MNP
CORPORATE FINANCE INC.

MIDDLE MARKET M&A UPDATE

Q2 2020

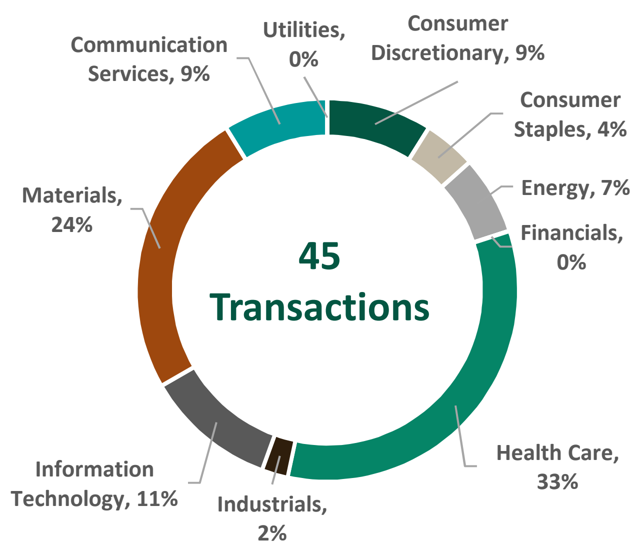
M&A MARKET SUMMARY
CANADIAN MID-MARKET

As expected, Canadian mid-market M&A activity in Q2 2020 pulled back further, as aggregate deal value decreased to $2.7 billion, across 45 disclosed transactions. By comparison, Q1 2020 totaled $2.9 billion in aggregate deal value across 50 transactions. The last four quarters have displayed the lowest deal volumes seen in recent history, suggesting investors continued to take a defensive approach and exhibited reduced risk appetite towards making transactions in an increasingly uncertain global environment. Notably, investor sentiment plummeted in spring 2020 as fears of the COVID-19 pandemic led to significant declines across the capital markets and fewer M&A deals being announced.

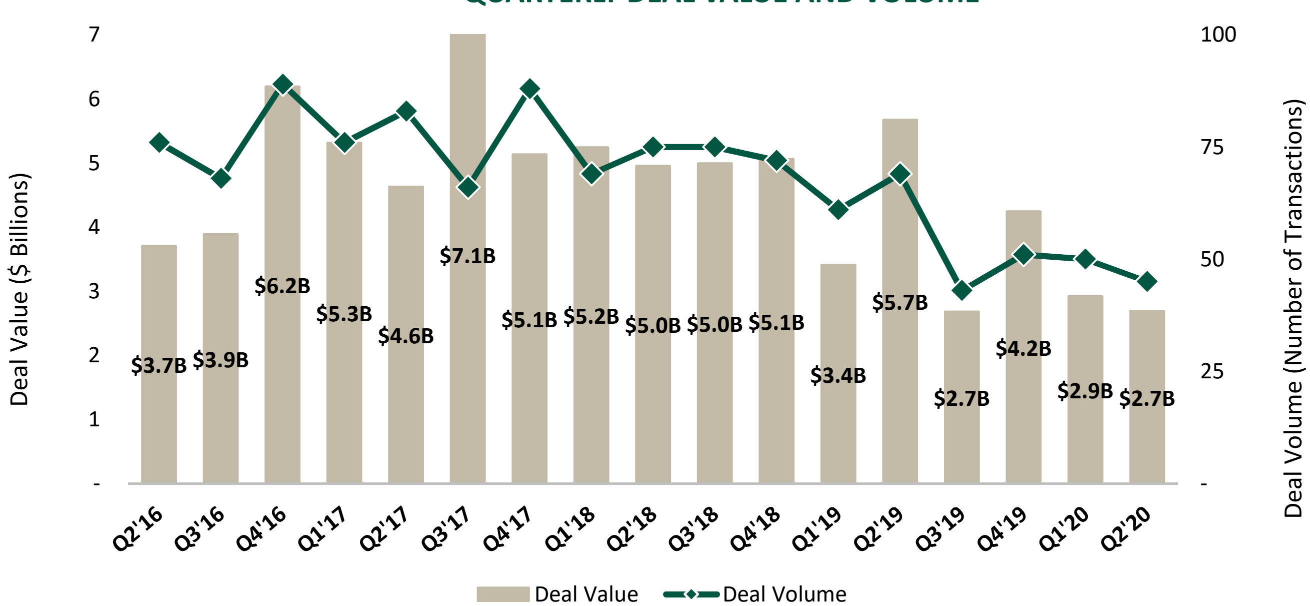
The chart to the right summarizes transaction volume per sector, as defined by the S&P/TSX Composite Index. Unsurprisingly, transaction volume during the pandemic was heavily skewed towards defensive sectors, while sectors heavily exposed to COVID-19 saw relatively low volume as management teams focused efforts internally:

