the gandalf group

Memorandum

September 2008
C-Suite Quarterly Survey – Executive Summary

This quarter's survey focused on the credit crunch and access to financing and capital. The findings are based on 140 interviews with C-Suite executives from the ROB 1000 Corporations. Interviews were conducted between August 25th and September 23rd, 2008 and results come with a margin of error of +/- 7.68% 19 times out of 20.

Key Findings

Executives are feeling the impact of the credit crunch. 79% say it's had an impact on their companies and most think it will last a year or more. Along with equity market volatility, the credit crunch is having the most negative impact of the various economic factors to affect businesses over the past year. Smaller companies, and those in the resources sector, are most likely to say it's had a significant impact.

Most executives say their companies are undervalued today and that the main financing options – PE/VC, banks, equity markets – are less appealing today than two years ago. Institutional investors have the most appeal as an option for financing.

The Economy

A majority of executives (59%) now think the Canadian economy will experience moderate decline over the next 12 months – 39% believe it will experience moderate growth. Last quarter a majority of executives believe that the Canadian economy would grow rather than contract.

The outlook for the US economy is more negative than for the Canadian economy.

Executives remain confident in terms of expectations for their own companies : 24% expect strong growth and 60% expect moderate growth. Those levels have varied only somewhat over the last year.

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The Credit Crunch

The vast majority of executives believe it is more difficult to access financing today compared with two years ago - almost half say it is significantly harder. Executives we surveyed consider equity markets, the banks (along with traditional lenders and insurance cos.) and institutional investors (including pension funds) to be generally appealing options – with institutional investors having the most appeal.

Smaller, more entrepreneurial companies find Private Equity or Venture Capital quite appealing avenues for capital; the managerial class in large cap companies is strongly averse to PE or VC. The preferred financing route for manufacturing executives is banks/insurance companies/traditional lenders. The largest employers find banks and institutional lenders most appealing. Companies with small market caps see all four of the major financing options as fairly appealing, and they include PE/VC in that group.

Almost three quarters of those surveyed said their company has sought new capital or financing in the last year. Half of all surveyed, however, say they have been forced to look for new ways of financing. Those companies tend to be in the resources and services sector, rather than in the manufacturing sector, where few say they have been forced to look for different ways of financing.

Of those companies that have sought financing or new capital in the last year, business expansion was the most common reason by far. Acquisitions, refinancing or infrastructure/equipment purchases were cited by about half. A minority of executives said improving productivity was a reason – they tend to be executives with manufacturing and larger companies and are more likely to be from Ontario. Service sector executives are far more likely to list refinancing as a reason, than executives in other sectors.

Public Policy Concerns

The vast majority agree the Bank of Canada should control inflation according to its current target, namely at a rate of between one and three percent, rather than allow inflation at above the current target.

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A majority agree the central banks made the right decision to halt interest rate cuts. The largest companies (by employee size and market cap) are more likely to agree strongly with the decision – executives with the smallest companies are less likely to agree strongly.

Earlier this year, the federally appointed panel led by Lynton “Red” Wilson outlined a number of policy changes to boost competitiveness in Canada. The main recommendations were tested with executives. All were thought to be beneficial, including: removing the de facto ban on bank mergers, loosening foreign investment restrictions on the air transport sector, addressing Canada-US border thickening and creating a Canadian Competitiveness Council.

Two recommendations stood out as being most beneficial in the minds of executives – 76% believe loosening foreign investment restrictions in the telecommunications sector would be beneficial and 91% believe it would be beneficial to eliminate all internal barriers to the free flow of goods, services and personnel in Canada within three years.

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