

CROSBIE & COMPANY CANADIAN M&A REPORT – Q3 2019

Canadian M&A Activity Softens in Q3 Following Record Quarterly Results

Canadian M&A market activity experienced a slight decline in Q3 after a record setting second quarter, but remained robust with 776 announced transactions valued at \$45B. M&A activity has been extremely strong for several years and transaction activity has persisted in Q3 – the number of deals has exceeded the 700 transaction threshold during each quarter since Q1 2017.

“Canadian M&A activity softened somewhat in Q3 following an extended period of strong deal activity in recent quarters,” said Sam Sivarajan, Managing Director at Crosbie & Company. In the third quarter, Canadian companies made 575 acquisitions worth \$19.3B, including 378 domestic acquisitions involving both a Canadian target and acquirer. While Canadian buyers made fewer domestic acquisitions than in recent quarters, foreign buyers continued to acquire Canadian companies at an increasing rate. In the third quarter, foreign buyers spent \$16.1B on 139 Canadian targeted acquisitions, a 7% increase in activity from the prior quarter and the highest quarterly volume since Q2 2017.

“Even though we may be in the late innings of the longest bull market in history, there is reason to believe in the continued strength of the M&A market. Strong balance sheets, relatively easy access to capital, aging business owners looking to monetize at current high valuations and buyers seeking to boost weak organic growth all suggest that the strong M&A activity trend will continue into Q4,” said Sivarajan.

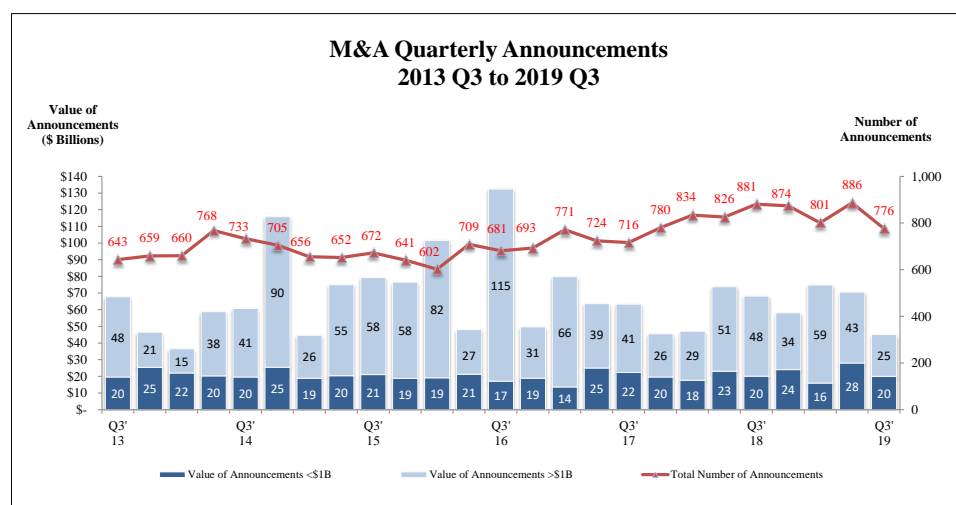
There were 9 mega-deals announced this quarter with a combined aggregate value of \$25.0B. In the third quarter there were 5 Canadian targeted mega-deals including the purchase of **Dream Real Estate Investment Trust** by **The Blackstone Group** valued at \$6.2B. **Brookfield’s** acquisition of **Genworth Financial**, the largest private sector residential mortgage insurers, for \$2.4B was a notable mega-deal – and underscores Brookfield’s general confidence in the Canadian mortgage market.

Financial sponsors were active in the third quarter of 2019 with 22 transactions (in excess of \$100M) valued in aggregate at \$22.6B. Seven of the 9 mega-deals in the quarter involved financial sponsors including private equity groups, investment managers and pension funds that were interested in making acquisitions in Canada and abroad.

The mid-market, which has traditionally been a core component of the Canadian M&A landscape, began to show signs of softness in the third quarter. The mid-market, which is defined as transactions with enterprise values below \$250M, had 287 transactions with an aggregate value of \$8.7B. Despite the slight decline in activity, the mid-market represented 91% of deal activity and 19% of aggregate deal value in Q3.

