

CROSBIE & COMPANY CANADIAN M&A REPORT Q4 2017

Overview

Canadian M&A activity (which we define as all M&A deals involving a Canadian entity as a material counterparty) flourished during the fourth quarter of 2017 reaching a six year quarterly high in terms of the number of announcements. Figures developed by Crosbie & Company using Capital IQ and other sources indicated 780 announcements in Q4, up 13% from the same quarter last year and the seventh sequential quarter where activity increased year-over-year.

The total value of announced transactions for the quarter, at \$45B, was slightly below the quarterly average observed over the past six years.

The quarter brings the annual total number of announcements for 2017 to 2,991, an 11% increase from the 2,685 announcements in 2016 and the highest number of annual announcements since

2011. However, from a deal value perspective, the aggregate transaction value for 2017 of \$252B was 24% lower than the \$332B announced in 2016, due to less blockbuster mega-deals (transactions in excess of \$1B in value) announced in the fourth quarter and 2017 overall.

The strength in M&A activity during the quarter was mixed across the industry spectrum, with 8 of the 14 sectors experiencing an increase in activity relative to Q4 2016. The majority of the increase in activity came from the Metals and Mining, Healthcare, and Information Technology sectors, and was more than enough to offset declines in typically active sectors, Energy and Real Estate.

Domestic Versus Foreign M&A

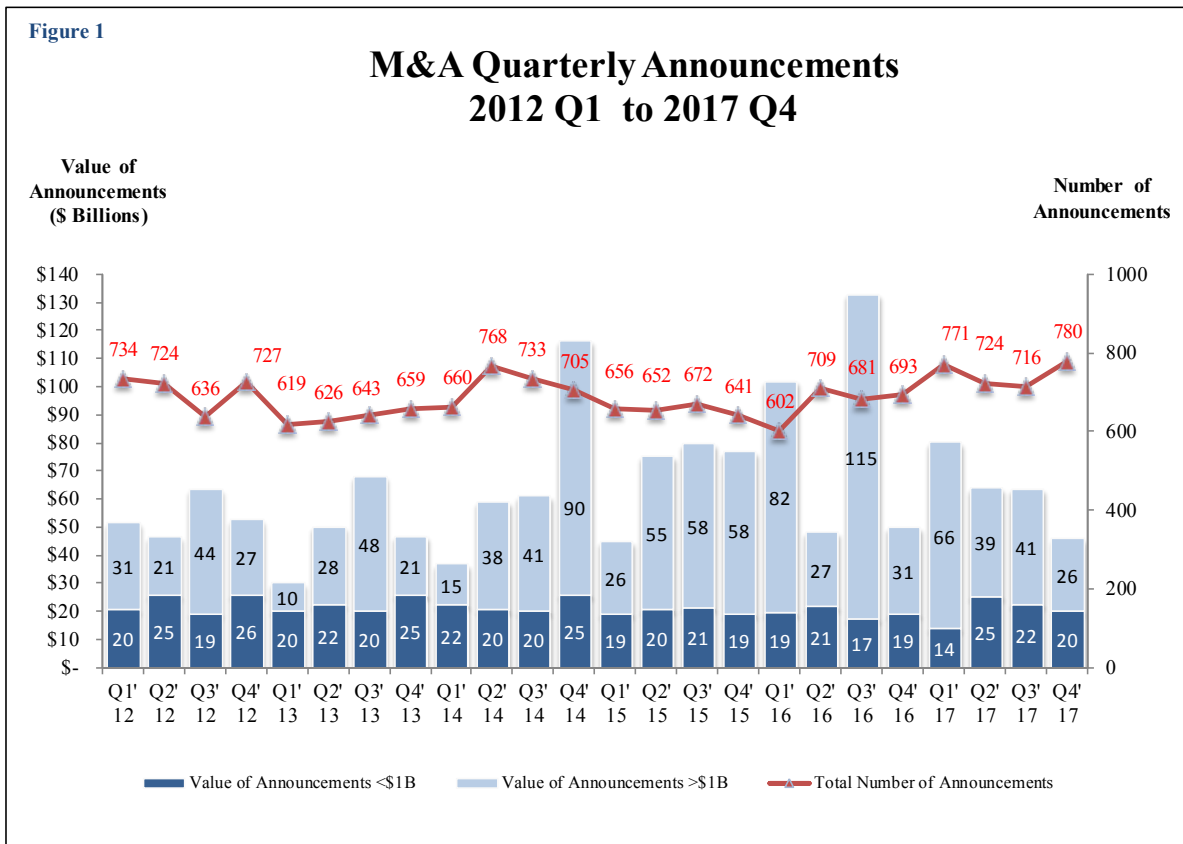
Figure 2 indicates that the strength in activity during Q4 was supported by a robust domestic M&A market. In Q4, there were 503 transactions involving

Canadian targets (including both those with domestic or foreign buyers), a 13% increase relative to the same period last year. Similarly, activity involving foreign targets also increased 12% to 277 transactions (compared to 248 in Q4 2016).

