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# *PwC Deal Talk*

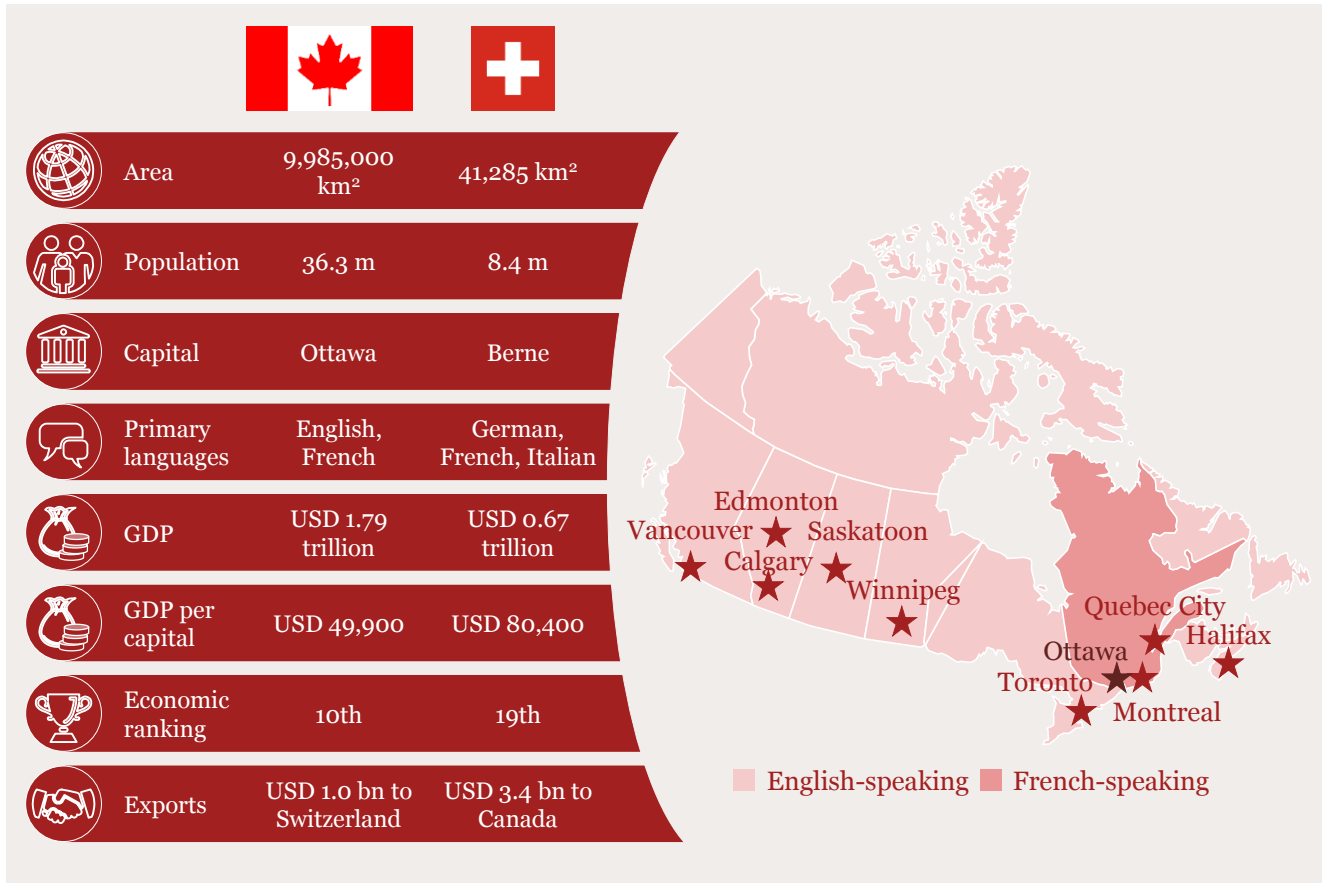
Doing Deals in Canada from a  
Swiss Investor's Perspective

*Edition: 1/2017*



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# Key facts about Canada



## Second-largest country by total area

Canada consists of ten provinces and three territories and extends from the Atlantic to the Pacific Ocean. With a total area of 9.98 million square kilometers, Canada is the world's second-largest country by total area and the fourth-largest country by land area.

