

Beacon Mergers & Acquisitions

Year in Review 2020

January 20, 2020

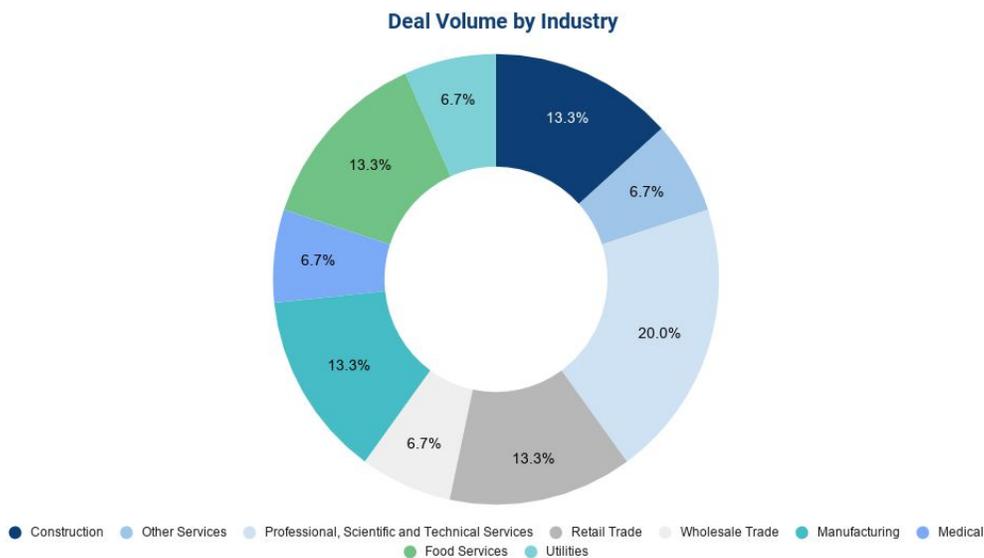
2020 Deal Overview

Despite an overall challenging M&A climate in 2020, Beacon Advisors had a successful year with 18 completed transactions. With work-from-home measures in place, the entirety of the Beacon team adapted quickly; transitioning and automating processes online without skipping a beat. The transition to serving clients virtually was done with a focus on retaining the same level of data security and information transfer. Beacon achieved this by relying heavily on our secure digital data room hosted by Firmex, for encryption, and online CRM system, which allowed for streamlined and coordinated sell-side advisory without sacrificing efficiency or privacy.

2020 also saw the launch of the new Beacon Real Estate website, which was a natural add-on to the business transaction advisory. In 2020, the firm also introduced new marketing initiatives, allowing for greater outreach channels to attract interest and solicit bids from investors in North America and internationally. This, combined with the expansion of the Canadian and American teams, sets out Beacon and its associates for a busy 2021.

On the deal side, Beacon completed sell-side transactions with combined revenue of over \$50 million, and combined EBITDA of over \$13 million, and completed financing transactions raising over \$15 million in growth and acquisition capital. 2020 had Beacon's most diverse client makeup yet, ranging from heavy equipment maintenance to toys manufacturing and technology.

The majority of the deal flow originated from privately owned and managed businesses across Canada, followed by US and the Caribbean. Following the trend set in previous years, Beacon saw further diversification in demand, with continuing client growth in the service and distribution spaces. Furthermore, transacted companies' selling price averaged 99.53% of the business assessment prepared by the Beacon valuation team.



Featured Transactions

Value.
Negotiate.
Close.

Beacon Completes Sale of a Leading Ontario Millwrighting & Custom Fabrication Business

Beacon completed the sell-side mandate of one of the largest independent Ontario based Millwrighting and Custom Fabrication businesses. After confidentially marketing the opportunity and proactively reaching out to a number of synergistic and financial buyers, the competitive sale process led to the solicitation of three strong conditional offers. Due to the outbreak of COVID-19 in the Spring of 2020, the due diligence and ongoing business negotiations and assessment continued throughout the Summer of 2020 with the transaction completing in October 2020.

Beacon Completes Transaction of a Mechanical Supplier & Equipment Service Business

In April 2020, Beacon announced the completion of the sale of one of Ontario's leading water pump service and repair suppliers and service providers. The deal was structured as a 100% equity purchase, allowing the owner to take advantage of the capital gains exemption (CGE). While the owners will remain with the company for a period of time, the transaction represents a clean exit with a defined timeline achieving their goals of retirement.

