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Going private:
Find the right partner to add value

17 percent of Canadian public companies should go private

M&A Institute

Why now?

In North America, more companies are considering a go-private transaction

The overall Canadian stock market performance has been weak over the past year, with the S&P/TSX Index returning -12 percent and the S&P/TSX-Venture Index returning -38 percent in 2018. The stock market is expected to remain volatile, particularly for smaller companies, over the next 12 months, especially given the late stage of the Canadian business cycle.

In addition, the management teams of many public companies are tired of the public markets. The short-term orientation of the public markets—with its constant focus on making quarterly profits and preparing quarterly reports—makes running a public company stressful and onerous for management teams.

A public company also incurs significant recurring expenses that a private company would not, most of which are related to the administrative burden of fulfilling ever-growing compliance requirements, producing quarterly and annual financial statements, annual listing fees to exchange, investor relations, and incremental staff costs in several functional areas.

Private companies, on the other hand, are less likely to rely on capital raised from public equity markets. They can borrow money without giving up ownership at a reasonable cost. And if they need to sell an equity stake, private equity firms are so flush with cash they may line up outside the door.

Deloitte's analysis of publicly traded Canadian companies with a market capitalization under $1 billion shows that almost 500 companies—17 percent—could today be considered potential take-private candidates.

> "The stock market is expected to remain volatile, particularly for smaller companies, over the next 12 months, especially given the late stage of the Canadian business cycle."

– Asad Said, Managing Director at Deloitte Corporate Finance Inc.

Going private

Going private is a transaction or a series of transactions that convert a publicly traded company into a private entity. One solution for companies looking to go private is to partner with a private equity firm.

A go-private transaction is typically proposed for one of two reasons:

01

Management wants to buy out the public shareholders and take the company private (management buyout, or MBO).

02

A company or individual takeover bid to buy most or all of the company's stock.

Insider bids

For an insider bid, the following are required:

- Formal valuation
- Independent committee
- Majority of minority shareholder approval

Key considerations

- Savings on fixed annual costs associated with being a publicly listed company
- Savings on management time and effort by eliminating quarterly earnings reports
- The right financial or strategic investor can add value that public investors cannot.
- Management or a major shareholder owns a significant equity share and is not satisfied with the public valuation
- Public valuation is at a significant discount to relevant peer group and intrinsic value
- Depressed share price
- Low trading volume/limited investment-dealer coverage
- Relatively high cost of capital or an inability to grow without high level of dilution

What financial partners consider in taking a business private

Historically, private equity firms have been a solution for undervalued public companies looking to leave the public market through public-to-private transactions. For their part, private equity firms need to ask themselves a few critical questions before helping take any public company private, such as:

Is the acquisition price attractive compared to the company’s growth prospects?

If the target’s price is too high relative to its growth potential, buyers risk multiple compression if the value of the assets declines. An advisor can help to ensure the acquisition price is in line with fair market value through a comprehensive value analysis.

Will the target be able to capitalize on growth opportunities?

The private equity firm will want to make that the target has ample opportunities for growth via consolidation, as well as margin improvement.

Is the target’s business model attractive and can it generate returns that exceed it’s cost of capital?

The private equity firm will want to make sure that the target has a strong market position, and return on capital, as well as evaluate the business cycle risk and how much free cash flow the target generates.

Is sufficient leverage available at low interest rates to allow for a good return?

The strength of the debt market, interest rates, and the desire for yield will dictate whether creditors are willing to provide attractive debt financing for the transaction.

Deloitte has spent years building relationships with private equity firms and can act as a trusted advisor to help you find the right financial partner with whom to go private.

Go-private transaction timeline

A go-private process can take anywhere between 4 to 6 months depending on the amount of time spent upfront.

Preparation & execution
3–4 months

Evaluate going private transaction, and engage financial and legal advisors

Find appropriate partner(s)/investor(s) and allow them to perform due diligence

Negotiate price and enter into arrangement agreement

Announcement

Before the market opens, the target's shareholders, directors, and officers sign the arrangement agreement and support agreements. A press release announcing proposed transaction is issued

A + 30 days

Target prepares management information circulars

A + 31 days

Interim order of the court obtained to authorize a special meeting of target shareholders to approve the plan of arrangement

A + 34-35 days

Special meeting of target's shareholders is called; information circular and meeting materials are mailed

A + 69-70 days

Special meeting of target's shareholders is held and requisite shareholders are obtained

A + 70-72 days

Court approval of the plan arrangement

A + 72 days

Implementation of the plan of arrangement; completion of the business combination

How we can help

Deloitte's highly experienced M&A group can assist a public company think through its strategic options including a go-private transaction. Our global network and relationships with strategic and financial buyers across the globe can help management teams and/or insiders in public companies find the ideal partner to take the company private.

01

Competitive sale process and selection of appropriate partner

Run a competitive process and position the company optimally with potential partners to maximize interest, strategic fit, and value.

02

Deal execution

Ensure all reasonable questions and issues are resolved quickly and professionally.

03

Negotiation and deal announcement

The final phase in the transaction approach involves negotiating letters of intent, leading final negotiations with prospective purchasers, and documenting the transaction closing.

04

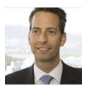
Go-private/process

Advise the company with respect to the go-private plan of management/shareholder vote process.

Contacts

West team

David Lam
Partner
davilam@deloitte.ca



Kevin Becker
Partner
kebecker@deloitte.ca

Douglas Beaton
Partner
dbeaton@deloitte.ca

Jason Ding
Director
jasonding@deloitte.ca

Central team

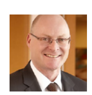
Robert Olsen
Partner
robolsen@deloitte.ca

Darren Williams
Partner
darrenwilliams@deloitte.ca

Catherine Code
Partner
ccode@deloitte.ca

Michael Morrow
Partner
mimorrow@deloitte.ca

Romit Malhotra
Partner
romalhotra@deloitte.ca



Anders McKenzie
Partner
admckenzie@deloitte.ca

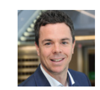
Paul Hamam
Director
phamam@deloitte.ca

Asad Said
Director
assaid@deloitte.ca

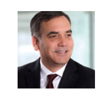
East team

Eric Michaud
Partner
ermichaud@deloitte.ca

Jonathan Calabrese
Partner
jcalabrese@deloitte.ca



Martin Guinard
Partner
mguinard@deloitte.ca



Michel K. Landry
Partner
milandry@deloitte.ca

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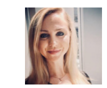
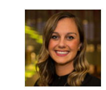
Flora Wan
Partner
flwan@deloitte.ca



Eva Gogan
Program Manager
egogan@deloitte.ca



Maddie Buttinger
Program Manager
mbuttinger@deloitte.ca

M&A
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The M&A Institute captures Deloitte's intellectual capital to support the success of Canadian companies in M&A transactions.

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