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# STRAIGHT TALK: RECENT TRENDS IN CANADIAN M&A

2022 | Issue 02



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# WELCOME TO STRAIGHT TALK

The first quarter of 2022 brought new global challenges, including the war in Ukraine, as well as economic stagnation and rising inflation. While the short term impact on the public markets has already been felt by these developments, the full impact through 2022 remains to be seen.

On the deal front, however, even in light of the aforementioned, deal activity, although down from the record highs of 2021, remained strong through Q1/22, as buyers and investors continued to pursue attractive targets. In this issue, Toronto and London-based Partners, Michael Caruso and Aaron Atcheson discuss their outlook for 2022, particularly as it relates to the automotive industry, drawing on their extensive domestic and cross-border deal experience, and sharing insights on deal structure, trends, and sector-specific activity and the ongoing impacts of COVID-19, the further electrification of the automotive industry and global events on the automotive sector.

Please don't hesitate to reach out if you would 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*

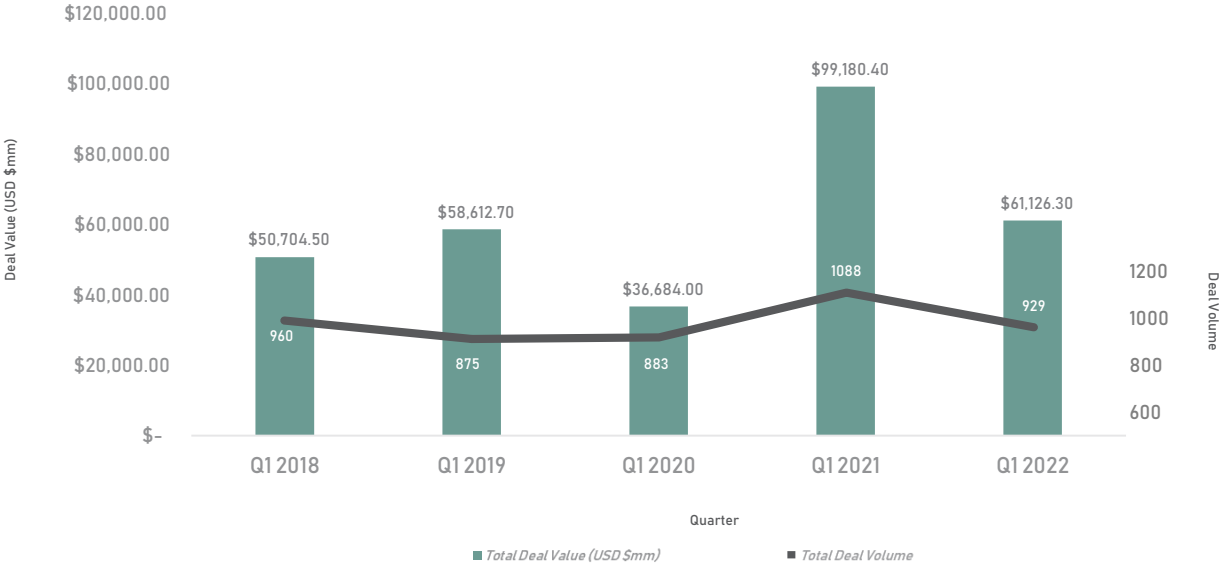
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# Q1 2022 MARKET INSIGHTS

Canadian M&A activity experienced a slower start in 2022, in contrast to the record high set in 2021. The number of announced deals this quarter declined compared to Q1/21, while dropping off slightly from Q4/21. Despite the decrease in deal flow, Q1/22 M&A activity remained strong relative to pre-COVID years, as did inbound and outbound cross-border activity. Across Canada, M&A activity in most provinces decreased compared to Q1/21 and Q4/21.

