

CROSBIE & COMPANY CANADIAN M&A REPORT Q3 2015

Overview

The Canadian M&A market (which we define as all M&A deals involving a Canadian company as a material counterparty) rebounded strongly after four consecutive quarters of declining activity. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 673 announcements in Q3, up 3% from the previous quarter and down 12% from the recent peak in activity in Q2 2014.

Due to increased mega deal activity (transactions in excess of \$1B in value) and nearly \$60B in foreign acquisitions by Canadian companies, the value of announced transactions jumped 23% from the second quarter to \$92B in the third quarter, the highest level observed in recent years.

The year over year decline in activity

was largely the result of weakness in the Energy sector and partially offset by renewed strength in Information Technology and Mining. From a deal-size perspective, most of the decline in activity can be attributed to the lower middle market (under \$100M) category.

Domestic M&A Transactions

Figure 2 illustrates that Canadian domestic M&A activity declined significantly year over year, with 433 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q3, down from 482 in Q3 2014. However, domestic activity was in line with the 435 transactions recorded in Q2 2015.

Mega-Deals

There were 16 mega-deals (transactions in excess of \$1B in value) announced in

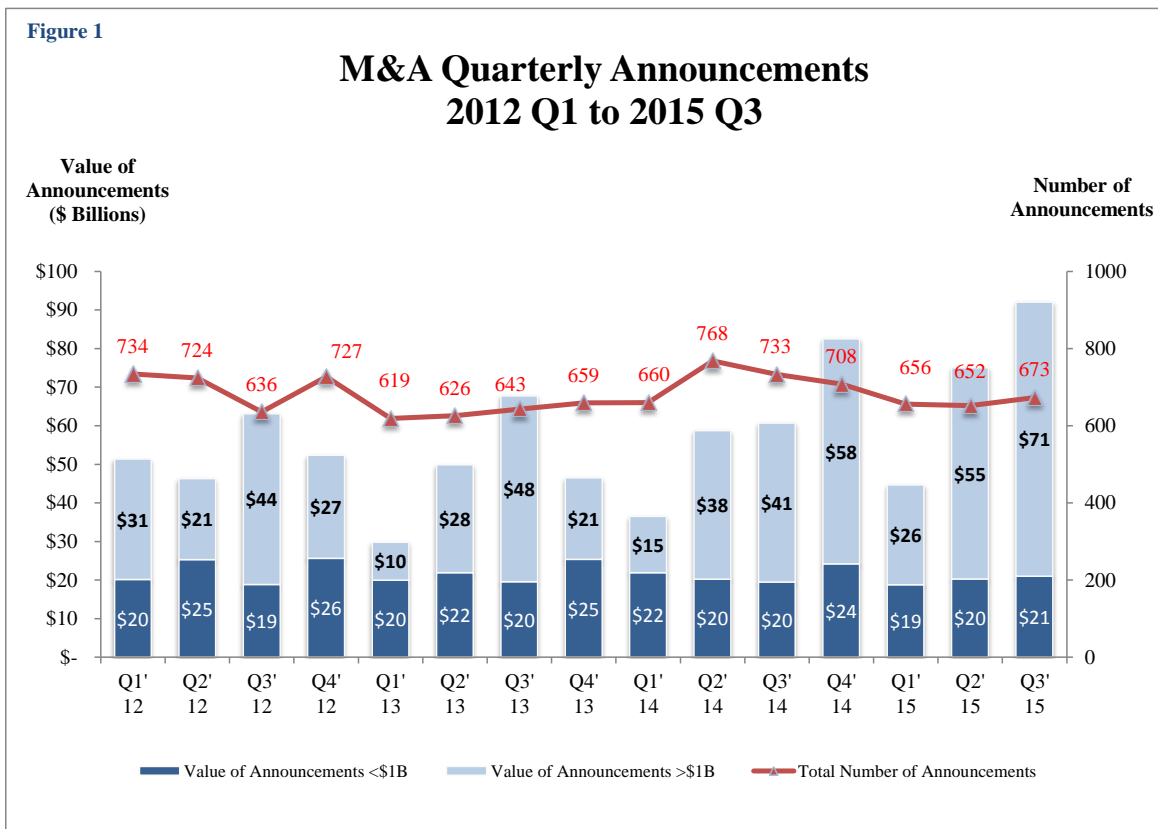
Q3, representing an aggregate value of \$70.7B. Mega deals accounted for over 76% of the total value of M&A activity for the quarter.

The largest transaction of the quarter saw **Emera** expand its US footprint with the acquisition of **TECO Energy**, a regulated electric and gas utility in Florida and New Mexico for \$13.8B.

