CREDIT AVAILABILITY BAROMETER: 2011

7 OUT OF 10 COMPANIES ARE PLANNING TO SEEK A LINE OF CREDIT OR ISSUE MEDIUM-TERM NOTES IN THE NEXT 12 MONTHS

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ACKNOWLEDGEMENTS

We gratefully acknowledge the efforts of our survey respondents and our forum participants who took valuable time away from their day jobs to participate in this work. We are particularly grateful to our research partner, Ernst & Young LLP, without whom this study would not have been possible.

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First published 2012 by CFERF
1201-170 University Ave.
Toronto, ON
M5H 3B3

ISBN# 987-0-9866833-6-7

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EXECUTIVE SUMMARY

Canadian financial executives report that while credit availability in 2011 remained well above the low levels seen during the freeze of the recession in 2008 and 2009, it has not continued to improve as they had anticipated a year ago.

Overall, Canadian finance executives who participated in a recent Canadian Financial Executives Research Foundation (CFERF) research study said that credit is "somewhat available" – how available it is, of course, depends on a number of factors including the size and structure of their companies. In fact, for small public companies in particular, the research study shows that credit availability actually declined during 2011. ***Credit availability barometer: 2011*** is sponsored by Ernst & Young LLP.

On the upside, most companies reported little difference in availability from the year before. That said, one year ago, many companies had anticipated credit would become easier to obtain in 2011. Unfortunately, this anticipated easing did not materialize, most likely due to the ripple effects of uncertainty caused by the sovereignty debt crisis in Europe. Furthermore, the companies with the greatest challenges in this area – small public companies – had predicted that over the next 12 months it would become less difficult to obtain credit for working capital or long-term capital, but this outcome was not achieved.

Any one specific company's ability to obtain financing hinges on many factors: profitability, revenues, cash flow and credit history. Size and company structure also play a role, as does the amount of cash a company already has on hand. One could even say that the state of credit availability in Canada is characterized by a certain irony. Executives report that credit appears to be much easier to obtain for companies which are already flush with money; those companies which need financing the most are struggling to convince lenders to take a risk. Credit can be relatively easy to negotiate for large, profitable companies with steady cash flows, and challenging to obtain for others.

CFERF's report highlights the perspectives of senior financial executives, from public and private companies, both large and small, who have shared their insights into past, present and anticipated future lending conditions. It reviews financial executives' experiences of obtaining financing for their companies, and their expectations for the future. The study was prepared based on the results of an online survey of 117 financial executives in October 2011, representing a cross-section of the economy, and the views of a group of financial executives who attended a research forum on November 22, 2011.

The negative change in conditions from 2010 to 2011 was relatively moderate for large public and private companies, as well as small private companies, and credit was still easier to obtain than it had been at the bottom of the trough in March 2009.

"Companies are taking the view that they need to negotiate the financing when it's available, not necessarily when they need it. There is an old investment banking adage, 'If the duck is quacking, you feed it.' In other words, if you can get the financing done, get it done. Chances are we will never use 100% of our revolving line of credit. We're paying for the availability, but chances are, we won't need all of it. It's there, just in case."

Tim Zahavich – Chief Financial Officer, St. Joseph Communications

Large public companies with stable revenues, which had the best availability of working capital financing, found access to credit remained fairly stable but slightly harder to obtain in 2011, as they had expected.

On the downside, the hardest hit category continued to be small public companies, who found working capital availability in 2011 did not meet their expectations for improvement. Not only was it less than they had forecast, it was harder to obtain than in 2010. In fact, working capital availability dropped close to September 2009 levels (although still above the rock-bottom level seen in March 2009). The ease of obtaining long-term capital, in comparison, was slightly improved for small public companies. They were hoping for an improvement in long-term capital availability from September 2010 to 2011, and while there was a modest increase, it was less than they had forecast.

On the upside, credit availability for small public companies remained well above the low levels of March 2009, and the further deterioration of September 2009 (a time when small public companies saw long-term financing continue to tighten even as conditions improved for companies in all other categories).

Other than for small public companies, the process for obtaining credit continued to get easier in 2011 (as it had done so from the dark days reported in December 2008, March 2009 and September 2009). Small public companies continued to hope for improvement, going forward.

As a group, companies reported the costs associated with obtaining credit stayed about the same between September 2010 and 2011, remaining well below the peaks seen in December 2008 and March 2009. When examined by category, small public companies reported their costs in September 2011 had actually jumped to March 2009 levels. This occurred even though small public companies had been anticipating costs to decline. Although this never materialized, they are again hoping this will occur in 2012.

Looking ahead, interestingly, those whose access to working capital is more readily available (large public and private companies) are expecting some erosion in availability in 2012, while those currently experiencing some challenges (small public and private) are a bit more optimistic about better credit availability next year.

In general, financial executives expressed more optimism about the performance of their own companies relative to the overall economic reality for the sector in which they operate.

> "Bank credit spreads widened in 2008/ 2009, and have not narrowed back in. Essentially, banks have profited from the credit crisis, and continue to do so."
>
> **– Survey respondent, small private company**

In terms of need for working capital, more companies will be focused on organic growth than on other methods such as mergers and acquisitions. Others stated they were concentrating on survival or on other priorities.

Cost-cutting and finding operational efficiencies will also be a priority for most businesses over the next 12 months; it was cited by 76% of survey respondents. This was followed by cash flow and liquidity (63%). Given these stated priorities, it follows that the kind of financing sought would reflect this – seven out of ten companies surveyed indicated they were planning to seek a line of credit or issue medium-term notes in the next 12 months.

There was a general agreement among study participants that those companies which are offered credit arrangements should seize the opportunity and line up as much financing as possible, keeping in mind conditions could change in the future. Bank defaults in Europe may impact lenders in Canada with exposure to those defaulted institutions, causing them to scale back financing activities. Whether it's for working capital or acquisitions, the consensus was that if CFOs don't have cash on hand when their companies need it, they might be looking for a job sooner, rather than later.

Financial executives report that both banks and private investors are more risk-averse, which means small companies must find other ways to keep their companies running. With creativity, these companies have used different strategies such as vendor financing, share swaps, and loans to finance management buyouts for struggling small public companies. Some small companies have found support through agencies such as the Business Development Bank of Canada (BDC) and government initiatives such as the Federal Economic Development Agency for Southern Ontario (FedDev Ontario), which matches angel investor financing with program funds.

Forum participants reported that with the exception of tech companies with no tangible assets, credit appears to be generally available if a company's financial affairs are in order. In the end, to be a good credit risk, the priority for companies is to achieve profitability. Generating a positive flow of cash generally paves the way to credit availability.

RESEARCH METHODOLOGY AND DEMOGRAPHICS

Credit availability barometer 2011 was prepared by CFERF and was sponsored by Ernst & Young Canada. The intent of the research was to provide a detailed analysis on how financial executives viewed lending conditions between 2007 and 2011, along with forecasts of prospective conditions into 2012[1].

It comprises the results from CFERF's October 2011 survey of senior financial executives across Canada and the results of similar CFERF surveys in March 2009 and October 2010. The data from these surveys was aggregated for the purpose of developing a credit availability timeline.

The survey keyed on a number of crucial components speaking to the issue of credit availability in Canada, but concentrated on four major areas: accessibility of credit for businesses; the difficulty of accessing equity markets; views on the stability of the Canadian economy as a whole; and, in an attempt to glimpse the future landscape of capital markets, respondents were asked what type of financing they planned to seek in the next year.

The analysis was based on responses from 117 senior financial executives, representing all sectors of the Canadian economy. Respondents were broken down into categories: public companies (33%), private companies (55%), and other (12%). 35% of all companies reported revenues of less than $50 million; 13% of respondents had revenues between $50 million and $99 million; 26% had revenues of $100 million to $499 million, and 10% were bracketed between $500 million and $999 million. The largest companies participating in this survey (16%) reported revenues at $1 billion or above. For more demographic details, see Appendix A.

The last phase of the research included capturing feedback from senior financial executives who took part in a half-day Executive Research Forum on November 22, 2011 in Toronto and Montreal. The purpose of the forum was to allow for a free-flowing dialogue between company experts, who were provided with specific questions in advance. A broad section of Canadian industry was represented including oil and gas, telecommunications, financial services, printing and publishing, transportation, engineering and construction, information technology, consulting and manufacturing.

[1] Surveys detailing 2007 and 2008 lending conditions were as at December, whereas 2009-2012 actual and forecasted credit availability were as at September.

ADAPTING TO TODAY'S ECONOMY

In general, financial executives who participated in the survey are more optimistic about the prospects for their companies relative to the overall economic reality of their sector. For instance, one-third (32%) are more optimistic about prospects for their company compared to 12 months ago, while half (49%) expect no change, and one-fifth (19%) are less optimistic. In comparison, only 18% of companies are more optimistic about prospects for the economy in their sector compared to 12 months ago; 48% expect no change, and 34% are less optimistic.

Companies may feel more positive about their companies than others in their sectors, but they are still exercising prudence in their financial management. Cost-cutting and finding operational efficiencies will be a priority for most businesses over the next 12 months, as cited by 76% of survey respondents. This was followed by cash flow and liquidity, which was also cited as a priority by the majority of survey participants.

