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2015

CANADIAN CFO Sentiment Study

March, 2015

We gratefully acknowledge the efforts of our survey respondents who provided their valuable time and insights to this work. It is also our good fortune to have benefited from the contribution of our sponsors ACCA Canada and Radius, without whom this research wouldn't have been possible.

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The CFO Alliance
PO BOX 921
Conshohocken, PA 19428

Contact:
ramona.dzinkowski@thecfoalliance.org
www.thecfoalliance.org

About CFO Alliance

The CFO Alliance is a professional community of Finance Executives that provides a knowledge-sharing culture with the goal of bringing together a wide array of decision makers, combining a multitude of perspectives, expertise areas, and deliberation to arrive at the best ideas and solutions. In addition to our role as the leading facilitator of valuable professional connections, we also provide unique continuing education and collaborative opportunities. We create value for Executives and their organisations by provide the tools and opportunities need to achieve unprecedented success.

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ACCA (the Association of Chartered Certified Accountants) is the global body for accountants and financial professionals. ACCA offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA supports its 170,000 members and 436,000 students (around 2,700 members and 1,200 students in Canada) in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. Through our public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

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Radius combines the collective talents and resources of the former Nair & Co and High Street Partners. To assist its clients, Radius has developed OverseasConnect, a tailor-made cloud-based software platform that manages international business operations. Radius is headquartered in Bristol, UK, and supports more than 6,000 client operations in more than 80 countries, with core offices in the U.K., India, China, U.S., Japan and Singapore.

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2015 In a Nutshell

Canadian finance executives are showing great confidence in the US market in 2015, however when it came to their views on the domestic or global economy, most took the middle ground.

Typically we see a difference in opinion between executives from large and small companies for a variety of reasons relating to the current competitive conditions in their industry. However in this case, size doesn't matter.

Regardless of whether their companies were small privates or large publics, the majority of senior finance executives responding to our survey were moderately confident in the current state of the Canadian, and global economies.

The most common goal for senior finance executives in 2015 is to grow top line revenue, increase their focus on the customer while also reducing costs. To this end, managing cash and liquidity and keeping a close eye on internal controls will continue to be critical points of focus for finance chiefs going forward.

However, despite their best efforts, larger company executives are expecting a decline in margins in 2015 against a backdrop of increasing input prices and potentially shrinking markets. Concerns over slower growth in China and India for the Canadian resource sector and the resulting weakness in the commodities markets helps to explain forecasts for lower margins in the coming months. It is therefore not surprising that companies, large and small alike, continue to strive for innovation while building an organisational culture that will help ensure they meet their strategic objectives.

Canadian companies, although most operate primarily in the domestic market, will be reaching overseas to capture new opportunities. Over one in four will consider opening new distribution centres overseas and senior executives in these companies will be faced with a new world of risk and control.

Meanwhile the shoulders of the senior finance executive in Canadian companies are growing broader. Forecasting international risk, while ensuring they meeting new regulatory and statutory requirements when operating overseas will place added pressure on the CFO, who is consistently playing a more strategic role in their companies, and managing ever growing operational responsibilities. Acquiring and retaining new talent will be critical for senior finance executives to help them realize their companies' growth objectives, yet many will find it challenging to find experienced talent in the coming months. Often salary expectations of new graduates outweigh what companies' are willing to pay. Many companies will increase their efforts to provide effective training and development programs, but at the end of the day, will continue to seek out candidates with highly polished communications skills.

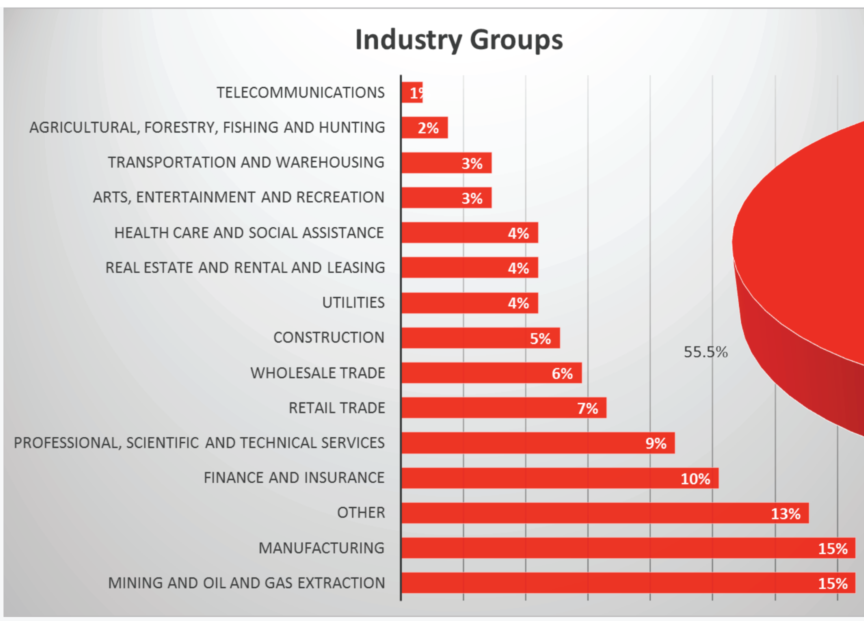
Background to Canadian CFO Sentiment Study

