

Crosbie & Company Canadian M&A 2014 Yearly Report

Overview

The Canadian M&A market rebounded strongly in 2014 after weakening the prior two years. Analysis prepared by Crosbie & Company using Capital IQ and other sources indicated 2,869 announcements in 2014, up 13% from 2013, and consistent with activity level from 2010 through 2012.

In terms of value, announced transactions surged \$45B to \$238B in 2014, a 23% year over year increase, and the highest level in the past 5 years. The increase in transaction value was the result of strong mega-deal activity.

As highlighted below in this report, the increase in activity was relatively broad-based, occurring across virtually all industry sectors and size categories.

Mega-Deals

In 2014, there were 42 mega-deal transactions (transactions in excess of \$1B in value) for an aggregate value of \$153B. This represents the highest level of mega-deal activity, in terms of value, since prior to the financial crisis.

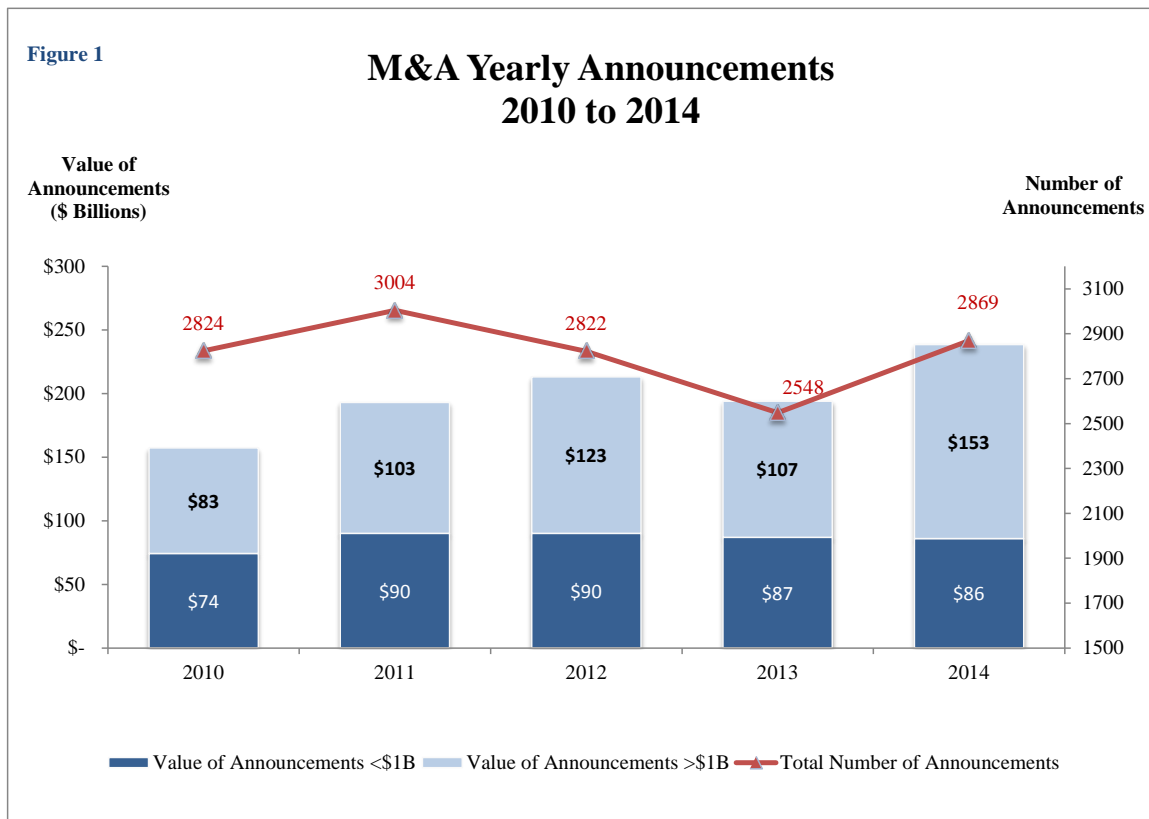
The largest transaction of the year was the acquisition of **Talisman Energy** by Spanish energy giant **Repsol** for \$15.7B. This transaction was announced in Q4 after Talisman shares had already fallen over 60% in three months as world oil prices collapsed amid a supply glut.

