

# THE GLOBE AND MAIL

MONDAY, DECEMBER 26, 2005

## M&A Activity Booming in Canada

By Tara Perkins

TORONTO — The M&A jig swept the nation this year, with companies across the country caught in a whirlwind of partnering, wooing and being wooed.

The resource sector led the way but merger and acquisition activity swept through everything from real estate to beer in 2005.

By November, the number of Canadian deals had surpassed 1,000. That's up more than 20 per cent from 2004, according to management consulting firm KPMG.

The deal-making got off to a slow start, leaving many M&A bankers twiddling their thumbs at the beginning of the year.

But things heated up by summer and the third quarter of 2005 boasted the highest level of activity since the tech boom of 2000, said Toronto-based investment bank Crosbie & Company Inc.

And those figures don't tell the whole story. A number of year-end blockbuster deals and yet-to-be consummated relationships have yet to be tallied.

Ed Giacomelli, managing director at Crosbie, predicted merger and acquisition activity will remain strong well into 2006.

Some of 2005's biggest deals were still brewing in the final days of the year. European steelmakers Arcelor and ThyssenKrupp were duking it out for Hamilton-based Dofasco Inc., raising the stakes to \$4.9 billion. And on Dec. 22, Toronto-based Barrick Gold Corp. boosted its bid for Vancouver's Placer Dome to \$12.1 billion, winning Placer's approval for a takeover that will create the world's biggest gold miner.

“Why all of this activity?” asked Peter Hatges, a partner with KPMG's corporate finance practice. The answer lies partially in the world's soaring demand for oil, gas and metals.

“We are a resource-based country,” Hatges said. “In the last half of the year, we had about 107 M&A deals in the oil and gas sector and 70 in mining. So they dominated the M&A deal volume.”

“But from there on in, you look at some of the big segments — computers and electronics, construction and building products, the services industry, real estate, telecom, transportation — all active segments. So it is broadly based.”

The real estate sector had a big impact on the value of deals in Canada, with major transactions like the \$2-billion sale of Toronto-based O&Y Properties Corp. and O&Y Real Estate Investment Trust.

Other large property deals included the Canada Pension Plan Investment Board's \$798-million-US purchase of a half-stake in Oxford Properties Group's portfolio of commercial real estate and Calloway REIT's \$1.2-billion-US purchase of big-box malls from First Pro Shopping Centres.

The interest in Canada illustrates that the country's “fiscal house is in order,” Hatges added. “Probably the best order it's been in in a very long time. The currency's strong. It's a good place to invest.”

And he noted that much of the activity is being sparked south of the border. “You've got a lot of U.S. acquirers,” he said.

Big American/Canadian deals in 2005 included:

- Adolph Coors Co. and Molson Inc.'s \$4.3-billion-US merger.
- JPMorgan Chase & Co.'s \$2.2-billion acquisition of Sears Canada's credit and financial services division.
- U.S. energy giant Kinder Morgan Inc.'s \$6.9-billion takeover of Terasen Inc.
- Weatherford International Ltd. paid nearly \$2.7 billion US for Calgary-based Precision Drilling Corp.'s energy services and international contract drilling divisions.

And Canada's largest winemaker, Vincor International Inc., fended off a hostile \$1.48 billion takeover bid by Fairport, N.Y.-based Constellation Brands.

But it's not only U.S. companies who are shopping in Canada.

Giacomelli said although the number of foreign takeovers did not increase in the first nine months of the year, foreigners did step up the acquisition of key Canadian businesses.

For starters, Deer Creek Energy Ltd. was sold to Total SA of France for \$1.6 billion and China National Petroleum Corp. scooped up PetroKazakhstan Inc. for \$4.2 billion US.

During 2003 and 2004, acquisitions of Canadian firms by foreigners tailed off, said Statistics Canada's chief of international investment, Christian Lajule. On balance, Canadians repatriated some companies and were aggressive about investing abroad, Lajule said.

But in 2005 “the numbers suggest that foreign direct investors have again entered the Canadian economy and are spending money on acquisitions once again. However, Canadian direct investors are still spending more as has been the case over the last several years,” Lajule said.

While high-profile deals made it seem like U.S. companies were doing a lot of deals on this side of the border, in the first nine months of the year American firms scooped up only about 30 Canadian companies, while Canadian firms bought more than 125 U.S. businesses, according to Crosbie.

“We're a net creditor in terms of foreign direct investment,” said Gilles Rheaume, a vice-president of the Conference Board of Canada. “We're seeing that trend for sure. There's a lot more activity occurring by Canadian companies.”

Canadian acquisitions of U.S. companies in 2005 include Cineplex Galaxy Income Fund's \$500-million acquisition of the Famous Players movie chain from New York-based Viacom Inc., and TD Bank Financial Group's payment of nearly \$3.8 billion US for a 51 per cent stake in Banknorth Group Inc.

As consolidation sweeps many industries in the resource sector, it's important for Canada to ensure it keeps holding onto its head offices, said Greg Wilkins, CEO of Barrick Gold.

Wilkins appears set to take up the helm of the world's biggest gold producer in the new year, if Barrick's bid for Placer is approved by shareholders. The new Barrick would be based in Toronto, with an office in Vancouver.

“I think it's very important to the Canadian national interest to have strong, leading global competitors in as many industries as we can,” Wilkins said in an interview. “I think it's important to keep Canada visible on the global economic map, I think it's important for our capital markets to have industry leaders, I think it's important from an employment and a technology standpoint, and I think it rolls right back into Canada's competitiveness.”