



SPECIAL EDITION COVID-19

Value & Market Insights

2020 | April 1, 2020

ValueInsights

March 2020 won't be forgotten anytime soon – we all hope spring brings new hope to families, businesses, and our society as a whole. The drastic increase in economic uncertainty and market volatility arising from the outbreak of COVID-19 has made the current environment a difficult one to navigate with respect to valuations. Three key issues that should be top of mind for business owners, accountants, and advisors during this time:

Estate and Tax Planning – spring is coming, but is it time to freeze or re-freeze?

Forward thinking business owners are receiving calls from their tax advisors on the effectiveness of estate freeze, or re-freeze, transactions. The concept is that there is an opportunity for shareholders to thaw and refreeze ownership positions to realize the benefit of lower market valuations during this period of uncertainty. The benefits are primarily two fold: first, it resets the motivations of the next generation to rebuild the business to the benefit of all parties; second, substantial positive tax planning can be implemented to create deferral opportunities through freezing at today's supportable price.

The question of “what is the value?” is critical to make these plans work, and our expertise in preparing defensible valuation reports for tax authorities will de-risk these plans in the future.

Impairment – if there's ever been an indication of impairment, it's COVID-19 in Q1 2020!

For financial reporting periods ending on or after March 2020 it is important to ensure that the significant effects of COVID-19 are being considered. Declining operating results, weakening financial position and uncertainty around future cash flows and earnings increase the risk of impairment. Companies will determine there are impairment indicators, even as it relates to recent business acquisitions and assets other than goodwill. The question in focus will be: what is the damage to the business model over the long term? For many, the first year of any forecast will see a precipitous drop in revenue, but does the drop in economic activity extend into year 2 and year 3? Further, how do support programs from Provincial and Federal governments impact this analysis?

Navigating these complex issues and acceptability under accounting standards requires expertise. Our team is ready to work closely with you and your auditors to support your impairment assessments.

Employee Share Ownership Plans (ESOP) – how does COVID-19 impact unit price?

Consideration should be given as to how the change in business and economic conditions will impact employee shareholder transactions throughout the year. The volume, frequency, and importance of transactions within an ESOP program will drive decisions around adjustments to pricing in 2020. Complex issues involving contractual obligations balanced by the practical implications of potentially low pricing will cause stress to ESOP programs.

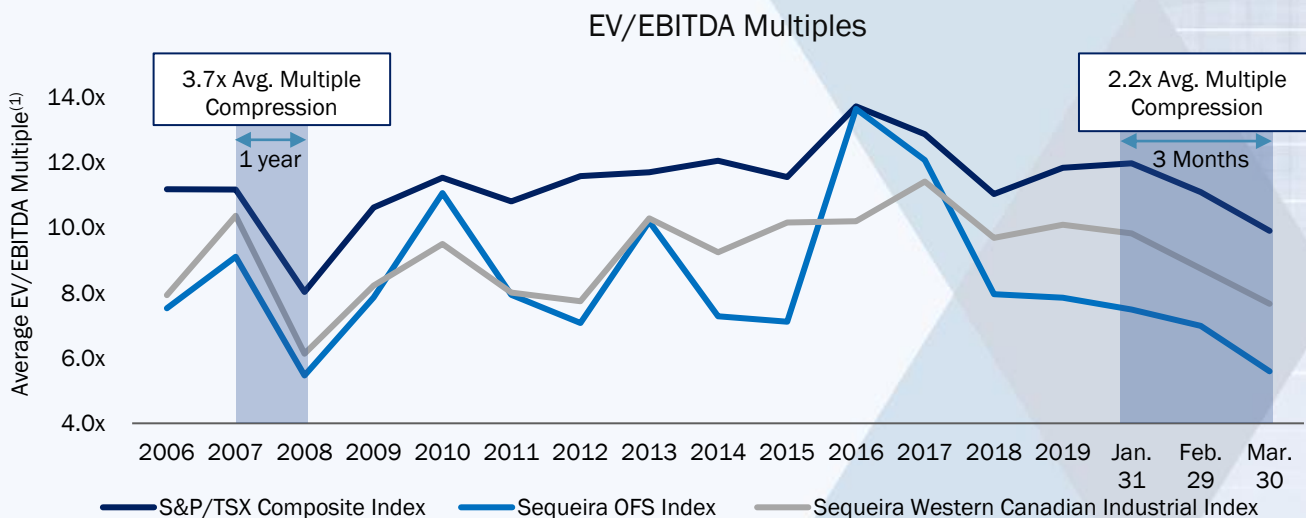
We are experienced in providing valuations that support our clients to establish and maintain ESOPs. The impact of COVID-19 is top of mind as we approach this exercise. We can support you through understanding and analyzing these key issues and their impacts on your business.