About four-fifths of the country's population of 36.3 million people live near the southern border in the major urban areas.

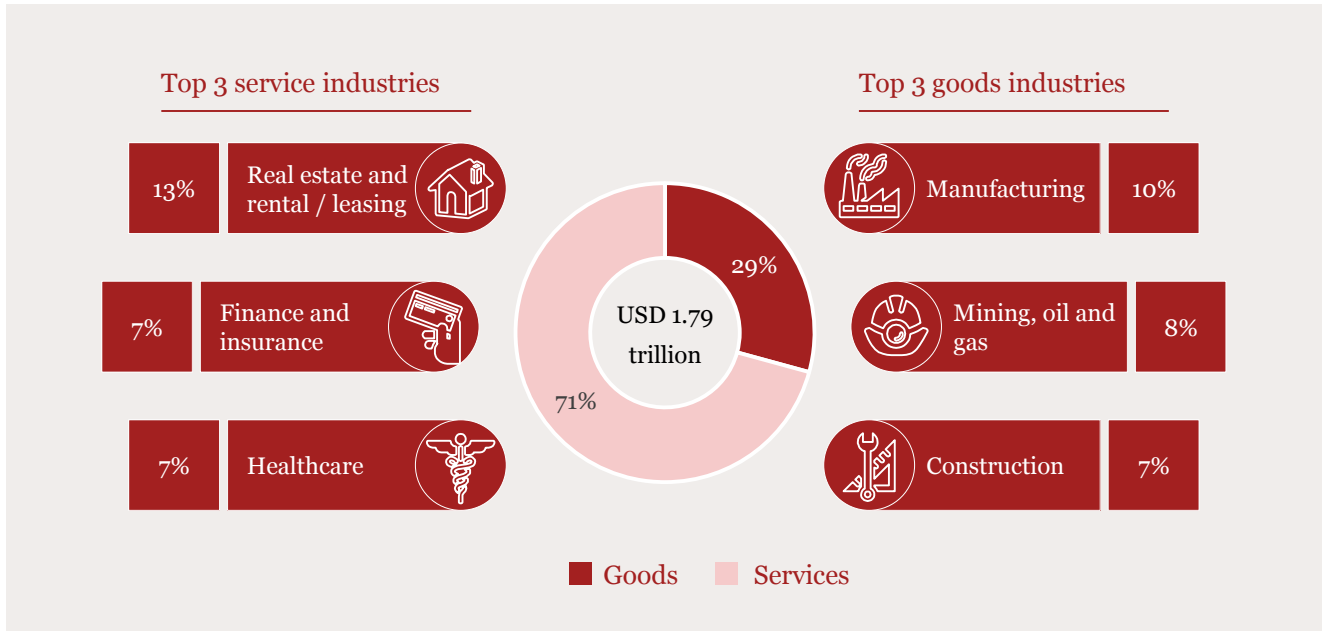
## Important trade partner for Switzerland

In 2015, imports from Canada amounted to USD 1.0 bn and consisted mainly of precious stones and metals, electrical and electronic machinery and equipment, pharmaceutical products, and aerospace products. Exports to Canada amounted to USD 3.4 bn and mainly consisted of pharmaceutical products, organic chemicals, scientific and precision instruments, machinery and equipment, and clocks, watches and parts.

With a total invested capital of USD 8.9 bn at the end of 2015, Switzerland is among the ten biggest foreign investors in Canada.

Since 2009, there is a free trade agreement in place between Canada and Switzerland that eliminates taxes mainly on industrial goods.

# Canada's economy is about way more than natural resources and Blackberry phones



## Strong service and manufacturing industry

As with other developed nations, Canada's economy is dominated by the service industry. However, Canada also has a sizeable manufacturing industry, representing roughly 10% of Canada's GDP.