Large public companies with stable revenues, such as Enbridge Pipelines Inc., report that credit availability has not been adversely affected by recent market turmoil. Enbridge Pipelines' revenues are based on the predictability of long-term customer contracts, said Bill Ross, VP Finance. "We've seen vast availability of credit and the ability to raise

"With regards to the impact of sovereign debt problems on access to capital, it seems that the danger resides in not knowing the banks' exposure to sovereign debt products and the derivatives that may be embedded in them. This lack of awareness can generate all sorts of rumours on the financial markets and make the banks afraid to lend to each other, which could have a negative impact on the availability of credit."

Pierre Van Gheluwe – held treasury functions at Caisse de dépot et placement du Québec

"There is a lot of uncertainty around European sovereign debt that is causing corporate credit spreads to widen and demand for corporate bonds to wane. Unless a workable solution is arrived at, I think that debt markets are going to be volatile over the near-to-medium term."

Survey respondent, large private company

"Although the sovereign debt issue did not impact companies directly on a one-to-one basis, one of the biggest challenges we're seeing companies faced with right now is being able to forecast activities going forward. Because forecasting is difficult due to volatility, obviously, their whole access to capital is more complicated. So it's all linked. Sovereign debt will for sure have an impact going forward on all companies. The larger entities already have their money set aside. They were active in the market when they could. But going forward, clearly there will be challenges, especially for the smaller private companies who did not have the same access to capital."

Michel Marleau – Partner, Transaction Advisory Services, Ernst & Young LLP

"If European banks have to sell assets, I am sure they would attract a lot of interest. ... Not hoping the world crumbles, but if opportunities come up, we'd like to be able to seize them."

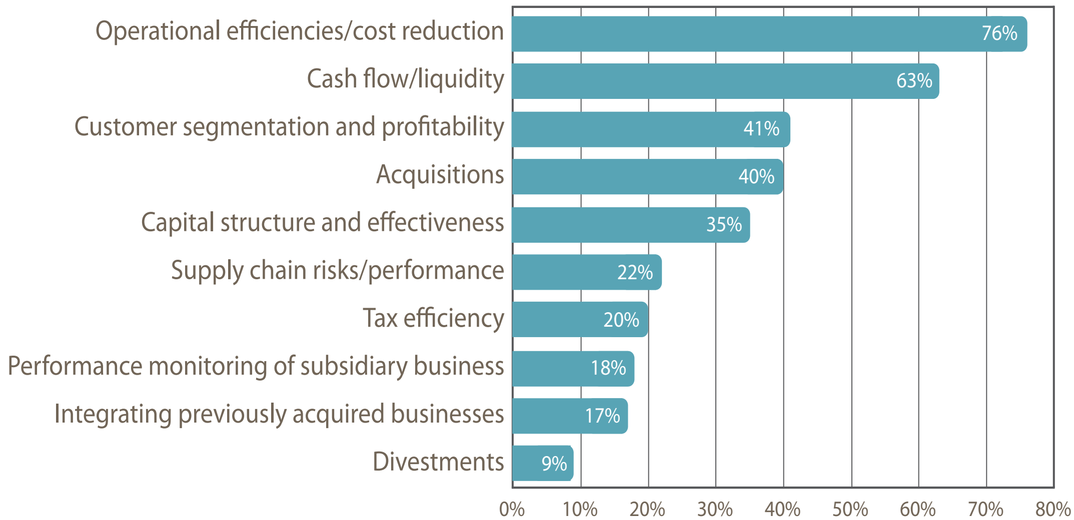
Louis Marcotte – Vice President and Treasurer, Intact Financial Corp.

those funds on the markets. The financing is for multi year projects. So in many ways, the short-term situations that spur from the credit crisis are not quite contingent on us at the moment. We look at longer term fundamentals and so do the banks," Ross said.

For some companies, the sovereign debt crisis in Europe may present opportunities for acquisitions. But for some, these opportunities they may pose too much of a risk, said David Anderson, of CGI Group Inc. "There might be a gem, but if their clients are all caught up in the financial crisis and they're not going to have cash, or they're going to have to put projects on hold, at least in our business, we could be looking at a fairly deep recession and even the best price at the right time still might not bode well," Anderson said. "Really, you have to take a look at the situation and determine if it's a good time to jump forward."

Whether it's an acquisition or any other undertaking, companies will proceed with caution, as it remains unknown what ripple effects the sovereign debt crisis will have on North American enterprises. Even if a company is not directly exposed, the valuation of every company is affected when there is market turmoil, according to Frank Hayes, President, Stanley Software Finance Inc. "Fundamentally, most valuations are driven off public markets," he said. "That's the tide that floats all boats. And when public markets collapse or are volatile, valuations for corporations of all sizes will likely suffer."

CHART 1: WHICH OF THE FOLLOWING ASPECTS OF YOUR BUSINESS DO YOU EXPECT WILL RECEIVE INCREASED ATTENTION OVER THE NEXT 12 MONTHS?



"Recent increases in inflation may cause policy interest rates to be raised in the next year, impacting overall interest rates. Bank defaults in Europe may impact lenders in Canada with exposure to those defaulted banks, causing them to retrench lending activities."

– Survey respondent

"Think about the interrelatedness or the counterparty risk that flows from banks in Europe into North America. So if that doesn't scare you enough, you better open your eyes. If there's capital that's out there, you should grab as much of it as you can because it isn't any cheaper today than over probably the last ten or 15 years. And if you're trying to play a game about how I think I should be managing my liquidity, you are going to get burned one day, pretty badly. And the cost of mitigating that risk is a cost that you shouldn't think about bearing at all. You should just do it."

Paul Stinis – Senior Vice President and Treasurer, BCE Inc.

AVAILABILITY OF WORKING CAPITAL FINANCING

Overall access to working capital financing in September 2011 failed to meet executive expectations from the year before. This is not surprising given the turmoil in Europe this year and resulting fallout in global financial markets. In September 2010, survey respondents expected availability to increase somewhat by September 2011, but availability actually dropped slightly (See Table A). Different types of companies reported different experiences, with the greatest discrepancy between forecast and actual credit availability at small public companies. For instance, in September 2010, small public companies respondents expected credit to increase, but it actually declined slightly (Table A).

TABLE A: AVAILABILITY OF WORKING CAPITAL FINANCING

3 = Very available, 2 = Somewhat available, 1 = Not very available, 0 = Not at all available

	Overall	Large Public	Small Public	Large Private	Small Private
September 2010	2.20	2.55	1.58	2.47	1.89
September 2011 projection	2.28	2.54	1.83	2.51	2.05
September 2011 actual	2.14	2.46	1.47	2.46	1.91
September 2012 projection	2.09	2.35	1.53	2.30	1.97

Looking ahead, interestingly, those with credit more readily available (large public and private companies) are not anticipating significant improvements in 2012, while those currently experiencing some challenges (small public and private) are more optimistic about increases in availability next year (See Chart 2).

In terms of need for working capital, more companies will focus more on organic growth, (such as growing the customer base and increasing sales or output) during the next 12 months. In comparison, nearly one-quarter will actively be looking for inorganic (M&A or joint ventures), while 12% want inorganic growth but may be restricted in their ability to pursue this. The rest will focused on survival or on other priorities (see Chart 3). Large companies (23% of public and 39% of private) indicated they were more likely to be actively looking for inorganic growth than small companies (only 12% of small public companies and 10% of small private companies).

CHART 2: AVAILABILITY OF WORKING CAPITAL FINANCING

3 = Very available, 2 = Somewhat available, 1 = Not very available, 0 = Not at all available

