

Quebec: *the business growth landscape*

Grant Thornton International Business Report 2014



Introduction

Quebec is a province in east-central Canada of approximately 8m people. It is the second largest province in Canada (after Ontario) by both size of population (24% of Canada total) and economic output (20%). Canada as a whole ranks 10th globally in terms of GDP and GDP per capita.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 200 business leaders interviewed in Quebec, 400 in Canada (in total), and more than 12,500 globally, over the past 12 months.

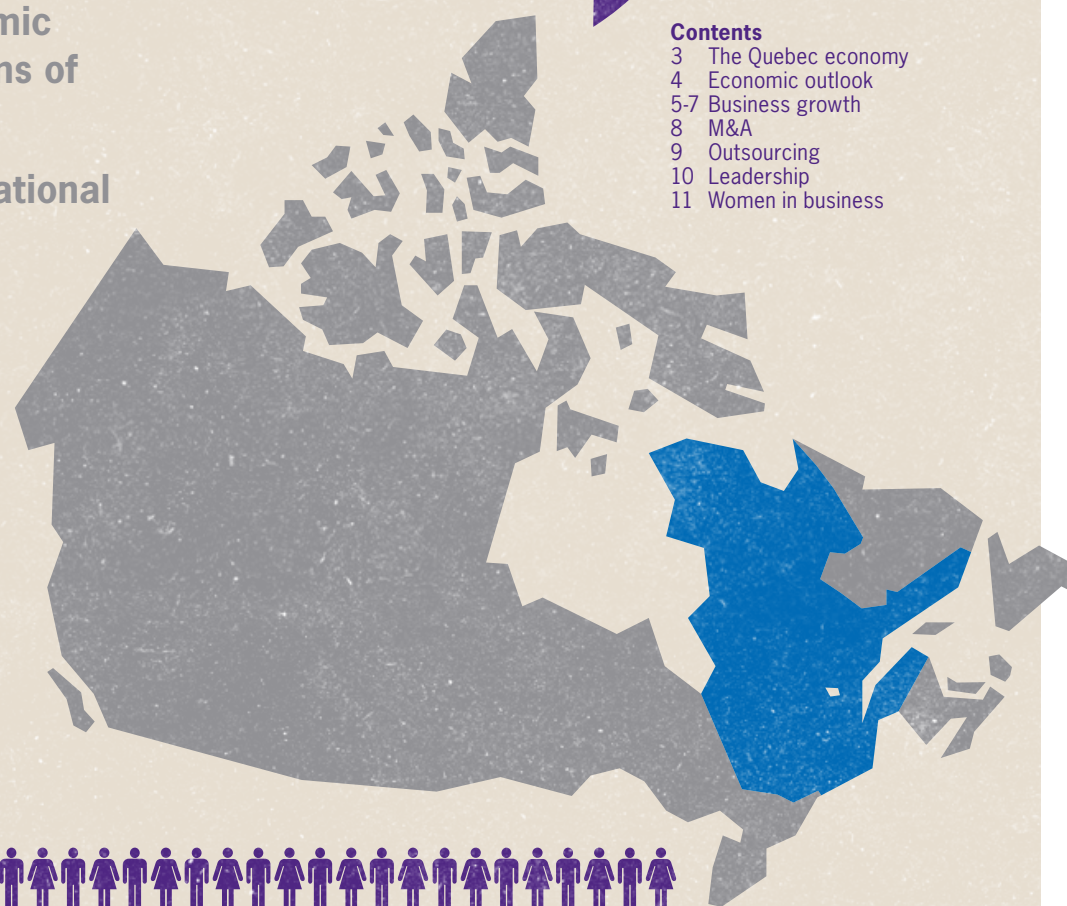
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200
business
interviews

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8 million inhabitants

Economy

Canada

Canada weathered the global financial crisis relatively well compared with advanced economy peers – it was the only G7 economy that did not require a government bank bailout. Growth in the intervening years was relatively strong (and above the OECD average) despite weakness south of the border although the pace of expansion slowed to 2.0% in 2013. The unemployment rate has fallen steadily from 8.3% in 2009 to 7.1% in 2013. The inflation rate slowed sharply in 2012 and 2013, dropping to just

1.0% – below the Bank of Canada’s 2% target but has picked up again in 2014. The United States and China are key trading partners.

