Brunswick	1.47	4.92
Newfoundland & Labrador	2,776.60	5.20
Northwest Territories	-	-
Nova Scotia	842.10	367.90
Nunavut	-	-
Ontario	49,397.50	59,375.50
Prince Edward Island	-	5.02
Quebec	10,900.60	5,093.00
Saskatchewan	603.40	18.50
Yukon	10.20	-

Source: Capital IQ April 12, 2021

Where are we globally?

Top Three Cross-Border Partners by Deal Volume (2020-2021)

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Inbound					
United States	60	52	79	101	130
Europe	26	21	26	27	42
Asia / Pacific	18	11	10	12	31
Outbound					
United States	143	99	142	159	193
Europe	52	24	43	55	68
Asia / Pacific	16	20	23	25	35

Top Three Cross-Border Partners by Deal Value (US$mm) (2020-2021)

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Inbound					
United States	2,763	1,223.7	2,591.8	11,280.8	15,173
Europe	1,693.9	107.2	473.6	2,692.3	3,058.4
Asia / Pacific	239.6	624.6	11	57	1,176.1
Outbound					
United States	13,590.8	5,459.5	2,783.6	13,984.3	44,403.7
Europe	1,349.9	421.5	8,571.2	12,074.9	1,451.5
Asia / Pacific	78.2	47.2	1,435.1	6,237.6	1,082.9

Source: Capital IQ April 12, 2021

[3] We are not using full year 2020 as a comparable as deal activity was heavily skewed, particularly in Q2/20, by the impact of the pandemic.

Despite closed borders, cross-border activity continued its resurgence through the quarter, with inbound and outbound volume up, respectively, 47% and 27% over the previous quarter.

As always, US deals led the pack in the cross-border category. Inbound activity was up 29% quarter over quarter, while outbound increased 21.5%. As a percentage of total deal volume, US inbound represented 12%, compared to 9.3% and 10.6% for full year 2018 and 2019 respectively, while US outbound represented almost 18%, up from 16.9% in 2018 and 15.3% in 2019.

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.

According to the data…

Table of sector activity – Q1/2021 vs Q4/2020

	Q4 2020	Q1 2021
Total Deal Volume	1029	1088
Energy	40	51
Materials	232	251
Industrials	121	122
Consumer Discretionary	49	56
Consumer Staples	46	45
Healthcare	87	97
Financials	87	74
Information Technology	124	141
Communication Services	46	48
Utilities	26	22
Real Estate	102	117
Total Deal Value (US$ mm)	69,974.7	99,180.4
Energy	5,695.7	7,113.4
Materials	8,434.4	3,590.8
Industrials	6,657.5	31,353.1
Consumer Discretionary	4,818.4	2,196.5
Consumer Staples	2,590.7	2,443.1
Healthcare	2,378.4	1,461.5
Financials	13,410.7	2,781.5
Information Technology	7,177.8	12,080.1
Communication Services	4,186.7	21,969.1
Utilities	3,844.8	475.9
Real Estate	9,604.9	10,148.1

Source: Capital IQ April 12, 2021

Top 3 sectors by volume and value

Materials deal activity led the way with 251 announced transactions in the quarter, followed by Information Technology (141) and Industrials (122). Deal value was highest for the Industrials sector at $31.4 billion, a ranking largely attributable to the CP Rail/KC Southern bid. The Communications sector ranked second in value at $21.97 billion, boosted by the Rogers/Shaw mega-deal. Information Technology closed out the top three in value at $12.1 billion, a figure that includes the $9.5 billion announced acquisition of GlobalLogic Inc. by Hitachi, Ltd.

Sector spotlight: Transportation & Logistics

It was a busy quarter for Miller Thomson's transportation & logistics practice. Toronto-based Partner **Louis Amato-Gauci** has a strong focus on the space. He notes that "most of the transactions [he and his Partners] have seen in this sector lately have been strategic. This includes 'tuck-ins' by private equity buyers, and other situations where the buyer is looking to strengthen their operating platform."

Amato-Gauci says that valuations continue to present a challenge: some companies – 3PLs and final-mile carriers - have had some of their best ever financial results through COVID, while others, like those providing mid-mile services to industries hit hard by the pandemic, have struggled. In either case, buyers and sellers are faced with the challenge of trying to determine what should be excluded from EBITDA as a one-off, non-recurring, or unusual circumstance, and how adjustments should be structured.

How is this quandary being resolved? "Through interesting discussions about EBITDAC (earnings before COVID-19), an in-depth analysis of different possible scenarios in the post-COVID world and ultimately, more complex earn-out provisions," says Amato-Gauci. He adds that "earn-outs – the 'litigation magnets' that we all tried to avoid like the plague in years past – are back in vogue because of the pandemic."

