


MNP CORPORATE FINANCE INC.


MIDDLE MARKET M&A UPDATE

Q3 2019

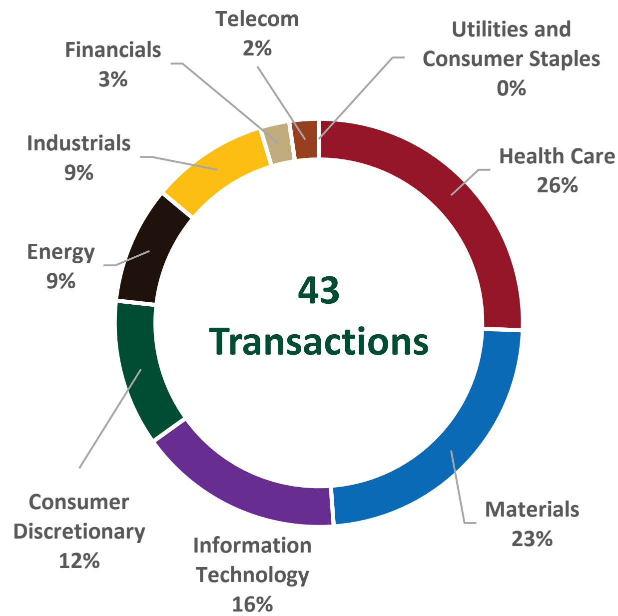
M&A MARKET SUMMARY
CANADIAN MID-MARKET

Canadian mid-market M&A activity in Q3 2019 lost momentum it had gained in the previous quarter. Aggregate deal value fell to $2.7 billion in Q3 2019, across 43 disclosed transactions. In comparison, Q2 2019 totaled $5.7 billion in aggregate deal value across 69 transactions. The slowdown in deal volume could possibly be attributed to dealmakers delaying decisions until after the federal election shed some clarity on the policy direction of the country. The increase in deal value that was experienced in Q2 seems to be the anomaly for this year's M&A performance.

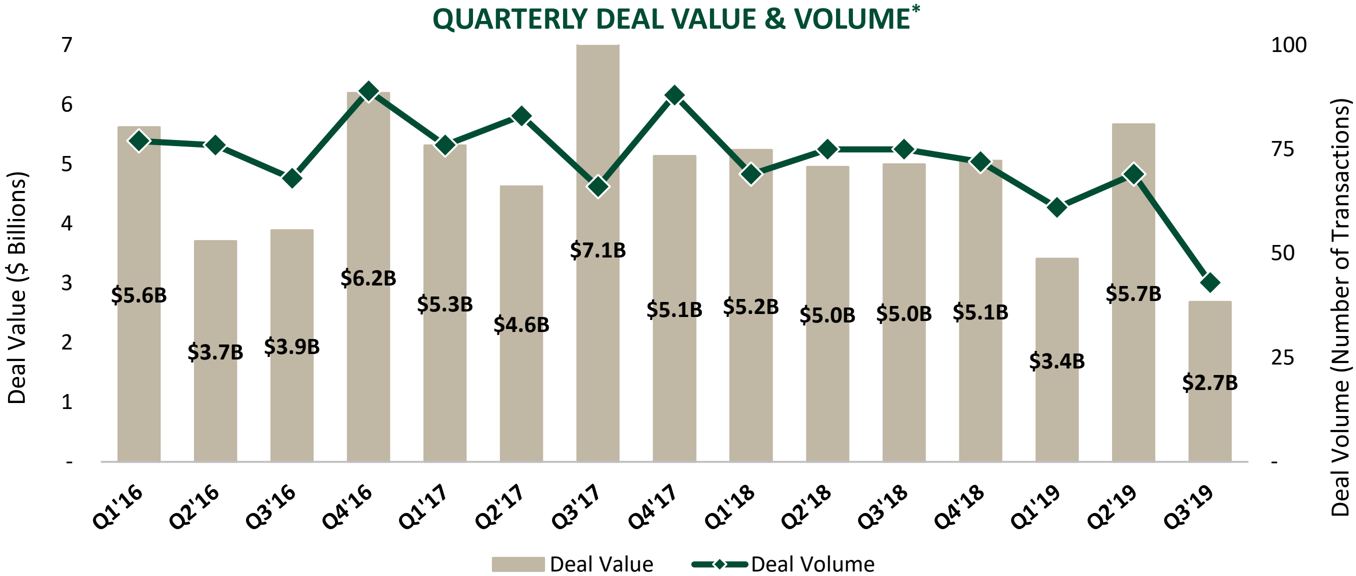
The chart to the right summarizes transaction volume per sector, as defined by the S&P/TSX Composite Index. Transaction volume in Q3 2019 shifted to an uneven distribution that favoured the health care and materials sectors (which together accounted for 49% of the deal count in Q3).

- Health care and information technology were the only two sectors to see an increase in transaction volume compared to Q2.
- The number of health care deals increased the most, comprising 26% of total deals compared to 10% in the previous quarter. Increased health care M&A activity may be in anticipation of legalization of cannabis edibles. Many early stage cannabis companies are struggling to translate sales growth into profitability.
- Information technology saw an increase in transaction volume compared to Q2. Transactions in Q3 revolved around: Internet of Things (IoT), artificial intelligence and logistics.
- The materials sector continued with a strong share of deal volume, representing 23% of total disclosed transactions, compared to 21% in Q2. The materials sector saw a continued trend of non-core asset spinoffs and capacity/geographic roll-ups. Recent M&A activity has been motivated by acquiring assets and capacity rather than increasing production organically.

