Canada's Buyout & Private Equity Market in Q2 2012

Prepared by Thomson Reuters for Canada's Venture Capital & Private Equity Association

THOMSON REUTERS

Canadian buyout-PE market trends

Buyout and related private equity (PE) deal-making in the Canadian market gathered momentum in the second quarter of 2012, as deal volume continued the steady upward climb that has been apparent since the market's renewal in 2010. This period was also notable for one of the highest levels of dollar flows on a quarterly basis since 2010.

Control-stake acquisitions, minority investments and other PE transactions, both announced and closed, totaled 81 between April and June, effectively matching activity year over year. To date in 2012, buyout-PE deals – the vast majority of which have been done in Canadian mid-market businesses – totaled 160, which is already 56% of the peak number of transactions completed during the whole of 2011.

Disclosed buyout-PE deal values totaled $5.3 billion in the second quarter of 2012, an amount that is exceeded only in recent quarters by the $6.2 billion in values reported exactly one year ago. As of June 30th, disbursements in the domestic market stood at $7.6 billion, which approximates levels of market activity in the first half of 2011.[1]

Higher values in Q2 2012 were powered by a number of dollar-intensive deals, including the first large-cap (i.e., $1 billion-plus) acquisitions since Q2 2011. The top deal was sponsor-to-sponsor in nature, as an investor group comprised of BCE Inc., Teachers' Private Capital, Madison Dearborn Partners and Providence Equity Partners acquired data center operator Q9 Networks Inc. of Toronto from ABRY Partners for $1.1 billion. In addition, the Caisse de dépôt et placement du Québec deployed $1.0 billion to another major IT business, CGI Group Inc., headquartered in Montréal.

Among other major transactions, Winnipeg's Arctic Glacier Inc. was purchased out of bankruptcy by HIG Capital for US$435 million, Vancouver's Ivanhoe Mines Ltd. received a $426 million-investment from Temasek Holdings, and Calgary's Seven Generations Energy Ltd. received a $200 million-investment from CPPIB Private Investments.

As of June 30th, three deals sized greater than $500 million had accounted for 35% of disclosed dollars invested in the Canadian market. However, deals sized between $100 million and $500 million continued to reflect the largest share of all, or 47%. The balance was taken by transactions sized less than $100 million.

[1] Of the 160 buyout-PE deals done in Canada in the first half of 2012, 77% reflected values disclosed to Thomson Reuters.

Overview of Canadian Market Activity in Q2 2012

Trends in the US buyout-PE market

To date in 2012, Canadian deal-making trends have shown particular momentum vis-à-vis trends in the United States, at least in dollar terms. In the American market, buyout-PE transactions announced or closed between January and June, totaling 832, grew year over year, while disclosed values, totaling US$50.2 billion, were largely unchanged.

Canadian market trends by sector

As they did in 2011, Canada's energy and mining sectors attracted much of the attention of buyout-PE investors in the first half of this year. Mining businesses accounted for the largest share of transactions, or 21% of the total number, while oil and gas accounted for 14%. Manufacturing firms were also featured in market activity, reflecting 15% of deals, followed retail firms with 9%.

The oil and gas sector also absorbed a high proportion of disclosed dollars invested, or 27% of the total at the end of June. However, despite accounting for only 6% of deal volume, companies in information technology and media sectors took the leading share, or 30%. Financial services was in third spot with 11% of disbursements, followed by mining with 9%.

Canadian market trends by region

Québec-based businesses were the focus of 36% of total buyout-PE deals done across Canada between January and June. Ontario accounted for one-quarter of the transactions in this period, followed by British Columbia and Alberta, which accounted for shares of 17% and 15%, respectively.

In contrast with 2011, when Ontario reflected close to half of all disbursements, Québec led market activity in the first half of 2012, with a 36% share. Alberta-based firms accounted for the second largest share of the values, or 24%, followed by Ontario with a one-fifth share.

Canadian investor activity in global markets

Canadian buyout and other PE investors remained active around the globe in the second quarter of 2012, but as was the case in the first quarter, activity included relatively few large-cap transactions. Domestic funds led or participated in 14 deals abroad, or double the number recorded in Q2 2011, though disclosed values, totaling $2.5 billion, were down 29%.[2]

[2] Data reflect the total value of disclosed international deals in which Canadian funds have participated and not the specific "Canadian" financial contributions to these deals.

Overview of Canadian Market Activity in Q2 2012

The largest international transaction of Q2 2012, totaling $1.1 billion, had CPPIB Private Investments taking a significant minority interest in Grupo Costanera SA, an operator of toll roads in Chile. In addition, Teachers' Private Capital acquired a stake in Korea's Kyobo Life Insurance Co. Ltd. for US$ 400 million, while OMERS Private Equity facilitated the management buyout of the United Kingdom's Lifeways Community Care Ltd. for $330 million.

Canadian-based buyout-PE exit activity

Q2 2012 market activity in Canada was notable for several major liquidity events, including the acquisition of Calgary's Progress Energy Resources Corp., backed by CPPIB Private Investments, by PETRONAS Carigali Canada Ltd. for $5.5 billion. The $1.1 billion-sponsor-to-sponsor transaction involving Q9 Networks gave an exit to ABRY Partners, while the sale of Ocean Nutrition Canada Inc. to Royal DSM NV for $540 million provided an exit to Richardson Capital.

These buyout-PE fund realizations of Canadian portfolio assets contributed to a total of 37 exit events recorded at the end of June, up 20% from the year before. Strategic sales continued to drive this activity, accounting for 70% of the total number in the first half of 2012.

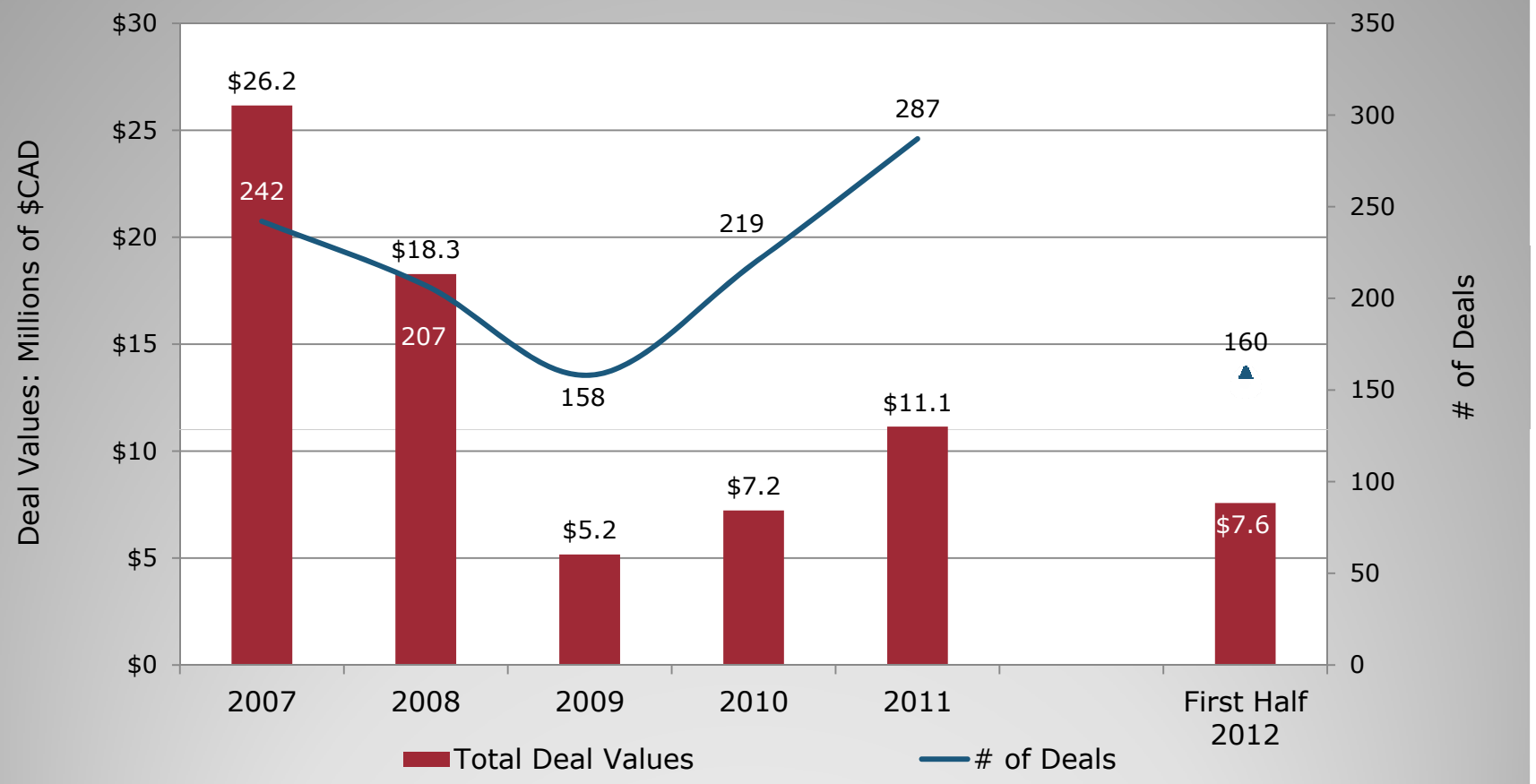
Trends in Canadian buyout-PE fund-raising

