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Canada's M&A Landscape Q2 2023: Steady in the Saddle

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Written By Angela Blake and Andrew Bozzato

Like the many competitors at the recently wrapped Calgary Stampede, the M&A market in Q2 dusted itself off and showed its resilience.

With continued strength in the middle market, an increase in distressed M&A and an uptick in go-private transactions, the first half of 2023 played out in many ways as we expected when we published our *Look Ahead to 2023* in early January. A few things we did not anticipate included the collapse of Silicon Valley Bank (SVB) and the explosion of renewed interest in artificial intelligence (AI) following the release of ChatGPT, both of which have had ripple effects that have impacted M&A activity in Canada and globally.

The value of announced Canadian M&A deals amounted to $96.5 billion in the second quarter of 2023, an 86 percent increase from $52 billion in Q1, despite a decrease in the number of transactions from 815 in Q1 to 729 in Q2. While the significant value increase was driven by a few large transactions, with the top ten Canadian deals in Q2 accounting for $66.3 billion of the total as compared to $38.1 billion in Q1, the general macro trend, globally, in 2023 has been away from larger value deals.

All numbers are according to Bloomberg data as of June 30, 2023, in U.S. dollars (announced, completed or pending deals, excluding those that have been terminated or withdrawn—where a Canadian company is the acquiror, target or seller).

Looking beyond the headline numbers, below are a few trends we are following.

- **Steady Strength in the Middle Market:** The volatility in the financial markets that followed the SVB implosion, as well as ongoing interest rate policy uncertainty, have led to further constraints on the availability of traditional debt financing. This has caused private equity firms to take larger equity positions than they have in recent years in order close acquisitions in this environment. We are also broadly seeing increased reliance on private credit. While credit tightening has had a somewhat cooling effect on sponsor involvement in large transactions, one notable trend we are seeing is a greater focus on the middle market, where strategic and financial acquirers are deploying dry powder towards accretive and strategic acquisitions that can be completed with little or no third party financing, and where there is a possibility of engaging multiple levers to drive value creation.
- **Deeper Diligence Focus:** A corollary to the above is an increased focus on quality of assets regardless of deal size, and we are seeing longer and more in-depth due diligence exercises. Although difficult to quantify, we have observed a noticeable growth in the use of ESG factors in screening potential investments and conducting due diligence on potential targets. We anticipate the next iteration in ESG diligence to become more tailored to particular industries and vertical markets than we are currently seeing. We are

also seeing more acquirers experimenting with AI tools in sourcing transactions and conducting due diligence. We continue to follow these trends closely and expect them to accelerate into 2024.

- **More Inbound Australia M&A to Canada:** There has been a significant increase in cross-border deal activity involving Canadian and Australian firms in 2023, with the number of transactions in the first half of 2023 already exceeding the annual total in 2022. Since the beginning of 2022, Australian companies and investors have been involved in more inbound M&A deals to Canada than those from any country other than the United States.

- **Mining:** A significant portion of the Australian deals noted above were in the mining sector, where the shine has not come off of lithium and other critical mineral assets and we continue to see strong interest. As we wrote in December 2022 blog, *Canadian Government Signals Enhanced Scrutiny of Foreign Investments in the Critical Minerals Sector*, the Canadian government has signaled enhanced scrutiny of investments by foreign state-owned enterprises and affiliated individuals in the Canadian critical minerals sector. As applicable laws are evolving rapidly it is more important than ever for Canadian and international parties to obtain guidance on current legal and regulatory requirements as early as possible when looking to complete a transaction in this space.
- **Generative AI:** One area currently attracting intense interest from venture capital investors is generative AI where there has been a significant amount of capital raising activity in 2023. As valuations for strategic investments continue to increase, we anticipate that we may be at the beginning of a significant AI M&A cycle as there was a notable uptick in M&A transaction activity towards the end of Q2. We continue to monitor this trend and expect it to continue and accelerate through the remainder of the year and into 2024.
- **Agribusiness:** Canadian agriculture, beverage and food sectors remain an attractive proposition for foreign and Canadian financial and strategic acquirers, as food security, supply chain concerns and inflation continue to be hot topics, with the proposed merger of Viterra and Bunge being among the biggest Canadian deals announced this year. So far in 2023, there have been 51 deals —28 in food, 15 in agriculture and eight in beverages.

In closing, while we expect many of the economic and geopolitical challenges experienced in the first half of 2023 to extend over the balance of the year, we continue to see areas of strength and resilience in M&A activity, including those described above, and expect ongoing interest in trending sectors. We are optimistic about the diverse deal pipeline for the remainder of the year but, given the uncertainty exhibited over the last several quarters and the diverse macro factors at play, we expect that the second half of 2023 will be as unpredictable as this first half has been.

Bennett Jones M&A Practice

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To discuss the developments and opportunities shaping the Canadian M&A landscape, please contact the authors.

Bennett Jones

Authors

Angela Blake
416.777.4889
blakea@bennettjones.com

Andrew Bozzato
416.777.4878
bozzatoa@bennettjones.com

