



# Managing through economic uncertainty

## FEI National Conference

Thursday, 10 June

1:45 pm - 3:00 pm

- ▶ **Lisa Dorian**, President  
PowellDorian Services Inc.  
*(moderator/presenter)*
- ▶ **Steve van Halst**, SVP, BC Regional Client  
Service Manager Aon Global,  
Aon Reed Stenhouse Inc.
- ▶ **Fred Withers**, Managing Partner,  
Western Canada  
Ernst & Young LLP
- ▶ **Tyrone Cotie**, Director of Corporate Finance &  
Investor Relations  
Clearwater Seafoods

# Agenda

## Review recent risk reports

- ▶ Aon Global Risk Management study
- ▶ CFERF/Ernst & Young LLP Canadian study, *Managing the Upturn*
- ▶ Key themes and conclusions

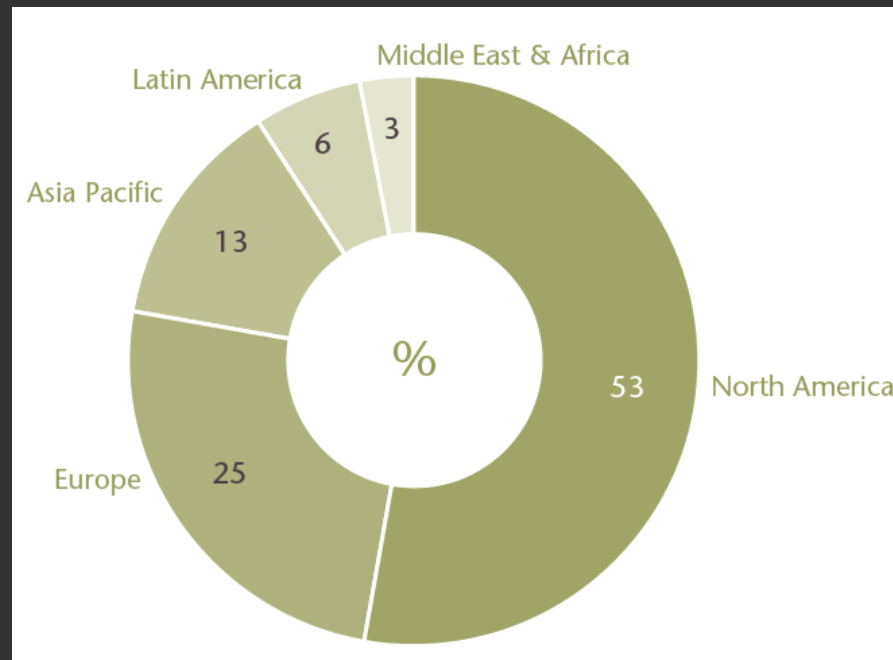
## Case study: Clearwater Seafoods Limited

- ▶ Challenges faced in 2008
- ▶ Looking forward

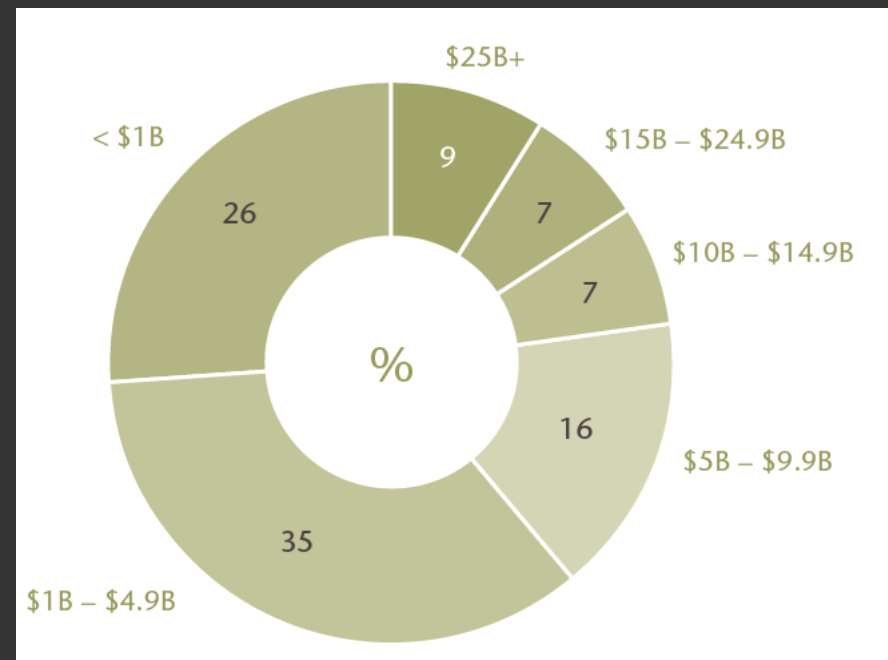
# 1. Aon Global RM Survey Respondent Profile

