Study
November 2021

Business Acquisitions: A Strategy That Drives Growth

Outlook on the Canadian Mergers and Acquisitions Market

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On the cover
Éloïse Harvey, CEO,
EPIQ Machinerie

This study is based on survey data and information analyzed and interpreted by BDC. Any error or omission is solely the responsibility of BDC. Reliance on and use of the information herein is the reader's responsibility.

Message from the Chief Economist

"Growth through acquisition has several advantages, including adding new resources to address a labour shortage and accessing more technology, so you can do more with less."

Like other economists, I have been wondering what effects the pandemic, and the resulting recession, has had on the mergers and acquisitions (M&A) market among Canadian small and medium-sized enterprises (SMEs). To find out, BDC consulted with experts, interviewed entrepreneurs who had made acquisitions and surveyed more than 1,500 SME leaders.

We found that this market rebounded quickly when the lockdown measures were lifted and that the outlook for the next five years is very positive. Could economic recovery and business growth benefit from this upward trend?

We also found that entrepreneurs who choose to grow through acquisition are **twice as likely** to experience sales growth above their industry average than those who grow organically. This is true regardless of the size, age, industry, region or level of internationalization of the company.

The motivations for buying a business have also changed since 2020. Acquiring new talent and the desire to invest more in technologies, for example, have become much more important than they were before the pandemic.

In addition, we found that there is no need to fear foreign takeovers of Canadian businesses. Between 2016 and 2020, the number of Canadian SMEs that bought foreign companies was almost double the number of foreign firms that bought Canadian SMEs.

Finally, this study highlights a number of good business practices to implement during a merger or acquisition.

Pierre Cléroux
Vice President, Research and
Chief Economist, BDC

Highlights

Entrepreneurs who choose to grow through acquisition are:

2x

more likely than firms that grow organically to experience sales growth above their industry average.

This finding is true in Canada regardless of the size, age, industry, region or level of internationalization of the company, even during the pandemic.

Over the next five years:

9% (nearly 120,000 SMEs.[1])

of Canadian businesses will come up for sale outside the family or management.

13% (nearly 170,000 SMEs.[2])

of Canadian entrepreneurs plan to grow through acquisition.

The pandemic has changed the factors motivating business acquisitions.

Acquiring new talent

has jumped **from 20% before the pandemic to 30%** today.

Acquiring technologies

has increased **from 14% to 25%.**

There is no need to fear foreign takeovers of Canadian businesses.

Between 2016 and 2020, the number of Canadian SMEs that bought foreign companies was almost double the number of foreign firms that bought Canadian SMEs.

Financing acquisitions remains a challenge for smaller businesses.

39% of entrepreneurs looking to buy a business have difficulty obtaining the necessary financing.

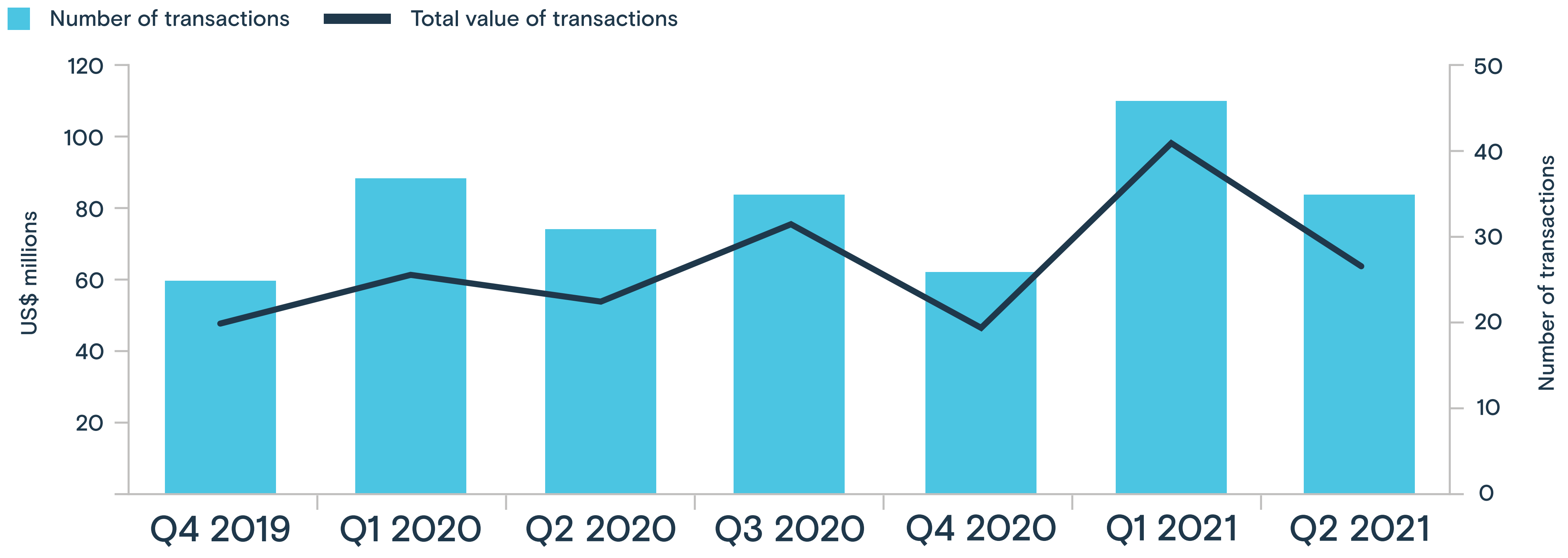
1 9% x 1,288,621 = 115,976 SMEs in Canada according to Statistics Canada, Table 33-10-0395-01, June 2021.
2 13% x 1,288,621 = 167,521 SMEs in Canada according to Statistics Canada, Table 33-10-0395-01, June 2021.

A rebounding market

Business acquisitions rebounded quickly following the waves of the pandemic and remain at high levels.

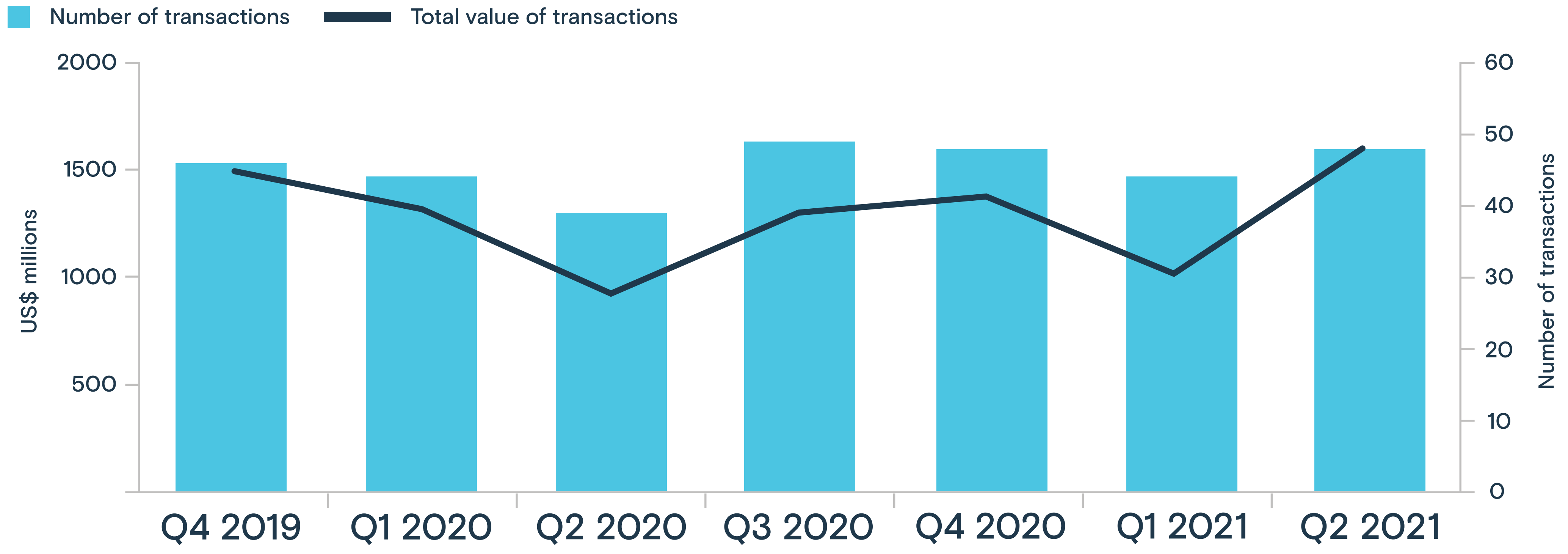
The volume and value of Canadian M&As under US$100 million rebounded quickly from the lockdown in the second quarter of 2020, and the volume of transactions remains high.

Figure 1: M&As worth up to US$5 million



Source: Thomson Refinitiv, transactions under US$5 million. Transaction value data are always disclosed if they are in the public domain; otherwise, they are disclosed on a voluntary basis. Therefore, some caution should be exercised in interpreting these data.

Figure 2: M&As worth US$5 million to US$100 million



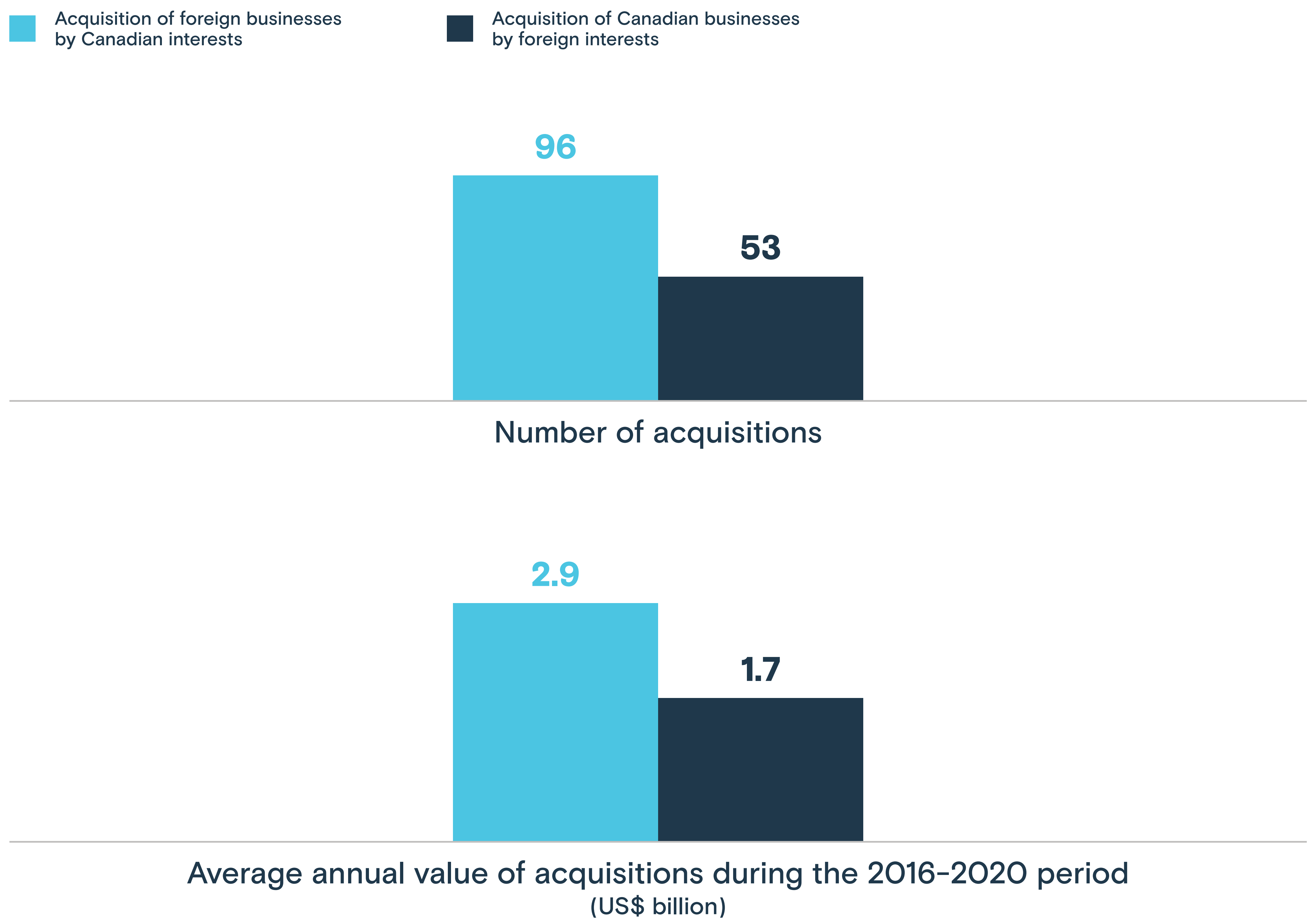
Source: Thomson Refinitiv, transactions from US$5 million to US$100 million. Transaction value data are always disclosed if they are in the public domain; otherwise, they are disclosed on a voluntary basis. Therefore, some caution should be exercised in interpreting these data.

