

Middle Market M&A Update

Q2 2021



M&A Market Summary

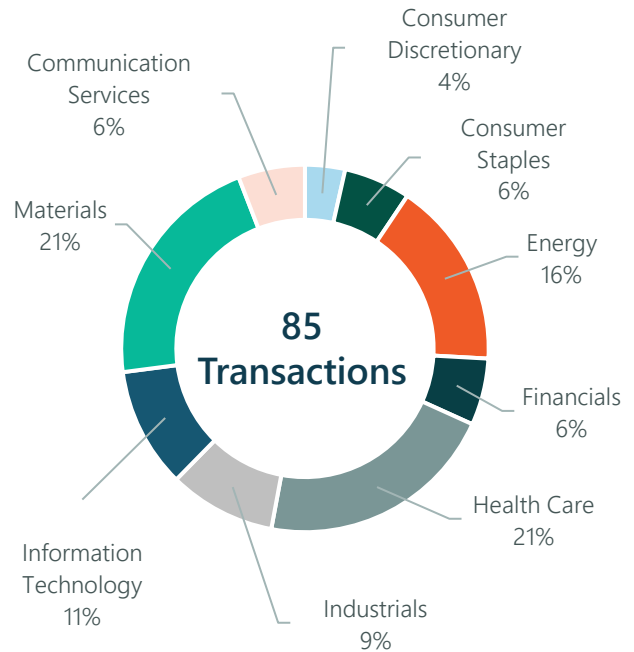
Canadian Mid-Market

Aggregate deal value for the quarter decreased slightly to \$5.7 billion, across 85 transactions. By comparison, Q1 2021 totalled \$5.8 billion in deal value across 87 transactions, which was the highest quarterly mid-market deal volume in Canada since Q4 2017. Continued equity markets strength and low interest rates have supported M&A deal making. Increased activity over the past two quarters suggests that investor sentiment is increasingly positive.

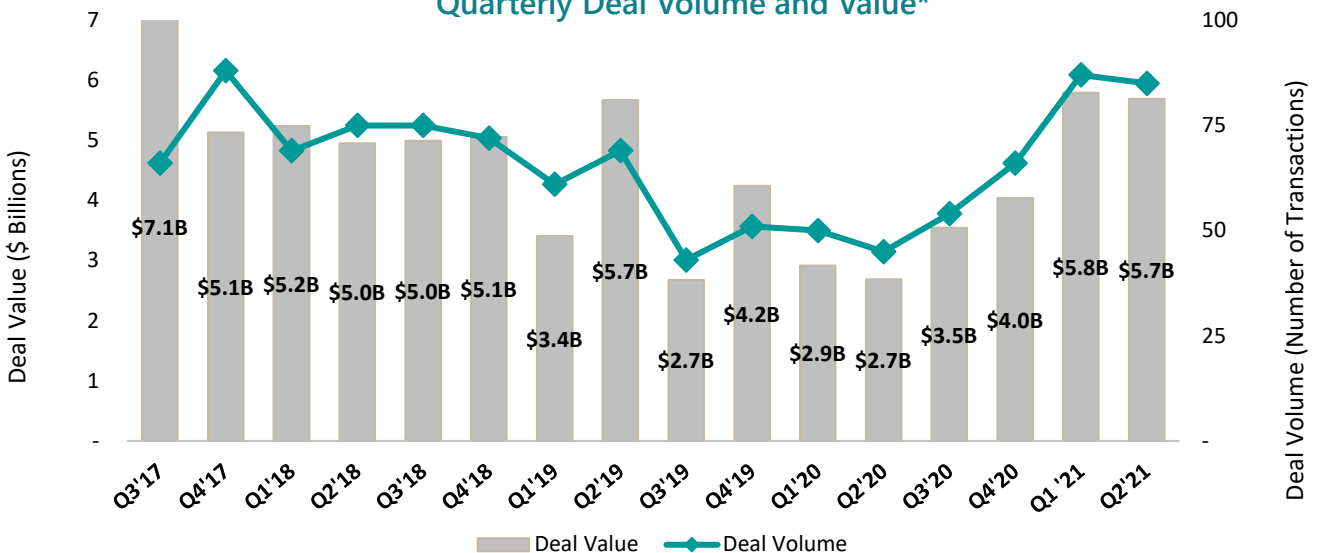
The chart to the right summarizes transaction volume per sector, as defined by the S&P/TSX Composite Index. The mix of transactions compared to last quarter indicates higher volumes in health care, energy, and financials.

