2022-2023

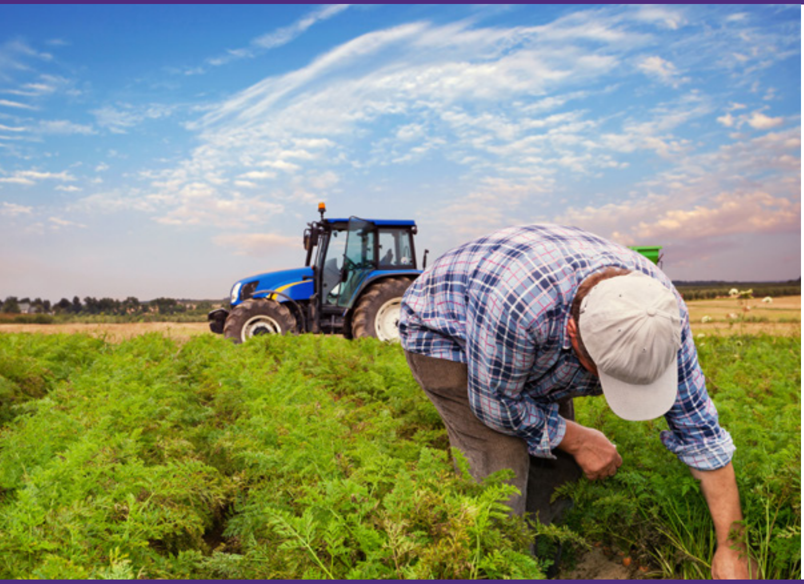
Volatility, interrupted:

How businesses can excel in turbulent times

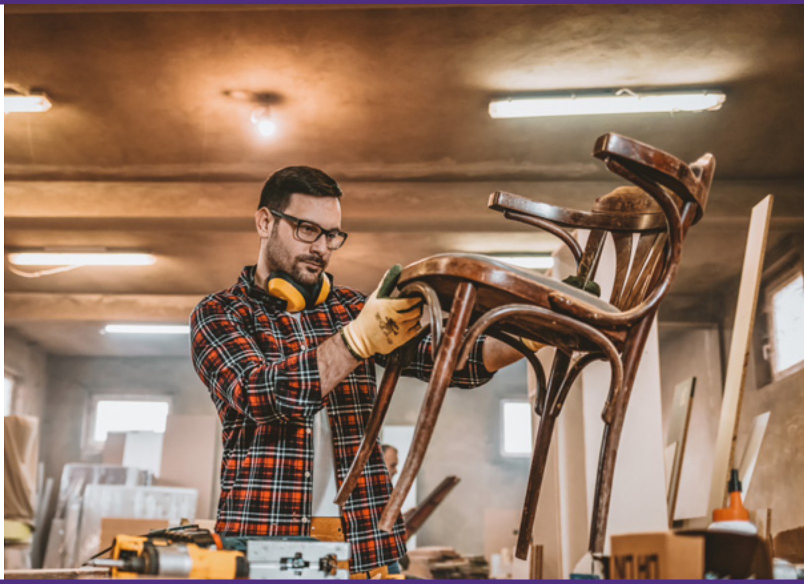
My business is...

in the fast lane

at a crossroad



encountering hurdles



taking a cautious approach

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In times of volatility, it can feel like there's a challenge around every corner. From technology to labour, supply constraints to inflation, there's no shortage of issues facing today's business owner. Navigating this landscape is not for the faint of heart. Particularly for those feeling the impacts more acutely, angst and uncertainty may be the norm.

But while volatility has its challenges, it can also hold rewards. In fact, a turbulent economy can be rife with opportunities. To unlock them, however, businesses must first arm themselves with the right information and resources. As the adage goes, perspective is everything. Taking the time to evaluate your business' position and risk tolerance not only offers a clear-headed picture of today—it can also provide eye-opening insights into tomorrow. Those perceptions can be a game-changer as leaders look to the future and take their next steps.

