Deloitte.

Canadian M&A in review

2019

M&A Institute

Contents

Foreword

Deal-making activity in Canada in 2019 was a year of contrasts. Overall values were up significantly but volumes had declined compared to 2018.

Merger and acquisition activity in 2019 exhibited 20 percent growth over 2018 in terms of disclosed deal value, but a decline of six percent in terms of disclosed deal volumes. These contrasting trends became more prevalent in the second half of 2019 as ongoing uncertainty continued to manifest, in particular relating to the federal election outcome, the economic outlook trade relations between China and the United States, and investor skepticism about the frothy valuation environment. Despite these dynamics, dealmakers found an opportunity to "go big." History has shown that some of the most successful deals have been executed during times of economic uncertainty, whether in anticipation of or in the midst of a turn in the economic cycle.

Despite trade and geopolitical issues in 2019, the cross-border deal flow between Canada and the United States remained strong, as shown in the chart below. The United States continued to be the largest inbound and outbound M&A market, consistently representing over 50 percent of cross-border M&A. Other key cross-border markets for Canada were the United Kingdom (especially outbound M&A) and Australia. In addition, the Canada-US-Mexico free trade agreement (USMCA) has now been ratified by the United States and Mexico. If Canada follows suit, the USMCA will preserve the strong trade relations between Canada and the United States, and reduce uncertainty for the broader economy. Expectations are that Canada will ratify the agreement, but that it won't be an easy or smooth process.

FY 18
$190.7B
2,150 Deals

FY 19
$242.6B
2,012 Deals

Cross-border deal volume

2019

Outbound

US	308
UK	49
Australia	18
Other	156
Total	531

Inbound

US	313
UK	23
Australia	14
Other	234
Total	584

Cross-border deal share

2019

Outbound

US	58.0%
UK	9.2%
Australia	3.4%
Other	29.4%

Inbound

US	53.6%
UK	3.9%
Australia	2.4%
Other	40.1%

Source: S&P Capital IQ

Introduction

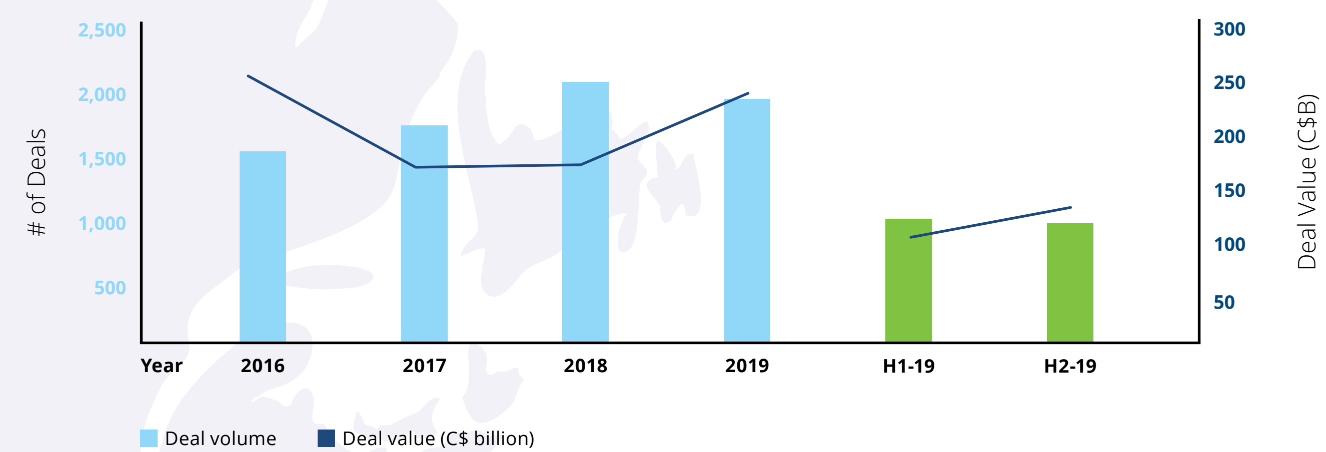
In terms of deal volume, the technology, media, and telecommunications (TMT) sector was most active in 2019. The energy and resources sector, however, represented the majority of disclosed deal value due to mega-deals in mining and materials (such as the $17 billion Newmont/Goldcorp deal).

FY19 Canadian M&A deal volume and value by sector

- 215 Financial Services
- 255 Life Sciences and Healthcare
- 475 Technology, Media and Telecoms
- 308 Energy & Resources
- 278 Consumer Business
- 359 Manufacturing and Business Services
- 122 Other

- $32.6B Financial Services
- $7.3B Life Sciences and Healthcare
- $47.4B Technology, Media and Telecoms
- $74.3B Energy & Resources
- $41.6B Consumer Business
- $20.0B Manufacturing and Business Services
- $19.4B Other

M&A deal volume and disclosed value



M&A trends in Canada

Overall, M&A activity in Q4-18 and YTD May 2019 indicates a positive M&A outlook for the rest of 2019. However, there are potential headwinds in the form of worsening international trade relations, and inflated valuations.

Key Trends

As market and economic signals exhibit uncertainty, public markets are expected to face increasing pressure to deliver growth and the premiums they promised. This in turn is expected to create volatility in share prices, earnings, and, more importantly, sentiment. Yet with volatility comes opportunity, which we anticipate will present itself in the form of take-private deals or activist investor activity. We foresee more of this disruption to public markets and to M&A in 2020.

Evolving investment structures and strategies

Looking at deal activity in 2020 and beyond, we foresee an increased complexity in deal-making, due to alternate investment structures and strategies. These include:

- Carve-outs and disposition of select assets to reposition assets in a market in which growth and value creation will remain paramount
- Increased debt and working-capital financing structures being considered as a back door into equity ownership positions
- Minority investments being used as a beach-head into ownership
- Consideration of joint ventures, partnerships, and commercial alliances as alternatives to direct equity investments
- Increased earn-outs, primarily as a risk mitigation strategy

Shareholder activism

Shareholder activism has also emerged as a major trend to watch in M&A. According to our recent report *The state of the deal: M&A trends 2020*, nearly 60 percent of corporate respondents say shareholder activism is having an impact on their M&A strategy and execution. As explained in another of our publications, ***Shareholder activism in Canada: Why you need to act now***, Canada is seen as an attractive target for activists given our favourable capital market structure for investment, along with mounting expectations from shareholders for greater corporate transparency and accountability.

Dealmakers are putting a heightened emphasis on being prepared for activist campaigns, which could lead to significant changes or even corporate structural transformations.

Disruptive M&A

We expect disruptive M&A to be a driving force in 2020. The Deloitte report ***Disruptive M&A: Are you ready to define your future?*** explains how the anticipated increase in such activity will be driven by advancements in technologies, changes in consumer behaviours, and the introduction of digitally enabled business models. These shifts will lower the barriers to entry and continue to allow innovative startups to disrupt traditional products, markets, and businesses.

Build-up of middle-market opportunities

Overall, we noticed a decline in deal volume in 2019 compared to 2018, while disclosed deal values increased. While healthy valuations continued into 2019, it points to potential transactions being delayed due to fears of a recession and political and economic uncertainty. We believe a significant portion of these deferrals relate to private companies with no immediate succession plans in place that are looking for an exit opportunity. This "succession build-up" could result in a significant number of middle-market companies coming to market in 2020 and beyond.

While these may cause a surplus of middle-market targets we expect a dearth in sizeable appealing targets for established strategic and financial investors. The resulting scarcity may drive these investors to consider larger deals with higher valuations to put their capital to work.

Trends in multiples and post-merger value

An increasingly common trend in recent years is the failure of companies to generate the expected value after the transaction. While this has historically been an outcome of financial engineering, primarily drive by frothy valuations and aggressive growth estimates, we believe economic, market, and competitive factors will force investors to seek viable value creation opportunities to generate the returns they expect.

