



CFO Signals™

# The Canadian Perspective

1<sup>st</sup> Quarter 2015

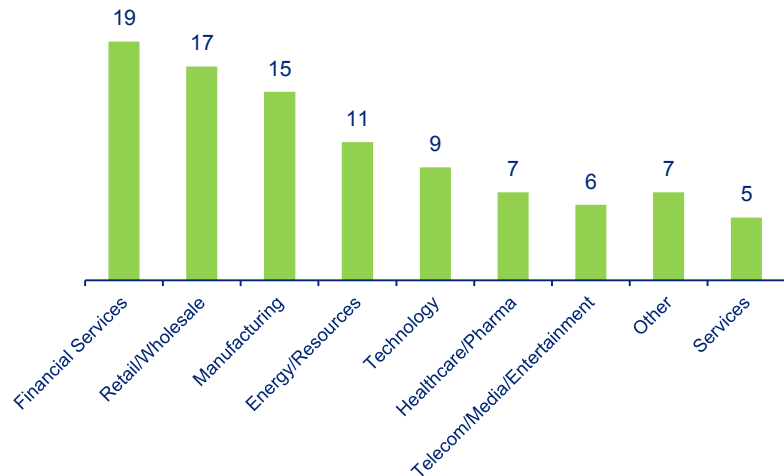


# About the CFO Signals survey

## Who participated this quarter?

- **96 CFOs responded** during the two-week period ending February 20
- **13 Canadian CFOs** took part, representing 13.5% of the total
- 68% of respondents are from public companies
- 82% are from companies with more than \$1 billion in annual revenue

Participation by industry



# Developments since Q4 2014 survey

- U.S. consumer confidence hit highest level since August 2007\*
- Value of **U.S. dollar rose** substantially
- U.S. equities markets reached new highs
- Eurozone entered deflationary period; value of euro continued to decline
- China economy slowed; Japan and Russia again in or near recession
- **Oil prices declined** from US\$79.08 to US\$49.25 per barrel

*\*Based on Conference Board index*



# Executive Summary

## North America

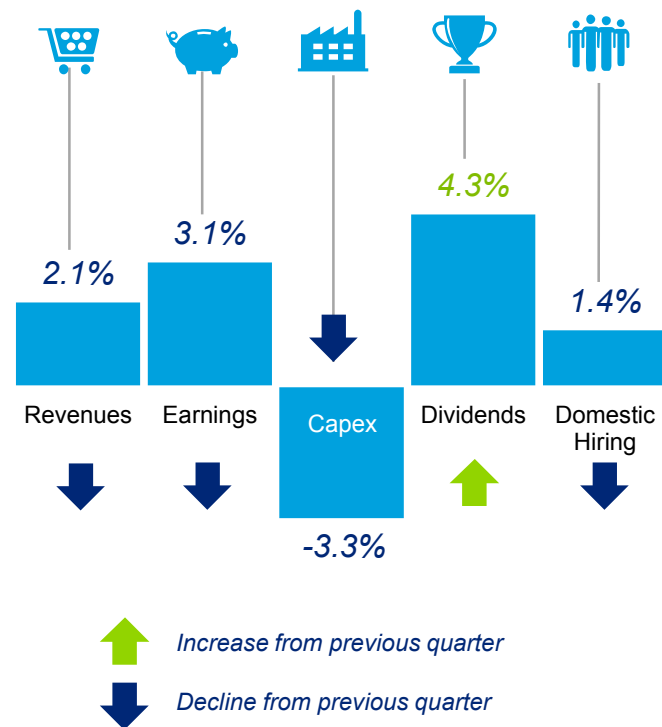
- 1 Streak of positive sentiment extended to nine quarters
- 2 Sales and capital spending expectations down; earnings and hiring up
- 3 North America at another high; China and Europe down again
- 4 Markets less overvalued, debt very attractive, equity less attractive
- 5 Economic shifts causing changes to geographic focus
- 6 Strength of U.S. dollar driving currency risk management shifts
- 7 More focus on near-term performance than on value
- 8 Extensive exposure to shareholder activism, and responding to activists' concerns
- 9 Some changes to investor relations approaches
- 10 A good time to be privately held

# Summary of Findings

## Canada

- Revenue growth expectations set a **new survey low**
- Earnings growth expectations also set a **new survey low**
- Capital expenditure growth expectations fell to their **second-lowest level** since 2013
- Dividend growth expectations continued to climb
- Domestic hiring growth expectations continued to decline

### Growth expectations for the next 12 months



# Company Expectations and Priorities

## Summary of Canadian sentiment and expectations

(Optimism is measured relative to prior quarter; growth numbers are expectations for next 12 months)

Net optimism* – Canada	↘
Net optimism – United States**	↗
Net optimism – North America***	↗
Revenue growth – Canada	↘
Earnings growth – Canada	↘
Capital investment growth – Canada	↘
Domestic employment growth – Canada	↘
Offshore employment growth – Canada	↗

Well below five-year average  Well above five-year average

Well below last quarter  Well above last quarter

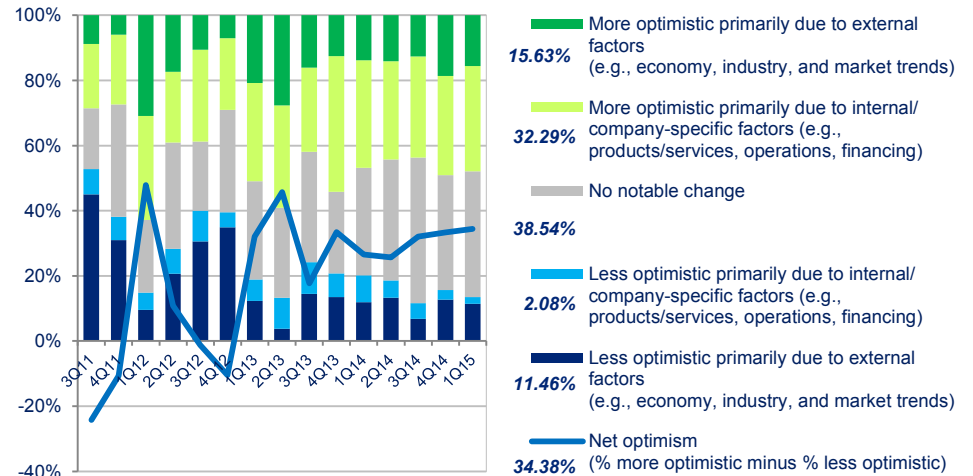
\* Net optimism is calculated as the difference between the proportions of those expressing rising and falling optimism. Accordingly, this metric does not explicitly account for the level of “no change” responses.

