

## CROSBIE & COMPANY CANADIAN M&A REPORT Q4 2015

### Overview

The Canadian M&A market (which we define as all M&A deals involving a Canadian company as a material counterparty) resumed the downward trend that began in mid-2014. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 643 announcements in Q4, down 4% from the previous quarter and down 9% from the same quarter last year. This was the fifth decline in activity in the last 6 quarters.

However, as a result of increased mega deal activity (transactions in excess of \$1B in value), the value of announced transactions jumped 76% from the third quarter to \$137B in the fourth quarter, the highest level observed in recent years.

The year over year decline in activity has

been relatively broad based occurring across eight of the fourteen industry sectors. 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 year over year, with 435 transactions involving Canadian targets (including both those with domestic or foreign buyers) in Q4, down from 454 in Q4 2014. However, this level of domestic activity was in line with the 435 and 433 transactions recorded in Q2 and Q3 2015, respectively.

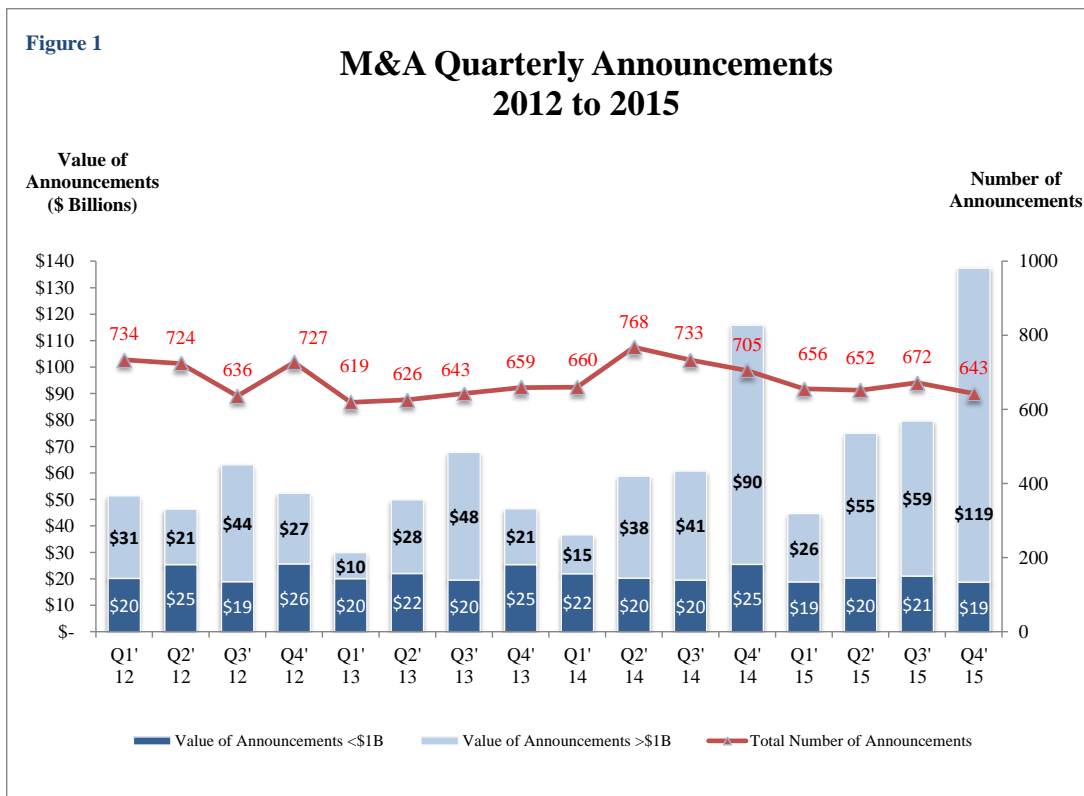
### Mega-Deals

There were 17 mega-deals (transactions in excess of \$1B in value) announced in

Q4, representing an aggregate value of \$118.7B. Mega deals accounted for over 86% of the total value of M&A activity for the quarter, the highest proportion observed in recent years.

The largest announced transaction of the quarter was **CP Railway's** \$50.3B proposal to acquire **Norfolk Southern**, the second-largest railroad in the eastern U.S., in an attempt to create a transcontinental carrier. However, this transaction faces significant uncertainty, including regulatory hurdles.

The second largest transaction of the quarter involved **Caisse de dépôt et placement du Québec** (as part of a consortium) increasing its presence in Australia with the \$12.6B purchase of the 99-year lease of **TransGrid**, owner and operator of the electricity transmission network of the State of New South Wales.