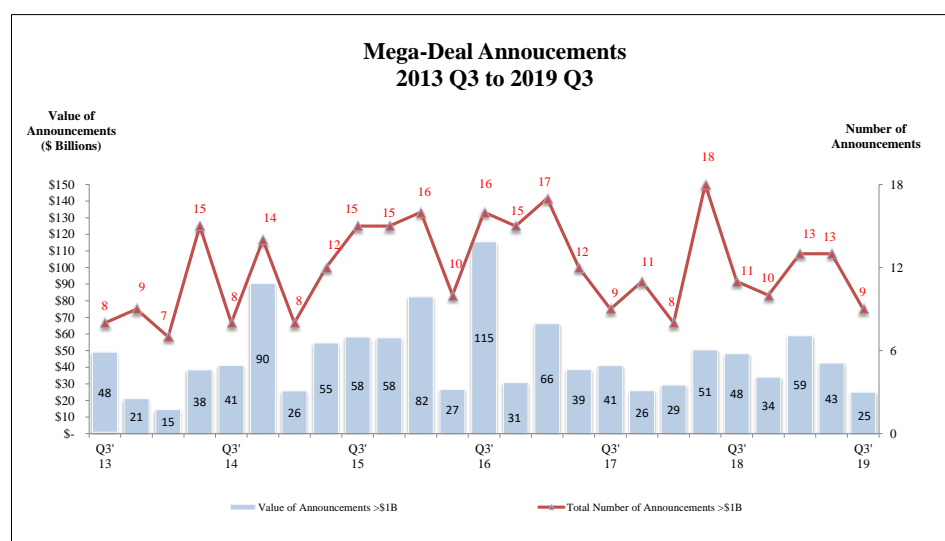
The **Real Estate** sector was the most active this quarter with 112 announced deals comprising 42% of deal volume with \$19.0B of transaction value. The sector experiencing the greatest increase in activity was the **Information Technology** sector with 102 transactions, a 32% increase relative to the same quarter in 2018. The **Industrial** sector also remained robust this quarter with 102 transactions valued at \$2.2B.

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Overview

- Deal activity declined slightly in Q3 with 776 announced transactions during the quarter
- For transactions with values of less than \$1B, the aggregate transaction value of \$20.0B is in line with the \$21.4B average value during the previous 8 quarters
 - Average transaction value was \$26.1M, excluding mega-deals
- Total deal value in Q3 was \$45.0B, a slight decline following 5 incredibly strong quarters
- Cross-border activity remained steady in Q3, with 336 transactions
 - Canada/US cross-border transactions comprised 66% of all cross-border deals, with Canadian acquirers making 124 acquisitions south of the border, outpacing the 99 inbound transactions



Mega-Deals

- There were 9 mega-deals announced this quarter with an average value of \$2.8B, including 5 Canadian targeted deals
- The largest announced transaction was the **\$6.2B** asset purchase of **Dream Real Estate Investment Trust** by **The Blackstone Group**
- Brookfield** was involved with two mega-deals this quarter including the acquisition of Canadian based **Genworth MI Canada** for **\$2.4B** and the sale of Colombia-based **Empresa de Energía de Boyacá E.S.P.** for **\$1.0B**

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Industry Sector Activity

- **Real Estate** was the most active sector this quarter with 112 announced deals valued at \$19.0B, exceeding the 100 transaction threshold for the 5th consecutive quarter
- The **Industrials** sector remained robust with 102 transactions valued at \$2.2B
- The **Information Technology** sector experienced the greatest increase in activity with 102 transactions, increasing 32% relative to the same quarter in 2018

INDUSTRY GROUPS	2018 Q3		2019 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Real Estate	122	22,542	112	18,985
Industrials	105	6,081	102	2,195
Information Technology	77	857	102	984
Healthcare	76	1,625	71	1,162
Precious Metals	72	8,949	65	869
Metals and Mining	104	553	58	193
Consumer Discretionary	44	6,398	52	2,575
Financial Services	56	807	48	4,519
Consumer Staples	36	2,320	41	245
Energy	64	9,272	36	4,111
Telecommunication Services	49	2,874	34	5,751
Materials	28	2,927	27	1,459
Other	30	1,367	17	43
Utilities	18	1,578	11	1,879
TOTAL	881	68,149	776	44,969
Services ⁽²⁾	89	12,411	118	5,667

Breakdown by Transaction Size

- 91% of transaction activity in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- Mid-market transactions were valued at \$8.7B or approximately 19% of total M&A value
- Mega-deal size declined this quarter with an average transaction value of \$2.8B

Size	2018 Q3				2019 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	350	40	5,249	8	255	33	3,730	8
\$101m-\$250m	27	3	4,158	6	32	4	5,009	11
\$251m-\$500m	15	2	5,457	8	12	2	4,164	9
\$501m-\$1b	7	1	5,132	8	9	1	7,022	16
>\$1b	11	1	48,152	71	9	1	25,045	56
Undisclosed	471	53	0	n/a	459	59	0	n/a
	881		68,149		776		44,969	

Domestic versus Foreign M&A

- Domestic M&A activity exceeded 500 transactions for the 8th consecutive quarter with 517 deals announced in Q3
- Foreign buyers' demand for Canadian companies remained strong this quarter with 139 transactions announced valued at \$16.1B
- Contrary to historical trends, Canadian buyers spent more money making acquisitions domestically than abroad, spending 75 cents outside of Canada for every dollar spent at home

