

Speaking with Numbers



Statistics Canada reported flat GDP for the fourth quarter of 2022, to the dismay of market analysts who were projecting 1.6% annualized growth. Contributing to this was an 8.8% decline in housing investment during Q4-2022, marking the third consecutive quarter of decline since interest rates started increasing in March 2022. Let's take a closer look at the numbers.

Resale Activity to Start 2023 in Key Canadian Markets:

MONTREAL

- ▶ Residential home sales in January 2023 were 36% lower than January 2022 according to the Québec Professional Association of Real Estate Brokers, reaching their lowest monthly total since 2009.

TORONTO

- ▶ Home prices dropped by 18% in the Greater Toronto Area in February 2023, year-over-year, when compared to 2022, and the number of properties sold dropped by approximately 47%, according to the Toronto Regional Real Estate Board (TRREB). This comparable prior year period measurement is significant, as it marks the last full month before the Bank of Canada embarked on a series of eight consecutive interest rate increases, starting in March 2022. In addition to the drop in overall prices and volumes on the resale market, TRREB reported a shift in sales mix towards the purchase of lower priced homes to help offset the burden of higher borrowing costs.

CALGARY

- ▶ In Calgary, the housing inventory in February 2023 hit its lowest mark since 2006, as sellers continued to retract from the market. As a result, the number of homes sold in February 2023 dropped 47.2% compared to the same month in 2022, according to the Calgary Real Estate Board.

VANCOUVER

- ▶ The Real Estate Board of Greater Vancouver (REBGV) announced that residential sales in February 2023 were 33% below the last ten-year average for the month in question and dropped 47.2% versus the comparable prior year period in 2022. Listings also remain in short supply, down 36.6% versus February 2022, and the composite benchmark price for residential properties in metro Vancouver dropped by 9.3%

F2022 Residential Construction Activity In Canada

- ▶ While the numbers and headlines related to the resale market are filled with doom and gloom, the data on new residential construction in Canada for 2022 were actually quite positive. The country experienced 261,849 new housing starts, the second highest tally in the last ten years and a mark that is 5% higher than the average over the heated market in the last three years, 12% higher than the average of the last five years and 21% higher than the average of the last ten years. At year-end, there were 378,042 residential units under construction across Canada, the highest year-end total in the last ten years, representing a total that is 13% higher than the average of the last three years, 23% higher than the average of the last five years and 43% higher than the average of the last ten years.
- ▶ The dollar value of residential construction permits issued in Canada in 2022 reached an all-time high of \$89.3 billion (owing in large part to the rapid inflation experienced in recent years), while the number of permits dropped 12% compared to the high-water mark of 409,394 reached in 2021. However, it does bare mentioning that the 359,714 new residential construction permits issued in 2022 are perfectly in-line with the average of 360,864 in 2018 and 2019, prior to the on-set of the COVID-19-induced construction frenzy amidst the backdrop of a historically low interest rate environment.



Looking Beyond the Immediate Present

- ▶ According to Randell Bartlett, Senior Director of Canadian Economics at Desjardins Economics Studies, Canada continues to face a looming crisis related to its aging population and will need to materially ramp-up its immigration policies otherwise its already over-taxed population will need to pay even more for healthcare and other social services. Immigrants will help address the aging population, as well as employee shortages in key sectors continuing to experience very tight labour supply conditions. Canada was building new housing at a rate during COVID-19 not seen since the mid-1970s, as people moved out of urban centres and when the baby-boomers were coming of age and starting to build their own families. However, to accommodate the required immigration, Canada will need to start building new housing faster than it has historically. Bartlett estimates that we will need to build approximately 100,000+ homes per year more than the current last ten-year average of approximately 200,000 (+50%) in order to offset the price impact that is expected to arise as a result of increased immigration.

