

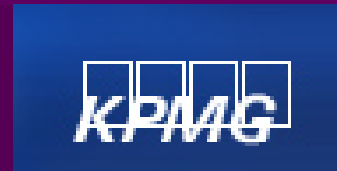


the gandalf group

C-Suite Survey: The Credit Crunch and Access to Financing and Capital

September 24, 2008

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- ❑ Telephone interviews among 140 C-Suite executives from the top 1000 corporations in Canada
- ❑ Conducted between August 25th and September 23rd, 2008
- ❑ This sample yields a margin of error of +/- 7.68% 19 times out of 20.



- ❑ Expectations for the Canadian economy are down. This is the most pessimistic outlook for the economy since our survey began in 2006.
- ❑ Executives are feeling the impact of the credit crunch. 79% say it's had an impact 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.

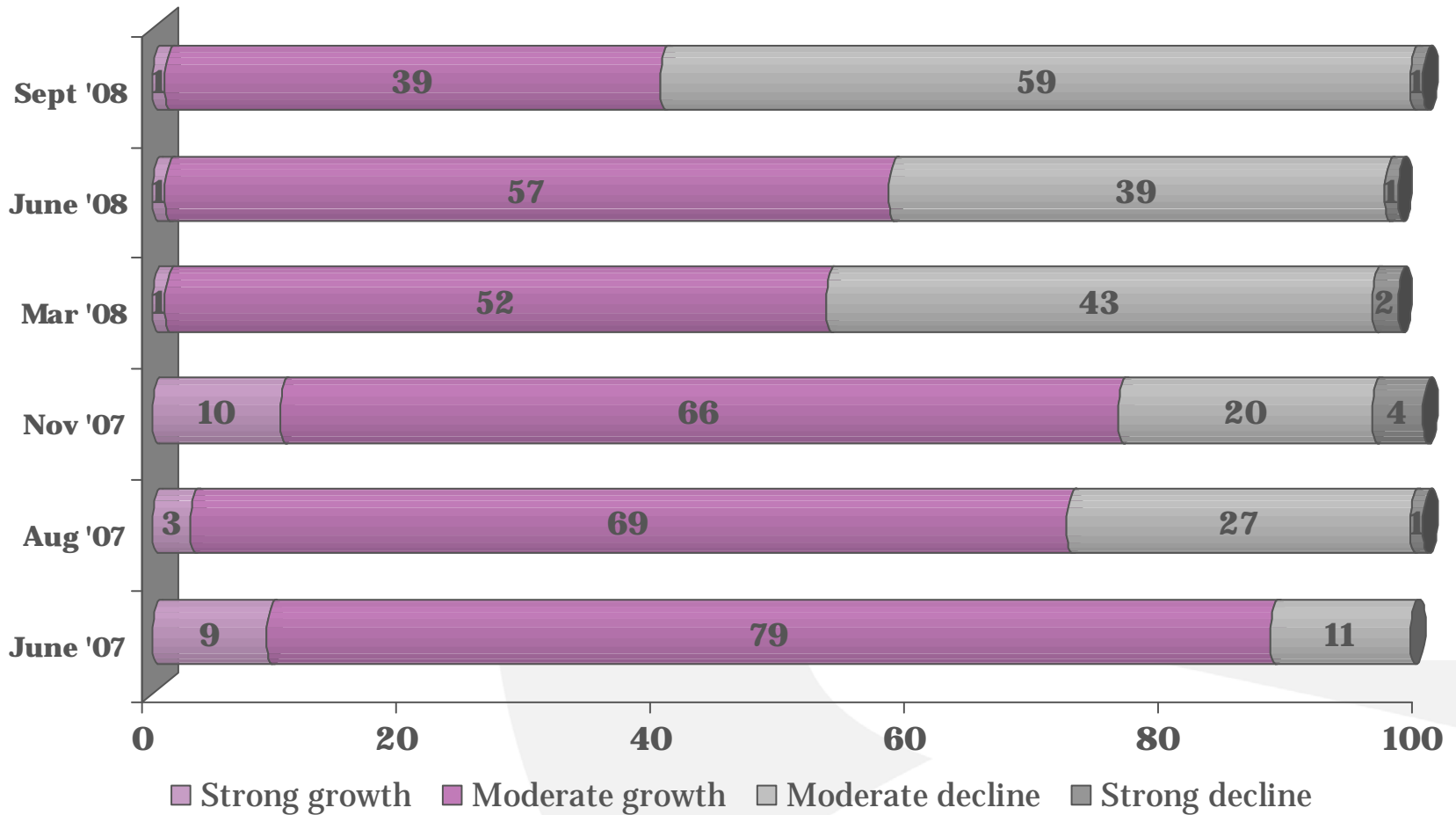


- ❑ A majority of executives (59%) now think the Canadian economy will experience moderate decline over the next 12 months – 39% believe it will experience moderate growth. Last quarter a majority of executives believe that the Canadian economy would grow rather than contract.
- ❑ A majority of executives in all sectors and regions share the view that the economy will decline but pessimism is significantly higher in the East (Ontario, Quebec, Atlantic).
- ❑ The outlook for the US economy is more negative than for the Canadian economy
 - Outlook for the US has improved somewhat since the spring while the Canadian outlook is declining.



Expectations: Canadian Economy

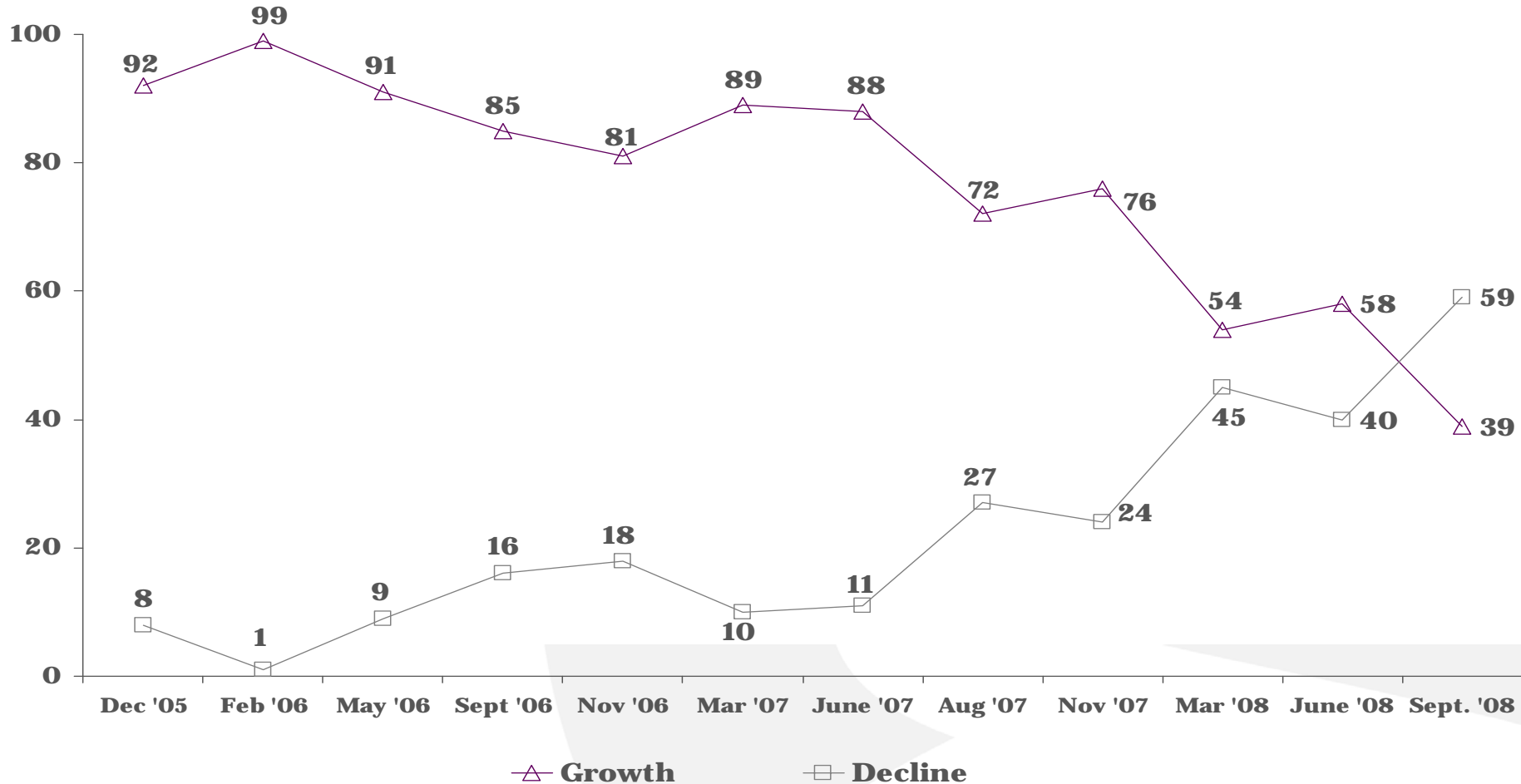
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: Canadian Economy

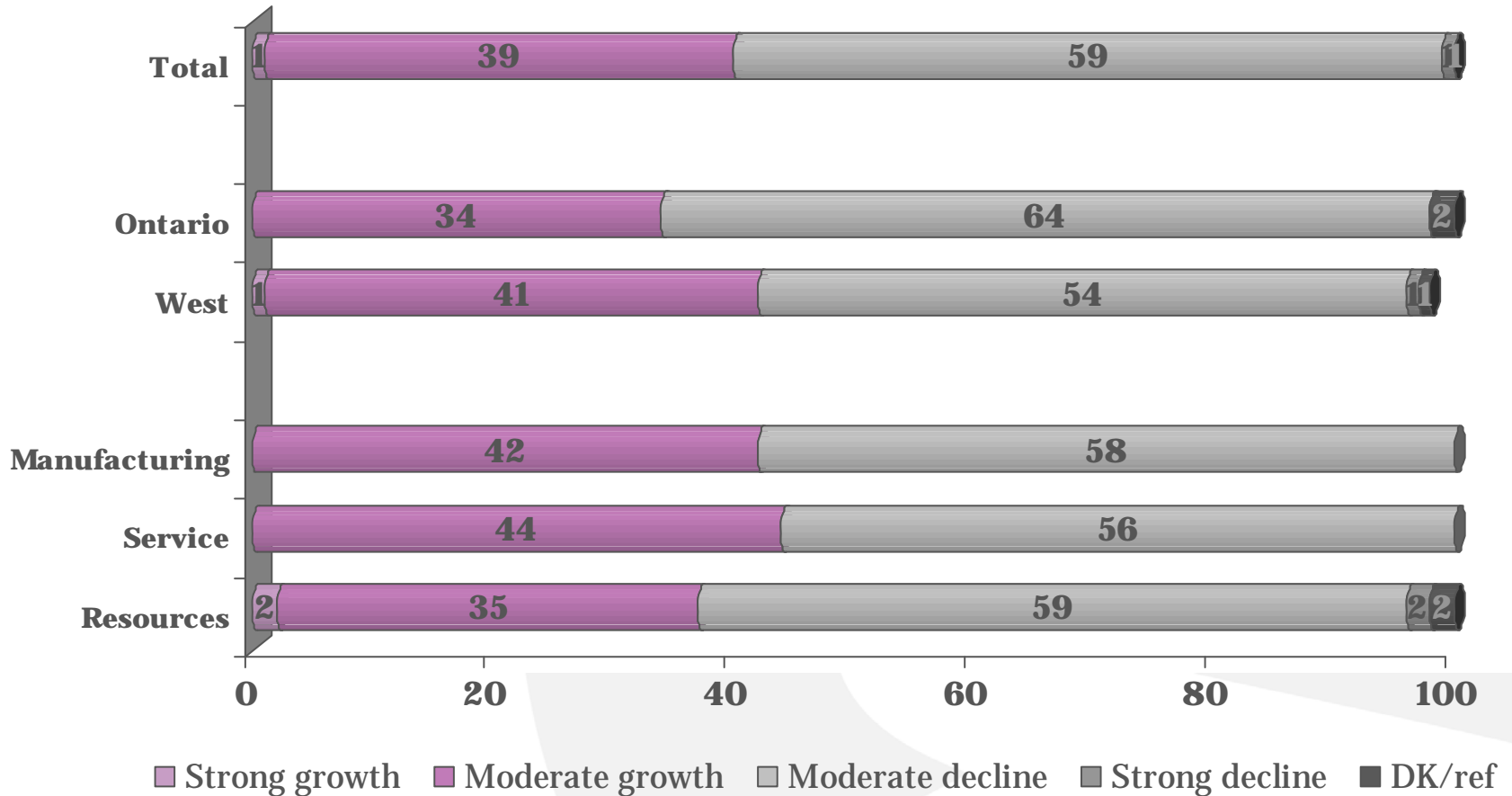
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Expectations: Canadian Economy

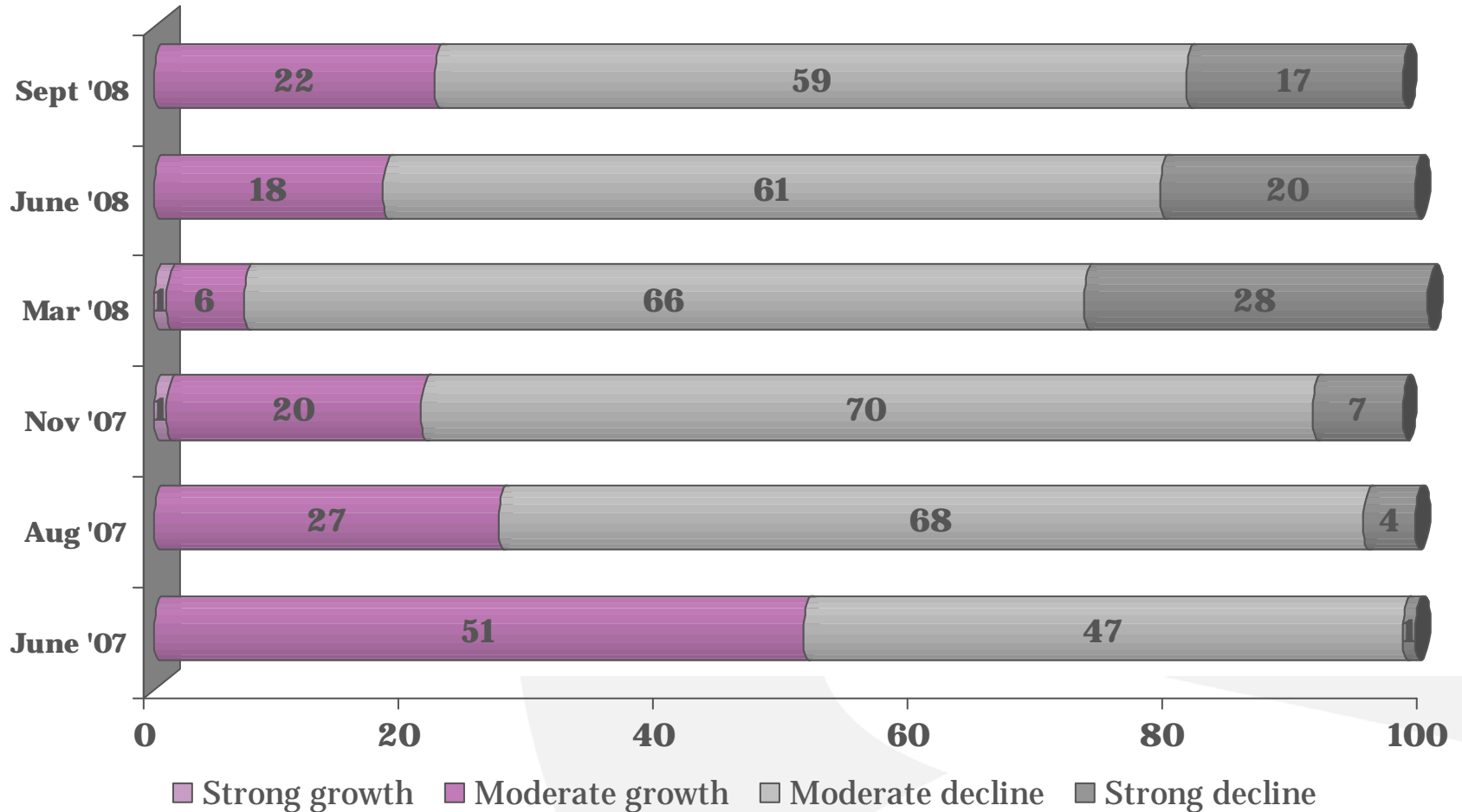
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Expectations: U.S. Economy

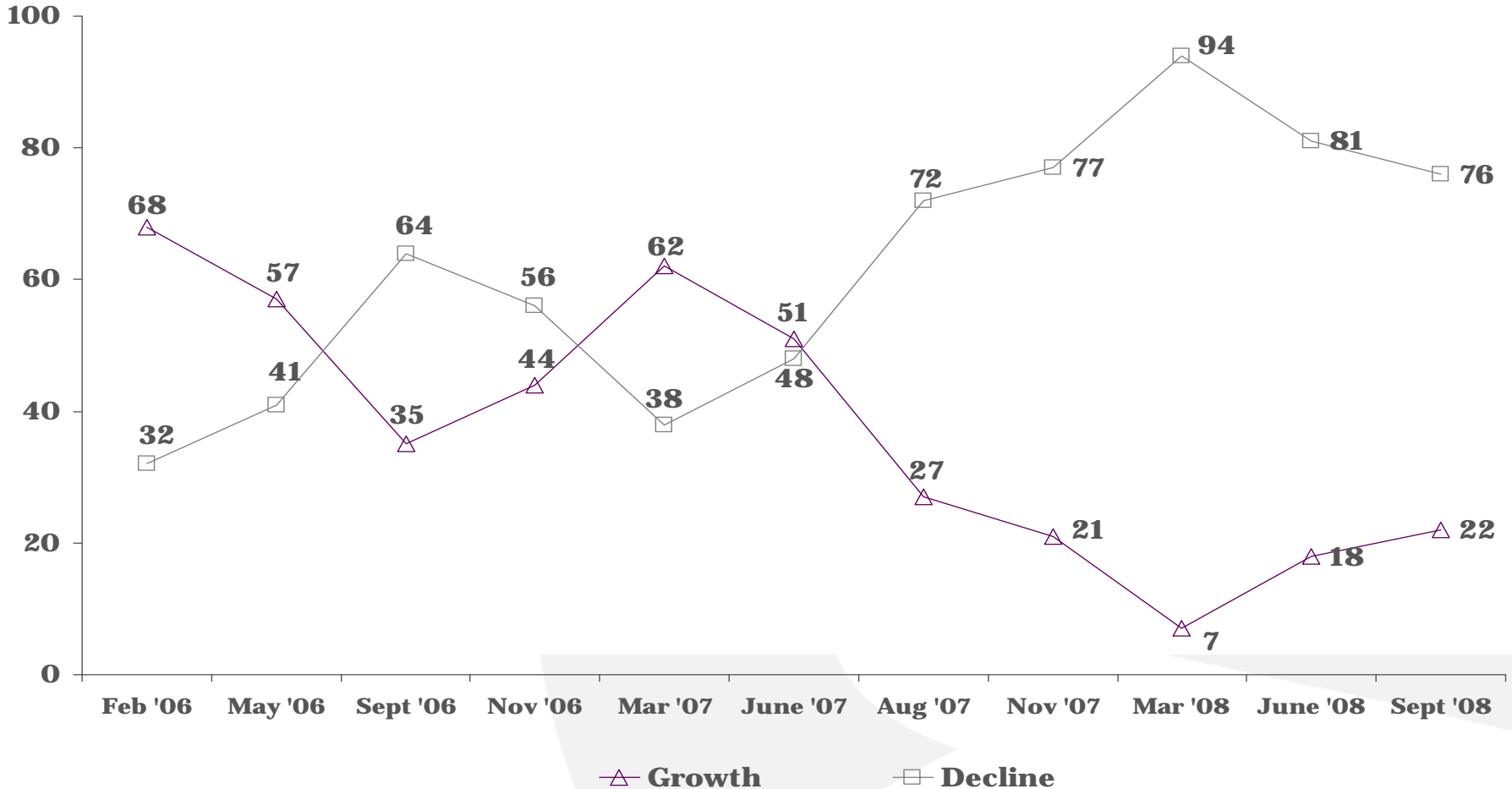
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: U.S. Economy

