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Managing the Downturn

Key Strategies for Sustained Profitable Growth

CFERF Executive Research Report

June 2009

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Acknowledgements

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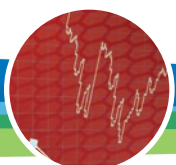
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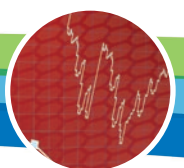
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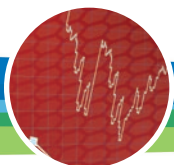
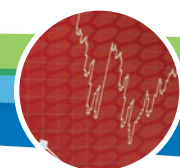


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Executive Summary

The current economic slowdown is characterized by winners and losers. Some companies are facing a long and challenging recovery as current circumstances find them cash poor, while others who are well-capitalized are looking at all their options for taking advantage of lower-cost inputs, buying lower-priced assets, as well as new options and strategies for increasing market share and stimulating growth. Public and private companies across the board are re-visiting how they do business.

To date, much of what we know about the Canadian economic downturn we hear from macro-economic forecasters and market watchers who focus on the key indicators that tell us when markets may return to stability, or when the economy may begin its ascent to more traditional growth rates. However, little has been done to illuminate how companies are specifically managing through these difficult times, or the specific initiatives they've put in place. This study attempts to provide a perspective on these issues from the viewpoint of the senior financial officers in private and public companies across the country who have intimate knowledge of their own circumstances, as well as a broad understanding of the main issues facing their industry as a whole. In so doing, it will also look at the financial management practices that are dominating Canadian companies at this time and also how the role of the CFO has changed over the past year. Please note that in this research we look at the issues facing both private and public companies of all sizes, representing many jurisdictions across Canada.

Most of the economic news over the past few months has been fairly bleak, with forecasts for recovery varying from Q4 of this year to as far out as 2014. However, our survey shows that the majority of financial executives feel that recovery is imminent early in 2010. We also learned

that many executives expect company revenues to either grow or remain unchanged for 2009, suggesting that the downward trend on earnings will recover early in the new year. The sector that was one of the most affected by the general downturn in demand is manufacturing, yet they were the most optimistic for recovery in 2010.

"I've heard it said 15 different ways here. Liquidity – cash, everybody's focused on that right now, and the intensity of our focus on it is greater than it's ever been."

CFO of the Year David Gorofao, Senior Vice President Finance and CFO, Agnico-Eagle Mines Limited

In the current economic climate, cash is king, and many companies are in a good position to be able to acquire assets and increase market share. Those in the hospitality sector, where many hotel assets are currently under construction, or stalled, are well placed to acquire high value properties, at much lower prices. At the same time, companies whose primary business is in US or Asian currencies are for the time being, enjoying favourable exchange rates. Those companies who were not affected by a slump in consumer demand in these currencies are experiencing cash windfalls, compared to others that are afflicted by falling commodity prices or declining demand for large consumer durables. Those companies in particular, are cautiously managing their FX positions. For companies that have witnessed high levels of concentration of assets in their industries like in

the energy sector, many are now able to acquire pieces of the competition. Again, this is true primarily for those that have maintained strategies to increase liquidity over the past three years.

A large majority of senior financial executives said that in this economic climate, retaining customers was a major concern. At the same time, liquidity and cash management were the two top financial management issues of the day. Companies that are having trouble accessing cash from traditional sources are turning to asset-backed loans, equity financing and subordinated debt. Private companies were more likely to look at equity financing than public companies, who were more inclined to look to asset-backed loans.

The majority of companies will be reducing costs over the next 12 months in order to better manage their cash position and most don't expect improvements in cash flow until 2010. One in five companies reported that they were going to be reducing working capital to manage costs. However, the most popular cost management technique that will prevail into the new year will be to freeze executive compensation and defer capital investments. Reducing head-count or implementing salary roll back were less popular than either of these two options.

Under all these pressures and a climate of uncertainty, the role of the CFO has changed. Cash management is the objective of the day, and finance functions have refocused both time and resources into stress testing their positions, in different ways, and much more frequently. Internal control and risk management remains a priority and CFOs find themselves less focused on issues of compliance than ensuring their companies have enough cash to make it through the next 12 months.

Introduction

The current economic slowdown is putting pressure on companies on all fronts, as the credit crunch forces executives to re-visit how they do business. The difficulty in obtaining financing, particularly in the commercial real-estate/construction sector, is stalling endeavors, both at infancy and even mid-project. Hurdles facing many Canadian corporations during the current downturn include slumping profits, declines in customer demand, a decrease in the value of assets, both tangible and intangible, defined-benefit pension plan deficits, and difficulty in forecasting amidst volatile foreign currency fluctuations.

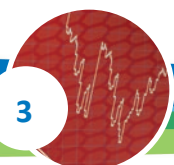
At the same time, some corporations have found new opportunities, including capitalizing on the mistakes of competitors, or in mergers or acquisitions of weaker players in the same sector.

Some companies are surviving or even thriving. Precious metals companies find they are flourishing amid high gold prices sparked by capital's flight to safety. At the same time, some manufacturers of relatively recession-proof consumer staples have found stability.

Against this backdrop, investor and regulatory demands for transparency and accountability in reporting continue to grow stronger. In January of 2009, the

Ontario Securities Commission released a staff notice entitled "Continuous Disclosure Considerations Related to Current Economic Conditions", which directs companies to provide more fulsome disclosures on the economic circumstances of their firms, and any potential impediments to earnings as a result of the economic climate. Some observers suggest that the request for more detailed economic and operational information goes beyond what should be required in quarterly and annual reports and spills over into highly competitive proprietary data.

This study sets out to provide a picture of the Canadian economy from the perspective of senior financial officers and aims to describe in greater detail some of the challenges and opportunities facing both private and public Canadian companies. In so doing, it will provide the insights of senior financial executives from across the country and across industries on what their companies are doing to manage the downturn. It will also look at the financial management practices that are dominating Canadian companies at this time. Finally, it addresses how the role of the CFO has changed during the economic downturn, and makes some predictions for how the role will continue to evolve over the coming months.



Research Methodology

The Managing the Downturn: Key Strategies for Sustainable Profitable Growth – Executive Research Report was prepared by the Canadian Financial Executives Research Foundation (CFERF) and was sponsored by Ernst & Young LLP. It comprises the results from a survey of senior financial executives across Canada and the insights obtained through an Executive Research Forum held on April 15, 2009. The primary intent of the survey was to provide a general view on how financial executives saw the Canadian economic environment developing over the next 12 months and to learn the strategies and initiatives that companies across Canada are taking in order to maintain profitability during these challenging times. At the same time, the research presents insights into the various opportunities that now exist to firms in Canada that may not have existed prior to the recent economic downturn.

The analysis was based upon responses from individuals who completed the survey within a two-week period in March 2009. Survey results were compiled and analyzed on the basis of industry classification (large SIC groups), whether the company was private or public, and industry size based on revenue. Respondents were also categorized by position title.

The second phase of the research methodology included capturing the feedback from senior financial executives who took part in a three-hour Executive Research Forum held on April 15, 2009. The purpose of the Executive Research Forum was to allow for a free-flowing dialogue between senior financial executives who were provided with specific questions in advance. A broad section of Canadian industry was represented including; banking, gold mining, consumer products, hospitality and hotels, liquor distributors and distilleries, communication software, natural gas distributors, energy producers, entertainment and film distribution, international fisheries products, real estate, pension plans and professional services. The companies participating in the Forum component of this research are identified in Appendix A and the majority had annual revenues greater than \$500 million.

The following discussion will present the results of the Managing the Downturn Survey and Research Forum. The wealth of information collected through our survey could not be reported in its entirety in this document. We therefore encourage all interested parties to contact us with questions surrounding this report.

Survey Demographics

The results of this study will tend to reflect the opinions of senior finance executives and company owners of private Canadian companies in the finance and insurance, manufacturing, professional and technical services, and mining and oil and gas extraction sectors. However, both private company and public company views will be presented throughout.

Canadian private companies tend to be smaller than public ones, and for this and other reasons, are facing different challenges during the current period of economic downturn. Therefore, wherever possible throughout this report, we will distinguish between the views of private and public companies. We also must note that a large majority of the public companies responding to this study were located in Alberta and Ontario, two provinces that are considered to be the most exposed to a downturn in US and global demand. While almost all the companies in this study indicated that Canada was a primary market, two out of five also said that they have considerable exposure to the US, and to a lesser extent South America, Europe and Asia. Almost all of the companies in question said Canada was a primary market (91.5%), with 41.9% exporting to the US, and 13.6% to Europe. Therefore, the results also reflect the views of Canadian companies with substantial reliance on foreign currency, and the health of international markets. It is also important to note that the single largest sector represented here is manufacturing.

