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# ***PwC Capital Markets Flash***

Notable economic news,  
deals and capital raises

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	Current Reading	Movement since Jan. 20	5-Year Moving Avg	10-Year Moving Avg
CDN\$/US\$	\$1.001	▲	\$0.951	\$0.861
Gold (\$/oz)	\$1,759	▲	\$1,087	\$760
Copper (\$/lb)	\$3.818	▲	\$3,253	\$2,397
S&P 500	1,326	▲	1,208	1,168
S&P/TSX	12,553	▲	12,254	10,659
CBOE VIX	18	▼	26	22
TED Spread	4.54%	▼	6.98%	4.85%
MSCI Emerging Markets Index	1,030	▲	972	742
Baltic Dry Index	662	▼	4,005	3,521
WTI Crude Oil	\$96.36	▼	\$82.50	\$63.69
St. Louis Financial Stress Index	0.51	▼	0.88	0.29
Markit ITraxx SovX Western European Index	91.49	▲	95.56	95.56

## ***Highlights***

Since our last release, key indicators have largely continued to trend upwards, with the exception of West Texas Intermediate Crude and the Baltic Dry Index. The Canadian dollar ventured above parity for the first time in 2012, a level not seen since late October 2011, while gold and copper both continued their advances, having increased more than 10% since the start of the year. The economic outlook continues to be mixed going forward, with signs of stability in North America that will likely support a steady deal market for Canadian dealmakers. Our roundup this issue includes some recently released economic news from the tail end of 2011 along with guidance from the Federal Open Market Committee (FOMC) on interest rate expectations into 2014. On the deals front, energy and mining have continued their strong start to 2012, while the TSX get sets to lose the last of its listed semiconductor manufacturers. Finally, our capital raises saw a return to the high yield market in Canada with companies across a diverse array of industries strengthening their balance sheets.

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# *Notable economic news*

## IMF revises 2012 global growth estimates

On January 24, the International Monetary Fund (IMF) revised its projection for global growth in 2012 downward to 3.25% from the 4% announced in its September 2011 World Economic Outlook. The Fund said that the lower forecast is largely due to “the euro area (which is) now expected to go into a mild recession in 2012 as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation.”

## China's economy continues expanding, but rate of growth slows

According to the Chinese government, the country's economy grew by 9.2% in 2011. While the rate of growth remains remarkably high, the reading is significantly lower than the 10.4% reported in 2010. Looking forward, ongoing economic uncertainty in Europe and other advanced economies may continue to put a dent on Chinese exports and overall economic activity.

## US economic growth revisits mid 2010 showings

The US economy advanced at an annualized rate of 2.8% in the fourth quarter of 2011, its best quarterly showing since mid 2010. The increase in real economic activity was mainly driven by inventory investment, which contributed 1.9 percentage points to overall growth, a modest increase in consumer spending, and a strong rebound in residential investment. With this first estimate of Q4 2011 growth, real GDP was up 1.7% in 2011, well below the 3% increase observed in 2010.

## Canadians price growth moderates

In Canada, consumer prices climbed 2.3% in December, 2011 year-over-year, down from the 2.9% increase observed in the prior month. The slower pace of growth in headline inflation is largely explained by a more modest increase in gasoline prices, which rose 7.6% in the 12 months to December compared to 13.5% in the month before. The Bank of Canada's core inflation, which excludes volatile energy and food prices, also edged down slightly to 1.9% from the 2.1% registered in November.

## US policy rate laying low to late-2014

As expected, the Federal Open Market Committee (FOMC) left the policy rate unchanged at between 0 and 0.25% in its meeting on January 25, 2012. The FOMC said the policy rate is likely to remain exceptionally low through late-2014, 18 months longer than previously announced in December, 2011, as the economy continues to expand at a moderate pace, employment continues its gradual recovery, and inflation expectations remain contained. The yield curve remains flat, with the 10-year Treasury note continuing to clear the market under 2%.

## 2011 US housing a roller coaster ride

The US housing market sent mixed signals in December, 2011. On the one hand, new home sales unexpectedly fell 2.2% taking the annualized rate down to 307,000 units, well below the 320,000 analyst consensus. In addition, the median price for new homes posted a 12.8% decline year-over-year, marking the largest decline of the recovery. On the other hand, sales of existing homes surged 5% to 4.61 million in December. As a result supply dropped to 6.2 months, the lowest reading since 2006. Canadian housing continues to defy expectations. Despite repeated warnings of a correction, there is no evidence of a softening housing market in Canada as yet.

