

## CROSBIE & COMPANY CANADIAN M&A REPORT – Q2 2019

### *Canadian Acquirers Send M&A Activity to New High*

M&A activity set a new record high in the second quarter with 886 announced transactions valued at \$70.5B. Following a slight decline in Q1 2019, deal activity rebounded 11% in Q2 as the Canadian M&A market continued its robust activity levels. The number of transactions per quarter has now exceeded 800 for 6 consecutive quarters. Total transaction value for the second quarter was down modestly from \$74.8B in the prior quarter but remained well above the quarterly average seen over the last two years.

“Canadian companies were highly acquisitive this quarter after a brief spending pause in Q1,” said Ian Macdonell, Managing Director at Crosbie & Company. In the second quarter Canadian companies made 693 acquisitions (up 11% from 627 acquisitions in Q1 2019), setting a new record for Canadian-made acquisitions in a single quarter. “We continue to experience an environment where Canadian companies are taking advantage of strong balance sheets and ready access to capital to accelerate growth and increase market share through acquisitions, both domestically and abroad,” said Macdonell. “Combine that with an aging population of business owners capitalizing on a ‘Seller’s Market’, and you have the ingredients for record levels of M&A activity.”

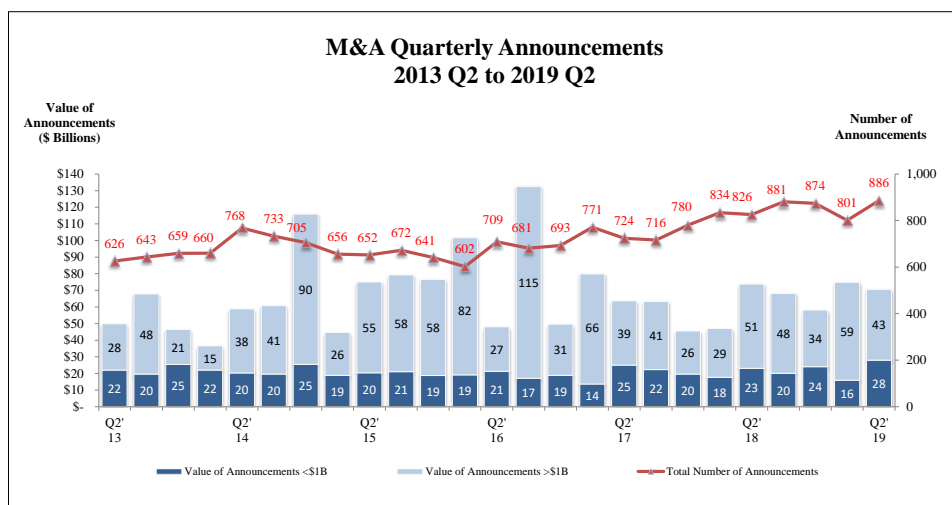
There were 13 mega-deals announced this quarter with a combined aggregate value of \$42.6B. The largest transaction was the \$7.7B acquisition of UK based **Merlin Entertainments** by a consortium of investors that included the **Canadian Pension Plan Investment Board**. CPPIB was also involved in the second largest transaction valued at \$6.6B, which involved selling its stake in **Advanced Disposal Services** to **Waste Management Inc.** Another noteworthy mega-deal was the \$5B announced acquisition of **WestJet Airlines** by **Onex Corporation**.

Financial sponsors were active in the second quarter of 2019 with 19 transactions (in excess of \$100M) valued in aggregate at \$36.2B. Six of the 13 mega-deals in the quarter, including the four largest, involved financial sponsors including several Canadian pension funds that continue to pursue large transactions, both domestically and abroad.

The mid-market has traditionally been the engine for Canadian M&A transaction activity and it again drove deal volumes in Q2. During the second quarter, Canadian mid-market activity dominated the M&A landscape. The mid-market, which is defined as transactions with enterprise values below \$250M, represented 88% of total deal activity and 13% of aggregate value.

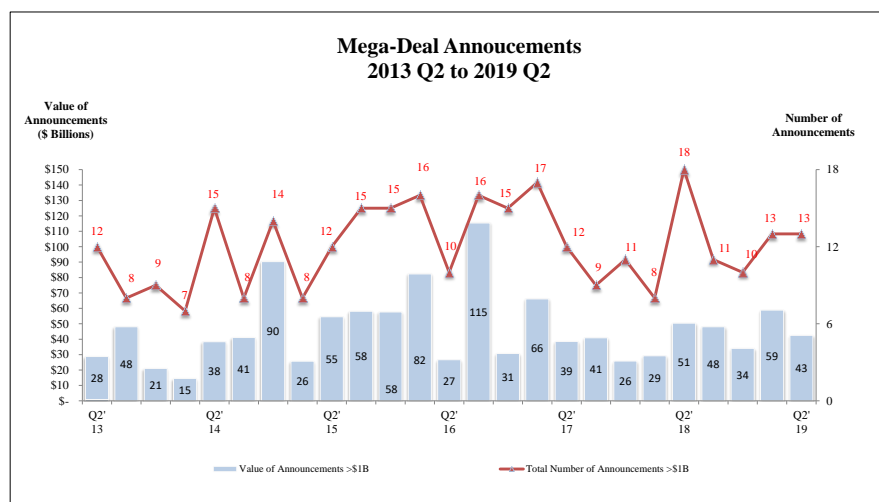
The **Industrials** sector was the most active this quarter with 113 announced deals and also led the way in terms of value with a total transaction value of \$17.3B. The second most active sector this quarter was **Real Estate** with 110 transactions accounting for \$12.5B in transaction value. The **Healthcare** sector was also active with 99 transactions totalling \$3.5B in transaction value with the increase in activity largely driven by Cannabis transactions.

