Canadian Mid-Market M&A Insights

February 2015

Supply-demand economics in sellers' favour in the Canadian private mid-market

Building on the strength of several years of an improving deal-making ecosystem, our view is that 2015 should set another high-water mark for a majority of mid-sized private companies in Canada looking to sell. Some business sectors, such as oil & gas field services, may miss out on the proverbial party for obvious industry-specific reasons.

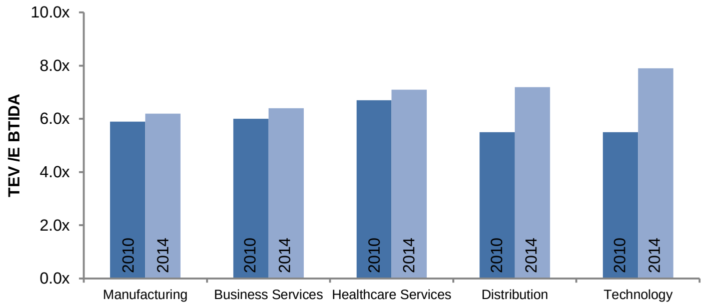
To understand why we believe great things are in store for 2015, we examined data from private equity (PE) deals in the US and Canada (from *Pitchbook*). The cross-border nature of the North American (NA) PE landscape makes the NA trends a good barometer for Canadian M&A activity in the private mid-market.

How strong are valuations?

Valuations have generally increased across industries, though some sectors have been favoured by buyers more than others. Multiples paid for Technology companies have skyrocketed in the past five years, well above the long term average of 6.8x Total Enterprise Value (TEV) / Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the sector.

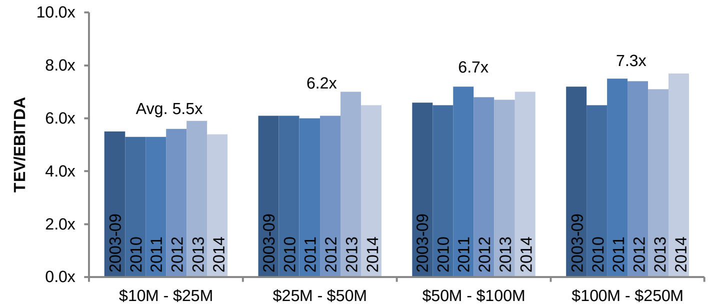
Similarly, valuations have improved as a function of deal size. For example, a $100-250 million deal concluded on average at 6.4x in 2010; in 2014, it transacted at 7.7x, more than a full turn of increase in EBITDA. Deals of less than $25 million have yet to see meaningful change in the multiples paid for them, but we believe this is where most of the growth should come from in 2015.

PE TEV/EBITDA Multiples by Sector (2010 v. 2014*)



* Through September 2014, *Pitchbook*

PE TEV/EBITDA Multiples by Deal Size (2010 – 2014*)



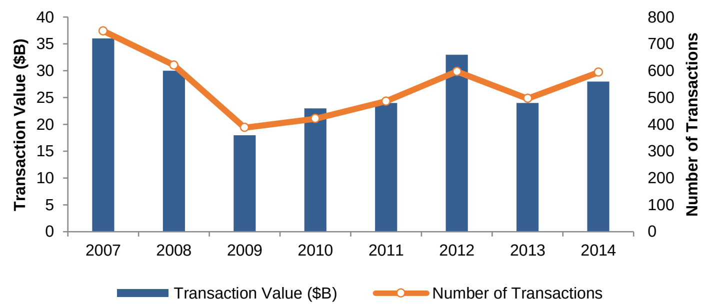
* Through September 2014, *Pitchbook*

What factors are driving this broad multiple improvement?

The answer is explained by simple supply-demand economics in the middle market: as can be seen in the chart to the right, there are fewer and fewer quality targets for PE firms (number of transactions has not recovered to 2007 levels), despite there being more PE 'dry powder' available than ever before. Specifically, we single out five factors at play:

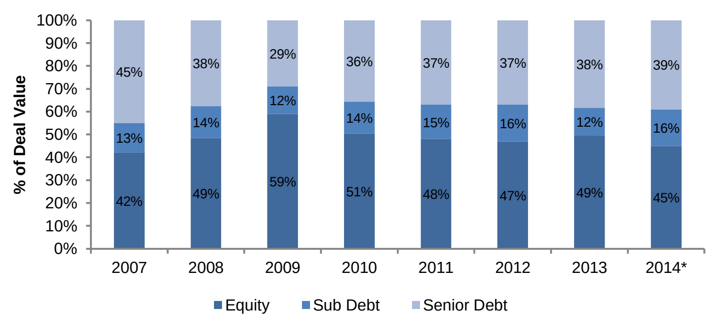
- **COMPETITION FROM STRATEGIC BUYERS.**
  The aggregate cash that North American public companies, who are better acquirers than ever before in terms of their ability to realize value, is in excess of $5 trillion. Acquisitions are one obvious way to use this cash.
- **PE IS FLUSH WITH CASH.**
  Similarly, mid-market focused PE funds are now sitting on a near record $121 billion in cash that must be deployed quickly.
- **ECONOMIC RECOVERY IN US.**
  As a result of the accelerating US economic recovery, PE buyers are more confident in their portfolio companies' growth prospects, which they seek to 'fast track' through add-on acquisitions.
- **STRONG DEBT CAPITAL MARKETS.**
  Senior and junior debt for M&A (see chart) remains favourable with low interest rates, higher availability and looser covenants for borrowers. GF Data estimates the debt used in transactions to have increased to 4.8x EBITDA in 2014, up from 3.3x in 2009.
- **A SCARCITY OF SELLERS.**
  After five years of steady growth in M&A activity, competition for good deals is intensifying and pushing up prices paid for those. However, we would not be surprised to see the remaining 'eligible' sellers put their company up for sale in the coming months, at last realizing that the good times may not last that much longer.

PE Transaction Activity (2007 – 2014*)



* Through September 2014, *Pitchbook*

Capital Structure of Mid-Market Deals (2007 – 2014*)



* Through September 2014, *Pitchbook*

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FIREPOWER CAPITAL

Who are we?

FirePower Capital is an entrepreneurial investment bank that focuses exclusively on advising private lower mid-market companies in Canada on their strategic M&A and non-dilutive capital financing transactions.

We formed the firm in 2012 because **we believe that private lower mid-market companies in Canada should have access to the sophisticated transactional advisory services that are typically reserved for much larger companies.**

The need proved to be real: we are now one of the largest independent firms in Canada. As of February 2015, we are managing **10 active sell- and buy-side mandates worth an estimated $94 million, and 10 financing assignments worth $43 million**.

Our team of 16 dealmakers are smart, passionate and driven by a fierce determination to not only succeed, but exceed our clients' expectations. **We love what we do, we are good at it, and our clients love us for it.**

What do we do?

Our **Mergers & Acquisitions Practice** understands the difficulties and complexities around the decision and process of selling or buying a business. Typical transaction sizes range from $5 to $50 million, and span most industries except for resources and life sciences. We deliver on the full spectrum of M&A transactions:

- Sell-side
- Buy-side
- Asset sales & purchases
- Cross-border
- Hostile acquisition or defense
- Spin-offs and other corporate restructurings

Our **Capital Advisory Practice** provides objective transactional advice and seamless execution capabilities to our clients with respect to non-dilutive capital financings. Typical transaction sizes range from $1 to $30 million, and span most industries except for resources and life sciences. We have extensive experience raising debt capital for most situations:

- Growth
- Leveraged buyouts
- Turnarounds & special situations
- Acquisitions
- Refinancing
- Shareholder events, e.g. dividend recaps or management buyouts

Why work with FirePower?

We're not typical Bay Street guys: We have made it our mission to excel in the lower mid-market, and not be 'tempted' by the larger, headline-grabbing deals. That means developing a deep understanding of how to overcome the challenges unique to this segment.

Our track record is extensive: During our short history, our team has already built a reputation for crafting deals the market has never seen before, providing expert transactional advice and getting deals closed.

We do things differently: We have built FirePower like a start-up, not a traditional advisory firm. We rely heavily on new technologies to produce competitive tension between buyers or investors, and thus create multiple options for our clients.

We put our money where our mouth is: Most of our compensation is based on closing a deal that works for our clients. We are aligned with them: we succeed only if our clients succeed.

We have a global reach, but nurture deep Canadian roots: Exposing a deal to hundreds of buyers or investors worldwide is easier than ever, but doing it intelligently is still difficult, time-consuming and extremely complex. A strong network of relationships at home in Canada helps us balance our global efforts.

Our track record (recent sample transactions)

NOV 2013

LYNX equity limited
Diversified Risk. Undiversified Returns.

Has acquired 100% of the equity of

MAJESTIC MEDIA

The undersigned acted as the exclusive advisors to the Company

FIREPOWER CAPITAL

OCT 2013

TUC
MANAGED IT SOLUTIONS

Has acquired 100% of the assets of

MillenniumCare
knowledge powers you

The undersigned acted as the exclusive advisors to the Company

FIREPOWER CAPITAL

MAR 2014

oolab inc. ORTHOTICS

Has acquired 100% of the assets of

Walk'N Comfort

The undersigned acted as the exclusive advisors to the Company

FIREPOWER CAPITAL

SEP 2014

KINGSMAN RESOURCES

Reverse takeover $28,200,000

Contagious GAMING CG
TELOS

The undersigned acted as the special advisors to the Company

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