Q2 2014 | Canadian deals announced, economic overview, sector report and more
Perspectives from your leading global mid-market M&A advisor

Capital Markets Flash

Canadian M&A Deals Quarterly

In this issue

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The Canadian economy: Key challenges ahead

This Economics Quarterly section is contributed by PwC's Economics and Statistics practice

Key messages:

- *Canadian economy continues on a steady path to recovery but still faces challenges*
- *US economic recovery expected to strengthen Canadian exports*
- *Economic growth in China is expected to slow in contrast to the country's strong pace of recent years*

The Canadian economy continues to recover but still faces several challenges

The Canadian economy has come through an unusually tough winter, but continues on a steady path of recovery. Economic growth is sitting at 2.2% this year, slightly stronger than last year (2.0%) – current numbers are close to the forecast in our April edition. The forecast economic growth for 2015 is 2.5%. This issue looks at the forecast for this year and next, with an emphasis on key risks and vulnerabilities facing us today. See Table 1 below.

Table 1. Forecasted changes in the Canadian economy

Source: PwC Internal Forecast

	2013	2014	change	2015	change
Real economic growth (%)	2.0	2.2	↑	2.5	↑
Government spending growth (%)	0.4	1.0	↑	1.5	↑
Business investment growth (%)	1.4	1.5	↑	4.0	↑
Housing starts (,000)	188	180	↓	170	↓
Short term interest rate (%)	1.0	0.9	↓	1.1	↑
Inflation (%)	0.9	2.0	↑	2.0	–
Exchange rate (US cents)	97	90	↓	90	–
Unemployment rate (%)	7.1	6.9	↓	6.6	↓
Price of Crude (WTI in US Dollars)	98	97	↓	95	↓

Both the Canadian and US economies are expected to see modest growth this year, and an increase in 2015–more so in the US.

Key contributors to Canada's growth over the next few years are anticipated to be consumer non-durable goods (such as food and clothing) and exports, which should be strengthened by growth in the US.

Business investment is expected to be considerably stronger in 2015, compared to 2014. The consistently low dollar should trigger increased imports of machinery and equipment. While government spending should increase slightly, it will likely continue to be a significant drag on the economy.

So far, the Canadian dollar has been weaker than expected in 2014, and several challenges facing the Canadian economy impart downside risk to the dollar. For example, oil prices are expected to decline into 2015. Given the non-threatening pressures on inflation and risks to our outlook, the Bank of Canada is unlikely to ramp up interest rates until mid-2015.

Key risks and their consequences on the Canadian economy

Over the past several months both the Bank of Canada and the Organization for Economic Co-operation and Development (OECD) have addressed the risks facing the Canadian economy and reached a general consensus supported by most Canadian economists.

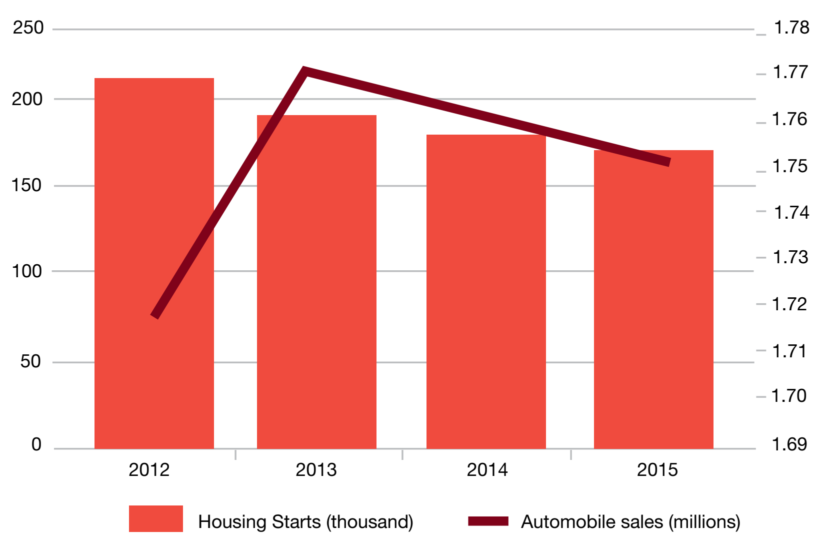
The domestic risks: Canadian housing markets and consumer debt

Housing prices in select Canadian markets are vulnerable to downside pressures. For example, housing prices in Vancouver exceed what residents are able to finance based on their incomes. The Vancouver real estate market depends critically on imported capital, particularly from Asia. The Toronto condominium market has also experienced market vulnerability with a significant increase in supply that outweighs demand. Most expectations call for a leveling or slight softening of Toronto condominium prices.

Canadian households holding a significant level of debt relative to their incomes is a related risk. This applies particularly to holders of variable rate mortgages in Vancouver and Toronto. When the Bank of Canada begins its eventual interest rate tightening cycle, holders of variable rate mortgages will experience increased mortgage payments, taking a significant portion of their monthly family budget. Many families will likely curtail discretionary consumer spending and some may face personal bankruptcy. These pressures forecast a tapering off in housing sales starting this year, as shown in Chart 1 below.

Chart 1: Forecasts of housing starts and automobile sales

Source: PwC Internal Forecast



Canadian exports are expected to be a source of economic strength over the next few years, but optimism is based mainly on opportunities for exports of oil and natural gas. In some cases export potential depends on the successful completion of pipelines, but the prognosis for non-energy exports in particular, is less hopeful. The recovery of the US economy should help Canadian exporters and the Canadian dollar is expected to stay below par. However, it's still unlikely that the Ontario economy, the automobile sector or other manufacturers, will figure prominently in Canada's export growth. While automobile sales in Canada are expected to be relatively flat (as indicated in Chart 1), employment is not expected to grow as fast as output, as plants become increasingly automated. Chart 2 shows that the pace of growth in the Ontario economy is not anticipated to match Canada overall and the unemployment rate is expected to remain higher.

