THE CANADIAN PRESS

MARCH 14, 2012

Smaller Mega Deals Push Down Value of Canadian M&A in Fourth Quarter: Crosbie

By David Paddon

TORONTO - The total value of Canadian mergers and acquisitions dropped in the fourth quarter of 2011, as smaller corporate mega-deals dominated the market, according to a report issued Wednesday by Crosbie & Co.

Canada's M&A activity slid 25 per cent to $33.4 billion in the three month period, a decline from $44.3 billion in the third quarter ended Sept. 30, the report said.

A major reason for the decline was size of mega-deals — those worth at least $1 billion — while the number and value of mid-sized deals remained steady.

The Toronto-based firm said there was an equal number of mega deals in both quarters — seven — but their total value dropped to $12.8 billion from $25.9 billion.

The acquisition of Vancouver-based copper and nickel producer Quadra FNX Mining by KGHM Polska MiedY SA, valued at $3.5-billion, topped the list in the fourth quarter. That deal closed last week.

There was also a $2.5-billion takeover of European Goldfields Ltd. by Eldorado Gold Corp. of Vancouver (TSX:ELD) and the $2.3-billion takeover of Daylight Energy Ltd. of Calgary by China-based Sinopec.

In contrast, the third quarter included TD Bank's acquisition of MBNA Canada's credit card portfolio in a deal valued at $8.6 billion and a $6-billion acquisition of Texas-based Kinetic Concept Inc. by a consortium that included the Canada Pension Plan Investment Board.

The bulk of the mergers and acquisition activity in both quarters, however, involved mid-sized deals worth less than $250 million.

There were 235 transactions of this magnitude in the fourth quarter, or 88 per cent of the total, consistent with the third quarter and the full year in 2011 and prior years, Crosbie said.

The real-estate sector had most transactions during the quarter and for the year as a whole, according to the Financial Post Crosbie mergers and acquisitions database.

“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 & Co.

He said real-estate investment trusts 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.”

The database recorded 266 transactions in all sectors during the quarter — up from 255 in the July-to-September period — and 1,058 transactions for the full year with a total value of $160.2 billion.

The total number and value of mergers and acquisition deals last year was down from 2010, when there were 1,146 transactions announced worth a total of $166.3 billion.

In a separate report, Ernst and Young reported Wednesday that there were 27 M&A deals in Canada's technology sector during the fourth quarter — nearly double the 15 announced in the fourth quarter of 2010.

The Ernst and Young report, which tracks global deal activity in the technology sector, said that U.S. companies were involved in 46 per cent of all deals in the fourth quarter.

Canada accounted for five per cent of the total and placed No. 6 on the study's ranking after the United States (269 deals), United Kingdom (36), Japan (35), China and Hong Kong (34) and France (32) but ahead of Germany (23).