

SEPTEMBER 3, 2008

## M&A Declines to Five Year Low

*The number of corporate takeovers and combinations in Canada slumped to the lowest level in almost five years during the April-June quarter as the credit crunch stifled large debt-powered transactions.*

By: Romina Maurino

TORONTO -- Merger and acquisition activity totalled \$18.4 billion in 2Q08, according to data compiled by investment bank Crosbie & Co.

There were 416 M&A transactions announced in the period, compared with 377 transactions valued at \$24.5 billion in the first quarter. The second quarter of last year saw a record 552 announcements valued at \$163.5 billion.

In the latest quarter, mid-sized transactions accounted for 74% of activity and almost 70% of deal value, while "mega-deal" activity stalled with only two transactions greater than \$1 billion.

"Credit available for new large leveraged transactions evaporated in the quarter," observed Ed Giacomelli, managing director at Crosbie & Co.

"The dislocation in credit markets in Q1 and overhang related to previously announced mega-deals took a toll on leveraged deals in Q2."

The largest announced transaction was Precision Drilling Trust's (PD.UN) \$2.1-billion bid for Grey Wolf Inc. (GW). The quarter's other large deal was Enbridge Inc.'s (ENB) \$1.3-billion sale of its 25% stake in Spanish pipeline operator Compania Logistica de Hidrocarburos to a consortium including the Public Sector Pension Investment Board.

By sector, oil and gas and industrial products accounted for 47% of total transaction volume and a total value of \$9.1 billion, Crosbie & Co. said.

John Kinsey, a portfolio manager at Caldwell Securities in Toronto, said the energy sector was the most likely to see continued activity going forward, even though the credit situation isn't likely to improve any time soon.

"We have really too many junior oil and gas companies and right now some of the larger companies are flushed with cash," Kinsey said.

"In the case of (Imperial Oil parent) Exxon Mobil and some of these other larger U.S. companies, they are increasing their dividend and buying shares back, but that doesn't remedy the real problem that they have of their reserves running down. By buying, say, Canadian companies, they would increase their reserves and their production."

International companies, which in recent years looked to Canada for takeovers of nickel miners Inco and Falconbridge, as well as retailer Hudson's Bay, may very well return to for energy companies such as Talisman (TSX:TLM) and Petro-Canada (PCA), Kinsey said.

Financial groups ended the quarter with eight recorded transactions, led by the Ontario Teachers' Pension Plan's \$645-million purchase of half of Chilean electrical utility SAESA.

Following up on the previous quarter's \$3.7-billion takeover of CHC Helicopter Corp. (FLY.A), American private equity firm First Reserve Corp. snapped up Saxon Energy Services Inc. (SES) of Calgary for \$592 million.

Cross-border activity totalled 169 transactions worth \$12.6 billion, or 41% of overall transaction volume and 69% of total M&A value.

The seven largest transactions in the quarter were cross-border deals. For the third quarter in a row, the number of acquisitions by Canadian companies exceeded those by foreign-based entities.

However, foreign acquirers outspent their Canadian counterparts, bucking the trend of the past two quarters.

Canada's role as an acquirer, Kinsey said, may come down to what happens to the oil price.

"If it comes down that might even spur more mergers and activity, because people don't like to do things at the top of the market," he said.