

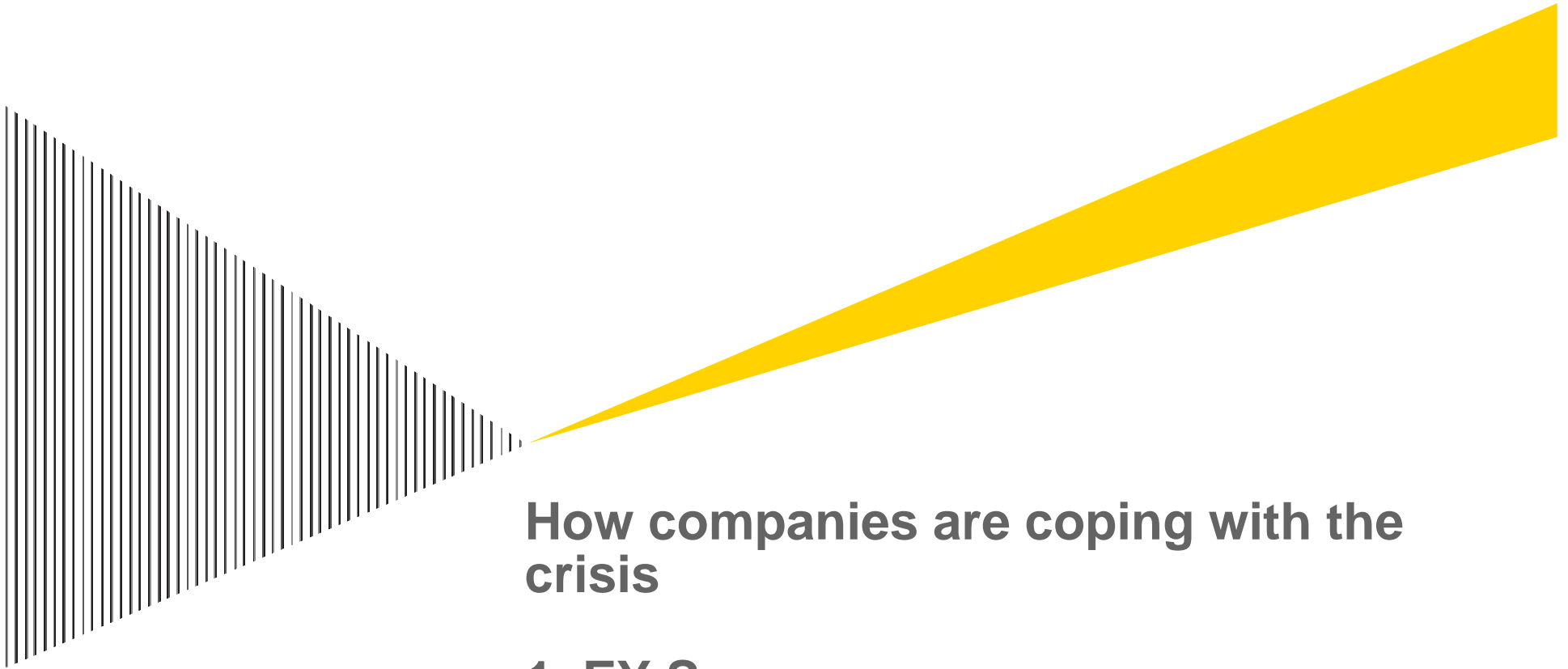
# FEI Montréal 2009 Conference

## Economic impact of the credit crisis

Sylvain Vincent, FCA  
Managing Partner, Eastern Canada  
Ernst & Young

28 May 2009





## How companies are coping with the crisis

1. EY Survey
2. Is your bank your friend?

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# EY Survey

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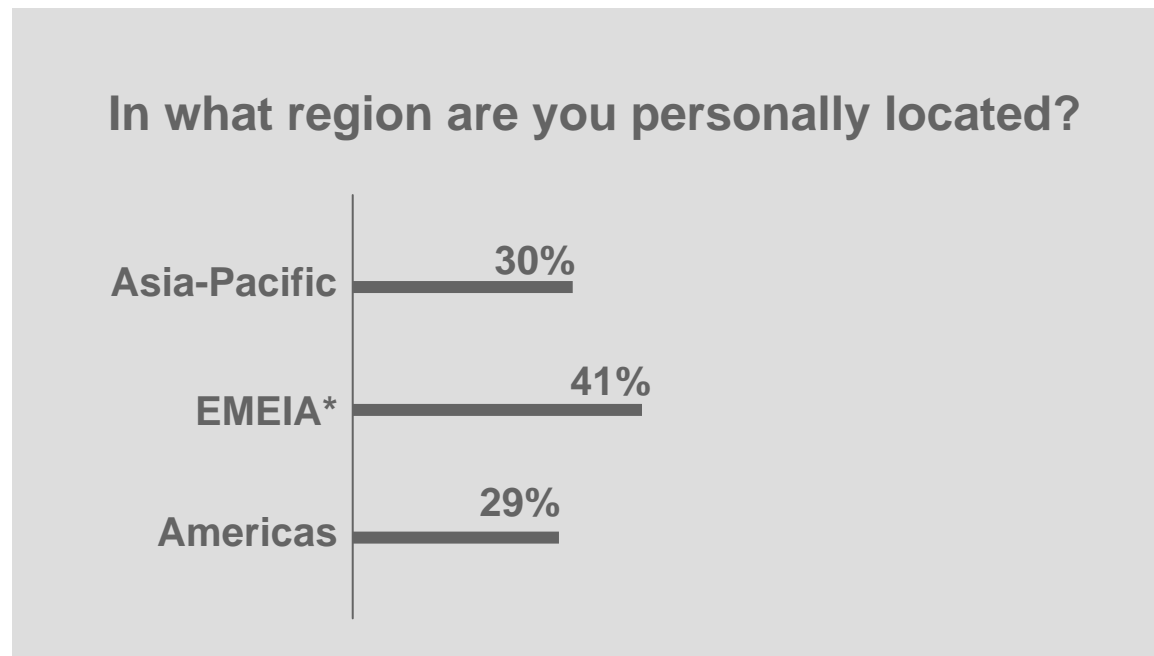
- ▶ Survey by EY and Economist Intelligence Unit (a division of the Economist magazine).
- ▶ Interviews with over 300 senior executives around the world.