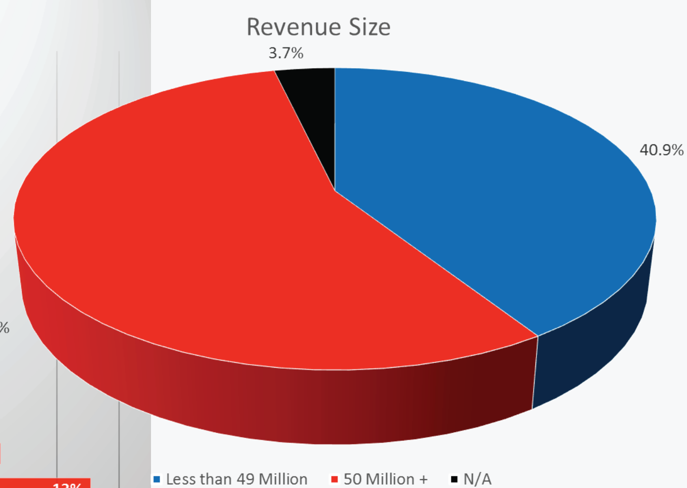
In January of 2015, CFO Alliance Canada launched the first in its series of surveys designed to collect the opinions of Canadian senior finance executives on the state of the Canadian, US and global economies. At the same time, we asked how their individual industries and companies were expected to perform over the coming months and what their major strategies and challenges would be in achieving growth and profitability.

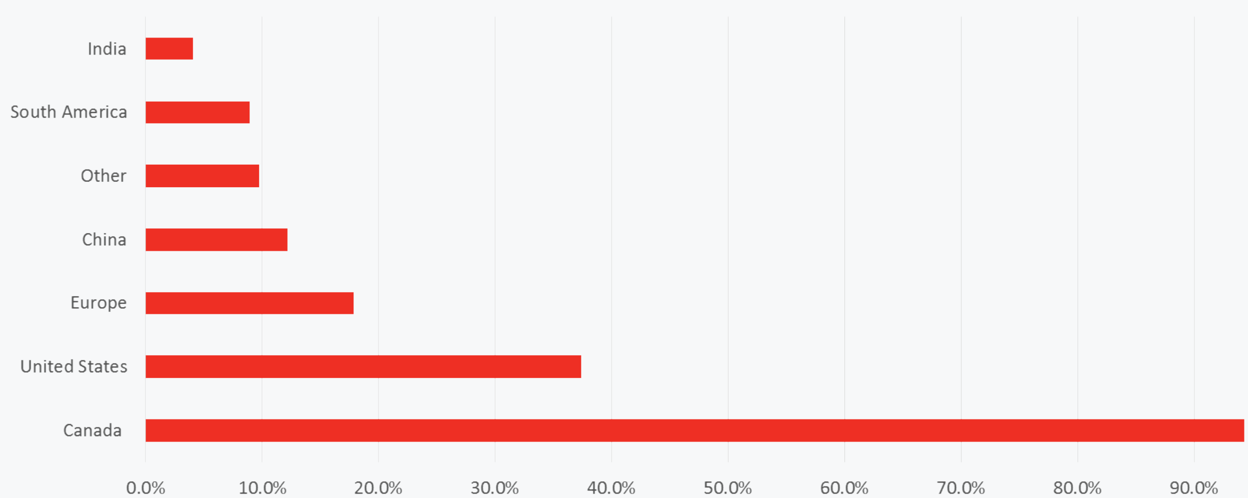
One hundred thirty seven respondents completed the survey and represent a wide range of industries across the country. Our sample includes approximately 47% private company executives, 35 % from publicly listed companies, 11% from the not for profit section, and 6% other.

The results are weighted towards SMEs (40.88%), as defined by Statistics Canada, with revenues of less than $50 million. Approximately 27% of respondents were from companies with revenues between $50 and $249 million, and 28% from companies with revenues of $250 million and over. Mining and oil and gas, and manufacturing were the largest representative groups, (approximately 15% each) followed by Finance and Insurance (10%).

The vast majority of respondents indicated that Canada was a primary market for them (94%), however 37% also relied on exports to the US and 18% and 12% respectively exported or operated in Europe and China.



