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The 21st C-Suite Survey: The Business and Economic Outlook for 2011

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- ❑ This is the 21st edition of the C-Suite Quarterly survey, with findings published and broadcast every three months by the *Globe and Mail's Report on Business* and *BNN*. Previous quarters' surveys are available at GandalfGroup.ca.
- ❑ This presentation covers their views on:
 - Canadian and US economic prospects
 - The outlook for 2011 for businesses
 - The high Canadian dollar
 - Income Trusts as the taxation regime comes into effect
 - The PotashCorp decision, and what other companies executives said should – and should not – be protected
 - The G20 post-Seoul summit



- Telephone interviews with 151 C-Suite executives from the ROB 1000 list of companies, between November 24th and December 10th, 2010. This sample yields a margin of error of +/- 7.32 % 19 times out of 20.
 - A 13 minute questionnaire was fielded with C-level executives across Canada and in English and French: 36% of executives were based in Ontario, 50% were based in Western Canada.
 - 44% were in the resources sector (e.g. mining, oil & gas), 34% were in the services sector (e.g. financials, banking, insurance, retail, food service) and 19% were in manufacturing.



- ❑ Concerns around the US economy have improved somewhat since last quarter – most once again believe it will be in growth mode in 2011.
- ❑ Almost all now expect the Canadian economy to grow, albeit moderately.
- ❑ More remarkable are executives' forecasts for their businesses. Canada's top companies have not been this optimistic since 2006.
- ❑ The resources sector is leading the way in terms of growth, capital expenditure and hiring. However, other sectors are also reporting an improved outlook since last quarter.
- ❑ While the high dollar offers some advantages to Canadian businesses looking to invest or acquire, it may continue to shrink the manufacturing sector.
- ❑ 2011 marks the official introduction of a new policy on income trusts and most executives remain opposed to the policy.
- ❑ Most executives believe there should be a public interest test for foreign takeovers, support the government's decision on PotashCorp, and think there are other companies (perhaps most interestingly AECL) that are also of high strategic value to Canada.



- ❑ In last quarter's survey we noted a significant decline in executives' outlook for the US economy. That level of concern has receded somewhat.
 - Most executives once again expect the US economy to grow in the next year, though the number who expect it to decline is at one of its highest points in the past 18 months.
 - Most agreed the Fed's QE2 initiative will boost economic growth, although few have agreed strongly with this.
- ❑ Executives have much more confidence in the Canadian economy than in the US economy.
 - In the past, when we have seen spreads like this between expectations of the Canadian and US economies, bullishness about Canada has tended to temper over time.



The US Economy Over The Next Year

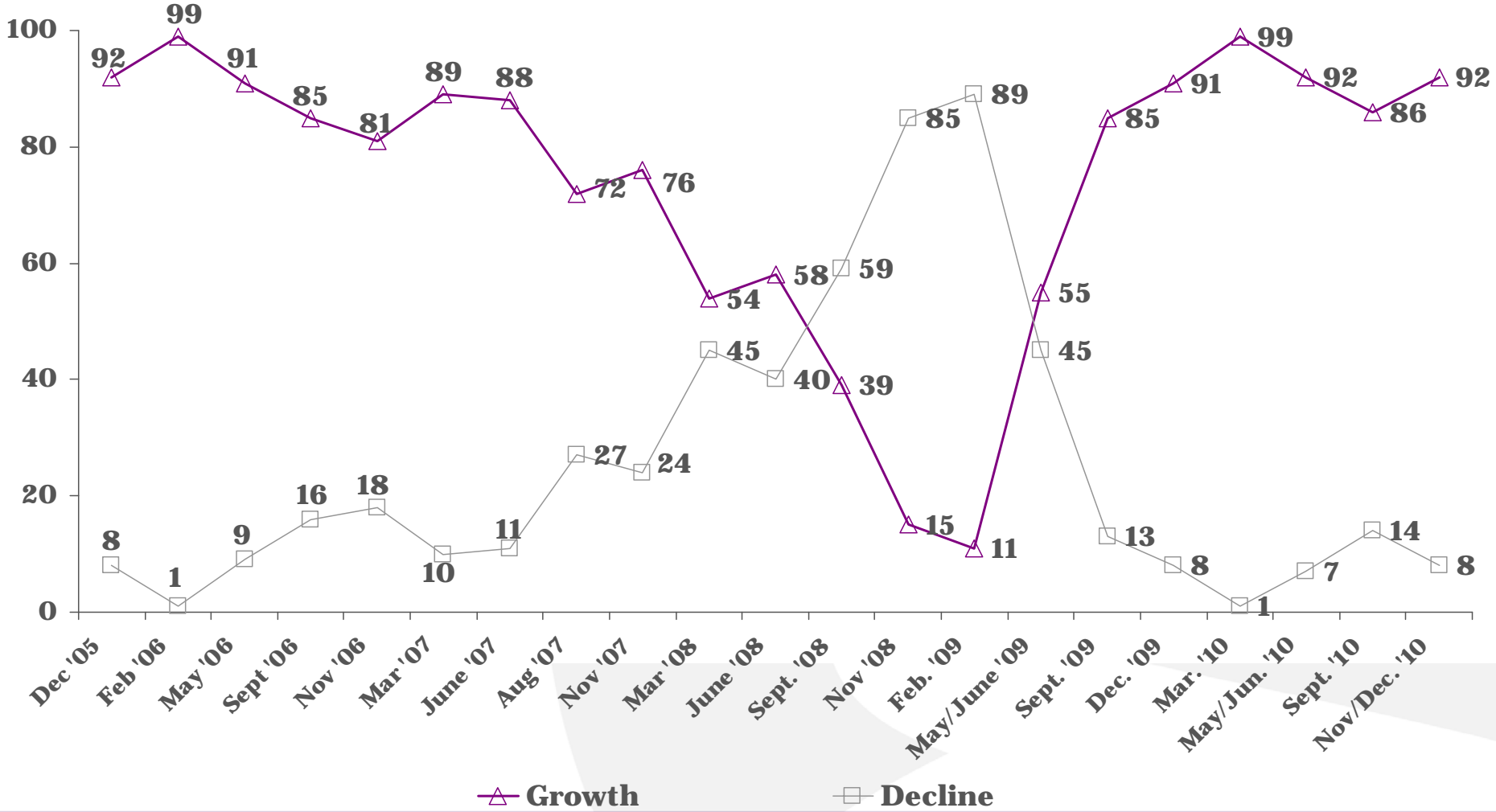
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

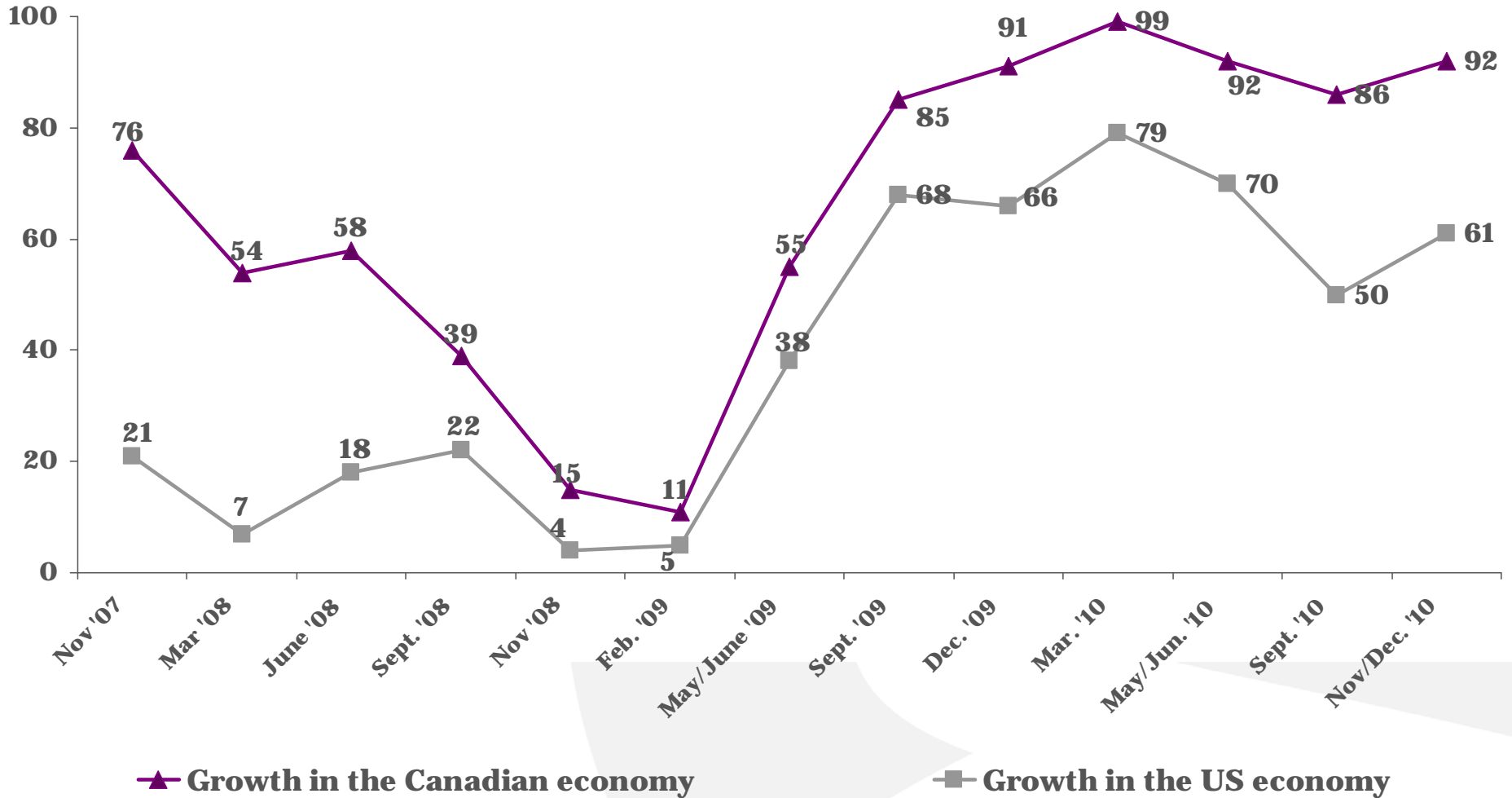
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Projected Growth – Canadian Economy and US Economy

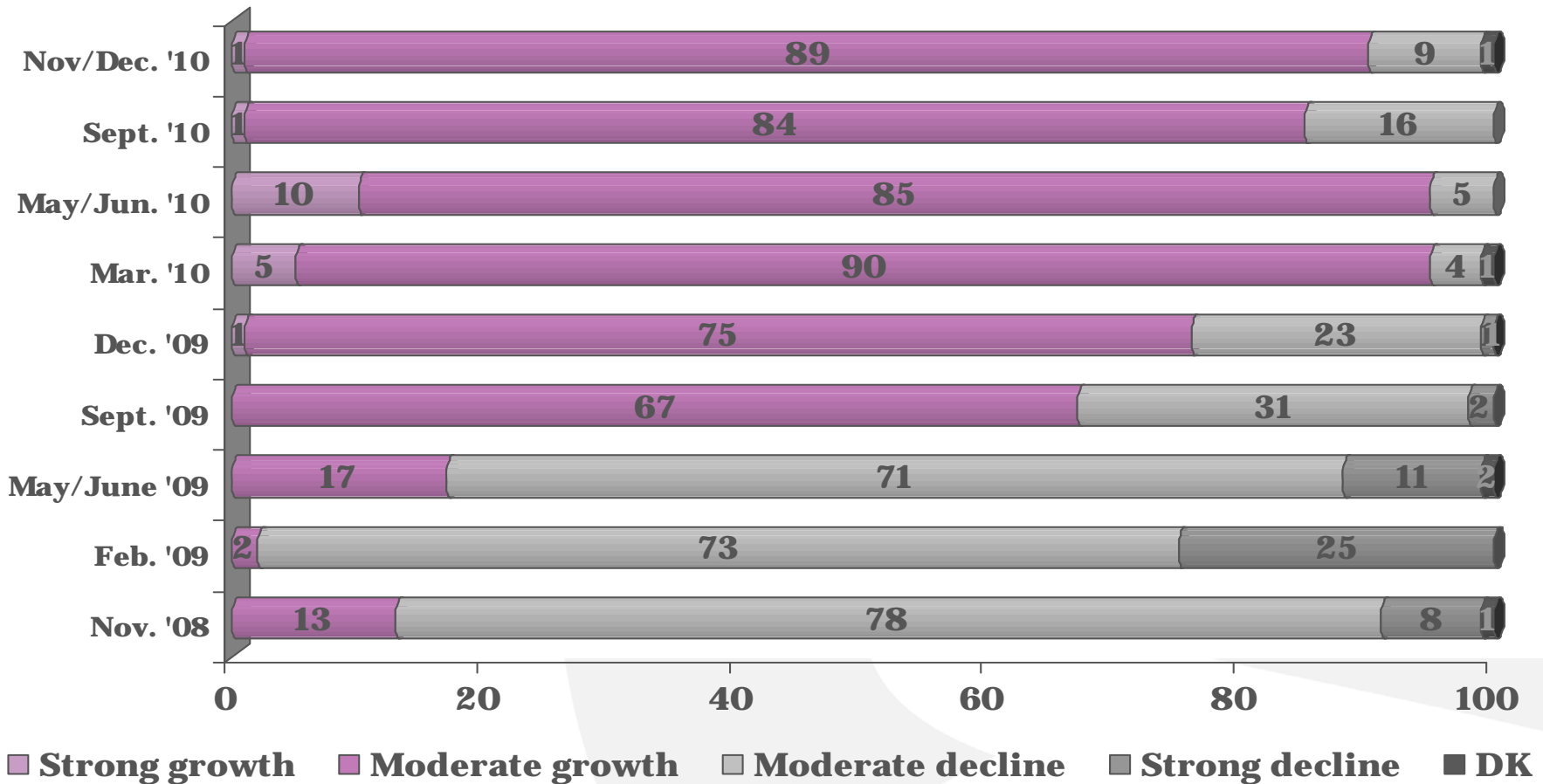
“What are your expectations for the Canadian/U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The Canadian Economy Now

