

CROSBIE & COMPANY CANADIAN M&A REPORT – Q3 2023

A More Challenging Quarter in a Year Full of Resets

Canadian M&A deal volume slipped in the third quarter of 2023 with announced deals dropping to 579 from 736 in Q2 2023. Across the board, tight credit and equity markets are limiting buyers' access to leverage and financing, and uncertainty is limiting vendors' inclination to sell. Furthermore, whilst deal count fell 21% QoQ, deal value decreased almost twice as steeply (40%), suggesting the current focus may be on tuck-unders and smaller-sized deals as dealmakers await improved market conditions for more sizable transactions. Additionally, there are indications that many transactions are moving more slowly due to enhanced due diligence requirements and financing delays.

“The third quarter of 2023 saw the M&A market continue to absorb pressure from ongoing economic uncertainty, the impact of sustained higher interest rates, and renewed geopolitical risks resulting in a more cautious stance from both buyers and sellers,” said **Stephen Ng**, Managing Director of **Crosbie & Company Inc.** “Despite these conditions, high quality companies continue to attract strong interest and valuations. There are reasons to be optimistic as we look to Q4 and into 2024 with interest rates likely leveling, pressure to deploy private equity funds that were recently raised, and the possibility of attractive opportunistic situations to transact.”

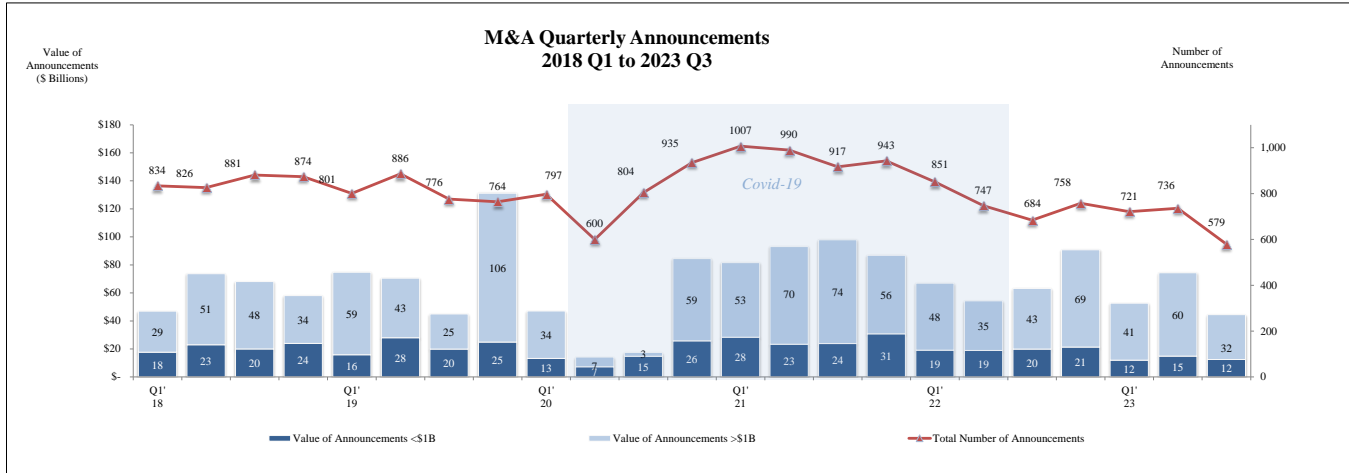
The silver lining is that the prerequisites for a recovery exist. Globally, there is US\$1.4 trillion in private equity dry powder, corporations have accumulated cash, and historical data suggests that we should be close to the trough of a cycle. As such, there are high hopes for a 2024 rebound.

During the third quarter, activity in the Canadian middle-market (represented by transactions with values below \$250M) decreased to 229 announced deals and \$5.8B in total value. Consistent with prior quarters, mid-market activity represented the vast majority (91%) of all announcements with disclosed values during Q3 2023. Mega-deals (those with values exceeding \$1B) decreased to 10 announcements (-3) worth \$32B. Three of the largest mega-deals involved Canadian utility giant **Enbridge** acquiring three US utility businesses (**Questar Gas, East Ohio Gas Company, and PSNC Energy**) for a combined value of approximately \$20B from US-based **Dominion Energy**. This strategic transaction gives Enbridge one of the largest natural gas utility platforms in North America providing 9 billion ft³/day of natural gas to over 7 million customers. The **Energy** sector also saw 3 large transactions this quarter (2 mega deals), as shown in Table A.

From an industry perspective, deal flow has deteriorated across most sectors. **Industrials** experienced the largest fall (-52), after an upward trend in the past two quarters and **Real Estate** also decreased (-34), as the sector continues to face operating challenges and sensitivity to interest rates. Meanwhile, the **Energy** industry experienced the largest uptick in deal activity (+13), followed by **Communication Services** (+8).

