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## **Everything from Inco to Sleeman Draws Shoppers**

By Peter Koven

Canada is fast becoming a shopping mall for foreign firms thanks to a strengthened Canadian dollar and a sharp rise in commodity prices.

“It's undeniable that Canada is on the radar screen for foreign investors,” said Ed Giacomelli, managing director of the investment banking firm Crosbie & Co., which tracks Canadian merger and acquisition activity. “Because of the strength of our economy, the resource sector and our dollar, you see foreigners looking at Canada more aggressively and strategically.”

This year alone Dofasco Inc. sold for \$5.6-billion, Fairmont Hotels & Resorts Inc. went for US\$3.9-billion and Vincer International Inc. sold for more than US\$1-billion. Inco Ltd. could soon prove to be the country's largest foreign cash takeover, while Falconbridge Ltd. and ATI Technologies Inc. are in the process of ending up in foreign hands. Yesterday, Intrawest Corp. agreed to a US\$1.8-billion offer from a U.S. private-equity firm and Sleeman Breweries Ltd. agreed to be acquired by Sapporo Breweries Ltd. of Japan for \$293-million plus debt.

The country's economic strength, combined with a relaxed regulatory environment and the relatively small size of Canadian companies, has made them ripe for takeovers.

According to Mr. Giacomelli, Canada was ignored by foreigners for many years because it accounts for such a small portion of the global capital markets. Add in a weak currency and large fiscal imbalances, and there was no reason to give it a close look.

But the rise in commodity prices and the dollar has thrust Canada into the global spotlight, and convinced foreign investors across a range of sectors to pay attention.

“It would have made a lot more sense to buy Canadian companies five years ago,” said Eric D'Amours, principal with Towers Perrin in Toronto. “They were cheap. Now they're performing better, and they're expensive.”

When foreigners look at Canada, they see a country whose regulatory environment makes it more open to investment than many other developed nations.

“It is easier here for a foreign company,” said Norman Levine, managing director of Portfolio Management Corp. in Toronto. “Investment Canada doesn't make you go through hoops,

especially when you compare it to Europe. And in the U.S., antitrust is a lot stronger, you've got Sarbanes-Oxley to deal with and a lot of companies want to avoid that.”

The Inco saga provides a good demonstration of how different the regulatory environments are. The European Union put the company's proposed acquisition of Falconbridge on hold over competition concerns last year. In the meantime, Switzerland-based Xstrata PLC launched a rival bid that easily won Canadian approval.

The other key issue is that Canadian companies just haven't been as aggressive as some of their foreign rivals.

Experts say Canadian firms have preferred to stick to safe strategies instead of making big acquisitions. Those strategies have paid off in the sense that Canadian stocks have performed extremely well in recent years but has made those companies targets for larger foreign firms.

“To me it's disconcerting to see it. It just highlights the fact that boards of Canadian companies have become afraid of doing something wrong,” said Mr. Levine.

He points to Dofasco as an example of a company that never should have left Canada.

“It was the cream of the crop. There's no reason Dofasco couldn't have been more aggressive and become a global leader itself. Management and directors just weren't thinking that way.”

There are exceptions. Manulife Financial Inc spent \$15-billion to buy John Hancock in 2004, an acquisition that has turned out to be a success. Toronto-Dominion Bank made a similar gamble the same year, dropping US\$3.8-billion for a majority stake in Banknorth Group Inc.

But Canada is weighted heavily toward resource companies, and it can be dangerous for those firms to get too levered at the top of a cycle. Many technology companies learned that the hard way when they went on acquisition sprees in the late 1990s before finding themselves insolvent.

“Take a Ted Rogers,” said Mr. Giacomelli. “There a guy who's prepared to grow and take on leverage. But he's done it in businesses that have outstanding growth prospects and are not too susceptible to an economic downturn. But for a natural resources company, if the economy slows and commodity prices turn down, it affects your ability to service debt.”

The other problem for Canadian companies looking to grow is that the capital markets haven't always provided the help.

“Up until six or nine months ago, it was almost impossible for companies to raise money in Canada unless they were income trusts,” said Mr. Levine. “Those are not the companies that are going to go and conquer the world.”