The external risks: China and Europe

Economic growth in China is expected to slow in contrast to the country's strong pace of recent years. The Chinese financial system could come under pressure due to weaker economic growth.

Downside performance in China would have significant, negative repercussions on economic growth and financial conditions globally, including reduced demand for Canadian commodity exports to China.

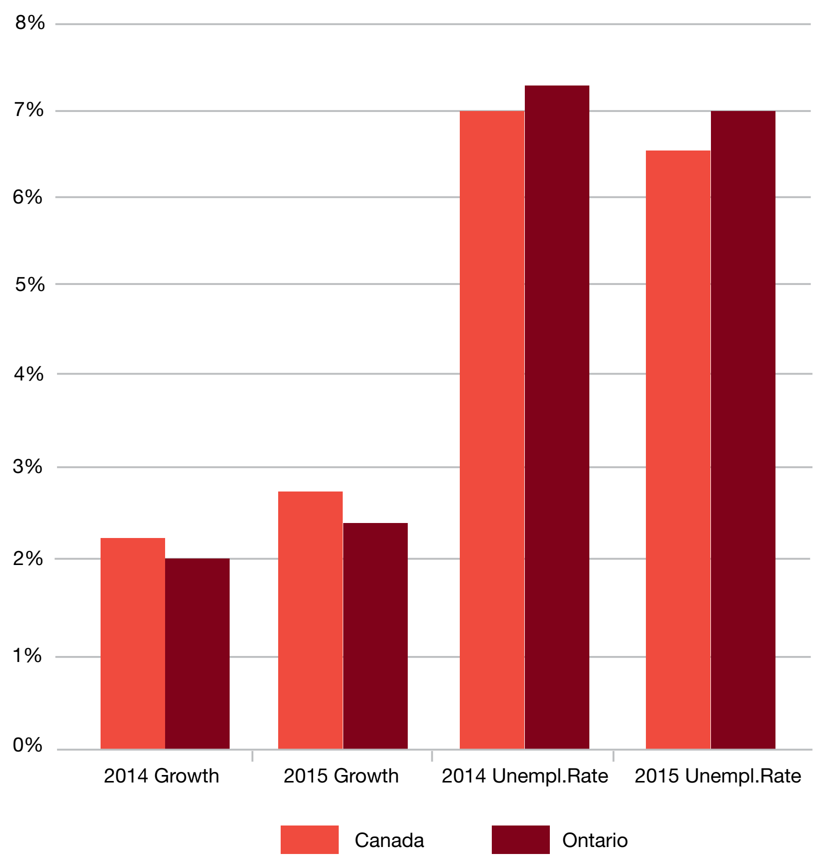
The weaker European countries are still not in stable economic and financial recovery. This may put pressures on global financial and banking conditions, as well as on currency markets.

Market weakness in both China and Europe would curtail exports of commodities from Canada, resulting in downside pressure to the Canadian dollar.

Decreased demand for energy and other commodities also puts downside pressure on the Canadian dollar. Fiscal or financial disruption in Europe–or even the fear of it–generally sends financiers to the safe haven of the US dollar. This sends the US dollar upward at the expense of all other currencies, including the Canadian dollar.

Chart 2. Forecast growth in Canada and Ontario economies

Source: PwC Internal Forecast



91 days, 748 deals, $45.8 billion
Canadian M&A: Q2 in brief

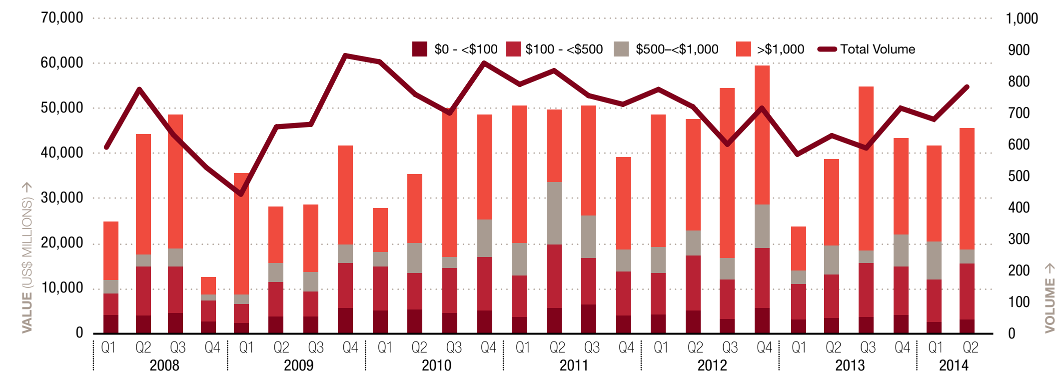
Year to date, global deal volume has reached its highest level in seven years, as buyers take advantage of a strong equity market, cheap financing and healthy cash balances. Eerily similar to the pre-crash market observed in 2007, some market speculators are calling for another bubble. However, unlike 2007, where companies were loading up on debt, this latest wave of M&A is driven by pent up demand and cash-rich balance sheets.

The Canadian M&A market had a strong second quarter with both deal volume and value up 10% from Q1 2014 and nearly 20% year over year.

Big deals (>US$1 billion) have taken centre stage, up 10% year over year in volume and a massive 39% in value. In the mid-market, the US$100-500 million size bracket saw 30% sequential growth in volume, and 20% growth in value.

