



the gandalf group

## The 34<sup>th</sup> Quarterly C-Suite Survey

March 31, 2014

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- ❑ This is the 34<sup>th</sup> 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](http://GandalfGroup.ca) .
- ❑ This quarter's survey asked executives about:
  - The Canadian Dollar & the Bank of Canada's interest rate policies
  - Impact of the C\$'s value on businesses
  - The downturn in commodities markets
  - How companies have responded to volatile markets
  - The outlook for the economy
- ❑ Methodology: telephone interviews with 152 C-Suite executives from ROB1000 companies between March 4<sup>th</sup> and March 24<sup>th</sup>, 2014.

- ❑ Most executives said the Canadian dollar's drop in value since 2013 is a good thing for the Canadian economy.
  - Many are looking for a boost to the economy, which they believe will post only weak growth this year.
  - Commodities markets are also expected to post mixed results with forecasts for resources companies well below where they were over the last two years.
  - Most said a low dollar would help Canada's manufacturers; few believe that sector is unimportant for the economy, in spite of recent plant closures and job cuts among Canadian manufacturers.
  - For most executives a low dollar at a range of about 90 cents has either been a positive for their companies or meant no difference. Thirty percent had put in place hedging strategies to manage currency fluctuations.
  - However there are some - just less than one in five in the survey - whose companies have been negatively impacted by rising production costs and other effects of a low dollar.
  - While central bank policies in Canada and the US have had some impact on the Canadian currency's slide relative to the US dollar, executives believe US economy's performance and lower commodities prices are the most important reasons for the slide.

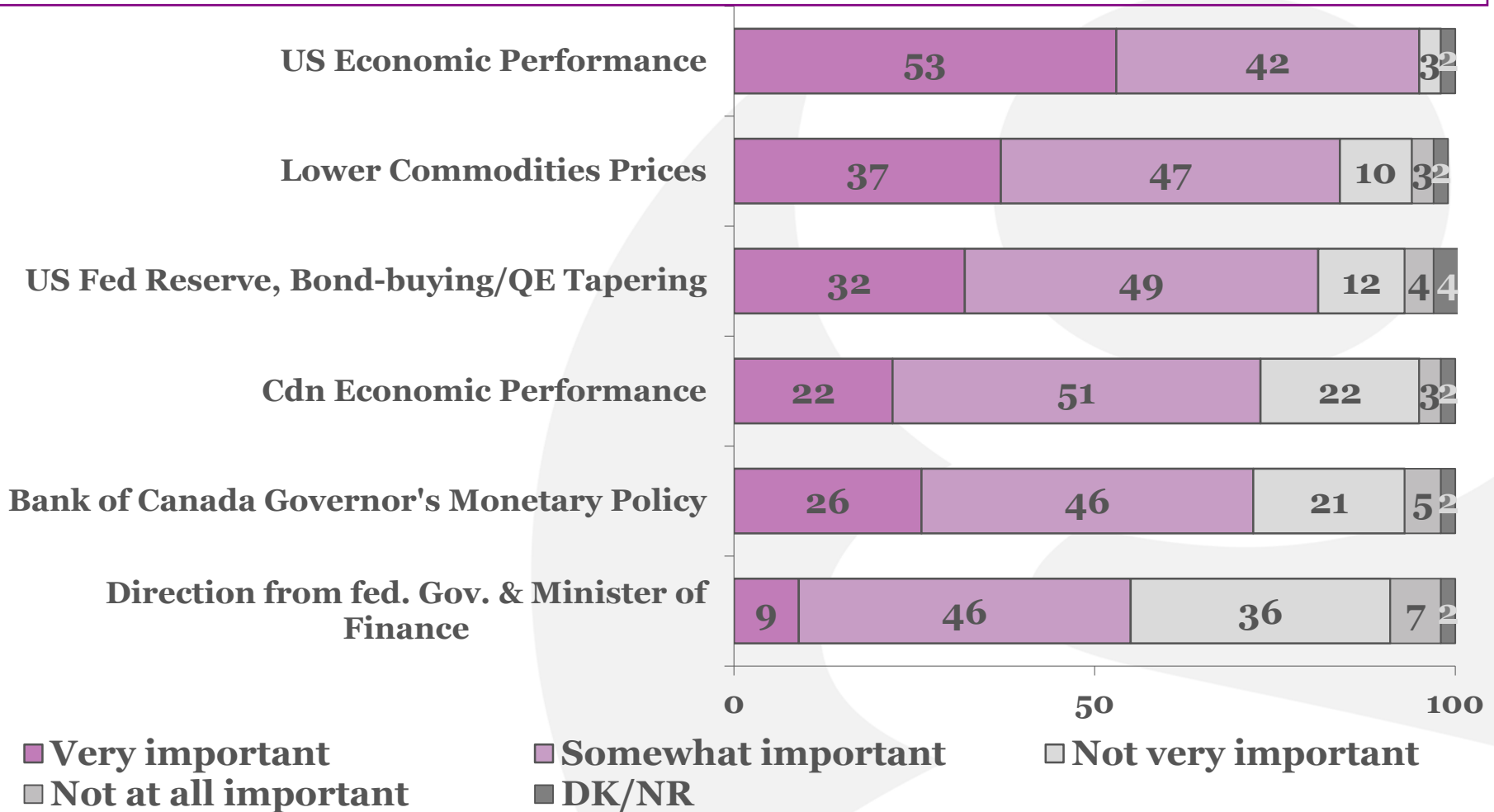
- ❑ The downturn in commodities has underscored a critical theme for both businesses and the economy: the need to adapt.
  - 62% believe the current downturn in commodities demonstrates the overreliance of Canada's economy on resources and underscores the need to diversify. Almost half of executives in the resources sector share this view.
  - 56% said the recession or the downturn in commodities has led their companies to adopt new technologies or innovations in order to ensure their company's sustainability.
  - There is a debate around whether innovation will do enough for companies to overcome the types of market cycles of recent years – 41% said innovation and new technologies will not help companies get through particularly bad markets, while 49% said companies must adapt in order to survive.
  - While cuts to operating and capital costs have been critical to helping companies through the last few years, many said they have adopted new IT systems and new equipment to make their operations more productive and efficient.
  - While most resources companies say they have embraced new technologies, executives in that sector told us loud and clear their industry needs less red tape, and more streamlined, consistent and clear regulations and permitting in order for Canada to be an attractive base for operations.

# The Canadian Dollar

- ❑ Most executives believe there is no one single factor that has driven down the value of the Canadian dollar over the last six months.
- ❑ But they are far more likely to say market forces – US economic performance and lower prices for Canadian commodities – are more important than central bank policies.
- ❑ Virtually all agree the US economy's performance has been an important driver in the C\$'s value relative to the US\$ of late - 53% said it was very important.
- ❑ 37% said commodities markets were a very important factor.
- ❑ 32% agreed the US Federal Reserve's tapering and bond-buying policies were very important and somewhat more important overall than any of the policies pursued by the Canadian central bank and its governor.
- ❑ Most think the Bank Governor – and to a lesser extent the Government itself and Minister Flaherty – had some impact.

# What has impacted the C\$?

“In 2013 the dollar was as valued at 97 cents US at one point. Since then, it has declined to a range of 89 to 92 cents. In your opinion, how important were the following factors in driving down the value of the dollar?”  
(% saying each)

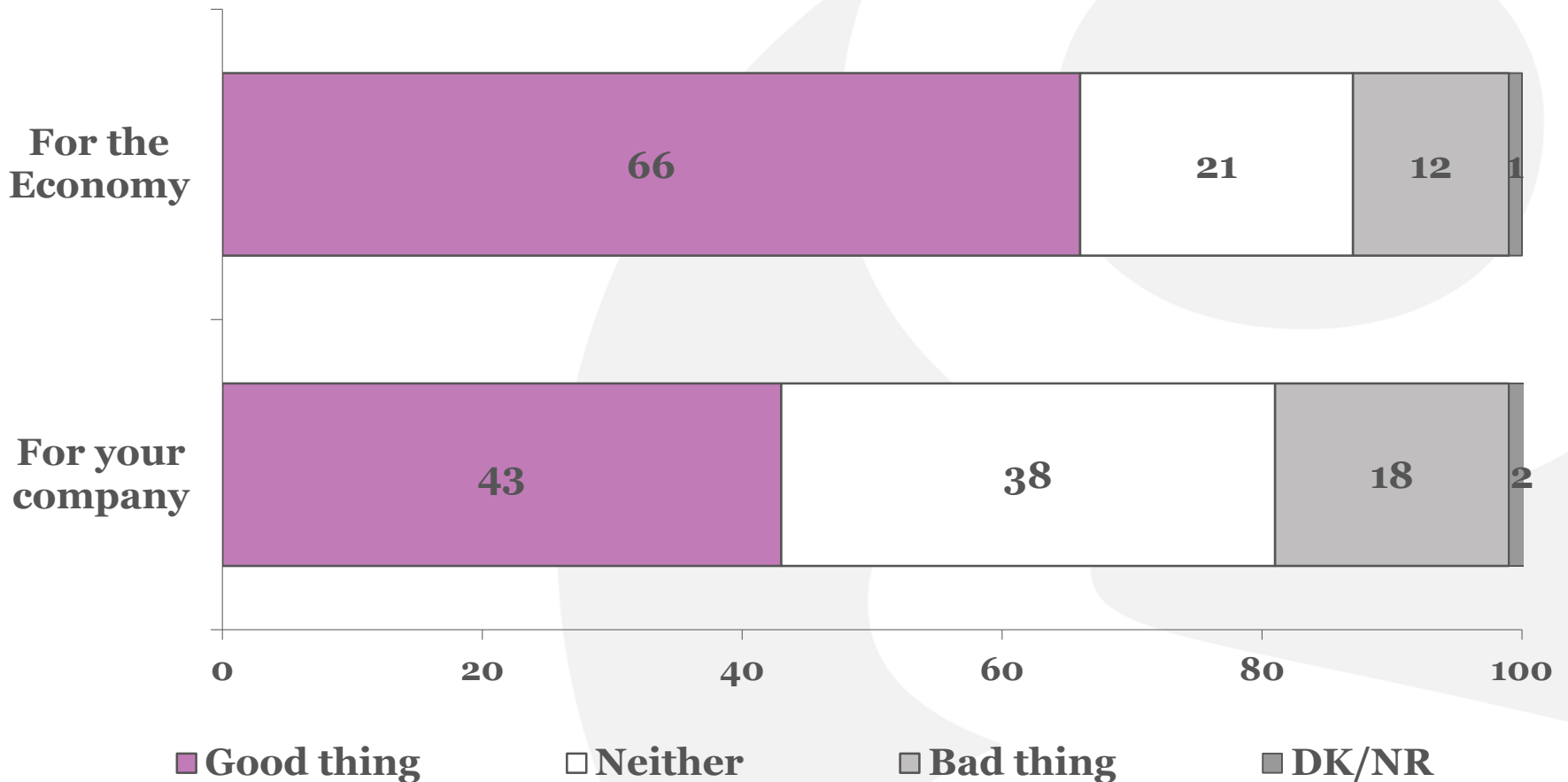


# The Canadian Dollar

- ❑ Most executives said the devaluation in the “Loonie” has been a good thing for the Canadian economy – 66%.
- ❑ But fewer – 43% - said it has been a good thing for their company.
  - 38% said the “Loonie’s” weaker value has had no difference to their company of late – these companies are more likely to be in the services sector.
- ❑ Few companies however would welcome a C\$ valued at less than the current range of about 90¢ US. The consensus would lie more in the mid-90s.
  - 19% said the optimal value for their companies is at less than 90¢US.
  - 26% would welcome a range of between 90¢ and 95¢US.
  - 41% would prefer a dollar valued at 95¢ US or higher.
- ❑ Companies do not expect the C\$ to return to par any time soon. Most are planning for a dollar valued at 94¢ US or less.

# Opinion on the C\$'s Lower Value

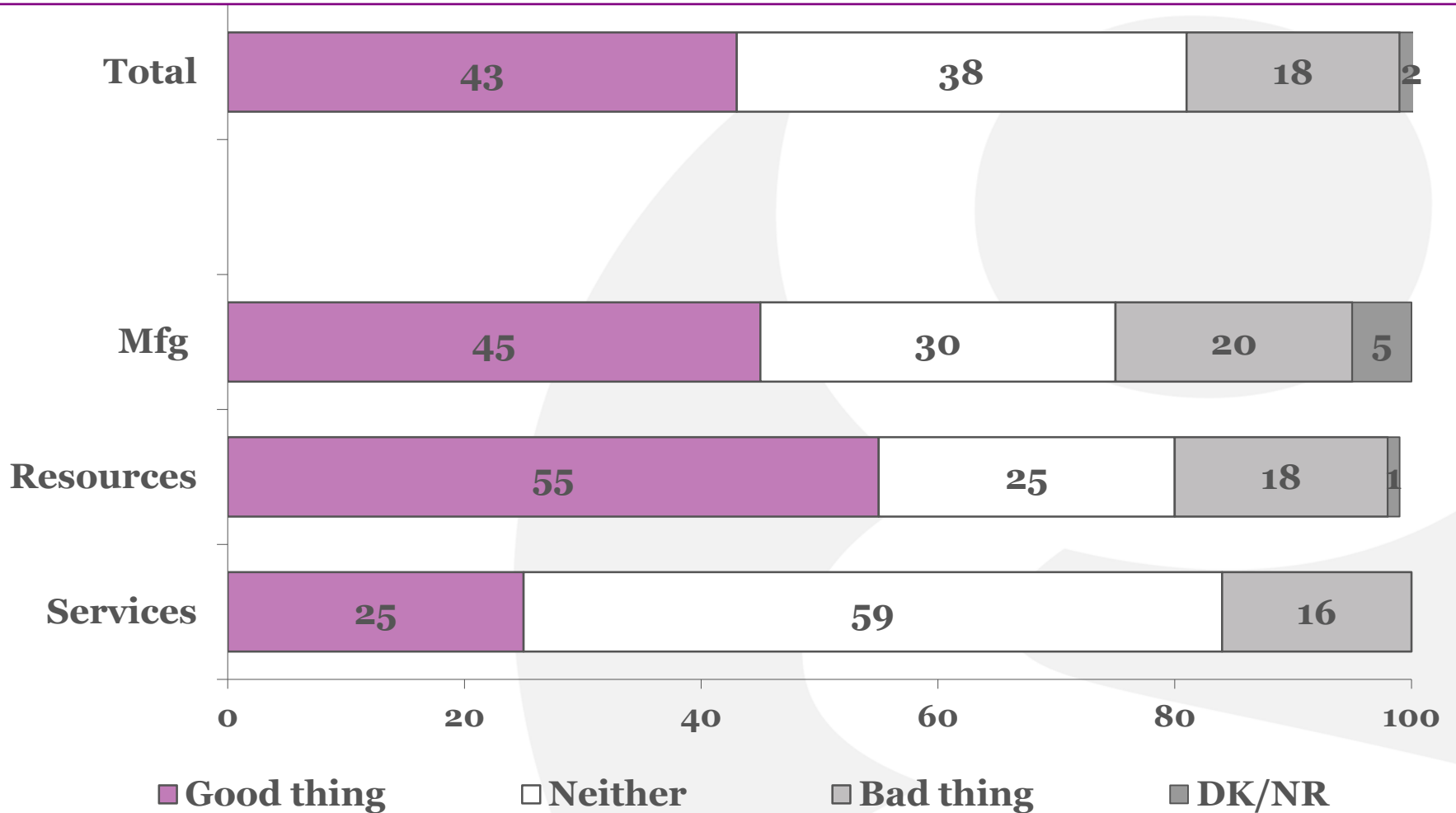
“Is a lower Canadian dollar valued at about 90 cents a good thing or a bad thing for **the Canadian economy** or is it a zero sum game? & Is a lower dollar at about 90 cents a good thing or a bad thing for **your company** or is it a zero sum game?” (% saying each)





