Middle Market M&A Update

Q3 2020

M&A Market Summary

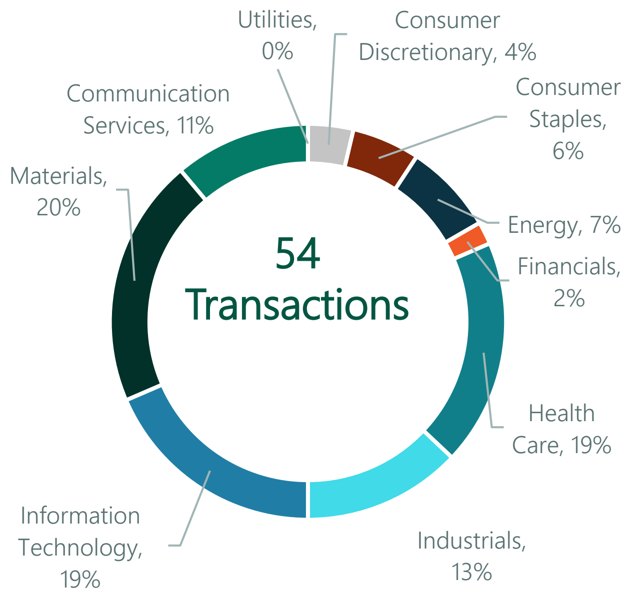
Canadian Mid-Market

During Q3 2020, the economy began showing broad signs of recovery from COVID-19. The M&A market, similarly, saw a rebound in activity, with aggregate deal value increasing to $3.5 billion across 54 transactions from previous lows in Q1 and Q2. By comparison, Q2 totalled $2.7 billion in aggregate deal value across 45 disclosed transactions. Increased deal volumes suggest that after months of taking a defensive approach. investors have become cautiously optimistic and sentiment is generally improving in the face of uncertainty.

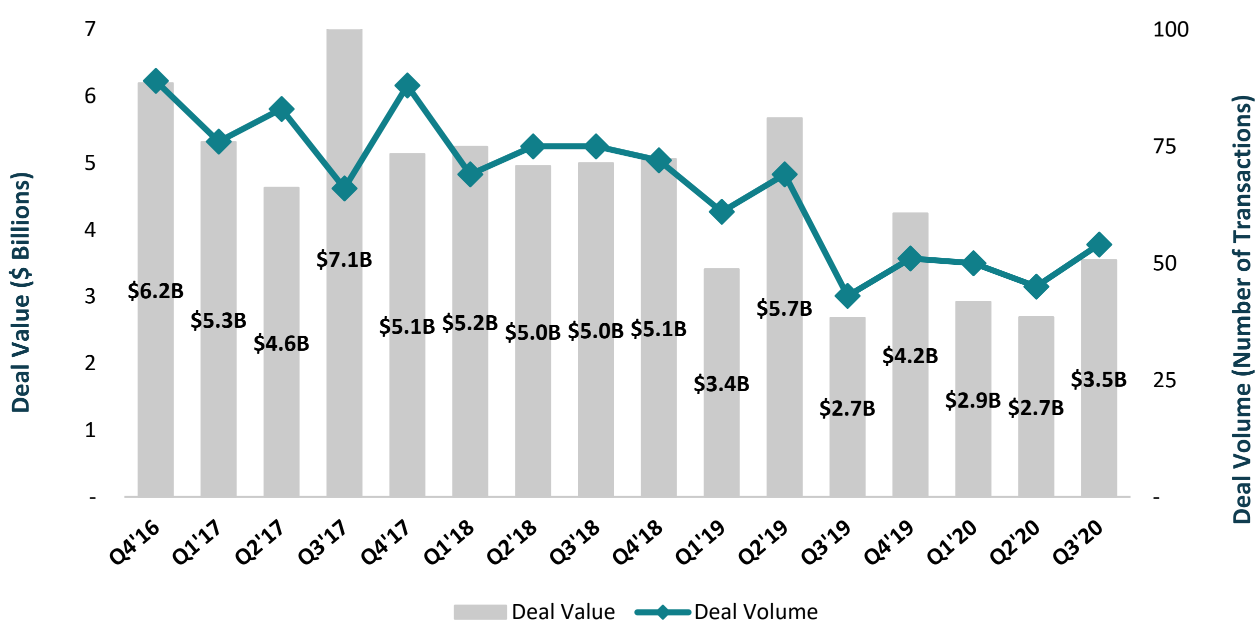
The chart to the right summarizes transaction volume by sector, as defined by the S&P/TSX Composite Index. Transaction volume during Q3 has remained skewed towards defensive and COVID-19 friendly sectors as in Q2, with sectors heavily exposed to COVID-19 having realized relatively low volume:

- Materials accounted for 20% of deal volume, down from 24% in the quarter prior, driven by a number of gold mining transactions.
- Health care made up 19% of total deal volume, down from 33% last quarter, with three out of 10 deals in the sector relating to the cannabis and hemp.
- Information technology also accounted for 19% of total deal volume, up from 11% last quarter.
- The financials sector, which experienced no M&A activity last quarter, made up 2% of total deal volume, with one deal occurring in the investment banking & brokerage sector. Uncertainty regarding performance of loan books, life insurance, and capital markets business continues to remain a significant concern for investors.

Q3'20 - M&A Volume By Sector*



Quarterly Deal Value & Volume*



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

COVID-19 Update

COVID-19 Impact on M&A

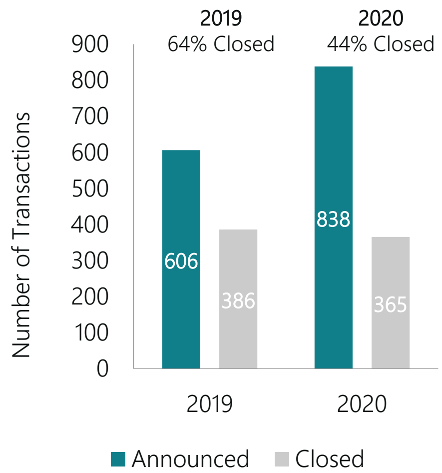
We saw significant changes in M&A activity in the private markets during Q2 2020, when the COVID-19 pandemic first started. The deals environment generally shifted into a holding pattern given the uncertain economic outlook and financial performance by most businesses. Instead of pursuing growth opportunities, many acquisitive companies focused on maintaining their core operations in an attempt to weather the storm and navigate market uncertainty with mounting job losses. Private equity firms have been closely monitoring their portfolio companies and assisting their management teams in an attempt to minimize the impact of COVID-19 on financial performance. Broadly speaking, the pandemic created unexpected challenges for corporations and entrepreneurs, requiring executives to adapt to the new normal of running a business during the COVID-19 pandemic.

During the summer of 2020, many businesses re-opened and buyers began to seek acquisition opportunities again. Business owners previously contemplating on divesting their company earlier in the year began preparing their businesses for sale in Q3. We have seen an uptick in the number of businesses for sale this quarter despite an expected second wave of COVID-19. This uptick is likely due to the pent-up demand of parties previously seeking to buy or sell businesses from earlier this year. Furthermore, fund managers and banks still have plenty of capital and dry powder to deploy as they seek to generate a return on their capital.

In terms of M&A processes, there continues to remain a number of factors that create challenges in getting a deal done. Travel and border restrictions into Canada and the US, along with limited flights available, have created challenges in allowing buyers and sellers to meet face to face and conduct site tours. Due diligence is now taking longer given the complexities involved in evaluating financial performance in recent periods, resulting in additional information requests and queries with management teams. Many companies have also held off on capital projects and strategic initiatives given the challenges faced with COVID-19.

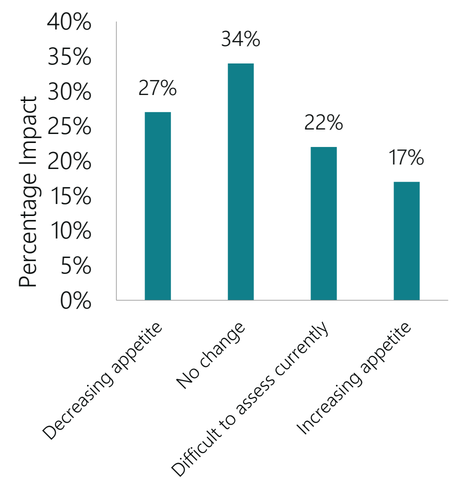
While valuation multiples continue to be strong, deal structures have evolved to address the uncertainty on market conditions and business performance as a result of COVID-19. Buyers are now wanting to see a larger earn-out component instead of cash on close to de-risk themselves from any downturn on financial performance from their acquisitions. Many companies continue to struggle from a financial and liquidity perspective, having to resorted to government assistance programs such as the Canada Emergency Wage Subsidy (CEWS). Other forms of financing, whether through banks, private lenders, or even raising equity with minority positions are also being sought.