Canadian SMEs made more foreign acquisitions than the other way around

Contrary to the widely held belief that Canadian businesses are more likely to be bought by foreign firms, the opposite is actually happening.

On average from 2016 to 2020, Canadian SMEs bought almost twice as many foreign companies as the reverse (94 versus 53 per year, on average, over the period).

Figure 3: Inbound and outbound acquisitions for Canadian SMEs (annual average, 2016 to 2020)



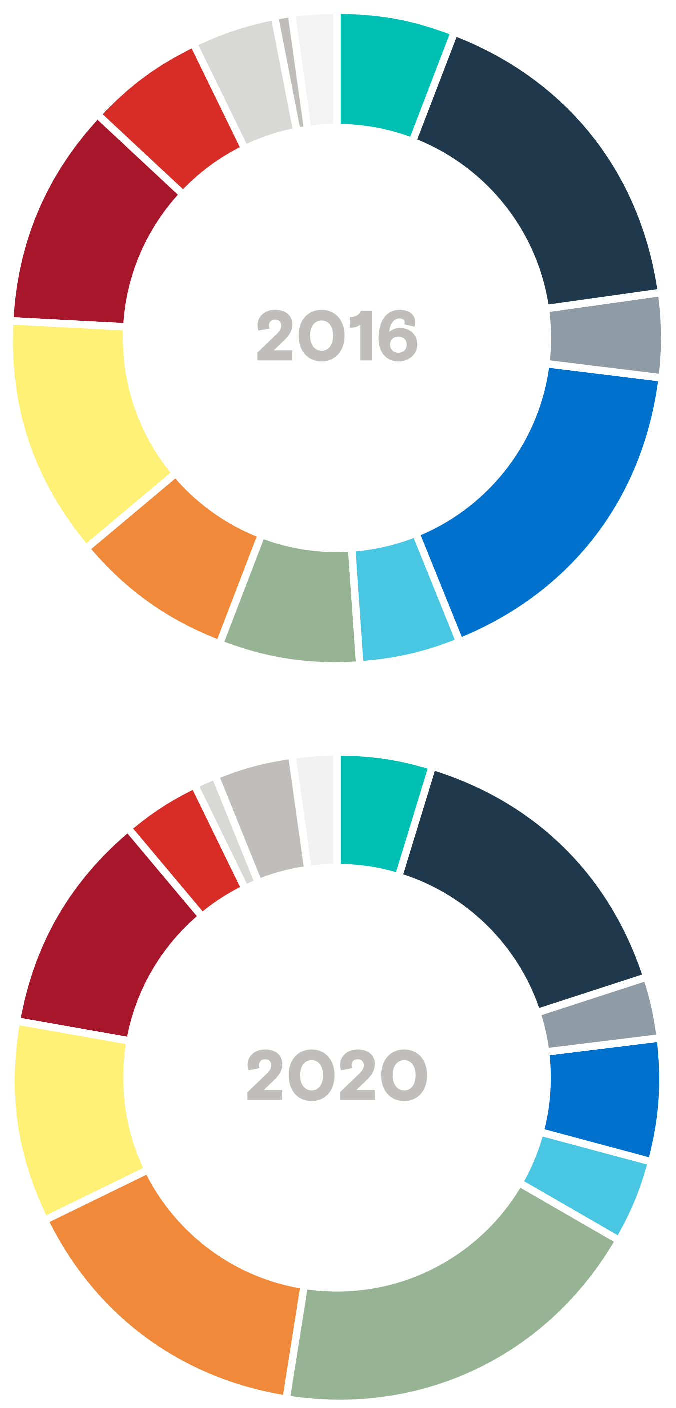
Source: Thomson Refinitiv, acquisitions from US$5 million to US$100 million. Transaction value data are always disclosed if they are in the public domain; otherwise, they are disclosed on a voluntary basis. Therefore, some caution should be exercised in interpreting these data.

The number of mergers and acquisitions has increased in sectors benefitting from the pandemic

From 2016 to 2020:

- the share of transaction volume accounted for by health care companies increased from 7% to 19%
- the share accounted for by information and communication technology (ICT) companies increased from 8% to 15%

Figure 4: Volume of mergers and acquisitions in Canada from US$5 million to US$100 million, by sector (2016 and 2020)



	2016	2020
Business services	6%	5%
Commodities	17%	15%
Construction	4%	3%
Energy	17%	6%
Finance	5%	5%
Health	7%	19%
ICT	8%	15%
Manufacturing	12%	10%
Real estate	11%	11%
Retail	6%	4%
Tourism	4%	1%
Transportation	1%	4%
Utilities	2%	2%

Source: Thomson Refinitiv, transactions from US$5 million to US$100 million, 2016. Transaction value data are always disclosed if they are in the public domain; otherwise, they are disclosed on a voluntary basis. Therefore, some caution should be exercised in interpreting these data.

Factors driving the M&A market

Several factors point to a vibrant M&A market in Canada in the coming years.

Abundance of capital

- Private and public investment funds have an abundance of capital to deploy.
- Low interest rates and generally flexible credit conditions are expected to continue, stimulating business acquisitions.
- Strong demand for Canadian companies—especially in COVID-19-proof sectors, such as health and technology—should keep earnings before interest, taxes, depreciation, and amortization (EBITDA) multiples high.
- There are many potential buyers for each seller.
- Canada is still considered a safe haven, where it is safe to invest and where the pandemic has been relatively well managed.
- The reopening of the borders will stimulate foreign demand.

Demographics

- Although entrepreneurs are generally active longer than employees, their aging demographic profile, coupled with the fact that the pandemic has made some rethink their plans, will boost the supply of businesses for sale.

Labour shortage

- The growing need for labour could stimulate acquisitions.

Increased adoption of technologies

- The adoption of new technologies has become a must in the post-pandemic economy, and these technologies often require sufficient company size—a certain critical mass—for a company to reap the full benefits.

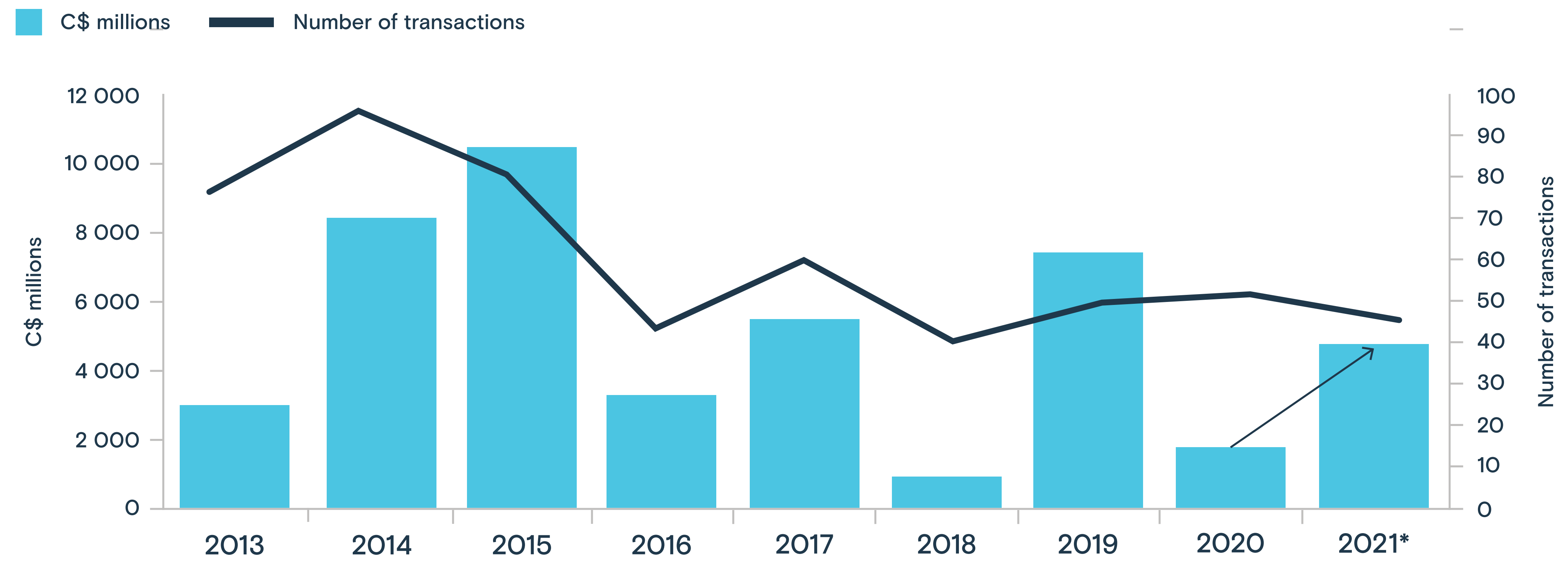
Source: BDC, expert interviews, 2021. See Methodology.

The abundance of capital should continue to support high sales multiples

Selling prices, in terms of EBITDA multiples, have not declined significantly since the start of the pandemic. On average, companies are still selling for around 10 times earnings (EBITDA).

In addition, private buyout investment has rebounded in 2021, based on data for the first six months of the year.

Figure 5: Private capital invested in buyouts (2013 to 2021)



Source: Canadian Venture Capital and Private Equity Association.
*On an annualized basis to the first semester of 2021.