- Materials accounted for 21% of total deal volume with 18 deals made in the quarter, nine of which relate to gold mining.
- Health Care accounted for 21% of total deal volume with 18 completed deals. Canopy Growth Corporation closed the largest mid-market health care deal in the quarter, acquiring The Supreme Cannabis Company Inc. for \$421 million.
- Energy accounted for 16% of total deal volume, up from 11% in the previous quarter, with deal making supported by higher oil prices.

Q2'21 - M&A Volume By Sector



Quarterly Deal Volume and Value*



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

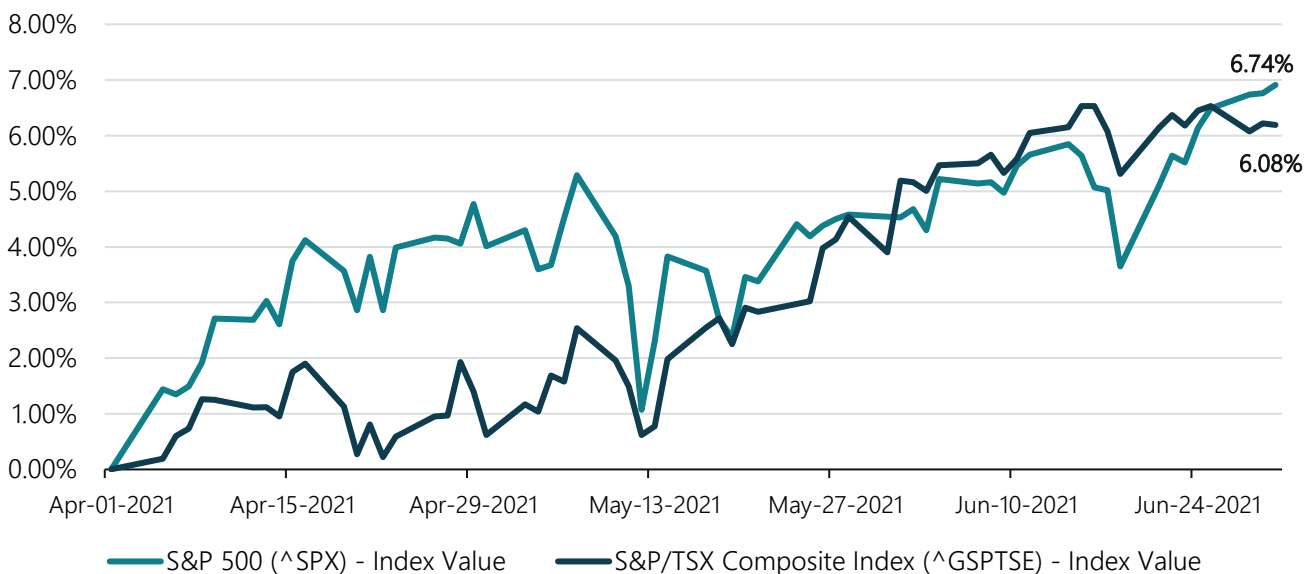
In Q2 2021, the TSX Composite posted positive gains for the fifth straight quarter, fueled by economic recovery and continued government stimulus. Ten sectors posted positive returns, including energy and information technology, which led the market with double-digit percentage gains. Out of the 236 stocks that were in the TSX Composite in Q2, 166 recorded a gain, with small caps outperforming large caps, and mid caps lagging. The index as a whole returned 6.1% in Q2 2021.