Headwinds to Increasing Construction

- ▶ While the fix of simply building more houses appears to be easy, it's not without significant headwinds. Municipalities will need to loosen zoning restrictions, open up land for residential construction and permit increased population densification, as homes need to be built in the right locations where jobs are located in order to attract buyers and tenants. Similarly, provincial governments responsible for transportation will need to ensure that roads, infrastructure and public transportation projects keep pace.

- ▶ Not least among these headwinds, however, is the rapidly increasing cost of construction, as residential developments have become more expensive to build as a result of the rise in the cost of labour, materials, land and loans.
- ▶ Supply-chain factors aside, the shortage of construction workers is a rate-limiting factor that is impacting both construction costs and timelines. The home-building industry in Canada has a fixed capacity to build new homes, and there are not enough new workers entering the industry to offset those who are leaving and/or retiring. According to the Royal Bank of Canada's estimates in 2021, approximately 700,000 skilled tradespeople are expected to retire by 2028.
- ▶ As cited in previous editions of this recap, Canada Mortgage Housing Corporation (CMHC) estimated that Canada needs to build 3.5 million more housing units by 2030 (an average of 500,000 / year (+250%) vs. a last ten-year average of approximately 200,000 completions/year) in order to improve affordability. In follow-up research related to the feasibility of this lofty target, CMHC reported in October 2023 that there will only be enough labour to increase the number of housing starts in the four major provinces of Québec, Ontario, Alberta and British Columbia but only by 30-50%.

M&A Activity

- ▶ North American M&A activity within the home and building products sector increased to 85 closed transactions in Q4-2022, up from the 68 reported in Q3-2023. While Canada was steady at 7 closed transactions (vs. 8 in Q3-2022), the US witnessed a rebound to 78 closed transactions (+18 vs. Q3-2022).

- ▶ Canada ended 2022 with a total of 38 closed transactions in the home and building products sector with reported deal value of US\$1.466 billion, representing the highest deal count since we began compiling the data in 2017 and seven more than the last five-year average. Private equity invested in eight new companies within the Canadian home and building products landscape (+2 vs. 2021) to capture 21% market share vs. strategic purchasers (+4% vs. 2021).
- ▶ In the US, there were a total of 299 closed transactions in the sector with reported deal value of US\$19.5 billion. In terms of deal volume, this was a 66 (-19%) decline from the red-hot US M&A market for home and building products companies, which reported no less than 365 closed transactions in 2021. This being said, 2022's transaction volume was still 8% higher than the last five-year average of 277 deals per year. US private equity remained very active in the sector, closing 12 transactions during Q4-2022 for a total of 42 in 2022 (+2 vs. 2021), increasing its full-year market share to 14% vs. strategic purchasers (+3% vs. 2021).
- ▶ For additional insights on some of the more notable deals that closed during Q4-2022, please refer to the enclosed transaction recaps.

I hope you enjoy this edition and those that follow.



Todd Caluori, CPA, CA, CBV
Editor-in-Chief and Senior Vice President
Canadian Home & Building Products M&A Leader
EY Strategy & Transaction Services
todd.caluori@ca.ey.com
+1 514 879 2793

EY transaction snapshot

Our Recent Transactions in Home & Building Products

TO LEARN MORE



Todd Caluori*
Senior Vice President
+1 514 879 2793
todd.m.caluori@ca.ey.com



Joseph Panetta
Analyst
+1 514 879 8073
joseph.panetta@ca.ey.com



has acquired



EY* acted as the exclusive financial advisor to Dubo Électrique Ltée



*Ernst and Young Orenda Corporate Finance Inc.

The Deal

EY* advised Dubo Électrique Ltée (“Dubo”)’s shareholders on the acquisition of Centre de Distribution Électrique Limitée (“CDE”).

The Transaction

Dubo Électrique Ltée was founded in 1955 and specializes in the distribution of electrical equipment and systems. They offer a wide range of products and services to both residential and commercial customers. Dubo was acquired by Guillevin International Co. on March 1st, 2021. The combination of Dubo’s industry expertise and reputation, along with Guillevin’s extensive resources and vast distribution network, has played a crucial role in driving the company’s growth.

