

Business Transitions Forum

How to Build a Saleable Business: Your Roadmap to a Successful Transition

November 2017

What we'll focus on today...

1.

Influences on the M&A Market

2.

Deal Activity & Trends

3.

Transaction Process

4.

Potential Deal Issues

Influences on the M&A Market



Strong capital markets

	<i>S&P 500 companies¹</i>	<i>Corporate bond yield²</i>	<i>Cash of S&P 500 companies¹</i>	<i>Global PE 'dry powder'³</i>
2015	13.4x <i>EV/EBITDA</i>	3.9% <i>Yield</i>	\$1.3 <i>Trillion</i>	\$745 <i>Billion</i>
2016	14.5x <i>EV/EBITDA</i>	3.7% <i>Yield</i>	\$1.5 <i>Trillion</i>	\$821 <i>Billion</i>
2017 YTD	15.1x <i>EV/EBITDA</i>	3.8% <i>Yield</i>	\$1.6 <i>Trillion</i>	\$906⁴ <i>Billion</i>

¹ Excludes Financials; all years calculated using S&P constituents as at October 2017 for comparability; in USD

² Moody's Seasoned AAA Corporate Bond Yield

³ Excludes Real Estate, Mezzanine and Distressed private equity funds; in USD

⁴ Latest 'global PE dry powder waiting to be deployed' data available is as of May 2017

Sources: Capital IQ, Preqin

State of capital markets in Canada

S&P/TSX Composite Index *(excluding Energy & Financials)*

EV/EBITDA Multiple



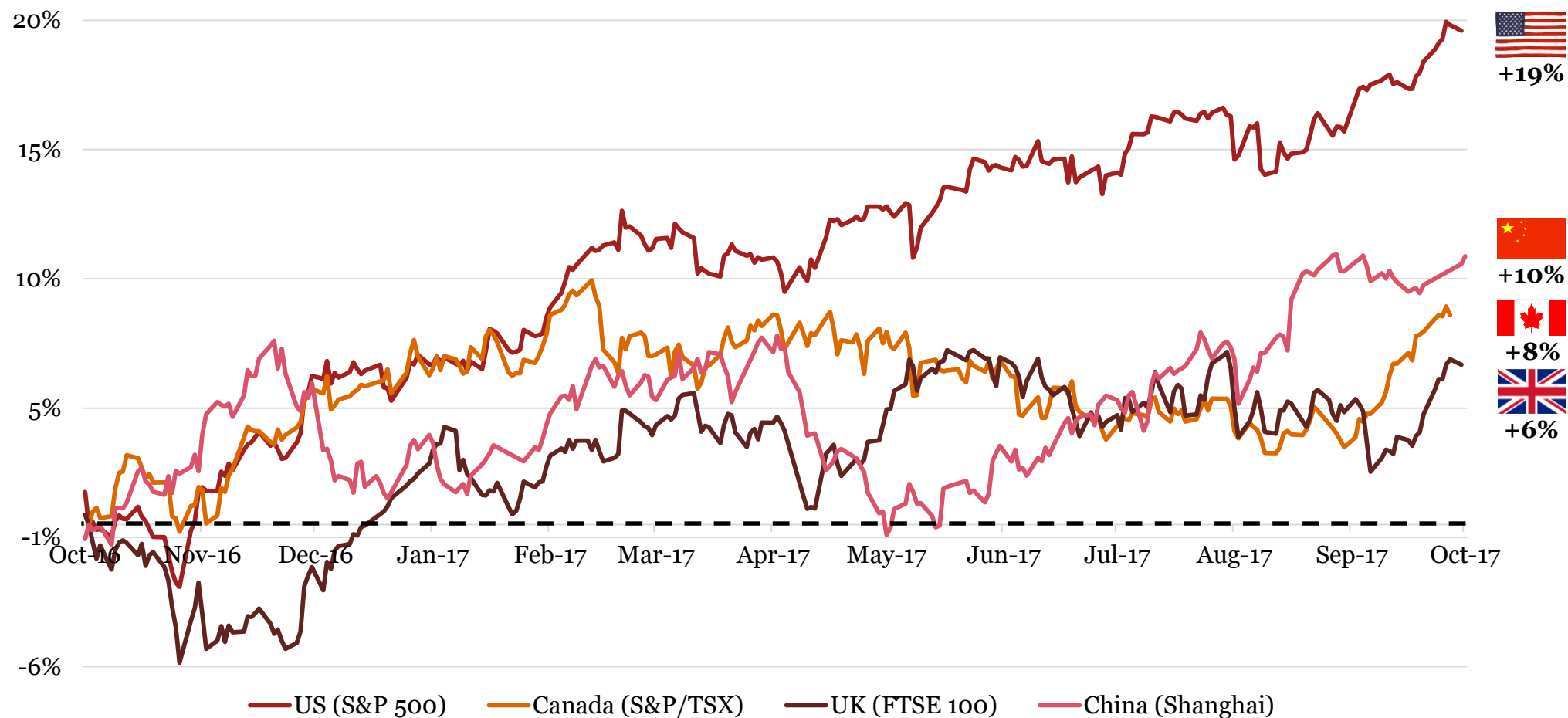
Cash & Equivalents



***Canadian Private
Equity Dry Powder***





Global equity markets buoyant over the last year



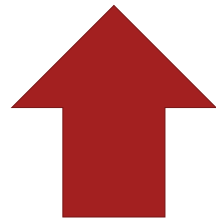
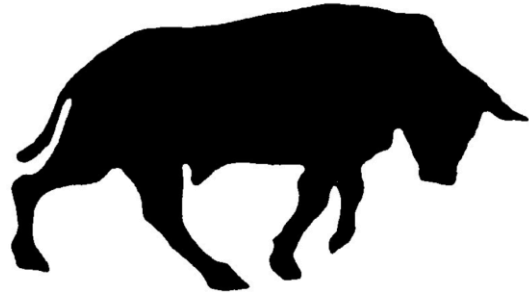
Source: Capital IQ, PwC Analysis

Bull or Bear – where will the market go in 2018?

