

Navigating the Financial Tsunami

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Economic Shock

- What started as a US subprime mortgage crisis in June 2007, has become a global economic tsunami.
 - Housing mortgage crisis
 - Fannie Mae and Freddie Mac government takeover
 - Lehman Brothers and Washington Mutual failures
 - \$85 billion, 79.9% taxpayer stake in AIG
 - \$700⁺ billion US financial industry bailout
 - \$2.5⁺ trillion EU and Asia financial industry bailout
 - Global recession

Timeline

- 6/07 Two Bear Stearns hedge funds collapse as a result of the subprime mortgage crisis; investors lost \$1.8 billion.
- 7/07 Several German banks are caught in the crisis. Multi-billion euro bailouts are needed to stabilize bank balance sheets.
- 10/07 Citigroup's profits collapse.
- 1/08 Swiss bank, UBS announces write downs of \$18 billion for 2007, due to turbulence in US property markets; in April, USB announces an additional \$19 billion write down.
- 2/08 US Congress approves a \$167 billion economic stimulus package.
- 3/08 JP Morgan Chase acquires Bear Stearns . The US Federal Reserve assumes a \$30 billion risk in Bear Sterns investments. Interbank lending almost stops.
- 4/08 Deutsche Bank announces a loss of \$203 billion in 1Q08, the bank's first quarterly loss in five years.

Timeline (continued)

- 6/08 Oil hits \$137 per barrel; 60% of the price is driven by hedge fund speculation.
 - 7/08 California mortgage bank IndyMac collapses.
 - 8/08 China exports to the US drop 9% in the first half 2008.
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- 9/7 US government takes over Fannie Mae and Freddie Mac.
 - 9/15 Lehman Brothers declares bankruptcy. Merrill Lynch is purchased by Bank of America. Bank write downs from around the world total nearly \$500 billion.
 - 9/16 US Federal Reserve announces it will provide AIG with an \$85 billion loan in exchange for a 79.9% ownership stake.
 - 9/17 KfW Bankengruppe, a German state-owned bank, transfers \$426 million to Lehman Brothers just prior the investment bank's collapsed; more than half is lost.

Timeline (continued)

- 9/21 US Treasury Secretary Henry Paulson announces a \$700 billion rescue package to buy bad credit from failing banks.
- 9/22 The price of oil rises more than \$25 a barrel in just a few hours, the highest absolute hike in one day since oil prices began to be monitored.
- 9/23 Warren Buffett makes a \$5 billion investment in the Goldman Sachs Group.
- 9/25 Washington Mutual Savings Bank is seized by the US Office of Thrift Supervision.
- 9/29 US House of Representatives rejects the proposed \$700 billion bailout package; stock markets collapse around the world. German mortgage bank Hypo Real Estate is bailed out with \$50 billion. British mortgage lender Bradford & Bingley and Belgian–Dutch Hypo Real Estate Holding AG are both bailed out with sums in the billions.

Timeline (continued)

- 10/1 US Senate approves a \$700⁺ billion bailout package.
- 10/3 US House of Representatives approves the \$700⁺ billion bailout package.
- 10/6 The Dow Jones Industrial average falls below 10,000; the following day the Dow hits a 5 year low.
- 10/12 British government approves \$800 billion bailout package.
- 10/15 EU leaders meeting in Brussels look at ways to avoid a deep recession.
- 10/16 British unemployment reaches a 17 year high, an increase of 10% from May – August.
- 10/17 The 3-month interbank Libor rate surged to 4.82% – the highest since mid-December 2007. Germany approves \$670 billion financial industry bailout package, the largest in postwar history.

The Epicenter

- ▶ Like a tsunami, the US financial crisis has expanded outward to encompass our global trading partners, customers, suppliers and outsourcers
- ▶ The ripple effects will negatively impact almost every business, government, charity, consumer, employee and student throughout 2009 and into 2010

Situation Assessment

- ▶ Are your products and/or services required?
- ▶ How does your company rank among major competitors?
- ▶ How do 2008 sales compare to 2009 projections?
- ▶ Are your mission critical centers and business functions well defined?
- ▶ Do your supply chains include international, small and/or mid-sized businesses?
- ▶ Will you need third-party capital in 2009?
- ▶ Is your company a good acquisition target?
- ▶ Will your company gain market value in 2009?