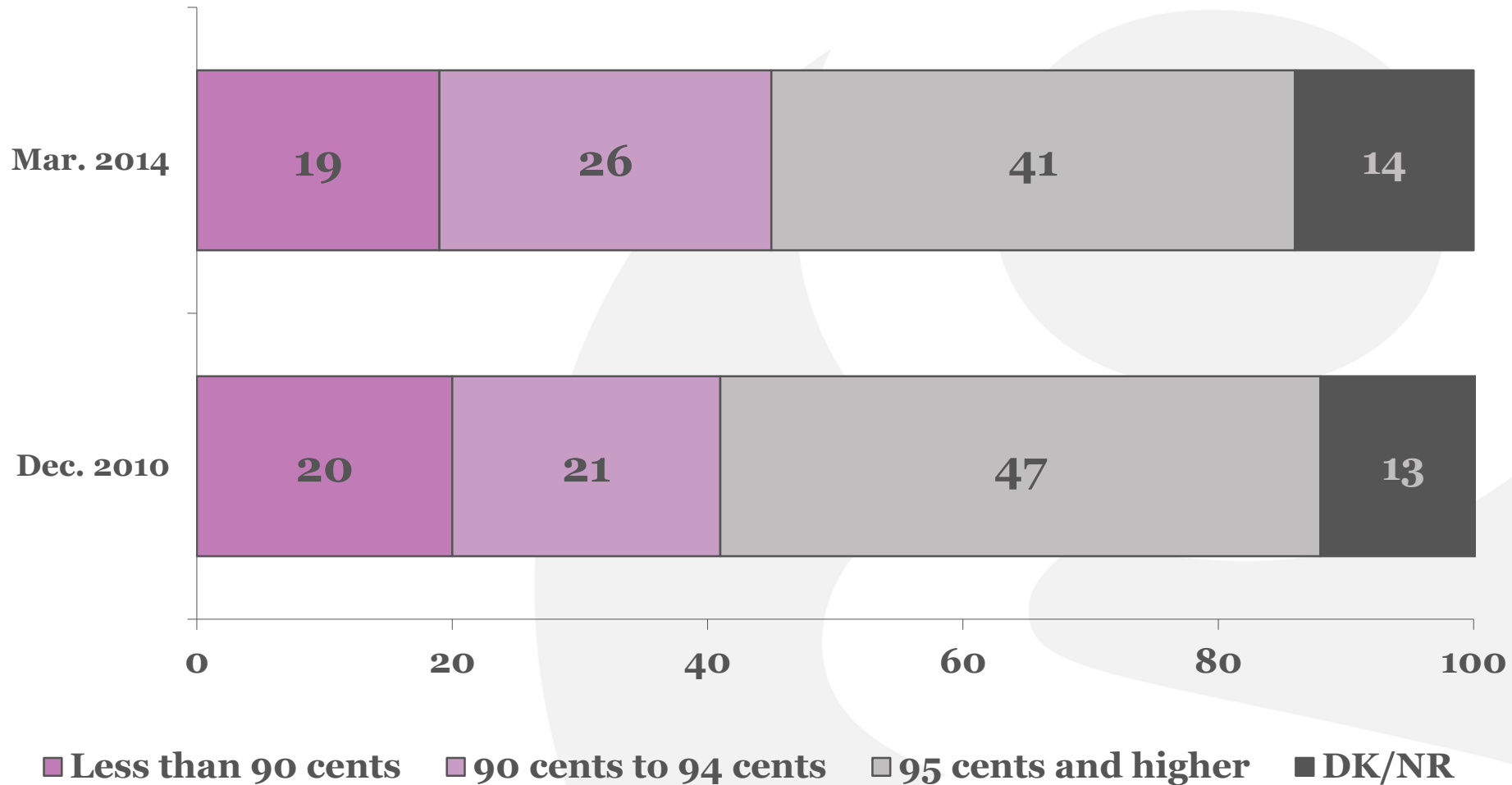
# Opinion on the C\$'s Lower Value

“Is a lower dollar at about 90 cents a good thing or a bad thing for your company or is it a zero sum game?”  
(% saying each)



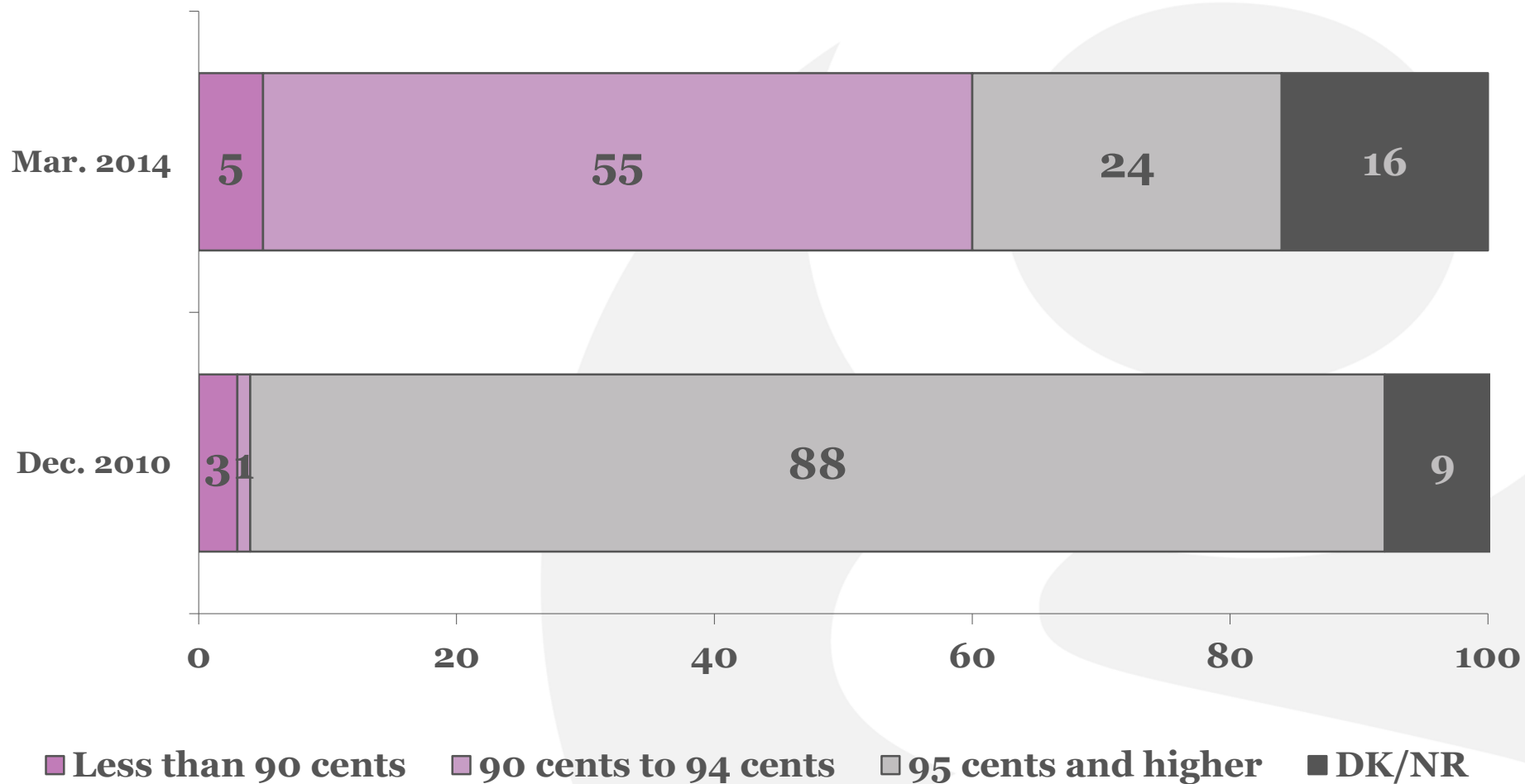
# Optimal Value of C\$ for Company

“Thinking specifically of your company, what would be the optimal value of the Canadian dollar against the US dollar?” (% saying each)



# Value of C\$ 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?” (% saying each)

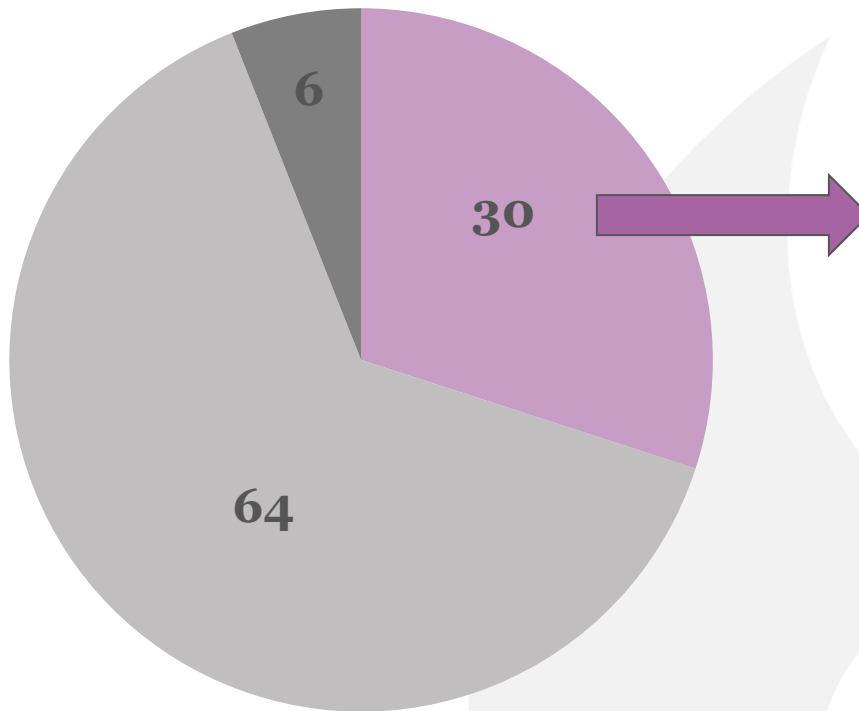


# The Canadian Dollar

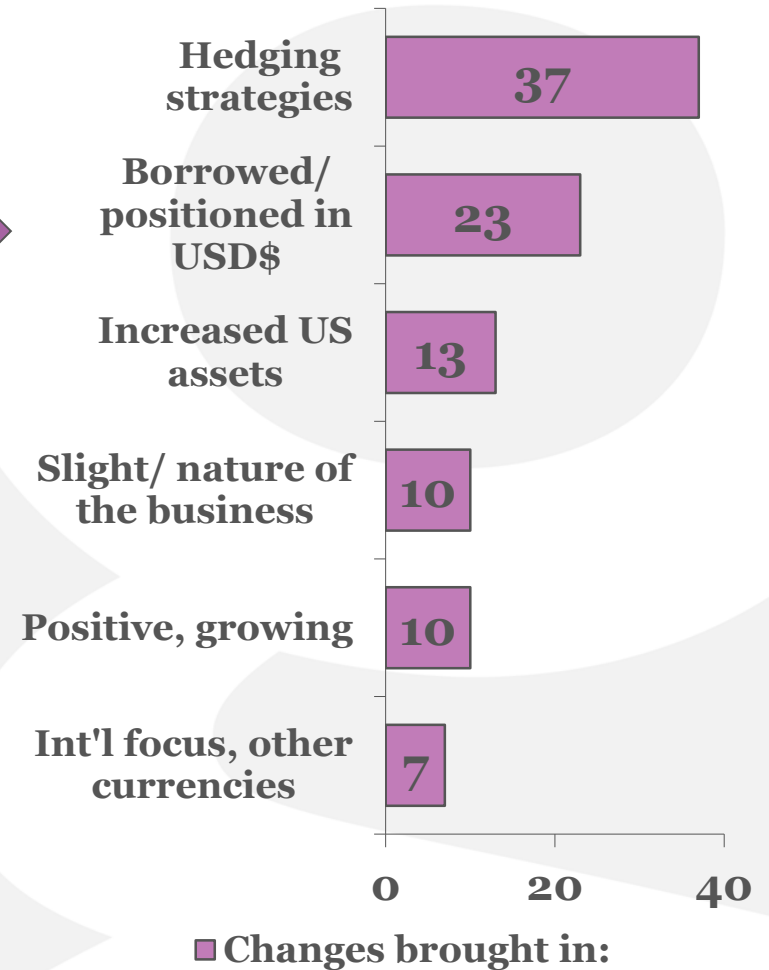
- ❑ 58% said the weaker C\$ has had an impact on their companies.
- ❑ Most said it's been positive, generally in terms of revenues, profits, and even their equity performance.
- ❑ 3 in 10 executives said their companies had put in place strategies that made them less exposed to currency fluctuations: hedging strategies and increased borrowing and pricing in US\$.

# Measures Taken to Lessen Impact of C\$ Fluctuations

“Is your company less impacted by fluctuations in the dollar than before because of any changes you made to mitigate the impact of currency swings?” (% saying each)

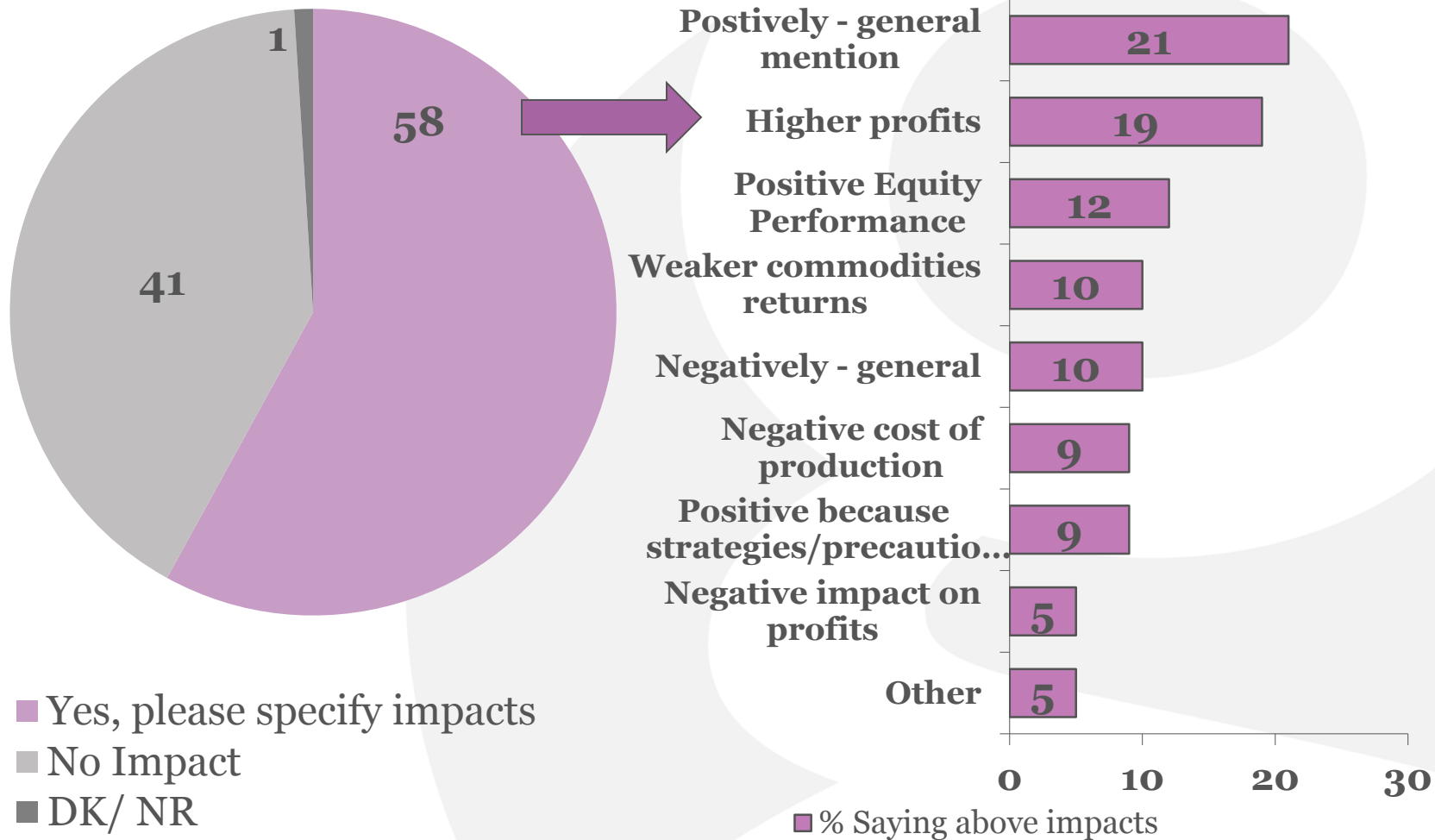


- Yes, please specify what changes you brought in
- No
- DK/ NR



# Impacts of C\$ Movement in Last 6 Mo.

“How has the recent movement of the Canadian dollar in the last 6 months impacted your company or has it had no impact?” (% saying yes/no, and of those saying yes, % who mentioned each.)

