Canada's Buyout & Private Equity Market in Q3 2012

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

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Canadian buyout-PE market trends

Canadian buyout and other private equity (PE) deal-making sustained a robust pace in the third quarter of 2012, indicating that market activity is positioned this year to equal or improve on results reported for 2011. Buyout-PE transactions, both announced and closed, totaled 55 between July and September, down a slight 5% from the year before, however, disclosed disbursements, totaling $2.6 billion, rose 78% over the same period.

While most activity remained focused on mid-market opportunities in Q3 2012, a few dollar-intensive deals were key to higher values. The latter included the second large-cap (i.e., $1 billion-plus) transaction completed in 2012 – the take-private acquisition of Montréal-headquartered Garda World Security Corp. by Apax Partners and other investors, priced at $1.1 billion[1]. In second spot was the final close of HIG Capital's buyout of Arctic Glacier, Inc., of Winnipeg for $436 million. Other major deals included the Caisse de dépôt et placement du Québec's $124 million private placement in Longueuil's Innergex Renewable Energy, Inc., and Madison Dearborn Partners' $102 million acquisition of Toronto's QuickPlay Media, Inc.

In the first nine months of 2012, a total of 223 control-stake acquisitions, restructurings, minority equity investments and other PE transactions were announced or closed in the Canadian market, with activity valued at over $8.9 billion (disclosed)[2]. This compares against 201 deals, totaling $9.3 billion (disclosed), in the same nine-month period in 2011. Interestingly, deal volumes and disbursement flows as of September 30th already surpass market outcomes in both 2009 and 2010.

To date this year, three buyout-PE deals sized $500 million or greater have accounted for 30% of total dollars invested in the Canadian market, while 22 deals sized between $100 million to $500 million have taken 46% of the total amount. The balance has been accounted for by 146 transactions sized less than $100 million.

Trends in the US buyout-PE market

American buyout-PE market trends in the first nine months of 2012 were broadly in parallel with trends in the Canadian market. Disclosed values of announced and closed deals totaled US$99.1 billion at the end of September, reinforcing signs that levels of market activity in the United States are likely to approximate levels reported in 2011.

[1] The acquisition of Q9 Networks, announced and reported in Q2 2012, was closed in October, and will be counted in Q4 2012 market statistics.

[2] Of the 223 deals done in total in Canada in the first nine months of 2012, 77% had disclosed dollar values.

Canadian market trends by sector

Canadian buyout-PE deals done in the first nine months of the year were primarily focused on businesses in manufacturing and processing, mining, and oil and gas sectors, which accounted for, respectively, 17% , 16% and 14% of the total number. Transactions also gave preference to firms in business services, consumer products and financial services.

When measured by disclosed disbursements, market activity to date in 2012 has been led in the business services sector, which has garnered a 29% share of the total amount, and the oil and gas sector, which has garnered 26%. Other leading sectors in dollar terms included consumer products, financial services and mining.

Canadian market trends by region

Québec-based businesses accounted for the largest proportion of Canadian buyout-PE deals done in the first nine months of 2012, or 36% of the total number, followed by businesses headquartered in Ontario, which assumed a one-quarter share. Substantial shares were also taken in this period by Alberta (16%) and British Columbia (15%).

Throughout the year some of the most dollar-intensive transactions have been located in Québec (e.g., the Garda World Security Corp. acquisition in Q3 2012), with the result that Québec has captured close to half of all disbursements as of September 30th. Alberta has accounted for the second-largest amount as of this date, or 23% of the total, followed by Ontario with 11%.

Canadian investor activity in global markets

Canadian large-market and mid-market funds greatly ratcheted up their international deal-making in the third quarter of 2012. Domestic investors led or participated in 22 buyout-PE transactions, reflecting disclosed values totaling $15.5 billion – by far the highest level of activity abroad since the renewal of the global market in early 2010.[3]

As in the past, a significant proportion of deals in Q3 2012 engaged businesses located in the United States. This trend is well illustrated in the period's largest foreign transaction – the US$6.6 billion purchase of Suddenlink Communications, Inc., of Saint Louis, Missouri, by BC Partners, CPPIB Private Investments, and other investors. However, Canadian funds were also highly active in Europe between July and September, evidenced in Onex Corp.'s control-stake acquisition of the German manufacturer KraussMaffei AG, priced at over US$736 million.

[3] Data reflect the total value of disclosed global deals, not the specific "Canadian" investor contributions to these deals.

Overview of Canadian Market Activity in Q3 2012

To date this year, Canadian funds have led or participated in 55 buyout-PE transactions abroad, already the highest number recorded since 2007. Disclosed values for this activity totaled a comparably sizeable $21.1 billion.

Canadian buyout-PE exit activity

Canadian buyout-PE exit activity showed continued vitality in the third quarter of 2012. Domestic and foreign fund realizations of Canadian-based portfolio holdings in this period contributed to a total of 63 liquidity events as of September 30th, a number which already matches the scope of events reported for the whole of last year.

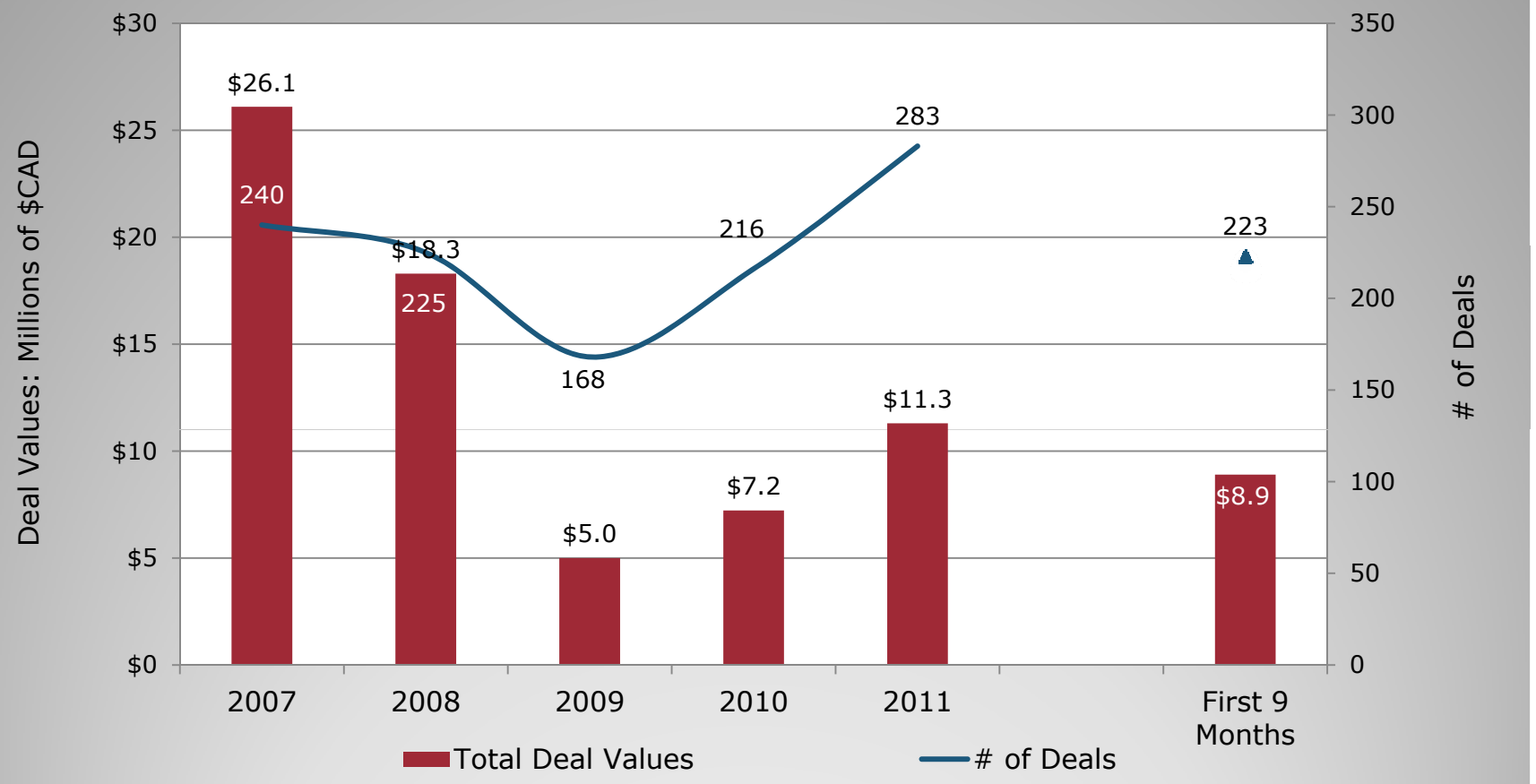
Strategic acquisitions remained at the forefront of these trends, having accounted for 71% of total exits in the first nine months. Between July and September, this activity was illustrated by several major transactions, including the completion of Teachers' Private Capital's sale of Toronto-headquartered Maple Leaf Sports and Entertainment, Ltd., to BCE, Inc., and Rogers Communications, Inc., for $1.3 billion. In another example, Canterbury Park Management sold its stake in Paragon Pharmacies, Ltd., of Kelowna, British Columbia, to Shoppers Drug Mart, Ltd., for $74 million.