Senior executives across Canada completed 236 surveys. A large proportion of respondents were CFOs (45.3%), followed by VPs Finance (16.9%), Controllers (7.6%) and Finance Directors (6.4%). Forty-one respondents, or 17.4%, indicated “other”. Therefore, the majority of views captured are from the perspective of the senior

financial strategist in the firm. Again, more than half of these worked in private companies.

One hundred twenty four or 52.5% of respondents were from private companies and 76 (32.2%) were from publicly listed companies. Thirty seven indicated that they were neither, which would be accounted for by Canadian crown corporations, government agencies, academic institutions and not-for-profits. The vast majority of respondents represented Canadian companies, versus US subsidiaries or subsidiaries of other foreign entities. More than half of the respondents represented the views of companies from Ontario (104), followed by 62 from Alberta, and 30 from British Columbia. Over half (57) of the responding companies from Ontario were private, compared to 27 in Alberta and 19 in British Columbia. Public companies in Alberta and Ontario are equally represented by our results, with 30 in each province responding to this study. This represents roughly 80% of all public companies in this sample. We have no data from companies in PEI, Newfoundland or the Territories.

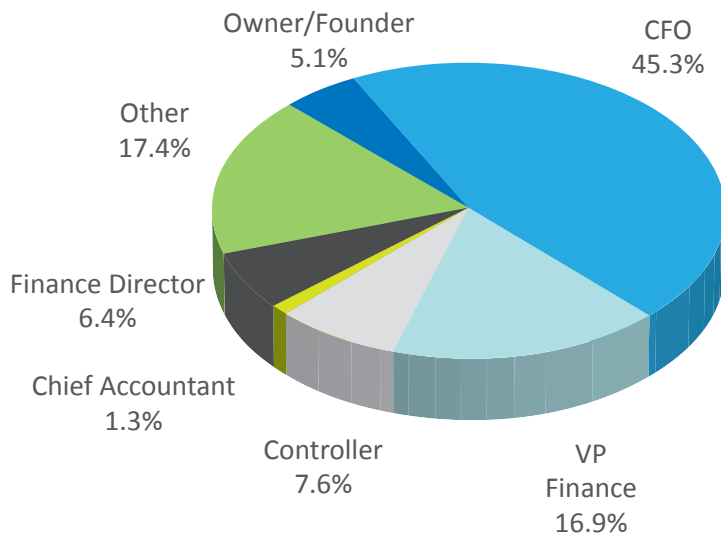
In order to determine if there were any differences in views between respondents from different industries, individuals were asked to identify their companies according to twenty large SIC (Standard Industrial Classification) groupings. The largest number of respondents were from the manufacturing sector

(33), followed by mining and oil and gas (30), finance and insurance (28), and professional, scientific and technical services (20). The remainder was distributed widely among the remaining industry groups.

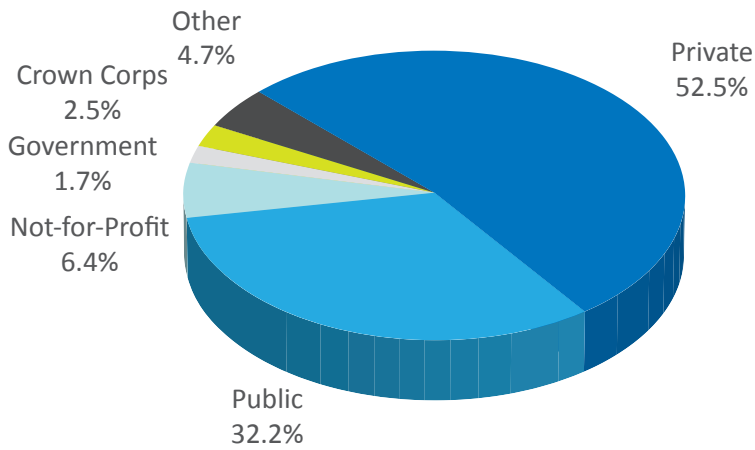
Roughly 35% or 82 respondents represented companies with annual revenues of less than \$49 million, and 49 of those were from private companies. This was followed by 28.4% from companies in the revenue

range of between \$50 million and \$250 million. Twenty eight or 11.9% reported their companies had revenues of between \$1 billion and \$4.9 billion, followed by 18 or 7.6% in the \$500 million to \$999 million range. Fourteen companies responding to our survey had annual revenues of more than \$5 billion dollars – nine were public, four were private, and one was a not-for-profit.

