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# Mega Deals, Pension Funds Lift Canadian M&A Activity

*Real estate, oil & gas the most active sectors in the second quarter*

By James Langton

Canadian merger and acquisition activity rose notably in the second quarter, according to the latest data from Toronto-based investment banking firm Crosbie & Co. Inc.

The firm reports that there were 280 transactions announced in the quarter for a total value of $51.2 billion. This represents a 19% increase in M&A activity and a 74% increase in aggregate transaction value compared to the prior quarter. The quarter ranked as the second strongest quarter by transaction value in almost four years, second only to the fourth quarter of 2010 ($57 billion), it notes.

Real estate and oil & gas were the most active sectors in the quarter accounting for 21% and 19% of total M&A activity, respectively, the firm reports. In terms of transaction value, metals & minerals and financial services were the leading sectors with $11.7 billion and $10.5 billion of total announcements, respectively.

“The solid second quarter for Canadian M&A highlights the relative strength of the corporate sector of the economy compared to the fiscal challenges experienced by governments globally. Despite recent turmoil in equity markets, many companies continue to be in a position to go after M&A deals with strong earnings and balance sheets, positive outlooks for their businesses and access to cheap financing,” said Ian Macdonell, managing director at Crosbie.

Crosbie says that the significant gain in M&A transaction value was driven by both mega deals (transactions over $1 billion) and strong activity by financial sponsors. The second quarter saw 10 mega deal announcements for a total value of $25.4 billion, led by Barrick Gold Corp.’s $7.3 billion acquisition of Equinox Minerals, Maple Group’s $3.8 billion bid for the TMX Group, and the $3.5 billion sale of RBC’s U.S. banking operations to PNC Financial.

Financial sponsors were also active in the quarter, with 12 transactions worth over $100 million, of which two were mega deals, Crosbie reports. This is up from six such deals in the first quarter, but still well below the record-setting 20 transactions over $100 million involving financial sponsors in the fourth quarter of 2010.

Pension funds were involved in nine of the 12 transactions announced in the second quarter. Canada Pension Plan led the way with six announcements, including four acquisitions of interests in shopping malls in the U.S., Germany, and Australia and an industrial property in Hong Kong. Onex Corp. led private equity activity with three deals announced in the quarter.

“The trend towards large Canadian pension funds investing directly on a global basis resumed in the second quarter after a short breather in the first quarter and a very active last quarter of 2010,” noted Macdonell.

Cross-border activity accounted for 43% of the transactions announced in the quarter, which is consistent with historical levels. However the value of cross-border deals as a percentage of total M&A was materially lower than the historical norm, Crosbie noted, at 50%, compared to an average of 67% over the last four years.