

DirectorConnect

# Directors' Briefing

The global financial crisis

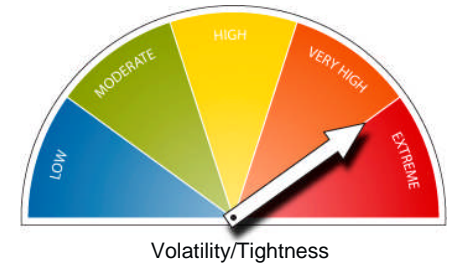
*What directors' need to know\**

December 4, 2008



\*connectedthinking

PRICEWATERHOUSECOOPERS 

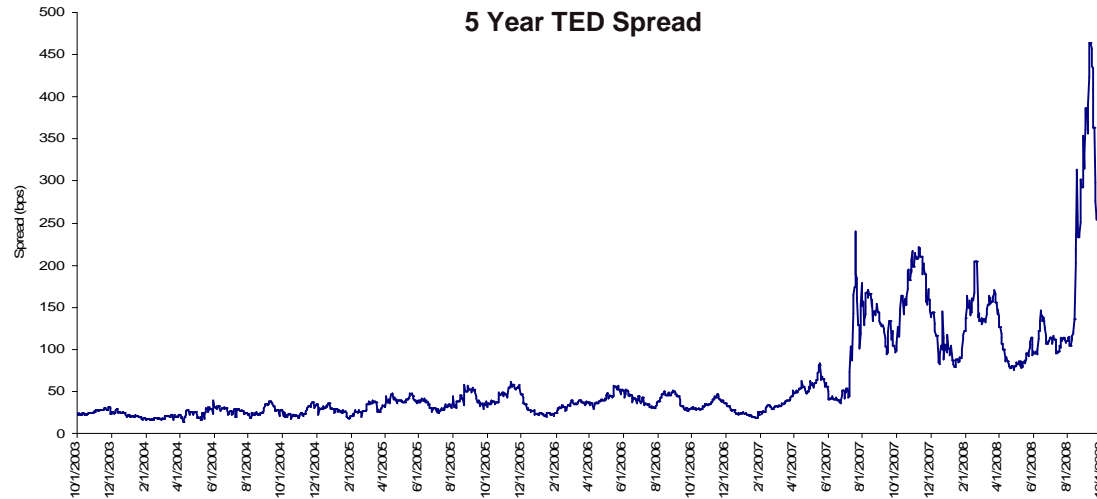


# PwCCF Capital Markets Flash

## Credit markets are not thawing

	Nov 28, 2008	Crisis Extreme	Sept 1, 2008	Pre-Crisis Extreme <sup>1</sup>	Week-over-Week
CDN\$ / US\$	\$0.81	\$0.77	\$0.94	\$1.10	▲
S&P 500	896	752	1,278	1,565	▲
S&P / TSX	9,271	7,725	13,300	15,073	▲
LIBOR <sup>2</sup>	2.22%	4.82%	2.81%	1.11%	▼
TED Spread <sup>3</sup>	2.18%	4.64%	1.10%	0.14%	▼
S&P / LSTA <sup>4</sup>	946	973	1,293	1,335	▼
CBOE VIX <sup>5</sup>	55	81	21	10	▲
Baltic Dry Index <sup>6</sup>	733	763	6,691	11,793	▼
Brent Crude <sup>7</sup>	\$53.49	\$45.44	\$113.02	\$148.13	▼

Source: Bloomberg



1. Over five-year period.

2. BBA US LIBOR, three month.

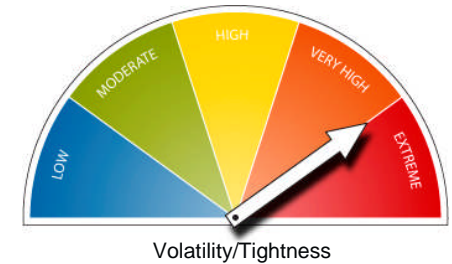
3. Difference between rates on interbank loans and three month US Treasuries. Indicator of perceived credit risk.