Trends in Canadian buyout-PE fund-raising

In the first nine months of 2012, Canadian buyout, mezzanine and other PE fund-raising activity appeared to remain close on the heels of activity in 2011. At the end of September, 19 domestic funds had attracted new capital commitments totaling $3.3 billion, or only just behind the $3.7 billion that was committed to 18 funds last year.

Leading fund-raising trends between July and September was the final close of ARC Energy Fund 7, totaling $1.0 billion, the largest partnership raised so far by Canada's veteran oil and gas investor, ARC Financial Corp. of Calgary. Toronto's Wellington Financial LP also announced the first closing of its latest specialty finance partnership, Wellington Financial Fund IV, which brought an additional $178 million into the market.

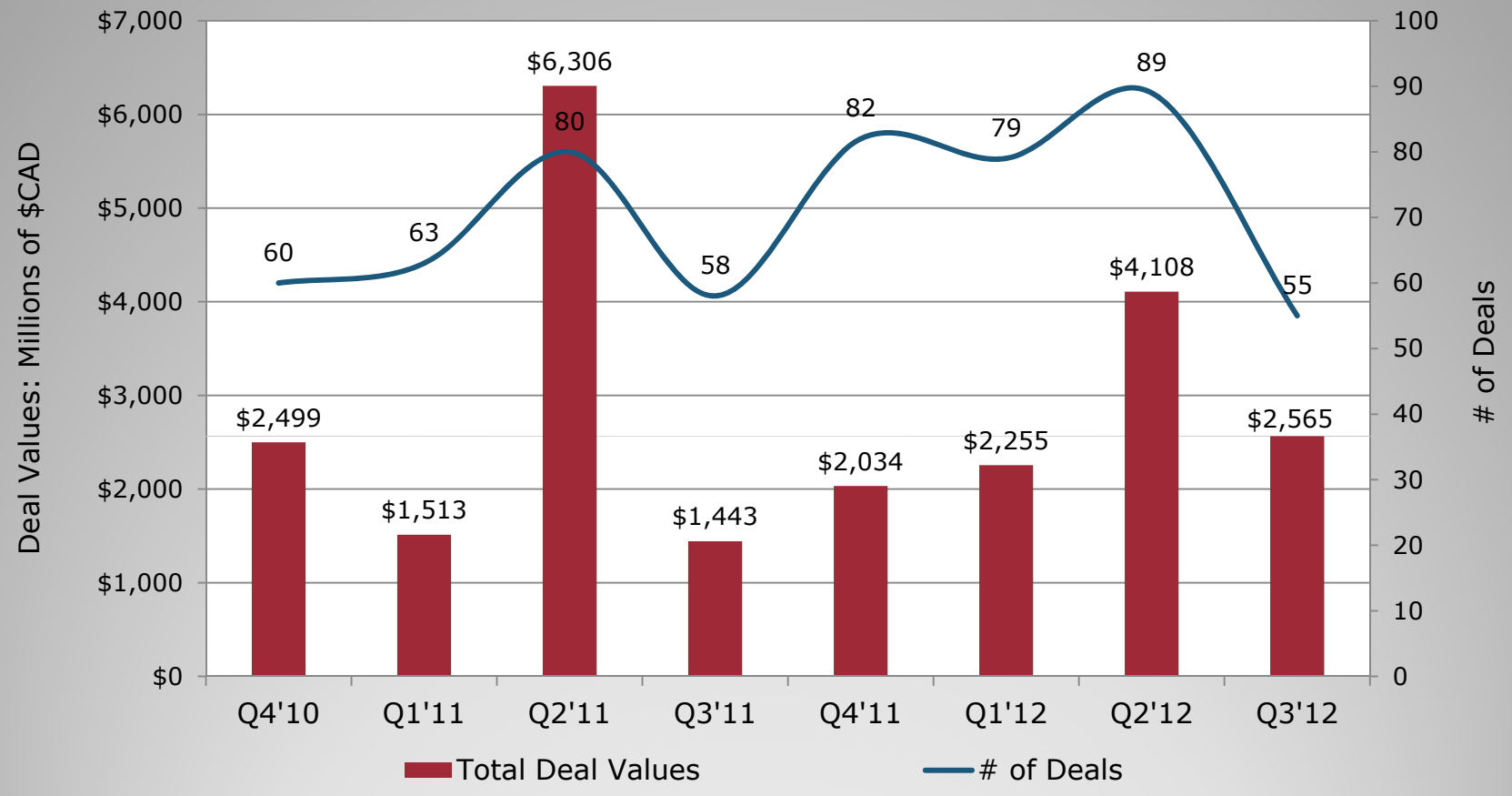
1. Buyout & Private Equity Market Activity in Canada in Q3 2012



