

CROSBIE & COMPANY CANADIAN M&A REPORT – Q2 2018

M&A Hot Streak Continues Led by Resurgence in Mega-Deal Activity

The Canadian M&A market continued its hot streak in the second quarter with 826 transactions, just below the high recorded in the first quarter. Total deal value rebounded to \$74B (from \$47B in Q1), largely due to 18 mega-deals (transactions with aggregate value in excess of \$1B), the highest quarterly number announced in over five years.

“A ‘Made in Canada’ phenomenon has been a driver of activity in first half of 2018, with more than half of all transactions involving both a Canadian target and buyer,” said Richard Betsalel, Managing Director at Crosbie & Company. “Cross-border transactions have historically comprised the majority of total M&A activity in Canada, as Canadian companies sought growth opportunities outside our relatively small economy. We are interested to see if this new trend of inward-focused M&A continues through the balance of the year or reverts to historical norms.”

In Q2, there were 440 transactions involving Canadian targets with domestic buyers, in line with the previous quarter’s 434 transactions, but a 33% increase relative to the same period last year. Activity involving Canadian buyers of foreign targets increased a more modest 10% to 231 transactions (compared to 210 in Q2 2017).

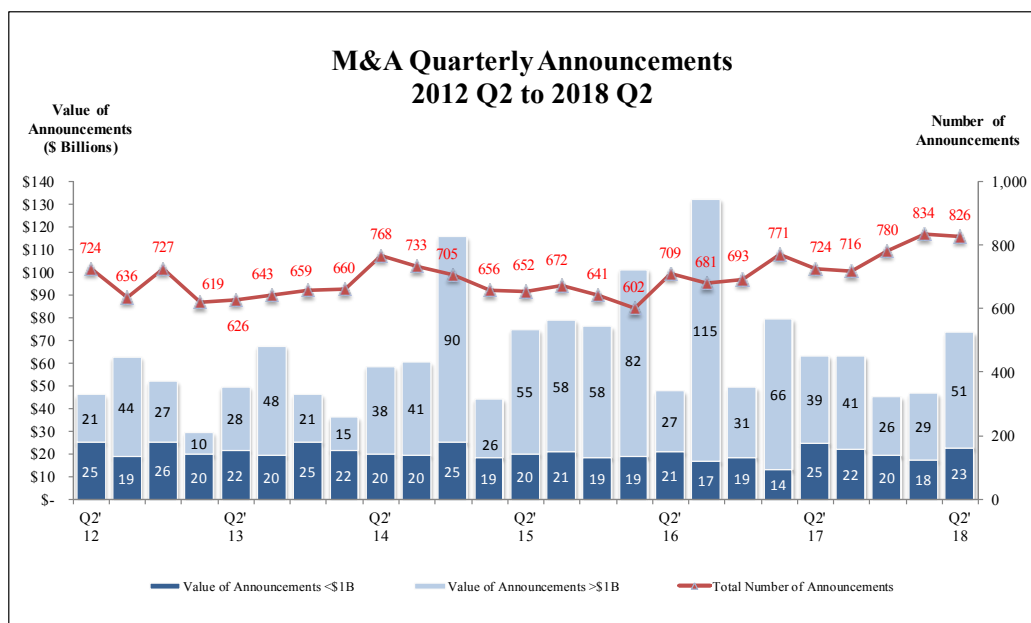
There were 18 mega-deals announced in the quarter with a total value of \$51B, up from 8 mega-deals valued at \$29B in the first quarter and 12 mega-deals valued at \$39B during Q2 of 2017. The largest announced transaction was the \$7B acquisition of **Techem GmbH**, a German energy services company, by the **Caisse de Dépot** and the **Ontario Teachers’ Pension Plan**. “The deal that dominated the headlines was the **Government of Canada’s** controversial \$4.5B purchase of the **Trans Mountain Pipeline** from **Kinder Morgan**,” said Mr. Betsalel. “Of course this is only part one of a multi-stage transaction involving Trans Mountain, as the federal government has indicated that it will eventually seek to return ownership of the asset to the private markets.”

