

Ontario M&A quarterly update

THIRD QUARTER 2022

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M&A as a path to growth and value

Against a dynamic and challenging macroeconomic backdrop, the EY CEO Outlook Pulse survey conducted in October 2022 illustrates that CEOs remain intent on transforming their organizations through M&A to manage significant disruption underway in all businesses.

In today's market there are two main concerns: inflation and supply chain bottlenecks. Although these challenges vary by geography and industry, CEOs view inflation as the single largest threat to growth and profitability. In this context, synergistic transactions present an opportunity for companies looking to mitigate cost pressure. By expanding their supply capabilities through vertical integration and broadening their geographic presence, companies can better position themselves to absorb the challenges faced in the market. When navigating between inflation and supply chain bottlenecks, companies need to focus on factors that are within their control to build long-term optionality, resilience and value.

The importance of maintaining control over externalities such as inflation and supply chain constraints is demonstrated by the fact that 64% of CEOs intend to increase capital investment to proactively counter disruption and mitigate uncertainty¹. Digital and technology capabilities are the main areas where companies plan to increase capital spending, while 40% of the CEOs surveyed are focused on reconfiguring supply chains.

Deals are still being completed and will continue to be a focus area as businesses navigate uncertain times, while new business platforms or new growth also offer avenues.¹ M&A is considered a critical method for boosting long-term growth strategies by acquiring companies that bolster operational capabilities and innovation. Although some of the current risks associated with completing a transaction have come from the fallout of the pandemic, geopolitical tensions, inflationary pressures and economic uncertainty have resulted in a new complexity requiring strong knowledge and agility to achieve targeted objectives.

Ontario M&A market activity

The Ontario M&A market continues to show a softening in the number of transactions. Deal volume amounted to 234 transactions, which is down from the rolling 24-month average of 285 transactions.

While deal volume decreased by 8.9% in Q3 2022, the breakdown between financial and strategic buyers remained consistent, along with the makeup of the geographic origin of transaction participants.

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. The contributions of all other categories remained consistent with historical results. Second in terms of volume was commercial and professional services, comprising 14% of Q3 transactions.

Q3 results continue to signal uncertainty in the market as deal volume decreases. However, a larger total value in deals achieved during Q3 signals continued strength in valuations. In particular, the valuation achieved for strategic transactions remained strong, showcasing the distinct value of strategic partnerships. As companies continue to navigate an uncertain economy ahead, it is expected that a focus on growth and implementing new technology will be at the forefront of investment decisions.

“M&A is considered a critical method for boosting long-term growth strategies by acquiring companies that bolster operational capabilities and innovation.”

¹ The CEO Imperative: How to remain resolute on investment as inflation surges, EY October 2022.

EY transaction snapshot

**EY* IS PLEASED TO ANNOUNCE
PROGRESSIVE COUNTERTOP**

TO LEARN MORE



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has been acquired by



EY* acted as exclusive financial advisor to 2111599 Ontario Inc. (dba Progressive Countertop)



*Ernst and Young Orenda Corporate Finance Inc.

About the Company

Progressive Countertop is a market leading fabricator and installer of high-quality granite, quartz, and other solid surface countertops for commercial and retail customers across Southwestern Ontario.

The Company was founded in Strathroy, Ontario by Howard, Chuck, and Dana Wilton. After many years of being fully invested in the growth of the business by expanding manufacturing operations, building a sales & support team, enhancing product offerings with key suppliers, and maintaining strong relationships.

The Win-Win

EY advised Progressive Countertop on its sale to AD Capital.

The Transaction enables an internal succession plan for the Wilton family, allowing Chuck Wilton to retire and Howard and Doug to remain as partners through an equity roll. Additionally, the partnership with AD Capital will provide Progressive with the financial and human capital to further scale the business.

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 HOME AND BUILDING PRODUCTS
QUARTERLY RECAP.

INTERESTED IN RECEIVING THESE RECAPS
EACH QUARTER? REACH OUT TO US AT
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HOME AND BUILDING PRODUCTS RECAP

HOME AND BUILDING PRODUCTS RECAP | SECOND QUARTER 2022

Crash or correction?

Canada

CONFIDENCE
Consumer confidence in Canada continued to drop 6.6 points in July 2022 after having already dropped 8.8 points in June 2022 to 72.8 (2014 = 100), as many households continued to feel the impact of soaring inflation and rising interest rates. This resulted in 33.3% of Canadians feeling pessimistic about their current finances and ending purchasing power.

Moreover, Canadians are less confident about job prospects, with only 17% believing there will be more opportunities in six months. As a result, only 11% of survey respondents believe summer 2022 is a good time to purchase large-ticket items.

SALES
The sharp increase in interest rates by the Bank of Canada, including the most recent 100 basis point hike on July 13 to 2.50%, have muted the resale market in Canada. The result was a drop in national home sales by 24% year over year as of June 2022 – including -5.6% in June 2022 alone – and the average national home price by 14% since February 2022.

PRICE
Notwithstanding the above-mentioned drop in the average national home price by 14% between February and June 2022 to \$665,850, CIBC estimates the average national home price needs to drop by a further 25% to reach pre-COVID-19 levels.