Rising role of analytics

Data analytics has had a transformative impact on M&A. We expect it to play a role in the diligence process and post-transaction investment monitoring. Analytics provides sellers and buyers with tools to address areas of concern early and efficiently in the diligence process, thereby avoiding surprises that might negatively affect value. It also allows buyers to more easily monitor performance post-transaction and ensure expectation alignment.

New technologies are being used throughout the M&A process. Natural language processing and other AI technologies that analyze M&A data and generate reports, for example, are further improving speed, accuracy, and efficiency. We expect further disruption to the M&A process in 2020 and beyond due to the use of new technologies.

COVID-19

As of March 2020, the COVID-19 virus has been contracted by nearly 100,000 people worldwide with 3,000 fatalities so far. It is now expected that the virus will have a significant economic impact, with a lack of certainty with respect to where and how the impact will be seen. Global supply chains are expected to be impacted most significantly and while COVID-19 may be the catalyst for companies to revisit their global supply chain strategy and accelerate the adoption of Digital Supply Network models and capabilities, short-term actions will need to be made to respond to the immediate challenge. The Bank of Canada and US Federal Reserve have moved to reduce rates in an effort to support their respective economies and to offset any potential negative economic impacts of the virus. While lower interest rates will likely encourage a higher volume of M&A, the as yet undetermined full impact of COVID-19, and its impact on deal volumes and cross-border M&A is more ambiguous.

Private equity M&A

There was a significant level of private equity M&A activity in 2019, supported by high levels of dry powder and significant fundraising activity, likely fuelled by recessionary fears beyond 2019.

Key Trends

Private equity (PE) M&A activity remained stable in 2019, with a slight decrease in deal count but a strong $3.5 billion increase in disclosed deal value. This increase was driven by several mega-deals in H2-19, including the BC Partners acquisition of GardaWorld ($5.2 billion) in October and the Onex acquisition of WestJet ($5 billion) in December.

We noted an increase in add-on deals in 2019 relative to 2018 at the expense of minority equity transactions, suggesting a focus on reinvestment in portfolio companies. We expect PE firms to continue their role as key industry consolidators and a prime venue for strategic and non-traditional investors looking to offload non-core assets.

The B2B and IT sectors remained the most attractive targets for PE firms in 2019. The high-growth profile of the IT sector, in addition to its low capital costs to scale and asset-light nature, makes it particularly attractive.

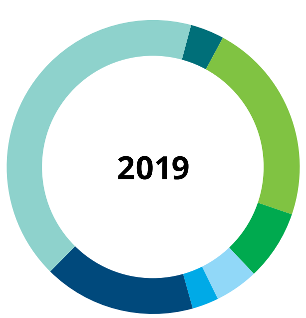
In 2019, $7.5 billion was raised through five closed funds. While this indicates a strong appetite for M&A, we believe it's also related to recessionary fears as PE firms fear capital will become scarce if a recession materializes.

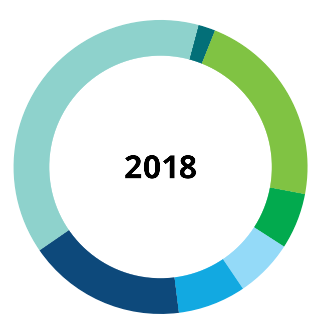
Overall valuations continued to increase, with median EV/EBITDA multiples in North America rising from 11.9x in 2018 to 15.4x in 2019. This was fuelled by a high level of competition with well-capitalized strategic buyers who could offer higher valuations by capitalizing on synergies, as well as a growth in non-traditional investors such as sovereign wealth and pension funds.

Foreign inbound private equity activity was strong, with 215 PE deals involving foreign PE investors. US PE firms represented 78.5 percent of these investors, with the most active foreign PE investors in 2019 being AlpInvest Partners (Netherlands–12 deals), Hellman & Friedman (US–12 deals), and HarbourVest Partners (US–11 deals).

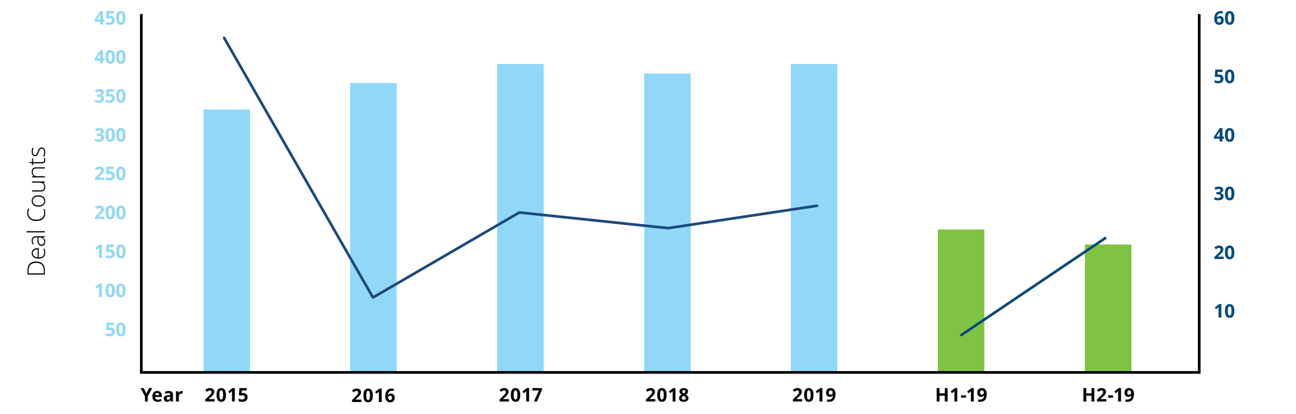
Canadian PE firms were also active outside the country, investing in 324 deals in 2019. Of these, 70 percent were investments in the United States, with the most active financial investors representing the PE investment arms of Canadian pension funds, namely the PE arms of CPPIB and (47 deals), CDPQ (44 deals), and OMERS Private Equity (37 deals).

Deal volume and value by sector





Canadian PE deal volume and value



Source: Pitchbook and Deloitte analysis

2019 Canadian PE fundraising activity

PE firm	Fund name	Capital raised (C$M)
Novacap	Novacap Industries V	940
Altas Partners	Altas Partners Holdings Fund II	3,952
DW Healthcare Partners	DW Healthcare Partners V	799
Imperial Capital Partners	DW Healthcare Partners V	650
Clairvest	Clairvest Equity Partners VI	1,137

Source: Pitchbook
Note: Excludes mezzanine funds

2019 cross-border PE activity

PE firm country	# Deals	% Foreign PE
Foreign inbound deal activity		
USA	219	78.5%
Netherlands	15	5.4%
France	12	4.3%
UK	12	4.3%
Other	21	7.5%
Foreign outbound deal activity		
USA	229	67.2%
UK	29	8.5%
Other	83	24.3%

Source: Pitchbook
Note: Excludes mezzanine funds, not cumulative

M&A trends by sector

Sectors that experienced significant increases in disclosed deal value from 2018 to 2019 include technology, media, and telecoms; consumer products and retail; and manufacturing and business services. Deal volumes remained relatively flat across all industries except for financial services and energy and resources, which decreased.

Financial services

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▼ 10.8%	▼ 20.8%
Disclosed deal	▼ 10.7%	▲ 67.4%

Life sciences and health care

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▼ 6.9%	▼ 11.1%
Disclosed deal	▼ 46.4%	▼ 49.8%

Technology, media, and telecoms

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▲ 1.3%	▲ 4.7%
Disclosed deal	▲ 109.5%	▼ 55.0%

Energy and resources

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▼ 25.6%	▼ 2.6%
Disclosed deal	▲ 13.9%	▲ 16.3%

Consumer products and retail

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▲ 9.4%	▼ 13.4%
Disclosed deal	▲ 94.2%	▲ 83.7%

Manufacturing and business services

	FY19 vs. FY18	H2-19 vs. H1-19
Deal volume	▲ 2.6%	▲ 9.9%
Disclosed deal	▲ 26.3%	▲ 17.8%

Financial services

M&A activity in the financial services industry is expected to rebound from the drop in 2019 as uncertainties about interest rates and trade tensions clear.