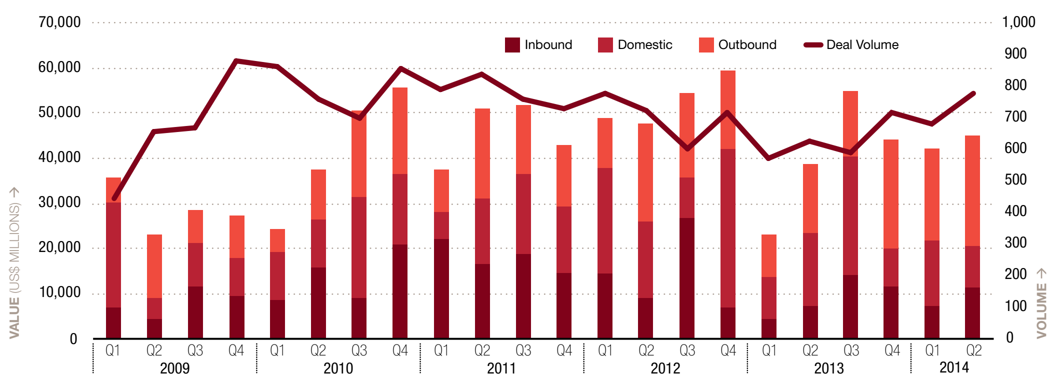
Cross border deals were the prevailing theme this quarter, with a 35% increase in inbound deal value and 26% in outbound deal value from Q1 2014. Total value for domestic deals declined 28% quarter over quarter.

Quarterly Canadian M&A activity
by value and volume, 2008–2014



Sources: S&P Capital IQ, PwC Analysis

Quarterly Canadian M&A inbound, domestic and outbound activity
by value and volume, 2009–2014



Sources: S&P Capital IQ, PwC Analysis

> *"We're seeing companies become increasingly aggressive, not taking no for an answer as hostile activity heats up. Valuation is high in a 'risk-on' environment, as corporate and private equity buyers search for growth and value creation opportunities."*

Nicolas Marcoux,
Canadian Deals Leader

Top 10 transactions
Q2 2014, by value

	Announced date	Target / Issuer	Seller(s)	Buyer(s) / Investor(s)	Total transaction value *US$mm, historical rate*
1**	22 Mar 2014	Allergan Inc. (NYSE:AGN)	BlackRock, Inc. (NYSE:BLK); HBM Partners Ltd.; Pershing Square Capital Management, L.P.	Valeant Pharmaceuticals International, Inc. (TSX:VRX)	53,000
2	04 Mar 2014	Pinafore Holdings B.V.	Onex Corporation (TSX:OCX); Canada Pension Plan Investment Board; Pinafore Coöperatief U.A.	The Blackstone Group, Private Equity Group	7,340
3	12 Jun 2014	Rational Group Limited	—	Amaya Gaming Group Inc. (TSX:AYA)	4,900
4	01 May 2014	SNC-Lavalin Energy Alberta Ltd. and AltaLink Holdings, L.P.	SNC-Lavalin Transmission Ltd.	Berkshire Hathaway Energy	2,915
5	23 Jun 2014	Kentz Corporation Ltd (LSE:KENZ)	BlackRock, Inc. (NYSE:BLK); Standard Life Investments Limited; Legal & General Investment Management; Artemis Strategic Asset Management Ltd.; Schroder Investment Management Limited; Majedie Asset Management Limited; Medu Capital; Kerbet Ltd.; NFU Mutual Investment Services Limited; Artemis Investment Management LLP	SNC-Lavalin Group Inc. (TSX:SNC)	1,942
6	26 Jun 2014	Encana Corporation, Bighorn Assets In The Alberta Deep Basin	Encana Corporation (TSX:ECA)	Jupiter Resources Ltd.	1,866
7	16 Mar 2014	Air Distribution Technologies, Inc.	American Capital, Ltd. (NasdaqGS:ACAS); Canada Pension Plan Investment Board	Johnson Controls Inc. (NYSE:JCI)	1,600
8	14 Mar 2014	Caracal Energy Inc. (LSE:CRCL)	Mackenzie Financial Corporation; GIC Pte. Ltd.; Legal & General Investment Management; Estate of Bradley D. Griffiths	Glencore International AG	1,491
9	02 Jun 2014	PHH Vehicle Management Services, LLC	PHH Corporation (NYSE:PHH)	Element Financial Corporation (TSX:EFN)	1,403
10	16 Jun 2014	DTZ Holdings plc	UGL Limited (ASX:UGL)	TPG Capital, L.P.; Ontario Teachers' Pension Plan; PAG Asia Capital	1,141
	**Excluded from value and volume analysis due to uncertainty of outcome				87,807

By sector, commodities remain the leaders in value and volume, with the energy sector taking first and second place respectively. Consumer discretionary takes the number two spot with Blackstone's US$7.3 billion acquisition of Pinafore Holdings (parent company of Gates Corporation) from Onex and CPPIB.

Gates Corporation produces components used in diverse industrial and automotive applications, underscoring the heightened deal activity seen in the auto sector in the last 12 months.

Also taking a top five spot was the consumer services sector, with Montreal-based Amaya Gaming Corporation's US$4.9 billion acquisition of Rational Group Ltd., the operator of PokerStars and Full Tilt Poker, making Amaya the largest publicly traded online gambling company in the world.

This quarter's largest announced deal comes from Valeant Pharmaceutical's US$53 billion bid for Botox maker Allergan Inc. Partnering with Pershing Square's famed activist investor Bill Ackman, Valeant's bid has taken a hostile tone as troubled Allergan seeks ways to fight back, rejecting the offer several times. Though Valeant has already received financing for the deal from RBC and Barclays, the outcome of this deal hangs in the balance as the saga continues to unfold.