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

YTD 2012, Canadian Market Activity Approaching Levels in 2011

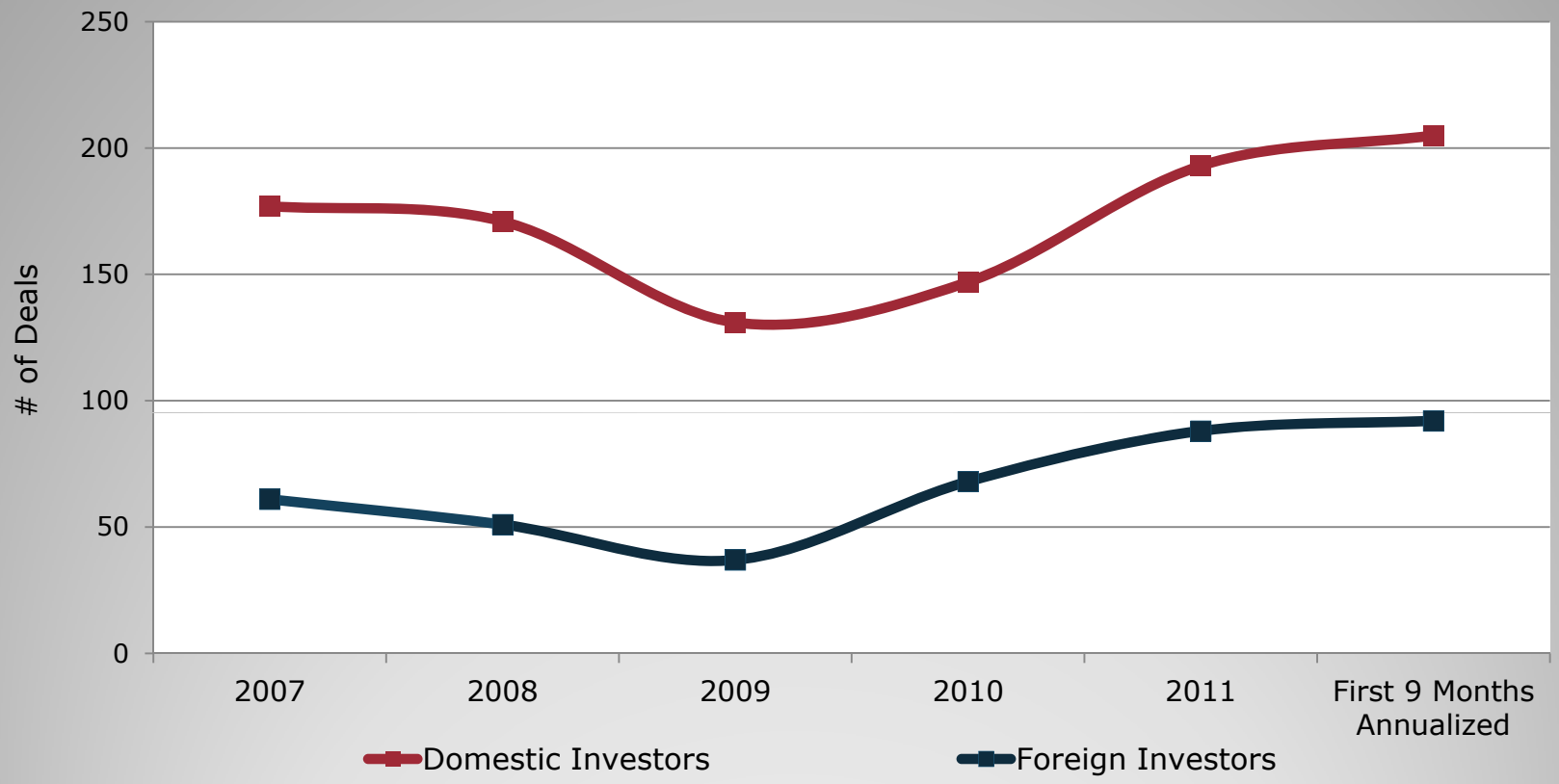
BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) IN CANADA, 2007 – FIRST 9 MONTHS 2012



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

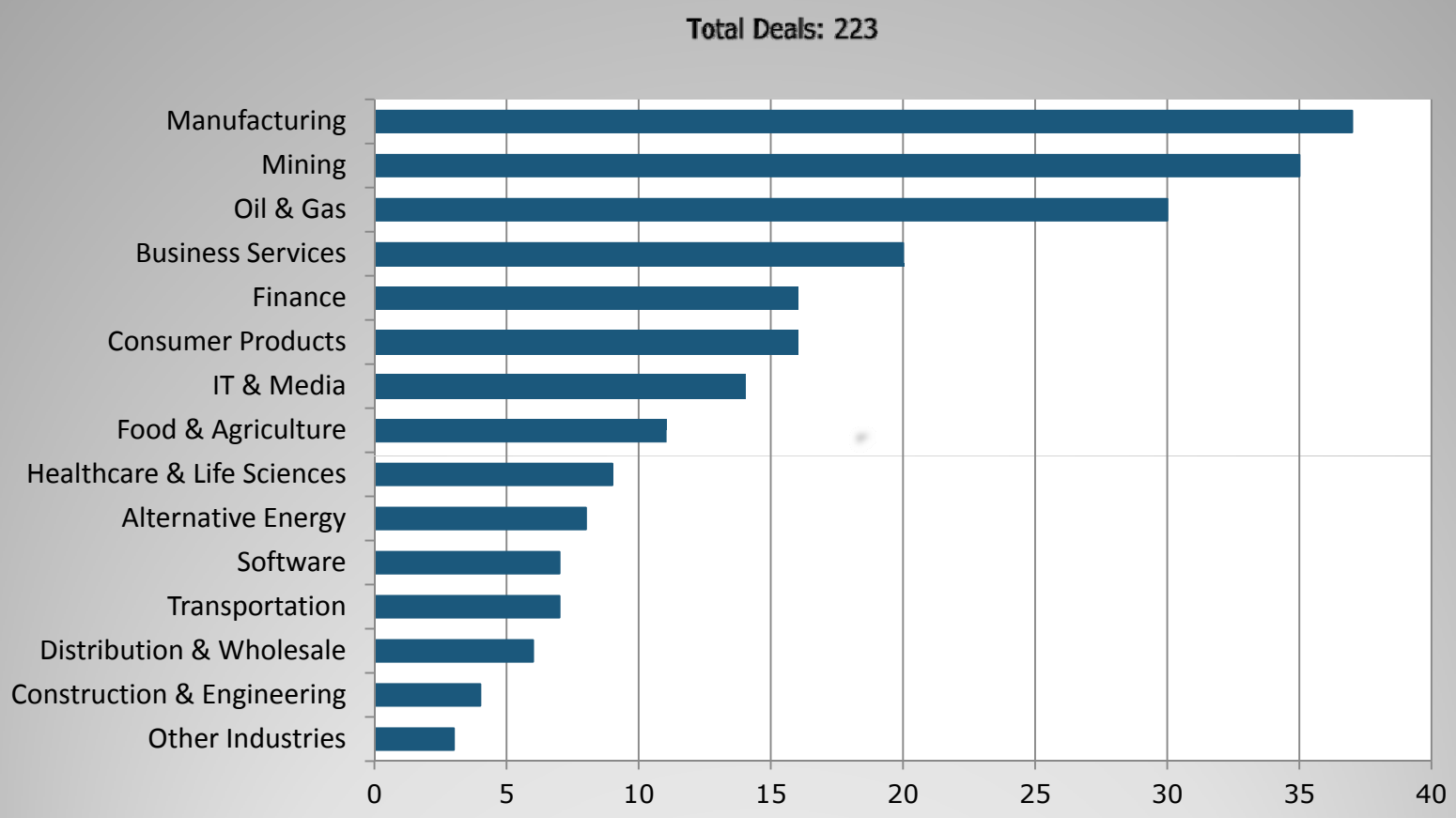
Q3 Deal Volume Lags, But Values Up 78% Year Over Year

BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) IN CANADA, Q4 2010 – Q3 2012