The economy ranked 5th in the Global Dynamism Index 2013 which ranks the business growth environments of the top 60 economies in the world, ahead of the United States (11th) and Japan (15th). Canada ranked 2nd globally for the dynamism of its business operating and financing environments.

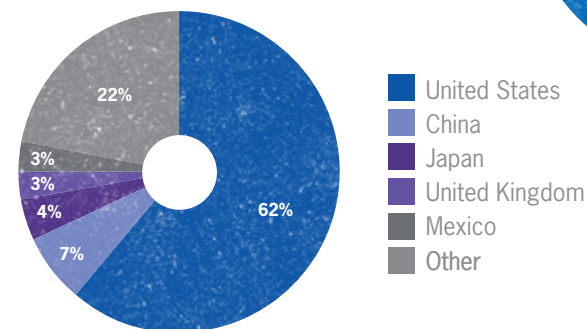
Quebec

The Quebec economy accounts for around a fifth of economic output in Canada. The province has abundant natural resources, including forestry and mining. Other principal sectors include aerospace and transport manufacturing, telecommunications and energy. Key exports come from the forest industry (printing, lumber and paper), mining (aluminium and iron ore) and transportation equipment manufacturing. The United States accounts for over two-thirds of total exports from the province.

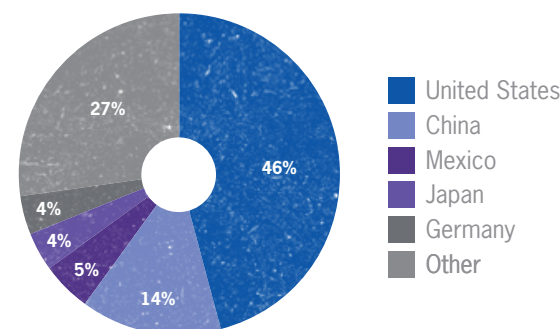
The economy has grown more slowly than the Canada average since the global financial crisis, posting expansion of 1.5% in 2012 and 1.1% in 2013 compared with 1.7% and 2.0% in Canada as a whole respectively. The important house building sector has slowed considerably over recent years with more than 10,000 fewer units built in 2013 compared with 2011.

Economy expanded by **1.1%** in 2013

Export destinations (Canada)



Import origins (Canada)



Source: Observatory of Economic Complexity

Economic outlook

Canada

Canada's economy is expected to expand by 2.1% in 2014, accelerating to 2.3% in 2015 driven by increased levels of investment and private consumption. This is broadly in line with the United States although the outlook for both economies is heavily dependent on an orderly reduction of the Federal Reserve asset purchase programme. Public sector spending will continue to grow slowly as the government reduces the budget deficit which is expected to narrow to 1.9% by 2015 down from 3.1% in 2013.

The budget deficit could actually be eliminated sooner if the economy continues to improve, raising tax revenues. Growth of 0.8% in Q2 (3.1% at the annual rate) was the best showing by the economy in almost three years and was boosted by private consumption growth of 0.9% suggesting that Canadians are more positive about the outlook despite the high debt-GDP ratio. Exports grew by 4.2% over the quarter and are expected to average 3.6% in 2014, rising to 4.5% in 2015.