Additionally, Canadian coffee and doughnut icon **Tim Hortons** was acquired by Brazilian private equity group **3G Capital** for \$14.6B in a transaction that combined Tim Hortons with Burger King, a 3G portfolio company, to form NYSE-listed Restaurant Brands International.

Cross-Border

Cross-border transactions continued to account for a significant proportion of activity with 38% of all transactions involving a foreign target or buyer, demonstrating the global nature of the Canadian economy.

Canadian companies were active in making foreign acquisitions abroad, outnumbering foreign acquisitions of Canadian businesses 1.8:1, which is the continuation of the long term trend of Canadian companies being more acquisitive than foreigners have been active in acquiring Canadian companies. Canadian companies also exceeded their foreign counterparts by nearly 2.1:1 in terms of spending. Each of the top 10 largest transactions in 2014 were cross-border deals.



Financial Sponsors

To get a sense of financial sponsor activity, we track transactions in excess of \$100M. Financial sponsors remained active in 2014 on both the buy-side and sell-side with 61 transactions valued at \$75B in total. 7 of the 10 largest transactions involved a financial sponsor, including **Onex Corporation** and **Canada Pension Plan** divesting of Dutch auto parts manufacturer **Pinafore Holdings** to the **Blackstone Group** for \$8.0B. **BC Partners** and the **Caisse de dépôt** were part of a consortium of capital groups that took US retailer **PetSmart** private for \$10.3B.

Industry Sector Activity

The **Real Estate** sector was the most active sector for the third consecutive year, with 465 transactions worth \$30B in aggregate. Although the number of transactions was up 4% from 2013, deal value actually declined 56% from the record \$69B in the prior year. **Ivanhoe Cambridge**, the real estate investment arm of the Caisse de dépôt, along with its partner **Callahan Capital Properties** acquired 1.2 million square feet of Manhattan office space for \$2.5B.

The most active industry sector by value was **Consumer Discretionary** with 280 transactions valued at \$59B. In addition to the Tim Hortons and PetSmart transactions, other notable deals in the sector included TSX-listed online gaming company **Amaya, Inc.**, which became the 800 pound gorilla in the space by acquiring UK-based **Rational Group** for \$5.3B.

The **Energy** sector remained active with 332 transactions valued at \$53B. The largest Energy transactions included the \$15.7B Talisman Energy deal as well as **Encana's** \$7.8B purchase of **Athlon Energy**, expanding its presence in the non-conventional oil sector.

Mid-Market

The mid-market continues to be the foundation of the Canadian M&A market with transaction volume for deals under \$250 million representing 90% of all the transactions with disclosed values. In aggregate, mid-market transactions were valued at \$40B or approximately 17% of total M&A value. Historically, announced mid-market transactions have represented approximately 90% of announced transactions, consistent with 2014.

In 2014, transaction size was not disclosed for 49% of transactions, up from 44% in 2013. While this limits the precision of inferences we can make about the size distribution of transactions, it is reasonable to assume most of the undisclosed deals are within the mid-market as we define it here.

Figure 2

ACTIVITY GROUPED BY INDUSTRY: 2014

INDUSTRY GROUPS	2013		2014	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Real Estate	446	69,168	465	30,491
Industrials	317	17,515	335	20,623
Energy	241	17,996	332	53,364
Information Technology	287	9,529	326	8,580
Consumer Discretionary	249	11,209	280	58,898
Metals and Mining	275	1,540	280	5,277
Precious Metals	157	3,353	192	8,395
Other	140	2,519	163	4,787
Financial Services	127	6,735	148	10,634
Healthcare	124	8,818	134	12,037
Consumer Staples	67	23,323	74	4,281
Materials	49	6,739	62	2,299
Utilities	56	15,110	57	11,416
Telecommunication	13	257	21	7,360
TOTAL	2,548	193,810	2,869	238,444
Services ⁽²⁾	362	21,412	387	40,403