In addition to rising interest rates, rising costs of construction caused by ongoing disruptions in global supply chains and severe labour shortages are also contributing to the national affordability crisis. As none of these are expected to be resolved anytime soon, those looking to purchase a newly constructed home should not expect pricing relief in the short to medium term.

United States

CONFIDENCE
The National Association of Homebuilders (NAHB) Sentiment Index came in below analyst estimates in July 2022 and fell for the seventh straight month, this time by 12 points – the second largest on record excluding the COVID-19 pandemic – and to its lowest level since May 2020 at 55, slightly below the critical support level of 60. The extent of the drop is largely related to the rapidity of the increase in mortgage rates to +6.00% (30 yr fixed).

FORECASTS
In late July, Royal Bank of Canada downgraded its outlook for the Canadian housing market, calling for a “historic correction” that is expected to be the worst in the last 40 years as a result of the aggressive interest rate hikes the Bank of Canada was forced to implement to curb soaring inflation. RBC is forecasting home sales to decrease by 28% in 2022 and a further 15% in 2023, with the national benchmark home price dropping by more than 12% from peak to trough by Q2 2023. This will make the anticipated correction the sharpest of the last five.

Not surprisingly, the downturn is expected to be most pronounced in Ontario and BC, where average home prices are the highest across Canada, as sale volumes are forecasted to drop by 45% and 38% in 2022 and 2023, respectively, while prices are expected to drop by 14% from peak to trough. Although the more affordable parts of the country are expected to be less impacted, RBC still forecasts sales volumes to decrease by more than 20%, with price decreases ranging between 3% and 8%.

Despite the pessimistic outlook, the bank offers the caveat that this historic correction should be characterized as a “business cooldown” after a heated, pandemic-induced buying frenzy over the last two years that created a national affordability crisis, putting homeownership out of reach for many Canadians. It's believed that solid demographic fundamentals, resulting from factors like smaller families, more people living alone, soaring immigration during the post-pandemic era and the unlikely risk of near- to medium-term overbuilding will maintain the supply vs. demand fundamentals in the overall market, notwithstanding the expected interest rate-induced cooling-off period over the next 12 to 18 months in the volume of home sales and new housing starts.

EY transaction snapshot

Our Recent Transactions in Home & Building Products

TO LEARN MORE

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has been acquired by

The Transaction

Founded in 1999, Robover is a Quebec City-based manufacturer of insulating glass units, tempered glass and other glass products. Over the years, the Company has become a leader in the Quebec residential insulating glass industry.

ODL, Inc. is a leading Michigan-based building products manufacturer and supplier of decorative and clear door-glass and entry treatments, including door glass, door glass blinds, and retractable screen doors for the residential market. It has operations in the United States, Canada, the United Kingdom and China.

The Win-Win

The combination of Robover with ODL will create a North American powerhouse in the window-and-door industry, with over 100 years of combined experience. It will extend geographical reach and promote a robust and innovative product line-up by joining Robover's insulating expertise with ODL's Bink Blinds + Glass expertise, with the objective of becoming the leading light and privacy solutions provider to the North American window-and-door market.

About EY's Home and Building Products Industry Coverage

EY's M&A Lead Advisory has been assisting mid-market home and building products ("HBP") companies in Canada on their merger, acquisition, divestiture, financing and corporate finance strategy requirements for several years. We are one of Canada's largest mid-market corporate finance advisory firms with more than 60 dedicated M&A professionals in 11 offices across Canada, including a team of 10 who cover the HBP industry. With access to more than 480 transaction professionals in Canada (and +10,000 worldwide) via our broader Strategy & Transactions practice, we provide independent, seamless and fully-integrated transaction services that span the spectrum from idea generation to post-closing merger integration. We close an average of 30 transactions each year, ranging from \$10 million to +\$500 million in transaction value. EY's Strategy & Transactions practice offers a full suite of integrated transaction and corporate finance-related services from a team of seasoned and polyvalent professionals. We have deep bench strength, solid forecast coverage, extensive relationships with all forms of capital and the expertise to assist with all your transaction needs.

United States

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United States

CONFIDENCE
The National Association of Realtors reported that new listings are still averaging a record low of only 16 days on the market and 88% of homes sold in May 2022 were on the market for less than a month.

PRICE
Meanwhile, as a result of the ongoing supply-side shortage, prices jumped to a record high of more than US\$400,000 for the first time, notwithstanding the fact that mortgage rate increases are pushing first-time homeowners out of the market, dropping their share of market to just 27% in May 2022.

SALES
Sales of existing homes in the US tumbled to a two-year low in May 2022, marking the fourth straight monthly drop in sales volume. Existing home sales fell 3.4% to a seasonally adjusted annual rate of 5.41 million units in May 2022, the lowest since June 2020 when sales were recovering from the COVID-19 lockdown.

