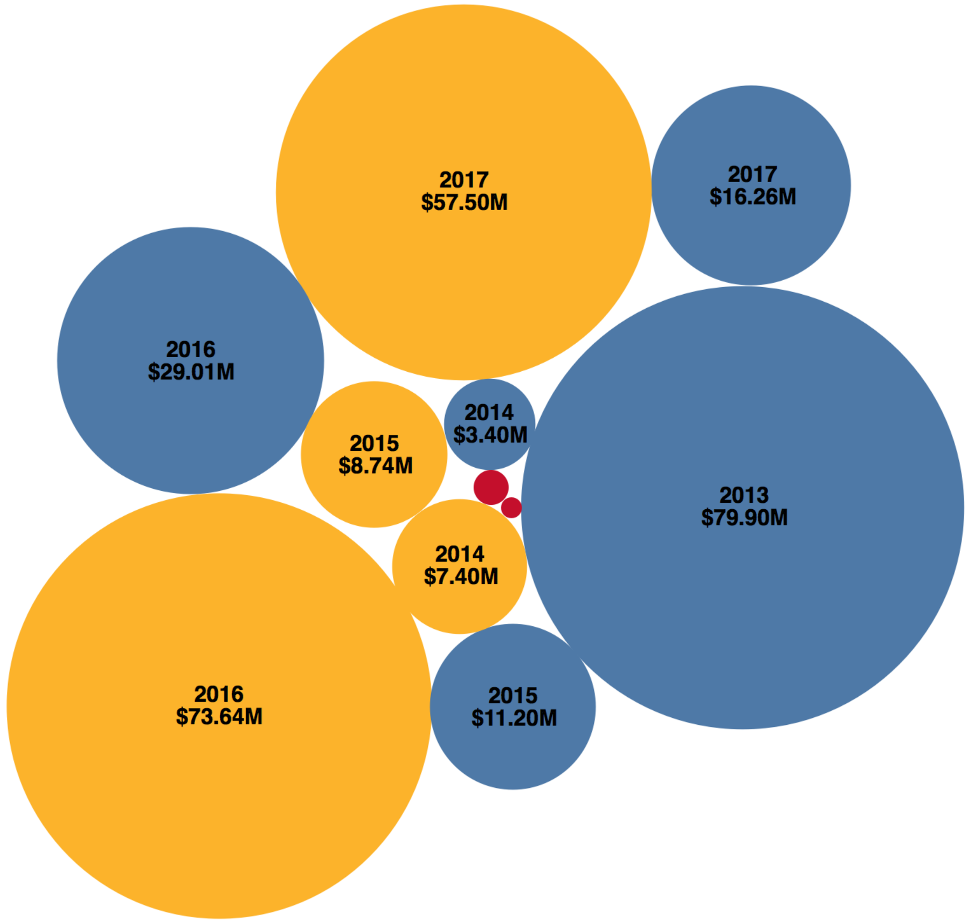
FINANCIAL AND CONSUMER SERVICES COMMISSION

regulation • education • protection

New Brunswick Capital Markets Report 2018

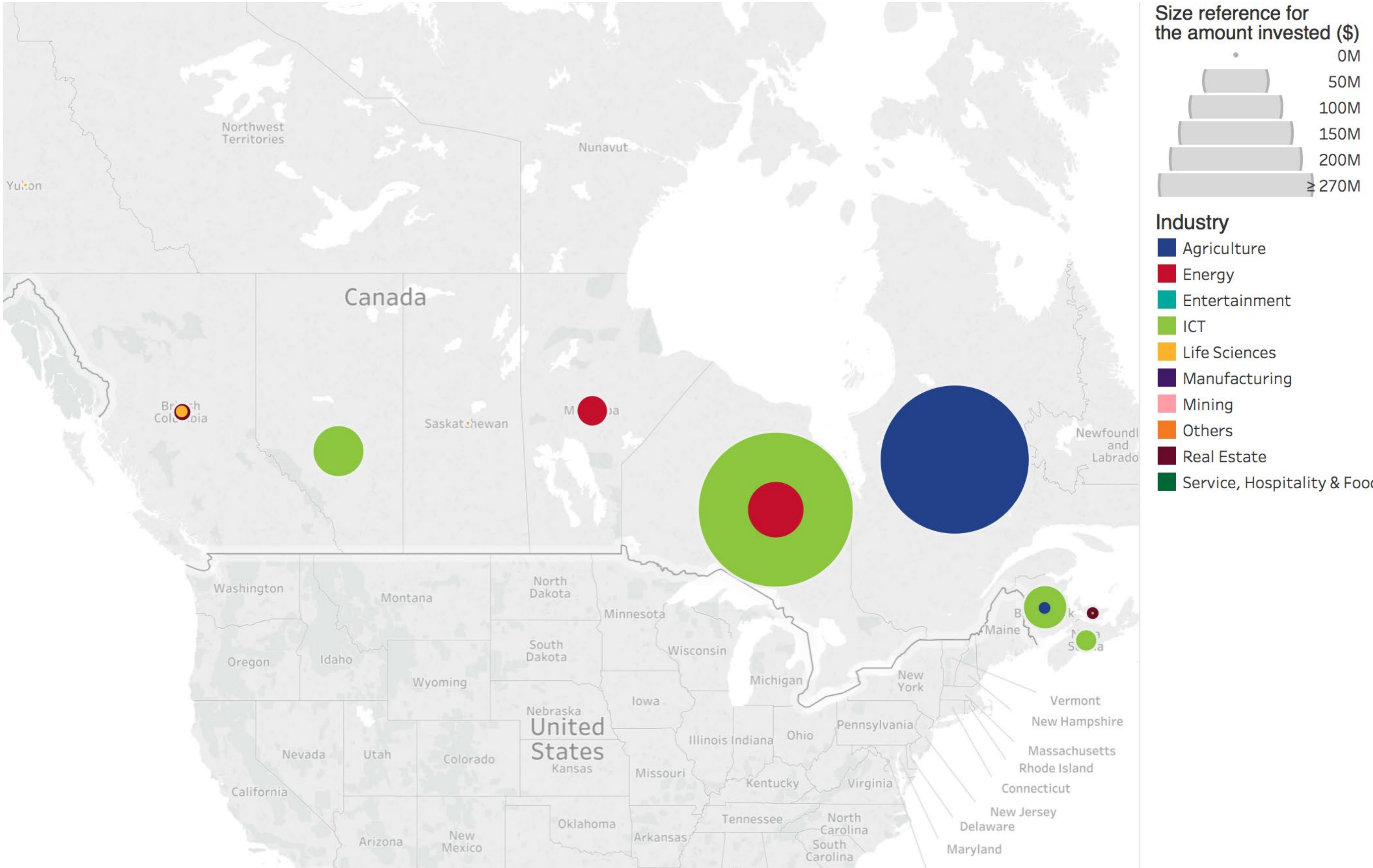


FCNB.ca
85 Charlotte Street, Suite 300, Saint John, NB E2L 2J2
225 King Street, Suite 200, Fredericton, NB E3B 1E1
866-933-2222

TABLE OF CONTENTS

Acknowledgement:

The Financial and Consumer Services Commission (FCNB) wishes to acknowledge the significant contribution to this report by Leandro Oviedo, MBA candidate at the University of New Brunswick (UNB), Saint John Campus.



Graphic Representation of **exempt markets** investments made in New Brunswick companies by investors from across Canada since 2013.

EXECUTIVE SUMMARY

The *2018 Capital Markets Report* has a new look and explores in detail the transactions that have occurred from 2013 to 2017.

For this year's report, we have improved data management, analysis and data display, allowing for deeper insight into the workings of the capital markets in New Brunswick. The report includes the trends discovered as well as our analysis.

This report shares insights about the information obtained. Please note that these insights may be influenced by individual deals, due to the relatively small sample size, and number of transactions.

This report should be read in conjunction with our new interactive data analysis tool, which can be found on our website: www.fcnb.ca/capital-markets-2018.html. This tool provides the user with detailed trend analysis of our capital markets, and it can be analyzed in real-time by selecting year(s), specific industry, location, and in many cases the company's stage of development.

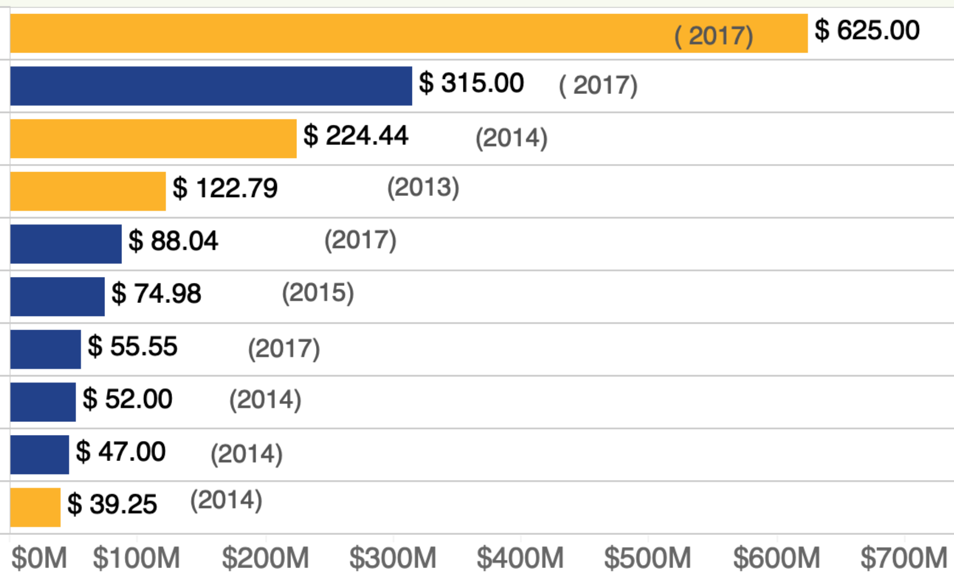
In 2017, New Brunswick's capital markets activity far exceeded previous years. Excluding debt, total activity reached $1.35 billion versus $271 million in 2016. This is largely due to significant merger & acquisition (M&A) activity.

Merger & acquisition activity included a record number of transactions (25) with the total value reaching $1.15 billion. These results were enhanced by two large deals worth $625 million and $315 million, both in the agriculture/forestry/fishing sector.

Diversity, in terms of sector and location of acquirer, truly highlight the continued ability of New Brunswick companies to attract investment and their own willingness to invest in their growth and advancement. Numerous deals were noted within the business services/wholesale/others sector, and the service/hospitality sector. Both sectors included six completed deals in 2017.

The two largest deals over the past five years occurred in 2017. All the deals noted are based on a calendar year.

Acquiror Location	Target Location	Target Industry Sector		
New Brunswick	United States	Agriculture, Forestry, and Fishing	$ 625.00	(2017)
Norway	New Brunswick	Agriculture, Forestry, and Fishing	$ 315.00	(2017)
New Brunswick	United Kingdom	Agriculture, Forestry, and Fishing	$ 224.44	(2014)
New Brunswick	Ontario	Real Estate	$ 122.79	(2013)
Ontario	New Brunswick	Healthcare	$ 88.04	(2017)
British Columbia	New Brunswick	Service/Hospitality	$ 74.98	(2015)
United States	New Brunswick	Business Services, wholesale & others	$ 55.55	(2017)
United States	New Brunswick	Healthcare	$ 52.00	(2014)
Quebec	New Brunswick	Agriculture, Forestry, and Fishing	$ 47.00	(2014)
New Brunswick	Ontario	Mining	$ 39.25	(2014)



Top 10 - M&A single deals since 2013

Venture Capital (VC) provides insight into experienced investors' willingness to invest in the province and throughout Atlantic Canada. In our analysis this year, we compared our results to the rest of Atlantic Canada.

Atlantic Canada continues to produce companies that attract investments. There were 41 deals recorded in 2017 and 185 over the past five years. In terms of deals completed, New Brunswick stands apart from the other provinces by reaching 27 deals in 2017, and 110 deals in the past five years. New Brunswick represents 65.9% of the total number of deals performed in Atlantic Canada in 2017 and 59.5% since 2013.

Our analysis in terms of amount of capital raised, shows VC investment in Atlantic Canada has grown for a second consecutive year recording $82.62 million in 2017. The report illustrates that Information and Communications Technology (ITC) throughout Atlantic Canada is the industry attracting the largest share of VC investment followed by life sciences and industrial.

Though New Brunswick's VC activity is healthy, we trail neighbouring Nova Scotia in terms of money raised in 2017, as it raised $62.38 million compared to New Brunswick's $13.84 million.

Nova Scotia's diversity, in terms of industry participation, may explain part of the difference. Its ICT sector raised $76.65 million, life sciences $38.19 million, and industrial $36.02 million since 2013. New Brunswick, by way of comparison over the past five years, received VC investments in the ICT industry of $65.25 million, and was well behind in the industrial sector at $4.42 million.

New Brunswick's 2017 results have been noticed by a national VC publication. This publication included two cities, Fredericton and Moncton, within the national top 10 of the most active cities in Canada in terms of number of VC deals this year. In addition, the New Brunswick Innovation Foundation (NBIF) was recognized as the sixth most active VC firm in Canada, and the second among government-funded VC firms.

Two cities in the national Top 10

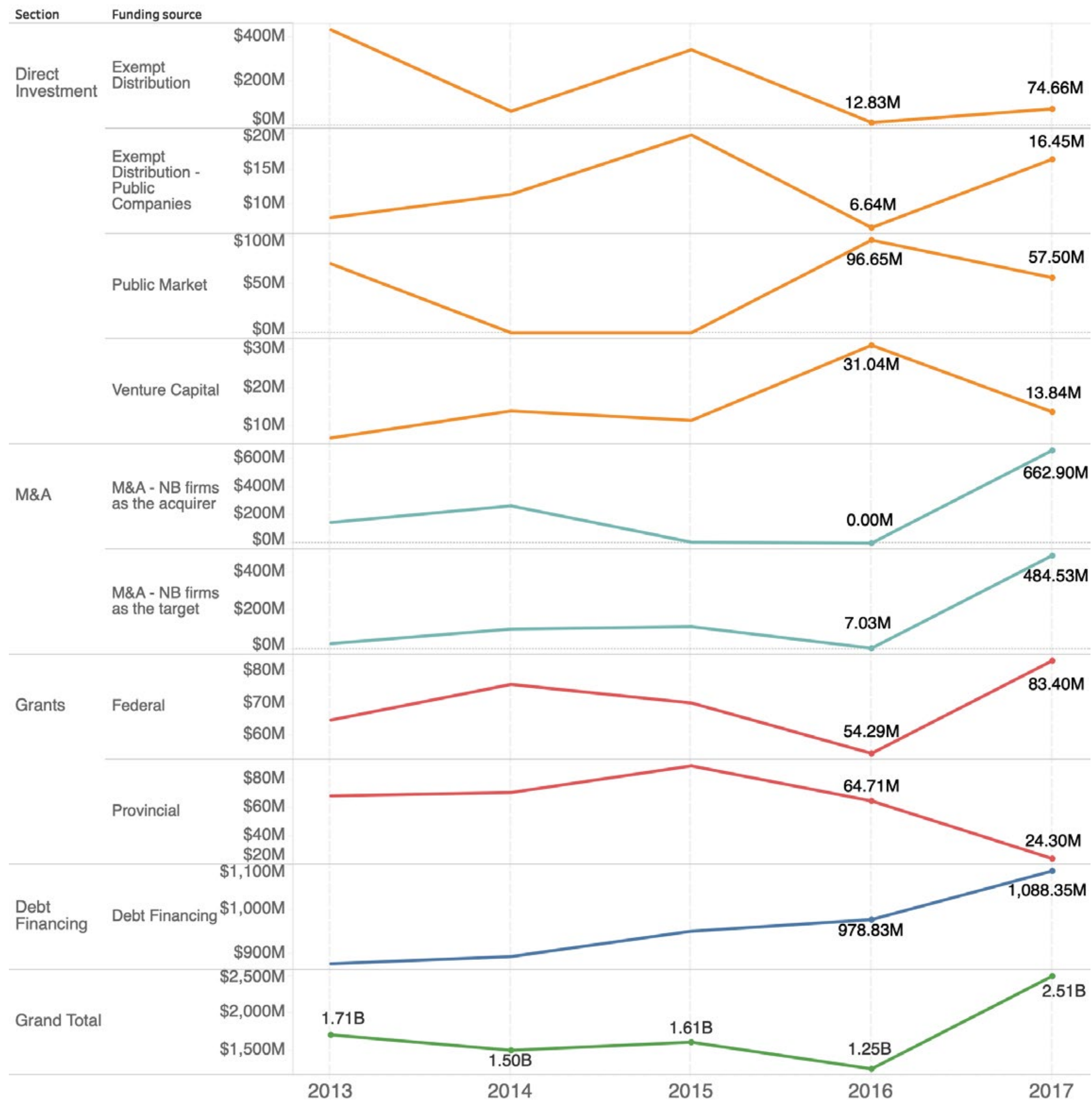
27 deals in 2017

110 deals since 2013

New Brunswick's VC market is recognized by its increasing activity!

Our new analytic tool provides detailed maps that allow us to easily identify where investors are located who are investing in New Brunswick. The map provided on the second page of the report details New Brunswick's exempt markets. This map highlights that investors from Quebec and Ontario have made significant investments in the province over the last five years, recording $281.69 million and $273.47 million respectively. Ontario investors supported ICT and energy companies, while Quebec investors were exclusively supporting the agriculture industry. New Brunswickers continue to support local business, with $43.85 million invested over the same period, mostly in ICT and agriculture companies.

The following is a dashboard of all the activity by market type for the past five years. As can be seen, there are huge variations year-over-year. Since 2013, there was a slight overall decline until this year where we saw a significant increase. As we continue to collect data for the coming years, specific trends will become more evident. Of significance, our new on-line tool will now allow users to analyze the data and draw their own conclusions.



1. INTRODUCTION

1

The Financial and Consumer Services Commission (FCNB) established its Fullsail initiatives to help foster capital markets in the province. The initiatives include programs to educate capital market participants, engage stakeholders and consultants, and conduct research into New Brunswick's capital markets. The annual capital markets report is an important component of such initiatives.

The purpose of this report is to:

- provide a platform for stakeholders to engage and discuss further development of New Brunswick's capital markets.
- analyze the five-year trends, sources, sizes, and various capital market tools used by investors and businesses to raise capital.
- compare New Brunswick's capital markets with those of other Atlantic Provinces.

The scope of the report includes an analysis of:

- Direct Investment
  - Venture Capital
  - Exempt Markets
  - Public Markets
- Mergers and Acquisitions (M&A)
- Grant Funding (supplementary capital)
- Debt Financing (limited scope)

Key questions we look to answer in this report include:

- which geographic regions provide funding to New Brunswick businesses?
- how do New Brunswick's venture capital markets compare to the other Atlantic Provinces?
- are New Brunswick companies attracting investment at all stages of their development?
- what specific industries are attracting investment?
- what types of investment instruments are preferred by the different types of investors?
- how active are New Brunswick companies that are listed on public stock exchanges?

Methodology

Research methods undertaken include:

- review of regulatory filings and published documents.
- interviews with stakeholders.
- review of venture capital and mergers and acquisitions data from Thomson Reuters.

This year, we have introduced an interactive database that will be hosted on FCNB's website. It includes the past five years of capital markets data. The database allows additional insight and it provides a user-friendly tool to analyze new trends and to make comparisons between industries.

Please refer to Appendix B for a comprehensive list of data sources.

NEW BRUNSWICK'S CAPITAL MARKETS

New Brunswick's capital markets are influenced by several factors: our gross domestic product (GDP), new options to raise capital, venture capital activity and firms' plans to expand or execute an exit, among others. Trends in our capital markets are also greatly influenced by the activity of our largest private firms.

New Brunswick's capital markets continue to grow despite challenges. These challenges include an aging population; youth exiting the province for employment opportunities elsewhere; and, the lack of a single economic development driver.

GDP is the broadest measure in monetary terms of a province's total economic activity. It represents the monetary value of all goods and services produced within our borders over a specific period of time. It is used to measure the size and changes in an economy.

New Brunswick's GDP grew 1.9% in 2017 according to Statistics Canada. This represents a better performance over the 1.4% growth in 2016, but still behind the national average of 3.3% led by Alberta (4.9%) and British Columbia (3.9%). Atlantic Canada was led by Prince Edward Island with a GDP growth of 3.2%, followed by Newfoundland and Labrador (2.1%).

