



## Year in Review

# 2017 Canadian M&A Market Recap

### Synopsis

We take a look at how M&A activity has shaped up in Canada in 2017 and review some of the major trends that have transpired this past year. Our review will focus on several key areas of discussion:

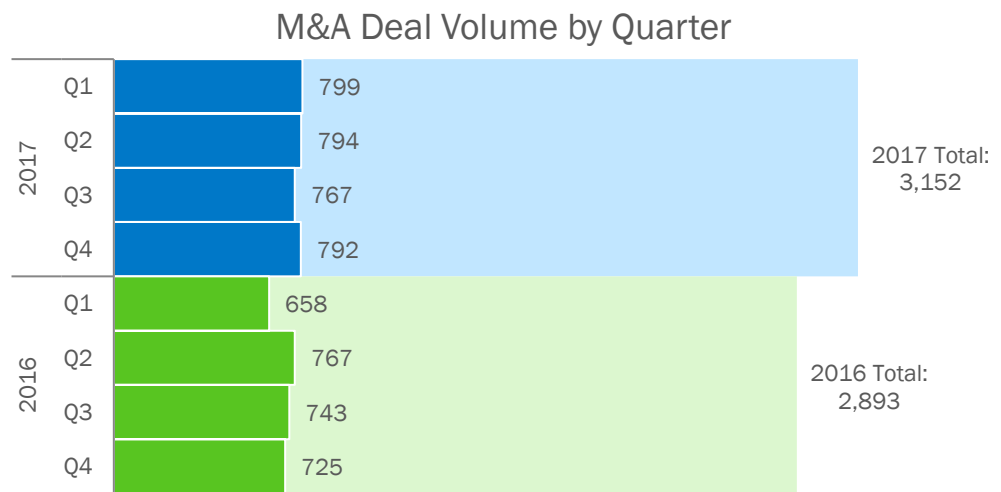
1. M&A Activity Overview
2. Cross-Border M&A Activity
3. Industry Breakdown
4. Provincial Breakdown

# M&A Activity Overview

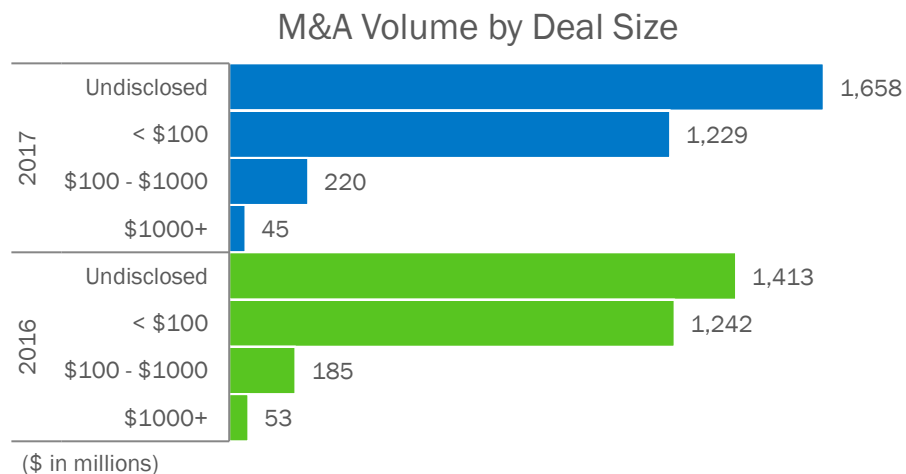
A booming Canadian M&A market was the key theme in 2017. M&A activity was robust throughout the year, and shows no signs of slowing down.

## I. DEAL VOLUME

There were 3,152 reported transactions in 2017, representing a 9% uptick in deal activity compared with 2016. The increase in deal activity was sustained throughout 2017, with each quarter reporting more deals than the corresponding quarter in 2016. The following chart illustrates the quarterly breakdown of deal activity over the last two years.