Southwestern Ontario, close to the heart of the US auto industry and highly integrated with the USD 20 trillion NAFTA marketplace, is home to five automotive OEMs, 700+ parts suppliers and 500+ tool, die and mold makers. Other important manufacturing segments besides transportation equipment are food manufacturing, petroleum and coal products, chemical, primary metals, machinery and fabricated metal products.

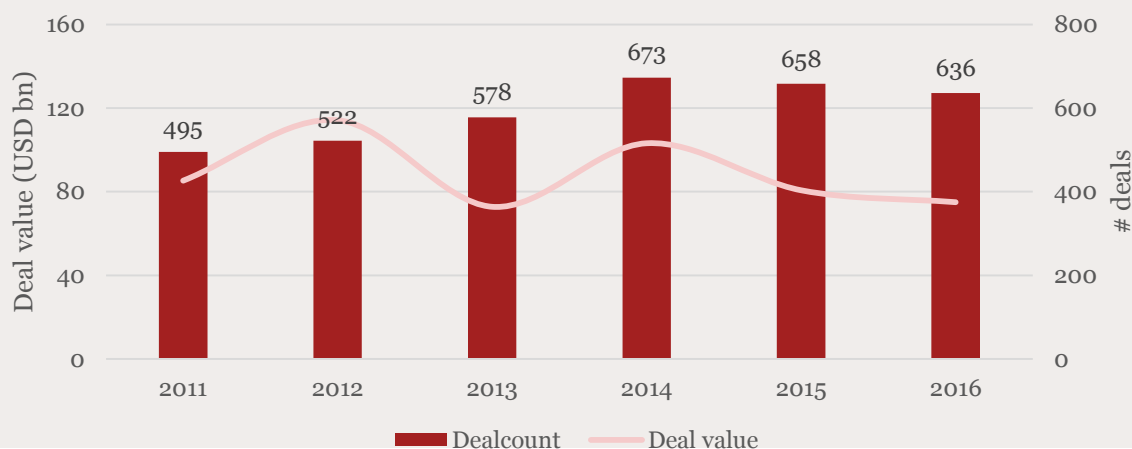
## Rich in natural resources

Canada is rich in natural resources and one of the few developed nations that is a net exporter of energy. The large oil and gas resources in Alberta, the Northern Territories, but also in British Columbia and Saskatchewan represent the world's third largest reserves of oil after Saudi Arabia and Venezuela.

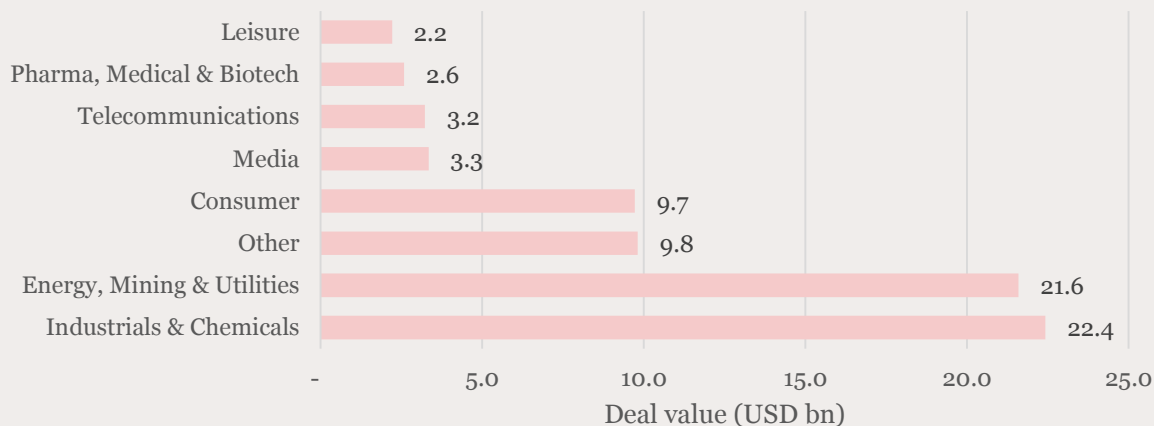
Moreover, Canada is one of the world's largest suppliers of agricultural products such as wheat, canola, and other grains, and is a leading exporter of zinc, uranium, gold, nickel, aluminum, steel, iron ore, coking coal and lead.