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



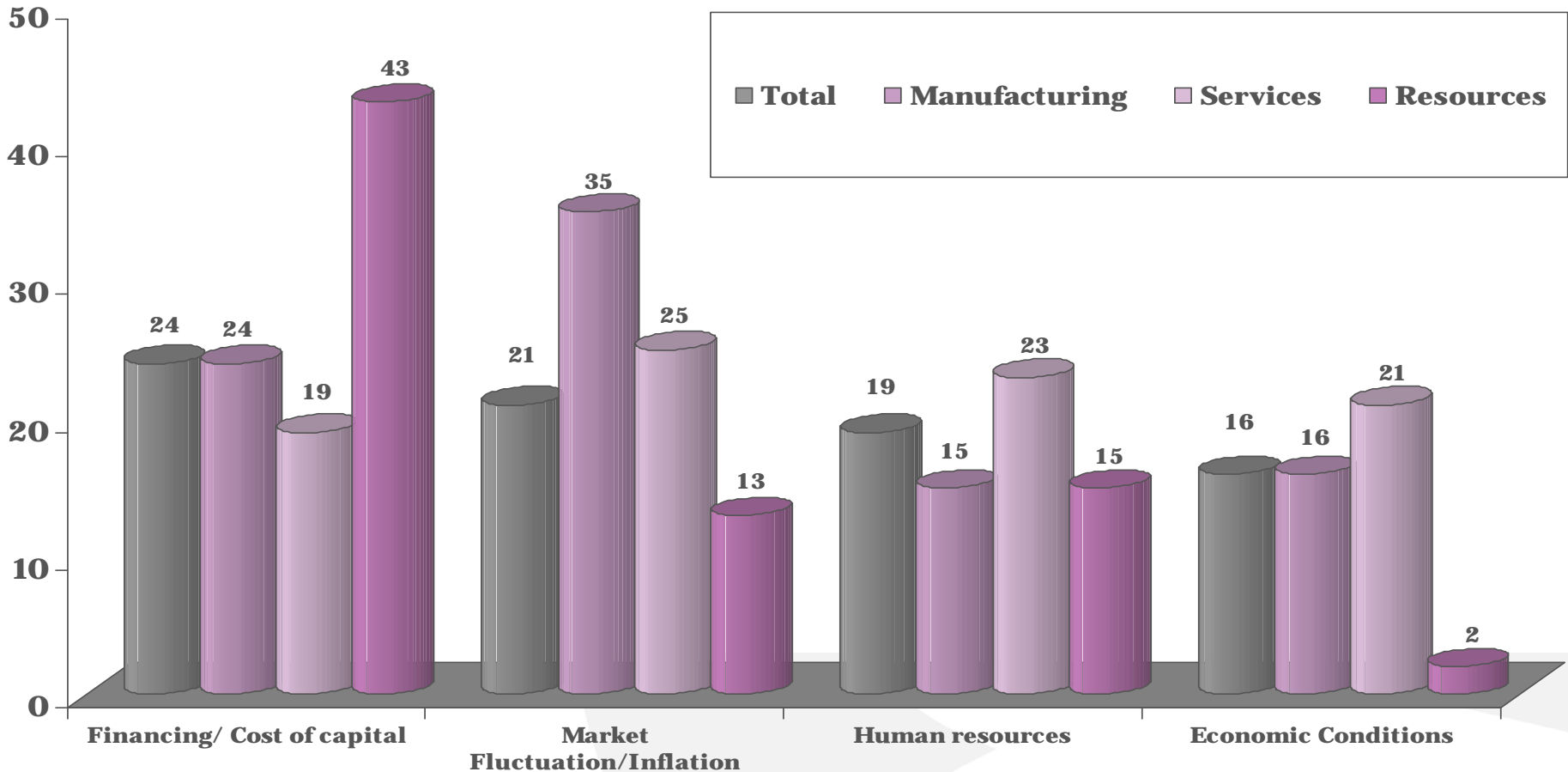


- ❑ The top issue facing the companies of executives we spoke with is access to capital/financing.
- ❑ Small to medium-sized companies (i.e. <1000 employees) are more likely to be concerned with access to capital and financing.
- ❑ Large employers are more likely to be concerned with economic and market conditions.
- ❑ Resource sector executives are particularly concerned with access to capital/financing, compared to executives in other sectors.
- ❑ Executives in Ontario tend to be more concerned about the state of the economy than those in the West.



Biggest Issue Facing Company: Sector

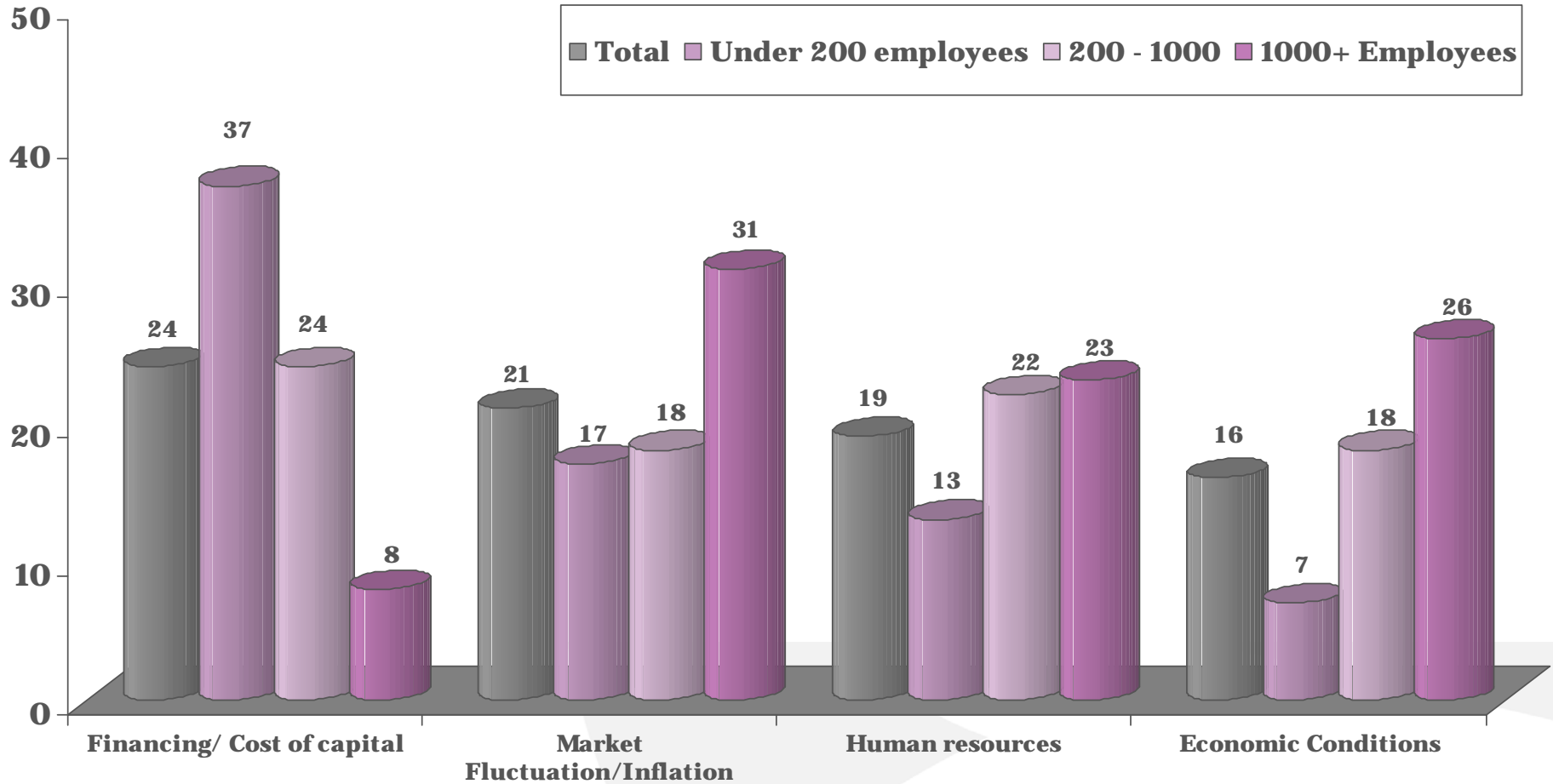
What is the biggest challenge facing your company right now?





Biggest Issue Facing Company: Size

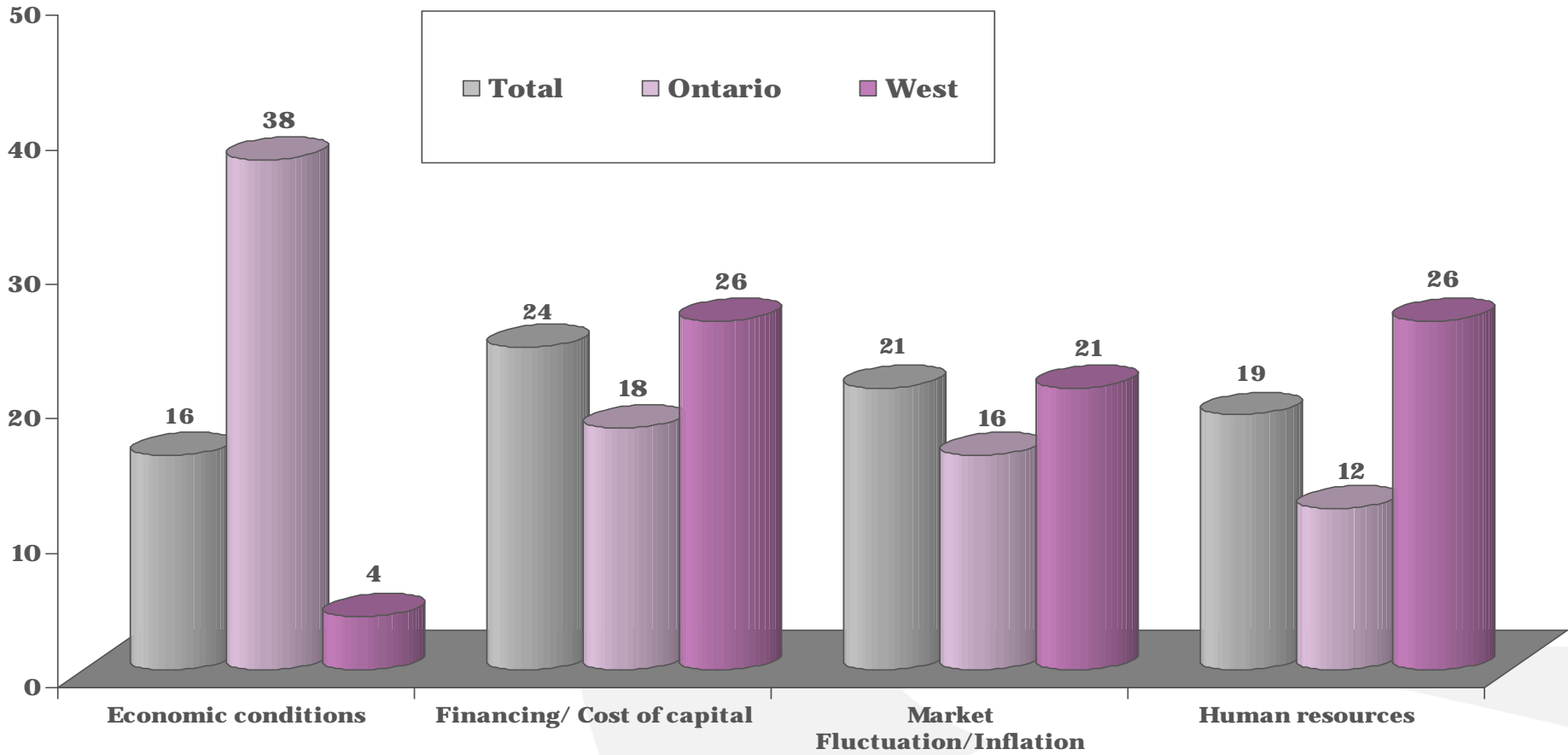
What is the biggest challenge facing your company right now?





Biggest Issue Facing Company: Region

What is the biggest challenge facing your company right now?



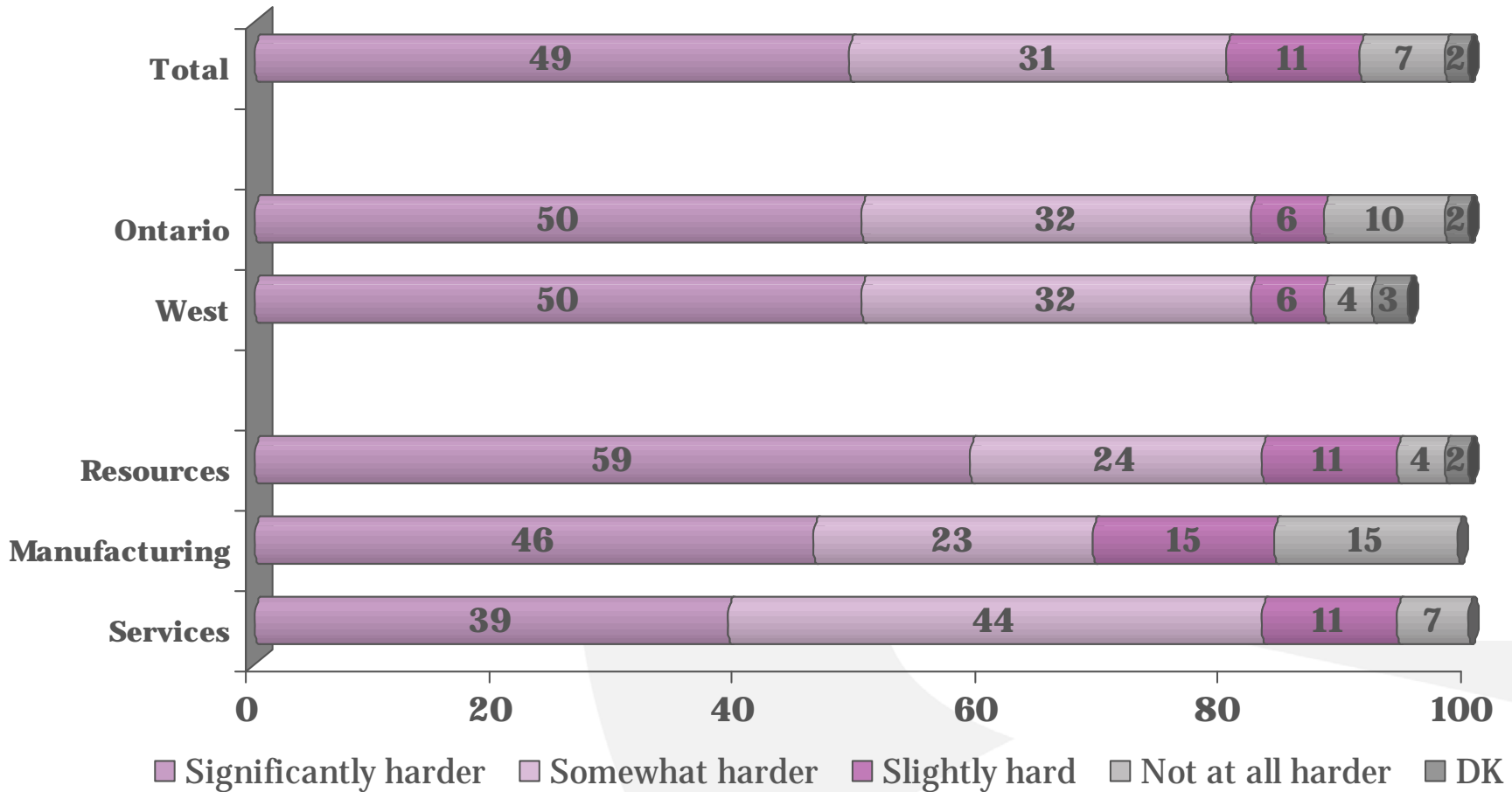


- ❑ The vast majority of executives believe it is more difficult to access financing today compared with two years ago - almost half say it is significantly harder.
- ❑ Of those who said it was harder to access capital/financing, most believe it will be a year or more before the credit crunch eases off.
- ❑ Less than one in five say the credit crunch has had no affect on their company. The rest are split between those who say the impact has been direct and those who have felt it because of its impact on suppliers or customers.
- ❑ Manufacturing executives are far less likely to say it's had a direct impact on them, as are executives with the largest employers or a market capitalization of over \$1 billion.



Is the Credit Crunch making it harder to access financing?

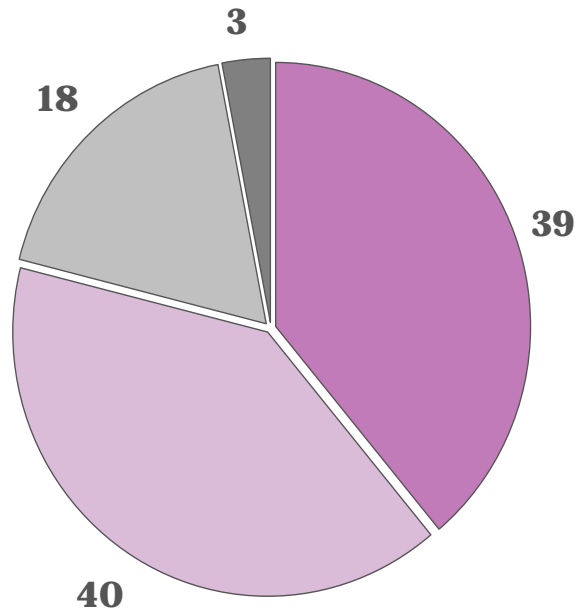
Some people say there is a credit crunch that is making it more difficult for companies to access financing today compared with 2 years ago. Would you say that it is significantly harder to access financing, somewhat harder, slightly harder or not at all harder today than 2 years ago?



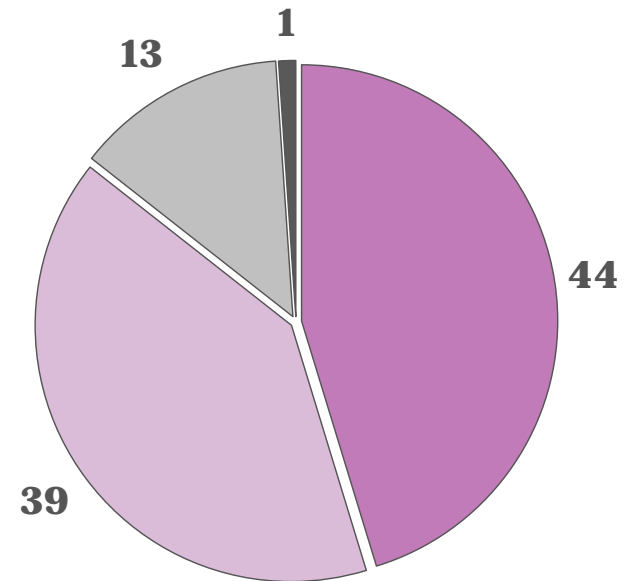


How will the credit crunch affect companies?