- The energy sector outperformed the broader market in Q2 2021, with a 16.2% return. Oil prices continue to trend higher as the economic recovery has led to higher demand.
- The information technology sector returned 12.9% in Q2 2021, led by Lightspeed POS (+31.0%), BlackBerry (+44.0%), and Constellation Software (+7.0%). Shopify also posted significant gains after Google announced that it will be working with the company to increase the number of merchants selling on its platform and increase its e-commerce presence.
- The health care sector delivered a loss in the quarter, posting -11.7%. The loss was largely driven by a decline in Aphria's stock leading up to its acquisition by Tilray, which took the company off the index.

Q2 2021 Sector Performance*

Sector	TSX Composite	S&P 500
Energy	16.2%	7.3%
Information Technology	12.9%	0.0%
Communications Services	7.9%	8.3%
Financials	6.7%	6.6%
Consumer Staples	3.3%	0.0%
Materials	3.2%	3.6%
Consumer Discretionary	2.4%	5.7%
Utilities	-0.3%	-1.1%
Industrials	-0.5%	3.7%
Healthcare	-11.7%	8.2%

North American Equity Indices - Q2 2021 Performance



*Sector performance based on the price change of each corresponding S&P 500 sector index over the quarter.
Sources: S&P Capital IQ, Linde Equity – TSX Quarterly Review and Raymond James – Quarterly Insights & Strategies.

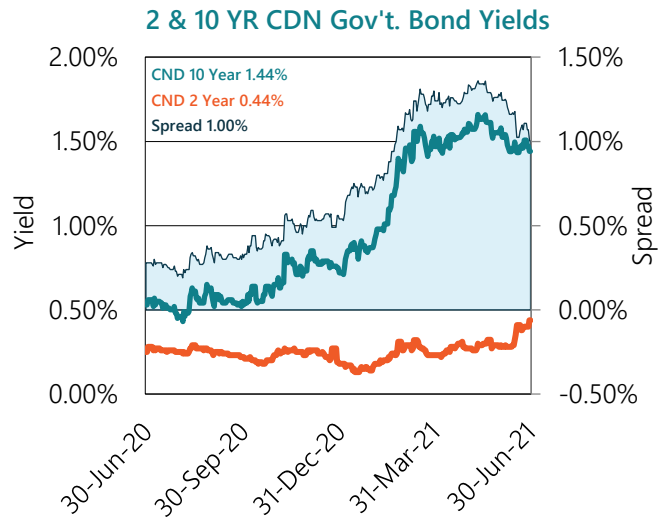
Treasury Yields

Canada

On June 9, 2021, the Bank of Canada (BoC or Bank) decided to hold its target for the overnight rate at the effective lower bound of 0.3%, which continues the BoC's decision to maintain the same overnight interest rate since March 2020. The Bank maintains a positive outlook since vaccinations have continued to be rolled out effectively, restrictions are being eased, and consumer spending is increasing. The Bank will also continue its Quantitative Easing (QE) program by purchasing large-scale asset purchases of Government of Canada bonds at a target pace of \$3 billion per week. Interest rates are expected to remain at this level until the target inflation rate of 2.0% is sustainably achieved, which the Bank expects to occur in the second half of 2022.