In the first half of the year, Canadian buyout, mezzanine and other PE fund -raising activity appeared to be tracking ahead of activity in 2011. New commitments totaling $1.9 billion were accounted for by 15 funds over this period, up 36% from the same time last year.

In Q2 2012, fund-raising continued to be led by partnership closings involving well-known Canadian mid-market investors. Examples included TriWest Capital Partners of Calgary, which announced the final close of TriWest Capital Partners IV LP at $350 million. In addition, the Vancouver-based Fulcrum Capital Partners, launched in 2011 as a spinout from HSBC Capital (Canada), announced the $193 million-final close of Fulcrum Capital Partners Fund IV.

Overview of Canadian Market Activity in Q2 2012

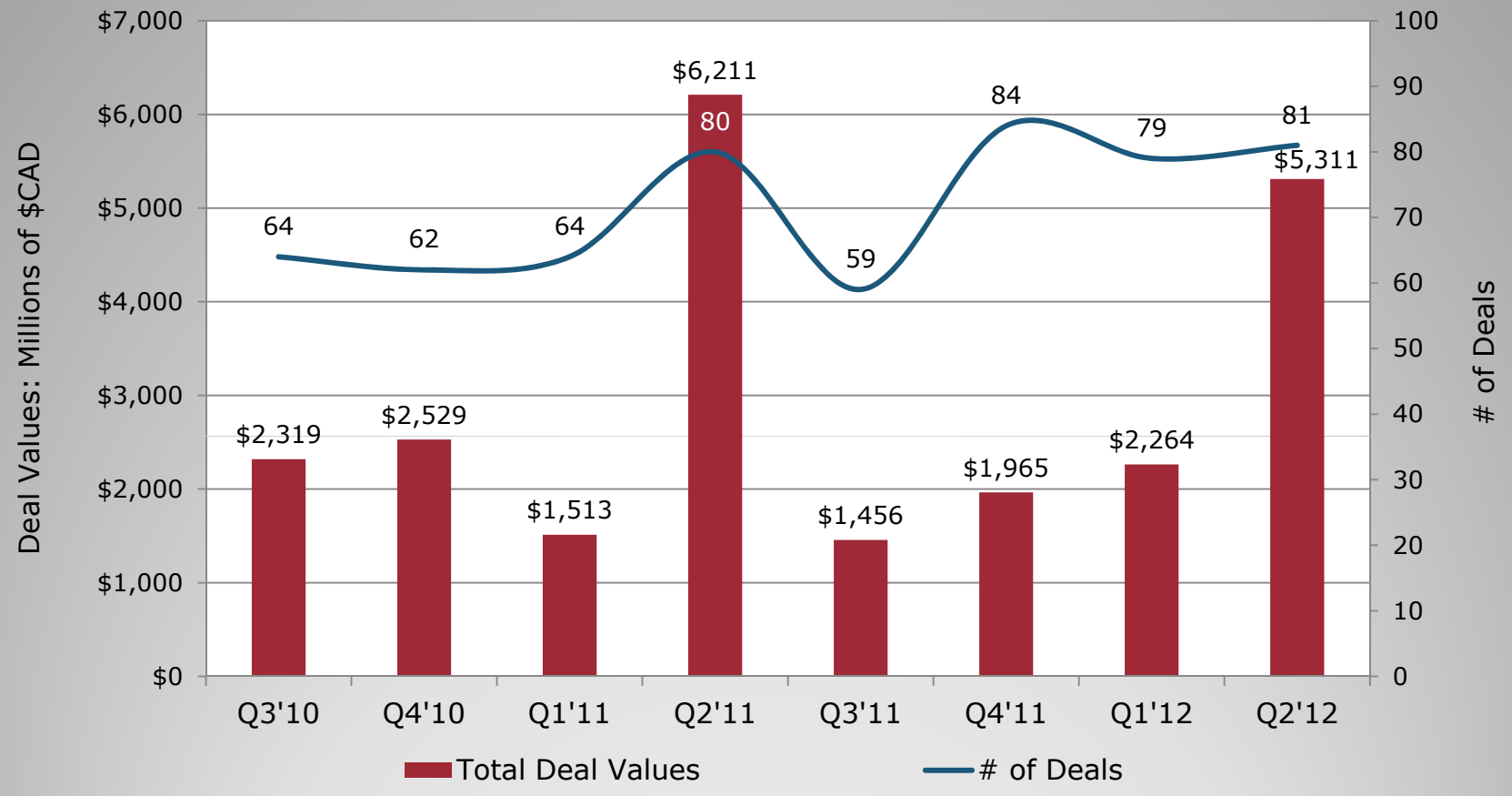
1. Buyout & Private Equity Market Activity in Canada in Q2 2012



NB: For a discussion of key data methodology issues, please see explanatory notes on pg. 26-27.

Canadian Deal-Making Stays on Growth Path

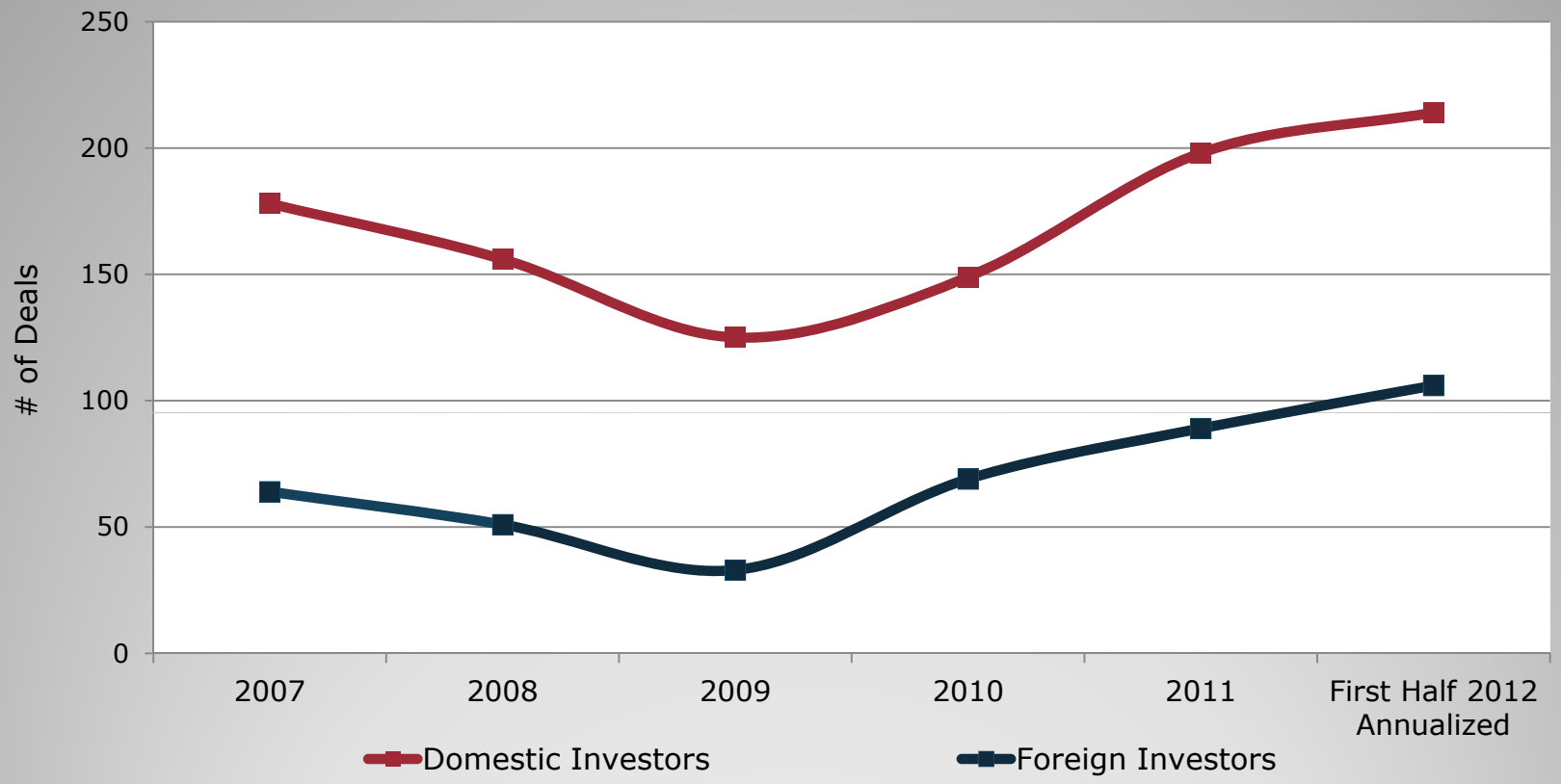
BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) IN CANADA, 2007 – FIRST HALF 2012



