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Full Speed Ahead: Post-Pandemic Trends in M&A

By [Brandon Schupp](#)

April 19, 2021

After a [nine-year low](#) in 2020, M&A activity in Canada made a strong rebound in the first quarter of 2021. As reported by [BNN Bloomberg](#), in the first three months of 2021, Canadian companies were involved in 1,168 deals that together totalled US \$115 billion in value, dwarfing the US \$44.3 billion in deal value during the same period in 2020. The [Financial Post](#) reports that a similar phenomenon is occurring globally, with the number of deals up 6% and the total value of pending and completed deals up 93% as compared to the first quarter of 2020.

With this flurry of deal activity in the first quarter of 2021, several trends are emerging.

The Recovery of Private Equity

M&A activity from private equity funds is starting to show signs of recovery following a significant drop in 2020 due to the impacts of COVID-19. For example, [PwC](#) reports that in recent months, private equity funds have been investing in sectors that have shown resilience to the pandemic, such as health care and technology. Similarly, [Ernst & Young](#) predicts that private equity funds will use their estimated US \$750 billion of 'dry powder' to invest in companies that are positioned to benefit from long-term behavioural changes that may result from the pandemic, such as remote working and learning.

On the other hand, companies that have been negatively impacted by the pandemic may also provide deal fodder for private equity funds. Particularly as government subsidies are rolled back, distressed companies may create investment opportunities for private equity funds in a variety of sectors.

Cross-Border Activity

Cross-border deals have also contributed significantly to the recent growth in M&A activity. After a temporary lapse in 2020, the [Financial Post](#) reports that the first quarter of 2021 saw US \$50 billion in outbound deals, the second largest quarter on record. A substantial portion of this figure resulted from transactions with US entities, indicating strengthening M&A markets on both sides of the border.

Another factor which may facilitate cross-border activity is the possibility of being able to more easily cross the Canada-US border if travel restrictions are loosened. While deal makers quickly adapted to working virtually during the pandemic, some transactions necessitate physical due diligence and other on-site activities, such as in the mining and oil & gas sectors. Physical distancing requirements and travel restrictions pose an additional hurdle for these transactions, particularly where the parties are on opposite sides of an international border. However, as the rollout of vaccines continues and travel restrictions begin to loosen, these transactions may become less cumbersome. Accordingly, we expect cross-border transactions to continue to be a strong source of deal activity.

High-Value Deals

A material portion of the current M&A activity in Canada is attributable to a small number of high-value deals. Indeed, of the US \$115 billion in deal value in Canada so far this year, [\\$45 billion](#) is attributable to just two transactions. Given the size of these "mega deals", it is unsurprising that both deals involve significant financing commitments, reflecting the relative affordability of financing while also underscoring

that some deal makers are optimistic enough about the improving economic outlook to pursue ambitious transactions as we near the end of the pandemic.

The Bottom Line

Each of these trends are noteworthy even taken in isolation, but viewed together, they may reflect a market that is historically primed for M&A activity. Buyers can afford to make deals due to the availability of affordable financing and, in some cases, the accumulation of dry powder during a year of little M&A activity. Potential M&A targets abound, both in the form of companies that have struggled through the pandemic and may be eager to make deals and also in sectors that have been resilient to or even benefitted from changing needs and behaviours over the past year. Finally, it appears there may be pent-up momentum in the form of deals that were frustrated by the pandemic and pent-up enthusiasm as deal makers look to M&A as a means of riding the economic recovery to new heights.

For all of these reasons, we expect to see continued strong M&A activity as the uncertainty and instability that characterized the past year continues to subside.

The author would like to thank Malcolm Woodside, Articling Student, for his significant contribution to this blog post.

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