

CROSBIE & COMPANY CANADIAN M&A REPORT Q3 2016

Overview

Canadian M&A activity (which we define as all M&A deals involving a Canadian company as a material counterparty) was tracked at 681 transactions in Q3 of 2016. Based on figures developed by Crosbie & Company using Capital IQ and other sources, activity in Q3 was roughly in line with the same quarter last year although 4% below the 2 year high water mark in Q2 2016. Deal value, on the back of a number of record mega-deals, surged to \$132B, up 65% from \$80B in Q3 2015.

Activity in the third quarter reflects a strong year over year recovery in the resource sectors (Metals & Mining, Precious Metals, and Energy). This activity was offset however, against declines in historically active sectors, including Information Technology and Real Estate. From a deal-size

perspective, most of the year over year increase in activity can be attributed to the middle market (under \$250M) category, offset against a comparable decline in deals where the transactions value was undisclosed.

Domestic M&A Transactions

Figure 2 illustrates the increase in Canadian domestic M&A activity during Q3. There were 461 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q3, up 7% from 433 transactions in the same quarter last year.

Mega-Deals

There were 16 mega-deals announced in Q3, representing an aggregate value of \$115B, a four year high water mark and up 95% from the \$58B in Q3 2015.

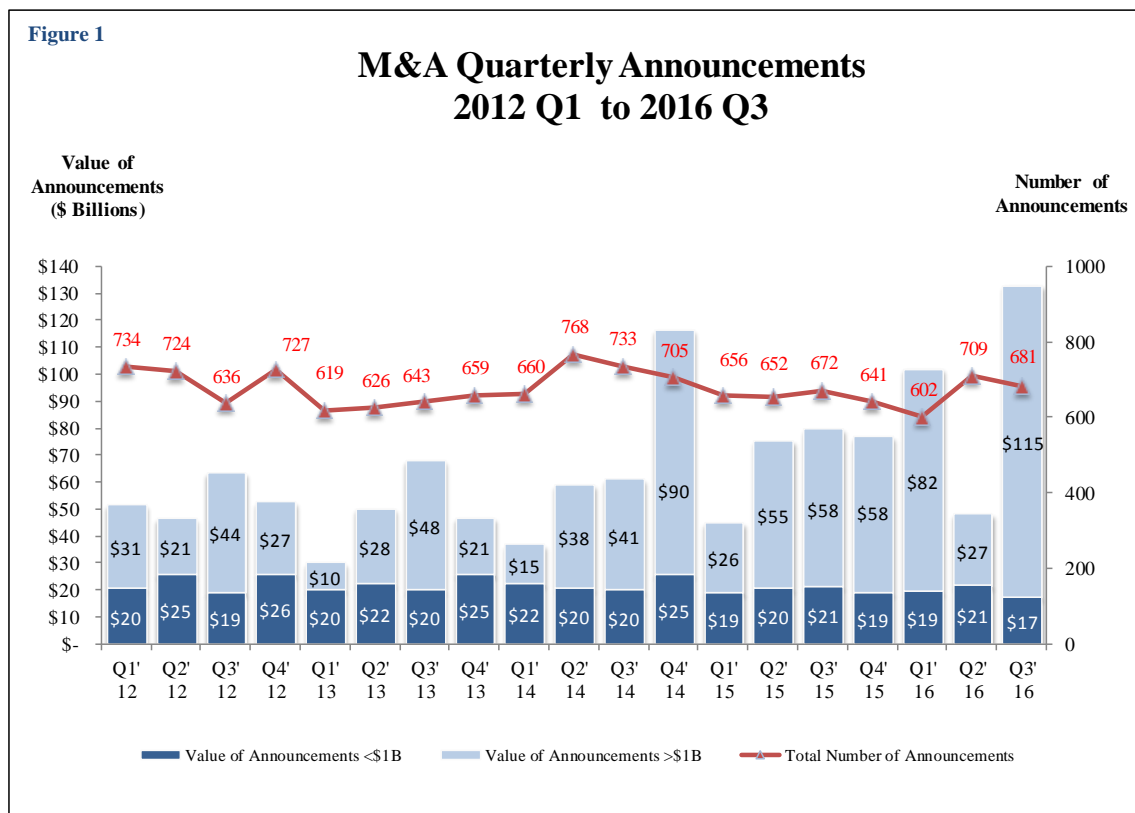
The largest transaction of the quarter was

Enbridge's announced acquisition of **Spectra Energy**, a Texas-based pipeline and midstream oil and gas company, for \$61B., creating the largest energy infrastructure company in North America. The transaction marks the largest acquisition of a foreign company by a Canadian company to date.