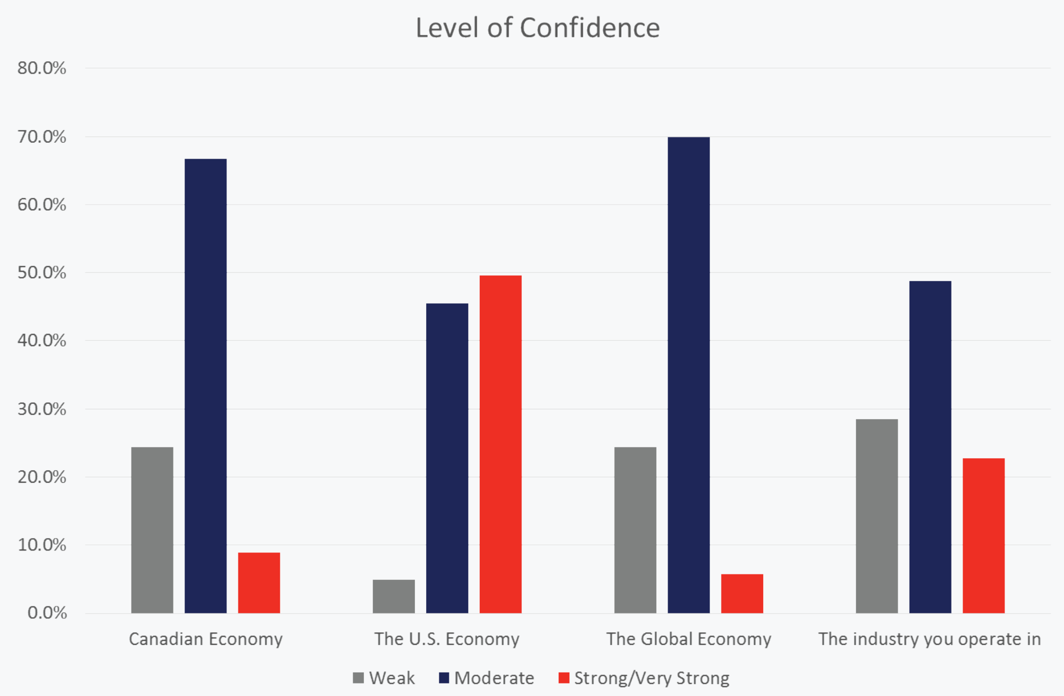




Macro and Industry Outlook -2015

The Canadian and global economies are in relatively good shape, according the majority of our survey respondents. Neither were considered decidedly weak, with 67% and 70% respectively of executives indicating they had moderate confidence levels in these markets.

In contrast, Canadian senior finance executives were decidedly bullish on the US economy in 2015, with almost 50% indicating that they their confidence in the US market was either strong or very strong. This compares to only 9% and 6% respectively, who felt strongly confident in the Canadian domestic or global economy overall.



When compared by size, finance executives from SMEs were more optimistic than their large company counterparts in regard to both their industries and the economy as a whole.

Roughly 59% of smaller company executives were strongly confident in the US economy, compared to 44% working in large companies. At the same time, relatively more smaller company executives (15%) were bullish about the domestic economy than those in larger companies (4.5%). However it must be noted that the majority of finance executives from both large and small companies took the middle ground, indicating that their confidence in the Canadian, US and global economies, was neither bullish nor bearish, but moderate across the board.

Views around how their specific industries would fare in the coming months however were mixed. Roughly 28% were not confident in the outlook for their sectors, compared to 48% would were moderately confident, 21% who would describe their confidence levels in their specific sector as strong, and only 2% who felt very confident about their industry at this time.

Smaller companies executives were less confident about the economic conditions of their industries than those from larger companies where 31% felt that their specific sectors were weak, compared to 21% in larger companies who held that view.

Financial Performance

Along with the guarded optimism around the Canadian and global economies for 2015, views around corporate performance were split between those that expect increased revenues for the year and those that saw either no growth or a decline in revenues in the coming months.

Approximately 48% of executives polled felt that their company revenues would increase this year, while another 48% saw either no change, or expected a decrease.

There was little difference in the expectation around revenues between SMEs or larger companies, however relatively more large company executives expected a decline in margins for the remainder of 2015, than did their smaller company counterparts.

Approximately 74% of large company executives saw a decline in margins over the coming months, compared to 51% in SMEs.

Operations Compared to Last Year

	Higher than 2014	**No Change** from 2014	**Less** than 2014	Not Applicable
Revenues	47.9%	21.5%	26.5%	4.1%
Margins	30.6%	34.7%	28.1%	6.6%
EBITDA	38.0%	22.3%	28.9%	10.7%
Share Value	38.8%	13.2%	14.1%	33.9%

Major Risk Factors in 2015

The split between those that saw increased revenues versus companies where revenues would remain unchanged or decline can be explained in large part by companies' exposure to risk. While the majority of finance executives indicated that a variety of risk factors would be affecting corporate performance in the coming months, approximately 45% of executives polled saw shrinking demand/markets as being either a significant or very significant risk factor for 2015, followed by rising input prices (37%).

Contributing to the anticipated margin squeeze on larger companies versus smaller ones, are the perceived risks around the financial impacts of rising input prices, increasing costs of capital and increased competition due to industry consolidation. Relatively fewer executives were concerned with risks associated with supply chain disruption, new foreign and domestic competitors entering their markets, or falling asset values.

% of Respondents indicating risk to corporate performance in 2015

Risk Factor	TOTAL	<50 mill	>50 mill
Shrinking markets	84.95	81.78	85.72
Rising input prices	76.1	73.33	79.36
Increasing cost of capital	66.37	62.22	68.25
Increased competition due to consolidation	63.71	60.01	68.26
Changing environmental regulation	57.51	53.26	58.73
Supply chain disruption	48.67	44.44	50.79
New foreign competition	46.01	48.89	44.45
New domestic competition	45.12	42.22	47.63
Falling asset values	42.47	37.78	42.86

Waiting for the Green Light on Black Gold

Freemont Resources is a small, privately owned Canadian oil company (with revenues typically of less than $5 million annually) with land and production assets in eastern Alberta and Saskatchewan.

