

Canadian Corporate Performance and Valuation Review

September 2013

ARCHE

Value Management

Focused on Performance Improvement and Value Creation

Canadian Corporate Performance and Valuation Review

Introduction

- The *Canadian Economic Performance and Valuation Review* has been prepared by Arche Value Management to present an approach to corporate performance analysis and ideally management that addresses the current critical concerns that investors have voiced of the existing management model (financial management and incentive compensation) and record of performance of many Canadian public corporations in delivering value creation
- In our view, a common misconception is that rigorous ex ante evaluation of investments via sophisticated financial analysis is sufficient to govern resource allocation and ultimately deliver value creation. The fallacy of this conventional approach to resource allocation is playing out, unfortunately and currently, in the resource sectors of the Canadian economy. Here companies are recognizing significant writedowns / writeoffs of investments due, in no small part, to weak execution and governance of the investment making process. Without question greater ex poste management and accountability for resource allocation is needed
- Fortunately, the systematic element of the solution is quite simple. Internal financial management systems, i.e. corporate performance measurement, financial and investment planning and incentive compensation, should be based upon Economic Profit as opposed to accounting profit. While this prescription may seem sound technical and perhaps semantic, the effect of this reform would be far reaching and significant. Economic Profit is the performance measurement of value creation, defined as such because of it's recognition of total cost, i.e. Revenue minus all operational and investment costs. The fundamental problem with conventional financial accounting based performance measurement systems is that the inherent definition of profit is incomplete in its recognition of total cost. In fact many internal financial management systems completely lack any form of accountability for capital management, i.e. EBITDA based systems. Conventional practice, therefore, reverts to the usage of multiple measurements to ensure that aspects of financial performance are covered on net. The resultant effect, however, is that financial management can become excessively complicated and oftentimes conflicting in providing information, i.e. the quickest way to double your EBITDA might be to triple your installed Capital base, but are you in fact better off?
- The real problem, however, lies in the how financial management links with the management incentive compensation. Obviously if you are paying for the wrong metric, you get the wrong result. The age old adage that you get what you pay for could not be more true than when viewed from the standpoint of management incentive compensation. If the performance metrics that drive the incentive compensation system don't systematically recognize the cost of all employed capital (most conventional systems recognize none, i.e. EBITDA based systems), then while operating might materialize, but returns might not. Ex ante review of expected investment returns, no matter how sophisticate, will have little ability to ultimately govern the deliver of return on capital and value creation, as measured by Economic Profit, over time
- Canadian corporations need to focus their financial management and incentive compensation systems on the delivery of value. Conventional financial metrics should be viewed as value drivers, but the bottom line has to be view as being Economic Profit. Focusing management, from a financial perspective, on improving their Economic Profit will, at the margin, move their Enterprise Value and share prices upwards, and thereby deliver shareholder value. It is imperative that this mandate be framed within the context of operating an ethical and responsible business that recognizes the concerns and requirements of not only shareholders but the broader community of firm stakeholders

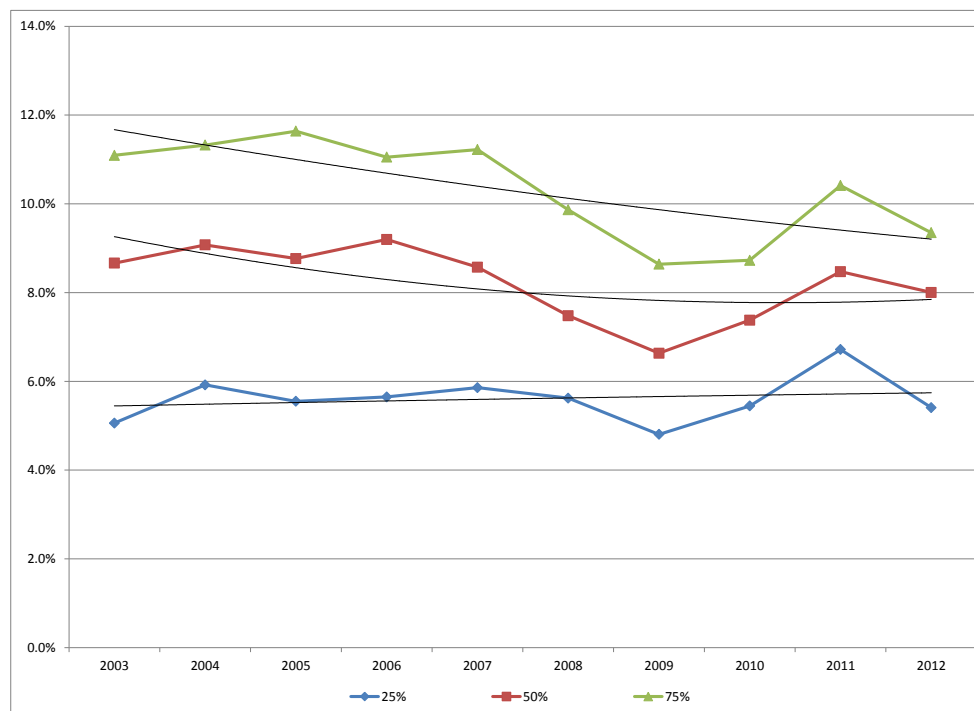
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Some interesting observations, year end 2012

- Return on Capital for the majority of Canadian industrial sectors has declined over the past ten years, with the trailing 5 year average Return on Capital for the 50th percentile company running at approximately 7.5%
- Canadian corporations, collectively, destroyed approximately \$18 Billion of value (cumulative change in Economic Profit) over the past 5 years, with the bulk of this value destruction being delivered by the mining and metals, insurance, and energy industries, in part offset by significant value creation in the banking industry
- During 2012 Return on Capital dropped to an approximately level equal to the Cost of Capital for the average company. This followed on two years of improving economic performance post the ten year low of 2009. Approximately 50 percent of Canadian companies are destroying value. Perhaps more troublesome is that the 75% percentile performer is exceeding the Cost of Capital by approximately 2.0%, which does not leave much margin of error
- Post 2009, Canadian companies have increased their use debt for financing as evidenced by the economy wide increase in the Debt Capital ratio. This increase in debt will, to some degree, limit future financial flexibility and result in higher costs as interest rates climb over the coming few years
- The general trend in Market Value Premiums (Enterprise Value minus economic book value of Capital) is downwards over the past 10 years, with some moderation in the past two years. Interestingly, the decline in MVP has outpaced the decline in current economic performance, indicating that shareholder expectations of future growth have contracted at a higher rate than has the decline associated current economic performance, over the past ten years. Given that the growth expectation component of Enterprise value is forward looking (but based upon today's view of the future), this, potentially, does not bode well for an expanding Canadian economy over the coming decade
- Industrial sector performance varies considerably with strong individual performance in the airline (Westjet), apparel (Gildan), automotive (Magna), electronics (RIM, maybe not for much longer however), engineering and construction (MacDonald Dettwiler and Stantec), entertainment (Cineplex), food (Saputo), industrial services (Wajax), maritime (Westshore Terminals), healthcare (CML), mining (Alamos Gold, Endeavour Silver, Labrador Iron Ore, Potash Corp, Silvercorp), energy (Imperial Oil, Pason Systems), railroad (CN), retail (Couche-Tard, Dollarama, Tim Horton), and banking (to name a few)
- The forest products and mining industries hold the dubious distinction of promising the most and delivering the least in terms of shareholder wealth (MVP and FGV) and shareholder value (Economic Profit), over time
- **Takeaway – the Canadian corporate sector should implement meaningful measures aimed at delivering more future value creation if shareholder expectations of future growth are to recover, and the Canadian economy in general is to deliver adequate growth over the next decade**

Canadian Corporate Performance and Valuation Review

Return on Capital



- Return on Capital, generally, has declined for Canadian industry over the past 10 years
- This decline in economic performance is most pronounced for higher performing companies

Canadian Corporate Performance and Valuation Review

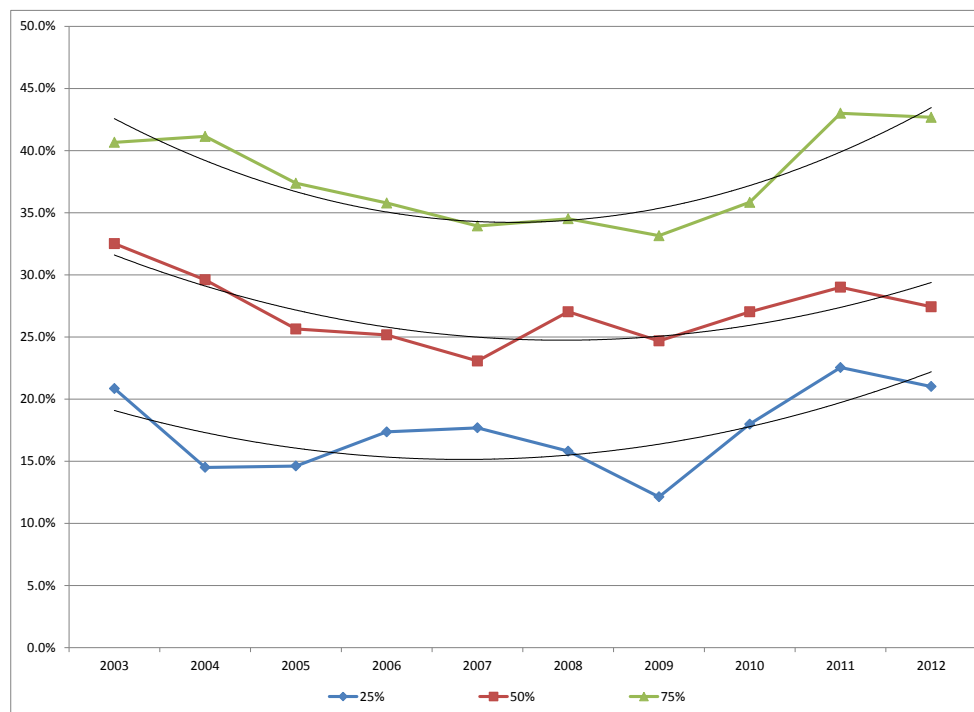
Return on Capital

Return on Capital	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 Yr	10 Yr
Aerospace	9.2%	4.6%	3.6%	4.5%	7.9%	7.2%	9.4%	7.6%	7.2%	5.9%	7.2%	7.2%
Airlines	8.8%	1.1%	4.1%	7.9%	9.4%	8.0%	5.6%	7.0%	12.2%	14.1%	8.0%	8.0%
Apparel	15.5%	14.5%	16.6%	17.2%	17.0%	15.6%	8.0%	13.8%	11.7%	7.3%	11.7%	15.0%
Automotive	8.7%	9.8%	10.3%	9.1%	9.2%	5.0%	-0.9%	7.0%	10.2%	10.6%	7.0%	9.2%
Banking	15.1%	15.6%	17.1%	16.6%	17.4%	11.2%	10.7%	13.9%	14.2%	14.2%	13.9%	14.7%
Chemicals	8.4%	9.8%	5.3%	5.3%	8.2%	5.6%	6.1%	2.9%	8.7%	8.4%	6.1%	7.1%
E-Commerce	12.7%	12.4%	10.8%	9.3%	5.7%	5.9%	4.9%	4.6%	4.7%	6.8%	4.9%	6.4%
Electric Utility	5.5%	6.2%	5.7%	5.6%	5.5%	5.4%	4.5%	4.3%	3.9%	3.7%	4.3%	5.4%
Electronics	-3.4%	2.4%	8.8%	11.4%	11.7%	18.6%	19.3%	18.2%	20.8%	8.0%	18.6%	11.5%
Energy	8.7%	9.1%	12.1%	8.3%	8.3%	8.0%	3.4%	4.4%	6.8%	5.1%	5.1%	8.1%
Engineering & Const	11.3%	11.1%	9.8%	9.8%	10.1%	11.2%	8.5%	8.8%	8.8%	8.4%	8.8%	9.8%
Entertainment	5.8%	2.6%	7.5%	8.4%	6.0%	6.4%	7.1%	7.3%	8.2%	9.5%	7.3%	7.2%
Financial Services	9.7%	11.2%	11.9%	10.7%	11.2%	11.2%	8.2%	7.3%	6.9%	6.8%	7.3%	10.2%
Food Processing	8.7%	9.7%	8.1%	5.7%	6.5%	6.1%	5.1%	6.2%	6.9%	6.9%	6.2%	6.7%
Industrial Services	4.6%	8.6%	11.4%	11.7%	9.7%	8.3%	6.3%	8.3%	8.6%	8.7%	8.3%	8.6%
Information Services	5.7%	6.1%	5.2%	5.3%	5.1%	4.6%	3.7%	3.6%	5.1%	4.5%	4.5%	5.1%
Insurance	12.4%	12.6%	13.0%	12.9%	14.9%	9.7%	7.7%	7.6%	9.0%	8.0%	8.0%	11.1%
Maritime	2.3%	3.2%	10.5%	10.2%	11.7%	24.9%	22.0%	19.0%	23.8%	25.4%	23.8%	15.4%
Media	4.4%	5.9%	5.7%	7.0%	7.2%	8.2%	7.9%	8.1%	9.0%	8.5%	8.2%	7.5%
Medical Services	10.9%	8.5%	8.3%	9.2%	8.1%	7.2%	8.2%	8.7%	10.6%	4.8%	8.2%	8.4%
Metals & Mining	2.1%	2.4%	3.6%	3.8%	3.5%	2.9%	2.7%	5.0%	6.6%	4.6%	4.6%	3.6%
Paper/Forest Prods	0.1%	11.5%	3.6%	0.5%	-5.5%	-3.2%	-5.5%	9.0%	2.4%	4.5%	2.4%	1.4%
Pharma	3.5%	10.1%	13.9%	15.7%	9.3%	7.5%	8.8%	2.2%	3.2%	3.5%	3.5%	8.1%
Railroad	6.0%	7.6%	8.4%	9.3%	8.6%	7.4%	5.8%	8.0%	8.0%	9.2%	8.0%	8.0%
Real Estate	7.3%	5.9%	5.4%	4.9%	4.5%	4.8%	4.7%	6.7%	5.8%	5.7%	5.7%	5.6%
Retail	11.9%	12.8%	11.1%	12.1%	12.0%	9.4%	10.0%	10.1%	11.2%	10.2%	10.1%	11.1%
Software	9.6%	7.4%	7.2%	7.1%	11.2%	10.0%	6.6%	7.4%	7.3%	6.4%	7.3%	7.4%
Telecom	10.1%	10.1%	9.2%	9.8%	9.7%	9.6%	9.0%	8.1%	8.5%	8.6%	8.6%	9.4%
Trucking	13.2%	15.6%	16.6%	9.3%	5.3%	5.6%	5.6%	5.9%	9.8%	10.0%	5.9%	9.5%
25%	5.1%	5.9%	5.5%	5.6%	5.9%	5.6%	4.8%	5.4%	6.7%	5.4%	5.4%	5.6%
50%	8.7%	9.1%	8.8%	9.2%	8.6%	7.5%	6.6%	7.4%	8.5%	8.0%	7.5%	8.5%
75%	11.1%	11.3%	11.6%	11.1%	11.2%	9.9%	8.6%	8.7%	10.4%	9.3%	9.3%	10.7%