- Healthcare accounted for one third of all transactions, as investors saw opportunities in retirement residences, healthcare technology, and other healthcare targets.
- Materials accounted for 24% of deal volume, up from 22% in the quarter prior, driven by a number of gold mining transactions.
- The Financials sector had no M&A activity, down from five transactions in Q1 2020, as COVID-19 brought uncertainty regarding the performance of loan books, life insurance, and capital markets businesses.
- Energy had three transactions in Q2, down from seven in Q1, as an oil glut and long-term demand uncertainties put downward pressure on oil prices.

Q2'20 - M&A VOLUME BY SECTOR*



QUARTERLY DEAL VALUE AND VOLUME*



**Based on Canadian publicly disclosed transactions in the transaction value range of $5 million to $500 million. Currency in CAD.*
Source: S&P Capital IQ.

M&A MARKET SUMMARY
COVID-19 UPDATE

COVID-19 IMPACT ON M&A

We have seen significant changes in M&A activity in the private markets over the last few months due to the COVID-19 pandemic. The deals environment has generally shifted into a holding pattern given the uncertainty on financial performance by many companies. We have seen a number of M&A transactions take longer to close in Q2 2020 given the complexities around navigating the COVID-19 environment. Depending on the stage of a transaction process, some deals have continued to progress through and others have been put on pause. The earlier in a sell-side process, the higher the exposure to a deal delay and/or an outright pause. Deals already past due diligence or with signed purchase agreements in place are generally closing with less exposure to delays. Paused processes are generally due to future business and financial performance uncertainty. In some cases, we have seen buyers extending closing periods until social distancing measures ease and the relaxing of government and health restrictions. For the most part, many sellers and buyers are waiting on the sidelines to see how the COVID-19 situation plays out.

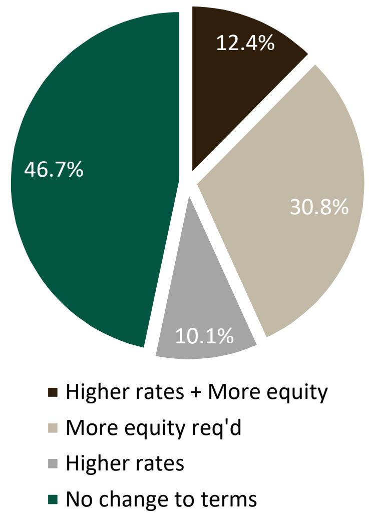
Businesses struggling from a financial and liquidity perspective have resorted to government assistance programs such as the Canada Emergency Wage Subsidy (CEWS). Other forms of financing, whether through banks, private lenders, or even raising equity with minority positions are also being sought.

INDUSTRIES SIGNIFICANTLY IMPACTED

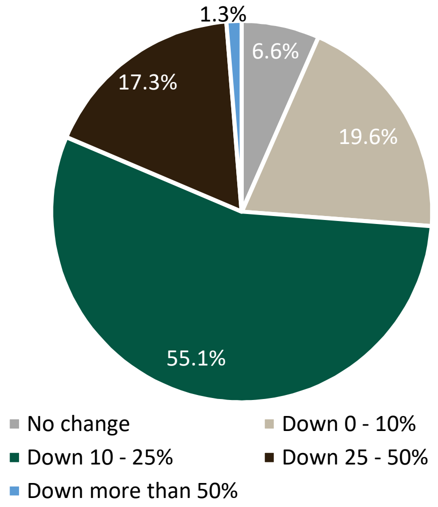
While physical retail may be weakened in the short-term, companies with well established e-commerce capabilities with robust supply chains may see less of an impact. We are already witnessing physical retail and services being severely impacted due to social distancing measures and non-essential store closures. While the return to normal may result in pent up consumer demand, it may also result in a consumer shift down-market due to weaker consumer confidence.

Industries with exposure to essential products and services are expected to be very busy during COVID-19. As essential services remain open, the demand for their products and services may increase. For example, food and beverage companies, transportation and distribution (anything related to the movement of essential goods), healthcare, manufacturing companies supporting essential services and staple consumer products have all continued to perform as expected. Many technology companies have thrived in the COVID-19 environment given the importance of social distancing and virtual workplaces.

For deals closing, how are lenders reacting?



