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Canadian Takeover Deals Up 10% by Volume: Report

By: Eric Lam

Canadians bought and sold more companies in the second quarter ended June 30 with 416 new announcements worth \$18.4-billion compared to 377 for \$24.5-billion last quarter, but analysts warn the disturbing lack of "megadeals" and surprisingly low total value of acquisitions are a bad sign.

"We're talking about recession in Canada and the U.S.," Crosbie managing director Ed Giacomelli said Wednesday. "That tends to produce a lack of confidence in mergers and acquisitions.

"When large deals are not being pursued I don't see that turning around. I'm concerned that may trickle into the small markets."

The 2008 numbers lag far behind the record 552 announcements totaling \$163.5-billion in Q2 2007, according to the most recent *Financial Post* Crosbie Mergers and Acquisitions quarterly report.

"That was the absolute peak of the market. If I was a betting man I don't think we'll see that level of market again for a long time," he said.

However, Giacomelli said there was a healthy number of transactions propped up by increased activity in smaller markets unaffected by the global credit crisis. But the resulting \$18.4-billion total is one of the lowest since the first half of 2003 when total acquisitions hovered between \$13-billion and \$14-billion.

The report cited the credit crunch as a major factor in the dearth of "mega-deals" in Q2, and only two transactions were worth more than \$1-billion.

Still, Giacomelli was surprised the impact hasn't been worse. By all accounts, economic conditions should have undermined the M&A markets even more than it has, he said.

The largest single announcement was Precision Drilling Trust's \$2.1-billion bid for Grey Wolf, a contract oil and gas driller. This is the third time Precision Drilling has offered to purchase the company in the past month. The other deal to crack the \$1-billion mark was Enbridge's sale of its 25% stake in a Spanish oil and gas company to a group of buyers led by AMP Capital Investors for \$1.3-billion.

Meanwhile, mid-market deals (worth between \$1-million and \$500-million) accounted for 74% of all announcements. And proposed acquisitions in the oil and gas and industrial sectors also made up 47% of total deal volume, at 194 transactions for \$9.1-billion. Giacomelli calls the trend towards smaller acquisitions "tuck-ian": companies literally tucking smaller firms into divisions, instead of a merger of equals.

Cross-border deals were also key, with 169 transactions worth \$12.6-billion, 69% of total value. As well, the seven largest transactions involved foreign investors, and five of them were tied to Calgary-based companies in the oil and gas sector. This is slightly higher than normal, but in line with historical numbers, Giacomelli said.

"This tells us (smaller markets are) a very vibrant part of the Canadian economy, with many entrepreneurs wanting to sell and foreigners wanting to buy."

Foreign purchasers outspent Canadians for the first time in two quarters, but Canadian companies did out-buy their international counterparts for the third quarter in a row.