Table 1: Multiples of business value relative to EBITDA in North America, by sector (2016 to H1 2021)

Sectors	2016	2017	2018	2019	2020	H1 2021
Consumer discretionary goods	10.6X	10.0X	11.1X	11.3X	11.6X	9.5X
Consumer staples	12.1X	12.0X	11.5X	10.7X	12.8X	9.9X
Energy	8.6X	13.1X	9.8X	9.7X	4.1X	6.4X
Financial services	12.1X	12.6X	10.4X	n.d.	6.0X	n.d.
Health care	12.6X	13.7X	12.3X	12.1X	14.1X	10.3X
Industrial goods	9.1X	10.4X	10.3X	10.9X	9.5X	11.2X
Information technology	12.4X	13.6X	12.1X	11.8X	10.1X	11.4X
Basic materials	7.8X	10.5X	10.7X	9.8X	9.3X	8.8X
Communication services	8.9X	9.7X	9.6X	9.6X	11.0X	10.9X
Utilities	11.1X	13.9X	11.8X	10.1X	15.1X	8.0X
Real estate	16.5X	17.7X	16.2X	14.1X	19.5X	15.8X
All industries	**10.9X**	**11.7X**	**11.0X**	**10.9X**	**10.7X**	**10.1X**

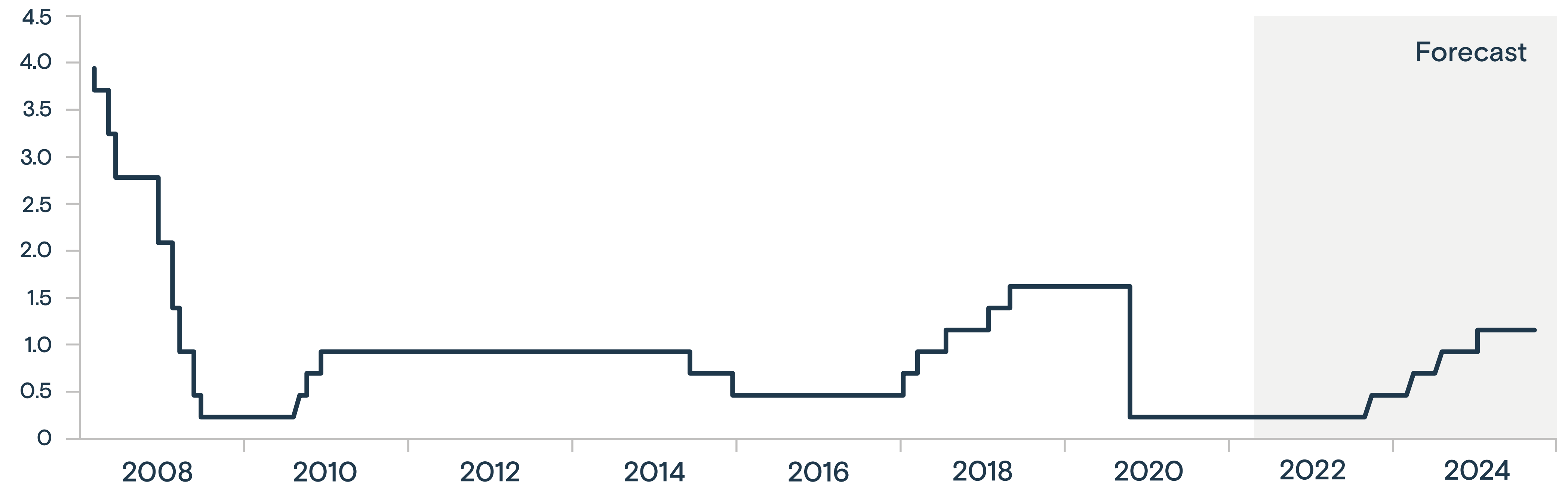
Source: S&P Global Market Intelligence, Duff & Phelps, *Canadian M&A Insights*, Summer 2021. Transaction value data are always disclosed if they are in the public domain; otherwise, they are disclosed on a voluntary basis. Therefore, some caution should be exercised in interpreting these data.

Borrowing conditions will remain flexible

Low interest rates are expected to continue for the next few years.

While most economists expect a 25-basis-point increase in the Bank of Canada key interest rate in the second half of 2022, credit conditions are expected to tighten gradually, in line with the economic recovery.

Figure 6: Bank of Canada key interest rate (2008 to 2024)*

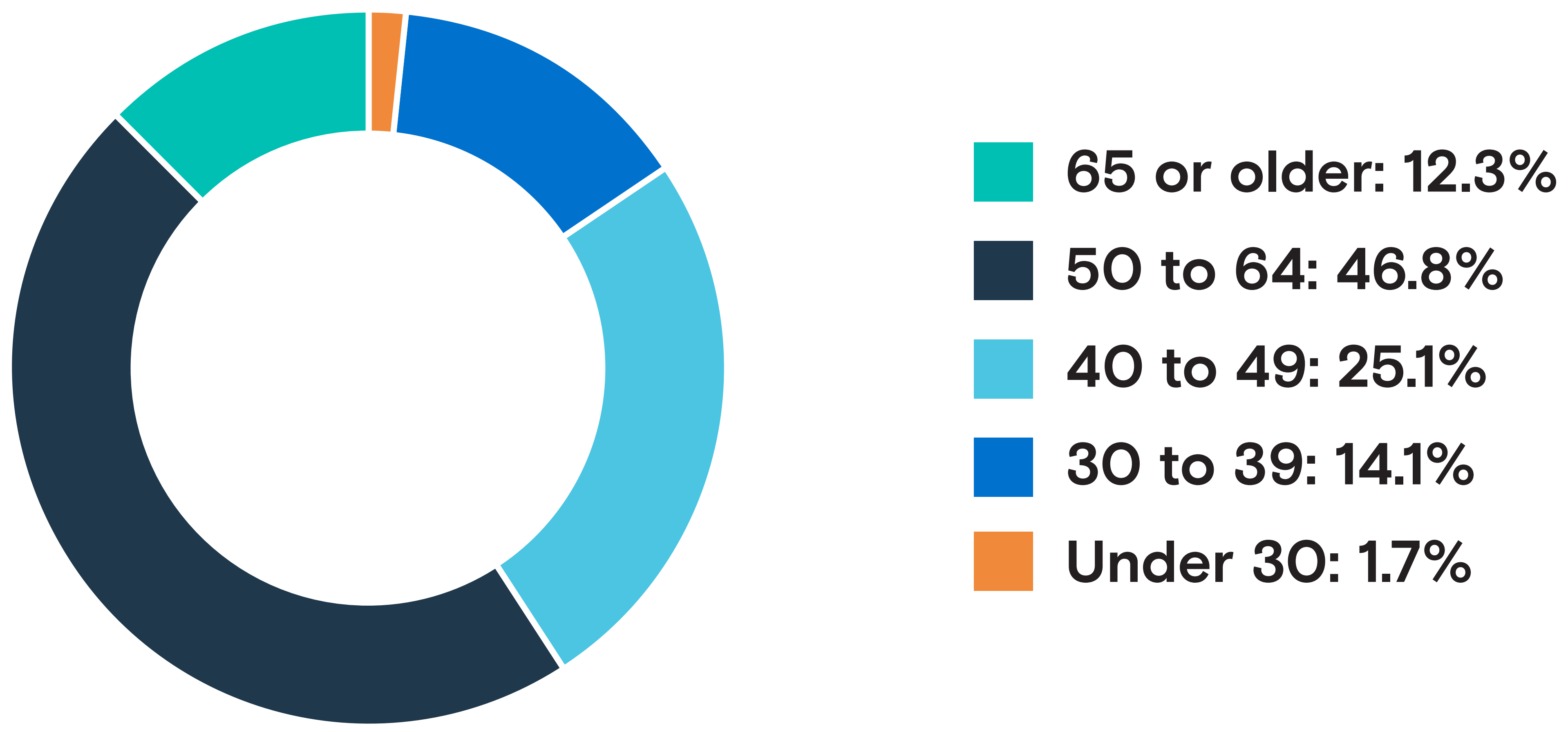


Source: Bank of Canada.
*All rates after October 2021 are Bank of Canada forecasts.

More than 12% of entrepreneurs are 65 or older

Although entrepreneurs remain active in the workforce longer than employees, their aging demographic profile, coupled with the fact that the pandemic has made some rethink their plans, will boost the supply of businesses for sale.

Figure 7: Percentage of Canadian entrepreneurs, by age group



Source: Statistics Canada, *Survey on Financing and Growth of SMEs*, 2017.

9%

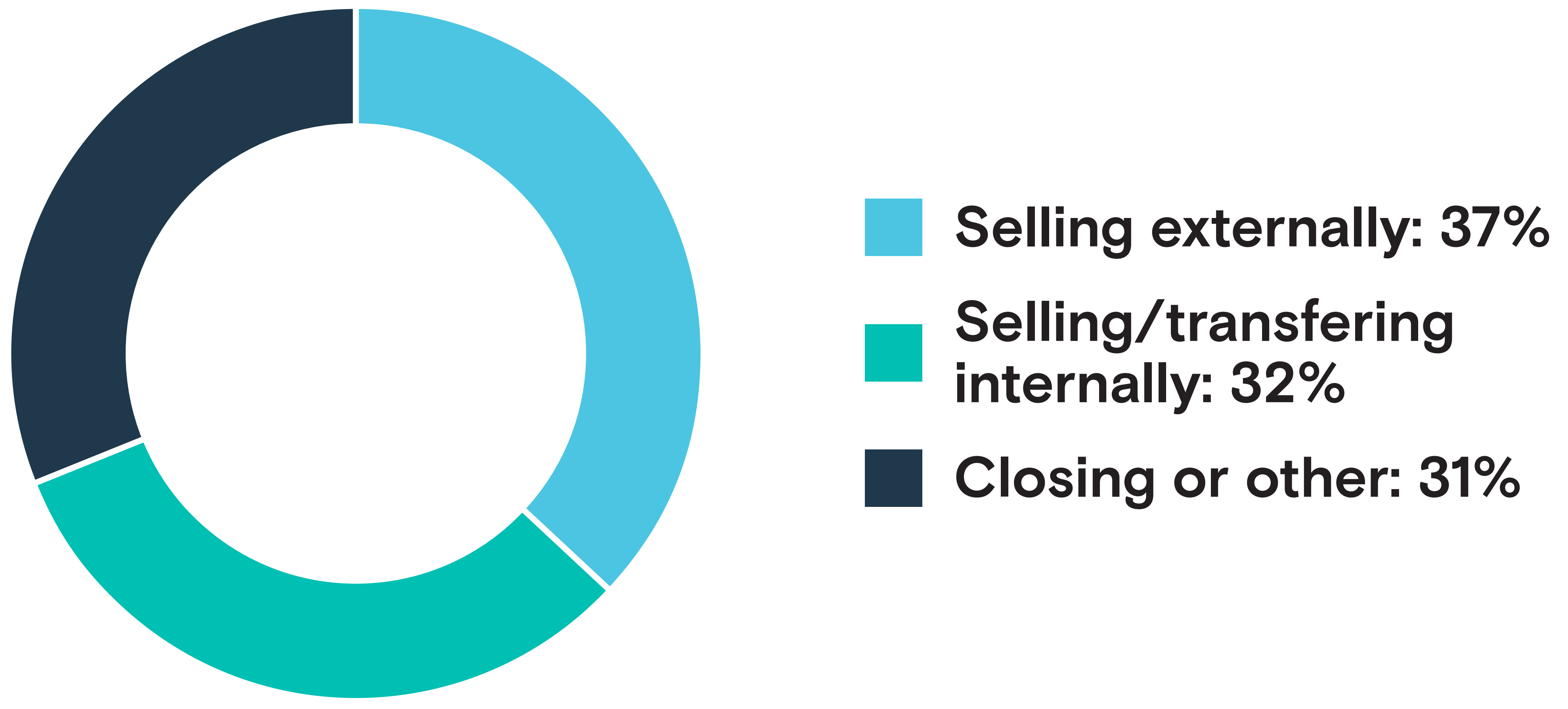
of Canadian SMEs are expected to be for sale in the next five years

25% of Canadian entrepreneurs want to sell or close their business in the next five years. This proportion increases to 50% among entrepreneurs 65 or older.