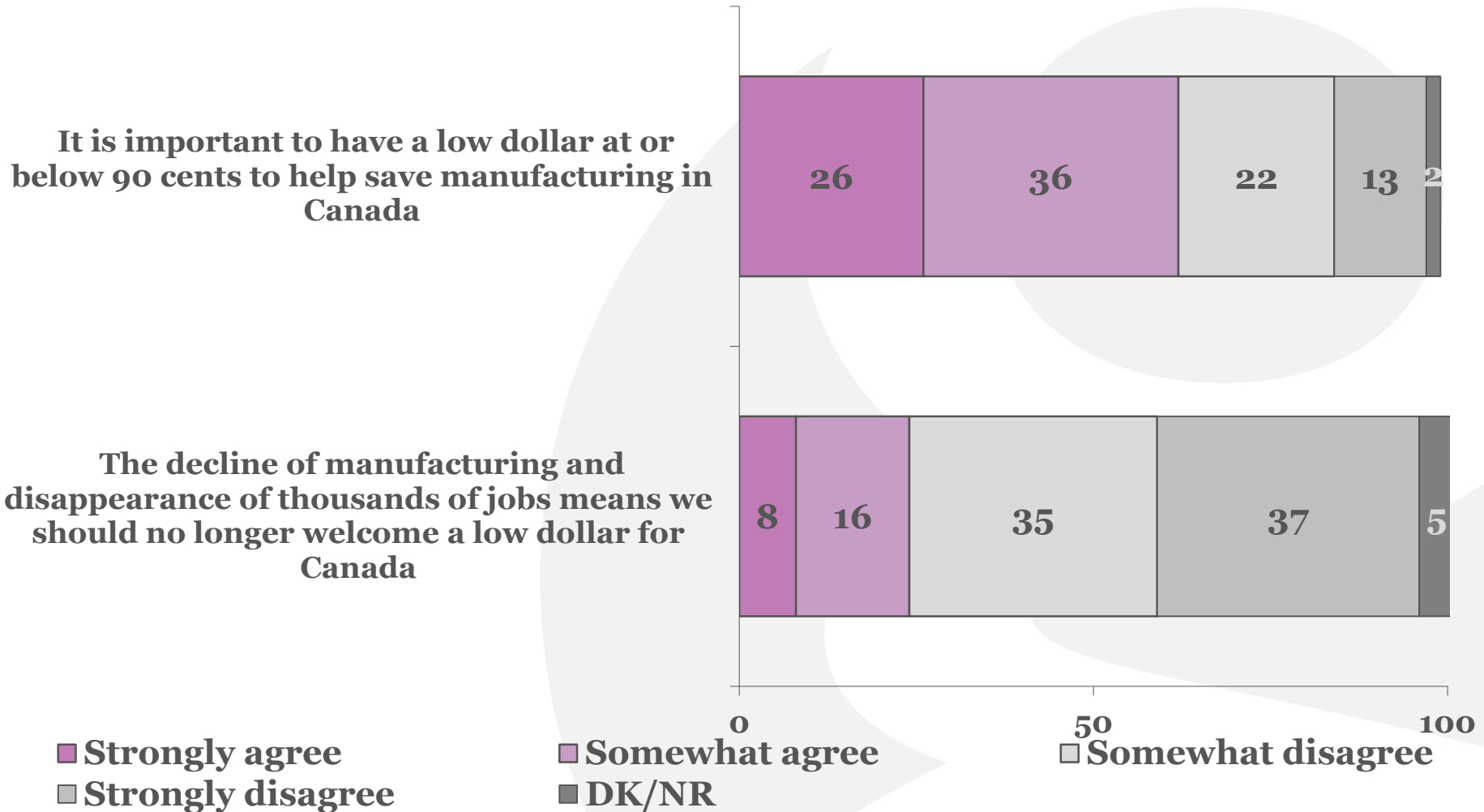


# The Canadian Dollar

- ❑ Despite the continued exodus of manufacturing jobs, few executives are willing to give up on the sector and most believe a low dollar is worth it to help maintain that sector's competitiveness in Canada.
- ❑ Just as many welcomed a dollar at below par for the good it would do for the economy, a significant number would welcome Bank of Canada policies that keep the value of the C\$ at around the current range of 90¢.
- ❑ When asked what valuation the Bank should pursue
  - 37% said a value at around 90¢
  - 19% said a value higher than that
  - 32% said the Bank should not be pursuing a dollar valuation as its policy.
- ❑ While keeping inflation in check and promoting a strong economy should be the top goals for the Bank of Canada's interest rate setting policy, most said the value of the C\$ should be at least somewhat important to the Bank's policies.

# Most Support Lower Dollar for Sake of Manufacturing

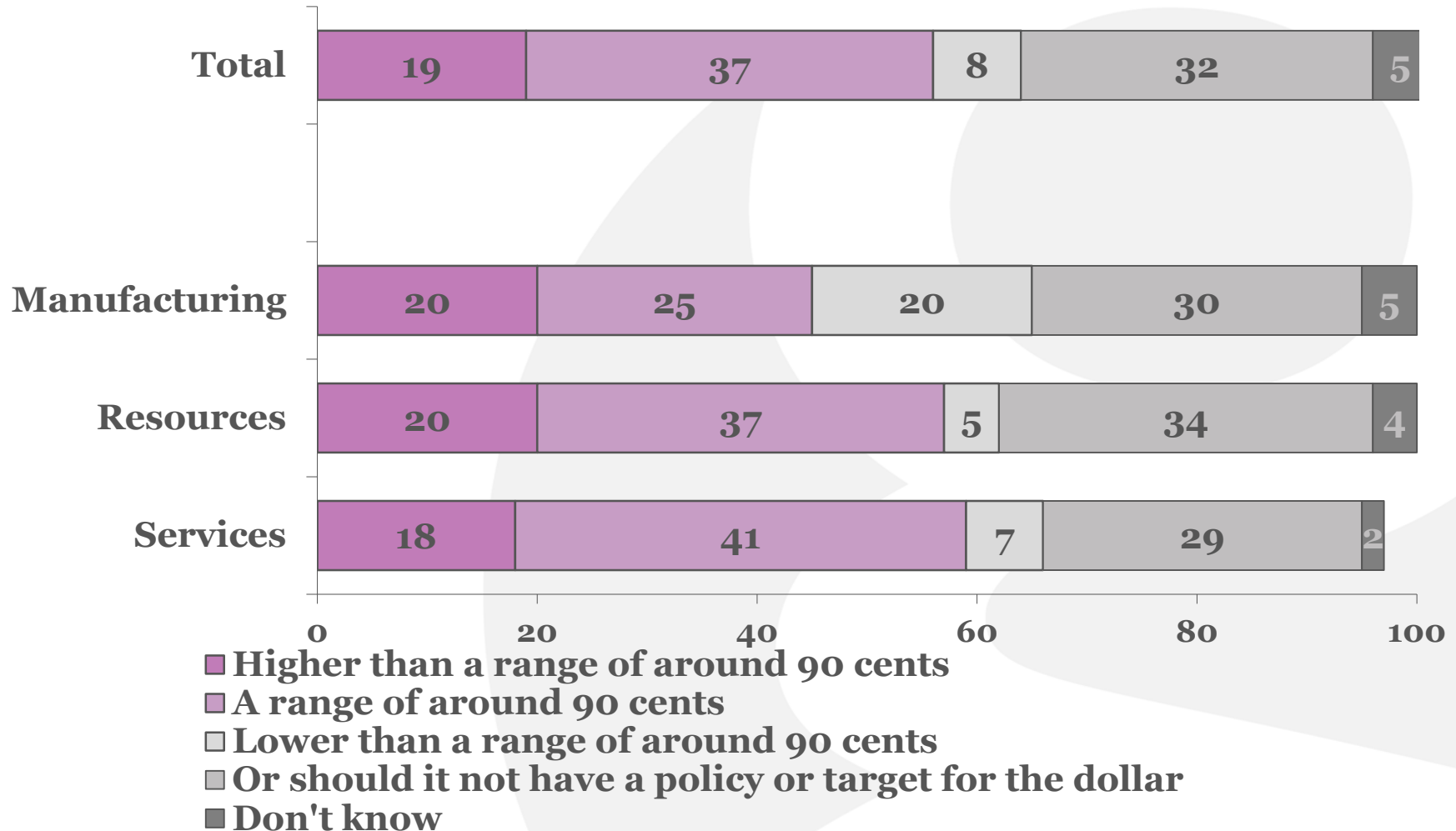
“Would you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with the following statements” (% saying each)





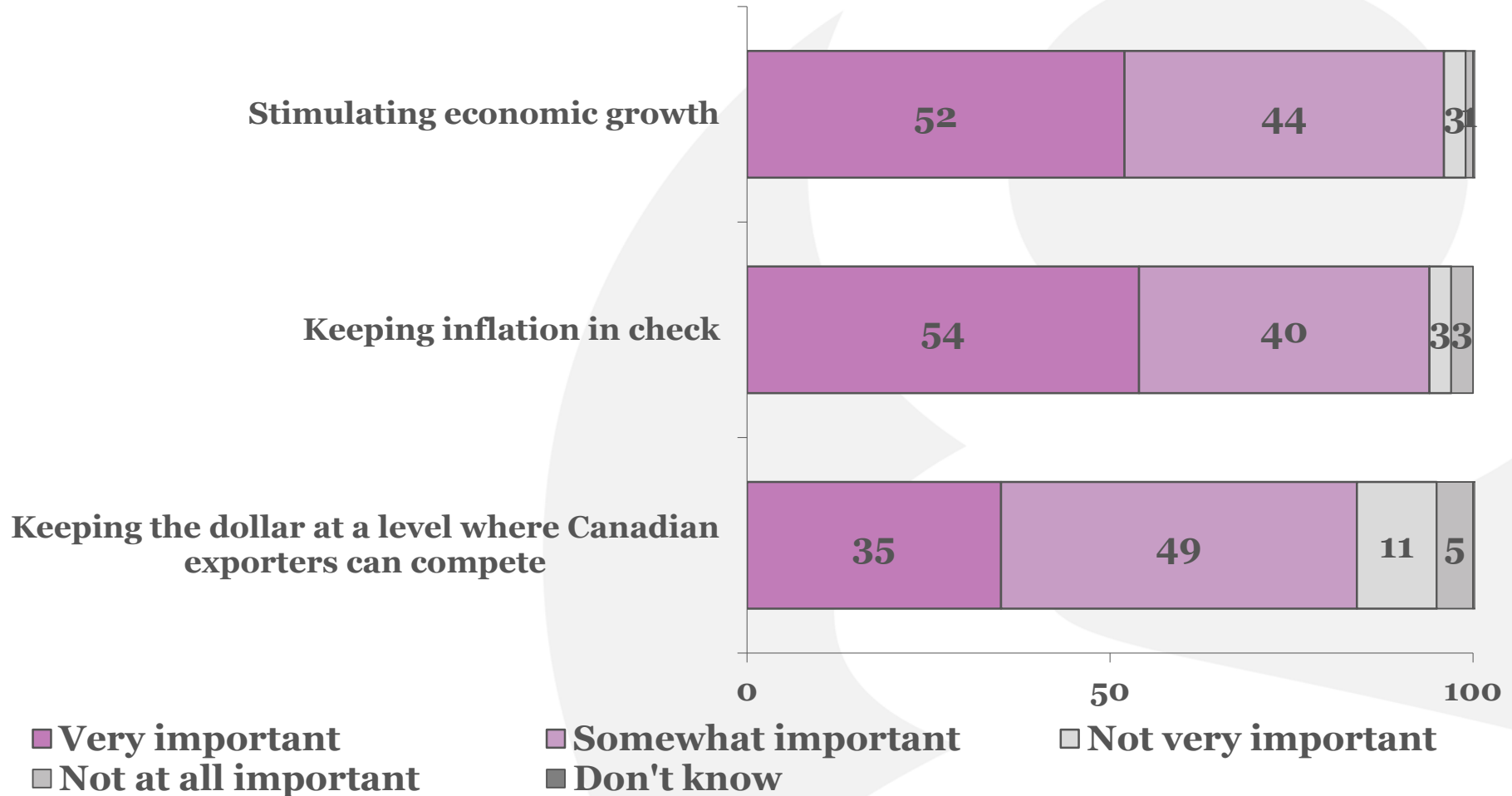
# Ideal Short-term Dollar Level

“Do you believe the Bank of Canada should pursue a policy in the short-term that keeps the dollar at:”  
(% saying each)



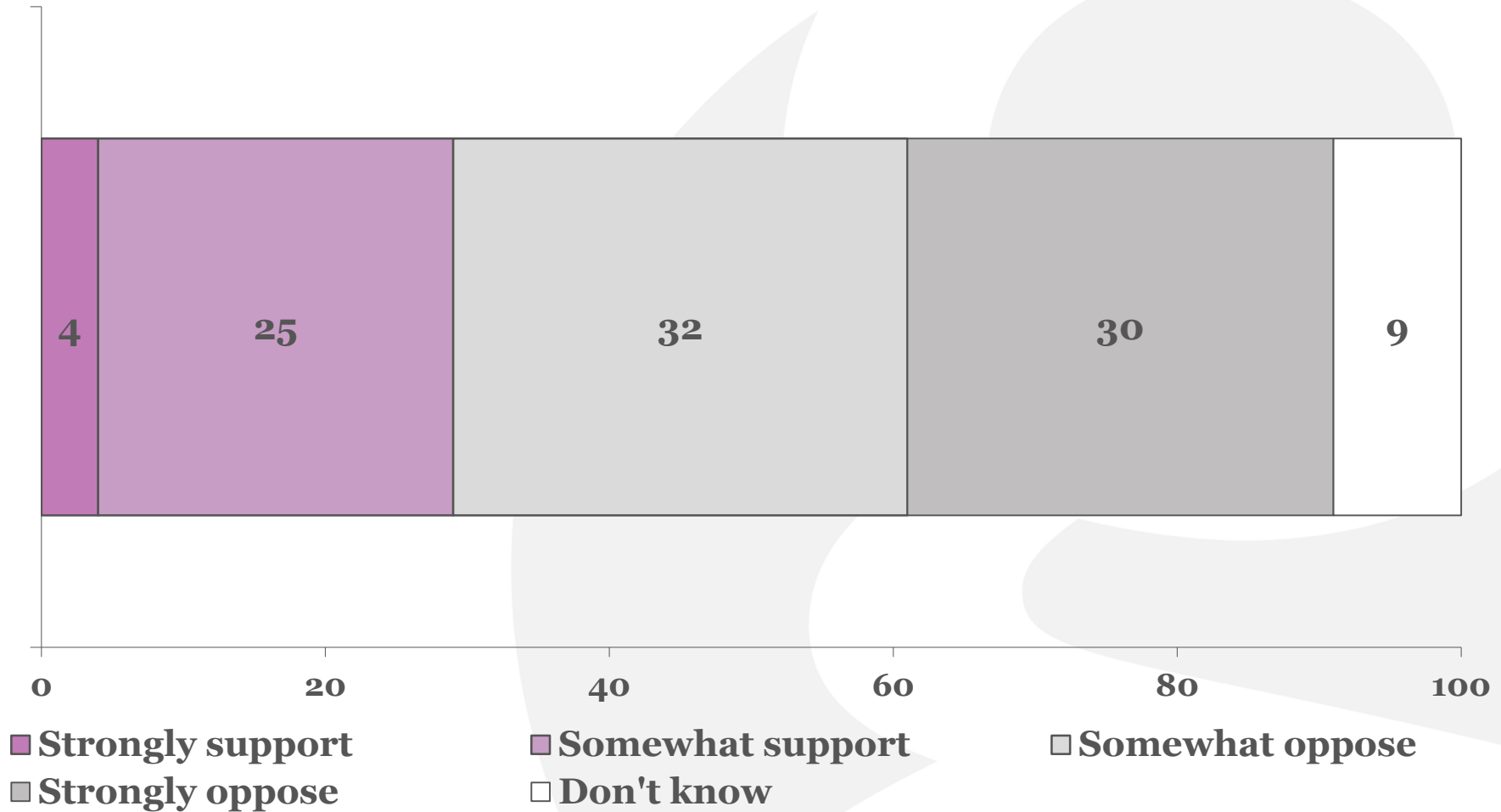
# Top Interest Rate Considerations: Stimulating Growth, Inflation in Check

“How important do you believe the following considerations should be when the Bank of Canada is setting interest rates: very important, somewhat important, not very important or not at all important?” (% saying each)



# Majority Oppose Increasing Interest Rates

“Would you strongly support, somewhat support, somewhat oppose or strongly oppose an increase in interest rates when the Bank of Canada revisits rates at its next meeting and update?”  
(% saying each)



## Diversify or Stay on Course?

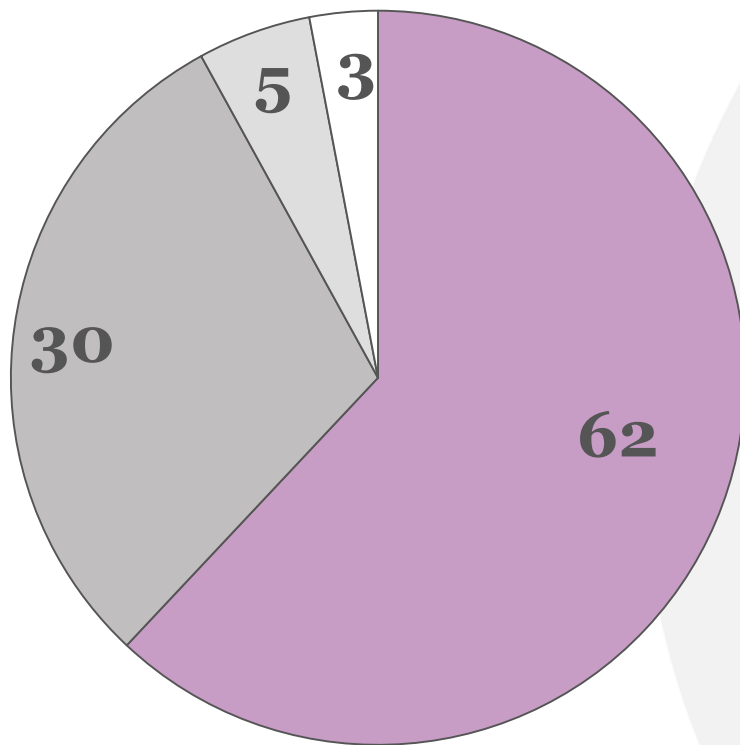
- ❑ Nearly two in three executives believe the current downturn in commodities demonstrates the overreliance of Canada's economy on resources and underscores the need to diversify.
- ❑ Almost half of executives in the resources sector share this view.
- ❑ 30% of executives said we need to be patient, wait out the downturn, and continue to rely on resources as we have.

