



Value & Market Insights

2020 | July 20

Closing the Deal

Are deals getting done? As the market navigates the unparalleled impacts of COVID-19, this is a driving question. The high level of uncertainty has caused many deals to halt or delay, resulting in a drop in the availability of high quality assets.

Canadian M&A Closed Transaction Volume ⁽¹⁾



As COVID related lockdowns started mid-March, the markets experienced a significant decrease in deal volume. April and May were the hardest hit months, down **47%** and **40%** from prior year. With restrictions gradually being lifted, there was a modest improvement in June (down **38%** from prior year). Transactions have struggled to close or were put on hold as players hoped to gain more visibility on market conditions and its impact on operations. In the current market, several factors are impacting transaction timing:



Access to capital

- Banks are busy managing existing portfolios with caution towards new opportunities.
- Going into Q2, companies with TEV <\$100M were already seeing a decrease in leverage multiples of 5.1%-12.8%⁽²⁾ compared to FY19.
- Access to capital was limited in Q2, witnessing further tightening of leverage multiples and pricing increases throughout debt markets.



Waiting for stable earnings

- After seeing sudden declines in earnings, buyers and sellers are reluctant to close transactions until they see a clear path to recovery and stabilization of earnings.
- We expect a pickup in transaction volumes as businesses gain more visibility in the coming months.



Valuation uncertainty

- Poor earnings visibility for sellers is increasing risk and decreasing business valuation.
- Buyers appear accepting of normalizations for the short-term 'shut-down' impact of COVID; however, the longer-term impact is unclear.
- Although public markets are showing transaction multiples near pre-COVID levels, there remains a lack of data and lag in reporting for private transactions.



Logistics of due diligence

- With restrictions on travel and non-essential workplace closures in place, managing due diligence procedures was difficult from March – May.
- As businesses transition to re-open, buyers and sellers are finding creative ways to manage meetings and facilitate the due diligence process.
- While zoom calls and drone tours are coming more commonplace, many buyers still insist on in-person meetings and tours prior to closing.

Canadian M&A

The Buyers

Although there's been a decrease in the overall number of closed transactions in 2020 to date, the buyer profiles remained consistent with prior periods as strategics continue to be active acquirors making up 93% of deals closed, compared to 90% in 2019. Foreign buyer activity dropped in 2020, with U.S. and International buyers making up 15% and 6% of total buyers, respectively. Conversely, Q2 saw a pick-up in activity from buyers in Western Canada, reaching an all time high of 31% of all deals, up from 25% in 2019. It will be interesting to see how Q3 plays out as strategic buyers continue to manage their internal operations through the economic downturn and financial buyers have more urgency to deploy their capital.

Buyer Snapshot						
	2019		Q1-20		Q2-20	
Number of Deals*	1428	100%	342	100%	216	100%
Buyer Location						
Western Canada	352	25%	86	25%	66	31%
Eastern Canada	710	50%	190	56%	103	48%
USA	270	19%	47	14%	33	15%
International	96	7%	19	6%	14	6%
Buyer Profile						
Strategic	1290	90%	315	92%	201	93%
Financial	138	10%	27	8%	15	7%

*Number of closed deals in the quarter where either the target company or the buyer were Canadian

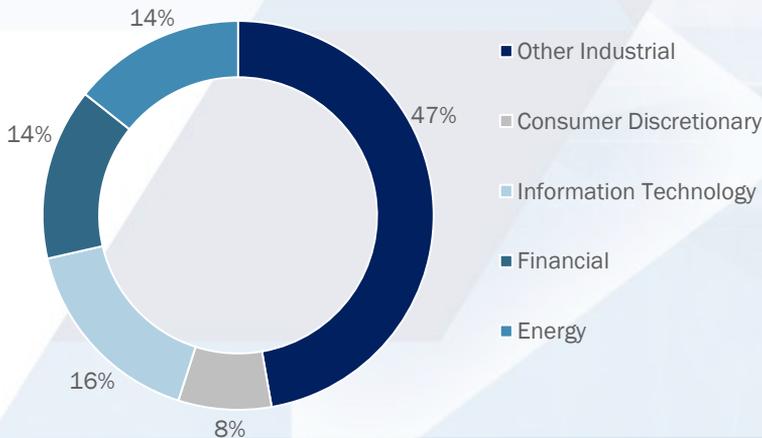
Western Canada – Industry Snapshot

Year to date transactions in Western Canada continue across a broad range of industries. Certain recession resistant industries, such as consumer staples, are more attractive, but transactions continue to be reflective of a diverse economy in Western Canada.