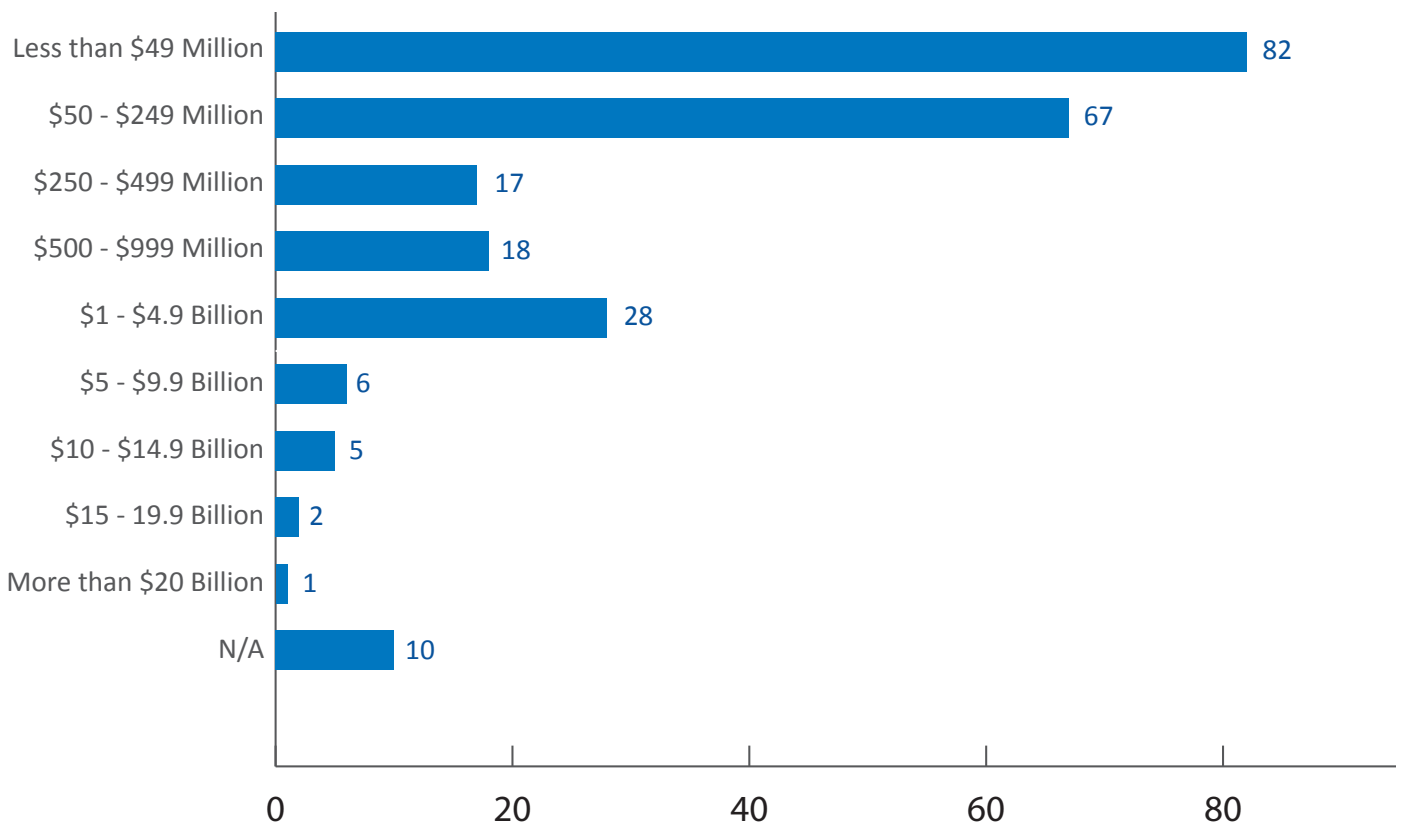
Position Title



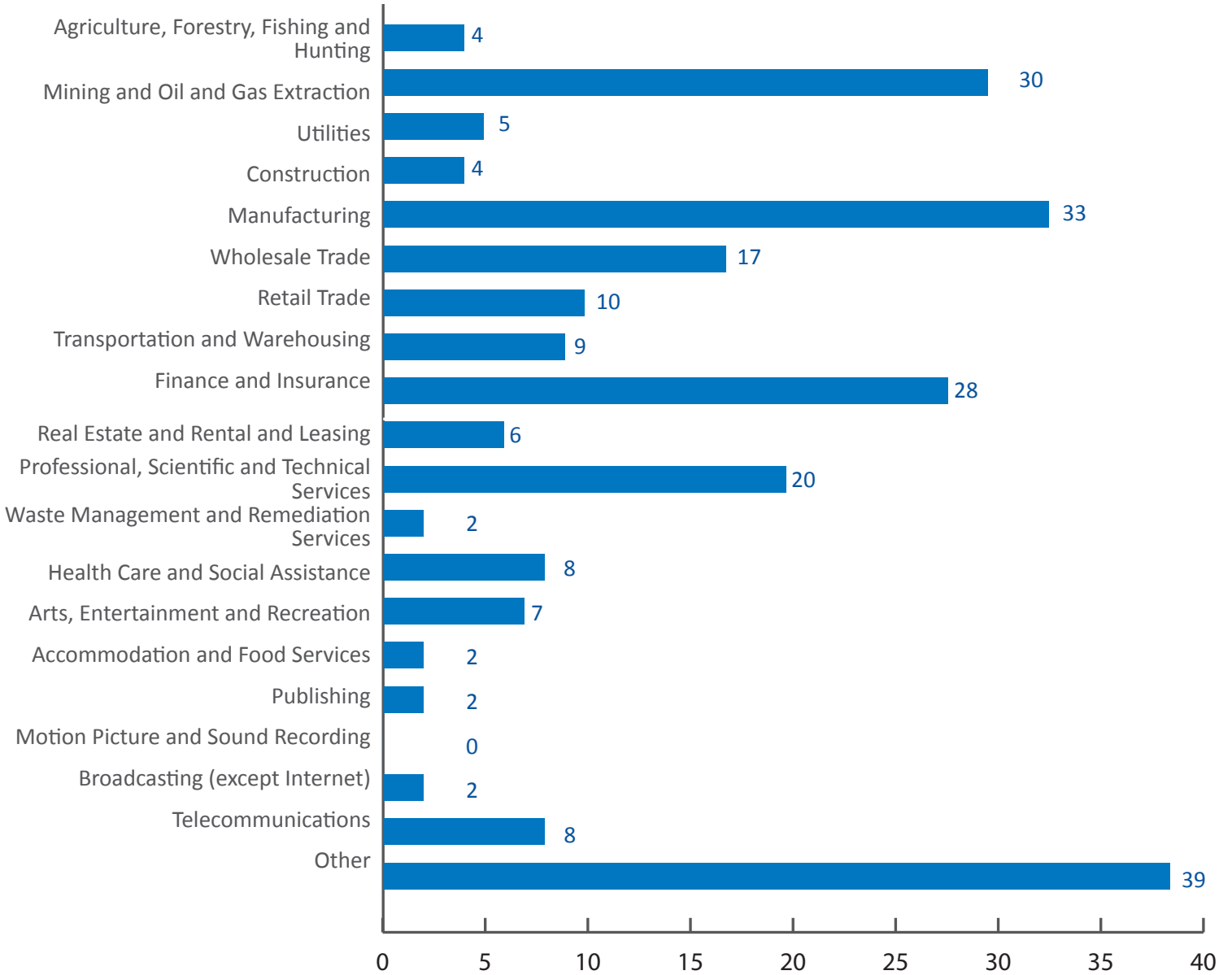
Corporate Structure



Annual Revenue



Industry Classification



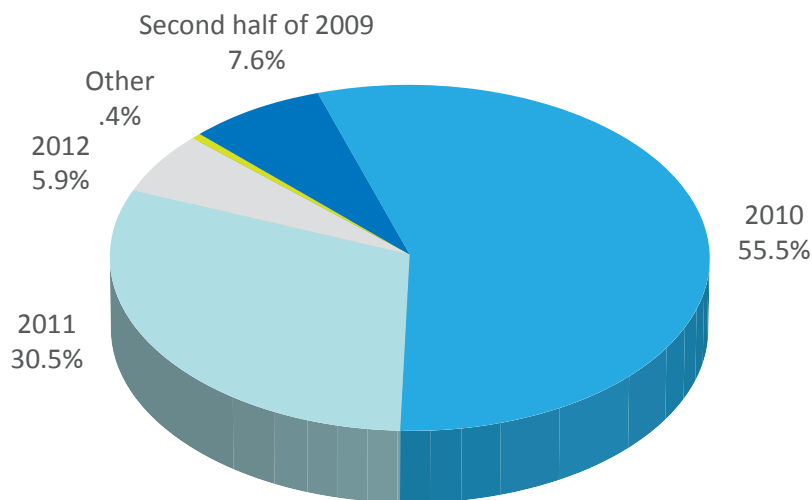
Economic Forecast

The Canadian economic landscape is not as bleak as some have suggested. More than half of the senior financial executives reporting here say that they expect revenues to either increase or at least remain unchanged for 2009. They also are anticipating economic recovery by 2010. Relatively more executives in Canadian manufacturing are optimistic for a turnaround next year than in other sectors. Bankers were significantly less optimistic.

The crises in the US sub-prime mortgage market that has spread into the global banking sector is blamed for the current downturn in global demand. Daily news reports tell us of massive layoffs and plant closures, record numbers of bankruptcies, and the fall of corporate giants, not only in the US but in Canada as well. The near term future of the Canadian economy, and the return to normal growth rates has been the subject of much debate amongst economists. Commentators are looking to changes in credit market liquidity, US savings rates, monthly housing starts, consumer confidence numbers, and the impacts of the fiscal stimuli injected around the world, for signals that will tell us when the recession will come to an end. Some pessimistic pundits say that relief isn't in sight until 2014, while others claim we're through the worst, and that Q4 of 2009 will begin the up-cycle of a slow, but sure recovery.

Our research suggests a middle ground. More than half of respondents to our survey thought that the economy would return to normal growth rates in 2010, whereas 30% expect recovery to occur in 2011. Views between private and public company executives were fairly consistent, with 58% of private company respondents feeling that the economy would improve in 2010, compared to 50% from publicly listed firms. However, relatively more executives from companies with annual revenues of between \$1 and \$4.9 billion (71%) saw the turnaround coming next year. Views also varied between industries. Two-thirds of the executives from manufacturing predicted a recovery in 2010, compared with one-third in the finance and insurance sector.

IN WHAT YEAR DO YOU EXPECT THE CANADIAN ECONOMY TO RETURN TO NORMAL GROWTH RATES?



THE U.S. GROWTH IMPERATIVE

“The big problem, of course, is how the U.S. economy restructures itself, and that’s going to be a very long work-out. In Canada, we have a bifurcated economy, with manufacturing concentrated in central Canada, and resources in the west and some parts of the east. Although the early-stage deep downturns in the U.S. housing and automobile markets hit Ontario hard, as well as the forestry industries in several provinces, the sharp drop in metals and oil and natural gas prices brought the recession home to Alberta, British Columbia, and Newfoundland, all of which had earlier achieved very strong growth based on high and rising resource prices. Ontario and Newfoundland & Labrador are probably going to lead the way down this year with 3% declines in real output. But Alberta and British Columbia will not be far behind, with declines in the mid-2% range.

There’s a glimmer of good news out there. The crucial U.S. housing market, while still volatile, looks like it could stabilize by the second half of the year. Job losses are still large, but declining from peaks earlier in the year. And, it looks like the Chinese economy — which is probably having, on a per capita basis, more stimulus than even the United States — is beginning to pick up and exports and industrial production in countries such as Japan, Taiwan, and South Korea have bottomed out and begun to rise. We’re seeing commodities like copper, nickel and oil bottoming out and beginning to rise. It’s going to take a while before investors in these industries feel confident again about expanding their outlays, but it’s positive for 2010 and beyond.”

Earl Sweet – Managing Director and Senior Economist, BMO Capital Markets

THE CREDIT PICTURE

“If you look at leverage levels among U.S. and European financial institutions, where they were historically, and where they’re projected to go in the long term, there’s a lot of capacity coming out of the industry.

Part of what we spend our time on during the course of the day is looking for who’s going to step up to fill that gap. Will it be the pension funds? Will it be the retail investors? Will it be private equity in a different form? Credit markets are changing. I think the market’s in the process of really trying to redefine itself right now.”