The second largest transaction of the quarter involved **Brookfield Infrastructure Partners LP** continuing its buying spree 'down under' with the purchase of **Asciano**, an Australian rail and port logistics company for \$12.5B.

Financial Sponsors

Financials sponsors remained active in the third quarter of 2015 on both the buy-side and sell-side with 26 transactions (in excess of \$100M),



valued in aggregate at \$53B. Six of the ten largest transactions in the quarter involved a financial sponsor, including CPPIB and PSP's acquisition (as part of a consortium led by MBK Partners) of Homeplus Co., a multi-channel retailer in Korea, for \$8.6B. In addition, pension funds continue to invest in stable, long-life infrastructure assets. Borealis Infrastructure, as part of a consortium, acquired Tank and Rast, Germany's largest owner and concessionaire of a network of motorway service areas, for \$5.6B.

Industry Sector Activity

The Real Estate sector returned to being the most active sector, with 107 transactions worth \$15.4B. The largest transaction in the sector saw Cascade Investment, SSgA Funds and the Woodbridge Company selling their stakes in Strategic Hotels & Resorts to Blackstone Group for \$7.8B.

The most active sector by deal value was Industrials with 85 deals valued at \$19.8B, largely due to the Asciano transaction mentioned above. Another notable transaction in the sector is the sale of Shred-it International, a Birch Hill portfolio company, to NASDAQ listed Stericycle for \$4.2B. Magna International expanded its power train business with the acquisition of Getrag, one of the world's largest suppliers of automotive transmissions, for \$3.5B.

Activity was also strong in the Information Technology sector with 91 transactions valued at \$3.4B. The largest IT transaction in the quarter was the \$1.2B acquisition of eBay Enterprise by a consortium including Longview Asset Management. OMERS and Onex divested Sitel Worldwide, a call center and BPO service business, for \$1.1B to Groupe Actical of France.

The Metals & Mining sector demonstrated renewed strength amid weak commodity prices with 83 transactions, up from 59 transactions during the same quarter last year. However, many of these deals were quite small as total deal value in the sector was only \$1.7B.

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.

As shown in Figure 4, the mid-market continues to be the foundation of Canadian M&A transaction volume with deals under \$250 million representing 86% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$7.6B or approximately 8% of total M&A value. In the third quarter of 2015, transaction size was not disclosed for 57% of transactions, up from 51% in 2014. While this limits the precision of inferences we can

Figure 2

DOMESTIC VS. FOREIGN M&A: 2015 Q3

	2014 Q3		2015 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	389	32,949	315	8,784
With Foreign Buyers	93	8,966	118	8,875
Domestic M&A	482	41,915	433	17,659
Foreign Targets (Canadian Buyer)	172	15,794	186	59,600
Canadian Foreign Subsidiaries Sold to Foreign Buyers	79	2,983	54	14,825
Foreign M&A	251	18,777	240	74,426
	733	60,693	673	92,085

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2015 Q3

INDUSTRY GROUPS	2014 Q3		2015 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Real Estate	139	9,590	107	15,363
Information Technology	76	1,891	91	3,434
Industrials	103	3,648	85	19,818
Metals and Mining	59	371	83	1,708
Consumer Discretionary	73	17,455	75	13,429
Energy	90	11,369	44	1,372
Precious Metals	36	61	37	1,408
Financial Services	39	4,759	37	1,300
Healthcare	29	6,688	34	9,319
Other	37	297	33	530
Consumer Staples	16	159	16	9,615
Utilities	15	112	16	14,038
Materials	14	199	13	705
Telecommunication Services	7	4,094	2	45
TOTAL	733	60,693	673	92,085
Services ⁽²⁾	116	19,020	92	21,153

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: 2015 Q3

Size	2014 Q3				2015 Q3			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100m	301	41	6,032	10	225	33	4,088	4
\$101m-\$250m	28	4	4,176	7	23	3	3,521	4
\$251m-\$500m	11	2	3,812	6	9	1	3,166	3
\$501m-\$1b	8	1	5,484	9	15	2	10,638	12
>\$1b	8	1	41,189	68	16	2	70,671	77
Undisclosed	377	51	n/a	n/a	385	57	n/a	n/a
	733		60,693		673		92,085	

Note:

1. Transaction value is not disclosed for all deals

make about the size distribution of transactions, it is reasonable to assume most of the undisclosed deals are within the mid-market as we define it here.

Target by Province

As shown in Figure 5, domestic M&A activity varies considerably by province. In Q3 2015, the provinces with the most announcements (in declining order of activity) were Ontario, B.C., Quebec and Alberta. These four provinces represent 81% of activity in the quarter.