	2018 Q3		2019 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	456	11,271	378	11,054
With Foreign Buyers	135	15,701	139	16,137
Domestic M&A	591	26,973	517	27,191
Foreign Targets (Canadian Buyer)	236	32,592	197	8,248
Canadian Foreign Subsidiaries Sold to Foreign Buyers	54	8,584	62	9,344
Foreign M&A	290	41,176	257	17,592
	881	68,149	776	44,783

Cross-Border Deals

- Inbound cross-border activity remained strong in the 3rd quarter while outbound activity declined slightly
- Cross-border deals represented 43% of total activity and 54% of total deal value
- US buyers comprised 71% of all Canadian targeted cross-border activity and 95% of the aggregate transaction value

	2018 Q3		2019 Q3	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	236	32,592	197	8,248
Inbound M&A (Foreign Buyer/ CDN Target)	135	15,701	139	16,137
Total Cross Border	371	48,293	336	24,385
Outbound : Inbound Ratio	1.75	2.08	1.42	0.51
Cross Border as % of Total Activity	42%	71%	43%	54%
Canada / US Activity				
US Target	149	17,187	124	4,060
US Buyer	82	456	99	15,267
Total Canada/US	231	17,643	223	19,327
Canada/ US as % of Cross Border	62%	37%	66%	79%

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Target by Province

- **Ontario** remains the most active province this quarter with 188 deals valued at \$17.0B
- **British Columbia** was also active in the second quarter with 131 deals valued at \$3.3B
- The \$329M private equity buyout of BioVectra by H.I.G. Capital is **Prince Edward Island's** largest transaction to date

	2018 Q3				2019 Q3			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	205	37	13,817	36	188	36	17,027	63
British Columbia	132	24	7,328	19	131	25	3,327	12
Quebec	75	14	1,321	3	78	15	655	2
Alberta	62	11	12,992	34	67	13	4,509	17
Undisclosed Province ⁽²⁾	30	5	1,367	4	16	3	520	2
Manitoba	6	1	34	0	14	3	168	1
Saskatchewan	16	3	514	1	8	2	562	2
Nova Scotia	14	3	577	2	6	1	89	0
Yukon Territory	2	0	0	0	3	1	0	0
New Brunswick	5	1	30	0	2	0	0	0
Newfoundland	7	1	1	0	2	0	3	0
Nunavut	0	0	0	0	1	0	1	0
Prince Edward Island	0	0	0	0	1	0	329	1
Northwest Territories	1	0	0	0	0	0	0	0
	<u>555</u>		<u>37,979</u>		<u>517</u>		<u>27,191</u>	

Mega-Deals in Q3 2019

Target Industry	Announced Date	Value	Target	Role	Transaction Status
Real Estate	15-Sep-19	\$6,200	All Assets of Dream Global Real Estate Investment Trust The Blackstone Group Inc. (NYSE:BX) Dream Global Real Estate Investment Trust (TSX:DRG.UN)	Target Acquiror Vendor	Announced
Communication Services	22-Aug-19	\$5,738	Entertainment One Ltd. (LSE:ETO) Hasbro, Inc. (NasdaqGS:HAS)	Target Acquiror	Announced
Energy	21-Aug-19	\$3,079	Kinder Morgan Canada Limited (TSX:KML) Pembina Pipeline Corporation (TSX:PPL)	Target Acquiror	Announced
Real Estate	3-Jul-19	\$2,504	Liberty Living Group Plc The Unite Group plc (LSE:UTG) Canadian Pension Plan Investment Board	Target Acquiror Vendor	Announced
Financial Services	13-Aug-19	\$2,391	Genworth MI Canada Inc. (TSX:MIC) Brookfield BBP Canada Holdings Inc.	Target Acquiror	Announced
Real Estate	18-Jul-19	\$1,631	Pure Multi-Family REIT LP (TSX:RUF.UN) Cortland Partners, LLC	Target Acquiror	Closed
Industrial	1-Aug-19	\$1,426	Infiltrator Water Technologies, LLC Advanced Drainage Systems, Inc. (NYSE:WMS) Ontario Teachers' Pension Plan Board	Target Acquiror Vendor	Closed
Utilities	9-Sep-19	\$1,042	Empresa de Energía de Boyacá E.S.P. Northland Power Inc. (TSX:NPI) Brookfield Asset Management Inc. (TSX:BAM.A)	Target Acquiror Vendor	Announced
Financial Services	19-Sep-19	\$1,034	Smith & Williamson Holdings Limited Tilney Group AGF Management Limited (TSX:AGF.B)	Target Acquiror Vendor	Announced