NB: For a discussion of key data methodology issues, please see explanatory notes on pg. 26-27.

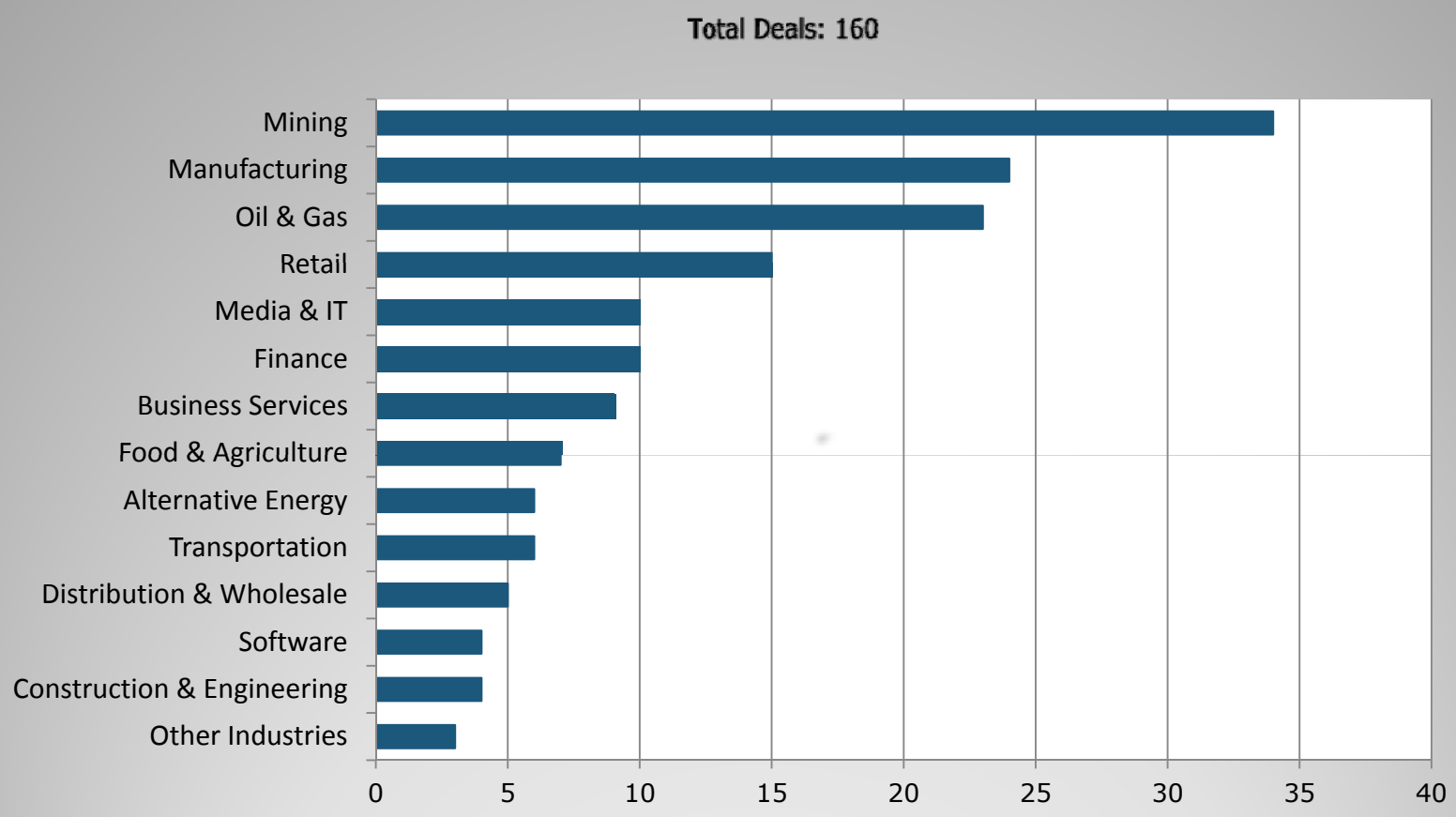
Q2 Dollar Flows at Second-Highest Level Since 2010 Renewal

BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) IN CANADA, Q3 2010 – Q2 2012



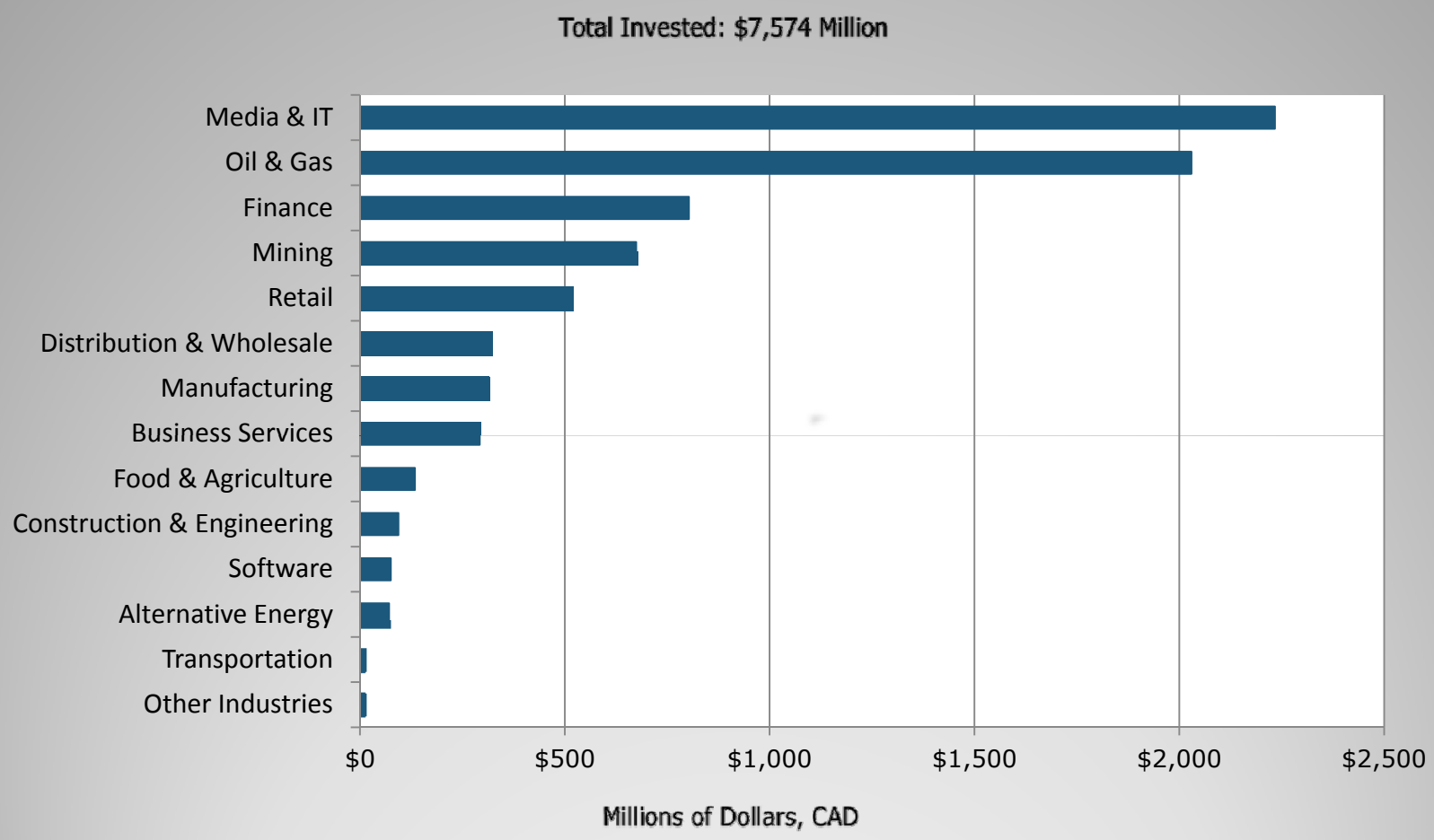
Canadian Funds Lead Deal-Making Trends in First Half

