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Canadian M&A on 'Pause' as Mega-deals Decline

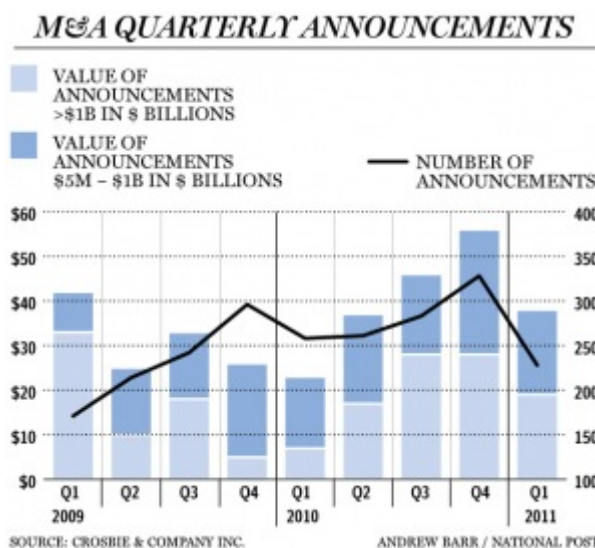
By Christine Dobby, Financial Post

The high-profile proposed merger between London Stock Exchange Group Plc and TMX Group Inc. couldn't save the Canadian mergers and acquisitions market from reporting the lowest level of activity since Q2 2009 in the first quarter of this year.

There were 228 transactions announced in the first quarter of 2011 worth \$38-billion, a 30% drop from 328 transactions worth \$56-billion announced in the last quarter of 2010, according to the Financial Post Crosbie Mergers & Acquisitions in Canada database. This came after three consecutive quarters of rising M&A activity.

"While the pullback came as a surprise, we see this as more of a pause than the start of a trend," said Ed Giacomelli, managing director at Crosbie & Company, in a statement on Thursday, noting that the active pursuit of M&A opportunities continues.

A rush to announce deals before the end of 2010 may in part explain the soft results, with the announcement of 140 transactions in December 2010 versus just 59 in January. By March, volume was back to 90 deals, more in line with the numbers seen in recent quarters.



There were just six "mega-deals" (worth more than \$1-billion) announced in Q1 — compared to nine each in the previous two quarters — including the proposed \$3.2-billion LSE/TMX merger, the third largest of the period. The top two deals announced were PetroChina Company Ltd.'s agreement to acquire a 50% interest in Encana Corp.'s Cutbank Ridge business assets in B.C. and Alberta for \$5.4-billion, and Cliffs Natural Resources Inc.'s \$4.9-billion acquisition of Consolidated Thompson Iron Mines Ltd.

All 10 of Q1's largest deals involved a foreign entity (the first time that happened in almost four years) and over 80% of total M&A value was attributed to cross-border activity. But Canadian-led acquisitions outnumbered foreign-led deals by a 2 to 1 margin. "While Canadian businesses

are on the radar screen of international buyers, Canadians are still acquiring foreign entities in greater numbers,” Mr. Giacomelli said.

The resources sectors continued to see the most M&A activity with a combined 92 transactions between the oil & gas, metals & minerals and gold & silver sectors, 40% of all announced deals. Meanwhile, activity from financial groups declined in the quarter.