

Canadian M&A Insights

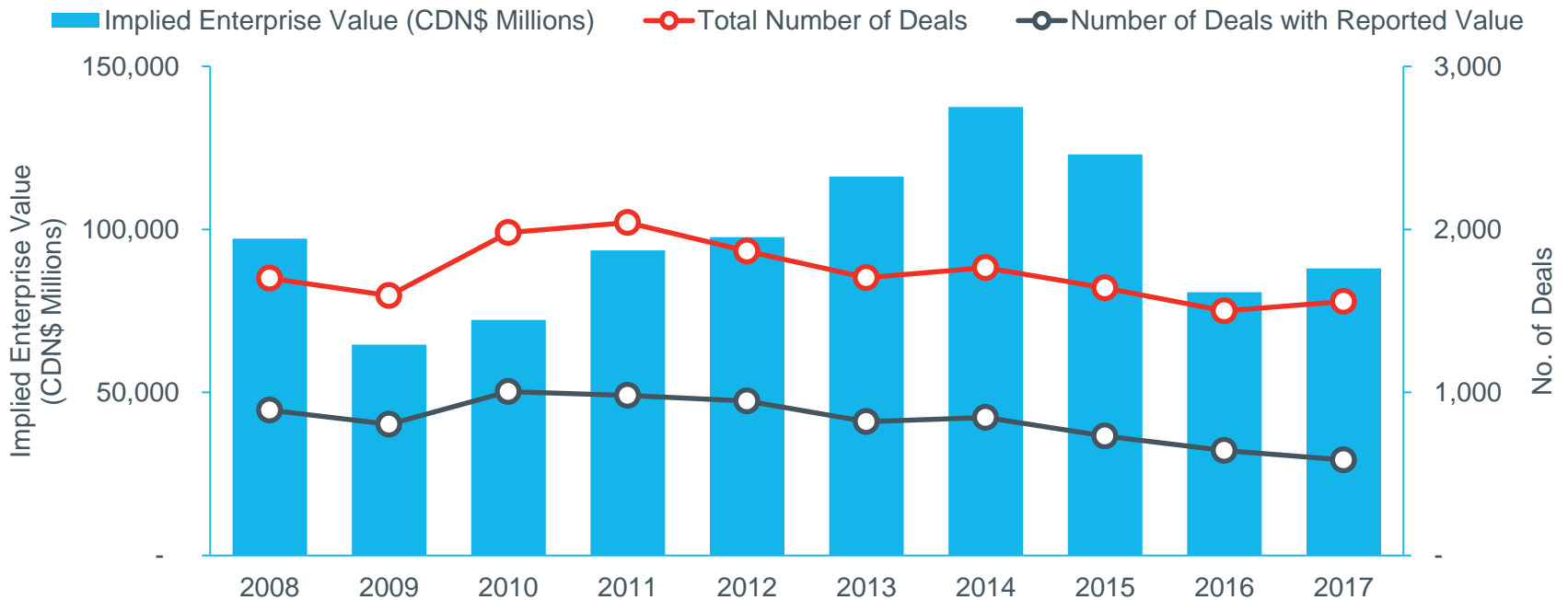
Winter 2018



Canadian M&A Update

Canadian M&A activity remained strong in 2017, as low financing costs, an expanding U.S. economy and sustained domestic growth fueled a positive M&A environment. In 2017, 1,558 Canadian companies were sold, a 3.9% increase over the previous year, with disclosed enterprise values totaling \$88 billion (9.1% over 2016). Of the transactions completed in 2017, 71.6% were domestic acquisitions, which is in line with historical averages.

Canadian M&A Transactions



Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update o.o

While the number of megadeals¹ decreased from 74 in 2016 to 55 in 2017, the average size of such deals were larger, at CDN \$3.2 billion in 2017 compared to \$2.4 billion in the year prior. The largest deal of 2017 was Enbridge Inc.'s acquisition of Spectra Energy Corp. for \$60.7 billion. The acquisition makes Enbridge the largest energy infrastructure company in North America, with a total enterprise value of \$166 billion at the time of closing. In addition, in August 2017, Calpine Corporation, a U.S.-based energy utility company, announced its \$22 billion sale to a consortium of investors led by CPPIB and Access Industries.