CDE is a Montréal based distributor of electrical equipment and supplies, founded in 1957. They offer a wide range of products for both residential and commercial construction customers, including lighting fixtures, circuit breakers, and electrical wiring.

The Win-Win

The combination of Dubo and CDE will create a Québec powerhouse in the home and building product sector. It will extend the company’s geographical reach, diversify current product offerings, and utilize the various distribution and client channels available. By having access to a wider range of electrical equipment and supplies, a more comprehensive solution can be provided to customers.

About EY’s Home and Building Products Industry Coverage

EY M&A Lead Advisory has been advising 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, coast-to-coast coverage, extensive relationships with all forms of capital and the expertise to assist with all your transaction needs.

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Select Q4 2022 Transactions

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

BUILDING PRODUCTS MANUFACTURERS

- ▶ Roswell, GA-based SiteOne Landscape Supply, Inc. acquired Phoenix, AZ-based Telluride Natural Stone, Inc. The terms of the transaction were not disclosed.

Telluride Natural Stone, Inc. distributes hardscape products and landscape supplies.
- ▶ Crested Butte, CO-based Nation's Best Holdings LLC acquired Ironwood, MI-based Forslund Building Supply, Inc. The terms of the transaction were not disclosed.

Forslund Building Supply, Inc. supplies building material such as storage sheds, windows, concrete materials and others.
- ▶ Woodbridge, ON-based Westlake Royal Building Products USA Inc acquired Palight Trimboard Business of Kutztown, PA-based Palram Americas, Inc. The terms of the transaction were not disclosed.

Palram Americas, Inc. manufactures extruded thermoplastic sheets, panel systems and finished products.
- ▶ Dallas, TX-based Crossplane Capital Management LP acquired Austin, TX-based Viking Fence Company, Ltd. The terms of the transaction were not disclosed.

Viking Fence Company, Ltd. manufactures and installs fencing products such as wood and cedar, ornamental iron, chain link, vinyl and others.
- ▶ Atlanta, GA-based Oldcastle APG, Inc. acquired operations of Tulia, TX-based Soil Mender Products and Lexington, SC-based Sterling Sand Co. The terms of the transaction were not disclosed.

Sterling Sand manufactures and distributes specialty sands for industrial, construction and other end-market uses whereas Soil Mender Products manufactures lawn and garden solutions.

ELECTRICAL AND HVAC

- ▶ Longueuil, QC-based LMPG Inc. acquired Québec, QC-based Lumca, Inc. The terms of the transaction were not disclosed.

Lumca, Inc. manufactures decorative and functional lighting fixtures including luminaires, lanterns, fixture blends, mounting arms and others.
- ▶ UK-based Ferguson plc acquired Tualatin, OR-based Airefco, Inc. The terms of the transaction were not disclosed.

Airefco, Inc. distributes heating, ventilation, and air conditioning (HVAC) equipment, parts and supplies.
- ▶ Hillside, IL-based Munch's Supply LLC acquired Glastonbury, CT-based The Bell Pump Service Company, Inc. The terms of the transaction were not disclosed.

The Bell Pump Service Company, Inc. distributes heating, air conditioning, refrigeration and plumbing supplies.

FLOORING & ROOFING

- ▶ Buffalo Grove, IL-based US LBM Holdings, Inc. acquired Gainesville, GA-based Georgia Truss, LLC. The terms of the transaction were not disclosed.

Georgia Truss, LLC designs, manufactures and supplies roof and floor truss components to contractors, developers and multifamily, commercial and residential builders.

- ▶ Beloit, WI-based American Builders & Contractors Supply Co., Inc. acquired Monarch Siding Centre Inc., Monarch Exterior Centre Inc. and Monarch Metal Systems Inc from Calgary, AB-based Monarch Group. The terms of the transaction were not disclosed.

