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New Bumper Year for M&As Foreseen

Almost 70% of mergers and acquisition activity came from 12 mega deals totalling \$33.9 billion

By Boyd Erman, Financial Post

This year may be another busy year for mergers, building on a near-record in 2005 in which 1,244 transactions worth a total \$166-billion were announced, according to investment bank Crosbie & Co.

Last year, the value of deals climbed 47% to the highest since 2000, when a buying-and-selling spree peaked before stock markets sank. Much of 2005's flurry of dealmaking occurred in the final quarter of the year, which saw the beginning of a bidding war for steelmaker Dofasco Inc. and Barrick Gold Corp. launch a run at rival Placer Dome Inc.

While 2006 started quietly, the pace of corporate matchmaking has jumped in the two weeks since Valentine's Day. In that time, Glamis Gold Ltd. agreed to take over Western Silver Corp. for \$1.2-billion, Mullen Group Income Fund agreed to pay a similar price for Producers Oilfield Services Inc., and Yamana Gold Inc. agreed to buy Desert Sun Mining Corp. for about US\$500-million.

"Our sense is this will be another very good year," said Ed Giacomelli, a managing director at Toronto-based Crosbie. "The triple-play of a robust economy, strong balance sheets and access to capital means that companies who are acquirers are going to keep looking to do deals."

Because of the strong sellers market, companies may look to find buyers for part or all of their business, keeping the mergers parade going. "There's great opportunity in a market like this to surface value," said Mr. Giacomelli.

For example, Extendicare Inc., one of the country's largest retirement-home operators, last week put itself up for sale amid signs that bidders are looking to snap up operations in that sector. Retirement Residences Real Estate Investment Trust, an Extendicare rival, has received offers of interest from at least two competing parties, including Warburg Pincus LLC, a U.S. private equity fund that is backing a former company executive's bid.

Other busy sectors in 2006 will probably include technology and financial services, Mr. Giacomelli said. That's on top of the still-hot areas of oil and gas and mining.

“The early deals are already showing that oil and gas and mineral companies are going to be busy,” he said. “As long as commodity prices are holding in, these companies will get support at the board level and shareholder level to do deals.”

The sectors left out of the boom are the automotive and pulp and paper industries, where staying out of bankruptcy is often the first priority for companies.

“Those two sectors have some unique structural issues that they're dealing with, but most other sectors are coming along nicely,” said Mr. Giacomelli.

HOT QUARTER FOR CONSOLIDATION:

TOP Q4 DEALS

\$12.8B

Acquirer Inco

Target Falconbridge

US\$10.4B

Acquirer Barrick Gold

Target Placer Dome

\$4.9B*

Acquirer Arcelor SA

Target Dofasco

(ps)1.2B

Acquirer Talisman

Target Paladin Resources

*estimate

Source: Financial Post Crosbie: Mergers and Acquisitions in Canada