Largest 2017 Closed Transactions – Canadian Buyer or Seller

Target	Target Country	Buyer (Ultimate Parent)	Buyer Country	Enterprise Value CDN\$ Billions	Industry
Spectra Energy Corp.	U.S.	Enbridge Inc.	Canada	60.7	Energy
Endeavour Energy	Australia	Macquarie Group-led consortium including British Columbia Investment Management Corporation	Multiple (including Canada)	19.4	Utilities
Remaining 50% Interest in FCCL Oil Sands Partner and Majority of Western Canada Deep Basin Gas Asset	Canada	Cenovus Energy Inc.	Canada	17.7	Energy
Veresen Inc.	Canada	Pembina Pipeline Corporation	Canada	9.2	Energy
DH Corporation	Canada	Finastra Group Holdings Limited	U.K.	4.7	Information Technology

1. Deals involving a Canadian company as the buyer or seller with an implied enterprise value of \$500 million or more.

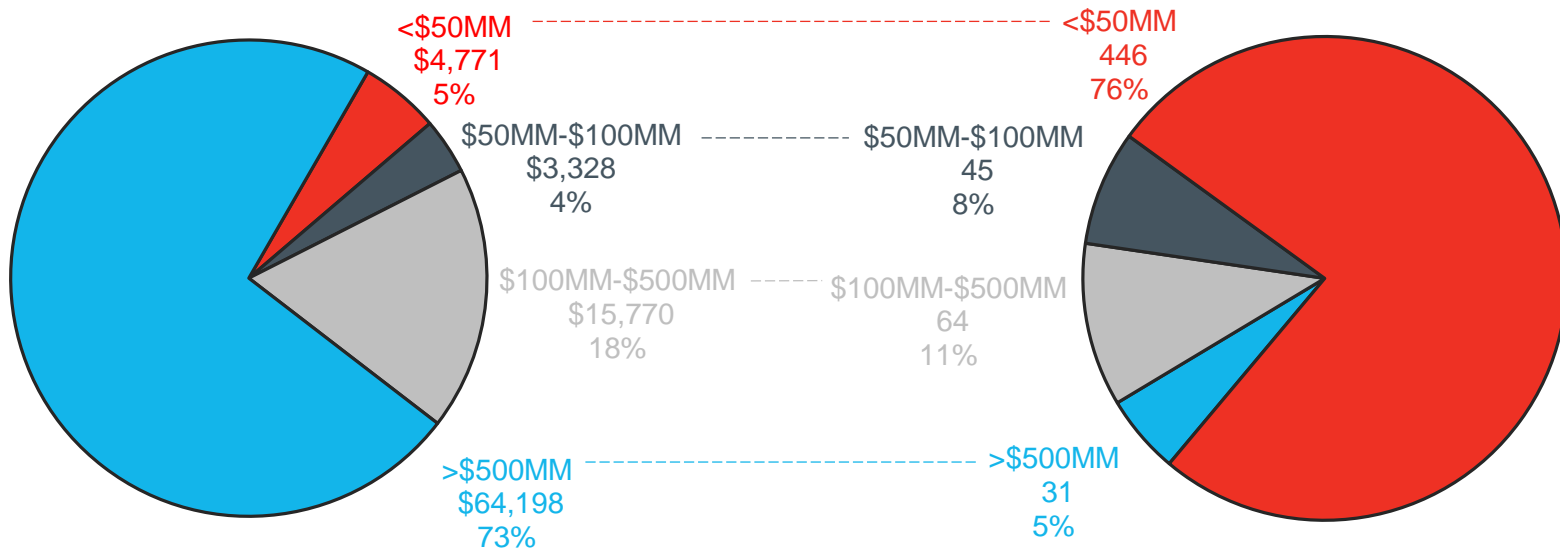
Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

While the market experienced an uptick in both the number of deals and total deal size, the median value of disclosed transactions was CDN \$10 million in 2017, compared to \$11 million the year prior. The increased size of megadeals helped offset the lower transaction size (see slide 3). While only totaling 5% of all transactions, megadeals represented 76% of total deal value. Of note: Since the values of many smaller transactions are not disclosed, the actual median is likely lower.