Overall trend

The deal volume for the financial services industry declined by 20 percent over the last six months, largely due to lower levels of M&A activity in the banking and insurance sub-sectors. Meanwhile, the number of domestic transactions in the second half of 2019 dropped by almost 50 percent compared to the first half of the year.

The increase in disclosed value was driven by a few large transactions, including the proposed $8 billion reorganization of Power Corporation and Power Financial, Blackstone's proposed acquisition of Dream Global REIT for $3.3 billion, and Brookfield BBP's $2.3 billion acquisition of Genworth MI Canada.

From 2018 to 2019, both the deal volume and disclosed value dropped by 11 percent, largely due to inactivity in the banking sub-sector. This is expected to improve as the environment around interest rates and trade tensions becomes clearer. In the meantime, Canadian financial services firms are focusing on capital efficiency through cost transformation programs, which can potentially result in selling off certain non-core businesses.

In addition, high levels of household debt and slow employment growth continue to limit the ability of financial service firms to capture growth from larger consumer purchases, such as new homes and cars. As a result, although these firms still have an appetite for investments and inorganic growth opportunities such as M&A, they may be more selective in their pursuits.

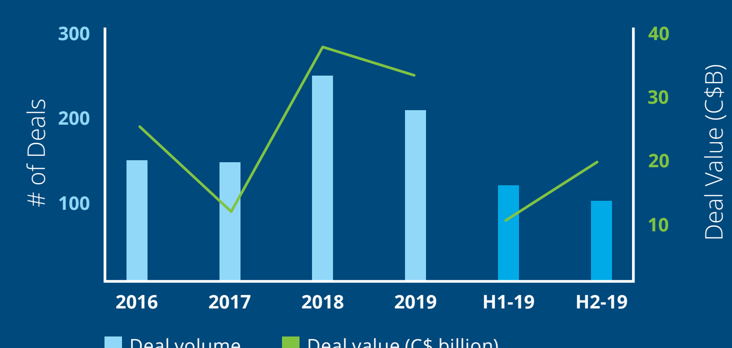
M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	43	$10,407
Inbound	36	$7,538
Outbound	16	$2,463
Total	**95**	**$20,408**

M&A by type – H1 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	80	$716
Inbound	28	$4,284
Outbound	12	$7,194
Total	**120**	**$12,194**

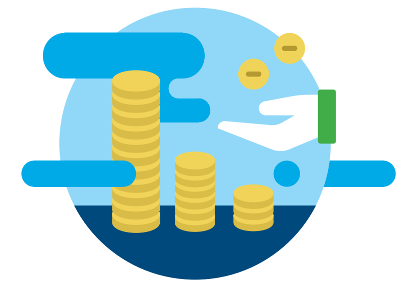
M&A deal volume and disclosed value



Source: S&P Capital IQ

Canadian M&A in review | M&A trends by sector: Bank financial services

Recent deal highlights (2019)



Investment management

In December, Sun Life Financial Inc. agreed to acquire an 80 percent stake in InfraRed Capital Partners Limited, a UK-based private equity firm specializing in infrastructure and real estate investments, for a total consideration of $514 million.

2726247 Ontario Inc. (a subsidiary of OMERS Capital Markets) agreed to acquire an 11.5 percent stake in Anchorage Infrastructure Investments Holdings Limited from FIH Mauritius Investments Ltd. for $176 million in December. Founded in 2019, Anchorage Infrastructure Investments Holdings Limited engages in providing investment services.

Real estate

Real estate funds managed by The Blackstone Group Inc. agreed to acquire Dream Global REIT for $3.3 billion in September. The transaction closed in December. Toronto-based Dream Global REIT is an owner-operator of a diversified, high-quality portfolio of office and industrial properties located primarily in Germany and the Netherlands.

Cortland Partners, LLC agreed to acquire Pure Multi-Family REIT LP from Pure Multi-Family REIT (GP) Inc. and others for $800 million in July; the transaction closed in September. Pure Multi-Family is a Canadian-based, publicly traded vehicle that offers investors exclusive exposure to attractive, institutional-quality, multi-family real estate assets in the United States.

Banking and capital markets

The National Bank of Canada acquired the remaining 10 percent stake in Advanced Bank of Asia Ltd, which provides personal and business banking solutions in Cambodia, for $83.5 million in September.

The Canadian Imperial Bank of Commerce (CIBC) reached an agreement to acquire Cleary Gull, Inc. in July 2019 for an undisclosed amount; the transaction closed two months later, in September. Cleary Gull is an independent investment banking firm that advises private equity fund portfolios, privately held businesses, and small publicly traded companies in the middle market.

Insurance underwriting

OMERS Administration Corp. agreed to acquire a 40 percent stake in Riverstone Insurance (UK) Limited from Fairfax Financial Holdings Limited for $737 million in December 2019. Based in Brighton, Riverstone Insurance offers general insurance and reinsurance services.

Brookfield BBP Canada Holdings Inc. agreed to acquire a 56.8 percent stake in Genworth MI Canada Inc. for approximately $2.3 billion in August. The transaction closed in December. Through its subsidiaries, Genworth operates as a private residential mortgage insurer in Canada.

Financial services

Despite uncertainty in the financial services industry overall, several sub-sector trends are expected to drive growth, including expansion into the US by Canadian banks, the adoption of fintech, and the consolidation of insurance brokerage.

Key sub-sector trends

Canadian banks' US expansion
A number of Canadian banks (including Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Toronto-Dominion Bank) have been expanding their US presence, providing diversification opportunities and supporting profitability. Recent transactions include Charles Schwab's proposed acquisition of TD Ameritrade in November 2019, and CIBC's acquisition of a mid-market investment bank, Cleary Gull, which closed in September 2019.

Accelerating fintech adoption
While some financial services firms have embraced fintechs through partnerships, investments, and acquisitions, others are looking to integrate over the long term. However, the adoption rate is expected to accelerate in 2020 as digital capabilities such as robotic process automation and artificial intelligence become increasingly mature. Given that potential differences between buyers and targets are high (e.g., size, attitude toward risk), strategic buyers need to navigate their value realization challenges cautiously (e.g., talent retention, culture, and brand positioning).

Fragmented real estate M&A landscape
The Canadian real estate investment trust (REIT) sub-sector has been fairly consistent in terms of M&A, with most deals concentrated in apartments (i.e., multi-family units). Industrial REITs, meanwhile, experienced a higher level of M&A activity in the United States. This stable pattern is expected to continue.

Other M&A transactions in this space remain fragmented across a variety of real estate-related services, including brokerage, development, property management, and architecture and design.

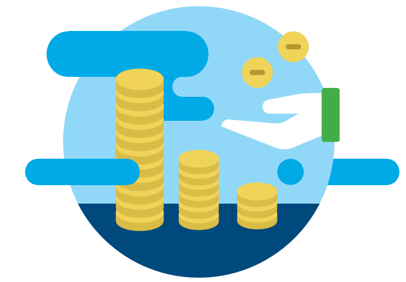
Insurance brokerage consolidation
Although the overall Canadian insurance sub-sector experienced a lower level of M&A activity in the second half of 2019 compared to the first half, consolidation in the insurance brokerage segment is expected to continue over the next five years. As the segment is highly fragmented, acquisition of smaller, regional brokerages will likely be the primary mode of expansion and revenue growth for the larger players in Canada (e.g., the Co-operators Group's acquisition of Cadieux Beausejour Dupras Inc.) as well as international firms looking to increase their exposure to the Canadian market (e.g., HUB International's acquisition of PDF Financial Group).

Canadian M&A in review | M&A trends by sector: Non-bank financial services

Recent deal highlights (2019)

Insurance brokerage
In October, HUB International Limited acquired PDF Financial Group Inc., which provides employee benefits and insurance brokerage services, for an undisclosed amount.

The Co-operators Group Limited acquired Cadieux Beausejour Dupras Inc. in August for an undisclosed amount. Based in Quebec, Cadieux Beausejour Dupras operates as an insurance brokerage.