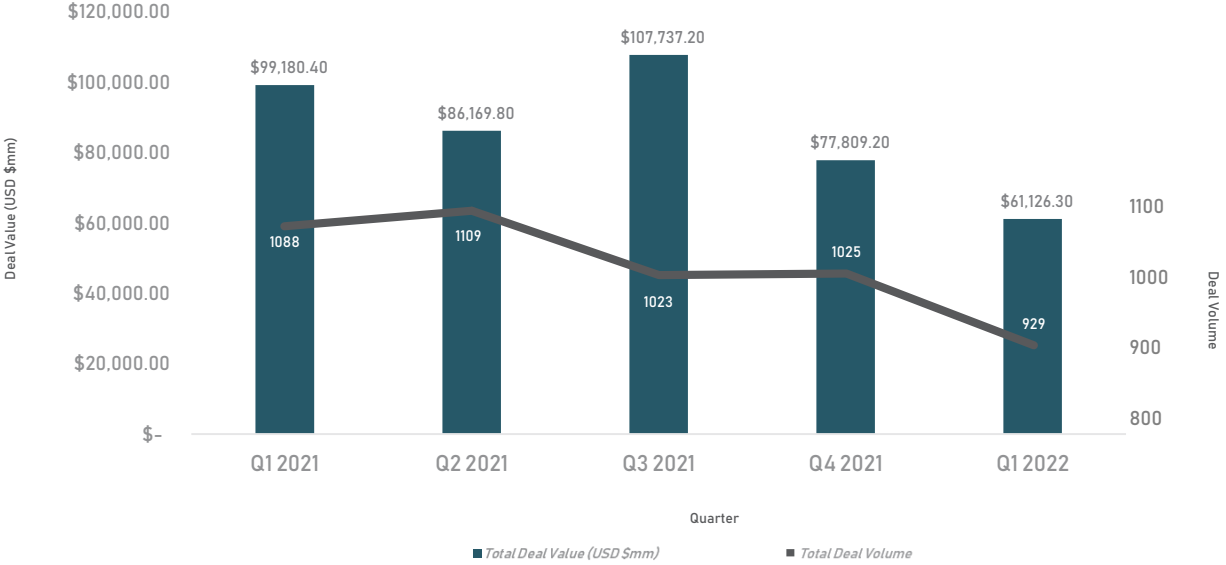
Note: Dollar values are in USD.

Q1 Total Deal Value & Volume (2018 - 2022)



Source: Capital IQ April 11, 2022

Total Deal Value & Volume (2021 - 2022 YTD)



