

## CROSBIE & COMPANY CANADIAN M&A REPORT – Q3 2018

### *M&A Activity Reaches New Highs A Huge Quarter for “Made in Canada”*

Canadian M&A activity set a new high-water mark in Q3 2018 with a record 881 announced transactions, as activity increased for a third consecutive quarter. Overall activity for the quarter was bolstered by a robust domestic mid-market deal environment. The strength in activity brings the year-to-date number of announced transactions to 2,541, a 15% increase from 2,211 transactions during the same period last year. Despite the increase in deal activity, aggregate deal value in the third quarter declined slightly to \$68B (from \$74B in Q2 2018), largely due to a decline in the number of mega-deals.

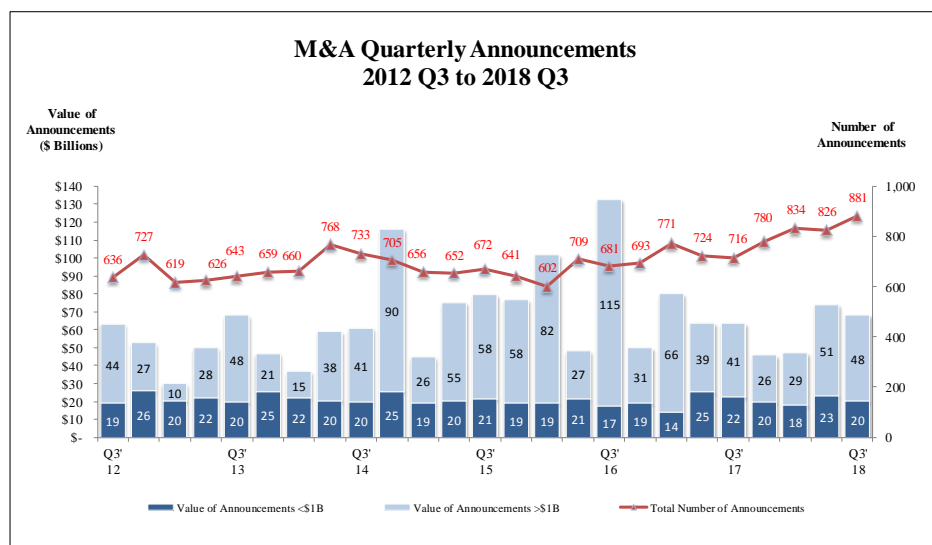
“Mid-Market deal announcements jumped this quarter as business owners took advantage of great market conditions to exit at premium valuations” said Colin Walker, Managing Director at Crosbie & Company. “As well, the number of deals involving both buyer and seller in Canada showed tremendous growth”. In the third quarter, there were 456 of these transactions, which have been steadily increasing since Q1 2017 and have represented a majority of the total activity in each quarter of 2018. Activity involving Canadian buyers of foreign targets increased a more modest 14% to 236 transactions (compared to 207 in Q3 2017).

There were 11 mega-deals announced in the quarter with a total value of \$48B, down from 18 mega-deals valued at \$51B in the second quarter and slightly higher than the 9 mega-deals valued at \$41B during Q3 2017. The largest announced transaction was the **\$13.8B** acquisition of **Forest City Realty Trust**, a publicly traded US real estate company, by **Brookfield Asset Management Inc.** The second largest announced transaction was the **\$8.4B** acquisition of **Randgold Resources** by **Barrick Gold Corp.** If completed, this acquisition will create the world’s largest gold producing company by total output and value. **Brookfield Infrastructure Partners** announced two large acquisitions of **NorthRiver Midstream Inc.** and **EnerCare Inc.** for **\$4.3B** and **\$4.2B** respectively.

During the third quarter, the Canadian M&A market experienced a noticeable decline in large transactions involving financial sponsors (Private Equity and Pension Funds). There were only two announced mega-deal transactions involving financial sponsors compared to 10 in the second quarter. Overall, financial sponsors announced 16 transactions (in excess of \$100M) for a combined value of \$22.4B. However, financial sponsors were acting as vendor in 12 of these transactions as they took advantage of strong sell-side market conditions.