Breaking down the data by transaction value ranges (see chart below), we see a consistent distribution of activity by deal size between 2017 and 2016, with notable increases in deals with transaction values between \$100 million and \$1 billion as well as undisclosed deals (growth of 19% and 17% respectively). Contrarily, the \$1+ billion segment declined by 15%.

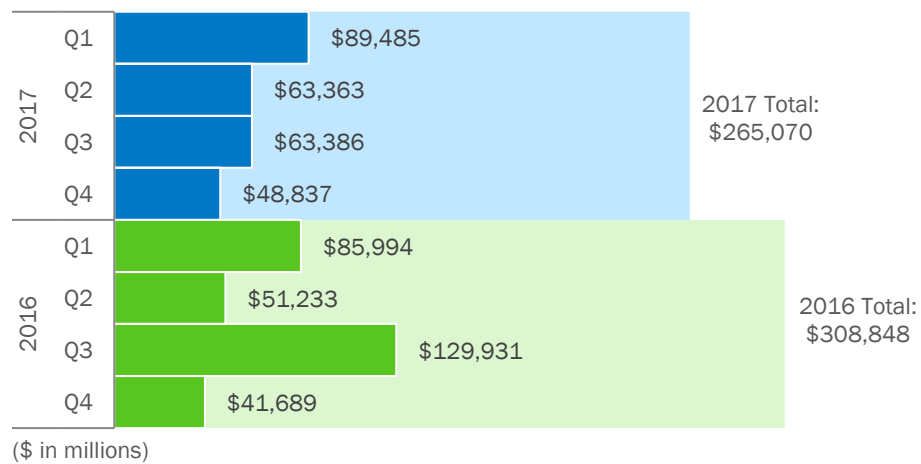


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## II. DEAL VALUE

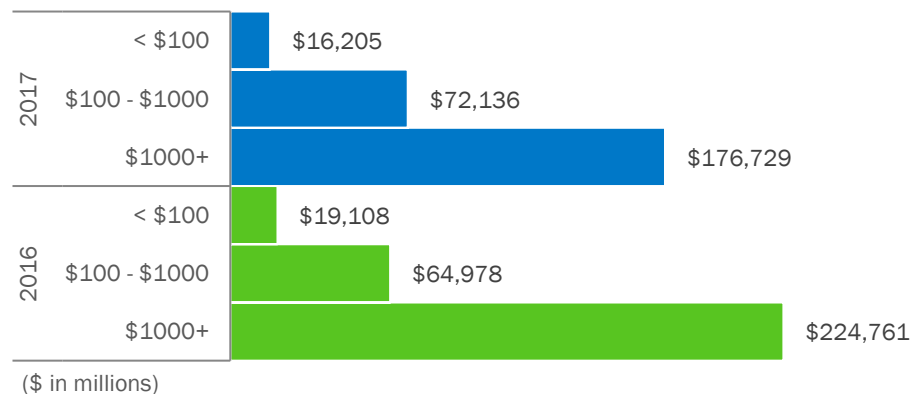
While the number of reported transactions increased this past year, the narrative is a bit different in terms of total transaction value. Aggregate value declined by nearly \$44 billion (14%) in 2017 compared to 2016. A more detailed analysis of the quarterly breakdown (see chart below), however, reveals that 2017 saw higher transaction value for every quarter except for Q3. Two mega deals (Enbridge’s \$61 billion merger with Spectra Energy, and PotashCorp’s \$25 billion merger with Agrium) in Q3 2016 drove total deal value to over \$129 billion in that quarter, more than double the comparable 2017 period.

M&A Transaction Value by Quarter



A breakdown of transaction value by deal size yields similar insights. The \$1+ billion category was significantly higher in 2016 given the two mega deals referenced above. Deals in the \$100-1000 million range saw an 11% increase, while sub-\$100 million deals reported a decline of 15%.

