


MNP CORPORATE FINANCE INC.

MIDDLE MARKET M&A UPDATE

Q1 2020

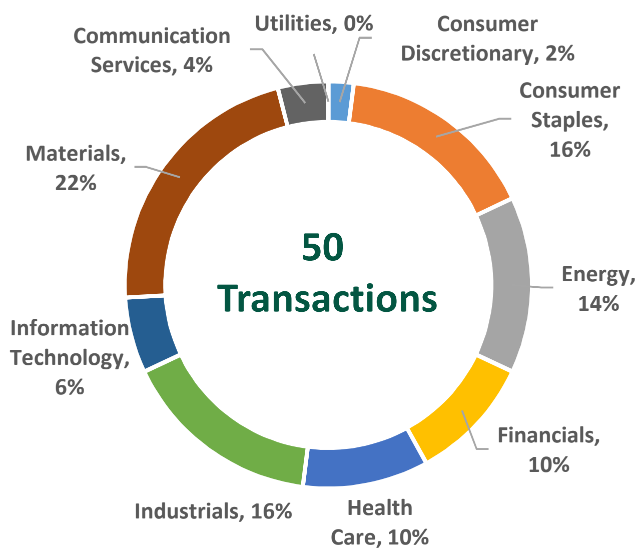
M&A MARKET SUMMARY
CANADIAN MID-MARKET

Canadian mid-market M&A activity in Q1 2020 pulled back slightly from a rebound in Q4 2019 as aggregate deal value decreased to $2.9 billion, across 50 disclosed transactions. In comparison, Q4 2019 totaled $4.2 billion in aggregate deal value across 51 transactions. The last three quarters have displayed the lowest deal volumes seen through the last four years, suggesting investors are taking precautionary measures and exhibiting reduced risk appetite towards making transactions in an increasingly uncertain global environment. Additionally, investor sentiment plummeted in March 2020 as fears of the COVID-19 pandemic led to significant declines across the capital markets and fewer M&A deals being announced.

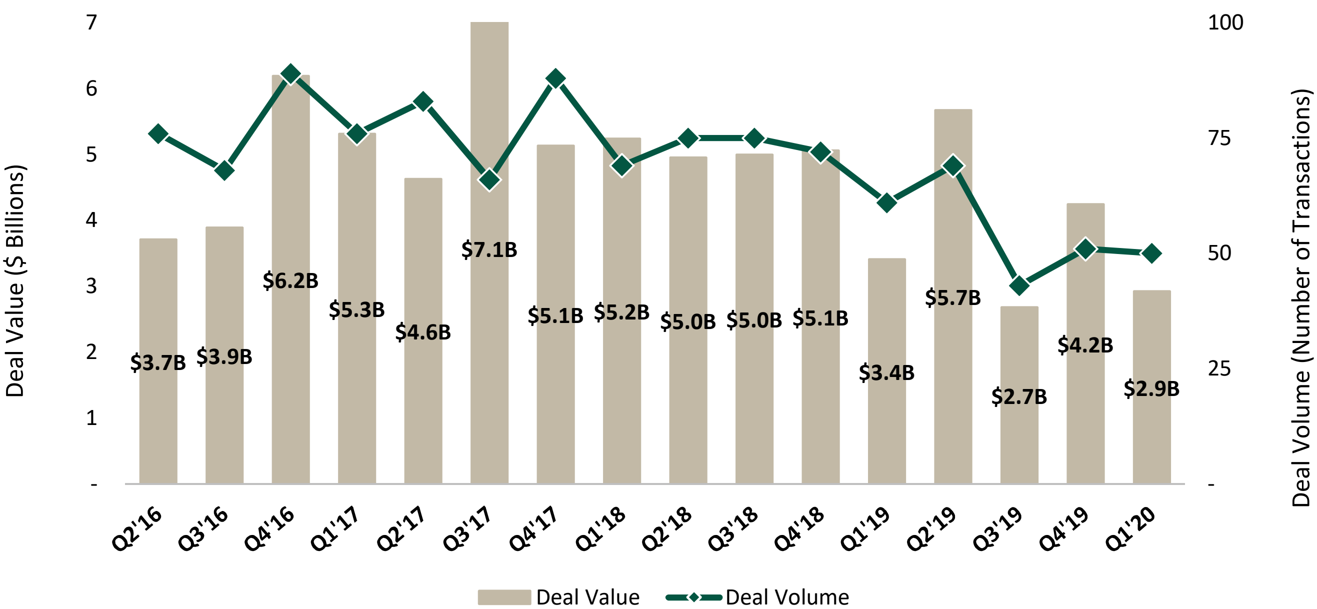
The chart to the right summarizes transaction volume per sector, as defined by the S&P/TSX Composite Index. Transaction volume in Q1 2020 remained relatively balanced across sectors.