Source: Capital IQ April 11, 2022

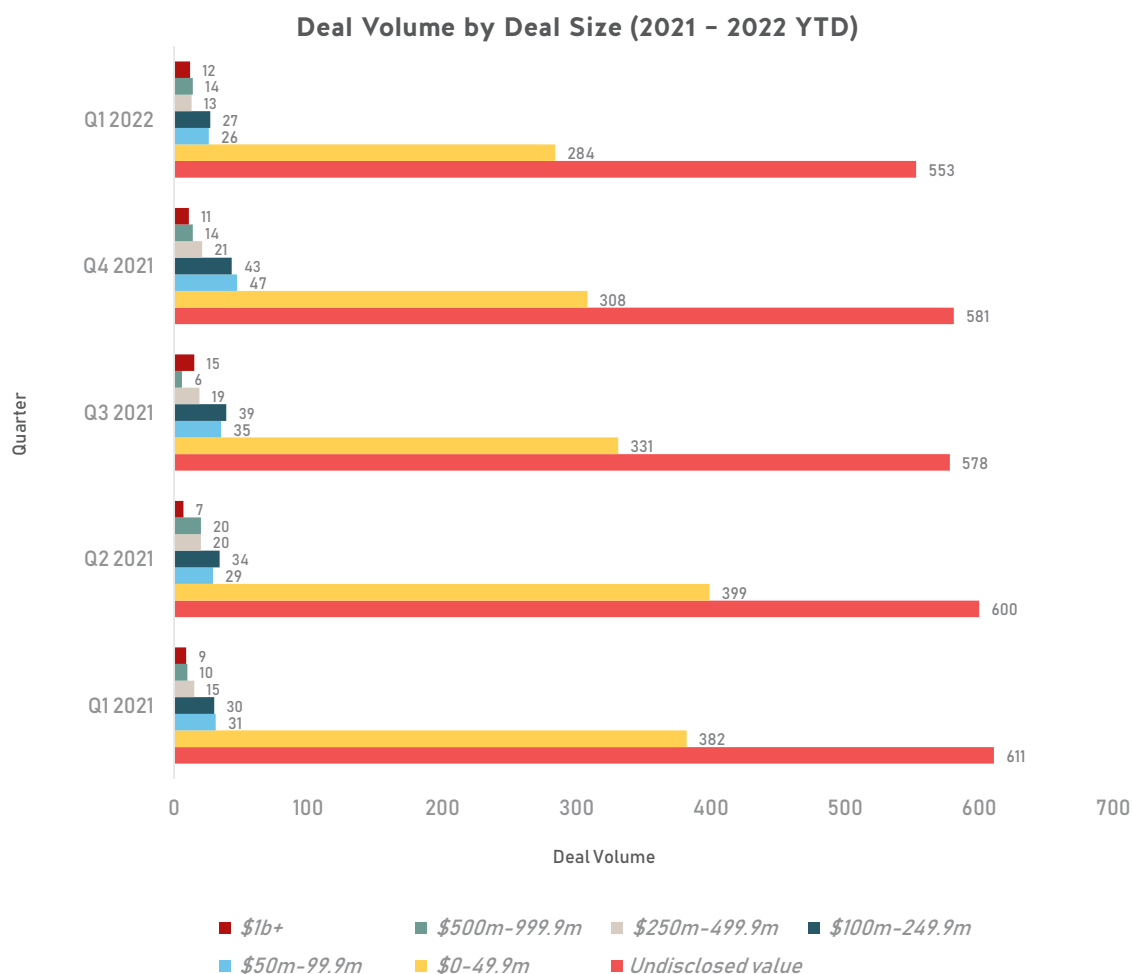
## DEAL ACTIVITY

It is no secret that Canadian M&A activity broke prior records by a landslide in 2021. Deal volume cooled off in the first quarter of 2022 with 929 announced deals, down from 1,088 deals announced in Q1/21 and 1,025 deals announced from Q4/21.

Deal value decreased significantly as well in Q1/22, to approximately \$61 billion, down from almost \$100 billion in Q1/21, reflecting a decline in the value of mega-deals in the quarter<sup>1</sup>. This decline offset the increase in deal value and activity in the \$500-999 million category, which was up 36% in deal value and 40% in volume over Q1/21.

### Canada's Mid-Market

Deal activity was down across Canada's mid- and lower mid-market<sup>2</sup>. Sub-\$50 million deal volume declined by 25% from Q1/21 to Q1/22, while volume in the \$50 - \$100 million and \$100 million - \$250 million ranges declined at lower rates of 16% and 10% respectively as compared to Q1/21.

