

## Crosbie & Company Canadian M&A 2013 Yearly Report

### Overview

The Canadian M&A market took a step backwards in 2013 after several years of strong and steady deal volumes. Analysis prepared by Crosbie & Company using Capital IQ and other sources indicated 2,548 announcements in 2013, down 10% from 2012. In terms of value, M&A announcements declined \$19B to \$194B in 2013, a 9% year over year decrease.

The decline in activity was largely the result of weakness in the commodity sectors which have come under pressure with falling commodity prices amid slower global economic growth.

As highlighted below in this report, the decline in activity was relatively broad-based, occurring in 8 of 14 industry sectors.

### Mega-Deals

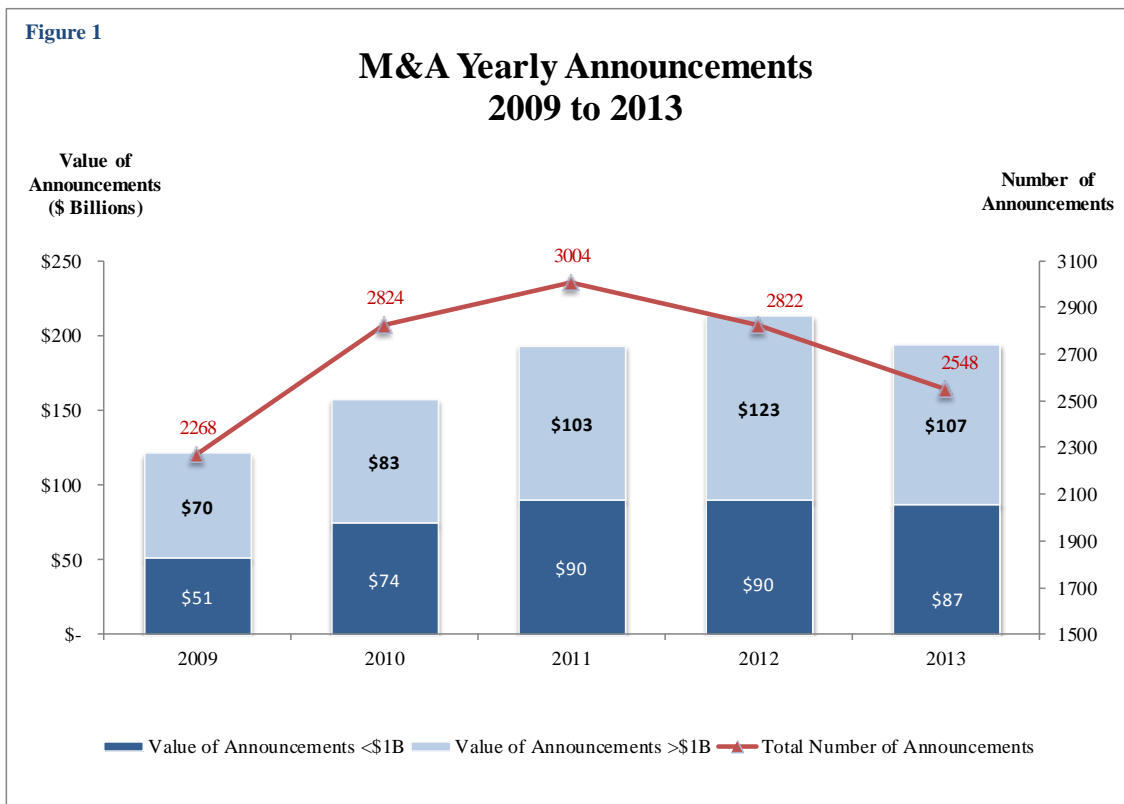
There were 33 mega-deal transactions (transactions in excess of \$1B in value) for an aggregate value of \$107B. This is down from 48 mega-deals valued at \$123B in 2012.

The largest transaction of the year involved **Brookfield Office Properties** being taken private by its parent **Brookfield Property Partners LP** for \$22B. The Canadian grocery and retail sector experienced significant consolidation as **Loblaw Companies** extended its reach into the pharmacy sector by acquiring **Shoppers Drug Mart** for \$13.7B and east coast-based **Sobeys** established a national footprint by expanding into western Canada with the \$5.8B purchase of **Canada Safeway**.

### Cross-Border

Cross-border transactions continued to account for the vast majority of activity with 37% 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 1.4:1. Canadian companies also outspent their foreign counterparts by 1.4:1, which is the continuation of the trend observed recently where Canadian firms were both active abroad and spending more than foreigners acquiring Canadian companies.



## Financial Sponsors

To get a sense of financial sponsor activity, we track transactions in excess of \$100M. Financials sponsors remained active in 2013 with 64 transactions, valued at \$49.5B in total. **Borealis Infrastructure**, the infrastructure investment arm of **OMERS**, together with investment partners, acquired **Fortum Distribution Finland**, the largest electricity distribution network in Finland, for \$3.7B. The **Canada Pension Plan**, along with a local partner, acquired **Commonwealth Property Office Fund**, a portfolio of office properties in Australia, for \$3.3B.

## Industry Sector Activity

The **Real Estate** sector was the most active sector for the second consecutive year, with 446 transactions announced for \$69B in aggregate value. Although the number of transactions was up only 5% from 2012, deal value more than doubled from the prior year. In addition to the Brookfield transaction, Loblaw sought to unlock value by rolling over 400 corporate owned store properties into a real estate investment trust in a \$7B transaction. **Primaris REIT** was acquired in a \$4.5B transaction that saw **H&R REIT** play the role of white knight, trumping a hostile bid by **KingSett Capital**.