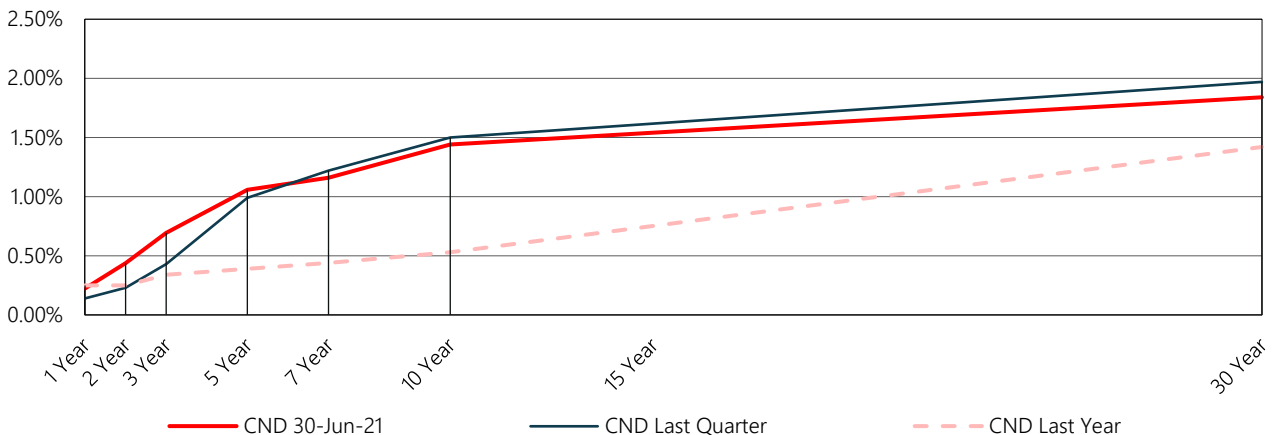
As Canada exits the third wave of the COVID-19 pandemic with falling case numbers and rising vaccine coverage, provincial containment measures have been easing throughout the summer. However, this wave dampened economic activity in the Q2 2021 as anticipated with unemployment of 8% remaining near Q1 2021 levels. CPI inflation rose to the top of the 1% to 3% control range, with core measures of inflation having risen as well, but to a lesser degree.

Since last quarter, the 10-year Canadian Government Bond Yield has gone from approximately 1.5% to 1.4%. The 2/10-year spread has decreased from approximately 1.2% to 1%. These benchmarks have fallen slightly due to the social restrictions imposed to counter the third wave of the pandemic. As the Canadian economy recovers, the Government of Canada is targeting a stable inflation rate of 2%.



Although the economy is expected to recover going into Q3 of 2021 as the effects of the pandemic lessen, the BoC anticipates that there is still a considerable amount of excess capacity in the economy, requiring continued extraordinary monetary policy support. They commit to keep interest rates low and continue their QE program to support recovery and achieve the desired level of inflation.

CDN Government Bond Yield Curves



Treasury Yields

United States

On June 17, 2021, the Federal Reserve (Fed or Committee) decided to hold interest rates near zero (0.0% to 0.3%) but have indicated that rate hikes could be coming earlier than expected as they raised their headline inflation expectation. The Committee stated it would continue to buy at least \$120 billion of bonds each month until inflation and employment has made substantial further progress.

According to the most recent release of the Fed's Dot Plot, a majority of members agree and foresee the 0.0% to 0.3% interest rate to remain until 2023. The long run shows members targeting an interest rate of 2% to 3%.

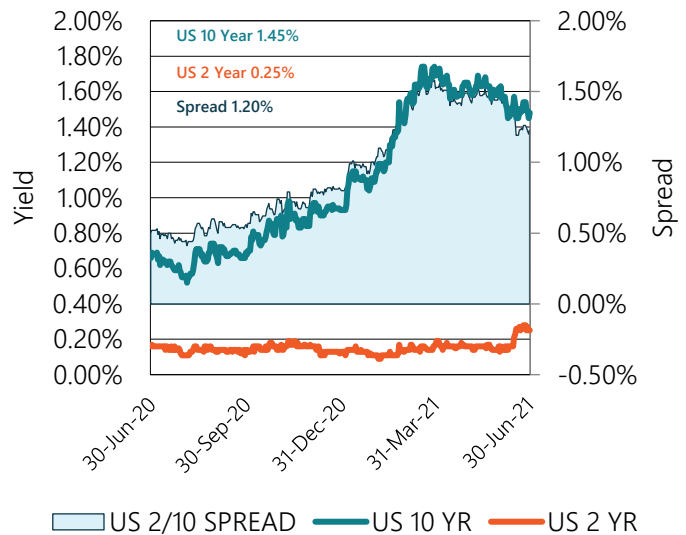
The Fed reported a change in Real Gross Domestic Product (GDP) of 7% since last quarter, which was higher than its 6.5% projection. The Fed also revised its 2023 forecast to 2.4%, while leaving the 2022 projection at 3.3%.