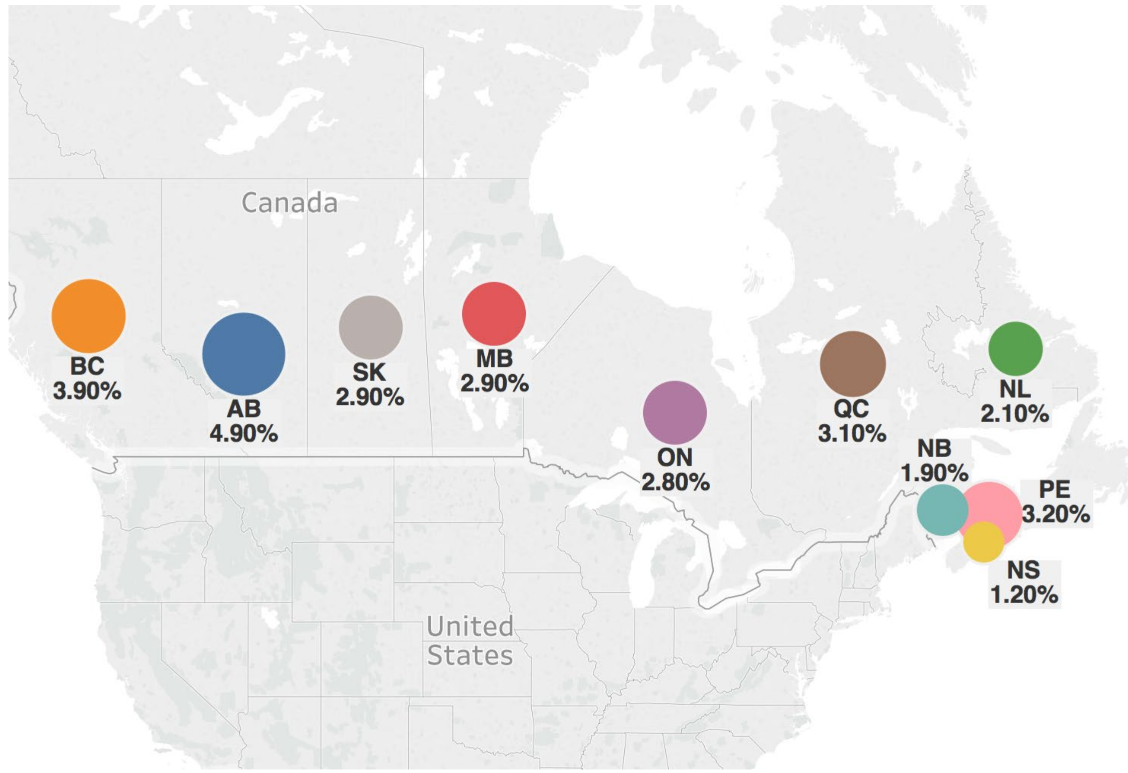


Figure 1.1 GDP (%) in 2017 by province

The industries leading New Brunswick's growth are manufacturing (3.1%) and construction (6.3%) on the goods-producing side. Retail trade (4.9%) and truck transportation (7.3%) led the growth on the services-producing side.

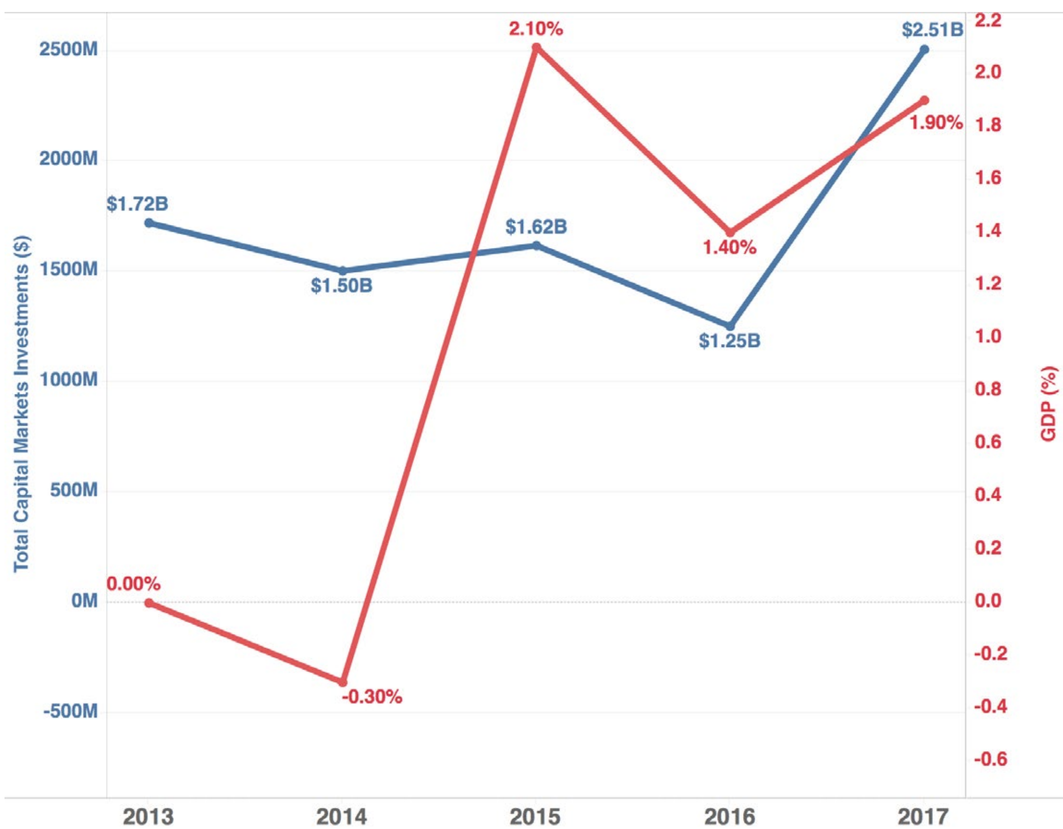


Figure 1.2 Total capital markets investment ($billion) vs NB GDP (%)

New Brunswick's GDP over the last five years appears to show a strengthening economy.

Large scale deals can influence results on a year-over-year basis, which is evident in 2017 as two M&A transactions accounted for almost half of the value of deals in 2017.

We will continue to monitor trends over the coming years in an effort to determine if investment flow in the province is impacted by changes in GDP.

2. DIRECT INVESTMENT

Direct investment includes capital raised by New Brunswick companies through the public markets and exempt markets, and includes venture capital investment.

We hope to determine over the coming year whether there is a relationship between direct investments in the province and our GDP.

Figure 2.1 compares our GDP to direct investment. We will continue to monitor to determine if a correlation exists.

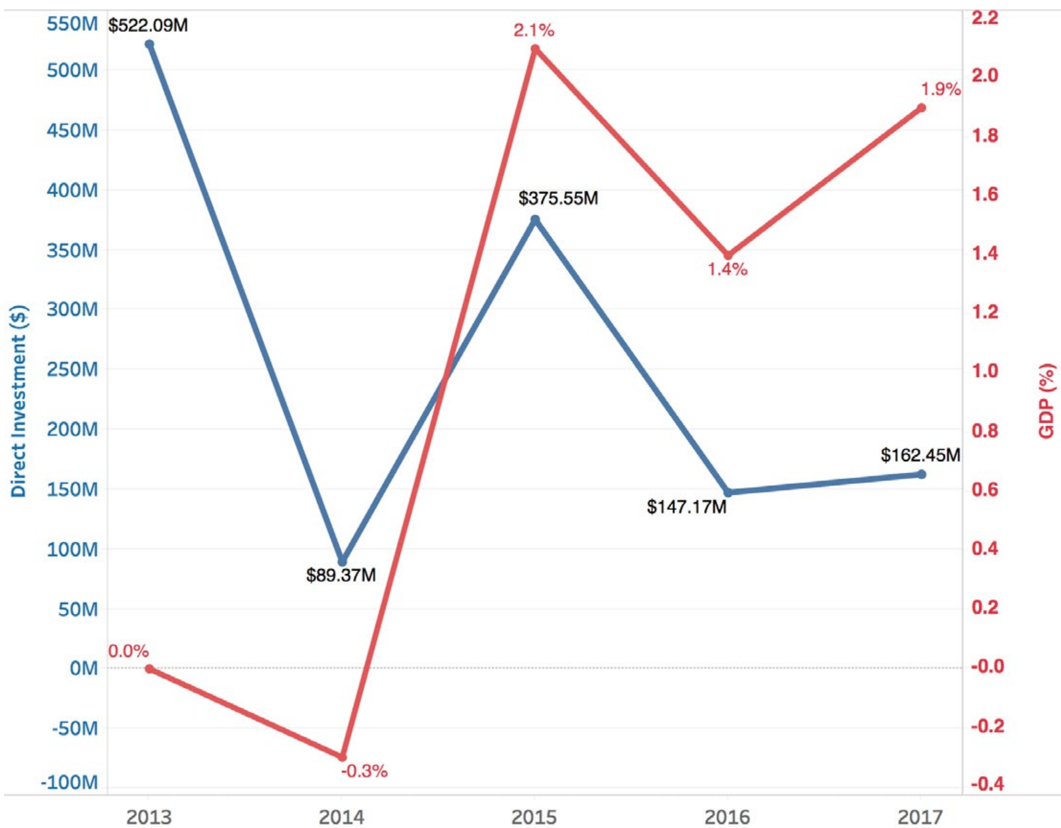


Figure 2.1 Direct investment and GDP – New Brunswick (2013-2017)

2.1 Venture Capital

ATLANTIC CANADA

Venture capital (VC) investment in Atlantic Canada continues to grow for the second consecutive year reaching $82.62 million in 2017. This represents 7.60% growth year-over-year. The region was led by Nova Scotia ($62.38 million), followed by New Brunswick ($13.84 million). Overall performance within the Atlantic region for 2017 remains above the five-year average of $65.19 million.

The results of the past four years are significantly higher than 2013, with 2014 showing the highest results. The largest deal noted since 2013 was recorded in 2014 when a single deal worth $60 million was generated in Newfoundland and Labrador, boosting the region's VC total to $85.58 million that year.

The total number of deals for Atlantic Canada in 2017 dropped slightly to 41 versus 47 in 2016. New Brunswick continued to lead the region with a total of 27 deals, followed by Nova Scotia with 10. These results are also consistently higher than the five-year average of 35 deals per year.

The coming years will help us analyze and understand the impact of the increasing number of deals Atlantic Canadian companies have been able to generate.

Figure 2.1.1 shows the contribution to Atlantic Canada by province, in terms of investment ($M) and number of deals over the last five years (2013-2017), and the averages for such period.

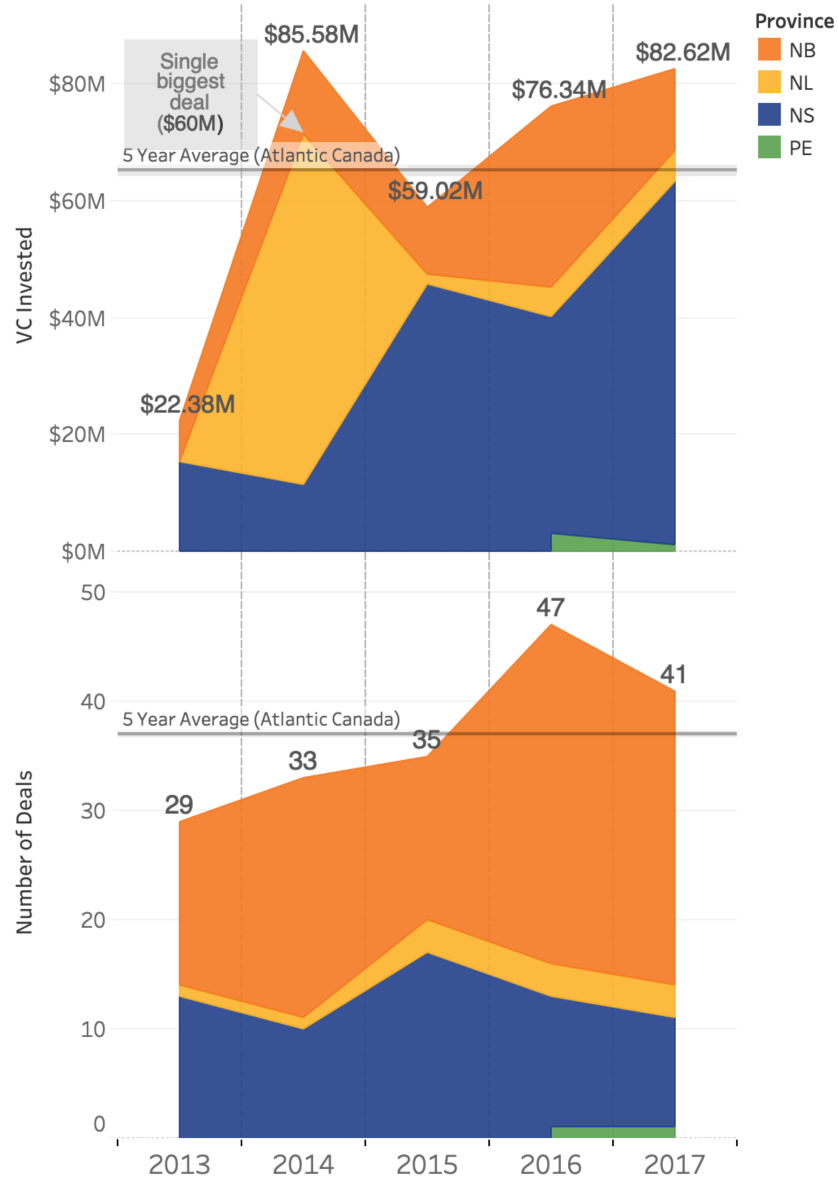


Figure 2.1.1 Venture Capital amount ($M) and number of deals – Atlantic Canada (2013-2017)

Comparing the cumulative VC investment value in the Atlantic Provinces over the last five years (2013-2017) reveals that Nova Scotia more than doubled the amount of VC investment compared to any of the other Atlantic Provinces, reaching $172 million. New Brunswick came in second with a cumulative total of $77.72 million, followed by Newfoundland and Labrador with $72.23 million, while PEI had $4 million.

Figure 2.1.2 shows a comparison among Atlantic Canada Provinces in terms of total investment during the last five years.

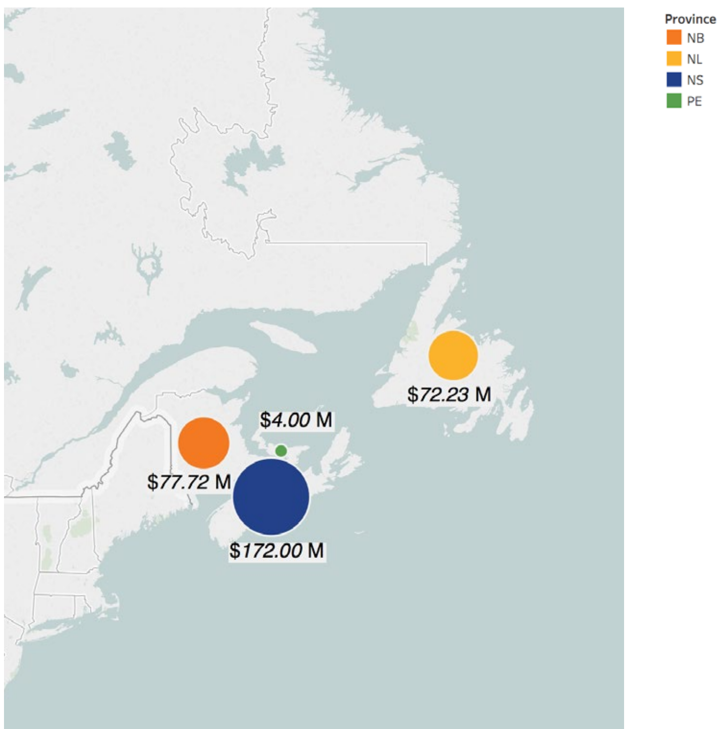


Figure 2.1.2 Total venture capital amount ($M) by province (2013-2017)

New Brunswick has been the most active province in terms of number of VC deals during this same period of time. New Brunswick reported 110 individual deals while Nova Scotia had 62. **(Figure 2.1.3)**.

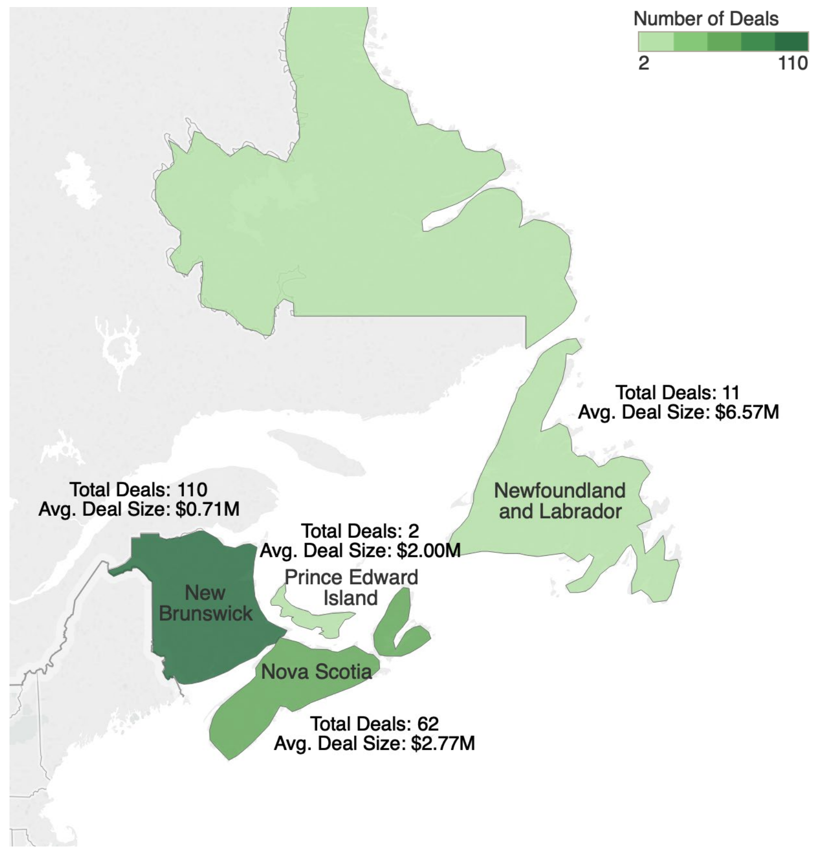
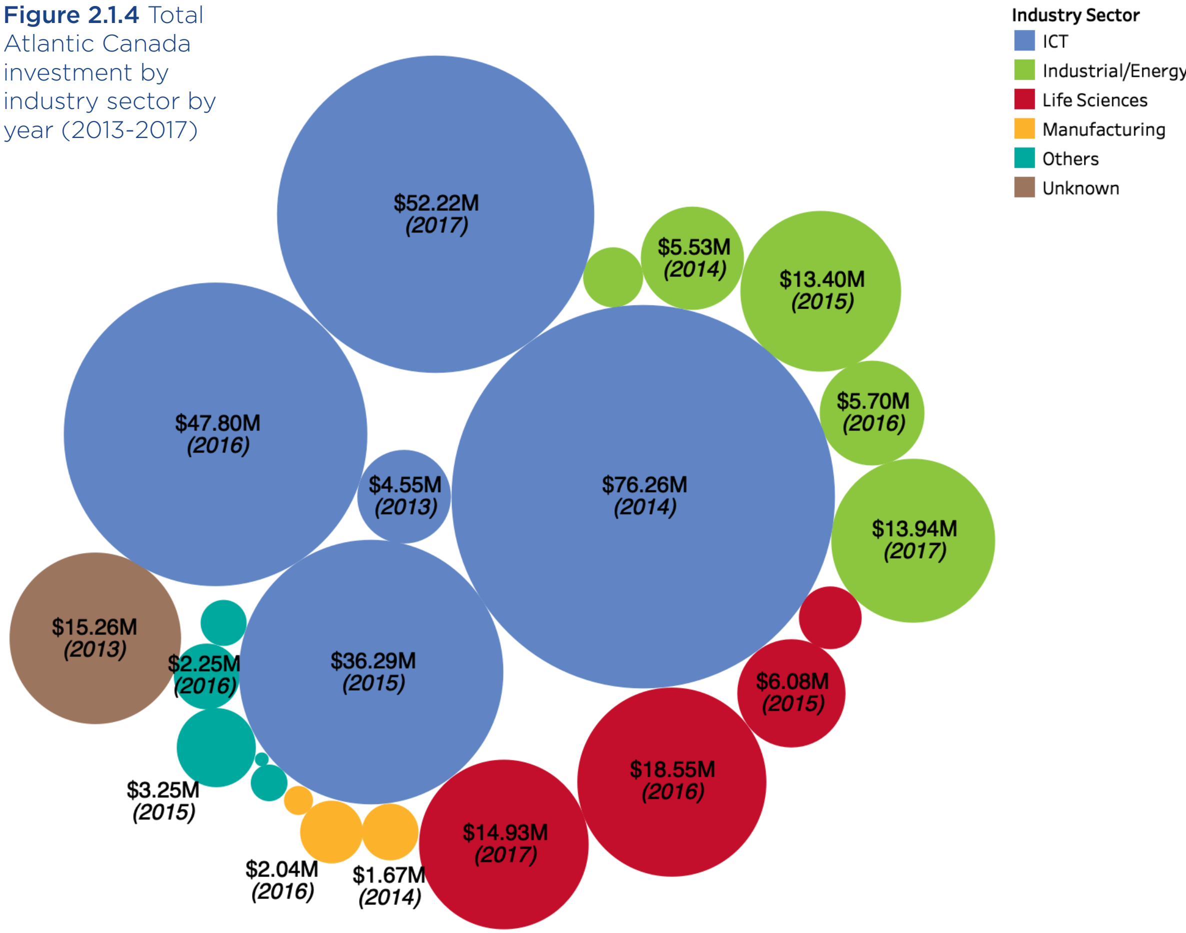


Figure 2.1.3 Total number of VC deals and average deal size by province (2013-2017)

Figure 2.1.4 breaks down the venture capital investment in Atlantic Canada by industry, helping us analyze how the total investments are distributed. ICT continues to be the leading industry in VC with a total of $52.22 million in 2017. This represents 63.21% of the total VC invested, and an increase of $4.42 million from 2016. The Canadian Venture Capital and Private Association (CVCA) reports that ICT made up 71% of the total VC invested in Canada in 2017.