Beacon Advises Toronto-based Automotive Equipment Distributor in a Sale to a Strategic Buyer

Beacon completed a successful sell-side mandate of a specialized Toronto-based distributor of industrial, fleet, and automotive equipment products. Going to market in early March 2020, in the midst of a pandemic outbreak, presented an initial challenge to the Beacon transaction team. Beacon was able to attract a large number of potentially interested parties, with over 50 signed NDA's within the first three months of listing the business. In June 2020 an LOI with a strong strategic buyer was negotiated and the deal was completed in Q4 of 2020.

Team and Services Expansion

In June, Beacon announced an expansion of its services to the Pacific Northwest of the United States through a network partnership with independent M&A advisor, Jake McGlone. This decision marked the second major U.S. market expansion that Beacon extended coverage to, following the expansion to Washington, D.C. in 2019.

Managing partner Alex Shteriev commented, “This expansion is a significant moment of growth for us because we are introducing our services to a largely underserved market. Recent times of economic shutdowns and challenging social distancing measures has forced businesses to seek out client-focused and tailor-made solutions – something that larger competitors simply cannot offer. The addition of seasoned advisors like Mr. McGlone will allow Beacon to serve the needs of these businesses.”

Mr. McGlone brings decades of financial advisory and investment management experience as an advisor and consultant with several firms including Wells Fargo Advisors. He shares the firm’s passion for a professional and client-focused way of doing business.

In 2020, Beacon also added to its team Mr. Malay Dixit. Based in Windsor, Ontario, Mr. Dixit brings to Beacon over twenty years of experience in manufacturing and automotive services. Graduate from the reputable Western University’s MBA at Ivy School of Business, Mr. Dixit brings to the team an entrepreneurial spirit combined with operational and business acumen built over decades working with blue chip companies in the manufacturing and automotive sectors.

By adding Mr. Dixit to the team, Beacon is able to provide investment banking grade services to companies in the OEM, scrap metal, recycling, machinery, manufacturing sectors serving the multi-billion dollar automotive industry.





What's Ahead in 2021?

In the second quarter of 2020, following the spread of the first wave of the covid-19 virus, the private lower middle market experienced a steep decline in deal activity. Privately owned small businesses were disproportionately impacted due to government enforced lockdowns which restricted activity and impacted demand. In addition, limited access to liquidity added to the problem. While the government and the Central bank of Canada was quick with its response to offer companies financial aid and emergency relief, the market sentiment remained bearish throughout the summer as buyers and sellers struggled with price discovery.

In the fourth quarter of 2020, however, Beacon saw a strong surge in demand following positive results from vaccine trials. With dry powder at its highest level in a decade, buyers, both strategic and financial, are ready to deploy capital and acquire good assets while prices in the lower middle market remain suppressed.

As there is improvement in business sentiment and a more positive outlook on economic recovery, Beacon expects to see a strong pick up in deal flow in the second and third quarter of 2021. In addition, a dovish outlook from central banks and low interest rates going forward will accelerate M&A activity as investors capitalize on cheap acquisition financing.

Going forward, Beacon expects that the new Biden administration will spur additional economic growth in the U.S. through fiscal stimulus and infrastructure spending. This will benefit diversified industrials and cyclical industries across North America. Given that Canada is a resource-based economy, stronger demand and economic recovery in the U.S. will directly improve trade and benefit cyclical industries in Canada such as mining and energy. This boost in demand is expected to trickle down into smaller privately owned distributors and manufacturers catering to these industries.

While Beacon expects service industries, particularly hospitality, to recover at a swift pace due to pent up travel demand, the impact on small businesses in this sector has been severe enough to restrict capital expenditure in this sector over the near future as companies focus on strengthening their balance sheets. A healthy commodity price environment should lead to a stronger Canadian dollar, thereby benefiting businesses that have overseas suppliers and procurement channels. Export focused businesses may experience a minor decline in demand as Canadian goods become less competitive due to higher prices.

Over the last few years, M&A deals valued below \$100 million have continued to increase as a percentage of total deal volume. In 2020, the lower middle market comprised 9% of all M&A deals, up from 5% in 2019 according to Bloomberg. We expect this trend to continue as the Canadian population continues to age and owners of private companies seek to retire. Swift vaccine rollouts across Canada and the U.S. will help revive consumption and spending across sectors and aid growth in the lower middle market. Given these tailwinds, Beacon remains bullish on M&A over the next year.



About Beacon

Beacon Mergers & Acquisitions is a full-service business brokerage firm with offices across Ontario, Canada, Washington, D.C, and Portland, Oregon. Beacon also has a strategic partnership in the Asian subcontinent with Prime Bank Investment Limited.

Beacon's services include M&A advisory, debt financing advisory, and business valuations to private companies in the lower middle market. Beacon is a three-time recipient of the Consumer Choice Award for Best Business Brokerage Firm in the Greater Toronto Area, and a member of several international M&A organizations.