- ▶ Questions on how they are impacted by the economic crisis and what they are doing about it.
- ▶ Interviews conducted between 6 and 19 January 2009.

# Snapshot profile of interviewees

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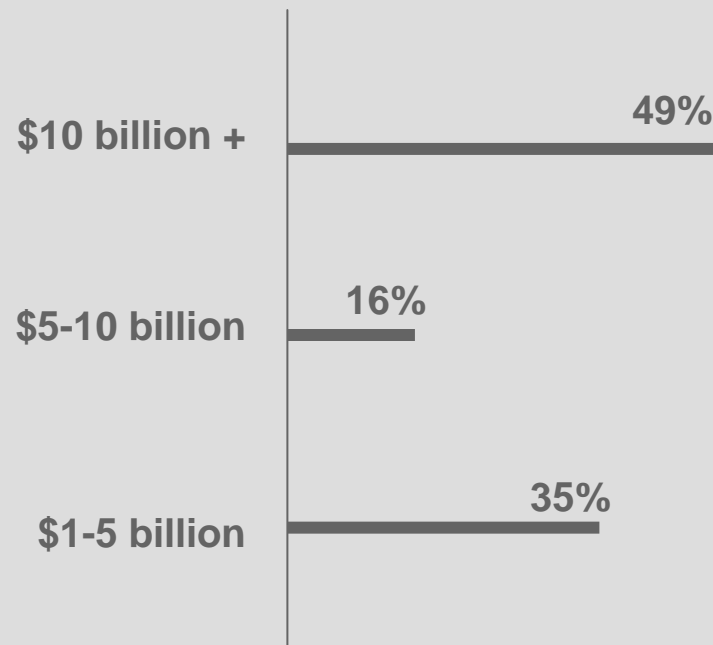
The Economist Intelligence Unit surveyed 337 C-suite and board level executives in this study.

Respondents were drawn from across the world. All executives polled worked for companies with turnover in excess of \$US1 billion and businesses were cross-industry. Research was carried out between 6 and 19 January 2009