Q3'19 - M&A VOLUME BY SECTOR*



QUARTERLY DEAL VALUE & VOLUME*



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

EQUITY MARKETS

The TSX Composite and S&P 500 both posted modest gains to end Q3 2019. The TSX Composite had a net Q3 increase of 1.1%, with a year-to-date (YTD) gain of 16.1%. The S&P 500 recorded a gain of 0.4% during the quarter, giving a total increase of 18.6% for the year.

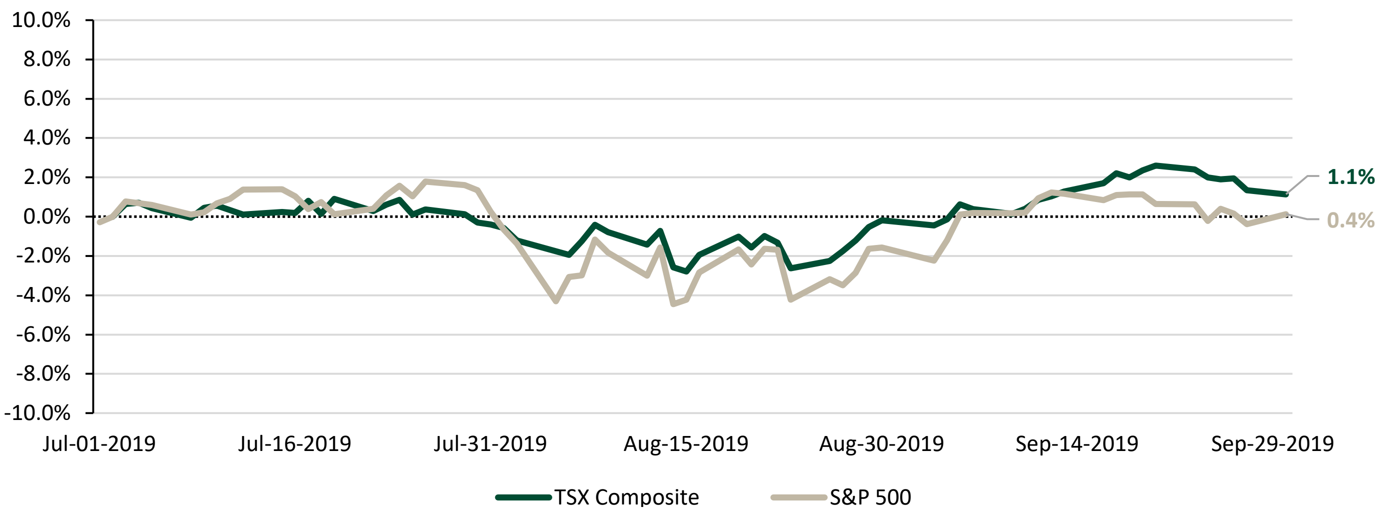
Overall, both Canadian and American markets experienced similar trends in Q3 2019 with both indices experiencing positive returns. Furthermore, the TSX reached all-time highs in September as investors rotated to value and safe-haven stocks.

- Utilities posted the strongest returns for the quarter at 8.3% as companies like Brookfield Infrastructure Partners and Fortis – the Q3 sector leaders – continued to benefit from declining interest rates. YTD utilities remains in second place for the year at 30.6%.
- Weakness from cannabis stocks drove health care to be the biggest loser in Q3 2019, with Canopy Growth Corporation leading the drop at -43%. Although health care was leading in Q1, it has now fallen to last place at -10.3%.
- Information technology remains the best performing sector for 2019 thus far at 49.9%, although Q3 growth only reached 1.5%. Constellation Software and Shopify are leading the sector, consolidating gains from earlier in the year.
- Most large banks had positive sector contributions, with Bank of Nova Scotia, CIBC and National Bank all beating quarterly earnings expectations. The financial sector remains in the middle of the pack.
- Although positive in Q2, the Industrials sector fell into the negatives in Q3 due to weak grain shipments which caused railway traffic to begin to lag against prior year levels.
- Energy slowed the bleeding and held the quarterly losses to -0.9% in Q3 compared to -10.7% in Q2. TC Energy Corporation led the pipeline space at 5% as investors favoured its strong dividend. Producers and integrators saw mixed share movement as the S&P GSCI Energy commodity price index fell 5%.

Q3 2019 SECTOR PERFORMANCE*

Sector	TSX Composite	S&P 500
Utilities	8.30%	8.70%
Consumer Staples	7.20%	4.90%
Financials	3.30%	0.30%
Consumer Discretionary	2.40%	-0.70%
Information Technology	1.50%	1.50%
Materials	-0.20%	-1.40%
Energy	-0.90%	-7.30%
Telecommunication	-2.30%	1.10%
Industrials	-3.00%	0.30%
Healthcare	-29.20%	-3.30%

NORTH AMERICAN EQUITY INDICES - Q3 2019 PERFORMANCE**



*Sector performance based on the price change of each corresponding sector index over the quarter.

**Q3 performance as of September 30, 2019.

Source: S&P Capital IQ, Linde Equity – TSX Quarterly Review and Raymond James – Quarterly Insights & Strategies.

