



the gandalf group

C-Suite Survey On The Role of Private Equity

June 14, 2007

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- ❑ Telephone interviews with 150 C-Suite executives from the top 1000 corporations in Canada
- ❑ Conducted between May 17 and June 5, 2007
- ❑ Margin of error of +/-7.7%



- ❑ From last fall to now, those expecting a decline in the Canadian economy has diminished by 6 percentage points and those expecting strong growth has risen by 7 percentage points.
 - Growth/decline numbers are back to where they were one year ago, except that a year ago the number expecting strong growth was much higher than today

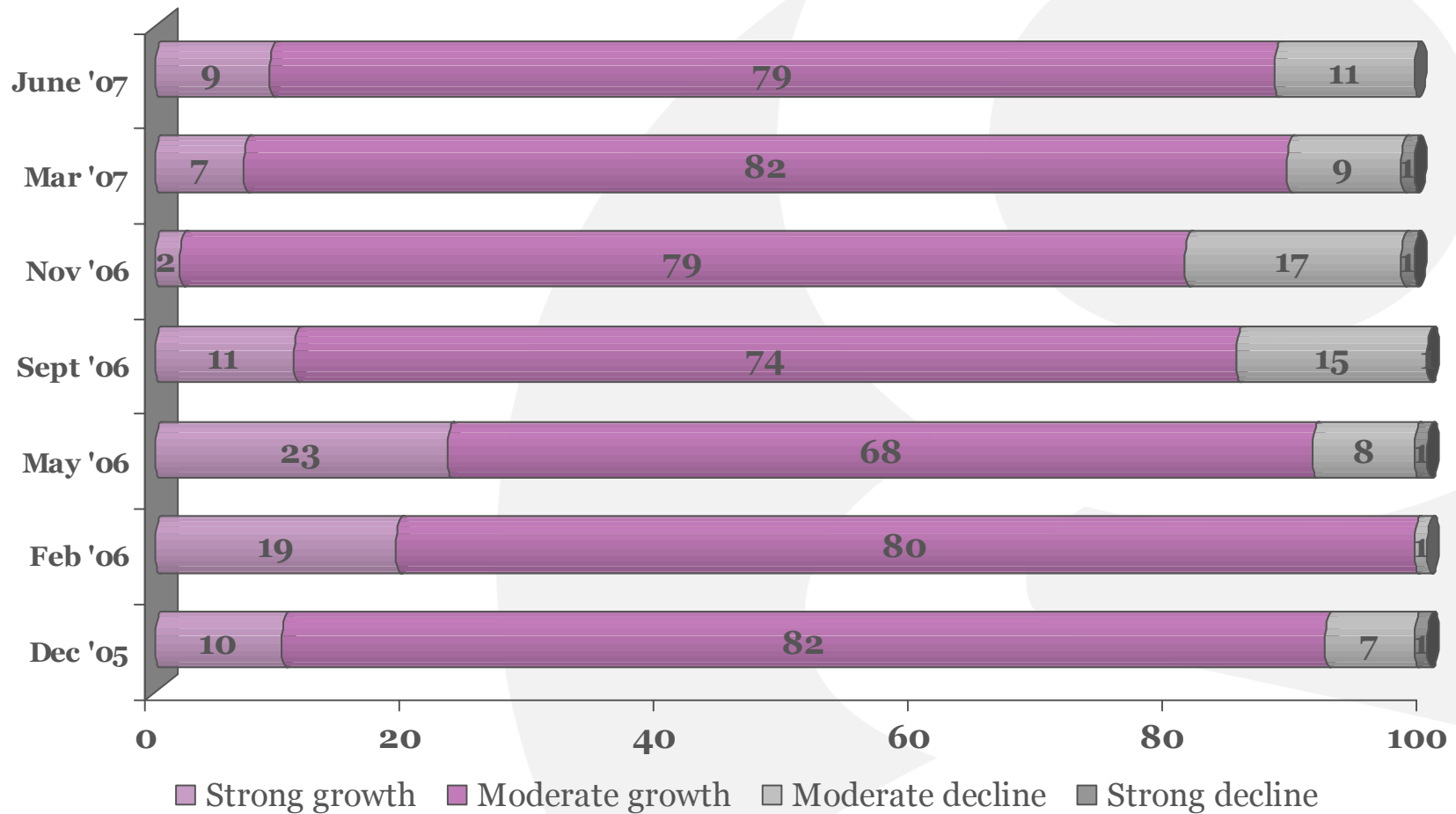
- ❑ Interestingly, this optimism about the Canadian economy holds in the face of substantial pessimism about the US economy. Executive are divided about whether the US economy will grow or decline over the next year.
 - Western and resource executives are most likely to think the US economy will decline
 - For a year now there have been effectively no Canadian executives who expect the US economy to grow strongly

- ❑ Despite their pessimism about the US economy, Canadian resource executives are most bullish about their company's prospects over the next year
 - Manufacturing executives are least likely to see strong growth
 - Larger companies are also more optimistic about their prospects than smaller companies



Expectations: Canadian Economy

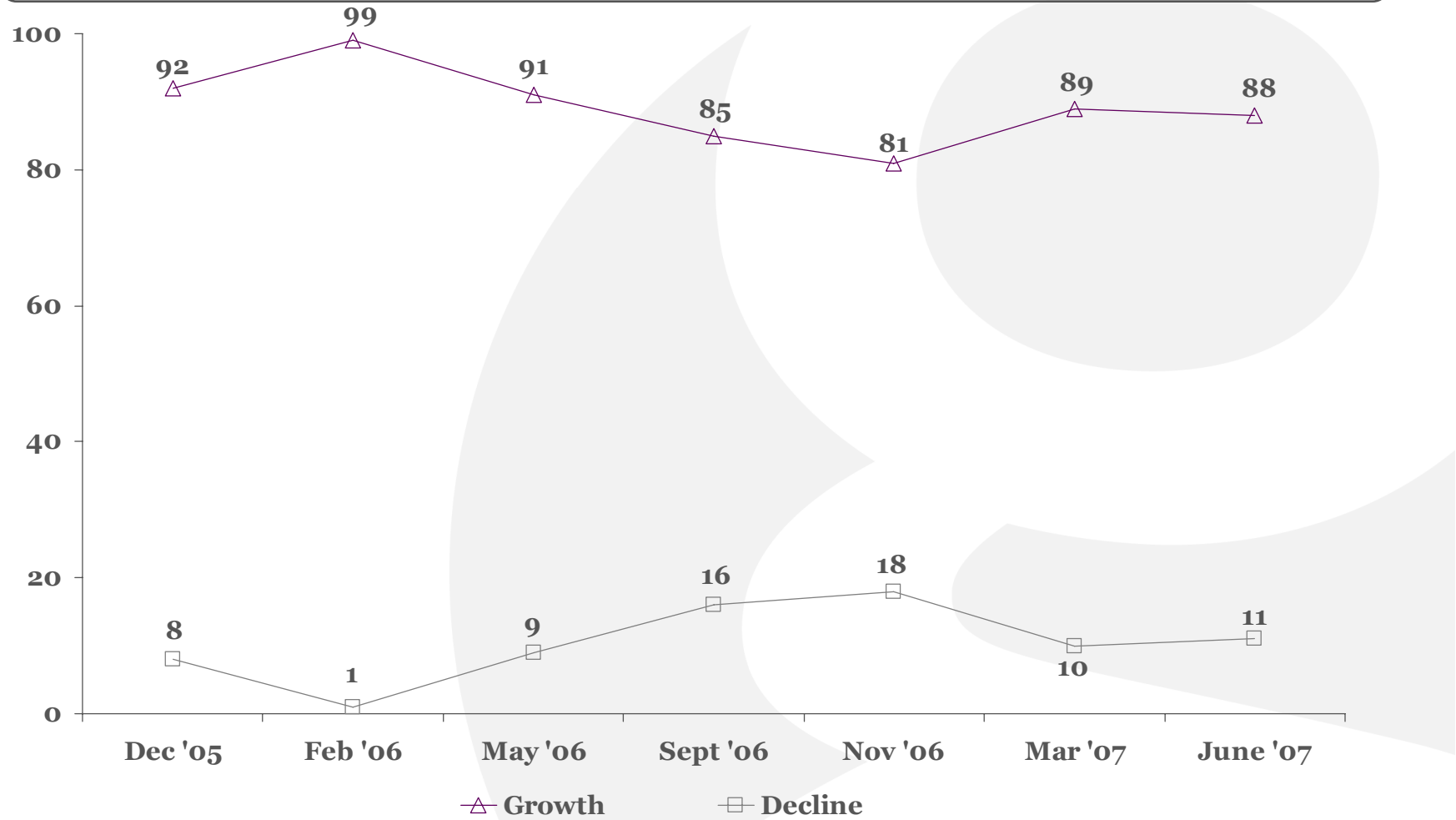
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: Canadian Economy

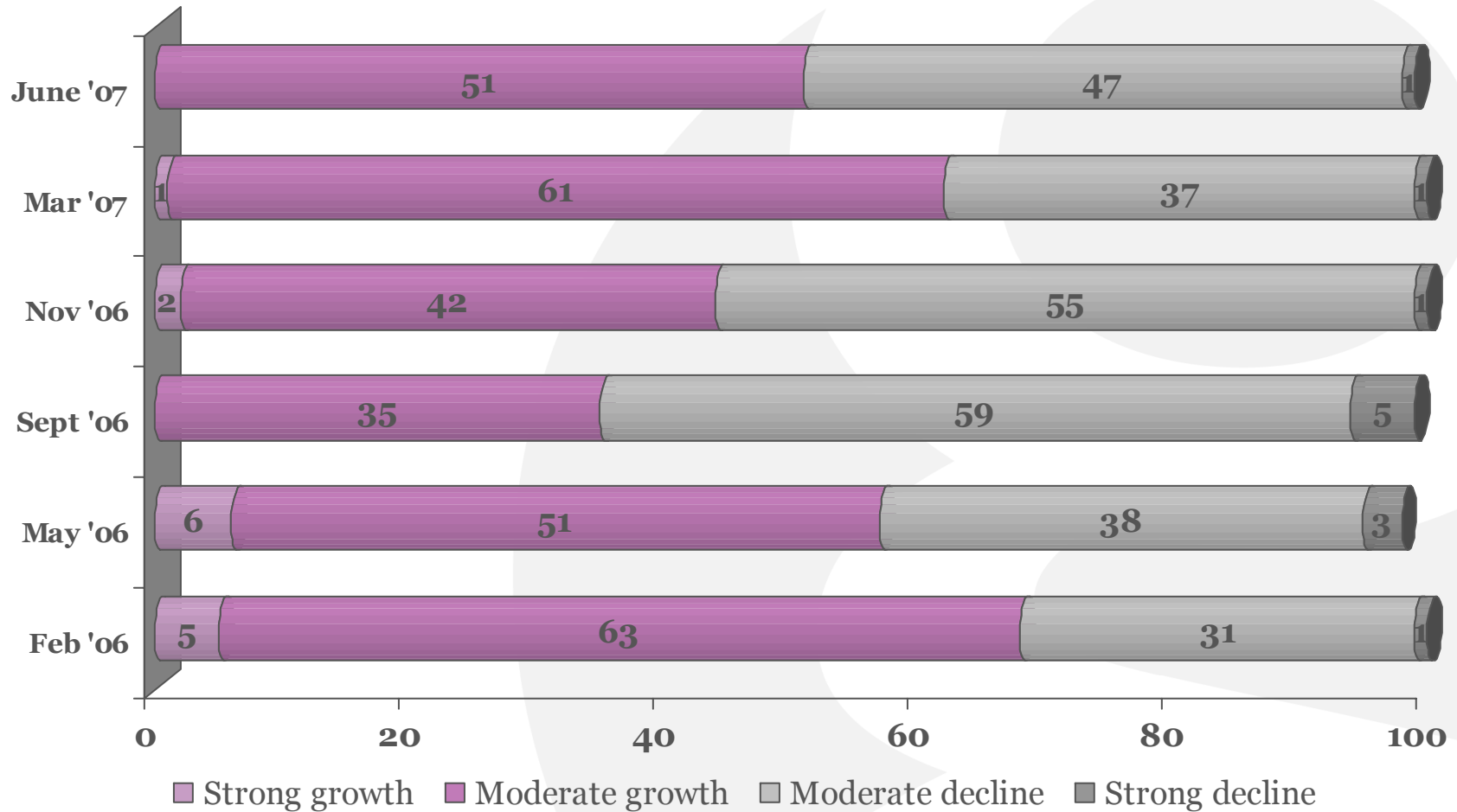
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Expectations: U.S. Economy

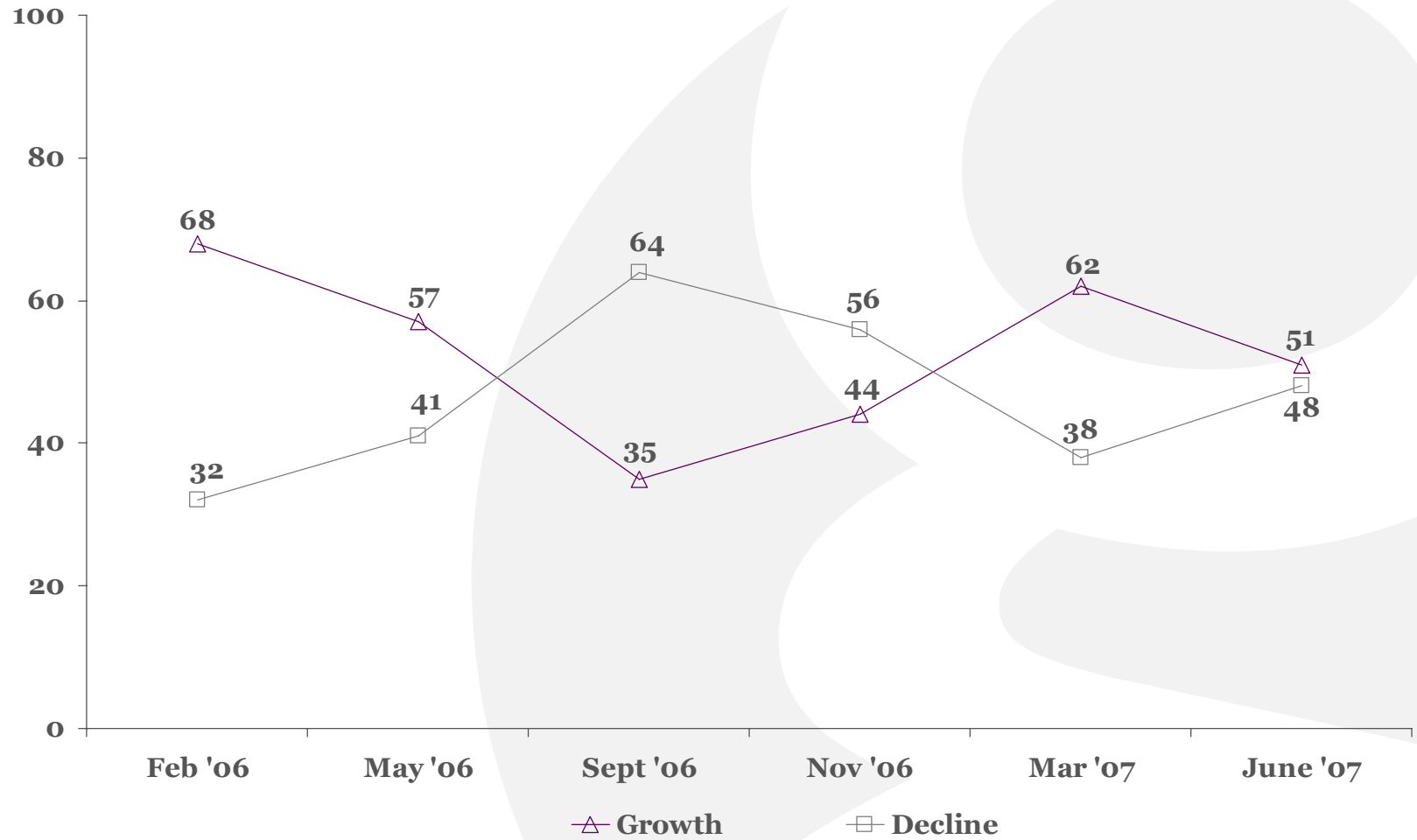
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: U.S. Economy

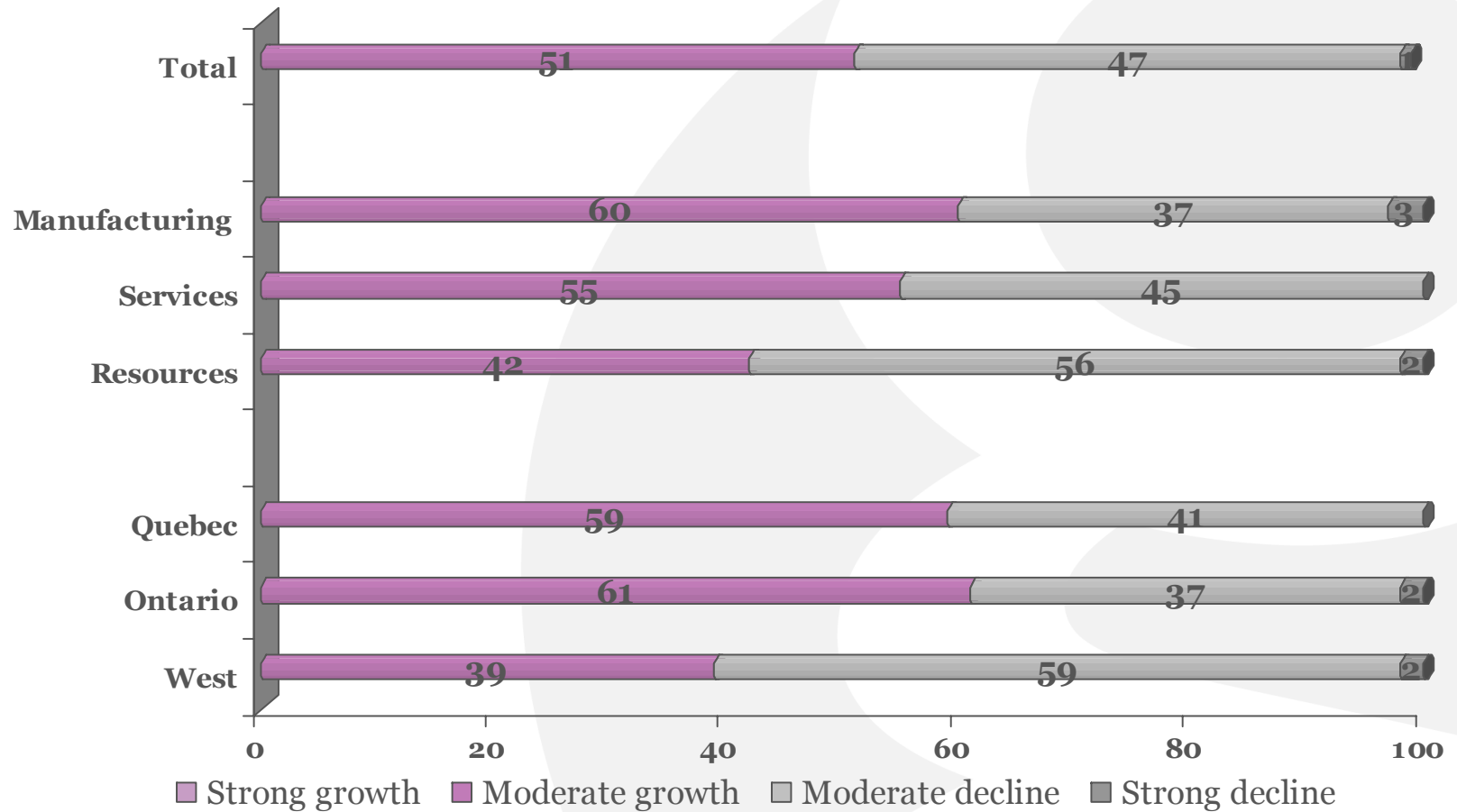
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Expectations: U.S. Economy

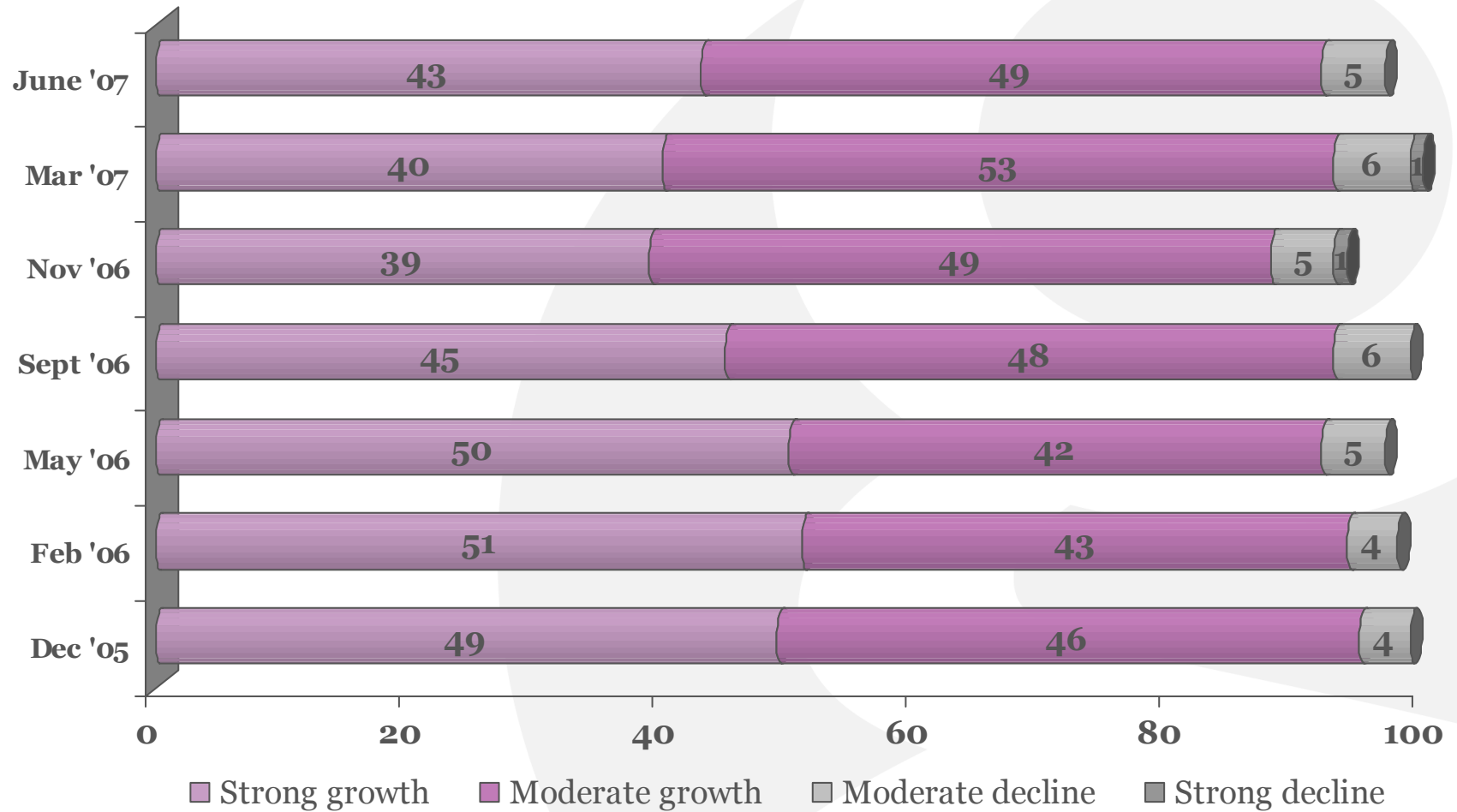
What are your expectations for the U.S. over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: Company

