

NOVEMBER 14, 2007

## **Credit Woes Have Little Impact on M&A**

By Mark Noble

The Canadian mergers and acquisitions market remained strong in the third quarter, despite problems in the North American credit markets, according to data compiled by Crosbie & Company.

The value of M&A announcements in the third quarter totalled \$91 billion, according to *Financial Post Crosbie: Mergers & Acquisitions in Canada*. This is the second highest quarter on record in terms of deal value. Still, the figure pales in comparison to that of the second quarter of this year, which had \$166 billion in deals announced.

Ian Macdonell, managing director of Crosbie & Company, says despite the drop-off in M&A activity, the number is impressive since the credit markets, which are used to finance large, highly-leveraged buyouts, have been distressed.

"While the credit crunch has virtually shut down the market for highly leveraged buyout transactions for now, the core M&A market, driven by strategic buyers, continues to be very strong," Macdonell says. "Positive factors that continue to drive M&A activity include globalization, demographics, strong corporate balance sheets as well as a reasonably positive economic outlook."

With transactions worth over \$319 billion announced during just the first three quarters of 2007, Canada has surpassed the previous record high of \$257 billion set for the full calendar year of 2006. There were 12 transactions over \$1 billion, down from a record high of 23 in Q2, but in line with other recent quarters. There were 460 transactions announced in Q3, down 11% from 517 transactions in the second quarter.

At \$45 billion, the industrial products sector accounted for approximately half of all transaction value in the third quarter. This sector included the massive acquisition of Alcan by Rio Tinto and U.S. Steel's purchase of Stelco.

The report notes that the three single largest transactions were the acquisitions of Alcan, Western Oil Sands and PrimeWest Energy Trust. All three were cross-border transactions that had a foreign buyer acquiring a Canadian company.

Foreign acquisitions of Canadian companies represented only a minority of the 188 cross-border deals announced in Q3. Canadian acquisitions of foreign companies exceeded foreign takeovers of Canadian companies by a margin of 2.2:1. However, the value of foreign acquisitions greatly exceeded the Canadian acquisitions.

Macdonell says capital groups such as private equity had a drastically diminished role in Q3. They accounted for only 9% of the deal value for transactions in excess of \$100 million, compared to 42% in Q2.

"Of particular note, there wasn't a single capital group-sponsored transaction in excess of \$100 million announced in October," Macdonell says. "However, with the amount of committed private equity and pension fund money sitting on the sidelines, it's only a matter of time before the market adjusts to the changes in debt availability and pricing and we see buyout activity pick up again."

Acquisitions by multinational companies, rather than private equity or pension funds, might be a welcome development, according to a new StatsCan study.

Foreign multinationals make valuable contributions to the Canadian economy and make large investments in knowledge creation via investments in innovation, advanced technology and skilled labour.

The share of non-financial assets under foreign control fell during the more restrictive era of the 1970s and the early 1980s, and rebounded with the subsequent introduction of a less restrictive regulatory environment, StatsCan says.

Current levels of multinational activity are similar to historical levels. By 2005, the overall level of foreign control in non-financial industries was at almost the same level as it was during the mid-1960s.

StatsCan mentions, though, that the productivity of foreign companies in Canada may have more to do with their internationally oriented business models than superiority to Canadian firms.

Canadian firms with an eye to the global market often stack up well against foreign multinationals.