Optimizing for Growth: Working Capital & Credit Availability
Survey respondents were primarily Finance executives

- 45% Chief Financial Officer
- 13% Vice President, Finance
- 6% Director of Finance
- 6% Treasurer
- 6% Controller
- 7% Founder, Owner, President
- 2% CEO
- 2% Other

- 121 respondents
- Executive roundtable held in Toronto and Montreal
Broad representation of corporate structure and size of annual revenue across Canada

**Corporate Structure**
- Private: 49%
- Public (including subsidiary): 37%
- NGO (Not for profit): 6%
- Crown Corporation: 1%
- Government: 1%
- Other: 4%

**Annual Revenue**
- Less than $50 million: 32%
- $50 - $99 million: 22%
- $100 - $499 million: 17%
- $500 - $999 million: 15%
- $1 billion or more: 14%
Most had a positive outlook on the economy and their company prospects.

Business Environment and Outlook

- More optimistic: 46%
- No change: 38%
- Less optimistic: 16%

Compared with 12 months ago, are you more or less optimistic about prospects for your company?
Credit availability and challenges: It is the tale of two balance sheets

Please rate your organization’s ability to obtain sufficient long-term financing to achieve its business objectives.

What are the biggest challenges you foresee regarding your need for upcoming debt refinancing?

- Unattractive terms and conditions
- Lack of viable alternatives
- Inadequate cash-flow
- Liquidity concerns
- Lack of available debt
- Weak/weakening trading performance
- Other

January 2013

January 2014
Businesses have experienced revenue underperformance and customer challenges.

**Do any parts of your organization display the following signs of stress or distress?**

- Underperformance on revenue growth targets
- There is no stress or distress in the business
- Liquidity pressures
- Profit warnings or similar
- Covenants breached/likely to be breached

**What challenges has your business faced over the last 12 months?**

- Customers delaying invoice payment
- Customers experiencing financial difficulty
- Pressure from customers to extend credit and payment
- Managing rising costs of raw materials and inputs
- Centralizing/outsourcing business processes
- Increased pressure from suppliers to decrease payment
- Expanding sales in overseas markets
- High or increased levels of invoice or service disputes
- Longer lead times for raw materials and inputs
- Other
Most companies have been focused on cost reduction and process efficiency.

What has been the business improvement focus in the past two years?

- Cost reduction
- Process efficiency
- Technology enhancement
- Improved reporting and visibility to performance
- Working capital reduction
- Operations and supply chain optimization
- Sales effectiveness and pricing
- Organization/headcount reduction
- Innovation and new product development
- Acquisition integration and synergy achievement
- Other

0% 15% 30% 45% 60%
Free cash flow targets are receiving increased scrutiny at all stakeholder levels

What is (are) the main driver(s) for your organization to increase its focus on improving free cash flow and working capital?

- Meet annual free cash flow targets
- Pressure from stakeholders
- To return cash to shareholders
- Pay down debt
- To fund acquisitions
- Performance against peers
- Other

![Bar chart showing the percentage of respondents selecting each reason. Meet annual free cash flow targets is the highest at 60%, followed by other reasons with varying percentages.]
Many companies have also made significant changes to their operating models.

**How would you describe recent changes in your operating model?**

- Change in leadership
- Increased use of shared services
- Greater organization centralization
- New performance management approach
- Change to a business unit structure
- No changes
- Changes due to acquisition
- Divesting non-core businesses
- Change to functionally-driven organization
- More decentralization of functions
- Other
Canadian companies appear to be primarily focused on organic growth opportunities.

Which statement best indicates your organization’s focus over the next 12 months?

- Focused on organic growth
- Actively looking to take advantage of inorganic growth
- Restricted in our ability to pursue inorganic opportunities
- Focused on survival
Cost/process efficiency continues with some drive for innovation and sales effectiveness

What do you predict will be the three most important business improvement focus areas for the next two years?

- Cost reduction
- Process efficiency
- Technology enhancement
- Innovation and new products
- Sales effectiveness and pricing
- Acquisition integration synergies
- Improved reporting and visibility
- Operations/supply chain optimization
- Working capital reduction
- Organization/headcount reduction
- Other

Bar chart showing percentages for each focus area.
Finance generally plays a strategic partner role but there is room for improvement.

What role does Finance play in decision making to support strategic initiatives?

- **Strategic partner**: Involved in the earliest stages
- **Business coach**: Assists the business in assessing all aspects
- **Financial analyst**: Drives the numbers only
- **Team member**: Finance department is part of the decision making
- **Performance reviewer**: Provides the post-mortem analysis
- **Other**
Balanced measurement and leading indicators are needed to look at strategic performance.

How do you prioritize strategic options to allocate capital?
- Internal rate of return: 11%
- Net present value: 20%
- Payback period: 33%
- Impact on economic value: 15%
- Other: 21%

How do you measure results from growth strategy initiatives?
- Annual operating budget performance: 36%
- Tracking of individual strategic initiatives: 9%
- Capital project reviews (post-mortems): 7%
- Other: 47%
Summary

- Positive economic outlook with some sector uncertainty
- Greater access to credit but it is the “tale of two balance sheets”
- Cautious approach with revenue growth concerns and operational/customer challenges
- Need for continued focus on cost reduction and working capital optimization
- Looking to grow mostly organically with some increasing appetite for M&A
- Finance role can be much more than just a scorekeeper – critical to drive strategic initiatives
- Key that companies maintain a focus on cash flow and operational working capital performance
For more information contact:

Tim MacDonald
Partner, Transaction Advisory Services
Tim.E.MacDonald@ca.ey.com
(416) 943-2033