

Weak energy sector curbs Canadian M&A activity

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Count Canadian M&A activity as another casualty of the drop in oil prices, as deal activity in Q2 2015 dropped for the fourth consecutive quarter, according to new data from Toronto-based Crosbie & Co. Inc.

There were 652 deal announcements in Q2 2015, down from 768 deals in the same quarter last year, according to the investment banking firm's latest Canadian M&A Report. This represents the lowest level of deal activity since the third quarter of 2013, the report says.

However, aggregate deal value was up from \$58 billion in Q2 2014 to \$75 billion this year.

"Although headlines for a number of large deals may give the impression that M&A activity is recovering, the weakness in the resource sectors, energy in particular, has contributed to overall activity falling to a two-year low," says Richard Betsalel, director at Crosbie.

"With slumping oil prices expected to continue as the 'new normal', we are hearing about significant restructuring activity in the oil patch and expect this to eventually result in a rebound in M&A activity as

distressed companies are forced into the arms of opportunistic buyers with strong balance sheets," he adds.

The energy sector saw just 53 transactions in Q2 2015, down from 97 transactions in the same period a year ago, the Crosbie report notes.

Along with lower activity in metals & mining and the precious metals sectors, the resources sectors together were responsible for over half (56%) of the overall decline in M&A activity in Q2 2015, the report says.

Much of the weakness in Q2 2015 came amid a decline in domestic deal activity (where the target is in Canada). There were 435 domestic transactions in Q2 2015, valued at \$17.6 billion, down from 508 deals worth \$28.7 billion in Q2 2014, the Crosbie report notes.

Offsetting some of the domestic weakness this quarter were large acquisitions abroad by Canadian buyers. Canadian companies made 170 acquisitions of foreign targets valued at \$53 billion in Q2 2015 compared to 181 transactions valued at \$19.5 billion in the same quarter last year, the Crosbie report says.

"With the domestic economy stuck in neutral, Canadian companies are seeking to gain exposure to higher growth markets, such as the United States," says Betsalel. "It will be interesting to see if this trend continues going forward as the Canadian dollar weakens towards 10 year lows."

Cross-border transactions accounted for 42% of all deal announcements in Q2 2015, which, according to the Crosbie report is in line with the long-term trend. However, in terms of deal value, 76% came in cross-

border M&A deals, which is the highest level in over five years.

The number of mega-deals (transactions worth more than \$1 billion) were relatively flat, with 14 deals announced in Q2 2015, compared to 15 in Q2 2014, the Crosbie report notes, although mid-market M&A activity declined proportionally with the overall decline in the quarter.