



the gandalf group

The 28th Quarterly C-Suite Survey: Foreign Takeovers and National Energy Strategy

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- ❑ This is the 28th edition of the C-Suite Quarterly survey, conducted on behalf of KPMG; published and broadcast by the *Globe and Mail's Report on Business* and *BNN*. Previous quarters' surveys are available at GandalfGroup.ca.
- ❑ This quarter's survey asked executives about:
 - The bid for Nexen Inc. by CNOOC
 - A system for foreign investment review in Canada
 - Strategic industries and assets
 - A national energy strategy
- ❑ Methodology: telephone interviews were conducted with 152 C-Suite executives from ROB1000 companies between September 5th and September 21st 2012. The margin of error for this study is +/- 7.95% 19 times out of 20.



- ❑ Most executives believe government should have the ability to apply a ‘net benefit’ test to review major foreign acquisitions, though somewhat fewer believe the current system is ideal.
- ❑ They cite several factors that should be considered and balanced against each other when it comes to reviewing major acquisitions by foreign interests.
- ❑ Despite the fact that shareholder interests are among the most important considerations, many other issues – notably reciprocity (of foreign investment access) and concern about state-owned interests – are important.
- ❑ Oil, agricultural land, and fresh water, are among our most strategic assets that require some form of protection, according to executives.
- ❑ As such, less than half of executives support allowing the acquisition of Nexen Inc. by CNOOC to proceed without conditions.
- ❑ Many want substantial conditions applied that would change the nature of the deal if not block it outright.
- ❑ In contrast to executives in other regions, Western Canadian executives mostly support seeing the bid for Nexen proceed without conditions.



- ❑ Just as there is some disagreement over the fate of Nexen, there are competing visions for an energy strategy.
- ❑ Almost all executives support expansion of pipeline construction to bring oil to markets, whether it is to the Pacific or Gulf or Eastern Canada.
- ❑ Executives in Ontario and Eastern Canada however are probably more likely to view these as part of an economic strategy since most of them believe more should be done to share the economic benefits from oil and gas.
- ❑ Outlook on the economy has not improved. The virtual consensus (unchanged for three quarters now) is that Canada will see no better than moderate growth over the next year. There has been no improvement in outlook for the US economy.

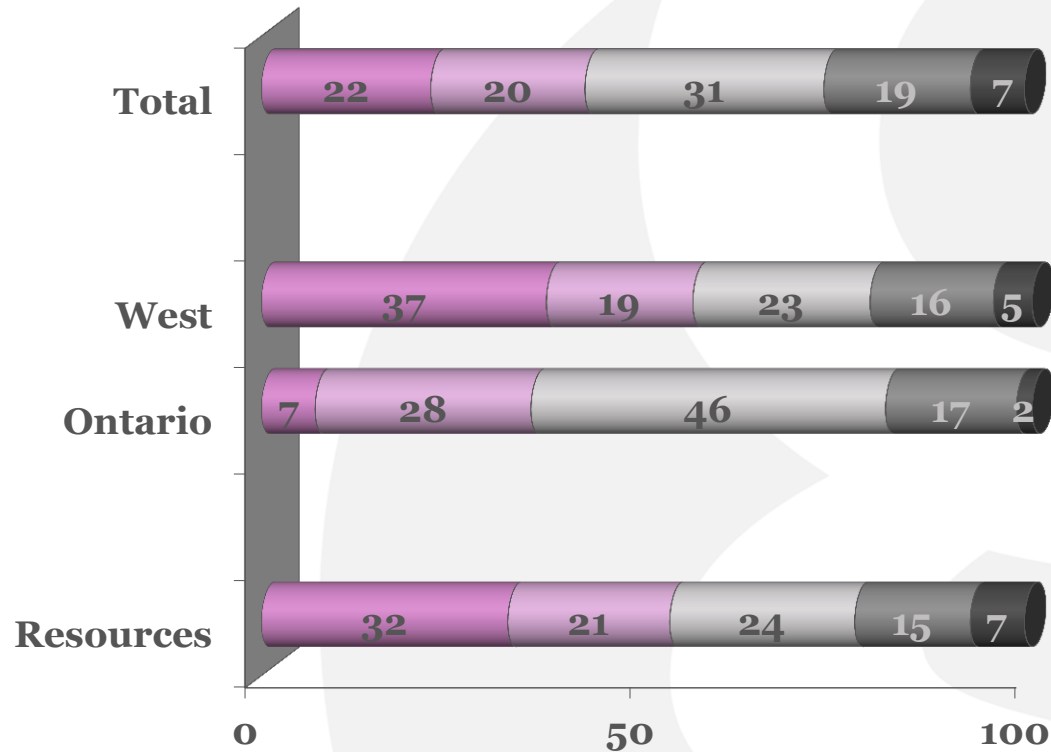


- ❑ A minority – 42% – believes the government should allow the acquisition of Nexen by CNOOC to proceed without conditions.
- ❑ Many of those opposed want conditions that would put in doubt the ability of the sale to proceed.



Support for Nexen Deal without Special Conditions

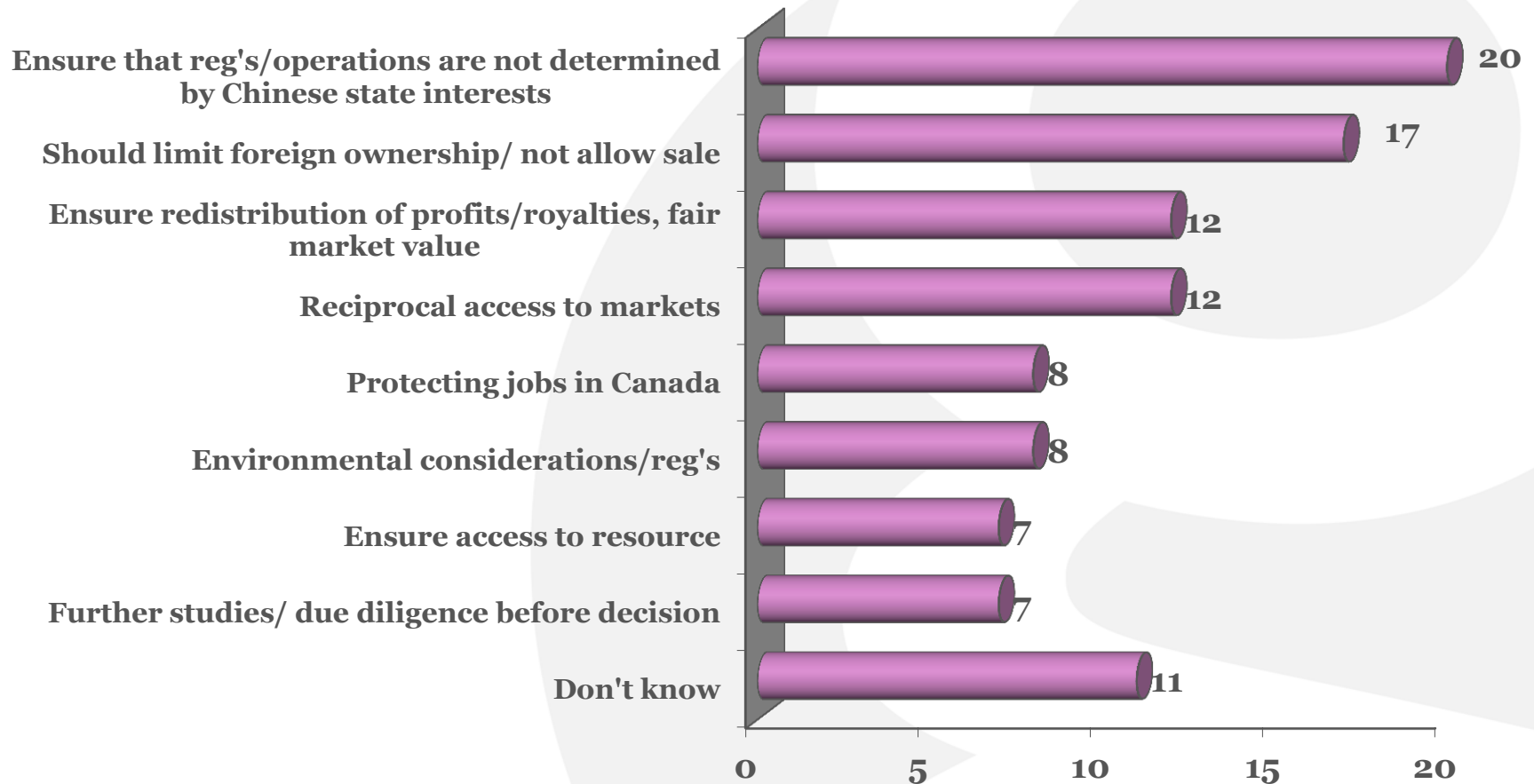
“As you may know, CNOOC, China's largest offshore energy explorer is bidding to buy Nexen, a Calgary-based oil and gas company. Based on what you know do you support or oppose the government of Canada allowing the purchase to proceed with no special conditions?”



