

Opportunity in Crisis



A pocketful of ideas.

- The Crisis - Introducing risk and opportunity
- Ideas for individuals, investors, businesses
- More ideas for business.

1929



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- October 29 to November 13
“\$30 billion disappeared from the US economy”
 - 13 million people were out of work
 - Industrial production dropped by 45% between 1929 and 1932
 - House-building fell by 80% between 1929 and 1932
 - From 1929 to 1932, 5,000 banks went out of business
 - Stock market dropped 90% over 3 years.



Situation (since November 2008)

- Financial system (bank) equity wiped out
 - Too much debt built on unproductive/overvalued assets
 - We are in unknown territory
 - Nationalisation of banks. “Socialism”?
 - Is government debt good/risk free?
 - Taxation up, benefits down.
 - Are even the rich insulated?
 - Real economy is threatened
 - No flow of money, no consumption, no compensation – a vicious downward spiral
 - Food production threatened
 - But infrastructure (roads/IT/energy) is in place.
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The Great Depression vs The Financial Crisis

- 1.8 billion people
- 0.25 billion in US, EU, Japan
- Rich GDP per head \$ 7,000
- Europe 25% of population
Africa 8.5%
- No TV
- Rail and road
- Army, church and rich science
- Newspapers and pony express
- New oil
- 6.6 billion people
- 1 billion in US, EU, Japan
- Rich GDP per head \$ 38,000
- Europe 11% of population
Africa 14%
- TV, Cars, Homes
- Planes, cars, trucks and trains
- Education and technology
- Phones and internet
- Oil shrinking



Credit then and now

- Traditional standards
 - Crony capitalism
 - Robber barons
 - Emerging regulations
 - Asset backed lending
 - Financial multiplier ~ 10 x
 - Global weight of money
\$ 3 trillion
 - Nominal assets ~ \$ 30 trillion
 - Nature's services unknown
 - Industrialised lending
 - Incestuous
 - Regulated
 - But broken
 - Credit cards
 - Financial multiplier ~ 100 x
 - Global weight of money
\$ 70 trillion
 - Nominal assets \$ 7 quadrillion
 - Nature's services ~ global
economy
-





Don't forget to breathe.

As a VC, aware of risks in good times and bad ...
So, be diligent and flexible.



Crisis = Danger + Opportunity ...



拼音 WEI JI

- A fanciful folk etymology, used by motivational speakers and Chinese bosses for a couple of decades.
- While it may be a fallacious interpretation of etymology, there is great value in the positive thinking that derives from this equation.
- Difficult times do make us aware of risks
 - Realism is better than pessimism, and optimism
- Difficult times reveal opportunities.
 - For change, reengineering, ...

It's a matter of perspective.



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- Unaccounted production, Eg, female labour.
 - Hobbies, education.
 - DIY, home food, family and friends.
 - Quality of Life indicators.
 - Beyond GDP
 - Human development Indicators, Happy Planet Index, World Happiness Index, Time Distance Method.
 - Success without growth.
 - (Making Money by Terry Pratchett)

Quality of Life



- Education.
- Employment structure
- Energy efficiency.
- Environment
- Health
- Human Rights
- Income (changes in the standard of living)
- Infrastructure
- National Security
- Public Safety
- Re-creation
- Shelter

What can you do ...



Consumer

Investor

Business

- Analysis and scenarios
 - Cash
 - People



Personal consumption



- Reduce travel
- Spend on education
- Cut out the junk.
- Cook at home. Cook healthy (less meat, less processed, less packaged)
- Reduce alcohol, cigarettes.
- Holiday/vacation with family/friends/locally. Bicycle and camp.
- Repair and maintain. Don't buy new.

