

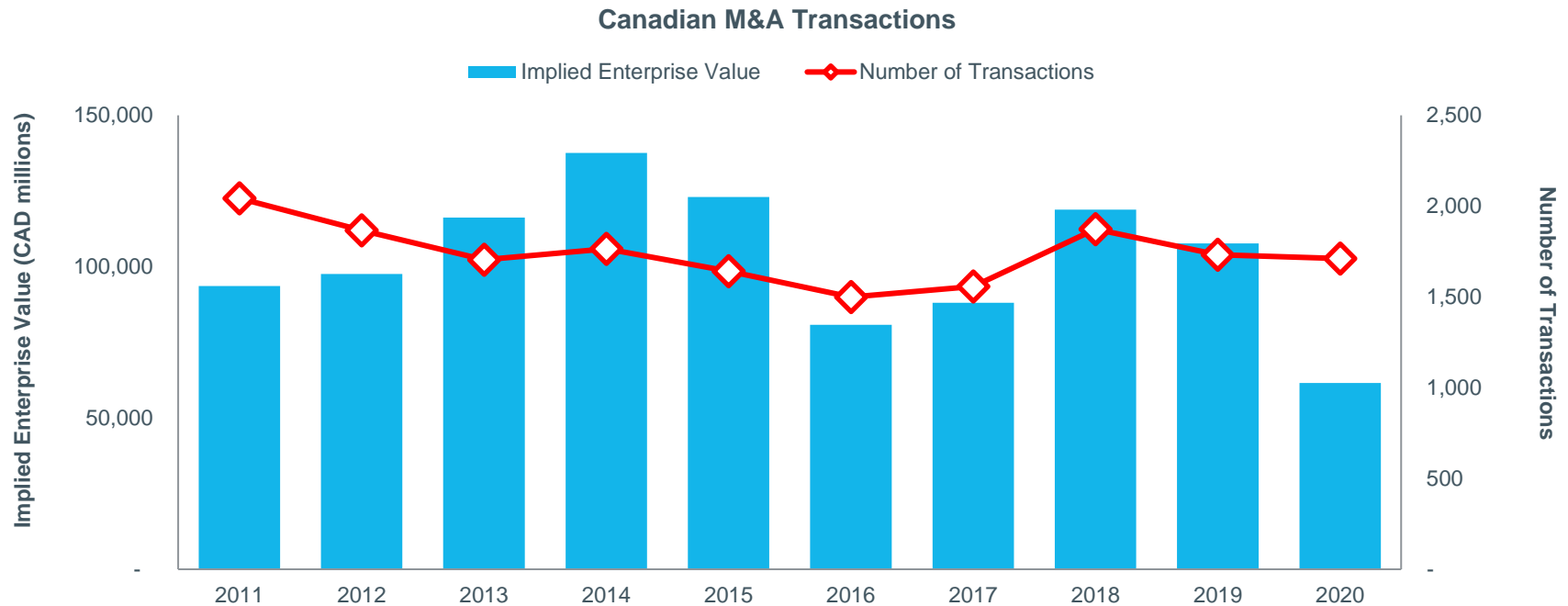
Canadian M&A Insights

Winter 2021

Canadian M&A Update

In 2020, Canadian M&A activity declined in both transaction count and total implied enterprise value (EV) as the effects of the COVID-19 pandemic, along with growing political tensions across the world, caused significant concerns for investors. There were 1,712 Canadian companies sold over the course of 2020, representing total disclosed EVs of \$61.6 billion. Of the transactions completed, 74.2% were domestic acquisitions, a number which is in line with historical averages.

Canadian M&A Transactions (CAD millions)



For all data herein: All transaction values are in Canadian dollars (unless otherwise noted) and refer to transactions with reported financial data. All transaction data refers to acquisitions of majority stakes (minority deals were excluded). M&A transactions in 2020 include those between January 1, 2020 and December 31, 2020.

Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

2020 saw 49 megadeals close (averaging \$1.7 billion in EV), a steep decrease from 2019 which had 70 recorded closed megadeals. The largest Canadian deal in 2020 was Flutter Entertainment’s acquisition of The Stars Group Inc. at \$14.5 billion. This acquisition represents the combination of two of the biggest brands in sports betting, with over 13 million active users in more than 100 international markets.² Other large megadeals in 2020 were CPPIB’s acquisition of Pattern Energy Group Inc., Starlight Investments and KingSett Capital’s acquisition of Northview Apartment REIT and Kirkland Lake Gold Ltd.’s acquisition of Detour Gold Corporation, at \$8.3 billion, \$4.9 billion and \$4.9 billion, respectively.

Significant megadeals announced in 2020 but not yet closed include: West Fraser Timber’s acquisition of Norbord Inc. for \$4.0 billion; Cenovus Energy’s acquisition of Husky Energy Inc. for \$3.8 billion; and Apollo Global Management’s acquisition of Great Canadian Gaming Corporation for \$3.3 billion.

Large 2020 Closed Transactions: Canadian Buyer or Seller

Target	Target Country	Buyer	Buyer Country	Enterprise Value CAD Billions	Industry
The Stars Group Inc.	Canada	Flutter Entertainment plc	Ireland	14.5	Consumer Discretionary
Pattern Energy Group Inc.	United States	Canada Pension Plan Investment Board	Canada	8.3	Utilities
Northview Apartment REIT	Canada	Starlight Investments and KingSett Capital	Canada	4.9	Real Estate
Detour Gold Corporation	Canada	Kirkland Lake Gold Ltd.	Canada	4.9	Materials
Summit Digital Infrastructure Pvt. Ltd.	India	Brookfield Asset Management Inc.	Canada	4.4	Communication Services

- Deals involving a Canadian company as the buyer or seller, with an implied enterprise value of \$500 million or more (minority deals excluded).
- <https://www.cnn.com/2019/10/02/business/flutter-entertainment-the-stars-group-merger/index.html>.

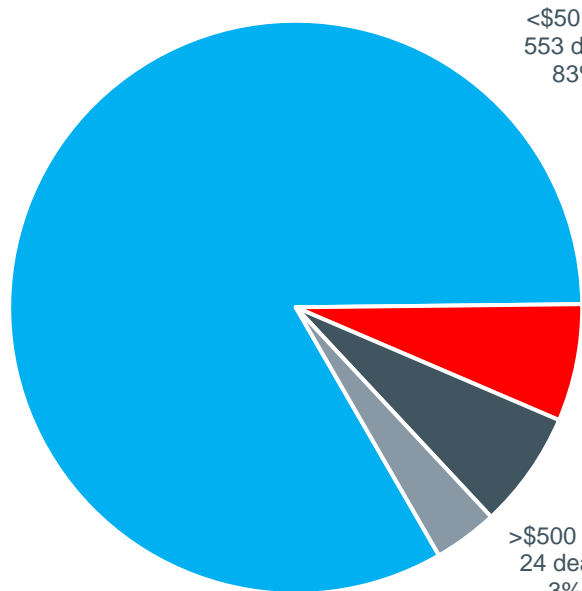
Sources: S&P Global Market Intelligence as of January 13, 2021; Mergermarket; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

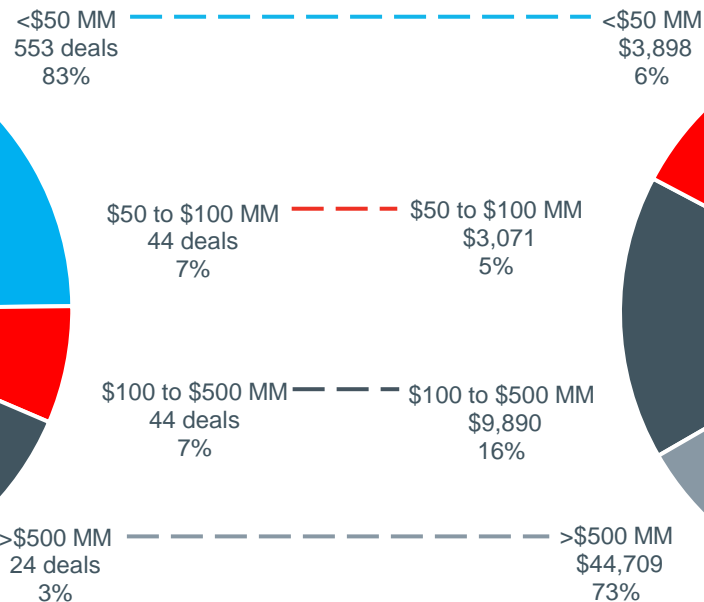
The Canadian M&A market had 1,712 completed transactions in 2020, down from 1,733 in 2019. The median deal value sharply decreased from \$10.9 million in 2019 to \$4.3 million in 2020 as deals under \$50 million represented 83% of the deal count. Although megadeals represent only 3% of all transactions, they represented 73% of the total deal value.