Fintech and payments
Global Business Services for Multimedia and Mobile Telecom Group LLC agreed to acquire a 55.6 percent stake in the Mint Corporation from Gravitas Financial Inc. and others for $6.6 million in September. The transaction closed in January 2020. The Mint Corporation is a Toronto-based provider of vertically integrated payment solutions primarily in the United Arab Emirates.

Market trends to watch

Open banking framework
Financial products and services offered by fintechs have expanded rapidly in recent years, to now include loans, money management services, budgeting tools, and peer-to-peer payments. As a result, Canada is on the verge of launching a new open banking framework, following in Europe's footsteps. This framework will allow banks to establish proprietary banking platforms and collaborate with fintech offerings through strategic investments and acquisitions.

Challenges in P&C insurance
Canadian property and casualty (P&C) insurers have experienced a surge in the frequency and severity of natural events. Examples include the 2016 wildfire in Fort McMurray, the May 2018 windstorm in southern Ontario and Quebec, and the September 2018 tornadoes in the National Capital Region. These events, combined with rising asset and property values, have increased the pressure on profitability. While many P&C insurers use reinsurance coverage to protect themselves from catastrophic losses, they are expected to make significant investment (potentially in the form of acquisitions) in data analytics and modelling capabilities.

Life sciences and healthcare

The life sciences and health care sector experienced a decrease in M&A activity in 2019, primarily due to a dampening of cannabis M&A.

Key trends

Deal volume and deal value both declined in 2019 relative to 2018. This is primarily attributable to a decline in M&A activity in the cannabis sector. The sharp drop in disclosed deal value is due to the absence of cannabis mega-deals. The pharmaceutical sector saw the largest transaction in 2019 when Ipsen acquired Clementia Pharmaceuticals for $1.7 billion in February.

Cannabis
The overall decline in M&A activity in the cannabis sub-sector is due to a confluence of factors. One is a playing-out of domestic M&A due to high levels of consolidation activity in 2018. Another is the fact market sentiment is turning on industry growth assumptions as leading cannabis players continue to post losses while investing heavily in overvalued cannabis assets. Finally, the fall in share prices that started in the second half of 2019 resulted in capital becoming scarce for cannabis companies. Despite all this, we believe there will be a surge in cannabis M&A activity in 2020 as companies unload international and non-core assets to raise funds and disruptive entrants see an opportunity to acquire distressed companies.

Pharma and LSHC clinic networks
There is a significant amount of roll-up activity for individual health practices, including dental offices, vet offices, medical esthetics, fertility clinics, pharmacies, and health clinics with major investors. Examples include VetStrategy Inc., dentalcorp, 123Dentist, MedSpa Partners Inc., Rubicon Pharmacies, Dermapure, and Anova Fertility & Reproductive Health in 2018 and 2019. We expect robust consolidation efforts to continue into 2020.

While there were several notable and high-value deals in the Canadian pharmaceuticals space in 2019, we expect deal sizes to drop in Canada and globally as the industry struggles with pricing pressure, faster market access, and reimbursement. We also believe policy issues related to the costs of biosimilars and generics.

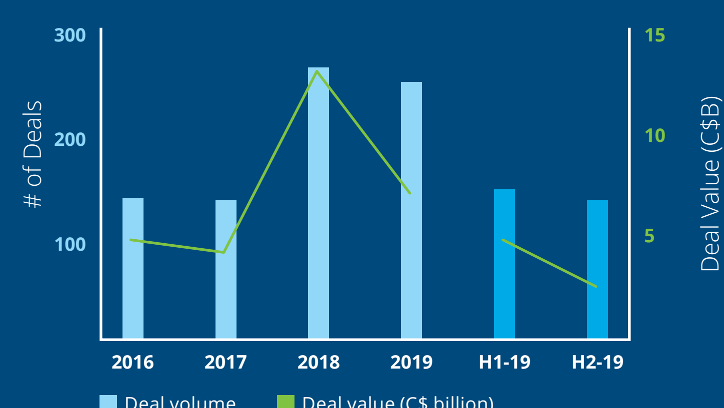
M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	50	$316
Inbound	23	$541
Outbound	47	$1,580
Total	**120**	**$2,437**

M&A by type – H1 2019

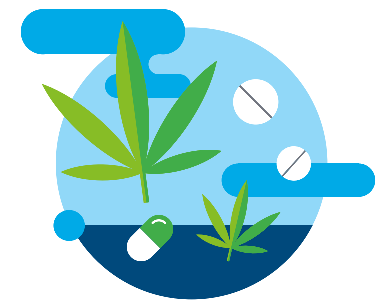
Type	# Deals	Disclosed Value (C$M)
Domestic	50	$2,469
Inbound	21	$994
Outbound	34	$1,393
Total	**135**	**$4,856**

M&A deal volume and disclosed value



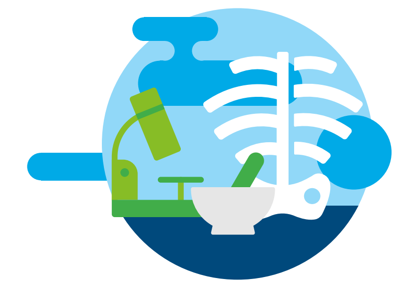
Source: S&P Capital IQ

Recent deal highlights (2019)



Cannabis
Canopy Health Innovations Inc. agreed to acquire the remaining 57.8 percent stake in Beckley Canopy Therapeutics Ltd. for $55 million in August. Beckley Canopy develops cannabis-based products for the treatment of pain and opioid addiction.

Also in August, the Supreme Cannabis Company, Inc. closed the acquisition of Truverra Inc. for $20.3 million. Truverra develops, produces, and markets hemp and cannabis medicinal products.



Pharmaceuticals
H.I.G. Capital agreed to acquire BioVectra Inc. from Mallinckrodt plc for $329 million in September. BioVectra manufactures and supplies ingredients and reagents for pharmaceutical and biotechnology clients in the North American and European markets.

Knight Therapeutics Inc. agreed to acquire Biotoscana Investments S.A. for a total consideration of $443 million across two transactions in October and December. Biotoscana manufactures and sells pharmaceutical products in Latin America.

Health care
Laborie Medical Technologies, Inc. agreed to acquire Clinical Innovations, LLC from funds managed by EQT Partners AB and others for approximately $691 million in December. Clinical Innovations engages in the research, development, and manufacture of medical devices focused on labour and delivery.

BGH Capital Fund I, a fund of BGH Capital and the Ontario Teachers' Pension Plan Board, agreed to acquire Abano Healthcare Group Limited for $325 million in November. Abano offers a range of general and specialist dental works, including restorative and cosmetic dental services.

Market trends to watch

Rising health-care cost pressure in Canada
Both the Ontario health-care reform legislation, passed in April 2019, and the proposed National Pharmacare Program have potential implications for investment activity in Canadian life sciences and health care companies. The legislation in Ontario will push for more public health provider consolidation, which will have effects in the private sector, such as the privatization of clinical and support services. If implemented, the National Pharmacare Program may have a significant impact on key pharma players, who will face pricing pressures from the federal government. This could lead to R&D and manufacturing jobs moving to higher-price jurisdictions, such as the United States, or impacting the availability of certain medications in Canada.

The rise of digitized life sciences companies
Major Canadian life sciences companies appear to have adopted a wait-and-see approach to disruptive technology in health care. Similar to fintech in the financial services sector, we expect large incumbent life science companies to begin partnering with or acquiring these companies as they disrupt traditional life science business lines, such as clinical services. WELL Technologies Corp and Telus Health, through their acquisition of Medisys in August 2018, are examples of disruptive medtech-focused competitors who have recently entered the Canadian clinic landscape.

Technology, media, and telecommunications

TMT remains the industry with the largest M&A deal volume, driven by disruptive M&A, the convergence of technology, and the popularity of software and technology companies among PE and other investors.

Key trends

Disclosed deal value saw a substantial increase from 2018 to 2019, driven by several large transactions including Hasbro Inc. acquiring Entertainment One Ltd. for $6.03 billion.