Which is most applicable to your company:
the credit crunch has had a direct impact;
an indirect impact; has had no impact?



How much longer do you think the credit crunch will last?



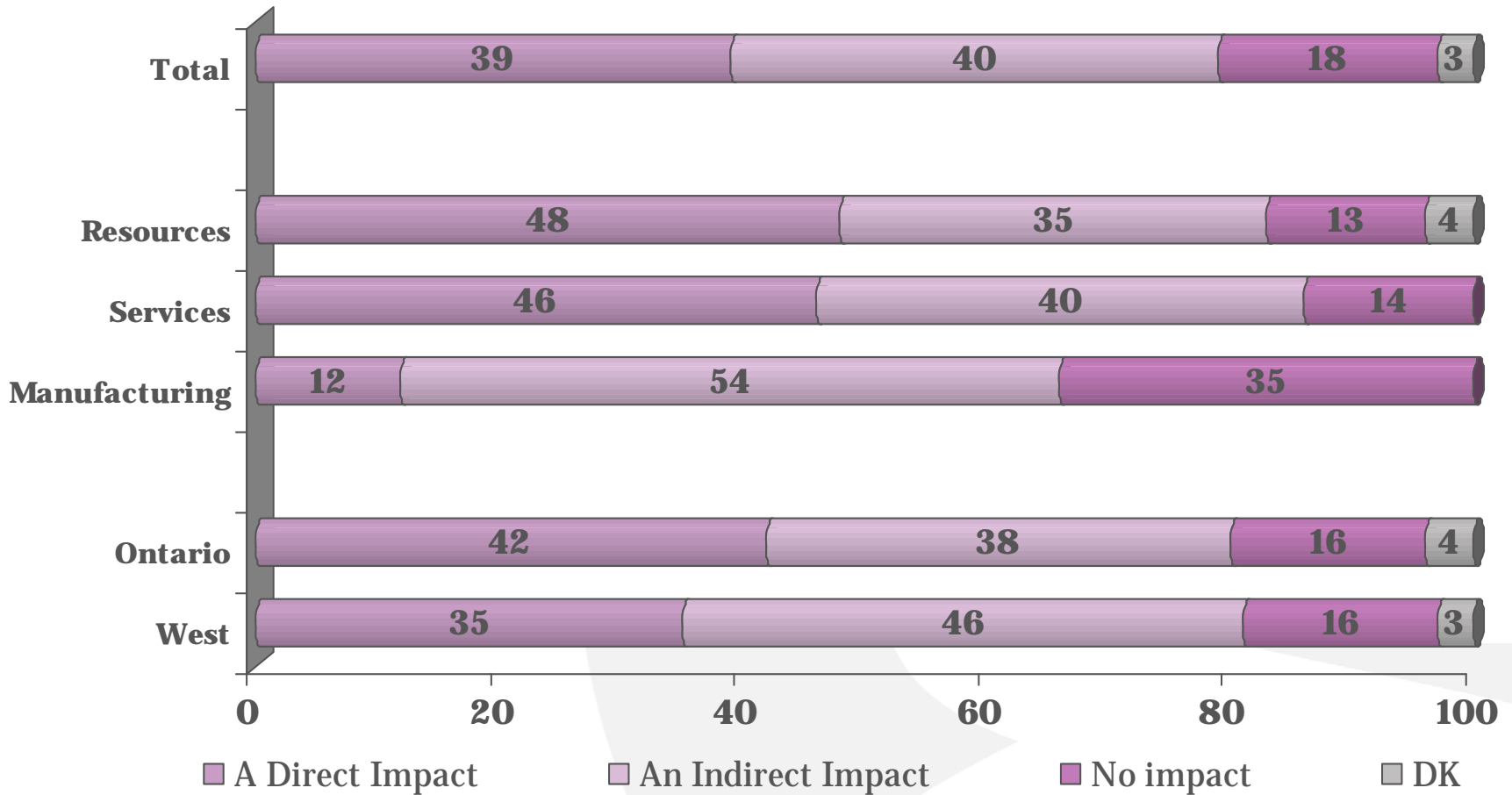
■ Direct impact ■ Indirect Impact ■ No impact ■ DK

■ More than a year ■ Another Year
■ Another 6 mos. ■ It's easing off now



The Credit Crunch by Company/Sector

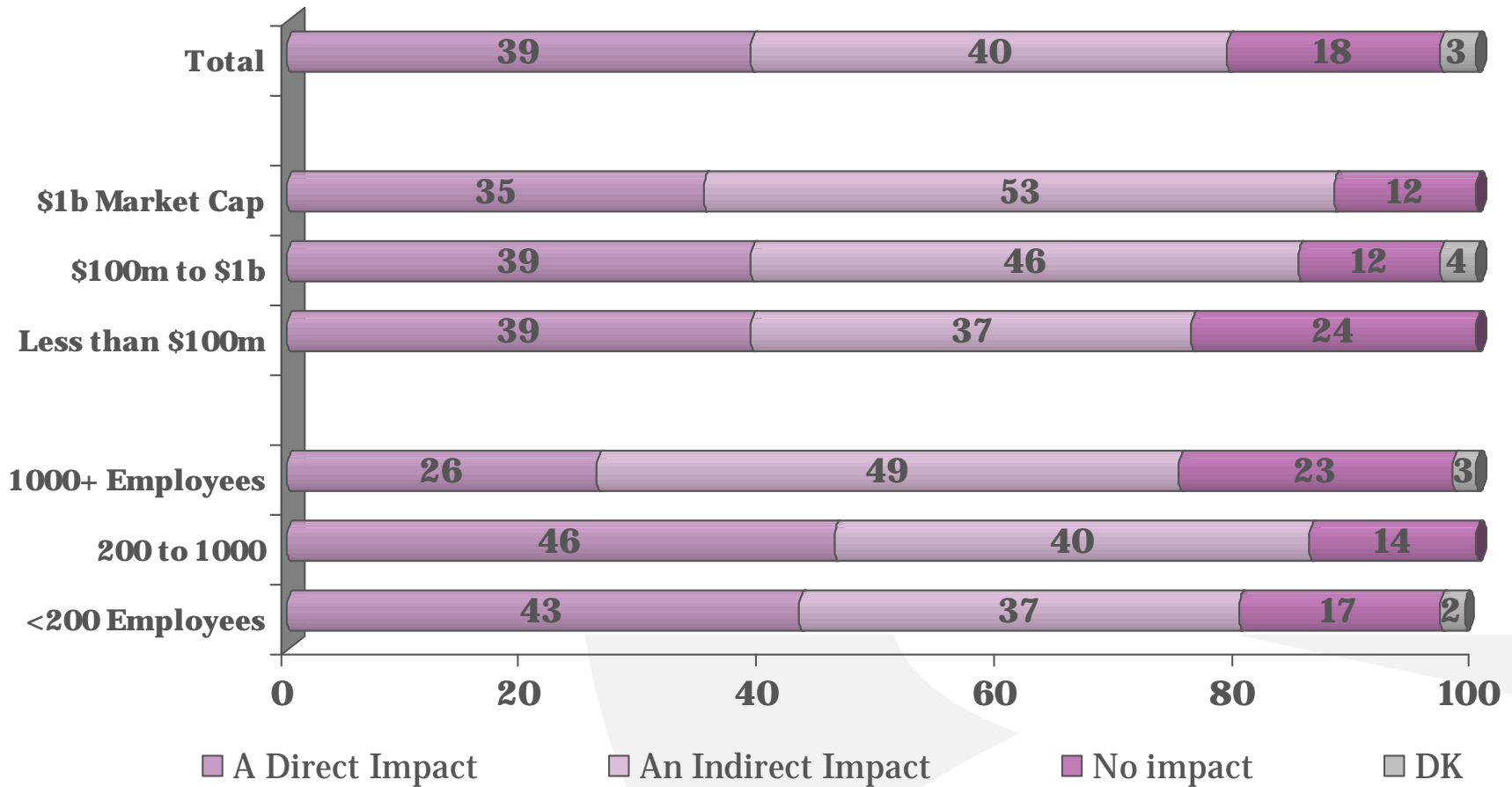
Would you say credit crunch has had a direct impact on your company; no impact; or has had an indirect impact on your company because of its effect on our suppliers or clients ?





The Credit Crunch by Market Cap and Number of Employees

Would you say credit crunch has had a direct impact on your company; no impact; or has had an indirect impact on your company because of its effect on our suppliers or clients ?



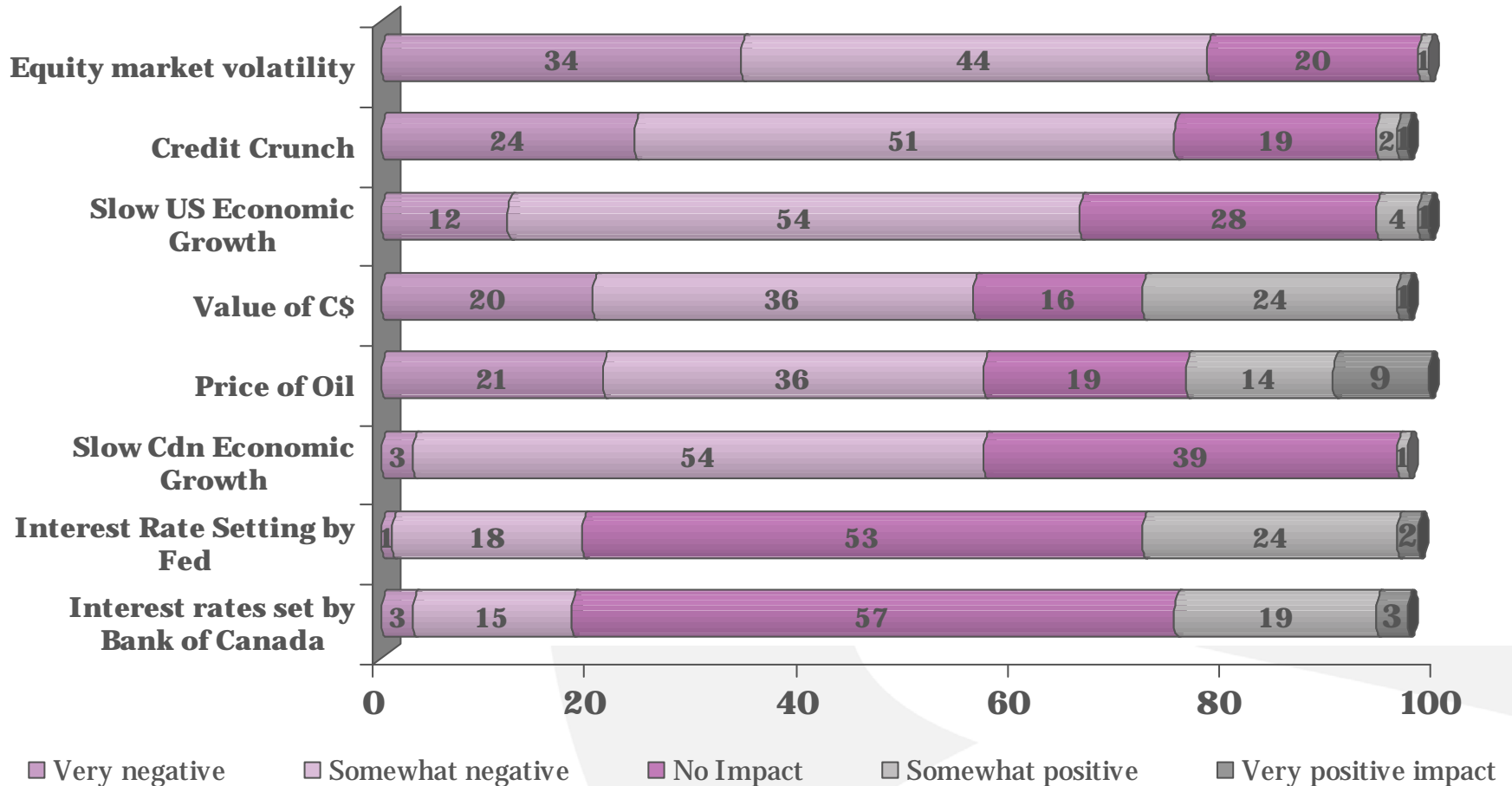


- ❑ Over the last year, the value of the Canadian dollar, slower Canadian and US economic growth, the credit crunch and equity market volatility have had a negative impact on most of Canada's top companies. Equity market volatility and the credit crunch have had the most negative impact by far.
- ❑ Equity market volatility has had the most negative effect on the resources sector and smaller companies.
- ❑ The negative effects of the credit crunch have been felt most by small and medium-sized companies and the resources and services sectors.



What has impacted your company most?

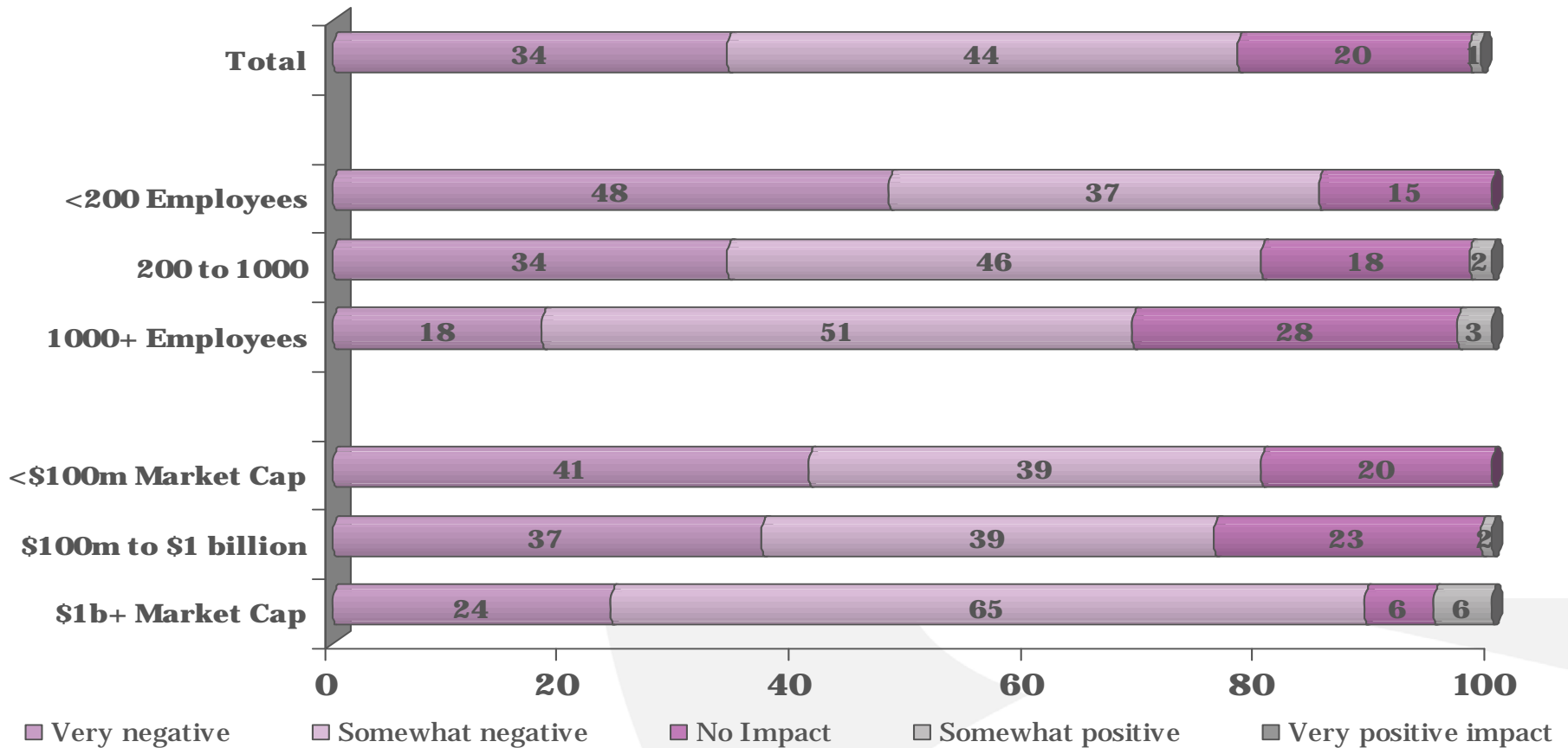
I'd like you to rate the impact that the following business and economic factors have had on your business over the last 12 months. For each please indicate if it has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact.





Impact of Equity Market Volatility

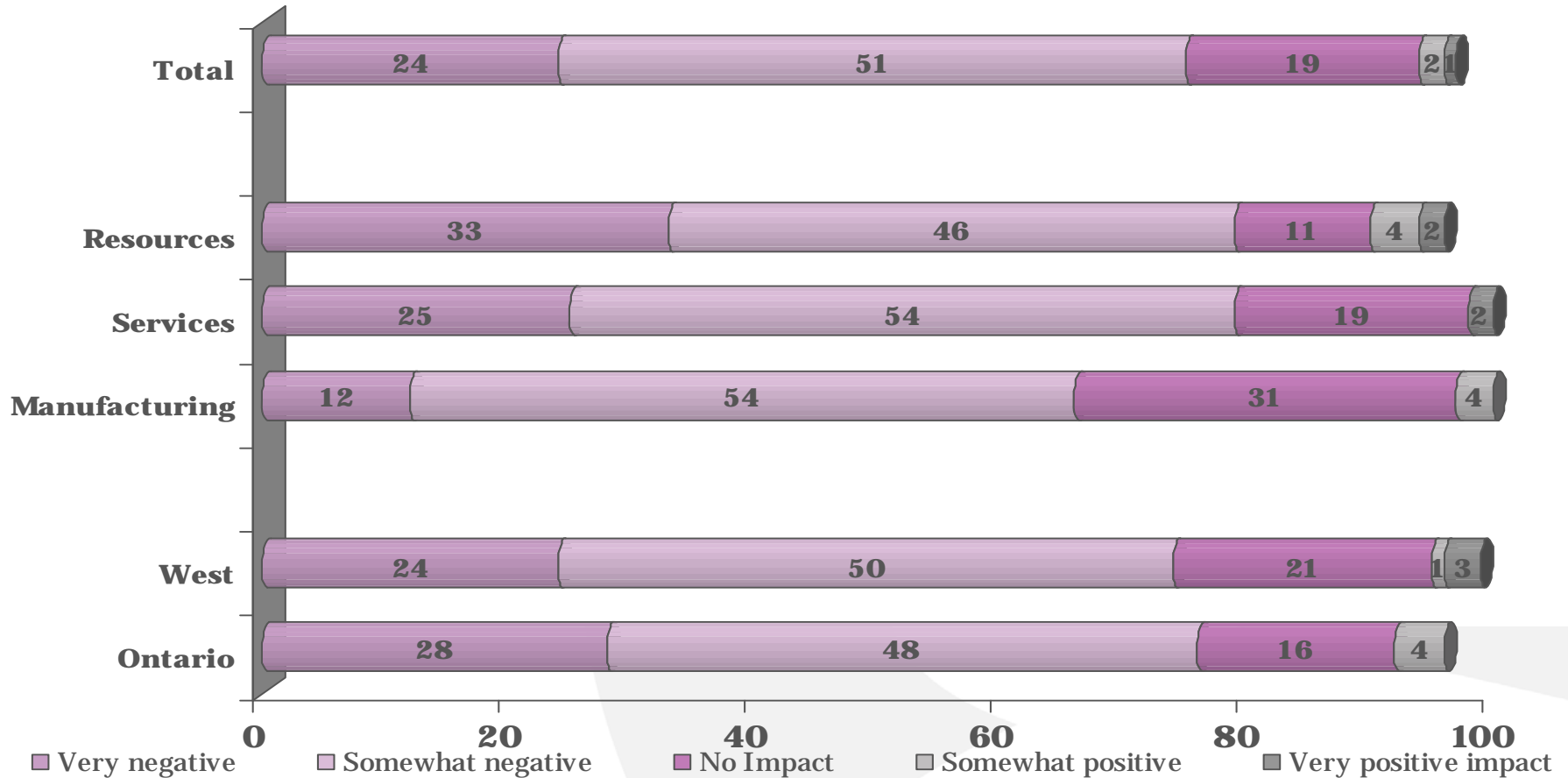
I'd like you to rate the impact that the following business and economic factors have had on your business over the last 12 months. For each indicate if it has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact. For equity market volatility...