"This type of thinking is important," says Troy MacDonald, National Advisory Leader. "When you prepare financial forecasts, do strategy work, and scenario plan, you start to understand what the most likely outcome is. And when you say, 'That's the most likely outcome,' the actions become much clearer."

To help you think more strategically about your business, we've created an action plan to help you determine your risk appetite, identify opportunities, and consider potential outcomes going forward. The following chart will help you identify which category your business currently falls into. As there's no one-size-fits all approach to business, you may find that characteristics from more than one category best describes your position—that's okay! The important thing is that you uncover the necessary insights that can help position you for success and propel your business forward.

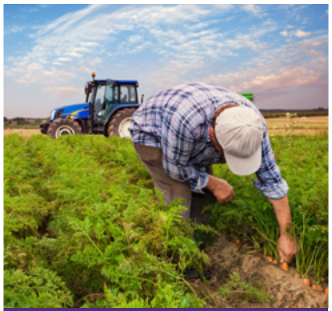
My business is...

in the fast lane

- strong financial position
- cash on hand
- high risk tolerance

at a crossroad

- financial position could be anywhere
- facing disruption, including changes in technology and consumer behaviour
- mixed tolerance to risk



encountering hurdles

- pressures from inflation, tight labour market, supply chain, operational inefficiencies
- low risk tolerance

taking a cautious approach

- in good financial shape
- may have cash on hand
- low risk tolerance

In the **FAST LANE**

A business in the fast lane is in an enviable position. This type of business is in very good financial shape—either because its profitability hasn't been threatened by volatility, it has built up significant net worth, or both. Given it has cash on hand, it's aggressively eyeing investment, growth or expansion opportunities. While this group is not immune to the impacts of volatility, its appetite for risk is greater than most.

In a volatile environment, this business has significant flexibility. It can make an investment in one form or another, expand the business into a new area, or be more aggressive with pricing to build market share. If it's looking to strengthen its labour force, it can also consider growing or investing in its talent to add new skills.

"Never underestimate the power of the entrepreneurial mind," says Jonathan Krieger, National Restructuring Leader. "And the differentiation is this entrepreneur or business owner isn't afraid to make big bets."

Particularly if competitors are over-leveraged, the time may be right to consider making an acquisition. Doing so can accelerate your growth track, build on your positive momentum, and acquire much-needed talent or new technology. Beyond resources, businesses who go this route must have a strong vision, a supportive team, as well as a good acquisition candidate. Finally, if the acquisition or approach is particularly aggressive, then there must be a willingness to assume more risk.

Sometimes, though, it's not about betting the farm—it's about selling it altogether. According to Devin Wagner, National Transactions Leader, some businesses are taking advantage of today's market not by making an acquisition—but by being the target of one.

In many scenarios, this has been industry driven. Veterinary clinics, for example, are among the independent health practices that have been the target of aggressive bidding wars over the past few years.[1] Purchase prices have been staggering, though rising interest rates may have started to take some of the air out of the balloon.[2]

While being bold may be tempting in this environment, businesses should exercise caution. Particularly if they're putting all their eggs in one basket, they should make sure they're cognizant of the risks. Over-diversification can be perilous, especially if a business branches out too quickly. And any cross-border expansion may need white-glove attention, particularly when it comes to issues of taxation. Unfortunately, there are many cautionary tales of businesses that have moved too quickly, too aggressively, or in too many directions without doing their due diligence. In these cases, the consequences range from employee burnout to cash flow issues to business failure.

No matter the direction a 'fast lane' business takes, it's important that is that your approach is informed. That lays the groundwork for a plan that can identify—and manage—risks along the way.

1 The Globe and Mail, June 4, 2022. "Inside the corporate dash to buy up dentists' offices, veterinary clinics and pharmacies." Chris Hannay.

2 The Globe and Mail, August 25, 2022. "VetStrategy pulls back on some vet-clinic purchases, sellers say, as market cools." Chris Hannay.

“A lot of business owners are seizing the day by actually exiting their businesses and trying to sell in at high point versus what could be happening in 12, 24, 36 months.”