Telecom
The launch of 5G services as well as growing Internet of Things (IoT) connectivity will drive M&A in the telecom sector over the next few years as large players look to capitalize on newly available capabilities. And a trend is growing among telecom companies, such as Rogers, to acquire media companies to improve the relationships they have with customers.

Media
Digital advertising has emerged as a major growth driver in the media sub-sector. Advertising has decreased throughout Canadian broadcasting, driven by the increase of interest in streaming services like Netflix and online platforms. This has resulted in large players acquiring data marketing companies to gain data-driven business model capabilities.

There will continue to be demand for media aggregation platforms (MAP), which are over- the-top services for distributing web-based streaming media content from multiple sources to large audiences. It will be easier for companies to buy MAPs than build the capability.

IT services
The Canadian IT services industry continues to be fragmented, with a large number of small players. Both small and big players in the market are offering very similar products, giving buyers the upper hand when it comes to M&A.

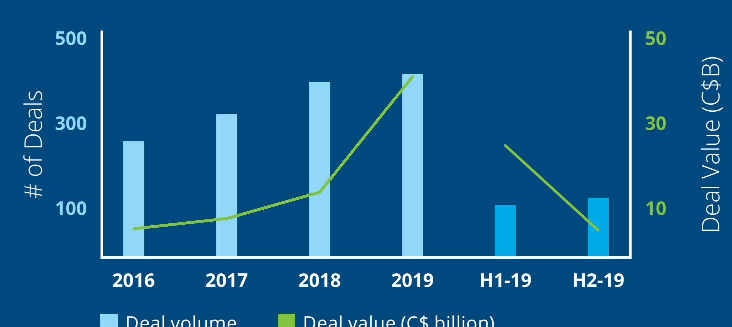
M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	87	$1,678
Inbound	87	$10,600
Outbound	69	$2,425
Total	**243**	**$14,703**

M&A by type – H1 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	92	$946
Inbound	77	$5,560
Outbound	63	$26,189
Total	**232**	**$32,695**

M&A deal volume and disclosed value



Source: S&P Capital IQ

Recent deal highlights (2019)

Technology
Open Text Corporation agreed to acquire Carbonite, Inc. for approximately $1.98 billion in November. Carbonite, provides backup, disaster recovery, high availability, and workload migration technology solutions in the United States.

A subsidiary of Akerna Corp. agreed to acquire Ample Organics Inc. for $120 million in December. Ample Organics develops and delivers technological infrastructure and software for the cannabis industry in Canada and Jamaica.

Aspen Technology, Inc. agreed to acquire Mnubo Inc. for $102 million in July. Mnubo provides smart data management and analytics for Internet of Things (IoT) applications.

Media
Cineworld Group plc agreed to acquire Cineplex Inc., a Canadian diversified entertainment and media company, for $4.2 billion in December.

Hasbro, Inc. agreed to acquire Entertainment One Ltd. for $6.03 billion in August. Based in Toronto, Entertainment One engages in the production and distribution of TV, music, and film content rights across various media worldwide.

Transcontinental Inc. acquired Holland & Crosby Limited from Scott Crosby and others for $20 million in October. Holland & Crosby designs and distributes point-of-purchase visual marketing signage programs for North American retailers.

Telecommunications
Sangoma Technologies Corp agreed to buy VoIP Innovations, a private communications provider, for US$42 million in October.

TELUS Communications Inc. agreed to acquire ADT Security Services Canada, Inc. from ADT Inc. for $700 million in September. The acquired company provides security solutions for residential and business markets.

Comtech EF Data Corporation agreed to acquire UHP Networks Inc. for $66 million in November. UHP Networks develops, manufactures, and markets satellite networking equipment; specifically, routers.

Market trends to watch

Cloud technology is changing the shape of data centre markets in Canada
As companies shift toward cloud technology, there are fewer investments in on-premises infrastructure. Over 40 percent of Canadian data centres are over 10 years old and have not undergone frequent upgrades or expansions. Additionally, with the increase in popularity of cloud technology, IT services companies have made acquisitions to expand their cloud and data centre businesses, such as A5 Corporation's purchase of Cloudware Connections Inc. in July.

Disruptive M&A
Disruptive M&A allows companies to quickly access growth fuelled by innovation and gain new capabilities.
The trend of non-technology companies buying technology companies is allowing large players to keep up with technology changes, shifts in consumer behaviour, and cross-sector convergence. In 2017 and 2018, there were $6.3 billion worth of M&A deals in the Canadian market with focus on digital, artificial intelligence, and machine learning. This trend is expected to continue to grow in 2020 and beyond.

Energy and resources

M&A activity in energy and resources is expected to be driven mainly by mining and materials, as oil and gas producers in Canada continue to face challenges in accessing global markets.

Key trends

While overall deal volume stagnated in the second half of 2019, the E&R industry has seen an increase in total disclosed value. This growth is mainly attributable to mega-deals such as Kirkland Lake Gold's $4.9 billion acquisition of Detour Gold in November.

Oil and gas

While the O&G sector continues to face challenges related to pipeline uncertainty, weak capital markets, and unfavourable regulations and policies, Canadian O&G companies are taking over foreign-owned sand oil assets, as seen with the Pembina/Kinder Morgan deal in August. Additionally, Canadian players are expanding their assets abroad to take advantage of the growing global demand for energy. This trend will likely continue, partially offsetting the slower domestic market and inbound activity.

Mining and minerals

The majority of the E&R investment activities in H2-19 are due to the mining sector. In particular, the gold sub-sector had a record number of deals in 2019. Since the sub-sector is still very fragmented, a large number of small, single-asset companies are competing for a limited pool of capital, and as such are often seen as too risky for investors. Therefore, we expect the amount of consolidation seen in 2019 to further increase, with large mining corporations assimilating smaller players.

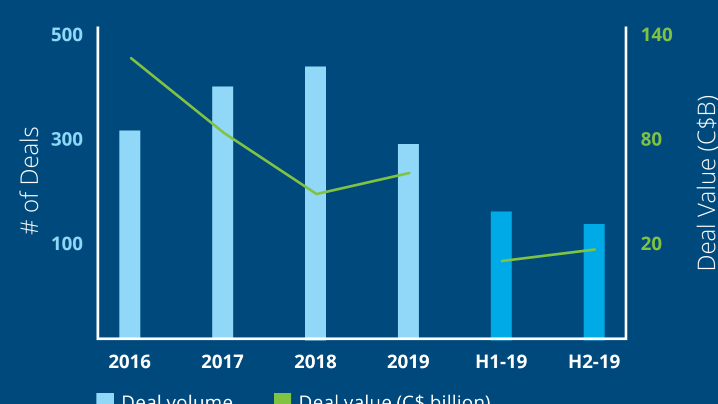
M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	79	$14,079
Inbound	43	$3,375
Outbound	30	$22,510
Total	**152**	**$39,964**

M&A by type – H1 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	64	$2,821
Inbound	65	$22,208
Outbound	27	$9,322
Total	**156**	**$34,351**

M&A deal volume and disclosed value



Source: S&P Capital IQ

Recent deal highlights (2019)

Oil and Gas

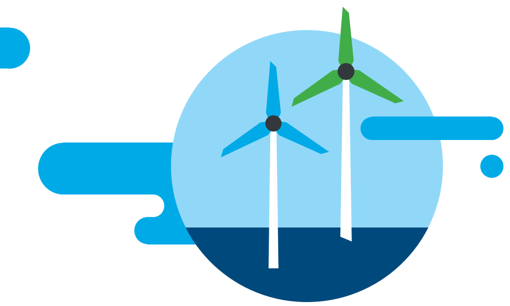
Pembina Pipeline Corporation agreed to acquire Kinder Morgan Canada Limited for $3.1 billion in August. Kinder Morgan owns and operates pipeline systems and terminal facilities in Canada.

Public Sector Pension Investment Board and Alberta Teachers' Retirement Fund Board agreed to acquire the natural gas distribution utility company AltaGas Canada Inc. for $1.7 billion in October. In November, Cona Resources Ltd., a portfolio company of Waterous Energy Fund, agreed to acquire Pengrowth Energy Corporation for $727 million.

