

January 20, 2016

Davies Partner Vincent Mercier Discusses the Canadian M&A Outlook for 2016 with BNN's The Business News

In an interview with BNN's The Business News, Davies partner Vincent Mercier considers trends affecting the outlook for mergers and acquisitions (M&A) in Canada for 2016. Vince shared the following observations with host Amber Kanwar:

- **2015's strong results are unlikely to continue into 2016:** With almost \$5 trillion in announced M&A globally, 2015 was a record-breaking year, surpassing 2007 in deal value. To expect that momentum to continue would be extremely optimistic. In 2015, Canadian M&A was more mixed, with deal value up, but deal volume down, and outlook for 2016 M&A remains uncertain given the uncertain economic outlook for Canadian economy.
- **Factors contributing to uncertain 2016 M&A outlook:** These factors include concerns over global economic growth, choppy debt markets and increased antitrust enforcement.
- **Economic outlook for the global economy is uncertain:** There is concern over slowing economic growth in China and Europe, and concern over the strength of the recovery in the United States, although most feel it is still strong. Canada also has a weak economic outlook given soft oil and commodity prices.
- **Credit markets are volatile:** Specifically, the high-yield debt market in the United States is particularly weak, with some saying it has, in effect, currently seized up. There hasn't been a single Canadian high-yield offering in over a year.
- **Large strategic mergers are under increased antitrust scrutiny:** With low organic growth and many companies looking to grow by strategic merger, antitrust authorities are being more vigilant. Transactions that failed on antitrust grounds in 2015 included Comcast/Time Warner and GE/Electrolux. U.S. and Canadian antitrust authorities have also launched proceedings to block the Staples/Office Depot merger.
- **Depressed oil prices have negatively affected M&A in the resource sector:** Some companies with strong balance sheets may be looking for opportunistic acquisitions, but they will likely encounter resistance on the sell side (e.g., Suncor/Canadian Oil Sands). Distressed sales may become more prevalent if oil prices remain depressed.
- **Mining M&A continues to be choppy:** Despite the number of private equity funds that have raised money targeting the mining industry, until investors see that the sector has finally reached the bottom of the commodity cycle, they'll be reluctant to deploy. Most strategics continue to look to sell assets to strengthen balance sheets.
- **Special-purpose acquisition companies (SPACs) will not have major impact:** Expect to see SPACs make their first acquisitions in 2016, but they won't have a significant impact on overall M&A activity. Because SPACs require shareholder approval before they can invest, they are at a disadvantage in auctions compared with strategic investors with cash on hand or private equity firms that can access commitments without requiring shareholder approval.
- **The weaker Canadian dollar may result in increased inbound M&A activity:** The past several years in Canadian M&A have been characterized by outbound M&A (Canadian companies acquiring foreign targets) significantly exceeding inbound M&A (foreign companies buying Canadian targets). The weakening Canadian dollar may reverse this trend, although continued outbound investment from investors such as Canadian pension funds can be expected.

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