



Managing the upturn

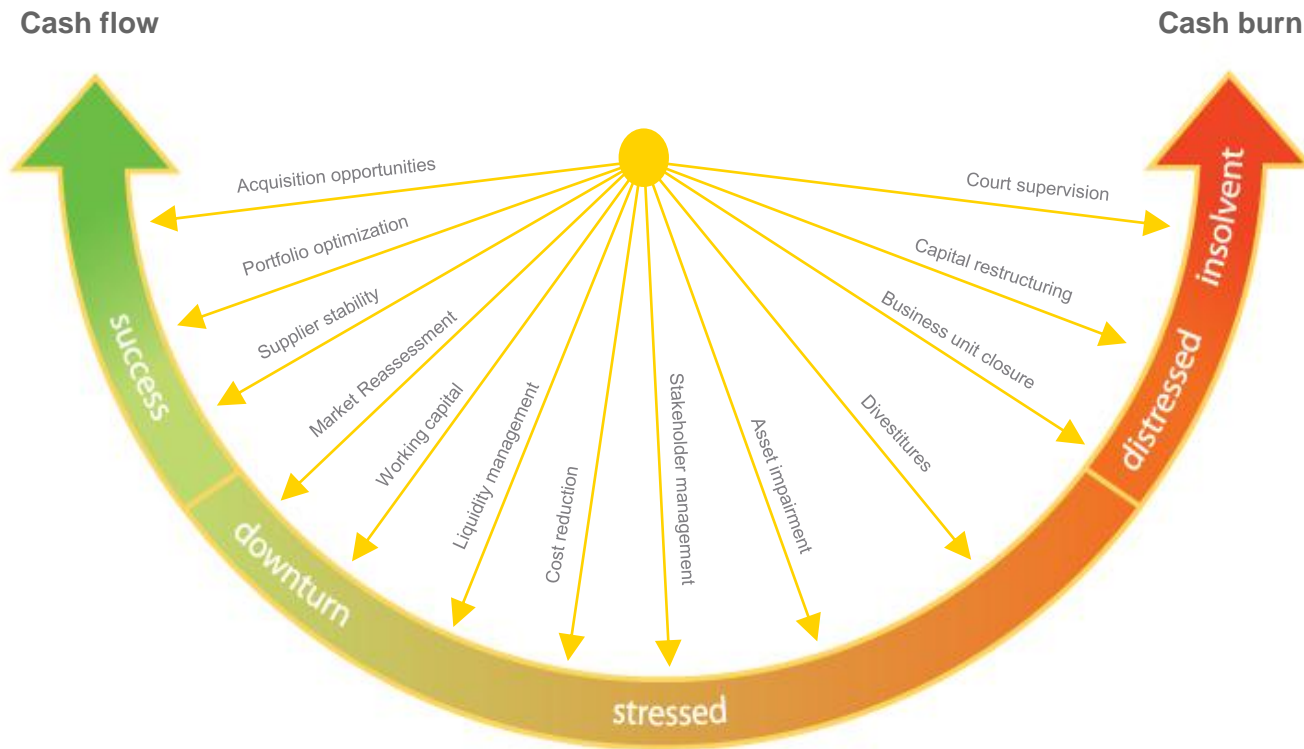
Key strategies for sustained profitable growth

24 February 2010

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







Revisiting Strategies from Managing the Downturn

Stress Pendulum











**“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

	Then	Now
Cost management		
Head count management		
Capital expenditure management		













Avoid giving back gains in “hygiene”

Assess Counter Party Risk

	Then	Now
Capital sources		
Supply chain		
Customers		
“Insurance”		







Ongoing Due Diligence is *STILL* a Must

Manage Cash

	Then	Now
Liberate cash from working capital		
Weekly rolling cash flow		
Review dividends and share buy back programs		
Sell viable non-core divisions		
Liquidate non-viable or excess assets		
Sale lease back arrangements		

Cash is *STILL* King

If There's Opportunity on the Horizon...

	Then	Now
Proactively manage lender relationships		
Proactively assess divestiture and/or acquisition opportunities		
Consider risk theory		