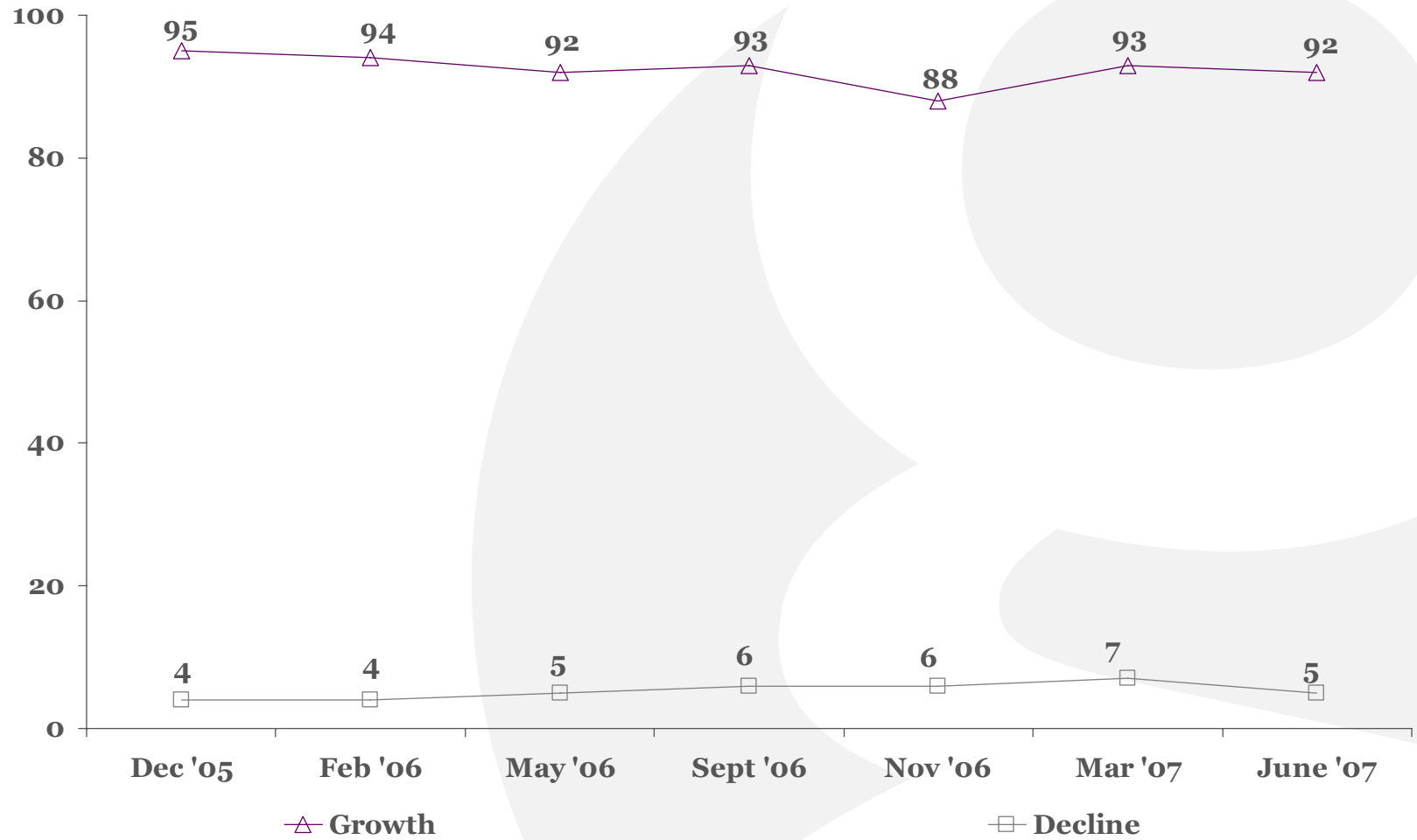
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Expectations: Company

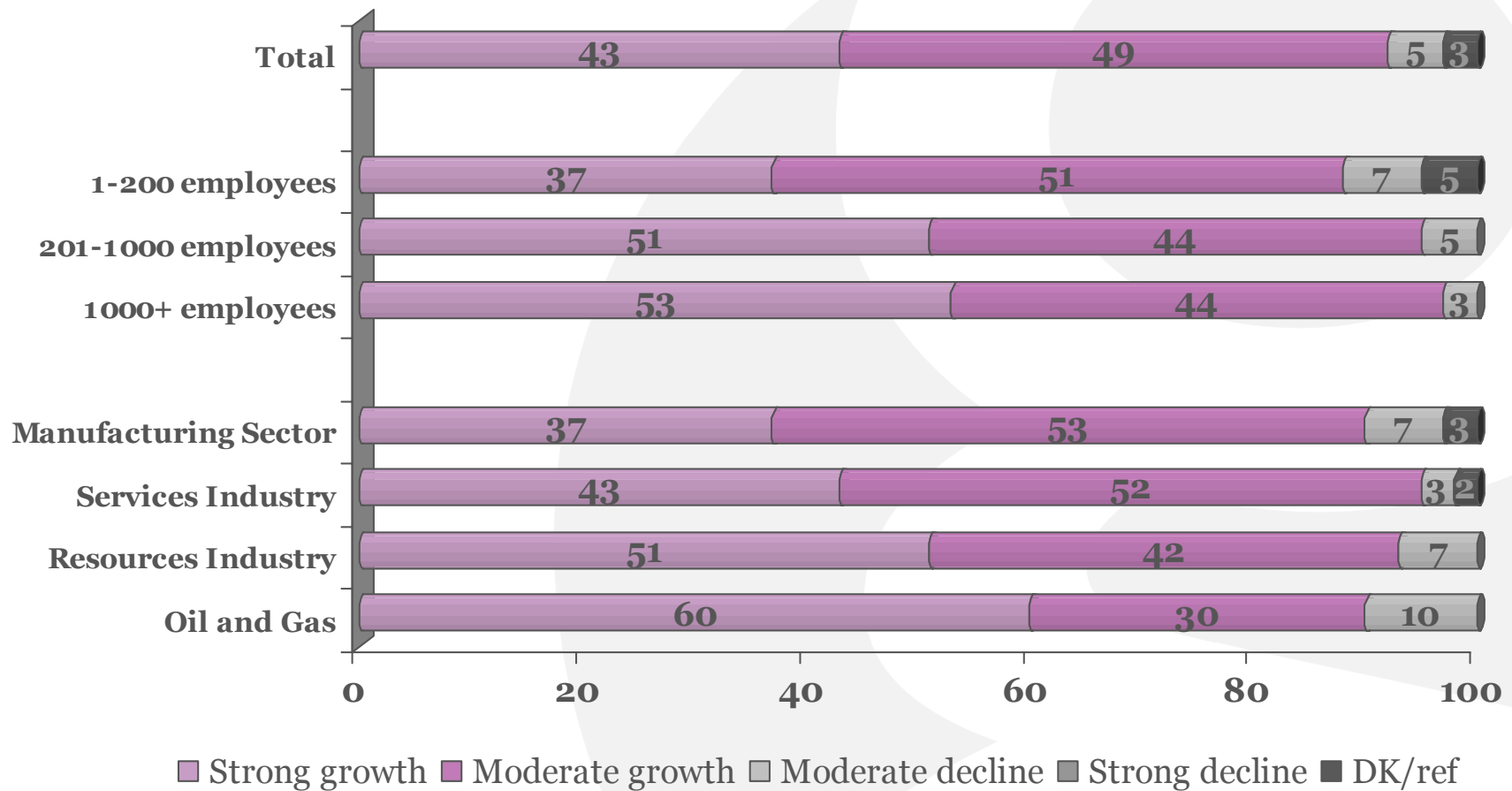
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Expectations: Company

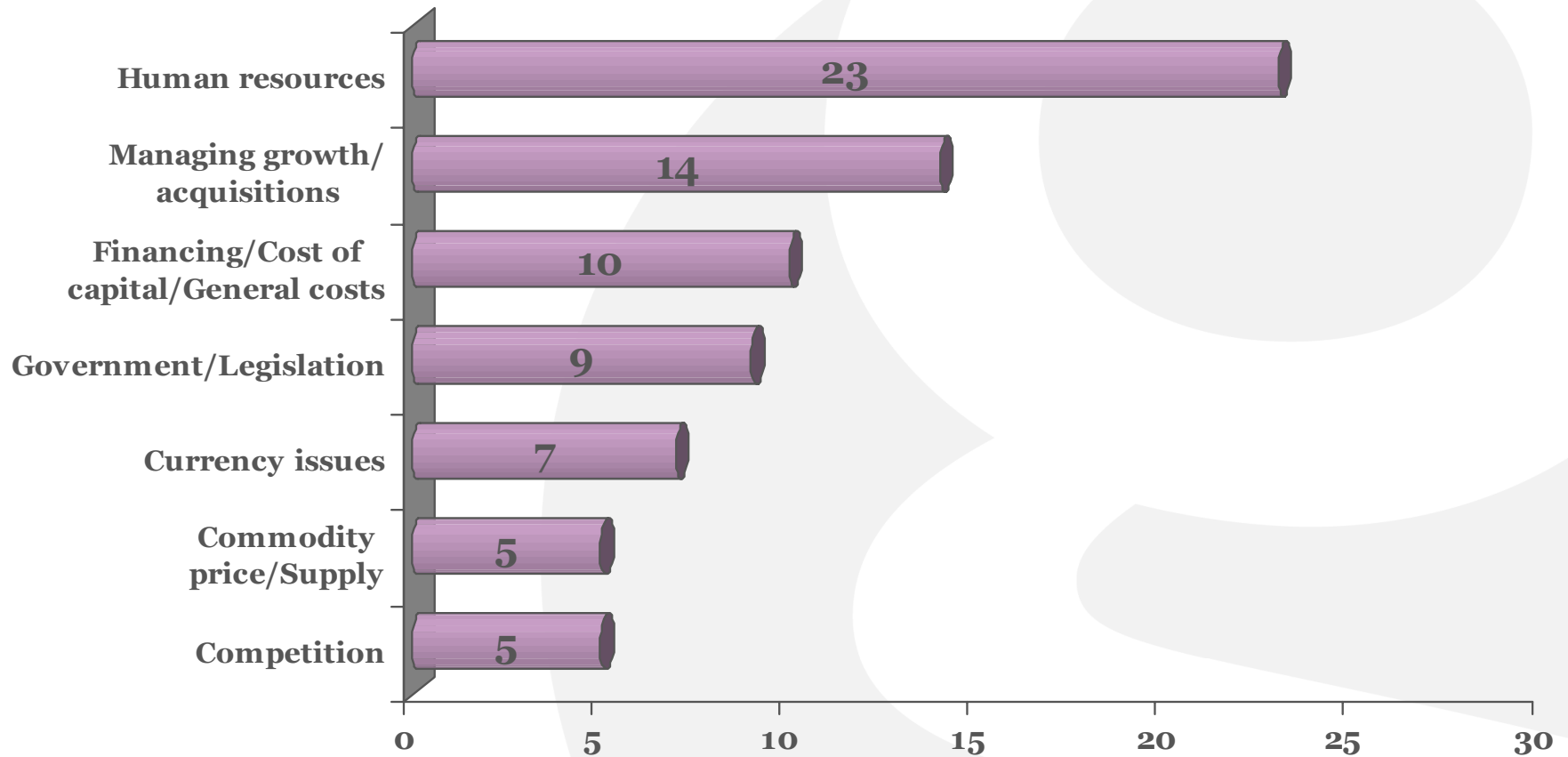
What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Biggest Issue Facing Company

What is the biggest challenge facing your company right now?





- ❑ Minister Flaherty's reputation is in free fall among C Suite executives, driven by the income trust decision, the interest deductibility policy and budgets that have not been seen to address the major economic challenges facing the country
 - We know from previous research that there many executives who agreed with the income trust decision in substance, but were very critical of the way the government handled the issue

- ❑ One year ago, almost three quarters of business leaders had a favourable impression of the Finance Minister. Today that figure stands at 32%, while 40% now have a negative impression of him – up from 3% one year ago.

- ❑ One year ago, 80% of executives had confidence in the Minister's ability to manage the economy and 11% did not. Now, only 52% have confidence in him and 46% do not.
 - His base of support is now the manufacturing sector, particularly in Quebec



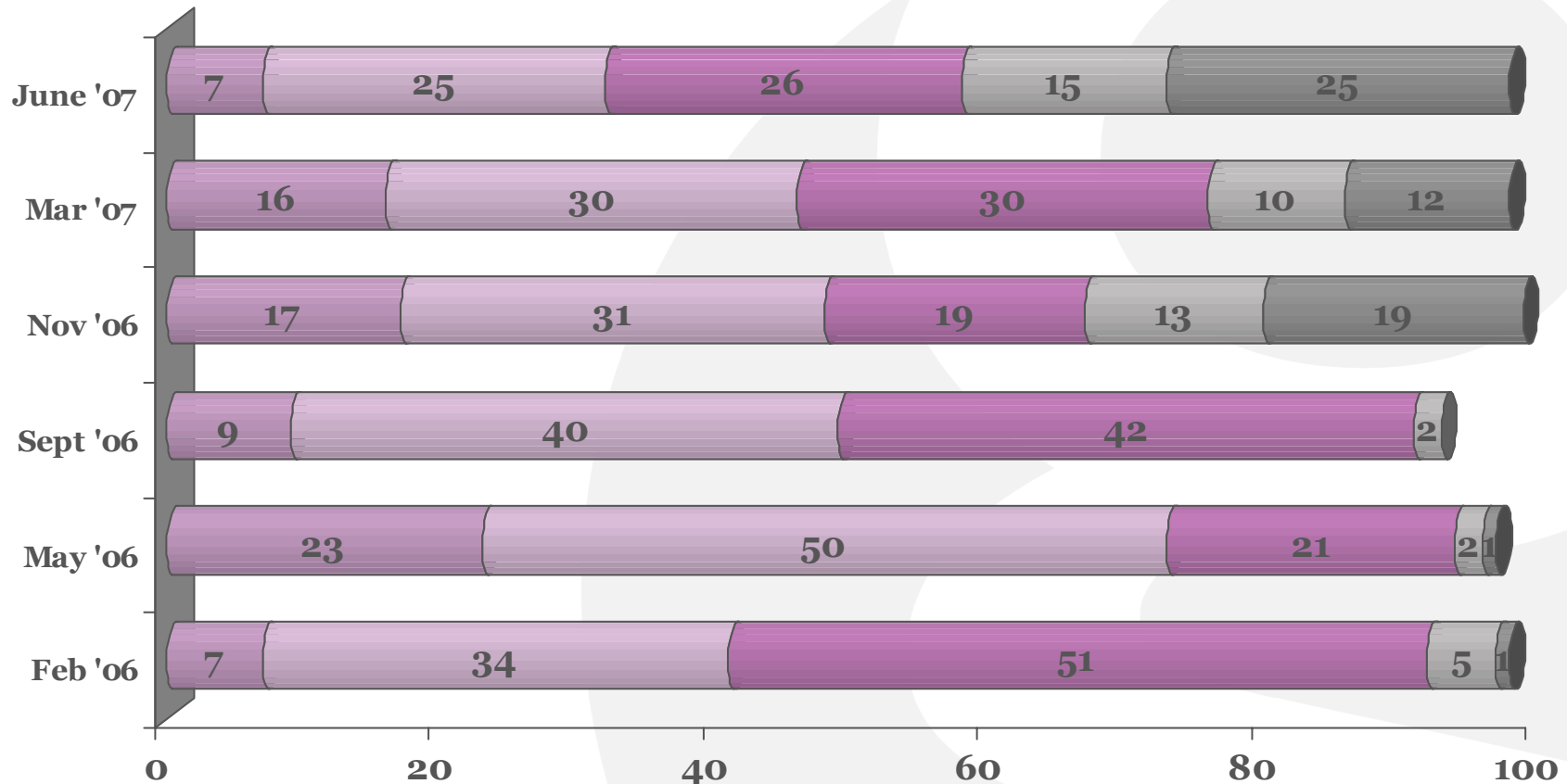
Rating Minister Flaherty

- ❑ The political news out of the C Suite is not all negative for the government
 - Unlike the Canadian public, executives do not favour a hard 2009 deadline for removing Canadian troops from Afghanistan
 - Most executives expect the Conservatives to govern for at least the next four years, meaning they expect them to win the next election



Impression of Minister Flaherty

How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?

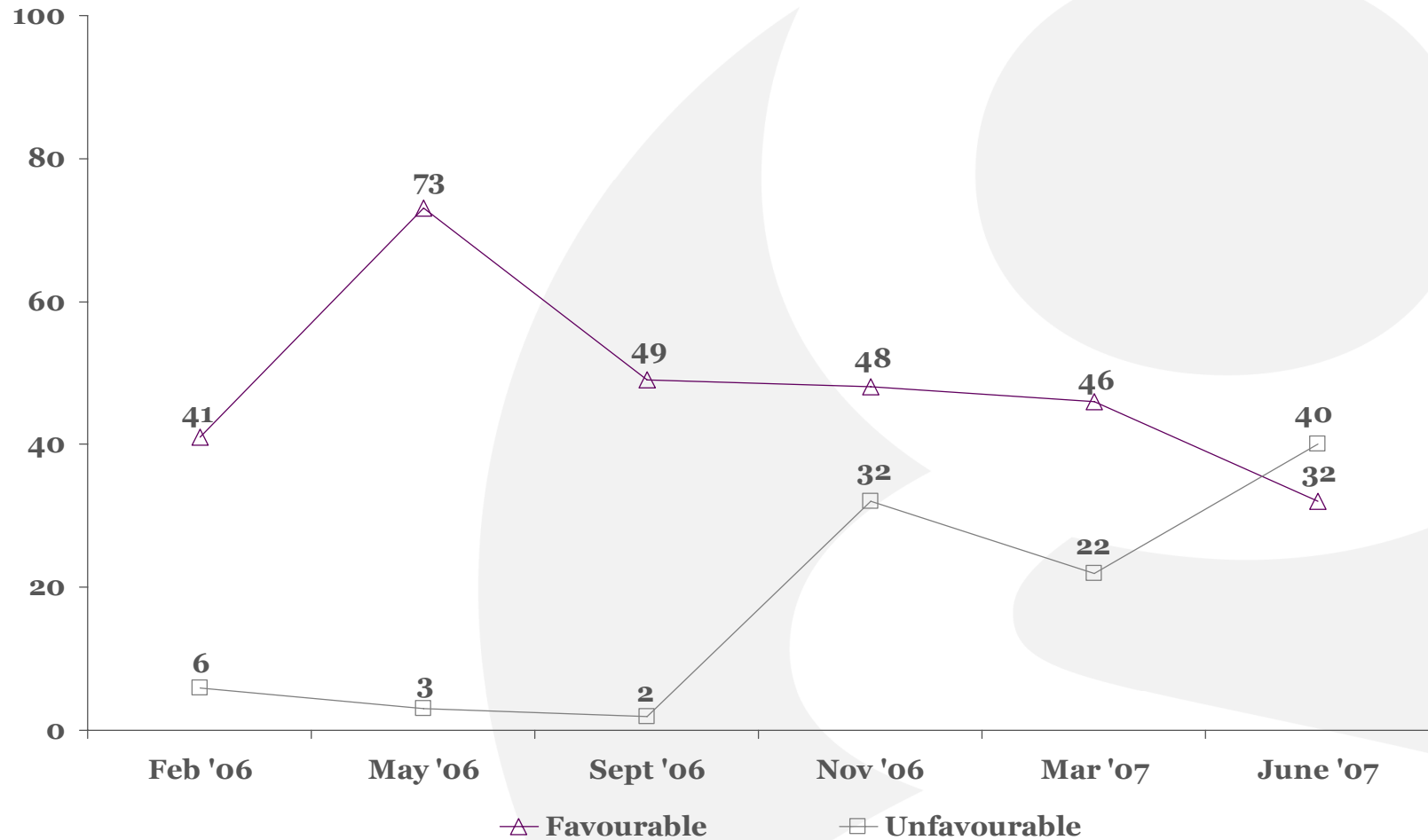


Very favourable Somewhat favourable Neither Somewhat unfavourable Very unfavourable