Investment



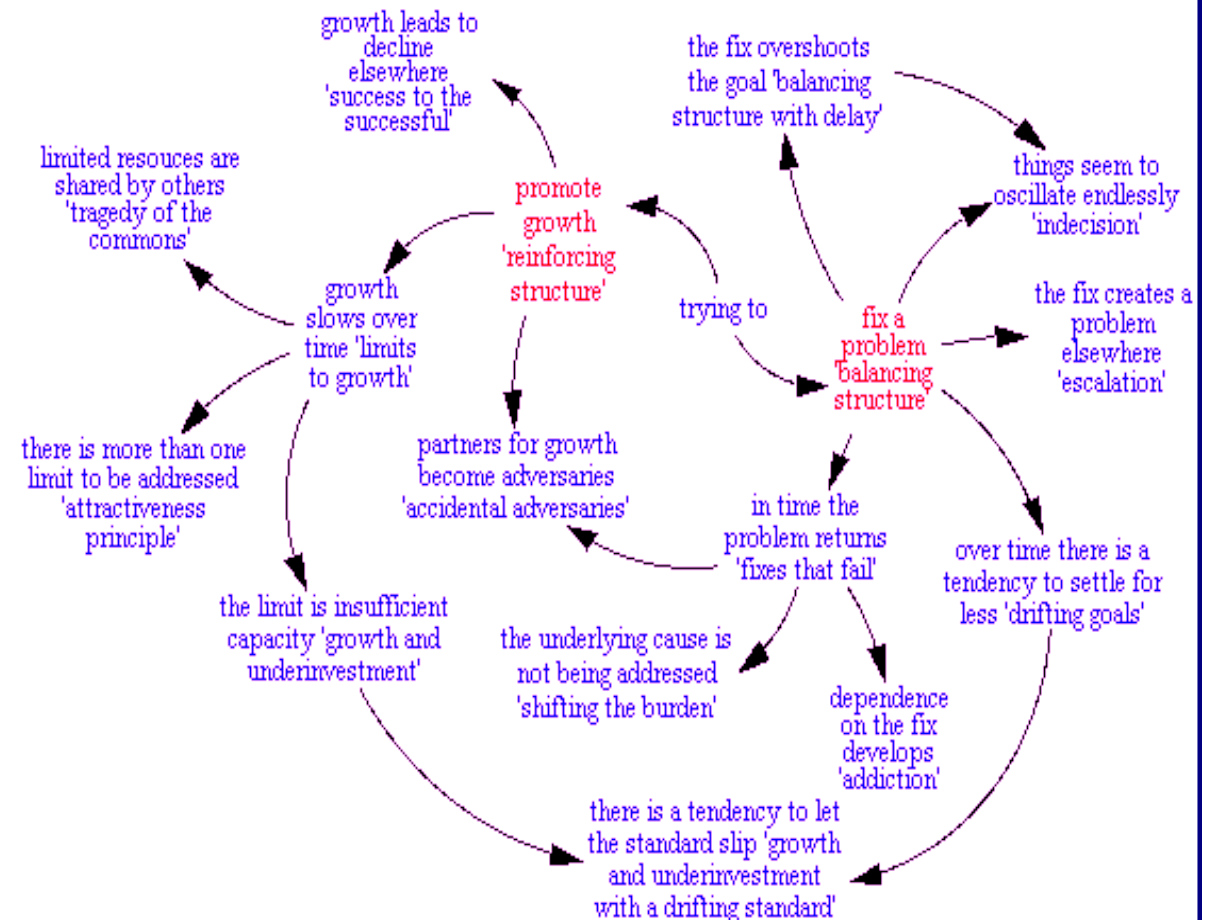
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- Direct investment is preferred. Long term rather than short term.
 - Price (and low management fee).
 - Due diligence: **cash** flow, value, capital structure, margins, market, management.
 - Diversify.
 - Buy operating assets in the real economy that are not dwarfed by debt.
 - Invest in Asia and Africa (via/with local operators).
 - Real assets – food, energy, commodities, agriculture, forestry
 - Not land-fill assets – shirts, motorbikes, CD players
 - Budget/quality providers. Eco-related businesses.
 - Later on – financials and builders.
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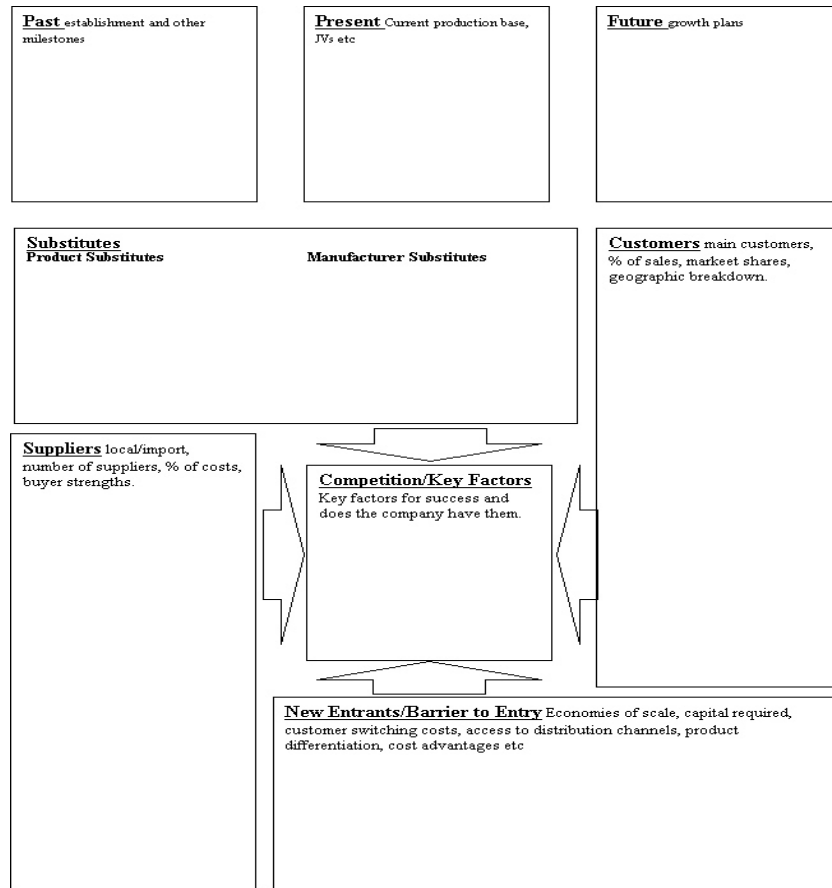
Business Action: Analysis and scenarios