Figure 2.1.4 Total Atlantic Canada investment by industry sector by year (2013-2017)



Other industry sectors in Atlantic Canada, such as life sciences (18.07%) and industrial/energy (16.87%) were led mainly with investments in Nova Scotia.

For details on the distribution of the investment by sector, by province, and by year, please refer to the interactive online tool.

NEW BRUNSWICK

New Brunswick remained active in 2017 with a total of 27 VC deals. Though the number of deals dropped slightly from 31 deals in 2016, it still represents strong performance as the five-year average is 22 deals. This activity has been recognized at a national level. The CVCA reported two cities in New Brunswick (Fredericton and Moncton) within the top 10 of most active cities in Canada in 2017 in terms of number of VC deals. In addition, the New Brunswick Innovation Foundation (NBIF) was recognized as the sixth most active venture capital firm in 2017 in Canada, and the second among the government-funded VC firms.

The total venture capital invested in 2017 was $13.84 million, a big fall from $31.04 million in 2016. This brings New Brunswick to the levels of 2014 and $2 million above the total investment seen in 2015. It indicates 2016 was an exceptional year, which included four large deals that resulted in values well above the five-year average.

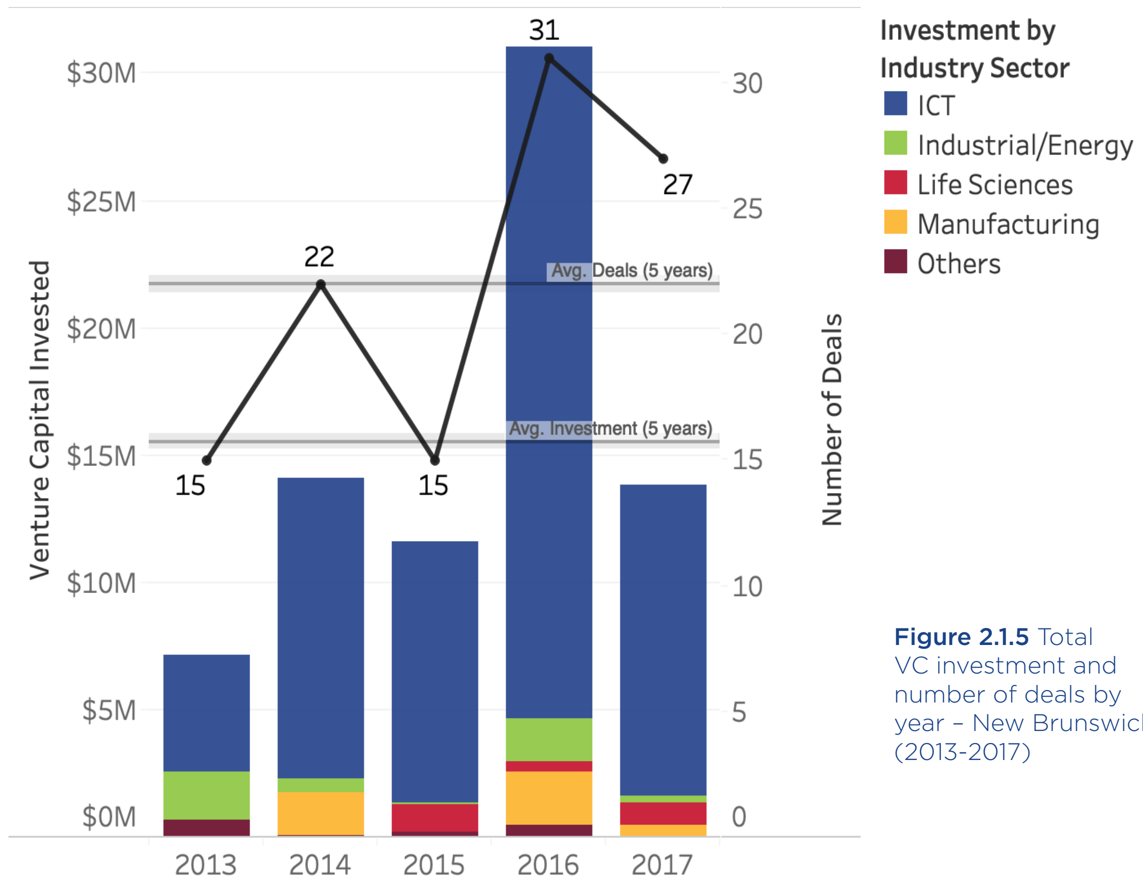


Figure 2.1.5 Total VC investment and number of deals by year – New Brunswick (2013-2017)

INDUSTRY SECTOR

For 2017, the ICT sector remains the most active sector raising 88.44% ($12.24 million) of the total VC in New Brunswick. The five-year trend shows ICT as the leading sector with $65.25 million (83.96%) of the total VC raised since 2013 ($77.72 million).

The remaining industry sectors remain volatile year-over-year, and they represent a small portion of the total investment.

As noted, the value of VC funding in New Brunswick's ICT sector represents a higher portion than the rest of Canada in terms of concentration of investment. New Brunswick will need to broaden its investment strategy if it plans to grow all sectors of the economy.

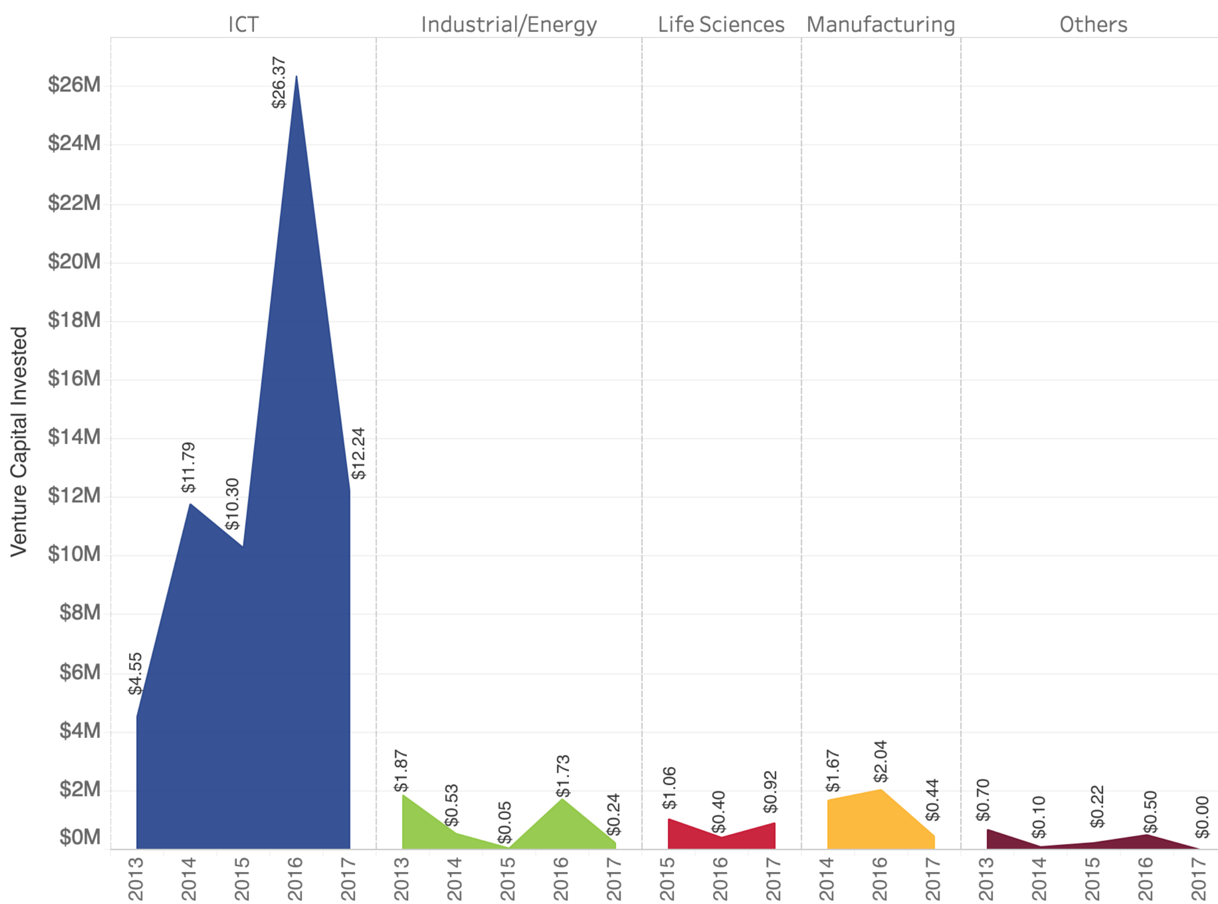


Figure 2.1.6 VC investment by industry sector – New Brunswick (2013-2017)

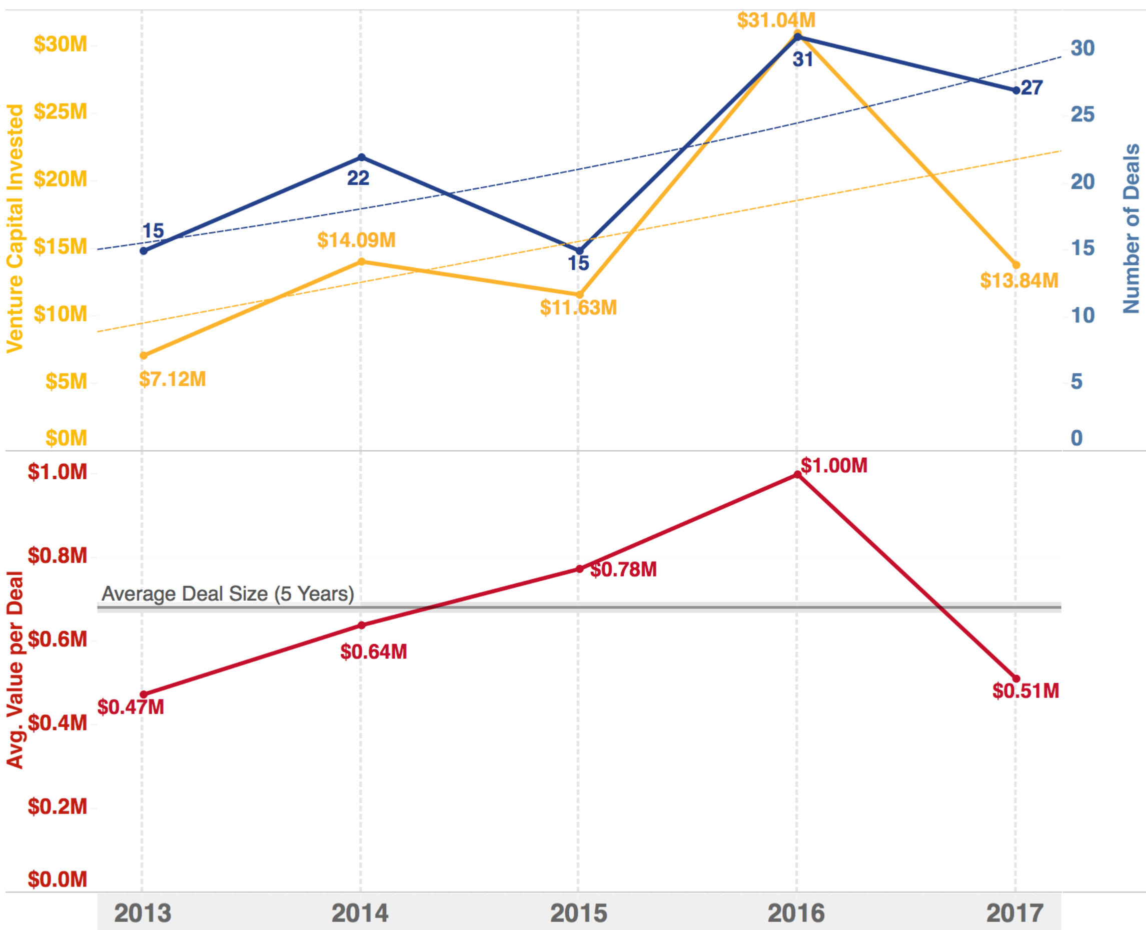


Figure 2.1.7 VC investment, number of deals and average deal size – New Brunswick (2013-2017)

New Brunswick's 2017 results showed the average deal size shrank to $0.51 million from $1 million in 2016. This result interrupts the trend we have observed since 2013 where the average size deal was consistently increasing. The average deal size over the last five years is $0.68 million.

Overall, the trend for the number and size of deals continues to grow, showing a healthy VC environment in the province.

ICT had the highest average deal size in 2017 with investments per deal of $0.55 million in comparison to $0.32 million for all the other industry sectors.

For details on average deal size by industry sector, refer to the interactive online tool.

DISTRIBUTION BY DEVELOPMENT STAGE

Reviewing the VC distribution by development stage helps to assess how successful NB companies are at raising venture capital throughout their life cycles.

At the seed and early stages, the number of deals dropped to 13 in 2017 from 19 in 2016. Furthermore, the amount invested dropped by more than 50% to $4.56 million from $9.80 million in 2016. This represents the smallest amount invested in the last five years. Though the trend in value is down, the trend in number of deals remains constant providing additional opportunity for future investing at later stages. The average deal size also decreased by 32.69%. The ICT sector had an average deal size of $0.34 million, smaller than the other industry sectors of $0.39 million. This is most likely explained by ICT firms often requiring smaller amounts of capital in the early stages of development, as opposed to other sectors such as energy and life sciences.

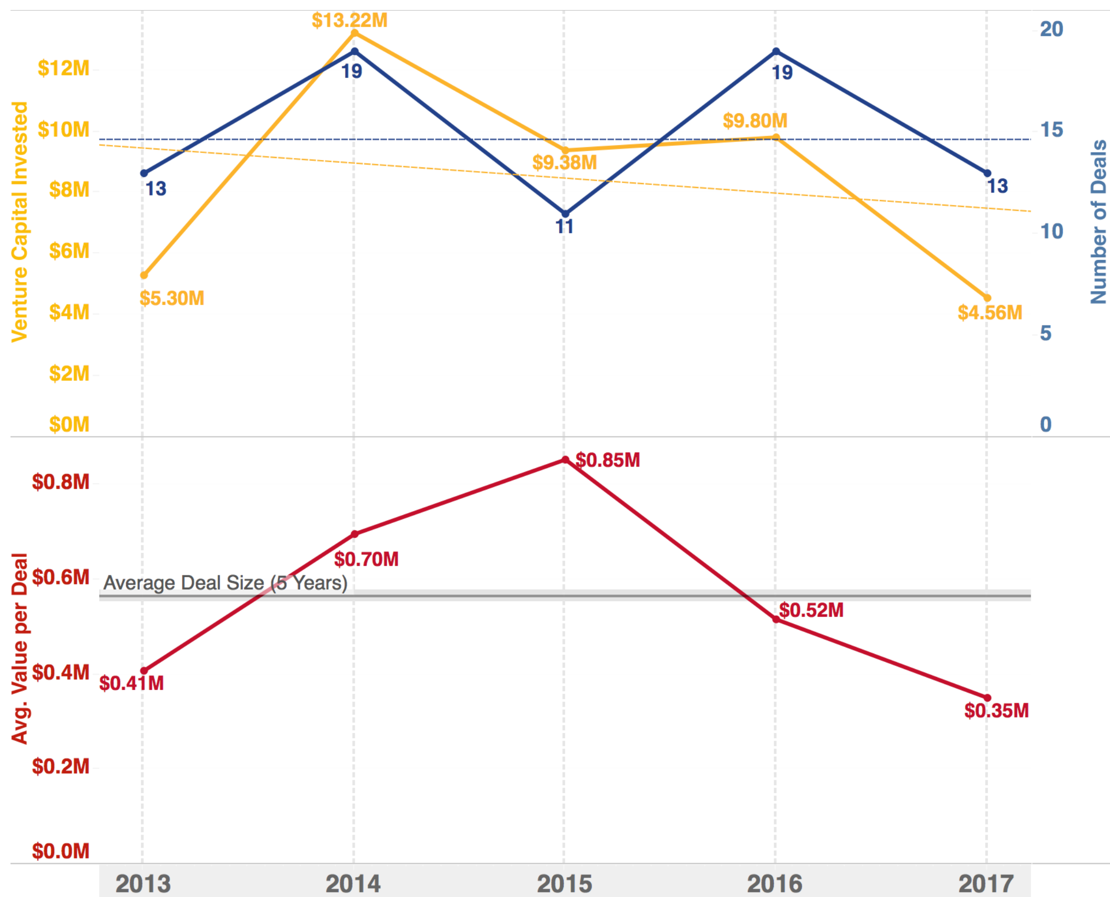


Figure 2.1.8 VC investment, number of deals and average deal size – Seed/Early stages - New Brunswick (2013-2017)

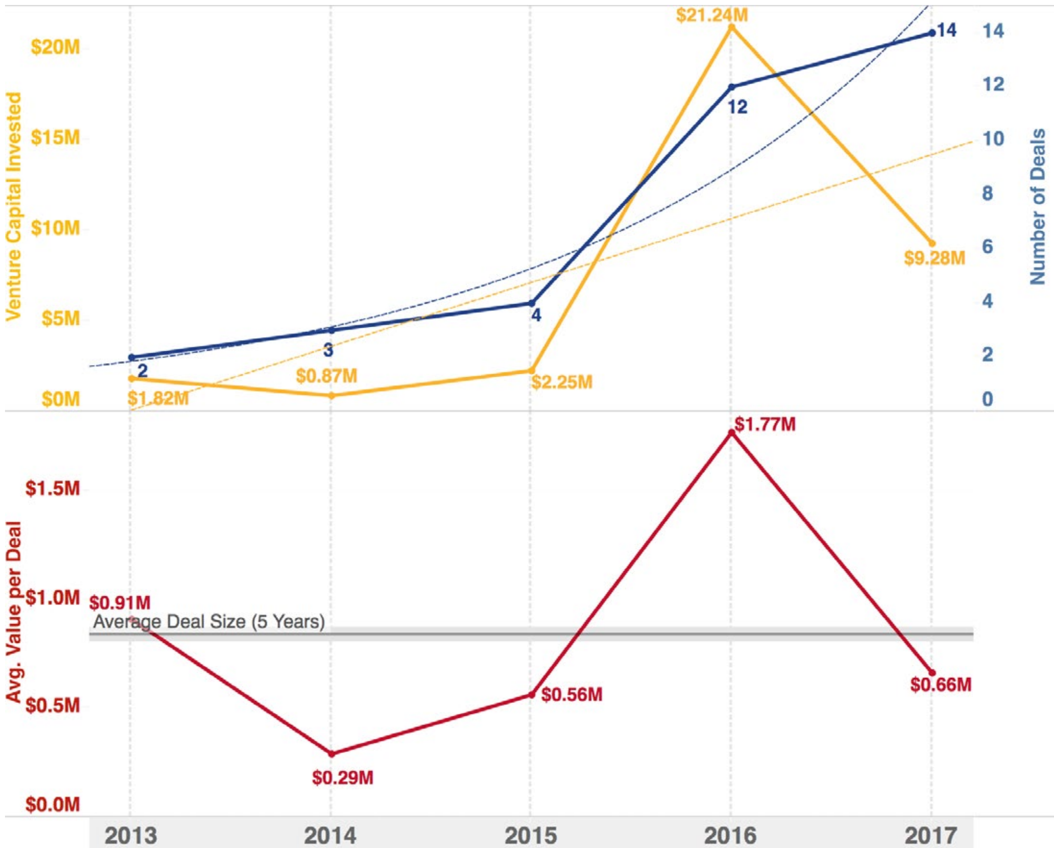


Figure 2.1.9 VC investment, number of deals and average deal size – Expansion/Later stages - New Brunswick (2013-2017)

Companies in the expansion and later stages of development continue to increase the number of deals. We had predicted in prior reports that the support for early and seed companies by VC firms would likely produce more later and expansion type investment. This chart appears to show NB is trending in this direction.

