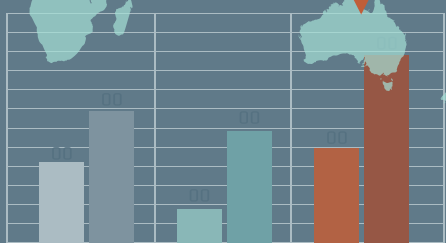
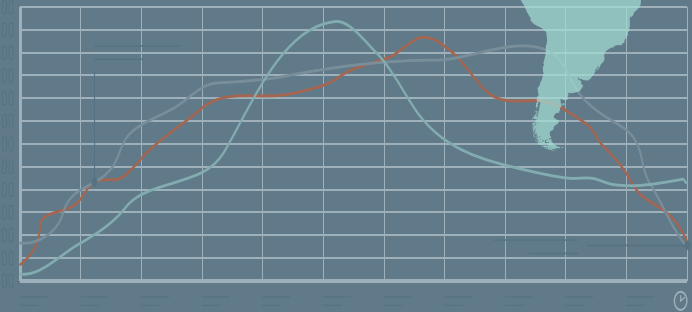
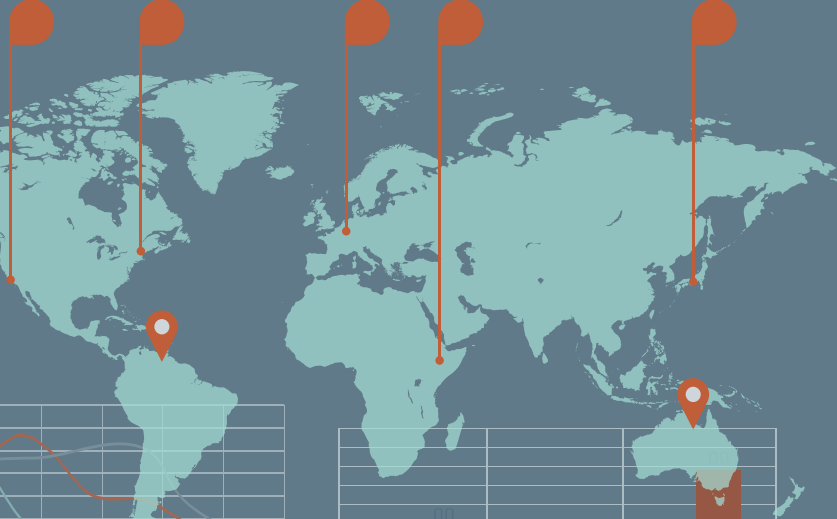
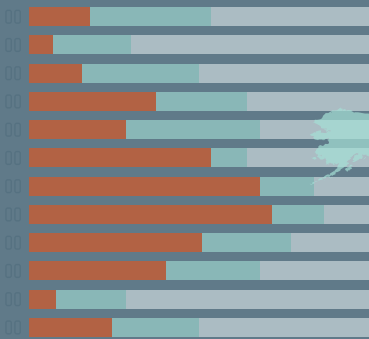


GROWTH STRATEGY:

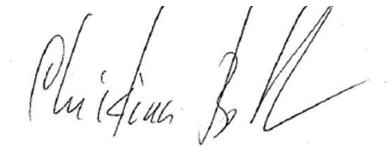
PERSPECTIVES FROM FINANCIAL EXECUTIVES



GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

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, Grant Thornton LLP, without whom this study would not have been possible.

A handwritten signature in black ink, appearing to read "Christian Bellavance". The signature is fluid and cursive, with the first name "Christian" written in a larger, more prominent script than the last name "Bellavance".

Christian Bellavance
Vice President, Research and Communications
Financial Executives International Canada

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EXECUTIVE SUMMARY

We've all heard the expression "grow or die," but how are financial executives thinking about their own companies' growth? Are they just thinking about bottom line financial growth, or are they realizing the need to look at many different aspects of the business simultaneously – and grow them in harmony? Do they have a strategic growth plan? More importantly, are they ready for growth, and how do they plan to do it? Are they just crunching the finance numbers, or are they playing a strategic role?

The good news is that Canadian businesses aren't standing still – they've put growth at the top of their agenda, according to this study by the Canadian Financial Executives Research Foundation (CFERF) and sponsored by Grant Thornton LLP. In fact, growth is overwhelmingly important to Canadian businesses, with 93% identifying it as a priority and nearly six in 10 executives (56%) going even further and saying it is an "extremely high" priority.

This is great news for the Canadian economy, but executives need to be strategic and look across various aspects of their business if they are to overcome barriers and risks to growth and truly succeed. And do they think they can do it? Optimism is very high, with 74% saying they are optimistic about growth over the next year, and half saying they are even more optimistic than they were two years ago.

When financial executives were asked why their organizations are pursuing growth, not surprisingly, "improving financial and operational performance" ranked as the highest motivator. A significant number said they're also concerned with gaining market share and responding to customers' increasing expectations.

Organizations are also pursuing growth in response to external pressures, with three emerging as top concerns – pressure from competitors, current economic conditions, and increasing customer expectations.

Clearly, customers are a big driver of the growth agenda. When asked about the single most important focus of their growth strategy, survey respondents said that they were looking to develop a deeper relationships with customers (23%). The rest of respondents

EXECUTIVE SUMMARY

were fairly evenly split between saying their primary focus is on expansion, increased efficiencies, acquisition, new products/services and new facilities/equipment.

There are many ways to achieve growth, and the most successful companies understand that they need to think about it in a holistic way. That means pursuing multiple channels for growth as part of an overall integrated strategy. Respondents cited many reasons for their own recent growth, including: launching a new product or service (51%), investing in training and development (39%), opening up new markets (35%), reorganizing for growth (33%), engaging in mergers and acquisitions (M&A) (26%), and process improvement (21%).

From this list, we can see that many organizations are using expansion as a tool for growth. Many (44%) say they are not looking at international growth as a priority, but are simply looking for domestic market expansion (37%).

Respondents also identified obstacles and barriers to growth – both internal and external. A small number of companies say they are simply not able to pursue growth right now, mostly because of the need to focus more on profitability/cost-cutting, a lack of opportunity in the market and insufficient infrastructure.

While most are still moving forward with a growth agenda, they do report some worrying internal barriers – more than half say their current organizational infrastructure is a problem. Leadership also needs to be strong. While the majority agrees that their leadership team is fairly or fully aligned with the organization's current growth priorities and strategies, four in 10 said leadership capacity is a barrier to growth. Clearly, employees are looking for a leadership team that's not just aligned with the strategy, but ready to take on the challenge, and that can lead and execute it well.

But it's not just internal barriers. There are also external barriers to growth – a shortage of skilled labour (34%), access to financing (31%) and red tape (26%) can be problems.

Risk management can be a key driver of a successful growth strategy. Worryingly, though, less than two in 10 executives surveyed have a formal risk management process

GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

implemented throughout the organization and the same percentage are just in the process of rolling one out. Most (39%) say that they rely on more informal processes.

Are financial executives and their teams up to the challenges and demands of growth? For the most part yes, but not with overwhelming confidence. Just under half say their finance function is well or extremely well prepared to support their organization's growth strategies, while 31% put themselves in the middle, and a fairly significant minority (18%) said their finance function was only "somewhat" prepared to support growth.

If Canadian businesses are to continue to grow – and help strengthen the recovery of the Canadian economy as a whole – companies must take the time to think about a holistic plan for making that growth happen across many different areas of the business.

The following pages provide valuable insight for companies looking at their own growth agenda.

METHODOLOGY AND DEMOGRAPHICS

The *Growth strategy: Perspectives from financial executives* report is based on the results of an online survey that took place between May 23, 2012 and June 15, 2012, during which time 163 respondents completed the survey. These results were expanded with insights gathered during an executive research forum held simultaneously in Toronto and Vancouver on June 14, 2012 (see Appendix B). Of the survey respondents, 59% worked for private companies, and 30% for public companies. 40% of respondents were CFOs, while 18% held the title of VP Finance. Nearly half (46%) worked at companies with less than \$50 million in revenues. Companies were also analyzed based on the number of years they had been in business, and the rate of revenue growth they had experienced over the past year. The theoretical margin of error for the quantitative part of the study is plus or minus 7.56 percentage points, 95% of the time, on questions where opinion is evenly split. More demographic information can be found in Appendix A.

DEFINING GROWTH

DEFINING GROWTH

Growth strategy: Perspectives from financial executives attempts to better understand how organizations define growth. In particular, the research seeks to understand whether organizations are just looking at financial measures, like revenue and profitability or taking a more holistic approach. That is, are they looking beyond financial measures by taking into consideration other elements of growth like strong relationships, customer satisfaction, development of their people, cost efficiencies, and optimal market penetration?

Not surprisingly, many respondents in the study primarily defined growth using traditional financial metrics, and some took care to specify increasing both the top and bottom lines. One respondent defined growth as a yearly increase in revenue and EBITDA (earnings before interest, taxes, depreciation and amortization). “We define growth by an incremental increase in cash flow per share or in overall cash flow,” another survey respondent wrote.

Other financial measures used by organizations include:

- volume, or number of sales transactions
- the average value of each sale
- profit per unit sold
- sales per employee
- number of buying customers in geographic areas
- number of product lines

Derek Petridis, VP Finance of Shikatani Lacroix Brandesign Inc., a design firm specializing in branding, graphic design and corporate identity, finds sales per employee an effective measure for his organization. “That’s our magic number, and we use growth rates: last year versus this year,” he said. Clearwater Seafoods Limited, a food processor, defines growth using revenue, EBITDA and profit per pound of seafood sold, according to Tyrone Cotie, the company’s treasurer.

Meanwhile, another survey respondent defined growth as “the development of new and stable customer relationships, new products and services and an expanded geographical footprint.” Another survey respondent said a company goal was to reach a

GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

“We have had double-digit organic growth for a couple of years, and we’ve had growth in areas other than revenue. The average size of our client engagements has gone up. We have a runaway sales team that can sign and close deals fast. The downside is managing customer expectations. Satisfaction is one of the casualties of not managing growth. If the customer still has lingering issues, we need to satisfy that. It’s extremely important. We need to be able to manage expectations. How quickly can we turn around and find new contractors to fill little holes we get from time to time? That’s another casualty of growth, and one of those things that we have to manage. I have never had to hire so many people in such a short span of time. We have actually had to deliberately slow down our growth, and painful as it is to the sales guys, turn down engagements in order to manage that side of things and to keep things under control. We’ve also turned ourselves inside out and re-examined our entire method of service delivery towards a more interactive approach.”

