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Mergers: Commodities Fuel Mergers to Decade High

By Boyd Erman

Canada's merger market started off the year with the busiest first quarter in a decade, building on 2005's hot pace amid a spate of commodity industry takeovers, according to the Financial Post Crosbie: Mergers and Acquisitions in Canada database.

There were 424 transactions announced in the first three months of 2006, compared with 264 for the first quarter of 2005.

But the number of mega-deals over \$1-billion declined, leaving the total value of first-quarter transactions at \$25-billion, little changed from the year before.

The biggest buyout of the period was Fairmont Hotels & Resorts Inc.'s sale to Colony Capital LLC and Prince Alwaleed's Kingdom Hotels International for \$4.5-billion. The second largest was the US\$1.5-billion purchase of EnCana Corp.'s natural gas storage facilities by Carlyle Group and Riverstone Holdings.

The mega-deals are back in force in the second quarter, with a focus on the resource sector, as Teck Cominco Ltd. made an unsolicited \$16-billion bid for Inco Ltd. and Xstrata PLC embarked on a hostile \$16-billion attempt for Falconbridge Ltd.

While unsolicited bids are a continuing theme in the merger market, many companies are also putting themselves up for sale to take advantage of the strong appetite from suitors with piles of cash and easy access to credit.

"The tone of the M&A market is exceptional because there is a ready list of buyers," said Ed Giacomelli, a managing director at Crosbie, an investment-banking firm that tracks the country's merger market.

"When you launch a sale process, there's usually uncertainty about timing and price, but in this market there are buyers in almost every sector."

Purchasers range from strategic buyers, looking to get bigger in their own industries, to private equity firms, flush with cash and seeking targets for their funds.

Three of the seven largest transactions in the first quarter involved private equity funds such as Colony, Onex Corp. and Caisse de Depot et Placement du Quebec.

Mr. Giacomelli said he expects the resource sector to remain a hot spot for mergers and acquisitions, and almost every industry except the troubled automotive business to have its fair share of deals.

There is even a resurgence in takeovers among technology companies.

So far this year, there have been 12 deals in the technology sector worth about \$1-billion, already close to surpassing last year's total.

“I've been waiting for that sector's merger activity to get some legs and it looks like it might be happening,” Mr. Giacomelli said.

Cross-border transactions are now the norm, especially for the biggest deals. Ninety per cent of the deals by value had an international component, according to the survey.

The most common are Canada-U.S. deals, with Canadian acquisitions of U.S. companies outpacing deals the other way around by three to one.