

CROSBIE & COMPANY CANADIAN M&A REPORT – Q3 2021

M&A Strong but Feeling the Pull of Gravity

M&A activity continued to moderate in the third quarter of 2021 with 917 reported deals, representing a decline of 7% compared to Q2 and the lowest quarterly level transactions we have seen over the prior three quarters. However, despite this declining trend, the quarter was still the fourth strongest quarter on record with announcements that were well above pre-pandemic levels. From a value perspective, aggregate transactions announced remained strong at \$98B, making it one of the five strongest quarters in the last 5 years.

“We have seen a modest pull-back in M&A announcements but there are still historically strong conditions and other ingredients driving the market,” said Colin Walker, Managing Director at Crosbie. “Market conditions generally remain very supportive of continued strong levels of M&A activity in the coming quarters. We also think the fourth quarter could also be positively impacted by some sellers trying to get their deals completed by year-end in anticipation of higher capital gains taxes,” he added.

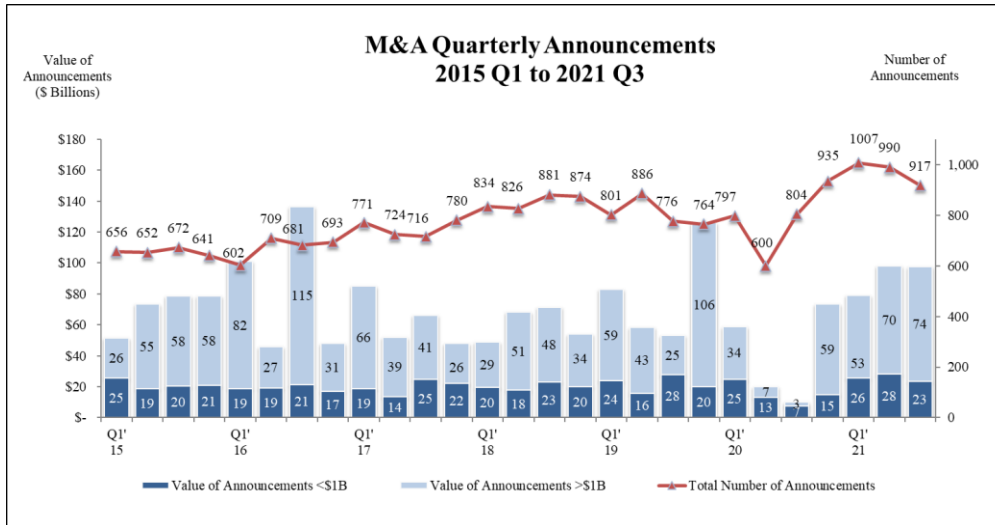
Underpinning the quarter were nine mega-deals (deals with value in excess of \$1B), collectively representing aggregate value of \$74B. The largest of these was **Canadian Pacific Railway’s** offer of \$39.7B for **Kansas City Southern** which appears to have ended the bidding war with Canadian National Railway that has played out over recent quarters. While lower than Canadian National’s previous bid, **Canadian Pacific’s** offer was accepted given greater certainty of being accepted by the regulators. The other significant transaction in the quarter was **Anglo Eagle Mines** acquisition of **Kirkland Lake Gold** for \$13.5B.

As always, the mid-market drove many market metrics. Transactions with disclosed values below \$250M represented approximately 91% of deal activity and 12% of deal value in Q3 2021. In aggregate, this amounted to 353 transactions, which was 15% below the prior quarter.

Cross-border M&A grew its share of total deal volume to 48% in Q3 2021, which represents the new high-water mark and may in part reflect the relaxation of foreign travel restrictions. Additionally, as a share of total reported value, cross-border transactions increased to 75%, which is the fourth largest cross-border share of total deal value on record. Outbound M&A activity (Canadian acquiror and a foreign target) continued to outpace inbound M&A activity by a ratio of 1.75:1. Canadian firms have acquired 828 foreign companies year-to-date, which is roughly in line with the total number of outbound deals that occurred in the year of 2020. At roughly two-thirds of all outbound deal activity in Q3 2021, the U.S. continued to represent the largest market for Canadian firms acquiring abroad.