It should be noted that, since the values of many smaller transactions are not disclosed, the actual median is likely lower.

Number of Canadian M&A Transactions: Canadian Targets* (2020) (CAD millions)



Value of Canadian M&A Transactions: Canadian Targets (2020) (CAD millions)



*Only includes transactions with disclosed financial information.

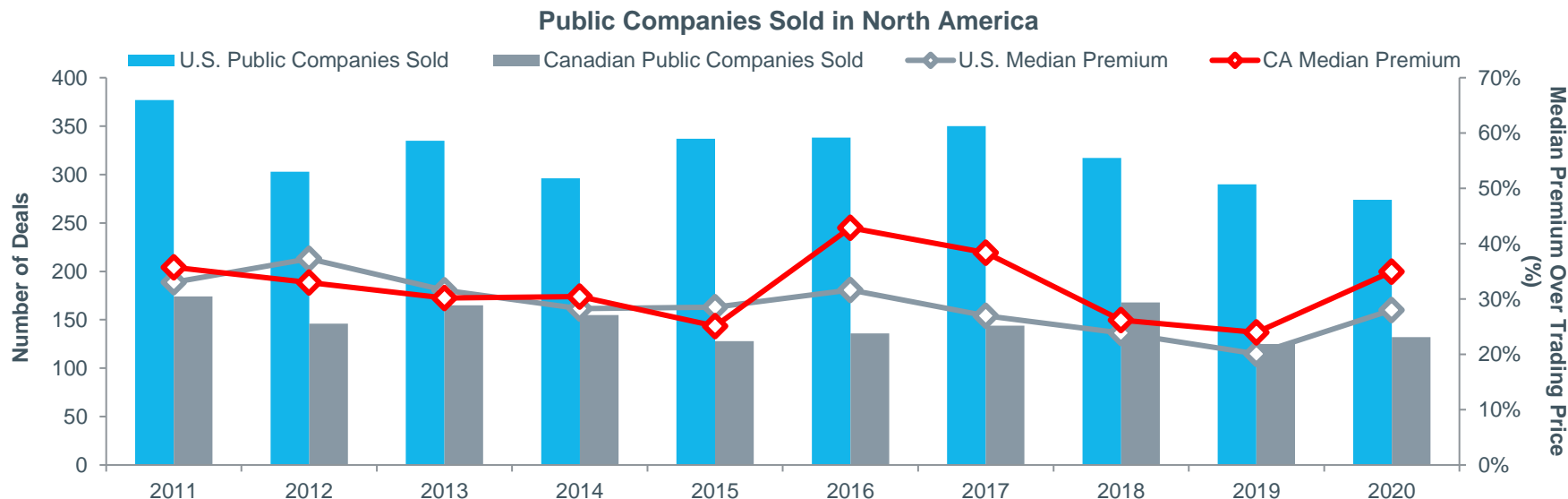
Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Public vs. Private

Private company transactions continued to account for the majority of the North American M&A landscape, representing 92.3% (compared to 92.8% in 2019) of total Canadian deals and 97.9% (compared to 98.1% in 2019) of all U.S. deal flow. In 2020, 9 fewer public companies were sold in North America than the previous year. The total number of public companies sold in Canada increased by 7 (132 sold in 2020 vs. 125 sold in 2019) while the U.S. experienced a decrease of 16 public companies sold (274 sold in 2020 vs. 290 sold in 2019).

The median takeover premiums of Canadian and U.S. public companies ended its three-year decline as both trended toward their 10-year averages of 32% and 29%, respectively. As of 2020, the Canadian median premium rose to 35%, while the U.S. premium increased to 28%. This is likely due to lower public market valuations, which increases takeover premiums.

