Strategies for Surviving.... ....and Thriving... In an Economic Downturn

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Introduction

• About DCA Partners
  – Founded in 2001 (in face of 9/11)
  – Regionally-focused Strategic Growth Advisory firm
  – Clients are middle-market ($10mm- $250mm) public and private companies
  – Sector agnostic (everything except pure agriculture, financial institutions, real estate and natural resources)
  – Strategy, operational execution, organizational structure, restructuring, financing, and M&A advisory services
  – Backgrounds: CEO, CFO, E&Y, Lehman Brothers, Deutsche Bank, etc.
  – Also have affiliated private equity fund where we invest our own principal into promising opportunities
Times are Tough

The New York Times
“Pain Spreads as Credit Vise Grows Tighter”

The Wall Street Journal
“ILLS SEEP INTO EVERYDAY LIVES”

“Foreclosures Hit Another High”
From Surviving….to Thriving

“While many companies batten down the hatches and try to survive, our experience is that, for prepared companies, economic slowdowns can provide significant opportunities to improve their positions and accelerate into the next up-cycle”

Mark Gottfredson and Steve Schaubert, Bain & Company
As published in Forbes Magazine
Economic Backdrop

- Consumer-oriented businesses
  - Nominal income growth is slowing
  - Savings rates are near historic lows
  - Household balance sheets are deteriorating (due to concurrent declines in both home values and stock portfolios)
  - Consumer debt (auto loans and credit card debt) is at record levels
  - Gas and energy prices continue to soar
  - Food prices are skyrocketing around the world
  - Consumer sentiment sinking to near post 9/11 levels
  - Broad expectation: consumer spending will continue to fall in near term
  - Roughly half of the upcoming economic stimulus package was consumed by higher gas prices ($60 billion per quarter more than same time in 2007)

Source: Goldman Sachs, DCA Composite
Economic Backdrop

• Business to Business
  – Corporate cash balances are high and debt is low
  – Economic stimulus package provides investment incentives
  – Small businesses are struggling
  – Higher material costs are impacting margins
    • Increased commodity pricing
    • Rising energy costs
    • Rising inflation in China (6-9%) likely to impact U.S. imports
    • Weak dollar hurting net importers
    • Net import costs up 13.7% in January 2008 (vs. Jan. ’07)
  – Weak dollar helping net exporters
  – Nominal wage growth decelerating
  – Tighter credit policies impact investment levels

Source: Goldman Sachs, DCA Composite
So…what’s a Company to do?

- Manage cash
- Ensure survival
- Hit target cash flow
- Stabilize revenue and expenses
- Manage cash
- Ensure survival
- Add new products or services
- Increase marketing to expand market share
- Acquire weaker competitors
- Expand into new markets
Survive

- Know your financial performance intimately and actively manage it
  - Fixed and Variable costs
  - Post-sale costs (installation, warranty, insurance, etc.)
  - Capacity
- Manage cash aggressively
  - Take control of all purchasing and cash flow decisions
  - Offer discounts to accelerate A/R receipts
  - Defer capital expenditures
  - Monetize passive assets
- Minimize debt service costs; communicate actively with bank
- Reduce other fixed expenses
- Monitor accounts receivable and customer credit risk
- Proactively negotiate extended vendor terms (or reduced lease rate)
- Simplify: Identify non-essential initiatives and activities
- Cut costs where possible
- Minimize owners’ personal cash flow needs
- Develop contingency plans (e.g. cost reductions; new financing sources, sale of assets, etc.)
Stabilize

- Establish “normalized” revenue level
- Ensure expenses are in line with actual (and not aspirational) revenue
- Establish key milestones for measuring progress and triggering adjustments
- Communicate with employees
  - Here is where we are
  - Here are what I see as our main challenges
  - Here is what I am committed to do
  - Here is how we will measure our progress
  - Here is where we are going
  - Here are where I see our main opportunities
  - Here is what your role in this effort is
- Communicate with customers
  - How is your business doing?
  - What are your primary needs and challenges?
  - How can we best assist you in meeting your goals?
  - Are there additional opportunities where we can expand the services we are providing to you?
  - Here is what we are doing to serve you better
  - Do you know anyone else who could benefit from our services?
- Continue all activities on “Survive” slide
Thrive

- Shift from Defensive to Offensive strategies
- Assess your market position
  - Are you a market leader or follower?
  - Are you a price setter or a price follower?
  - How strong is your balance sheet and cash flow?
  - Do you have access to capital?
- Capitalize on customer flight to quality and value
- Understand your strengths and competitors’ vulnerabilities
- Add new products or services to exploit new market opportunities
- Recruit employees from weaker (or failing) competitors
- Aggressively target new customers
- Increase marketing and public relations efforts
Capitalize

- Develop optimal pricing strategy
  - If price setter, consider predatory pricing to increase market share and further weaken competition
- Leverage market and financial strength to negotiate aggressively with landlords, vendors, customers
- Gear marketing to exploit fear, uncertainty and doubt (FUD)
- Provide solutions that smaller, or weaker competitors can not match
- Expand into new geographies where competition has weakened
- Acquire competitors for bargain prices, or recruit their key employees (since everyone wants to work for a winner!)
In Conclusion

• Make sure you will survive
  – Manage cash, cash flow and expenses aggressively
  – Reduce fixed expenses (including debt service) where possible
  – Eliminate non-essential initiatives, activities and expenses
  – Minimize owners’ personal cash flow needs

• Stabilize the business
  – Reduce expense to match realized revenue levels
  – Enlist trust and support of employees, customers and vendors
  – Communicate with all stakeholders honestly and frequently
  – Set key performance metrics and milestones

• Prepare to thrive
  – Assess the market for opportunities and competitor weaknesses
  – Develop strategic plan for exploiting the current market environment

• Capitalize on the opportunity
  – Prepare to pounce!
  – Exploit your strong balance sheet, cash flow, and strategic vision
  – Develop aggressive new customer acquisition strategy
  – Enter new markets (geographic or product)
  – Acquire employees or companies from weaker competitors
DCA Partners is the region’s leading investment banking firm, providing world-class M&A advisory services to middle-market businesses throughout the western United States.

DCA Partners has built its reputation by helping companies accomplish their aggressive growth objectives through an intelligent combination of internal expansion and acquisition–driven growth strategies.

Given that our Partners have completed nearly 50 buy–side acquisitions as executive officers of operating companies, they understand that a successful transaction begins and ends with a thoughtful and well–executed strategy.

DCA’s unique approach to buy–side acquisition engagements engineers "Success" into the process from start to finish. For this reason, every buy–side engagement begins with a thorough analysis and understanding of the client’s overall business strategy, organizational competencies, core leverageable assets, and strategic gaps. With this knowledge in hand, a definitive acquisition profile is developed, and correspondingly, ideal acquisition candidates are targeted.