Economists polled by Reuters estimate that a housing market “downturn” would need sales to drop to between a rate of 4.0 million and 4.5 million. However, it should be noted that the resale market remains fairly hot,

Select Q2 2022 Transactions

The following are brief summaries of selected transactions in the North American home and building products industry from the second quarter of 2022:

BUILDING PRODUCTS DISTRIBUTORS

- Boston, MA-based Southeast Building Supply interests acquired Mound, TN-based Wallace Building Supply, Inc. The terms of the transaction were not disclosed.
- Wallace Building Supply, Inc. distributes building materials such as framing materials, trusses, roofing, decking and railing, brick, mortar and others.
- Tampa, FL-based Gulfwide Supply, Inc. acquired Farmingdale, NY-based Brightview Window & Door Distribution Corp. The terms of the transaction were not disclosed.
- Brightview Window & Door Distribution Corp. distributes and supplies building products like vinyl siding and windows, new construction and replacement windows, and doors.
- Rochester, MN-based Outdoor Living Supply, LLC acquired Truckee, CA-based The Rock Garden. The terms of the transaction were not disclosed.
- The Rock Garden supplies natural stone, hardscapes, and architectural elements such as mailboxes and hand-hewn stone furniture to residential and commercial clients.
- An unknown buyer acquired Denver, CO-based Summit Materials, Inc. for US\$47.8 million.
- Summit Materials, Inc. supplies aggregates, cement, ready-mix concrete and asphalt to public infrastructure, residential and non-residential end markets.

BUILDING PRODUCTS MANUFACTURERS

- Toronto, ON-based Birch Hill Equity Partners Management Inc. and Montreal, QC-based Investissement Quebec acquired Quebec City, QC-based Polycor Inc. for US\$467 million.
- Polycor Inc. operates as a stone company providing custom stone blocks, slabs, tiles, mosaics, architectural stone, curbs and landscaping products.
- Roswell, GA-based SiteOne Landscape Supply, Inc. acquired Moseley, VA-based Yard Works, LLC. The terms of the transaction were not disclosed.
- Yard Works, LLC manufactures and recycles premier landscape products for residential and commercial markets.
- Columbus, OH-based Worthington Industries, Inc. acquired Kansas City, KS-based Level5 Tools, LLC. for US\$80 million (earn out of US\$25 million). The transaction represents an enterprise value of approximately 2.4x revenue and 1.2-1.5x EBITDA.
- Level5 Tools, LLC manufactures drywall finishing tools such as flat boxes, corner tools, nail spotters, skimming blades, hand tools and others for the construction of drywall projects.
- Dallas, TX-based Eagle Materials Inc. acquired the assets of a Northern CO-based readymix concrete and aggregates manufacturing business for US\$12.2 million. The transaction represents an enterprise value of approximately 0.7x revenue.

HOME BUILDERS

- Troy, MI-based Champion Home Builders, Inc. has agreed to acquire all the operating assets of Laurinburg, NC-based Manis Custom Builders, Inc. for US\$10 million.
- Manis Custom Builders, Inc. provides custom and modular home building and floor plans services.

LUMBER AND WOOD

- Boise, ID-based Boise Cascade Wood Products, L.L.C. has agreed to acquire Havanna, FL-based Coastal Plywood Company for US\$51.2 million.
- Coastal Plywood Company provides plywood, lumber, and treated wood products.
- Woodstock, ON-based Gifford Distribution Inc. acquired Bolton, ON-based AFA Forest Products Inc. The terms of the transaction were not disclosed.
- AFA Forest Products Inc. distributes construction plywood, commodity lumber and specialty products to the retail, wholesale and industrial market.

ELECTRICAL AND HVAC

- Newport News, VA-based Ferguson Enterprises, LLC has agreed to acquire Corona, CA-based Minka Lighting, Inc. The terms of the transaction were not disclosed.
- Minka Lighting, Inc. manufactures lighting products and fans for both interior and exterior spaces.

Illustrative Ontario transactions

The following is a snapshot of transactions that occurred in Ontario during the quarter, with a focus on mid-market, private company transactions. Companies headquartered in Ontario are noted in yellow.

Sep 22, 2022: IMAX Corporation (“IMAX”) acquired Ontario-based **SSIMWave Inc.**, a provider of a video experience automation platform, for C\$25m. The acquisition builds on IMAX’s cross-platform expansion with IMAX Enhanced, which brings the IMAX experience to streaming entertainment.

Sep 20, 2022: Zanchin Automotive Group* (“Zanchin”) acquired the Toronto Retail Group of Mercedes-Benz AG. Mercedes-Benz TRG consisted of 6 dealerships, one service-only location, one reconditioning centre and one dealership under construction. Mercedes-Benz divested the group as part of its global strategy to better position the company for growth in manufacturing and innovation.

Sep 19, 2022: Yorkville Asset Management Inc. (“Yorkville”) acquired British Columbia-based Back in Motion Rehab Inc., a provider of physiotherapy, massage therapy, active rehabilitation, occupational therapy, psychological services, and multidisciplinary treatment programs. The acquisition will expand Yorkville’s offerings in Ontario & other provinces and will further enhance revenue streams from government and corporate long-term contracts.