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# Notable deals

## Pembina expands growth prospects with Provident

Pembina Pipeline announced the acquisition of Provident Energy in an all-share deal valued at \$3.2 billion that will create a leading North American infrastructure company. Based on the 20-day weighted average trading price of the shares of each company, the exchange ratio of 0.425 Pembina shares for each Provident share represents a 26% premium for Provident shareholders. While Pembina focuses on crude extracted from the oil sands, Provident focuses on natural gas liquids. Doug Haughey, president and CEO of Provident said the transaction “...*generates substantial value for Provident shareholders and brings together two organizations with complementary strategies and assets.*” With little overlap between the two businesses, Provident’s natural gas liquids business will allow Pembina to expand growth prospects. With natural gas futures continuing to trade at low prices due a glut in supply, this deal is just the latest in a multi-year consolidation of North American natural gas focussed assets. This is also the largest transaction announced in Canada year-to-date.

## Finning digs deep for the future

Finning International acquired the distribution and support business in portions of South America and Western Canada and in the UK formerly operated by Bucyrus from Caterpillar Inc. for \$465 million in cash. The acquisition of facilities and inventory is primarily in resource rich mining territories and in a sector which Finning believes will contribute new revenue opportunities and long-term growth potential for the company. Finning intends to fund the purchase through the issuance of term debt in Canada and the US. Mike Waites, Finning president and CEO said “*The acquisition of the Bucyrus distribution business is a major strategic milestone for Finning that will expand our leadership position in the growing mining sector and deliver greater value for our customers and shareholders.*” The deal continues a trend discussed in PwC’s look back at M&A in 2011 of Canadian entities being active buyers of carve outs. For more information, please refer to our recently released Deals Quarterly at [www.pwc.com/ca/quarterlydeals](http://www.pwc.com/ca/quarterlydeals).

## Healthcare sees both inbound and outbound activity

The healthcare space saw a flurry of transactions all announced within a short timeframe that began with Domtar’s acquisition of privately-held Attends Healthcare Limited (“Attends”) for €180 million. Attends, a manufacturer and supplier of adult incontinence care products in Europe, was acquired from UK-based mid-market private equity firm Rutland Partners for €180 million. That deal announcement was followed by one a few days later where US-based McKesson Corporation, which already had a presence in Canada, signed an agreement to purchase Drug Trading Company (“Drug Trading”) and Medicine Shoppe Canada (“Medicine Shoppe”), both from privately owned Katz Group for approximately \$920 million. Drug Trading was the independent banner business of Katz Group while Medicine Shoppe was the franchise business of Katz Group. Finally, Telus announced the acquisition of Wolf Medical Systems. Wolf Medical is a cloud-based electronic medical records provider and the acquisition by Telus is expected to allow service providers greater access to electronic records through Telus’ secure, wireless and wireline broadband communications networks. Financial terms of this last transaction were not disclosed.

## Crescent Point harnesses Wild Stream

Crescent Point Energy (“Crescent Point”) announced the acquisition of Wild Stream Exploration (“Wild Stream”) in an all stock deal valued at approximately \$611 million, based on a five-day weighted average trading price of Crescent Point Shares. The deal values each share of Wild Stream at \$9.37 per share, a 3% premium to Wild Stream’s five-day weighted average trading price. Under the terms of the agreement, Crescent Point will acquire 84% of Wild Stream’s production with the balance being transferred into a new junior exploration company in which Crescent Point will hold 2.65 million shares. For Crescent Point, the deal is expected to increase production to 83,500 boe/d from 80,000 boe/d. The majority of Wild Stream’s assets are in close proximity to those of Crescent Point and the successful completion of the Wild Stream Arrangement is expected to further solidify Crescent Point’s position as the largest player in the Shaunavon resource play in southwest Saskatchewan, in terms

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of production and land. The transaction reinforces comments made by PwC during our provincial analysis last October regarding the economic strength of Saskatchewan as we add oil and gas to the list of highly coveted resources the prairie province is home to, namely uranium, potash and farm land.

## Genum reaches across the border and snaps up Semtech

Genum Corp., a Canadian-based leading supplier of high speed analog and mixed-signal semiconductors for the optical communications and video broadcast markets, agreed to be acquired by US-based Semtech Corp. for \$500 million. At \$13.55 per share, the announced offer is at a premium of more than 120% over Genum's closing price to the day prior to the announced transaction. Genum designs and sells products that enable video, data and multimedia content to be transmitted at high speed over long distances, while maintaining signal integrity and eliminating the potential for errors in transmission. Genum president and CEO Franz Fink said "*...we are convinced that this is the best avenue to unlock the underlying value for shareholders.*" Genum was the last semiconductor manufacturer listed on the TSX after the announced acquisition of Zarlink Semiconductor in October 2011.

