

## Valitas Insights: Canadian M&A – Our Q3 2017 Review

Canadian M&A deal value plummeted in Q3 2017, but we don't see this as a signal that buyers are running for the hills...at least not in the Canadian middle market. We explore this and other themes, as we take a closer look at Canadian M&A announced deal activity<sup>1</sup> for Q3 2017 and for the first nine months of this year.

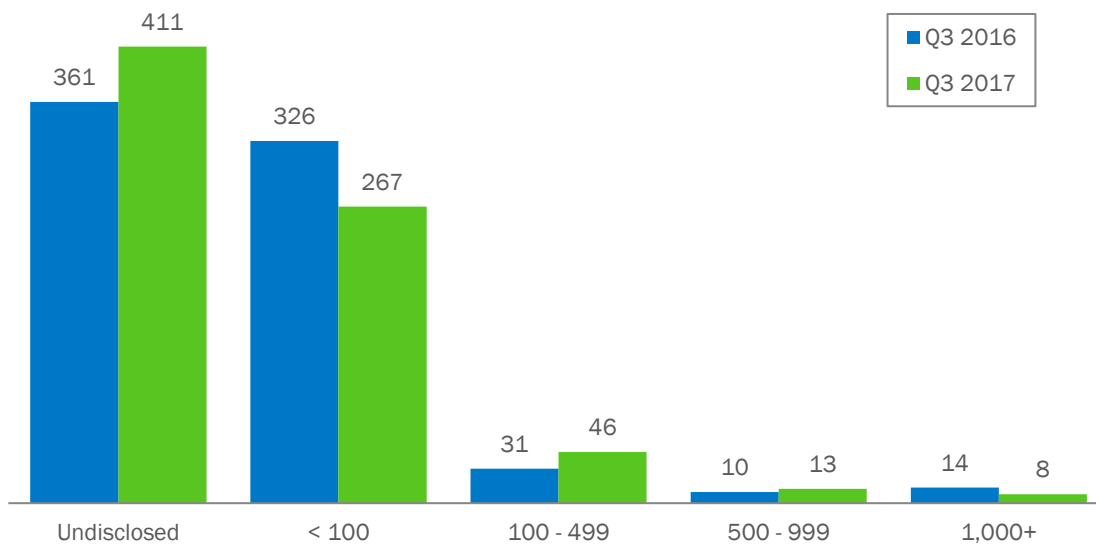
### Q3 2017 vs. Q3 2016

Total transaction value dropped 51% in Q3 2017, to \$63.5 billion from \$129.4 billion<sup>2</sup>, while volume was flat, with 745 transactions compared to 742 in Q3 2016. The plunge in deal value was largely attributable to Enbridge's \$61.0 billion merger with Spectra Energy Corp in Q3 2016. A slowdown in mega-deal activity (deals of \$1 billion or more) to 8 transactions from 14 in the previous year, also contributed to the drop in aggregate deal value.

"It's been known for some time that Canadian M&A activity in the \$billion+ range is getting softer," says [Mario Nigro](#), a partner in the Merger & Acquisitions and Private Equity & Venture Capital Groups at Stikeman Elliott, "But the middle market is a different story." "Mid-market deal activity is robust," agrees [Jake Bullen](#), a partner in the Business Law Group and Chair of the Private Equity Group at Cassels Brock. "It's a strong market with plenty of interest from buyers."

Deal data in the sub-\$1 billion range supports this positive outlook. Excluding disclosed deals of more than \$1 billion, aggregate transaction value increased by 19%, from \$20.0 billion to \$23.9 billion, while deal volume dropped from 367 to 326. The \$100 million to \$499 million range experienced the highest increase in value, from \$7.0 billion to \$11.0 billion, as seen below.