In total, 9% of SMEs are expected to be for sale externally—that is, to buyers other than family or management—over the next five years.* This represents 116,000 businesses across the country.

Businesses likely to be offered for sale externally have typically existed for 10 years or more (59%), have at least five employees (55%), and are led by men (55%) and/or by entrepreneurs aged 55 or older (45%).

Figure 8: Intentions of entrepreneurs who plan to leave their business in the next five years



*9% = 25% (departing) X 37% (selling externally)

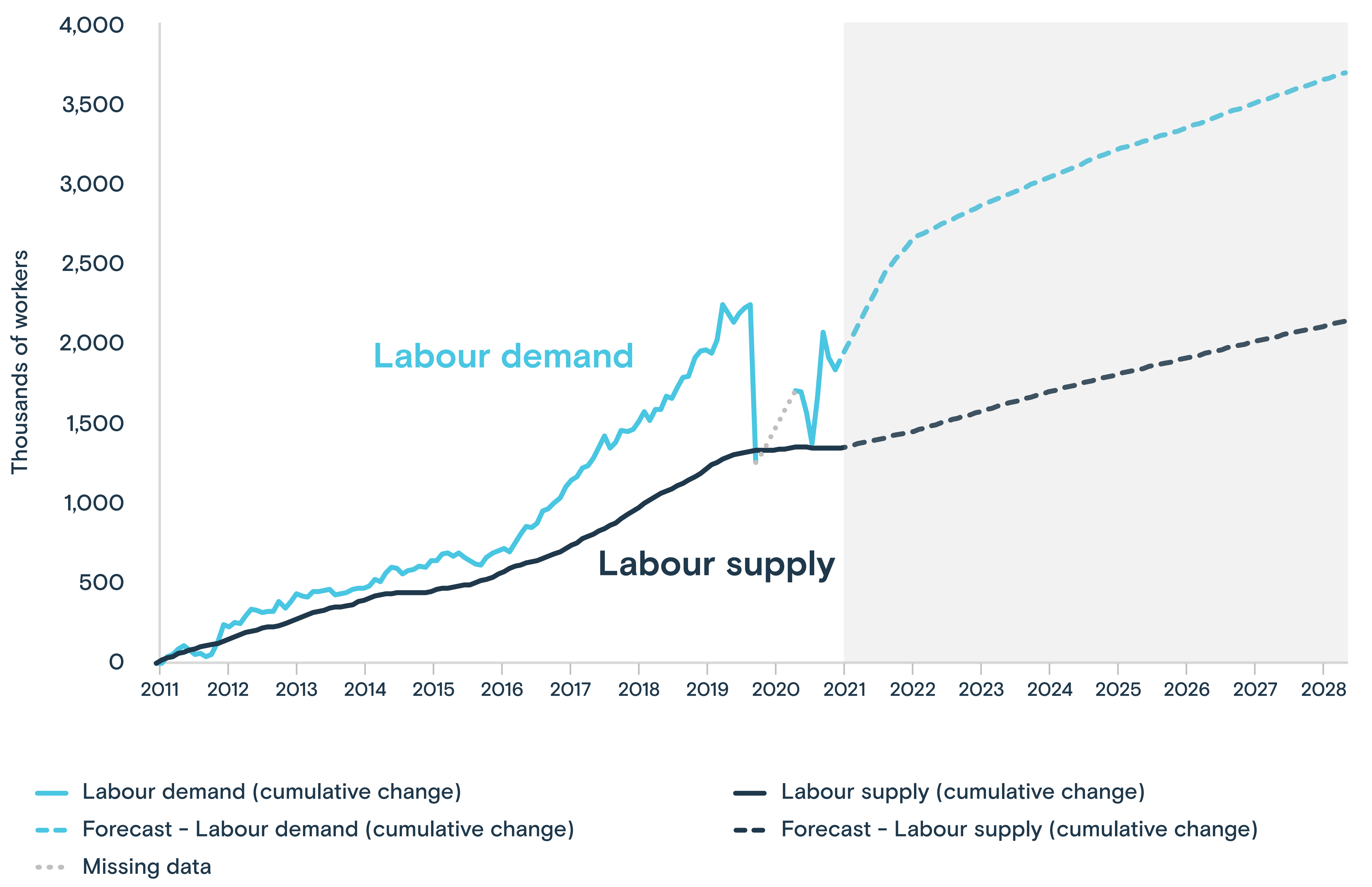
Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).

The labour shortage will persist and is likely to prompt more entrepreneurs to buy other businesses

The demand for labour is growing faster than the supply of workers, primarily as a result of demographic factors. The pandemic has exacerbated this phenomenon—particularly in the hardest-hit sectors, such as tourism and the arts—prompting many workers to change sectors, return to school or withdraw from the labour market.

A drop in immigration will widen the supply-demand gap for a few more years. The persistence of the labour shortage phenomenon over time is likely to lead more and more entrepreneurs to make acquisitions in an effort to bring in new talent.

Figure 9: Labour supply and demand growth index*
(Index = 100, April 2011)

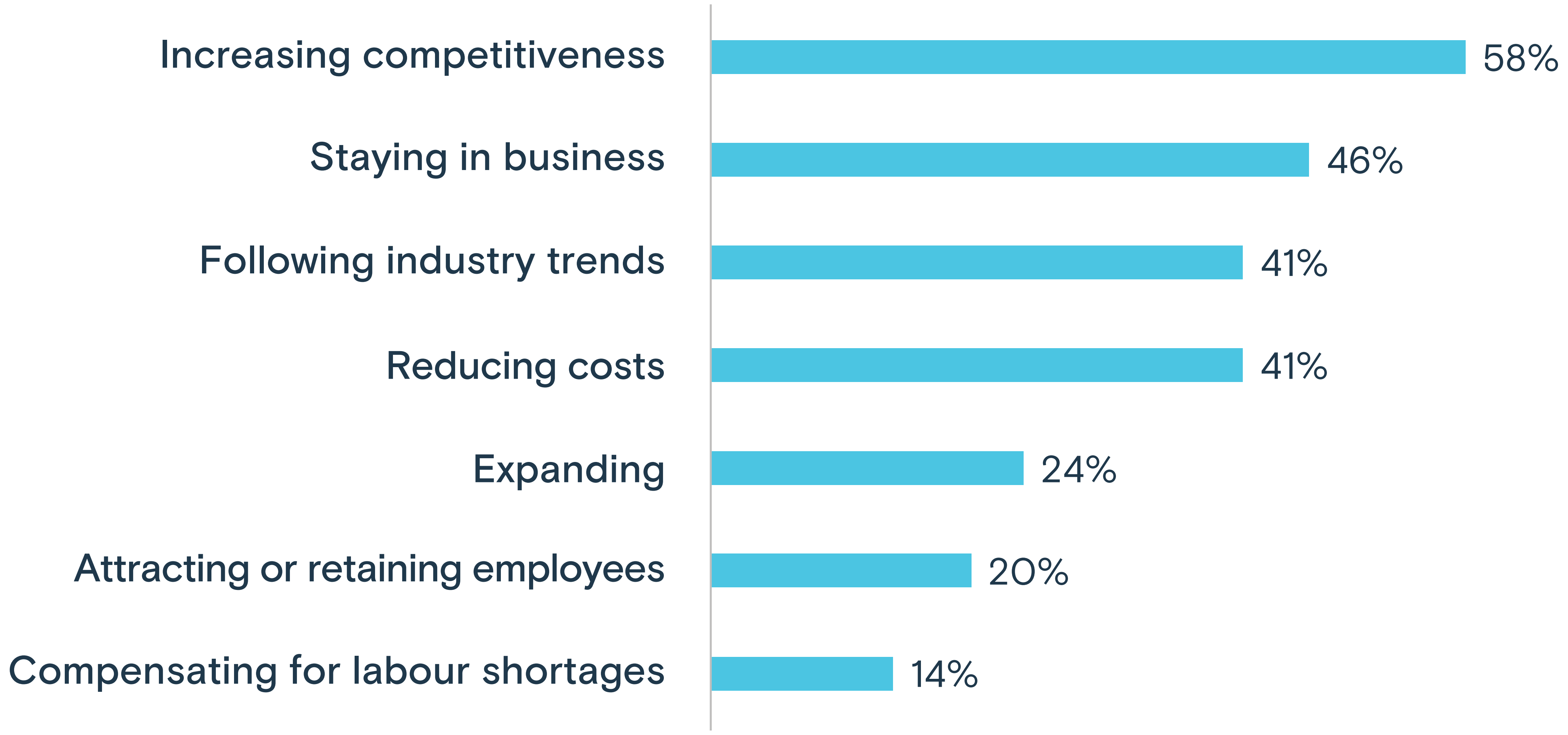


*Note: Labour demand is the total of employed workers and job vacancies. The labour supply is the total labour force aged 15 to 65.
Sources: Statistics Canada, *Labour Force Survey*, and *Job Vacancy and Wage Survey*; Canadian Occupational Projection System (COPS), projections for 2019 to 2028; calculations by BDC.

Business acquisition facilitates technology adoption

Investing in technology, especially in e-commerce and increased efficiency, has become a necessity to weather the pandemic. Almost half of entrepreneurs (46%) say these investments are necessary to stay in business. However, not all businesses have the financial resources to purchase state-of-the-art technology. That fact increases the interest in reaching a certain critical mass, which allows for larger investments and, sometimes, the acquisition of the technology platform of the purchased company. This type of transaction may well become more common in the future.

Figure 10: Drivers of technology investment following the COVID-19 crisis



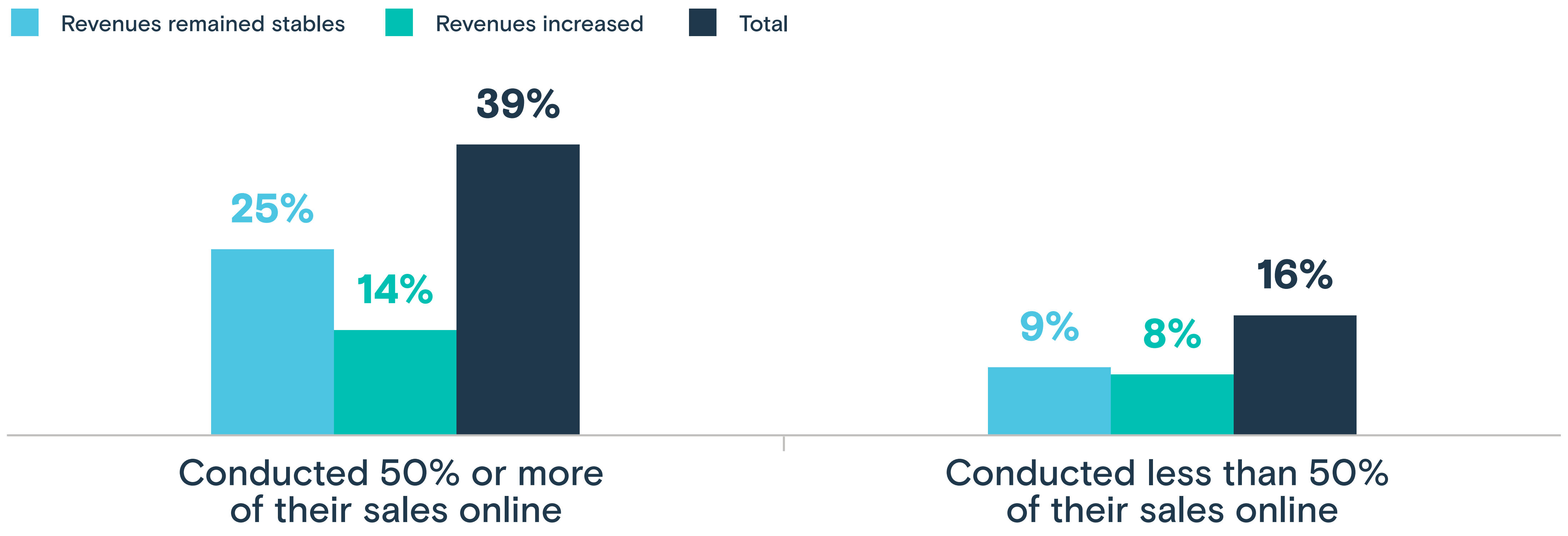
Source: BDC, *Survey on the impact of COVID-19 on Canadian SMEs*, June 2020.

