

## CROSBIE & COMPANY CANADIAN M&A REPORT Q3 2017

### Overview

Canadian M&A activity (which we define as all M&A deals involving a Canadian company as a material counterparty) was strong in the third quarter of 2017, remaining toward the top end of the recently observed quarterly announcements range. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 716 announcements in Q3.

Notwithstanding the decline from the previous quarter, activity was up 5% from the same quarter last year and represents the sixth sequential quarter where activity increased year-over-year.

The quarter brings the year-to-date number of announcements to 2,211, an 11% increase from the 1,992 announcements in the first 3 quarters of 2016.

The total value of announced transactions for the quarter remained

generally in line with recent quarters at \$63B, but well below the \$132B in Q3 2016 where contribution from a number of large mega-deals (transactions in excess of \$1B in value) bolstered transaction value to an abnormally high level.

The strength in M&A activity during the quarter was mixed across the industry spectrum, with 7 of the 14 sectors experiencing an increase in activity relative to Q3 2016. While the majority of the increase in activity came from the Metals and Mining and Precious Metals sectors, the increase was offset in part by declines in typically active sectors, Industrials, Energy and Real Estate.

### Domestic Versus Foreign M&A

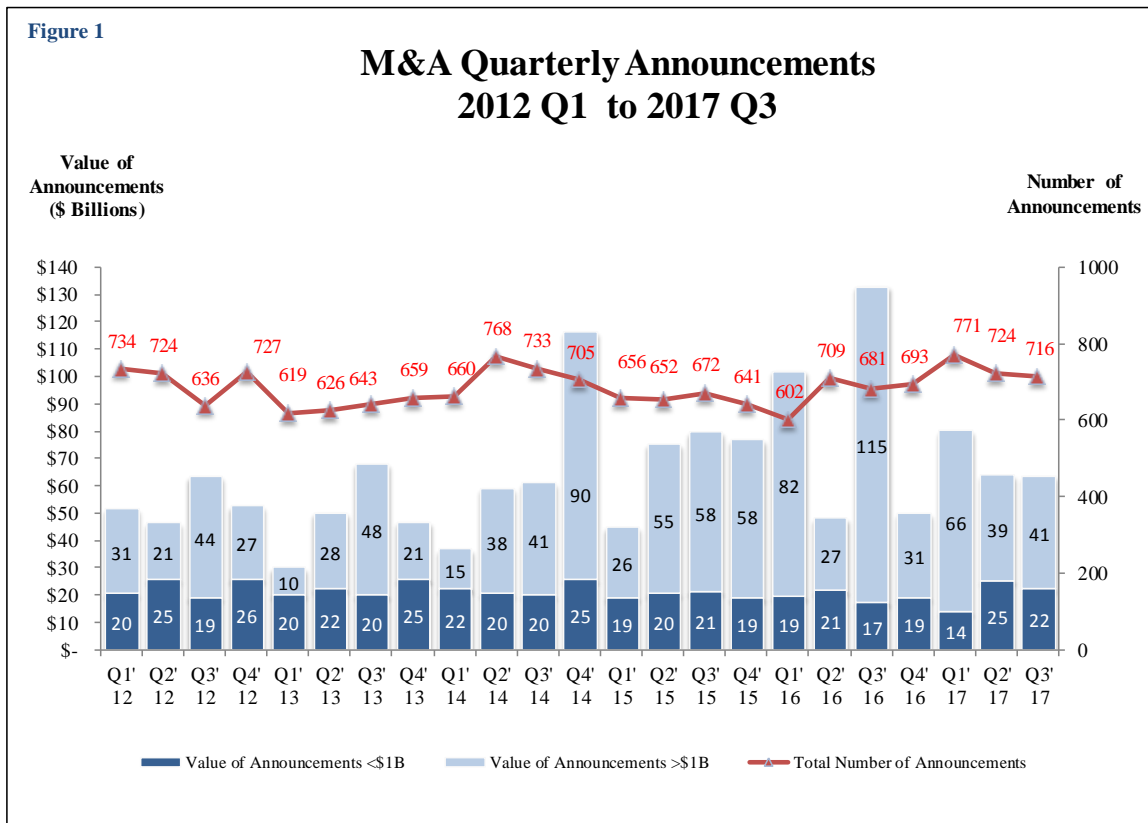
Figure 2 indicates a continued shift in Canadian M&A activity from domestic targets to foreign targets. In Q3, there were 460 transactions involving Canadian targets (including both those

with domestic or foreign buyers), in line with the same quarter last year. Conversely, there were 256 transactions involving foreign targets, representing an increase of 16% relative to the same quarter last year.