Q1 2020 vs. 2008

With the plunging stock market, interest rate cuts and government stimulus, it feels a lot like 2008. At the end of last week, the IMF announced that we have entered into a recession that is as bad or worse than the global financial crisis in 2009.

Where to from here and how will this impact mid-market M&A?

We thought it would be helpful to look back at the impact on market multiples and deal volume during the downturn and reflect on other key factors at play.

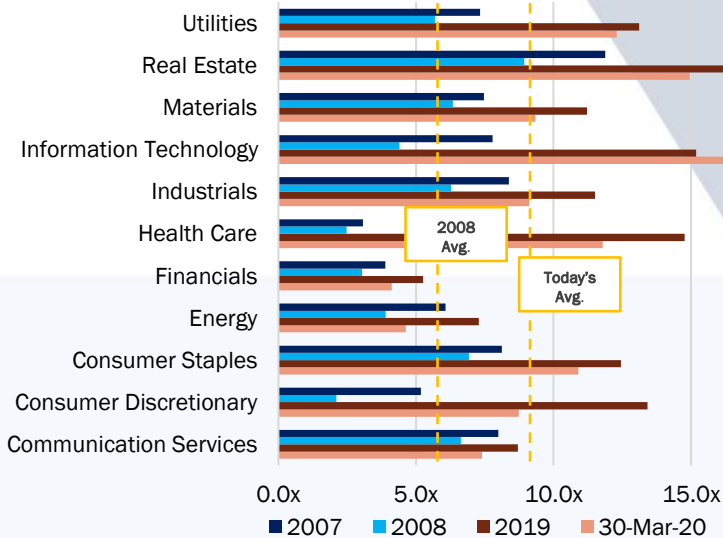


Historically, the S&P/TSX Composite moves at most ~1%/day on average. Today, the market volatility is unprecedented from the impact of COVID-19, global oil supply glut and fiscal stimulus measures (i.e. interest rate cuts, and Federal stimulus programs).

The average EV/EBITDA multiple across the TSX Composite, and Sequeira's Oilfield Services and Industrial Indexes, dropped **3.7x** during the 2008 crisis. In the most recent 3-month period, the same three indexes have experienced a decline of **2.2x**. While in absolute terms multiple compression was not as high, it has occurred in a much tighter timeframe.

Q1 2020 vs. 2008 (cont'd)

EV/EBITDA Multiple by Industry



At the industry level, EV/EBITDA multiples have declined across most industries.

