

VENUE® Market Spotlight

CANADIAN DEAL-MAKING OUTLOOK

June 2015 Edition

RR DONNELLEY



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WELCOME

Dear Valued Reader,

Welcome to the June 2015 edition of the *Venue Market Spotlight*. This month we take a closer look at Canadian deal-making and what the future holds for the region over the next 12 months.

Despite strong balance sheets, low interest rates and available financing, Canadian deal-making has been a bit rocky this year. The region recorded a total of 112 deals worth US\$8.6bn in Q1, the lowest quarterly deal value since Q4 2008, which saw 78 deals worth US\$7.4bn. However, while inbound M&A activity into Canada fell during Q1 (55 deals worth US\$4.2bn, the lowest since Q1 2009), outbound activity flourished also totaling 55 deals worth US\$40.3bn.

It is important to note that there are other factors responsible for the overall decline, specifically the Canadian dollar's depreciation against the US dollar, which has significantly affected Canadian businesses' M&A activity. Respondents to this month's *Spotlight* however, remain positive that deal-making activity in the region will pick up.

In addition, while the drop in oil prices seemed to affect all areas of the globe in various ways, Canada was particularly hit the hardest, alongside volatile equity markets and, of course, a weaker Canadian dollar. Canadian businesses' will look most towards foreign acquirers and private equity buyers to help increase the region's deal activity.

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As always, please enjoy this month's *Spotlight*.

Sincerely,



Tom Juhase
President, Financial Services Group
RR Donnelley

FOREWORD

Canadian M&A has had a sleepy start to 2015: in the first five months of the year, M&A declined 18% year-on-year (YoY) by volume to 215 deals, and 35% YoY by value to US\$23bn.

Several key factors have underpinned this shift. In particular, the Canadian dollar's depreciation against the US dollar has decreased Canada-based businesses' purchasing power. Also, the worldwide decline in commodity prices has been acutely felt in Canadian M&A, due to the central role of energy in Canada's economy. These challenges are reflected in this month's *Spotlight*: 48% and 32% identify the falling Canadian dollar and fluctuating commodity prices, respectively, as factors affecting deal-making in the coming year.

That said, respondents are cautiously optimistic about Canadian M&A in the coming year. At 76%, a large majority expect M&A to increase significantly or to increase somewhat. While some respondents believe that this is because the overall business climate is set to improve, others believe that foreign investors will be attracted by the relative inexpensiveness, along with the underlying health, of Canadian firms. Respondents anticipate that, particularly in the energy sector, foreign acquirers will look to pick up assets from businesses that are struggling due to the broader business climate, but have good long-term growth prospects. Throughout the study, respondents highlight that sound strategic purchases, rather than opportunism, will underpin M&A in the coming year.

Overall, respondents in this month's *Spotlight* present a number of avenues and drivers for growth. While Canadian M&A has faltered due to a challenging business environment, the underlying fundamentals for growth are present: attractive assets, interested buyers, and strategic opportunities.

Other key findings include:

- At 76%, a clear majority of respondents believe that the average size of Canadian deals will be between US\$26m and US\$100m. This is generally consistent with announced figures from the first half of the year, in which 16% of announced deals had values between US\$26m and US\$100m – the second most active deal size segment. However, the most active segment of the market was between US\$5m and US\$25m, accounting for 21% of announced activity.
- Forty-four percent of those interviewed say that the biggest buy-side driver in the coming year will be strategic purchases. Some respondents even say that financial considerations will likely take a backseat to strategic ones, as this will help buyers increase profitability and synergies in the longer term.
- Unsurprisingly, a large majority of respondents (80%) tip Energy, Mining and Utilities to be the busiest sector in the coming year. This sector is historically the largest sector in Canada by both volume and value.

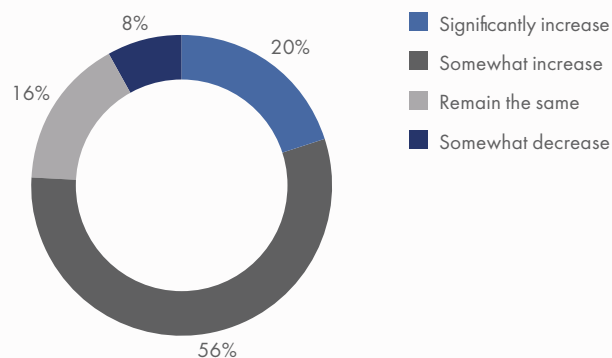
“

Seventy-six percent of respondents expect Canadian M&A activity to increase in the next 12 months.

