

CROSBIE & COMPANY CANADIAN M&A REPORT Q2 2015

Overview

The Canadian M&A market experienced its fourth consecutive quarter of declining activity. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 652 announcements in Q1, down slightly from the previous quarter and down 15% from the recent peak in activity in Q2 2014.

However, due to increased mega deal activity (transactions in excess of \$1B in value), the value of announced transactions jumped 68% from the first quarter to \$75B in the second quarter, the second highest level observed in recent years.

The year over year decline in activity was relatively broad-based, occurring across ten 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

Figure 2 illustrates that Canadian domestic M&A activity, declined significantly in Q2. There were 435 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q2, down 14% from the 508 transactions in the same quarter last year.

Mega-Deals

There were 14 mega-deal transactions in Q2, representing an aggregate value of \$54.7B.

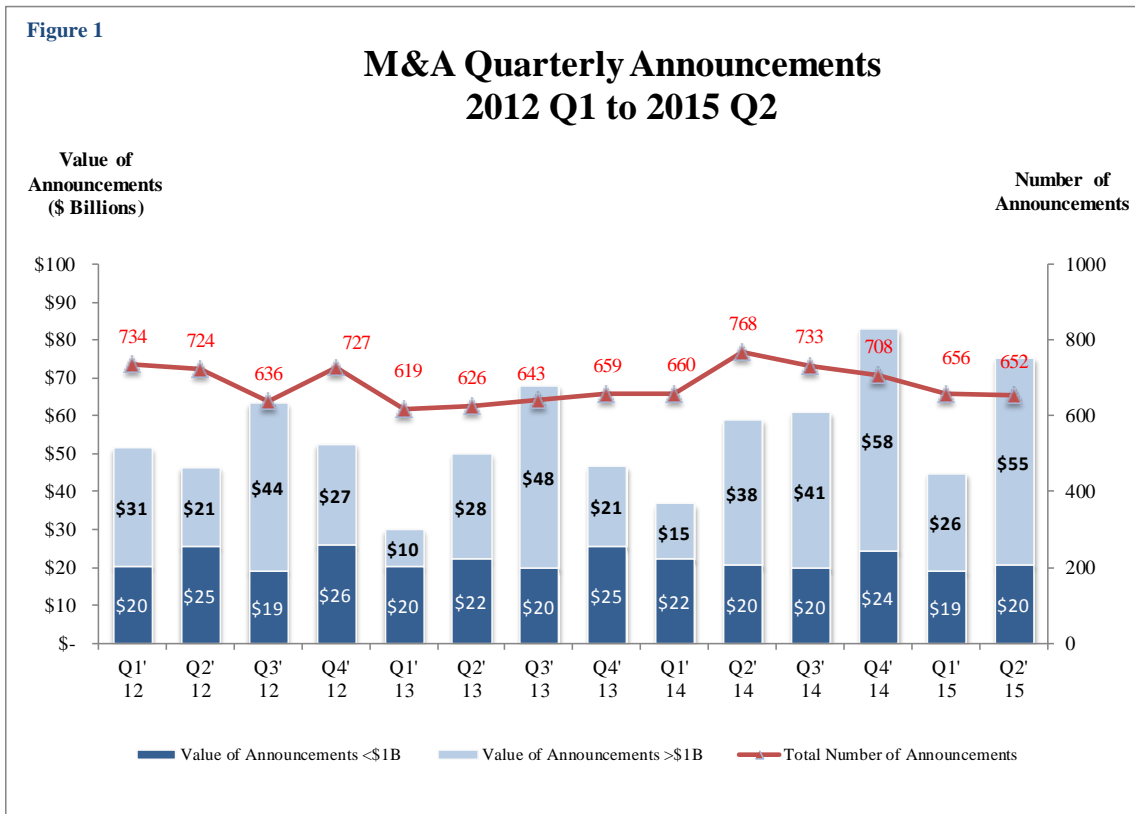
The two largest transactions of the quarter both involved **General Electric**, as it executed its strategy of focussing on its industrial verticals and reducing exposure to the financing business. GE

sold its private equity lending arm, **Antares Capital**, to **CPPIB Credit Investments Inc.** for \$14.8B.

GE also divested its fleet management operations in the U.S., Mexico, Australia and New Zealand to **Element Financial Corporation** for \$8.6B.