CANADIAN BUYOUT-PE DEAL ACTIVITY BY DOMESTIC & FOREIGN INVESTORS, 2007 – FIRST HALF 2012



Resource Sectors, Manufacturing Drive Transactions

CANADIAN BUYOUT-PE DEAL VOLUME BY SECTOR, FIRST HALF 2012



Media & IT, Oil & Gas Consume Most of the Dollars

CANADIAN BUYOUT-PE DISBURSEMENTS (DISCLOSED) BY SECTOR, FIRST HALF 2012

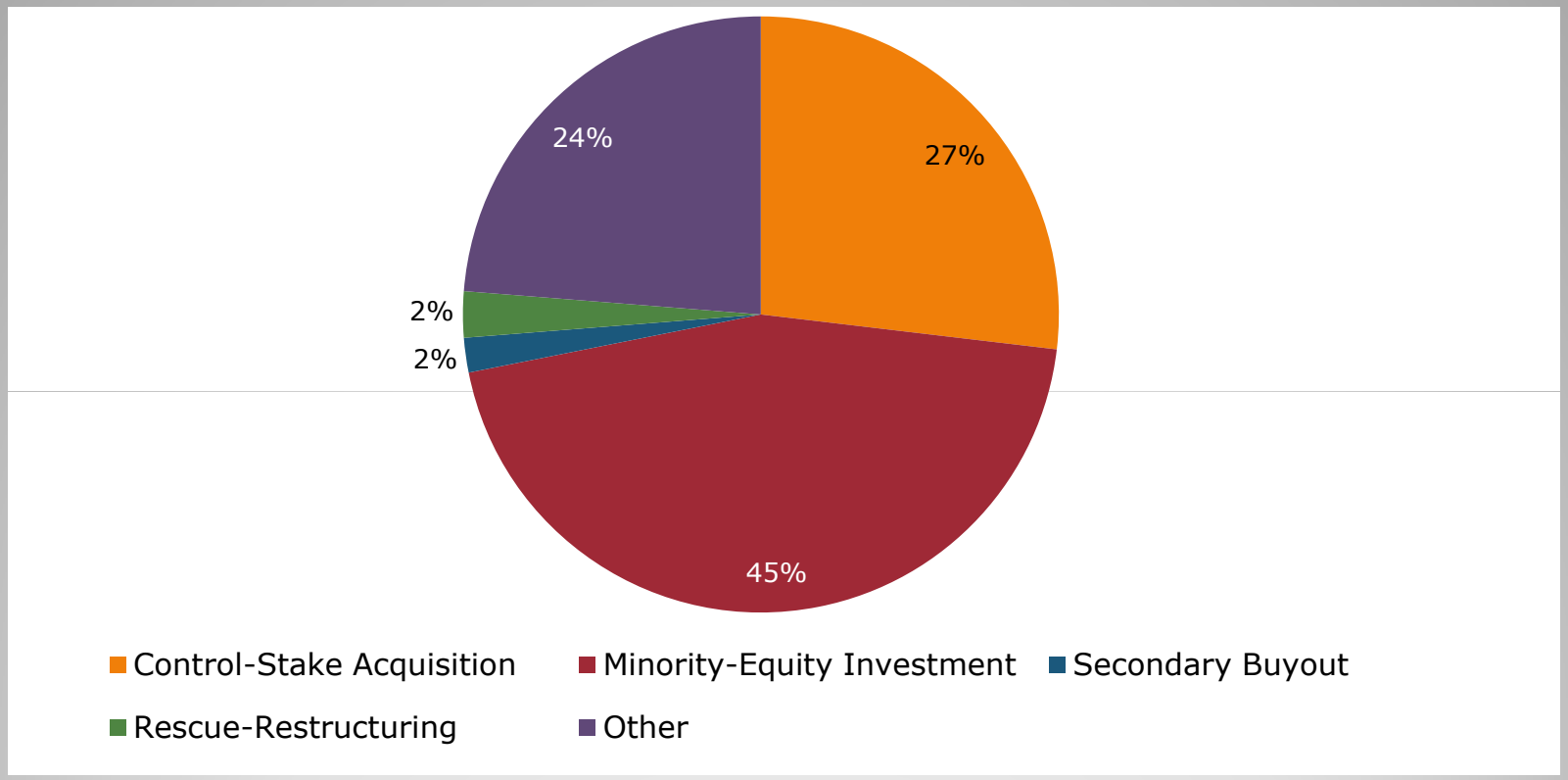
Deal Range	# of Deals	Dollars Invested (Disclosed)
≥ $1 Billion	2	$2,100 Million (28%)
$500 Million - < $1 Billion	1	$500 Million (7%)
$100 Million - < $500 Million	17	$3,537 Million (47%)
$25 Million - < $100 Million	11	$873 Million (12%)
< $25 Million	38	$564 Million (7%)
Deal Values Undisclosed	18	$0 (0%)

Total Deals With Disclosed Values: 123 (of 160)
Total Invested: $7.574 Billion

NB: For a discussion of domestic market segments, please see Explanatory Notes #4 & 5 on pg. 26.