How do you expect private company valuations to adjust from the current economic shock?



Source: www.privateequityinfo.com

BUYER INTEREST LEVELS

Many strategic acquirers have continued to focus on their core operations during the COVID-19 pandemic and have put M&A activity on hold. On the other hand, private equity groups continue to be looking at new opportunities, some choosing to actively close deals during COVID-19, while others choosing to defer closings. Most firms are still screening new opportunities to build their deal pipelines. The overall message is clear: buyers want to continue seeing deals and are trying to look beyond current disruptions. While some sellers are delaying deals today, they may quickly return to the market following COVID-19. Valuations may rebound with economies recovering, and business owners may not want to suffer another downturn. In either case, the COVID-19 recovery may be a catalyst for deals.

EQUITY MARKETS

In Q1 2020, the TSX Composite fell 21.76% due to the pandemic, which resulted in the worst quarterly performance on record in over a decade (since Q4 2008). In Q2 2020, the TSX Composite posted its best quarterly gain since Q2 2009, when global markets were exiting the depths of the great financial crisis. The gains have been fueled by unprecedented levels of fiscal and monetary stimulus and the gradual easing of provincial COVID-19 restrictions. There were 205 (86%) out of the total 237 stocks in the TSX Composite that recorded a gain during Q2. However, the index overall is still down by at least 1% for the year.

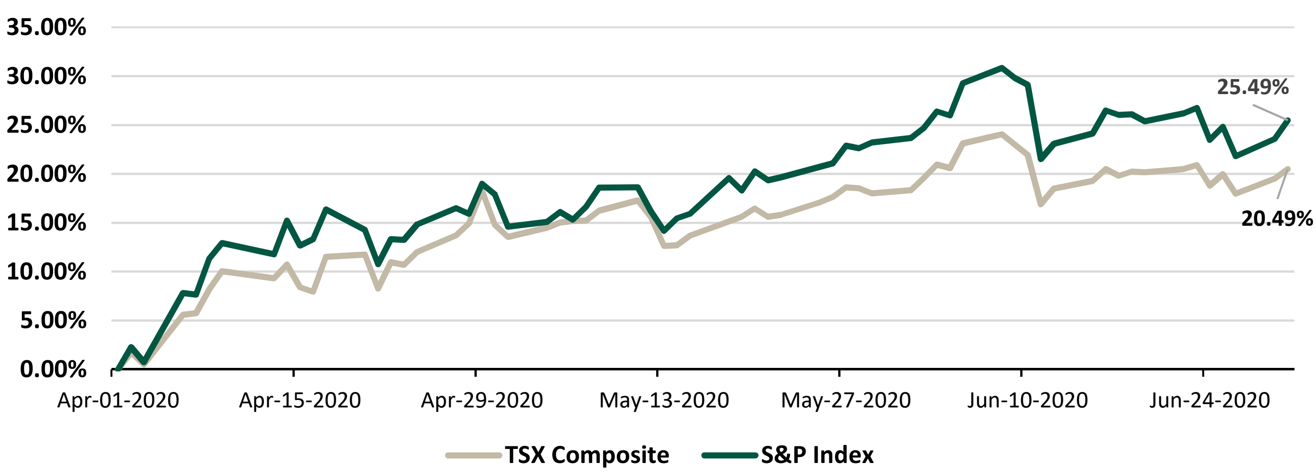
- The information technology sector posted the largest gain, which was primarily attributable by Shopify (TSX: SHOP +119%) who announced quarterly revenues that grew by 47%. Shopify surpassed the Royal Bank of Canada to be Canada's largest company by market capitalization as many companies rush to develop an e-commerce platform during the pandemic, to Shopify's benefit.
- Materials was the second largest sector due to strong gains in gold and precious metal stocks as gold prices rose 13% in Q2 in response to the global recession, equity market volatility, and a weakening US dollar. There were five companies in this group that posted top 10 gains in the entire TSX composite
- Restaurant Brands International (TSX:QSR +30%) was the leading contributor for the consumer discretionary sector as it recouped about two-thirds of its share price losses that were generated in Q1, due to recent investor optimism on the government's Phase 2 and Phase 3 reopening plans.