As Freemont CFO Helmut Hauke, FCCA explains, commodity prices fuel his industry, as well as the rest of the Canadian economy. So any global risks to those markets have a significant impact not only on Freemont's revenue, but on the gross domestic product of the entire country.

What Hauke's concerned about today, however, isn't so much the external risks that could limit demand for Canadian oil and gas--such as conflict in the Middle East, or a slowdown in the U.S. economy--but rather homegrown issues that could curtail production or affect his company's longer-range production strategy.

As Hauke explains, the Canadian government is currently in the evaluation stages of building two pipelines to the east and west coasts of Canada, thereby allowing Canadian oil producers to be cost-competitive overseas. "Effectively," says Hauke, "this will open up the Chinese and European markets to us, thereby limiting our reliance on U.S. demand and giving us greater pricing power."

At the moment, Canada doesn't export any oil to China because it's just not feasible, Hauke explains, and while these projects are longer-term, Freemont has a long production planning phase. "Anything could happen in 2015 to make this a 'go' or 'no-go' situation," he explains.

Hauke explains that without access to the wider international market, Canadian oil producers are vulnerable. "We sell pretty much all of our oil to the U.S., and whenever you only have one customer you're a price taker, not a price maker. Once those pipelines are built, that all changes, but until that happens we're in a very precarious situation."

One of the greatest risks to expansion, says Hauke, are the environmental hurdles that have to be cleared. As he explains, both the Canadian and Alberta governments are under huge pressure from environmentalists to not only prevent the pipeline, but to also block companies from using hydraulic fracturing or "fracking" (a widely used but controversial technology) in developing their oil and gas reserves. "In my company, and in the industry as a whole, most wells are fracked," says Hauke. "If it turns out that the government is going to restrict fracking, our productivity goes down. At the same time, they could continue to allow the use of that technology, but increase their royalty rates. Or, they may decide to decrease the income tax incentives available to us. This could make everything look less favorable for the oil industry. So that risk is always there."

Another risk, says Hauke, is that much of the land that the pipelines would cross are owned by native Canadian tribes or "aboriginal bands," as they're commonly referred to. "There are also legal issues that could derail the whole program, and this will have an impact on the planning for our industry sector beginning in 2015. So we have great expectations from the potential to open our markets to China and Europe, but there's also a lot of risk and uncertainty around it.

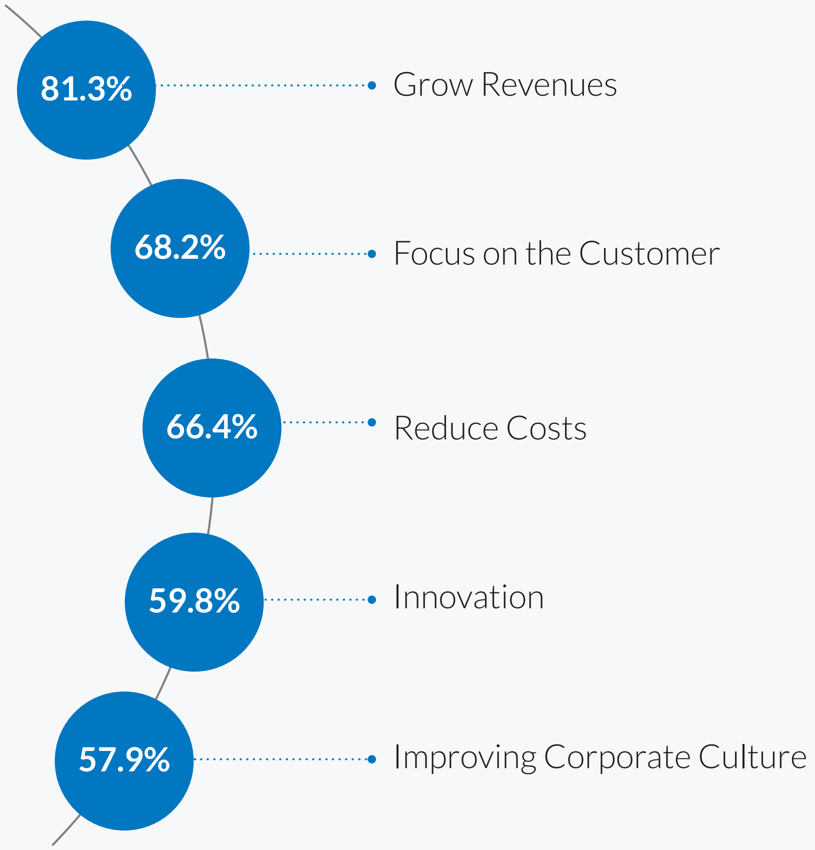
"In 2015, I'll be keeping close watch for any signs that we can start our planning cycle for raising capital and drilling new wells in a reasonably predictable environment."