Public Companies Sold in North America



Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Valuation Multiples

North American transactions experienced a slight decrease in overall valuation multiples (where disclosed) in 2020 compared to the previous year. In particular, the average earnings before interest, taxes, depreciation and amortization (commonly known as EBITDA) multiple was 10.7x, which is a decrease of 0.2x from 2019.

While in some industries, such as consumer discretionary and materials, EBITDA multiples remained relatively stable, other industries noticeably deviated from their 2019 multiples. The energy sector was the hardest hit in terms of its average transaction multiple. In contrast, the real estate, utilities and consumer staples industries experienced strong demand throughout the COVID-19 pandemic causing the average transaction multiples to sharply increase.

Enterprise Value to EBITDA Multiples by Industry for Transactions in North America*

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Consumer Discretionary	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x	10.0x	11.1x	11.3x	11.6x
Consumer Staples	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x	12.0x	11.5x	10.7x	12.8x
Energy	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x	13.1x	9.8x	9.7x	4.1x
Financials	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x	12.6x	10.4x	N/A	6.0x
Healthcare	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x	13.7x	12.3x	12.1x	14.1x
Industrials	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x	10.4x	10.3x	10.9x	9.5x
Information Technology	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x	13.6x	12.1x	11.8x	10.1x
Materials	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x	10.5x	10.7x	9.8x	9.3x
Telecommunication Services	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x	9.7x	9.6x	9.6x	11.0x
Utilities	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x	13.9x	11.8x	10.1x	15.1x
Real Estate	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x	17.7x	16.2x	14.1x	19.5x
Unspecified**	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x	7.3x	8.3x	7.0x	12.3x
All Industries	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x	11.7x	11.0x	10.9x	10.7x

*Excludes multiples over 25.0x; figures are rounded, the "All Industries" category uses unrounded figures in its calculation.

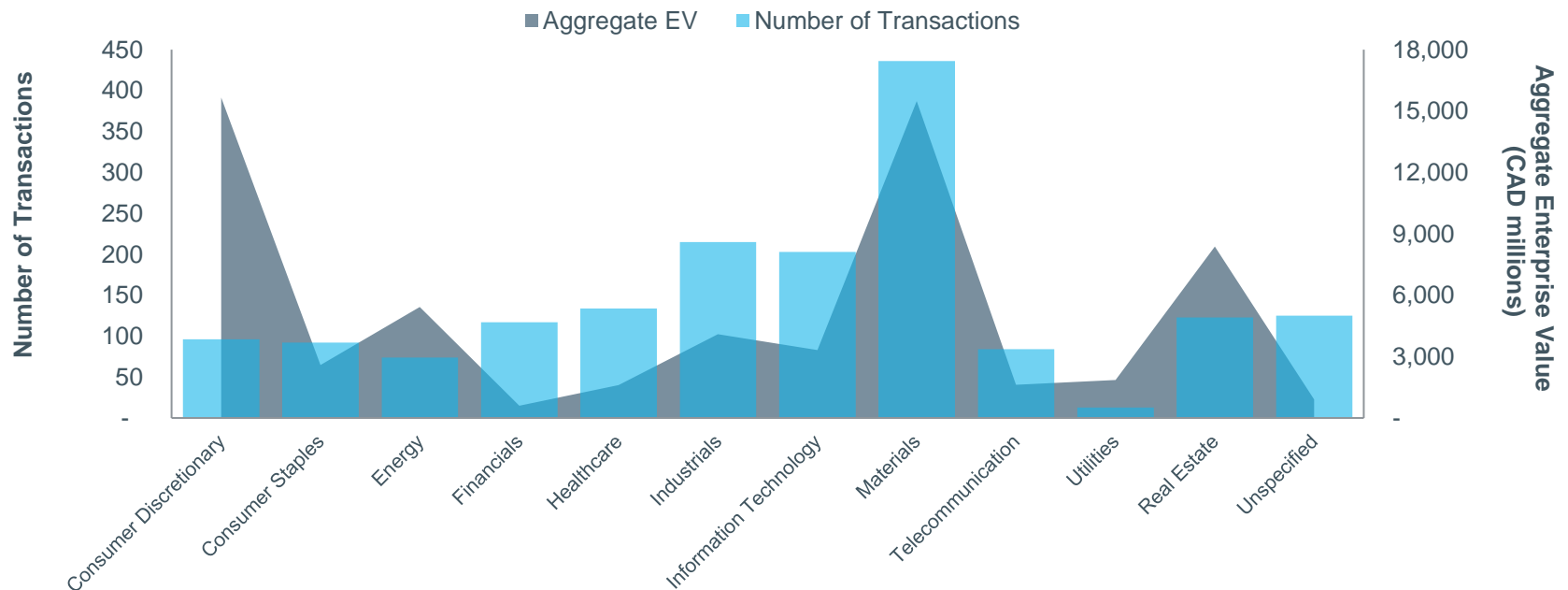
**The unspecified category includes transactions within a target company industry that S&P Global Market Intelligence has not categorized.

Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Industry Sectors

The materials sector remained the most active in Canada in 2020 comprising 436 transactions with the largest deal valued at \$4.9 billion (Kirkland Lake Gold Ltd.'s acquisition of Detour Gold Corporation). The materials sector ultimately contributed to \$15.5 billion in total EV for the period. Industrials and information technology industries were the next most active during 2020, completing 215 and 203 deals, respectively. Consumer discretionary accumulated a total of \$15.7 billion in EV which is largely attributed to the numerous megadeals completed by the sector, resulting in an average deal value over \$160 million.

Canadian M&A Transactions by Industry (2020)



Note: The unspecified category includes transactions within a target company industry that S&P Global Market Intelligence has not categorized.

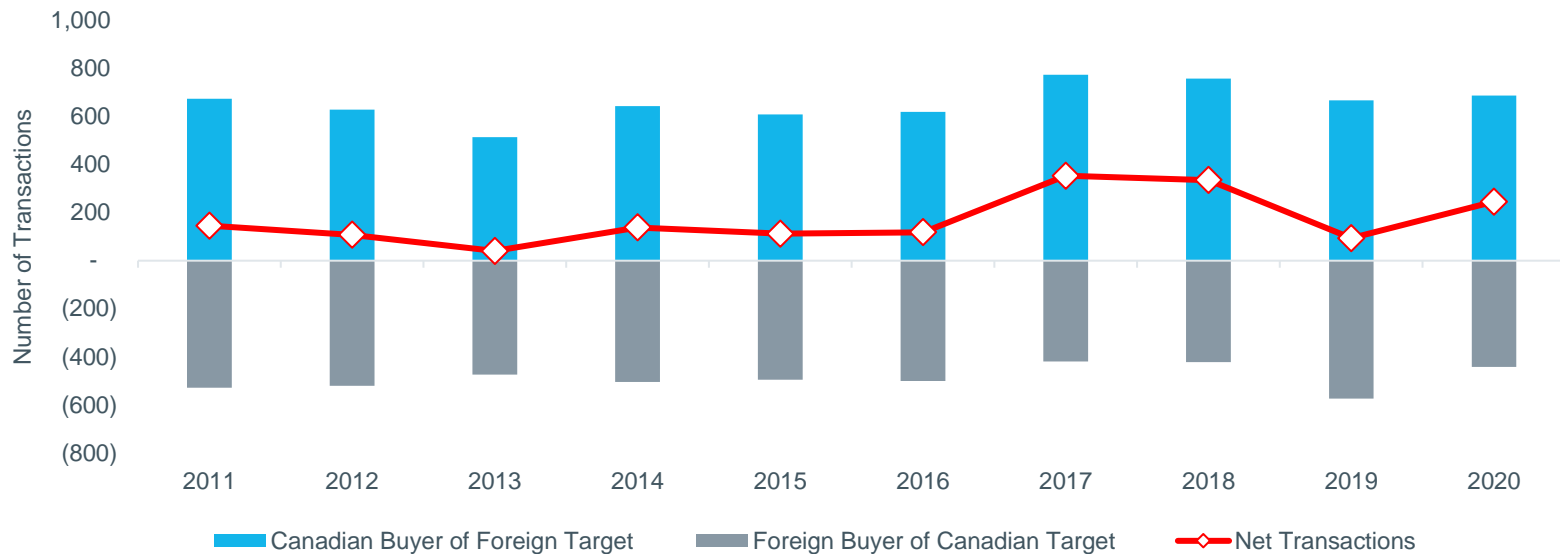
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Cross-Border Transactions

Acquisitions of Canadian companies continued to be predominantly domestic, with 1,270 of the 1,712 transactions (74.2%) completed by a Canadian buyer in 2020. Foreign and undisclosed buyers completed the remaining 442 transactions.

