

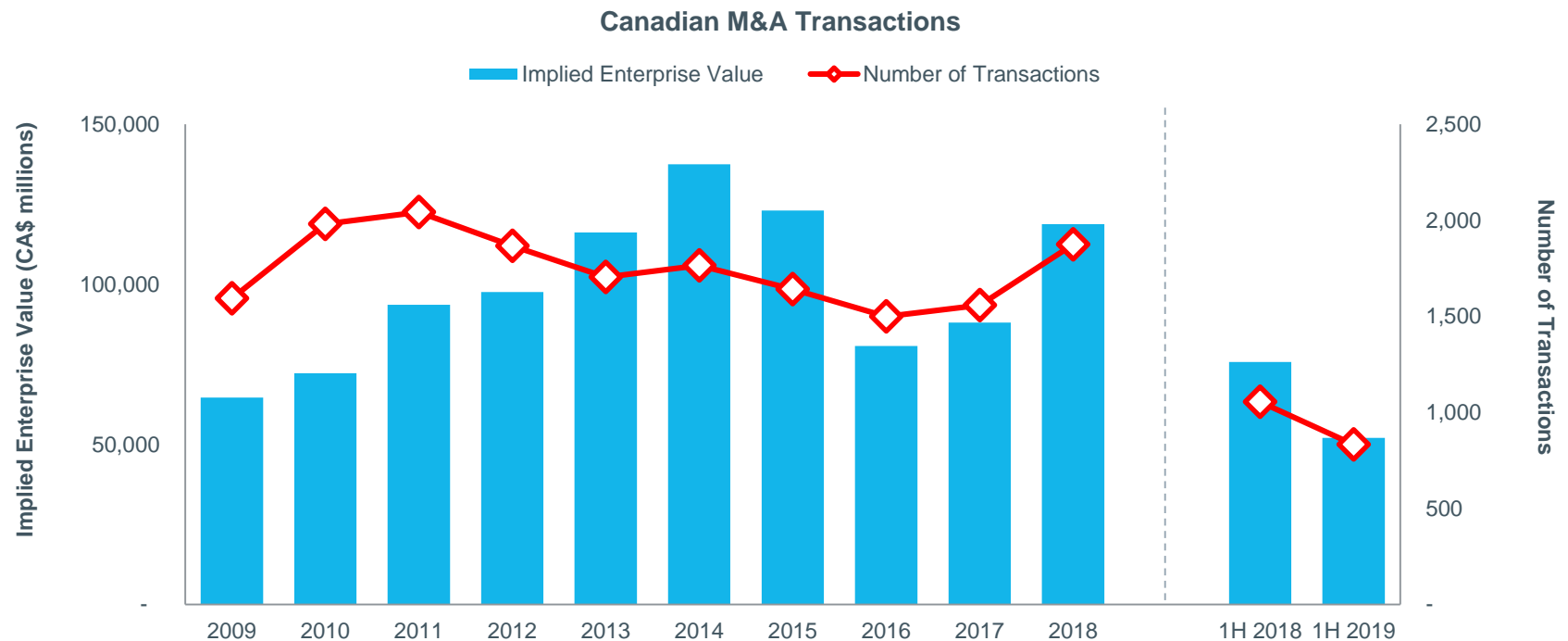
Canadian M&A Insights

Summer 2019

Canadian M&A Update

In the first half of 2019, Canadian M&A activity saw a decline in both transaction count and implied enterprise value (EV) compared to the same period last year. The decline was due to increased protectionism worldwide and higher levels of economic uncertainty. During the same period, 832 Canadian companies were sold, representing total disclosed EVs of \$52.1 billion. Of the transactions completed, 68% were domestic acquisitions, which is in line with historical averages.

Canadian M&A Transactions (CA\$ in millions)



For all data herein: All transaction values are in Canadian dollars and refer to transactions with reported financial data. All transaction data refers to acquisitions of majority stakes (minority deals were excluded). M&A transactions in 1H 2019 include those between January 1 and June 30, 2019.

Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

The number of megadeals¹ increased to 34 in the first half of 2019 from 28 in the first half of 2018, averaging \$3.3 billion in EV, which is flat from the previous year. This increase was led by large consolidations in the materials industry. The largest deal involving a Canadian buyer or seller in 1H 2019 was Newmont Mining Corporation's acquisition of Goldcorp Inc. at \$17.1 billion, creating the world's largest publicly traded gold mining company.² Newmont's competitor Barrick Gold Corporation acquired Randgold Resources Limited earlier in the year for \$7.7 billion. Canadian pension plans remain active in the megadeals market, involved in the second to fourth largest transactions in 2019 so far. The first half of 2019 also saw Encana Corporation, through its U.S. subsidiary, acquire Newfield Exploration Company for \$10.2 billion.³

Significant megadeals announced but not yet closed include Onex Corporation's acquisition of WestJet Airlines; pension funds, including Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan taking Inmarsat private; and Brookfield Asset Management's acquisition of Oaktree Capital Group.

Largest 1H 2019 Closed Transactions: Canadian Buyer or Seller

Target	Target Country	Buyer	Buyer Country	Enterprise Value CA\$ billions	Industry
Goldcorp Inc.	Canada	Newmont Mining Corporation	United States	17.1	Materials
Clarios LLC (Johnson Controls' Power Solutions division)	United States	Investor group led by Brookfield Business Partners L.P.	Multiple (including Canada)	15.3	Consumer Discretionary
The Ultimate Software Group Inc.	United States	Investor group led by Hellman & Friedman LLC	Multiple (including Canada)	14.2	Information Technology
90% of Transportadora Associada de Gás S.A.	Brazil	ENGIE SA and Caisse de Dépôt et Placement du Québec	Multiple (including Canada)	11.9	Energy
Randgold Resources Limited	Jersey	Barrick Gold Corporation	Canada	7.7	Materials

1. Deals involving a Canadian company as the buyer or seller, with an implied enterprise value of \$500 million or more (minority deals excluded).

2. <https://www.newswire.ca/news-releases/newmont-and-goldcorp-combine-to-create-world-s-leading-gold-company-806405145.html>

3. Our analysis uses the primary headquarters of the buyer and seller. As Encana acquired Newfield through its U.S. subsidiary, it is not included in our analysis.

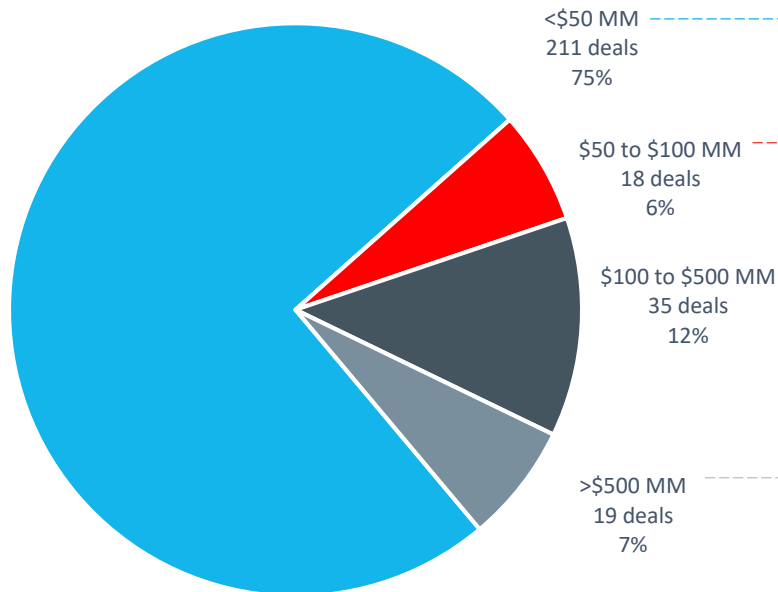
Sources: S&P Global Market Intelligence as of July 8, 2019; Mergermarket; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

