

CROSBIE & COMPANY CANADIAN M&A REPORT Q1 2016

Overview

The Canadian M&A activity (which we define as all M&A deals involving a Canadian company as a material counterparty) was fueled by multibillion dollar deals even though the number of deals declined to the lowest since 2012. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 602 announcements in Q1, down 6% from the previous quarter and down 8% from the same quarter last year. This was the sixth decline in activity in the last seven quarters.

Due to continued strength in mega-deal activity (transactions in excess of \$1B in value), the value of announced transactions increased 32% from last quarter to \$101B in this quarter, the second highest level observed in recent years.

The year over year decline in activity was concentrated in three key sectors: Real Estate, Consumer Discretionary and Industrials. From a deal-size perspective, most of the decline 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 declined in Q1. There were 408 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q1, down 5% from 428 transactions in the same quarter last year.

Mega-Deals

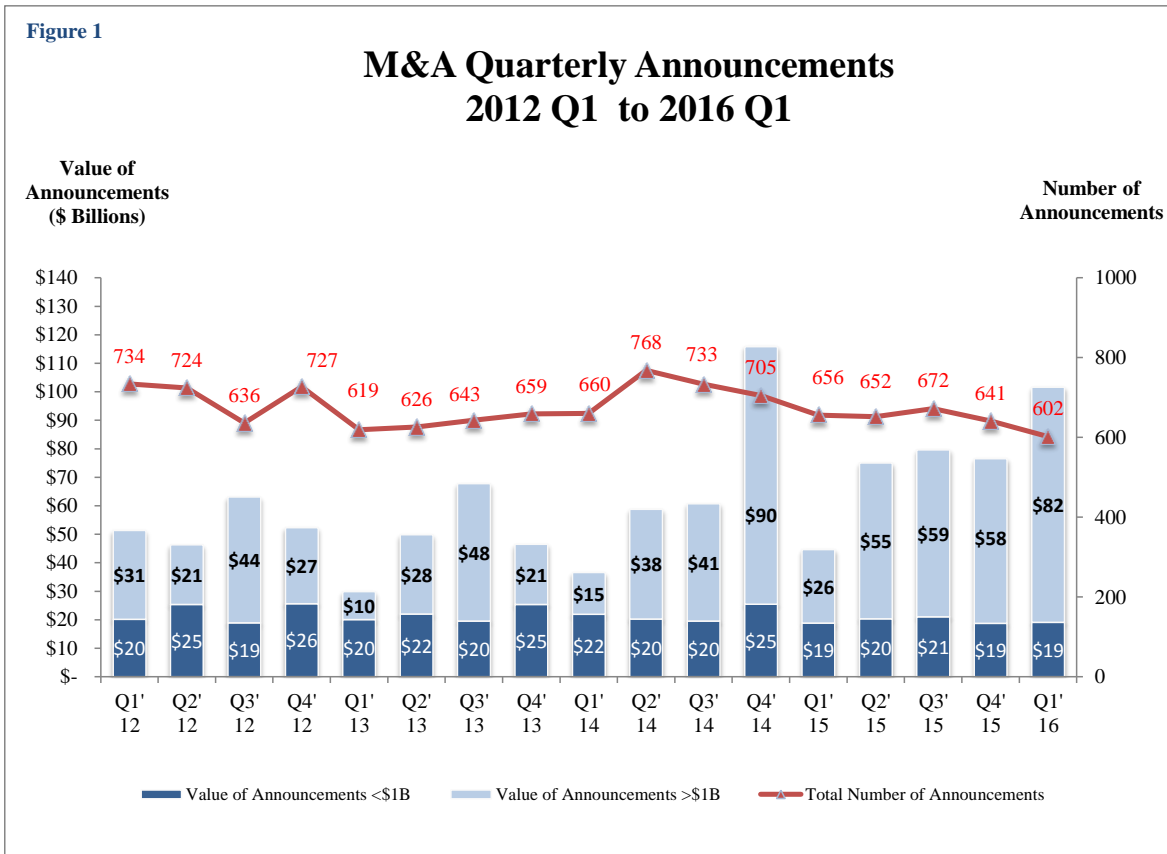
There were 16 mega-deals announced in Q1, representing an aggregate value of \$82.4B. Mega-deals accounted for over

81% of the total value of M&A activity for the quarter.

The largest transaction of the quarter saw **TransCanada** make an \$18.2B acquisition of **Columbia Pipeline Group**, a Texas-based company operating approximately 24,000 km network of interstate natural gas pipelines.

The second largest transaction of the quarter saw **Fortis** diversify its business and extend its reach into the US with the \$15.8B acquisition of **ITC Holdings**, the largest independent pure-play electric transmission company in the US.