## Financial Sponsors

Financial sponsors remained active in the fourth quarter of 2015 on both the buy-side and sell-side with 26 transactions (in excess of \$100M) valued in aggregate at \$61B. Eight of the ten largest transactions in the quarter involved a financial sponsor, including several infrastructure transactions such as **CPPIB's** acquisition (as part of a consortium) of Australian rail and port logistics company **Asciano** for \$10.6B, trumping a prior bid from **Brookfield Infrastructure Partners LP**. A consortium consisting of **CPPIB**, **OTPP** and **OMERS** acquired **Skyway Concession**, owner and concessionaire of Chicago Skyway toll road, for \$3.8B. Canadian pension funds remained very active in the market for global infrastructure assets as they seek to generate stable inflation-protected returns.

## Industry Sector Activity

The **Real Estate** sector remained the most active sector for the quarter with 101 transactions worth \$21.8B despite a 13% decline in the number of deals from the same quarter last year. However, total deal value for the sector tripled compared to Q4 2014 due to a few large transactions, including **Ivanhoe Cambridge** and **Blackstone's** \$6.9B acquisition of the **Stuyvesant Town-Peter Cooper Village** in Manhattan.

The most active sector by deal value was **Industrials** with 84 deals valued at \$69.3B, largely due to the CP Railway transaction mentioned above. Even after excluding the CP Railway transaction, the sector exhibited strength with an increase in both transaction activity and value when compared to the same quarter last year.

The **Energy** sector remained weak amid tumbling crude oil prices with 65 transactions, down from 75 transactions during the same quarter last year. Total deal value in sector fell 78% from \$52.1B in Q4 2014 to \$11.4B. One notable transaction in the sector involved **Suncor Energy** acquiring **Canadian Oil Sands**, the largest partner in the Syncrude oil sands operation for \$6.6B.

## 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 87% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$8.4B or approximately 6% of total M&A value. In the fourth quarter of 2015, transaction size was not disclosed for 52% of transactions, up from 48% in 2014. While this limits the precision of inferences we can

Figure 2

### DOMESTIC VS. FOREIGN M&A: 2015 Q4

	2014 Q4		2015 Q4	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	347	44,887	340	16,046
With Foreign Buyers	107	21,221	95	3,835
<b>Domestic M&amp;A</b>	<b>454</b>	<b>66,108</b>	<b>435</b>	<b>19,881</b>
Foreign Targets (Canadian Buyer)	185	41,908	153	105,570
Canadian Foreign Subsidiaries Sold to Foreign Buyers	66	7,800	55	11,899
<b>Foreign M&amp;A</b>	<b>251</b>	<b>49,708</b>	<b>208</b>	<b>117,469</b>
	<b>705</b>	<b>115,816</b>	<b>643</b>	<b>137,350</b>

### ACTIVITY GROUPED BY INDUSTRY: 2015 Q4

INDUSTRY GROUPS	2014 Q4		2015 Q4	
	# of Deals	Value <sup>(1)</sup> \$ Millions	# of Deals	Value <sup>(1)</sup> \$ Millions
Real Estate	116	7,070	101	21,817
Industrials	78	8,350	84	69,278
Information Technology	102	6,231	79	1,018
Energy	75	52,051	65	11,449
Consumer Discretionary	80	20,622	58	12,058
Metals and Mining	48	3,163	46	149
Precious Metals	46	1,466	46	372
Healthcare	28	1,272	40	641
Financial Services	40	1,447	32	3,848
Consumer Staples	16	336	29	1,041
Other	43	2,178	28	563
Materials	16	1,348	18	1,113
Utilities	14	7,135	11	13,383
Telecommunication Services	3	3,148	6	622
<b>TOTAL</b>	<b>705</b>	<b>115,816</b>	<b>643</b>	<b>137,350</b>
Services <sup>(2)</sup>	98	35,180	99	73,468

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 Q4

Size	2014 Q4				2015 Q4			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	290	41	5,534	5	242	38	4,230	3
\$101m-\$250m	35	5	5,496	5	28	4	4,185	3
\$251m-\$500m	17	2	5,953	5	15	2	5,090	4
\$501m-\$1b	13	2	8,462	7	7	1	5,193	4
>\$1b	14	2	90,370	78	17	3	118,652	86
Undisclosed	336	48	0	n/a	334	52	n/a	n/a
	<b>705</b>		<b>115,816</b>		<b>643</b>		<b>137,350</b>	

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 Q4 2015, the provinces with the most announcements (in declining order of activity) were Ontario, B.C., Alberta and Quebec. These four provinces represent 85% of activity in the quarter.

The decline in domestic activity year over year (435 announcements in Q4 2015 vs. 454 in Q4 2014), was attributable to declines in activity in Quebec and Ontario. In Quebec, M&A activity declined 26% (52 versus 70 in Q4 2014), while Ontario declined 6% to 163 transactions.

In Alberta, depressed M&A activity in the oil patch resulted in a 79% decline in total deal value (\$11.1B vs \$52.1B in Q4 2014).

### Cross-Border Deals

As the data in Figure 6 indicates, cross-border transactions continued to account for a significant proportion of activity with 39% of all transactions involving a foreign target or buyer, demonstrating the global nature of the Canadian economy.