## Stable M&A activity over the last few years

### M&A activity



### Sector breakdown



### Stable deal flow

M&A activity in Canada remained relatively stable over the last three years. In 2015, 658 deals have been done, with a total value of USD 80 bn, representing 4.5% of the Canadian GDP.

2016 saw 636 deals with a total value of USD 75 bn. This value includes one mega deal, which is Potash Corporation of Saskatchewan's USD 18.4 bn acquisition of Agrium, creating the world's largest crop-nutrient supplier.

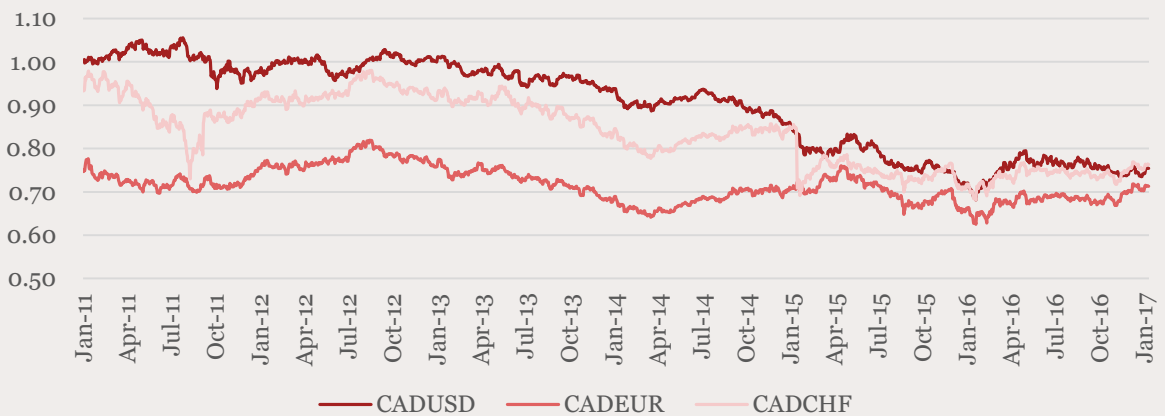
### Industrials & Chemicals sector dominating

With 94 deals and a total deal value of USD 22.4 bn, Industrials & Chemicals was Canada's top sector in 2016 by value, driven by the aforementioned mega deal in the fertilizer industry.

Energy, Mining & Utilities, which is usually the top sector for Canada, ranked second by value with 150 deals worth USD 21.6 bn.

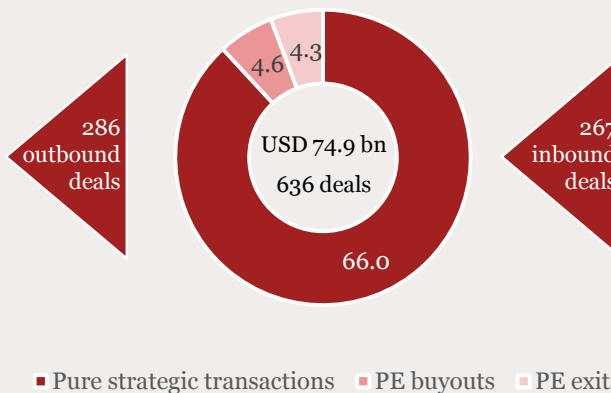
# Attractive currency environment for foreign investors

## Currency development



## Cross border and private equity activity (2016)

Top 5 target countries:



Top 5 investor countries:



## Attractive currency environment for foreign investors

Due to the importance of natural resources for the Canadian economy, the Canadian Dollar tends to correlate with shifts in oil prices. Since a lot of Canadian companies export their goods to the US, the currently weak Canadian Dollar has a beneficial effect on their profitability.

