

Looking beyond the horizon

Canadian CEOs focusing on market expansion through M&A

*Canadian findings from
PwC's 15th Annual
Global CEO Survey*

*Delivering results –
growth and value in
a volatile world*

15th Annual Global CEO Survey

Every year, PwC conducts an extensive survey of CEOs around the world to take a pulse on the business environment and to identify emerging trends, issues and prospects. Our aim was to find out how CEOs see the economy evolving this year and beyond, and how they expect to deliver business results in this turbulent environment. To do this, we asked CEOs a broad range of questions across a series of topics, including:

- The current economic environment
- Organizational strategy and growth
- Emerging markets
- Talent management
- The role of the CEO
- The role of government

Who was surveyed?

PwC conducted 1,258 interviews in 60 countries during the last quarter of 2011 in order to inform the 15th Annual Global CEO Survey. By region, 291 interviews were conducted in Western Europe, 440 in Asia Pacific, 150 in Latin America, 236 in North America, 88 in Central and Eastern Europe, and 53 in the Middle East & Africa. In Canada, 130 CEOs were surveyed.

Canadian highlights

This document highlights Canadian results from the 15th Annual Global CEO Survey related to M&A and emerging markets. Additional findings related to the survey can be found at www.pwc.com/ca/ceosurvey.

Executive Summary

What are Canadian CEOs planning for M&A in 2012?

Our 15th Annual Global CEO Survey suggests that we are in store for a year of transformative merger and acquisition (M&A) activity. Our findings point to the fact that, although concerned about the global macroeconomic environment, Canadian CEOs have an appetite for change, a desire to target foreign markets and confidence in their ability to finance growth and overcome challenges.

Specific findings from the survey included:

1. Canadian CEOs are concerned about ongoing economic volatility

Only 13% of Canadian chief executives are optimistic about the prospects for a global economic rebound. The threats of continued market and foreign exchange rate volatility and protectionism, in particular, were top of mind issues for Canadian CEOs when thinking about the future.

2. Canadian CEOs are not in “wait and see mode.” Many have major changes planned.

66% percent of Canadian respondents are planning changes to their organizational strategy over the next 12 months. In fact, the percentage of Canadian companies planning a major organizational change increased 180% year over year. Canadian CEOs are beginning to recognize the value of emerging markets. 45% wish they could spend more time developing operations outside of Canada.

3. Canadian CEOs expect to use M&A as a tool to effect change.

Close to one quarter of Canadian CEOs identified M&A as a key growth opportunity, with another 15% indicating plans for joint ventures. Both measures significantly outpaced averages from the G7 and the US. Non-core divestitures were also identified as a key strategy to enable restructuring.

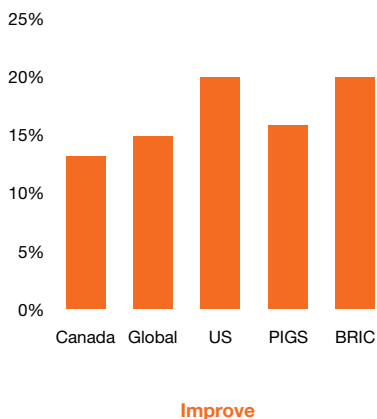
“During 2011, we observed stirrings of Canadians stepping outside their comfort zone and onto the global stage, often via transformative M&A. In fact, 2011 saw a Canadian at the deal table in 10% of all global M&A transactions—a historic high. Based on the results of our survey, 2012 looks to be another fascinating year of deal making.”

Kristian Knibutat
Canadian Deals Leader

15th Annual Global CEO Survey

Canadian CEOs are uneasy about the global economy.

Do you believe the global economy will improve over the next 12 months?



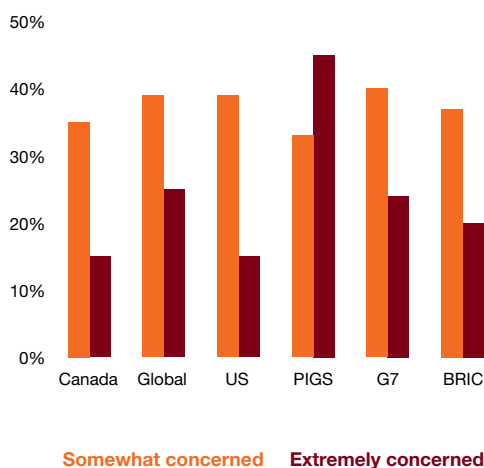
CEOs are clearly attuned to the fact that 2012 looks to be a year of unique challenges.

