

Crosbie & Company Canadian M&A 2011 Yearly Report

Overview

The Canadian M&A market improved for the third consecutive year in 2011 as it began to recover from the global financial crisis. Figures from Crosbie & Company and Capital IQ indicated that there were 3,004 announcements in 2011, a year over year increase of 6%. In terms of value, M&A announcements increased \$36B to \$193B in 2011, a 23% increase from 2010, largely due to increased mega-deal activity.

Mega-Deals

There were 37 mega-deal transactions (transactions in excess of \$1B in value) for an aggregate value of \$103B, an increase over the 31 mega-deals valued at \$83B the prior year.

The largest transaction of the year was the sale of communications technology provider **Skype** by a group of investors, including **Canada Pension Plan**, to **Microsoft** for \$9B. **TD Bank** acquired the MBNA Canada credit card portfolio from **Bank of America** for \$8.6B. A portion of the wireless patent portfolio of defunct former technology titan **Nortel Networks** was purchased by a group of technology heavyweights, including **RIM**, **Apple** and **Microsoft** for \$4.3B.

Cross-Border

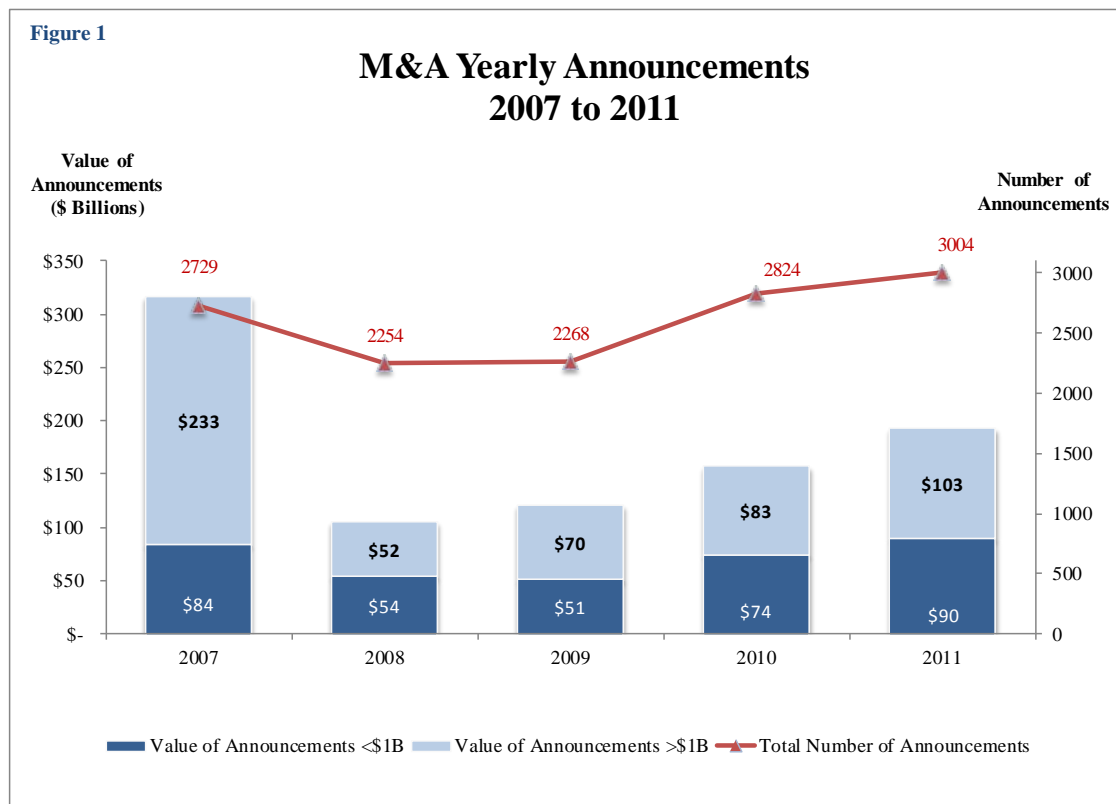
Cross-border transactions continued to account for a significant proportion of activity with 38% of all transactions involving a foreign target or a foreign buyer, demonstrating the global nature of the Canadian economy.

Canadian companies were active in making foreign acquisitions abroad, outnumbering foreign acquisitions of Canadian businesses by 1.7:1. Canadian companies also outspent their foreign counterparts by 2:1, which is the continuation of the trend observed recently where Canadian firms were both active abroad and spending more than foreigners acquiring Canadian companies.

Eight of the top ten largest transactions in 2011 were cross-border deals.

Financial Sponsors

Financials sponsors continued to be a key driver of M&A activity in 2011 with 67 transactions (in excess of \$100M), valued at \$63B in total. **Ontario Teachers' Pension Plan**, along with its



co-investors, sold **Northumbrian Water Group**, a UK-based water utility, to a Chinese investment company for \$7.5B. **Canada Pension Plan** and **Public Sector Pension Investment Board** acquired US medical technology company **Kinetic Concepts** for \$6B.

Industry Sector Activity

The **Metals and Mining** sector was the most active sector, with 402 transactions announced for \$24B. Although transaction volume declined 9% from 2010, deal value jumped 85% to \$24B. **Barrick Gold** diversified away from gold by purchasing copper miner **Equinox Minerals** for \$7.5B. US-based **Cliffs Natural Resources** acquired **Consolidated Thompson Iron Mines** for \$5B and **Quadra FNX Mining** was acquired by Polish copper miner **KGHM International** for \$3.5B.