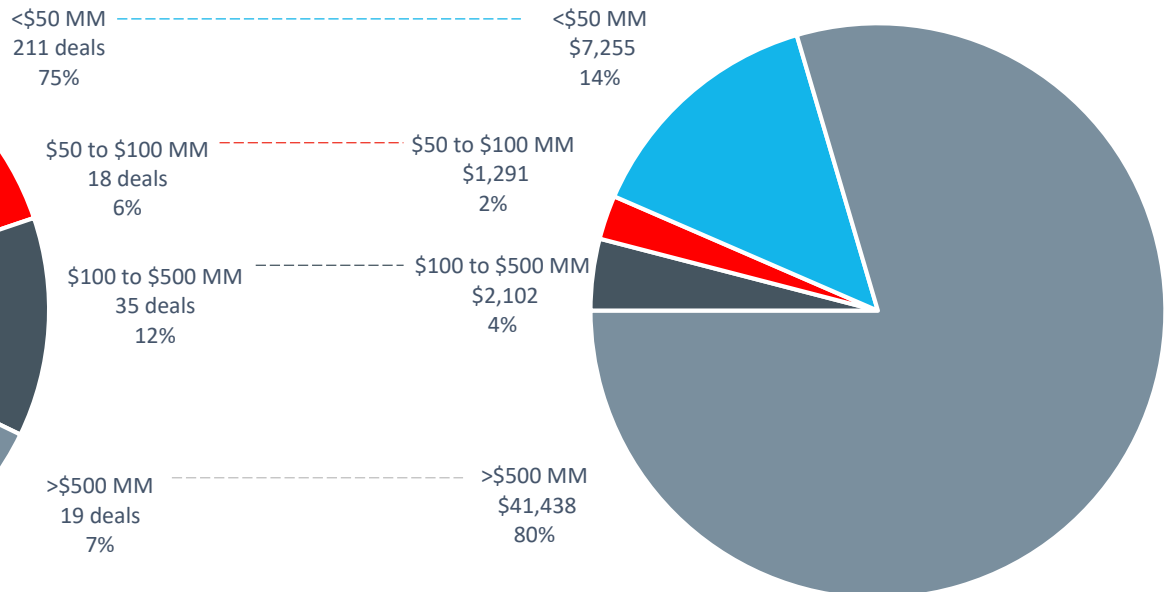
While the number of transactions announced decreased in 1H 2019 (832 vs. 1,055), the median deal value increased from \$6.3 million to \$10.9 million as the market for smaller deals (less than \$100 million) declined faster than that of larger deals. Although megadeals represent only 7% of all transactions, they represented 80% of the total deal value.

It should be noted that, since the values of many smaller transactions are not disclosed, the actual median is likely lower.

Number of Canadian M&A Transactions: Canadian Targets* (1H 2019) (CA\$ in millions)



Value of Canadian M&A Transactions: Canadian Targets (1H 2019) (CA\$ in millions)



*Only includes transactions with disclosed financial information.

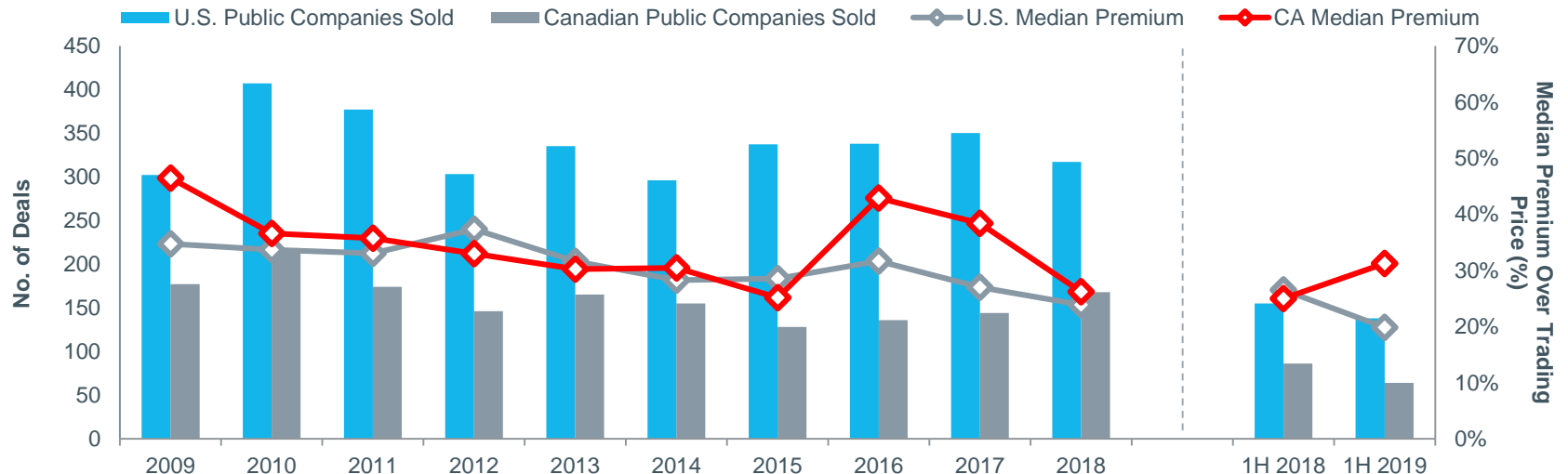
Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Public vs. Private