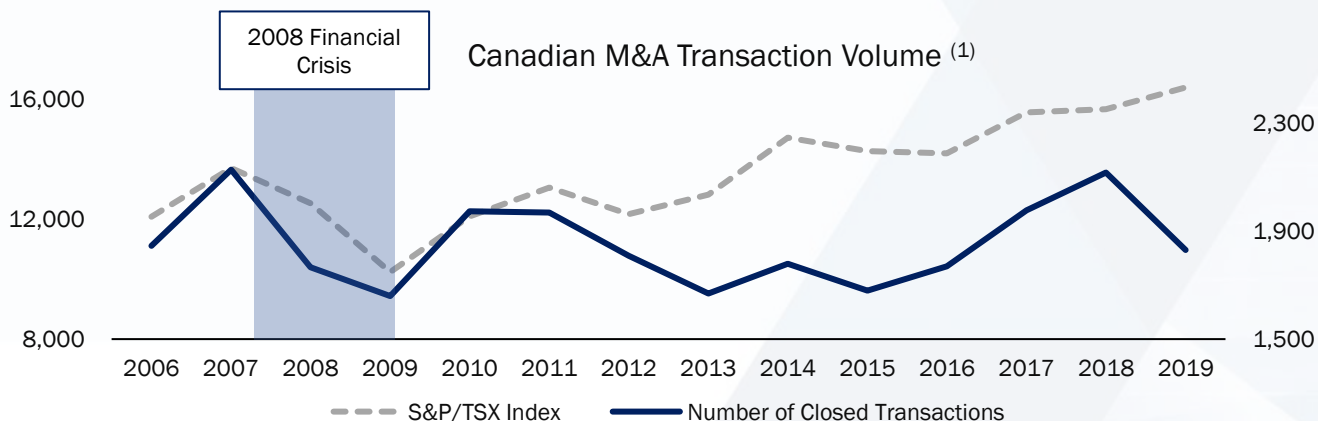
The biggest losers have been:

- Energy
- Consumer Discretionary; and
- Industrials

The industries that have fared the best include:

- Utilities
- Information Technology; and
- Consumer Staples

Currently, multiples for most industries remain higher than where they were at the bottom in 2008.



The 2008 financial crisis resulted in a significant dip in M&A transaction activity but the path to recovery was pronounced; going from 1,659 closed transactions in 2009 to 1,973 in 2010, a **19%** increase.

M&A activity in Canada had already begun to slow down in 2019, falling 14% from 2018 high of 2,117 closed M&A transactions. What will 2020 look like? At a high level, the disruption of COVID-19 on business operations and future outlook will cause strategic acquirors to press pause on acquisition activity and would-be sellers to focus inwardly on stewardship through the crisis. However, there are a number of other factors to consider when assessing the impact on mid-market M&A.

Other Factors to Consider

Not all industries are treated equal

- Certain industries remain attractive and will continue to warrant a premium such as:
 - Consumer staples,
 - Technology platforms; and
 - Healthcare.



The Value Gap

- Overall impact on value? Too early to tell, but top-tier companies will remain attractive.
- Valuations of second tier companies will face more scrutiny and downward pressure compared to top-tier market leaders as buyers become more selective.
- Expect an “uncertainty discount” in the medium term.



Lending Environment is shifting

- Unlike 2008, lenders do not want to pull back capital but will likely increase forbearance agreements to address increased risk.
- The challenge will be for new credit as banks become more cautious. Expect tightening on debt structure and increased covenants.



Private equity dry powder remains high

- Global private equity dry powder available has increased significantly from \$1.1 trillion in 2007 to \$2.5 trillion in 2019, with more than 50% of the available cash in North America⁽²⁾.
- Private Equity firms are in the business of putting capital to work and will continue to look at opportunities.



Increase in risk sharing between buyers and sellers

- For transactions that do move forward, there will be an increase in risk sharing as buyers grapple with uncertainty of the future.
- Expect a lower amount of cash at close with a larger portion of total consideration being tied to contingent consideration and earn-outs.



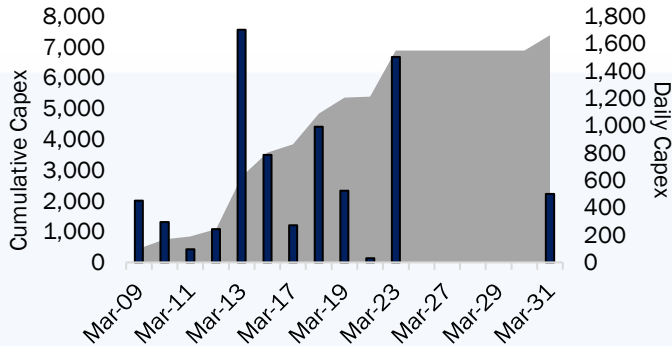
Impact on overall M&A process

- M&A processes need to adapt and may take longer for reasons such as:
 - Additional diligence around impact of COVID-19 and privacy and security requirements of a remote workforce; and
 - Virtual management meetings, site-tours and diligence meetings.

