

Will COVID-19 turbo-charge M&A and transformation?

C-suites reframe corporate strategies and plan to invest their way out of the crisis.



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Canadian executives take buy vs. build approach to strategic investing.

Resilience during the pandemic spurs Canadian companies to capitalize on new opportunities through digital transformation and M&A.

77%

of Canadian executives surveyed expect revenues to return to pre-pandemic levels in 2021.

It's been an unusual economic downturn for Canadian companies. At the outset of the pandemic, Canadian business leaders opted for a protective stance to limit the damage. Since then, they've shifted into high gear toward ambitious, forward-looking growth.

The latest EY *Global Capital Confidence Barometer*, released in May 2021, found that while more than 90% of Canadian executives surveyed say they experienced significant declines in revenue and profitability, 77% expect revenues to return to pre-pandemic levels this year, and 87% anticipate profitability returning by 2022.

Some companies have been able to seize opportunities and gain strength in the market. However, others, especially in hard-hit sectors such as travel, tourism and restaurants, as well as small and medium-size brick-and-mortar businesses, have struggled. Nevertheless, by staying focused and buckling down, Canadian businesses are coming out the other side well-positioned to accelerate their growth agenda.

A sudden acceleration in digital transformation presents new opportunities

68%

of Canadian executives say their company is planning to increase strategic focus and investment in digital transformation.

More than three-quarters (78%) of Canadian companies believe they overperformed during the pandemic with respect to their digital transformation efforts. However, while 82% of respondents indicate their companies undertook a comprehensive strategic and portfolio review in 2020, we find that investment in digital transformation remains a top strategic priority, right behind growth through acquisition.

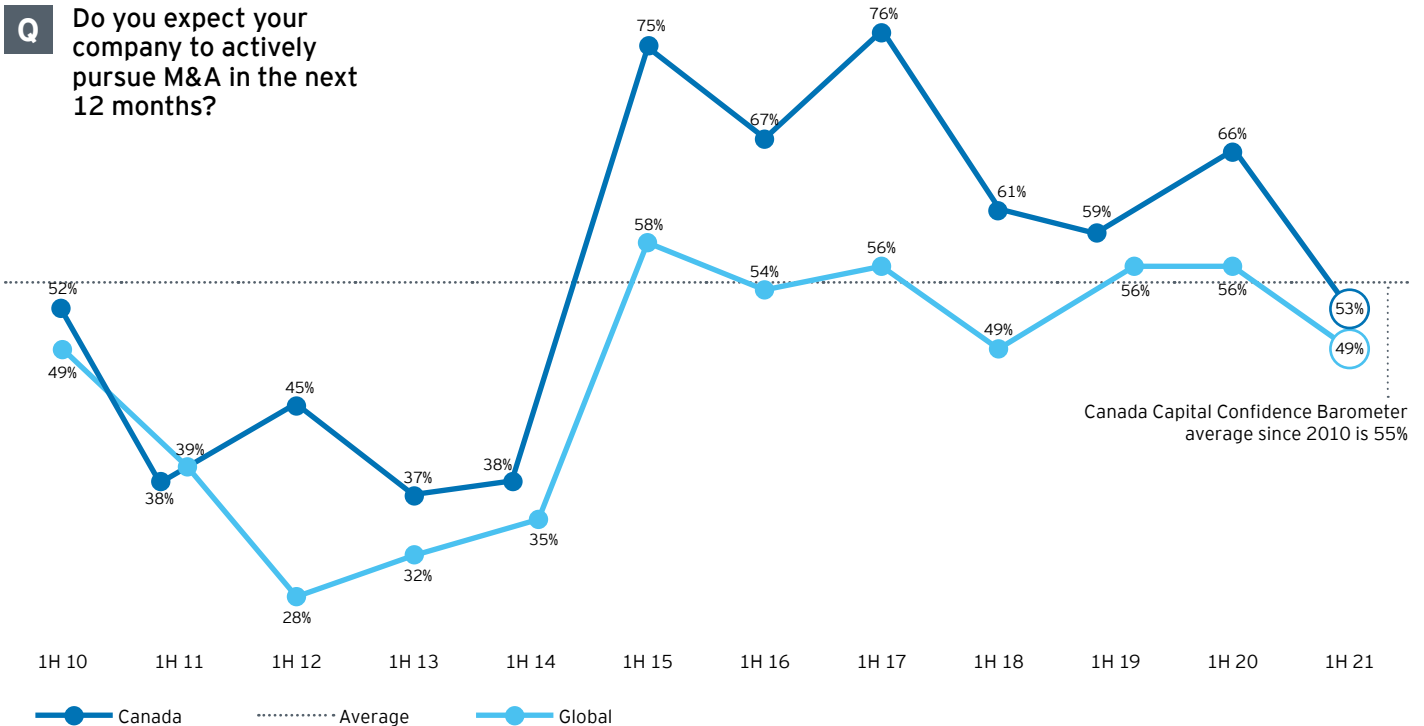
To a large extent, accelerated digitization was forced on Canadian companies in ways that few could have expected. From remote working – which has enabled collaboration without business travel – to the rapid ramp-up of e-commerce capabilities, Canadian companies realized early that there were digital opportunities amid adversity.