Aggregate M&A Transaction Values Distribution



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# Cross-Border Activity

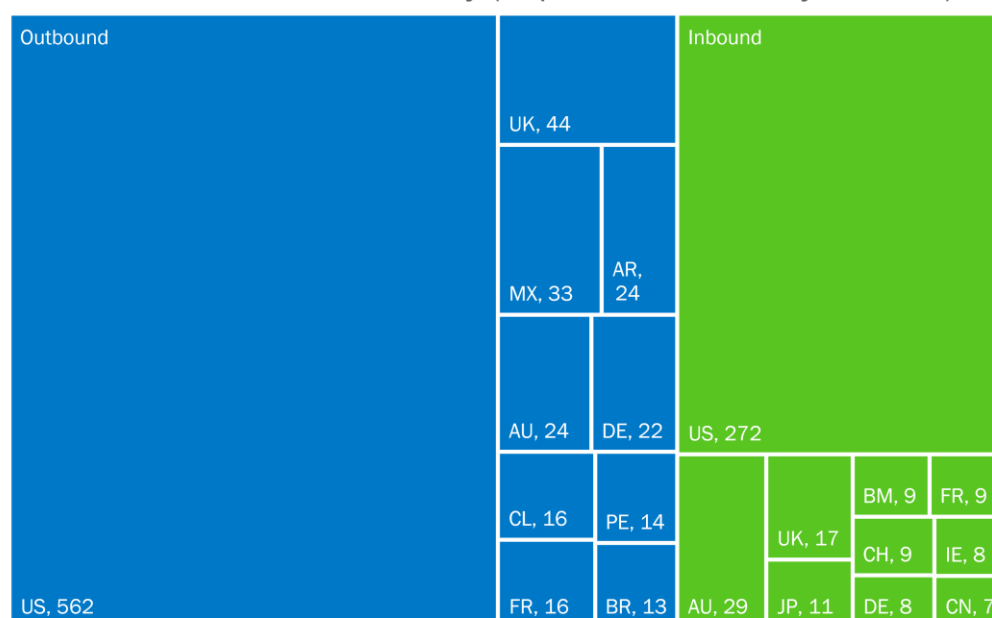
With our closest neighbor being the world's largest economy, it's unsurprising to see the majority of cross-border M&A activity occurring between Canada and the United States. The following analysis explores which countries have been most involved in cross-border deal activity with Canada, including which countries have been investing the most in Canada (inbound deal activity) and which countries have attracted the most M&A investment from Canadian companies (outbound deal activity).

Of the 3,152 Canadian deals reported in 2017, 641 (20%) were inbound, 950 (30%) were outbound, and 1,561 (50%) were domestic. This compares with 2016, where the figures were 634 (22%), 797 (28%), and 1,462 (50%), respectively. The surge in deal volume activity in 2017 can largely be attributed to more outbound and domestic M&A deals, with no noticeable change in foreign acquisitions of Canadian companies.

## I. TOP 10 COUNTRIES BY DEAL VOLUME

As alluded to, the United States has shown to be a strong partner for cross-border deals with Canada. About 60% of all outbound deals this year were with the U.S., totaling 562. The next closest country was the United Kingdom at only 44 deals (representing less than 5%). Inbound deals show a similar trend, with over 42% of inbound deals involving a U.S. buyer, tallying 272. Inbound deal volume tapers off after the U.S., with Australia coming in second at 29 deals.

2017 Cross Border Activity (Top 10 Countries by Volume)



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## II. TOP 10 COUNTRIES BY DOLLAR SPEND

We see very similar patterns when analyzing cross-border activity by transaction value. The following two tables break down the top 10 countries by outbound and inbound spending.

2017 Outbound Spend		2017 Inbound Spend	
Country	Total \$	Country	Total \$
United States	\$75,734	United States	\$19,407
Australia	12,181	Hong Kong	5,611
United Kingdom	8,231	United Kingdom	5,038
Singapore	7,735	Switzerland	3,074
Germany	3,901	France	1,717
Bermuda	2,381	Bermuda	1,415
Mexico	2,064	Japan	717
Denmark	1,931	China	524
Hong Kong	1,634	Netherlands	462
Netherlands	1,426	Taiwan	362
Other	6,471	Other	14,223
<b>Total</b>	<b>\$123,689</b>	<b>Total</b>	<b>\$52,551</b>