\*\* Figure represents net optimism among U.S. CFOs.

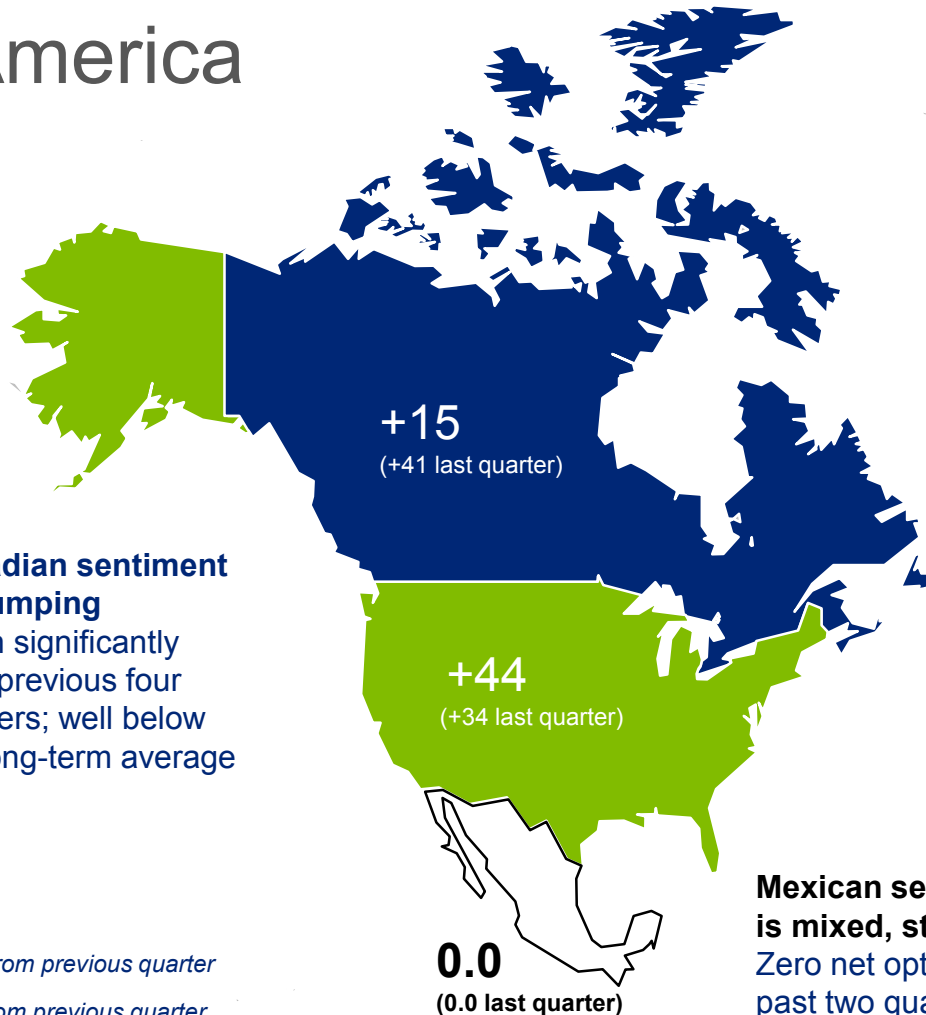
\*\*\* Figure represents net optimism among Canadian, U.S. and Mexican CFOs.

## How does your optimism regarding your company’s prospects compare to last quarter?

Percent of North American CFOs selecting each sentiment/reason combination



# Net Optimism North America



**Canadian sentiment is slumping**  
Down significantly from previous four quarters; well below the long-term average

**U.S. sentiment is increasingly upbeat**  
Steady improvements over past four quarters; highest-ever first quarter level since 2011