- Materials accounted for 22% of deal volume up from 12% in the quarter prior, driven by a strong quarter for mining transactions.
- Financials rebounded in Q1 with five transactions representing 10% of volume, due to a number of loan portfolios sold to strategic acquirers.
- The Energy sector remained relatively consistent with seven deals completed, up from five in Q4 2019. This included consolidation among upstream participants and the divestiture of two mid-stream assets.
- Technology saw a sharp decline in volume compared to Q4 2019, representing only 6% of the deal volume, down from 21% in the prior quarter. This was the lowest Technology deal volume since Q3 2016.

Q1'20 - M&A VOLUME BY SECTOR*



QUARTERLY DEAL VALUE & 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.

EQUITY MARKETS

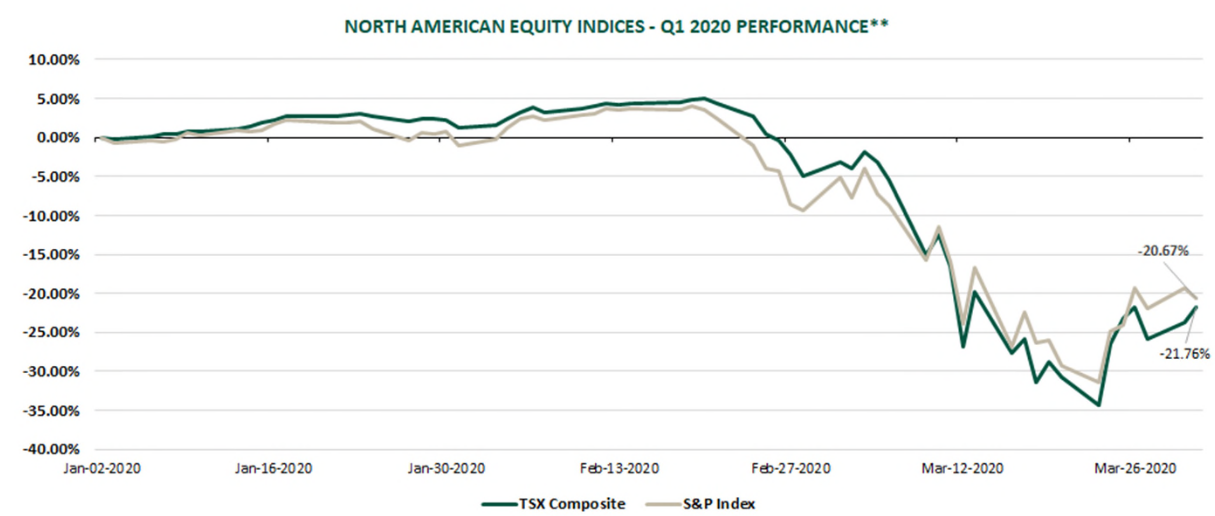
The TSX Composite and S&P 500 both posted significant declines in Q1 to begin 2020 as the impact of COVID-19 began to effect the North American indices in late February. By the end of March, the TSX Composite fell 21.76%, making it the worst quarter on record in over a decade (since Q4 2008). Of the 234 stocks that make up the TSX Composite, only 22 (9%) recorded a gain during Q1.

