

DECEMBER 4, 2008

M&A Deal Value Triples in Third-Quarter: Crosbie & Co.

Buyers bullish ahead of financial turmoil

By James Langton

The third quarter was surprisingly robust for Canadian mergers and acquisitions, as deal value soared, although deal volume declined, according to the latest data from Crosbie & Co. Inc.

The firm says that the third quarter of 2008 saw deal values almost triple from \$20.3 billion in the previous quarter to \$54.7 billion, although deal volume declined 7% from 424 posted transactions to 393.

“A red-hot July with sharply higher transaction volumes and the strongest month in terms of deal values over the last 12 months was quickly followed by two of the weakest months since the beginning of the M&A boom in 2005,” Crosbie notes.

“Strategic buyers continued to be bullish throughout much of the quarter, until reality changed,” said Ed Giacomelli, managing director at Crosbie & Co., referring to the events of August and September that saw the US federal government takeovers of Freddie Mac and Fannie Mae, the collapse of Lehman Brothers, and the bailout of insurance giant, American Insurance Group.

“The magnitude of the financial crisis has already changed the flavour of M&A,” added Giacomelli. “In markets like this, objectives change and expectations get recalibrated, but deals can still get done.”

The mid-market was the driver of Canadian M&A activity once again in the third quarter, accounting for over 70% of deal volume, Crosbie notes. But the resurgence of so-called mega-deals (deals greater than \$1 billion) boosted deal values during the quarter. Mega-deals represented 70%, or \$38.5 billion of M&A deal values in the third quarter, up significantly from \$3.5 billion in the previous quarter.

The firm also says that strategic buyers propelled the M&A market in the third quarter, accounting for eight of the 10 largest transactions and representing approximately 74% of deal values posted during the quarter.

On a sector basis, the Metals & Minerals and Oil & Gas sectors were once again the largest sectors by deal value, accounting for 28% and 25% of announced transactions, respectively. Virtually all sectors posted significant increases in deal values during the quarter, Crosbie notes. In terms of transaction volumes it was the Oil & Gas and Industrial Products sectors with the most announced transactions representing 25% and 21% of total deal volumes, respectively.

Cross-border activity declined to 157 transactions from 171 deals in the second quarter, but remained a vital component of the Canadian M&A landscape contributing to 40% of deal volume and 53% of deal values, roughly in line with the previous quarter.