

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



Q1 2016 Mid-Market M&A Review

MID-MARKET TRANSACTIONS IN NORTH AMERICA

North American mid-market M&A activity in Q1 2016 decreased 8% by volume (783 deals in Q1 2015 to 722 in Q1 2016) while the total value of transactions increased 3% over Q1 2015.

On a quarterly basis, North America mid-market M&A activity in Q1 2016 decreased 19% by volume and 19% by value compared to Q4 2015.

On a rolling twelve month basis, North American mid-market M&A activity continues at a robust pace.

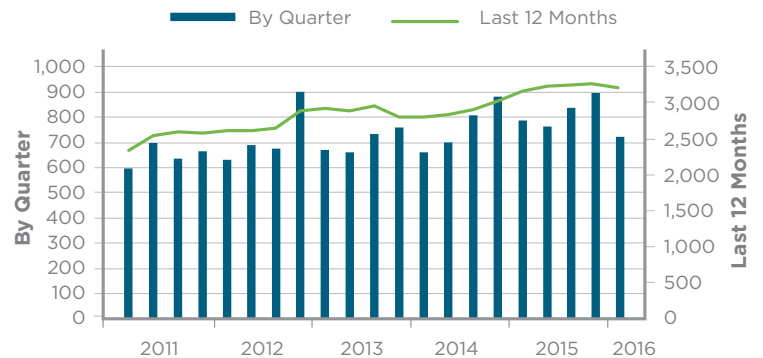
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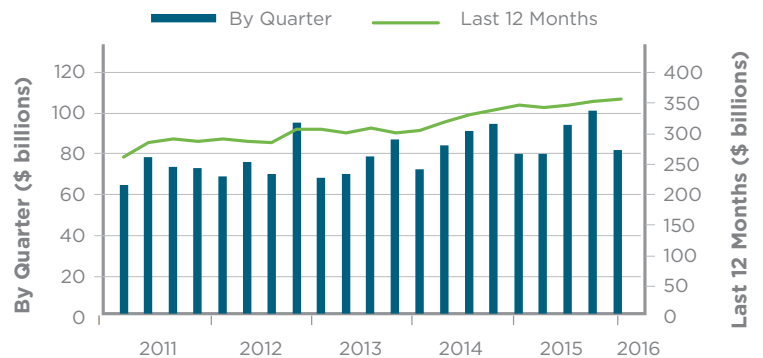
Cost of a Failed Sale Process - Higher Than You Think!

MID-MARKET ACQUISITIONS IN NORTH AMERICA (\$25 million - \$500 million)

Number of Transactions



Value of Transactions



Mergers & Acquisitions Review (continued)

MID-MARKET ACQUISITIONS IN CANADA (\$25 million - \$500 million)

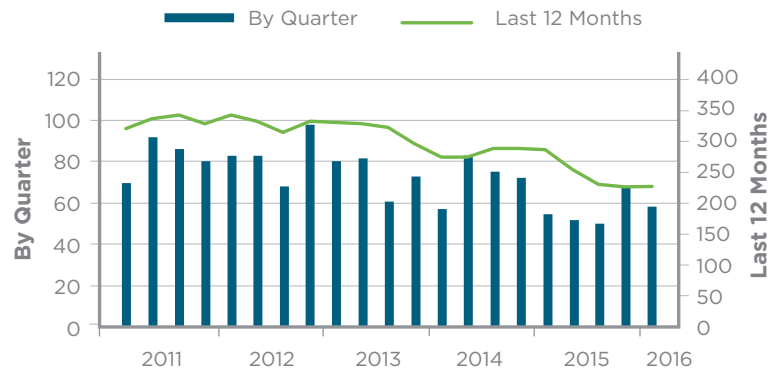
MID-MARKET TRANSACTIONS IN CANADA

Mid-market deal activity in Canada increased 6% by volume and nearly 38% by value in Q1 2016 vs. Q1 2015. A rise in deal activity in the mining and energy sectors accounted for the majority of the increase (\$1.6 billion in Q1 2015 to \$3.3 billion in Q1 2016). The average value of transactions increased 13% in Q1 2016 compared to Q1 2015.

