Growing Pains: Opportunities and Challenges in the Aerospace (and Defence) sectors

Grant McDonald
June 2018
Agenda

• Introduction
• A&D Industry Trends
• M&A Activity
• CEO Outlook
• Q&A
A&D Trends & Take-aways
Key trends for the global aerospace sector

1. **Continued technological advancement** | Improvements in operating efficiency, advanced avionics, interior cabin designs, noise reduction capabilities, composites, advanced manufacturing technologies and new electrical systems.

2. **Strong replacement demand bolsters order books** | Over the next 20 years, around 40% of all new aircraft deliveries will be for replacement purposes. This provides an opportunity to “right-size” fleets to increase profitability and efficiency.
Key trends for the global aerospace sector

3. **Lower oil prices continue to influence both demand and growth**
   Lower prices have spurred airline profitability but may temper short-term replacement demand for next-generation aircraft.

4. **Continued appreciation of the USD and higher borrowing rates**
   The relative strength of the US dollar will continue to create challenges for non-US players and even small changes in short term rates may dampen demand.

*With increasing passenger travel, OEM order books are driving growth in many aerospace segments — from aircraft suppliers and OEMs through to lessors and MRO and aviation service providers, the outlook is positive for the overall sector*
Key takeaways for aerospace

1. **Understand the new markets and competitors:** Think beyond the next 5-10 years to understand how changing market dynamics will influence your business model.

2. **Make the most of lower oil prices:** Airlines should consider how they will use their increased profits from lower oil prices to improve their infrastructure and asset portfolio.

3. **Consider the impact of infrastructure:** Governments will need to play a key role in improving infrastructure and removing airspace restrictions to drive growth in the emerging markets.

4. **Monitor the evolving MRO space:** OEMs and MRO outsourcers will need to monitor the rise of new markets and players from China and India who are rapidly making inroads into the MRO market.
Key trends for the global defence sector

1. **Geopolitical** | Instability continues in key regions around the world and the threat level facing the US and its allies is still high.

2. **Defence budgets** | US is increasing spending to $700B in 2018 and $716B in 2018 to address force readiness, maintenance backlog and manpower increases

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Spending ($ Bn.)</th>
<th>% of GDP</th>
<th>% of World share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>610.0</td>
<td>3.1</td>
<td>35.0</td>
</tr>
<tr>
<td>2</td>
<td>People’s Republic of China</td>
<td>228.0</td>
<td>1.9</td>
<td>13.0</td>
</tr>
<tr>
<td>3</td>
<td>Saudi Arabia[3]</td>
<td>69.4</td>
<td>1.0</td>
<td>4.0</td>
</tr>
<tr>
<td>4</td>
<td>Russia</td>
<td>66.3</td>
<td>4.3</td>
<td>3.8</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
<td>63.9</td>
<td>2.5</td>
<td>3.7</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>57.8</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>47.2</td>
<td>1.8</td>
<td>2.7</td>
</tr>
<tr>
<td>8</td>
<td>Japan</td>
<td>45.4</td>
<td>0.9</td>
<td>2.6</td>
</tr>
<tr>
<td>9</td>
<td>Germany</td>
<td>44.3</td>
<td>1.2</td>
<td>2.5</td>
</tr>
<tr>
<td>10</td>
<td>South Korea</td>
<td>39.2</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>11</td>
<td>Brazil</td>
<td>29.3</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>12</td>
<td>Italy</td>
<td>29.2</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>13</td>
<td>Australia</td>
<td>27.5</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>14</td>
<td>Canada</td>
<td>20.6</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>15</td>
<td>Turkey</td>
<td>18.2</td>
<td>2.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**2018 Fact Sheet (for 2017)**
SIPRI Military Expenditure Database[3]
Key trends for the global defence sector

3. **Competition is fierce** | Fewer contracts – yet often with larger values – are creating ‘all or nothing’ situations for defence contractors where the loss of one contract could spell trouble for an entire division.

4. **The shift to new business models and markets** | Defence contractors are considering new markets and models for growth.

*The question is how the defence contractors and suppliers will respond to the changing market forces. What is already clear is that there will be winners and there will be losers.*
Key takeaways for defence

1. “Traditional” defence is on the decline: Defence players will need to sharply increase their development and acquisition of new products and services in order to remain relevant.

