

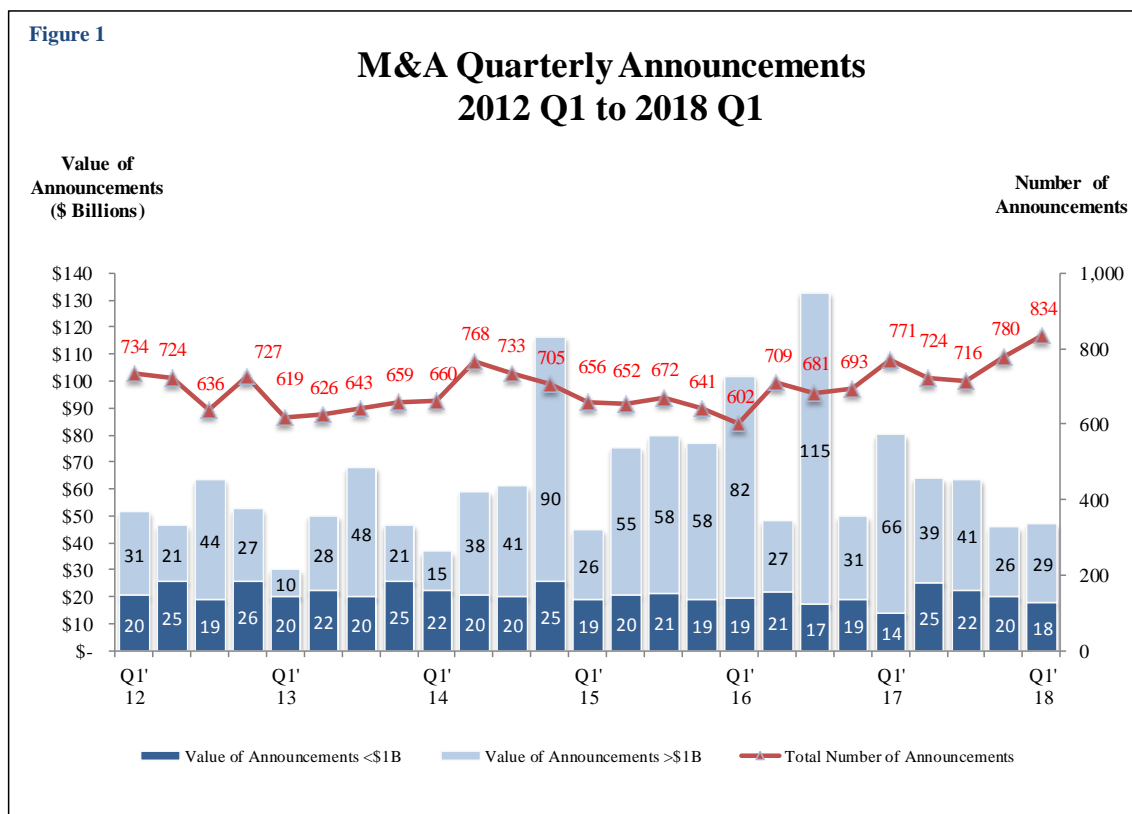
## CROSBIE & COMPANY CANADIAN M&A REPORT – Q1 2018

### *Where's the beef? Robust M&A activity but a dearth of mega-deals*

The Canadian M&A market had a red-hot start to the year with 834 transactions in the first quarter, the highest level in six years (see Figure 1). However, the total deal value of \$47 billion was much lower than Q1 2017 and at the low end of the range over the past 5 years as only a small handful of mega-deals were announced, (transactions with aggregate value in excess of \$1 billion) a trend that has persisted for several quarters. This paradox led Richard Betsalel, Managing Director at Crosbie & Company, to contemplate a few questions:

#### *What factors are contributing to this continuing upswing in M&A activity?*

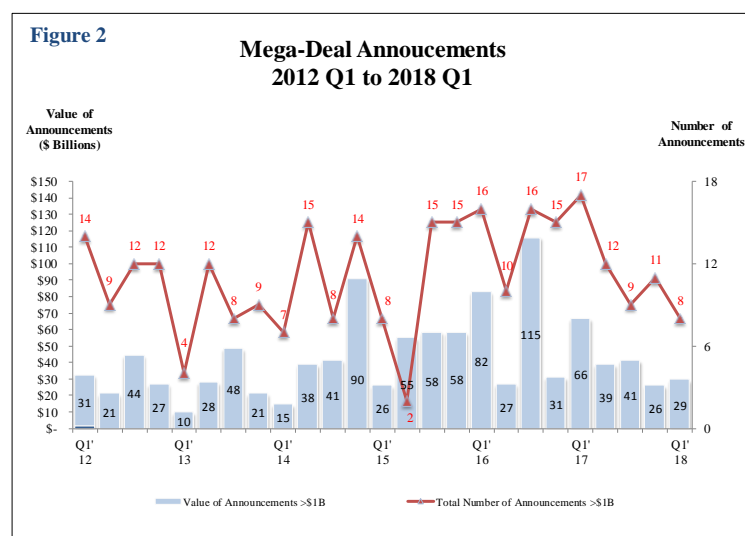
10 years ago we waited for the tsunami of succession driven M&A transactions that demographic trends lead us to expect as the leading edge of the baby boom moved into their 60's. While the waves have been steady, that tsunami never materialized. In recent years we have observed a significant number of entrepreneurs in their late 60's and 70's who still own their businesses and are only beginning to contemplate a succession transaction. Apparently 70 is the new 60. It is possible that this recent upward trend in activity is the beginning of that long awaited succession tsunami.



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### What is behind the significant drop-off in mega-deal activity?

Mega-deal activity can be quite volatile quarter to quarter as large transactions often have long gestation periods and the timing of deal announcements is fluid (see Figure 2). However, mega-deals also represent large bets by the acquirers and are often a reflection of the confidence that management teams have in particular sectors and the economy as a whole. Given that a significant portion of Canadian M&A activity is North/South with the US, it is possible that the uncertainty created by the ongoing NAFTA renegotiations has caused acquirers to hit the ‘pause’ button on larger transactions. In addition, volatile commodity prices and the uncertainty surrounding future pipeline construction could be having a negative impact on M&A in the resource sectors. Perhaps some clarity on these various fronts will give acquirers the confidence to resume making large bets.



### What can be reasonably expected for the balance of the year?

The conditions for M&A remain positive in the near to medium term; most sectors of the economy are firing on all cylinders, corporate earnings continue to grow at a robust rate, interest rates remain near historical lows, and capital of all flavours is plentiful, cheap and available on attractive terms. However, there are a few dark clouds on the horizon that could rain on the parade. Central banks have been raising rates and withdrawing liquidity from the system, valuations are at historical peaks by virtually every measure, energy prices have been inching upwards, and the geo-political environment is fraught with tension. Any sudden change in one or more of these factors could undermine the M&A environment and put a damper on activity.

### Domestic versus Foreign M&A

Figure 3 indicates that the strength in activity during Q1 was supported by a robust domestic M&A market. In Q1, there were 550 transactions involving Canadian targets (including both those with domestic or foreign buyers), a 9% increase relative to the same period last year. Similarly, activity involving foreign targets also increased 25% to 267 transactions (compared to 213 in Q1 2017).

**Figure 3**  
**DOMESTIC VS FOREIGN M&A: 2018 Q1**

	2017 Q1		2018 Q1	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	394	33,051	434	15,133
With Foreign Buyers	111	13,075	116	22,745
<b>Domestic M&amp;A</b>	<b>505</b>	<b>46,126</b>	<b>550</b>	<b>37,878</b>
Foreign Targets (Canadian Buyer)	189	28,403	218	5,832
Canadian Foreign Subsidiaries Sold to Foreign Buyers	24	3,671	49	2,544
<b>Foreign M&amp;A</b>	<b>213</b>	<b>32,074</b>	<b>267</b>	<b>8,376</b>
<b>Undisclosed Buyer</b>	<b>53</b>	<b>1,548</b>	<b>17</b>	<b>837</b>
	<b>771</b>	<b>79,748</b>	<b>834</b>	<b>47,091</b>

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## Industry Sector Activity

The **Information Technology** sector was the most active sector, experiencing an increase in the number of transactions, but a steep decline in combined transaction value. The sector saw a 30% increase in deals with 120 transactions valued at \$2.9B (compared to 92 transactions valued at \$6.6B in Q1 2017).