Sep 15, 2022: Slate Asset Management L.P. (“Slate”) acquired a minority stake in Nova Scotia-based Roswall Development Inc. (“Roswall”), a developer of renewable energy projects offering energy solutions for infrastructure and communities. The partnership will help fund future renewables projects developed by Roswall, which has a significant pipeline of wind development opportunities.

Sep 15, 2022: Royal Unibrew A/S (“Royal”) acquired Ontario-based **Amsterdam Brewing Co. Limited**, an operator of a brewery for C\$44m. The acquisition will increase Royal’s presence in Canada. The transaction implies a TEV/Revenue multiple of 1.3x and TEV/EBITDA multiple of 8.8x.

Sep 12, 2022: Converge Technology Solutions Corp. (“Converge”) acquired Ontario-based **Newcomp Analytics Inc.**, a provider of analytics-driven solutions offering advisory and development services, along with managed analytics, for C\$20.3m. The acquisition will enhance Converge’s advanced analytics portfolio and offerings. The transaction implies a TEV/Revenue multiple of 0.6x and TEV/EBITDA multiple of 6.0x.

Sep 8, 2022: Beringer Capital (“Beringer”) acquired a majority stake in Ontario-based **Dig Insights Inc.** (“Dig”), a market research consultancy firm offering consumers and market insights. The acquisition will enable Dig to increase its client base and further enhance the company’s solutions across the entire innovation lifecycle.

Sep 8, 2022: Safe Fleet Acquisition Corp. (“Safe Fleet”) acquired Ontario-based **Kerr Industries Limited**, a provider of upfitting solutions to the law enforcement, emergency, specialty commercial, and retail end markets. The acquisition will benefit Safe Fleet’s existing portfolio of safety solutions and will extend its network of trained field installers and commercial vehicle service centres.

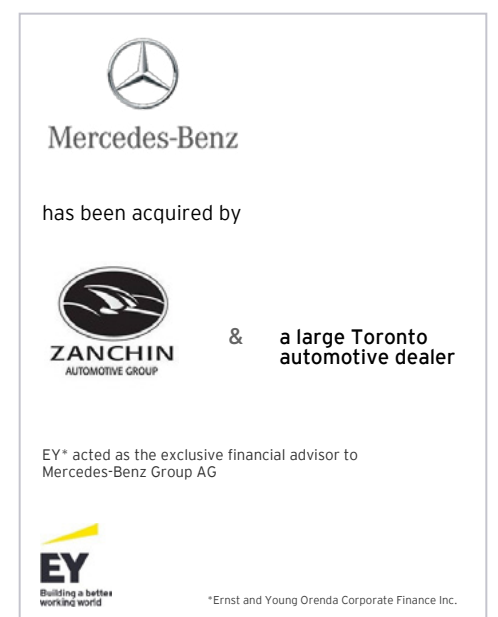
Sep 8, 2022: Ironbridge Equity Partners Limited (“Ironbridge”) acquired Ontario-based **Handi Foods Ltd.** (“Handi”), a manufacturer of pita snacks and crackers offering healthy snacking alternatives. The acquisition will enable Ironbridge to further support Handi in its growth strategy.

Sep 7, 2022: Groupe Touchette Inc.** (“Groupe Touchette”) acquired Ontario-based **National Tire Distributors, Inc.**, a supplier of tires to the replacement tire market. The acquisition will enhance Groupe Touchette’s current service offerings. Terms of the transaction were not disclosed.

Sep 01, 2022: Auo Display Plus Japan Corp. (“ADP”) acquired Ontario-based **Rise Vision, Inc.** (“Rise Vision”), a provider of software as a service-based content management solution. The acquisition will strengthen ADP’s portfolio of partners.

Sep 01, 2022: Guardian Capital Group Limited (“Guardian”) acquired a majority stake in Ontario-based **Rae & Lipskie Investment Counsel, Inc.**, a provider of asset management services offering investment strategy, portfolio design and maintenance. The acquisition will add over \$1b in assets under management to Guardian’s Private Wealth segment and further extend its regional coverage in key markets.

EY ACTED AS FINANCIAL ADVISOR



* EY acted as financial advisor
** EY acted as debt capital advisor.

Sep 19, 2022: Gin-Cor Industries Inc. (“Gin-Cor”) acquired **Drivetec Manufacturing*** (“Drivetec”). Drivetec brings expertise in service of hydraulics, drivelines, suspension systems, vehicle alterations as well as distribution of key components to the truck and trailer industry. This will allow the two companies to join forces while providing a greater service, new solutions and offerings to existing clients and new clients.

Aug 29, 2022: Accenture plc (“Accenture”) acquired Ontario-based **Eclipse Automation Inc.***, a provider of customized manufacturing automation and robotics solutions. The acquisition will allow Accenture to offer automated production lines that leverage the cloud, data, and artificial intelligence.

Aug 26, 2022: ADCapital US Inc. (“ADCapital”) acquired a majority stake in Ontario-based **Progressive Countertop Systems Ltd.***, a manufacturer of stone countertops offering fabrication and installation of natural stone countertops.