Impact of the Credit Crunch

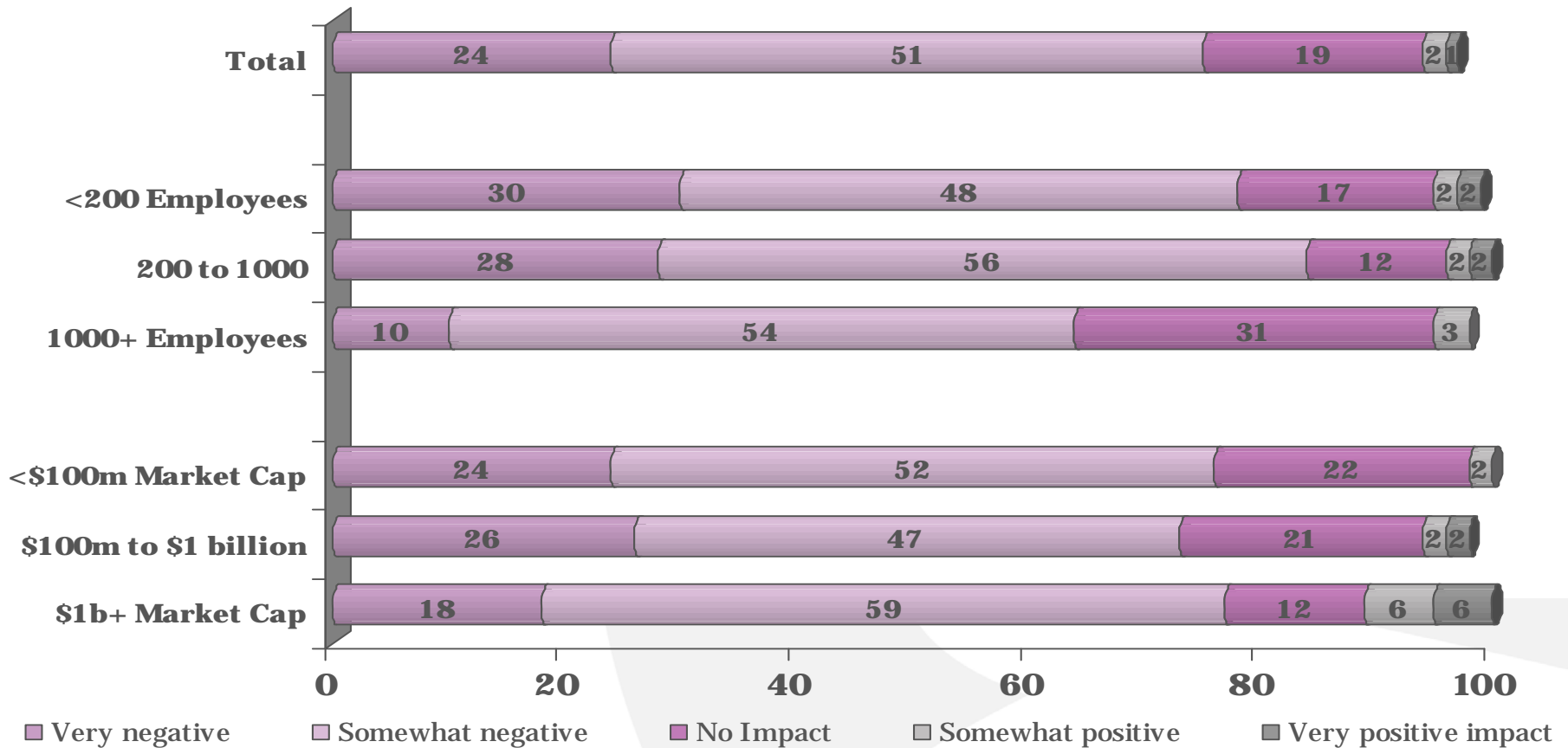
I'd like you to rate the impact that the following business and economic factors have had on your business over the last 12 months. For each, indicate if it has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact. For the credit crunch or access to credit generally...





Impact of the credit crunch

I'd like you to rate the impact that the following business and economic factors have had on your business over the last 12 months. For each, indicate if it has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact. For the credit crunch or access to credit generally...



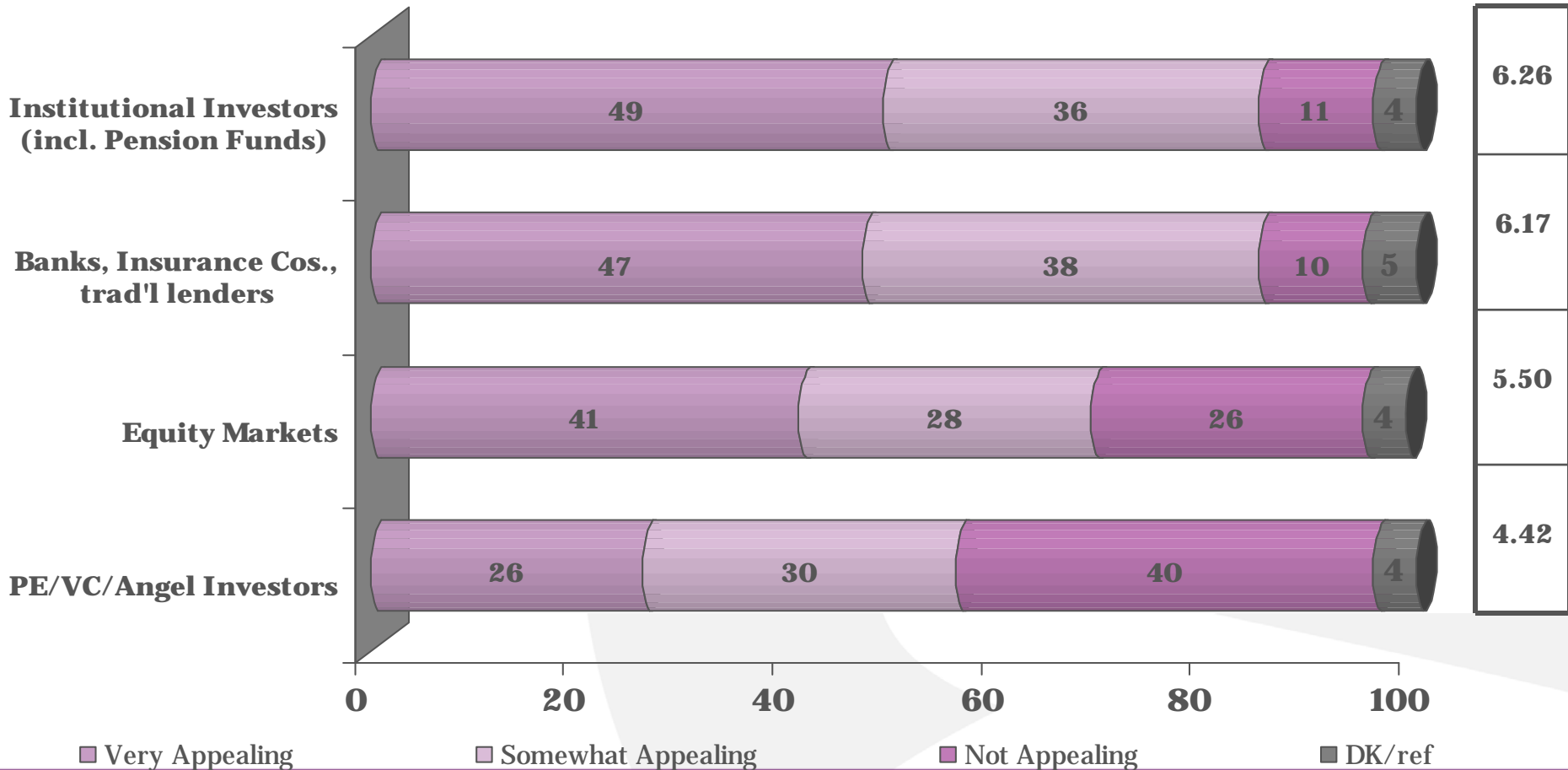


- ❑ Executives we surveyed consider equity markets, the banks (along with traditional lenders and insurance cos.) and institutional investors (including pension funds) to be generally appealing options – with institutional investors having the most appeal.
- ❑ Smaller, more entrepreneurial companies find Private Equity or Venture Capital quite appealing avenues for capital; the managerial class in large cap companies are strongly averse to PE or VC
- ❑ The preferred financing route for manufacturing executives are 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.



Rating Financing Options

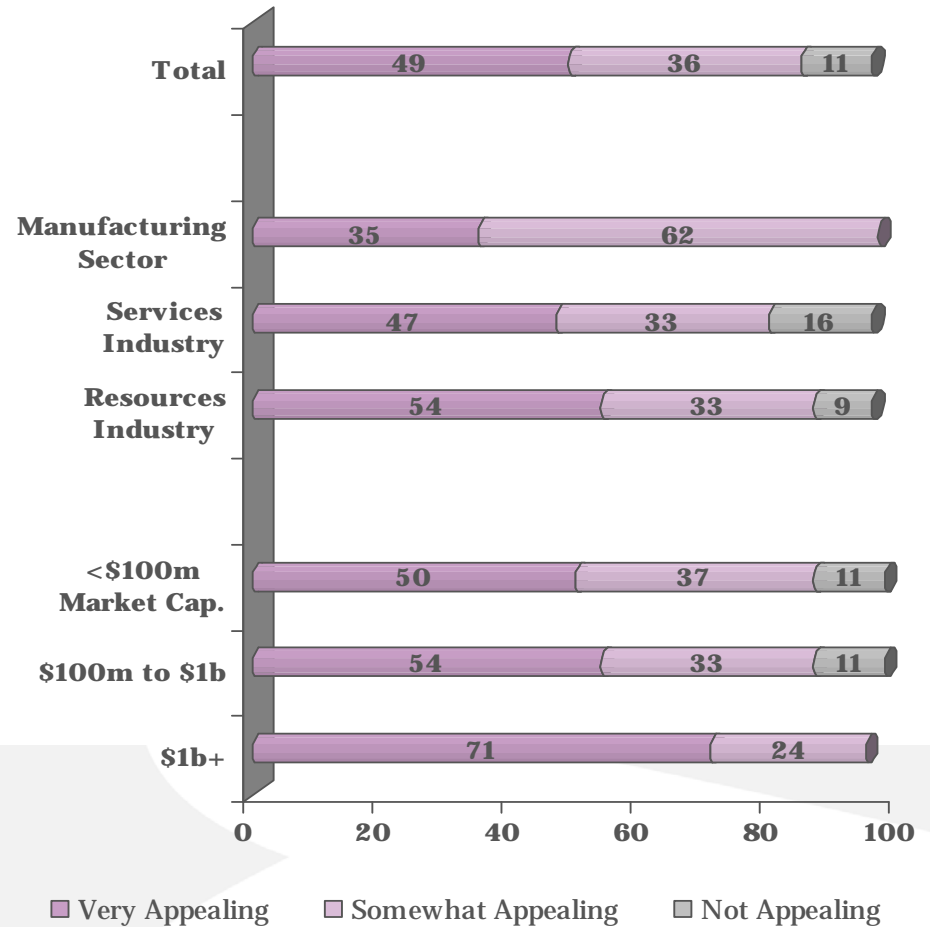
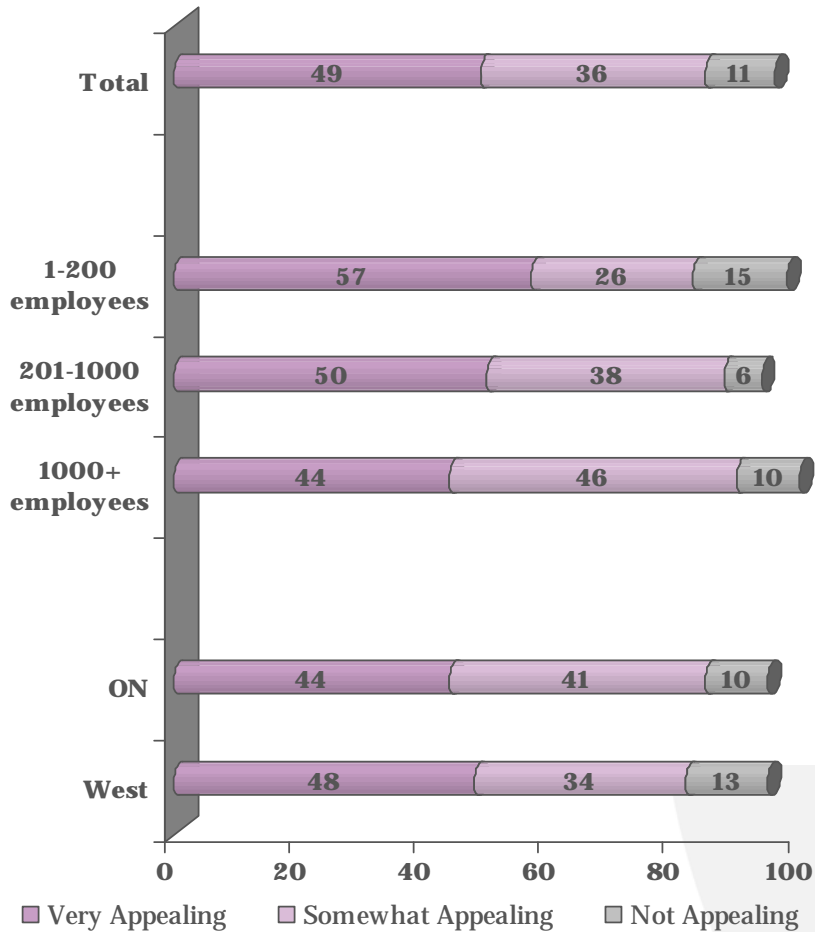
I'm going to list four types of financing options available to companies and I'd like you to tell me how appealing you consider each as an option for your company at this time, on a scale of 1 to 9 where 1 means not at all appealing at the current time and 9 means very appealing.





Institutional Investors

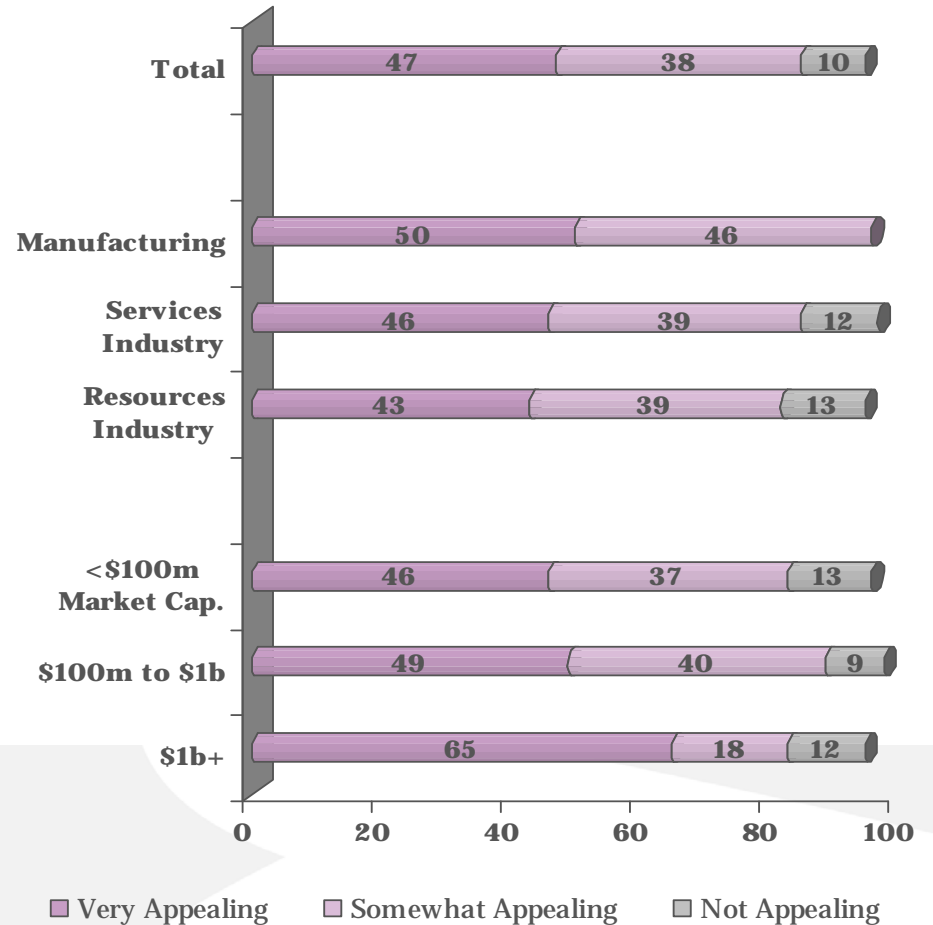
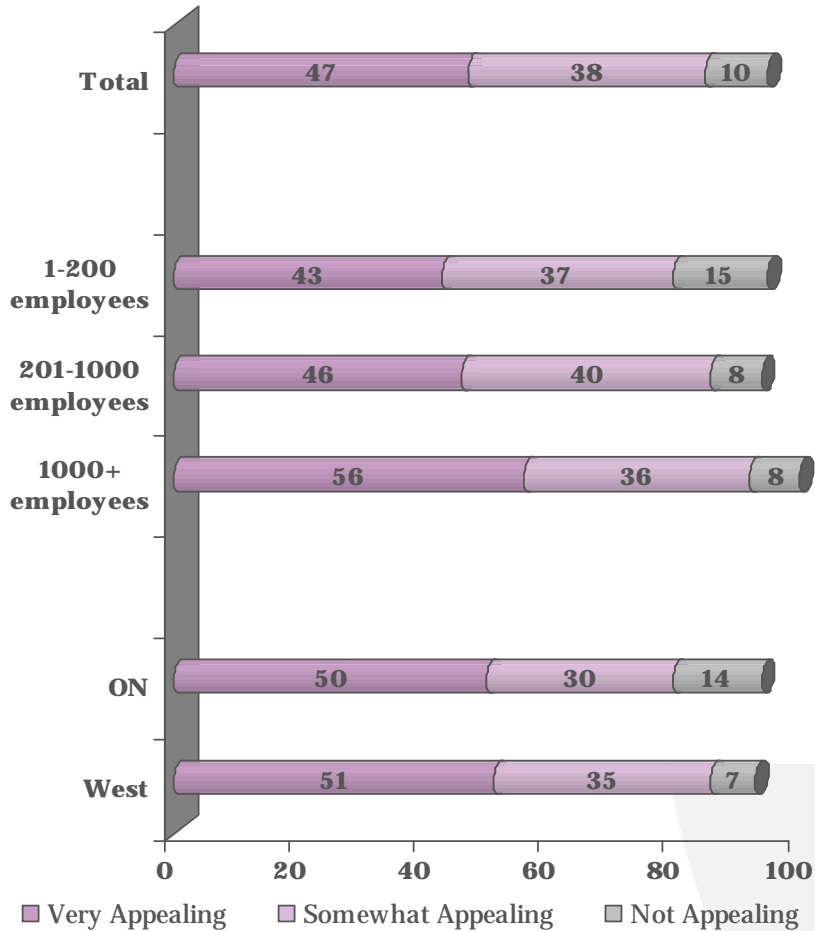
...on a scale of 1 to 9 ...how would you rate institutional investors including pension funds?





