

Capital Markets Flash

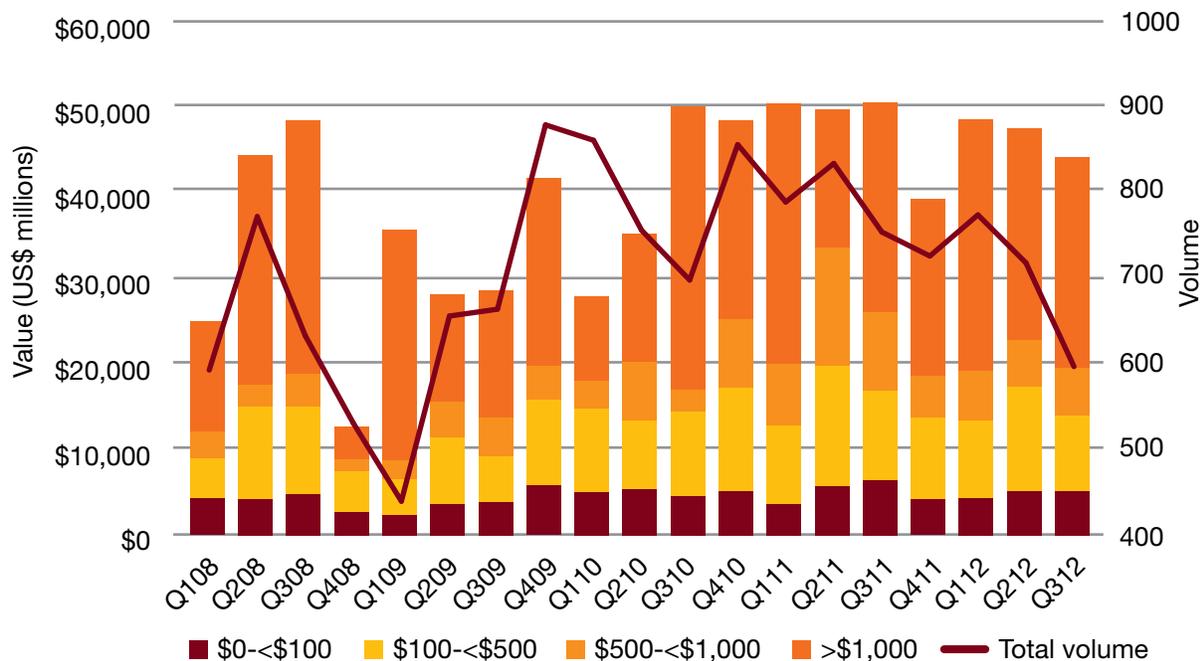
Q3 Canadian M&A Deals
Quarterly
Volume 5 Issue 13

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Q3 Canadian M&A Deals Quarterly

91 days, 599 deals, \$59 billion

Quarterly Canadian M&A volume & value



Source: S&P Capital IQ, PwC analysis

Deal volumes at lowest level since 2009; deal values near 2007 record

Q3 2012 saw 599 announced Canadian M&A transactions worth \$58.6 billion. Volumes were down 17% from Q2 2012 and 21% from the same period last year. Conversely, deal values surged 23% over the prior quarter and 16% over Q3 2011. This divergent behaviour is due to the pending \$19 billion acquisition of Nexen Inc. (Nexen) by China National Offshore Oil Company Limited (CNOOC). Excluding this transaction, deal values would have declined 17% from Q2 2012 and 22% from the same period last year.

Media sector makes a rare appearance in the top five, PEs focus on industrials

As expected, the mega deal between Nexen and CNOOC propelled energy to the top of the five most targeted industries in Canadian M&A, unseating real estate from its Q2 perch. Also contributing to energy's outperformance was the acquisition of a 49% stake of Talisman's UK North Sea business by China's top refiner Sinopec Corp. Announced the same day as the Nexen/CNOOC transaction, the deal allows Talisman to deliver on two key priorities: further focus on growth areas within their portfolio, and generate shareholder returns through the repurchase of shares.

Media made a rare appearance in the top five targeted industries on the strength of CPP Investment Board's (CPPIB) consortium purchase of Suddenlink Communications (Suddenlink) and Cogeco Cable Inc.'s (Cogeco) acquisition of Atlantic Broadband (Atlantic).

