

CROSBIE & COMPANY CANADIAN M&A REPORT – Q3 2022

Softening Trend Continues - M&A Markets Going Through a Reset

In Q3 2022, announced Canadian M&A transactions declined for the third quarter in a row, hitting the second lowest quarterly level since the onset of COVID-19 and flirting with pre-pandemic levels last seen in 2016. In the most recent quarter, there were 684 announced transactions, down 8% quarter-over-quarter, representing deal value of \$63B, up 16% from Q2 2022. Quarterly activity is down about 35% since the high point in the current cycle. On a year-to-date basis, there were 2,282 announced transactions, representing a decline of 22% from the same period last year.

“The slowing of M&A we are seeing reflects the impact of uncertainty on buyer psychology as well as changing conditions in the capital markets and on main street,” said Colin Walker, Managing Director of Crosbie & Company Inc. “Due diligence is taking longer for many deals as buyers consider how inflation trends will impact company performance and the impact of tightening monetary conditions. Valuations are also shifting in some sectors causing a need for an adjustment in buyer and seller expectations,” he added.

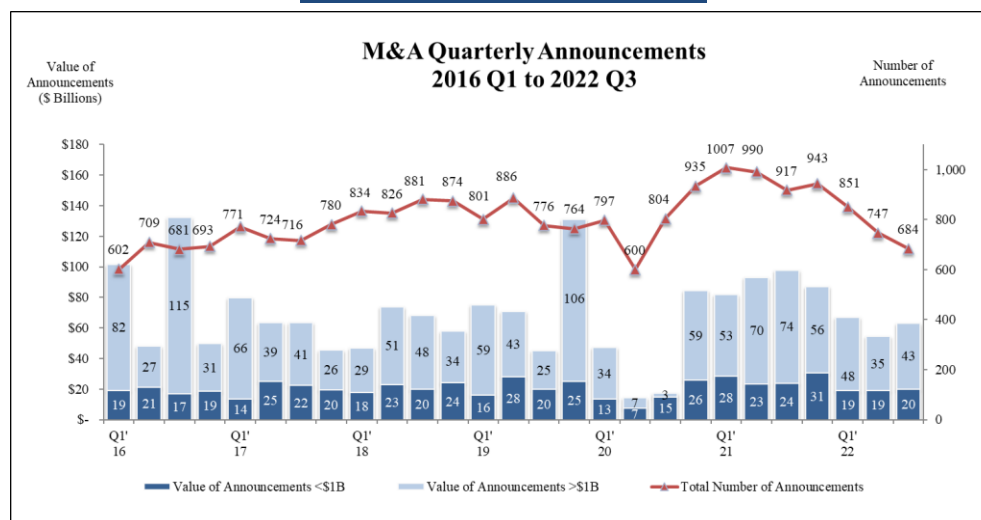
The decline in M&A activity was more pronounced among smaller transactions than for larger sized deals. For the important mid-market segment (transactions with values below \$250M) there were 251 announcements, representing 86% of all deals with disclosed values and 12% of the aggregate value of all deals in the quarter. This size segment was down 8% and led the overall decline.

Mega-deal transactions (those with values above \$1B) defied the broader trend and increased slightly in the quarter with 14 announcements worth \$43B in value. Five of these transactions involved a Canadian target. **Fairfax** remained busy in the quarter, including its take-private of **Recipe Unlimited**, Canada’s largest full-service restaurant company with portfolio brands such as Swiss Chalet, Harvey’s, and The Keg. Outbound mega-deals had a significant infrastructure focus, with **Brookfield** acquiring two U.S.-based solar power companies, **Ontario Teachers’ Pension Plan** acquiring a New Zealand telecom tower operator, and **Capital Power** acquiring a U.S.-based natural gas power generation facility.

As usual, cross-border transactions were a key driver of overall M&A activity contributing 50% of total announcements and 52% of aggregate value. Outbound M&A deal value increased 38% from last quarter due to several large mega-deals, whereas the value of Canadian acquisitions by foreign buyers declined 40%. Despite this divergence from a value perspective, inbound M&A activity remained healthy with 145 transactions (down only 3%).