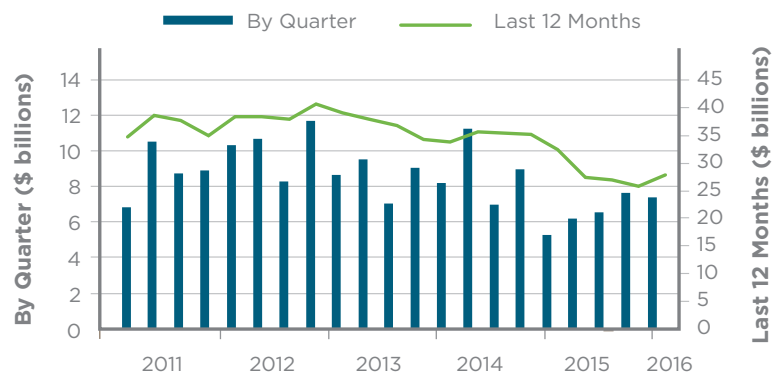
On a quarterly basis, M&A activity decreased 15% by volume and 4% by value in Q1 2016 vs. Q4 2015.

By industry, M&A activity in the energy, mining & utilities sector increased substantially (110%) on a year over year basis after a dismal Q1 2015. Other sectors with increased activity in Q1 2016 were the real estate, and tech, media & telecom industries. The industrials & materials sector showed the biggest decrease in deal activity (down from \$610 million in Q1 2015 to \$185 million in Q1 2016).

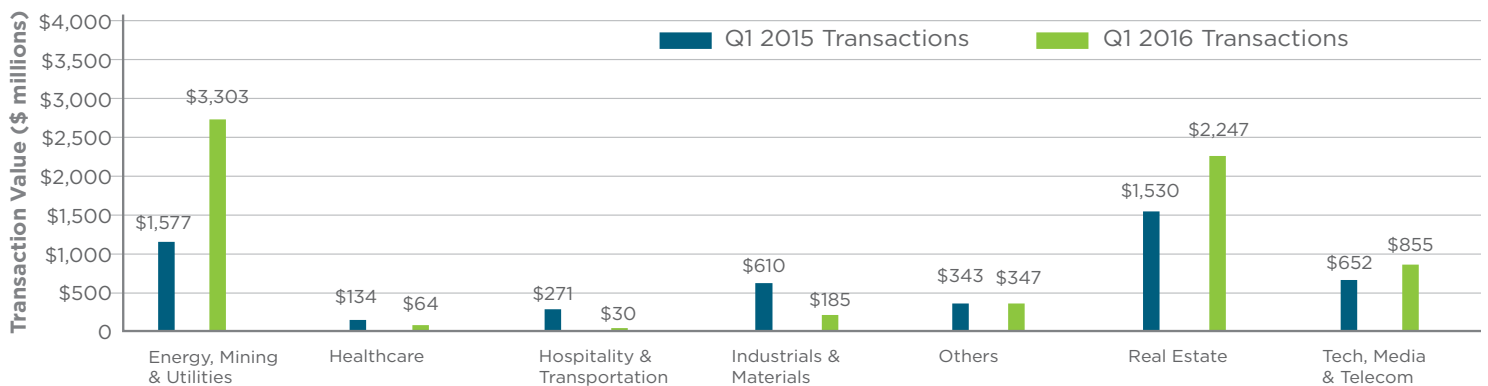
Number of Transactions



Value of Transactions



Q1 2016 vs. Q1 2015 Middle Market Transactions Value (\$millions)



Mergers & Acquisitions Review (continued)

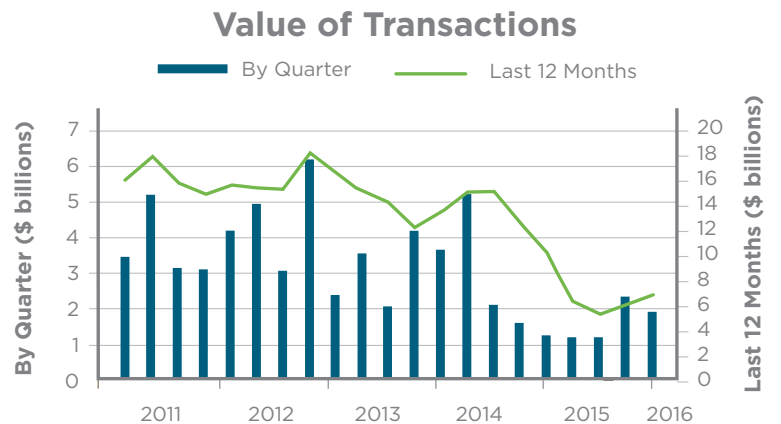
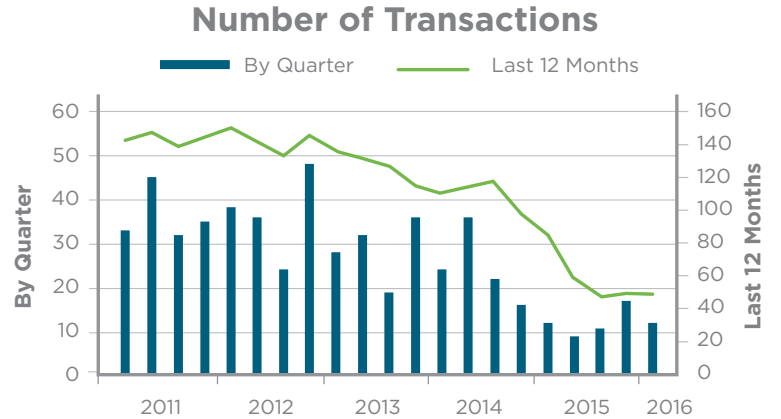
MID-MARKET TRANSACTIONS IN WESTERN CANADA