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## Overview

- Deal activity surpassed the previous high-water mark with 886 announced transactions
- Q2 announcements increased 7% relative to the same quarter in 2018
- Sixth consecutive quarter with 800+ announced transactions, and an 860-deal average during the last 4 quarters
- Total deal value in Q2 was \$70.5B, down 4% relative to Q2 2018, but remains above the quarterly average over the last two years
- Cross-border activity remained steady in Q2, representing 43% of deal activity
  - Canada/US cross-border transactions comprised 62% of all cross-border deals, with Canadian acquirers outnumbering US acquisitions by a ratio of 2:1



## Mega-Deals

- 13 mega-deals is in line with the previous quarter, however 5 fewer than Q2 of the previous year
- Represented \$42.6B of total value, which is below the announced values seen in Q1 2019 and Q2 of 2018
- Largest announced transaction was the **\$7.7B** purchase of **Merlin Entertainments** by a consortium of investors including **CPIIB**
- Canadian buyers were involved in 9 of the 13 mega-deals including 5 cross-border acquisitions

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## Industry Sector Activity

- The **Industrials** sector was the most active this quarter and deal activity increased 27% relative to the same quarter in 2018, with 113 transactions valued at \$17.3B
- **Real Estate** remained active this quarter with 110 transactions and an aggregate value of \$12.5B
- **Healthcare** saw a strong 38% increase in activity relative to the same quarter in 2018, largely driven by increased Cannabis transactions

INDUSTRY GROUPS	2018 Q2		2019 Q2	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Industrials	89	8,853	113	17,256
Real Estate	96	8,021	110	12,501
Healthcare	72	5,012	99	3,548
Information Technology	94	10,385	88	2,157
Metals and Mining	107	2,326	81	2,304
Financial Services	54	3,324	62	1,905
Consumer Discretionary	69	9,229	60	9,527
Energy	72	15,145	59	7,615
Precious Metals	50	709	58	1,518
Telecommunication Services	42	926	50	4,728
Consumer Staples	34	513	44	1,003
Other	21	4,285	22	229
Utilities	16	4,738	21	5,773
Materials	10	274	19	486
<b>TOTAL</b>	<b>826</b>	<b>73,738</b>	<b>886</b>	<b>70,548</b>
Services <sup>(2)</sup>	114	28,012	127	26,991

## Breakdown by Transaction Size

- 88% of transaction activity in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- Mid-market transactions were valued at \$9.1B or approximately 13% of total M&A value

Size	2018 Q2				2019 Q2			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	302	37	4,177	6	324	37	5,148	7
\$101m-\$250m	23	3	4,068	6	24	3	3,905	6
\$251m-\$500m	12	1	4,055	5	20	2	7,194	10
\$501m-\$1b	15	2	10,727	15	16	2	11,734	17
>\$1b	18	2	50,711	69	13	1	42,567	60
Undisclosed	456	55	n/a	n/a	489	55	n/a	n/a
	<b>826</b>		<b>73,738</b>		<b>886</b>		<b>70,548</b>	

## Domestic versus Foreign M&A

- Domestic M&A activity remained robust in Q2, with 573 announced transactions, the 2<sup>nd</sup> highest amount in the last 5 years
- The aggregate value of acquired Canadian companies was \$34.2B in the second quarter
- Canadian companies acquired 250 foreign targets in the second quarter, exceeding the four-year quarterly average by 25%

	2018 Q2		2019 Q2	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	440	28,834	443	18,047
With Foreign Buyers	115	9,145	130	16,182
<b>Domestic M&amp;A</b>	<b>555</b>	<b>37,979</b>	<b>573</b>	<b>34,229</b>
Foreign Targets (Canadian Buyer)	231	32,592	250	24,707
Canadian Foreign Subsidiaries Sold to Foreign Buyers	40	3,167	63	11,613
<b>Foreign M&amp;A</b>	<b>271</b>	<b>35,759</b>	<b>313</b>	<b>36,320</b>
	<b>826</b>	<b>73,738</b>	<b>886</b>	<b>70,548</b>

## Cross-Border Deals

- The cross-border outbound to inbound M&A activity ratio remained near the historical trend of 2:1 this quarter
- Cross-border deals represented 43% of total activity and 58% of total deal value
- The United States remains Canada's most active M&A partner, representing 62% of cross-border activity