Focus on Strategy 2015

In order to deliver on their forecasts for strong US growth and stable domestic and global markets, a large majority of Canadian financial executives indicated that growing revenues (81%) would be either a "very important or important" focus for their companies in the coming months. This was followed by improving customer service (68%) while reducing costs (66%), increasing their innovative capabilities (60%) and improving the corporate culture of their organizations (58%).

Revenue goals will be obtained primarily by increasing market share in existing markets (61%), while for those companies with interests outside of Canada, 30% will be looking to increase exports, and one in five will be focusing on opening operations in new international markets.

Roughly one in five executives felt that looking for new sources of supply was either important or very important to achieving their objectives for the remainder of 2015, and just under 30% will be seeking out new ways to distribute their products.

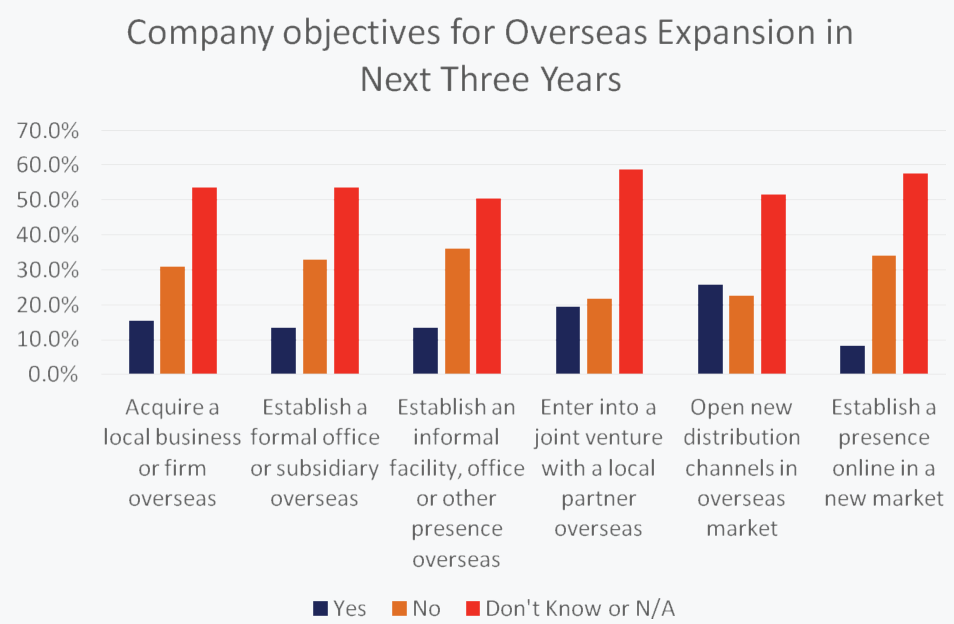


Focus on International Growth

For companies everywhere, the world has become an increasingly complex place. National economies are linked in ways that could only have been imagined twenty years ago. The pressures of globalization, including the international convergence in markets, currencies, and business practices continues to change the way they operate both at home, and outside their national borders. To analyze future risks and opportunities in a globalised business environment, business leaders must not only understand the risks of operating within their own markets, but must also understand how their business will be affected by complex international political, economic and regulatory issues, as well as by potential disruptions in supply.

> *"It is a common misconception that international expansion is too difficult, too costly and too risky. While doing business overseas is indeed different than in Canada, the path to accelerating revenues and customers is well trodden. With a well-constructed plan, good support systems and local expertise strong results can absolutely be achieved. In our experience the destination is well worth the journey for almost all who undertake it."* Tom Gardner - Director Canada, Radius

These issues are relevant to many Canadian companies that are examining opportunities for overseas expansion. While the vast majority of companies responding to our survey indicated that Canada was their primary market, over one quarter expect their company to open new distribution channels internationally in the next three years and approximately 20% will be entering into a joint venture with an overseas partner, and 15% will be acquiring a foreign company.



Even with Canada being the primary market for most of the companies responding, less than half of them (42%) rely on Canada for all of their revenue. Exports to the US, Europe and China account for meaningful revenue for these companies. Not surprisingly then, a third or more of our respondents report that increasing exports and opening new operations overseas will be important areas of focus for them in the coming year.

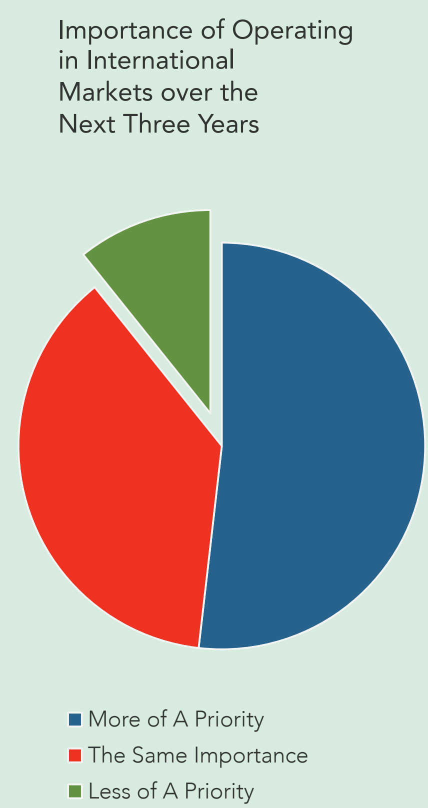
Those who are engaged in overseas business see it growing in importance and focus in the future. For companies that rely on international business, five times as many will make international markets more of a priority than those that see it becoming less of the a priority in the next few years.