Top five targeted industries
by value

Q2 2014

Industry	Percentage of value
Energy	22%
Consumer Discretionary	16%
Consumer Services	12%
Industrials	11%
Real Estate	10%
Others	29%
Top five total	**71%**

Top five targeted industries
by volume

Q2 2014

Industry	Percentage of value
Metals & Mining	22%
Energy	15%
Industrials	12%
Real Estate	12%
Software & Services	9%
Others	32%
Top five total	**68%**

Sector report Q2 2014

Energy: Supply wars heat up as Russia strikes a mega-deal with China.

Shaking up the global natural gas market, in May, Russia struck a massive 30-year supply deal with China for US$400 billion worth of natural gas. The agreement comes after a decade of failed attempts to bridge the supply and demand gap between two major global emerging markets. The deal is expected to spur the construction of massive gas fields in eastern Siberia, and the development of over 4,000 kilometers of pipelines.

Struck during the peak of the crisis in Ukraine, and as Europe and the US sought to isolate Russia from gas trade, the deal sent a strong message to Russia's trading partners, with President Putin effectively signaling: we don't need you, we've got China.

The project is expected to cost US$55 billion, with China reportedly fronting the first US$20 billion to build pipelines to transport natural gas to Beijing and the southern Yangtze River region. Russia's OAO Gazprom, the world's largest gas producer, will sell the gas for approximately US$9.91/mmBtu.

What does this mean for Canada? As stated in our Q1 Capital Markets Flash report, British Columbia's Liquefied Natural Gas ("LNG") market has been heating up with recent investments in Petronas' CA$36 billion LNG project. According to Shamsul Azhar Abbas, CEO of Petronas, the Russia-China deal will not compete directly with the Canadian project, stating "[the project has] a buyers consortium. As far as China is concerned, they have a very huge need for energy."

While Canadian LNG projects remain well behind those of international competitors, according to BC Premier Christy Clark, Canadian suppliers offer reliability over the long term. Speaking at a news conference, Premier Clark said "Being honourable, being trustworthy, providing the assurance that we are not going to play politics with energy. I think that's worth a lot to our potential customers out there, especially for China."

Still, the pipeline project represents the lowest cost method of natural gas transport into China, making sea-borne LNG imported from Australia, US and Canada less competitive in terms of of pricing; while priced at US$4.50-4.90/mmBtu, sea-borne LNG is estimated to cost US$14-18/mmBtu by the time it reaches China.

North American producers of LNG continue to work toward developing newer technology to narrow the gap between the cost of production and price expectations of Asian buyers, but with oversupply of natural gas and newer, cheaper sources sprouting from Russia, competition is heating up, fast.

Prognosis: *"Canada will need to move quickly if it wants to be a player in the international LNG market. Innovation and improving technology to reduce the cost of liquefying natural gas will enable Canada to compete on a global scale. While political stability favours North American energy suppliers, cost will continue to be a major factor amongst Asian buyers," says Kris McConnell, National PwC Deals Leader, Energy.*

> *"Canada will need to move quickly if it wants to be a player in the international LNG market."*
>
> **Kris McConnell,**
> National PwC Deals Leader, Energy

Pharma: Big Pharma, big deals

M&A is back in full effect for Big Pharma this year, with major announcements from giants such as Pfizer, Novartis, Eli Lilly and GlaxoSmithKline ("GSK") all hitting the tape in Q2.

Armed with cash-rich balance sheets and driven by the need for growth and scale, Big Pharma has turned its attention away from small, innovative tuck-ins to bigger targets to move the needle on revenue and fill their pipelines. Q2 began with a mega-asset swap as GSK and Novartis traded oncology and vaccine assets and Eli Lilly picked up Novartis' animal health unit for US$5.4 billion.

Though unsuccessful, Pfizer's US$116 billion bid for AstraZeneca highlighted another major theme for US-based pharma companies, who are desperately seeking tax inversion strategies as Congress begins to crack down on corporate tax rates. Amongst those seeking cross-border benefits are AbbVie, with its recently increased US$51 billion bid for Dublin-based Shire Plc., Medtronic's US$43 billion takeover of Ireland's Covidien, and Perrigo's US$8.6 billion takeover of Dublin-based Elan Corp.

Taking centre stage is Valeant's partnership with Pershing Square's Bill Ackman in an aggressive bid for Allergan. Beginning at US$46 billion, Valeant has inched its bid up to US$53 billion, as Allergan does everything in its power to avoid the takeover, including a possible bid for Shire.

Valeant's CEO Michael Pearson has not been shy about his "buy and build" strategy,

"This year's bull market for life science stocks has created an active deals environment for Big Pharma."

Bob Singh,
Canadian National Leader, Pharmaceuticals and Life Sciences

stating that investing in R&D is wasteful and unproductive. And what a run he's had. In the last 3 years, Valeant has made over 25 acquisitions, and increased its stock price 155%. Coming on the heels of its US$8.7 billion acquisition of Bausch & Lomb, and, according to Pearson "represents an undeniable opportunity to create extraordinary value for both Allergan and Valeant shareholders by establishing an unrivaled platform with leading positions in ophthalmology, dermatology, aesthetics, dental and the emerging markets".

Earlier this year, Pearson stated Valeant would strive to be one of the top five pharmaceutical companies in the world by the end of 2016, a strategy that will mean tripling its market cap to US$150-billion. Whether or not the Allergan bid is successful, you can be sure Valeant will be on the hunt for growth.

This M&A momentum is not expected to slow. "This year's bull market for life science stocks has created an active deals environment for Big Pharma. Increasing shareholder pressure to deliver growth and profitability means companies will turn to M&A to fuel growth thorough the balance of 2014," says Bob Singh, PwC's Canadian National Leader, Pharmaceuticals and Life Sciences group.

