

Building Strength and Resiliency in the Downturn

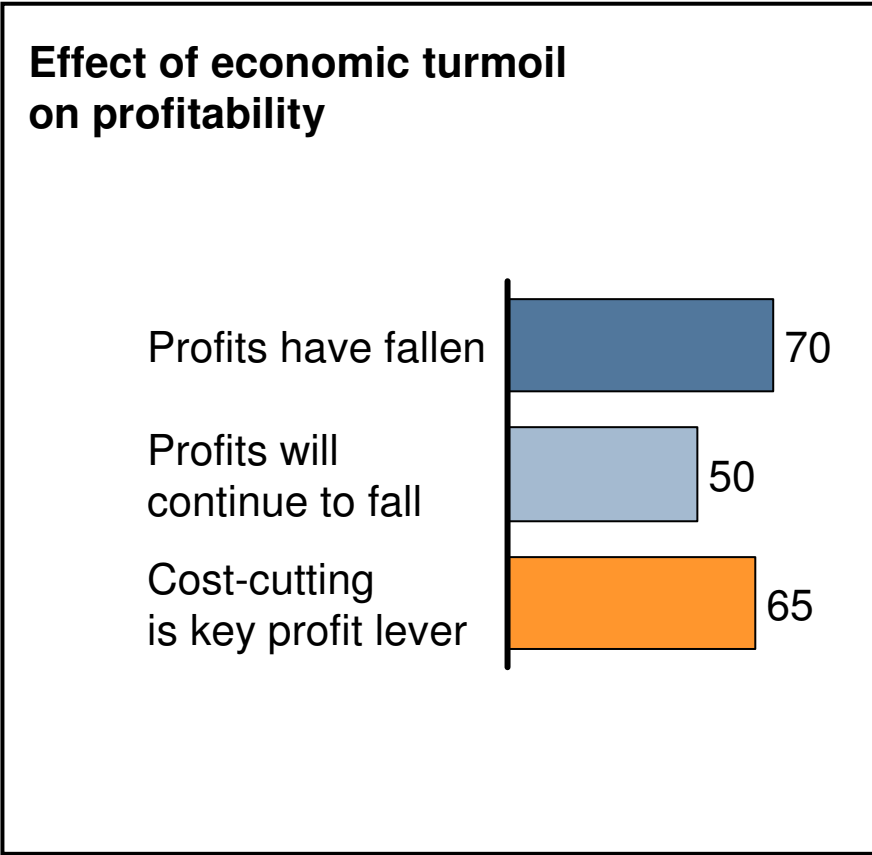
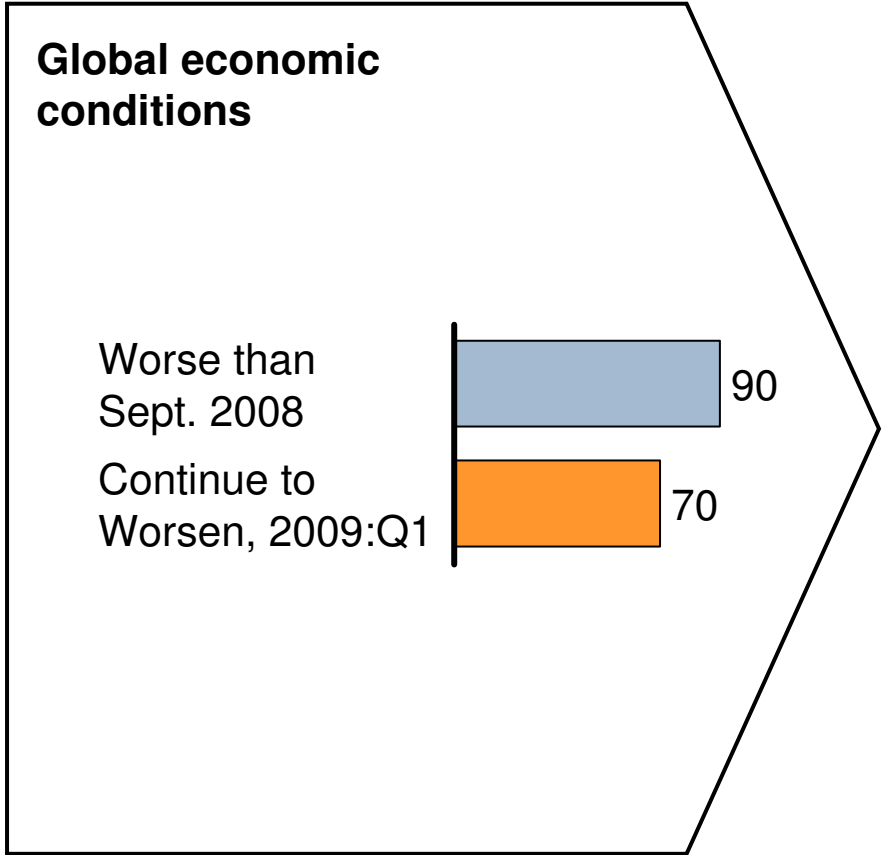
The Ownership Conference 2009