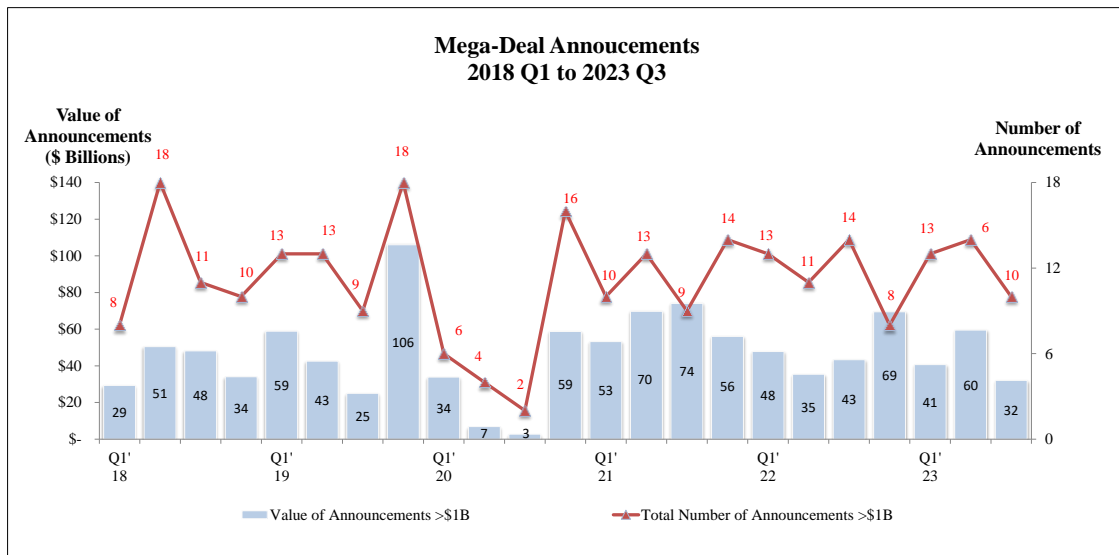
This quarter, Canadian acquirors focused closer to home as 71% of their targets were Canadian-domiciled. As a result, cross-border activity as a percentage of total deal activity dropped significantly to 38% with **Canada/US** cross-border activity continuing to represent the bulk of cross-border transactions (60%) and deal value (71%). Domestic M&A (involving both Canadian and foreign acquirors) has dropped by 114 deals or 20% QoQ.

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Overview

- Deal activity decreased significantly in Q3 2023 with 579 announcements (down 21% QoQ), and deal value decreased to \$44B (down 40% QoQ).
- Mid-market transactions represented 91% of announcements where the value was disclosed.
- The **Utilities** and **Energy** sectors hosted some of the biggest deals this quarter.
- Cross-border announcements represented only 38% of total activity, whereas in the last few years it has hovered around 50% with **Canada/US** cross-border activity representing the bulk of cross-border activity (61%).
- Canadian firms made 436 acquisitions in the quarter, of which 309 (71%) involved domestic targets.



Mega-Deals

- Ten mega-deals were announced in the quarter (down from 14 in Q2 2023) and value declined by almost half to \$32B. These deals included 4 that were **Utilities** related and 2 in **Energy**.
- The largest deal was the \$9B strategic purchase of **Quester Corporation** by **Enbridge**. **Questar** was one of three U.S. Businesses that **Enbridge**, a Canada-domiciled utilities provider, acquired from **Dominion Energy** for a combined value of approximately \$20B.

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| INDUSTRY GROUPS ⁽¹⁾ | 2023 Q2 | | 2023 Q3 | |
|--------------------------------|------------|------------------|------------|------------------|
| | # of Deals | Value \$Millions | # of Deals | Value \$Millions |
| Information Technology | 91 | 4,218 | 82 | 1,271 |
| Industrials | 179 | 2,039 | 127 | 8,566 |
| Real Estate | 59 | 3,030 | 25 | 1,758 |
| Metals and Mining | 149 | 2,657 | 117 | 2,578 |
| Health Care | 50 | 3,845 | 47 | 3,101 |
| Financial Services | 59 | 10,468 | 49 | 1,038 |
| Precious Metals | 6 | 181 | 9 | 99 |
| Communication Services | 6 | 7,070 | 14 | 725 |
| Consumer Discretionary | 48 | 2,282 | 23 | 159 |
| Energy | 29 | 12,389 | 42 | 4,569 |
| Consumer Staples | 22 | 24,098 | 23 | 16 |
| Materials | 16 | 1,555 | 12 | 463 |
| Utilities | 15 | 594 | 4 | 20,119 |
| Other | 7 | - | 5 | 56 |
| TOTAL | 736 | 74,425 | 579 | 44,517 |
| Services | 99 | 4,944 | 89 | 1,461 |

