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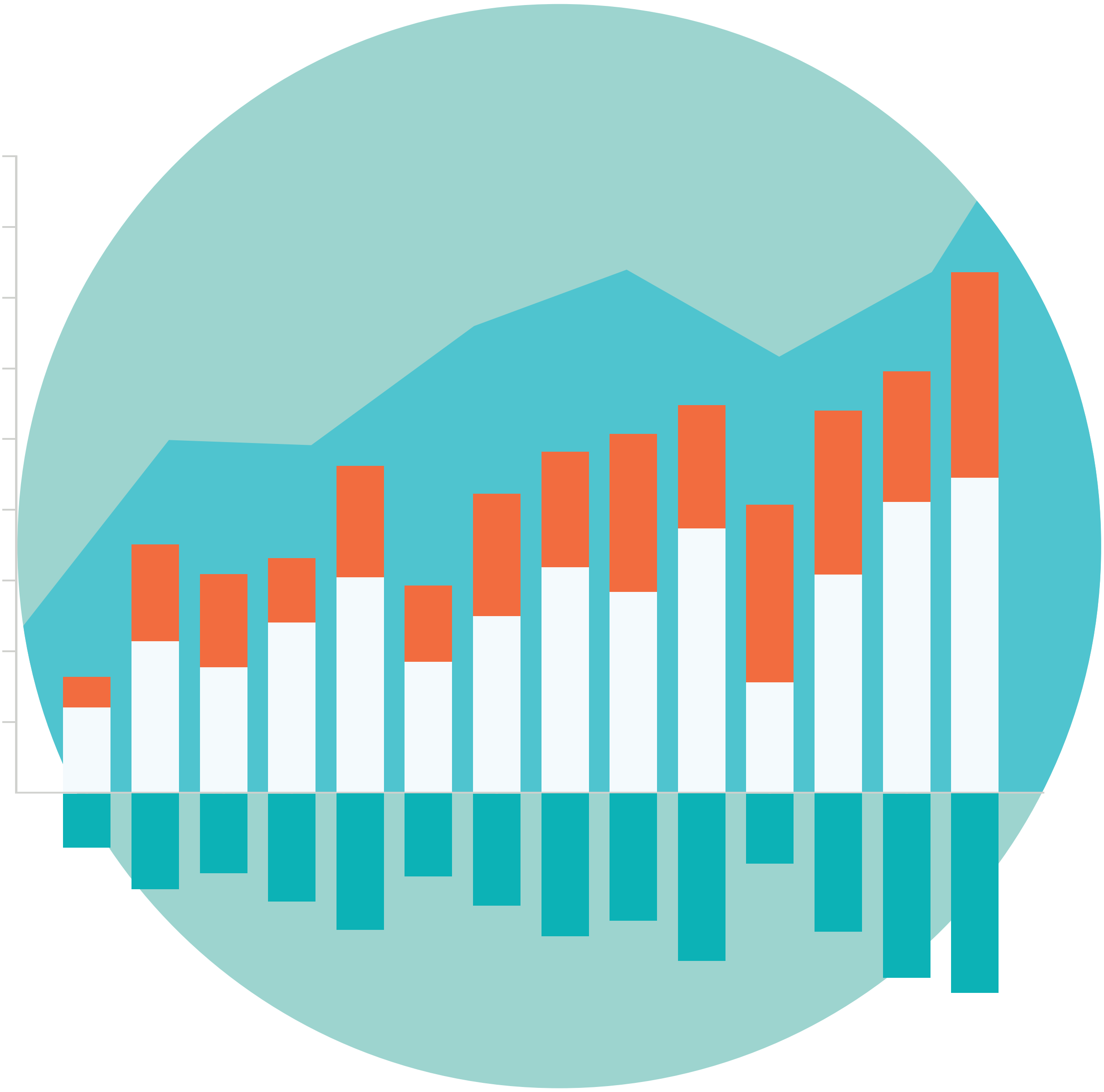

Canadian IPO Market Review

2017 – A robust year for
Canadian IPOs

Key Canadian IPO market statistics

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Number of IPOs with deal size greater than $10 million

$4.7B

Total proceeds raised through IPOs in 2017

5.5%

2017 return of S&P/TSX Index

16.6%

Aftermarket performance of 2017 Canadian IPOs

Source: FPInfomart & TMX (as of December 29th, 2017). IPO statistics exclude Nexa Resources.

