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# STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

2022 | Issue 01



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# WELCOME TO STRAIGHT TALK

As we closed out 2021, deal activity demonstrated its resilience in the face of yet another COVID-19 variant, which is now subsiding. The first quarter of 2022 brought new and tragic global challenges with the conflict in Ukraine and the turmoil that has wrought on human life. It remains to be seen, of course, how this tragedy will impact market variables over the long term.

On the deal front, however, activity shows no sign of slowing. In the wake of a record 2021, we remain extremely busy across Canada, as buyers and investors continue to pursue attractive targets. In this issue, Toronto- and Vancouver-based Partners Jay Sernoskie and John Ferber discuss their outlook for 2022, drawing on their extensive domestic and cross-border deal experience, and sharing insights on deal structure, cross-border trends, sector activity and the ongoing impacts of COVID-19 and global events.

Please don't hesitate to reach out if you'd like to learn more about our advisory expertise in the Canadian mid-market, or to discuss this publication. We are always happy to have a conversation.

Regards,

*Jay Hoffman*

**Jay Hoffman** | Practice Chair, Business Law and M&A  
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# OUTLOOK 2022: INSIGHTS FROM MILLER THOMSON PARTNERS



**Jay Sernoskie**  
Partner, Toronto



**John Ferber**  
Partner, Vancouver

Jay practices corporate-commercial law including mergers and acquisitions, corporate governance, debt financings, and private equity transactions in Miller Thomson's Toronto office.

John practices corporate-commercial law focused on mergers and acquisitions, complex corporate reorganizations, and secured credit and loan transactions in Miller Thomson's Vancouver office.

**Miller Thomson:** What is your outlook for deal activity in 2022?

**Jay:** At this point, as we approach the end of Q1 2022, nothing has slowed down. For the most part, I am busier than I was last year with new deals coming in steadily. Certainly, I expect the first two quarters of 2022 are going to be active over a broad spectrum of industries, but particularly in the technology and healthcare sectors. More generally, the outlook seems to be that deal activity will remain very positive and robust.

**John:** BC M&A deal activity has continued to be strong in Q1 2022. Both technology and health care have been the busiest sectors. Without the current events in Eastern Europe, I would have anticipated private M&A activity to be strong throughout the year but, in spite of this, I remain cautiously optimistic that 2022 will remain strong.

**Miller Thomson:** We have just completed another year amidst COVID-19. In the early months of 2022, what impacts are you seeing on deal processes and particularly, on deal structures? How are buyers addressing targets where performance has been impacted positively or negatively by the pandemic?

**Jay:** Transactions are geared around the shifting of risk, who sits with it and who doesn't want to sit with it. This rings very true in terms of purchase price payments. Earn-outs, particularly, have made a fierce comeback and are a part of virtually every deal we are currently doing. I believe that they are one of the most equitable tools to lower risk to both buyers and sellers.

Of course, we have also seen the emergence of pandemic clauses when it comes to addressing material adverse effects; I don't think these will decline in use as time goes on.

Another aspect of a deal to mention is diligence: we have seen how diligence can be a challenge due to the hurdles brought on by the pandemic. Live meetings have always been an important part of the diligence process, and while virtual meetings such as Zoom are a helpful alternative, they are not a perfect substitute especially when you really want to get to know the folks you are working with and working for on transactions.

**Miller Thomson:** As we are hopefully nearing the tail-end of the pandemic and as government-funding will eventually start to taper off, do you expect to see an increase in distressed deals over 2022 and beyond?

**John:** I don't expect to see any increase in distressed deals flowing from the tapering off of government COVID-19 business assistance. I anticipate the BC economy particularly to remain strong and be one of the fastest growing provinces in Canada over both the short and long-term.

**Miller Thomson:** Supply chain issues are plaguing many sectors. Is this having an impact on M&A - for example, impacting valuations positively or negatively?

**John:** I do not see supply chain issues affecting BC M&A deal valuations or having other impacts. Most supply chain disruptions have been viewed as transitory. For example the Fall 2021 flooding in the Fraser Valley caused temporary transportation disruptions, but they were resolved surprisingly quickly.

**Miller Thomson:** How do you see inflation and potential rising interest rates impacting deal activity in 2022?

**Jay:** The interest rate moves will likely have a relatively quick impact. However, there is still a tremendous amount of capital sitting on the sidelines which will continue to drive deal activity and competition amongst prospective buyers. Interest rates are important for the borrowing of additional funds to facilitate purchases and, in this regard, I think rising rates have the potential to chill things a bit. But I don't think that will bring activity to a screeching halt, especially because I think the increases will be quite calculated and deliberate.