The 2021 median unemployment rate has been reported at 4.5%, which is unchanged from the March projection. Moving forward, the Fed expects 2022 unemployment to be 3.8% versus its initial projection of 3.9% with the 2023 projection being unchanged at 3.5%

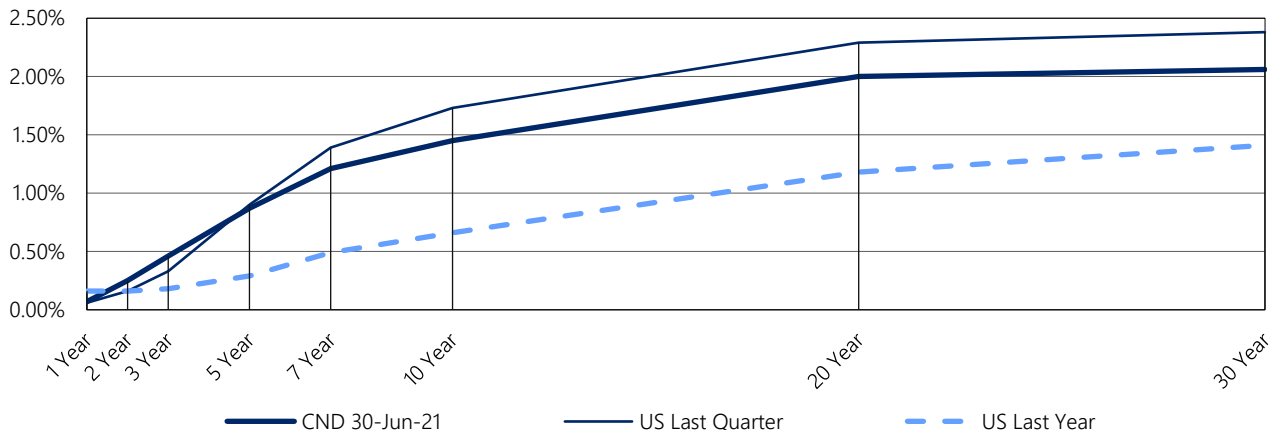
Since last quarter (Q1 2021), the 10-year US Government Bond Yield has declined from approximately 1.7% to 1.5%. The 2/10-year spread has also declined from approximately 1.6% to 1.2%.

The Fed will continue to monitor incoming information regarding the economic outlook and global developments and act appropriately to support the economy. The Committee's assessments will take into account a wide range of information, including readings on public health, labour market conditions, inflation pressures and inflation expectations, and financial and international developments.

