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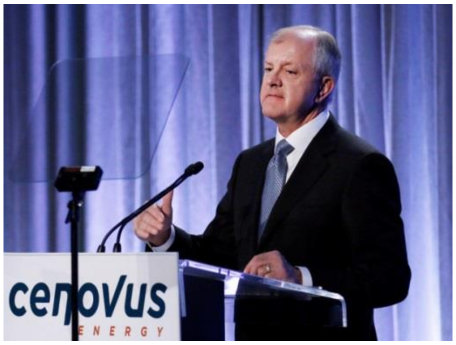

Canadian companies looking for mergers and acquisitions outside ‘stagnant’ domestic economy, says report

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MONTREAL — With the domestic economy stuck in neutral, most of the money spent on acquisitions by Canadian companies went outside the country in the last quarter, according to a report released by Crosbie & Company Thursday.

Cross-border transactions in the second quarter of 2015 represented 42 per cent of all announcements, however, 76 per cent of the total value of the deals were outside Canada — the highest level in over five years.

“The Canadian economy is so stagnant right now. Companies are having trouble generating organic growth and they’re looking for other ways to grow,” said Crosbie & Co. director Richard Betsalel.

The report says the resource sector contributed to 56 per cent of the overall decline in activity due to low commodity prices, with the energy sector alone dropping by 45 per cent.

“People are generally hesitant to make acquisitions when they don’t know where the bottom is,” said Betsalel.

However, there were a few large energy transactions involving both strategic buyers and financial players.

Cenovus divested its interest in Heritage Royalty for $3.3 billion to the Ontario Teachers’ Pension Plan and Apache sold Quadrant Energy to Brookfield Asset Management and Macquarie Capital Group for $2.6 billion.

He says that although more acquirers are staying away from the resource sector for the time being, at some point companies are going to have to sell as assets become distressed and companies run out of cash.

“There’s going to be a fire sale,” said Betsalel. “Eventually that’s going to translate into M&A activity.”

He says sources in Alberta’s energy sector tell him restructuring groups are busy these days, signalling that M&As could grow in the coming quarters.

“Those buyers are going to be the well-capitalized groups that funded themselves before things got ugly or financial players,” said Betsalel. “There are going to be groups that have a lot of money that are going to be bottom feeders and they’re going to be opportunistic.”

He says conditions are also right for increased Canadian M&A activity outside the resource sector in coming quarters, citing a firming economy, high valuation multiples, strong earnings and available capital.

“There is a tonne of capital available, whether it’s equity, private equity, senior debt, or mezzanine (capital),” said Betsalel. “It’s cheap and it comes with very few strings attached.