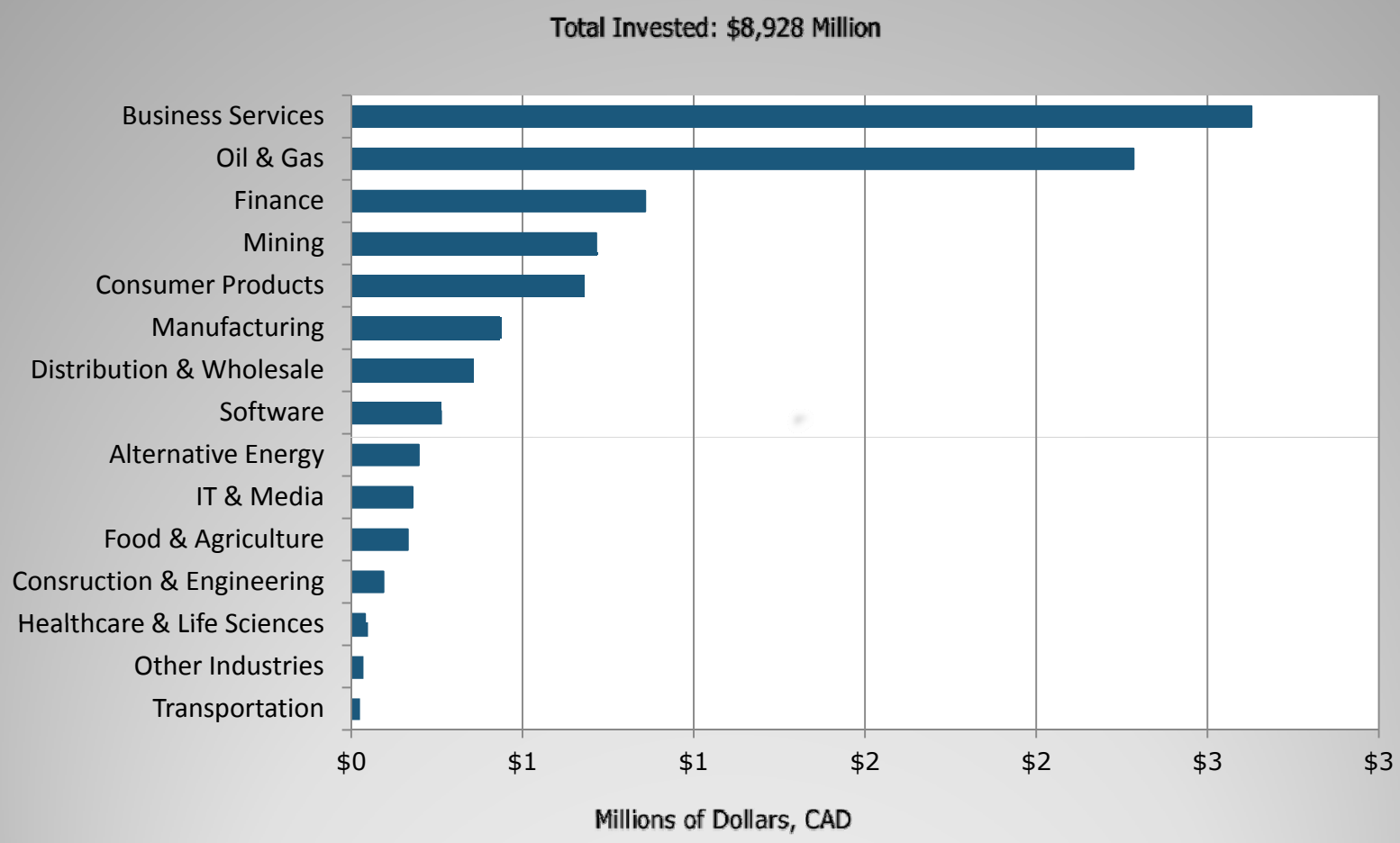
Canadian Funds Lead Deal-Making, Accounting for 69% of Activity

CANADIAN BUYOUT-PE DEAL ACTIVITY BY DOMESTIC & FOREIGN INVESTORS, 2007 – FIRST 9 MONTHS 2012



Manufacturing, Resource Sectors Drive Transactions

CANADIAN BUYOUT-PE DEAL VOLUME BY SECTOR, FIRST 9 MONTHS 2012



Business Services, Oil & Gas Account for Most Dollars

CANADIAN BUYOUT-PE DISBURSEMENTS (DISCLOSED) BY SECTOR, FIRST 9 MONTHS 2012

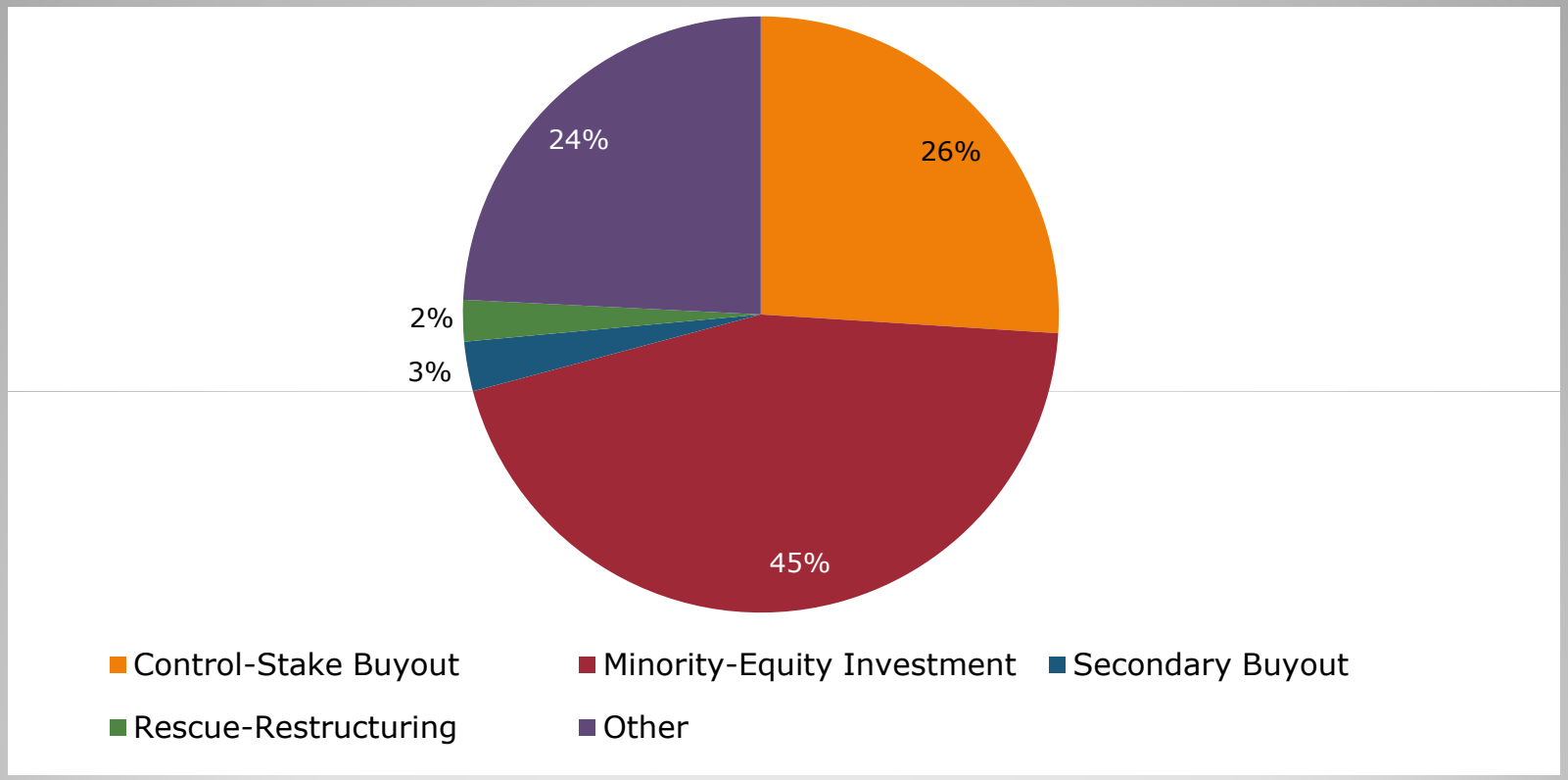
Deal Range	# of Deals	Dollars Invested (Disclosed)
≥ $1 Billion	2	$2,200 Million (25%)
$500 Million - < $1 Billion	1	$500 Million (5%)
$100 Million - < $500 Million	22	$4,109 Million (46%)
$25 Million - < $100 Million	28	$1,358 Million (15%)
< $25 Million	118	$761 Million (9%)
Deal Values Undisclosed	52	$0 (0%)