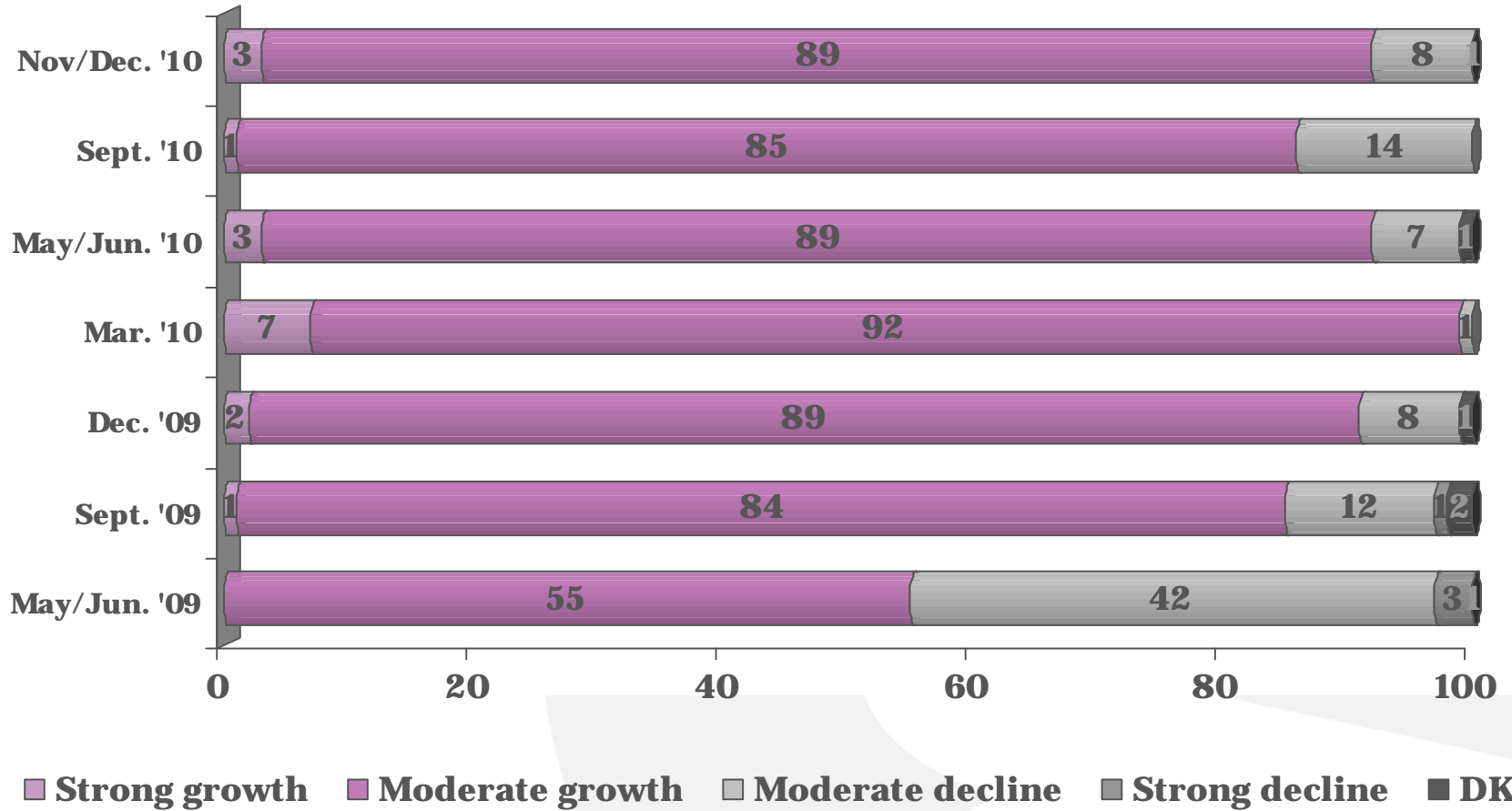
“First, which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

“And what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”



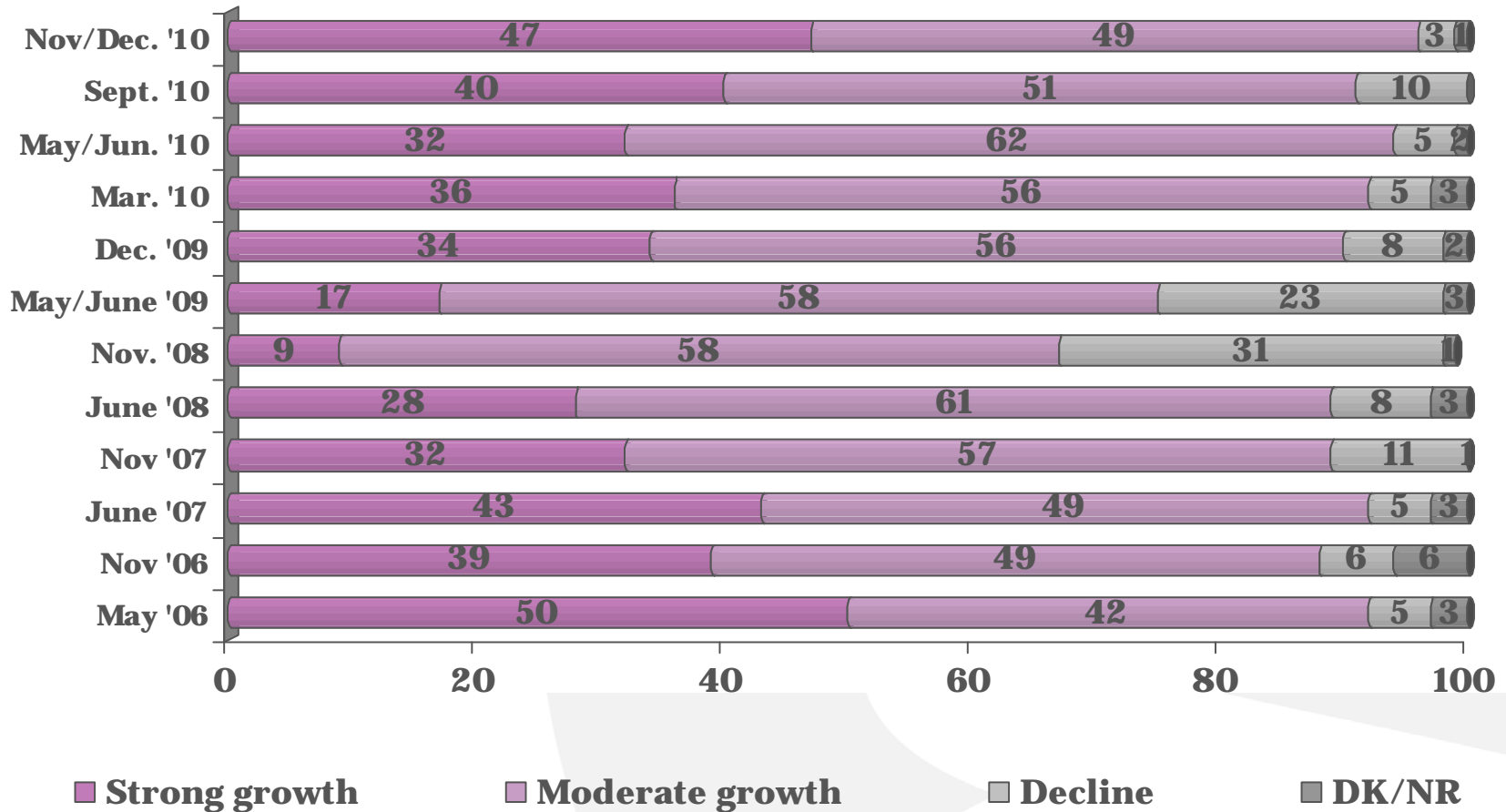


- ❑ Executives have seen the improving economy in their companies' performances: 80% of executives said the value of their company increased over the past year, up from 56% who said the same this time last year.
- ❑ The outlook for growth among ROB 1000 companies is at its highest levels since 2006. Throughout much of the past year, a third of executives have expected their company to be growing strongly. Now almost half are expecting strong growth.
 - Growth forecasts are led by great expectations out of the resource sector, though the two other major sectors are reporting improved growth predictions.
- ❑ This appears to be leading to major investments in equipment, and possibly employment gains as well.



Expectations: Company

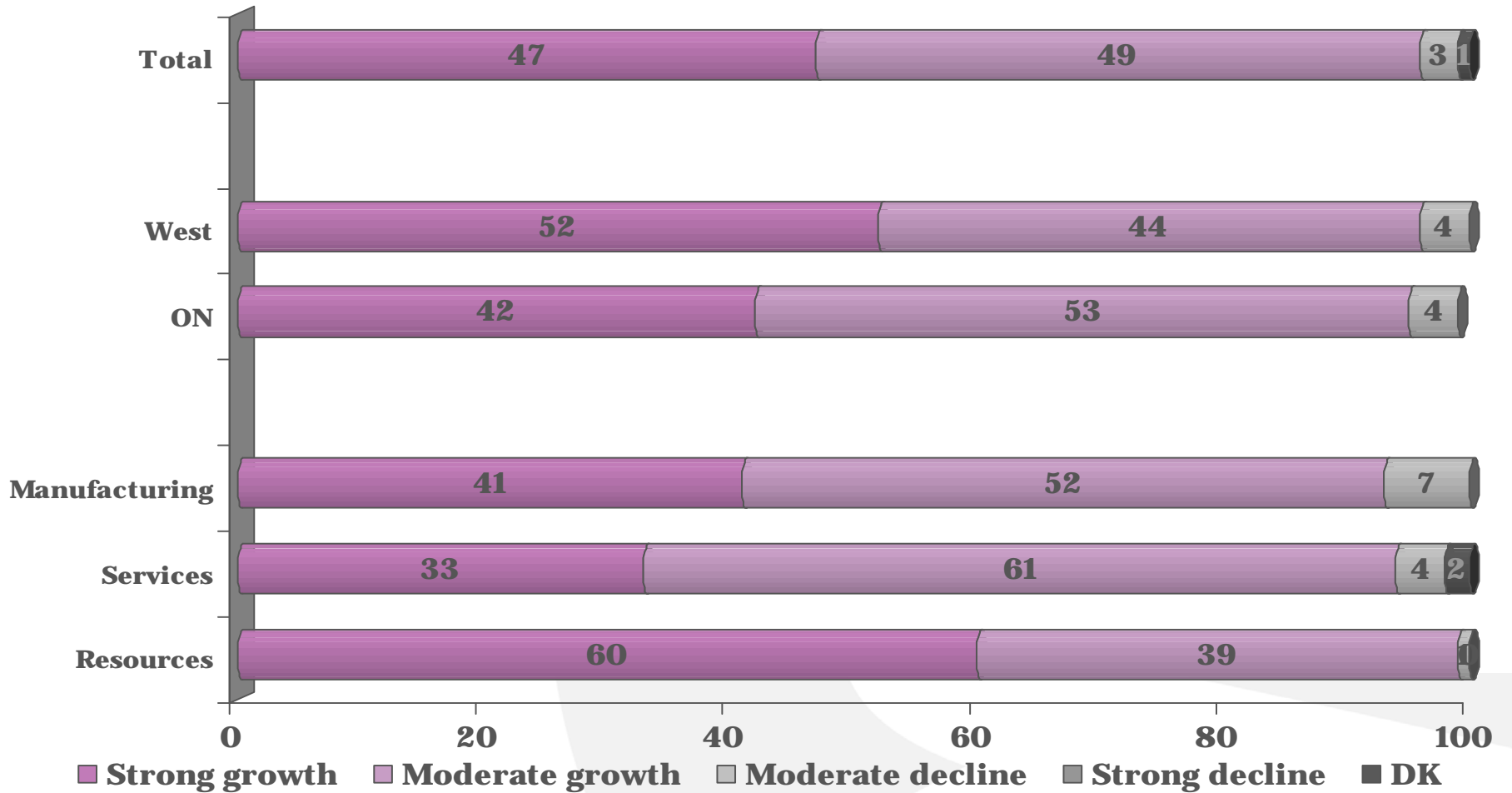
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