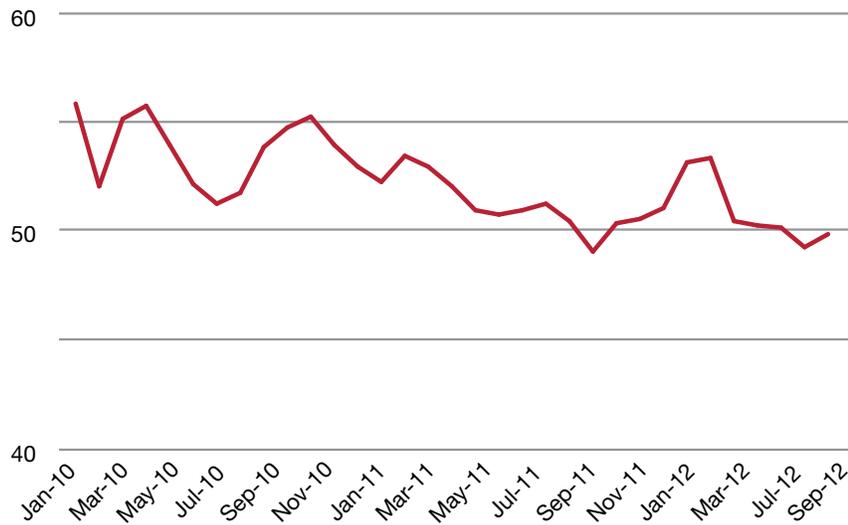
Industrials also pushed their way into the top five targeted industries on the strength of four transactions valued at over \$1 billion. Private equity and pension funds were especially active in the industrial segment, as they were involved in five of the top six transactions in the sector. CPPIB and Onex Corporation (Onex) were among the buyers while La Caisse de dépôt et placement du Québec was one of a group of investors that sold a combined 20% stake in the owner of London's Heathrow Airport to Qatar Holding LLC, the investment arm of Qatar's sovereign wealth fund, for \$1.4 billion.

Top targeted industries in Canadian M&A (by value)

2011		Q1 2012		Q2 2012		Q3 2012	
Industry	Market Share	Industry	Market Share	Industry	Market Share	Industry	Market Share
Metals & Mining	19%	Energy	28%	Real Estate	19%	Energy	40%
Energy	16%	Agribusiness	15%	Energy	19%	Media	16%
Real Estate	16%	Real Estate	13%	Software and Services	12%	Industrials	12%
Diversified Financials	12%	Metals & Mining	9%	Utilities	11%	Real Estate	7%
Industrials	9%	Utilities	7%	Retailing	8%	Financials	7%

Source: S&P Capital IQ, PwC Analysis

China PMI

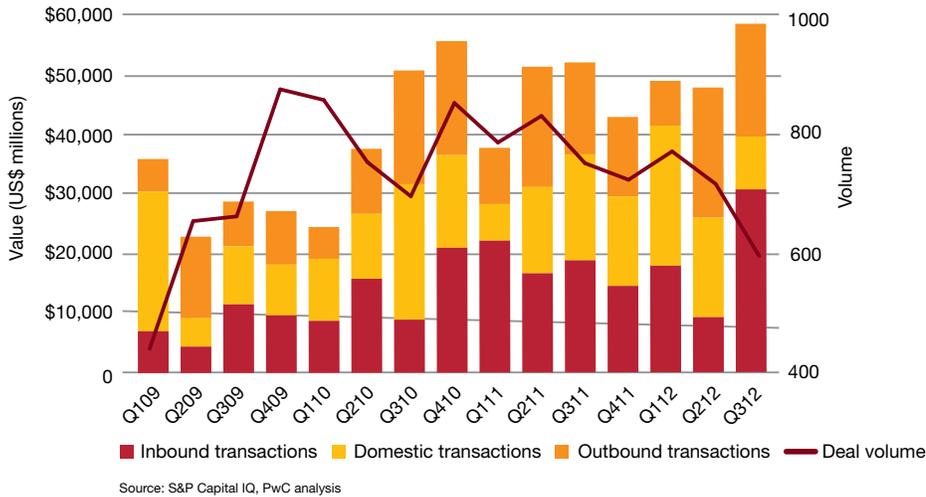


Source: Bloomberg

Taking a closer look at the top targeted industries by value from 2011 to the end of Q3 2012, it is interesting to note the change in ranking of mining & metals. It has fallen from its peak as being the most targeted industry in 2011 to not even appearing as a top industry in the second and third quarters of this year. During PwC's recently released [Global mining deals 2012 mid-year update](#), we commented that global mining M&A deal volume fell 31% in the first half of the year while deal value (excluding the mega merger between Glencore and Xstrata) would have been down almost 67%.