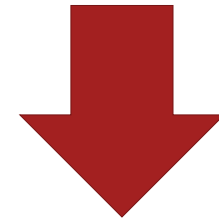
	Dec 31, 2015	Dec 31, 2016	Oct 31, 2017	2018
S&P 500	2,044	2,239	2,575	
NASDAQ	5,007	5,383	6,728	
S&P/TSX	13,010	15,288	16,026	
Gold (US\$/oz)	\$1,060	\$1,152	\$1,271	?
Silver (US\$/oz)	\$13.80	\$15.99	\$16.68	
Oil (WTI US\$/bbl)	\$37.04	\$53.72	\$54.38	
Cdn / US FX	1.39 / 0.72	1.34 / 0.74	1.29 / 0.78	

Poll: Bull or Bear – where do you think the market will go in 2018?

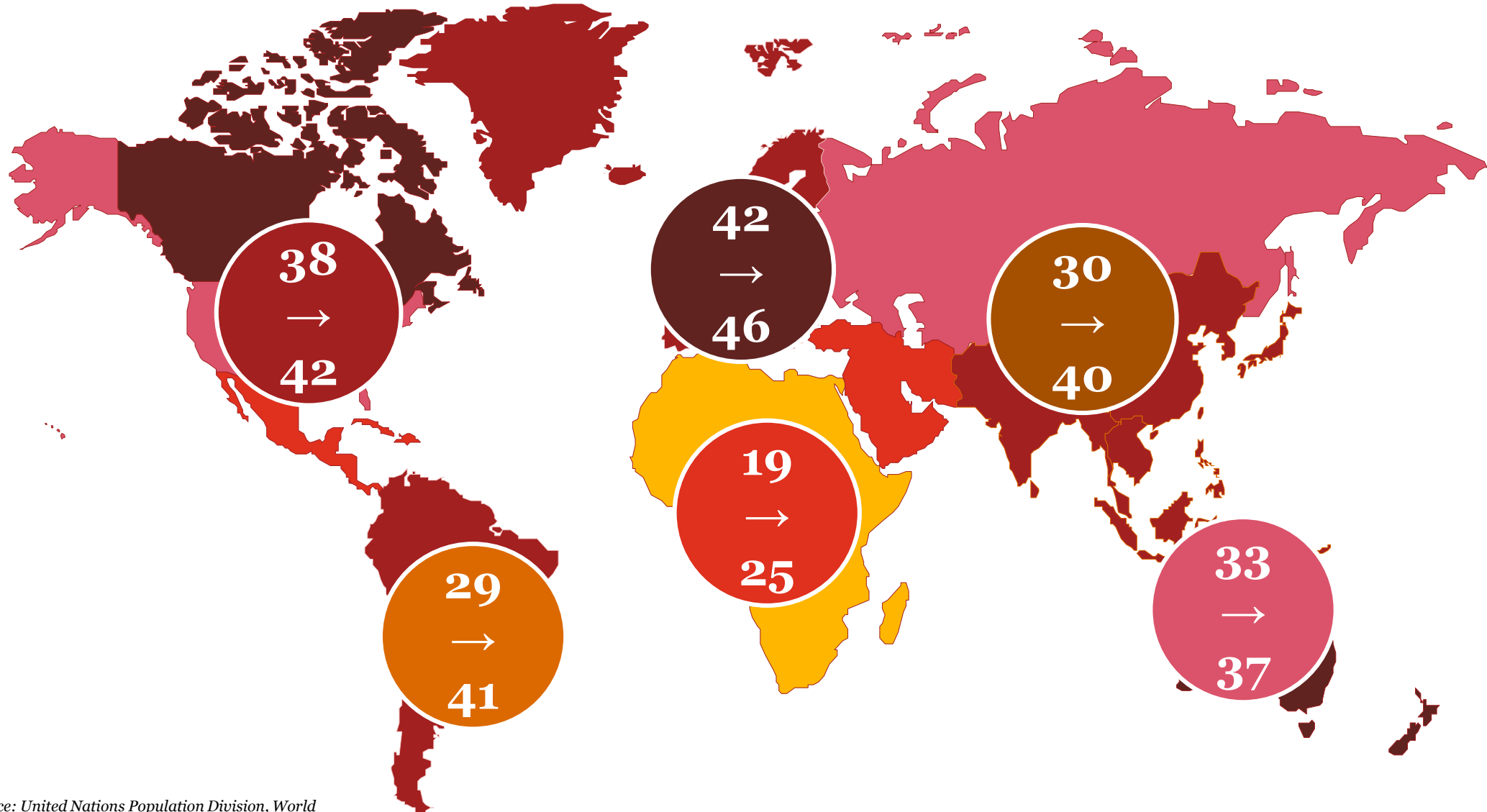
1



2



We're not getting younger...