Quebec

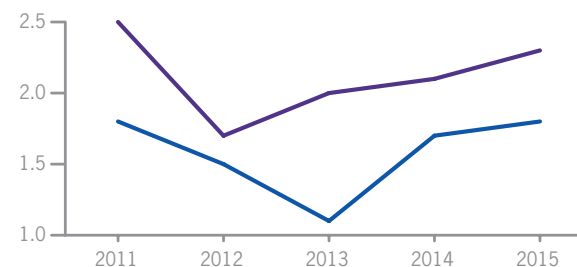
Quebec's economy is expected to continue to grow more slowly than Canada as a whole over the short to medium-term. Real GDP is forecast to expand by 1.7% this year, climbing slightly to 1.8% in 2015. This sub-par performance reflects both greater fiscal restraint required in Quebec compared with other provinces and weaker demographics as population growth lags behind that of Canada as a whole.

Despite this, the unemployment rate is expected to remain stubbornly above the country average at 7.8%. Job growth has been largely stagnant with gains in the public

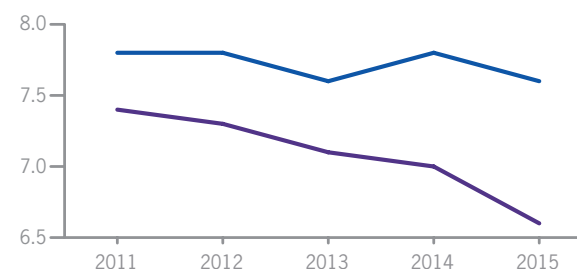
sector and amongst part-time workers offset by losses of full-time, private sector jobs. Weaker employment prospects, as well as the rising tax burden, are contributing to weak consumer demand with people spending less on housing, dining out and entertainment. However retail sales are expected to climb to 3.3% in 2014 up from 2.5% in 2013.

The outlook for the external sector is more positive as the US economy picks up steam. Real merchandise exports climbed 6.6% in H1-2014 compared with a year earlier, driven by rises in aircraft and parts (9.2%) and aluminium (6.9%).

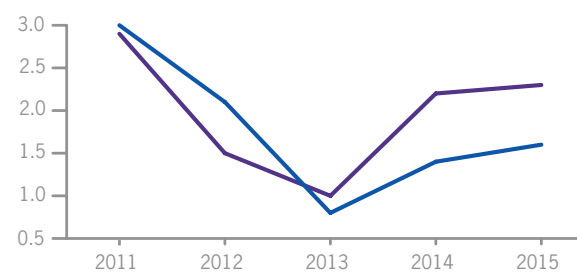
Real GDP growth (%)



Unemployment rate (%)



Consumer price inflation (%)



Source: Royal Bank of Canada; Economist Intelligence Unit

■ Quebec
■ Canada

Business growth

Indicators

The optimism of businesses in Quebec for the economic outlook rose sharply in Q3, climbing to net 70% , up from 42% in Q2, suggesting growth is set to pick up pace over coming months. Optimism amongst Canadian businesses as a whole has remained fairly stable well into positive territory over recent quarters; in Q3, net 57% of business leaders indicated optimism for the outlook.

Rising optimism in Quebec is feeding into brighter business growth prospects. The proportion of business leaders expecting to increase revenues climbed to net 48% in Q3, although this remains below the all-Canada average (61%). Profitability expectations are also up to 40%, but again the all-Canada average is significantly higher (61%). Export expectations in Quebec have steadily risen over the year, climbing from net 11% in Q1 to 24% in Q3, in line with the all-Canada average.

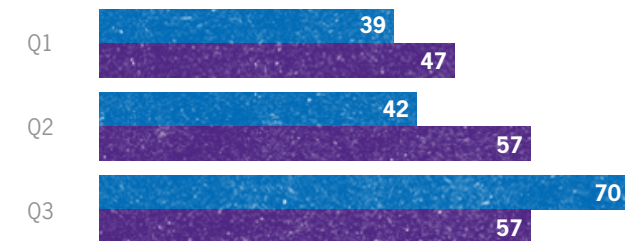
Employment prospects in Quebec remain subdued compared with wider Canada; net 28% of Quebec businesses plan to hire workers over the next 12 months, compared with 42% of businesses in the whole of Canada. Businesses in Quebec also remain relatively reluctant to turn on the investment tap: net 32% plan to increase investment in plant and machinery over the next 12 months compared with net 50% in Canada as a whole.

