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CANADIAN M&A ACTIVITY – THIRD QUARTER 2015 REPORT

Outbound Buying Spree Reverses Downward Trend

Canadian M&A experienced a rebound in activity in the third quarter of 2015, breaking a streak of four consecutive quarters of declining activity, partly as a result of acquisitions by Canadian companies of foreign targets. Figures developed by **Crosbie & Company** using Capital IQ and other sources indicated 673 announcements valued at \$92B in Q3 (down from 733 deals worth \$61B in Q3 2014 but up from 652 deals worth \$75B in Q2 2015). For domestic transactions (where the target is in Canada) there were 433 transactions valued at \$18B (down from 482 deals worth \$42B in Q3 2014 and consistent with the 435 deals worth \$18B in Q2 2015).

“Although we are still well off the recent high in M&A activity, it is encouraging to see some positive indications of a recovery, even as weakness continues in the resource sectors,” said Richard Betsalel, Director at Crosbie & Company. “With commodity prices at cyclical lows, the balance sheets of many resource companies and their suppliers are becoming stressed. We are hearing that lenders are seeking to reduce their exposure in these sectors and we expect that to eventually result in a flood of M&A activity as borrowers without refinancing options seek opportunistic buyers with strong balance sheets.”

Canadian companies made 186 acquisitions of foreign targets valued at \$60B compared to 172 transactions valued at \$42B in the same quarter last year. “Canadian companies went on a buying spree abroad, in an effort to offset anemic domestic growth by gaining exposure to higher growth markets, such as the United States, Korea and Germany,” said Richard Betsalel. “The weak Canadian dollar has not deterred Canadian companies from making foreign acquisitions, consistent with our observation of the longer term trend that exchange rates and cross-border M&A activity are not strongly correlated.”

The **Energy** sector experienced a 51% decline in activity (44 transactions in Q3 2015 vs. 90 transactions in Q3 2014) as oil prices hovered at levels that were half their prior year highs. Offsetting this decline was strength in the **Information Technology** sector (91 transaction in Q3 2015 vs 76 transactions in Q3 2014) and **Metals & Mining** (83 transactions in Q3 2015 vs 59 transactions in Q3 2014).

The number of so-called mega-deals (transactions over \$1B) doubled this quarter, with 16 announcements compared to 8 in Q3 2014. The total value of these deals was \$71B, up 71% from Q3 2014. The two largest transactions of the quarter both involved acquisitions of stable foreign utility and infrastructure assets. **Emera** expanded its US footprint with the purchase of **TECO Energy**, a regulated electric and gas utility in Florida and New Mexico for \$13.8B. **Brookfield Infrastructure Partners LP** doubled down on its exposure ‘down under’ with the purchase of **Asciano**, an Australian rail and port logistics company for \$12.5B.

Mid-market M&A activity declined proportionally with the overall decline in domestic M&A activity in the quarter, resulting in 248 reported transactions under \$250M valued at \$7.6B – representing 86% of all transactions with reported values.

Cross-border transactions in the quarter represented 45% of all announcements, in line with the long term trend. However, 74% of the total value of the deals in the quarter represented cross-border M&A, approaching the highest level in over 5 years. Canadian companies continued to be very active internationally in Q3, acquiring 1.6 times more companies abroad than foreigners acquired Canadian companies while outspending their foreign counterparts by nearly 7 times.

The information contained above and within the “Crosbie & Company Canadian M&A Report” is a summary analysis of the quarter’s M&A activity. For further information, please contact Richard Betsalel at 416-362-4882 or visit www.crosbieco.com.