

CROSBIE & COMPANY CANADIAN M&A REPORT Q1 2017

Overview

Canadian M&A activity (which we define as all M&A deals involving a Canadian company as a material counterparty) was fueled by the mid-market as the number of announced transactions in Q1 surged to the highest level in the last 5 years. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 771 announcements in Q1, up 11% from the previous quarter and up 28% from the same quarter last year. The quarter marks the fourth consecutive quarter where activity increased year-over-year.

Due to continued mega-deal activity (transactions in excess of \$1B in value), the value of announced transactions increased 61% from last quarter to \$80B in this quarter, back above the longer term quarterly average observed since 2012.

The strength in M&A activity during the quarter was spread across the industry spectrum, with 11 of the 14 sectors experiencing an increase in activity. However, the year over year increase in activity was primarily driven by three key sectors: Metals and Mining, Precious Metals and Real Estate. From a deal-size perspective, most of the increase in activity can be attributed to the middle market (under \$250M) category.

Domestic M&A Transactions

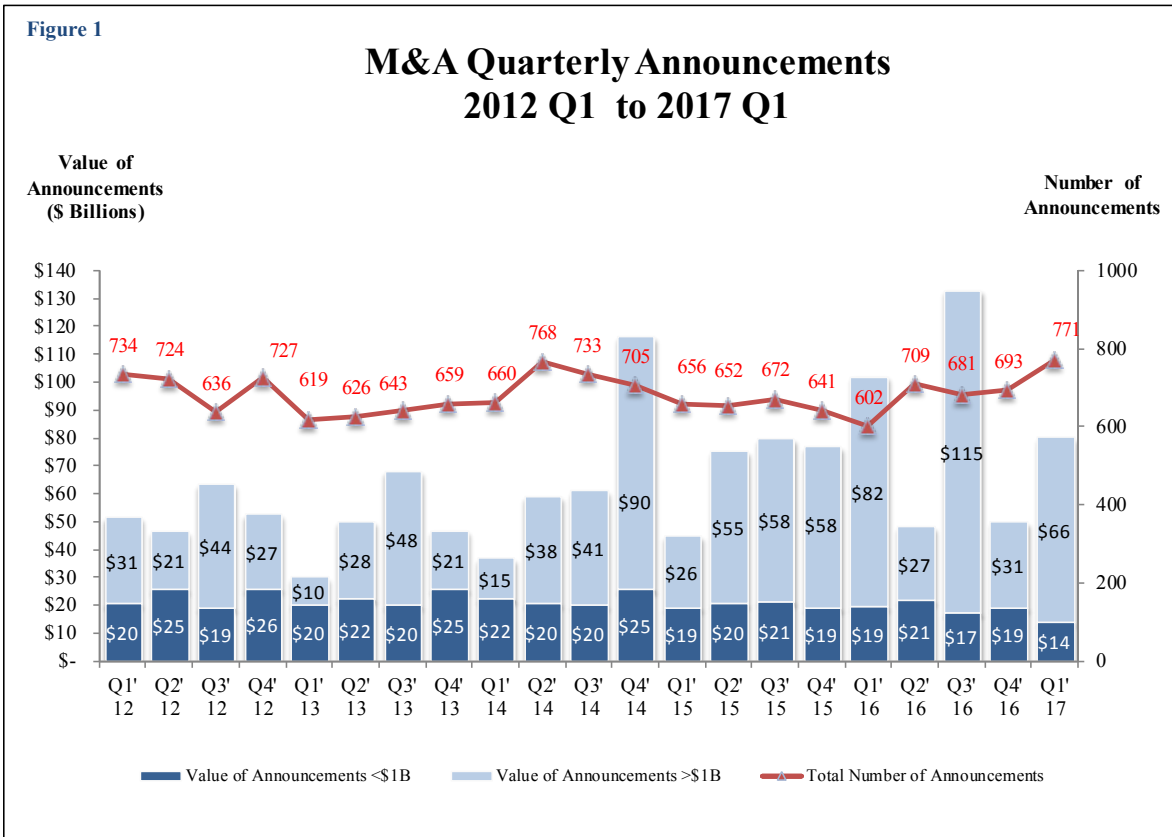
Figure 2 illustrates that Canadian domestic M&A activity soared in Q1. There were 505 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q1, up 24% from 408 transactions in the same quarter last year.

Mega-Deals

There were 17 mega-deals announced in Q1, representing an aggregate value of \$66B. Mega-deals accounted for over 83% of the total value of M&A activity for the quarter.

The largest announced transaction was **Cenovus Energy's** \$18B acquisition of ConocoPhillips' 50% interest in the **FCCL Partnership**, the jointly owned oil sands venture operated by Cenovus, as well as certain Deep Basin conventional assets in Western Canada.

The second largest transaction of the quarter featured **AltaGas** acquiring US based **WGL Holdings** in a transaction valued at \$8.7B as the company becomes a larger and more diverse energy infrastructure company.