4. Mirrors market weighted performance of leveraged loans. Tracks returns in leveraged loan market.

5. An expectation of the market's 30-day volatility, measured by tracking the money calls on companies in the S&P 500. Historically, VIX values greater than 30 are associated with high volatility and values below 20 are associated with low volatility.

6. An indicator that predicts future economic activity by measuring global shipping supply and demand for commodities, such as building materials and coal.

7. Brent Crude Future Jan09



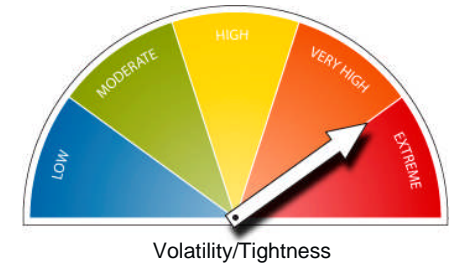
# PwCCF Capital Markets Flash Volatility is the only constant

## Credit Markets – *The never-ending story?*

- Cracks in the commercial mortgage market are forming
- S&P reports that nearly \$800 billion of corporate bonds are coming due between November 2008 and the end of 2009
- To relieve capital pressure, three Canadian banks issued equity this month with yields on preferreds at 10% higher than issues as recent as September 2008
- Stimulus activity picks up with \$200 billion TALF announced by US Federal Reserve Board and Canadian Government seeks rights to inject capital into Canadian financial institutions

## Public Markets – *Do turkeys really fly?*

- Key market indices give back a large portion of last weeks gains, realigning with key credit indicators which continue to be negative
- Exceptional volatility and low earnings multiples continue to dominate as the only certainty is uncertainty
- The IPO and secondary issue markets remain closed



# PwCCF Capital Markets Flash Survival mode has been engaged

## Merger & Acquisitions (“M&A”) – *Barbarians at the gate?*

- Three pervasive trends dominate the M&A market:
  - Cash-strapped companies carve out divisions to generate working capital
  - Companies publicly announce intentions to utilize M&A as a “tool” to survive the downturn – signaling the “first wave” of distressed M&A deal flow is approaching
  - Well capitalized strategics continue to express interest in opportunistic acquisitions

## Private Equity (“PE”) Markets – *“Moving on up”*

- An estimated \$300+ billion of uncommitted private equity capital is available for redeployment into distressed or opportunistic M&A, however, deal flow remains low
- PE money looks to move up the balance sheet, structured as convertible and subordinated debt, and could become a more commonplace funding source
- Buyout funds increasingly struggle to keep investee companies on track

# Banks Are Going Back To Basics

- Moving toward a more traditional banking model where banks hold loans as opposed to selling down positions or issuing credit defaults swaps
- Greater emphasis on client diligence, monitoring, capital allocation and return on investment with increasing security requirements
- Becoming more active in downgrading and managing problems
- Senior debt pricing has risen 150 to 300+ basis points
- Difficulty refinancing existing debt with new lenders
- Tighter covenants upon renewal with waiver letters for breaches more difficult to obtain
- Clients are less likely to obtain fully underwritten credit facilities
- More onerous total debt service with a return to straight line amortization

# What Directors Should Ask of Management

- Reforecast based on current economic projections
- Thorough covenant analysis based on actual results and worst case scenario analysis
- Schedule of all debt maturities coming up in the next eighteen months
- Liquidity analysis
  - Cash flow with sensitivity analysis
  - Non-core operations/real estate
  - Payables and receivables management
  - Tax strategies – over installing
- ROI analysis on proposed capital projects
- Relationship management with lenders
- Pension valuation and potential funding issues
- Flush out other off balance sheet exposure
- Opportunistic possibilities
  - M&A, equipment, market share, employees
- Director and Officer exposure

# **Global Credit Crisis:** Challenges Facing Your Company in these Uncertain Times

## Thank you.

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