Q2 2020 SECTOR PERFORMANCE*

Sector	TSX Composite	S&P 500
Information Technology	54.44%	36.54%
Materials	39.75%	31.31%
Consumer Discretionary	38.94%	38.04%
Energy	29.84%	34.94%
Industrials	17.44%	22.00%
Healthcare	17.18%	17.60%
Financials	10.42%	18.48%
Consumer Staples	8.60%	9.32%
Utilities	8.21%	8.48%
Communications Services	-0.37%	24.53%

- Communication services was the only sector to finish the quarter in negative territory, which can primarily be attributed to Cineplex Inc. (TSX:CGX -32.49%). The nation's dominant theatre operator was forced to shutter its theatres as health officials looked to mitigate the spread of the COVID-19 Virus, which led to shrinking revenues.

NORTH AMERICAN EQUITY INDICES - Q2 2020 PERFORMANCE



*Sector performance based on the price change of each corresponding sector index over the quarter.
Source: S&P Capital IQ, Linde Equity – TSX Quarterly Review and Raymond James – Quarterly Insights & Strategies.

TREASURY YIELDS

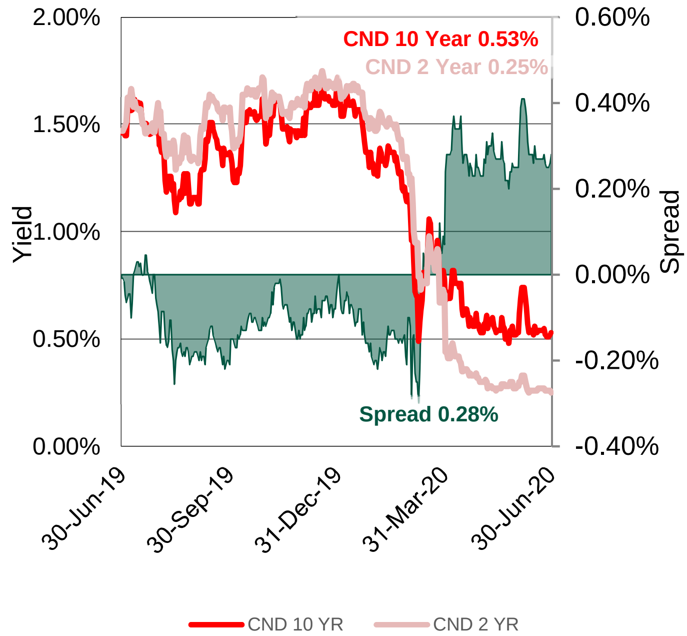
CANADA

The Bank of Canada (BoC) had cut interest rates three times during unscheduled meetings in Q1. The COVID-19 pandemic has led to an economic slowdown, border closure and social distancing practices. With the economy still recovering from the impacts of the pandemic, the overnight interest rate has remained unchanged since March at 0.25% at the end of Q2. The new BoC Governor, Tiff Macklem, anticipates interest rates will remain unusually low for a long period of time.

The BoC has preliminarily calculated that lockdowns and other physical distancing efforts across the country decreased Canada's GDP by approximately 15% during Q2, which would be the worst quarter for the Canadian economy since the Great Depression. That said, the BoC expects a sharp rebound in economic activity stemming from the reopening phase of the recovery, followed by a more prolonged recuperation phase. Low interest rates will help households and businesses borrow more easily, which are complementing the government's efforts to support incomes.

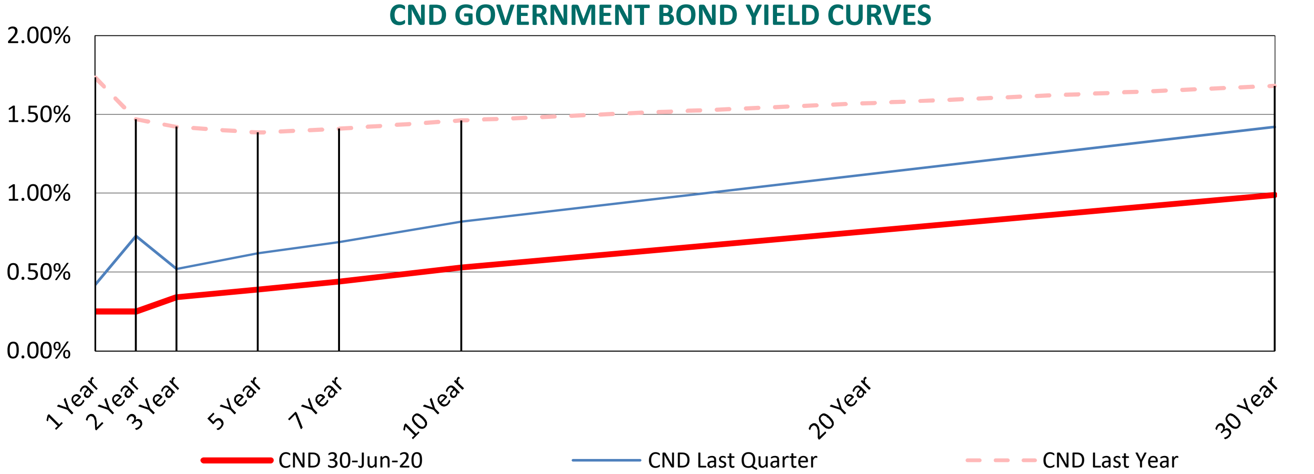
The BoC is also continuing its quantitative easing (QE) program, with large-scale asset purchases of at least $5 billion Government of Canada bonds per week. The Bank's short-term liquidity programs announced in March to improve market functioning are having their intended effect. Governor Macklem recently noted that the BoC will continue to purchase government bonds until an economic rebound is in advanced stages.