Despite the weakening of the Canadian dollar, 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 Q4 by a margin of \$106B to \$4B. 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.

Figure 5

### CANADIAN TARGETS BY PROVINCE: 2015 Q4

	2014 Q4				2015 Q4			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
Ontario	174	38	6,969	11	163	37	3,345	17
British Columbia	69	15	4,504	7	81	19	1,585	8
Alberta	76	17	52,129	79	73	17	11,123	56
Quebec	70	15	1,214	2	52	12	1,042	5
Undisclosed Province <sup>(2)</sup>	20	4	547	1	21	5	29	0
Saskatchewan	19	4	74	0	13	3	2,008	10
Manitoba	10	2	396	1	9	2	748	4
Nova Scotia	5	1	29	0	9	2	0	0
Newfoundland	4	1	247	0	6	1	0	0
New Brunswick	4	1	-	0	4	1	0	0
Yukon Territory	0	0	-	0	2	0	1	0
Prince Edward Island	1	0	-	0	1	0	0	0
Northwest Territories	1	0	-	0	1	0	0	0
Nunavut	1	0	-	0	0	0	0	0
	454		66,109		435		19,881	

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 Q4

	2014 Q4		2015 Q4	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	185	41,908	153	105,570
Inbound M&A (Foreign Buyer/ CDN Target)	107	21,221	95	3,835
<b>Total Cross Border</b>	292	63,129	248	109,405
<b>Outbound : Inbound Ratio</b>	1.73	1.97	1.61	27.53
<b>Cross Border as % of Total Activity</b>	41%	55%	39%	80%
<b>Canada / US Activity</b>				
US Target	107	25,816	89	78,626
US Buyer	74	4,028	73	3,053

Note:

1. Transaction value is not disclosed for all deals

## Largest Transactions Announced During Q4 2015

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$50,329	Norfolk Southern Corporation Canadian Pacific Railway Limited	Target Acquiror	17-Nov-15
\$12,662	TransGrid Caisse de dépôt et placement du Québec; Hastings Funds Management Limited; Spark Infrastructure	Target Acquiror	24-Nov-15
\$10,560	Asciano Limited Canada Pension Plan Investment Board; Global Infrastructure Partners; Qube Holdings Limited	Target Acquiror	9-Nov-15
\$6,875	Stuyvesant Town-Peter Cooper Village Blackstone Real Estate Advisors; Ivanhoé Cambridge, Inc. CWCapital Asset Management LLC	Target Acquiror Vender	20-Oct-15
\$6,577	Canadian Oil Sands Limited Suncor Energy Inc	Target Acquiror	5-Oct-15
\$6,150	PETCO Animal Supplies, Inc. CVC Capital Partners Limited; Canada Pension Plan Investment Board Freeman Spogli & Co; HarbourVest Partners; Leonard Green & Partners; TPG Capital	Target Acquiror Vender	23-Nov-15
\$4,391	58 Million Square Foot US Industrial Portfolio Public Sector Pension Investment Board; Henley Holding Company Exeter Property Group, LLC	Target Acquiror Vender	17-Dec-15
\$3,933	FRHI Holdings Limited Accor S.A. Oxford Properties Group, Inc.; Kingdom Holdings Company; Qatar Investment Authority	Target Acquiror Vender	9-Dec-15
\$3,783	Skyway Concession Company, LLC OMERS Administration Corp.; Canada Pension Plan Investment Board; Ontario Teachers' Pension Plan Macquarie Infrastructure Partners Inc.; Macquarie Atlas Roads Group; Cintra Infraestructuras S.A.	Target Acquiror Vender	13-Nov-15
\$2,640	U.S. Portfolio of 49 Retail Properties Located in the Northeastern U.S. and Texas Blackstone Real Estate Advisors Riocan Real Estate Investment Trust	Target Acquiror Vender	18-Dec-15
\$2,337	Landmark Apartment Trust, Inc. Starwood Capital Group; Milestone Apartments Real Estate Investment Trust iStar Inc.; Blackstone Real Estate Advisors; MacKenzie Patterson Fuller; The OPSEU Pension Trust	Target Acquiror Vender	22-Oct-15
\$1,834	Canadian Natural Resources Ltd., Portion of Royalty Assets PrairieSky Royalty Ltd. Canadian Natural Resources Limited	Target Acquiror Vender	9-Nov-15
\$1,720	Back Bay Office Buildings 500 Boylston St. And 222 Berkeley St. JPMorgan Chase & Co.; Oxford Properties Group, Inc. The Blackstone Group L.P.	Target Acquiror Vender	20-Nov-15
\$1,399	American Century Investment Management Inc. Nomura Holdings, Inc. Canadian Imperial Bank of Commerce	Target Acquiror Vender	21-Dec-15
\$1,278	Montupet SA Linamar Corp.	Target Acquiror	15-Oct-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](http://www.crosbieco.com).