# Diversify or Stay on Course?

“Which of the following statements is closest to your view?

- *Some would say that the downturn in commodities is a reminder that the Canadian economy is too dependent on certain sectors and we need to diversify.*
- *Others would say we should just be patient with the current downturn and continue to count on natural resources as we have in the past to drive our economy.*

If you had to pick, which is closer to your view?”

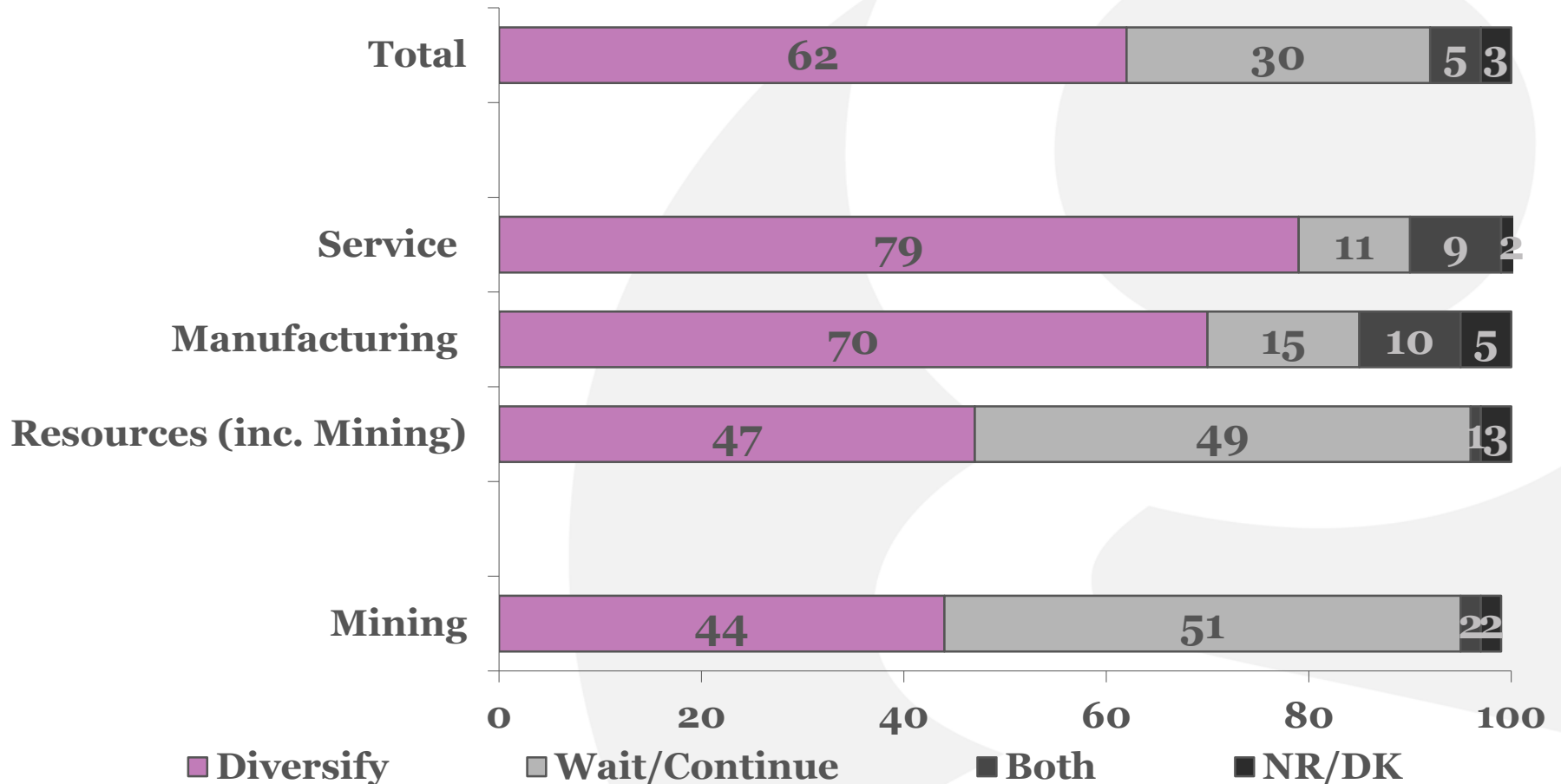


## % saying each

- Downturn in commodities a reminder Cdn economy too dependent on certain sectors & of need to diversify
- Be patient with the current downturn & continue to count on natural resources as in past
- Both
- Don't know

# Diversify or Stay on Course?

“Which of the following statements is closest to your view? Some would say that the downturn in commodities is a reminder that the Canadian economy is too dependent on certain sectors and we need to diversify. Others would say we should just be patient with the current downturn and continue to count on natural resources as we have in the past to drive our economy....” (% saying each)

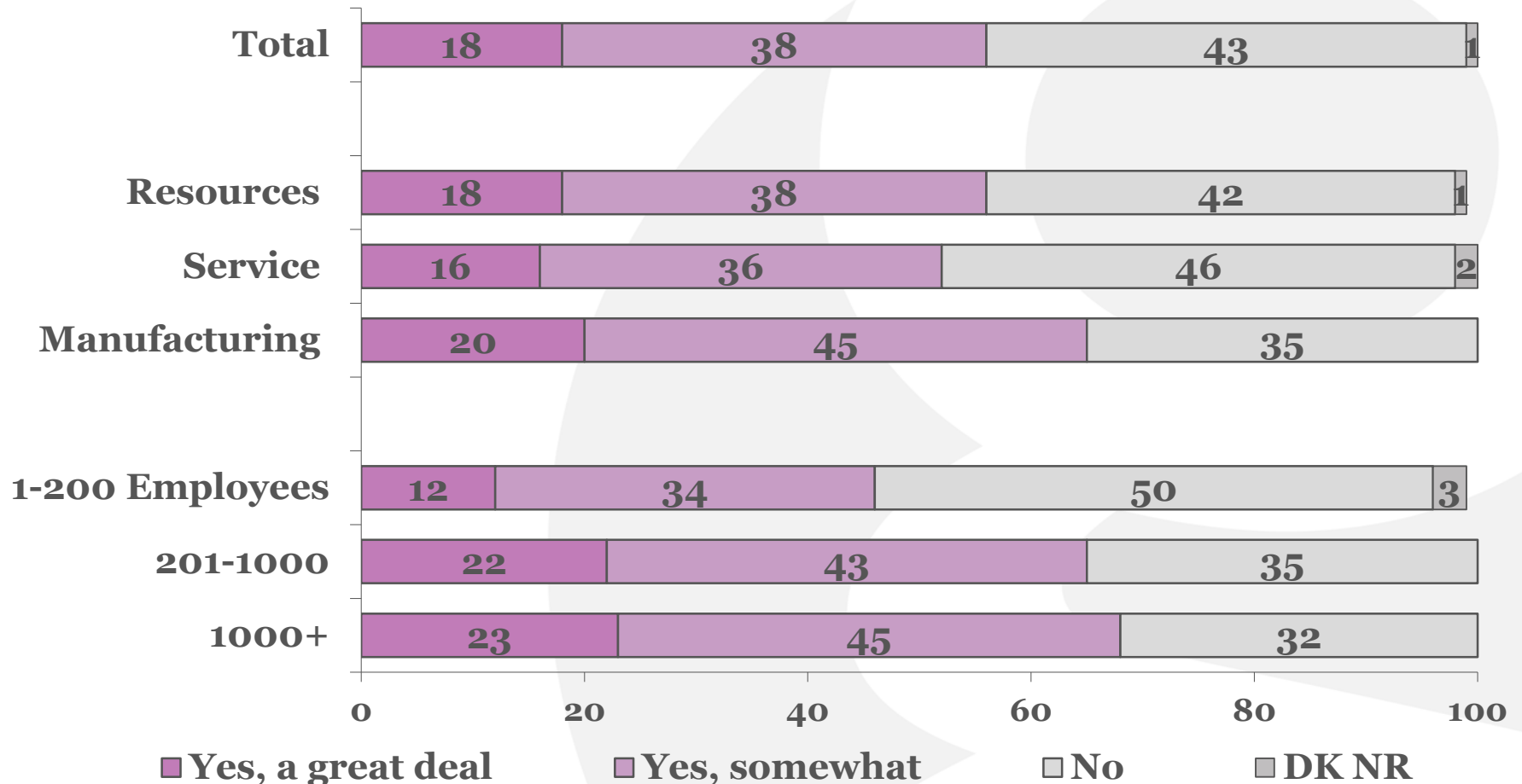


# Innovate or Perish?

- ❑ The downturn in the markets and the economy in recent years have driven most companies – across all sectors – to implement innovation, new technologies and changes to their operations in order to ensure their companies' sustainability.
- ❑ Roughly one in five companies have engaged in substantial changes and innovation.
- ❑ IT and software, along with new equipment and labour productivity/efficiency/systems of operation are the most important changes companies are adopting to weather a tough economy/markets.
- ❑ Resources companies have been under substantial pressure. We found that most are engaged in cutting capital and operating costs, looking at M&A and putting increased emphasis on shareholder value.

# Innovate or Perish?

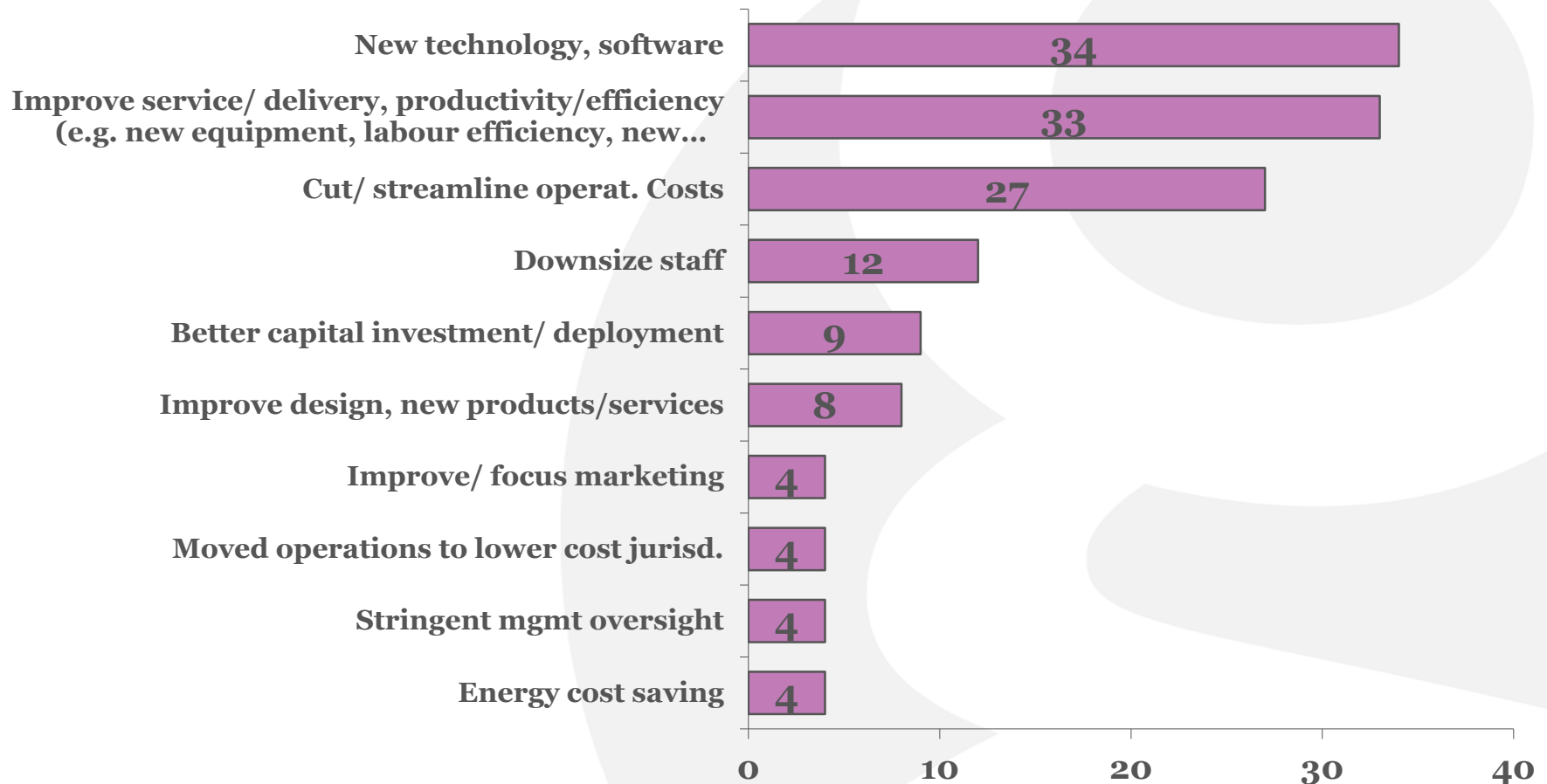
“In the past five years the economy experienced a recession, sluggish economic growth and a downturn in commodities prices. Have these events led you to adopt innovations and new technologies to be more productive and ensure your company's sustainability?” (% saying each)





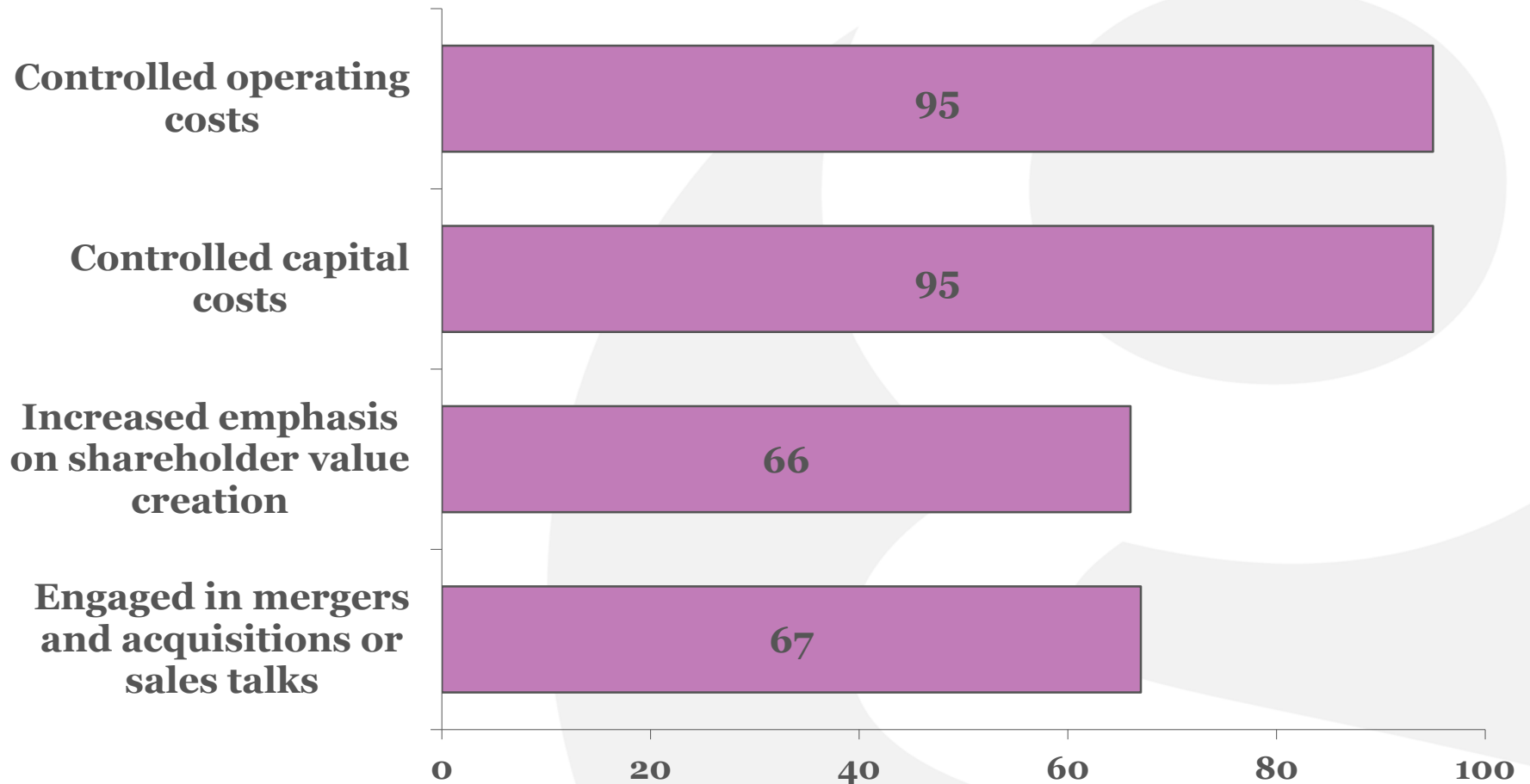
# Changes Companies Are Taking to Overcome the Downturn

