Navigating uncertainty and finding the upside in the Ontario M&A landscape

Headlines around market uncertainty continue to dominate the news. The most frequent question we hear is: how should I be thinking of M&A in these uncertain times? While this market requires careful and thoughtful action around M&A, there is an opportunity to realize upside for many businesses contemplating a transaction through the resilience expected in the middle market.

Forces driving transaction activity continue in the middle market. Foremost is shareholder succession. The Canadian Federation of Independent Business said 76% of owners plan to exit their business within 10 years—which puts at stake more than $2 trillion in business value. This is not only because of an aging group of company owners, but also other factors, such as the ability for a business to grow with new ownership or the stress and turmoil that a lot of business owners have experienced over recent years because of fluctuating costs, labour shortages or other pandemic-related issues.

Although there are many financial buyers armed with excess dollars, it’s important to acknowledge that firms will take a cautious approach in exercising their strategy through an uncertain market. Some others may see an opportunity to identify quality assets in a less competitive market. Some buyers are using the current market to perform more in-depth diligence on the target entities through longer exclusivity periods.

From the transaction perspective, there are many sellers that are now realizing declining valuations, and a rebound to 2021’s astronomical valuation levels is likely not attainable in the short term, which is resulting in an increased willingness to transact.

Markets adjust rapidly. The uncertainty from the last quarter of 2022 appears to be abating. Between private equity firms having billions of dollars raised and M&A consistently being a path to growth for strategic investors, these forces provide solid support strength in the market for profitable and high-quality assets.

Ontario M&A market activity
The Ontario M&A market has reached a sustained transaction volume from previous highs throughout the pandemic. This sustained level shows continuous momentum for the middle market, as 225 transactions were completed in Q4 (Q3 2022 - 234).

The IT products and services sector remained the leading category in the Ontario market, contributing to 23% of the transactions that occurred in the quarter, and in second place was the commercial and professional services category. Business services is a sector that is seeing significant recent interest from both financial and strategic acquirers.

Overall, 2022 results show there has been a softening from 2021 M&A levels, but that a new sustained level may be here to stay. The Ontario market continues to be an attractive opportunity for international buyers, with acquisition levels remaining consistent and Ontario businesses continuing to see M&A as an avenue to growth.

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About the Company

Little Kickers is an international franchisor of youth soccer programs based in the United Kingdom. Established in 2002 by Founder and Chairman Christine Kelly, Little Kickers currently operates in 340 territories geographically dispersed across the United Kingdom, Canada, Australia and other countries.

The Win-Win

EY advised Little Kickers on its sale to Stronger Youth Brands. The divestiture of Little Kickers provided the shareholders with a liquidity event while allowing Stronger Youth Brands to expand internationally with its youth sports-focused platform.

TO LEARN MORE

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EY's sector focused quarterly recaps

Each quarter we will feature select sector-focused recaps and thought leadership that our team produces. This quarter, we are highlighting our trucking and logistics quarterly recap.

Interested in receiving these recaps each quarter? Reach out to us at chris.hutchinson@ca.ey.com.
Illustrative Ontario transactions

Dec 16, 2022: Right Time Group Inc. (“Right Time”) acquired Ontario-based Dunn Heating and Air Conditioning, a provider of residential heating, cooling, air quality, and hot water services to homeowners in the Tri-Cities area of Southern Ontario, encompassing Waterloo, Kitchener and Cambridge. The acquisition will complement Right Time’s existing growth strategy. Terms of the transaction were not disclosed.

Dec 12, 2022: Phoenix Contact GmbH & Co. KG (“Phoenix”) acquired Ontario-based iS5 Communications Inc. (“iS5”), a manufacturer of industrial ethernet products that are used in the environments of utility sub-stations, roadside transportation, rail and industrial applications in Canada. The acquisition complements Phoenix’s offerings because of the product range of iS5 and the expertise of its employees in the field of critical infrastructure. Terms of the transaction were not disclosed.

