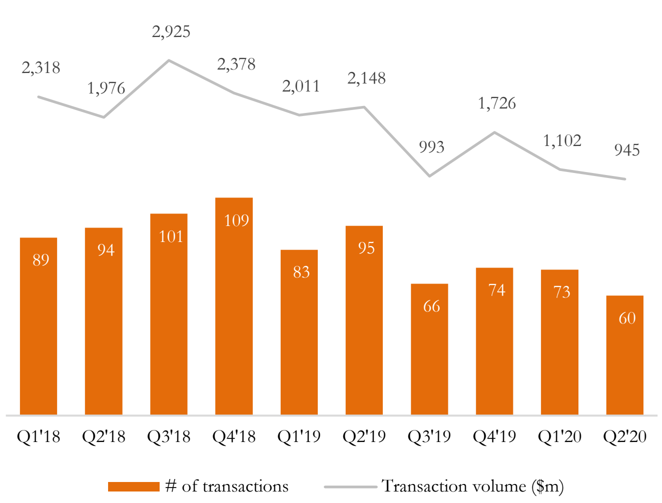
CCC
INVESTMENT
BANKING

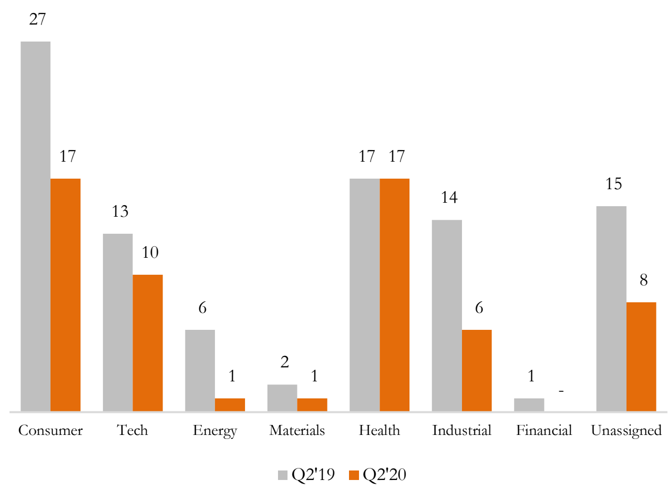
Canadian Mid-Market M&A Update [1]

- Government instituted lockdown in response to COVID outbreak began in the final 2 weeks of Q1’20. As expected, the increased uncertainty driven by the social and economic implications of the pandemic resulted in a decrease in transaction volume in Q2’20.
- As COVID cases rose, buyers focus shifted to the impact of the virus on operations, and preserving cash to manage working capital needs.
- Private equity continued to selectively look for opportunities based on large amounts of dry powder which they had raised prior to the pandemic, although greater emphasis is being placed on industries which were least impacted by COVID.
- As Canada rolls out a phased opening of services and businesses on a Province by Province basis, companies focus is shifting from survival mode to cautiously beginning to look beyond COVID.