“Please specify what changes you brought in” re: “In the past five years the economy experienced a recession, sluggish economic growth and a downturn in commodities prices. Have these events led you to adopt innovations and new technologies to be more productive and ensure your company's sustainability?” [n=85] ?” (% saying each)



# How Resources Companies Are Adapting

“Which of the following steps has your company taken to get through the downturn in commodities prices? Have you...?” [n=73] (% saying each)



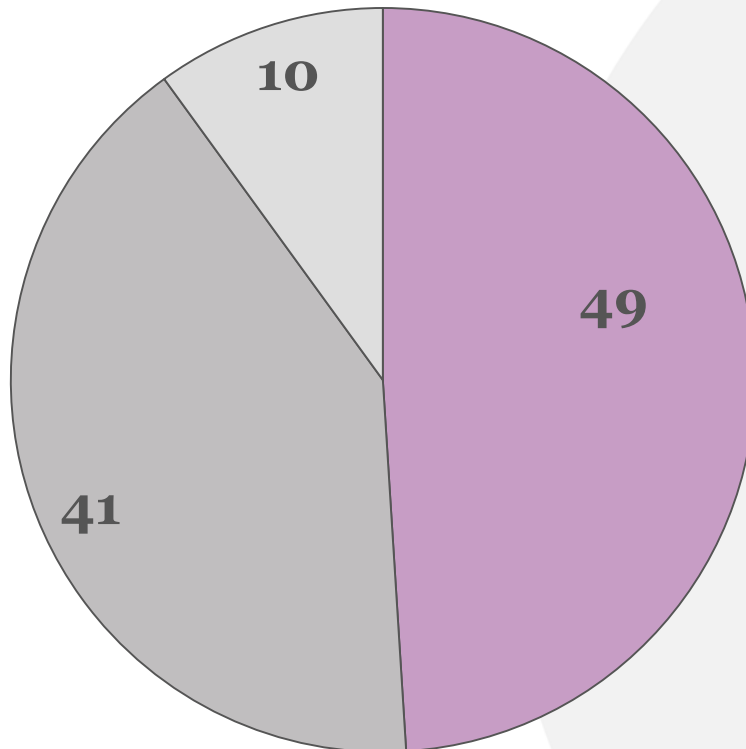
# Innovate or Perish?

- ❑ There is a difference of opinion on whether innovation is enough to ensure survival in tough times.
- ❑ A substantial number of executives do not believe adopting either new technologies or other innovations will ensure their companies' survival.
  - 43% said tough markets in recent years have not led them to adopt innovations and new technologies to be more productive and ensure their company's sustainability.
  - And in a forced choice 41% disagreed that companies must adopt innovation or new technologies, believing instead that those things will do little to help overcome market cycles or downturns.
  - 52% agreed that not enough companies in their sector have been adopting new ways of doing business – i.e. technologies and innovation.

# Is Innovation The Key to Survival?

“Which of the following statements is closest to your view?

- *Some would say the recession and downturn in the markets or commodities prices, means companies like yours must adopt innovation and new technologies in order to survive*
  - *Others would say that innovation or new technologies will do little to help companies like yours overcome market cycles or downturns such as those we're seeing for commodities*
- If you had to pick, which is closer to your view? **[n=152]** (% saying each)



**% saying each**

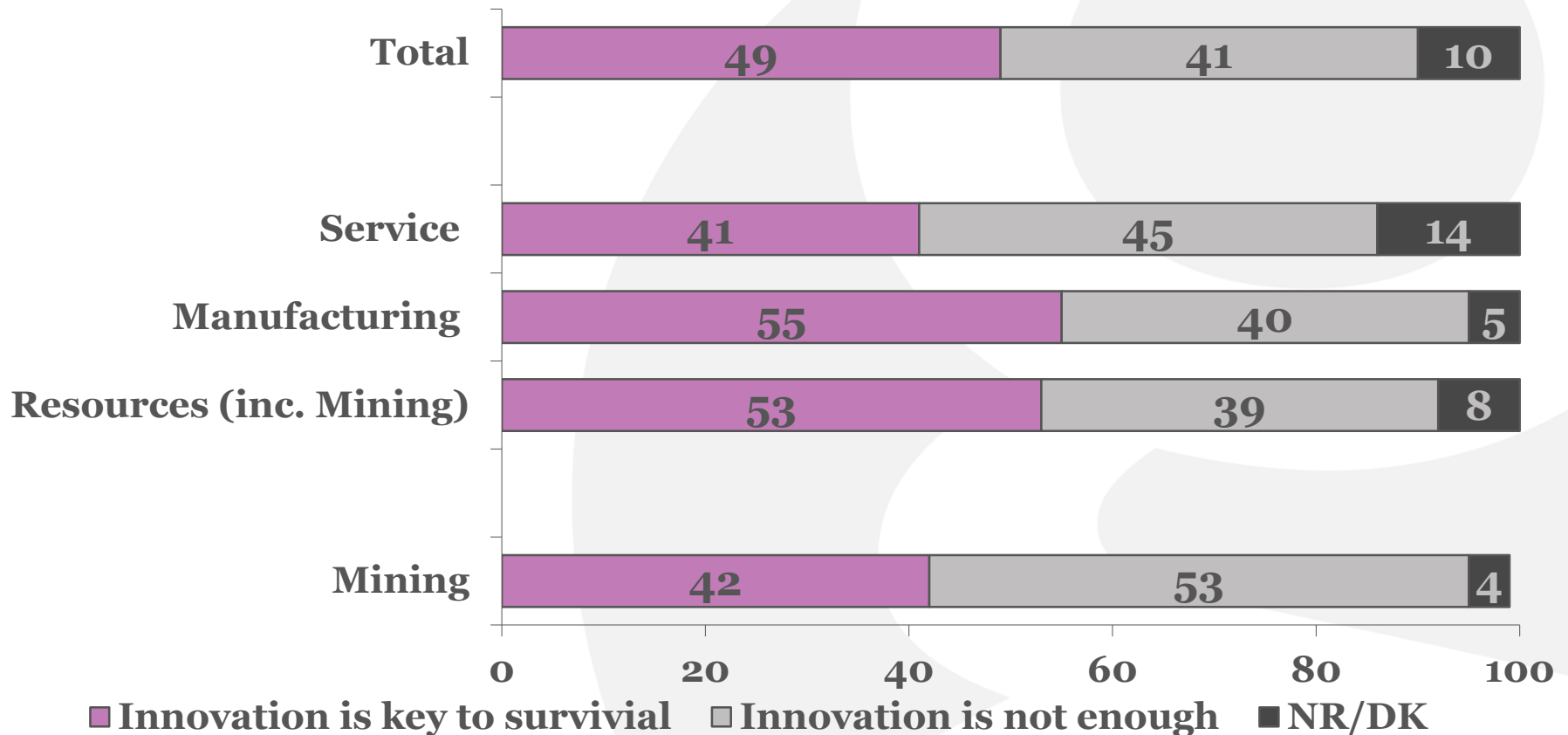
- Cos. must innovate to survive
- Even innovation will do little to help cos. in markets we've seen
- Don't know

# Is Innovation the Key?

“Which of the following statements is closest to your view?

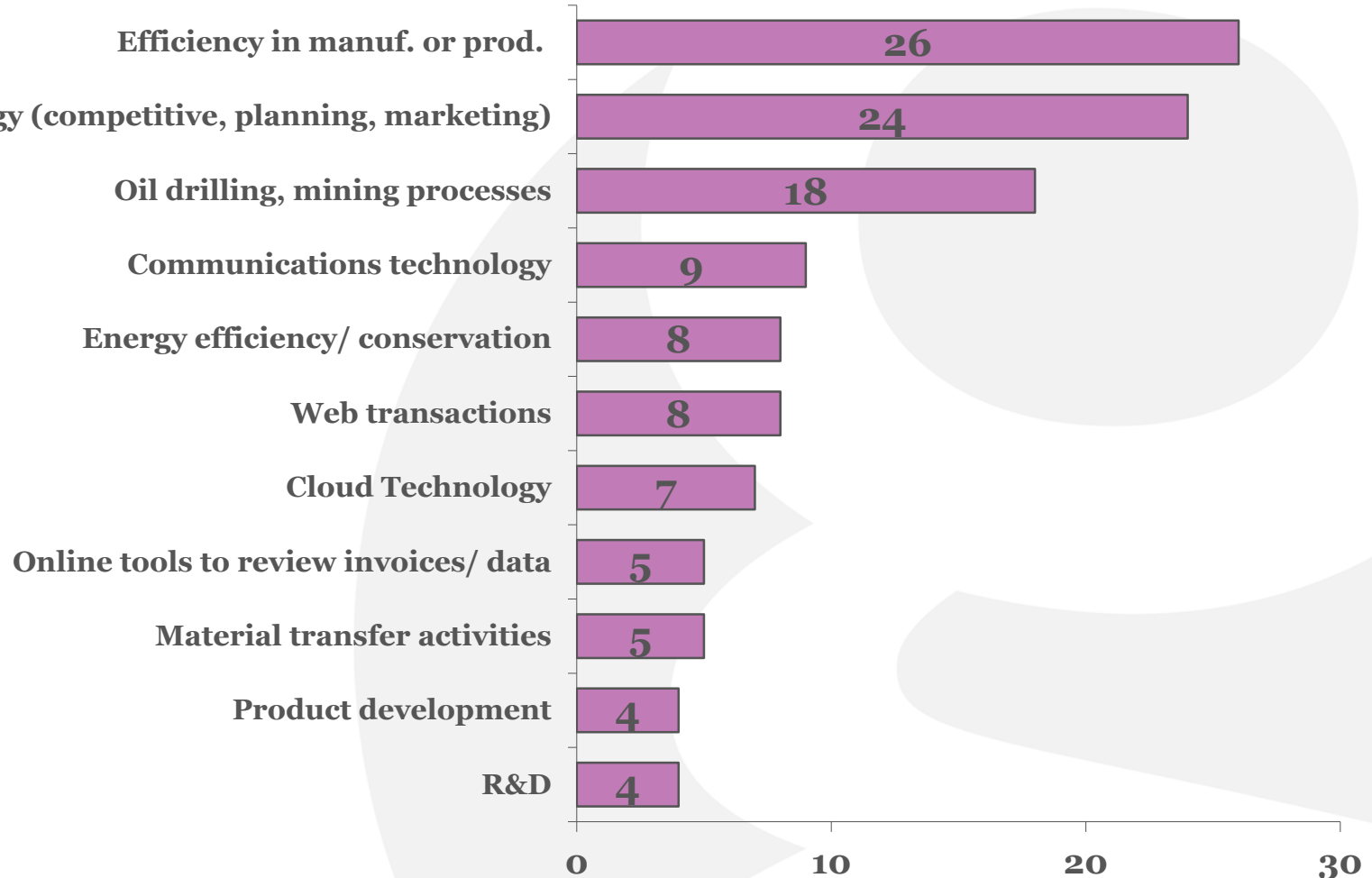
*Some would say the recession and downturn in the markets or commodities prices, means companies like yours must adopt innovation and new technologies in order to survive.*

*Others would say that innovation or new technologies will do little to help companies like yours overcome market cycles or downturns such as those we're seeing for commodities.” (% choosing each)*



# Changes Suggested During Downturn

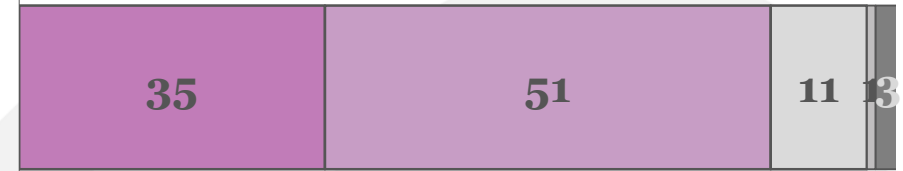
“Can you name for me a couple of examples of innovations or new technologies you think companies like yours should be adopting?” [n=74] (% choosing each)



# Most Hope for Correction in Next Few Years

“Would you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statements?” (% saying each)

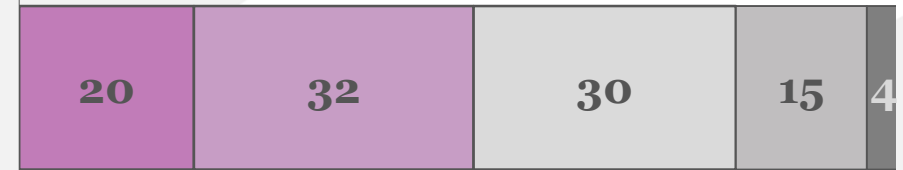
**I'm optimistic that the downturn in the markets and decline in commodities pricing will correct itself within the next couple years**



**Ability to raise capital is key to survival. Alternate sources of financing are more top of mind for our company than the equity markets**



**Not enough companies in my sector have adopted innovation or new technologies to be more productive and sustainable**



0 50 100

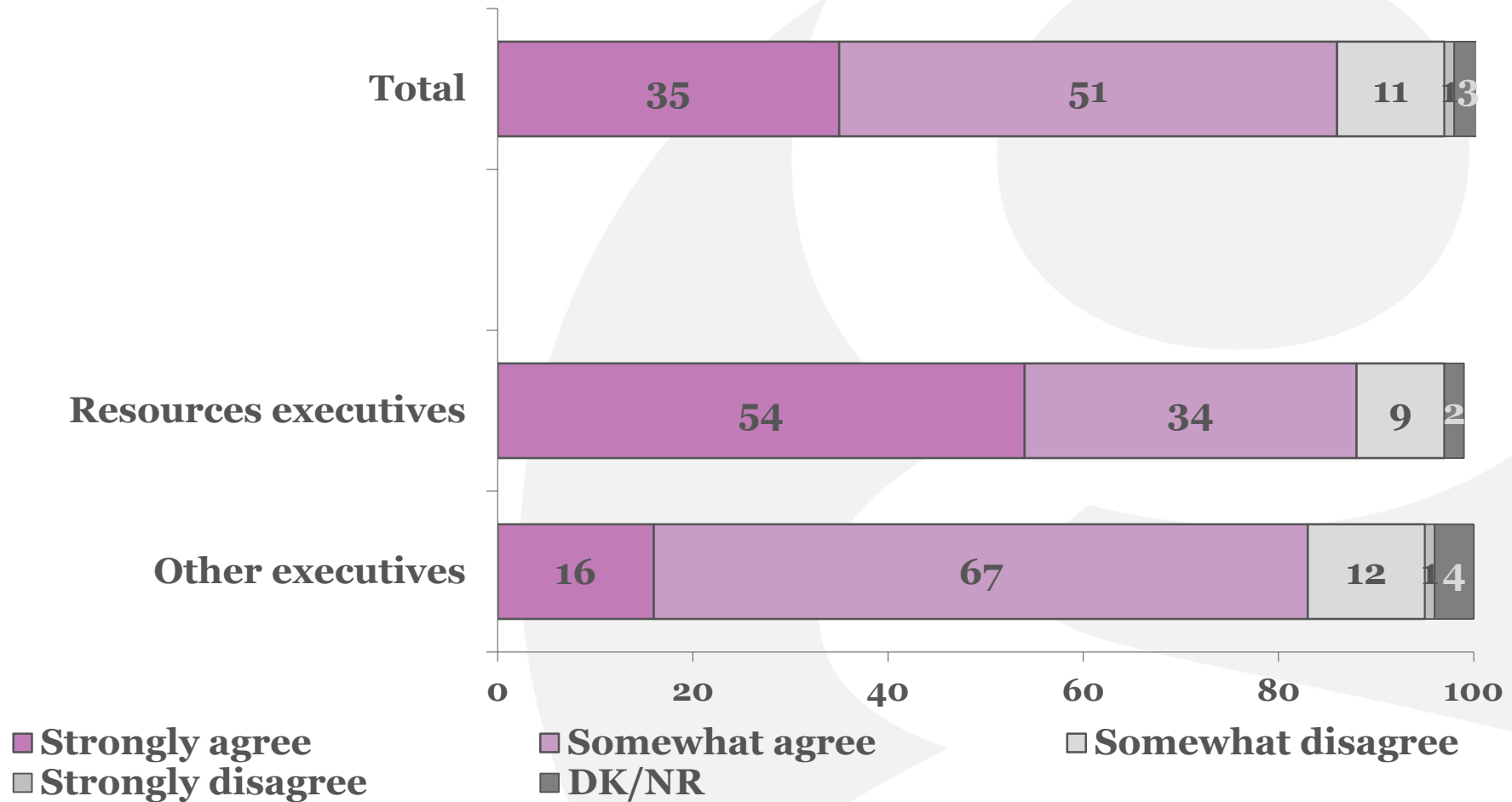
■ Strongly agree  
■ Strongly disagree

■ Somewhat agree  
■ DK/NR

■ Somewhat disagree

# Most Hope for Correction in Next Few Years

“Would you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statements? **I'm optimistic that the downturn in the markets and decline in commodities pricing will correct itself within the next couple years.**” (% saying each)