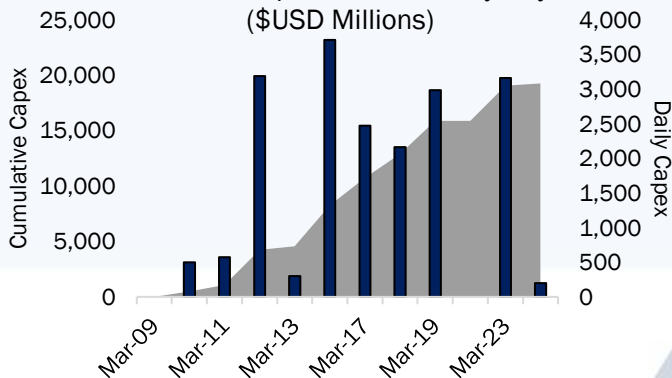


OFS Update: E&P Capital Spending

Canadian E&P Capex Reductions by Day
(\$CAD Millions)



U.S. E&P Capex Reductions by Day
(\$USD Millions)



■ Cumulative Capex Reduction ■ Daily Capex Reduction

From the beginning of the OPEC+ price war between Saudi Arabia and Russia through the escalation of the global COVID-19 pandemic, E&P producers in both Canada and the U.S. have slashed capital budgets significantly in an attempt to adjust to the low price environment.

2020 capex for E&P's has been reduced 27%, with 92% of the Canadian and 64% of the American original 2020 capital spend guidance (in terms of \$ value) having been restated to date. Capital plan reviews loom for supermajor Exxon, as well as challenged U.S. producer Chesapeake, with significant downward revisions a near certainty.

