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M&A Activity Heats Up in Third Quarter

Almost 70% of mergers and acquisition activity came from 12 mega deals totalling \$33.9 billion

By Dwarka Lakhan

Fuelled primarily by cross-border transactions, Canadian merger and acquisition activity heated up during the last quarter, reaching its highest level since the 2000 technology boom.

According to a report published last month by the Toronto-based specialty investment banking firm **Crosbie & Co. Inc.**, the total value of M&A transactions announced in the third quarter amounted to \$49.9 billion, up from \$29.8 billion in the second quarter and \$29.4 billion a year earlier.

The total number of transactions fell slightly from 309 in the second quarter to 304 in the third quarter. However, there were more mega deals — that is, deals valued at more than \$1 billion — resulting in the higher value of third-quarter transactions.

Altogether, there were 12 mega deals, totalling \$33.9 billion, or 68% of all activity.

“Mega-deal activity in the third quarter alone exceeded the total activity in the first six months of 2005,” states the Crosbie report. The largest transaction, valued at \$6.9 billion, was for the acquisition of Vancouver-based energy distribution and transportation company Terasen Inc. by pipeline company Kinder Morgan Inc. of Houston, Tex.

The oil-and-gas sector represented one-quarter of the volume and one-third of the value of all announced transactions, with foreign acquirers and income trusts accounting for four of the largest deals.

The deals include the acquisition of Calgary-based PetroKazakhstan Inc. by China’s biggest oil producer, China National Petroleum Corp., for US\$4.2 billion; the sale of Calgary-based EnCana Corp.’s oil and pipeline assets in Ecuador to the Chinese state-owned firm Andes Petroleum Co. for US\$1.4 billion; the \$4.5-billion merger of two Calgary-based income trusts, StarPoint Energy Trust and Acclaim Energy Trust; and the acquisition of Deer Creek Energy Ltd. of Calgary by Total S.A. of France for \$1.6 billion.

Typically, M&A activity is dominant in Canada’s resource-rich sector, says Brian Pukier, partner in the Toronto office of the legal firm **Stikeman Elliot LLP**. He adds that, unlike other businesses, it is generally easier to conduct due diligence in this area as valuation is based on proven reserves.

Pukier contends that “this cycle is different than in the past” with major deals taking place in a variety of different sectors. He also says there has been a significant increase in hostile bids, singling out Toronto-based Barrick Gold Corp.’s rejected bid for Placer Dome Inc. of Calgary; the bid by Maple Leaf Heritage Investments of South Carolina for Hudson’s Bay Co.; and, bids from **CI Fund Management Inc.** and **Industrial Alliance Insurance and Financial Services Inc.** for **Clarington Corp.**

Pukier says institutional shareholders are playing an increasingly important role in hostile takeovers. He cites the ongoing battle for Mississauga-based wine manufacturer Vincor International Inc. by the liquor conglomerate Constellation Brands Inc. of Fairport, N.Y.

According to the Crosbie report, the second most active sector was industrial products, which saw 57 transactions in the quarter for a total value of \$3.2 billion. Comparatively, there were 55 transactions valued at \$1.4 billion in the second quarter. The financial services sector also experienced significant activity, led by **TD Bank Financial Group**’s acquisition of Hudson United Bancorp of Mahwah, N.J., for US\$1.9 billion and the sale of Sears Canada Inc.’s credit card portfolio to **J.P. Morgan** of New York for \$2.2 billion.

The real estate sector was also very active with real estate income trusts (REIT) accounting for 31 of 48 deals in the sector valued at \$1.4 billion. Incidentally, income trusts — including REITs, energy trusts and other business trusts — have become a major component of M&A activity. During the third quarter, they were involved in 82 deals valued at \$8.9 billion, compared with 28 deals worth \$4 billion during the same period last year.

On the whole, M&A activity has been fuelled by cross-border transactions, which represent 73% of all deals by total value and 36% by volume this year. During the first nine months, the number of cross-border transactions increased from 252 to 296 over the same period in 2004, while the value of transactions rose from \$52.1 billion to \$74.8 billion.

At the same time, Canadian companies have been stepping up their acquisition of U.S. companies and were involved in 126 transactions this year. Pukier says many of these transactions are not significant, with the exception of a few, such as TD Bank’s advances into the U.S. and **Manulife Financial**’s acquisition of John Hancock.