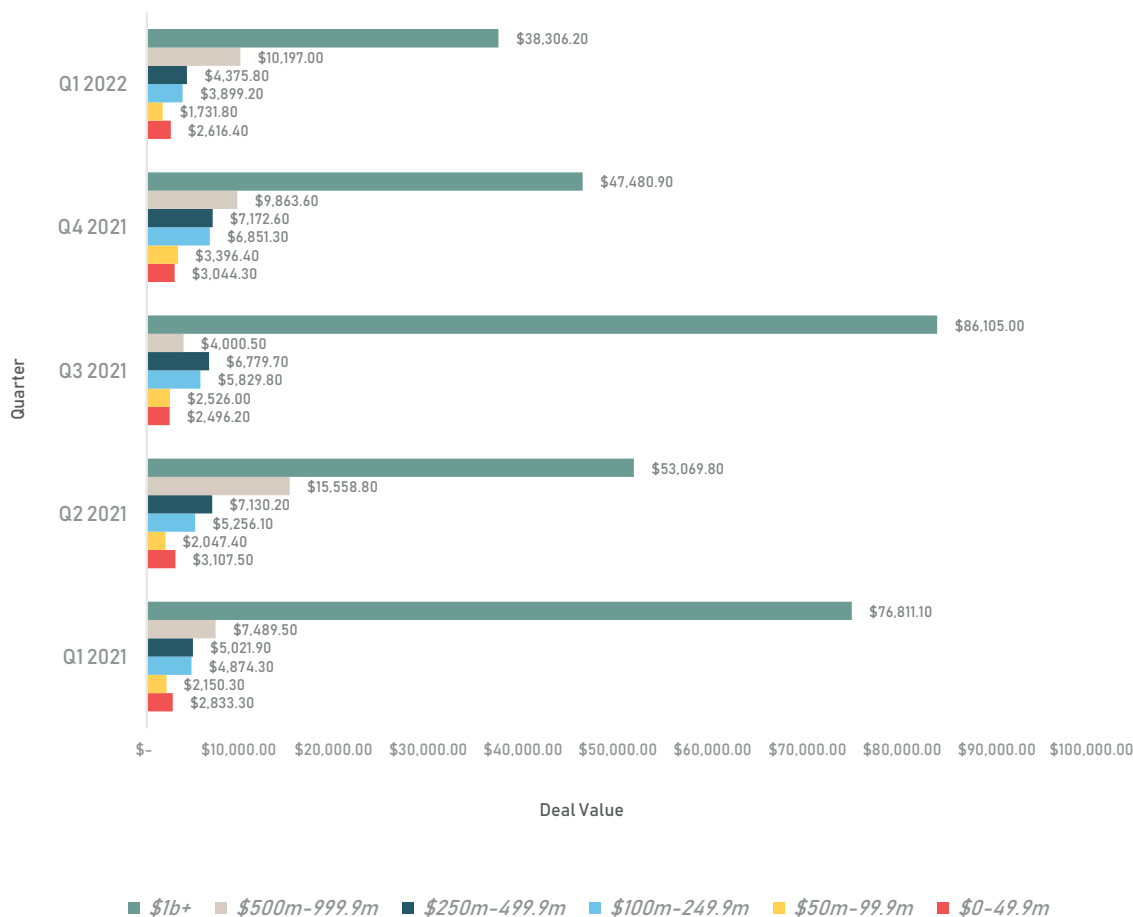


Source: Capital IQ April 11, 2022

<sup>1</sup>The \$13.4 billion acquisition by TD Bank Group of First Horizon registered as the largest mega-deal in Q1/22. Average mega-deal value declined, however, from \$8.5 billion in Q1/21 to \$3.2 billion in Q1/22.

<sup>2</sup>We define the mid- and lower mid-market as deals of less than \$250 million in enterprise value.