YTD Q3 North American M&A Volumes (2019 VS. 2020)



Source: S&P Capital IQ

How is COVID-19 Affecting Your M&A Strategy?



Source: Statista (https://www.statista.com/statistics/1111769/coronavirus-manda-strategy-usa/)

Industries Significantly Impacted

Physical retailers continue to suffer from the pandemic except for those with a well-established e-commerce platform. Industries with exposure to essential products and services continue to be strong performers during this time along with those in the technology sector. Technology businesses have commanded significant premiums to date in 2020 and are expected to continue thriving as the pandemic prolongs into Q4 2020 and likely 2021 as well.

Equity Markets

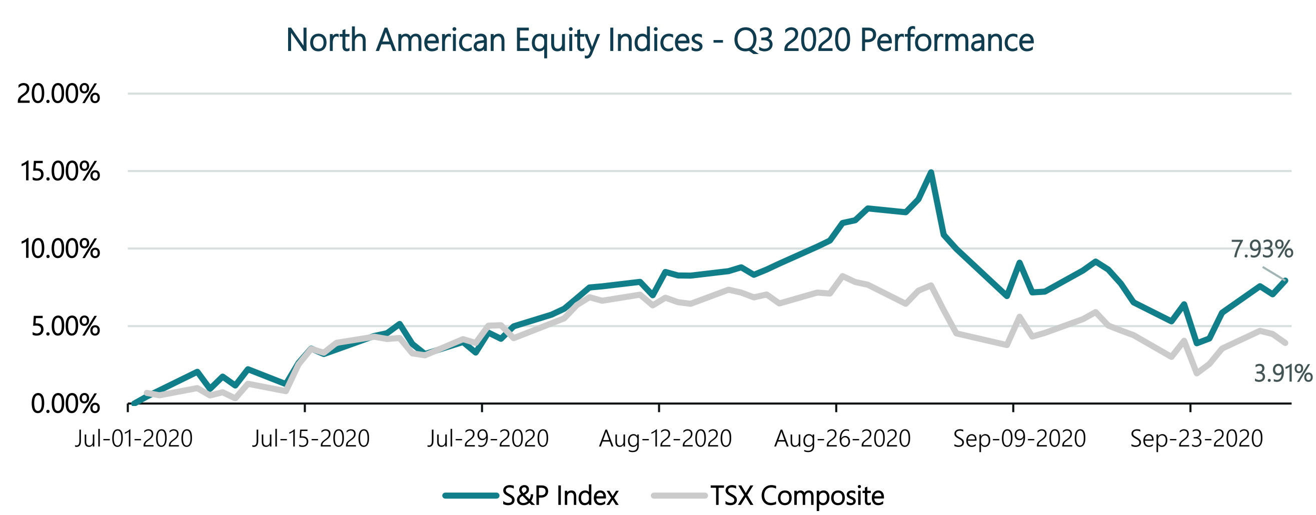
In Q3 2020, the TSX Composite posted positive gains for the second straight quarter due to monetary and fiscal stimulus as well as progress with vaccines, despite several concerns, including rising COVID-19 cases, US social unrest, and economic uncertainty. The industrials, utilities, materials, consumer staples, and consumer discretionary sectors all posted 8%+ gains, with 142 (63%) out of the total 227 stocks in the TSX Composite recording positive growth during Q3. However, the index overall is still down by at least 5.5% for the year.

- The industrials sector generated the largest return, primarily attributable to Canadian National Railway and Canadian Pacific Railway, with railroad traffic showing steady increases this quarter. Although reported revenues declined since 2019 Q3, both railways made recoveries since the onset of COVID-19.

