



Crosbie sees “ingredients” for stronger Canadian M&A in 2014

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March 19, 2014

Activity in Canada’s merger and acquisition market remained flat in the fourth quarter of 2013, reports **Crosbie & Co. The Financial Post Crosbie: Mergers & Acquisitions in Canada [database](#)** found 240 deals with a total value of \$33.5 billion in this period, down 37% year over year. For the entire of 2013, M&A values totaled \$158 billion, down 13.9% from 2012. However, Crosbie managing director **Colin Walker** pointed to “strong currents” in last year’s trends. These included robust dealmaking in real estate, which offset declines in other sectors, mid-market activity, and transactions led by financial sponsors, which now account for 24% of values. Walker said the “ingredients” exist for stronger M&A activity in 2014, as market conditions suggest it is “a good time to sell businesses.”

PRESS RELEASE

Canadian M&A Activity – Fourth Quarter 2013 Report

Strong Currents Beneath Flat Waters

At first glance, Canadian M&A data for Q4 gives the impression that it was just another stable quarter and that not much has changed. The Financial Post Crosbie: Mergers & Acquisition in Canada database indicates there were 240 announcements in Q4 (up from 230 in Q3) representing a total value of \$33.5B (down from the average of \$41.6B for the earlier 3 quarters of the year). From 20,000 feet, each of the quarters in 2013 looked quite similar and also fit within the new general “trading range” that appears to have emerged over the past 3 years.

However, upon closer examination, the 2013 M&A numbers for the whole year yield some interesting observations:

- Transactions by financial sponsors continue to represent a powerful force in the market – sponsored

transactions of over \$100 million now represent 23% of announcements and 24% of the overall value.

- The Base Metals and Gold sectors, both historically strong contributors to the overall market were completely moribund in 2013 with approximately \$2.7B of transaction value from each sector. Base metal announcements fell 77%.
- Oil & Gas experienced a significant decline, falling from 224 to 164 transactions in 2013, with value declining 71% to \$17.6B.
- Industrial Products, another sector that has historically represented a key driver in the overall numbers, reported 114 deals worth \$11.3B, down 23% both in number of announcements and in value terms
- On a positive note, 2013 activity in Consumer Products, another large component of the market in most periods, was almost identical to 2012 both in terms of activity and value (60 deals worth \$17.4 B).
- Offsetting some of the above weakness is Real Estate, where activity grew in 2013 and now represents almost a third of total activity and value. If real estate were to be excluded from total M&A in 2013 (i.e. giving you a proxy for operating company deals), there would only have been 632 announcements (down 19% from 2012) worth \$110B (down 29.9% from 2012). This is a long way from 2006 when excluding real estate, we had 1,674 deals announced!

“The mix of deals in the Canadian M&A market has really shifted in recent years,” said Colin Walker, Managing Director at Crosbie & Company. “Some of the sectors that were historically key contributors have become noticeably quiet, while others have surfaced as the new leaders. He added, “Obvious examples are mining which is in the tank, and real estate which is totally on fire.”

The mid-market remained active with 211 reported transactions under \$250M valued at \$9.2B – representing 88% of activity.

In terms of larger deals, there were 5 mega-deals (transactions over \$1B) announced in Q4, down from 9 last quarter. The total value of these deals was \$12.5B (down 62% from Q3). The largest transaction for the quarter was the acquisition of UNS Energy Corporation by Fortis Inc. for \$4.6B. Additionally, 4 of the 5 mega-deals this quarter were cross-border transactions where Canadian companies were making acquisitions abroad.

“Although M&A activity has been lower than we would have expected, it is nevertheless a good time to sell businesses,” said Colin Walker. “We continue to see strong buyer interest in most sectors and financing for buyers has never been better. These conditions support attractive valuations and provide the ingredients for stronger M&A activity in 2014.”

Cross-border transactions in the quarter accounted for 47% of all announcements. Canadian companies continued to be very active internationally in Q4, acquiring 2.2 times more companies abroad than foreigners acquired Canadian companies. For the year as a whole, Canadian out-bound M&A exceeded inbound M&A by 2.5:1 which is the highest level since 2003.

The information above and on preceding pages is a summary of Crosbie & Company Inc.'s analysis of each quarter's M&A activity. The data is compiled from Financial Post Crosbie: Mergers & Acquisitions in Canada, the most extensive database on M&A activity in Canada.

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