Only 13% of Canadian CEOs believe the global economy will improve over the next 12 months.

Canadian CEOs were among the least optimistic about a rebound in the global economy when compared to their global counterparts. Pessimism was the norm, with more than three quarters of all chief executives expressing doubts that the global economy will improve in 2012.

This level of pessimism, rather atypical in the Canadian market, highlights that our economic recovery remains fragile. CEOs are clearly attuned to the fact that 2012 looks to be a year of unique challenges. PwC's "[2012 Top Risks](#)" analysis highlights that austerity in the West may prompt deceleration in emerging markets. Decisive actions to neutralize this threat could be difficult considering the number of recent and upcoming elections and leadership changes in key markets.

How concerned you are, if at all, about ...
Lack of stability in capital markets.

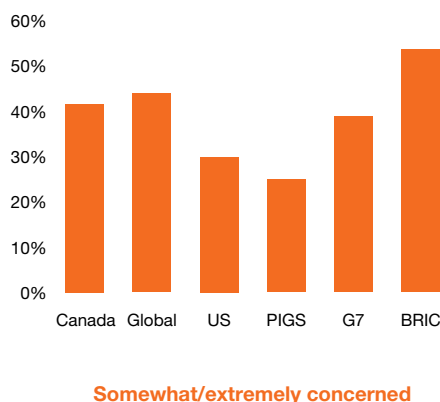


50% of Canadian CEOs are concerned about the lack of stability in capital markets.

Half of Canadian CEOs surveyed were concerned about capital market volatility. This is hardly surprising, given that equity market volatility measures throughout 2011 were extremely high.

What is interesting is that the level of concern shown by Canadian CEOs was less extreme than their global peers. Only 15% of Canadian chief executives were “extremely concerned” versus 25% of global CEOs. This relative optimism is likely attributable to the strength of the Canadian banking system, the stellar post-crisis performance of the natural resources sector and an ability to raise capital on public exchanges. Strong Canadian corporate balance sheets were also likely behind this optimism (Canadian companies entered the 2008 downturn with some of the strongest balance sheets in the world).

How concerned you are, if at all, about ...
Protectionist tendencies of national governments.

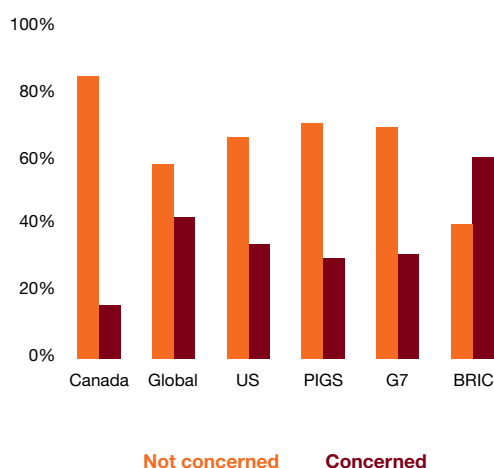


42% of Canadian CEOs are concerned about protectionism.

Although Canadian CEOs were among the least concerned about protectionism, 42% is not an insignificant proportion and is in line with the opinions expressed by nearly half of all global CEOs. BRIC CEOs were the most concerned, which is not unexpected given the ongoing exchanges on this matter by officials in Washington and Beijing.

This level of concern about protectionism is a relatively new phenomenon in our so-called age of globalization. It is likely a reaction to ever-increasing commentary surrounding the merits of employing protectionist policies to jumpstart domestic economies (an inordinate number of elections and high unemployment are further catalysts for protectionism). The ability to pursue foreign takeovers and commercially efficient trade, in particular, may be weighing on the minds of chief executives.

How concerned you are, if at all, about ... Inflation.