TREASURY YIELDS

CANADA

On October 30, the Bank of Canada (BoC) released its Monetary Policy Report (MPR) and elected to maintain the overnight target rate of 1.75%. This degree of monetary stimulus was considered appropriate by the BoC, given Canada's economy is operating close to capacity and its inflation is on target, despite modest excess supply.

The MPR and associated press conference discussed key points that were considered during the decision process to hold interest rates steady.

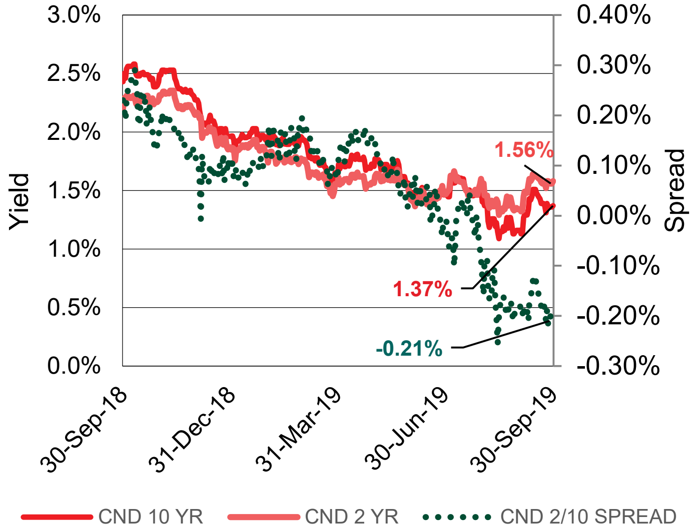
Growth in Canada is expected to slow to 1.50%, a rate below its potential, in the second half of 2019. That being said, the BoC expects modest comebacks in 2020 and 2021 with GDP growth at 1.70% and 1.80% respectively.

The worsening global situation and trade conflicts have weakened exports, lowered commodity prices and reduced investment as businesses are uncertain of what is to come next.

However, the Canadian economy remains resilient, as job creation remains steady, unemployment is near an all-time low, the labour force is strong and wage growth has increased.

The housing activity has begun to rebound in most markets, now having digested the policy changes during 2016-2018, and is fueled by relatively high immigration rates.

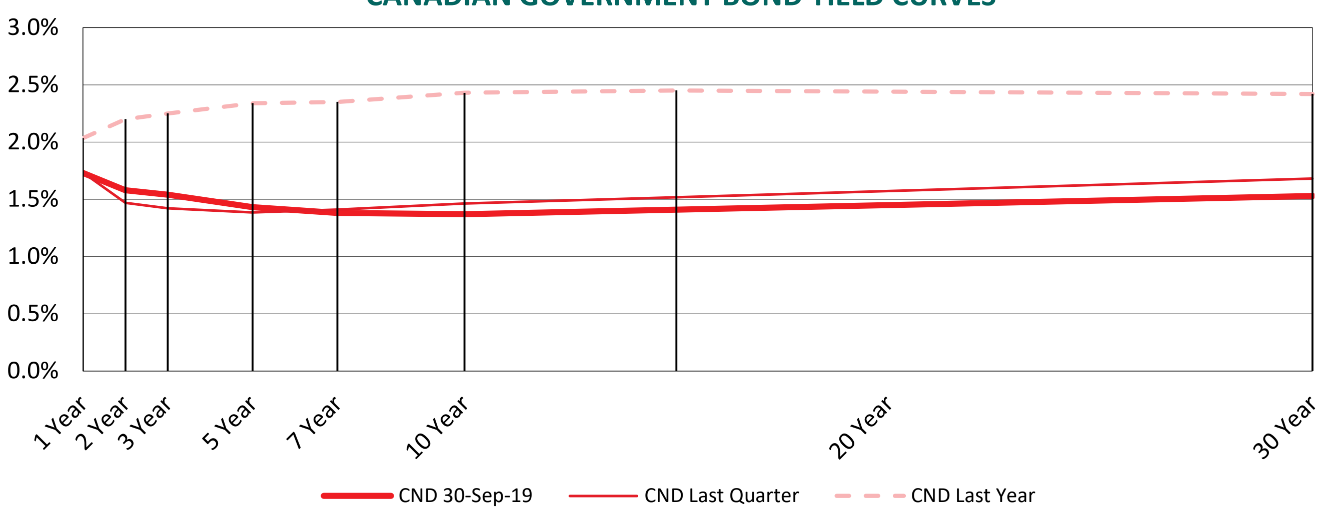
CANADIAN 2 AND 10 YEAR GOVT BOND YIELDS



Consumption spending has remained relatively stable thanks to the strong labour market, low interest rates and solid income growth, despite the savings rate edging higher.

In September, Deputy Governor Schembri noted that inverted yield curves, as is the case currently with Canadian treasury yields, may represent investors' slower long-term growth expectations while acknowledging the historical association of inverted yield curves with recessions. The next scheduled date for interest rate announcements is December 4, 2019.

CANADIAN GOVERNMENT BOND YIELD CURVES



Source: S&P Capital IQ and Bank of Canada.

TREASURY YIELDS

UNITED STATES

On October 30, the Federal Open Market Committee (FOMC) issued a statement in which it decided to lower the federal funds rate range to 1.50%-1.75% due to the implications of global developments for the economic outlook and muted inflation pressures. This was the third cut in four months, though some analysts expect a hold on further reductions as the move divided policymakers. The decision came as U.S. economic growth slowed in the most recent quarter to an annual rate of 1.90%.