Large-Caps Return, But Mid-Market Activity Still Dominates

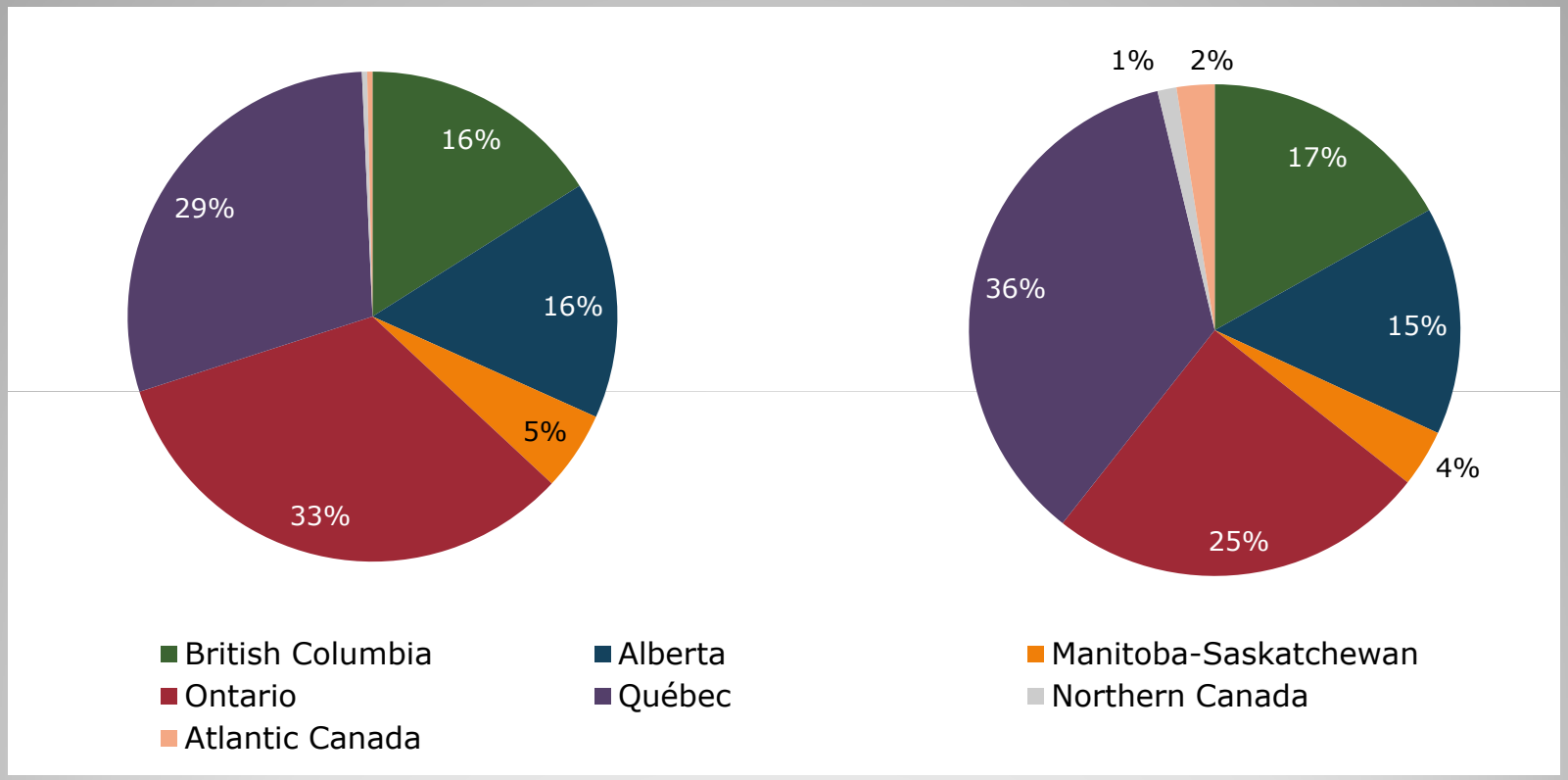
CANADIAN BUYOUT-PE DEALS BY MARKET SEGMENT, FIRST HALF 2012



NB: For definitions of transaction types, please see Explanatory Note #8 on pg. 27.

Control & Minority-Equity Account for Lion's Share of Deals

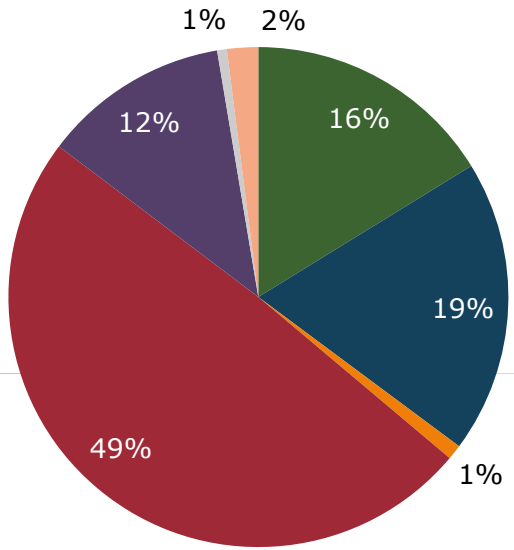
CANADIAN BUYOUT-PE DEAL VOLUME BY TRANSACTION TYPE, FIRST HALF 2012



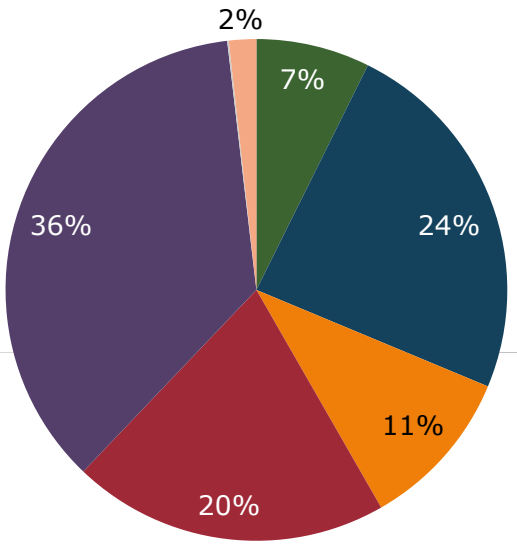
Over 60% of Transactions Located in Québec, Ontario

CANADIAN BUYOUT-PE DEAL ACTIVITY BY REGION, 2011 & FIRST HALF 2012

Total Invested in 2011: $11.1 Billion



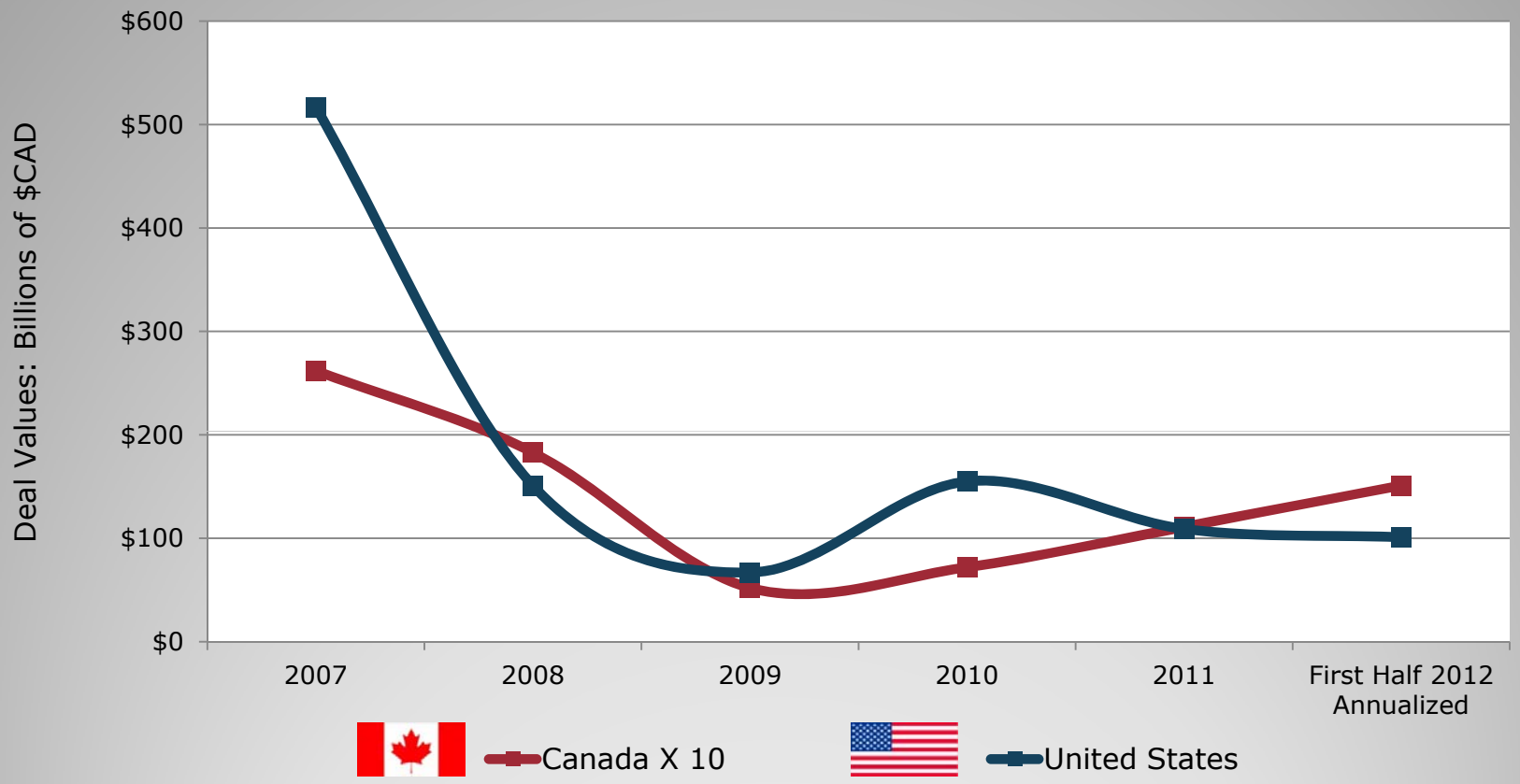
Total Invested in First Half 2012: $7.6 Billion



