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M&A Activity Surged in Q4

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The Canadian M&A market continued its momentum into the fourth quarter of 2010, making it the third successive quarter of increased M&A activity in terms of both transaction volume and value, according to the Financial Post Crosbie: Mergers & Acquisitions in Canada database.

Riding on the back of the announcement of 302 transactions, the value of M&A transactions increased by 12%, to \$52 billion. Banks and financial sponsors led from the front with increased cross-border activity and by setting a consistent pace of mega-deals (transactions above \$1 billion). Both transaction volumes and values increased by 19% in 2010 over last year.

“We have come a long way from the trough in the M&A market in 2009,” said Ed Giacomelli, managing director at Crosbie & Company. “The depth and breadth of M&A is impressive given where we came from.”

It was also the quarter that clocked the highest activity level for deals above \$100 million with 20 announced transactions, with a combined value of \$14 billion. Major Canadian pension funds featured in 12 of these 20 transactions.

“It was noteworthy that almost all of the large Canadian pension funds announced transactions in the quarter,” said Giacomelli. “The acquisitions are consistent with the strategic focus of these funds on inflation-hedged assets such as infrastructure and real estate.”

Canada Pension Plan and Ontario Teachers’ Pension Plan picked up right where they left off last quarter, as CPP announced four transactions and Teachers’ announced three. OMERS and Caisse de dépôt et placement du Québec were involved in two acquisitions each and Alberta Investment Management Corp. and British Columbia Investment Management Corp. also participated in the quarter with one acquisition each.

With 46 transactions worth \$36 billion, 2010 ended as the best year on record in Canada for financial sponsor activity in terms of both transaction volume and value.

The largest deal of the quarter was the \$6.4 billion acquisition of Chrysler Financial by TD Bank followed by another banking deal where Bank of Montreal acquired Wisconsin-based Marshall & Ilsely Corporation for \$4.2 billion.

“Four of the five major Canadian banks announced large acquisitions, three of which were of foreign businesses,” said Giacomelli. “Further expansion of the Canadian banks into these markets comes as no surprise given their financial strength and prior acquisitions.”

Cross-border deals continued to dominate the Canadian M&A scene as 9 of the top 10 deals in the fourth quarter involved an international counterparty. Returning to pre-recession levels, the contribution of cross-border transactions to overall M&A values increased significantly to 80% for the same period.

Outbound M&A volume in the fourth quarter was consistent with recent trends as volume of Canadian led deals outpaced the volume of foreign led deals by over 2-to-1. Contrary to the long-term trend of deal values in favour of foreign acquirers, the value of Canadian led deals significantly outweighed the value of foreign led deals by over 2.5-to-1 in the fourth quarter as the five largest cross-border transactions of the quarter were led by Canadian companies.