Western Canadian targets have a focused industry base with the top three industries being Information Technology, Energy, and Financial, consisting of 16.3%, 14.1%, and 14.1% of all transactions, respectively. We expect Information Technology to continue to remain strong as the post-COVID world increases our reliance on technology and we embrace new workplace arrangements.

Notwithstanding the energy sector downturn, Western Canada saw an increase in energy transaction asset sales due to restructuring within the industry.

Industry Breakdown of Western Canadian Targets YTD 2020



Financial Distress Explored

Insolvency is the financial status in which a corporation is unable to meet their obligations as they become due. CCAA, receivership and bankruptcy are all different legal status with accompanying processes that are explored during times of financial distress. Canadian commercial insolvency is not captured in one exhaustive statute, but instead segmented into multiple insolvency statutes. The two main statutes consist of the Bankruptcy & Insolvency Act (“BIA”) and the Companies’ Creditors Arrangement Act (“CCAA”), each with their own unique purposes.

CCAA, Receivership & Bankruptcy



CCAA

The Companies’ Creditors Arrangement Act is a legal process whereby companies owing creditors >\$5 million are given the opportunity to restructure their financial affairs through a formal plan. The objective is to keep the debtor company from slipping into bankruptcy or receivership, preserving jobs and maximizing the amount paid to creditors.



Receivership

Receivership refers to the state of being under control of a receiver. The receiver is a party appointed by creditors to take control of a company should it default on its payments. The receiver will attempt to generate as much value as possible from the business to pay the creditors what it is owed.



Bankruptcy

Bankruptcy is a legal status whereby a trustee is automatically appointed to liquidate assets and recover as much capital as possible for creditors to be distributed in a fair and orderly manner.

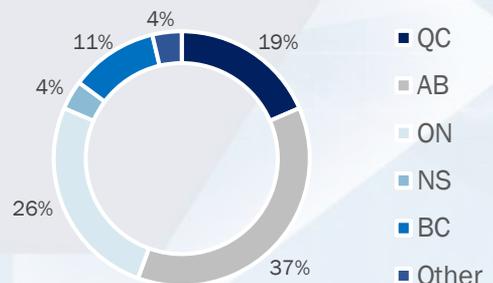
Canadian CCAA Filings



As expected...

Canadian CCAA filings have increased substantially in Q2 2020, growing from just 11 in Q1 2020 to 27, a ~60% increase from the previous quarter. Larger companies are seeking protection to manage their finances as they pivot their business model. Over 80% of the CCAA filings related to companies headquartered in 3 provinces, including Alberta (37%), Ontario (26%) and Quebec (19%).

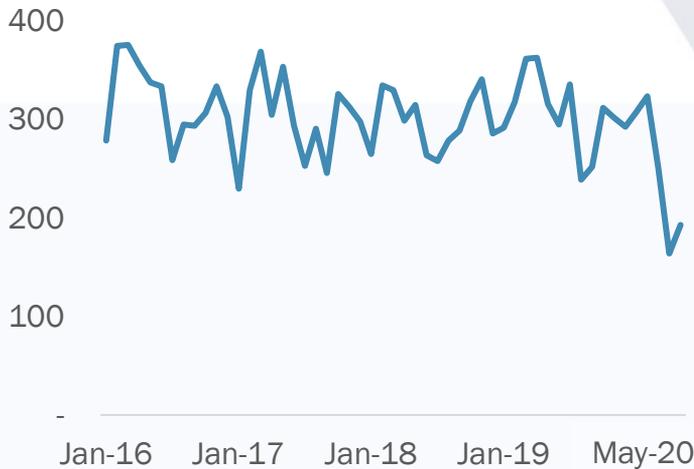
Q2 2020 CCAA Filings By Province



Business Insolvency Update

As businesses across the country closed their doors to help 'flatten the curve', the market predicted a substantial increase in insolvencies. While we've seen an increase in CCAA filings, in May overall Canadian business insolvencies were down 50.3% from the same period last year.