Financial sponsors remained active in the second quarter of 2018 with 15 transactions (in excess of \$100M) valued in aggregate at \$30B. Eight of the 18 mega-deals in the quarter involved a financial sponsor, including several Canadian pension funds which continue to pursue large transactions, both domestically and abroad.

The **Metals and Mining** sector was the most active sector for the fifth time in the last six quarters with 107 transactions valued at \$2.3B (compared to 100 transactions valued at \$2.3B in Q2 2017). The **Energy** sector experienced the most dollar volume, with \$15.8B in announced deals, up from \$14B during the same quarter last year. This was primarily due to a few pipeline mega-deals, including the Trans Mountain Pipeline transaction, and the \$4.1B purchase of **Enbridge Income Fund Holdings** (remaining 80.1% stake) by its parent **Enbridge Inc.**, in an effort to simplify its corporate structure.

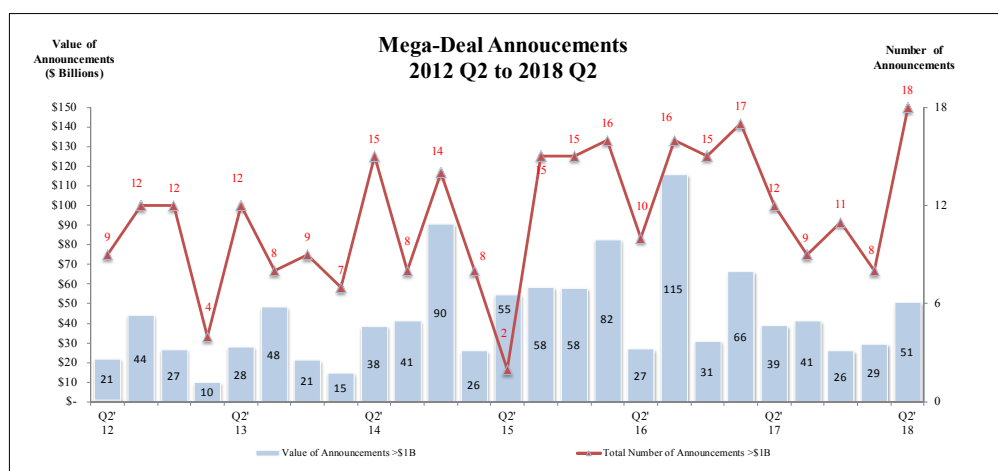
Real Estate was the 2nd most active sector in terms of deal activity, with 97 transactions valued at \$8.1B. **Information Technology** also exhibited robust activity, with 94 transactions valued at \$10.4B, including two significant going-private transactions: **VeriFone Systems** by **BC Investment Management** for \$4.4B and **Mitel Networks** by **Searchlight Capital Partners** for \$2.7B.

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Overview

- Hot streak continues in Q2
- Second consecutive quarter with 800+ announced transactions
- Q2 number of deals announced increased 14% year over year
- Total deal value was \$74B, up 57% from the first quarter this year and 16% from Q2 2017
- We expect M&A activity to remain buoyant for the balance of the year due to the following factors:
 - Low interest rates
 - Significant availability of capital - both debt and equity
 - High valuations
 - Strong corporate earnings
 - Active financial sponsors



Mega-Deals

- 18 mega-deals is the highest quarterly number in over 5 years
- Represented \$51B of total value, the highest level since Q1 2017
- Largest announced transaction was the \$7B purchase of Techem GmbH by the Caisse and Teachers
- Aurora Cannabis' \$3.1B acquisition of MedReleaf was the first mega-deal in the burgeoning cannabis sector
- 8 of 18 mega-deals involved financial sponsors who remain eager to deploy capital

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Industry Sector Activity

- Metals & Mining was the most active sector for the 5th time in the last 6 quarters with 107 transactions valued at \$2.3B
- Energy sector experienced the most dollar volume in the quarter with \$15.8B in total transaction value
- Robust activity in Information Technology with 94 deals valued at \$10.4B