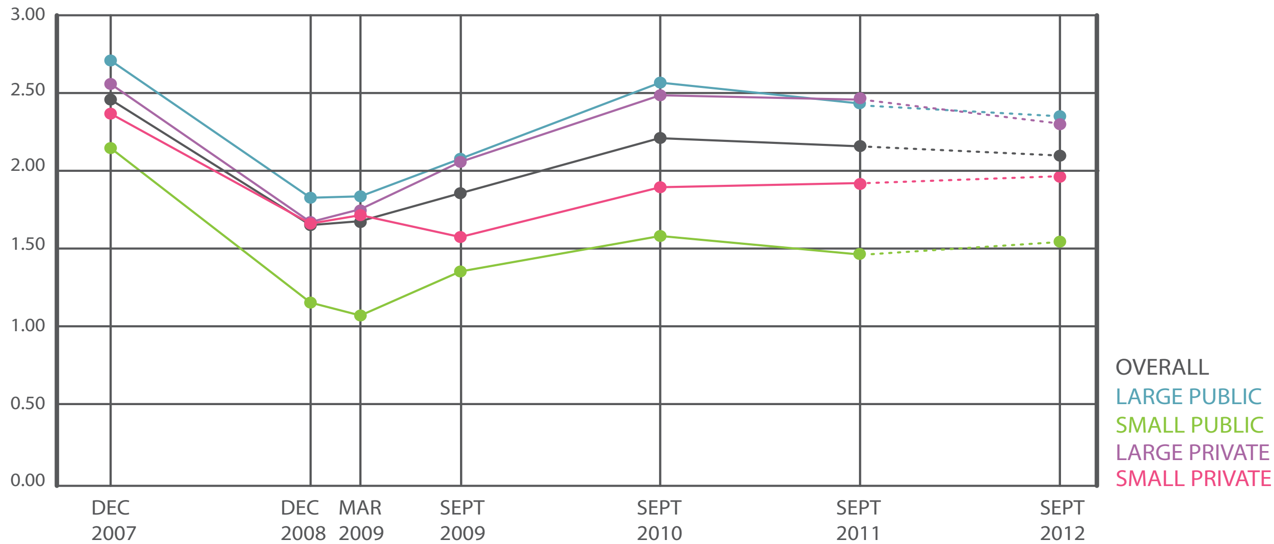
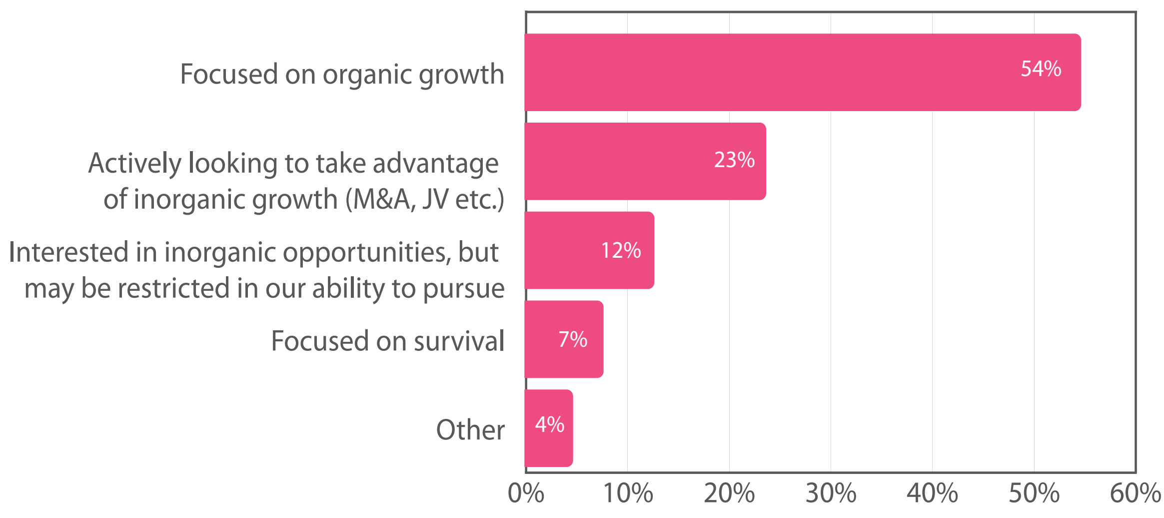
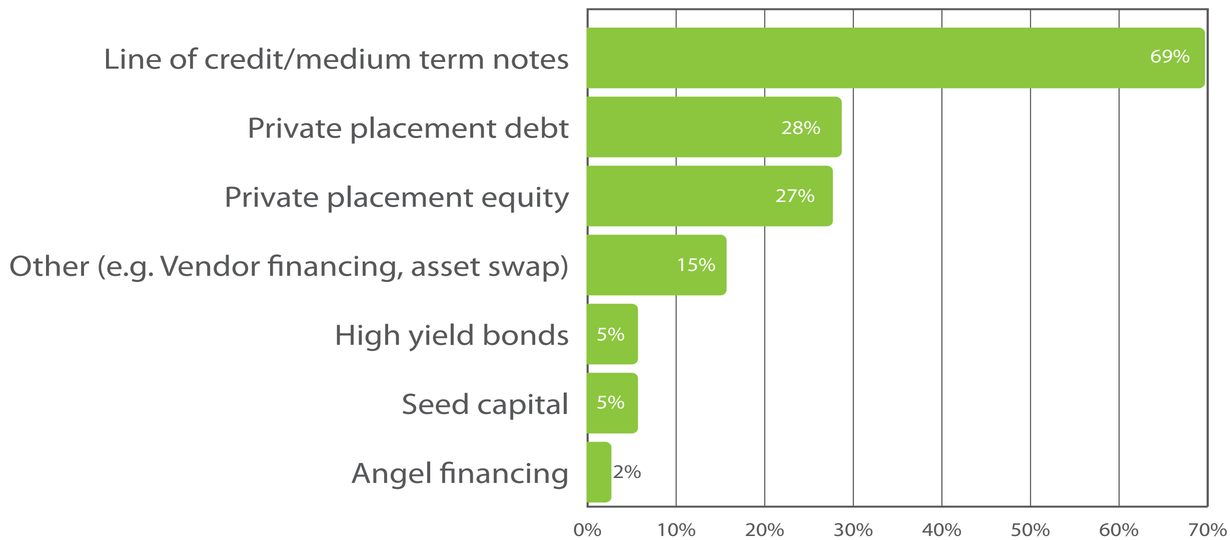


CHART 3: WHICH STATEMENT BEST INDICATES YOUR ORGANIZATION'S FOCUS OVER THE NEXT 12 MONTHS? (CHOOSES ALL THAT APPLY)



It follows that the kind of financing sought by organizations would reflect their stated priorities: and seven out of ten companies surveyed stated they were planning to seek a line of credit or medium-term notes in the next 12 months (see Chart 4).

CHART 4: IN THE NEXT 12 MONTHS, DO YOU PLAN TO SEEK ANY OF THE FOLLOWING FORMS OF FINANCING? (CHOOSE ALL THAT APPLY)



Since working capital is generally not difficult to obtain for stable, large public companies, they tend to take advantage of that availability. In the case of BCE, the company makes sure it has plenty of credit availability, as the company and its board are always concerned about liquidity, not only for corporate reasons but also to fund operational requirements, potential M&A opportunities or making special voluntary pension contributions, according to Paul Stinis, Senior Vice President and Treasurer, BCE Inc. "Liquidity, liquidity, liquidity is front and centre," he said. "Even if there's an incremental cost to actually get that liquidity, that should not be the primary concern."

Similarly, having credit readily available has been a priority for Enbridge Pipelines Inc., according to Bill Ross, the company's Vice President of Finance, who says the company plans to ensure cash is available to mitigate weather-sensitive, seasonal business cycles, without stockpiling it. "Liquidity is important to run your business on a day to day basis," Ross said. "You have to build in a scenario for the downside. We're trying to keep enough working capital to keep in business, but generally, we don't hoard the cash to hold it for a rainy day. We tend to deploy it. We tend to use it."

Having liquidity for a rainy day helped Hartco during the 2011 postal strike, according to CFO Carl Gauvreau. "We got hit probably by $15 million of accounts receivables that we were supposed to collect and we didn't," he said. "We managed and we made it okay knowing we had available financing. If the strike had continued, we would have had to borrow. For similar companies that didn't plan ahead and secure financing, this could have put them in real difficulty."

Revolver and swing line offer flexibility

Dessau Inc., a growing Canadian private engineering and construction company with 4,700 employees at 68 offices worldwide, negotiated a three bank syndicate revolving line of credit, with a "good" interest rate, early in 2011, for both working and long-term capital. "We use our credit facility for our day to day operations," said Lucy Porporino, Principal Advisor, Treasury, for Dessau Inc. "But it's always there for us in case we come across a good opportunity for an acquisition. However, we do incur fees but that's the cost of doing business and the advantage of cash availability. Our line of credit includes a swing line which is very effective because it manages our cash quite easily. ... So, at the end of the day, if we have any excess cash, it goes directly to our repayment on the credit facility. It works quite well. As well, we have in place many advance payments against advance letters of credits on our projects with our international clients. We use the credit facility as well for issuing our letters of credit."

AVAILABILITY OF LONG-TERM FINANCING

Overall, the availability of long-term financing for companies stayed relatively stable at "somewhat available", declining slightly between September 2010 and 2011. Executives expected this to tighten further by 2012. Again, when examined by corporate structure and size, differences emerged. The large public companies, for whom long-term credit was most available in September 2010, had actually expected a decline a year later. They were right that their credit availability would drop, and it dropped more than expected (see Table B).

Small public companies, which were most negatively impacted by the recession in 2008-09, and remained worst off in September 2010, had their optimistic expectations partially fulfilled. In ***Credit Availability in Canada: 2010***, respondents from small public companies had hoped for availability to improve, and it did get better, albeit less than they had thought. Small private companies had also expected an improvement, but availability stayed relatively stable as of September 2011 (Table B).

