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Canadian M&A in Q3: fewer deals but higher value

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Crosbie & Co. has crunched the numbers and the sluggish tone of the Canadian mergers and acquisitions continued in the recently completed third quarter.

Not only were the number of announcements in the quarter (205) the lowest level since the bottom of the cycle (the first quarter of 2009) but the year-to-date announcements (666) were 7% below the same period last year and 17% below the same period in 2011, said Colin Walker, the firm's managing director.

But against that weak volume, the value of transactions in the quarter was up. For the three months ended Sept. 30, the value increased by 9.7% to $49 billion because a few large transactions, particularly in the retailing and real estate sectors.

The large transactions included: Loblaw Cos.' purchase of Shoppers Drug Mart ($12.4 billion); Choice Properties REIT's purchase of 425 properties from Loblaw Cos. ($7 billion); Brookfield Property's US$5 billion purchase of Brookfield Office Properties; the US$3 billion purchase of Nieman Marcus by CPP Investment Board; the US$2.9 billion purchase by Hudson's Bay Co. of Saks Inc.; and the $1.6 billion purchase by Pacific Rubiales of Petrominerals.

What explains the large transactions? According to Walker, "strong value in the face of weak activity partly reflects the fact that that many transactions are getting done at good valuations. Not only are there generally more buyers than sellers right now, but buyers are paying up for good quality companies," added Walker noting that valuations are being stretched because of "the exceptionally attractive financing terms currently available".

Indeed the third quarter will be remembered as the period of the mega-deal. The Crosbie report indicates that there were 9 mega-deal transactions (those valued at more than $1 billion) valued at valued at $35.7 billion, which is the highest recorded quarter for mega-deals since Q3 of 2007. On a quarter over quarter basis, the number of mega-deals was down slightly (from 11 to nine) but the value was up by 28%.

The report indicates that financial sponsors were busy in the quarter: they were involved with 15% of announced deals and almost one quarter of the M&A activity.

Walker regards the markets as being “bifurcated. The strong showing for mega-deals demonstrates the confidence that sophisticated players have in pursuing large strategic transactions, many of which are transformative. However, the decline in mid-market activity seems to reflect a different perception among many middle-market companies.”

The report shows that foreign investment by Canadian buyers is growing at a faster pace than foreign buyers acquiring Canadian companies. For the quarter 40% of the announced deals were cross-border with the “outbound to inbound ratio was 2.2:1 in terms of deal activity and 1.2:1 in terms of deal value.”

The year to date figures are also noteworthy: so far this year there have been 665 transactions valued at $123.532 billion. The comparable numbers for 2013 were: 715 and $126.860 billion.

The numbers for cross border transactions show that for the first three quarters of 2013, there were 193 transactions where either Canadian companies acquired foreign companies or where they acquired Canadian companies from foreigners. Those transactions were valued at $42.9 billion. (In the same period of 2012, the comparable numbers were: 211 transactions worth $41.582 billion.)

On the other hand, there were 75 transactions where foreigners acquired either Canadian companies or foreign companies from Canadians: those transactions were valued at $21.708 billion. For the same period last year the comparable numbers were: 112 transactions worth $51.428 billion.