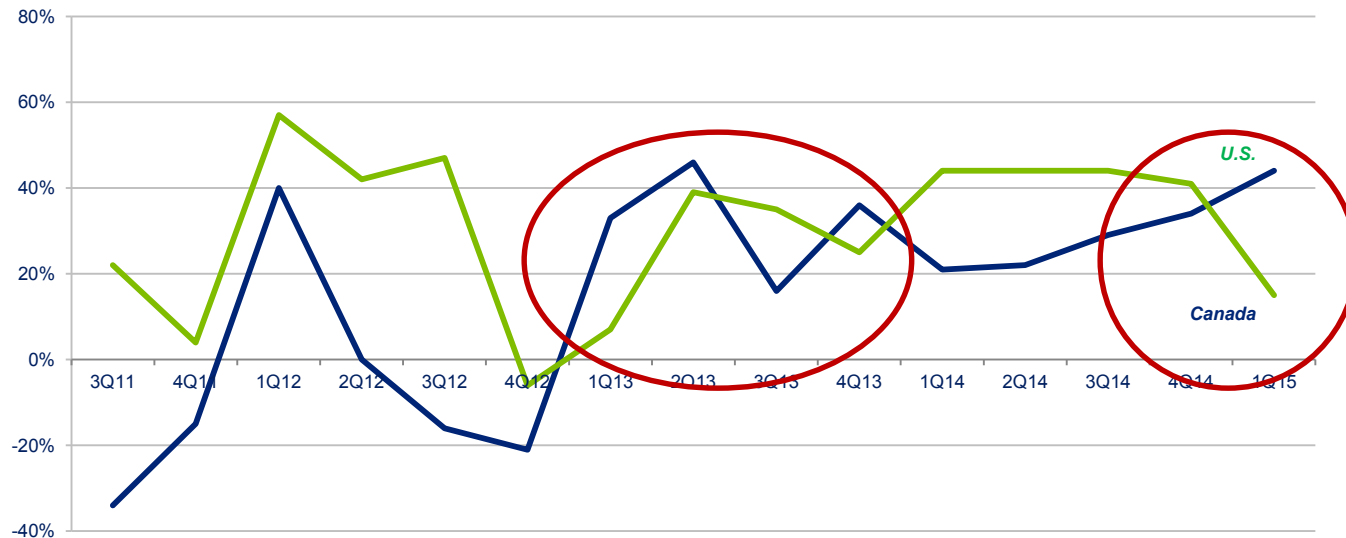
**Mexican sentiment is mixed, steady**  
Zero net optimism over the past two quarters is well below the long-term average

↑ Increase from previous quarter  
↓ Decline from previous quarter

# Net Optimism

## Canada vs. U.S.A.

**Difference between the percent of CFOs citing higher and lower optimism regarding their company's prospects compared to the previous quarter**



**Canadian CFOs are once again less optimistic than their U.S. counterparts**

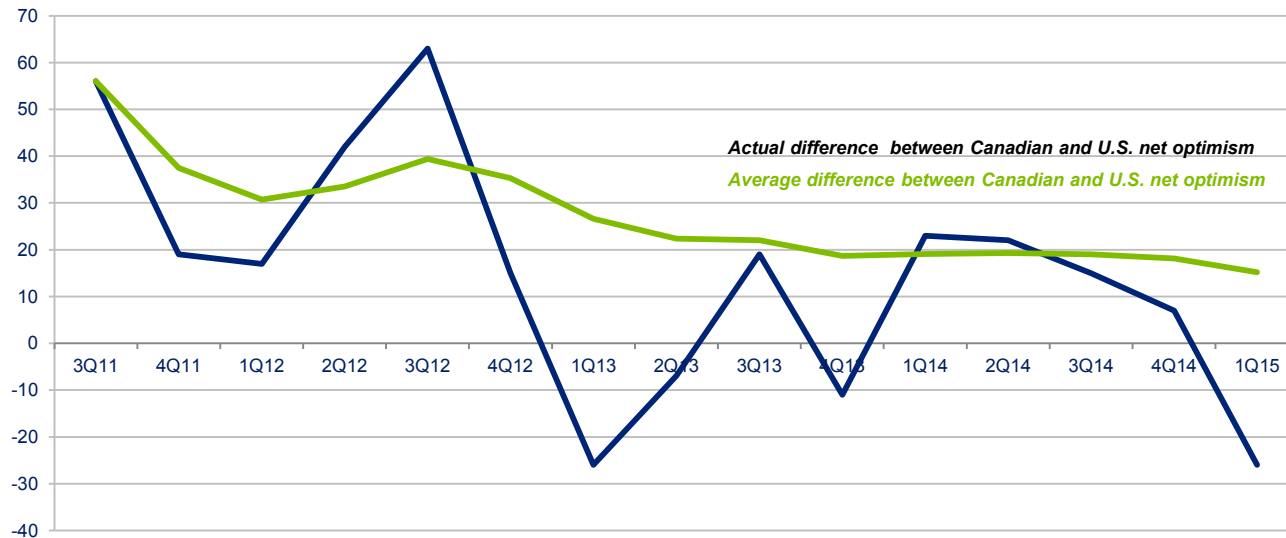
Historically, Canadian CFOs have expressed much higher net optimism than U.S. CFOs, but that was not the case for most of 2013 nor in the first quarter of 2015.



# Net Optimism

## Canada vs. U.S.A.

**Difference between the net optimism of Canadian CFOs and U.S. CFOs regarding their company's prospects compared to the previous quarter**

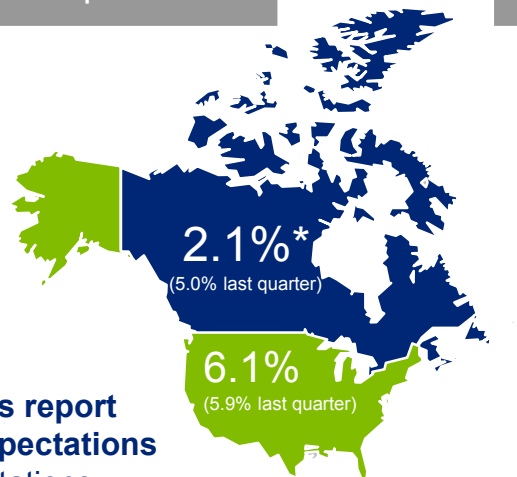


**The gap between Canadian and U.S. CFOs has been steadily narrowing**

The average difference between net optimism of Canadian CFOs and U.S. CFOs has been declining over the past four years and is now at its smallest gap (+15.2).

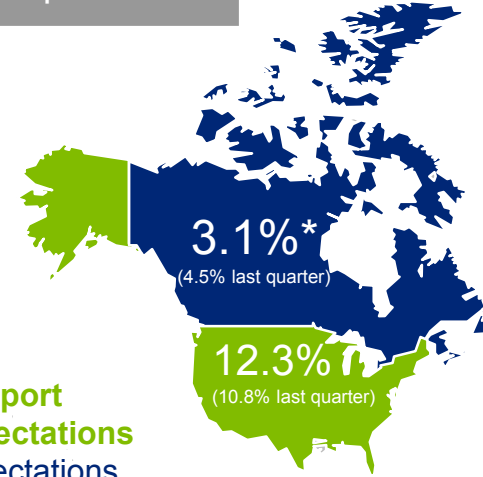
# Revenue & Earnings Expectations Canada vs. U.S.A.