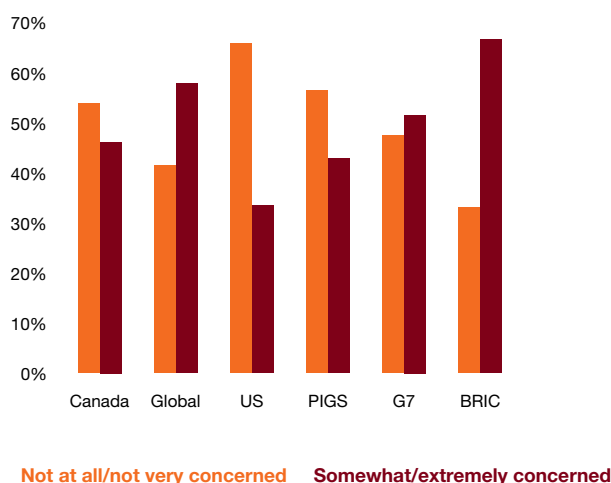


85% Canadian CEOs are *not* concerned about inflation.

Canadian CEOs do not see inflation on the horizon, consistent with their developed world counterparts, half of whom did not express concern about inflation. Comparatively, chief executives in the BRIC countries were the most concerned—a finding that was not surprising considering that many emerging markets continue to struggle with inflation.

Canadian expectations are en point considering that Canadian CPI dropped in December to 2.3% year-over-year, significantly lower than consensus expectations of 2.7%. Overall, easing commodity prices, slack in the labour market, sovereign debt concerns in Europe, low federal funds rates and slow credit growth likely make significant inflation in the developed world a remote possibility in 2012.

How concerned you are, if at all, about ... Exchange rate volatility.

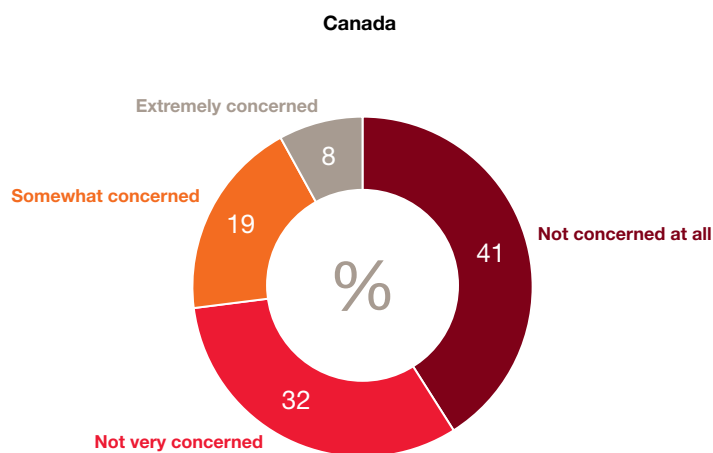


Fewer than half of Canadian CEOs are concerned about exchange rate volatility.

Canadian CEOs were divided in terms of their views on the threat of exchange rate volatility.

Foreign exchange rate volatility has been a dominant feature of the post-crisis global economic landscape. Canadian dollar appreciation vis-a-vis US dollar depreciation has been exacerbated by competitive devaluation in select European and emerging markets. While this is a critical concern for most Canadian exporters, it bodes well for Canadian importers.

How concerned are you, if at all, about ...
Inability to finance growth.

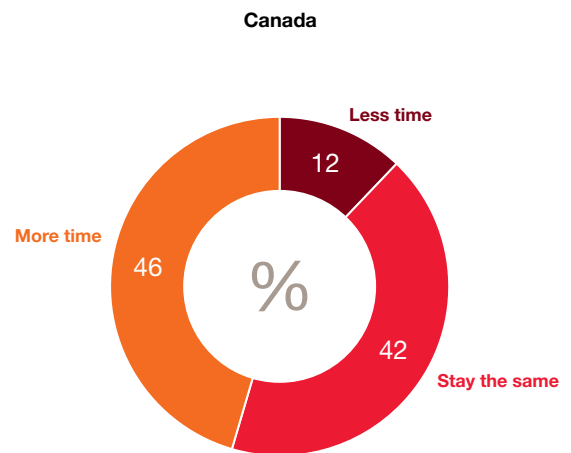


73% of Canadian CEOs are confident in their ability to finance growth.

Growth financing does not seem to be a major concern to Canadian CEOs.

Almost three-quarters of Canadian CEOs are confident in their ability to finance growth. This result is not unexpected as it aligns with the current financial situation; record liquidity on corporate balance sheets, a strong North American leveraged loan market, including an emerging high yield market in Canada, and low interest rates mean that commercially reasonable debt capital is accessible for the credit worthy.

Do you wish that you personally could spend more time, less time, or the same amount of time on ...
Developing operations outside of your home market?