VC firms in 2017 completed 14 deals, and represent twice the average number of deals based on a five-year average (7). Though the total capital invested in 2017 dropped to $9.28 million, down from $21.24 million, such investment still accounts for more than five times the average investment of the three years prior to 2016.

Based on historic trends, 2016 was an exceptional year with several large deals. This year, the average deal size for these stages shrank by 62.71%, however, that result is similar with years other than 2016. The ICT sector was the leading sector in average deal size for firms in these stages.

FUNDING ROUNDS

This year, we also reviewed companies that are raising money for the first time and those that have raised funds more than once over the last five years.

The results show that 62 companies were included in the 110 VC deals performed in the last five years. That represents an average number of rounds per company of 1.77. There were 33 companies (53.22%) that have raised funds in more than one round. Of these, 26 have raised funds in multiple years, showing the willingness for investors to continually support New Brunswick companies as they evolve and grow.

This continual funding for New Brunswick companies shows the support our companies are receiving, as well as the relative strength of our VC funded firms in that they are able to grow and attract additional investment.

New Brunswick has one ICT company providing solutions for the healthcare sector, which has raised funds in six different rounds, attracting yearly investment since 2013.

Two firms, in the software and hardware technology sector, have raised funds five different times, and two other firms have raised funds four different times. The companies noted are currently active and continue to grow in New Brunswick.

In the last five years...

62 companies performed 110 venture capital deals.

1.77 deals per company, on average.

53.22% of the companies raising venture capital performed more than one funding round.

2.2 Exempt Markets

TOTAL INVESTMENT USING THE EXEMPT MARKETS

The value of funds raised using the exempt markets in New Brunswick increased by $71.63 million in 2017 to $91.11 million. Cumulative investment from 2013 to 2017 reached $992.76 million, with 84 issuers raising these funds. These results continue to show the importance of one-off large deals that were noted in 2013 and 2015 of $312.39 million (energy) and $250.00 million (agriculture), respectively.

The number of issuers in 2017 decreased to 10, down from 16. It represents a decrease for the fifth consecutive year. The total investment, and number of issuers by year, can be seen in Figure 2.2.1 below.

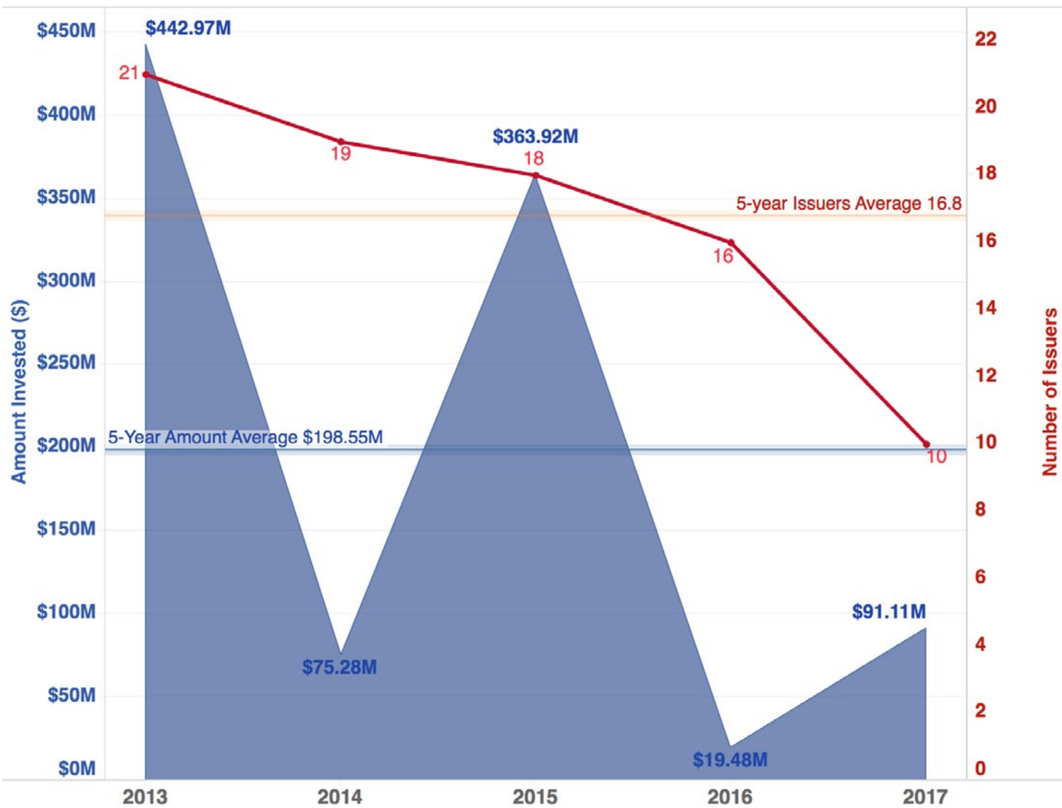


Figure 2.2.1 Total exempt markets investment and number of issuers – New Brunswick (2013-2017)

TYPE OF INVESTMENT - DEBT VS EQUITY (2013-2017)

Over the past five years, debt has been the investment vehicle of choice and was heavily weighted in 2013. There has been a more balanced weighting from 2014 to 2016, however, the investments noted in 2017 showed a return to a preference for debt with $79.79 million (87.57%) and $11.32 million (12.43%) in equity.

Figure 2.2.2 shows the split of the exempt market by type of investment within the last five years.

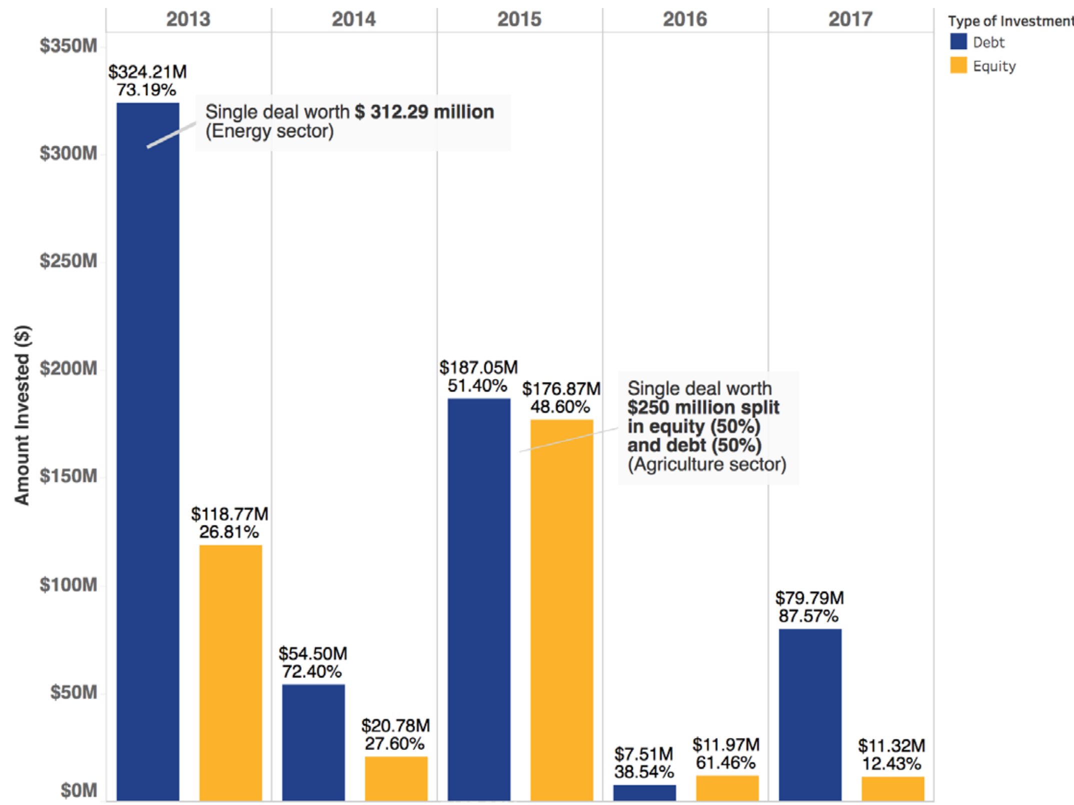


Figure 2.2.2 Exempt markets by type of investment – New Brunswick (2013-2017)

EXEMPT INVESTMENT BY TYPE OF SECURITIES (CUMULATIVE 2013 – 2017)

There appears to be two obvious preferences in New Brunswick, as companies issued $610 million worth of bond notes and $233 million worth of equity units over the past five years. Preferred shares, common shares, bonds and debentures, though significantly smaller, are other popular types of securities within this period of time.

Figure 2.2.3 shows further details about the historical distribution by type of security.

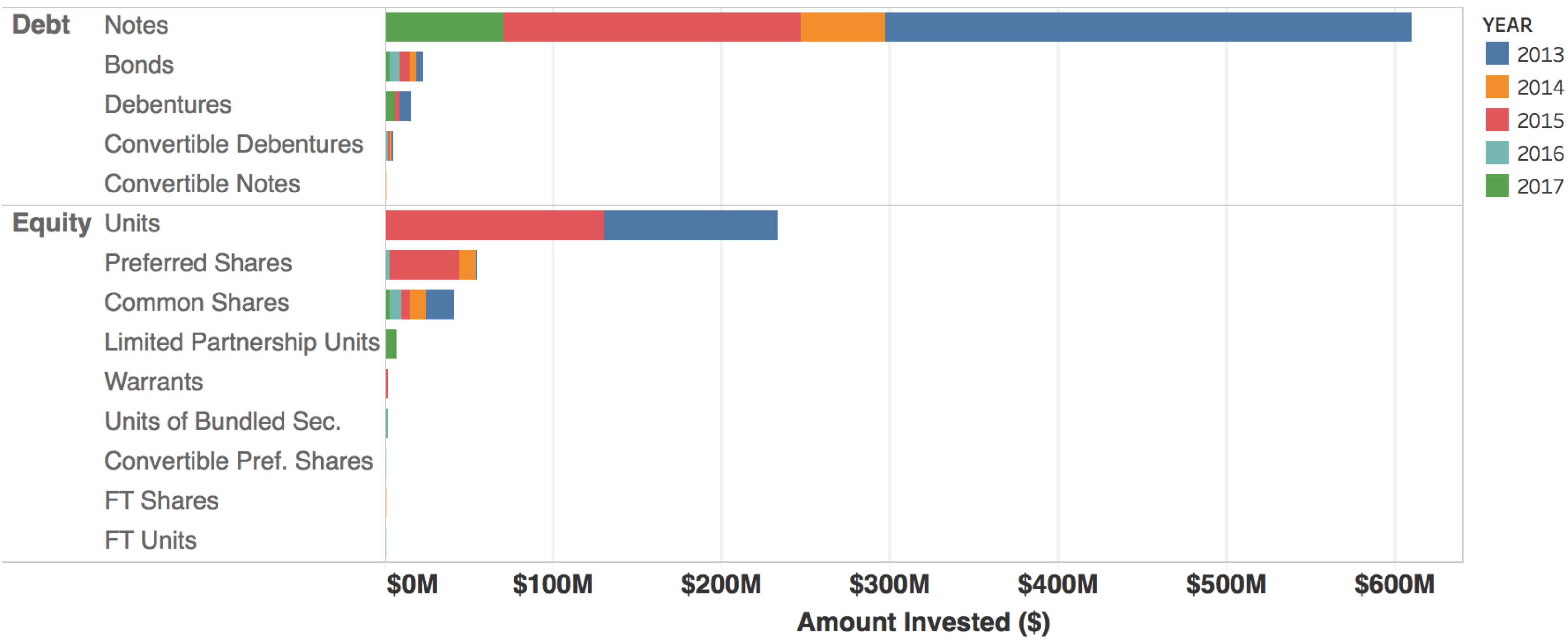


Figure 2.2.3 Cumulative total exempt markets investment by type of security (2013-2017)

EXEMPT INVESTMENT BY TYPE OF INDUSTRY (2013-2017)

Exploring the historical trends by industry sector and type of investment provides insight into which sectors prefer debt vs equity, and which sectors are most active at raising funds.

In **Figure 2.2.4** below, it is observed that energy, agriculture and ICT sectors are the leading sectors in terms of the amount of investment raised during the last five years, though their preference for investment type varies. The energy sector is almost exclusively debt, while agriculture and ICT are a more balanced mix of debt and equity.

Real estate, life sciences and mining are the most consistent sectors, as they have raised funds annually since 2013.

The results also reflect that mining, manufacturing and life sciences sectors prefer raising equity as opposed to real estate and energy sectors where debt is the most common debt instrument issued.

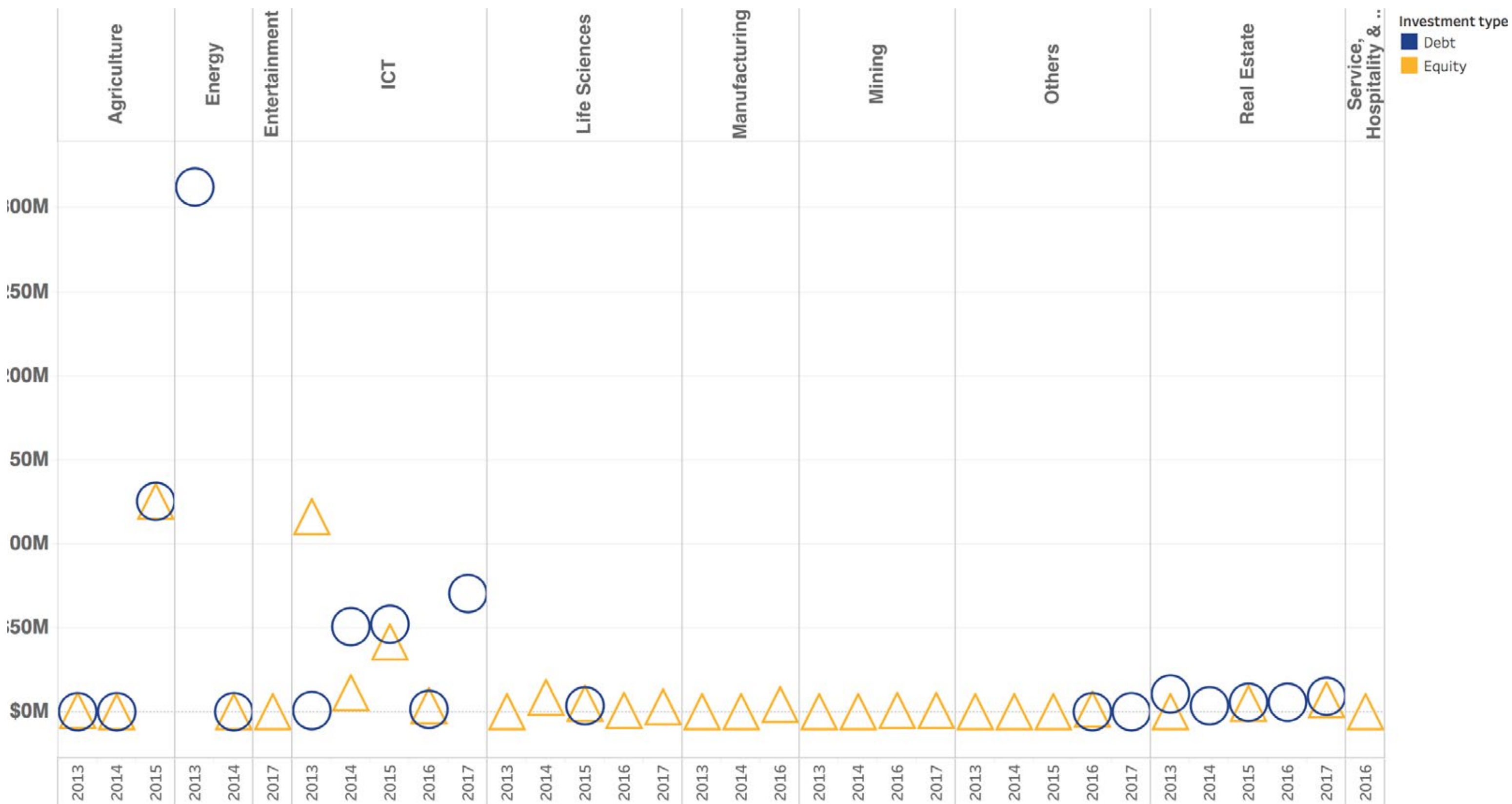


Figure 2.2.4
Historical exempt markets investment by sector and type of investment (2013-2017)

EXEMPT MARKETS DISTRIBUTION BY INVESTOR LOCATION (CUMULATIVE 2013-2017)

Over the last five years, Ontario has provided the majority of funds raised in New Brunswick's exempt markets with a cumulative total investment of $338.78 million. This was followed by Quebec with investments of $273.47 million, and the United States was third with $270.54 million. New Brunswick investors continue to support their own companies with cumulated investments totaling $43.85 million.

Figure 2.2.5 Cumulative exempt markets investment by geographic source (2013-2017)

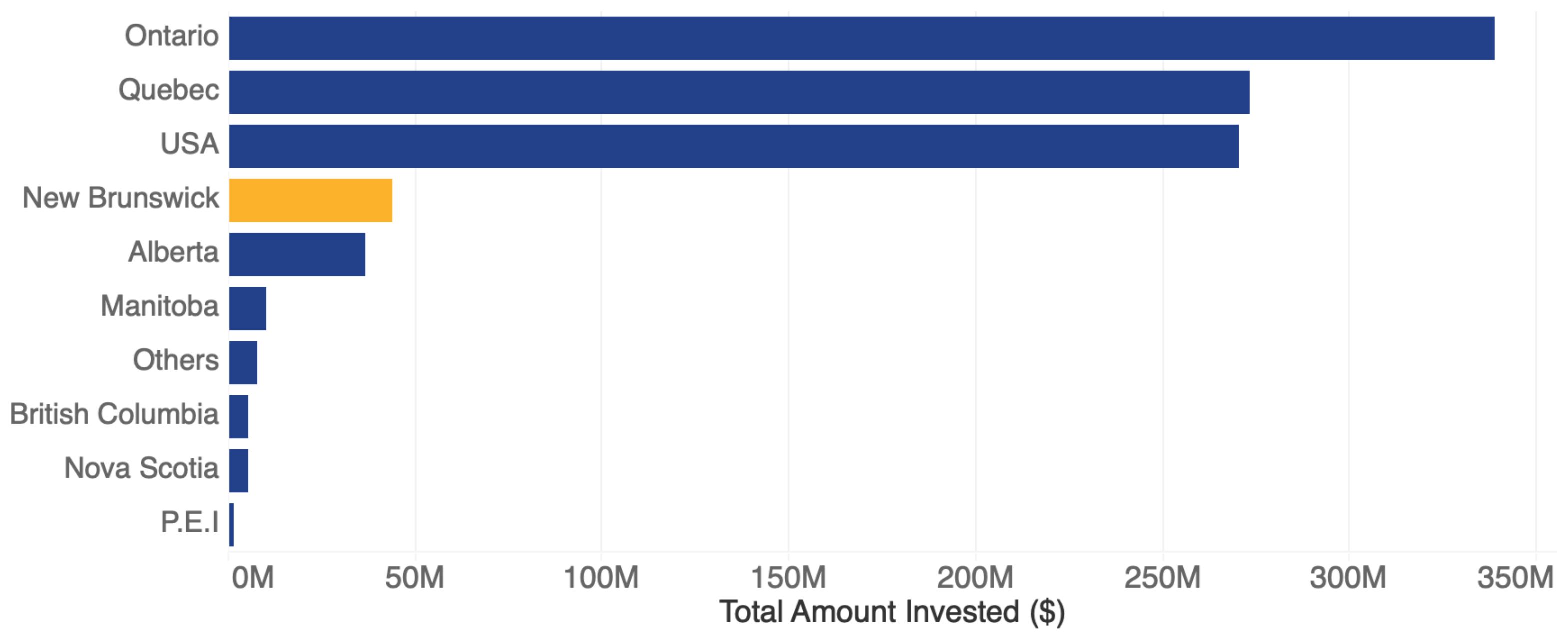
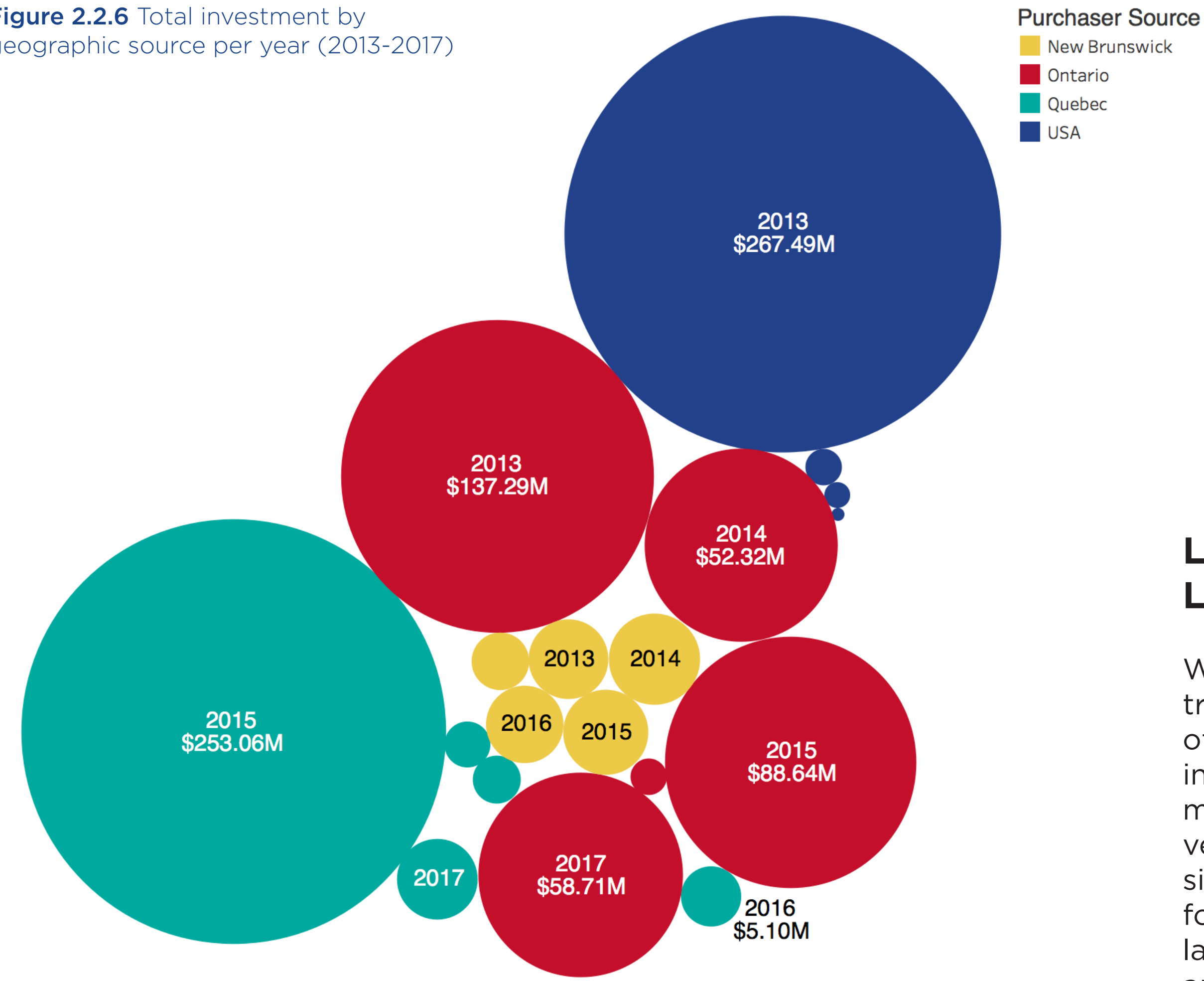