## Deal Value by Deal Size (2021 - 2022 YTD)



Source: Capital IQ April 11, 2022

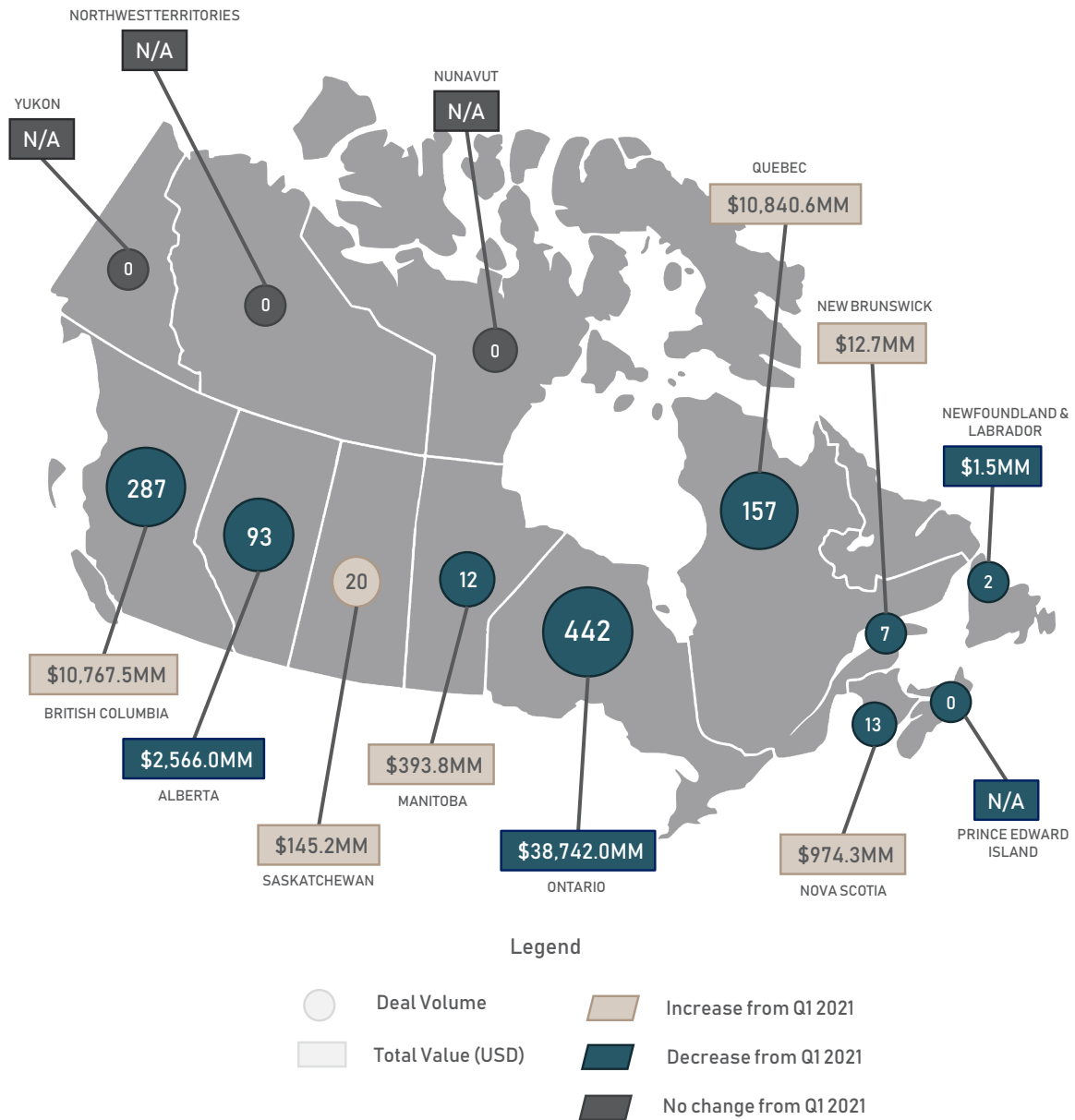
## GEOGRAPHIC TRENDS

### Deal-making across Canada

Ontario led the way in Q1/22 deal activity, with 442 deals valued at approximately \$38 billion, representing 43% of total Q1/22 deal volume and 60% of Q1/22 deal value, which included the \$13.4 billion acquisition by TD Bank Group of First Horizon and the \$2 billion acquisition by Royal Bank of Canada of Brewin Dolphin Holdings PLC. British Columbia followed with 287 deals valued at approximately \$10.7 billion, and Quebec with 157 deals valued at \$10.8 billion.

Alberta saw the biggest drop in total transaction value from Q1/21. Total transaction value dropped from \$58 billion in Q1/21 to \$2.5 billion in Q1/22 as mega-deals this quarter with an Alberta-based buyer or seller carried significantly less value relative to Q1/21. The Canadian Pacific Railway deal to acquire Kansas City Southern for approximately \$31 billion was a driving force in elevating 2021 transaction value.

## Activity by Province (Q1 2022 v. Q1 2021)



Source: Capital IQ April 11, 2022

### Domestic Dealmaking

Domestic deal activity slowed in the quarter, down from 435 deals valued at approximately \$15 billion in Q4/21 to 404 deals valued at approximately \$7.6 billion in Q1/22. Domestic deal volume accounted for approximately 43% of Q1/22 total deal volume, up from 42% in Q4/21.