Quebec
businesses more
optimistic than
Canada
average

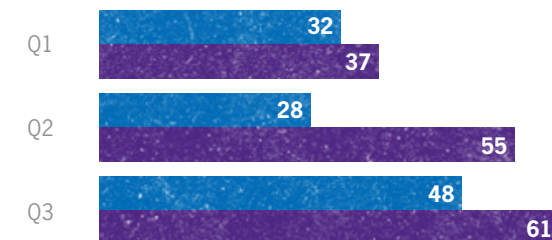
Profits and
revenue growth
prospects
below
Canada
average

Net percentage of businesses optimistic/expecting revenues/profits to rise (next 12 months, 2014)

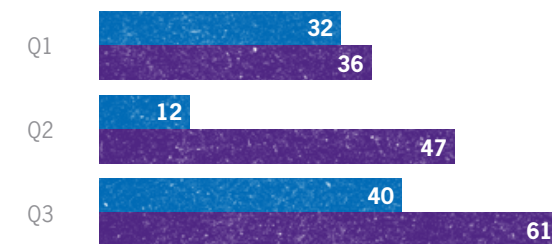
Optimism



Revenue



Profitability



Source: Grant Thornton IBR 2014

■ Quebec
■ Canada

Constraints

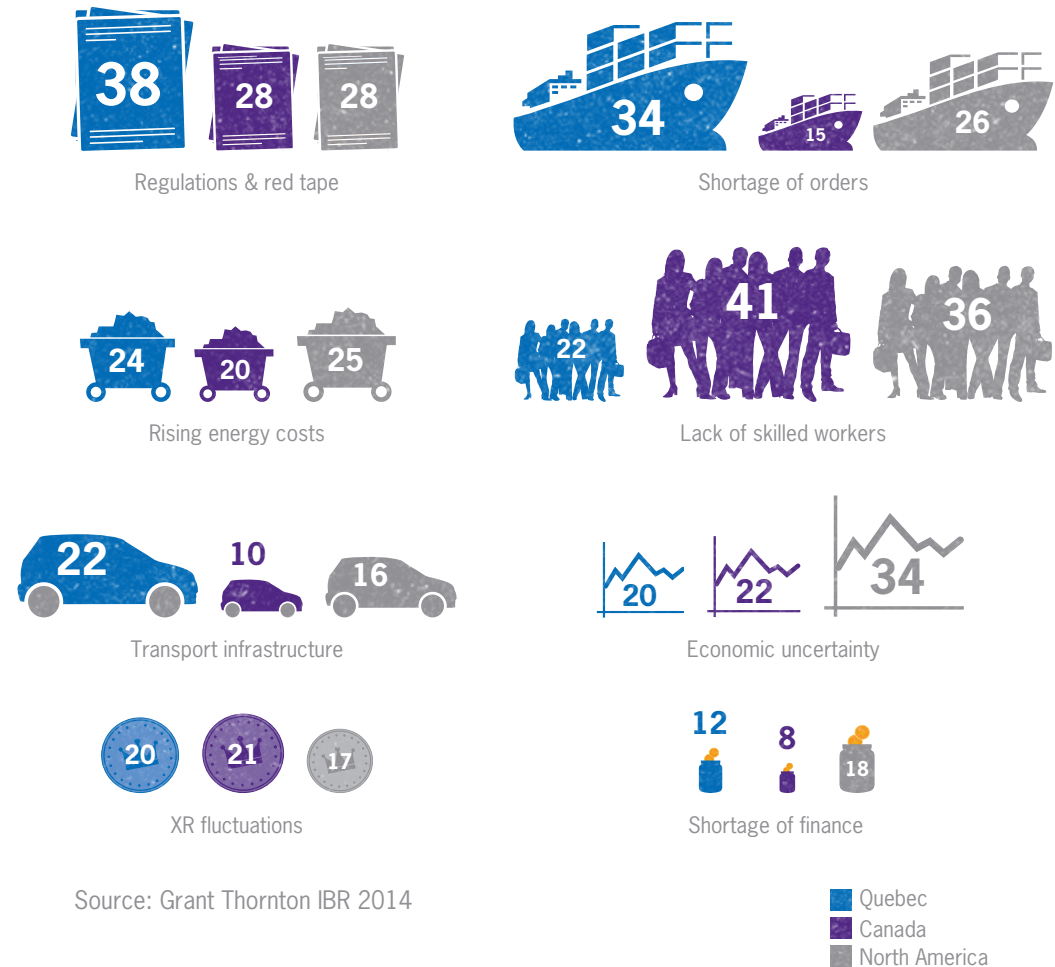
Businesses in Quebec are grappling with a range of constraints on their ability to expand their operations although bureaucracy and shallow demand are the principal factors.