- Scenario planning is critical now.
- Strategic
- Financial
- Full spectrum
- Anthropomorphic analogy
- Systems dynamics





Analysis: Strategic, financial.



Company: _____ Date: _____
 Business: _____

Income Statement	Yr-2	Yr-1	Yr0	Yr1
Sales				
OP				
EBITDA				
Depreciation				
EBIT				
Financial Costs				
Exceptional Items				
PET				
Tax				
Minorities				
PAT				
Dividends				
Retained				

Ratios	Yr-2	Yr-1	Yr0	Yr1
Sales Growth				
EBITDA Growth				
EBIT Growth				
PAT Growth				
EPS Growth				
OP Margin				
EBITDA Margin				
EBIT Margin				
PAT Margin				
Ave Assets				
Ave Equity				
EBIT/Ave Assets				
PAT/Ave Equity				
EBITDA/Fin Charges				
Debt/Assets				
Days AR				
Days Inventory				
Days AP				
Share Data				
Shares				
Ave Shares				
EPS				
BV/S				
P/E				
P/B				

Balance Sheet	Yr-2	Yr-1	Yr0	Yr1
Cash				
Accounts Receivable				
Inventory				
Bad Debts				
Other Current Assets				
Total Current Assets				
Investments				
Fixed Assets				
Total Assets				
Accounts Payable				
Overdraft				
Other current Liabilities				
Total Current Liabilities				
Long term debt				
Long term liabilities				
Minority interests				
Capital				
Reserves				
Total Equity				