The demand for commodities is being heavily impacted by slowing growth in China. China's Purchasing Managers' Index (PMI), which is a barometer for the economic health of the manufacturing sector, stood at 49.8 at the end of September. A reading under 50 represents contraction in the manufacturing sector. This is the second consecutive month the reading has been below 50 and the sixth consecutive month of a decline in value. A slowing Chinese economy could have significant repercussions for M&A in the commodities sector considering the level of demand for resources that emanates in China. As an example, it is estimated that China's share of global copper demand is approximately 40%. The value of M&A in the mining and metals sector is likely to experience significant fluctuations as the impacts of a potential slowdown in the Chinese economy are reassessed.

Quarterly Canadian M&A activity



Hollowing out? It depends on your perspective

For the first time since Q1 2011, the value of inbound activity outpaced both outbound and domestic activity combined. Inbound activity, where foreign buyers target Canadian assets, surged 235% over the second quarter and was up more than 64% compared to the prior year. The trend was rather misleading as the Nexen/CNOOC transaction accounted for over 62% of all inbound dollar values. Absent this transaction, foreign acquisitions of Canadian assets would still have registered a respectable 26% quarter over quarter increase, while dropping 38% year over year. Notable inbound transactions included:

- Garda World Security Corp (Garda) agreed to be acquired by a consortium led by Apax Partners (Apax) and Stephan Cretier, founder, chairman and CEO of Garda, for \$1.1 billion. Garda, which is one of the leading security solutions and cash logistics firms in the world, felt that it could more efficiently pursue its growth strategy as a private company. Mr. Cretier said “With Apax becoming a major shareholder, Garda will have access to a more flexible and efficient structure to fuel its growth.”
- Houston based FMC Technologies (FMC) acquired Calgary based Pure Energy Services Ltd. (Pure) for \$285 million in cash. Pure is an oilfield services company that provides drilling assistance to companies that use hydraulic fracturing to extract oil and gas from shale formations in Western Canada and the United States. John Grempe, FMC’s chairman and CEO, said the acquisition is “...consistent with our strategy to grow shale related businesses.” He added “By combining the products and services of both companies, we will provide an integrated well site solution which creates client value.”



Canadians continue to focus on foreign markets; Gaze turns south

Foreign acquisitions by Canadian entities continued to be strong, totalling \$18.9 billion in Q3 2012, a modest decline of 13% compared to Q2 but still 23% ahead of the tally from Q3 2011. On the other hand, domestic M&A activity slumped 47% from Q2 and 50% when compared to the same period last year.

While Europe was the place to be in Q2, the US replaced Europe as the dominant target for Canadian suitors with over \$13.8 billion, or more than 73% of Canadian outbound acquisition dollars heading south of the border. Two of the four largest acquisition targets were cable service providers, while real estate and metals & mining remained the two most targeted sectors by volume. Notable transactions included:

- On July 18, 2012, CPPIB joined up with BC Partners and the management team of Suddenlink to purchase the company for \$6.6 billion. Suddenlink is the seventh-largest cable system operator in the US and is one of the fastest growing cable operators in the US. André Bourbonnais, Senior Vice President, Private Investments at CPPIB said *“This represents a unique opportunity to acquire a leading cable operator that has consistently generated industry-leading results.”*
- Also on July 18, 2012, Cogeco announced the acquisition of Atlantic from a pair of private equity investors for \$1.4 billion. Atlantic is the 14th largest cable system operator in the US serving 252,000 customers. Louis Audet, President and CEO of Cogeco said *“This acquisition marks an attractive entry point into the US market*

for Cogeco Cable. There are sizable opportunities for growth including: increasing the penetration of the small and mid-sized business segment, and maximizing the bundling potential of services in the residential sector.”

- Onex announced it had agreed to acquire SGS International (SGS) for \$813 million. SGS is a global leader in design-to-print graphics services to the consumer products packaging industry and has a network spanning more than 100 customer locations across 14 countries. *“We’re delighted to be partnering with ... (the) management team to build on the company’s market leadership position through continued international growth and expansion into other complementary services,”* said David Mansell, an Onex Managing Director.