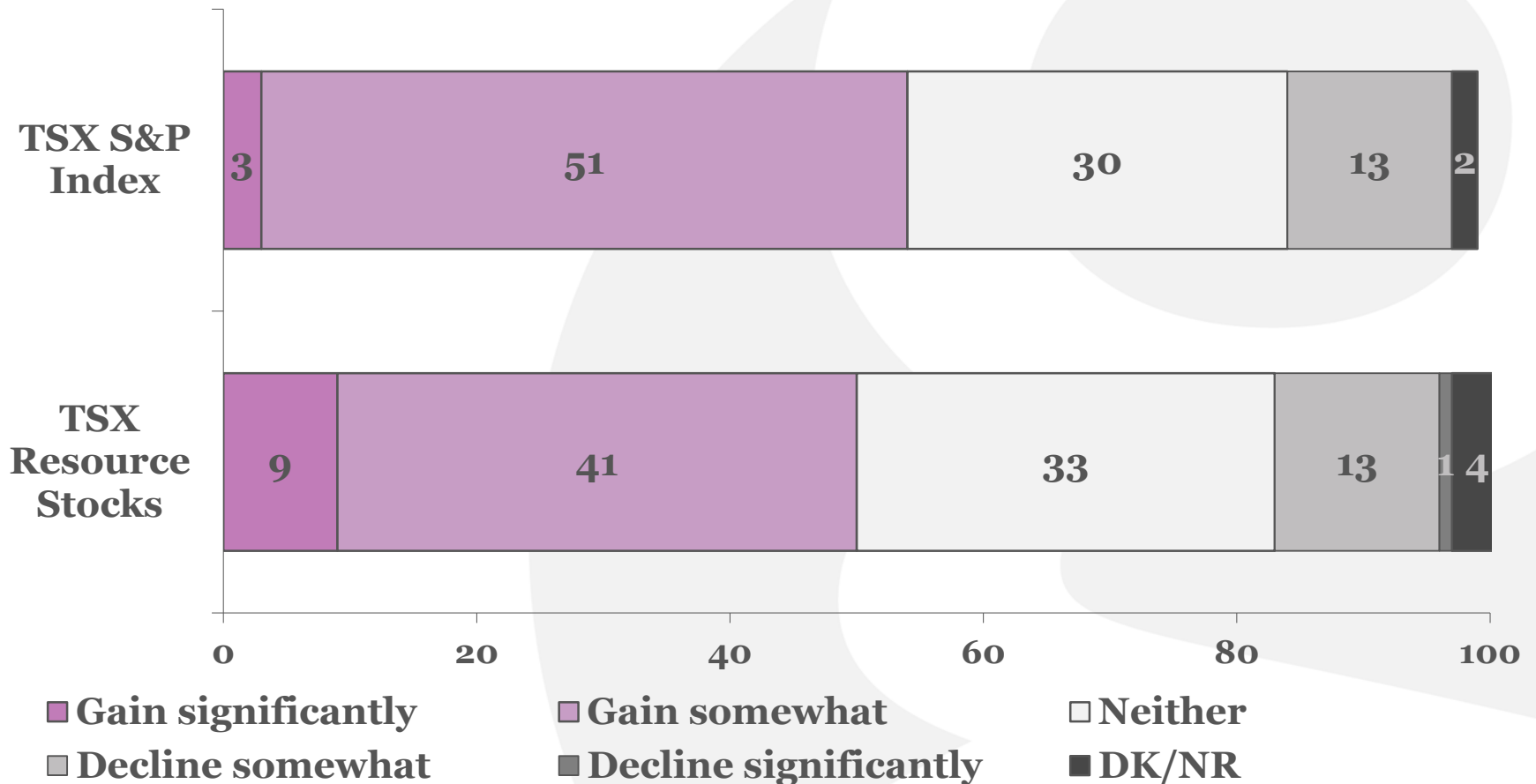


# Outlook For the Markets

- ❑ The outlook for the markets is cautiously optimistic.
- ❑ Only 15% expect the TSX index to decline over the calendar year.
- ❑ 54% expect the TSX index to make modest gains.
- ❑ Very few expect resources stocks to decline further this year.
- ❑ Resources executives are more bullish than others about their sector.
  - Most resources executives said they expect TSX resources stocks to make gains.
  - Other executives are more likely to say resources equities aren't to decline or make gains in 2014.
- ❑ 59% expect global demand including Asian demand for commodities to be roughly similar to last year.
- ❑ However, the vast majority expect commodities prices to turn around within two years.

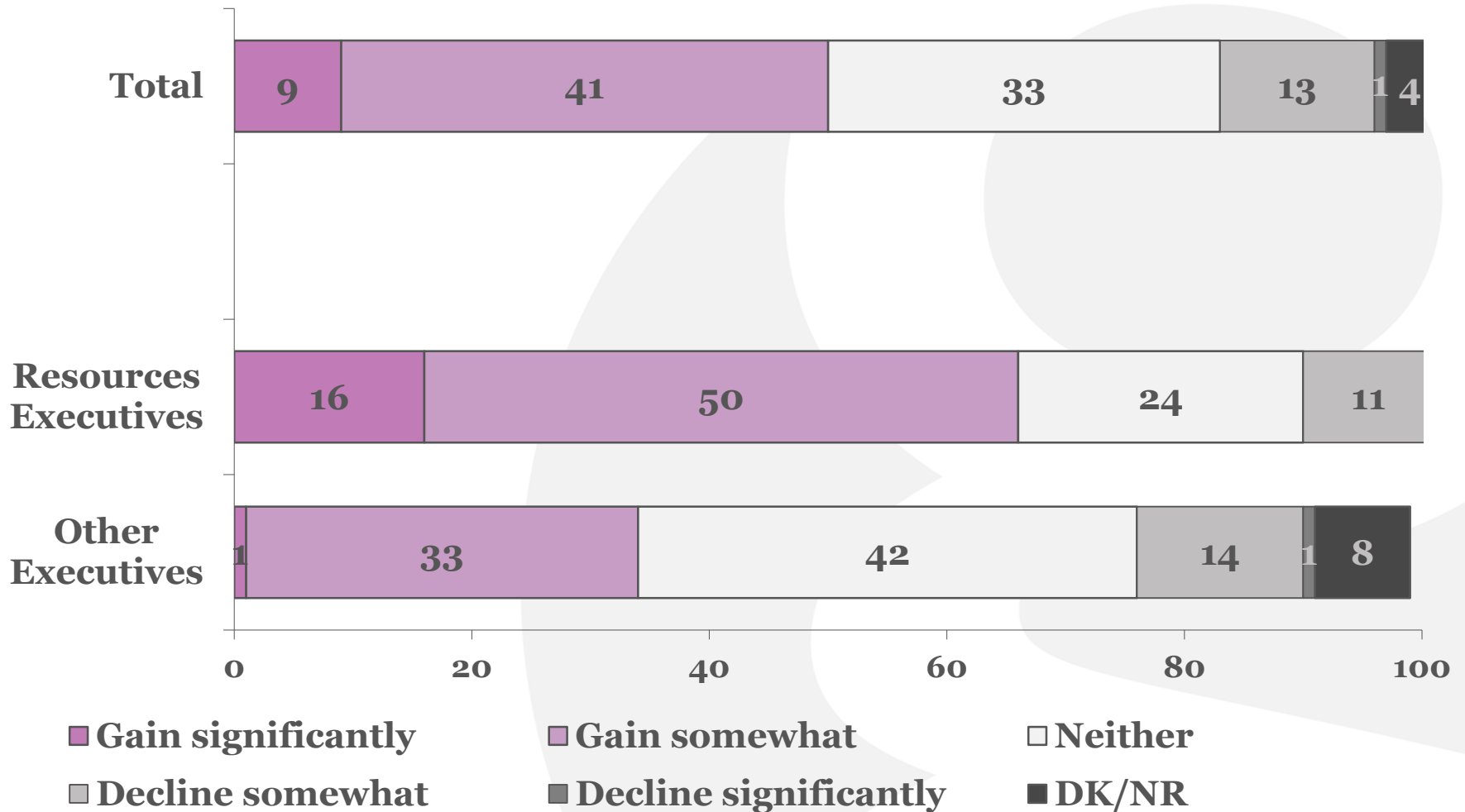
# Outlook for the Markets

“What is your outlook for the S&P TSX composite index for 2014? Would you expect stocks on the **TSX index** to...” **AND**  
“What is your outlook for resources stocks in 2014? Would you expect **resources stocks** listed on the TSX to” (% saying each)



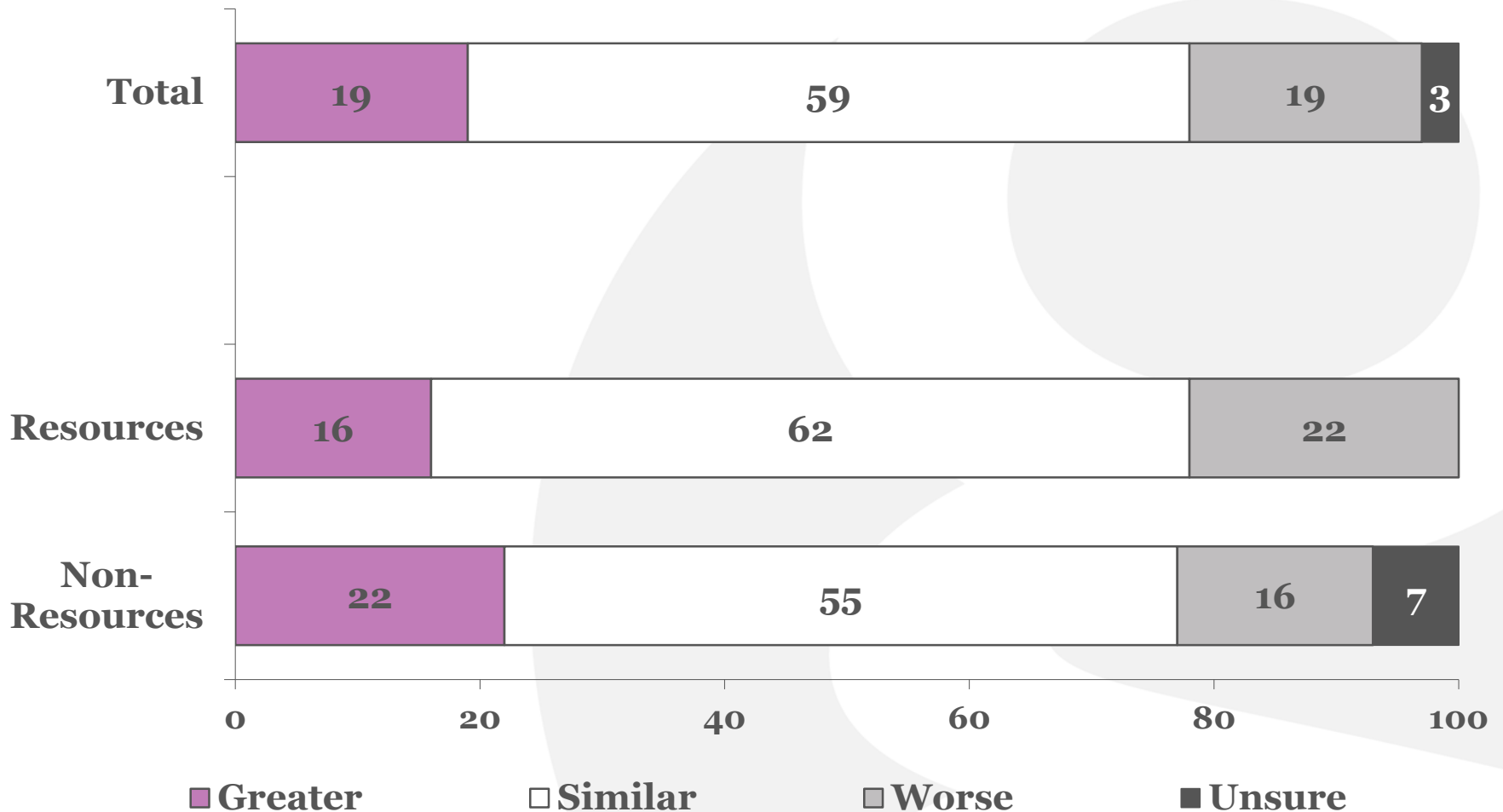
# Outlook for Resources

“What is your outlook for resources stocks in 2014? Would you expect resources stocks listed on the TSX to...?” (% saying each)



# Outlook for the Global and Asian Demand for Commodities

“Asian economies are important drivers in global economic growth. Based on what you know, would you say global and Asian demand for commodities in 2014 will be ...” (% saying each)

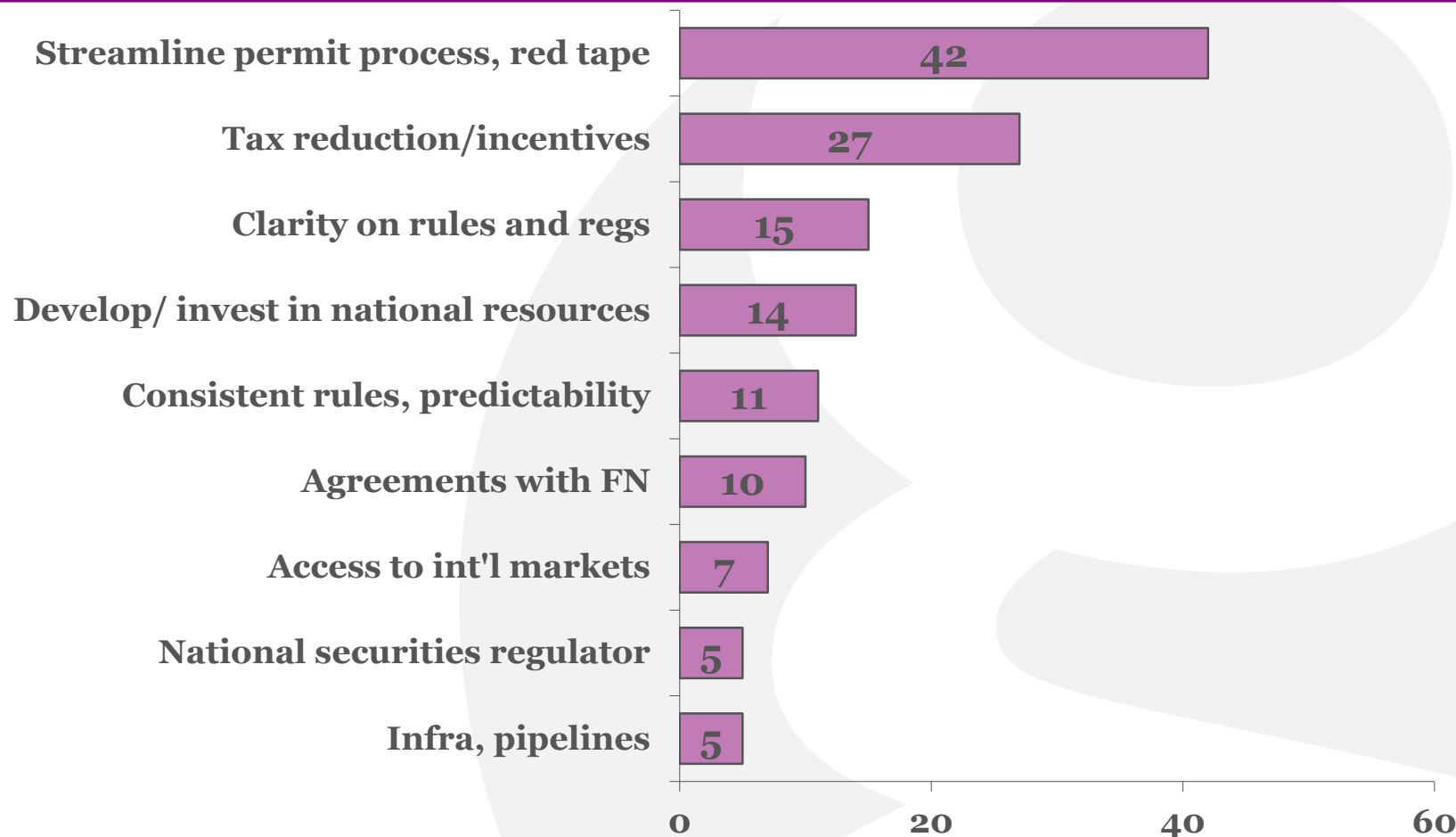


## How to Help Resources

- ❑ Given the weakness in the commodities markets we asked resources executives what Canadian governments and policy makers could do to make Canada a more attractive place for resources and mining companies to operate and locate, either for head offices, equity markets, or operations, extraction and refining.
- ❑ Resources executives said loud and clear they want a streamlined permitting systems and less red tape.
- ❑ Clarity on rules and consistency of rules are also critical to ensuring Canada offers a good environment for business.
- ❑ Taxes are an important secondary concern to doing business in the resources sector in Canada.
- ❑ 10% mentioned the importance of obtaining agreement with First Nations.
- ❑ 5% mentioned the need for a national securities regulator