Food and beverage: Bulking up in the protein sector

Was there ever a better time to be in the protein business? Company valuations are soaring. Both global and local themes have driven up the value of protein based businesses. Rising median incomes in Asia contribute to a greater global demand for protein. In Canada and the US, the ever-present "battle of the bulge" has consumers turning to high-protein diets as the latest theme in weight loss. Consolidation in the protein sector allows larger companies to maintain pricing and shelf space across an increasingly consolidating retail grocery landscape.

Bidding wars have ensued. In June, Tyson Foods emerged as the successful buyer of Hillshire Brands after Hillshire's Board of Directors had previously received (and recommended acceptance of) an offer from Pilgram's Pride. Tyson's is the largest chicken processer in the US and a major processor of beef and pork. Hillshire is a producer of branded meat products including Jimmy Dean sausages and Ball Park hot dogs. The valuation of the Hillshire is high. Tyson's US$8.55 billion purchase price represents an effective trailing twelve month EBITDA multiple of 16.7x or 10.5x after adjusting for estimated annual synergies of US$300 million.

It's not just meat. In February, Vancouver's Golden Boy Foods, a private label manufacture of peanut butter and other nut butters, was acquired by Post Foods for US$320 million, or approximately 9x Golden Boy's estimated 2014 Adjusted EBITDA.

Last November, Hormel Foods acquired the Skippy peanut butter business from Unilever for US$700 million. Peanut butter remains the second most popular protein source in sandwiches across the US behind ham.

Valuations of publicly traded Canadian protein companies such as Maple Leaf Foods, High Liner Foods and Clearwater Seafoods are at or near historical highs. In the case of Maple Leaf, this is particularly impressive, since the company's protein business is in the midst of a major operational restructuring and recently reported a trailing twelve month EBITDA margin of -1.3%.

The protein sector attracts global players. North America's highly regulated, standardized farming industry is hard to replicate. In an age where everything is cheaper in Asia, meat production remains most profitable in developed markets, particularly North America. So if you can't make it, buy it. Smithfield Foods, the largest pork producer in the US, is now owned by China's Shuanghui International. Alberta's XL Foods is owned by Brazil's JBS. JBS is also a 75% shareholder in Pilgram's Pride, the unsuccessful bidder in the Hillshire Brands contest. In our own backyard, speculation of an eventual foreign takeover of Maple Leaf Foods is rampant.

The protein sector is not without its challenges. The US and Canadian pork sector continues to struggle with the porcine epidemic virus that has reduced the supply of hogs and sharply driven up pork prices. Canadian chicken and commercial fish supplies are controlled by a strict provincial quota system. The North American beef sector has struggled with e-coli contamination and mad cow disease. While such challenges create operational complexity, they also contribute to scarcity of protein.

Protein players are capturing higher margins from value-added processing. Consumer demand for "free of" protein is rising. Competition amongst branded and private label protein products is fierce.

> *"Strategic players and private equity firms are aggressively pursuing acquisition opportunities in the protein space. Lenders are fully supportive. Expect valuations to remain strong in this segment for the foreseeable future."*
>
> **Brooke Valentine,**
> Partner, Corporate Finance Toronto

SPOTLIGHT ON

Medicinal marijuana: A "budding" new sector in Canadian healthcare

On April 4, Tweed Inc. became Canada's first publically traded medicinal marijuana ("MMJ") company, representing a new and rapidly growing industry, aided by regulatory and legislative reform from the Federal Government.

Currently approximately 37,000 Canadians use MMJ to relieve pain, nausea and other symptoms of debilitating diseases such as cancer, spinal cord injury, Parkinson's and glaucoma. With over 30 medical conditions currently applicable for MMJ therapy, expansion of the market seems almost certain. Health Canada estimates 450,000 users by the year 2024, with revenue potential of CA$1.3 billion (1g/patient/day).

While controversial, global acceptance of the legalization of MMJ is growing, with the US, France, Uruguay, Switzerland, Austria and Israel all adopting new policies to regulate MMJ use and distribution. With over 50 public companies involved in MMJ and the recent legalization of marijuana in Colorado and Washington, the smoke is slowly drifting its way across North America.

Until recently, in Canada, patients with certain conditions could apply for a license to grow their own marijuana at home for personal use. On October 1, 2013, the Federal Government introduced new legislation mandating all home-grown production to be phased out by March 31, 2014. In its place, production and distribution of MMJ would be permitted through government licensed and regulated indoor marijuana farms. With no restriction on the number of facilities or regulation around product pricing, this new law has created a flurry of interest from hundreds of "potpreneurs" seeking to profit from MMJ.

Ottawa's fall announcement generated an initial pool of 156 applicants seeking MMJ licenses, eager to capture their slice of the pot pie.

However, as the March 31 deadline approached, home-growers successfully won a federal court injunction that effectively delays the new rules from coming into effect. All home-growers with valid licenses through September 30, 2013 are allowed to keep growing their own weed for the time being. Ottawa has since stated it is appealing this ruling.

Regardless, momentum hasn't slowed. Currently 14 companies hold MMJ production and distribution licenses in Canada. After Tweed's IPO in early April, Health Canada received a whopping 858 applicants in the month of May alone.

In 2014, there have been some 30 M&A transactions in the MMJ space in the US and Canada, as smaller producers (including farmers) are being scooped up by bigger

players with the capital to grow. Private investors like the space too, investing over CA$50 million in just a handful of MMJ companies this year alone.