Dec 12, 2022: Vector Health Laboratories Ltd. (“Vector Health”) acquired Ontario-based DRVN Intelligence, to form Stacktics, a provider of IT services such as digital marketing, cloud computing, IoT solutions and others. The merger enables both the organizations in strengthening their capabilities and streamlining processes. Terms of the transaction were not disclosed.

Dec 9, 2022: St Regis Crystal Inc. (“St Regis”) acquired Ontario-based Clearmount Incorporated (“Clearmount”), a manufacturer of custom Lucite awards, and North American representative of the SIGG brand of tumblers and bottles. The acquisition strengthens St Regis’ offerings of awards and recognition products because of the unique and distinctive product line of Clearmount. Terms of the transaction were not disclosed.

Dec 8, 2022: Contegix, LLC (“Contegix”) acquired Ontario-based Blended Perspectives Inc., a provider of technical consulting services for the entire Atlassian software tool suite. The acquisition strengthens Contegix’s technical expertise of Atlassian

Dec 7, 2022: SymBев Inc. (“SymBев”) acquired Ontario-based Railway City Brewing Company Ltd., a manufacturer of craft beer. The acquisition is part of SymBев’s strategy to build a new national adult beverage company through acquisition and innovation in the craft beverage space. Terms of the transaction were not disclosed.

Dec 2, 2022: Believeco:Partners has acquired Brightworks*, a digital communication agency providing information architecture, creative direction, art production, and marketing campaign services. The acquisition is part of a larger merger with five other agencies called, Believeco:Partners. Terms of the transaction were not disclosed.

Dec 2, 2022: William F. White International Inc. (“WFW”) acquired Ontario-based Studio City Toronto Inc., an operator of one of Toronto's busiest studio complexes, Studio City Rentals, a provider of rigging and scaffolding to the film industry, was also acquired in this transaction. The acquisition complements WFW's business as it continues to deliver world-class studio space and production equipment to the local and international film and television industry. Terms of the transaction were not disclosed.

Nov 30, 2022: Envest Corp. (“Envest”) acquired Ontario-based Bullfrog Power Inc., a provider of smart and sustainable energy solutions to businesses and individuals for C$35m. The acquisition will enhance Envest’s ability to provide a broader scope of commercial-scale, de-carbonization and clean energy solutions. The transaction implies a TEV/Revenue multiple of 10.4x and TEV/EBITDA multiple of 13.6x.

Nov 29, 2022: Bossard Holding AG (“Bossard”) acquired Ontario-based Penn Engineered Fasteners Corporation, a distributor of fastening solutions in Canada. The acquisition will enable Bossard to expand its market presence and range of services in the Canadian market. Terms of the transaction were not disclosed.

Nov 29, 2022: Cedric Millar Integrated Solutions Inc. (“Cedic”) a provider of 4PL and other supply chain solutions, merged with Ohio-based IQ Logistics Solutions Inc., a provider of intermodal, full and

* EY acted as financial advisor
partial highway truckload, LTL, and customized pool distribution services. The merger will help Cedric expand its existing capabilities in the domestic US market. Terms of the transaction were not disclosed.

Nov 25, 2022: Socium Capital* acquired Royal Fire Protection, which is a turnkey fire protection engineering company that provides design and engineering services as well as on-site installation. Terms of the transaction were not disclosed.

Nov 15, 2022: Ironbridge Equity Partners (“Ironbridge”) acquired a controlling interest in Ontario-based King’s Pastry Inc. (“King’s Pastry”), a manufacturer of sweet and indulgent bakery products. The acquisition will help King’s Pastry in executing its growth plans. Terms of the transaction were not disclosed.

Nov 9, 2022: SDImktg acquired Ontario-based Fuel Media Inc., a provider of digital activation services including systems design, software, UX, UI and digital marketing services. The acquisition supports SDImktg’s plan to expand customer base and diversify its offerings. Terms of the transaction were not disclosed.