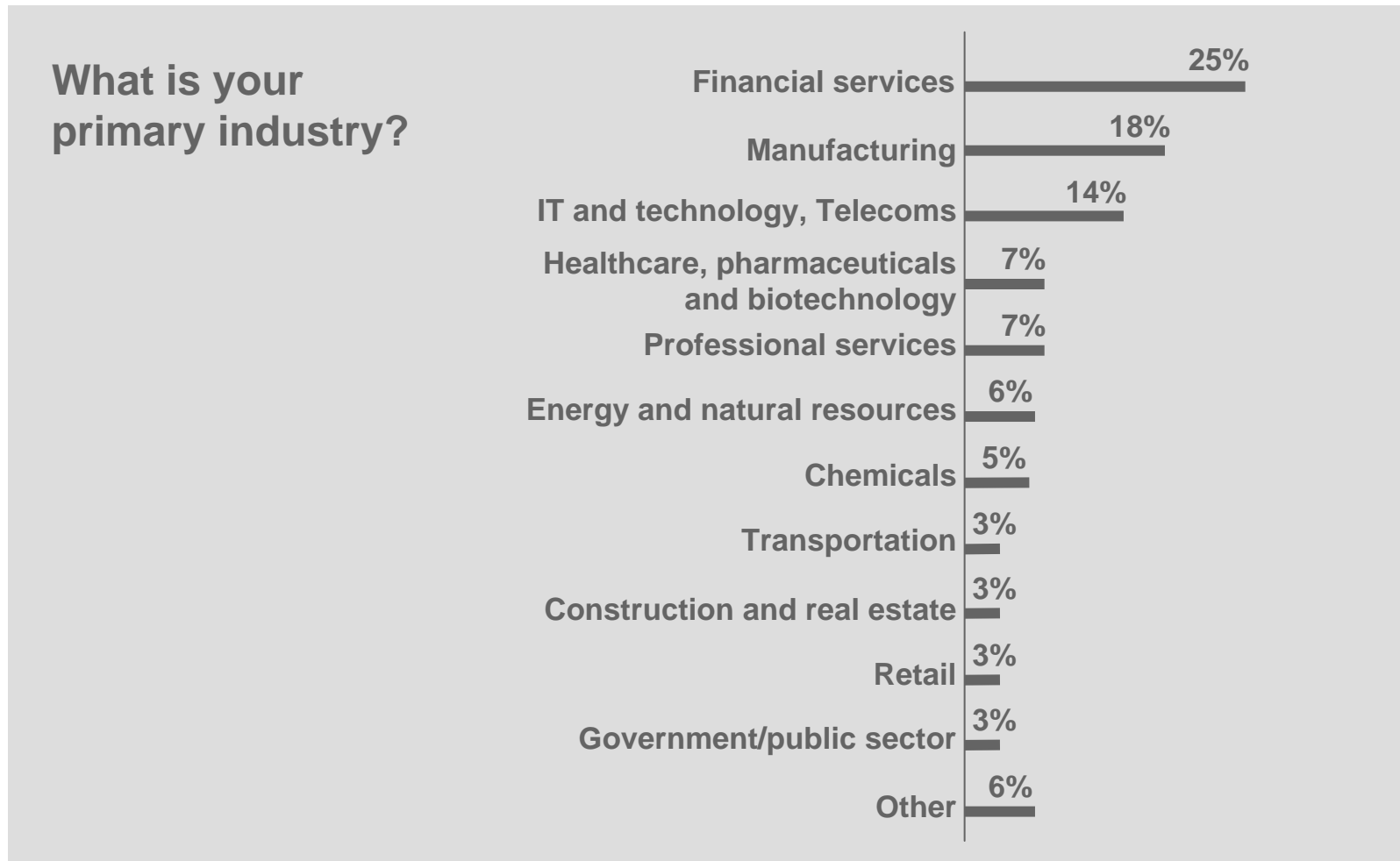


# Snapshot profile of interviewees

What are your company's annual global revenues? (in \$US)