2 AND 10 YEAR CND GOVT BOND YIELDS



COVID-19 has also caused a sharp drop in inflation, and the BoC anticipates that it will take time for the economy to climb back to their 2% inflation target. The prices of most commodities, including oil, have risen from very low levels seen at the end of March 2020.

CND GOVERNMENT BOND YIELD CURVES



Sources: Capital IQ, Bank of Canada, Canadian Broadcasting Corporation (CBC). The next scheduled date for the interest rate announcement is September 4, 2020 and will discuss the Bank's outlook on the economy and inflation targets.

TREASURY YIELDS

UNITED STATES

The Federal Reserve (Fed) held several unscheduled meetings during Q1, which resulted in interest rates cuts from 1.25% to a target range of 0% to 0.25% in March in order to support the economy. As at the end of Q2, Fed Chairman, Jerome Powell, anticipates maintaining this target range until the Fed is confident that the economy has appropriately weathered recent events and is on track to achieve its maximum employment and price stability goals. The Federal Open Market Committee's (FOMC) 17 members unanimously projected the near-zero stance holding through 2021, and only two of the members expect it to increase in 2022. However, there were no members that anticipated future negative rates, which is a question that has repeatedly been raised to Fed officials at public appearances.

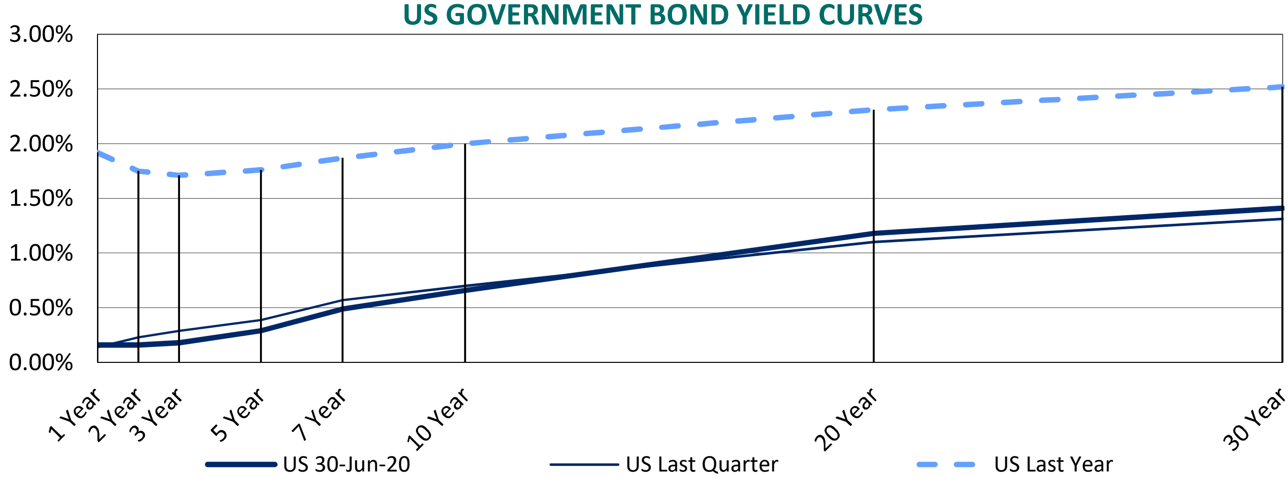
To complement interest rate cuts and to support the flow of credit to households and businesses, the Fed announced in June that it would increase its holdings of Treasuries and mortgage-backed securities at the current pace in order to sustain smooth market functioning. The current pace of balance sheet increases are Treasury purchases at approximately $80 billion a month and mortgage back securities at $40 billion a month.