## Revenue Growth Expectations

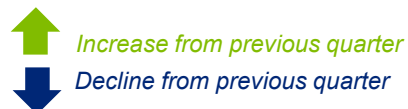


**Canadian CFOs report lowest-ever expectations**  
Revenue expectations were a survey-high 9.3% just two quarters ago

## Earnings Growth Expectations



**U.S. CFOs report growing expectations**  
Earnings expectations equalled their second-highest level in four years

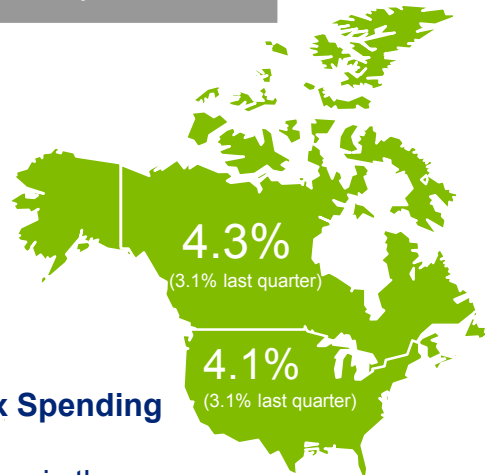


\*Represents new survey low

# Dividends & Capex Expectations

## Canada vs. U.S.A.

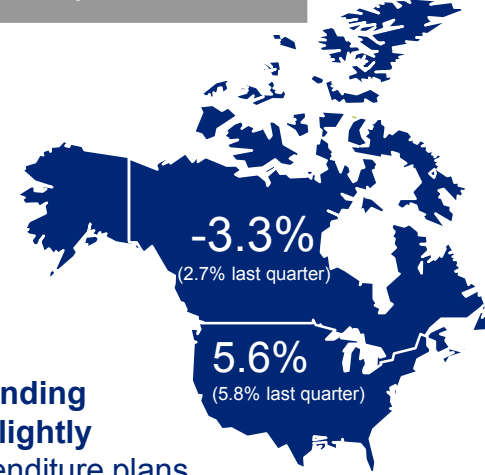
### Dividend Growth Expectations



#### Canadian Capex Spending Plans Plummet

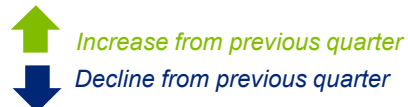
The Q1 2015 figure is the second lowest in survey history and well below the +11.1% reported in Q2 2014

### Capital Investment Expectations



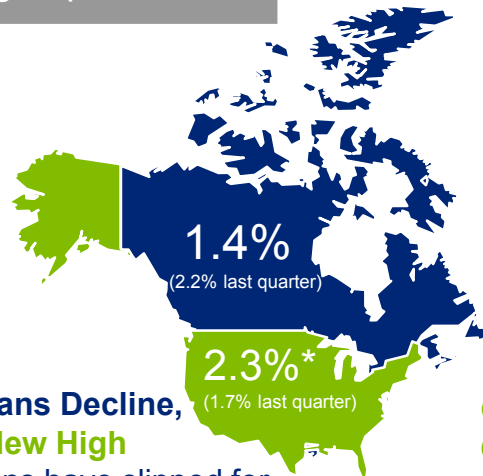
#### U.S. Capex Spending Plans Dipped Slightly

U.S. capital expenditure plans are below the long-term survey average and well below the 10.9% two years ago



# Domestic & Offshore Hiring Expectations Canada vs. U.S.A.

## Domestic Hiring Expectations

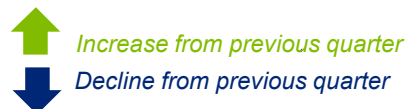


**Canadian Hiring Plans Decline, U.S. Plans Reach New High**  
Canadian expectations have slipped for two straight quarters while U.S. plans have grown in each of the past four quarters

## Offshore Hiring Expectations



**Growing Tendency to Offshoring Operations in Both Countries**  
Increased offshore hiring expectations are consistent with other Survey findings that indicate substantial offshoring of operations



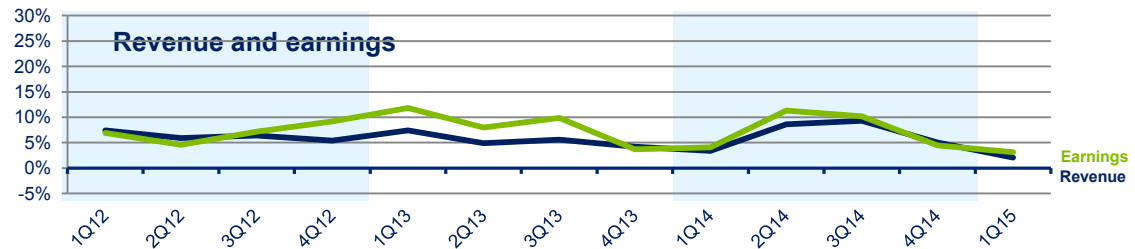
\*Represents new survey high

# Operational Metrics

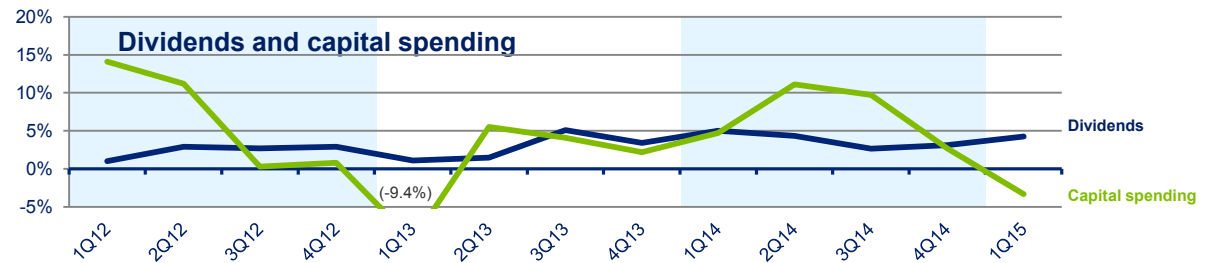
## Canada

CFOs' expected change year-over-year (mean)