**Miller Thomson:** Canadian inbound and outbound cross border deals rose significantly in 2021. Based on your own cross-border deal experience, whether with Canadian or foreign buyers and sellers, can you comment on this trend, and the expectations you see for future growth in 2022?

**John:** The major cross-border trend in BC is a large and increasing investment by US companies across multiple sectors of our economy. Technology, health care and online retail infrastructure have been major drivers and I look forward to seeing how this trend will continue in 2022.

**Jay:** It's also going to be interesting to see how the unfortunate situation in Ukraine is going to play out. We can think that Russia and Ukraine are far away from many perspectives, but this is a global issue. The reaction of other countries, including Canada, is going to play a role and there will most certainly be an effect on what that does to markets and banks. The effects will also certainly not be limited to those players and businesses based in Europe- the whole world is going to feel this unfortunate conflict.

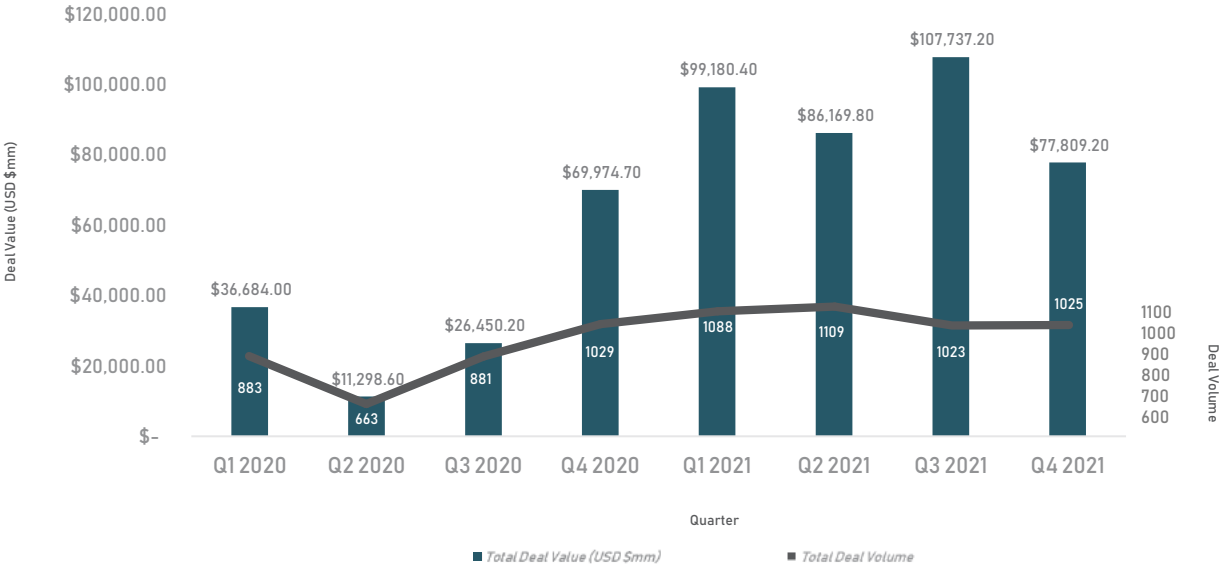
# Q4 2021 MARKET INSIGHTS

Despite the return of increased public health restrictions throughout the country, Canadian M&A activity rounded out 2021 with strength, building off a strong third quarter and capping off a record year. Deal activity in Q4/21 outpaced Q4/2020, while dropping off slightly from Q3/21. Geographically, inbound and outbound cross-border activity continued to surge in the quarter, sustaining the cross-border trend seen through 2021.

Note: Dollar values are in USD.