There was a resurgence of activity in the Canadian IPO markets in 2017 following an anemic year in 2016. The strong equity market backdrop combined with a sustained period of low market volatility emboldened many Canadian issuers to move forward with their plans to go public and private equity sponsors to take the first step towards monetizing one of their portfolio companies.

Equally important, both institutional and individual investor interest saw a rebound from prior years – buoyed by investor confidence and the pursuit for compelling new equity stories in a domestic market that is dominated by the financial and resource sectors.

The outlook remains bright with many issuers having already accelerated their plans to get into a state of preparedness that makes going public in 2018 a viable option. This positions the Canadian IPO market to be on track to have another strong year in terms of new companies coming to the public markets.

Strong pace of IPO activity

For 2017, there were 20 IPOs with total proceeds raised of approximately C$4.7 billion, which is in stark contrast to 2016 at 3 IPOs raising approximately C$0.6 billion.[1] Early in 2017, there were signs of optimism in the Canadian IPO markets with both issuers and investors embracing the new year with a brighter outlook on the equity markets and receptivity towards adding new companies to their investment portfolios across a broad group of sectors.

There were Canadian consumer-oriented companies that were also able to access the IPO market including Canada Goose, Jamieson Wellness, and Roots. All of these companies were backed by private equity sponsors that took the first critical step in terms of monetizing their investment in Canadian portfolio companies. Canada Goose, a luxury apparel consumer brand, pursued a C$391 million cross-border IPO in both Canada and the U.S. that was met with strong investor demand on both sides of the border. Jamieson Wellness, a vitamin manufacturer and household name, elected to pursue a C$345 million Canadian public offering that was also met with strong institutional and individual investor interest. Following the initial success of the IPO and subsequent strength in aftermarket trading performance, the private equity backers were able to execute a follow-on offering of Jamieson (CCMP Advisors) to fully exit from their holdings and of Canada Goose (Bain Capital) to reduce their retained interest.

The two largest IPOs of the year that Canadian investors had the opportunity to invest in, included corporate spin-outs from parents looking to access the capital markets for capital intensive subsidiaries in resource-based sectors. Kinder Morgan Canada's C$1.75 billion IPO was the largest IPO in Canada in 2017. U.S. – based Kinder Morgan Inc. spun-off its Canadian assets into Kinder Morgan Canada, which included the Trans Mountain pipeline systems. Votorantim Group's spin-off of Nexa Resources SA, raised C$726 million in the Canadian and U.S. markets for the Luxembourg-domiciled issuer.

The C$157 million IPO of Real Matters ended a two year dry spell for technology IPOs in Canada, with Shopify being the last technology IPO in Canada back in 2015. The Real Matters' IPO commanded the attention of the investor community given the scarcity of Canadian technology IPOs.

The energy services sector saw some activity including both STEP Energy Services and Source Energy Services completing their IPOs despite challenging market conditions for energy services companies in the public markets.

Finally, there were three Canadian SPAC issuances (special purpose acquisition corporation), with Alignvest Acquisition II Corporation being the largest Canadian SPAC IPO, raising C$403 million in its public offering. This follows the completion of a qualifying acquisition by Alignvest Acquisition Corporation in February of 2017.

Key takeaways from recent Canadian IPOs

Growth was key

Growth-oriented companies were a key focus for investor interest for the year, underscored through offerings by Canada Goose, and Jamieson Wellness. It is a reflection of Canadian investor appetite to buy into entities that had a track record of growth and could articulate the future growth potential of their business models.

Positive overall aftermarket performance

The average aftermarket performance was positive for Canadian IPOs with an average gain of 16.6% post offering, led by Canada Goose, Stelco, MedReleaf and Jamieson.[2] However, there were a number of Canadian IPOs that experienced headwinds in terms of negative aftermarket performance as a result of the lack of aftermarket investor buying to support the share price post IPO. With these issuers, the recovery in the share price will need to be driven by the management teams consistently delivering upon financial results and stated objectives that were outlined at the time of IPO.