Nov 8, 2022: eyeeo GmbH (“eyeeo”) acquired Ontario-based Blockthrough Inc., a provider of technological services that works with digital media businesses to recover revenue lost due to ad-blocking. The acquisition supports eyeeo’s commitment to promote user-centric web services while supporting the needs of publishers, advertisers and others across the open web ecosystem. Terms of the transaction were not disclosed.

Nov 8, 2022: ATS Scientific Inc. (“ATS”) acquired Ontario-based Folio Instruments Inc., a scientific equipment distributor and service provider. The acquisition enhances ATS’s presence in favourable end markets. Terms of the transaction were not disclosed.

Nov 7, 2022: Nicola Wealth Management Ltd. (“Nicola Wealth”) acquired Ontario-based Levine Financial Group Corp., a provider of insurance products and services to doctors in Ontario. The acquisition strengthens Nicola Wealth’s strategy to grow across Canada and expand its offerings. Terms of the transaction were not disclosed.

Nov 2, 2022: Sonepar Canada, Inc. (“Sonepar”) acquired Ontario-based Aztec Electrical Supply Inc., a distributor of electrical, automation, lighting and sensing products. The acquisition strengthens Sonepar’s ability to grow its industrial business model across the Greater Toronto Area. Terms of the transaction were not disclosed.

Nov 2, 2022: Muskoka Brewery Ltd. (“Muskoka”) acquired Ontario-based Rally Beer Company Limited, a manufacturer of premium craft beer. The acquisition enables Muskoka to drive growth in the functional beer segment. Terms of the transaction were not disclosed.

Oct 31, 2022: Advanced Web Technologies, Inc. (“AWT”) acquired Ontario-based Label Innovation Inc., a provider of labels and customized packaging. The acquisition will further expand AWT’s capabilities and presence in Canada. Terms of the transaction were not disclosed.

Oct 21, 2022: Lawn Doctor, Inc. (“Lawn Doctor”) acquired Ontario-based Elite Window Cleaning Inc. (“Elite”), a franchisor offering window cleaning, gutter cleaning and power washing services to residential and commercial customers. The acquisition will enable Lawn Doctor to leverage its core competencies and further expand Elite’s franchise operations into the US. Terms of the transaction were not disclosed.

Oct 20, 2022: Equals Brewing Company Inc. (“Equals Brewing”) acquired Ontario-based Side Launch Brewing Co., a producer of beer that sells through retail and online markets. The acquisition will help Equals Brewing in achieving economies of scale. Terms of the transaction were not disclosed.

Oct 20, 2022: SingleKey Inc. (“SingleKey”) acquired California-based Naborly Inc., a rental screening tool for small landlords. The acquisition will further improve SingleKey’s tool by enhancing its offering. Terms of the transaction were not disclosed.

Oct 15, 2022: Van Bree Enterprises (“Van Bree”) acquired Ontario-based CH Excavating, a provider of excavation services offering road reconstruction, subdivision development, and specialty works. The acquisition will help Van Bree in expanding its presence. Terms of the transaction were not disclosed.

Oct 12, 2022: KAG Logistics, Inc. (“KAG”) acquired Ontario-based Connectrans Logistics Inc., a provider of premium logistics services for cross-border freight transportation between Canada and the US. The acquisition will expand KAG’s footprint in the Canadian logistics market and will enhance its capabilities with access to the US marketplace. Terms of the transaction were not disclosed.

Oct 3, 2022: Ancaster Conveying Systems Ltd. (“ACS”) acquired Ontario-based Drummond Manufacturing Inc., a manufacturer of components for the oil and gas, medical, power generation, pump, mining, and water treatment sectors. The acquisition will expand ACS’s manufacturing capabilities. Terms of the transaction were not disclosed.

* EY acted as financial advisor
Historical M&A activity

Transactions involving Ontario based companies over the last eight quarters

Number of Ontario transactions by industry over the last eight quarters

Counterparty mix over the last eight quarters

Counterparty mix over the last quarter

Transactions involving Ontario based companies over the last eight quarters by deal size (in C$ million)

Number of Ontario transactions by industry over the last quarter

Transactions involving Ontario based companies over the last quarter by deal size (in C$ million)
Our team

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