## DEAL ACTIVITY

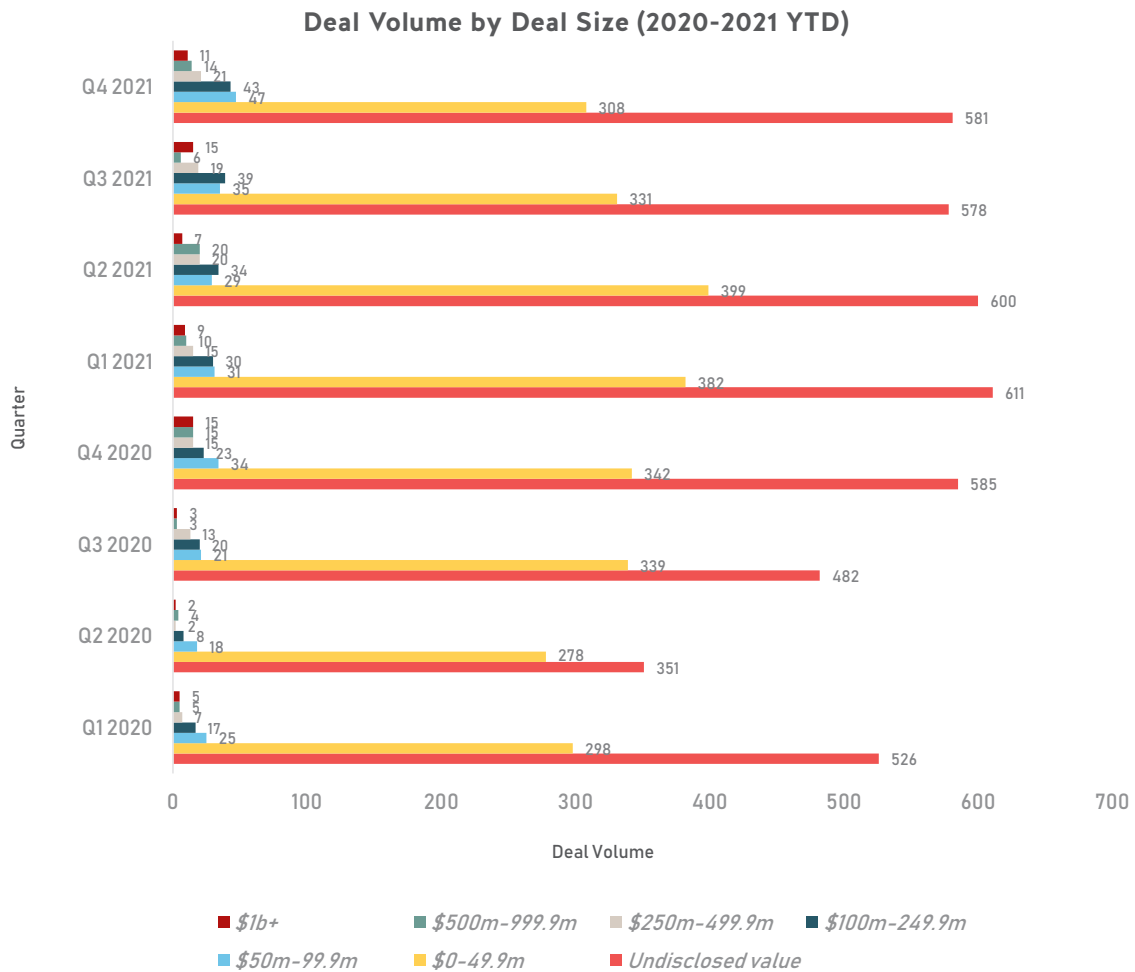
Total Deal Value & Volume (2020 - 2021)



Source: Capital IQ January 12, 2022

There were 1,025 announced deals in the quarter, relatively flat with the 1,029 deals that were announced in Q4/20 and the 1,023 deals announced in Q3/21. Average deal size declined in the fourth quarter to approximately \$75 million from \$105 million in Q3/21, largely attributable to a decline in mega-deals (\$1 billion +). Sub \$50 million deal volume declined 7% from Q3/21 to Q4/21, while deal volume between \$50 million and \$100 million increased by 34%.

