

CROSBIE & COMPANY CANADIAN M&A REPORT – Q4 2018

Strong Fourth Quarter helps close out 2018 at Record Annual High

Despite a slight drop relative to the third quarter, transaction announcements were 12% above the same quarter last year, helping propel Canadian M&A activity to a new annual high in 2018. There were 874 announcements in Q4, exceeding the 800 transaction level for the fourth time in four quarters. The new annual high of 3,415 transactions represents an increase of 14% relative to the 2,991 deals announced in 2017. Aggregate deal value for the quarter was \$58B (a decline from \$68B in Q3 2018) which reflects a decrease in the number of mega-deals but is in line with the quarterly average value of \$62B over the past 8 quarters.

“While the number of deal announcements was up in 2018, we saw a significant shift in the mix of buyers this year,” said Colin Walker, Managing Director at Crosbie. “Domestic acquisitions by Canadian companies were the major growth drivers in 2018, offsetting a slight decline in foreign buyers of Canadian companies.” There were 402 Canadian buyers of domestic companies in Q4, which is above the quarterly average of 334 deals in the prior 3 years and 349 per quarter in 2017. “Additionally there was a notable jump in acquisitions by Canadian companies abroad,” he added. 281 foreign acquisitions were announced in Q4, a 19% increase from the prior quarter and a record quarterly high. “This is likely a response by Canadian companies to the uncertainty around the outcome of the NAFTA negotiations earlier in the year,” said Walker.

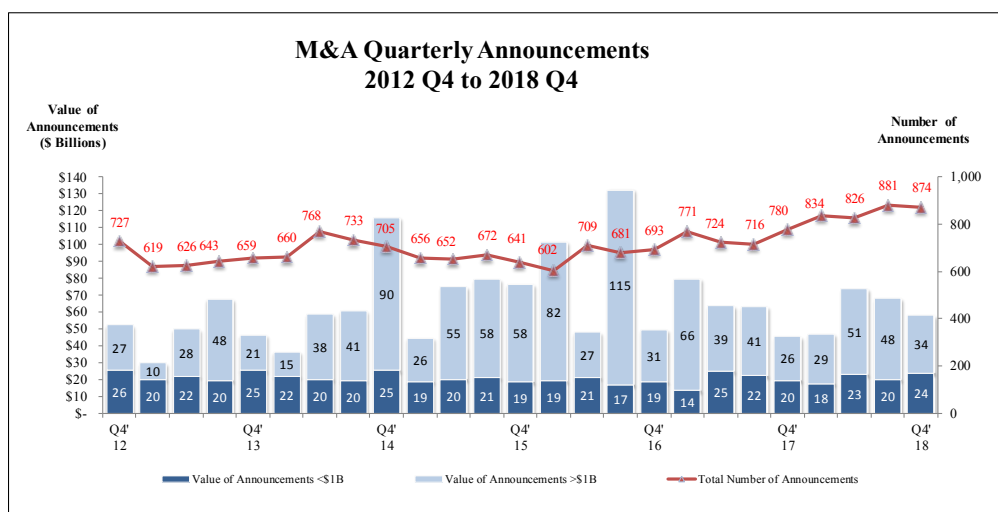
Total cross-border deal activity trended up throughout 2018 reaching a high in Q4 with 411 deals. This is above the quarterly average of 350 in the 3 prior quarters. During 2018, Canadian companies spent \$109B acquiring 966 foreign companies, compared to \$116B in 847 transactions in 2017.

There were 10 mega-deals announced in the quarter with a combined aggregate value of \$34B, a 29% decline relative to the previous quarter. Canadian pension funds were responsible for the three largest acquisitions, all of which were cross-border deals, as well as 6 of the 29 transactions in excess of \$100M that involved financial sponsors. The largest announced transaction was the **\$17.5B** acquisition of **Johnson Controls’ Power Solutions business**, an Irish division of a publicly traded US industrial company, by **Caisse de dépôt et placement du Québec** and **Brookfield Business Partners**. The second largest announced transaction was the **\$2.7B** acquisition of **SFR FTTH**, a fibre broadband division of **Altice France SA** by **OMERS Infrastructure Management**.

During the fourth quarter, mid-market M&A activity remained robust and deals with transaction values below \$250M continued to represent a large majority of total transaction activity. For transactions with disclosed values, mid-market deals comprised 90% of total deal activity and 17% of total deal value. Despite recent turbulence in the equity markets, mid-market M&A activity has remained solid overall this quarter.

