



TECHNOLOGY IN CANADA: MARKET UPDATE

Macro-economic indicators: Canada

In Q3 2017, several of Canada's broad indicators yielded positive results, pointing to a relatively strong economic environment that bodes well for businesses, as well as for M&A activity.

- ▶ In September the Bank of Canada raised its policy interest rate by 25 basis points to 1.00%, following a similar increase in July. The Bank of Canada announcement cited stronger than expected results from the Canadian economy, which warrant the removal of some monetary policy stimulus.
- ▶ Expectations for Real GDP growth in Canada for 2017 have increased to 2.8% according to the Bank of Canada's most recent July Monetary Policy Report, up from the 2.5% forecast published in April.
- ▶ The S&P/TSX Composite Index rose to 15,634.94 by the end of the third quarter of 2017, a 3.0% increase since the close of Q2 2017.
- ▶ In the month of September, the Canadian economy added 10,000 net jobs. This increase followed a 22,000 net job gain in August and an 11,000 net job gain in July.
- ▶ The Canadian dollar closed at 0.81 USD at the end of Q3, representing an 8.3% increase from the previous quarter.

Considered together, it appears that Canada's economic outlook is relatively favourable for the near future.

Sources: Bank of Canada, Capital IQ, Federal Reserve, Statistics Canada

The North American mid-market M&A

In Q2 2017, North American transaction volumes ended a multi-quarter decline, with numbers increasing over Q1 levels, but slipped again in Q3 to the lowest number in any of the last 10 quarters. Headwinds in the first three quarters of 2017 came from several directions. Political tumult in the U.S., natural disasters, foreign exchange instability, and potential taxation changes (both announced and promised) have contributed to a degree of uncertainty, adding a layer of risk that complicates potential transactions. Interesting and compelling transactions continue to take place, however, fueled by drivers that are indicative of long-term trends.

Cross-border business and transactions

Foreign exchange relationships can create deal challenges, as buyers and sellers each form a perspective on the future of relevant foreign exchange rates, impacting the portrayal of past and forecast performance as well as the purchase price and foreign exchange-adjusted returns. In the year to date, for example, changes in the USD/CAD relationship have generated many challenging discussions for mid-market deals in Canada. The true impact on cross-border transaction volume is hard to peg, though, and the challenges could just be noise surrounding an otherwise intact deal rationale.

The impact of strong valuations

While mid-market transaction volumes decreased in the third quarter of 2017, valuations appear to have remained strong across several industries, perpetuating the notion that it is a seller's

market. Spend a bit of time speaking with Canadian private equity firms, and you'll probably hear that strong valuations have made deal-making a fair measure more challenging than had been hoped this year. Strong valuation metrics add additional pressure to the future performance of an acquisition, as added growth becomes critical to drive an attractive return profile. This can in turn heighten due diligence requirements, and increase the degree of risk aversion as buyers look for the perfect fit. All of this has potential to slow down deal activity. Ultimately, the amount of capital available to facilitate transactions remains at unprecedented levels, in the form of private investment capital as well as debt. Further, strong valuations may be required to compel the owners of attractive assets to transact. Despite the potential challenges that strong valuations create, some of the core motivations (e.g., ownership succession and capital placement) appear to persist, and will likely continue to drive deal activity.

Changing distributions and delivery models

A great number of industries have felt, or are beginning to experience, the impact of consumers' demand for convenience. Consumers today look for product options that require less time, and fit into a busy schedule. Companies often use product innovation to meet this demand, and many acquisitions center on product portfolios that address this very need. Beyond product innovation itself, technology has enabled fundamental changes in the way products and services are distributed from businesses to consumers. The shift has impacted nearly every industry to varying degrees, and continues to play out in the M&A world, where differentiating product and service delivery models form part of the rationale for transactions. Among the more notable is Amazon's USD\$13.4 billion purchase of Whole Foods Market, Inc. The deal touches on a great cross-section of consumer product trends, and highlights the role of technology-enabled delivery or distribution models in addressing the core drivers in a changing consumer market.

On balance, M&A opportunities in the North American mid-market continue to exist. Understanding an industry's long-term trends, the mindset of its end consumers, and changes to the way products and services are being delivered is a key step in the development of an M&A strategy.

Selected Q3 2017 – Canadian Tech Transactions

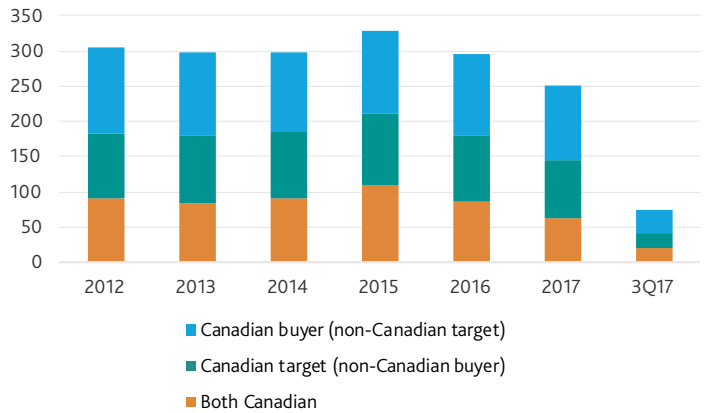
In Q3 2017, a total of 63 technology-related transactions were closed or announced. Ten selected deals have been highlighted below.

