



Managing the upturn

Key strategies for sustained profitable growth

FEI National Breakfast Series – Toronto

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 **ERNST & YOUNG**
Quality In Everything We Do

Overview of CFERF Report

Report available at ey.com



Report overview

Managing the upturn: Key strategies for sustained profitable growth

- ▶ 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

Key findings – Economic risks

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

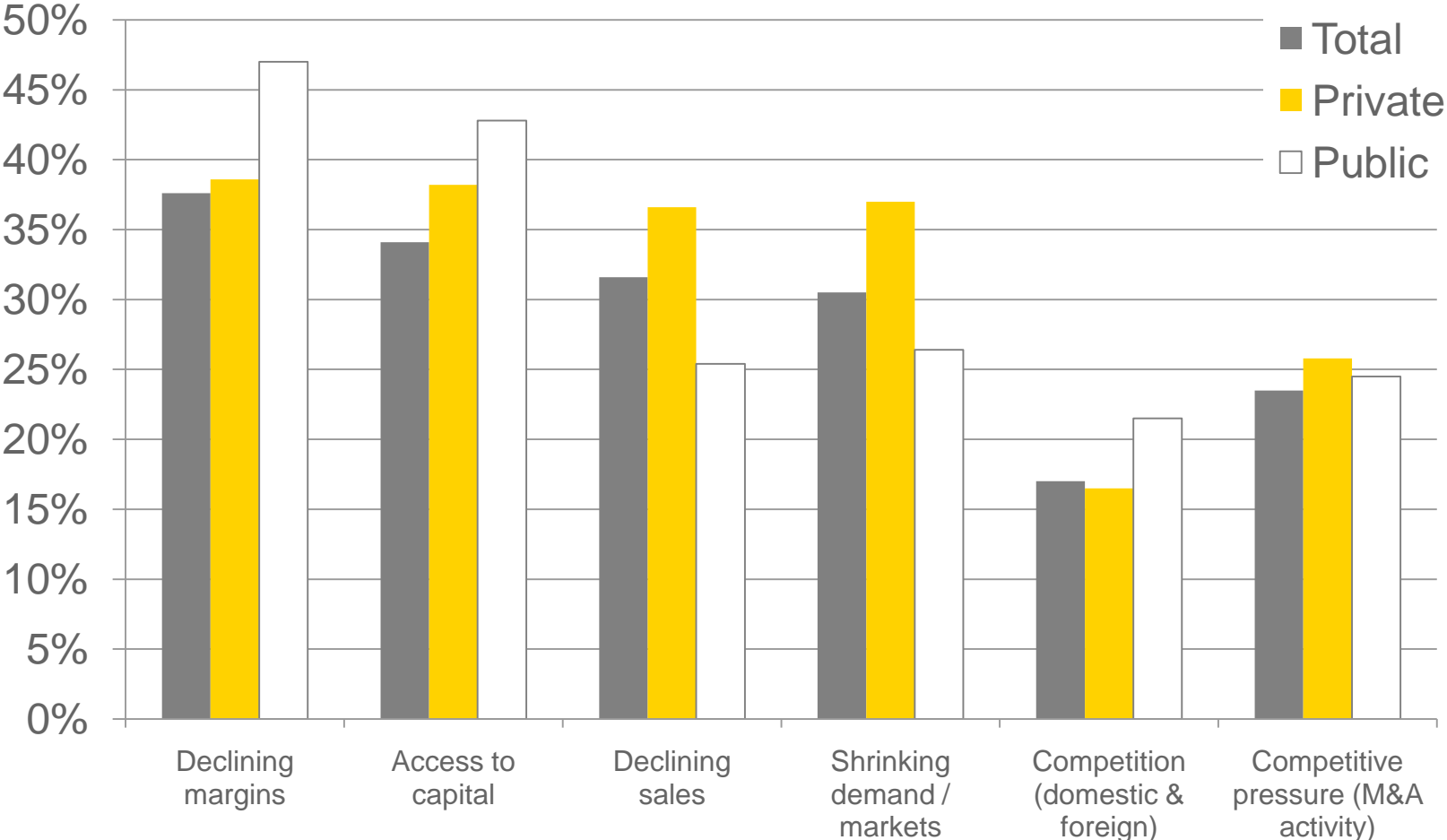
Exchange rates

- ▶ 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



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

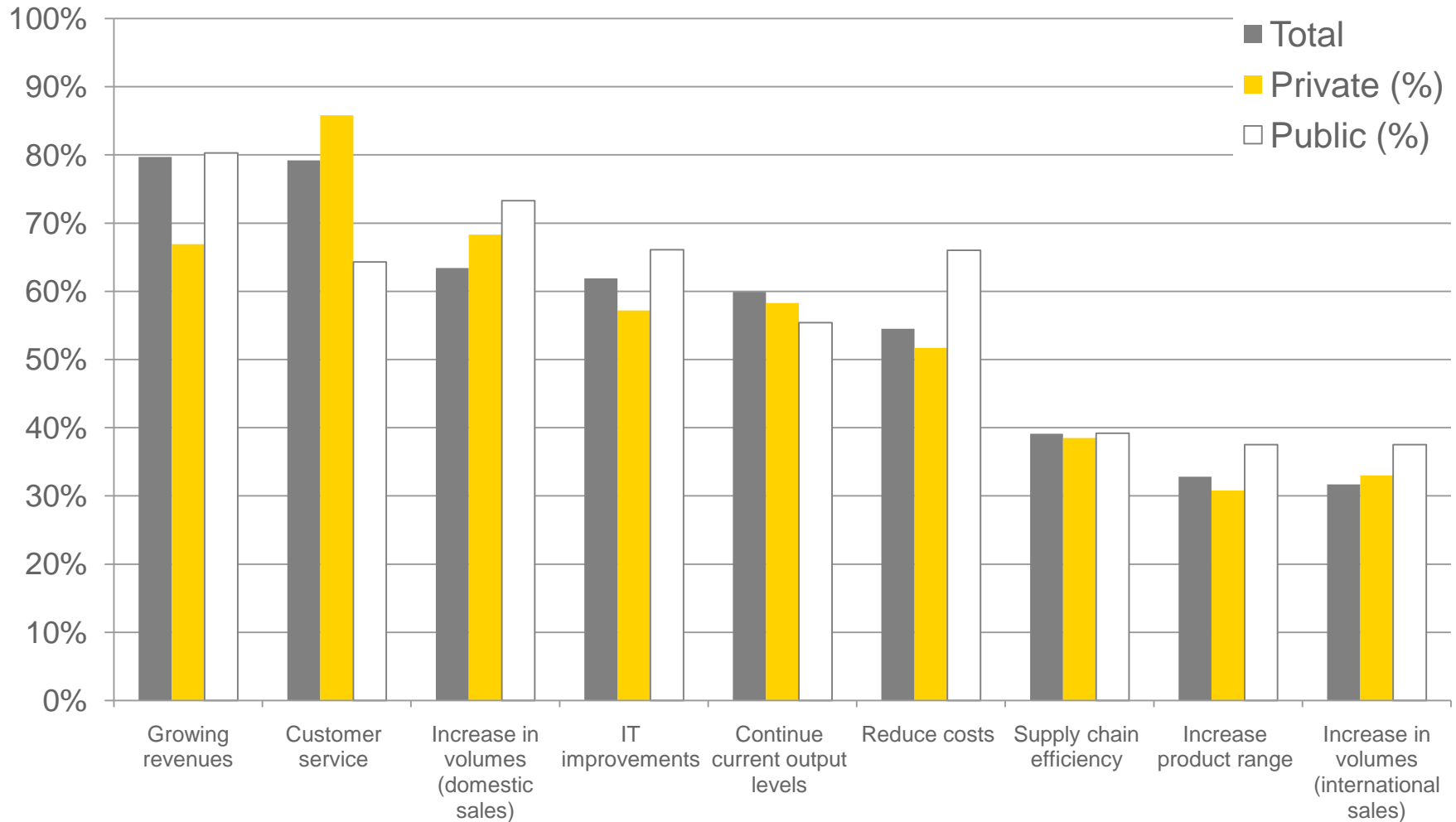
- Significant increase in new deals, particularly in the mid-market space
- 33% of companies expect to devote capital to acquisitions in 2010

Financial management

Top issues for senior finance executives in 2010

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

Corporate strategy – critical factors for 2010



Strategies for 2010

Implementing corporate strategies for 2010

Overview

- ▶ Financial executives are cautiously optimistic about the future
- ▶ Despite an expected return to normal growth and a reduction in volatility, 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
- ▶ Companies should be strengthening performance and generating cash



Cash
Management

Risk
Management

Performance
Management

Cash management

General considerations for effective cash management

- ▶ How effective is your cash management? Access to cash can be difficult, particularly in this economy – long lead time for financing
- ▶ Overall, companies expect to have enough capital for 2010 – majority will not be looking to refinance, and will not be changing their capital structure
- ▶ Only 16.8% said they will assume more debt
- ▶ Organization's ability to manage cash flow / forecast requirements is crucial
 - ▶ Ensure treasury department is effectively managing cash and investments
 - ▶ Identify availability of short-term finance facilities / credit
 - ▶ Consider ways to make financing more tax-efficient
 - ▶ Consider tax strategies to release cash
 - ▶ Communicate proactively with lenders, analysts and rating agencies

