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M&A Activity Down Sharply in Third Quarter: Crosbie

Slowdown generated the fewest number of quarterly announcements in three and a half years

By James Langton

Canadian merger and acquisition activity dropped sharply in the third quarter, with the volume of deals down 15% quarter over quarter, and down 25% over the previous third quarter, according to the latest data from Crosbie Co.

The firm reports that the M&A market suffered a broad-based slowdown in the third quarter, which was the third consecutive quarter of declining M&A activity, and generated the fewest number of quarterly announcements in three and a half years. According to Crosbie's database, there were 195 transactions announced in the third quarter, which it says is the first time M&A activity has dipped below the 200 transaction mark since the first quarter of 2009.

While the volume of deals has dropped, the value of the third quarter's transactions was up by about 18% from the previous quarter to approximately \$40.5 billion, due in large part to large deals worth more than \$1 billion.

By sector, the real estate and oil and gas sectors were the most active in the quarter, with 39 announced transactions each, but both saw declines from the prior quarter. Real estate sector activity declined significantly from 58 transactions in the previous quarter, and deals in the energy space were down from 44 transactions.

However, the value of energy sector transactions led all other industry sectors due to CNOOC Limited's proposed \$15.4 billion acquisition of Nexen Inc., which was the quarter's largest deal announcement.

"In the resource sectors, volatile commodity prices and lower financing activity led to lower M&A activity, whereas industrial products was flat," said Ed Giacomelli, managing director at Crosbie. "It appears that in many sectors activity level has more to do with sellers being in a holding pattern than it does with buyers being reluctant to transact."

Crosbie notes that one "bright spot" in the quarter was the 13 transactions worth over \$100 million involving capital groups, including seven buy-side deals. There were also a healthy number of large transactions in the quarter, in notes, with eight so-called megadeals.

"It is noteworthy that Canadian companies were involved on the buy-side in seven of the ten largest transactions this quarter," said Giacomelli. "As uncertainty subsides, we feel that buyer appetite for acquisitions will grow which will lead to an increase in activity."

Crosbie also reports that cross-border deals accounted for 54% of all M&A volume, which is its highest level since the first quarter of 2004. Canadian buyers continued to acquire foreign businesses in greater numbers than foreign-led take-overs of Canadian companies, but the proposed CNOOC-Nexen deal means the value of foreign-led acquisitions exceeded that of Canadian-led acquisitions in the quarter.