**Real Estate**, historically one of the most active sectors, experienced a significant increase in activity, increasing 18% to 106 transactions with a value of \$14.8B. Real estate was the 3rd most active sector in terms of deal activity, including two of the quarter's largest transactions.

The **Energy** sector experienced a dramatic decline in aggregate deal value for the quarter with a small increase in the number of transactions. The combined deal value for all transactions was \$3.4B, a decline of 85% relative to \$22.9B in Q1 2017, largely due to a lack of mega-deals in the sector.

The **Metals and Mining** and **Precious Metals** sectors experienced a decline in the number of transactions and aggregate value. Historically one of the most active sectors, the resources sector comprised a small percentage of the combined transaction value amongst all sectors this quarter.

## Mega-Deals

Mega-deal activity was the lowest in 2 years with only 8 mega-deals announced in Q1 for an aggregate value of \$29B. This represents 62% of the total M&A value in the quarter. Mega-deal activity was down significantly from Q1 2017 when there were 17 mega-deals valued at \$66B.

The largest announced transaction was the \$13.6B sale of a controlling stake in the **Financial & Risk Business of Thomson Reuters**, to **The Blackstone Group** and the **Canadian Pension Plan Investment Board**.

Figure 4

### ACTIVITY GROUPED BY INDUSTRY: 2018 Q1

INDUSTRY GROUPS	2017 Q1		2018 Q1	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Information Technology	92	6,589	120	2,867
Industrials	77	8,172	84	2,468
Metals and Mining	123	1,908	110	540
Real Estate	90	8,740	106	14,795
Consumer Discretionary	58	3,053	50	1,938
Precious Metals	93	629	55	1,064
Energy	52	22,946	59	3,444
Financial Services	40	9,922	57	14,975
Healthcare	42	2,571	52	3,005
Other	42	888	80	1,188
Consumer Staples	28	2,023	26	483
Utilities	17	12,180	15	114
Materials	15	98	5	31
Telecommunication Services	2	29	15	180
<b>TOTAL</b>	<b>771</b>	<b>79,748</b>	<b>834</b>	<b>47,091</b>
Services <sup>(2)</sup>	82	25,239	106	7,605

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 5

### ACTIVITY BY SIZE OF DEAL: 2018 Q1

Size	2017 Q1				2018 Q1			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	308	40	3,540	4	301	36	5,084	11
\$101m-\$250m	21	3	3,379	4	28	3	4,619	10
\$251m-\$500m	12	2	4,093	5	11	1	4,218	9
\$501m-\$1b	4	1	2,538	3	5	1	3,840	8
>\$1b	17	2	66,198	83	8	1	29,330	62
Undisclosed	409	53	n/a	n/a	481	58	n/a	n/a
	<b>771</b>		<b>79,748</b>		<b>834</b>		<b>47,091</b>	

Note:

1. Transaction value is not disclosed for all deals

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The second largest announced transaction was the \$5.8B acquisition of **Canadian Real Estate Investment Trust**, made by **Choice Properties Real Estate Investment Trust**, a company within the **George Weston Limited** group of companies.

### Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 40% of all transactions involving a foreign target or buyer.

In this quarter Canadian firms continued to be more active abroad than foreigners acquiring Canadian companies. This is a trend that has been observed over the long term and has held true regardless of exchange rate fluctuations. Canadian companies making acquisitions abroad (“outbound” transactions) outnumbered foreign companies acquiring in Canada (“inbound” transactions) by a factor of 1.9 times. However, the value of outbound transactions failed to exceed the value of inbound transactions for the second time in the last four quarters.

Canadian companies remained active buyers south of the border buying more US companies than US acquisitions of Canadian based companies (137 compared to 80) despite being outspent by their US counterparts (\$20.2B compared to \$4.2B).

### Financial Sponsors

Financial sponsors were active in the first quarter of 2018 on both the buy-side and sell-side with 15 transactions (in excess of \$100M) valued in aggregate at \$23.3B. Six of the ten largest transactions in the quarter involved a financial sponsor, including several Canadian private equity firms who continue to pursue large transactions both domestically and abroad.