-Devin Wagner

At a CROSSROAD

It goes without saying that change is constant. But, sometimes, the landscape shifts so dramatically that a business must face a game-changing decision. Businesses at a crossroad may not necessarily be in poor financial health, but they do face a market that's being radically redefined by digitization, environmental concerns, supply chain disruption, changing consumer demands, and more.

Whatever the factors, more and more businesses may find themselves at this critical juncture going forward. And, because disruption does not make an appointment to see you, some drivers of change approach steadily—while others happen overnight. The taxi industry knows about sudden technological upheaval all too well. After peaking a decade ago, the value of municipal licenses plummeted as soon as ride-sharing apps entered the market.[3]

What's also alarming is that some businesses may not even recognize that they're at a crossroad, especially if they historically have had a successful business model. Sticking with the status quo may be a dangerous temptation. That's why it's imperative that businesses do the leg work to examine the trends around them, engage in detailed introspection, consider all viable options, and decide which road they want to take.

"I've had this conversation many times with clients so far this year—the whole fork in the road analogy," says Wagner. "For a lot of them, you could just sell the business. Or do you do the work to invest in it? If you're going to go the route of investing, be cognizant of the time and money it could take—these are longer-term decisions and the outcome is uncertain. It's becoming a bigger decision for a lot of business owners right now."

3 "Judge tosses taxi group's $1.7B suit against Toronto, in wake of Uber's rise." Ania Bessonov, CBC News, Dec. 26, 2019. https://www.cbc.ca/news/canada/toronto/lawsuit-taxi-toronto-uber-1.5408947

For instance, one business owner was looking for additional investment opportunities but foresaw longer-term complications with volatility in their specific industry sector. In considering ways to best move forward, they were faced with a critical decision: should they shift their focus to more environmentally sustainable areas or double-down in a sector likely to see accelerated instability? In the end, the business decided to gradually shift their customer mix so that they worked with more ESG-friendly sectors going forward. This allowed them to make a foray into a new area without giving up their core business entirely.