The commodity sectors (**Energy, Metals and Mining, Materials** and **Precious Metals**) experienced significant declines in activity. Energy in particular saw a 25% decline in volume to 241 transactions and \$18B, or 73%, drop in deal value. Metals and Mining activity fell 19% and deal value was off nearly 90% while Precious Metals activity declined 36% and deal value fell 50%. The largest commodity sector transaction was **Weyerhaeuser's** \$2.7B purchase of **Longview Timber** from **Brookfield Asset Management**. This deal sees Weyerhaeuser increase its exposure to a recovery in the US home building sector.

## 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 \$40B or approximately 21% of total M&A value. Mid-market deals have historically averaged over 90% of total activity, consistent with 2013.

In 2013, transaction size was not disclosed for 44% of transactions, in line with the 45% in 2012. 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: 2013

INDUSTRY GROUPS	2012		2013	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
Real Estate	423	33,045	446	69,168
Industrials	334	13,609	317	17,515
Information Technology	329	5,885	287	9,529
Metals and Mining	339	12,641	275	1,540
Consumer Discretionary	262	27,362	249	11,209
Energy	320	66,282	241	17,996
Precious Metals	244	6,708	157	3,353
Other	140	4,982	140	2,519
Financial Services	143	12,962	127	6,735
Healthcare	112	7,296	124	8,818
Consumer Staples	67	10,677	67	23,323
Utilities	43	8,171	56	15,110
Materials	53	3,262	49	6,739
Telecommunication	13	75	13	257
TOTAL	2,822	212,959	2,548	193,810
Services <sup>(2)</sup>	332	22,414	362	21,412

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: 2013

	2012		2013	
	# of Deals	Value <sup>(1)</sup> \$Millions	# of Deals	Value <sup>(1)</sup> \$Millions
<b>Outbound M&amp;A (CDN Buyer/ Foreign Target)</b>	671	63,580	548	58,712
<b>Top Foreign Target Country for CDN Acquirors</b>				
United States	405	32,294	346	29,938
United Kingdom	39	4,957	38	5,200
<b>Inbound M&amp;A (Foreign Buyer/ CDN Target)</b>	397	48,425	385	41,839
<b>Top Foreign Acquiror for CDN Companies</b>				
United States	274	12,396	259	11,309
United Kingdom	28	1,375	27	1,827
<b>Total Cross Border</b>	1,068	112,005	933	100,551
<b>Outbound : Inbound Ratio</b>	1.69	1.31	1.42	1.40
<b>Cross Border as % of Total Activity</b>	38%	53%	37%	52%

Note:

1. Transaction value is not disclosed for all deals

**Figure 4**

**ACTIVITY BY SIZE OF DEAL: 2013**

Size	2012				2013			
	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%	# of Deals	%	Value <sup>(1)</sup> \$ Millions	%
<\$100m	1,273	45	21,233	10	1,161	46	18,910	10
\$101m-\$250m	123	4	20,120	9	129	5	21,124	11
\$251m-\$500m	72	3	25,603	12	63	2	22,739	12
\$501m-\$1b	33	1	23,005	11	34	1	24,104	12
>\$1b	48	2	122,998	58	33	1	106,933	55
Undisclosed	1,273	45	n/a	n/a	1,128	44	n/a	n/a

*Note:*

1. *Transaction value is not disclosed for all deals*



## Largest Transactions Announced During 2013

VALUE (C\$ MILLIONS)	NAME	ROLE	ANNOUNCED	
1.	\$21,982	Brookfield Office Properties Inc. Brookfield Property Partners LP.	Target Acquiror	30-Sep-13
2.	\$13,692	Shoppers Drug Mart Corporation Loblaw Companies Limited	Target Acquiror	15-Jul-13
3.	\$7,000	Portfolio of 425 Properties Choice Properties Limited Partnership Loblaws Inc.	Target Acquiror Vendor	24-May-13
4.	\$5,800	Canada Safeway Limited Sobeys Inc. Safeway New Canada, Inc.	Target Acquiror Vendor	12-Jun-13
5.	\$4,609	UNS Energy Corporation Fortis Inc. T. Rowe Price Associates, Inc.	Target Acquiror Vendor	11-Dec-13
6.	\$4,542	Primaris Retail Real Estate Investment Trust H&R REIT; H&R Finance Trust Ontario Pension Board; KingSett Capital, and others	Target Acquiror Vendor	16-Jan-13
7.	\$3,732	Fortum Espoo Distribution Oy and Fortum Sähkösiiro Oy Borealis Infrastructure Trust; and others Fortum Oyj	Target Acquiror Vendor	12-Dec-13
8.	\$3,613	Aeroplan Credit Card Portfolio The Toronto-Dominion Bank Canadian Imperial Bank of Commerce	Target Acquiror Vendor	16-Sep-13
9.	\$3,281	Commonwealth Property Office Fund Canada Pension Plan Investment Board; Dexus Property Group National Australia Bank Limited; and others	Target Acquiror Vendor	11-Oct-13
10.	\$2,797	Saks Incorporated Hudson's Bay Company Southeastern Asset Management, Inc.; and others	Target Acquiror Vendor	29-Jul-13
11.	\$2,715	Longview Timber LLC Weyerhaeuser Co. Brookfield Asset Management Inc., Private Equity; and others	Target Acquiror Vendor	16-Jun-13
12.	\$2,157	MPG Office Trust, Inc. Brookfield Office Properties Appaloosa Management L.P.; HG Vora Capital; DW Partners, LP	Target Acquiror Vendor	25-Apr-13
13.	\$2,121	NET4GAS, s.r.o. Borealis Infrastructure Trust; and others RWE Gas International N.V.	Target Acquiror Vendor	28-Mar-13

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](http://www.crosbieco.com).