Financial Sponsors

Financial sponsors remained active in the first quarter of 2017 on both the buy-side and sell-side with 12 transactions (in excess of \$100M) valued in aggregate at \$24.3B. Seven of the ten largest transactions in the quarter involved a financial sponsor, including several Canadian pension funds who continue to pursue large transactions both domestically and abroad. However, a number of pension funds have started to raise concerns that intense competition has driven valuations too high for some assets, such as sought after infrastructure assets which can provide stable long term inflation-protected returns, fitting well with the nature of their liabilities.

Noteworthy transactions by a financial sponsor in Q1 included the acquisition of **GE Osmonics** (GE Water) by **Caisse de depot et placement du Quebec**, together with **SUEZ SA**, for \$4.5B; coveting the company's stable recurring revenue stream and high quality diversified customer base. During the quarter, the Caisse also partnered with **KKR & Co.** and management to acquire **USI Insurance Services** from Onex Corporation for \$5.8B.

Industry Sector Activity

The most active sector by number of announced transactions was **Metals and Mining** with 123 deals valued at \$1.9B, a 66% increase in activity from Q1 2016. The sector's largest transaction involved US based **The Washington Companies'** acquisition of **Dominion Diamond Corporation**, a TSX listed Canadian mining company, for \$1.7M.

Real Estate, historically one of the most active sectors, rebounded 23% from Q1 2016 to 90 transactions worth \$8.7B. The largest deal in the sector involved **Starwood Capital Group's** \$4B acquisition of **Milestone Apartment Real Estate Investment Trust**, a Canadian publicly-traded REIT.

The most active sector by deal value was **Energy** with 52 deals valued at \$22.9B, largely due to the Cenovus Energy transaction mentioned above. Another key transaction in the sector was the \$3.4B acquisition of **Marathon Oil's** Canadian operations to **Canadian Natural Resources Limited** and **Shell Canada Energy Ltd.**

Utilities were also active from a deal value perspective with over \$12B in announced transactions. Significant transactions included **AltaGas'** acquisition of **WGL Holdings**, a US based gas utility, for \$8.7B and **AIMCo** and **AES Corporation's** \$2.1B deal to acquire US based **Sustainable Power Group**, the largest independent owner, operator and developer of utility scale solar assets in the United States.

Breakdown by Transaction Size

While the aggregate transaction value for the quarter was

Figure 2

DOMESTIC VS FOREIGN M&A: 2017 Q1

	2016 Q1		2017 Q1	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	276	6,021	353	28,017
With Foreign Buyers	132	19,946	152	18,108
Domestic M&A	<u>408</u>	<u>35,763</u>	<u>505</u>	<u>46,126</u>
Foreign Targets (Canadian Buyer)	151	61,717	207	27,126
Canadian Foreign Subsidiaries Sold to Foreign Buyers	43	4,066	59	6,496
Foreign M&A	<u>194</u>	<u>65,783</u>	<u>266</u>	<u>33,622</u>
	<u>602</u>	<u>101,547</u>	<u>771</u>	<u>79,748</u>

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2017 Q1

INDUSTRY GROUPS	2016 Q1		2017 Q1	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Information Technology	92	1,699	92	6,589
Industrials	72	23,698	77	8,172
Metals and Mining	74	1,408	123	1,908
Real Estate	73	7,658	90	8,740
Consumer Discretionary	63	17,085	58	3,053
Precious Metals	51	1,493	93	629
Energy	47	22,314	52	22,946
Financial Services	31	613	40	9,922
Healthcare	31	931	42	2,571
Other	28	671	42	888
Consumer Staples	13	3,164	28	2,023
Utilities	13	20,181	17	12,180
Materials	11	179	15	98
Telecommunication Services	3	452	2	29
TOTAL	<u>602</u>	<u>101,547</u>	<u>771</u>	<u>79,748</u>
Services ⁽²⁾	82	25,239	85	9,772

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: 2017 Q1

Size	2016 Q1				2017 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	218	36	3,088	3	308	40	3,540	4
\$101m-\$250m	19	3	3,021	3	21	3	3,379	4
\$251m-\$500m	14	2	5,072	5	12	2	4,093	5
\$501m-\$1b	11	2	7,929	8	4	1	2,538	3
>\$1b	16	3	82,437	81	17	2	66,198	83
Undisclosed	324	54	n/a	n/a	409	53	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

largely driven by mega-deals, the bulk of the activity came from transactions with deal values under \$250 million.

As shown in Figure 4, the middle market continues to be the foundation of Canadian M&A transaction volume with deals under \$250 million representing 91% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$6.9B or approximately 9% of total M&A value. In the first quarter of 2017, transaction size was not disclosed for 53% of the transactions, consistent with 54% in 2016. 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 middle market as we define it here.