Cash management

Working capital and cost reduction

Working capital – Main issues

- ▶ Contingency planning
- ▶ Measurement
- ▶ Customer exposure

Working capital – Considerations

- ▶ Conduct a review of working capital measures and incorporate liquidity and working capital risks in the overall enterprise risk management [ERM] framework
- ▶ Develop contingency scenarios
- ▶ Build working capital measures into performance management

Cost reduction – Main issues

- ▶ Declining revenue and profits
- ▶ Decreased equity values

Cost reduction – Considerations

- ▶ Set primary objective for cost reduction strategy (immediate need to cut costs, strategic effort to reduce long-term cost structure, etc.)
- ▶ Ensure that cost management programs are focused on value, pace and sustainability

Risk management

Main issues

- ▶ Risks associated with current financial environment (i.e., liquidity, credit availability, strategic / operational risk associated with M&A)
- ▶ Risk management often performed in silos
- ▶ Disconnect between risk management efforts and corporate strategy

Considerations

- ▶ Use ERM to link your risk processes to the organization's strategic and business objectives (strategy setting, decision making, execution, monitoring and reporting)
- ▶ Embed your ERM program throughout the business, and treat risks systematically
- ▶ Align risk management to performance management

Performance management

Main issues

- ▶ Linking drivers to organizational strategy
- ▶ Planning, budgeting and forecasting
- ▶ Performance measurement and reporting

Considerations

- ▶ Identify organizational value drivers
- ▶ Create operating plans to deliver organizational value
- ▶ Incorporate a strategic planning process that translates your objectives and goals into a roadmap
- ▶ Measure whether your organization is executing on value creation plans
 - ▶ Demonstrate to capital markets that you are delivering against plan
 - ▶ Provide variations in how the business is operating against plan, and future indicators
 - ▶ Drive proactive management action in response to customers and competitors

Summary

- ▶ 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)

Executive Panel

Q & A