Value of Canadian M&A Transactions – Canadian Targets (2017) [CDN\$ MM]

Number of Canadian M&A Transactions – Canadian Targets (2017)



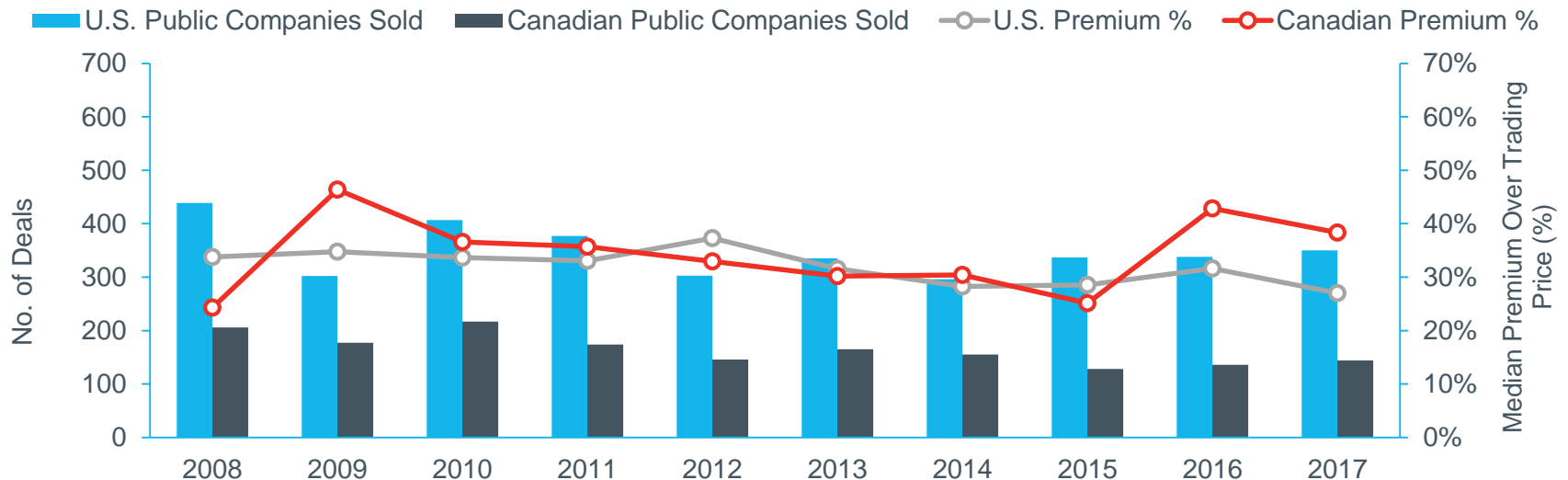
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Public vs. Private

Private-company transactions continued to represent the majority of the North American M&A landscape, representing 90.8% of total Canadian deals and 97.3% of all U.S. deal flow. The number of public companies sold in both Canada and the U.S. increased in 2017 compared to 2016, with 144 and 350 transactions completed, respectively.

While the median takeover premium of public Canadian companies tends to fall in line with the U.S. median, over the past two years, Canadian takeover premiums have been higher than those in the U.S. (38.4% vs. 27.0% in 2017). The lower U.S. takeover premium may be due to the strong performance of U.S. equity markets, making American public companies more expensive.

Public Companies Sold in North America



Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Valuation Multiples

In 2017, there was an overall increase in valuation multiples (where determinable) for North American transactions, and the average EBITDA (earnings before interest, taxes, depreciation and amortization) multiple was 11.7x, the highest average seen in the past decade. Several factors supported the increase in valuation multiples, including lower borrowing costs (which allowed for higher leveraged transactions), high-growth industries such as Information Technology, and expectations of strong future growth.