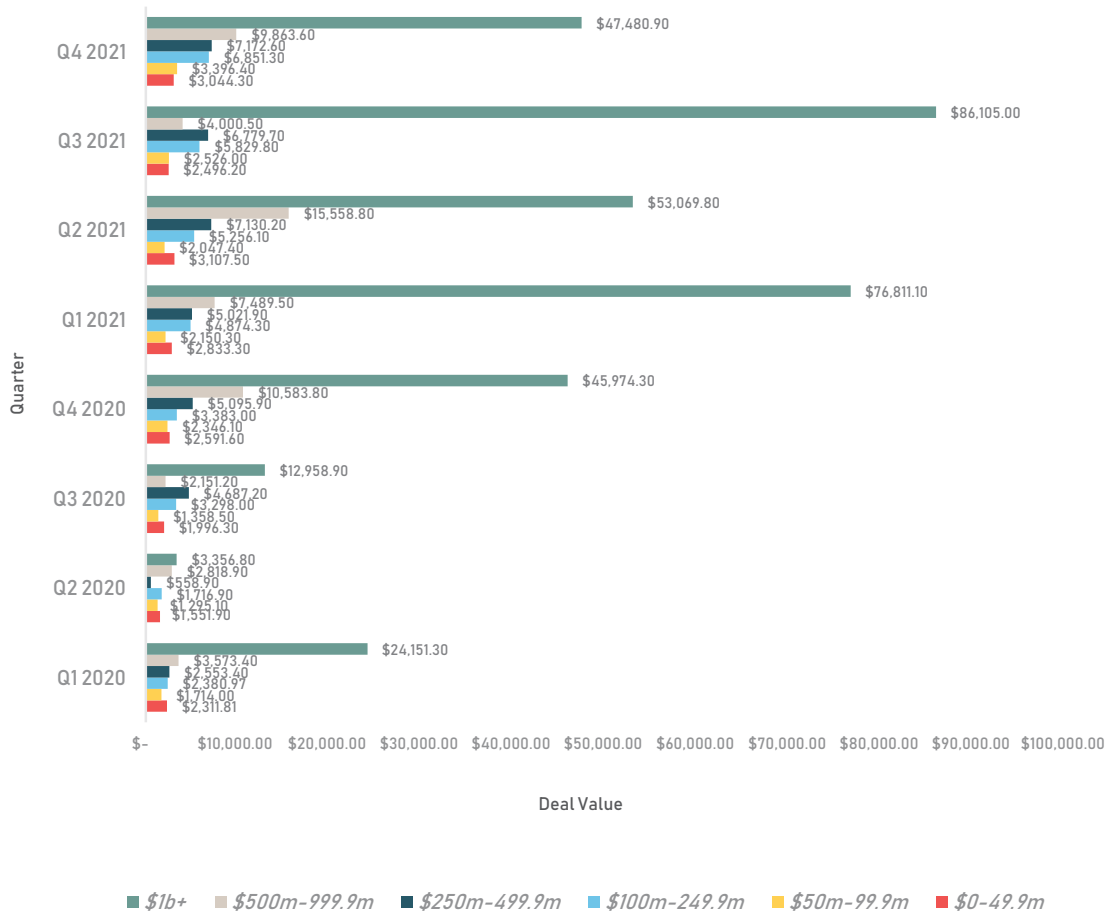
At the other end of the spectrum, deal volume in the \$500 - \$999 million category ramped up, increasing to 14 announced deals from 6 in the previous quarter. However, that increase was offset by a decline in mega-deals, contributing to a decline in total deal value to approximately \$78 billion, down from \$108 billion in the previous quarter. A notable deal, Advent International Corporation's announcement of a \$20.8 billion acquisition of McAfee Corp. led the way on the mega-deal front, alongside multiple domestic and cross-border deals in the \$1-\$4 billion range.



Source: Capital IQ January 12, 2022

1 For deals with disclosed value

### Deal Value by Deal Size (2020 - 2021)



Source: Capital IQ January 12, 2022

### Different Industries, Different Impacts

Over two years into the pandemic, the impact on businesses and industries ranges from devastating to highly positive. Certain industries continue to enjoy buyer attention, and as the data and our own practice makes evident, mid-market deals are prolific. Businesses impaired by the pandemic are finding ways to continue operations with the help of many provincial and federal government aid programs, and less commonly, through debt and equity financing.



