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Canadian M&A Finishes Strongest Year Ever

22% Increase in Transactions, 55% Increase in Value

By James Langton

The Canadian mergers and acquisition market finished 2006 with another impressive quarter, making it the strongest year ever for M&A activity, according to data released today by investment bank Crosbie & Company Inc.

Crosbie reports that there were 1,968 announced transactions in 2006, a 22% increase from the 1,613 deals in 2005. Total transaction value was \$257 billion, a 55% increase from the \$165 billion in the prior year. There were 51 transactions worth over \$1 billion (so called “mega-deals”) in the year, totalling \$172 billion in value compared to 33 mega-deals valued at \$91 billion in 2005.

“The conditions for M&A in Canada have never been better,” said Ed Giacomelli, managing director at Crosbie. “The breadth of activity across all industry sectors underscores the sheer strength of this M&A cycle.”

The Metals & Minerals sector got a strong boost from two of the largest transactions in the history of Canadian M&A, Crosbie notes. Inco Ltd. set off a bidding war for Falconbridge Ltd. with Swiss firm Xstrata plc, which ultimately won the day with its \$19.2 billion offer. Soon after that transaction, Inco itself was the subject of a bidding war where Brazil’s Companhia Vale do Rio Doce was triumphant with its \$19.8 billion bid.

However, Crosbie reports that Oil & Gas was the strongest sector by dollar volume and number of transactions with 384 transactions worth \$56.9 billion, a 32% increase from \$43.1 billion in the prior year. Industrial Products was one of the most active sectors by number of transactions (just behind Oil & Gas), with 382 deals compared to 281 last year, while dollar volume also increased 25% to \$24.2 billion in 2006.

“The global phenomenon of financial sponsors and private equity groups is now a driving force in M&A in Canada,” added Giacomelli. “Private equity pools continue to grow and it seems no company is too large to be acquired.”

Cross-border activity continued to play a very significant role in the Canadian M&A landscape, representing 34% of the total number of transactions and 79% of total deal value, Crosbie adds. Nine of the 10 largest deals had an international component, and the dollar volume of cross-

border transactions increased by nearly 100% to \$196 billion, up from \$99 billion in 2005. The number of cross-border deals also increased 21% to 669, up from 551 the prior year.

Canadian companies continued to exhibit a strong appetite for foreign companies, making 456 purchases valued at \$70 billion, nearly quadruple the number of foreign acquisitions of domestic companies, Crosbie reported. As usual, it notes that the largest target market was the U.S., where Canadian companies made \$54 billion in acquisitions, triple the \$18 billion in the prior year.