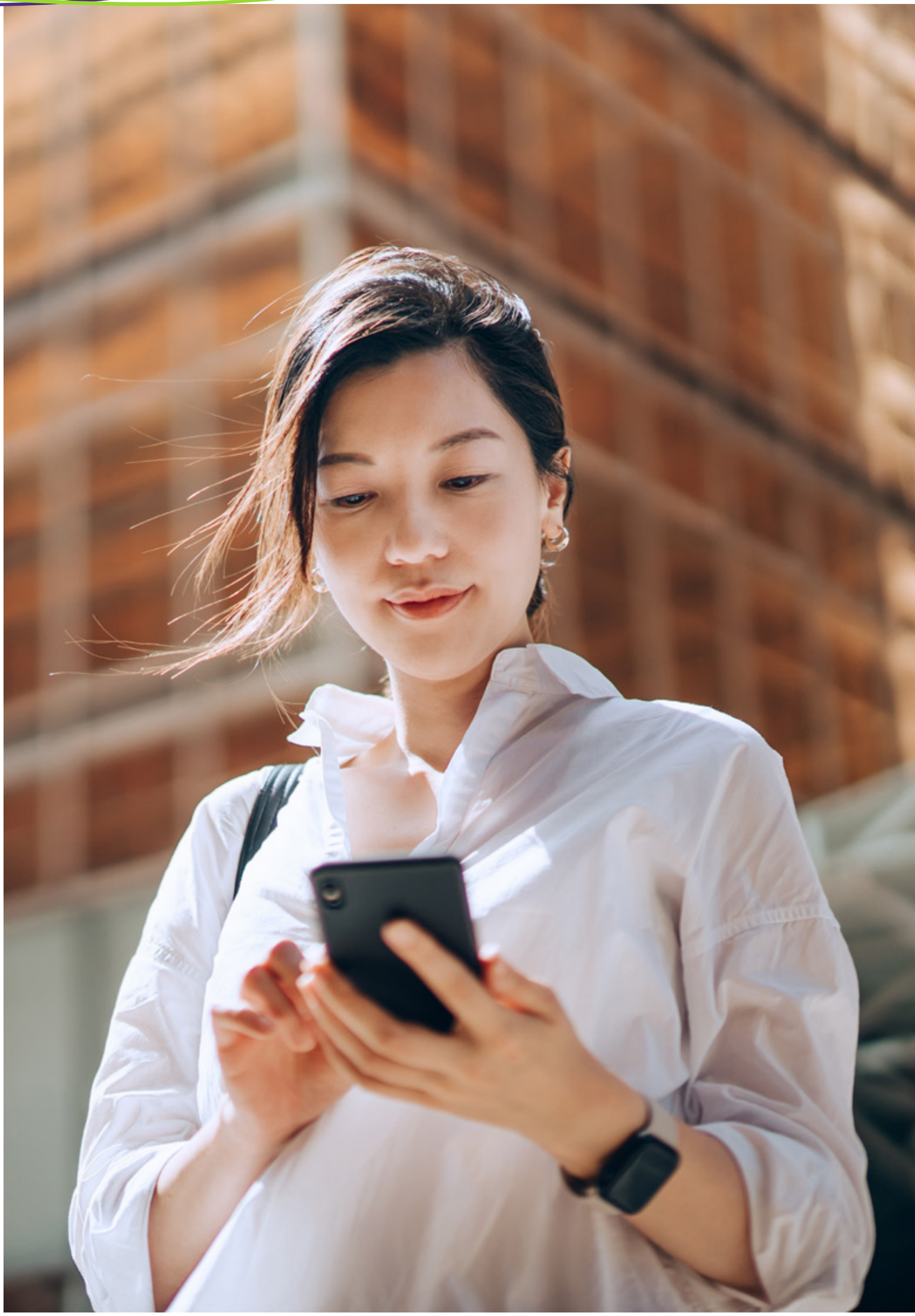
Some businesses may have to make more significant changes in order to adapt to a new reality: changing consumer behaviour, new business models, and digitization, to name a few. One client, for example, sought to expand their shoe retail business but needed to adapt to changing customer demands. In order to jumpstart their stalled revenue, they invested in an e-commerce platform. This growth journey—which spanned technology, operations and strategy—allowed them to create and optimize their new hybrid revenue stream.

But the choice may not always be about pursuing growth, especially once you've engaged in financial modelling, cash flow forecasting, debt solutions, or other measures. Sometimes, a hard look at your financial position and the various roads ahead may lead your business toward another type of decision.

While businesses at a crossroad face starkly different paths, the outcome can be positive in either scenario. To get there, however, it's critical that leaders have a solid understanding of their options as well as a supportive network to move forward.

"If you see your business going in a negative direction once you spend time trying to understand the future, then options like exiting or trying to protect credit become relevant. Restructuring might be needed to emerge as a healthier business—or divesting part of the business that's not positioned well for the future."

-Troy MacDonald



Encountering HURDLES

For a business in this category, trouble has reared its ugly head. High inflation, rising interest rates, supply chain challenges, a tight labour market, geopolitical instability—the list goes on of issues that may be impacting performance. But it's not just external forces that may be in play. This type of business may also be wrestling with a number of internal demons, including operational inefficiencies, acquisitions that have not truly integrated, poor strategy, a weak capital structure, a lack of talent, and an uninspiring work culture.