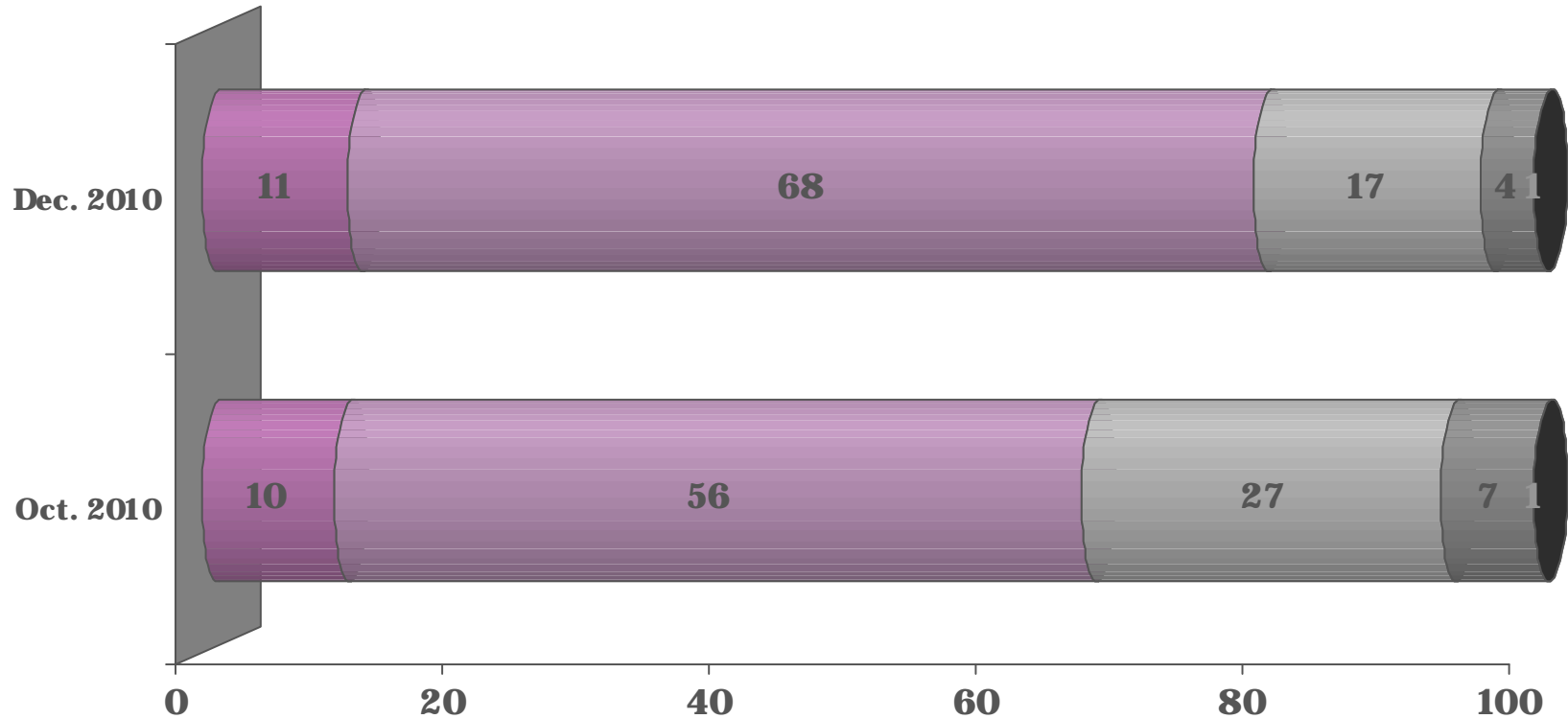
Expectations: Company

“And what are your expectations for your company over the next 12 months: strong growth, moderate growth, moderate decline, strong decline?”





“I am confident the TSX will rise throughout the next year”

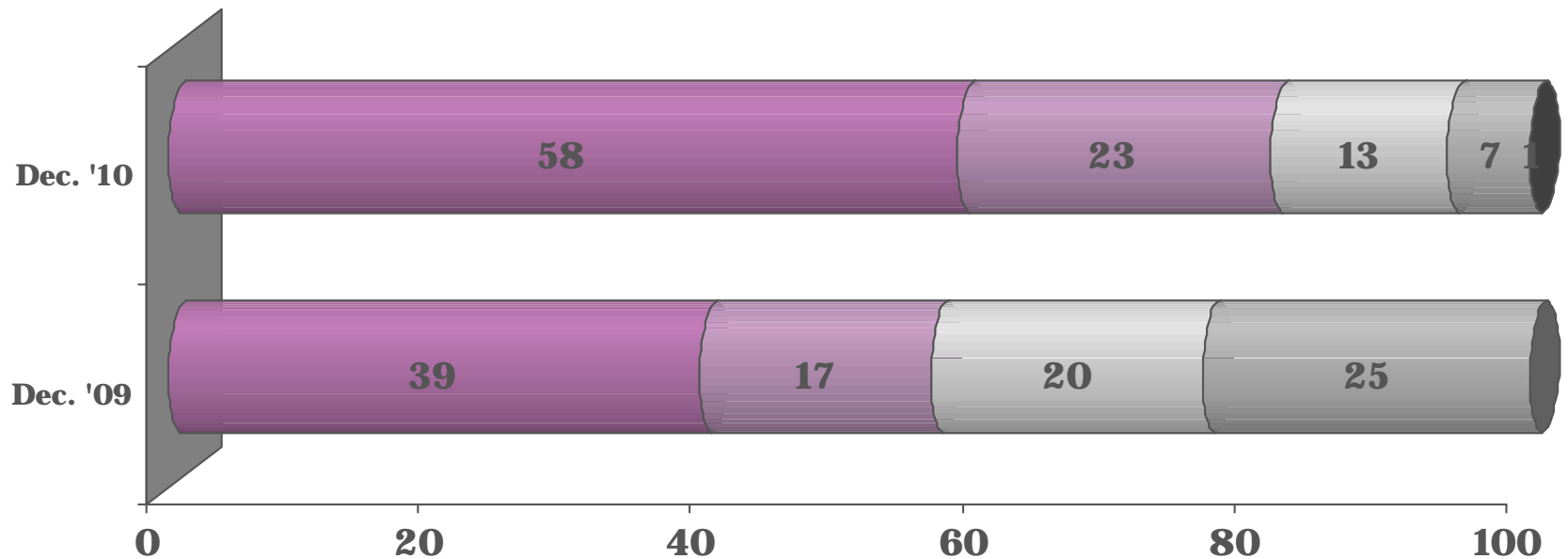


■ Strongly agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK



Company Value Increased

“The value of our company increased during 2010/2009” *Asked in December 2010 survey and Nov.-Dec. 2009 C-Suite Survey*



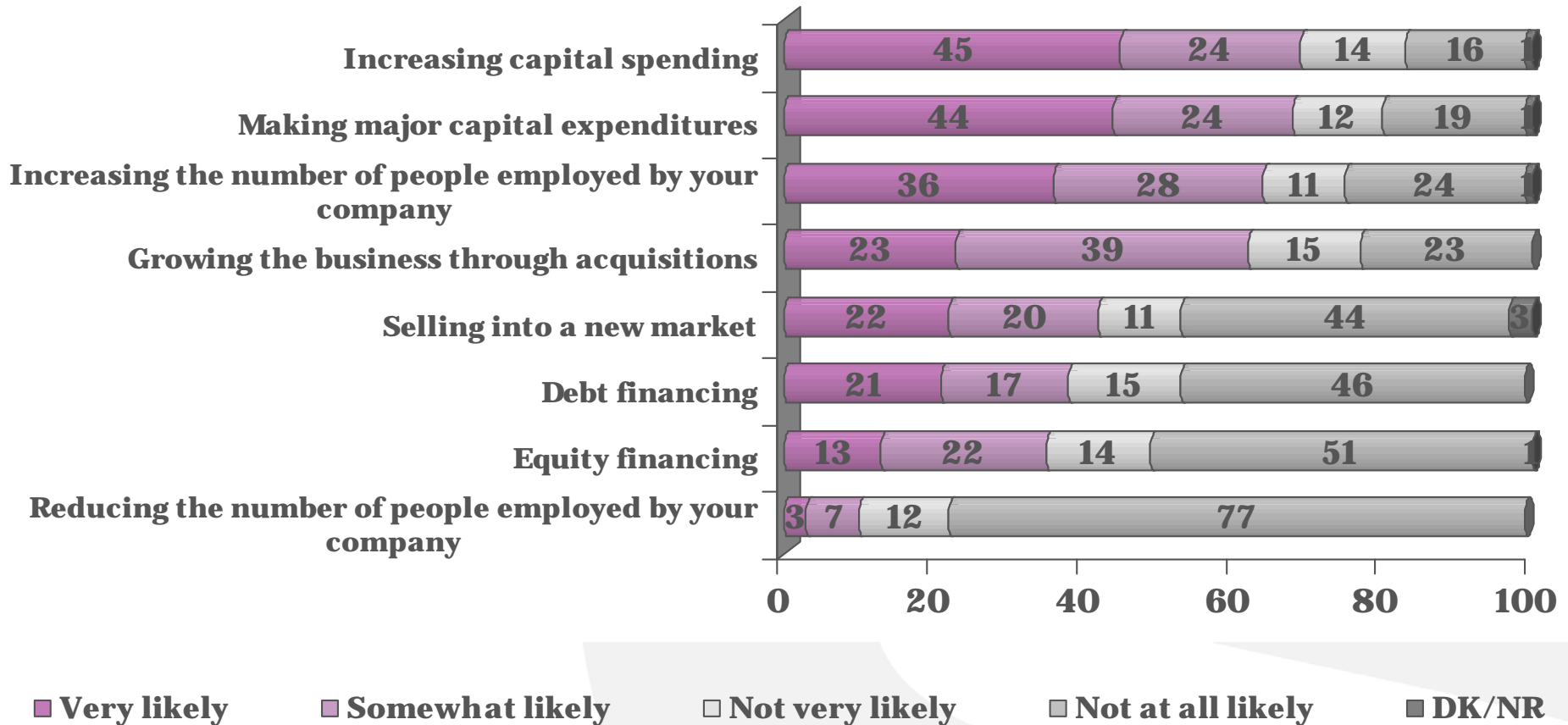
■ Strongly agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK/NR



- ❑ Nearly half of executives are seriously considering increasing capital spending, a slight increase from last quarter and nearly four times as many as in our June 2009 survey (12%).
- ❑ One in three are seriously considering increasing employment levels.
 - Even among those companies who expect only moderate growth this quarter, one in four will likely be hiring and virtually none are likely to lay off staff.
 - Resources companies are leading the way with plans to hire as well as increase capital spending – nearly two thirds of resources companies expect to make major capital expenditures while 43% are very likely to consider increasing staff levels.
- ❑ Manufacturing companies are more likely to finance growth through debt than equity. Resource companies are the reverse, relying on equity because debt financing is more difficult to come by.
- ❑ The number of executives that said they were very likely to consider growing their business through acquisitions is relatively unchanged since June 2009 – 23% today vs. 20% in 2009.



