

# DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



## Q1 2017 Mid-Market M&A Review

### MID-MARKET TRANSACTIONS IN NORTH AMERICA

North American mid-market M&A slowed slightly in the most recent quarter. Deal volume in Q1 2017 decreased 16% (834 deals in Q1 2016 to 700 transactions in Q1 2017) while the total value of transactions decreased 8% compared to Q1 2016.

Compared to Q4 2016, mid-market M&A activity in North America decreased 13% by volume and 4% in total value.

On a rolling twelve month basis, M&A activity in the North American mid-market continues at a healthy level, with total deal value in the last twelve months over \$340 billion. Despite the Fed's recent decision to raise federal interest rates, the overall cost of borrowing remains near historical lows which provides optimal financing conditions for continued M&A activity.

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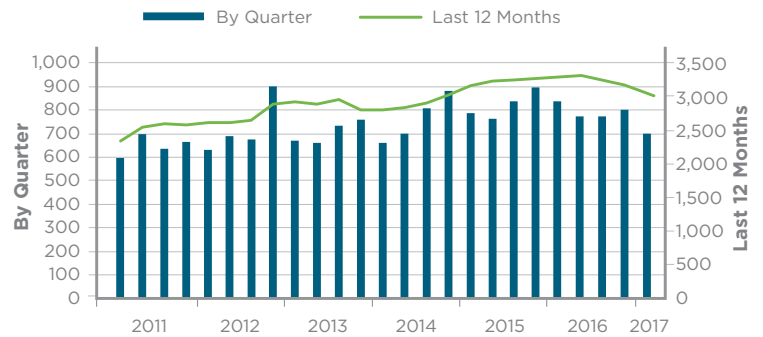
Q1 2017 Mid-Market M&A Review

Oil & Gas Market Update

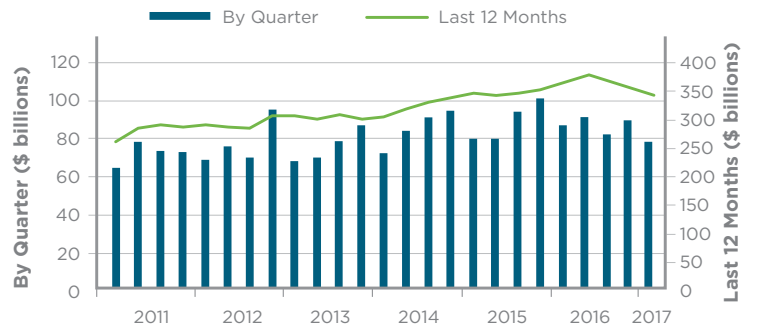
Emerging New Industry: Cannabis

### MID-MARKET ACQUISITIONS IN NORTH AMERICA (\$25 million - \$500 million)

#### Number of Transactions



#### Value of Transactions



Mergers & Acquisitions Review (continued)

## MID-MARKET TRANSACTIONS IN CANADA

Compared to Q1 2016, mid-market activity in Canada decreased marginally in Q1 2017; down 2% by volume and nearly 7% by value. A slowdown in deal activity in the mining & energy, and real estate sectors accounted for the majority of the reduction in deal value. In contrast, there has been a rise in deal activity within the tech, media & telecom sector.

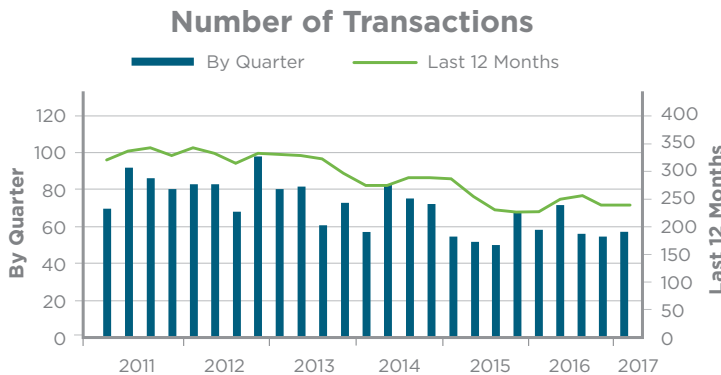
Canadian mid-market M&A activity increased 4% by volume and 3% in transaction value in Q1 2017 compared to Q4 2016.