- The energy sector posted the largest decline in both the TSX and S&P 500. Oil prices plunged as demand for oil dropped heavily due to non-essential travel restrictions and social distancing measures imposed by countries around the globe, while at the same time oil supply grew to unprecedented levels. Crude oil (WTI) prices per barrel decreased by more than 60% from $51 in January 2020 to $20 in March 2020, resulting in significantly decreased revenue for North American energy companies.
- In Q1, many Canadian banks surrendered the modest gains that they posted last year. Factors that contributed the most to their fall included rising provisions for impaired loans and credit losses, decreased loan growth, and smaller net interest margins as the Bank of Canada slashed interest rates to 1.25%.
- Weakness from cannabis stocks drove healthcare to be the second-largest sector loser in the quarter. Bausch Health (TSX:BHC), the largest company in this group, fell 44% and also had their pharmaceutical revenue growth impacted by supply chain disruptions.

Q1 2020 SECTOR PERFORMANCE*

Sector	TSX Composite	S&P 500
Utilities	-5.71%	-12.98%
Consumer Staples	- 7.39%	-12.68%
Information Technology	-9.32%	-13.71%
Communications Services	-10.88%	-18.30%
Industrials	-17.42%	-28.70%
Materials	-18.81%	-25.67%
Financials	-22.36%	-32.97%
Consumer Discretionary	- 33.90%	-20.61%
Healthcare	- 34.18%	-13.23%
Energy	-58.58%	-51.47%

- Defensive sectors such as utilities and consumer staples performed better than their counterparts on a relative basis, while still generating negative returns for the quarter. As expected, these sectors typically fare better in recessionary environments given their long-dated, contracted revenue streams and inelastic consumer demand.
- The largest company in the consumer discretionary sector, Restaurant Brands International (TSX:QSR), unsurprisingly fell 31% and was significantly impacted by the closure of their restaurant chains, namely Burger King, Tim Hortons and Popeye's. Although they are still open for drive-thru and takeout, consumer traffic at these restaurants has sunk.



*Sector performance based on the price change of each corresponding sector index over the quarter.
**Q1 performance as of March 31, 2020.
Source: S&P Capital IQ, Linde Equity – TSX Quarterly Review and Raymond James – Quarterly Insights & Strategies.

TREASURY YIELDS

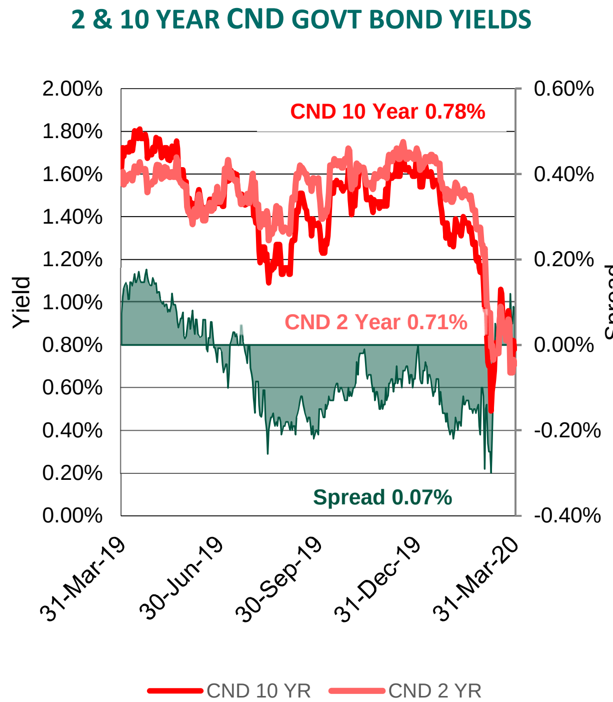
CANADA

The start of 2020 has been turbulent with the Bank of Canada (BoC) having to cut interest rates three times during unscheduled meetings. The COVID-19 pandemic has led to economic slowdown, border closure and social distancing practices. The overnight interest rate sits at 0.25% as at quarter-end, and Governor Stephen Poloz expects no further changes.