Total Deals With Disclosed Values: 171 (of 223)
Total Invested: $8.928 Billion

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

Upper Mid-Market & Large-Cap Deals Absorb 76% of Values

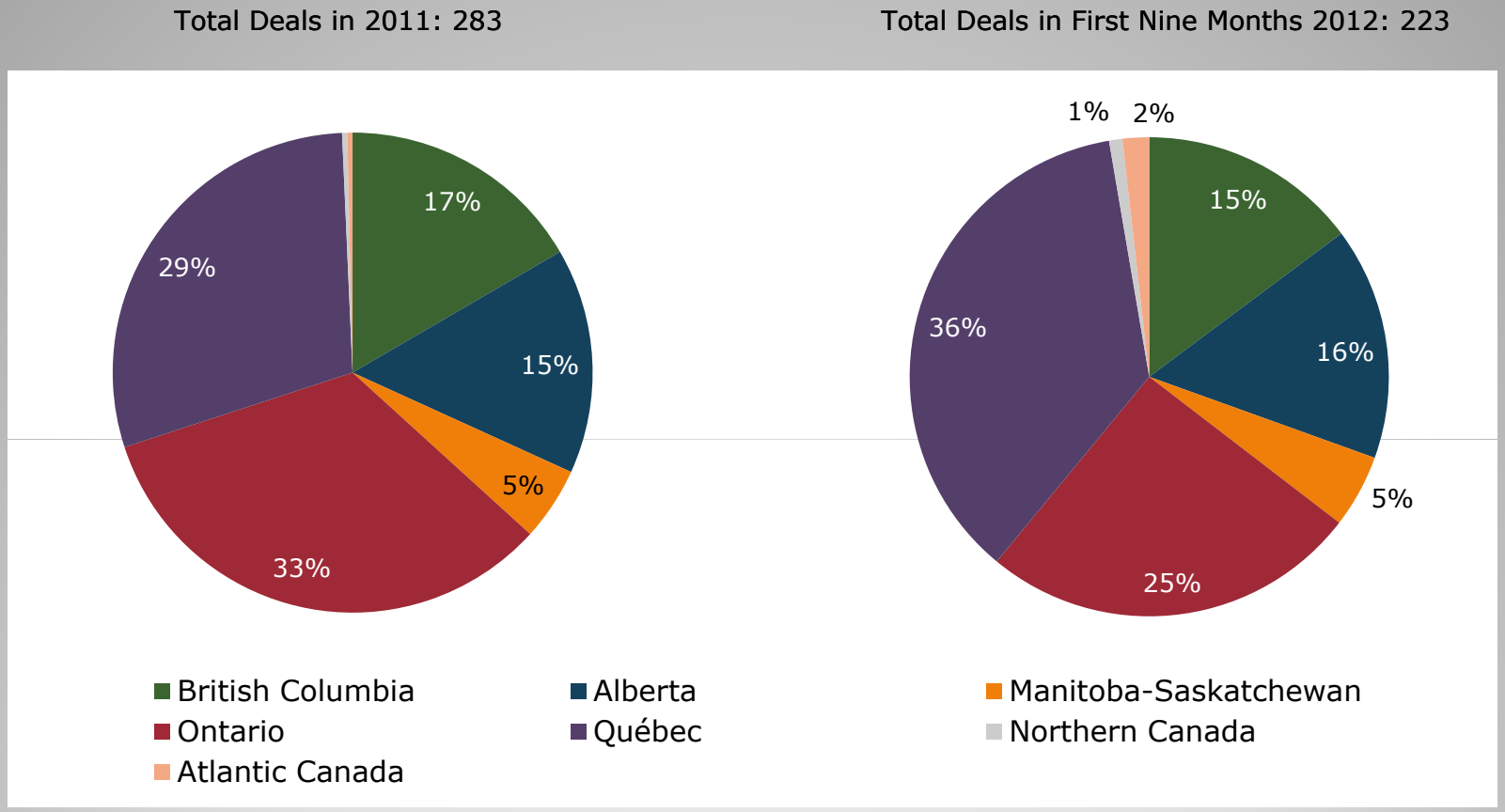
CANADIAN BUYOUT-PE DEALS BY MARKET SEGMENT, FIRST 9 MONTHS 2012



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

Control-Stake & Minority Investments Account for Bulk of Deals

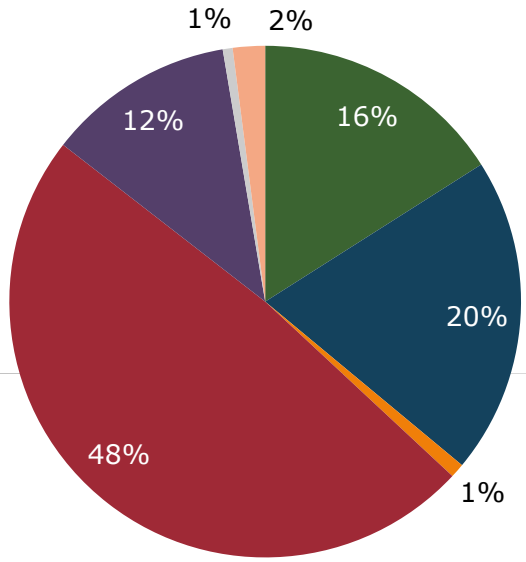
CANADIAN BUYOUT-PE DEAL VOLUME BY TRANSACTION TYPE, FIRST 9 MONTHS 2012



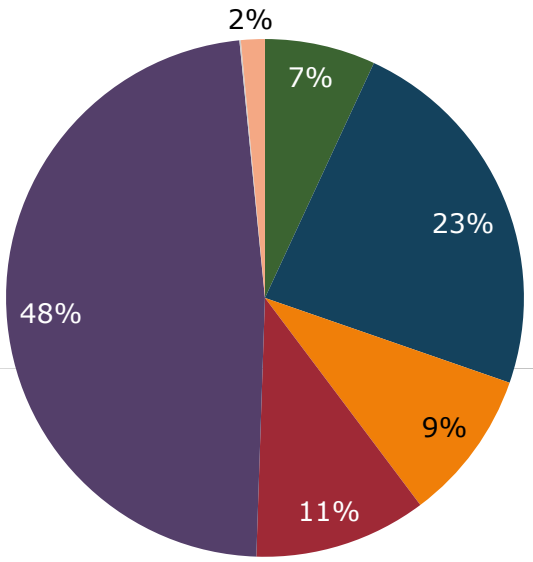
Over 60% of Transactions in Québec, Ontario

CANADIAN BUYOUT-PE DEAL ACTIVITY BY REGION, 2011 & FIRST 9 MONTHS 2012

Total Invested in 2011: $11.3 Billion



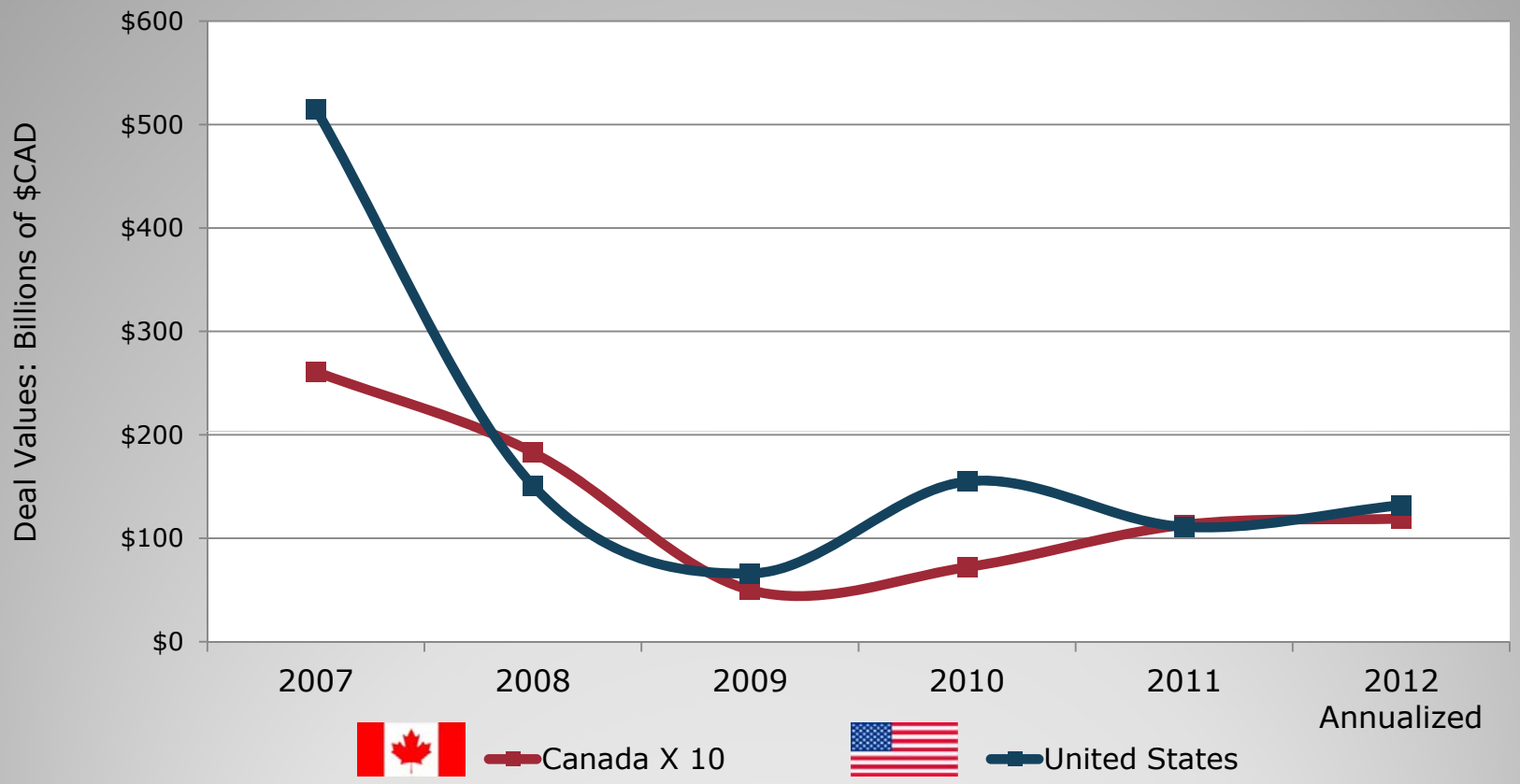
Total Invested in First Nine Months 2012: $8.9 Billion