INDUSTRY GROUPS	2017 Q2		2018 Q2	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Metals and Mining	100	2,347	107	2,326
Real Estate	91	8,482	97	8,141
Information Technology	85	4,395	94	10,385
Industrials	76	6,453	89	8,853
Energy	57	13,963	73	15,843
Healthcare	38	2,943	72	5,012
Consumer Discretionary	74	4,570	69	9,229
Other	36	401	56	2,446
Financial Services	32	3,523	54	3,324
Precious Metals	82	1,133	50	709
Consumer Staples	20	178	35	746
Utilities	17	13,242	16	4,738
Materials	13	1,316	11	1,979
Telecommunication Services	3	614	3	8
TOTAL	724	63,559	826	73,738
Services	97	22,081	114	28,012

Breakdown by Transaction Size

- 88% of transaction volume in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- Mid-market transactions were valued at \$8.2B or approximately 12% of the total M&A value

Size	2017 Q2				2018 Q2			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	282	39	5,058	8	302	37	4,177	6
\$101m-\$250m	30	4	4,657	7	23	3	4,068	6
\$251m-\$500m	12	2	4,363	7	12	1	4,055	5
\$501m-\$1b	16	2	10,896	17	15	2	10,727	15
>\$1b	12	2	38,586	61	18	2	50,711	69
Undisclosed	372	51	n/a	n/a	456	55	n/a	n/a
	724		63,559		826		73,738	

Domestic Versus Foreign M&A

- Strong 'Made in Canada' activity (Canadian buyer and Canadian target) with 440 transactions, up 33% from Q2 2017
- Canadians remained active acquirers abroad announcing 231 transactions valued at \$32.6B

	2017 Q2		2018 Q2	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	330	14,269	440	28,834
With Foreign Buyers	138	8,493	115	9,145
Domestic M&A	468	22,762	555	37,979
Foreign Targets (Canadian Buyer)	210	34,480	231	32,592
Canadian Foreign Subsidiaries Sold to Foreign Buyers	45	6,317	40	3,167
Foreign M&A	255	40,797	271	35,759
	724	63,559	826	73,738

Cross-Border Deals

- Outbound M&A outpaces inbound M&A by 2:1, in-line with historical trends
- Cross-border deals represented 42% of total activity and 57% of total deal value
- The United States remains our most active M&A partner representing 67% of cross-border activity

	2017 Q2		2018 Q2	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	210	34,480	231	32,592
Inbound M&A (Foreign Buyer/ CDN Target)	138	8,493	115	9,145
Total Cross Border	348	42,973	346	41,737
<i>Outbound : Inbound Ratio</i>	<i>1.52</i>	<i>4.06</i>	<i>2.01</i>	<i>3.56</i>
<i>Cross Border as % of Total Activity</i>	<i>48%</i>	<i>68%</i>	<i>42%</i>	<i>57%</i>
Canada / US Activity				
US Target	136	11,470	150	15,021
US Buyer	69	5,056	81	4,700
Total Canada/US	205	16,526	231	19,721
<i>Canada/ US as % of Cross Border</i>	<i>59%</i>	<i>38%</i>	<i>67%</i>	<i>47%</i>

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Target by Province

- Ontario remains the most active province for the quarter with 205 deals valued at \$13.8B
- BC experienced the largest increase in activity with 132 transactions, up 42% from the same quarter last year
- Alberta saw total transaction volume increase to \$13B due to several large energy deals

	2017 Q2				2018 Q2			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Ontario	185	37	11,448	25	205	37	13,817	36
British Columbia	93	18	2,593	6	132	24	7,328	19
Quebec	75	15	2,133	5	75	14	1,321	3
Alberta	73	14	7,312	16	62	11	12,992	34
Saskatchewan	12	2	33	0	16	3	514	1
Nova Scotia	6	1	2,840	6	14	3	577	2
Newfoundland	12	2	1	0	7	1	1	0
Manitoba	9	2	12	0	6	1	34	0
New Brunswick	7	1	5	0	5	1	30	0
Yukon Territory	6	1	1	0	2	0	0	0
Northwest Territories	4	1	1,689	4	1	0	0	0
Prince Edward Island	0	0	0	0	0	0	0	0
Undisclosed Province ⁽²⁾	28	5	18,059	39	30	5	1,367	4
	<u>505</u>		<u>46,126</u>		<u>555</u>		<u>37,979</u>	