British Columbia
Alberta
Manitoba-Saskatchewan
Ontario
Québec
Northern Canada
Atlantic Canada

Dollar Flows Concentrated in Québec, Alberta & Ontario

CANADIAN BUYOUT-PE DISBURSEMENTS BY REGION, 2011 & FIRST HALF 2012



Canadian Market Has Momentum in Early 2012

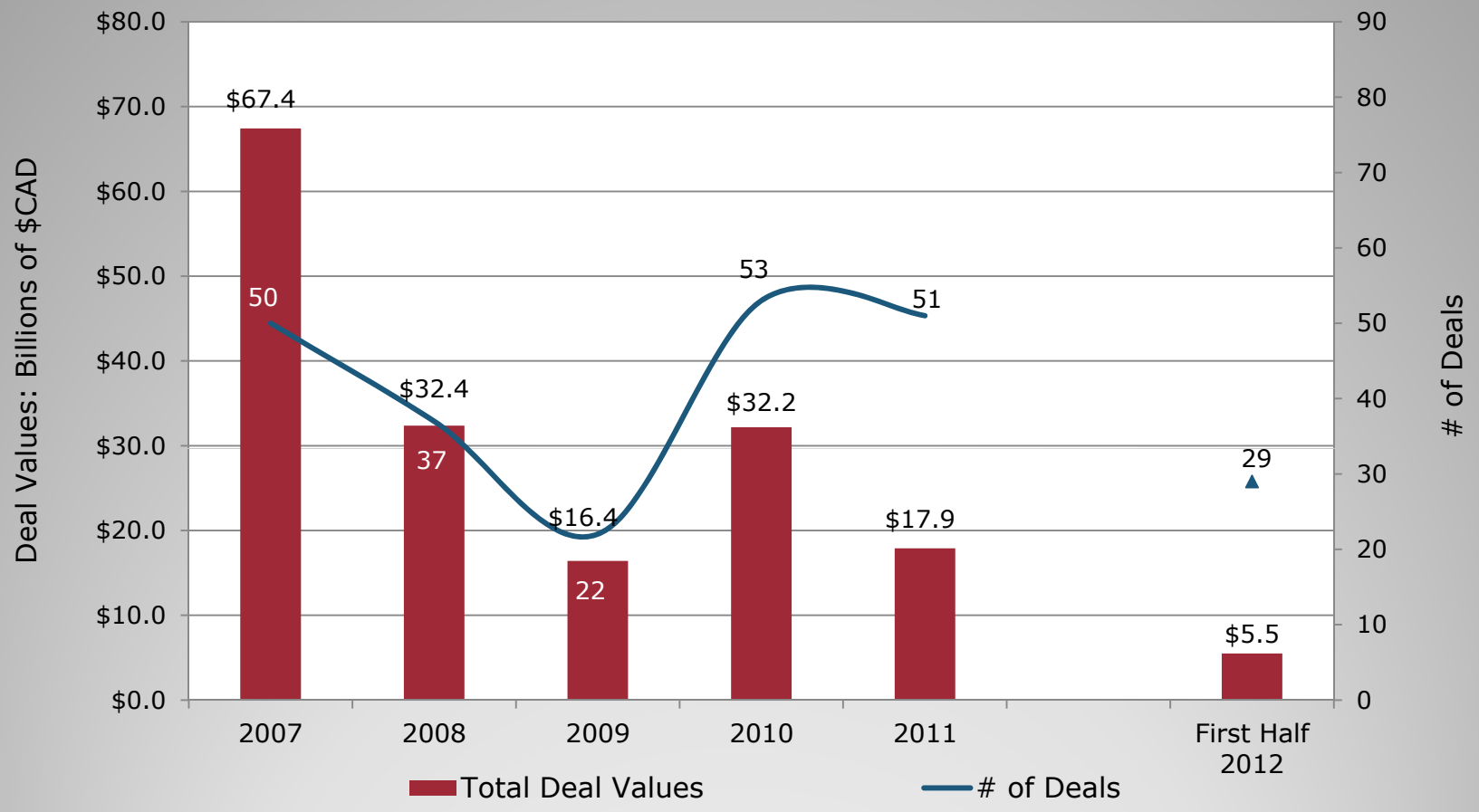
BUYOUT-PE DISBURSEMENTS (DISCLOSED) IN CANADA & UNITED STATES, 2007 – FIRST HALF 2012

Company	Prov.	Value ($ MM)	Investors
Q9 Networks, Inc.	ON	$1,100	BCE Inc., Teachers' Private Capital, Madison Dearborn Partners, Providence Equity Partners
CGI Group, Inc.	QC	$1,000	Caisse de dépôt et placement du Québec
Arctic Glacier, Inc.	MB	$435	HIG Capital
Ivanhoe Mines, Ltd.	BC	$426	Temasek Holdings
Seven Generations Energy, Ltd.	AB	$200	CPPIB Private Investments
GENIVAR, Inc.	QC	$197	Caisse de dépôt et placement du Québec , CPPIB Private Investments
Endurance Energy, Ltd.	AB	$155	Warburg Pincus

Top Canadian Buyout-PE Deals (Disclosed) in Q2 2012

CAD$ MILLIONS

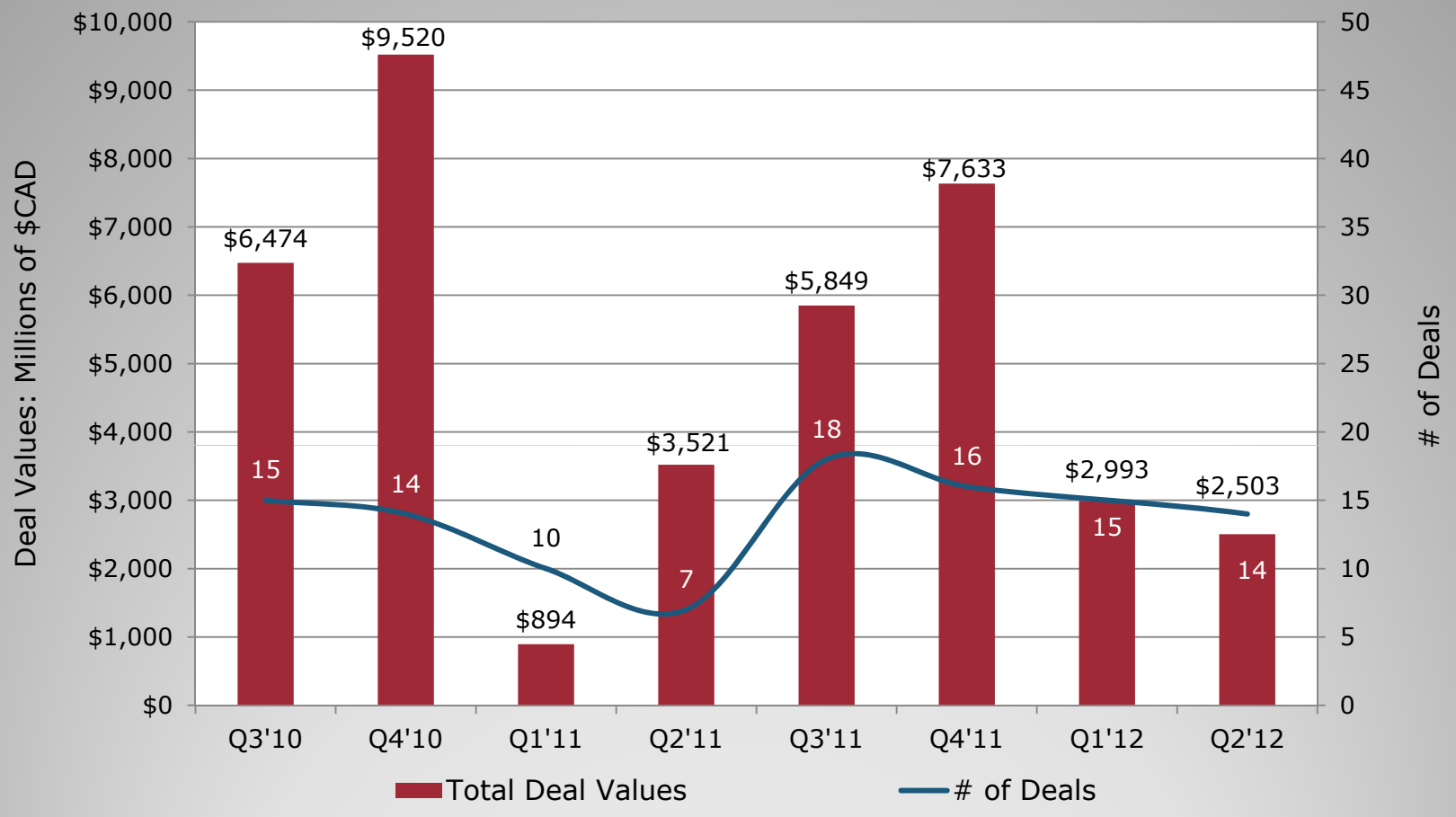
2. Canadian Fund Activity in Global Buyout & Private Equity Markets in Q2 2012



NB: For a discussion of Canadian activity in global deals, please see Explanatory Note #9 on pg. 27.