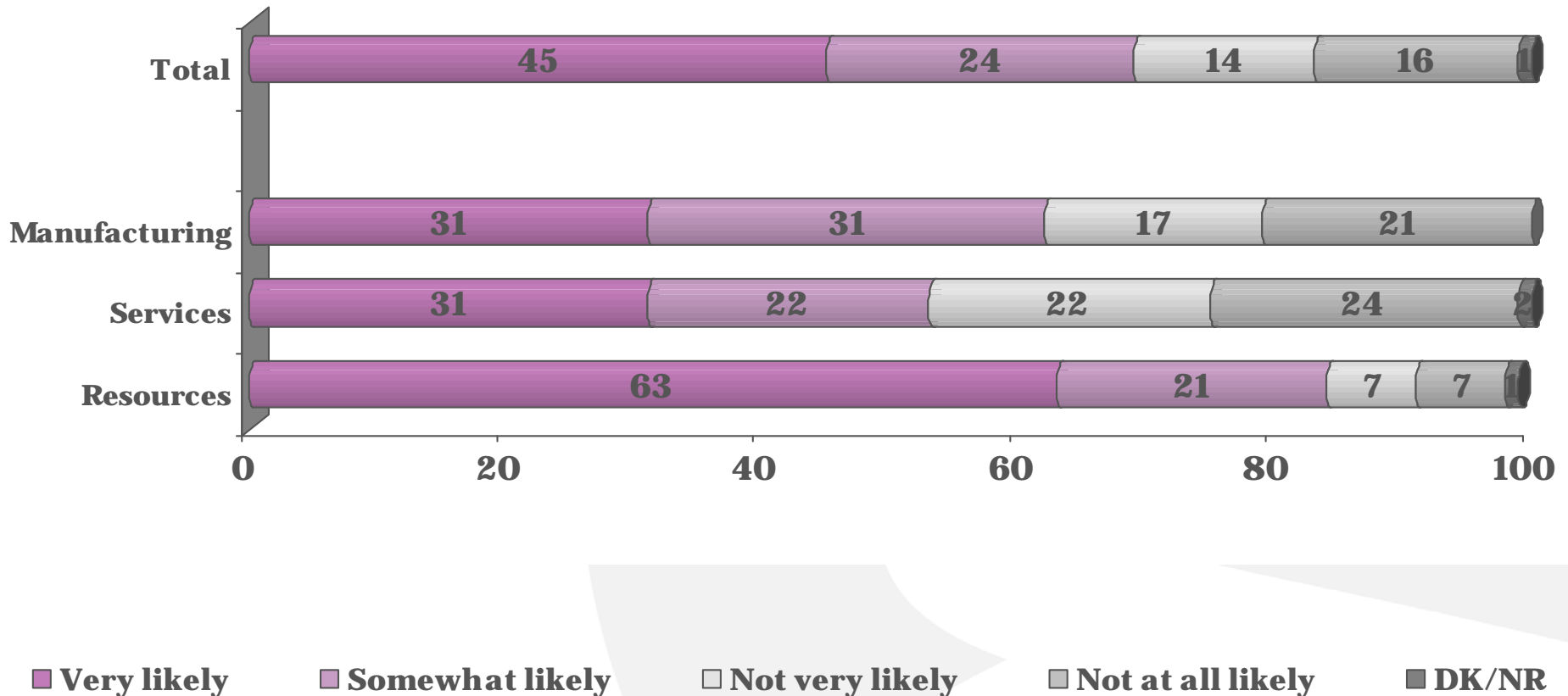
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: ”





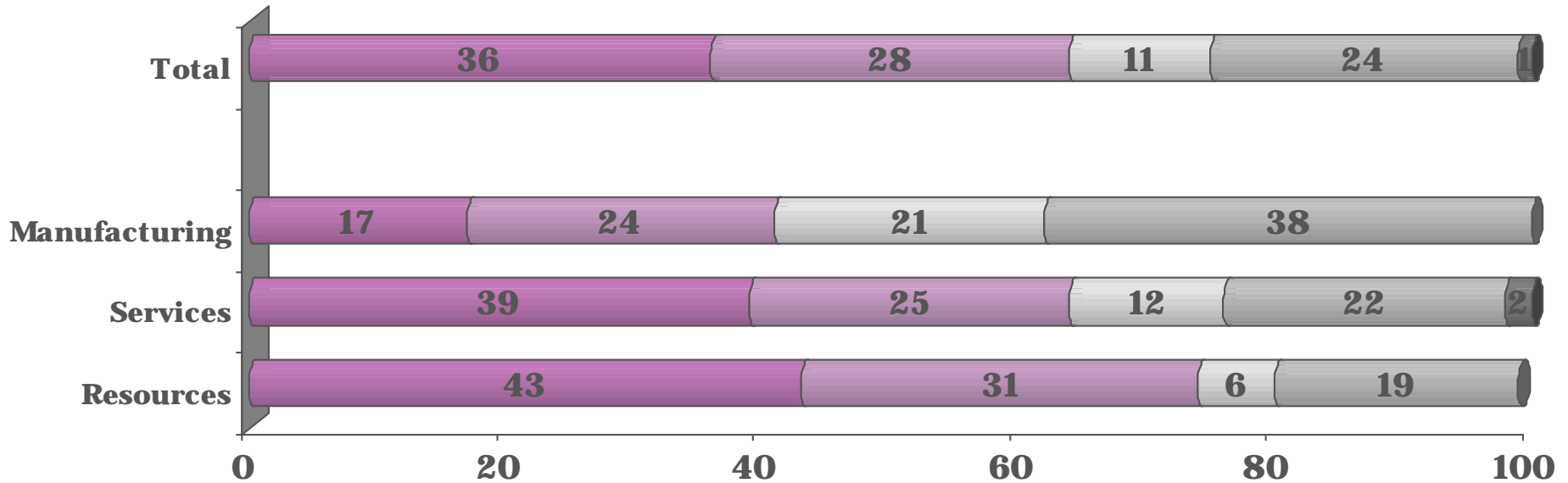
Business Initiatives

“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: Increasing capital spending.”





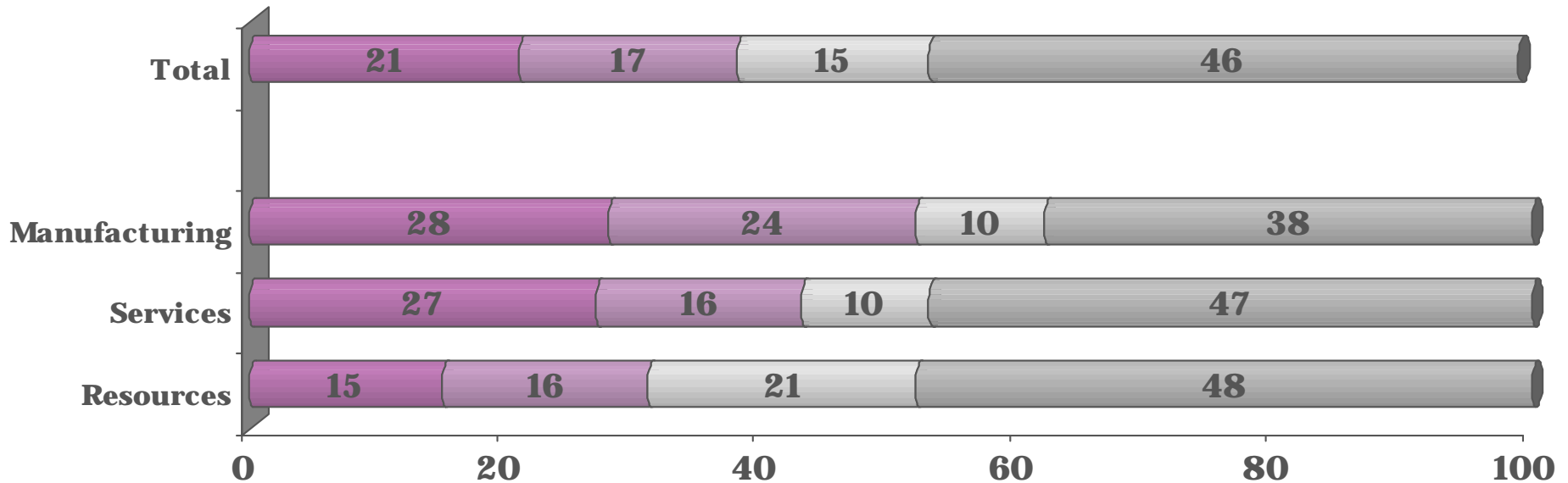
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: Increasing the number of people employed by your company”



Very likely Somewhat likely Not very likely Not at all likely DK/NR



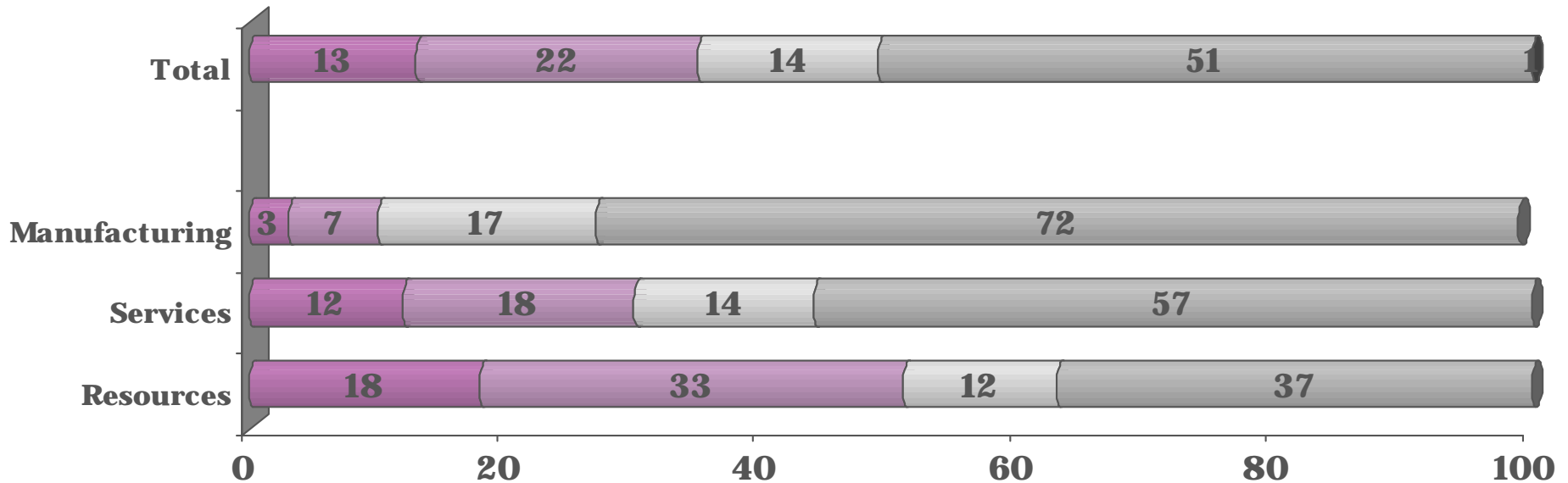
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: Debt financing”



■ Very likely ■ Somewhat likely □ Not very likely ■ Not at all likely ■ DK/NR



“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: Equity financing”

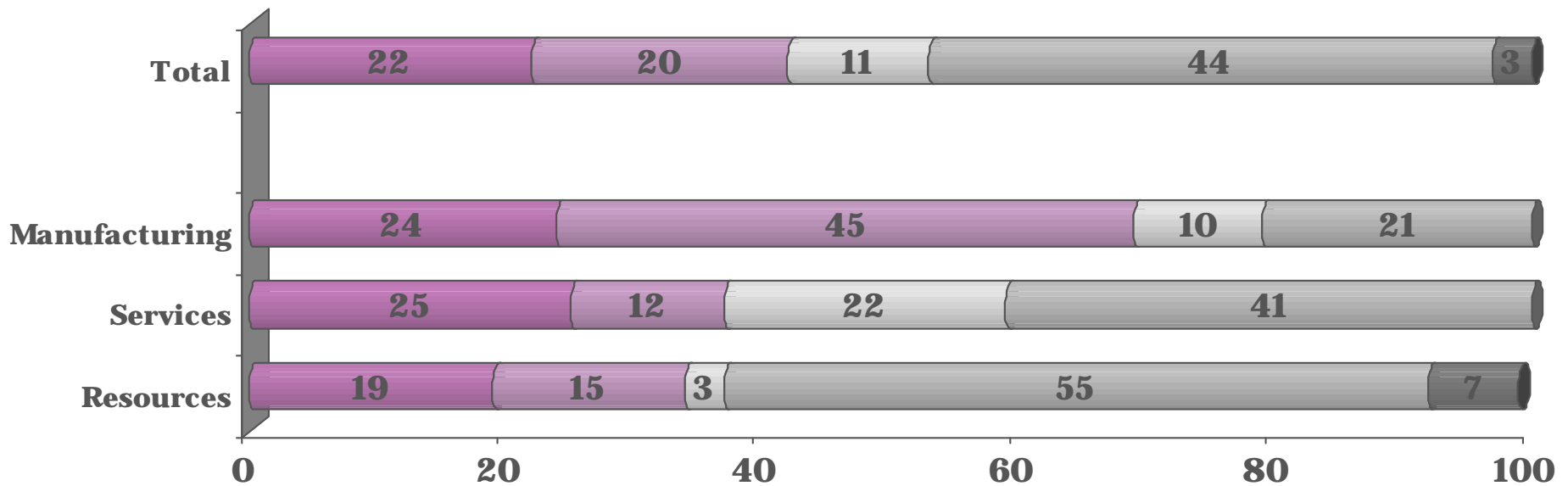


■ Very likely ■ Somewhat likely □ Not very likely ■ Not at all likely ■ DK/NR



Business Initiatives

“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: Selling into a new market.”



