



Canadian M&A Insights

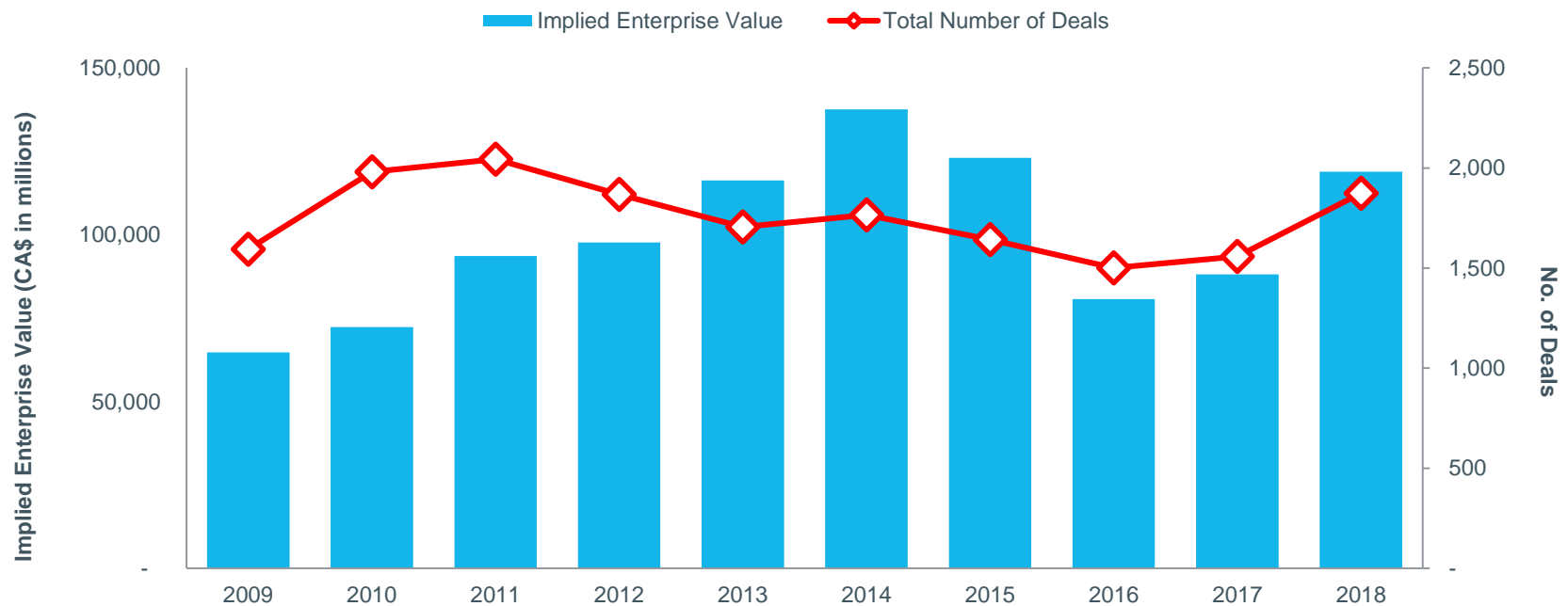
Winter 2019



Canadian M&A Update

In 2018, Canadian M&A activity reached seven-year highs by deal count and three-year highs by implied enterprise value (EV). The Canadian M&A market has benefited from a relatively stable political environment as well as low financing costs and continued North American growth. In 2018, 1,874 Canadian companies changed hands, with disclosed EVs totaling \$119 billion, a 20% and 35% increase over 2017 in terms of deal count and disclosed EV, respectively. Of the transactions completed, 72% 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 refers to deals with reported financial data. All transaction data refers to acquisitions of majority stakes (minority deals were excluded). 2018 deals include M&A transactions closed between January 1 and December 31, 2018.

Sources: S&P Global Market Intelligence as of January 4, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Canadian M&A Update

The number of megadeals¹ remained flat at 62 in 2018 versus 63 in 2017, whereas the average EV increased, with 2018 averaging \$3.6 billion compared to \$2.9 billion the year prior. The largest deal involving a Canadian buyer or seller in 2018 was the acquisition of the Financial and Risk business unit of Thomson Reuters (renamed Refinitiv) for \$24.7 billion in EV by a consortium led by Blackstone, GIC Pte, and Canada Pension Plan Investment Board (CPPIB). This deal represented Blackstone's largest bet since the financial crisis.² Major pension funds also remained active on the acquisition front, especially CPPIB, who participated in three of the five largest deals with Canadian involvement.