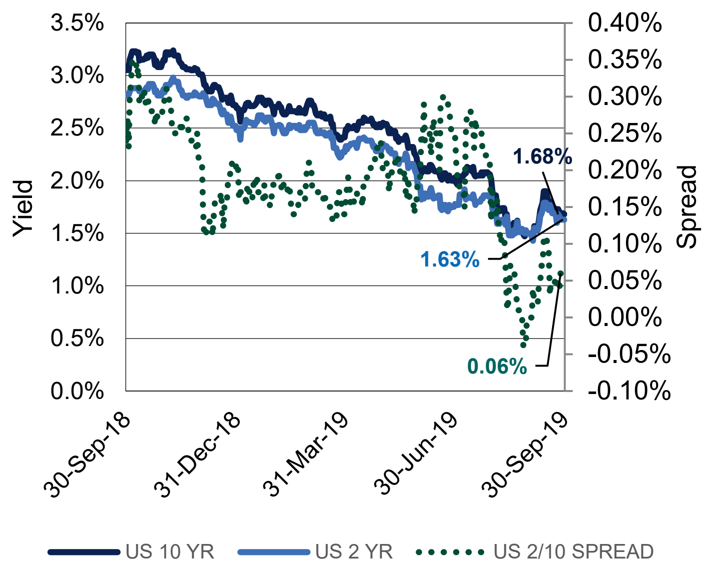
That being said, economic activity has been on the rise at a moderate rate. The labour market remains strong, job creation has been solid, the unemployment rate remained low and although business fixed investment and exports remains weak from trade conflict, household spending has been rising steadily.

The FOMC will continue to assess the realized and expected economic conditions against its maximum employment objective and its symmetric 2.00% inflation objective to determine size and timing of future adjustments. In doing so, the committee will take into account labour market conditions, inflation pressure indicators and expectations and financial and international developments.

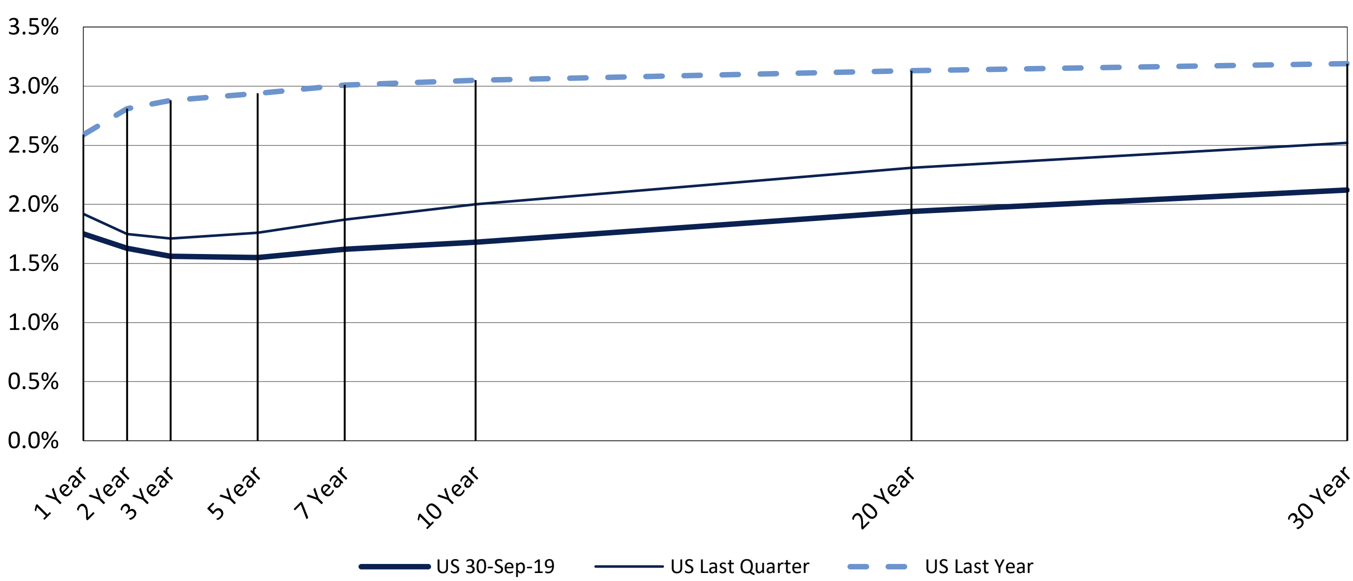
Overall inflation and inflation for items other than energy and food are slightly below target at 2.00% on a 12-month basis. Long-term inflation expectations remain unchanged.

Federal Reserve Chairman Jerome Powell stated that with the Fed's economic outlook of moderate growth, a strong labour market, and inflation around target the rates, the current rate level is "likely to remain appropriate."

U.S. 2 AND 10 YEAR GOVT BOND YIELDS



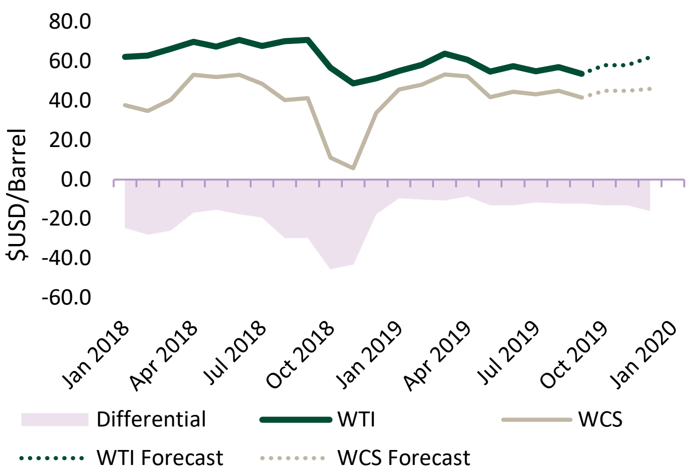
U.S. GOVERNMENT BOND YIELD CURVES



Source: S&P Capital IQ and Federal Reserve.