Aug 24, 2022: New State Capital Partners LLC (“NSC”) acquired AFIMAC Global Inc. (“AFIMAC”), a provider of specialty business continuity solutions, including staffing, security, and logistics, from Ontario-based **Dalton First Financial Inc.** The investment will allow AFIMAC to develop new services and expand into new markets.

Aug 22, 2022: At-Bay, Inc. (“At-Bay”) acquired Ontario-based **Relay Platform Inc.**, a technology solutions provider enabling the digital transformation of commercial insurance placements. The acquisition will complement At-Bay’s ongoing digital distribution strategy to empower brokers and partners with industry-leading technology.

Aug 17, 2022: SiteOne Landscape Supply, Inc. (“SiteOne”) acquired Ontario-based **Lintel Distributing Inc.**, a wholesale distributor of outdoor lighting and landscape supplies. The acquisition will help SiteOne expand the number of markets in which it offers the full range of landscape supplies and services to landscape professionals.

Aug 17, 2022: KochaSoft Inc. (“KochaSoft”) acquired Ontario-based **Civatree Technologies Inc.**, a provider of SAP virtualization, migration, and automation services and solutions. The acquisition will increase KochaSoft’s customer support for SAP and SAP S/4HANA and benefit its customers.

Aug 12, 2022: Lafayette Instrument, LLC (“Lafayette”) acquired Ontario-based **Limestone Technologies, Inc.**, a manufacturer of scientific instrumentation equipment for the polygraph, neuroscience, and human evaluation markets. The acquisition will expand Lafayette’s credibility assessment staff, product line, and market reach.

Aug 09, 2022: Ironbridge Equity Partners acquired Quebec-based Kore Outdoor Inc. (“Kore”), a manufacturer and distributor of paintballs and paintball-related products. The investment will support Kore’s growth and innovation strategy.

Aug 03, 2022: SyBridge Technologies (“SyBridge”) acquired Ontario-based **Calframax Technologies, Inc.** (“Calframax”), a manufacturer of plastic moulds and containers for consumer goods and industrial pails. The acquisition will expand SyBridge’s presence in the consumer end-market.

Jul 18, 2022: Arthur J. Gallagher & Co. (“Arthur”) acquired Ontario-based **Four Corners Group Inc.**, a provider of executive search and recruitment services. The acquisition will expand and strengthen Arthur’s global talent and leadership advisory offerings.

Jul 12, 2022: AIIM Holdings Inc. (“AIIM”) acquired Ontario-based **Prime Data Inc.**, a provider of sustainable marketing communication solutions. The acquisition will help AIIM in extending its service offering to include carbon-neutral solutions with data enhanced personalization capabilities for direct mail.

Jul 11, 2022: Ronin Equity Partners LLC acquired Ontario-based **Detail K2 Inc.**, a provider of outdoor power equipment, trailers, winches, snowploughs, and auto accessories. The acquisition will create a new category of high-end consumers and small-scale professional users for outdoor power equipment and utility trailers.

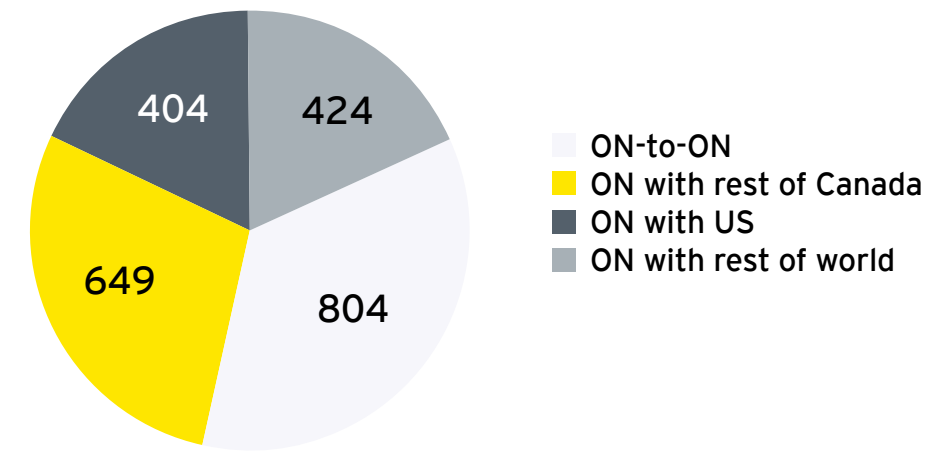
Jul 05, 2022: Aviat Networks, Inc. (“Aviat”) acquired Ontario-based **Redline Communications Group, Inc.**, a provider of mission-critical data infrastructure for remote and harsh environments, for C\$16.2m. The acquisition expands Aviat’s share in private networks and its presence in the oil, gas and transportation verticals.

Jul 04, 2022: WonderFi Technologies Inc. (“WonderFi”) acquired Ontario-based **Coinberry Limited**, a provider of crypto asset trading platform, for C\$34.4m. The acquisition will increase WonderFi’s offering of secure and compliant crypto. The transaction implies a TEV/Revenue multiple of 2.6x.