Figure 6

#### CROSS-BORDER TRANSACTIONS: 2018 Q1

	2017 Q1		2018 Q1	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	189	28,403	218	5,832
Inbound M&A (Foreign Buyer/ CDN Target)	111	13,075	116	22,745
<b>Total Cross Border</b>	<b>359</b>	<b>45,235</b>	<b>334</b>	<b>28,577</b>
<i>Outbound : Inbound Ratio</i>	<i>1.70</i>	<i>2.17</i>	<i>1.88</i>	<i>0.26</i>
<i>Cross Border as % of Total Activity</i>	<i>47%</i>	<i>57%</i>	<i>40%</i>	<i>61%</i>
<b>Canada / US Activity</b>				
US Target	123	25,154	137	4,210
US Buyer	70	3,122	80	20,166
	<b>771</b>	<b>79,748</b>	<b>834</b>	<b>47,091</b>

Note:

1. Transaction value is not disclosed for all deals

Figure 7

#### CANADIAN TARGETS BY PROVINCE: 2018 Q1

	2017 Q1				2018 Q1			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	185	37	11,448	25	193	35	25,504	67
British Columbia	93	18	2,593	6	130	24	6,821	18
Alberta	73	14	7,312	16	64	12	2,505	7
Quebec	75	15	2,133	5	80	15	2,642	7
Saskatchewan	12	2	33	0	23	4	73	0
New Brunswick	7	1	5	0	15	3	158	0
Manitoba	9	2	12	0	10	2	67	0
Newfoundland	12	2	1	0	12	2	7	0
Nova Scotia	6	1	2,840	6	14	3	52	0
Northwest Territories	4	1	1,689	4	1	0	1	0
Prince Edward Island	0	0	0	0	2	0	0	0
Yukon Territory	6	1	1	0	5	1	48	0
Undisclosed Province <sup>(2)</sup>	28	5	18,059	39	1	0	0	0
	<b>505</b>		<b>46,126</b>		<b>550</b>		<b>37,878</b>	

Notes:

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

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### Largest Transactions Announced During Q1 2018

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$13,572	F&R Business of Thomson Reuters Corporation. The Blackstone Group L.P. ; Canadian Pension Plan Investment Board	Target Acquiror	30-Jan-18
\$5,825	Canadian Real Estate Investment Trust Choice Properties Real Estate Investment Trust	Target Acquiror	15-Feb-18
\$3,710	Pure Industrial Real Estate Trust The Blackstone Group L.P.	Target Acquiror	9-Jan-18
\$1,358	Avigilon Corporation Motorola Solutions, Inc.	Target Acquiror	1-Feb-18
\$1,310	Access Pipeline Inc. Wolf Midstream Inc. MEG Energy Corp.	Target Acquiror Vendor	8-Feb-18
\$1,302	Student Transportation Inc. ULLICO Inc.; Caisse de dépôt et placement du Québec	Target Acquiror	27-Feb-18
\$1,248	I-MED Holdings Pty Limited Permira Advisers Ltd. Caisse de dépôt et placement du Québec; EQT Partners AB; GIC Pte. Ltd	Target Acquiror Vendor	27-Jan-18
\$1,006	Jarislowky, Fraser Limited The Bank of Nova Scotia	Target Acquiror	12-Feb-18
\$860	3.25 Acre Manhattan Site Oxford Properties Group, Inc.; Canada Pension Plan Investment Board Westbrook Partners; Atlas Capital Group, LLC	Target Acquiror Vendor	31-Jan-18
\$850	Bay Adelaide Centre Dadco Investments Ltd Brookfield Property Partners L.P.	Target Acquiror Vendor	9-Mar-18
\$840	A25 Toll Road And Bridge in Montreal Transurban Group Macquarie Infrastructure Partners Inc.	Target Acquiror Vendor	23-Mar-18
\$749	SACO The Serviced Apartment Company Limited Brookfield Asset Management Inc. Oaktree Capital Management, L.P.	Target Acquiror Vendor	12-Feb-18

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](http://www.crosbieco.com).