Figure 2.2.6 Total investment by geographic source per year (2013-2017)



LARGEST INVESTORS BY LOCATION AND YEAR

We have analyzed, in **Figure 2.2.6**, the trend of the cumulative investment of the top four geographic sources investing in New Brunswick's exempt markets. The results show USA was very active in 2013, but has not made significant investments over the last four years. Ontario was active with large investments in 2013, 2014, 2015 and 2017. Quebec provided the largest investment in 2015 and has continued investing in New Brunswick's exempt markets since then. New Brunswick shows consistent contributions year-over-year since 2013.

HOW ARE THE SOURCES OF EXEMPT MARKETS INVESTMENTS IN NEW BRUNSWICK DISTRIBUTED GLOBALLY?

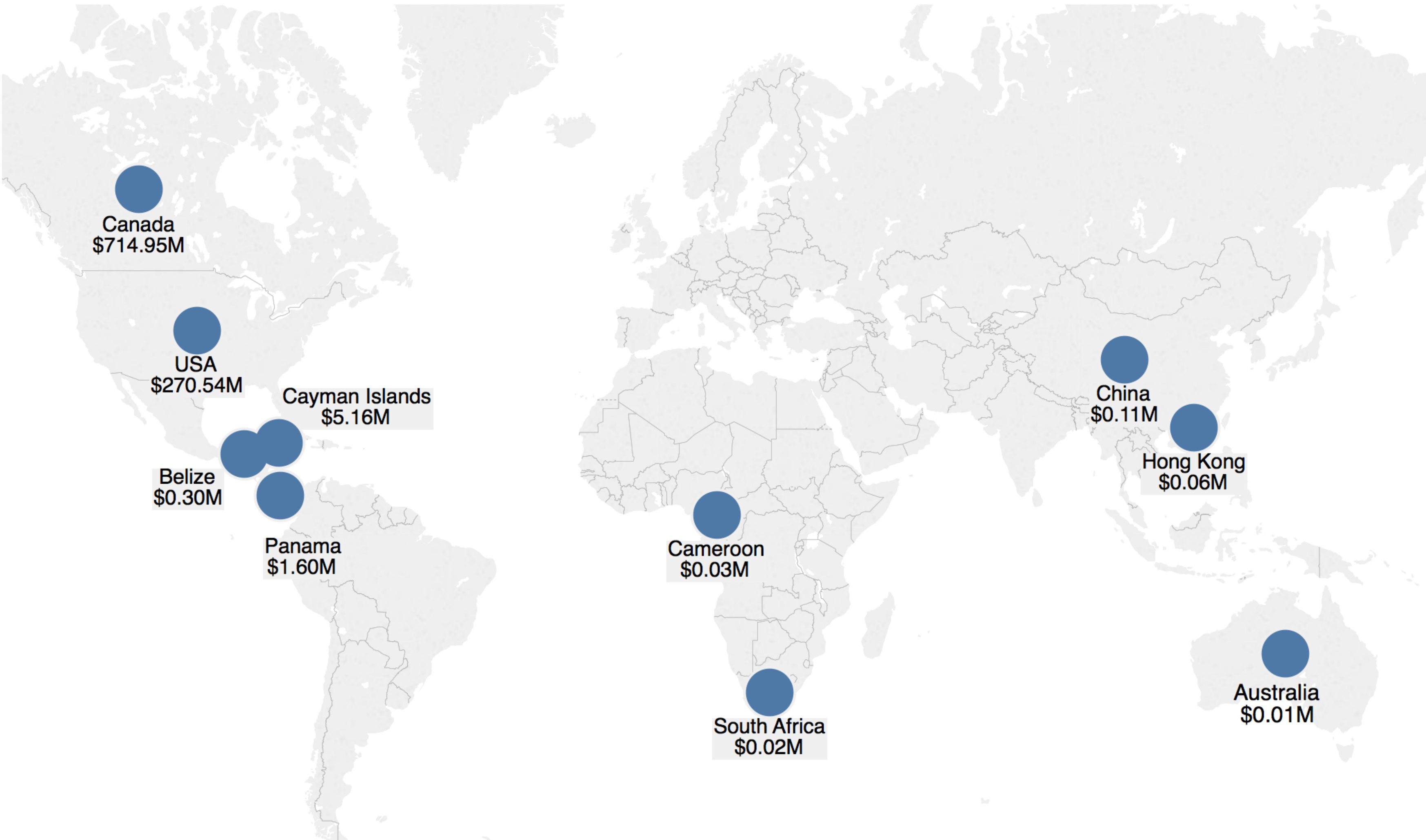


Figure 2.2.7 Cumulative exempt investment by country (2013-2017)

THE SOURCES OF EXEMPT MARKETS INVESTMENTS IN NEW BRUNSWICK FROM ACROSS CANADA

The historical picture of the exempt markets in New Brunswick over the last five years illustrates that Ontario and Quebec have dominated in terms of amount invested by province. New Brunswick, Alberta and Manitoba complete the top five. In terms of investments by industry, Quebec invested heavily in agriculture ($250 million), while Ontario investments have mainly gone towards ICT ($293 million) and energy ($35.15 million). New Brunswick investments were largely in the ICT sector reaching $20.37 million, followed by agriculture at $1.58 million. Manitoba has been active in the energy sector ($9.90 million), while Alberta and Nova Scotia have mainly supported the ICT sector ($28 and $4.69 million, respectively). Finally, investors from British Columbia, Saskatchewan and Yukon have invested mostly in life sciences and real estate.

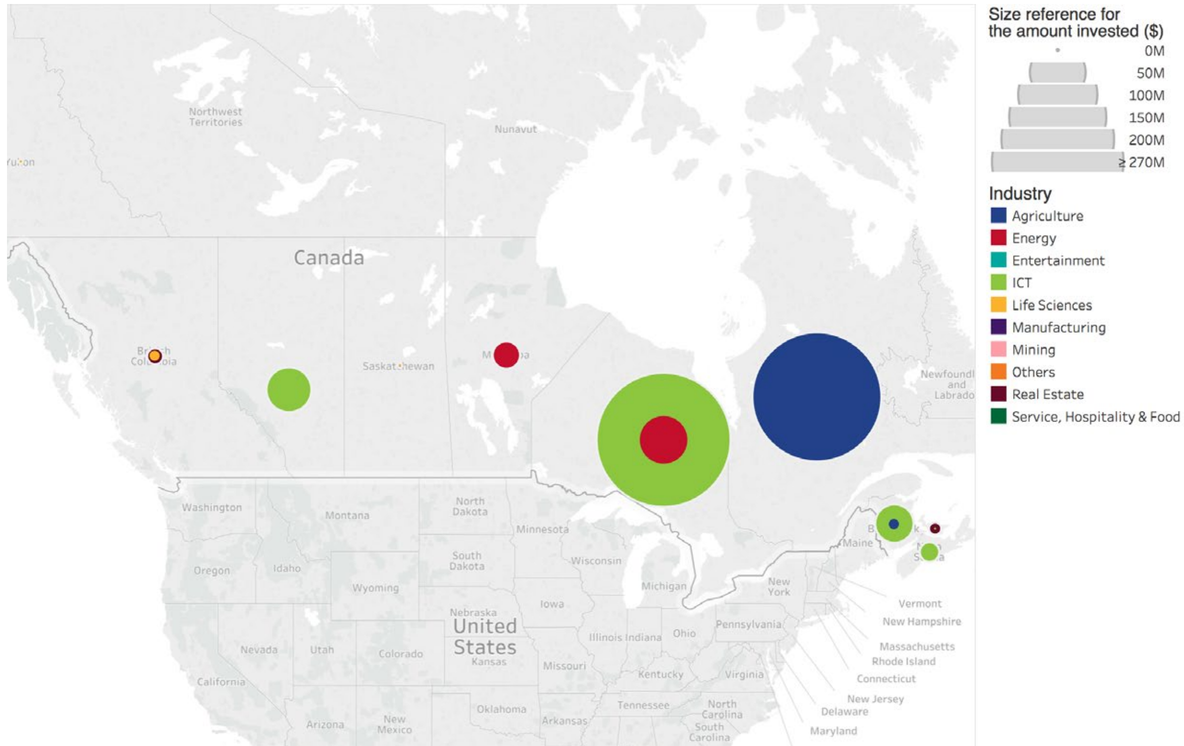


Figure 2.2.8 Cumulative total investment by province by industry sector (2013-2017)

WHAT INDUSTRIES HAVE NEW BRUNSWICKERS INVESTED IN SINCE 2013 USING THE EXEMPT MARKETS?

This year, we have drilled down into the historical distribution by industry sector of exempt markets investments coming from New Brunswick. It provides insights into the preferred sectors of New Brunswickers that are investing in the exempt markets. The results reflect that ICT is the leading sector with a total investment of $20.37 million (46.45%) over the last five years. Real estate comes second with a total investment of $12.89 million (29.39%) and life sciences reaches third place with a total investment of $3.92 million (8.94%).

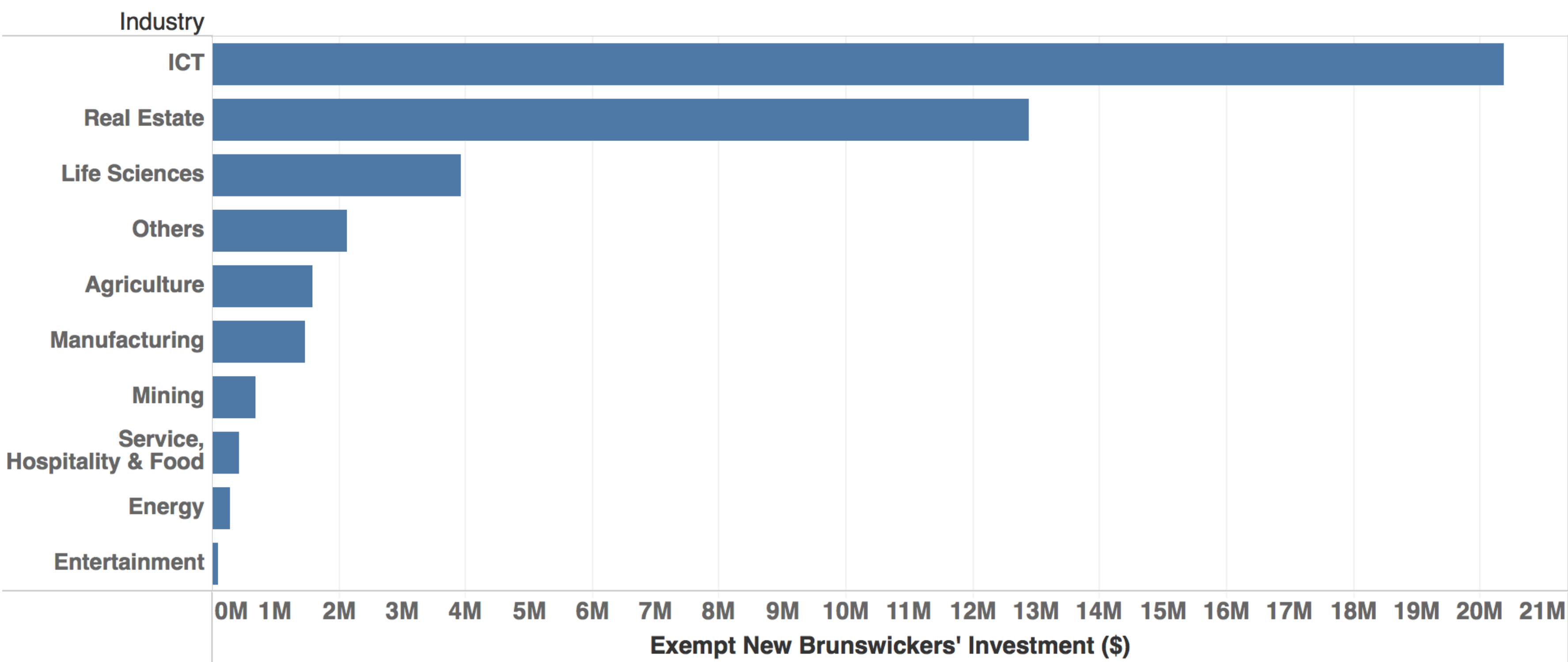


Figure 2.2.9 Cumulative investments in exempt markets by New Brunswickers by industry sector (2013-2017)

EXEMPT MARKETS DISTRIBUTION BY EXEMPTION AND INVESTMENT TYPE

Looking at the investment distribution by investment type helps to understand the investors' behaviour, their preferences and how these preferences have changed over time.

Figure 2.2.10 shows shifting behaviour by accredited investors. This type of investor used to prefer debt over equity, as was evidenced in 2013 and 2014. However, in 2015 and 2016, a more balanced scenario is evident, indicating investors were open to a mixed investment portfolio.

Investors relying on the family, friends and business associates exemption have typically invested mostly in equity. However, there was a mixed result in 2017, with debt representing slightly higher than 50% of the total investments made by this type of investor.

Results for upcoming years will be monitored to determine whether the numbers in 2017 are the start of a shifting trend.

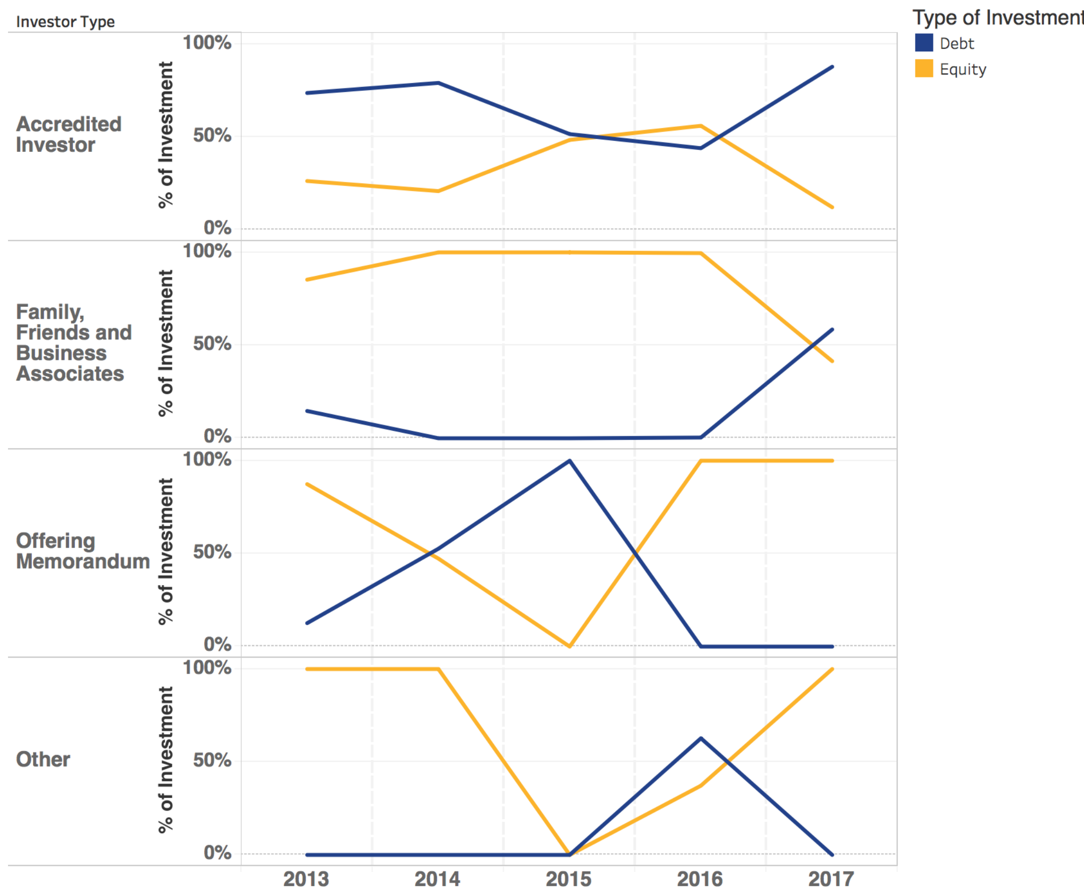


Figure 2.2.10 Comparison by type of investor – Exempt distribution by investment type

2.3 Public Companies

Publicly listed companies can raise capital through public markets, such as the Toronto Stock Exchange (TSX) or through the exempt markets.
In 2017, public companies raised $57.50 million through public markets and $16.26 million through the exempt markets for a total of $73.76 million. A company in the life sciences sector raised $57.50 million in the public markets this year.

Companies within the life sciences sector have raised $147.28 million since 2013, while companies in the real estate industry raised $139.77 million.

Figure 2.3.1 shows the distribution of capital raised by public companies by year and industry sector since 2013.