But does it work? In the medical community, the jury is still out. According to Health Canada, only 7% of all physicians and 14% of family doctors support active authorizations to possess medicinal cannabis. In the US, a recent survey on WebMD revealed 69% of doctors agree that MMJ can help with certain medical conditions and 67% say it should be a medical option for patients.

As for Tweed, the company is actively taking steps toward increasing the acceptance of MMJ with a recently inked research partnership with the University of Ottawa and Ryerson University. According to CEO Chuck Rifici, "These projects will shed insight into everything from ideal growing conditions to the very question of what makes medical marijuana an effective medicine".

Prognosis: *Estimated to reach the billion dollar mark by 2024, the Canadian MMJ market holds promise to be the next big thing. Uncertainty remains, and the segment is not without its controversy. We're keeping our eyes and ears open for legal and regulatory decisions in the near term, which could meaningfully change the pace and direction of the MMJ segment in Canada.*

"Uncertainty remains, and the segment is not without its controversy. We're keeping our eyes and ears open for legal and regulatory decisions in the near term, which could meaningfully change the pace and direction of the MMJ segment in Canada."

Clinton Roberts,
National PwC Deals Leader, Agribusiness

SPOTLIGHT ON

Moving again: Deals in the Canadian trucking industry

After years of quiet attributed to the impact of the economic recession, M&A is on the rise again in the trucking industry. Big companies are getting bigger, while many mid-sized companies are either being acquired or are struggling.

"The industry remains competitive – not in terms of price, but labour. In 2014, competition around labour has really heated up," says Mark Seymour, Chairman of the Canadian Trucking Alliance and President and CEO of Kriska Transportation.

Such competition is likely spurring M&A. "There's been quite a bit of deal activity in the transportation sector recently," says Eric Castonguay, leader of PwC's Transportation and Logistics team for the Deals practice. "Mostly in the middle market—deals that range from $20-200 million."

> *"The industry remains competitive – not in terms of price, but labour. In 2014, competition around labour has really heated up."*
>
> **Mark Seymour,**
> Chairman of the Canadian Trucking Alliance and President and CEO of Kriska Transportation

M&A activity is also getting stronger because Canada's economy is generally in a low growth phase. "Significant organic growth requires gaining market share in a competitive and low margin business," says Castonguay. "Acquisitions are often an attractive alternative. Specialized freight and logistic companies are particularly sought after."

An issue of capacity

A professional driver shortage is also affecting organic growth for some companies in the sector. “There is so much demand for capacity,” Seymour says. “It’s going to be very tough [for companies] to provide customers with what they want going forward if they don’t have a lot of capacity.”

While in years past, companies primarily used M&A to increase their customer base, times have changed. “Companies [acquirers] are more interested in safety, discipline and compliance—those fundamentals, rather than who the target’s customers are,” Seymour believes.

The perceived professional driver shortage isn’t affecting all companies the same way. Don Streuber, President and CEO of Winnipeg-based Bison Transport Inc. has long recognized the importance of engaging and respecting professional drivers within his organization. “We have a very active professional driver management program—one based on creating a respectful workplace,” he explains. As a result, Bison Transport has one of the lowest professional driver turnover rates in the industry.

In trucking, private deals are the norm

In a market predominantly made up of private players, deals typically happen outside of the public spotlight. While this makes it somewhat difficult to quantify deals potential in the sector, it doesn’t mean they aren’t happening.

Times are changing:

The professional driver shortage isn’t the only issue driving the trucking agenda. Environmental compliance, mandatory entry level training, and electronic onboard recording also have the potential to transform the industry over the next few years.

“There’s a high degree of motivated vendors at present fueling M&A activity,” says Streuber. “These vendors are [primarily] owner managers ready to retire.”

During the recession, many owner managers held off on looking for buyers, hoping value would rebound. It has taken longer than many expected, but Castonguay believes companies are worth more now than they have been in the past.

At least some companies are. Canada’s publicly traded trucking companies have certainly outperformed the market index. “Buyers are interested in companies that optimize their businesses. They are looking for organizations that are well run and well capitalized, and that have sticky relationships with their clients,” Castonguay explains. “Companies that have underinvested are much harder to sell.”

Seymour agrees. “Acquirers are not in the business of fixing broken companies. They want to make their businesses bigger and add capacity,” he says.

Motivated vendors are driving M&A success

The fact vendors are motivated matters a great deal, especially for companies wanting to use M&A to do more than expand their geographic reach. “We [Bison Transport] have historically grown on an organic basis,” Streuber says. “As we achieved critical mass, we began to use M&A for diversification.”

The challenge with diversification-focused M&A is that it takes more than commitment on the part of the acquirer; the vendor also needs to buy-in to the objectives of the deal. “Retiring owner managers of companies [under 100 trucks in size] have been critical in the growth, development and maintenance of their businesses,” Streuber explains. “They need to be our teacher in the business.”

This collaborative model creates a strong basis for success. The acquirer can learn the business and transition relationships while putting additional capabilities in place to scale up the business according to their growth strategy.

Castonguay believes that without the buy-in and support of the retiring owner manager, such acquisitions would be hard pressed to achieve their desired outcomes.