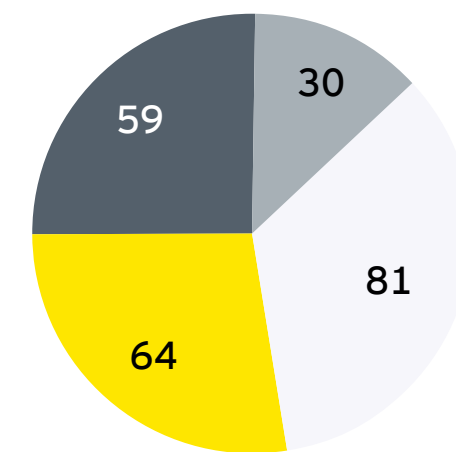
EY ACTED AS FINANCIAL ADVISOR



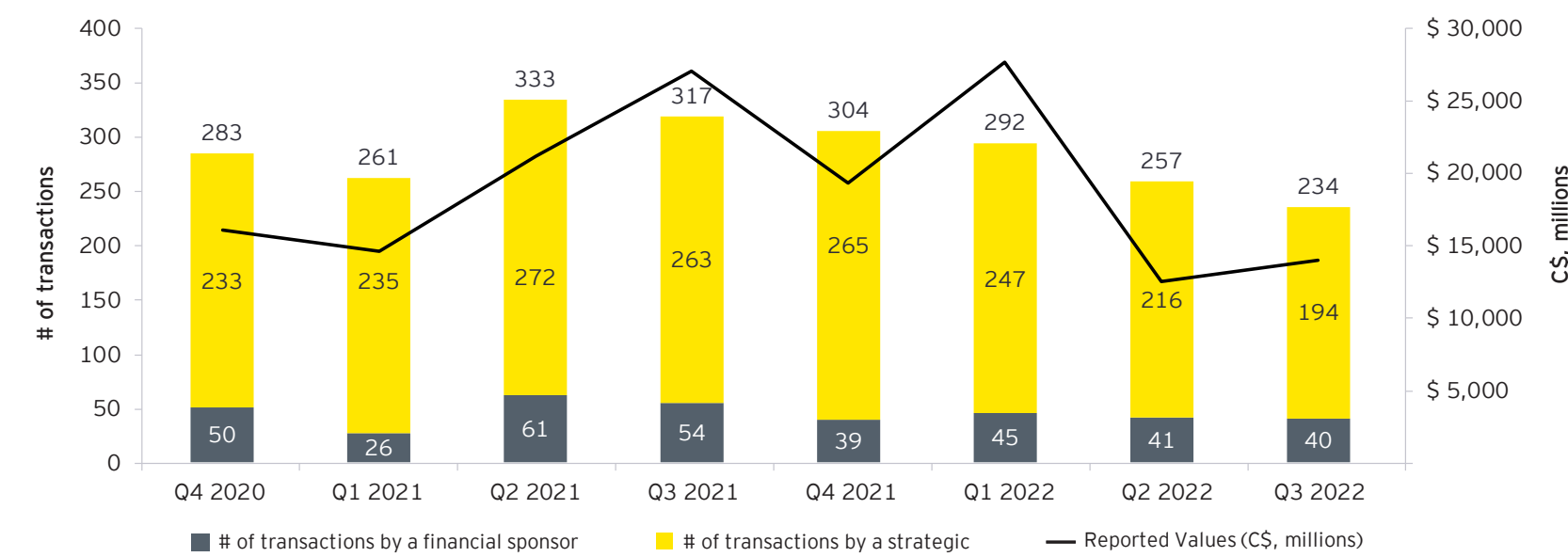
Counterparty mix over the last eight quarters



