

Regional Overview

# Canada

# Trend Report



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# H1 2018

## Data analysis

### Canadian activity down in H1, though Q2 boosted slightly by Energy, Mining & Utilities (EMU) and Private Equity (PE) Activity

Canada saw 276 deals worth a combined US\$ 46.7bn in H1 2018, down 17.3% in value with 40 fewer deals compared to the same period last year (316 deals, US\$ 56.5bn). Despite a significant decline in count, the second quarter saw a 50.2% increase in value from the first quarter with 125 deals worth US\$ 28bn, versus 151 deals worth US\$ 18.7bn in Q1.

Deal count in Q2 also saw the number of deals over US\$ 1bn more than doubling to 11 worth US\$ 22.3bn compared to five worth US\$ 10.8bn in Q1. The increase was led by EMU in Q2. PE and inbound deals also grew in value in Q2, largely due to Macquarie's sale of waste management and infrastructure implementation company GFL Environmental to BC Partners for US\$ 5.1bn, H1's top deal. (Mergermarket, part of Acuris Global, is a portfolio company of BC Partners.)

#### EMU Back on Top, Yet Still Down

The EMU sector saw 53 deals worth US\$ 17bn, down 52.6% in value with 17 fewer deals compared to the same period last year (70 deals, US\$ 35.9bn). The sector regained its top position in Q2 with 30 deals worth US\$ 12.5bn, almost triple Q1's value, which saw 23 deals worth US\$ 4.5bn. Q2 activity was led by the Canadian government's acquisition of the Trans Mountain Pipe Line Company from Kinder Morgan Canada for US\$ 3.5bn.

The Industrials and Chemicals (I&C) sector saw 34 deals worth US\$ 6.7bn in H1 2018, up 200% by value with five fewer deals.

The aforementioned BC Partners/GFL transaction was the largest private equity exit and second-largest buyout in Canada on *Mergermarket* record (since 2001), and is the largest deal in the Canadian I&C sector since the acquisition of agricultural company Agrium by Nutrien in 2016 for US\$ 18.4bn.

Pharma, Medical & Biotech (PMB) saw 23 deals worth US\$ 3.8bn in H1 2018, up 90.6% by value with four fewer deals compared to the same period last year (27 deals, US\$ 2bn). Consolidations in the medical cannabis industry have increased prior to legislation to be adopted in the second half of the year. The sector's deal value in H1 was driven by Aurora Cannabis' acquisition of MedReleaf Corp for US\$ 2.2bn in May.

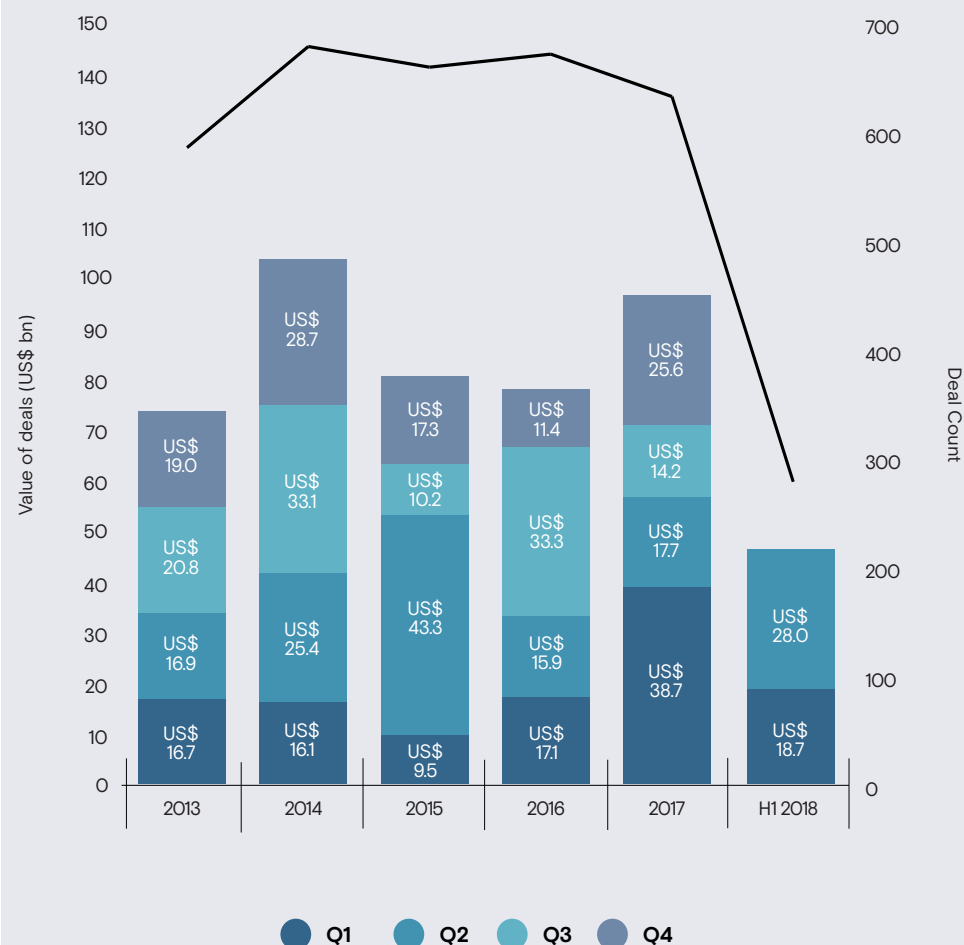
#### Outbound Activity Still Greater than Inbound