■ Strongly support ■ Somewhat support ■ Somewhat oppose ■ Strongly oppose ■ Don't know



“What actions or conditions should the government take or set in this case?” (Among those opposing CNOOC’s acquisition of Nexen proceeding without conditions; n=76)

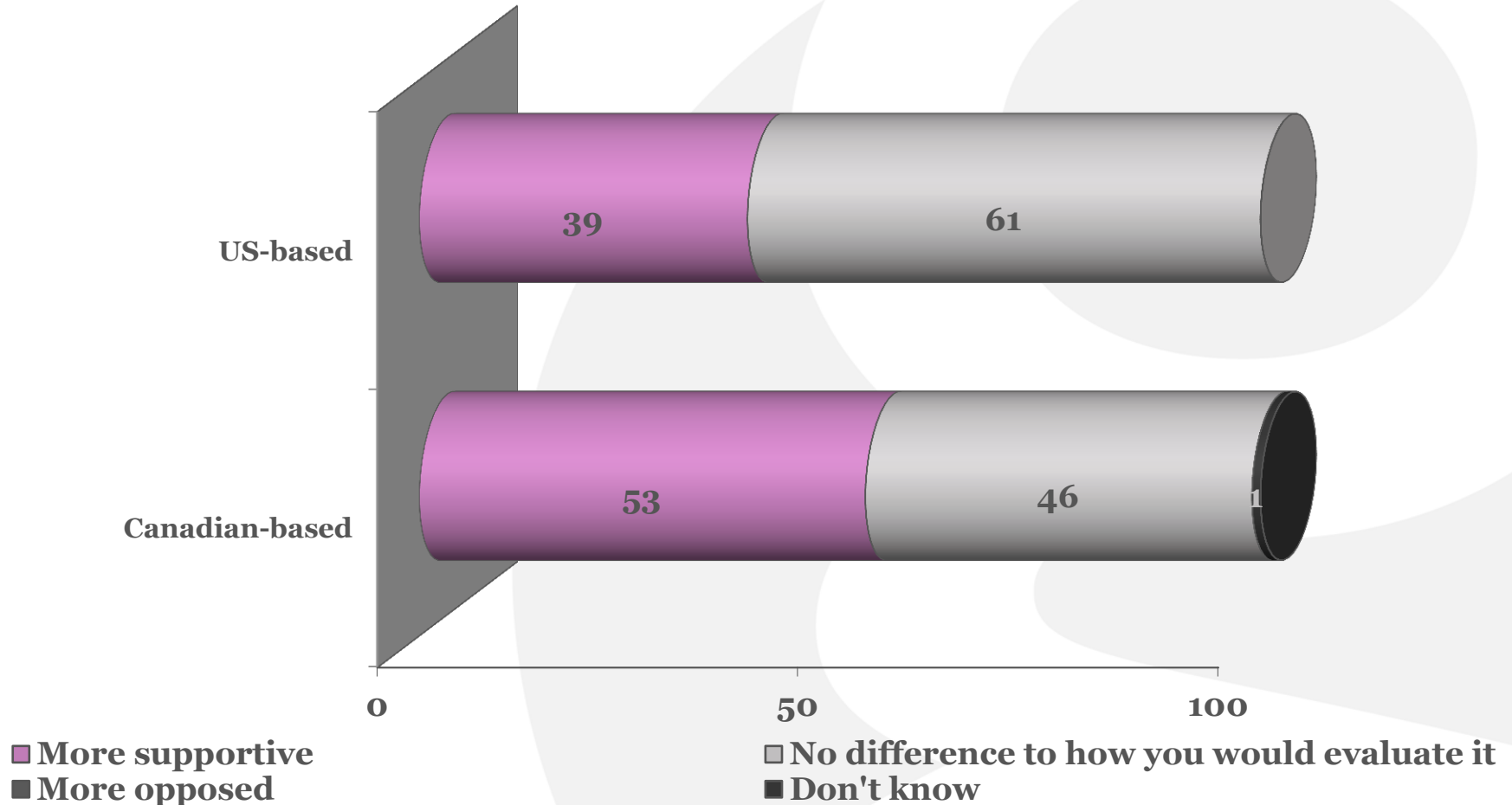




- ❑ Executives would be more supportive if the bid for Nexen was led by US interests, and **much** more supportive if led by Canadians.
 - Most of those who oppose the deal proceeding without conditions agreed they'd be more supportive if the bid was from a N. American buyer.
- ❑ Executives are more concerned about the takeover of Nexen than they would be if their own companies were subject to a bid from either Chinese or US interests.
- ❑ There is specific concern about state-owned companies.
 - Most agreed that takeovers led by state-owned companies should receive more scrutiny than those led by private companies.
 - Among those opposed to the Nexen deal proceeding as is, three in four agreed with this. Even among those who support the deal proceeding, close to half agreed state-owned companies should receive more scrutiny.