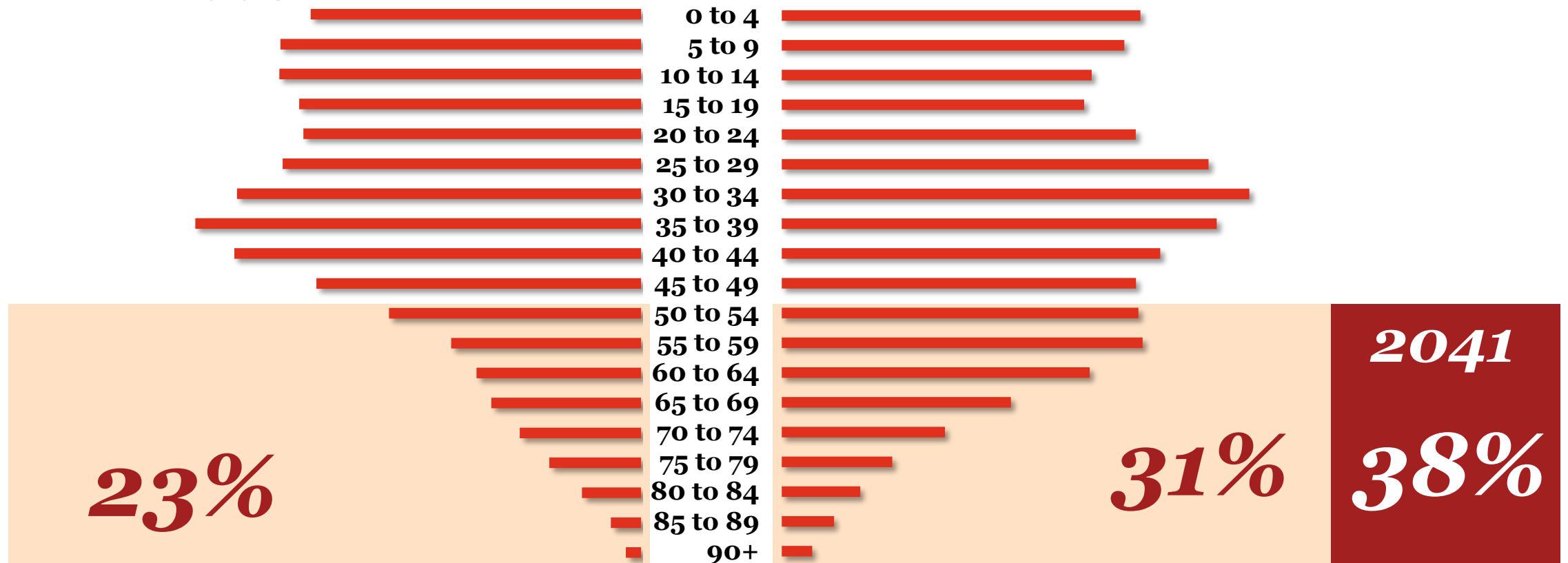
Source: United Nations Population Division, *World Population Prospects, 2015 revision (2015 – 2050)*