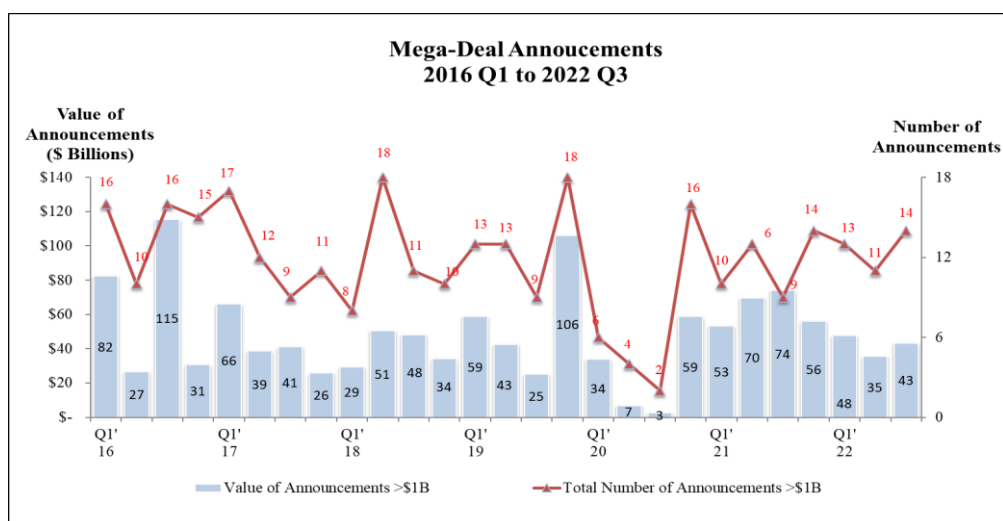
From a sector viewpoint, deal count increases were seen in **Consumer Discretionary** (+27 deals); **Real Estate** (+9); **Communication Services** (+9); and **Utilities** (+4). The largest declines were seen across **Industrials** (-38 deals), **Precious Metals** (-20) and **Information Technology** (-15). **Energy** and **Information Technology** generated the largest aggregate deal value at \$20.0B and \$10.3B respectively, driven by multiple **Energy** mega-deals, three of which involved Albertan targets, and **Open Text’s** \$8.4B outbound acquisition of **Micro Focus**, one of the world’s largest software companies based out of the U.K.

Q3 2022 M&A Report



Overview

- Deal activity slipped further in Q3 2022 with 684 announced transactions, an 8% decline compared to Q2 2022
- Activity in the quarter is down 32% from the cycle high in Q1 2021
- Aggregate deal value (\$63B) was up by +16% relative to Q2 2022 as mega-deal activity remained firm at 14 transactions
- Cross-border M&A activity decreased by 7% to 341 announced transactions representing \$33B in value (52% of aggregate deal value)



Mega-Deals

- There were 14 mega-deals (deals surpassing \$1B in value) announced in Q3 2022 representing \$43B in value
- The largest deal this quarter was U.S.-based **Phillips 66** \$13B acquisition of **DCP Midstream** from **Enbridge**, a business engaged in the processing and distribution of natural gas and natural gas liquids
- **Fairfax** remained busy on several mega-transactions in Q3 2022, including its take-private of **Recipe Unlimited**, Canada's largest full-service restaurant company. Foreign infrastructure assets were in demand, with **Brookfield** acquiring two U.S.-based solar energy companies, **Ontario Teachers Pension Plan** acquiring a New Zealand telecom tower operator, and **Capital Power** acquiring a U.S.-based power generation facility

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INDUSTRY GROUPS	2022 Q2		2022 Q3	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Information Technology	116	704	101	10,266
Industrials	131	14,141	93	6,058
Real Estate	76	10,219	85	4,426
Metals and Mining	99	2,911	87	1,030
Health Care	53	374	42	419
Financial Services	48	2,065	43	5,110
Precious Metals	48	13,353	28	1,051
Communication Services	33	3,648	42	2,593
Consumer Discretionary	33	1,226	60	3,514
Energy	43	3,062	41	20,037
Consumer Staples	35	972	29	112
Materials	19	623	16	4,253
Utilities	13	1,063	17	4,342
Other	-	-	-	-
TOTAL	747	54,361	684	63,210
Services	113	11,119	108	22,142

