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## CANADIAN M&A ACTIVITY – FOURTH QUARTER 2007 REPORT

### Record Year Ends on a Weak Note

The Canadian M&A market set a new record in 2007 with \$370B of deals (1,941 transactions) during the year, up 44% from the previous record of \$257B (2,020 transactions) set in 2006 according to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada*. The new record was posted on the back of some of the largest deals in Canadian M&A history including the \$51B acquisition of BCE Inc. and the \$40B deal for Alcan Inc. announced earlier in the year. There were 60 transactions in excess of \$1B (so called “mega-deals”) in 2007 valued at \$275B versus 51 in 2006 valued at \$172B.

Despite the blistering pace of M&A activity in the first half of the year, 2007 ended on a weak note with a continuation of the slump that started in the third quarter. With 425 announced transactions (worth \$52.5B), the fourth quarter represents the lowest level of M&A activity we have seen since the third quarter of 2005 (394 transactions worth \$53B).

“While growing concerns about the economic outlook together with the ongoing credit crunch are certainly hurting the M&A market, overall activity levels have remained respectable by historical standards” said Ian Macdonell, Managing Director of Crosbie & Co, a Toronto based Investment Bank. “The key issue is what happens to the economy in the first half of 2008 and whether the negative trend in M&A activity continues.”

The credit crunch continues to have a dramatic impact on leveraged buyouts by financial groups such as private equity groups and pension funds. This is demonstrated by the decline in the number of transactions in excess of \$100M involving these financial groups from 78 (\$85B) in the first half of 2007 to 13 (\$10.7B) in the second half of the year.

“We expect to see few large buyout transactions for at least the first half of 2008 as the market digests the backlog in buyout loans. However, we should continue to see financial groups play an active role in transactions below \$100M where leverage is less of a factor.”

**Financial Services** led the way in the fourth quarter with **TD Bank’s** \$8.5B acquisition of **Commerce Bancorp** and **Royal Bank’s** \$2.2B purchase of **RBTT Financial**. Other noteworthy transactions for the quarter included **Penn West Energy Trust’s** \$5.2B acquisition of **Canetic Resources Trust** and **IBM’s** \$4.7B bid for **Cognos**.

Cross-border activity continued as a central theme accounting for 58% of deal value in the fourth quarter and 78% for 2007 with the majority of the cross-border trades involving the United States. With all ten of the year’s largest transactions having an international component to them, cross-border dollar volume increased 43% to \$290B while the number of cross-border deals increased 6% to 778.

*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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