Technology adoption is a success factor

As an example, entrepreneurs who expanded their online offerings fared better than others through the spring 2020 lockdown.

Among the smallest businesses—those with under $2 million in annual sales or fewer than five employees—online sales rates are generally lower, which will impede their ability to endure the pandemic.

Figure 11: Effect of online sales on revenues during the first wave of COVID-19



Source: BDC, *Survey on the impact of COVID 19 on Canadian SMEs*, June 2020.

Case study

Acquisitions and technology investments: A winning combination

Acquisitions have positioned Universal Group for growth and allowed it to invest in technology

Universal Group is a poster boy for exponential business growth. Starting with less than 20 employees in 2011, the Langley, B.C.-based traffic-control company expanded to 400 workers by March 2020 when the pandemic struck.

It had become one of the province's leading providers of traffic management services at road and other construction projects for contractors, utilities and municipalities. "Our growth has been off the charts," CEO Michael Menzies says. "It's been exciting."

Not even COVID-19 has been able to derail the company's spectacular trajectory. When the health crisis struck, Universal Group was about to merge with a major B.C. competitor. The company not only pulled through on executing this transaction, but also completed a second major acquisition a few months later.

And in July 2021, the company made its first foray outside the province, acquiring traffic-control firms in Ottawa, Ont., and Gatineau, Que. The business now has 1,700 employees.

Acquisitions made tech purchases feasible

These acquisitions helped the company scale so that it made financially sense to pursue major technology investments.

One of the company's latest tech purchases is a sophisticated new workforce management system that will streamline and simplify the complex task of dispatching 1,700 workers to hundreds of job sites every day.

"Workers will have an app on their phone to see dispatch instructions and get routes to job sites," Menzies says. "They'll have safety protocols and traffic control plans at their fingertips and can easily complete and send in time sheets."

The system is widely used in the U.S., but less so north of the border; Universal Group is the first company in the traffic control industry in Canada to adopt it.

"If we had had this technology earlier, we would have been able to grow that much more."

Michael Menzies
CEO, Universal Group

New system reduces workload and errors

The app will also integrate with another new technology the company purchased to automate payroll management. “Workers used to need to fill out a three-part time sheet every day, which had to be manually entered,” Menzies says. “It was a lot of effort and there was lots of potential for error.”

The new payroll system will automatically receive time sheet information from the workforce management system, significantly reducing workload and mistakes.

Additional automation and efficiency are coming thanks to a new human resources information system, which will improve personnel management.

“It’s much-needed because the industry has been very manually intensive,” Menzies says. “If we had had this technology earlier, we would have been able to grow that much more.”

A driver for SME growth

Growth through acquisition pays off

2x more likely to experience more growth than their peers

→ Entrepreneurs who grow their business through acquisition are twice as likely to experience sales growth above their industry average as those who grow organically.

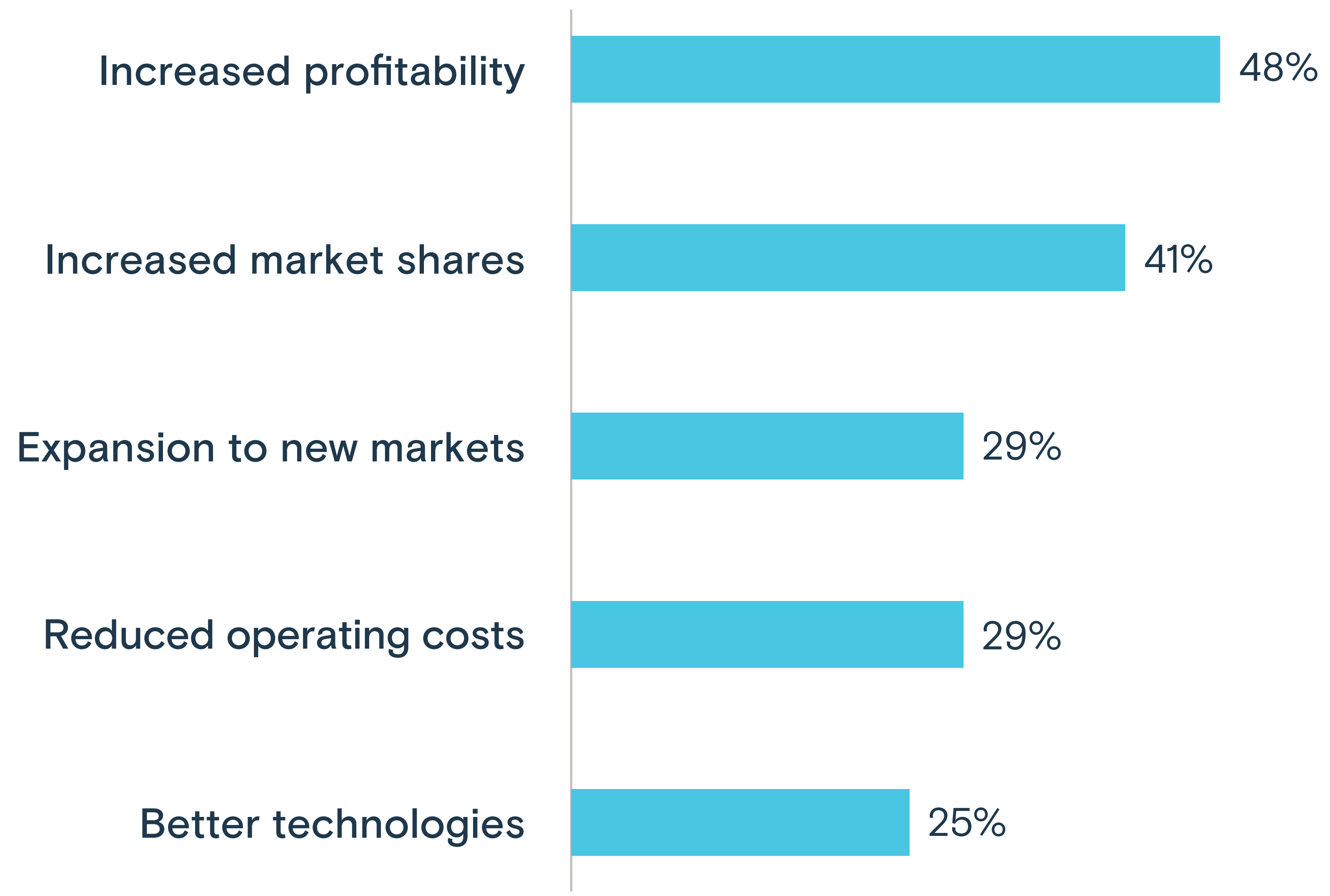
1.4x more likely to have experienced annual sales growth of 5% or more in the past 12 months

→ Entrepreneurs who made one or more acquisitions in the past 10 years were 1.4 times more likely than others to have experienced annual sales growth of 5% or more over the past year.

Source: STATLOG. See Methodology.

Growth through acquisition has a number of other benefits

Figure 12: Benefits of acquiring a business, according to serial buyers*



Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).
*Serial buyers are those who have made more than one acquisition in the past 10 years.

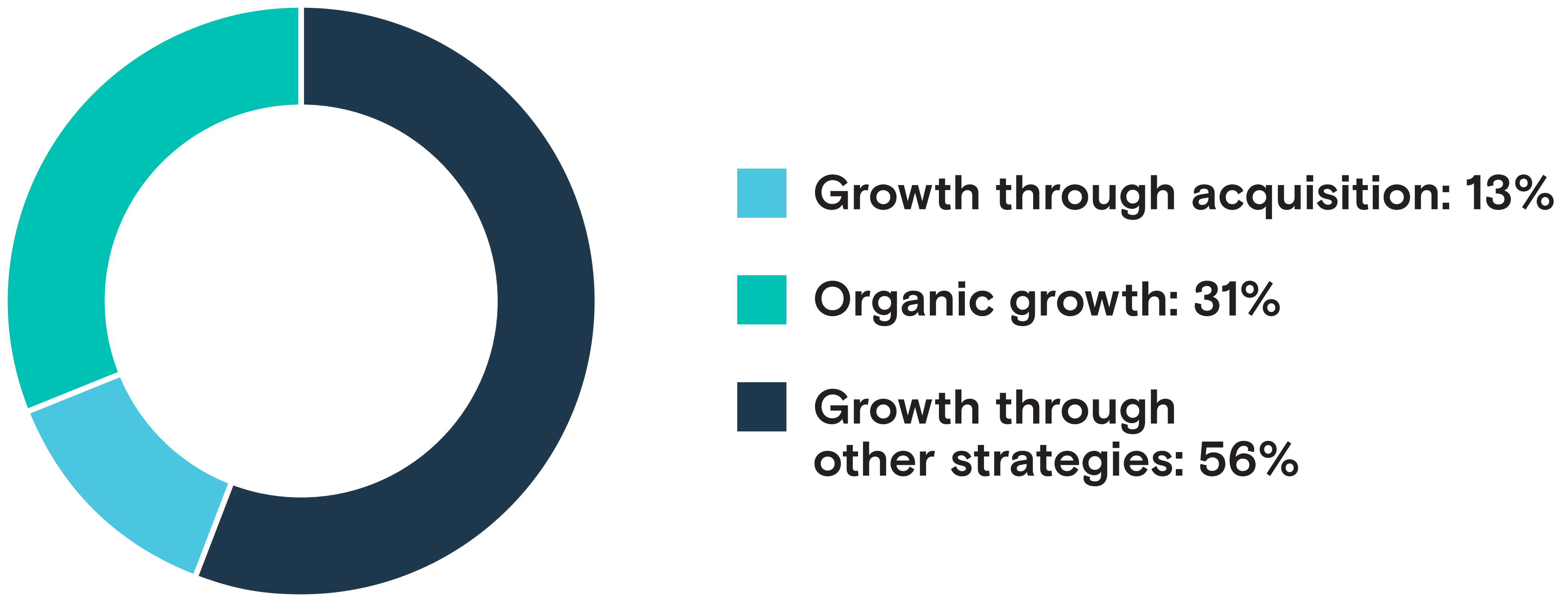
13%
of Canadian entrepreneurs plan to buy another business in the next five years

While nearly one-third (31%) of entrepreneurs have chosen the organic growth route, fewer than one in seven (13%) rely on acquisition to grow their business.