When asked about the most significant challenges the senior finance executive will face in opening or expanding overseas operations, the two most common concerns for Canadian finance chiefs were: how to evaluate their company's risk exposures in the region (45%) and managing tax implications (44%).

Approximately 30% found integrating information and financial systems the most challenging aspect of opening an overseas office, followed by conforming to differing accounting and reporting standards (29%) and managing within changing regulatory environments (29%). Collaborating effectively with HR on international operations issues was considered challenging by the fewest number of respondents, with only 8% indicating that this is an area of ongoing concern.

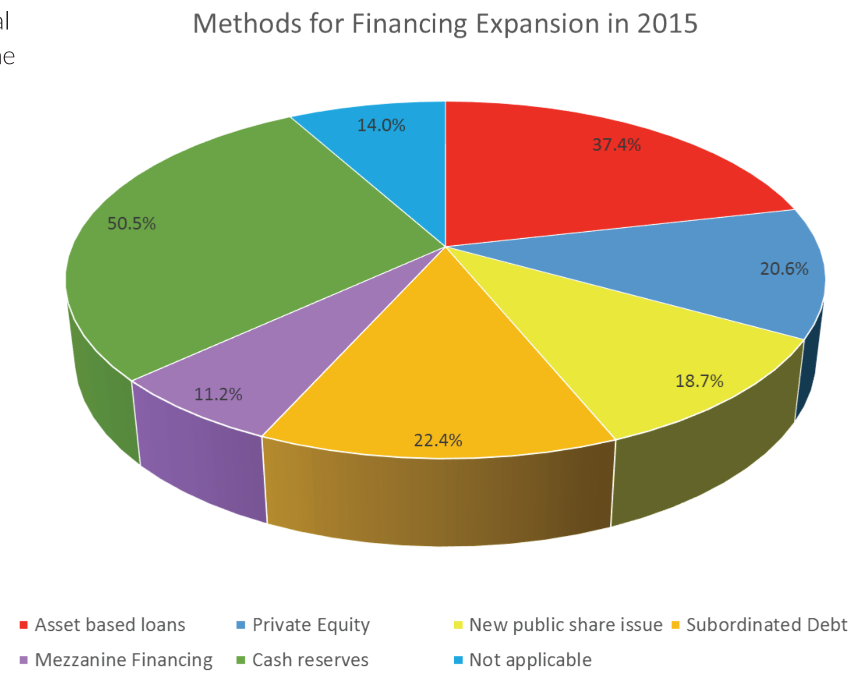
Greatest Challenges of International Operations

- **45.5%** Evaluating Risk Exposure
- **44.3%** Managing Tax Implications
- **29.9%** Integrating Information/Financial Systems
- **28.9%** Changing Regulatory Environments
- **28.9%** Conforming to differing accounting /Reporting Standards



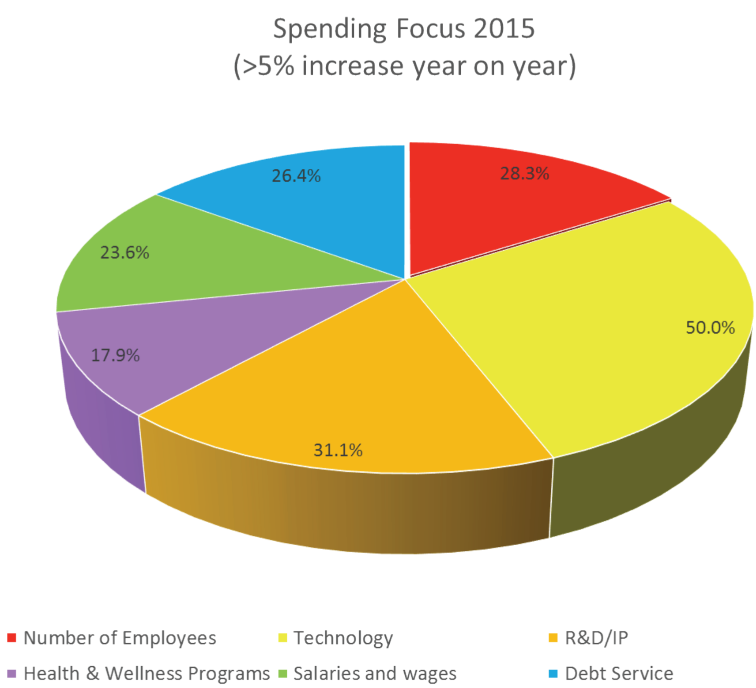
Focus on Finance

In order to facilitate expansion plans in the coming months, effective cash management and ensuring liquidity will be the most common goals among financial executives (73%) followed by keeping close watch on their internal control environments (42%), and making sure the appropriate hedging strategies are in place to weather out the impacts of the falling Canadian dollar and rising input prices (37%).