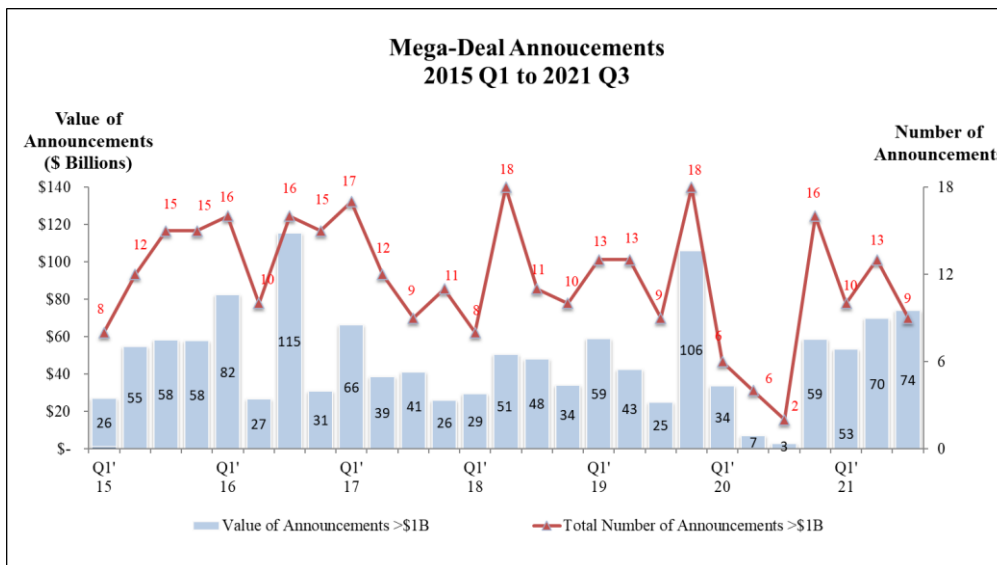
More than half of the industry categories profiled experienced a decline in activity relative to Q3 2021, with **Precious Metals**, **Consumer Staples** and **Utilities** each posting declines in excess of 20%. Conversely, **Information Technology**, **Industrials** and **Real Estate** were the most active sectors in Q3, representing 141 (\$3.2B), 117 (\$42.5B) and 110 (\$15.8B) announced transactions, respectively. **Real Estate** comprised one-third of the 15 largest transactions in Q3 2021. The large increase in **Precious Metals** was driven by the \$13.5 billion merger announcement between U.S.-based **Agnico Eagle Mines Limited** and Ontario-based **Kirkland Lake Gold Ltd.**

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Overview

- Deal activity in Q3 2021 continued to moderate relative to the preceding three quarters with 917 announced transactions, which represents a 9% decline from the all-time high observed in Q1 2021 and a 14% increase relative to the same quarter last year
- Aggregate deal value reached \$98B in Q3 2021, which is the fifth largest quarterly deal value in the past five years and represents a more than fivefold increase relative to Q3 2020
- Cross-border M&A activity continued at a strong pace in the third quarter with 499 announced transactions collectively representing \$79.8B (82% of the aggregate deal value). There were 282 transactions representing Canadian firms acquiring foreign targets representing 57% of cross-border deals



Mega-Deals

- There were 9 mega-deals (deals surpassing \$1B in value) announced in Q3 2021. In aggregate, these transactions represented \$74B of deal value and earmarked Q3 2021 as the fourth largest quarter for mega-deal value over the preceding five years
- The largest transaction this quarter was **Canadian Pacific’s bid of \$39.7B for Kansas City Southern**, followed up by **Agnico Eagle Mines \$13.5B announced merger with Kirkland Lake Gold**
- **Canadian Pacific’s bid for Kansas City Southern** is the largest mega-deal over the past year and the fourth largest over the past five years

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INDUSTRY GROUPS	2021 Q2		2021 Q3	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Information Technology	141	3,272	141	3218
Industrials	99	44,456	117	42,463
Real Estate	108	9,949	110	15,826
Metals and Mining	125	446	101	1,660
Healthcare	95	2,787	78	1,292
Financial Services	64	3,496	70	1,700
Precious Metals	82	1,596	63	14,725
Communication Services	52	1,158	58	2,413
Consumer Discretionary	45	1,219	53	895
Energy	52	18,816	48	5,938
Consumer Staples	50	546	34	527
Materials	24	1,210	22	896
Other	41	1,099	13	5
Utilities	12	3,074	9	6,310
TOTAL	990	93,123	917	97,869
Services	126	59,242	121	46,618

Industry Sector Activity

- More than half of the industry sectors we track experienced a decline in announcements relative to Q2 2021, with **Precious Metals**, **Consumer Staples** and **Utilities** each posting declines in excess of 20%
- **Information Technology**, **Industrials** and **Real Estate** were the most active sectors in Q3 2021, representing 141 (\$3.2B), 117 (\$42.5B) and 110 (\$15.8B) announced transactions, respectively
- **Real Estate** deals comprised one-third of the 15 largest announced transactions by deal value in Q3 2021

