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## **Crisis in Markets Seen Slowing Pace of Canada M&As**

By: Wojtek Dabrowski

TORONTO (Reuters) - The credit and liquidity crunch gripping financial markets will choke the pace of Canadian takeovers while buyers and sellers assess the extent of the current crisis, investment bankers said on Thursday.

"If you're looking to initiate an M&A process, now -- if you're a typical CEO -- is not going to be the ideal environment to do it in," said Jim Osler, principal and head of mergers and acquisitions at Genuity Capital Markets.

"In a market that's in freefall ... you won't see a lot of new M&A initiated quickly," he said.

The Canadian dollar and the country's stock markets alike this year have ridden high on a wave of takeovers, including the \$38.1 billion offer for Alcan Inc. and the C\$34.8 billion privatization bid for BCE Inc. .

However, with debt financing drying up in recent weeks, financial buyers such as private-equity firms no longer have easy access to resources needed to close large deals.

"There's no question that what's going on in the market is going to affect the portion of M&A that is heavily dictated by financial leverage," said Ed Giacomelli, managing director at Crosbie & Co., a Toronto-based boutique investment bank.

Many potential strategic buyers such as companies looking to buy a competing firm are also seeing pressure on their stock prices. This makes them more reluctant to use their shares as takeover currency.

Would-be target companies, meanwhile, are also being pressured by jittery investors.

"The problem is valuations have been pushed down and sellers are probably as likely to step out of the M&A market as buyers are, simply because they're not going to get their price expectation," Giacomelli said.

In May, Crosbie reported that 483 transactions were announced in the first quarter of 2007 with C\$66 billion in total value, putting Canada "on track for another record year in 2007."

But dealmakers and investors alike are now analyzing the depth and severity of the financial-markets downturn that has settled over North American indexes in recent weeks.

Until those woes are fully understood and the credit markets stabilize, the number and value of new deals will drop, experts say.

"I would say it would be an optimistic scenario to see them (again) in volume before the end of the year, but it's a possibility," Osler said, adding that a first-quarter rebound is more likely.

It's unlikely all dealmaking will grind to a halt. The BCE buyout, for example, has committed financing and is on pace to be completed according to the investor group behind the bid.

And some company-on-company deals could still get done where the buyer has a strong balance sheet, cash on hand and a willing seller, Giacomelli said.

Earlier this month, Gerry Schwartz, the CEO of Canadian buyout firm Onex Corp. said his company is "very optimistic" about its ability to find and finance acquisitions, despite the credit-market turmoil.