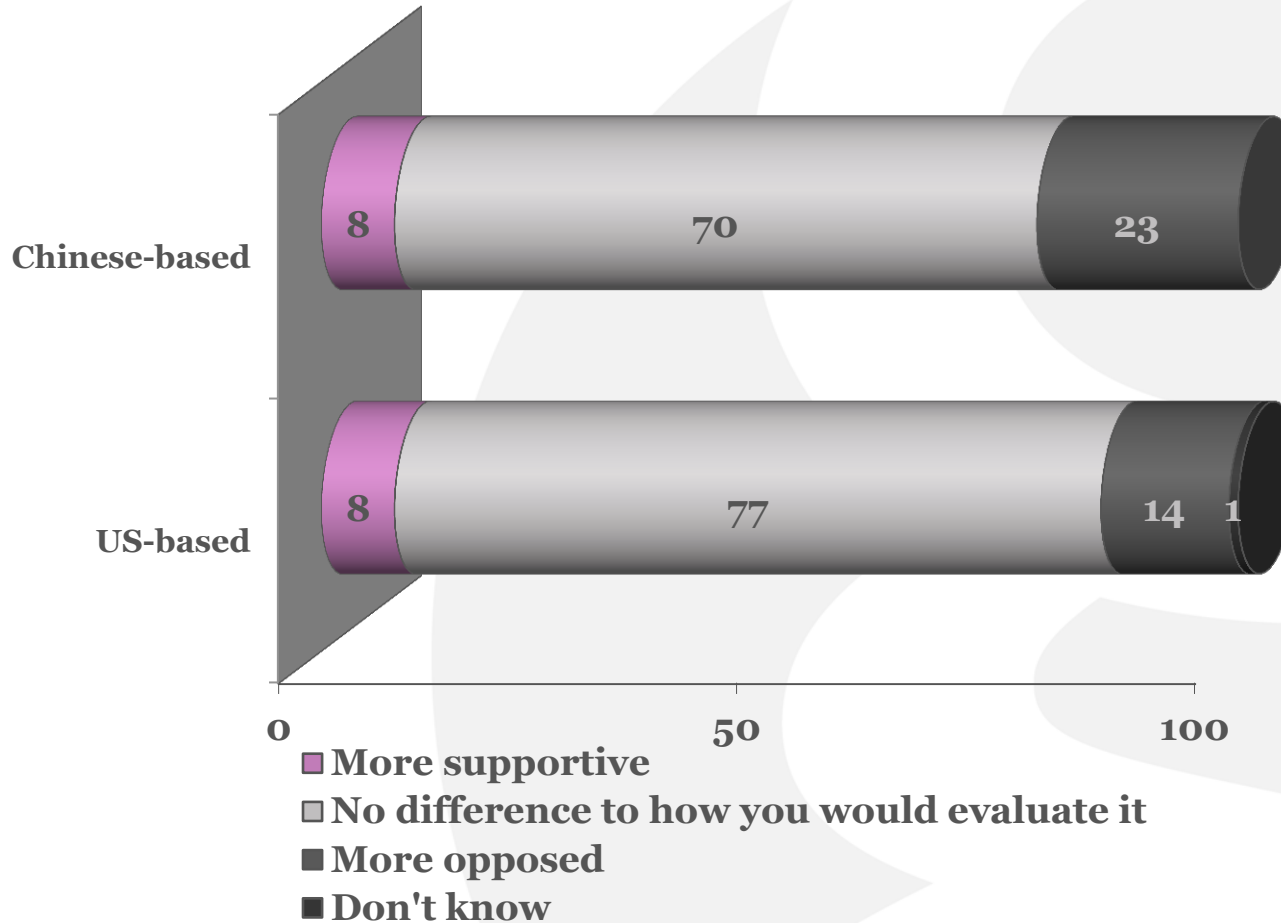


“If Nexen was the takeover target of a **US-based/Canadian-based** company rather than a Chinese company, would that fact make you more supportive, more opposed or would it make no difference to how you'd evaluate it?” (Split Sample)



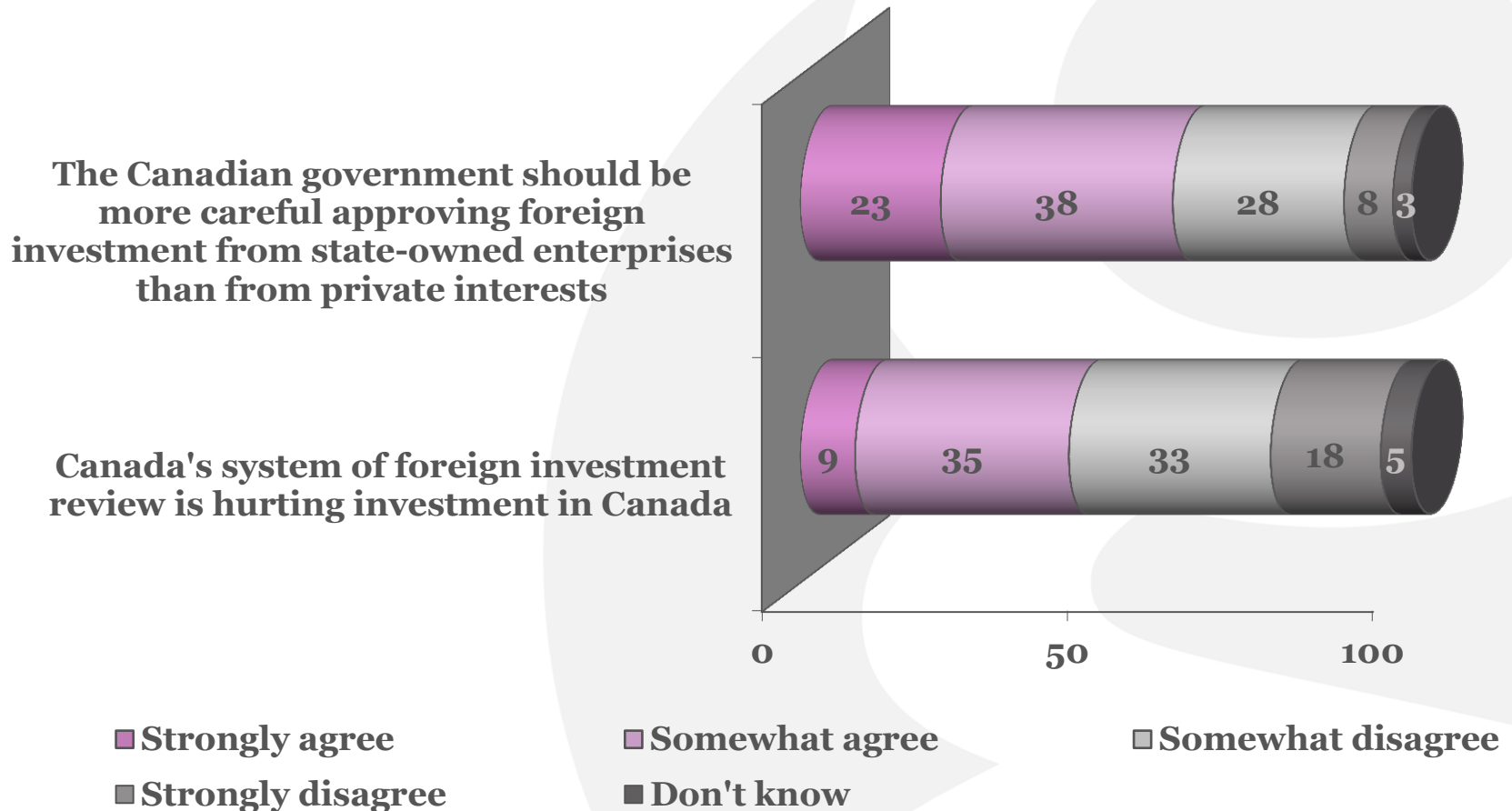


“If your company was subject to a purchase and the buyers were **Chinese-based/US-based** as opposed to Canadian would that fact make you more supportive or more opposed or would it make no difference to how you'd evaluate the bid?” (Split sample)





“The following are statements people might make about energy or companies of strategic importance. For each please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree.”