Monarch Group distributes exterior building products, including vinyl, aluminum and fiber-cement siding; residential roofing materials; and related accessories for decking and gutters.

- ▶ Culpeper, VA-based Jefferson Homebuilders, Inc. acquired Leola, PA-based H.M. Stauffer & Sons, Inc. The terms of the transaction were not disclosed.

H.M. Stauffer & Sons, Inc. manufactures and supplies structural building components including roof and floor trusses and pressure-treated lumber products.

KITCHEN & BATHROOM

- ▶ Japan-based LIXIL Corporation acquired Mason, OH-based Basco Manufacturing Company. The terms of the transaction were not disclosed.

Basco Manufacturing Company designs and fabricates bathroom shower doors and enclosures. It offers framed, semi-frameless enclosures, care and cleaning products, and protective coatings.

WINDOWS & DOORS

- ▶ Pella, IA-based Pella Corporation acquired Brea, CA-based Win-Dor, LLC. The terms of the transaction were not disclosed.

Win-Dor, LLC manufactures and distributes vinyl windows & doors for residential and commercial sector.



Transaction Snapshots (cont'd)

- ▶ Pennsauken, NJ-based Unified Door and Hardware Group, LLC acquired Salem, NH-based Eaton Door and Frame, LLC. The terms of the transaction were not disclosed.

Eaton Door and Frame, LLC distributes doors, frames and hardware for commercial, education, residential, healthcare and other end market sectors.

- ▶ Tampa, FL-based Masonite Corporation acquired Colfax, NC-based Endura Products, Inc. for US\$375 million. The transaction represents an enterprise value of 1.4x revenue.

Endura Products, Inc. manufactures door frames and door system components offering engineered frames, self-adjusting sill systems, weather sealing and others.

- ▶ Atlanta, GA-based National Glazing Solutions, LLC acquired Stafford, TX-based Sunset Glass Tinting. The terms of the transaction were not disclosed.

Sunset Glass Tinting operates as a window film dealer and provides commercial & residential window tinting services.

- ▶ Los Angeles, CA-based Truelink Capital acquired Peachtree City, GA-based Trulite Glass & Aluminum Solutions, LLC. The terms of the transaction were not disclosed.

Trulite Glass & Aluminum Solutions, LLC fabricates and distributes customized tempered, laminated and insulated glass as well as architectural aluminum.

- ▶ North Venice, FL-based PGT Innovations, Inc. acquired Salt Lake City, UT-based Martin Door Manufacturing, Inc. The terms of the transaction were not disclosed.

Martin Door Manufacturing, Inc manufactures overhead garage doors and hardware for residential and commercial markets.

- ▶ Dallas, TX-based Builders FirstSource, Inc. acquired Arizona Businesses of Surprise, AZ-based Pima Door & Supply, Inc and Henderson, NV-based Sunrise Carpentry, Inc. The terms of the transaction were not disclosed.

Pima Door & Supply, Inc. supplies building products, including doors, windows, hardware and moldings whereas Sunrise Carpentry, Inc. offers carpentry services.

LUMBER AND WOOD

- ▶ Dallas, TX-based Builders FirstSource, Inc. acquired San Diego, CA-based Fulcrum Building Group, Inc. The terms of the transaction were not disclosed.

Fulcrum Building Group, Inc. operates lumberyards offering lumber, sheet goods, insulation to builders and others.

- ▶ Burnaby, BC-based Interfor Corporation acquired Belledune, NB-based Chaleur Forest Products for US\$238.3 million.

Chaleur Forest Products manufactures and sells wood & lumber products including wood fibers, wood chips, barks and sawdust & wood shavings and other.

- ▶ Marietta, GA-based BlueLinx Corporation acquired Lynnwood, WA-based Vandermeer Forest Products, Inc. for US\$67.0 million. The transaction represents an enterprise value of 0.4x revenue & 3.5x EBITDA.