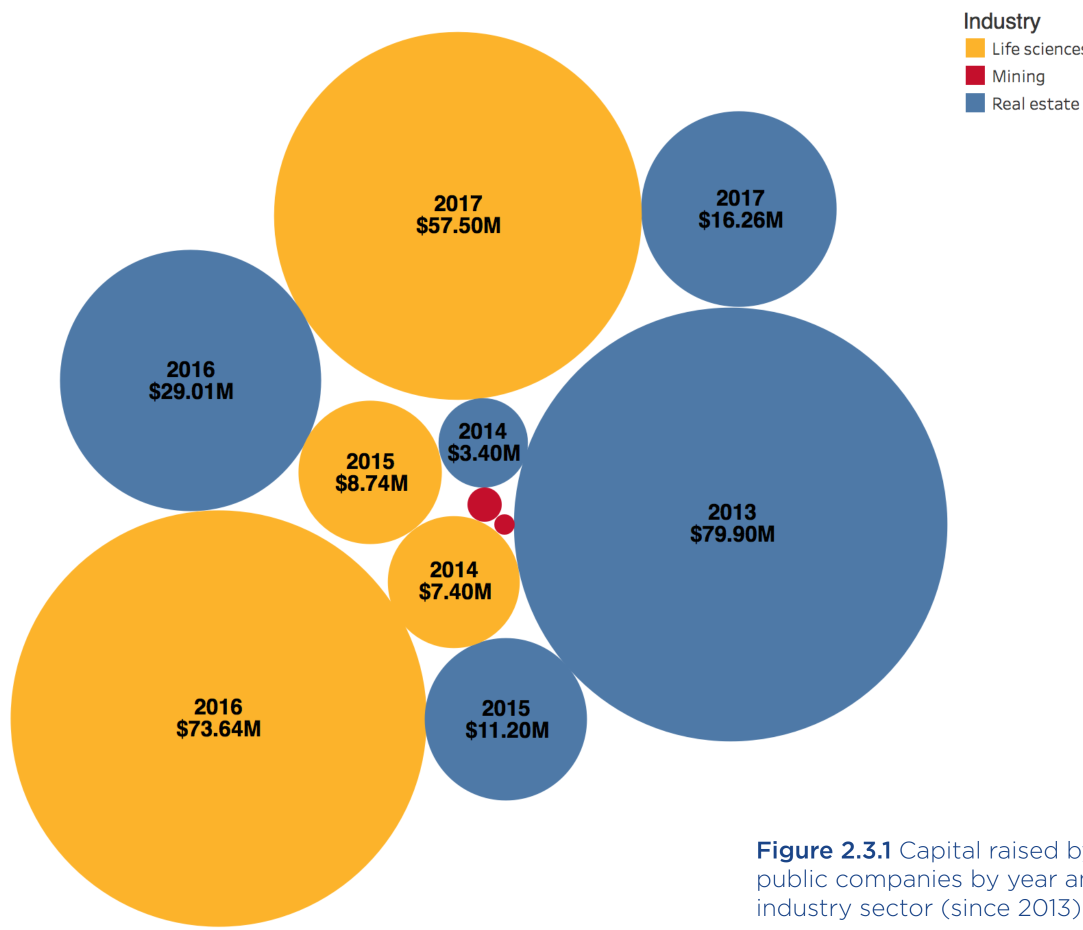


Figure 2.3.1 Capital raised by NB public companies by year and industry sector (since 2013)

The cumulative capital raised since 2013 by New Brunswick's public companies is $287.73 million. This figure is made up of $226.15 million through the public markets and $61.58 million through the exempt markets.

Figure 2.3.2 below shows public companies raise more capital through public markets, however, are also very active within the exempt markets.

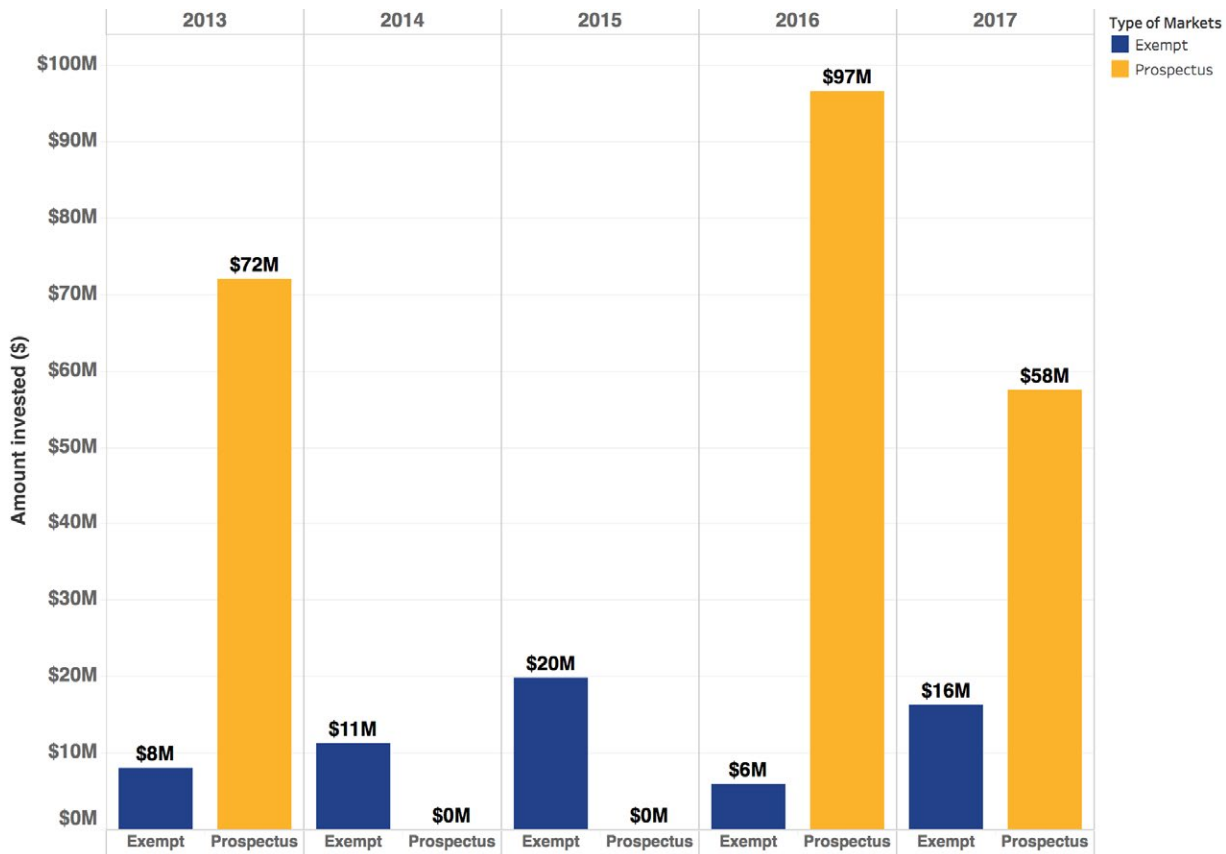


Figure 2.3.2
Distribution of capital raised by public companies by type of markets

3. MERGERS AND ACQUISITIONS

TOTAL INVESTMENT IN MERGERS AND ACQUISITIONS (M&A)

M&A was very active in New Brunswick in 2017. This year, the highest number of transactions (25) in the last five years was recorded. Research into M&A activity is hampered as the information on the transaction values were only disclosed in nine out of the 25 deals. The total amount invested this year was $1,147.46 million, which represents the highest total amount invested in the last five years. These results were led by a couple of large, single deals in the agriculture sector worth $625 million and $315 million.

The cumulative totals for the last five years show a total of 91 M&A transactions; 36 of these transactions disclosed the deal value and totaled $1.82 billion.

In the last five years, New Brunswick's firms were the acquirer in 38 deals. The disclosed total transaction amounts equal $1.08 billion. On the opposite side, New Brunswick's firms were the target in 63 deals totaling $746.55 million (among the deals where amounts were disclosed).

This information is based on Thomson Reuters' data and our own research.

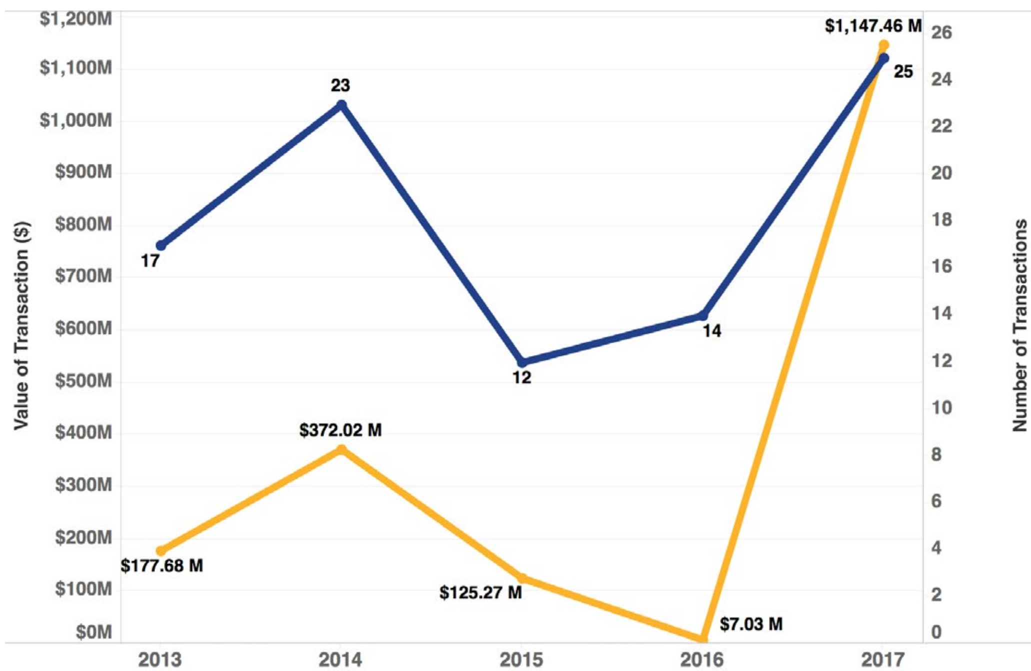


Figure 3.1 Historical investment and number of transactions in M&A in New Brunswick

M&A BY INDUSTRY IN 2017

M&A was very active in New Brunswick this year. In terms of number of deals, the largest activity was recorded in the business services, wholesale & others sector, and the service/hospitality sector with a total of six deals each. ICT came in third place with three deals. Other sectors with M&A activity are agriculture, forestry, and fishing sectors as well as, healthcare, insurance, transportation, energy and mining sectors.

The industry sector with the total largest disclosed amount is agriculture, forestry, and fishing with $940 million, followed by business services, wholesale & others with $117.43 million and the healthcare sector with $90.03 million. The transaction values for other sectors have not been disclosed. Details are presented in Figure 3.2.

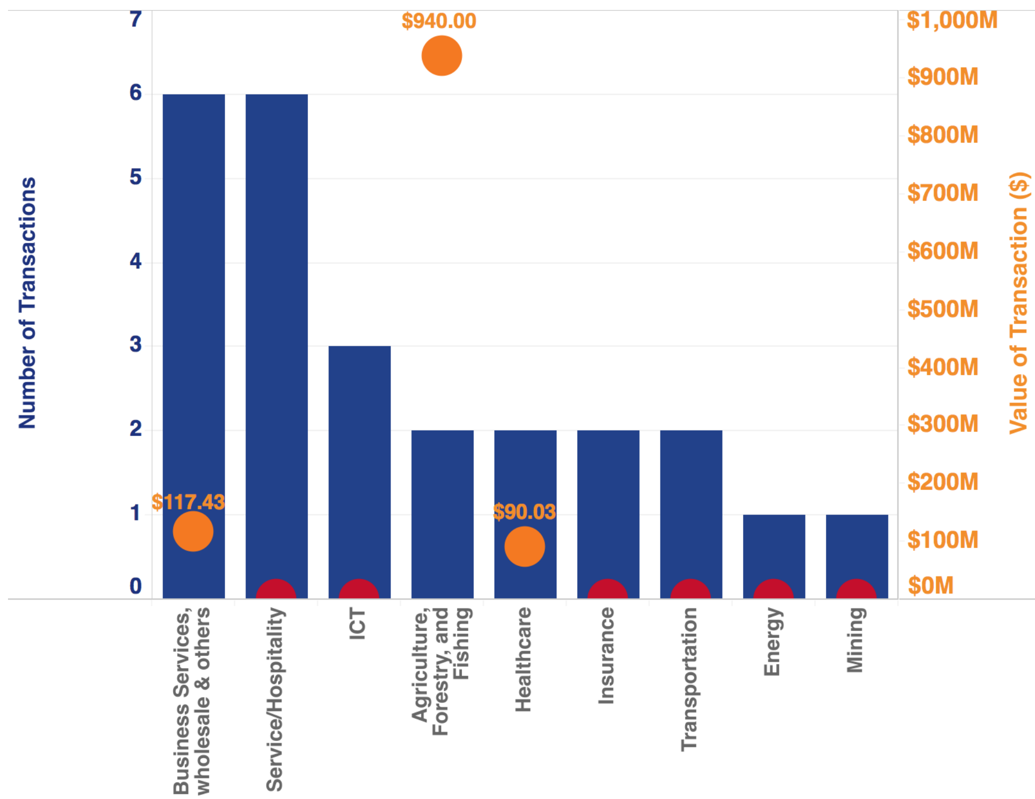
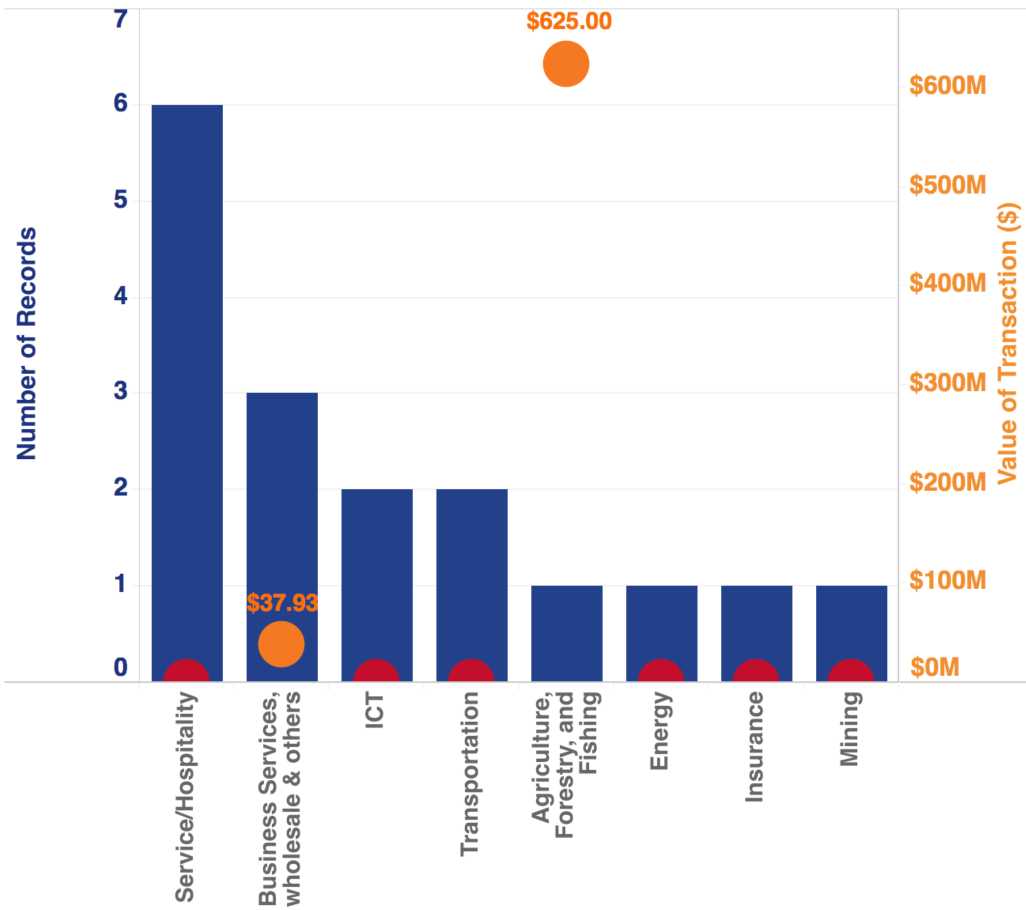


Figure 3.2 Number of M&A deals and transactions amounts by industry in 2017

3

Figure 3.3 Number of M&A deals and transactions amounts by industry – New Brunswick firms as the acquirer



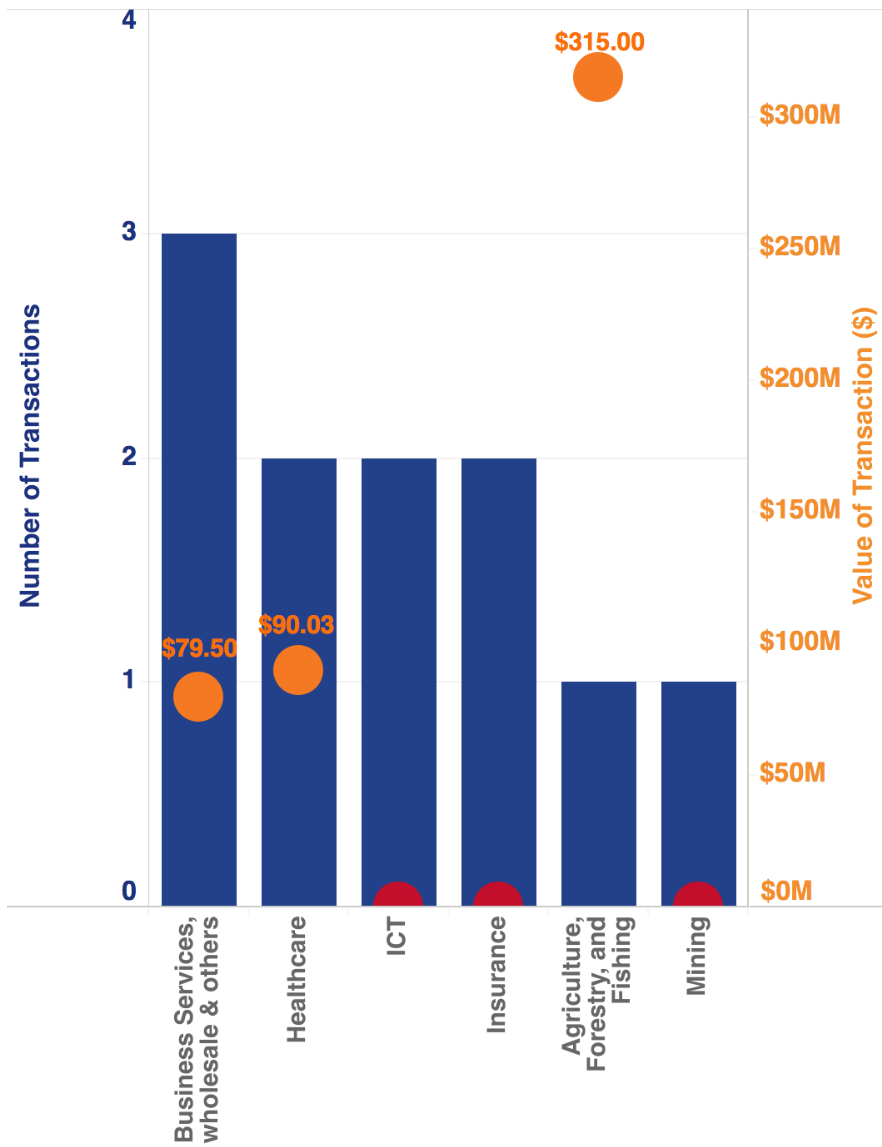
NEW BRUNSWICK FIRMS AS THE ACQUIRER IN 2017

The number of transactions with New Brunswick firms as the acquirer was 17 in 2017. The most active sector was service/hospitality with six deals. Business services, wholesale & others sector recorded three deals, followed by ICT and transportation with two deals each. The largest disclosed transactions were recorded in the agriculture, forestry, and fishing sector with $625 million, followed by the business services, wholesale & others sector with $37.93 million.

NEW BRUNSWICK FIRMS AS THE TARGET IN 2017

The number of transactions with New Brunswick firms as the target was 11 in 2017. The most active sector was business services, wholesale & others with three deals. Healthcare, ICT and insurance sectors recorded two deals each. The largest disclosed transactions were recorded in the agriculture, forestry, and fishing sector with $315 million, followed by the healthcare sector with $90.03 million.

Figure 3.4 Number of M&A deals and transaction amounts by industry with New Brunswick firms as the target



LARGEST SINGLE M&A DEALS

This year, we evaluated the top 10 M&A deals **(Figure 3.5)**, involving New Brunswick firms in the last five years. The agriculture, forestry, and fishing sector occupies the top three of the largest disclosed single deals, followed by real estate and the healthcare sectors. The largest number of deals in the top 10 took place in 2017 and 2014.

Acquiror Location	Target Location	Target Industry Sector	Value	Year
New Brunswick	United States	Agriculture, Forestry, and Fishing	$ 625.00	(2017)
Norway	New Brunswick	Agriculture, Forestry, and Fishing	$ 315.00	(2017)
New Brunswick	United Kingdom	Agriculture, Forestry, and Fishing	$ 224.44	(2014)
New Brunswick	Ontario	Real Estate	$ 122.79	(2013)
Ontario	New Brunswick	Healthcare	$ 88.04	(2017)
British Columbia	New Brunswick	Service/Hospitality	$ 74.98	(2015)
United States	New Brunswick	Business Services, wholesale & others	$ 55.55	(2017)
United States	New Brunswick	Healthcare	$ 52.00	(2014)
Quebec	New Brunswick	Agriculture, Forestry, and Fishing	$ 47.00	(2014)
New Brunswick	Ontario	Mining	$ 39.25	(2014)

Figure 3.5 Top 10 largest M&A deals involving New Brunswick firms since 2013

WHAT ARE THE TARGET MARKETS FOR NEW BRUNSWICK FIRMS AS THE ACQUIRER IN THE LAST FIVE YEARS?

