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M&A Activity Hits Record in First Quarter

By Tavia Grant and Boyd Erman

Mergers and acquisition activity hit a high in the first quarter, with 2007 on track for another record year, a study showed Thursday.

And it's not all Canadian companies being swallowed: the number of Canadian acquisitions abroad exceeded foreign acquisitions of Canadian companies by a ratio of 2.9-to-1, in line with prior periods, Crosbie & Company Inc. said in its quarterly report.

In the first three months of the year, 483 transactions were announced worth \$66-billion. After years when quarterly deal counts generally ranged around 200, for the past 6 quarters the counts have been closer to 500.

A flood of M&A activity has grabbed headlines throughout this year, with pension funds and private equity groups accounting for nearly a quarter of the deals valued above \$100-million. Major private equity groups active in the quarter included Onex Corp., Brookfield Asset Management Inc., Goldman Sachs Capital Partners and Apax Capital Partners.

"The quarter we are in is going to be a new record again," said Colin Walker, Crosbie's managing director.

Mr. Walker cited drivers such as globalization that forces companies to get bigger to compete, demographic trends such as aging baby boomers putting their businesses up for sale, the rise of private equity bidders and the availability of innovative financing.

For the moment, lenders are willing to back deals with very little extra in the way of payment for risk, making it relatively cheap to pay for acquisitions.

"Bidders are able to use more leverage to put better valuations on the table," Mr. Walker said in an interview.

Cross-border transactions were a "key dynamic" in the market. Cross-border deals represented more than a third of activity and more than half of the announced deal value for the quarter. They also tend to be big — ten of the 14 announced "mega-deals" had an international component to them, Crosbie said.

Transactions of under \$1-billion were a big contributor to the gains, worth \$25.3-billion, an all-time quarterly high.

That's in large part the beginning of a "large wave of M&A" that relates to baby boomers putting their businesses up for sale, Mr. Walker said.

Large deals are increasing too. Fourteen transactions of over \$1-billion were announced in the quarter, valued at \$41-billion. That's up from four transactions worth \$9-billion in the same period last year, the firm said.