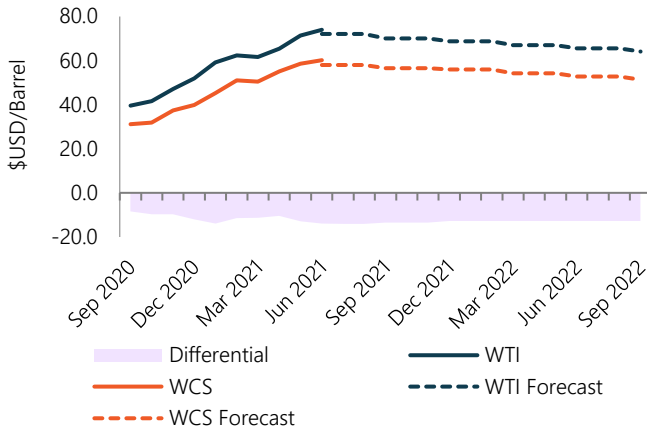
2 & 10 YR US Gov't. Bond Yields



US Government Bond Yield Curves

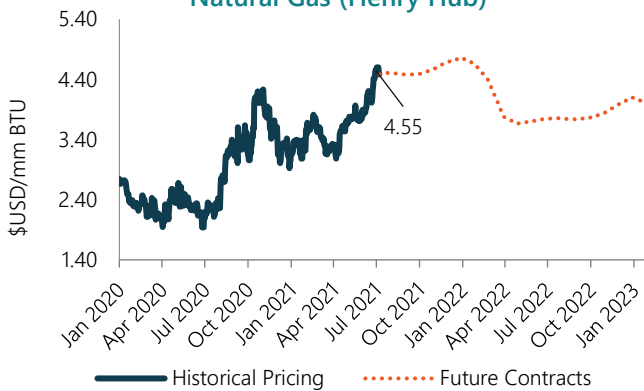


Crude Oil Differential

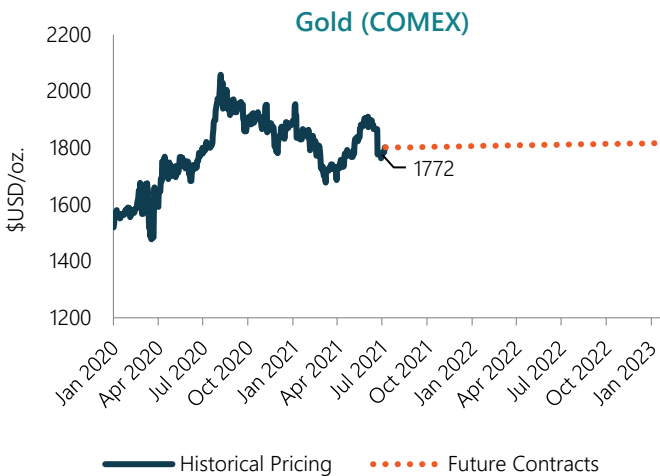


- YTD 2021 crude oil price for Western Canadian Select (WCS) has risen by ~33%, while West Texas Intermediate (WTI) has risen by ~25%.
- Since their lows in September 2020, both WCS and WTI have recovered, with prices reaching a high of ~\$60/barrel and ~\$74/barrel, respectively.
- The price differential increased to ~\$12/barrel in Q3 of 2020 and since then has grown to ~\$14/barrel at the end of Q2 2021.
- Moving forward, prices for WCS and WTI are predicted to average \$58/barrel and \$71/barrel until the end of Q3 2021 after which they are expected to stay around \$55/barrel and \$69/barrel, respectively.

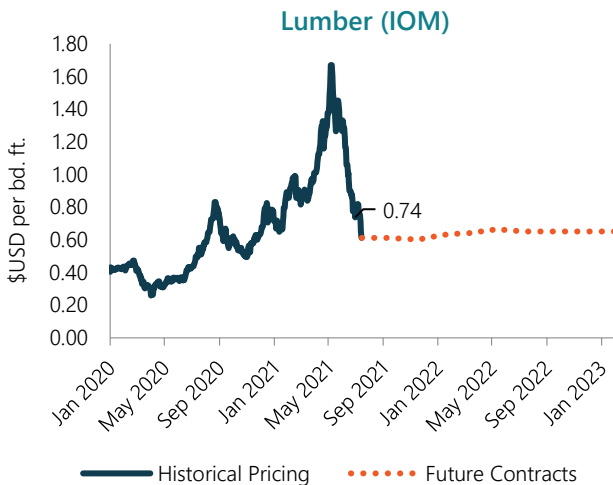
Natural Gas (Henry Hub)



- Natural gas prices grew by 37% (~\$1.2/mm BTU), since the previous quarter to ~\$4.5/mm BTU in June 2021.
- During the YTD 2021 period (Jan to Jun), natural gas prices saw some volatility with a change of ~\$1.4/mm BTU or ~43% in price.
- Since a cold summer has not panned out as expected, prices are expected to decline or at the very least remain stable during the summer months.
- A decline in prices is expected in subsequent quarters as Q3 growth is expected to be approximately -1.4%.