Senior executives will be working on financing expansion activities through a variety of vehicles and effectively managing banking relationships will be a critical. Half of the companies represented in our survey will be turning to cash reserves, however 38% will also be negotiating asset based loans, 22% will be seeking subordinated debt and 21% will be looking to increase private equity either through existing ownership, or by seeking out new capital.

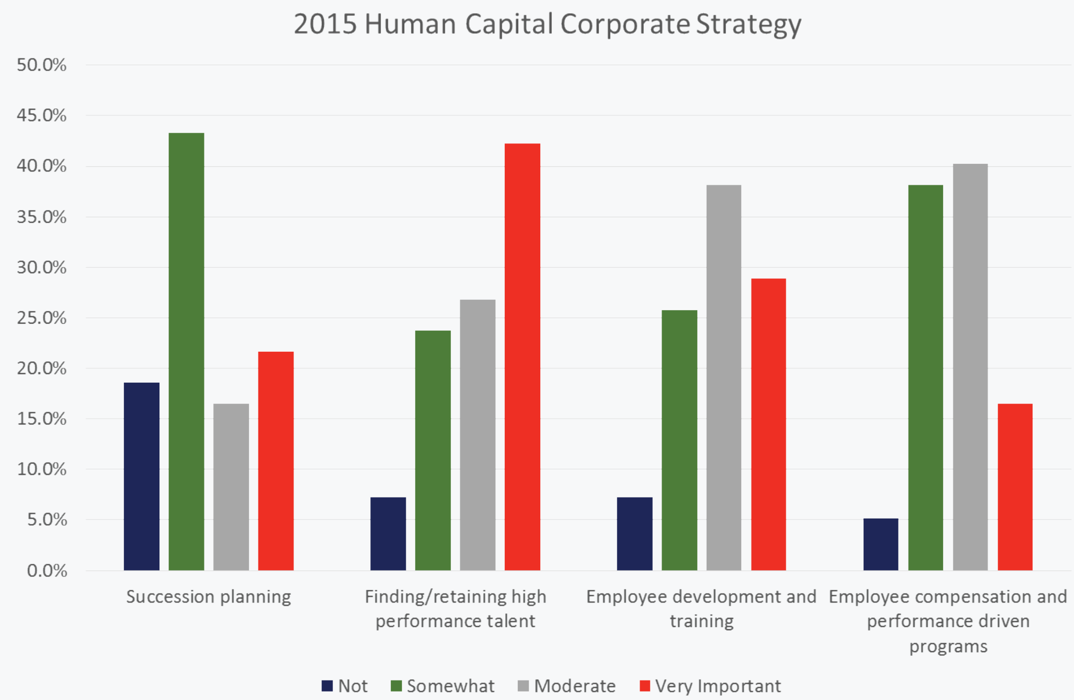
In terms of where they will be putting their dollars for 2015, half of the companies in our sample will be increasing their investment in technology by 5% or more, 30% will be investing in R&D, 28% will be adding new employees, and roughly one in four will be increasing their debt service expenses.



> *"Attracting and retaining talent of qualified finance professionals is growing more difficult. As the baby boomers in Canada continue to retire, companies will increasingly have to expand their reach to attract internationally qualified accountants. "* Suzanne Godbehere, Head of ACCA Canada

Talent management is also high on the radar this year as senior finance executives strive to attract and retain the right type of employees suited to their organizational culture and growth objectives. On a scale from "not at all" to "very important", 42% of executives polled said that finding and retaining high performance talent would be very important to their corporate strategy going forward into 2015.

Twenty nine percent indicated that this would be accompanied by a strong focus on employee development and training, and 22% who said succession planning was an important priority. Employee compensation and performance driven programs were also considered to be very important to corporate strategy for 17% of finance executives responding to our survey.