Very likely

Somewhat likely

Not very likely

Not at all likely

DK/NR

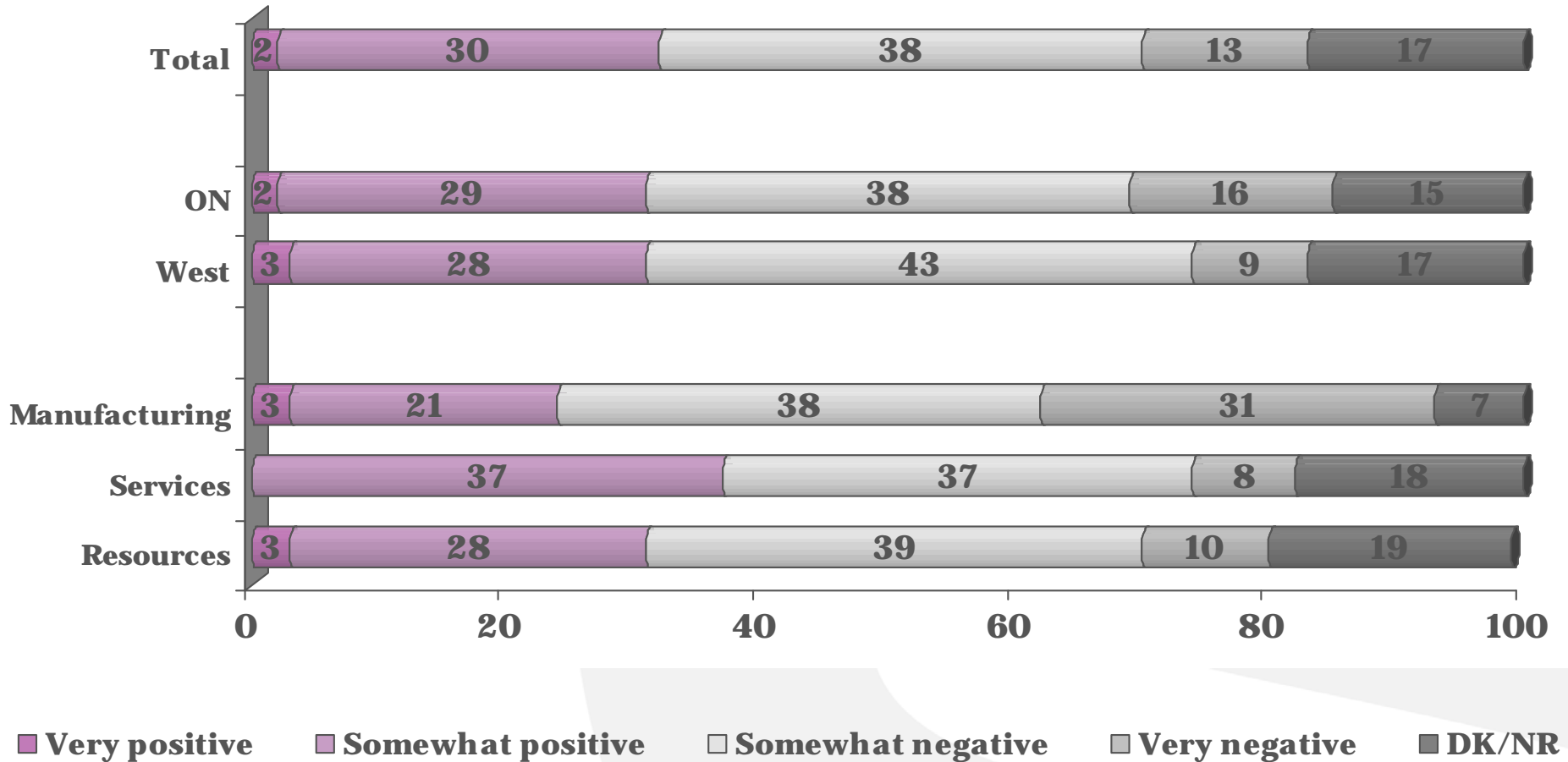


- ❑ The Canadian dollar's value is hurting companies more than it's helping.
 - Nearly half of executives agreed the high dollar makes them more likely to consider acquiring foreign companies and assets.
 - Many executives, including half of manufacturing executives, agreed the high dollar means they'll likely be investing in technology and equipment.
 - Yet more executives said it's had a negative than a positive effect – only a third said it's a plus.
 - On average, executives said the optimal value for the dollar for their companies would be 95 cents US – one in five would like to see the dollar valued at less than 90 cents US.
 - Yet executives are planning on a 97 cent dollar for the coming year.
 - Manufacturers are especially sensitive to the high dollar – two thirds said it's a negative, and while most executives in this sector would prefer a dollar valuation of less than 95 cents, almost all are planning for a dollar valued at or above 95 cents though 2011. Virtually none are planning on less than 95 cents.
 - One third of the remaining manufacturing sector would prefer a dollar under 90 cents, which implies that the manufacturing sector has not adjusted to the dollar and further contraction of manufacturing may be occurring.
 - This explains in part why manufacturers were more likely than executives in other sectors to be seeking new markets (previous slide).



Effect of High Canadian Dollar

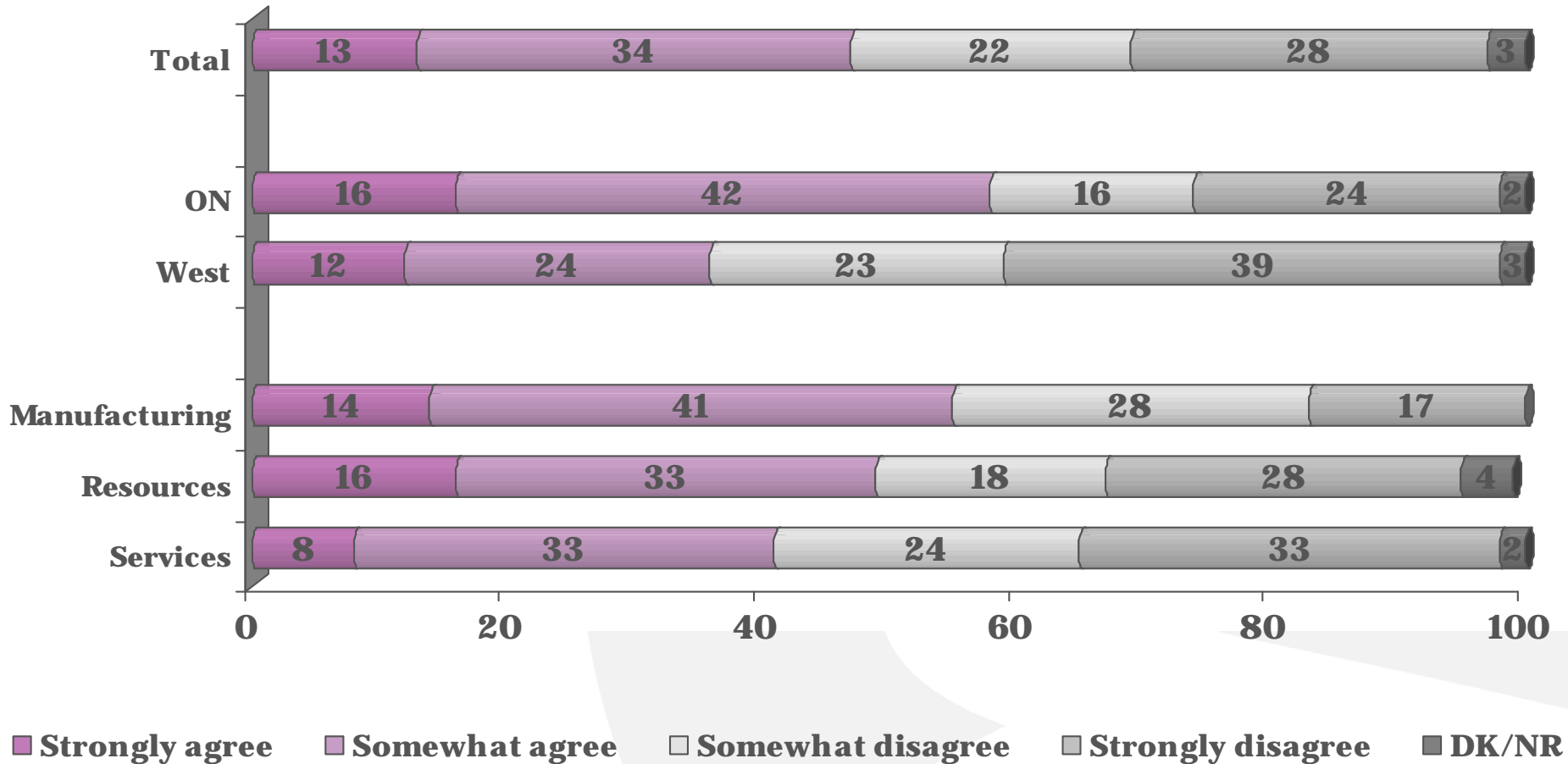
“Since June 2009, the value of the Canadian dollar has risen against the US dollar. Has this had a very positive, somewhat positive, somewhat negative or very negative impact on your firm’s bottom line?”





Value of Dollar Leads Companies to Consider Acquisitions

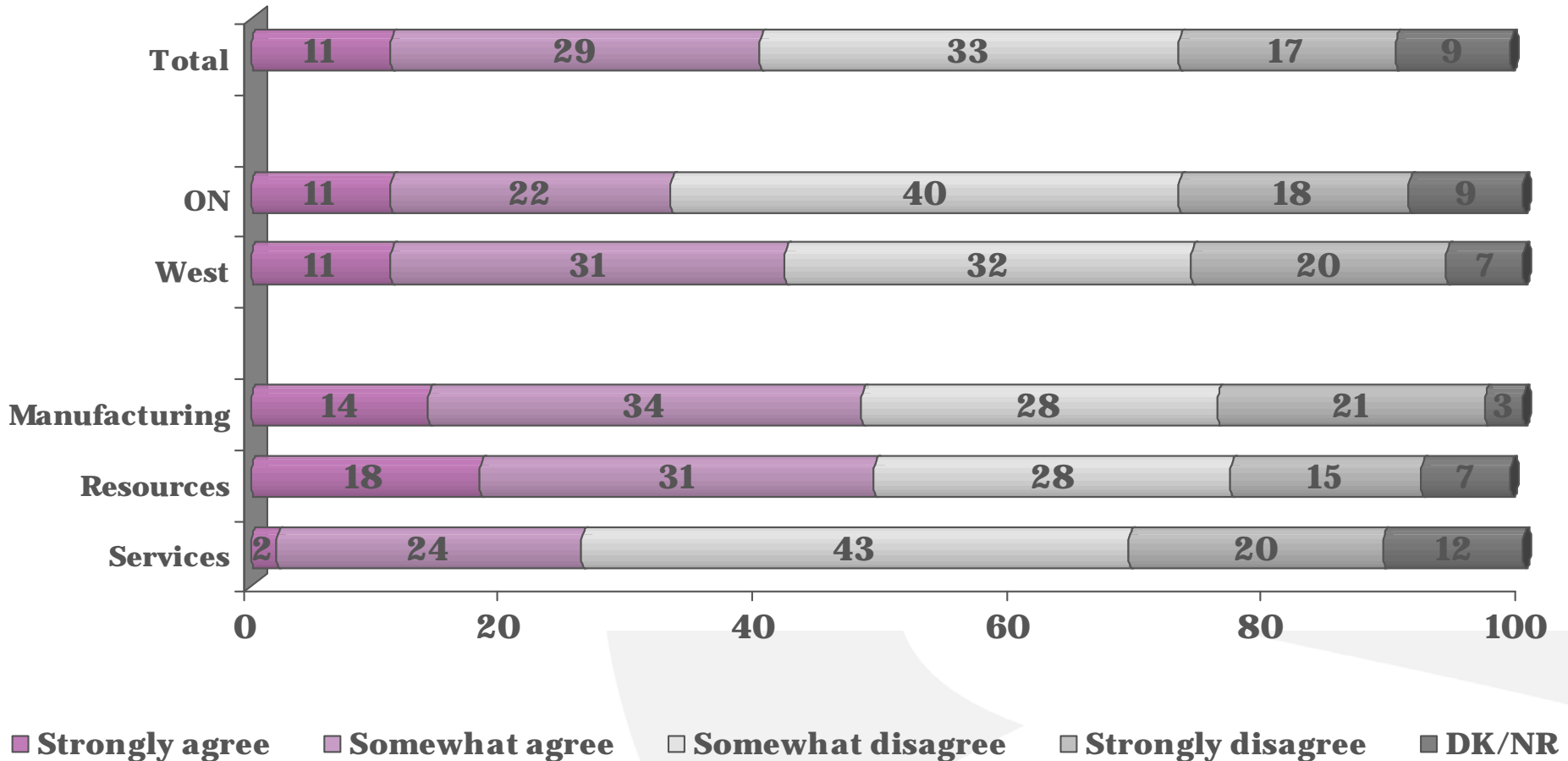
“The high value of the Canadian dollar means our company will consider acquiring foreign companies and assets.”





High Dollar Leads to Investments in Equipment and Technology

“The high value of the Canadian dollar means our company will likely be investing in equipment and technology.”

