



3 M&A Deals That Should Happen

Description

It's not every day that a \$36 billion merger happens in Canada, but that's exactly what was announced Monday morning when **Agrium Inc.** (TSX:AGU)(NYSE:AGU) and **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) announced they were coming together under one roof, making it the third-largest natural resource company in Canada.

A merger of so-called equals is always the most difficult of combinations—think **Daimler-Chrysler**—because no matter how well intentioned the deal, one of the parties usually ends up on the wrong end of the stick.

Who that's going to be, I couldn't tell you.

But what I can tell you is that the whole subject of M&A is suddenly front and centre, and that's got me thinking about potential tie-ups that I think investors would love to see happen.

M&A deal #1

Arctic Cat Inc. (NASDAQ:ACAT) is a relatively tiny manufacturer of snowmobiles and all-terrain vehicles based in Minneapolis. It's currently facing some serious challenges to its business. In the first quarter ended June 30, it had an operating loss of US\$17.3 million on US\$104.8 million in revenue—a 22% decline in revenue year over year. As a result of its shrinking business, its stock is down 41% over the past year and trading at levels it hasn't seen since 2011.

BRP Inc. ([TSX:DOO](#)) delivered decent second-quarter earnings last week that saw the maker of snowmobiles, ATVs, SSVs (side by side), and personal watercraft raise its full-year 2017 revenue guidance for its year-round products (ATVs, SSVs) from a 6-10% increase to 8-12% higher year over year. Company-wide, BRP expects revenues to increase 4-8% in fiscal 2017 on a 7-10% increase in normalized EBITDA.

Even **Polaris Industries Inc.** ([NYSE:PII](#)), BRP's slightly bigger competitor, hasn't had much fun in recent times. On an annualized basis, its stock is down 8.8% over the past three years, 597 basis points more than BRP.

Acquiring Arctic Cat would put BRP almost neck and neck with Polaris in terms of revenue while bringing a major thorn in its side onto the same team.

M&A deal #2

Five years ago, **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) transformed itself, acquiring Forzani Group, Canada's largest sporting goods retailer, for \$771 million. With one large cheque, the retailer owned the Canadian marketplace when it came to sports enthusiasts.

I believe Canadian Tire (warts and all—it's by no means perfect) is one of the best retailers in this country and an excellent [stock to own](#) over the long haul.

While it's nice to see that the company intends to get aggressive about online retail, I believe it should seriously consider making a bid for **Dicks Sporting Goods Inc.** ([NYSE:DKS](#)), the largest sporting goods retailer in the U.S.

Recently, Sport's Authority, one of Dick's biggest competitors, went out of business. Much of that retail space is to be taken up by other retailers outside the sporting goods industry. Dick's got the Sport's Authority name and intellectual property for US\$15 million along with the leases to 31 out of 400 locations.

It's going to take market share as a result of Sport's Authority's demise.

Canadian Tire bought Forzani so it could wrap up the sporting goods market here in Canada. Although it would be expensive—perhaps as much as 10 times EBITDA or US\$7.3 billion—the merged company would have revenues of more than \$20 billion.

Like Forzani, it would be a game changer.

M&A deal #3

Last week **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) CEO Bharat Masrani indicated that the bank was interested in making acquisitions in both Canada and the U.S. Realistically, however, it's far more likely to buy a bank in the U.S. where strong regional players exist in almost every part of the country.

Masrani is said to be targeting the southeastern portion of the U.S., closer to its operations in Florida and along the northeast seaboard. That makes perfect sense.

However, if it's looking to buy a great bank and not just a good one that's conveniently located, I believe TD ought to set its sights on Silicon Valley in California where regional powerhouse **SVB Financial Group** ([NASDAQ:SIVB](#)) operates a great business focused heavily on tech entrepreneurs.

TD recently joined Silicon Valley's Plug and Play Tech Centre, the world's largest global technology accelerator and venture fund. Why not take it a step further and buy one of Silicon Valley's leading banks—one that understands the importance of and invests in technology start-ups.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:DOO (BRP Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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