In terms of cross-border activity, outbound M&A has continued to be larger than inbound, with 156 outbound deals worth US\$ 36.1bn announced so far this year, and 111 inbound deals worth US\$ 17.7bn. Outbound values in H1 decreased 26.3% with two fewer deals than H1 2017 (164 deals, US\$ 48.9bn). Inbound activity also saw a decrease of 5.4% with 38 fewer deals over the same period (149 deals, US\$ 18.7bn). Outbound M&A has been declining since peaking in 2016 with US\$ 79bn worth of deal activity.

#### Private Equity Activity Increasing

Canada saw 41 buyouts worth US\$ 9.9bn in H1 2018, up 52% in value with two fewer deals compared to H1 2017 (43 deals, US\$ 6.5bn). Q2 saw the largest buyouts in Canada by value on record with 23 deals worth US\$

Canada Quarterly Breakdown Trend 2013-H1 2018



# Data analysis continued

8.5bn. Exits reached the highest H1 value on record with 22 deals worth US\$ 7.8bn, up 10.7% by value with 11 fewer deals than H1 2017 (33 deals, US\$ 7.1bn).

### Cannabis Still Hot

In the last few weeks of H1 2018 the Canadian Government passed Bill C-45 Cannabis Act and Prime Minister Justin Trudeau set the legal recreational cannabis date as 17 October 2018. The bill had been expected to come into effect in July of this year.

The top industry acquirers were Aurora Cannabis, Canopy Growth, and Aphria. Aurora closed its acquisition of CanniMed Therapeutics at the end of Q1. In May, Aurora agreed to acquire rival MedReleaf for US\$ 2.2bn, a new record value in the industry. Aurora [TSE:ACB]'s stock price has increased significantly in the past year, from CAD 2.13 in July 2017 to a peak of CAD 14.79 in late January 2018 before settling down to its current price CAD 9.43.

While Aurora has chased the larger consolidations between Canadian cannabis companies, Canopy Growth has adopted a different strategy - buying smaller companies or stakes at lower valuations. In H1, Canopy bought three companies worth US\$ 110m, and in early July announced it would acquire Canadian cannabis producer and seller Hiku Brands Company for US\$ 223m.

The deal for Hiku Brands is the company's largest acquisition since it bought Medical Cannabis producer Mettrum Health Corp in 2016 for US\$ 320m. Canopy plans to finance this acquisition entirely through equity,

and the inclusion of Hiku brands will help the combined entity expand with expected demand growth as well as provide a network of licensed cannabis retail stores. Canopy, one of the few US-listed cannabis firms [NYSE:CGC], has seen its stock price grow by more than 4x in the past 12 months, from US\$ 6.13 to US\$ 29.29.

Aphria announced two deals in H1 worth US\$ 680m and two divestments of US cannabis companies for US\$ 43m. Aphria [TSE:APH] has experienced a volatile TTM, increasing from CAD 5.35 to a mid-year peak of CAD 22.19 before levelling off to CAD 11.87.