Regulations/red tape is the major constraint facing businesses in Quebec; 38% of business cite it as a hindrance to their efforts to expand their operations, compared to 28% across both Canada and North America. A shortage of orders/reduced demand is also a major concern and is cited by more than a third of Quebec businesses (34%), more than double the all-Canada average (15%) and well above North America as a whole (26%). The quality of local transport infrastructure also emerges as a challenge, cited as a growth constraint by 22% of the province's businesses compared with just 10% countrywide.

However, Quebec's businesses are relatively untroubled by a lack of skilled workers which ties in with the higher unemployment rate in the province. Just 22% of business leaders in Quebec cite a lack of talent as a constraint compared to 41% across Canada as a whole.



Percentage of businesses citing factor as a constraint on growth



Initiatives

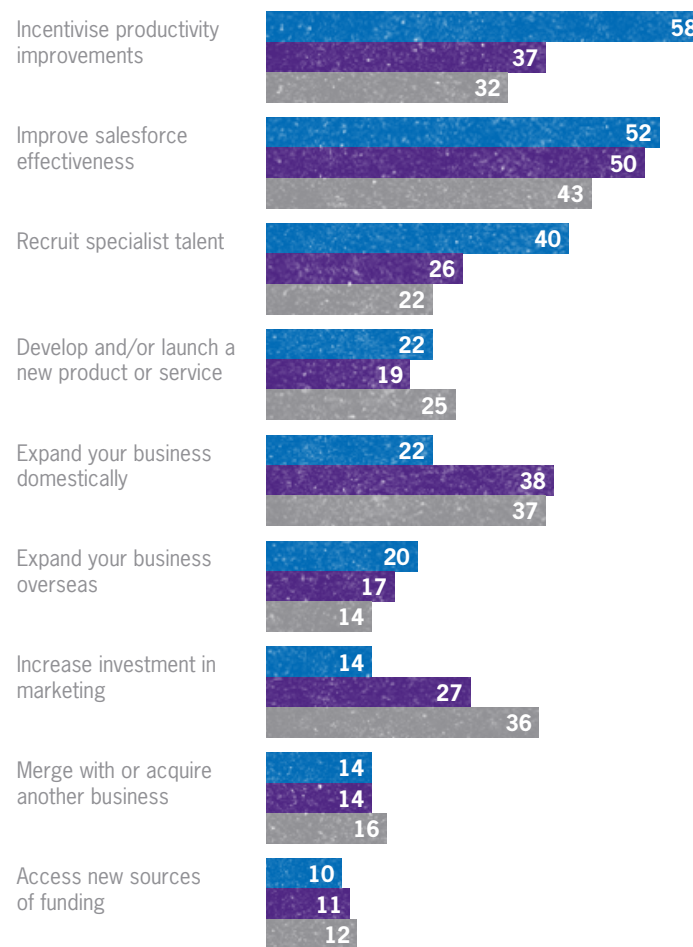
Businesses in Quebec are primarily focused on incentivising productivity improvement and improving sales force effectiveness in a bid to boost growth over the next 12 months.