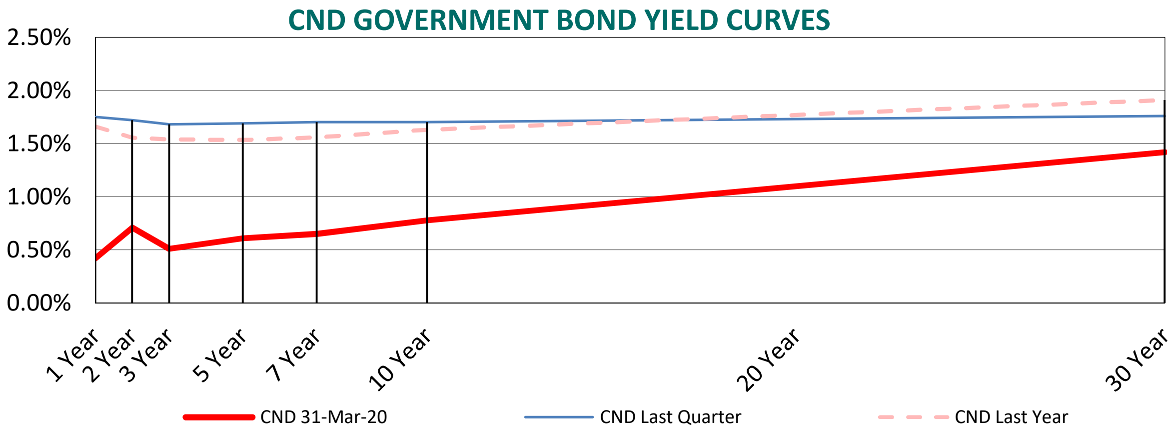
The exponential spread of COVID-19 and the sudden decline in world oil prices has had significant consequences for the Canadian economy. Fortunately, the federal government has reacted quickly and effectively to reduce economic damage and support individuals and businesses across the country to the extent possible.

The BoC has also played an important role in supporting this effort. The Bank's interest rate cuts have provided individuals and corporations with the ability to access credit, which in turn has enhanced the liquidity in the financial system.

To preserve the financial markets, the Bank has also rolled out two new programs: Commercial Paper Purchase Program (CPPP) and the acquisition of Government of Canada securities. CPPP is set up to support short term funding markets by maintaining the flow of credit to the economy. Additionally, the acquisition of securities will reduce strain in the Government of Canada debt market. The program will begin with a minimum purchase of $5 billion per week, across the yield curve.



The BoC is closely monitoring the situation and as it evolves, the Governing Council is prepared to take further action as required to support the Canadian economy and its financial system, while maintaining targeted inflation rates.



Sources: Capital IQ, Bank of Canada, The Globe and Mail; future projections will be made in coordination with G7 central banks and fiscal authorities. The next scheduled date for the interest rate announcement is June 3, 2020 and will discuss the Bank's outlook on the economy and inflation targets.