Amato-Gauci and his Partners have also seen an increase in the use of equity rollovers in platform and tuck-in acquisitions by PE buyers within the transportation and logistics sector. He notes that "for cross-border transactions especially, this structure may be a great way ensure alignment between all parties in their efforts to grow the target company post-closing."

LOOKING AHEAD

Monthly deal data through the first quarter reflects month over month increases in announced transaction volume, suggesting there was strong momentum going into the Spring.

Total Monthly Deal Value & Volume (Q1 2021)

Period	Volume	Total Value (USD $mm)
January 2021	319	12,890.3
February 2021	362	12,787.1
March 2021	407	73,503
2021YTD	1088	99,180.4

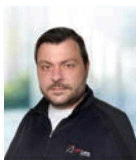
Louis Amato-Gauci expects that the active deal environment will be sustained. “We are hearing a lot about the pent-up demand, with idle capital looking to be put to work,” he says. “In addition, the anticipation of less favourable new tax measures coming into effect is pushing company owners to expedite their exit plans. All of this, alongside very low interest rates, makes for a busy M&A season ahead.”

At Miller Thomson, we are here to support and advise our clients along the path ahead, whether they are considering an acquisition or sale, 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 help our clients get their deals across the finish line.
Look for our next issue, with insights on Q2/2021, coming in the Summer.

SECTOR SPOTLIGHT: TRANSPORTATION AND LOGISTICS

INTERVIEW WITH PETER STEFANOVICH, MANAGING PARTNER – M&A, LEFT LANE ASSOCIATES

Left Lane Associates is a leading Canadian M&A firm focused exclusively on the North American supply chain industry.



Miller Thomson: Can you talk about the transportation and logistics (T&L) landscape, and the challenges that have emerged through COVID?

Peter Stefanovich: We've seen significant change in the supply chain because of COVID: there has been a shift away from just-in-time delivery, the system that was standard in the manufacturing and retail sectors pre-March 2020. The disruption of the pandemic brought the realization that retailers and manufacturers needed to have more inventory in stock in anticipation of future interruptions, whether due to pandemic, extreme weather, human interruptions or other disruptive external factors. As a result, we're seeing a supply chain shift from just-in-time to supporting 14-21 days of inventory.

MT: How are businesses responding?

PS: As a temporary measure, the bigger players are ordering further out, and stockpiling. But it's clear, through our conversations with government and private industry stakeholders, that the long-term solution will be to build out manufacturing facilities closer to home. By doing so, the supply chain becomes more diversified geographically, which provides a backup if there are geopolitical, pandemic-related or other disruptions in international locations.

MT: And what about the T&L sector specifically? What is top of mind for service providers in the space?

PS: Final Mile is an interesting piece; it was growing pre-pandemic and has really ramped up throughout the pandemic, as consumers shifted to online ordering. This acceleration is driving the adoption of a hub and spoke model, where there is extensive centralized warehousing, along with smaller locations throughout large, densely populated areas, so that goods can be delivered in a timely way. Because of companies like Amazon, consumers expect to get their deliveries within 24 hours, and in large city centres, sometimes within 2-4 hours. This is where the hub and spoke model becomes essential.

MT: With the ramp up in deliveries, there has also been an increase in returns. How are businesses managing return logistics?

PS: The reverse logistics space has become extremely vital because people aren't going to retail locations to try on a shirt or shoes. It's been a big sprint – there are companies set up specifically to manage that challenge. From a retail perspective, the Amazons of the world have spurred the creation of other businesses to help facilitate the reverse logistics sub-sector.

MT: From a practical perspective, how are companies meeting the logistics challenges you've described? Are they creating their own solutions, or are they using acquisition strategies?

PS: Addressing these challenges organically is tough in this space, as there is such tight capacity in the market. Companies can't buy equipment – everything is booked well into 2022, so they are looking to M&A, which is shifting dramatically from a "want" to a "need", as T&L companies strive to facilitate their clients' needs.

MT: What types of sellers is Left Lane seeing in this heated M&A market?

PS: Pre-COVID, sellers often fell into a certain age demographic – many were selling because they wanted to retire. That has changed. At this point, our sell-side clients range in age from early 30's to mid-70's. In the transportation space, to compete effectively, you need scale, now more than ever. Smaller owners of all ages need to make that risk-reward assessment: do I invest the significant time and capital required to scale the business and get those returns, or do I limit my risk and exit now when the opportunities abound, and valuations are high. And on that last point, we're seeing valuations up between a half turn and two turns higher, depending on the segment, relative to February and March 2020.