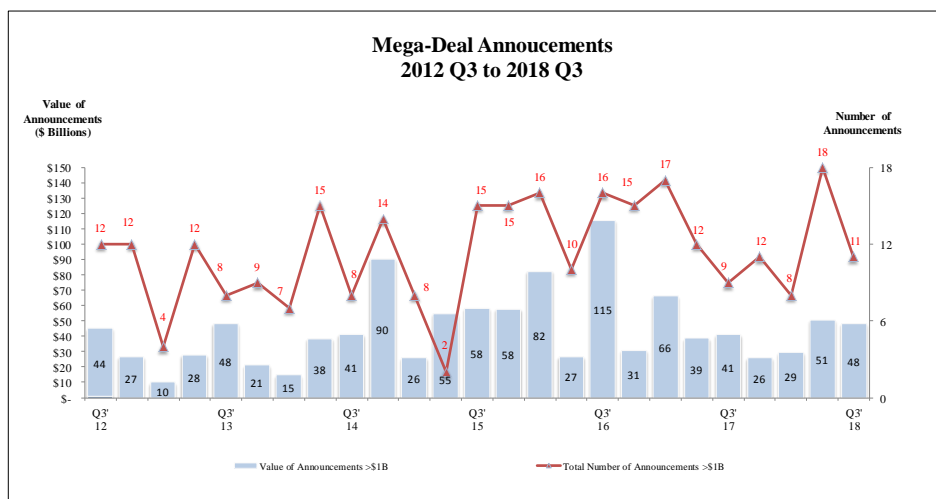
The mix of transactions by industry sector changed significantly compared to the same quarter in 2017 when 18 utility deals represented almost half of the value of the announced transactions. In Q3 2018, **Real Estate** was the most active sector, and had the largest aggregate transaction value. The sector had 122 announced transactions, a 51% increase over the same quarter in 2017. The **\$22.5B** in aggregate deal value was largely comprised of two mega-deals in the quarter, including the previously mentioned **Forest City Realty Trust** transaction and the **\$3.8B** acquisition of the **Investa Office Fund** by **Oxford Properties Group**. Additionally the **Industrial** sector had one of its most active quarters in recent years with 105 announced transactions, a 64% increase over the same quarter in 2017.

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## Overview

- Deal activity continues to increase, following a slight retreat in the second quarter
- Third consecutive quarter with 800+ announced transactions
- Q3 announcements increased by 23% year over year
- Total deal value was \$68B, down 8% from the second quarter this year, but up 8% from Q3 2017
- Conditions for M&A remain generally strong:
  - Rising but historically low interest rates support leveraged financing strategies
  - Significant availability of capital - both debt and equity
  - Despite evidence of some pull-back in valuations, still very attractive valuations by historical standards
  - Strong North American economic growth and business confidence levels



## Mega-Deals

- 11 mega-deals is consistent with the trend over the last 5 quarters, excluding the multi-year high in Q2 2018
- Represented \$48B of total value, a slight decline from Q2 2018
- Largest announced transaction was the **\$13.8B** purchase of **Forest City Realty Trust** by **Brookfield Asset Management**
- **Brookfield** owned entities dominated the mega-deal landscape in Q3 with 5 transactions each exceeding \$2.5B
- Only 2 mega-deals involved financial sponsors, perhaps indicating a decline in the acquisition appetite of “Smart Money” investors

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## Industry Sector Activity

- **Real Estate** was the most active sector in the third quarter with 122 transactions, and experienced the most dollar volume with an aggregate transaction value of \$22.5B
- **Industrial** sector experienced the greatest increase in deal activity (64%) with 105 transactions in the quarter
- **Metals and Mining** deal activity remained strong this quarter with 104 transactions, exceeding 100 transactions in each of the last 7 quarters
- Total transaction value was distributed across several sectors this quarter, contrasting the high concentration of deal value in Q3 2017 in the utilities sector

INDUSTRY GROUPS	2017 Q3		2018 Q3	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Real Estate	81	7,839	122	22,542
Industrials	64	2,750	105	6,081
Metals and Mining	126	107	104	553
Information Technology	74	2,923	77	857
Healthcare	29	1,238	76	1,625
Precious Metals	87	1,470	72	8,949
Other	41	1,133	66	1,367
Energy	44	4,238	64	9,272
Financial Services	50	1,968	56	807
Consumer Discretionary	60	1,034	46	9,265
Consumer Staples	28	6,751	36	2,320
Materials	11	850	28	2,927
Utilities	18	30,778	18	1,578
Telecommunication Services	3	197	11	7
<b>TOTAL</b>	<b>716</b>	<b>63,276</b>	<b>881</b>	<b>68,149</b>
Services	62	817	89	12,411

## Breakdown by Transaction Size

- 92% of transaction volume in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- Mid-market transactions were valued at \$9.4B or approximately 14% of the total M&A value

Size	2017 Q3				2018 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	247	34	3,773	6	350	40	5,249	8
\$101m-\$250m	30	4	4,760	8	27	3	4,158	6
\$251m-\$500m	16	2	5,698	9	15	2	5,457	8
\$501m-\$1b	11	2	8,021	13	7	1	5,132	8
>\$1b	9	1	41,023	65	11	1	48,152	71
Undisclosed	403	56	n/a	n/a	471	53	0	n/a
	<b>716</b>		<b>63,276</b>		<b>881</b>		<b>68,149</b>	

## Domestic Versus Foreign M&A

- Notably high “Made in Canada” activity
- Transactions involving Canadian targets increased 28% to 591 transactions, representing 67% of the total
- Primary driver was Canadian buyers of Canadian targets; 456 deals which is a high-water mark
- Notwithstanding the above, Canadian companies also remained active acquirers abroad with 236 transactions valued at \$32.6B

	2017 Q3		2018 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	335	15,825	456	11,271
With Foreign Buyers	125	3,939	135	15,701
<b>Domestic M&amp;A</b>	<b>460</b>	<b>19,764</b>	<b>591</b>	<b>26,973</b>
Foreign Targets (Canadian Buyer)	207	38,729	236	32,592
Canadian Foreign Subsidiaries Sold to Foreign Buyers	49	4,783	54	8,584
<b>Foreign M&amp;A</b>	<b>256</b>	<b>43,512</b>	<b>290</b>	<b>41,176</b>
	<b>716</b>	<b>63,276</b>	<b>881</b>	<b>68,149</b>