- Return on Capital by industry segment, and for the public company sample
- With a few exceptions, industrial performance has declined for most industrial sectors

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Debt / Capital Ratio



- Usage of debt financing has increased as a percentage of overall financing since the low of 2008, reaching more normalized historic levels, with higher performing companies carrying more financial leverage than lower performing companies (they have the ability to carry more financial leverage)
- This increase in financial leverage is seen across the economy

Canadian Corporate Performance and Valuation Review

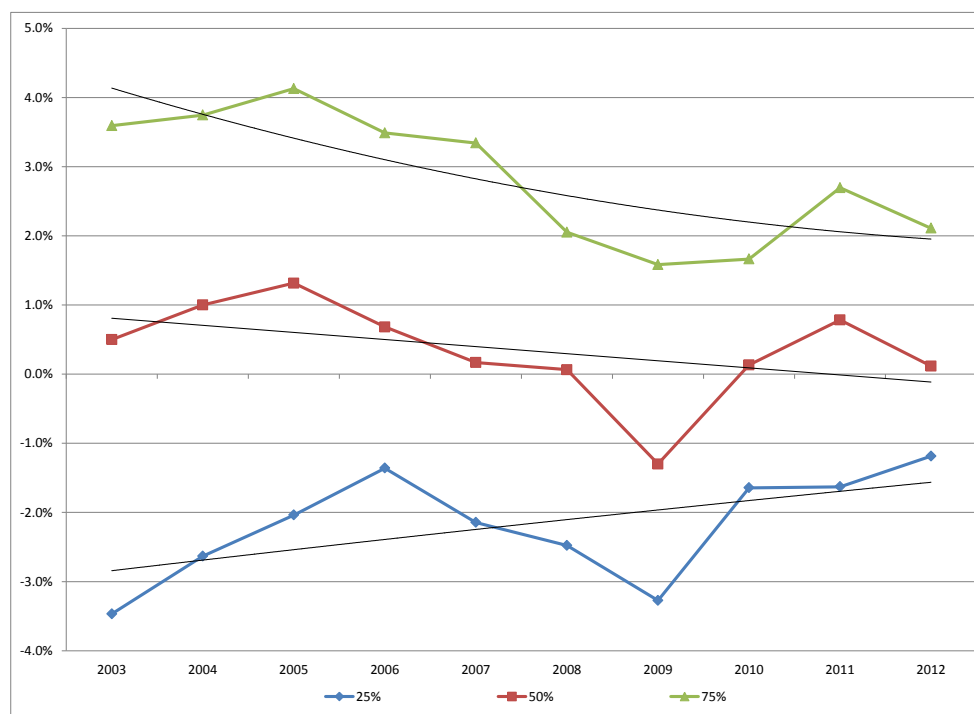
Debt / Capital Ratio

Debt / Capital Ratio	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 Yr	10 Yr
Aerospace	44.9%	40.7%	36.6%	29.4%	19.3%	28.1%	21.8%	22.1%	27.6%	30.1%	27.6%	28.7%
Airlines	50.8%	60.2%	59.6%	59.9%	55.7%	31.8%	30.8%	34.3%	44.7%	45.5%	34.3%	48.1%
Apparel	20.4%	13.5%	10.1%	5.9%	7.3%	5.5%	0.4%	0.0%	12.7%	10.4%	5.5%	8.7%
Automotive	32.0%	30.5%	27.8%	24.6%	26.4%	18.6%	16.1%	26.4%	26.3%	27.4%	26.3%	26.4%
Banking	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chemicals	36.1%	34.5%	18.8%	30.2%	18.1%	27.1%	22.6%	30.6%	51.6%	48.5%	30.6%	30.4%
E-Commerce	28.6%	28.6%	29.0%	26.3%	21.5%	26.8%	27.4%	23.8%	21.7%	23.0%	23.8%	26.5%
Electric Utility	50.7%	53.9%	57.4%	58.2%	59.1%	54.7%	55.4%	50.0%	46.9%	47.3%	50.0%	54.3%
Electronics	7.5%	9.0%	8.1%	8.0%	7.4%	8.2%	2.5%	0.0%	0.0%	0.6%	0.6%	7.5%
Energy	21.3%	21.3%	20.9%	17.7%	26.5%	27.2%	24.6%	22.9%	23.3%	22.6%	23.3%	22.8%
Engineering & Const	35.5%	49.5%	44.8%	42.2%	35.0%	34.0%	39.2%	41.4%	34.0%	42.5%	39.2%	40.3%
Entertainment	33.7%	32.9%	26.9%	35.8%	33.1%	35.0%	34.1%	34.2%	27.7%	20.3%	34.1%	33.4%
Financial Services	15.7%	15.1%	12.8%	24.7%	22.1%	24.0%	12.2%	14.2%	17.2%	27.3%	17.2%	16.4%
Food Processing	47.0%	45.5%	36.9%	35.0%	32.8%	38.7%	30.8%	32.4%	30.4%	38.8%	32.4%	35.9%
Industrial Services	32.5%	36.5%	34.7%	37.3%	42.5%	47.3%	40.0%	41.4%	46.6%	46.5%	46.5%	40.7%
Information Services	26.4%	25.6%	25.6%	25.2%	24.1%	24.4%	24.8%	24.1%	26.8%	25.3%	24.8%	25.2%
Insurance	23.5%	20.6%	23.2%	23.5%	21.6%	25.0%	23.7%	25.9%	26.4%	21.7%	25.0%	23.5%
Maritime	6.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	123.3%	9.2%	0.0%	0.0%
Media	48.2%	45.5%	45.2%	45.6%	38.1%	40.4%	44.5%	40.8%	40.8%	42.9%	40.8%	43.7%
Medical Services	36.2%	37.6%	25.6%	22.5%	19.5%	24.6%	24.7%	35.9%	35.2%	41.3%	35.2%	30.4%
Metals & Mining	10.0%	2.6%	10.1%	9.8%	6.5%	9.4%	6.3%	4.4%	7.9%	9.9%	7.9%	8.6%
Paper/Forest Prods	28.1%	25.5%	22.9%	21.9%	23.1%	22.9%	21.2%	16.1%	15.5%	16.8%	16.8%	22.4%
Pharma	39.5%	24.1%	24.5%	17.0%	0.0%	0.0%	12.1%	31.4%	48.7%	59.5%	31.4%	24.3%
Railroad	33.4%	30.0%	27.6%	27.3%	31.2%	33.5%	32.2%	30.6%	32.9%	31.9%	32.2%	31.5%
Real Estate	55.2%	58.1%	59.6%	60.9%	61.7%	66.0%	66.5%	52.7%	50.0%	48.9%	52.7%	58.8%
Retail	34.0%	29.6%	37.9%	30.0%	28.6%	28.7%	27.1%	27.0%	27.3%	23.3%	27.1%	28.7%
Software	0.3%	13.9%	7.6%	2.4%	17.2%	13.1%	8.9%	19.9%	29.0%	26.4%	19.9%	13.5%
Telecom	41.8%	41.6%	40.4%	35.8%	34.7%	37.3%	37.8%	43.2%	41.3%	38.8%	38.8%	39.6%
Trucking	22.4%	11.9%	16.4%	18.3%	22.0%	27.0%	27.0%	35.8%	33.2%	27.5%	27.5%	24.7%
25%	20.8%	14.5%	14.6%	17.4%	17.7%	15.8%	12.1%	18.0%	22.5%	21.0%	18.0%	17.5%
50%	32.5%	29.6%	25.6%	25.2%	23.1%	27.0%	24.7%	27.0%	29.0%	27.4%	27.0%	27.0%
75%	40.7%	41.1%	37.4%	35.8%	33.9%	34.5%	33.2%	35.8%	43.0%	42.7%	35.8%	36.6%

- While usage of debt financing has increased as a percentage of overall financing since the low point of 2008, capital structure and financial policy, i.e. Debt/ Capital, does differ by industry with some industries more aggressively re-leveraging post 2008/09

Canadian Corporate Performance and Valuation Review

Return on Capital – Cost of Capital Spread



- The Return on Capital minus Cost of Capital Spread, i.e. (R – C) Spread, has performed differently across the market:
 - Performance of higher performing companies, i.e. 75th percentile, has not recovered to the level exhibited during the peak 2005 period
 - Performance of the average Canadian public company, i.e. 50th percentile, remains modestly below peak levels of 2005
 - Performance of lower performing companies, i.e. 25th percentile, has modestly improved over peak levels of 2006
- The observed convergence in the (R-C) Spread is, in part, associated with a general reduction in the Cost of Capital over time, where reductions in the Cost of Capital often benefit the least credit worthy the most, and visa versa, i.e. as evidenced by the compression of spreads that has occurred in capital markets over the past 10 years, combined with increasing use of financial leverage

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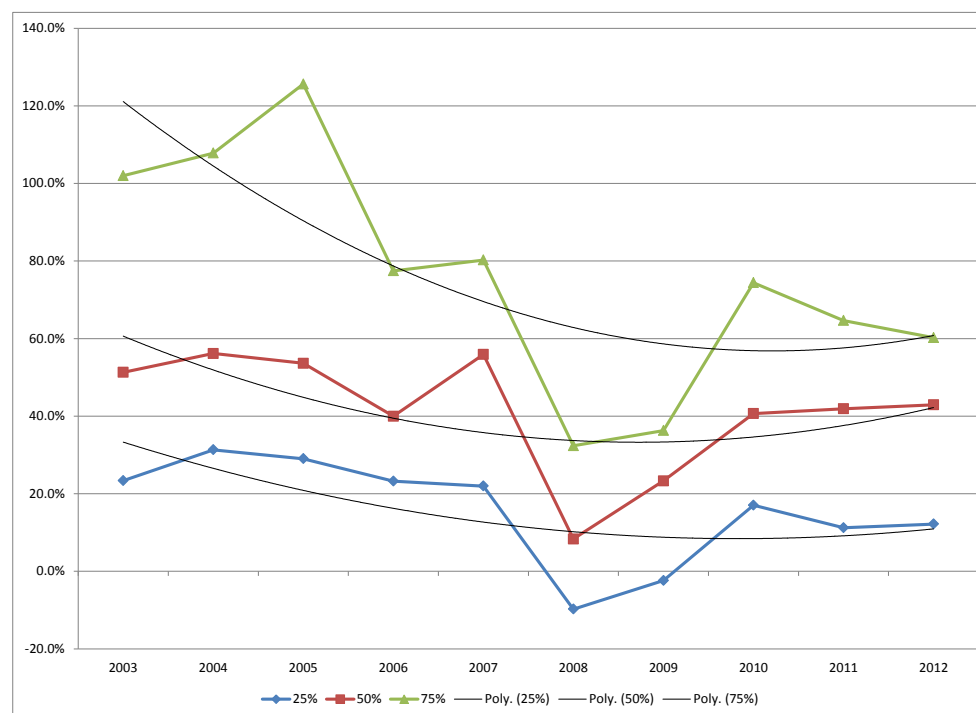
Return on Capital – Cost of Capital Spread