Anne Burpee – CFO, non-linear creations

revenue target while also exceeding customer expectations. “As we move forward and evaluate our performance, we re-align the strategy to keep us on the proper path. While revenue is key, improved profitability is important to support the expansion since the ability to internally fund the growth is critical to future success.”

The definition of growth varies across industries and sectors. For instance, retail stores measure same store sales, while an electric utility executive said growth is measured on a unit of production and sales basis. “We are also working very hard to change service delivery mechanisms. For these efforts, we measure growth by time to provide services and, more generally, by customer satisfaction,” the utility executive explained.

Measuring growth at an early stage company presents another challenge, as revenue and profitability may not be immediate. One startup company defined growth as meaningful, well-planned research and development (R&D) that will take their product to the substantial production stage. Meanwhile, a mining exploration company defined growth as the advancement of mining projects through development to production in order to add revenue and profit to the organization, but also through the acquisition of properties. “We have very specific milestones and clearly recognize when we are achieving those milestones – getting permits, completing preliminary economic assessments, resource reports, feasibility studies and production decisions. That’s how we measure whether we’re progressing, whether the company is growing,” said Alan Ahlgren, CFO of AQM Copper Inc.

TOP AND BOTTOM LINE GROWTH: REVENUE VS. PROFIT

Capital investment in growth initiatives may have a longer time horizon for return on investment, and carries risk because it may not create short-term profit. From an

investor's perspective, the goal of growth should be to generate incremental cash flows, according to Stephen Cummings of Lumira Capital Corp. Cummings cited investing guru Warren Buffet's interest in seeking enhancements in intrinsic value and his definition of it (the net present value of cash flows that can be distributed back to all shareholders). The outcome of successful growth might be a liquidity event (e.g., mergers and acquisitions) at the end of the growth phase or a regularly increasing dividend stream for a more mature business. "Investors focus on cash flows and the risk and timing of the return of capital invested," Cummings said, adding that a growing manufacturing company has to consider the additional returns it can provide investors if it has to substantially increase working capital investment in order to finance that growth. Cummings also noted increasing pressure on private venture capital funds to achieve higher rates of return for their major investors, such as pension funds, given the volatile nature of the public equity markets, in order to provide an acceptable level of return across their total portfolio in order to fund pension liabilities. "There's a shortage of capital right now, so we are seeing more competitive pricing in financing rounds and companies will need

“As a small company, we need to be focused on daily, weekly, monthly, quarterly and annual profitability in order to provide Hotspex with the capital to fund our planned growth.”

Stephen Massel – CFO, Hotspex

“It would be really difficult to make an argument for anything that doesn't help the top line.”

Sujeet Kini – VP Controller, Open Text Corporation

to find capital that is closely aligned with their particular needs given the risk profile of the business and the nature of the growth plans,” said Cummings.

“Our definition of growth is really driven by both top line and bottom line. For us, growth is not growth if it is not sustainable. Sustainable means something that's actually adding value to our organization. We've moved away from times where we were driven by the top line, giving up some businesses that did nothing for the rest of the P&L.”

Godfrey Nthunzi – VP, Finance, Colgate-Palmolive Canada Inc.

GROWTH AS A CORPORATE PRIORITY

A vast majority (93%) of respondents said growth was a high priority for their organizations, with 56% rating it an extremely high priority. The seven per cent for which growth was not a priority mentioned a range of reasons, including:

- a focus on profitability and cost-cutting,
- an inability to support growth with existing organizational infrastructure and systems,
- a lack of opportunity in the market, and
- a lack of qualified staff to tackle growth opportunities.

Public companies were slightly more likely to define growth as an extremely high priority (65% versus 54% of private companies).

The survey was also able to bring some hard data to show that growth doesn't just happen. Companies experiencing high levels of growth were also those that made growth a priority. In the companies that experienced the strongest revenue growth, 82% of executives stated that growth was an extremely high priority. In comparison, of those with the lowest revenue growth, only 43% held that view.

With respect to alignment of the executive team with the growth priorities and strategies, only 37% said that their executive team was fully aligned. Another 41% said the team was fairly aligned.

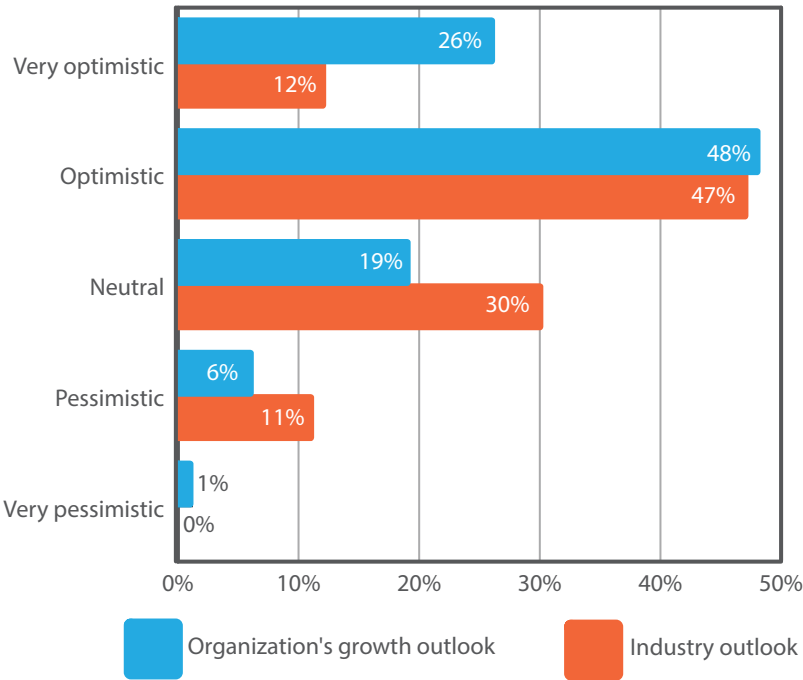
In terms of where they are in their growth trajectory, half of respondents indicated that their company was already executing a growth plan, 18% were developing a detailed plan, and a quarter were considering and evaluating their options. Public companies were more likely than private companies to already be executing their growth strategy (59% versus 50%) and private companies were likely to be still considering and evaluating their options (29% versus 18% of public companies).

GROWTH AS A CORPORATE PRIORITY

Three-quarters of survey respondents had articulated their company's strategy to employees and slightly fewer had done so with investors, lenders and/or shareholders (70%). It was less common to communicate growth strategies to customers (40%) and suppliers (31%).

Companies with the highest level of revenue growth last year were more likely to have shared their growth strategy with investors, lenders or shareholders (84%) compared to those with the lowest levels of growth, of whom only 61% had communicated their strategy with investors, lenders or shareholders.

CHART 1: HOW OPTIMISTIC ARE YOU FOR THE OUTLOOK OF YOUR ORGANIZATION AND INDUSTRY OVER THE NEXT 12 MONTHS?



GROWTH POTENTIAL

One reason companies may be focusing on growth is a general sense of optimism about the future – 74% of respondents were either optimistic or very optimistic about their growth opportunities for the coming year. Half were more optimistic about growth than two years ago (52%), but a minority (20%) were more pessimistic (See Chart 1).

Not surprisingly, there's a connection between past growth and optimism about the future. Executives from companies that reported the highest level of growth last year were the most likely (63%) to report that they were "very optimistic" about their organization's growth prospects over the coming year, while respondents from companies with lower growth rates were more likely to rate themselves as simply "optimistic". Similarly, those with the highest rates of growth were most likely to report that they were also "very optimistic" about their industry's prospects as a whole.

Dessau's CFO, Marc Godin, believes there is still room for organic growth in the construction industry since that sector remains strong. "In terms of economic activity, Canada ranks ninth or tenth in the world and is expected to maintain that position until 2020, but when it comes to construction, it ranks fourth or fifth," says Godin. Canada's higher level of construction activity is driven by various factors, including aging infrastructure requiring renewal in Ontario and Quebec, activity in the Alberta oil patch, and mining in various parts of the country. Dessau's rate of organic growth has slowed in Quebec because the company is already a dominant force there, so Godin says the primary goal is to maintain market share through a defensive strategy.

“We have always done well within our city. We’ve demonstrated growth, and will continue to do that. We’ve been around for 85 years, so I don’t see that changing. We have a lot of growth going on in our area, both in automotive, and in other projects. As for the Canadian auto industry, am I optimistic overall? Absolutely. I think we’ve turned the corner.”

Brad Cruickshank – CFO, Dueck GM

GROWTH POTENTIAL

According to Alan Ahlgren, CFO of mining exploration company AQM Copper Inc., his sector's outlook is good. "Long term, we're optimistic prices will stay where they are," Ahlgren said. "Taking a longer term view, we need to continue to move projects forward. It's a matter of finding the right properties. With mining, supply is a challenge because ore bodies are getting harder to find – they're getting more remote."

Case study: Fighting for shelf space in consumer products

Colgate-Palmolive Canada Inc. has recently seen increased sales of toothpaste and dish cleaning products, which the company's Canadian VP Finance, Godfrey Nthunzi, said it continued to advertise through the slow economy. He believes this strategy allowed the company to scoop up some market share. "We have grown in the marketplace, probably because we went opposite to what most of our competitors did in the downturn. A lot of people pulled back in terms of the support of their products. It's worked for us. We are significantly up, even in those segments of the market that are down. So we've done well." Nthunzi said growth in sales of dish cleaning products may be a double-edged sword, though, since it may be the result of people economizing by eating at home more often. "That's been good, but we certainly think it can't last. If things don't turn around, we may reach a point where people begin to scale down even on products like ours," Nthunzi said.