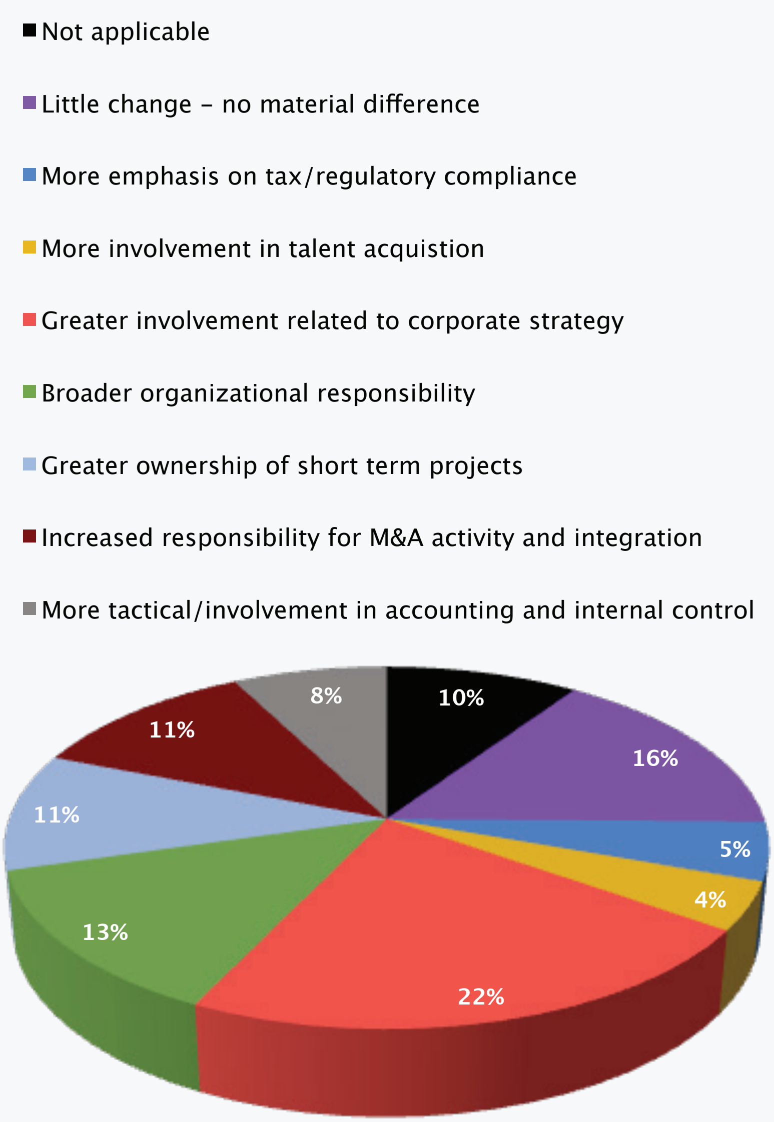
However, when attracting and retaining accounting talent specifically, many senior executives (25%) felt that there was a shortage of experienced candidates and over 30% felt that new graduates expected higher wages than the company was willing to pay. The majority of companies (61%) will be seeking out locally accredited professionals before they turn to internationally designated accountants and will be looking for candidates with well developed communication skills. Just under half of companies seeking new accounting talent in 2015 will be engaging the services of an outside recruiting firm.

The Evolving Role of the CFO

Going forward into 2015, the role of the CFO will continue to reflect the demands of corporate strategy to increase revenue growth, improve customer service and increase market share. Almost half (49%) of the senior finance executives in our survey indicated that they expected the CFO to be even more involved in matters related to corporate strategy than they have in the past, and roughly 30% expected they would have responsibility for a wider range of functions in the coming months.

CFOs whose companies are considering entering foreign markets or expanding existing operations overseas will be entering new worlds of risk management and control. Analysing risks and opportunities in international markets will require CFOs to understand how their business will be affected by complex international political, economic and regulatory issues. At the same time, understanding foreign tax and control environments will be posing new challenges.

Change in CFO Role for 2015

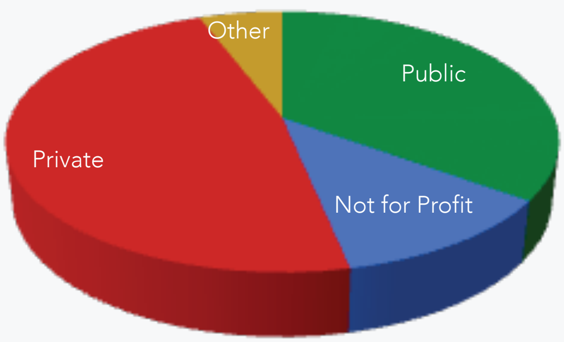


About the Study

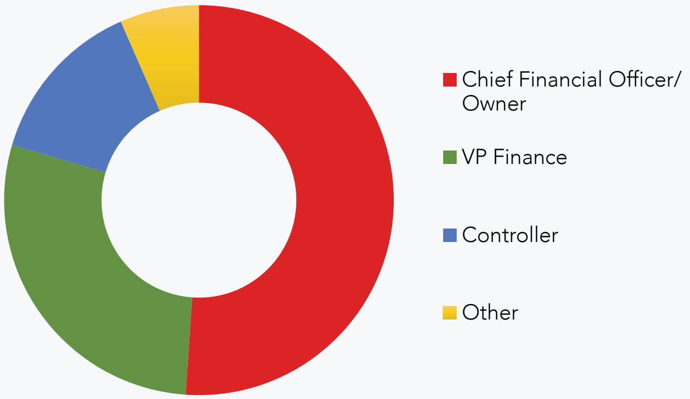
The 2015 Canadian CFO Sentiment Study was conducted by The CFO Alliance Canada over the months of January and February with a total of 137 respondents from senior finance executives across the country. Questions and contributions to this study were provided by ACCA Canada and Radius Canada who were the primary sponsors of this report. Our sample includes approximately 47% private company executives, 35 % from publicly listed companies, 11% from the not for profit section, and 6% other. The largest group completing this survey were CFOs (47%), followed by VPs Finance (21%). A cross section of industry was represented with the most responses coming from the manufacturing and the mining and oil and gas extraction sectors.

Canadian CFO Outlook 2015

Company Type



Job Title



Top Industry Concentrations