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

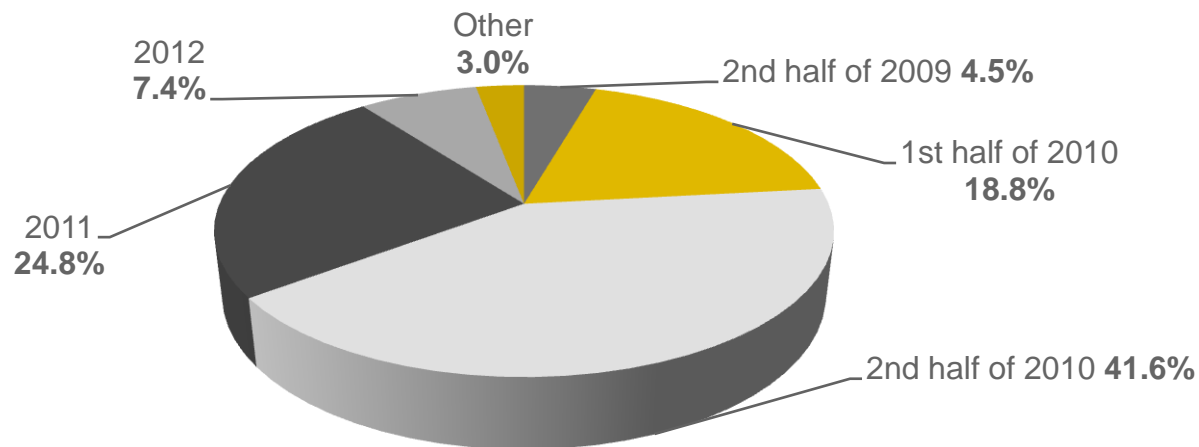
- ▶ Results based on a survey of Canadian senior finance executives from public and private companies, as well as an Executive Research Forum held in Toronto in October 2009
- ▶ Report offers a perspective on the economy in 2010, key risks/threats to economic recovery, and strategies as we head into 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?



