

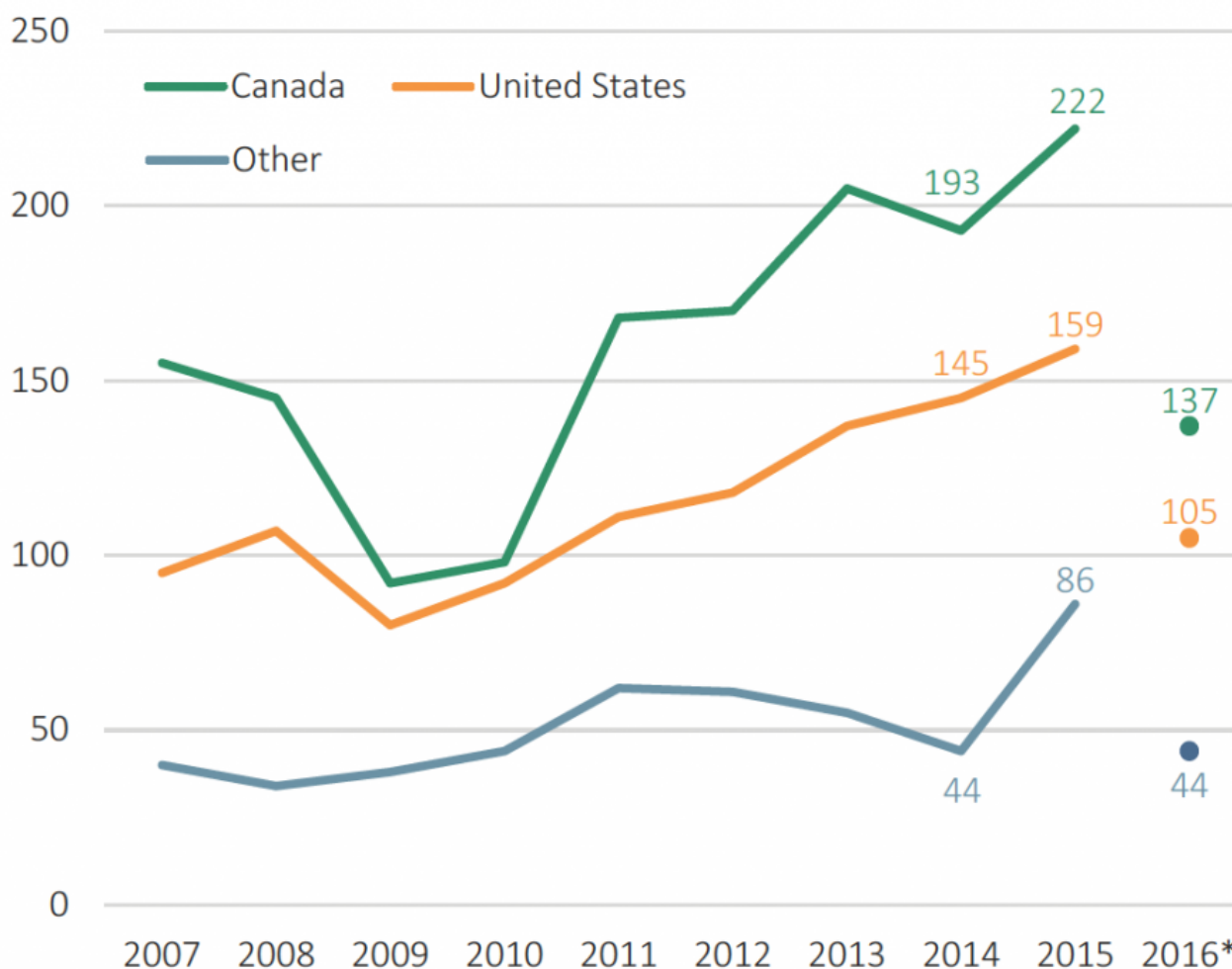
The Pulse of Private Equity – 12/5/2016

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US PE firms dial down their pace of investing in Canadian startups

In 2015, no fewer than 159 private equity firms with headquarters in the US cut a deal with a Canadian company, a clear high for the decade. That pace has slowed considerably even as general Canadian PE activity has declined, with 105 firms active within the country through the end of October. The drivers of the decline are likely the same as in the US: a lack of quality targets given the surge in buying over the last couple of years, competition, and a surplus of dry powder contributing to loftier prices. In Canada, that last factor may not be quite as potent as it is in the US, but the supply of worthwhile targets definitely plays a comparatively larger role.

Unique investors (#) in Canadian PE deals by headquarters



Source: PitchBook

*As of 10/31/2016

For some of the larger US PE firms, rolling up small Canadian companies that operate in the lower middle market simply isn't worth the cost and effort given their scale. However, a certain level of local knowledge and available resources is also required, so the question of supply comes into play not just when talking suitable targets but also the population of US PE investors that are willing and able to target Canadian businesses. Nearly 47% of all PE transactions in 2016 through the end of October were below C\$25 million in size. Furthermore, as is clear by B2B commanding nearly 40% of all PE activity in 2016 thus far, most of investors' focus has been in small manufacturing and enterprise-focused Canadian companies, which is a fairly common target sector but not every PE firm's specialty. In short, the slowdown in US firms' interest in Canadian companies thus far is most likely a question of supply being short for the time being on both the investor and company sides.

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