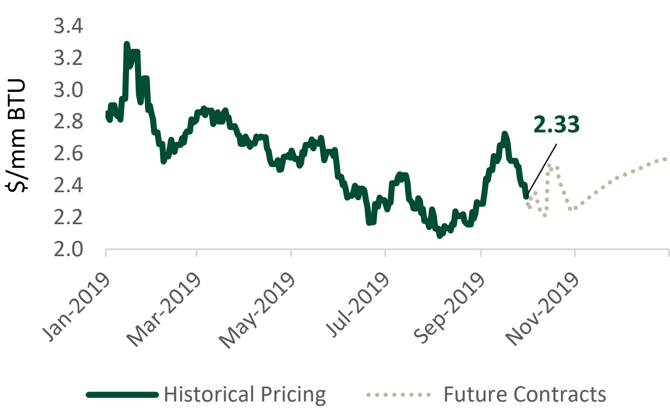
COMMODITY MARKETS

CRUDE OIL DIFFERENTIAL



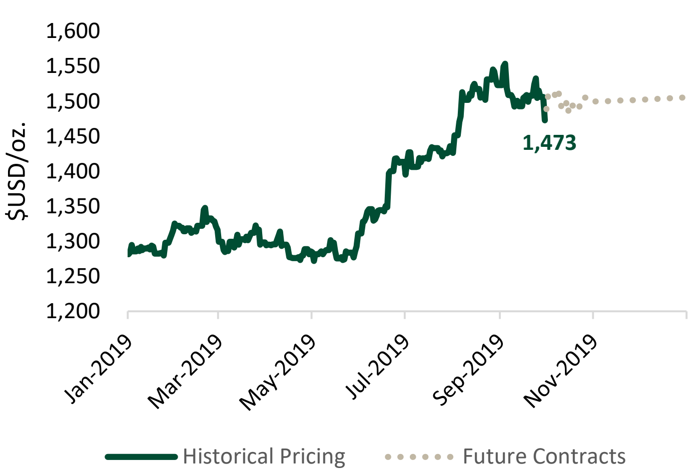
- Crude oil prices slid in Q3 and reduced the gains that that were enjoyed through the first half of the year. Western Canadian Select (WCS) fell 6.8% in the quarter, while West Texas Intermediate (WTI) dropped 6.9%.
- Through three quarters, both WCS and WTI prices have improved, sitting at a gain of 22.6% and 4.3%, respectively.
- The WCS/WTI differential improved to US$12/barrel from $13/barrel at the end of Q2 as of the end of September.
- Reported oil rig count in the U.S. has decreased a worrying 21% since hitting its peak at the end of 2018. Rig counts were estimated to total 860 in the U.S. and 127 in Canada at the end of Q3.

NATURAL GAS (HENRY HUB)



- North American natural gas prices hit multi-year lows in Q3 as inventories spiked with the supply gut plaguing the marketplace.
- Natural gas prices rose by 2.4% in Q3, sitting 18.3% lower than at the start of the year. Prices were up 18% at one point for the quarter before retracting again.
- Issues of oversupply and the lack of pipeline capacity continue to impair the profitability of the Canadian crude and natural gas industries.
- The rally in gas prices through the last month of Q3 have been buoyed by expectations of cooler than usual fall weather in some parts of Canada and the U.S.

GOLD (COMEX)



- Gold continued its climb through the year on the back of the trade woes and global recession worries, posting a 4.2% gain for Q3. Investors continue to flock to gold and move the price higher on the back of deteriorating global economic fundamentals and trade woes.
- Uncertainty around the United States dollar (USD) could be contributing to the gains as the Federal Reserve approached a possible third rate cut of the year. 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.
- Global gold demand is set to hit a four-year high in 2019, helping with the precious metals 15% YTD gains.

Source: S&P Capital IQ, Oil Sands Magazine, Alberta Government – Economic Dashboard, Reuters, and the Wall Street Journal

CANADIAN ECONOMIC UPDATE

The Canadian dollar (CAD) fell approximately 1.2% against the USD during Q3 2019 but remains to be one of only two major currencies up on the USD during the first nine months of 2019 with an increase of 2.9%. Some sources expect the Canadian dollar's performance will be impacted by the U.S.–China trade talks and the Bank of Canada's monetary policy decision. If a truce between the U.S. and China results in less pessimism amongst global investors, then several probable outcomes, including increased oil prices, should help strengthen the value of the loonie.

The Canadian economy's best growth streak since 2017 came to an end in July with the decline in the goods sector being the largest contributor. Oil and gas drilling activity has slowed and maintenance shutdowns in Newfoundland and Labrador trimmed oil production.

