

Fundamentals of Growth

2009 FEI Canada Conference

Dangerous Waters – Surfing the Financial Tidal Wave

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Agrium Inc.

Surfing the tidal wave requires a surfboard



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How you land sometimes isn't as important as where you land



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Management's First Responsibility

- **Survival of the company**
 - This comes before all other measures
 - EPS or cash flow per share
 - Growth/Diversification
 - Social Responsibility



CFO's First Responsibility

- **Don't run out of money!**
 - Historically this meant ensuring the company was not so over levered that it could not survive through an economic or industry downturn
 - Now it also means ensuring you have liquidity sources to avoid major refinancing requirements



CFO's First Responsibility

- **Prior to 2008 it was becoming popular to increase leverage and accept lower credit ratings (investment to non-investment grade borrowing spreads 20-30 bp)**
- **Companies relied on short-term borrowing programs – lines of credit, commercial paper, bridge loans**
- **The 2008 liquidity crisis was more severe than we had seen before – especially independent of an economic driver**

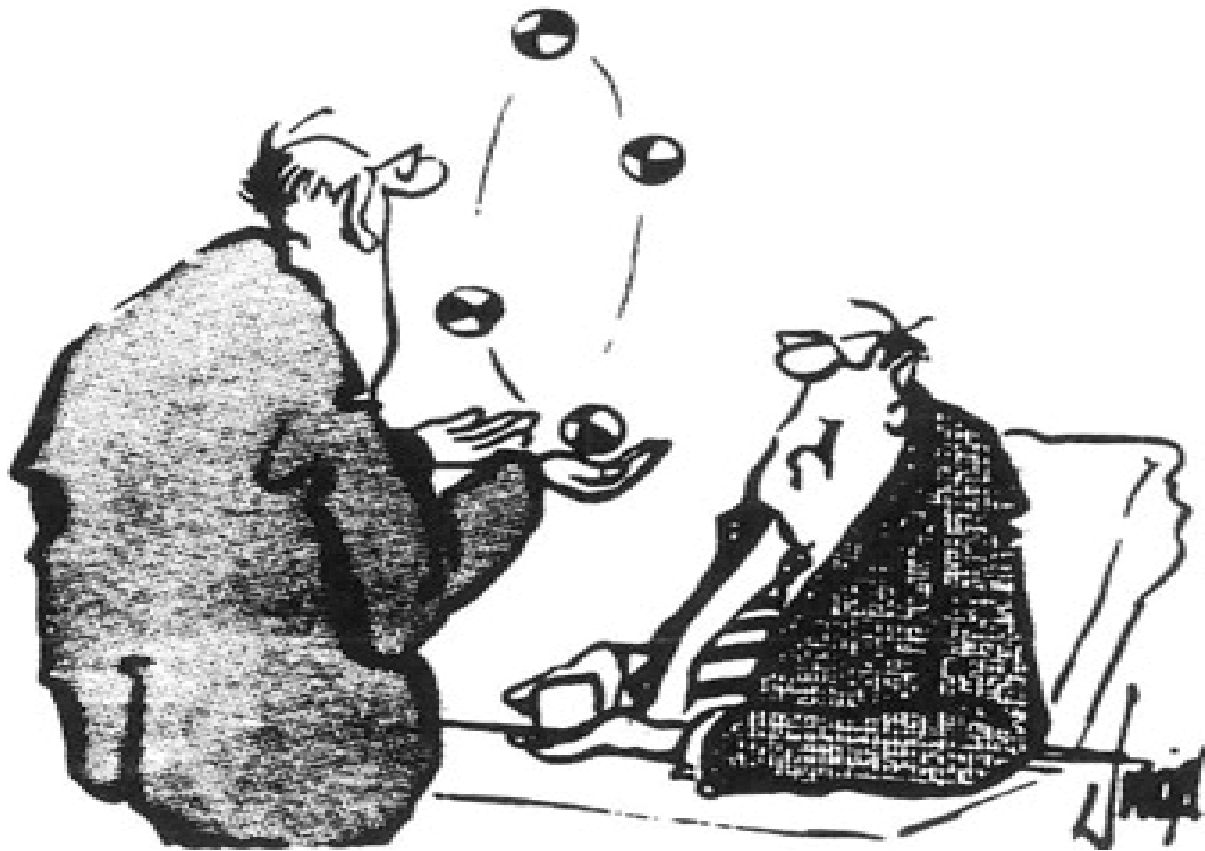


CFO's Role – Financial Visionary or Internal Regulator

- **Financial Visionary**

- Internal Financial Advisor
- Business Strategist
- Partner with Operations
- Ensuring Numbers Reflect the Economic Reality
- Effective Communicator to the Capital Markets
- Identifying Company Advantages to Capitalize On
- Financial Innovator



