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CANADIAN M&A ACTIVITY – THIRD QUARTER 2007 REPORT

Canadian M&A Posts Solid Quarter Despite Credit Crunch

The Canadian M&A market shrugged off jitters from North American credit markets and posted another solid quarter of M&A activity in the third quarter. Based on data compiled by the *Financial Post* **Crosbie: Mergers & Acquisitions in Canada**, the value of announcements in Q3 totalled \$91B making it the second highest quarter on record in terms of deal value behind the block buster second quarter of this year (\$166B). Contributing to the value total for the quarter were 12 transactions over \$1B (so called “mega-deals”) down from a record high of 23 in Q2 but in line with other recent quarters. There were 460 transactions announced in Q3 down 11% from 517 transactions in the second quarter. With transactions worth over \$319B announced during just the first three quarters of 2007, we have already surpassed the previous record high of \$257B set for the full calendar year of 2006.

“While the credit crunch has virtually shut down the market for highly leveraged buyout transactions for now, the core M&A market driven by strategic buyers continues to be very strong” said Ian Macdonell, Managing Director of Crosbie & Company Inc. “Positive factors that continue to drive M&A activity include globalization, demographics, strong corporate balance sheets as well as a reasonably positive economic outlook.”

Capital groups such as private equity firms accounted for 9% of the deal value for transactions in excess of \$100M down significantly from the huge 42% involvement they had in Q2 largely due to the BCE and Thompson Learning transactions announced in that quarter. “Of particular note, there wasn’t a single capital group sponsored transaction in excess of \$100M announced in October” added Mr. Macdonell. “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.”

M&A activity has been broadly based through the first three quarters of the year, however the 118 transactions in the Industrial Products sector worth \$45B accounted for approximately half of all transaction value in the third quarter. Acquisitions of **Alcan Inc.**, initially announced by **Alcoa Inc.** in Q2 then subsequently trumped by **Rio Tinto’s** offer, and **Stelco Inc.**, the last of Canada’s major steel producers, ensured Industrial Products was by far the largest segment of the quarter. Other sectors such as Consumable Fuels (87 deals, \$17.7B), Financial Services (31 deals, \$6.7B), Merchandising (27 deals, \$5.2B) and Metals & Minerals (60 deals, \$4.8B) also had strong showings in the quarter.

Cross border activity continued as a central theme accounting for 41% of deal volume and 71% of total transaction value during the quarter, including 7 of the top 10 largest transactions announced during the quarter. Consistent with the trends evident over the last few years, the number of acquisitions by Canadian companies outnumbered acquisitions of Canadian based companies by over 2:1, however the value of transactions by foreign companies was far greater than the value of the acquisitions by Canadian companies as has been the case in recent years.

*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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