Entrepreneurs who want to grow through acquisition are more likely to run businesses with 20 or more employees (26%), to have sales of $2 million or more (21%), to operate in the manufacturing sector (21%) or ICT and cultural industries (21%), to be under 35 years old (21%), and to have a business that has existed for less than 10 years (17%).

Lastly, 27% of Canadian entrepreneurs who expressed an intention to grow through acquisition have already made one or more acquisitions in the past 10 years.

Figure 13: Growth strategy of Canadian entrepreneurs over the next five years



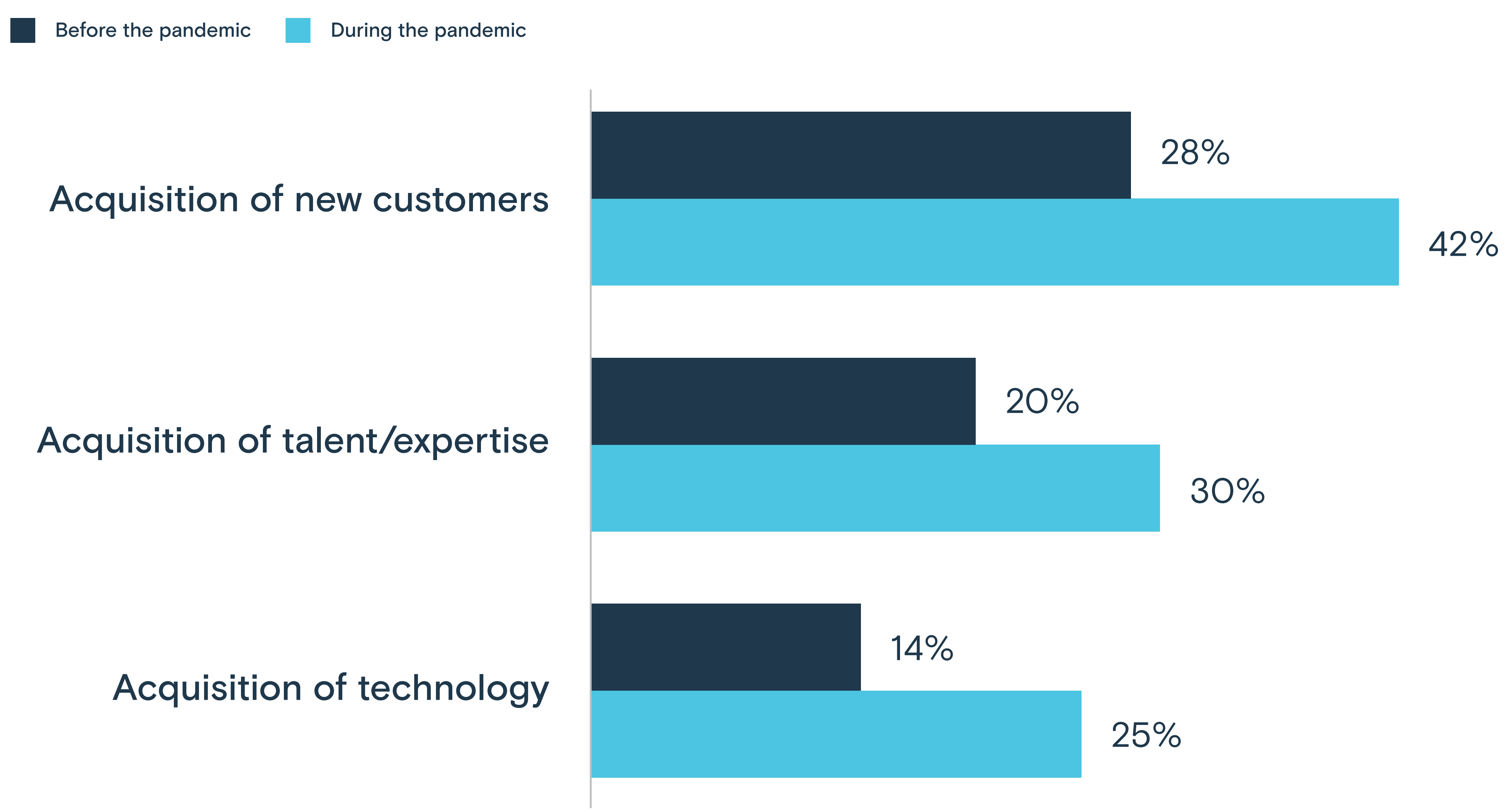
Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).

Buyers are increasingly motivated to acquire talent and technology

Even before the pandemic, entrepreneurs were motivated primarily by the desire to obtain new customers during an acquisition. This trend has since grown stronger.

However, we note that “acquiring talent” as a motivation to buy a business increased from **20% to 30%** during the pandemic, and “obtaining technology” as a motivation increased from **14% to 25%.**

Figure 14: Entrepreneurs’ motivations for buying a business, before and during the pandemic



Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n= 1,563).

The most coveted companies are not necessarily those that are for sale

There is a misalignment between the companies that buyers are looking for and the ones that come to market.

Buyers are generally looking for businesses that are larger than the ones that come up for sale. Moreover, 31% of the businesses expected to be for sale in the next five years are in Quebec. That is a high proportion, since the province is home to only 21% of Canadian businesses.

Figure 15: Regions where buyers are looking for businesses

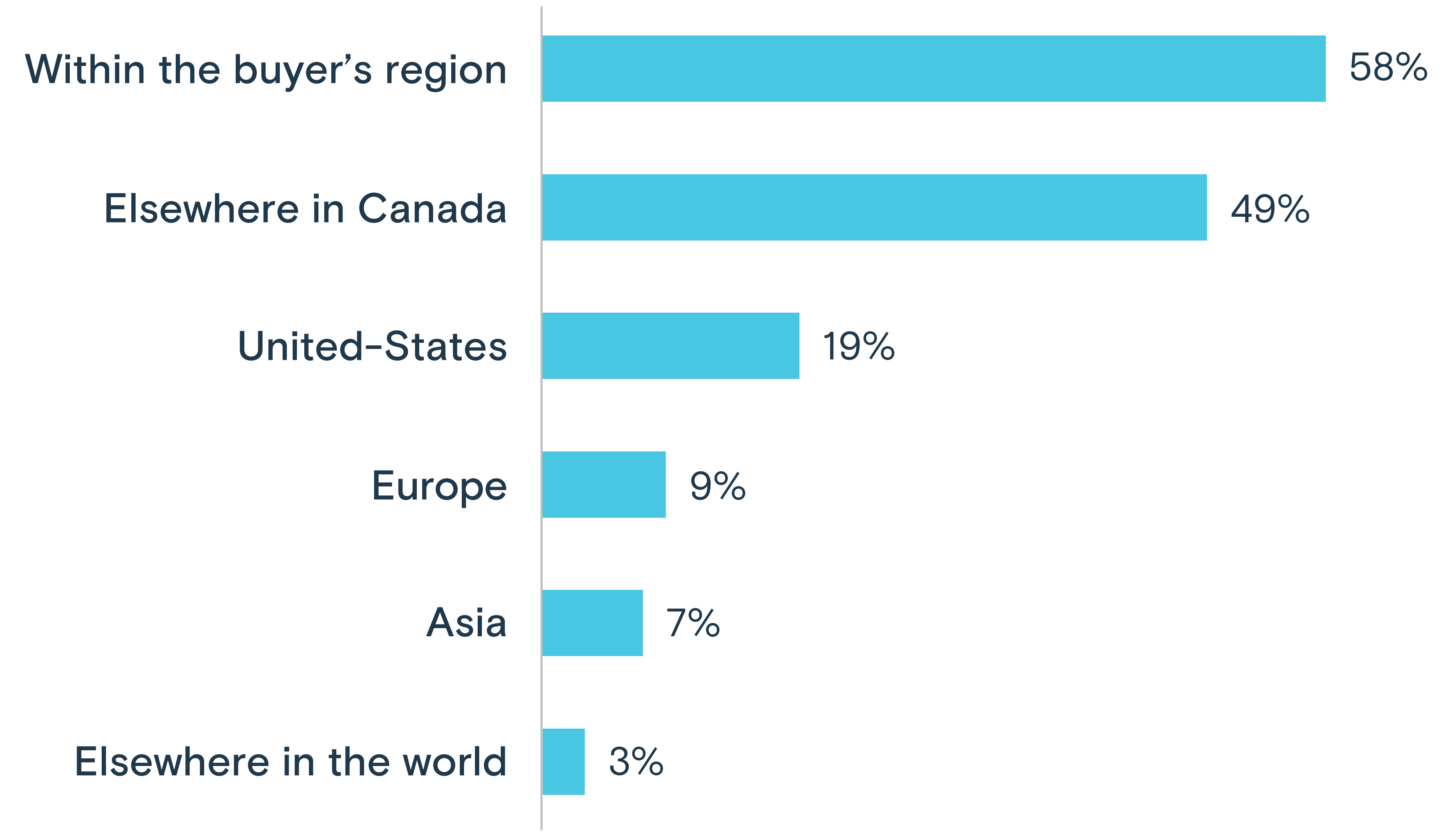
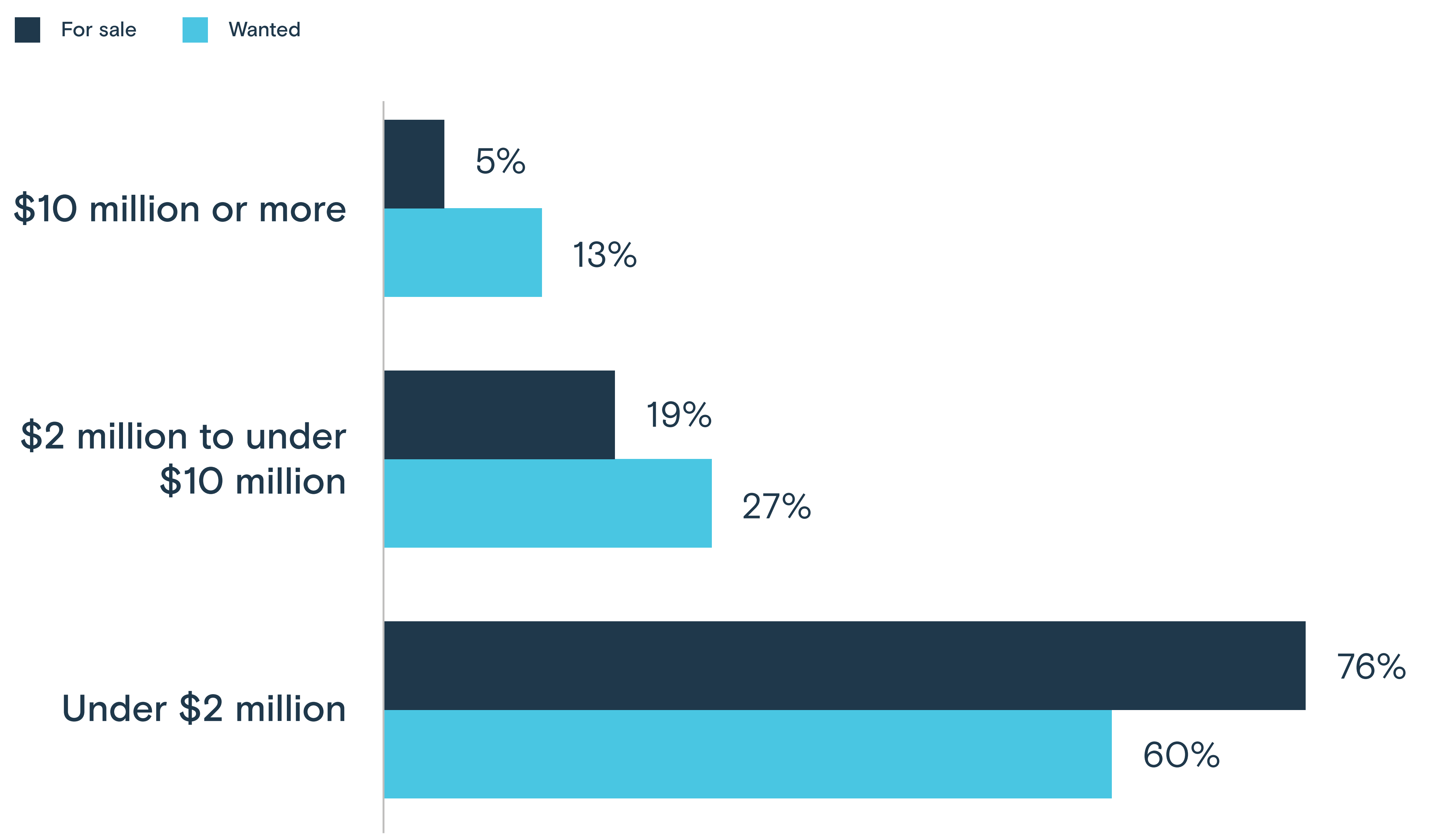


Figure 16: Revenues of companies wanted and companies for sale



Source for all three figures: *BDC, Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).