### Mega-Deals

There were 9 mega-deals announced in Q3 for an aggregate value of \$41B or 65% of the total value of M&A activity for the quarter. Mega-deal activity was down significantly both in terms of number and value of announcements from the 16 mega-deals valued at \$115B in Q3 of 2016. However, aggregate deal value attributable to mega-deals during the quarter was generally consistent with the level observed over the last five years.

The largest announced transaction was the \$22B acquisition of America's largest generator of electricity from natural gas and geothermal resources,



**Calpine Corporation**, by **Energy Capital Partners** and a consortium of investors led by **Canada Pension Plan Investment Board** and **Access Industries**.

The second largest transaction of the quarter featured **Hydro One Limited** acquiring **Avista Corporation** for \$6.7B in a transaction that expands Hydro One into complementary and diversified regulated assets in the US Pacific Northwest, including natural gas distribution.

### Financial Sponsors

Financial sponsors were less active in the third quarter of 2017 on both the buy-side and sell-side with ten transactions (in excess of \$100M) valued in aggregate at \$27B. Three of the ten largest transactions in the quarter involved a financial sponsor, including pension funds and private equity groups. In particular, recently active pension funds were unusually quiet during the quarter, participating in only three transactions in excess of \$100M.

In addition to participating in the aforementioned Calpine Corporation transaction, **CPPIB** also announced that it would sell its 50% ownership interest in an Ottawa office property in a transaction valued at \$480M. The other large transaction featuring a pension fund was **Partners Group** acquiring UK-based software and services provider, **Civica Group Limited**, from **OMERS Private Equity** for \$1.7B

### Industry Sector Activity

**Metals and Mining** was the most active sector by number of announced transactions during the quarter with 126 deals valued at \$107M, increasing 34% over the same quarter last year but comprised mainly of smaller transactions. Similarly, **Precious Metals** activity also increased significantly in Q3, with activity up 21% to 87 transactions worth \$1.5B. The sector's largest transaction involved **Alamos Gold Inc.**'s acquisition of **Richmont Mines Inc.** for \$935M.

The **Consumer Staples** sector also showed a strong increase in activity during the third quarter with 28 announced transactions worth \$6.8B (compared to 12 announcements valued at \$89M in Q3 2016). The largest transaction in the sector featured **Metro Inc.** acquiring Quebec pharmacy retailing company, **Jean Coutu Group**, for \$4.5B in a transaction that substantially increases the Company's Quebec presence.

**Information Technology** and **Utilities** also experienced increases in activity during the quarter, increasing 12% and 80% (from 10 to 18) over the same quarter last year, respectively.

Noteworthy declines in activity were observed in the **Industrials** and **Energy** sectors, where announcements decreased 30% and 28% from the same period last year, respectively.

Figure 2

### DOMESTIC VS FOREIGN M&A: 2017 Q3

	2016 Q3		2017 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	357	40,285	335	15,825
With Foreign Buyers	104	6,425	125	3,939
<b>Domestic M&amp;A</b>	<u>461</u>	<u>46,710</u>	<u>460</u>	<u>19,764</u>
Foreign Targets (Canadian Buyer)	173	77,742	207	38,729
Canadian Foreign Subsidiaries Sold to Foreign Buyers	47	7,972	49	4,783
<b>Foreign M&amp;A</b>	<u>220</u>	<u>85,714</u>	<u>256</u>	<u>43,512</u>
	<u>681</u>	<u>132,424</u>	<u>716</u>	<u>63,276</u>

Figure 3

### ACTIVITY GROUPED BY INDUSTRY: 2017 Q3

INDUSTRY GROUPS	2016 Q3		2017 Q3	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Consumer Discretionary	62	4,009	60	1,034
Consumer Staples	12	89	28	6,751
Energy	61	70,572	44	4,238
Financial Services	44	374	50	1,968
Healthcare	34	2,358	29	1,238
Industrials	92	2,154	64	2,750
Information Technology	66	15,051	74	2,923
Materials	12	25,305	11	850
Metals and Mining	94	1,507	126	107
Precious Metals	72	1,256	87	1,470
Real Estate	90	8,446	81	7,839
Telecommunication Services	3	207	3	197
Utilities	10	356	18	30,778
Other	29	742	41	1,133
<b>TOTAL</b>	<u>681</u>	<u>132,424</u>	<u>716</u>	<u>63,276</u>
Services <sup>(2)</sup>	94	70,552	62	817

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 Q3

Size	2016 Q3				2017 Q3			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	285	42	4,409	3	247	34	3,773	6
\$101m-\$250m	17	2	2,844	2	30	4	4,760	8
\$251m-\$500m	6	1	2,332	2	16	2	5,698	9
\$501m-\$1b	9	1	7,431	6	11	2	8,021	13
>\$1b	16	2	115,408	87	9	1	41,023	65
Undisclosed	348	51	n/a	n/a	403	56	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

## 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 to represent the majority 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 \$8.5B or approximately 13% of total M&A value.

