

GENEVA MERGER & ACQUISITION SERVICES OF CANADA (ONT.) INC.

International Buyers – Spotlight on Canada

**M&A Article by Cal Cochrane
September, 2011**

One of the trends we have noticed in the past five years is that foreign buyers have become much more knowledgeable about Canada and Canadian business opportunities. Long gone are the days of having to explain the geography or politics of Canada to multinational buyers – we are now high on their radar and much better understood than in prior years. Canada has been receiving continuous positive press in the international arena in recent years and we thought it was time to review international transaction activity and what we might expect from foreign buyers in years to come.

First a summary of international buyer activity in the past 5 years:

	TRANSACTION SUMMARY				
	2010	2009	2008	2007	2006
Foreign Buyers of CND Companies	113	84	125	186	125
Total Sales of CND Companies	1,086	925	1,141	1,496	1,461
Foreign Buyers as % of Total	10.1%	9.1%	11.0%	12.4%	8.6%

As seen from this summary the number of foreign buyer transactions has been very consistent in this five year period – ranging from 8.6% to 12.4% of total transactions with a five year average of 10.0%. When we review Geneva completed transactions for the same five year period the **Foreign Buyers represent 40% of total Geneva sale mandate transactions.** It has been generally accepted in the Canadian investment banking industry that foreign buyers will pay a higher price for an acquisition than a Canadian buyer. In part this can be attributed to the more conservative nature of Canadian business managers on the buy-side but more likely is due to the greater opportunity that foreign buyers see in acquiring a Canadian business. These greater opportunities most often come from the ability to expand the customer base with international sales, exploiting Canadian-developed technology in global channels and adding international expertise to further penetrate the Canadian market with an established Canadian operation.

In our Geneva sale mandates we make every conceivable effort to bring international buyers to the table. Even in those cases where we expect the ultimate buyer will be a Canadian company we know that having international buyers at the table will ensure we receive the highest and best offers from all prospective buyers.

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We can identify a number of reasons international buyers would find Canada an attractive place to invest and have summarized below the reasons we see demonstrated in our practice on a daily basis.

1. **Canada – Financial Stability.** Canada's international star began to rise in the ashes of the credit meltdown in late 2008. Banks around the world went into crisis mode and many failed or were forced to merge with stronger partners (over 100 US banks and mortgage companies failed in 2008/2009 and five major financial institutions merged or were acquired during the crisis). Canada was one of a small number of countries whose banks remained unscathed throughout the meltdown due to more conservative banking practices and higher capital requirements. As Canadian bank reputations as conservative bankers grew, with corresponding credit given to the government regulating institutions such as the Office of the Superintendent of Financial Institutions, Canadian financiers and regulators became sought after panelists and policy advisors to other less fortunate countries. Canada has often been cited as a pillar of financial strength and success for its stable banking and regulatory base and this has enhanced Canada as a secure and solid environment for placing new investment capital.
2. **Canada – Rich in Resources.** The two main resources required for the development of China and other emerging countries– oil and minerals – are found in abundance in Canada. Following the return of higher oil prices in 2010 the announced planned investment in Canada's oil sands over the next decade is in excess of \$250 billion following capital expenditures in the order of \$45 billion in the past 3 years. The oil sands, as the second largest reserve of proven oil reserves in the world, has become a targeted primary oil source for a number of major countries, in particular the USA. Likewise Canada has become world-renowned for its rich supply of minerals with capital expenditures of \$25 billion in the past 3 years. As a result, one of the main drivers of M&A activity in Canada in 2010 was in the oil, gas and mining sector with transaction values and number of transactions representing approximately 30% of the total transactions for the year.
3. **Canada – Stable Government.** After 7 years of minority government Canada, unlike many other developed countries (including the USA) now has a majority party ruling both houses of government. Despite anyone's individual view of Mr. Harper and the Conservative party, having one party with the ability to make important trade decisions and put in place international agreements with countries like Brazil, Columbia and Costa Rica along with the ability to make prompt and binding decisions on international buyers seeking required government approval to complete an acquisition in sensitive industries such as mining bodes well for the future of international trade and deal-making for Canadian owners.



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There are many other factors favouring investment in Canada that can be cited such as stable economy, well-trained workforce, reasonably successful social net and medical care but the 3 mentioned above we find are prominent in the expressed views of the many international buyers that we deal with day-in and day-out. Undoubtedly these 3 cited factors are intertwined since the stability of the banking system has been assisted in part by the strength and abundance of the resource sector and the success of Mr. Harper's party has come in no small part from the international praise of the stability and success of the banking system.

International Buyers – Future Direction

We at Geneva Canada consider the international buyer to be the mainstay of successful M&A transactions. Despite the present gloom from stock market instability internationally the fundamentals have been place for a long time for continued M&A activity by global companies, many of whom have been stockpiling record levels of cash in order to expand by acquisition. Canada will be high on the radar of virtually every one of these global acquirers and accordingly we expect to see increased activity from them both for overall Canadian M&A transactions and more particularly within our own practice at Geneva Canada.