### Quebecor Returns to Full Ownership

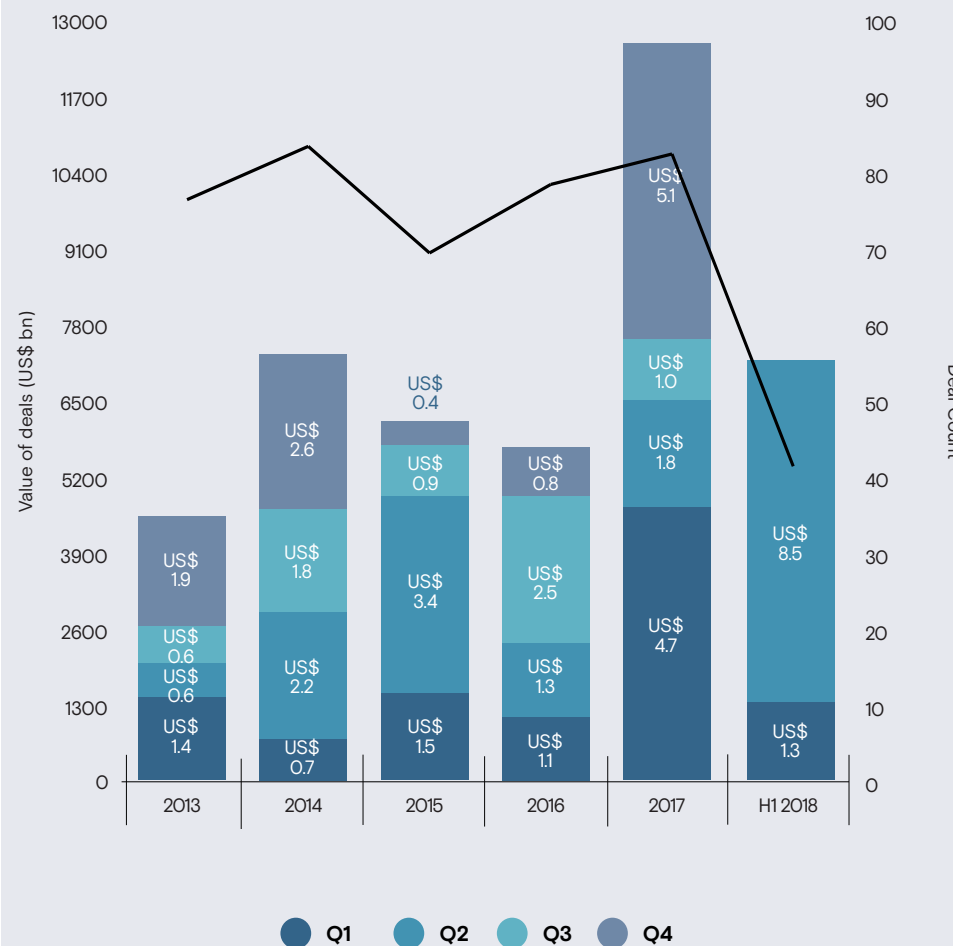
Media saw 10 deals worth US\$ 1.7bn, an almost 12x increase in value with four more deals in H1 2018 over the same period last year (6 deals, US\$ 145m). Activity was heightened by Quebecor's bid of Caisse de Depot et Placement du Quebec's remaining 18.5% stake in Quebecor Media for US\$ 1.3bn.

Since 2012 CDP du Quebec has sold off portions of their stake in Quebecor Media to Quebecor Inc over two other transactions: a 20.6% stake (US\$ 1.5bn) in 2012 and a 7% stake (US\$ 377m) in 2015, according to Mergermarket data. This third deal returns full ownership back to Quebecor Inc and completes the repurchase of share capital after the Canadian institutional investor acquired 43.3% stake to finance Quebecor Media's purchase of Videotron back in 2000.

### Stars' Gamble on Sky

Also on the Media front, is Sky Plc reaping the rewards of a high multiple, or are they

Canada Quarterly Buyout Breakdown Trend 2013-H1 2018



## Data analysis continued

trying to divest in order to clean things up for the potential Comcast/Disney regulatory approval? Another transaction of note was the announced acquisition of Sky Betting and Gaming by Stars Group from CVC Capital Partners and Sky Plc for US\$ 5.6bn. The deal represents a profitable exit by CVC which acquired 80% of Sky Betting and Gaming in 2015 for US\$ 940m. In this most recent transaction, Sky Plc announced it would sell its remaining 20% stake in Sky Betting and Gaming. The UK-based broadcasting company is currently the target of a bidding war between Comcast, Disney, and 21st Century Fox, and is waiting to clear regulatory hurdles.