Largest 2018 Closed Transactions – Canadian Buyer or Seller

Target	Target Country	Buyer	Buyer Country	Enterprise Value CA\$ Billions	Industry
Refinitiv (Thomson Reuters' Financial and Risk business unit)	U.S.	The Blackstone Group; GIC Pte.; CPPIB	Multiple (including Canada)	24.7	Financials
Agrium Inc.	Canada	Nutrien Ltd. (formerly PotashCorp)	Canada	24.1	Consumer Discretionary/ Materials
Calpine Corporation	U.S.	CPPIB; Access Industries; Energy Capital Partners	Multiple (including Canada)	21.8	Utilities
Sydney Motorway Corporation	Australia	Transurban Group; CPPIB; AustralianSuper Pty; Tawreed Investments Ltd.	Multiple (including Canada)	17.1	Industrials
Forest City Realty Trust Inc.	U.S.	Brookfield Asset Management Inc.	Canada	13.2	Real Estate

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.reuters.com/article/us-thomsonreuters-m-a-blackstone-group/thomson-reuters-unit-to-be-renamed-refinitiv-after-blackstone-deal-idUSKBN1KH15H>

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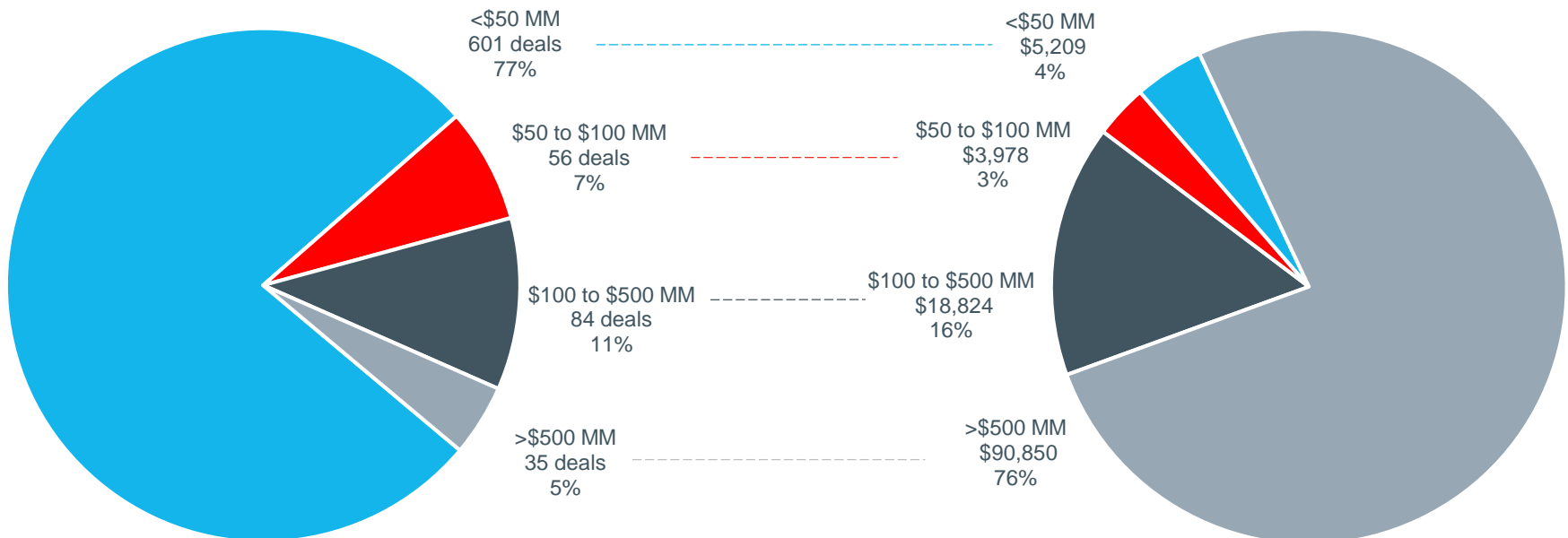
Canadian M&A Update

