

## CROSBIE & COMPANY CANADIAN M&A REPORT Q2 2017

### Overview

Canadian M&A activity (which we define as all M&A deals involving a Canadian company as a material counterparty) showed continued strength in the second quarter of 2017, coming off the 5 year high observed in the prior quarter. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 724 announcements in Q2, up 2% from the same quarter last year and representing the third most active quarter in the last three years. The quarter also marks the fifth consecutive quarter where activity increased year-over-year.

The total value of announced transactions for the quarter at \$64B was somewhat lacklustre due to a lower contribution from mega-deals (transactions in excess of \$1B in value) offset to some extent by a higher than

average \$25B contribution from transactions under \$1B in value.

The strength in M&A activity during the quarter was spread across the industry spectrum, with 8 of the 14 sectors experiencing an increase in activity relative to Q2 2016. While the majority of the increase in activity came from the Consumer Discretionary sector, the increase was offset by declines in recently active sectors, Metals and Mining and Real Estate. From a deal-size perspective, most of the increase in activity can be attributed to transactions for which the value was not disclosed.

### Domestic Versus Foreign M&A

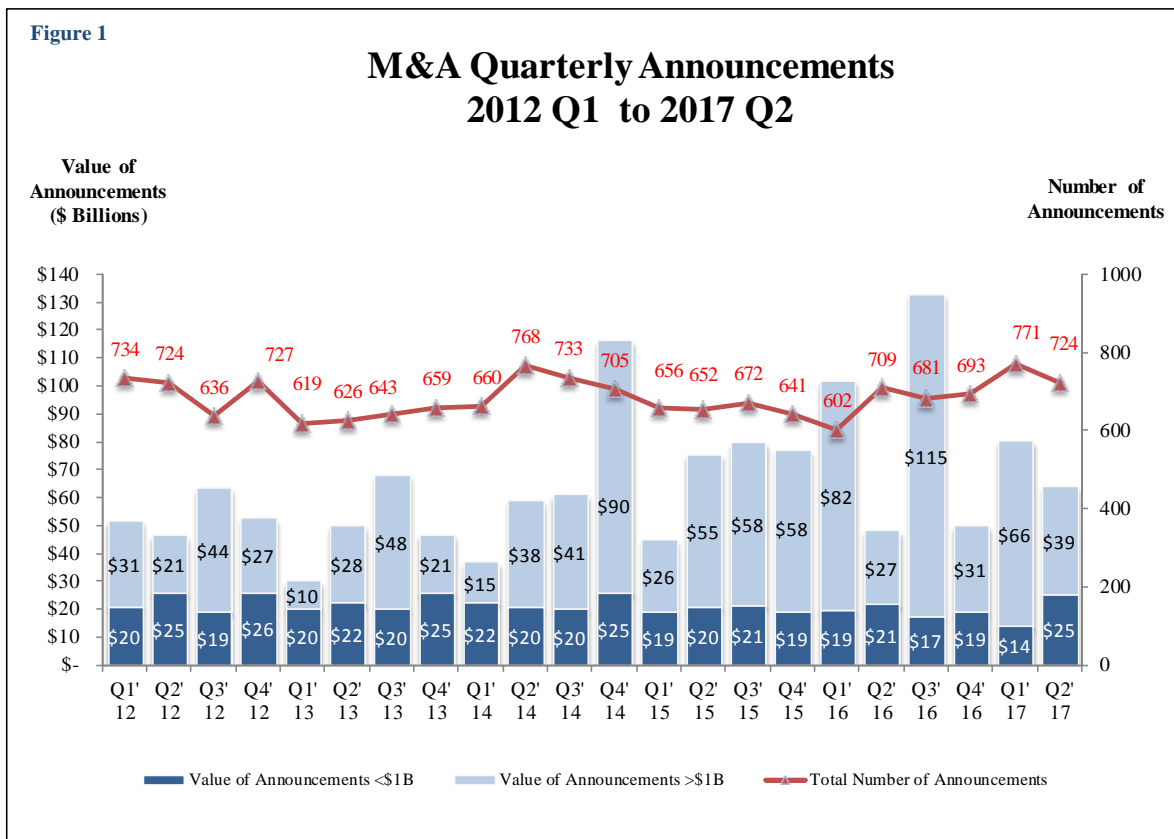
Figure 2 indicates a shift in Canadian M&A activity from domestic targets to foreign targets. In Q2, there were 468 transactions involving Canadian targets (including both those with domestic or

foreign buyers), down 3% from the same quarter last year. Conversely, there were 256 transactions involving foreign targets, representing an increase of 13% relative to the same quarter last year.

### Mega-Deals

There were 12 mega-deals announced in Q2, representing an aggregate value of \$39B and 61% of the total value of M&A activity for the quarter. While the value of mega-deal activity increased 44% over Q2 2016, mega-deal activity during the quarter was below the average level observed over the last three years, both in terms of the number and value of announced transactions.