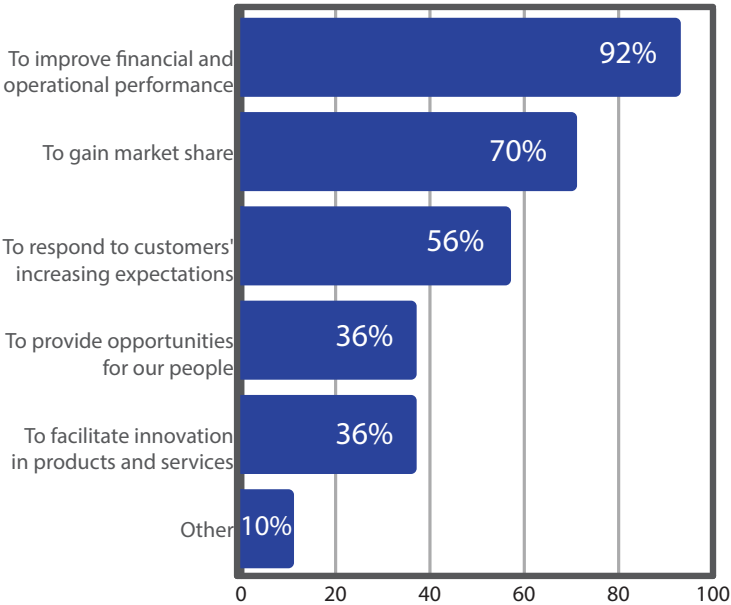
WHY COMPANIES PURSUE GROWTH

Results from our study show that companies pursue growth both to seize opportunities and to respond to changes and pressures in the marketplace.

When we asked financial executives to list the top three reasons why their organizations are pursuing growth, not surprisingly, “improving financial and operational performance” ranked the highest – 61% placed it as a top motivator, and 150 out of 163 respondents voted it into the top three. They’re also concerned with gaining market share (114 out of 163 respondents) and responding to customers’ increasing expectations (92 respondents), which round out the top three motivators (See Chart 2).

Several factors are driving the desire for growth. Respondents saw increasing pressure from competitors (69%) in both pricing and new product offerings. Also, 58% felt current economic conditions were a significant barrier to growth, and 49% believed increasing customer expectations were a barrier.

CHART 2: ORGANIZATIONS PURSUE GROWTH FOR NUMEROUS AND VARIED REASONS (RANKED IN TOP THREE)



WHY COMPANIES PURSUE GROWTH

Growth is seen by some organizations as a way of achieving economies of scale – and one obvious example is in manufacturing and distribution. “In distribution, size does matter. Economy of scale is critical to remain competitive,” wrote one respondent. Diversification may also be necessary for existing operations in order to reduce reliance on a single large customer or to offset a decline in other areas of the business.

Organizations may also pursue growth as they respond to pressure to produce a better return for shareholders, whether the company is public or privately held. Growth may foster better returns on investments in a business. It may also be a proactive or reactive response to competition – either staying ahead of rival organizations or running to catch up.

“With several strong forces all weighting relatively equally, clearly companies must respond by creating a holistic growth strategy that will encourage leading-edge products, maintain a high-quality workforce and target strong customer relationships,” concluded John Harris, National Leader of Privately Held Business for Grant Thornton LLP.

“Growth keeps you fresh. You have to adjust and adapt, test your people and yourself.”

Survey respondent

“We need to be bigger to access capital.”

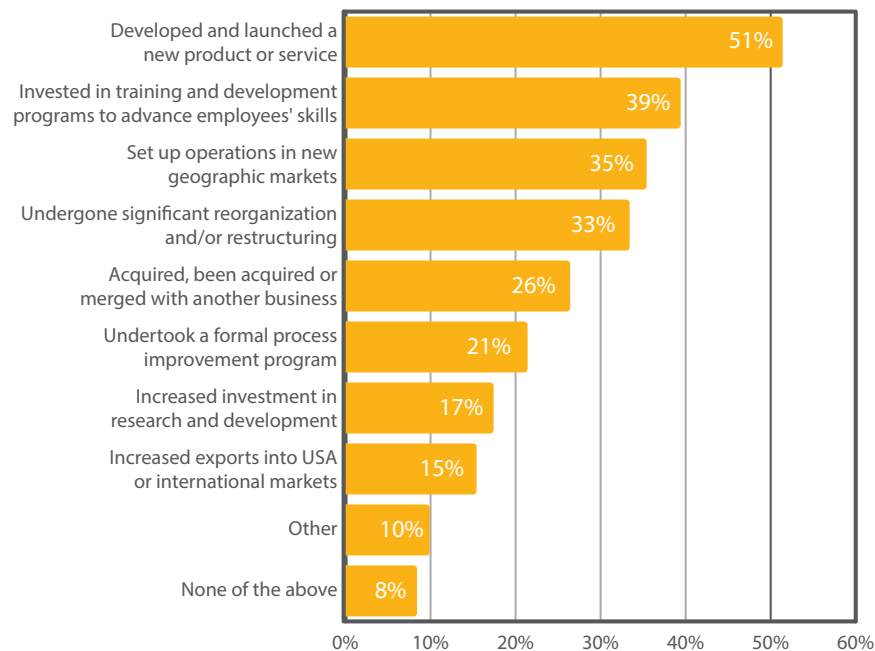
Survey respondent

DRIVERS OF GROWTH

There are many ways to achieve growth, and the most successful companies understand that they need to think about growth in a holistic way. That means pursuing multiple channels for growth as part of an overall integrated strategy. Respondents cited many reasons for their own recent growth, including: launching a new product or service (51%), investing in training and development (39%), opening up new markets (35%), reorganizing for growth (33%), engaging in M&A (26%) and process improvement (21%). Respondents from organizations that have been in business the longest were the most likely to attribute recent growth to these kinds of initiatives. See Chart 3.

Looking forward, we see that companies have a diverse list of growth priorities. When asked about the single most important focus of their growth strategy, the top answer was a focus on developing deeper relationships with clients (23%). The rest of respondents were fairly evenly split between saying their primary focus is on expansion, increased efficiencies, acquisition, new products/services, and new facilities/equipment.

CHART 3: THINKING ABOUT THE LAST 12 MONTHS, WHICH OF THE FOLLOWING HAVE CONTRIBUTED TO YOUR BUSINESS GROWTH? CHOOSE ALL THAT APPLY.

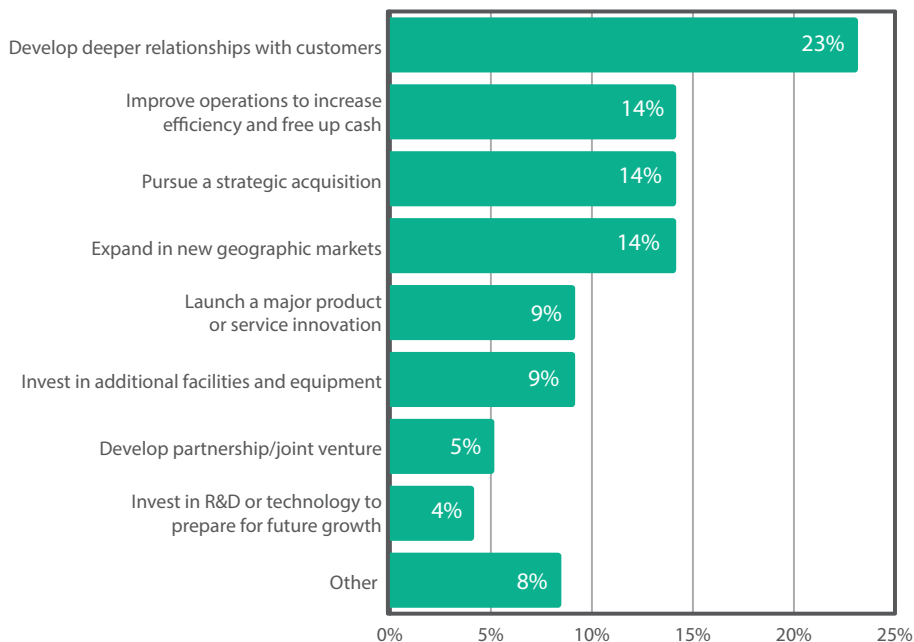


DRIVERS OF GROWTH

Case study: Netting seafood sales

Nova Scotia's Clearwater Seafoods Limited has a five-year plan based primarily on organic growth, measured by revenue, EBITDA, and profit-per-pound of seafood sold, according to Treasurer Tyrone Cotie. He added that opportunities to grow by making acquisitions (such as the chance to buy a fishing quota) are too rare to be planned. The company has targeted to grow revenues by 5% per year while maintaining EBITDA as a percentage of sales of 15% or higher, all while reducing its leverage to three times EBITDA and achieving a return on assets of 12%. It plans to do this by challenging each area of the business with the question "What can we do to make ourselves more competitive?" This may include, for example, implementing new technology to reduce costs, such as the introduction of automatic shucking technology on its Canadian scallop fishing boats. An example of the marketing and sales side is the introduction of value-added products such as bacon-wrapped scallops.

CHART 4: WHAT IS THE SINGLE MOST IMPORTANT FOCUS OF YOUR ORGANIZATION'S GROWTH STRATEGY?



CUSTOMER-FOCUSED GROWTH

Customers and clients are part of what is driving the growth agenda. A deeper relationship with existing customers was seen as the most important focus in the growth strategy for a quarter of respondents.

While creating and selling new products to new customers will increase revenues, it's just as important to focus on selling more products and services to existing customers. Survey results showed that companies with the highest revenue growth were also more likely to have launched a major product or service innovation. Those in lower revenue categories were more likely to report a focus on either improving relationships with customers or improving operations to increase efficiency and free up cash.

To increase the number of customers, companies may seek to increase market share, acquire another company or engage in a joint venture overseas to grow in other regions. They may also choose to improve or expand product offerings through innovation, or emphasize customer service. According to one survey respondent, the way to increase the number of customers is by "meeting customers' needs in order to build trust, and maintaining the highest industry standards to stand out from competitors."

As the number of customers increases, organizations must be prepared to support growth by devoting adequate staff and other resources to ensure customer expectations are met or exceeded. That said, small companies must also be careful not to overdo customer service to the detriment of the company, according to Stephen Massel, CFO of Hotspex. In the case of a consulting firm that wins a project-based bid with a set price, the revenue does not increase if the company ends up doing more work than required or expected. "You've really got to manage your pricing and resources carefully. We want to exceed expectations and make an impression. Once we exceed those expectations, we're looking to obtain referrals from these clients. We feel that's the best way for us to grow," Massel said. For Shikatani Lacroix Brandesign Inc., the situation is similar. "The revenue is fixed in our business. If you win a project, it's over, that's it, that's the number," says Derek Petridis. "We're trying to do a little bit more than what's expected, but at the same time, not lose our shirt," he adds.

CUSTOMER-FOCUSED GROWTH

“We have lots of large companies as customers and we’re trying to determine how to extract more from them and give them a lot more value. We’re also trying to determine how to offer what we do to the SME (small and medium-sized enterprise) market at a cost effective rate.”

Bob MacBean – Senior VP & CFO, Energy Advantage Inc.