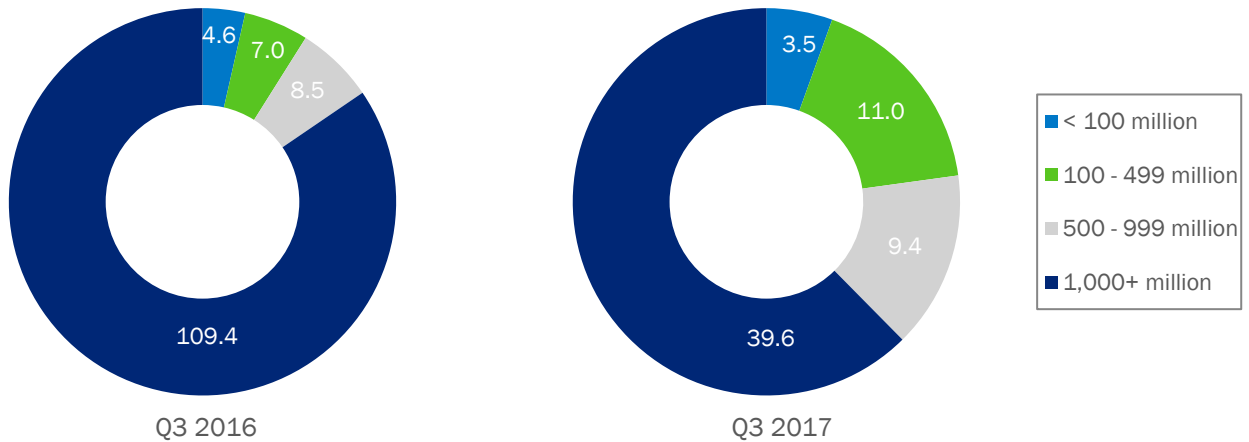
Quarterly Transaction Count (\$ in millions)



<sup>1</sup>Deal data was sourced on October 13, 2017 from Capital IQ

<sup>2</sup>All dollar amounts are Canadian unless stated otherwise.

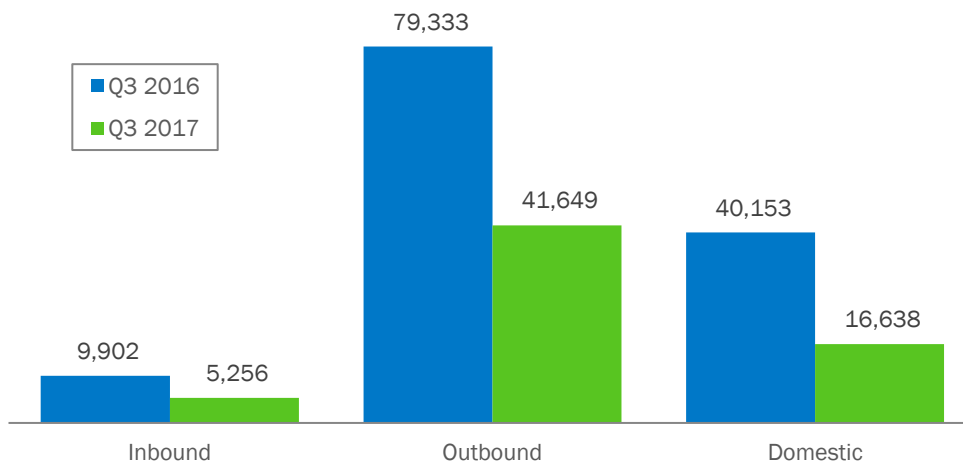
### Quarterly Transaction Value (\$ in billions)



### Cross-Border vs. Domestic

The number of cross-border deals increased to 380 in Q3 2017 from 355 in Q3 2016. Total transaction value, on the other hand, experienced a fairly dramatic decline, as shown in the chart below. This is largely attributable to the slowdown in mega-deal activity in the quarter, but there is sustained buyer appetite in the sub-\$billion deal range. “I am seeing strong interest in Canada, particularly from the U.S. and China,” says Jake Bullen, whose practice includes a significant cross-border component, “There’s a perception [from foreign buyers] that there are some great companies in Canada, and I’m even hearing about renewed interest in the oil and gas sector. According to my partners in Calgary, we have seen several U.S. PE and local oil & gas players starting to show signs of optimism.”