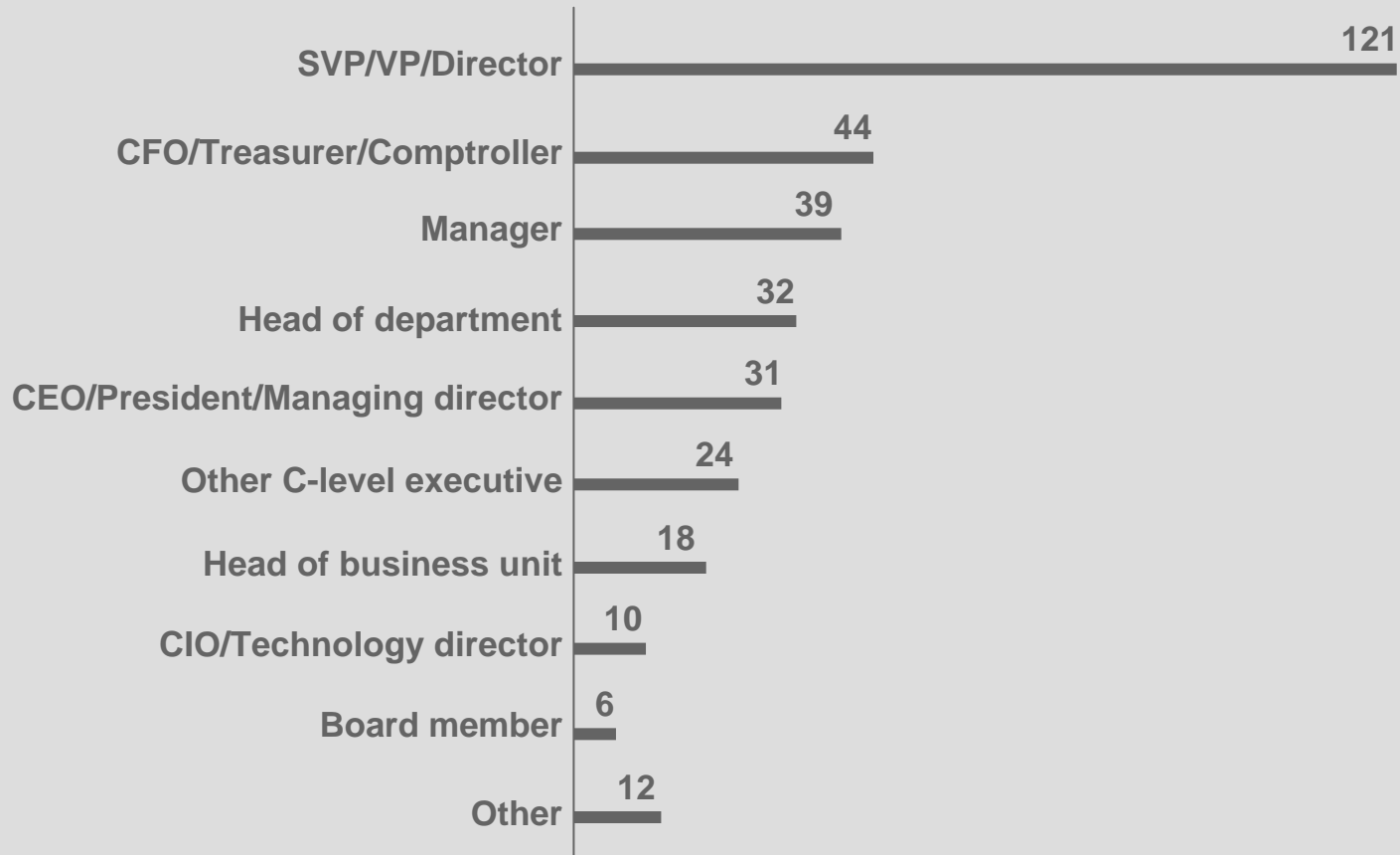


# Snapshot profile interviewees



# Snapshot profile of interviewees

What is your job title? (number of respondents)



# Sample question

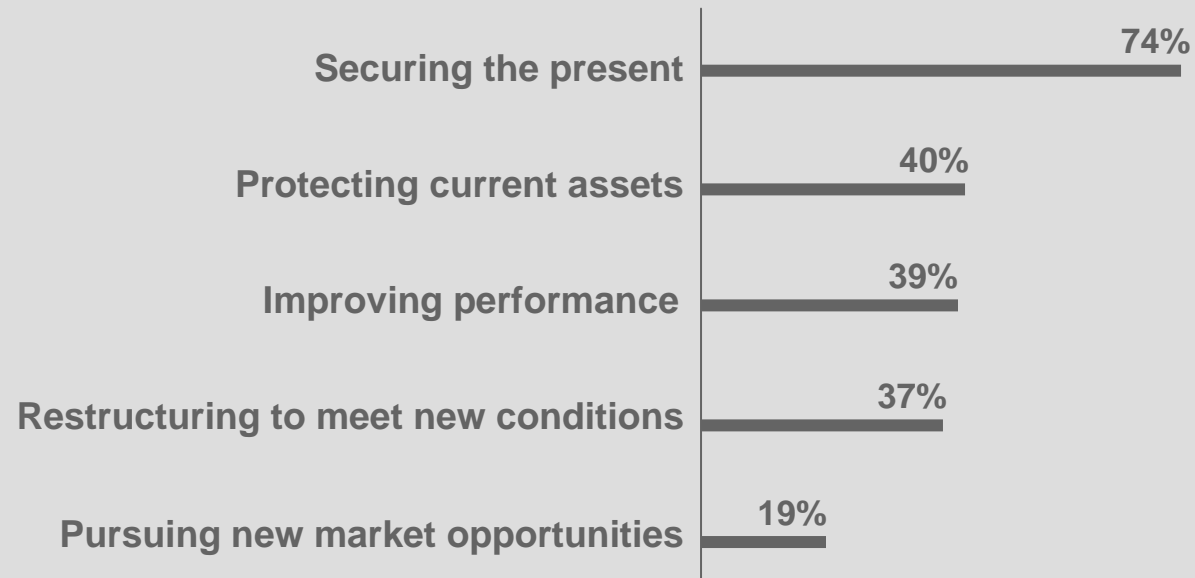
In which of the following ways has the global economic crisis affected your organization's approach to its customers over the past 12 months?