Obtaining customers through tenders or RFPs isn’t restricted to the design world, of course. According to Lida Sadrazodi, CFO of KUBRA, a document management and e-billing service that wins 99% of its business through the difficult tender process, it’s a double-edged sword. “Contracts are typically between three and five years and the majority of the contracts get renewed. We rarely lose anybody during the life of the contract due to quality of the services that we are providing.”

Case study: Banking on growth in market share

Fostering strong relationships with customers is a priority for Canadian Western Bank Group, according to CFO Tracey Ball. The bank, which operates exclusively in Canada’s four western provinces, primarily focuses on commercial lending, with 85% of its loans going to mid-tier businesses. “We know a lot about the industries in the west and credit decisions are made here. Customers like that,” Ball said. “Our strategy is to be both a responsive and responsible commercial banker. We don’t think it makes sense to try to compete head-on with the large banks for retail banking clients.” Ball said that when dealing with customers, the bank is “prudent” but prompt when considering loan requests. “Sometimes that means not lending them more than they can afford,” she noted. The bank gains customer loyalty through building strong relationships, resulting in positive word-of-mouth that has boosted the bank’s customer base. The bank has experienced double-digit growth in 19 of the past 20 years, with the only exception being the 2008 credit crunch. “We still see excellent opportunities to grow market share in the commercial banking sector,” she said. “We’re definitely known as a growth company.”

GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

“One approach to growth is to innovate by expanding; whether that means adding product and service offerings, or expanding into new geographical areas. However, organizations can also grow by focusing on a niche area and honing it. We grow faster if we focus on a certain service or product, or a certain sector, and we spend most of our resources on that. That’s really been the most successful for us. Bigger companies with lots of resources may be able to do everything, but when you’re smaller and have resource constraints, you’ve got to focus.”

Bob MacBean – Senior VP & CFO, Energy Advantage Inc.

“We’ve got an awful lot of clients who have one of our services but not two, three or four. The challenge is to ask ourselves how we can package our products and services to be able to deliver two additional services to an existing client. In many ways, that’s an easier sell since they already know us and appreciate the work we do for them.”

Scott Milligan – CFO, Morneau Shepell Ltd.

“We’ve been fully engaged in trying to find out how we could get the company to the next level, play in the sandbox of big players, and add to the zippiness of our services so we can increase the volume. We still see potential we have not tapped into, and we haven’t touched the global market for expansion either.”

Lida Sadrazodi – CFO, KUBRA

“It’s easy to grab some of those projects that are sometimes large, sometimes exciting, but are just a distraction, and add no value to the core business.”

Iain Ball – VP & CFO, Progressive Solution Inc.

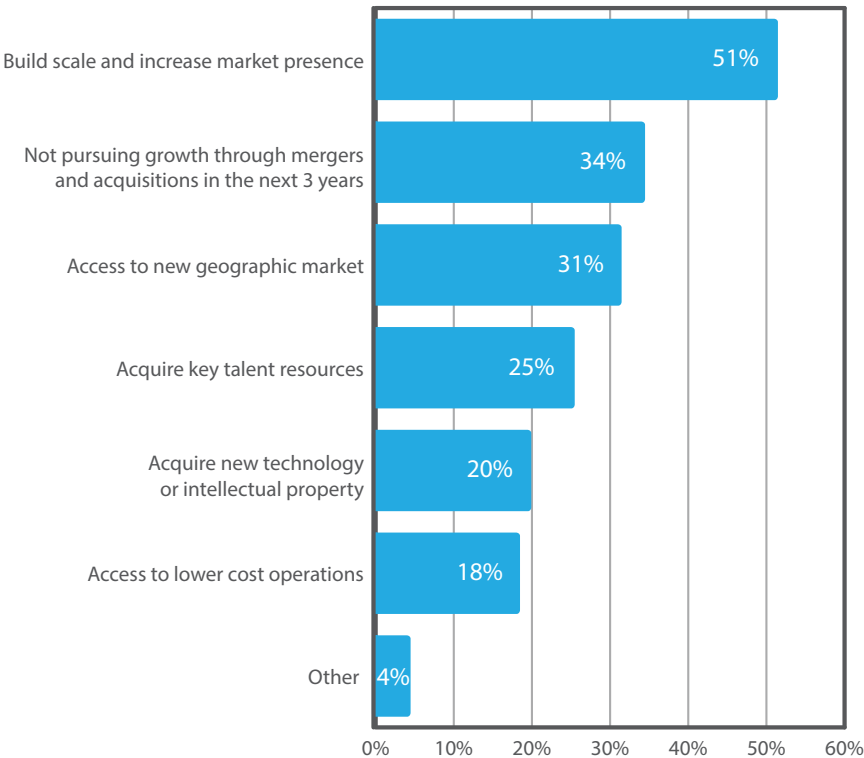
PURSUING MERGERS AND ACQUISITIONS

PURSUING MERGERS AND ACQUISITIONS

“We look at inorganic growth and acquisition separately and don’t consider it part of the growth run rate.”
Scott Milligan – CFO, Morneau Shepell Ltd.

Engaging in mergers and acquisitions is certainly one strategy to grow a company. In fact, 26% of respondents have been involved in M&A in the last 12 months. According to half of respondents, building scale and increasing market presence were key drivers for growth through M&A. This reason was cited most frequently by participants from companies 25 years old or more (57%), compared to younger companies in business less than five years (33%).

CHART 5: WHAT ARE YOUR KEY DRIVERS FOR GROWING THROUGH MERGERS AND ACQUISITIONS? CHOOSE ALL THAT APPLY.



GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

Interestingly, companies that had relatively strong revenue growth in the last year were more likely to say strategic acquisition is a top focus of their organization's growth strategy.

Public companies were far more likely than their private counterparts to report that M&A activity had been a key contribution toward business growth in the last 12 months (43% of public versus 21% of private).

Sometimes, the result of strong growth and outperformance of peers in the same sector can make a company a takeover target, as was the case with Progressive Solution Inc., a software company that was recently bought out. According to Iain Ball, VP and CFO of Progressive, "the company that acquired us needed top line growth that also translated to improved bottom line and value creation."

Case study: Growth through acquisition

Dessau, a Canadian engineering and construction firm with extensive international operations, has doubled their number of employees in the last six years, growing from 2,400 to 4,800. That increase has been achieved mostly through acquisitions, according to CFO Marc Godin. "We're not for sale, so we've decided to grow the company by acquisition," he said. The company's acquisition strategy is to seek small professional services companies that lack a succession plan. According to Godin, when Dessau buys a company, they offer shares as incentives to key employees. About one in 10 Dessau employees are shareholders, which makes them a lot more "sensitive to risk," according to Godin. The company has made acquisitions in the Maritimes, Ontario, Alberta and in South America. While Quebec represents 78% of the company's revenues today, Dessau would like to reduce its geographic concentration in Quebec to 50% through national and international growth over the next three years in order to reduce risk.

EXPANDING IN NEW MARKETS

EXPANDING IN NEW MARKETS

Survey respondents were most likely to be considering domestic markets for their expansion plans. While many were looking for expansion to new areas in Canada, 29% were planning to expand into the United States, while only 17% were looking at China and Asia Pacific, 13% to South and Central America, and 12% to Europe (See Chart 7). Private companies were more likely to be planning to expand domestically, while public companies were more likely to seek expansion into the United States, and South and Central America. A significant percentage (32%) was not planning to expand in new geographic markets at all.

“I was actually quite surprised to see how few companies were looking outside North America,” said Bill Brushett, National Client and Services Partner, Grant Thornton LLP. “It’s a concern. This can only serve to limit opportunities for growth. Canadian companies would do well to explore their options and not just pursue a conservative domestic growth strategy.”

Companies that experienced the highest rate of growth last year were the most likely to be setting up operations in new geographic markets (58%), compared with those companies that reported modest growth last year (20%). In addition, those with the highest rates of revenue growth were more likely to be planning to expand into the United States, while those in the lowest revenue growth rates were most likely to report that they were not planning to expand in any geographic markets at all.

Companies planning to expand into international markets saw strategic alliances, joint ventures and partners as the most viable way to grow beyond Canadian borders (35%). While just over a quarter were planning to pursue M&A strategies in order to expand internationally, 17% were looking to develop new supplier relationships and 12% were planning to open new manufacturing or service locations.

GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

CHART 6: WHAT INTERNATIONAL GROWTH ACTIVITIES DOES YOUR ORGANIZATION PLAN TO UNDERTAKE IN THE NEXT THREE YEARS? CHOOSE ALL THAT APPLY.

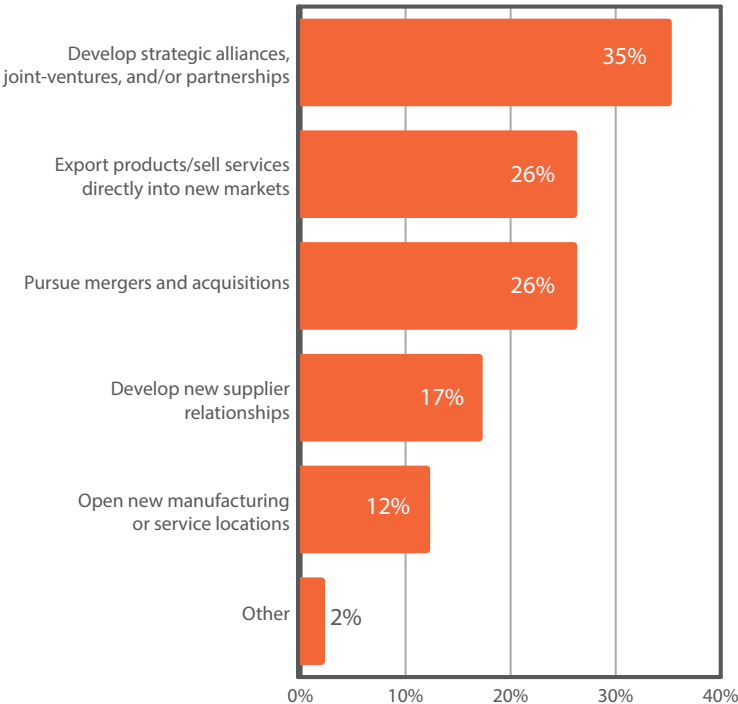
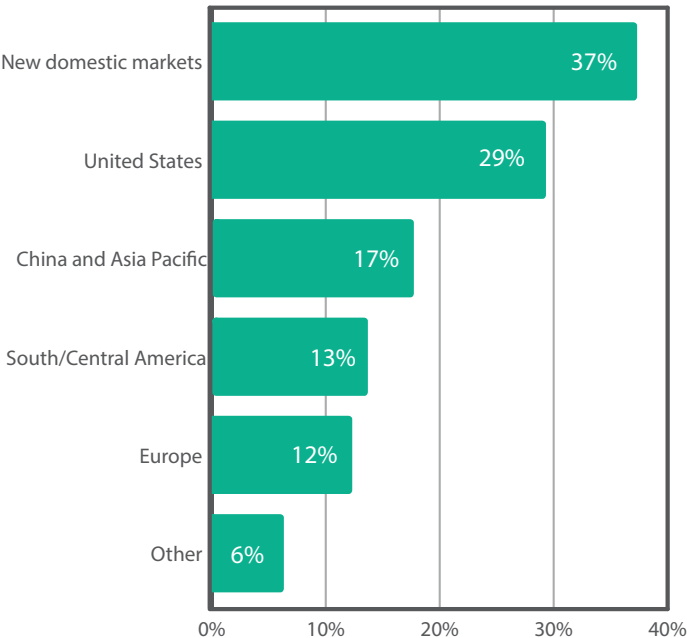


CHART 7: WHICH GEOGRAPHIC MARKETS DOES YOUR ORGANIZATION INTEND TO EXPAND INTO OVER THE NEXT THREE YEARS? CHOOSE ALL THAT APPLY.