North American E&P Capex Reductions									
Operator Name	Stock Ticker	2019		2020		Reduction	Revised % Change	Head Office	Announcement Date
		Actual	Original Budget	Revised Budget					
Cenovus	TSX:CVE	\$ 1,176.0	\$ 1,400.0	\$ 950.0	\$ 450.0	32%	CAD	Mar-09-20	
Bonterra	TSX:BNE	\$ 54.0	\$ 70.0	\$ 25.0	\$ 45.0	64%	CAD	Mar-10-20	
Marathon Oil	NYSE:MRO	\$ 2,587.0	\$ 2,400.0	\$ 1,900.0	\$ 500.0	21%	US	Mar-10-20	
MEG Energy	TSX:MEG	\$ 198.0	\$ 250.0	\$ 200.0	\$ 50.0	20%	CAD	Mar-10-20	
Seven Generations Energy	TSX:VII	\$ 1,230.0	\$ 1,100.0	\$ 900.0	\$ 200.0	18%	CAD	Mar-10-20	
Birchcliff	TSX:BIR	\$ 256.0	\$ 350.0	\$ 285.0	\$ 65.0	19%	CAD	Mar-11-20	
National Fuel Gas	NYSE:NFG	\$ 781.0	\$ 480.0	\$ 392.5	\$ 87.5	18%	US	Mar-11-20	
PDC Energy	NASDAQ:PDCE	\$ 877.0	\$ 1,300.0	\$ 812.5	\$ 487.5	38%	US	Mar-11-20	
TransGlobe	TSX:TGL	\$ 34.0	\$ 37.1	\$ 7.1	\$ 30.0	81%	CAD	Mar-11-20	
Apache	NYSE:APA	\$ 2,747.0	\$ 1,750.0	\$ 1,100.0	\$ 650.0	37%	US	Mar-12-20	
Bonanza Creek Energy	NYSE:BCEI	\$ 222.0	\$ 225.0	\$ 90.0	\$ 135.0	60%	US	Mar-12-20	
Devon Energy	NYSE:DVN	\$ 1,910.0	\$ 1,800.0	\$ 1,300.0	\$ 500.0	28%	US	Mar-12-20	
Gear Energy	TSX:GXE	\$ 37.0	\$ 50.0	\$ 13.0	\$ 37.0	74%	CAD	Mar-12-20	
Gran Tierra Energy	TSX:GTE	\$ 507.0	\$ 185.0	\$ 70.0	\$ 115.0	62%	CAD	Mar-12-20	
Murphy Oil	NYSE:MUR	\$ 1,344.0	\$ 1,450.0	\$ 950.0	\$ 500.0	34%	US	Mar-12-20	
Noble Energy	NASDAQ:NBL	\$ 2,263.0	\$ 1,700.0	\$ 1,200.0	\$ 500.0	29%	US	Mar-12-20	
Ovintiv	NYSE:OVV	\$ 2,624.0	\$ 2,700.0	\$ 1,800.0	\$ 900.0	33%	US	Mar-12-20	
Pipestone Energy	TSXV:PIPE	\$ 189.0	\$ 150.0	\$ 60.0	\$ 90.0	60%	CAD	Mar-12-20	
ARC Resources	TSX:ARX	\$ 692.0	\$ 500.0	\$ 300.0	\$ 200.0	40%	CAD	Mar-13-20	
Husky Energy	TSX:HSE	\$ 3,432.0	\$ 3,300.0	\$ 1,800.0	\$ 1,500.0	45%	CAD	Mar-13-20	
QEP Resources	NYSE:QEP	\$ 563.0	\$ 570.0	\$ 270.0	\$ 300.0	53%	US	Mar-13-20	
Crescent Point Energy	TSX:CPG	\$ 1,271.0	\$ 1,150.0	\$ 750.0	\$ 400.0	35%	CAD	Mar-16-20	
Enerplus	TSX:ERF	\$ 619.0	\$ 545.0	\$ 325.0	\$ 220.0	40%	CAD	Mar-16-20	
EOG Resources	NYSE:EOG	\$ 6,127.0	\$ 6,500.0	\$ 4,500.0	\$ 2,000.0	31%	US	Mar-16-20	
EQT Corporation	NYSE:EQT	\$ 1,772.0	\$ 1,200.0	\$ 1,125.0	\$ 75.0	6%	US	Mar-16-20	
Goodrich Petroleum	AMEX:GDP	\$ 98.0	\$ 60.0	\$ 45.0	\$ 15.0	25%	US	Mar-16-20	
NuVista Energy	TSX:NVA	\$ 302.0	\$ 315.0	\$ 240.0	\$ 75.0	24%	CAD	Mar-16-20	
Pioneer Natural Resources	NYSE:PXJ	\$ 2,950.0	\$ 3,150.0	\$ 1,700.0	\$ 1,450.0	46%	US	Mar-16-20	