Vandermeer Forest Products, Inc. distributes building products, such as lumber, studs and plywood, OSB sheathing and sub-flooring.

OTHER

- ▶ Columbus, OH-based Installed Building Products, Inc. acquired Dickson City, PA-based Orr Industries, LLC. The terms of the transaction were not disclosed.

Orr Industries, LLC. installs spray foam and fiberglass insulation in residential and commercial projects and offers fireproofing & waterproofing services for commercial structures as well.

- ▶ Montréal, QC-based BDC Capital Inc., Regina, SK-based PFM Capital, Inc. and Calgary, AB-based Roynat Equity Partners acquired Winnipeg, MB-based Sexton Group Ltd. The terms of the transaction were not disclosed.

Sexton Group Ltd. distributes building materials and tools through a network of retail members.

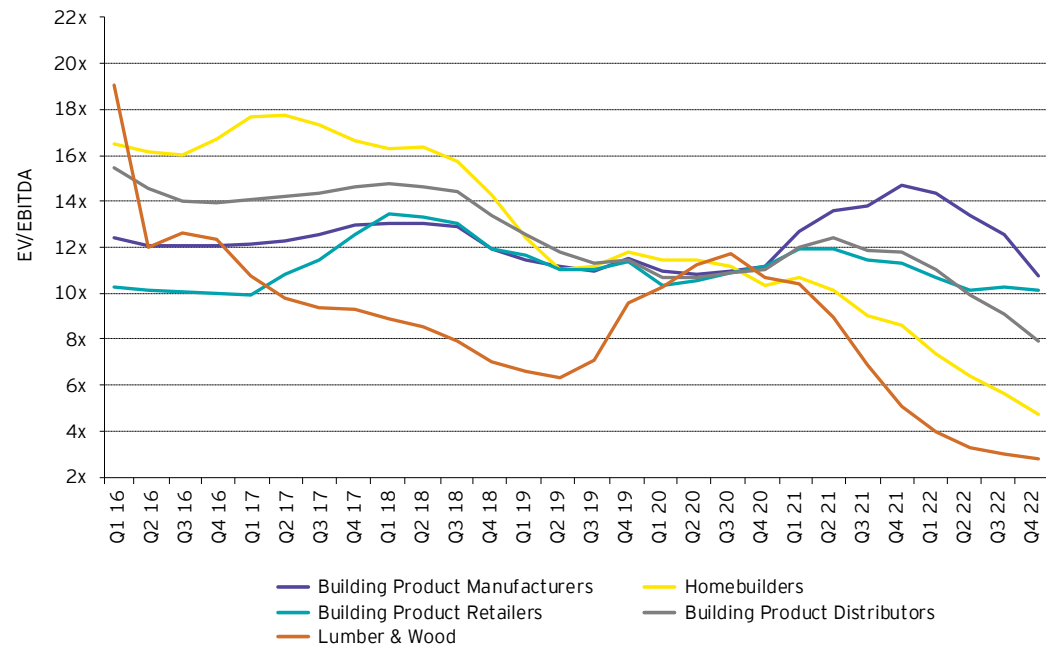
- ▶ Jacksonville, FL-based Blue Water Industries LLC acquired Daurity Springs Quarry from Clayton, NC-based Fred Smith Company for US\$24.1 million.

Fred Smith Company engages in the development and construction of home & leisure properties, and offers related services.