- Gold prices witnessed a decline of ~6.5% in YTD 2021 as prices dropped from \$1895/oz. in January to \$1772/oz. in June.
- Certainty surrounding the US currency and global markets as well as reduced Quantitative Easing measures has instilled greater confidence in many.
- A strong USD tends to have an inverse relation with gold prices as gold is priced in USD and foreign investors shift money into more traditional value sources when the currency is appreciating.
- Gold prices are expected to remain stable at around \$1800/oz average through the rest of 2021 but continue to face pressures from rising inflation and Treasury Yields implemented by the US Federal Reserve.



- Lumber prices showcased significant growth during the start of 2021 as Q1 prices rose ~41%. During Q2, prices declined back to pre-Q1 levels, falling by 40%, suffering their worst month on record dating back to 1978.
- The reversal of lumber prices came as Americans began receiving vaccinations and deploying excess savings for vacations and other discretionary spending. This led to a dampening on home renovation and building projects.
- Moving forward, lumber prices are expected to continue declining until September at which point it will stabilize between 0.60/board foot and \$0.62/board foot.

The Canadian dollar ended Q2 2021 at 1.24 USD/CAD, displaying relatively strong performance year to date, appreciating roughly 3% since the end of December 2020. recovering from losses in May and June. Strengthening global demand and decreased supply have continued to contribute to rising commodity prices, which has had a very positive impact on the CAD. Additionally, risk sentiment, which has been increasingly positive, has supported CAD performance.

Canadian Real GDP is forecasted to increase 2.0% in Q2 2021 reflecting expectations that vaccination rates will continue to improve. A surge in COVID-19 cases during April and May as well as further restrictive measures had a negative impact on economic output. Canada's economy is expected to recover from these losses as industries that suffered from the pandemic begin to open up.

Canada's housing market continued to perform very well in Q2 2021, as low interest rates and elevated savings balances fuel accelerating home sales.

Canada's unemployment rate is expected to drop slightly to 7.9% in Q2 due to the recovery of labour markets in light of businesses reopening.

The consumer price index is expected to grow approximately 3.2% in Q2 2021. Inflation rates hit 3.4% in the quarter, the fastest pace in almost a decade.

CAD/USD Exchange Rate*



Note: RBC forecasts a Q3'21 CAD/USD exchange rate of 1.24.

Real GDP Growth
(YoY % change)**

Year	Canada
2020	-5.4%
Q4'20	9.3%
Q1'21	5.6%
Q2'21F	2.0%
Q3'21F	9.0%
2021F	6.3%
2022F	4.0%

Unemployment Rate
(%)**

Year	Canada
2020	9.6%
Q4'20	8.8%
Q1'21	8.4%
Q2'21F	7.9%
Q3'21F	7.1%
2021F	7.5%
2022F	6.1%

Housing Starts
('000s)**

Year	Canada
2020	217
Q4'20	64
Q1'21	59
Q2'21F	N/A
Q3'21F	N/A
2021F	256
2022F	200

Consumer Price Index
(YoY % change)**

Year	Canada
2020	0.7%
Q4'20	0.8%
Q1'21	1.4%
Q2'21F	3.2%
Q3'21F	3.0%
2021F	2.6%
2022F	2.2%

Exchange rate data as of June 31, 2021. Forecast from RBC Financial Markets Monthly – June 2021.