Private company transactions continued to account for the majority of the North American M&A landscape, representing 92.3% (1H 2018: 91.8%) of total Canadian deals and 98.1% (2018: 97.9%) of all U.S. deal flow. The number of private and public companies sold in North America fell in 1H 2019, compared to the same period last year, with public companies decreasing 16.2% and private companies falling 4.8%.

The median takeover premiums of Canadian public companies increased from 25% in 1H 2018 to 31% in 1H 2019, though these percentages are below the country's 10-year average of 34%. U.S. public companies saw yet another year-over-year decline of medium takeover premiums to 20% in 1H 2019 vs. 27% in 1H 2018. The fall in premiums over the past two years can be partially attributed to high valuations seen in the public markets, as interest rates remain low in both Canada and the U.S. as investors looked towards stocks and alternatives for growth.

Public Companies Sold in North America



Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Valuation Multiples

Overall valuation multiples (where disclosed) for North American transactions in 1H 2019 fell slightly. The average earnings before interest, taxes, depreciation and amortization (EBITDA) multiple was 10.9x (compared to 11.0x in 2018), which is slightly higher than averages seen in the past decade.

The Consumer Staples, Telecommunication Services, and Energy industries saw the highest increase in EBITDA multiples while Real Estate, Utilities and Healthcare sectors saw the largest compression in valuation over the same period.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1H 2019
Consumer Discretionary	8.4x	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x	10.0x	11.1x	10.8x
Consumer Staples	9.0x	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x	12.0x	11.5x	12.1x
Energy	6.1x	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x	13.1x	9.8x	10.7x
Financials	6.6x	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x	12.6x	10.4x	N/A
Healthcare	8.7x	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x	13.7x	12.3x	11.0x
Industrials	8.2x	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x	10.4x	10.3x	10.3x
Information Technology	10.2x	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x	13.6x	12.1x	11.3x
Materials	7.7x	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x	10.5x	10.7x	10.1x
Telecommunication Services	6.6x	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x	9.7x	9.6x	11.0x
Utilities	8.4x	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x	13.9x	11.8x	10.4x
Real Estate	16.0x	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x	17.7x	16.2x	13.4x
Unspecified**	3.4x	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x	7.3x	8.3x	10.0x
All Industries	8.2x	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x	11.7x	11.0x	10.9x

*Excludes multiples over 25.0x.