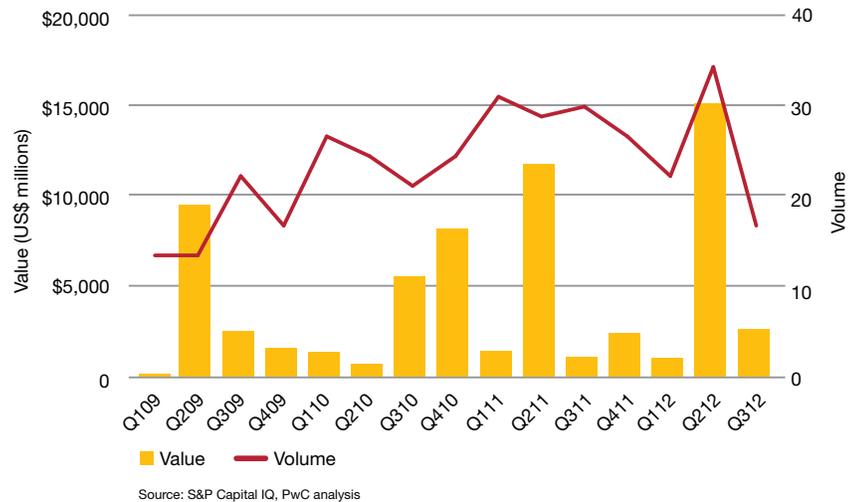
Europe still garners interest, but pace of activity slows

While Canadian acquisitions into Europe surged to a post crisis high in Q2 2012, activity on the continent during the third quarter saw a sharp dropoff as volume and value fell 50% and 83% respectively. While there were no mega deals announced this quarter (deals valued at more than \$1 billion), private equity and pension funds continued to be active as they were involved in more than 91% of all dollars invested on the continent during the quarter. Notable transactions included:

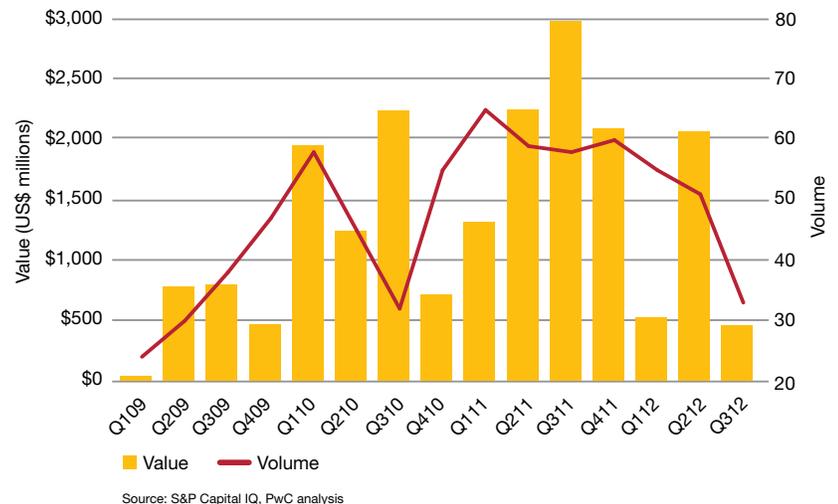
- Onex agreed to acquire KraussMaffei AG, a leading manufacturer of plastic and rubber processing equipment, for €568 million. This was the first European-based investment for Onex' flagship private equity fund, Onex Partners III. In what might be a harbinger of things to expect, Tony Morgan, a Managing Director in Onex' London office said *"I look forward to working with my colleagues to find similar investment opportunities as we build our business in Europe."*
- Teachers' Private Capital (Teachers'), the private equity investment division of Ontario Teachers' Pension Plan acquired a majority ownership stake in Helly Hansen Group AS for \$245 million. Jo Taylor, VP and head of Teachers' London office said *"We see excellent opportunities to continue growing revenues and international awareness outside the core European market."* She added *"Management has a clear and compelling vision for the business and we look forward to supporting their efforts to build a global success story."*

Canadian M&A activity in growth markets exhibited a similar trend to that of Europe as the volume and value of acquisitions fell 35% and 78% respectively. Even the metals & mining and energy sectors, which were the most targeted emerging markets sectors by Canadian companies, saw quarter on quarter declines in volume and value of 35% and 50% respectively. Without the relative strength of these two sectors, the comparison against the prior quarter would have been even more abysmal.