## MID-MARKET TRANSACTIONS IN WESTERN CANADA

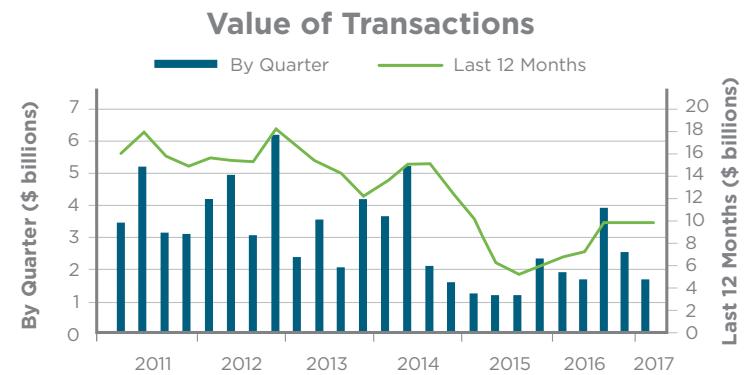
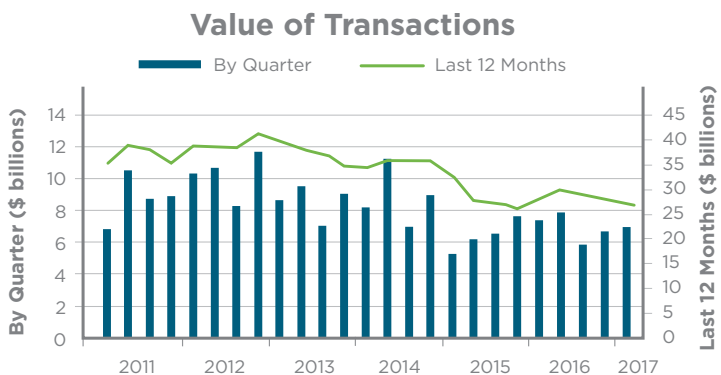
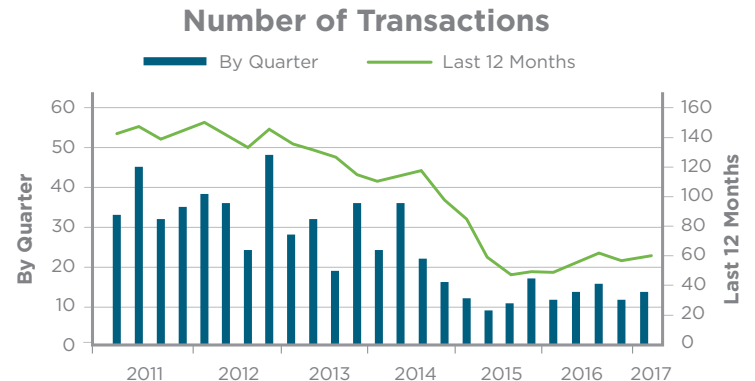
While mid-market activity in North America and Canada as a whole was down slightly in Q1 2017 versus prior quarters, deal activity within Western Canada showed a strong increase.

Compared to Q1 2016, mid-market transaction volumes increased 17% in Q1 2017 and transaction values dropped slightly given smaller average deal sizes. Compared to Q4 2016, Western Canadian mid-market M&A transaction volumes increased by 8%.

### MID-MARKET ACQUISITIONS IN CANADA (\$25 million - \$500 million)



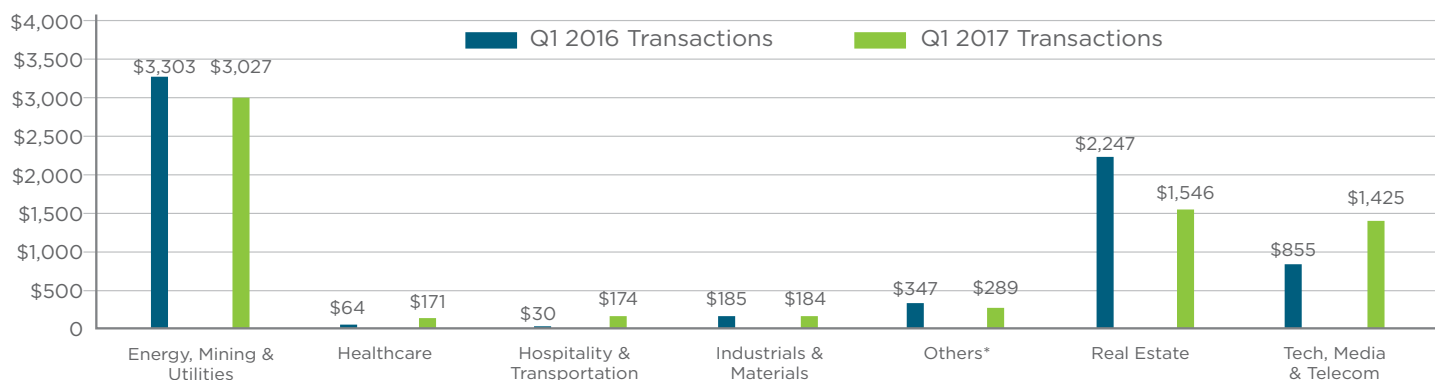
### MID-MARKET ACQUISITIONS IN WESTERN CANADA (\$25 million - \$500 million)