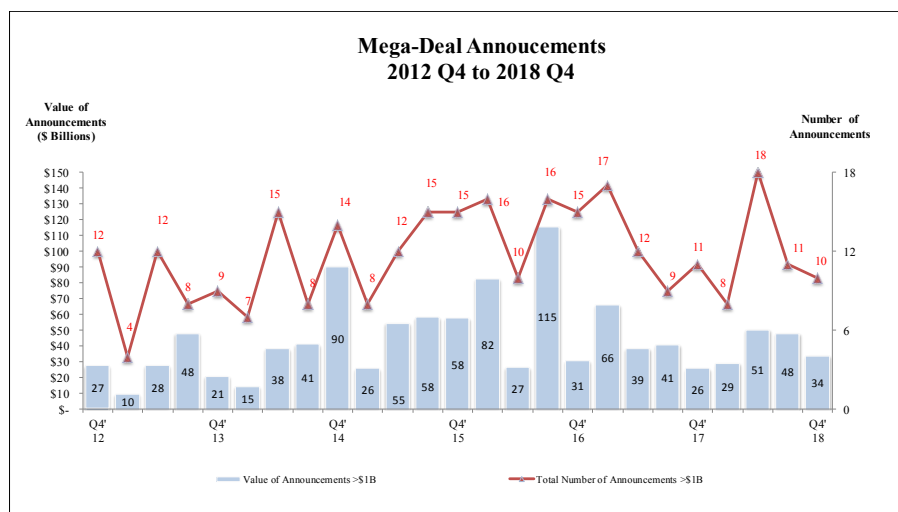
Real Estate was the most active sector this quarter with 114 deals, an increase of 27% relative to the same period in 2017. The second most active sector this quarter was **Industrials** with 107 announced transactions, a 60% increase over Q4 2017. Transaction value this quarter was also highly concentrated in the **Industrials** sector which represented 36% of aggregate deal volume, largely due to the **Johnson Controls’** mega-deal. The **Energy** sector represented the second greatest aggregate deal value of \$6.3B, largely comprised of 2 mega-deals.

CROSBIE & COMPANY CANADIAN M&A REPORT – Q4 2018



Overview

- Deal activity remained strong in the fourth quarter, declining slightly from a 6-year high in Q3
- Q4 announcements increased by 12% compared to the same quarter in 2017
- Fourth consecutive quarter with 800+ announced transactions
- Annual deal activity at its highest in several years with 3,415 announced transactions in 2018
- Total deal value in 2018 was \$247B, down 2% from the \$253B of total value in 2017
- Canada/US cross-border activity increased 27% relative to the fourth quarter in 2017
 - With 251 transactions, Canada/US deals represented 61% of total cross-border activity



Mega-Deals

- 10 mega-deals is consistent with the trend over the last 5 quarters, excluding the multi-year high in Q2 2018
- Represented \$34B of total value, a decline of 29% from Q3 2018
- Largest announced transaction was the **\$17.5B** purchase of **Johnson Controls' Power Solutions business** by **Caisse de dépôt et placement du Québec** and **Brookfield Business Partners**
- Canadian buyers represented 9 of the 10 largest transactions including 7 cross-border deals, indicating a strong interest by Canadian companies to invest abroad

CROSBIE & COMPANY CANADIAN M&A REPORT – Q4 2018

Industry Sector Activity

- **Real Estate** was the most active sector in the fourth quarter with 114 transactions, an increase of 27% relative to the same quarter in 2017
- **Industrial** sector also remained active this quarter with 107 transactions announced, a 60% increase over the same quarter in 2017
- **Healthcare** sector experienced the greatest increase in deal activity (64%) with 87 transactions in the quarter
- Total transaction value was highly concentrated in the industrial sector with one transaction representing 30% of total deal value

INDUSTRY GROUPS	2017 Q4		2018 Q4	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Real Estate	90	7,276	114	5,930
Industrials	67	4,614	107	20,983
Information Technology	100	7,410	99	3,583
Healthcare	53	1,828	87	2,833
Metals and Mining	104	933	87	81
Other	43	692	45	560
Consumer Discretionary	60	3,513	59	922
Energy	51	1,986	58	6,289
Financial Services	49	1,439	47	1,178
Precious Metals	52	722	46	2,052
Communication Services	33	211	45	2,775
Materials	19	560	32	2,112
Consumer Staples	45	4,635	29	3,036
Utilities	14	9,666	19	5,719
TOTAL	780	45,484	874	58,053
Services	83	4,966	119	5,186

Breakdown by Transaction Size

- 90% of transaction volume in the quarter was from mid-market transactions below \$250M (for transactions with disclosed values)
- Mid-market transactions were valued at \$10.1B or approximately 17% of the total M&A value

Size	2017 Q4				2018 Q4			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	300	38	4,758	10	320	37	5,030	9
\$101m-\$250m	36	5	5,832	12	32	4	5,022	9
\$251m-\$500m	12	2	3,882	8	14	2	4,925	8
\$501m-\$1b	7	1	5,107	10	13	1	8,993	15
>\$1b	11	1	25,905	52	10	1	34,083	59
Undisclosed	414	53	n/a	n/a	485	55	0	n/a
	780		45,484		874		58,053	

Domestic versus Foreign M&A

- Domestic M&A activity exceeded 500 transactions for the fifth consecutive quarter, however 532 transactions was the lowest amount in 2018
- Canadian companies acquired 281 foreign targets representing 41% of total Canadian acquisitions, an increase of 26% relative to Q4 2017
- An absence of domestic and cross-border mega-deals involving Canadian targets contributed to the decline in total domestic deal value this quarter