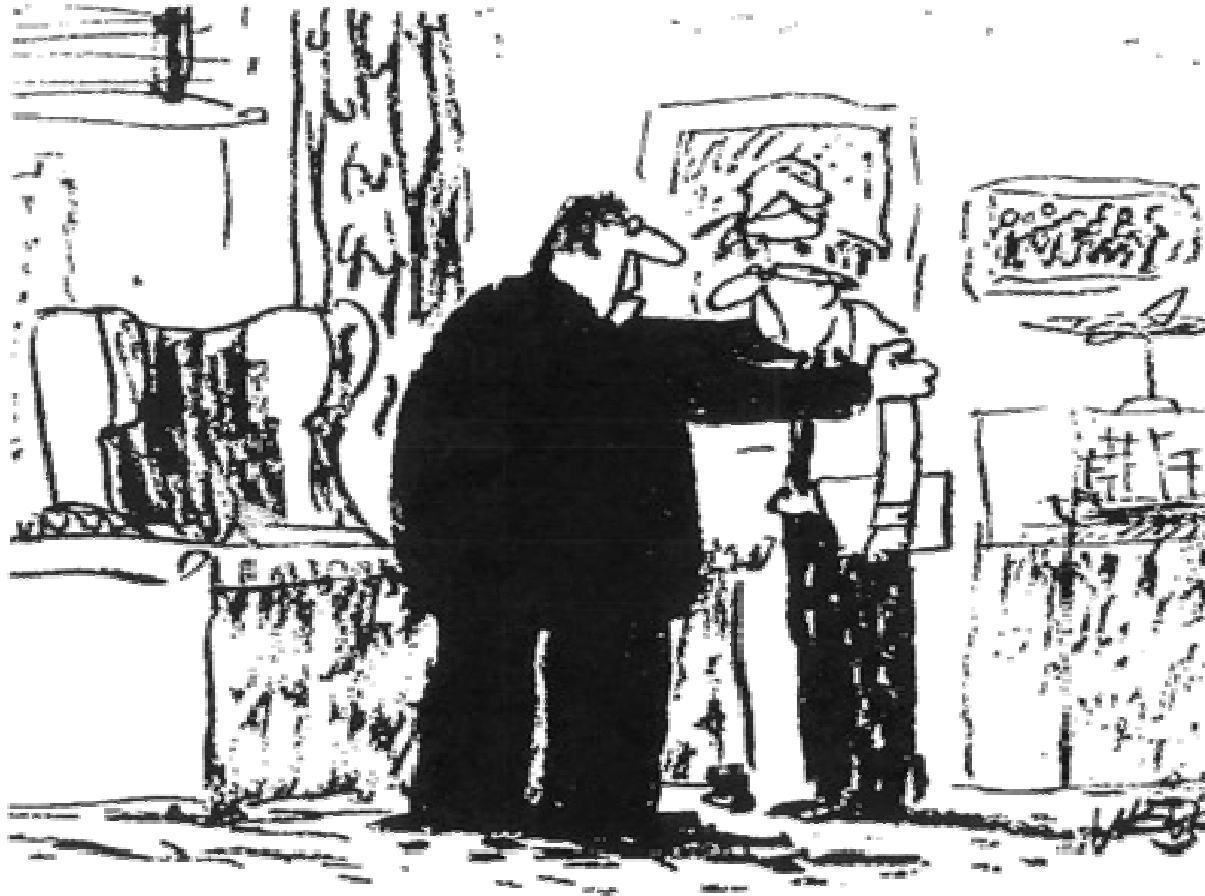


You have just the skills we need in our financial area.



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“It’s up to you now, Smedley. The only thing that can save us now is an accounting breakthrough.”