Survey responses obtained Q4 2008 from 551 organizations in 40 countries, prior survey in Q4 2006

Survey respondents' by region



Survey respondents by revenue



# Top Ten Risks

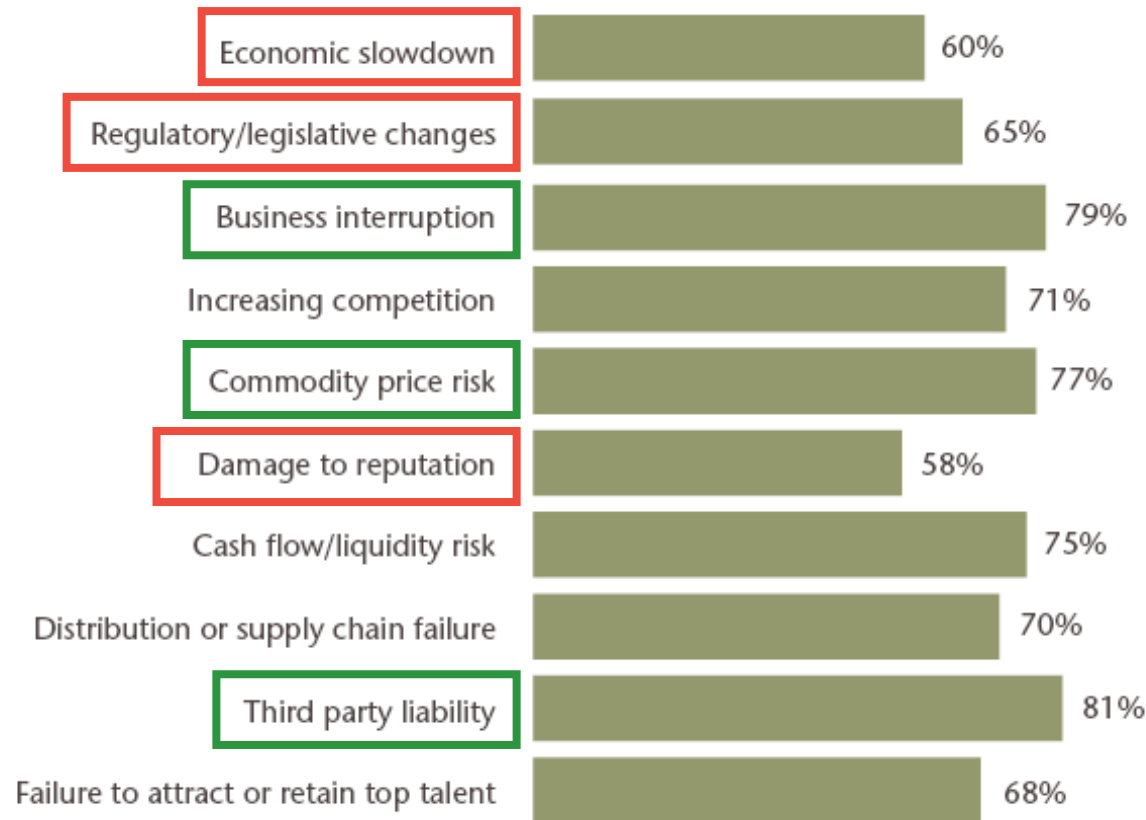
| Ranking | Risk description                        | Change in ranking vs 2007 |
|---------|---|---------------------------|
| 1       | Economic slowdown                       | +7                        |
| 2       | Regulatory/legislative changes          | +4                        |
| 3       | Business interruption                   | -1                        |
| 4       | Increasing competition                  | New entry                 |
| 5       | Commodity price risk                    | New entry                 |
| 6       | Damage to reputation                    | -5                        |
| 7       | Cash flow/liquidity risk                | New entry                 |
| 8       | Distribution or supply chain failure    | -4                        |
| 9       | Third party liability                   | -6                        |
| 10      | Failure to attract or retain top talent | -3                        |