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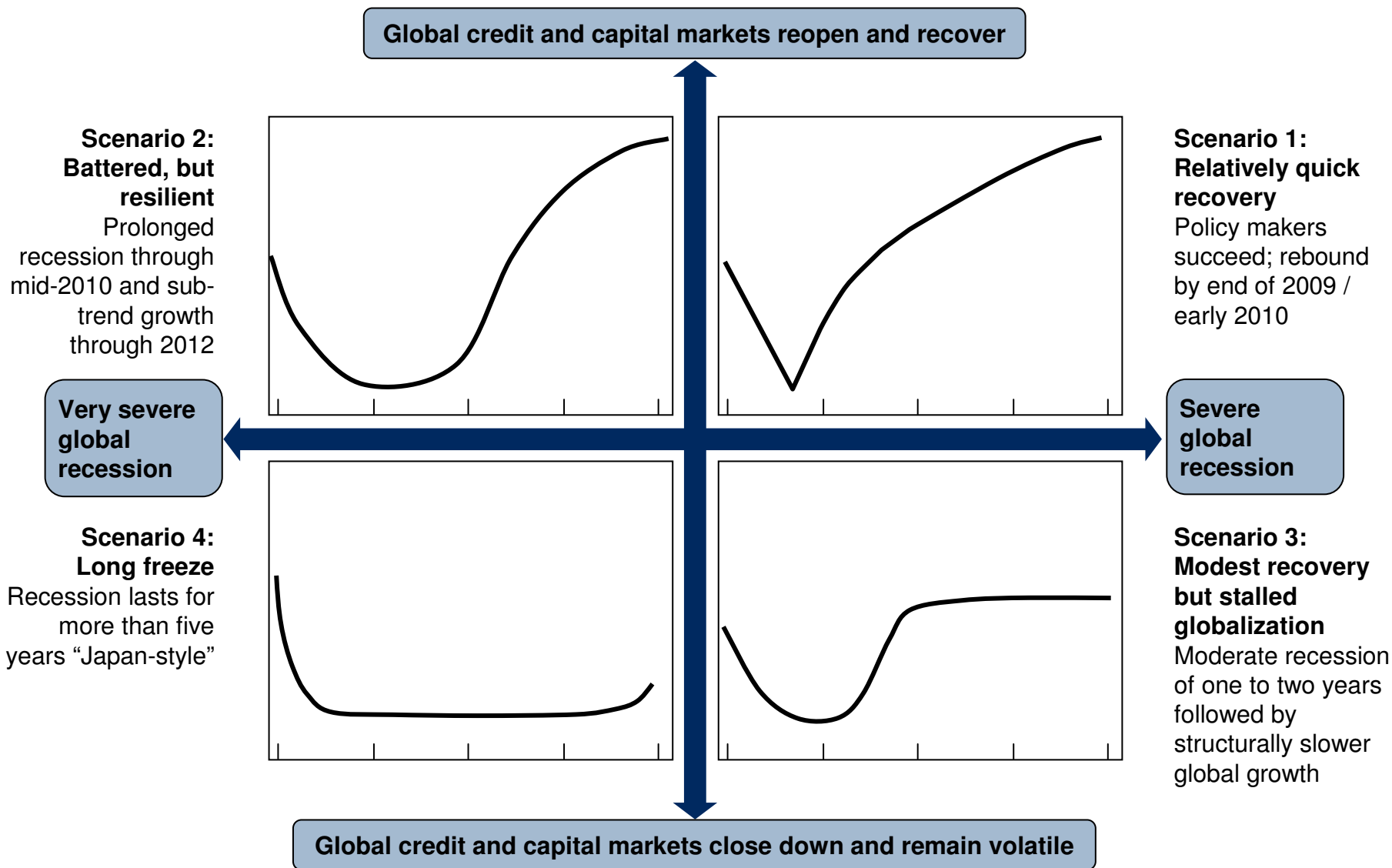
Executives are bracing for a pro-longed downturn



* Survey of +1500 executives on their outlook for economic downturn
SOURCE: McKinsey Quarterly Economic Outlook Survey, December 2008

A wide range of potential outcomes

CONCEPTUAL



The only certainty is uncertainty

- ✓ **Unprecedented volatility.** Still unknown risks on the downside yet high potential opportunity on the upside
- ✓ **Industry transformation underway.** Different market and risk exposures means industry players will suffer highly variable impacts.
- ✓ **Different scenarios, different choices.** Divergent actions company can take—but these differ widely depending on scenarios and resilience.
- ✓ **Understanding company resilience critical to setting strategic posture.** Need to bound likely impacts on business performance and decide appropriate posture

