

## MACQUARIE TO BUY ORION

\$147M DEAL EXPECTED TO CLOSE IN 10 WEEKS

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Australian investment bank Macquarie Group is aggressively expanding its Canadian operation with the \$147-million purchase of institutional brokerage house Orion Financial Inc., which focuses on mining and energy plays.

The purchase, six months in the making, catapults Macquarie into domestic stock trading and research, and doubles its local presence by adding 130 Orion employees in Calgary, Toronto and Montreal to existing Macquarie teams in five Canadian cities. Globally, Macquarie is a \$20-billion Canadian investment bank with offices in 24 countries.

"Orion's strengths in finance, trading and research fit neatly into our global footprint," said Paul Donnelly, a Sydney-based executive director at Macquarie who will move to Toronto to lead the Canadian dealer.

Orion chairman Dan Cristall said he entered into talks when Macquarie first called in April because the Canadian dealer had been looking at ways to profitably expand its services, "and Macquarie gives us the ability to offer our clients a far larger tool box."

Macquarie is known in Canada for infrastructure and mining expertise, and often uses its own capital in transactions as a private equity investor. It owns a stake in Ontario's 407 toll highway, for example.

Over time, Mr. Donnelly said Macquarie plans to roll out its global strengths in Canada, with plans to focus on real estate, tech, media and telecom. Macquarie can also offer Canadian resource companies access to the London Stock Exchange's AIM market, where the Australian bank is a major player.

"This deal jumps Orion over local rivals such as GMP, Canaccord and Cormark," said John Varghese, managing partner at VentureLink LP, a fund that is a long-time investor in the Canadian dealer. These three dealers also focus on financing and trading small cap Canadian stocks.

Employee-owned Orion, formerly known as Yorkton Securities, made a pretax profit of \$41-million in the last fiscal year, when resource plays were booming. This deal is expected to close in three months, and the combined firms will be called Macquarie Capital Markets Canada. The Australian bank will put down \$30-million in cash, and pay the rest of the purchase price by issuing shares that vest over five years.

Consolidation has been a theme on Bay Street for two decades, with employee-owned houses being snapped up by local and global banks.

Foreigners have met with mixed results when acquiring Canadian brokerage firms, as the intensely competitive domestic market is dominated by the six bank-owned firms. Orion's small-cap focus also exposes the dealer to profit swings that reflect the fortunes of resource stocks. For every foreign bank that has built a successful domestic equity desk, such as Switzerland's UBS Securities or Florida-based Raymond James, there are any number of global dealers that retreated from the local market.

Mr. Donnelly said Macquarie has succeeded on past acquisitions by focusing on retaining talent through compensation and culture. "This is all about being local," said Mr. Donnelly. "Macquarie has built one of the largest foreign banks in Korea, for example, because that business is run by Koreans."

The Macquarie purchase will see Mr. Cristall remain as Calgary-based head of the 12-person energy group, while Doug Bell will continue to run the mining franchise. The Australian bank has set aside an additional 250,500 shares, worth \$17-million at today's prices, as a five-year retention bonus for key Orion employees.

Orion president and chief executive officer John Budreski, who joined the firm in 2005 from Scotia Capital Inc., plans to leave after the deal closes.

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