

2025 Canadian M&A outlook

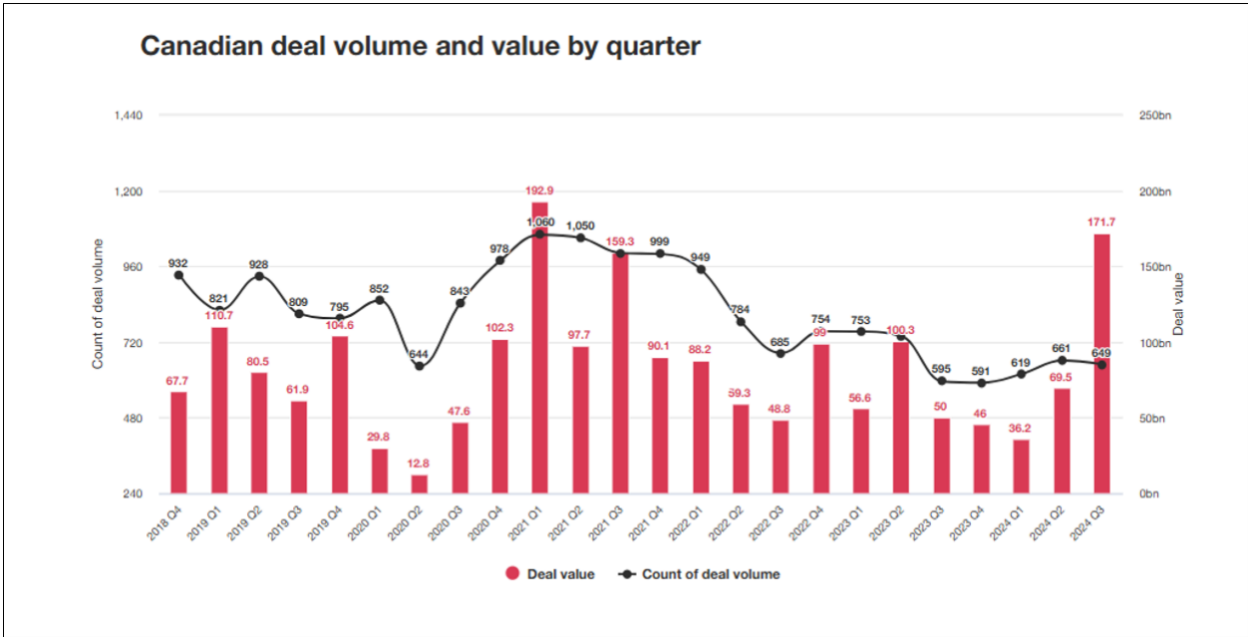
Canada’s productivity challenge: Opportunities for future deals activity

The Canadian mergers and acquisitions (M&A) market has stabilized and is showing signs of a modest uptick. However, while dealmakers are eager for the downward trend of the last several years to be over, the upturn will likely be more measured than the surge of dealmaking activity in late 2020 and 2021.

In the period from July 1 to November 30, 2024, there were 1,068 deals in Canada with a total value of \$227 billion.¹ In H1 2025, we expect Canadian M&A markets to continue on this slightly upward trajectory, with a steady increase in activity as the year progresses.

Uncertainty around tariffs and the continuation of free trade in North America due to the incoming US administration may lead to delays of transactions that would otherwise have taken place in Canada. On the other hand, we may see increased transactions involving Canadian companies that want to set up shop in the United States as part of an effort to potentially reduce the risk of losing market share.

Canadian deal volume and value by quarter



As we look ahead, one significant feature stands out in Canada’s economic landscape: low productivity growth. This is reflected in the slow pace of Canada’s gross domestic product (GDP) per capita growth compared to those of most developed countries. For example, in 1980, Canada’s GDP per capita was 88.6% that of the United States. By 2023, it had fallen to 75.8% (all measured in constant purchasing power parity US dollars). In recent quarters, Canada’s

¹ Source: Capital IQ data, PwC Canada analysis.

GDP per capita has declined in constant dollars.² This has significant implications for economic growth, standard of living and global competitiveness.

In this edition of our annual Canadian M&A outlook, we explore the factors contributing to this productivity crisis, levers dealmakers could employ to help reverse this trend and opportunities for deals activity.

In focus: Understanding Canada's productivity crisis

Contrary to common wisdom, lagging productivity in Canada isn't a phenomenon of the last decade. Rather, it's a long-term issue that can be traced back to the 1980s and the start of the digital revolution with the introduction of the personal computer. Canada's lagging productivity can be attributed to two main factors: (1) inability to embrace the digital revolution and transform itself into a true knowledge economy, and (2) inability to fully use its rich endowment of natural resources.

There are three key metrics to assess when evaluating productivity:

Labour productivity

The specific skills of the workforce and its flexibility, mobility and inclination to work harder are crucial elements in its productivity. In 1970, Canada's labour productivity on a per-hour-of-labour basis was 84.9% that of the United States. By 2022, it had declined to 71.1%.³

Capital intensity

All other things being equal, labour productivity will be higher if an economy is more capital intensive. In the era of the digital revolution, this means not only tangible assets but, increasingly, intellectual property (IP) and know-how.

A study by TD Bank calculated that, between 2000 and 2023, capital spending per employee in the United States increased by approximately 60%, while in Canada, it barely changed over the same period.⁴ Canada has also seen lower investment in research and development (R&D). In

² Source: International Comparison Program, World Bank Group, accessed December 3, 2024, <https://www.worldbank.org/en/programs/icp>.

