

M&A Activity Rebounds in Q3: Crosbie

The weak Canadian dollar has not deterred Canadian companies from making foreign acquisitions

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Canadian merger and acquisition activity rebounded in the third quarter of 2015, according to a report released on Thursday from Toronto-based Crosbie & Co.

Canadian M&A business broke a streak of four consecutive quarters of declining activity in the third quarter, driven in part by Canadian companies making acquisitions of foreign targets, the report says.

A total of 673 deals were announced in Q3 2015, and deal activity was valued at \$92 billion. That's up from 652 deals worth \$75 billion in the second quarter. In the third quarter last year, there were 733 deals, but they were only worth a combined \$61 billion.

"Although we are still well off the recent high in M&A activity, it is encouraging to see some positive indications of a recovery, even as weakness continues in the resource sectors," says Richard Betsalel, director at Crosbie, in a statement.

During Q3 2015, Canadian companies made 186 acquisitions of foreign targets, valued at \$60 billion, compared to 172 transactions valued at \$42 billion in the same quarter last year.

"Canadian companies went on a buying spree abroad, in an effort to offset anemic domestic growth by gaining exposure to higher growth markets, such as the United States, Korea and Germany," says Betsalel. "The weak Canadian dollar has not deterred Canadian companies from making foreign acquisitions, consistent with our observation of the longer term trend that exchange rates and cross-border M&A activity are not strongly correlated."

For purely domestic transactions (where the target company is in Canada) there were 433 transactions valued at \$18 billion in Q3 2015, which was more or less unchanged from the 435 deals worth \$18 billion in Q2 2015.

The number of so-called mega-deals (transactions worth at least \$1 billion) doubled in the third quarter, according to the Crosbie report, with 16 deal announcements in Q3 2015, compared to eight deals in the same quarter last year. The total value of these deals was also up 71% year over year to \$71 billion. However, mid-market deal activity declined compared with a year ago, the Crosbie report says.

Cross-border transactions accounted for 45% of all deal announcements in the quarter, which is in line

with the long term trend, the Crosbie report says. However, these deals also accounted for 74% of the total deal value in the quarter; which, it notes, is approaching its highest level in more than five years.

Looking at the deal activity by sector, the energy sector saw a significant decline in deal activity compared with the third quarter of 2014, the Crosbie report says, but that the tech sector and metals & mining took up the slack. Real estate remained the most active sector, with 107 deals in the third quarter, valued at \$15.4 billion. Industrials generated the most deal value at \$19.8 billion, followed by real estate and utilities.

Crosbie expects an increase in deal activity involving the resource sectors in the months ahead as these companies come under increasing balance sheet pressure.

"With commodity prices at cyclical lows, the balance sheets of many resource companies and their suppliers are becoming stressed. We are hearing that lenders are seeking to reduce their exposure in these sectors and we expect that to eventually result in a flood of M&A activity as borrowers without refinancing options seek opportunistic buyers with strong balance sheets," Betsalel says.