Managing the upturn
Key strategies for sustained profitable growth

24 February 2010
Discussion topics/agenda

► Revisiting Strategies from Managing the Downturn
► Overview of CFERF report
► Key findings
► Strategies for 2010
► Executive panel Q&A
Revisiting Strategies from Managing the Downturn
“Depending on your company’s financial strength, the current environment presents both opportunities and risk.”

*This is as true today as it was a year ago.*
## Corporate Hygiene

<table>
<thead>
<tr>
<th></th>
<th>Then</th>
<th>Now</th>
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<tbody>
<tr>
<td>Cost management</td>
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<tr>
<td>Head count management</td>
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<td>![Up Arrow] [ Arrow]</td>
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<tr>
<td>Capital expenditure management</td>
<td>![Up Arrow]</td>
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Avoid giving back gains in “hygiene”
Assess Counter Party Risk

<table>
<thead>
<tr>
<th></th>
<th>Then</th>
<th>Now</th>
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<tbody>
<tr>
<td>Capital sources</td>
<td>![Upward Arrow]</td>
<td>![Left and Right Arrows]</td>
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<tr>
<td>Supply chain</td>
<td>![Upward Arrow]</td>
<td>![Left and Right Arrows]</td>
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<tr>
<td>Customers</td>
<td>![Upward Arrow]</td>
<td>![Left and Right Arrows]</td>
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<tr>
<td>“Insurance”</td>
<td>![Upward Arrow]</td>
<td>![Left and Right Arrows]</td>
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Ongoing Due Diligence is STILL a Must
# Manage Cash

<table>
<thead>
<tr>
<th>Then</th>
<th>Now</th>
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<tbody>
<tr>
<td>Liberate cash from working capital</td>
<td>![Red Arrow]</td>
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<tr>
<td>Weekly rolling cash flow</td>
<td>![Red Arrow]</td>
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<tr>
<td>Review dividends and share buy back programs</td>
<td>![Red Arrow]</td>
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<tr>
<td>Sell viable non-core divisions</td>
<td>![Red Arrow]</td>
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<tr>
<td>Liquidate non-viable or excess assets</td>
<td>![Red Arrow]</td>
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<tr>
<td>Sale lease back arrangements</td>
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**Cash is STILL King**
### If There’s Opportunity on the Horizon…

<table>
<thead>
<tr>
<th>Then</th>
<th>Now</th>
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<tbody>
<tr>
<td>Proactively manage lender relationships</td>
<td></td>
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<tr>
<td>Proactively assess divestiture and/or acquisition opportunities</td>
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<tr>
<td>Consider risk theory</td>
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</table>

**Time is on Your Side (for the moment)**
Carpe Diem

► Opportunistic Acquisitions
  ► EBITDA assumptions
  ► Multiples
  ► Balance sheet
  ► Increased due diligence
  ► Increased orphaned public companies
  ► Increased creative structures

► Opportunistic Hires
  ► Upgrade your skill sets where possible

► Corporate Strategy
  ► Re-establish & stick to it

There ARE Many Opportunities for Bold Moves
Overview of CFERF Report
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 – Forecast for economic recovery

- 2009 was characterized by “winners” and “losers”
  - 39% of survey respondents indicate their companies are in a better position now compared to October 2008
  - 31% of respondents indicated they are worse off
- Most senior finance executives expect the Canadian economy to return to normal growth rates in 2010 (60.4%), but ¼ of respondents do not expect normal growth rates until 2011

What year do you expect the Canadian economy to return to normal?

- 2nd half of 2009: 4.5%
- 1st half of 2010: 18.8%
- 2011: 24.8%
- 2nd half of 2010: 41.6%
- 2012: 7.4%
- Other: 3.0%
Key findings – Forecast for economic recovery

► Overall, 64% of respondents expect to see revenue growth in 2010
► Companies in Ontario, B.C., Alberta have a more positive revenue outlook than the country average
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

- Declining margins
- Access to capital
- Declining sales
- Shrinking demand / markets
- Competition (domestic & foreign)
- Competitive pressure (M&A activity)

- Total
- Private
- Public
### 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