Financial Sponsors

Financials sponsors remained active in the second quarter of 2015 on both the buy-side and sell-side with 17 transactions (in excess of \$100M), valued in aggregate at \$17B. Five of the ten largest transactions involved a financial sponsor, including **CPPIB's** acquisition of **Informatica Corporation** for \$6.7B. **OMERS** and **AIMCO** teamed up to acquire **Environmental Resources Management Limited**, a UK environmental consulting services company, for \$2.1B.



Industry Sector Activity

The most active sector by number of announced transactions was **Industrials** with 95 deals valued at \$14.8B, a 12% increase in activity from Q2 2014. The sector's largest transaction involved **Magna International** divesting its interiors operation to Spanish auto parts manufacturer **Grupo Antolin-Irausa** for \$525M.

After eleven straight quarters as the most active sector, transactions from the **Real Estate** sector declined 20% from the Q2 2014 to 91 transactions worth \$14.6B. The largest transaction in the sector saw **Hudson's Bay Company** and **Simon Property Group** acquiring 40 real estate properties in Germany for \$3.3B. Also notable was **Brookfield Property Group's** \$3.1B acquisition of US residential real estate investment trust, **Associated Estates Realty Corporation**.

Financial Services was the most active sector by deal value with over \$16B in announced transactions. Significant transactions included the previously mentioned GE Antares Capital acquisitions and **OMERS** purchase of 30% of **Brit PLC**, a UK-based specialty Lloyd's insurer, for \$640M and the acquisition of **Bentall Kennedy** by **Sun Life Investment Management** for \$560M.

Despite a 45% year over year decline in activity (53 transactions in Q2 2015 vs. 97 transactions in Q2 2014), the **Energy** sector was still active in terms of deal value with \$11.3B worth of transactions, including four mega-deals. Slumping oil prices provided opportunity for strategic and financial groups alike with strong balance sheets to acquire assets at a discount, such as **Crescent Point Energy Corp's** purchase of **Legacy Oil and Gas** for \$1.5B. However, other players were looking to raise capital through the sale of non-core assets, including **Cenovus** divesting its interest in **Heritage Royalty to Ontario Teachers' Pension Plan** for \$3.3B and **Apache** selling **Quadrant Energy to Brookfield Asset Management** and **Macquarie Capital Group Limited** acquired for \$2.6B.

Activity in the **Information Technology** sector was also strong with 91 transactions valued at \$6.9B. The largest IT transaction was the aforementioned Informatca Corporation transaction.

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 87% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were

Figure 2

DOMESTIC VS. FOREIGN M&A: 2015 Q2

	2014 Q2		2015 Q2	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	391	17,540	328	13,940
With Foreign Buyers	117	11,172	107	3,620
Domestic M&A	508	28,712	435	17,560
Foreign Targets (Canadian Buyer)	181	19,518	170	53,041
Canadian Foreign Subsidiaries Sold to Foreign Buyers	79	10,492	47	4,372
Foreign M&A	260	30,010	217	57,413
	768	58,722	652	74,973

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2015 Q2

INDUSTRY GROUPS	2014 Q2		2015 Q2	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Industrials	85	5,832	95	14,825
Information Technology	80	1,032	91	6,930
Real Estate	114	7,299	91	14,642
Metals and Mining	81	764	73	213
Energy	97	10,845	53	11,314
Precious Metals	66	6,514	53	1,139
Consumer Discretionary	75	18,895	53	4,770
Financial Services	39	558	37	16,104
Other	41	1,013	29	356
Healthcare	40	1,496	30	1,787
Consumer Staples	17	695	24	1,442
Utilities	17	3,447	10	786
Materials	13	331	8	192
Telecommunication Services	3	0	5	472
TOTAL	768	58,722	652	74,973
Services ⁽²⁾	97	12,181	89	15,119

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 Q2

Size	2014 Q2				2015 Q2			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	346	45	5,768	10	253	39	4,404	6
\$101m-\$250m	35	5	5,599	10	19	3	3,404	5
\$251m-\$500m	18	2	6,250	11	13	2	4,767	6
\$501m-\$1b	4	1	2,629	4	12	2	7,721	10
>\$1b	15	2	38,476	66	14	2	54,678	73
Undisclosed	350	46	n/a	n/a	341	52	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

valued at \$8B or approximately 10% of total M&A value. In the second quarter of 2015, transaction size was not disclosed for 52% of transactions, up from 46% 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.

Target by Province

As shown in Figure 5, domestic M&A activity varies considerably by province. In Q2 2015, the provinces with the most announcements (in declining order of activity) were Ontario, B.C., Alberta and Quebec. These four provinces represent 86% of activity in the quarter.