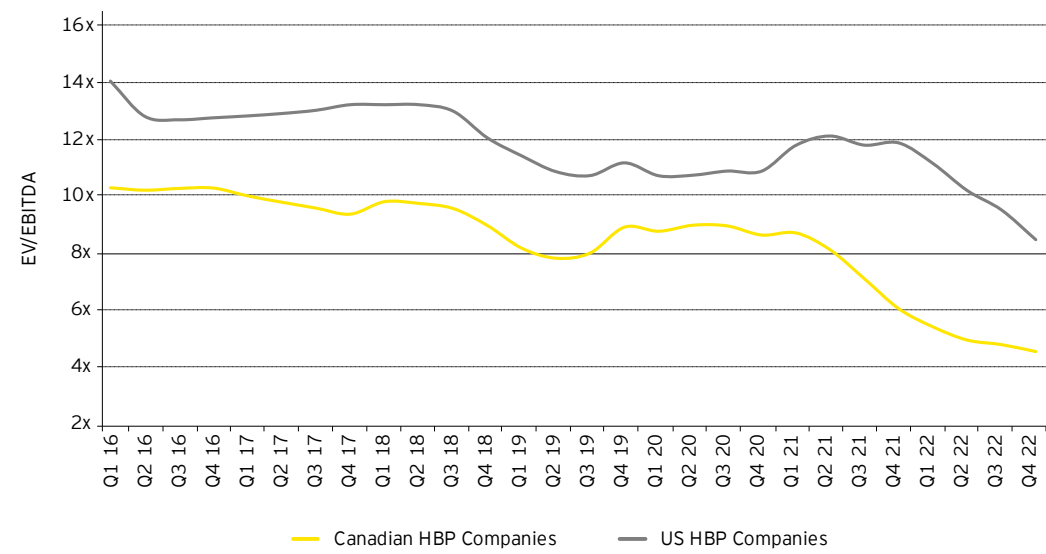
Ernst & Young Orenda’s Home & Building Product

Indices

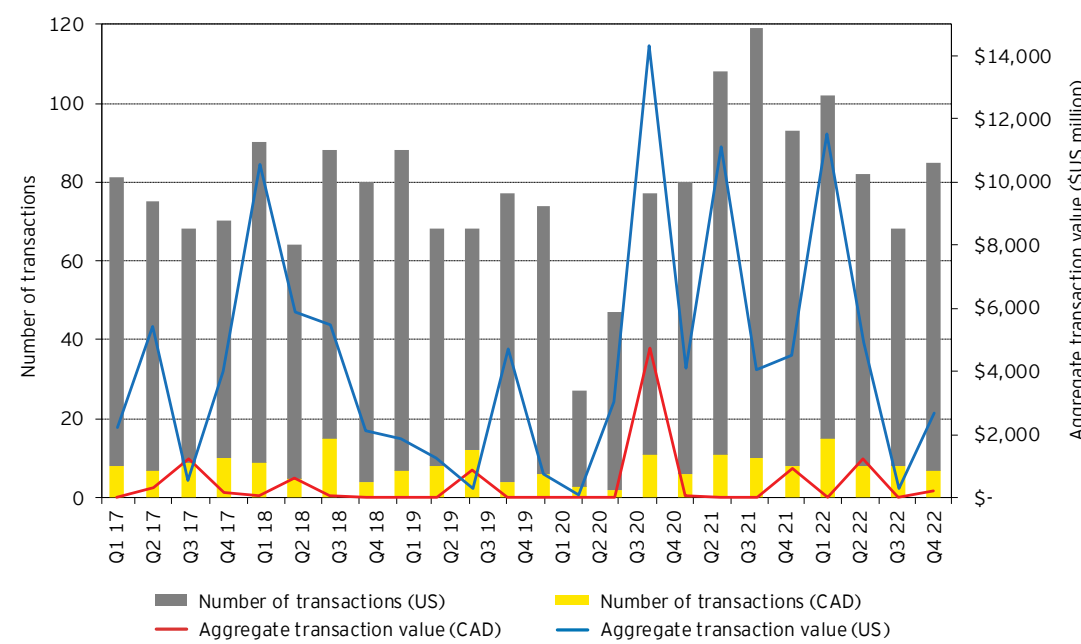
NORTH AMERICAN
ENTERPRISE VALUE
TRENDS BY SECTOR
L4Q AVERAGE



NORTH AMERICAN
ENTERPRISE VALUE
BY COUNTRY L4Q
AVERAGE



NORTH AMERICAN
TRANSACTION VOLUME
AND REPORTED
TRANSACTION VALUE



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ERNST & YOUNG ORENDA’S HOME & BUILDING PRODUCTS INDEX

Our home and building products index includes the following publicly traded companies:

Company name	Ticker	Company name	Ticker
US TRADING COMPS			
A. O. Smith Corporation	NYSE:AOS	M.D.C. Holdings, Inc.	NYSE:MDC
Acuity Brands, Inc.	NYSE:AYI	Meritage Homes Corporation	NYSE:MTH
Advanced Drainage Systems, Inc.	NYSE:WMS	M/I Homes, Inc.	NYSE:MHO
American Woodmark Corporation	NASDAQ:AMWD	Mohawk Industries, Inc.	NYSE:MHK
Apogee Enterprises, Inc.	NASDAQ: APOG	Mueller Industries, Inc.	NYSE:MLI
Armstrong World Industries, Inc.	NYSE:AWI	Nucor Corporation	NYSE:NUE
Beacon Roofing Supply, Inc.	NASDAQ:BECN	NVR, Inc.	NYSE:NVR
Beazer Homes USA, Inc.	NYSE:BZH	Owens Corning	NYSE:OC
Bed Bath & Beyond Inc.	NASDAQ:BBBY	PGT Innovations, Inc.	NYSE:PGTI
BlueLinx Holdings Inc.	NYSE:BXC	Pool Corporation	NASDAQ:POOL
Boise Cascade Company	NYSE:BCC	PulteGroup, Inc.	NYSE:PHM
Builders FirstSource, Inc.	NYSE:BLDR	Quanex Building Products Corporation	NYSE:NX
Burnham Holdings, Inc	OTCPK:BURC.A	Simpson Manufacturing Co., Inc.	NYSE:SSD
Carlisle Companies Incorporated	NYSE:CSL	Stanley Black & Decker, Inc.	NYSE:SWK
Carpenter Company	NYSE:CRS	Steel Dynamics, Inc.	NasdaqGS:STLD
Carrier Global Corporation	NYSE:CARR	Summit Materials, Inc.	NYSE:SUM
Comfort Systems USA, Inc.	NYSE:FIX	Taylor Morrison Home Corporation	NYSE:TMHC
Commercial Metals Company	NYSE:CMC	The Home Depot, Inc.	NYSE:HD
D.R. Horton, Inc.	NYSE:DHI	The Sherwin-Williams Company	NYSE:SHW
Eagle Materials Inc.	NYSE:EXP	Toll Brothers, Inc.	NYSE:TOL
Emerson Electric Co.	NYSE:EMR	TopBuild Corp.	NYSE:BLD
Fastenal Company	NASDAQ:FAST	Trex Company, Inc.	NYSE:TREX
Floor & Decor Holdings, Inc.	NYSE:FND	UFP Industries, Inc.	NASDAQ:UFPI
Fortune Brands Home & Security, Inc.	NYSE:FBHS	United States Steel Corporation	NYSE:X
Generac Holdings Inc.	NYSE:GNRC	Vulcan Materials Company	NYSE:VMC
Gibraltar Industries, Inc.	NASDAQ:ROCK	W.W. Grainger, Inc.	NYSE:GWW
GMS Inc.	NYSE:GMS	Watsco, Inc.	NYSE:WSO
Griffon Corporation	NYSE:GFF	WESCO International, Inc.	NYSE:WCC
Hovnanian Enterprises, Inc.	NYSE:HOV	Weyerhaeuser Company	NYSE:WY
Hubbell Incorporated	NYSE:HUBB	CAD TRADING COMPS	
Installed Building Products, Inc.	NYSE:IBP	Canadian Tire Corporation, Limited	TSX:CTC.A
Insteel Industries, Inc.	NYSE:IIIN	Canfor Corporation	TSX:CFP
Interface, Inc.	NASDAQ:TILE	Doman Building Materials Group Ltd.	TSX:DBM
JELD-WEN Holding, Inc.	NYSE:JELD	Goodfellow Inc.	TSX:GDL
KB home	NYSE:KBH	Hardwoods Distribution Inc.	TSX:HDI
Lennar Corporation	NYSE:LEN	Interfor Corporation	TSX:IFP
Lennox International Inc.	NYSE:LII	Leon's Furniture Limited	TSX:LNF
Louisiana-Pacific Corporation	NYSE:LPX	Richelieu Hardware Ltd.	TSX:RCH
Lowe's Companies, Inc.	NYSE:LOW	Taiga Building Products Ltd.	TSX:TBL
Martin Marietta Materials, Inc.	NYSE:MLM	West Fraser Timber Co. Ltd.	TSX:WFG
Masco Corporation	NYSE:MAS	Western Forest Products Inc.	TSX:WEF
Masonite International Corporation	NYSE:DOOR		