Q3 2020 Sector Performance*

Sector	TSX Composite	S&P 500
Industrials	12.51%	12.54%
Utilities	9.88%	2.84%
Materials	8.76%	12.51%
Consumer Staples	8.56%	9.56%
Consumer Discretionary	8.19%	12.88%
Financials	2.78%	4.93%
Information Technology	2.34%	11.54%
Communications Services	2.02%	6.30%
Health care	-14.20%	4.67%
Energy	-14.91%	-18.84%

- Utilities posted the second largest gain in Q3, led by Brookfield Infrastructure Partners (+14%), Hydro One (+11%), and Northland Power (+19%). Stocks in this sector have been bid up due to scarcity of yield in the market. In the face of uncertainty, utilities is a safety play due to attractive income streams and high regulation.
- Energy was the biggest losing sector in Q3, with producers Suncor Energy (-29%), Imperial Oil (-27%), Canadian Natural Resources (-9%) and Cenovus Energy (-18%) contributing to the 14.9% loss. Decreased demand for oil since the pandemic as well as sentiment shifts with concerns about climate change have put pressure on stocks in the space.
- Health care was another losing sector in Q3, with three out of 10 constituents on the TSX Composite Health Care Index making losses. Bausch Health Companies (-17%), accounting for 27.39% of index weight, failed to meet earnings expectations and led sector detractors. By comparison, the TSX Composite made bigger losses than the S&P 500 due to cannabis companies like Canopy Growth Corporation (-13%), and Aurora Cannabis (-63%) being grouped into the health care sector and accounting for significant weighting in the index.



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

Treasury Yields

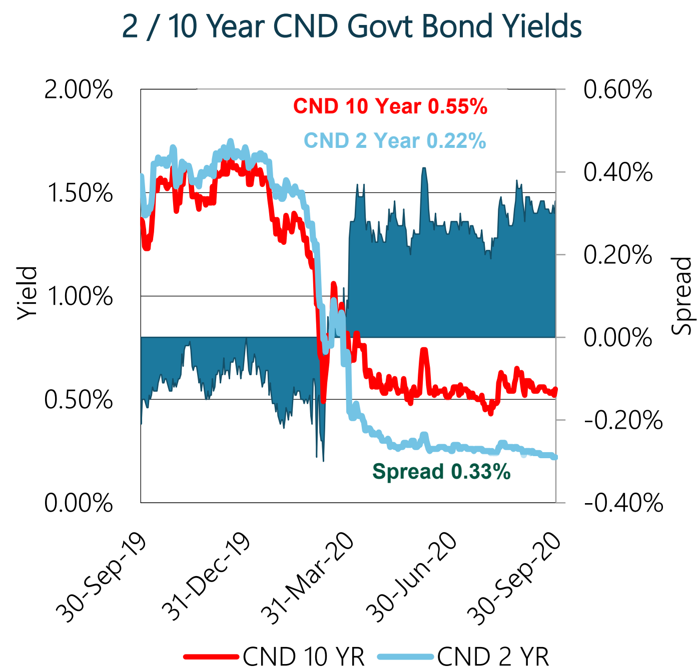
Canada

On September 9, 2020 (Q3), the Bank of Canada ("BoC" or "Bank") decided to maintain its target for the overnight rate at 0.25%, which continues the BoC's decision to maintain the same overnight interest rate since March. The Bank will continue its quantitative easing (QE) program, which began in May 2020, alongside large-scale asset purchases of at least $5 billion per week of Government of Canada bonds. Overall, the pace of economic recovery is heavily dependent on the progression of the pandemic and the measures put in place to contain the spread.

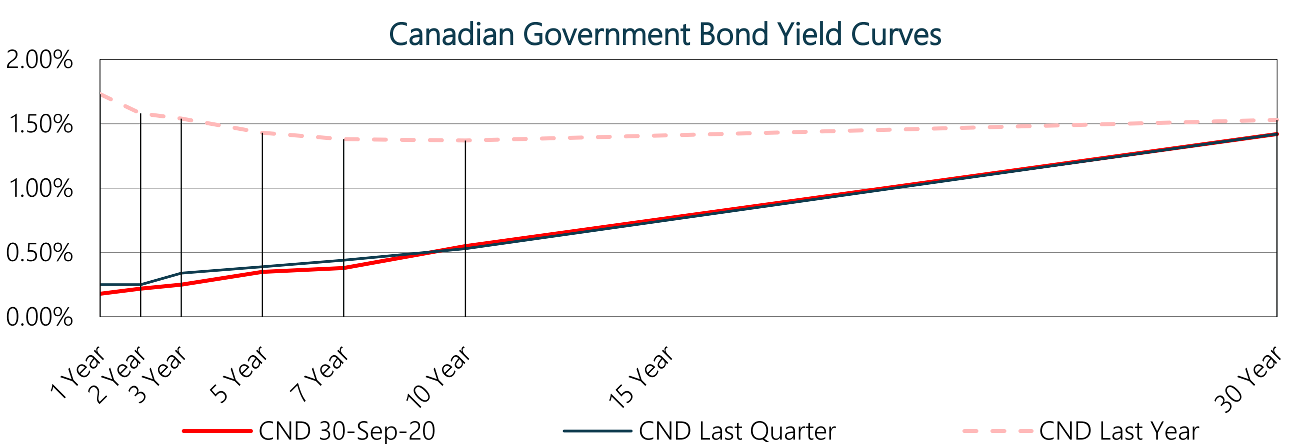
As COVID-19 cases continue to grow at an increasing pace during the second-wave of the pandemic, the US economy is recovering at a better than expected pace, which offers some relief in the recovery of the Canadian economy. Key indicators, such as GDP and the labour market, have yet to build back up to pre-pandemic levels but are on the right track. The BoC is therefore committed to keeping the interest rate low so that businesses can get the money they need to grow and recover during this time.