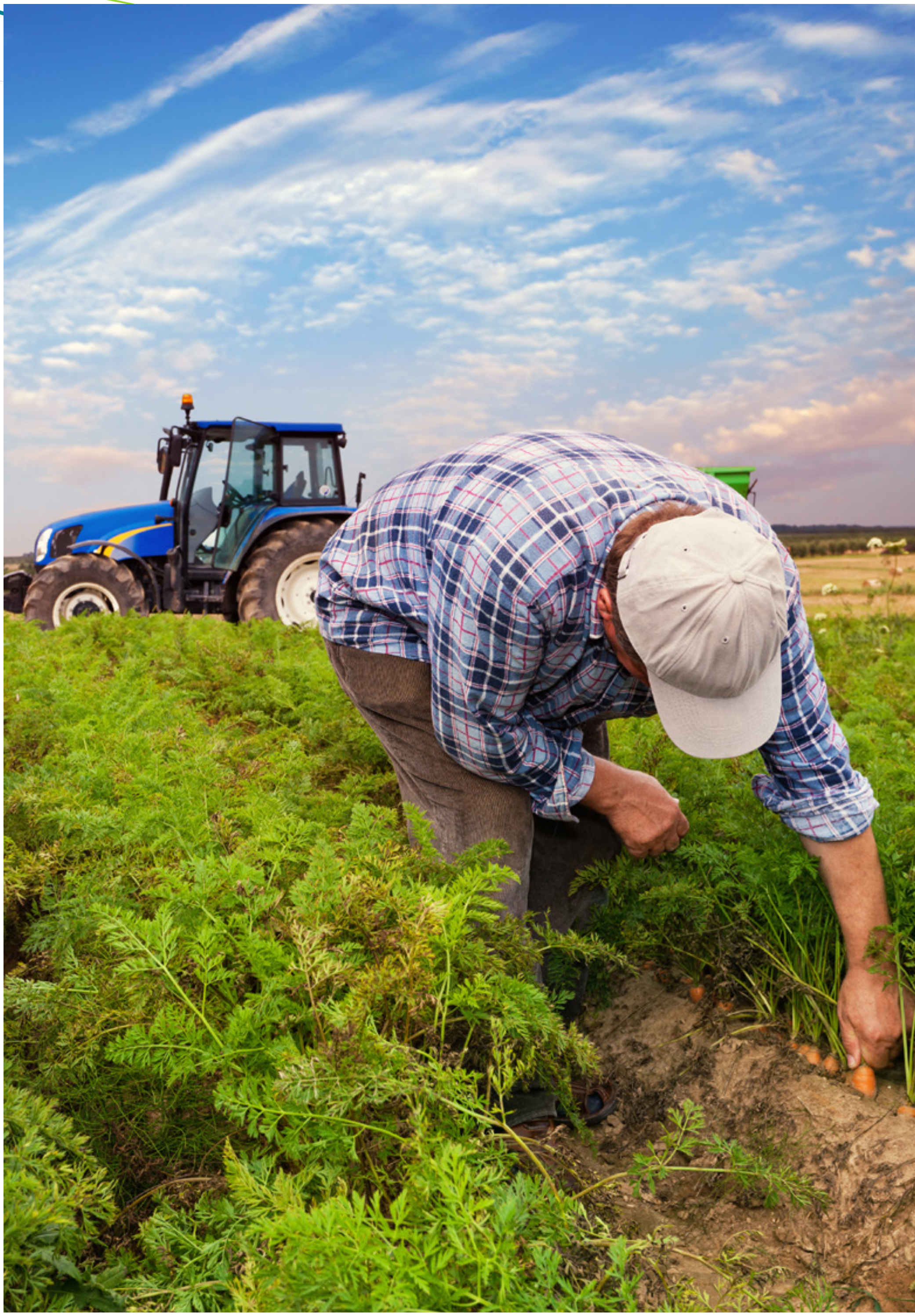
Whatever the challenge, businesses in this group must be decisive in combating the issues holding them back or bringing them down. Options run the gamut, but leaders need to be open to transforming certain aspects of their business. One owner faced serious liquidity challenges after undergoing structural and operational changes. But further analysis uncovered a more complex range of issues, including unprofitable divisions, an inability to keep up with payments and the need for a significant influx of operating cash. This allowed us to work with the business owner to rebuild financial projections; assist in negotiating agreements with lenders; assist in dealing with lenders to maintain support and secure interim financing; manage the sale of unprofitable divisions; begin formal restructuring proceedings; and communicate with creditors, customers and employees. As a result of these efforts, the client maintained control of their business and has since returned to profitability.