Impression of Minister Flaherty

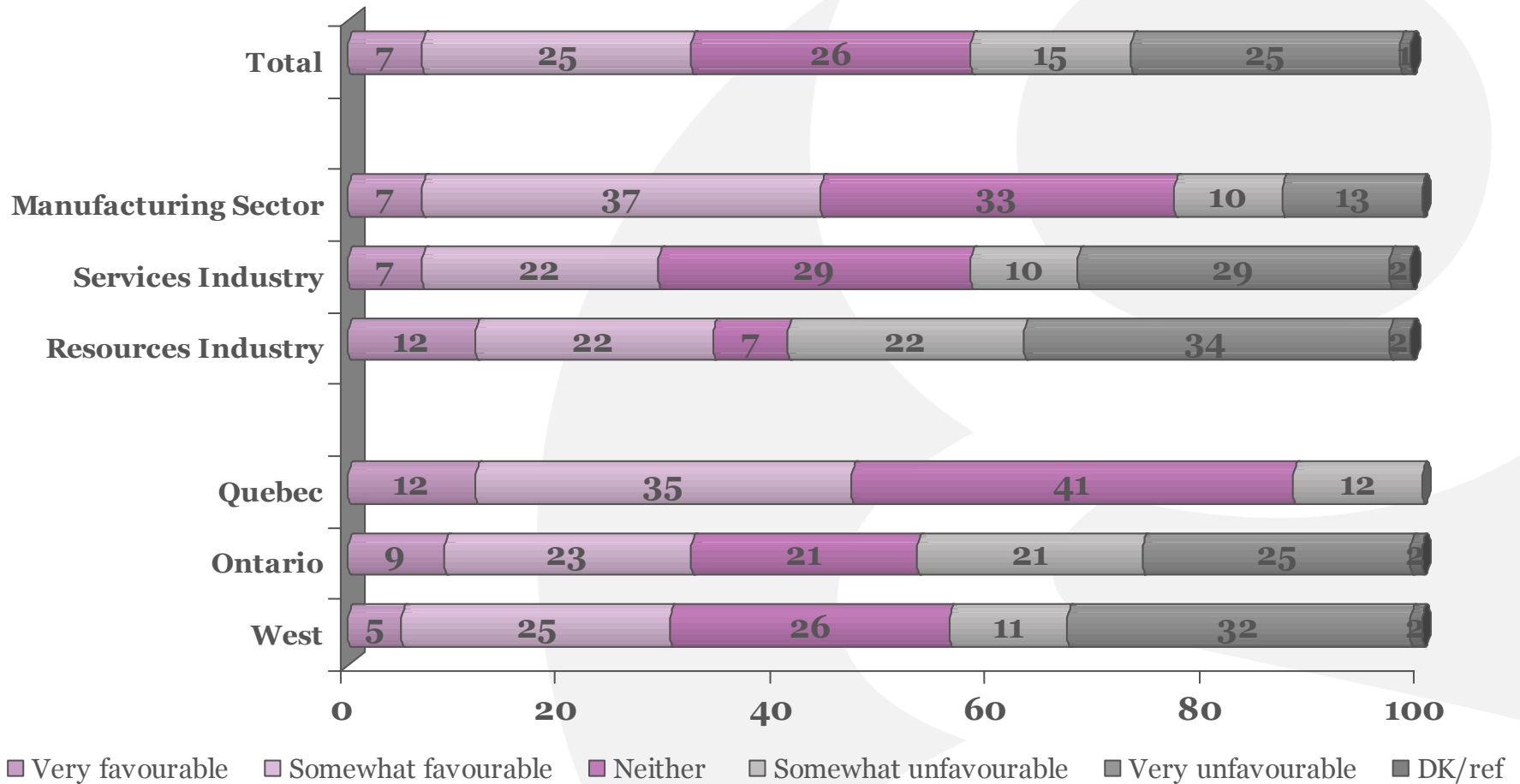
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Impression of Minister Flaherty

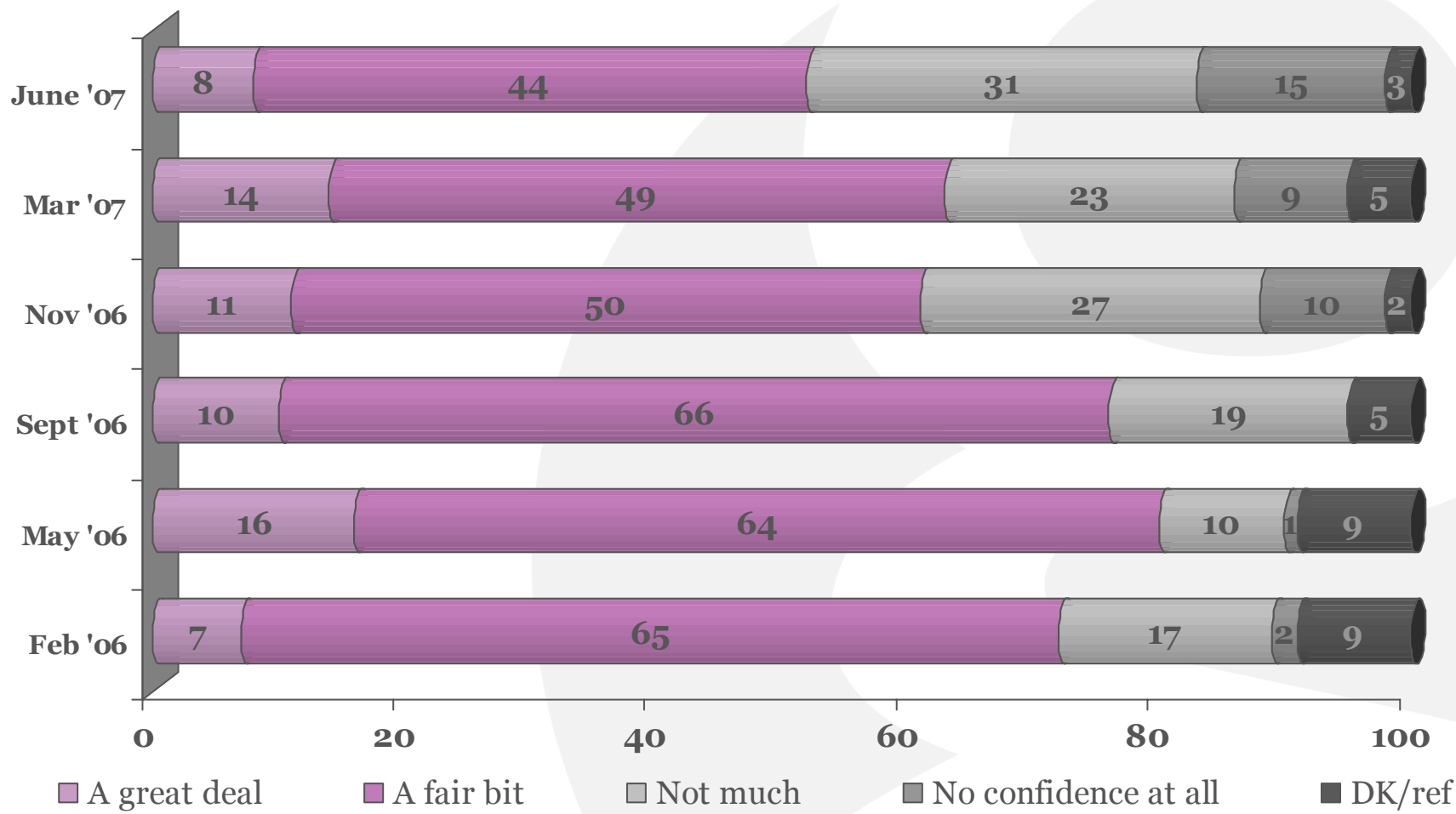
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Confidence in Minister Flaherty

How much confidence do you have in Finance Minister Flaherty's management of the economy?





Confidence in Minister Flaherty

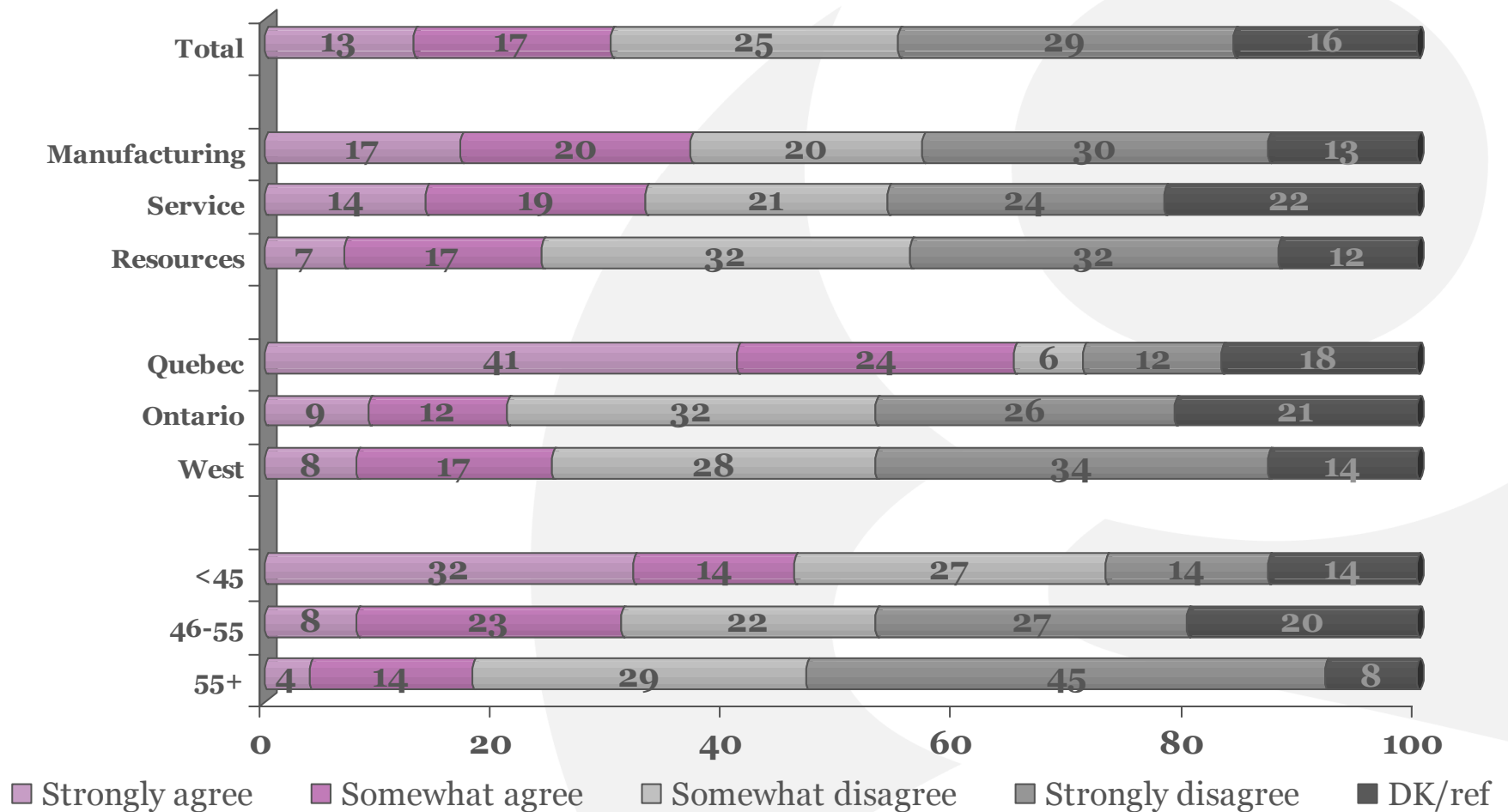
How much confidence do you have in Finance Minister Flaherty's management of the economy?





Agreement: Canada to Withdraw from Southern Afghanistan

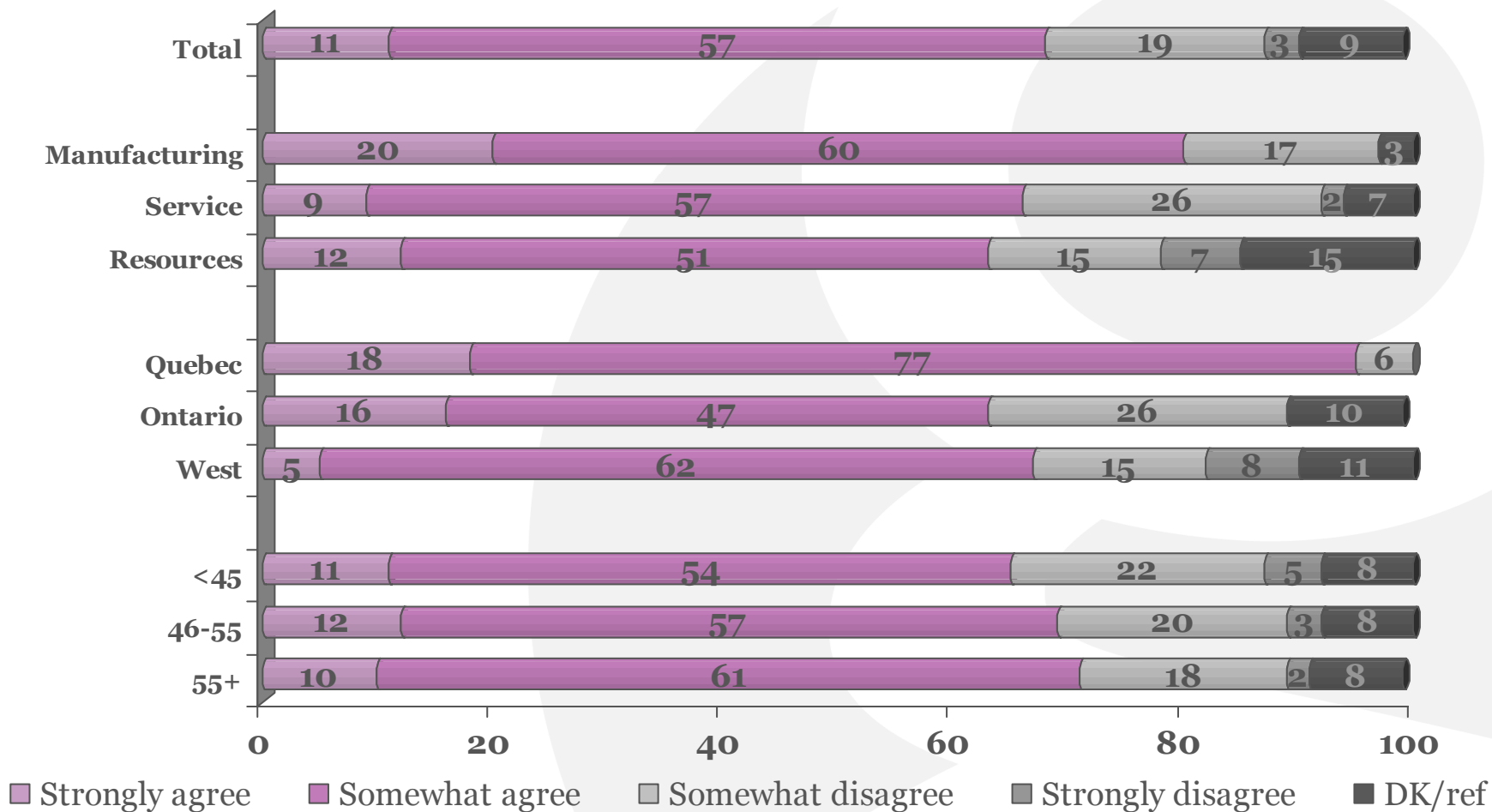
Agree/Disagree: I would like Canada to withdraw from military involvement in southern Afghanistan by no later than 2009





Agreement: Conservative Will Govern for Next Four Years At Least

Agree/Disagree: Whether there is an election or not, I expect the Conservatives to govern for the next four years or so at least





The Role of Private Equity

- ❑ Two thirds of executives see the increasing role being played by private equity as a positive development
 - Manufacturing executives are most positive
 - Resource executives are twice as likely as those in the manufacturing sector to see the trend as negative
 - Executives under 45 are much more positive than executives over 55

- ❑ Most executives make no distinction between Canadian private equity and foreign private equity
 - Those who do are most likely to be Quebecers, those who worry about the level of foreign ownership in the country, and those who are negative about private equity to begin with (and presumably see foreign private equity accentuating the things that trouble them about the impact of private equity)



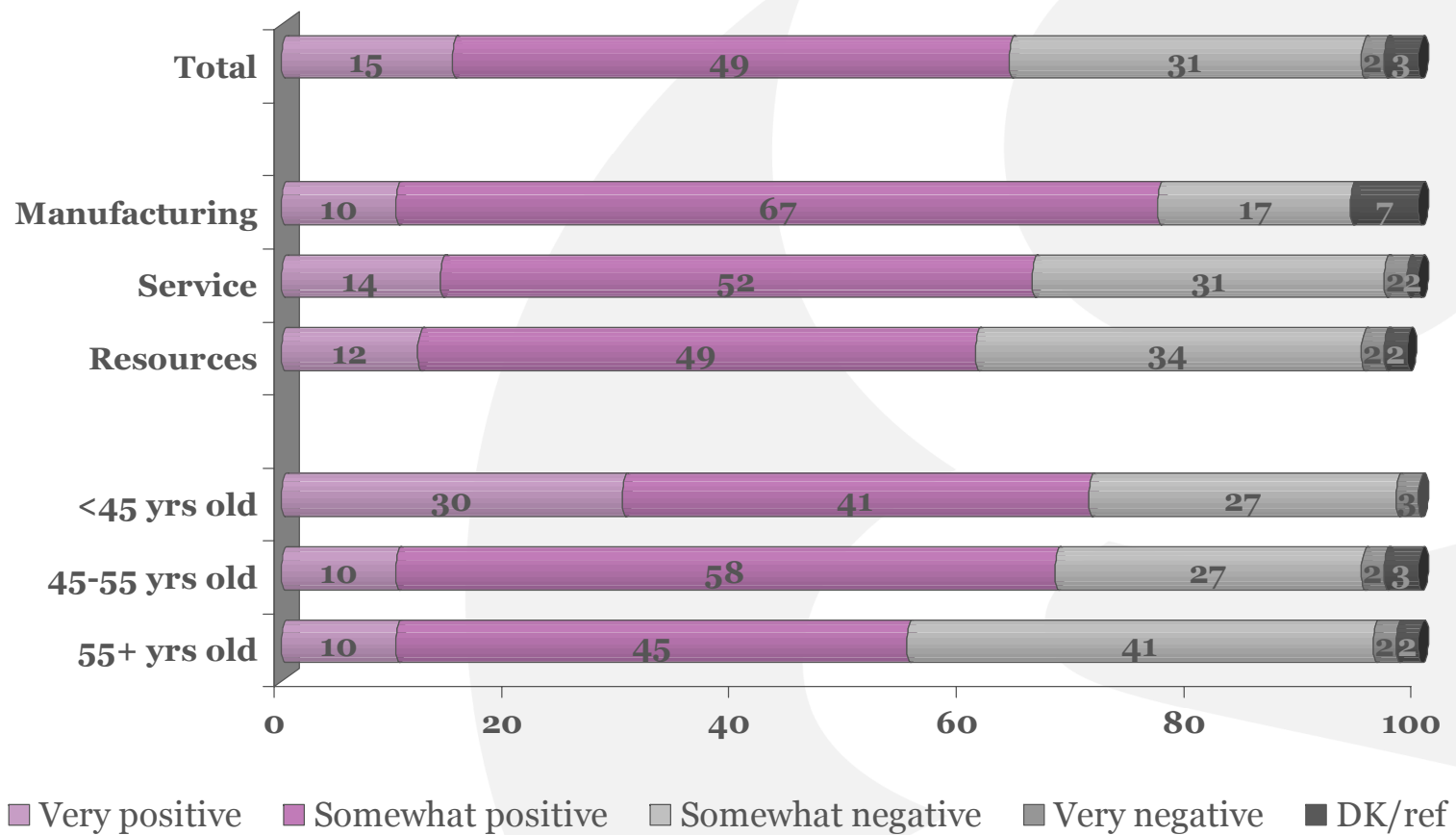
The Role of Private Equity

- ❑ Executives do not distinguish between US foreign equity and non US foreign equity
- ❑ The plurality of executives are equally favourable to private equity companies and to institutional investors
 - Of those with a preference, manufacturing executives tend to favour private companies over institutional investors and resource executives favour institutional investors



Increasing Role of Private Equity Positive or Negative?