▶ **3 new risks in top 10: connected to challenged economy**

# Top 10 Risks – Associated Losses

| Risk rank | Risk description                        | Loss of income in last 12 months | Loss rank |
|-----------|---|----------------------------------|-----------|
| 1         | Economic slowdown                       | 57%                              | 1         |
| 2         | Regulatory/legislative changes          | 24%                              | 7         |
| 3         | Business interruption                   | 30%                              | 5         |
| 4         | Increasing competition                  | 39%                              | 4         |
| 5         | Commodity price risk                    | 57%                              | 1         |
| 6         | Damage to reputation                    | 9%                               | 10        |
| 7         | Cash flow/liquidity risk                | 25%                              | 6         |
| 8         | Distribution or supply chain failure    | 20%                              | 8         |
| 9         | Third party liability                   | 40%                              | 3         |
| 10        | Failure to attract or retain top talent | 16%                              | 9         |

# Top Ten Risks – Reported Preparedness



Entities least prepared for less predictable, uncontrollable, highly complex enterprise-wide risks with limited risk transfer alternatives available.

Entities best prepared for discrete quantifiable risks with well developed risk transfer solutions available.

## 2. Report overview

### *Managing the upturn: Key strategies for sustained profitable growth*

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- ▶ Results based on a survey of Canadian senior finance executives from public and private companies, as well as an Executive Research Forum held in Toronto in October 2009
- ▶ Report offers a perspective on the economy in 2010, key risks/threats to economic recovery, and strategies as we head into the upturn
- ▶ Overall, financial executives are decidedly positive about an economic improvement in 2010, but realize the recovery will be somewhat “bumpy”

# Key findings – Economic risks

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## Inflation

- ▶ Most executives anticipate that inflation will be problematic by 2011
- ▶ Impact to domestic demand as prices increase and wages remain fixed
- ▶ Greatest concern to Ontario executives

## Exchange rates

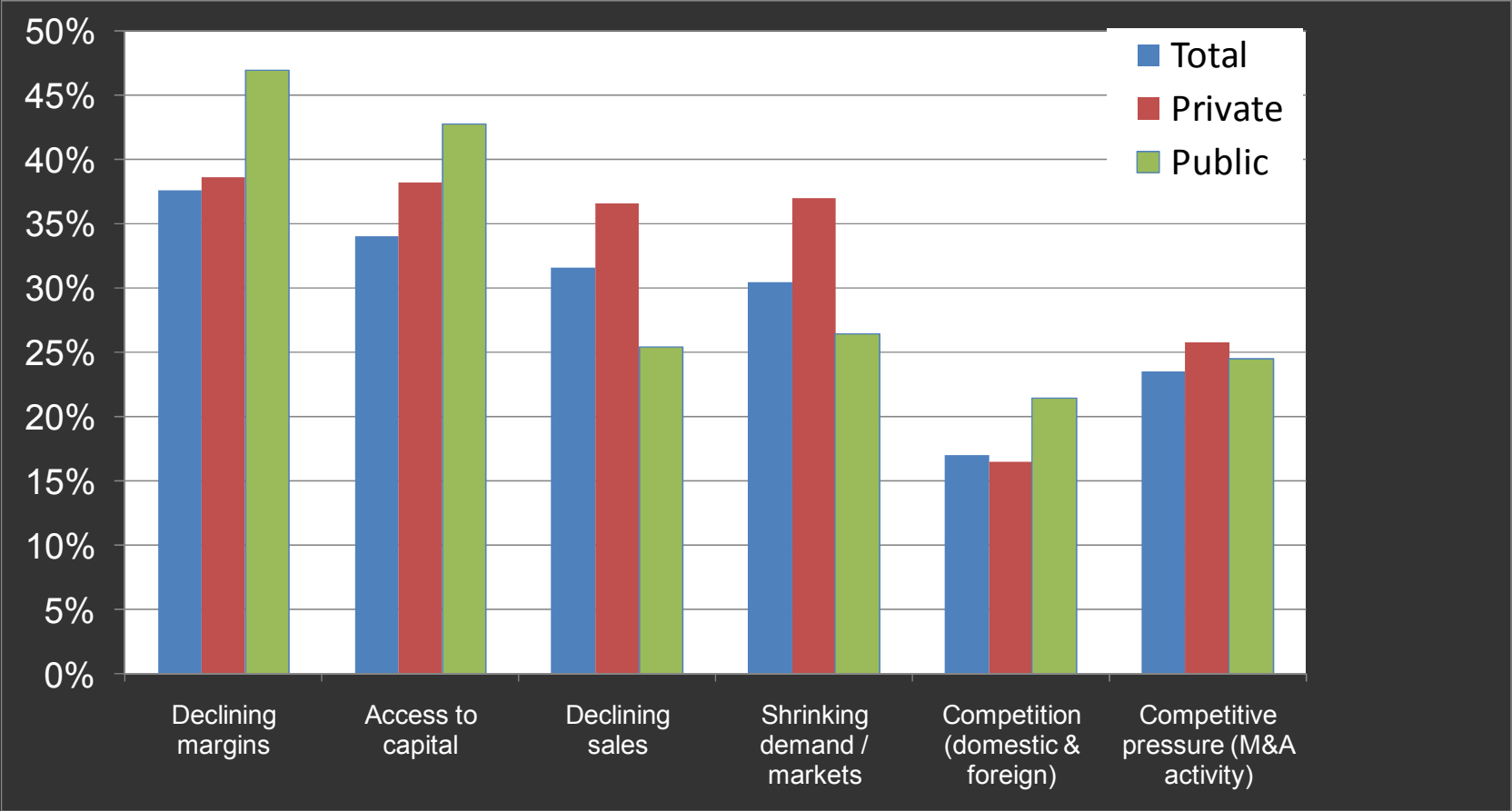
- ▶ Rising Canadian dollar seen by many forum participants as a key influence in the recovery
- ▶ Threat to Canadian export economy, particularly to the US

