INVESTMENT EXECUTIVE

M&A Down, But Not Defeated

Deal activity fell in Q2, but not as precipitously as some feared

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As expected, merger and acquisition activity dropped in the second quarter, but it didn't fall as hard as many feared, according to new data from Crosbie & Co. That said, a full recovery will depend on efforts to control Covid-19 and a return to more normal conditions.

Toronto-based investment bank, Crosbie & Co. reported that Canadian M&A activity dropped by 25% quarter-over-quarter in Q2, with 600 deals announced, for an aggregate value of $14.2 billion.

While the drop in deal activity was significant, Crosbie said the impact of Covid-19 was not as substantial as many expected.

Despite many businesses being forced to shut their doors and countries closing their borders "Canadian companies were still looking to make acquisitions both domestically and abroad throughout the quarter," the firm said.

Crosbie also noted that deal activity ramped up as the economy inched open.

For instance, there was less than $1 billion worth of deal activity in April but this grew to $6.9 billion in May and held at $6.6 billion in June.

As deal volume remained relatively robust, total deal value fell to relative lows, Crosbie said.

"Transactions that moved forward were predominantly smaller acquisitions by larger strategic players or private equity portfolio companies making modest tuck-under acquisitions," it said.

There was virtually no mega-deal activity in Q2.

"This simply reflects buyers managing their risk in the current environment by making smaller bets and focusing on sectors and business models where they have a high degree of comfort," the firm said.

The sectors that were most active for M&A were some of the areas least affected by Covid-19, Crosbie said, including mining, tech and healthcare.

Conversely, sectors that suffered more severe effects of Covid-19 “such as industrials, consumer discretionary and real estate, experienced the most significant declines in M&A activity,” it noted.

In particular, Crosbie said that there was a conspicuous lack of distressed M&A transactions.

It points to factors, such as bank forbearance and government support programs as factors weighing against distressed M&A.

Also, it said, “Not enough time has passed since the pandemic started for most companies to have properly assessed their current financial situation and taken pre-emptive action by pursuing M&A either as an exit strategy or as an alternative to raising capital. In addition, lenders do not appear to have pushed borrowers to pursue that route…yet.”

Looking ahead, the firm said that M&A activity likely won’t return to normal until travel restrictions are eased, social distancing requirements relax and confidence in the economy returns.

“The emergence of a Covid-19 vaccine or therapeutic, or the success of curve-flattening efforts will help to provide the market participants with the confidence needed to move forward with M&A transactions,” it said.