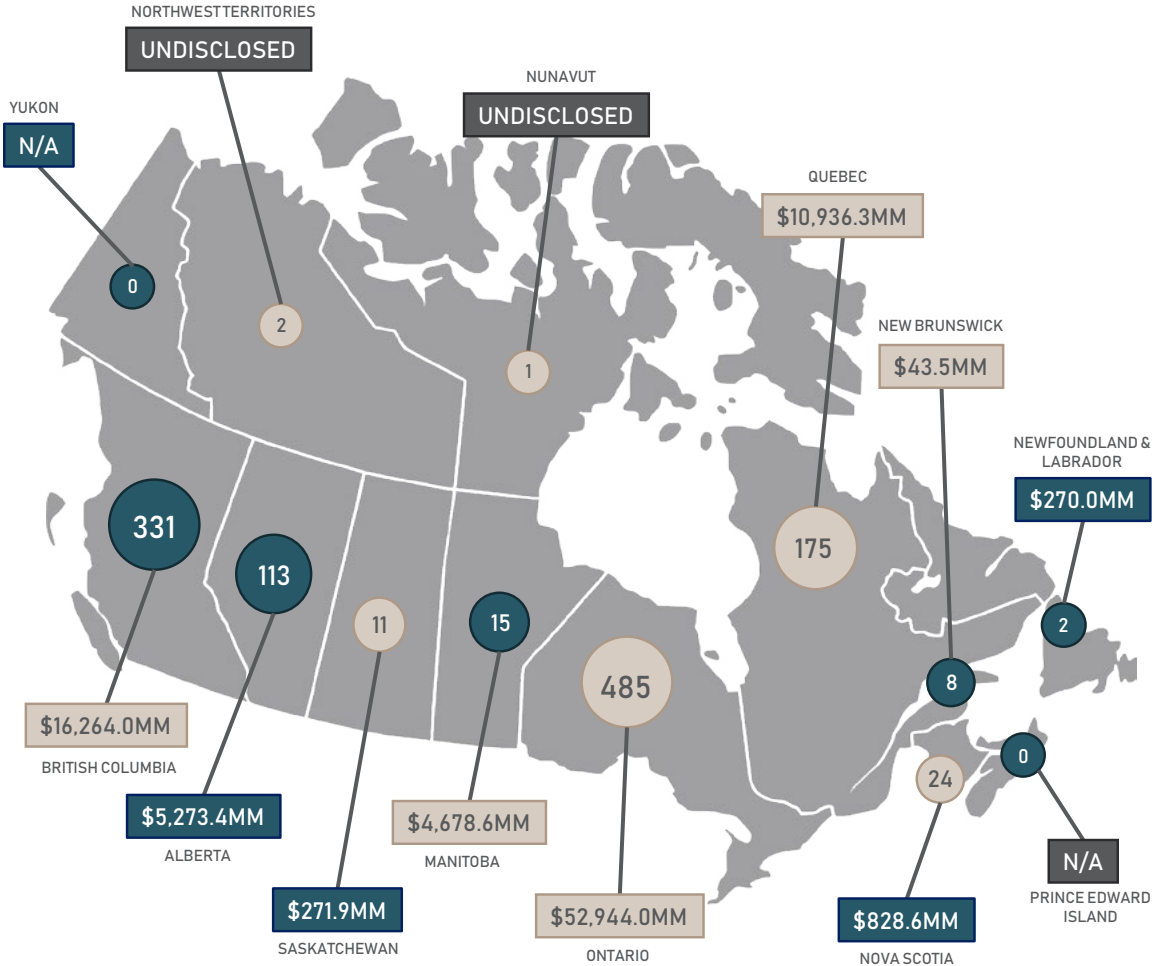
# GEOGRAPHIC TRENDS

## Deal-making across Canada

Ontario led the way in Q4/21 deal activity, up 9% over Q3/21. British Columbia topped the deal value category, with value up 190% or \$10.6 billion over Q3/21.

Alberta saw the biggest drop in deal volume and total transaction value from Q3/21. Total transaction value dropped from \$41 billion in Q3/21 to just \$5.2 billion in Q4/21 as the value of mega-deals with an Alberta-based buyer or seller declined significantly.

Activity by Province (Q4 2021)



Legend

- Deal Volume
- Total Value (USD)
- Increase from Q4 2021
- Decrease from Q4 2021
- No change from Q4 2021

Source: Capital IQ January 12, 2022

## Domestic Dealmaking

Domestic deal activity slowed in the quarter, declining from approximately \$17 billion in Q3/21 to \$14.9 billion in Q4/21. For the year as a whole, domestic deal volume accounted for approximately 46% of 2021's total deal volume, down from 48.5% in 2020.

### Canadian Domestic Deals (2018 - 2021)

	Volume	Total Value (USD \$mm)
2018	1728	52,560.6
2019	1595	58,302.3
2020	1675	27,221.8
Q1 2020	435	6,214.1
Q2 2020	332	1,197.3
Q3 2020	416	7,689.2
Q4 2020	492	12,121.2
2021	1541	75,461.8
Q1 2021	546	36,015.3
Q2 2021	541	22,357.9
Q3 2021	454	17,088.6
Q4 2021	435	14,993.3

Source: Capital IQ January 12, 2022

## Global Dealmaking

### Top Three Cross-Border Partners by Deal Volume (2020 - 2021)

	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Inbound</b>								
United States	60	52	79	101	130	111	131	136
Europe	26	21	26	27	42	37	44	47
Asia/Pacific	18	11	10	12	31	16	20	21
<b>Outbound</b>								
United States	143	99	142	159	193	239	214	227
Europe	52	24	43	55	68	77	62	68
Asia/Pacific	16	20	23	25	35	31	35	25

Source: Capital IQ January 12, 2022

Despite the unpredictable state of borders, cross-border deal making achieved record heights through 2021, with volume up 60.6% over 2020 and 51% over 2019, reflecting significant increases in inbound and outbound deal activity.