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

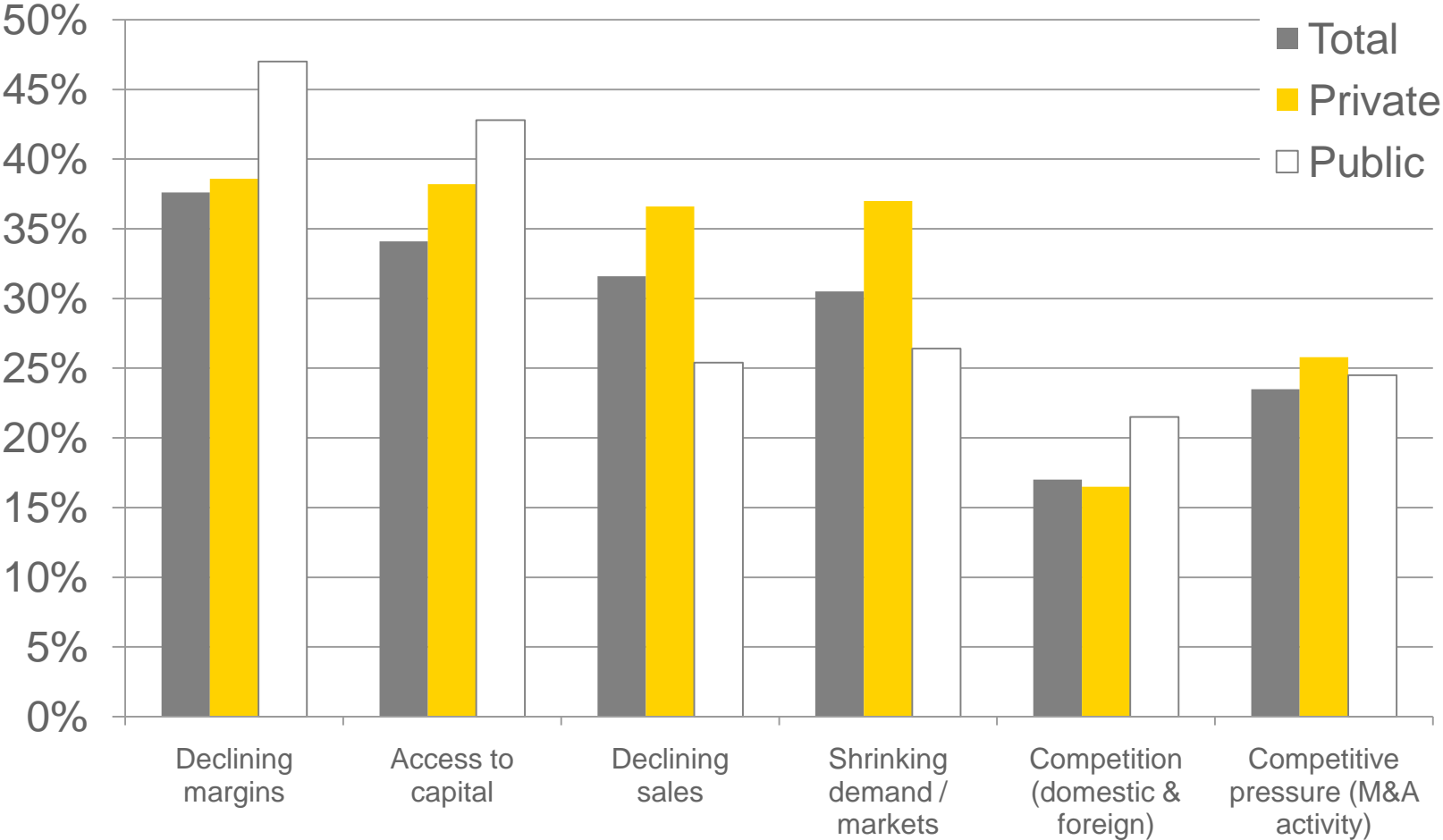
Exchange rates

- ▶ 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



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

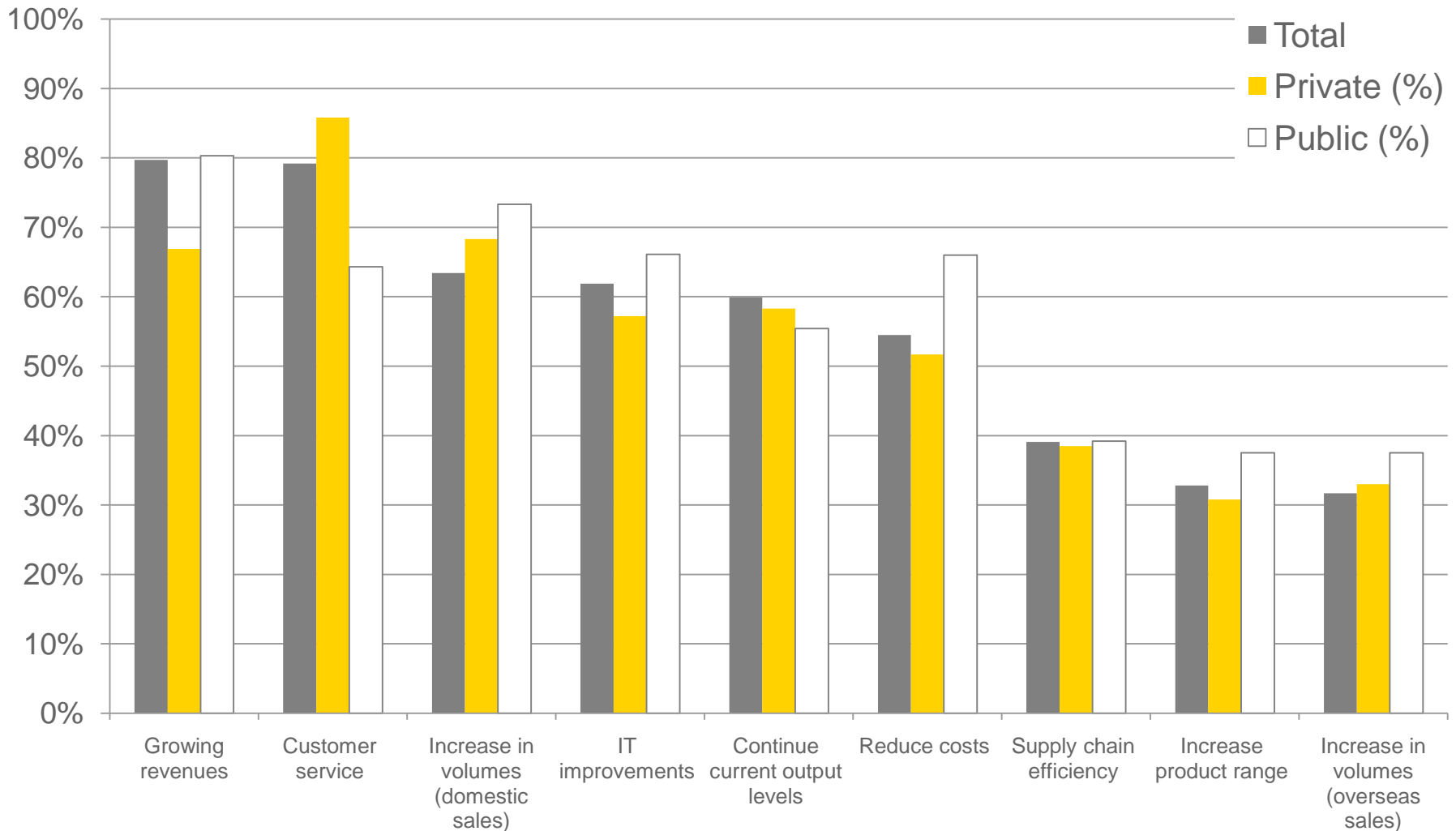
- Significant increase in new deals, particularly in the mid-market space
- 33% of companies expect to devote capital to acquisitions in 2010

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

- ▶ 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 your 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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Executive Panel

Q & A