<u>R - C Spread</u>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 Yr	10 Yr
Aerospace	2.1%	-3.4%	-4.7%	-3.8%	-0.5%	-0.3%	2.7%	0.7%	0.3%	-1.0%	0.3%	-0.4%
Airlines	2.3%	-4.9%	-1.8%	1.9%	3.2%	1.0%	-1.3%	0.1%	6.0%	8.4%	1.0%	1.4%
Apparel	5.8%	4.2%	6.4%	6.4%	6.4%	5.3%	-2.3%	3.3%	2.2%	-1.4%	2.2%	4.8%
Automotive	3.2%	4.2%	4.7%	3.6%	3.7%	-0.1%	-6.2%	2.0%	5.0%	6.5%	2.0%	3.7%
Banking	6.2%	6.6%	8.5%	7.7%	8.6%	2.9%	2.7%	5.7%	6.3%	7.3%	5.7%	6.4%
Chemicals	-0.7%	0.6%	-2.7%	-3.7%	-0.7%	-2.9%	-3.3%	-4.7%	1.9%	1.6%	-2.9%	-1.7%
E-Commerce	4.0%	3.7%	2.4%	0.5%	-3.4%	-2.5%	-3.2%	-3.9%	-3.7%	-0.7%	-3.2%	-1.6%
Electric Utility	0.5%	1.1%	0.5%	0.4%	0.5%	0.3%	-0.2%	-0.5%	-0.9%	-0.6%	-0.5%	0.4%
Electronics	-13.0%	-7.1%	-0.4%	1.9%	2.2%	9.6%	10.4%	8.9%	11.9%	0.1%	9.6%	2.0%
Energy	-0.8%	0.1%	2.4%	-0.2%	0.2%	-0.2%	-5.4%	-3.7%	-1.9%	-2.1%	-2.1%	-0.5%
Engineering & Const	2.1%	2.1%	1.2%	0.8%	-0.3%	2.2%	-0.5%	-1.1%	-0.1%	0.1%	-0.1%	0.5%
Entertainment	-4.0%	-7.3%	-2.6%	-1.2%	-3.8%	-2.8%	-2.1%	-1.9%	-1.4%	0.1%	-1.9%	-2.3%
Financial Services	2.7%	4.1%	5.2%	4.2%	4.6%	5.0%	1.9%	0.9%	0.8%	1.5%	1.5%	3.4%
Food Processing	2.1%	3.0%	1.3%	-1.4%	-1.0%	-0.8%	-1.8%	-0.7%	0.1%	1.0%	-0.7%	-0.3%
Industrial Services	-3.7%	0.7%	3.6%	4.4%	2.7%	1.7%	-0.6%	1.3%	2.0%	2.6%	1.7%	1.8%
Information Services	-3.2%	-2.9%	-3.5%	-3.7%	-3.9%	-4.0%	-4.7%	-5.0%	-3.1%	-3.0%	-4.0%	-3.6%
Insurance	4.5%	4.4%	5.1%	4.7%	5.6%	1.8%	0.0%	0.5%	2.0%	1.5%	1.5%	3.2%
Maritime	-5.2%	-4.7%	3.1%	2.4%	4.0%	17.7%	15.1%	11.9%	20.5%	19.8%	17.7%	8.0%
Media	-3.2%	-1.7%	-1.7%	-1.1%	-1.1%	0.1%	0.6%	0.2%	1.7%	1.2%	0.6%	-0.5%
Medical Services	4.1%	1.5%	1.7%	2.8%	1.3%	1.2%	2.7%	3.5%	4.0%	-0.8%	2.7%	2.2%
Metals & Mining	-8.7%	-8.8%	-7.3%	-8.3%	-8.2%	-8.1%	-7.7%	-5.3%	-3.5%	-4.8%	-5.3%	-7.9%
Paper/Forest Prods	-8.4%	2.7%	-5.0%	-8.4%	-14.3%	-11.6%	-13.8%	0.3%	-6.1%	-3.1%	-6.1%	-7.3%
Pharma	-4.4%	1.0%	5.2%	6.3%	-1.2%	-2.5%	-0.2%	-5.8%	-3.6%	-2.4%	-2.5%	-1.8%
Railroad	-3.2%	-2.0%	-1.0%	-0.4%	-0.8%	-1.4%	-2.9%	-1.0%	-0.6%	1.2%	-1.0%	-1.0%
Real Estate	-0.9%	-2.3%	-2.0%	-3.3%	-3.7%	-3.7%	-3.5%	-1.3%	-1.9%	-1.7%	-1.9%	-2.2%
Retail	3.0%	2.8%	1.6%	1.8%	1.9%	0.4%	1.3%	0.3%	1.1%	0.0%	0.4%	1.4%
Software	0.2%	-1.9%	-2.1%	-1.3%	3.2%	1.9%	-1.3%	-0.9%	-0.8%	-0.6%	-0.8%	-0.9%
Telecom	4.0%	3.8%	3.1%	3.3%	3.4%	3.5%	3.3%	2.3%	2.8%	3.4%	3.3%	3.4%
Trucking	4.7%	6.5%	8.1%	0.7%	-3.1%	-2.1%	-1.9%	-1.4%	2.6%	3.4%	-1.4%	1.6%
25%	-3.5%	-2.6%	-2.0%	-1.4%	-2.1%	-2.5%	-3.3%	-1.6%	-1.6%	-1.2%	-1.6%	-2.1%
50%	0.5%	1.0%	1.3%	0.7%	0.2%	0.1%	-1.3%	0.1%	0.8%	0.1%	0.1%	0.3%
75%	3.6%	3.7%	4.1%	3.5%	3.3%	2.1%	1.6%	1.7%	2.7%	2.1%	2.1%	3.0%

- (R – C) Spread by industry group. Change in the spread has been most pronounced, generally, in interest rate sensitive industries. (The small sample size of some industry groups may produce skewed results)

Canadian Corporate Performance and Valuation Review

Market Value Premium / Capital



- The decline in the Market Value Premium, i.e. Enterprise Value of Total Capital minus Book Value of Total Capital, has stabilized over the past year following a long period of decline. This decline was economy wide
- Interestingly, the vast majority of Canadian public companies do trade above book value, i.e. even the 25th percentile company traded above book value for 8 out of 10 years during the period of analysis (the only period that it didn't trade above book value being 2008-09)
- A positive Market Value Premium implies that shareholders expect that a company will create positive value over time (maybe not today but sometime in the future). Declines in this ratio, however, indicate a less favourable view of the future

Canadian Corporate Performance and Valuation Review

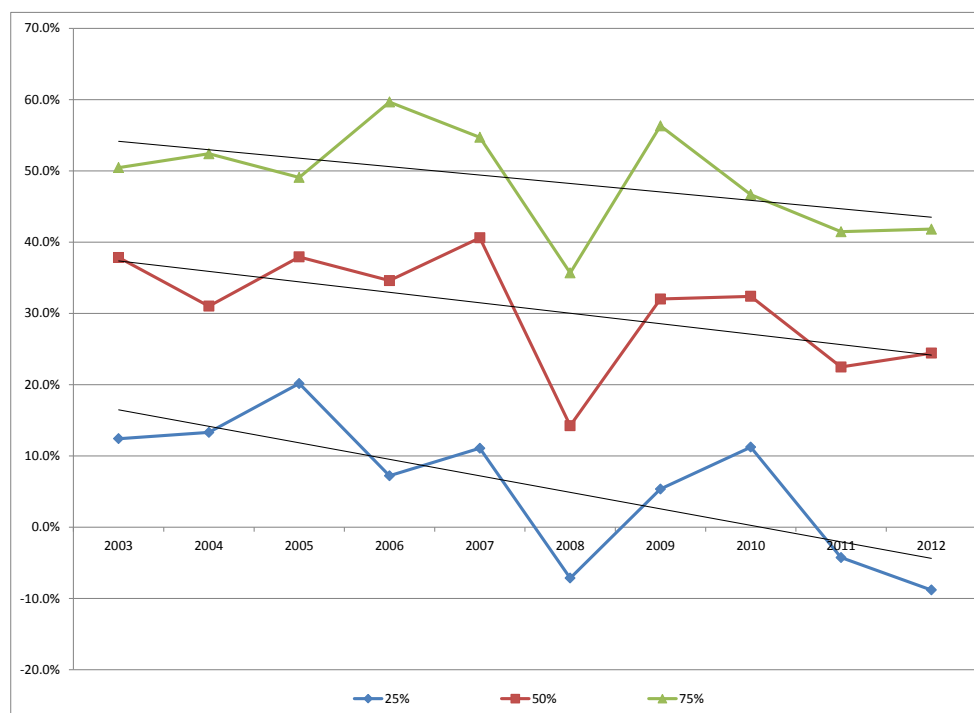
Market Value Premium / Capital

MVP / Capital	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 Yr	10 Yr
Aerospace	28.0%	29.9%	-0.4%	-0.2%	17.2%	28.6%	-1.0%	20.8%	-4.6%	-10.7%	-1.0%	8.5%
Airlines	130.9%	49.9%	40.5%	40.0%	69.4%	-17.8%	-13.6%	72.9%	14.1%	33.8%	14.1%	40.3%
Apparel	152.5%	112.7%	361.1%	367.9%	494.8%	180.1%	125.3%	182.9%	105.8%	131.6%	131.6%	166.3%
Automotive	41.5%	32.7%	7.2%	17.3%	31.1%	-48.8%	2.0%	48.7%	-4.1%	20.1%	2.0%	18.7%
Banking	108.6%	124.1%	125.4%	137.0%	146.3%	54.1%	206.5%	67.5%	74.7%	70.9%	70.9%	116.4%
Chemicals	51.3%	56.2%	32.5%	2.8%	4.5%	-12.4%	7.9%	75.9%	19.5%	43.4%	19.5%	26.0%
E-Commerce	66.3%	62.5%	39.2%	18.7%	14.9%	-34.7%	-21.4%	-13.4%	-22.0%	-16.6%	-21.4%	0.8%
Electric Utility	18.3%	20.7%	20.1%	27.8%	23.4%	8.3%	13.0%	23.2%	15.8%	15.6%	15.6%	19.2%
Electronics	8.7%	201.4%	234.8%	196.4%	352.2%	584.2%	103.8%	163.2%	95.1%	-51.1%	103.8%	179.8%
Energy	42.8%	65.8%	94.0%	69.4%	55.9%	4.7%	29.8%	56.0%	41.9%	15.4%	29.8%	49.4%
Engineering & Const	105.7%	104.0%	125.9%	121.9%	157.8%	45.0%	87.5%	81.4%	62.7%	55.5%	62.7%	95.8%
Entertainment	-4.5%	-3.4%	11.1%	33.8%	30.2%	11.2%	13.6%	31.2%	41.9%	59.2%	31.2%	21.9%
Financial Services	70.4%	132.4%	138.5%	38.2%	79.8%	44.0%	-17.3%	-6.2%	-29.7%	-21.7%	-17.3%	41.1%
Food Processing	45.1%	47.7%	33.1%	18.1%	20.6%	-7.1%	-3.8%	0.7%	-4.2%	3.3%	-3.8%	10.7%
Industrial Services	27.6%	77.2%	96.5%	63.2%	58.8%	6.9%	28.0%	70.8%	51.0%	61.3%	51.0%	60.0%
Information Services	74.6%	62.9%	59.5%	82.2%	53.2%	3.6%	12.1%	25.4%	6.4%	10.6%	10.6%	39.3%
Insurance	37.4%	68.8%	69.5%	70.4%	69.9%	16.0%	27.5%	32.9%	10.5%	7.8%	16.0%	35.1%
Maritime	25.1%	137.9%	53.6%	142.1%	201.2%	105.4%	192.6%	472.9%	587.6%	538.5%	472.9%	167.3%
Media	-7.8%	-0.5%	26.0%	34.3%	70.7%	21.3%	2.6%	15.1%	30.9%	18.5%	18.5%	19.9%
Medical Services	55.9%	55.8%	72.3%	68.0%	73.7%	23.8%	40.7%	101.2%	88.8%	38.6%	40.7%	61.9%
Metals & Mining	94.3%	93.2%	136.0%	152.0%	80.7%	-5.3%	57.4%	119.9%	86.1%	44.4%	57.4%	89.6%
Paper/Forest Prods	-10.2%	-15.8%	-20.2%	-20.2%	-20.6%	-24.2%	-10.3%	13.9%	15.9%	69.7%	13.9%	-13.1%
Pharma	103.6%	55.7%	136.5%	57.2%	-1.9%	-27.5%	-7.4%	6.6%	53.8%	57.4%	6.6%	54.8%
Railroad	15.1%	14.3%	27.5%	31.8%	23.9%	-1.8%	26.9%	40.7%	54.6%	78.1%	40.7%	27.2%
Real Estate	21.7%	25.6%	30.6%	39.1%	26.8%	1.6%	23.3%	12.6%	12.0%	13.8%	12.6%	22.5%
Retail	116.8%	111.6%	81.1%	72.7%	90.6%	36.1%	31.9%	51.6%	57.9%	66.7%	51.6%	69.7%
Software	310.5%	55.0%	44.0%	28.8%	47.4%	9.1%	28.0%	61.7%	66.5%	56.0%	56.0%	51.2%
Telecom	53.0%	48.7%	47.1%	48.2%	67.8%	20.3%	28.2%	19.0%	54.0%	58.9%	28.2%	48.5%
Trucking	100.3%	115.4%	261.4%	-0.8%	-0.3%	-19.7%	-6.9%	26.9%	36.1%	42.9%	26.9%	31.5%
25%	23.4%	31.3%	29.0%	23.2%	22.0%	-9.8%	-2.4%	17.0%	11.2%	12.2%	11.2%	19.5%
50%	51.3%	56.2%	53.6%	40.0%	55.9%	8.3%	23.3%	40.7%	41.9%	42.9%	40.7%	42.4%
75%	102.0%	107.8%	125.6%	77.5%	80.2%	32.4%	36.3%	74.4%	64.6%	60.2%	60.2%	75.9%

- Market Value Premium / Capital declined for virtually all industry groups over the study period
- The data does indicate, however that some recovery in this valuation characteristic has taken place over the past 2-3 years. A key issue for economic planners relates the basis of this recovery, i.e. is it related to a recovery in current performance or expectations of future growth, and the magnitude of the recovery

Canadian Corporate Performance and Valuation Review

Future Growth Value / Enterprise Value



- Future Growth Value represents the component of the total Market Value Premium that relates to investor expectations of future growth in Economic Profit over and above the current level of Economic Profit
- It would seem that the recent stabilization (and perhaps growth) of the Market Value Premium / Enterprise Value ratio would be more so related to an improvement in the current economic performance of Canadian companies, as opposed to their future growth prospects, which seem to be on a general decline, as illustrated above.
- Given that the increase in current profitability is in part driven by a reduction in the Cost of Capital over the past few years (see pages 5 and 9), this increase in Market Value Premiums could be somewhat tenuous to the extent that spreads begin to expand over the next few years. Given that the trend in embedded expectations of growth are downward, one would expect increases in enterprise values and stock prices to stall if not potentially decline.
- This observation has important ramifications for industrial policy surrounding innovation and investment if the Canadian economy is to move beyond its dependence on the export of commodity products and establish a broader foundation for industrial development and economic expansion