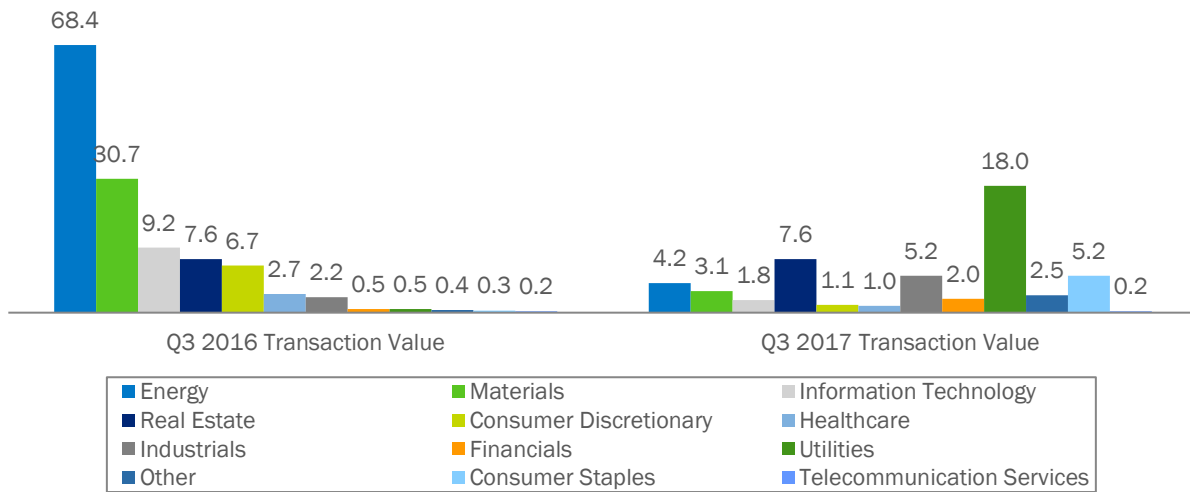
### Cross-Border and Domestic Transaction Value (\$ in millions)



### Sector Activity

While M&A activity was relatively stable across most sectors, there were a few significant swings. Both the energy and materials sectors experienced heavy declines in deal value, dropping from \$68.4 billion to \$4.2 billion, and from \$30.7 billion to \$3.1 billion, respectively. Utilities, on the other hand, increased from \$506 million in Q3 2016 to \$29.7 billion in Q3 2017. A full breakdown by industry is shown below.

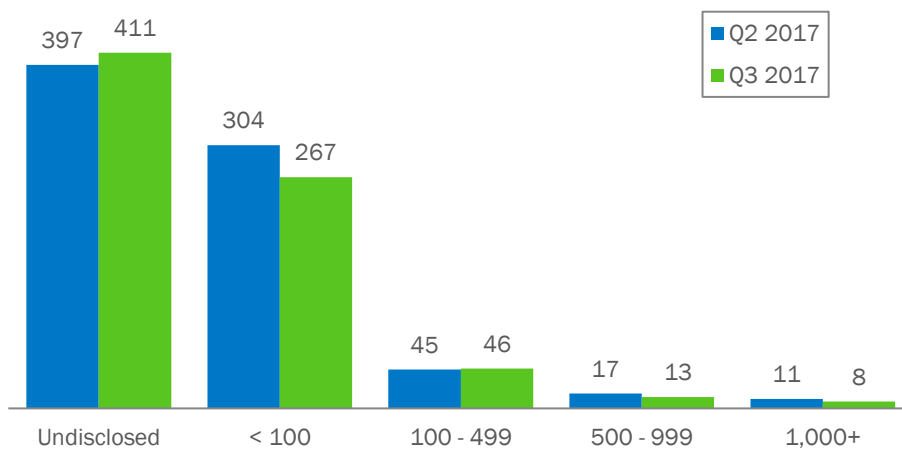
Quarterly Sector Transaction Value (\$ in billions)



### Q3 2017 vs. Q2 2017

Activity remained relatively flat from Q2 to Q3. Total deal count was 745 in Q3 2017 compared to 774 in Q2 2017, and total deal value was \$63.5 billion, up slightly from \$61.8 billion. A further breakdown by deal value range can be seen below.