Future focus: M&A will continue to drive strategy

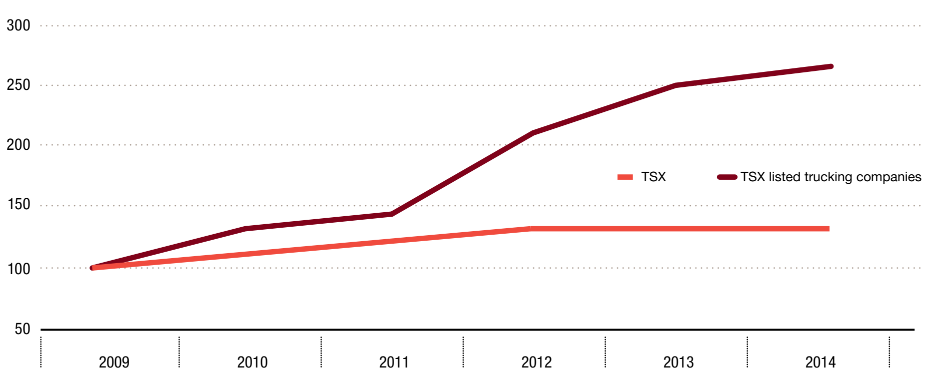
Castonguay expects the number of industry deals will continue to grow over the next 18 months as the economic outlook brightens and companies move forward with expansion and growth plans. This future M&A may not be limited to the domestic market. Bison Transport's acquisitions of Britton Transport Inc. and Scott's Express, Inc. and TransForce's acquisition of Transport America indicate that trucking companies are looking across North America for opportunities to grow, integrate and diversify their businesses.

While some Canadian companies are interested in the US, Seymour expects much of the interest to come from the opposite direction. "For larger US companies ... it's a way to grow their capacity by gaining access to professional drivers who have the ability to cross the border," he explains. "For US companies, it is a chance to really improve their reach because most Canadian companies only hire professional drivers who can cross the border."

Target: Canada

In late 2013, Indiana-based Celadon Group acquired Saskatoon-based Yanke as part of its strategic effort to expand the company's Canadian footprint. Other large US companies are also beginning to show interest.

TSX Performance vs. TSX Listed Trucking and Logistics Companies Performance
(Index 2009)



Sources: Capital IQ

PwC Q2 IPO survey

Stars align for second quarter rebound in IPO market

The market for initial public offerings (IPOs) in Canada bounced back in the second quarter with an impressive CA$2.1 billion total raised on the TSX, the quarterly PwC survey of Canadian equity markets revealed.

Five new issues on the TSX each raised proceeds of CA$100 million or greater, including the CA$1.4 billion PrairieSky Royalty Ltd. issue, and reversed the nearly flat line of the chart from the first quarter of the year. The PrairieSky issue was the largest single placement since the CA$1.3 billion Athabasca Oil Sands Corp. (Athabasca Oil) issue of 2010.

The second quarter performance was up from the CA$3.8 million raised on the TSX Venture in the first quarter of the year, which saw no activity on the TSX.

The change in fortune for the IPO market in the quarter suggests a window has opened for new equity issues from quality companies from across industries, says Dean Braunsteiner, national IPO services leader at PwC.

"The stars have aligned for companies with sound businesses and a good story to tell," says Braunsteiner. "The quarter sent us a clear signal: There is growing optimism in the market, there is the expectation of reasonable economic growth and there are investors seeking opportunities in companies with both growth potential and established revenues. The window is open for companies ready to take advantage of this market.

"The variety of sectors giving us IPOs in the quarter speaks to the generally positive climate," adds Braunsteiner. "New issues from the oil and gas sector, the manufacturing and technology sectors and from financial services suggest investors are looking across the spectrum for good opportunities.

"This is an exciting time for Canadian IPOs, with year-to-date value up by CA$800 million over the same period last year. Q2's performance paves the way for a strong wave of equity issues in the near term."

Geoff Leverton,
Partner, Transaction Services

The improvement of IPO activity on the TSX failed to drag the TSX Venture out of its slump. There was only one new issue on the TSX Venture exchange in the second quarter of 2014 and just two IPOs in the first quarter – a sign that junior mining companies continue to struggle to attract investment in a period of commodity price volatility.

Total proceeds for the first six months of this year reached more than CA$2.1 billion from nine IPOs on all exchanges in Canada vs CA$1.3 billion from 17 new issues in the first half of 2013. The second quarter of 2014 is the largest since the second quarter of 2010, which recorded 16 IPOs worth CA$2.4 billion. Over the past decade, 2010 holds the record for the largest IPOs from January to June with a total of 32 issues at a value of CA$2.9 billion.

PwC has conducted its survey of the IPO market in Canada for more than 10 years. The reports are issued on a quarterly basis to provide information to the corporate sector, investors, the media and others that will help them put the market into better perspective. For the purposes of the survey, investment vehicles such as structured products are not considered IPOs because they do not represent new equity raised for operating companies.

BY LORI-ANN BEAUSOLEIL

Dealing in Emerging Markets

Expanding in emerging markets demands a careful touch, but the rewards far outweigh the risks

WHEN IT COMES to global expansion, Canadian companies are typically a cautious bunch. This may be why only 30 per cent of them have operations in emerging markets where there's a higher risk of corruption, compared to 50 per cent of organizations globally. Caution, however, could be keeping Canadian companies – particularly those in mining, oil and gas, engineering and construction – from achieving their full potential.

There's no doubt that Canadian companies working in these countries are faced with many challenges, including a lack of enforcement mechanisms. But there are success stories, and these owe their success in large part to having a board, management and staff that understand and can navigate the maze of cultural, regulatory and legal issues in foreign jurisdictions.

However, while 38 per cent of Canadian respondents to our 2014 Global Economic Crime Survey are pursuing opportunities in emerging countries, less than half of them plan on changing their current processes, internal controls or policies to address corruption risks, relying instead on traditional North American due diligence and risk management, which may not be appropriate in these markets.

"With the *Foreign Corrupt Practices Act* [FCPA], the UK *Bribery Act* and the most recent changes to the Canadian legislation [the *Corruption of Foreign Public Officials Act* (CFPOA)], clearly that isn't sufficient," says Sally Gomery, a partner at Norton Rose Fulbright Canada LLP. "There needs to be new attention paid. That takes an investment of time, money and resources."