³ Source: "Canada's Growth Challenge: Why the economy is stuck in neutral," RBC Economics, June 4, 2024, <https://thoughtleadership.rbc.com/canadas-growth-challenge-why-the-economy-is-stuck-in-neutral/>.

⁴ Source: "Mind the Gap: Canada is Falling Behind the Standard-of-Living Curve," Marc Ercolao, TD Economics, July 13, 2023, https://economics.td.com/domains/economics.td.com/documents/reports/me/Canada_Is_Falling_Behind_the_Standard_of_Living_Curve.pdf.

2022, Canada spent 1.71% of its GDP on R&D, while the United States, with an economy roughly 12 times larger, spent 3.59% of its GDP.⁵

Multi-factor productivity

Multi-factor productivity measures how effectively capital and labour are used together. Factors such as innovation adoption, managerial practices and competitive business environments are crucial. Canada's multi-factor productivity has increased over the last four decades at about half the rate of the United States. This is further evidence Canada has failed to develop IP and know-how that are used in Canada and enable Canadian companies to develop economic advantage that pays economic rent.

Our research suggests Canada's incentive system for the creation and commercialization of IP isn't encouraging scaling of companies, leading to much of our IP being commercialized in the United States. Consequently, Canada has struggled to create large world-leading companies, as well as retain and attract highly skilled employees.

How do we address lagging productivity?

Economic stagnation isn't an option, as that could lead Canada's economy into a negative cycle. Low productivity could reduce Canada's ability to provide essential public services, which would make Canada less attractive to skilled workers. This could accelerate the "brain drain" phenomenon and make Canada less attractive for skilled immigrants.

While governments can create conditions for higher productivity, companies can also take steps in that direction. Here are some actions that, according to our studies, could address some of the key drivers of low productivity in Canadian businesses:

- Develop acquisition strategies that avoid the trap of assuming linear progression in your industry. Instead, consider the evolving and emerging global trends that may affect demand and supply in the markets and supply chains in which your business operates.
- Continuously conduct market scans for emerging technologies in your field, as well as for companies that use and/or develop them.
- Continuously assess labour supply to identify potential future shortages in key professions and develop a strategy (organic or inorganic) to address those.
- Scale your business, as technology advances often create a winner-takes-all scenario. Companies in many industries will need to be of sufficient size to enable them to be global leaders in their niche market.

⁵ Source: "Leading countries by research and development (R&D) expenditure as share of gross domestic product (GDP) worldwide in 2022," Einar H. Dyvik, Statista, July 4, 2024, <https://www.statista.com/statistics/732269/worldwide-research-and-development-share-of-gdp-top-countries/>.

Transformation in action: Financial services

As in prior years, the financial services sector in Canada continues to be very active in terms of M&A. We're seeing significant volume (and often sizable transactions) driven, in many cases, by appetite to transform through inorganic strategy.

Macroeconomic challenges, such as higher-for-longer interest rates and global trade disruption, and shifting demographics and customer preferences are prompting many in the sector to look for new ways to acquire and build scale, as well as to optimize the way they engage with customers.

Many transactions we're seeing in this sector involve technology-enabled businesses. Acquisitions such as these help financial services businesses improve operations and reduce costs through enabling technology, including cloud-based platforms, artificial intelligence (AI) and machine learning. We anticipate a busy year ahead as financial services organizations continue to look for ways to reinvent how they drive value.

A role for private equity in reinvention

Private equity (PE) has played a key role in facilitating economic transformation.

[A study we conducted in 2020](#) on the impact of Canadian PE investment in small and medium-sized enterprises found, on average, capital investment, productivity and profitability increased significantly in the three years following an initial PE investment, outperforming non-PE-backed benchmarks. Improvements in productivity and profitability didn't come at the expense of jobs, as employment also increased relative to non-PE-backed benchmarks. This suggests PE-backed businesses achieve a higher level of multi-factor productivity, a key metric in evaluating overall productivity.

PE funds drive these results by bringing sector-specific expertise and experience, as well as significant capital resources, and often adopting a roll-up strategy: consolidating smaller complementary businesses to achieve the scale needed to support investment in automation and technology.

This capability positions PE to make a transformative difference in Canada's manufacturing sector. By putting its sector expertise, consolidation playbook and effective capital deployment strategy to work, PE could yield financial returns for its limited partners and productivity gains that serve the interests of the Canadian economy.

In addition, and at the root of improved manufacturing productivity, we see opportunity in the sphere of industrial automation. Canada's productivity crisis and an acceleration of the onshoring trend in the United States (bringing higher manufacturing costs) suggest there could be heightened demand for industrial automation and automation technology in the near and longer term.

Other opportunities for dealmakers in 2025

As businesses and governments in Canada take steps to address national productivity, we anticipate deals activity will be impacted by economic transformation. Below are some deal activities likely aligned with upcoming changes:

- Scaling of businesses in areas like advanced manufacturing and hi-tech that have the prospect to develop and commercialize IP.
- Consolidation of companies operating in industries that are vulnerable to technological disruption.
- Deals in industries that will see demand for their products increase globally where Canada has the potential to become a world leader. These may include nuclear energy, agri-tech and critical minerals. Note that in many of these areas, the Canadian government is providing additional support via [refundable clean economy tax credits](#).
- Deals in health-care technology companies. If we want to sustain and improve our health-care system in the face of an aging population, Canada must find a way to develop and adopt technology that will enable it to do more with less. This could open opportunities for deals that involve companies that develop IP in that area.