TABLE B: AVAILABILITY OF LONG TERM FINANCING

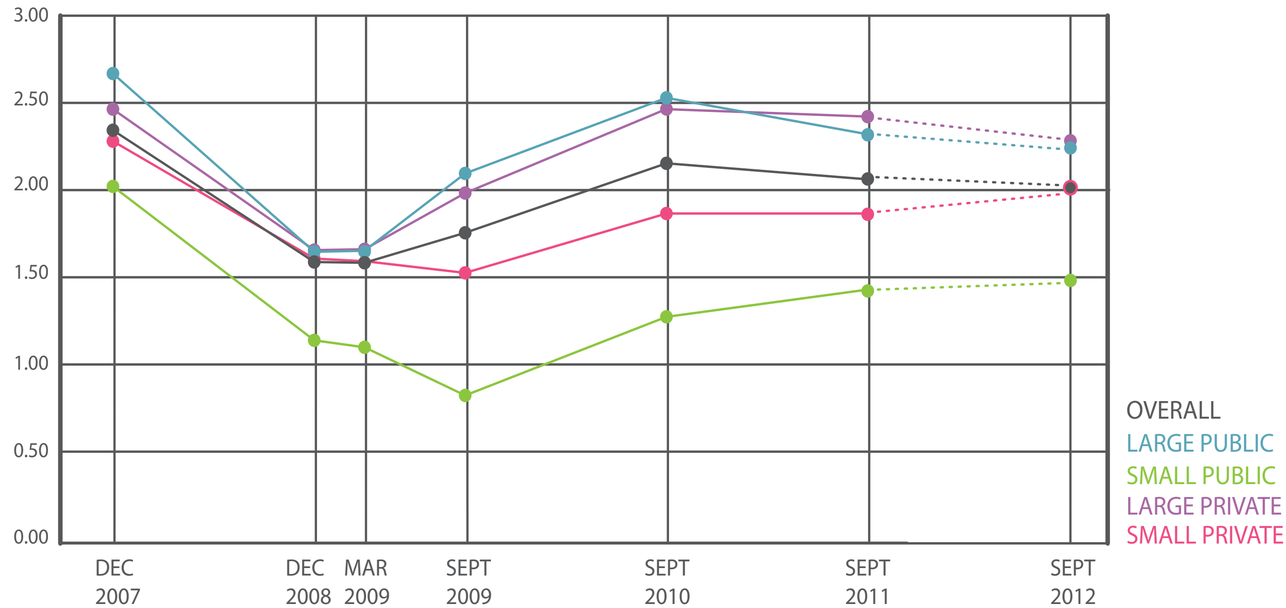
3 = Very available, 2 = Somewhat available, 1 = Not very available, 0 = Not at all available

	Overall	Large Public	Small Public	Large Private	Small Private
September 2010	2.14	2.55	1.25	2.44	1.83
September 2011 projection	2.22	2.48	1.67	2.48	1.98
September 2011 actual	2.05	2.31	1.41	2.40	1.86
September 2012 projection	2.01	2.23	1.47	2.27	2.01

Interestingly, those with credit more readily available (large public and private companies) are not anticipating improvements in 2012, while those currently experiencing some challenges (small public and private) are more optimistic about increases in availability next year (See Chart 5).

CHART 5: AVAILABILITY OF LONG TERM FINANCING

3 = Very available, 2 = Somewhat available, 1 = Not very available, 0 = Not at all available



Pre-arranging credit: A capital idea

Some fortunate companies are simply sitting on capital as they browse for acquisitions and joint ventures. For instance, the CGI Group, a large public IT consulting company, has a $1.5 billion credit facility with an accordion (optional additional credit) of $250 million, arranged through a syndicate of 20 financial institutions from Canada, the U.S. and Europe, according to David Anderson, the company's CFO.

"The credit facility is really just a place holder so that if we want to do acquisitions, we have the power to do so," Anderson said, noting that the company started negotiating for a new, improved facility of the same amount well before its current one was set to expire. "One of the strategies that we employ here was to ensure that we weren't going to end up running out of time and then having to take what was going to be given to us in the way of a new facility," Anderson said. In terms of pursuing acquisitions, the company has been conservative and selective, looking for growth with companies with the right cultural fit, and at the right price, he said. "We do generate cash and about a third of it goes into debt repayment, with two thirds into share buyback right now," he said. "It's good financial practice to be able to go back to the markets and show that you're paying down debt rather than just buying back shares all the time."

DIFFICULTY OF PROCESS FOR OBTAINING CREDIT

Overall, the difficulty of the process of obtaining credit continued to ease between September 2010 and 2011, down from its height in 2009, and survey respondents expected it would remain similar into 2012 (see Chart 6). The process was rated by large public companies as unchanged from 2010 and 2011. In comparison, small public companies had been hoping the process would get easier, and anticipated the 2010 rating would drop a year later. In fact, it became more difficult (Table C).

When individual types of companies were analyzed by category, small public companies, which were experiencing the most difficulty in 2011, were also most hopeful looking into 2012. To a lesser degree this was also true for small private companies, who expected a slight improvement. In comparison, companies that had an easier time getting credit in 2011 (large public and private companies) expected conditions to get more difficult in 2012 (Chart 6).

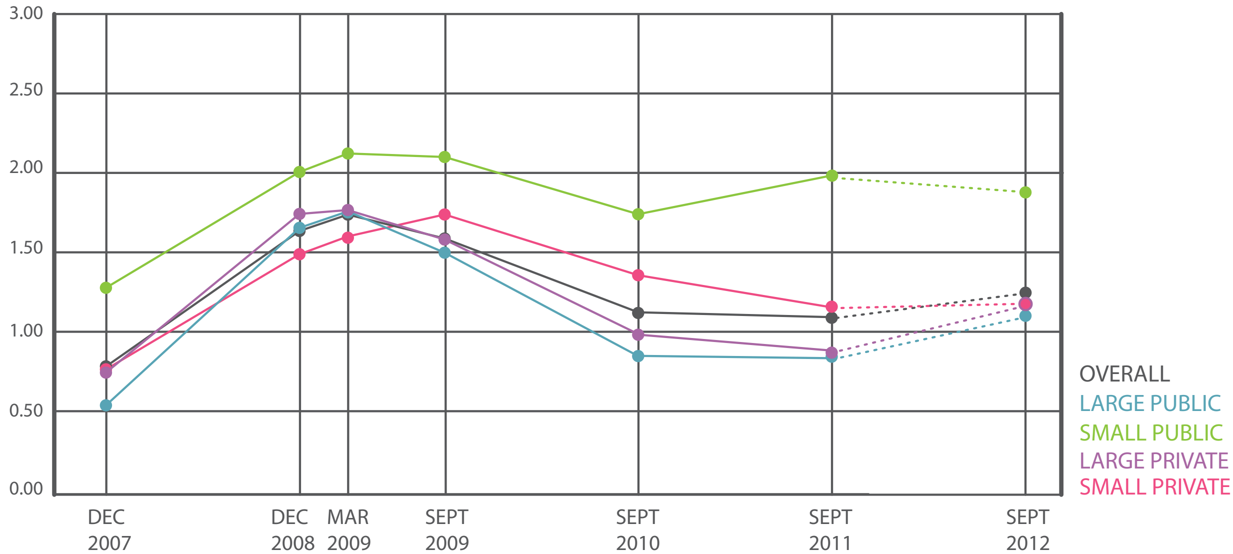
TABLE C: DIFFICULTY OF PROCESS FOR OBTAINING CREDIT

3 = Very difficult, 2 = Somewhat difficult, 1 = Not very difficult, 0 = Not at all difficult

	Overall	Large Public	Small Public	Large Private	Small Private
September 2010	1.11	0.82	1.73	0.98	1.34
September 2011 projection	1.07	0.82	1.50	0.94	1.25
September 2011 actual	1.07	0.81	1.99	0.82	1.10
September 2012 projection	1.13	0.91	1.76	1.03	1.02

CHART 6: DIFFICULTY OF PROCESS FOR OBTAINING CREDIT

3 = Very difficult, 2 = Somewhat difficult, 1 = Not very difficult, 0 = Not at all difficult



Of course, for certain companies, banks are seeking out lending opportunities. Brian Allard, Partner and Senior Vice President, of Ernst and Young, who helps arrange financing for companies, says he actually receives calls from banks who ask: "Do you have anything to show us?" One company, Hartco Inc., stashed millions in the bank as a safety net since it last negotiated a credit facility in 2009. Ironically, according to company CFO Carl Gauvreau, Hartco has found the stockpile has only served to attract more prospective lenders.

Banks are competing to offer loans to large companies with steady revenue streams. St. Joseph Communications recently expanded from a two bank syndicate to three, and could have even had four if it wanted to, said CFO Tim Zahavich. "So there's definitely money there," said Zahavich, who now has the enviable problem of trying to do enough business with each bank suitor to keep them interested.

It's not always necessary to be a large, established public company to benefit from competition when dealing with lenders. Brian Allard of Ernst & Young recalls how one company had essentially the corporate equivalent of low self-esteem after having been treated badly by its bank. "We ended up arranging for them revised financing with a different institution at greater leverage, less restrictive covenants and reduced pricing. The interesting thing is the institution that had previously banked them, bought into that new syndicate. So it just goes to show you that it's all about getting different opinions, it's all about creating an environment of competition and not necessarily relying on your banker to tell you the way things need to be."

While shopping around can help foster competition amongst lenders, it's not the only factor key to a successful loan application, according to Ross Corcoran, CFO of Global Railway Industries Inc. "It's not just a question of getting different quotes, it is also believing in your own mission. What you're trying to accomplish, what your analysis of the marketplace is and where the opportunities are. Bankers don't do the same homework we do on our own companies."