Scott Keyworth – Managing Director, Mergers & Acquisitions, CIBC World Markets

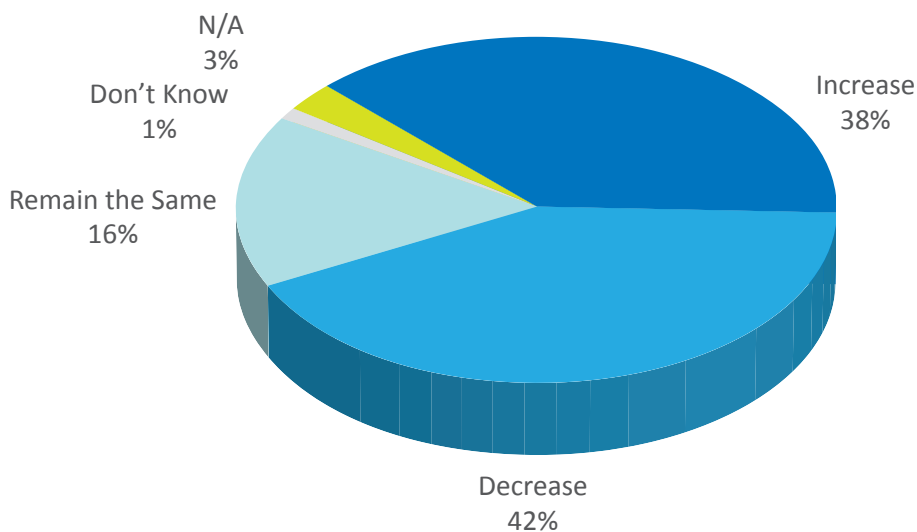
Winners and Losers

To gain better insight into how and when the Canadian economy was going to recover, we thought it prudent to seek the opinions of senior financial executives from across Canada, who intimately understand, not only the current health of their particular organizations, but the overall health of the industries they represent. In so doing, we found that although there are many challenges to this cycle, there have also been many opportunities. According to our survey results, just as many companies expect revenues to grow in 2009, as those who expect them to fall, and just as many companies expect their share values to increase, as decrease. When asked if annual revenues were expected to shrink in 2009, 41.9% of respondents predicted that they would, compared to 38.1% who expected them to increase. Taken together with those who thought there would be no change in revenues for 2009, the picture gets better. The percentage of

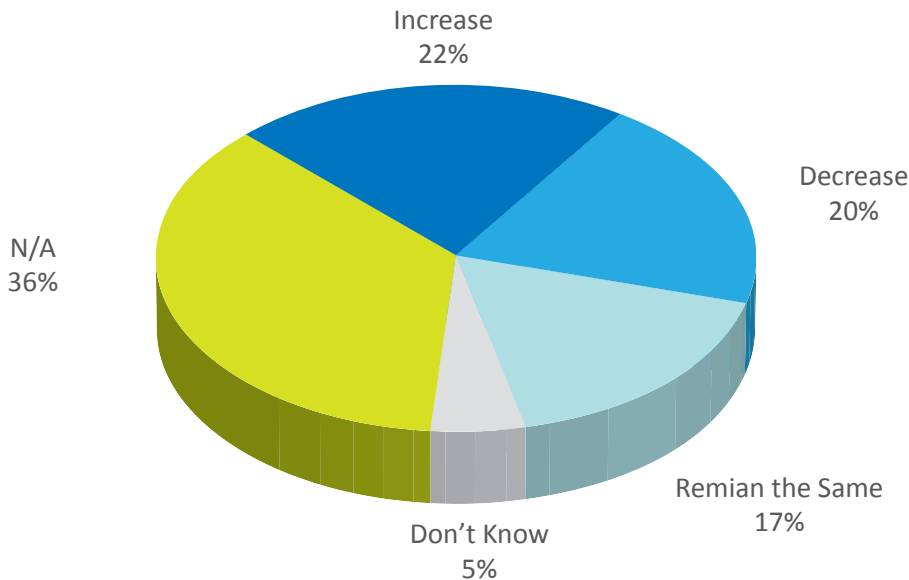
senior financial executives who saw either a neutral or positive revenue scenario for 2009 increased from 38.1% to 54.2%.

In the manufacturing sector, 17 respondents said their corporate revenues would either stay the same or grow this year, compared to 16 that thought they would fall. In the professional, scientific and technical services sector, 15 indicated their companies revenues would either remain the same or grow, compared to five that thought they would contract. Similarly 14 in the finance and insurance sector saw revenues either growing or staying the same, versus nine who thought they would fall. Results for mining and oil and gas companies were not so favorable, with 18 out of the 30 companies in our sample reporting a potential decrease in revenues this year, reflecting the general fall in average prices for oil and commodities.

ARE YOU ANTICIPATING COMPANY REVENUES FOR 2009 TO



IN 2009, ARE YOU EXPECTING YOUR COMPANY'S SHARE VALUES TO:



CASH WINS THE DAY

In this climate, cash is king. Those companies that are well capitalized are able to operate in a normal manner and not be distracted by the time consuming process of sourcing financing or selling assets to improve liquidity. They are also able to take advantage of lower prices for certain services such as building and construction supply services.

At the same time, relative currency prices are helping companies who have exports and are not suffering the types of demand shocks as some sectors. Firms like Clearwater Fine Foods Inc. have experienced continued growth in demand, while enjoying the boost in revenues they receive from sales in US dollars and Japanese yen. Many exporters to the U.S. however, are cautiously managing their foreign exchange as the days of benefitting from a stronger U.S. dollar may be numbered.

Other companies are in the enviable position of being more recession resilient than others. Counter

cyclical, or recession proof businesses tend to expand when the rest of the economy is contracting. This is particularly true of gold mining, when prices are rising due to increased demand for the traditional safe-harbour stores of value. Some basic consumer products manufacturers and entertainment suppliers are also benefitting from the downturn, capitalizing on the phenomenon that people tend to purchase more entertainment and comfort goods during harder economic times.

In addition, companies whose traditional markets are based upon population demographics are experiencing relative stability, as demand tends to be less volatile simply due to the age of their customers. For example, demand for retirement lifestyle services and housing tends to be more stable a demand base than corporate travel, leaving the suppliers of these services relatively unscathed.

DEMOGRAPHICS ON OUR SIDE

“As a provider of seniors housing, we have some things that are going in our favour, and one of them is that the average age of our customer is 84 years old. They stay with us for four years in retirement homes, and 12 to 18 months in the long-term care communities. None of them lost their jobs, (because they’re all retired,) and their investments, for the most part are in safer vehicles like GICs or treasury bills, so their portfolios fared better than mine, or yours for that matter. For the vast majority in Canada, they also own their own homes and in Canada at least, they’ve probably been mortgage-free for 20 years. So selling houses is really the driver of people moving to the retirement communities.

Another thing that we have going for us, is that as much as coming to a retirement community is a lifestyle choice, it is also a need. Seniors need the care, the services that we provide, so it’s a very needs-driven business. The fact that people may have a harder time now selling their houses delays their decision to move to the retirement home, but it doesn’t completely cancel that decision. It delays their decision for six, maybe nine months in some cases, but at some point in time, their needs catch up to them. Having said that, in Canada we’ve been able to maintain fairly high occupancies, over 90% throughout this period, and we see continuous, strong income in what we call traffic - incoming residents and inquiries.

Finally, in the current economic environment, most of the construction activities have pretty much stopped on both sides of the border. That will have, we think, a very positive impact on the existing operators once the economy recovers, because there’s a very significant, pent-up demand both in Canada and the United States. Market studies show that in Canada, we need an average 10,000 new beds built every year from now until 2026, just to maintain the existing supply and demand ratios. And over the last five years that I was in the business, maybe half of it was built, so the demand continued to accumulate in the system. So we think we’re well-positioned to take advantage of these opportunities once the economy recovers a little bit.”

Vlad Volodarski – Chief Financial Officer, Chartwell Seniors Housing REIT

For companies that have witnessed high levels of consolidation in their industries, like energy, some are now able to grow their businesses with fewer competitors, and provide new product offerings without flooding the market with similar products. Again, under these circumstances cash is king. Those companies who maintained a strategy of improving liquidity, are in a particularly good position to take advantage of new market opportunities.

CONSOLIDATION

“The credit crunch certainly caused a lot of trouble with some of our competitors. Our business is very cash-intensive. It eats up a lot of cash in order to fund growth. We’ve been fairly conservative in terms of where we’ve allocated our cash and how we’ve grown our business so we’re relatively healthy from that standpoint. However, a lot of our competitors have been less conservative and that has caused a lot of problems for them in terms of future growth. So we’re taking advantage of that sort of thing in order to be able to align ourselves to grow into the future. We see a lot of opportunities from consolidation in our industry. We see an industry that was seven major players last year, probably going down to two or three players as a result of the bankruptcies and competition. Because of that, it provides us with opportunities to grow the business with fewer competitors on the street. We’ve been able to offer customers the products without flooding everybody with the same product.”