Most industries saw an increase in average transaction multiples; the Energy, Materials and Utilities industries experienced increases over 25%. Consumer Discretionary dipped slightly below its historical average, while Consumer Staples remained relatively steady at 12.0x, which is higher than its historical average of 10.5x.

Enterprise Value to EBITDA Multiples by Industry for Transactions in North America*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Consumer Discretionary	11.4x	8.4x	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x	10.0x
Consumer Staples	9.2x	9.0x	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x	12.0x
Energy	8.6x	6.1x	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x	13.1x
Financials	9.8x	6.6x	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x	12.6x
Healthcare	12.7x	8.7x	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x	13.7x
Industrials	10.2x	8.2x	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x	10.4x
Information Technology	12.7x	10.2x	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x	13.6x
Materials	10.4x	7.7x	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x	10.5x
Telecommunication Services	9.7x	6.6x	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x	9.7x
Utilities	11.5x	8.4x	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x	13.9x
Real Estate	13.3x	16.0x	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x	17.7x
Unspecified**	8.5x	3.4x	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x	7.3x
All Industries	10.8x	8.2x	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x	11.7x

*Table above excludes transactions with EBITDA greater than 25x.

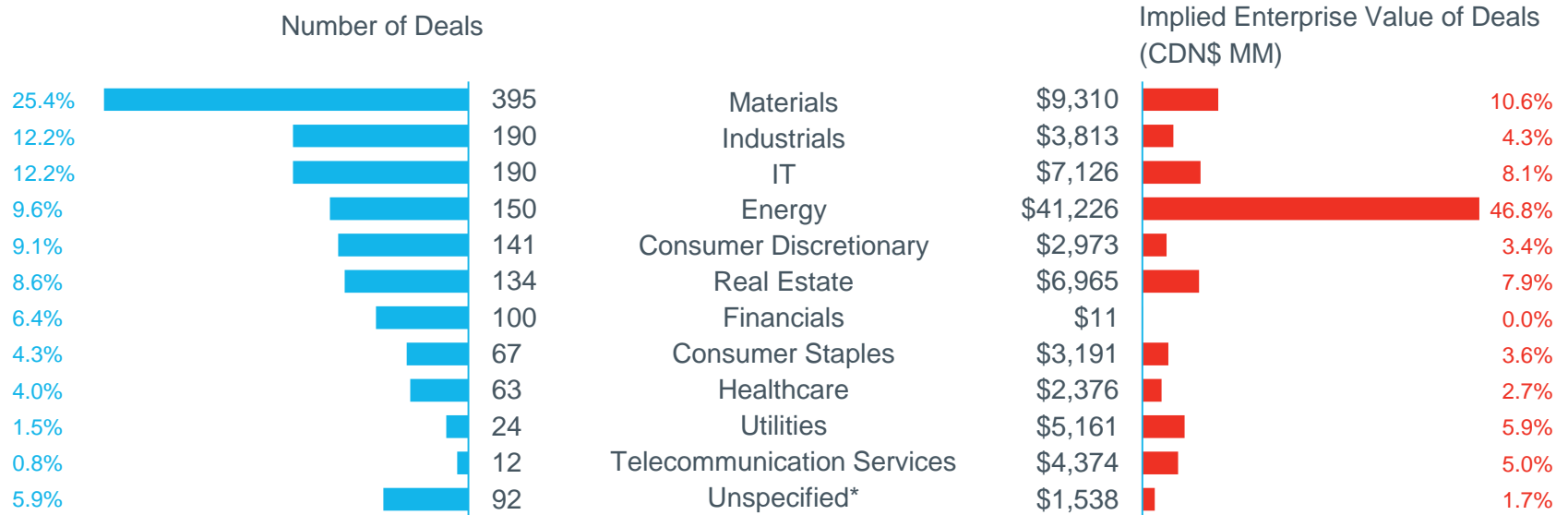
**The Unspecified category includes transactions where the target company's industry has not been categorized by S&P Global Market Intelligence.

Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Industry Sectors

Led by numerous megadeals completed in 2017, the Energy sector saw CDN \$41.2 billion in deal value across 150 deals, despite fewer transactions. The Materials industry remains the most active sector in Canada, in line with historical performance. Last year, 395 companies were sold in the industry, totaling \$9.3 billion in volume. Heavy regulation continues to slow deal flow for the Utilities and Telecommunication Services industries. Disclosure of deal values in the Financials sector continues to be low, with only 1 out of 100 deals releasing financial information, resulting in a low total enterprise value.

Canadian M&A Transactions by Industry (2017)



*Note: The Unspecified category includes transactions where the target company's industry has not been categorized by S&P Global Market Intelligence.

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Cross-Border Transactions

Acquisitions of Canadian companies continue to be predominately a domestic affair, with 1,116 of the 1,558 transactions (71.6%) completed by a Canadian buyer. Foreign buyers completed 338, while 104 deals had undisclosed buyers.

Foreign buyers accounted for CDN \$19.5 billion in total implied enterprise value, compared to \$65.4 billion completed by Canadians and \$3.1 billion with undisclosed buyers.

Canadian buyers of foreign companies totaled 570 transactions over the year, representing \$122.9 billion in 2017. Enbridge’s acquisition of Spectra represents \$60.7 billion of that total. The below graph reflects the number of inbound and outbound M&A deals completed in 2017, grouped by industry.

Number of Canadian Cross-Border Transactions by Industry (2017)



*Note: The Unspecified category includes transactions where the target company’s industry has not been categorized by S&P Global Market Intelligence.

Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

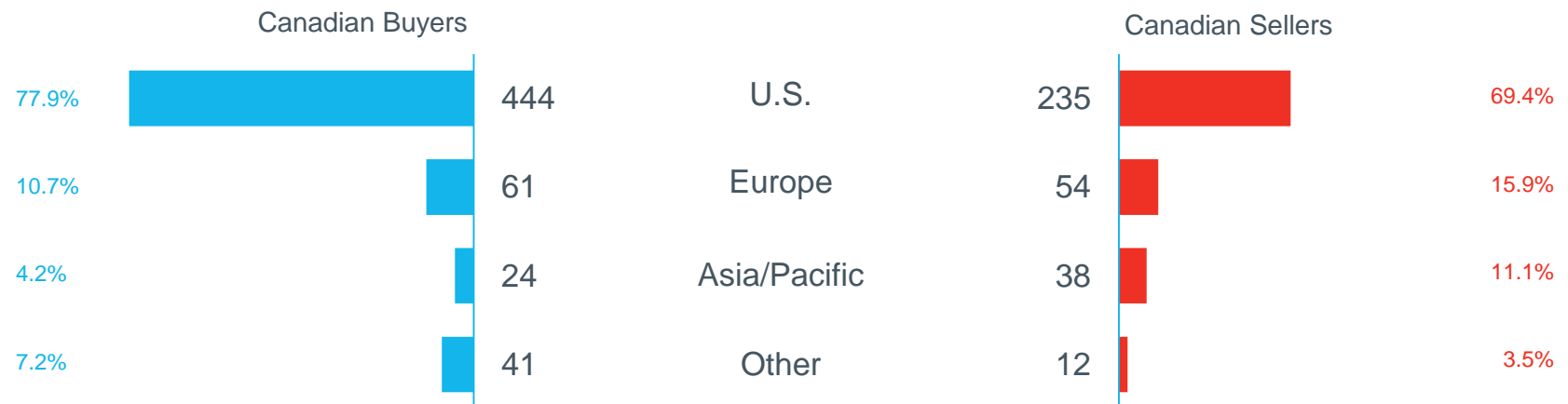
Cross-Border Transactions

Transactions between the U.S. and Canada continue to dominate cross-border transactions involving Canadian buyers or sellers. U.S.-based buyers of Canadian companies remained relatively steady, while the number of Canadian buyers of U.S.-based companies increased 19.7%.

In 2017, European transactions on both sides (buyer and seller) saw a marked decrease, with 33 fewer acquisitions by European companies and 30 fewer acquisitions by Canadian companies.

