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Canadian M&A Activity Rises in Fourth Quarter

Major pension funds dominant in mega-deals above $1 billion

By James Langton

Canadian merger and acquisition activity rebounded in 2010, according to the latest data from mid-market investment bank Crosbie & Co.

M&A activity rose again in the fourth quarter of 2010, the third successive quarter of increased transaction volume and value, Crosbie said Monday.

The value of M&A transactions increased by 12%, it reports, as 302 transactions worth $52 billion were announced in Q4, compared to 278 transactions for $46 billion in the previous quarter.

The fourth quarter results also meant that both transaction volumes and values increased by 19% in 2010 over the previous year. In total, there were almost 1,100 deals recorded during the year, worth $157.5 billion in aggregate. The most active sectors were energy, real estate and industrial products.

“We have come a long way from the trough in the M&A market in 2009. The depth and breadth of M&A is impressive given where we came from,” said Ed Giacomelli, managing director at Crosbie.

The firm notes that, “Strong activity by banks and financial sponsors resulted in increased cross-border activity and provided for a consistent pace of mega-deals (transactions above $1 billion).” It adds that financial sponsors generated their highest activity level on record in the fourth quarter for deals above $100 million, with 20 announced transactions valued at $14 billion.

The major Canadian pension funds dominated this segment, involving themselves in 12 of these 20 transactions, Crosbie notes. “Canada Pension Plan and Ontario Teachers’ Pension Plan picked up right where they left off last quarter as CPP announced four transactions and Teachers’ announced three. OMERS and Caisse de dépôt et placement du Québec were involved in two acquisitions each and Alberta Investment Management Corp. and British Columbia Investment Management Corp. also participated in the quarter with one acquisition each,” it reports. The other active Canadian financial sponsors were Birch Hill Equity Partners and Onex Corp., each with one significant transaction in the quarter.

“It was noteworthy that almost all of the large Canadian pension funds announced transactions in the quarter,” added Giacomelli, adding that these “acquisitions are consistent with the strategic focus of these funds on inflation-hedged assets such as infrastructure and real estate.”

The fourth quarter saw nine so-called mega-deal announcements, unchanged from the last quarter. The largest deal of the quarter was the $6.4 billion acquisition of Chrysler Financial by TD Bank followed by another banking deal where Bank of Montreal acquired Wisconsin-based Marshall & Ilsely Corp. for $4.2 billion.

“Four of the five major Canadian banks announced large acquisitions, three of which were of foreign businesses. Further expansion of the Canadian banks into these markets comes as no surprise given their financial strength and prior acquisitions,” added Giacomelli.

Cross-border deals continued to dominate the Canadian M&A scene, with nine of the top 10 deals in the fourth quarter involving an international counterparty, Crosbie says. And, it notes that cross-border transactions represented 80% of overall M&A values, returning to pre-recession levels after hovering below 60% in 2008-2009.

Canadian led deals outpaced the volume of foreign led deals by over two to one. And, the value of Canadian led deals significantly outweighed the value of foreign led deals by over 2.5 to one in the fourth quarter, Crosbie notes, as the five largest cross-border transactions of the quarter were led by Canadian companies.