The US continued to lead in its cross-border activity with Canada: there were 508 US inbound deals in 2021, an increase of 74% over 2020 and 32.6% over 2019. Outbound deal activity was up as well with 873 deals done, an increase of 60.7% and 58% over, respectively, 2020 and 2019.

## SECTOR ACTIVITY

Miller Thomson advises on deals that span sectors including manufacturing, agribusiness, technology, industrials, pharmaceuticals, financials, real estate and mining.

**Sector Activity (Q4 2020 vs. Q4 2021)**

	Q4 2020	Q4 2021
<b>Deal Volume</b>		
Energy	40	59
Materials	232	184
Industrials	121	136
Consumer Discretionary	49	86
Consumer Staples	46	45
Healthcare	87	66
Financials	87	59
Information Technology	124	144
Communication Services	46	61
Utilities	26	19
Real Estate	102	112
<b>Deal Value</b>		
Energy	5,695.7	4,162.9
Materials	8,434.4	11,287.3
Industrials	6,657.5	1,472.4
Consumer Discretionary	4,818.4	5,388.3
Consumer Staples	2,590.7	2,084.4
Healthcare	2,378.4	2,455.6
Financials	13,410.7	429.6
Information Technology	7,177.8	29,976.9
Communication Services	4,186.7	8,245.1
Utilities	3,844.8	1,664.1
Real Estate	9,604.9	10,405.4

Source: Capital IQ January 12, 2022

### **Top 3 Sectors by Volume and Value**

Similar to Q4, materials led the way with 184 announced transactions in the quarter, followed by information technology (144) and industrials (136). Information technology led the way in deal value, up almost \$27 billion over the prior quarter. The increase was, in large part, driven by the McAfee deal as well as other larger deals in the sector. The materials sector ranked second in value (\$11.2 billion) while real estate finished third (\$10.4 billion).

## **LOOKING AHEAD**

Through the last quarter of 2021, activity continued at close to record heights. While current, tragic geopolitical events have cast a grey cloud of uncertainty, there is an abundance of capital in the market, and investors continue to aggressively pursue attractive targets. Certainly at Miller Thomson, our deal pipeline remains full, and we anticipate sustained, healthy deal activity through the first half of 2022.

At Miller Thomson, we are here to support and advise our clients along the path ahead, whether they are considering an acquisition, looking to refinance and address liquidity issues, or are facing strategic decisions related to their business. We understand how to effectively navigate deal-related hurdles, and ultimately, help our clients get their deals across the finish line.

Look for our next issue, with insights on Q1/2022, coming in the Spring.

# 2021 REPRESENTATIVE TRANSACTIONS

## Represented

**Silent-Aire Manufacturing Inc.**  
\$1.1 billion

Cross-border sale of Silent-Aire Manufacturing Inc., a Canadian hyperscale cloud and colocation provider with offices and manufacturing facilities in Canada, the United States and Ireland, to Johnson Control International plc (NYSE: JCI), the global leader for smart, healthy and sustainable buildings.

**Johnson Control International plc**

## Represented

**Liberty Health Sciences**  
US\$290 million

Acquisition of Liberty Health Sciences Inc., (CSE: LHS, OTCQX: LHSIF) a U.S.-based medical marijuana manufacturer by Ayr Wellness Inc. (CSE: AYR.A, OTCQX: AYRWF)

**Ayr Wellness Inc.**

## Represented

**Ebro Foods S.A.**  
\$165 million

Sale by Ebro Foods S.A. (EBRO.MC), a Spanish-based global leader in the rice and pasta sectors, of its indirect ownership of the 'Catelli' dry pasta business in Canada to Barilla Group, an Italian multinational food company.

**Barilla Group**

## Represented

**Rosenau Transport**  
\$360 million

Sale of Rosenau Transport, an Alberta-based provider of LTL, truckload, deck, heated van, scheduled delivery and other transportation services throughout Western Canada, to General Logistics Systems, a subsidiary of Royal Mail plc.