Mining

Kirkland Lake Gold Ltd. agreed to acquire Canadian gold mining company Detour Gold Corporation for $5.0 billion in November.

A subsidiary of Zijin Mining Group agreed to acquire Continental Gold Inc. for $1.7 billion in December. Continental Gold explores and develops gold resource properties in Colombia. Jiangxi Copper (Hong Kong) Investment Co. acquired an 18 percent stake in First Quantum Minerals Ltd. (FQM) for $1.5 billion in December. FQM primarily explores mineral properties, specifically copper, nickel, gold, and zinc ores.



Energy Infrastructure

Canada Pension Plan Investment Board agreed to acquire Pattern Energy Group Inc. for $8.4 billion in November. Pattern Energy holds an interest in 28 renewable energy projects with an operating capacity of 4.4 GW located in the United States, Canada, and Japan.

Northland Power Inc. agreed to acquire the Colombian electricity transmission and distribution company Empresa de Energía de Boyacá E.S.P. for $1.0 billion in September.

Brookfield Renewable Partners L.P. closed the acquisition of a 50 percent stake in X-ELIO Energy, S.L. for $653 million in October. X-ELIO Energy is engaged in the development, operation, and maintenance of solar energy projects.

Market trends to watch

Extended O&G curtailments

In response to increasing delays and legal challenges in the completion of current pipeline projects, the Alberta government extended oil production curtailments to year-end 2020. This will likely continue to support oil prices but limit growth and investment in the sector.

Shale boom slowdown

Growth and productivity has declined in US shale oil due to production difficulties. This is causing investors to steer clear of drilling companies. Instead, they're looking into the Canadian O&G sector to reallocate their capital.

Mining sector consolidation

Consolidation in the mining sector is driven by scarcity of capital for junior mining companies and the need of larger players to replace and augment their mineral reserves in light of rising mineral prices (namely, gold). As the price of gold and other minerals continues to rise, we expect large gold corporations to rely on M&A to rapidly boost their production.

Consumer products and retail

Although the volume of deals and disclosed deal value increased from 2018 to 2019, we expect major headwinds in 2020 due to an uncertain economic outlook and highly competitive landscape.

Key trends

Overall, deal volume remained relatively stable over the last 12 months while there was a dramatic increase in disclosed deal values year-over-year. This increase was the result of a few large transactions, including Flutter Entertainment's acquisition of The Stars Group Inc. for $15.0 billion and the purchase of Merlin Entertainments plc by various investors for $9.4 billion.

Retail
The highly competitive retail environment, combined with an uncertain economic outlook for 2020, has driven large incumbent retailers to seek a more flexible structure and reinvent their brands—a process that can often only happen through reorganization or take-private transactions. We are beginning to see this take effect, with HBC's board of directors recently recommending that shareholders approve a take-private transaction to enable the company to restructure itself.

Food and beverage
External factors (including rising urbanization and changing demographics) continue to impact the food and beverage (F&B) retail landscape. Many F&B retailers are aiming to move their stores closer to dense residential areas. Other F&B retailers, such as Loblaws, Longo's, and Sobeys, are moving into second-storey spaces and reducing store sizes in Canada's major cities, changing the retail setups. Additionally, we expect the trend toward consolidation in F&B retail to continue as key players, including Loblaws and Sobeys, continue to make strategic acquisitions to expand their retail footprint and market share.

M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	73	$10,643
Inbound	23	$15,020
Outbound	33	$1,288
Total	**129**	**$26,951**

M&A by type – H1 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	67	$1,357
Inbound	35	$1,511
Outbound	47	$11,806
Total	**149**	**$14,674**

M&A deal volume and disclosed value

Source: S&P Capital IQ

Recent deal highlights (2019)

Food and beverage
A subsidiary of Hostess Brands, LLC acquired Voortman Cookies Limited from a group of shareholders for approximately $425 million in November. Voortman produces and sells cookies and other packaged snacks.

Lassonde Industries Inc. acquired Sun-Rype Products Ltd. from The Jim Pattison Group, Inc. for approximately $100 million in October. Sun-Rype engages in the manufacture, marketing, and sale of fruit-based food and beverage products.

The Second Cup Ltd announced its acquisition of Bridgehead (2000) Inc., which owns and operates a roastery and a chain of coffee shops in Canada, for $11 million in December. The deal officially closed on January 9, 2020.

Consumer discretionary and retail
Flutter Entertainment announced the acquisition of The Stars Group Inc., an online gaming and betting company, for $15.0 billion in October.

Toronto-based real estate developer Knightstone Capital Management Inc. acquired The Sheraton Gateway Hotel from Marriott International, Inc. for $130 million in November.

MAV Beauty Brands Inc. acquired hair-care product manufacturer The Mane Choice Hair Solution for $120 million in November.

High Park Holdings Ltd. agreed in August to acquire Calgary-based cannabis retailer 420 Investments Ltd. for $110 million.

Market trends to watch

Retail footprint rationalization
In an increasingly omnichannel retail market, with fierce competition from direct-to-consumer and online retailers, companies have been rethinking and re-assessing the design of their physical store network by applying analytics and big data capabilities. As retailers rationalize their footprints, we expect this will lead to a surge in M&A activity as legacy retail assets are brought to market and new retail locations are sought out.

Rise of private label brands
While private label brands have permeated the retail landscape over the last 40-plus years, retailers have only recently begun to increase the quality, sophistication, and number of private label brands by using analytics to turn customer data into practical insights. Private label brands are expected to gain 8 to 10 percent in consumer product sales over the next 10 years. As such, we expect retailers to use organic and inorganic means, through M&A, to expand their private label presence.

Manufacturing and business services

While easing trade tensions and the imminent ratification of USMCA may reduce uncertainties and improve M&A outlook, companies will face headwinds in 2020 in the form of negative macroeconomic trends and volatile equity markets.

Key trends

M&A activity in 2019 improved overall, with slight increases in both deal volume and disclosed deal value. Deal activity remained stable, with a minor increase in both deal volume and deal value, likely driven by optimism in H2-19 related to easing trade tensions and the anticipated ratification of the United States-Mexico-Canada Agreement.

Manufacturing
Despite uncertainties regarding the pending ratification of USMCA, trade disputes, and a foreseen economic slowdown, the Canadian manufacturing sector has remained attractive to investors—a trend fuelled, in part, by lower costs and tax advantages. New provisions in the USMCA may also prove beneficial to Canadian manufacturers, with increased requirements for North American-made auto components being a potential boon for Canadian auto component and vehicle manufacturers.

Infrastructure
We also noted a heightened interest in Canadian infrastructure assets and companies in 2019. Key transactions included OMERS's investment in the Ontario toll highway, 407 International Inc., for $3.3 billion in April, and Ridley Terminals, owner and operator of a bulk marine terminal in BC, for $350 million in July.

Transportation
Transportation was another particularly active sector from an M&A perspective in 2019, with transactions in the freight/logistics, aerospace, and rail sub-sectors. This was partly due to manufacturing levels, as well as industry and supply chain consolidation. The key 2019 transaction for the transportation sector was the Onex acquisition of WestJet for $6.5 billion, in December.