Mergers & Acquisitions Review (continued)

## CANADIAN DEALS BY INDUSTRY

### Q1 2017 vs. Q1 2016 Middle Market Transactions Value (\$billions)



\* Other includes Financials, Food & Beverage, Forestry & Paper Products, and Hospitality & Transportation sectors

By industry, M&A activity in the tech, media & telecom sector increased substantially; 67% on a year over year basis. Other sectors with increased activity in Q1 2017 were the hospitality & transportation, and healthcare industries. Sectors with declining deal activity in Q1 2017 include real estate, and energy, mining & utilities, decreasing by 31% and 8% respectively.

The top ten M&A deals in Canada in Q1 2017 involved several industry sectors, with energy, mining, & utilities, and consumer products & services being the most common. The largest deal in the table below was the acquisition of ConocoPhillips Canadian assets, making the Houston based company the latest international player to reduce its exposure to the Canadian oilsands.

### Top 10 Canadian Deals in Q1 2017

Date	Industry	Target	Buyer	Value (\$mm)
Mar 29	Energy, Mining & Utilities	ConocoPhillips Canadian Assets	Cenovus Energy	\$ 17,711
Mar 09	Energy, Mining & Utilities	ShellCanada	Canadian Natural Resources	\$ 11,147
Mar 13	Tech, Media & Telecom	DH Corporation	Misys	\$ 4,706
Mar 09	Energy, Mining & Utilities	Marathon Oil Canada Corporation	CNRL & Shell Canada	\$ 3,380
Jan 23	Real Estate	Brookfield Canada Office Properties	Brookfield Property Partners	\$ 3,343
Mar 31	Consumer Products & Services	Reliance Home Comfort	Cheung Kong Property Holdings	\$ 2,820
Mar 21	Consumer Products & Services	Alimentation Couche-Tard	Private Investor	\$ 2,016
Jan 10	Consumer Products & Services	Valeant Skincare Brands	L'Oréal S.A.	\$ 1,717
Mar 19	Energy, Mining & Utilities	Dominion Diamond Corporation	The Washington Companies	\$ 1,688
Jan 25	Hospitality & Transportation	SilverBirch Hotels & Resorts	Leadon Investment, Inc.	\$ 1,100

While not among the top 10 Canadian deals in Q1 2017, a notable deal from a Western Canada perspective was the acquisition of TIO Networks by PayPal in February 2017 for approximately \$290 million, representing a revenue multiple of 2.6x.

## Oil & Gas Market Update

The overall Canadian M&A market in recent years has been hampered by the depressed state of the oil and gas sector. Oil prices have hovered in the \$45 to \$57 range in the past 12 months, but certain new developments and more stability in the oil prices are providing some signs of life to this vital sector of the Canadian economy.

### MARKET SUMMARY

During the fourth quarter of 2016, OPEC reversed its supply policy, bringing about the first supply cuts in eight years. This decision helped crude oil prices climb nearly 20% to the mid \$50s by January 2017. In addition, international stockpiles decreased in February 2017 for the sixth time in the past seven months, further helping oil prices. While overall supply appears to be tightening, prices have continued to fluctuate between the high \$40s and low \$50s, driven by concerns of slowdowns in the US and Chinese markets, and Middle Eastern conflict.

Sights are set on the next OPEC meeting in mid-May, which is likely to influence the outlook for the second half of 2017. Whether OPEC will continue its production cuts is uncertain, but crude oil is forecasted to remain in the low \$50s range for the remainder of the year.

### MARKET OUTLOOK

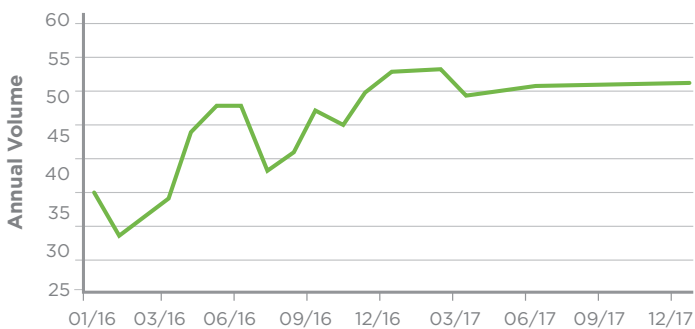
With crude oil prices trading in a more consistent band, capital spending and drilling activity are slowly picking up in North America, as producers develop existing assets.