In 2018, the Canadian M&A market experienced an uptick in announced deals (1,874 in 2018 versus 1,558 in 2017); however, the median deal value fell (\$8 million in 2018 versus \$10 million in 2017). The significant increase in the number of deals under \$50 million likely led to this decrease in median deal value. Although megadeals represent only 4% of all transactions, they represented 77% 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 (2018) (CA\$ in millions)

Value of Canadian M&A Transactions – Canadian Targets (2018) (CA\$ in millions)



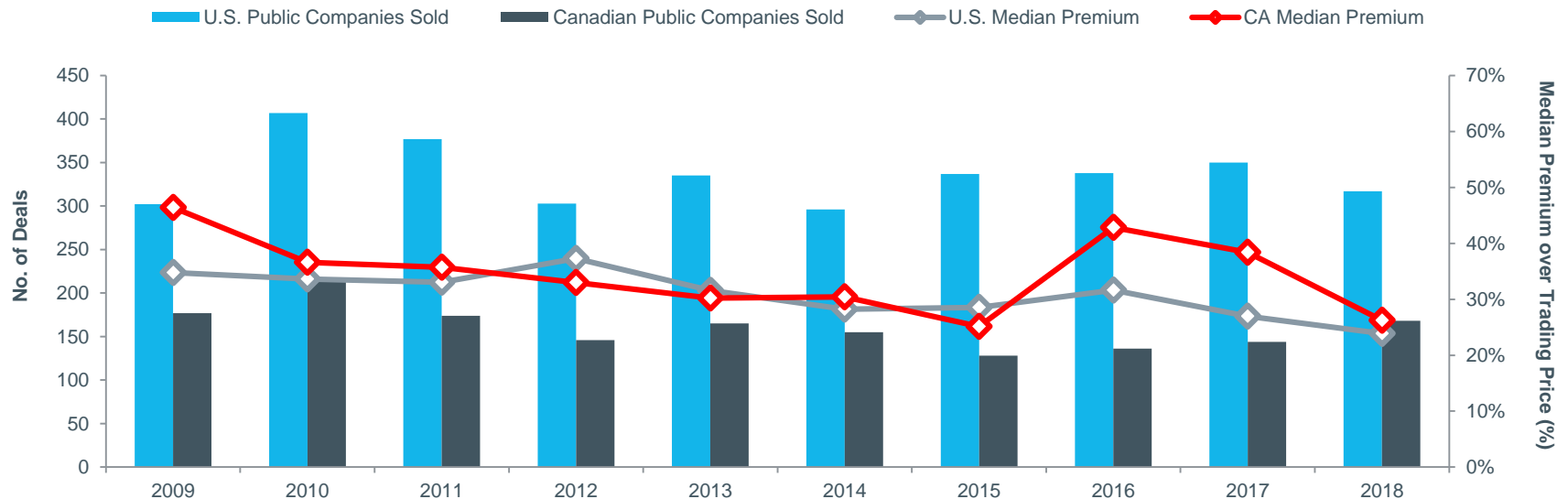
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Public vs. Private

Private company transactions continued to account for the majority of the North American M&A landscape, representing 91.0% (2017 – 90.8%) of total Canadian deals and 97.7% (2017 – 97.3%) of all U.S. deal flow. The number of public companies sold in Canada increased from 144 in 2017 to 168 in 2018, while the number of U.S. public companies sold decreased from 350 in 2017 to 317 in 2018.

The median takeover premiums of Canadian and U.S. public companies had their third year of decline and dipped below their 10-year averages, with Canadian premiums coming in line with those in the U.S. (Canada – 25%, U.S. – 26%), diverging from the past two years, when Canadian premiums were about 10% higher.

Public Companies Sold in North America



Sources: S&P Global Market Intelligence as of January 4, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Valuation Multiples

In 2018, there was a slight decrease in overall valuation multiples (where disclosed) for North American transactions. The average EBITDA (earnings before interest, taxes, depreciation and amortization) multiple was 11.2x, slightly above averages seen in the past decade, but lower than the year prior.