...and an aging population is driving succession activity

Alberta Population by Age Group

1997 – 2.8 million

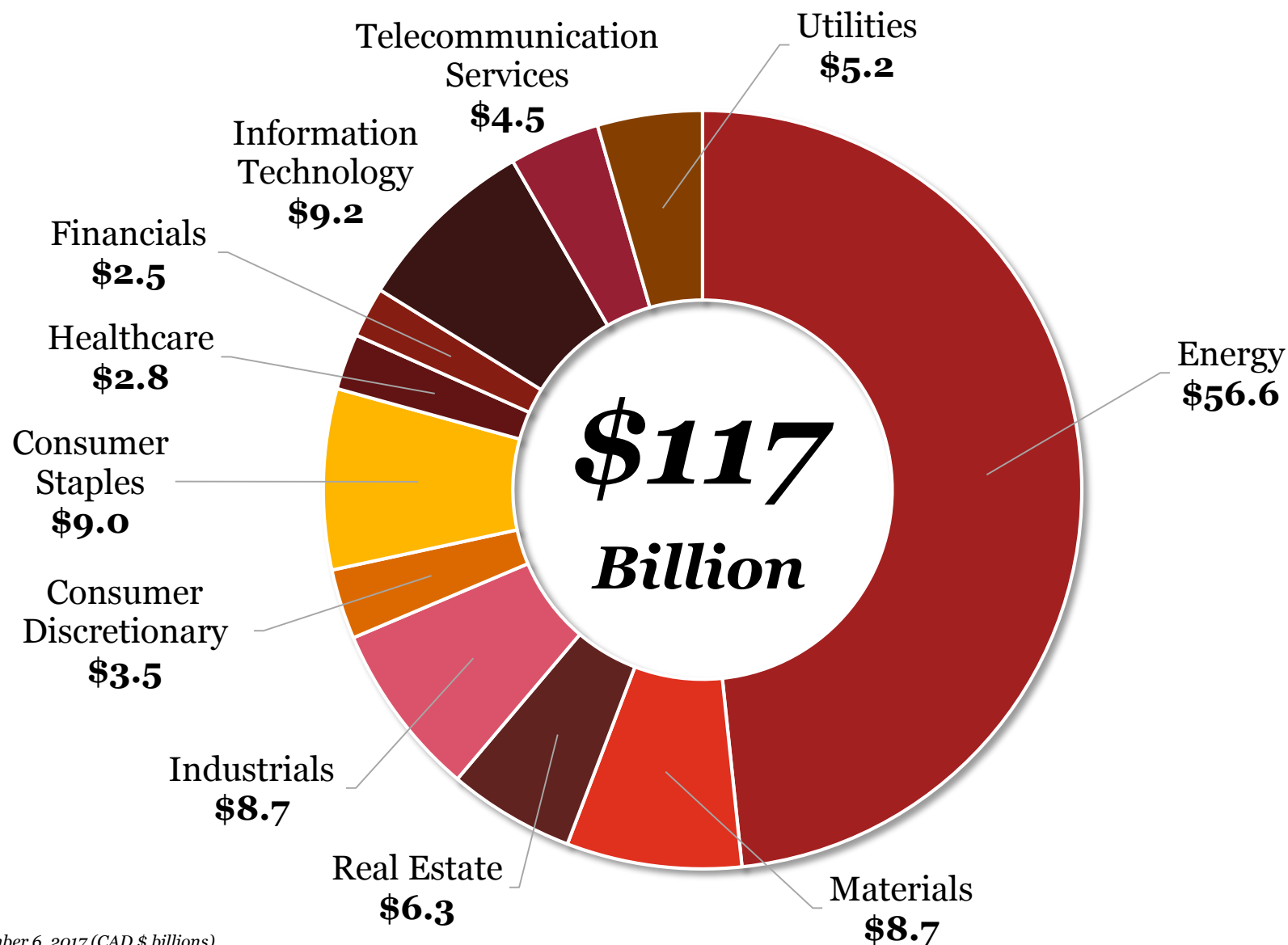
2017 – 4.3 million



Deal Activity & Trends

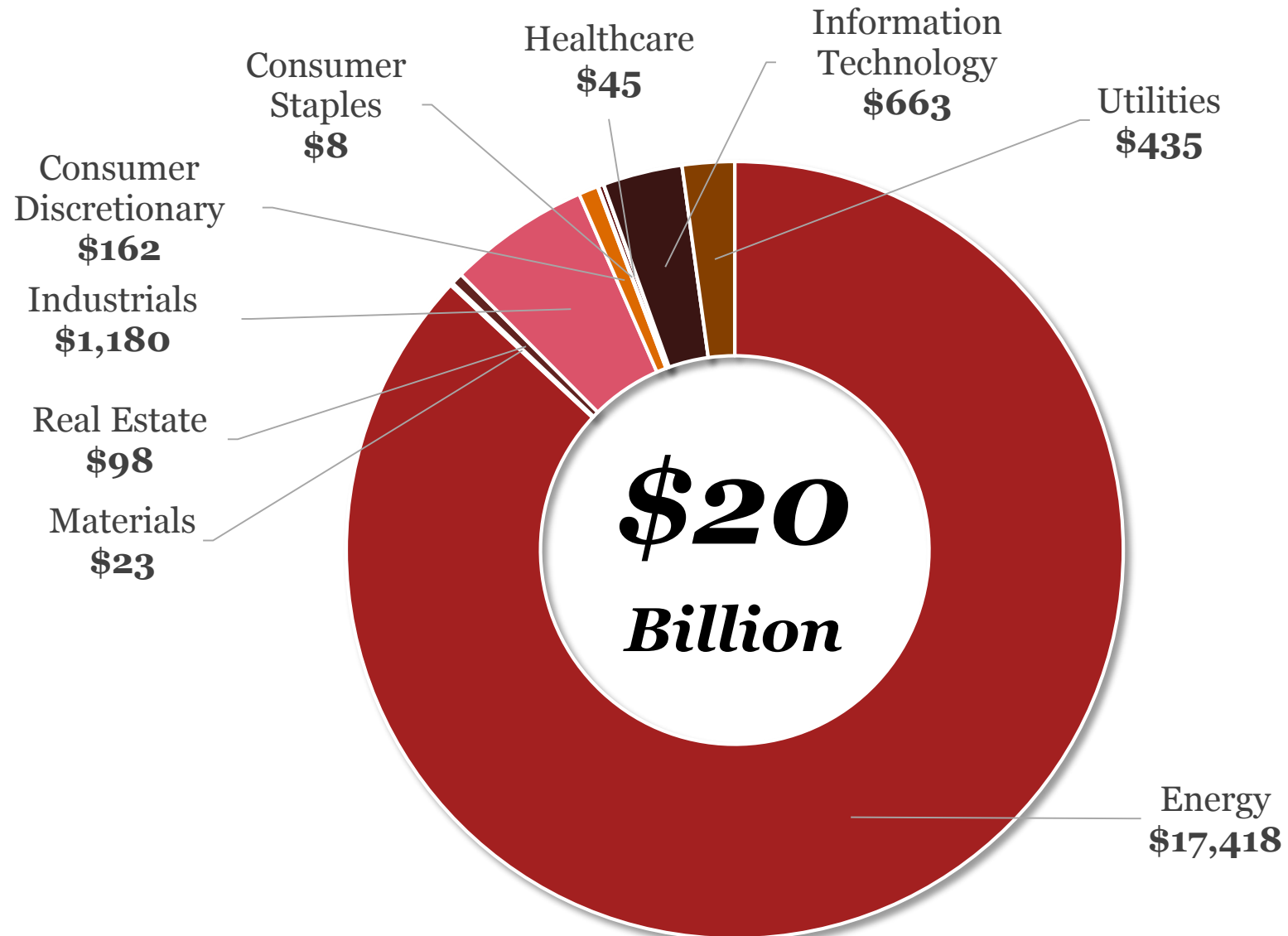


Over 1,500 transactions in Canada over the past 12 months...