ERNST & YOUNG ORENDA’S HOME & BUILDING PRODUCTS INDUSTRY TEAM



Atlantic Canada
Steve McLaughlin, CPA, CA, CIRP, LIT, CBV
Senior Vice President
+1 506 388 7762 | steven.j.mclaughlin@ca.ey.com



Québec
Todd Caluori*, CPA, CA, CBV
Senior Vice President
+1 514 879 2793 | todd.caluori@ca.ey.com



Ontario
Jason Marley*
Senior Vice President
+1 416 943 3088 | jason.marley@ca.ey.com



Manitoba & Saskatchewan
Michael Campbell, CPA, CA, CBV
Senior Vice President
+1 306 649 8305 | michael.campbell@ca.ey.com



Alberta
Darcy Yamada*, CPA, CA
Senior Vice President
+1 780 441 2456 | darcy.yamada@ca.ey.com



British Columbia
Robert Withers
Senior Vice President
+1 604 899 3550 | robert.withers@ca.ey.com

*A registered exempt market Dealing Representative.

SELECTED HOME & BUILDING PRODUCTS TRANSACTION CREDENTIALS

ROBOVER

has been acquired by

CDL

EY* acted as the exclusive financial advisor to Robover Inc.

EY Orenda Corporate Finance Inc.

Guillevin

has acquired

Dubo

l'expert conseil

EY* acted as the exclusive financial advisor to Guillevin International Co.

EY Orenda Corporate Finance Inc.

Guillevin

has acquired

MCL

Entreprises

EY* acted as the exclusive financial advisor to Guillevin International Co.

EY Orenda Corporate Finance Inc.

BRISTOL SINKS INC.

has been acquired by

David Moss, an Ontario-Based Entrepreneur, and

MATBRIDGE

CONCRETE

EY* acted as the exclusive financial advisor to Bristol Sinks Inc.

EY Orenda Corporate Finance Inc.

interco

DIVISION INC.

has sold a majority stake to

A Canadian specialty hardware distribution and manufacturing company

EY* acted as the exclusive financial advisor to Inter Co Inc.

EY Orenda Corporate Finance Inc.

PROGRESSIVE COUNTERTOP

has been acquired by

AD Capital

EY* acted as the exclusive financial advisor to 211599 Ontario Inc. (USA Progressive Countertop)

EY Orenda Corporate Finance Inc.

NOVACAP

Novacap Investments, Inc.

Completed an investment in

globe

Global Classics Company

EY* acted as the exclusive financial advisor and transaction fee services to Novacap Investments Inc.

EY Orenda Corporate Finance Inc.

Waterloo BIOFILTER

has been acquired by

Birchview Capital

EY* acted as the exclusive financial advisor to Waterloo Biofilter Systems Inc.

EY Orenda Corporate Finance Inc.

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