Please select up to three. (Shown: percentage of respondents)

# Sample question

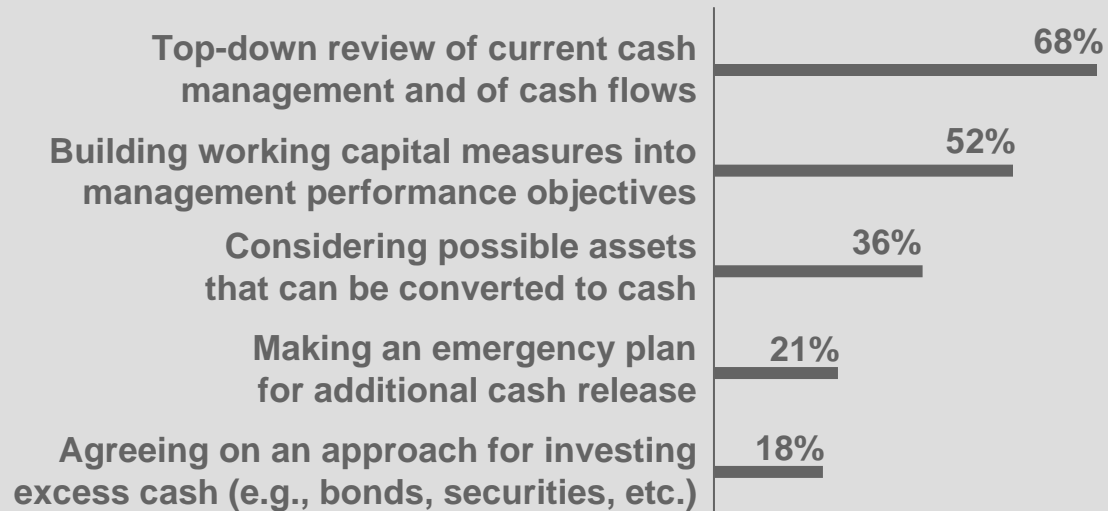
Over the next 12 months, what changes do you expect in the importance your organization attaches to the following activities?



(Shown: percentage increase)

# More questions

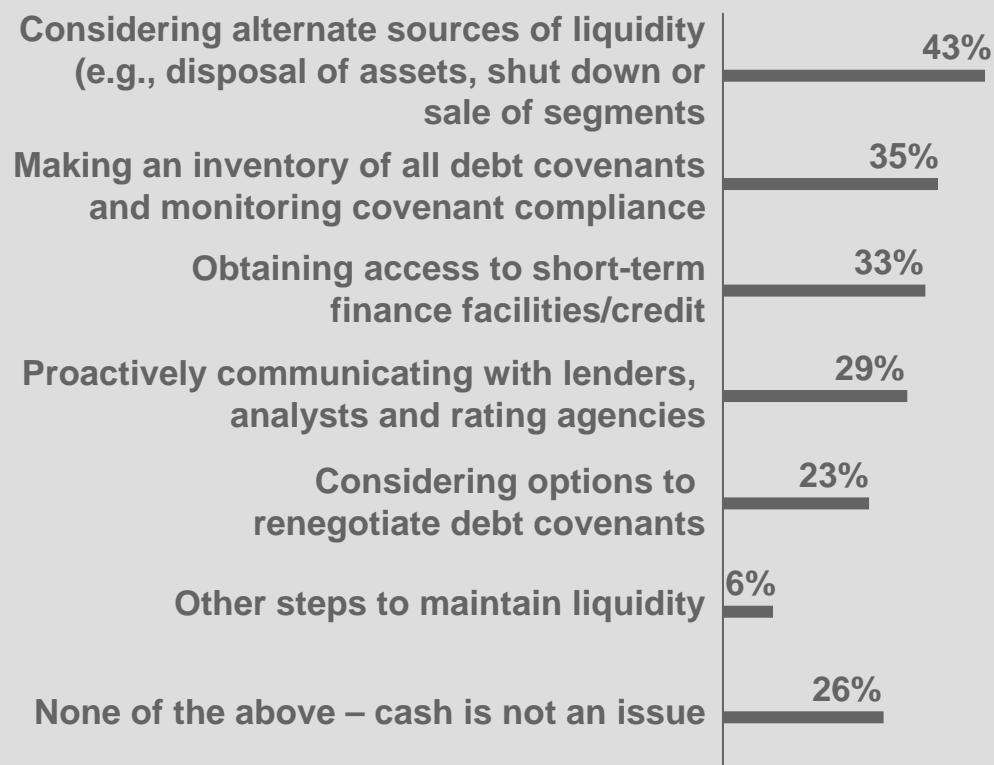
Which of the following cash management actions is your company currently taking?



