BREATHING LIFE INTO "DEAD MONEY"

M&A Article by Cal Cochrane
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You may have seen the term "dead money" mentioned in the press in recent months. Our Bank of Canada Governor, Mark Carney, used the term to chastise Canadian business owners for hoarding in excess of $500 billion in corporate coffers – a record high and up 40% since 2009 – rather than spending on new equipment, hiring new employees and opening new plants. Mr. Carney went on to state that this accumulated cash hoard should be paid out to shareholders if management / Boards did not plan to deploy it with business investment. Our Finance Minister Jim Flaherty weighed into the debate with much the same rhetoric.

This is not a Canadian phenomenon as the press has been citing for at least the last two years the record build-up in U.S. corporate treasuries – now well in excess of $2 trillion.

A few commentators have pointed to historically low corporate tax rates in Canada as being a major contributor to the ability of Canadian companies to dam up record levels of cash - the highest corporate tax rate across the country is now at or getting close to the 25% rate which has been set by the Feds in recent years as the target base rate for corporate tax in Canada.

What has been missing from the discussion, in our view, is the plan for many corporations large and small to accumulate cash for the purpose of growing by acquisition. Many public companies have openly declared this as an objective in their business plans for the next few years. Others (including private companies) have been more circumspect and have not wanted to draw unnecessary attention to the fact that they are loading up their war chest in order for the primary purpose of strategic acquisitions. These Acqusitors, having come through the post-2008 financial melt-down themselves, know that pricing for acquisitions has returned to "normal" levels and want to take advantage of this before the next major up-turn.

We know from our own experience at Geneva Canada that the buy-side of the M&A equation has been even more active in scouring the landscape for solid acquisition opportunities in recent years. We also know that lack of funding has not been a problem for the vast majority of deals – in fact we at Geneva Canada have not had a single deal fail since the 2008 meltdown due to lack of funding.

We believe this recent "revelation" in Canada will encourage more of these cash-rich companies to become more openly active in pursuing acquisitions. The overall stats for completed transactions in Canada show a very real recovery since 2009 – running at levels of more than 1,000 deals which is well above the average for the 5 year period preceding the "boom" years of 2006 and 2007. When we combine these record levels of excess cash with more sellers awakening to the fact that there is an active M&A market in Canada, we have every reason to expect a continuation of a healthy deal market and upward trends in the number of completed Canadian deal transactions.