MT: Wrapping things up, is there a transaction of note that you've worked on over the past year that you can share with us?

PS: Sure. We recently advised Titanium Transportation Group (TSX Venture: TTR) on their acquisition of International Truckload Services (ITS). That transaction played to our strength: our intrinsic involvement in the sector. Left Lane's team members come from industry and are actively involved with industry organizations and alliances, so we have a deep knowledge and understanding of the stakeholders. Because of that and our thought leadership, we are able to approach T&L business owners, as we did in the Titanium transaction, with a heightened understanding of the factors that might motivate them to sell.

SECTOR SPOTLIGHT: TRANSPORTATION AND LOGISTICS

INTERVIEW WITH ROBERT FEDROCK, PRINCIPAL, ORIGIN MERCHANT PARTNERS

Origin Merchant Partners is a leading, independent Canadian investment bank with expertise in M&A, capital raises and restructuring advisory services, delivered by a team of senior professionals.

Miller Thomson: Let's start with the trends that have emerged during or were accelerated by the pandemic. Can you share what you are seeing?

Robert Fedrock: There's definitely been a shift in the type of transportation demands. An obvious area is the acceleration in consumers' online shopping. That is driving a different type of transportation requirement, Final Mile being one. Final Mile was a focus before the pandemic, but is even more of a factor now. This happened pretty dramatically with the institution of lockdowns. For example, with the lockdowns, many people started ordering office supplies for delivery to their homes rather than to their offices. So in this particular case, both consumer and business consumption are driving the Final Mile delivery to the home.

MT: How are transportation/logistics businesses responding to the challenge?

RF: It's always been a tricky business to get the Final Mile piece right. It requires a lot of technology and precision because you're trying to make margins off small dollar deliveries. Frankly, many logistics and trucking companies have tried to enter that market and then shied away due to the complexity, but the pandemic has forced a number of them to go back and revisit the space. There was always strong growth predicted for Final Mile logistics and delivery, but the pandemic has accelerated that significantly.

MT: Is the need to perfect the Final Mile piece contributing to M&A in the sector? It's been a busy time for T&L – what is driving the deal activity?

RF: I'd say Final Mile is an aspect of it, and those assets are trading at a premium right now, but there's a broader push going on as well. Through the course of numerous conversations with T&L providers in Canada and the US, we definitely hear from many prospective buyers and sellers. COVID has accelerated change in the industry, and I think that's tipped the balance. People that may have been contemplating an exit down the road are rethinking their timeline, and looking at the robust market as an opportunity to monetize. On the other side, we are hearing from many business owners that are thinking about how to make acquisitions in this market. Those companies want scale to serve their customers more effectively and generate higher returns. It seems rare that anybody that wants to stand still in this market.

MT: Picking up on your comment about those "thinking about how to make acquisitions in this market", are those mostly large strategics?

RF: There are definitely large strategics in the buyer mix, but we've also had discussions with family and founder-owned businesses that are acquisitive. And there is also strong interest from private equity firms looking for T&L exposure, or to add bolt-ons to their existing platforms. We're seeing interest from all over.

MT: How are buyers addressing valuation given that in many instances, T&L businesses have seen a spike in performance through COVID?

RF: Valuation definitely presents a challenge because of the COVID dynamics. Buyers have to ask whether a target has reached a new plateau, and is going to grow from there, or performance is going to fall back to historic levels. Generally, it's very tough to put a multiple on that COVID-driven spike without a compelling business case that it will remain post-pandemic. We have seen buyers with an appetite to pay a base amount for the business based on historic performance, and structure an earn-out for the upside.

MT: To wrap up, is there a transaction of note that you've worked on over the past year that you can share with us?

RF: Definitely. We advised ASL Distribution Services on its recent sale to Fastfrate. ASL is a diversified logistics company that, pre-COVID, had made a big push into Final Mile. So the company was well positioned to leverage that when the pandemic hit. Many of their customers saw their ecommerce businesses accelerate considerably through the pandemic, and ASL had the capability to ramp up with them. We were able to generate significant competitive tension through the sale process – there was strong interest from financial and strategic buyers – and at the end of the day Fastfrate, a strategic, was the best fit.

I want to add, we've talked about types of sellers, and in this case, the company was founder owned. This was a situation where a number of the shareholders were already thinking about succession planning, so the timing and outcome of the sale worked very well.

REPRESENTATIVE Q1 2021 TRANSACTIONS

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

Deloitte LLP

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

Groundswell Group Inc.

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.

REPRESENTATIVE Q1 2021 TRANSACTIONS

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).

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).