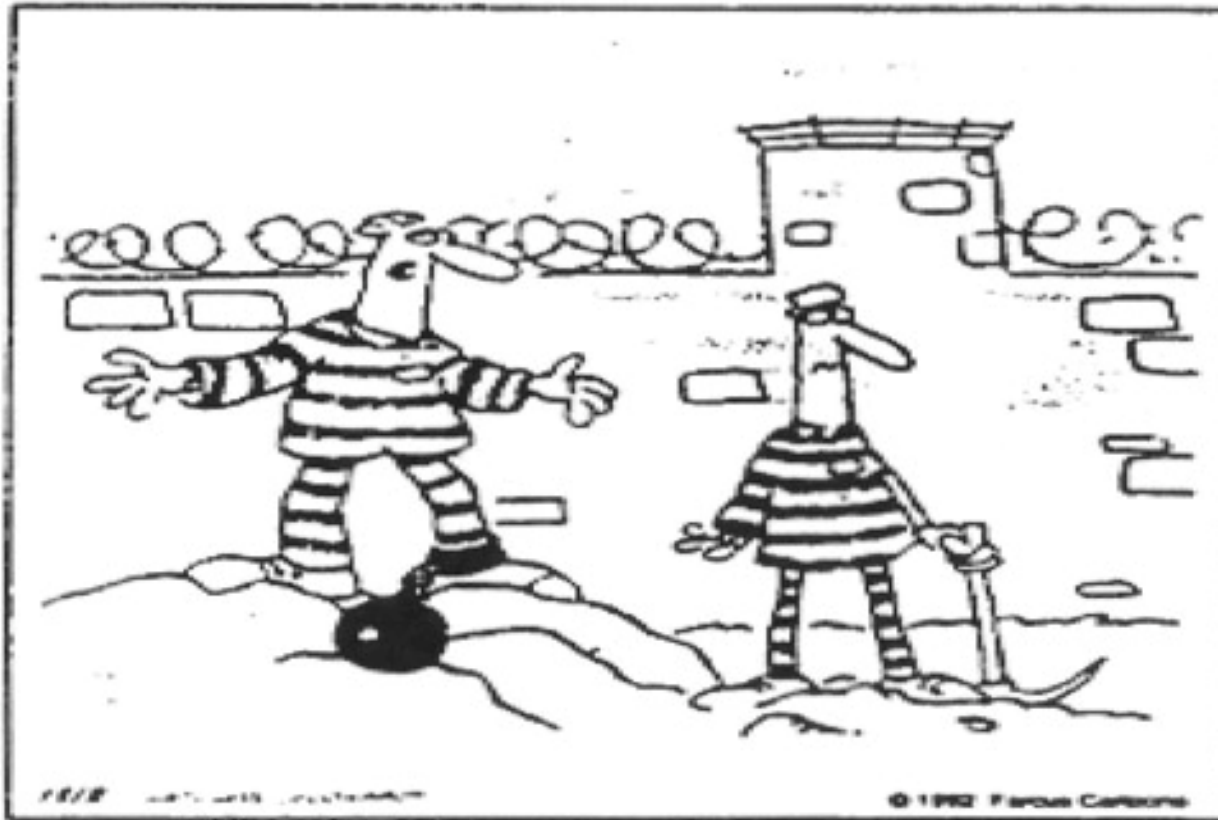


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Farcus

by David Weisglass
Gordon Couthart

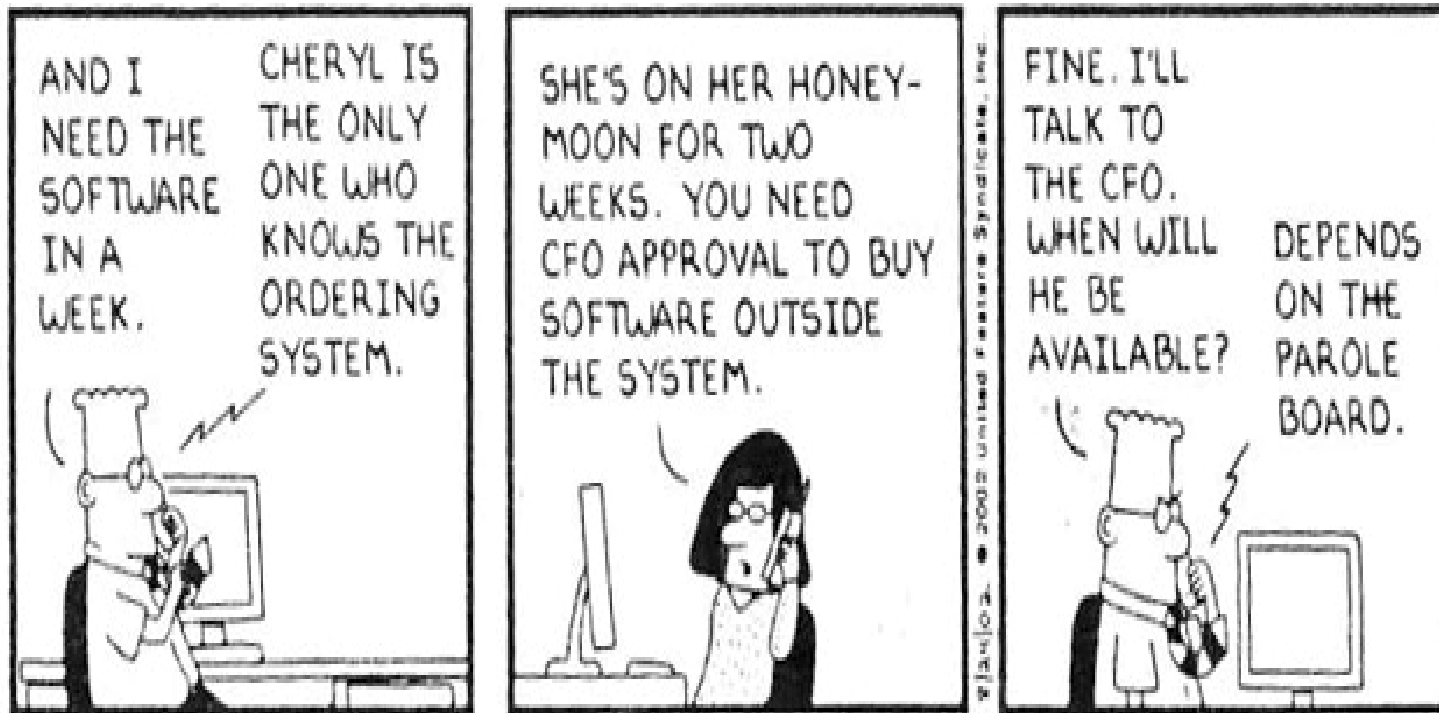


I thought 'good accounting practices' was just a suggestion!



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DILBERT

By Scott Adams



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Remaining U.S. CEOs Make a Break For It Band of Roving Chief Executives Spotted Miles from Mexican Border

San Antonio, Texas (Reuters) – Unwilling to wait for their eventual indictments, the 10,000 remaining CEOs of public U.S. companies made a break for it yesterday, heading for the Mexican border, plundering towns and villages along the way, and writing the entire rampage off as a marketing expense.

“They came into my home, made me pay for my own TV, then double-booked the revenues,” said Rachel Sanchez of Las Cruces, just north of El Paso.
“Right in front of my daughters.”

Calling themselves the CEOnistas, the chief Executives were first spotted last night along the Rio Grande River near Quemado, where they bought each of the town’s 320 residents by borrowing against pension fund gains. By late this morning, the CEOnistas had arbitrarily inflated Quemado’s population to 960, and declared a 200 percent profit for the fiscal second quarter.



