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Mergers and Acquisitions Worth \$91 Billion in Third Quarter: Report

By Romina Maurino

TORONTO - The value of mergers and acquisitions in Canada in the third quarter totalled \$91 billion, the second-highest on record, with "cross-border" activity front-and-centre as the high loonie helped Canadian companies make purchases outside the country.

The only period with a higher deal value was during the second quarter of this year, when M&A activity amounted to \$166 billion, according to Crosbie & Co., an investment banking firm that tracks mergers and acquisitions activity every quarter.

"We're pretty bullish in terms of future M&A activity for the foreseeable future," said Ian Macdonell, managing director of Crosbie & Co.

"The big question is whether we're going to continue to have pretty positive economic conditions and a strong stock market."

"If we see a change in that environment, that has historically lead to a downturn in M&A activity. At this point we don't see it but there are certainly some clouds on the horizon."

Macdonell said the high loonie may also have helped Canadian firms by making foreign acquisitions, although foreign exchange rates aren't a big driver of M&A activity.

"To the extent that somebody's considering an acquisition of a U.S. business, the strong Canadian dollar may be a helpful factor in terms of the decision to move ahead but it's not what's driving the deal," Macdonell said.

"By and large, most acquisitions are driven by strategic reasons."

Cross-border activity accounted for 41 per cent of deal volume and 71 per cent of total transaction value for the July-September quarter - including seven of the top 10 largest transactions announced in the three month period.

As in previous years, the number of acquisitions made by Canadian companies outnumbered acquisitions of Canadian-based companies by foreign firms by more than two-to-one, however

the value of transactions by foreign companies was far greater than the value of the acquisitions by Canadian companies.

The top three cross-border transactions in the quarter were the acquisitions of Alcan Inc., Western Oil Sands Inc. and PrimeWest Energy Trust, which were also the top three-largest deals announced in the quarter.

Robert Mantse, a senior vice-president with DBRS, agreed that the loonie wasn't likely to drive M&A activity, but, he said, it's making Canadian companies buyers instead of sellers.

"If you were going to buy a company for \$20 billion in the U.S. (a year ago), now it would cost you \$16 billion," he said. "It's a serious competitive advantage."

Mantse said he expected activity to remain high in the metals and mining sector, but since big players like Alcan and Stelco have now been taken out - by Rio Tinto PLC and U.S. Steel respectively - the deals will be smaller.

"You're probably going to see more activity in the gold sector, there's still opportunity there for consolidation," he said.

"A number of companies are looking to build their pipeline of projects so they're looking to pick up exploration companies."

Macdonell pegs commodities and technology as the big M&A sectors going forward, pointing to Monday's announcement that International Business Machines Corp. has offered US\$5 billion for Cognos Inc. (TSX:CSN), Canada's largest independent software company.

"That's also a sector that, globally, has been increasing in activity," he said.

M&A activity was broadly-based through the first three quarters of the year, although the 118 transactions in the industrial products sector were worth \$45 billion and accounted for approximately half of all transaction value in the third quarter.

The consumable fuels, financial services, merchandising and metals and minerals sectors also had strong showings in the quarter.

Over for the quarter, there were 460 transactions announced, down 11 per cent from 517 transactions in the second quarter.

Contributing to the value total for the third quarter were 12 transactions over \$1 billion, down from a record high of 23 in the second quarter but in line with other recent quarters.

Capital groups such as private equity firms accounted for nine per cent of the deal value for transactions in excess of \$100 million, down significantly from the 42 per cent involvement they had in the second quarter because of the privatization takeover of BCE (TSX:BCE) and sale of Thompson Learning in that quarter.

"Of particular note, there wasn't a single capital-group-sponsored transaction in excess of \$100 million announced in October," Macdonell stated.

"However, with the amount of committed private equity and pension fund money sitting on the sidelines, its only a matter of time before the market adjusts to the changes in debt availability and pricing and we see buyout activity pick up again."

With transactions worth over \$319 billion announced during the first three quarters of the year, 2007 has already surpassed the previous record high of \$257 billion set for the full calendar year of 2006.