Industry Sector Activity

- Deal count increases were seen in **Consumer Discretionary** (+27 deals); **Real Estate** (+9); **Communication Services** (+9); and **Utilities** (+4)
- Sectors with the largest decline in deal count were **Industrials** (-38 deals); **Precious Metals** (-20); and **Information Technology** (-15)
- Energy** and **Information Technology** generated the largest aggregate deal values at \$20.0B and \$10.3B; Energy was buoyed by several energy mega-deals involving Albertan targets and Technology reflected **Open Text's** \$8.4B outbound acquisition

Size	2022 Q2				2022 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	246	33	3,801	7	225	33	4,026	6
\$101m-\$250m	26	3	4,427	8	26	4	3,803	6
\$251m-\$500m	10	1	3,115	6	21	3	7,410	12
\$501m-\$1b	11	1	7,581	14	6	1	4,625	7
>\$1b	11	1	35,437	65	14	2	43,346	69
Undisclosed	443	59	0	0	392	57	0	0
	747		54,361		684		63,210	

Breakdown by Transaction Size

- Weakness in activity during the quarter was greater in the mid-market than for the larger deals
- Mid-market transactions with disclosed values (deal value below \$250M) comprised 86% of quarterly activity and 12% of quarterly value

	2022 Q2		2022 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	334	13,800	299	10,199
With Foreign Buyers	149	16,325	145	9,763
Domestic M&A	483	30,125	444	19,962
Foreign Targets (Canadian Buyer)	217	16,782	196	23,158
Canadian Foreign Subsidiaries Sold to Foreign Buyers	47	7,454	44	20,090
Foreign M&A	264	24,236	240	43,248
	747	54,361	684	63,210

Canadian Domiciled versus Foreign M&A Targets

- Acquisitions involving Canadian targets declined to 444 in Q3 2022, down from a peak of 483 in Q1 2021 (down 8%)
- Canadian firms made 495 acquisitions in Q3 2022, of which 299 (60%) involved domestic targets (\$34M average deal value) with the remainder representing foreign targets (\$118M average deal value)

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	2022 Q2		2022 Q3	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	217	16,782	196	23,158
Inbound M&A (Foreign Buyer/ CDN Target)	149	16,325	145	9,763
Total Cross Border	366	33,107	341	32,920
<i>Outbound : Inbound Ratio</i>	<i>1.46</i>	<i>1.03</i>	<i>1.35</i>	<i>2.37</i>
<i>Cross Border as % of Total Activity</i>	<i>49%</i>	<i>61%</i>	<i>50%</i>	<i>52%</i>
Canada / US Activity				
US Target	107	11,166	101	9,378
US Buyer	82	2,980	68	6,546
Total Canada/US	189	14,146	169	15,924
<i>Canada/ US as % of Cross Border</i>	<i>52%</i>	<i>43%</i>	<i>50%</i>	<i>48%</i>
	747	54,361	684	63,210

Cross-Border Deals

- Cross-border deals represented 50% of total activity and 52% of total value in Q3 2022
- The bulk of the decrease in cross-border activity was due to a decline in outbound M&A (-10%), whereas inbound M&A remained relatively firm (-3%)
- Canada/U.S. transactions represented 50% of cross-border announcements and 48% of total value

	2022 Q2				2022 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Ontario	203	42	22,326	74	167	38	6,559	33
British Columbia	91	19	1,514	5	113	25	3,062	15
Quebec	86	18	2,482	8	55	12	4,354	22
Alberta	54	11	3,166	11	64	14	5,608	28
Saskatchewan	9	2	274	1	12	3	247	1
Newfoundland	8	2	5	0	5	1	0	0
New Brunswick	9	2	30	0	3	1	54	0
Manitoba	9	2	63	0	13	3	62	0
Nova Scotia	8	2	242	1	9	2	13	0
Prince Edward Island	2	0	-	0	-	0	-	0
Northwest Territories	1	0	-	0	-	0	-	0
Nunavut	-	0	-	0	-	0	-	0
Yukon Territory	3	1	22	0	3	1	2	0
Undisclosed Province	-	0	-	0	-	0	-	0
	483		30,125		444		19,962	