(1) Industry Groups track those used by the S&P 500

Industry Sector Activity

- Deal counts decreased across most sectors, with **Industrials** experiencing the steepest fall (-52), followed by **Real Estate** (-34).
- Energy** experienced the largest uptick in deal activity (+13), followed by **Communication Services** (+8).
- Despite the decline in deal count and overall reported value for the quarter, value reported for industrial and utility deals were dramatically higher in Q3.

| Size | 2023 Q2 | | | | 2023 Q3 | | | |
|---------------|------------|----|-------------------|----|------------|----|-------------------|----|
| | # of Deals | % | Value \$ Millions | % | # of Deals | % | Value \$ Millions | % |
| <\$100m | 254 | 35 | 3,262 | 4 | 211 | 36 | 2,855 | 6 |
| \$101m-\$250m | 20 | 3 | 3,212 | 4 | 18 | 3 | 2,953 | 7 |
| \$251m-\$500m | 12 | 2 | 4,277 | 6 | 5 | 1 | 1,452 | 3 |
| \$501m-\$1b | 6 | 1 | 4,144 | 6 | 7 | 1 | 5,228 | 12 |
| >\$1b | 14 | 2 | 59,538 | 80 | 10 | 2 | 32,029 | 72 |
| Undisclosed | 430 | 58 | 0 | 0 | 328 | 57 | 0 | 0 |
| | 736 | | 74,425 | | 579 | | 44,517 | |

Breakdown by Transaction Size

- For mid-market transactions there were 229 announcements, down from 274 in the prior quarter.
- For transactions with disclosed values, the mid-market comprised 91% of activity and 13% of value.

| | 2023 Q2 | | 2023 Q3 | |
|--|------------|-------------------|------------|-------------------|
| | # of Deals | Value \$ Millions | # of Deals | Value \$ Millions |
| Canadian Targets | | | | |
| With Canadian Buyers | 346 | 11,177 | 309 | 4,618 |
| With Foreign Buyers | 169 | 15,324 | 92 | 7,357 |
| Domestic M&A | 515 | 26,501 | 401 | 11,975 |
| Foreign Targets (Canadian Buyer) | 174 | 15,933 | 127 | 21,969 |
| Canadian Foreign Subsidiaries Sold to Foreign Buyers | 47 | 31,991 | 51 | 10,574 |
| Foreign M&A | 221 | 47,924 | 178 | 32,543 |
| | 736 | 74,425 | 579 | 44,517 |

Canadian Domiciled versus Foreign M&A Targets

- M&A announcements in Q3 2023 involving Canadian targets decreased 22% QoQ to 401 deals.
- Canadian firms made a total of 436 acquisitions in the quarter, of which 309 (71%) involved domestic targets with the remainder being foreign targets.

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| | 2023 Q2 | | 2023 Q3 | |
|--|-------------|------------------|-------------|------------------|
| | # of Deals | Value \$Millions | # of Deals | Value \$Millions |
| Outbound M&A (CDN Buyer/ Foreign Target) | 174 | 15,933 | 127 | 21,969 |
| Inbound M&A (Foreign Buyer/ CDN Target) | 169 | 15,324 | 92 | 7,357 |
| Total Cross Border | 343 | 31,257 | 219 | 29,326 |
| <i>Outbound : Inbound Ratio</i> | <i>1.03</i> | <i>1.04</i> | <i>1.38</i> | <i>2.99</i> |
| <i>Cross Border as % of Total Activity</i> | <i>47%</i> | <i>42%</i> | <i>38%</i> | <i>66%</i> |
| Canada / US Activity | | | | |
| US Target | 103 | 11,309 | 70 | 19,430 |
| US Buyer | 104 | 7,852 | 61 | 1,498 |
| Total Canada/US | 207 | 19,160 | 131 | 20,928 |
| <i>Canada/ US as % of Cross Border</i> | <i>60%</i> | <i>61%</i> | <i>60%</i> | <i>71%</i> |
| | 736 | 74,425 | 579 | 44,517 |

Cross-Border Deals

- Cross-border deals as a percentage of total activity decreased to 38% of total activity.
- The outbound-to-inbound ratio further increased to 1.38 in Q3 2023, signalling a decline in inbound M&A which outweighs the decline in outbound M&A.
- **Canada/US** cross-border activity continued to represent the bulk of cross-border transactions (60%) and deal value (71%).