Impact Drivers

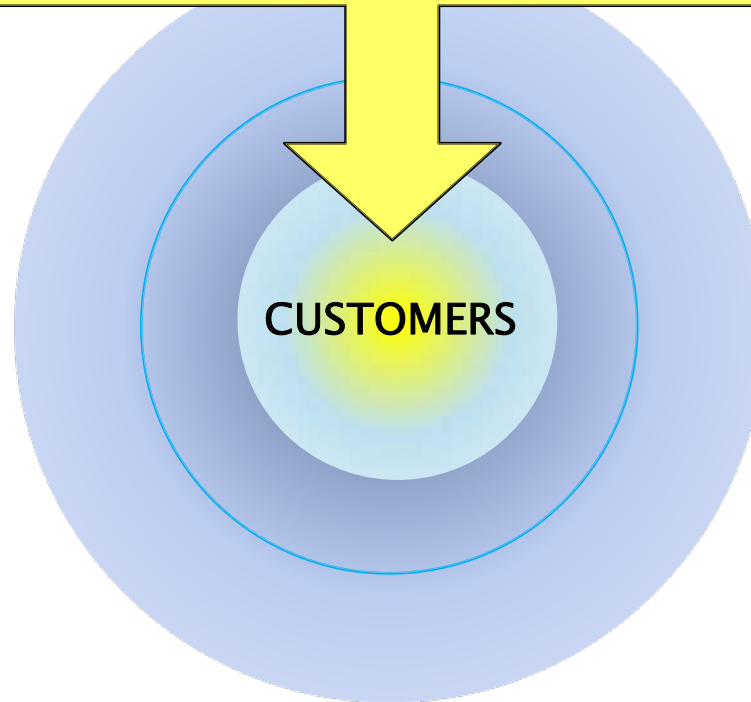
- ▶ Customer Budget Cuts
- ▶ Supply Chain Failures
- ▶ Commercial Credit Denials
- ▶ Performance Issues

Customers

- ▶ Resilience Recommendations
 - Strengthen customer relationships
 - Improve knowledge of customers
 - Maintain quality standards
 - Preserve business principles and practices
 - Focus on mission critical centers and functions

Mission Critical Centers

Functions critical to business operations
Significant contribution to the bottom line



Supply Chain

- ▶ Resilience Recommendations
 - Review supply chains and metrics
 - Assess supply chain contributors
 - Analyze service level agreements
 - Pre-position options
 - Think entrepreneurial

Supply Chain (continued)