Banks looking for business are reorganizing their offerings to pursue private companies, in a bid to bundle their services, such as wealth management and personal tax planning, says Tim Zahavich of St. Joseph Communications, Canada's largest private printing and publishing company. "A couple of major banks were very aggressive in what they wanted to do outside of just lending, such as offering wealth management services to our owners. And we said, okay, let's give them a shot," Zahavich said of the company's most recent credit facility. "They see lending as an area of growth for them because they look at it as just a piece of the puzzle. They'll lend you money, but they also want to get involved in other things."

While Canada's capital pool is liquid for companies like St. Joseph, it is relatively small, since many foreign banks have left the country, according to Allard. He compared it to shopping in small hardware store versus a big box store.

In stark contrast to large public and private companies with stable cash flows, some small companies aren't successful when they knock on doors for credit. "I've given up on the banks," says Nancy Lala, an angel investor who helps start-ups. Lala is also co-owner and CFO of About Communications, a national telecommunications company with its head office in Toronto. "Software companies typically don't have assets and banks still will only lend on assets," Lala said referring to her start-up clients. "Banks also are looking for positive cash flow, which is very nice, but when you're in early stages and you've got great potential and a great pipeline, the banks are not willing to take any risks."

Small companies who can't get bank financing can turn to other options including private equity, but must face higher interest rates as well as a short timeline for repayment, according to Lala. Another alternative is the Business Development Bank of Canada (BDC) which offers equity or working capital loans, according to Lala. Finally, a company can finance itself with private debt, she said.

Angel investing

Angel investors have been negatively impacted by the current economy according to Nancy Lala, CFO of About Communications, and herself an Angel Investor. "Some Angel Investors are reluctant to exit the depressed equity markets to make investments in early stage businesses which may have higher risks that usual. So I think that area is actually dried up recently. However, there are great government programs. You can get FedDev Ontario (a federal government agency aimed at supporting start-ups in southern Ontario), the government will invest 50 cents for every dollar an angel investor makes, with interest-free debt. So it's fabulous. But we're not seeing a lot of investors coming forward."

The onus is on the client to represent themselves in the best light to their bankers and other capital providers, according to Frank Hayes, president of Stanley Software Finance Inc. "There are pockets of bankers and other capital providers who do understand technology fairly well. They will only take on a reasonable risk but they understand the business. They've been in it a long time. Although, it seems at least in Canada, most banks seem to come and go in tech lending or tech capital providing. To reduce reliance on outside capital, the number one objective for our clients is to always optimize their working capital, and make the greatest use of supplier credit. Following that, most of our clients are still able to obtain capital on market terms for their industry."

"Every company that does not have revenues is very difficult to finance" says Richard Morrison, president of IRR Capital Inc. "It's even worse now with the market turmoil that we've seen ... it is getting more challenging for the public small-cap company to get financing."

"The Tier I Canadian banks only seem to lend on near bullet-proof arrangements (e.g. lending on 75% of A/R less statutory payables). It might help small businesses if they were willing to lend on slightly more risky terms, with a corresponding increase in interest rates for this higher risk, to enable growth in the economy. Although the Canadian banks have done a credible job in commercial lending in 'safe territory', they could assist with growth in the economy if they closed the gap between themselves and mezzanine finance options."

– Survey respondent

"In Alberta, the large banks don't understand the nature of the oil and gas industry and try to set covenants that are more geared for the retail or manufacturing industry."

– Survey respondent

While some companies experiencing difficulty arranging traditional bank credit facilities are tempted by the prospect of entering the emerging Canadian high yield corporate debt market, according to Brian Allard of Ernst & Young, there are many risks companies need to consider, such as a limited secondary market for the bonds."Banks would much rather generate fee income with no assets at risk. So it's in their best interest to try to convince you to raise a high yield bond issue or doing an institutional debt, or bond issue, rather than employing their own capital," Allard said.

Another potential downside scenario: companies with earnings volatility, those who are looking to expand operations, or those who are looking at potential acquisitions and then end up in default or non-compliance with their existing high yield issue. This creates problems since there are various bond holders with whom to negotiate, all of whom have their own advisors and lawyers. "It's like herding cats," Allard said of dealing with multiple corporate bond holders. "You end up negotiating with the lowest common dominator. So high yield debt is a very, very good instrument in the right situation and the right circumstances, but you really need to think carefully about it before diving into this market."

The high yield debt market in Canada

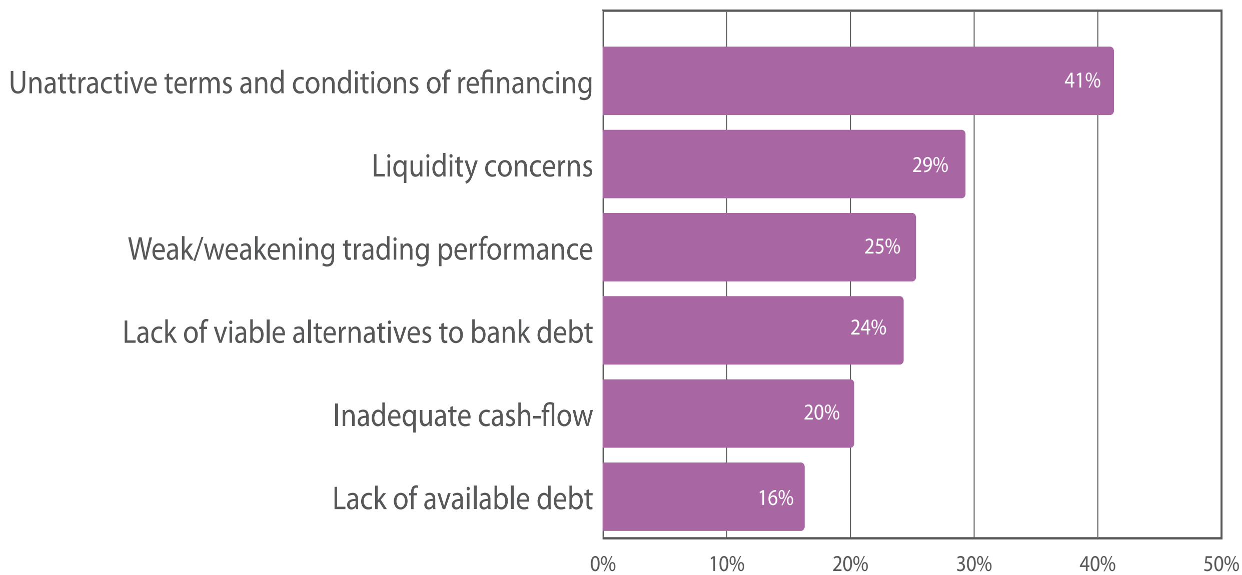
"Canada does not currently have a meaningful high yield debt market like the US. However, there remain a substantial number of investors in Canada who are looking for yield, in particular after the wind up of the income fund sector. If investment bankers work closely with the various yield driven investment funds who previously invested in the income fund sector, it could easily drive the growth of this vehicle in Canada and provide Canadian companies with an additional source of funding domestically."

Tyrone Cotie – Treasurer, Clearwater Seafoods Inc.

COST OF CREDIT

Unattractive terms and conditions led the list of concerns of companies needing debt refinancing (see Chart 7). As a group, companies reported the costs associated with obtaining credit stayed about the same between 2010 and 2011, remaining well below the peaks seen in December 2008 and March 2009.

CHART 7: WHAT ARE THE BIGGEST CHALLENGES YOU FORESEE REGARDING YOUR NEED FOR UPCOMING DEBT REFINANCING?



In *Credit availability barometer: 2011*, small public companies, who consistently bore the highest costs, had anticipated costs would have eased by September 2011, but in fact they increased (see Chart 8 and Table D) actually jumping to March 2009 levels. This occurred even though small public companies had been anticipating costs to decline. Although this never materialized, respondents from this group are still optimistic that borrowing costs will go down in 2012. In comparison, costs for large public and small private companies actually eased more than anticipated between the fall of 2010 and 2011.

“Foreign banks have retreated from Canada. Domestic banks are making credit less available. Covenants may get tighter or spreads may go higher.”

– Survey respondent, large public company

“Over priced risk premiums are driving borrowing costs up.”

– Survey respondent, large private company

“Credit spreads are increasing and cost of liquidity is increasing which either decreases the credit availability or increases the cost for credit.”

