

# Canadian M&A Insights

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Summer 2017



# Canadian M&A Update ...

There were 773 Canadian companies sold during the first half of 2017, a 1% increase compared to the same period last year. The total implied enterprise value was CDN\$50.7 billion from January to June 2017, compared to CDN\$38.7 billion last year (a 31% increase). Of the 773 companies sold during the first half of 2017, 71% were domestic acquisitions compared to 68.7% the year prior.

## Canadian M&A Transactions



Source: S&P Capital IQ as of June 30, 2017; D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Canadian M&A Update ...

The largest transaction involving a Canadian company during the first half of 2017 was Enbridge’s acquisition of Spectra Energy Corp. for a total enterprise value of CDN\$60.7 billion. The acquisition of Veresen Inc. by Pembina Pipeline Corporation (implied enterprise value of CDN \$7.7 billion) and SNC-Lavalin Group’s acquisition of UK-based WS Atkins plc (implied enterprise value of CDN \$3.6 billion) were announced but not yet closed as of June 30, 2017, and thus excluded from our calculations.

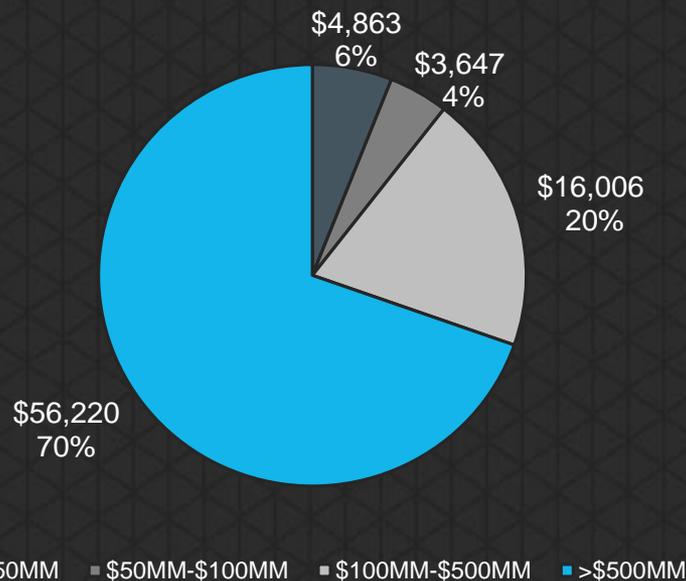
## Largest 1H 2017 Closed Transactions

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
DH Corporation	Canada	Finastra Group Holdings Limited	United Kingdom	4.6	Information Technology
Manitoba Telecom Services, Inc.	Canada	BCE Inc.	Canada	3.7	Telecom

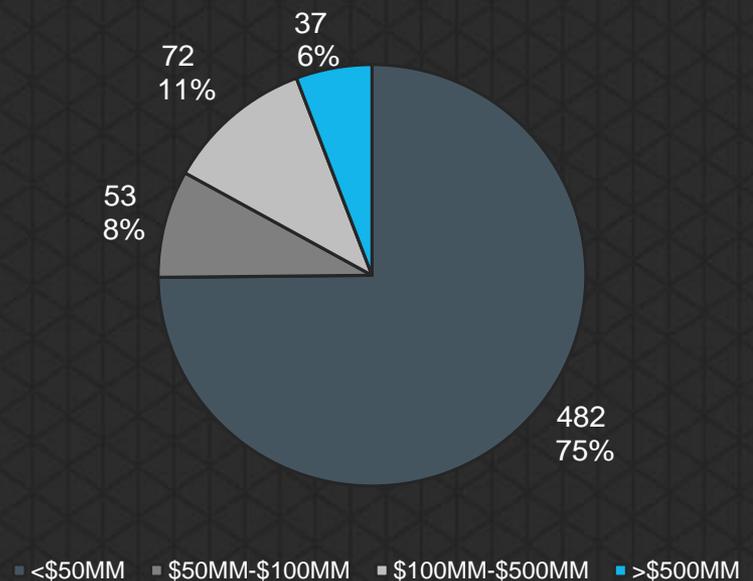
# Canadian M&A Update ...

Despite a larger total implied enterprise value, the median deal value of disclosed transactions in the first half of 2017 was CDN\$8.5 million compared to CDN\$11.1 million the same period last year. This is attributable to a small number of large deals (see previous page) skewing the total upward. Furthermore, since the value of many smaller transactions are not disclosed, the actual median is likely 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 – Canadian Targets [CDN\$ MM] (1H 2017)**



**Number of Canadian M&A Transactions – Canadian Targets (1H 2017)**



Source: S&P Capital IQ as of June 30, 2017; D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Public vs. Private

Of all transactions involving a Canadian target, 90.6% were private company transactions, which is in line with the historical average. For public companies, the number of transactions increased from 59 to 73, while the median premium over price stock fell from 44.1% in the first half of 2016 to 31.0% in the first half of 2017, falling in line with premiums over the past ten years.