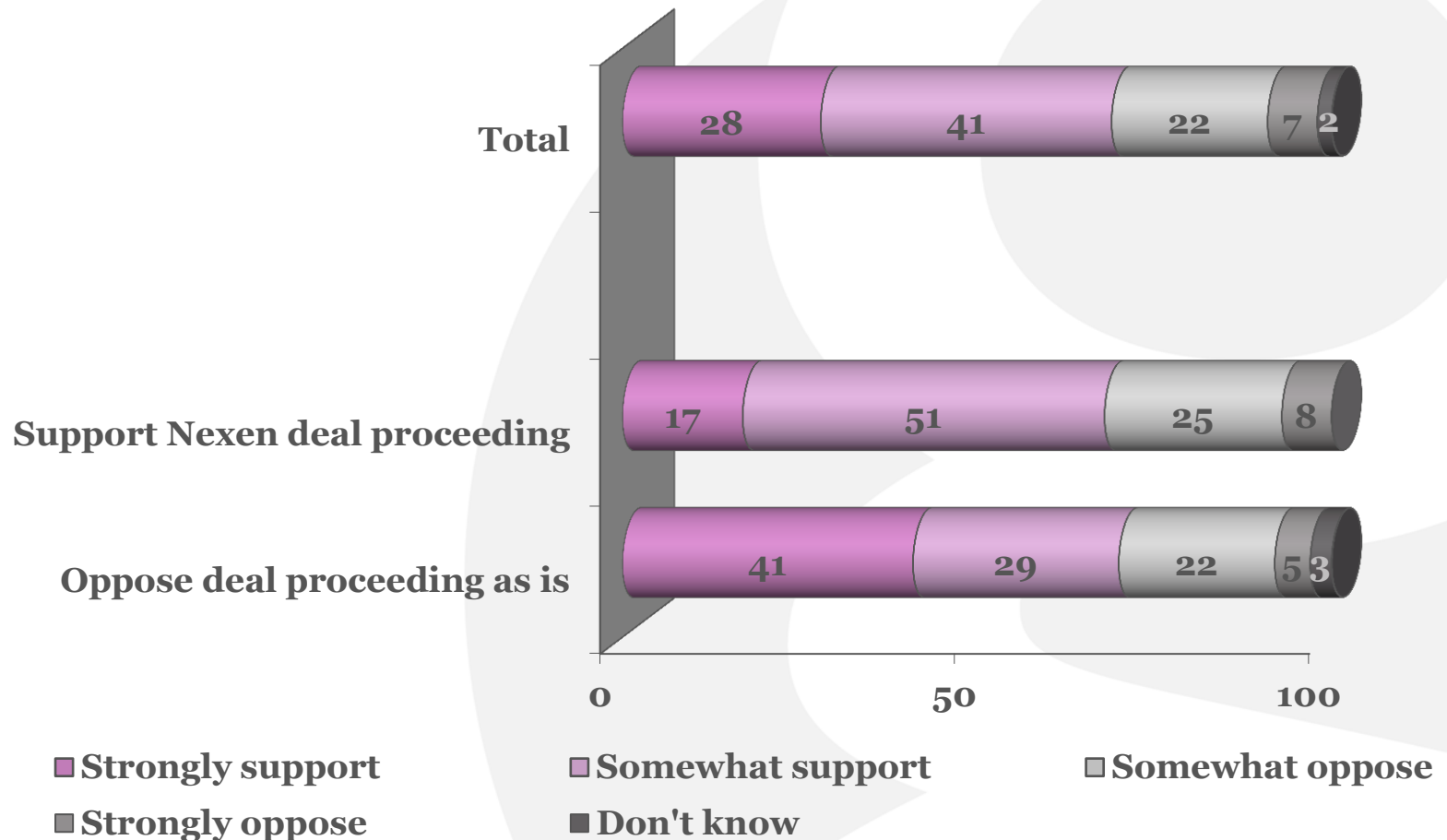


- ❑ Few oppose giving the government the power to review foreign investment.
 - This principle is even supported by a majority of both those who support the Nexen deal proceeding without conditions.
- ❑ But somewhat more executives agreed our current system of foreign investment review is hurting investment in Canada.
 - Nearly half (44%) agreed with this.
 - Those who support the Nexen bid proceeding without conditions were somewhat more likely to agree – 51%.



Net Benefit Test Support/ Opposition

“The federal government has the discretion to disallow acquisitions of major Canadian companies if the investments do not offer a “net benefit” to Canada. Do you strongly support, somewhat support, somewhat oppose or strongly oppose the government having that legal authority?”





- ❑ To illustrate the complexity of “net benefit”, there are fifteen considerations that most executives think are at least somewhat important to a net benefit determination.
- ❑ Some of the most important considerations executives believe government should consider in applying a net benefit test and foreign investment review are :
 - Impact on shareholders
 - Impact on natural resources
 - Reciprocal access to markets
 - Employment
 - Important services relied on by many Canadians
- ❑ Many other considerations factor in to some extent as well, including the investment climate in Canada balanced with Canadian sovereignty.
- ❑ However, such things as head office location or the Canadian roots of the company or its products are only of moderate importance.



Net Benefit Test Support/ Opposition

“In determining whether an investment represents a “net benefit”, how important is it to consider the impact on the following?”



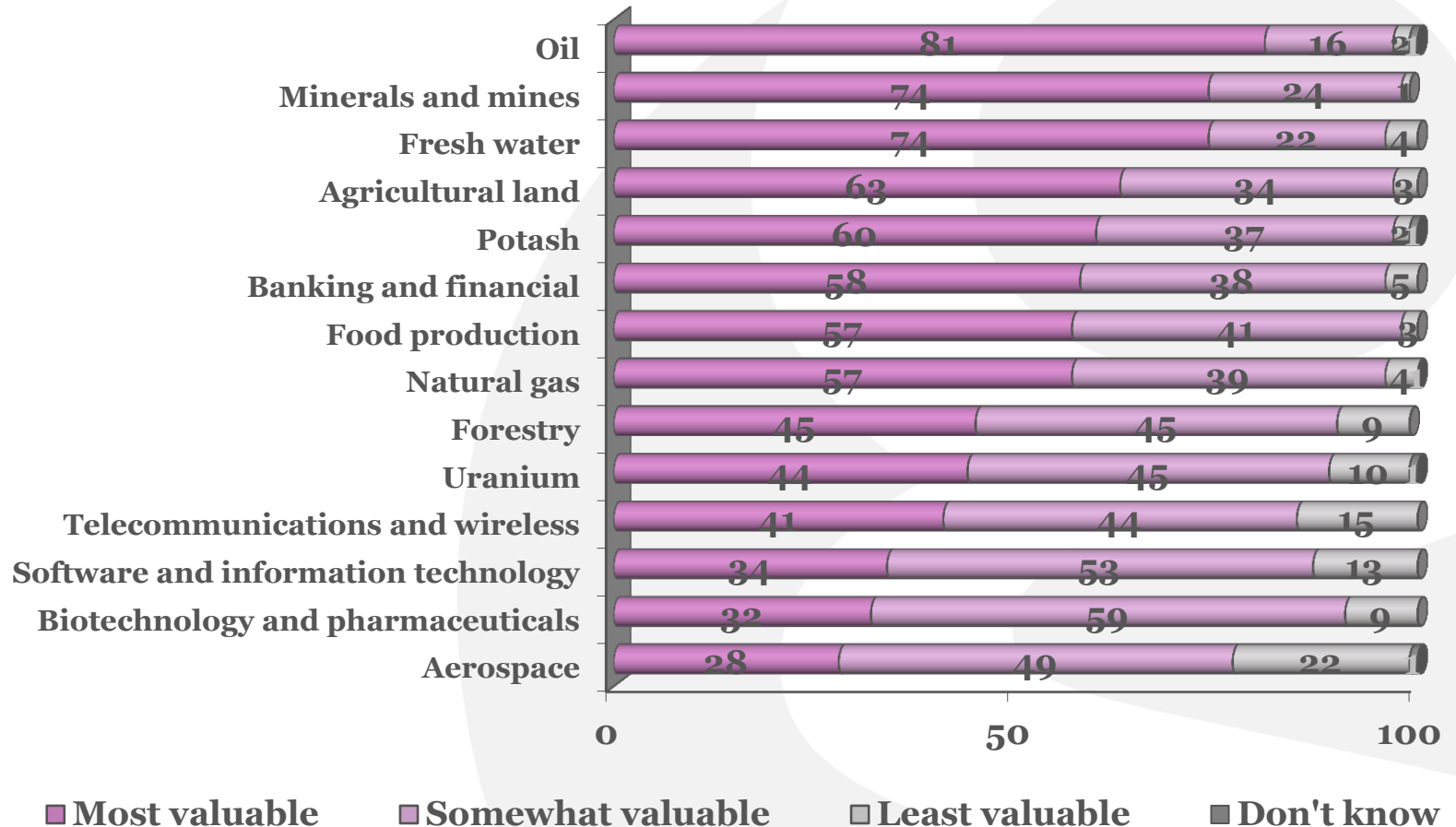


- ❑ With the exception of banking & financials, a range of natural resources assets constitute what executives believe will be most valuable to Canada over the long-term.
- ❑ Oil and mining top the list.
- ❑ Most executives add agricultural land and fresh water to those two as our most valuable long-term assets.
- ❑ IT/software development, biotech and aerospace are considered to be of only moderate value to Canada over the long-term in comparison.
 - However, Bombardier is considered to be of high strategic value to the country.



Sectors and Commodities of Value to Canada Over the Long-term

“I'm going to read a list of sectors and commodities and would like you to tell me how valuable each will be to Canada's economy over the long-term, using a scale of one to nine with one being the least valuable asset and nine being the most valuable asset.”



