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STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

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WELCOME TO STRAIGHT TALK

We've taken a different approach for this issue. Drawing on the experience from our own practice at Miller Thomson, and looking at the data, little has changed from the prior quarter. Canadian M&A remains at close to record levels and cross-border activity remains strong. Capital is abundant, and while inflationary pressures are sowing cautionary seeds, the credit environment is still friendly for deal makers.

Given this similarity to the past couple of quarters, this issue includes an abridged version of our Canadian M&A Review, and we have shifted focus to our Sector Spotlight. In the following pages, Miller Thomson Partner and Cannabis practice lead, Alexander Lalka, traces the cannabis industry's path, and provides insights into the current deal environment and the opportunities that lie ahead. As you'll read, it's an interesting time for the sector: in addition to the possibility of US legislative reform at the federal level, the industry has matured, valuations have normalized, and there are compelling reasons for further consolidation.

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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Q3 2021 MARKET INSIGHTS

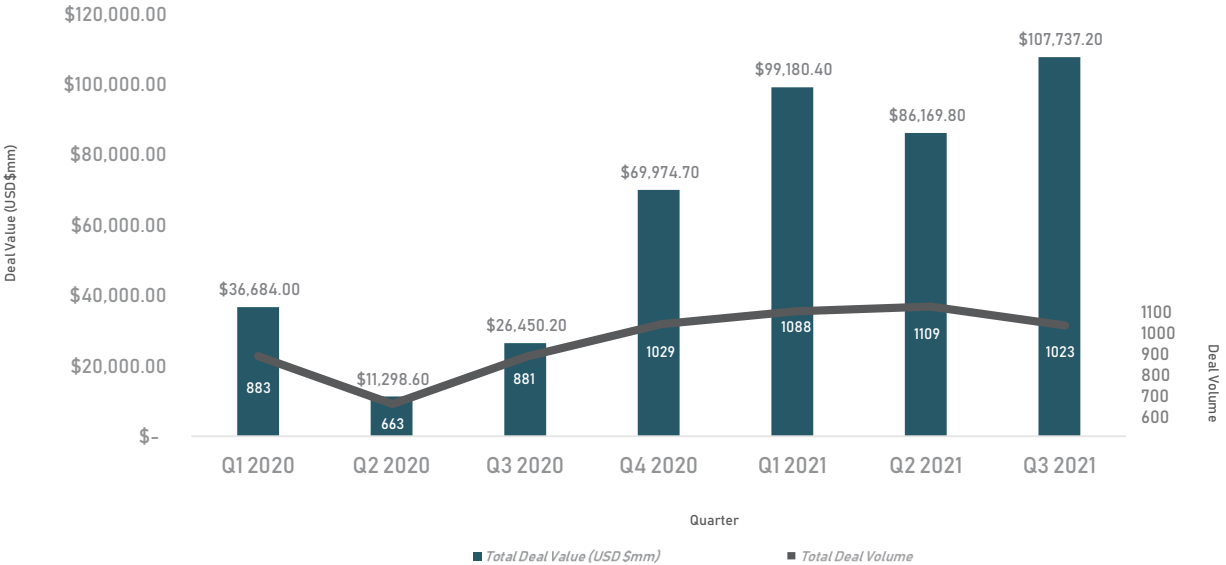
While Canadian M&A activity slipped from the prior quarter, dealmaking remained at close to record levels in Q3/21. Volume declined almost 8% over Q2/21, but outpaced Q3/20 by 16%. Value was, once again, propelled by a number of significant deals: CP Rail’s bid to acquire Kansas City Southern, along with fourteen other mega-deals (\$1 billion+) including Agnico Eagle’s bid for Kirkland Lake Gold.

Geographically, dealmakers continue to reach across borders, with cross-border deal volume continuing to show strength, and a notable acceleration in inbound activity.

Note: Dollar values are in USD.