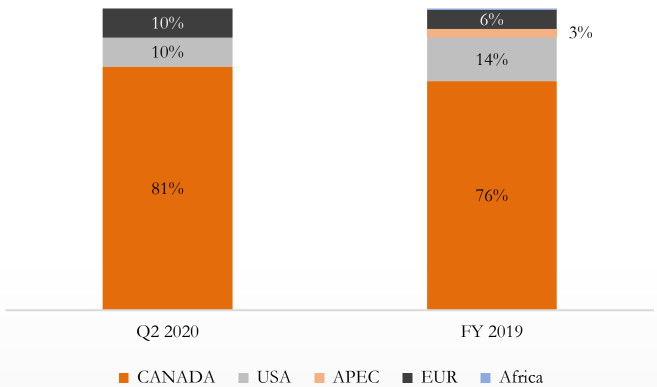
Quarterly M&A Activity



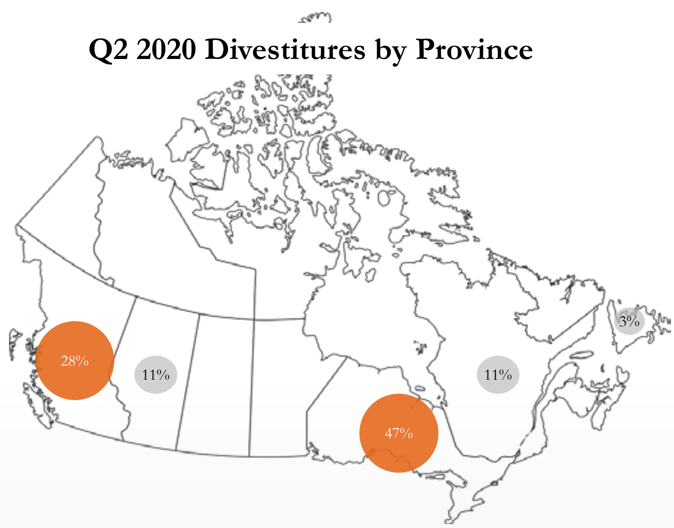
Q2 YoY Deal Volume by Industry



Buyer by Geography



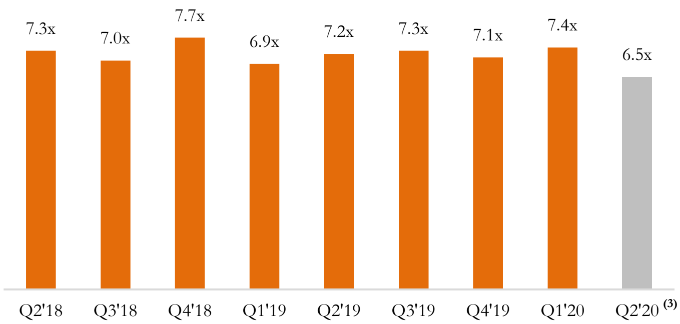
Q2 2020 Divestitures by Province



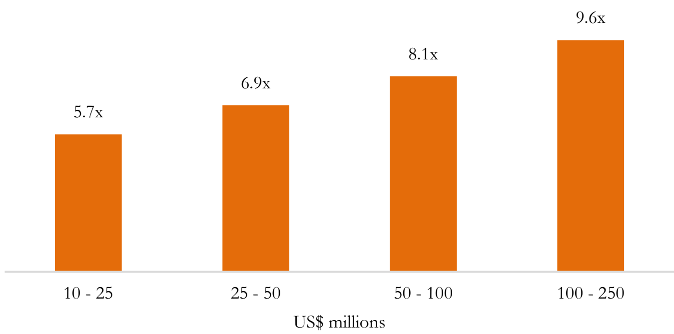
Sources:
(1) CapitalIQ, Enterprise Value less than $300 million, excluding Real Estate, Mining and Oil & Gas.

North American Private Equity [2]

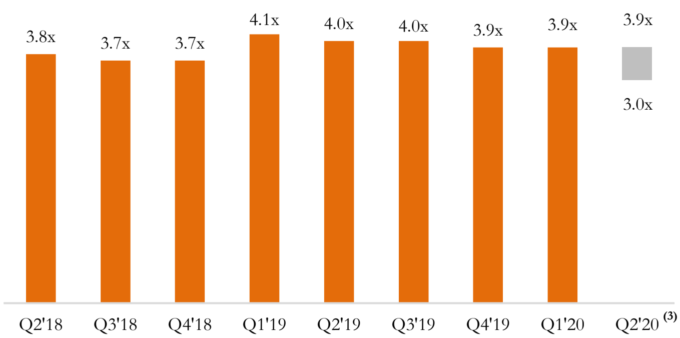
Median EV/EBITDA Multiple



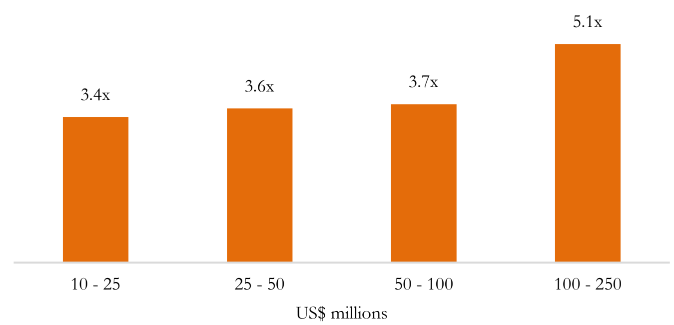
Q1 2020 Median EV/EBITDA Multiple by Deal Size