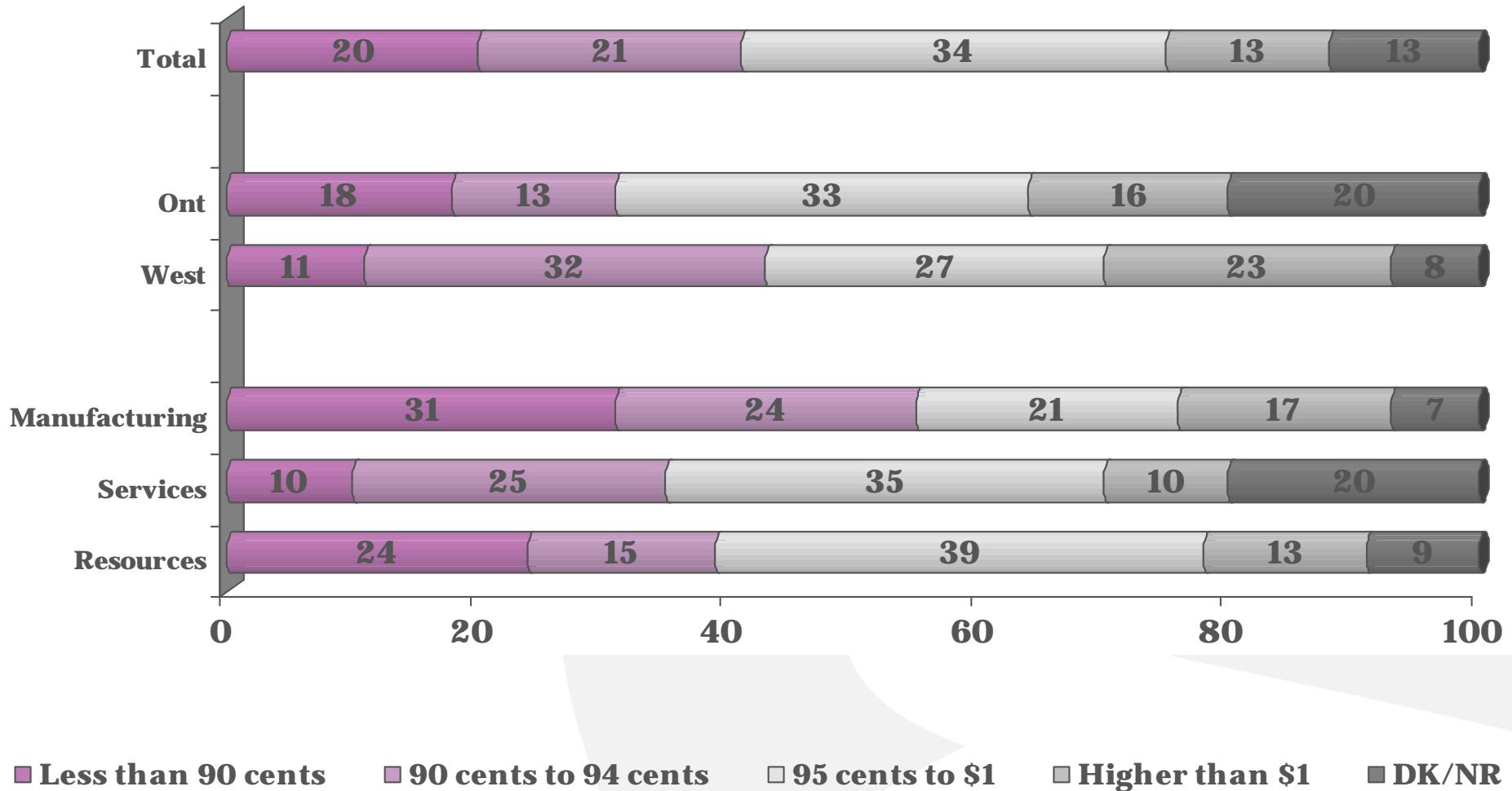




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Optimal Value of CDN Dollar for Company

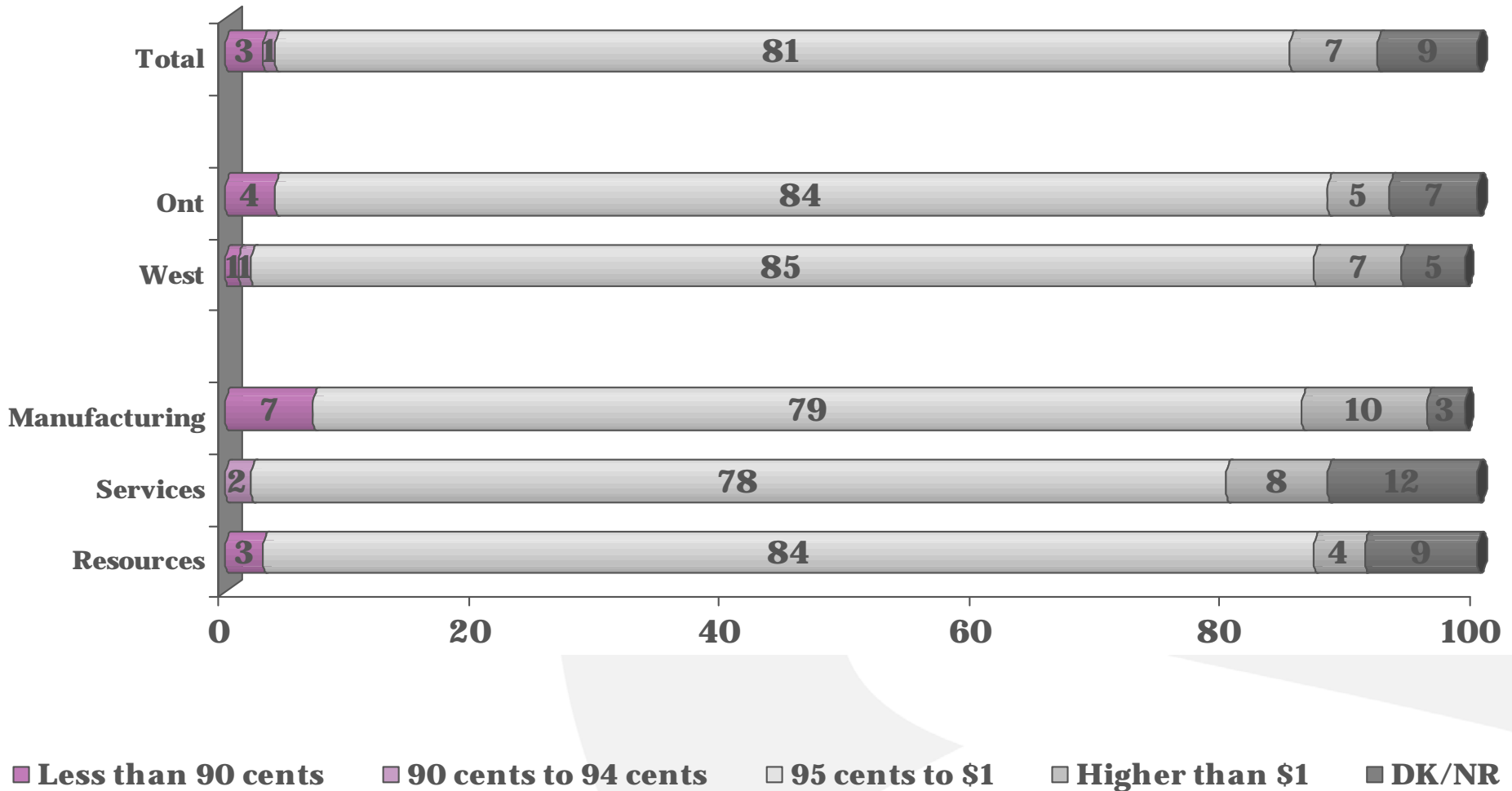
“Thinking specifically of your company, what would be the optimal value of the Canadian dollar against the US dollar?”





Value of CDN Dollar Used for Planning in Companies

“Again, with respect to your company, what valuation for the Canadian dollar are you using for planning for the coming year?”



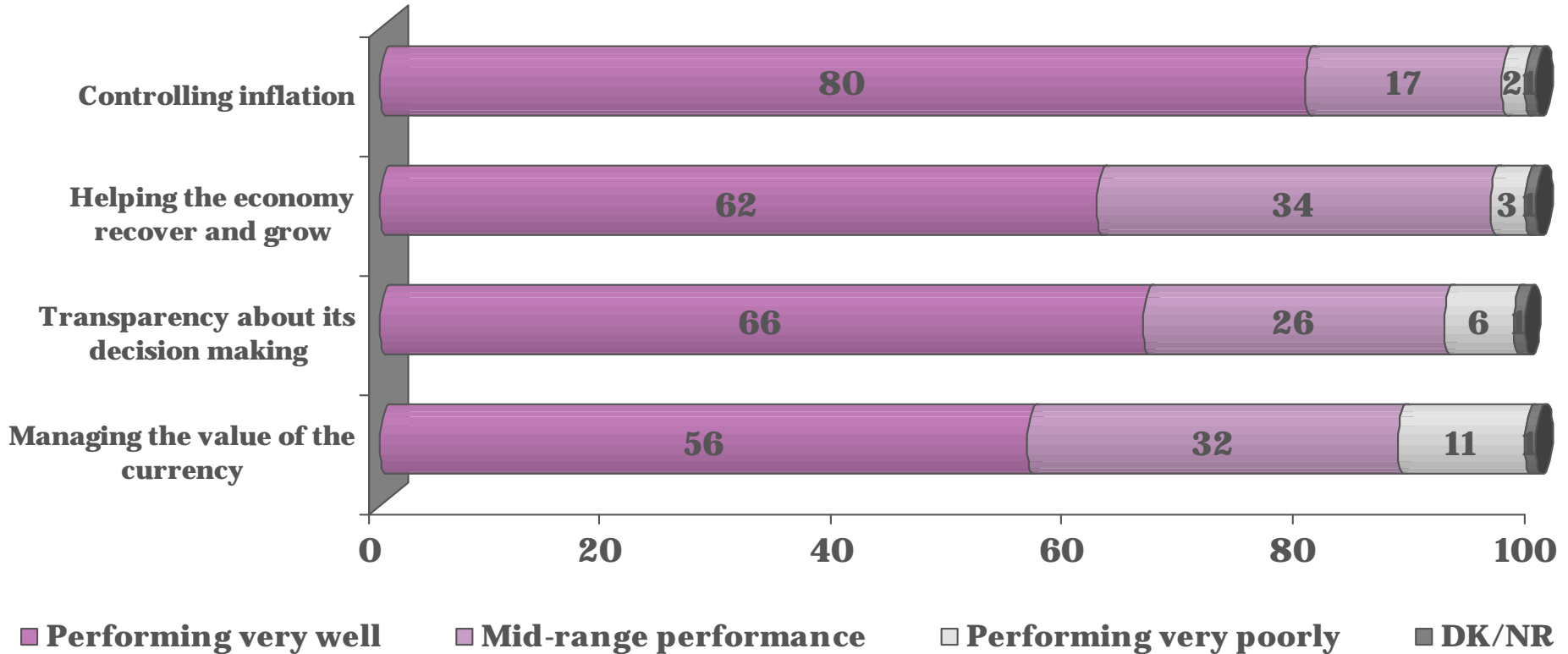


- ❑ Previous surveys have seen executives give very high marks to Bank of Canada Governor Mark Carney. In its core mandate of preventing inflation, the Bank receives universal accolades.
- ❑ The only apparent weak spot for many executives surrounds the Bank's job of managing the value of the currency.
- ❑ Most believe the Bank has done a very good job helping the economy recover and grow, and agreement on this is somewhat stronger in the West than in Ontario.



Performance of the Bank of Canada

“Please rate the performance of the Bank of Canada on a scale of 1-9 where 1 means performing very poorly and 9 means performing very well when it comes to:”





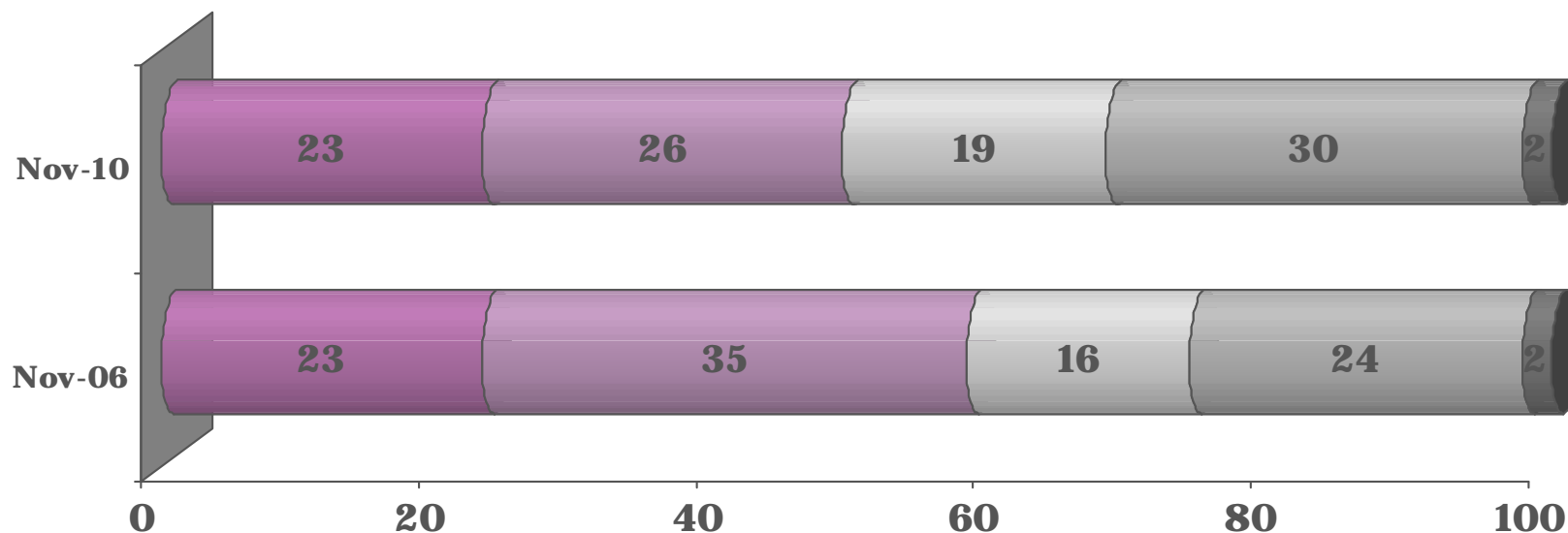
- ❑ New rules will change tax treatment of income trusts in 2011. In 2006, when government announced the change, we found 58% supported the taxation of trusts, with the remainder opposed. Despite the passage of time, the sting of the government's decision has not abated half saying they oppose the policy.
 - Opposition is highest among resources companies, where only a third of executives support the decision – with energy and oil and gas companies were particularly opposed.
 - Only 17% of those surveyed said their company – in whole or in part – was an income trust in 2006, and most of these 26 companies were in the services sector. Of this small group, none said the impact was positive, most said it's had a negative impact. One in three has since made the conversion and is no longer a trust.
- ❑ Opinions of Minister Flaherty have recovered since 2006-07, when the trusts decision raised the Minister's unfavourability among executives to 32%. Today, only 13% have an unfavourable view of him. Even among those who strongly oppose the decision to tax Income Trusts 29% have an unfavourable view while 49% have a favourable view.



