Ownership worries as mergers increase

60% in survey concerned

Lori McLeod

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As the mergers and acquisitions market continues to boom, Canadians are expressing concern about the level of U.S. investment in the country.

Three out of five Canadians, or 60%, said an increase in U.S. investment in the country is a bad idea, while only 31% would see it as good news, according to a poll done on behalf of the Canadian Institute of Chartered Business Valuators.

"There's a fairly widely-accepted belief that American companies are more focused on the bottom line and less on people," said Howard Johnson, business valuator and head of Veracap Corporate Finance. "From my experience this hasn't been the case. But this is the opinion of the real people, the employees that can be critical when facilitating the sale of a company."

So far, 2006 has been a record-year for mergers and acquisitions in Canada. In the first half of the year there were 65 foreign takeovers of Canadian companies valued at a total of $48.4-billion, according to the Financial Post/ Crosbie & Co. Mergers and Acquisitions in Canada report.

Mr. Johnson, who works with privately held companies when they consider selling, said recent mega-takeovers of Canadian companies have fuelled worries about more jobs being lost to the United States.

There have been a number of such deals topping a billion dollars recently, including the acquisition of graphics chipmaker ATI Technologies Inc. by Advanced Micro Devices Inc., Fortress Investment Group LLC's purchase of resort operator Intrawest Corp., and the takeover of wine-maker Vincor International Inc. by Constellation Brands Inc.

While U.S. investment is critical to the Canadian economy, takeovers aren't the only option. Foreigners can also invest in Canadian-run pools of capital and buyout funds, and this would help keep company ownership in the country.

"The problem is that right now it's relatively straightforward for an American buyout firm to come in and buy a big Canadian company. It is much more complicated for a U.S. pension fund to come in and make an investment in a

Canadian buyout firm," said Rick Nathan, president of Canada's Venture Capital and Private Equity Association, and managing director at Kensington Capital Partners. Much of the problem is government red tape that involves technical barriers in the Canadian tax system, Mr. Nathan said. The CVCA is pressing Ottawa to change this.

If this doesn't happen, Canada risks losing out to the much larger and more developed U.S. capital markets, Mr. Nathan said.

In the United States this year there will be more than US$200-billion raised and invested in private equity deals, compared with about $4-billion to $5-billion in Canada, he said.

"If that trend continues lower, the chances of having a Canadian buyer for your business is dramatically lower."

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