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# Deal activity in Canada fell further in third quarter as Bay Street waits for a rebound

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Deal-making activity in Canada fell to its lowest level since at least 2017 during the third quarter, though signs of stabilizing interest rates should soon usher in the rebound experts have long expected.

Both the number of merger and acquisition transactions and their combined value declined significantly year-over-year between the start of July and the end of September, according to the latest Canadian M&A report from specialty investment bank Crosbie & Co., released Wednesday. Just 579 deals were conducted in the quarter, down more than 15 per cent and below every other three-month period Crosbie has tracked since the first quarter of 2018.

Aggregate deal value fell even more sharply, down 30 per cent, to $44-billion, from the third quarter of 2022, suggesting the transactions that are being completed are on average relatively small. The dismal deal flow comes more than a year since Bay Street started betting on a rebound in M&A, though this time experts are even more adamant that circumstances have finally aligned for a recovery in 2024.

"Heading into the beginning of this year, with how rough 2022 was certainly from a public equity markets perspective, there was certainly high hopes for a bit of a rebound," Stephen Ng, the managing director of Crosbie & Co., said in an interview. "But we kind of hit a roadblock with the regional banking crisis in the U.S. and rates continuing to move up into the first half of the year. Then there were some false starts there."

Despite where the market ended up in the third quarter, he said, "there are reasons to be optimistic heading into 2024."

John Clifford, M&A partner and chief operating officer at law firm McMillan LLP, said one of the signs of rising activity is that "you can still find pockets of industries where there are still things going on."

Activity in the oil and gas sector, for example, has been accelerating in recent months. Crescent Point Energy Corp. added yet another billion-dollar-plus deal to the sector's tally earlier this week when it agreed to pay more than $2-billion plus debt to buy Hammerhead Energy Inc.

Transactions in the middle market – those worth less than $250-million – declined far less precipitously. The Crosbie & Co. report found 229 deals in that price range in the quarter. While that is almost 9 per cent lower than the 251 middle-market transactions in the third quarter of 2022, Brett Franklin, the president of corporate finance for accounting and business advisory firm MNP LLP, said that part of the market has stayed busy.

“There is a really strong appetite for tuck-in deals,” Mr. Franklin, whose firm deals exclusively in the middle market, said in an interview from Winnipeg. “From a banking perspective or a leverage perspective, you can get a $20- or $30-million deal done still, whereas it is more difficult to get a $150-, $250- or $350-million deal done.”

Deals are also taking longer to complete, Mr. Ng said, as buyers have started spending more time on due diligence. What may also explain the subdued activity of the third quarter, he said, “was that you started to feel the effects of all the prior rate hikes, since most central bankers only started raising rates in early Q2 of 2022 and it usually takes 12 to 14 months to fully feel those effects.”

Even if rates stay higher for longer, Mr. Clifford said, the increasingly common view that they have reached or are at least near their peak should support a stronger M&A market in the months ahead.

“If you look at interest rates, the fact that increases have paused I think is a sign of stability in the marketplace,” he said. “Perhaps that will get transactions done in a different way because people are less worried about it becoming more and more expensive.”