| | 2023 Q2 | | | | 2023 Q3 | | | |
|-----------------------|------------|----|-------------------|----|------------|----|-------------------|----|
| | # of Deals | % | Value \$ Millions | % | # of Deals | % | Value \$ Millions | % |
| Ontario | 188 | 37 | 6,488 | 24 | 138 | 34 | 2,314 | 19 |
| British Columbia | 102 | 20 | 3,419 | 13 | 101 | 25 | 786 | 7 |
| Quebec | 112 | 22 | 4,950 | 19 | 70 | 17 | 5,857 | 49 |
| Alberta | 56 | 11 | 11,315 | 43 | 52 | 13 | 2,941 | 25 |
| Saskatchewan | 13 | 3 | 7 | 0 | 8 | 2 | 1 | 0 |
| Newfoundland | 7 | 1 | 5 | 0 | 8 | 2 | 9 | 0 |
| New Brunswick | 5 | 1 | 170 | 1 | 10 | 2 | 54 | 0 |
| Manitoba | 17 | 3 | 74 | 0 | 6 | 1 | - | 0 |
| Nova Scotia | 8 | 2 | 53 | 0 | 2 | 0 | - | 0 |
| Prince Edward Island | 1 | 0 | 9 | 0 | - | 0 | - | 0 |
| Northwest Territories | 3 | 1 | 7 | 0 | 3 | 1 | 10 | 0 |
| Yukon Territory | 3 | 1 | 3 | 0 | 3 | 1 | 1 | 0 |
| | 515 | | 26,501 | | 401 | | 11,975 | |

Deals by Provincial Domicile

- Aggregate domestic M&A activity dropped to 401 announced transactions during Q3 2023.
- Nearly every province experienced reduced deal count relative to the previous quarter.
- **Ontario** remained the most active province by deal count (138).

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Table A: Largest Transactions in Q3 2023

| Target Industry | Announced Date | Value (\$ millions) | Target | Transaction | |
|----------------------------|----------------|------------------------|--|------------------------------|-----------|
| | | | | Role | Status |
| Utilities | 5-Sep-23 | \$8,948 | Dominion Energy Questar Corporation Enbridge Inc. Dominion Energy, Inc. | Target Acquiror Vendor | Announced |
| Utilities | 5-Sep-23 | \$5,788 | Fall West Holdco LLC Enbridge Inc. Dominion Energy, Inc. | Target Acquiror Vendor | Announced |
| Industrials | 14-Sep-23 | \$5,134 | Future Electronics Inc. WT Microelectronics Co., Ltd. | Target Acquiror | Announced |
| Utilities | 5-Sep-23 | \$4,371 | Public Service Company of North Carolina, Incorporated Enbridge Inc. Dominion Energy, Inc. | Target Acquiror Vendor | Announced |
| Industrials | 15-Aug-23 | \$1,482 | Carbon Engineering Ltd. Oxy Low Carbon Ventures, LLC Chevron Technology Ventures L.L.C. | Target Acquiror Vendor | Announced |
| Real Estate | 9-Aug-23 | \$1,476 | Grocery-anchored retail property portfolio Slate Asset Management LP x + bricks Management GmbH | Target Acquiror Vendor | Announced |
| Health Care | 10-Aug-23 | \$1,441 | Inversago Pharma Inc. Novo Nordisk A/S New Enterprise Associates, Inc.; Genesys Capital Partners Inc.; Fonds de solidarité FTQ; | Target Acquiror Vendor | Announced |
| Energy | 11-Jul-23 | \$1,368 | TransAlta Renewables Inc. TransAlta Corporation TortoiseEcofin Investments, LLC | Target Acquiror Vendor | Closed |
| Utilities | 3-Jul-23 | \$1,012 | Kenter B.V OMERS Administration Corporation; Stichting Pensioenfonds ABP Alliander Corporate Ventures B.V. | Target Acquiror Vendor | Announced |
| Energy | 9-Aug-23 | \$1,009 | NextWind Capital Limited Investment Management Corporation of Ontario; Public Sector Pension Investment Crestline Investors Inc. | Target Acquiror Vendor | Announced |
| Metals and Mining | 21-Jul-23 | \$926 | Matalco Inc. Rio Tinto Group The Giampaolo Group of Companies | Target Acquiror Vendor | Announced |
| Information Technology | 17-Jul-23 | \$921 | Optimal Blue Business Division of Black Knight, Inc. Perseus Operating Group Black Knight, Inc. | Target Acquiror Vendor | Closed |
| Health Care | 6-Sep-23 | \$746 | Urotronic, Inc. Laborie Medical Technologies, Inc. Legend Capital Management Co., Ltd.; Hillhouse Investment Management, Ltd.; CD | Target Acquiror Vendor | Closed |
| Energy | 24-Aug-23 | \$678 | North Dakota Assets of Crescent Point Energy Corp. Crescent Point Energy Corp. | Target Vendor | Announced |
| Telecommunication Services | 3-Aug-23 | \$667 | Film and TV business of Entertainment One Ltd. Lions Gate Entertainment, Inc.; Lions Gate International Motion Pictures S.à.r.l Entertainment One Ltd. | Target Acquiror Vendor | Announced |