### Canadian Domestic Deals (2021 - 2022 YTD)

	Volume	Total Value (USD \$mm)
<b>2021</b>	<b>1541</b>	<b>75,461.8</b>
Q1 2021	546	36,015.3
Q2 2021	541	22,357.9
Q3 2021	454	17,088.6
Q4 2021	435	14,993.3
<b>2022</b>	<b>404</b>	<b>7,610.7</b>
Q1 2022	404	7,610.7

Source: Capital IQ April 11, 2022

### Global Dealmaking

#### Top Three Cross-Border Partners by Deal Volume (2021 - 2022 YTD)

	2021				2022
	Q1	Q2	Q3	Q4	Q1
<b>Inbound</b>					
United States	130	111	131	136	113
Europe	42	37	44	47	46
Asia/Pacific	31	16	20	21	14
<b>Outbound</b>					
United States	193	239	214	227	194
Europe	68	77	62	68	57
Asia/Pacific	35	31	35	25	25

Source: Capital IQ April 11, 2022

Despite the geopolitical turmoil, cross-border deal making remained strong in Q1/22. While volume was down 15% over Q4/21 and 8% over Q1/21, cross-border dealmaking as a percentage of total activity held up at close to record highs. Cross border deal volume accounted for approximately 57% of total Q1/22 deal volume, down slightly from 58% in Q4/21, but up from 53% for full year 2021, as well as from the 48-50% range represented by full years 2018 and 2019.<sup>3</sup>

The US continued to lead in its cross-border activity with Canada: there were 113 US inbound deals in Q1/22, representing a decrease of 13% over Q1/21 and 16.9% over Q4/21. However, outbound deal activity was slightly up with 194 deals done, an increase of 0.5% over Q1/21.

<sup>3</sup>We are not using full year 2020 as a comparable as deal activity was heavily skewed, particularly in Q2/20, by the impact of the pandemic.



## SECTOR ACTIVITY

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

### Sector Activity (Q1/Q4 2021 v. Q1 2022)

	Q1 2021	Q4 2021	Q1 2022
<b>Total Deal Volume</b>			
Energy	51	59	40
Materials	251	184	171
Industrials	122	136	116
Consumer Discretionary	56	86	62
Consumer Staples	45	45	48
Healthcare	97	66	57
Financials	58	59	67
Information Technology	141	144	113
Communication Services	48	61	39
Utilities	22	19	20
Real Estate	117	112	101
<b>Total Deal Value (US\$ mm)</b>			
Energy	7,133.4	4,162.9	2,021.4
Materials	3,590.8	11,287.3	7,332.1
Industrials	31,353.1	1,472.4	6,198.8
Consumer Discretionary	2,196.5	5,388.3	1,021.9
Consumer Staples	2,443.1	2,084.4	715.0
Healthcare	1,461.5	2,455.6	3,219.9
Financials	679.2	429.6	20,912.9
Information Technology	12,080.1	29,976.9	1,812.2
Communication Services	21,969.1	8,245.1	707.2
Utilities	475.9	1,664.1	6,874.0
Real Estate	10,148.1	10,405.4	7,829.2

Source: Capital IQ April 11, 2022

### Top 3 Sectors by Volume and Value

Similar to Q1/21, materials led the way in deal volume with 171 announced transactions in the quarter, followed by industrials (116) and information technology (113). Financials topped the deal value category with \$20.9 billion this quarter, representing 34.2% of total deal value for Q1/22. The increase was, in large part, driven by the TD Bank Group - First Horizon deal valued at \$13.4 billion. The real estate sector ranked second in value (\$7.8 billion) while materials finished third (\$7.3 billion).

## LOOKING AHEAD

While current, tragic geopolitical events, high interest rates and rising inflation have cast a shadow of uncertainty on deal activity through 2022, 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 continue to anticipate sustained, healthy deal activity, albeit below the record levels seen in 2021.

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 Q2/2022, coming in the Summer.

# SECTOR SPOTLIGHT: AUTOMOTIVE

## Overview

It was a busy quarter for Miller Thomson's M&A practice, specifically as it relates to the automotive sector. Toronto-based Partner Michael Caruso has a strong focus on the industry. He notes that "the automotive industry is in the midst of significant changes: from challenges globally to the existing dealership model to electrification, we are experiencing a shift in the industry, and that has been reflected by the strong M&A activity within the sector."