Peter Constantinou – Chief Financial Officer, Summit Energy

However, larger companies awash with cash are not the only winners in this climate. As many companies refocus on core products and services, room is being made for smaller players to take non-core products over. This has been particularly true in the communications software development sector, whereby smaller companies like Redknee in Canada, who mainly play on the global stage, are benefitting from the product rationalization strategies of their large competitors like Nokia and Ericsson. As these larger companies drop product software lines to focus on their core competencies, companies like Redknee are poised to pick up additional market share.

CAPTURING MARKET SHARE – LITTLE FISH IN BIG PONDS

“Redknee Inc. is a little bit different in that we sell to markets mostly outside Canada. Internationally we’re finding that a lot of the very, very large players who are our competitors are now focusing on their core business, giving us the opportunity to excel. Redknee develops software for the wireless telecommunications industry: turnkey converged billing as well as mobile money solutions. Where we compete with the Ericssons of the world, they are now focusing on their core products, which are the networks and the phones themselves. As a result, we’re finding that this economy is actually giving us the opportunity to capture market share that we may not have been eligible to compete for in the past, because we’re relatively smaller as a player. But we are smaller and more agile, so we’re finding that we’re actually having more success adapting to our customers’ needs. So Redknee is a company that is actually in a good position in terms of business in the current economy.”

Pamela Steer – Vice-President Finance, Redknee Inc.

HOTELS AND COMMERCIAL REAL-ESTATE – A WAITING GAME

“The hospitality industry tends to be a leading indicator and mirror of the economy. Last spring there were already warning signs that there was trouble in the economy. That decline is coming from all sectors. It’s directed by business confidence resulting in fewer business travelers as corporate travel budgets are cut back. From the perspective of the industry, the consensus is we’re going to see some pretty significant drops in demand. At the same time, hotel owners are trying to maintain rate integrity in the industry, which is hugely important. Hoteliers would like to think that by 2011 we’ll start to see some stability in hospitality demand, with some growth returning in 2012. The focus now is on tight asset management and cash flow.

Then there’s the other side of the business – the building and development of new hotels and resorts. There’s no credit. Even triple A projects are having enormous struggles trying to get financing, and if they are successful, it is very pricey. In the resort industry, we’re seeing many half-built projects being put on hold and other projects in the planning stages being deferred.

The problem is not isolated to the resort markets. There are also huge unsold inventories of residential condominiums in many urban centres. All sectors of real estate are being impacted severely by the credit crunch more than anything else, whether it is the lack of credit available for the refinancing of existing assets or the lack of construction financing for new developments. For the hospitality sector, the only available financing is basically private equity sources at this point.

ON THE UPSIDE

There’s certainly opportunity for those who are well capitalized in the hospitality business to be aggressive in terms of bailing out existing development or facilitating the start of new projects that need to proceed. That will be one phenomenon we’ll start to see, but also acquiring portfolios and existing hotel assets. It’s happening more so in the U.S. right now, but the activity is starting to flow north. Owners are having to dispose of hospitality assets, either because they’re redundant in terms of their core strategy and they need to generate cash flow to support their core portfolio and hotel operations, or because they are unable to refinance a property with maturing debt in the existing credit environment.

The bulk of the financing activity in the hospitality business occurred in 2005 and 2006 and a lot of those five year term financings are coming due in 2010 and 2011. There are going to be a lot of maturities coming up, and those maturities are going to result in good assets coming into the market. That’s opportunity, again, for those who are capitalized to take advantage. With construction costs on the decline, and hotel occupancy levels down, it’s also an ideal time for well capitalized owners to be doing renovation projects and repositioning projects.”

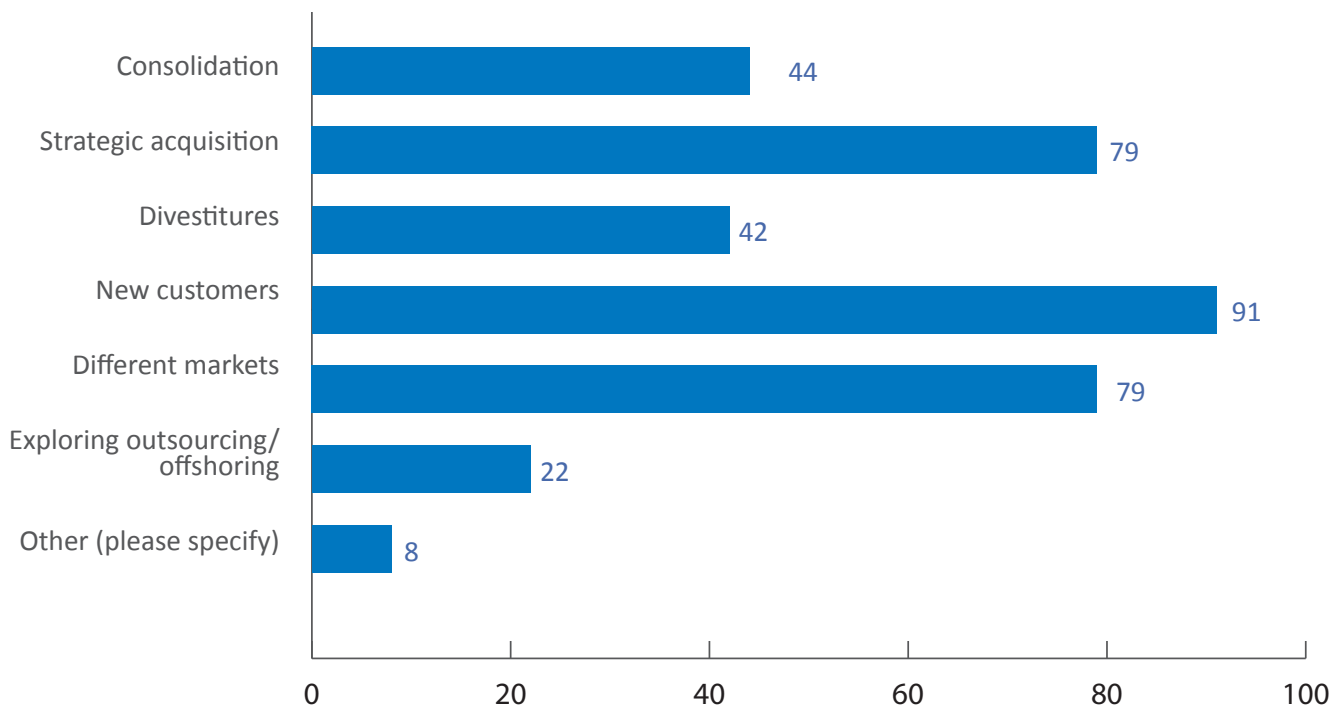
Judy Munro – Industry Analyst and Principal, Munro Partners

Strategic Directions

Responding to the global downturn in demand and in meeting shareholder and investor expectations has inspired companies to take a variety of different strategies. When asked what were the most important factors to companies in the current economic climate, 70.3% said customer retention, followed by maintaining

profit levels (65.3%), long term growth (59.3%), and developing new products and services (34.7%). Relatively more private companies (79.8%) than public (65.8%) noted that retaining customers was crucial to their organizations at this point in time.

WHAT COMPETITIVE OPPORTUNITIES ARE YOU NOW CONSIDERING THAT YOU WEREN'T PRIOR TO THE DOWNTURN?



Implementing new strategic initiatives surrounding these issues range from hiring more sales staff to service existing customers and attract new ones – to divesting assets and closing non-core product and service lines. Almost 40% of respondents to our survey said that they are focusing on acquiring new customers, roughly one-third will be exploring strategic acquisitions, and one-third will be looking to non-traditional markets for growth.

In the gold mining sector, companies like Agnico-Eagle Mines Ltd. are creating joint-ventures with junior mining companies, providing seed capital that they otherwise wouldn't be able to source through traditional means. Other opportunities for growth originate with government initiatives and infrastructure spending, particularly in the construction and energy sectors. Enbridge Gas Distribution for example, will be exploring growth opportunities in renewable energy as a result of the Green Energy Act in Ontario. Similarly, companies like Clearwater Fine Foods will be looking to certify all of its products under the Marine Stewardship

Council's certification program, in order to differentiate themselves in the market as a sustainable fishing company.

Rationalizing product lines is another strategy common to firms that are finding that their customers have become more price sensitive over the past twelve months. At the Liquor Control Board of Ontario for example, the company has implemented a "recession-busting strategy" to stave off the price erosion they've seen for their traditionally average-priced products. As a result, the company will be importing lower-priced wines to maintain customers, however at lower total revenues. This in turn will require them to focus on reducing costs to keep profit margins stable. Consequently, liquor supply companies like Corby Distilleries Ltd. are finding that they also have to refocus on pin-point pricing strategies to maintain volumes as the market shrinks for luxury types of products such as champagnes, liqueurs and cognacs to more traditional alcohols like vodka, wine and beer.