## Consumer confidence

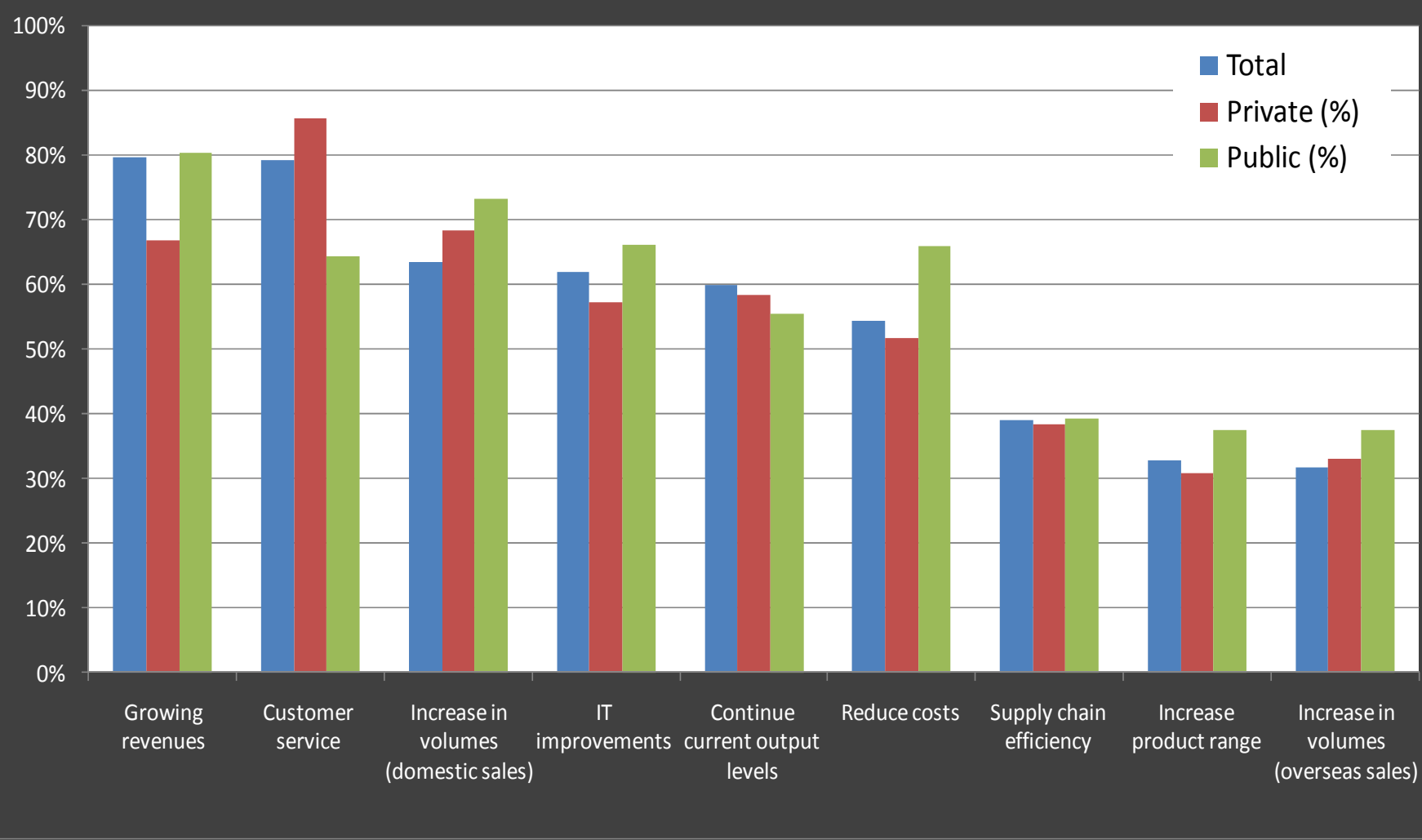
- ▶ Yet to see a return to pre-2008 spending patterns
- ▶ Current spending levels causing some to be less optimistic about 2010
- ▶ Consumers who aren't spending are investing in safe, secure investments