Size	2021 Q2				2021 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
<\$100m	382	39	5,767	6	306	33	4,339	4
\$101m-\$250m	33	3	5,624	6	47	5	7,536	8
\$251m-\$500m	17	2	6,644	7	16	2	5,793	6
\$501m-\$1b	7	1	5,376	6	10	1	6,168	6
>\$1b	13	1	69,712	75	9	1	74,034	76
Undisclosed	538	54	n/a	n/a	529	58	0	n/a
	990		93,123		917		97,869	

Breakdown by Transaction Size

- Mid-market transactions with disclosed values (deal value below \$250M) comprised 91% of the quarterly activity
- Mega-deal activity (value over \$1B) tapered relative to the prior quarter with 9 announcements, while aggregate deal value increased by 6% to \$74B

	2021 Q2		2021 Q3	
	# of Deals	Value \$ Millions	# of Deals	Value \$ Millions
Canadian Targets				
With Canadian Buyers	485	27,195	418	18,181
With Foreign Buyers	163	6,663	161	12,238
Domestic M&A	648	33,858	579	30,418
Foreign Targets (Canadian Buyer)	295	56,373	282	61,172
Canadian Foreign Subsidiaries Sold to Foreign Buyers	47	2,892	56	6,278
Foreign M&A	342	59,265	338	67,451
	990	93,123	917	97,869

Canadian Domiciled versus Foreign M&A Targets

- Canadian firms made 700 acquisitions in Q3 2021, of which 418 were domestic deals (down 10% from the prior quarter) and 282 were acquisitions made abroad (down 4% quarter over quarter)
- Acquisitions involving Canadian targets moderated to 579 in Q3, which is a decline of 11% from Q2 and 15% from the Q1 high
- The deal value for transactions involving a Canadian target decreased to \$30.4B in Q3, representing a decline of \$3.4B from the prior quarter

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	2021 Q2		2021 Q3	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Outbound M&A (CDN Buyer/ Foreign Target)	295	56,373	282	61,172
Inbound M&A (Foreign Buyer/ CDN Target)	163	6,666	161	12,238
Total Cross Border	458	63,038	443	73,410
<i>Outbound : Inbound Ratio</i>	<i>1.81</i>	<i>8.46</i>	<i>1.75</i>	<i>5.00</i>
<i>Cross Border as % of Total Activity</i>	<i>46%</i>	<i>68%</i>	<i>48%</i>	<i>75%</i>
Canada / US Activity				
US Target	179	48,801	184	51,989
US Buyer	83	2,207	89	10,011
Total Canada/US	262	51,008	273	62,000
<i>Canada/ US as % of Cross Border</i>	<i>57%</i>	<i>81%</i>	<i>62%</i>	<i>84%</i>
	990	93,123	917	97,869

Cross-Border Deals

- Cross-border deals represented 48% of total activity and 75% of total value in Q3 2021
- Outbound cross-border activity decreased by 4% from the prior quarter, while inbound cross-border activity declined by 1%
- Canada/U.S. transactions represented 62% of cross-border activity and 84% of cross-border deal value

	2021 Q2				2021 Q3			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Ontario	233	36	8,174	24	228	39	22,642	74
British Columbia	178	27	2,085	6	139	24	3,865	13
Quebec	102	16	2,846	8	85	15	1,095	4
Alberta	77	12	20,414	60	69	12	2,331	8
Saskatchewan	17	3	188	1	19	3	259	1
Newfoundland	15	2	2	0	16	3	7	0
New Brunswick	6	1	71	0	8	1	54	0
Manitoba	5	1	44	0	7	1	148	0
Nova Scotia	8	1	8	0	4	1	14	0
Prince Edward Island	1	0	n/a	n/a	3	1	2	0
Northwest Territories	3	0	26	0	0	0	-	0
Nunavut	1	0	0	n/a	0	0	-	0
Yukon Territory	0	0	n/a	n/a	0	0	-	0
Undisclosed Province ⁽²⁾	2	0	n/a	n/a	1	0	-	0
	648		33,858		579		30,418	

Deals by Provincial Domicile

- **Ontario** remains the most active province by activity and deal value, representing 228 announced transactions and \$22.6B in deal value, of which 3 were mega-deals
- **British Columbia** decreased their share of quarterly deal volume by 3% but more than doubled their share of deal value, reaching 13% in Q3 2021