– Survey respondent

CHART 8: COST OF CREDIT

3 = Very costly, 2 = Somewhat costly, 1 = Not very costly, 0 = Not at all costly

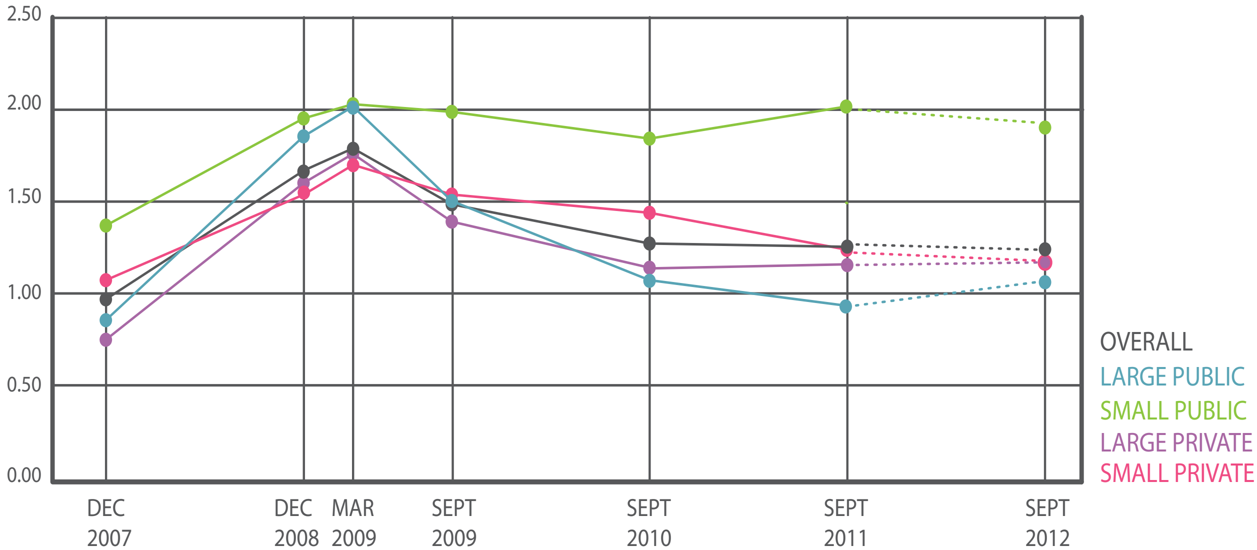


TABLE D: COST OF CREDIT

3 = Very costly, 2 = Somewhat costly, 1 = Not very costly, 0 = Not at all costly

	Overall	Large Public	Small Public	Large Private	Small Private
September 2010	1.27	1.08	1.82	1.16	1.45
September 2011 projection	1.21	1.05	1.50	1.14	1.36
September 2011 actual	1.25	0.95	2.06	1.19	1.23
September 2012 projection	1.24	1.09	1.88	1.19	1.19

Large private companies found costs were unchanged from the fall of 2010 to 2011. For instance, when St. Joseph Communications reopened its bank lending agreement in March of 2011, it found the rates had gone down, but the fees went up. "So overall it was about the same," recalled CFO Tim Zahavich.

As seen in other charts, those companies which had the toughest conditions – small public companies – were forecasting the greatest improvements in 2012. In comparison, large public companies, which had the lowest costs for credit, actually expected a slight increase in costs next year.

Meanwhile, Intact Financial Corporation had a credit facility it negotiated in 2009, not long after the credit crisis, when spreads were still fairly high. When it was time to renew, conditions were more favourable, according to Louis Marcotte, Vice President and Treasurer of Intact. "On the credit side, spreads were coming down, fees were coming down, and it was more competitive," he recalled. "We were able to get a four-year line of credit. So we chose to extend it as far as possible in the future to avoid renegotiating during another crisis. So we just pushed that forward as far as we could in the future. Longer tenures may be harder to get right now. "

"(Banks should) bifurcate principal trading activities from traditional banking, increase capital requirements and costs for principal trading and reduce requirements and costs for traditional banking. The cost of funding for my company should not change when there has been absolutely no change in risk exposure whatsoever (imagine cash collateral) because of current trading related externalities at our bank."

– Survey respondent, small public company

DIFFICULTY OF RAISING FUNDS THROUGH THE EQUITY MARKETS

Overall, companies had hoped it would become easier to raise funds in the equity markets in September 2011, compared to the year before. In fact, it became more difficult, according to survey respondents. Large public companies, which had already reported the year before that it was "not very difficult" to raise money in the equity market, found that conditions remained positive (Chart 9 and Table E). For instance, when Intact Financial Corporation, a large public company, prepared to do a $2.6 billion dollar acquisition, it tapped common equity capital markets, the preferred share markets, and debt markets, as well as seeking credit, recalled Louis Marcotte, Vice President and Treasurer of Intact. "The equity market – our experience there was simply we had a good story to tell with the acquisition that it was a very successful issue. We didn't know the outcome going in, but at the end of the day, if you come in with an equity issue in times where there are very few equity issues going on, and you have a very good story, it should not be very hard to sell."

Overall, results were impacted by the increased difficulty experienced by small public and large private companies. In a repeat of a pattern seen in responses to other questions, the companies which found it toughest to raise funds in the equity markets in 2011 (small public companies) were anticipating a significant improvement in 2012 (Chart 9).

"Downturn in equity markets is diluting existing shareholders and discouraging equity financings."

– Survey respondent

"Public Equity markets are currently quite volatile. So, even if you meet the usual public market thresholds for revenue, growth, and profitability, if you don't need the money right now you'd be well advised to stay out of the public markets."

Frank Hayes – President, Stanley Software Finance Inc.

CHART 9: DIFFICULTY OF RAISING FUNDS THROUGH THE EQUITY MARKETS

3 = Very difficult, 2 = Somewhat difficult, 1 = Not very difficult, 0 = Not at all difficult

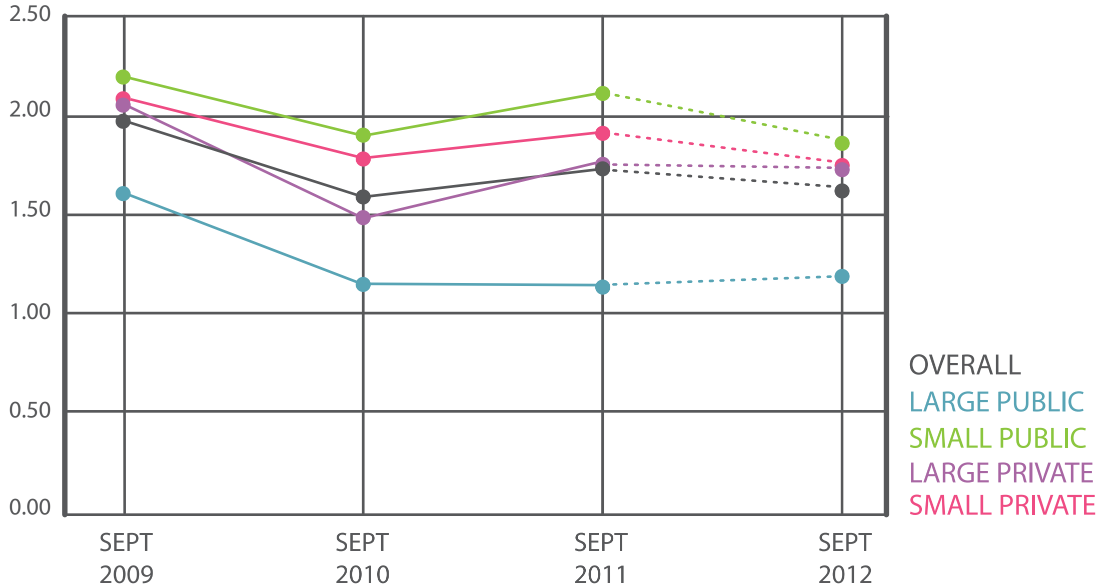


TABLE E: DIFFICULTY OF RAISING FUNDS THROUGH THE EQUITY MARKETS

3 = Very costly, 2 = Somewhat costly, 1 = Not very costly, 0 = Not at all costly

	Overall	Large Public	Small Public	Large Private	Small Private
September 2010	1.59	1.15	1.90	1.50	2.10
September 2011 projection	1.38	0.94	1.67	1.50	1.78
September 2011 actual	1.74	1.13	2.13	1.75	1.91
September 2012 projection	1.60	1.19	1.82	1.71	1.75

Some small public companies are finding it so difficult to be in the public market they go private in order to more easily obtain financing, according to Joe Telebar of E&Y. "They think that they're able to then deal with their company over the next few years in a far more nimble and effective way to the benefit of management, if things work out well," Telebar said. "The issue is to be an attractive IPO you need to have good growth prospects. So we're seeing good companies with stable cash flows but they don't have enough trajectory from a growth perspective, and that's scaring off the capital markets. So the chance of success over the next number of months is not good, so they're not going to those markets. And I think in a way that's good. ... I think it's a mistake to be a small public company because you really can't tap the capital markets like you thought you would. All you can tap is additional costs."

Richard Morrison, President of IRR Capital Inc., agreed it is becoming increasingly difficult to be a small public company. "There is simply too much cost with IFRS now to justify being public if you're too small," Morrison said. "I'm not going to encourage any company to go public unless it makes a lot of sense."

Obtaining equity partners is an alternative to public equity markets, but the relationship cannot be rushed, according to Morrison. "The thing that company tends to do, which is a major pitfall, is thinking they can get access to equity quickly," he said. "It takes often 6 to 12 months to get equity, as you need to talk to the investors, build a relationship and have a relationship of trust with them." In the interim, Morrison said, a company can leverage its assets. "That actually buys time for a company before they can go for an equity round," he said. "If you expect to have in a three month timeframe the equity you are looking for, at the valuation you're looking for, it's very unlikely. If you have the time in front of you, you can go through all the process, including due diligence and building a relationship with investors, it makes it more likely."