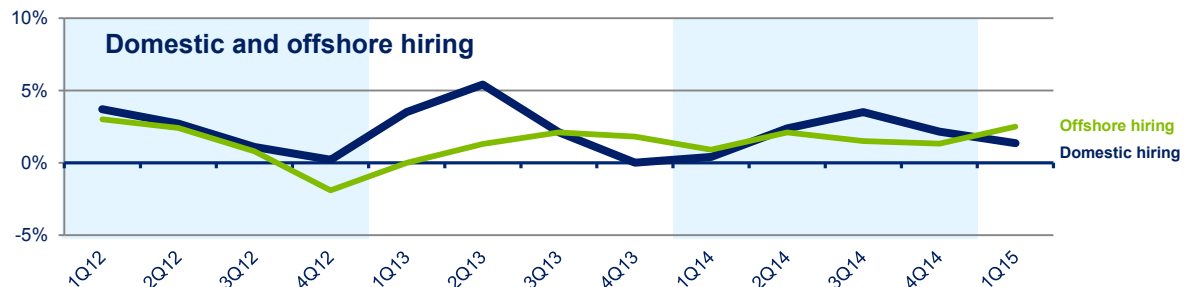
Revenue and earnings growth expectations are both **below the previous survey lows reported one year ago**



Capital expenditure growth expectations have declined for three straight quarters, to their **second-lowest level**



Domestic hiring growth expectations are less than half the level of just two quarters ago and **below the long-term survey average**

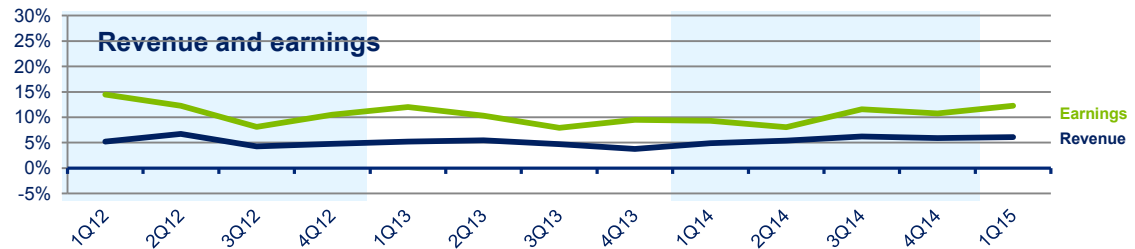


# Operational Metrics

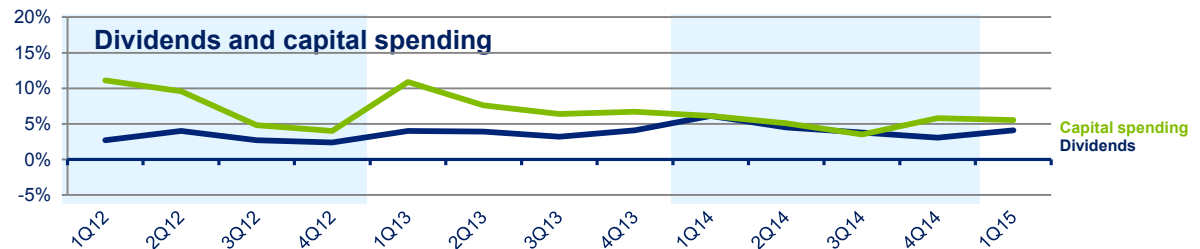
## United States

CFOs' expected change year-over-year (mean)

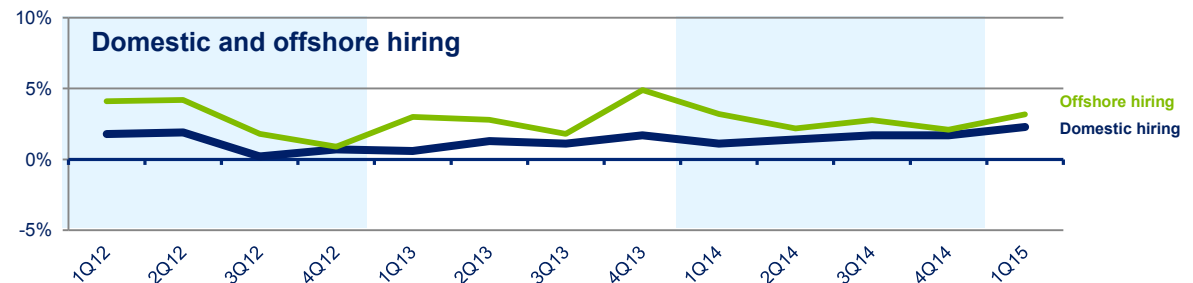
Revenue growth expectations have held **steady at about 6%** for each of the past three quarters; **Earnings** growth expectations equalled their **second-highest level**



Capital expenditure growth expectations have been **declining for most of the past two years**