FOCUSING ON THE CUSTOMER

"We believe that Ontario could support more service outlets for beverage alcohol. Through this we have realized that the areas where new primary customers live is not where we currently have stores. There is a great service convenience for our customers that we'd like to tap into to improve sales. So we're actually going to expand our retail network for the first time in probably 10 years. We have old, tired stores in the wrong location. We've been replacing or renovating. Now we're going to actually start to grow the network. So that's a key part of our strategy, for the next couple of years, to try to increase our customer base and maintain our bottom line.

The other side is that we're really going to start focusing on our market more closely. We're going to use a lot more of our loyalty data and try to really get down to some of our newer customers. We have customers now that don't remember what the old LCBO was like – the old counter store you had to go in and fill out the slips. And they're a much different customer set that we really have to get a handle on and understand. They're our future business. We've already built a return on investment model in order to fine-tune our marketing spend there. We're also going to work closely with suppliers to make sure that the cooperation isn't diminished because we do believe that the customer's decision point is in-store, and that's the best place to spend their marketing dollars."

Alex Browning – Senior Vice President Finance and Administration, LCBO

Internationally, we're also seeing changes in patterns in outsourcing/offshoring as companies shift from higher-cost operating models to lower ones. Redknee Inc., for example, a Small-sized Canadian global software provider with facilities in India, is increasing the use of

its facility there to reduce labour costs. By the end of the year Redknee Inc. expects to have more employees in India than they do in Canada.

OFFSHORING TO REDUCE LABOUR COSTS

"Redknee has had a facility in India for the last five years, and we've accelerated our use of that office. I foresee by the end of this year that the India facility will have more employees than the head office does here in Mississauga. Even in the finance organization, we now offshore all of our routine transaction processing to India. Offshoring to your own company – a subsidiary – where you have the ability to control credentials, salaries, and service levels, where you really know what's happening on the process side and it's not a black box, can be very, very powerful. We have focused and will continue to focus on growing that office."

Pamela Steer, Vice President Finance, Redknee Ltd.

RETHINKING COMPETITIVE ADVANTAGE

We have been looking seriously into the opportunity to invest more in environmental sustainability initiatives and our triple bottom line strategy. Many sustainability initiatives can save money. We believe sustainability to be an essential component of a corporate strategy. Some companies may let this area slide during the economic downturn, but by investing in this area now, we stand to differentiate ourselves and to become more competitive, enabling us to lead at a time when some companies may be falling.

Survey Respondent

A slowdown in growth has allowed us to step back and evaluate the resources that we need going forward and make positive changes that we think will allow us to come out of this downturn in a very positive market position.

Survey Respondent

Critical Financial Management Issues

Liquidity is the number one issue facing companies in the current economic environment. Companies that are having trouble accessing capital are turning to asset-backed loans and equity. Over the past twelve months, cash management has become a primary focus of financial executives across the country. This is particularly true for manufacturing and wholesale trading companies.

Being able to capitalize on emerging market opportunities in the current credit environment as well as having the ability to right-size the organization, depends on a company's liquidity. More companies cited this issue as being very important to their business, than any other financial management issue. More than half of the respondents in our survey (56.8%) said that having access to liquidity was very important, compared to 36.9% indicating credit availability, followed by changes in currency values (32.6%), and regulatory changes (21.2%). The majority of companies responding to this survey (61.9%) said they had no trouble accessing capital from typical commercial loans. For those companies that were having difficulty accessing capital, alternative sources were found in asset-backed loans, equity financing and some were turning to subordinated debt. Of the 24 public companies that had difficulty in accessing capital,

one-quarter will be accessing asset backed loans and equity, compared to 15% of private companies. Private companies are more inclined to turn to equity financing (31.5%) to fund cash requirements for the next twelve months.

Results varied depending on whether companies were private or publicly-listed, with relatively more executives of public companies indicating that these areas were very important to their organizations, compared to their private company counterparts. Issues surrounding liquidity, debt-covenants and supply chain disruptions were considered to be very important by relatively the same number of executives in both and liquidity remains the main issue of concern to most senior executives in this study, regardless of whether they are from private or public companies.

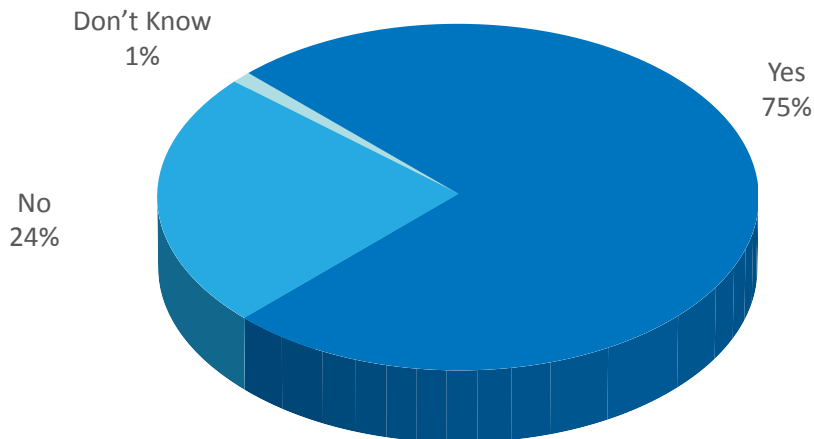
FOCUS ON CASH MANAGEMENT

Cash management is more important now in many companies than it was one year ago and manufacturers and wholesalers are particularly concerned about this issue. The majority of companies will be reducing costs to manage cash, and to a lesser extent, reducing working capital. However, many companies don't expect improvements in cash flow until next year.

With liquidity being paramount, companies across Canada have intensified their focus on cash management, with 75% of respondents indicating that they are more focused on cash-management issues now than they were at the same time last year (March). This was true for almost 80% of private

companies and 71% of public companies and similar results were obtained across all company sizes. The manufacturing and wholesale trade sectors stand out on this issue, with roughly 90% of senior executives in both industries saying they are putting more emphasis on cash management now, versus one year ago.

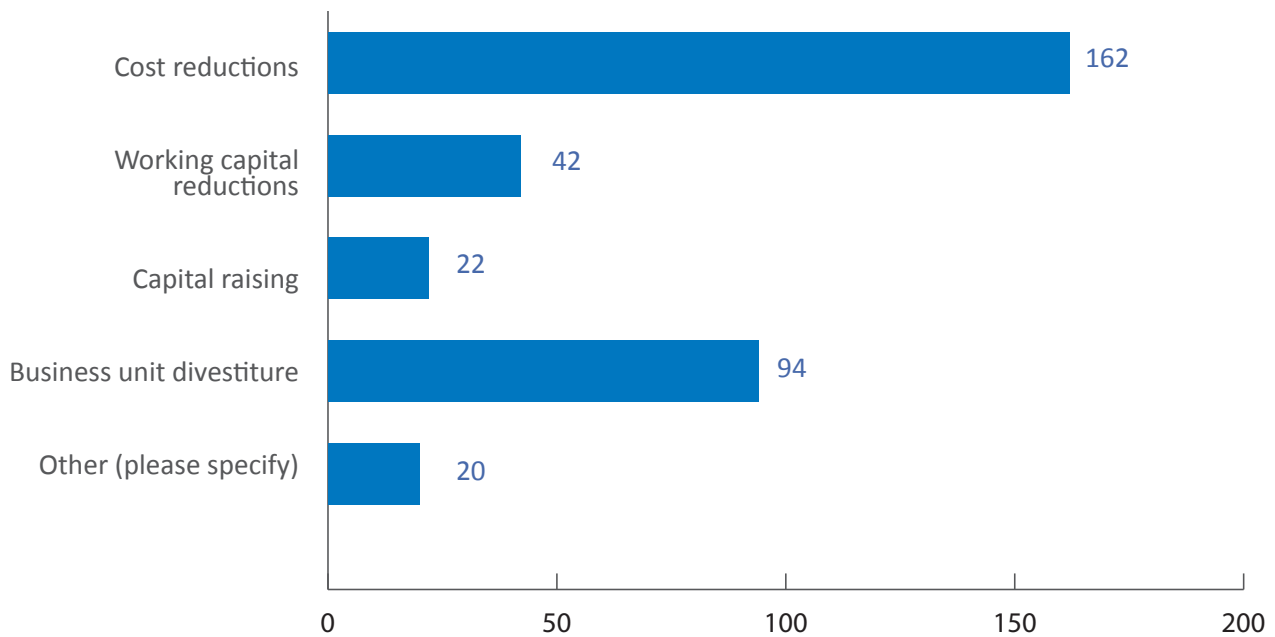
ARE YOU FOCUSED ON CASH MANAGEMENT MORE NOW THAN AT THIS TIME LAST YEAR?