Global Activity of Canadian Funds Steady, But Fewer Large-Caps

GLOBAL BUYOUT-PE DEALS (DISCLOSED) INVOLVING CANADIAN FUNDS, 2007 – FIRST HALF 2012

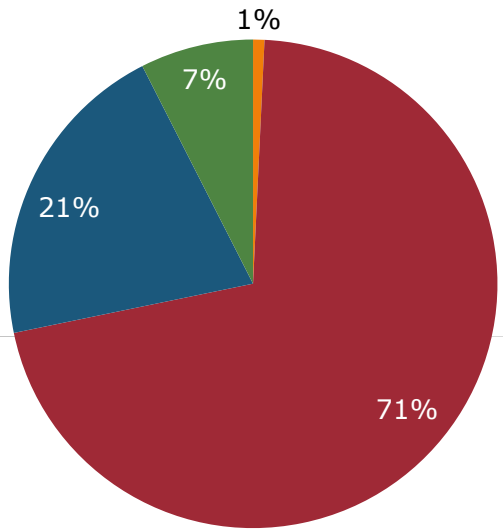


NB: For a discussion of Canadian activity in global deals, please see Explanatory Note #9 on pg. 27.

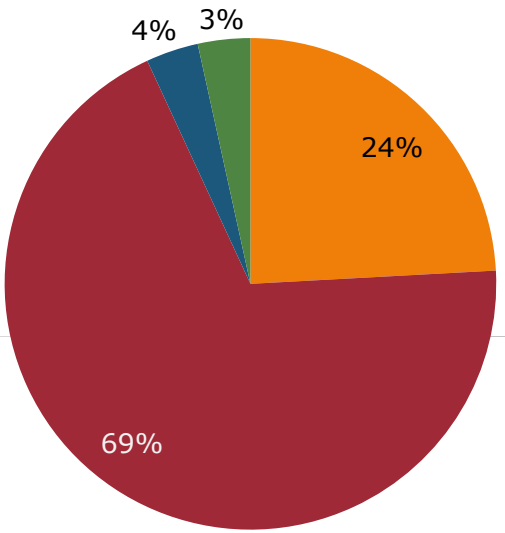
In Dollar Terms, Deal-Making Abroad Closer to Early 2011

GLOBAL BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) INVOLVING CANADIAN FUNDS, Q3 2010 – Q2 2012

Total Invested: $5.5 Billion



Total Deals: 29



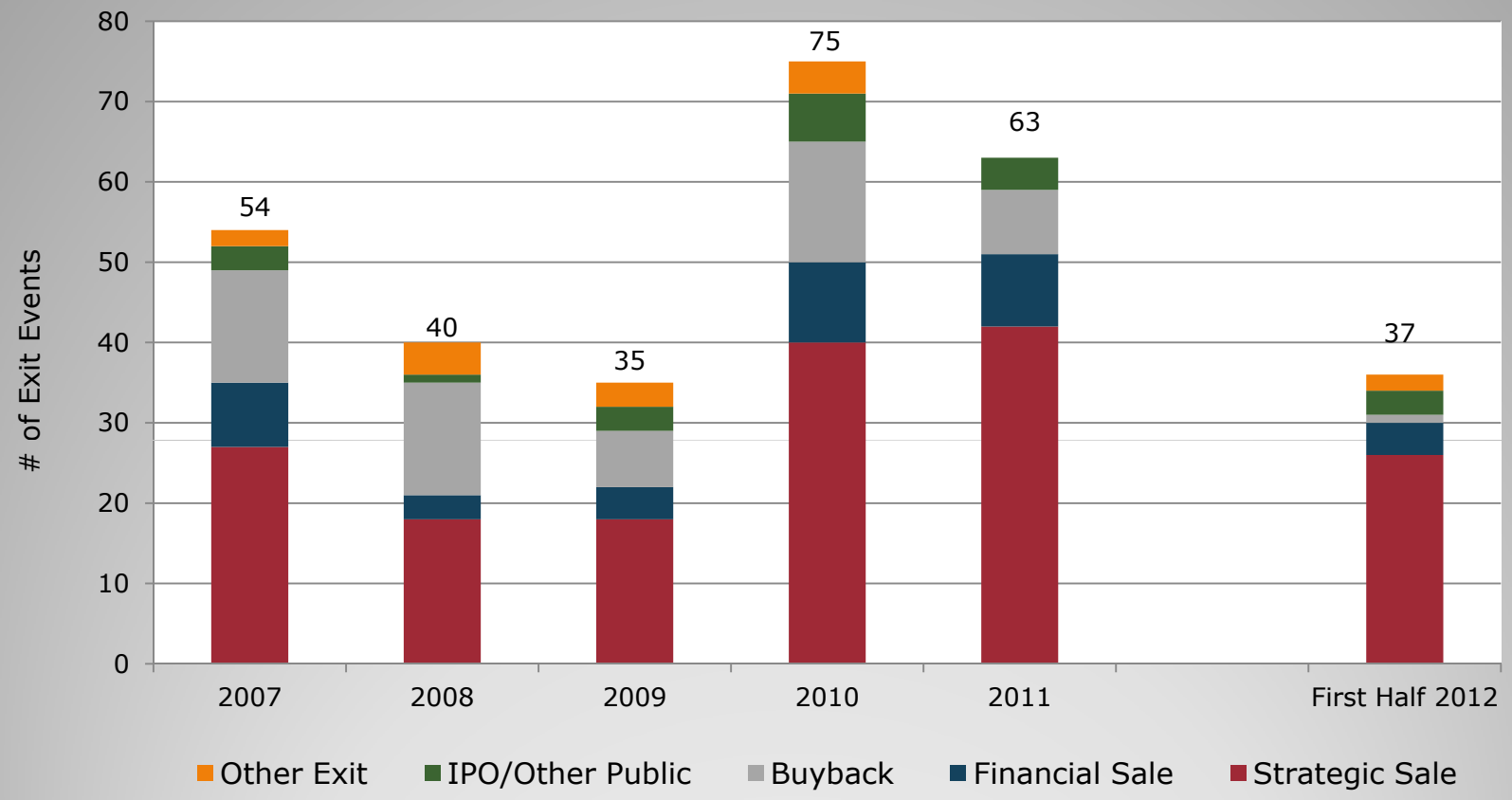
Europe United States South America Asia

NB: For a discussion of Canadian activity in global deals, please see Explanatory Note #9 on pg. 27.

Canadian Fund Activity More Diversified by Geography

GLOBAL BUYOUT-PE DEAL ACTIVITY INVOLVING CANADIAN FUNDS BY REGION, FIRST HALF 2012

3. Canadian-Based Buyout & Private Equity-Backed Exit Activity in Q2 2012



NB: For clarification of Canadian exit activity data, please see Explanatory Note #10 on pg. 27.