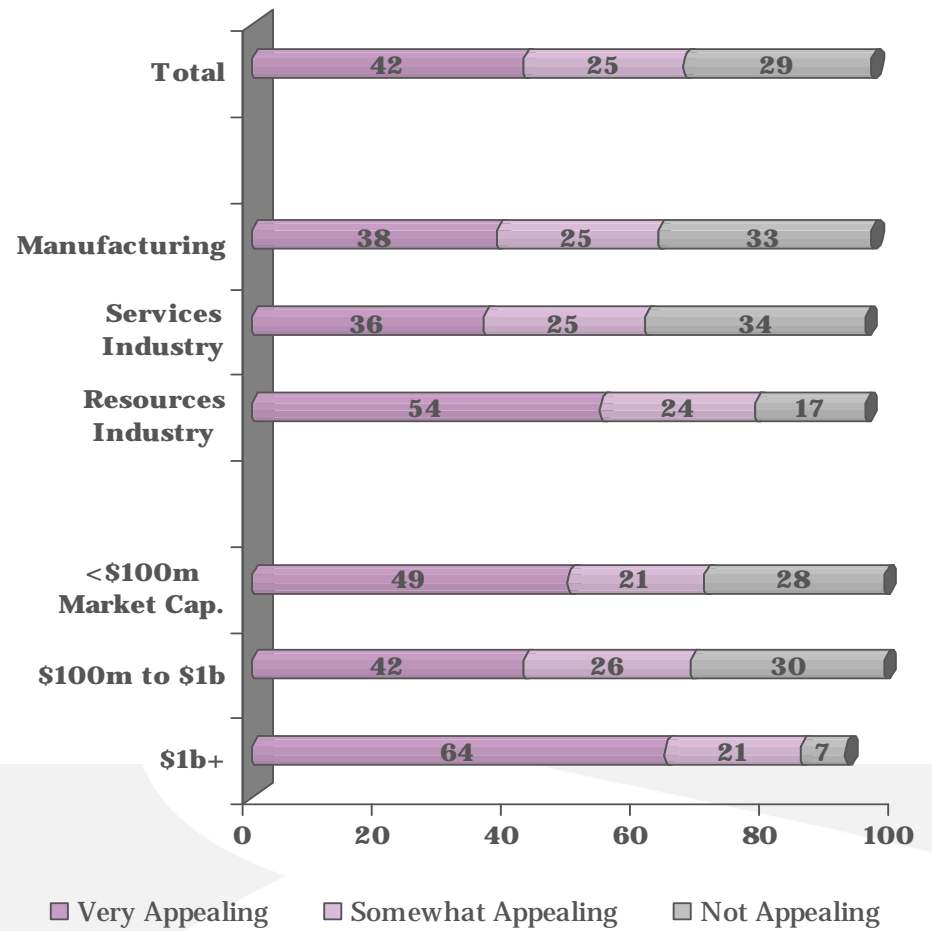
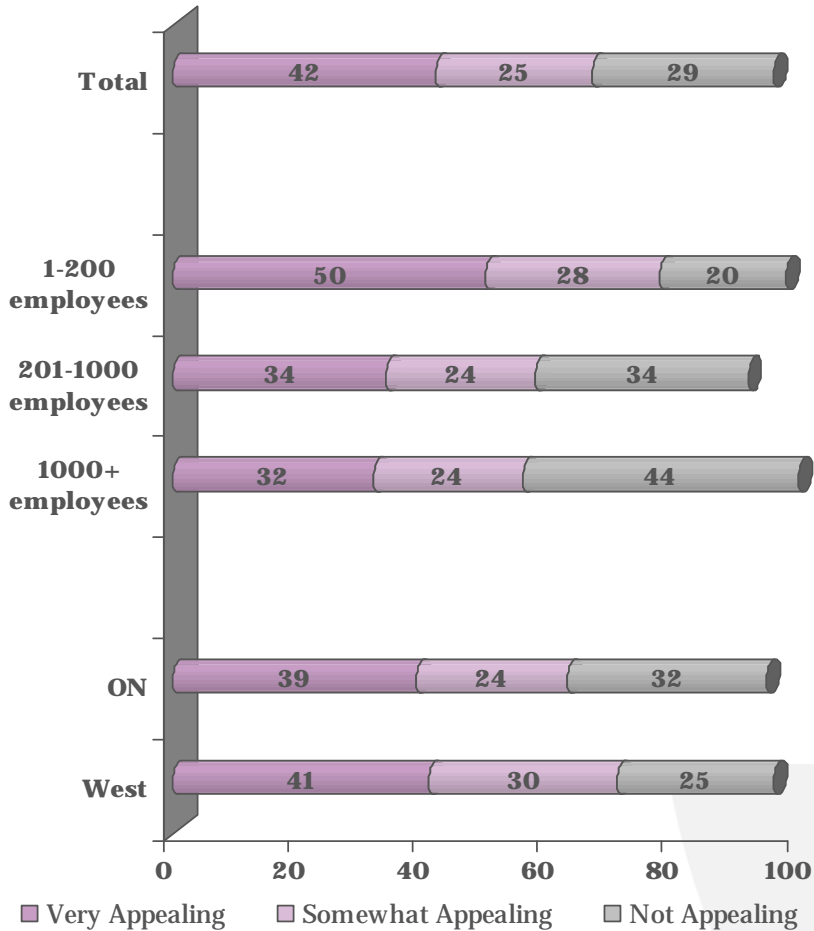
Banks, Ins Cos., Traditional Lenders

...on a scale of 1 to 9 ...how would you rate banks, insurances companies and traditional lenders?



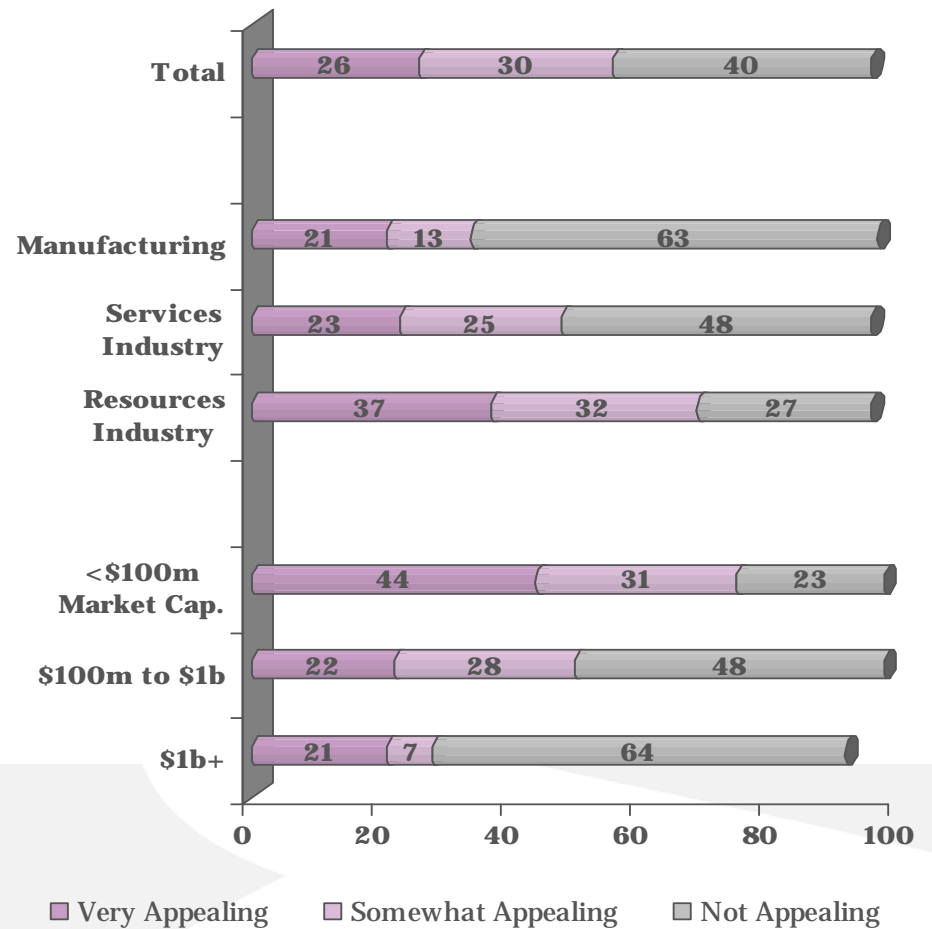
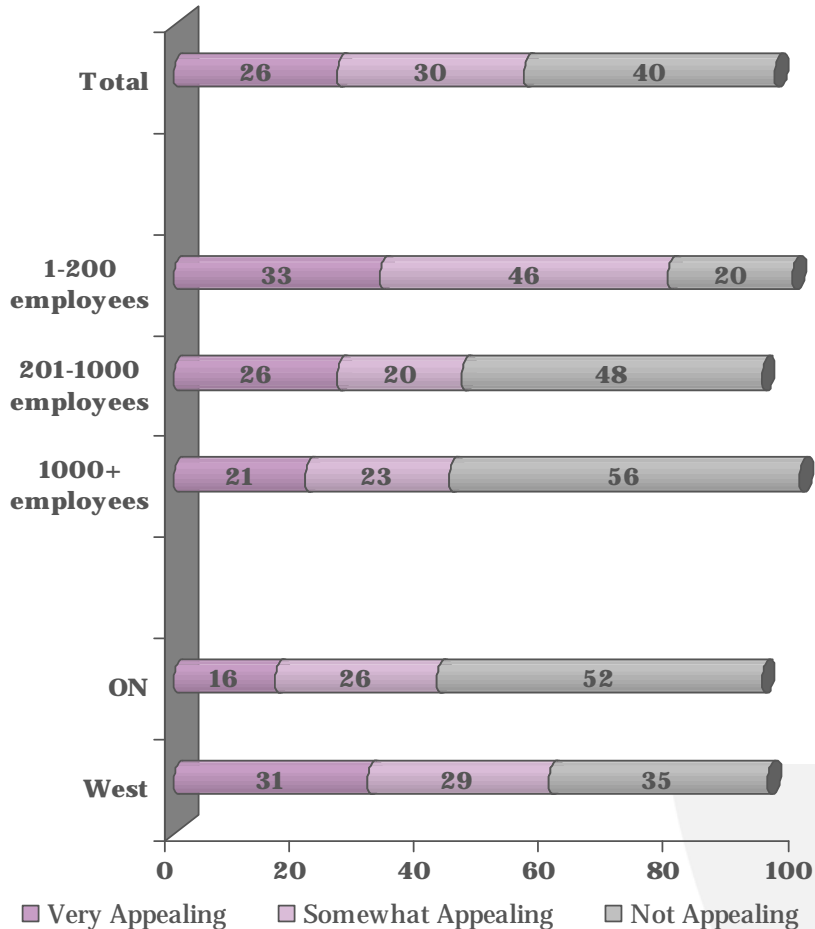


...on a scale of 1 to 9 ...how would you rate equity markets?





...on a scale of 1 to 9 ...how would you rate PE, VC and Angel Investors?





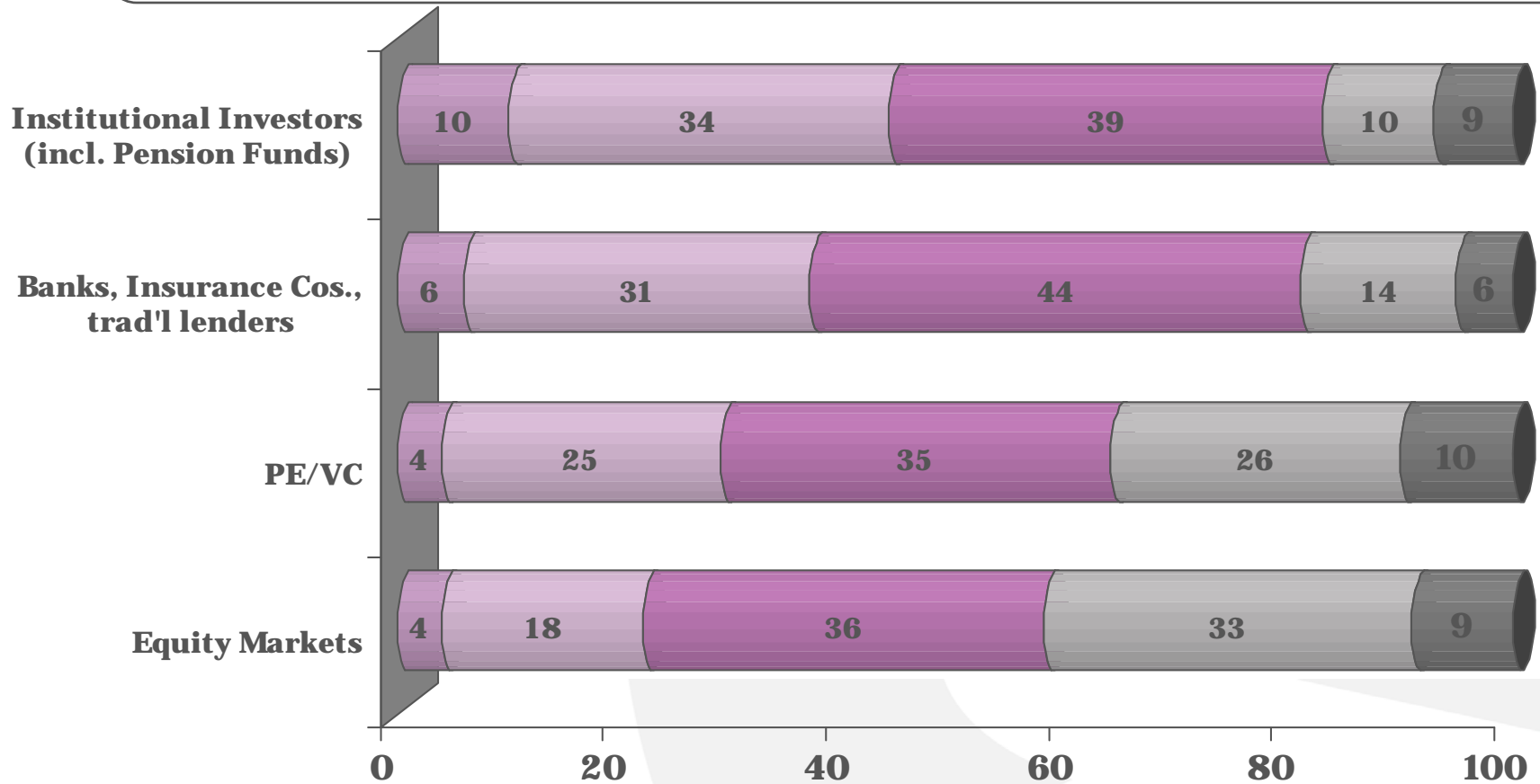
Losing their appeal?

- ❑ All four major options of financing are less appealing today than two years ago, according to executives in our survey.
- ❑ Of the four, institutional investors have retained the most appeal if not become more appealing. Those who say their appeal has grown tend to be from Ontario – in contrast a majority of Western executives say institutional investors are less appealing today.
- ❑ Executives at smaller companies (by employee numbers and market cap) are more likely than others to say the appeal of PE/VC has grown.
- ❑ Smaller and medium-sized companies are less likely to say banks and traditional lenders are more appealing today, compared to the largest employers who are more likely to they are more appealing options.



Losing their appeal?

Please think about the market conditions that exist today compared with those that existed two years ago...please tell me whether you find this option much more appealing today than two years ago, somewhat more appealing, somewhat less appealing or, much less appealing today?



■ Much more appealing ■ Somewhat more appealing ■ Somewhat less appealing ■ Much less appealing ■ DK/ref



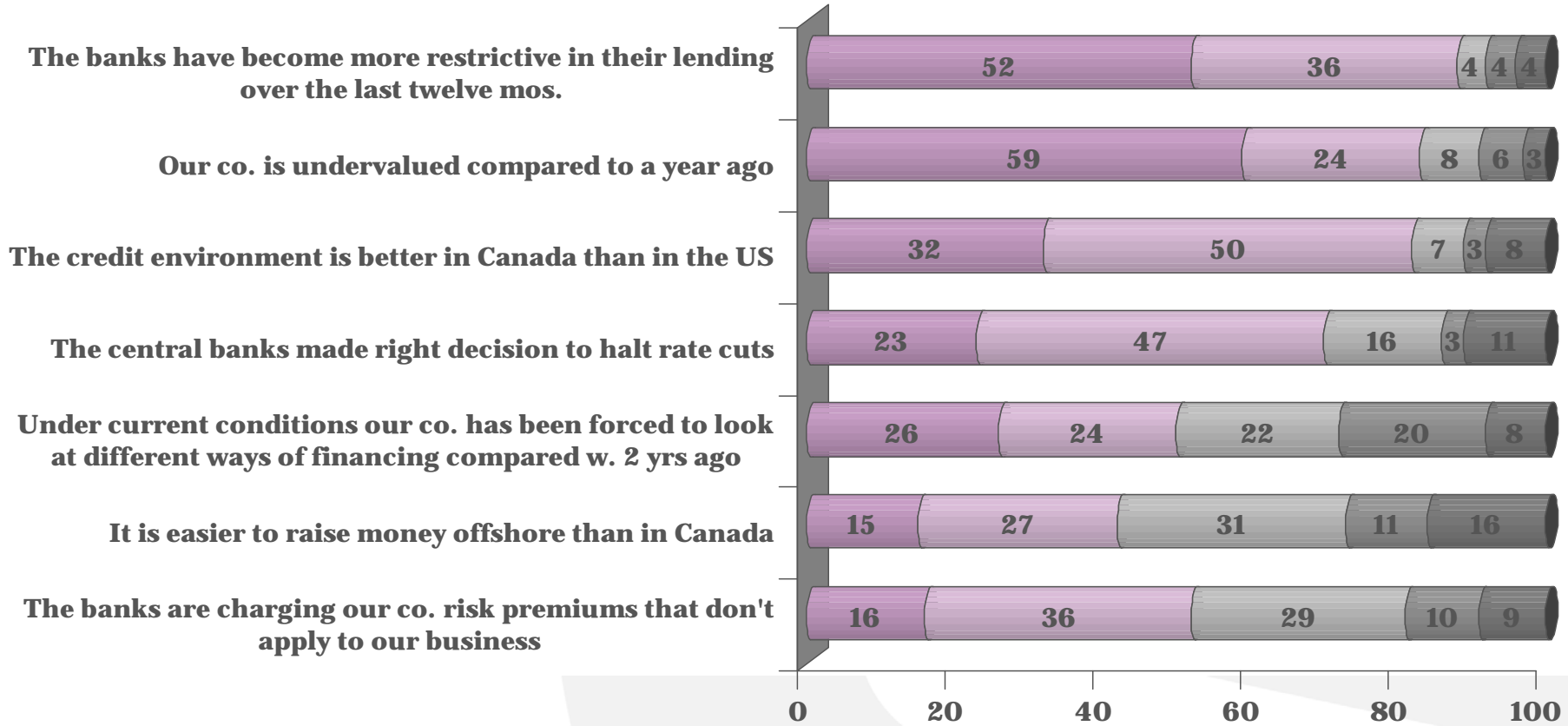
- ❑ The majority of executives agree their companies are undervalued compared to two years ago – 59% strongly agree, 24% agree somewhat. Those in the resources sector are more likely to agree with this as are executives with small employers (<200 employees).
- ❑ Almost three quarters of those surveyed said their company has sought new capital or financing in the last year. (Those that have not are more likely to be in the services sector, where 37% say they have not.)
- ❑ Only 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.