# Key findings – Company risks



# Corporate strategy – critical factors for 2010



# Key findings – Strategic direction

## Strategic spending

- New products/market expansion (61.9%)
- Technology and R&D (58.4%)
- Building cash positions (51.5%)

## Customer service and growing revenues

- Almost 80% of respondents agreed these were 2 critical areas
- Increasing sales volumes in the domestic market (63.4%)

## Increasing profit margins

- Improvements in technology (61.9%)
- Cost reduction (e.g., managing inventory) (54.5%)
- Increasing supply chain efficiency (39.1%)

## Renewed focus on M&A

- Significant increase in new deals, particularly in the mid-market space
- 33% of companies expect to devote capital to acquisitions in 2010

# Financial management

## Top issues for senior finance executives in 2010

| Managing cash / liquidity   | Cost control   | IFRS   |
|---|--|--|
| <ul style="list-style-type: none"><li>▶ Key area of focus is ensuring the company has enough working capital.</li><li>▶ Forecasting / budgeting were pain points during the downturn. Quarterly forecasting is likely to continue to pose difficulties, with less volatility in longer-range forecasts.</li><li>▶ This will renew the focus on monitoring risk, with most executives planning to increase risk reporting.</li></ul> | <ul style="list-style-type: none"><li>▶ Cost management and cost reduction will be a continued focus this year.</li><li>▶ However, we will see an end to massive downsizing as the economy returns to normal growth rates.</li></ul> | <ul style="list-style-type: none"><li>▶ Public companies will be focused on their control environments this year, and completing the conversion to IFRS.</li></ul> |

# Summary

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- ▶ Financial executives are cautiously optimistic about the future, but there will be continued challenges this year.
- ▶ Companies need to focus on being **agile** and **adaptive** in order to help mitigate risk and to be positioned to take advantage of new opportunities
- ▶ Three primary areas of focus: cash management, risk management and performance management
- ▶ Companies should be strengthening performance and generating cash by investigating ways to **enhance operating performance** (increase sales, reduce costs, improve supply chain performance) **or release cash** (improve working capital management)

# Comparing RM Study Themes

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## **Aon Study**

Q4 2008, 551 organizations, 40 countries, most firms over \$5B revenues.

### **Top risks:**

1. Economic slowdown
2. Regulatory
3. Business interruption
4. Increasing competition
5. Commodity price risk

## **CFERF/EY Study**

Q4 2009, over 200 entities, all Canadian-based, most firms under \$0.25B revenues.