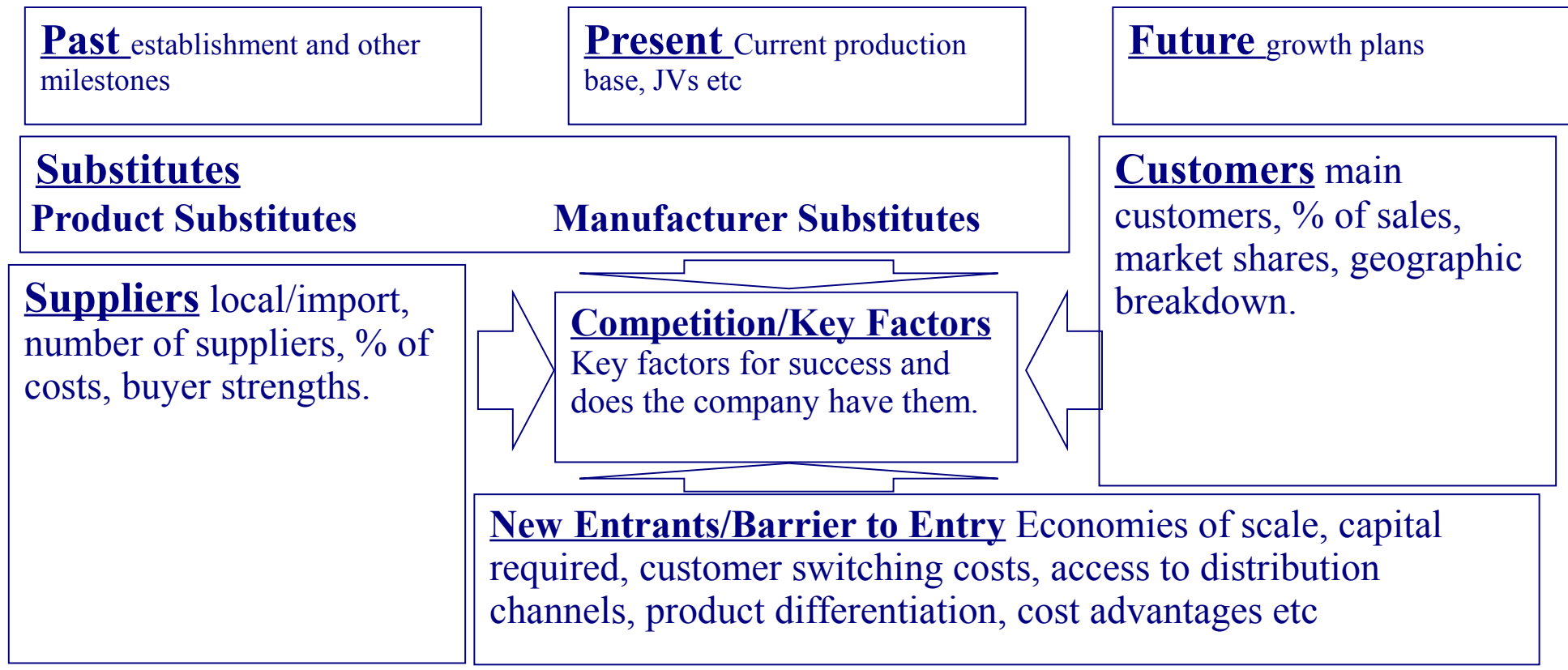
Cash Flow	Yr-2	Yr-1	Yr0	Yr1
PAT				
+ depreciation				
- increase in current assets				
+ increase in current liabilities				
- Capital expenditure				
+ Increase in Debt				
+ Increase in Equity Capital				
Change in Cash				

Capital Structure	
Shares	
Issues:	
Major Shareholders:	