Canadian acquisitions in Europe



Canadian acquisitions in growth markets



Middle market restrained

The middle market segment, deals valued between \$100 and \$500 million, was subdued in the third quarter as the volume and value of deals dropped 27% and 28% respectively when compared with Q2. With just 37 announced deals at a combined value of \$8.9 billion, Q3 was the weakest quarter for the middle market since the second quarter of 2010.

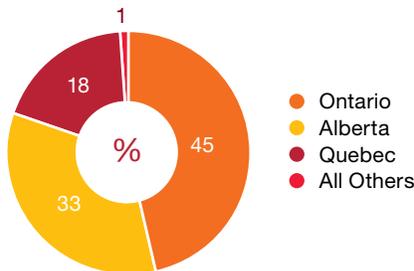
Middle market activity in the third quarter was mainly concentrated among the energy, metals & mining and real estate sectors, which represented a combined 65% and 70% of middle market deal volume and value. Owing in large part to a string of acquisitions in the oil patch, energy led the middle market with almost 30% of volume and nearly 25% of total middle market volume. Metals & mining, with 19% and 26% of volume and value, and real estate, with 16% and

19% of volume and value rounded out the top three. In terms of the top targeted provinces for middle market activity, Ontario, Alberta and Quebec led the way.

Notable middle market deals included:

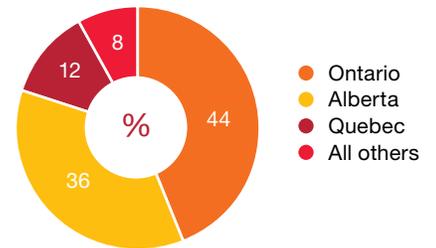
- Endeavour Mining (Endeavour) has agreed to acquire Avion Gold Corp (Avion) in an all share transaction valued at C\$389 million. The acquisition will allow Endeavour to continue to progress toward becoming a mid-tier gold producer as the combined entity will have increased geographic and operating diversification along with 300,000 ounces of annual gold production. Neil Woodyer, CEO of Endeavour, commented: *“The acquisition of Avion complements our strategy of becoming a leading and diversified West African gold producer.”*

Provincial middle market activity (by volume)



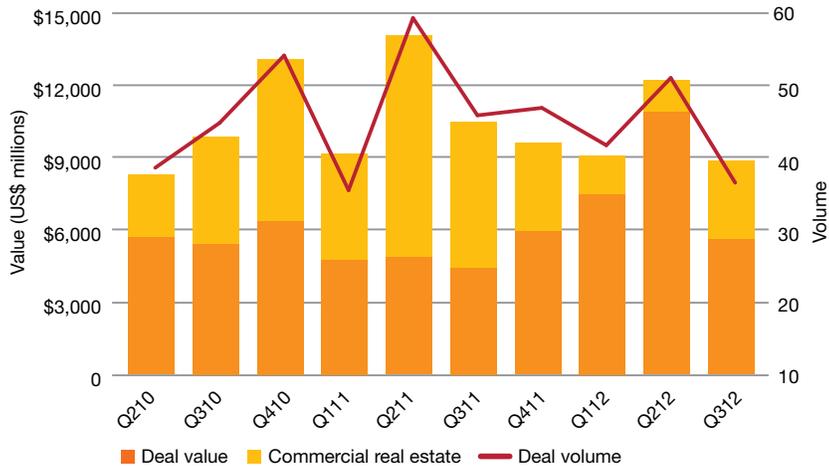
Source: S&P Capital IQ, PwC analysis

Provincial middle market activity (by value)



Source: S&P Capital IQ, PwC analysis

Middle market quarterly Canadian deal trend (\$100-\$500 million segment)