DEAL ACTIVITY

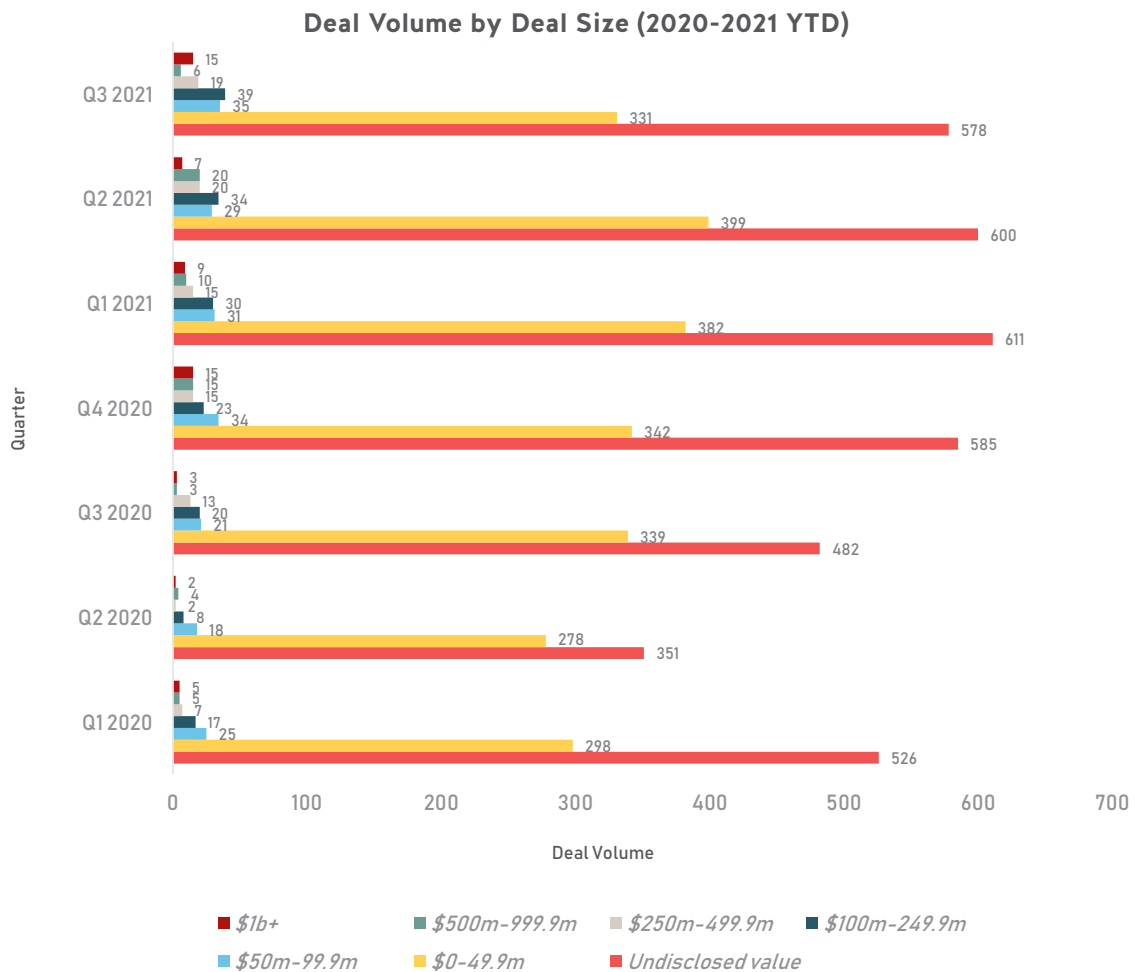
Total Deal Value & Volume (2020 - 2021 YTD)



Source: Capital IQ October 12, 2021

Where the deals are...

As always, Canada's mid-market continued to drive activity in Q3/21, comprising 91% of deal volume.¹ There was, however, a 17% decline in transactions in the sub-\$50 million range, partially offset by increased volume in deals in the \$50-250 million value range. At the upper end of the value spectrum, mega-deal activity spiked in the quarter with 15 transactions, compared to 7 in Q2/21.