## Cross-Border Deals

- The historical trend of outbound M&A activity outpacing inbound M&A continues, with Canadian companies outspending foreign buyers 2:1
- Cross-border deals represented 42% of total activity and 71% of total deal value
- The United States remains our most active M&A partner representing 62% of cross-border activity

	2017 Q3		2018 Q3	
	# of Deals	Value \$Millions <sup>(1)</sup>	# of Deals	Value \$Millions <sup>(1)</sup>
Outbound M&A (CDN Buyer/ Foreign Target)	207	38,729	236	32,592
Inbound M&A (Foreign Buyer/ CDN Target)	125	3,939	135	15,701
<b>Total Cross Border</b>	<b>332</b>	<b>42,668</b>	<b>371</b>	<b>48,293</b>
<b>Outbound : Inbound Ratio</b>	<b>1.66</b>	<b>9.83</b>	<b>1.75</b>	<b>2.08</b>
<b>Cross Border as % of Total Activity</b>	<b>46%</b>	<b>67%</b>	<b>42%</b>	<b>71%</b>
<b>Canada / US Activity</b>				
US Target	123	35,002	149	17,187
US Buyer	58	2,282	82	456
<b>Total Canada/US</b>	<b>181</b>	<b>37,284</b>	<b>231</b>	<b>17,643</b>
<b>Canada/ US as % of Cross Border</b>	<b>55%</b>	<b>87%</b>	<b>62%</b>	<b>37%</b>

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### Target by Province

- Ontario remains the most active province this quarter with 218 deals valued at \$11.3B
- BC experienced the largest increase in activity with 133 transactions, up 32% from the same quarter last year
- Saskatchewan saw total transaction volume exceed \$1B for the first time since Q2 2016 due to the management led acquisition of AGT Food Ingredients for \$960M

	2017 Q3				2018 Q3			
	# of Deals	%	Value(1) \$ Millions	%	# of Deals	%	Value(1) \$ Millions	%
Ontario	141	31	4,061	21	218	37	11,264	42
British Columbia	101	22	2,513	13	133	23	8,516	32
Quebec	83	18	7,609	38	83	14	3,116	12
Alberta	58	13	3,706	19	78	13	1,978	7
Saskatchewan	8	2	3	0	22	4	1,923	7
Newfoundland	2	0	0	0	19	3	27	0
Undisclosed Province	23	5	958	5	12	2	3	0
Manitoba	7	2	975	5	11	2	132	0
Yukon Territory	9	2	1	0	6	1	6	0
Nova Scotia	13	3	21	0	4	1	4	0
New Brunswick	12	3	117	1	3	1	0	0
Prince Edward Island	1	0	0	0	0	0	0	0
Northwest Territories	1	0	1	0	1	0	0	0
Nunavut	1	0	0	0	1	0	3	0
	<u>460</u>		<u>19,764</u>		<u>591</u>		<u>26,973</u>	

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## Mega Deals in Q3 2018

Target Industry	Value	Target	Role	Transaction Status
Real Estate	\$13,791	Forest City Realty Trust Brookfield Asset Management Inc. Scopia Capital Management LP; Starboard Value LP	Target Acquiror Vendor	Announced
Precious Metals	\$8,427	Randgold Resources Limited Barrick Gold Corporation	Target Acquiror	Announced
Energy	\$4,310	NorthRiver Midstream Inc. Brookfield Infrastructure Partners L.P. Enbridge Inc.	Target Acquiror Vendor	Closed
Consumer Discretionary	\$4,219	EnerCare Inc. Brookfield Infrastructure Partners L.P.	Target Acquiror	Closed
Real Estate	\$3,842	Investa Office Fund Oxford Properties Group, Inc.	Target Acquiror	Announced
Energy	\$2,865	Quadrant Energy Australia Limited Santos Limited Brookfield Asset Management Inc, Caisse de dépôt et placement du Québec	Target Acquiror Vendor	Announced
Industrials	\$2,517	Reliance Gas Transportation Infrastructure Ltd. Brookfield Asset Management Inc. Reliance Industries Limited	Target Acquiror Vendor	Announced
Consumer Discretionary	\$2,350	Aeroplan Loyalty Program Business of Aimia Toronto-Dominion Bank ; Canadian Imperial Bank of Commerce; Air Canada; Visa Aimia Inc.	Target Acquiror Vendor	Announced
Consumer Discretionary	\$2,240	Camsco Inc. Compagnie Générale des Établissements Michelin	Target Acquiror	Announced
Metals & Mining	\$2,002	Nevsun Resources Ltd. Zijin Mining Group Company Limited	Target Acquiror	Announced
Industrials	\$1,589	Global fluid pressure & controls business of Magna International Inc. Hanon Systems Magna International Inc.	Target Acquiror Vendor	Announced

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 Colin Walker at 416-362-7016 or visit [www.crosbieco.com](http://www.crosbieco.com).