TREASURY YIELDS

UNITED STATES

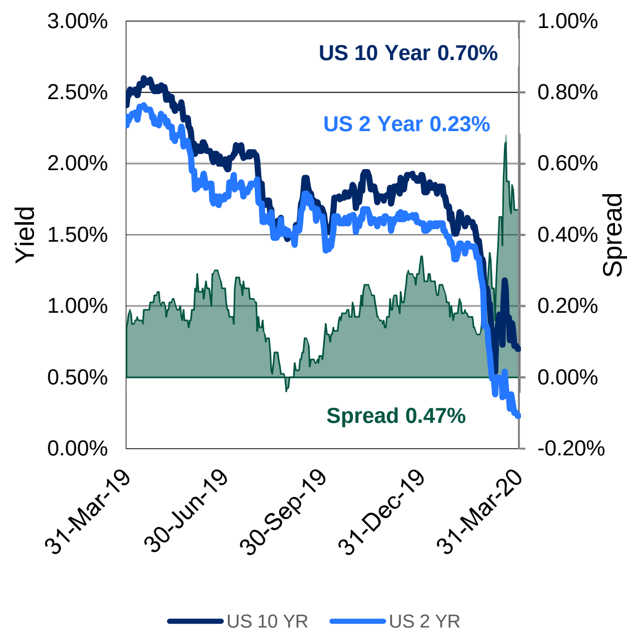
The Federal Reserve (Fed) had been boasting about strong indicators and a robust economy. The January statement was quite optimistic, however in response to COVID-19, the Fed held unscheduled meetings on March 3 and again, on March 15, both to review the state of affairs that were rapidly changing. In both meetings, the Fed ultimately decided to cut interest rates to support the economy. The target rate currently sits at 0.00% – 0.25%. The Fed notes that employment gains exceeded expectations, and the economy continues to grow at a "moderate rate". However, the impact of COVID-19 remains to be seen, and interest rates will remain at the new range until the economy stabilizes.

Furthermore, the Fed asserted that it would use the full range of tools at its disposal to achieve their objectives of maximum employment and price stability. To support this goal, the Fed announced a purchasing program of $500 billion of Treasury Securities, and $200 billion of agency mortgage-backed securities.

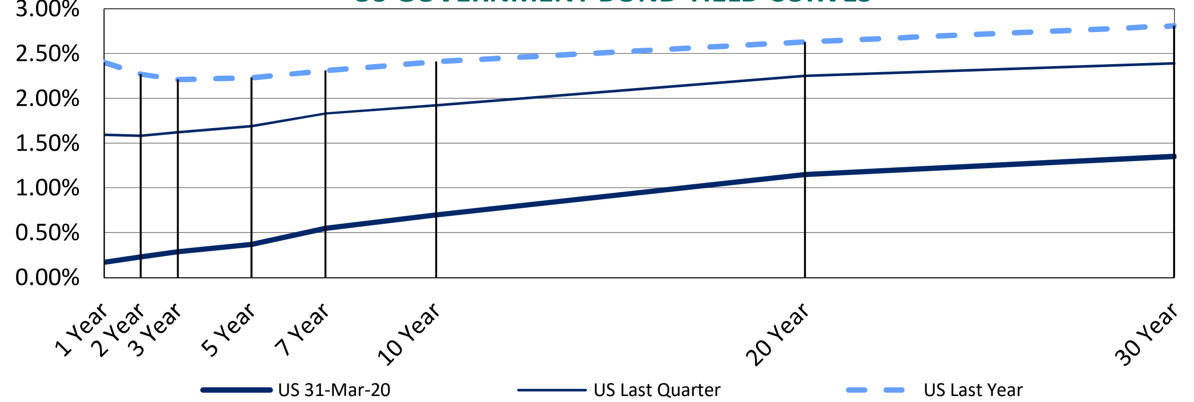
On March 23, in an effort to continue to support and stabilize plunging capital markets, the Fed announced it would remove the cap on the $700 billion purchasing program, making the program "unlimited". In an unprecedented move, it also announced it would start buying corporate bonds.

Each time the Fed acted, investors responded by further sell-offs. To put this into perspective, the government had a cap of $600 billion in buy-backs during the 2008 financial crisis. And while the crisis in 2008 was fundamentally driven by subprime credit, what we are witnessing in 2020 represents a major shock to the overall economy, and it appears no amount of government purchasing can prevent the inevitable. The government can make all the credit they like available, but if the consumer is staying home, demand will likely remain low and there will be no new investment until the economy begins to recover.