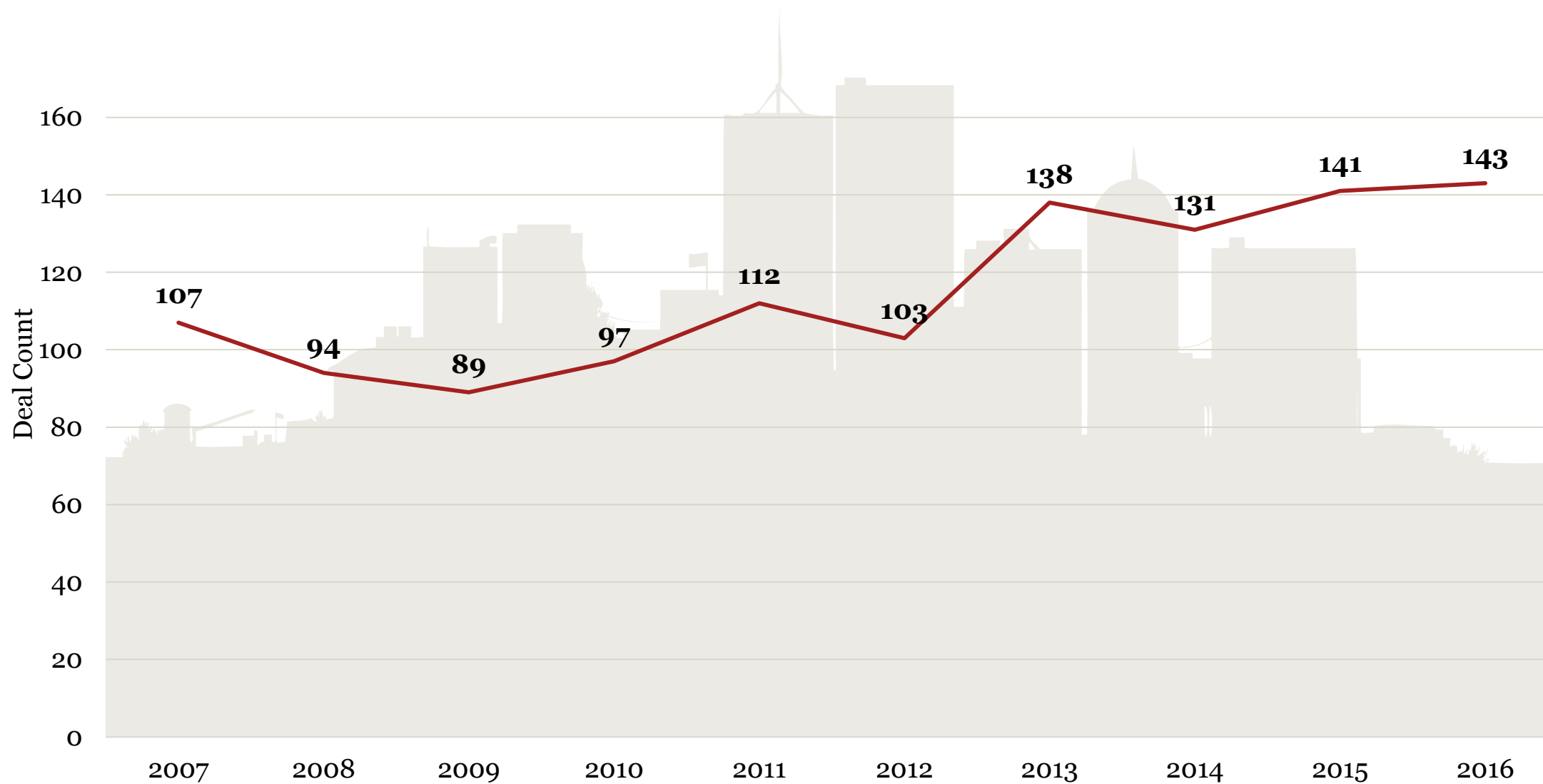
Source: Capital IQ as of November 6, 2017 (CAD \$ billions)

...and 8% of those deals were in Alberta



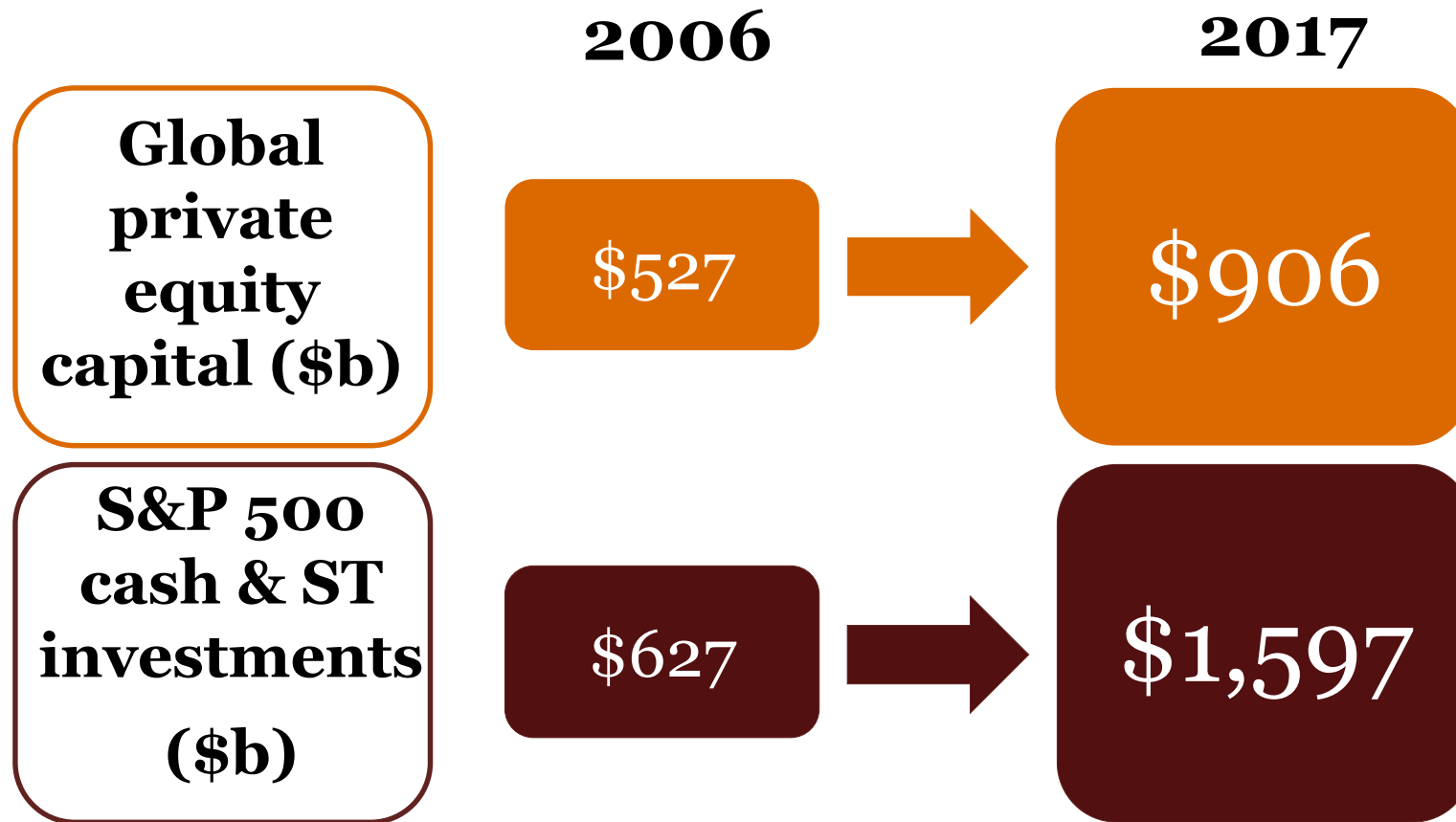
Source: Capital IQ as of November 6, 2017 (CAD \$ millions)