Real GDP fell by 11.5% in Q2, which resulted in a decline of over 13.0% in the first half of the year. This was comparable to the Bank's July estimate as all components of aggregate demand weakened.

CPI inflation has been close to zero as there has been downward pressure from energy prices and travel services. Inflation is expected to remain below the target in the near term. As of September 2020, measures of inflation were between 1.3% and 1.9% compared to July 2020, when measures were between 1.4% and 1.9%.



As the economy moves forward into Q4 of 2020, the Bank will continue to provide the economy with monetary policy support. The QE program will continue until the recovery is well underway and the monetary policy stimulus will help support recovery until the inflation objective is achieved.



Sources: S&P Capital IQ, Bank of Canada, Bloomberg, Canadian Broadcasting Corporation (CBC). The next scheduled dates in 2020 for the interest rate announcement is October 28, 2020 and December 9, 2020 and will discuss the Bank's outlook on the economy and inflation targets.

Treasury Yields

United States

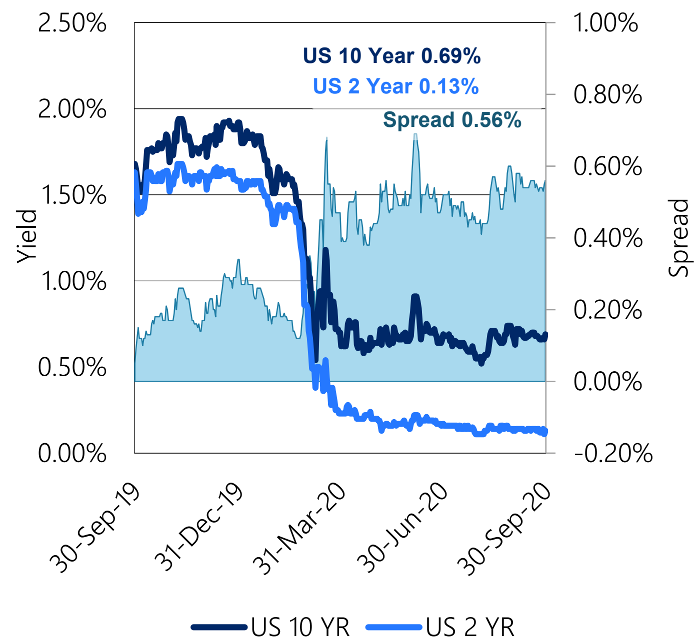
The Federal Reserve (Fed) officials have again decided to hold interest rates near zero (0% to 0.25%) and indicated that they will remain at that level for at least the next three years. All but four members of the Committee indicated they see zero rates through then. This was the first time the Committee forecast its outlook for 2023. The Committee expects to delay tightening interest rates until the US economy achieves maximum employment and its price stability goals (2.0% inflation rate). The Fed will continue to monitor incoming information regarding the economic outlook and global developments and act appropriately to support the economy.

The full-year GDP decline of 3.7% has been significantly better than its 6.5% drop forecast in June. However, the Committee lowered its 2021 outlook from 5.0% to 4.0% and its 2022 outlook from 3.5% to 3.0%. Moving forward, they expect 2.5% GDP growth in 2023.

