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Coping Strategies and Preserving Value in Uncertain Economic Times

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Coping Strategies and Preserving Value in Uncertain Economic Times

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Canadian business has always been vulnerable to swings in the general economic cycle and, for the most part, business owners have learned to cope. However, fundamental structural change in capital flows and credit markets exacerbates the impact of a weaker economy, and with that comes uncertainty. In order to address the immediate impact of the contraction in credit and a slower economy, business owners should reassess their financial position and consider the following:

1. What are your near term working capital requirements? Medium and long term working capital requirements should be continually monitored and projections periodically updated, as well as an assessment of required credit lines during future periods.
2. Are there sufficient unencumbered assets to borrow against? If all of the company's assets are pledged, is it likely that you will be able to obtain senior lenders' consent to sell any assets that are redundant to the business?
3. Are statutory creditors up to date, in particular those for which Directors and Officers can be held personally liable (such as payroll withholdings and GST)?
4. Are pension obligations fully funded, and what would be your liability for withdrawing from a multiemployer pension plan?
5. Are the issues causing any liquidity crisis capable of being resolved outside of a formal insolvency proceeding?
6. Has a proper management team (as well as advisers) been assembled to provide the business owner with the proper strategic advice?
7. Has ownership communicated with its key suppliers, customers, and employees to secure their support during uncertain economic times and/or through any restructuring effort?

The impact on business owners in challenging or uncertain times is felt not only by those who may now be facing financial stress or distress, but those who are looking to preserve the value of their companies, businesses or their shareholdings with a view to selling their business in the future. There are a number of other considerations for Canadian business owners with respect to preserving value in their companies and, by extension, their personal net worth. These include:

- Remaining disciplined and focusing on early detection of the root causes of poor or less than optimal operating and financial performance, which can be critical in order to mitigate the impact on the perceived value and/or future earning potential of a business
- Re-examining the strength and/or vulnerabilities of relationships with critical suppliers, customers, and other commercial partners in one's business. These parties will likely be facing similar challenges in an economic downturn and, more often than not, these relationships represent a significant amount of the business' goodwill
- Assessing future human resource requirements and resist the temptation to shed labour in challenging times. The significant value in any business is its people and the planned succession of its leadership and/or ownership. The tradeoff may be that certain other costs previously deemed to be essential are eliminated

- Critically assessing the nature of all investment decisions, including capital expenditures and research and development. Optimize costs such that opportunities to grow are preserved during an economic slowdown
- Re-assessing the capital structure of a business and ensure that the priority of the shareholders' and owners' financial interest is enhanced and positioned such that any negative impact on their personal net worth outside the business is minimized.

Increased leverage, scarce capital, and deteriorating financial performance of companies in all industry sectors will, in general, attract the attention and scrutiny of secured lenders, financiers and creditors. A renewed and increased focus on a company's near and intermediate term cash flows and debt maturities, consideration of possible refinancing strategies, and attendant measures to deal with costs is the order of the day, and robust plans to deal with these matters will be necessary to satisfy external stakeholders that one's business is sustainable and that value is being preserved while markets and the economy remain challenged.