

Canadian M&A Insights

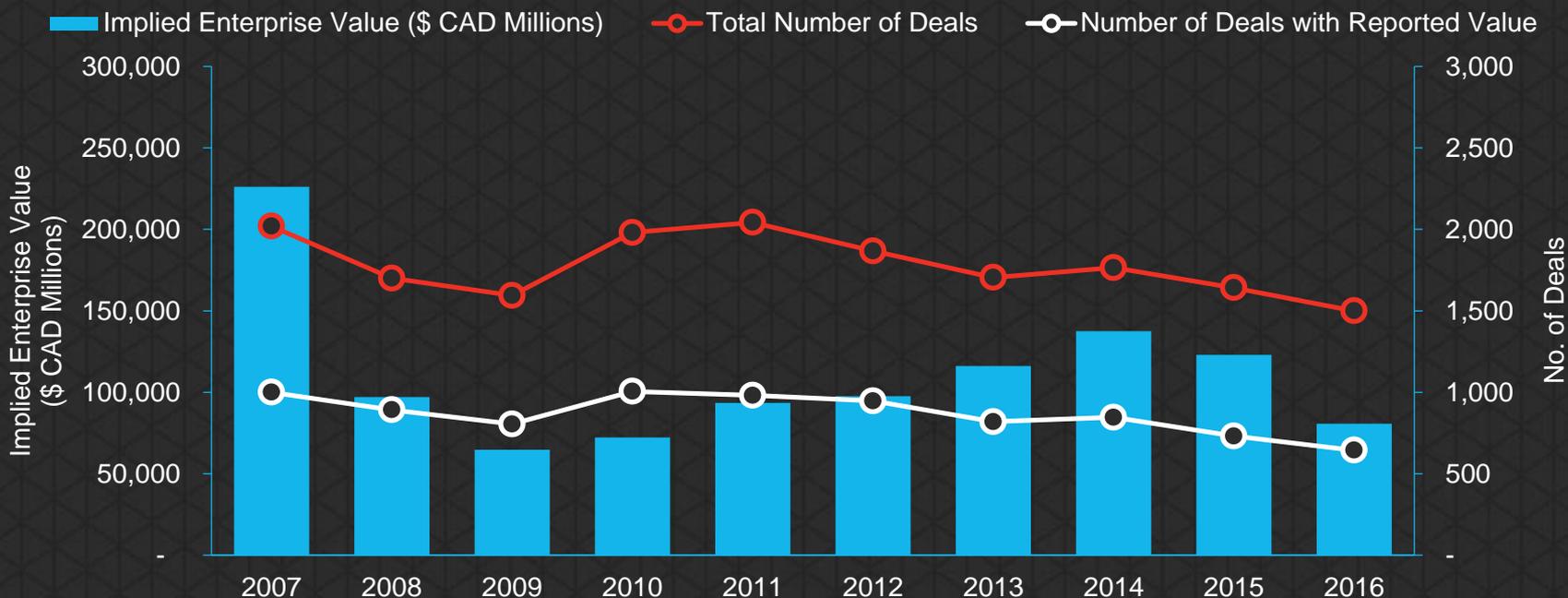
March 2017



Canadian M&A Update ...

The number of Canadian companies sold in 2016 decreased to 1,500, dropping to its lowest level in a decade. The implied enterprise values (equity plus debt) for 2016 deals totaled CDN\$80.7 billion, a 35% drop compared to 2015. Similarly, U.S. transactions also fell in 2016 with 15,313 reported transactions compared to 16,808 the previous year. However, the lower number of deals was offset by higher overall transaction sizes as the total implied transaction values (where disclosed) increased from US\$1.8 trillion to US\$2.0 trillion over the same period.

Canadian M&A Transactions



Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis

Canadian M&A Update ...

The largest transaction involving a Canadian company in 2016 was TransCanada Corporation’s acquisition of the Columbia Pipeline Group for CDN\$17 billion. Two of the largest announced deals (Enbridge acquiring Spectra Energy Corp. for CDN\$60.7 billion and Potash Corporation of Saskatchewan acquiring Agrium for CDN\$24 billion) have not yet closed and are thus not included in our calculations.