Target by Province

As shown in Figure 5, domestic M&A activity varies considerably by province. In Q1 2017, the provinces with the most announcements (in declining order of activity) were Ontario, British Columbia, Quebec and Alberta. These four provinces represented 85% of activity in the quarter.

The increase in domestic activity year over year (505 announcements in Q1 2017 vs 408 in Q1 2016), was attributable to increases in activity in Ontario, British Columbia and Alberta. In Ontario, M&A activity increased 20% (185 versus 154 in Q1 2016); British Columbia increased 27% to 93 transactions; and Alberta increased 30% to 73 transactions.

Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 47% 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 1.4 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q1 by one and a half 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. However, inbound activity increased significantly as foreign firms acquired more Canadian companies in Q1 compared to the same quarter last year (152 vs 132 in Q1 2016). The value of inbound transactions was slightly below the same quarter last year (\$18B vs \$19.9B in Q1 2016).

Despite continued weakness in the Canadian dollar relative to the US dollar, Canadian companies remained active buyers south of the border, buying more US companies (133) for a higher value (\$25.5B) than US acquisitions of Canadian companies (75 deals for \$7.2B).

Figure 5

CANADIAN TARGETS BY PROVINCE: 2017 Q1

	2016 Q1				2017 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	154	38	14,939	42	185	37	11,448	25
British Columbia	73	18	3,083	9	93	18	2,593	6
Alberta	56	14	4,020	11	73	14	7,312	16
Quebec	71	17	10,786	30	75	15	2,133	5
Saskatchewan	9	2	354	1	12	2	33	0
New Brunswick	3	1	5	0	7	1	5	0
Manitoba	6	1	52	0	9	2	12	0
Newfoundland	2	0	0	0	12	2	1	0
Nova Scotia	5	1	1	0	6	1	2,840	6
Northwest Territories	3	1	0	0	4	1	1,689	4
Prince Edward Island	2	0	0	0	0	0	0	0
Yukon Territory	0	0	0	0	6	1	1	0
Undisclosed Province(2)	24	6	2,523	7	23	5	18,059	39
	408		35,763		505		46,126	

Notes:

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

Figure 6

CROSS-BORDER TRANSACTIONS: 2017 Q1

	2016 Q1		2017 Q1	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	151	61,717	207	27,126
Inbound M&A (Foreign Buyer/ CDN Target)	132	19,946	152	18,108
Total Cross Border	283	81,663	359	45,235
<i>Outbound : Inbound Ratio</i>	1.14	3.09	1.36	1.50
<i>Cross Border as % of Total Activity</i>	47%	80%	47%	57%
Canada / US Activity				
US Target	89	43,927	133	25,475
US Buyer	99	14,755	75	7,178

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q1 2017

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$17,711	FCCL Oil Sands Partner And Majority Of Western Canada Deep Basin Gas Asset Cenovus Energy Inc. ConocoPhillips	Target Acquiror Vendor	29-Mar-17
\$8,669	WGL Holdings, Inc. AltaGas Ltd.	Target Acquiror	25-Jan-17
\$5,746	USI Insurance Services, LLC KKR & Co. L.P; Caisse de dépôt et placement du Québec Onex Corporation; USI Holdings Corporation	Target Acquiror Vendor	17-Mar-17
\$4,706	DH Corporation Vista Equity Partners	Target Acquiror	13-Mar-17
\$4,548	GE Osmonics, Inc. Caisse de dépôt et placement du Québec; SUEZ SA General Electric Company	Target Acquiror Vendor	8-Mar-17
\$4,035	Milestone Apartments Real Estate Investment Trust Starwood Capital Group	Target Acquiror	19-Jan-17
\$3,380	Marathon Oil Canada Corporation Canadian Natural Resources Limited; Shell Canada Limited; others Marathon Oil Corporation	Target Acquiror Vendor	9-Mar-17
\$2,820	Reliance Home Comfort Cheung Kong Property Holdings Limited Alinda Capital Partners LLC	Target Acquiror Vendor	31-Mar-17
\$2,401	Popeyes Louisiana Kitchen, Inc. Restaurant Brands International Inc.	Target Acquiror	21-Feb-17
\$2,066	Sustainable Power Group, LLC The AES Corporation; Alberta Investment Management Corporation Fir Tree Partners	Target Acquiror Vendor	24-Feb-17
\$1,866	The Leadenhall Building C C Land Holdings Limited The British Land Company PLC; Oxford Properties Group, Inc.	Target Acquiror Vendor	1-Mar-17
\$1,717	Valeant Pharmaceuticals, Skincare Brands CeraVe, AcneFree & Ambi L'Oréal S.A. Valeant Pharmaceuticals International, Inc.	Target Acquiror Vendor	10-Jan-17
\$1,691	Dominion Diamond Corporation The Washington Companies	Target Acquiror	19-Mar-17

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 Ian Macdonell at 416-362-1953 or visit www.crosbieco.com.