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Support Decision to Tax Income Trusts – 2006 vs. 2010

“In November 2006, the federal Conservative government announced it would tax income trusts beginning on January 1st, 2011. Do you strongly support, somewhat support, somewhat oppose, or strongly oppose the government’s decision to tax Income Trusts?” & in Nov. 2006 “Do you strongly support, support, oppose, or strongly oppose the government's decision to tax Income Trusts.”

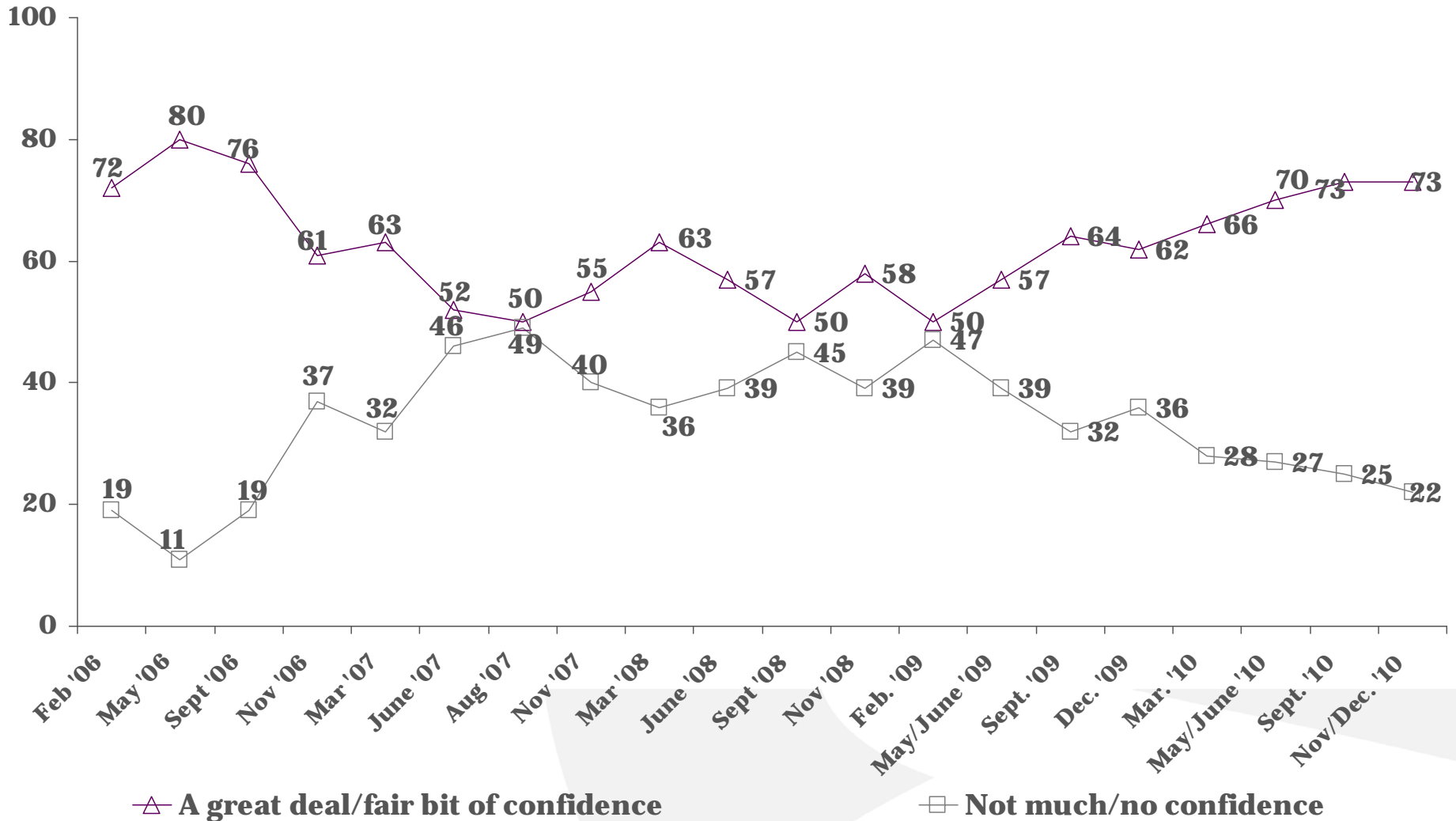


■ Strongly support ■ Somewhat support □ Somewhat oppose ■ Strongly oppose ■ DK/NR



Confidence in Minister Flaherty

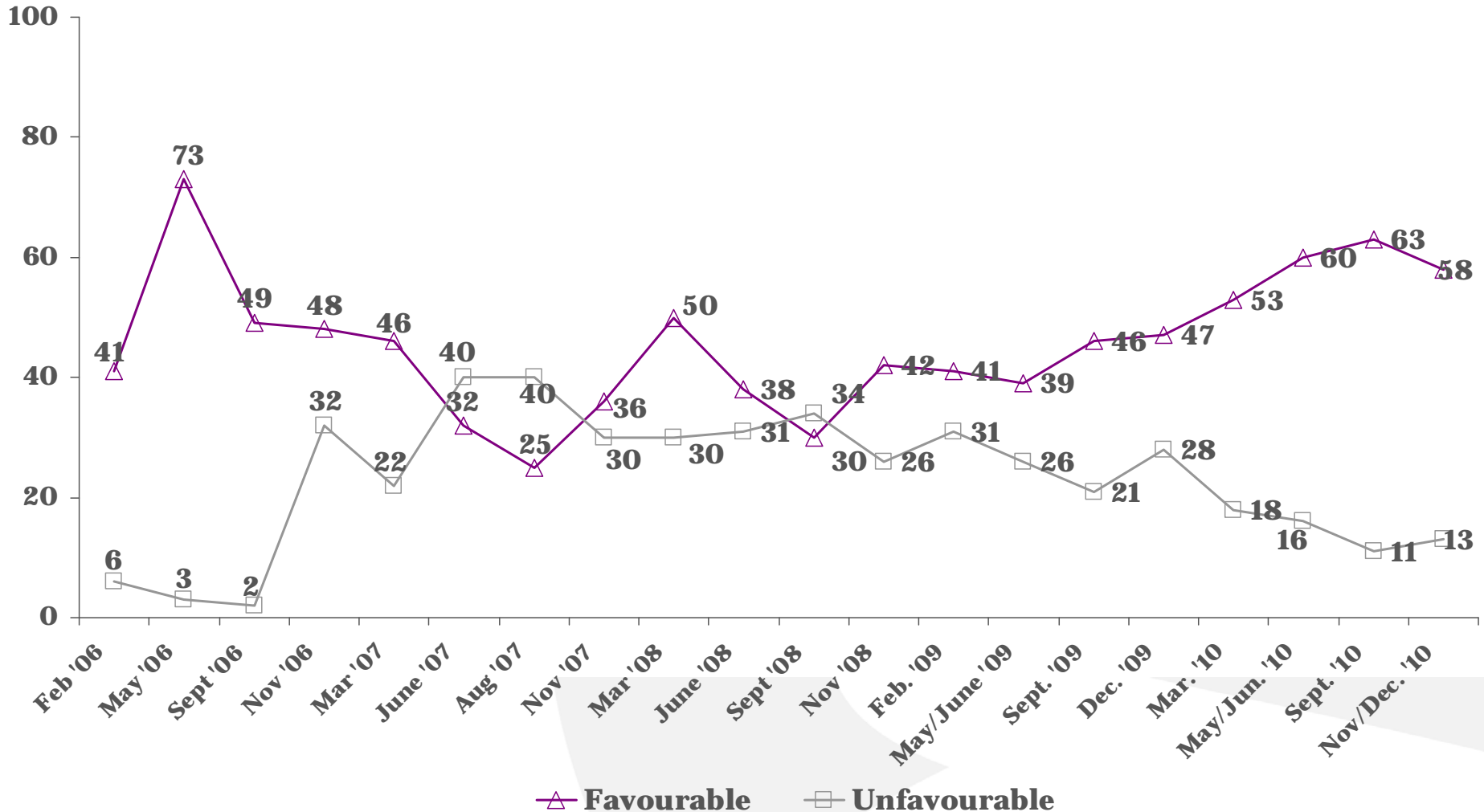
“How much confidence do you have in Finance Minister Flaherty’s management of the economy?”





Impressions of Minister Flaherty

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





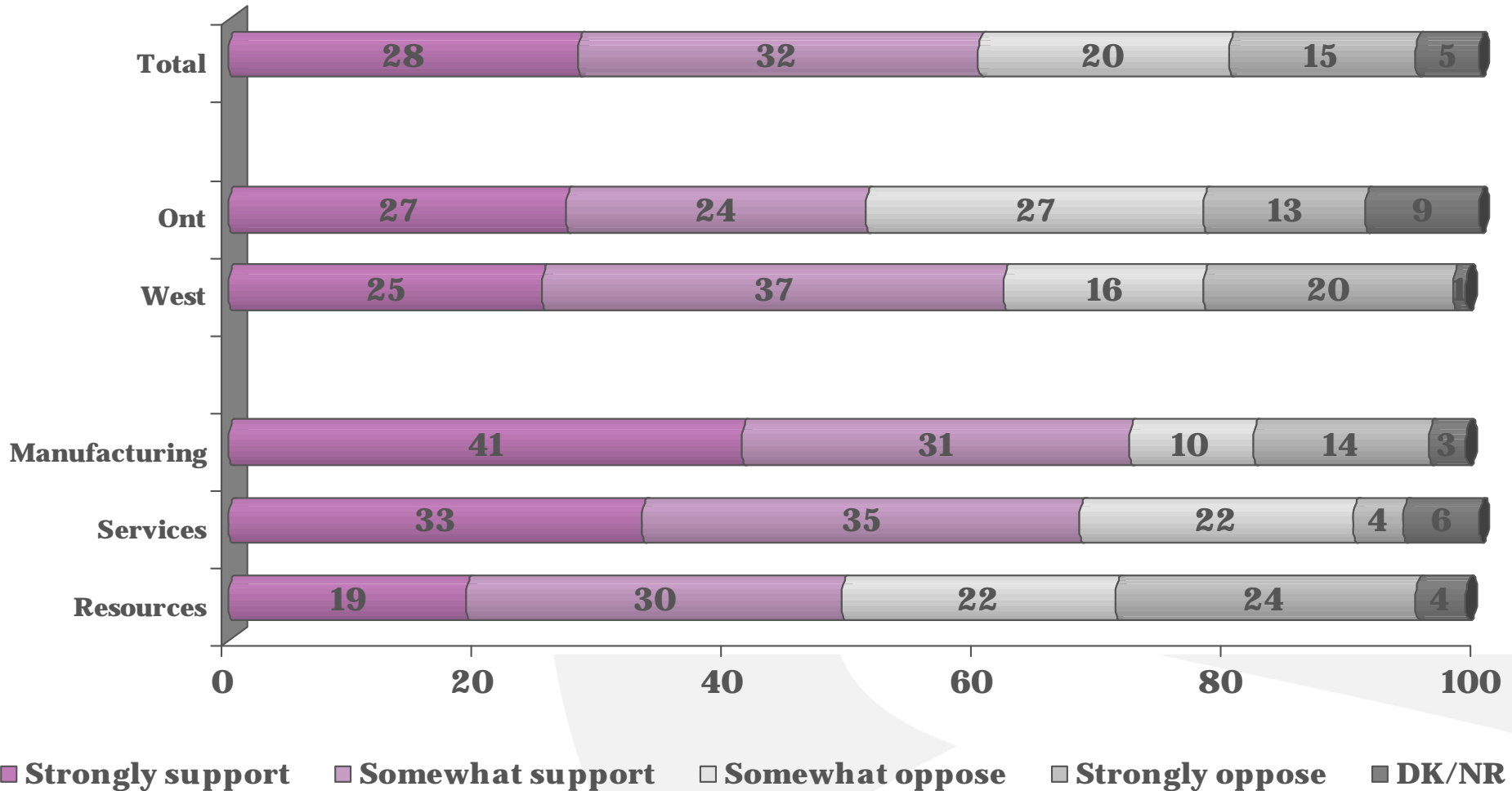
Strategic Value of Canadian Corporations to Canada

- ❑ Executives mostly support the government’s recent decision to block the takeover of PotashCorp by BHP Billiton. Six in ten support the decision while eight in ten agreed that major purchases by foreign corporations should be subject to a “net public benefit test.”
 - Resources sector executives are divided on the decision on PotashCorp – one in four strongly oppose the government’s decision, with slightly higher strong opposition from the mining sector, than from oil and gas or energy companies.
- ❑ Atomic Energy of Canada Ltd. is a company most believe is of high strategic value and should be protected from foreign control.
- ❑ Approximately half of executives see CN Rail and Suncor in the same category, and about a quarter said the same of Bell.
 - Western executives and resources sector executives were less likely to support the “net public benefit” test and less likely to say Bell, Bombardier, Air Canada or RIM are strategic assets that must be protected.
 - With respect to PotashCorp, AECL and CN Rail, Western and Eastern executives were in agreement on the strategic value of these assets.