Deals by Provincial Domicile

- **Ontario** remained the most active province by deal count (167) and represented 33% of all transaction value in Q3 2022, down from 203 deals and 74% of all transaction value
- **British Columbia** (113) and **Alberta** (64) activity was up relative to Q2, with the latter receiving a boost in value due to several energy deals
- The aggregate value of domestic deals fell significantly quarter-over-quarter (-34%) as mega-deal's skewed toward foreign targets

Largest Transactions in Q3 2022

Target Industry	Announced Date	Value (\$ millions)	Target	Role	Transaction Status
Energy	17-Aug-22	\$13,037	DCP Midstream, LP Phillips 66 Enbridge Inc.	Target Acquiror Vendor	Announced
Information Technology	25-Aug-22	\$8,382	Micro Focus International plc Open Text Corporation Dodge & Cox	Target Acquiror Vendor	Announced
Materials	6-Jul-22	\$3,800	Resolute Forest Products Inc. Domtar Corporation Fairfax Financial Holdings Limited; Dimensional Fund Advisors LP; Chou Associates	Target Acquiror Vendor	Announced
Industrials	12-Sep-22	\$2,613	Skyway Concession Company, LLC Atlas Arteria Limited OMERS Infrastructure; CPP Investments	Target Acquiror Vendor	Announced
Energy	29-Jul-22	\$2,300	Serafina Energy Ltd. Strathcona Resources, Ltd.	Target Acquiror	Announced
Information Technology	2-Aug-22	\$1,750	Sierra Wireless, Inc. Semtech Corporation	Target Acquiror	Announced
Industrials	4-Aug-22	\$1,740	Atlas Corp. Fairfax Financial Holdings Limited; Ocean Network Express Pte. Ltd.	Target Acquiror	Announced
Financial Services	2-Aug-22	\$1,710	Cowen Inc. TD Securities Inc. BlackRock, Inc.; The Vanguard Group, Inc.; Magnetar Capital, LLC; Azora Capital LP	Target Acquiror Vendor	Announced
Consumer Discretionary	9-Aug-22	\$1,473	Recipe Unlimited Corporation Fairfax Financial Holdings Limited Cara Holdings Limited	Target Acquiror Vendor	Closed
Energy	12-Sep-22	\$1,443	Deltastream Energy Corporation Tamarack Valley Energy Ltd. ARC Financial Corp.; ARC Energy Fund 7; ARC Energy Fund 9; ARC Equity	Target Acquiror Vendor	Closed
Utilities	29-Sep-22	\$1,371	Scout Clean Energy, LLC Brookfield Asset Management Inc.; Brookfield Global Transition Fund I Quinbrook Infrastructure Partners Pty Ltd.	Target Acquiror Vendor	Announced
Communication Services	18-Jul-22	\$1,355	Aotearoa Towers Limited HICL Infrastructure PLC; InfraRed Capital Partners; Northleaf Capital Partners Ltd. Brookfield Asset Management Inc.; Vodafone New Zealand Limited	Target Acquiror Vendor	Closed
Energy	26-Sep-22	\$1,209	Decarbonization Plus Acquisition Corporation IV Hammerhead Resources Inc Decarbonization Plus Acquisition Sponsor IV LLC	Target Acquiror Vendor	Announced
Utilities	12-Jul-22	\$1,162	Midland Cogeneration Venture Limited Partnership Manulife Investment Management; Capital Power Corporation; Manulife Infrastructure OMERS Infrastructure Management Inc.	Target Acquiror Vendor	Closed
Utilities	29-Sep-22	\$960	Standard Solar, Inc. Brookfield Asset Management Inc.; Brookfield Global Transition Fund I Northern New England Energy Corporation	Target Acquiror Vendor	Closed
Industrials	18-Jul-22	\$917	IBI Group Inc. Arcadis NV IBI Group Management Partnership; IBI Group Investment Partnership; IBI Group	Target Acquiror Vendor	Closed