

NOVEMBER 13, 2007

Canadian M&A Activity Steams Ahead

Market shrugs off credit crunch in third quarter

By James Langton

Canadian merger and acquisition activity is well on its way to a blowout year, according to the latest data from Crosbie & Co. Inc.

The firm reports that the Canadian M&A market shrugged off jitters from North American credit markets and posted another solid quarter of M&A activity in the third quarter. The value of announcements in the third quarter totalled \$91 billion, making it the second highest quarter on record in terms of deal value behind the block buster second quarter of this year (\$166 billion).

So far this year, there have been transactions worth over \$319 billion announced, easily surpassing the previous record high of \$257 billion set for the full calendar year of 2006.

In Q3, there were 12 transactions worth over \$1 billion (so called "mega-deals") down from a record high of 23 in Q2 but in line with other recent quarters. There were 460 transactions announced in Q3 down 11% from 517 transactions in the second quarter.

"While the credit crunch has virtually shut down the market for highly leveraged buyout transactions for now, the core M&A market driven by strategic buyers continues to be very strong" stated Ian Macdonell, managing director of Crosbie & Co. "Positive factors that continue to drive M&A activity include globalization, demographics, strong corporate balance sheets as well as a reasonably positive economic outlook."

Capital groups, such as private equity firms, accounted for 9% of the deal value for Q3 transactions in excess of \$100 million. This is down significantly from the huge 42% involvement they had in Q2 largely due to the BCE and Thompson Learning transactions announced in that quarter.

"Of particular note, there wasn't a single capital group sponsored transaction in excess of \$100 million announced in October," added Macdonell. "However, with the amount of committed private equity and pension fund money sitting on the sidelines, its only a matter of time before the market adjusts to the changes in debt availability and pricing and we see buyout activity pick up again."

M&A activity was broadly based through the first three quarters of the year, Crosbie reported. However, it noted that the 118 transactions in the Industrial Products sector worth \$45 billion

accounted for approximately half of all transaction value in the third quarter. Acquisitions of Alcan Inc., initially announced by Alcoa Inc. in Q2 then subsequently trumped by Rio Tinto's offer, and Stelco Inc., the last of Canada's major steel producers, ensured Industrial Products was by far the largest segment of the quarter.

Other sectors such as Consumable Fuels (87 deals, \$17.7 billion), Financial Services (31 deals, \$6.7 billion), Merchandising (27 deals, \$5.2 billion) and Metals & Minerals (60 deals, \$4.8 billion) also had strong showings in the quarter.

Cross border activity continued as a central theme accounting for 41% of deal volume and 71% of total transaction value during the quarter, including seven of the 10 largest transactions announced during the quarter. Consistent with the trends evident over the last few years, the number of acquisitions by Canadian companies outnumbered acquisitions of Canadian based companies by over 2:1, however the value of transactions by foreign companies was far greater than the value of the acquisitions by Canadian companies, as has been the case in recent years.