”

SURVEY

What do you expect to happen to Canadian M&A activity over the next 12 months?

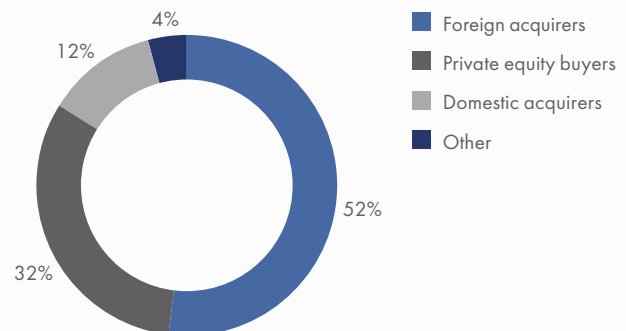


Three in four respondents (76%) expect that Canadian M&A will increase in the next year. While 2015 YTD dealmaking figures have been depressed relative to the same period in 2014, these findings may indicate that a revival is on the horizon.

Interestingly, respondents who expect M&A to increase offer starkly contrasting reasons why this is so. Some point to a gradual improvement in the broader business climate. For instance, the CFO of an energy company says, "The Canadian economy is now rebounding and offers strong growth for deal-makers. This will accelerate M&A, with corporates developing firm expansion strategies." But a sizeable share of respondents anticipating an M&A increase point to a weak business climate as the driver: "The growing distress in the region will encourage strategic and financial buyers to approach the Canadian market and they will target businesses with potential, but which are unable to manage due to lack of investment capabilities and exhaustion of capital," notes the CEO of an energy company.

A slim 16% and 8% expect M&A to remain the same, or to somewhat decrease, respectively. When explaining their views, respondents point to currency fluctuations and recent declines in M&A. For instance, the managing partner at a private equity (PE) firm notes, "Looking at the sudden drop in deal-making activity, which was due to a variety of reasons like price volatility and currency fluctuations, investors will focus on other regions, mainly Asia and Latin America."

What type of buyer will become increasingly active over the next 12 months?



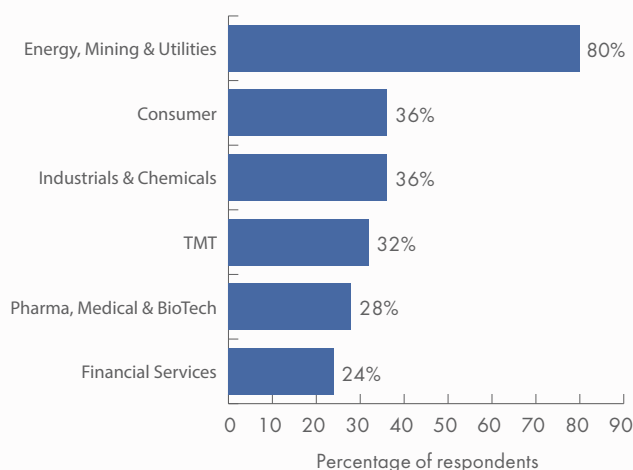
Over half of respondents (52%) expect that foreign acquirers will become increasingly active over the next year. These predictions align with the current deal-making landscape: in the first five months of 2015, 49% of deals involved a foreign bidder. In explaining the drivers behind international interest, several respondents again point to the relative cheapness of Canadian assets: "Availability of undervalued targets in Canada and the current favorable regulatory environment for foreign direct investments will attract foreign buyers," comments the CFO of a technology company.

An additional 32% of interviewees expect to see increased activity from private equity. The CFO of an energy company notes, "Private equity buyers have been active in Canadian M&A, as they have a knack for transforming businesses and making them productive through their tried and tested strategies. PE firms would not hesitate in making further investments as long as they find that it would raise the value of the acquired business."