**General Logistics Systems**

## Represented

**Heniff Transportation Systems**

Cross-border acquisition of Premier Bulk Systems, an Ontario-based bulk motor carrier, truckload and LTL logistics provider, by Heniff Transportation Systems, a U.S.-based leader in liquid bulk transportation, food grade and rail transloading.

**Premier Bulk Systems**

## Represented

**Yaletown Partners and Bank of Montreal**  
US\$100 million

Strategic Investment by Sumeru Equity Partners in Tasktop Technologies, a Vancouver-based SaaS start-up and provider of the leading Value Stream Management (VSM) platform with Yaletown Partners and Bank of Montreal as significant shareholders.

## Represented

**Robertet S.A.**  
US\$100 million

Acquisition of Ecom Food Industries Corporation by Robertet S.A. (RBT.PA), a French public company specializing in fragrance, flavour and ingredient manufacturing, through Robertet USA, Inc.

**Ecom Food Industries, Inc.**

## Represented

**Environmental 360 Solutions Inc.**

Venture round for Environmental 360, a leading waste management company, led by Oaktree Capital Management, L.P. and comprised of Canadian Business Growth Fund and existing shareholders

## Represented

**BMO Capital Partners**  
\$150 million

Equity Investment by BMO Capital Partners, led by Flexpoint Ford, an American private equity firm, in PayFacto Payments Inc., a Montreal-based FinTech company

**PayFacto Payments Inc.**

## Represented

**Nabors Industries Limited**  
\$117,500,000

Sale of its on-shore drilling business by Nabors Drilling Canada Limited, including 35 land-based drilling rigs and related equipment, inventory and real property, to Ensign Energy Services Inc.

**Ensign Energy Services Inc.**

## Represented

**JMP Solutions Inc.**

Cross-border sale of an interest in JMP Solutions Inc., an automation systems integrator, to Crestview Partners, a New York-based private equity firm.

## Represented

**LQwD Financial Corp.**

Acquisition of LQwD Financial Corp. by LQwD FinTech Corp (formerly Interlapse Technologies Corp.- TSXV: LQWD), to create a Lightning Network focused company developing payment infrastructure and solutions.

# 2021 REPRESENTATIVE TRANSACTIONS

## Represented

### Game On Creative Inc.

Cross-border sale of Game On Creative, Inc., a motion capture, cinematics and audio services provider in the gaming industry, to Polish company PCF Group S.A. (People Can Fly), a leading AAA-games developer.

## Represented

### Shareholders of ASL Distribution Services Ltd.

Sale of ASL Distribution Services Limited, a transportation, warehousing, distribution and final mile service provider, to Fastrate Group.

#### Fastrate Group

## Represented

### Rubik's Brand Ltd. *US\$50 million*

Cross-border acquisition of Rubik's Brand Ltd., the owner of the Rubik's Cube®, by Canadian toymaker Spin Master Corp. (TSX: TOY)

#### Spin Master Corp.

## Represented

### BMO Capital Partners

Investment in the formation of roll-up vehicle Canadian Dental Laboratories Limited Partnership with Equicapita Income Trust and Equicapita Investment Corp., in conjunction with the acquisition of Protec Group of Dental Laboratories

## Represented

### Vintex Inc

Sale of Vintex Inc., a manufacturer of technical textiles and custom coated fabrics, by Cooley Group Inc. and J.H. Whitney Capital Partners.

#### Cooley Group Inc. and J.H. Whitney Capital Partners.

## Represented

### Numinus Wellness Inc.

Acquisition of Mindspace Psychology Services Inc., a leader and pioneer in psychedelic programming, by Numinus Wellness Inc. (TSXV: NUMI.V)

#### Mindspace Psychology Services Inc.

## Represented

### American Process Group *\$50 million*

Sale of all of the issued and outstanding shares in the capital of American Process Group, an Alberta-based environmental leader, to SANEXEN Environmental Group Inc., a subsidiary of LOGISTEC Corporation (TSE: LGT.B)

#### SANEXEN Environmental Group Inc.

## Represented

### Deloitte LLP

Acquisition of Groundswell Group Inc., an AI and data integration firm by Deloitte LLP.