Case study: Global Railway Industries Inc.

When Global Railway Industries Inc. was a small public company, it struggled to get financing, says CFO Ross Corcoran. "It was kind of a challenge at times to essentially run a small public company with limited capital. ... My concern was often just meeting next week's payroll," he said. He recalled how in 2010, faced with mounting pressure from the banks and limited capital, the company sold two subsidiaries. Faced with trying to run the small cap company and "uncooperative banks," Corcoran said executives decided to embark on a management buyout in 2011 with the help of new financial partners. "I think things are loosening up. I believe banks are wanting to do more, and I'm very optimistic going forward and being able to better control our destiny. It's just that we were too small to be a public company. As a small-cap company, there are high costs to staying public. The banks were not very open and it was a daily challenge. So I guess we've kind of won, step by step without the benefit of a home run."

AWARENESS AND USE OF GOVERNMENT PROGRAMS

When asked whether the government should continue with post-recession assistance, the vast majority of companies (72%) do not want more government economic stimulus. Rather, executives say reducing the deficit should remain the government's priority. Only 17% want government intervention again, while 11% say stimulus could be achieved through corporate tax cuts. That said, financial executives were more amenable to government-funded programs that foster credit availability, such as the Business Development Bank of Canada, or FedDev Ontario, which provides matching funds to companies which obtain financing through angel investors.

Another way for government to support businesses, according to Tim Zahavich, CFO of St. Joseph Communication, is to expand existing Scientific Research and Experimental Development (SR&ED) tax incentives from allowing claims for pure research and development expenses to also include marketing, sales and other commercial activities required to launch a product. "If they do that and we can get financial institutions to loan based on that, it naturally will just help out on the financing of smaller companies" Zahavich said.

“Too often we think small businesses can’t access capital. But are we really saying they can’t access venture capital or equity financing? Or are we saying that they can’t access what is really debt financing? If it’s venture capital or early stage financing, that’s a different question.”

Brian Allard – Partner and Senior Vice President, Ernst & Young Corporate Finance (Canada) LLP

“I think the government can influence credit availability. I mean they don’t necessarily have to back up credit. But they can back up certain industries, like they did with the Green Energy Act with the guaranteed streams of cash flows, which, once in place, obviously helped those wanting to invest and those industries, to actually support those, when they’re backing up purchase agreements. So that is one example where they’re channelling investment in certain areas. The government certainly has a role – it is to reduce risk, essentially. So that’s on a purely on a political basis of what industries would you favour, where would you channel the money and how would you do it? I think that would be more of a broader debate.”

Bill Ross – Vice President, Finance, Enbridge Pipelines Inc.

CONCLUSION

With the exception of tech companies with no tangible assets, credit appears to be generally available if a company's financial affairs are in order. As one forum participant, Bill Ross of Enbridge Pipelines, observed: "If you have an idea versus an asset, it's much harder." And if capital is available, participants concurred, financial executives should follow the philosophy of the Latin poet, Horace, whose advice was Carpe diem (seize the day).

Even in the case of start-ups though, there are sources of financing through the Business Development Bank of Canada, private equity, angel investors, complemented by matching funds through government programs such as FedDev Ontario. The main challenge here is that investors appear to have become more risk-averse, and are more reluctant to give out capital as they have in the past.

Best practices for accessing credit (according to survey and forum participants):

Before the ask

- Believe in your company's mission and purpose. It's not possible to sell a lender on your company unless you are organized and passionate about your own case for financing. Be prepared with details about what your company is trying to accomplish, your analysis of the marketplace and where your opportunities area. Do your homework.

- Ensure you are exercising a disciplined approach to managing your company's finances before you seek credit. For instance, make sure your accounts receivables are up to date. Are there assets that are unused or underused? Check all costs are under control. Is it possible to negotiate more advantageous payment arrangements from suppliers? Seek better terms from clients e.g. advance payments, more rapid payment terms, discounts for advance payment.

- Consider the size of your company and your deal before approaching banks. For instance, a U.S. lender may not be willing to entertain asks below about $150 million, whereas Canadian banks will handle smaller deals.

> “The companies that are successful plan ahead. They keep a bumper, a reserve, on the side. They follow a strategy. That’s all the little things that you do and that overall makes it a success.”
>
> **Carl Gauvreau – Chief Financial Officer, Hartco Inc.**

Negotiating and obtaining credit

- If you have access to credit, take advantage of it, even if you may not immediately need it. It is better to have liquidity and not need it, then to be faced with an acquisition opportunity and no financing. This is especially important given market turmoil linked to the sovereign debt crisis in Europe.
- Consider extending the line of credit as far as possible (e.g. three or four years).
- Include flexible terms such as revolving lines of credit, and a swing line, which allows you to use excess cash to pay the debt on daily basis. Consider an accordion feature for additional credit, if possible.
- For small private companies, seek other financing arrangements rather than going public, due to the burden of regulatory compliance, including the increased external reporting requirements of IFRS. If you are already public, and struggling, consider seeking financing for a management buyout.
- If possible, include multiple banks in a syndicate arrangement, in order to foster competition on the terms and conditions of your credit facility. Consider including an international bank in the syndicate for alternative terms and conditions.
- Be cautious about entering the high-yield corporate bond market. The secondary market is limited and in the event of default, it is difficult to negotiate with multiple creditors.

Alternatives

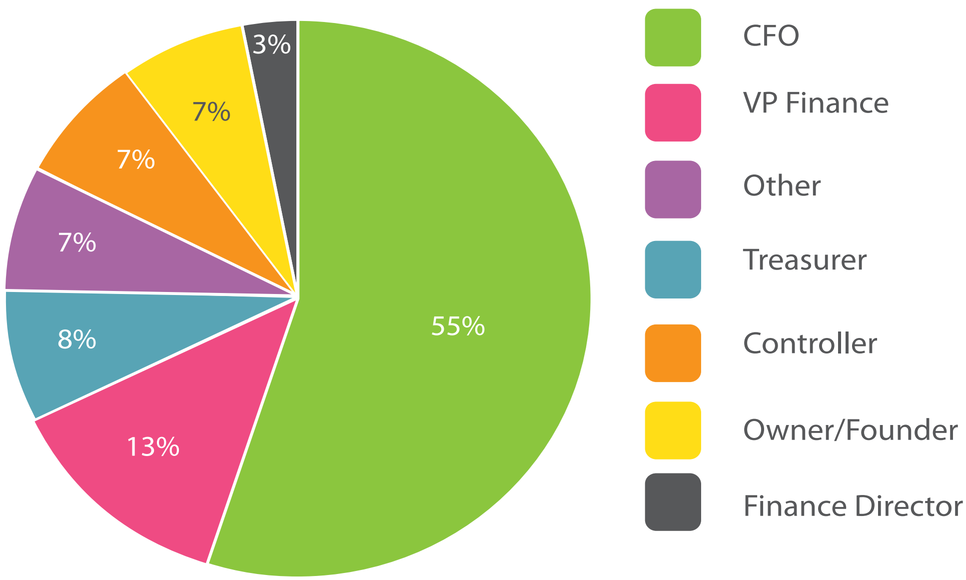
- Don't expect to get access to equity quickly. It takes months to build a relationship with a potential investor; then time is needed for due diligence and valuation. Seek to leverage your assets in the interim. Consider the use of insurance for major accounts receivable, especially if they are foreign.

- Seek out alternative arrangements such as BDC and FedDev Ontario, in which companies with angel financing can obtain matching government funds. Look for early stage capital providers with expertise in your industry.

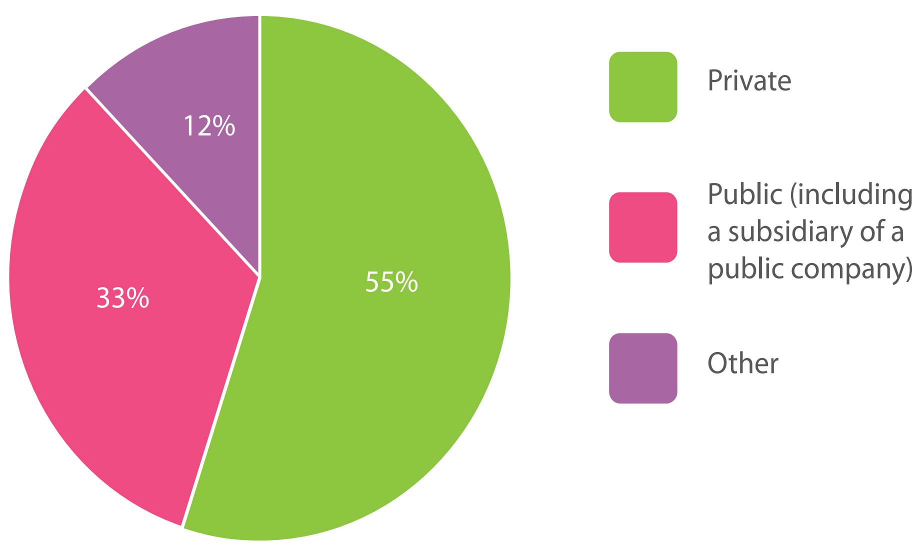
In the end, to be a good credit risk, get your company profitable and generating positive cash flow said Frank Hayes, President, Stanley Software Finance Inc. "Both debt and equity markets are tightening and seeking companies with higher quality earnings. You have to optimize your business for profitability and cash flow in order to maintain access to capital."