The decline in domestic activity year over year (433 announcements in Q3 2015 vs. 482 in Q3 2014), was attributable primarily to declines in activity in Alberta and Quebec. In Alberta, depressed M&A activity in the oil patch resulted in a 41% decline in total transactions (54 versus 92 in Q3 2014), while Quebec declined 23% to 58 transactions.

Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 45% 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 1.6 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q2 by nearly 7 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 as foreign firms acquired more Canadian companies in Q3 compared to the same quarter last year (118 vs 93 in Q3 2014).

Figure 5

CANADIAN TARGETS BY PROVINCE: 2015 Q3

	2014 Q3				2015 Q3			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	150	30	18,591	65	146	34	10,123	58
British Columbia	86	17	939	3	97	22	3,145	18
Quebec	75	15	4,728	16	58	13	1,263	7
Alberta	92	18	3,347	12	54	12	790	4
Undisclosed Province ⁽²⁾	34	7	9,135	32	31	7	1,929	11
Manitoba	7	1	154	1	11	3	222	1
Saskatchewan	19	4	816	3	9	2	41	0
Newfoundland	3	1	95	0	9	2	0	0
Nova Scotia	6	1	4,090	14	7	2	107	1
New Brunswick	6	1	-	0	6	1	38	0
Yukon Territory	1	0	-	0	3	1	0	0
Prince Edward Island	2	0	20	0	2	0	1	0
Northwest Territories	0	0	-	0	0	0	0	0
Nunavut	1	0	-	0	0	0	0	0
	482		41,915		433		17,659	

Notes:

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

Figure 6

CROSS-BORDER TRANSACTIONS: 2015 Q3

	2014 Q3		2015 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	172	15,794	186	59,600
Inbound M&A (Foreign Buyer/ CDN Target)	93	8,966	118	8,875
Total Cross Border	265	24,760	304	68,475
Outbound : Inbound Ratio	1.85	1.76	1.58	6.72
Cross Border as % of Total Activity	36%	41%	45%	74%
Canada / US Activity				
US Target	119	12,305	127	20,912
US Buyer	60	1,894	77	6,574

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q3 2015

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$13,838	TECO Energy, Inc. Emera Incorporated	Target Acquiror	4-Sep-15
\$12,448	Asciano Limited Brookfield Infrastructure Partners L.P.	Target Acquiror	1-Jul-15
\$8,615	Homeplus Co., Ltd. Canada Pension Plan Investment Board; Public Sector Pension Investment Board Tesco Stores Limited; Tesco Holdings B.V.	Target Acquiror Vender	7-Sep-15
\$7,785	Strategic Hotels & Resorts, Inc. Blackstone Real Estate Advisors	Target Acquiror	8-Sep-15
\$5,617	Autobahn Tank & Rast Holding GmbH Borealis Infrastructure Trust; Allianz Capital Partners GmbH Terra Firma Capital Partners Limited; RREEF Infrastructure	Target Acquiror Vender	3-Aug-15
\$4,662	Amdipharm Mercury Company Limited Concordia Healthcare Corp. Cinven Limited; Cinven Capital Management (V) General Partner Limited	Target Acquiror Vender	8-Sep-15
\$4,235	Shred-it International Inc. Stericycle, Inc. Birch Hill Equity Partners Management Inc.; Cintas Corporation	Target Acquiror Vender	15-Jul-15
\$3,455	GETRAG Getriebe- und Zahnradfabrik Hermann Hagenmeyer GmbH & Cie KG Magna International Inc.	Target Acquiror	16-Jul-15
\$1,749	Affinia Group Holdings Inc. Mann + Hummel Holding GmbH OMERS Administration Corp.; Cypress Group, LLC	Target Acquiror Vender	17-Aug-15
\$1,309	Compania Minera Zaldivar S.A. Antofagasta plc Barrick Gold Corporation	Target Acquiror Vender	30-Jul-15
\$1,307	Sprout Pharmaceuticals, Inc. Valeant Pharmaceuticals International, Inc.	Target Acquiror	20-Aug-15
\$1,243	Interfinacial Inc. Sun Life Assurance Company Of Canada Assurant Inc.	Target Acquiror Vender	9-Sep-15
\$1,197	eBay Enterprise, Inc. Longview Asset Management Ltd.; Permira Advisers Ltd.; Sterling Partners; eBay Inc.	Target Acquiror Vender	16-Jul-15
\$1,114	Amica Mature Lifestyles Inc. BayBridge Seniors Housing Inc.	Target Acquiror	2-Sep-15
\$1,057	Sitel Worldwide Corporation Groupe Acticall SAS Onex Corporation; OMERS Private Equity	Target Acquiror Vender	10-Jul-15

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.