2. Understand the new competitors and opportunities: In this dynamic environment, defence players will need to pay close attention to – and possibly partner with – new entrants and disruptors.

3. Identify the value of convergence: Understand how products can be adapted to adjacent markets and build new alliances to make the most of convergence in the sector.

4. Expect competition in the East: Whether it is traditional players competing for markets in the Middle East and Asia or new competitors emerging from China and India, competition will continue to heat up in the East.
Canada Outlook

Macro trends

• Significant uncertainty due to US trade dispute – potential supply chain impact:

"We have concerns about tariffs for a number of reasons: the impact on the global supply chain; what that could mean to our companies; certainly, what escalation might mean in terms of retaliation," said Eric Fanning, Aerospace Industries Association president and CEO. (AIA DailyLead, June 4/18)

• Strong fundamentals in fiscal policy; some uncertainty in monetary policy

• Government policy – FDI/exports; innovation as a key factor for growth/jobs, e.g., Strategic Innovation Fund, SuperClusters, IDEaS, etc.
Canada Outlook

Other Aerospace items

• Industry 4.0, talent attraction/skill-building, supply chain development, Lean

Defence status

• Strong Secure Engaged after 1 year: recent changes, i.e., “DIP”, “KICs”, “IDEaS”; the new Value Proposition Guide also released, which updates the approach to assessing economic benefits to Canada under the Industrial and Technological Benefits (ITB) Policy (May 2018)
Canada - Defence Investment Plan (May/18)

• Defence Investment Plan 2018 provides an overview of DND’s planned expenditures during the 20-year timeframe of the Defence Policy (“Strong, Secure, Engaged”)

• A new online tool, the Defence Capabilities Blueprint (DCB), provides industry with information about defence investment opportunities

• The DCB segments investment opportunities into searchable components by:
  • Project sponsors
  • Defence Capability Areas (DCAs) - 13 broad component categories, such as Land, Sea, Air, Space and Cyber (e.g., 53 projects were found under "Air")
  • Defence Capability Investment Areas (DCIAs) – 150 smaller constituent components
    ➢ DCIAs include Avionics (e.g., 25 projects were found under "Avionics")
  • Key Industrial Capabilities (KICs)
Canada update – KICs (Apr/18)

- KICs represent 5 areas of emerging technology with the potential for rapid growth and significant opportunities, and 11 established capabilities where Canada is globally competitive or where domestic capacity is essential to national security.

- KICs are defined as the skills, technologies, and supply chains required to support the growth of these capabilities.

### Emerging Technologies

1. Advanced Materials
2. Artificial Intelligence
3. Cyber Resilience
4. Remotely-piloted Systems and Autonomous Technologies
5. Space Systems

### Leading Competencies and Critical Industrial Services

6. Aerospace Systems and Components
7. Armour
8. Defence Systems Integration
9. Electro-Optical / Infrared (EO/IR) Systems
10. Ground Vehicle Solutions
11. In-Service Support
12. Marine Ship-Borne Mission and Platform Systems
13. Munitions
14. Shipbuilding, Design and Engineering Services
15. Sonar and Acoustic Systems
16. Training and Simulation
Canada update - IDEaS (Apr/18)

Innovation for Defence Excellence and Security (IDEaS)

- Program of $1.6B over 20 years to foster innovation by creating networks of experts (multi-institutional, multi-disciplinary “Micro-nets”)
- Goal is to address specific Innovation Challenges facing the defence and security community
- First call for proposals: Advanced Materials: Avoiding Detection and Physical Protection
  
  (1) Detection Avoidance: Advanced materials that enable personnel and military platforms (aircraft, land vehicles, and naval vessels) to be hidden or concealed during operations; and
  (2) Physical Protection: Advanced materials with superior mechanical properties, affording significant weight savings and increased protection performance, as well as improved flexibility, durability, and thermal and moisture management.

- Budget is $9M; funding is in the form of non-repayable contributions of up to $1.5M over 3 years to each micro-net (academic/public/private sectors)
- Next Challenge call – Autonomous Systems (Summer 2018)
M&A Predictor (Industrials)

• Global players are expected to remain in ‘fast lane’ as the race for technological innovation and business transformation continues, having doubled deals in full year 2017 (based on deal value vs 2016).