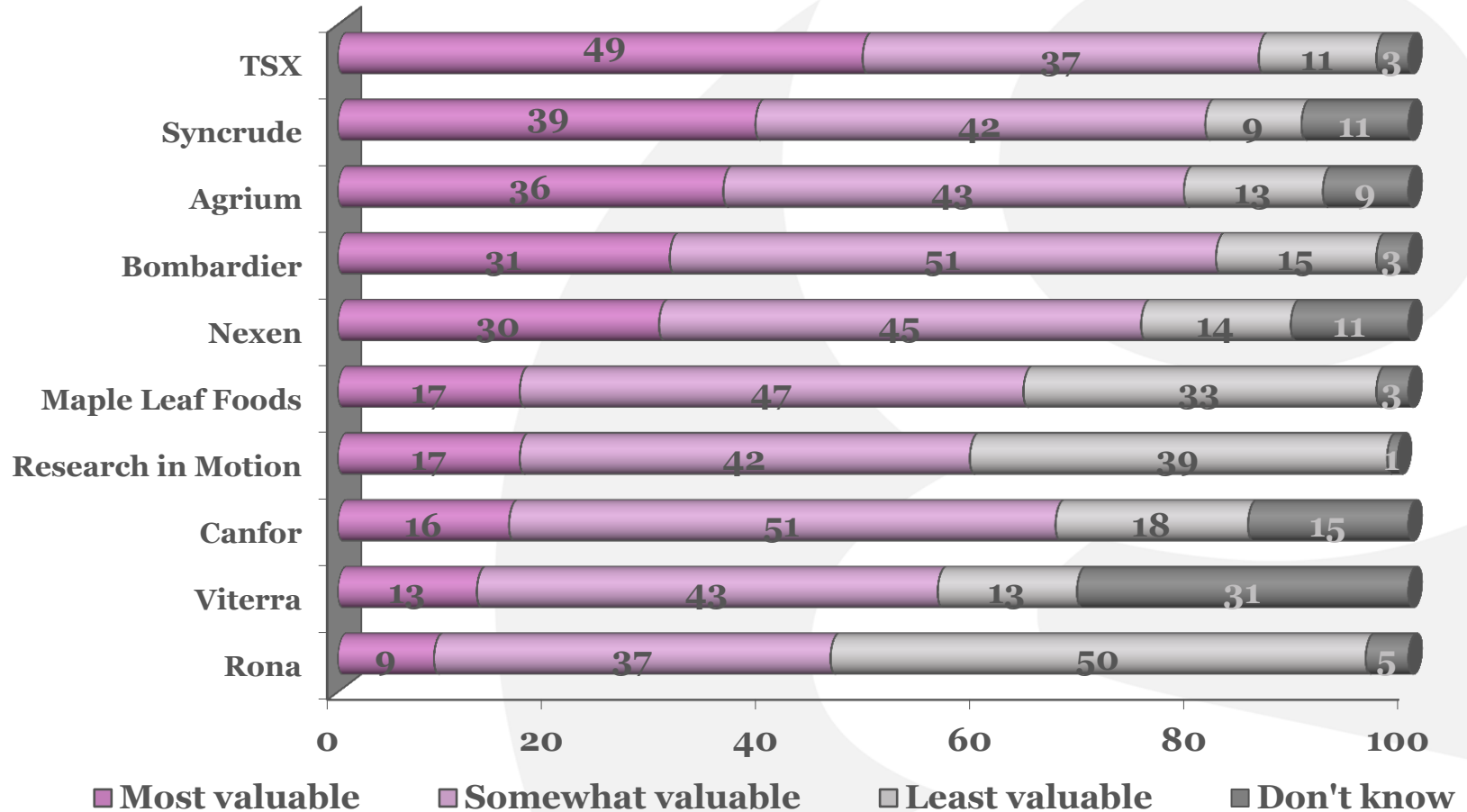


- ❑ The TSX is considered to be one of our most strategically valuable entities, just ahead of Syncrude and Agrium.
- ❑ Executives ranked Syncrude ahead of Nexen suggesting that a larger takeover of Canada's resources would receive more scrutiny and perhaps even more opposition.
- ❑ Few executives would say Rona is worthy of protection.
- ❑ And fewer executives today believe that Research in Motion is a strategic asset worthy of protection compared to two years ago.
 - Wireless and telecommunications are reasonably valuable sectors, but fewer said RIM is worthy of protection.
 - In the Q4 2010 C-Suite survey, just over one in three executives said RIM was a high value asset deserving protection.
 - Today less than half that number agreed with this, though Ontario executives were more likely to agree than executives elsewhere.



Companies' Strategic Value

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

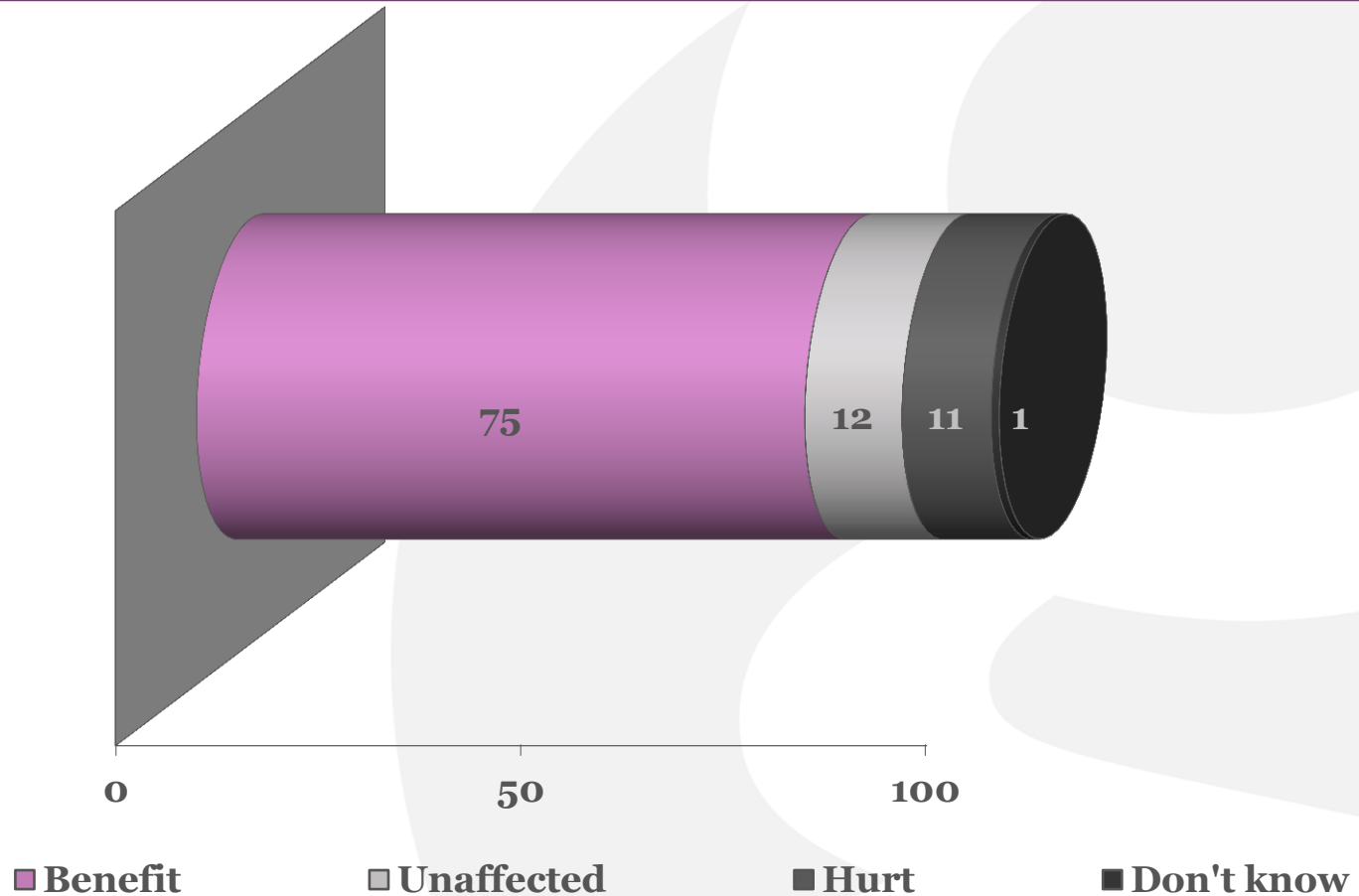




- ❑ Few executives currently believe Canada as a whole is not benefiting from the expansion of the resources sector.
- ❑ Many agreed that the lack of a national energy strategy is hurting investment in Canada and agreement with this is higher outside of Western Canada.
 - In the West, only 35% believe that investment in Canada is hurt by the absence of a strategy. In the rest of Canada most agreed investment is hurt by this.
- ❑ There is significant interest outside of the West to do more to share the economic benefits enjoyed by the oil and gas sectors.
 - Most executives in Ontario and Eastern Canada agreed more should be done to ensure economic benefits of oil and gas are shared across Canada's regions.
 - In the west only 30% agreed with this compared to about six in ten in the rest of Canada.