Comparatively, only 172 out of the 7,254 deals conducted in the U.S. were public companies (approximately 2.4% of the total), which is also in line with historical norms. The median takeover premium of 29.8% 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 of June 30, 2017, D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Valuation Multiples

Valuation multiples for North American transactions (where determinable) increased slightly with an average EBITDA (earnings before interest, taxes, depreciation and amortization) multiple of 11.5x compared to 10.9x at the end of 2016. Energy, industrials, materials, utilities, and real estate all saw significant increases in valuation multiples. Companies in the consumer discretionary, consumer staples, and healthcare sectors saw a decline in EBITDA multiples.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	1H 2017
Consumer Discretionary	11.2x	11.4x	8.4x	10.7x	10.3x	10.2x	11.1x	10.7x	9.9x	10.6x	9.9 x
Consumer Staples	11.2x	9.2x	9.0x	8.9x	10.1x	10.8x	11.1x	12.0x	9.4x	12.1x	11.5 x
Energy	8.8x	8.6x	6.1x	9.4x	11.3x	7.6x	8.1x	8.5x	8.8x	8.6x	14.2 x
Financials	11.4x	9.8x	6.6x	10.2x	8.3x	9.1x	10.6x	12.3x	9.0x	12.1x	12.3 x
Healthcare	13.8x	12.7x	8.7x	12.0x	11.4x	10.8x	10.1x	11.7x	12.7x	12.6x	12.0 x
Industrials	9.4x	10.2x	8.2x	8.7x	9.4x	8.6x	8.8x	9.7x	9.9x	9.1x	10.7 x
Information Technology	12.4x	12.7x	10.2x	12.0x	12.2x	11.0x	11.2x	12.7x	13.1x	12.4x	12.7 x
Materials	9.2x	10.4x	7.7x	10.5x	8.6x	8.7x	10.0x	8.3x	10.5x	7.8x	10.7 x
Telecommunication Services	9.3x	9.7x	6.6x	7.9x	7.2x	9.4x	8.9x	9.9x	14.9x	8.9x	9.5 x
Utilities	11.1x	11.5x	8.4x	11.5x	10.1x	9.5x	11.1x	9.7x	10.3x	11.1x	12.7 x
Real Estate	15.7x	13.3x	16.0x	11.8x	16.3x	15.9x	15.5x	17.6x	19.2x	16.5x	20.2 x
Unknown	3.2x	8.5x	3.4x	7.1x	14.5x	4.1x	11.9x	4.1x	8.5x	10.5x	4.0 x
All Industries	11.0x	10.8x	8.2x	10.4x	10.7x	9.6x	10.2x	10.7x	11.0x	10.9x	11.5 x

Source: S&P Capital IQ as of June 30, 2017, D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Industry Sectors

In the first half of 2017, the energy sector led Canadian M&A activity with a total implied enterprise value of CDN\$25.5 billion with five transactions valued over CDN\$500 million. Deal flow for the industry, however, continued to struggle with 75 deals completed as of June 2017 compared to 81 last year. The materials industry continues to be the most active sector in Canada, with 189 companies worth CDN\$3.0 billion sold since the beginning of the year. Telecom services had the weakest deal flow in the country because of the heavy regulatory environment. Only 1 out of the 55 transactions in the financial industry disclosed financial terms, which explains the low enterprise value of deals.

Canadian M&A Transactions by Industry (1H 2017)



Source: S&P Capital IQ as of June 30, 2017, D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Cross-Border Transactions

Canadian transactions remain predominately within Canadian borders. Of the 773 deals closed during the first half of 2017, 549 deals were acquired by a Canadian company, 165 by an international company and 59 were undisclosed. Total implied enterprise value of cross-border transactions involving a Canadian target was CDN\$9.8 billion compared to CDN\$75.0 billion during the first half of 2016.

In contrast, cross-border transactions involving a Canadian buyer totaled CDN\$103.2 billion across 335 transactions in 2017. Canadian-based acquirers were focused on the information technology, industrials, materials and real estate sectors.

Canadian Cross-Border Transactions by Industry (1H 2017)



Source: S&P Capital IQ as of June 30, 2017, D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Cross-Border Transactions

The United States remains Canada’s most active cross-border transaction partner, with 114 Canadian companies sold and 240 American companies acquired. Acquisitions by European companies slowed down, with 26 Canadian companies sold compared to 36 the year prior. Canadian companies are still actively acquiring European companies, however, with 46 European companies acquired compared to 48 the first half of 2016. Cross-border transactions with the Asia Pacific region, while a small percentage of total deal flow, remains consistent.

Canadians have become more active in acquiring international companies (335 vs. 275 deals) as companies look for growth outside of Canada. Comparatively, Canadian divestitures to foreign players slowed down (165 vs. 181 deals). The slowdown in acquisitions by foreigners may be affected by the increased uncertainty regarding the future of the NAFTA agreement.

Canadian Cross-Border Transactions by Region (1H 2017) [# of Deals]



Source: S&P Capital IQ as of June 30, 2017; D&P Analysis. All publicly disclosed transaction information available in Capital IQ

# Looking Ahead

The Canadian economy is expected to remain healthy over the next two years, with GDP expected to increase by 2.4% in 2017 and 2.0% in 2018, which continues to support the growth of M&A activity in the country.<sup>1</sup>

The renegotiation of NAFTA may continue to create uncertainty in the market; industries with heavy reliance on trade may be strongly affected by the outcome of the negotiations.

Major changes to the taxation of private corporations have been announced by the Canadian government, which will likely make selling a privately owned Canadian corporation less tax efficient if the legislation is enacted. The start of 2017 also marked a change in the tax treatment of capital gains. The possibility of a higher capital gains inclusion rate also lurks in the 2018 budget. Business owners are encouraged to consult their tax advisor and consider these recent and possible changes when planning for sale or succession.

<sup>1</sup> Source: The Economist Intelligence Unit

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<sup>1</sup> Published in Thomson Reuters'  
"Full Year 2016 Mergers & Acquisitions Review."

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

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- Technology, Media and Telecom



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