

## Crosbie & Company Canadian M&A Report Q1 2015

### Overview

M&A involving Canadian Companies experienced its third consecutive quarter of overall declining activity. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 656 announcements in Q1, down 7% from the previous quarter and down 15% from the recent peak in activity in Q2 2014.

The value of announced transactions was \$45B in the first quarter, down 46% from the previous quarter and the lowest total since the first quarter last year.

The decrease in activity from Q4 2014 was relatively broad-based, occurring across eight of the fourteen industry sectors. From a deal-size perspective, most of the decline in activity can be attributed to the lower middle market (under \$100M) category.

### Domestic M&A Transactions

As shown in Figure 2, when foreign M&A is excluded, Canadian domestic M&A activity was relatively flat in Q1. There were 428 transactions involving Canadian targets (including both those with both domestic and foreign buyers) in Q1, down slightly from 455 and 436 transactions in Q4 2014 and the same quarter last year, respectively.

### Mega-Deals

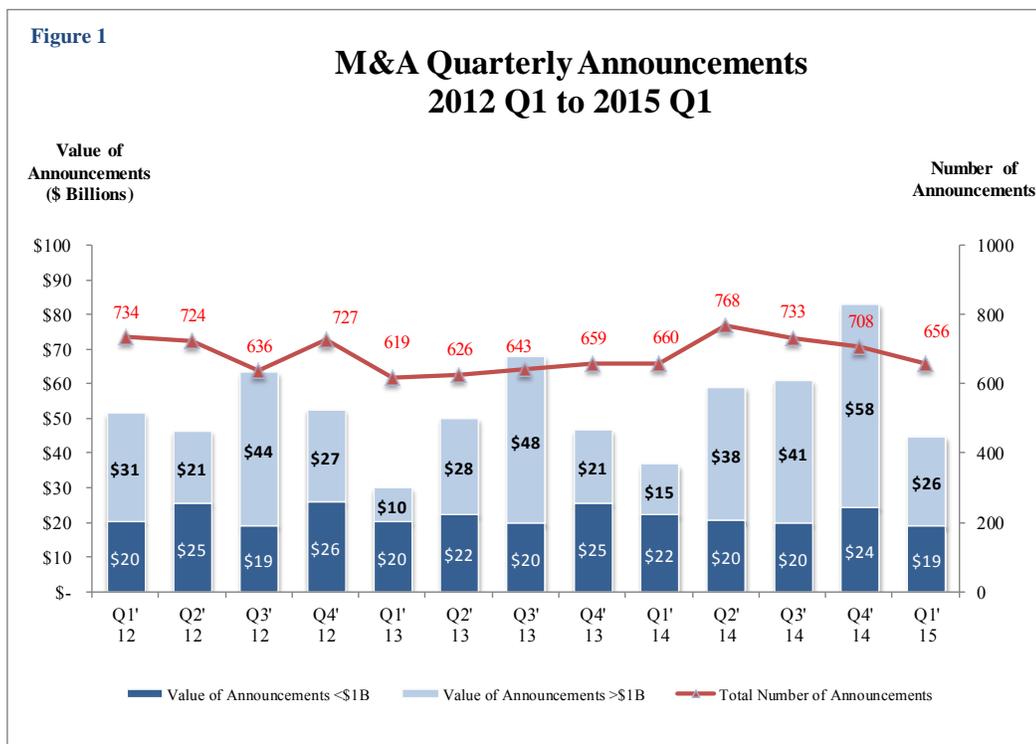
There were 8 mega-deal transactions (transactions in excess of \$1B in value) in Q1, representing an aggregate value of \$26B.

The largest transaction of the quarter was the sale of **Fortum Distribution AB**, an electricity distribution business in Sweden, to **Borealis Infrastructure Trust** and its partners for \$8.9B.

Additionally, Canada's largest financial institution, **Royal Bank of Canada** acquired **City National Corporation** for \$3.2B, as the bank furthers its strategy of expanding in the United States and the wealth management sector.

### Financial Sponsors

Financials sponsors remained active in the first quarter of 2015 on both the buy-side and sell-side with 20 transactions (in excess of \$100M), valued in aggregate at \$21B. Five of the ten largest transactions involved a financial sponsor, including several infrastructure transactions, such as the **Caisse de dépôt et placement du Québec**'s acquisition of the UK high speed passenger train company **Eurostar Group Limited** for \$1.1B. **CPPIB** and **Hermes GPE** acquired a 30% interest in **Associated British Ports** for \$3.0B. These pension funds continue to make significant infrastructure investments as part of their



strategies to match their long term liabilities with investments in long term assets that to tend generate stable inflation-protected returns.