Notes:

1. Transaction value is not disclosed for all deals
2. Captures Consumer, Industrial, and Oil and Gas Services (included in respective industry sector counts above)

Figure 3

CROSS-BORDER TRANSACTIONS: 2014

	2013		2014	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	548	58,712	702	90,425
Top Foreign Target Country of CDN Acquirors				
United States	346	29,938	456	49,451
United Kingdom	38	5,200	41	10,991
Inbound M&A (Foreign Buyer/ CDN Target)	385	41,839	392	49,436
Top Foreign Acquiror of CDN Companies				
United States	259	11,309	270	16,694
United Kingdom	27	1,827	17	8,015
Total Cross Border	933	100,551	1,094	139,861
Outbound : Inbound Ratio	1.42	1.40	1.79	1.83
Cross Border as % of Total Activity	37%	52%	38%	59%

Note:

1. Transaction value is not disclosed for all deals

Figure 4

ACTIVITY BY SIZE OF DEAL: 2014

Size	2013				2014			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	1,161	46	18,910	10	1,200	42	21,365	9
\$101m-\$250m	129	5	21,124	11	117	4	18,560	8
\$251m-\$500m	63	2	22,739	12	61	2	21,540	9
\$501m-\$1b	34	1	24,104	12	36	1	24,418	10
>\$1b	33	1	106,933	55	42	1	152,562	64
Undisclosed	1,128	44	n/a	n/a	1,413	49	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals



Largest Transactions Announced During 2014

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED	
1.	\$15,713	Talisman Energy Inc. Repsol, S.A.	Target Acquiror	15-Dec-14
2.	\$14,645	Tim Hortons Inc. Restaurant Brands International Inc.	Target Acquiror	26-Aug-14
3.	\$10,292	PetSmart, Inc. BC Partners; Caisse de dépôt et placement du Québec; and others	Target Acquiror	14-Dec-14
4.	\$8,057	Pinafore Holdings B.V. The Blackstone Group Onex Corporation; Canada Pension Plan Investment Board, and others	Target Acquiror Vendor	4-Apr-14
5.	\$7,780	Athlon Energy Inc. Encana Corporation Apollo Global Management, LLC; T. Rowe Price Associates, Inc.	Target Acquiror Vendor	29-Sep-14
6.	\$6,417	Abbott Laboratories, Non-U.S. Developed Markets Specialty and Branded Generics Business Mylan N.V. Abbott Laboratories	Target Acquiror Vendor	14-Jul-14
7.	\$5,313	Rational Group Limited Amaya, Inc.	Target Acquiror	12-Jun-14
8.	\$5,304	Cleco Corporation BC Investment Management Corporation; Macquarie Infrastructure Partners Inc. and others	Target Acquiror	20-Oct-14
9.	\$5,259	SIG Combibloc Group AG Onex Corporation Reynolds Group Holdings, Inc.	Target Acquiror Vendor	24-Nov-14
10.	\$5,052	TDF S.A.S. Public Sector Pension Investment Board; Brookfield Infrastructure Partners LP and others Charterhouse Capital Partners LLP; Caisse des dépôts and others	Target Acquiror Vendor	5-Nov-14
11.	\$4,494	Riverbed Technology, Inc. Ontario Teachers' Pension Plan Accel Partners; Elliott Management Corporation; and others	Target Acquiror Vendor	15-Dec-14
12.	\$4,043	Bell Aliant Inc. BCE Inc.	Target Acquiror	23-Jul-14
13.	\$4,000	Standard Life Financial, Inc. and Standard Life Investments Inc. The Manufacturers Life Insurance Company Standard Life Oversea Holdings Limited	Target Acquiror Vendor	3-Sep-14

The information above and on preceding pages is a summary of Crosbie & Company Inc.'s analysis of the year's M&A activity. For further information, please go to www.crosbieco.com.