Largest 2016 Closed Transactions

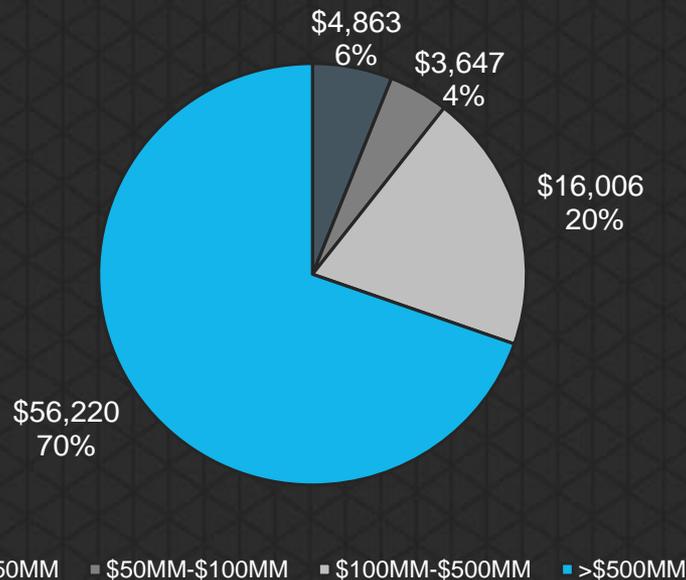
Target	Target Country	Buyer (Ultimate Parent)	Buyer Country	Enterprise Value CDN\$ Billions	Industry
Columbia Pipeline Group, Inc.	U.S.	TransCanada Corp.	Canada	17	Energy
ITC Holdings	U.S.	Fortis Inc.	Canada	15.8	Utilities
Asciano Limited	Australia	GIC Pte. Ltd.; Canada Pension Plan Investment Board British Columbia Investment Management Corporation; Global Infrastructure Partners; CIC Capital Corp.	Multiple – Including Canada	12.6	Industrials
Canadian Oil Sands Limited	Canada	Suncor Energy Inc.	Canada	6.7	Energy
Clarivate Analytics	U.S.	Onex Corporation; Baring Private Equity Asia	Multiple – Including Canada	4.7	Information Technology

Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis

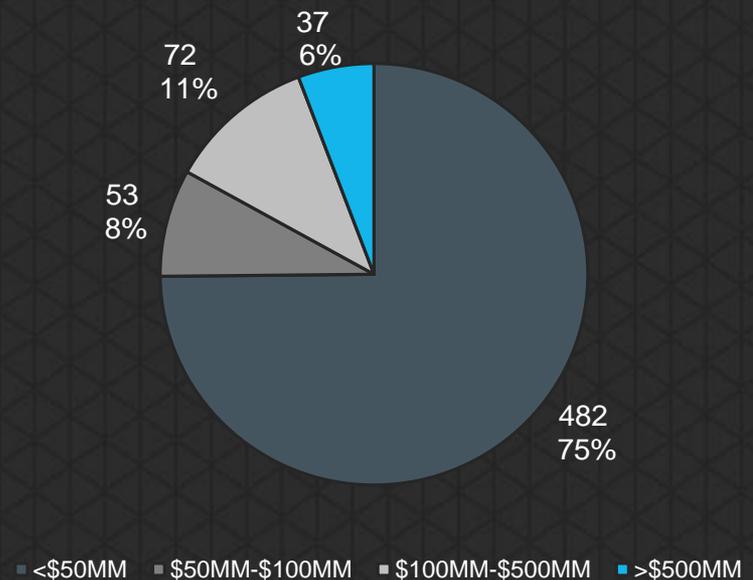
Canadian M&A Update ...

The median size for transactions involving the takeover of a Canadian company fell from CDN\$13.1 million in 2015 to CDN\$12.1 million in 2016, which is approximately half the average size recorded south of the border (US\$24.7 million). Furthermore, many smaller transactions likely do not disclose their financial information regarding their deals, the actual median is possibly even lower. Transactions with values in excess of CDN\$500 million in Canada are infrequent, but continue to account for a large portion of overall deal value.

Value of Canadian M&A Transactions [\$ CAD MM] (2016)



Number of Canadian M&A Transactions (2016)



Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis

Valuation Multiples

Valuation multiples for North American transactions (where determinable) remained relatively stagnant in 2016, with an average EBITDA (earnings before interest, taxes, depreciation and amortization) multiple of 10.9x compared to 11.0x the prior year. Valuation increases for financials, utilities, and consumer staples were offset by large declines in the telecom, materials, and real estate industries.