*(\$ in millions)*

At \$75 billion, U.S. targets account for 61% of outbound Canadian M&A spending, with Australian and U.K.-based targets following at \$12 billion (10%) and \$8 billion (7%) respectively. Unsurprisingly, the U.S. and the United Kingdom are among the top 3 countries for inbound deal spending. Interestingly however, Hong Kong placed second in terms of investment dollars into Canada, even though Hong Kong is not in the top 10 for inbound deal volume. This trend was buoyed by two multibillion dollar acquisitions involving Hong Kong-based companies, including a \$2.8 billion transaction between CK Property Holdings, a holding company with its largest shareholder being the Li Ka-Shing family, and Reliance Home Comfort, as well as a \$2.1 billion transaction between CCCC International Holding and Aecon Group.

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# Industry Breakdown

In this section, we investigate M&A activity across the major industries that drive the Canadian economy.

## I. DEAL VOLUME BY INDUSTRY

The recent year has seen considerable movements occur in both the volume and value of M&A activity in various industries. In 2017, the most active sectors by deal volume activity were materials, information technology, and industrials, compared to 2016, in which the top 3 industries were materials, real estate, and industrials.

The following table breaks down deal volume in each of the major industries in Canada. Consumer staples, utilities, and materials industries experienced the highest percentage growth, whereas real estate, telecommunications and industrials exhibited the biggest declines.

Industry Deal Volume Breakdown			
Industries	2017	2016	% Change
Materials	919	731	25.7%
Information Technology	375	320	17.2%
Industrials	306	339	(9.7%)
Real Estate	279	381	(26.8%)
Consumer Discretionary	266	264	0.8%
Energy	242	246	(1.6%)
Other	201	134	50.0%
Financials	180	166	8.4%
Healthcare	156	156	0.0%
Consumer Staples	139	89	56.2%
Utilities	76	51	49.0%
Telecommunication Services	13	16	(18.8%)
<b>Total</b>	<b>3,152</b>	<b>2,893</b>	<b>9.0%</b>

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## II. DEAL VALUE BY INDUSTRY

The picture is a bit different when looking at deal value. M&A spending was highest in the utilities, energy, and industrials sectors in 2017, while energy, materials, and real estate emerged as the top 3 industries for M&A spending in 2016.

Utilities, consumer staples, and industrials demonstrated the largest percentage gains in terms of deal value on a year-over-year basis. In fact, they were the only industries to experience an uptick in M&A spending (excluding Other). The largest percentage declines from 2016 were in telecommunication services, consumer discretionary, and materials. The largest decline by deal value is the energy industry, dropping by almost \$31 billion.

Industry Deal Value Breakdown			
Industries	2017	2016	% Change
Utilities	\$67,701	\$24,124	180.6%
Energy	56,375	86,952	(35.2%)
Industrials	29,826	26,210	13.8%
Real Estate	23,932	34,646	(30.9%)
Information Technology	16,874	17,597	(4.1%)
Financials	16,189	17,676	(8.4%)
Materials	15,452	41,256	(62.5%)
Consumer Staples	14,266	11,950	19.4%
Consumer Discretionary	9,619	30,757	(68.7%)
Other	9,133	7,593	20.3%
Healthcare	5,047	5,510	(8.4%)
Telecommunication Services	657	4,577	(85.6%)
<b>Total</b>	<b>\$265,070</b>	<b>\$308,848</b>	<b>(14.2%)</b>

(\$ in millions)