# How Can Policy Makers Help the Resources Sector?

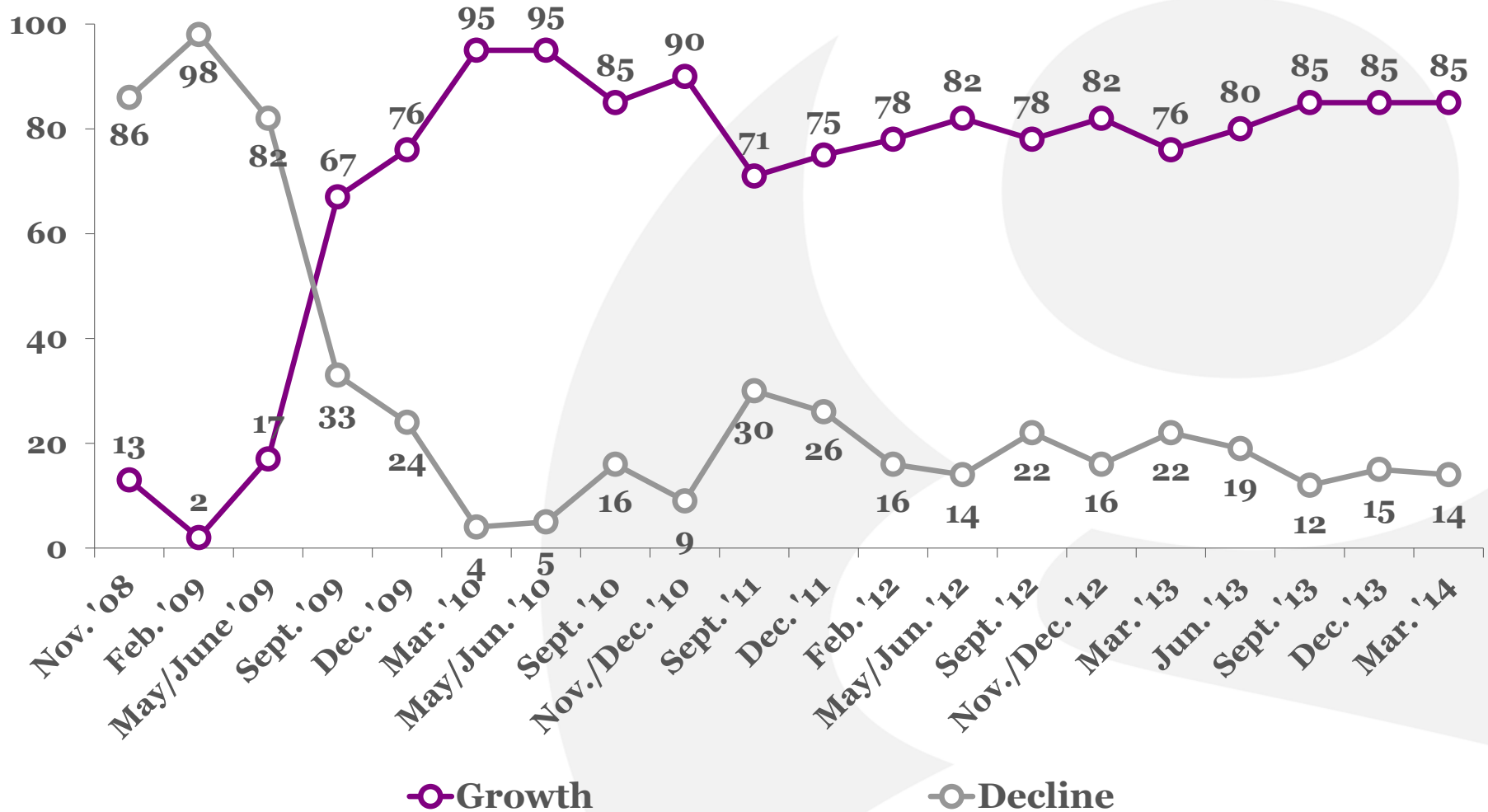
“What can Canadian governments and policy makers do to make Canada a more attractive place for resources and mining companies to operate and locate, either for head offices or equity markets or for operations, extraction and refining?” [Asked only to Resources executives - n=73] (% saying each)



- ❑ For almost a year now, predictions of the economy are unvaried. The consensus during that time is that the economy is experiencing nothing more than moderate growth.
- ❑ There is also no shift – positively or negatively – for the outlook of executives when it comes to their companies.

# Current Growth Levels In The Canadian Economy

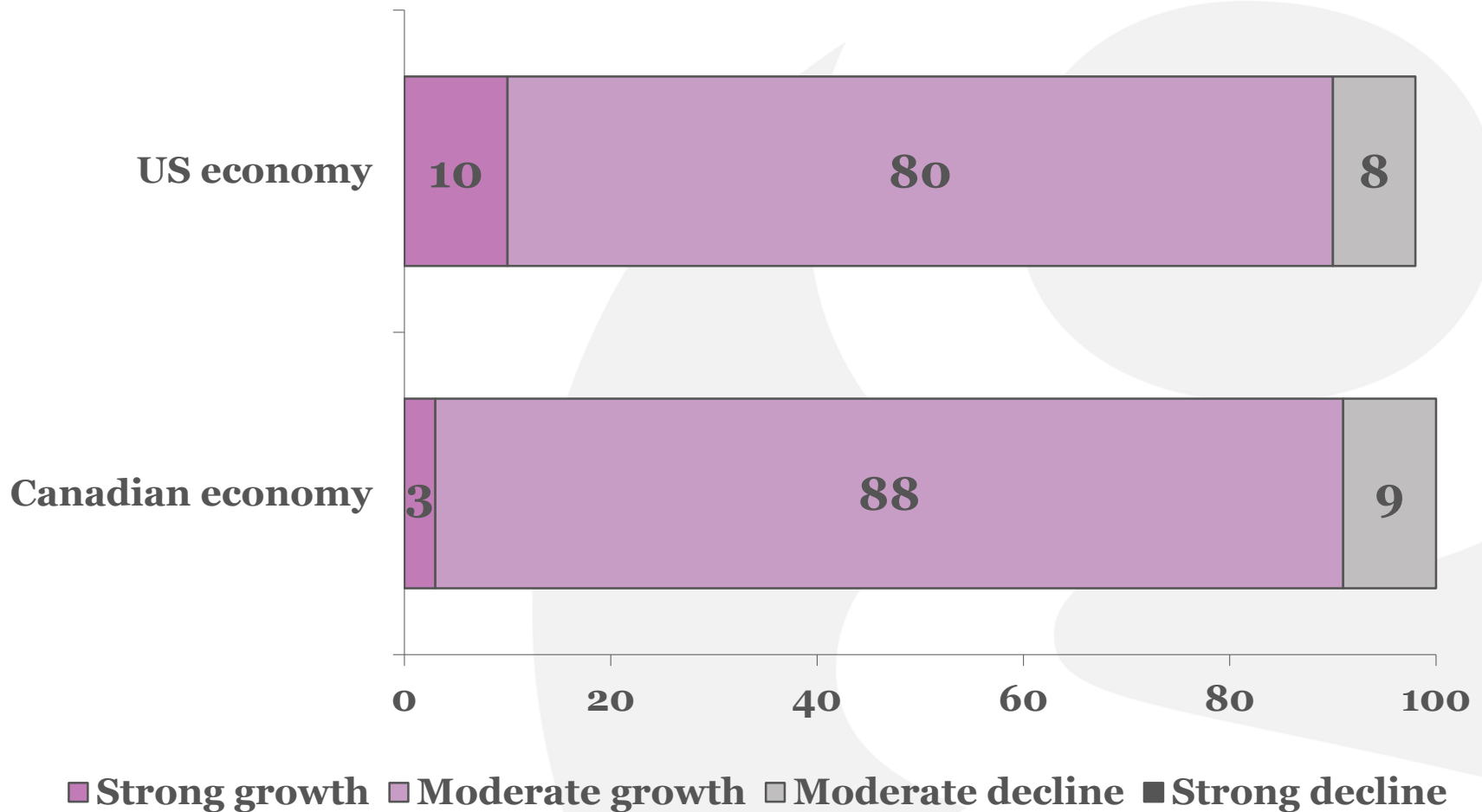
“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





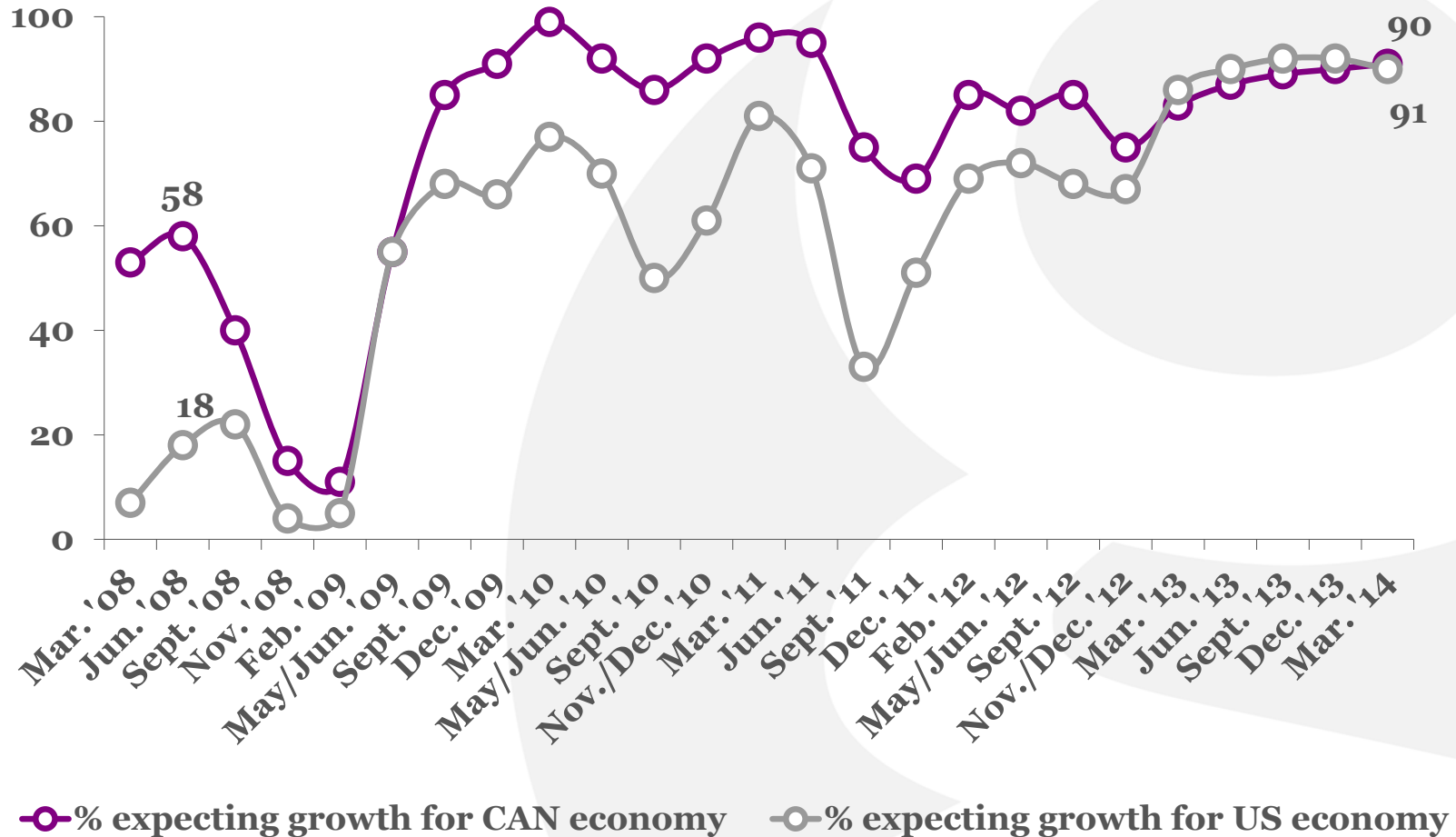
# Expectations of the Canadian and US Economies

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



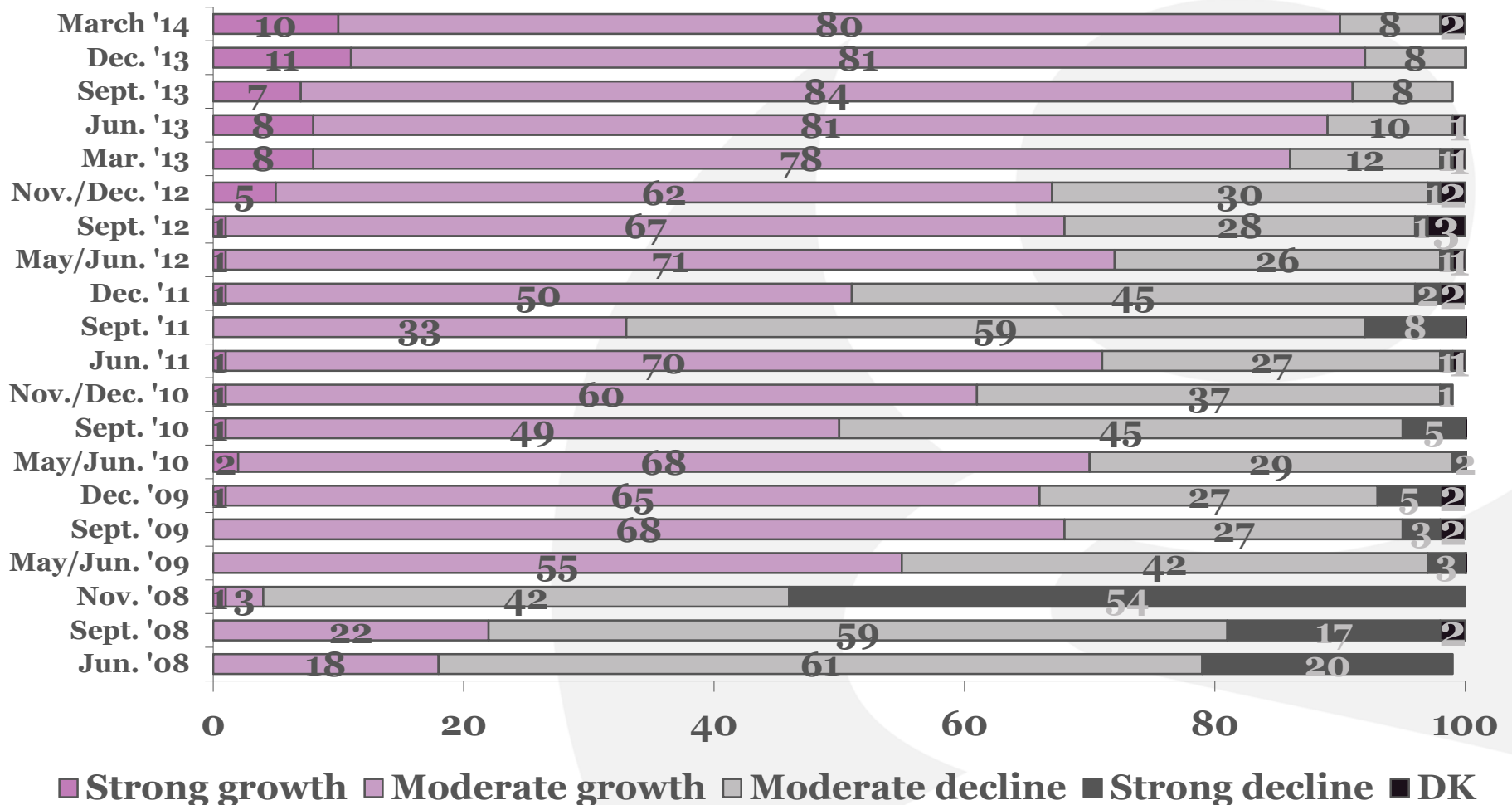
# Expectations of the Canadian and US Economies

