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Mergers and Acquisitions Record Set In Second Quarter

By Lori McLeod

Mining mega-deals pushed Canadian merger and acquisition activity to a value of \$86.1 billion in the second quarter surpassing the previous record set during the height of the tech boom.

Xstrata PLC's winning \$19.2-billion bid for Falconbridge Ltd., along with an offer for Inco Ltd. (still the subject of a bidding war), topped the list of 480 announced deals in the quarter, according to the Financial Post/Crosbie & Co. Mergers and Acquisitions in Canada report.

The combined value of these deals blew past the previous record of \$79.1 billion set during the second quarter of 2000 during the frothy tech market the time of deals including BCE Inc.'s \$56-billion US spin-off of Nortel Networks Corp. and Alcatel's \$7-billion US purchase of Newbridge Networks Corp.

Metals and minerals was the most active sector, with 50 transactions valued at \$39.5 billion, or 46 per cent of the value of transactions in the quarter. Oil was the next-most active, with 116 deals worth \$15.8 billion.

Although resources are dominating the M&A scene, transactions were still spread out across all sectors, including 127 deals in the industrial-products sector.

“What catches my eye, if you look at the smaller end of the spectrum, is the number of transactions and their value is up almost a third,” said Ed Giacomelli, managing director at Crosbie & Co., an investment bank.

“It's a very broadly based M&A market that we're in right now. Even for deals that may be complicated or where there may be some issues surrounding the business that make it difficult to sell this is the kind of market where those obstacles are being overcome and deals are getting done.”

An example is Royal Group Technologies Ltd., which had been on the block since last year, and was finally purchased by Georgia Gulf Corp. for \$1.7 billion in June.

While headlines in the second quarter featured a number of takeovers of Canadian companies by foreign companies, that was largely based on a few blockbuster bids in the resources sectors, Giacomelli said.

“Today the volume of transactions still favours Canadian buyers, as it did in the past,” Giacomelli said. “But you now have these international groups that are attempting to obtain a dominant position, especially in resources, as you've seen with Falconbridge and Dofasco, for example.”

Year-to-date in 2006, Canadian companies have bought 252 foreign companies, compared with foreign entities buying 65 Canadian companies. The value of the deals swings heavily in favour of foreign takeovers, however, as these have been worth \$48.8 billion, versus Canadians buying foreign companies worth \$31.4 billion.

Foreign entities buying Canadian ones would have been even greater if Inco had been included. When the Crosbie report was compiled, Inco wasn't included in the list of foreign takeovers, since the included bid was from fellow Canadian miner Teck Cominco Ltd. Teck dropped out of the running this quarter, however, and Inco now appears likely to be bought by a Brazilian firm, Companhia Vale do Rio Doce.