The Consumer Staples and Healthcare industries saw much higher multiples in 2018. On the other hand, multiples in the Energy and Financials sectors were noticeably lower.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Consumer Discretionary	8.4x	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x	10.0x	11.0x
Consumer Staples	9.0x	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x	12.0x	14.2x
Energy	6.1x	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x	13.1x	10.5x
Financials	6.6x	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x	12.6x	10.4x
Healthcare	8.7x	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x	13.7x	15.7x
Industrials	8.2x	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x	10.4x	10.0x
Information Technology	10.2x	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x	13.6x	13.9x
Materials	7.7x	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x	10.5x	10.4x
Telecommunication Services	6.6x	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x	9.7x	9.8x
Utilities	8.4x	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x	13.9x	13.1x
Real Estate	16.0x	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x	17.7x	17.6x
Unspecified*	3.4x	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x	7.3x	7.2x
All Industries	8.2x	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x	11.7x	11.2x

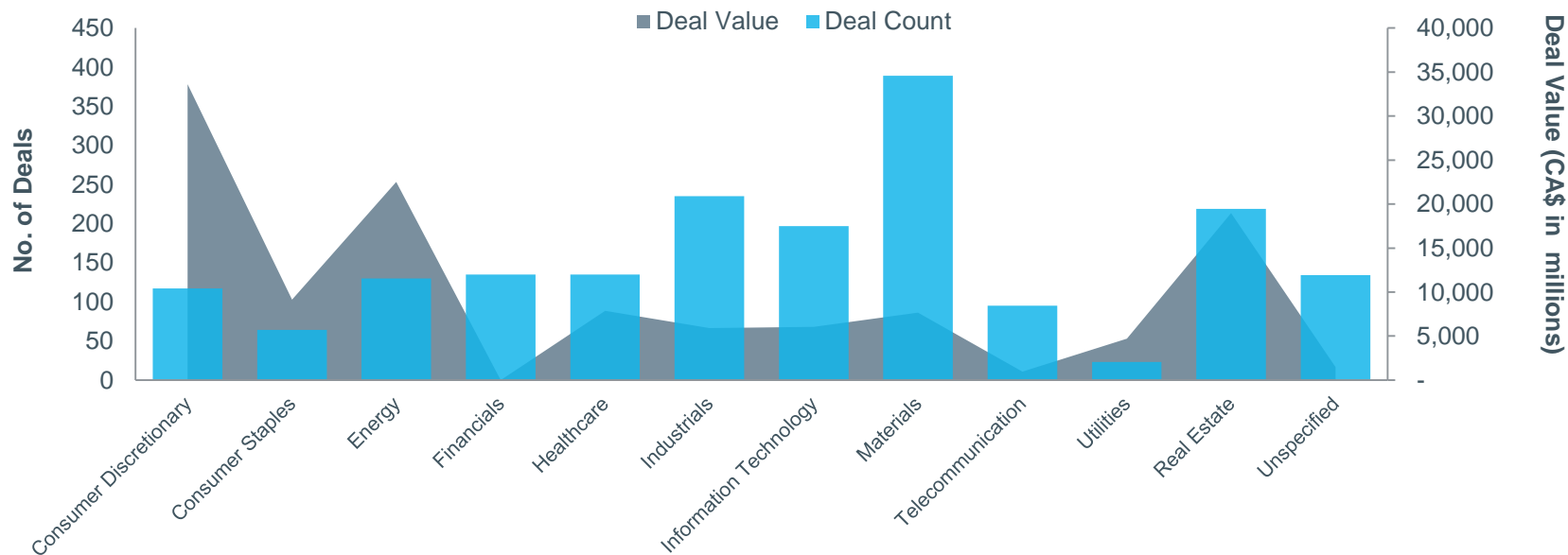
*The unspecified category includes transactions where the target company's industry has not been categorized by S&P Global Market Intelligence.

Sources: S&P Global Market Intelligence as of January 4, 2019; Duff & Phelps analysis. All publicly disclosed transaction information available in S&P Global Market Intelligence.

Industry Sectors

Led by numerous megadeals completed in 2018, the Consumer Discretionary sector saw \$33.6 billion in deal value across 117 deals. The Materials sector remains the most active sector in Canada, in line with historical performance – in 2018, 389 companies were sold, totaling \$7.7 billion in EV. Heavy regulation continued to slow deal flow for the Utilities and Telecommunication Services sectors. Disclosure of deal values in the Financials sector continues to be low, with none of the 135 closed deals releasing financial information.