Case Study

Successfully merging two businesses

A merger can be a good strategy to overcome a labour shortage

In August 2021, original equipment manufacturers (OEMs) Mecfor and Advanced Dynamics merged to create EPIQ Machinery, which makes equipment for primary aluminum production, pulp and paper and railways. Altogether it employs 225 people in Quebec, 250 in India and five in France.

The merger was far from an impulsive decision. In 2018, when Éloïse Harvey bought Mecfor, a Saguenay-based company owned by her father, a future large acquisition or merger was already on her mind.

"I always told my team that it was important to grow in order to reach a critical mass that would allow us to have the means to match our ambitions," recounts Harvey, now CEO of EPIQ Machinery.

A larger company can, for example, afford to hire different support professionals.

"This way, we avoid having one person wearing five hats and spreading their energy thin," Harvey says. "When you have an expert who gets up in the morning and goes to bed at night thinking about his or her expertise, that's when you see a difference, and the company gets better."

Merger partly motivated by labour shortage

At a time when 55% of Canadian entrepreneurs indicated having difficulty recruiting qualified employees, this merger allowed Mecfor to reach a new pool of qualified workers in the Montreal area.

"We want to bring out the best in our homegrown talent, and then make our work known and recognized at home and around the world by becoming an iconic Canadian company."

Éloïse Harvey
CEO, EPIQ Machinery

The merger was also attractive to Harvey because Advanced Dynamics had established a manufacturing facility in Pune, India eight years ago that now employs 250 people.

“We will be able to continue to grow even though it’s very difficult to hire in Quebec because of the lack of applicants,” Harvey explains. “In India, the situation is completely different.”

Both companies were also diversifying their non-primary metal businesses in interesting ways: Mecfor in railways and Advanced Dynamics in pulp and paper.

“By joining forces, we cover three major areas of activity,” Harvey says.

While EPIQ Machinery will have $55 million in annual revenues this year, that number is expected to rise to over $70 million in 2022 and $100 million in five years through organic growth and acquisitions.

“We want to bring out the best in our homegrown talent, and then make our work known and recognized at home and around the world by becoming an iconic Canadian company,” Harvey says.

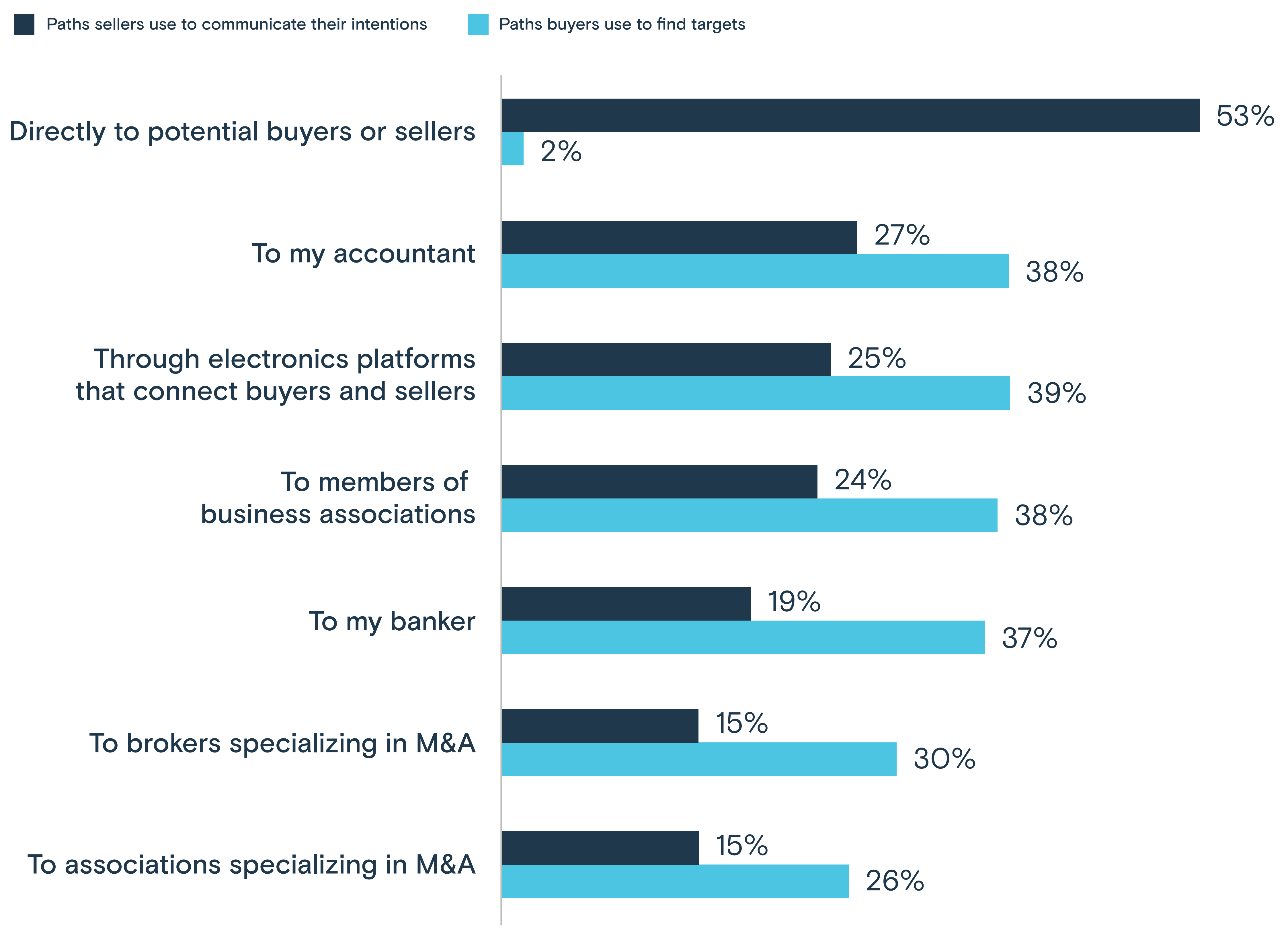
Buyers would be well advised to contact the executives of the target companies directly

The methods buyers use to find a target and those sellers use to communicate their intentions are different.

Most sellers prefer to communicate their intentions directly to potential buyers, whereas very few buyers choose this strategy to communicate their intentions to potential sellers. Buyers might benefit from contacting the executives of target companies directly.

Note also that only a quarter of sellers use electronic platforms to communicate their intentions, while 39% of buyers use this medium to find targets.

Figure 17: Paths of communication buyers use to find a target versus paths sellers use to find a buyer



Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).

The smallest businesses have more difficulty accessing financing

Despite the abundance of available capital, finding external financing is a challenge for some potential buyers.

This is the case **especially for entrepreneurs with sales of less than $2 million (41%)**. For smaller acquisitions, a balance of sale could often complement financing by an external partner.