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



# Expectations of The US Economy

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



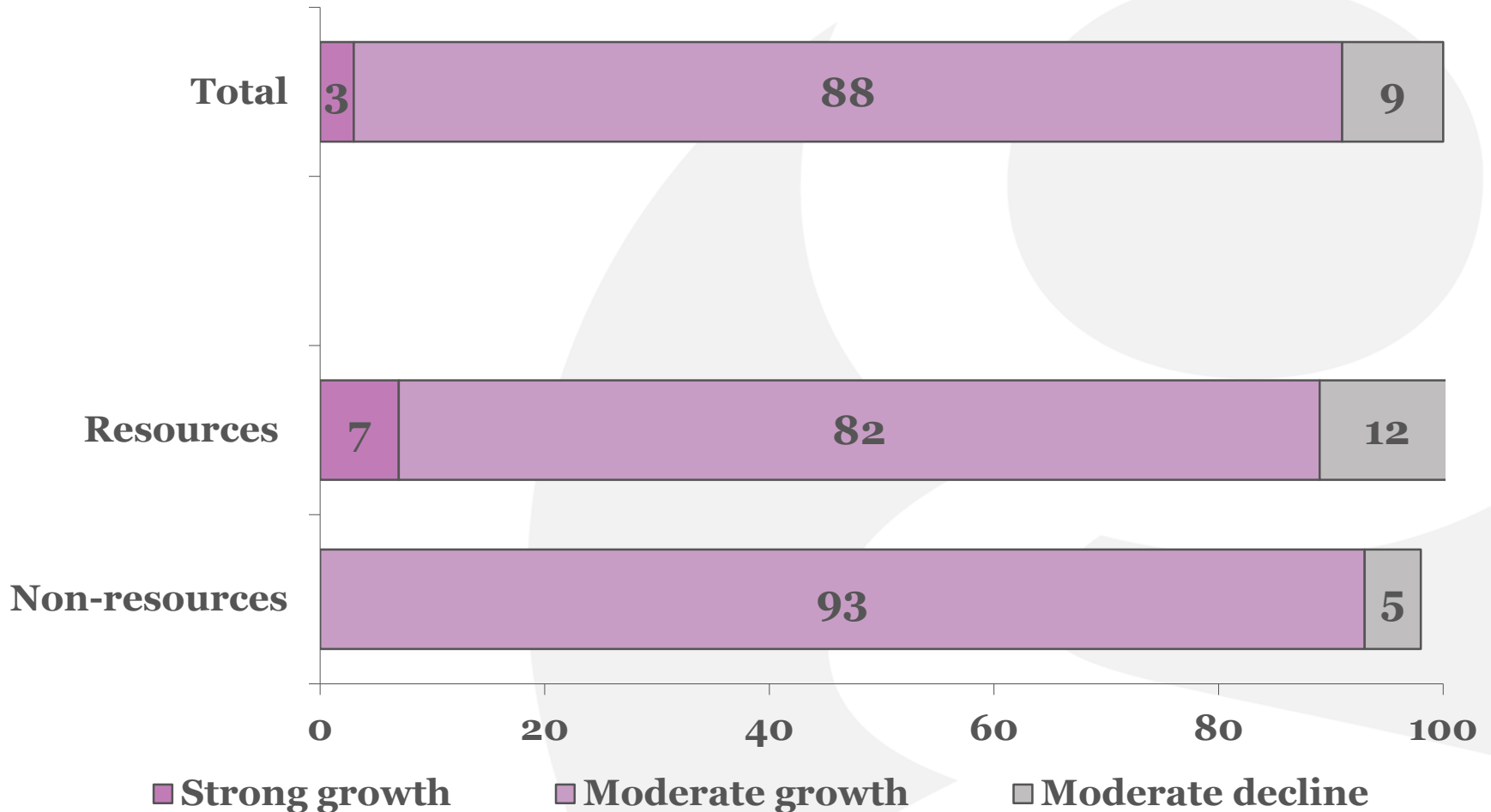
# Projections For The Canadian Economy

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



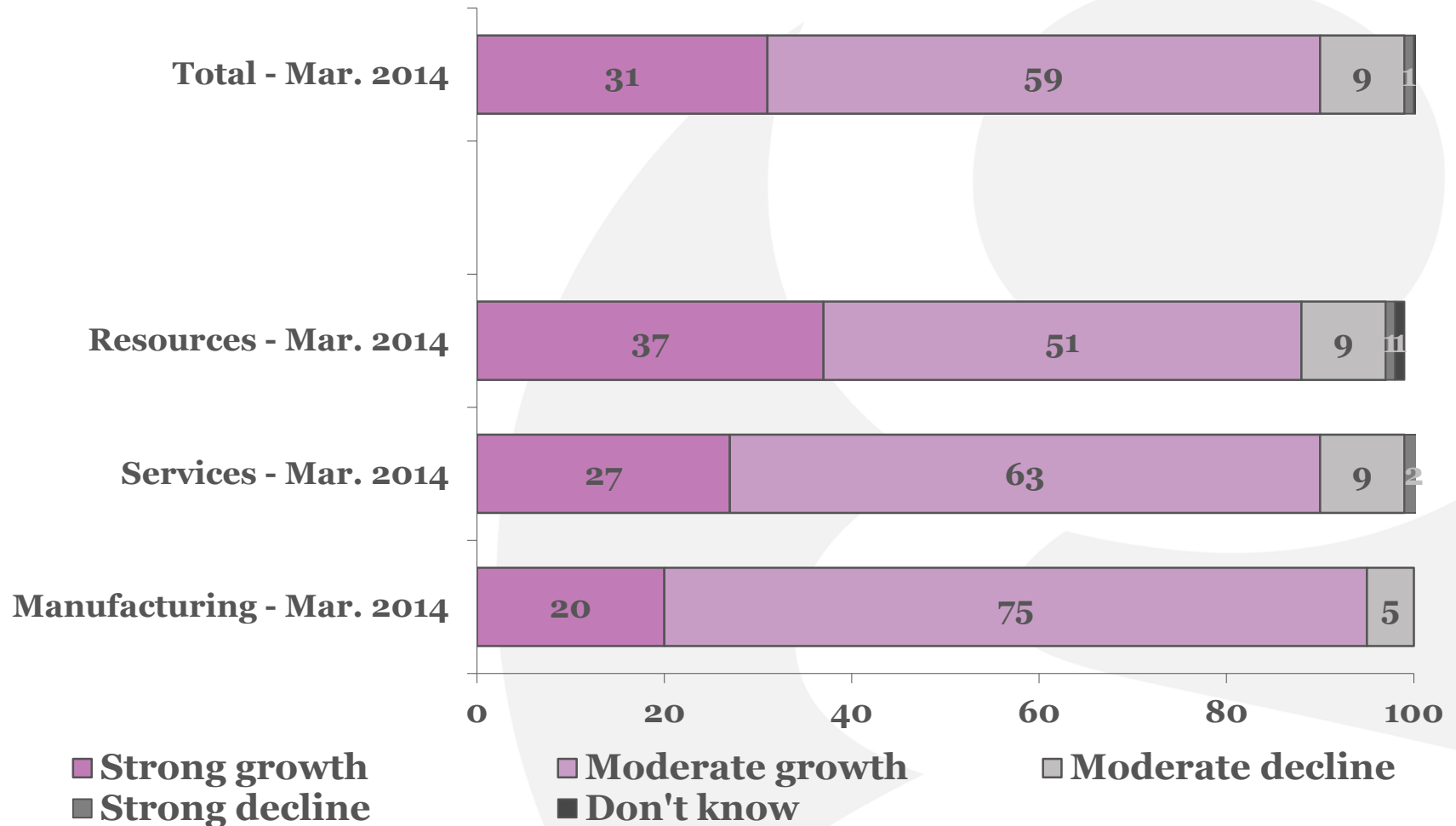
# Projections For The Canadian Economy

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



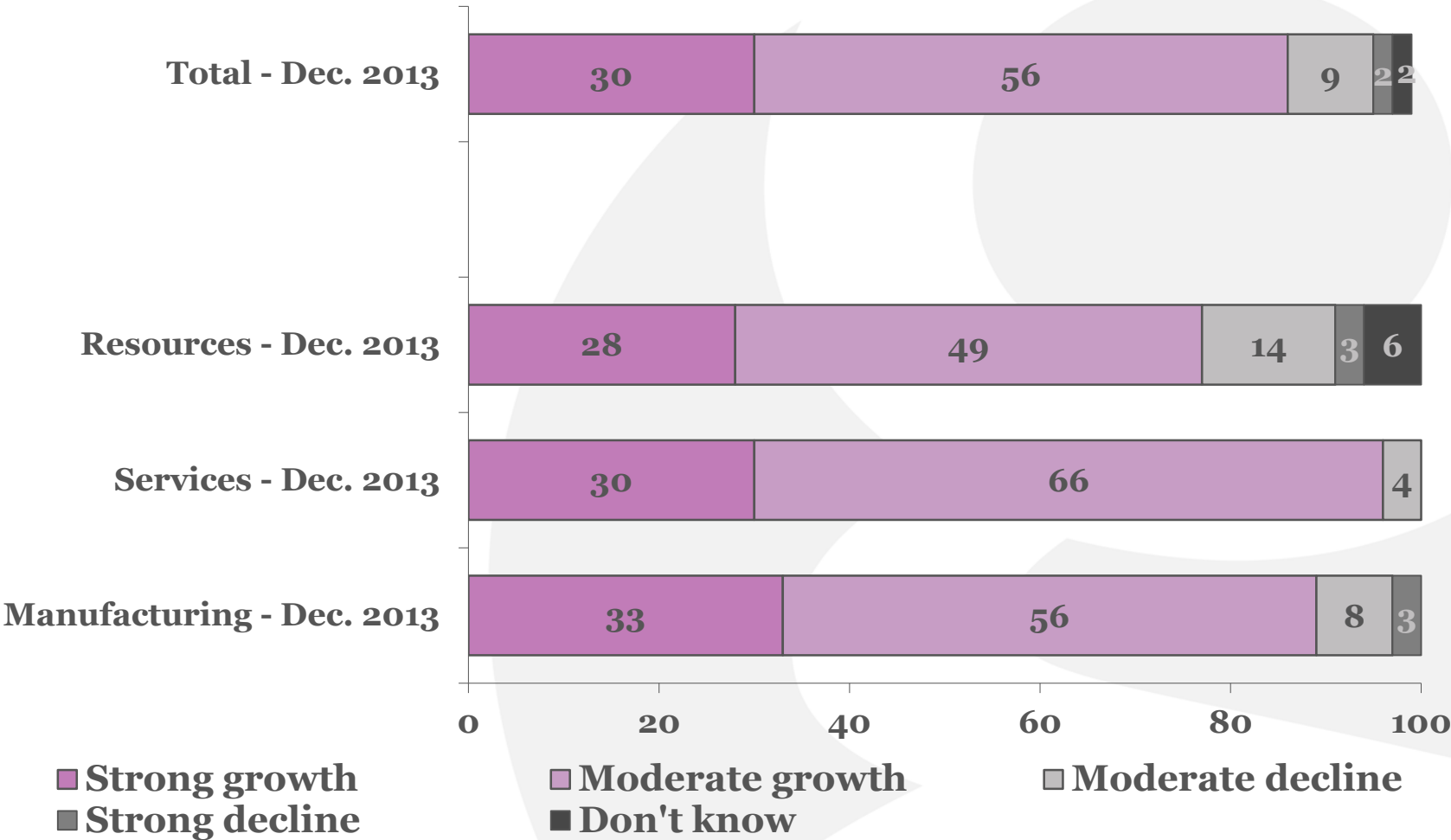
# Outlook for Business – March 2014

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)



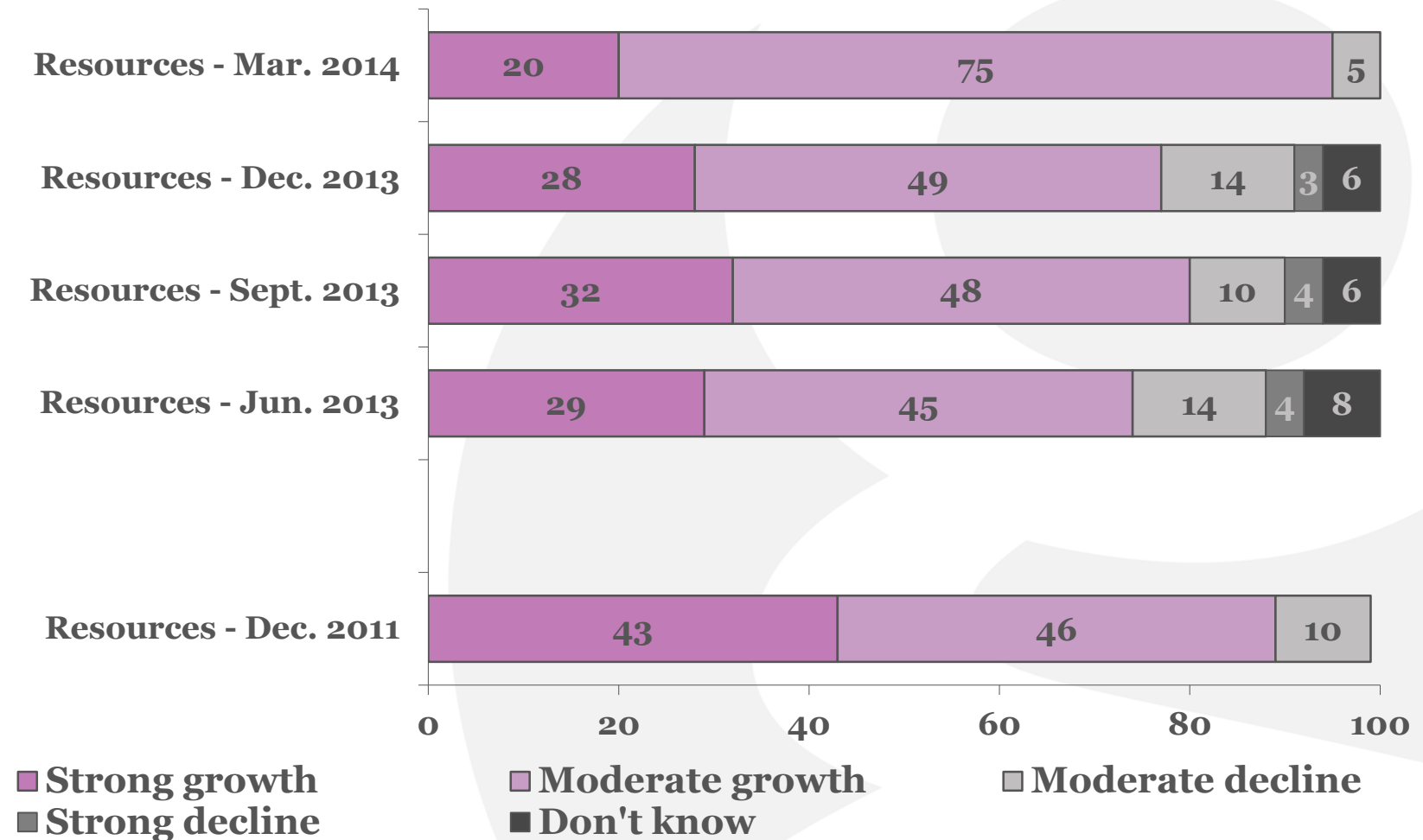
# Outlook for Business – December 2013

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)



# Recent Outlook for Business - Resources

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





# Projections For Your Company

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)