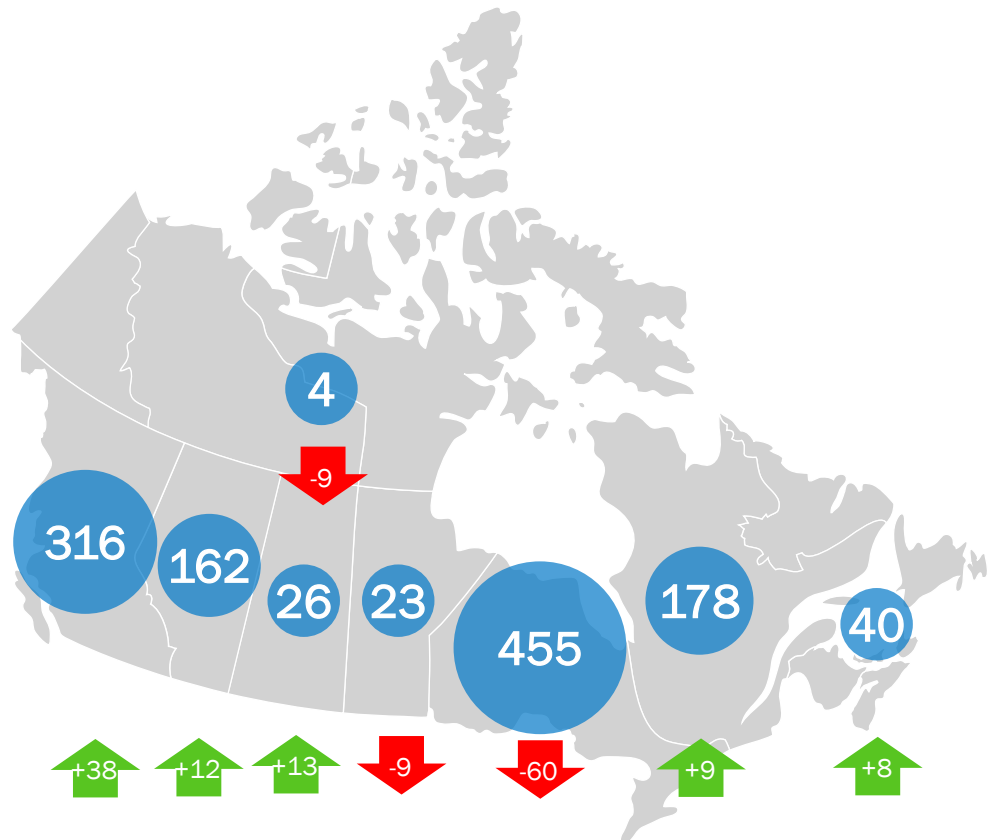
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# Provincial Breakdown

This last section looks at the various regions of Canada and their respective levels of M&A activity as both buyers and sellers. Given the low volume of deal flow in the Canadian territories and in Atlantic Canada, we've aggregated Nunavut, Northwest Territories and the Yukon into one region, and Newfoundland and Labrador, New Brunswick, Nova Scotia, and Prince Edward Island into another.

## I. BREAKDOWN BY TARGET LOCATION

The map below reveals that most Canadian targets were based in Ontario and British Columbia, followed by Quebec and Alberta in 2017. Ontario experienced the largest year-over-year decline in M&A targets (down 60), while British Columbia experienced the largest growth (up 38) in M&A targets.



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## II. SPENDING BY TARGET LOCATION

Unsurprisingly, the top 4 regions as measured by number of targets also ranked highest for aggregate deal value. Interestingly, there was more spending on Alberta- and Quebec-based targets than British Columbia-based targets despite British Columbia having almost twice the number of targets. This implies that the average target size in British Columbia was much smaller than those in Ontario, Alberta, and Quebec.

The Atlantic region saw a dramatic rise in spending, driven by the \$2.8 billion transaction between CK Property Holdings and Reliance Home Comfort. The Canadian Territories experienced a massive rise in M&A activity, primarily driven by a \$1.6 billion deal between The Washington Companies and Dominion Diamond Corporation.