Another notable mega-deal of the quarter ended a nine-month takeover battle as rival bidders **Qube Holdings** and **Brookfield Infrastructure Partners** teamed up for \$12.7B acquisition of



Asciano, an Australian rail and ports logistics company. Both the bidders intend to split Asciano into three parts, with separate consortiums (including **CPPIB** and **bcIMC**) acquiring its rail, ports, and bulk and automotive ports services businesses.

Financial Sponsors

Financial sponsors remained active in the first quarter of 2016 on both the buy-side and sell-side with 15 transactions (in excess of \$100M) valued in aggregate at \$34.3B. Four of the ten largest transactions in the quarter involved a financial sponsor, including several infrastructure transactions such as the Asciano transaction mentioned above and a consortium consisting of **AIMCO**, **OTPP** and **OMERS** acquiring **London City Airport Ltd.** for \$3.8B. Canadian pension funds continue to purchase global infrastructure assets as they seek to generate stable inflation-protected returns. However, a number of pension funds have started to raise concerns that intense competition for these assets has driven valuations too high.

Industry Sector Activity

The most active sector by number of announced transactions was **Information Technology** with 92 deals valued at \$1.7B, a 16% increase in activity from Q1 2015. The sector's largest transaction involved **CCL Industries'** acquisition of **Checkpoint Systems**, a leading global supplier of merchandise availability solutions, for \$750M.

Real Estate, historically one of the most active sectors, declined 30% from Q1 2015 to 73 transactions worth \$7.7B. The largest deal in the sector involved **Brookfield Asset Management's** \$3.5B acquisition of **Rouse Properties**, a US publicly-traded real estate investment trust.

The most active sector by deal value was **Industrials** with 72 deals valued at \$23.7B, largely due to the Asciano and London City Airport transactions mentioned above. Another key transaction in the sector was the \$3.9B merger of **Progressive Waste Solutions** with US-based **Waste Connections**. The transaction will enable the US garbage hauling company to move its tax domicile to Canada and take advantage of the lower corporate tax rate.

Consumer Discretionary was also active from a deal value perspective with over \$17B in announced transactions. Significant transactions included the privatization of **Amaya**, an online gambling company, for \$6.5B and **Lowe's** \$3.1B deal to acquire Quebec-based **Rona**. Lowe's previous attempt to acquire Rona in 2012 was opposed by the Quebec government.

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.

Figure 2

DOMESTIC VS FOREIGN M&A: 2016 Q1

	2015 Q1		2016 Q1	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	317	6,021	276	6,021
With Foreign Buyers	111	3,414	132	19,946
Domestic M&A	<u>428</u>	<u>9,436</u>	<u>408</u>	<u>35,783</u>
Foreign Targets (Canadian Buyer)	165	30,099	151	61,717
Canadian Foreign Subsidiaries Sold to Foreign Buyers	63	5,105	43	4,066
Foreign M&A	<u>228</u>	<u>35,204</u>	<u>194</u>	<u>65,783</u>
	<u>656</u>	<u>44,640</u>	<u>602</u>	<u>101,547</u>

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2016 Q1

INDUSTRY GROUPS	2015 Q1		2016 Q1	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Information Technology	79	2,216	92	1,699
Industrials	80	11,321	72	23,698
Metals and Mining	72	349	74	1,408
Real Estate	104	6,671	73	7,658
Consumer Discretionary	79	2,855	63	17,085
Precious Metals	55	2,165	51	1,493
Energy	51	2,678	47	22,314
Financial Services	31	9,230	31	613
Healthcare	36	1,986	31	931
Other	33	4,321	28	671
Consumer Staples	14	17	13	3,164
Utilities	10	675	13	20,181
Materials	11	153	11	179
Telecommunication Services	1	0	3	452
TOTAL	<u>656</u>	<u>44,640</u>	<u>602</u>	<u>101,547</u>
Services ⁽²⁾	84	2,577	82	25,239

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: 2016 Q1

Size	2015 Q1				2016 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	236	36	3,907	9	218	36	3,088	3
\$101m-\$250m	33	5	4,982	11	19	3	3,021	3
\$251m-\$500m	12	2	4,041	9	14	2	5,072	5
\$501m-\$1b	9	1	5,835	13	11	2	7,929	8
>\$1b	8	1	25,874	58	16	3	82,437	81
Undisclosed	358	55	n/a	n/a	324	54	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

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 85% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$6.1B or approximately 6% of total M&A value. In the first quarter of 2016, transaction size was not disclosed for 54% of the transactions, consistent with 55% 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 Q1 2016, the provinces with the most announcements (in declining order of activity) were Ontario, British Columbia, Alberta and Quebec. These four provinces represent 87% of activity in the quarter.