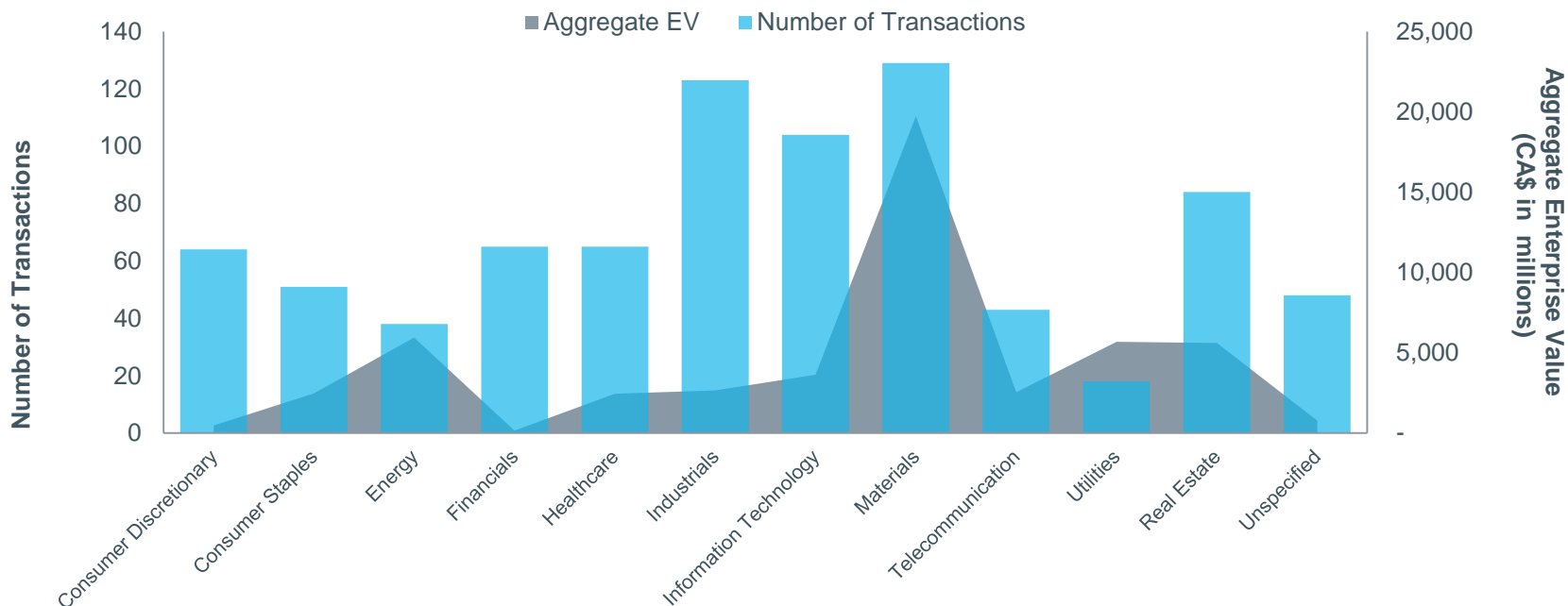
**The unspecified category includes transactions within a target company industry that S&P Global Market Intelligence has not categorized.

Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Industry Sectors

As the most active sector in Canada, and with two of the top five deals in 2019 so far, the Materials sector saw the highest aggregate EV, at \$19.7 billion over 129 deals. Industrials, Information Technology and Real Estate remain active sectors, with 123, 104 and 84 deals done in 1H 2019 respectively. Utilities had the highest average deal size, with deal values of \$5.7 billion over 18 deals, of which a third were megadeals. Disclosure of deal values in the Financials sector continues to be low, with only one of the 65 closed deals releasing financial information.

Canadian M&A Transactions by Industry (1H 2019)



Note: The unspecified category includes transactions within a target company industry that S&P Global Market Intelligence has not categorized.