Canadian M&A Transactions by Industry (2018)



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

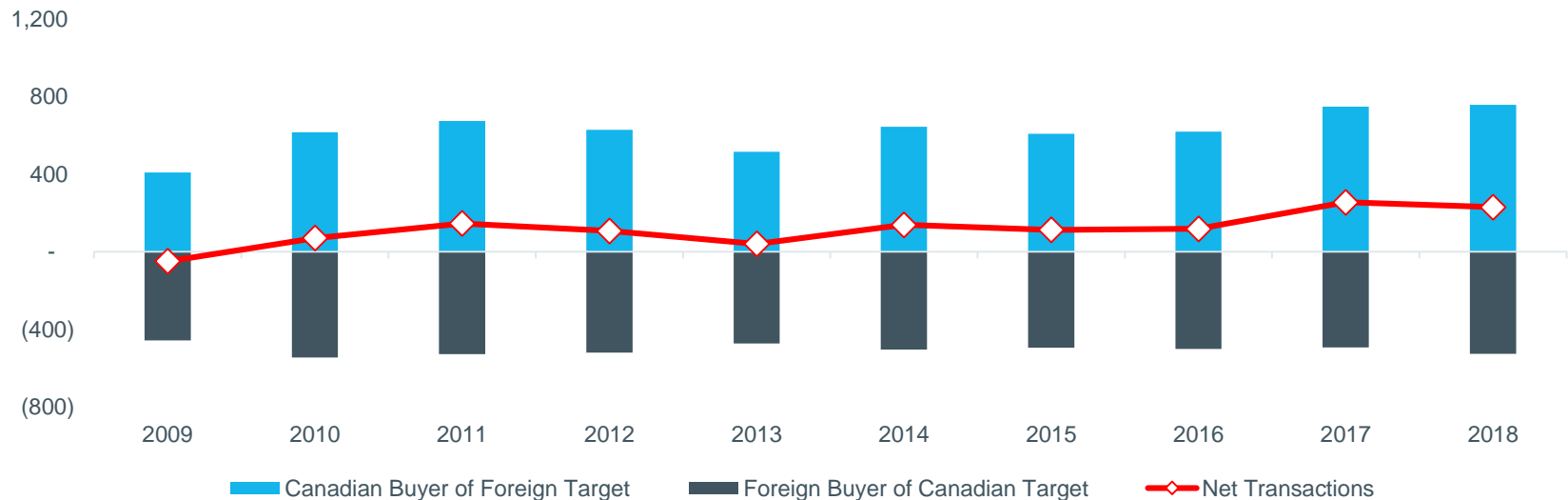
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Cross-Border Transactions

Acquisitions of Canadian companies continued to be predominately a domestic affair, with 1,347 of the 1,874 transactions (71.9%) completed by a Canadian buyer in 2018. Foreign and undisclosed buyers completed the remaining 527 transactions.

Canadian companies remain net buyers from a global M&A perspective, in line with historical trends. Canadian companies acquired 756 foreign-based companies in 2018 (748 in 2017), resulting in a net positive M&A environment for Canada.

Canadian Cross-Border M&A Activity (2018)



*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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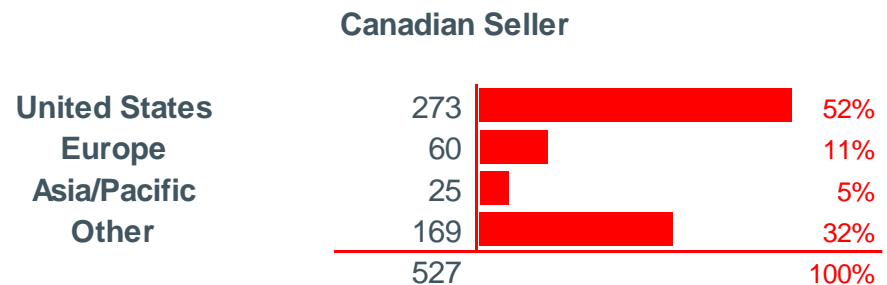
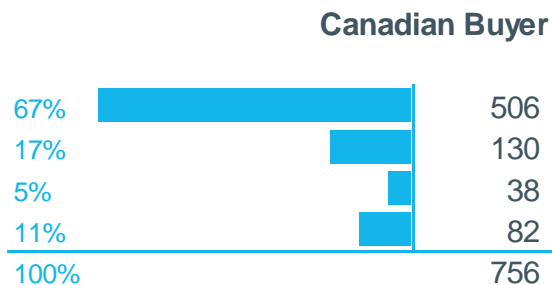
Cross-Border Transactions o●

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 26%, whereas the number of Canadian buyers of U.S.-based companies remained steady compared to 2017.