- ❑ While almost all agree the banks have become more restrictive in lending, fewer (roughly half) say their company is being charged risk premiums by the banks that don't apply to their businesses.
- ❑ Almost as many agree as disagree that it's easier to raise money offshore than in Canada.
- ❑ 82% agree with the statement “the credit environment is better in Canada than in the US.”



Do you strongly agree, agree, disagree, or strongly disagree with the following statements:



Strongly agree
 Agree
 Disagree
 Strongly disagree
 DK/ref

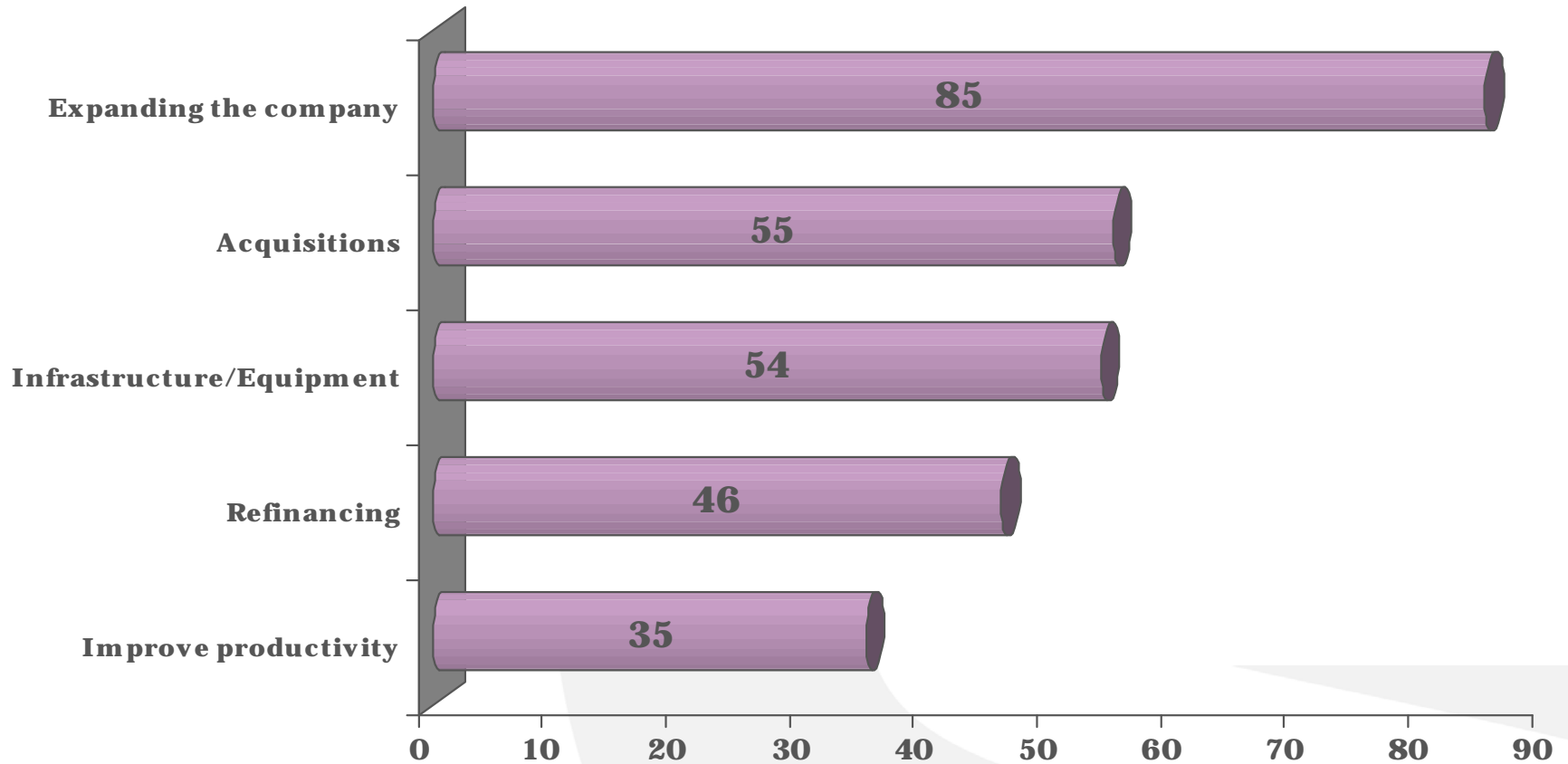


- ❑ Of those companies that have sought financing or new capital in the last year, business expansion was the most common reason by far.
- ❑ Acquisitions, refinancing or infrastructure/equipment purchases were cited by about half. A minority of executives said improving productivity was a reason – they 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.



Reasons for Financing

Does the following apply to your company as a reason for seeking new capital or financing in the last 12 mos.?



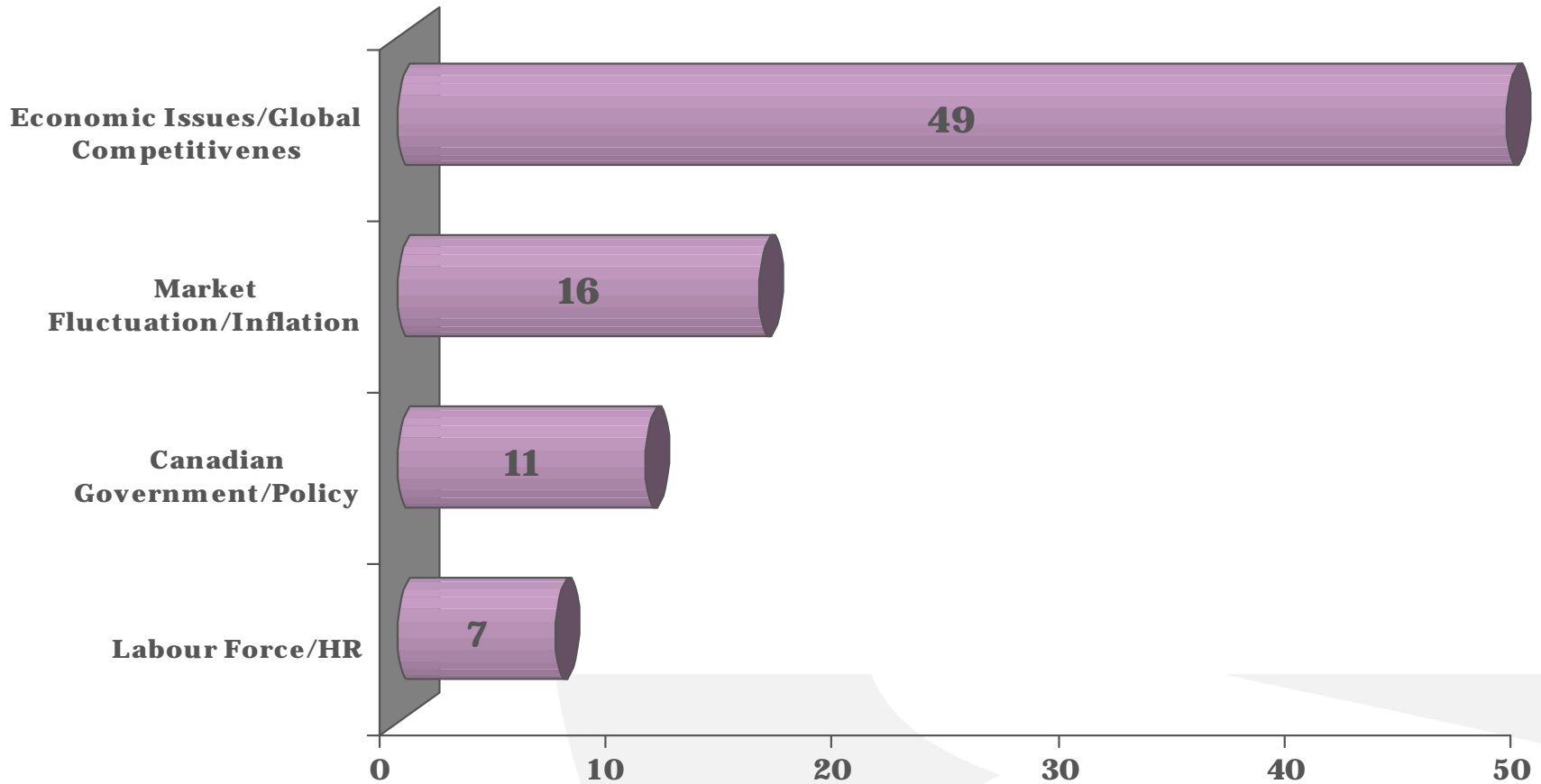


- ❑ In terms of the top issues facing Canada, previous C-Suite surveys have seen the environment/climate change listed by some executives as well as concern around labour force and human resources issues. Surveys with the general population will tend to see concern around health care or the environment among the leading issues.
- ❑ This quarter, although there is some election talk, executives are more focused on the economy than specific policy or non-economic questions.



Most Important Issue Facing Canada

What would you say is the most important challenge facing Canada right now?



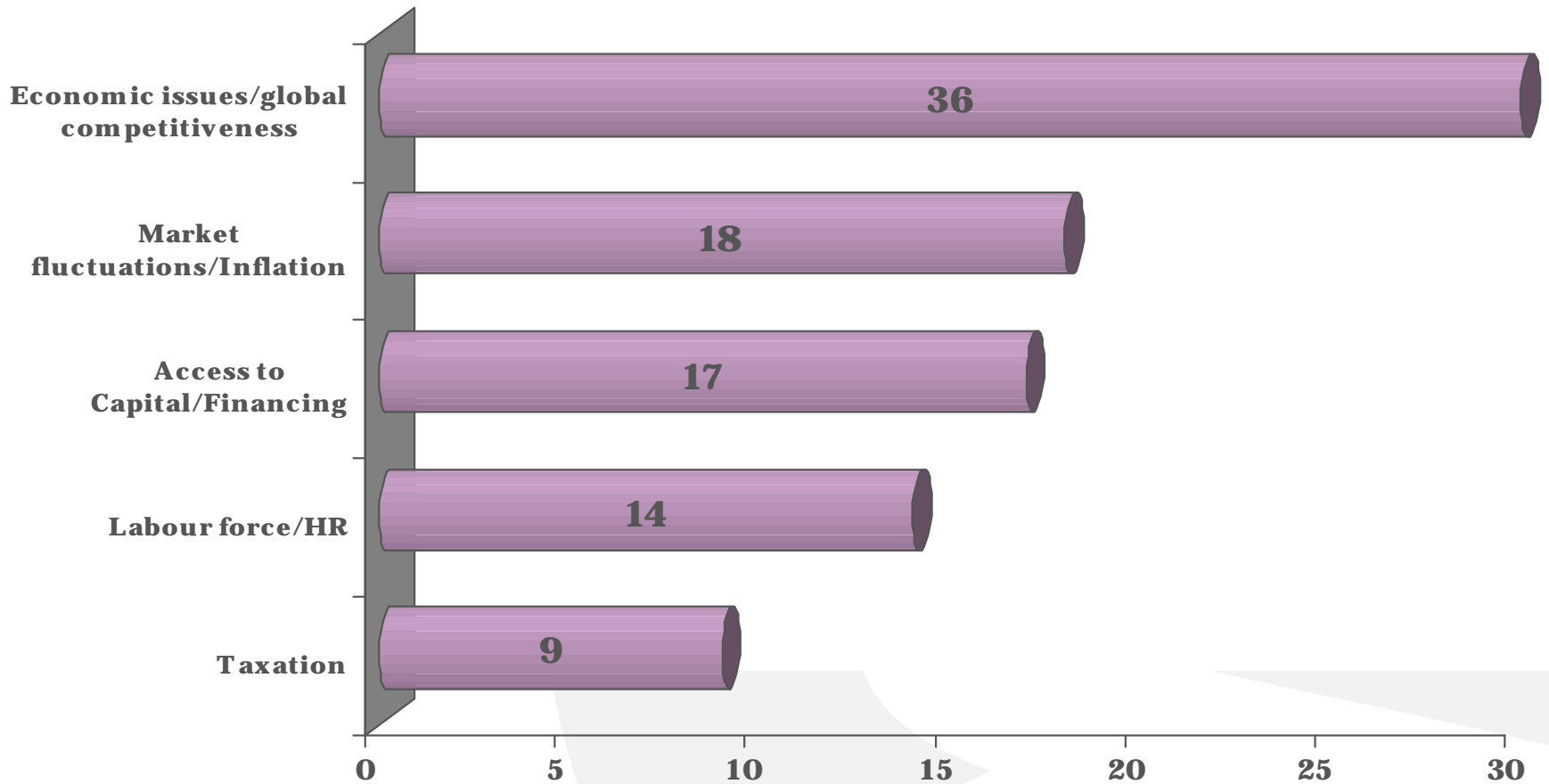


- ❑ When we asked executives what the top issues are facing Canadian businesses in general they said economic concerns (economic growth rate/global competitiveness), followed by market/currency fluctuations, and human resources.
- ❑ Executives in Ontario are more concerned about the economy than executives in other regions. Western executives are more concerned about human resources and labour market issues than executives elsewhere.



Most Important Issue For Canadian Businesses

What would you say is the most important challenge facing Canadian businesses today?



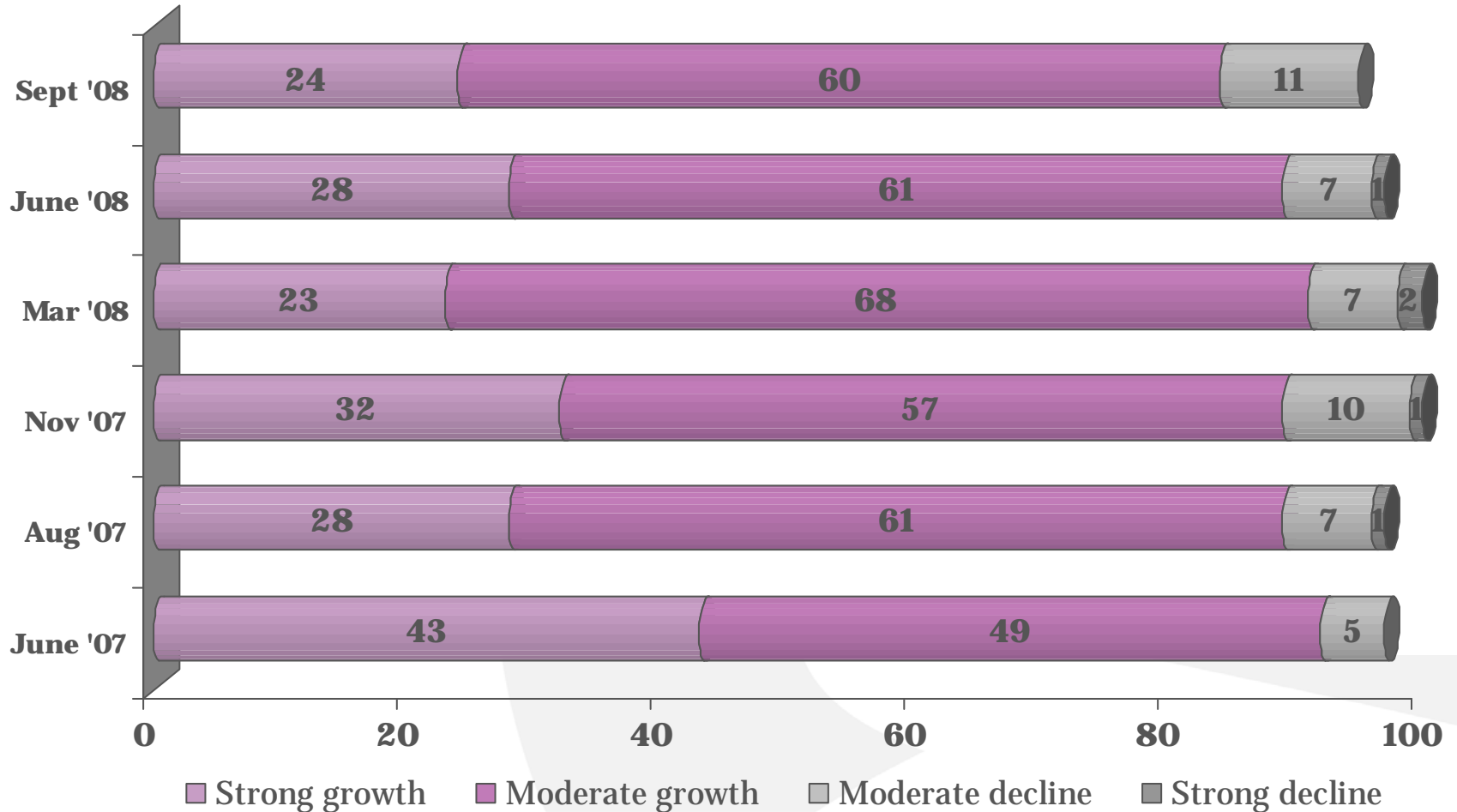


- ❑ Executives remain confident in terms of expectations for their own companies : 24% expect strong growth and 60% expect moderate growth. Those levels have varied only somewhat over the last year.
- ❑ Among the regions, executives in the West are more optimistic. By sector, executives with resources companies are the least pessimistic.
- ❑ Larger companies (1000+ employees) are somewhat less optimistic than smaller and mid-size companies.