45% of Canadian CEOs wish they could spend more time developing operations outside of their home markets.

A considerably high percentage of respondents (45%) in Canada would like to spend more time developing operations outside of their home market.

With only 12% of CEOs expressing a desire to spend less time in foreign markets, it is clear that “looking outward” will increasingly be a key priority in Canadian C-suites.

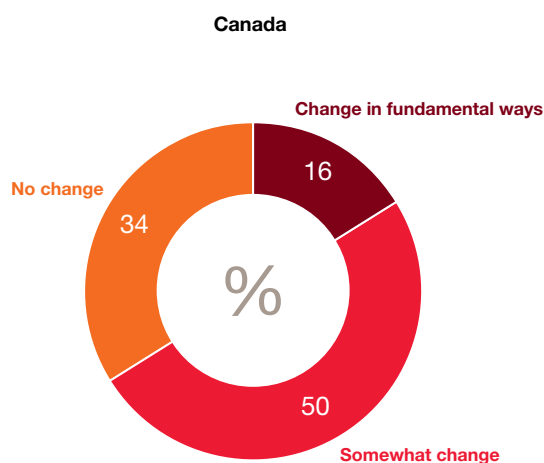
We view this as a positive shift in mindset. Expansion into growth markets in particular, must be approached in a careful and calculated manner. A recent PwC study explored successes and failures in growth markets and includes a number of key recommendations on how to achieve deal success. Please visit [“A Deal-maker’s Guide to Growth Economies”](#) for more information.

66%

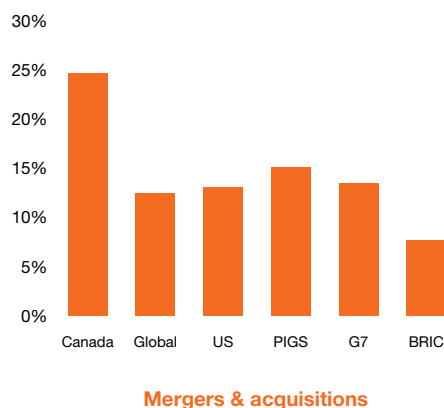
of Canadian CEOs anticipate changes in their company's strategy over the next 12 months.

Canadian CEOs are not going to sit back and ride out the volatile economic storm. They are planning to act.

To what extent do you anticipate your company's strategy will change over the next 12 months?



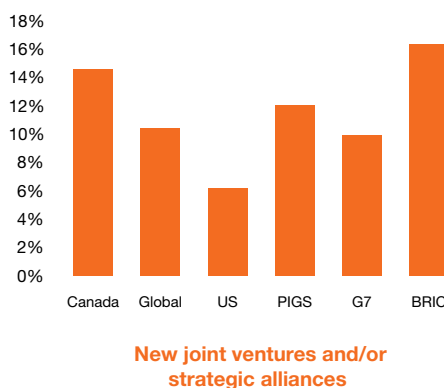
Which of the following activities do you see as the main opportunity to grow your business in the next 12 months?



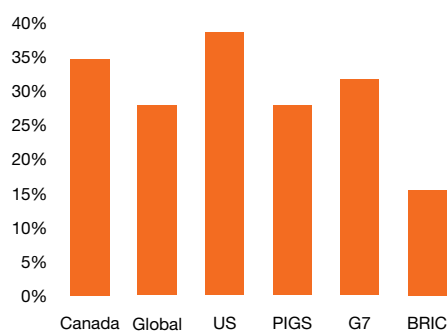
66% of Canadian CEOs anticipate that their company's strategy will change in 2012.

A majority of Canadian chief executives (66%) are planning to alter their strategic course in 2012. This may be a reaction to the myriad of concerns that CEOs have about the macroeconomic environment as well as an acceptance that we may have already arrived at "a new normal."

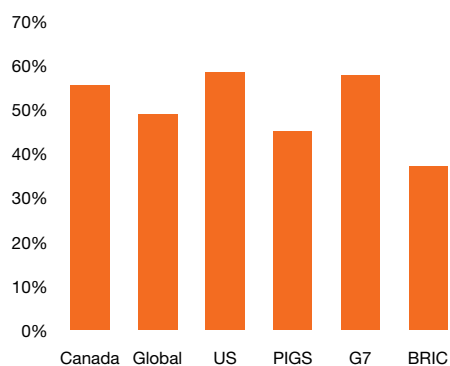
M&A was cited by Canadian CEOs as the number one tool to effect change. One quarter of CEOs surveyed are planning to engage in M&A, compared to the global average of just 12%. Canadian CEOs also have a stronger appetite for joint ventures and/or strategic alliances than their developed world peers.