The decline in domestic activity year over year (408 announcements in Q1 2016 vs 428 in Q1 2015), was attributable to declines in activity in Ontario, British Columbia and Alberta. In Ontario, M&A activity declined 7% (154 versus 167 in Q1 2015); British Columbia declined 22% to 73 transactions; and Alberta declined 10% to 56 transactions.

However, Quebec's M&A activity year over year increased significantly by 29% to 71 transactions. Similarly, mega-deals in Quebec (Amaya and Rona transactions mentioned above) have contributed to an approximately three-fold increase in total deal value (\$10.8B vs \$2.6B in Q1 2015). Another notable transaction was the \$537M acquisition of Quebec-based **St-Hubert** restaurant business by Swiss Chalet owners, **Cara Operations**.

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 1.1 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q1 by nearly three 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. Inbound activity increased significantly as foreign firms acquired more Canadian companies in Q1 compared to the same quarter last year (132 vs 111 in Q1 2015). Similarly, the value of inbound transactions increased nearly six times compared to same quarter last year (\$19.9B vs \$3.4B in Q1 2015).

Figure 5

CANADIAN TARGETS BY PROVINCE: 2016 Q1

	2015 Q1				2016 Q1			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	167	39	3,737	40	154	38	14,939	42
British Columbia	93	22	2,219	24	73	18	3,083	9
Alberta	62	14	690	7	56	14	4,020	11
Quebec	55	13	2,598	28	71	17	10,786	30
Saskatchewan	14	3	159	2	9	2	354	1
New Brunswick	6	1	6	0	3	1	5	0
Manitoba	5	1	9	0	6	1	52	0
Newfoundland	5	1	0	0	2	0	0	0
Nova Scotia	4	1	4	0	5	1	1	0
Northwest Territories	4	1	4	0	3	1	0	0
Prince Edward Island	2	0	0	0	2	0	0	0
Yukon Territory	2	0	8	0	0	0	0	0
Undisclosed Province ⁽²⁾	9	2	2	0	24	6	2,523	7
	428		9,436		408		35,763	

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 Q1

	2015 Q1		2016 Q1	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	165	30,099	151	61,717
Inbound M&A (Foreign Buyer/ CDN Target)	111	3,414	132	19,946
Total Cross Border	276	33,513	283	81,663
Outbound : Inbound Ratio	1.49	8.81	1.14	3.09
Cross Border as % of Total Activity	42%	75%	47%	80%
Canada / US Activity				
US Target	101	11,208	89	43,927
US Buyer	69	2,489	99	14,755

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q1 2016

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$18,188	Columbia Pipeline Group, Inc. Transcanada Pipeline USA. Ltd	Target Acquiror	17-Mar-16
\$15,837	ITC Holdings Corp. Fortis Inc.	Target Acquiror	9-Feb-16
\$12,733	Asciano Limited CPPIB; British Columbia Investment Management Corporation; others	Target Acquiror	15-Mar-16
\$6,462	Amaya, Inc. Management	Target Acquiror	1-Feb-16
\$3,891	Progressive Waste Solutions Waste Connections	Target Acquiror	19-Jan-16
\$3,794	London City Airport Ltd. OTPP; Borealis Infrastructure Trust; OMERS Private Equity; AIMCO; others Global Infrastructure Partners; Highstar Capital	Target Acquiror Vendor	26-Feb-16
\$3,500	Rouse Properties, Inc. Brookfield Asset Management Inc.	Target Acquiror	19-Jan-16
\$3,121	Rona Inc. Lowe's Companies Canada, ULC	Target Acquiror	3-Feb-16
\$3,000	Rexall Pharma Plus Ltd. McKesson Canada Corporation Katz Group Pharmacies Inc.	Target Acquiror Vendor	2-Mar-16
\$2,666	Shaw Media Inc. Corus Entertainment Inc. Shaw Communications, Inc.	Target Acquiror Vendor	13-Jan-16
\$2,163	Capstone Infrastructure Corporation Irving Infrastructure Corp.	Target Acquiror	20-Jan-16
\$1,686	Imperial Oil Ltd., Canadian Retail Assets Located in Ontario and Québec Mac's Convenience Stores Inc.; Couche Tard, Inc. Imperial Oil Ltd.	Target Acquiror Vendor	8-Mar-16
\$1,630	ENGIE SA, 1.4GW Hydroelectric Assets Portfolio Public Sector Pension Investment Board ENGIE SA	Target Acquiror Vendor	25-Feb-16
\$1,430	KraussMaffei Group GmbH China National Chemical Corporation; AGIC Capital; others Onex Corporation	Target Acquiror Vendor	11-Jan-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.