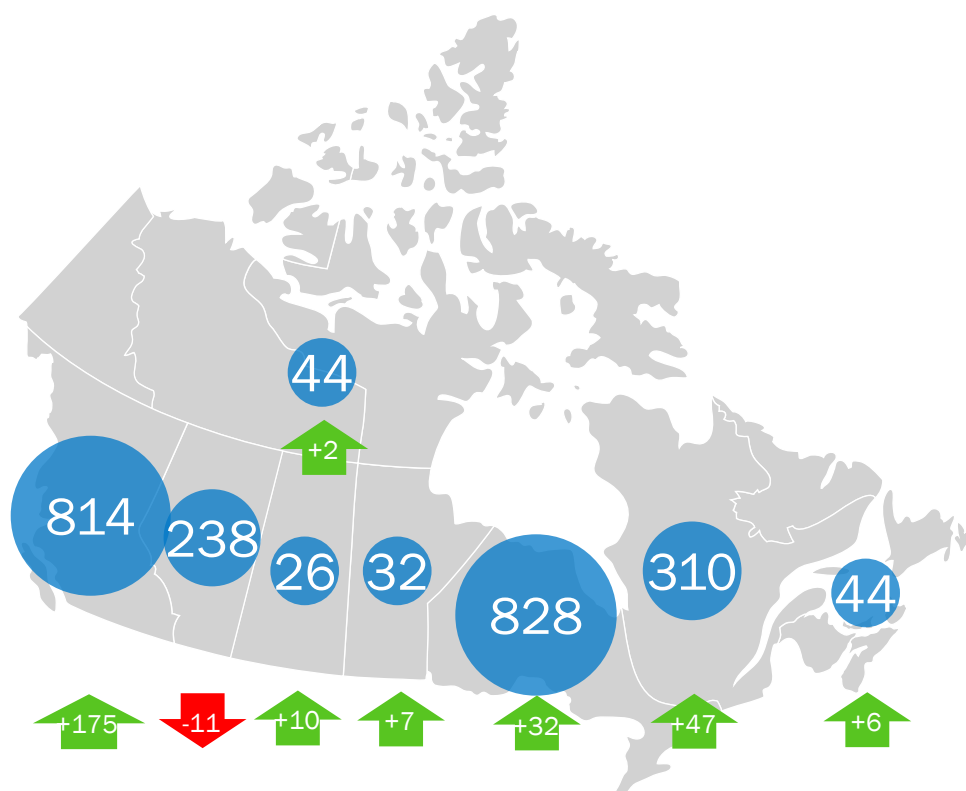
Target Locations		
Province	2017	2016
Ontario	\$28,000	\$39,645
Alberta	19,910	35,456
Quebec	16,590	5,185
British Columbia	8,204	7,844
Atlantic	3,892	128
Territories	1,697	10
Manitoba	1,404	4,129
Saskatchewan	787	399

(\$ in millions)

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### III. BREAKDOWN BY BUYER LOCATION

The key takeaway here is the increase in acquisitions by buyers in British Columbia. Investors from the West Coast made over 800 acquisitions this past year, an increase of 175 (27%) from 2016, and nearly matching the deal activity of Ontario-based buyers in 2017.



### IV. BUYERS/INVESTORS BY LOCATION

Alberta and Ontario spent the most as investors in 2017 with the energy-based prairie province accounting for 46% of Canadian M&A spending, and the home of Canada's financial and industrial hub chalking up 31%. The data also indicates that Alberta and Ontario are investing in larger transactions, and British Columbia in smaller ones.

Buyer Spending by Location		
Province	2017	2016
Alberta	\$63,093	\$83,658
Ontario	42,307	72,408
Quebec	15,936	12,529
British Columbia	10,832	10,245
Atlantic	2,443	16,432
Manitoba	1,602	507
Saskatchewan	264	24,511
Territories	15	-

(\$ in millions)

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## Conclusion

This past year was an active year for M&A deal making. We've seen more deals in 2017 than in 2016, with higher sustained deal volume. Dealmakers invested in more opportunities outside of Ontario than in 2016, and the number of Canadian buyers in in regions outside of Ontario increased as well.

With our largest counterparties in M&A transactions coming from the U.S., over US\$1.9 trillion of cash on North American corporate balance sheets, and over US\$900 billion in private equity dry powder in North America, we don't foresee any slowdown in M&A activity in 2018. We expect the momentum that 2017 generated to continue and we look forward to recapping how the Canadian M&A marketplace shapes up in Q1 2018.

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