Canadian Corporate Performance and Valuation Review

Future Growth Value / Enterprise Value

FGV / EV	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 Yr	10 Yr
Aerospace	-12.1%	38.5%	60.0%	65.2%	47.5%	28.1%	-26.9%	9.0%	-9.5%	-2.6%	-2.6%	18.5%
Airlines	45.2%	81.7%	49.3%	8.5%	11.0%	-50.3%	1.3%	32.4%	-54.5%	-80.9%	-50.3%	9.8%
Apparel	38.7%	34.8%	65.5%	67.0%	73.7%	47.8%	65.3%	54.4%	41.5%	63.7%	54.4%	59.0%
Automotive	-11.1%	-6.3%	-11.3%	-1.4%	-16.4%	-58.4%	123.8%	-6.1%	-56.2%	-75.4%	-56.2%	-11.2%
Banking	21.5%	22.6%	24.6%	23.3%	23.7%	14.2%	56.3%	10.2%	2.4%	-17.6%	10.2%	22.0%
Chemicals	36.8%	24.6%	43.8%	62.5%	49.4%	21.1%	56.3%	53.9%	26.3%	33.9%	33.9%	40.3%
E-Commerce	12.6%	14.2%	8.0%	11.0%	28.7%	1.6%	20.2%	32.3%	22.5%	-26.4%	20.2%	13.4%
Electric Utility	12.3%	5.4%	7.5%	16.2%	12.5%	-0.4%	9.4%	30.3%	31.1%	43.4%	30.3%	12.4%
Electronics	147.5%	90.9%	67.0%	59.2%	70.9%	42.1%	30.5%	34.2%	-13.2%	-78.1%	30.5%	50.7%
Energy	38.0%	46.0%	40.8%	40.1%	46.2%	-8.7%	67.0%	58.3%	47.1%	43.0%	47.1%	44.5%
Engineering & Const	46.0%	44.1%	55.3%	47.8%	64.8%	13.4%	38.5%	40.6%	27.2%	24.4%	27.2%	42.3%
Entertainment	37.8%	74.3%	33.1%	34.6%	55.6%	39.8%	28.5%	36.6%	34.9%	31.6%	34.9%	35.8%
Financial Services	17.8%	31.0%	25.7%	-9.9%	5.7%	-24.6%	-98.5%	-68.6%	-128.2%	-3.2%	-68.6%	-6.6%
Food Processing	11.8%	15.0%	15.7%	31.3%	31.8%	25.4%	20.3%	12.0%	-1.9%	3.0%	12.0%	15.3%
Industrial Services	42.8%	12.4%	26.3%	5.9%	5.1%	-23.8%	32.0%	27.6%	9.2%	9.2%	9.2%	10.8%
Information Services	63.2%	58.8%	63.1%	67.5%	63.0%	38.2%	64.0%	67.4%	43.1%	46.0%	46.0%	63.0%
Insurance	1.9%	11.3%	3.3%	0.7%	3.9%	2.0%	34.6%	20.5%	-0.6%	0.7%	2.0%	2.6%
Maritime	71.4%	84.9%	12.4%	41.7%	49.9%	-70.6%	-7.1%	50.0%	-4.3%	31.1%	-4.3%	36.4%
Media	42.6%	34.7%	38.9%	35.5%	46.1%	14.5%	-19.9%	10.4%	-4.3%	-13.0%	-4.3%	24.6%
Medical Services	-8.0%	5.4%	33.9%	39.4%	44.3%	24.8%	35.5%	36.4%	9.5%	-4.0%	24.8%	29.4%
Metals & Mining	89.8%	86.7%	87.3%	84.2%	81.3%	63.9%	75.2%	75.2%	47.1%	58.4%	63.9%	78.2%
Paper/Forest Prods	100.6%	-51.0%	47.8%	98.0%	190.0%	155.5%	195.7%	9.3%	79.6%	65.0%	79.6%	88.8%
Pharma	79.4%	28.2%	30.6%	-0.6%	11.1%	-5.6%	-5.3%	48.6%	66.1%	59.2%	48.6%	29.4%
Railroad	42.1%	30.6%	29.2%	27.6%	25.8%	13.6%	49.3%	37.4%	41.5%	36.0%	37.4%	33.3%
Real Estate	25.1%	38.9%	45.7%	60.1%	53.8%	44.1%	55.2%	29.4%	31.5%	29.2%	31.5%	41.5%
Retail	36.5%	37.0%	37.9%	47.3%	40.6%	33.1%	26.8%	32.0%	32.5%	35.4%	32.5%	36.0%
Software	54.9%	66.6%	45.3%	25.3%	-0.6%	18.9%	49.3%	44.8%	59.8%	40.6%	44.8%	45.0%
Telecom	1.4%	2.3%	-7.4%	-1.0%	-2.5%	-29.9%	-23.3%	-17.6%	-6.7%	-16.2%	-17.6%	-7.0%
Trucking	25.0%	21.3%	48.8%	-5.8%	37.5%	8.4%	19.1%	38.5%	0.4%	-4.6%	8.4%	20.2%
25%	12.4%	13.3%	20.2%	7.2%	11.1%	-7.1%	5.4%	11.2%	-4.3%	-8.8%	-4.3%	9.1%
50%	37.8%	31.0%	37.9%	34.6%	40.6%	14.2%	32.0%	32.4%	22.5%	24.4%	24.4%	32.2%
75%	50.5%	52.4%	49.1%	59.7%	54.7%	35.7%	56.3%	46.7%	41.5%	41.8%	41.8%	49.8%

- Future Growth Value / Enterprise Value by Canadian industry group

Canadian Corporate Performance and Valuation Review

Summary

	Return on Capital, R		(R - C) Spread		Debt / Capital		MVP / Capital		FGV / EV		FGV / Capital		(FGV / Capital) / R	
	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg	5 Yr Avg	10 Yr Avg
Aerospace	7.2%	7.2%	0.3%	-0.4%	27.6%	28.7%	-1.0%	8.5%	-2.6%	18.5%	-3.3%	24.2%	-0.45	3.36
Airlines	8.0%	8.0%	1.0%	1.4%	34.3%	48.1%	14.1%	40.3%	-50.3%	9.8%	-34.4%	15.3%	-4.28	1.92
Apparel	11.7%	15.0%	2.2%	4.8%	5.5%	8.7%	131.6%	166.3%	54.4%	59.0%	147.1%	147.3%	12.57	9.80
Automotive	7.0%	9.2%	2.0%	3.7%	26.3%	26.4%	2.0%	18.7%	-56.2%	-11.2%	-47.7%	-20.3%	-6.77	-2.22
Banking	13.9%	14.7%	5.7%	6.4%	0.0%	0.0%	70.9%	116.4%	10.2%	22.0%	13.0%	47.4%	0.93	3.23
Chemicals	6.1%	7.1%	-2.9%	-1.7%	30.6%	30.4%	19.5%	26.0%	33.9%	40.3%	33.4%	52.5%	5.45	7.35
E-Commerce	4.9%	6.4%	-3.2%	-1.6%	23.8%	26.5%	-21.4%	0.8%	20.2%	13.4%	17.3%	19.1%	3.54	3.01
Electric Utility	4.3%	5.4%	-0.5%	0.4%	50.0%	54.3%	15.6%	19.2%	30.3%	12.4%	37.3%	13.4%	8.57	2.47
Electronics	18.6%	11.5%	9.6%	2.0%	0.6%	7.5%	103.8%	179.8%	30.5%	50.7%	27.2%	173.7%	1.47	15.09
Energy	5.1%	8.1%	-2.1%	-0.5%	23.3%	22.8%	29.8%	49.4%	47.1%	44.5%	46.6%	63.8%	9.12	7.83
Engineering & Const	8.8%	9.8%	-0.1%	0.5%	39.2%	40.3%	62.7%	95.8%	27.2%	42.3%	61.2%	87.1%	6.96	8.87
Entertainment	7.3%	7.2%	-1.9%	-2.3%	34.1%	33.4%	31.2%	21.9%	34.9%	35.8%	52.1%	49.2%	7.10	6.82
Financial Services	7.3%	10.2%	1.5%	3.4%	17.2%	16.4%	-17.3%	41.1%	-68.6%	-6.6%	-35.4%	-8.1%	-4.87	-0.80
Food Processing	6.2%	6.7%	-0.7%	-0.3%	32.4%	35.9%	-3.8%	10.7%	12.0%	15.3%	11.9%	19.1%	1.91	2.86
Industrial Services	8.3%	8.6%	1.7%	1.8%	46.5%	40.7%	60.0%	51.0%	9.2%	10.8%	13.2%	17.0%	1.59	1.98
Information Services	4.5%	5.1%	-4.0%	-3.6%	24.8%	25.2%	10.6%	39.3%	46.0%	63.0%	50.9%	90.2%	11.29	17.71
Insurance	8.0%	11.1%	1.5%	3.2%	25.0%	23.5%	16.0%	35.1%	2.0%	2.6%	2.4%	4.4%	0.30	0.40
Maritime	23.8%	15.4%	17.7%	8.0%	0.0%	0.0%	472.9%	167.3%	-4.3%	36.4%	-20.9%	95.2%	-0.87	6.20
Media	8.2%	7.5%	0.6%	-0.5%	40.8%	43.7%	18.5%	19.9%	-4.3%	24.6%	-5.8%	37.5%	-0.71	4.97
Medical Services	8.2%	8.4%	2.7%	2.2%	35.2%	30.4%	40.7%	61.9%	24.8%	29.4%	45.4%	52.6%	5.50	6.27
Metals & Mining	4.6%	3.6%	-5.3%	-7.9%	7.9%	8.6%	57.4%	89.6%	63.9%	78.2%	78.5%	154.3%	17.00	43.46
Paper/Forest Prods	2.4%	1.4%	-6.1%	-7.3%	16.8%	22.4%	13.9%	-13.1%	79.6%	88.8%	110.3%	91.3%	46.65	64.12
Pharma	3.5%	8.1%	-2.5%	-1.8%	31.4%	24.3%	6.6%	54.8%	48.6%	29.4%	51.8%	47.9%	15.00	5.89
Railroad	8.0%	8.0%	-1.0%	-1.0%	32.2%	31.5%	40.7%	27.2%	37.4%	33.3%	61.8%	44.1%	7.75	5.52
Real Estate	5.7%	5.6%	-1.9%	-2.2%	52.7%	58.8%	12.6%	22.5%	31.5%	41.5%	37.2%	48.0%	6.52	8.61
Retail	10.1%	11.1%	0.4%	1.4%	27.1%	28.7%	51.6%	69.7%	32.5%	36.0%	47.7%	59.6%	4.73	5.35
Software	7.3%	7.4%	-0.8%	-0.9%	19.9%	13.5%	56.0%	51.2%	44.8%	45.0%	64.0%	64.6%	8.73	8.78
Telecom	8.6%	9.4%	3.3%	3.4%	38.8%	39.6%	28.2%	48.5%	-17.6%	-7.0%	-25.4%	-11.1%	-2.95	-1.18
Trucking	5.9%	9.5%	-1.4%	1.6%	27.5%	24.7%	26.9%	31.5%	8.4%	20.2%	6.8%	27.6%	1.15	2.89
Mean	8.1%	8.5%	0.5%	0.4%	26.6%	27.4%	46.3%	53.8%	18.1%	30.3%	29.1%	52.0%	5.62	8.64
Median	7.3%	8.1%	-0.1%	0.4%	27.5%	26.5%	26.9%	40.3%	27.2%	29.4%	33.4%	47.9%	4.73	5.52

Note: 10 Year Average based upon 2003 - 2012; 5 Year Average based up 2008 - 2012

- Economic performance and valuation summary for all Canadian industry groups. The data does illustrate that in general economic performance has dropped for the Canadian economy over the past five year, i.e. 5 year trailing average(s) are below 10 year trailing average(s) in most cases
- Coincident with this decline in economic performance is an observed decline in investor expectations of future growth in economic profit. This is troubling, as current performance and expectations of growth in future performance are normally countercyclical. Here economic performance is declining, and expectations of future growth in economic performance are also declining, i.e. comparison of 5 and 10 year trailing average of (R – C) Spread, and Future Growth Value (FGV) / Enterprise Value (EV)

Canadian Corporate Performance and Valuation Ranking

Top 50 Canadian Public Companies

Company	Industry	MVP Rank		MVP / Capital Rank		EP / Capital Rank		EP / Revenue Rank	
		2008	2012	2008	2012	2008	2012	2008	2012
ROYAL BANK OF CANADA	Banking	2	1	24	47	36	21	24	9
TORONTO-DOMINION BANK	Banking	7	2	45	70	63	38	42	23
BANK OF NOVA SCOTIA	Banking	4	3	26	67	43	27	25	11
ENBRIDGE INC	Electric Utility	9	4	51	63	85	127	83	124
POTASH CORP OF SASKATCHEWAN	Metals & Mining	5	5	14	22	4	33	5	22
BCE INC	Telecom	14	6	80	64	50	31	43	26
CANADIAN NATL RAILWAY CO	Railroad	28	7	94	44	98	53	96	31
ROGERS COMMUNICATIONS INC-B	Media	6	8	20	34	30	23	33	24
IMPERIAL OIL LTD	Energy	3	9	10	61	5	18	30	39
TRANSCANADA CORP	Energy	12	10	87	113	101	147	97	162
CAN IMPERIAL BK OF COMMERCE	Banking	10	11	52	59	217	19	206	14
BANK OF MONTREAL	Banking	29	12	78	105	91	26	85	17
VALEANT PHARMACEUTICALS INTE	Pharma	188	13	173	80	139	152	142	161
SILVER WHEATON CORP	Metals & Mining	54	14	43	4	161	47	188	16
CENOVUS ENERGY INC	Energy		15		102		78		74
TELUS CORP	Telecom	48	16	114	95	48	57	40	45
CANADIAN PACIFIC RAILWAY LTD	Railroad	208	17	160	73	143	114	144	125
GREAT-WEST LIFECO INC	Insurance	18	18	73	109	76	64	81	71
SAPUTO INC	Food Processing	27	19	13	13	27	11	57	46
TIM HORTONS INC	Retail	22	20	5	3	19	7	36	27
NATIONAL BANK OF CANADA	Banking	35	21	64	66	84	13	65	7
AGRIUM INC	Chemicals	178	22	139	99	11	32	26	54
IGM FINANCIAL INC	Banking	26	23	29	32	37	30	21	19
ALIMENTATION COUCHE-TARD -B	Retail	49	24	55	20	105	39	101	87
FRANCO-NEVADA CORP	Metals & Mining	112	25	111	19	192	185	202	204
CI FINANCIAL CORP	Banking	39	26	32	9	38	15	27	15
FIRST QUANTUM MINERALS LTD	Metals & Mining	199	27	183	62	33	67	29	52
CATAMARAN CORP	Medical Services	96	28	28	55	89	130	95	101
INTER PIPELINE FUND LP-A	Energy	138	29	131	35	129	84	137	61
CRESCENT POINT ENERGY CORP	Energy	58	30	74	107	116	203	124	200
AGNICO EAGLE MINES LTD	Metals & Mining	15	31	15	68	193	158	199	154
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CANADIAN UTILITIES LTD-A	Electric Utility	37	33	65	115	55	69	35	36
SHOPPERS DRUG MART CORP	Retail	13	34	21	78	58	82	77	91
BAYTEX ENERGY CORP	Energy	99	35	90	21	31	135	28	133
CGI GROUP INC - CLASS A	Software	97	36	107	101	68	89	69	90
ARC RESOURCES LTD	Metals & Mining	40	37	49	77	61	202	39	196
PEMBINA PIPELINE CORP	Energy	52	38	48	104	110	145	116	131
PACIFIC RUBIALES ENERGY CORP	Energy	207	39	210	85	137	24	141	25
THOMSON REUTERS CORP	Information Services	43	40	123	156	153	164	150	149
VERMILION ENERGY INC	Metals & Mining	83	41	68	37	35	50	23	28
SNC-LAVALIN GROUP INC	Engineering & Const	23	42	19	94	47	118	71	106
LOBLAW COMPANIES LTD	Retail	36	43	83	137	138	142	112	110
BELL ALIANT INC	Telecom		44		45		75		20
METRO INC	Retail	46	45	59	65	99	55	99	78
TRILOGY ENERGY CORP	Energy	136	46	134	11	109	198	114	182
YAMANA GOLD INC	Metals & Mining	210	47	177	129	185	173	200	178
RIOCAN REAL ESTATE INVST TR	Real Estate	45	48	75	132	131	101	165	138
SHAW COMMUNICATIONS INC-B	Media	25	49	41	134	96	76	93	64
TOURMALINE OIL CORP	Energy		50		57		206		215