Figure 18: Access to financing to buy a business, according to entrepreneurs

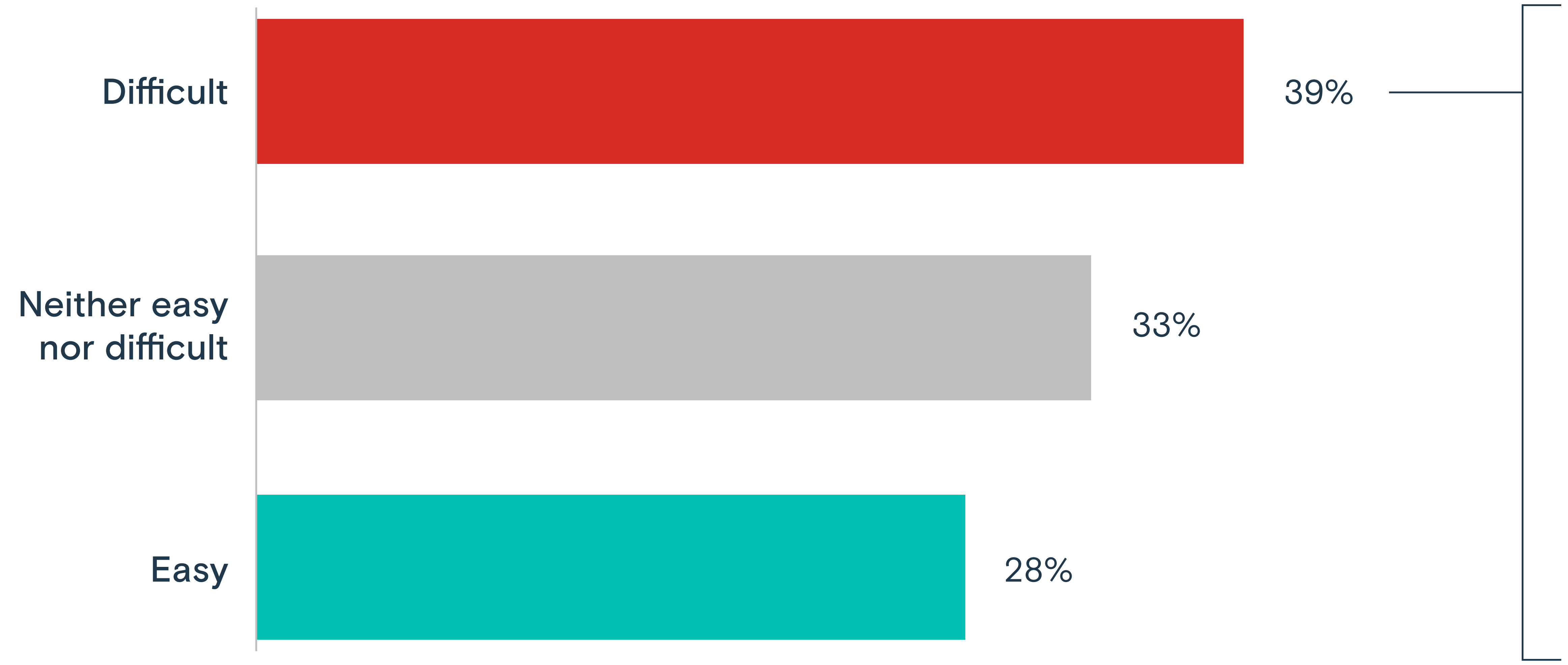
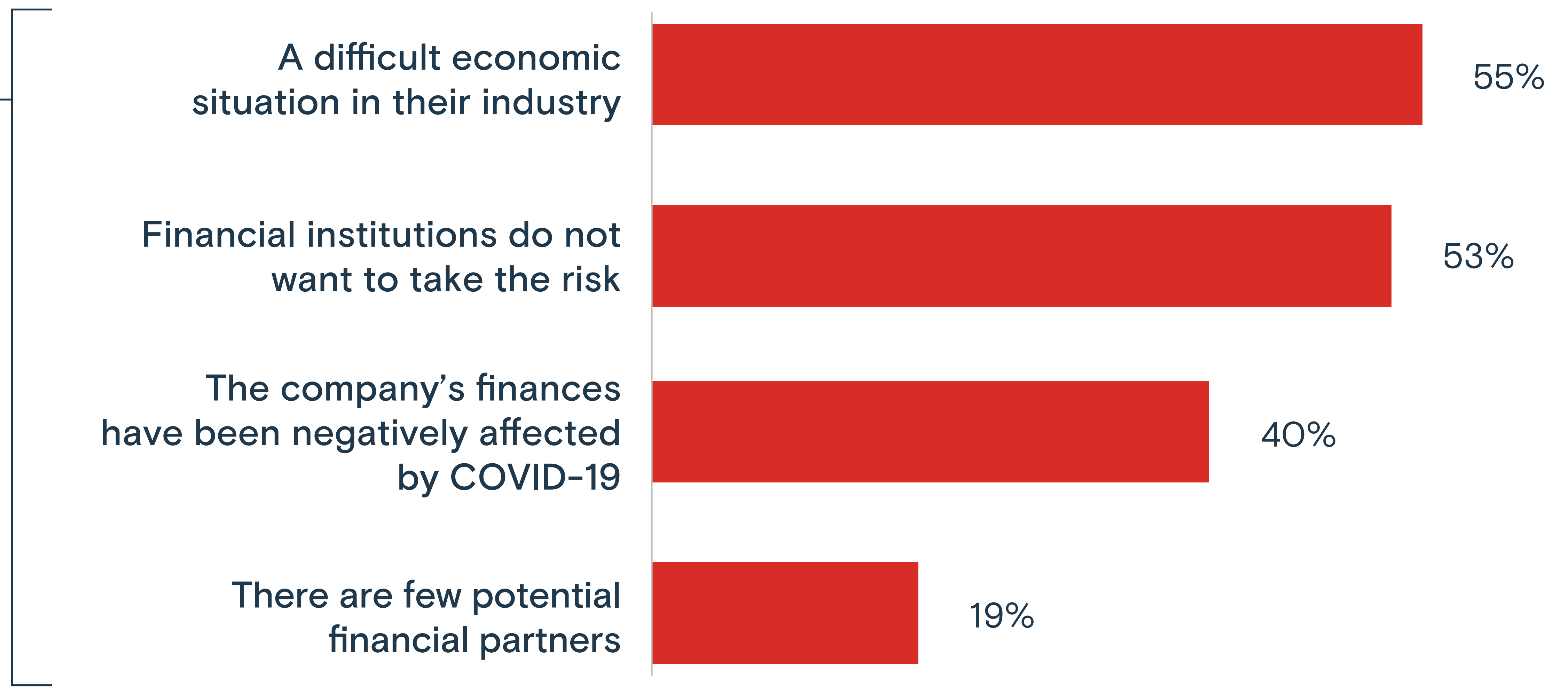


Figure 19: Reasons for difficulties in accessing financing



Source: BDC, *Survey on growing, buying and selling SMEs in Canada*, June 2021 (n=1,563).

Roadmap to a successful acquisition

Preparation for a business acquisition

1. Assemble a team of internal and external experts
2. Set clear objectives for the acquisition
3. Prepare an acquisition plan
4. Search for potential acquisition candidates

Initial and pre-sale negotiations

5. Research the business and the seller's motivations
6. Draft and negotiate a letter of intent with the seller
7. Begin to arrange financing

Due diligence and the purchase agreement

8. Complete the due diligence process
9. Negotiate a purchase price
10. Finalize the purchase agreement

Post-merger integration

11. Integrate your businesses

Preparation for a business acquisition

1 Assemble a team of internal and external experts

Consult with trusted legal and financial advisors. You can also call upon experts in business valuation, IT, human resources and marketing.

Learn more

2 Set clear objectives for the acquisition

Why do you want to buy a business? How will it help you achieve your strategic goals? Answering these questions will help you define an acquisition plan and narrow down the types of companies you want to consider acquiring.

3 Prepare an acquisition plan

A clear plan will help you communicate your objectives and keep you from pursuing unsuitable buying opportunities. Your plan should include the following:

- your target timeline and budget
- the roles and responsibilities of the acquisition team members
- the main characteristics of the type of business you want to buy
- the types of risks you are prepared to accept

4 Search for potential acquisition candidates

Reach out to your business or other contacts in the target sectors, as well as your advisors, to identify potential candidates. You could also choose to work with a firm that specializes in M&As.

Learn more

Initial and pre-sale negotiations

5 Research the business and the seller's motivations

Find out why they want to sell and do some preliminary research on the operational and financial performance of the business. The goal of these meetings is to collect the information you need to draft a letter of intent.

6 Draft and negotiate a letter of intent with the seller

The letter of intent should include the following:

- a price range for the acquisition (the final price will not be determined until the due diligence process is complete)
- a commitment from the seller to provide all necessary records
- confidentiality and communication terms
- the duration of exclusivity of the negotiations

Learn more

7 Begin to arrange financing

You will need to know how much permanent capital you can invest, how much equity the other partners can contribute and what terms your bank is offering. Involving your financial partners very early in the process will ensure their support and allow you to benefit from their expertise in business acquisitions.

Learn more

Due diligence and the purchase agreement

8 Complete the due diligence process

This will consist primarily of a legal and financial review, but there may be other areas you want to look into as well, such as commercial positioning or IT infrastructure. Make sure you hire qualified professionals to conduct this process, which will likely take a few months.

Learn more

9 Negotiate a purchase price

The final purchase price will be based on various factors, including the company's EBITDA and valuation, and the results of your due diligence process.

Learn more

10 Finalize the purchase agreement

The purchase agreement will include details on the scope of the transaction, payment terms, and any indemnifications and warranties. If the seller will be staying on with the company for a transition period, the purchase agreement may also include an employment contract.

Learn more

Post-merger integration

11 Integrate your businesses

The first months after acquiring a business are crucial to its successful integration, and this stage requires a great deal of discipline in order to achieve the desired benefits. You will need an action plan to avoid missing essential steps. Your plan will help you engage with employees at all levels, be clear about your vision for the future of the business and maintain open lines of communication with employees.

Learn more

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Download our practical guide to buying a business in Canada

BDC expert advice

4 winning conditions for a successful business acquisition

While some entrepreneurs rely heavily on their instincts, it is best to be methodical when it comes to acquiring a business. Our expert, Étienne Drouin, reveals the main winning conditions for a successful business acquisition.

“To stay engaged, employees of both the buyer and the seller must understand where the company is going. And these words must come from the mouth of the president.”

Étienne Drouin, Managing Director, Growth & Transition Capital, Atlantic and Central/Eastern Quebec, BDC

1 Include the acquisition in your strategic plan

"The best transactions we see are often made after the buyer develops a strategic plan defining what they want to get from another company, and then looks for a target that matches the desired profile," notes Mr. Drouin.

It is always possible that you will see an unexpected business opportunity and want to seize it. However, according to the expert, it's a bit like going to the grocery store without a list. "You risk buying something you don't need."

2 Be dedicated to the acquisition

Acquiring and integrating a company takes time. "The entrepreneur needs to be dedicated to the acquisition while others take care of the day-to-day operations of the business," says Mr. Drouin.

While you can outsource some parts of the job, you need to take care of others, such as explaining the values of the new direction.

3 Implement the integration plan from day one

During the due dilligence process, every interaction with another person is an opportunity to think about integration. For example, if you are talking to the sales manager to assess the customer base, you should take the opportunity to see whether your teams will be compatible.

"This will give you time to think about the optimal post-transaction structure," he says. "For example, if one team is paid on commission, and the other is paid on salary with sales targets, you should start thinking right away about a compensation structure that will encourage cross-selling without causing costs to skyrocket or demotivating top performers."

4 Plan for unpleasant surprises

When making an acquisition, you need to leave yourself some financial leeway. "You don't want to have a level of debt that forces you to perform from day one, because there will always be internal and external factors that may derail your plans," says Mr. Drouin.

He also advises against making promises without knowing whether you can keep them. "Before you announce that you will be eliminating all 25 employees in a department or, conversely, that you will be keeping everyone, wait until you see how the integration goes. When making an acquisition, you also need to leave yourself some human leeway."

Data and methodology

Interviews with experts and entrepreneurs

This study was supplemented by a series of interviews with experts across the country. We would like to thank the following people in particular: Patrick Khousam (MNP Corporate Finance), Brahim Elkin (M&A Club), Jason Paseli (KPMG), Mathieu Roy and Julie Morteux (Deloitte), François Lapointe (RCGT), and Greg Shannon (Gowling). Their words inspired us and helped guide our research.

We also conducted in-depth, confidential interviews with six entrepreneurs, including some BDC clients, who operate in the manufacturing, retail and service sectors and have made one or more acquisitions in Ontario, Quebec, Alberta or British Columbia.

Survey of 1,563 Canadian entrepreneurs

Information on the buying and selling intentions of Canadian entrepreneurs is based on the BDC and Maru/Blue Canada survey conducted online (on a non-probability basis) among 1,563 Canadian entrepreneurs in May and June 2021. The results were weighted by size and region to be representative of all small and medium-sized businesses in Canada. If the sample had been conducted on a probability basis, the margin of error would have been ±2.5 percentage points, 19 times out of 20.

Econometric analysis

Lastly, econometric analyses were conducted to measure the impact of growth through acquisition on sales growth, compared to organic growth. These analyses were performed by STATLOG.

In particular, we wanted to know whether growth through acquisition results in stronger sales growth than organic growth does and, if so, to measure the impact of this in a manner that would be valid regardless of the size, age, industry, region or level of internationalization of the company. To do this, we used logistic regression. We discovered the following:

(A) Entrepreneurs who grow their business through acquisition are 2.08 times more likely to experience sales growth above their industry average than are those who choose to grow organically.

(B) Entrepreneurs who made one or more acquisitions in the past 10 years were 1.4 times more likely to experience annual sales growth of 5% or more over the past year of the pandemic.

Table 2: Increased likelihood of sales growth, by growth strategy implemented

	Growth above industry average (A)	Annual growth of over 5% (B)
Choosing growth through acquisition over organic growth	2.08**	1.44*

**: Significant with a confidence level of 99.9%
*: Significant with a confidence level of 95%

Source: Econometric model developed by BDC and applied by STATLOG to data from BDC, Survey on growing, buying and selling SMEs in Canada, June 2021 (n=1,563).

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