Total Debt/EBITDA Multiple



Q1 2020 Total Debt/EBITDA by Deal Size



- Private equity are continuing to look for opportunities to deploy large pools of raised capital.
- Private equity investment criteria will continue to place higher focus on businesses which are recession and COVID resistant. Firms with a distressed asset focus are allocating greater resources to identification and acquisition of distressed assets.
  - Businesses which are not impacted by (or have thrived during) the pandemic may trade at a premium to pre-COVID levels based on lower deal flow causing buyers to price competitively.
  - The decrease in EV/EBITDA outlined in the chart above is based on a greater percentage of distressed transactions which trade at lower multiples.
- Ability to close deals with private equity will be industry and deal specific but is not expected to materially impact deal value, however lenders are increasingly risk averse and scrutinizing due diligence more thoroughly. CCC has estimated a leverage range of 3.0x to 3.9x EBITDA with larger transactions commanding higher leverage ratios. Refer to the next page for further commentary on the capital markets.

Sources:
(2) GFData.com
(3) Q2 2020 data is unavailable. CCC has estimated enterprise value/EBITDA multiples and total debt / EBITDA based on discussions with Private Equity and lending institutions.

Key Takeaways from Discussions with Lenders

CCC has reached out to lenders at the major Canadian banks to get input on financing in the Canadian mid-market. Availability of capital is a critical factor in optimizing enterprise value and completing transactions.

Lenders seem willing to apply the same debt to maintainable EBITDA as prior to the pandemic, subject to the industry and specific deal.

Cost of debt has remained the same as prior to the pandemic based on a decrease in the base rates (prime, BA) offset by an increased spread from the lenders.

Banks willingness to offer long amortization periods is unchanged (7+ years), however they appear to be reducing the terms of committed facilities to 3 years from a high of 5 years.

Lenders are more focused on supporting existing relationships andclients and are less aggressive on growing their loan books and therefore borrowers may find less sources of financing options available during this COVID period. Companies in attractive industries such as software or healthcare are still highly desirable. Additionally, there is a continued willingness to back private equity firms with existing banking relationships.

Investment committees are more stringent and a greater emphasis is being placed on due diligence including the use of funds, quality of earnings, and COVID risk mitigation procedures. Specifically, the quality of earnings will be under the lens of what the impact of a "2nd wave" would have on the company's ability to meet its debt obligations.

Conclusion

Acquisition financing is still available for strong performing companies, however the banks increased credit scrutiny will make the process more challenging and time consuming. A company looking to obtain new financing will benefit from detailed and evidence based forecasting, and well documented risk mitigation procedures.

Sources:
(2) GFData.com

M&A Market Outlook

Buyers

- Across most industries strategic buyers have implemented COVID policies and are now refocused on growth.
- Within distressed industries such as restaurants, hospitality, or travel, strategic companies with strong balance sheets may be looking to acquire distressed assets with the expectation of a long term recovery.
- Private equity continues to sit on large pools of capital which they are required to deploy. The decrease in deal volume is creating more bid tension on desirable companies.

Financing

- Banks are looking to deploy capital in "safe" industries. Senior lenders have expressed a willingness and desire to lend at pre-COVID levels.
- Greater emphasis on due diligence will result in higher quality reporting and forecasting in order to get transactions financed.

Sellers

- Businesses and industries which are continuing to thrive (or demonstrating loss mitigation) during the pandemic may command a higher valuation.
- Sellers of Companies that have been negatively impacted by COVID will likely need to be open to deal structure including earnouts, vendor notes, and/or other variable compensation to maximize deal value.

Preparing for a sale

Forecasting the impact of COVID on your business

- Understanding the short and long term impacts of COVID on operations including labour force, automation, supply chain disruption and diversification, sales and customer relationships, etc. will help position the business.
- The company with assistance from its advisors will need to prepare financial forecasts that outline multiple operating scenarios to quantify the COVID risk on company cash flow.

COVID operation policies

- Implementation and documentation of COVID risk mitigation procedures which outline the planned response to an outbreak is a new diligence item which is now standard in executing a transaction.

CCC INVESTMENT BANKING

Toronto
155 Wellington Street West, Suite 3720
416-599-4206
Vancouver
450 – 400 Burrard Street
604-689-2495
CCCInvestmentBanking.com