Close to three in five businesses are looking at productivity improvements (58%) compared with 37% across Canada and 32% across North America, while 52% are looking at boosting the effectiveness of their sales force, above the Canada (50%) and North America (43%) averages. Businesses in Quebec are also much more focused on the recruitment of specialist talent (40%) compared with peers across Canada (26%) and North America (22%).

Conversely Quebec's businesses are much less interested in investment in marketing (14%) compared with the North America average (36%) perhaps reflecting the primary sector focus of many businesses across the province. Businesses across Canada (38%) and North America (37%) are also much more focused on expansion of their operations compared with counterparts in Quebec (22%).



Percentage of businesses planning to introduce initiative (next 12 months)



Source: Grant Thornton IBR 2014

■ Quebec
 ■ Canada
 ■ North America

Mergers & Acquisitions

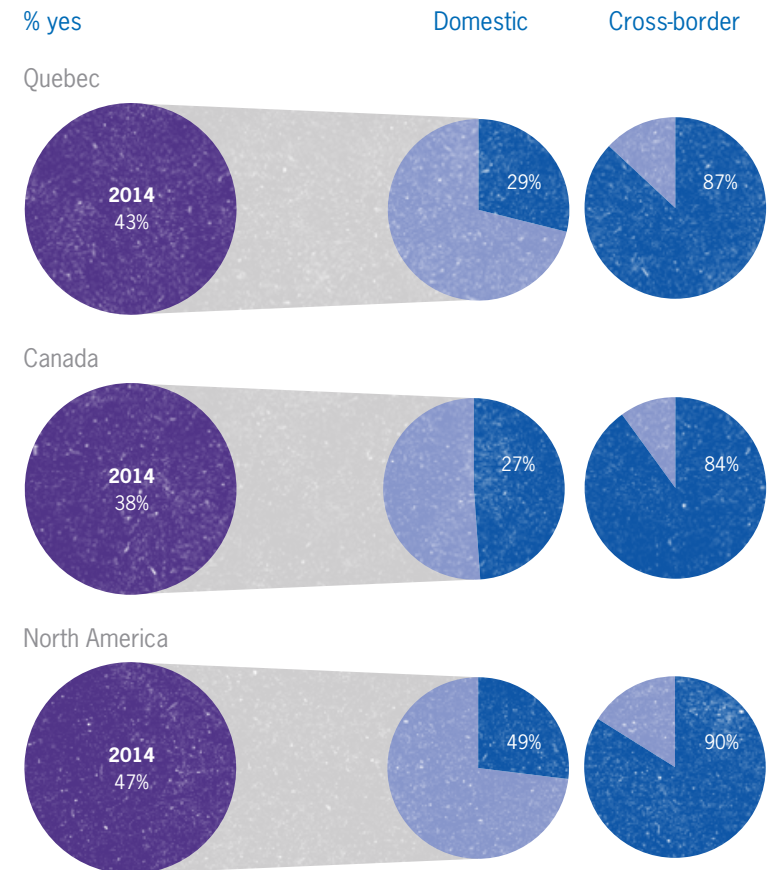
The acquisition of Tim Horton's by Burger King hit the headlines earlier this year, principally because it has been cited as another example of alleged corporate tax inversions (businesses in Canada face a tax bill of 15% compared with 35% south of the border) and businesses across North America remain focused on M&A activity.

Just over two-in-five Quebec businesses plan (43%) to grow through acquisition over the next three years, compared to 40% in Canada and 47% across North America. This compares with 31% globally. The vast majority of businesses in Quebec (87%), Canada (84%) and North America (90%) are looking at domestic opportunities. However, just under a third of businesses expecting to be active in M&A over the next three years in Quebec (29%) are looking at options further afield. This is slightly above the all-Canada average (27%), although well below that of North America as a whole (49%) however it remains to be seen what new tax rules introduced in the United States to slow the recent spate of corporate inversions have on cross-border activity.