The largest announced transaction was the \$11.9B acquisition of a 50.4% interest in the Australian electric utility, **Endeavor Energy**, by a Macquarie Group led consortium that included **BC**



## Investment Management Corporation.

The second largest transaction of the quarter featured **Pembina Pipeline Corporation** acquiring **Veresen Inc.** for \$7.8B. The transaction marks the continuation of the consolidation trend within the energy infrastructure space, as companies look to diversify their assets and gain scale and financial strength. The Pembina/Veresen transaction follows similar consolidation moves in the sector including the AltaGas/WGL Holdings transaction last quarter and the Enbridge/Spectra Energy and TransCanada/Columbia Pipeline transactions last year.

## Financial Sponsors

Financial sponsors remained active in the second quarter of 2017 on both the buy-side and sell-side with 13 transactions (in excess of \$100M) valued in aggregate at \$23B. Five of the ten largest transactions in the quarter involved a financial sponsor, including pension funds and private equity groups. In efforts to match their plan obligations, these funds continue to seek assets that can provide long term inflation-protected returns, such as infrastructure assets and real estate related investments.

**CPPIB** was particularly active in the quarter announcing the \$2.5B acquisition of **Parkway Inc.**, a US-based publicly-traded office REIT as well as its partnership with Baring Private Equity Asia in the \$1.6B acquisition of **Nord Anglia Education, Inc.**, a Hong Kong-based operator of international schools. CPPIB also announced that it would partner with Houston-based **Encino Energy LLP** to invest up to \$1.3B in oil and gas producing assets in the United States.

## Industry Sector Activity

Notwithstanding an 11% decrease in activity from Q2 2016, **Metals and Mining** remained the most active sector by number of announced transactions with 100 deals valued at \$2.3B. The sector's largest transaction involved **Osisko Gold Royalties** acquisition of a royalty portfolio on diamond, gold and silver assets from **Orion Mine Finance Group**, a US based private equity firm, for \$1.1M.

**Real Estate**, historically one of the most active sectors, also declined 19% from Q2 2016 to 91 transactions worth \$8.5B. The largest deal in the sector was the aforementioned Parkway Inc. transaction.

The **Consumer Discretionary** sector showed the largest increase in activity during the second quarter, increasing 35% to 74 announced transactions worth \$4.6B (compared to 55 announcements valued at \$2.8B in Q2 2016).

**Information Technology** and **Industrials** also experienced increases in activity during the quarter, with both sectors increasing 9% over the same quarter last year.

The most active sector by deal value was **Energy** with 57 deals valued at \$13.9B, largely due to the Veresen Inc.

Figure 2

### DOMESTIC VS FOREIGN M&A: 2017 Q2

	2016 Q2		2017 Q2	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	349	13,609	330	14,269
With Foreign Buyers	133	6,171	138	8,493
<b>Domestic M&amp;A</b>	<u>482</u>	<u>19,780</u>	<u>468</u>	<u>22,762</u>
Foreign Targets (Canadian Buyer)	184	18,923	210	34,480
Canadian Foreign Subsidiaries Sold to Foreign Buyers	43	9,230	46	6,317
<b>Foreign M&amp;A</b>	<u>227</u>	<u>28,153</u>	<u>256</u>	<u>40,797</u>
	<u>709</u>	<u>47,933</u>	<u>724</u>	<u>63,559</u>

Figure 3

### ACTIVITY GROUPED BY INDUSTRY: 2017 Q2

INDUSTRY GROUPS	2016 Q2		2017 Q2	
	# of Deals	Value <sup>(1)</sup> \$ Millions	# of Deals	Value <sup>(1)</sup> \$ Millions
Information Technology	78	5,774	85	4,395
Industrials	70	679	76	6,453
Metals and Mining	112	1,572	100	2,347
Real Estate	112	14,195	91	8,482
Consumer Discretionary	55	2,833	74	4,570
Precious Metals	82	853	82	1,133
Energy	65	4,890	57	13,963
Financial Services	28	5,796	32	3,523
Healthcare	37	1,074	38	2,943
Other	23	410	36	401
Consumer Staples	15	4,427	20	178
Utilities	13	563	17	13,242
Materials	15	974	13	1,316
Telecommunication Services	4	3,893	3	614
<b>TOTAL</b>	<u>709</u>	<u>47,933</u>	<u>724</u>	<u>63,559</u>
Services <sup>(2)</sup>	99	4,942	97	22,081

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: 2017 Q2

Size	2016 Q2				2017 Q2			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	297	42	4,670	10	282	39	5,058	8
\$101m-\$250m	22	3	3,807	8	30	4	4,657	7
\$251m-\$500m	18	3	6,618	14	12	2	4,363	7
\$501m-\$1b	9	1	6,108	13	16	2	10,896	17
>\$1b	10	1	26,729	56	12	2	38,586	61
Undisclosed	353	50	n/a	n/a	372	51	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

transaction mentioned above. Another key transaction in the sector was **Parkland Fuel Corporation's** \$1.7B acquisition of **Chevron Canada's** refining, retail, commercial and wholesale fuel business.

### Breakdown by Transaction Size

While the aggregate transaction value for the quarter was largely driven by mega-deals, the bulk of the activity came from transactions with deal values under \$250 million.