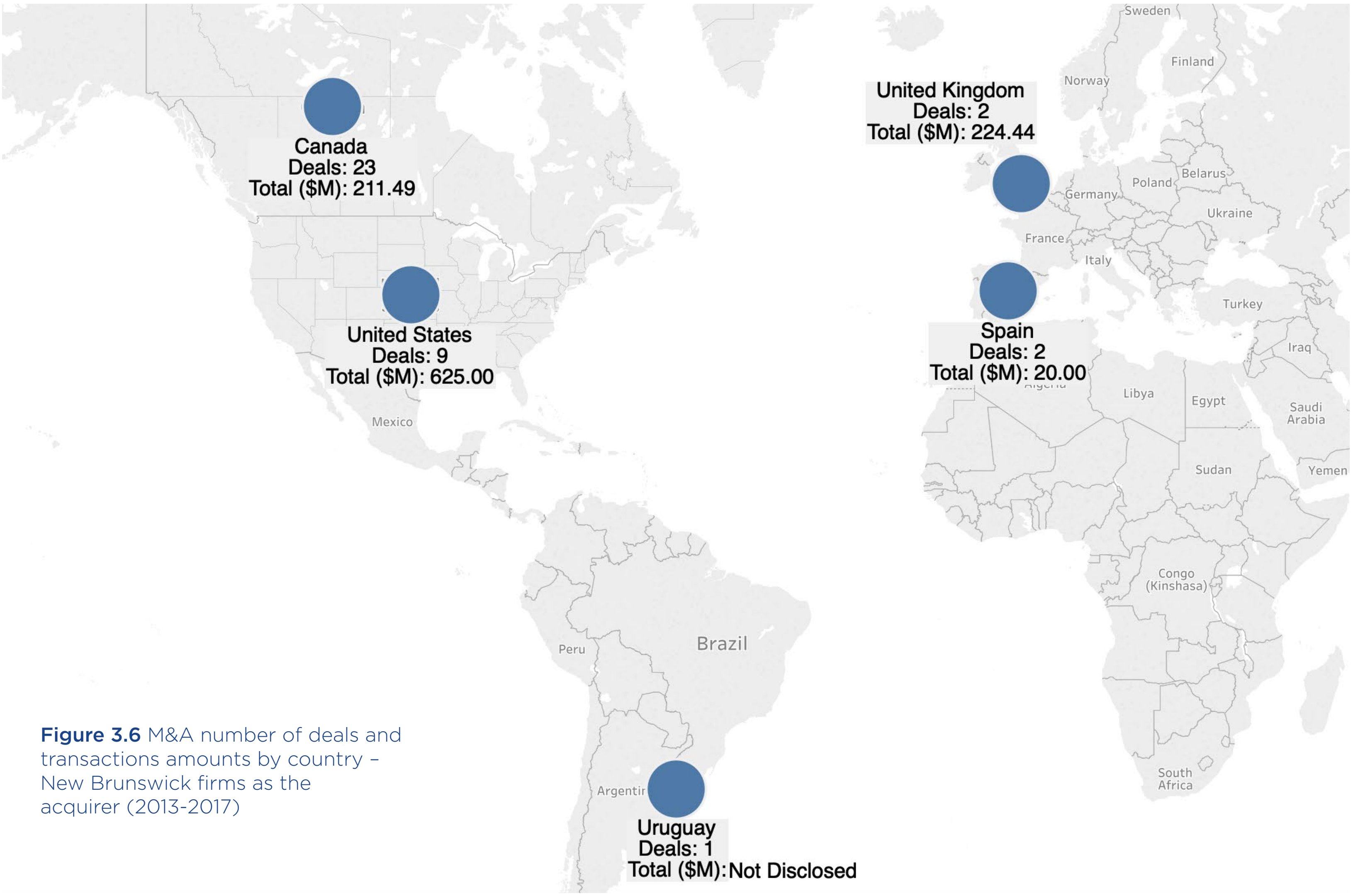


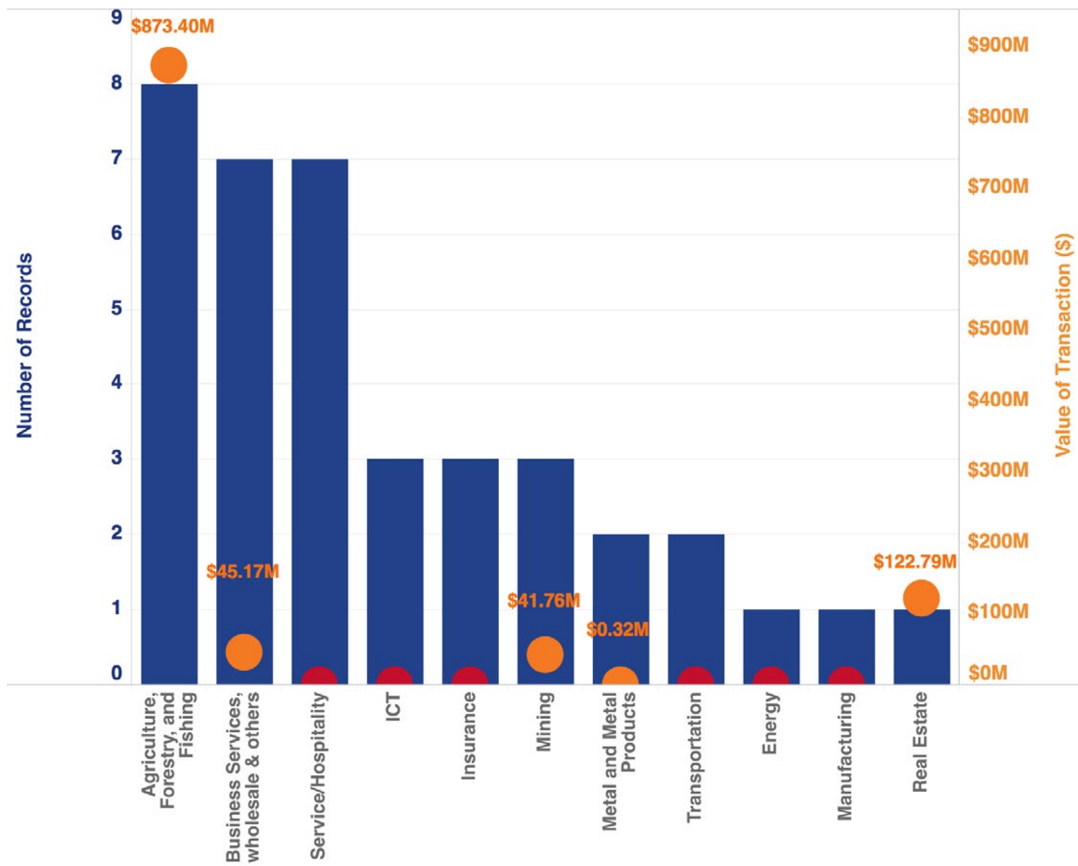
Figure 3.6 M&A number of deals and transactions amounts by country – New Brunswick firms as the acquirer (2013-2017)

M&A BY INDUSTRY SECTOR FOR NEW BRUNSWICK FIRMS AS THE ACQUIRER

The last five year's results show the most active sectors for New Brunswick firms making acquisitions are the agriculture, forestry, and fishing sector with eight deals, followed by service/hospitality and business services, wholesale & others with seven deals each during the period.

The whole picture in terms of total amount of investment is incomplete, given the large number of deals where transaction amounts were not disclosed. However, from the data available, the agriculture, forestry and fishing sector has accumulated the largest amount totaling $873.40 million, followed by real estate with a total of $122.79 million. The total number of deals and the total amounts disclosed by all sectors, are presented in **Figure 3.7**.

Figure 3.7 Number of M&A deals and amounts by industry sector – New Brunswick firms as the acquirer (2013-2017)



3

WHAT ARE THE MARKET SOURCES FOR NEW BRUNSWICK FIRMS AS THE TARGET IN THE LAST FIVE YEARS?

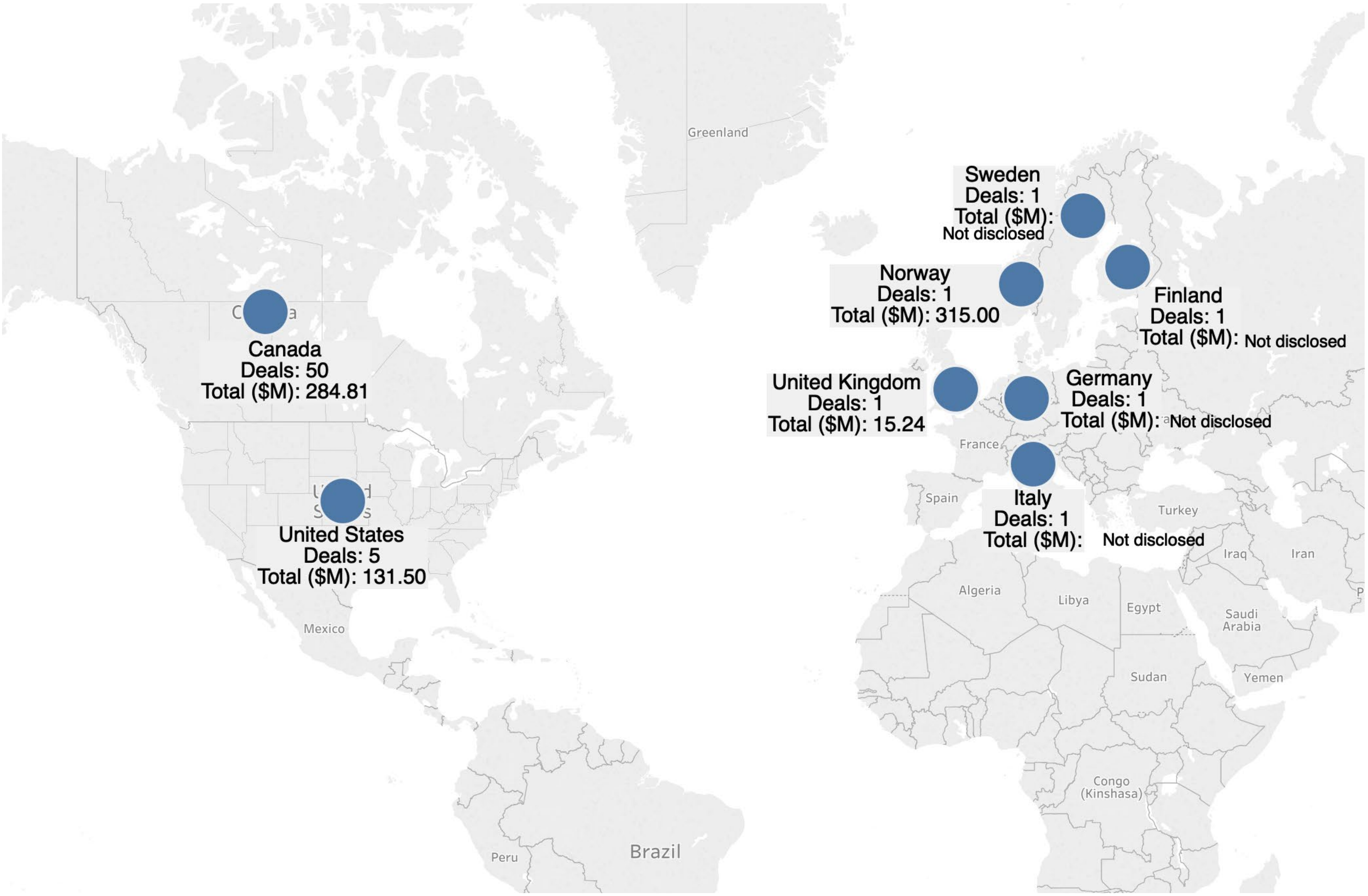


Figure 3.8 M&A number of deals and transactions amounts by country with New Brunswick firms as the target (2013-2017)

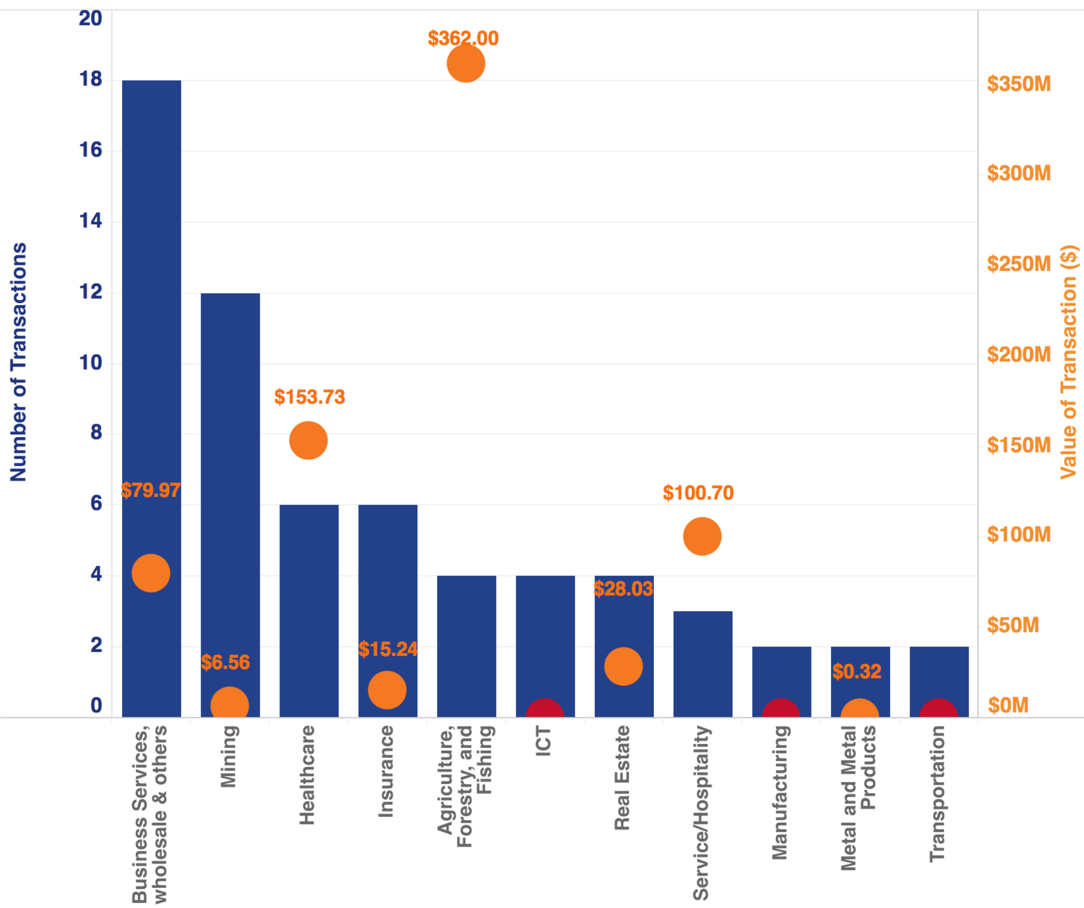


Figure 3.9 Number of M&A deals and amounts by industry sector – New Brunswick firms as the target (2013-2017)

M&A BY INDUSTRY SECTOR WITH NEW BRUNSWICK FIRMS AS THE TARGET

In terms of number of transactions for deals with New Brunswick firms as the target, the most active industry sectors in the last five years are business services, wholesale & others totaling 18 deals, followed by mining (12), healthcare (6) and insurance (6).

In the last five years, agriculture, forestry, and fishing is the sector with the biggest investment amount totaling $362 million, followed by healthcare ($153.73 million), and service/hospitality ($100.70 million). This information is based on the deals with disclosed amounts only.

The details of number of deals and investment amounts for each sector where New Brunswick firms were the target within the last five years is displayed in **Figure 3.9**.

4. GRANTS

Governments through federal and provincial grants provide important support to companies in New Brunswick. In the last five years, at least $665.78 million has been provided to companies.

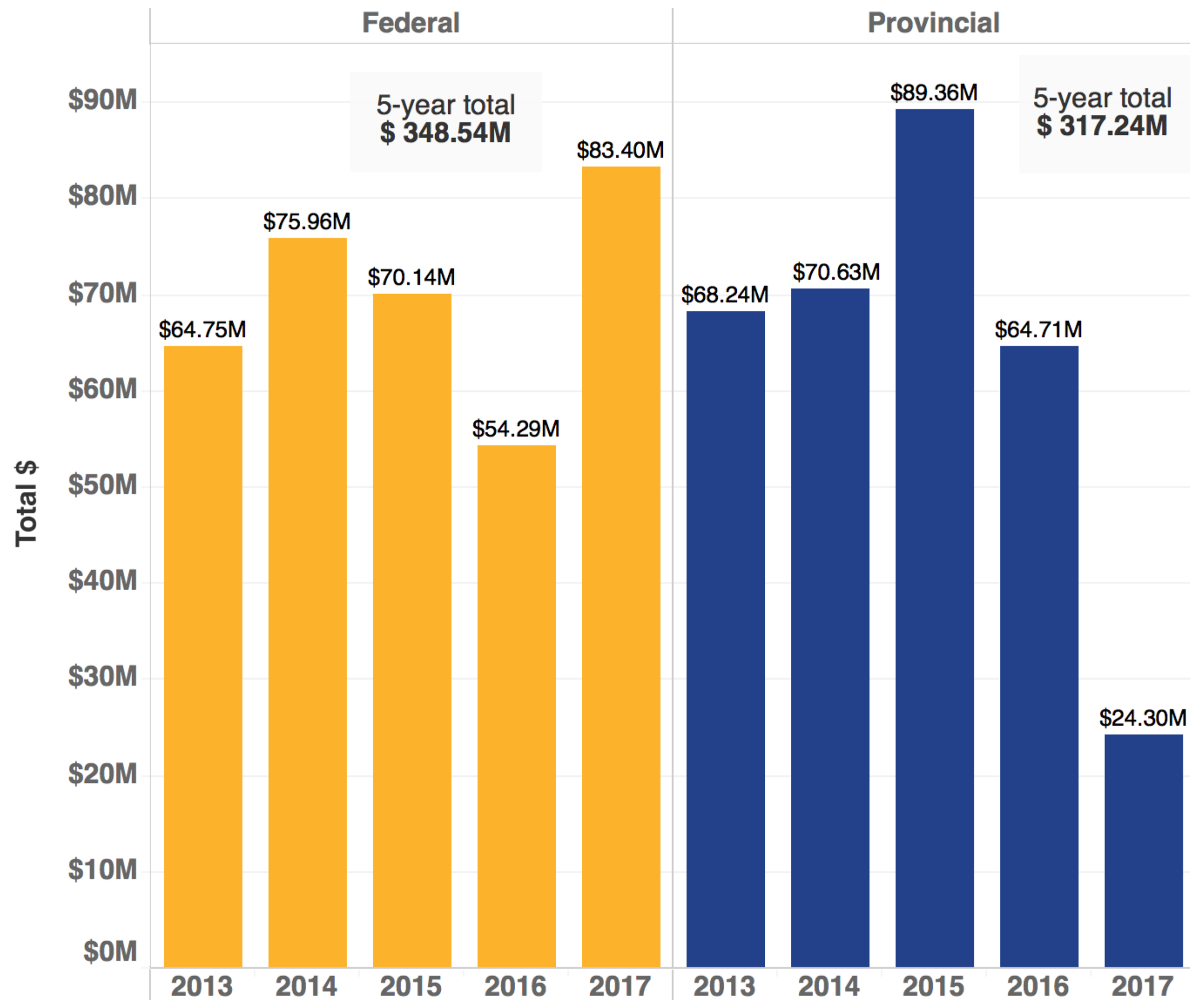
Federal grants have provided $348.54 million since 2013, while provincial grants total $317.24 million.

In 2017, the total amount in federal grants increased by $29.11 million (53.62%) versus 2016. This increase was driven by ACOA grants increasing by $28.04 million (76.38%) this year. CFI, NSERC and SSHRC also increased versus the previous year.

Provincial grants totaled $24.30 million in 2017. This amount excludes the RDC amount since this year's data was not available at the time of this report. RDC granted $37.99 million in 2016.

Please refer to Appendix A - Glossary (see "Grant") for details related to each acronym.

