

ARCHE



VALUE MANAGEMENT

Focused on Performance Improvement and Value Creation

If you don't drive your business,
you will be driven out of business
— B. C. Forbes

Advisory from a Value Creation Perspective

Arche Value Management (AVM) is a management consulting firm with a mission of supporting client companies in their drive to improve performance and valuation through the effective implementation of advanced, value focused strategic, financial management and governance practices. As an overarching objective, AVM firmly believes that companies should seek to maximize shareholder value creation over time through a responsible, ethical and value based approach to strategy and business management.

AVM is a Canadian (Toronto based) company with expertise in the design and implementation of advanced financial and strategic management technology. The effectiveness of this technology is enabled through well designed and implemented management incentive compensation and corporate governance practices.

Our success is derived from the provision of objective and fact based advisory to our clients, developed and delivered through a collaborative and interactive approach. Our goal is to see our clients improve their economic performance on a sustainable, long-term basis, and thereby increase enterprise value and shareholder satisfaction.

AVM is led by Mack Ferguson, a leading practitioner in the field of applied corporate finance and value based strategy and management technology. Formerly, Mack was President of the Americas Consulting Division of Stern Stewart & Co. (Canada, Caribbean, Central & Latin America, US), a pioneering firm in the field of value based strategy and management.

Arche Value Management advises clients on:

- Business Diagnostics and Managerial Capabilities Assessment
- Business Portfolio Strategy, Valuation and Management
- Organizational Strategy and Design
- Value Based Financial and Performance Management
- Financial Strategy, Policy Definition and the Cost of Capital
- Value Based Business Planning and Target Setting
- Managerial Incentive Compensation
- Operations Based Financial Management
- Pre- and Post-Merger and Acquisition Advisory
- Managerial Capabilities Building, Training and Education

Value Discovery and Economic Profit

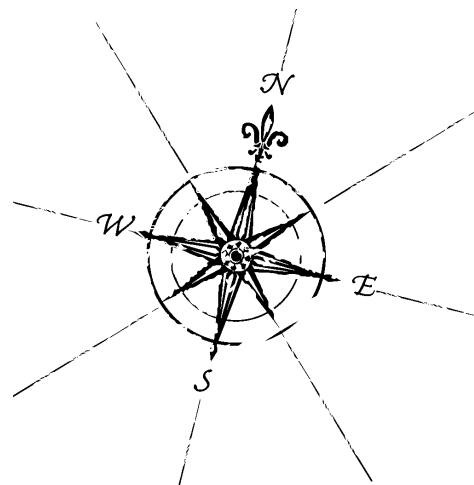
Business is a continual process of discovery, where economic success is measured by the value that is created for the investors who embark on the journey. The management challenge is to chart a course which identifies and exploits the best strategic options available – a challenge which requires information resources, decision making capabilities and skill in financial and operations management that are fully aligned with value creation. While it is difficult to predict what is over the horizon, it is possible to ensure that the information resources, decision making capabilities, and underlying managerial motivation to understand and best respond to emergent opportunities and threats are available. Securing these capabilities will inevitably improve economic performance over time.

Value Discovery poses the following key questions:

- How should we define success in terms of economic results?
- How should we look at our business in terms of the sources of value creation and destruction?
- How best do we align the interests, objectives, actions, and rewards of managers and investors around the goal of value creation?
- How do we best equip management to deal with strategic and operational challenges, and thereby achieve the best possible level of economic performance?
- How do we enable a managerial mindset focused on continuous improvement and value creation?

Value creation is best measured as Economic Profit. Economic Profit provides the firmest foundation upon which to build a management system focused on improving economic performance and value creation over time. Quite simply, Economic Profit represents what is left over after all of the bills have been paid including providing an adequate return to those that invested capital.

Economic profit, therefore, can be considered an operational financial equivalent of Free Cash Flow, but with the significant advantage of being both a period performance measurement and a sound basis for valuation. Economic Profit provides the only comprehensive, value focused basis for a management system. Economic Profit offers a practical and powerful approach for strategy formulation and decision making, business performance measurement and management, planning and target setting, financial strategy formulation, management incentive compensation and governance. Most importantly, it offers an overarching objective for a business culture which espouses continuous improvement, ethical, responsible and accountable management, and long-term value creation.