Exploration

Recovery

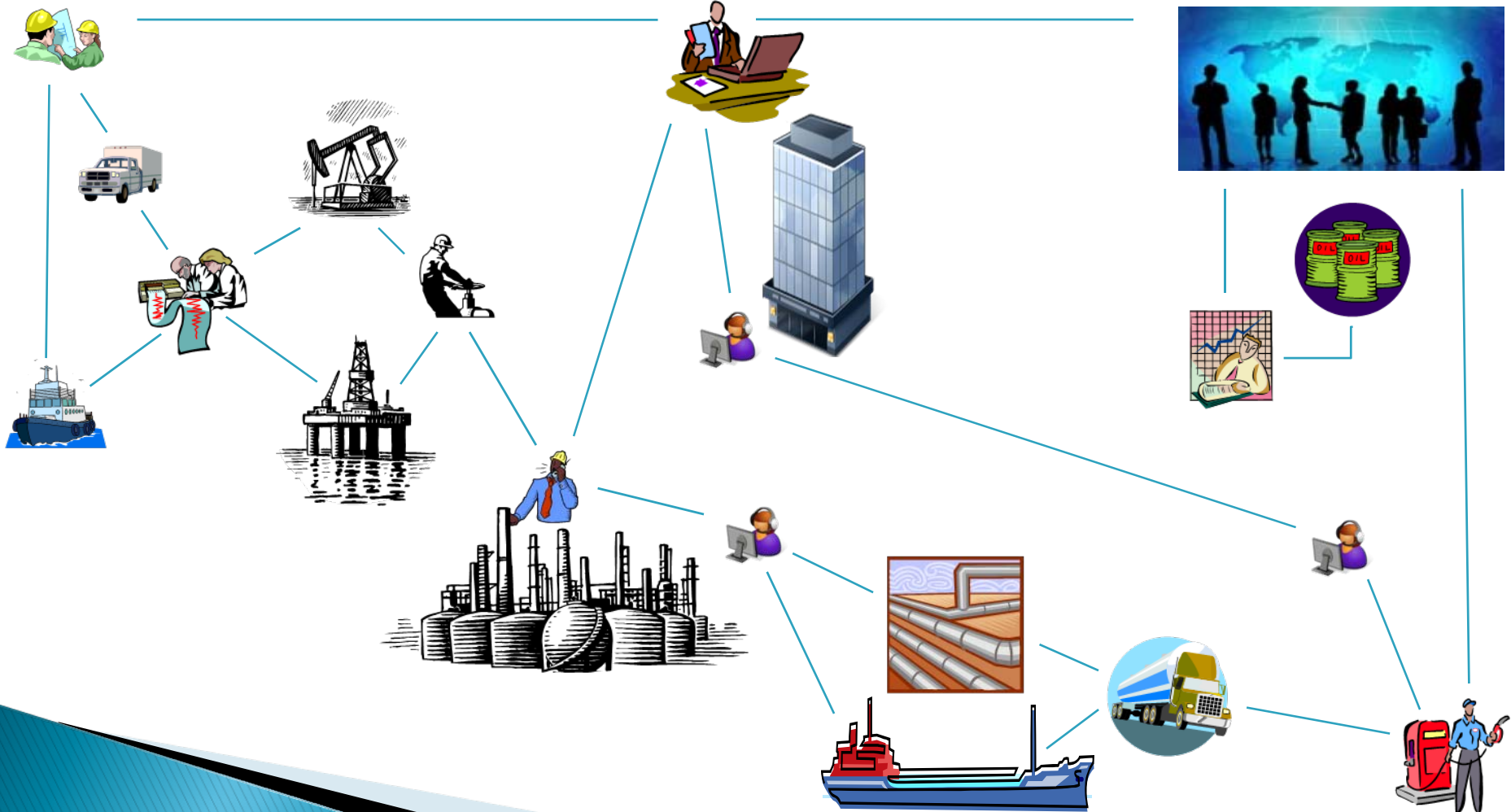
Refining

Orders

Transportation

Market

Consumer



Supply Chain (continued)

- ▶ Discussion points for all third-party supply chain vendors:
 - How does the vendor contribute to your mission critical centers and business functions?
 - What is the vendor known for?
 - How does the vendor rank among their competitors?
 - How do you rank among the vendor's customers?
 - Does the vendor rely on third-party capital?

Supply Chain (continued)

- ▶ Discussion points:
 - Will the vendor be financially viable throughout 2009 and 2010?
 - Does the vendor own or lease space in support of your business functions?
 - Are upstream and/or downstream service level agreements in-place?
 - Any quality or performance issues with the vendor?
 - Does the vendor have cost of poor quality measurements in-place?

Supply Chain (continued)

- ▶ Discussion points:
 - Do you have metrics and/or dashboards in-place?
 - When was the vendor's business continuity plan last reviewed?
 - What impacts would occur to your business if the vendor fails?
 - What early warning triggers would indicate the vendor is failing?
 - What is the start-up time and associated cost of a back vendor?

Credit

- ▶ Resilience Recommendations
 - Strengthen relationships with lenders
 - Improve credit worthiness and rating
 - Reduce the need for credit
 - Leverage retained earnings
 - Think entrepreneurial

Performance

- ▶ Resilience Recommendations
 - Hedge downside risk against future losses
 - Protect market value
 - Pursue new and emerging business opportunities
 - Reduce spending on non-critical operations and infrastructure
 - Maintain internal controls and regulatory compliance

Next Steps

- ▶ Pursue resilience recommendations
- ▶ Re-evaluate risk strategies and plans
- ▶ Identify, assess and prioritize new risks
- ▶ Develop mitigation strategies
- ▶ Update business continuity plans
- ▶ Prepare for economic recovery
- ▶ Seize growth opportunities

Questions

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Mr. Boyls has been actively involved in Risk Management and Business Continuity Planning for the last ten years of his career. He is a Certified Business Continuity Professional, and a member of the Disaster Recovery Institute International, the Association of Contingency Planners and the Institute of Management Consultants.

Over the course of his career, Mr. Boyls has helped clients achieve over \$1 billion in stakeholder value through financial and operational improvements. He has over twenty-five years of management consulting experience working with cross-functional teams, improving business resilience and organizational performance, and delivering relevant solutions for clients. His experience includes: acquisition planning, business analysis, business continuity, information technology, merger consolidation, operations and process improvement, project and program management, risk management, and sourcing strategy. He is an expert in helping executives plan, organize, and execute critical initiatives.

Mr. Boyls founded AMX in 1991, is an alumnus of Ernst & Young, has a Master of Science degree in Economics, and a Bachelor of Science degree in Natural Resources Management.

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