Private equity is very active in Canada

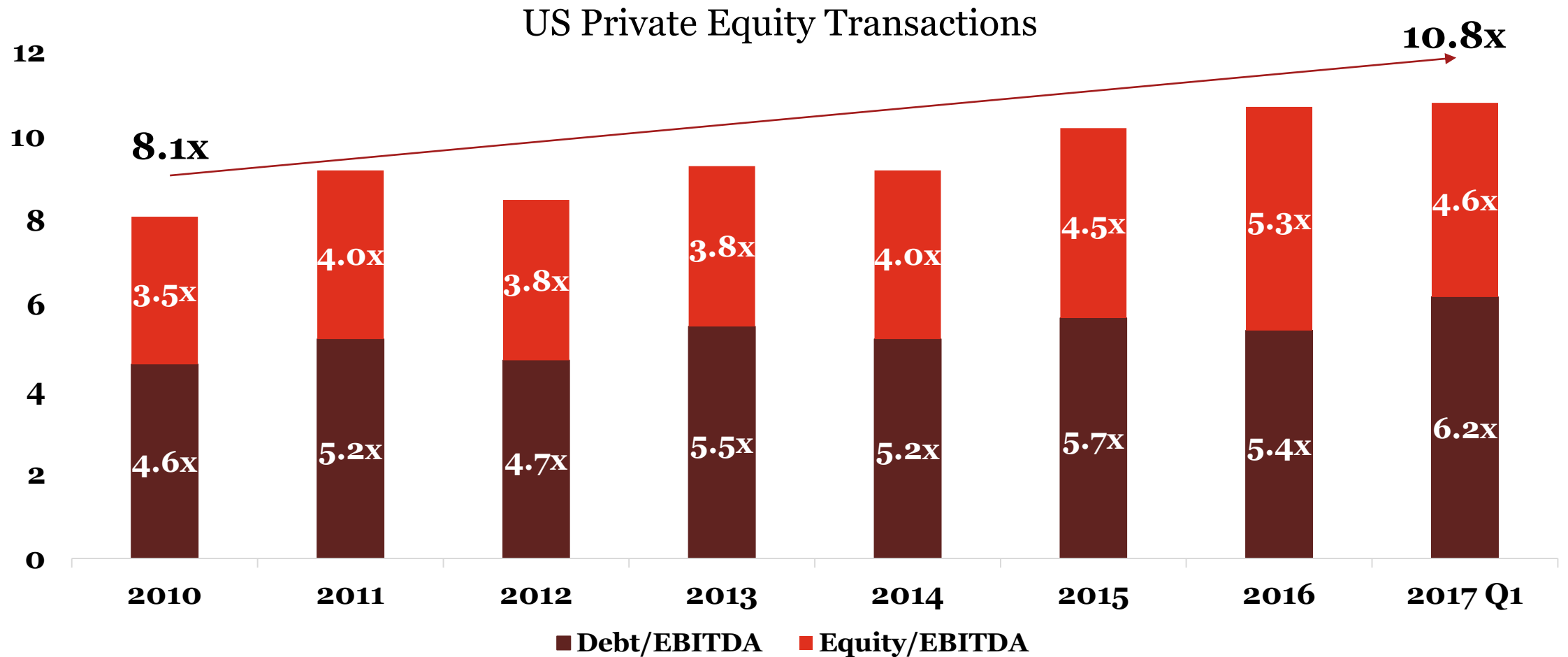


Source: Pitchbook, PwC Analysis

Lots of cash looking for a home...



.....debt is readily available



Observations on Private Equity buyers

PE's are becoming specialised – acting more like strategic buyers

Strong valuations are driving significant due diligence

Debt contributions of 4-5 x EBITDA are common in the US

Canadian PE's multiples are not as strong as US PE's – Debt of 3-4x

Poll: What do you think is the most common reason for selling?