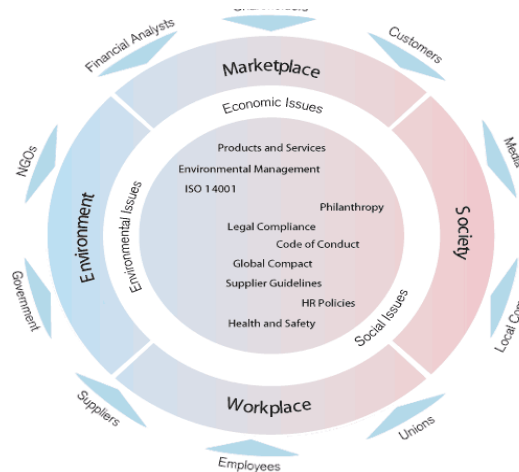
Project needs based on past performance, strategy and market conditions.



Strategic Analysis

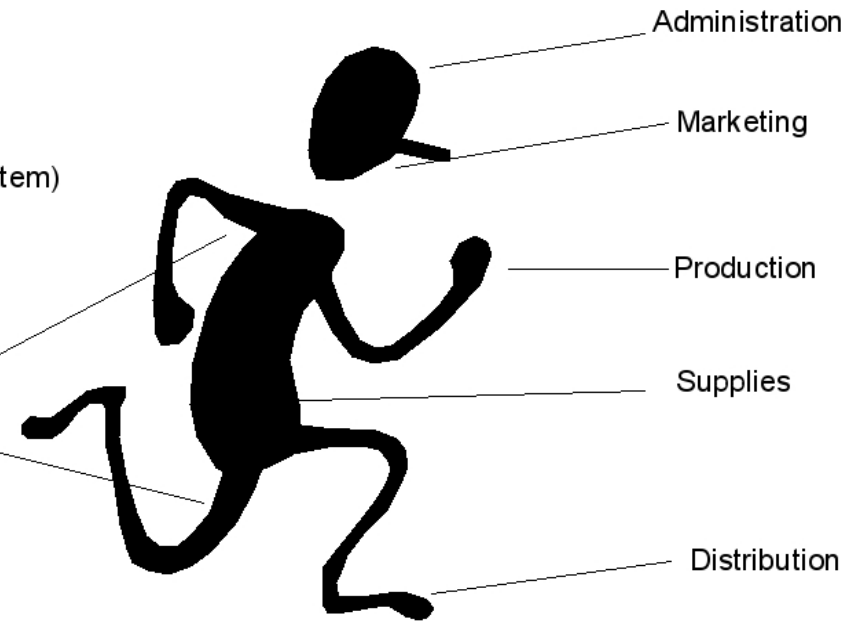


Analysis: full spectrum, anthropomorphic, ...



Communications
(circulation & nervous system)

Working capital
& fixed assets





Business Action: Cash, Capital, People

- Cash is king
 - Working capital focus - but customers are your blood. Watch numbers.
 - Cut from the top.
 - Expenses – entertainment, travel, associations, “perks”
 - Work with banks. Raise capital.
 - Partner with other businesses.
 - Emulate successful competitors – don't be afraid to change.
 - Discuss with staff. Make it a team. Allow buy-in.
 - Focus on customers and your strengths.
 - Self-help (cash) ... business coaching (fee) ... turnaround help (equity)
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Business Action: Cash is king

- Due diligence
- Debt is out, cash is in.
- Reduce top executive overheads. Facilitate employee equity buy-in.
- Reduce travel, but maintain relationships via phone and internet.
- Establish partnerships to reduce operating footprint while maintaining business.
- Barter.
- Negotiate professional service fees and long term contracts.
- Reduce inventories.
- Reconsider investment.

Financial engineering options in distress situations.