#### Groundswell Group Inc.

## Represented

### Polyventive LLC

Acquisition of Tri-TexCo Inc.'s shares from SK Capital Partners by Polyventive LLC, a North American manufacturer of specialty chemical solutions

#### Tri-TexCo Inc.

## Represented

### Fengate Private Equity

Equity investment by Fengate Private Equity, a division of Fengate Asset Management, in Grace Clinics Corp (GraceMed), a Canadian plastic and cosmetic surgery, dermatology, and medical aesthetics business, on behalf of LiUNA Pension Fund of Central and Eastern Canada

## Represented

### Highcourt Partners Limited

Highcourt Partners Limited acquired a majority ownership interest in Breckles Group of Companies Inc., a Canadian independent insurance brokerage.

## Represented

### SEGMENTECH Inc.

Sale of SEGMENTECH Inc. specializing in Identity and Access Management (IAM) & Privileged Access Management (PAM) solutions to Herjavec Group, a global cybersecurity firm, founded by Robert Herjavec.

#### Herjavec Group

# 2021 REPRESENTATIVE TRANSACTIONS

## Represented

### Waveform Entertainment Inc.

Acquisition of Waveform Entertainment Inc., a Canadian esports entertainment company, by Groupe Solotech, a global leader in audiovisual and entertainment technology.

**Groupe Solotech**

## Represented

### Canaccord Genuity Corp., CIBC Capital Markets, National Bank Financial Inc. as lead underwriters, and Scotiabank, Eight Capital, ATB Capital Markets Inc. and Laurentian Bank Securities Inc.

*\$135.7 million*

Initial public offering of E Automotive Inc. d/b/a E Inc., a digital platform which optimizes online vehicle buying, selling, and management for automotive dealers and consumers.

## Represented

### Stifel GMP

*US\$100 million*

Private placement of common shares of Voyager Digital Ltd. (CSE: VYGR) by Stifel GMP.

## Represented

### Stifel GMP, Clarus Securities Inc. and Beacon Securities Limited.

*\$49,831,250*

Underwriters, in a bought deal public offering by Arizona Metals Corp.

## Represented

### Perpetua Resources Corp.

*US\$57.5 million*

Equity offering including full exercise of the over-allotment option

## Represented

### Syndicate of underwriters led by Mackie Research Capital Corporation

*US\$46 million*

Bought deal public offering by Theratechnologies Inc. (TSE: TH), including the full exercise of the over-allotment option.

## Represented

### Numinus Wellness Inc.

*\$40.25 million*

Bought deal unit offering by Numinus Wellness Inc. (TSXV: NUMI.V) including the exercise of the underwriters' over-allotment option.

**Crédit Mutuel Equity**

## Represented

### Titanium Transportation Group

*\$35 million*

Treasury offering and secondary bought deal offering by Titanium Transportation Group (CVE: TTR).

## Represented

### TD Securities, Canaccord Genuity Corp., Raymond James and Stifel Nicolaus Canada Inc.

*\$33.7 million*

Bought deal financing by WeCommerce Holdings Ltd.

## Represented

### Emerita Resources Inc.

*\$20 million*

Bought deal private placement for Emerita Resources Inc.

## Represented

### Alpha Lithium Corporation

*\$23 million*

Oversubscribed bought deal offering by Alpha Lithium Corporation (TSXV: ALLI).

## Represented

### Mydecine Innovations Group

*\$17.25 million*

Bought deal offering by Mydecine Innovations Group (NEO: MYCO), a biotech and life sciences company, including the full exercise of the over-allotment option.

# 2021 REPRESENTATIVE TRANSACTIONS

## Represented

### Coin Analyst UG.

Reverse takeover of Brandenburg Energy Corp. to become CoinAnalyst Corp., an artificial intelligence-based big data analytics platform provider for the cryptocurrency market

## Represented

### Bear Creek Mining Corporation

*\$34.5 million*

Bought deal shelf prospectus offering of common shares by Bear Creek Mining Corporation (TSXV: BCM), including full exercise of the underwriters' over-allotment option.

## Represented

### Optimi Health Corp.

*\$20.7 million*

Oversubscribed initial public offering of Optimi Health Corp. (CSE: OPTI).

## Represented

### Alexco Resource Corp.

*\$28.75 million*

Bought deal public offering by Alexco Resource Corp. (NYSE American / TSX: AXU)

## Represented

### Stifel GMP

*\$21 million*

Bought deal financing by Arizona Metals Corp. (CVE: AMC), with Stifel GMP as the underwriter.

## Represented

### Canaccord Genuity Corp.

*\$16 million*

Subscription receipt financing by Playmaker Capital Inc., a digital sports media company, with Canaccord Genuity as the lead agent.