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M&A Market Surged Through 2006

By Bryan Borzykowski

Canada's mergers and acquisitions market had a banner year in 2006, with 22% more activity over the previous 12 months, according to Crosbie & Company's Canadian M&A Activity — Fourth Quarter 2006 Report. The study says that in 2006, 1,968 deals were announced. That's up from 1,613 transactions in 2005.

“The conditions for M&A in Canada have never been better,” said Ed Giacomelli, Crosbie's managing director, in a press release.

Bolstered by the \$8.7 billion Q4 deal between Royal Dutch Shell and Shell Canada, the total transaction value of the year was \$257 billion, compared to \$165 billion the year before. There were more than 50 mega-deals — transactions with a value in excess of \$1 billion — which accounted for \$172 billion.

The most active sector in 2006 was oil and gas, with 384 deals accounting for \$56.9 billion. That's an increase of 32% over the \$43 billion transacted the previous year.

Close behind is the metals and minerals sector. With 247 transactions, valued at \$54 billion, the sector significantly improved over 2005, which saw only \$9.5 billion in deals. The dramatic increase was helped by the \$19.9 billion acquisition of Inco by Brazil's Companhia Vale do Rio Doce, and the \$19.2 billion deal between Falconbridge and Xstrata.

Real estate deals also improved over 2005. Last year, 80 transactions were made, with a total value of \$9.6 billion, up 44% from the year before.

Last year as a whole was impressive, but Q4 saw some major deals take place. The second-largest transaction, behind the Shell acquisition, was the Four Seasons takeover by Kingdom Hotels International for \$3.7 billion US. Other major deals included TransCanada and El Paso's acquisition of ANR Pipeline, valued at \$3.4 billion US, and Kinross Gold's takeover of Bema Gold for \$3.2 billion US.

While these mega-deals contributed to the increased values in the M&A market last year, it was the mid-market segment that made the lion's share of transactions, accounting for 70% of the market's activity. The value of mid-market deals was up 14% over 2005 to \$24.6 billion, and the number of transactions increased 17% to 1,368.

Crosbie and Company also point out that cross-border activity was higher than it's been in years. Nine out of the 10 biggest acquisitions in 2006 involved an international component, while 76% of all M&As involved cross-border partners. That's up from 59% in 2005. These high numbers are a result of Canadian companies spending \$70 billion to acquire foreign companies, and out-of-country business buying Canadian corporations for a total of \$102 billion.

Giacomelli says that the M&A forecast for the coming year continues to look strong. "Based on everything we're seeing today, we would expect the market to be robust certainly through the first part of 2007. Liquidity continues to be so strong, we don't see it letting up."