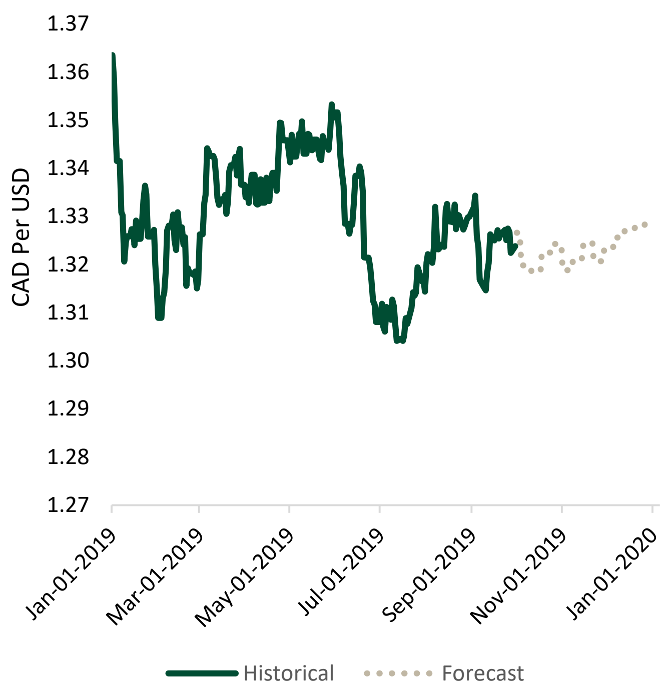
The Canadian trade deficit narrowed to $1 billion in August from $1.4 billion in July. This was driven mainly by exports of aircrafts and other transportation equipment.

Housing starts remained static at 59,000 during Q3 with Q4 expected to remain relatively stable.

Unemployment rates remained below 6% in Q3 and is expected to remain stable for the next 12 months. This is below the national unemployment rate average of 7.6% since 1966. In September 2019:

- Employment increased in Ontario by approximately 41,000 jobs while other provinces remained stable.
- Public sector, and accommodation and food services increased by approximately 33,000 jobs and 23,000 jobs respectively during September.
- Culture and recreation, and natural resource jobs declined approximately 37,000 and 7,000 respectively.
- Nearly 42,000 more Canadians became self employed in September 2019.

CAD/USD EXCHANGE RATE*



REAL GDP GROWTH
*(% change, chain-weighted)***

Year	Canada
2017	3.0%
2018	1.9%
Q1'19	*0.4%*
Q2'19	*2.2%*
Q3'19F	***1.8%***
Q4'19F	*1.4%*
2019F	1.6%
2020F	1.7%

UNEMPLOYMENT RATE
*(%)***

Year	Canada
2017	6.3%
2018	5.8%
Q1'19	*5.8%*
Q2'19	*5.5%*
Q3'19F	***5.7%***
Q4'19F	*5.7%*
2019F	5.7%
2020F	5.9%

HOUSING STARTS
*('000s)***

Year	Canada
2017	220
2018	213
Q1'19	*37*
Q2'19	*59*
Q3'19F	***59***
Q4'19F	*55*
2019F	210
2020F	200

CONSUMER PRICE INDEX
*(YoY % change)***

Year	Canada
2017	1.6%
2018	2.3%
Q1'19	*1.9%*
Q2'19	*2.1%*
Q3'19F	***2.0%***
Q4'19F	*2.1%*
2019F	2.0%
2020F	1.7%

Note: F stands for forecasted 2019 Q3 numbers are not verified and remain forecasted

**Exchange rate data as of September 30, 2019.*

***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 - Forex Economics and Strategies report October 2019, www.tradingeconomics.com/canada/unemployment-rate

ABOUT MNPCF

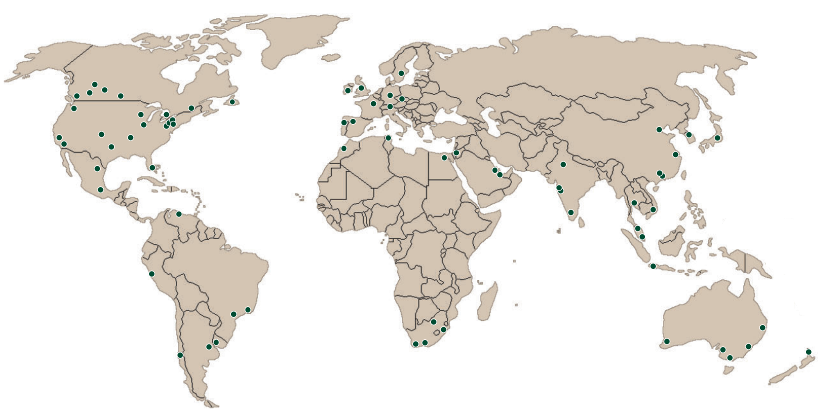
MNP CORPORATE FINANCE INC.

MNP Corporate Finance (MNPCF) has a dedicated team of over 60 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 & 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.