Expectations: Company

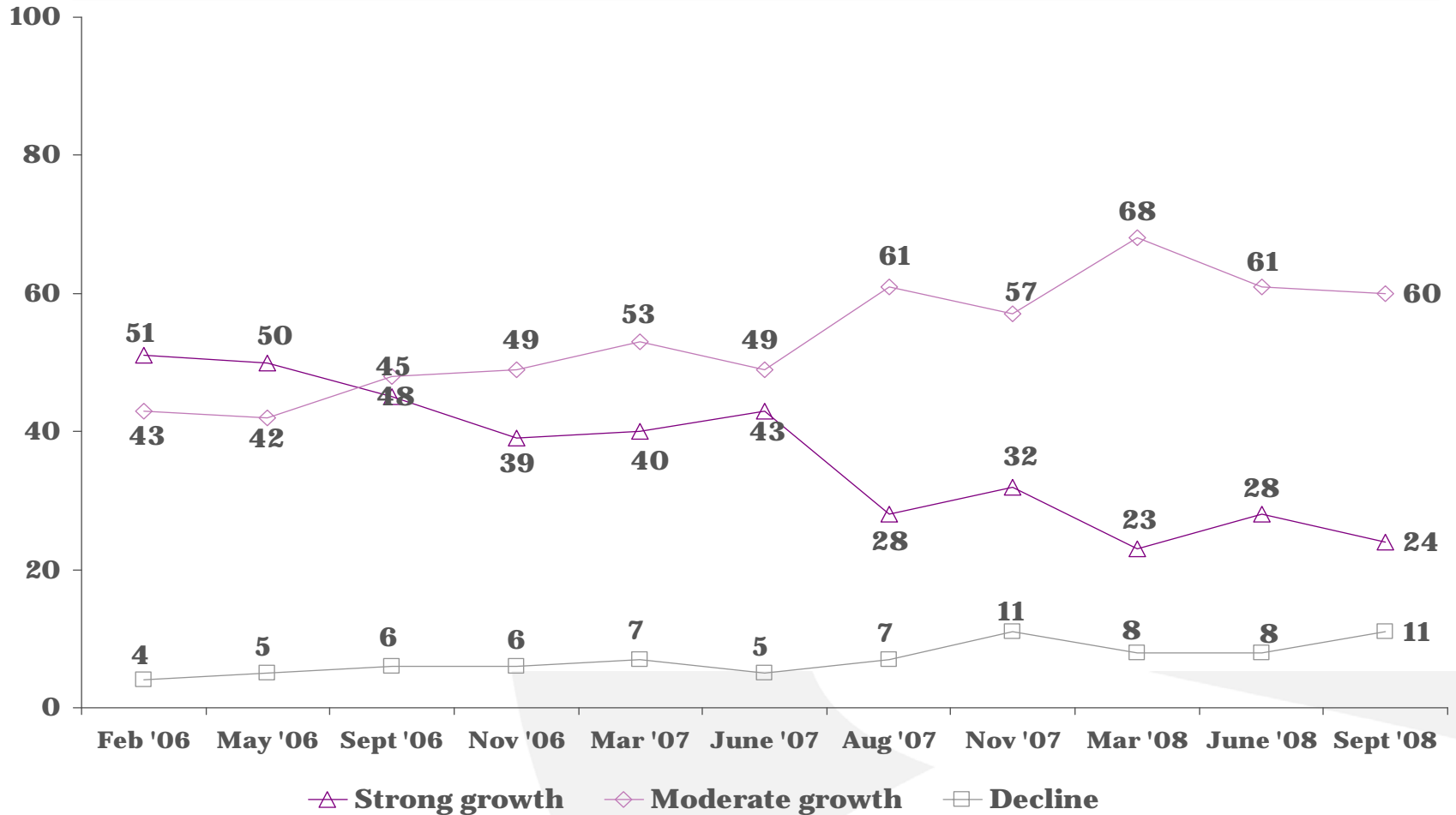
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Expectations: Company

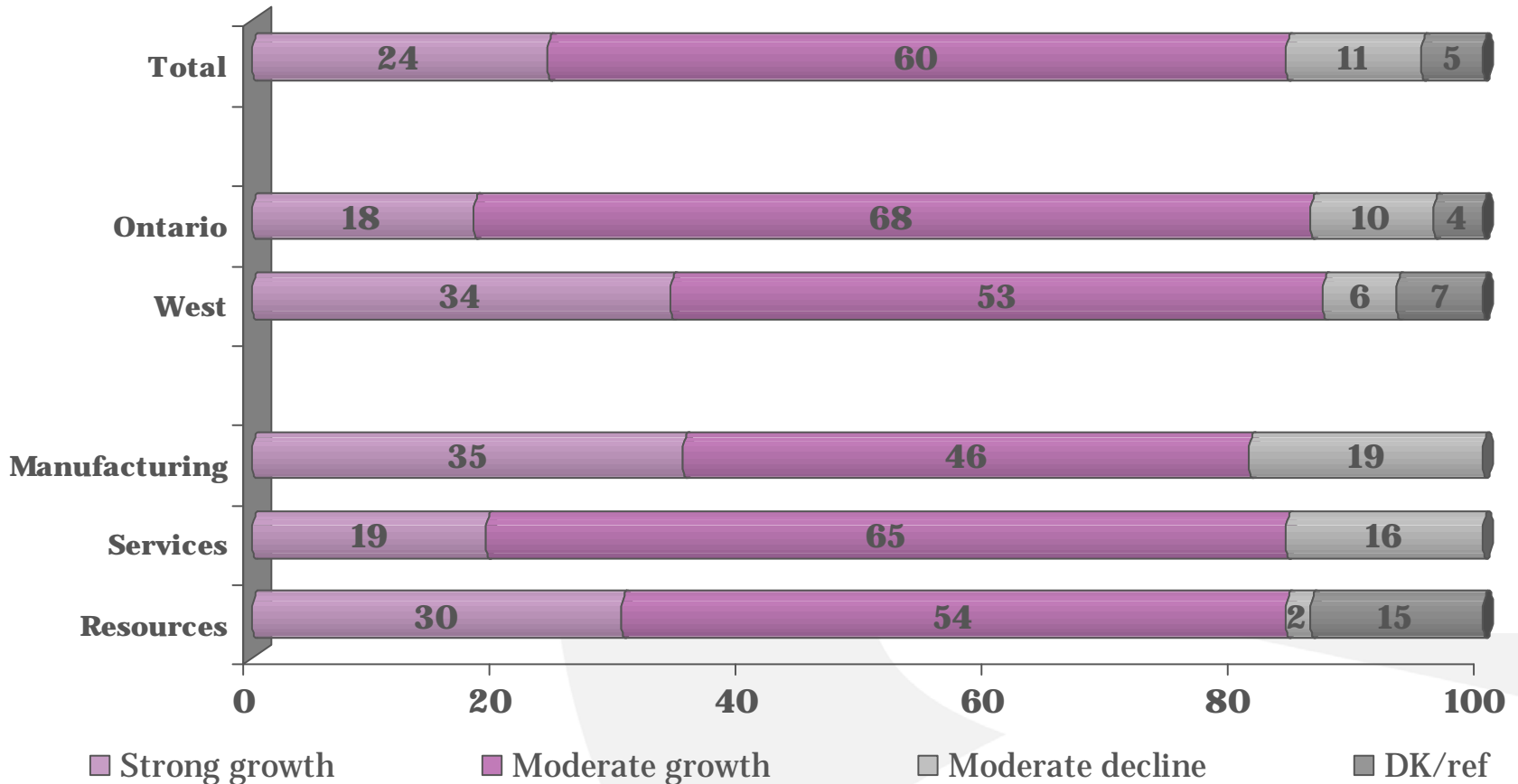
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Expectations: Company

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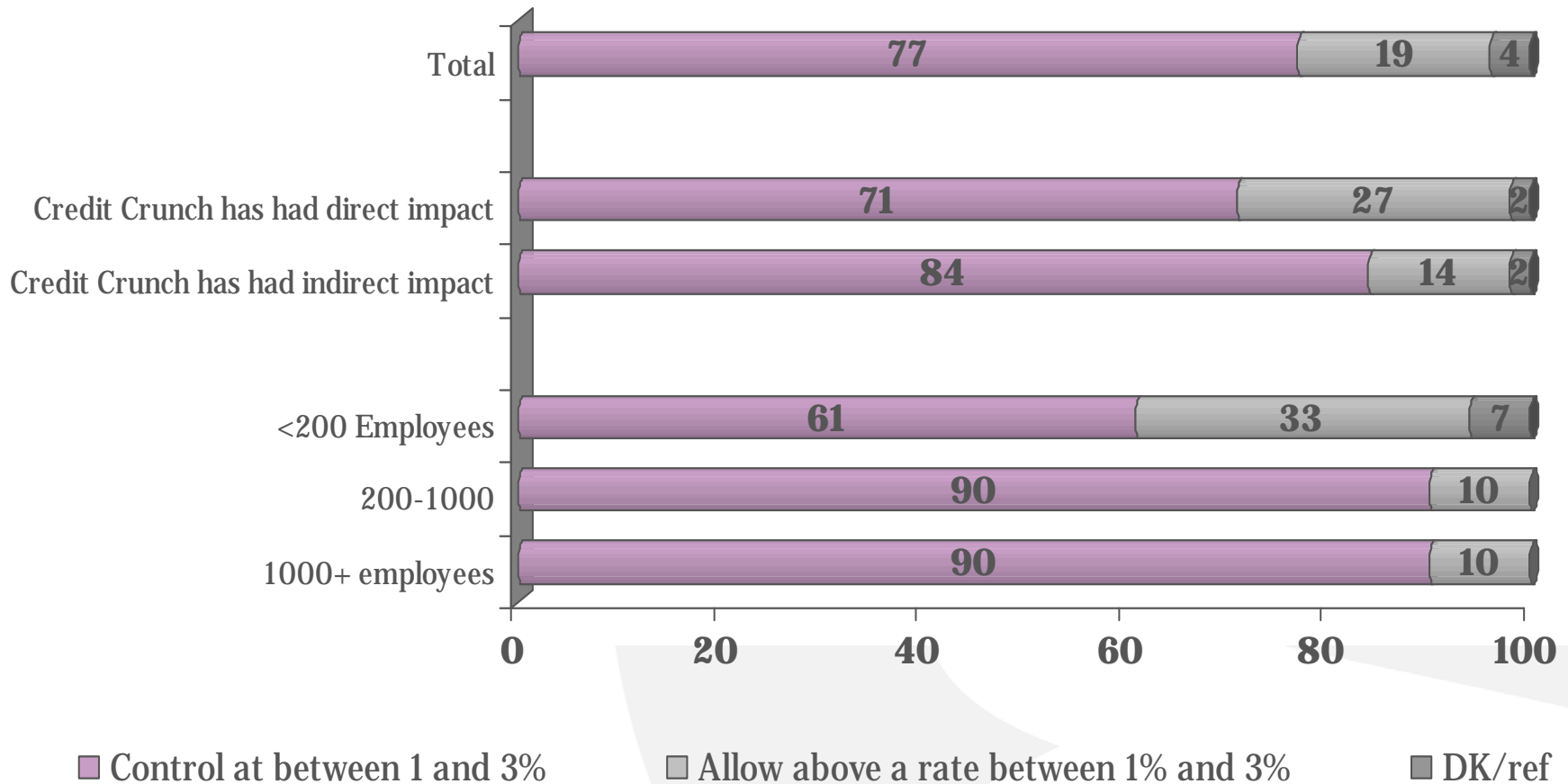


- ❑ Just over half say interest rate setting by the Bank of Canada or the Federal Reserve over the year has had no impact on their companies. Slightly more say rate setting has been a positive than say it has been a negative over the past year.
- ❑ The vast majority agree the Bank of Canada should control 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.
- ❑ Those who say the Bank should allow a rate above the current target are more likely to be executives whose companies have felt the direct impact of the credit crunch or those that employ less than 200.
- ❑ 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 (i.e. <200 employees and <\$100m market cap) are less likely to agree strongly.



Interest Rates and Inflation

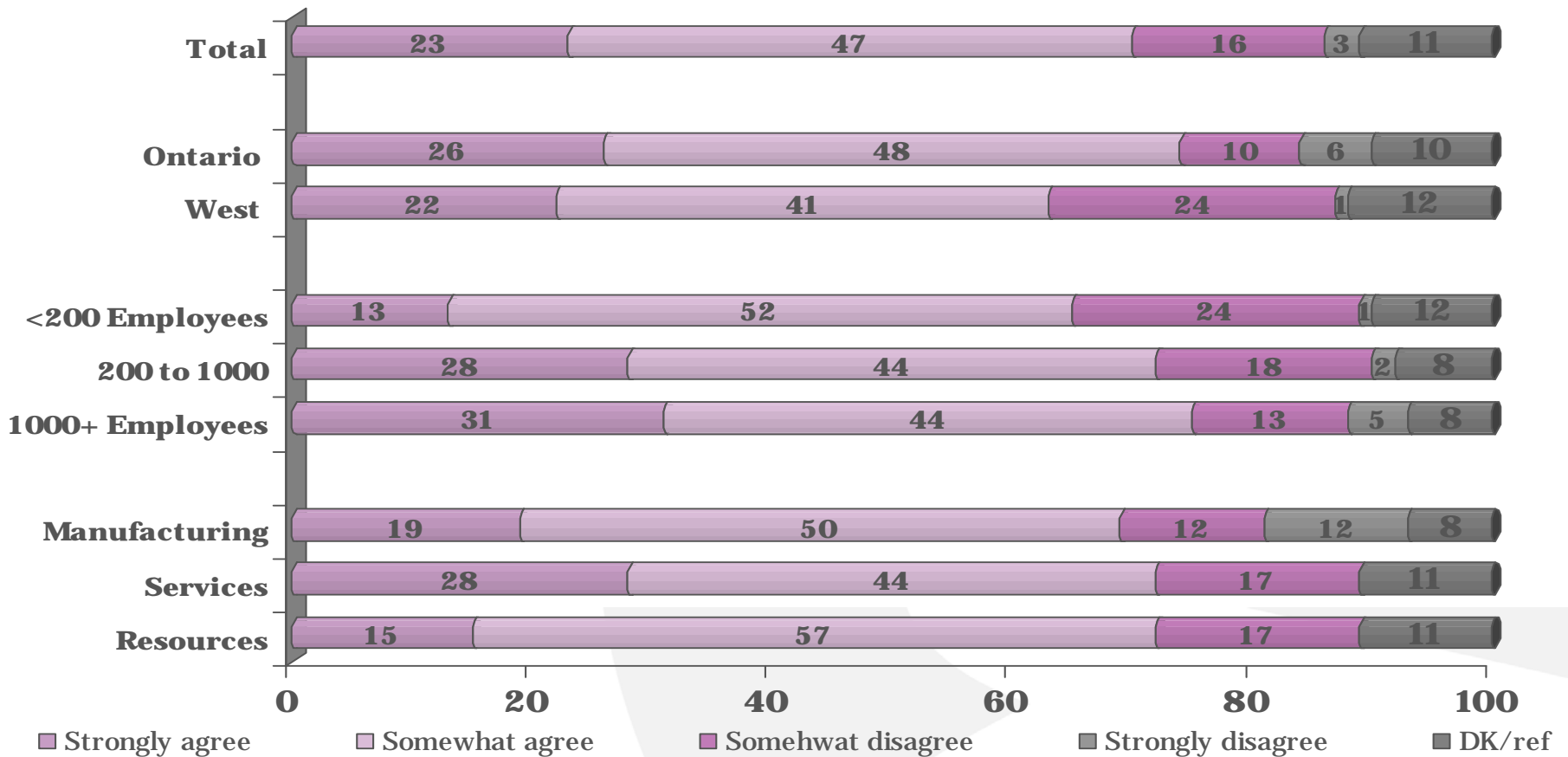
Some people say that the Bank of Canada should allow an inflation rate above the current target of between 1 and 3 per cent. Other people say that the bank should continue to seek to control inflation at a rate of between 1 and 3 percent? Which of those two views is closer to your own?





Holding Steady on Interest Rates

Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each statement as it applies to your own company... “The central banks made the right decision to halt interest rate cuts.”



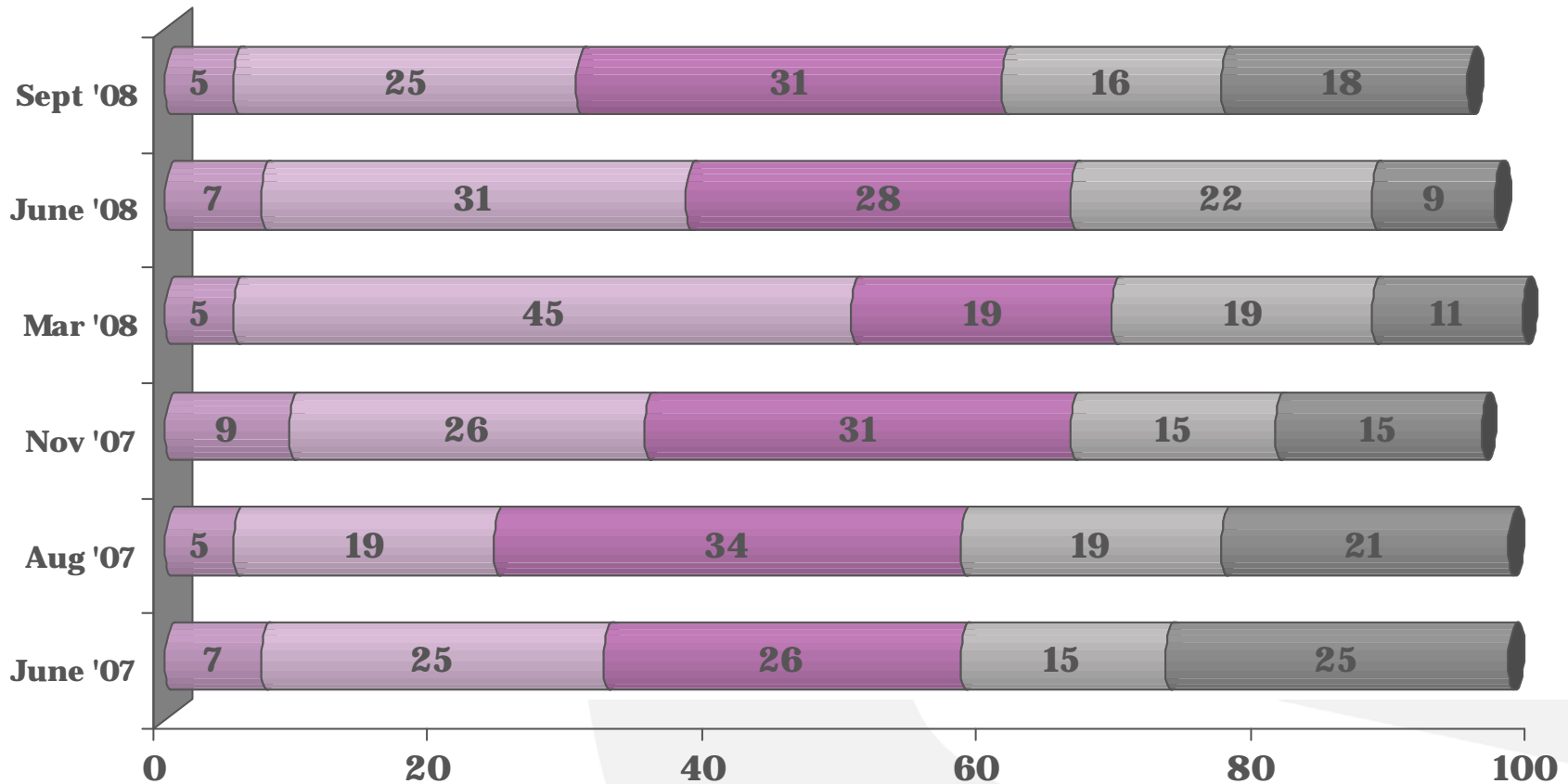


- ❑ Impressions of Minister Flaherty are down slightly this past quarter, after a similar decline the previous quarter. Unfavourable impressions of the Minister are now slightly higher than favourable impressions.
- ❑ Unfavourable opinions have risen most among manufacturing executives, 42% of whom have an unfavourable impression of the Minister up ten points from last quarter.
- ❑ Confidence in Minister Flaherty has declined slightly for the second straight quarter, with just over half a majority expressing confidence in his economic management. As with last quarter, confidence is somewhat higher in the West than in Ontario, where less than half express a fair or great deal of confidence in the Minister.