As shown in Figure 4, the middle market continues represent the lion's share of Canadian M&A transaction volume with deals under \$250 million representing 89% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$9.7B or approximately 15% of total M&A value.

In the second quarter of 2017, transaction value was not disclosed for 51% of the transactions, consistent with 50% in 2016. 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

In terms of activity by province, Ontario, British Columbia, Quebec and Alberta continue to lead the way, accounting for 86% of activity in the quarter.

The decline in domestic activity year over year (468 announcements in Q2 2017 vs 482 in Q2 2016), was primarily attributable to a decrease in activity in Alberta and Saskatchewan. In Alberta, M&A activity decreased 22% (59 versus 76 in Q2 2016); and Saskatchewan decreased 57% to 10 transactions.

### Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 48% of all transactions involving a foreign target or buyer, demonstrating the global nature of the Canadian economy.

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. Canadian companies making acquisitions abroad ("outbound" transactions) outnumbered foreign companies acquiring in Canada ("inbound" transactions) by a factor of 1.5 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q2 by more than four times.

Canadian companies remained active buyers south of the border, buying more US companies (136) for a higher value (\$11.5B) than US acquisitions of Canadian companies (69 deals for \$5.1B).

Figure 5

### CANADIAN TARGETS BY PROVINCE: 2017 Q2

	2016 Q2				2017 Q2			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	158	33	5,506	28	157	34	4,827	21
British Columbia	96	20	2,476	13	101	22	2,875	13
Quebec	79	16	453	2	86	18	3,711	16
Alberta	76	16	3,163	16	59	13	10,234	45
Saskatchewan	23	5	1,919	10	10	2	163	1
New Brunswick	4	1	1	0	3	1	155	1
Manitoba	8	2	3,902	20	9	2	162	1
Newfoundland	1	0	0	0	5	1	35	0
Nova Scotia	9	2	31	0	6	1	3	0
Northwest Territories	1	0	23	0	1	0	7	0
Prince Edward Island	0	0	0	0	5	1	0	0
Nunavut	2	0	0	0	2	0	0	0
Yukon Territory	0	0	0	0	4	1	8	0
Undisclosed Province <sup>(2)</sup>	25	5	2,306	12	20	4	614	3
	482		19,780		468		22,792	

Notes:

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

Figure 6

### CROSS-BORDER TRANSACTIONS: 2017 Q2

	2016 Q2		2017 Q2	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	184	18,923	210	34,480
Inbound M&A (Foreign Buyer/ CDN Target)	133	6,171	138	8,493
<b>Total Cross Border</b>	317	25,094	348	42,973
<i>Outbound : Inbound Ratio</i>	1.38	3.07	1.52	4.06
<i>Cross Border as % of Total Activity</i>	45%	52%	48%	68%
<b>Canada / US Activity</b>				
US Target	125	12,857	136	11,470
US Buyer	63	782	69	5,056

Note:

1. Transaction value is not disclosed for all deals

## Largest Transactions Announced During Q2 2017

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$11,873	Endeavour Energy Consortium including British Columbia Investment Management Corporation	Target Acquiror	11-May-17
\$7,814	Veresen Inc. Pembina Pipeline Corporation	Target Acquiror	1-May-17
\$4,047	WS Atkins plc SNC-Lavalin Group Inc.	Target Acquiror	3-Apr-17
\$2,484	Parkway, Inc. Canada Pension Plan Investment Board TPG Capital, L.P.; BlackRock Fund Advisors	Target Acquiror Vendor	30-Jun-17
\$2,381	OneBeacon Insurance Group, Ltd. Intact Financial Corporation	Target Acquiror	2-May-17
\$2,215	ViaWest, Inc. Peak 10 Holding Corporation Shaw Communications Inc.	Target Acquiror Vendor	13-Jun-17
\$1,646	Chevron Canada R&M ULC Parkland Fuel Corporation Chevron Canada Limited	Target Acquiror Vendor	18-Apr-17
\$1,569	Nord Anglia Education, Inc. Canada Pension Plan Investment Board; Baring Private Equity Asia	Target Acquiror	25-Apr-17
\$1,256	iNova Pharmaceuticals (Australia) Pty Limited The Carlyle Group LP; Pacific Equity Partners Valeant Pharmaceuticals International, Inc.	Target Acquiror Vendor	8-Jun-17
\$1,130	Tembec Inc. Rayonier Advanced Materials Inc. Fairfax Financial Holdings Limited; Bennett Management Corporation; others	Target Acquiror Vendor	25-May-17
\$1,120	Orion Mine Finance Group, Royalty Portfolio Osisko Gold Royalties Ltd. Orion Mine Finance	Target Acquiror Vendor	5-Jun-17
\$1,051	Minority interests in Iroquois Gas Trans. System & Portland Natural Gas Trans. TC PipeLines, LP TransCanada Corporation	Target Acquiror Vendor	4-May-17
\$925	Novadaq Technologies Inc. Stryker Corporation	Target Acquiror	19-Jun-17
\$921	Cambridge Global Payments FleetCor Technologies, Inc.	Target Acquiror	1-May-17

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 Ian Macdonell at 416-362-1953 or visit [www.crosbieco.com](http://www.crosbieco.com).