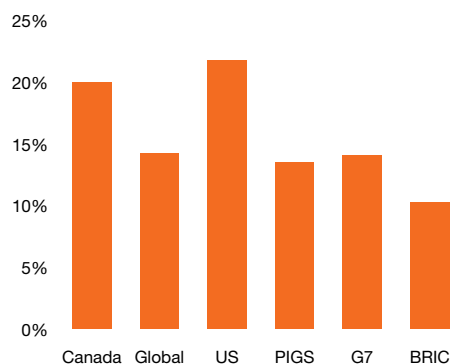
Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?



Complete a cross-border merger or acquisition



Enter into a new strategic alliance or joint venture



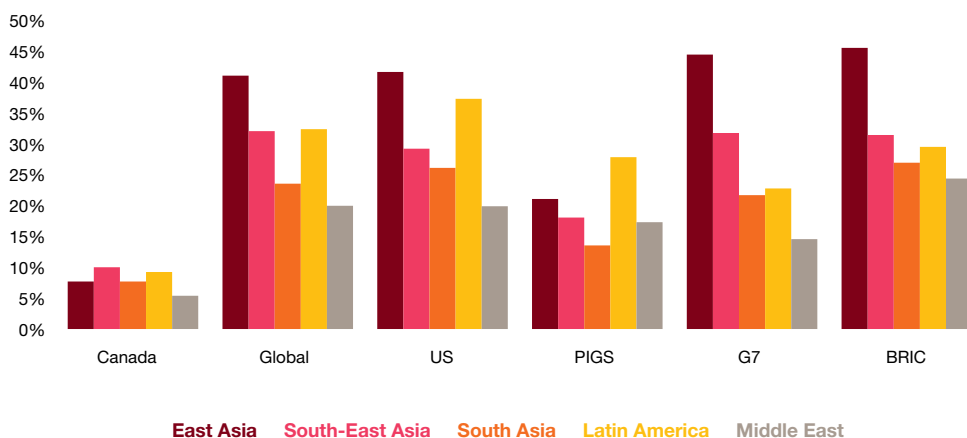
Divest majority interest in a business or exit a significant market

Canadian CEOs are aware that restructuring is a critical driver of change. Compared to their global counterparts, Canadian CEOs are more likely to plan for an M&A event, enter into a strategic alliance or joint venture or divest a non core portion of their business in support of restructuring. These activities can help CEOs penetrate new markets or geographies, exit unprofitable businesses, or realign their organization to focus on priorities.

This was an interesting finding in that the “wave of distressed” M&A that characterized many developed markets post-crisis never materialized in Canada. In fact, Canadians were more often the buyers of carve-outs than vice versa. Should this trend develop, we may see an acceleration in Canadian led carve-out and rationalization activity, as well as acquisitions in support of restructuring.

Breaking out of domestic markets will be the key to success.

In which regions does your business have key operations?



Less than 10% of Canadian CEOs reported that they have a presence in East Asia, South-East Asia, Latin America and the Middle East.

Canadian companies are lagging behind their global competitors with regard to foreign market expansion.

This is not entirely surprising, given that outward foreign direct investment (FDI) from Canada into emerging regions has been rather lackluster this century, with only 1.5% of FDI directed towards Brazil, India and China.

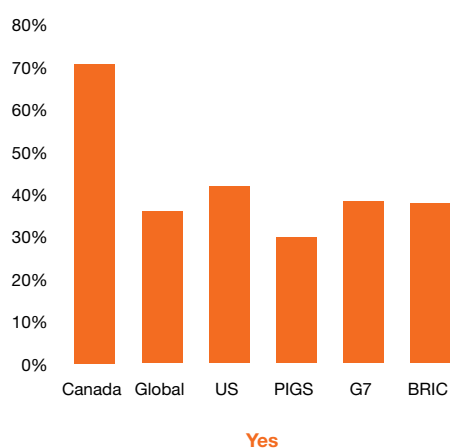
Looking to the future, it will be important for Canadian companies to break away from the status quo and look to other markets for new growth opportunities. As mentioned previously, Canadian CEOs appear to recognize this as an issue, with almost half wanting to spend more time on developing in other markets.