As a result, 68% of Canadian companies say they are planning to increase strategic focus and investment in digital transformation – something 74% of executives say is already underway. And while the main trigger may have been the impact of the pandemic, their predominant priority is to create a more flexible operating model and cost base.

Canadian companies pursue M&A to invest their way out of the pandemic

With low interest rates and recent navigation of the crisis, Canadian companies are looking to divest non-core assets and redeploy capital in a buy vs. build approach to accelerate growth and compete on a global scale. More than half (53%) of Canadian companies plan to actively pursue M&A in the next 12 months.

Q Do you expect your company to actively pursue M&A in the next 12 months?



79%

of Canadian executives surveyed say their company has failed to complete or has cancelled a planned acquisition in the last 12 months.

And while 40% of Canadian executives say they'll be looking at bolt-on acquisitions to increase market share, 27% say they have their eyes on transformative deals that could help them reimagine business models or take them into new geographies.

Meanwhile, 79% of Canadian executives surveyed say their company has failed to complete or has cancelled a planned acquisition in the last 12 months. This suggests that while the M&A market may be having a renewed bull run, companies are being prudent in their decision-making. That said, companies are trying to find reasons not to walk away from deals because they know that the right target assets with the right competencies and the right synergistic qualities are hard to find.

78%

of Canadian executives say their company is planning to increase strategic focus and investment on workforce management.

Workforce management emerges as a priority

While Canadian companies believe they overperformed in many areas during the pandemic and are well-positioned to accelerate growth, nearly one-third (32%) of executives acknowledge that they underperformed when it came to workforce management. Moreover, 78% say the pandemic has increased their strategic focus and investment in their people, suggesting that even those who believe they performed the same or better than average feel they could be doing more.

Fear of change appears to be a primary concern for Canadian companies regarding their employees. The rapid shift to full-time remote working may have amplified employees' feelings of isolation and disconnection to the purpose and strategic direction of their organizations. At the same time, companies have discovered opportunities to bring global teams together and gain access to specialized skills without having to fly people around the world.

These shifts may permanently change what the organization's workforce looks like. Organizations will be able to look further afield for top talent, create team hubs in smaller markets, and consider hybrid and fully remote work models. However, Canadian companies will also need to create an employee-centred culture that nurtures connection and engagement to retain top employees in an increasingly competitive talent environment.



Three key takeaways for Canadian executives

As Canadian executives examine lessons learned from the pandemic and prepare their path forward, there are three key takeaways worth considering:

1

Look after your talent – or someone else will.

Going back to the old workforce ways won't work for everyone. Organizations will need to consider individual resilience, which includes employee physical and mental/psychological well-being, as a foundation for enterprise resilience and resurgence. If employees feel that leaders care about them as individuals – both at work and at home – they'll be more likely to trust and engage in the decisions the company makes. Purpose, culture, leadership and trust are the fundamental elements that will help Canadian companies identify opportunities as they consider the future of work.

2

Make bold moves – act fast to take advantage of opportunities.

Making bold moves means having the agility to respond to opportunities and address challenges as they arise. Nearly three-quarters of Canadian executives say their companies have a business and technology transformation underway. Embarking on a transformation journey is a great start, but it is also imperative that they succeed. To succeed, Canadian companies need to put humans at the centre of their focus, apply technology at speed and innovate at scale. Canadian companies that do so can do more than prosper – they can make bold moves and create exponential value that lasts.

3

Don't sit on the M&A sideline – active acquirers may outperform.

In addition to pandemic considerations, geopolitical uncertainty forced 74% of Canadian executives to alter their strategic investments. A wait-and-see attitude that may have proved prudent in the short term could hamper growth opportunities if companies choose to sit on the sidelines over the longer term. Disruption and uncertainty are here to stay. Canadian companies that actively pursue M&A to accelerate growth will increase their chances of outperforming their competitors.

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About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

- From November 2020 until January 2021, Thought Leadership Consulting surveyed on behalf of the global EY network a panel of more than 2,400 executives in 52 countries; 82% were CEOs, CFOs and other C-suite-level executives.
- Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US\$500m (25%), US\$500m-US\$999.9m (26%), US\$1b-US\$4.9b (25%) and greater than US\$5b (24%).
- Global company ownership was as follows: publicly listed (60%), privately held (40%).

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