	2017 Q4		2018 Q4	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	379	9,327	402	10,982
With Foreign Buyers	124	16,318	130	2,850
Domestic M&A	503	25,645	532	13,832
Foreign Targets (Canadian Buyer)	223	15,384	281	37,996
Canadian Foreign Subsidiaries Sold to Foreign Buyers	54	4,456	61	6,225
Foreign M&A	277	19,840	342	44,221
	780	45,484	874	58,053

Cross-Border Deals

- The historical trend of outbound M&A activity exceeding inbound M&A by a ratio of approximately 2:1 continued this quarter
- Cross-border deals represented 47% of total activity and 70% of total deal value
- The United States remains Canada's most active M&A partner, representing 61% of cross-border activity

	2017 Q4		2018 Q4	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	223	15,384	281	37,996
Inbound M&A (Foreign Buyer/ CDN Target)	124	16,318	130	2,850
Total Cross Border	347	31,702	411	40,845
Outbound : Inbound Ratio	1.80	0.94	2.16	13.33
Cross Border as % of Total Activity	44%	70%	47%	70%
Canada / US Activity				
US Target	135	3,441	159	8,653
US Buyer	62	4,282	92	2,001
Total Canada/US	197	7,723	251	10,654
Canada/ US as % of Cross Border	57%	24%	61%	26%

CROSBIE & COMPANY CANADIAN M&A REPORT – Q4 2018

Target by Province

- Ontario remains the most active province this quarter with 200 deals valued at \$7.4B
- Alberta experienced the largest increase in activity with 87 transactions, up 55% from the same quarter last year
- Quebec saw the greatest decline in deal activity, decreasing 29%, while declining 80% in total deal value

	2017 Q4				2018 Q4			
	# of Deals	%	Value ⁽¹⁾ \$ Millions	%	# of Deals	%	Value ⁽¹⁾ \$ Millions	%
Ontario	179	36	11,431	45	200	38	7,400	29
British Columbia	107	21	1,781	7	136	26	2,433	9
Alberta	56	11	3,401	13	87	16	2,693	11
Quebec	83	17	4,312	17	59	11	833	3
Nova Scotia	2	0	53	0	13	2	30	0
New Brunswick	7	1	318	1	11	2	362	1
Saskatchewan	20	4	701	3	10	2	30	0
Manitoba	11	2	1,305	5	7	1	14	0
Undisclosed Province	22	4	2,342	9	4	1	36	0
Yukon Territory	5	1	0	0	3	1	1	0
Prince Edward Island	1	0	0	0	1	0	0	0
Nunavut	0	0	0	0	1	0	0	0
Newfoundland	9	2	0	0	0	0	0	0
Northwest Territories	1	0	0	0	0	0	0	0
	<u>503</u>		<u>25,646</u>		<u>532</u>		<u>13,832</u>	

CROSBIE & COMPANY CANADIAN M&A REPORT – Q4 2018

Mega-Deals in Q4 2018

Target Industry	Announced		Target	Role	Transaction Status
	Date	Value			
Industrials	13-Nov-18	\$17,519	Power Solutions business of Johnson Controls Caisse de dépôt et placement du Québec; Brookfield Business Partners L.P. (NYSE:BBU)	Target Acquiror	Announced
Alternative Carriers	30-Nov-18	\$2,712	SFR FTTH OMERS Infrastructure Management Inc.; AXA Investment Managers - Real Assets Alice France SA	Target Acquiror Vendor	Announced
Utilities	9-Nov-18	\$2,097	Eolia Renovables de Inversiones, S.C.R., S.A. Alberta Investment Management Corporation Oaktree Capital Management, L.P.	Target Acquiror Vendor	Announced
Energy	31-Oct-18	\$2,011	Petrobras Oil and Gas B.V. Africa Oil Corp. (TSX:AOL); Delonex Energy Limited; Vitol Investment Partnership II	Target Acquiror	Announced
Information Technology	16-Nov-18	\$1,973	Cylance Inc. BlackBerry Limited (TSX:BB)	Target Acquiror	Announced
Precious Metals	14-Nov-18	\$1,841	Tahoe Resources Inc. (TSX:THO) Pan American Silver Corp. (TSX:PAAS)	Target Acquiror	Announced
Consumer Staples	6-Nov-18	\$1,620	Canadian Natural Cheese Business of Kraft Canada Inc. Parmalat Canada, Inc.	Target Acquiror	Announced
Energy	10-Oct-18	\$1,570	SOL Investments Limited Parkland Fuel Corporation (TSX:PKI)	Target Acquiror	Closed
Utilities	13-Dec-18	\$1,390	Northwest British Columbia Hydro Electric Facilities Manulife Financial Corporation (TSX:MFC); Axiom Infrastructure inc. AltaGas Ltd. (TSX:ALA)	Target Acquiror Vendor	Closed
Real Estate	26-Nov-18	\$1,350	Grivalia Properties REIC (ATSE:GRIV) Eurobank Ergasias S.A. (ATSE:EUROB) Fairfax Financial Holdings Limited (TSX:FFH)	Target Acquiror Vendor	Announced

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 Colin Walker at 416-362-7016 or visit www.crosbieco.com.