Our Expertise & Solutions

AVM is an expert in working collaboratively to design and implement Economic Profit based strategy and management systems, and thereby equip client companies with capabilities that will continue to create value long after project completion. Consultancy services and solutions are provided in the following areas:

Business Diagnostics and Capabilities Assessment – AVM works with Management Teams and Boards of Directors to assess systems of performance measurement, target setting and business planning, investment analysis, and incentive compensation for technical quality, effectiveness, and alignment with the principles and practices of value creation. Our objective is to produce a comprehensive value improvement plan stretching from the Executive Suite to the Shop Floor.

Business Portfolio Strategy, Valuation and Management – AVM's approach to portfolio management involves a ground up review of strategic position, economic performance, and valuation of each discrete component of the business portfolio – discrete components that in all likelihood should be evaluated well below the business unit level, i.e. business groupings such as products, customers, and facilities. A thorough understanding of the granular sources of value creation and destruction is fundamental to charting a strategy and plan aimed at growth, performance improvement and long-term value creation.

Organizational Strategy and Design – How should a business be structured, formally or virtually, in order to best plan, measure and manage for value creation? With the practice of value based management, performance is best considered from a bottom-up perspective. What products and services do we provide and in what markets do they create or destroy value? This view of performance management contrasts with the conventional top-down control and compliance perspective of accounting based financial management. AVM works collaboratively with client companies to define organizational strategy and management systems that enable a detailed understanding of the economics of a business, and the motivation and capability to respond to opportunities or threats as they emerge.

Value Based Financial and Performance Management – The conventional practice of financial performance measurement, oftentimes, overemphasizes the role of control and compliance at the cost of strategic analysis and true economic performance management. AVM is expert in designing and implementing comprehensive performance measurement and strategic financial management systems, which utilize an Economic Profit basis. Working closely with company management, AVM can quickly design and implement a powerful Economic Profit based performance measurement and management system, fully integrative with existing systems of financial management and control yet far reaching in the illumination of business economics and proactive performance management.

Financial Strategy, Policy Definition and the Cost of Capital – Well designed and executed financial strategy is a powerful driver of value creation. Financial strategy formulation involves defining a target capital structure that minimizes the cost of capital and thereby maximizes enterprise value, all the while being supportive of corporate strategy as it relates to expected future performance, funding of current operations, financing of investment programs, and the desire for financial flexibility. Working collaboratively, AVM employs sophisticated approaches to corporate and financial strategy simulation to establish financial policy that seeks to create long-term value all the while meeting the desired requirements of rating agencies and other measures of financial protection and flexibility.

Value Based Business Planning and Target Setting – Conventional target setting and planning procedures are, oftentimes, narrowly focused on the achievement of an annual budget based operating profit target with little recognition of the long-term strategic goals of the company and multi-year performance improvement expectations of shareholders. This conventional framework will encourage practice focused on finessing short-term operational profitability as opposed to managing for long-term value creation. AVM introduces multi-year target setting and financial planning systems focused on growth and improvement in economic profitability, where this expectation of growth incorporates the strategic plan and the objective improvement expectations drawn from shareholders and other external performance and valuation benchmarks. This value focused approach to business planning and target setting will break the oft encountered counterproductive linkage between target setting, planning and incentive compensation, and thereby strengthen not only strategic decision making but also corporate performance and governance.

Managerial Incentive Compensation - Well designed and implemented value focused incentive compensation is fundamental to performance improvement and responsible corporate culture and governance. Incentive compensation should be designed to align the interests and rewards of those who manage the business with those who own the business. AVM possesses a high degree of expertise in defining compensation strategy, policy and practice, and extensive experience in working with Senior Management and Board of Directors to implement customized management incentive plans, typically incorporating short-term (cash based) and long-term (equity based) components.