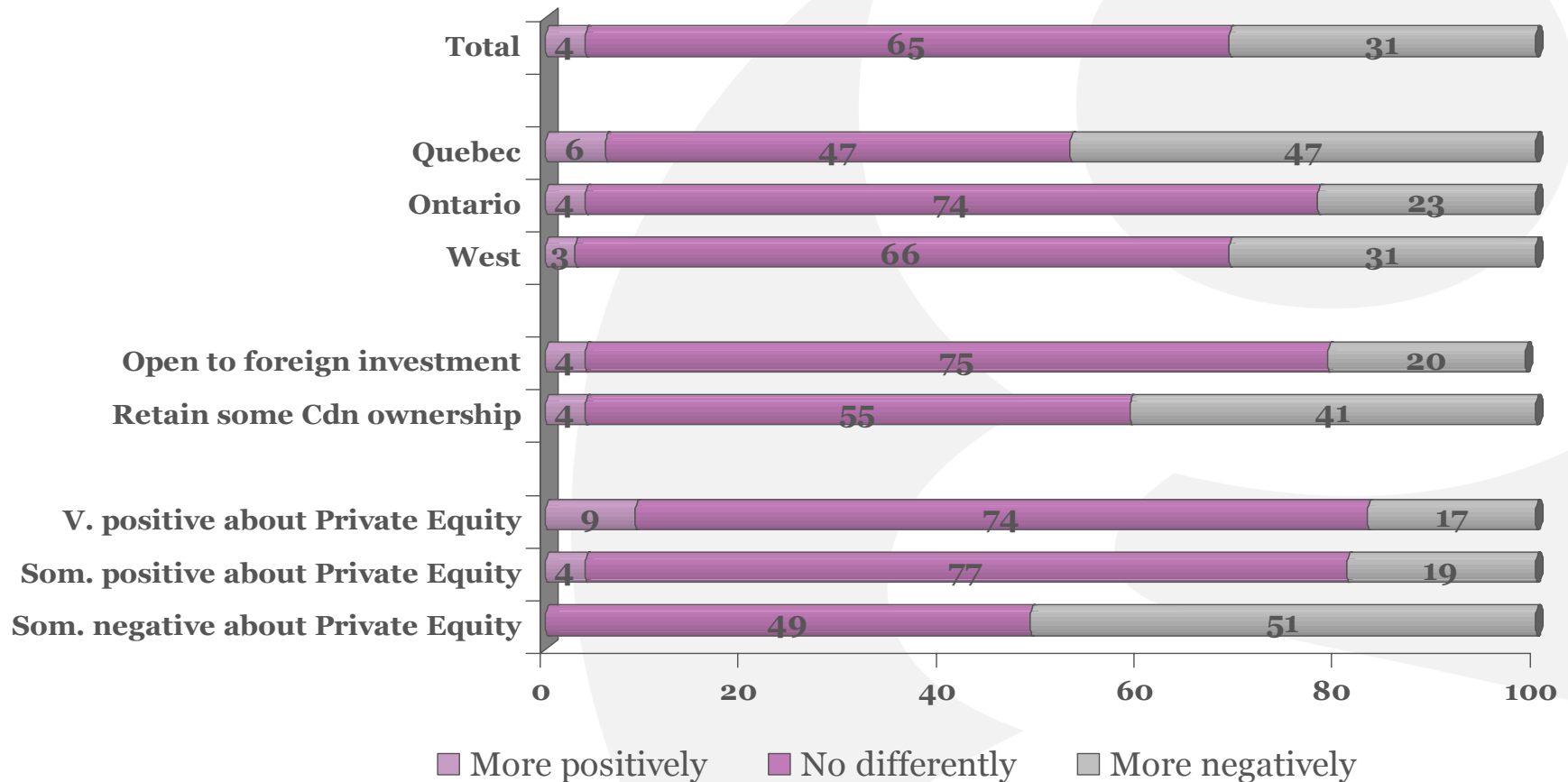
Investment figures show that the role of private equity is increasing in Canada. On balance, do you consider that a very positive, somewhat positive, somewhat negative or very negative trend?





Role of Non Canadian Private Equity Investors in Canada

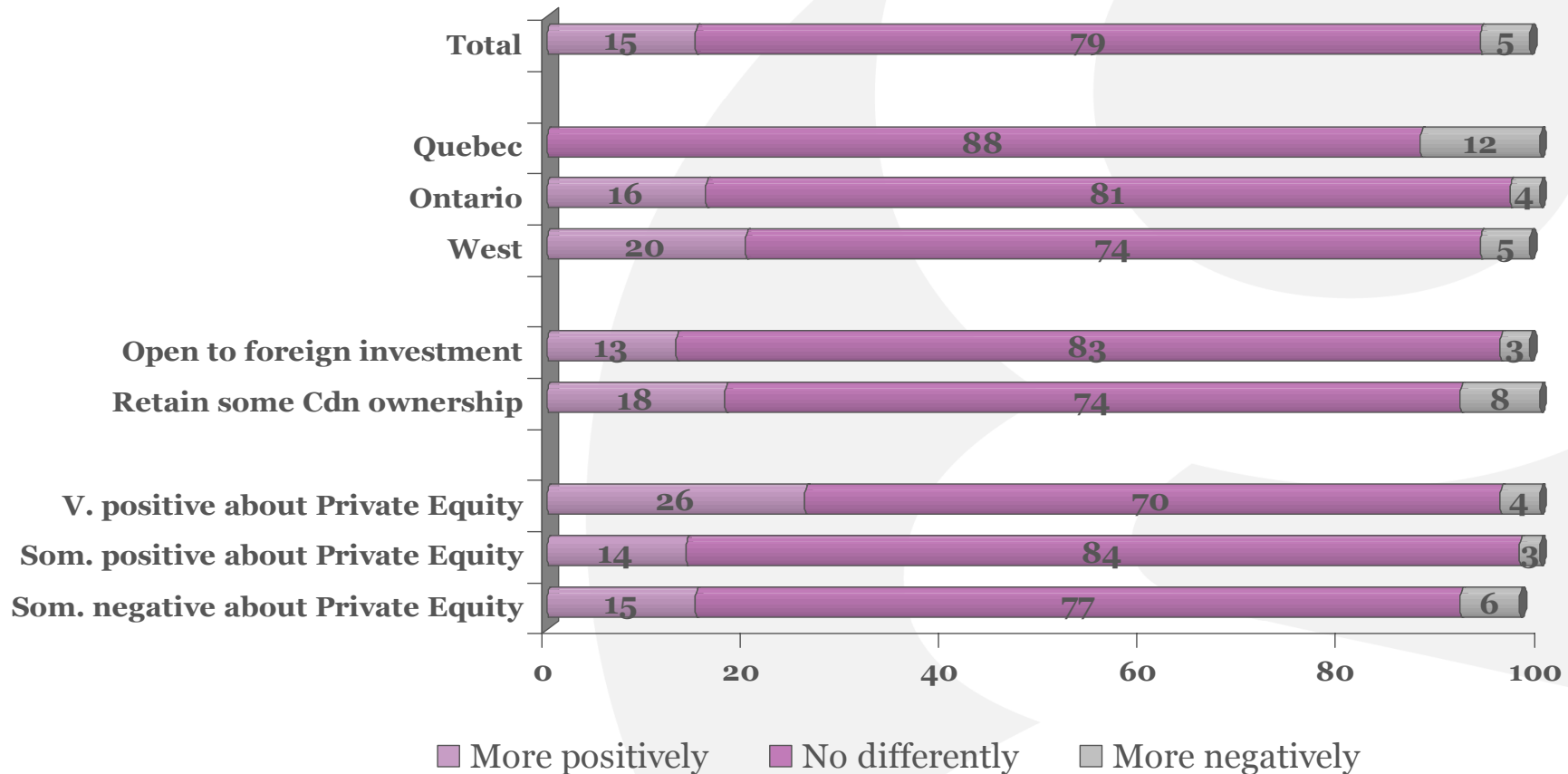
Do you view the role of non Canadian private equity investors in Canada more positively than Canadian private equity investors, or more negatively, or no differently than Canadian private equity investors?





Impressions of US vs. Other Foreign Private Equity

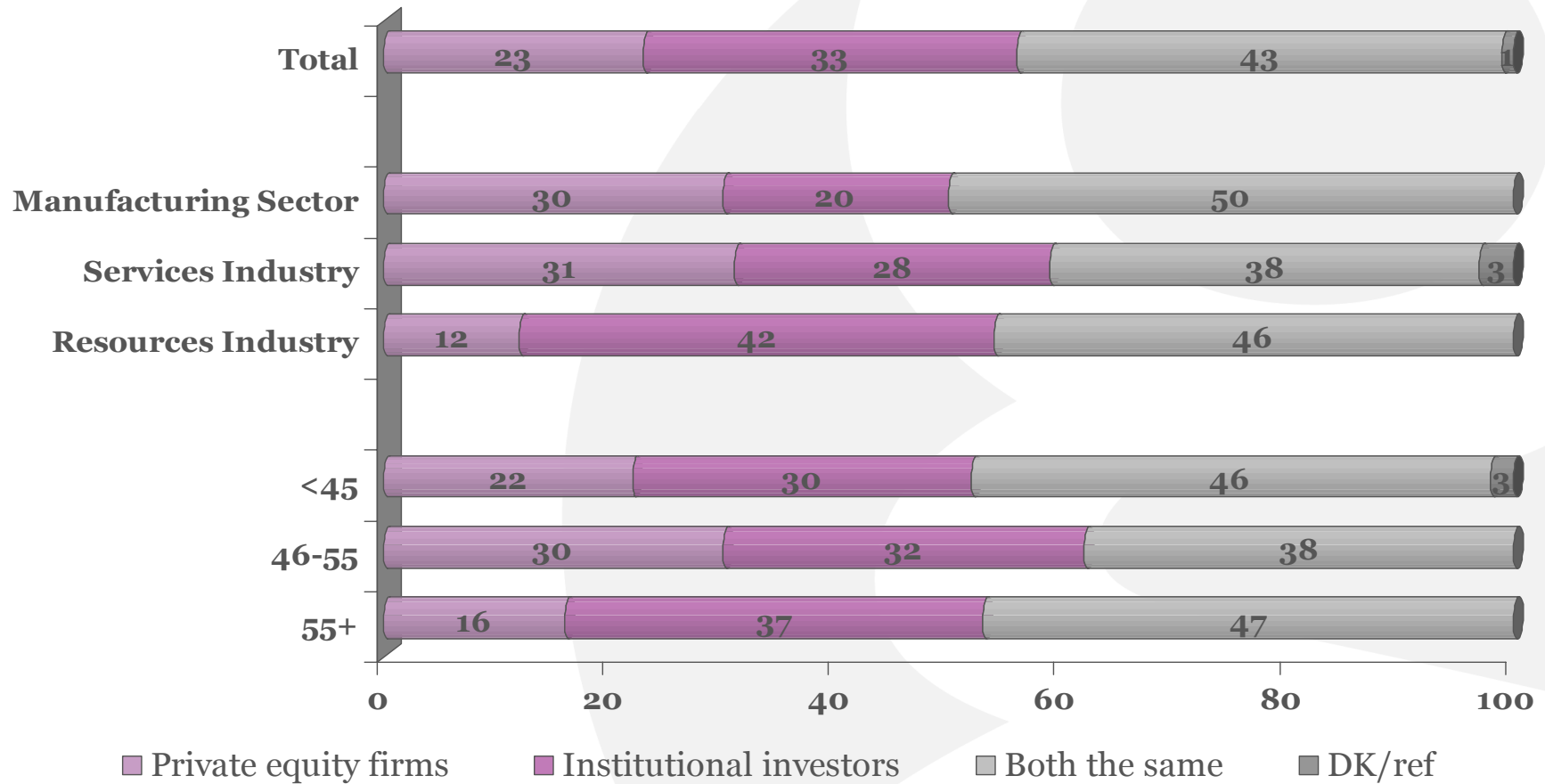
Do you view the role of U.S. private equity investors in Canada more positively than foreign, non-U.S. private equity investors, or more negatively, or no differently than non-U.S. private equity investors?





Role of Private Equity Firms vs. Institutional Investors

Do you have a more favourable impression of the role played by private equity firms than you do of the role being played by institutional investors, or a more favourable impression of institutional investors?



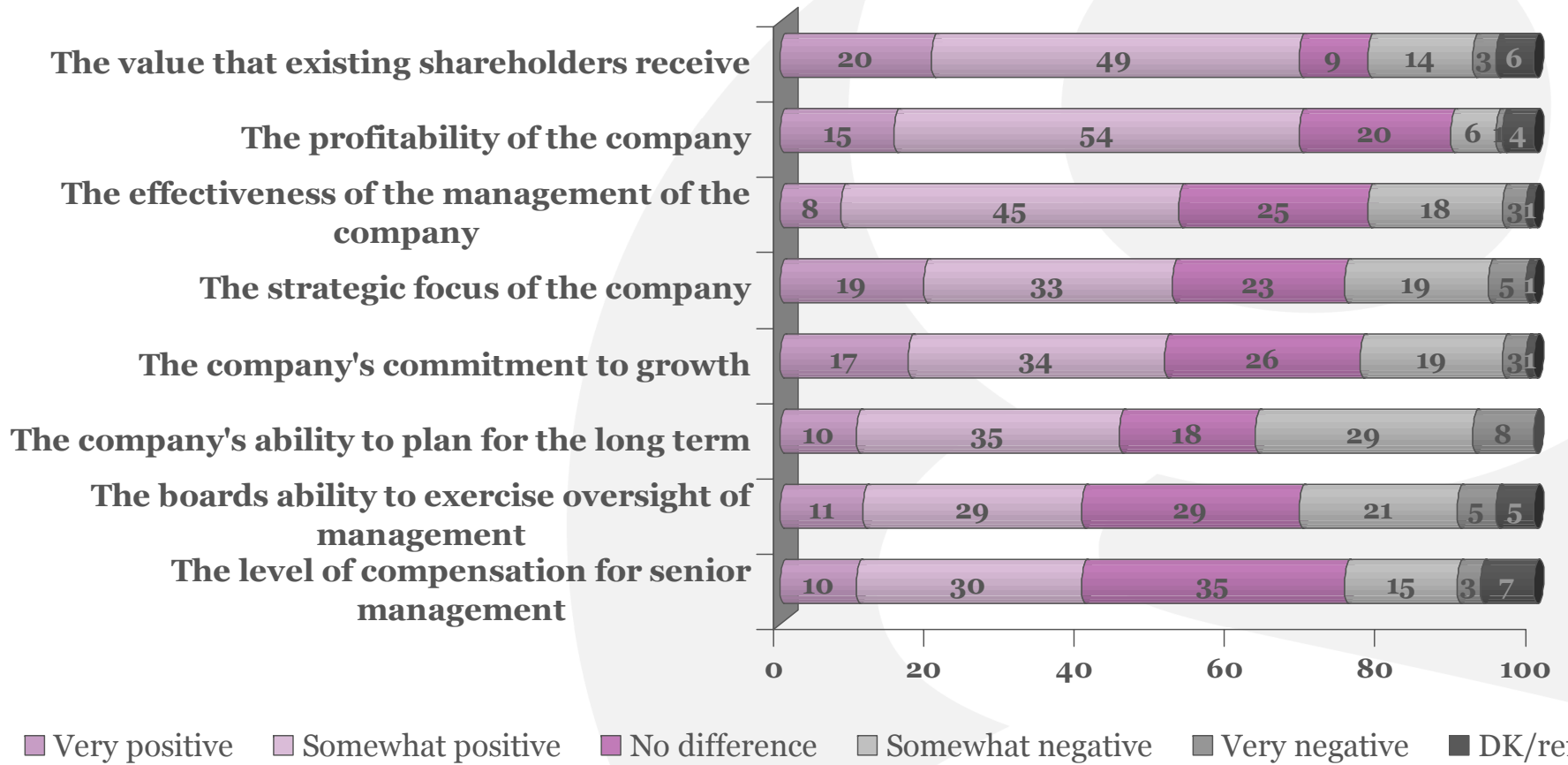


- ❑ The strongest areas of consensus (about 7 out of 10 executives) about the positive impact of private equity is the return to existing shareholders and the profitability of the company
- ❑ Bare majorities believe that a public company taken private will have more effective management, have a sharper strategic focus and be more committed to growth
- ❑ The strongest areas of consensus about the negative impacts of private equity relate to keeping the company Canadian owned and about the debt burden of the company
- ❑ A substantial percentage of executives believe that private equity also has a negative impact on the economic contribution the company will make to Canada and to the community it operates in, on the labour relations of the company and on the governance of the company



Broadly Held Companies Taken Private: Positive Effect

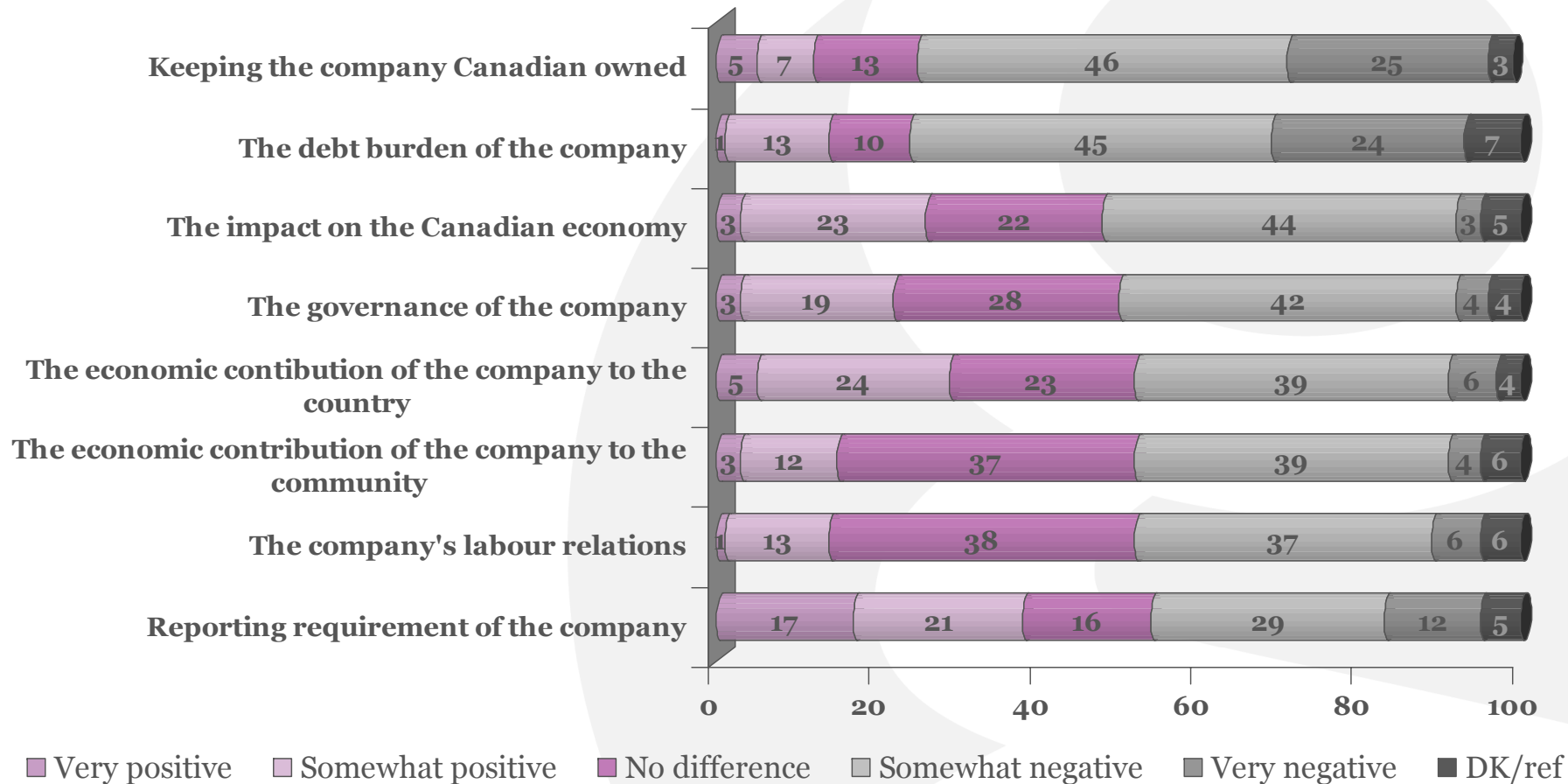
When broadly held companies are taken private by private equity firms, does that have a positive/negative effect on _____ ?





Broadly Held Companies Taken Private: Negative Effect

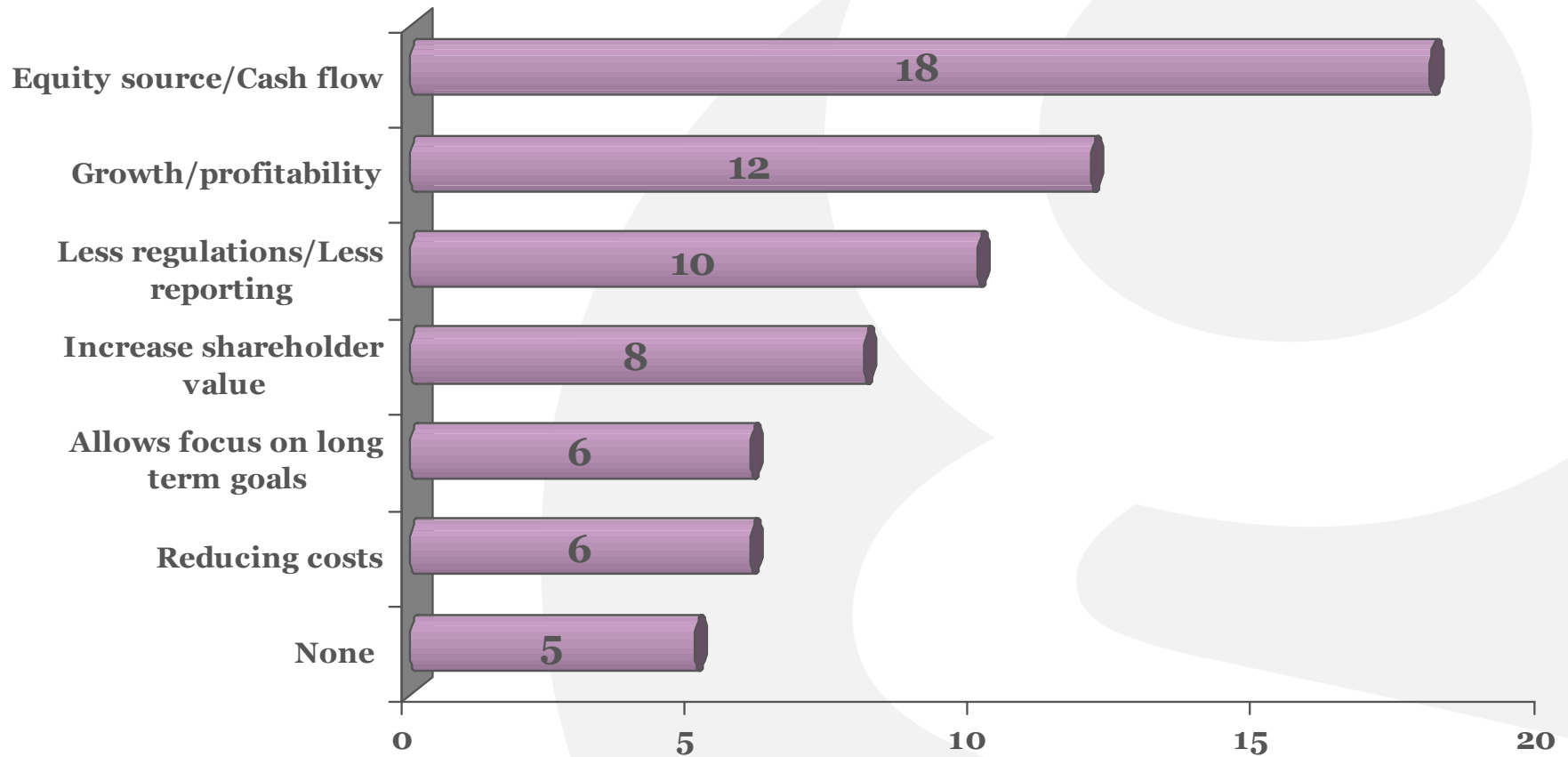
When broadly held companies are taken private by private equity firms, does that have a positive/negative effect on _____ ?