Meanwhile, a slim 12% believe that domestic acquirers will be the most active. Just as international corporations will look to take advantage of the weak Canadian dollar, so too will some Canada-based corporates, according to the managing director of a PE firm: "Domestic buyers will take the volatility situation as an opportunity to invest in new regions and closely related sectors, so that they can cut down on operational costs and middle party expenses."

SURVEY (CONTINUED)

Which sectors in Canada will see the most activity in the coming year? (Select all that apply)

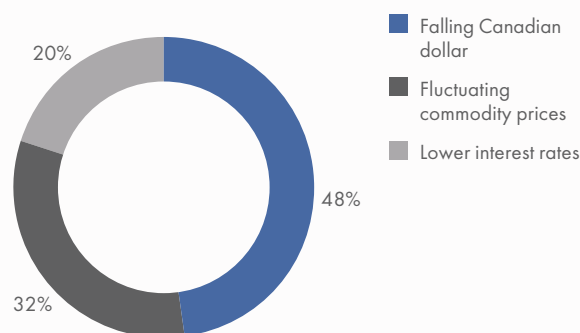


At 80% a clear majority of respondents point to Energy, Mining and Utilities as M&A's busiest industry in the next year. This tallies with industry data from January through May 2015, in which the sector accounted for 27% and 65% of Canadian M&A volume and value, respectively. Several respondents point to oil price volatility as the key driver of M&A: "The energy sector is affected by the fall in oil and gas prices throughout the globe. Thus energy corporates are trying to stabilize their balance sheets by embarking on new deals that will help reduce the operational expenditures once the combined business has restructured," notes the CFO of an Energy, Mining and Utility company.

Following this, respondents are relatively mixed as to the busiest industries in Canada: between a quarter and a third of respondents point to Consumer, Industrials and Chemicals, TMT, Pharma, and Medical & BioTech as the sectors that will see the most activity.

ENERGY WILL SEE THE GREATEST M&A ACTIVITY

What economic factor would affect deal-making in Canada the most in the coming 12 months? (Select the most important)

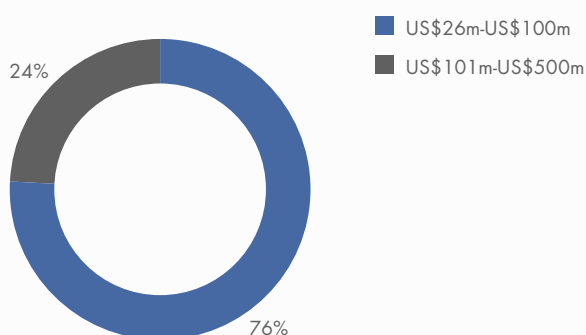


Respondents point to several factors that will likely affect Canadian M&A in the coming year. Still, interviewees mention throughout the study that the falling Canadian dollar has presented challenges for businesses, but has also helped pique international acquirers' interest in Canadian assets. Accordingly, the largest share (48%) point to currency weakness as the most pressing. "The fall in the Canadian dollar is sure to have an impact on businesses, as their fund values will drop in reserves. These businesses may have to take out more debt. This will drive foreign buyers to Canada, as they will find it easier to convince Canadian businesses to sell by offering them capital," comments the vice president of finance at a PE firm.

Following this, a sizeable share of respondents (32%) say that fluctuating commodity prices will affect deal-making. Interestingly, some respondents say that this will cause M&A figures to falter, while others view it as a growth opportunity.

Further, 20% of respondents indicate that low interest rates will affect M&A. All of this sub-set believe that the low interest rate environment will be a boon to deal-making. According to the CEO at a technology company: "Low interest rates and availability of credit at low costs are facilitating businesses to conduct expansion strategies and in increasing their presence in the market."

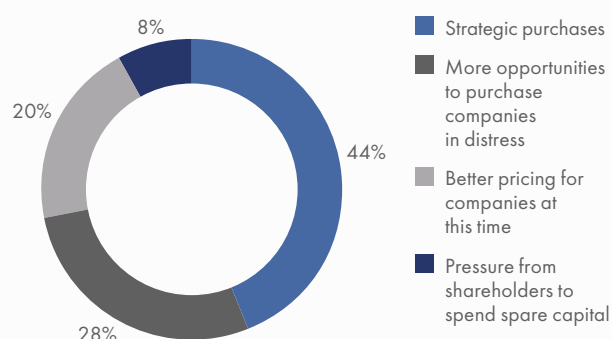
What do you expect to be the average deal size for Canadian activity?