Overall, outbound M&A remained robust (570 deals vs. 556 deals last year) as companies looked to expand or cement market share beyond Canada. Inbound M&A, on the other hand, saw a slowdown in activity (339 deals vs. 362 deals) due predominately to lower interest from Europe, which was partially offset by increased investment from the Asia/Pacific region and other regions.

Canadian Cross-Border Transactions by Region (2017) [# of Deals]



Source: S&P Global Market Intelligence as of Dec. 31, 2017, Duff & Phelps Analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Looking Ahead

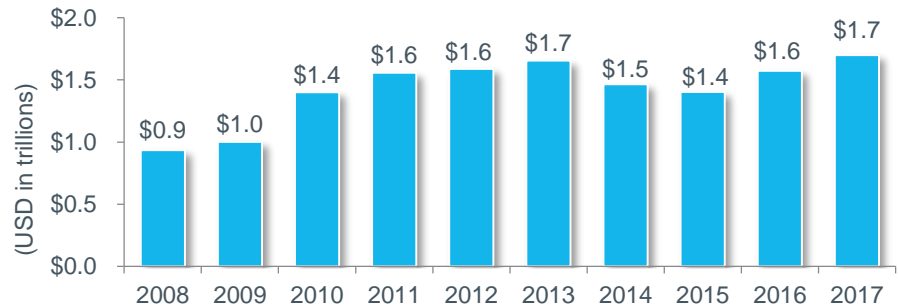
Canada's GDP is expected to increase by 1.9%¹ in 2018 and 2019, maintaining its positive momentum from the past few years. Buoyant Canadian and U.S. economies, low financing costs, cash-rich companies and continued private equity overhang likely point toward a strong M&A environment for the upcoming year.

Renegotiations of NAFTA have proven to be difficult, with significant disagreements amongst the three parties regarding various outstanding provisions. Doubts in NAFTA's renewal will likely continue to create uncertainty in industries that heavily rely on trade.

In the U.S., the recently passed tax reform will presumably cut corporate income tax from 35% to 21% and may allow for repatriation of up to USD \$2.6 trillion in corporate profits at a one-time tax rate.² The tax changes will also affect Canadian companies with direct or indirect U.S. exposure. The tax reform will likely have a positive impact on the M&A market as companies may have more available capital to take advantage of North American acquisition opportunities.

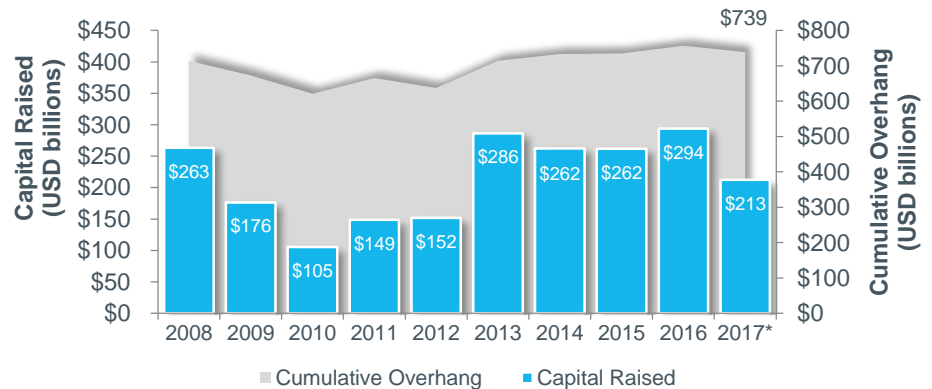
1. Source: The Economist Intelligence Unit and various news sources (e.g., CNN, Capital Economics, CNBC)
 2. Thompson Reuters, "What's in the final Republican tax bill" December 19, 2017

S&P 500 Cash Balances



Source: S&P Global Market Intelligence

Private Equity Overhang



Source: Pitchbook
 Note: 2017 returns data is as of July 10, 2017.

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¹Source: Thomson Reuters' "Full Year 2016 Mergers & Acquisitions Review"

²Source: Thomson Financial Securities Data (U.S. deals \$75M < \$225M, including deals without a disclosed value). Full years 2013 through 2017.

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