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.
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
Domestic versus Foreign M&A
- 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

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

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

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
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
## Mega-Deals in Q4 2018

<table>
<thead>
<tr>
<th>Target Industry</th>
<th>Announced Date</th>
<th>Value</th>
<th>Target</th>
<th>Acquiror</th>
<th>Vendor</th>
<th>Role</th>
<th>Transaction Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrials</td>
<td>13-Nov-18</td>
<td>$17,519</td>
<td>Power Solutions business of Johnson Controls Caisse de dépôt et placement du Québec; Brookfield Business Partners L.P. (NYSE:BBU)</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
<td></td>
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<tr>
<td>Alternative Carriers</td>
<td>30-Nov-18</td>
<td>$2,712</td>
<td>SFR FTTH OMERS Infrastructure Management Inc.; AXA Investment Managers - Real Assets Alice France SA</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
<td></td>
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<tr>
<td>Energy</td>
<td>31-Oct-18</td>
<td>$2,011</td>
<td>Petrobras Oil and Gas B.V. Africa Oil Corp. (TSX:AOI); Delonex Energy Limited; Vitol Investment Partnership II</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
<td></td>
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<tr>
<td>Information Technology</td>
<td>16-Nov-18</td>
<td>$1,973</td>
<td>Cylance Inc. BlackBerry Limited (TSX:BB)</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
<td></td>
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<tr>
<td>Precious Metals</td>
<td>14-Nov-18</td>
<td>$1,841</td>
<td>Tahoe Resources Inc. (TSX:THO) Pan American Silver Corp. (TSX:PAAS)</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
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<tr>
<td>Consumer Staples</td>
<td>6-Nov-18</td>
<td>$1,620</td>
<td>Canadian Natural Cheese Business of Kraft Canada Inc. Parmalat Canada, Inc.</td>
<td>Target</td>
<td>Acquiror</td>
<td>Announced</td>
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<td>Energy</td>
<td>10-Oct-18</td>
<td>$1,570</td>
<td>SOL Investments Limited Parkland Fuel Corporation (TSX:PKI)</td>
<td>Target</td>
<td>Acquiror</td>
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<tr>
<td>Utilities</td>
<td>13-Dec-18</td>
<td>$1,390</td>
<td>Northwest British Columbia Hydro Electric Facilities Manulife Financial Corporation (TSX:MFC); Axium Infrastructure inc. AltaGas Ltd. (TSX:ALA)</td>
<td>Target</td>
<td>Acquiror</td>
<td>Closed</td>
<td></td>
</tr>
</tbody>
</table>

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.