# Notable capital raises

## Full steam ahead on Detour Lake

Detour Gold announced a bought deal offering of 8.6 million common shares at \$28 per share for gross proceed of \$240.8 million. The syndicate of underwriters has the option to upsize the offering by up to 1.29 million common shares for additional gross proceeds of up to \$36.1 million. The company intends to use the net proceeds to complete the construction of its Detour Lake gold project, which is estimated to cost \$1.45 billion, in addition to conducting economic studies at another related site.

## Brookfield frees up cash for acquisition hunt

Brookfield Asset Management ("Brookfield") and Brookfield Renewable Energy Partners ("Brookfield Renewable") announced a bought deal secondary offering to sell 11.43 million units of Brookfield Renewable at a price of \$26.25 per unit for gross proceeds of \$300 million. The sale of units will reduce Brookfield's stake in its subsidiary from 73% to 68% with the proceeds adding to its war chest while it hunts for acquisition targets.

## Garda adds fuel for future growth

Garda World Security announced a high yield debt offering of senior unsecured notes in the amount of \$50 million, with the net proceeds to be used to reimburse a significant portion of its banking debt. Garda CFO Patrick Prince said "*We have taken advantage of favorable market conditions to generate funds to fuel our future growth.*" The notes will be issued at a price of 102% of their principal amount and carry a yield to maturity of 9.25% per year. The five-year issue was priced at a premium of 797 basis points above the comparable Government of Canada bonds. The note was rated B2 by Moody's.

## PetroBakken upsizes first offering

PetroBakken Energy Ltd. ("PetroBakken") completed the private placement offering of US\$900 million of senior unsecured notes for net proceeds of approximately US\$875 million. The notes, bearing interest at 8.625% and due in 2020, were priced at a discount of 99.75 to yield 8.713%, a premium of 714 basis points over the comparable Government of Canada bonds. Proceeds from the offering are being used to repurchase and cancel US\$450 million of convertible debentures. The offering was upsized by \$150 million as this was the first issuance from the Calgary-based oil and natural gas exploration and production company.

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## Cash Store sets sights on loans receivable assets

The Cash Store Financial Services completed the private placement of \$132.5 million aggregate principal 11.5%, five-year senior secured notes that will be issued at a price of 94.608%. The notes will be fully and unconditionally guaranteed by all of the company's subsidiaries. The company intends to use the net proceeds of the offering to purchase loans receivable assets from the company's current third-party lenders and for general corporate purposes. Gord Reykdal, Chairman and CEO commented: *"The financial flexibility offered by the notes will ... support future loan growth associated with the maturing of our branches and our expansion plans."* The notes were rated CCC+ by S&P and Caa1 by Moody's.

# Deals

## Achieving deal success— from concept to close and beyond

[www.pwc.com/ca/deals](http://www.pwc.com/ca/deals)

The PwC Deals Team helps clients raise capital and complete acquisitions, divestitures, or strategic alliances. We add value across the entire deal spectrum, from concept to close and beyond, by:

- developing your deal strategy;
- managing your go-to-market strategy;
- presenting your deal to the right targets, partners and capital providers, across the globe;
- supporting your deal with due diligence, valuation, integration and tax advisory services; and
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In addition to the endnotes, sources may include: The Associated Press, Barrons, Bloomberg, BMO Capital Markets, Business Standard, Canada Stockwatch, Capital IQ, CIBC World Markets, Conference Board of Canada, The Economist, Eurasia Group, The Financial Post, The Financial Times, FT Alphaville, The Globe and Mail, Goldman Sachs, International Monetary Fund, International Trade Suite, Marketwatch, McKinsey Quarterly, Moody's, mergermarket, National Bank, National Post, New York Times, PR newswire, RBC Capital Markets, Reuters Loan Connector, S&P LCD, Scotiabank, Seeking Alpha, Standard and Poors, Stikeman Elliot, TD Newcrest, TD Securities, TMX Group, The TMX MiG Report, Toronto Dominion Bank, Torys LLP, United Nations, VC Circle, Wall Street Journal, The Washington Post, William Blair & Company LLC, Zero Hedge, Saskatchewan Trade and Export Partnership, Globalventures Magazine.

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