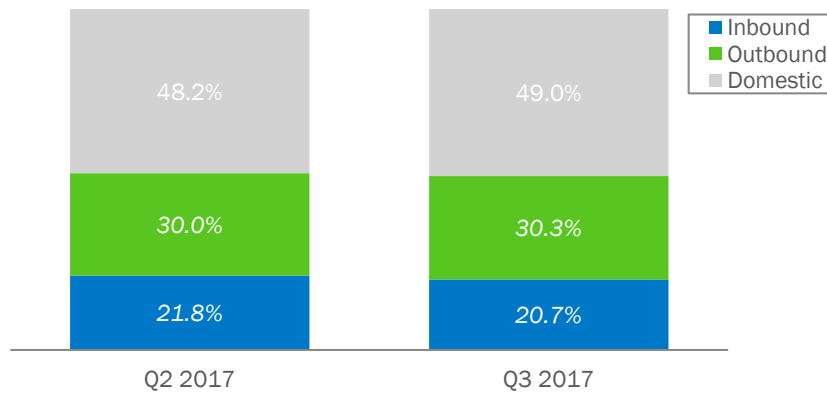
Quarterly Transaction Count (\$ in millions)



### Cross-Border vs. Domestic

There was a decrease in both inbound (\$5.2 billion, down from \$8.5 billion) and domestic (\$16.6 billion, down from \$18.1 billion) deal value in Q3 2017. In contrast, outbound transaction value increased by \$6.5 billion over the previous quarter to \$41.6 billion. Deal volume mix between domestic and cross-border did not reflect any significant changes, as seen in the figure below.

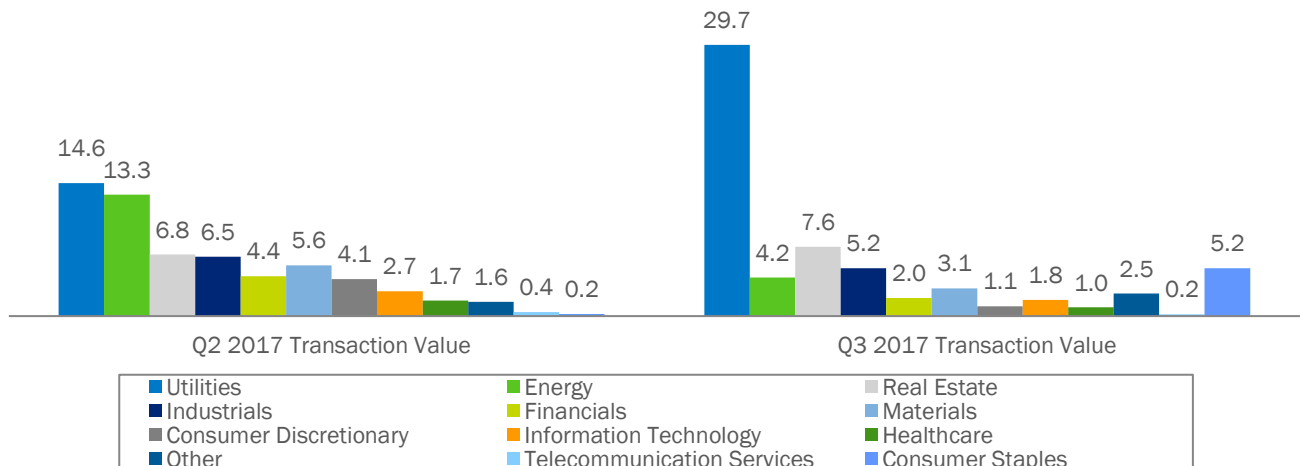
Cross-Border and Domestic M&A:  
(Percent of Total Volume)



### Sector Activity

Of note in Q3 relative to Q2 was the shift in industry specific M&A activity. As depicted in the following graph, the energy sector experienced a significant decline in deal value, while the utilities sector more than doubled in transaction value. This increase in value relates, in part, to the \$22.2 billion acquisition of Calpine Corporation.