APPENDIX A: DEMOGRAPHICS

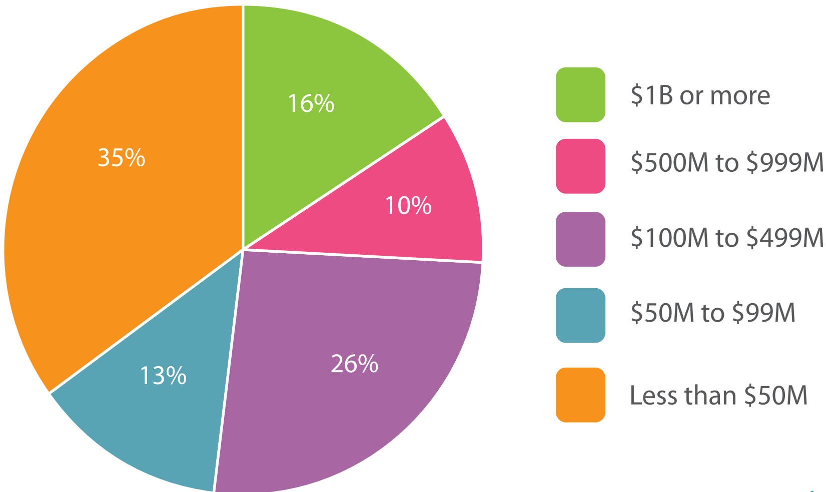
POSITION TITLE



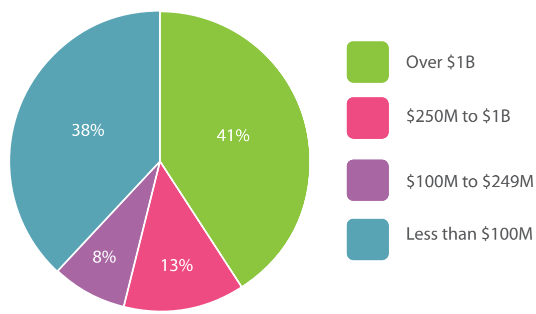
CORPORATE STRUCTURE



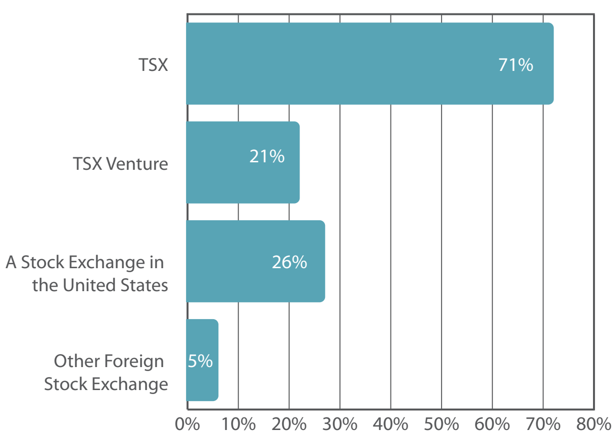
ANNUAL REVENUE IN LAST FISCAL YEAR



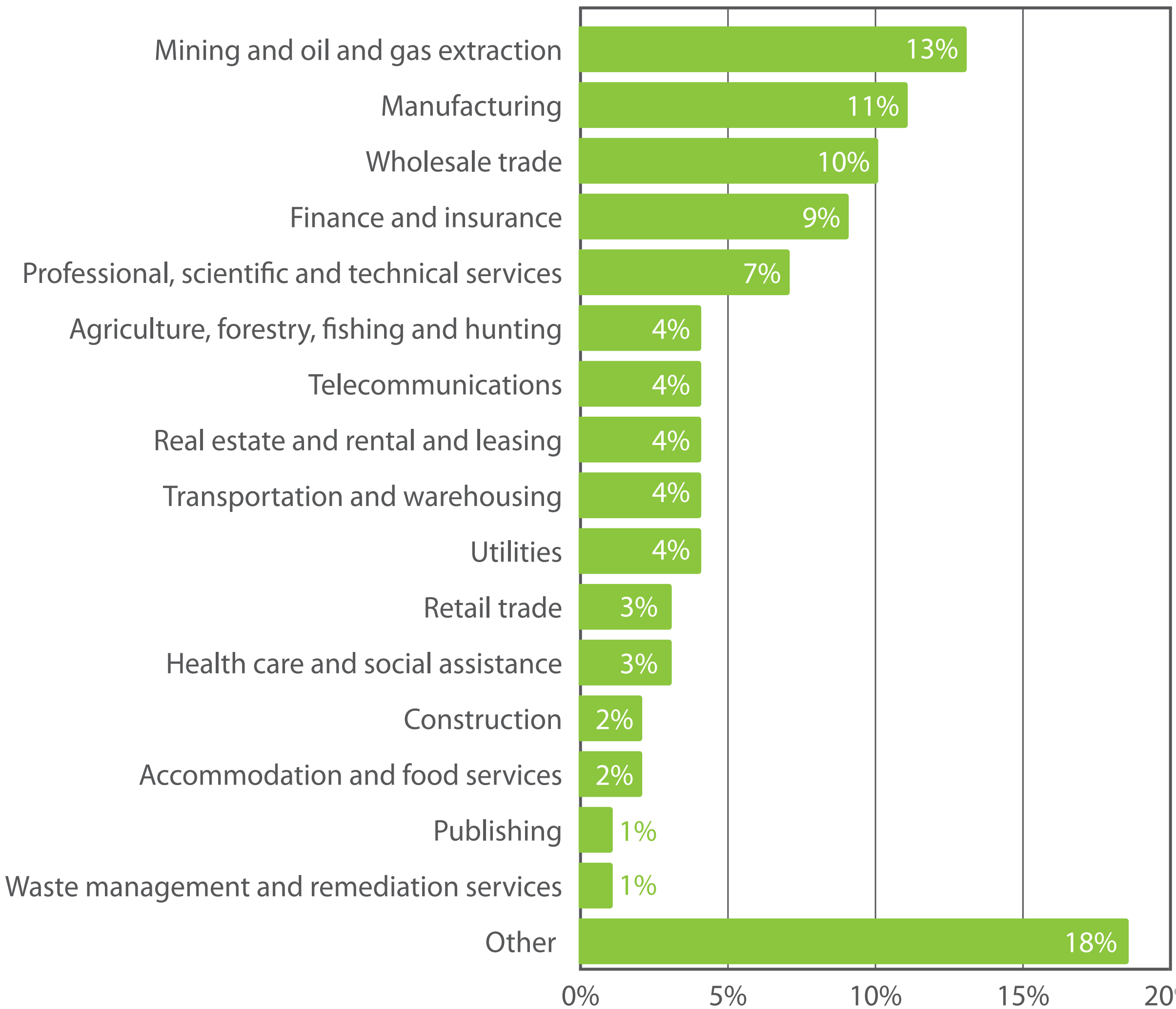
MARKET CAPITALIZATION (PUBLIC COMPANIES ONLY)



STOCK EXCHANGE (CHOOSES ALL THAT APPLY)



INDUSTRY CLASSIFICATION



APPENDIX B: FORUM PARTICIPANTS

Chair

Vic Wells – Chair, Canadian Financial Executives Research Foundation

Moderator

Christian Bellavance – Vice President, Research & Communications, FEI Canada
Joe Telebar – Managing Partner, Transaction Advisory Services, Ernst & Young LLP

Toronto participants

Frank Hayes – President, Stanley Software Finance Inc.
Nancy Lala – Chief Financial Officer, About Communications
Louis Marcotte – Vice President, Finance & Treasurer, Intact Financial Corporation
Bill Ross – Vice President, Finance, Enbridge Pipelines Inc.
Tim Zahavich – Chief Financial Officer, St. Joseph Communications
Brian Allard – Partner and Senior Vice President, Ernst & Young Corporate Finance (Canada) LLP

Montreal participants

David Anderson – Executive Vice President & Chief Financial Officer, CGI Group Inc.
Ross Corcoran – Vice President Finance & CFO, Global Railway Industries Inc.
Carl Gauvreau – Chief Financial Officer, Hartco Inc.
Michel Marleau – Partner, Transaction Advisory Services, Ernst & Young LLP
Richard Morrison – President, IRR Capital Inc.
Lucy Porporino – Principal Advisor Treasury, Dessau Inc.
Paul Stinis – Senior Vice President & Treasurer, BCE Inc.
Pierre Van Gheluwe – Held treasury functions at Caisse de Dépôt et Placement du Québec

Participants by telephone

Michael Conway – Chief Executive & National President, FEI Canada
Tyrone Cotie – Treasurer, Clearwater Seafoods Inc.

Observers

Laura Bobak – Senior Writer, FEI Canada
Melissa Gibson – Communications and Research Manager, FEI Canada
Deborah Hunter – Thought Leadership Specialist, Marketing & Communications, Ernst & Young LLP

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