- Canadian companies ranked by their level of absolute MVP. Clearly larger companies will rank higher under this approach
- MVP / Capital ranks companies for the efficiency of creating MVP, i.e. per dollar of Capital employed
- EP / Capital and EP / Revenue rank companies on their current level of performance, i.e. Economic Profit
- Full ranking is listed in Appendix A

-
- **Introduction to Value Base Management and Economic Profit**

Pitfalls of Conventional Management Systems

- **Complexity and Fragmentation** – too many metrics and inconsistent practices; poor integration and weak performance reporting and analysis
- **Imbalance** - excessive focus on Operating Profit; insufficient focus on the cost of employed Capital
- **Excessive Data Production / Insufficient Data Analysis** – elevates the role of control and compliance and diminishes the effectiveness of strategic finance and performance management
- **Superficial Picture of Performance** - periodic performance analysis is limited; little if any review of the economic performance of lower level business units / product lines / customers
- **Excessive focus on budgeting** – budgeting subjugates the role and importance of strategic and financial planning
- **Heavy screening / weak accountability** - Over reliance on capital budgeting procedures to direct capital employment and management, ex ante; no ex-post accountability for earning the Cost of Capital
- **Weak Linkage to Management Incentive Compensation** – Corporate performance and governance is weaker in situations where management incentive compensation lacks objectivity, transparency and a sound economic basis. Weak implementation simply compounds the problem

Value Based Operations Management

The Crux of the Problem - Simple Business Example

- A business opportunity has arisen to produce a custom product for a client company. This annual contract would:
 - ✓ **Generate \$1,000,000 of incremental Revenue**
 - ✓ **Produce Gross Profit of \$350,000, i.e. Gross Profit Margin of 35%**
 - ✓ **Produce \$200,000 of Operating Expenses**
- Given that our performance is evaluated on the basis of generating Operating Profit After Tax, should we pursue this opportunity? Furthermore, if our annual bonus were based upon meeting an budgeted target for Operating Profit After Tax, would we pursue this opportunity?

Revenue	\$1,000,000
- <u>Cost of Goods Sold</u>	<u>650,000</u>
= Gross Profit	350,000
- <u>Operating Expenses</u>	<u>200,000</u>
= Operating Profit Before Taxes	150,000
- Taxes @ 25%	37,500
= Operating Profit After Taxes	\$112,500

- ***Conventional analysis indicates that the sale is profitable, but does it actually create value for the company?***

Value Based Operations Management

The Crux of the Problem - Simple Business Example (cont'd)

- In addition, we expect that the sale will generate incremental Net Working Capital of \$350,000, and that dedicated Plant and Equipment valued at \$1,300,000 will be required
- *At a Cost of Capital of 10%, does this business opportunity create value for our company? Should we pursue this business opportunity in it's current form?*

Operating Profit After Taxes (Accounting Profit) [A]	\$112,500
Net Working Capital	350,000
+ <u>Plant & Equipment</u>	<u>1,300,000</u>
= Investment Capital	1,650,000
x <u>Cost of Capital</u>	<u>10%</u>
= Capital Charge [B]	165,000
Economic Profit [A - B]	(\$52,500)

- No! In spite of this opportunity promising incremental Operating Profit After Tax (and potentially generating a bonus), it generates negative Economic Profit and therefore destroys value.
- Conventional financial management and incentive compensation systems, as illustrated, may in fact drive managerial behaviours that result in value destruction

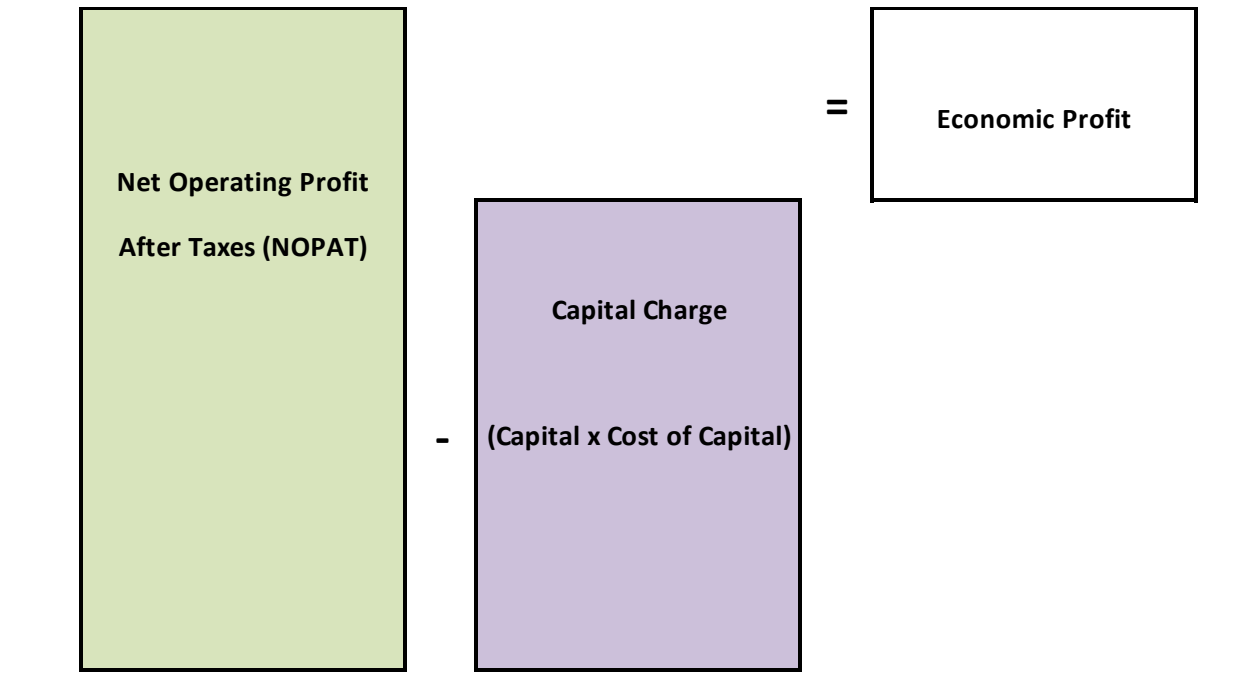
Canadian Economic Performance and Valuation Ranking

Key Concepts

- **Economic Profit** is as periodic measurement of performance that corrects for key deficiencies in the accounting measurement of profitability, Net Income. Generally stated, these corrections being:
 - Accounting for the full cost of Capital Economic Profit systematically captures the full cost of capital, both debt and equity, in the period performance measurement. The accounting measurement of profitability, Net Income or period Earnings, only recognizes the cost of debt financing, i.e. interest expense, and therefore is insufficient in its recognition of the total cost of financing and investment.
 - True separation of operating and financing issues In measuring Net Income, general accepted accounting principles force what are clearly investment costs through the income statement as period costs, and thereby distort the period measurement of profitability. An example of this treatment would be the expensing of a restructuring charge that would potentially have a multi-period effect. Clearly the restructuring charge should be viewed as an investment (and thereby capitalized and amortized over an expected economic life) as opposed to be pushed through as a current period cost. Asset writedowns / writeoffs should likewise be capitalized and written off over the remaining economic life of the asset to more accurately reflect economic performance, over time, i.e. correct for the accounting induced dry hole problem of measuring performance of extractive industries.
 - Relationship to Free Cash Flow Economic Profit is effectively normalized Free Cash Flow. Free Cash Flow, while an excellent representation of Economic results over time, may not provide a good representation of period to period performance measurement because of how investment cost is recognized in the measurement. Within Free Cash Flow, the cost of an investment is fully recognized when the investment is made (it is a cash flow measurement after all). An Economic Profit measurement recognizes the full cost of the investment (see above Accounting for the Full Cost of Capital), but spreads the investment cost over the life of the investment, thereby converting the measurement from a cash flow to a profitability basis. Importantly, the Net Present Value of Free Cash Flow equals the Net Present Value of Economic Profit. The financial advantage of Economic Profit is in its ability to operate equally effectively as both an operational, i.e. performance measurement, and strategic, i.e. investment analysis, financial tool, and thereby simplify yet strengthen financial management.

Economic Profit

The Performance Measurement



- Economic Profit is a period performance measurement of the residual profitability available after all costs of a business have been covered, specifically the all operational and capital investment related costs
- Economic Profit is effectively normalized Free Cash Flow, where the one-time (cash based) investment costs of a Free Cash Flow model are converted into a series of periodic Capital Charges
- ***Significantly, the Net Present Value of Economic Profit will yield the same valuation as the Net Present Value of Free Cash Flow. Economic Profit, however, has the joint benefit of being both a performance measurement and valuation tool***

Economic Profit

Calculation Definition

Operating Approach

Net Operating Profit After Tax (NOPAT) [A]	150
Capital	1,000
x <u>Cost of Capital, C</u>	<u>10%</u>
= Capital Charge [B]	100

Economic Profit [A - B]	\$50
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Financing Approach

Net Operating Profit After Taxes (NOPAT)	150
÷ <u>Capital</u>	<u>1,000</u>
= Return on Capital, R	15%
- <u>Cost of Capital, C</u>	<u>10%</u>
= (R - C) Spread	5%
x Capital	1,000

Economic Profit	\$50
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- Economic Profit is a measurement of the true residual profit or value creation
- Economic Profit measures true profit as it reflects all sources of Revenue and all sources of cost incurred by a business, i.e. both the full operating and capital cost structures
- Economic Profit can be readily computed from an Operating or Financing Approach with the same end result
- While positive Economic Profit is the goal, the objective, period to period, should be to focus on the continuous improvement in Economic Profit, regardless of whether the absolute level is positive or negative

Economic Profit

Relationship to Free Cash Flow - Equivalent Approaches

Free Cash Flow Model

Revenue
- <u>Operating Expenses</u>
= Net Operating Profit Before Taxes
- Taxes on Operating Profit
= Net Operating Profit After Taxes (NOPAT)
- Net Investment (Change in Capital)
= Free Cash Flow

Economic Profit Model

Revenue
- <u>Operating Expenses</u>
= Net Operating Profit Before Taxes
- Taxes on Operating Profit
= Net Operating Profit After Taxes (NOPAT)
- Capital Charge (Capital x Cost of Capital)
= Economic Profit

- **Cash is King**, as the old business saying goes. Ultimately net cash inflow, i.e. cash inflow in minus cash outflow, determines value. This is the basis of the Free Cash Flow model – the simple reflection of a cash box of a business
- While Cash flow is a sound basis for valuation, it should not be used as a measurement of performance, as cash flow can increase or decrease for a variety of non-performance related issues. Free Cash flow should not be used as the basis of performance management system
- Economic Profit is an excellent basis for a financial management system given the equivalence between Free Cash Flow and Economic Profit over time, and the fact that Economic Profit is a period measurement of performance, i.e. Total Revenue minus Total Cost of the period

