Managing the upturn

Key strategies for sustained profitable growth

FEI National Breakfast Series – Toronto

19 February 2010
Discussion topics/agenda

► Overview of CFERF report
► Key findings
► Strategies for 2010
► Executive panel
► Q&A
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

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

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<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Private</th>
<th>Public</th>
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<tbody>
<tr>
<td>Declining margins</td>
<td>35%</td>
<td>40%</td>
<td>30%</td>
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<tr>
<td>Access to capital</td>
<td>30%</td>
<td>35%</td>
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<td>Declining sales</td>
<td>35%</td>
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<td>Shrinking demand / markets</td>
<td>30%</td>
<td>35%</td>
<td>25%</td>
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<tr>
<td>Competition (domestic &amp; foreign)</td>
<td>25%</td>
<td>30%</td>
<td>20%</td>
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<tr>
<td>Competitive pressure (M&amp;A activity)</td>
<td>20%</td>
<td>25%</td>
<td>15%</td>
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**Key findings – Strategic direction**

<table>
<thead>
<tr>
<th>Strategic spending</th>
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<tr>
<td>• New products/market expansion (61.9%)</td>
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<td>• Technology and R&amp;D (58.4%)</td>
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<td>• Building cash positions (51.5%)</td>
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<tr>
<th>Customer service and growing revenues</th>
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<td>• Almost 80% of respondents agreed these were 2 critical areas</td>
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<td>• Increasing sales volumes in the domestic market (63.4%)</td>
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<table>
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<th>Increasing profit margins</th>
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<tr>
<td>• Improvements in technology (61.9%)</td>
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<tr>
<td>• Cost reduction (e.g., managing inventory) (54.5%)</td>
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<td>• Increasing supply chain efficiency (39.1%)</td>
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<tr>
<th>Renewed focus on M&amp;A</th>
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<td>• Significant increase in new deals, particularly in the mid-market space</td>
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<td>• 33% of companies expect to devote capital to acquisitions in 2010</td>
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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>
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<td>• This will renew the focus on monitoring risk, with most executives planning to increase risk reporting.</td>
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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 (international sales)

Growing revenues
Customer service
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Increase in volumes (international sales)
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

► 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