2 AND 10 YEAR US GOVT BOND YIELDS



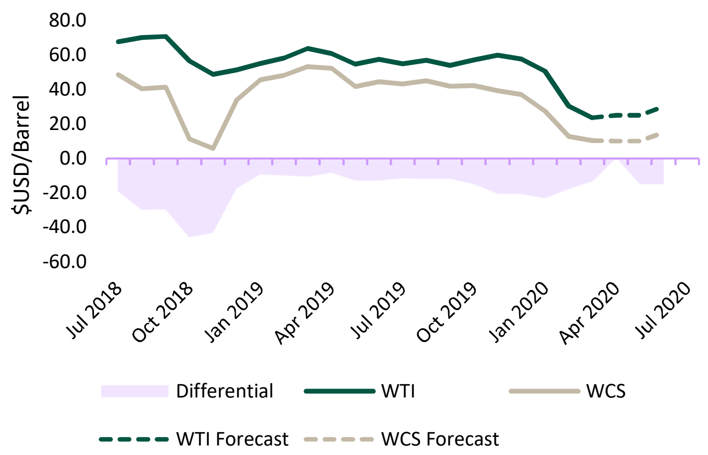
US GOVERNMENT BOND YIELD CURVES



Source: Capital IQ, Federal Reserve

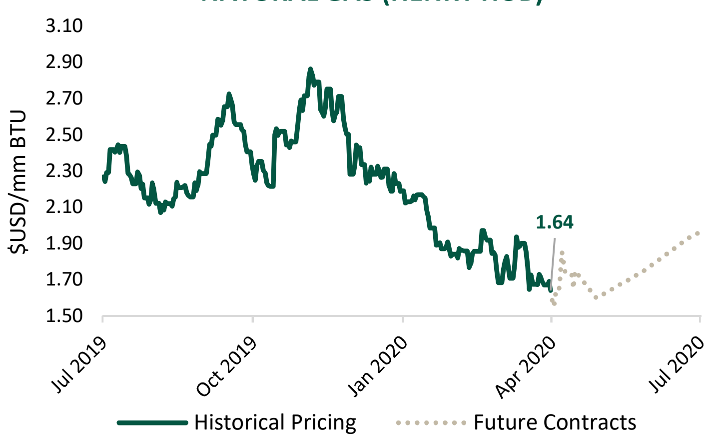
COMMODITY MARKETS

CRUDE OIL DIFFERENTIAL



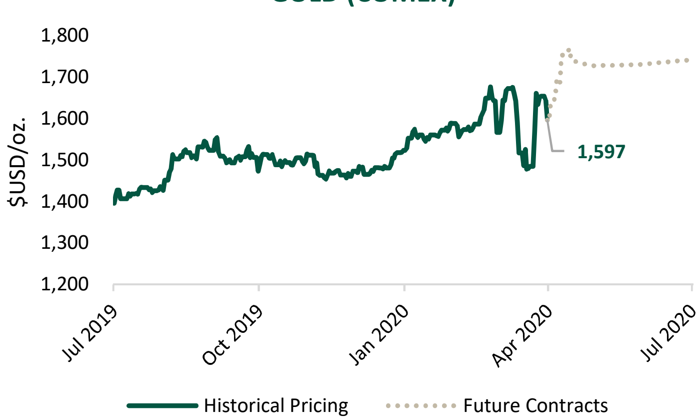
- In Q1 2020 Western Canadian Select (WCS) fell 72.4%, while West Texas Intermediate (WTI) decreased 59.2%.
- Both WCS and WTI prices decreased drastically in the first quarter of 2020, due to demand and supply concerns related to the early signs of a global pandemic outbreak.
- The WCS / WTI differential expanded to more than US$13/barrel as of the end of March, down from US$20/barrel at the end of 2019.
- The number of rigs registered in Canada dropped in February 2020 to 803, down from 824 in February of the previous year. The number of active rigs in February 2020 was also down year-over-year with 656 active rigs compared to 695 in February 2019.