A large majority (68.6%) of the companies in our survey were instituting cost reductions to improve liquidity, and another 40% were reducing working capital. Others (17.8%) were raising capital to generate cash, and some were selling off business units (9.3%). Increasing attention to collecting account receivables was also

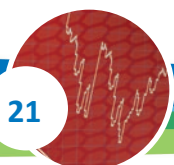
a strategy. However, more than half of respondents weren't predicting cash flow improvements for the remainder of the year. For those that did expect improvements, 45% predicted that these were likely to occur over the next twelve months, versus roughly one-third who expect improvements over the next six.

CASH MANAGEMENT INITIATIVES



With increased volatility in cash, a significant number of companies are stress testing their forecasts to account for changes in performance and outlook (65%) and another 45% have tested these forecasts over different time periods in the event of an extended downturn. Almost half of the respondents in our survey indicated that they expect to increase expenditures on risk and control management over the next twelve months. Another 66% say that they have reviewed their financial

and reporting templates in light of changes to their business during the current economic downturn. The vast majority of companies responding to this survey feel that their systems are adequately geared towards providing their organizations with the information they need to support key changes to their goals and initiatives, as well as have the capabilities to highlight potential issues that may be emerging during this period.



NEW ROLES FOR FINANCE

"I think we're focusing a lot more on cash forecasting now. We have rolling weekly cash flow forecasts and monthly. We spend a lot of time forecasting gross profits monthly, and operate our business on a weekly basis. That's not new, but what we've done is gotten more finance people involved in this, rather than being led more by the sales people and the operations people. The finance people have brought a sense of urgency to the process. It's great to see the potential for sales going up because you have lots of great inventory, it's another thing for readers of your financial statements, including your bankers, to see that you've sold that inventory and recorded profit on your income statement.

We've been able to have stricter standards around how much inventory we're going to have, why we own it and who is going to buy it. The finance organization has taken on more of a leadership role over the past six months. It's really the execution of the forecasts. We're building a discipline of executing every week on cash and capital investment and that will accumulate into before performance over months, quarters and years."

Bob Wight, Vice President Finance, Chief Financial Officer,
Clearwater Fine Foods Inc.

A wide variety of analyses are being used to help monitor cash, liquidity, and other economic indicators of the firm based upon alternative scenarios. Some companies have stepped up their analysis of foreign exchange impacts, while other monitor intermediate input prices more closely. A large majority (70%) have evaluated the

creditworthiness of their customers, while another 44% have examined the credit worthiness of their suppliers and the effects that the current market conditions may have on them. This is true for both private and publicly-listed companies. Other stress tests include:

TESTING VARIOUS PERFORMANCE OUTLOOKS

- rerun forecasts with various sensitivities on commodity prices and foreign exchange
- consistently analyzing greater than expected industry and market size declines due to financial constraints of commercial customers
- re-evaluating how to calculate break-even points, adding an "investment in monthly losses" element
- continuous review of clients and their environments to try to identify potential downturns
- introduction of rolling forecasts
- full scenario analysis on the investment portfolio
- implemented a rigorous gating process to evaluate funding/returns of each project or revenue line item
- run forecasts with wide volume ranges, funding cost ranges and bad debt ranges
- continually monitor performance to budget and if necessary, re-budget operations to reflect changes to competitive and economic environments
- monthly simulations with potential interest rate changes

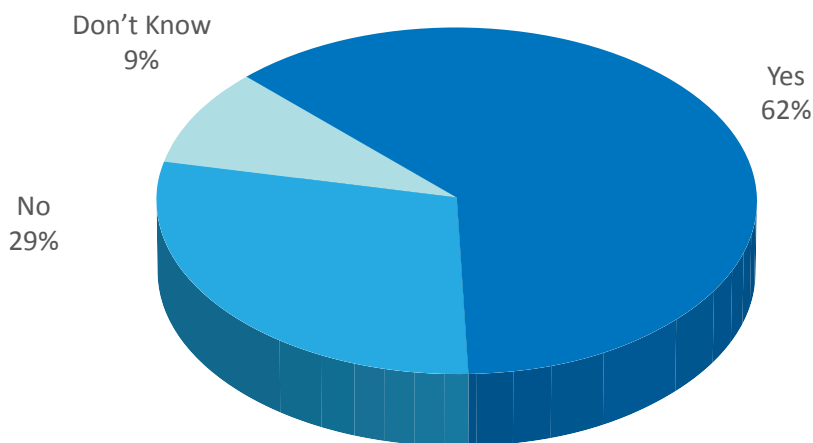
FOCUS ON COST REDUCTION

A wide variety of cost reduction strategies are in place in companies across Canada. However, the majority of companies will be delaying capital investments over the coming months in order to preserve cash positions and reduce costs. We can expect to see more layoffs in many sectors and a freeze on executive compensation, particularly in financial services companies.

For those that were planning cost reductions over the coming months, roughly half were reducing headcount (48.7%), compared to 43.2% that said they would leave their work-force intact. Salary roll backs were also being considered by one third of the companies in this study, and 62.8% were anticipating a freeze in executive compensation. Deferring capital investments is substantially more popular than cutting staff or salaries, with 65% of companies taking this route. Public companies were more likely to explore shared services models/outsourcing (21.1%) compared to private companies (13.7%), reflecting the general

trend that outsourcing and shared services tends to be a public company phenomenon in Canada. Other cost-reduction initiatives included: reducing discretionary spending, travel, trade show participation and advertising; business process re-engineering; consolidation of purchasing; reducing all back office functions including HR, IT, and finance to protect sales/marketing and new product development; reducing interest expense; re-tendering benefits and insurance; operational outsourcing; and asking for supplier price roll backs.

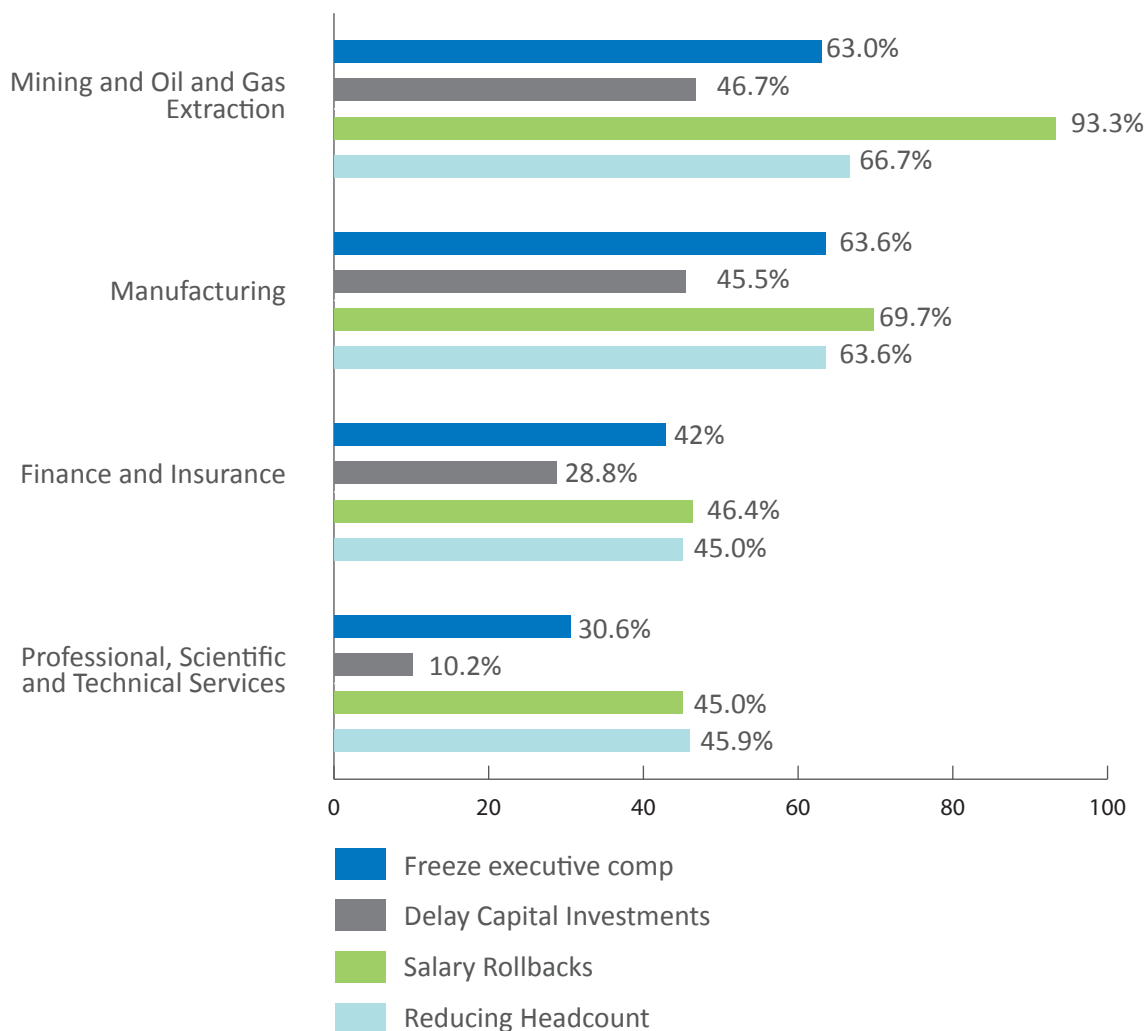
ARE YOU ANTICIPATING A FREEZE IN EXECUTIVE COMPENSATION OVER THE NEXT 12 MONTHS?