The proportion of Quebec business owners expecting to sell up has declined over the past 12 months, falling from 13% in 2013 to 8% this year. The North America average has moved in the other direction while the all-Canada average has stayed broadly level.

**Two-in-five
businesses
planning to
grow through
acquisition**

Do you plan to grow through acquisition in the next three years?



Source: Grant Thornton IBR 2014

Outsourcing

Globally, two in five businesses outsource back office operations such as IT, tax or HR-payroll for a range of reasons including improving efficiencies and reducing costs.

The practice is relatively widespread in Quebec too: 43% outsource a back office process, in line with the North America average and above the all-Canada average (36%). However offshoring (outsourcing to another country) is much less popular: just 13% of Quebec businesses would consider offshoring, level with the whole of Canada, but well behind the figure for North America as a whole (30%).

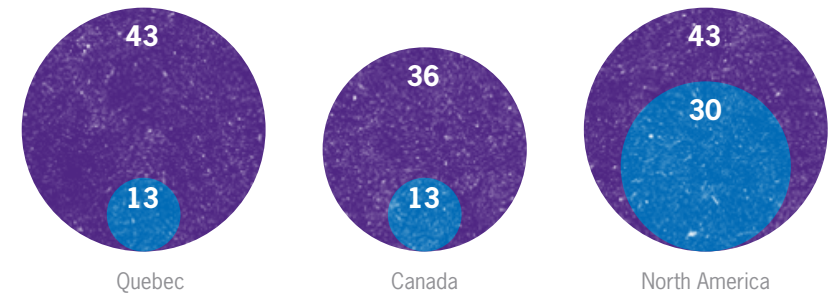
The outsourcing drivers in Quebec are varied and quite different from those seen across wider Canada and North America. For example, more than half of Quebec's businesses use outsourcing for employment reasons: 53% state that is easier to cut outsourced staff (as opposed to full-time employees) and 50% look at it as good way to reduce overall staff

headcount. This ties in to the relatively subdued outlook for employment across the province. By contrast businesses across North America are more focused on reducing costs (70%) and improving efficiencies (69%). Businesses across wider Canada are also three times as likely to be looking to access specialist expertise (60%).

The processes that Quebec's business leaders are looking to outsource are broadly in line with the all-Canada and North American results; 59% (of outsourcing businesses) in Quebec outsource tax (compared with 62% across Canada and 64% across North America). A further 56% outsource IT and 53% outsource HR-Payroll.

Percentage of businesses which:

- Outsource/plan to outsource a business process
- Offshore/are considering offshoring a business process



Source: Grant Thornton IBR 2014

Business processes outsourced



Source: Grant Thornton IBR 2014

Leadership

The role of leaders in creating successful businesses and driving growth is crucial. How these leaders run their teams and make decisions can be the difference between success and failure.

Across North America, business leaders hold very similar values when it comes to how they run their operations. Almost all leaders in Quebec cite integrity, communication and confidence (97%) as important to their leadership styles. This is in line with the wider Canada and North American averages. A positive attitude (96%), passion (93%) and the ability to inspire (92%) are similarly highly rated in the province. Interestingly business leaders in Quebec assign a higher importance to modesty (63%) compared with peers across Canada (55%) and North America (47%).

More than a third of business leaders in Quebec have used a business coach (34%) in line with the North American and global averages (both 35%). The most popular leadership development techniques employed in the province include setting challenging goals and monitoring progress (79%), requesting feedback from direct report (71%) and leadership skills assessments (69%). These results are similar to the Canadian average although developing a peer network came out relatively stronger across North America.