• Deal flow through Q1 2018 supports the positive outlook, with global deal value soaring 92 percent to US$114 billion vs Q1 2017.

• Deal interest in 2017 among Asian players should remain particularly strong in 2018.

• The increase in forward P/E (Appetite of 2%) is a measure of overall market confidence, while net debt to EBITDA (Capacity of 11%) is a measure of the ability to fund future acquisitions.
M&A Trends (Industrials)

Ten Year Trend for Industrials

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (USDbn)</th>
<th>Volume (# of deals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$370.7</td>
<td>5,810</td>
</tr>
<tr>
<td>2009</td>
<td>$268.7</td>
<td>4,868</td>
</tr>
<tr>
<td>2010</td>
<td>$308.0</td>
<td>5,249</td>
</tr>
<tr>
<td>2011</td>
<td>$300.8</td>
<td>5,801</td>
</tr>
<tr>
<td>2012</td>
<td>$278.6</td>
<td>5,363</td>
</tr>
<tr>
<td>2013</td>
<td>$286.2</td>
<td>4,752</td>
</tr>
<tr>
<td>2014</td>
<td>$371.0</td>
<td>4,755</td>
</tr>
<tr>
<td>2015</td>
<td>$510.3</td>
<td>4,539</td>
</tr>
<tr>
<td>2016</td>
<td>$330.0</td>
<td>3,960</td>
</tr>
<tr>
<td>2017</td>
<td>$388.1</td>
<td>4,351</td>
</tr>
<tr>
<td>Q1 2018</td>
<td>$114</td>
<td>946</td>
</tr>
</tbody>
</table>
M&A (A&D) - Multiples

<table>
<thead>
<tr>
<th>Valuation Multiples as at May 28, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Lower quartile</td>
</tr>
<tr>
<td>Upper quartile</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>LTM Multiples</th>
<th>NTM Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EV / Revenue</td>
<td>EV / EBITDA</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.7x</td>
<td>5.7x</td>
</tr>
<tr>
<td>Median</td>
<td>2.1x</td>
<td>12.7x</td>
</tr>
<tr>
<td>Average</td>
<td>2.7x</td>
<td>12.9x</td>
</tr>
<tr>
<td>Maximum</td>
<td>9.6x</td>
<td>18.1x</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>1.2x</td>
<td>12.0x</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>3.0x</td>
<td>15.9x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Country of Target</th>
<th>Country of Seller</th>
<th>Country of Buyer</th>
<th>Status</th>
<th>Announce Date</th>
<th>Closed Date</th>
<th>Percent Acquired</th>
<th>Implied EV</th>
<th>Valuation Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Door Tactical Centre: Tagging &amp; Tracking Division</td>
<td>netOcean telematics</td>
<td>UK</td>
<td>UK</td>
<td>Canada</td>
<td>Closed</td>
<td>05/09/16</td>
<td>05/09/16</td>
<td>100.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>SkySquirrel Technologies</td>
<td>VincView SAI</td>
<td>Canada</td>
<td>Canada</td>
<td>US</td>
<td>Closed</td>
<td>01/11/16</td>
<td>01/11/16</td>
<td>100.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Discovery Air Defence Services</td>
<td>Clairvest</td>
<td>Canada</td>
<td>Canada</td>
<td>Canada</td>
<td>Announced</td>
<td>03/21/10</td>
<td>NA</td>
<td>9.7%</td>
<td>105.7</td>
<td>NA</td>
</tr>
<tr>
<td>Beaver A&amp;D</td>
<td>Héroux-Devtek</td>
<td>US</td>
<td>US</td>
<td>Canada</td>
<td>Announced</td>
<td>02/27/10</td>
<td>NA</td>
<td>100.0%</td>
<td>23.5</td>
<td>0.9x</td>
</tr>
<tr>
<td>Bearpaw Line</td>
<td>Aero Design</td>
<td>Canada</td>
<td>Canada</td>
<td>Canada</td>
<td>Announced</td>
<td>02/27/10</td>
<td>NA</td>
<td>100.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Anodyne Electronics Manufacturing</td>
<td>Structural Monitoring Systems</td>
<td>Canada</td>
<td>NA</td>
<td>Australia</td>
<td>Announced</td>
<td>11/08/17</td>
<td>NA</td>
<td>100.0%</td>
<td>7.9</td>
<td>NA</td>
</tr>
<tr>
<td>C Series Aircraft LP</td>
<td>Airbus</td>
<td>Canada</td>
<td>Canada</td>
<td>Netherlands</td>
<td>Announced</td>
<td>10/16/17</td>
<td>NA</td>
<td>50.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Systèmes Aéronautiques</td>
<td>Héroux-Devtek</td>
<td>Spain</td>
<td>Spain</td>
<td>Canada</td>
<td>Announced</td>
<td>10/22/17</td>
<td>NA</td>
<td>100.0%</td>
<td>164.3</td>
<td>NA</td>
</tr>
<tr>
<td>Stratcom Solutions</td>
<td>Carl Data Solutions</td>
<td>Canada</td>
<td>NA</td>
<td>Canada</td>
<td>Announced</td>
<td>09/19/16</td>
<td>NA</td>
<td>51.0%</td>
<td>2.7</td>
<td>NA</td>
</tr>
<tr>
<td>Aircraft Appliances And Equipment Limited</td>
<td>Aeronautics &amp; GI Holdings</td>
<td>Canada</td>
<td>NA</td>
<td>UK</td>
<td>Announced</td>
<td>09/18/16</td>
<td>NA</td>
<td>100.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>World Defense Holdings</td>
<td>Applied Inventions Management Corp.</td>
<td>Canada</td>
<td>NA</td>
<td>Canada</td>
<td>Announced</td>
<td>05/13/16</td>
<td>NA</td>
<td>100.0%</td>
<td>0.8</td>
<td>NA</td>
</tr>
<tr>
<td>Avmax Group</td>
<td>Sunward Intelligent Equipment Co.</td>
<td>Canada</td>
<td>Canada</td>
<td>China</td>
<td>Announced</td>
<td>10/13/15</td>
<td>NA</td>
<td>100.0%</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
M&A outlook - A&D