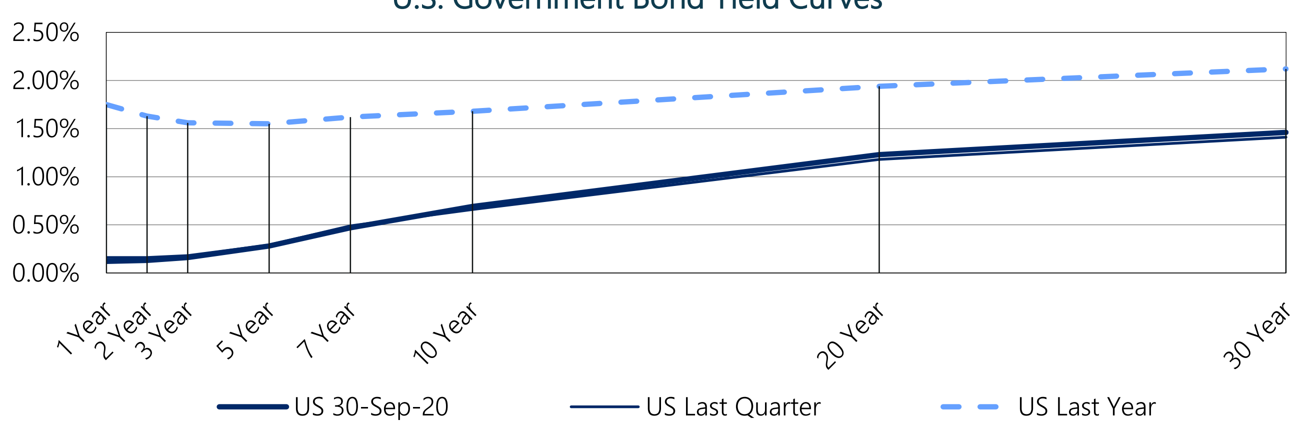
The Fed predicts that unemployment will fall to 7.6% by the end of this year and to 5.5% by the end of 2021. By 2023, policymakers' project unemployment to reach a low of 4.0%. The Committee has also marked up its inflation projection for 2020 from 0.8%, in June, to 1.2%, though they still do not see it hitting the 2.0% inflation goal until 2023.

There has been little indication that the Fed would like to change its bond-buying program moving forward. Although, the Committee has stated that they will continue with their quantitative easing (QE) program, which includes purchasing at least $500 billion in Treasury securities and at least $200 billion of mortgage-backed securities, as mentioned in Q1 2020. Alternatively, minutes from the most recent scheduled meeting show that most members would like to alter the goal of the QE program to go from market functioning to economic support.

2 / 10 Year U.S. Govt Bond Yields



U.S. Government Bond Yield Curves



Source: Capital IQ, Federal Reserve, CNBC, Bloomberg, Washington Post, Forbes, The next scheduled dates for the interest rate announcement is November 4/5, 2020 and December 15/16, 2020 and will discuss the Fed's outlook on the economy and inflation targets.

Commodity Markets

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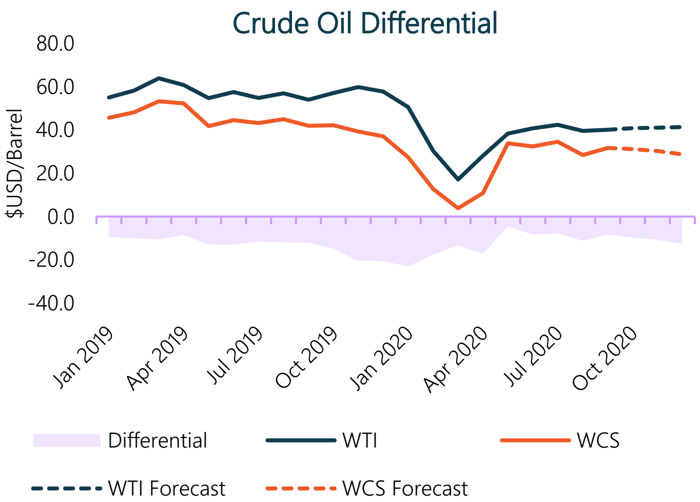
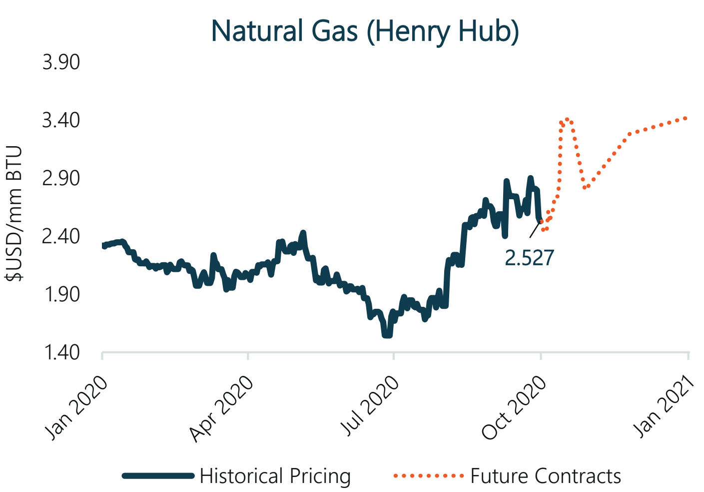
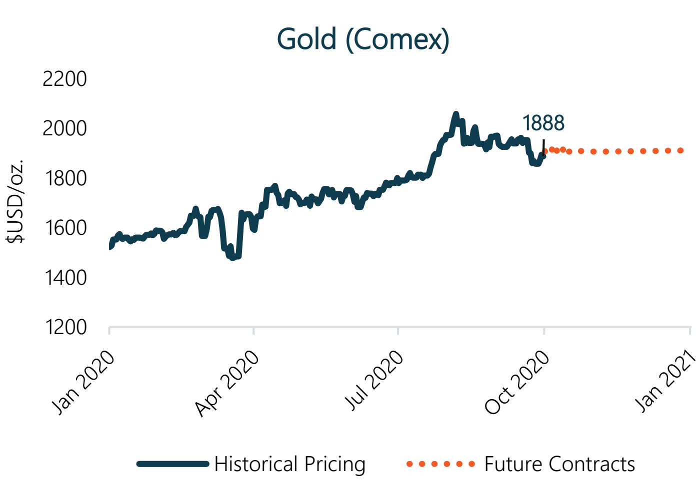