### **Top risks:**

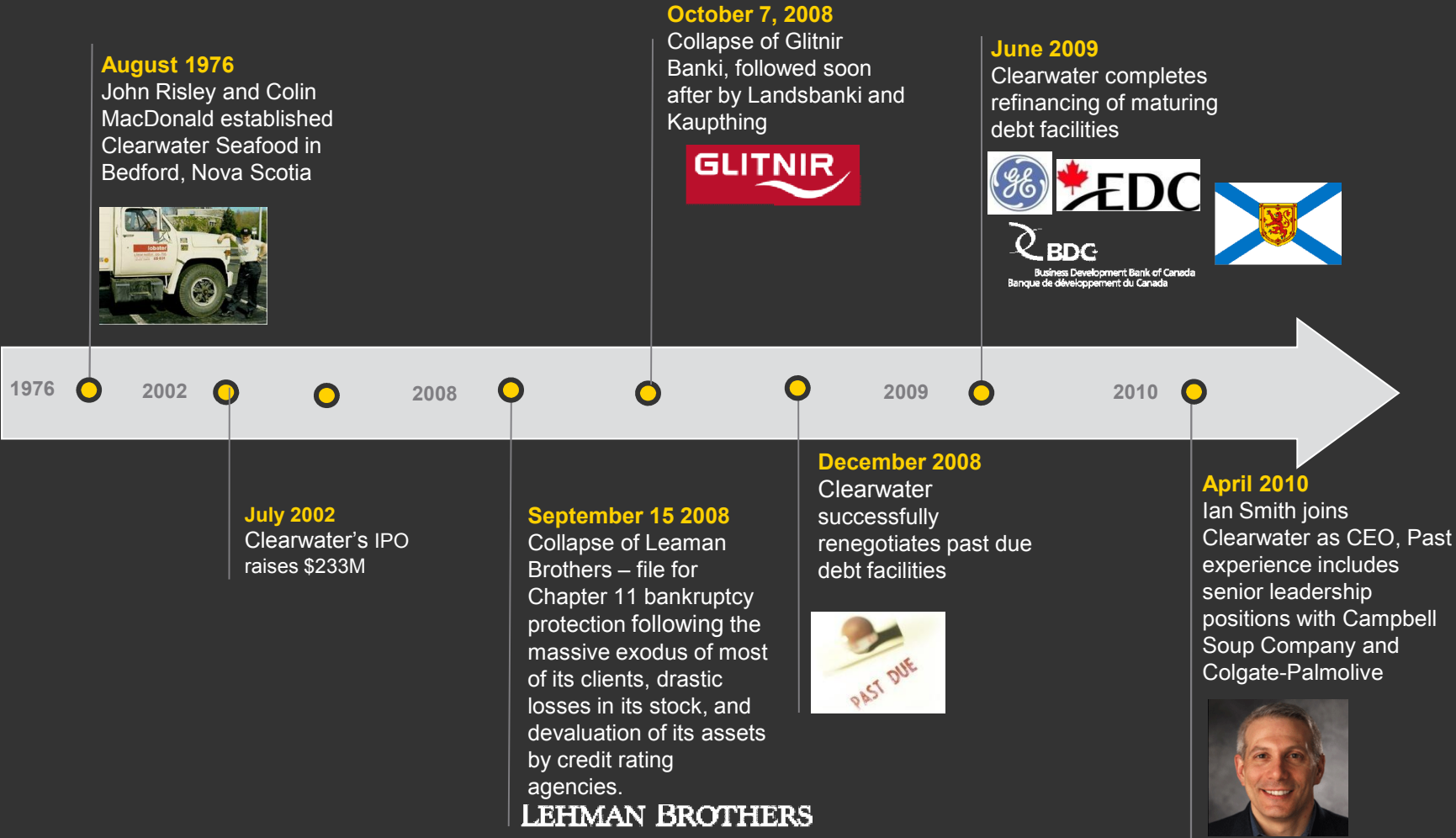
1. Declining margins
2. Access to capital
3. Declining sales
4. Shrinking markets
5. Competition

# Case Study: Clearwater Seafoods

- ▶ Largest holder of shellfish licenses and quotas in Canada
- ▶ Harvest shellfish in offshore fisheries off the coast of Atlantic Canada and Argentina
- ▶ Recognized for consistent quality and reliable delivery of premium seafood
- ▶ North America's largest vertically-integrated harvester, processor, and distributor of premium shellfish
  - ▶ Lobster, scallops, clams, coldwater shrimp and crab
  - ▶ Focused on high margin species