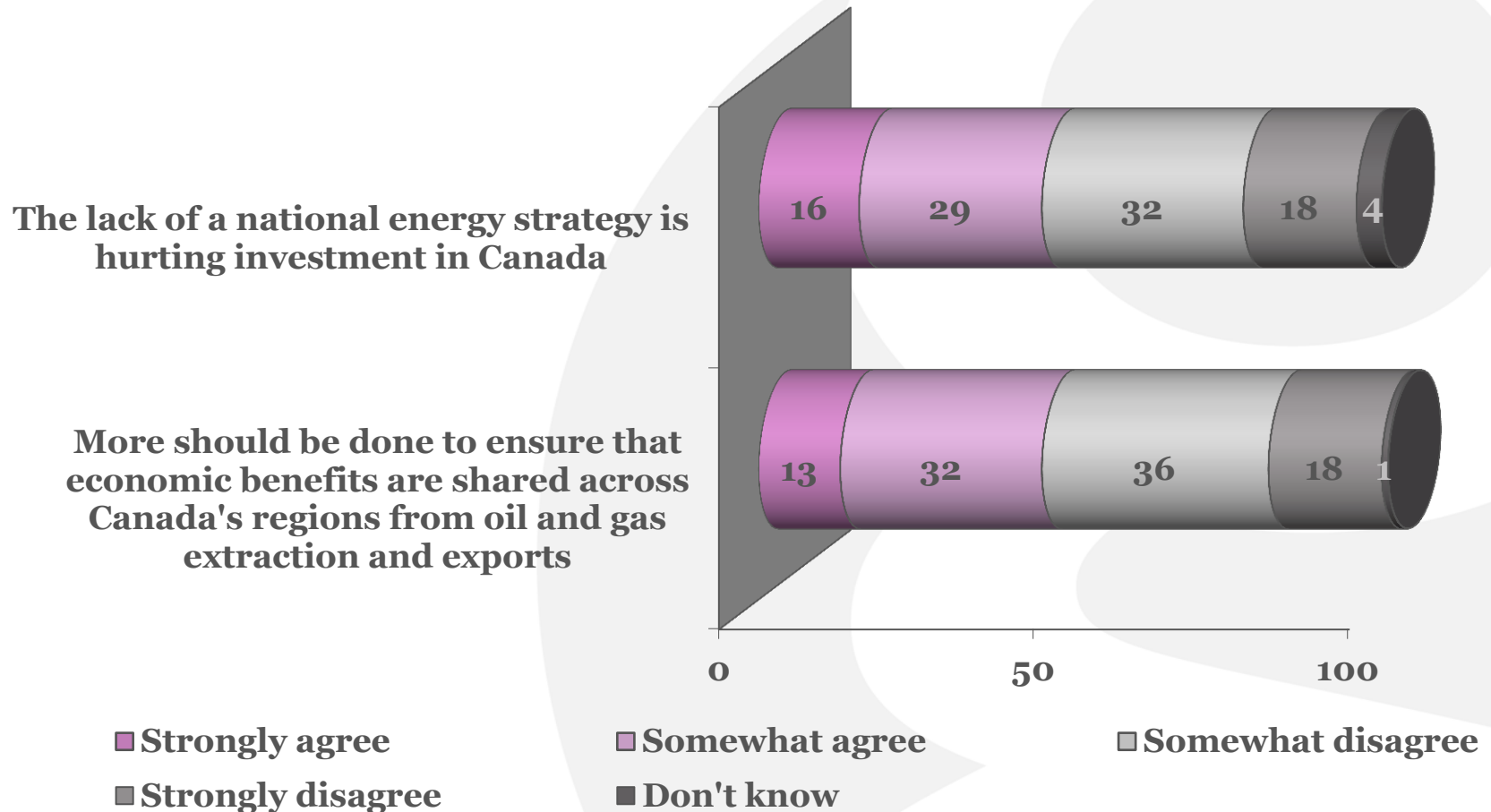


“Generally speaking do businesses in regions of Canada that do not have oil or valuable resources benefit from the strength of Canada’s resource sector, or are they hurt by it, or are they unaffected by it?”





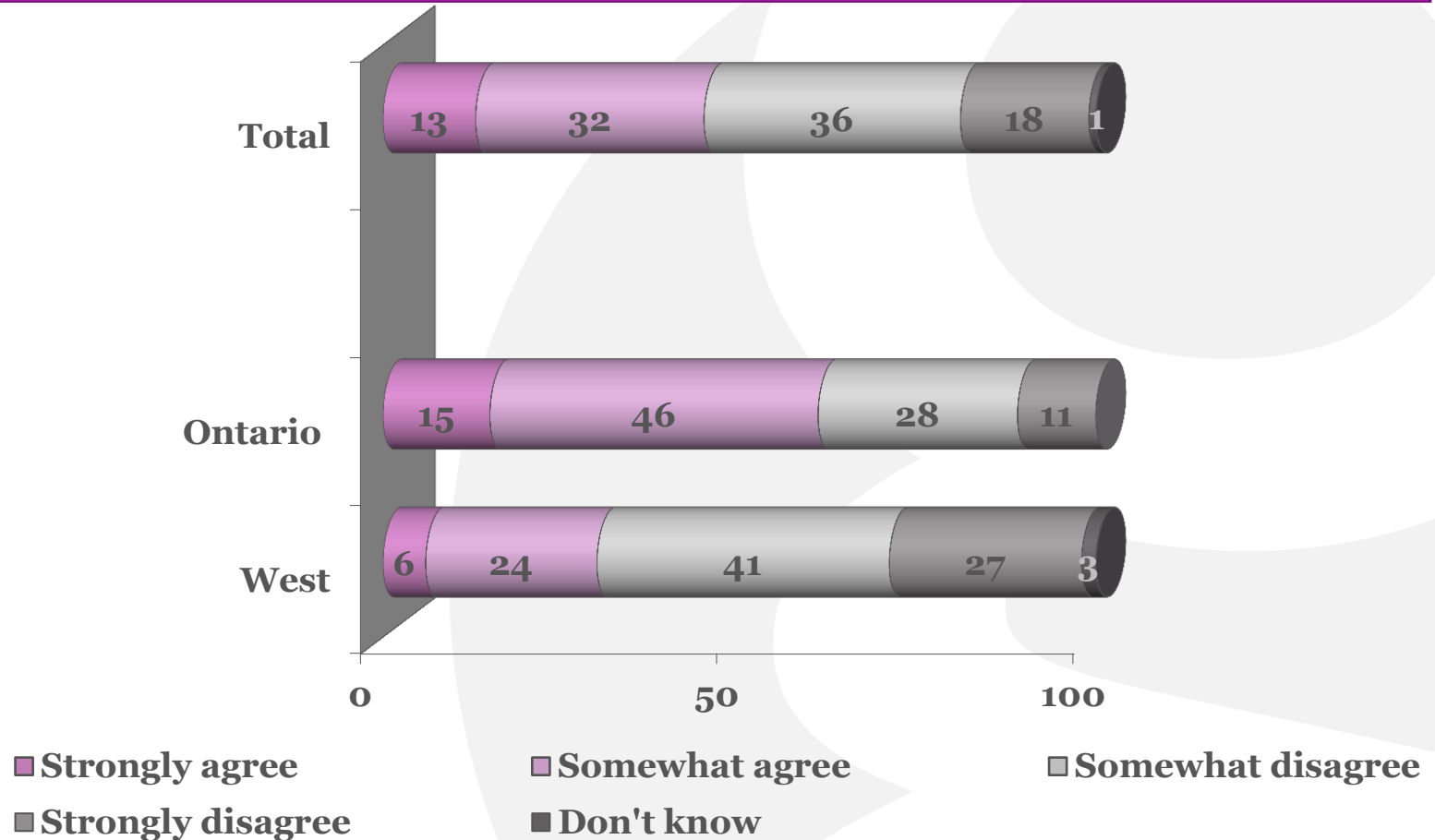
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Sharing in Economic Benefits of Energy

“The following are statements people might make about energy or companies of strategic importance. For each please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. **More should be done to ensure that economic benefits are shared across Canada’s regions from oil and gas extraction and exports**”