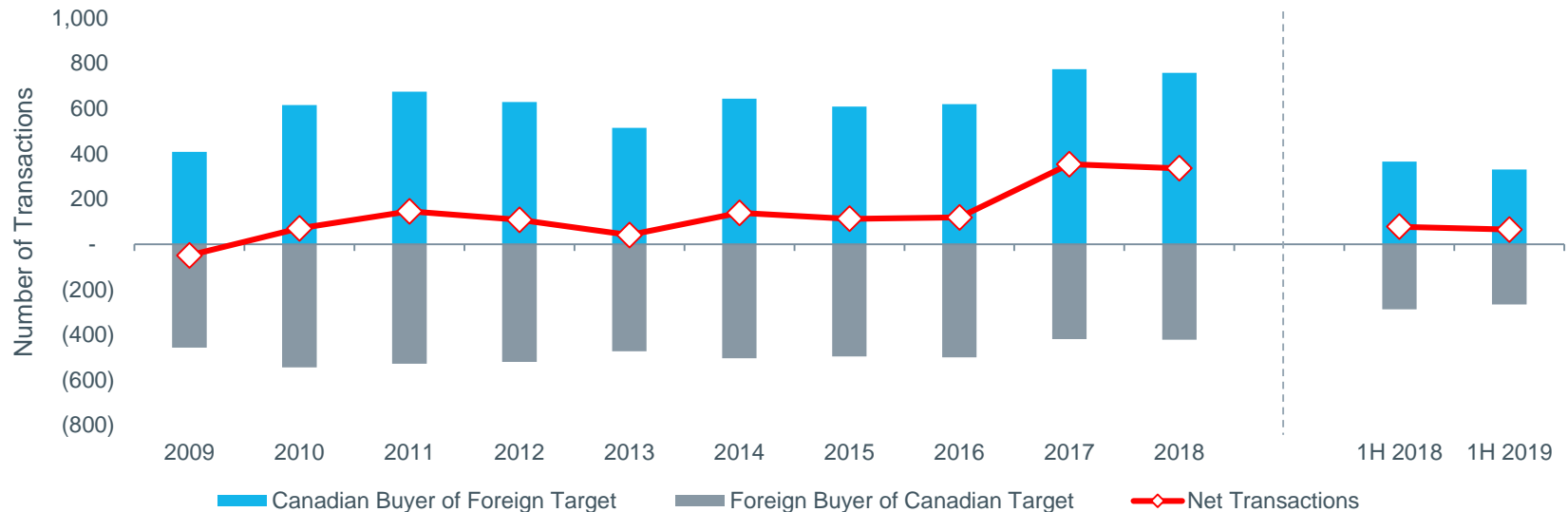
Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Cross-Border Transactions

Acquisitions of Canadian companies continued to be predominately domestic, with 566 of the 832 transactions (68%) completed by a Canadian buyer in 1H 2019. Foreign and undisclosed buyers completed the remaining 266 transactions.

Cross-border transactions slowed down in both directions, with Canadian buyers acquiring 330 companies compared to 365 last year (a 10% decrease) and foreign-based companies acquiring 266 Canadian companies compared to 288 in 1H 2018 (an 8% decrease).

Canadian Cross-Border M&A Activity (1H 2019)



Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Cross-Border Transactions o●

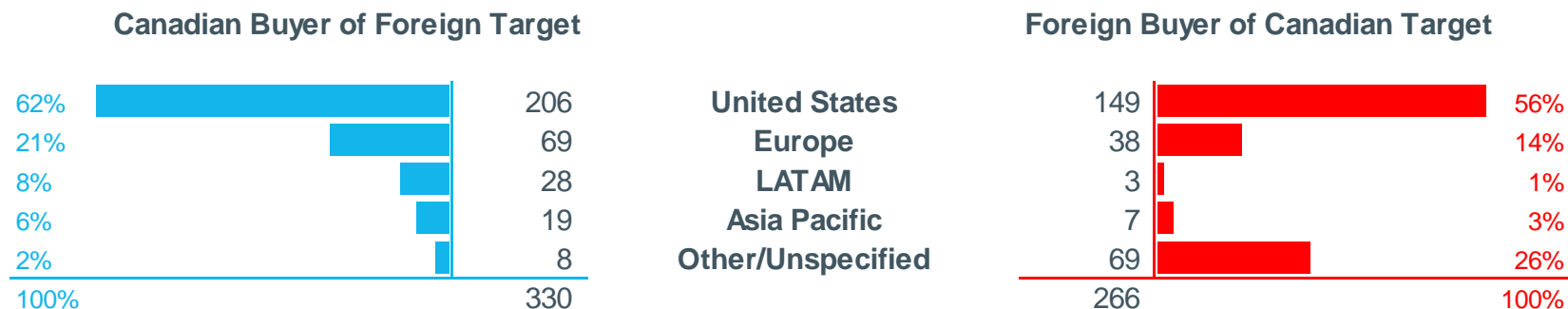
Transactions between the United States and Canada continue to dominate cross-border activity involving Canadian buyers or sellers. U.S.-based buyers of Canadian companies increased about 9%, while Canadian buyers showed a decrease in appetite for U.S. targets (-13%).