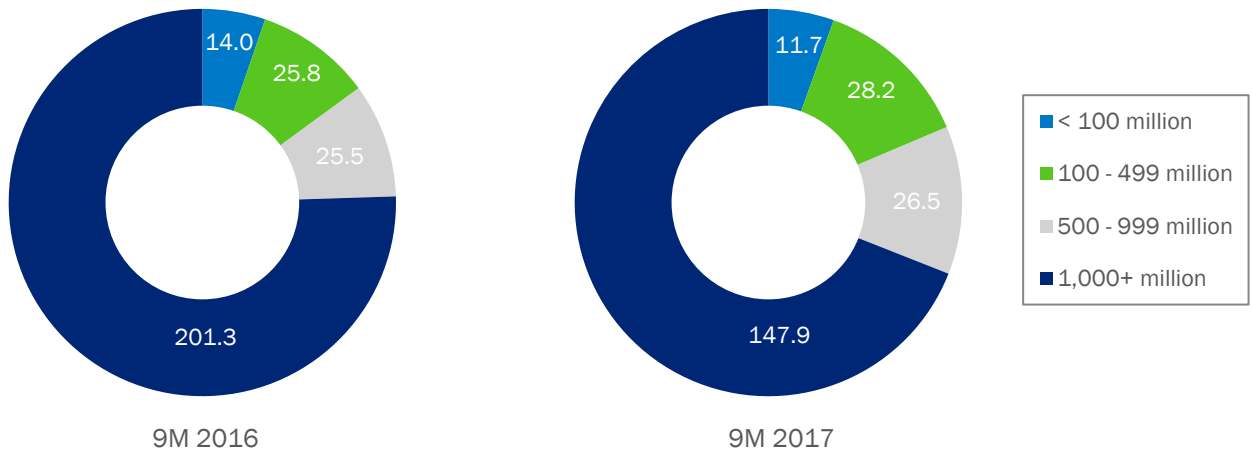
Quarterly Sector Transaction Value (\$ in billions)



**9M 2017 vs. 9M 2016**

So far this year, we've seen more deals, but lower values. Deal count is up from 2,167 to 2,314 for the first 9 months of the year. However, as seen from the figures below, total disclosed transaction value is down from \$266.6 billion to \$214.3 billion, primarily due to a decline in the number of mega-deals.

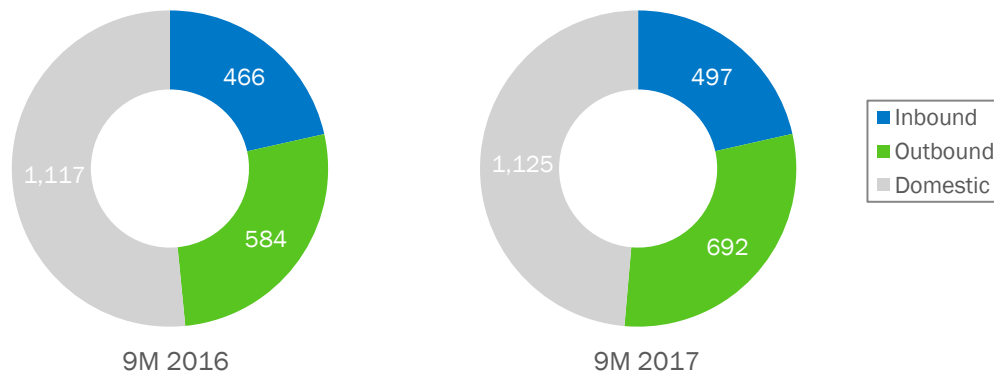
September 30<sup>th</sup> YTD Transaction Value (\$ in billions)