### *Mega-deals Attract Mega-bidders*

Another key trend that emerged in the first half of 2018 was activity from the Canada Pension Plan Investment Board, which was a highly active bidder in H1 2018. The pension fund participated in nearly US\$ 40bn worth of announced deals, including six in the Energy sub-sector in both Canada and India for a combined value of US\$ 6bn. The fund is participating as a co-bidder in two mega-deals (>US\$ 10bn) announced in the first half of the the year: the acquisition of a 55% stake in Thomson Reuters Corporation's Financial & Risk business and the acquisition of an undisclosed stake in Ant Financial for US\$ 17bn. Though the fund was involved in a number of Energy deals, overall its investments were diverse in terms of sectors and geographies.

### *Overall Uncertainty Going Forward*

In sum, despite an increase in Q2, Canadian M&A overall appears to be trending downward as of H1 2018 compared to the same period in 2017. This year has to date been one of outliers, with a small number of high-value deals driving macro trends to be skewed slightly, while historically active sectors, such as EMU, have seen a decline. With tariffs between Canada and the US announced late in the second quarter, as well as the prospect of a trade war looming, there is uncertainty about how regional M&A will be impacted going forward.

**“A small number of high-value deals have been driving macro trends in Canada. With tariffs between the US and Canada announced late in the second quarter, as well as looming a trade war, there is uncertainty about how regional M&A will be impacted going forward.”**

## Top deals

Deal Details					Advisor details			
Value (US\$ m)	Announcement date	Target	Bidder	Seller	FA to sell-side	LA to sell-side	FA to buy-side	LA to buy-side
5,125	22-Apr-18	GFL Environmental Inc (Industrials & Chemicals)	BC Partners Limited (UK); and Ontario Teachers' Pension Plan (Canada)	Macquarie Group Limited (Australia); Hawthorn Equity Partners (Canada); and HPS Investment Partners LLC (USA)	Barclays; BMO Capital Markets; CIBC World Markets; Goldman Sachs & Co; RBC Capital Markets; Macquarie Group	Cleary Gottlieb Steen & Hamilton; Stikeman Elliott; Blake Cassels & Graydon	Citi; Scotiabank	Osler Hoskin & Harcourt; Simpson Thacher & Bartlett
4,589	15-Feb-18	Canadian Real Estate Investment Trust (CREIT) (Real Estate)	Choice Properties Real Estate Investment Trust (Canada)		RBC Capital Markets	Blake Cassels & Graydon	TD Securities	Torys
3,464	29-May-18	Trans Mountain Pipe Line Company Ltd (Energy, Mining & Utilities)	Government of Canada (Canada)	Kinder Morgan Canada Ltd (Canada)	TD Securities	Blake Cassels & Graydon; Weil Gotshal & Manges; <i>Advising FA:</i> Osler Hoskin & Harcourt	Deloitte; Scotiabank	Borden Ladner Gervais; Sidley Austin
2,863	9-Jan-18	Pure Industrial Real Estate Trust (Real Estate)	Blackstone Property Partners (US)		BMO Capital Markets; Greenhill & Co	Goodmans; <i>Advising FA:</i> McMillan; Torys	Citi; RBC Capital Markets	Osler Hoskin & Harcourt; Simpson Thacher & Bartlett; Stikeman Elliott
2,194	14-May-18	MedReleaf Corp (Pharma, Medical & Biotech)	Aurora Cannabis Inc (Canada)		Canaccord Genuity; GMP Securities	Davies Ward Phillips & Vineberg; Stikeman Elliott	BMO Capital Markets	McMillan

## Criteria

All data is based on transactions valued over US\$ 5m and is based on Mergermarket's M&A deals database. Deals with undisclosed deal values are included where the target's turnover exceeds US\$ 10m. Deals where the stake acquired is less than 30% will only be included if the value is greater than US\$ 100m.

Click [here](#) for the full deal criteria.

**M&A trend:** Based on the dominant geography of the target company being Canada. All trend data excludes lapsed and withdrawn bids.

**Cross-border M&A:** Inbound refers to the dominant geography of the target company being Canada, and the dominant geography of the bidder being any other country excluding Canada. Outbound refers to the dominant geography of the bidder company being Canada, and the dominant geography of target being any other country excluding Canada. Excludes lapsed and withdrawn bids.

**Top deals:** Based on the dominant geography of the target company being Canada. FA refers to financial advisor. LA refers to legal advisor. Excludes lapsed and withdrawn bids.

**Industry analysis:** Based on the dominant sector and geography of the target company. Excludes lapsed and withdrawn bids.

**League tables:** Based on the dominant geography of target, bidder or seller being Canada. The financial advisor tables exclude lapsed and withdrawn bids. The legal advisor tables include lapsed and withdrawn bids.

All values are in US\$.  
Data correct as of 02-Jul-2018.

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