Canada maintained a net positive M&A environment, as Canadian companies acquired more foreign-based companies (687 in 2020 vs. 667 in 2019) and less Canadian companies were acquired by foreign companies (442 in 2020 vs. 574 in 2019) in 2020. Canadian companies continue to be net buyers from a global M&A perspective.

Canadian Cross-Border M&A Activity (2020)



Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Cross-Border Transactions

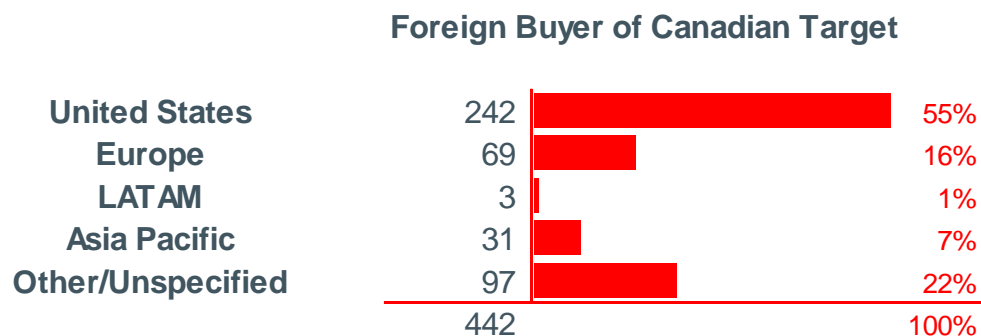
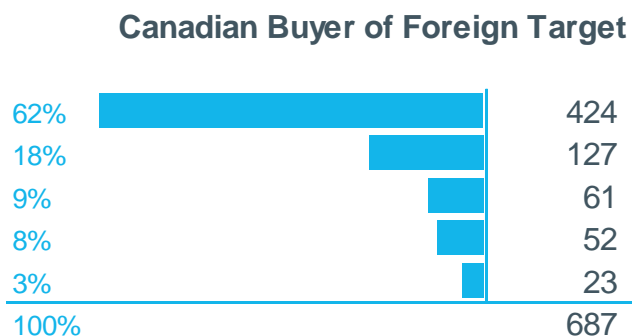
Transactions between the U.S. and Canada continue to be the most prominent cross-border activity involving Canadian buyers or sellers. Compared to 2019, U.S. acquisitions of Canadian companies dropped by nearly 22%, whereas Canadian acquisitions of U.S. companies increased slightly by 1%.

European companies were less active, acquiring a total of 69 Canadian companies in 2020 compared to 91 in 2019. Acquisitions of European companies by Canadian companies also decreased from 140 in 2019 to 127 in 2020.

The number of Canadian buyers of Latin American companies remains steady, with a total of 61 completed transactions in 2020 (compared to 58 in 2019). However, the number of Latin American buyers of Canadian companies remains low (only 3 in 2020).

Asia Pacific companies were more active, acquiring a total of 31 Canadian companies in 2020 compared to 27 in 2019. Acquisitions of Asia Pacific companies by Canadian companies also increased from 36 in 2019 to 52 in 2020.

Canadian Cross-Border Transactions by Region (2020) (Number of Deals)



Sources: S&P Global Market Intelligence as of January 13, 2021; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence. Figures are rounded

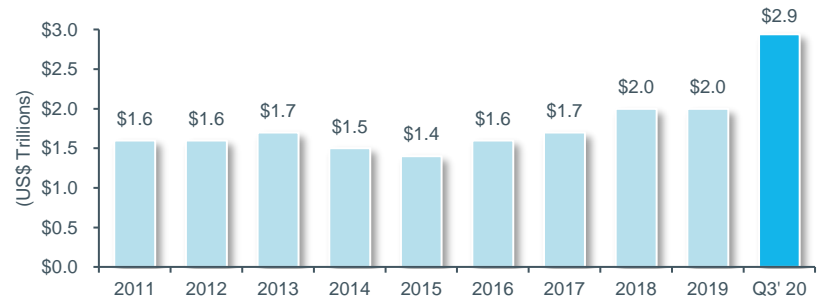
Looking Ahead

The COVID-19 pandemic had a significant impact on M&A activity in both Canada and abroad in 2020. While the extent and severity of the disruption in the longer-term remains to be fully seen, the global health crisis had an acutely negative impact on certain industries, including energy, travel and hospitality. Conversely, other sectors weathered the pandemic more easily and some even experienced a lift in demand, such as food and beverage, technology and healthcare. COVID-19 has caused the number of distressed sales and restructurings to rise dramatically, a trend that will likely continue into 2021.