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

Over 70% of Dollar Flows in Québec, Alberta

CANADIAN BUYOUT-PE DISBURSEMENTS BY REGION, 2011 & FIRST 9 MONTHS 2012



Canada-US Buyout-PE Market Trends in Sync

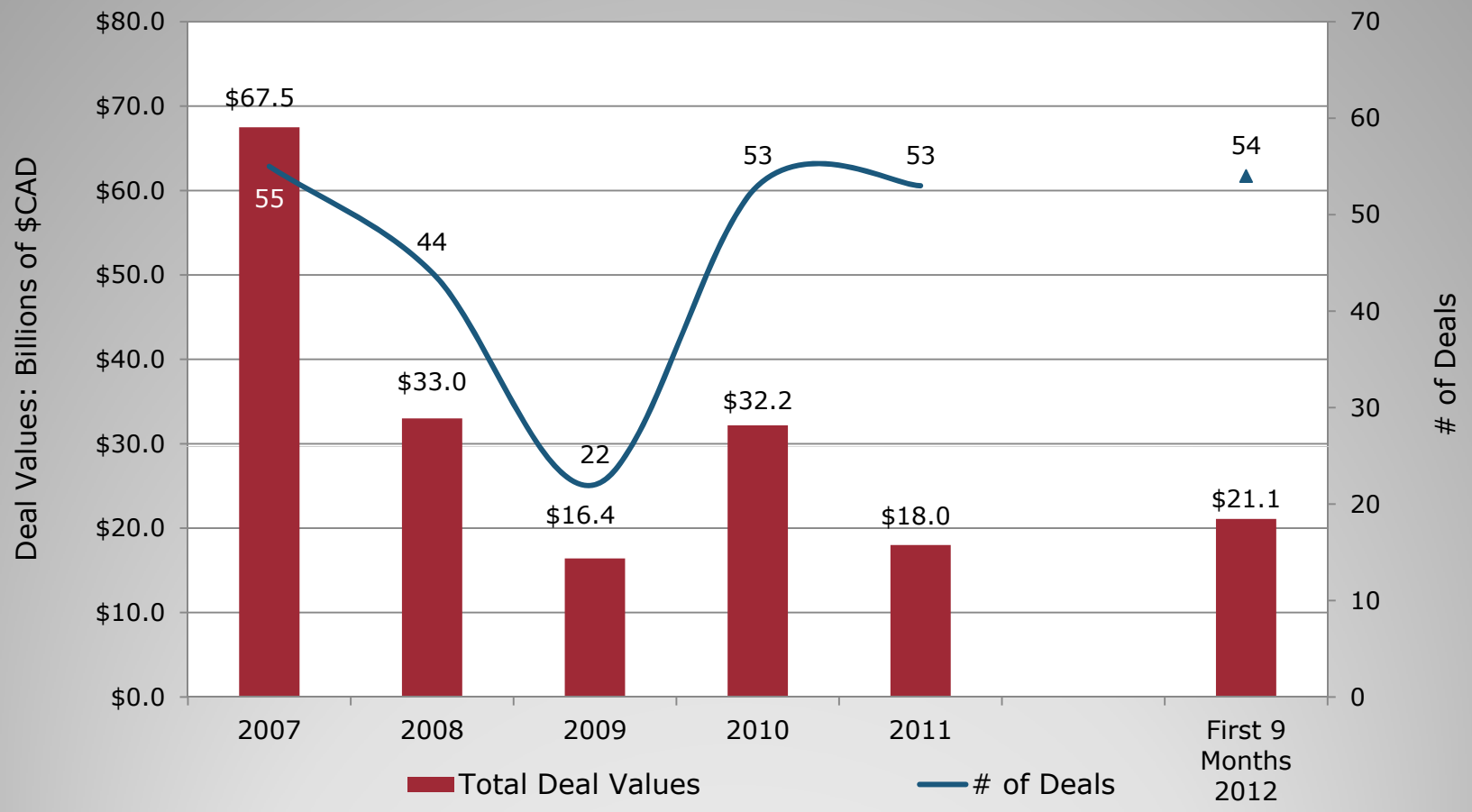
BUYOUT-PE DISBURSEMENTS (DISCLOSED) IN CANADA & UNITED STATES, 2007 – FIRST 9 MONTHS 2012

Company	Prov.	Value ($ MM)	Investors
Garda World Security Corp.	QC	$1,100	Apax Partners, Other Investors
Arctic Glacier, Inc.	MB	$435.8	HIG Capital
Innergex Renewable Energy, Inc.	QC	$123.7	Caisse de dépôt et placement du Québec
QuickPlay Media, Inc.	ON	$101.9	Madison Dearborn Partners
Rampart Oil & Gas, Ltd.	AB	$80.0	SFC Energy Partners
20-20 Technologies, Inc.	QC	$75.4	Vector Capital