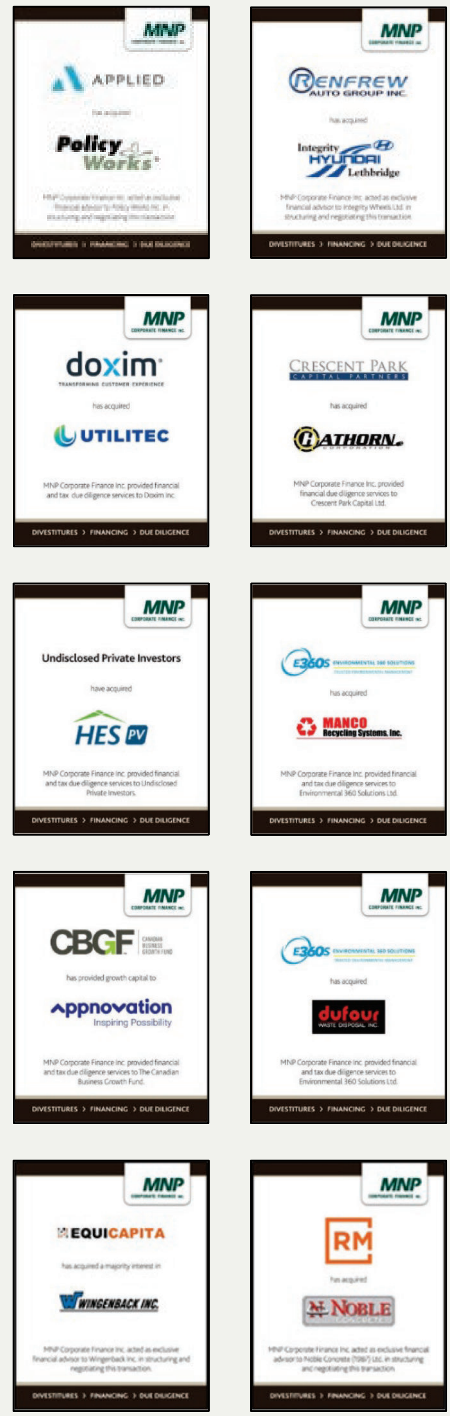
PRAXITY™ Empowering Business Globally

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)



ABOUT MNPCF

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 last 5 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

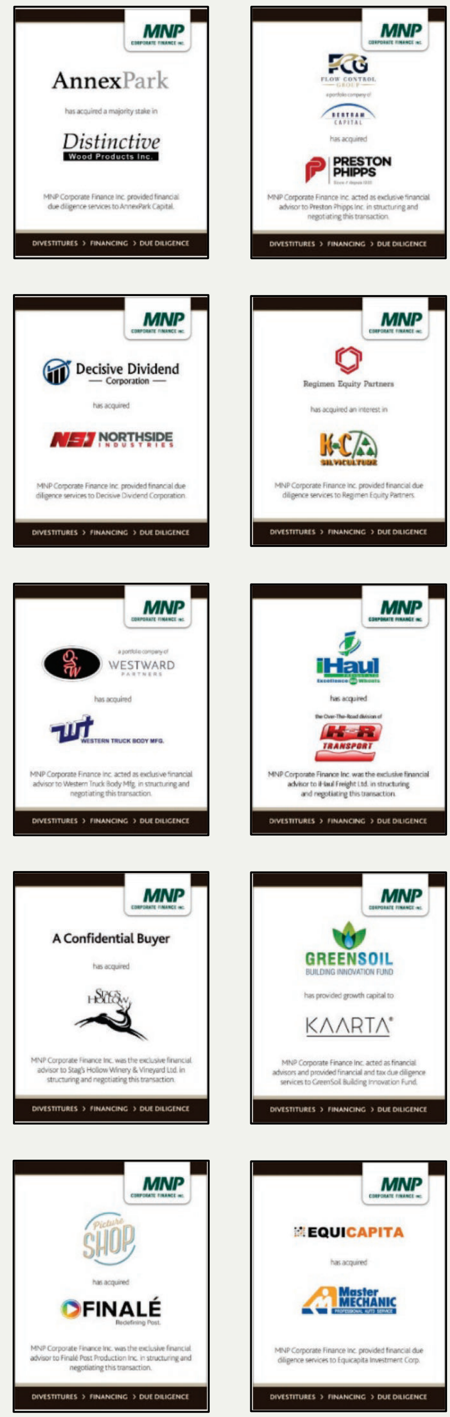
Current M&A transactions require a hands-on approach from start to finish including the active engagement of senior resources. Our senior resources are dedicated to our clients and are available as necessary and appropriate. We keep our clients regularly informed of the engagement status, issues we are 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.

MNP CORPORATE FINANCE INC.

RECENTLY CLOSED DEALS (NATIONAL)



ABOUT MNPCF

MNP CORPORATE FINANCE INC.

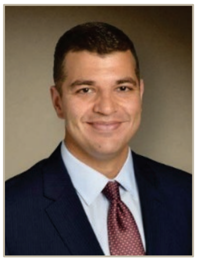
President
MNP Corporate Finance

Brett Franklin

204.336.6190 | brett.franklin@mnp.ca

Based in Winnipeg, Brett develops and implements creative business strategies for clients in all industry sectors and in all stages of the business life cycle.

With a diverse background in financial services, including banking, private equity, hedge funds and structured investment products, Brett has the knowledge and ability to resolve challenging financial issues and develop practical solutions to even the most difficult problems.



Managing Director

Aleem Bandali

778.374.2140 | aleem.bandali@mnp.ca

Based in Vancouver, Aleem has worked on transactions ranging between $3 million and $30 billion in Canada, the United States and internationally in a diverse range of industries.

Aleem has a Master of Business Administration degree from the University of Oregon College of Business, a Juris Doctor degree from the University of Oregon School of Law and a Bachelor of Arts degree from the University of British Columbia. Aleem has also completed the Mergers and Acquisitions program at Harvard Business School.

Managing Director

Johnny Earl

604.637.1504 | johnny.earl@mnp.ca

Based in Vancouver, Johnny specializes in due diligence and other transaction advisory requirements relating to acquisitions and divestitures. Johnny has worked on transactions ranging from deal values below $5 million up to over $1 billion in North America, the U.K., Asia and Africa.