M&A activity is expected to remain strong in the near to mid-term:

— **Improved financial standing**: Strong balance sheets, ample cash generation capabilities, investment grade ratings and low interest rate environment provides highly favorable dynamics

— **Small to mid-size consolidation**: opportunities exist, challenge is risk of multiple bidders / record valuations / availability of attractive assets

— **Commercial markets**: Established commercial players with existing capabilities in niche areas present significant opportunities to enter into partnerships or acquisition of private sector providers

— **Partnerships with local players in international markets**: High growth international markets are increasingly seeking collaborative partners; M&A is not always a viable option due to regional political and regulatory factors. As a result, JVs and partnerships are growing in popularity in these foreign markets

**Boeing, Safran Stun Industry by Teaming on APUs**

**CHICAGO and PARIS** — Boeing and Safran have agreed to jointly design, build and service Auxiliary Power Units (APUs), creating better value for customers and for both companies. (Joint Boeing-Safran statement, June 04, 2018)
Growing pains

Are Canadian CEOs prepared for future growth?

2018 Canadian CEO Outlook
**Respondent background**

- **50** Canadian CEOs
- **1,300** CEOs part of larger global study
- **11** industries; with the top industries being banking, energy, manufacturing, asset management, insurance and retail/consumer

- **78%** of revenues are greater than $1 billion
- **74%** experienced an increase in revenue over last year
Over the next 3 years

Canadian CEOs have big plans for growth and there are many reasons to believe they will be successful in achieving it.

To reach their goals, Canadian companies will be taking on new challenges. All of which will create massive opportunities, and significant risk:

- New markets
- New acquisitions
- New market segments
- New technologies
- New customer demands

Bringing a balanced perspective to the growth and risk equation is critical for any CEO as new opportunities emerge.
CEOs are more confident in growth prospects than a year ago

In fact, Canadian CEOs have one of the highest levels of growth confidence among all participating countries

- 94% expect Canada's economy to grow compared to 75% in 2017
- 96% expect their company to grow compared to 82% in 2017
- 72% expect the global economy to grow compared to 43% in 2017
Actions to help drive growth are technology focused and driven outside the organization.

