CBV INSIGHTS

FEBRUARY 2024

M&A OUTLOOK SURVEY: CANADIAN M&A POISED FOR AN UPTICK

CBV INSIGHTS

About Chartered Business Valuators Institute (CBV Institute)

CBV Institute leads the Chartered Business Valuator (CBV) profession – Canada's only designation dedicated to business valuation since 1971. With CBVs and Students across Canada and around the world, we uphold the highest standards of business valuation practice through education, accreditation and governance of the CBV, for the benefit of the public interest. The integrity of the CBV accreditation is grounded in the rigorous CBV Program of Studies and upheld by the Membership Qualification Examination and Code of Ethics.

CBV Insights

CBV Insights is a thought leadership periodical published throughout the year, sharing relevant insights on emerging topics of interest to our network and the general public. The opinions expressed by contributing authors in CBV Insights periodicals do not necessarily carry the endorsement of CBV Institute.

INTRODUCTION

Chartered Business Valuators (CBVs), the financial experts bringing rigour and discipline to M&A, expect to see a modest uptick in Canadian deal activity in the next 12 to 24 months, but they do not expect significant changes to valuation multiples.

According to our first CBV Institute M&A Outlook Survey, CBVs practicing in M&A expect that Canadian activity will exceed (58%) or equal (24%) 2023 deal activity. Only 18% have a negative outlook for Canadian M&A over the next 12 to 24 months. To put CBVs' outlook into context, 2023 was considered a relatively soft year as buyers adjusted to persistent headwinds, including increased leverage costs, heightened regulatory scrutiny, and continued uncertainty around valuations.[1]

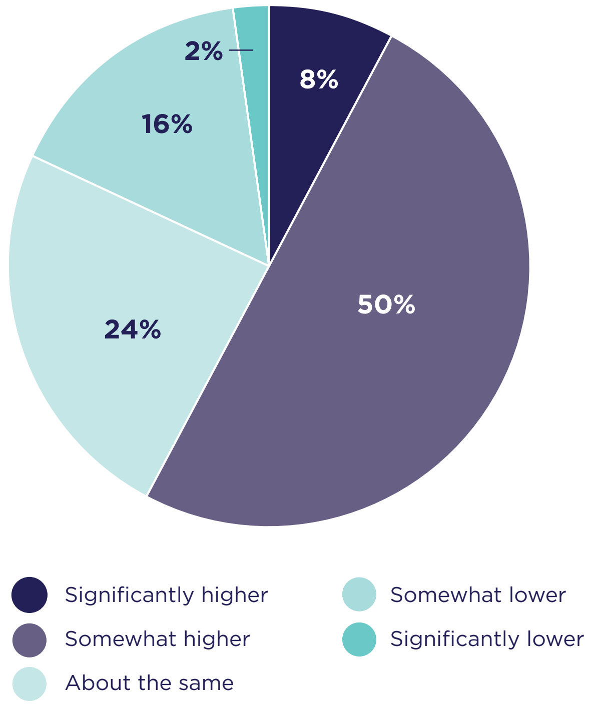
CBVs predict a surge in dealmaking activity for both private equity firms and private companies over the next 12 to 24 months. Nearly 60% of respondents believe private equity firms will experience higher buying activity, while the same number of respondents anticipate that private companies will experience higher seller transaction volumes, outpacing expectations for public company takeovers.

Digging further into the survey data, CBVs expect three industries to lead the growth in deal activity involving Canadian companies: industrial products & services, technology, and health care. They share a more cautious view for the materials, consumer products & services, and energy sectors, which are expected to trade hands at about the same rate as in 2023.

In terms of business life cycle, CBVs are seeing momentum improve for deals involving more mature companies, and an expected increase in insolvency transactions. Expectations are not as bullish for startup businesses. Furthermore, CBVs believe that cross-border M&A transaction activity involving Canadian companies will pick up.