(Shown: percentage increase)

# More questions

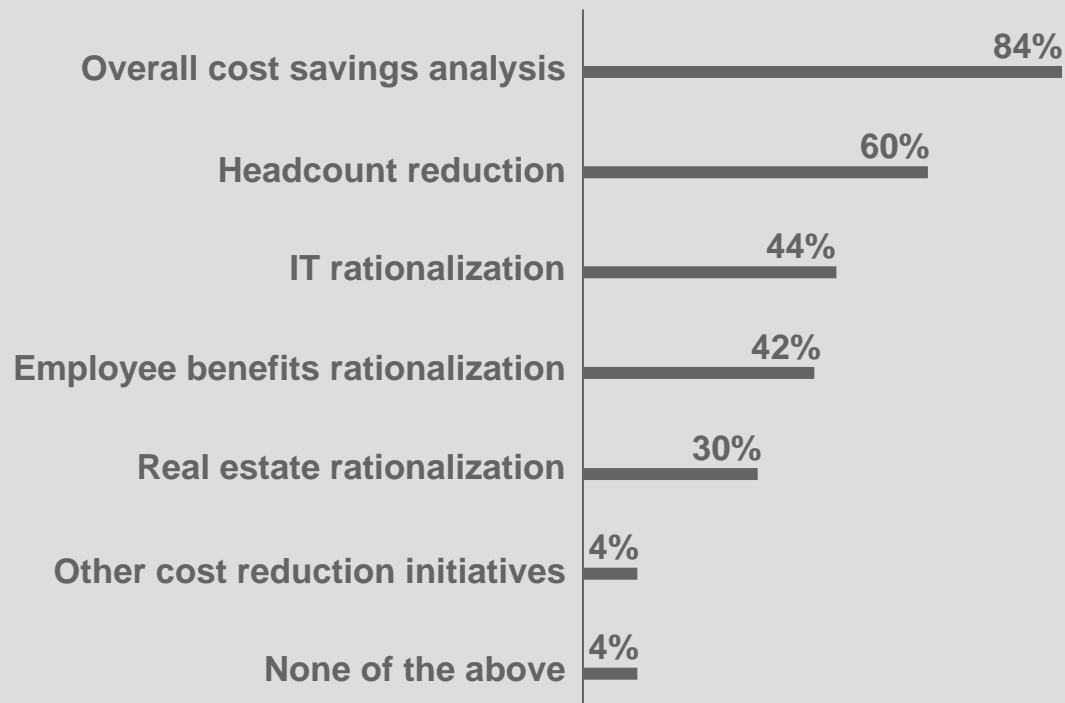
Which of the following steps is your company currently taking to maintain liquidity in light of current market conditions?



Please select all that apply. (Shown: percentage of respondents)

# More questions

Which of the following cost reduction initiatives have you implemented or begun to implement?



Please select all that apply. (Shown: percentage of respondents)

# More questions

Which of the following business functions or activities have been most affected by a decline in investment at your company in the current economic climate?



Please select up to three. (Shown: percentage of respondents)

# More questions

In the coming year, which of the following actions do you plan in response to or in light of current market conditions?