The significant decline in domestic activity year over year (435 announcements in Q2 2015 vs. 508 in Q2 2014), was attributable primarily to declines in activity in Alberta, Quebec, and to a lesser extent, Ontario. In Alberta, depressed M&A activity in the oil patch resulted in a 29% decline in total transactions (75 versus 105 in Q2 2014), while Quebec declined 32% to 43 transactions and Ontario fell 10% to 150 transactions.

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 1.6 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q2 by nearly 15 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 Q2

	2014 Q2				2015 Q2			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	167	33	3,608	13	150	34	5,807	33
British Columbia	100	20	1,444	5	99	23	2,026	12
Alberta	105	21	15,123	53	75	17	7,613	43
Quebec	73	14	6,898	24	49	11	186	1
Saskatchewan	25	5	901	3	17	4	708	4
New Brunswick	2	0	223	1	5	1	95	1
Manitoba	12	2	39	0	16	4	29	0
Newfoundland	4	1	40	0	5	1	430	2
Nova Scotia	12	2	205	1	6	1	601	3
Northwest Territories	0	0	0	0	0	0	0	0
Prince Edward Island	0	0	0	0	0	0	0	0
Nunavut	1	0	0	0	0	0	0	0
Yukon Territory	1	0	0	0	0	0	0	0
Undisclosed Province ⁽²⁾	6	1	232	1	13	3	65	0
	508		28,712		435		17,560	

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 Q2

	2014 Q2		2015 Q2	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	181	19,518	170	53,041
Inbound M&A (Foreign Buyer/ CDN Target)	117	11,172	107	3,620
Total Cross Border	298	30,690	277	56,661
<i>Outbound : Inbound Ratio</i>	1.55	1.75	1.59	14.65
<i>Cross Border as % of Total Activity</i>	39%	52%	42%	76%
Canada / US Activity				
US Target	119	6,756	105	38,582
US Buyer	85	6,827	77	1,962

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q2 2015

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED	
1.	\$14,780	GE Antares Capital CPPIB Credit Investments Inc. General Electric Capital Corporation	Target Acquiror Vendor	9-Jun-15
2.	\$8,600	Gelco Corporation, U.S., Mexico, Australia and New Zealand Fleet Operations Element Financial Corporation General Electric Capital Corporation	Target Acquiror Vendor	29-Jun-15
3.	\$6,674	Informatica Corporation Permira Advisers Ltd.; Canada Pension Plan Investment Board	Target Acquiror	7-Apr-15
4.	\$3,329	GALERIA Holding GmbH, 40 Properties Simon Property Group Inc.; Hudson's Bay Company GALERIA Holding GmbH	Target Acquiror Vendor	15-Jun-15
5.	\$3,300	Heritage Royalty Limited Partnership Ontario Teachers' Pension Plan Cenovus Energy Inc.	Target Acquiror Vendor	30-Jun-15
6.	\$3,140	GALERIA Holding GmbH and ASSET Objekte Vermögensverwaltungsgesellschaft Hudson's Bay Company METRO AG; METRO PROPERTIES GmbH & Co. KG	Target Acquiror Vendor	15-Jun-15
7.	\$3,062	Associated Estates Realty Corporation Brookfield Property Group LLC Land and Buildings Investment Management, LLC	Target Acquiror Vendor	22-Apr-15
8.	\$2,631	Quadrant Energy Brookfield Asset Management Inc; Macquarie Capital Group Limited Apache Corp.	Target Acquiror Vendor	8-Apr-15
9.	\$2,097	Environmental Resources Management Limited OMERS Private Equity; Alberta Investment Management Corporation Charterhouse Capital Partners LLP	Target Acquiror Vendor	15-Jun-15
10.	\$1,717	T1&B towers in La Défense and historic headquarters of PSA Group Gecina SA Ivanhoé Cambridge, Inc.	Target Acquiror Vendor	2-Jun-15
11.	\$1,546	Legacy Oil + Gas Inc. Crescent Point Energy Corp IG Investment Management, Ltd.; KERN Partners; and others	Target Acquiror Vendor	26-May-15
12.	\$1,488	GrafTech International Ltd. Brookfield Asset Management Inc. Janus Capital Management LLC; Royce & Associates, LLC; and others	Target Acquiror Vendor	29-Apr-15
13.	\$1,157	Niska Gas Storage Partners LLC Brookfield Infrastructure Partners L.P. Niska Sponsor Holdings Cooperatief U.A.	Target Acquiror Vendor	14-Jun-15

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.