Top Canadian Buyout-PE Deals (Disclosed) in Q3 2012

CAD$ MILLIONS

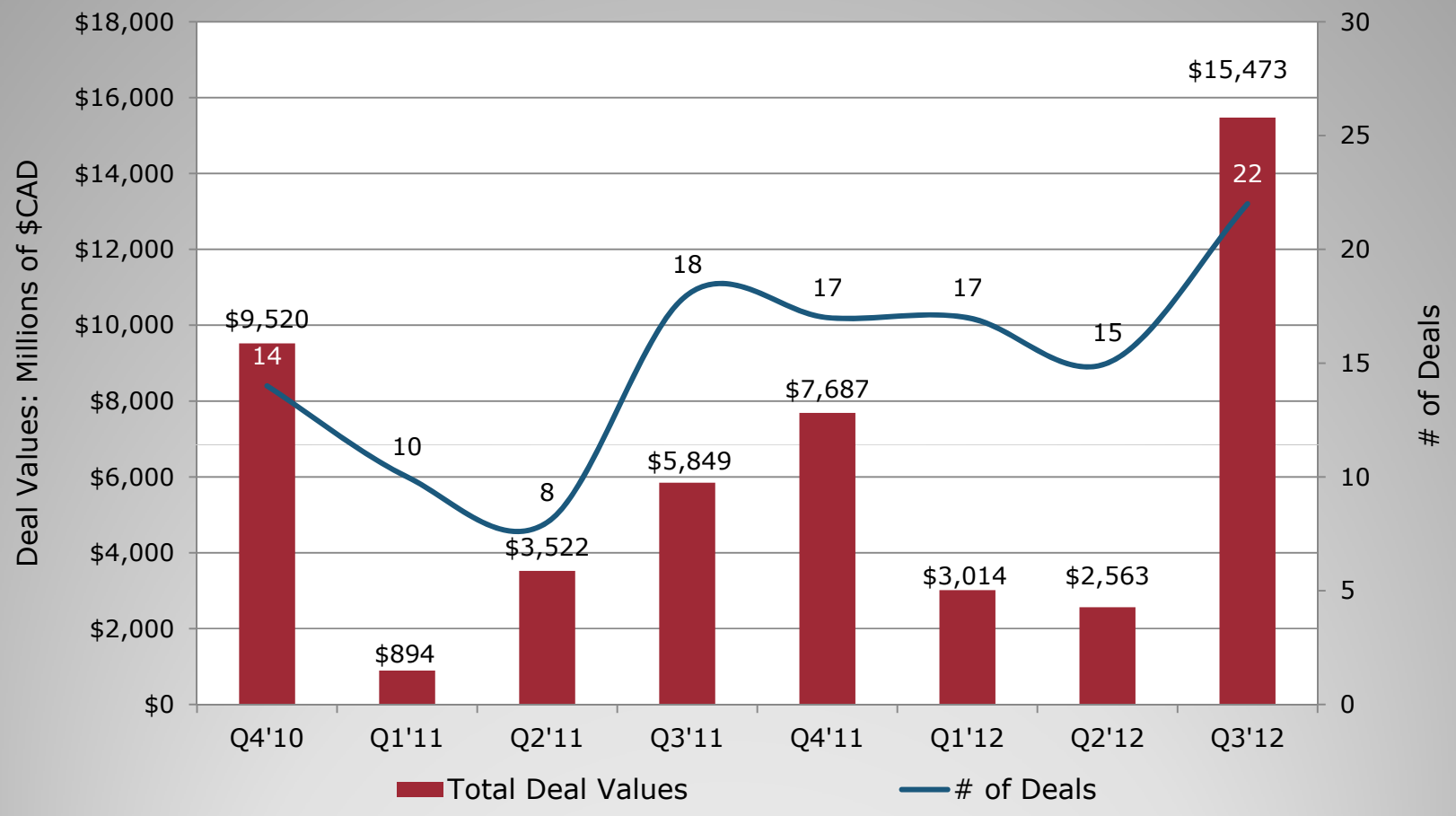
2. Canadian Fund Activity in Global Buyout & Private Equity Markets in Q3 2012



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

Canadian Deal-Making Abroad Nears Post-Slowdown Peak

GLOBAL BUYOUT-PE DEALS (DISCLOSED) INVOLVING CANADIAN FUNDS, 2007 – FIRST 9 MONTHS 2012



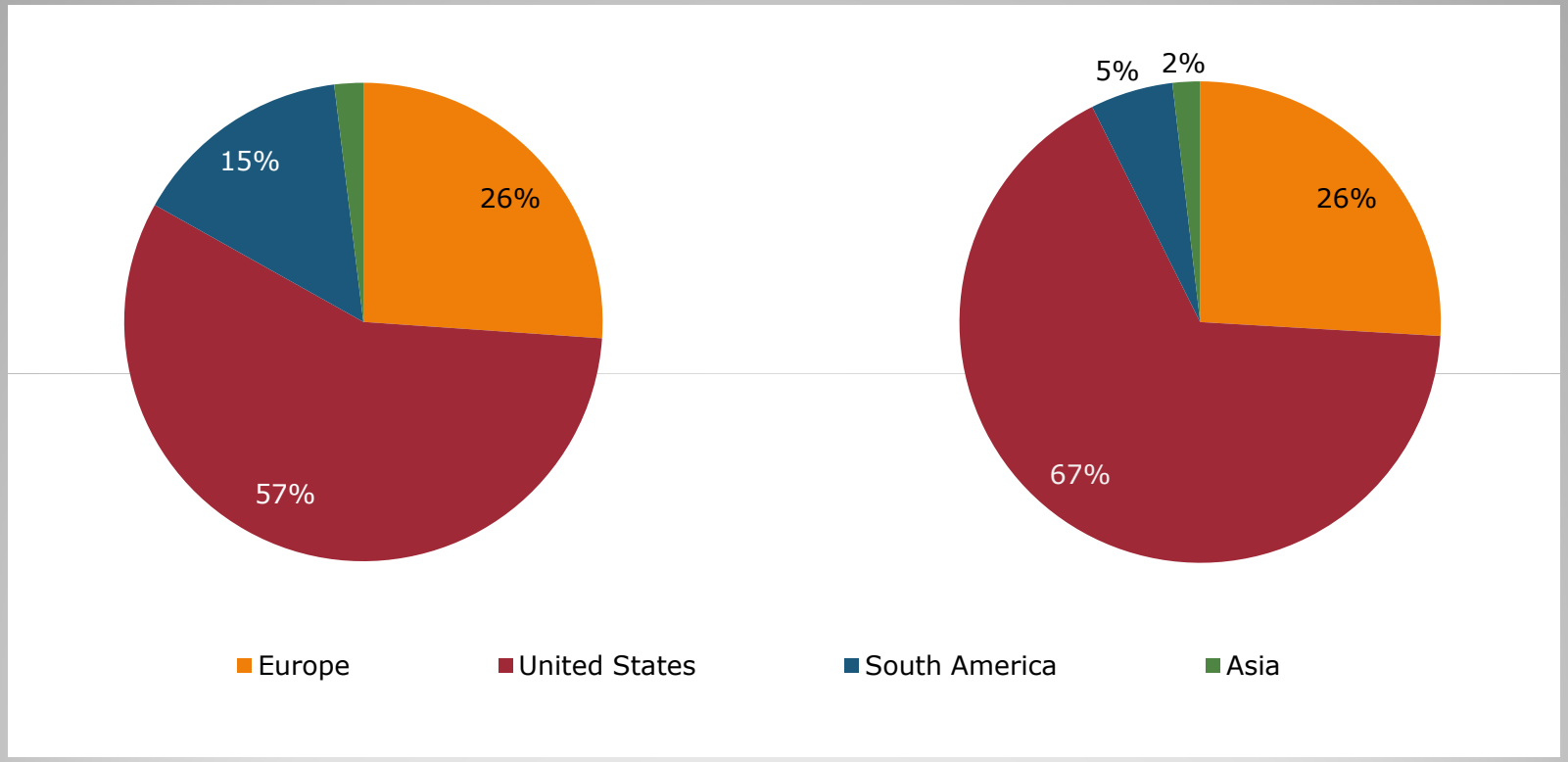
NB: For a discussion of Canadian activity in global deals, please see Explanatory Note #9 on pg. 27.