Strategic Sales Key to Healthy Pace of Exit Activity

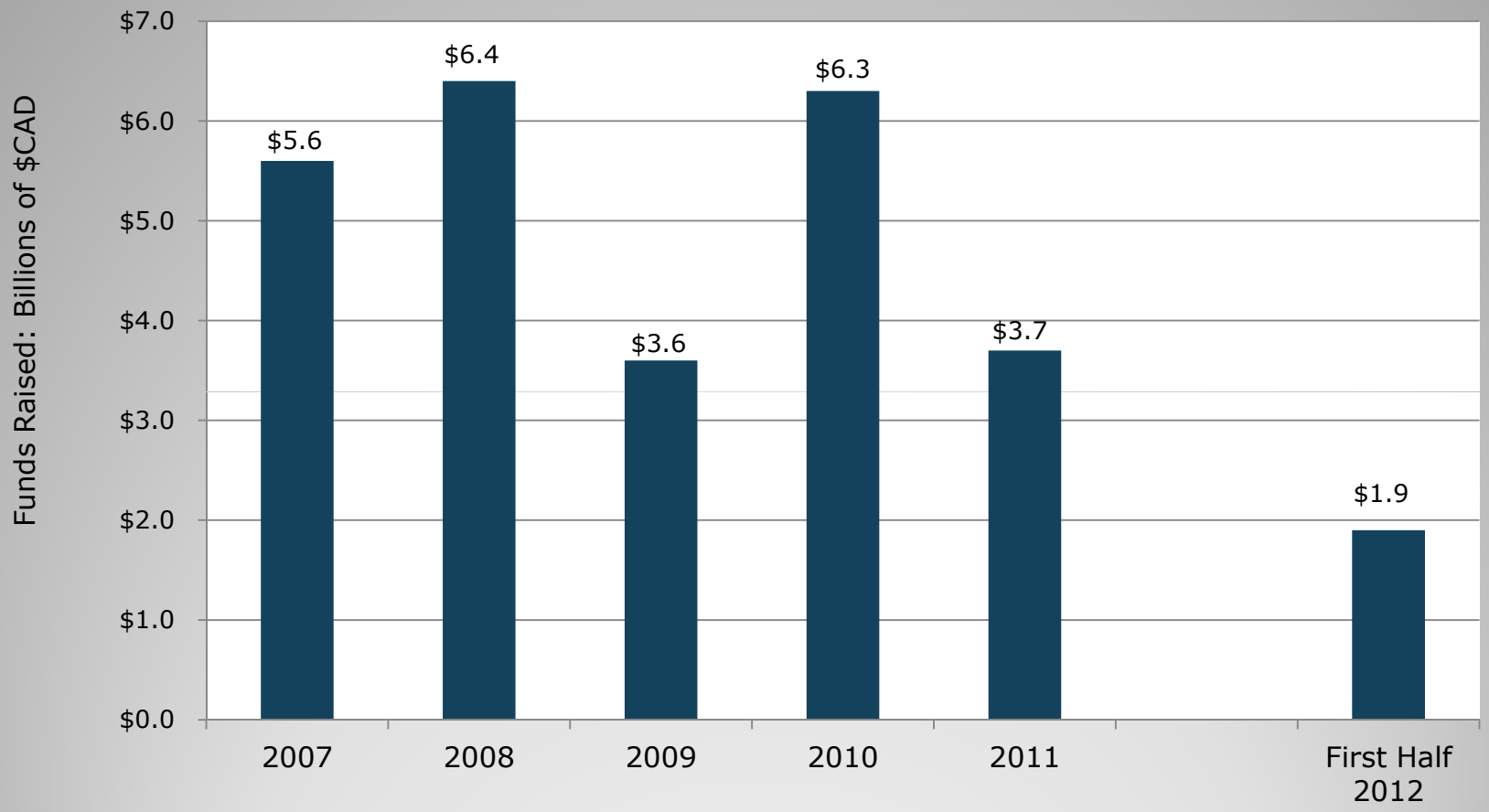
BUYOUT-PE-BACKED EXIT INVOLVING CANADIAN BUSINESSES, BY TYPE, 2007-FIRST HALF 2012

Company	Prov.	Value ($ MM)	Investors
Viterra Inc.	SK	$6,100	Alberta Investment Management Corp.
Progress Energy Resources Corp.	AB	$5,500	CPPIB Private Investments
Q9 Networks Inc.	ON	$1,100	ABRY Partners
Ocean Nutrition Canada Inc.	NS	$540	Richardson Capital
Gemcom Software International Inc.	BC	$356	JMI Equity, The Carlyle Group, Pala Investments AG

Top Canadian Exits Via Financial & Strategic Sales, First Half, 2012

CAD$ MILLIONS

4. Canadian Buyout & Private Equity Fund-Raising Activity in Q2 2012



To Date, Fifteen Funds Attract $1.9 Billion of New Commitments

NEW COMMITMENTS TO CANADIAN BUYOUT, MEZZANINE & OTHER PE FUNDS, 2007 – First Half 2012

1) Data collected and analyzed by Thomson Reuters for this statistical report were drawn from a variety of sources. These include proprietary sources among the members of Canada's Venture Capital and Private Equity Association (CVCA), Réseau du capital d'investissement du Québec, and other Canadian and non-resident fund managers, responding to Thomson Reuters' annual and quarterly surveys.

2) The data methodology for this report was developed by Thomson Reuters and is comparable to other methodologies used to track trends in comparable national and regional buyout and private equity (PE)markets. CVCA and Réseau members have provided invaluable advice to Thomson Reuters concerning characteristics and issues particular to the Canadian fund management industry and market.

3) All dollar values in this report are represented in Canadian currency unless otherwise specified.

4) Key statistical indicators (e.g., total numbers of deals, total disbursements, per quarter or per annum) are influenced by the fact that a substantial fraction of buyout and other PE deals are not fully disclosed. For instance, "dollars invested" in a given period pertain only to those deals with values that have been published or confidentially disclosed to Thomson Reuters. Due to strict confidentiality covenants with fund managers, Thomson Reuters has been able to expand the quantity and quality of data that are disclosed for reporting purposes. This is evidenced in comparisons of North American deal information housed in Thomson One – e.g., in 2010, 69% of buyout-PE deals done in Canada reflected disclosed values, while the share for comparable deals done in the United States was 33%.

5) For the purposes of this report, Canadian deals with disclosed values are discussed according to their organization in broad segments, including large-cap-deals (above $500 million), and various levels of mid-market activity (below $500 million), etc.

6) Statistical data reflect all essential forms of buyout-PE deal-making, including control-stake acquisitions of businesses, minority equity investments, restructuring and special-situations transactions, and mezzanine and other quasi-equity investments. The data also reflect the activity of PE funds focused on businesses in specific sectors (e.g., infrastructure, mining, oil and gas, etc.).

7) The data highlight the continuous domestic deal activity of key Canadian fund types, including private-independent funds, corporate and institutional captive funds, and retail funds. The activity of foreign investors in Canada is also captured.

Explanatory Notes

8) Definitions of transaction types shown in chart on page 11

- •Control-stake acquisitions: Majority-interest acquisitions (or buyouts) of businesses.
- •Publics-to-privates: Control-stake acquisitions in which businesses move from public to private ownership.
- •Secondary buyouts: Control-stake acquisitions in which ownership is transferred from one investor to another.
- •Minority equity investments: A diverse range of growth-equity and other non-controlling (or minority-interest) investments in businesses.
- •Rescues-restructurings: Control-stake acquisitions and other activity involving businesses in financial distress or undergoing major reorganization.
- •Acquisitions for expansion: Merger and acquisition events driven by buyout-PE-backed businesses in expansion mode.
- •Other: Various other PE deal types and deals for which definitional information is currently insufficient.

9) The data also highlight the deal-making of Canadian funds in the United States, Europe, Asia, and elsewhere around the world. Statistics in this report reflect instances in which Canadian funds have acted as sponsors, co-sponsors or co-investors in deals in non-resident businesses, or have otherwise engaged in direct investments in these. “Dollars invested” in a given period pertain to the total value of disclosed deals in which Canadian funds have participated (in the case of large-cap deals, typically with foreign partners) and not the specific Canadian financial contributions to these deals.

10) Statistical data pertaining to buyout-PE-backed exit events capture activity involving businesses based in Canada. They do not include exits from non-resident businesses in Canadian fund portfolios.

11) Over time, statistics are subject to continuous change as Thomson Reuters receives new data and as investors and their portfolio companies elect to disclose further details about transactions. In addition, key indicators might change appreciably in the short term due to the circumstance of pending deals. Thomson Reuters locates pending deals in the periods in which they are announced, with related data adjusted at the time of deal closings.

Explanatory Notes

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