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CFO's Role – Financial Visionary or Internal Regulator

- **Internal Regulator**

- Understanding the numbers
- Determining the metrics the organization should focus on
- Capital allocation
- Transparency to the market
- Standard for honesty and consistency
- Mr. “Control”

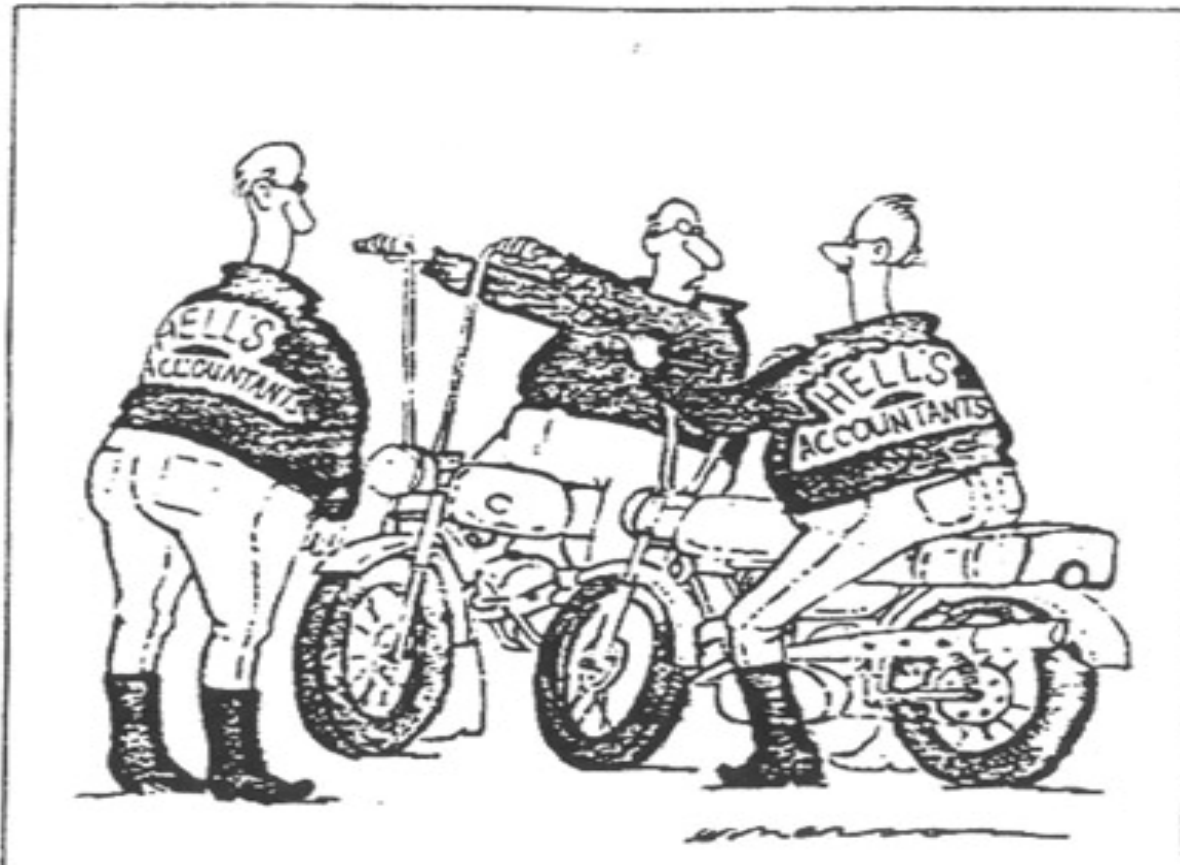


“The New Accounting World?”