The overall positive aftermarket performance should promote future IPO issuances as issuers and investors alike, continue to monitor the health of the Canadian IPO markets.

Canadian IPOs can be global IPOs

Many Canadian IPOs, both in 2017 and prior to, have successfully demonstrated that while a company may opt to pursue a Canadian registered IPO, these transactions attract the interest of global institutional investors. The reality is that global institutional investors are increasingly exchange agnostic. Global pools of capital are simply seeking high quality companies backed by best-in-class management teams, regardless of where the shares are listed. Having said that, Canada Goose opted for a fully-registered offering on both sides of the border to enhance U.S. investor interest through increased U.S. based liquidity and maximum market profile.

Mining

There was the re-emergence of the mining sector in terms of IPOs, with a total of 19 issuers going public last year (at all deal sizes), representing C$243 million of total proceeds, including the C$110 million IPO of Ero Copper Inc. which represented the largest deal for a Canadian-domiciled issuer.[3] As mentioned previously, Nexa Resources, which is a Luxembourg-domiciled, South American based company, is the mining spin-off that successfully raised C$726 million in both Canada and the U.S.[4]

Equity market backdrop

Canadian and U.S. equity markets delivered solid performance after reaching all-time highs at the end of 2017, up 5.5% and 18.7% for the year, respectively.[5] The Canadian equity markets lagged the U.S. due to the energy sector being down for the year by 13%.[5]

The pervasive market themes that dominated the performance of North American equity markets last year was the increasing optimism around synchronous global economic growth, strong corporate earnings, gradual hiking of interest rates by central banks, and implications of actions by the U.S. administration for the broader Canadian economy. As well, market volatility continued to remain near historic lows, with the CBOE Volatility Index (VIX) ending the year at 10.3.[6]

When we reflect upon the 2017 sector performance on the Toronto Stock Exchange, the winners include the Health Care, Industrials and Consumer Discretionary sectors up 38%, 19%, and 18%, respectively.[7] In light of this, we expect that companies in these sectors that are thinking about going public, should think about making that decision sooner versus later as investors try to seek greater exposure to these sectors – particularly off-benchmark bets that could come in the form of IPOs.

Final thoughts

Looking forward to 2018, we maintain a bullish outlook for the Canadian IPO markets. We will need ongoing cooperation from the markets in terms of sustaining this welcome period of low volatility and positive performance to underpin the constructive and stable backdrop that companies require when going public. The one thing that remains within the control of companies considering going public in Canada is to ensure that they are in a state of readiness to capitalize on market strength when it prevails.

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About us

The Deloitte IPO Advisory group is an end-to-end service provider that utilizes a comprehensive framework for advising and preparing companies for the initial public offering and beyond. This can include analyzing a company's strategic alternatives, getting "IPO ready", helping to coordinate the overall process and providing independent capital markets advice throughout the process.

The group is comprised of a dedicated team of professionals from Investment Banking, Equity Capital Markets, Financial Reporting, Securities Regulatory, Risk, Tax and Consulting backgrounds.

Deloitte's leading IPO Advisory practice is also differentiated in the marketplace as a result of its dedicated Capital Markets team providing issuers with independent advice relating to key IPO success factors including: equity story, value, market timing, pricing strategy and tactics, underwriter selection, fee negotiations, roadshow and investor strategy to name a few.

For more information on our services, contact one of our Deloitte IPO advisory professionals listed on the next page.

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Endnotes

1. Source: FPInfomart for IPOs of Canadian issuers ≥$10 million in total proceeds. Includes SPACs and excludes Nexa Resources (a Luxembourg-domiciled company).
2. Source: Dealogic for Canadian IPOs ≥$10 million in total proceeds
3. Source: FPInformart for all Canadian Mining IPOs
4. Source: TMX for IPOs of all issuers ≥$10 million in total proceeds
5. Source: Bloomberg, as of December 29, 2017
6. Source: CBOE, as of December 29, 2017
7. Source: TMX, as of December 29, 2017

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