A clear majority of respondents (76%) expect that the average deal size will be in the lower and middle market, in the value range between US\$26m and US\$100m. This broadly chimes with announced findings in the first half of the year, with the largest share of deals valued at under US\$100m (although the largest share of announced deals were valued between US\$5m and US\$25m). While some respondents report that the anticipated deal size is due to Canada's weak economic environment, many others point to the robustness of the Canadian mid-market: "Most deals will involve SMEs consolidating as a result of increasing competition in the market. Also, there is a strategic focus to increase growth through combined efficiencies, resources and infrastructure," comments the CFO of a transportation company.

Still, a substantial minority (24%) point to US\$101m – US\$500m as the average deal size. Respondents again attribute this view to increased foreign corporate and PE interest in comparatively cheap Canadian assets. "Foreign cash rich acquirers are aware of the Canadian market conditions and will aim at capturing large businesses at a relatively low price than actual value, which likely means that the average deal size will be between US\$101m and US\$500m," the managing director of a PE firm explains.

What will drive activity in Canada in the coming year from the perspective of buyers?



When considering Canadian M&A activity in the coming year, respondents point to a range of buy-side drivers. The largest share of the survey pool (44%) say that, for buyers, strategic purchases will be the biggest spur to activity. A number of these respondents highlight many Canadian businesses' health and growth potential in attracting buyers: "Buyers will choose to make strategic purchases and will work on business integration when undertaking deals. Acquirers want to remain competitive, and so will focus more on strategy than financials. This will be helpful to both parties in the long-term," says the managing director of a PE firm. Still other respondents in this sub-set note that, while the Canadian economy is weaker, the primary appeal of acquiring Canadian businesses is synergistic and growth-oriented.

That said, 28% of respondents believe that more opportunities to purchase distressed companies will be the primary driver of M&A. The managing director of a PE firm elaborates: "Companies that are not able to manage the economic storm and the low economic environment may offer to sell their businesses in the next year. Prospective buyers will assess potential targets, and could end up with a good bargain."

Similarly, 20% of respondents say that the key buy-side driver will be better pricing for companies.



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Notable Q2 deals in the room

Venue® data room: A special report

Connexivity Inc.
acquires
PriceGrabber®
June 16, 2015

Industry: Retail

Microsoft Corporation
acquires
6 Wunderkinder GmbH
June 1, 2015

Target: 6 Wunderkinder GmbH
Counsel for Target: Fenwick & West LLP
Counsel for Buyer: K&L Gates
Private Equity Firm for Seller: Earlybird
Venture Capital GmbH & Co KG; Sequoia
Capital; Atomico; e42 GmbH
Industry: Computer software; Internet /
ecommerce

Avago Technologies Ltd
acquires
Broadcom Corporation
May 28, 2015

Financial Advisor for Target: Evercore Partners Inc;
JP Morgan
Counsel for Target: Davis Polk & Wardwell LLP; Paul
Weiss Rifkind Wharton & Garrison LLP; Skadden Arps
Slate Meagher & Flom LLP; Sullivan & Cromwell LLP;
WongPartnership LLP
Financial Advisor for Buyer: Bank of America Merrill
Lynch; Barclays; Citi; Credit Suisse; Deutsche Bank AG
Counsel for Buyer: Latham & Watkins LLP; Simpson
Thacher & Bartlett LLP
Industry: Computer; Semiconductors; Computer
software; Telecommunications: Hardware

Evercore
acquires
Kuna & Co.
May 27, 2015

Target: Kuna & Co.
Counsel for Target:DLA Piper
Counsel for Buyer: Freshfields
Bruckhaus Deringer LLP
Industry: Investment Banking

Starwood Capital
acquires 50 hotels from
Mount Kellett Capital
Management
May 19, 2015