Please select up to three. (Shown: percentage of respondents)

# More questions

Function	% considering an increase	
	Outsourcing	Shared services
Product research and development	15	15
Product manufacturing	16	8
Distribution, logistics and transport	23	14
IT software network management	30	33
Knowledge services	11	12
Telecommunications management	18	11
Human resources	15	23
Tax and legal services	13	10
Accounting	10	22
Internal audit	3	7
Customer-related functions	14	15
Property management	11	12

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# A recurring theme – cash is king!

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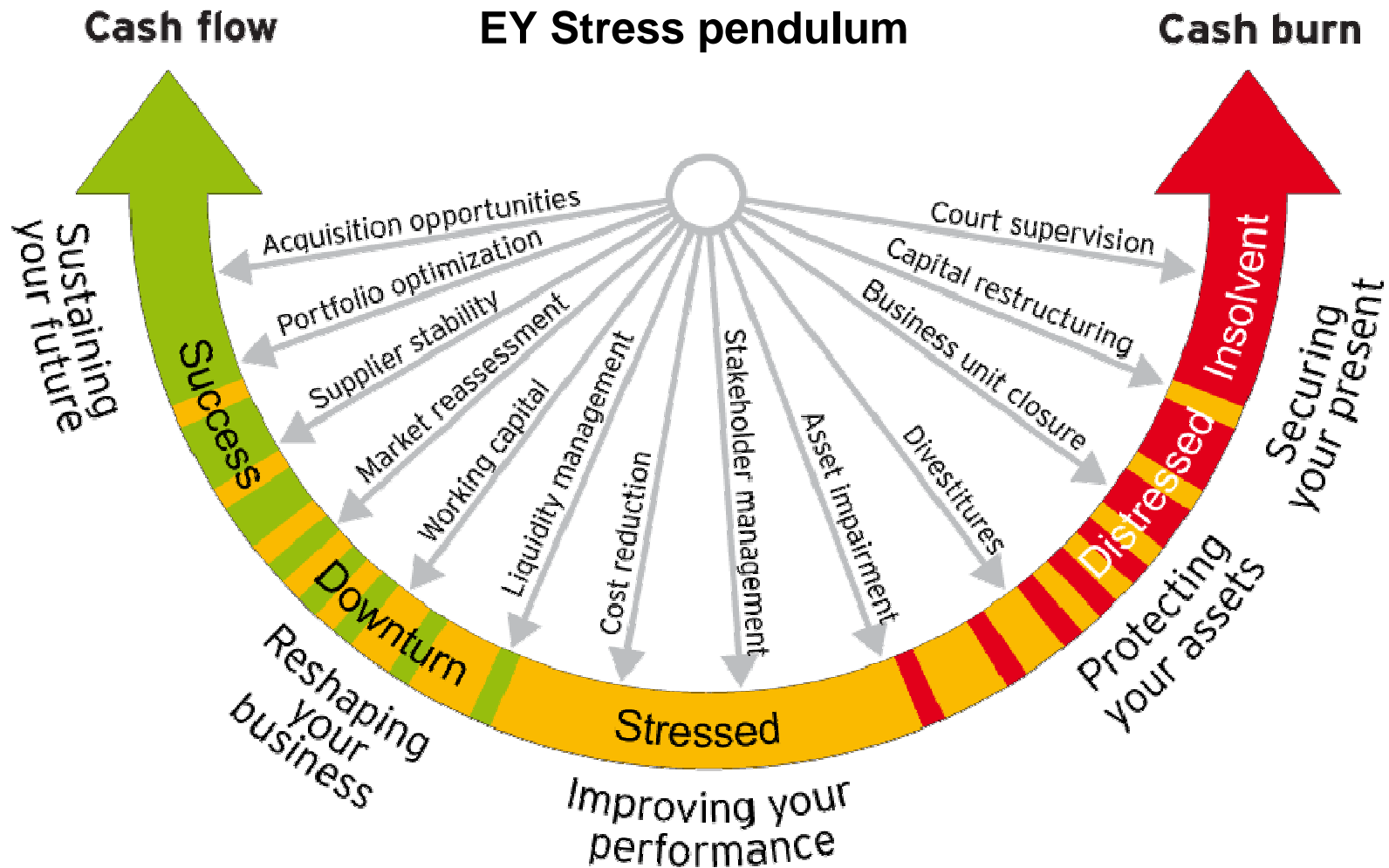
# Conclusion

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- ▶ So corporations have been proactive.
- ▶ But what they did and how they did it depended on their particular financial situation.
- ▶ What is your company's situation... and what should you do?
- ▶ To answer this question, we tried to build a tool that summarizes what these companies told us: a tool you could use for your own company.

