

NOVEMBER 30, 2009

M&A Activity Jumps in Q2

Despite hefty improvements, deal activity remains well below pre-recession levels

By James Langton

The volume and value of deals in the Canadian M&A market rose in the second quarter, investment bank Crosbie & Co. Inc. reported on Monday.

The firm says that there were 221 transactions announced in the third quarter, up 12% from the previous quarter. The value of deals also rose to \$30.2 billion, up 27%. The M&A market recovery reflects continued improvement in a host of market fundamentals including financing conditions for buyers, buyer psychology, and company valuations, Crosbie explained.

“As a result of strengthening conditions, we have seen a return of many of the market participants that were sitting on the sidelines. Buyers are again considering M&A opportunities seriously,” said Colin Walker, managing director of Crosbie & Co.

Crosbie points out that strategic buyers, private equity buyers and providers of acquisition financing have all stepped up activity over the past couple of quarters. Walker added, “it is now apparent that many industry sectors and companies were well positioned to weather the downturn, providing good ingredients for transactions.”

Despite the significant improvement in the M&A market this year, deal activity remains well below the levels experienced prior to the beginning of the recession. “It seems like we could be in a new trading range relative to the 2005-2008 period,” said Walker. “Quarterly transactions have fallen from 300-400 per quarter during the top of the cycle period to something closer to 200-250 per quarter.”

“Although many suppliers of capital to M&A transactions that emerged relatively recently have exited the market, we believe that the current activity level is stable and sustainable,” he added.

The general improvement over the past two quarters has been largely driven by strategic buyers of mid-market companies, Crosbie noted, adding that these sorts of deals represented 88% of total activity in the third quarter. However, there was also renewed activity in larger transactions, with nine transactions of over \$1 billion in the third quarter, up from just two such deals in the prior quarter.

Oil & Gas transactions took the top spot in transaction volume by sector, posting 65 transactions worth \$10.7 billion, the firm reported. Industrial Products was the second most active sector, generating 38 transactions and \$3.7 billion in transaction value.

Cross-border activity was flat in the third quarter, with 90 transactions. Acquisitions made by Canadian companies abroad exceeded the number of foreign takeovers of Canadian companies by a margin of 2.2:1.