Net Present Value of Free Cash Flow = Net Present Value of Economic Profit

Economic Profit

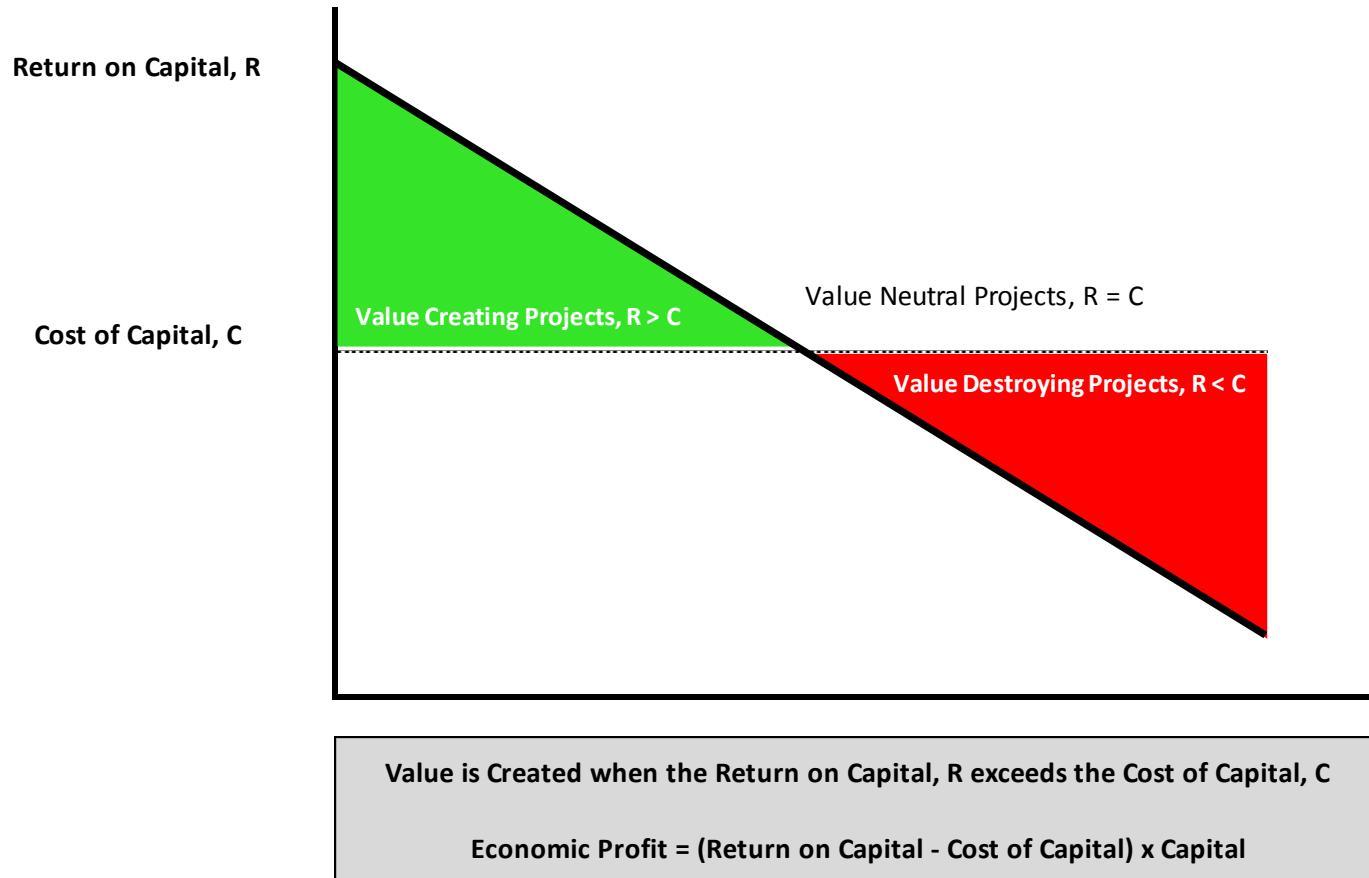
Components of the Calculation - Detail

<i>NOPAT Calculation</i>		<i>Capital and Capital Charge Calculation</i>		<i>Economic Profit Calculation</i>	
Revenue	800	Current Assets	250	NOPAT	150
- <u>Cost of Goods Sold</u>	<u>500</u>	- <u>Non-Interest Bearing Current Liabilities</u>	<u>150</u>	- <u>Capital Charge</u>	<u>100</u>
= Gross Profit	300	= Net Working Capital [A]	100	= Economic Profit	\$50
- <u>Selling, General & Administrative Expenses</u>	<u>100</u>	+ Property, Plant & Equipment	500		
= Net Operating Profit Before Tax	200	+ Long-term Investments	200		
		+ <u>Intangible Assets</u>	<u>200</u>		
- Economic Taxes	50	= Long-term Assets [B]	900		
= Net Operating Profit After Tax	\$150	Capital [A + B]	\$1,000		
		x <u>Cost of Capital</u>	<u>10%</u>		
		= Capital Charge	\$100		

- Economic Profit is composed of the following components:
 - ✓ **Net Operating Profit After Tax** – after-tax measurement of operating Revenue minus total operating expenses (definition of operating is critical, here)
 - ✓ **Capital** – can be viewed equivalently as the sources of Capital that finance a business i.e. Debt and Equity, or the uses of Capital that drive a business, i.e. Net Working Capital, Property, Plant & Equipment and Other Long-term Assets
 - ✓ **Cost of Capital** – cost factor reflecting the cost of financing the company’s invested Capital, equal to the weighted average cost of debt and equity capital

Value Based Management

Value Creation is the Goal, Economic Profit is the Tool



- *Using Economic Profit as the basis of strategic, financial and operations management will ensure that the goal of long-term shareholder value creation is implemented*

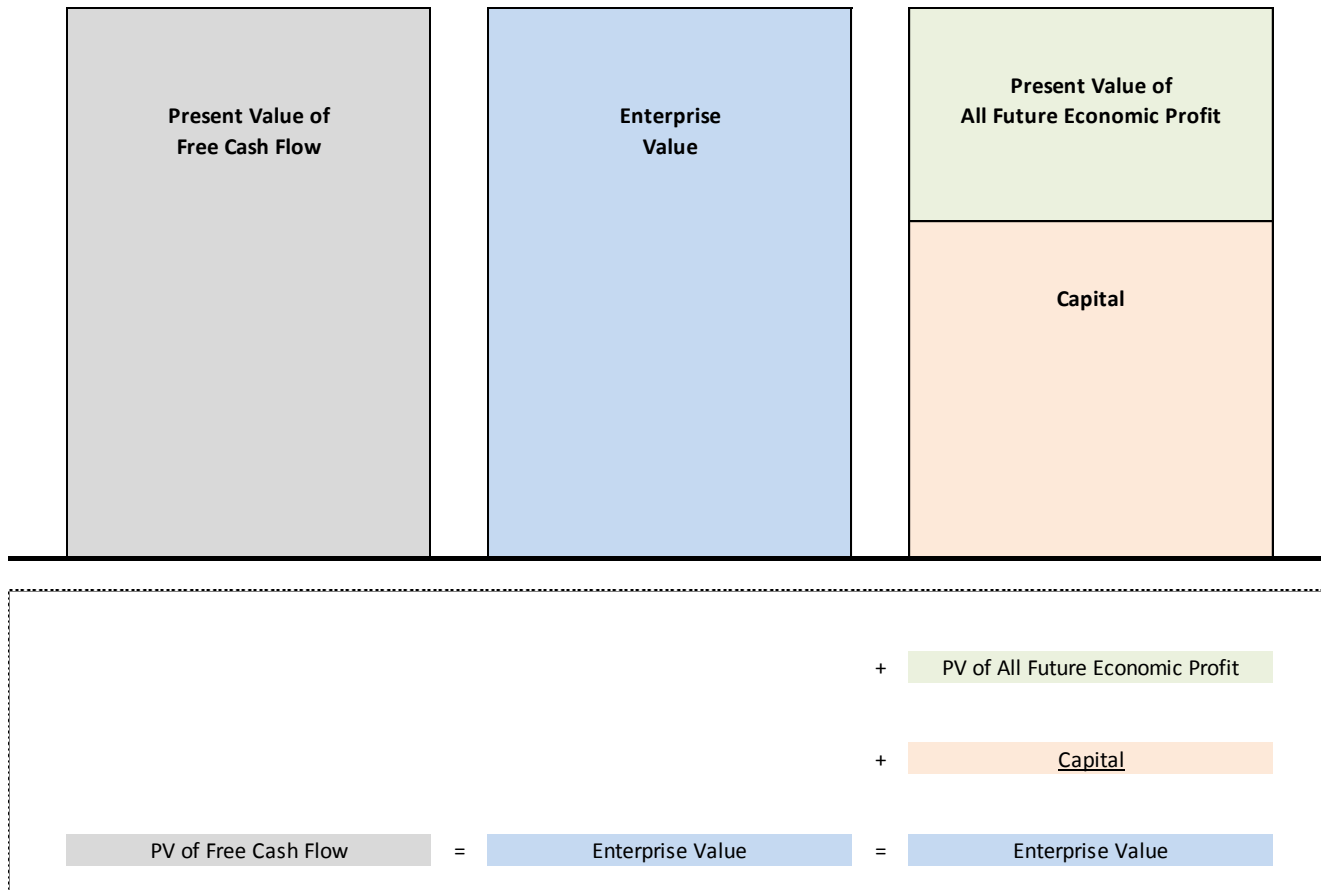
Canadian Economic Performance and Valuation Ranking

Key Concepts (cont'd.)

- **Enterprise Value.** From a financing view, Enterprise Value is equal to the market value (at a reference time) of the debt financing and other non interest bearing long-term liabilities plus the equity financing of a business, i.e. total Capital base. In most (practical) cases, the market value of the debt is assumed equal to the book value of debt, and therefore, again for practical purposes, Enterprise Value is assumed equal to the book value of debt and non-interest long-term liabilities plus the market value of equity, i.e. share price time shares outstanding. Enterprise Value can be decomposed to in important component pieces
- **Market Value Premium (MVP)** The Market Value Premium (Discount) is computed by subtracting the economic book value of Capital (debt and equity capita) from the Enterprise Value, i.e. market value of debt and equity. The MVP, therefore is a valuation premium or discount based upon the referenced trading value of the company and the referenced economic book value of investment (drawn from the company's balance sheet information). Therefore, the MVP can be viewed, from a finance standpoint, as market's collective view of the Net Present Value of expected future Free Cash Flow or, equivalently, Economic Profit
- **Future Growth Value (FGV)** Market Value Premium (MVP) is a powerful and useful valuation concept, as the MVP can be further disaggregated into components that represent the capitalization of current economic performance, and the present value of expected growth in economic profitability over and above todays level of economic performance. This embedded growth component, known as the Future Growth Value (FGV), is the markets view of expected future growth in economic profitability, expressed in present value terms. Comparing the market's view of FGV against an internal view of FGV per the company's strategy (or equivalently an investment analyst's view of FGV per their projection model), will establish a view towards whether the company is over or under valued in the market place, and therefore a worthwhile investment. For managerial purposes, the FGV can be converted into an annual equivalent Expected Improvement in Economic Profit that forms an objective, market based (shareholder aligned) view expected future growth independent of what a potentially biased / flawed internal budget based target setting system may be indicating.

Enterprise Value Analysis

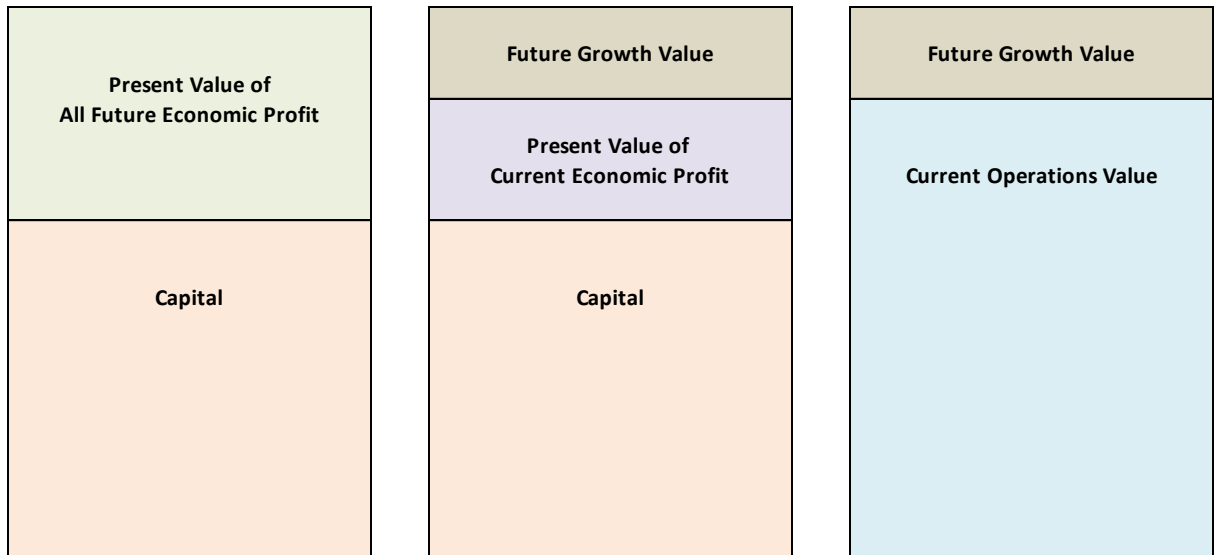
General Approach



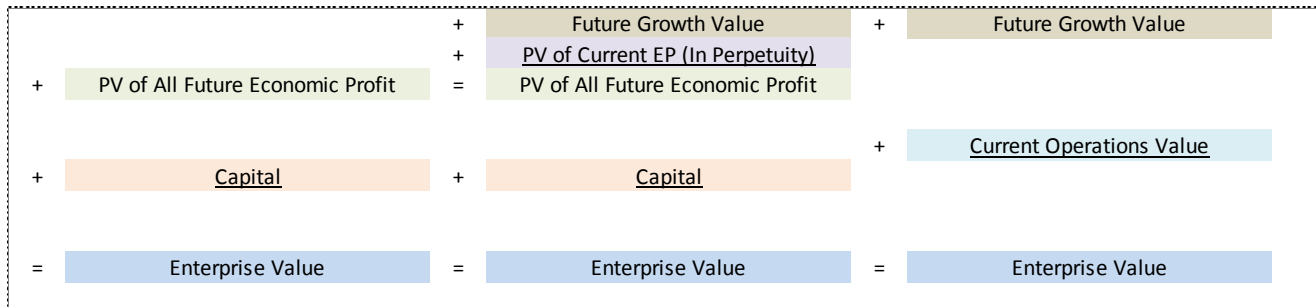
- Two equivalent views of Enterprise Value: 1.) Cash Flow Model, 2.) Economic Profit Model

Valuation and Expectations Analysis

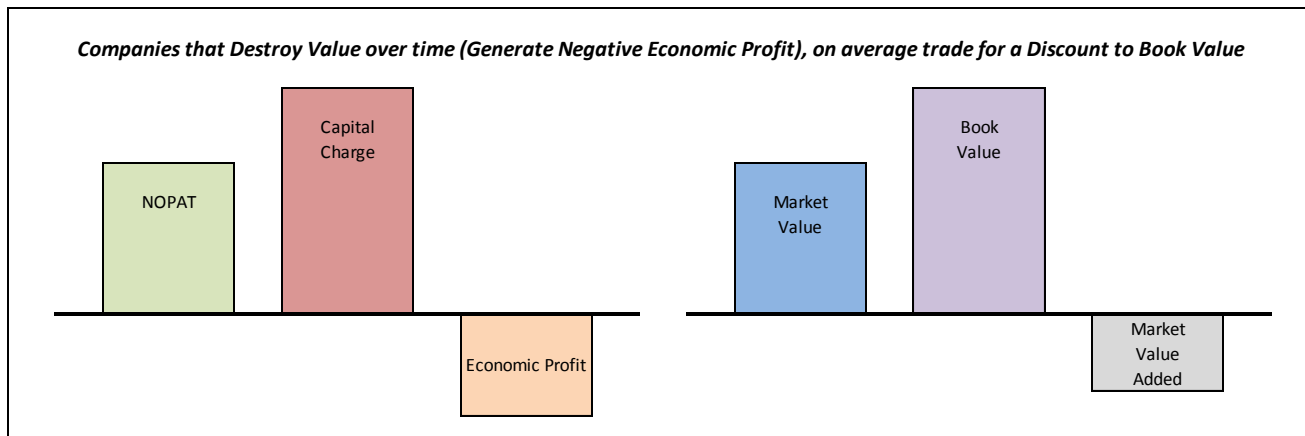
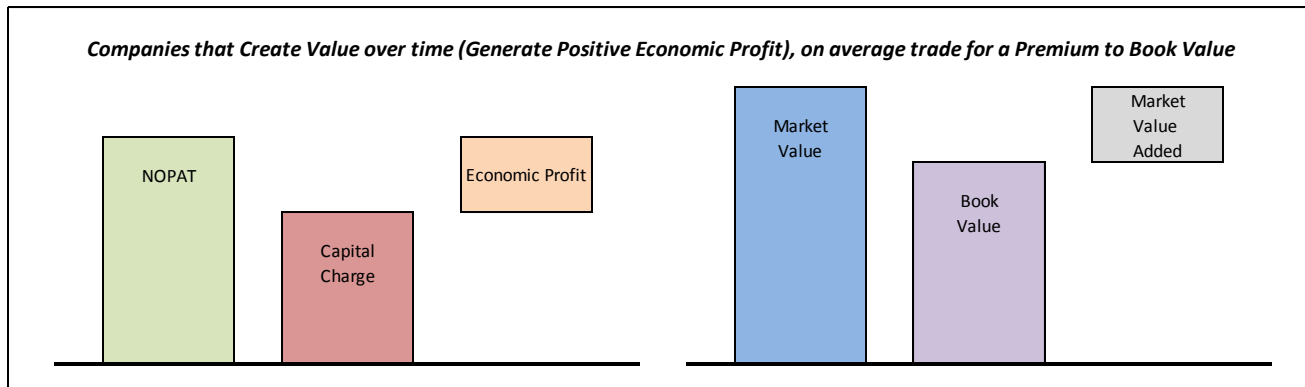
Component Approach