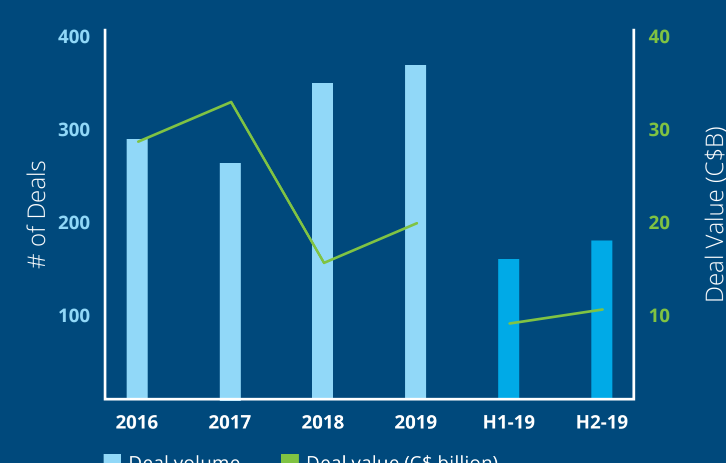
M&A by type – H2 2019

Type	# Deals	Disclosed Value (C$M)
Domestic	77	$3,709
Inbound	67	$757
Outbound	44	$6,351
Total	**188**	**$10,817**

M&A by type – H1 2019

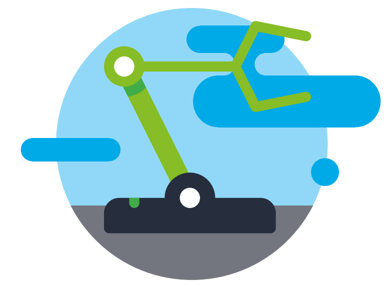
Type	# Deals	Disclosed Value (C$M)
Domestic	76	$6,755
Inbound	52	$1,355
Outbound	43	$1,071
Total	**171**	**$9,181**

M&A deal volume and disclosed value



Source: S&P Capital IQ

Recent deal highlights (2019)



Manufacturing
Exchange Income Corporation acquired L.V. Control Manufacturing Limited from Brent Murray and Grant Floren for $53 million in October. L.V. Control Manufacturing designs and manufactures electrical distribution equipment and process control systems.

ATS Automation Tooling Systems Inc. acquired Marco Limited for $57 million in December. Marco manufactures yield control and recipe formulation systems for manufacturing and packaging operations.

Business services
In December, TELUS International (Cda) Inc. agreed to acquire CCC Holding GmbH from the senior management of CCC Holding and others for approximately $1.3 billion. CCC Holding GmbH provides incoming and outgoing call centre, written customer communication, business process outsourcing (BPO), and back office services.

Americold Realty Trust acquired Nova Cold Storage from Brookfield Business Partners L.P. for $337 million in November. Nova provides warehouse services, including the handling, storage, and freezing of temperature-controlled foods.

Market trends to watch

Portfolio optimization
Many manufacturers are streamlining their operations as they face mounting pressure from shareholders, customers, and broader financial markets to favour focus over diversification. To do so, companies may look to intensify current capabilities, which could further drive the volume of M&A deals, divestitures, or investments—especially as they help to protect value chains from ongoing trade uncertainties.

Supply chain consolidation and partnerships
Leading manufacturers are actively mobilizing partnerships within their supply chain ecosystem to achieve targeted business goals, or source the capabilities required to meet their strategic vision. Many of these capabilities include digital technologies applied to existing manufacturing processes. However, given the relative premium value on digital capabilities in the market, 2020 will likely bring more partnerships and joint ventures than outright acquisitions.

Glossary of terms

B2B	Business to business industry
B2C	Business to consumer industry
C$	All amounts are in Canadian dollars, unless otherwise stated
CBD	Cannabidiol
Covid-19	Corona Virus Disease 19
Dry powder	Cash reserves, liquid assets that an investor can use for investment purposes
EBITDA	Earnings before interest, tax, depreciation, and amortization
EV	Enterprise value
F&B	Food and beverage
IoT	Internet of things, intelligently connected devices and systems
IT	Information technology
n/a	Data either not applicable or not available
O&G	Oil and gas
PE	Private equity
H1-19, H2-19	Six months ended June 30 or December 31, 2019
REIT	Real estate investment trust
SMEs	Small and medium-sized enterprises
TMT	Technology, media, and telecommunications
USMCA (NAFTA 2.0)	United States-Mexico-Canada Trade Agreement (North American Free Trade Agreement replacement)
FY18, FY19	Years ended December 31, 2018 or 2019

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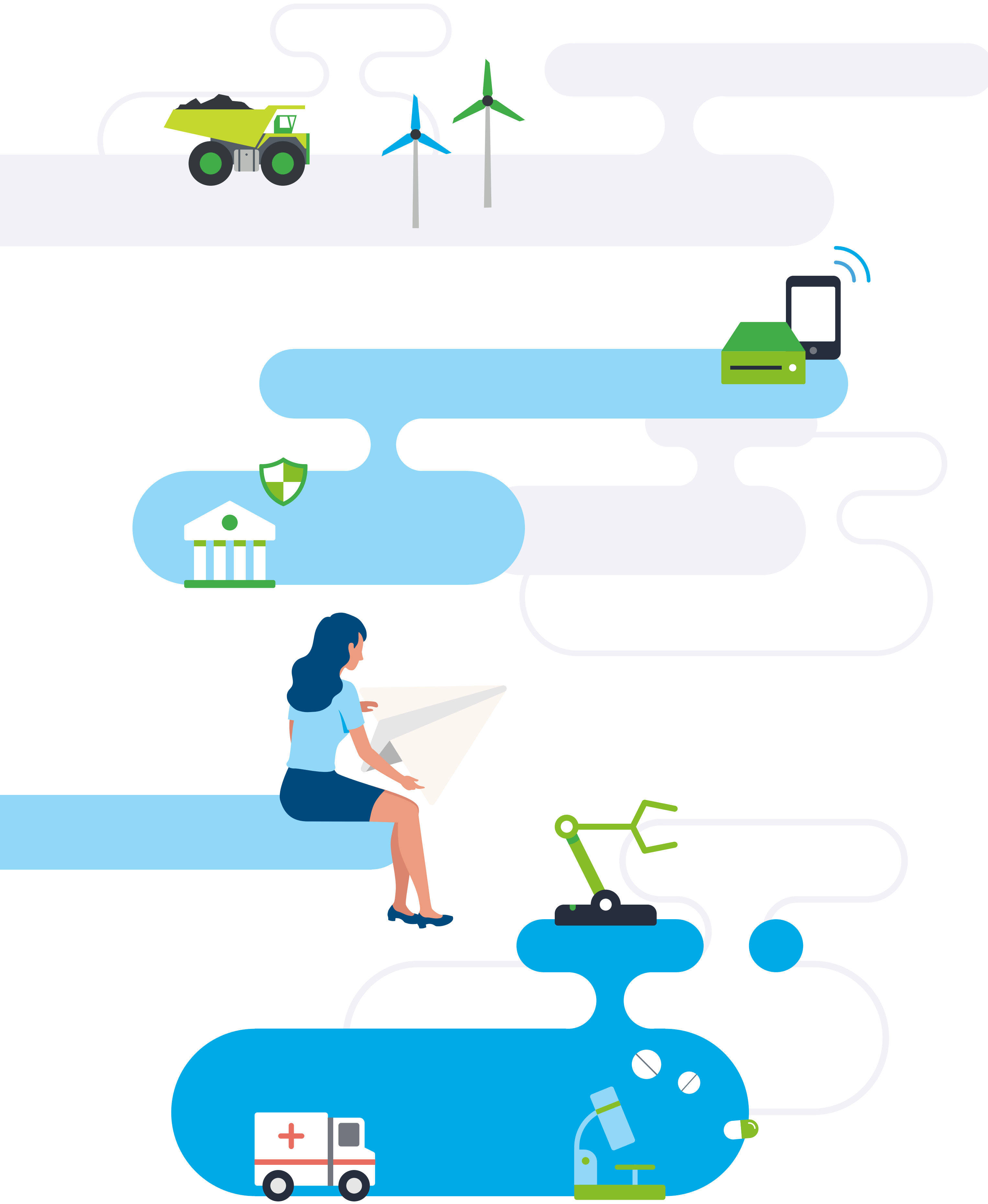