NATURAL GAS (HENRY HUB)



- North American natural gas prices have remained near multi year lows in Q1 2020 as inventories spiked with the supply gut that is plaguing the marketplace.
- Natural gas prices declined by 25.1% in Q1. Prices started at $2.189 USD/mm BTU and gradually decreased to $1.64 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.
- Mild winter temperatures in North America have further pressured the price of natural gas.

GOLD (COMEX)



- Gold continued its climb through the year, posting a 4.8% gain for Q1.
- Uncertainty around the United States dollar (USD) in global markets as well as prospects of Quantitative Easing could be contributing to the gains. 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 trend in Q2 2020 driven by aggressive monetary and fiscal policy measures enacted by the federal government to address an approaching economic crisis that stems from the global pandemic threats and over supply of oil.

Source: S&P Capital IQ, Oil Sands Magazine, Alberta Government – Economic Dashboard, Reuters, and CAODC Rig Reports.

CANADIAN ECONOMIC UPDATE

The Canadian dollar ended Q1 2020 at 1.42 CAD/USD (up 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 boarders, all which are related to the outbreak of the novel coronavirus. Canada's GDP growth is expected to be negative in Q1 2020, as aggressive social distancing measures were implemented to curb the spread of the virus and market activity was grinded to a halt in the second half of March resulting in a virtual shutdown of the economy. GDP for March is expected to decline by approximately 9% versus February.

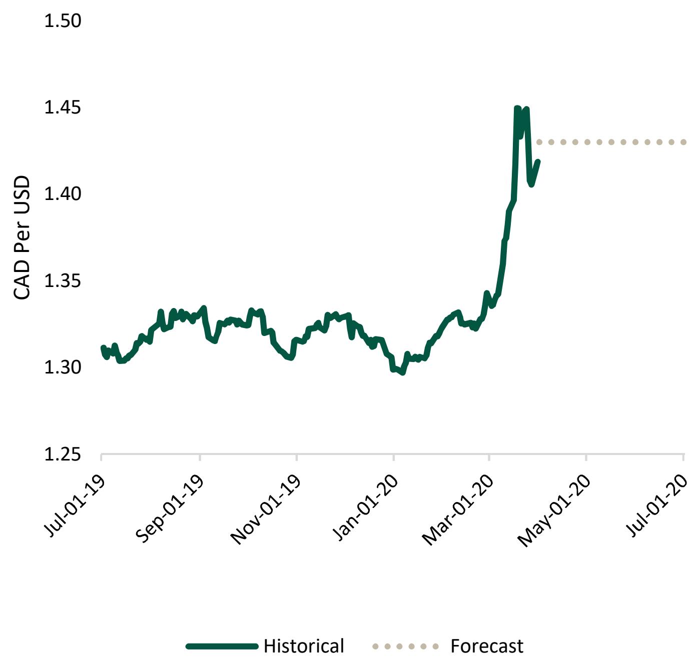
International trade is expected to struggle indefinitely as the threat of contagion is very much prevalent in our society. Canada and the US. will still see significant activity across boarders as supply chains are heavily integrated.

Housing starts in the first quarter of 2020 were slightly higher than Q1 2019, however Q1 is the weakest quarter for the housing market due to weather related decreased demand.

Unemployment rate fell to 7.8% in Q1 as the economy lost over 1 million jobs. This percentage-point increase is the largest month over month change in the last 40-plus years of comparable data and brings the unemployment rate to a level not seen since October 2010.

Consumer price index is expected to decrease significantly as demand is drastically impacted by pandemic concerns, dampening travel and discretionary spending. CPI is already seeing a softening in the month of March driven by a 3.5% and 10.2% decrease in transportation and energy prices, respectively.