- Enterprise Value is best understood by using a components approach, where the components of Enterprise value are:
 - Employed Capital,
 - Current stream, i.e. perpetuity, of Economic Profitability expressed in Present Value terms, and
 - Embedded and expected Future Growth in Economic Profit, implicit to an Enterprise Value estimate, expressed in present value terms

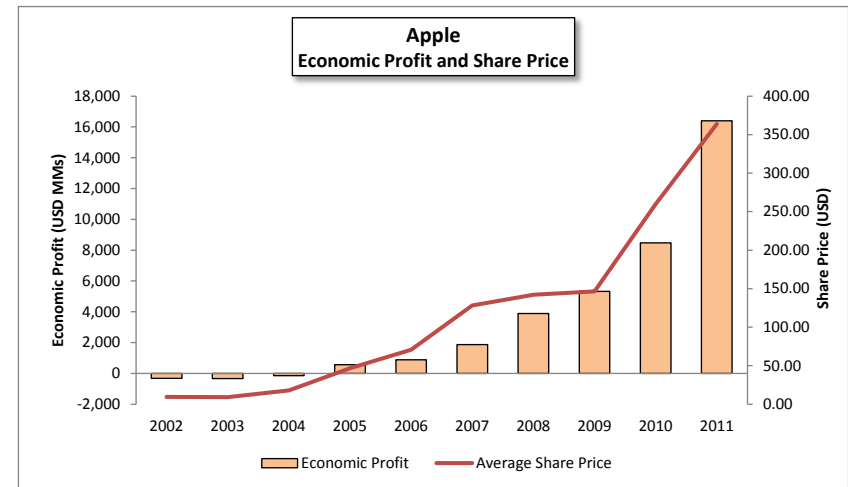
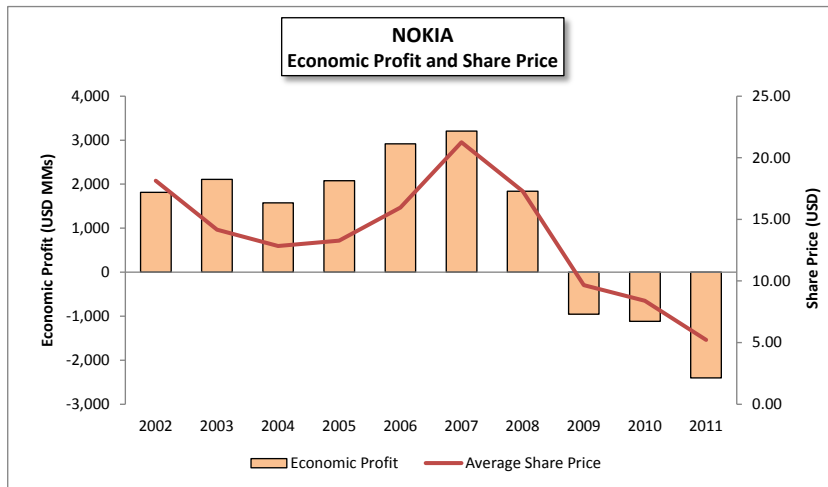


Economic Profit and Enterprise Value



- Importantly, Enterprise Value and Share Price grow when businesses improve their Economic Profitability, regardless of the starting point
- It is the continuous improvement in Economic Profit that matters most

Economic Profit Drives Enterprise Value and Share Price



- Economic Profit has driven Enterprise Value and Share Price at both NOKIA and Apple, albeit with quite different results
- *Focusing the management on the improvement in Economic Profit will ensure that the company is being managed to ultimately drive value creation and Enterprise Value, all the while running a responsible, ethical and high performing business – this is the objective of Value Based Management*

Benefits of Economic Profit and VBM at GraceKennedy

- ***Streamlined financial management focused on value creation*** Economic Profit would represent an important and powerful advancement in financial management at GraceKennedy
- ***Integration of Performance Management with Strategic Finance*** as Economic Profit is effectively normalized Free Cash Flow, it integrates all strategic and financial management processes around the concept of value creation
- ***Integrative measurement and management of growth, profitability and capital efficiency*** through the introduction of an Economic Profit based performance measurement model
- ***Improved Capital management*** and ex-post accountability for generating returns that exceed the cost of capital through the systematic introduction of a charge for invested Capital
- ***Better portfolio review and performance*** as Economic Profit based performance measurement and management is introduced from the consolidated company to product / customer level
- ***Enhanced business literacy and managerial capability*** through the introduction of Economic Profit based measurement, management, decision tools and training
- ***Better alignment*** of the goals, objectives and rewards of those who manage the business with those who own the business
- ***Greater Enterprise Value and Share Price*** as the delivery of value (Economic Profit) builds into shareholder wealth (Enterprise Value and Share Price) over time

-
- **Arche Value Management**

Arche Value Management

Focused on Performance Improvement and Value Creation

- The mission of Arche Value Management (AVM) is to support client companies in their drive to improve performance and valuation through the effective implementation of advanced, value focused strategic, financial management and governance practices
- AVM is a Toronto based company with expertise in the design and implementation of advanced financial and strategic management technology, with the effectiveness of this technology being enabled through well designed and implemented management incentive compensation and corporate governance practices
- AVM is led by Mack Ferguson, a leading practitioner in the field of applied corporate finance and value based management technology. Mack was formerly President of the Americas Consulting Division of Stern Stewart & Co. (Canada, Caribbean, Central & Latin America, US), a pioneering firm in the field of applied corporate finance and the developer of EVA[®] (Economic Value Added)
- Customized consultancy services and solutions are provided in the following areas:
 - **Business Portfolio Strategy, Valuation and Management**
 - **Organizational Strategy and Design**
 - **Value Based Financial and Performance Measurement**
 - **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**

Arche Value Management

Mack Ferguson – Managing Partner

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 the President of the Americas consulting operations of Stern Stewart & Co., with responsibility for management of Stern Stewart's consulting operations across the US, Canada, Latin America, and the Caribbean. Mack advised with Stern Stewart for over 20 years, and was involved with the implementation of value based management and the provision of a wide variety of corporate finance services to well over 100 domestic and international companies -- working closely with senior management and the Board of Directors in the design and implementation of value based strategies, management systems and incentive compensation practices. In addition, Mack has significant technical knowledge and practical experience with performance management, portfolio analysis, valuation, financial strategy, and corporate operational and financial restructuring. He is highly skilled in the design of financial strategies, and the optimization of capital structure, the cost of capital and enterprise value.

Mack has broad experience with companies engaged in the financial services, manufacturing, food processing and distribution, beverage, retail, telecommunications, and a broad cross section of extractive industries. Within the Caribbean, Mack has advised numerous companies including Goddard Enterprises, Guardian Holdings, Neal and Massy Holdings, One Caribbean Media, TCL Group of Companies and others. Beyond the Caribbean, he has overseen the delivery of Stern Stewart's services to a client base which includes major companies such as Tenneco, Rubbermaid, Manitowoc, Georgia Pacific Corporation, AMBEV, Brazil Telecom, Globopar, Ecopetrol (Colombia), Pemex (Mexico), Molson (Canada), and others. Mack has expertise in implementing EVA[®] (Economic Value Added) based financial management systems with companies operating in emerging and turbulent markets, and has specialized skill in introducing EVA based incentive compensation in challenging situations, including high growth, turnaround situations, private companies and the state sector.

Prior to joining Stern Stewart, Mack worked with Resource Management Associates (RMA), an advisory 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, and a B.Sc. in Agriculture from the University of Guelph, Canada.

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- **Appendix A – Canadian Corporate Performance and Valuation Ranking**

Canadian Corporate Performance and Valuation Ranking

Companies 1 - 50

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CANADIAN UTILITIES LTD-A	Electric Utility	37	33	65	115	55	69	35	36
SHOPPERS DRUG MART CORP	Retail	13	34	21	78	58	82	77	91
BAYTEX ENERGY CORP	Energy	99	35	90	21	31	135	28	133
CGI GROUP INC - CLASS A	Software	97	36	107	101	68	89	69	90
ARC RESOURCES LTD	Metals & Mining	40	37	49	77	61	202	39	196
PEMBINA PIPELINE CORP	Energy	52	38	48	104	110	145	116	131
PACIFIC RUBIALES ENERGY CORP	Energy	207	39	210	85	137	24	141	25
THOMSON REUTERS CORP	Information Services	43	40	123	156	153	164	150	149
VERMILION ENERGY INC	Metals & Mining	83	41	68	37	35	50	23	28
SNC-LAVALIN GROUP INC	Engineering & Const	23	42	19	94	47	118	71	106
LOBLAW COMPANIES LTD	Retail	36	43	83	137	138	142	112	110
BELL ALIANT INC	Telecom		44		45		75		20
METRO INC	Retail	46	45	59	65	99	55	99	78
TRILOGY ENERGY CORP	Energy	136	46	134	11	109	198	114	182
YAMANA GOLD INC	Metals & Mining	210	47	177	129	185	173	200	178
RIOCAN REAL ESTATE INVST TR	Real Estate	45	48	75	132	131	101	165	138
SHAW COMMUNICATIONS INC-B	Media	25	49	41	134	96	76	93	64
TOURMALINE OIL CORP	Energy		50		57		206		215

Canadian Corporate Performance and Valuation Ranking

Companies 51 - 100

Company	Industry	MVP Rank		MVP / Capital Rank		EP / Capital Rank		EP / Revenue Rank	
		2008	2012	2008	2012	2008	2012	2008	2012
ENCANA CORP	Energy	33	51	116	154	28	191	18	187
ELDORADO GOLD CORP	Metals & Mining	34	52	8	118	128	171	135	181
KEYERA CORP	Energy	95	53	81	36	52	79	68	84
CANADIAN OIL SANDS LTD	Energy	21	54	33	126	20	54	19	32
GILDAN ACTIVEWEAR INC	Apparel	38	55	12	23	40	132	53	115
PARAMOUNT RESOURCES LTD -A	Metals & Mining	156	56	166	17	191	235	175	223
FINNING INTERNATIONAL INC	Automotive	78	57	97	79	45	28	64	58
DOLLARAMA INC	Retail		58		18	75	29	66	48
ENBRIDGE INCOME FUND HOLDING	Electric Utility	128	59	128	69	108	111	123	140
SUN LIFE FINANCIAL INC	Insurance	71	60	125	157	179	86	153	82
BROOKFIELD ASSET MANAGE-CL A	Electric Utility	19	61	105	177	97	106	91	129
NEW GOLD INC	Metals & Mining	204	62	211	91	188	169	205	174
PEYTO EXPLORATION & DEV CORP	Metals & Mining	92	63	67	41	32	153	7	166
EMERA INC	Electric Utility	85	64	109	121	90	108	79	126
LABRADOR IRON ORE ROYALTY CO	Metals & Mining	93	65	27	1	14	8	3	3
CAMECO CORP	Metals & Mining	30	66	36	125	117	180	120	169
TAHOE RESOURCES INC	Metals & Mining		67		10		233		
WESTSHORE TERMINALS INVESTME	Maritime	88	68	23	2	7	3	4	5
MAGNA INTERNATIONAL INC	Automotive	215	69	197	146	126	25	107	67
FIRST MAJESTIC SILVER CORP	Metals & Mining	137	70	156	12	206	52	196	30
GOLDCORP INC	Metals & Mining	17	71	72	169	171	184	190	190
NEXEN INC	Energy	184	72	136	161	34	92	22	92
WEST FRASER TIMBER CO LTD	Paper/Forest Products	190	73	171	48	201	154	154	119
SHAWCOR LTD-CLASS A	Energy	77	74	42	28	24	40	49	57
TURQUOISE HILL RESOURCES LTD	Metals & Mining	56	75	25	141	222	230	211	226
ALTAGAS LTD	Energy	127	76	127	124	83	176	84	165
ALAMOS GOLD INC	Metals & Mining	73	77	7	16	49	22	47	10
CHARTWELL RETIREMENT RESIDEN	Real Estate	147	78	137	96	170	175	172	167
OPEN TEXT CORP	Software	66	79	47	82	72	109	55	112
CAN REAL ESTATE INVEST TRUST	Real Estate	60	80	62	111	121	146	146	179
OSISKO MINING CORP	Metals & Mining		81		93		165		158
GIBSON ENERGY INC	Energy		82		88		134		105
DETOUR GOLD CORP	Metals & Mining	108	83	22	83	220	222		
TOROMONT INDUSTRIES LTD	Automotive	62	84	31	15	16	4	48	34
MACDONALD DETTWILER & ASSOC	Engineering & Const	109	85	95	54	74	37	70	44
CALLOWAY REAL ESTATE INVESTM	Real Estate	169	86	142	139	154	115	189	152
MEG ENERGY CORP	Energy		87		151	204	192		208
WESTPORT INNOVATIONS INC	Energy	103	88	4	6	221	237	178	218
CINEPLEX INC	Entertainment	131	89	130	39	174	93	145	93
HOME CAPITAL GROUP INC	Banking	100	90	40	31	6	6	1	2
CANADIAN WESTERN BANK	Banking	79	91	35	71	26	34	10	8
FREEHOLD ROYALTIES LTD	Energy	105	92	50	7	25	62	9	38
HUSKY ENERGY INC	Energy	24	93	82	174	23	133	34	128
CANFOR CORP	Paper/Forest Products	180	94	165	81	198	170	155	130
PROGRESSIVE WASTE SOLUTIONS	Industrial Services	165	95	150	117	130	95	128	95
PASON SYSTEMS INC	Energy	59	96	11	14	17	17	20	21
EMPIRE CO LTD 'A'	Retail	69	97	88	131	86	119	94	97
FIRST CAPITAL REALTY INC	Real Estate	70	98	86	152	156	143	187	186
TRANSFORCE INC	Industrial Services	164	99	157	92	67	48	78	68
BOARDWALK REAL ESTATE INVEST	Real Estate	44	100	39	142	113	148	131	189