Opportunities Associated with Private Equity Investment

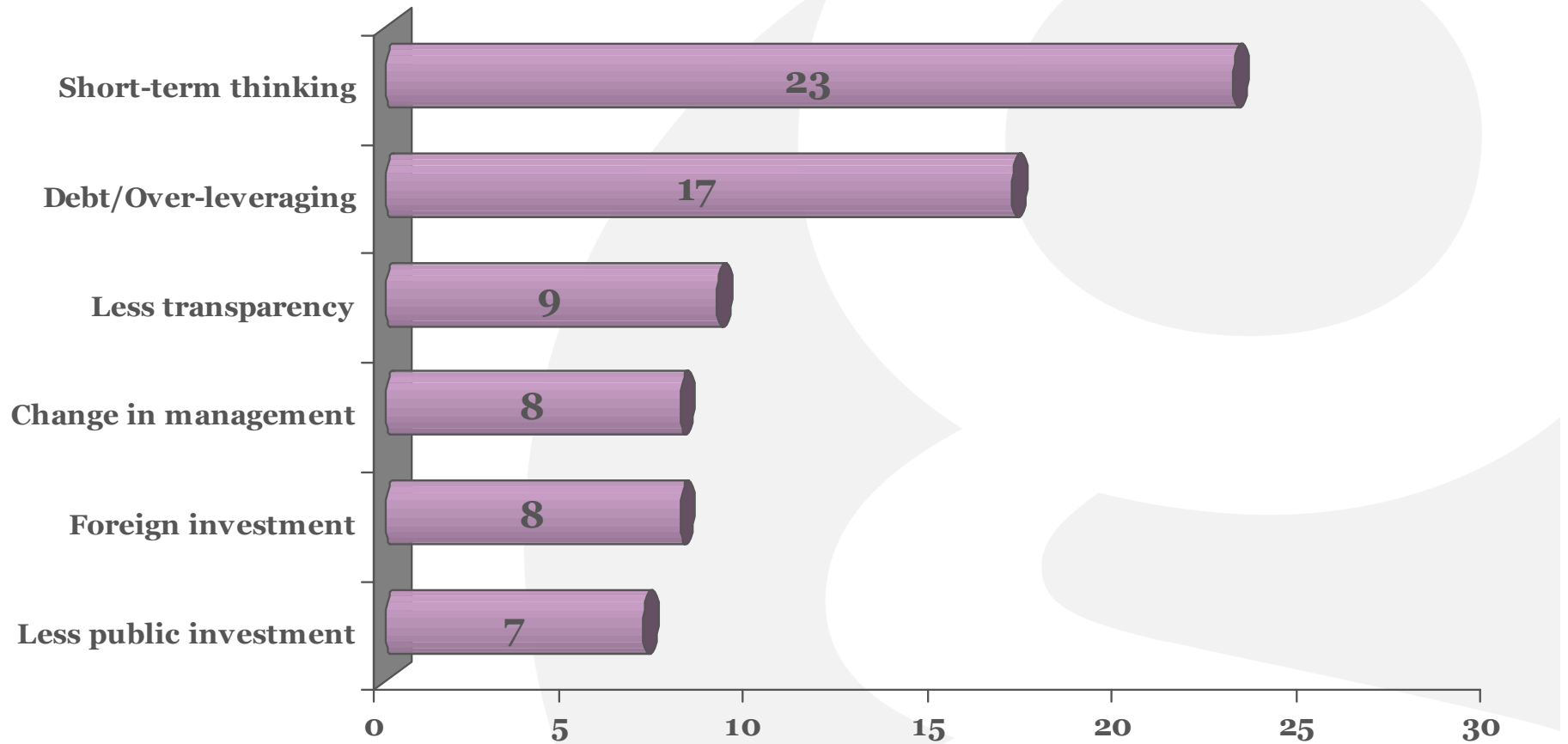
From your point of view, what opportunities do you associate with private equity investment?





Problems Associated with Private Equity Investment

From your point of view, what problems do you associate with private equity investment?





- ❑ A majority of executives thinks that management has a vested interest in private equity buy outs because they make more money at the time of sale
 - This sentiment is much stronger among manufacturing and service executives than among resource executives
 - Executives are less likely to think that management does better over the long term

- ❑ 60% of executives, and three quarters of manufacturing executives, think that individual shareholders benefit from private equity buy outs

- ❑ A majority of executives, particularly in the service and resource sectors, thinks that private equity is contributing to the hollowing out of corporate Canada.
 - Only 10% strongly disagree with this proposition
 - This is consistent with their belief that when a company goes private it is less likely to stay Canadian owned



- ❑ Executives overwhelmingly agree that Sarbanes Oxley and other accountability and disclosure regulations are a main driver of the trend toward private equity – surely an example of the law of unintended consequences
- ❑ Another key driver is considered to be the government's decision to tax income trusts, which 70% of executives says will drive companies to private equity
- ❑ Despite their belief that private equity improves management performance, increases profitability and sharpens strategic focus, most executives disagree that private companies outperform public companies
- ❑ As perhaps evidenced by BCE, there is virtual unanimity among executives that there is no company in Canada too large to be taken private

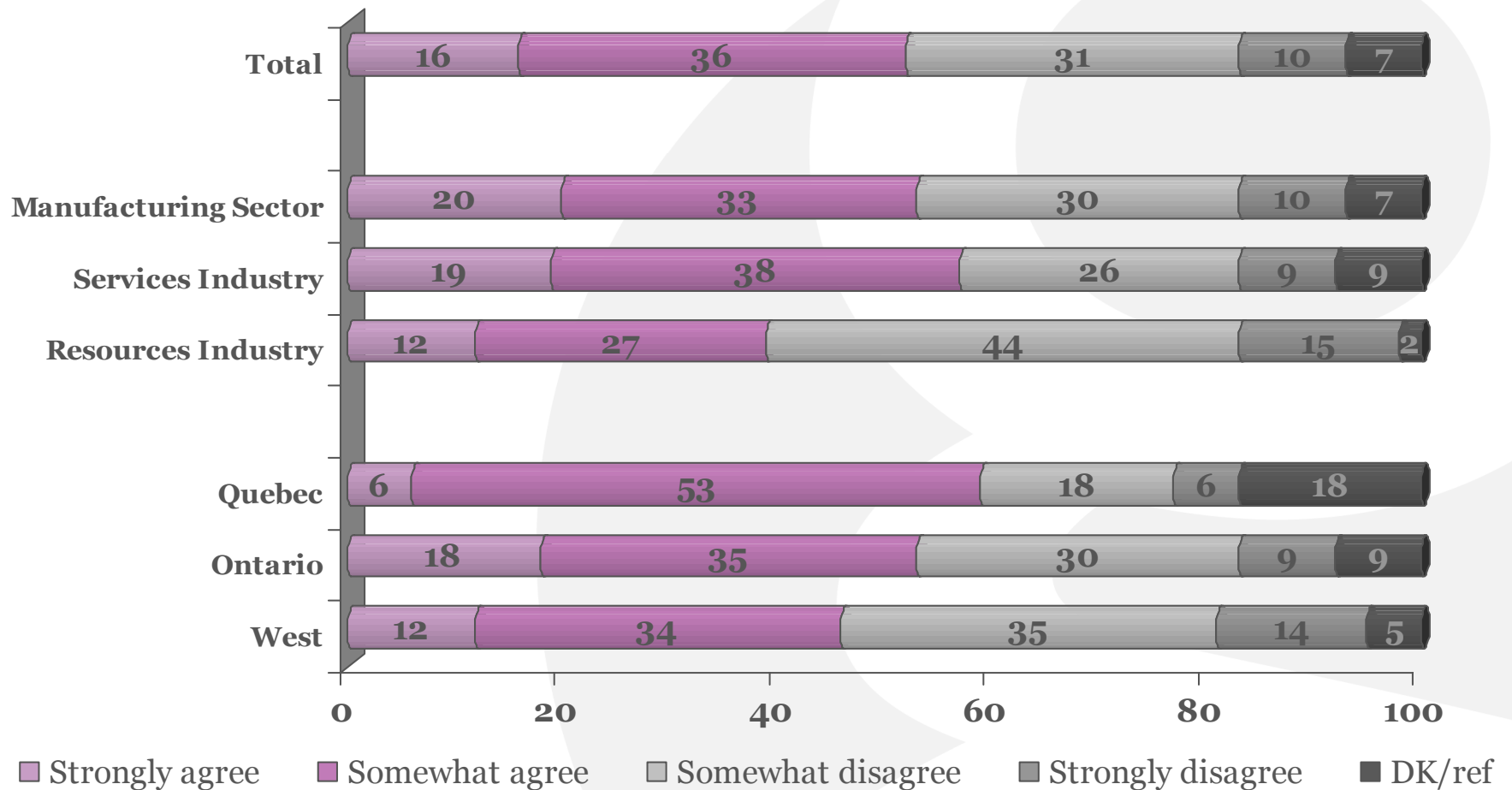


- ❑ Despite the fact that many prefer Canadian private equity to foreign private equity, and the fact that private equity is seen to be a cause of hollowing out, over 80% of executives oppose any intervention by government to limit the role of foreign private equity
- ❑ Perhaps undercutting the positive impact that private equity is seen to have on management and strategic focus, most executive agree that private equity arrangements often have predetermined exit strategies that make it difficult to plan and manage growth



Agreement: Management has Interest Because Financial Upside is Larger

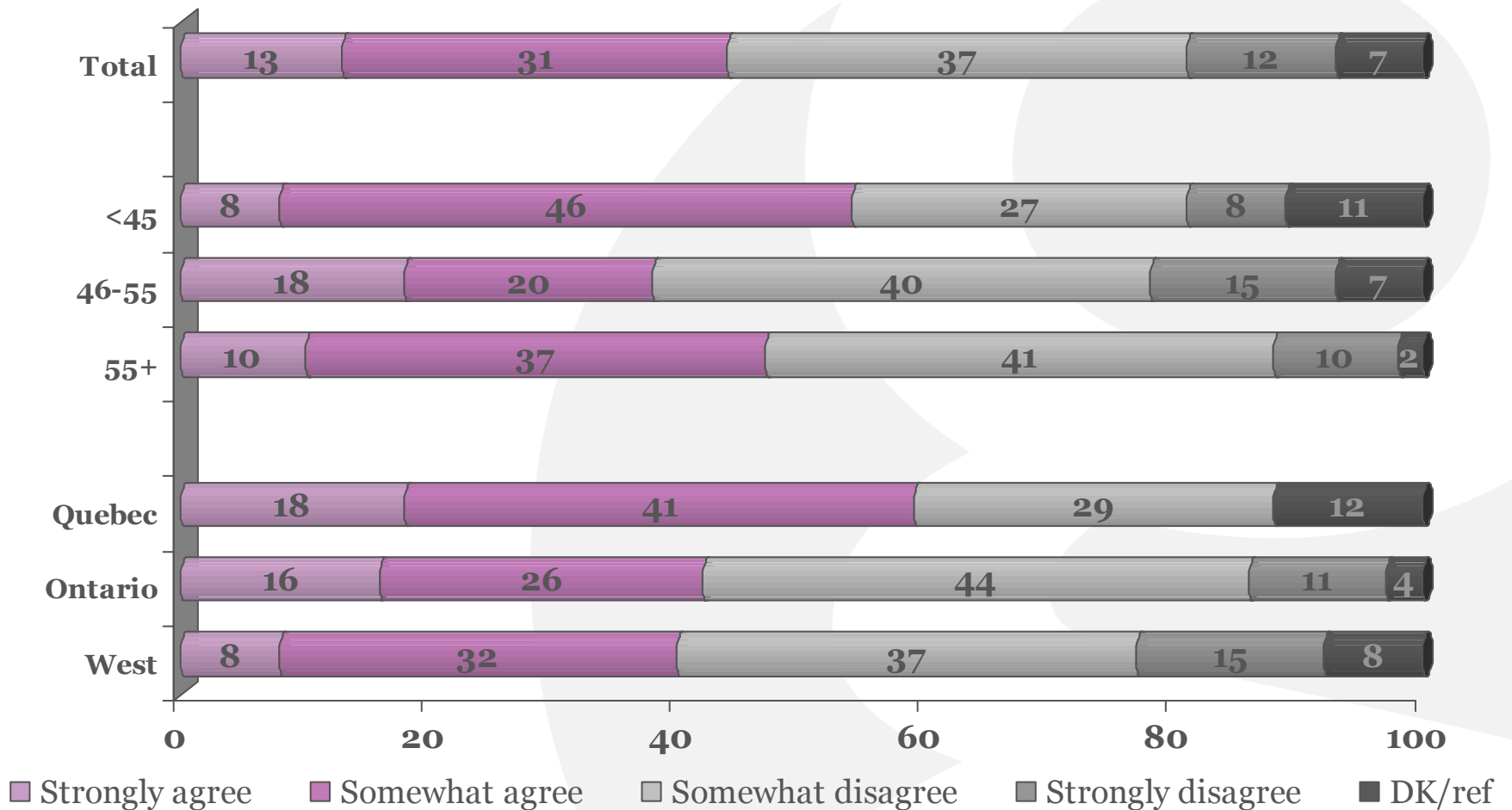
Agree/Disagree: Management has a vested interest in arranging sales to private equity because the financial upside for executives at time of sale is larger





Agreement: Management has Interest Because of Long Run Compensation

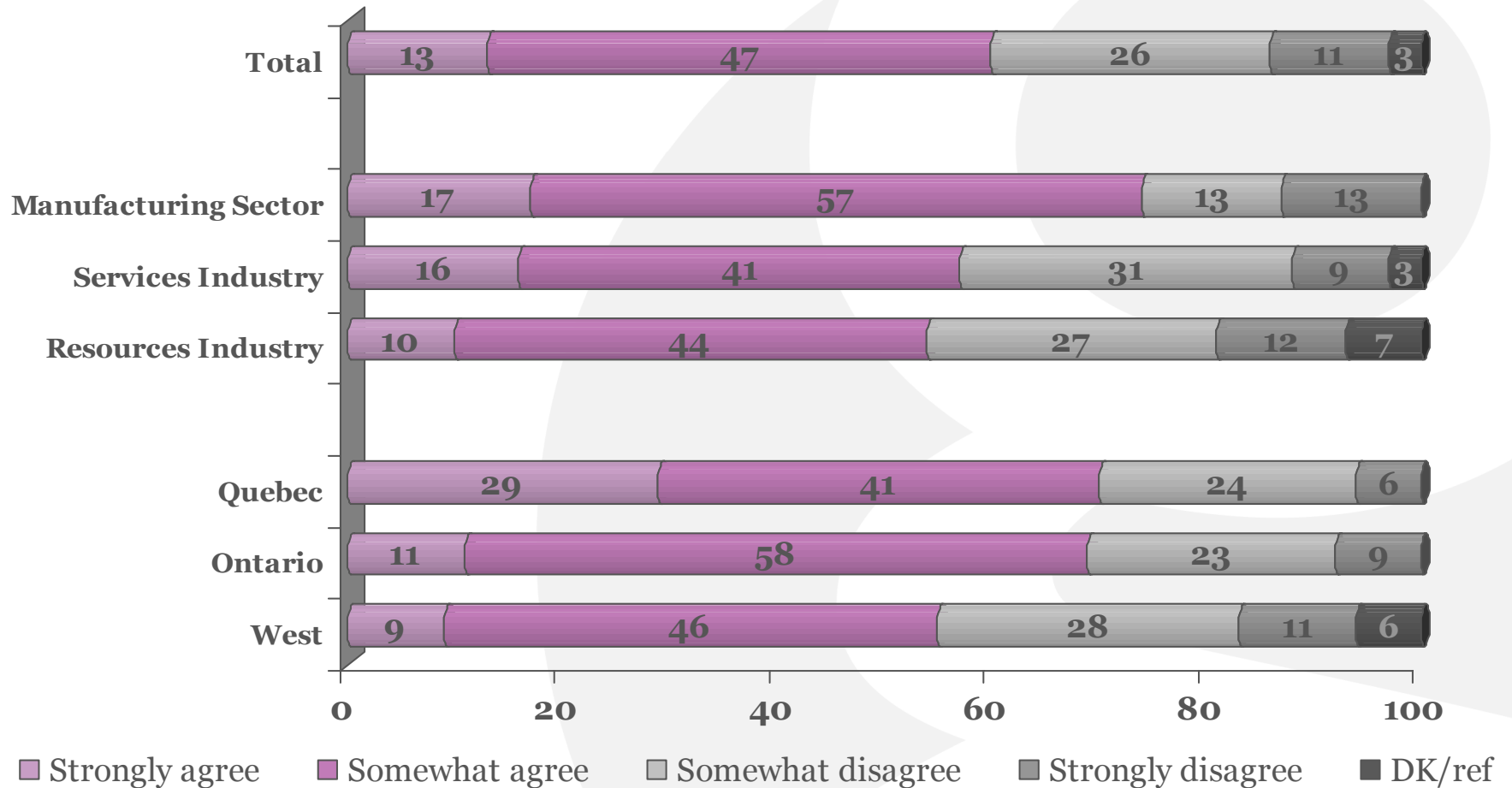
Agree/Disagree: Management has a vested interest in arranging sales to private equity because the financial upside for executives in compensation over the long run





Agreement: Individual Investors Benefit From Private Equity Transactions

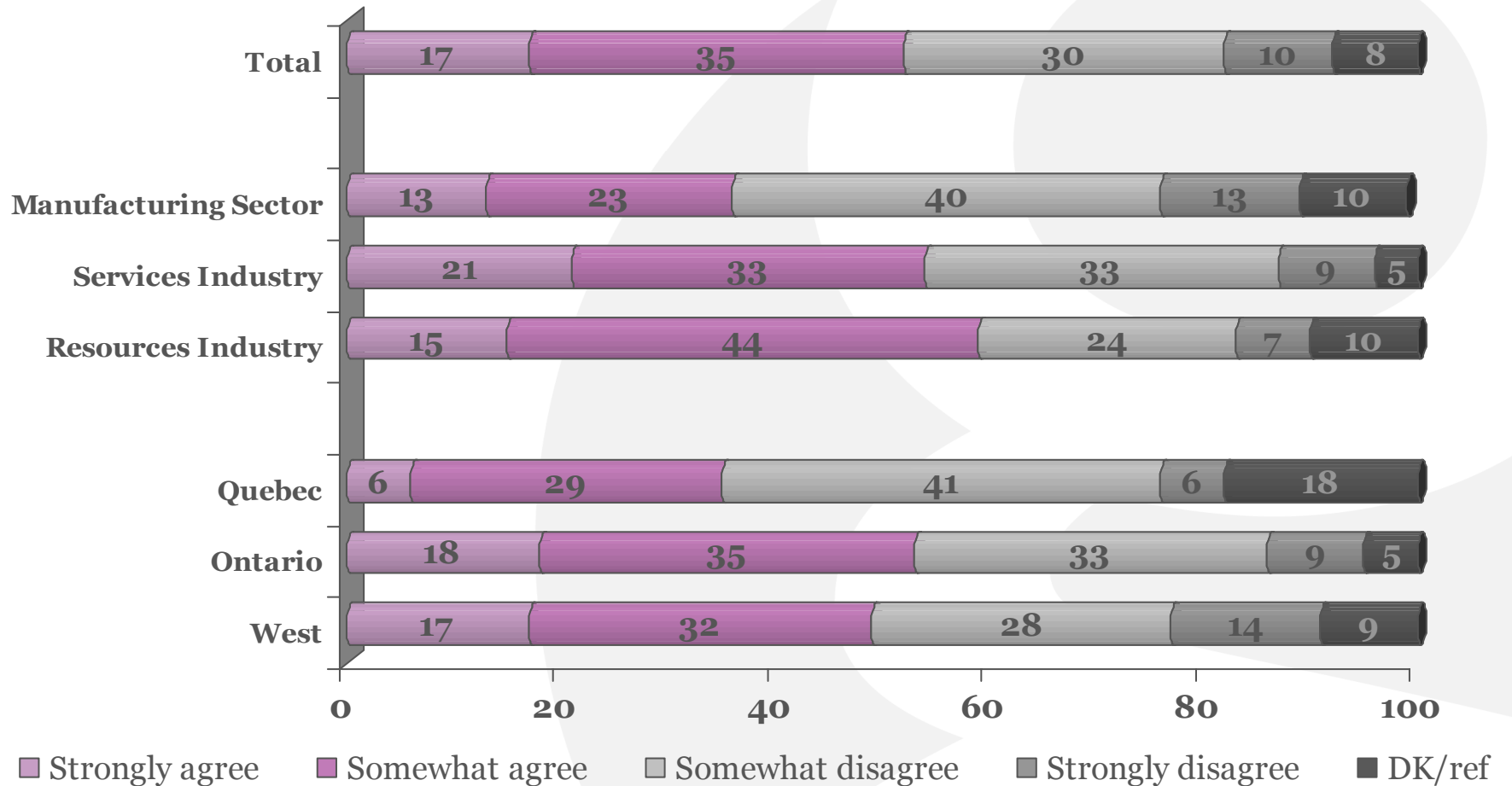
Agree/Disagree: When private equity transactions occur, I believe individual Canadian investors will benefit in return