	2018 Q2		2019 Q2	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	231	32,592	250	24,707
Inbound M&A (Foreign Buyer/ CDN Target)	115	9,145	130	16,182
<b>Total Cross Border</b>	<b>346</b>	<b>41,737</b>	<b>380</b>	<b>40,889</b>
<b>Outbound : Inbound Ratio</b>	<b>2.01</b>	<b>3.56</b>	<b>1.92</b>	<b>1.53</b>
<b>Cross Border as % of Total Activity</b>	<b>42%</b>	<b>57%</b>	<b>43%</b>	<b>58%</b>
<b>Canada / US Activity</b>				
US Target	150	15,021	154	5,205
US Buyer	81	4,700	81	10,577
<b>Total Canada/US</b>	<b>231</b>	<b>19,721</b>	<b>235</b>	<b>15,783</b>
<b>Canada/ US as % of Cross Border</b>	<b>67%</b>	<b>47%</b>	<b>62%</b>	<b>39%</b>

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### Target by Province

- **Ontario** remains the most active province this quarter with 236 deals valued at \$11.1B
- **British Columbia** was also active in the second quarter with 120 deals valued at \$3.5B
- Deal value in **Nova Scotia** spiked this quarter as India based **Sakthi Global Holdings** put forth a \$1.6B unsolicited bid to Acquire Halifax based **DHX Media**

	2018 Q2				2019 Q2			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	205	37	13,817	36	236	41	11,050	32
British Columbia	132	24	7,328	19	120	21	3,487	10
Alberta	62	11	12,992	34	99	17	13,404	39
Quebec	75	14	1,321	3	63	11	4,000	12
Manitoba	6	1	34	0	16	3	565	2
Saskatchewan	16	3	514	1	16	3	11	0
Undisclosed Province <sup>(2)</sup>	30	5	1,367	4	8	1	67	0
New Brunswick	5	1	30	0	4	1	0	0
Newfoundland	7	1	1	0	4	1	0	0
Nova Scotia	14	3	577	2	4	1	1,644	5
Yukon Territory	2	0	0	0	2	0	0	0
Prince Edward Island	0	0	0	0	1	0	0	0
Northwest Territories	1	0	0	0	0	0	0	0
	555		37,979		573		34,229	

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## Mega-Deals in Q2 2019

Target Industry	Announced		Target	Role	Transaction Status
	Date	Value			
Consumer Discretionary	28-Jun-19	\$7,712	Merlin Entertainments plc (LSE:MERL) The Blackstone Group Inc. (NYSE:BX); Canada Pension Plan Investment Board ValueAct Capital Management L.P.	Target Acquiror Vendor	Announced
Industrial	15-Apr-19	\$6,625	Advanced Disposal Services, Inc. (NYSE:ADSW) Waste Management, Inc. (NYSE:WM) Canada Pension Plan Investment Board; Hellman & Friedman LLC	Target Acquiror Vendor	Announced
Industrial	13-May-19	\$6,568	WestJet Airlines Ltd. (TSX:WJA) Onex Corporation (TSX:ONEX)	Target Acquiror	Announced
Energy	5-Apr-19	\$3,468	Transportadora Associada de Gás S.A. Caisse de dépôt et placement du Québec; Engie Brasil Energia S.A. (BOVESPA:EGIE3) Petróleo Brasileiro S.A. - Petrobras (BOVESPA:PETR4)	Target Acquiror Vendor	Closed
Energy	29-May-19	\$3,383	All Assets Of Devon Canada Corporation Canadian Natural Resources Limited (TSX:CNQ) Devon Canada Corporation	Target Acquiror Vendor	Closed
Communication Services	13-May-19	\$3,009	Vodafone New Zealand Limited Brookfield Asset Management Inc. (TSX:BAM.A); Infratil Limited (NZSE:IFT)	Target Acquiror	Closed
Real Estate	3-Jun-19	\$2,410	Class A Portfolio of 31 Communities and Four In-Progress Developments in Quebec, Ventas, Inc. (NYSE:VTR); Le Groupe Maurice Inc.	Target Acquiror	Announced
Utilities	24-Jun-19	\$1,700	Alberta PowerLine Limited Partnership TD Greystone Asset Management; IST3 Investmentstiftung Quanta Services, Inc. (NYSE:PWR); Canadian Utilities Limited (TSX:CU)	Target Acquiror Vendor	Announced
Communication Services	4-Jun-19	\$1,644	DHX Media Ltd. (TSX:DHX) Sakthi Global Holdings	Target Acquiror	Announced
Real Estate	26-Jun-19	\$1,621	Pure Multi-Family REIT LP (TSX:RUF.UN) Cortland Partners LLC	Target Acquiror	Announced
Real Estate	28-Jun-19	\$1,570	Two Class A Office Buildings in Seattle EQ Office Ivanhoé Cambridge, Inc.	Target Acquiror Vendor	Closed
Energy	25-Jun-19	\$1,479	Cube Hydro Partners, LLC/Helix Partners, LLC Ontario Power Generation Inc. I Squared Capital Advisors, LLC	Target Acquiror Vendor	Announced
Metals & Mining	15-Apr-19	\$1,372	Mineração Maracá Indústria e Comércio S.A. Lundin Mining Corporation (TSX:LUN) Yamana Gold Inc. (TSX:YRI)	Target Acquiror Vendor	Closed