Canadian Business Insolvencies⁽¹⁾



What's next?

With some of the lowest business insolvency numbers we've seen in the past 5 years, there is some risk that government intervention and other factors noted have created a 'false economy', with many more dominos in a position to fall as subsidies and support rolls off in the coming months. This could take the form of formal processes (CCAA, receivership, etc.) or direct out of court discussions, dealing with external investors selling down their position to reduce risk.



Why The Decline?

Possible reasons for reduced insolvency figures includes:

Government Subsidies & Deferrals



- The unmatched level of fiscal stimulus, monetary policy and debt deferral (i.e. corporate tax deadline extensions, rent relief, etc.) has provided a safety net for companies that would otherwise be struggling.

Market Saturation



- With many business hit hard there's a surge in supply and lack of demand for assets across several industries. Rather than liquidate, creditors are opting to defer potential liquidations in hopes of better asset valuations in a less saturated future market.

COVID Disruptions



- The disruption to day-to-day activities has caused courts, banks and businesses to stagnate. Courts are backlogged as non-immediate cases are sidelined and banks are slow to act as they await greater visibility.

Lagging Indicator



- Insolvency or bankruptcy is often the last resort for businesses and can be a drawn-out process, resulting in data being a lagging indicator. These figures indicate where the Country's economy was months prior, not where it is currently.

Notable Insolvencies

The turbulent economic environment has hit several industries disproportionately hard, including entertainment, travel, fitness, retail and oil & gas. Notable insolvencies include:

Company Name	Headquarters	Initial Order Date	Filing Type	Sector
Cirque Du Soleil	Montreal, QC	7/6/2020	CCAA	Entertainment
Flighthub Group Inc.	Montreal, QC	5/8/2020	CCAA	Travel
SNFW Fitness B.C. Ltd. (Fitness World)	Surrey, BC	4/9/2020	Bankruptcy	Leisure Facilities
Modasuite Inc. (Frank & Oak)	Montreal, QC	6/22/2020	NOI	Fashion Retail
Reitmans (Canada) Ltd (TSX:RET.A)	Montreal, QC	5/19/2020	CCAA	Fashion Retail
The Aldo Group Inc.	Montreal, QC	5/7/2020	CCA Monitor	Fashion Retail
Bow River Energy	Calgary, AB	6/1/2020	CCAA	Oil & Gas
Sequence Energy Ltd. (TSX CQE)	Calgary, AB	5/29/2020	CCAA	Oil & Gas
Delphi Energy (TSX:DEE)	Calgary, AB	4/14/2020	CCAA	Oil & Gas

Sequeira CCAA Sales Mandates

In connection with court authorized CCAA proceedings, Sequeira Partners has been asked to serve as the authorized sale agent under a sale and investment solicitation process for the following parties:



For over 30 years, JMB has been producing and supplying aggregates for leading oil field companies, road construction, and industrial projects throughout Alberta. The business has access to numerous gravel pits and maintains a significant inventory of aggregate for immediate distribution with one of the largest reserves of aggregates in Alberta.



ENTREC CORPORATION through ENT Oilfield Group Ltd., Capstan Hauling Ltd., and ENTREC Cranes & Heavy Haul Inc., provides heavy haul transportation and crane solutions to the oil and natural gas, construction, petrochemical, mining, and power generation industries in Alberta and select regions of the United States, including Texas, North Dakota and Colorado.

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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 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're 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 expertise and the highest accreditations available for professionals in our respective disciplines.



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