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M&A Deal Value Drops in Fourth Quarter: Crosbie

By James Langton

The number of M&A deals rose in the fourth quarter, but the value of the deal activity dropped, leaving M&A activity down for the year overall, according to the latest data from Toronto-based investment bank, Crosbie & Co.

The firm said Wednesday there were 266 transactions, worth $33.4 billion, announced in the last quarter of 2011. This compares with 255 announcements, worth $44.3 billion, in the previous quarter. For the full year, there were 1,058 Canadian M&A transactions, valued at $160 billion, which represents a 7.7% decrease in transaction volume and a 3.7% decrease in transaction value from 2010.

The mid-market segment (transactions worth less than $250 million) accounted for 88% of all announcements in the fourth quarter, and there were relatively few large deals, Crosbie reports. It says there were only seven deals of $1 billion or more in the quarter, and 29 deals that size for the year as a whole.

The real estate sector led the action for the third consecutive quarter, with 62 transactions (worth $5.6 billion) in the fourth quarter. It was also the most active sector for the year, with 233 transactions, beating out the oil & gas sector, and the industrial products sector, which have traditionally been the most active, Crosbie notes.

"Given investor hunger for yield, there is strong demand for real estate assets from a variety of buyers," said Ian Macdonell, managing director at Crosbie. "REITs have tremendous access to cheap capital to fund acquisitions and pension funds and insurance companies are drawn to the asset class by stable inflation-hedged cash flows that look attractive relative to other investment alternatives in the current low interest rate environment."

Also, Crosbie reports that financial sponsors remained active in the fourth quarter, playing a part in nine transactions of over $100 million, representing a total value of $4.1 billion. Pension funds accounted for five of these transactions, it says, including the $1.3 billion sale of Ontario Teachers' Pension Plan's 79.5% interest in Maple Leaf Sports & Entertainment to BCE Inc. and Rogers Communications Inc., which was the fourth largest deal in the quarter.

Finally, the firm says that cross-border transactions continued to be an important contributor to M&A activity, accounting for 115 transactions or 43% of all announced deals in the quarter. This is consistent with the average seen in recent years, it says. Canadian-led takeovers of foreign companies outnumbered foreign acquisitions of Canadian entities by a margin of 1.7 to 1 in the fourth quarter, and 2.2 to 1 in the full year, which is broadly in-line with the long-term historical trend Crosbie says.