Canadian Funds Active in Multiple Global Large-Caps in Q3

GLOBAL BUYOUT-PE DEALS & DISBURSEMENTS (DISCLOSED) INVOLVING CANADIAN FUNDS, Q4 2010 – Q3 2012

Total Invested: $21.1 Billion

Total Deals: 54

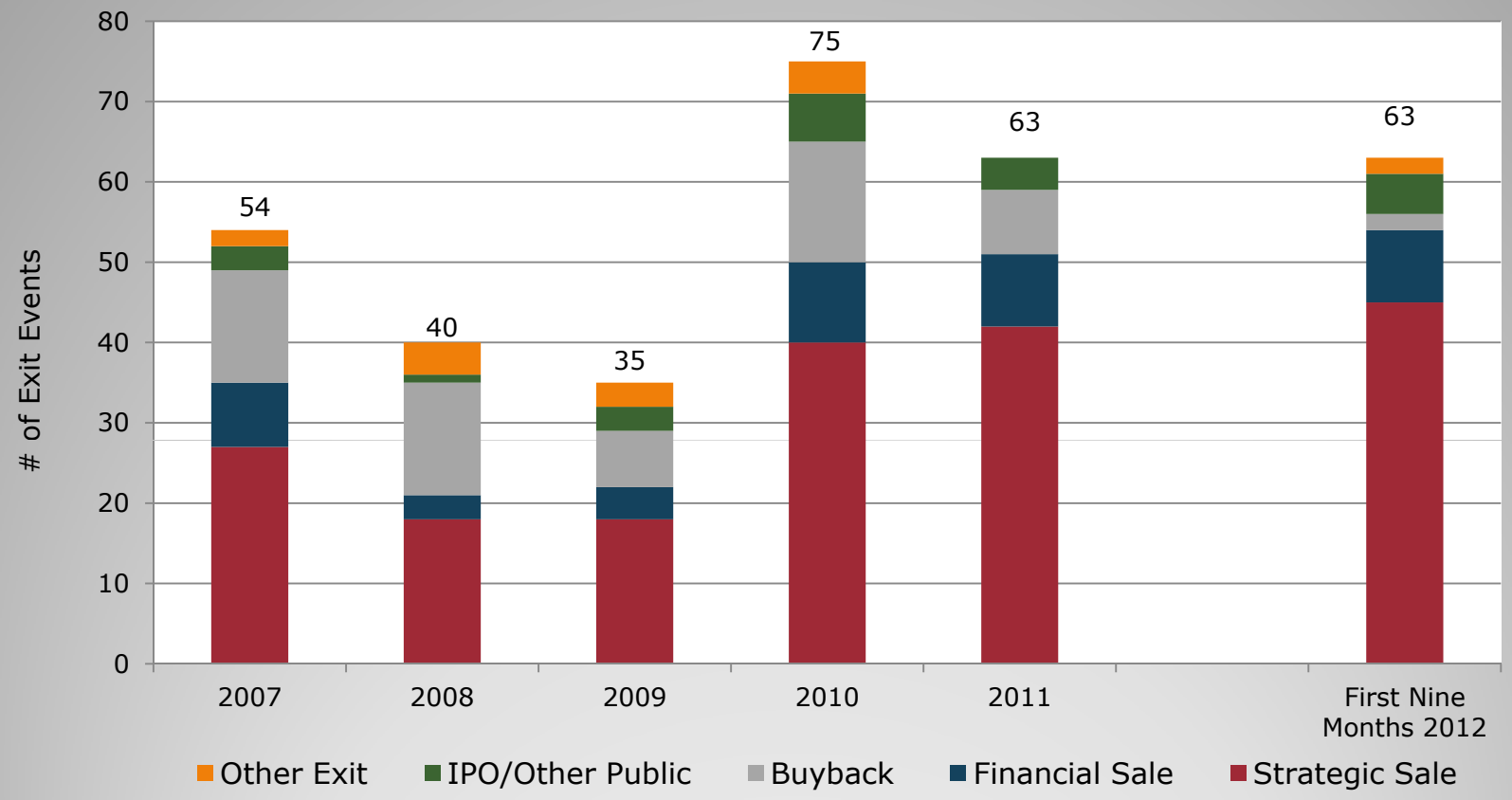


NB: For a discussion of Canadian activity in global deals, please see Explanatory Note #9 on pg. 27.

Canadian Funds Most Active in United States, Europe

GLOBAL BUYOUT-PE DEAL ACTIVITY INVOLVING CANADIAN FUNDS BY REGION, FIRST 9 MONTHS 2012

3. Canadian-Based Buyout & Private Equity-Backed Exit Activity in Q3 2012



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

Strategic & Financial Acquisitions Drive Exit Trends

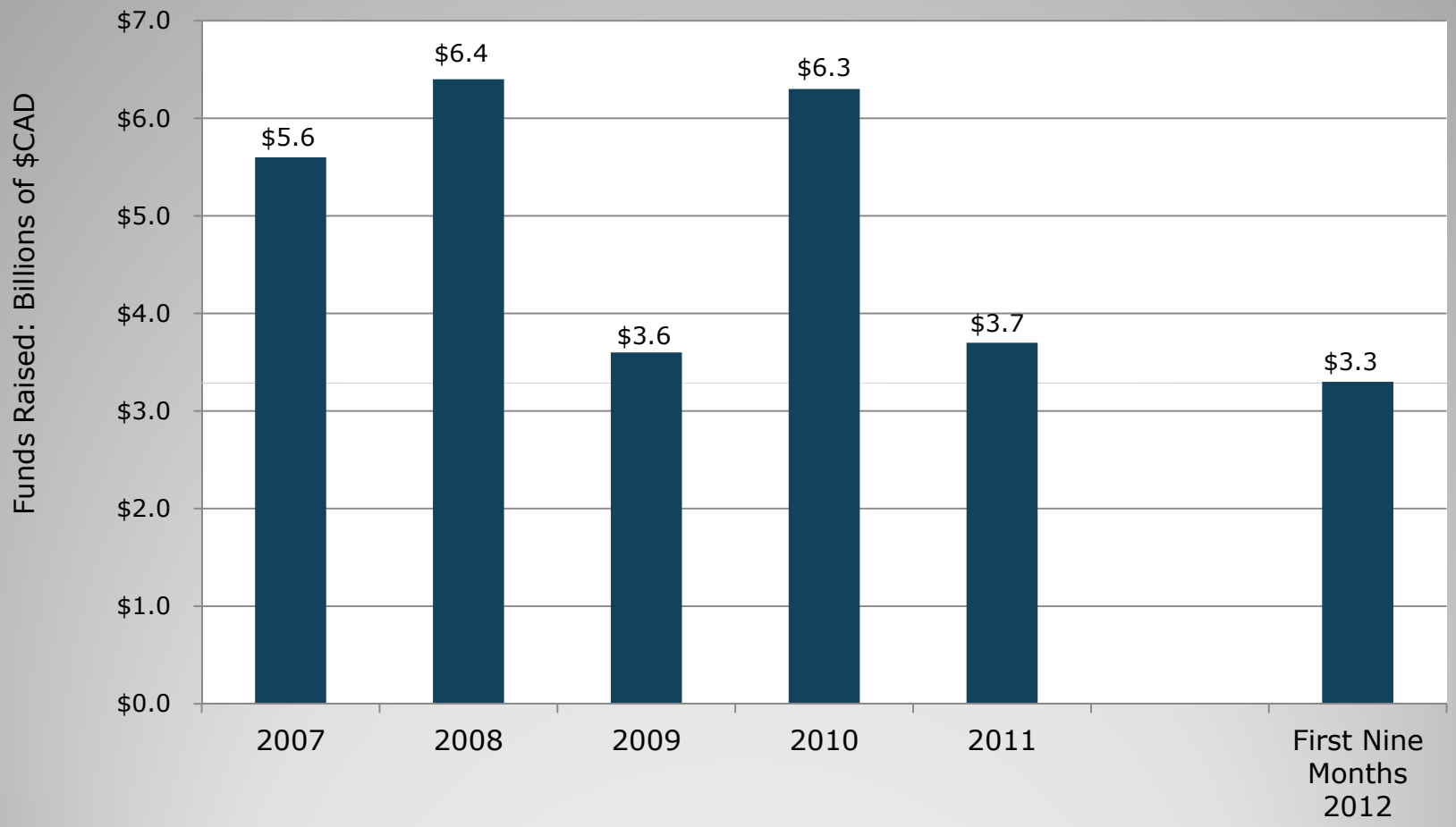
BUYOUT-PE-BACKED EXIT INVOLVING CANADIAN BUSINESSES, BY TYPE, 2007- FIRST 9 MONTHS 2012

Company	Prov.	Value ($ MM)	Investors
Viterra, Inc.	SK	$6,100	Alberta Investment Management Corp.
Progress Energy Resources Corp.	AB	$5,500	CPPIB Private Investments
Maple Leaf Sports and Entertainment, Ltd.	ON	$1,320	Teachers' Private Capital
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, YTD 2012

CAD$ MILLIONS

4. Canadian Buyout & Private Equity Fund-Raising Activity in Q3 2012



Canadian Fund Formations Bring $3.3 Billion into the Market

COMMITMENTS TO CANADIAN BUYOUT, MEZZANINE & OTHER PE FUNDS, 2007 – FIRST 9 MONTHS 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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