An advisor can provide the cultural and regulatory awareness essential for conducting due diligence and deal integration, but the company must have a culture in place that supports compliance. Being proactive on anti-bribery and corruption (AB&C) activities, for example, can make a real difference during post-deal integration. In the US, the Securities Exchange Commission and Department of Justice have often decided *not* to take action against companies that voluntarily disclose issues, instead working with them on remediation.

Advisors can also focus a company's attention on risk areas, such as the use of third-party contractors. "Recent Canadian cases have proven that there is potential liability when an agent or third-party contractor manages an important aspect of a company's business," explains Ken Jull, a partner at Baker and McKenzie LLP. "Before an acquisition, it is important to determine whether the target has an appropriate due diligence process in place, one that covers third parties."

At PwC, we'll often work with companies and their counsel throughout the deal integration or new entry process to develop cost-effective, yet robust, AB&C programs — including setting up the right controls to govern compliance, which include monitoring of sensitive activities and a schedule for regular audits and site visits.

But most importantly, we ensure everyone is trained on their regulatory responsibilities. Training is the most critical part of complying with bribery and corruption regulations. One weak link can lead to litigation, and lack of knowledge is not a legitimate defence. By training everyone involved on both regulatory requirements and on how to navigate cultural differences, companies can ensure everyone they work with is on the same page with respect to what is and is not appropriate behaviour.

"Continued due diligence after a transaction is also very important and will be rewarded," Jull says. "Under the FCPA in the US, they will be fairly forgiving if you acquire a company and find problems after the fact, if you self-disclose."

General counsel should take an active role throughout the deal integration and after the integration process — from helping develop the AB&C program to monitoring compliance-sensitive activities. By staying on top of issues, regulatory changes and sensitive transactions, general counsel can keep inappropriate activities in check.

Ultimately, Canadian organizations have a right to be cautious when considering deals in emerging markets. Securities commissions in North America and abroad have made a strong commitment to enforcing AB&C regulations, and we've already seen three corporate convictions under the CFPOA, and the first individual conviction in Canada.

At the same time, organizations should not be intimidated by corruption risk. With robust deal, vendor and third-party due-diligence procedures, supported by experienced advisors who can provide cultural, regulatory and legal expertise, companies can make informed decisions on how to manage risks in these emerging markets where they want to grow.

Lori-Ann Beausoleil, CA, Deals Partner, is National Leader of PwC's Forensic Consulting practice.

PHOTO: SHUTTERSTOCK

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Achieving deal success— from concept to close and beyond

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The PwC Deals team helps clients raise capital and complete acquisitions, divestitures, or strategic alliances. We add value across the entire deal spectrum, from concept to close and beyond, by:

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- managing your go-to-market strategy;
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- supporting your deal with due diligence, including fraud and/or anti-bribery and corruption assessments, valuation, integration and tax advisory services; and
- implementing changes to deliver deal synergies.

Our Canadian Deals team is part of the world's largest Transaction Advisory practice[1]. Our approach helps clients to source and execute deals faster and on more favourable terms, while minimizing business disruption and risk.

We look forward to your call.

Nicolas Marcoux
Canadian Deals Leader
nicolas.marcoux@ca.pwc.com
+1 514 205 5302

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For more information, please contact:

Stephen Martin

Partner, Economics and Statistics Practice Leader
+1 416 941 8350
stephen.g.martin@ca.pwc.com

Author

Dale Orr, Economics and Statistics

Our IPO Services practice

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For more information, please contact:

Dean Braunstiener

National IPO Services Leader
+1 416 869 8713
dean.braunsteiner@ca.pwc.com

Geoff Leverton

Partner, Transaction Services
+1 416 815 5053
geoff.m.leverton@ca.pwc.com

Contact us
Your PwC Deals Leadership Team

Nicolas Marcoux*
Canadian Deals Leader
Corporate Finance
PricewaterhouseCoopers Corporate Finance Inc
nicolas.marcoux@ca.pwc.com
+1 514 205 5302

Lori-Ann Beausoleil
Forensic Services
Regulatory Compliance, Risk and Controls
lori-ann.beausoleil@ca.pwc.com
+1 416 687 8617

Ken Goodwin
Valuations, Modelling and Disputes
ken.goodwin@ca.pwc.com
+1 416 814 5760

Steven Henderson
Forensic Services
steven.p.henderson@ca.pwc.com
+1 416 941 8328

Jim McGuigan*
British Columbia
jim.j.mcguigan@ca.pwc.com
+1 604 806 7594

Johanne Mullen
Infrastructure and Project Finance
johanne.mullen@ca.pwc.com
+1 514 205 5080

David Planques
Corporate Advisory and Restructuring
david.planques@ca.pwc.com
+1 416 815 5275

Helen Mallovy Hicks
GTA
helen.m.mallovy.hicks@ca.pwc.com
+1 416 814 5739

Miriam Pozza
Quebec
miriam.pozza@ca.pwc.com
+1 514 205 5286

Dominic Ricketts
Transaction Services
dominic.ricketts@ca.pwc.com
+1 416 687 8408

Clinton Roberts
Alberta
clinton.l.roberts@ca.pwc.com
+1 403 509 7307

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Editorial team

Brooke Valentine
Eric Castonguay
Shivalika Handa
Eric Lemay
Martin Houle
Brandon Roopnarinesingh

All dollar amounts are expressed in US dollars, unless otherwise noted.

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- Total Transaction Value: Equal to Total Consideration to Shareholders + Total Other Consideration + Total Deferred/Earnout/Contingent Payments + Total Rights/Warrants/Options + Cash and Short Term Investments + Net Assumed Liabilities + Adjustment Size.

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