Figure 4.1 Federal and provincial grants by year



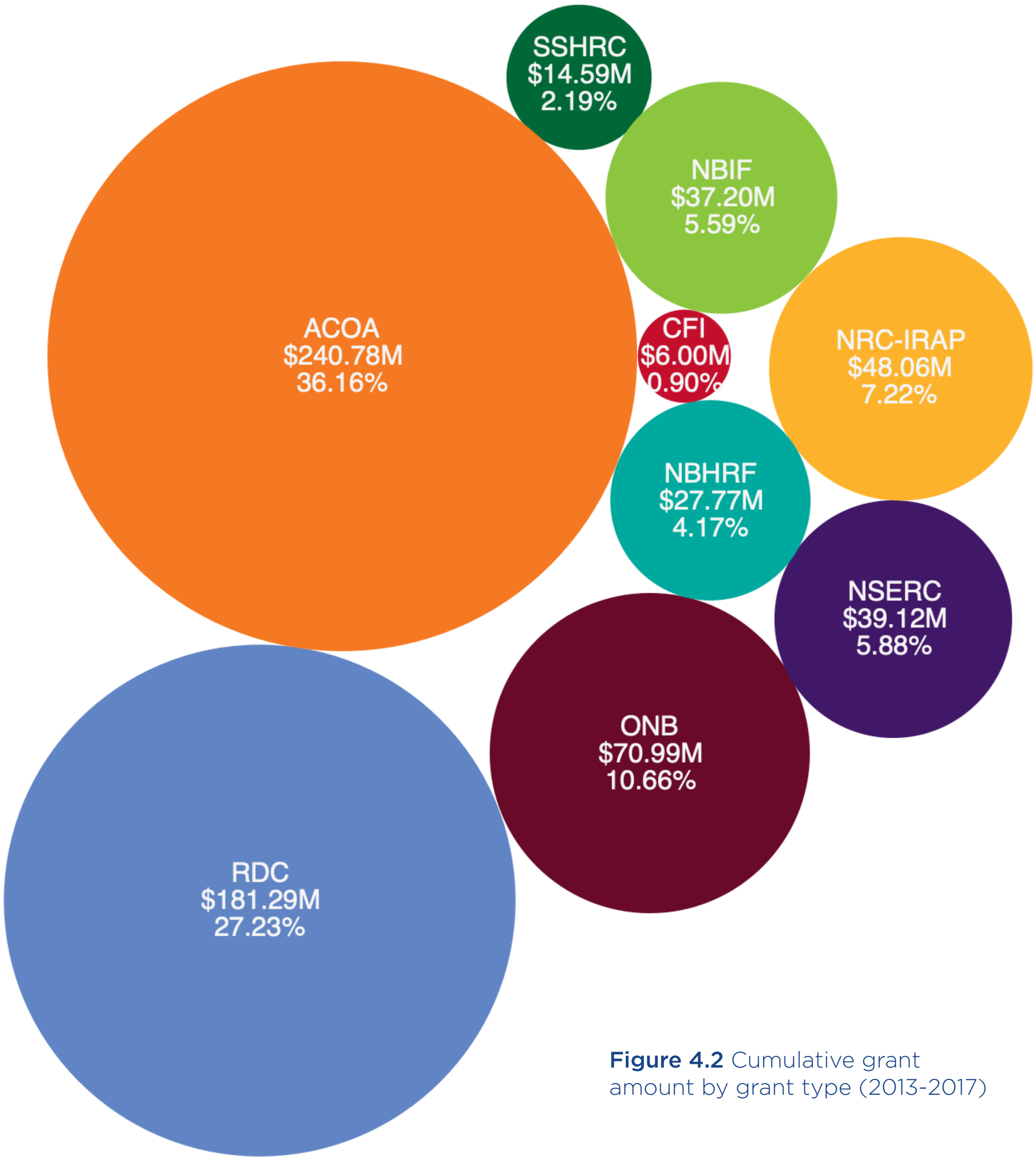


Figure 4.2 Cumulative grant amount by grant type (2013-2017)

CONTRIBUTION BY TYPE OF GRANTS

The total contribution by type of grant for the last five years is represented in **Figure 4.2**. ACOA has provided the largest amount since 2013 with a total of $240.78 million, which represents 36.16% of the total grants provided. RDC comes second with a total of $181.29 million, which represents 27.23% (Total RDC excludes 2017 data). Other large contributors are ONB (former DED) with $70.99 million (10.66%), NRC-IRAP with $48.06 million (7.22%), and NSERC with $39.12 million (5.88%).

Please refer to Appendix A - Glossary (see "Grant") for details related to each acronym.

5. DEBT FINANCING

5

Based on the information available provincially, we collect data on the total outstanding commercial debt, which in 2017 was $1.09 billion. The information available provincially came from UNI Financial Cooperation (UNI) (previously Federation des Caisses Populaires Acadiennes), Credit Union Atlantic (New Brunswick) and ACOA. Information from the major chartered banks was not available at a provincial level, which significantly limits a complete analysis. This outstanding debt represents an 11.19% increase compared to 2016. UNI represents 87.21% of the total outstanding commercial debt reported this year with a total of $949.10 million, the highest number for UNI in the last five years.

ACOA reported lower numbers than 2016 with totals of $21.12 million while Credit Union Atlantic was higher reaching $118.12 million.

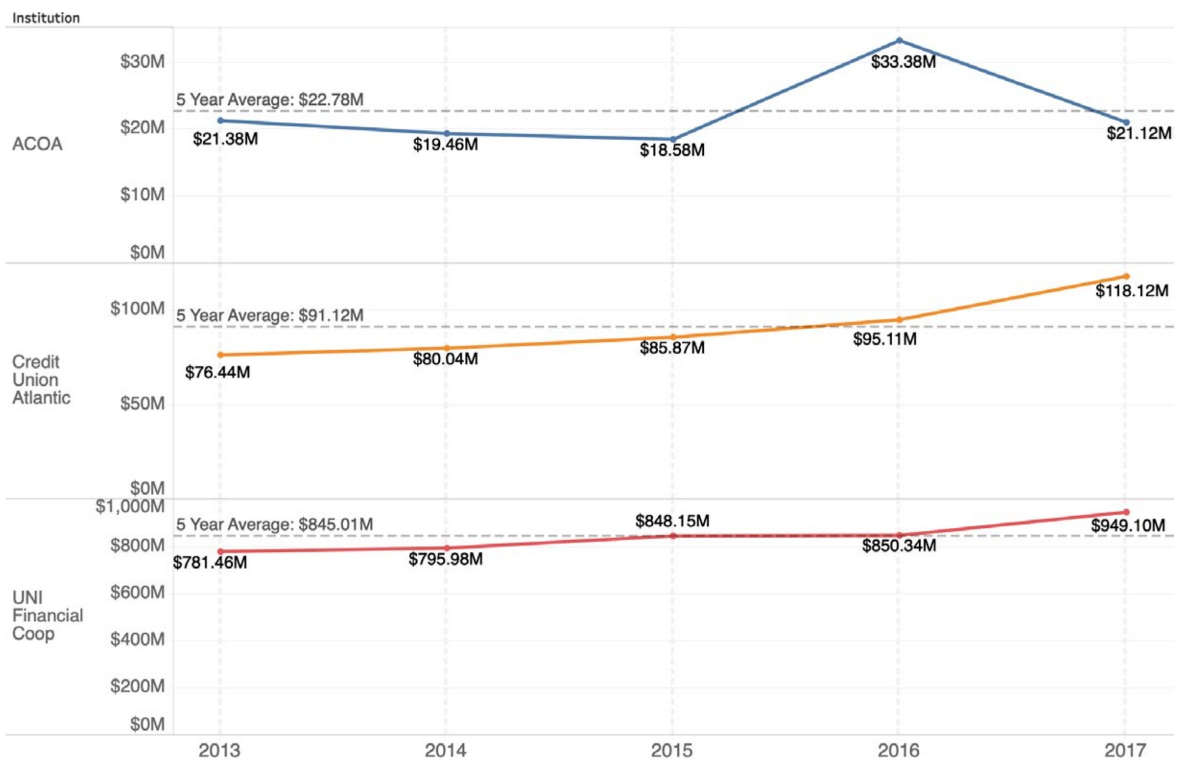


Figure 5.1 Total debt financing by institution

UNI's new debt issued in 2017 was $301.15 million. This represents a 38.50% increase versus 2016, and it is also the largest new debt issued in the last five years.

The old outstanding debt reached $647.95 million in 2017, which represents a 2.38% increase versus last year, and the largest outstanding debt amount in the last five years. Both new and old debt financing by UNI are experiencing an increasing trend based on the last five-year results, as shown in **Figure 5.2**.

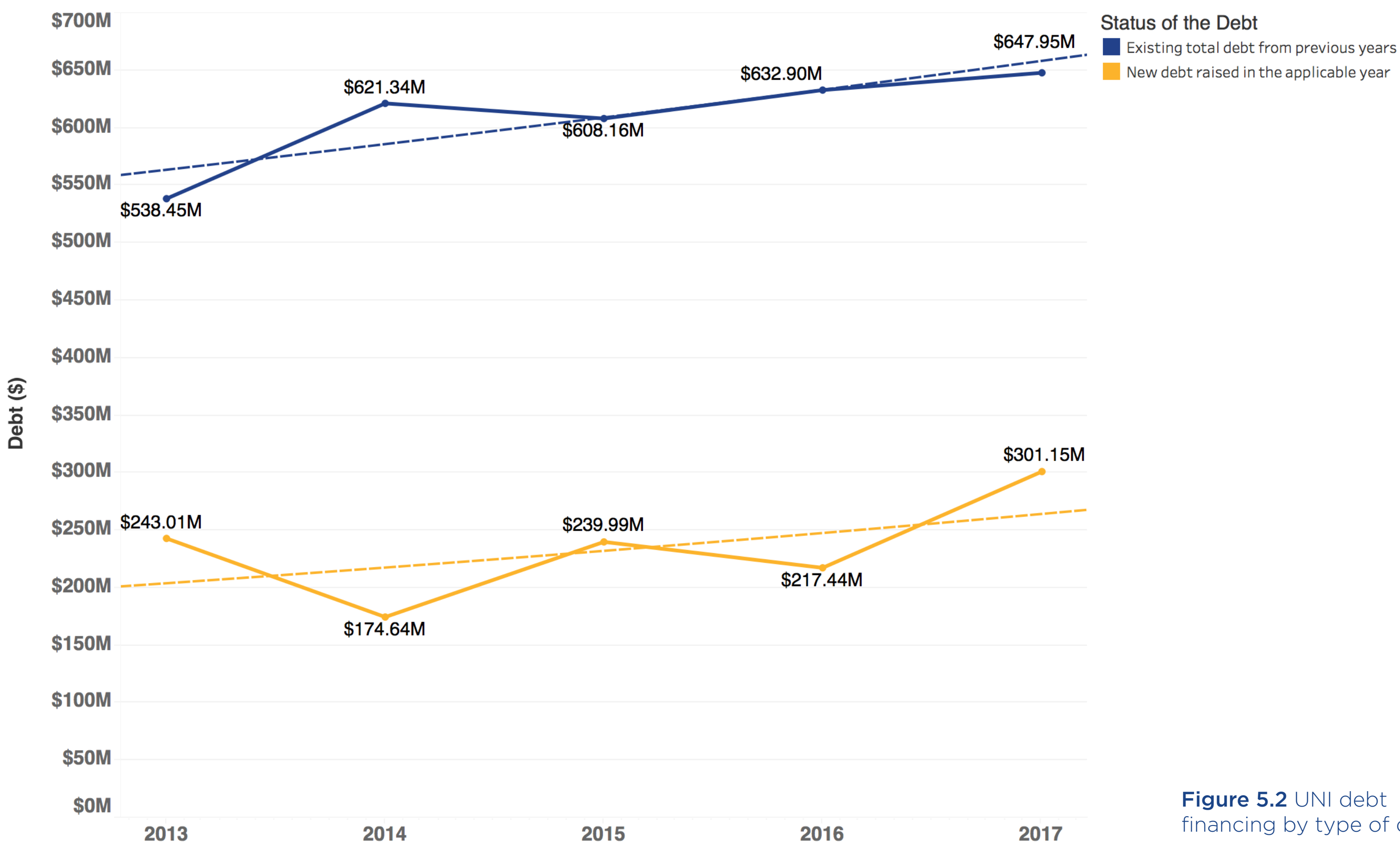


Figure 5.2 UNI debt financing by type of debt

6. CLOSING STATEMENT

FCNB began researching New Brunswick's capital markets in 2009. As annual results vary significantly, we believe viewing the five-year trends is a more complete measure of capital market activity. That is why this year, we have provided a detailed analysis of the consolidated information for the last five-years through a new data management, analysis, and data display tool.

Future reports will continue to focus on the long-term trends, as well as on the monitoring of the new variables and findings identified each year.

FCNB welcomes discussion and comments on this report. Please contact our Capital Markets Specialist, Jeff Harriman, at jeff.harriman@FCNB.ca.

APPENDIX A – GLOSSARY

Accredited investors: A person or organization, generally wealthy and experienced, who meets established criteria. For specific criteria see National Instrument 45-106 Prospectus and Registration Exemptions.

Agriculture, forestry and food services: Industry sectors of crop production, animal production, forestry and logging, fishing and other related activities.

Angel investment: A monetary or mentoring investment from an individual in a small and/or start-up business.

Balanced stage: Funds whose investment focus has a multi-stage (balanced) focus in venture capital. The funds' investment activities include seed-stage, early-stage and/or later-stage investing, with no particular concentration on either.

Bonds: A bond is a debt instrument. The investor lends money to a borrower (such as a corporation or the government) for a certain period of time. In exchange, the borrower agrees to pay the investor a fixed rate of interest at certain times and to repay the value of the money borrowed (face value) at its maturity date.

Capital markets: These markets bring together the providers and users of capital, the financial products – like stocks (equity capital) and bonds (debt capital) – that make the transfer of capital possible, and the people and organizations that support the process.

Common stock: Securities representing equity ownership in a corporation, providing voting rights, and entitling the holder to a share of the company's success through dividends and/or capital appreciation.

Convertible debentures: A type of loan issued by a company that can be converted into stock by the holder and, under certain circumstances, the issuer of the loan.

Crowdfunding: The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically through the Internet.

Debt financing: Loans derived from institutions, such as banks, credit unions, finance companies, portfolio managers, financial funds and insurance companies.

Early stage: Funds making a majority of their investments in companies that have product development, initial marketing, manufacturing and sales activities already in the testing or production stages. The investments are used by the company to begin production and sales. In some cases, the product may just have been made commercially available and the companies may not yet be generating profits. The companies may be in the process of organizing or they may already be in business for three years or less. Usually, such firms will have produced market studies, assembled key management, developed a business plan, and are ready to start, or have already started, conducting business.

Employee, executive officer, director and consultant: This exemption permits an issuer to sell securities in any amount without providing any required disclosure to its employees, executive officers, directors or consultants, provided the purchaser is buying the security voluntarily. That means the purchaser has not been persuaded to buy the security due to a promise that he or she will be, or will continue to be, employed, appointed or engaged by the issuer.

Energy (Industry sector): Companies belonging to this sector relate to producing or supplying energy. This sector includes companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, or integrated power firms.

Equity investment: A funding source which refers to the acquisition of equity (ownership) participation in a private (unlisted) company, or buying and holding of shares of stock on a stock market by individuals or firms.

Equity crowdfunding: Name given to the process in which people (the "crowd") invest in a private company (not listed on a stock market) in exchange for shares in that company, typically through the Internet.

Exempt markets distributions: When an issuer sells securities using one of the prospectus exemptions established under securities law.

Exempt markets: Exempt markets involve securities that are distributed without a prospectus. Generally, every company distributing new securities must disclose certain information to potential investors in the form of a prospectus. This information is disclosed to ensure that investors have enough information to help them make a well-informed decision. Sometimes, the requirement for a prospectus can be waived. This exemption usually applies to illiquid securities, which do not have established secondary markets. Companies can use multiple exemptions to raise funds. For further details, please see Glossary in Appendix A or the National Instrument 45-102.

Expansion stage: When companies have products and services that are currently available, and require additional capital to expand production to increase revenue.

Family, friends and business associates exemption: Under this exemption, companies can sell securities in any amount without providing any required disclosure to founders, family, close personal friends or close business associates. There is no limit on the number of purchasers or the amount of money that can be raised using this exemption.

Funding location: The geographical source of the venture capital investment being invested in New Brunswick.

Funder type: The structure of the fund entity.

Grant: A type of fund usually granted by federal and provincial agencies for a specific purpose.

- *Federal Grants:*
  - **NRC-IRAP:** the National Research Council
  - **NSERC:** Natural Sciences and Engineering Research Council of Canada
  - **CFI:** Canada Foundation for Innovation
  - **SDTC:** Sustainable Development Technology Canada
  - **CIHR:** Canadian Institutes of Health Research
  - **SSHRC:** Social Sciences and Humanities Research Council
  - **ACOA:** Atlantic Canada Opportunities Agency
- *Provincial Grants:*
  - **RDC:** Regional Development Corporation
  - **ONB:** Opportunities New Brunswick. Additionally, the assistance provided by Financial Assistance to Industry includes payroll rebates, forgivable loans as well as non-repayable contributions toward capital expenditures. The assistance provided by the Small Business Group includes non-repayable contributions toward capital expenditures, non-repayable contributions toward business development expenses and payroll support.
  - **NBIF:** New Brunswick Innovation Foundation
  - **NBHRF:** New Brunswick Health Research Foundation

Government VC funder: A private equity fund formed by a government agency that raises money from outside investors.

ICT: The Information and Communications Technology sector.

Institutional: Funds managed inside certain large organizations such as endowments, foundations or pension funds, investment banks, and other banking/financial institutions.

Investor location: The geographical location of the investor who provided the investment.

Later stage: Funds that make a majority of their investments into portfolio companies that have an already established product or service and have already generated revenue, but may not be making a profit. These companies may need capital to grow or expand. The investments are used to increase marketing, production capacity, further product development, etc.

Life sciences: The biotechnology, medical and healthcare sectors

Manufacturing: The fabrication, processing or preparation of products from raw materials and commodities sectors.

Mergers and acquisitions (M&A): An aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, or using a joint venture.

Notes: A financial security that generally has a longer term than a bill, but a shorter term than a bond.

Offering memorandum: A legal document stating the objectives, risks and terms of investment involved with a private placement. This includes items such as the financial statements, management biographies, detailed description of the business, etc.

Offering memorandum (exemption): This exemption allows an issuer to issue its securities to anyone, regardless of their relationship, wealth or the amount of securities purchased. Depending on how much money the company is going to raise, the requirements differ.

Other (under the 'industry' category): Includes construction, wholesale trade, transportation and warehousing, tourism, utilities, arts, entertainment and recreation sectors.

Other (under the 'type of funder' category): Includes investors with an interest in specific private equity deals, but without a permanent market presence, such as angel investors and non-private equity investors.

Outstanding debt: The principal amount of money borrowed, but not yet paid back.

Preferred shares: A class of ownership in a corporation that has a higher claim on the assets and earnings than common shares. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders and they usually do not have voting rights.

Private independent: Funds that make private equity investments and raise a portion or all of its capital from outside investors.

Private issuer: When companies need additional financing after formation, they can use the private issuer exemption to issue securities to start a business and sell securities in any amount without any required disclosure, provided these trades are only to specified purchasers and the company's securities are owned by no more than 50 people. The private issuer exemption requires restrictions to be in place, which limit the ability to transfer ownership of the securities.

Retail: Funds established with benefit of government tax credits to individuals, such as Labour Sponsored Venture Capital Corporations (LSVCCs).

Seed stage: Funds that make a majority of investments in newly formed companies, and in doing so, help a company's founder conduct research leading to development and design of a product or service. This stage involves a relatively small amount of capital and is typically a pre-marketing stage.

Services: An industry sector referring to the following services:

- professional
- scientific and technical
- administrative and support
- waste management and remediation
- other services not including educational and public administrative services

Type of venture capital fund: The derived or stated investment focus of the fund.

Type of funder: The structure of the fund entity.

Units: A combination of securities or types of securities put together and bought and sold as one.

Unit of bundled securities (UBS): A unit consisting of a common share and a warrant.

Venture capital investment: A special form of private equity investment characterized by investment in young, high-growth potential companies.

APPENDIX B – SOURCE LIST

Venture Capital

Source: Thomson Reuters

Exempt markets

Source: Regulatory filings made to The Financial and Consumer Services Commission

Our analysis of New Brunswick's 2017 exempt markets was completed using information obtained from regulatory filings in addition to information voluntarily provided by investors.

Many companies raising capital in New Brunswick rely on private issuer exemptions, which do not require reporting to FCNB.

Mergers & Acquisitions

Source: Thomson Reuters

Public Information Sources

Grants

Provincial Agency Sources:

1. New Brunswick Innovation Foundation (NBIF)
2. Direct from Opportunities New Brunswick (ONB)
3. New Brunswick Health Research Foundation (NBHRF)
4. Regional Development Corporation (RDC)

Federal Agency Sources:

5. National Research Council (NRC-IRAP)
6. Natural Sciences and Engineering Research Council of Canada (NSERC)
7. Canada Foundation for Innovation (CFI)
8. Social Sciences and Humanities Research Council (SSHRC)
9. Atlantic Canada Opportunities Agency (ACOA)

Debt

Sources:

1. Direct information provided by UNI Financial Cooperation
2. Atlantic Canada Opportunities Agency (ACOA) project information site
3. Direct information from Credit Union Atlantic