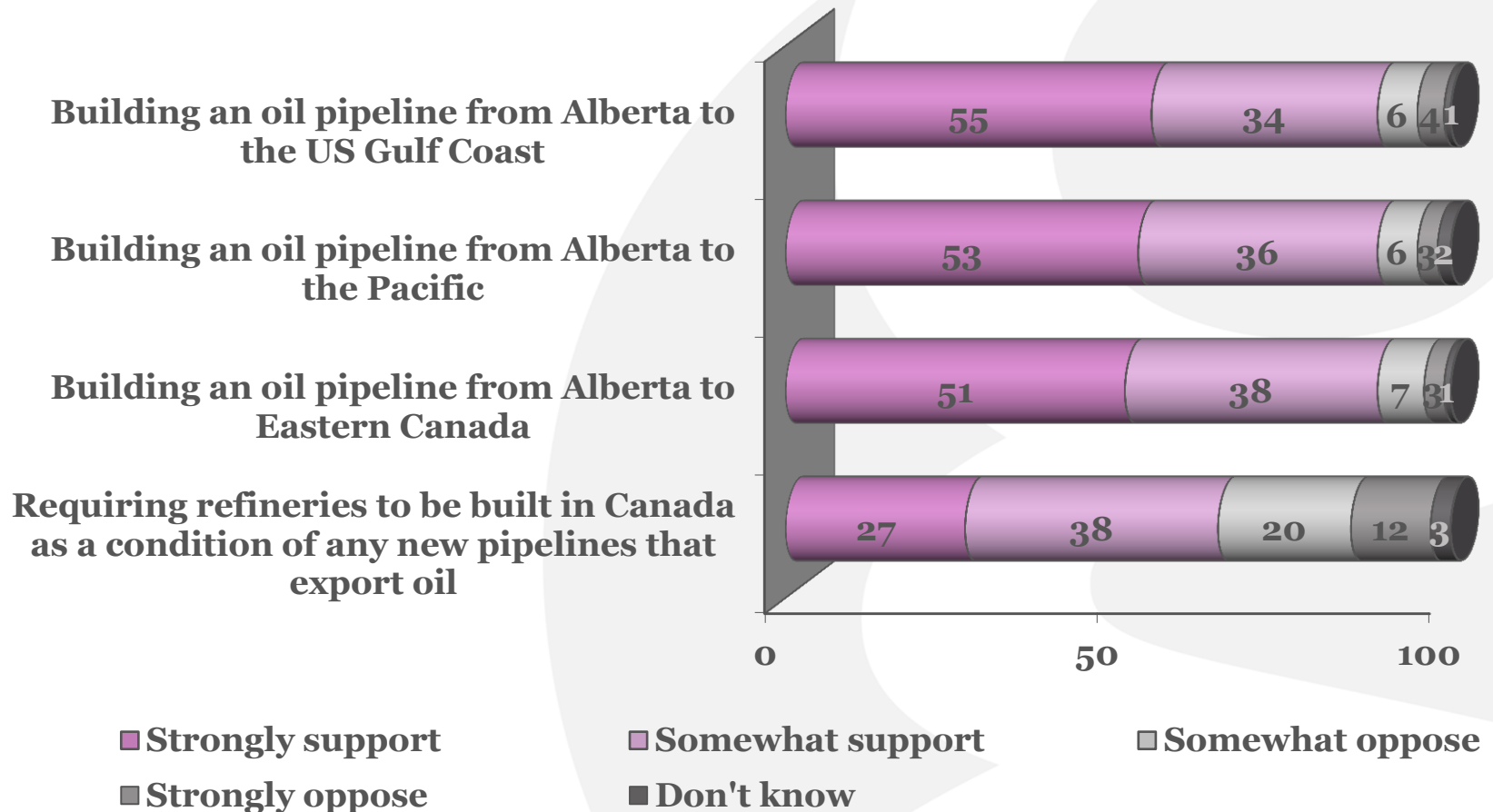




- ❑ There is very strong support for each of the three different pipeline initiatives to connect Alberta oil to markets in Eastern Canada, the Gulf and the Pacific. Executives believe any or all three are worth pursuing.
- ❑ Most support construction of refineries in Canada as a condition for building new pipelines for export.
- ❑ Two thirds support this, including a majority (56%) of Western executives and resources executives.



“I'm going to read some proposals for a national energy strategy in Canada and I'd like to know if you strongly support, somewhat support, somewhat oppose or strongly oppose each.”



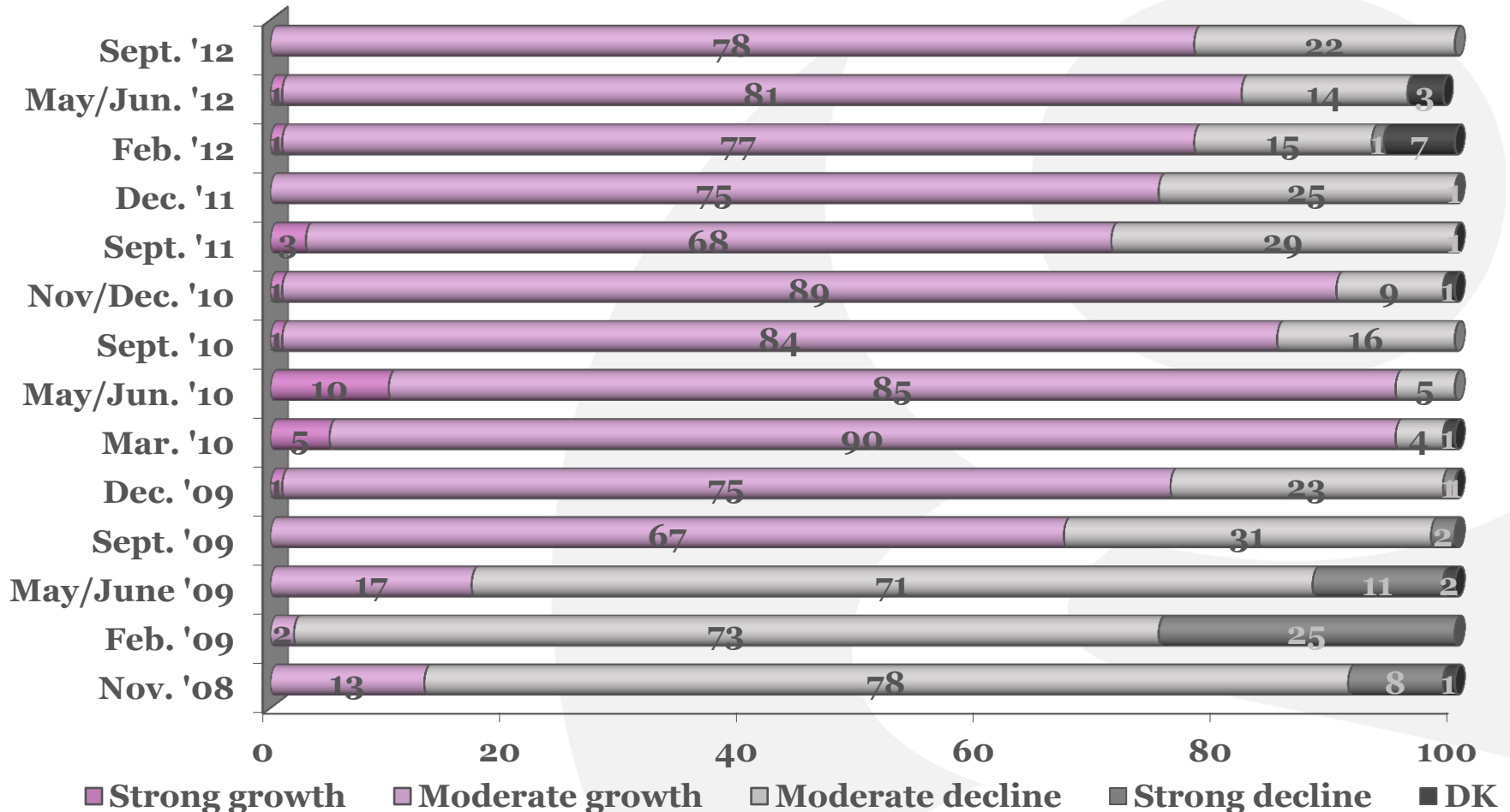


- ❑ Views of the economy are effectively unchanged with no improvement or worsening in this quarter compared to previous quarters this year.
- ❑ There is no change in expectations for the US this quarter either.
- ❑ A very small number expect the Canadian economy to decline somewhat, while the vast majority expects only moderate growth.
 - Expectations that the economy may stall and go into moderate decline are somewhat greater in Ontario and Eastern Canada where one in five said this.
 - 76% in Ontario expect the economy to grow, in the West 90% expect growth, albeit modest growth.
- ❑ Expectations for companies are up only slightly – most expecting moderate growth – one in three expecting strong growth.



