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CANADIAN M&A ACTIVITY – SECOND QUARTER 2015 REPORT

Resources Contribute to Continued Malaise

Canadian M&A experienced its fourth consecutive quarter of declining activity in the second quarter of 2015, largely as a result of weakness in the resource sectors. Figures developed by **Crosbie & Company** using Capital IQ and other sources indicated 652 announcements valued at \$75B in Q2 (down from 768 deals worth \$58B in Q2 2014). This represents the lowest level of activity since Q3 2013. For domestic transactions (where the target is in Canada) there were 435 transactions valued at \$17.6B (down from 508 deals worth \$28.7B in Q2 2014).

“Although headlines for a number of large deals may give the impression that M&A activity is recovering, the weakness in the resource sectors, energy in particular, has contributed to overall activity falling to a two year low,” said Richard Betsalel, Director at Crosbie & Company. “With slumping oil prices expected to continue as the ‘new normal’, we are hearing about significant restructuring activity in the oil patch and expect this to eventually result in a rebound in M&A activity as distressed companies are forced into the arms of opportunistic buyers with strong balance sheets.”

The **Energy** sector experienced a 45% decline in activity (53 transactions in Q2 2015 vs. 97 transactions in Q2 2014). Combined with lower activity in **Metals & Mining** and **Precious Metals**, the resources sectors contributed to 56% of the overall decline in M&A activity in the quarter. However, there were a few large Energy transactions involving both strategic buyers and financial players. **Cenovus** divested its interest in **Heritage Royalty** for \$3.3B and **Apache** sold **Quadrant Energy** to **Brookfield Asset Management** and **Macquarie Capital Group** for \$2.6B.

Offsetting some of the domestic weakness this quarter were large acquisitions abroad by Canadian buyers. Canadian companies made 170 acquisitions of foreign targets valued at \$53B compared to 181 transactions valued at \$19.5B in the same quarter last year. “With the domestic economy stuck in neutral, Canadian companies are seeking to gain exposure to higher growth markets, such as the United States,” said Richard Betsalel. “It will be interesting to see if this trend continues going forward as the Canadian dollar weakens towards 10 year lows.”

The number of so-called mega-deals (transactions over \$1B) were relatively flat this quarter, with 14 announcements compared to 15 in Q2 2014. However, the total value of these deals was \$55B, up 42% from Q2 2014. The two largest transactions of the quarter both involved **General Electric** as a seller, 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.

Mid-market M&A activity declined proportionally with the overall decline in the quarter, resulting in 272 reported transactions under \$250M valued at \$7.8B – representing 87% of all transactions with reported values.

Cross-border transactions in the quarter represented 42% of all announcements, in line with the long term trend. However, 76% of the total value of the deals in the quarter represented cross-border M&A, the highest level in over 5 years. Canadian companies continued to be very active internationally in Q2, acquiring 1.6 times more companies abroad than foreigners acquired Canadian companies while outspending their foreign counterparts by nearly 15 times.

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.