Contacts

Steering Committee

Peter Sozou
Managing Partner M&A
psozou@deloitte.ca

Catherine Code
Partner, Financial Advisory
ccode@deloitte.ca

Alexandre Baril
Partner, Financial Advisory
albaril@deloitte.ca

M&A Institute

Ikram Al Mouaswas
Partner
ialmouaswas@deloitte.ca

Eva Gogan
Program Manager
egogan@deloitte.ca

Maddie Buttinger
Program Manager
mbuttinger@deloitte.ca

Lead authors

Christopher McGrath
Manager, Financial Advisory
cmcgrath@deloitte.ca

Eva Gogan
Manager, Financial Advisory
egogan@deloitte.ca

Mark El-Meouchy
Senior Associate, Financial Advisory
melmeouchy@deloitte.ca

Henry Wang
Senior Associate, Financial Advisory
henwang@deloitte.ca

Contributing authors

Andrew Botterill
Partner, Financial Advisory
abotterill@deloitte.ca

Stephen Di Giacomo
Partner, Audit & Assurance
sdigiacomo@deloitte.ca

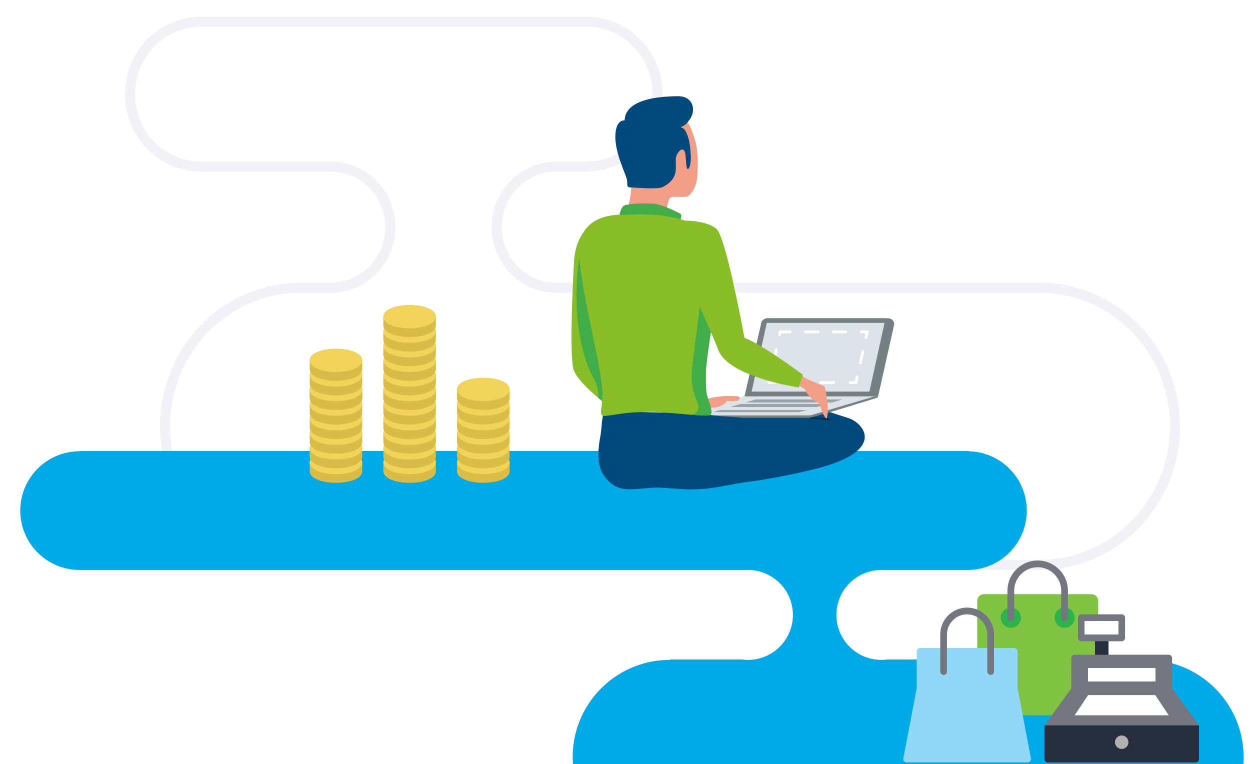
Jason Ding
Partner, Financial Advisory
jasonding@deloitte.ca

Davy Sohi
Senior Manager, Consulting
dsohi@deloitte.ca

Chintan Shah
Senior Manager, Financial Advisory
chintshah@deloitte.ca

Simon King
Senior Manager, Consulting
simking@deloitte.ca

Deepak Malik
Director, Financial Advisory
dmalik@deloitte.ca



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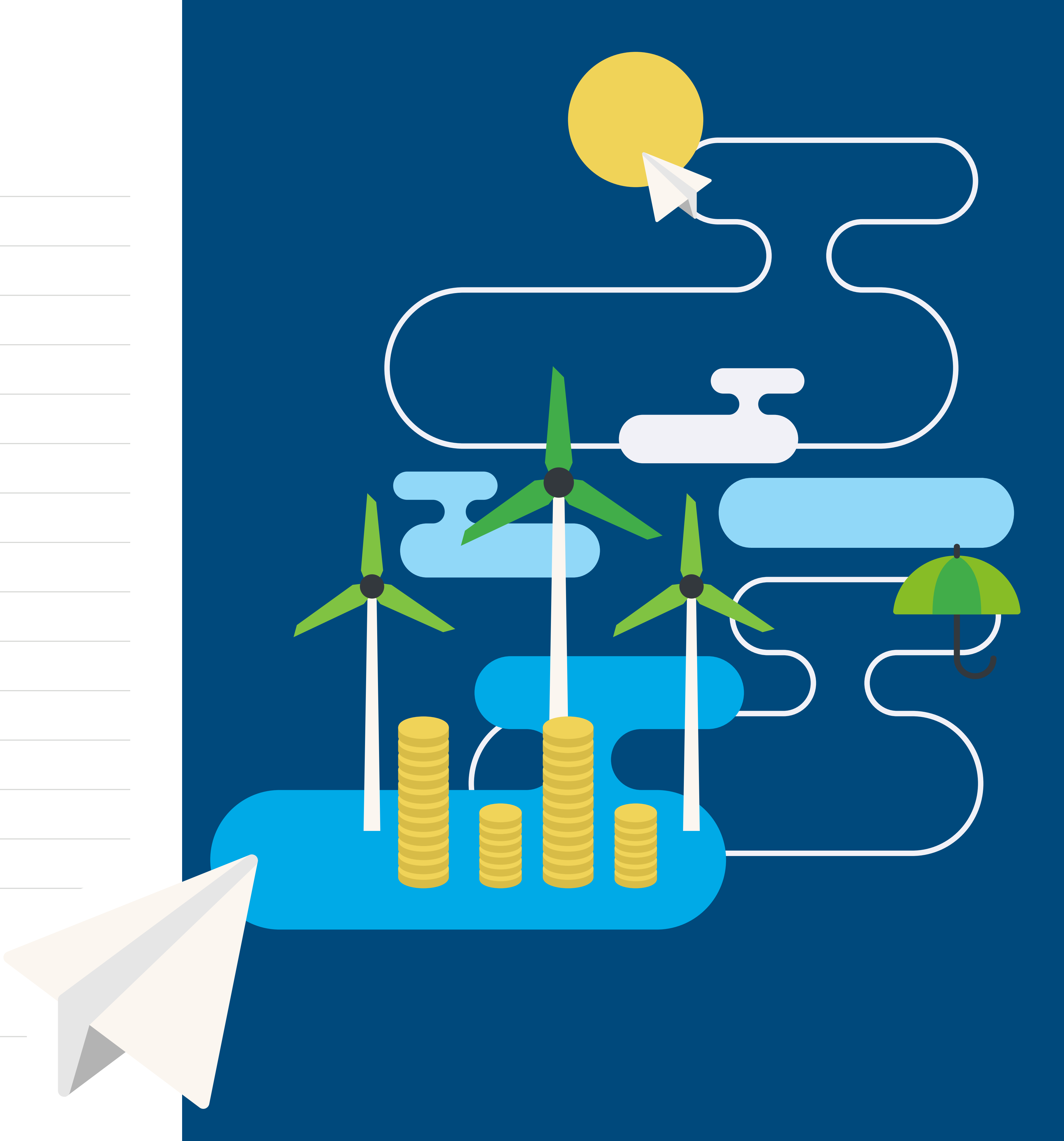

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