Industry: Leisure; Accommodation;
Restaurants/Pubs

Verizon acquires AOL
May 12, 2015

Financial Advisor for Target: Allen &
Company LLC
Counsel for Target: Wachtell, Lipton,
Rosen & Katz; White & Case LLP
Financial Advisor for Buyer:
Guggenheim Partners, LLC; LionTree
Advisors, LLC
Counsel for Buyer: Weil Gotshal &
Manges LLP
Industry: Internet/ecommerce

**TerraForm Global,
Inc. IPO**
May 7, 2015

Issuer: TerraForm Global, Inc. IPO
Counsel for Issuer: Kirkland & Ellis LLP
Counsel for Underwriter: Latham &
Watkins LLP
Underwriter(s): J.P. Morgan; Barclays;
Citigroup; Morgan Stanley
Industry: Energy: Electrical power
generation; Alternative energy

**Twitter acquires
TellApart**
April 28, 2015

Target: TellApart, Inc.
Private Equity Firm for Seller:
Bain Capital LLC; Greylock
Partners
Industry: Internet / ecommerce;
Media; Advertising; Search en-
gines and other internet enabling
technology

GoDaddy IPO
April 1, 2015

Issuer: Go Daddy Inc
Counsel for Issuer: Wilson Sonsini
Goodrich & Rosati, P.C.
Counsel for Underwriter: Davis Polk &
Wardwell LLP
Underwriters: Morgan Stanley;
JP Morgan; Citigroup; Barclays;
Deutsche Bank Securities; RBC Capital
Markets; KKR; Stifel; Piper Jaffray;
Oppenheimer & Co.; JMP Securities
Industry: Internet / ecommerce

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ABOUT RR DONNELLEY

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About Venue

Venue is a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. Venue data rooms provide complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

Venue data rooms are backed by RR Donnelley, a \$11.6 billion corporation with more than 500 locations and over 65,000 employees worldwide. RR Donnelley's total revenues are larger than all other virtual data room providers combined. We bring extensive experience to providing integrated communications services.

For more information regarding Venue, RR Donnelley, or this report, please contact us directly.

RR DONNELLEY AT A GLANCE

\$11.6 billion	2014 net sales
65,000+	Employees
500+	Global locations
Nearly 125	Manufacturing locations
750+	Issued and pending patents
Nearly \$2 billion	Capital investments over the past six years

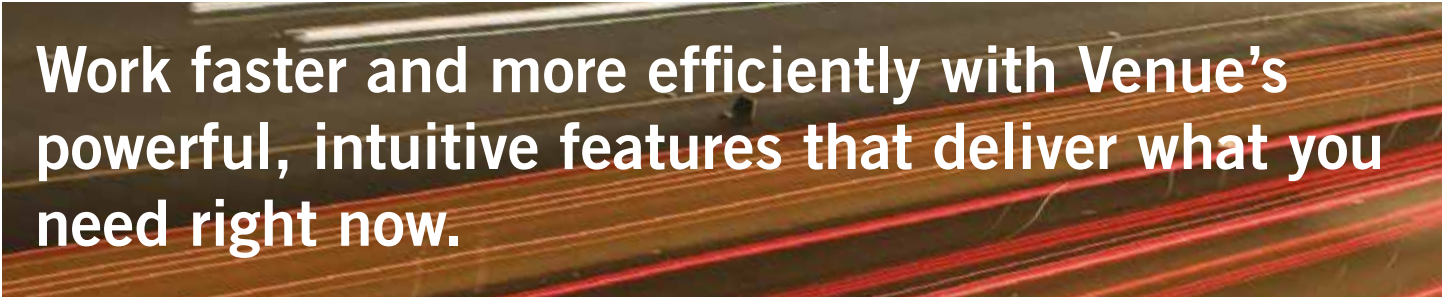
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We serve hundreds of thousands of Venue users, who are accessing content related to the highest profile deals in the market. With a Venue data room you have access to the RR Donnelley global footprint, where you can leverage our suite of financial services—everything you need from pre-negotiation to post-transaction filing and archiving—anytime, anywhere.



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User activity reports: Track exactly who is—or isn't—accessing the files of your data room with instant, real-time reports.

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