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Mega Deals in Q2 2018

Target Industry	Value	Target	Role	Transaction Status
Industrials	\$6,961	Techem GmbH	Target	Announced
		Caisse de dépôt et placement du Québec; Ontario Teachers' Pension Plan Board	Acquiror	
		Macquarie Infrastructure and Real Assets (Europe) Limited	Vendor	
Consumer	\$5,981	Sky Betting and Gaming	Target	Closed
Discretionary		The Stars Group Inc. (TSX:TSGI)	Acquiror	
		CVC Capital Partners Limited; Sky UK Limited	Vendor	
Energy	\$4,500	Trans Mountain Pipeline ULC/Trans Mountain Pipeline L.P/Kinder Morgan	Target	Announced
		Government of Canada	Acquiror	
		Kinder Morgan	Vendor	
Information	\$4,353	VeriFone Systems, Inc. (NYSE:PAY)	Target	Announced
Technology		British Columbia Investment Management Corporation	Acquiror	
Energy	\$4,118	Enbridge Income Fund Holdings Inc. (TSX:ENF)	Target	Announced
		Enbridge Inc. (TSX:ENB)	Acquiror	
Healthcare	\$3,054	MedReleaf Corp. (TSX:LEAF)	Target	Announced
		Aurora Cannabis Inc. (TSX:ACB)	Acquiror	
Information	\$2,659	Mitel Networks Corporation (NasdaqGS:MITL)	Target	Announced
Technology		Searchlight Capital Partners	Acquiror	
Financial Services	\$2,585	MD Financial Management Inc.	Target	Announced
		The Bank of Nova Scotia (TSX:BNS)	Acquiror	
		Canadian Medical Association	Vendor	
Information Technology	\$2,569	GlobalLogic Inc.	Target	Announced
		Canada Pension Plan Investment Board	Acquiror	
		Apax Partners LLP	Vendor	
Energy	\$1,868	Raging River Exploration Inc. (TSX:RRX)	Target	Announced
		Baytex Energy Corp. (TSX:BTE)	Acquiror	
Metals and Mining	\$1,773	Arizona Mining Inc. (TSX:AZ)	Target	Announced
		South32 Limited (ASX:S32)	Acquiror	
Metals and Mining	\$1,713	Nevsun Resources Ltd. (TSX:NSU)	Target	Announced
		Lundin Mining Corporation (TSX:LUN); Euro Sun Mining Inc. (TSX:ESM)	Acquiror	
Other	\$1,705	Coveris Holdings Ltd. And Coveris Supraplast Holding And CPG Finance And	Target	Closed
		Transcontinental Inc. (TSX:TCLA); Transcontinental Printing Corporation	Acquiror	
		Coveris Holdings S.A.	Vendor	
Utilities	\$1,629	Cordelio Power	Target	Closed
		Canada Pension Plan Investment Board	Acquiror	
		NextEra Energy Partners, LP (NYSE:NEP)	Vendor	
Real Estate	\$1,550	Pure Multi-Family REIT LP (TSXV:RUF.UN)	Target	Announced
		Electra America, Inc.	Acquiror	
Energy	\$1,398	Spartan Energy Corp.	Target	Closed
		Vermilion Energy Inc. (TSX:VET)	Acquiror	
Utilities	\$1,050	Renewable & Power Generation Assets of Enbridge Income Fund	Target	Announced
		Canada Pension Plan Investment Board	Acquiror	
Consumer	\$1,035	Helly Hansen AS	Target	Closed
Discretionary		Canadian Tire Corporation, Limited (TSX:CTC.A)	Acquiror	
		Ontario Teachers' Pension Plan Board	Vendor	