Agreement: Private Equity Firms Hollowing Out Corporate Canada

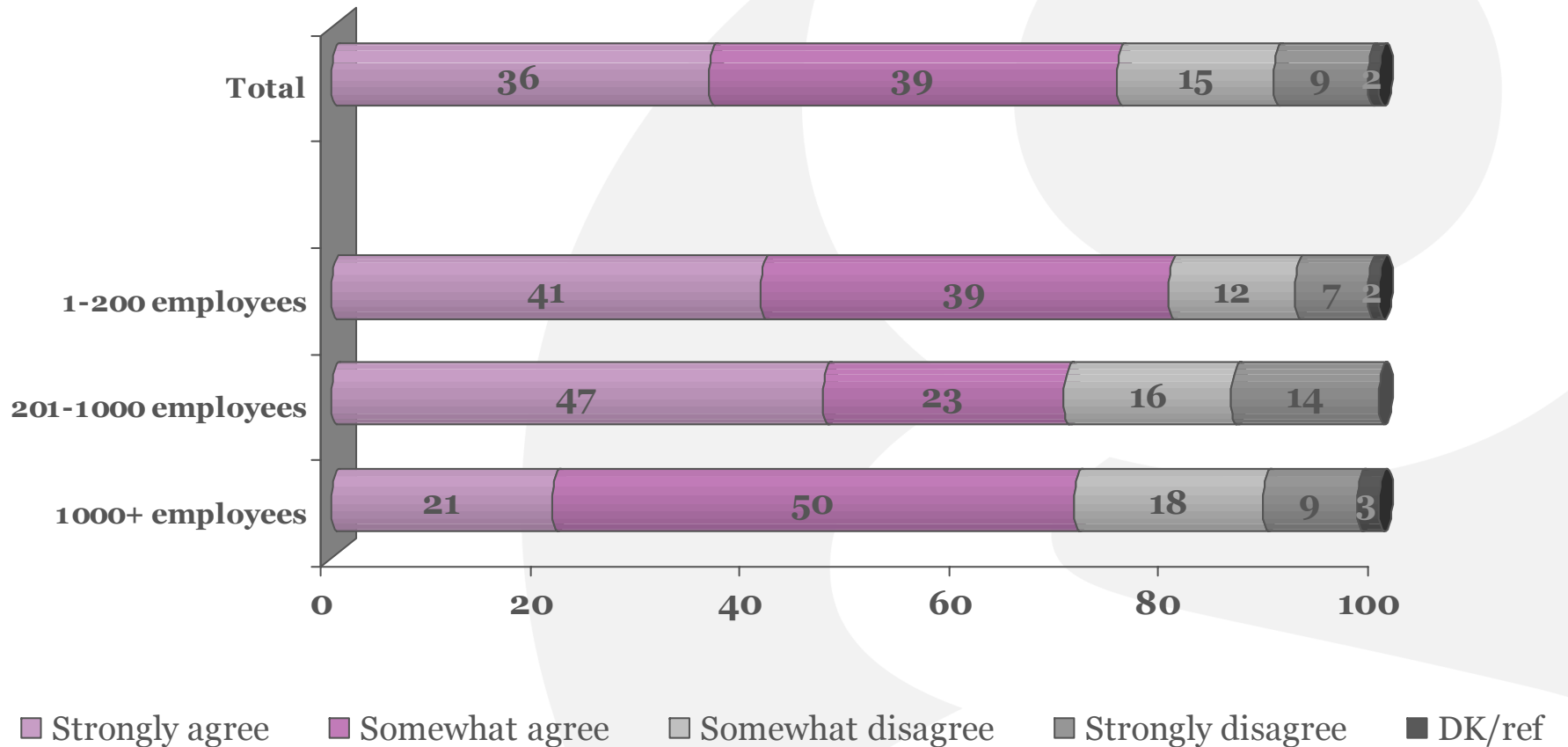
Agree/Disagree: I believe that private equity firms are contributing to the hollowing out of corporate Canada





Agreement: Regulatory Accountability Disclosure & Reporting Rules

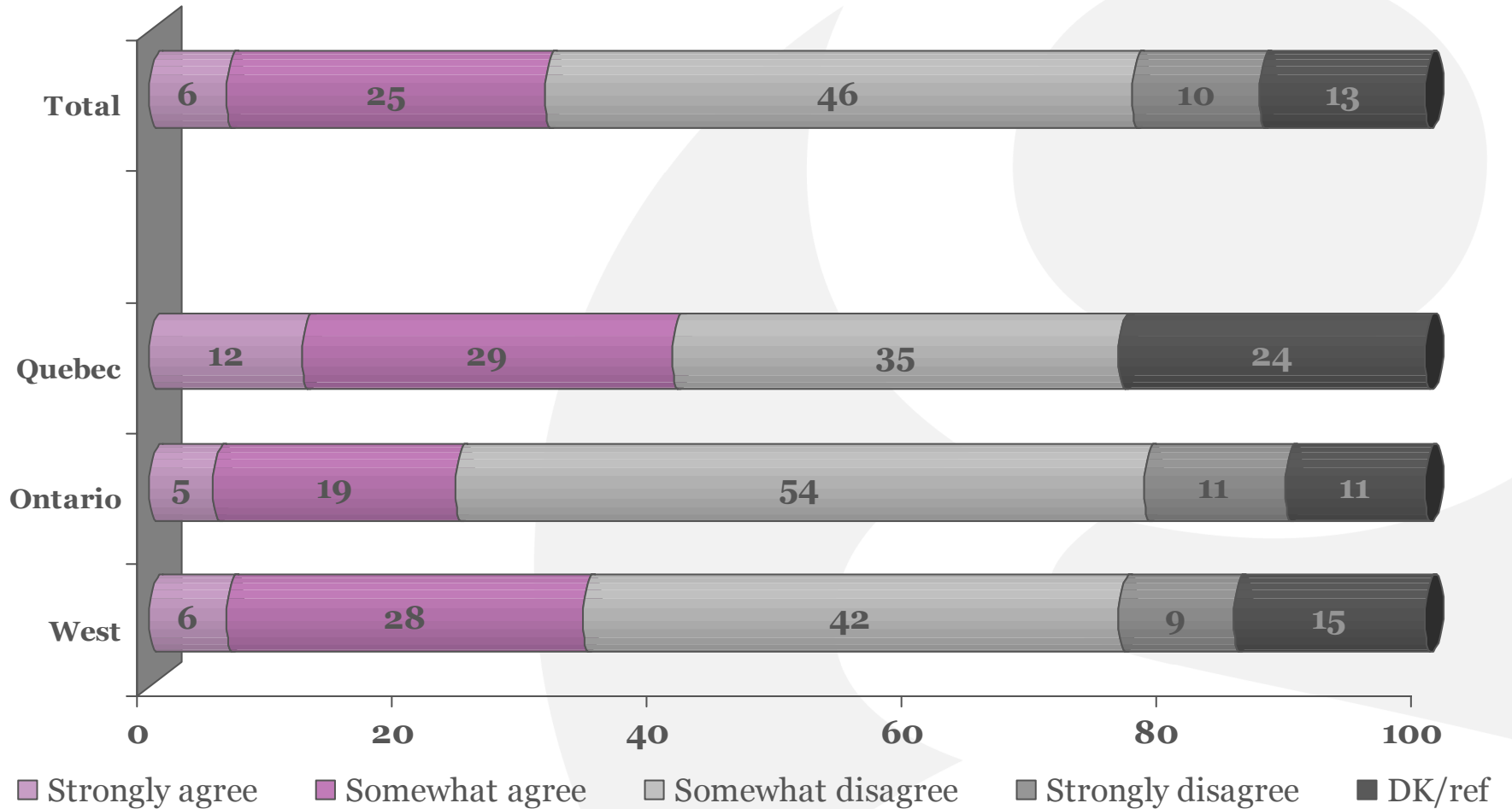
Agree/Disagree: Increasing regulatory accountability disclosure and reporting rules, such as Sarbanes Oxley, are one of the main reasons for an increase in private equity arrangements





Agreement: Privately Held Companies Perform Better

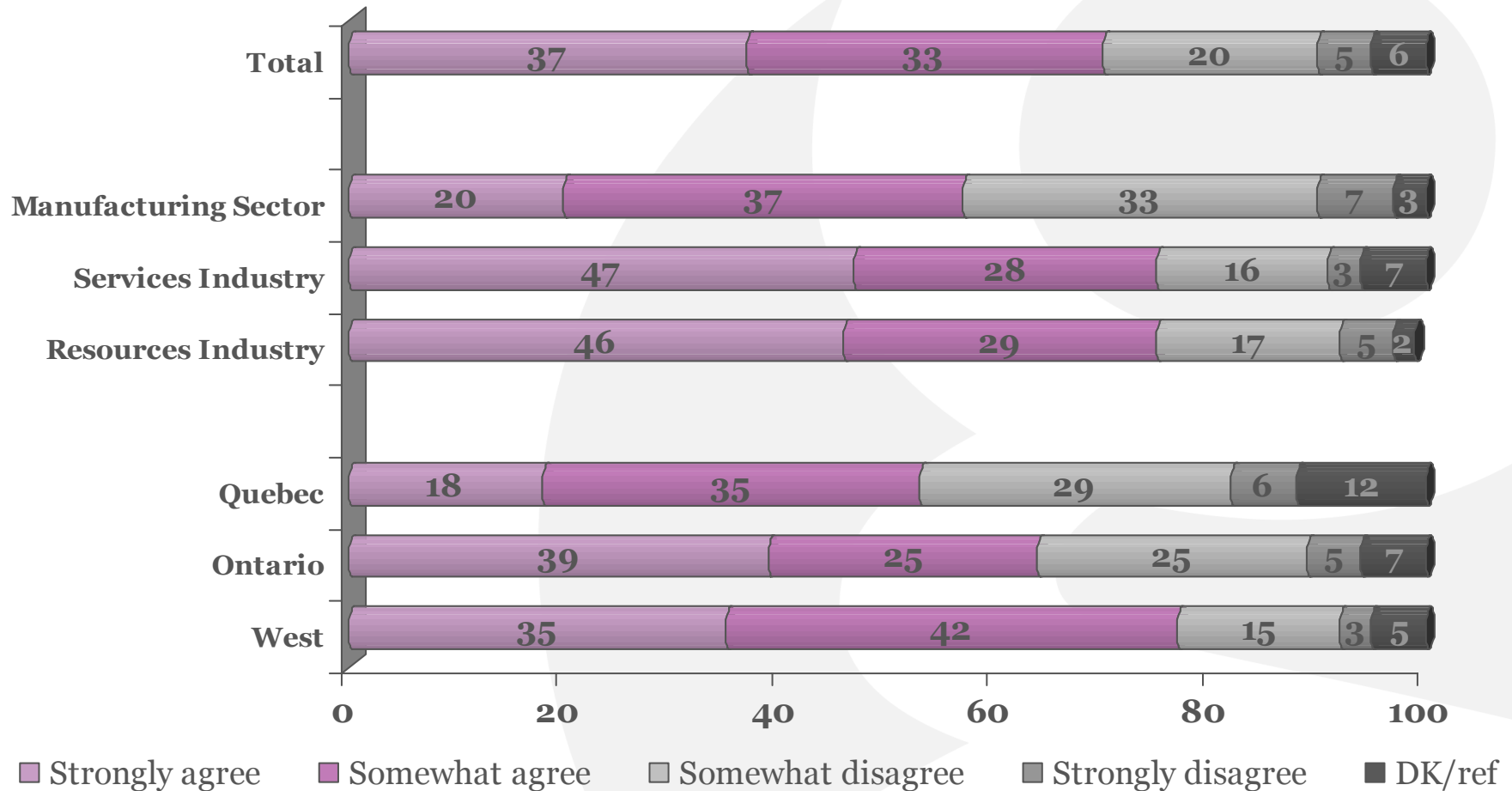
Agree/Disagree: Privately held companies perform better than publicly held companies





Agreement: Taxing Income Trusts Will Increase Private Equity Arrangements

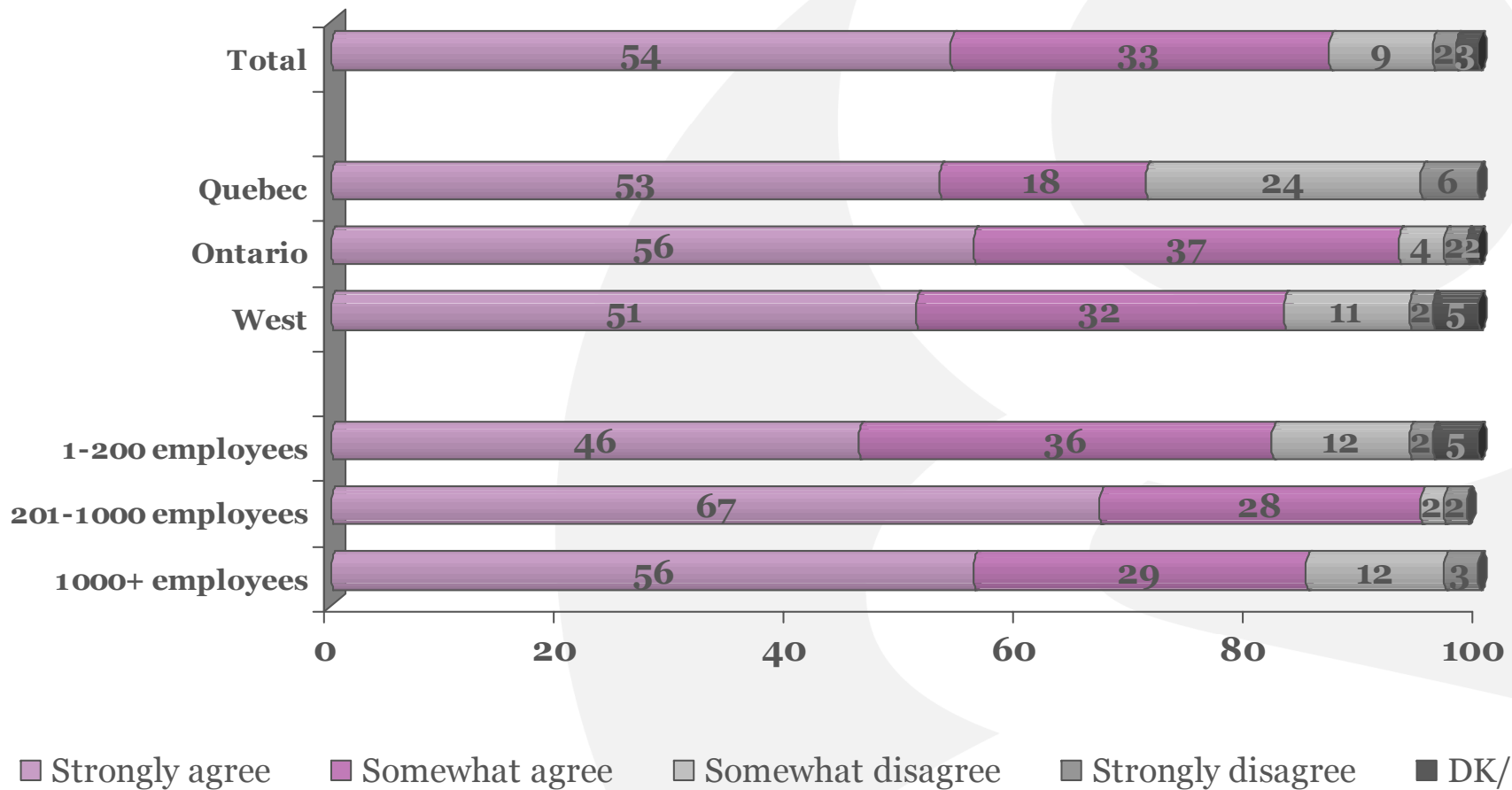
Agree/Disagree: The decision by the federal government to tax income trusts will lead to an increase in private equity arrangements





Agreement: No Canadian Company Too Large to Be Taken Private

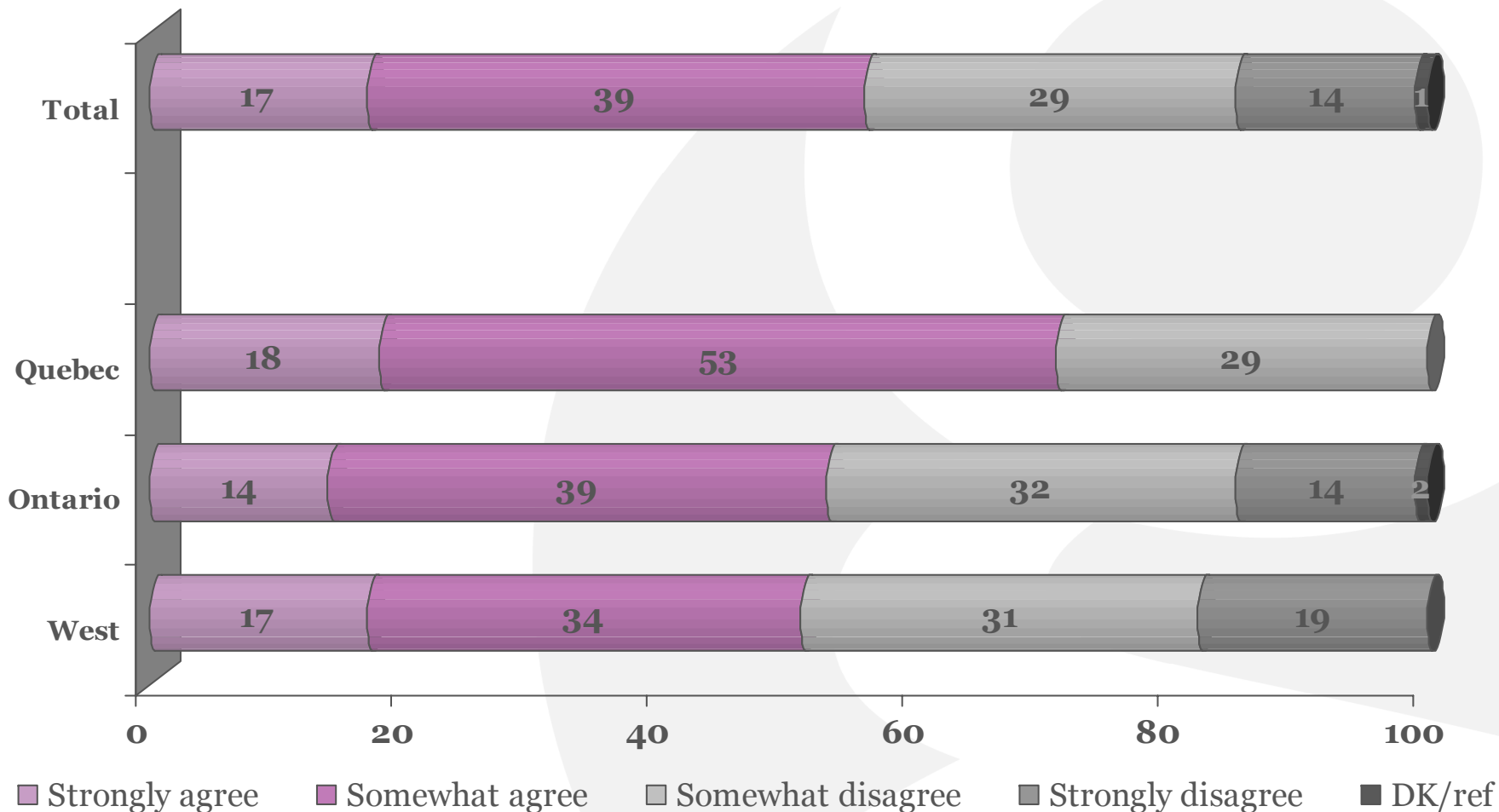
Agree/Disagree: The amount of private capital is so great now that no Canadian company is too large to be taken private





Agreement: Exit Strategies

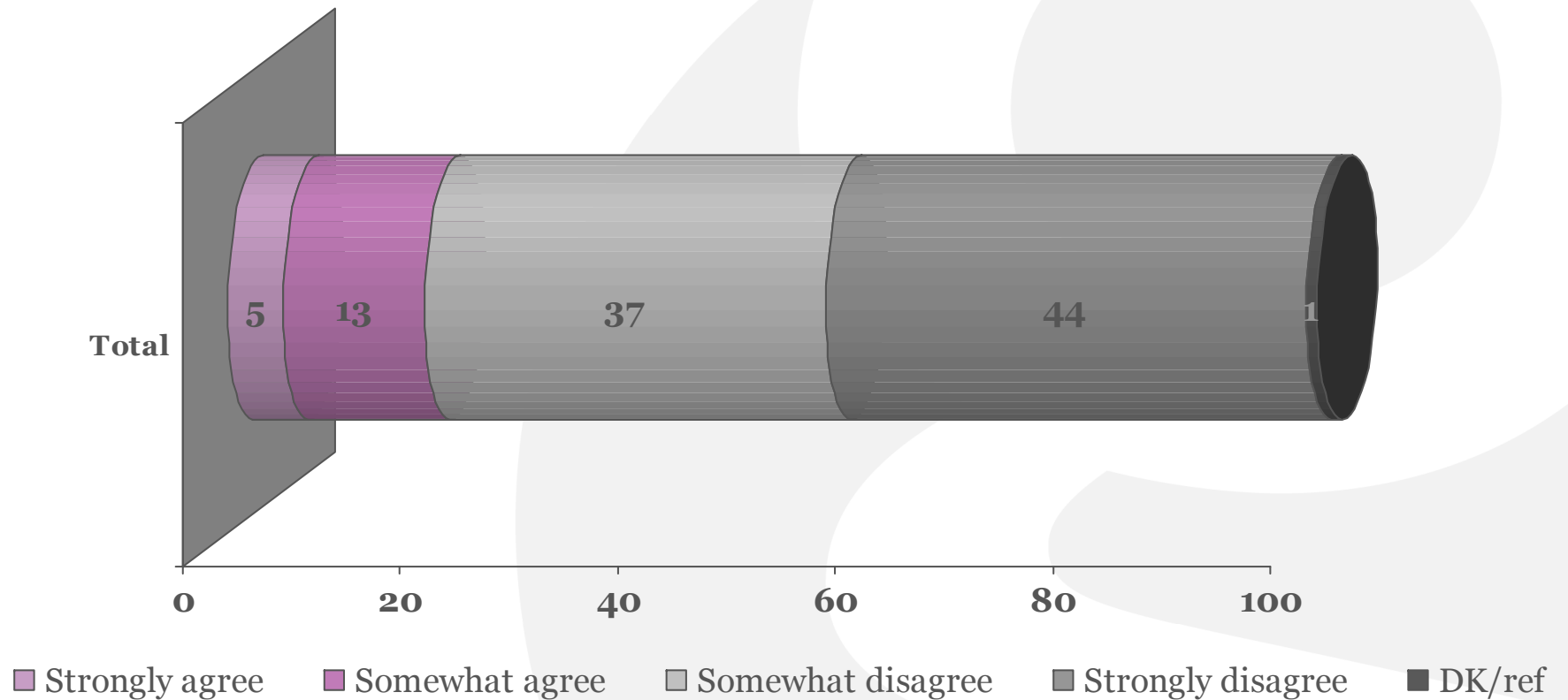
Agree/Disagree: Companies in private equity arrangements generally face predetermined exit strategies that have a disruptive effect on the ability to plan and manage growth