Source: Capital IQ October 12, 2021

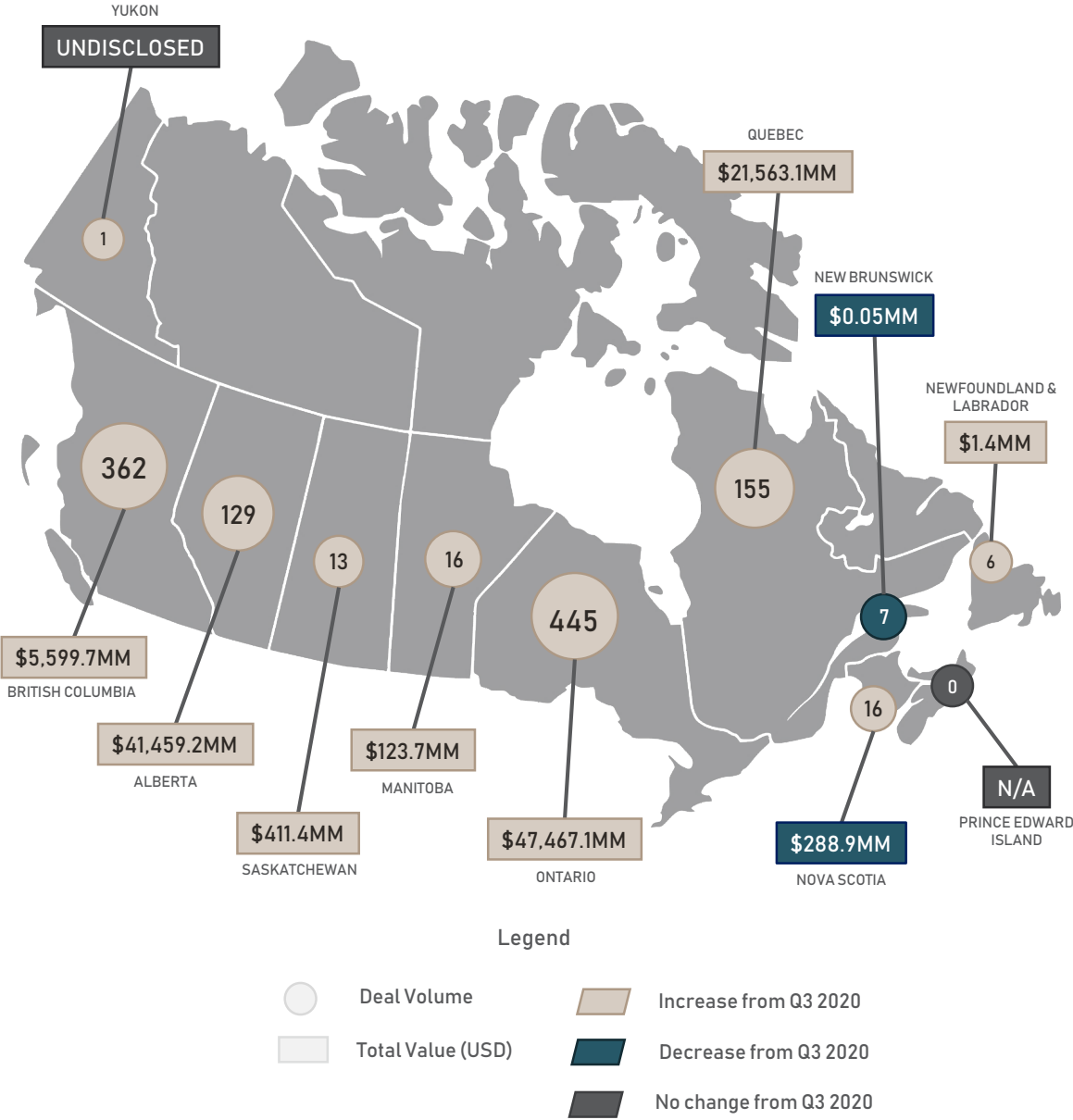
¹In this case, volume includes all transactions with disclosed value.

GEOGRAPHIC TRENDS

Dealmaking across Canada

Ontario, BC and Quebec saw the highest level of deal activity in Q3/21, while Ontario, Alberta and Quebec led the way in deal value. While each of the four largest provinces saw gains in deal volume over Q3/20, all four slipped from the heights of Q2/21.

Activity by Province (Q3 2021)



Source: Capital IQ October 12, 2021

Domestic Dealmaking

Domestic deal activity declined 23.6% from Q2/21, representing 44.4% of Q3/21 deal volume, down from almost 49% in the prior quarter. This level of domestic deal making likely represents a return to pre-pandemic norms: domestic deal making represented 45% and 44.3% of total deal activity in, respectively, 2018 and 2019. In contrast, through 2020, domestic activity represented 48.5% of total deal volume.

Canadian Domestic Deals (2018 - 2021 YTD)

	Volume	Total Value (USD \$mm)
2018	1728	52,560.6
2019	1595	58,302.3
2020	1675	27,221.8
Q1 2020	435	6,214.1
Q2 2020	332	1,197.3
Q3 2020	416	7,689.2
Q4 2020	492	12,121.2
2021 YTD	1541	75,461.8
Q1 2021	546	36,015.3
Q2 2021	541	22,357.9
Q3 2021	454	17,088.6

Source: Capital IQ October 12, 2021

Where are we globally?