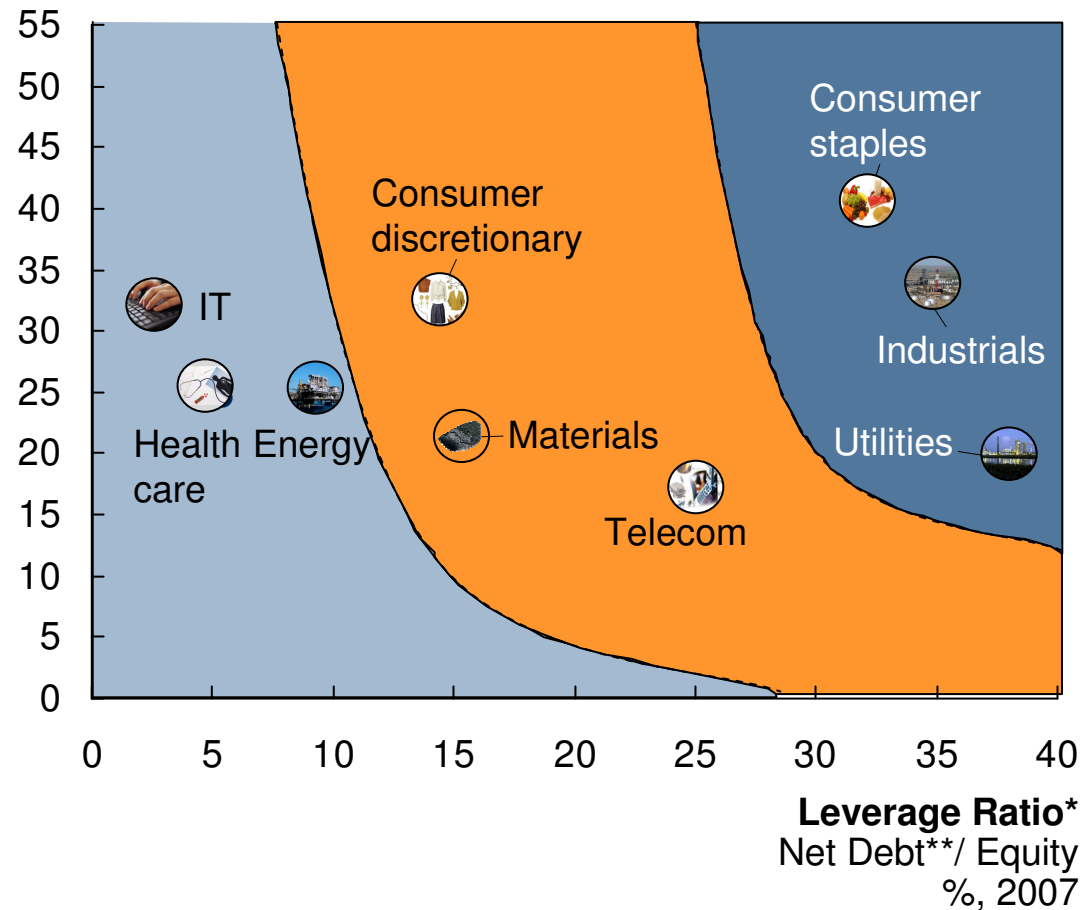
Despite extreme uncertainty, an abundance of information that can better inform potential corporate priorities

Widely different exposures depending on sector

ESTIMATES

Short-term liquidity example

Debt Maturity Ratio*
Short term Debt / Total Debt
%, 2007



- Low Liquidity Risk Zone
- Medium Liquidity Risk Zone
- High Liquidity Risk Zone

* Sector average calculated from data of Top 50 companies by market cap, analysis relies on quality of data