Western Canadian mid-market M&A transaction volumes decreased 29% in Q1 2016 compared to Q4 2015. Despite this, the total value of deals only decreased by 18% as a result of the average deal size increasing 16%.

On a year over year basis, the value of transactions in Western Canada increased by nearly 50% from Q1 2015 on the same number of transactions in Q1 2016.

The top ten M&A deals in Canada in Q1 2016 were across a wide range of industries: consumer products & services, as well as energy, mining & utilities being the largest contributors. Two key deals in the table below, from a British Columbia perspective, were the acquisition of the Bentall Centre by Anbang Insurance Group and the acquisition of private equity backed InterWrap, Inc. by Owens Corning.

MID-MARKET ACQUISITIONS IN WESTERN CANADA (\$25 million - \$500 million)



Top 10 Canadian Deals in Q2 2015

Date	Industry	Target	Buyer	Value (\$mm)
Feb 03	Consumer Products & Services	Rona	Lowe's Companies	\$ 3,121
Mar 02	Consumer Products & Services	Rexall Pharma Plus	McKesson Canada	\$ 3,000
Jan 13	Tech, Media & Telecom	Shaw Media Inc.	Corus Entertainment	\$ 2,666
Jan 20	Energy, Mining & Utilities	Capstone Infrastructure	Irving Infrastructure	\$ 2,163
Mar 08	Consumer Products & Services	Imperial Oil - Retail Assets	Mac's Convenience Stores; Couche Tard	\$ 1,686
Feb 22	Real Estate	Bentall Centre	Anbang Insurance Group	\$ 1,000
Feb 08	Energy, Mining & Utilities	Lake Shore Gold	Tahoe Resources	\$ 895
Mar 20	Energy, Mining & Utilities	Bankers Petroleum	Geo-Jade Petroleum	\$ 728
Feb 24	Industrials & Materials	InterWrap, Inc.	Owens Corning	\$ 621
Jan 21	Financials	RBC General Insurance Company	Aviva Canada	\$ 569

Q1 has typically been the slowest quarter of the year for M&A activity and 2016 was no different. Despite a decrease in deal activity from Q4 2015, Q1 had higher mid-market deal values in 2016 than in 2015 in Western Canada. This deal activity is in line with the robust acquisition interest Capital West is seeing on its current transactions.

Cost of a Failed Sale Process – Higher Than You Think!



There are many things that a business owner needs to consider when preparing for a sale of their business. One consideration that is often poorly understood is the cost of a failed deal, it can be enormous and overshadow any other deal costs incurred.

A sale process can fail for a number of reasons. The most common include:

- Financial and other key information on the business (e.g. key contracts) is incomplete
- Lack of management depth with no clear succession plan
- Customer concentration is too high
- The deal opportunity was poorly communicated to prospective buyers
- Financial performance of the business deteriorates during the process
- Financial and other advisors did not orchestrate an effective transaction process
- Owner does not have a financial advisor and tries to run the sale process “off the corner of his desk” but doesn’t give it the required focus

Some business owners say, “If the process fails, I can always try again.” Unfortunately it’s not that simple.

When a sale process fails and the owner subsequently decides to try again, approaching

buyers a second time is a huge challenge. Prospective buyers have already formed a negative view of the business through their initial review of the opportunity (sometimes through no fault of the business, but rather through a poorly managed and communicated deal process).

Even if new advisors are in place and a more complete information package is assembled, it remains a challenge to convince buyers to change their view. For the unfortunate company, the market has been “poisoned”. It becomes known in the market that the company “couldn’t sell” and rumours start to circulate that there must be problems with the business.

The business owner is now left to wait for a period of time (several years at least) for the negative sentiment to dissipate, until buyers are willing to take a fresh look at the opportunity.

At Capital West Partners, we understand that you have one chance at a successful sale process, so you need to get it right the first time. This means ensuring you have all the required information about your business prepared; an engaged, experienced and committed team in place (including company executives and external advisors); the right deal process; and the right market conditions. If you can do this, you will complete a successful deal, which in today’s market means a premium value.

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