General News

By Alastair Goldfisher

21 May, 2007

Buyout deals soar in Canada, while fund-raising slows

Buyout deals are on a record-setting pace in Canada this year after the first-quarter tally of $5.1 billion invested in the Great White North amounted to almost half of last year's total.

"We're roughly on pace to double last year's performance, which doubled the prior year's performance," says **Rick Nathan**, president of **Canada's Venture Capital & Private Equity Association** (CVCA). "Clearly the buyout market continues to accelerate. It's not just growing, it's growing faster and faster."

All told, investors worldwide participated in 36 buyout deals in Canada in the first quarter, according to the CVCA, compared to $11.3 billion invested in 92 deals all of last year. The CVCA didn't disclose last year's first-quarter figures because it only started tracking quarterly data this year.

The Q1 numbers were boosted, in part, by **CanWest Global Communications Corp.**'s proposed purchase of **Alliance Atlantis Communications Inc.** Announced in January, the deal is for about $2.2 billion.

Still, the buyout market in Canada represents only a fraction of what's taking place south of Canada's border. The United States was host to about $122 billion in deals throughout Q1, according to the CVCA, which used data from **Thomson Financial** (publisher of *PE Week*).

Nathan, who is also a managing director of Toronto-based **Kensington Capital Partners**, says that the Canadian buyout market is smaller because of the absence of "mega-deals," or multi-billion-dollar buyouts, such as the **Equity Office Properties Trust** ($39 billion) or **HCA Corp.** ($33 billion) deals in the United States. Nathan says that mega-deasl could start appearing in Canada, as firms are reportedly jockeying for position for a potential buyout of **Bell Canada**'s parent, **BCE Inc.**, which could have a price tag of $45 billion.

Montreal-based BCE—Canada's largest telephone company—announced in April that it had begun buyout talks with a group of investors led by the **Canada Pension Plan Investment Board**.

Despite the growth in buyout deals, fund-raising slowed in the first quarter as Canadian firms raised $261 million. Canadian buyout firms pulled in $7.9 billion in limited partner commitments in 2006, compared to $1.4 billion in 2005 and $956 million in 2004.

Nathan pointed out that 2006 was a peak year for Canadian buyout firms and this year the industry won't come close to the same levels of activity. But he says that 2007 should still be a stellar year for fund-raising. (In comparison, U.S. buyout firms raised $181.3 billion for all of 2006 and $67.4 billion for Q1 2007, according to information compiled by *PE Week* sister publication *Buyouts*).

Nearly half of the money invested in Canadian LBO targets during Q1 came from U.S.-domiciled firms, according to the CVCA. Most of the remainder came from Canada-based firms, with a fraction coming from other international firms.

VC numbers

Venture capital investment across Canada in the first quarter of 2007 showed strong growth on a year-over-year as well as a quarter-over-quarter basis, totaling $598 million, a 62% increase over the $370 million invested during Q1 2006, and is also 16% above the $517 million invested in Q4 2006.

U.S. investors were dominant in the larger transactions in the quarter as there were seven large VC deals in Q1 in excess of $20 million (see chart, this page). U.S.-based investors provided 82% of the capital committed to these deals.

"The Canadian venture capital market is under capitalized, with fewer funds and smaller funds, relative to the size of our economy and the number of quality investments," says Nathan, who adds that U.S. investors typically account for 25% of all Canadian VC activity.

"We had an increase in the number of larger later stage investments last quarter in Canada, so that's why we saw growth in the U.S. share in our market," he says.