32% OF RESPONDENTS WERE NOT PLANNING TO EXPAND INTO NEW GEOGRAPHIC MARKETS

EXPANDING IN NEW MARKETS

International expansion poses both risks and opportunities. As Bob MacBean of Energy Advantage Inc. notes, “Some people would say international growth is a risky business. You have to invest time and money, and it usually takes years to do well. But if you’re able to execute well, we see it as a risk reduction strategy because you are diversifying the risk around the world.” When looking for opportunities abroad, Energy Advantage Inc. uses three criteria to pick partners: access to capital, resources that can help the company execute its strategy, and clientele. If these criteria can’t be found, Energy Advantage Inc. won’t enter a region.

One of the biggest risks of expanding overseas is simply cultural differences in the way business is conducted, according to Lida Sadrazodi of KUBRA. “We are so used to the way we do business in North America, but other parts of the world are not like that. That imposes a large risk and it limits your growth when you want to expand into those markets. The only way we can learn about that is by taking baby steps, go there and do lots of research ahead of time to manage that risk before getting into it.”

Even within North America, cultural differences can put a damper on an expansion effort, according to Richard Dowling, CFO of Jones Brown Inc., a property and casualty insurer. “We tried expanding into the States and we made a mistake there. We didn’t have local knowledge. We’re a regulated industry and we got ourselves into some trouble and had to partner with someone that had the necessary experience.”

“Our Brazil operation started off as an outsourcing location for programming, but it’s turned into an opportunity to pitch new business. As a result, the way in which we structured it was contingent on winning new business, and then we would then add to the existing team of developers we already had. It’s very prudent – using the cash flow from one aspect to fund the cash needs of the other. So far, that’s working for us. That’s how our growth has been all along – conservative and steady.”

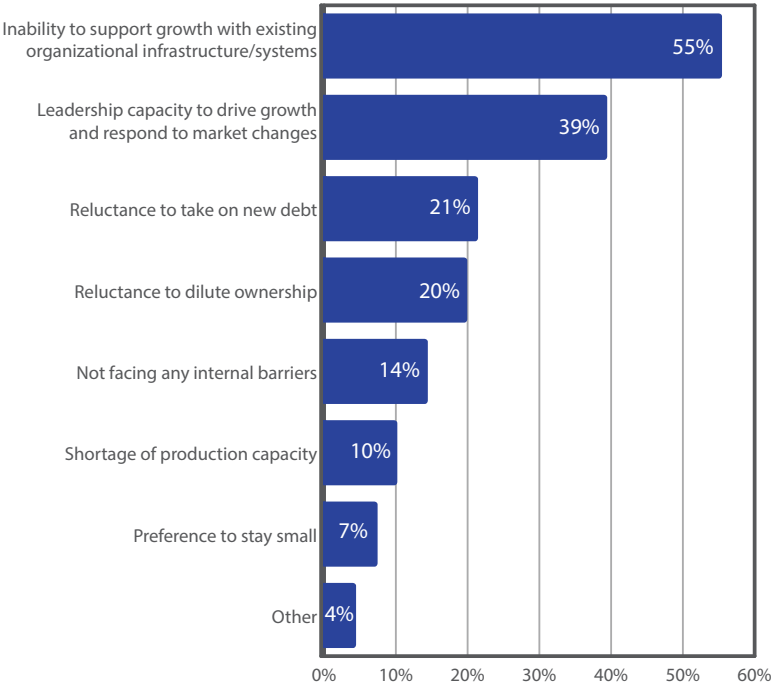
Anne Burpee – CFO, non-linear creations

CHALLENGES: BARRIERS AND EXTERNAL PRESSURES

The most common internal obstacle to growth cited by respondents was an inability to support growth with existing organizational infrastructure or systems (55%). One respondent even noted the organization couldn’t execute its own business plan, and lacked the necessary marketing and sales expertise (See Chart 8).

Leadership capacity was seen as a significant barrier by 39% of respondents. Further discussion at the Executive Research Forum revealed a full-plate agenda for executives that resulted in an inability to take on further tasks and a reluctance to hire additional support for these initiatives.

CHART 8: WHICH OF THE FOLLOWING DO YOU CONSIDER TO BE THE KEY INTERNAL BARRIERS TO REALIZING YOUR ORGANIZATION’S GROWTH GOALS AND OBJECTIVES? CHOOSE ALL THAT APPLY.



Companies also face external pressures on growth. These include a shortage of skilled labour (34%), including a shortage of “willing to work” labourers. Those who were affected by a shortage of skilled labour complained of challenges such as being unable to implement strategic growth objectives or being unable to meet product and service quality standards. One executive complained there wasn’t enough staff to meet customer demands, while others pointed to the challenges of finding qualified workers to do administrative tasks, construction work, as well as highly-skilled functions such as engineering. Even non-skilled labour seemed to be difficult to find, according to one survey respondent. “We just need bodies. We will train them.”

CHALLENGES: BARRIERS AND EXTERNAL PRESSURES

“The answer might be employee ownership, according to Richard Dowling, CFO of Jones Brown Inc. “The biggest problem in achieving organic growth is finding good salespeople. We searched high and low and have found two that we’d like to hire. We’re down to the last pieces of the compensation discussion, trying to find the right package for them. Over the years, we’ve developed different ways for key employees to become shareholders and we figure that mitigates a lot of risk since they’ve got a bit of ownership position. It does work, but it’s finding that right mix of compensation strategy that is difficult.”

Richard Dowling – CFO, Jones Brown Inc.

Tracey Ball, CFO of Canadian Western Bank Group, has seen the region benefit from the oil sands boom, among other drivers, but thinks the labour shortage slows growth. “These are big issues for our clients. They can’t get enough workers. That affects their growth, which in turn affects our growth,” she said. A lack of availability of financing was another barrier affecting growth prospects for 31% of respondents. As FEI Canada and CFERF have reported in previous studies, many of the companies most in need of credit are those least able to get it.

Regulations and red tape were cited as a barrier to growth by 26% of survey respondents. Dealing with regulatory and compliance issues is an ongoing challenge for Canadian Western Bank Group, according to Tracey Ball. “That would be our biggest frustration,” she said. Other challenges included an inability to access new markets (21%) and a shrinking demand for key products and services (15%) (See Chart 9).

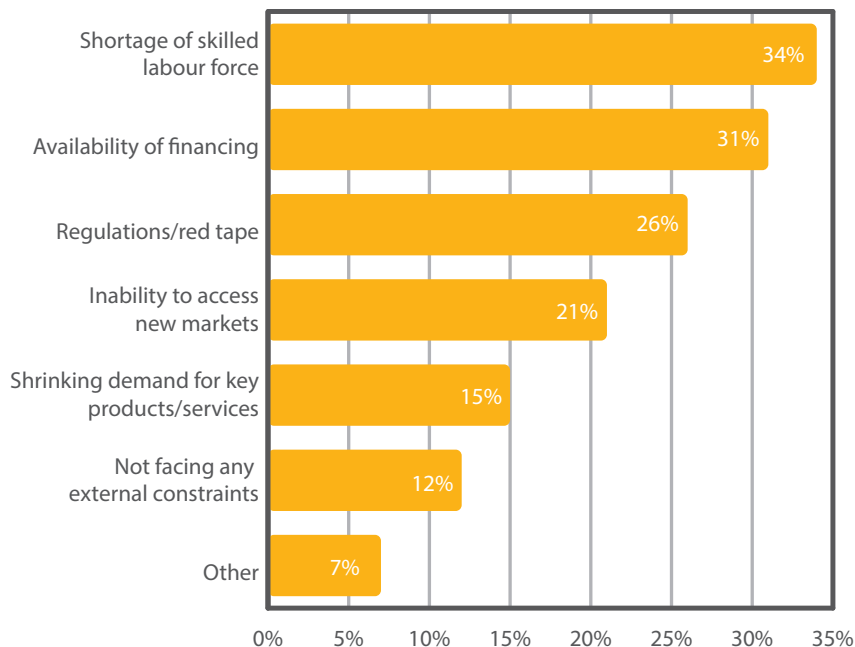


CHART 9: WHICH OF THE FOLLOWING DO YOU CONSIDER TO BE THE KEY EXTERNAL CONSTRAINTS TO REALIZING YOUR ORGANIZATION'S GROWTH GOALS AND OBJECTIVES? CHOOSE ALL THAT APPLY.

RISK MANAGEMENT

KEY RISKS WITHIN A GROWTH STRATEGY

Risk management can be key to a successful growth strategy. The survey looked at risks that were of greatest concern. Respondents overwhelmingly cited concerns about a change in demand from clients/customers (58%). The next three answers clustered around regulatory risk (36%), changes in credit availability (33%) and commodity price change (31%). Interestingly, interest rate changes and currency fluctuations ranked relatively low as risks to growth.