Current Growth Levels In The Canadian Economy

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

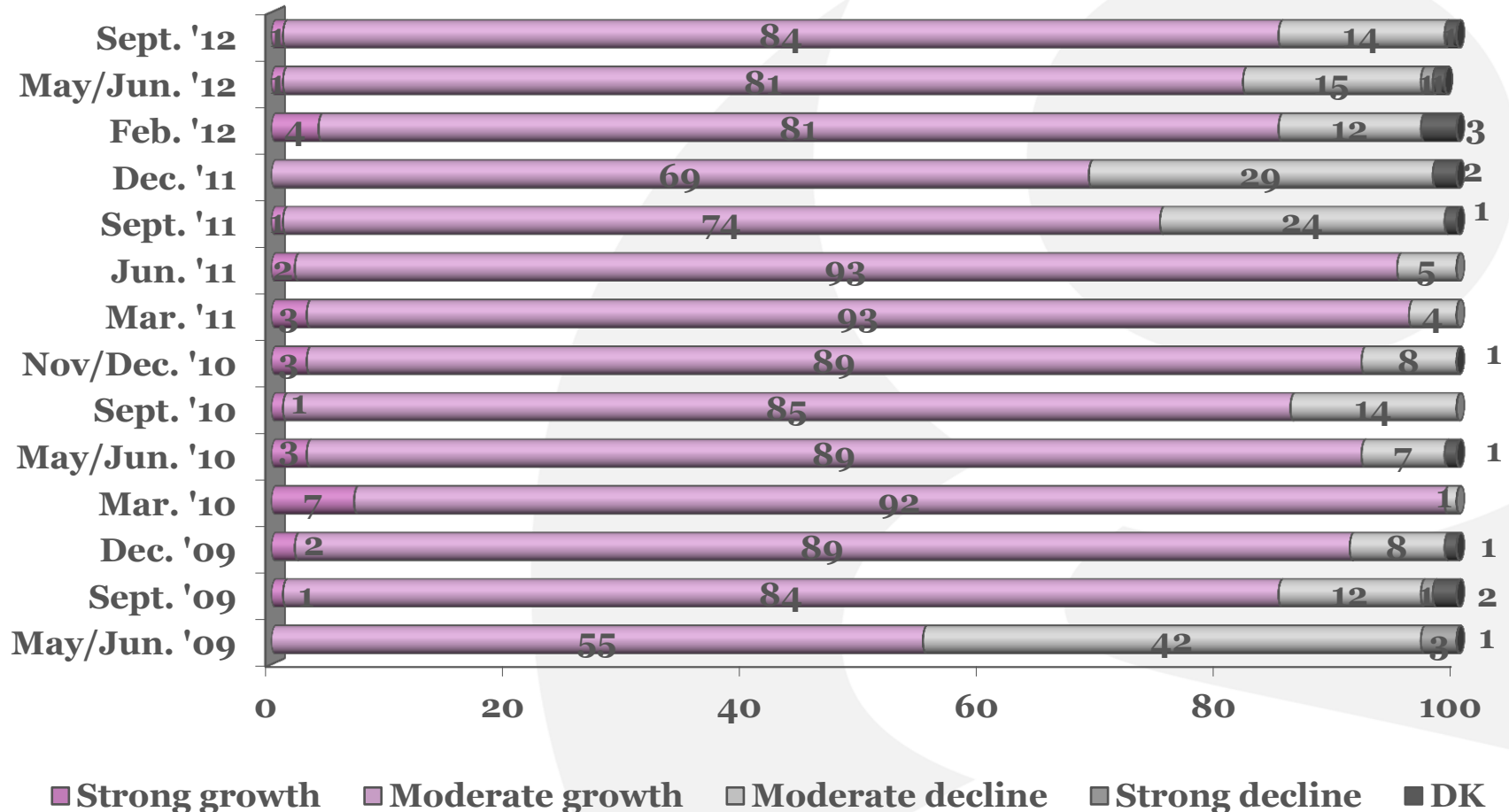


Projections For The Canadian Economy



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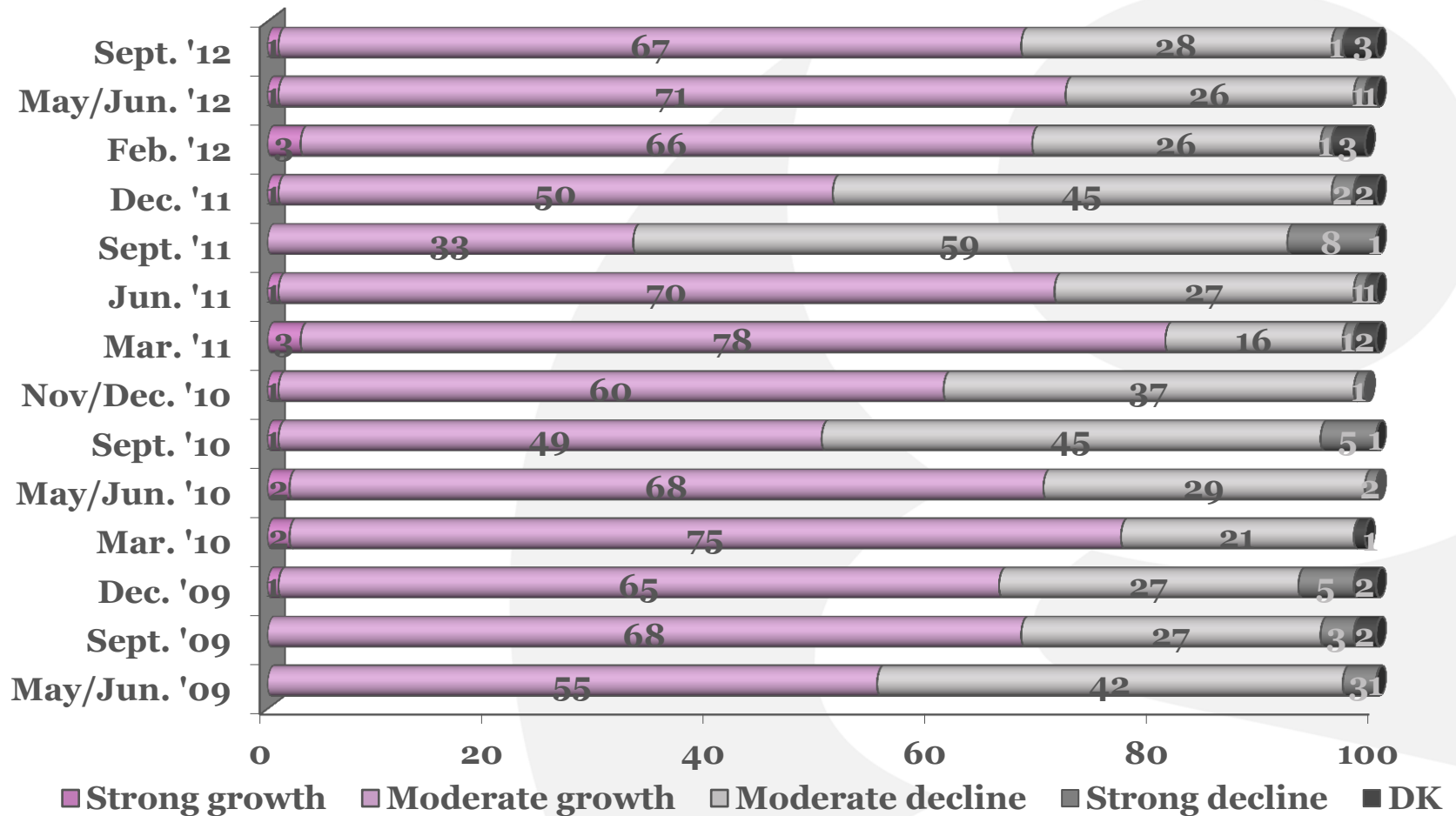
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





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?”





Expectations: Company

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (Sept. 2012)