### Industry Sector Activity

Despite an 11% decline in transactions from the previous quarter, the **Real Estate** sector remained the most active sector for the eleventh consecutive quarter, with 104 transactions worth \$6.7B. The largest transaction in the sector involved **Northwest Healthcare Properties REIT** acquiring **Northwest International Healthcare Properties REIT** for \$0.8B in a related party transaction.

The most active sector by deal value was **Industrials** with 80 deals valued at \$11.3B, largely due to the Eurostar transaction mentioned above.

**Financial Services** was the second most active sector by deal value with over \$9B in announced transactions. Significant transactions included the previously mentioned Royal Bank acquisition and **Fairfax Financial's** purchase of **Brit PLC**, a UK-based specialty Lloyd's insurer, for \$2.4B.

Activity in the **Information Technology** sector was also strong with 79 transactions valued at \$2.2B. The largest IT transaction saw **DH Corporation** acquire **Fundtech** for \$1.6B, as it continues migrating away from its legacy cheque printing business towards being a provider of technologies for financial institutions.

**Consumer Discretionary** was also active with 79 transactions valued at \$2.9B. The largest transaction in the sector involved **The Intertain Group** expanding its online gaming business by acquiring **Gamesys** for \$0.8B.

### Breakdown by Transaction Size

While the aggregate transaction value for the quarter was largely driven by mega deals, the bulk of the activity is driven from transactions with deal values under \$250 million.

As shown in Figure 4, the mid-market continues to be the foundation of Canadian M&A transaction volume with deals under \$250 million representing 90% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$9B or approximately 20% of total M&A value.

In the first quarter of 2015, transaction size was not disclosed for 55% of transactions, up from 49% in 2014. 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

### DOMESTIC VS. FOREIGN M&A: 2015 Q1

	2014 Q1		2015 Q1	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	361	11,008	317	6,021
With Foreign Buyers	75	8,190	111	3,414
Domestic M&A	436	19,197	428	9,436
Foreign Targets (Canadian Buyer)	161	13,667	165	30,099
Canadian Foreign Subsidiaries Sold to Foreign Buyers	63	3,657	63	5,105
Foreign M&A	224	17,324	228	35,204
	660	36,522	656	44,640

Figure 3

### ACTIVITY GROUPED BY INDUSTRY: 2015 Q1

INDUSTRY GROUPS	2014 Q1		2015 Q1	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Real Estate	95	6,602	104	6,671
Industrials	70	2,089	80	11,321
Consumer Discretionary	51	2,511	79	2,855
Information Technology	68	126	79	2,216
Metals and Mining	90	982	72	349
Precious Metals	44	355	55	2,165
Energy	71	11,714	51	2,678
Healthcare	37	2,581	36	1,986
Other	39	1,307	33	4,321
Financial Services	31	3,888	31	9,230
Consumer Staples	25	3,094	14	17
Materials	19	422	11	153
Utilities	12	733	10	675
Telecommunications	8	118	1	0
TOTAL	660	36,522	656	44,640
Services <sup>(2)</sup>	76	4,453	84	2,577

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 4

### ACTIVITY BY SIZE OF DEAL: 2015 Q1

Size	2014 Q1				2015 Q1			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	282	43	4,357	12	236	36	3,907	9
\$101m-\$250m	19	3	3,253	9	33	5	4,982	11
\$251m-\$500m	16	2	5,950	16	12	2	4,041	9
\$501m-\$1b	12	2	8,357	23	9	1	5,835	13
>\$1b	7	1	14,604	40	8	1	25,874	58
Undisclosed	324	49	n/a	n/a	358	55	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

## Target by Province

As shown in Figure 5, domestic M&A activity varies considerably by province. In Q1 2015, the provinces with the most announcements (in declining order of activity) were Ontario, B.C., Alberta and Quebec. These four provinces represent 88% of activity in the quarter.

However, against the backdrop of relatively flat domestic activity year over year (428 announcements in Q1 2015 vs. 436 in Q1 2014), there was significant variability in activity between the provinces. For example, Ontario was up significantly with 167 announcements in Q1 2015 or 40% of the domestic total vs. 132 announcements in Q1 2014 representing 30% of the domestic total.

## Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 42% of all transactions involving a foreign target or buyer, demonstrating the global nature of the Canadian economy.

