

## The Last Hurrah for M&A

*Solid Q1 likely to be followed by a lengthy drought for deals*

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Canadian merger and acquisition activity had one last healthy quarter before the Covid-19 outbreak tanked the economy and financial markets, taking dealmaking with it.

According to a new report from Toronto-based Crosbie & Co., the Canadian M&A market had a decent first quarter, with 797 deals announced — more or less in line with the same quarter last year.

First-quarter deal value totalled \$47.1 billion, which was down from \$75 billion in Q1 2019.

“However, as the quarter came to a close, the global Covid-19 pandemic began to take hold resulting in the shut down of many businesses, border closings, and an interruption of much M&A activity both within and outside Canada,” the report said.

Amid the outbreak, Crosbie expects that M&A deal numbers will prove much different in the second quarter, “with significant uncertainty for the subsequent quarters.”

In fact, Crosbie reported that discussions with market players indicated that M&A activity “has slowed to a

trickle” since the outbreak began disrupting the economy.

Economic uncertainty, valuation issues and access to financing are all impediments to M&A, as are travel restrictions and social distancing practices that prevent physical due diligence from taking place.

Crosbie said that most new deal activity has been halted, and that most deals that were underway are also being paused.

“We suspect that many deals will either be repriced or pulled altogether,” the report said. “Transactions that continue to move forward will be those involving businesses less directly impacted, and/or involving strategic or synergistic buyers that have the capability to close with little or no third party financing.”

While the short-term outlook for M&A is very poor, the firm said that eventually the market will bounce back.

“We are probably in for a few quarters with much lower overall M&A activity, but this should be followed by a strong rebound in transaction levels,”

once the current impediments to dealmaking are resolved, Crosbie said.

When conditions ease, there will be a number of drivers for M&A activity, Crosbie said, including hard-hit businesses that need to sell and bargain-hunting buyers such as private equity firms.

“Consolidation within many industries will likely accelerate. Stronger players will lead that charge,” Crosbie said.

Additionally, the report said that the need for succession will become a stronger driver of deal activity.

“Many owners will decide, in the wake of Covid-19, that they need to get out,” Crosbie said.

However, given that M&A deals typically take six to 12 months to execute, Crosbie noted that this means “we are unlikely to see a return to more robust activity levels for a few quarters at least.”