In broader terms, there are many prescriptions for issues that may be hampering performance. If operational inefficiencies are what ails, then start by conducting a review. Identifying areas of improvement can help to streamline complex processes, increasing productivity and lowering costs. If hiring and retention challenges are lingering, then assess your workplace culture. You could also try to include exploring work models that extend beyond your borders, or adopting automated solutions such as cloud accounting. For more external issues, it may feel like much is out of your control. But businesses have a number of levers they can pull to mitigate the impacts. If supply chain constraints are an ongoing concern, then consider digitizing your supply chain management function or rethinking your supply sources. If inflation is biting into your margins, there are many steps a business can take. Changes to your pricing strategy, bulk buying and outsourcing certain functions are just a few of the many tools available.

If the concerns are serious, other options to restructuring could include, debt solutions, credit protection, wealth transfer, and tax planning, Much, of course, depends on the situation of the business as well as the objectives. While the challenges may be varied, so are the solutions.

“Businesses encountering hurdles are encouraged to gain a comprehensive picture of their situation and take decisive action to turn the corner.”

-Jonathan Krieger



Taking a CAUTIOUS APPROACH

A business in this category is in a favourable position. It's on solid financial footing, may or may not have cash on hand, and feels fairly secure. Although its situation is sound, it's not bullet-proof, which is why it prefers to move more carefully than its 'fast lane' counterparts. In fact, this business is closely watching the impacts a volatile market can have. Risks, if any, are calculated.

This proclivity for caution, however, does not mean fewer options. Even though a business in this category prefers to take more measured actions, there is significant opportunity to build resilience, capitalize on its activity and strengthen its position in the market.

For example, a $100-million company looking to make an acquisition would likely set their budget on a more conservative side—in the $5-million range. Or if strengthening their talent pool was the goal, a hiring spree would be limited to one or two key individuals instead of acquiring an entire team.

In some surprising ways, volatility may benefit this group more than others. That's because as the cost of borrowing rises, valuations can soften. This potentially provides the cautious type with a less aggressive playing field. "With the valuation multiples contracting, the party who's wired this way is going to like this better. You would've had to have been a pretty aggressive player to pay the valuation multiples over the past 18 months—in a lot of industries," MacDonald says.

A recent example is a business owner who—despite being in strong financial shape—kept their acquisition strictly on the smaller scale. The purpose, in this case, was two-fold: not only did they prefer to play it safe in a highly volatile market, but they also wanted to use this instance to strengthen their acquisition and integration skills. This way, they could prepare themselves to take on greater acquisition projects down the road.

It is important to remember that an integration isn't just about the numbers; in fact, the risk of failure can be high unless considerable efforts are made to operationalize the acquisition and properly capture the potential value.