# Case Study: Clearwater Seafoods timeline



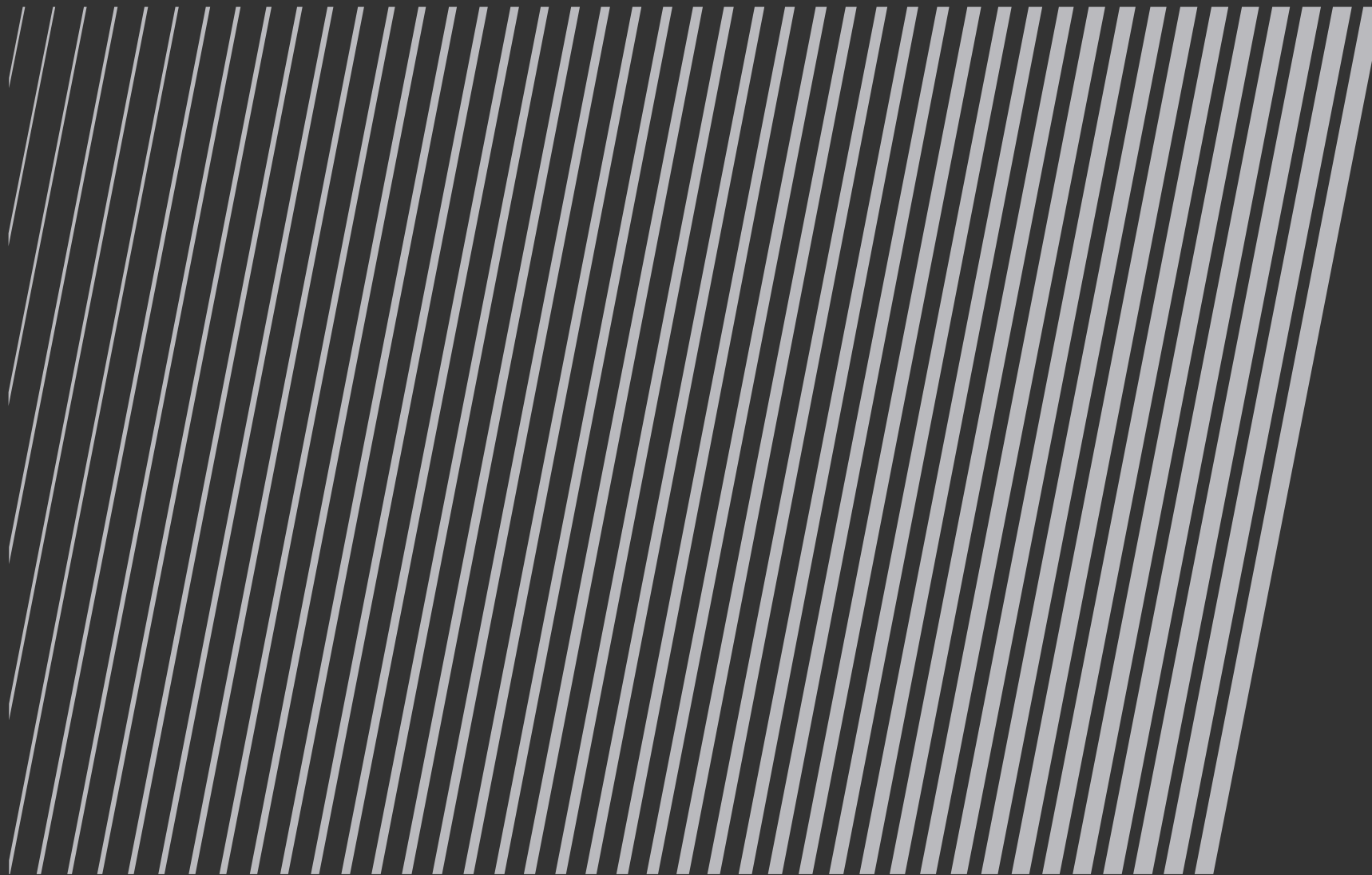


# Key observations and takeaways

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- ▶ **Monitoring** – In rapidly changing markets, companies need to focus on monitoring their external environment to ensure they remain aware of the changing credit, market and default risk profiles.
- ▶ **Reallocation** – As companies have spent the past two years downsizing and cost cutting, it is timely to perform a reallocation of company resources to more judiciously prioritize what remains.
- ▶ **Resiliency** – That which does not kill us makes us stronger! Companies that make it through the downturn will come out stronger as the skill set built during difficult times often leaves companies prepared well to better manage in the upturn.
- ▶ **Risk management** – As risks are rapidly changing, organizations need to improve discussions with C-Suite and Board members to ensure they understand and promote the risk culture of the organization and embed risk management into the corporate processes.

# Executive Panel Q & A



# For additional information, please contact:

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