Vermillion Energy	TSX:VET	\$ 524.0	\$ 450.0	\$ 360.0	\$ 90.0	20%	CAD	Mar-16-20	
Whiting Petroleum	NYSE:WLL	\$ 778.0	\$ 602.5	\$ 432.5	\$ 170.0	28%	US	Mar-16-20	
Callon Petroleum	NYSE:CPE	\$ 641.0	\$ 975.0	\$ 712.5	\$ 262.5	27%	US	Mar-17-20	
Cardinal Energy	TSX:CJ	\$ 65.0	\$ 66.0	\$ 31.0	\$ 35.0	53%	CAD	Mar-17-20	
Concho Resources	NYSE:CXO	\$ 3,053.0	\$ 2,700.0	\$ 2,000.0	\$ 700.0	26%	US	Mar-17-20	
Earthstone Energy	NYSE:ESTE	\$ 210.0	\$ 165.0	\$ 55.0	\$ 110.0	67%	US	Mar-17-20	
Hess	NYSE:HES	\$ 2,829.0	\$ 3,000.0	\$ 2,200.0	\$ 800.0	27%	US	Mar-17-20	
Kelt Exploration	TSX:KEL	\$ 317.0	\$ 225.0	\$ 145.0	\$ 80.0	36%	CAD	Mar-17-20	
Kosmos Energy	NYSE:KOS	\$ 340.0	\$ 350.0	\$ 250.0	\$ 100.0	29%	US	Mar-17-20	
Penn Virginia	NASDAQ:PVAC	\$ 363.0	\$ 295.0	\$ 196.0	\$ 99.0	34%	US	Mar-17-20	
Whitcap Resources	TSX:WCP	\$ 404.0	\$ 360.0	\$ 205.0	\$ 155.0	43%	CAD	Mar-17-20	
WPX Energy	NYSE:WPX	\$ 1,237.0	\$ 1,737.5	\$ 1,337.5	\$ 400.0	23%	US	Mar-17-20	
Canadian Natural Resources	TSX:CNQ	\$ 3,661.0	\$ 3,950.0	\$ 2,960.0	\$ 990.0	25%	CAD	Mar-18-20	
Cimarex Energy	NYSE:XEC	\$ 1,301.0	\$ 1,300.0	\$ 587.5	\$ 712.5	55%	US	Mar-18-20	
ConocoPhillips	NYSE:COP	\$ 6,636.0	\$ 6,600.0	\$ 5,900.0	\$ 700.0	11%	US	Mar-18-20	
Parsley Energy	NYSE:PE	\$ 1,372.0	\$ 1,750.0	\$ 1,000.0	\$ 750.0	43%	US	Mar-18-20	
Baytex	TSX:BTE	\$ 552.0	\$ 540.0	\$ 275.0	\$ 265.0	49%	CAD	Mar-19-20	
Centennial Resource Development	NASDAQ:CDEV	\$ 892.0	\$ 640.0	\$ 307.5	\$ 332.5	52%	US	Mar-19-20	
Continental Resources	NYSE:CLR	\$ 2,662.0	\$ 2,650.0	\$ 1,200.0	\$ 1,450.0	55%	US	Mar-19-20	
Diamondback Energy	NASDAQ:FANG	\$ 2,928.0	\$ 2,900.0	\$ 1,700.0	\$ 1,200.0	41%	US	Mar-19-20	
Paramount	TSX:POU	\$ 404.0	\$ 400.0	\$ 217.5	\$ 182.5	46%	CAD	Mar-19-20	
Tamarack Valley	TSX:TVE	\$ 176.0	\$ 175.0	\$ 100.0	\$ 75.0	43%	CAD	Mar-19-20	
Athabasca Oil	TSX:ATH	\$ 140.0	\$ 125.0	\$ 95.0	\$ 30.0	24%	CAD	Mar-20-20	
Chevron	NYSE:CVX	\$ 20,994.0	\$ 19,000.0	\$ 16,000.0	\$ 3,000.0	16%	US	Mar-23-20	
Laredo Petroleum	NYSE:LPI	\$ 482.0	\$ 450.0	\$ 290.0	\$ 160.0	36%	US	Mar-23-20	
Suncor	TSX:SU	\$ 5,558.0	\$ 5,700.0	\$ 4,200.0	\$ 1,500.0	26%	CAD	Mar-23-20	
Antero Resources	NYSE:AR	\$ 1,369.0	\$ 1,200.0	\$ 1,000.0	\$ 200.0	17%	US	Mar-24-20	
Occidental	NYSE:OXY	\$ 6,355.0	\$ 5,300.0	\$ 2,800.0	\$ 2,500.0	47%	US	Mar-25-20	
Imperial Oil	TSX:IMO	\$ 1,814.0	\$ 1,650.0	\$ 1,150.0	\$ 500.0	30%	CAD	Mar-31-20	
Total		\$ 104,919.0	\$ 99,943.1	\$ 70,817.1	\$ 29,126.0	29%			