- In 2020 YTD Western Canadian Select (WCS) fell 14.4%, while West Texas Intermediate (WTI) decreased 30.6%.
- Both WCS and WTI prices reached unprecedented lows in April at US$3.78/barrel and US$17.08/barrel respectively, due to the precipitous drop in demand due to the pandemic.
- The WCS and WTI prices have recovered to approximately US$32/barrel and US$40/barrel respectively, towards the end of Q3. The WCS/WTI price differential has decreased to US$8.36/barrel at the end of Q3.



- Natural gas prices increased by 44.3% in Q3 which reversed the negative YTD trend and leaves prices up on the year. Prices started at $2.189 USD/mm BTU and gradually increased to $2.527 USD/mm BTU.
- Weak prices this summer along with minimal access to capital led to significant production cuts by gas producers. A potential recovery in winter, which could be amplified by a colder summer, will create a tight supply market for natural gas. Forecast predict gas prices will continue to soar in Q4.



- Gold continued its climb through the year, posting a 23.9% gain year-to-date as at the end of Q3.
- Uncertainty around the United States dollar (USD) in global markets as well as significant 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 Q4 2020 driven by aggressive monetary and fiscal policy measures enacted by the federal government to address the deep economic crisis that stems from the global pandemic.

Source: S&P Capital IQ, Oil Sands Magazine, Alberta Government – Economic Dashboard, Reuters

Canadian Economic Update

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The Canadian dollar ended Q3 2020 at 1.33 CAD/USD (up from 1.30 at the end of 2019). The Canadian dollar has depreciated due to significant decreases in the price of oil, global trade concerns related to the scaling back of production and consumption, and the closing of borders, all which are related to the outbreak of the novel coronavirus. Canada's GDP growth is expected to rebound in Q3 from one of the worst quarters on record (Q2 2020), in which aggressive social distancing measures led to market wide business shutdowns to curb the spread of the virus.

International trade is expected to struggle indefinitely as the threat of contagion will cause repatriation of overseas manufacturing. However, the North American trade outlook remains positive as the USMCA was entered into force in early July, replacing NAFTA and solidifying strong cross boarder supply chains.

Housing starts in the third quarter of 2020 were 24% higher than Q2 2020. This was largely due to seasonality, low interests rates and the growing trend of suburbanization, driven by many companies adopting work from home measures in light of the current pandemic environment.

The unemployment rate is expected to decrease to 10.1% in Q3 after reaching a high of 13.7% in May. The country still has a long way to go in reaching its pre-pandemic unemployment rate of 5.6%.

The consumer price index is expected to come in at approximately 0.5% to end Q3. The uptick in inflation has been driven by relaxed social distancing and built-up demand. Food, passenger vehicle, and housing prices drove the index increase, while gasoline and transportation prices have brought down the index due to their heavier weighting.