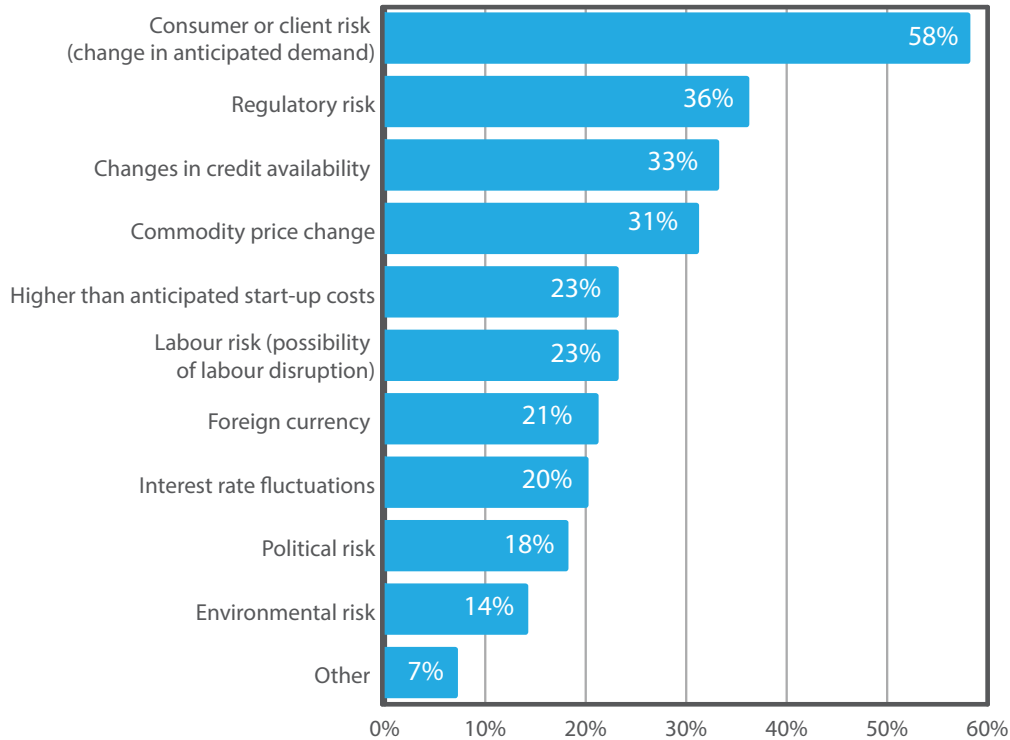
Not surprisingly, public companies were more likely to view regulatory risk as a great concern (45% of public companies compared to 27% of private companies). They were also more likely to be concerned about higher-than-expected start-up costs and political risk. Private companies were more concerned about consumer or client risk, or a change in anticipated demand.

Participants in the Executive Research Forum discussion had significant concerns about maintaining a high-quality workforce and the ability to replace top-performers who left, indicating that human capital was seen as a significant risk to growth. Whether growth is organic or through acquisition, the risk of losing key talent must be managed.

Hotspx, a market research firm, has a few senior vice-presidents who drive the majority of the company's business, according to CFO Stephen Massel, who points out that this creates a human capital risk if one of them were to leave. "We've actually changed our compensation plan to add a long-term component." In addition, the company has transformed its management method from the hierarchical CEO approach, Massel said. "It's a committee of the senior people that effectively runs the organization," he adds. Human capital risk is also a concern for non-linear creations, a web design company. According to CFO Anne Burpee, the firm is competing with its own clients to hire senior employees. "We are in a very tight labour market. It'll be our death if we do not groom the next stage coming up," she said.

RISK MANAGEMENT

CHART 10: AS PART OF YOUR GROWTH STRATEGY, WHICH OF THE FOLLOWING RISK AREAS ARE OF GREATEST CONCERN? CHOOSE ALL THAT APPLY.



According to Jad Jebara, former Senior VP of PEER 1 Hosting, important questions to consider relating to retention strategies and employee performance include: “Do employees know what’s expected of them? Do they have the materials and tools to do their jobs? Do they feel that they belong here? Can they grow in the company?”

FORMALIZING RISK MANAGEMENT

Effective risk management must address potential opportunities and threats to all aspects of a growing business, including leadership, operational, financial, political and geographic risk. With an effective enterprise risk management (ERM) program in place, a growing company is better prepared to address potential opportunities and challenges that may present themselves internally and from external market forces.

That said, only 18% of respondents said they had a fully implemented ERM process to ensure opportunities and threats to growth were identified, both strategically and operationally. One in 10 survey respondents had implemented an ERM process at the strategic level. Disconcertingly, 39% of survey respondents said they relied on an informal risk management process in their organization. In addition, when respondents were asked how they evaluate which growth opportunities to pursue, only 25% conducted a formal risk analysis.

Public companies were more likely to have implemented ERM than their private counterparts (27% versus 7%). Public companies were also more likely to have completed a formal risk analysis of growth opportunities (37%) when compared with private companies (17%). The greater incidence of formal risk planning in public companies may be due to the fact that boards of directors are now mandated with the responsibility for risk management. Unfortunately, many people incorrectly view ERM as simply a governance compliance activity and fail to see the significant benefit it can provide as a management tool, from a strategic and operational perspective.

“We have two major business reviews with our parent company every year. We have to talk about risks that could affect our growth prospects, and the corporation identifies those risks they believe are common enough to require a global position on them. For instance, the corporation has identified that reputation risk is a big issue for us worldwide. Because of who we are, there are things you can't do regardless of how business is done in a certain geography. And that really defines things we can do.”

Godfrey Nthunzi – VP, Finance, Colgate-Palmolive Canada Inc.

RISK MANAGEMENT

“I would like to say we have a robust formal risk management process, but we don't. However, we are always looking forward to assess the 'what ifs' of events occurring. Mining is such a risky business anyway. There's the environmental risk, capital risk, particularly in the exploration side, the stress of finding where your next dollar is going to come from, and the uncertainty about what you're going to find in the ground. You can drill holes and come up empty. These are pretty huge risks. It's inherent in the industry, so everyone is constantly assessing the risks. Maybe it's not a formal process, but every day we are looking at what the risk is going to be like at the next stage.”

Alan Ahlgren – CFO, AQM Copper Inc.

While many companies can choose to implement a risk management process, in some cases the risk process is dictated by its contractual obligations with clients. According to KUBRA's Lida Sadrazodi, “We can't sign an agreement until we demonstrate that we have full disaster recovery in place and there is no risk of interruption of our services,” she said. “Because it's all electronically based, we have to demonstrate that if one data centre or printing facility goes down, another data centre or facility is set up and ready to function and there will be no delay.”

FINANCE'S ROLE IN SUPPORTING GROWTH

Finance plays an integral role in growth. In fact, 47% of survey respondents feel their finance function is well prepared or extremely well prepared to support their organization's growth strategies, while 18% said their finance function was only "somewhat prepared to support growth". The rest fell somewhere in the middle, and only 4% said it was not very well equipped. Public companies were more likely to say their finance functions were well prepared than private companies (57% versus 37%).

That said, survey respondents did acknowledge areas for improvement – 72% said there would need to be an increase in capacity in the finance function in order to better support the organization's growth strategies. Private companies were far more likely to say this than public companies (83% versus 50%). More than half (56%) said the skills of the finance team would need to be increased, and 36% said finance needs to become more strategic and holistic in its approach. Public companies were also more likely to say finance needs to get involved early in the strategy and planning processes (50% versus only 21% of private companies).

Finance can support growth through its traditional functions by ensuring the company is liquid, has pre-approved financing or access to credit, or by demonstrating the company's solid financial footing to stakeholders including shareholders, the board and prospective investors.

To overcome some capacity constraints, the finance function should ensure that routine and necessary business processes are as efficient as possible, in order to free up resources for more strategic management. Stephen Cummings, the CFO of Lumira Capital Corp., is an advocate of data warehousing, which allows for the efficient storage and efficient extraction of data. "The exploitation and application of technology to record and analyze data is the way forward for me and is the way that a CFO applies the resources at his disposal towards value added activities, empowering the finance department as a business partner, as opposed to being mired in the day-to-day," Cummings said.

Providing accurate data about the company's financial health is a necessary component for growth planning, according to Tracey Ball, CFO of Canadian Western Bank, noting finance should provide meaningful information in an organized and timely manner.

FINANCE'S ROLE IN SUPPORTING GROWTH

Producing reports on the performance aspects of a company's business can shed light on the efficiency or effectiveness of different product lines, branches, units, divisions or operations. But to do this well, finance must be equipped with the proper tools to do the job, Ball added, noting software and analytics must be useable by finance staff without relying on more specialized IT expertise. "The bigger you grow the more you have to rely on technology."

Senior management support can help the finance function become more strategic. According to Derek Petridis, of Shikatani Lacroix Brandesign Inc., "Our owner identified that we needed a management team mentor to help freshen up the management team, to really guide us in this growth path. The finance role is to provide the metrics, the measurement, the analysis and the insight, but a management mentor elevates and focuses the management team in quantifying and qualifying our growth plan."

“Finance’s role isn’t just to keep score, but also to predict and change the score. Predicting the score means finding out which way the trend is going and asking what the future is going to look like. That’s going to be our traditional planning and analysis kind of roles. And in order to change the score, we need to ask what we need to do to support the business to make the outcome different. How can we keep score in a really efficient manner so that we can focus more time on predicting the score and changing the score? It really is about taking ownership to make that happen.”

Scott Milligan – CFO, Morneau Shepell Ltd.

CONCLUSION

Growth strategy: Perspectives from financial executives shows there is significant optimism about the potential for growth in Canadian companies. But as the old saying goes, “failing to plan is planning to fail.”

Companies that are actively seeking growth should consider a holistic approach.

As the participants in the Executive Research Forum highlighted, and the case studies show, a growth plan should not just be about financial metrics. “The way a company defines growth ultimately guides its growth strategy,” says Bill Brushett of Grant Thornton LLP. “Instead of a focus on a revenue number that may or may not generate a high level of incremental profitability, an executive team that takes a more holistic view can better evaluate the implications of its strategy on its long-term sustainability, as well as specific growth opportunities. At the same time, a holistic approach is more likely to consider the impact of growth initiatives on issues such as competitive positioning, quality of existing client base and potential within that base, talent retention, and process improvement.”

The research shows that companies that have been in business the longest were more likely to be already executing a growth plan than others. Less established companies can bear in mind that drafting and formalizing a growth plan can be very helpful in executing their strategy, keeping in mind that such a plan will have to be continuously updated as conditions evolve.

Developing a formal risk management process can contribute to more successful planning and execution of a growth strategy.