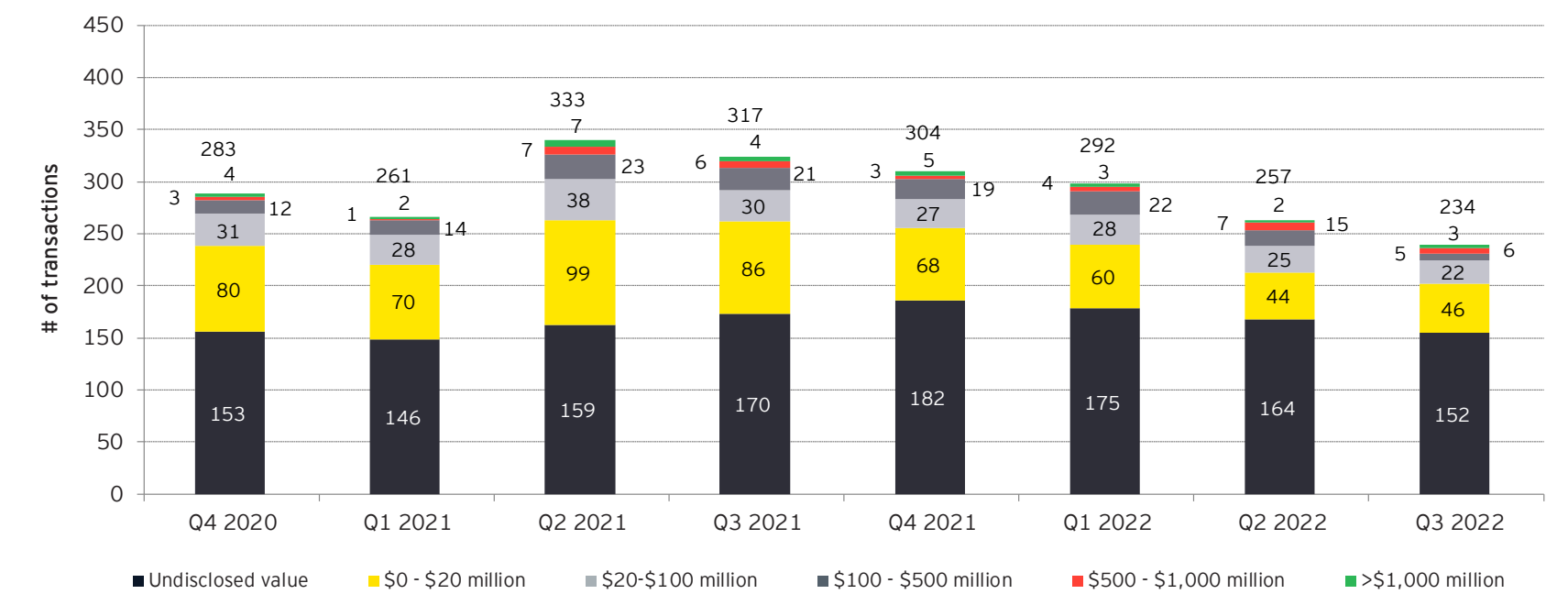
Counterparty mix over the last quarter



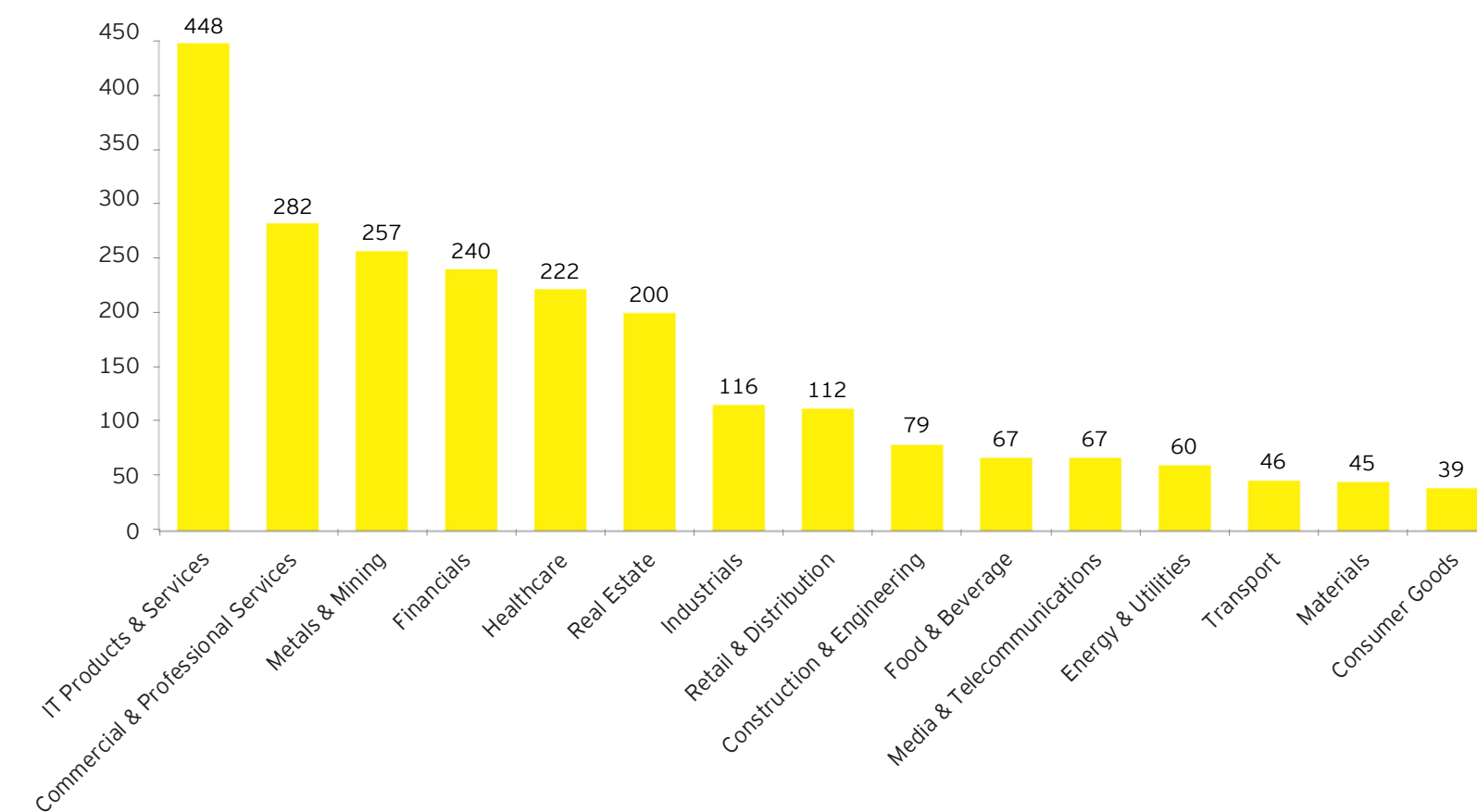
Transactions involving Ontario based companies over the last eight quarters