Impressions of Minister Flaherty

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

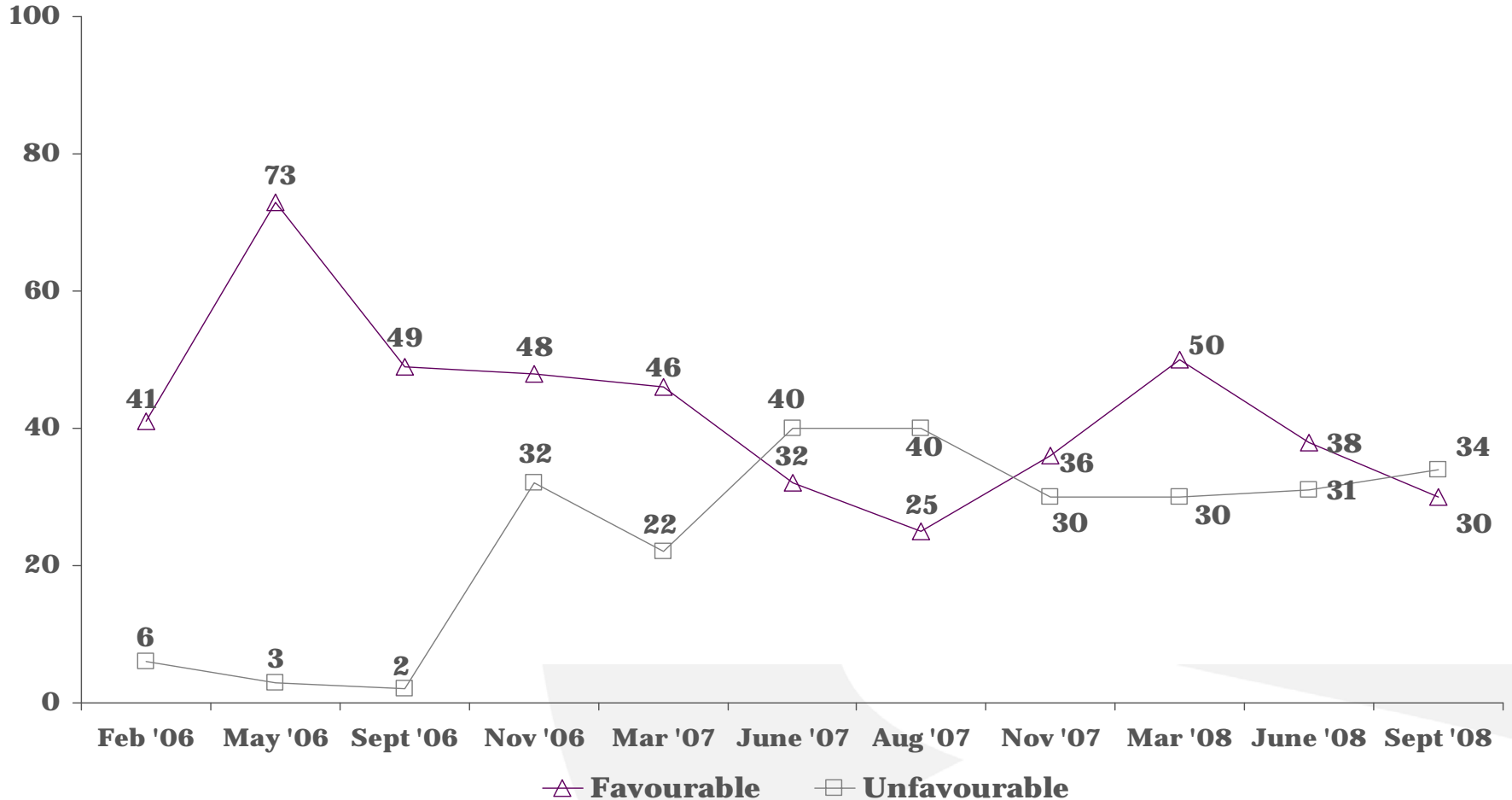


Very favourable Somewhat favourable Neither Somewhat unfavourable Very unfavourable



Impressions of Minister Flaherty

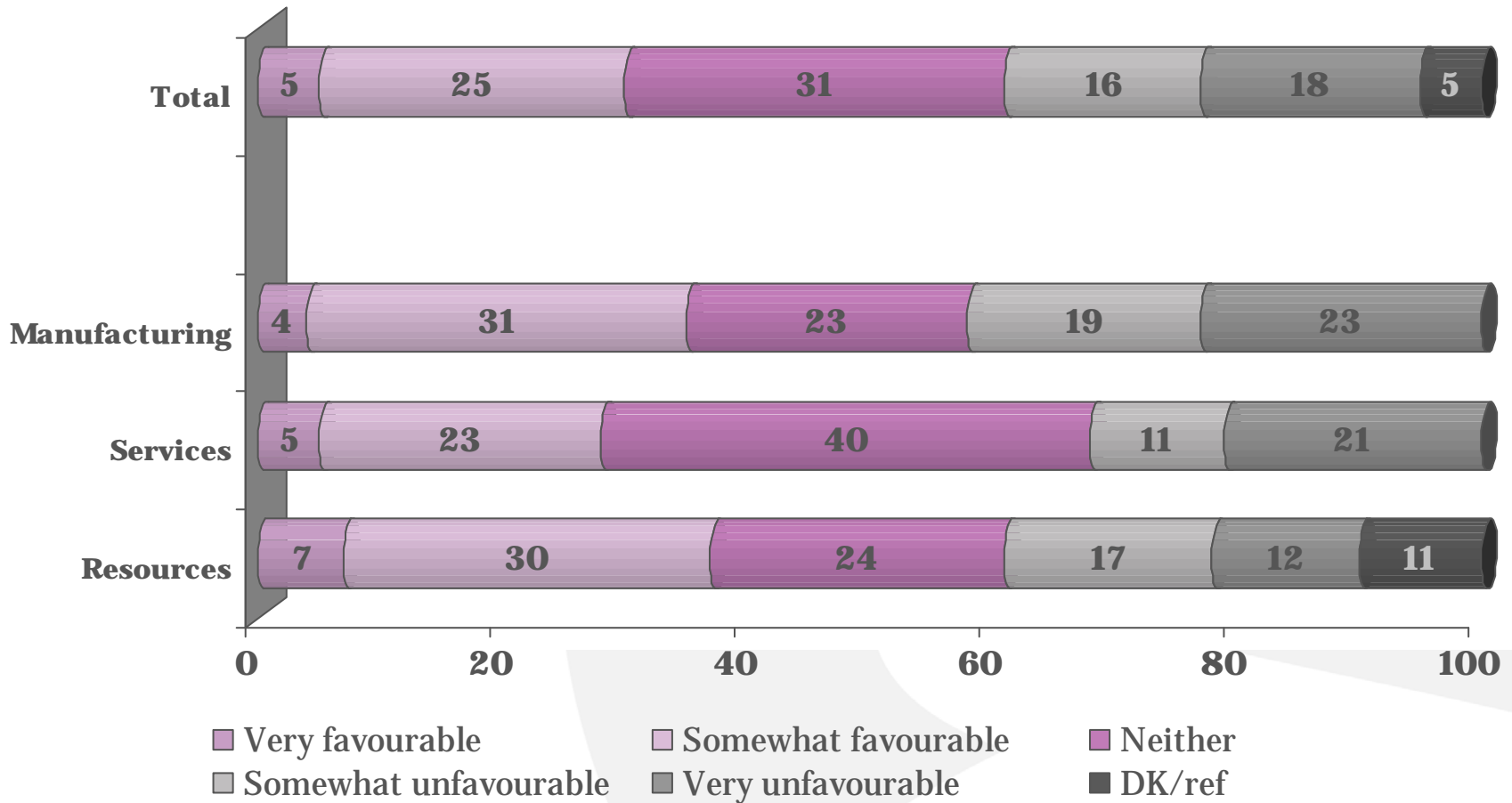
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





Impressions of Minister Flaherty: Sector

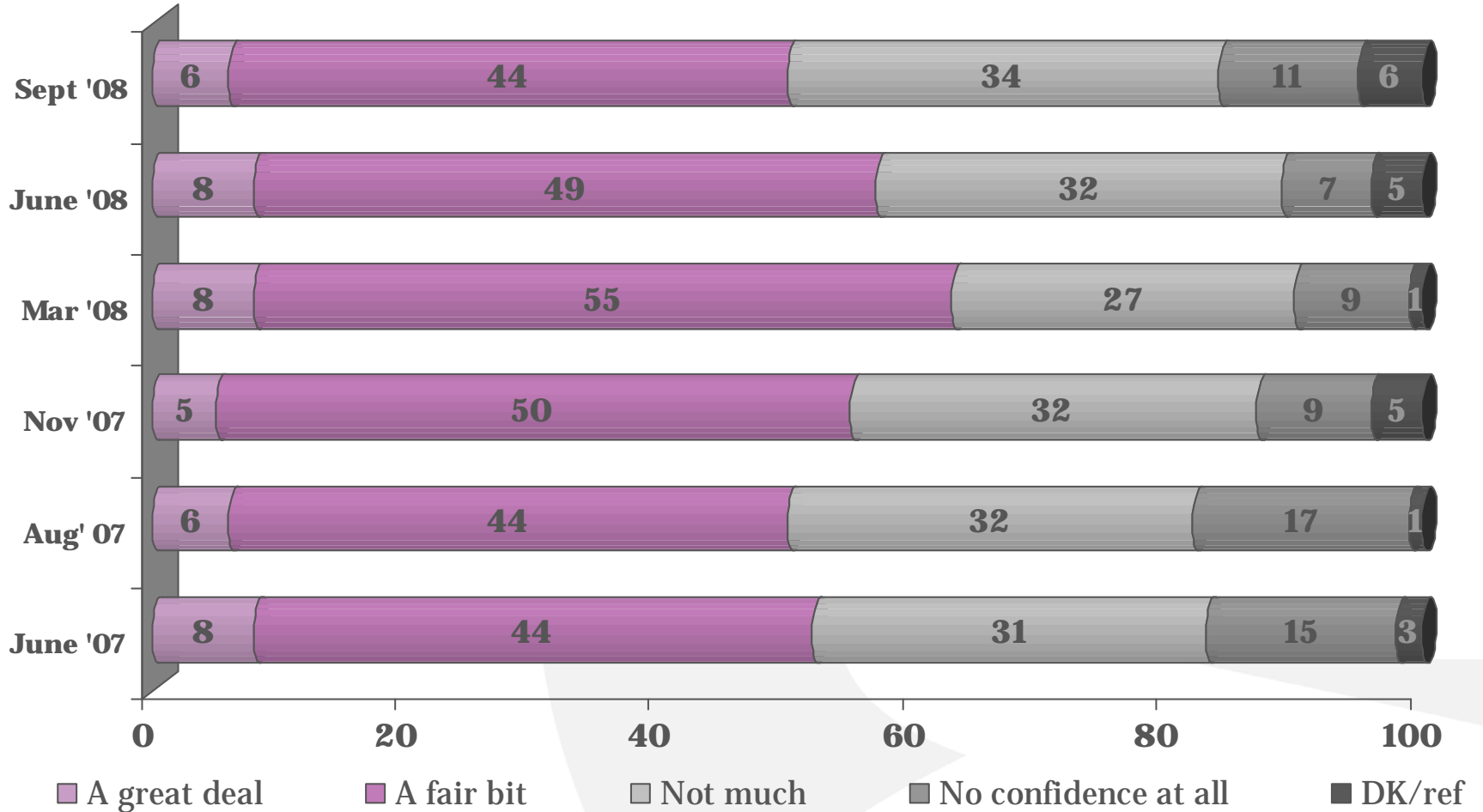
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





Confidence in Minister Flaherty

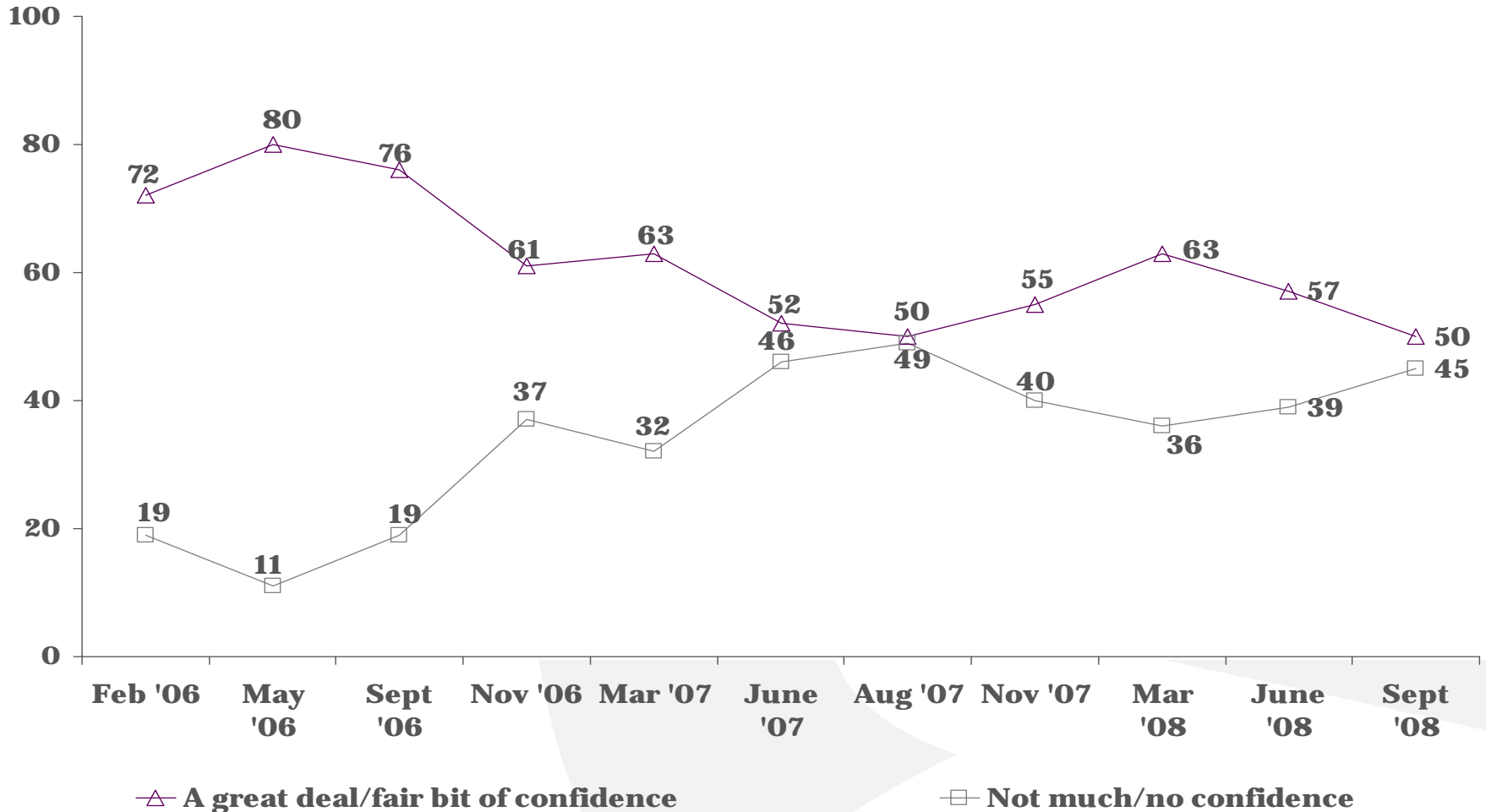
How much confidence do you have in Finance Minister Flaherty's management of the economy?





Confidence in Minister Flaherty

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





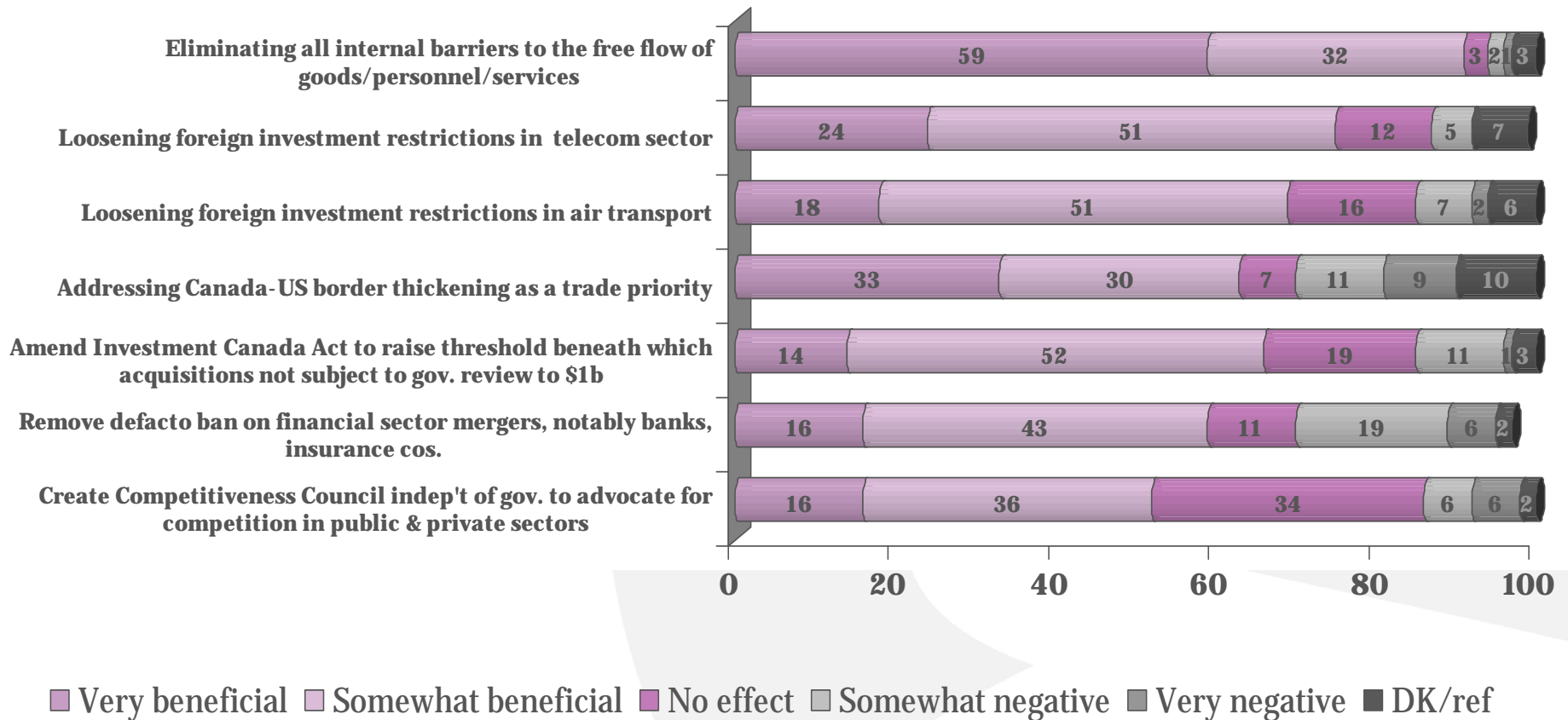
- ❑ Earlier this year, the federally appointed panel led by Lynton “Red” Wilson outlined a number of policy changes to boost competitiveness in Canada. The main recommendations were tested with executives.
- ❑ All were thought to be beneficial, including: removing the de facto ban on bank mergers, loosening 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.



- ❑ While most executives believe removing the de facto ban on bank mergers would be beneficial, manufacturing executives are far more likely to say it would have a negative effect on the economy.
- ❑ Executives with service sector companies and also small employers (<200 employees) are the most likely to welcome removing the ban on mergers.



The federally appointed Competition Policy Review Panel issued its report in June. I'm going to list some of its recommendations and ask whether you believe each would be very beneficial for the Canadian economy, somewhat beneficial, somewhat negative for the Canadian economy, very negative or whether it will have no effect at all.





- ❑ Though executives remain fairly confident about their businesses, they are worried about the economy and have been impacted by the credit crunch.
- ❑ Smaller companies (both by market cap and employee size) are more likely to have felt the credit crunch, as well as resources companies.
- ❑ Executives have mixed opinions about the financing options available to them. Many feel their companies are undervalued, and smaller companies have been especially impacted of the credit crunch.
- ❑ Executives are reasonably happy with the Bank of Canada's interest rate and inflations policies.
- ❑ In terms of policies they would like to see implemented from a recent competition policy review, eliminating internal trade barriers is by far the most popular.