In the third quarter of 2017, transaction value was not disclosed for 56% of the transactions, slightly above the 51% in Q3 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 83% of activity in the quarter.

On a year-over-year basis, British Columbia and Quebec experienced the largest increases in activity (101 and 82 announcements in Q3 2017 vs 83 and 72 in Q3 2016, respectively). In Ontario, M&A activity decreased 19% (141 versus 174 in Q3 2016), but Ontario remained the most active province for the quarter.

## Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 46% of all transactions involving a foreign target or buyer.

In this quarter Canadian firms continued to be more active abroad and spending more than foreigners acquiring Canadian companies. This is a trend that has been observed since 2011 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 1.7 times. Additionally, the value of outbound transactions exceeded the value of inbound transactions in Q3 by almost ten times.

Canadian companies remained active buyers south of the border, buying more US companies (123) for a higher value (\$35B) than US acquisitions of Canadian companies (58 deals for \$2.3B).

Figure 5

### CANADIAN TARGETS BY PROVINCE: 2017 Q3

	2016 Q3				2017 Q3			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	174	38	6,890	15	141	31	4,061	21
British Columbia	82	18	3,167	7	101	22	2,513	13
Quebec	72	16	833	2	83	18	7,609	38
Alberta	61	13	28,968	62	58	13	3,706	19
Undisclosed Province <sup>(2)</sup>	28	6	6,375	14	23	5	958	5
Manitoba	7	2	96	0	7	2	975	5
Saskatchewan	14	3	266	1	8	2	3	0
Newfoundland	5	1	73	0	2	0	0	0
Nova Scotia	7	2	35	0	13	3	21	0
New Brunswick	3	1	2	0	12	3	117	1
Yukon Territory	3	1	3	0	9	2	1	0
Prince Edward Island	0	0	0	0	1	0	0	0
Northwest Territories	3	1	0	0	1	0	1	0
Nunavut	2	0	0	0	1	0	0	0
	461		46,710		460		19,764	

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 Q3

	2016 Q3		2017 Q3	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	173	77,742	207	38,729
Inbound M&A (Foreign Buyer/ CDN Target)	104	6,425	125	3,939
<b>Total Cross Border</b>	277	84,167	332	42,668
<b>Outbound : Inbound Ratio</b>	1.66	12.10	1.66	9.83
<b>Cross Border as % of Total Activity</b>	41%	64%	46%	67%
<b>Canada / US Activity</b>				
US Target	102	70,517	123	35,002
US Buyer	68	4,962	58	2,282

Note:

1. Transaction value is not disclosed for all deals

## Largest Transactions Announced During Q3 2017

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$22,178	Calpine Corporation Energy Capital Partners; Canada Pension Plan Investment Board; others	Target Acquiror	18-Aug-17
\$6,740	Avista Corporation Hydro One Limited	Target Acquiror	19-Jul-17
\$4,504	The Jean Coutu Group (PJC) Inc. Metro Inc.	Target Acquiror	27-Sep-17
\$1,720	Civica Group Limited Partners Group OMERS Private Equity	Target Acquiror Vendor	24-Jul-17
\$1,564	Carbonated Soft Drinks & Juice business in US, Canada, Mexico and UK Refresco Group N.V. Cott Corporation	Target Acquiror Vendor	25-Jul-17
\$1,200	Waneta Dam British Columbia Hydro and Power Authority Teck Resources Limited	Target Acquiror Vendor	1-Aug-17
\$1,070	Houston Center Brookfield Asset Management Inc. J.P. Morgan Asset Management, Inc.	Target Acquiror Vendor	18-Sep-17
\$1,027	Trilogy Energy Corp. Paramount Resources Ltd.	Target Acquiror	6-Jul-17
\$1,019	Hewitt Equipment Limited Toromont Industries Ltd.	Target Acquiror	28-Aug-17
\$975	Cenovus Energy Inc., Pelican Lake Assets Canadian Natural Resources Limited Cenovus Energy Inc.	Target Acquiror Vendor	5-Sep-17
\$935	Richmont Mines Inc. Alamos Gold Inc.	Target Acquiror	11-Sep-17
\$903	135 Office & Light Industrial Properties in The Netherlands Dream Global Real Estate Investment Trust Patron Capital Limited; TPG Real Estate; TPG Sixth Street Partners	Target Acquiror Vendor	17-Jul-17
\$796	Korea Panama Mining Corp. First Quantum Minerals Ltd. LS-Nikko Copper Inc.	Target Acquiror Vendor	31-Aug-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).