1. **Everfront Ventures Corp (TSXV:EVC) entered into an agreement to acquire Nexalogy Environics for \$6 million on July 4th, 2017.** Nexalogy Environics develops business intelligence and data analytics software targeting government agencies and multi-national corporations and is based in Montreal, QC. Everfront Ventures Corp (TXV:EVC) focuses on the collection of big data from retail point of sale terminals. The company is based in Toronto, ON.
2. **Cincinnati Bell Inc. (NYSE:CBB) entered into a definitive agreement to acquire OnX Enterprise Solutions Ltd. for \$237 million on July 10th, 2017.** OnX Enterprise Solutions Ltd. provides IT infrastructure and consulting services across North America and is based in Thornhill, ON.
3. **Infotrellis Inc. was acquired by Mastech Digital, Inc. (AMEX:MHH) for \$46 million on July 13th, 2017. Infotrellis Inc. provides data management and data integration services and is based in Toronto, ON.** Mastech Digital, Inc. operates as an IT consultant (staffing and infrastructure) and is based in Pittsburgh, PA.
4. **Millennial Esports Corp. (TSXV:GAME) announced its intentions to acquire a majority stake in Eden Games on August 8th, 2017 for approximately \$15 million.** Eden Games is a publisher of racing video games based in France.
5. **The Descartes Systems Group Inc. (TSX:DSG) acquired MacroPoint LLC from Susquehanna Growth Equity, LLC for \$110 million on August 14th, 2017.** MacroPoint LLC develops automated location tracking solutions and is based in Cleveland, OH. The Descartes Systems Group Inc. (TSX:DSG) provides network-based logistics solutions and is based in Waterloo, ON.
6. **Accenture plc (NYSE:CAN) acquired Verax, Inc. on August 24th, 2017 for an undisclosed amount.** Verax, Inc. provides IT consulting services and is based in Toronto, ON.
7. **Upverter, Inc. was acquired by Altium Limited (ASX:ALU) for \$7 million on August 25th, 2017.** Upverter, Inc. develops online circuits design platforms and is based in Toronto, ON. Altium Limited develops and sells computer software to be used in the design of electronic products. The company is located in La Jolle, CA.
8. **Trinidad Drilling Ltd. (TSX:TDG) acquired RigMinder Operating LLC for \$40 million on August 28th, 2017.** Rigminder Operating LLC develops software platforms for drilling rig operations. The company is based in Spring, TX. Trinidad Drilling Ltd. (TSX:TDG) designs and builds drilling rigs for primary use in the oil and gas sector. The company is headquartered in Calgary, AB.
9. **HIVE Blockchain Technologies (Ltd.) (TSX:HIVE) entered into an agreement to acquire Cryptocurrency Mining Data Centre from Genesis Mining Ltd. for \$8.7 million on September 21st, 2017.** Genesis Mining Ltd. offers cryptocurrency cloud mining services and is located in Hong Kong. The particular data centre related to the above transaction is located in Iceland.
10. **Grown Rogue Unlimited, LLC entered into a non-binding letter of intent on September 28th, 2017 to acquire 76% of Novicius Corp. (CNSX:NVS), for an undisclosed amount, in a reverse merger transaction.** Based in Toronto, ON, Novicius Corp (CNSX:NVS) provides technologies and services that deliver content, digital media, e-commerce, and advertising.

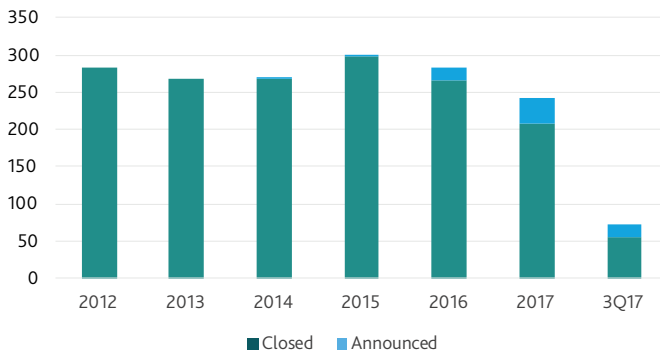
**DEAL ACTIVITY
(STRATEGIC V. FINANCIAL BUYERS)**



**DEAL ACTIVITY
(CANADIAN TARGETS, BUYERS OR BOTH)**



**DEAL ACTIVITY
(INCL. LATEST ANNOUNCED BUT NOT YET CLOSED DEALS)**



Note: The above deal activity charts present deals involving Canadian targets, Canadian buyers, or both Canadian target and Canadian buyer.

Source: S&P Capital IQ

**TO LEARN MORE, CONTACT
YOUR LOCAL BDO OFFICE OR:**

Peter Matutat
National Technology Industry Leader
905-946-5470
pmatutat@bdo.ca

Ryan Farkas
Director, Mergers & Acquisitions
416-865-0210
rfarkas@bdo.ca

ABOUT BDO

BDO is one of the nation's leading providers of assurance, accounting, tax, and advisory services. With strengths firmly rooted in the communities we serve, our professionals deliver highly individualized services informed by deep industry knowledge and nearly 100 years of experience working in local markets throughout the country. And with resources across Canada and around the world, BDO provides seamless and consistent cross-border services to clients with international needs.

ABOUT BDO'S TECHNOLOGY & LIFE SCIENCES PRACTICE

BDO's dedicated team of professionals serving the Technology and Life Sciences sectors brings you broad-based experience, in-depth knowledge, and business savvy that can be critical to your success. Our professionals offer support at every phase of your growth, from start-up to listed public company. The BDO T&LS team, comprised of leaders in key markets across Canada, brings together the resources of our global network of over 1,400 offices in more than 150 countries around the world. Highly entrepreneurial, we truly understand the issues your business faces, and we're dedicated to providing exceptional client service, every day..