Canada's M&A advantage

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Canada's Aerospace and Defence (A&D) companies have an appetite for mergers and acquisitions (M&A) and certainly, the conditions are prime for making such a move. With the right considerations, approaches, and guidance, many stand to unlock greater potential by taking advantage of M&A as a key element of their growth strategy.

A number of factors are driving Canadian M&A interest. Broadly, Canadian firms are compelled by a stable financial market, a period of relatively low volatility (compared to UK and Europe), and a 15 percent growth in aerospace exports within the last year alone. Firms are also motivated by industry "wins" such as Bombardier's deal with Delta airlines for 75 C-Series Jets, General Dynamics Land Systems' multi-billion export arrangement, and the government's National Shipbuilding Strategy – all of which are bolstering the country's brand and economy in their unique way.

In short, Canadian A&D firms are confident in their prospects for growth and recognize the role M&A has to play in moving beyond established markets and realizing their global potential. In fact, I'm told by CEOs that the interest in buying and selling is so high – and the interest rates so low – they don't mind paying a bit more when multiples are up if the value-add benefits are apparent.

Reserved but optimistic

That's not to say there aren't reservations. Despite their optimism, the same A&D CEOs balance their views with a number of concerns. Canada's relatively small economy, for one, has led some to think Canada is slim for the pickings, and that anything that is available for purchase is destined to be scooped up by global interests with deeper war chests. True, with major players like the US, UK, and Israel competing for a piece of our shipbuilding, fighter jet replacement, large vehicle and other program activity, Canadians face local and international competition – the combination of which can push valuations up on the pricing side. However, there are always deals to be made, and having the right insights and connections will uncover opportunities that others may miss.

Another concern I come across is that with the exception of a number of large primes (OEMs), Canada is largely made of up of small to medium enterprises (aka SMEs). Players who are looking to acquire will often tell us it takes the same level of effort to do a $5 million deal as a $50 million deal, so they are more inclined to invest in companies in the $50 - $250 million sweet spot, which means they may often need to look elsewhere.

Mixed with socio-political trends, economic uncertainties, and potential upheavals (e.g, Brexit), it's understandable why some are a touch hesitant about getting into the M&A game. What's more, even those that have the endurance to make it all the way from the first tire-kicking to the final handshake must contend with the due diligence, financing, and closing processes that come with the M&A journey. Even after all that, there's still the task of actually owning and operating your new purchase to ensure what you've bought is truly of value to your operation and can be successfully integrated.

After all, M&A is all about creating value. It's great to have additional top-line just because you bought something, but that's irrelevant if you haven't created the bottom line aspects that are going to make your shareholders happy at the end of the day. For this reason, one must always determine the motivation behind M&A activity.

Ask yourself: What is the synergy or tuck in? Why is it a piece that I need? What is the payback and over what period?

The payback may be worth the daunting challenges

M&A can be daunting, and the challenges and risks are real. However, losing out on opportunities for growth presents a greater risk.

Despite perceived challenges, there is much to be gained from M&A activity. In its 2016 KPMG Canadian Manufacturing Outlook, just over one-quarter of manufacturers said they had engaged in M&A activity over the last two years; 67 percent reported achieving some, most, or all of their growth objectives in the process; and 12 per cent even surpassed their growth objectives.

M&A has also provided the means for many Canadian firms to innovate on a larger scale, bring in new capabilities and technologies, and adopt a more global perspective and presence. And while there isn't a one-size-fits-all strategy to guide the way, the common denominator among all successful M&A deals has been entering with the right knowledge, perspectives, and connections.

CEOs tell us that for every 10 deals brought to their desk, they're lucky to close on one. Nevertheless, that one deal can pay off in new synergies, efficiencies, top-line benefits and – ideally – a stronger bottom line. It's worth it in the end, but it takes time, effort, and initiative to last the M&A marathon.

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