Canadian CEOs have traditionally viewed mergers and acquisitions (M&A) as an ideal route to growth, but as KPMG’s 2019 Canadian CEO Outlook indicates, to get the best return on your investment, you have to be a ‘Smart Buyer’. According to this year’s report, only 15 percent of Canadian CEOs recognized M&A as a viable growth strategy, down 11 percent from 2018. This temporary delay in M&A activity could be a symptom of growing uncertainties - Canada’s upcoming federal election, trade tensions between the US and China, Bank of Canada’s benchmark interest rate movements, and delays around Canada’s major oil projects are all making the future business landscape harder to predict. However, of potentially greater importance is the high prices currently demanded by the market for good assets.

Valuations remain at all-time highs
The economy has experienced stable growth with company valuations continuing to rise. In Canada, deal value rose to $331B in 2018 compared to $265B in 2017 and the number of deals announced increased to 3,785 over 3,216 in 2017. Increasing valuations are making the bidding process much more competitive which is driving prices even higher. Despite high valuations and competitive bidding processes, we still see significant opportunities for Smart Buyers to take advantage of the current market.

Carve-out and bolt-on transactions are gaining traction, with potentially greater returns
Throughout 2018 and into the early days of 2019, we are seeing an uptick in companies pursuing carve-out and bolt-on transactions. In high valuation markets, carve-outs can generally be more attractive for buyers as there may be more synergistic and cost-take out opportunities, unlocking substantial value. As an example, we recently supported the carve-out of an automotive parts business which was the second largest deal completed in Canada in 2018 (the largest deal was also a carve-out transaction). Like carve-outs, bolting on businesses can create significant synergy upsides which would not be available in a single asset entity. The ‘buy and build’ approach certainly has appeal and is an effective strategy for creating value for many organizations.

Outbound transactions also offer scope for value creation
There continues to be an increase in Canadian outbound deals – particularly to regions like China and the US where outbound investments increased significantly throughout 2018. Canadian organizations with cash are looking to invest outside of Canada as a counter to high Canadian asset prices. However, as our 2019 Canadian CEO Outlook reveals, companies may look beyond Canadian borders under other frameworks such as strategic alliances or joint ventures as well.

Why M&A?
Some CEO’s have stalled their M&A activity, but KPMG believes this is a temporary measure and it would be a mistake to count it out. Over half (56 percent) of Canadian CEOs still believe it can transform business models faster than organic growth, while 44 percent believe it is a way to eliminate a direct competitor. There remains a view that M&A can serve to open doors to new markets, acquire new capabilities, and embed new technologies that would otherwise take longer to develop organically.

In conclusion, our 2019 Canadian CEO Outlook survey reveals some hesitancy towards single asset M&A transactions due to uncertainties and high prices. Yet, we are seeing a significant uptick in deals around carve-outs, bolt-ons, and outbound transactions. Smart Buyers are taking note and understanding that in times like these, driving synergies and cost-take out projects are important to enhance their business case and ultimately achieve the best return on their investment.