PotashCorp Takeover

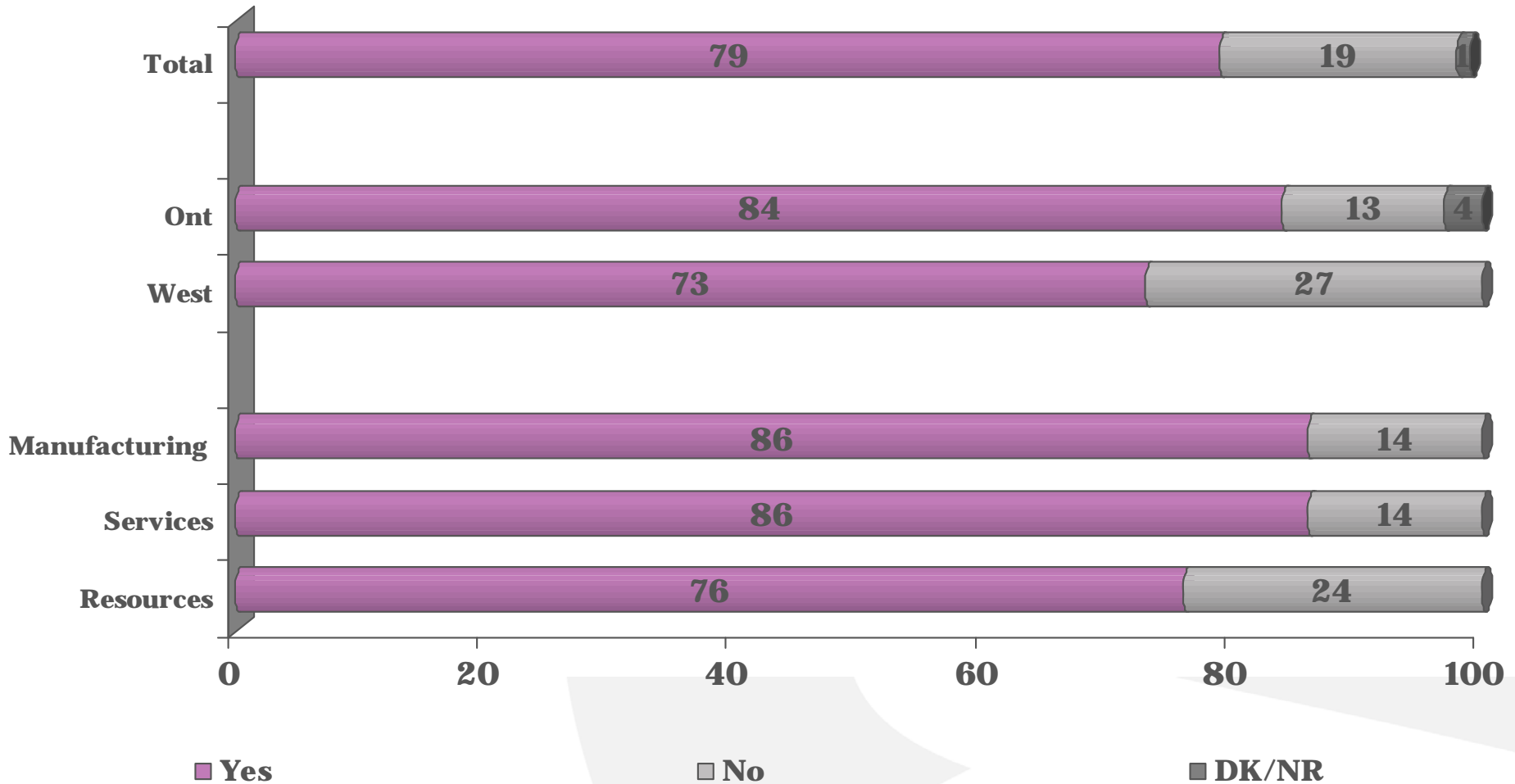
“Last month, the federal Industry Minister announced that the federal government would block the sale of the Potash Corporation of Saskatchewan to BHP Billiton. Do you strongly support, somewhat support, somewhat oppose or strongly oppose the decision of the federal government?”





“Net Public Benefit” Test

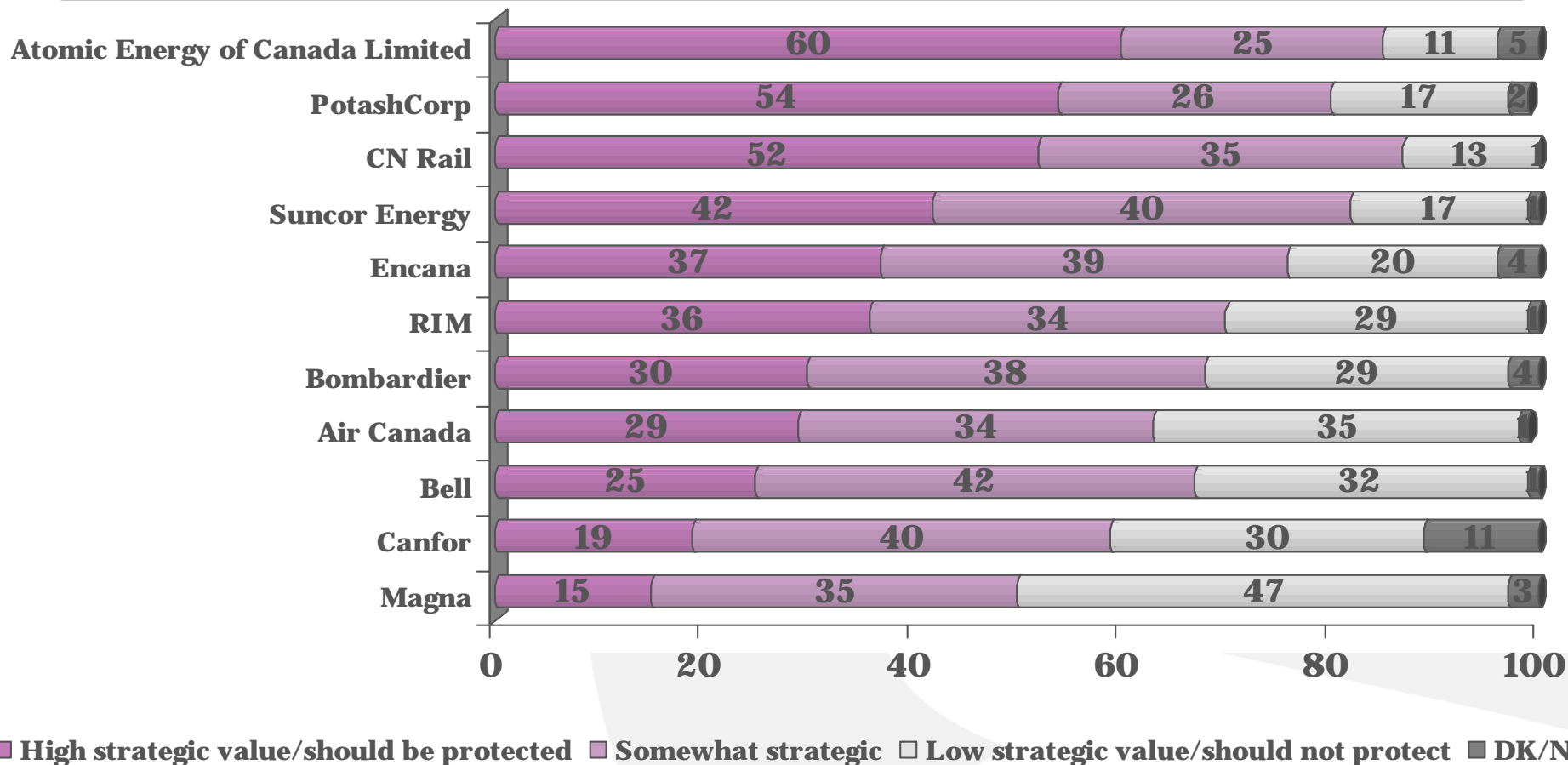
“Do you believe that major purchases by foreign companies should be subject to a "net public benefit" test by the Canadian government before being approved?”





Strategic Value of Canadian Corporations to Canada

“It was claimed that PotashCorp was of strategic value to Canada. On a scale of 1 to 9 where 1 means has no strategic value to Canada and should not be protected from foreign control and 9 means has a very high strategic value to Canada and should be protected from foreign control, how strategically valuable are each of the following companies to Canada?”

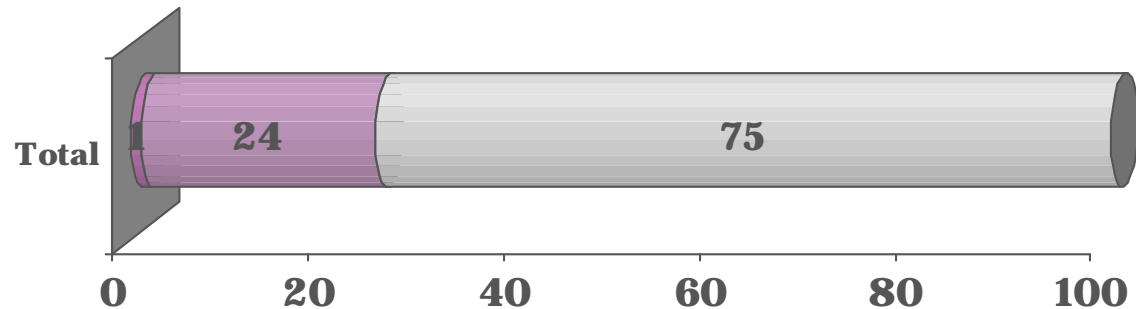




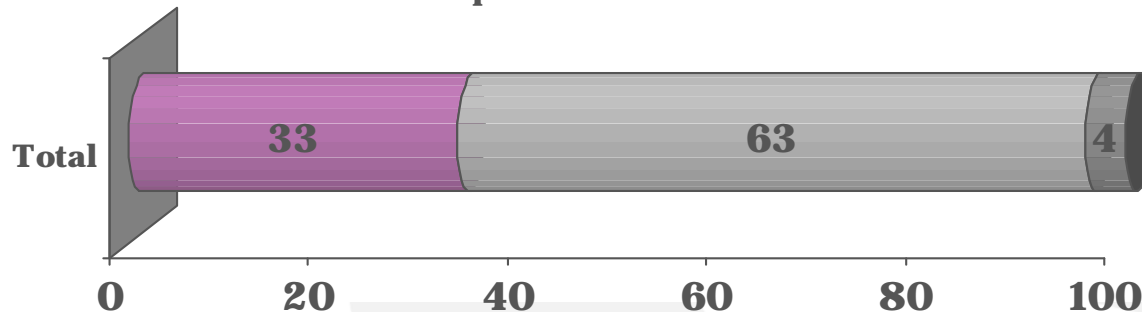
- ❑ A three-quarters majority of executives said that the lack of consensus about currency valuations and free trade at the most recent G20 Summit in Korea did not affect their opinion about the G20. This indicates patience for the slow-moving nature of the G20.
- ❑ There is no going back to the G8: 63% of Canadian executives feel that the important decisions require countries like China and India to be at the table, and that the G20 must be given time to work.



“At the recent G20 summit in South Korea, global leaders issued a joint communiqué but did not reach consensus on how to resolve concerns around currency valuations and free trade. In the wake of that summit would you say you have:” & “Some people say that the G20 is too large and diverse to make decisions and real decision making will have to be done by the G8. Other people say that the important decisions require countries like China and India to be at the table so the G20 must be given time to work. Which of those is closer to your own view?”



- More confidence in the potential of the G20 than you did before
- Less confidence in the potential of the G20 than you did before
- Made no difference to opinion



- The G20 is too large and diverse to make decisions and real decision making will have to be done by the G8
- The important decisions require countries like China and India to be at the table so the G20 must be given time to work
- DK/NR