Operations based Financial Management – Corporate strategy is best defined when detailed economic information is available at a deep and granular operational level. Improving the quality of information about the value contribution of products and services, as well as, the value contribution of customer relationships is fundamental to defining a corporate strategy that is aimed at long-term value creation. AVM employs a detailed approach to computing value contribution at an operational level, highly customized to industry and company economics and organizational structure. Typically, this involves the development of functional databases and the transfer of technology to strengthen internal analytical capabilities. Securing these resources and capabilities will result in improved decision making and strategy formulation, and ultimately competitive advantage towards achieving long-term value creation.

Pre- and Post-Merger and Acquisition Advisory – AVM provides technical support to companies, institutional and private equity investors in both pre- and post-merger activity. This support may involve due diligence and the evaluation of acquisition and/or divestiture targets, valuation and fairness opinions in support of asset pricing, and advisory for post-merger restructuring, acquisition integration, and performance improvement programs.

Managerial Capabilities Building, Training and Education – Ultimately company management must build institutional conviction and capabilities towards the principles and practices of performance improvement and value creation. AVM works closely and collaboratively with companies to design and deliver customized communication and training programs aimed at upgrading financial and business literacy and decision making capability surrounding value creation and the generation of Economic Profit. Education and training programs are available as part of larger value based management implementation programs or as stand-alone institutional improvement projects.

Why Arche Value Management

AVM is committed to providing consulting services and products that generate true economic value and return for our clients. Our products are built upon a foundation of business economics and organizational strategy. Our services are delivered by a team of professionals who all exemplify the following professional attributes.

Ability — We possess expert skill in value based strategy and management technology and implementation

Inventiveness — We bring fresh perspective, deep technical expertise, and a creative mind to the task

Interactivity — We listen, interact and actively collaborate with our clients

Flexibility — We are flexible and adaptable to our work environment and in project delivery

Credibility — We firmly believe that fact, objectivity and truthfulness are fundamental to our advisory

Loyalty — Our clients are our business and our future

Sophistication — We are global in perspective, sensitive in delivery, and networked internationally

Passionate — We share a passion for performance improvement and value creation

Confidentiality — We guard client information and contact with the utmost discretion

Our clients are given senior level attention on every assignment, with a commitment to completion and client satisfaction being paramount.



Leadership

Mack Ferguson is Managing Partner of Arche Value Management. Mack has over 24 years of professional consulting experience in the field of applied business economics, finance and operations management. Most recently, Mack was President of the Americas management consulting operations of Stern Stewart & Co., a pioneering firm in the field of applied corporate finance and the developer of EVA[®]. With Stern Stewart, Mack was responsible for consulting operations across the US, Canada, Latin America, and the Caribbean. With 19 years of Stern Stewart related experience, Mack was involved with the implementation of value based strategy and management systems and the provision of a wide variety of corporate finance services to well over 100 companies – working closely with Senior Management and the Board of Directors to effect far reaching corporate change focused on the objective of improving performance and generally creating shareholder value. Mack has significant technical knowledge and practical experience with performance management, portfolio analysis, valuation, and corporate operational and financial restructuring. In addition, he is skilled in the design of financial strategies, including the optimization of capital structure, the cost of capital and enterprise value.

Mack has global experience with companies engaged in a broad spectrum of industrial and financial services activity. He has deep expertise in implementing Economic Profit based financial management systems with companies operating in emerging and turbulent markets, and has specialized skill in introducing value based incentive compensation in challenging situations, including situations of high growth, turnaround, private ownership, and the state sector.

Prior to joining Stern Stewart, Mack worked with Resource Management Associates (RMA), a consulting firm specialized in energy and industrial economics, and, prior to that, with the International Economics Practice of Deloitte Haskins + Sells Canada. With both firms, he participated on a wide variety of projects directed at industrial restructuring in countries of Eastern and Central Europe, South and Southeast Asia, Africa and Latin America.

Mack holds an M.S. in Operations Research and an M.B.A. specialized in Finance, both from Columbia University, New York, and a B.Sc. in Agriculture from the University of Guelph, Canada.

Contact Us

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Do nothing that is of no use
— Miyamoto Musashi

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