CAD/USD EXCHANGE RATE*



REAL GDP GROWTH

*(YoY % change)***

Year	Canada
2018	2.0%
2019	1.6%
Q1'20F	***-4.0%***
Q2'20F	*-32.0%*
Q3'19F	*20.0%*
Q4'20F	*8.0%*
2020F	-4.9%
2021F	3.4%

UNEMPLOYMENT RATE

*(%)***

Year	Canada
2018	5.8%
2019	5.7%
Q1'20	***7.8%***
Q2'20F	*14.6%*
Q3'19F	*9.5%*
Q4'20F	*8.5%*
2020F	10.0%
2021F	7.6%

HOUSING STARTS

*('000s)***

Year	Canada
2018	213
2019	209
Q1'20	***40***
Q2'20F	*N/A*
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%
Q1'20F	***2.0%***
Q2'20F	*0.1%*
Q3'19F	*-0.3%*
Q4'20F	*-0.1%*
2020F	0.4%
2021F	1.1%

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

**Exchange rate data as of March 31, 2020. Forecast from RBC Financial Markets Monthly – April 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 – April 2020, www.tradingeconomics.com/canada/unemployment-rate

ABOUT US

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 AND 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.

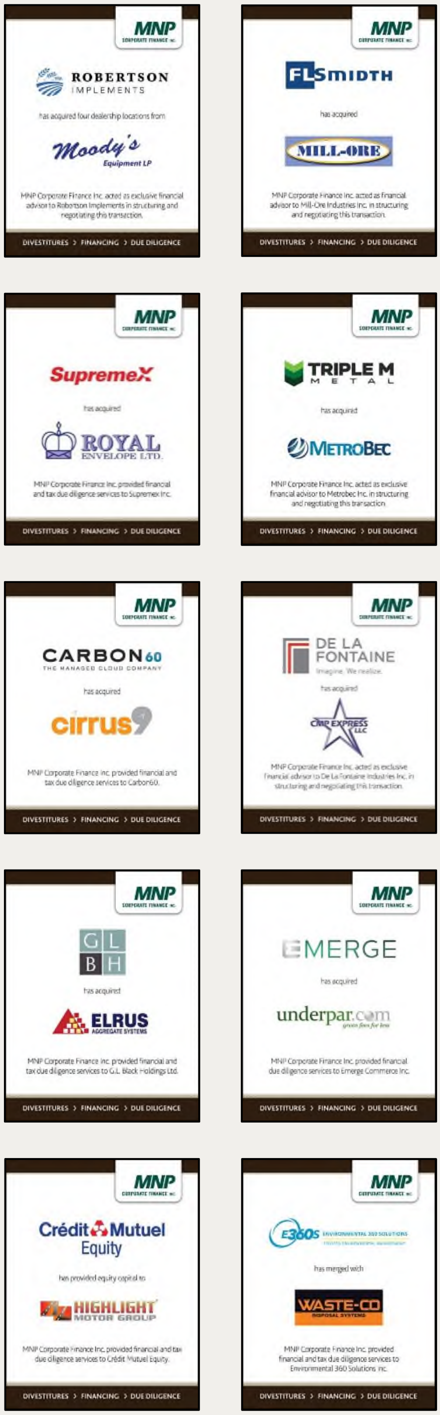
PRAXITY™
Empowering Business Globally

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)



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

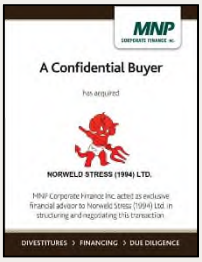
HANDS-ON APPROACH

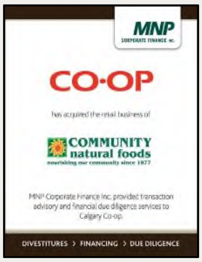
Current M&A transactions require a hands-on approach from start to finish including the active engagement of senior resources. Our senior resources are dedicated to our clients and are available as necessary and appropriate. We keep our clients regularly informed of the engagement status, issues we are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





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