The Fed has projected that the US economy will shrink by approximately 6.5% in 2020. However, 2021 is expected to show a 5% gain followed by an additional 3.5% in 2022, both well above the economy's longer-term trend. Overall, weaker consumer demand and significantly lower oil prices are holding down consumer price inflation under the FOMC's inflation goal of 2%.

After reviewing the results of the Fed's 2020 sensitivity stress-test, they are also requiring all large banks to preserve capital in Q3 by suspending share repurchases, capping dividend payments, and requiring banks to re-evaluate their longer-term capital plans.

2 AND 10 YEAR GOVT BOND YIELDS

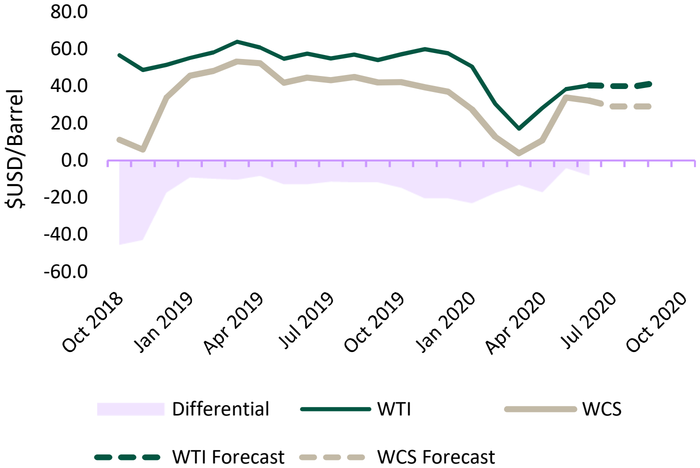
US GOVERNMENT BOND YIELD CURVES



Source: Capital IQ, Federal Reserve

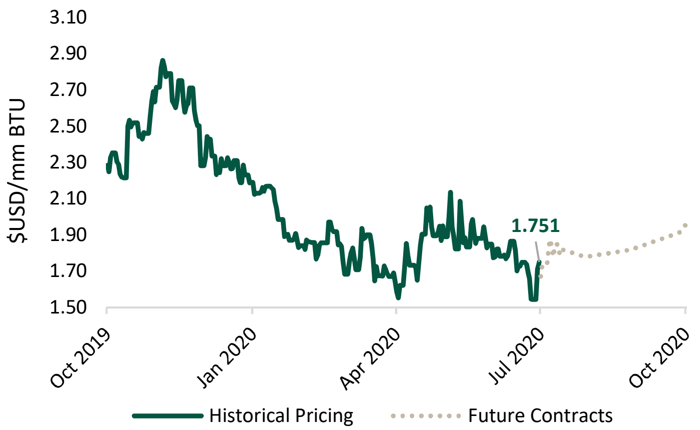
COMMODITY MARKETS

CRUDE OIL DIFFERENTIAL



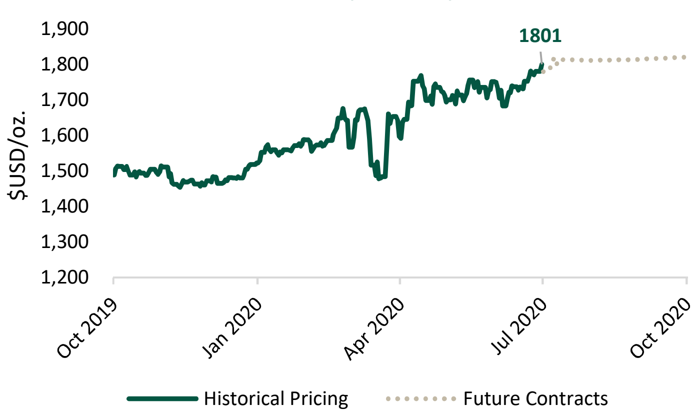
- Year-to-date (YTD) June 2020, Western Canadian Select (WCS) has fell 13.3%, while West Texas Intermediate (WTI) decreased 29.9%.
- Both WCS and WTI prices reached unprecedented lows in April at US$3.78/barrel and US$17.08/barrel respectively, due to the precipitous drop in demand from the global pandemic outbreak.
- The WCS and WTI prices have recovered to approximately US$33/barrel and US$39/barrel respectively, towards the end of Q2. The WCS/WTI price differential has decreased to US$8.35/barrel at the end of Q2, from US$13.30/barrel at the end of Q1.