North American Enterprise Value to EBITDA Multiples by Industry

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Consumer Discretionary	11.2x	11.4x	8.4x	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x
Consumer Staples	11.2x	9.2x	9.0x	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x
Energy	8.8x	8.6x	6.1x	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x
Financials	11.4x	9.8x	6.6x	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x
Healthcare	13.8x	12.7x	8.7x	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x
Industrials	9.4x	10.2x	8.2x	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x
Information Technology	12.4x	12.7x	10.2x	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x
Materials	9.2x	10.4x	7.7x	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x
Telecommunication Services	9.3x	9.7x	6.6x	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x
Utilities	11.1x	11.5x	8.4x	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x
Real Estate	15.7x	13.3x	16.0x	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x
Unknown	3.2x	8.5x	3.4x	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x
All Industries	11.0x	10.8x	8.2x	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x

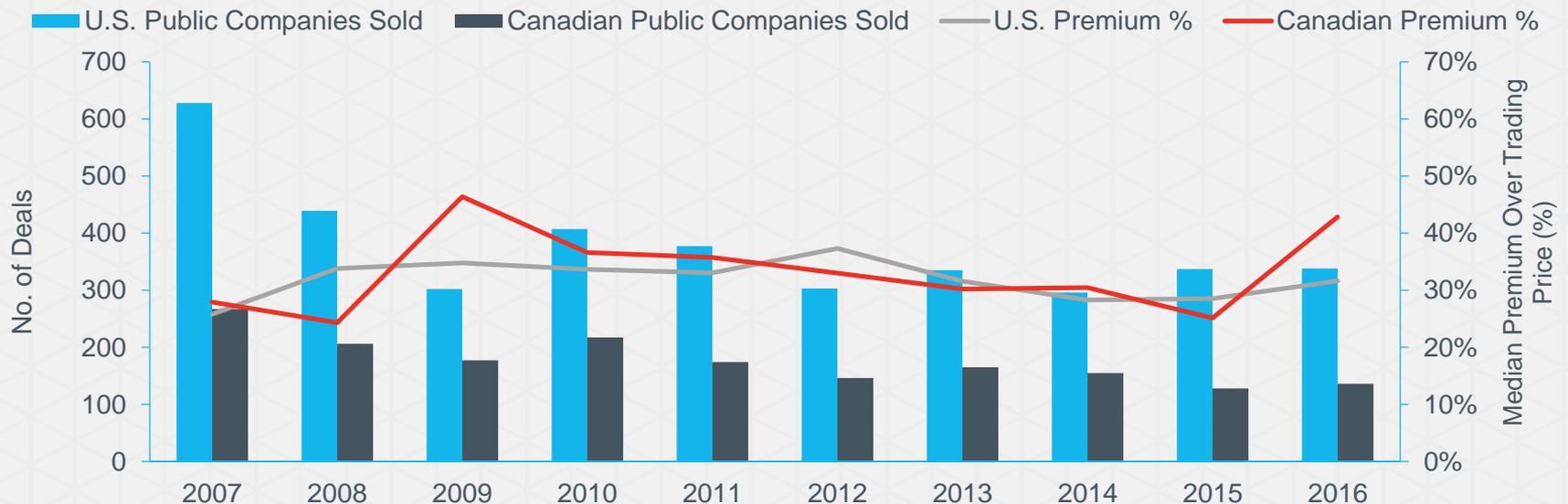
Source: S&P Capital IQ as at January 31 2017, including all publicly disclosed transactions; D&P Analysis

Public vs. Private

Approximately 90% of transactions with a Canadian seller were private company transactions, in line with the private transaction ratio over the past 10 years. For public companies, the median premium over price stock increased from 25.1% in 2015 to 42.9% in 2016, which is higher than the historical average. The increase is attributable to an increased number of energy and materials transactions with a premium over public trading price of over 40%.

Comparatively, only 338 out of the 15,313 deals conducted in the U.S. were public companies (approximately 2.7% of the total) which is also in line with historical norms. The median takeover premium of 31.6% for U.S. public companies is in line with the premiums usually seen in the U.S. market.

Public Companies Sold in North America



Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis

Industry Sectors

The energy sector continues to lead the Canadian landscape in deal value (CDN\$27.4 billion) with 15 transactions each valued at over CDN\$500 million. However, M&A activity in the energy sector has remained subdued as crude oil struggles to recover with 160 deals in 2016 compared to the historical average of 254 deals per year. The materials industry continues to be the most active in terms of number of deals. Over the past year, there were 340 completed transactions in the materials sector (compared to 284 the previous year) worth a total of CDN\$5.6 billion (vs. CDN\$7.1 billion).