<table>
<thead>
<tr>
<th>Managing cash / liquidity</th>
<th>Cost control</th>
<th>IFRS</th>
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<tbody>
<tr>
<td>• Key area of focus is ensuring the company has enough working capital.</td>
<td>• Cost management and cost reduction will be a continued focus this year.</td>
<td>• Public companies will be focused on their control environments this year, and completing the conversion to IFRS.</td>
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<tr>
<td>• Forecasting / budgeting were pain points during the downturn. Quarterly forecasting is likely to continue to pose difficulties, with less volatility in longer-range forecasts.</td>
<td>• However, we will see an end to massive downsizing as the economy returns to normal growth rates.</td>
<td></td>
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<tr>
<td>• This will renew the focus on monitoring risk, with most executives planning to increase risk reporting.</td>
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</table>
Corporate strategy – critical factors for 2010

- Growing revenues
- Customer service
- Increase in volumes (domestic sales)
- IT improvements
- Continue current output levels
- Reduce costs
- Supply chain efficiency
- Increase product range
- Increase in volumes (overseas sales)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Private (%)</th>
<th>Public (%)</th>
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</thead>
<tbody>
<tr>
<td>Growing revenues</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Customer service</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Increase in volumes (domestic sales)</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>IT improvements</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Continue current output levels</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Supply chain efficiency</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Increase product range</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>Increase in volumes (overseas sales)</td>
<td>5%</td>
<td>95%</td>
</tr>
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</table>
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
General considerations for effective cash management

► Overall, the survey suggests that 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
► Nevertheless, uncertainties around market access to credit remain and therefore an organization's ability to effectively forecast and manage cash will continue to be crucial
  ▶ Do you have clear, timely visibility to cash balances?
  ▶ Is you cash forecasting horizon long enough to provide useful information for planning purposes?
  ▶ Are your short term credit facilities sufficient to address expected periods of cash shortage and cushion against unforecasted needs?
  ▶ Is financing tax efficient? Can tax strategies be used to release cash?
Cash management
Cost Reduction

► Cost reduction is expected to remain a key strategy in 2010
► Organizations should be shifting their attention from “cost cutting” to sustainable “cost optimization”
► EY research indicates that fewer than one in three cost reduction programs deliver sustained benefits – only 30% of benefits are sustained through year three.
► Common sources of savings leakage include:
  ► Savings are based on tactical cost reduction through temporary policy measures (“belt-tightening” vs. changing cost structure)
  ► Inappropriate cutting of capability leads to cost of “growing back”
  ► Lack of sufficient monitoring to pre-empt and prevent costs from re-appearing
  ► Losing focus on cost as expansion gets underway or business model changes
  ► Double counting savings across areas
Cash management
Working Capital

- In a tight credit market, companies should look to working capital as a potential source of liquidity, not a consumer of cash.

- Cash released from working capital is the cheapest source of incremental cash, allowing companies to:
  - Accelerate debt reduction
  - Improve financial flexibility
  - Liberate cash for higher return investments
  - Improve enterprise value

- Peer benchmarking can be a useful starting point to identify the size of potential opportunity.

- Sustainable improvements require more than short term tightening of credit terms or delaying of payments – requires reviewing commercial terms and process improvements.

- Successful programs also help to improve external service levels and reduce exposure to bad debt and inventory obsolescence.
Risk management

- Current environment has highlighted need to effectively manage strategic, operational and financial risk
- In many organizations, risk management continues to be performed in silos, and is frequently disconnected from corporate strategy
- To be more agile and flexible, companies should find ways to shorten their risk detection and reaction times. This can be achieved through:
  - Common risk language
  - Common understanding, definition and prioritization of risks
  - Effective detection, communication and response processes
- Also look for ways to include risk reporting into current management reporting – for example by creating and including KRI’s in balanced scorecards
  - Remember that risk management and performance management are two sides of the same coin
Performance management

- Budgeting and forecasting in uncertain times has proven a significant challenge for many organizations.
- Over half of survey respondents said their forecasts for net income were either totally inaccurate or only somewhat accurate in 2009.
- Current planning & reporting processes can inhibit ability to understand and anticipate performance outcomes and respond to changing circumstances.
- Typical leading practices in this area include:
  - Clearly identified enterprise value drivers
  - Driver-based management reporting & planning tools
  - Clear visibility to the consequence of business decisions
  - Flexibility to adapt to business changes real time by proactively modelling action plans and running sensitivities
  - Integrated planning – strategy, long range plan, annual plan, and forecasts – as well as management reporting
  - Reporting that integrates financial & operational measures
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)
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Q & A