When comparing industry groups, we see notable differences in priorities. For the mining and oil and gas sector, the vast majority of companies will be delaying capital investments (93.3%) compared to 69.7% in manufacturing, 46.4% in financial and insurance, and 45% in professional, scientific and technical services. However, deferring investment over the next twelve months was also the most frequently cited method

of reducing costs in the manufacturing sector. The professional, scientific and technical services sector was the least likely to cut salaries or reduce headcount. Again, mining and oil and gas and manufacturing were more likely to be focusing on work force reductions than in finance or professional services, where freezing executive compensation will be more prevalent.

COST CUTTING BY MAJOR INDUSTRY



Role of the CFO

Over the last three years, the role of the CFO in Canada has changed. Anecdotal evidence suggests that while CFOs play an integral role in the strategic management of the firm, their jobs were becoming increasingly driven by meeting regulatory requirements. With the introduction of NI 52-111, the certification and testing of internal controls over financial reporting, CFOs became focused on managing and documenting their internal control and risk environments. Following that, the introduction of IFRS again demanded that CFOs shift their focus from strategic financial management issues, to compliance issues and understanding and managing the implications of adopting a new accounting standard in Canada.

The recent economic cycle has again put new demands on the job of the CFO. According to our research, almost 60% of respondents believe that the role of the CFO has changed over the past twelve months. Managing during the downturn has intensified their focus on making sure their businesses are adequately capitalized, that costs are continuously scrutinized and managed carefully, and that the company is able to access any new market opportunities available to them, whether it be acquiring new companies or assets at reduced prices, or consolidating business processes to improve operational efficiencies. Going forward we expect CFOs to maintain their positions at the strategy table. However, the economic challenges facing Canada over the next twelve months will keep many heads down, managing cash.

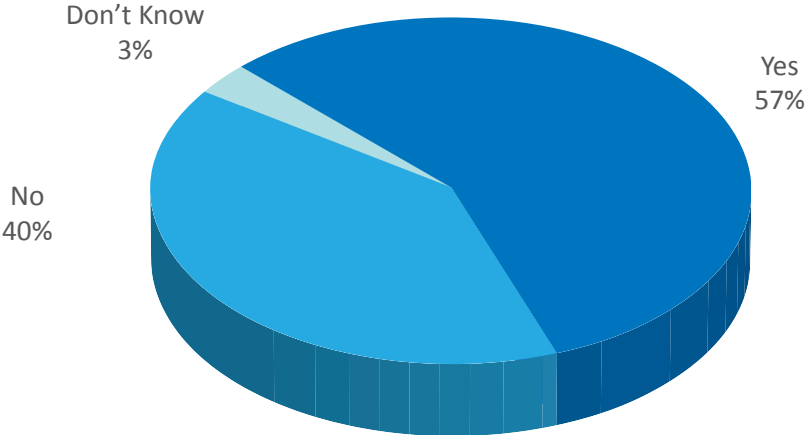
“I have heard it said 15 different ways here. Liquidity – cash, everybody is focused on that right now, and the intensity of that focus is greater than it has ever been. Many of use here have talked about doing more frequent reporting and forecasting to keep on top of this issue. In our case, we are undertaking a massive expansion of our operations and capital constraints in the marketplace mean that the focus on liquidity that much more acute. Regardless of what business you are in, it all comes down to the same common denominator, doesn’t it, at the end of the day? You’ve got to make sure you’re adequately capitalized for your growth plans.”

David Gorofalo, Senior Vice President Finance and CFO, Agnico-Eagle Mines Limited

“Effective and efficient resource allocation is a critical concern in today’s market. Many companies have implemented headcount and/or salary freezes, if not reductions, in an effort to manage the bottom line. As a result, it becomes very challenging to spend the limited resources which are at your disposal on compliance related matters as opposed to the commercial side of the business, which is where you are trying to grow revenues and retain customers. It is a very delicate balancing act because compliance requirements do not go away, but when the economy takes a downturn (as it currently has), our focus needs to be on ensuring that the business is effectively navigating through a more challenging economy.”

Sunil Gandhi – Director of Finance, Corby Distilleries

IN YOUR VIEW, HAS THE ROLE OF THE SENIOUR FINANCIAL EXECUTIVE CHANGED OVER THE PAST 12 MONTHS?



Conclusion

Senior financial executives from across Canada are optimistic that the economy will return to normal growth rates in 2010. In the meantime, companies are focused on remaining liquid, and to this end are carefully managing cash and rationalizing costs. While some industries like the hotel and hospitality sector are expected to take longer to recover, companies in this and other sectors, who are in a positive cash position are able to capitalize on lower asset prices, and their ability to acquire and partner with companies in need of capital. Recession-resilient companies are benefitting from their current market position and are taking advantage of their relative strength in the market place. In this climate, customer retention is critical. Careful attention is being paid to getting service levels right and that lower-priced products are available to increasingly price sensitive customers. Meanwhile, financial executives are placing more effort and resources into managing risks and internal controls. A wide variety of new methods of analysis have been put in place to help monitor cash, liquidity and other financial performance indicators.

Some have implemented rigorous gating processes to evaluate returns on each project or revenue line item, while others are more closely testing their sensitivities

to changes in foreign exchange rates. Against this backdrop, financial executives have had to figure out ways to reduce costs now without jeopardizing revenue and profits in the future. Reducing workforce will be the most popular way of reducing costs over the next few months and many companies will also be freezing executive compensation. For the mining and oil and gas sector, the vast majority of companies will be delaying capital expenditures in response to the general downturn in commodities prices and the decline in the price per barrel of oil.

The role of the CFO has also shifted focus over this period in Canadian economic history, reflecting the need to respond to the current market crisis. Where one year ago, issues surrounding the adoption of International Financial Reporting Standards were top of mind to most senior finance executives, making sure the company survives, or takes advantage of the market opportunities open to them is now their number one priority and will likely continue to be for the next twelve months.

Appendix A – Forum Participants

Forum Chair: William Hewitt – Trustee, CFERF

Moderators: Ramona Dzinkowski – Executive Director, CFERF
Steve Power – Partner, Ernst & Young

FEI Canada: Michael Conway – Chief Executive and National President, FEI Canada
Melissa Gibson – Research and Communications Associate, FEI Canada
Laura Bobak – Senior Writer, FEI Canada and CFERF

Participants: Alex Browning – Senior Vice President, Finance & Administration, LCBO
Peter Constantinou – Chief Financial Officer, Summit Energy
Patrick Crowle – Chief Financial Officer, OMERS Administration Corporation
Sunil Gandhi – Director, Finance, Corby Distilleries Limited
David Garofalo – Senior Vice President Finance & CFO, Agnico-Eagle Mines Limited
Scott Keyworth – Managing Director, Mergers & Acquisitions, CIBC World Markets Inc.
Tom Kornya – Ernst & Young, Partner, Assurance
Judy Munro – Principal, Munro Partners
Gord Nelson – Chief Financial Officer, Cineplex Entertainment LP
Godfrey Nthunzi – Vice President, Finance, Colgate-Palmolive Canada Inc.
Eric Rawlinson – Partner, Advisory Services, Ernst & Young
Bill Ross – Vice President, Finance & Information Technology, Enbridge Gas Distribution Inc.
Pamela Steer – Vice President, Finance, Redknee Inc.
Earl Sweet – Managing Director and Senior Economist, BMO Capital
Vlad Volodarski – Chief Financial Officer, Chartwell Seniors Housing REIT
Bob Wight – Vice President, Finance & Chief Financial Officer, Clearwater Fine Foods Inc.

Guests: Marie-France Bourret – Accountant, Corporate Finance Branch, OSC
Jodi Hancock – Senior Accountant, Corporate Finance Branch, OSC

Observers: Bob Bauer – Director, Business Development, Ernst & Young
Peter Kinch – Partner, Assurance Practice, Ernst & Young
Stephen Lewis – Partner, Ernst & Young Orenda Corporate Finance
Amanda Olliver – Public Relations Specialist, Ernst & Young

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