Although profitability of export oriented companies might be inflated in the current environment, the weak Canadian Dollar offers attractive investment opportunities for foreign investors.

## Most deals done with the US

The vast majority of both inbound and outbound deals is done between Canadian and US companies. Chinese investors have recently started to take a closer look at Canada's manufacturing industry, focusing mainly on technologies that can be leveraged in their home market and on consumer brands that are desired by China's rising middle class.

## Established PE landscape

Canadian institutional investors are well established and experienced and play an active role in the mid market, helping companies to grow and internationalise their business.

# What's the deal in Canada?



## ***Review regime***

Under the Investment Canada Act, non-Canadian purchasers must file either a notification or an application for review prior to acquiring a Canadian business, depending on certain financial thresholds.



## ***Regulation***

Canadian deals are regulated under provincial and federal corporate laws, provincial securities laws, and stock exchange rules.



## ***R&W insurance***

The use of R&W insurance has recently gained traction in the Canadian market following widespread use by financial investors in the US and Europe.



## ***Key deal terms***

Compared to the US, indemnity caps in Canada are typically higher and R&W survival periods longer and therefore closer to terms seen in Europe. Holdbacks in support of claims are less common in Canada.



## ***Private equity***

PE exits generally have lower indemnity caps and shorter R&W survival periods, combined with an insurance solution, permitting the fund to disburse proceeds to investors with low or no claw back risk.



## ***Vendor due diligence***

On cross border auction transactions, the provision of vendor due diligence reports to bidders is becoming more common. Unlike Europe, these reports are on a non-reliance basis.



## ***Accounting standard***

As of January 1, 2011, all Canadian public companies have switched from local GAAP to IFRS. Privately held companies had the option of adopting IFRS or a new set of standards called Accounting Standard for Private Enterprises (ASPE).



## ***Labour unions***

Nearly 30% of Canadian workers in both goods and services industries belong to unions. Although there are strikes and lockouts in Canada, over 95% of all negotiations end in a settlement without a work stoppage.



## ***Quebec is distinct***

Unlike the rest of Canada, Quebec is governed by a civil law system, which can differ significantly from the rest of Canada and needs to be taken into account when acquiring or selling a Quebec based business.

While the Canadian market has some similarities to the US and European market, there are some unique features that investors need to be aware of. With first-hand experience and local teams on the ground, PwC can help you to avoid common pitfalls when doing deals in Canada.

# Contacts and credentials

## Key contacts



### Sascha Beer

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From 2008 to 2009, Sascha spent one year on secondment working with PwCs Corporate Finance group in Toronto.



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From 2015 to 2016, Michael spent one and a half year on secondment working with PwCs Corporate Finance group in Toronto.




### Vincent Luescher


Manager, Transaction Services

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From 2014 to 2016, Vincent spent two and a half year on secondment working with PwCs Transaction Services group in Toronto.

## Select Canadian deals with involvement from PwC Switzerland team members




was sold to  
A Chinese Consortium  
Seller advised by  



Michael Huber worked on the sell side advising the owners of Valiant on the sale of the business to a Shanghai-based Chinese consortium consisting of industrial and financial partners.



was sold to  
  
Seller advised by  


Sascha Beer and Michael Huber worked on the sell side advising the owners of Schoettli Group on the sale of the business to Husky.



Chapter 11  
900 million senior credit facilities restructuring  
Bank consortium advised by  


Sascha Beer worked on the USD 900 million senior credit facilities restructuring in connection with Quebecor World Inc.'s CCAA and Chapter 11 filing.




was sold to  
Centerbridge  
Seller advised by  


Vincent Luescher worked on the sell side due diligence advising the owners of KIK on the sale of the business to Centerbridge Partners LP.



was sold to  
  
Buyer advised by  


Vincent Luescher worked on the buy side financial due diligence advising Novacap on their acquisition of Windmill Farms.



was sold to  
  
Buyer advised by  


PwC Transaction Services provided buy side due diligence to Husky on KTW Group.