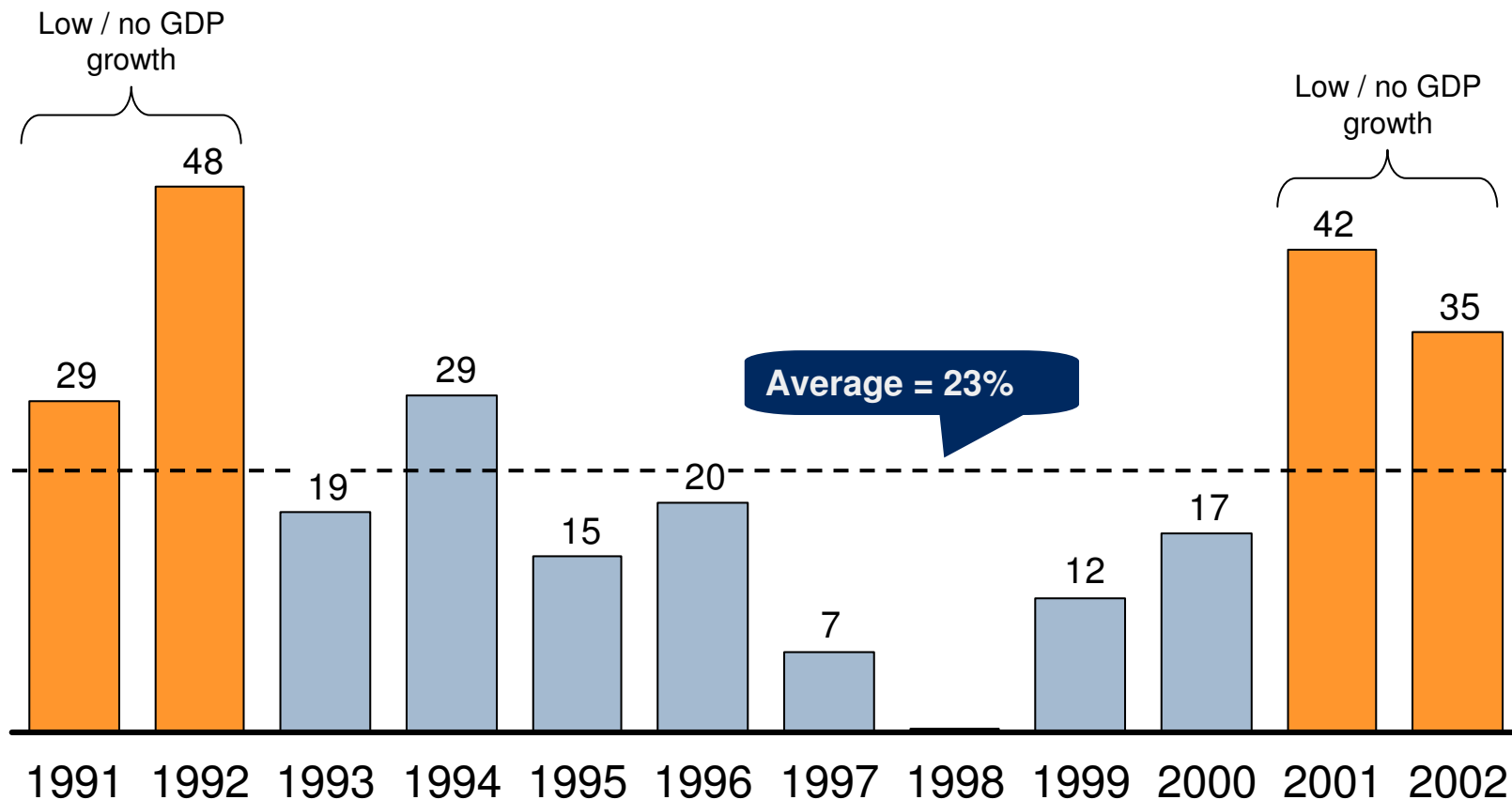
** Net Debt calculated as Total Short Term + Long Term Debt - Excess Cash

Source: McKinsey CPAT database, McKinsey analysis

Best opportunities can come in downturns

Private equity example

Vintage year IRR for Largest 20* U.S. private equity firms
Percent



* Ranked by funds raised from 1988-2003 (Apollo, Bain Capital, Blackstone, Carlyle, Clayton Dubilier, CSFB, Forstmann Little, Goldman Sachs PE, GTCR, Hellman & Friedman, Hicks Muse, JP Morgan PE, KKR, Madison Dearborn, Morgan Stanley PE, Providence, TH Lee, TPG, Warburg Pincus, Welsh Carson)

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Winning companies act differently

Research on winning companies over the last business cycle suggests that out-performers behave differently

- ✓ Strong balance sheet and less leverage throughout the business cycle, giving them flexibility to expand during the recession
- ✓ Targeted cost reductions vs across-the-board cost cutting – better at making cost structure variable
- ✓ Continual, but moderated investment in the business through the cycle
- ✓ Refrain from “deal fever” – buying at a steady pace through the cycle, based on when attractive targets become available
- ✓ Protect their best talent and attract more talent during the downturn

Proactive, not reactive approaches

- 1 Create agility** Quickly reduce costs and complexity to lower “break-even” – and increase agility
- 2 Build flexibility** Use scenario-based approaches and strategic options, resulting in faster moves in marketplace than competitors
- 3 Manage granularly** Take advantage of highly differential impacts to portfolio – by region, by customer segment, by vertical
- 4 Don't abandon growth** Do not abandon growth strategies or starve next generation businesses – downturn is likely to accelerate market evolution
- 5 Shape the industry** Identify opportunities to shape industry structure and to re-define the competitive arena
- 6 Hire through the down turn** Take the opportunity to capture critical talent

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