With an abundance of liquidity remaining in the market, strategic buyers and private equity funds are once again actively looking to undertake major investments after a slower-than-expected year of deal activity in 2020. Buyers also have increasing visibility on a post-pandemic world as global vaccination efforts unfold, which should further stimulate pent-up demand for deal-making. In many industries battered by the pandemic, acquirors should enjoy a strong negotiating position as the market dynamics appear to have shifted from seller-friendly to buyer-friendly. Buyers and investors with healthy balance sheets will see this environment as an opportunity to acquire high quality assets at attractive valuations.

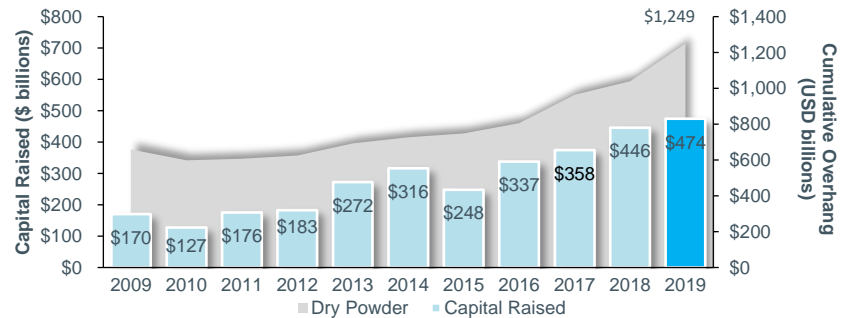
Governments around the world have invoked unprecedented economic measures to support workers, businesses and financial institutions. While capital markets were extremely volatile throughout last spring and summer, lenders and investors have now recalibrated and are once again focused on new business development vs. triaging their portfolios. While lenders are back in financing mode, leverage metrics will likely remain more conservative than pre-pandemic levels which may be reflected in M&A valuation multiples.

S&P 500 Cash Balances



Source: CapitalIQ

Private Equity Overhang



Source: Pitchbook

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¹Source: Thomson Reuters' Cumulative Data from 2011-2020

²Source: Thomson Financial Securities Data (U.S. deals \$10M < \$150M, including deals without a disclosed value). Full years 2011 through 2020.



CONTACT

Canadian Contacts

Howard Johnson

Managing Director and Canada Leader
Toronto
+1 416 597 4500
howard.johnson@duffandphelps.com

Scott Davidson

Managing Director
Toronto
+1 416 364 9719
scott.davidson@duffandphelps.com

Chris Nobes

Managing Director
Toronto
+1 416 597 4505
chris.nobes@duffandphelps.com

Devin Kennealy

Director
Toronto
+1 416 361 6749
devin.kennealy@duffandphelps.com

Global M&A Advisory Contacts

Bob Bartell, CFA

Global Head of Corporate Finance
Chicago
+1 312 697 4654
bob.bartell@duffandphelps.com

Stephen Burt

Global Head of M&A Advisory
Chicago
+1 312 697 4620
steve.burt@duffandphelps.com

Henry Wells

Head of UK M&A Advisory
London
+44 20 7089 4700
henry.wells@duffandphelps.com

Andreas Stoecklin

Head of European M&A Advisory
Frankfurt
+49 697 191 8466
andreas.stoecklin@duffandphelps.com

Declan Taite

Managing Director, M&A Advisory
Dublin
+353 0 1 472 0700
declan.taite@duffandphelps.com

Alexandre Pierantoni

Managing Director, M&A Advisory
Brazil
+55 11 3192 8103
alexandre.pierantoni@duffandphelps.com

David Lu

Managing Director, M&A Advisory
China
+86 21 6032 0608
david.lu@duffandphelps.com

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