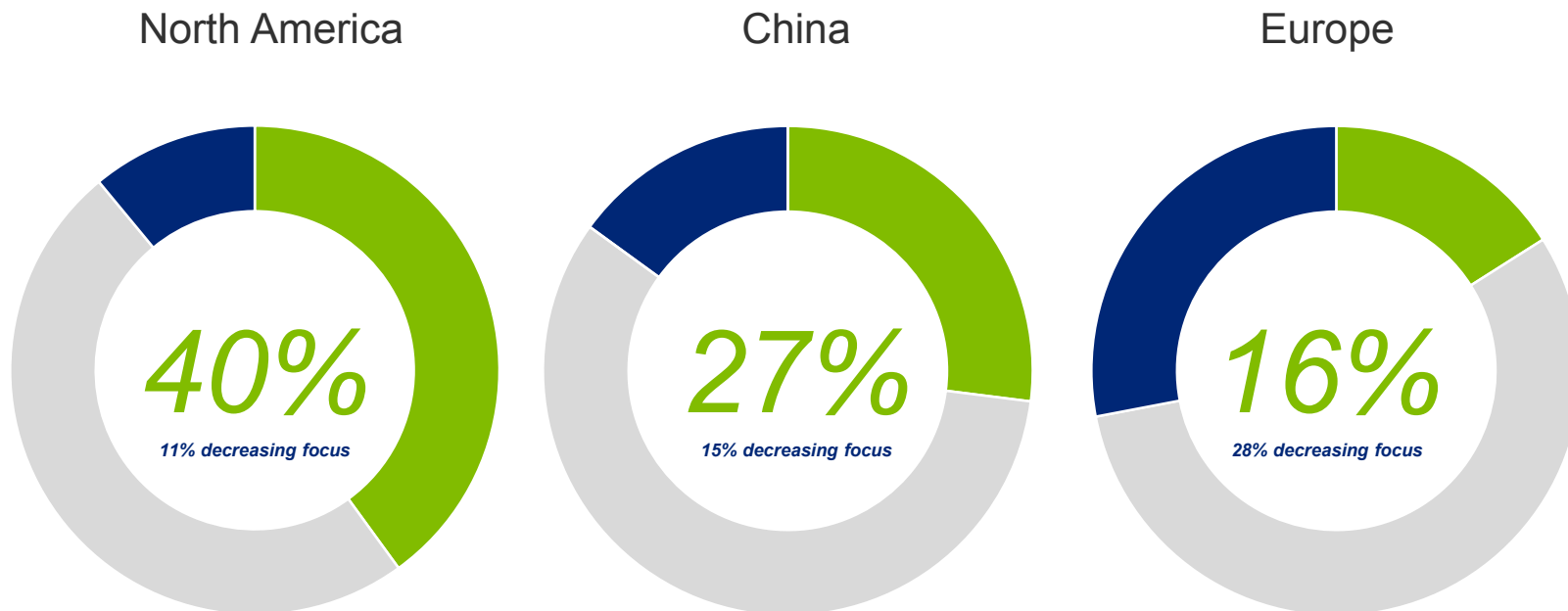
Domestic hiring growth expectations reached a **new survey high of 2.3%**, but **offshore hiring** expectations also rose



# Special Topic

## Impact of economic and cost trends

Companies shifting focus toward North America & China, away from Europe



- Increasing Focus
- About the Same
- Decreasing Focus

### Nearly 85% of CFOs report at least one shift in geographic focus

The biggest shifts are toward North America and away from Europe, influenced by negative perceptions of the European economy (78% of CFOs describe it as bad) and strong perceptions of North America (59% describe it as good or very good).

# Special Topic

## Private & Public Company Investor Relations

How often do companies analyse, make decisions and communicate?

### Private

- All CFOs **present performance results to owners** at least yearly; more than 80% do so at least quarterly
- 92% **solicit owners' feedback** at least yearly; 80% do so at least quarterly
- 42% compare their **income statement performance** to their peers' at least quarterly; 31% compare their **balance sheet performance**
- About 45% consider **payouts/dividends** on a yearly basis; 19% rarely or never do
- 75% consider the **acquisition** of another company at least yearly, 33% do so quarterly
- Nearly 85% estimate the **value of their company** at least yearly

### Public

- All CFOs **talk with key analysts** at least quarterly; nearly all **review analysts' views**
- More than 90% **talk with key shareholders** and more than 85% **solicit investor feedback** quarterly
- About 70% compare their **income statement performance** to their peers' quarterly; 52% compare their **balance sheet performance**
- Nearly 90% consider **buybacks/dividends** at least yearly; 66% do so quarterly
- About 90% consider **acquisitions** at least yearly; 65% do so quarterly
- About 65% **assess their warranted share price** annually; about 33% do so quarterly