Mega-Deals

There were 11 mega-deals announced in Q4 for an aggregate value of \$26B or 52% of the total value of M&A activity for the quarter. Mega-deal activity was down slightly in terms of number and value of announcements from the 15 mega-deals valued at \$31B in Q4 of 2016. Aggregate deal value attributable to mega-deals during the quarter was generally towards the lower end of the range observed over the last five years.

The largest announced transaction was the \$6.3B acquisition of an Asian wind and solar renewable energy asset portfolio of **Equis Funds Group**, by a



consortium of investors led by **Global Infrastructure Partners III** in conjunction with **Public Sector Pension Investment Board, CIC Capital Corporation**.

The second largest announced transaction of the quarter featured the proposed management buyout of **Canadian Solar Inc.**, a solar power equipment manufacturer, for \$4.5B.

Financial Sponsors

Financial sponsors were active in the fourth quarter of 2017 on both the buy-side and sell-side with 14 transactions (in excess of \$100M) valued in aggregate at \$17B. Five of the ten largest transactions in the quarter involved a financial sponsor, including several Canadian pension funds who continue to pursue large transactions both domestically and abroad. Pension funds accounted for the majority of financial sponsor activity during the quarter, participating in 11 of the 14 transactions in excess of \$100M.

Industry Sector Activity

Metals and Mining rounded out an active year of M&A activity with another strong quarter of 104 announced transactions valued at \$933M, remaining the most active sector for the fourth straight quarter. **Information Technology** activity also increased significantly in Q4, with activity up 21% to 100 transactions worth \$7.4B. The sector's largest transaction was the aforementioned Canadian Solar transaction.

The **Consumer Staples** sector also showed a strong increase in activity during the fourth quarter with 45 announced transactions worth \$4.6B (compared to 29 announcements valued at \$2.9B in Q4 2016). The largest transaction in the sector featured the acquisition of Canadian natural health product producer **Atrium Innovations Inc.**, by **Nestlé Health Science S.A.**, for \$2.9B.

Healthcare also experienced a 33% increase in activity over the same quarter last year, primarily driven by a flurry of acquisitions within the medical cannabis sector.

Noteworthy declines in activity were observed in the **Real Estate** and **Energy** sectors, where announcements decreased 15% and 10% from the same period last year, respectively. The aggregate value of announcements for these two traditionally stalwart sectors was also down significantly by 32% and 67% respectively, due to less large transactions.

The **Utilities** sector was the most active in terms of deal value at \$9.7B bolstered by the aforementioned sale of Asian renewable energy assets by Equis Funds Group.

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.

Figure 2

DOMESTIC VS FOREIGN M&A: 2017 Q4

	2016 Q4		2017 Q4	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	333	11,414	379	9,327
With Foreign Buyers	112	4,619	124	16,318
Domestic M&A	445	16,032	503	25,645
Foreign Targets (Canadian Buyer)	165	18,239	223	15,384
Canadian Foreign Subsidiaries Sold to Foreign Buyers	83	15,361	54	4,456
Foreign M&A	248	33,600	277	19,840
	693	49,633	780	45,484

Figure 3

ACTIVITY GROUPED BY INDUSTRY: 2017 Q4

INDUSTRY GROUPS	2016 Q4		2017 Q4	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Consumer Discretionary	67	3,643	60	3,513
Consumer Staples	29	2,957	45	4,635
Energy	59	6,084	51	1,986
Financial Services	48	9,785	49	1,439
Healthcare	40	608	53	1,828
Industrials	65	3,049	67	4,614
Information Technology	83	2,030	100	7,410
Materials	10	2,689	19	560
Metals and Mining	81	349	104	933
Other	31	775	71	903
Precious Metals	53	53	52	722
Real Estate	106	10,670	90	7,276
Telecommunication Services	6	2,173	5	0
Utilities	15	4,767	14	9,666
TOTAL	693	49,633	780	45,484
Services ⁽²⁾	88	7,617	83	4,966

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 Q4

Size	2016 Q4				2017 Q4			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
<\$100M	287	41	4,871	10	300	38	4,758	10
\$101M-\$250M	22	3	3,696	7	36	5	5,832	12
\$251M-\$500M	11	2	3,636	7	12	2	3,882	8
\$501M-\$1B	9	1	6,585	13	7	1	5,107	10
>\$1B	15	2	30,845	62	11	1	25,905	52
Undisclosed	349	50	n/a	n/a	414	53	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

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 92% of all the transactions with disclosed values. This is consistent with past trends in activity. In aggregate, the mid-market transactions were valued at \$10.6B or approximately 23% of total M&A value.

