

FEBRUARY 27, 2009

Deal-Making Slowed in Q4

By Steven Lamb

It was a bad year on so many levels, but the strikes against 2008 continue to add up. The final quarter of last year marked the lowest point since 2005 for mergers and acquisitions, according to specialty investment banker Crosbie & Company.

There were a total of 271 new transactions announced in Q4, a decline of 31% from Q3, with a total value of \$17.8 billion, which is down 66% from the previous quarter. For the full year, there were 1,467 deals announced, worth \$114.8 billion — declines of 27% and 64%, respectively, relative to a record year in 2007.

Hardest hit was the top end of the market, with just four mega-deals — those with a value over \$1 billion — announced in Q4, compared to 60 in Q3 of 2007.

The largest deal announced was the US\$2.5 billion sale by George Weston of its U.S. baked goods business to Grupo Bimbo SAB de CV of Mexico. The second biggest deal was an all-Canadian affair, with Bank of Nova Scotia's paying \$2.3 billion for Sun Life's 37% stake in CI Financial.

Rounding out the top three was Sinopec's \$2.0-billion acquisition of Tanganyika Oil.

Industrial products and the energy sectors saw the most activity, making up 23% and 21% of deal volume, respectively. Oil and gas led in terms of deal values, with a total of \$6.4 billion in transactions announced, followed by the consumer sector, with \$5.0 billion of total deals announced.

Cross-border activity declined from 141 deals in Q3 to 97 transactions in Q4.

Deteriorating market conditions appear to be setting the stage for more opportunistic deal-making.

"In recent weeks we have seen a sharp shift in the M&A mix, with more transactions involving distressed assets as companies grapple with deteriorating operating results and challenges in refinancing debt obligations," said Ian Macdonell, managing director at Crosbie & Co. "We also expect to see more hostile bids as companies with strong balance sheets look to take advantage of the buying opportunities presented by current market valuations."