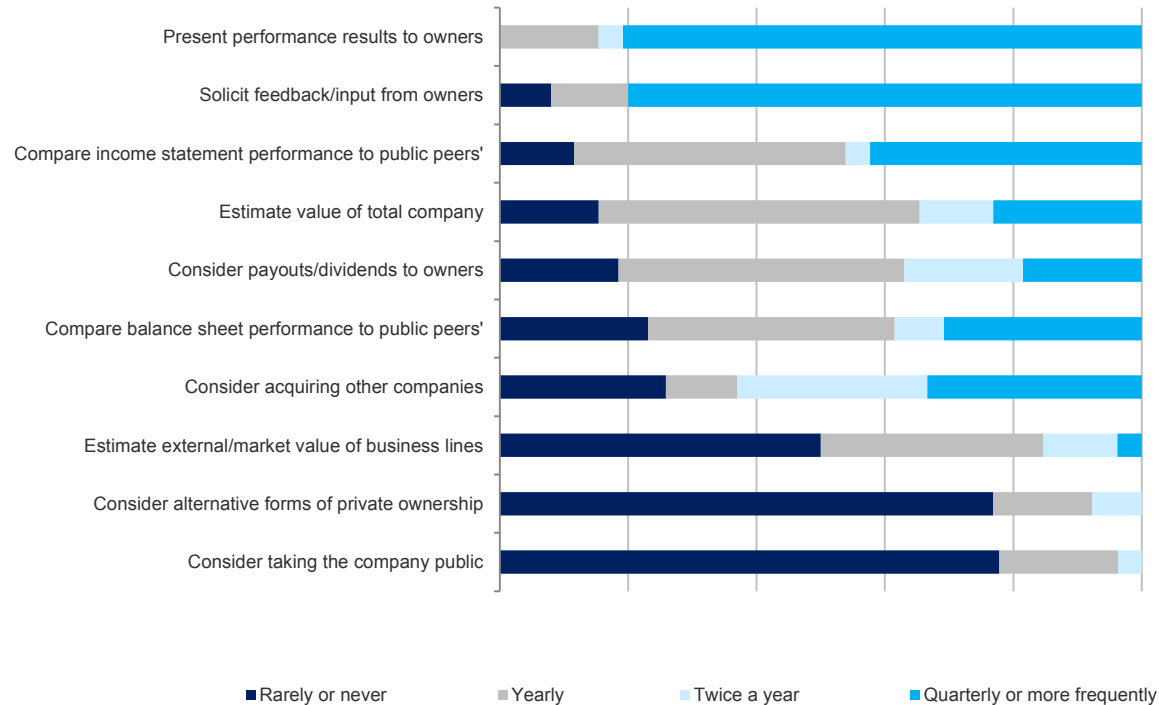
# Special Topic

## Private company investor relations

How often do companies analyse, make decisions and communicate?

### How often does your company conduct the following activities?

Private company CFOs' selections based choices as noted (n=27)



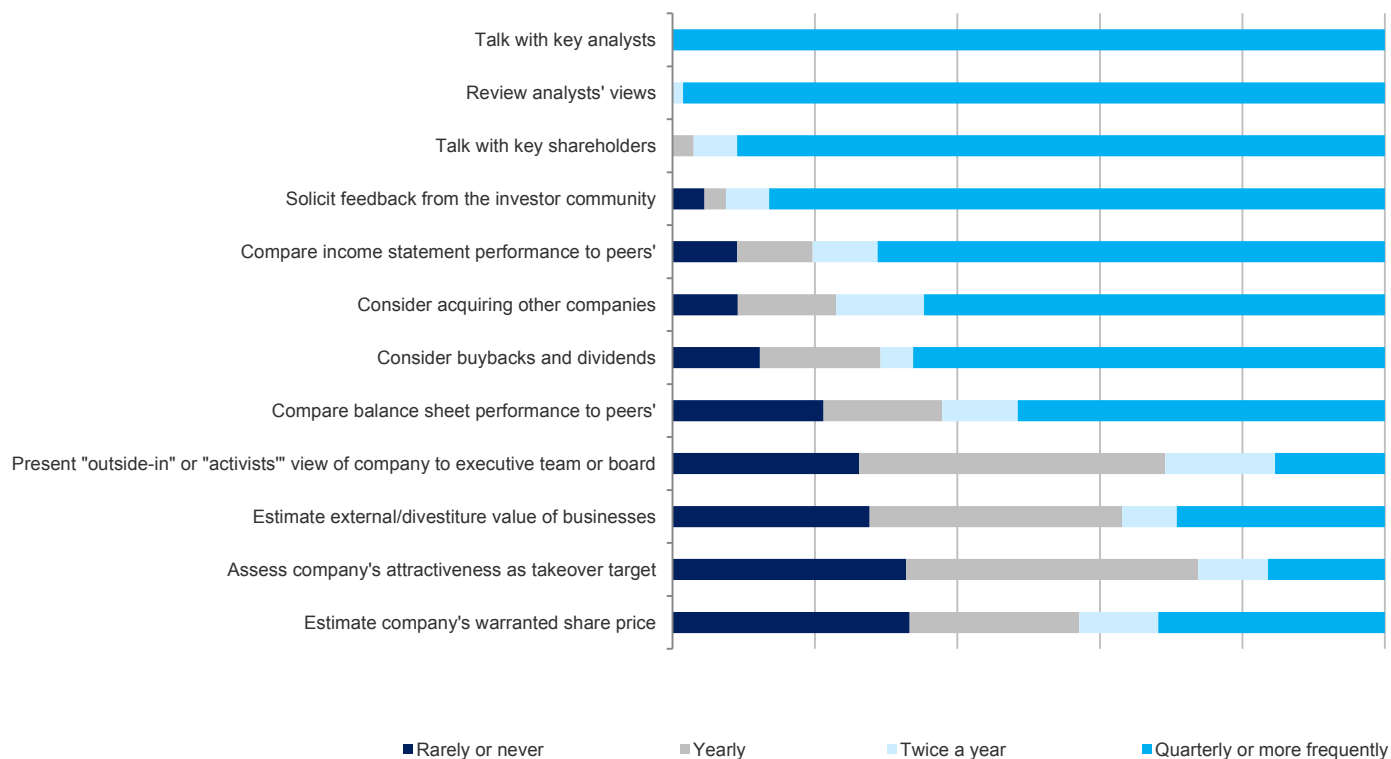
# Special Topic

## Public company investor relations

How often do companies analyse, make decisions and communicate?

### How often does your company conduct the following activities?

Public company CFOs' selections based choices as noted (n=61-66)



# Special Topic

## Public company investor relations and activism

What activist investor actions have companies experienced?

