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Mergers and acquisitions on record pace

By David Parkinson

Canadian mergers and acquisitions totalled \$90.3-billion in the third quarter, shattering a quarterly record dating back to the peak of the technology boom, Crosbie & Co. Inc. said Wednesday.

In its quarterly report on Canadian M&A activity, the Toronto-based investment bank said the third-quarter total eclipsed the previous record of \$79.1-billion set in the second quarter of 2000. It surpassed the \$68.9-billion of deals in the second quarter this year and was almost double the \$53.7-billion in the year-earlier third quarter.

The third-quarter numbers got a big boost from the \$19.9-billion takeover of Inco Ltd. by Brazil's Companhia Vale do Rio Doce. But that wasn't the only big deal in the quarter: Crosbie said there were 18 transactions valued at more than \$1-billion, accounting for \$69.8-billion in value, up from 10 such mega-deals worth \$45.2-billion in the second quarter, and 12 mega-deals worth \$36.4-billion a year earlier.

In total, there were 420 M&A transactions in the Canadian market in the third quarter, compared with 517 in the second quarter and 398 in the year-earlier period.

"M&A activity was powered by a combination of factors including solid economic fundamentals, the availability of acquisition financing, and the continued strength in mid-market and cross-border M&A activity," Crosbie said in a news release. "Also significant has been the high activity in the metals and energy sectors."

M&A transactions for the first nine months of 2006 totalled 1,430 deals, worth a combined \$187-billion. The number of deals represents a nine-month record, and was up 32 per cent from a year earlier. The total value was just short of the \$188-billion record set in 2000, and was up 64 per cent from a year earlier.

"We are in a white-hot M&A market that is broadly based and would appear to have very strong legs going into the fourth quarter," said Colin Walker, managing director at Crosbie. "It is proving to be an ideal time to sell businesses, and on very favourable terms."

Foreign buyers showed a strong appetite for large Canadian companies in the third quarter, as five of the 10 biggest transactions, totalling \$36.3-billion, were foreign acquisitions. Thirty-five per cent of all transactions in the first nine months of the year were done with buyers outside of Canada's borders, but those deals accounted for 80 per cent of the total value. Still, Canadian companies continued to be more acquisitive of foreign companies than vice versa, with Canadian firms buying 363 foreign companies in the first nine months of the year, compared with 138 foreign acquisitions of Canadian companies.

Crosbie noted that the bulk of deals in the quarter — 315 transactions — were valued at less than \$100-million. For the first nine months of the year, there were 994 deals under \$100-million, representing 70 per cent of M&A activity. The average size of an M&A deal in the nine months was about \$20-million.

“Private equity groups and other financial sponsors were relatively quiet compared to recent quarters,” Crosbie said, noting that Fortress Investment Group's \$3.1-billion acquisition of Intrust Corp. was the only mega-deal of the quarter for these buyers. “However, the recently announced decision to phase out the tax advantages of Canadian income trusts are anticipated by many to become a catalyst for increased M&A activity involving financial groups in the future,” it said.

The energy sector was the busiest for M&A activity in the quarter, with 91 transactions. The sector ranked second by value, at \$17-billion. The base-metals sector had the highest value, \$23.8-billion on 55 deals, led by the Inco takeover. The gold group had 14 transactions valued at \$15.1-billion.

In the technology sector, “M&A activity was more brisk this quarter than it has been for some time,” Crosbie noted. The sector had 26 deals totalling \$7.6-billion, “a level not seen since the tech boom era in 2001.”