# Opportunities in adversity

All companies can be placed on a stress pendulum...



# Opportunities in adversity – responding to the crisis

## Short-term opportunities

### Securing your present

- ▶ Liquidity and working capital
- ▶ Cost reductions
- ▶ Accelerated divestments

### Protecting your assets

- ▶ Scenario planning and risk assessment
- ▶ Capital expenditure program reviews
- ▶ Customer and supplier risk reviews
- ▶ Internal audit and control effectiveness

### Improving your performance

- ▶ Enterprise cost reduction
- ▶ IT effectiveness
- ▶ Supply chain
- ▶ Tax cost management

### Reshaping your business

- ▶ Mergers, acquisitions and divestitures
- ▶ Shared services centers/outourcing
- ▶ Strategic locations/offshoring

### Sustaining your future

- ▶ Focus on customer/go to market
- ▶ Emerging market expansion
- ▶ Opportunistic deals
- ▶ Aligning operating model for growth

## Medium-term opportunities

## Long-term opportunities

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# Is your bank your friend?

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- ▶ If cash is king... how is your relationship with your banker?

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# How are banks reacting to the crisis?

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## Their constraints

- ▶ Conservative attitude
- ▶ Capital preservation
- ▶ Higher borrowing costs
- ▶ Tight risk management
- ▶ Elimination of banking syndicate members

## Consequences for you

- ▶ High interest rates
- ▶ Cost of waivers
- ▶ Tighter conditions
- ▶ Tighter ratios
- ▶ Fewer banks to choose from
- ▶ Reduced commitments

*Special loan groups are getting busy!*

# Who are your creditors?

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- ▶ Banking syndicates
- ▶ Banks
- ▶ Leasing companies
- ▶ Bond holders
- ▶ Suppliers
- ▶ Governments
- ▶ Employees
- ▶ Shareholders



*Who should be given priority?*

# Ten things not to do

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1. Wait until things revert to normal
2. Wait for the bank to call
3. Plan for a short recession
4. Wait until the company is in default
5. Not plan for the worst
6. Not carry out a sensitivity analysis
7. Provide the bank with overly optimistic forecasts
8. Not keep the main creditor informed
9. Not keep the employees informed
10. Be reactive

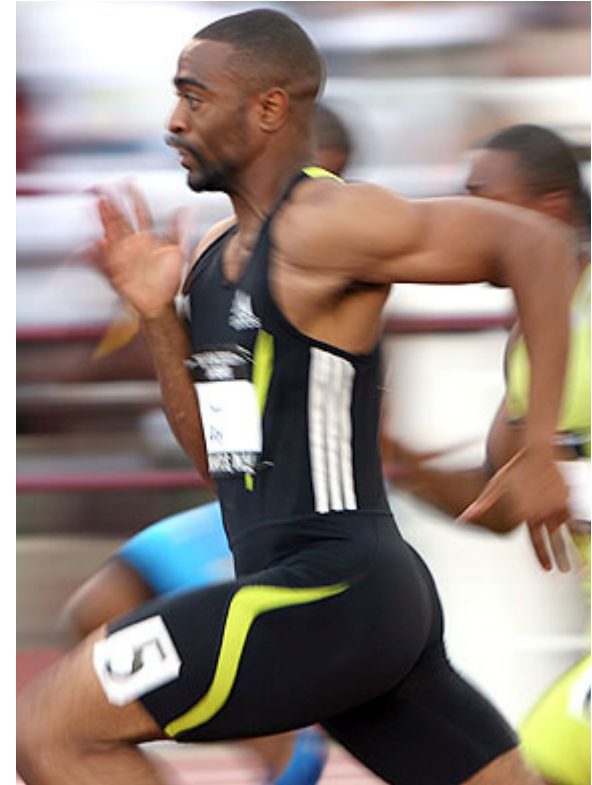


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# Five ways to avoid a call from the bank asking for a meeting

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1. Be proactive
2. Draw up realistic forecasts with sensitivity analyses and contingency plans
3. Develop a plan and take the required actions (cost reduction, asset sales, etc.)
4. Preserve liquidities and build up reserves
5. Keep your partners informed (bank, investors, employees)



# Five things to do if you get that call from the bank asking for a meeting

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1. No arrogance
2. Be prepared with a credible plan
3. Surround yourself with experts
4. Be positive but realistic
5. Keep control over the timeline and process