Contact with activists very common

Direct over indirect communication with company leadership

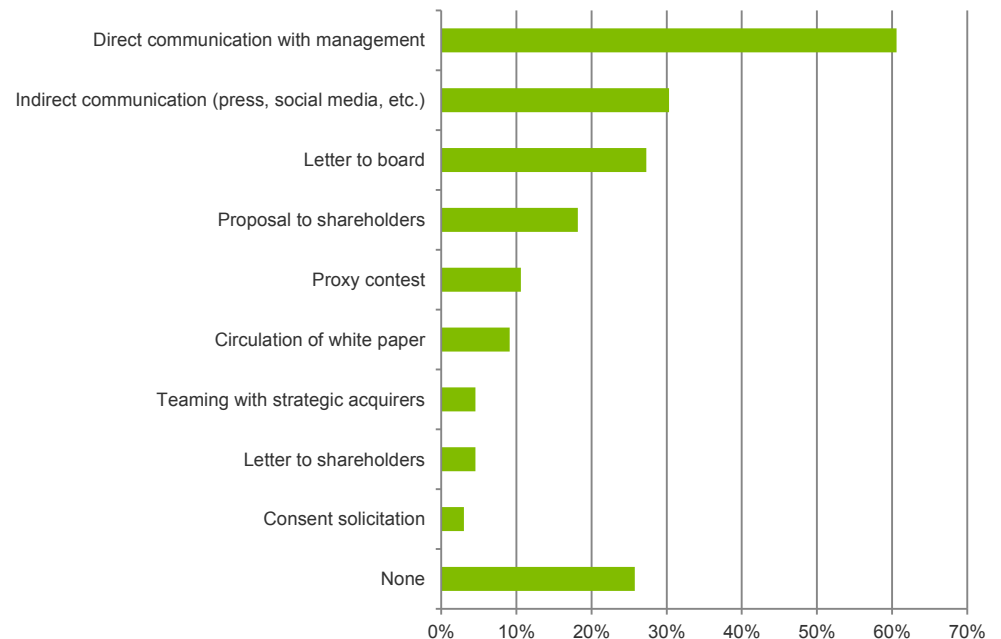
Significant communication with shareholders

Some proxy contests

Consent solicitations and teaming with strategic acquirers not common

### Which forms of shareholder activism has your company experienced?

Percent of public company CFOs who indicated having experienced the following activities (n=66)



# Special Topic

## Public company investor relations and activism

What steps are companies taking in response to shareholder activism?

About half have made at least one major business decision

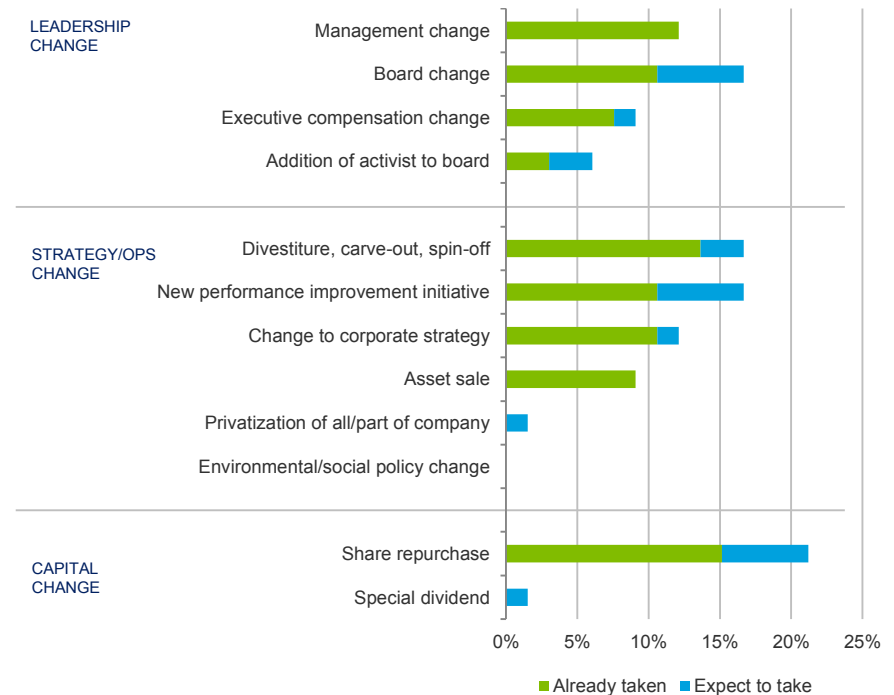
Share repurchases are most common

Board and management changes significant

Strategic and operational changes fairly common

### What actions have you taken (or do you expect to take) specifically in response to shareholder activism?

Percent of public company CFOs indicating their company has taken or is likely to take each action (n=66)



# Special Topic

## Public company investor relations and activism

What changes have companies made to their investor relations approaches?

**50%** Made Substantial Changes

*Of those who made changes...*

**20%** Heightened monitoring of activist activity

**25%** Increased depth, breadth and/or volume of communication

**25%** Changed internal management practices

**25%** Become more proactive in engaging with large shareholders and activist investors

*(All figures approximated)*

# Methodology

## Background

The Deloitte North American CFO Survey is a quarterly survey of CFOs from large, influential companies across North America. The purpose of the survey is to provide these CFOs with quarterly information regarding the perspectives and actions of their CFO peers across four areas: business environment, company priorities and expectations, finance priorities and CFOs' personal priorities.

## Participation

This survey seeks responses from client CFOs across the United States, Canada, and Mexico. The sample includes CFOs from public and private companies that are predominantly over \$3B in annual revenue. Respondents are nearly exclusively CFOs. Participation is open to all sectors except for government.

## Survey Execution

At the opening of each survey period, CFOs receive an email containing a link to an online survey hosted by a third-party service provider. The response period is typically two weeks, and CFOs receive a summary report approximately two weeks after the survey closes. Only CFOs who respond to the survey receive the summary report for the first two weeks after the report is released.

## Nature of Results

This survey is a “pulse survey” intended to provide CFOs with information regarding their CFO peers' thinking across a variety of topics; it is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate – especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends.

**Deloitte.**