

Value of Canadian M&A Activity Surges in Q4 2015

Some very large transactions spurred the growth, though, as the quarter saw the lowest level of deal activity in two years

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Several mega deals pushed the value of Canadian mergers and acquisition (M&A) activity to almost record levels in the fourth quarter (Q4) of 2015, masking an underlying weakness in deal flow, according to a new report from Toronto-based investment bank Crosbie & Co.

Crosbie reports that there were 643 M&A deal announcements in Q4 2015, down from 705 deals in the same quarter a year earlier, representing the lowest level of deal activity in the past two years. However, the value of the deals in Q4 2015 was \$137 billion, up from \$116 billion in Q4 2014.

This increase in overall deal value was driven by several very large transactions. Crosbie reports that there were 17 deals valued at least \$1 billion in Q4 2015, with a total value of \$119 billion. This includes Canadian Pacific Railway Co.'s \$50.3 billion offer to acquire Norfolk Southern Corp. In the same quarter a year earlier, there were 14 deals valued at least \$1 billion, totalling \$90 billion.

"Robust activity at the top end of the market has overshadowed a narrowing of core domestic M&A

activity," says Richard Betsalel, managing director at Crosbie in a statement. Indeed, the firm reports that there were just 435 domestic transactions in the quarter, valued at \$20 billion, down from 454 deals worth \$66 billion in Q4 2014.

"The one bright light in the quarter was Canadian companies remaining active making acquisitions abroad," Betsalel adds. Crosbie reports that Canadian companies made 153 acquisitions of foreign targets in Q4 2015, valued at \$106 billion, vs 185 transactions valued at \$42 billion in the same quarter in 2014.

"The 15% depreciation in the Canadian dollar vs the U.S. dollar in 2015 has not deterred Canadian companies from making foreign acquisitions," Betsalel notes. "Pension funds and private equity groups led the charge acquiring long-lived infrastructure and real estate assets as they seek to increase their exposure to assets that generate stable inflation-protected returns in higher growth markets."

Crosbie reports that real estate was the most active sector in the fourth quarter, with 101 transactions, down from 116 transactions in Q4 2014. Meanwhile, deals activity in the energy sector remained weak,

with just 65 transactions valued at \$11.5 billion in Q4 2015 compared with 75 deals valued at \$52.1 billion in Q4 2014.

"With oil continuing its slide below US\$30 per barrel, buyers in the energy sector have moved to the sidelines," Betsalel says. "We expect those buyers to remain cautious until oil prices exhibit some degree of stability or distressed companies are forced into selling assets at fire-sale prices."