Our Team

Aroon Sequeira, CA, CBV, ICD.D
asequeira@sequeirapartners.com
780.784.0114

Mark McRae, CA, CBV
mmcrae@sequeirapartners.com
780.784.0115

Julie Afanasiff, CA, CBV
jafanasiff@sequeirapartners.com
780.784.0116

Ken Tarry, MBA
ktarry@sequeirapartners.com
604.687.5300 ext. 201

Kellie Manchester, CFA
kmanchester@sequeirapartners.com
604.687.5300 ext. 202

Jordan Martel, CBV, ASA, MBA
jmartel@sequeirapartners.com
587.352.2500 ext. 302

Scott Acheson, CA, CBV, CFA
sacheson@sequeirapartners.com
780.784.0124

Erica McGuinness, CA, CBV
emcguinness@sequeirapartners.com
604.687.5300 ext. 203

Kira Gregson, CA, CBV
kgregson@sequeirapartners.com
780.784.0125

Ryan Turpin, CPA, CBV
rturpin@sequeirapartners.com
780.784.0121

Wenlei Tang, CA, CBV
wtang@sequeirapartners.com
587.352.2500 ext. 306

Tannie Lam, CA
tlam@sequeirapartners.com
604.687.5300 ext. 207

David Cameron, CPA
dcameron@sequeirapartners.com
780.784.0127

Kurt Chao, CPA
kchao@sequeirapartners.com
604.687.5300 ext. 204

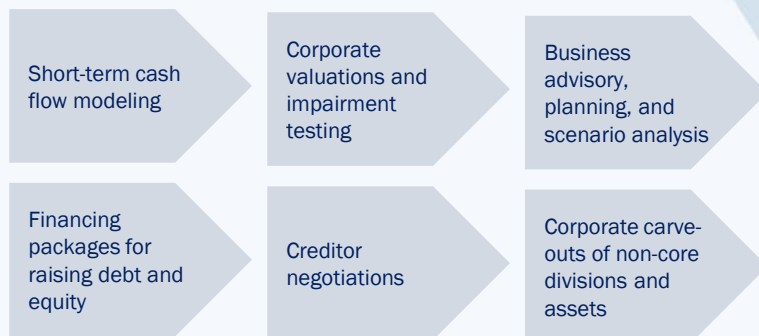
Griffin Steele
gsteele@sequeirapartners.com
604.687.5300 ext. 207

John Scott, CPA
jscott@sequeirapartners.com
780.784.0128

How We Can Help

While the drivers are different, this is not the first time we've seen unanticipated events disrupt the economy. We saw rapid changes play out in 2008-2009 with the global financial crisis and in 2014-2016 with the oil market downturn. During both instances, we stood by our clients providing strategic advisory to best position businesses for post-downturn economies. The businesses that survive and subsequently thrive are those that were prepared and took decisive, measured actions to adjust for the conditions.

If you need assistance navigating these challenging times, we're happy to help. Services provided to help clients overcome these challenging times include:



About Us

With offices in Edmonton, Calgary, and Vancouver, Sequeira Partners is a professional finance advisory firm focused on mergers and acquisitions, corporate carve-outs and recapitalizations. We've become known for providing boutique advisory services with big experience. Collectively, our professionals have over 100 years of industry experience and have completed more than 200 transactions. We possess in-depth industry experience and the highest accreditations available for professionals in our respective disciplines.



400, 520 – 5TH Avenue SW 2250, 10088 102 Avenue NW 1790, 999 West Hastings Street
Calgary, AB T2P 3R7 Edmonton, AB T5J 2Z1 Vancouver, BC V6C 2W2
587-352-2500 780-633-5200 604-687-5300