Canadian Corporate Performance and Valuation Ranking

Companies 101 - 150

Company	Industry	MVP Rank		MVP / Capital Rank		EP / Capital Rank		EP / Revenue Rank	
		2008	2012	2008	2012	2008	2012	2008	2012
PARKLAND FUEL CORP	Energy	118	101	76	26	54	20	89	72
GRANITE REAL ESTATE INC	Real Estate	205	102	204	60	189	162	182	180
DUNDEE CORP -CLA	Banking	196	103	188	52	162	194	143	160
PETROBANK ENERGY & RESOURCES	Energy	76	104	69	8	22	228	13	
MANITOBA TELECOM SVCS INC	Telecom	55	105	57	110	44	44	41	42
STANTEC INC	Engineering & Const	64	106	34	76	62	77	73	79
VERESEN INC	Electric Utility	151	107	138	123	93	181	82	211
JEAN COUTU GROUP INC-CLASS A	Retail	65	108	63	108	178	125	147	111
METHANEX CORP	Energy	198	109	178	133	133	117	122	114
B2GOLD CORP	Metals & Mining	154	110	215	27	213	87		75
CENTERRA GOLD INC	Metals & Mining	153	111	152	89	81	216	74	185
CANEXUS CORP	Chemicals	157	112	207	43	199	73		69
CAE INC	Aerospace	42	113	30	122	65	66	58	60
RUSSEL METALS INC	Metals & Mining	114	114	110	90	15	72	52	85
MULLEN GROUP LTD	Trucking	173	115	162	100	132	51	125	56
SILVERCORP METALS INC	Metals & Mining	51	116	2	25	2	14	2	6
KIRKLAND LAKE GOLD INC	Metals & Mining	90	117	3	5	209	45	184	43
FIRSTSERVICE CORP	Industrial Services	81	118	44	58	82	68	88	86
MAJOR DRILLING GROUP INTL	Energy	53	119	6	33	9	12	31	33
WESTJET AIRLINES LTD	Airlines	91	120	99	130	57	46	60	59
TOREX GOLD RESOURCES INC	Metals & Mining		121		40		232		
PRETIUM RESOURCES INC	Metals & Mining		122		42		223		
NOVAGOLD RESOURCES INC	Metals & Mining	174	123	190	51	211	227	210	
H&R REAL ESTATE INV-REIT UTS	Real Estate	175	124	145	166	148	112	180	151
NORTH WEST CO INC/THE	Retail	72	125	18	29	41	43	67	73
WESTON (GEORGE) LTD	Food Processing	61	126	118	173	120	94	106	94
NIKO RESOURCES LTD	Metals & Mining	32	127	9	112	205	231	207	221
ARGONAUT GOLD INC	Metals & Mining		128		72	216	96		104
FORTIS INC	Electric Utility	86	129	122	172	94	99	86	107
INMET MINING CORP	Metals & Mining	197	130	184	159	80	128	62	143
CML HEALTHCARE INC	Medical Services	82	131	56	24	60	10	46	18
ASTRAL MEDIA INC-A	Media	110	132	113	140	70	90	51	80
REITMANS (CANADA) LTD-A	Retail	63	133	16	38	12	123	45	102
DAVIS & HENDERSON CORP	Financial Svcs	98	134	53	106	42	70	32	66
NORHLAND POWER INC	Electric Utility	101	135	58	148	64	138		164
BLACK DIAMOND GROUP LTD	Metals & Mining	139	136	172	46	69	59	50	50
CORUS ENTERTAINMENT INC-B SH	Entertainment	84	137	77	138	95	91	90	88
WAJAX CORP	Industrial Services	117	138	70	49	18	16	61	63
AIMIA INC	E-Commerce	203	139	191	153	165	122	162	116
ALACER GOLD CORP	Metals & Mining	124	140	96	119	200	159		146
LINAMAR CORP	Automotive	192	141	200	135	102	36	100	65
PRIMARIS RETAIL REAL ESTATE	Real Estate	111	142	106	160	157	140	174	175
DUNDEE REAL ESTATE INVESTM-A	Real Estate	149	143	144	168	122	121	148	159
TRICAN WELL SERVICE LTD	Energy	122	144	120	149	142	182	126	139
ENDEAVOUR SILVER CORP	Metals & Mining	134	145	161	53	215	49	192	41
CAN APARTMENT PROP REAL ESTA	Real Estate	75	146	71	163	160	131	181	172
ALLIED PROPERTIES REAL ESTAT	Real Estate	129	147	129	155	152	136	177	176
SEMAFO INC	Metals & Mining	125	148	112	87	112	60	113	51
DUNDEE PRECIOUS METALS INC	Metals & Mining	170	149	212	103	212	156	201	144
BLACKPEARL RESOURCES INC	Metals & Mining	168	150	208	84	208	213	191	201

Canadian Corporate Performance and Valuation Ranking

Companies 151 - 200

Company	Industry	MVP Rank		MVP / Capital Rank		EP / Capital Rank		EP / Revenue Rank	
		2008	2012	2008	2012	2008	2012	2008	2012
GABRIEL RESOURCES LTD	Metals & Mining	145	151	159	86	197	224		
COLOSSUS MINERALS INC	Metals & Mining		152		30	214	234		
CCL INDUSTRIES INC - CL B	Food Processing	158	153	149	136	106	81	104	76
CHORUS AVIATION INC - B	Airlines	177	154	196	98	115	9	105	53
WI-LAN INC	Software	159	155	214	50	202	195	204	198
INDUSTRIAL ALLIANCE INSURANC	Insurance	104	156	103	167	1	2	8	12
COGECO CABLE INC	Media	74	157	79	158	127	61	130	49
ATLANTIC POWER CORP	Electric Utility	113	158	108	165	46	179	17	203
BIRCHCLIFF ENERGY LTD	Energy	123	159	117	145	151	187	159	193
FORTUNA SILVER MINES INC	Metals & Mining	141	160	193	56	207	58	197	47
CALFRAC WELL SERVICES LTD	Energy	146	161	155	147	159	63	133	70
PREMIER GOLD MINES LTD	Metals & Mining		162		97		225		
NORTHERN PROPERTY REAL ESTAT	Real Estate	115	163	102	143	134	102	163	137
TRANSGLOBE ENERGY CORP	Energy	132	164	141	114	21	5	12	4
NEVSUN RESOURCES LTD	Metals & Mining		165		128		1		1
DENISON MINES CORP	Metals & Mining	185	166	206	74	203	236	203	225
RUBICON MINERALS CORP	Metals & Mining		167		116		226		
OCEANAGOLD CORP	Metals & Mining	176	168	209	150	184	177	173	156
BANRO CORPORATION	Metals & Mining	142	169	202	127	210	210		222
BANKERS PETROLEUM LTD	Energy	140	170	169	144	140	41	140	29
AURIZON MINES LTD	Metals & Mining	87	171	17	120	168	116	152	117
ENSIGN ENERGY SERVICES INC	Energy	102	172	101	171	39	83	44	77
SILVER STANDARD RESOURCES	Metals & Mining		173		162		215		213
LAURENTIAN BANK OF CANADA	Banking	107	174	84	164	73	56	56	40
ALGONQUIN POWER & UTILITIES	Electric Utility	167	175	176	175	135	160	151	173
EXTENDICARE INC	Medical Services	120	176	121	178	71	105	75	100
WHITECAP RESOURCES INC	Energy	130	177	164	179	186	104	183	122
ENERFLEX LTD	Energy		178		176		97		96
SAN GOLD CORP	Metals & Mining	119	179	60	170	218	229	209	188
IAMGOLD CORP	Metals & Mining	152	180	140	180	169	107	161	121
URANIUM ONE INC	Metals & Mining	193	181	187	182	195	212	208	214
TRANSALTA CORP	Energy	50	182	93	181	136	168	136	171
SUPERIOR PLUS CORP	Chemicals	162	183	151	186	145	151	119	120
ATHABASCA OIL CORP	Energy		184		183		218		227
MAPLE LEAF FOODS INC	Food Processing	143	185	133	189	147	80	117	89
TASEKO MINES LTD	Metals & Mining	161	186	203	197	196	219	166	207
ARTIS REAL ESTATE INVESTMENT	Real Estate	150	187	146	187	173	103	194	145
TRINIDAD DRILLING LTD	Energy	183	188	180	194	79	88	59	81
BONAVISTA ENERGY CORP	Energy	94	189	100	190	29	200	15	205
CHINA GOLD INTERNATIONAL RES	Metals & Mining	126	190	92	195	144	189	149	194
NORTH AMER PALLADIUM LTD	Metals & Mining	144	191	174	215	219	221	198	199
COTT CORPORATION	Food Processing	179	192	192	200	181	113	134	103
HARRY WINSTON DIAMOND CORP	Metals & Mining	80	193	61	202	92	197	87	168
AECON GROUP INC	Engineering & Const	133	194	132	205	87	139	92	108
NORDION INC	Medical Services	155	195	143	220	182	126	193	132
MARTINREA INTERNATIONAL INC	Automotive	194	196	213	212	149	71	121	83
CAPSTONE MINING CORP	Metals & Mining	166	197	195	213	190	193	179	195
ATCO LTD - CLASS I	Electric Utility	163	198	135	188	59	65	38	37
LAKE SHORE GOLD CORP	Metals & Mining		199		230		217		217
AGF MANAGEMENT LTD-CLASS B	Banking	189	200	198	217	78	157	54	148

Canadian Corporate Performance and Valuation Ranking

Companies 201 - 250

Company	Industry	MVP Rank		MVP / Capital Rank		EP / Capital Rank		EP / Revenue Rank	
		2008	2012	2008	2012	2008	2012	2008	2012
BROOKFIELD OFFICE PROPERTIES	Real Estate	89	201	126	184	141	150	169	192
SAVANNA ENERGY SERVICES CORP	Energy	171	202	179	216	164	172	156	150
FAIRFAX FINANCIAL HLDGS LTD	Insurance	67	203	115	191	13	124	14	123
RONA INC	Retail	160	204	147	210	118	204	103	135
DOREL INDUSTRIES-CL B	Aerospace	181	205	170	214	104	120	102	109
AURICO GOLD INC	Metals & Mining	148	206	148	207	187	214	185	224
PAN AMERICAN SILVER CORP	Metals & Mining	68	207	37	206	175	161	164	153
PETROMINERALES LTD	Energy	121	208	104	222	10	110	6	113
CREW ENERGY INC	Energy	172	209	185	229	180	211	176	210
CANADIAN TIRE CORP-CLASS A	Retail	195	210	153	193	124	149	110	127
CAPITAL POWER CORP	Energy		211		204		174		170
LEGACY OIL + GAS INC	Energy	135	212	199	224	166	205	158	212
PRECISION DRILLING CORP	Energy	202	213	182	209	107	137	115	134
MANULIFE FINANCIAL CORP	Insurance	11	214	85	185	111	166	109	147
ADVANTAGE OIL & GAS LTD	Energy	187	215	175	233	163	209	167	220
HUDBAY MINERALS INC	Metals & Mining		216		218	150	199	138	191
TRANSCONTINENTAL INC-CL A	E-Commerce	182	217	167	231	100	100	98	98
TMX GROUP LTD	Financial Svcs		218		211		144		177
BOMBARDIER INC-B	Aerospace	31	219	66	198	123	141	111	118
THOMPSON CREEK METALS CO INC	Metals & Mining	186	220	201	232	8	220	11	219
QUEBECOR INC -CL B	Media	206	221	163	208	103	98	108	99
LUNDIN MINING CORP	Metals & Mining	213	222	216	225	194	207	195	216
PETROBAKKEN ENERGY LTD	Energy		223		228		183		197
ENERPLUS CORP	Energy	201	224	168	227	66	196		202
TALISMAN ENERGY INC	Energy	211	225	158	203	51	178	37	163
PENGROWTH ENERGY CORP	Energy	191	226	154	226	176	201	168	206
CELESTICA INC	Electronics	209	227	205	235	172	188	129	136
SHERRITT INTERNATIONAL CORP	Metals & Mining	212	228	189	234	167	190	171	183
SUNCOR ENERGY INC	Energy	57	229	124	192	56	163	63	142
RESEARCH IN MOTION	Electronics	1	230	1	223	3	35	16	62
PENN WEST PETROLEUM LTD	Energy	214	231	181	221	114	208	118	209
TECK RESOURCES LTD-CLS B	Metals & Mining	216	232	194	201	119	155	127	155
BARRICK GOLD CORP	Metals & Mining	8	233	46	196	155	129	160	141
CANADIAN NATURAL RESOURCES	Energy	41	234	119	199	88	167	72	157
KINROSS GOLD CORP	Metals & Mining	16	235	38	219	183	186	186	184
GENWORTH MI CANADA INC	Financial Svcs		236		236		74		13
PROGRESS ENERGY RESOURCES CO	Energy	106		98		125		139	
POWER FINANCIAL CORP	Insurance	20		91		77		76	
VITERRA INC	Food Processing	200		186		53		80	
JUST ENERGY GROUP INC	Energy								
COMINAR REAL ESTATE INV-TR U	Real Estate					146	85	170	35
POSEIDON CONCEPTS CORP	Maritime								
CELTIC EXPLORATION LTD	Energy	116		89		158		157	
Total Company Sample		216	236	216	236	222	237	211	227

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