Canadian M&A Transactions By Industry (2016)



Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis
 Source: SDC Platinum Volume data includes deals reported as of 1/15/2017

Cross-Border Transactions

Canadian transactions remain predominately within Canadian borders. Of the 1,500 Canadian companies sold during 2016, 1032 were acquired by a Canadian company, 362 were bought by a foreign entity and the remaining 106 were undisclosed. In 2016, the total implied enterprise value of cross-border transactions involving a Canadian target represented CDN\$25.6 billion (compared to CDN\$40.1 billion in 2015). The large decrease in foreign investment was led by decreased cross-border investment in energy (down CDN\$11.7 billion), industrials (down CDN\$5.4 billion) and healthcare (down CDN\$5.4 billion). Telecommunication cross-border transactions remain low as there is a high level of regulation within the industry. In contrast, cross-border transactions involving a Canadian buyer totaled CDN\$136.4 billion across 556 transactions in 2016. Canadian-based acquirers were focused on the materials, real estate and information technology sectors.

Canadian Cross-Border Transactions By Industry (2016)



Source: S&P Capital IQ as at January 31 2017, including all publically disclosed transactions; D&P Analysis

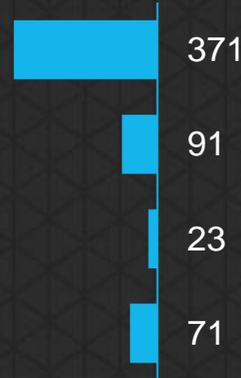
Cross-Border Transactions

Not surprisingly, the United States remains the most active Canadian cross-border transaction partner in both acquisitions and divestitures. European acquisitions from Canadian firms remain relatively high with 91 acquisitions and 87 divestitures, showing a continued interest in the region. Transactions involving the Asia/Pacific region remain relatively low in comparison.

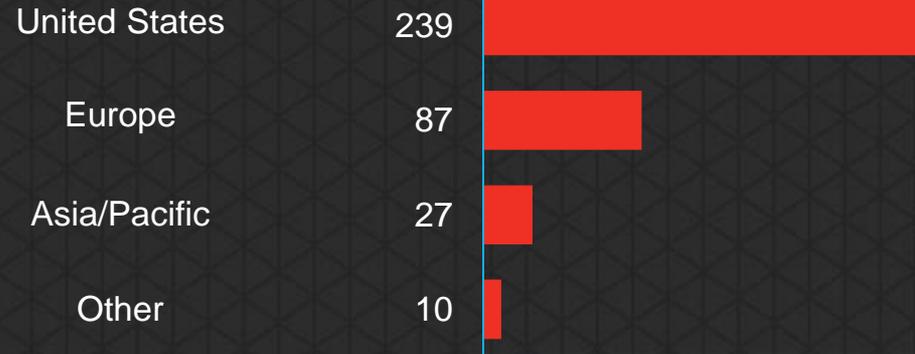
Over the past year, cross-border activity has slowed down going both ways with Canadians acquiring fewer foreign companies (556 deals vs 601 deals) and foreign companies investing less in Canadian targets (362 vs. 388). This is in line with the overall 8.9% decrease in North American M&A.

Canadian Cross-Border Transactions By Region (2016) [# of Deals]

Canadian Buyers



Canadian Sellers



Source: S&P Capital IQ as at January 31 2017, including all publicly disclosed transactions; D&P Analysis

Looking Ahead

The new Trump administration in the U.S. will create added uncertainty for some industry sectors, such as automotive. However, the overall outlook for Canadian M&A remains moderately positive. Interest rates remain low, and oil prices are showing signs of improvement. Corporate balance sheets are flush with cash, with corporations actively looking for quality investments. Private Equity firms also have large cash holdings, and often see Canadian firms as good “bolt-on” opportunities. Heightened infrastructure spending throughout Canada should also stimulate economic activity. The downside risk is that consumer spending declines significantly in order to pay down household debt.

Veracap M&A International has become Duff & Phelps Securities Canada Limited

On September 30, 2016 Duff & Phelps acquired Veracap M&A International, a leading Canadian mid-market investment banking firm, which became Duff & Phelps Securities Canada on January 31, 2017.

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¹ Published in Thomson Reuters' "Full Year 2016 Mergers & Acquisitions Review."

² Source: Thomson Financial Securities Data (U.S. deals < \$200M). Full years 2012 through 2016.

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