

Canadian M&A Activity Remains Slow

The value of M&A transactions increased 9.7% in Q3

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Canadian merger and acquisition activity remained lacklustre in the third quarter, according to the latest data from Crosbie & Co.

The Toronto-based investment bank says that the M&A data for the third quarter show that the sluggish tone of the Canadian M&A market continued. There were just 205 deals announced in the quarter, which is the lowest level since the bottom of the cycle (the first quarter of 2009). And, announcements are down 7% year-to-date from the same period last year, and 17% below the same period in 2011.

Despite the weak deal flow, the value of transactions increased by 9.7% to \$49 billion in the quarter, Crosbie noted, due to a few large transactions, particularly in the retail and real estate sectors.

"Strong value in the face of weak activity partly reflects the fact that many transactions are getting done at good valuations," said Colin Walker, managing director at Crosbie. "Not only are there generally more buyers than sellers right now, but buyers are paying up for good quality companies. Part of the reason buyers are able to stretch valuations like we are seeing are the exceptionally attractive financing terms currently available".

The firm reports that the retail and real estate sectors were key drivers behind the higher value of M&A during the quarter, accounting for the five largest transactions in the period. Real estate was the most active sector with 65 deals announced, down from 72 deals in the prior quarter. But, the value of real estate deals increased from \$7.8 billion to \$18.6 billion, it notes, primarily due to the \$7 billion spin-off of Loblaw Companies Ltd.'s property portfolio to Choice Properties REIT, and the \$5 billion purchase of Brookfield Office Properties Inc. by Brookfield Partners LP.

The retail sector also recorded \$18.6 billion worth of transactions, Crosbie notes; adding that this represents a record high quarterly level for the sector and a three-fold increase from the prior quarter. Loblaw's \$12.4 billion purchase of Shoppers Drug Mart Corp., was the primary reason for the big jump, although the Canada Pension Plan's \$3 billion investment in Neiman Marcus Group, and the Hudson Bay Company's \$2.9 billion acquisition of Saks Inc. were also mega deals featured in the quarter.

Overall, Crosbie reports that there were nine mega-deal transactions (deals worth over \$1 billion) during the quarter, for a combined value of \$35.7 billion, which is the highest recorded quarter for mega-deals

since the third quarter of 2007. However, the number of mega-deals is down from the 11 announcements in the second quarter.

Crosbie notes that financial sponsors were active in the third quarter, participating in 11 transactions worth at least \$100 million, for a total value of \$6.8 billion.

"The market does seem to be bifurcated at this point," noted Walker. "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 firm also notes that 40% of announced deals in the quarter were cross-border transactions; and, that Canadian acquisitions of foreign companies continue to outpace foreign acquisitions of Canadian companies.