The road to successful growth invariably has barriers and obstacles along the way. Companies that formalize their risk management process are more aware of these constraints and are in a better position to develop a growth strategy that takes them into consideration; thereby improving the likelihood of success. The top internal obstacles cited by respondents were insufficient organizational infrastructure and a shortage of leadership capacity. Externally, key barriers were a shortage of skilled labour and availability of financing. To deal with these constraints, companies can proactively

CONCLUSION

develop strategies to streamline processes, develop additional leaders within their organization, emphasize retention and recruitment, and seek creative approaches to financing.

Due to regulatory and governance requirements, public companies, not surprisingly, were more likely to have a fully implemented ERM process in place. Private companies can learn from their public company peers in this area and would benefit from instituting formal risk management practices. Formalizing the risk assessment and management process can truly support execution of their growth plan and result in greater success in achieving an overall growth strategy

Companies can grow in a number of ways, including through new product/service innovation and geographic expansion.

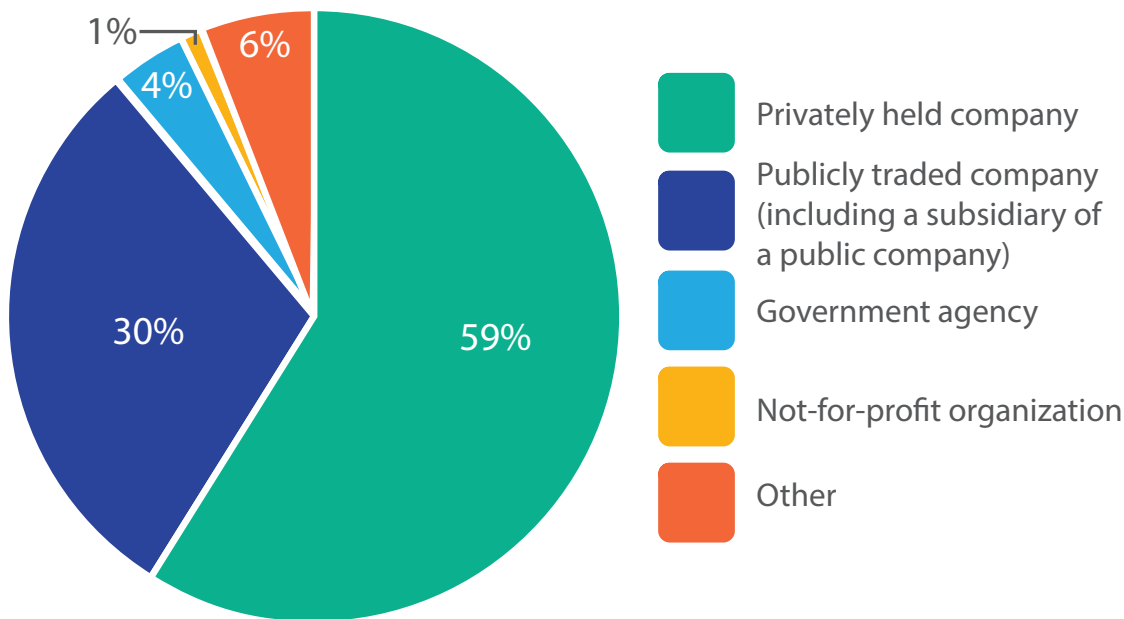
There are many ways to achieve growth, and the most successful companies understand that they can pursue multiple channels as part of an overall integrated strategy. The research showed that product and service innovation contributed to growth in over half of respondents. Geographic expansion also contributed to growth.

The research also showed that the companies with the highest growth rates last year were more likely to say that pursuing a strategic acquisition was the most important focus of their organization's growth strategy as well as being far more likely to expand geographically, both domestically and internationally. Companies can venture into new territories to both seize opportunities of a larger market and mitigate the risks of their domestic market. They can learn about new markets by taking small steps. This can be achieved by seeking local partners, creating joint ventures and developing supplier relationships. Focusing solely on Canada may prove to be a missed opportunity which in the long run limits a company's potential for growth.

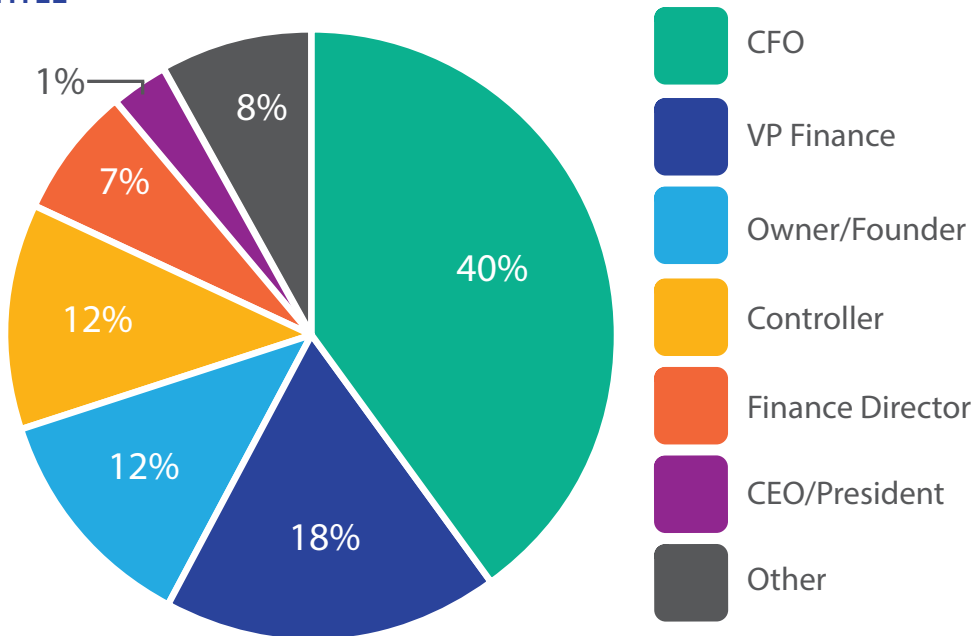
With information and insights like these in hand, we hope the research helps financial executives determine how other organizations with similar and differing attributes are approaching growth, and thus be in a stronger and more informed position to support their own company's growth.