**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 2021, www.tradingeconomics.com/canada/unemployment-rate

About Us



MNP Corporate Finance (MNPCF) has a dedicated team of over 85 merger, acquisition, and transaction professionals across Canada. MNPCF works with clients in virtually all industries as they prepare, plan and execute transactions.

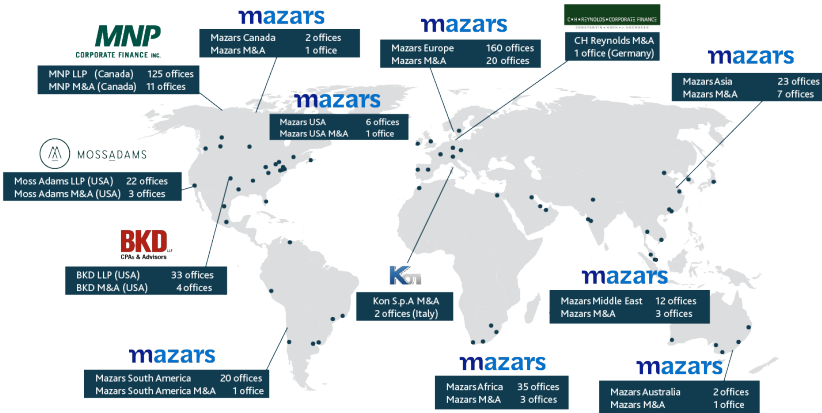
Our typical transactions range in value between \$3 million and \$300 million.

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 250+ M&A professionals in more than 30 countries.



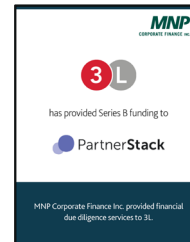
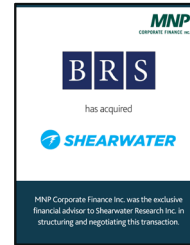
CFxB CFxBorder - Global reach with local relationships
Our corporate finance team through CFxB consists of 250 plus M&A professionals in more than 30 countries



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 125 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)



MNP
CORPORATE FINANCE INC.

has acquired the business assets of



MNP Corporate Finance Inc. provided financial due diligence services to Environmental 360 Solutions Ltd.



MNP
CORPORATE FINANCE INC.

has acquired



MNP Corporate Finance Inc. provided due diligence services to Chair-man Mills Corp.



MNP
CORPORATE FINANCE INC.

has acquired



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



MNP
CORPORATE FINANCE INC.

has acquired



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



MNP
CORPORATE FINANCE INC.

has acquired



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



MNP
CORPORATE FINANCE INC.

has acquired



MNP Corporate Finance Inc. provided financial and tax due diligence services to Verdi Alliance Group.



MNP
CORPORATE FINANCE INC.

has acquired



MNP Corporate Finance Inc. acted as exclusive financial advisor to North Island Chipping Ltd. in structuring and negotiating this transaction.



MNP
CORPORATE FINANCE INC.

has acquired



MNP Corporate Finance Inc. provided financial and tax due diligence services to Environmental 360 Solutions Ltd.



MNP
CORPORATE FINANCE INC.

has acquired



MNP Corporate Finance Inc. provided due diligence services to Summit Ridge Capital.



MNP
CORPORATE FINANCE INC.

has acquired

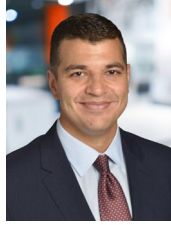


MNP Corporate Finance Inc. acted as exclusive financial advisor to Falher Pharmacy Ltd. in structuring and negotiating this transaction.

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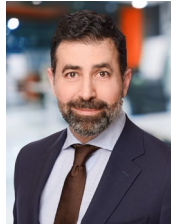
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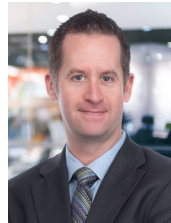


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