Cross-border activity remained strong in the quarter with deal volume decreasing slightly over an active Q2/21. In a reversal from Q2/21, inbound volume increased almost 17% in the quarter, while outbound volume declined 13%.

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...

Sector Activity (Q2 2021 vs. Q3 2021)

	Q2 2021	Q3 2021
Total Deal Volume	1109	1023
Energy	62	51
Materials	251	203
Industrials	110	131
Consumer Discretionary	51	61
Consumer Staples	55	38
Healthcare	107	83
Financials	71	68
Information Technology	160	147
Communication Services	55	61
Utilities	14	11
Real Estate	108	111
Total Deal Value (US\$ mm)	86,169.8	107,737.2
Energy	16,631	5,731.1
Materials	2,763.9	13,925.6
Industrials	36,586.3	42,420.9
Consumer Discretionary	1,733.3	4,108.3
Consumer Staples	1,050.8	423.5
Healthcare	2,665.8	8,022.8
Financials	5,411.8	6,616.6
Information Technology	3,430.6	2,562.8
Communication Services	1,803.2	3,981.6
Utilities	2,506.9	6,720.6
Real Estate	8,074.2	12,914.8

Source: Capital IQ October 12, 2021

Top sectors by volume and value

Materials deal activity led the way once again with 203 announced transactions, followed by Information Technology (147) and Industrials (131). Deal value was highest for the Industrials sector at \$42.2 billion, in large part attributable to the CP Rail/Kansas City Southern mega-deal. Materials ranked second in value (\$13.9 billion), boosted by the Agnico Eagle/Kirkland Lake deal, while Real Estate (\$12.9 billion) rounded out the top three.

LOOKING AHEAD

We are looking ahead to 2022 with optimism. While inflationary pressures and the potential for rising interest rates introduce an element of uncertainty, there is, as we've noted previously, an abundance of capital in the pockets of investors, and deal flow remains strong.

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 Q4/2021, coming in the Winter.

CANADA'S CANNABIS JOURNEY: THE PATH POST-LEGALIZATION²



Miller Thomson Partner and Cannabis practice lead, Alexander Lalka, tracks the Canadian cannabis sector's path from initial euphoria and subsequent turbulence, to its current state: a more mature industry experiencing renewed investor optimism and an active M&A environment.

There was a time (circa 2018) when the market could not get enough of Canadian cannabis. Cultivators were flush with cash, valuations were sky high and the future couldn't seem brighter. A flurry of foreign cannabis companies rushed to the Canadian market to raise funds and go public. Canada was at the epicenter of the cannabis market at this time. We were the undisputed leaders.

2019-2020 – A harsh dose of reality.

Much of that euphoric sentiment dissipated by the end of 2019. Canadian cannabis companies often failed to deliver on the hype. Balance sheets were weak, reflecting significant quarterly losses. Many companies did not turn a profit.

What went wrong?

The industry did not anticipate the slow growth of consumer appetite coupled with an inefficient roll-out of the retail sector. A variety of cannabis products such as edibles, extracts, and topical products were legalized in late 2019; however, they were slow to come to market.

Investors responded accordingly: capital dried up and stock prices declined.

The increasing difficulty of accessing capital through 2020 was exacerbated by the early months of the COVID-19 pandemic, resulting in downsizing, layoffs, restructuring and creditor protection.

The new reality was that investors were no longer excited for the future. The industry was bloated. Valuations were due for correction.

2021 - renewed optimism, strategic M&A

The results of the US election provided a needed shot in the arm for the industry, triggering a renewed sense of optimism. The hope for legislative reform south of the border continues.

Alongside the hope for US legislative reform, the Canadian industry continued to mature through 2021, with a focus on strategic acquisitions rather than the prior emphasis on acquiring to scale production. Cash rich producers began targeting quality assets to complement their business plans, as compared to the seemingly ad hoc acquisition strategies of years past.

²Recreational cannabis, in the form of oils, seeds and fresh/dried marijuana, was legalized in Canada on October 17, 2018. Edibles and concentrates were legalized a year later.