With the advent of electric vehicles (EVs) generally, there are numerous opportunities for further M&A, as new capabilities and efficiencies are being developed by a range of companies, in some instances supported by government incentives. Further government support is reflected in the campaign platforms of parties running in the recent Ontario election; additional incentives should further encourage the development of new EV-related technologies and businesses.

Caruso noted that EV infrastructure is still relatively nascent in Canada, specifically in Ontario. As a result, M&A opportunities will exist in the automotive industry for companies that are able to develop new infrastructure tools, re-imagine existing constraints such as battery life, and/or enhance existing efficiencies, such as efficient deployment of charging capabilities.

In addition, Caruso and his Partners have noted that the drive to electrify the automotive industry will continue to impact adjacent industries such as rare earth mineral mining. He notes that, "as battery demand begins to ramp up, expect the demand for elements such as Lithium and other rare earth minerals to continue, as these are integral for battery production. Consequently, this should positively impact financing and subsequent M&A activity in the mining sector in Canada and abroad, as companies rush to raise capital to fund the exploration of potential rare earth deposits."

London-based Partner Aaron Atcheson, whose work includes representing companies on major infrastructure projects, comments that "the continued move away from reliance on combustion engines, as well as the increased price of gasoline, have necessitated the implementation of large-scale EV-friendly infrastructure projects; these include the retrofitting of condo project, hotel and shopping centre garages to accommodate EV charging, along with the development of roadside charging stations. Government inducements have assisted in getting the infrastructure in place at a rapid pace in order to avoid capacity issues."

## INTERVIEW WITH MICHAEL CARUSO, PARTNER – MILLER THOMSON LLP



Michael Caruso is a partner based in Toronto practicing corporate and business law, with a focus on cross-border M&A, private equity, corporate finance, diligence insurance, venture capital and other complex transactions. He is highly regarded for his legal and business acumen in Canada and the United States.

### **What has M&A activity for your clients in the automotive industry looked like over the past couple of years?**

**Michael:** Despite early disruptions in 2020, the automotive industry has fared well during the past two years, with M&A activity staying solid through 2021. On the dealership/distribution side of things, there has been a lot of consolidation in Canada, as larger dealership groups have opportunistically purchased independent and, in some limited instances, corporate-owned dealership groups. As a result, the dealership landscape has increasingly become populated with a number of large players who have multiple dealerships with many brands under common ownership. In some instances, large dealership groups have moved to focus their business on luxury brand assets.

### **How has the supply chain crisis impacted your automotive clients, and how are they responding?**

**Michael:** The impacts of the supply-chain crisis, especially as it pertains to the shortage of microchips and semiconductors, integral components in auto manufacturing, have been felt across the automotive industry. Manufacturers have reduced the production of vehicles reliant on the now constrained chip supply, and this has resulted in fewer vehicles at all price ranges generally available for sale. Dealers are struggling to keep up with the demand for new vehicles as production slows, which has led to lower sales volume for dealerships. On the other hand - and benefiting dealers - the reduced supply of new cars, has resulted in an unusually active market for used cars, which has driven used car prices sharply upwards.

### **What do you see as the largest areas of potential for further innovation of Canada's automotive sector?**

**Michael:** The electrification of the automotive industry and rapid adoption of EVs by the public present numerous opportunities for innovation within the sector. Namely, companies within the industry are moving towards EV battery production and the development of EV infrastructure. With the upcoming provincial election, parties in Ontario have pivoted strongly to support battery production, which should encourage the development of new technologies and businesses.

Furthermore, EV infrastructure is still relatively nascent in Canada, specifically in Ontario, and it is anticipated that government involvement will stimulate the development of EV infrastructure as well. We expect that M&A opportunities will abound in the automotive industry for companies that are able to develop new infrastructure tools, re-imagine existing constraints such as battery life, and/or enhance existing efficiencies.