Agreement: Disincentives to Limit Influence of Foreign Private Equity

Agree/Disagree: There should be disincentives, such as taxes, so as to limit the influence of foreign private equity in Canada



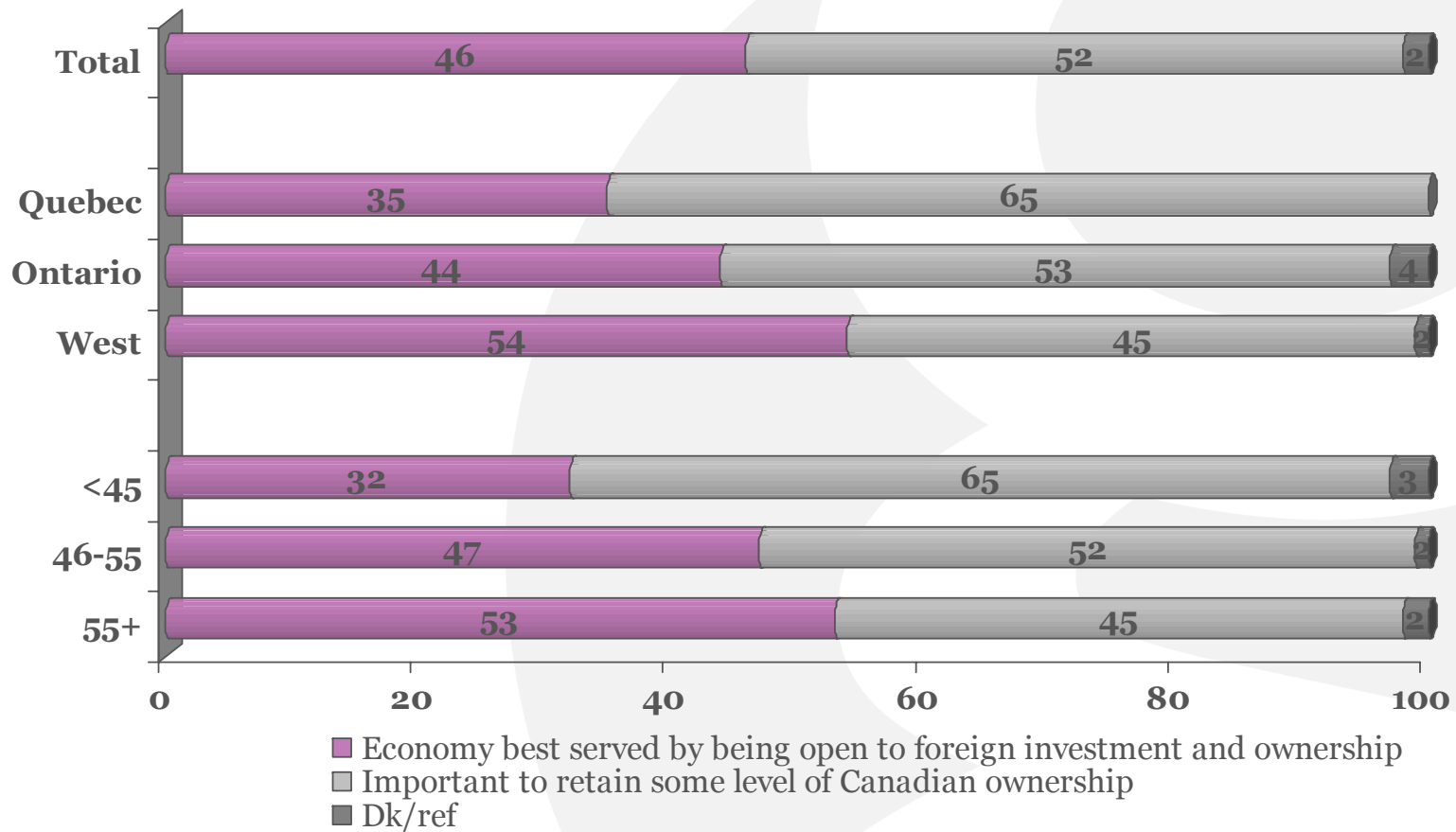


- ❑ Over the course of the past year, there has been a ten point swing in attitudes about foreign ownership. A majority of executives now think that there are some industries that are of such strategic importance to Canada that retaining some level of Canadian ownership is important. A year ago the majority felt that Canada was best served by being completely open to foreign investment
- ❑ This has the potential to be a divisive issue. All of the growth in nationalist sentiment has occurred in the service and manufacturing sectors and a majority of resource executives continue to think the economy should be completely open. Yet those who want to retain levels of Canadian ownership cite the resource/oil and gas/energy industries as those where it is most important.
- ❑ Younger executives are much more likely to want some restrictions on foreign ownership



Foreign Investment or Canadian Ownership

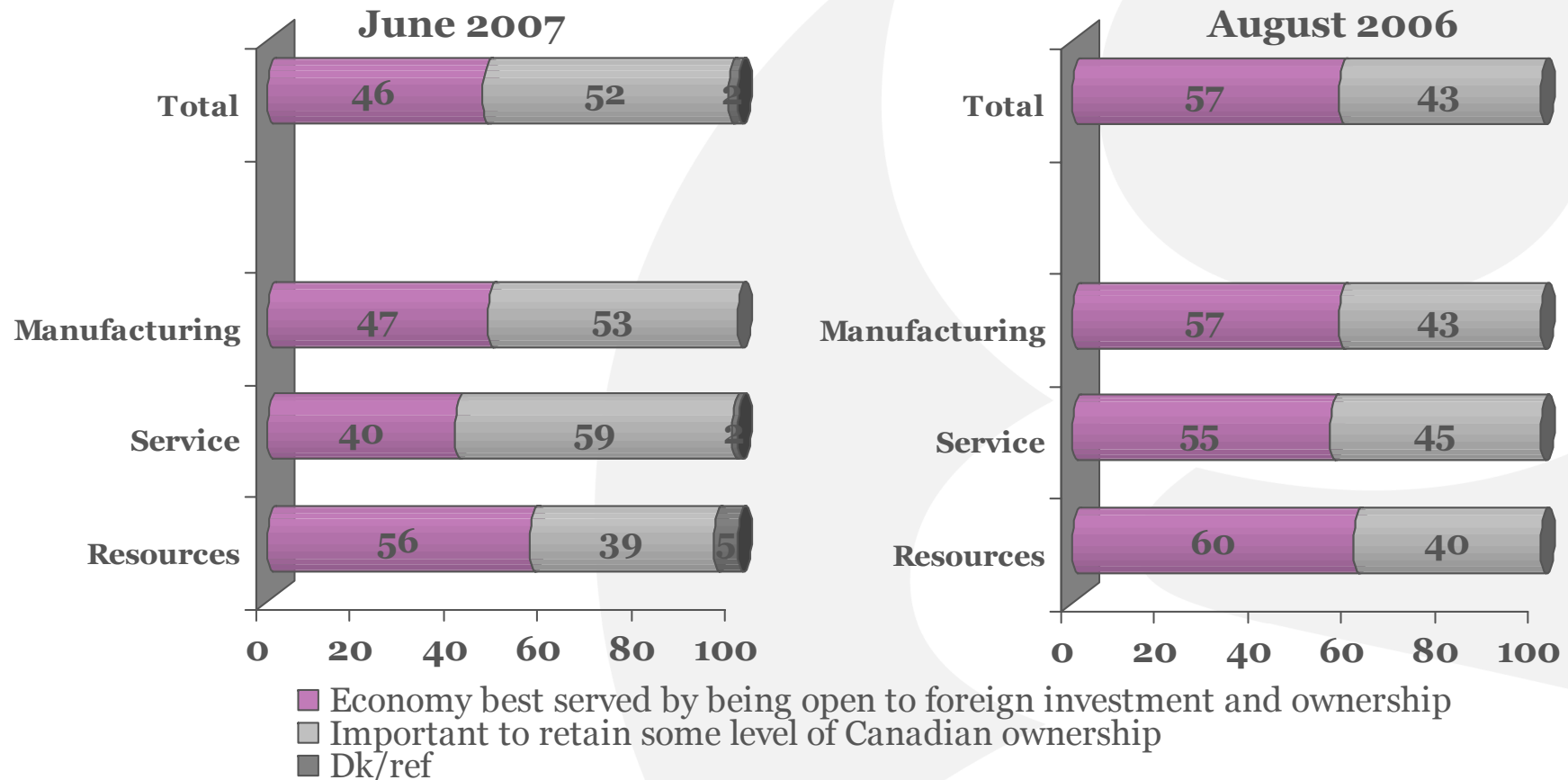
Some people say that the Canadian economy is best served by being completely open to foreign investment and ownership. Other people say that there are some industries that are of such strategic importance that it is important to retain some level of Canadian ownership. Which of those views is closer to your own?





Foreign Investment or Canadian Ownership: Tracking

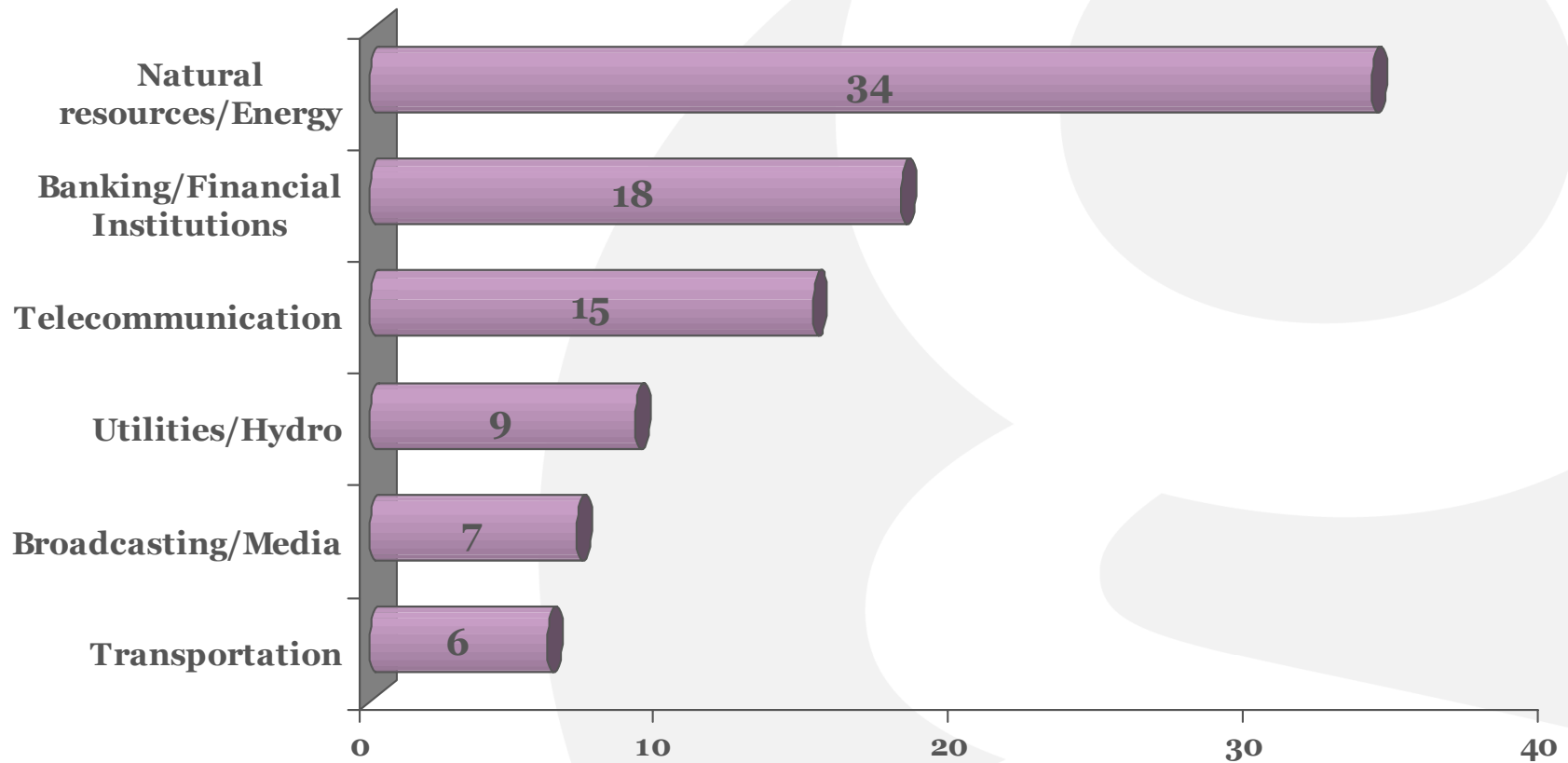
Some people say that the Canadian economy is best served by being completely open to foreign investment and ownership. Other people say that there are some industries that are of such strategic importance that it is important to retain some level of Canadian ownership. Which of those views is closer to your own?





Industry Subject to Foreign Ownership Limits

Can you name an example of an industry that should be subject to foreign ownership limits? **(Only asked of those who responded “there are some industries that are of such strategic importance that it is important to retain some level of Canadian ownership” n=110)**





- ❑ A majority of executives think current rules make it easier for Americans to buy Canadian companies than vice versa
 - More believe this than not in all three sectors but it is more broadly believed by manufacturing and service executives, and those executives living in Quebec

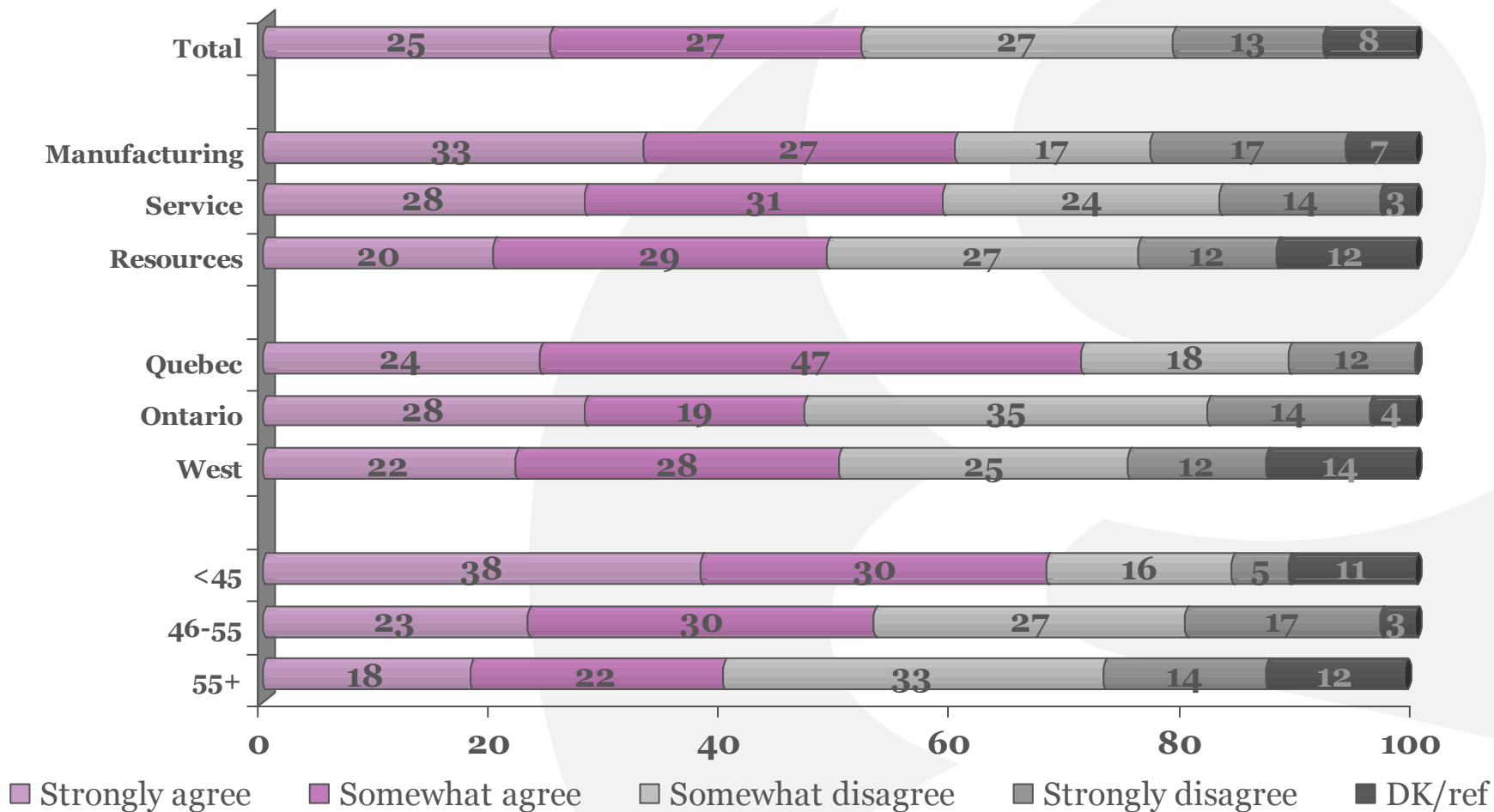
- ❑ Most executives think that the government's decision to tax income trusts (which has become more unpopular as time has gone on) will drive Canadian companies into foreign hands
 - Anger at the income trust decision has only become worse among resource executives, and opposition has grown in the service sector

- ❑ There is virtually monolithic and vehement opposition to the government's budget measure disallowing the deduction of interest on foreign investments
 - The modification is more acceptable but is still opposed by a majority of executives
 - Again, the strongest opposition to this comes from the resource sector



Agreement: Easier for Americans to Buy Major Canadian Interests than it is for Canadians to Buy Major American Interests

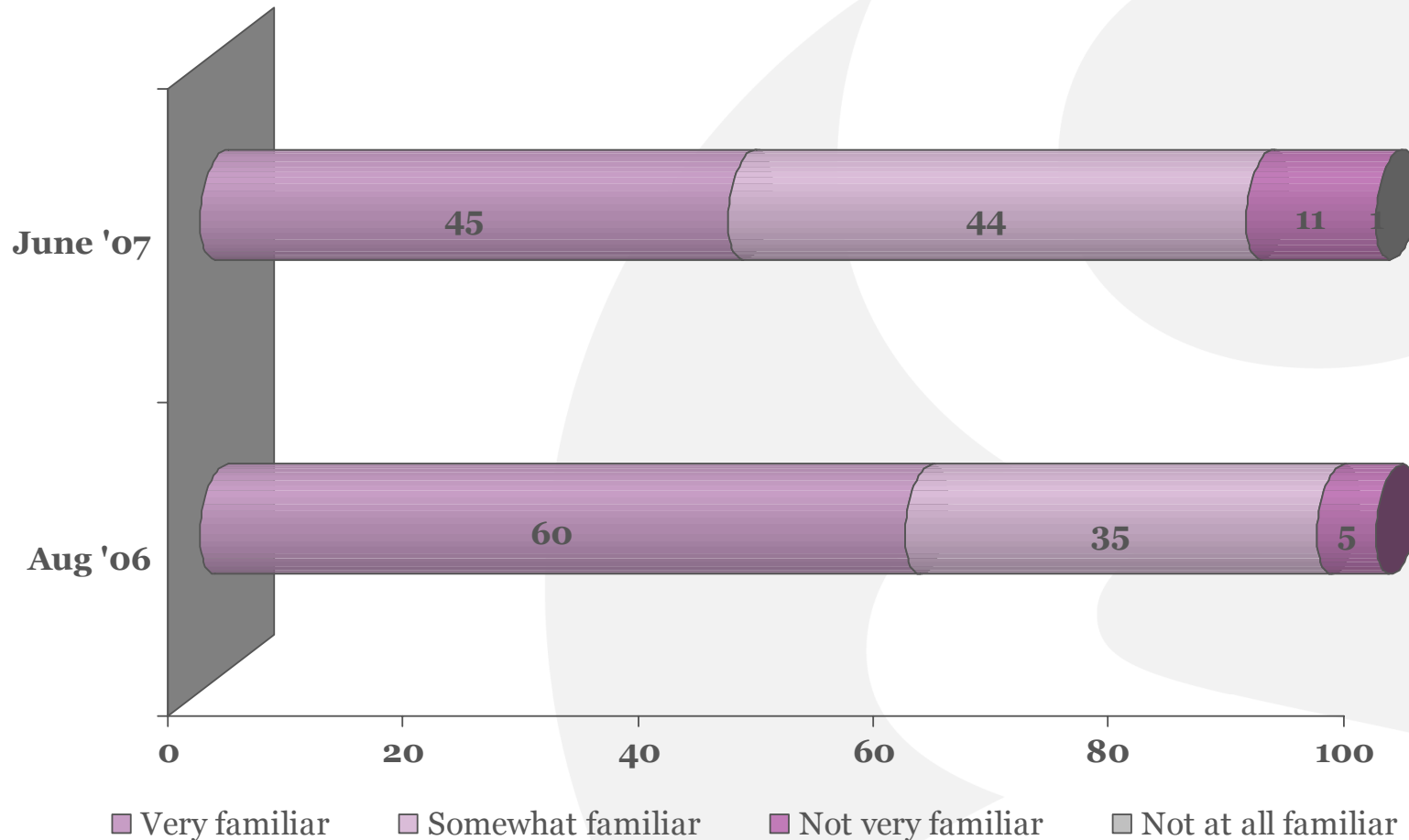
Agree/Disagree: It's easier for Americans to buy major Canadian interests than it is for Canadians to buy major American interests





Changes Regarding Income Trusts

How familiar are you with the changes announced by the government regarding the tax treatment of Income Trusts – very familiar, somewhat familiar, not very familiar or not at all familiar?