Sector activity in Canada

According to Statistics Canada, the Canadian cannabis industry - which includes the black market - contributed \$18.3 billion to the country's economy in 2021 to date, representing a high watermark for the industry. Cannabis producers accounted for the bulk of the industry's GDP contribution with \$16.4 billion, while retailers accounted for about \$2 billion. This is expected to continue as cannabis businesses shed costs and recover from COVID-19 leading to a resumption in growth within the Canadian cannabis industry.

On the M&A front, Canadian cannabis sector activity hit an all-time high in 2021, with a 94% surge in Q1 activity year over year, driven, in part, by more realistic valuations and the aforementioned strong potential for US legislative reform. In addition, M&A has become a primary source of growth for many companies striving to meet investors' expectations.

And south of the border...

South of the border, the US has surpassed Canada in M&A activity as legal changes on the federal level loom on the horizon, alongside ongoing state legalization (such as most recently in New York) and banking reform. Traditionally, the major cannabis players were primarily situated in Canada, but this is shifting, with new US companies starting to dominate the market.

Beyond M&A

Profitable cannabis companies are looking to buy their way into niche areas and introduce new brands. This is driving an increase in and focus on new joint venture arrangements between large companies with strong distribution networks and popular brands that are looking to increase their market exposure.

Miller Thomson's view: where we go from here

It's been a busy year for Miller Thomson's Cannabis practice, and our deal pipeline is full as we move towards the end of 2021. We anticipate that the high level of activity will continue into 2022, with further consolidation as the industry continues to mature. While select Canadian targets remain attractive to Canadian LPs, we expect the superior growth potential of the US market to keep US targets at the forefront of M&A activity.

If you would like to learn more about our deal expertise and experience in the cannabis sector, please reach out to Alexander Lalka at alalka@millerthomson.com.

REPRESENTATIVE Q1 - Q3 2021 TRANSACTIONS

<p>Represented Silent-Aire Manufacturing Inc. <i>\$1.1 billion</i></p> <p>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.</p> <p>Johnson Control International plc</p>	<p>Represented Liberty Health Sciences <i>US\$290 million</i></p> <p>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)</p> <p>Ayr Wellness Inc.</p>	<p>Represented Ebro Foods S.A. <i>\$165 million</i></p> <p>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.</p> <p>Barilla Group</p>	<p>Represented Heniff Transportation Systems</p> <p>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.</p> <p>Premier Bulk Systems</p>
<p>Represented Yaletown Partners and Bank of Montreal <i>US\$100 million</i></p> <p>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.</p>	<p>Represented Robertet S.A. <i>US\$100 million</i></p> <p>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.</p> <p>Ecom Food Industries, Inc.</p>	<p>Represented Environmental 360 Solutions Inc.</p> <p>Venture round for Environmental 360, a leading waste management company, led by Oaktree Capital Management, L.P. and comprised of Canadian Business Growth Fund and existing shareholders</p>	<p>Represented BMO Capital Partners <i>\$150 million</i></p> <p>Equity Investment by BMO Capital Partners, led by Flexpoint Ford, an American private equity firm, in PayFacto Payments Inc., a Montreal-based FinTech company</p> <p>PayFacto Payments Inc.</p>
<p>Represented Nabors Industries Limited <i>\$117,500,000</i></p> <p>Sale of its on-shore drilling business by Nabors Drilling Canada Limited, including 35 land-based drilling rigs and related equipment, inventory and real property, to Ensign Energy Services Inc.</p> <p>Ensign Energy Services Inc.</p>	<p>Represented JMP Solutions Inc.</p> <p>Cross-border sale of an interest in JMP Solutions Inc., an automation systems integrator, to Crestview Partners, a New York-based private equity firm.</p>	<p>Represented LQwD Financial Corp.</p> <p>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.</p>	<p>Represented Game On Creative Inc.</p> <p>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.</p>

REPRESENTATIVE Q1 - Q3 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

Perpetua Resources Corp. US\$57.5 million

Equity offering including full exercise of the over-allotment option

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

REPRESENTATIVE Q1 - Q3 2021 TRANSACTIONS

Represented

Titanium Transportation Group
\$35 million

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

Represented

TD Securities, Canaccord Genuity Corp., Raymond James and Stifel Nicolaus Canada Inc.
\$33.7 million

Bought deal financing by WeCommerce Holdings Ltd.

Represented

Emerita Resources Inc.
\$20 million

Bought deal private placement for Emerita Resources Inc.

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.