



Large outbound transactions dominate M&A activity

BARRY CRITCHLEY

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The mergers and acquisitions trend, according to a report to be released Friday, is not good: for the third consecutive quarter, there's been a decline in such activity involving Canadian companies.

That trend also has implications for capital raisings given that on average about 40 per cent of equity issuance is related to an M&A transaction.

For the quarter, the report compiled by Crosbie & Co. detailed 656 announcements. That level is down 7 per cent from the fourth quarter of 2014, down 15 per cent from the recent peak (of 768 deals in the second quarter of 2014) and the lowest number of transactions since the third quarter of 2013 when there were 643 deals.

And the value of such transactions is considerably lower. For the quarter, M&A activity amounted to \$44.64 billion, down 46 per cent from the previous quarter.

"Despite the downward drift in activity over the past few quarters, valuations are excellent and it continues to be a seller's market," commented Richard Betsalel,

director of Crosbie & Company, adding "there is a lot of capital out there looking for a productive home, including both private equity and corporate buyer balance sheets."

The report indicates the first-quarter decline was broad-based, with eight of 14 sectors used to classify the data reporting lower activity. Real estate was the busiest sector, with 104 transactions worth \$6.7 billion. In all, 90 per cent of the deals had a value of less than \$250 million.

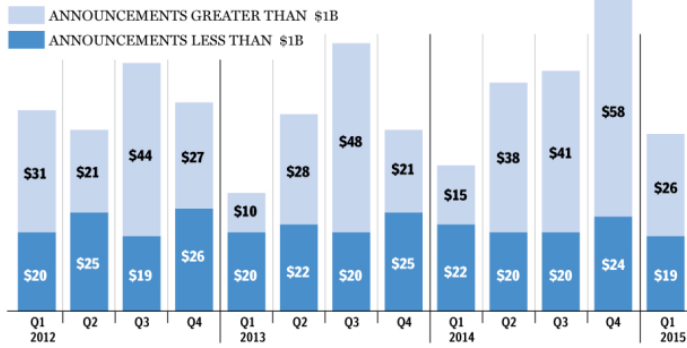
During the quarter there were eight deals of more than US\$1 billion, of which seven were so-called outbound deals — meaning the purchase of a foreign company by a Canadian group.

The largest outbound deal was the \$8.884-billion sale of Fortum Distribution AB, a Swedish-based electricity distributor, to a consortium that included Borealis Infrastructure. Other large outbound deals included Royal Bank's \$3.197-billion purchase of City National Corp; Fairfax Financial's \$2.391-billion acquisition of Brit PLC and DH Corp.'s purchase of Fundtech Ltd. for \$1.587 billion.

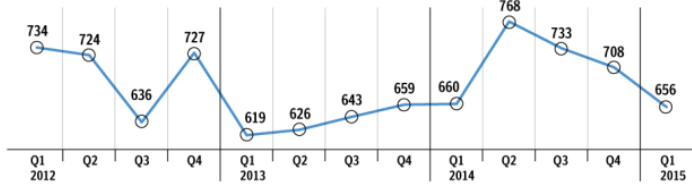
CROSBIE 2015 Q1 REPORT

M&A quarterly announcements

VALUE OF ANNOUNCEMENTS IN \$ BILLIONS, Q1, 2012 - Q1, 2015



NUMBER OF ANNOUNCEMENTS Q1, 2012 - Q1, 2015



SOURCE: CROSBIE & COMPANY INC.

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The quarter's top 10 transactions show the continuing role of large pension funds and/or private equity groups. Aside from Borealis, CPPIB, the Caisse de depot and Onex also did transactions.

“These pension funds continue to make significant infrastructure investments as part of their strategies to match their long term liabilities with investments in long term assets that tend to generate stable inflation-protected returns,” said the report.

And typically those assets being acquired are outside of Canada. For the quarter, Canadian entities paid \$30.099 billion to purchase 165 foreign targets while foreign buyers spent \$3.414 billion to purchase 111 Canadian targets.

Certainly the cross-border activity dominated the quarter's deal value as Canadian buyers spent just \$6.021 billion buying 317 Canadian targets. The rest of the M&A activity (\$5.105 billion) represents foreign subsidiaries of Canadian companies being sold to foreign buyers.

As for the outlook, Betsalel said the data suggest much of the declining trend in recent quarters can be attributed what is going on in the resources area. “Oil industry activity has sharply declined in the short run. Not only will this dip correct at some point but there could be a jump in activity as the sector restructures.”