CEOs understand the historic way of operating will not work in the future. Top growth strategies are cost effective ways to support change as they do not require significant upfront investment.

- **44%** plan to join industry consortia focused on development of innovative technologies.
- **44%** will partner with third-party cloud technology providers.
- **40%** are setting up accelerator or incubator programs for start-ups.
- **40%** want to make products and services available via an online platform provider.

- **49%**
- **52%**
- **53%**
- **54%**

© 2018 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.
Growth strategies suggest a balance between immediate and future goals

Organic growth (i.e. innovation, R&D, capital investments and recruitment) and M&A are driving Canada’s growth objectives, CEOs are struggling to get value out of strategic alliances and joint ventures.

- **30%** are relying on organic growth
- **26%** have identified M&A as their top strategy
- **18%** depend on strategic alliances with third parties
- **16%** are looking at joint ventures

© 2018 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.
CEOs appetite for M&A is on the rise

M&A is being driven by organizations trying to move tangentially across their core competencies, expand market share, and determine the best ways to reinvest profits back into the business.

- **82%** of CEOs plan to undertake M&A activity.
- **78%** believe M&A activity will have a significant impact on their organization.
- **26%** of CEOs think M&A activity will have a significant impact on their organization.
- **16%** believe M&A activity will have a significant impact on their organization.

Primary drivers for M&A:

- **54%** want to transform their business model faster than organic growth will deliver.
- **43%** are taking advantage of favourable valuations.
- **51%** are doing it to increase market share.
- **37%** are focused on eliminating a direct competitor.
- **27%** are focused on eliminating a direct competitor.
- **40%** are focused on eliminating a direct competitor.

© 2018 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.
Market expansion is also a primary driver over the next 3 years

As a highly regulated country, Canadian companies are viewed favourably around the world. Canadian companies are looking to capitalize on their sterling reputation.

- 72% are planning to expand into emerging markets
- 26% want to expand into developed markets

Top markets for expansion:

- Central/South America: 56% (33%)
- North America: 31% (34%)
- each Europe, Japan, Hong Kong, Singapore, and Australasia: 23% (17%)
But why aren’t Canadian companies getting value from strategic partnerships?

Third-party relationships have become a core competency organizations need to remain relevant and competitive. The success of these relationships is built on trust, understanding how to create win-win scenarios, and moving away from a transactional arrangement to truly define value for each organization.

10% of CEOs believe prioritizing organic growth over third-party relationships will hurt their growth prospects and limit agility.

06% reconsidered a third-party partnership that would have helped with growth due to lack of fit from a culture and purpose perspective.

Top barriers to extracting value from third-parties

26% cite difficulty sharing data securely.

22% have challenges measuring ROI.

22%
Despite growth optimism, significant threats still remain

In a digital, data-driven, customer-first business environment, no company can risk taking a relaxed approach to Canada’s top threats

- **40%** believe cyber security risk is the biggest threat to growth
- **22%** believe emerging/disruptive technology risk is the biggest threat to growth
- **8%** are concerned about operational risk being the top threat to growth

Dealing with cyber threats

- **50%** of CEOs agree becoming the victim of a cyber attack is a case of ‘when’ not ‘if’
- **86%** are well prepared or very well prepared to contain the impact of a cyber attack on strategic operations
CEOs finally understand the value of disruption and transformation programs

CEO confidence in delivering on transformation has been an evolution and is a result of accepting the need to plan on a global scale to compete. Business structure, culture, investment, and technology are the four things organizations need to enable disruption.

- **84%** of CEOs are personally prepared to lead their organization through a radical transformation.
- **96%** are actively disrupting their sector versus waiting to be disrupted by a competitor.
- **96%** view technological disruption as an opportunity and not a threat.
- **95%**
CEOs also have a strong understanding of calculating ROI on their transformation programs.

Using traditional ROI methods to measure innovation does not work. CEOs need to identify core business issues they want to address through disruption and then iterate those mechanisms in real-time.