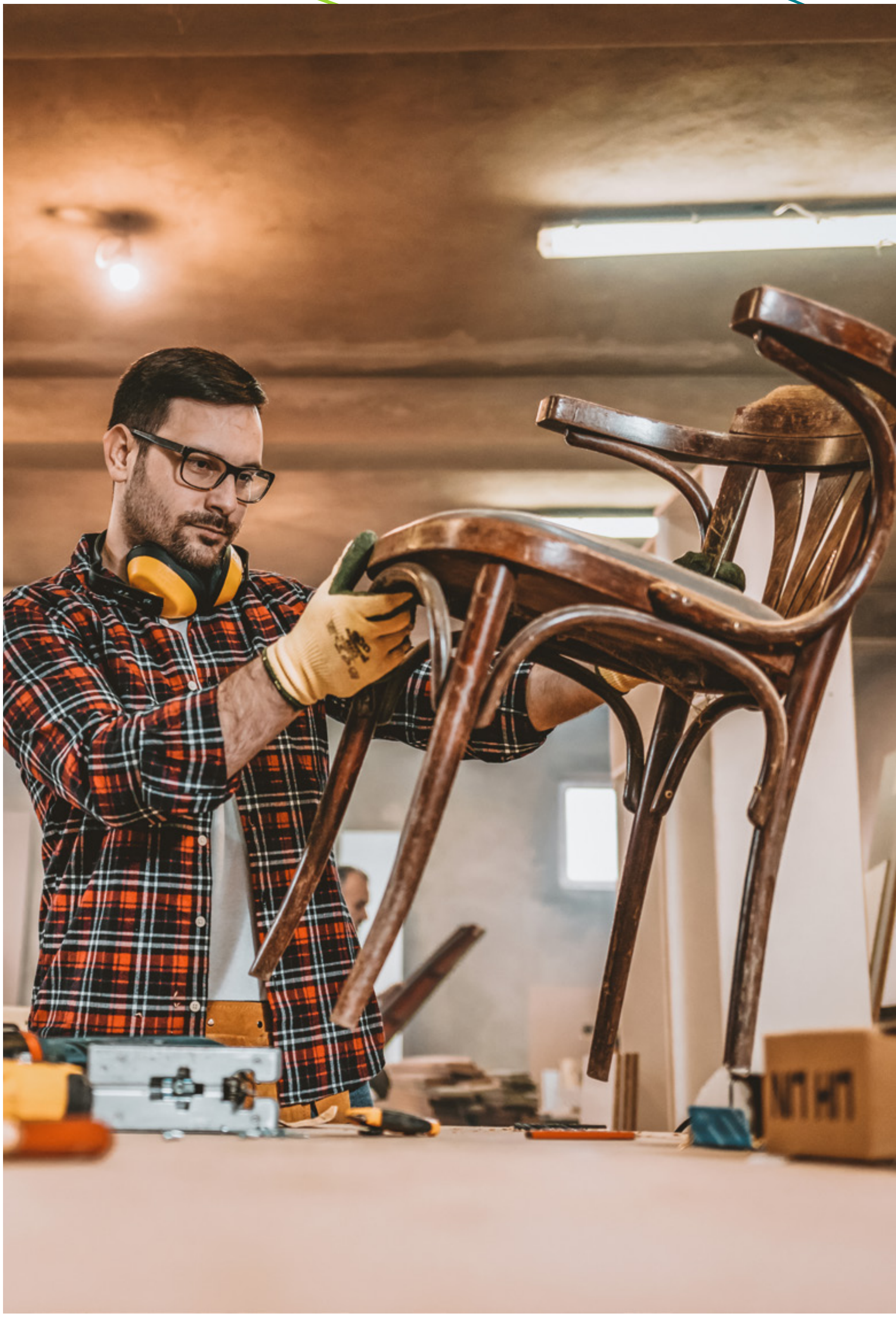
"Over 50% of transactions miss the mark because of cultural clash. And, without an explicit focus on alignment, potential will not be realized," noted Edward Kleinguetl, Principal, Integration & Separation.

Taking smaller steps does not necessarily absolve you of all risks. Pitfalls may still occur, albeit on a smaller scale, so due diligence, risk management, and other measures should be conducted without cutting corners. In fact, greater scrutiny may be warranted since the cost of mistakes has increased due to inflation and higher interest rates. The other warning is that a more circumspect approach may not reap the same rewards as one that throws caution to the wind. That means this type of business may need to brace themselves for the possibility of being outpaced by its more aggressive competitors.

Despite these areas of concern, businesses who prefer to play it safe are in a great position to seize the many growth opportunities available to them. Not only can this help you build resilience during times of volatility, but it can also help consolidate your place in the market.

"There will still be opportunities to grow and diversify their business, but they typically do it more cautiously and on a smaller scale."

-Devin Wagner



Going forward with a

FRESH PERSPECTIVE

While much is uncertain about today's market, shifts in the landscape—particularly those driven by technology—are only going to accelerate in the years to come.