**Integrity,
communication
and confidence
are most important
to business
leaders**

Percentage of businesses citing attributes as important for being a good leader

	Quebec	Canada	North America
Integrity	97	96	98
Communication	97	96	96
Confidence	97	99	90
Positive attitude	96	95	92
Passion	93	93	86
Ability to inspire	92	91	93
Ability to delegate	84	88	80
Intuition	71	65	60
Creativity	63	63	61
Modesty	63	55	47
Sense of humour	47	45	44

Source: Grant Thornton IBR 2014

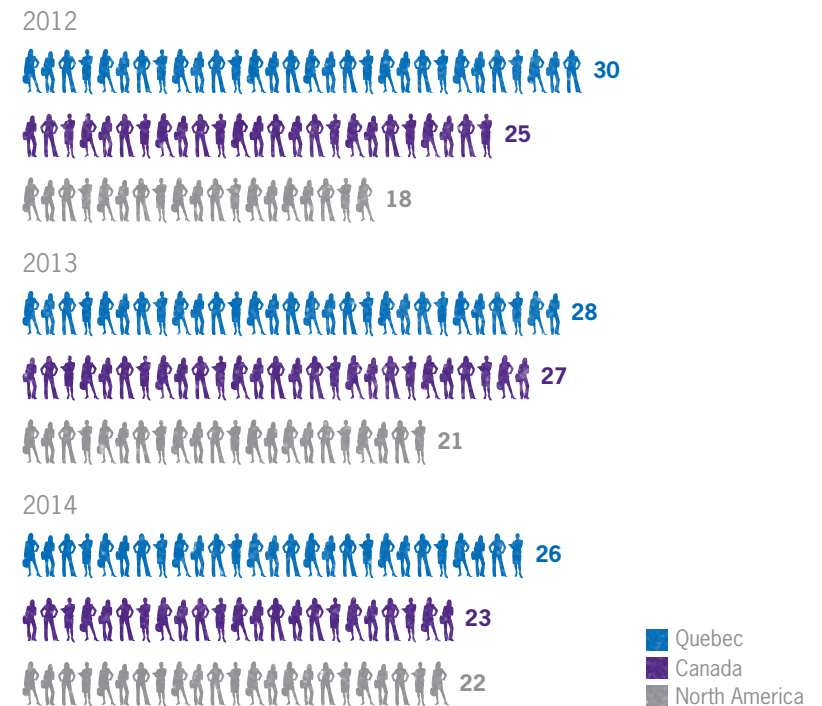
Women in business

In 2006, Quebec became the first province in Canada, and one of the first administrations in the world, to mandate quotas for the representation of women on the boards of state owned enterprises. When the policy was tabled women held 28% of such positions but had reached parity by the end of 2011.

The situation in the private sector is less egalitarian and, in fact, the make-up of senior management teams resemble that of state owned companies prior the introduction of quotas. Just over a quarter of senior management positions in Quebec are held by women (26%) a figure which has actually slipped slightly from 30% since 2012. That said, businesses in wider Canada (23%) and North America (22%) have less equal structures. Just under a third of businesses in Quebec have no female representation in their leadership teams (29%), broadly in-line with the all-Canada (32%) and North America (28%) averages. As is the case globally, women are most likely to be employed as CFO or as head of HR.

Despite (or perhaps because of) the apparent success of the state owned quotas introduced, business leaders in Quebec are slightly less keen on regulations around the proportion of women on large listed companies. Just 32% support such measures, compared with 36% across Canada. The North America average is marginally lower at 30%. Across North America, 75% of businesses offer flexible working to support the career paths of working mothers but this drops to 54% in Quebec (53% in Canada). However two-thirds of businesses in the province reserve the roles of people on maternity leave for up to a year (66%), compared with just 45% across North America.

Proportion of senior management roles held by women



Source: Grant Thornton IBR 2014

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 business leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with CAN\$15m-CAN\$500m. Q3 data is drawn from 2,500 interviews globally (50 in Quebec; 100 in Canada; 400 in North America) conducted in September 2014.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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