European companies became significantly more active, acquiring 38 Canadian companies compared to 20 in 1H 2018. Acquisitions of European companies by Canadian companies remained flat.

The number of Canadian buyers of Latin American companies remains strong, with 28 transactions completed in 1H 2019 while the number of Latin American buyers of Canadian companies remain scarce.

In Asia, there was a significant pullback, with only seven acquisitions of Canadian companies by Asia Pacific-based companies (vs. 20 in 1H 2018). Comparatively, the number of Canadian buyers of companies in the Asia Pacific region remained flat, at 19.

Canadian Cross-Border Transactions by Region (1H 2019) (Number of Deals)



Sources: S&P Global Market Intelligence as of July 8, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

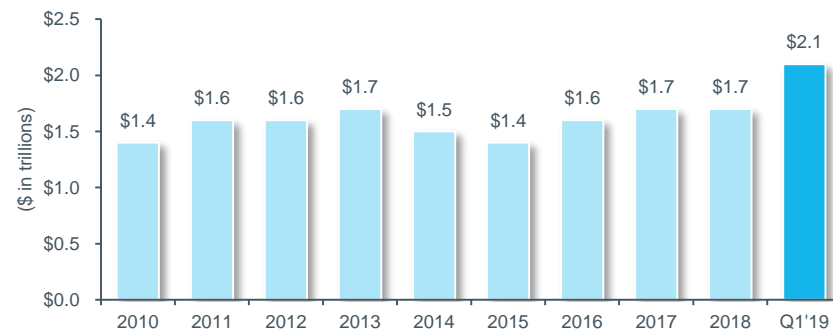
Looking Ahead

Canada's GDP is expected to grow at 1.4% and 1.8% in 2019 and 2020, respectively, likely slowing down due to a drop in demand in the housing industry and lower expected consumer spending. As a result, Canadian companies may continue to look at acquisitions for growth opportunities. Capital availability remains strong and interest rates will likely remain low, providing a positive environment for sellers.

Given the recent slowdown in the domestic economy, the Bank of Canada pivoted to a neutral policy stance and has left the benchmark interest rate unchanged at 1.75%. It is likely that the bank will maintain a modest amount of policy stimulus as the economy recovers from its most recent downturn.

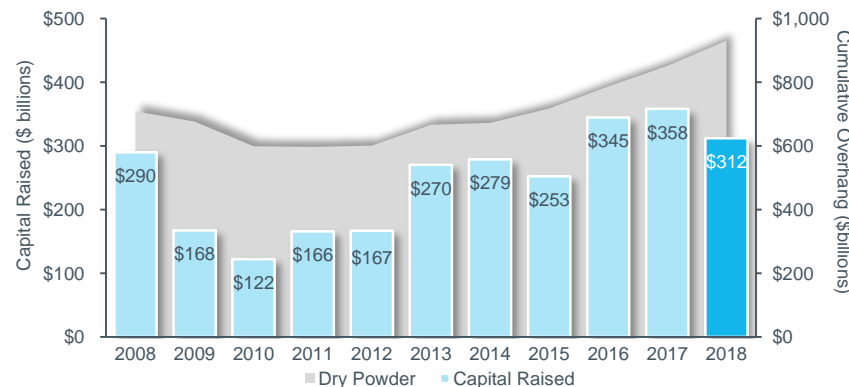
Uncertainty regarding the U.S.-China trade war and the lack of an exit strategy for Brexit has contributed to a slowdown of cross-border M&A activity. Tensions between U.S. and Mexico also remain heightened, despite the tentative United States-Mexico-Canada Agreement (USMCA), as the U.S. threatened to levy tariffs on Mexican imports to force a slowdown of migration. Overall, the world trade outlook indicator is at its weakest level since Q2 2010.⁴

S&P 500 Cash Balances



Source: S&P Global Market Intelligence, Q1 2019

Private Equity Overhang



Source: Pitchbook, 2018.

Sources: RBC Economics, *The Economist* Intelligence Unit, various news sources (e.g., CNN, Capital Economics, CNBC)

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² Thomson Financial Securities Data (U.S. deals \$50M < \$150M, including deals without a disclosed value). Full years 2014 through 2018.

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