CAD/USD Exchange Rate*

Note: RBC forecasts a Q4'20 CAD/USD exchange rate of 1.34.

Real GDP Growth
*(YoY % change)***

Year	Canada
2018	2.0%
2019	1.7%
Q1'20	*-8.2%*
Q2'20	*-38.7%*
Q3'20F	*40.0%*
Q4'20F	*6.0%*
2020F	-6.0%
2021F	4.9%

Unemployment Rate
*(%)***

Year	Canada
2018	5.8%
2019	5.7%
Q1'20	*6.3%*
Q2'20	*13.0%*
Q3'20F	*10.1%*
Q4'20F	*8.5%*
2020F	9.5%
2021F	7.6%

Housing Starts
*('000s)***

Year	Canada
2018	213
2019	209
Q1'20	*40*
Q2'20	*51*
Q3'20	*63*
Q4'20F	*N/A*
2020F	190
2021F	155

Consumer Price Index
*(YoY % change)***

Year	Canada
2018	2.3%
2019	1.9%
Q1'20	*1.8%*
Q2'20	*0.0%*
Q3'20F	*0.5%*
Q4'20F	*0.8%*
2020F	1.0%
2021F	1.3%

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 Sept 30, 2020. Forecast from RBC Financial Markets Monthly – September 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 – October 2020, www.tradingeconomics.com/canada/unemployment-rate

About Us

MNP CORPORATE FINANCE INC.

MNP Corporate Finance (MNPCF) has a dedicated team of over 50 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)

KEPLER CAPITAL has acquired OXY ARC

MNP Corporate Finance Inc. acted as exclusive financial advisor to Oxy-Arc International Inc. in structuring and negotiating this transaction.

ON SIDE RESTORATION. has acquired NCR Northern Capital Restorations

MNP Corporate Finance Inc. acted as exclusive financial advisor to Northern Capital Restorations & Construction Ltd. in structuring and negotiating this transaction.

EDMONTON PHARMACY GROUP has acquired ARP PHARMACY CASTLEDOWNS ARP PHARMACY

MNP Corporate Finance Inc. acted as exclusive financial advisor to Ken2 Investments Ltd. (o/a Castledowns ARP Pharmacy) in structuring and negotiating this transaction.

Jan Nelson and Andrew Windsor have acquired Maverick Estate Winery

MNP Corporate Finance Inc. acted as exclusive financial advisor to Maverick Estate Winery Inc. in structuring and negotiating this transaction.

Greyrock Capital Inc. has acquired EMERSON MILLING INC.

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

MEDSPA PARTNERS a portfolio company of PCP Persistence Capital Partners has acquired DSHI

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

A Confidential Buyer has acquired Hayes Management Ltd.

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

ROBERTSON IMPLEMENTS has acquired four dealership locations from Moody's Equipment LP

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

FLSMIDTH has acquired MILL-ORE

MNP Corporate Finance Inc. acted as financial advisor to Mill-Ore Industries Inc. in structuring and negotiating this transaction.

SupremeX has acquired ROYAL ENVELOPE LTD.

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

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)

Leadership Team

MNP
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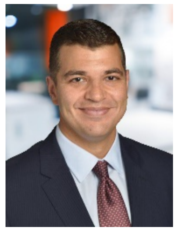

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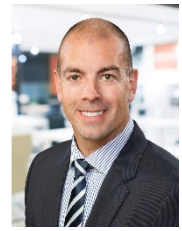

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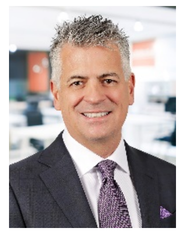

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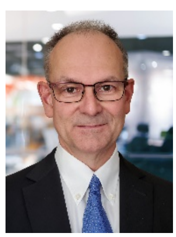

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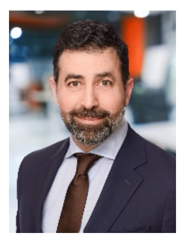

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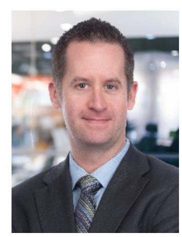

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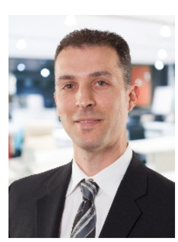

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