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Largest Transactions in Q3 2021

Target Industry	Announced		Target	Role	Transaction Status
	Date	Value			
Industrials	10-Aug-21	\$39,671	Kansas City Southern (NYSE:KSU) Canadian Pacific Railway Limited (TSX:CP) BlackRock, Inc.; The Vanguard Group, Inc.; MFS Investment Management, Inc.	Target Acquiror Vendor	Announced
Precious Metals	28-Sep-21	\$13,509	Kirkland Lake Gold Ltd. (TSX:KL) Agnico Eagle Mines Limited (NYSE:AEM)	Target Acquiror	Announced
Utilities	15-Jul-21	\$5,801	Spark Infrastructure Group (ASX:SKD) KKR & Co. Inc. (NYSE:KKR); Ontario Teachers' Pension Plan Board; Public Sector Pension Investment Board	Target Acquiror	Announced
Real Estate	9-Aug-21	\$4,775	WPT Industrial Real Estate Investment Trust (TSX:WIR.UN) Blackstone Real Estate Income Trust, Inc. Alberta Investment Management Corporation; Middlefield International Limited; Middlefield Limited; Middlefield Canadian Income PCC - Middlefield Canadian Income - GBP PC	Target Acquiror Vendor	Announced
Energy	7-Sep-21	\$3,790	Moda Ingleside Energy Center and Other Assets Enbridge Inc. (TSX:ENB) Moda Midstream, LLC	Target Acquiror Vendor	Closed
Real Estate	17-Aug-21	\$2,777	14.5 Million Square Foot Infill and Light Industrial Portfolio Oxford Properties Group, Inc. KKR & Co. Inc. (NYSE:KKR)	Target Acquiror Vendor	Announced
Consumer Discretionary	27-Sep-21	\$1,526	Companies constituting Digital Sports Betting Business of Scientific Games Corporation Endeavor Operating Company, LLC Scientific Games Corporation (NasdaqGS:SGMS)	Target Acquiror Vendor	Announced
Financial Services	4-Aug-21	\$1,142	Custom House ULC The Baupost Group, LLC; Goldfinch Partners LLC The Western Union Company (NYSE:WU)	Target Acquiror Vendor	Announced
Real Estate	26-Aug-21	\$1,043	Office Property Located at One Memorial Drive Norges Bank Investment Management; MetLife Investment Management, LLC Oxford Properties Group, Inc.; J.P. Morgan Asset Management, Inc.	Target Acquiror Vendor	Closed
Industrials	10-Sep-21	\$760	Portfolio of Seven Class "A" Institutional Quality Multi-Family Properties Starlight Investments; Starlight U.S. Multi-Family (No. 1) Core Plus Fund (TSXV:SCPO.UN)	Target Vendor	Announced
Energy	28-Jul-21	\$752	Velvet Energy Ltd. Spartan Delta Corp. (TSX:SDE)	Target Acquiror	Closed
Industrials	25-Aug-21	\$693	Augean plc (AIM:AUG) Ancala Partners LLP; Fiera Infrastructure Inc. Gresham House Strategic plc (AIM:GHS); North Atlantic Smaller Companies Investment Trust PLC (LSE:NAS); Oryx International Growth Fund Limited (LSE:OIG); Hargreave Hale Limited; Harwood Capital LLP; Chelverton Asset Management Limited; Close Asset Management Limited; Artemis Investment Management LLP; Harwood Capital Nominees Limited; Gresham House Asset Management Limited	Target Acquiror Vendor	Announced
Consumer Discretionary	29-Jul-21	\$651	Selenta Hospitality Group, S.L. Brookfield Asset Management Inc. (TSX:BAM.A)	Target Acquiror	Closed
Real Estate	3-Aug-21	\$613	Bow Office Tower in Calgary, Alberta Oak Street Real Estate Capital, LLC H&R Real Estate Investment Trust (TSX:HR.UN)	Target Acquiror Vendor	Closed
Real Estate	27-Jul-21	\$584	Safeco Plaza, a 50-story, Class A Office Building in Seattle, Washington Boston Properties, Inc. (NYSE:BXF); GIC Pte. Ltd.; Canada Pension Plan Investment Board	Target Acquiror	Closed
Consumer Staples	1-Sep-21	\$561	Gage Growth Corp. (CNSX:GAGE) TerrAscend Corp. (CNSX:TER)	Target Acquiror	Announced