APPENDIX A: SURVEY DEMOGRAPHICS

CORPORATE STRUCTURE

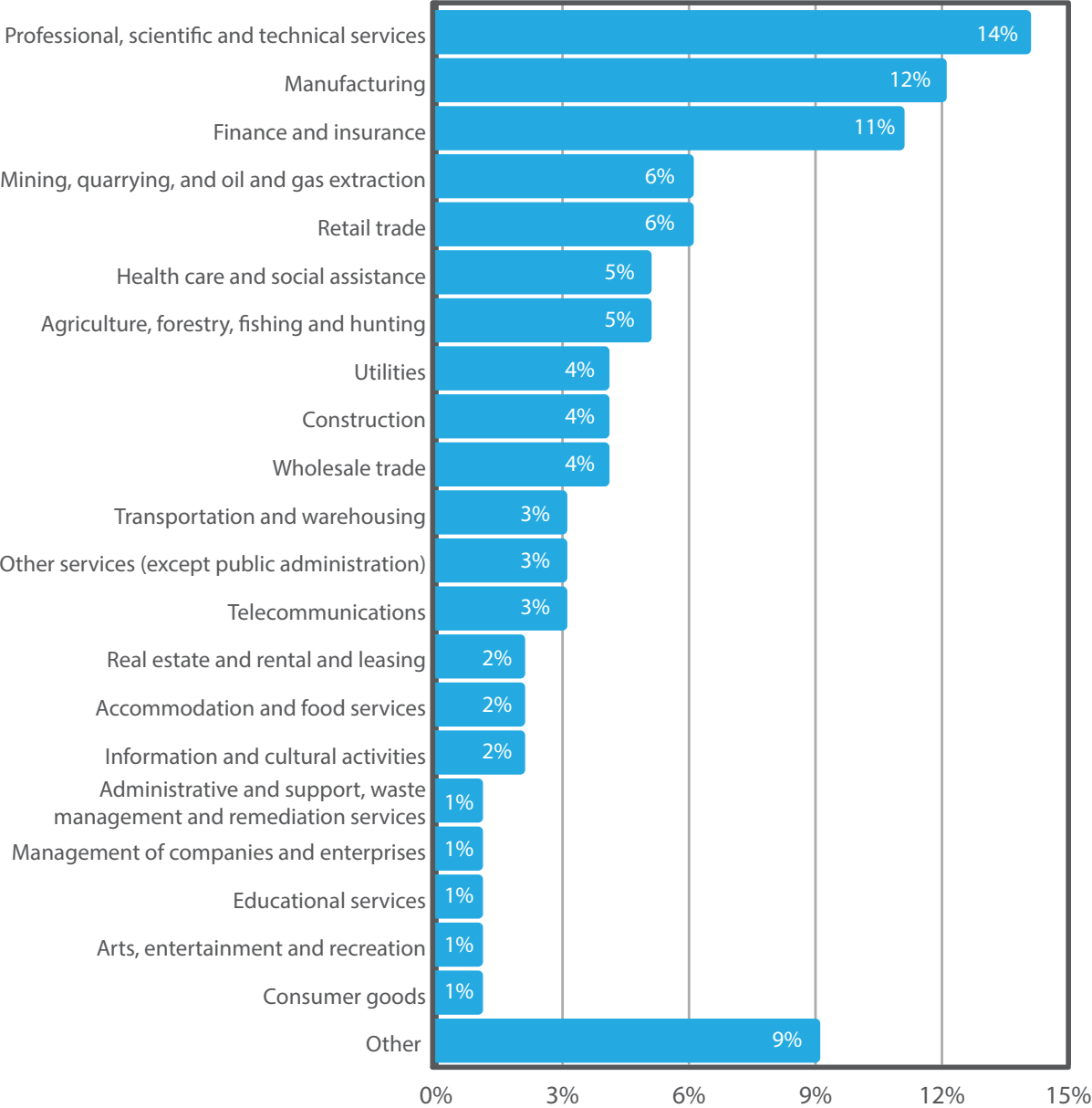


POSITION TITLE



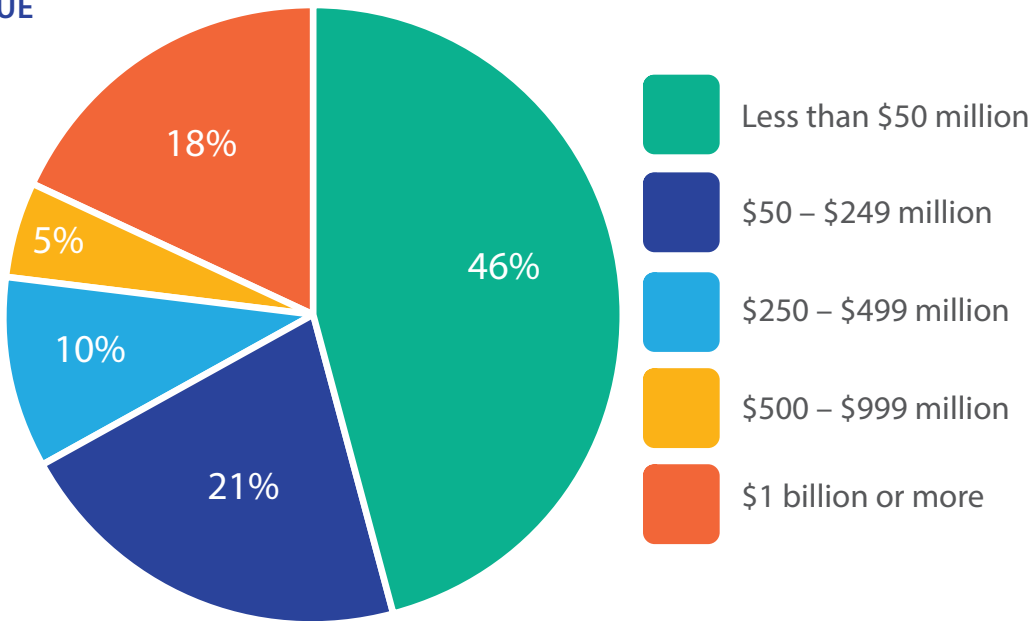
APPENDIX A: SURVEY DEMOGRAPHICS

INDUSTRY CLASSIFICATION

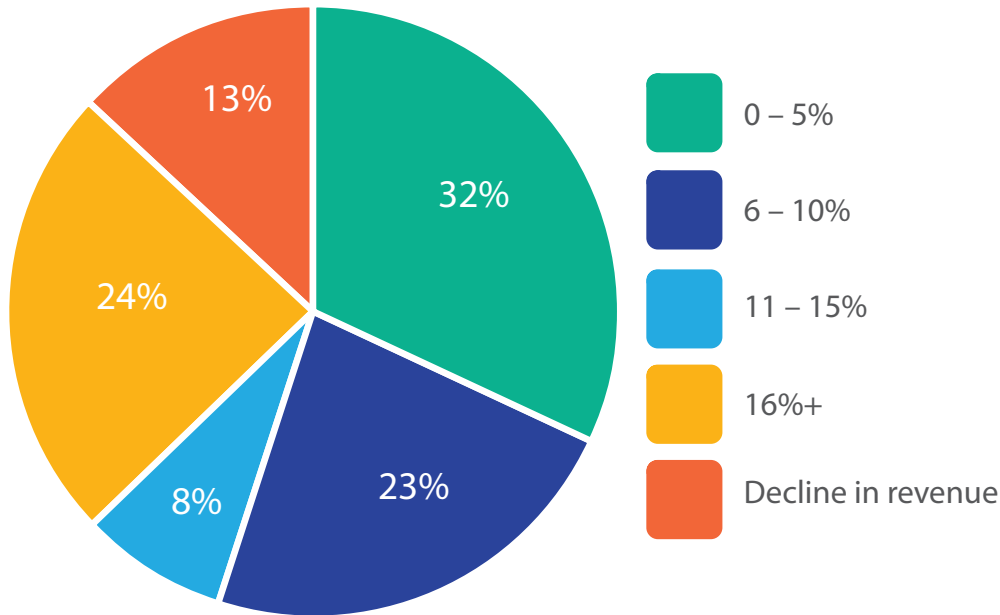


GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

ANNUAL REVENUE

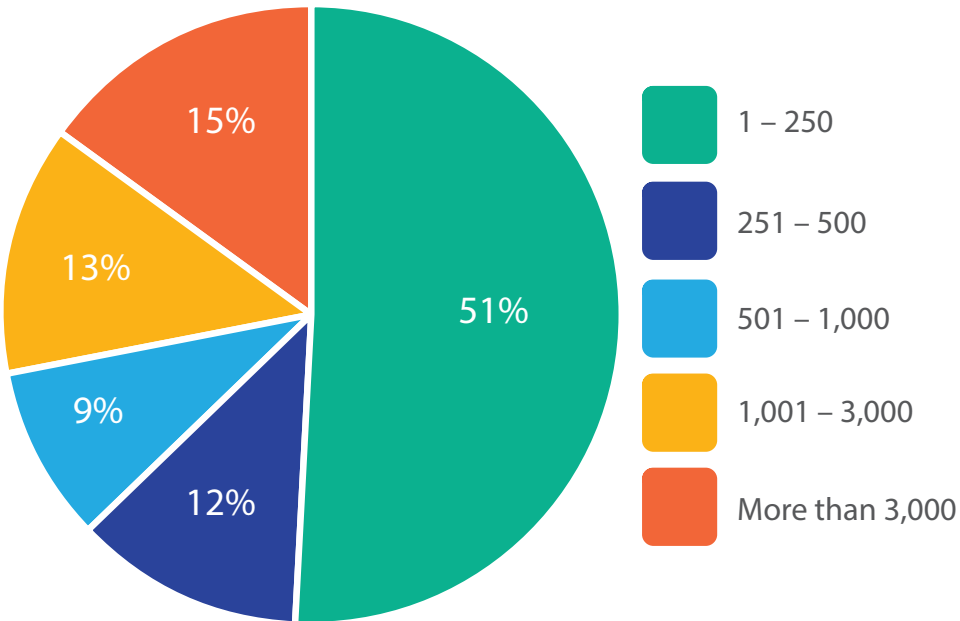


REVENUE GROWTH LAST YEAR

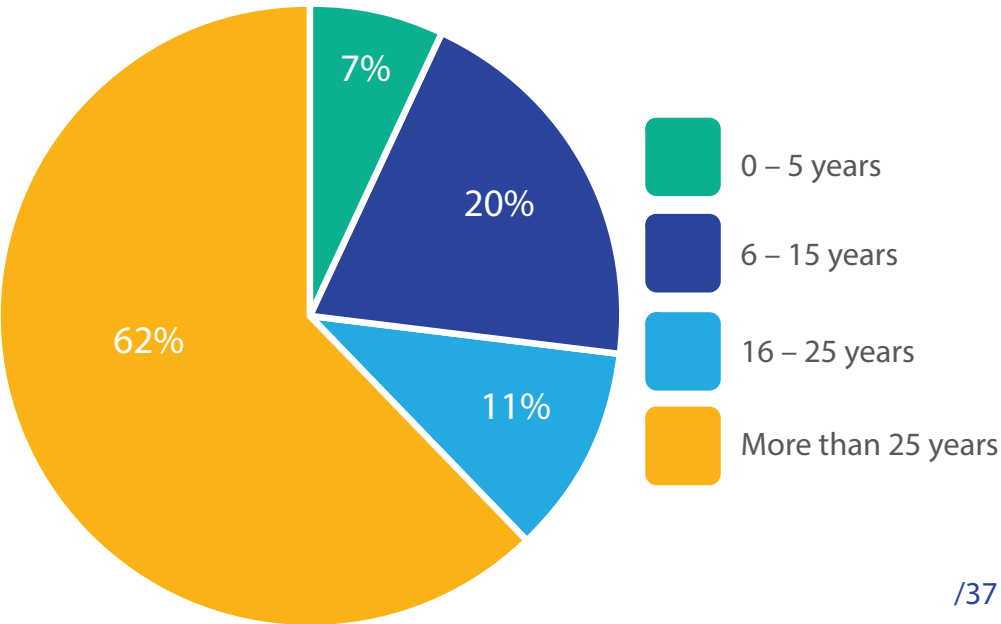


APPENDIX A: SURVEY DEMOGRAPHICS

EMPLOYEES



YEARS ORGANIZATION HAS BEEN IN BUSINESS



APPENDIX B: FORUM PARTICIPANTS

Forum Chair:

Michael Conway – Chief Executive & National President, FEI Canada

Moderators:

Christian Bellavance – Vice President, Research & Communications, FEI Canada

Greg Gallant – National Leader, Publicly Listed Companies, Grant Thornton LLP

John Harris – National Leader, Privately Held Business, Grant Thornton LLP

Toronto Participants:

Bill Brushett – National Client & Services Partner, Grant Thornton LLP

Anne Burpee – Chief Financial Officer, non-linear creations

Stephen Cummings – Chief Financial Officer, Lumira Capital Corp.

Richard Dowling – Chief Financial Officer, Jones Brown Inc.

Sujeet Kini – VP Controller, Open Text Corporation

Bob MacBean – Senior VP & Chief Financial Officer, Energy Advantage Inc.

Stephen Massel – Chief Financial Officer, Hotspex

Scott Milligan – Chief Financial Officer, Morneau Shepell Ltd.

Godfrey Nthunzi – Vice President, Finance, Colgate-Palmolive Canada Inc.

Derek Petridis – Vice President, Finance, Shikatani Lacroix Brandesign Inc.

Lida Sadrazodi – Chief Financial Officer, KUBRA

APPENDIX B: FORUM PARTICIPANTS

Vancouver Participants:

Alan Ahlgren – Chief Financial Officer, AQM Copper Inc.

Iain Ball – Vice President & Chief Financial Officer, Progressive Solution Inc.

Brad Cruickshank – Chief Financial Officer, Dueck GM

Jad Jebara – Former Senior Vice President Finance & Administration, PEER 1 Hosting

Interview Participants:

Tracey Ball – Chief Financial Officer, Canadian Western Bank Group

Tyrone Cotie – Treasurer, Clearwater Seafoods Limited

Marc Godin – Chief Financial Officer, Dessau Inc.

Observers:

Mishka Alarcon – Marketing Manager, National Sectors/Segments, Grant Thornton LLP

Megan Bell – Communications & Research Intern, FEI Canada

Laura Bobak – Senior Writer, FEI Canada

Fabiola Garcia – Senior Marketing Manager, Sectors & Communications, Grant Thornton LLP

Melissa Gibson – Communications & Research Manager, FEI Canada

Katherine Pancuska – Senior Research Analyst, Grant Thornton LLP

GROWTH STRATEGY: PERSPECTIVES FROM FINANCIAL EXECUTIVES

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