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Takeover Activity Falters in First Quarter

By: Tim Kiladze

Canadian takeover activity fell in the first quarter of 2010 on a dearth of $1-billion-plus mega deals, the first decline in merger and acquisition activity in a year.

The total number of deals last quarter fell to 246, with a total value of $19.7-billion, down from 285 and a total $34.4-billion in the fourth quarter of 2009, according to the Financial Post Crosbie: Mergers & Acquisitions in Canada database.

The drop didn't shock Ed Giacomelli, managing director at M&A specialty firm Crosbie & Co., who noted there can't be growth every quarter.

"We [already] had such a strong bounce from the bottom. You had a lot of different reasons for M&A over the past year," he said, citing a resurgence of liquidity and the need for troubled companies to sell assets as the main reasons for 2009's growth.

Unlike the fourth quarter last year, which included Korea National Oil Corp.'s $4.1-billion takeover of Harvest Energy Trust, as well as the failed acquisition of Transurban Group by the Ontario Teachers' Pension Plan and Canada Pension Plan Investment Board, the first quarter of 2010 lacked blockbuster deals. The largest transaction last quarter was the $1.5-billion merger of Quadra Mining and FNX Mining.

The Canadian M&A market also suffered from a drop in mid-market deals, which consists of all transactions valued at $25- million and under. The quarter included 226 of these deals, down from 262 in the last three months of 2009. The largest transaction in this category was Saskatchewan-based Viterra Inc.'s $246-million acquisition of Dakota Growers Pasta Co. Inc.

Still, the total value of transactions between $250-million and $1-billion came in at $7.6-billion, about the same value as in the previous quarter.

Cross-border transactions were also a bright spot in the M&A market, comprising seven of the 10 largest deals. Even though the total value of these transactions dropped by 56 per cent, deals led by Canadian buyers again outnumbered those led by foreign entities, this time by a 2 to 1 margin. Mr. Giacomelli attributes this to the plethora of Canadian mid-market firms looking to grow via acquisition.

Oil and gas once again dominated the overall M&A market. The first quarter marked the 12th consecutive quarter in which the sector ranked either first or second based on deal volume.

M&A levels are still far off their peak during the second quarter of 2007, which included 416 transactions and a total value of close to $120-billion. Mr. Giacomelli said economic stability will have to return before the market sees those levels again.

“Until the recovery is proven, it’s difficult to get comfortable with valuations,” he said.