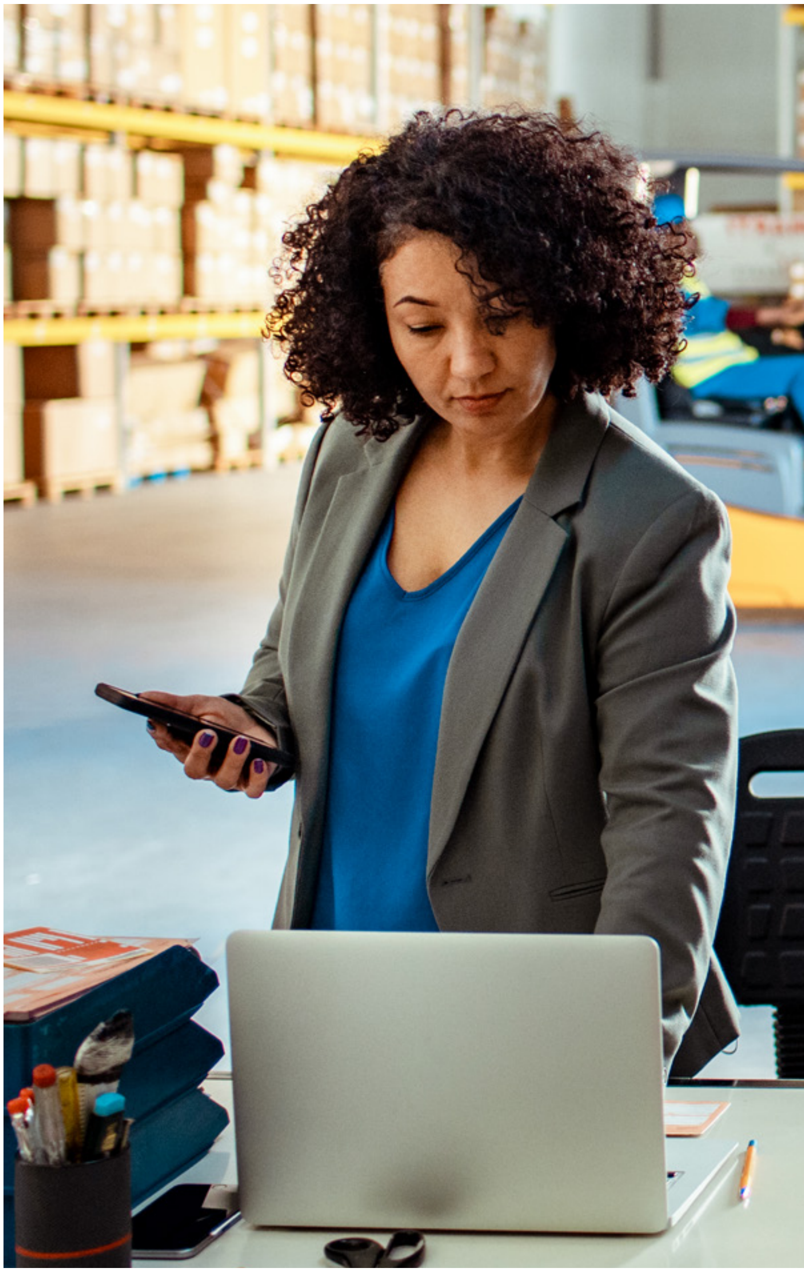
Admittedly, the playing field is far from even. Some businesses are going to feel the impacts of volatility more keenly than others. While many pressures can't be avoided, the choices one makes can have a tremendous impact. Businesses that want to thrive must grasp this urgency, arm themselves with the right information, and consider the best course of action. Those that do will be better positioned to succeed now—and in future.

While there is a wide range of opportunities for all types of businesses, there's one strategy that's not advisable no matter your situation. The approach of putting your head in the sand, failing to see the full picture, and waiting things out is a sure-fire way to get left behind.

Nobody knows what tomorrow may bring, but the one certainty is that there will be more change. To explore your options in a volatile market, reach out today.

"The next 20 years are probably going to bring the most significant technological and operational changes for manufacturing businesses since the industrial revolution. Will your business be part of the 'gold rush' over the next 20 years, or will it be written about in the history books?"

-Jonathan Krieger



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