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Where have all the M&A deals gone? First-quarter activity lowest in five years, firm says

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It was a quarter marked by a significant decline in activity by mid-market players but an increase in mega deals. Put the two developments together and for first three months of 2014 there was a significant drop in mergers and acquisitions according to information published by Crosbie & Co.

For the quarter, there were 189 announced transactions valued at $31.1-billion compared with 262 deals worth $35.2-billion in the final quarter of 2013. The quarter's 189 deals represent the lowest level of activity since the first quarter of 2009.

"Despite many anecdotes from the street that activity has improved over the last few months, we are not yet seeing it in the numbers," said Colin Walker, a managing director at Crosbie, adding "we continue to see many of the conditions that should be very favourable to stronger M&A markets including good valuations and financing appetite."

The results could have been different had two sectors, real estate and oil and gas, maintained their previous pace of activity. For the quarter there were 42 real estate transactions and 33 oil and gas transactions – down 38% and 45% respectively from the final quarter of 2013. The 42 real estate deals were valued at $2.88-billion with the largest being the $650-million acquisition of two properties formerly owned by Hudson's Bay Co. by Cadillac Fairview. To put the quarter's 42 deals into perspective, in the first quarter of 2013, there were 85 real estate transactions valued at $12.44-billion.

The 33 oil and gas transactions last quarter were valued at $11.21-billion with the largest being the $3.1-billion purchase by Canadian Natural Resources of oil and gas assets owned by Devon Energy Corp. Baytex Energy Corp.'s $2.6-billion acquisition of Australia's Aurora Oil & Gas Ltd., was the second largest. At $11.21-billion the activity level was almost four times the $2.91-billion (31 deals) recorded in the first quarter of 2013.

The two large oil and gas transactions were part of an overall trend: for the quarter there were eight deals valued at more than $1-billion – the so-called mega deals – compared with five in the final quarter of 2013. And the mega-deals continued another trend: all were cross border with Canadian companies doing the buying in seven of them. Indeed the overall numbers would have looked rather lean were it not for cross border deals: over the three months there were 85 such deals – about 45% of total activity – valued at $23.48-billion (or 75% of the overall value.)

"The cross border value represented the highest level of relative value since 2007," said the report, noting that Canadian companies made 2.1 times as many foreign acquisitions as foreign companies acquired Canadian companies. Since 2010, noted the report, "Canadian firms were both active abroad and spending more on foreign acquisitions than foreigners spent acquiring Canadian companies."

The other highlight for the quarter was a significant decline in the number of transactions backed by financial sponsors. There were seven deals of above $100-million (with the largest being a $1.6-billion purchase by CPPIB) compared with 26 in the final quarter of 2013 and an average of 18 per quarter since 2012.