Johnny holds a Bachelor of Economics from Durham University in the U.K. and has a designation from the Institute of Chartered Accountants of England and Wales.

Managing Director

Dale Antonsen

250.979.2578 | dale.antonsen@mnp.ca

Based in Kelowna, Dale initiates and executes business strategies and transactions designed to help clients realize their goals in complex situations.

Dale’s client base is involved in a range of industries, including oil and gas services, real estate capital markets and development, manufacturing and distribution, construction and contracting and casino gaming and entertainment.

ABOUT MNPCF

MNP CORPORATE FINANCE INC.

Managing Director

Mark Regehr

780.969.1404 | mark.regehr@mnp.ca

Based in Edmonton, Mark assists mid-market clients preparing for succession, including the sale of their business or planning for growth through acquisitions, mergers and financing.

Mark has a proven track record of securing financing, finding buyers and assisting through the merger and acquisition process. He also offers expertise in the areas of business planning, financial structure and financial modelling.

Managing Director

Mike Reynolds

587.702.5909 | mike.reynolds@mnp.ca

Based in Calgary, Mike advises on mergers, acquisitions, divestitures and financing options.

Mike has more than 18 years of industry experience in corporate finance, turnarounds and restructurings, private equity, and venture capital. He has worked on transactions in Canada, the U.S. and Europe and has experience in numerous industries.

Managing Director

Erik St-Hilaire

204.336.6200 | erik.st-hilaire@mnp.ca

Based in Winnipeg, Erik works one-on-one with clients in Saskatchewan, Manitoba and northwestern Ontario. His strong technical knowledge and creative thinking allows him to find innovative solutions to complex situations, as he delivers advice customized to address each client's unique situation and objectives.

As a trusted advisor, Erik works with mid-sized companies preparing for succession, focusing on the sale of their business. He also helps companies planning for growth through acquisitions, mergers, due diligence or financing.

Managing Director

Jason Burgess

905.225.1324 | jason.burgess@mnp.ca

Based in St. Catharines, Jason helps private and public businesses navigate complex transactions so they can achieve their strategic and financial goals.

Jason draws on more than 25 years of experience in public practice and in the public sector to help clients with mergers and acquisitions, debt financing, performance improvement and due diligence.

Managing Director

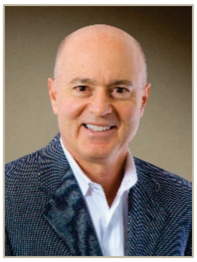
Patrick Khouzam

514.228.7874 | patrick.khouzam@mnp.ca

Based in Montreal, Patrick specializes in assisting mid-sized, privately owned businesses maximize their value through strategic planning and targeted initiatives.

Backed by almost two decades of experience working within the financial sector in Quebec, Patrick specializes in mergers and acquisitions, raising capital, due diligence and general business transaction advice.

ABOUT MNPCF



Managing Director

Dan Porter

416.515.3877 | dan.porter@mnp.ca

Based in Toronto, Dan has 30 years of experience helping public and private companies in a wide range of industries, including aviation, railways, trucking, mining, leasing, printing and manufacturing.

Working closely with his clients, Dan provides advice and develops innovative and creative financing solutions in many areas such as structured products, senior debt restructuring, raising new senior revolving or term debt, sourcing or restructuring mezzanine or subordinated debt and assisting with or structuring asset or business divestitures.

Managing Director

Stephen Shaw

416.515.3883 | stephen.shaw@mnp.ca

Based in Toronto, Stephen initiates and executes business strategies and transactions designed to realize clients' goals in complex situations.

His client base is involved in a range of industries, including aerospace and defense, manufacturing and distribution, transportation and logistics, industrial and consumer products, agri-food and automotive.

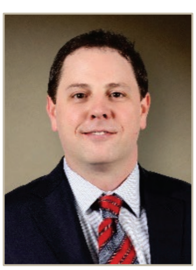
Managing Director

John Caggianiello

416.513.4177 | john.caggianiello@mnp.ca

Based in Toronto, John specializes in assisting mid sized entrepreneurial private and public companies and institutional investors with their due diligence and transaction advisory requirements.

Drawing on his investigative and advisory expertise working with private equity firms, alternative lenders, lawyers and bankers, John provides comprehensive due diligence solutions to help his clients accurately assess risks associated with their investment decisions.



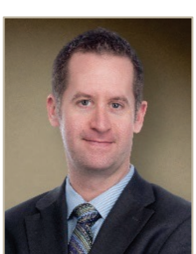
Managing Director

Kevin Tremblay

647.943.4051 | kevin.tremblay@mnp.ca

Based in Toronto, Kevin advises clients in the public and private sectors across a broad spectrum of industries, bringing significant experience in manufacturing, distribution and service-based businesses.

Drawing on more than two decades of experience as a strategic consultant, Kevin has successfully executed numerous transactions including divestitures, acquisitions, management buyouts, private placements and valuation mandates.



Managing Director

Craig Maloney

902.493.5430 | craig.maloney@mnp.ca

Based in Halifax, Craig specializes in helping family-owned businesses with mergers and acquisitions and corporate finance issues.

Craig's services include business valuation and pricing analysis, helping owners establish relationships with lenders and source capital, assisting with business planning and management structuring and creating financial models for budgeting and forecasting.