Energy continued to be a strong source of M&A activity with 372 transactions valued at \$25B. Chinese companies were particularly active in the Canadian oil patch as **Sinopec** acquired **Daylight Energy** for \$2.9B and **CNOOC** purchased **OPTI** for \$2.1B.

Real Estate experienced a 26% increase in transactions with 383 deals valued at \$28B.

Mid-Market

The mid-market continues to be the cornerstone of the Canadian M&A transaction volume with deals under \$250 million representing 91% of all the transactions with disclosed values. In aggregate, the mid-market transactions were valued at \$41B or approximately 21% of total M&A value. Although mid-market deals have historically averaged close to 90% of total activity, the top 1% of transactions typically contribute over half of the total deal value.

In 2011, transaction size was not disclosed for 46% of transactions, in line with the 45% in 2010. While this limits the precision of inferences we can 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.

Figure 2

ACTIVITY GROUPED BY INDUSTRY: 2011

INDUSTRY GROUPS	2010		2011	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Metals and Mining	441	13,056	402	24,004
Real Estate	305	21,517	383	27,748
Energy	390	31,057	372	24,877
Industrials	333	13,126	351	15,333
Precious Metals	320	15,307	306	8,863
Information Technology	256	4,035	302	6,867
Consumer Discretionary	207	20,261	288	11,902
Financial Services	179	17,041	147	25,476
Other	112	1,225	121	1,709
Healthcare	98	6,283	112	14,366
Utilities	43	1,817	72	17,048
Materials	54	1,838	67	2,491
Consumer Staples	68	9,711	58	2,154
Telecommunication	18	853	23	10,174
TOTAL	2,824	157,127	3,004	193,011
Services ⁽²⁾	314	15,791	376	18,770

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 3

CROSS-BORDER TRANSACTIONS: 2011

	2010		2011	
	# of Deals	Value ⁽¹⁾ \$Millions	# of Deals	Value ⁽¹⁾ \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	637	39,631	709	60,452
Top Foreign Target Country for CDN Acquirors				
United States	360	21,163	411	29,311
United Kingdom	41	8,457	23	2,479
Inbound M&A (Foreign Buyer/ CDN Target)	406	27,539	429	29,850
Top Foreign Acquiror for CDN Companies				
United States	289	19,042	298	21,539
United Kingdom	14	184	17	1,185
Total Cross Border	1,043	67,170	1,138	90,302
Outbound : Inbound Ratio	1.57	1.44	1.65	2.03
Cross Border as % of Total Activity	37%	43%	38%	47%

Note:

1. Transaction value is not disclosed for all deals

Figure 4

ACTIVITY BY SIZE OF DEAL: 2011

Size	2010				2011			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	1,321	47	19,115	12	1,360	45	21,918	11
\$101m-\$250m	105	4	16,658	11	119	4	19,154	10
\$251m-\$500m	58	2	20,461	13	70	2	25,048	13
\$501m-\$1b	26	1	17,950	11	33	1	23,762	12
>\$1b	31	1	82,944	53	37	1	103,129	53
Undisclosed	1,283	45	n/a	n/a	1,385	46	n/a	n/a

Note:

1. Transaction value is not disclosed for all deals

Largest Transactions Announced During 2011

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED	
1.	\$8,964	Skype Global S.à r.l. Microsoft Corporation Silver Lake; Canada Pension Plan Investment Board, and others	Target Acquiror Vendor	10-May-11
2.	\$8,600	MBNA Canada Bank, Credit Card Portfolio, Certain Other Assets and Liabilities The Toronto-Dominion Bank BofA Canada Bank	Target Acquiror Vendor	15-Aug-11
3.	\$7,508	Northumbrian Water Group Limited Cheung Kong (Holdings) Limited and others Ontario Teachers' Pension Plan, and others	Target Acquiror Vendor	11-Jul-11
4.	\$7,483	Equinox Minerals Ltd. Barrick Gold Corporation	Target Acquiror	25-Apr-11
5.	\$6,030	Acelity L.P. Inc. Canada Pension Plan Investment Board; Public Sector Pension Investment Board and others Goldman Sachs Group, Merchant Banking Division; BlackRock, Inc. and others	Target Acquiror Vendor	13-Jul-11
6.	\$5,004	Consolidated Thompson Iron Mines Ltd. Cliffs Natural Resources Inc.	Target Acquiror	11-Jan-11
7.	\$4,340	Nortel Networks Corp., Patent Portfolio Microsoft Corporation; Sony Corporation; and others Nortel Networks Corporation	Target Acquiror Vendor	30-Jun-11
8.	\$3,492	Quadra Mining Ltd. KGHM Polska Miedz Spólka Akcyjna	Target Acquiror	6-Dec-11
9.	\$3,433	TMX Group Inc. Caisse de dépôt et placement du Québec; National Bank Financial, Inc. and others	Target Acquiror	14-May-11
10.	\$3,216	Envision Healthcare Corporation Clayton, Dubilier & Rice, Inc. Onex Corporation	Target Acquiror Vendor	14-Feb-11
11.	\$3,169	Gassled Canada Pension Plan Investment Board; and others Statoil ASA	Target Acquiror Vendor	6-Jun-11
12.	\$2,925	SPIE SA Clayton, Dubilier & Rice, Inc.; Ardian; Caisse de dépôt et placement du Québec PAI Partners	Target Acquiror Vendor	31-May-11
13.	\$2,870	Daylight Energy Ltd. Sinopec International Petroleum Exploration & Production Corporation	Target Acquiror	9-Oct-11

The information above and on preceding pages is a summary of Crosbie & Company Inc.'s analysis of the year's M&A activity. For further information, please go to www.crosbieco.com.