NATURAL GAS (HENRY HUB)



- North American natural gas prices have remained near multi-year lows in Q2 2020 as inventories spiked from the supply gut that is plaguing the marketplace.
- Natural gas prices have declined by 20% as of the end of June. Prices started at $2.189 USD/mm BTU and gradually decreased to $1.751 USD/mm BTU.
- Issues of oversupply and the lack of pipeline capacity continue to impair the profitability of the Canadian crude and natural gas industries.
- The milder winter early in 2020 and the economic slowdown due to the coronavirus pandemic resulted in lower demand for natural gas, which have depressed natural gas prices.

GOLD (COMEX)



- Gold continued its climb through the year, posting a 18.2% gain YTD.
- Uncertainty around the United States dollar (USD) in global markets as well as significant quantitative easing efforts to counter the pandemic is bidding up gold prices as investors increase exposure to the popular safe-haven asset. A weak USD tends to have an inverse relation with higher gold prices as gold is priced in USD and foreign investors shift money into more traditional value sources when the currency is depreciating.
- Gold prices are expected to continue their upward trajectory in Q3 2020 driven by aggressive monetary and fiscal policy measures enacted by the federal government to address the deep economic crisis that stems from the global pandemic.

Source: S&P Capital IQ, Oil Sands Magazine, Alberta Government – Economic Dashboard, Reuters

CANADIAN ECONOMIC UPDATE

The Canadian dollar ended Q2 2020 at 1.36 CAD/USD (depreciating from 1.30 at the end of 2019). The Canadian dollar depreciated due to a significant decrease in the price of oil, global trade concerns related to the scaling back of production and consumption, and the closing of borders, all which stem from COVID-19. Canada's GDP growth is expected to be significantly negative in Q2 2020, as aggressive social distancing measures were implemented to curb the spread of the virus. Market activity grinded to a halt in April and May, resulting in a virtual shutdown of the economy for the majority of the second quarter.

International trade is expected to struggle indefinitely as the threat of contagion will cause repatriation of overseas manufacturing. However, the North American trade outlook remains positive as the United States-Mexico-Canada Agreement went into effect in early July, replacing the North American Free Trade Agreement and solidifying strong cross boarder supply chains.

Housing starts in the second quarter of 2020 were 13% lower than Q2 2019, this was largely due to the precipitous drop in April 2020.

The unemployment rate jumped to 13% in April and eventually topped out at 13.7% in May before decreasing to 12.3% in June. The Canadian economy added approximately one million jobs in June as the government removed closure restrictions on hospitality businesses in Ontario.

The consumer price index is expected to move into deflationary territory at -0.1% due to pandemic related decrease in travel and discretionary spending. That said, economists have said they believe this number is negatively skewed as gasoline prices have brought down the index due to their heavier weighting.

CAD/USD EXCHANGE RATE*

Note: RBC forecasts a Q3'20 CAD/USD exchange rate of 1.38.

REAL GDP GROWTH
*(YoY % change)***

Year	Canada
2018	2.0%
2019	1.7%
Q1'20	*-8.2%*
Q2'20F	***-32.0%***
Q3'19F	*20.0%*
Q4'20F	*8.0%*
2020F	-5.9%
2021F	4.2%

UNEMPLOYMENT RATE
*(%)***

Year	Canada
2018	5.8%
2019	5.7%
Q1'20	*6.3%*
Q2'20	***13.0%***
Q3'19F	*9.5%*
Q4'20F	*8.5%*
2020F	9.5%
2021F	7.6%

HOUSING STARTS
*('000s)***

Year	Canada
2018	213
2019	209
Q1'20	*40*
Q2'20	***51***
Q3'20F	*N/A*
Q4'20F	*N/A*
2020F	212
2021F	212

CONSUMER PRICE INDEX
*(YoY % change)***

Year	Canada
2018	2.3%
2019	1.9%
Q1'20	*1.8%*
Q2'20F	***-0.1%***
Q3'19F	*-0.1%*
Q4'20F	*-0.1%*
2020F	0.4%
2021F	1.1%

Note: *F stands for forecasted. 2020 numbers are not verified.*
StatsCan has formally suspended all quarterly housing starts forecasts due to COVID-19

Exchange rate data as of June 30, 2020. Forecast from RBC Financial Markets Monthly – June 2020.
***RBC Capital Markets Economic Research, Statistics Canada and Canada Mortgage and Housing Corporation.*
Sources: S&P Capital IQ, RBC Economics - Current Trends Update - Canada, National Bank of Canada – Economics and Strategy – FX Update – June 2020, www.tradingeconomics.com/canada/unemployment-rate

ABOUT US

MNP CORPORATE FINANCE INC.

