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M&A Posts Biggest Quarter Since Tech Boom

Robust conditions spur \$49.9-billion worth of deals

By John Partridge, Investment Reporter

M&A folks in Toronto and Calgary can probably afford to take a day or two off at Christmas.

They managed to help engineer \$49.9-billion worth of mergers and acquisitions in Canada in the third quarter, the highest level since the third quarter of 2000, when the technology boom was still unfolding and single deals worth \$53.2-billion were hatched.

The fourth quarter also is looking strong, at least in terms of the number of transactions, and the business should remain robust well into next year, according to Ed Giacomelli, managing director at investment bank Crosbie & Co. of Toronto, which tracks M&A activity.

The federal government boosted prospects further Wednesday by reopening the gate to new income trusts after a two-month hiatus by saying it had decided not to meddle with their tax status. "It removes a cloud from the income trust sector, which, I think, means they will remain active in M&A," Mr. Giacomelli said in an interview.

In fact, during the third quarter, real estate investment trusts and energy and other business trusts accounted for 27 per cent of the deal volume and 18 per cent of the total transaction value, with 82 mergers and acquisitions valued at \$8.9-billion in all. This compared with 28 transactions worth \$4-billion a year earlier.

This could offset what lawyers and investment bankers lost in potential fees and bonuses they had anticipated from income trust public offerings that disappeared when federal Finance Minister Ralph Goodale announced a review of the sector in September. "My understanding is that the M&A departments are going flat out on Bay Street," Mr. Giacomelli said.

The booming oil and gas sector, meanwhile, accounted for \$16.4-billion of value -- a third of the total -- and 78 of the 304 transactions in the quarter, as demand for oil reserves continued to draw domestic and foreign buyers.

The third-quarter figures also contain what in retrospect looks like the start of a trend that could be another signal that the economy -- although not necessarily M&A activity -- is at or near a cyclical peak.

Among the transactions announced during the quarter -- 97 more than a year earlier -- there were several hostile bids. They ranged from Barrick Gold Corp.'s \$9.2-billion (U.S.) offer for Placer Dome Inc. down to Livingston International Income Fund's \$180-million (Canadian) bid

for rival customs brokerage PBB Global Logistics Income Fund of Fort Erie, Ont. -- noteworthy as the first hostile takeover attempt in the income trust sector.

The list now includes Luxembourg steel giant Arcelor SA's \$4.3-billion unsolicited offer for Dofasco Inc., announced Wednesday; U.S. industrialist Jerry Zucker's run at Hudson's Bay Co.; mutual fund operator CI Fund Management's pursuit of Clarington Corp., and fertilizer maker Agrium Inc.'s bid for Royston-Clark Ltd.

"It's been a long time since we've had six or seven hostile takeover bids in the market," Mr. Giacomelli said. "You tend to see this type of activity when the economic cycle is kind of near its peak. I think that's where we're at."

M&A specialist Ken Smith, managing partner of Secor Consulting in Toronto, suggested that some of the stimulus for the growing number of hostile bids is that as global consolidation and restructuring continues in industries such as mining and steel, there are fewer and fewer targets available that are large enough to be worth bothering with for players determined to stay in the game. "That may be part of the reason people have gotten a bit anxious and moved into a more hostile mode," he said.

As well, the past couple of years of strong economic growth have boosted the value of predator companies' shares and enabled them to generate plenty of cash, leaving them much better equipped for acquisitions. "In those circumstances, you can expect ambitious companies to be more aggressive," Mr. Smith said.

Hostile Territory

Canadian M&A activity in the third quarter climbed to its highest level since 2000, helped in part by a resurgence in hostile bids, a trend that has accelerated in the fourth quarter.

Activity Grouped by Industry, Year to Date to Sept. 30

<u>Industry groups</u>	<u>2005 # of Deals</u>	<u>Value \$Millions</u>	<u>2004 # of Deals</u>	<u>Value \$Millions</u>
Consumable fuels	186	29,046	104	19,399
Industrial products	163	8,781	171	10,096
Real estate	124	9,478	83	5,312
Consumer products	71	5,821	60	9,213
Merchandising	58	3,260	37	5,554
Metals & minerals	45	7,825	35	2,140
Financial services	43	11,881	49	8,608
Utilities	36	16,439	36	13,960
Transportation & environ.	34	3,670	14	251
Communications & media	24	4,016	30	3,919
Paper & forest	16	2,111	14	1,600
Gold	13	443	22	421
Pipelines	3	357	4	3,413
TOTAL	816	103,128	659	83,886
Technology watch: (subsector of Ind. Prod.)	10	860	24	2,426

SOURCE: CROSBIE

M&A Quarterly Announcements, 2001-2005

Total No. of Announcements		Total No. of Announcements	
2001		2004	
Q1	228	Q1	203
Q2	243	Q2	249
Q3	247	Q3	207
Q4	202	Q4	209
2002		2005	
Q1	201	Q1	203
Q2	252	Q2	309
Q3	210	Q3	304
Q4	193		
2003			
Q1	197		
Q2	219		
Q3	196		
Q4	223		

SOURCE: CROSBIE