“The imperative is for Canadian companies to invest in improving their productivity and to access fast-growing emerging markets.”

Mark Carney
Governor of the Bank of Canada

Canadian companies upbeat about expanding their global operations.

Do you expect your key operations in **Western Europe** to grow?



71% of Canadian CEOs expect to grow their operations in Western Europe.

Canadian CEOs are eager to penetrate foreign markets and “catch up” to their global counterparts. For example, 71% of Canadian respondents are planning to grow their operations in Western Europe, compared to just 36% of global respondents.

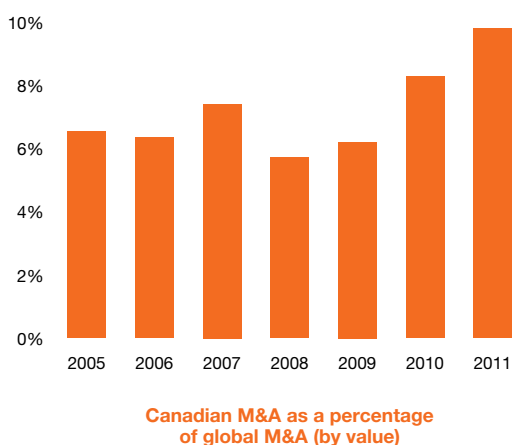
PwC believes the bullish Canadian view on Western Europe is a sign of the relative strength of Canadian corporations. For PwC perspectives on opportunities for Canadian companies in Europe, please visit our recent [Capital Markets Flash](#).

Looking ahead

Canadian CEOs clearly have a bold agenda for change in 2012. Deal-making, through traditional M&A, restructuring, joint ventures and strategic alliances looks to be among the common tools that CEOs will use to effect change.

We have already seen the beginnings of transformative deal making in Canada. Consider that in 2011:

Canada fared better than other countries in the global M&A market: Canada represented 10% of the global M&A market in 2011, up from 7% at the 2007 market peak. Further, for the first time in history, the value of Canadian acquisitions into the US outpaced the value of US-led deals in Canada.



Source: S&P Capital IQ, PwC Analysis

Notable cross-border deals involving Canadian companies included:

- Barrick Gold acquired Equinox Minerals for \$7.3 billion.
- Intact Financial Corporation acquired AXA Canada for \$2.6 billion.
- Dundee REIT acquired a \$1 billion portfolio of 292 commercial properties in Germany.
- TD Bank Financial acquired the credit card portfolio and other assets and liabilities of MBNA Canada.
- Brookfield Asset Management acquired an 11% stake in General Growth Properties for \$1.7 billion.
- The Bank of Nova Scotia announced the acquisition of a 19.99% stake in China-based Bank of Guangzhou Co., Ltd. for approximately \$719 million.
- Power Corporation of Canada acquired a 10% stake in China Asset Management for \$276 million.

Deals

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- managing your go-to-market strategy;
- presenting your deal to the right targets, partners and capital providers, across the globe;
- supporting your deal with due diligence, valuation, integration and tax advisory services; and
- implementing changes to deliver deal synergies.

Our Canadian Deals Team is part of the world's largest Transaction Advisory practice¹. Our approach helps clients to source and execute deals faster and on more favourable terms, while minimizing business disruption and risk.

We look forward to your call.



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In addition to the endnotes, sources may include: The Associated Press, Barrons, Bloomberg, BMO Capital Markets, Business Standard, Canada Stockwatch, Capital IQ, CIBC World Markets, Conference Board of Canada, The Economist, Eurasia Group, The Financial Post, The Financial Times, FT Alphaville, The Globe and Mail, Goldman Sachs, International Monetary Fund, International Trade Suite, Marketwatch, McKinsey Quarterly, Moodys, mergermarket, National Bank, National Post, New York Times, PR newswire, RBC Capital Markets, Reuters Loan Connector, S&P LCD, Scotiabank, Seeking Alpha, Standard and Poors, Stikeman Elliot, TD Newcrest, TD Securities, TMX Group, The TMX MIG Report, Toronto Dominion Bank, Torys LLP, United Nations, VC Circle, Wall Street Journal, The Washington Post, William Blair & Company LLC, Zero Hedge, Saskatchewan Trade and Export Partnership, Globalventures Magazine.

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