**Cross-border vs. Domestic**

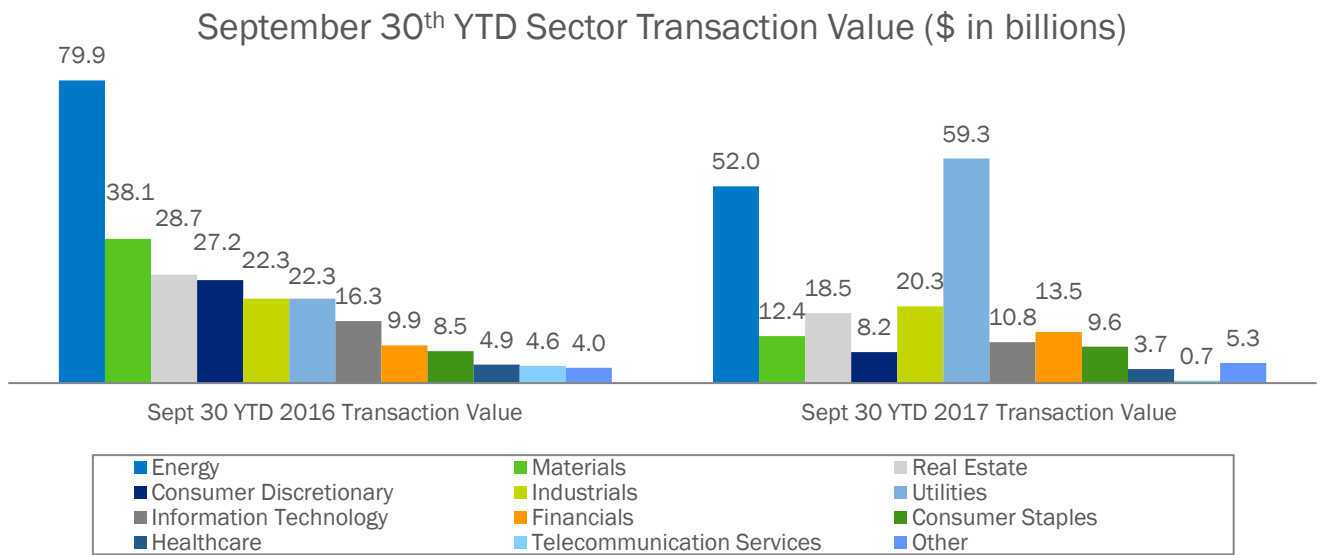
For the first nine months of this year, we experienced higher volumes of outbound deal flow, and small increases in inbound and domestic volumes as shown in the exhibit below. In sharp contrast, outbound value dropped from \$158.0 billion to \$108.2 billion, while inbound declined slightly from \$33.9 billion to \$30.9 billion, and domestic was flat, moving from \$74.7 billion to \$75.1 billion.

September 30<sup>th</sup> YTD Transaction Count



### Sector Activity

This year to date, we've seen more deals in the materials sector and fewer in real estate. The energy sector experienced the greatest decline in value, from \$79.9 billion to \$51.9 billion, while the utilities sector experienced the greatest increase, from \$22.2 billion for 9M 2016 to \$59.3 billion for the same period this year. The industries are further broken down in the comparison graph below.



Declining M&A value has been a consistent theme throughout our Q3 analysis, but this is reflective of the decline in mega-deals rather than a slowdown in the broader market. In fact, 2017 is shaping up quite well for the middle-market. As Jake Bullen told us:

*“It’s a strong market, with lots of dry power and lots of interest. And because of Canadian demographics, there is a significant amount of succession planning going on. These factors translate into robust activity for the middle market.”*

And according to both Mr. Bullen and Mr. Nigro, Q4 2017 is off to a strong start!