- 88% have a strong or very strong understanding of calculating ROI on their company’s overall digital transformation programs.
- 86% expect to see significant return on digital transformation efforts in the next 3 years.
- 90% are confident their technology investments are strategic and focused on long-term objectives.
- 26% are struggling to run parallel processes to transform the digital and non-digital aspects of their business.
AI is high on CEO agendas but organizations need to be more strategic with its application.

To date, CEOs have employed AI in obvious work streams – it is important to take a step back and determine how they can apply emerging technologies to solve different problems facing their business beyond process improvement.

Top benefits of AI

- 50% use AI to improve data analytics capabilities
- 46% want to improve data governance
- 42% aim to improve the customer experience
- 26% use AI to increase agility

86% have a strong or very strong understanding of calculating ROI on their AI systems.

70% expect to see significant return on AI in the next 3 years.

© 2018 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.
CEOs should not underestimate the potential of predictive analytics

No organization is comfortable relying entirely on predictive analytics for decision making. Instead, CEOs should view it as an enhancement to the existing decision making process – after all, predictive analytics starts by proving historical trends.

- 76% feel they have overlooked the insights of data analysis because they were contrary to their own experience/intuition
- 36% of CEOs felt data scientists were highly important to their future growth
- 38% feel their current data scientists are highly effective
- 67%
When it comes to customer, trust and personalization are key

Canadian consumers are willing to hand over personal information if they know the benefit. Therefore, CEOs should clearly define their value offering and ask themselves ‘have we earned the right to provide personalization’ before embarking on their journey.

- **84%** believe protecting customers’ data is one of the most important responsibilities as CEO
- **90%** feel investments in personalizing the customer experience have delivered growth benefits
- **80%** think they are meeting or exceeding customer expectations for a ‘personalized’ experience
Despite advances in customer relationships, Generation Y remains a challenge

Generation Y (Millennials) are not an enigma. Just like all generations before them, they have different expectations and interpretation of value. CEOs need to simplify their products and services for the first generation of digital natives – and not lose sight of 2027, the 20 year anniversary of the iPhone and introduction of mobile natives.

Top challenges in meeting the needs of Generation Y

- 52% are struggling to adapt their sales and distribution models
- 44% are searching for senior leaders that can better relate to Generation Y
- 42% do not understand how Generation Y needs differ from older customers
Canada is experiencing skill gaps in critical areas but is passive with recruitment

With geopolitical and digital uncertainty increasing throughout the world, companies are struggling to find talent and dedicate resources in key areas of growth but their recruitment efforts are far from aggressive.

- 64% of CEOs identified emerging technology specialists as the most important skill for future growth.
- 62% of CEOs identified scenario- and risk-modelling specialists as the most important skill for future growth.
- 74% are waiting to achieve growth targets before hiring new skills.
- 56% feel their existing emerging technology workforce is highly effective.
- 36% feel their existing scenario- and risk-modelling workforce is highly effective.
Overall, CEOs are confident

And rightfully so. Canada’s economy is performing strongly, our companies are relatively well capitalized and most organizations are making positive progress in their efforts to transform.

But are they being overconfident given today’s rapidly changing and disruptive global business environment?

Only time will tell.
Thought Leadership
Thought Leadership

M&A Predictor 2018

Deal dynamics
M&A Activity in the Aerospace and Defence Sector
June 2018
kpmg.ca/AeroD

Growing pains
2018 Global CEO Outlook

2018 tariff update and impact analysis
April 5, 2018

Growing pains
2018 Canadian CEO Outlook

Beyond the hype
Separating ambition from reality in 4.0
Aerospace & Defence Insights

A compendium of articles originally published in Canadian Defence Review Magazine highlighting the challenges and opportunities facing the A&D sector.

06
Transforming the business of defence

10
Breaking the innovation barrier

14
Adapting the SCOR

16
Next steps for Canada's modern defence policy

20
Making the move to Industry 4.0

22
What future for intelligent automation in aerospace and defence?

08
Canada's M&A Advantage

12
Shoring up cyber defences

18
Re-focusing on the business of defence

24
Making the most from your i4.0 investments
Resource materials
Q&A?

Thank you.
Grant McDonald,
Aerospace & Defence Industry, Sector Leader
613-212-3613
gmcdonald@kpmg.ca

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. NDPPS 529117

The KPMG name and logo are registered trademarks or trademarks of KPMG International.