Despite anticipating an increase in deal activity, most CBVs do not expect significant increases to valuation multiples or the average deal size for transactions involving Canadian companies. Only 22% of surveyed CBVs anticipate that valuation multiples will increase over the next 12 to 24 months, and just 34% expect that the average deal size will increase.

WHAT ARE YOUR EXPECTATIONS FOR THE NUMBER OF M&A TRANSACTIONS IN CANADA OVER THE NEXT 12-24 MONTHS COMPARED TO 2023?



WHAT ARE THE KEY DRIVERS BEHIND CBVs' OUTLOOK?

"It's all relative, since 2023 was a soft year for transactions," Dr. Howard E. Johnson, a Fellow of CBV Institute (FCBV) and Head of Canadian M&A for Kroll Corporate Finance, said in an interview. M&A activity will increase but multiples will likely hold steady now that "buyers and sellers have better visibility – in terms of interest rates, cost of capital, and the economic environment," he said.

On the topic of interest rates, Dr. Johnson noted, "they are no longer expected to go up; rather it's a question of when they will start to decline and by how much? This is a lingering area of uncertainty." However, private equity buyers are happy that the cost of capital is going down and are "motivated to transact because they have over a trillion dollars of capital to deploy," explained Dr. Johnson.

On the other side of the table, sellers are growing weary of waiting for the return to double digit multiples and "are starting to have a better sense of the value of their business," said Dr. Johnson. They've endured pandemic shut-downs, supply-chain issues, rising costs of borrowing, and inflation-fueled cost hikes. After years of patiently enduring, sellers are "just tired" of having to deal with these types of challenges, he explained.

Similarly, Amanda Vella (CBV), Managing Director of Business Consulting for ATB Financial, has observed a significant backlog of businesses that need to transition given the age of the owner(s). In an interview with CBV Institute, Ms. Vella said, "we have seen a significant increase in the number of succession planning conversations that are happening as well as owners wanting to transition their business within the next year."

In addition, "given the significant dry powder in the private equity market and increasing demand by individual high net worth investors to add private equity to their portfolio, dealmakers are getting more creative," said Ms. Vella. She explained that "more players are willing to do smaller deals with some quick tuck-in acquisitions to take advantage of the increasing number of baby boomers selling their businesses and to find a way to get their capital in motion."

Surprisingly, many younger business owners are also looking to exit. "They want to quickly grow their business and position it for sale at a much younger age," said Ms. Vella. This is contributing to "even higher numbers of businesses planning to sell in the near term than just those expected from the baby boomer retirements," she explained.

With an abundance of interesting M&A activity ahead, CBV Institute is anticipating another busy year for CBVs!

LEARN MORE ABOUT CBVs

This is the inaugural year for the CBV Institute M&A Outlook Survey, issued to CBVs in January 2024.[2] Respondents include CBVs who acted as financial advisers in M&A transactions in 2023 – encompassing CBVs who work in M&A firms, investment banks, public accounting firms, PE firms, boutique valuation firms, and in industry. CBVs provide a broad range of corporate finance and transaction advisory services to domestic and international clients, with particular expertise and focus on private companies. What makes CBVs M&A experts? Rigour, discipline, objectivity, and an in-depth understanding of private companies is what sets CBVs apart. Find a CBV to help with your buy-side or sell-side transaction.

UPSKILL WITH CBV INSTITUTE

Check out two courses in the CBV Institute's world class Program of Studies to take a deep dive on private company M&A – Corporate Finance and Private Investments. Or, find out how to become a CBV.

REFERENCES

1. CVCA Central (January 2024), Navigating Shifts: Trends and Insights in Canadian Private Equity Dealmaking, using analysis from Blake, Cassels and Graydon LLP, https://central.cvca.ca/navigating-shifts-trends-and-insights-in-canadian-private-equity-dealmaking.
2. The 2024 M&A Outlook Survey was conducted by CBV Institute between January 10, 2024, and January 17, 2024.