1

Succession

2

***Approached by
potential buyer***

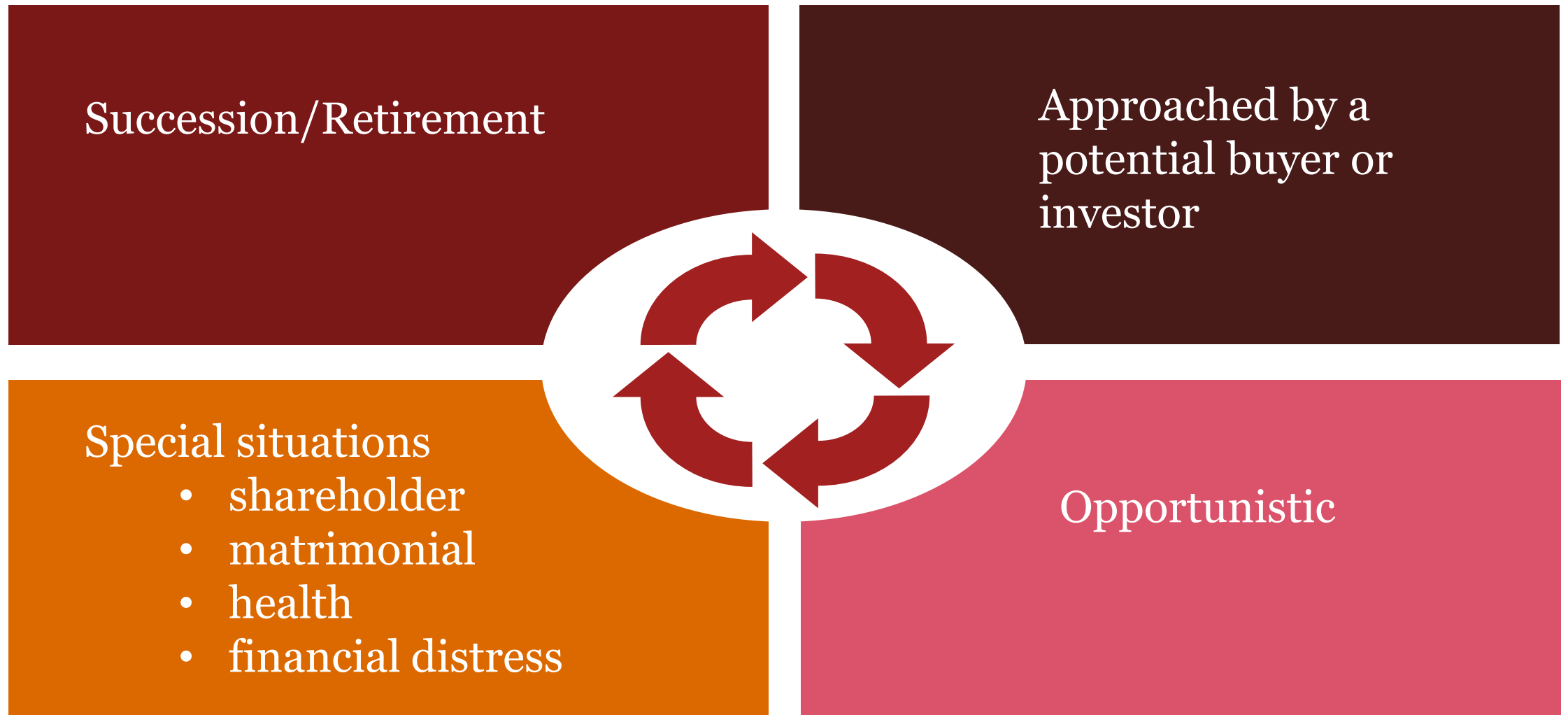
3

Special situations

4

Business is great

Drivers for Mid-Market Deals



Transaction Process

A scenic landscape of Moraine Lake in the Canadian Rockies. The lake's water is a vibrant turquoise color, reflecting the surrounding environment. The shoreline is lined with a dense forest of tall, green evergreen trees. In the background, majestic mountains with patches of snow and ice rise steeply. A small wooden dock with a few people is visible on the right side of the lake. The sky is a clear, pale blue with some light clouds. The overall scene is peaceful and picturesque.

Strategic options for a shareholder

Sale to strategic buyer

Sale to financial buyer (private equity)

Management buyout

Recapitalization

IPO

Family transition

Potential sale process options



Exclusive Sale Process



Targeted Sale Process



Auction Process

Transaction process summary



Every deal is different: 16 – 36+ weeks

Areas of due diligence

Commercial

Financial

Tax

Legal

Environmental

Areas of due diligence

An orange rounded rectangle with a slight gradient and a drop shadow, containing the word 'Commercial' in white serif font.

Commercial

- Products and/or services and life cycles
- New product and/or services development
- Geographic concentration
- Competitors
- Customer/supplier dependence
- Industry outlook

Areas of due diligence

Financial

- Quality of earnings
- Normalizations
- Working capital analysis
- Margin analysis
- Data room
- Business plan review