In the fourth quarter of 2017, transaction value was not disclosed for 53% of the transactions, slightly above the 50% in Q4 2016. While this limits the precision of inferences we can make about the size distribution of transactions, it is reasonable to assume that 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 84% of activity in the quarter.

On a year-over-year basis, British Columbia and Quebec experienced the largest increases in activity (107 and 83 announcements in Q4 2017 vs 84 and 59 in Q4 2016, respectively). In Ontario, M&A activity increased 7% (179 versus 167 in Q4 2016), and it 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 44% of all transactions involving a foreign target or buyer.

In this quarter Canadian firms continued to be more active abroad 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 1.8 times. However, the value of outbound transactions failed to exceed the value of inbound transactions for the first time in over three years.

Canadian companies remained active buyers south of the border buying more US companies than US acquisitions of Canadian based companies (135 compared to 62) despite being outspent by their US counterparts (\$3.4B compared to \$4.3B).

Figure 5

CANADIAN TARGETS BY PROVINCE: 2017 Q4

	2016 Q4				2017 Q4			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	167	38	4,275	27	179	36	11,431	45
British Columbia	84	19	2,154	13	107	21	1,781	7
Quebec	59	13	313	2	83	17	4,312	17
Alberta	68	15	6,498	41	56	11	3,401	13
Undisclosed Province ⁽²⁾	26	6	1,772	11	22	4	2,342	9
Saskatchewan	9	2	828	5	20	4	701	3
Manitoba	8	2	118	1	11	2	1,305	5
Newfoundland	3	1	0	0	9	2	0	0
New Brunswick	6	1	39	0	7	1	318	1
Yukon Territory	3	1	5	0	5	1	0	0
Nova Scotia	11	2	30	0	2	0	53	0
Prince Edward Island	0	0	0	0	1	0	0	0
Northwest Territories	1	0	0	0	1	0	0	0
Nunavut	0	0	0	0	0	0	0	0
	445		16,032		503		25,646	

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 Q4

	2016 Q4		2017 Q4	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	165	18,239	223	15,384
Inbound M&A (Foreign Buyer/ CDN Target)	112	4,619	124	16,318
Total Cross Border	277	22,858	347	31,702
<i>Outbound : Inbound Ratio</i>	1.47	3.95	1.80	0.94
<i>Cross Border as % of Total Activity</i>	40%	46%	44%	70%
Canada / US Activity				
US Target	98	2,471	135	3,441
US Buyer	62	2,451	62	4,282

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During Q4 2017

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED
\$6,333	Equis Energy Pte. Ltd., Asian renewable energy asset portfolio Global Infrastructure Partners; Public Sector Pension Investment Board; others Equis Funds Group Pte Ltd	Target Acquiror Vendor	24-Oct-17
\$4,490	Galeria Kaufhof and 63% of Kaufhof Real Estate SIGNA Holding GmbH Hudson's Bay Company	Target Acquiror Vendor	1-Nov-17
\$4,457	Canadian Solar Inc. Management	Target Acquiror	11-Dec-17
\$2,915	Atrium Innovations Inc. Nestlé Health Science S.A. Caisse de dépôt et placement du Québec; Fonds de solidarité FTQ; others	Target Acquiror Vendor	5-Dec-17
\$2,165	Centaur Holdings, LLC Caesars Entertainment Corporation Clairvest Group Inc.; West Face Capital Inc	Target Acquiror Vendor	16-Nov-17
\$2,071	Aecon Group Inc. CCCC International Holding Limited	Target Acquiror	26-Oct-17
\$1,694	Portfolio of 1.7 GW of renewable power generation assets, Mexico Caisse de dépôt et placement du Québec; CKD Infraestructura Mexico Enel Green Power Mexico S. de R.L. de C.V.	Target Acquiror Vendor	9-Oct-17
\$1,615	Sony Center, Berlin Oxford Properties Group, Inc.; Madison International Realty, LLC National Pension Service	Target Acquiror Vendor	2-Oct-17
\$1,300	Palliser oil & gas assets, Alberta Schlumberger Limited; Torxen Resources Ltd. Cenovus Energy Inc.	Target Acquiror Vendor	19-Oct-17
\$1,200	MacDon Industries Ltd. Linamar Corporation	Target Acquiror	14-Dec-17
\$1,140	Portfolio of Canadian Properties Slate Acquisitions Inc. Cominar Real Estate Investment Trust	Target Acquiror Vendor	18-Dec-17
\$1,015	Metronode Pty Ltd Equinix, Inc. (REIT) Ontario Teachers' Pension Plan Board	Target Acquiror Vendor	17-Dec-17
\$974	Alterra Power Corp. Innergex Renewable Energy Inc.	Target Acquiror	30-Oct-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.