Canadian companies were net buyers of European businesses in 2018, with purchases increasing 16% over 2017 to 130 deals. European acquisitions of Canadian companies remained relatively steady in 2018. Both Canadian buyers and sellers saw a drop in deal count with their Asian counterparts, falling 12% and 17%, respectively.

Overall, outbound M&A remained solid but flat (756 deals in 2018 vs. 748 deals in 2017) as companies looked to expand or cement market share beyond Canada. Inbound M&A increased 7% (527 deals in 2018 vs. 494 deals in 2017) despite lower interest from Asia and other regions, which was offset by increased investment from the United States.

Canadian Cross-Border Transactions by Region (2018) (No. of Deals)



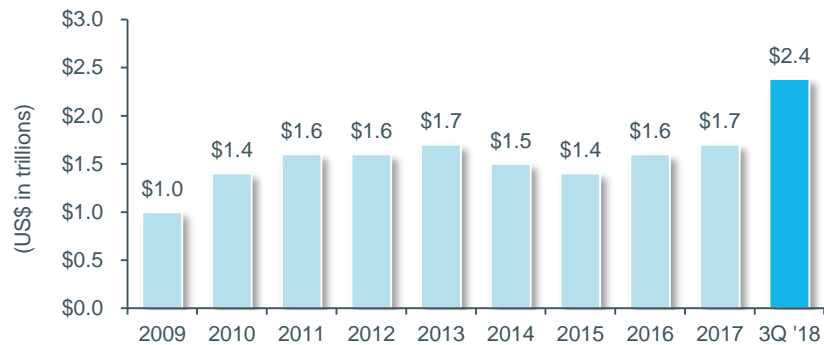
Looking Ahead

The Canadian M&A market will likely remain strong, given the abundant capital available from private equity and strategic buyers, who are eager for growth now that economic expansion is starting to slow (2019 and 2020 GDP growth is forecast at 1.7% and 1.8%, respectively). Buyers will likely continue to outnumber sellers, potentially driving up valuations.

On balance, volatile public markets and rising interest rates could have a downward impact on valuations – the Bank of Canada has risen interest rates five times since July 2017 and is expected to hike rates twice more in 2019.³ Debt pricing will likely tighten, and the use of leverage is starting to slow as buyers look at potential acquisitions with greater scrutiny.

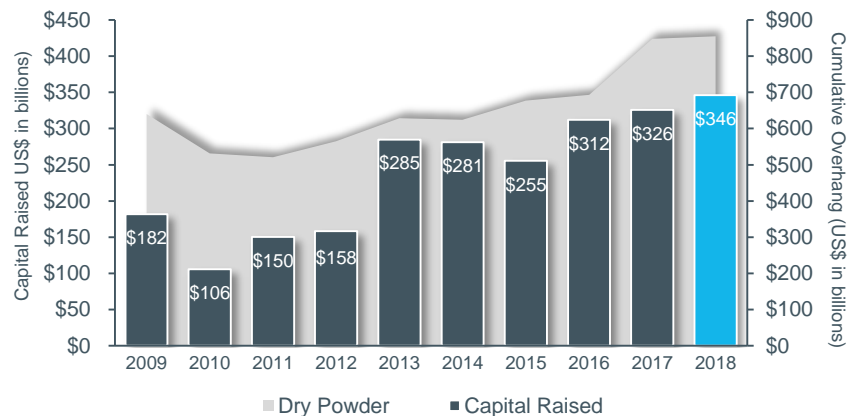
While the United States–Mexico–Canada Agreement (USMCA) deal was struck in late September 2018, easing tensions with the U.S., there is still concern that Canada could be affected by a U.S.-China trade war. Buyers may postpone acquisitions until there is greater certainty in these regions.

S&P 500 Cash Balances



Source: S&P Global Market Intelligence; Q3 2018.

Private Equity Overhang



Source: Pitchbook; Q3 2018.

3. RBC Economics Research – Navigating 2019 (January 2019)

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

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¹ Published in Thomson Reuters'
"Full Year 2018 Mergers & Acquisitions Review."

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