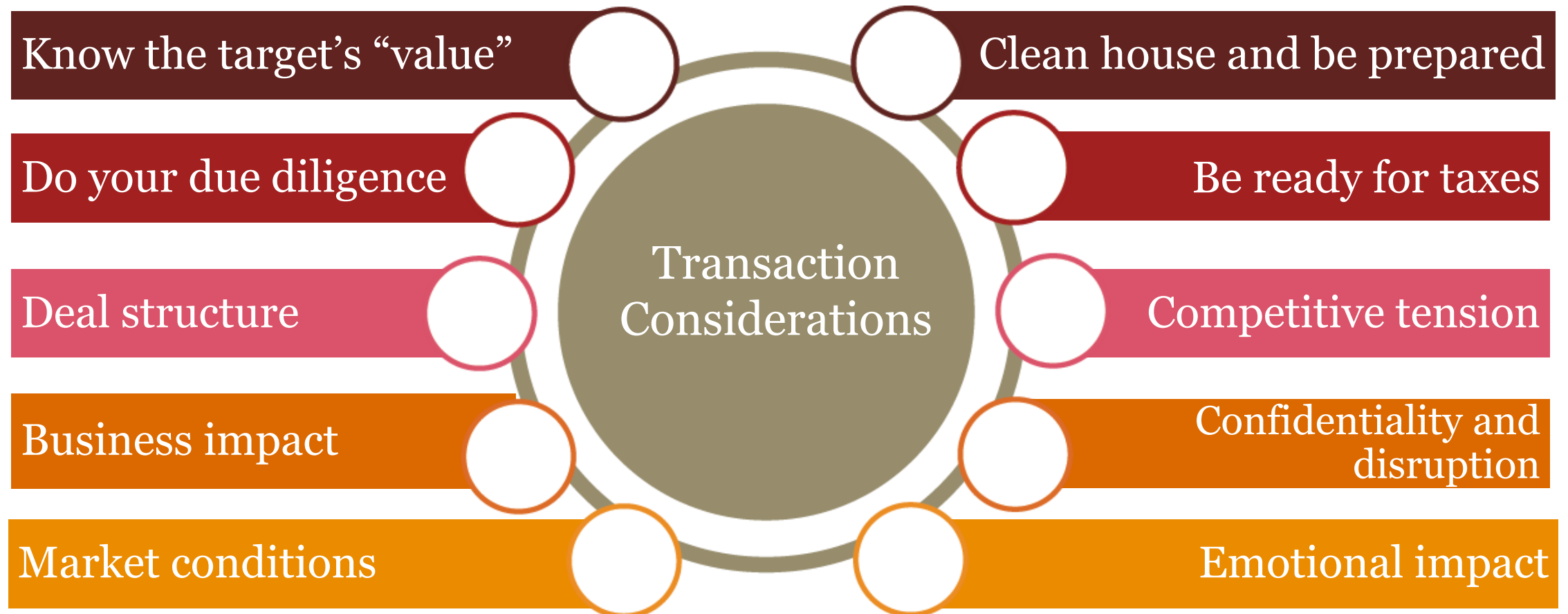
Potential Deal Issues



Transaction considerations

Buy Side

Sell Side



Poll: What do you think is the biggest value disruptor in a deal?

1

Lack of preparation

4

Market changes

2

Flawed sale process

5

Change in financial performance

3

Significant deal issues

Presentation key highlights

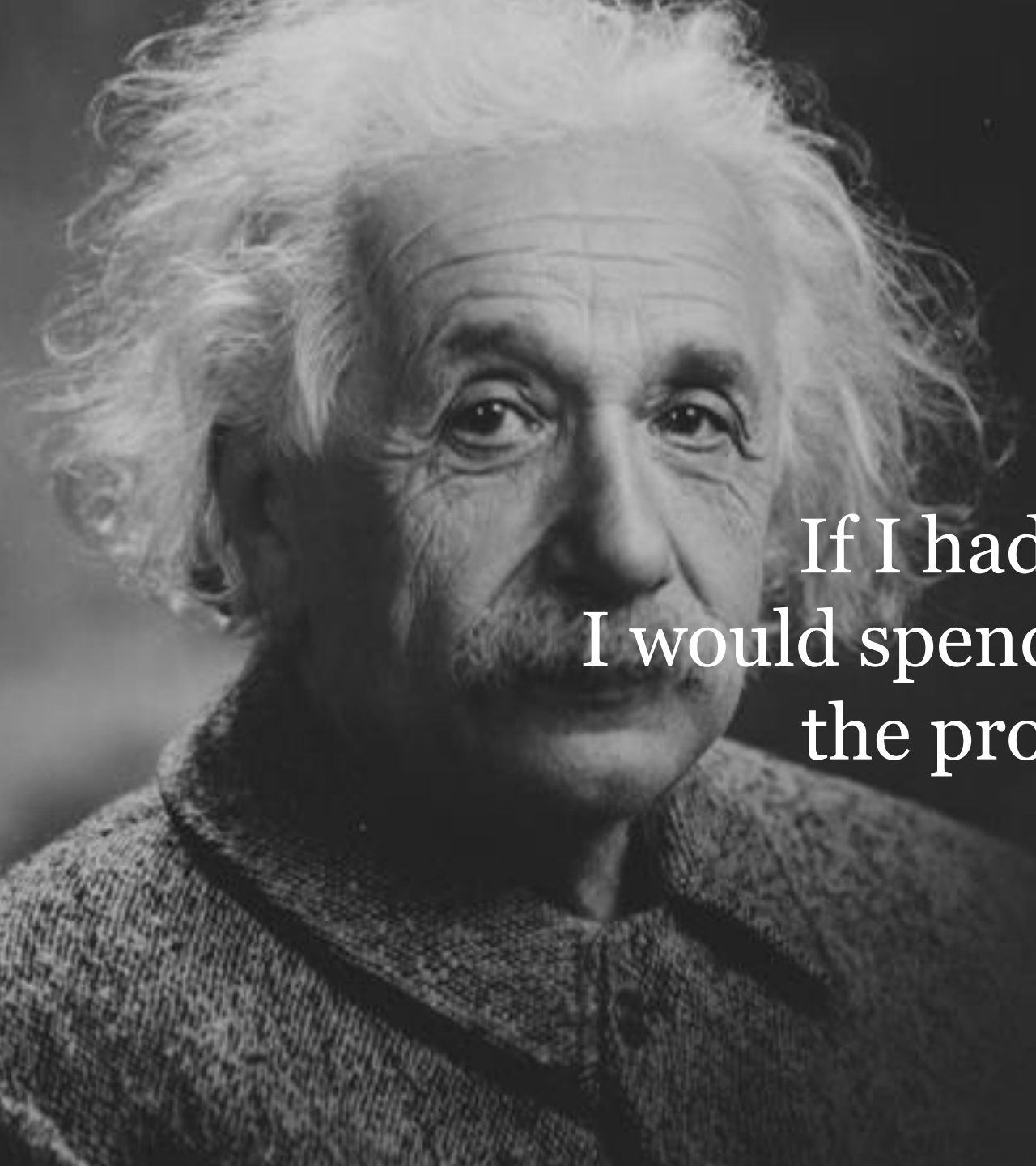
Market conditions are excellent for vendors

Strategic and private equity buyers are very active

Demographic shift and favourable economic conditions are impacting market activity

Continue to focus on business operations

Do your homework and be prepared



If I had one hour to save the world
I would spend fifty-five minutes defining
the problem and only five minutes
finding the solution!

- Albert Einstein

Any questions?

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