The second largest transaction of the quarter saw the announced merger of equals between two Canadian agri-product giants, **Agrium** and **Potash Corporation**, in a transaction valued at \$24B.

Financial Sponsors

Financial sponsors remained active in the third quarter of 2016 on both the buy-side and sell-side with 10 transactions (in excess of \$100M) valued in aggregate at \$13.8B. Three of the ten largest transactions in the quarter involved a financial sponsor, the largest



of which featured **Onex Corporation's** acquisition of **Thomson Reuters' Intellectual Property & Science business** for \$4.7B

Industry Sector Activity

Metals and Mining was the most active sector with 94 deals valued at \$1.5B, an increase of 13% over the level of activity in Q3 2015. The largest transaction within the sector was the acquisition of **Essar Steel Algoma Inc. by Ontario Steel Investment Limited** for \$1.2B. **Precious Metals** also experienced another active quarter, increasing 95% to 72 deals with an aggregate transaction value of \$1.3B (compared to 37 transactions with an aggregate value of \$1.4B in Q3 2015).

Industrials was the second most active sector with 92 deals valued at \$2.2B in aggregate.

Real Estate remained active with 90 deals valued at \$8.5B, despite a 16% decrease in activity from 107 deals in Q3 2015. The largest deal in the sector involved **Caisse de depot et placement du Quebec's** \$2.6B acquisition of France-based real estate management company **Foncia Groupe SAS**.

Energy saw an uptick in activity with 61 deals, up 39% from 44 deals in the same quarter last year.

Experiencing notable declines in activity were the **Information Technology** and **Consumer Discretionary** sectors, which decreased 27% and 17% from the same period last year, respectively.

Breakdown by Transaction Size

While the aggregate transaction value for the quarter was largely driven by mega-deals (87% at announced transaction values), 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 account for the lion's share 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 \$7.3B or approximately 5% of total M&A value.

In the third quarter of 2016, transaction size was not disclosed for 51% of the transactions, consistent with 57% in 2015. 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 Q3 2016, the provinces with

Figure 2

DOMESTIC VS FOREIGN M&A: 2016 Q3

	2015 Q3		2016 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	315	8,784	357	40,285
With Foreign Buyers	118	8,875	104	6,425
Domestic M&A	<u>433</u>	<u>17,659</u>	<u>461</u>	<u>46,710</u>
Foreign Targets (Canadian Buyer)	185	47,152	173	77,742
Canadian Foreign Subsidiaries Sold to Foreign Buyers	54	14,825	47	7,972
Foreign M&A	<u>239</u>	<u>61,978</u>	<u>220</u>	<u>85,714</u>
	<u>672</u>	<u>79,636</u>	<u>681</u>	<u>132,424</u>

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2016 Q3

INDUSTRY GROUPS	2015 Q3		2016 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Consumer Discretionary	75	13,429	62	4,009
Consumer Staples	16	9,615	12	89
Energy	44	1,372	61	70,572
Financial Services	37	1,300	44	374
Healthcare	34	9,319	34	2,358
Industrials	84	7,369	92	2,154
Information Technology	91	3,434	66	15,051
Materials	13	705	12	25,305
Metals and Mining	83	1,708	94	1,507
Other	33	530	29	742
Precious Metals	37	1,408	72	1,256
Real Estate	107	15,363	90	8,446
Telecommunication Services	2	45	3	207
Utilities	16	14,038	10	356
TOTAL	<u>672</u>	<u>79,636</u>	<u>681</u>	<u>132,424</u>
Services ⁽²⁾	92	8,704	94	70,552

Notes:

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

Figure 4

ACTIVITY BY SIZE OF DEAL: 2016 Q3

Size	2015 Q3				2016 Q3			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	225	33	4,088	5	285	42	4,409	3
\$101m-\$250m	23	3	3,521	4	17	2	2,844	2
\$251m-\$500m	9	1	3,166	4	6	1	2,332	2
\$501m-\$1b	15	2	10,638	13	9	1	7,431	6
>\$1b	15	2	58,223	73	16	2	115,408	87
Undisclosed	385	57	n/a	n/a	348	51	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

the most announcements (in declining order of activity) were Ontario, British Columbia, Quebec and Alberta. These four provinces represent 84% of activity in the quarter.

The increase in domestic activity year over year (461 announcements in Q3 2016 vs 433 in Q3 2015), was partially attributable to a 19% increase in activity in Ontario, (174 versus 146 in Q3 2015).

The most active province by number of targets was Ontario with 174 transactions and an aggregate value of \$6.9B, consistent with recent M&A activity trends. The largest transaction with an Ontario target was the acquisition of **Trader Corporation** by **Thoma Bravo, LLC** for \$1.6B.

Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 41% of all transactions involving a foreign target or buyer, demonstrating the global nature of the Canadian M&A activity.

Canadian companies making acquisitions abroad (“outbound” transactions) outnumbered the number of foreign companies acquiring in Canada (“inbound” transactions) by a factor of 1.7 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q3 by over twelve times, primarily due to the aforementioned Enbridge/Spectra Energy transaction. 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 (even after excluding the Enbridge transaction). Inbound activity decreased as foreign firms acquired less Canadian companies in Q3 compared to the same quarter last year (104 vs 118 in Q3 2015). Similarly, the value of inbound transactions declined 28% compared to same quarter last year (\$6.4B vs \$8.9B in Q3 2015).

Figure 5

CANADIAN TARGETS BY PROVINCE: 2016 Q3

	2015 Q3				2016 Q3			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	146	34	10,123	57	174	38	6,890	15
British Columbia	97	22	3,145	18	82	18	3,167	7
Quebec	58	13	1,263	7	72	16	833	2
Alberta	54	12	790	4	61	13	28,968	62
Undisclosed Province ⁽²⁾	31	7	1,929	11	28	6	6,375	14
Manitoba	11	3	222	1	7	2	96	0
Saskatchewan	9	2	41	0	14	3	266	1
Newfoundland	9	2	0	0	5	1	73	0
Nova Scotia	7	2	107	1	7	2	35	0
New Brunswick	6	1	38	0	3	1	2	0
Yukon Territory	3	1	0	0	3	1	3	0
Prince Edward Island	2	0	1	0	0	0	0	0
Northwest Territories	0	0	0	0	3	1	0	0
Nunavut	0	0	0	0	2	0	0	0
	433		17,659		461		46,710	

Notes:

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

Figure 6

CROSS-BORDER TRANSACTIONS: 2016 Q3

	2015 Q3		2016 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	185	47,152	173	77,742
Inbound M&A (Foreign Buyer/ CDN Target)	118	8,875	104	6,425
Total Cross Border	303	56,027	277	84,167
Outbound : Inbound Ratio	1.57	5.31	1.66	12.10
Cross Border as % of Total Activity	45%	70%	41%	64%
Canada / US Activity				
US Target	127	20,912	102	70,517
US Buyer	77	6,574	68	4,962

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q3 2016

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$60,975	Spectra Energy Corp. Enbridge Inc.	Target Acquiror	6-Sep-16
\$24,367	Agrium Inc. Potash Corporation of Saskatchewan Inc.	Target Acquiror	12-Sep-16
\$5,734	Playtika Ltd. China Oceanwide Holdings Group Co., Ltd.; Yunfeng Capital; others Caesars Interactive Entertainment, Inc.	Target Acquiror Vendor	30-Jul-16
\$4,657	Thomson Reuters Corporation, Intellectual Property & Science Business Onex Corporation; Baring Private Equity Asia Thomson Reuters Corporation	Target Acquiror Vendor	11-Jul-16
\$2,634	FONCIA Groupe SAS Caisse de dépôt et placement du Québec; CIC Capital Corporation Bridgepoint Advisers Limited; Eurazeo	Target Acquiror Vendor	5-Jul-16
\$2,118	Enterprise Content Division Open Text Corporation Dell EMC; EMC (Benelux) B.V.; EMC International Co.	Target Acquiror Vendor	12-Sep-16
\$2,097	Nova Transportadora do Sudeste S.A. Brookfield Asset Management Inc.; GIC Pte. Ltd.; CIC Capital Corporation Transportadora Associada de Gás S.A.	Target Acquiror Vendor	8-Sep-16
\$1,899	Paramount Resources Ltd., Musreau/Kakwa Area Oil & Gas Properties Seven Generations Energy Ltd. Paramount Resources Ltd.	Target Acquiror Vendor	6-Jul-16
\$1,617	Whistler Blackcomb Holdings Inc. Vail Resorts Inc.	Target Acquiror	8-Aug-16
\$1,575	TRADER Corporation Thoma Bravo, LLC Apax Partners LLP	Target Acquiror Vendor	1-Jul-16
\$1,550	Access Pipeline Inc. Wolf Infrastructure Inc. Devon Energy Corporation	Target Acquiror Vendor	14-Jul-16
\$1,505	1095 Sixth Avenue, New York City Real Summit Investment Ivanhoé Cambridge, Inc.; Callahan Capital Partners	Target Acquiror Vendor	3-Aug-16

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 Ed Giacomelli at 416-362-0020 or visit www.crosbieco.com.