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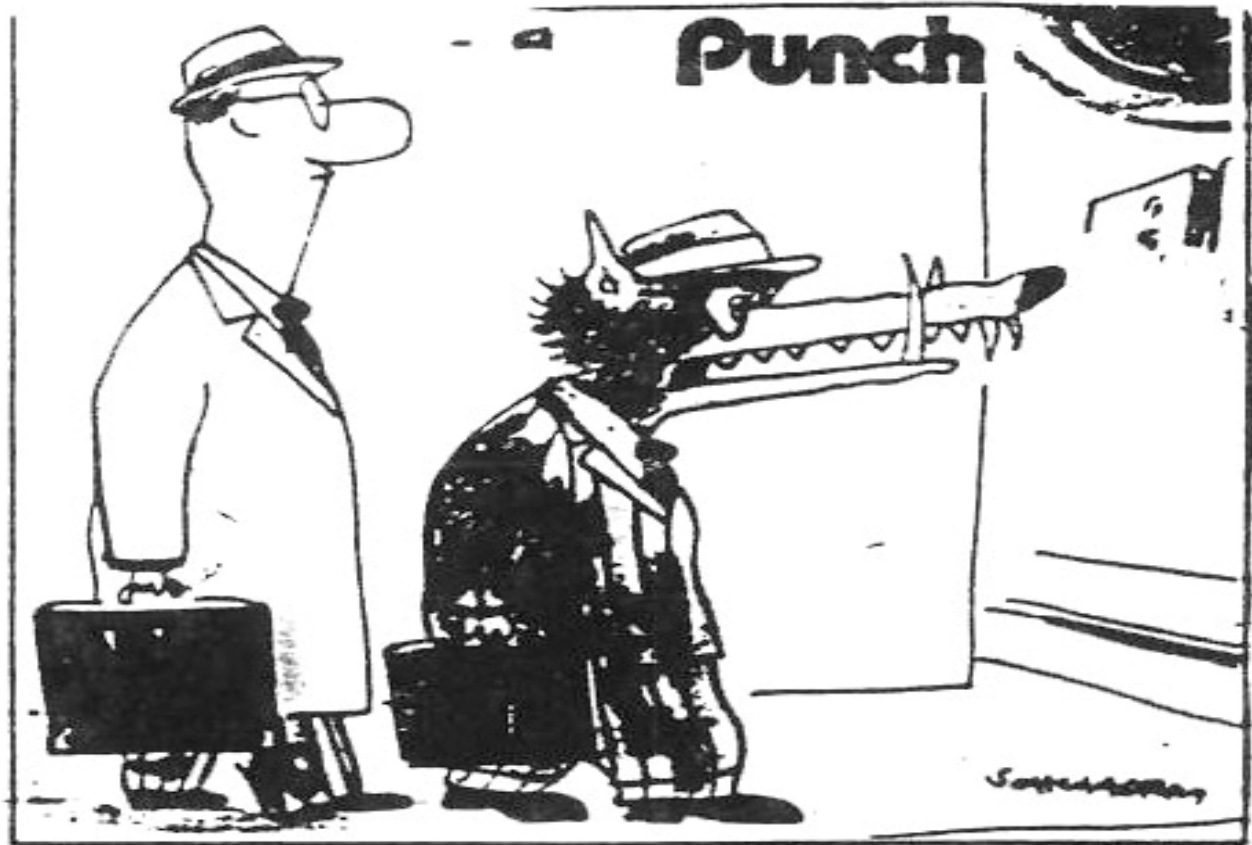


Want to ride downtown and gang-audit somebody?



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"It's the family curse. Every full moon, I turn into an accountant."



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CFO's Role

- **Main responsibility is to ensure the ongoing financial viability of an organization**
- **Ongoing financial viability means the capital structure of the company must be appropriate for the company and the industry in which you operate.**





“Would you please elaborate on ‘then something bad happened’?”