MNP Corporate Finance (MNPCF) has a dedicated team of over 60 merger, acquisition, and transaction professionals across Canada. MNPCF works with clients in virtually all industries as they prepare, plan and execute transactions.

Our typical transactions range in value between $3 million and $300 million.

LOCAL & INTERNATIONAL REACH

MNP is a participating firm within Praxity, a unique global alliance of independent accounting/advisory firms created to answer global business needs. As a member of Praxity, we are able to offer access to corporate finance, accounting and tax advisory services worldwide. We are also affiliated with Corporate Finance Cross Border, which consists of 150+ M&A professionals in more than 25 countries.

PRAXITY™ Empowering Business Globally

CFxB **CFxBorder - Global Reach with Local Relationships**
Our affiliation with CFxB consists of 150+ M&A professionals in more than 25 countries

SERVICES

- Divestitures
- Acquisitions
- Debt Financing
- Due Diligence
- Transaction Advisory Services

RECENTLY CLOSED DEALS (NATIONAL)

EDMONTON PHARMACY GROUP has acquired ARP PHARMACY CASTLEDOWNS ARP PHARMACY

MNP Corporate Finance Inc. acted as exclusive financial advisor to Ken2 Investments Ltd. (o/a Castledowns ARP Pharmacy) in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

Jan Nelson and Andrew Windsor have acquired Maverick Estate Winery

MNP Corporate Finance Inc. acted as exclusive financial advisor to Maverick Estate Winery Inc. in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

Greyrock Capital Inc. has acquired EMERSON MILLING INC.

MNP Corporate Finance Inc. acted as exclusive financial advisor to Emerson Milling Inc. in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

MEDSPA PARTNERS a portfolio company of PCP Persistence Capital Partners has acquired DSHI

MNP Corporate Finance Inc. acted as exclusive financial advisor to DSHI in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

A Confidential Buyer has acquired Hayes Management Ltd.

MNP Corporate Finance Inc. acted as exclusive financial advisor to Hayes Management Ltd. in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

ROBERTSON IMPLEMENTS has acquired four dealership locations from Moody's Equipment LP

MNP Corporate Finance Inc. acted as exclusive financial advisor to Robertson Implements in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

FLSmidth has acquired MILL-ORE

MNP Corporate Finance Inc. acted as financial advisor to Mill-Ore Industries Inc. in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

Supremex has acquired ROYAL ENVELOPE LTD.

MNP Corporate Finance Inc. provided financial and tax due diligence services to Supremex Inc.

DIVESTITURES > FINANCING > DUE DILIGENCE

TRIPLE M METAL has acquired METROBEC

MNP Corporate Finance Inc. acted as exclusive financial advisor to Metrobec Inc. in structuring and negotiating this transaction.

DIVESTITURES > FINANCING > DUE DILIGENCE

CARBON60 THE MANAGED CLOUD COMPANY has acquired cirrus9

MNP Corporate Finance Inc. provided financial and tax due diligence services to Carbon60.

DIVESTITURES > FINANCING > DUE DILIGENCE

MNP CORPORATE FINANCE INC.

ABOUT US

DEAL EXPERIENCE

Since our inception, our team has advised on hundreds of transactions, in a wide range of industries with diverse enterprise values. In the past five years alone we have completed over 120 transactions worth over $2 billion (not including due diligence engagements).

INDUSTRY EXPERIENCE

- Food & Beverage
- Retail & Distribution
- Manufacturing
- Agriculture
- Automotive
- Materials
- Health Care
- Pharmaceutical
- Transportation
- Construction
- Software
- Financial Services
- Technology
- Energy
- Oilfield Services
- Real Estate

HANDS-ON APPROACH

Current M&A transactions require a hands-on approach from start to finish including the active engagement of senior resources. Our senior resources are dedicated to our clients and are available as necessary and appropriate. We keep our clients regularly informed of the engagement status, issues we are encountering, successes, and overall progress.

INTEGRATED SERVICE OFFERING

We draw on the vast experience and deep specialist knowledge network of our partners locally, nationally and internationally as specialty issues arise, such as pre-transaction tax planning, transaction structuring, estate planning, valuation, due diligence, performance improvement, and risk management.

RECENTLY CLOSED DEALS (NATIONAL)

LEADERSHIP TEAM

TRANSACTION LEADERSHIP

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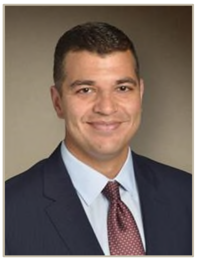

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