Source: S&P Capital IQ, PwC analysis

- Héroux-Devtek Inc. (Héroux-Devtek) sold substantially all of its aerostructure and industrial products operations to Precision Castparts Corp. (Precision Castparts) for \$300 million. The assets acquired by Precision Castparts include Héroux-Devtek's aerostructure manufacturing sites in Quebec, Mexico and Texas. Going forward, Héroux-Devtek will focus on growth opportunities in its core landing gear operations, leveraging its market leading position in the sector.
- RioCan Real Estate Investment Trust (RioCan) announced the acquisition of Georgian Mall from the Cadillac Fairview Corporation for C\$318 million. This acquisition will represent RioCan's largest and most prominent enclosed mall asset. With more than 150 stores and the potential to add further retail space on adjacent land, this property is expected to provide RioCan greater reach to its retail tenant base as well as prospective US retailers who are challenged in expanding to Canada due to a lack of desirable property locations. Edward

Sonshine, CEO of RioCan said "This acquisition represents an excellent opportunity to acquire the dominant regional mall, in a fast growing community with great potential to create additional value and enhance RioCan's existing retail portfolio."

While the level of activity in the middle market took a breather during the third quarter, it is important to highlight that, overall the middle market has been busy this year. Indeed, the drop of in activity is attributable to an absence of targets in the market, rather than an absence of demand for deals. Well capitalized corporates and PEs have continue their hunt for strong middle market tuck under deals.

As we head into the holiday season, dealmakers are hopeful the markets will rebound from a quiet summer and they have a number of reasons to be optimistic. Recent announcements by the US Federal Reserve of a new round of quantitative easing, QE3, and a pledge to keep interest rates low through mid-2015, should help to provide ammunition for an increase in M&A activity. Additionally, both equity and commodity prices have begun to rebound which usually gives a boost to market confidence. Combine all of that with a solid Spanish budget plan and a stimulus boost from the Chinese Central Bank and our prospects for a rebound in the M&A market are beginning to turn positive.



As Norman Cousins, a political journalist and world peace advocate once wrote:

“Optimism doesn’t wait on facts. It deals with prospects. Pessimism is a waste of time.”

Deals

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We look forward to your call.



Nicolas Marcoux

Canadian Deals Leader

nicolas.marcoux@ca.pwc.com

514 205 5302

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<p>Corporate Advisory & Restructuring Catalyst Paper Corporation</p> <p>restructuring advisory</p> <p>court appointed monitor</p>	<p>Infrastructure and Project Finance EPCOR</p> <p>selected as the successful bidder by the Alberta government for the Evan - Thomas Water & Wastewater Treatment P3 in Kanaraskis County, Alberta.</p> <p>financial advisory by</p>	<p>Corporate Advisory & Restructuring Kraus Group</p> <p>debt restructuring and sale to</p> <p>Hilco UK Limited</p> <p>debt advisor and court appointed receiver</p>	<p>Corporate Finance Timmermans Elevators Ltd.</p> <p>has been acquired by</p> <p>Hensall Direct Co-operative</p> <p>the undersigning acted as lead financial advisor to Timmermans</p>
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Contact us

PwC Deals Competency Leaders

Julian Brown

Canadian Corporate Finance** Leader
PricewaterhouseCoopers Corporate Finance Inc**
julian.s.brown@ca.pwc.com
416 687 8592

Helen Mallovy Hicks

Canadian Valuations, Forensics and Disputes Leader
helen.m.mallovy.hicks@ca.pwc.com
416 814 5739

Johanne Mullen

Canadian Infrastructure and Project Finance Leader
johanne.mullen@ca.pwc.com
514 205 5080

David Planques

Canadian Corporate Advisory and Restructuring Leader
david.planques@ca.pwc.com
416 815 5275

Dominic Ricketts

Canadian Transaction Services Leader
dominic.ricketts@ca.pwc.com
416 687 8408

PwC Deals Geography Leaders

Nicolas Marcoux

Canadian Deals Leader
nicolas.marcoux@ca.pwc.com
514 205 5302

Jim McGuigan

British Columbia Deals Leader
jim.j.mcguigan@ca.pwc.com
604 806 7594

Helen Mallovy Hicks

GTA Deals Leader
helen.m.mallovy.hicks@ca.pwc.com
416 814 5739

Miriam Pozza

Quebec Region Deals Leader
miriam.pozza@ca.pwc.com
514 205 5286

Clinton Roberts

Alberta Deals Leader
clinton.l.roberts@ca.pwc.com
403 509 7307

Author

Bradley Romain

bradley.romain@ca.pwc.com
416 687 8037

Editor

Vanessa Iarocci

vanessa.s.iarocci@ca.pwc.com
416 941 8352