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Real estate and financial sponsors underpin M&A activity

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Were it not for real estate and the role played by financial sponsors, the mergers and acquisitions business in 2013 would have been considerably bleaker. That's the key conclusion from a report prepared by Crosbie & Co. that is being published Friday.

"The mix of deals in the Canadian M&A market has really shifted in recent years," said Colin Walker, the company's managing director, noting that some of the sectors that historically were key contributors (such as mining) have become noticeably quiet, while others (such as real estate) have surfaced as the new leaders.

Overall, the value of M&A transactions in 2013 involving Canadian corporations was $158-billion, a 13.9% decline from levels reached in 2012. But two normally large sectors – base metals and oil and gas – posted even larger declines with the former off by 77% to $2.7-billion and the latter down 71% to $17.6-billion. M&A transactions in the industrial products field — which in the past has been a key contributor to the overall activity levels — were lower by 23%.

On the other hand, real estate supplied one-third of the overall M&A activity in 2013 with the $3.5-billion acquisition by CT Real Estate Investment Trust of the real estate portfolio owned by Canadian Tire being the largest for the final quarter of 2013.

The report by Crosbie discusses activity in the fourth quarter of last year as well as for all of 2013. At $33.5-billion, activity in the last quarter was about 20% below the average level for the previous three quarters.

For the period Oct. 1 to Dec. 31 2013, the largest deal was the US$4.3-billion acquisition of Arizona-based UNS Energy Corp. by Newfoundland-based Fortis Inc., a deal that still requires regulatory approval.

That transaction, on which Fortis used an installment receipt on a convertible debenture to raise capital to finance the purchase — was one of five valued at more than $1-billion that were announced in the quarter.

Aside from CT REIT, the other three were: Endo Health's $1.7-billion purchase of Paladin Labs, Progress Energy's $1.5-billion of acreage from Talisman Energy and Open Text's US$1.165-billion purchase of GXS Group.

But those deals are the outliers because, the report states, “the mid-market continues to be the cornerstone of the Canadian M&A transaction volume.”

For the quarter, 88% of the announced transactions but just 27% of the value of those deals, were by mid-market companies. In all, the mid-market contributed 211 transactions worth $9.2-billion — meaning each deal, on average, was valued at about $45-million.

For the quarter, cross-border transactions (there were 113) made up 47% of all M&A announcements. And Canadian companies were far busier buying foreign companies than foreigners buying Canadian companies.

That quarterly performance was typical for the year. The report notes that for 2013, Canadian out-bound M&A exceeded inbound M&A by 2.5:1, “the highest level since 2003.”

Pension Funds, regarded by many as the country’s new multinationals and one category of financial sponsors, were active buyers in the fourth quarter. They invested in 10 transactions, many of which involved real estate with the Caisse de depot and CPP each investing in four transactions. The report deems financial sponsors a “powerful force in the market” given that they accounted for 24% of deal value last year.