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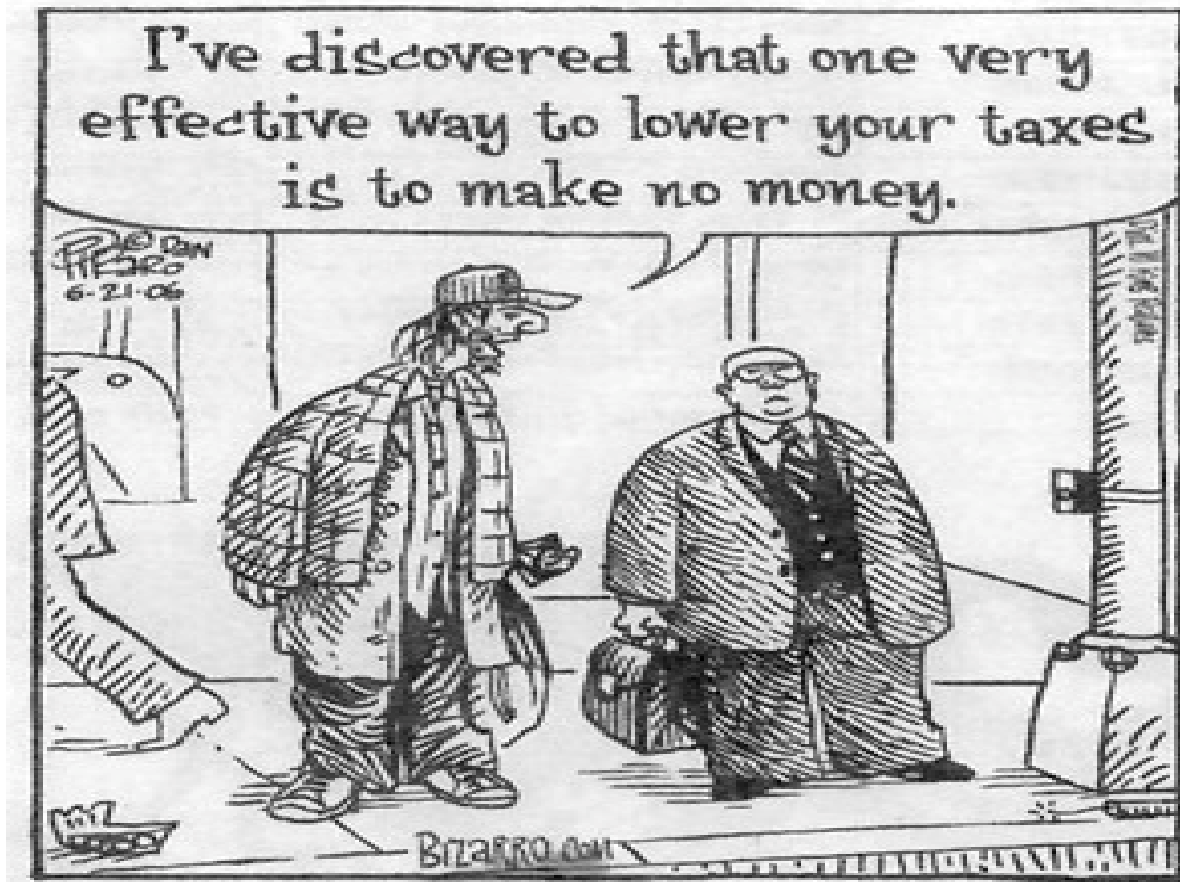
CFO's Role

- **A CFO must manage the capital structure of the organization to ensure at a minimum - corporate survival, and optimally – financial flexibility through the cycle**
- **This can be more challenging in good times than bad times because good times obscure the fact that debt is a limited commodity**
- **Bad times do provide opportunities for CFOs to develop the right financial metrics and financial objectives**



CFO's Role

**Poorly defined metrics can result
in unintended results –
i.e. reduce cash taxes**



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CFO's Role

- **Four Key Responsibilities:**
 1. Establish appropriate capital structure
 - Integral link to corporate strategy
 - Dependent on industry characteristics
 - Generates shareholders you deserve
 2. Measure the right things
 - What you measure will be done (not always a good thing)
 - Can ensure concentrating on what is working
 - Will drive internal attention and therefore resources (i.e. capital allocation)



CFO's Role

3. Ensure financial statements reflect underlying economic reality (just another language)
 - Effective communication attracts the right shareholders (capital/liquidity)
 - Effective communication generates trust and credibility (capital/liquidity)
 - Effective communication avoids continually trying to “fix” the message





"Sometimes, instead of trying to fix the problem, it's better just to step back and issue a press release."



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CFO's Role

4. Ensure internal control processes are integrated into the day-to-day business
 - If business can't understand and agree it is an important control – it isn't
 - Control processes aren't something extra we have to do – it is how we monitor and manage our business
 - SOX is a prime example
 - Sox should be more high level than existing controls





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Legend

When the wheels come off in a business, have lots of financial padding.



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CFO's Role

- **An appropriate capital structure is what enables growth through having the financial flexibility to fund capital expenditures, operations and attract qualified staff**
- **Every member of senior management should be financially and commercially astute – now is the opportunity since they are listening**





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CFO's Role

- **Current liquidity crisis is an opportunity to ensure the entire management team understands and believes in the financial strategy and how it supports the corporate strategy**
- **Opportunity to ensure the financial metrics are measuring the right things**



Even if you don't see trouble coming,
ensure you are prepared for it!



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Make sure you are heading in the right direction



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Be prepared to adjust quickly to new circumstances



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Don't let a bear market push you off your game



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And watch out for those bloody penguins



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QUESTIONS ???