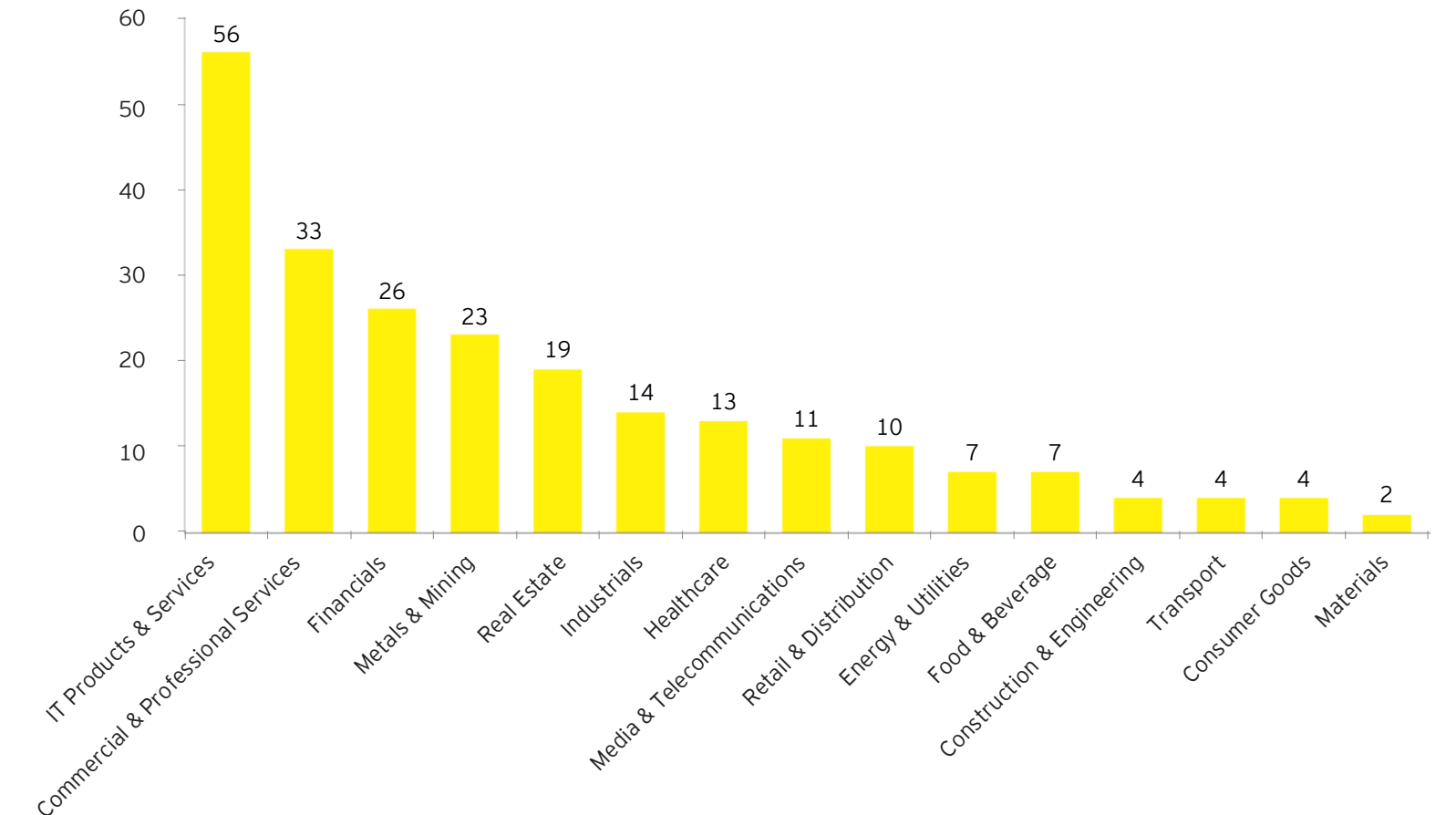
Transactions involving Ontario based companies over the last eight quarters by deal size (in C\$)



Number of Ontario transactions by industry over the last eight quarters



Number of Ontario transactions by industry over the last quarter



Historical M&A activity

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M&A Advisory Services | Ontario



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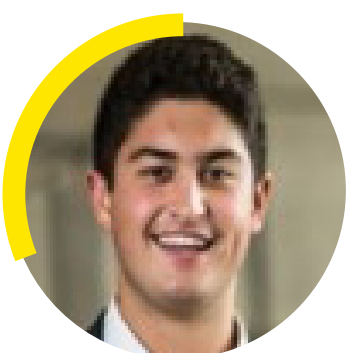
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