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- Extend credit
 - Compose liabilities (accept 60% of face value)
 - Voluntary bankruptcy proceedings
 - New capital (subordinated debt or equity derivatives)

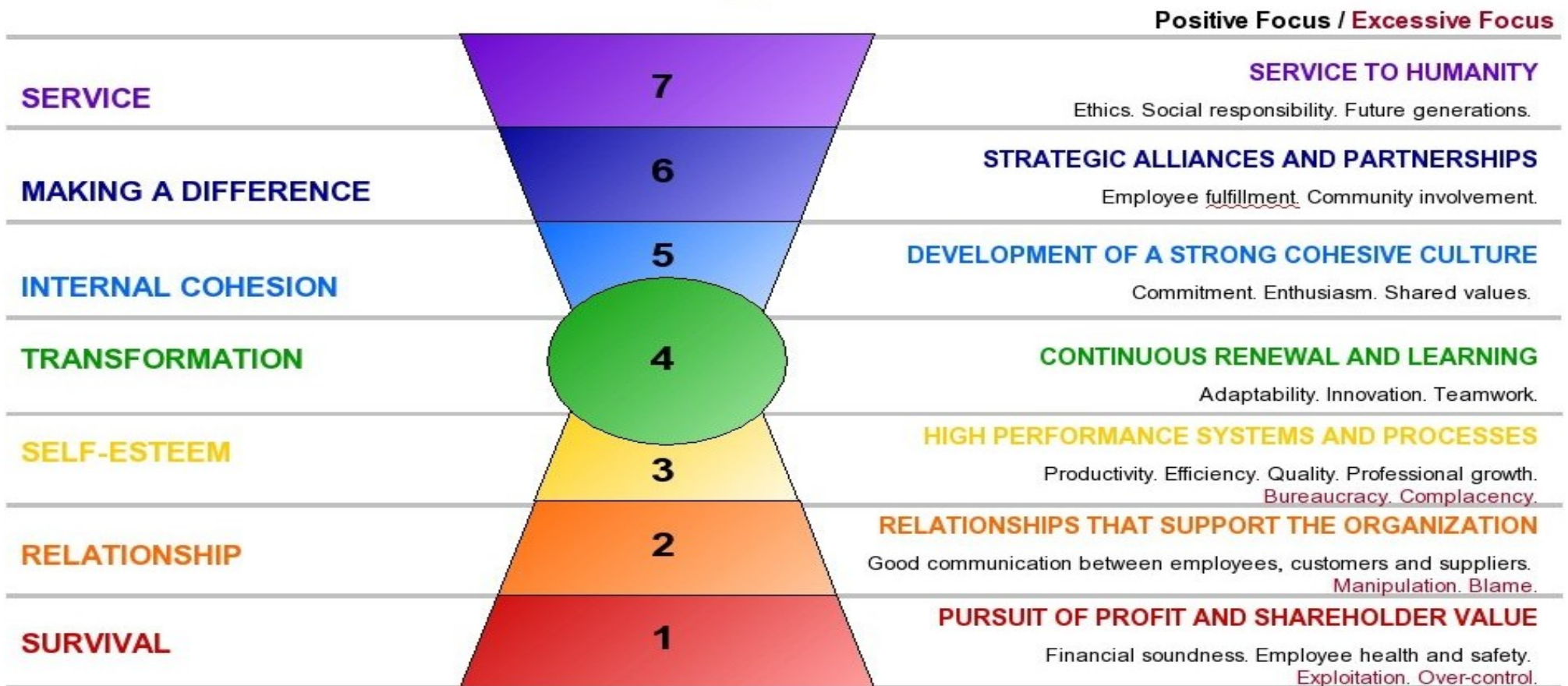
Business Action: People are your key



- Transform culture
- Focus on lifestyle
- Parallel decision making
- Mind mapping
- Open space
- Self-management
- Task sharing
- Manners work
- Training.
- Back to school.
- Time sharing.
- Sabbatical.
- Voluntary redundancy.
- Volunteering.



