

CANADIAN M&A ACTIVITY – SECOND QUARTER 2007 REPORT

M&A Market hits Climax in Q2, Shatters Records

The Canadian M&A market moved into rarefied territory in the second quarter of 2007, shattering many records and ensuring that 2007 will be a record year, despite the uncertainties currently facing the markets. Data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, indicates that in Q2, the value of announcements totalled \$202B, easily surpassing the previous quarterly high of \$89B set in Q3 of 2006. Also noteworthy – the latest quarter would still be record setting by a wide margin if the two largest announcements were excluded – the acquisitions of **BCE** and **Alcan**, which together represented \$88B of the total. There were 520 announcements in Q2, slightly ahead of the 516 transactions in the prior quarter.

Both financial and strategic buyers helped propel the market to these record levels. While 11 of the top 15 deals in Q2 did not involve private equity buyers, financial groups nevertheless accounted for about 35% of the value. “This market may be looked back upon as the ultimate seller’s market,” said Colin Walker, Managing Director of Crosbie.

Capital markets continued to be very friendly toward M&A transactions in Q2, providing both financing terms and a cost of capital attractive to buyers. This helped the economics of many transactions, allowed private equity groups to price and target larger deals quite aggressively, and improved valuations for buyers. “The sub-prime mortgage situation and disruption in credit markets will certainly have some impact on M&A, although the full extent remains to be seen,” commented Mr. Walker. “The good news is that, so far, there appears to have been little visible impact on the real economy.”

Most segments of the market enjoyed strong levels of activity in Q2. Mid-market transactions (those under \$500M) continued at very high levels with 477 announcements. This is the seventh consecutive quarter with mid-market activity near this level. In the so-called mega-deal segment (transactions of over \$1B), there were 25 announcements in Q2, representing \$174B in value. Both the number of mega-deals and their value represented new quarterly records. “However, the financing economics have shifted in recent weeks. There is a chance that some deals that looked good a few weeks ago may get withdrawn or renegotiated,” said Mr. Walker. “The closing risk is higher with larger deals involving private equity sponsors – these are more vulnerable because they tend to use more leverage and their cost of money has gone up.”

Cross-border transactions continued to be a major part of the Canadian M&A market. There were 196 cross-border transactions, representing 37% of the quarter’s activity and 68% of the announced deal value. Cross-border activity was particularly significant among larger deals, including 18 of the 25 mega-deals. The number of Canadian acquisitions abroad continued to exceed foreign acquisitions of Canadian companies by a ratio of 1.6:1 although the value of foreign acquisitions for the quarter (\$97.5B) exceeded Canadian acquisitions abroad (\$40.8B). 34 or 46% of the foreign acquisitions in the quarter involved U.S. buyers.

Income trusts represented another area of high activity. There were 62 income trust transactions in Q2, valued at \$12.2B. Compared to last quarter, activity was up 94% (from 32 deals) and value was up 321% (from \$2.9B). In each quarter of 2006, there were about 45 income trust transactions with an average value of \$2.3B per quarter. In Q2, the acquisition of income trust businesses represented 94% of the transaction value but only 37% of the transaction volume. The other 63% of the transaction volume was the result of smaller acquisitions by income trusts. The average value of these 39 acquisitions was \$26M compared to \$349M for the income trust business sale transactions.

From an industry perspective, there was strong breadth in activity in Q2 with transaction value of over \$5B reported in each of 7 sectors. Particularly active sectors included Communications & Media (27 deals, \$83.0B), Industrial Products (100 deals, \$53.8B), Real Estate (84 deals, \$31.2B), and Consumable Fuels (118 deals, \$20.6B).

The information above is a summary of Crosbie & Company Inc.'s analysis of each quarter's M&A activity. The data is compiled from Financial Post Crosbie: Mergers & Acquisitions in Canada, the most extensive database on M&A activity in Canada. Crosbie & Company Inc. provides specialized investment banking services to the middle market.

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