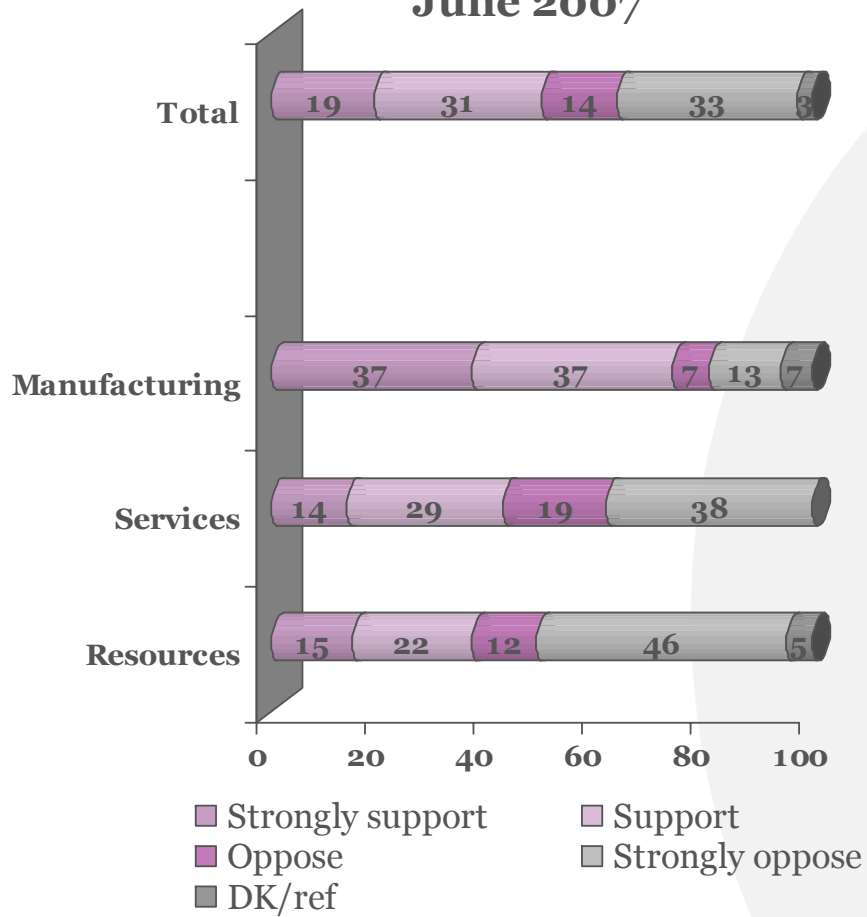




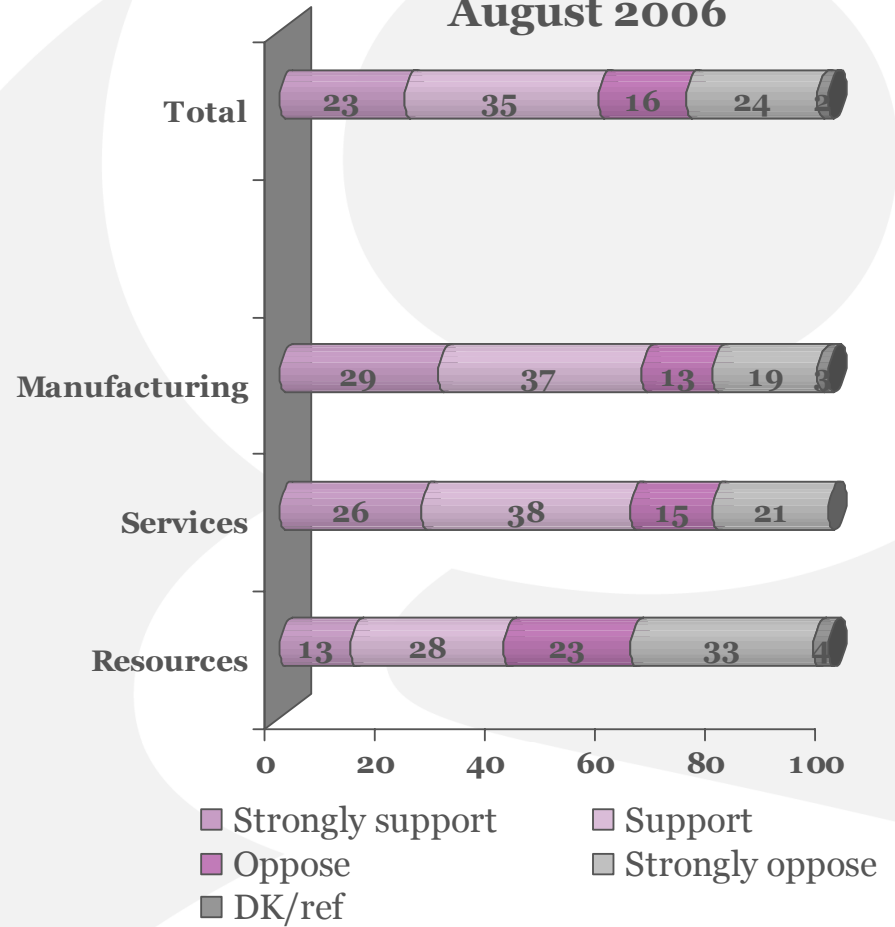
Support Taxing Income Trusts?: Tracking

Do you strongly support, support, oppose, or strongly oppose the government's decision to tax Income Trusts?

June 2007



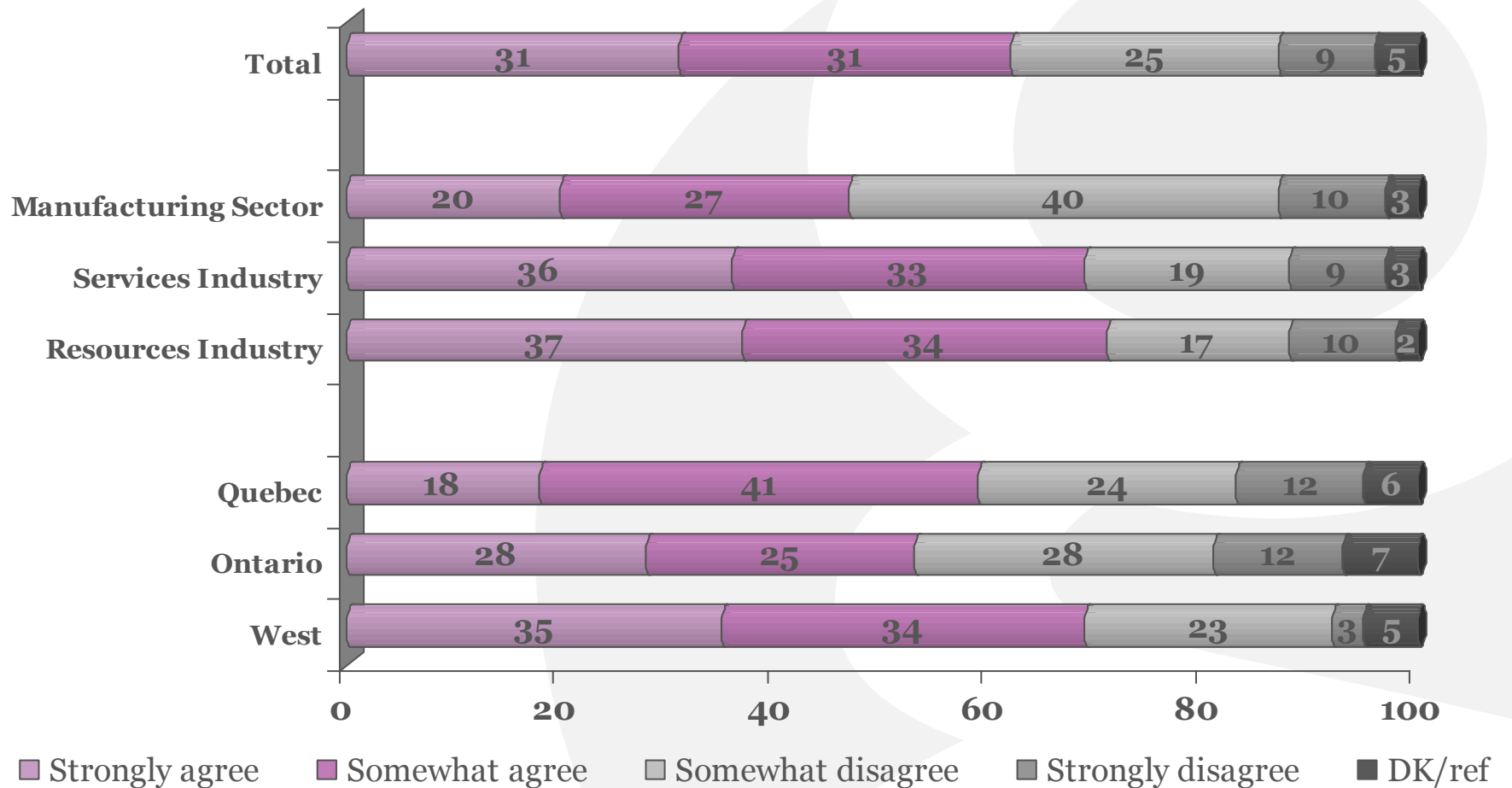
August 2006





Agreement: Taxing Income Trusts Will Increase Likelihood of Takeovers

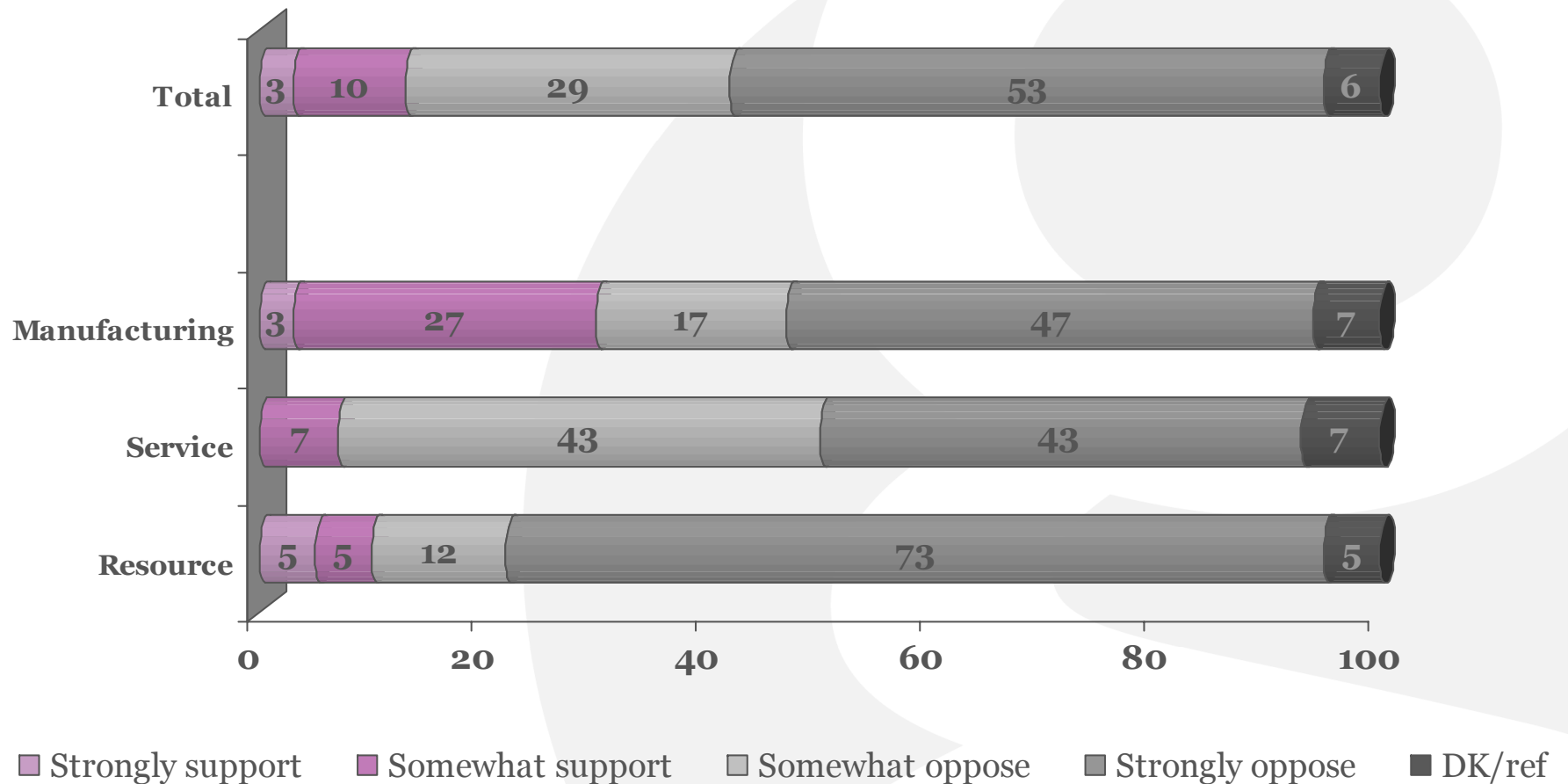
Agree/Disagree: The decision by the federal government to tax income trusts will increase likelihood of takeovers of Canadian companies by foreign investors





Support/Oppose Measure to Eliminate Deductibility of Interest

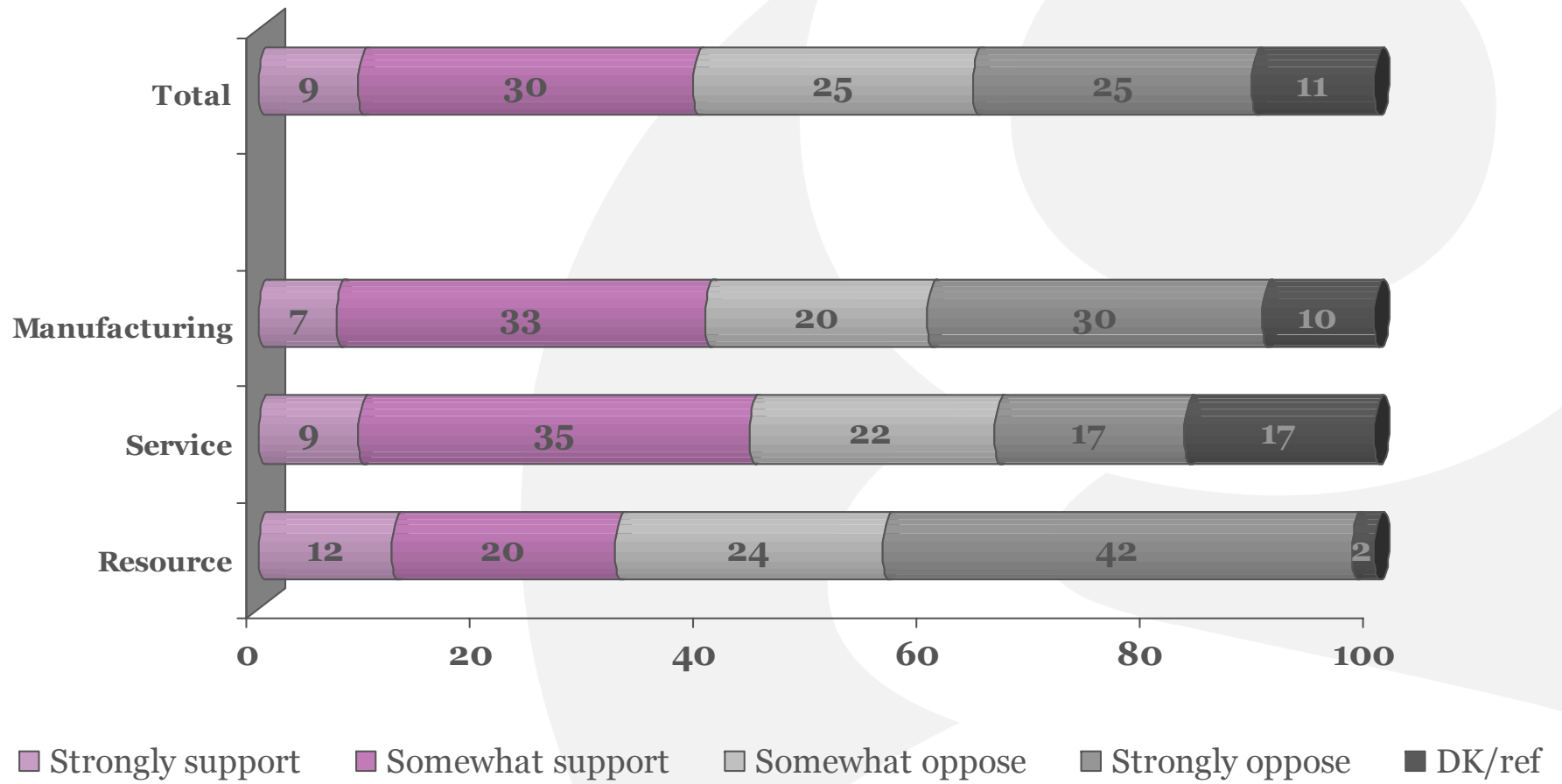
Finance Minister Flaherty introduced a measure to eliminate the deductibility of interest on foreign investments. Do you support or oppose this measure?





Support/Oppose Measure to Remove Tax Deductions To Expand Abroad

Recently, the minister modified his position, would remove tax deductions for companies that borrow money to expand abroad and also seek to deduct the financing costs to reduce taxes in another country. Do you support or oppose this measure?





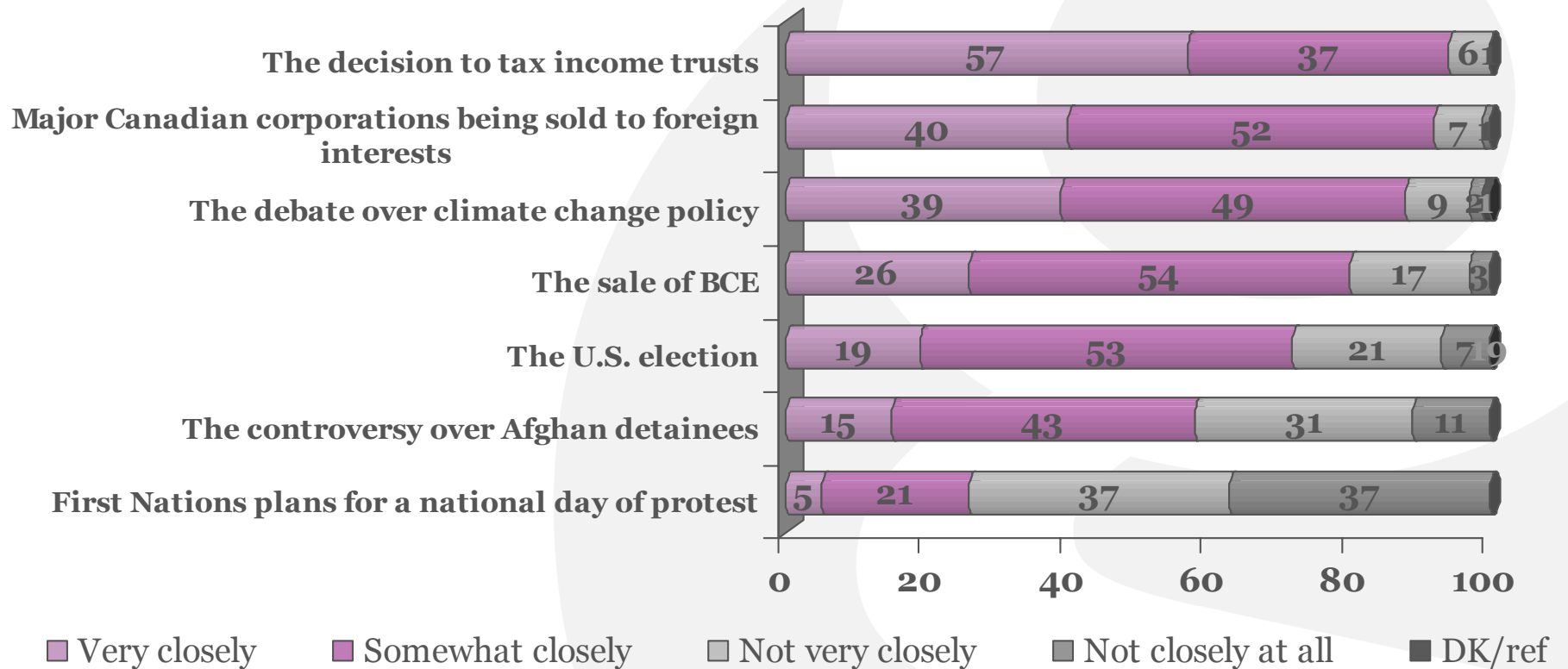
- ❑ Several issues are of great interest to C Suite executives
 - Virtually all executives have paid attention to the news coverage of the income trust issue, and most have paid a great deal of attention
 - Climate change, the sale of BCE and the foreign purchases of Canadian companies have also been issues followed by most executives

- ❑ Issues with a weaker connection to business get less attention
 - Although a majority followed the Afghan detainee story, only 15% followed it closely and over 40% didn't follow it much at all
 - 75% have paid little or no attention to the planned First Nations National Day of Action, despite the possible business ramifications



Following News Coverage

How closely have you followed news coverage of the following _____?





- ❑ Optimism about the Canadian economy is high, and executives repeatedly demonstrate that fears about the US economy do not necessarily dampen their view of Canadian prospects
- ❑ The Government and the Minister of Finance are losing the confidence of the business community, through issues both of competence (income trusts, foreign interest deductibility) and direction (budgets that have not addressed business priorities).
- ❑ Private equity is seen in a positive light overall. It is seen to have largely positive effects on the businesses it invests in, but the overall impact on the country is seen to be negative.
- ❑ Concerns about the levels of foreign ownership in key sectors are growing. Most executives now favour restrictions in strategic industries.