Canadian companies making acquisitions abroad (“outbound” transactions) outnumbered the number of foreign companies acquiring in Canada (“inbound” transactions) by a factor of 1.5 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q1 by 9 times. In this quarter, we saw a continuation of the trend observed recently where Canadian firms were both more active abroad and spending more than foreigners acquiring Canadian companies.

Figure 5

### CANADIAN TARGETS BY PROVINCE: 2015 Q1

	2014 Q1				2015 Q1			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	132	30	5,944	31	167	39	3,737	40
British Columbia	92	21	4,603	24	93	22	2,219	24
Alberta	78	18	1,317	7	62	14	690	7
Quebec	69	16	5,922	31	55	13	2,598	28
Saskatchewan	23	5	292	2	14	3	159	2
New Brunswick	6	1	3	0	6	1	6	0
Manitoba	6	1	96	0	5	1	9	0
Newfoundland	5	1	3	0	5	1	0	0
Nova Scotia	5	1	3	0	4	1	4	0
Northwest Territories	2	0	61	0	4	1	4	0
Prince Edward Island	0	0	0	0	2	0	0	0
Yukon Territory	1	0	0	0	2	0	8	0
Undisclosed Province <sup>(2)</sup>	17	4	954	5	9	2	2	0
	436		19,197		428		9,436	

Note:

1. Transaction value is not disclosed for all deals
2. Target province is not disclosed for all deals

Figure 6

### CROSS-BORDER TRANSACTIONS: 2015 Q1

	2014 Q1		2015 Q1	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
<b>Outbound M&amp;A (CDN Buyer/ Foreign Target)</b>	161	13,667	165	30,099
<b>Top Foreign Target Country for CDN Acquirors</b>				
United States	111	4,659	101	11,208
United Kingdom	8	2,321	11	6,000
<b>Inbound M&amp;A (Foreign Buyer/ CDN Target)</b>	75	8,190	111	3,414
<b>Top Foreign Acquiror for CDN Companies</b>				
United States	50	3,848	69	2,489
France	4	534	7	0
<b>Total Cross Border</b>	236	21,857	276	33,513
<b>Outbound : Inbound Ratio</b>	2.15	1.67	1.49	8.81
<b>Cross Border as % of Total Activity</b>	36%	60%	42%	75%

Note:

1. Transaction value is not disclosed for all deals

## Largest Transactions Announced During Q1 2015

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED	
1.	\$8,884	Fortum Distribution AB Borealis Infrastructure Trust; AP Fonden 3; AP Fonden 1; Folksam AB Fortum Oyj	Target Acquiror Vender	13-Mar-15
2.	\$3,197	City National Corporation Royal Bank of Canada Eaton Vance Management	Target Acquiror Vender	22-Jan-15
3.	\$3,010	ABP (Jersey) Limited Canada Pension Plan Investment Board; Hermes GPE Goldman Sachs Group, Merchant Banking Division; Infracapital	Target Acquiror Vender	31-Mar-15
4.	\$2,391	Brit PLC Fairfax Financial Holdings Limited Apollo Global Management, LLC; and others	Target Acquiror Vender	16-Feb-15
5.	\$1,587	Fundtech Ltd. DH Corporation BServ, Inc.	Target Acquiror Vender	30-Mar-15
6.	\$1,381	Rio Alto Mining Limited Tahoe Resources Inc. Aberdeen International Inc.; and others	Target Acquiror Vender	9-Feb-15
7.	\$1,111	Eurostar Group Limited Caisse de dépôt et placement du Québec; Hermes GPE	Target Acquiror	4-Mar-15
8.	\$1,084	CSH Master Care USA Inc. HCP, Inc.; Brookdale Senior Living Inc. Chartwell Retirement Residences	Target Acquiror Vender	17-Mar-15
9.	\$811	Survitec Group Limited Onex Corporation Warburg Pincus LLC	Target Acquiror Vender	12-Jan-15
10.	\$785	Fifty States Limited The Intertain Group Limited Gamesys Limited	Target Acquiror Vender	6-Feb-15
11.	\$784	NorthWest International Healthcare Properties Real Estate Investment NorthWest Real Estate Investment Trust Northwest Value Partners Inc.	Target Acquiror Vender	11-Mar-15
12.	\$624	Avborne Accessory and Sonic Industries and Sargent Aerospace & Defense and Sargent Aerospace Canada Roller Bearing Company of America, Inc. Dover Corporation (Canada) Limited; Dover Engineered Systems, Inc.	Target  Acquiror Vender	26-Mar-15

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](http://www.crosbieco.com) or contact 416-362-7726.