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Canadian Merger Deals Hit Record High in 2006

Reuters

The value of Canadian mergers and acquisitions hit a record high in 2006, led by two blockbuster mining deals and by private equity acquisitions, a report by investment bank Crosbie & Co. Inc. said Friday.

There were 1,968 announced transactions in 2006, up 22 per cent from the 1,613 deals in 2005, Crosbie said in a report.

Total transaction value was \$257 billion, up 55 per cent from \$165 billion the year before. "The M&A market is twice as active as it was in the 2002 to 2004 time period," said Ed Giacomelli, managing director at Crosbie.

"From a buyer's perspective, it's saying they have a tremendous confidence in making acquisitions, the valuations are still reasonable, and access to capital in order to finance these deals is very high today," he added.

In the fourth quarter, the value of mergers was just above \$70 billion, Giacomelli said. In 2006, there were 51 deals worth more than \$1 billion, valued at \$172 billion in total, compared with 33 such deals, valued at \$91 billion, in 2005.

Two of the biggest mergers in Canadian history in 2006 took place in the mining industry. Swiss-based Xstrata Plc paid \$19.2 billion for nickel miner Falconbridge Ltd. and Brazil's Companhia Vale do Rio Doce paid \$19.9 billion for another nickel miner, Inco Ltd., the report said.

The oil and gas sector, however, was the strongest sector for mergers by dollar value and number of transactions with 384 transactions worth \$56.9 billion, a 32 per cent increase from \$43.1 billion in the prior year.

A big contributor in the fourth quarter was Royal Dutch Shell Plc's offer to buy the minority stake in Shell Canada Ltd. for \$8.7 billion, the report said.

Industrial products was another active sector by number of transactions, just behind oil and gas, with 382 deals valued at \$24.2 billion. The largest transaction of the sector was California-based Advanced Micro Devices Inc.'s \$6.2 billion takeover of ATI Technologies Inc., the report said.

Giacomelli expects the merger momentum to continue as private equity groups become much more active.

“The theory is private equity will earn better returns than public equities or public bonds,” he said.