

Links Capital Partners is an independent corporate finance firm focused on providing advice on acquisitions, divestitures and financings to middle-market businesses

January 2011



ACQUISITIONS
DIVESTITURES
FINANCINGS

Links Capital's M&A Perspectives

Happy New Year!!! Heading into 2011 we can offer much more optimism for those principals looking at positioning their company to raise capital or for a possible divestiture event. Interest rates are still at historical lows and the economy in the Western Canada seems to be picking up some steam, led by the commodity spectrum. The Canadian dollar traded a little better than parity at the end of the year. But this time the magnitude in the shift of the dollar has been relatively slow compared to 2007. In 2007, the change occurred so quickly that Canadian companies had difficulty reacting swiftly.

In the middle market, depending on the industry, it was not unusual over the past couple of years to see total debt to leverage ratios below three. In the last quarter of the 2010, we started to see the banks step up and do stretched lending at higher leverage ratios, again something that did not occur in 2009 and most of 2010. Due to recent tight debt markets, it was very difficult for private equity groups and potential purchasers to get the needed capital at appealing leverage ratios to generate required returns. There were some groups that chose to finance transactions entirely with equity with the hope of a turnaround in the debt markets, allowing them to refinance their equity out at a later point in time when leverage ratios reverted closer to the norm.

Private equity groups for the most part have been sitting on a large overhang of capital that should get deployed or they risk needing to return the committed capital to their limited partners. In Canada, there have been several private equity funds doing business in 2008, which are no longer in business. Many others are on the brink of closure. Poor returns on invested capital coupled with the inability to deploy capital, have been the downfall of many of these firms.

Has the Canadian marketplace for private equity become less competitive due to the closure of these funds? Our comment would be no. Over the past several months we have been receiving many inquiries from private equity funds largely based out of the US very interested in looking for new ideas and platforms in Canada. This was not something that was experienced in 2009 or the early part of 2010. Our observation would be that while we are not back in the 2007/2008 boom years for mergers and acquisitions, it is starting to feel like the early part of 2005 with the excitement starting to be generated.

Not only have private equity funds been sitting on large amounts of cash, so have many companies who preserved their balance sheets heading into the financial crisis. Now these companies that are cash rich, are looking to do something accretive with their capital.

Experience in the areas of Private Equity, Investment Banking, Valuations and Corporate Lending enhances value to our clients.

Our diversified financial background combines various ideologies in positioning our clients to maximize value in their business, whether it is the sale of a business, bringing on a financial partner, or attracting additional capital, Links Capital can help.

Links Capital's philosophy is to preserve value throughout the entire transaction process. Only senior executives will handle all aspects of the transaction from inception to close, avoiding potential value loss by not having less experienced junior analysts involved in the transaction.

Typical transactions range in size up to \$250 million which are ideally suited to middle-market businesses. Links Capital's management has been successful managing capital on behalf of government, provincial pension funds, insurance companies and high net worth investors in completing mergers, acquisitions, divestitures and financings for both private and public companies.



Links Capital

Divestitures • Acquisitions • Financings

At Links Capital Partners, we focus exclusively on assisting our clients sell, buy and finance businesses.



They have options such as dividends, share repurchases and acquisitions. Our opinion is that it is more likely that this stagnant capital will be put towards acquisitions. With many regions in the US still having economic trouble with little sign of recovery in the near term these companies are faced with the question of where to focus. The question surrounding the investment of capital in some regions of the US may be, how long until we can get a decent return on our capital?

The Canadian marketplace and in particular Western Canada is currently an attractive geographical region for private equity funds and strategic partners looking for acquisition opportunities. The commodity market has been strong with oil trading in the high \$80s to the low \$90s, however there are still concerns with respect to natural gas. Other natural resources such as potash, coal, precious minerals and their related services further highlight the Western Canada opportunity.

Our expectation for 2011 is that there will be stronger transaction activity than what we experienced in the previous two years. We also believe that many of the deals that were contemplated when the financial crisis hit may be re-visited in this improving environment. The demographic shift will continue to have an impact on divestiture activity as many owners are reaching retirement age. Many of these principals have been waiting for the market to turn again so that they can monetize their investments in their business.

However, principals must realign their thinking when it comes to valuation. This is not the beginning of 2008 when we saw multiples at 10 year highs. Not only have multiples compressed, some companies are also not generating record EBITDA performance. Others have seen deterioration in EBITDA or EBITDA as a percentage of revenue. Given the new environment it is important that the principal has realistic expectations on the true value of their company.

In the Canadian marketplace we are advising many of our clients that opportunities to complete transactions should not be purely focused on looking in their own backyard for financial and strategic partners. There has been a large influx of international capital doing deals in Canada and our expectation is that this is going to continue.

Your decision to undertake a transaction is a major business decision. That's why we've committed ourselves to overcoming the obstacles you would typically face- **creating incremental value and making the process less disruptive to your business.**

Links Capital Partners Ltd. is a professional firm focused exclusively on **Selling Businesses, Raising Capital** and assisting our clients **Acquire Businesses.**



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