

WEDNESDAY, AUGUST 23, 2006

M&A Activity Hits New Record in Q2

Mining Deals Lead the Way

By James Langton

The Canadian merger and acquisition market reached record levels in the second quarter of 2006, according to data released today by Crosbie & Company Inc., the Toronto-based specialty investment bank.

“Continued attractiveness of the Canadian economy, record high prices for base metals and oil, consolidation among the world’s top tier mining companies, and active financial groups, contributed to the favourable M&A environment in the quarter,” Crosbie said.

The number of announced transactions increased to 480 in the quarter compared to 420 during the same period last year and flat from the first quarter. The total value of announced transactions during the second quarter was a record \$86.1 billion, compared to \$33.6 billion during the second quarter of 2005 and \$27.4 billion in the first three months of 2006. The total beat the previous high of \$79.1 billion recorded during the technology boom in the second quarter of 2000.

“What a time to maximize value,” said Ed Giacomelli, managing director at Crosbie & Co. “With the presence of domestic and foreign strategic and financial buyers, and the emergence of bidding wars, this market has it all.”

The Metals & Minerals sector accounted for 46% of the transaction value in the quarter, including two of largest transactions in Canadian M&A history. “Mining is still leading the way, but virtually every sector experienced stronger levels of activity,” added Giacomelli.

There 11 mega-deals (transaction value over \$1 billion) in the quarter, with a total value of \$63.1 billion, an increase from the six mega-deals totalling \$13.2 billion during the same period last year and the five mega-deals for a total of \$9.9 billion in the first quarter of 2006.

The market for deals below \$100 million in value was also extremely active with 389 transactions, up significantly from the 290 in the previous quarter and from 187 during the same period last year.

Financial sponsors such as private equity groups and pension funds continue to exert their influence on the M&A market, Crosbie noted. These groups represented approximately 16% of the overall M&A activity by transaction value in the second quarter versus 13% for all of 2005. “With the increased availability of relatively inexpensive capital, lower investment return targets and diversification into alternative asset classes such as private equity, real estate and

infrastructure projects, financial buyers have become formidable opponents when competing against strategic groups for transactions,” it said. The Canadian Pension Plan Investment Board, Onex Corporation, The Blackstone Group and the Caisse de Depot et Placement du Quebec were all active during the quarter, it noted.

Apart from the mining sector, the Oil & Gas group remained extremely active with 116 transactions valued at \$15.8 billion. There were 127 Industrial Products transactions in the quarter, the most active sector by deal volume, up from 90 last quarter and 65 in the same quarter last year. Real Estate was also extremely active with 78 transactions valued at \$14.2 billion. REITs led the activity, participating in 40 deals.

Cross-border transactions continued to be a significant driver of the overall M&A activity, representing 71% of total deal value and 38% of total deal volume, Crosbie reported. There were 360 cross border transactions totalling \$80.2 billion in the first half of 2006 compared to 222 transactions worth \$43.3 billion for the same period last year. “This trend is highlighted by the strong interest by foreign acquirers in some of Canada’s largest companies, which represented 43% of the total transaction value, including three of the 10 largest transactions in the quarter,” it added.