Seven levels of organisational consciousness.



Source: Richard Barrett





Emergent values – success without growth.

Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits
Holonc Being	Collective individualism, cosmic spirituality, earth changes	Natural interdependence – holarchy not hierarchy.	Being		A-personalisation				Space-time		
Integral Behaviour/Service	Natural systems, self principle, multiple realities, knowledge	Service to Humanity – ethics, social responsibility, future generations, cooperation.	Awareness	Attachment	Self-knowledge	Wisdom, knowledge, consciousness	To know	Universal	Information	Overly intellectual, spiritual addiction, confusion, dissociation	Learning difficulties, spiritual skepticism, limited beliefs, materialism, apathy
External cohesion/Consensus	Egalitarian, feelings, sharing, caring, community	Strategic Alliances – employee fulfilment, community involvement.	Intuition, imagination	Illusion	Self-reflection	Psychic perception, accurate interpretation, imagination, clear seeing	To see	Archetypal	Light	Headaches, nightmares, hallucinations, delusions, difficulty concentrating	Poor memory, poor vision, can't see patterns, denial
Internal cohesion/Strategic	Materialistic, consumerism, success, image, status, growth	Development of cohesive culture – commitment, enthusiasm, shared values.	Communication	Lies	Self-expression	Clear communication, creativity, resonance	To speak and be heard	Creative	Sound	Excessive talking, inability to listen, over-extended, stuttering	Fear of speaking, poor rhythm
Impersonal/Authority/Transform	Meaning, discipline, traditions, morality, rules, live for later	Continuous renewal and learning – adaptability, innovation, teamwork.	Love, relationships	Grief	Self-acceptance	Balance, compassion, self-acceptance, good relationships	To love and be loved	Social	Air	Codependency, poor boundaries, possessive, jealous	Shy, lonely, isolated, lack of empathy, bitter, critical
Personal/Egocentric/Self-esteem	Gratification, glitz, conquest, action, impulsive, live for the moment	High performance systems – pursuit of profit, productivity, efficiency, quality, professional growth.	Power, will	Shame	Self-definition	Vitality, spontaneity, strength of will, purpose, self-esteem	To act	Ego	Fire	Dominating, blaming, aggressive, scattered, constantly active	Weak will, poor self esteem, passive, sluggish, fearful
Animalistic/Relationship	Rites, rituals, taboos, superstitions, tribes, folk ways and lore	Routines for the organisation – communication between employees, customers, suppliers.	Sexuality, emotions, desire	Guilt	Self-gratification	Fluidity, pleasure, healthy sexuality, feeling	To feel, to want	Emotional	Water	Overly emotional, poor boundaries, sex addiction, obsessive attachments	Frigidity, impotence, rigidity, emotional numbness, fear of pleasure
Vegetative/Instinctive/Survival	Food, water, procreation, warmth, protection, staying alive	Pursuit of revenues – financial solvency, employee productivity.	survival, grounding	Fear	Self-preservation	Stability, grounding, physical health, prosperity trust	To be here, to have	Physical	Earth	Heaviness, Sluggish monotony, obesity, hoarding, materialism, greed	Frequent fear, lack of discipline, restless, underweight, spacey
Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits



Good management is the same.



- Plan. Set objectives. Communicate them. Motivate.
- Increase importance of finances, customers, courage.
- Don't cut without care.
- Performance can prove your worth.
- Survive ... reorganise ... reputation.

And nurture the opportunity.
Be human.



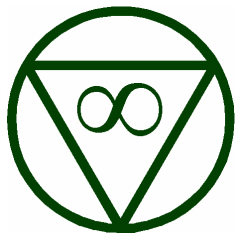
- Innovate and train.
- Take care and communicate.
- Offer value.
- Seek market share.
- Time is money too.



Opportunity in Crisis
a pocketful of ideas



Thank you.



GRI Equity

Financial and business advice and due diligence.

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