**The dealership model in Canada is changing given recent innovations and considerations in the sector (real estate values, sales models, zoning, etc.). How are these changes impacting your clients?**

**Michael:** Canada has approximately 3,500 dealerships at the moment. The rise of new sales models, such as direct-to-consumer (DTC) sales and hybrid DTC/dealership models, which are growing in popularity in some non-Canadian jurisdictions, will drive transactions by forward thinking and concerned dealership owners, who may look to sell their businesses now that large auto groups have even greater access to large amounts of capital.

Additionally, apart from the impact of new sales models on the industry, opportunities for M&A among dealerships from new market entrants and/or existing large private or public dealer groups will abound as dealerships struggle with or implement succession planning measures, and dealership owners in large metropolitan areas become more acutely aware of the value represented by their dealership's underlying real estate.

In certain instances, the real estate value of a given dealership dwarfs the operational value of the dealership. The increasing value of dealership real estate is accentuated by government efforts to address housing supply concerns, as changes are being made to density rules for development. This will continue to impact the development value of real estate underlying dealership assets.

**As Canada and the rest of the world continue to move toward more climate-conscious policies, how is the automotive industry positioned to move towards more environmentally conscious product offerings and services? How will this impact industry deal activity?**

**Michael:** Within the automotive industry, automakers are striving to meet electrification promises such as General Motors' promise to field a fully-electric lineup by as soon as 2035. This in turn will drive M&A in the EV and battery research and development field. It will also drive M&A as automakers or suppliers look to sell existing - potentially outdated - technology and assets in order to fund the continued development of new business models. In addition, the move towards climate-conscious policies within the automotive industry will bolster business activity in industries tangential to the evolution of the auto industry. These include recycling businesses focused on servicing the auto industry, and training services focused businesses with respect to the development and service of EVs.

# Q1 REPRESENTATIVE TRANSACTIONS

## Represented

### Zanchin Automotive Group

Acquisition by Zanchin Automotive Group of certain dealerships and related operations, forming part of the Toronto Retail Group, from Mercedes-Benz Canada Inc.

**Mercedes-Benz Canada Inc.**

## Represented

### Strategic Retail Partners (SRP)

Acquisition of Distributions Franco, a Canadian importer, distributor, and wholesaler of retail products, by SRP, a portfolio company of Aurora Capital Partners and leading category manager and solutions provider in the retail industry.

**Distributions Franco**

## Represented

### Pluribus Technologies Corp.

Acquisition by Pluribus Technologies Corp. (TSXV:PLRB) of the capital stock of Veemo Inc., which is the sole member and holder of Social5, LLC and Social5 Development Group, LLC, which enables small-to-medium sized businesses to manage their social media footprint.

**Veemo Inc.**

## Represented

### Pinnacle Climate Technologies

Acquisition of assets of Pura Air Purification, a manufacturer of indoor air quality solutions, by Pinnacle Climate Technologies, a U.S.-based provider of ventilation and climate control product solutions.

## Represented

### Alira Health

Cross-border acquisition of Self Care Catalysts, Inc., a Canadian digital health company, by Alira Health a global healthcare consulting and technology firm.

**Self Care Catalysts Inc.**

## Represented

### Pluribus Technologies Inc.

Reverse Takeover of Aumento Capital IX Corp. to become Pluribus Technologies Corp. (TSXV:PLRB), a value-based acquirer of small, profitable business-to-business technology companies in a range of verticals and industries.

## Represented

### CoinAnalyst 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

### 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

### Optimi Health Corp. \$20.7 million

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

## 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.

# Q1 REPRESENTATIVE TRANSACTIONS

## Represented

**Lithium Ionic Inc.**  
\$14 million

Private placement offering of subscription receipts in connection with a going-public transaction of Lithium Ionic Inc., a resource exploration company that owns the Itinga Lithium Project in Brazil, by way of a Qualifying Transaction with a CPC under the policies of the TSX Venture Exchange.

## Represented

**Peninsula Capital Corp.**  
\$13.3 million

Brokered and concurrent private placement of common shares of Peninsula Capital Corp.

## Represented

**Stifel GMP**  
\$5.6 million

Bought deal financing by Gold Terra Resource Corp.