In Canada, several factors are pointing to increased activity in the oil and gas sector:

- Canadian producers are budgeting a 28% increase in capital spending in 2017 compared to 2016, driven by more stability in the market
- Recent BC government approval has pushed along the Trans Mountain pipeline expansion project, which was given federal government approval in 2016. Once completed this could potentially triple capacities of crude exported to Asia.
- Large consolidation transactions are occurring, most notably Cenovus Energy acquiring all of ConocoPhillips' Canadian assets for \$8 billion, a sign of potentially more M&A activity to come

While uncertainty remains around the global oil and gas sector, the outlook for 2017 is generally positive. Supply and demand imbalances show signs of tightening, primarily due to OPEC's initiative to cut production, and producers in North America look ahead to stabilized oil prices.

**BRENT CRUDE OIL PRICES IN 2016 AND 2017**



## Emerging Industry: Canada's Legal Cannabis Market

Canada has historically been known for its strong natural resource, manufacturing, finance and telecom sectors, which collectively have formed the pillars of the Canadian economy. Recently, legislative developments in the cannabis sector have been garnering significant press. Once legalized, the cannabis sector has the potential to become a significant part of the Canadian economy.

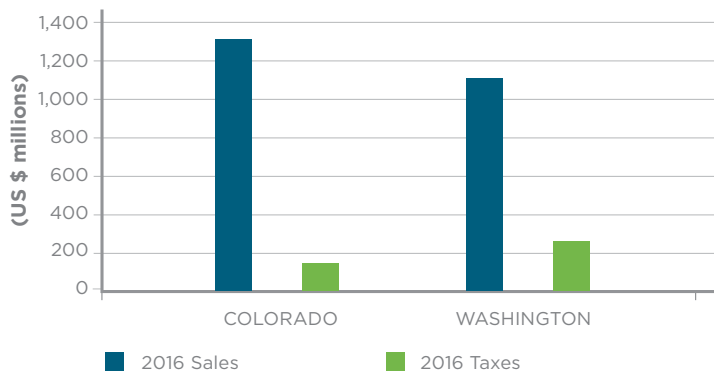
On April 13, 2017, the Liberal government tabled legislation to become the first G7 country to legalize recreational cannabis by July 1, 2018. This would result in Canada joining Colorado and Washington as the only jurisdictions within North America with a legal market for recreational cannabis.

Currently, the medical only cannabis market in Canada generates \$400 million in annual sales, and it is estimated that nearly 13 percent of the Canadian population have used cannabis in the past year. Since being legalized, cannabis sales and related tax revenues have exploded in Colorado and Washington. Last year, sales in Colorado totalled \$1.3 billion in its third year of legalization which surpassed \$1.1 billion in Washington. It is estimated that the Canadian market will experience the same phenomenon once legal cannabis sales commence.

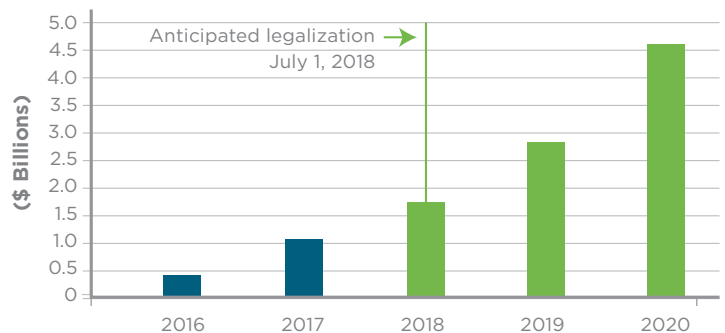
In the first year of recreational sales, it is estimated legal cannabis sales will surpass \$4.6 billion. Within 10 years, the legal cannabis market is anticipated to approach upwards of \$10 billion in annual sales, comparable to the annual value of the Canadian beer market. The vast potential expected of the cannabis industry is causing valuation multiples of public cannabis companies to skyrocket and bringing new entrants to the market.

Over the coming months and years, the cannabis industry will continue to evolve and develop into an interesting new segment of the Canadian economy.

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