



# **SETTING A NEW PATH TO PERFORMANCE**

**Address to Shareholders**

**by**

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**President & Chief Executive Officer**

**to the**

**Annual General Meeting of Cervus Equipment Ltd.**

**VIRTUAL MEETING**

**April 23, 2020**



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Thank-you Peter, and welcome everyone.

At the beginning of this year, life was considered relatively normal despite some continuing headwinds from the challenges that plagued us in 2019. As an organization, we looked in the rear-view mirror at last year with relief that a tough year was over.

We looked forward to 2020 and the benefits we expected from the aggressive actions we took in 2019. Those actions strengthened our balance sheet, right sized our Agriculture used inventory, and set a new path to performance.

As Murphy's Law would have it, we experienced rail blockages in early 2020 that halted parts of the Canadian economy. This challenge was immediately followed by the coronavirus pandemic which has devastated the global economy.

As our customers continue to deliver freight and plant the 2020 crop that will feed much of the world, our people have accepted the challenge before us, and our doors remain open for business.

To our shareholders, we appreciate everyone adapting to this year's virtual format for the AGM as part of the pandemic accommodations we need to make.

Today I would like to address 3 things:

1. 2019 - A Staging Year
2. Setting a New Path to Performance
3. 2020 – Rising to the Challenge

## **2019 A STAGING YEAR**

I was appointed President and CEO in May 2019 with a mandate to create value. Working closely with the talented and dedicated people of Cervus, we used 2019 as a staging year to transform what we do, how we do it and how we measure success.

It was important to me to spend my first 100 days listening to employees, customers, our OEM partners, and shareholders. These conversations highlighted for me that we have impressive business strengths including our workforce, customer focus, iconic brands, and a network of locations with the size and scale necessary to compete and invest in meeting evolving customer expectations.

This initial period was valuable in understanding our financial performance over the last 5 years including why our share price and Return on Invested Capital lagged industry peers.



Our top line revenue benefited from the growth of past acquisitions however growth in bottom line profitability did not follow consistently and sustainably. This clarity provided the fuel for building our new path to performance.

Shortly after my appointment, industry strengths and weaknesses were brought into sharp focus by a confluence of events impacting both our Agriculture and Transportation Segments.

In Agriculture, lower farm incomes in Western Canada, reduced commodity prices, higher input costs, poor weather conditions and international trade disputes all acted to dampen new and used equipment spending across the board.

Complicating matters, Agriculture equipment dealers including Cervus, built an excess supply of used equipment taken on trade following two successive years of strong new equipment sales. This industry wide supply/demand imbalance had the effect of weakening dealer balance sheets and decreasing inventory turns. Total equipment revenue dropped 22% and declining used equipment values created margin pressure and contributed to a \$24 million non-cash write-down.

In our Transportation segment, early-year factory delays, intense competition particularly in the fleet market, and excess freight capacity created multiple challenges.

In this challenging economic environment, our priority was to protect our balance sheet by reducing agriculture used inventory. By year end, we achieved the used inventory target we set for ourselves.

These proactive measures right sized our agriculture used equipment inventory to a level appropriate for current market demand.

In the face of uncertain market conditions, these actions provided us with flexibility and organizational resiliency in 2019 and have smoothed our navigation of COVID-19 impacts.

## **SETTING A NEW PATH TO PERFORMANCE**

As I said earlier, 2019 was a staging year for setting a new path to performance. Our objective for value creation demanded transformation with a clear vision.

We began with focus on our leadership and structure with special emphasis on addressing areas where we have fundamental challenges. In 2019 we announced leadership changes and restructuring within our Agriculture division and reaffirmed our approach to strong decentralized management.



Recognizing what our culture was and what we needed it to be, were critical to achieving improved profitability. We identified where our culture needed structure and focus and developed five key cultural attitudes and behaviors each employee needs to embrace for our collective success.

We embarked on an organization wide initiative of cultural training and engagement. While culture does not change overnight, there is now an organizational willingness to embrace cultural change and a recognition of the merits of doing so.

As part of our intense focus on addressing 2019 market challenges and aligning our culture, we also updated our corporate vision and mission to guide us in our change management efforts.

This updated vision reflects a transformation that elevates Cervus into “the leading full-service equipment solutions provider”.

Our vision has been simplified, and in so doing broadened. We have shifted away from the limitations of thinking of ourselves as a “dealer” to those opportunities and potential of an “equipment solutions provider”. As a company, our broadening product support offerings will take us beyond this classic definition of where we started as a company.

Our new mission dedicates us “to advance our customers’ success by providing practical and intelligent equipment solutions and support.”

This mission statement is about the role we play in our customer’s success. This drives our strategy and we want to be purposeful and explicit about advancing success as opposed to our previous mission of enabling success. We have also introduced the concept of intelligent solutions which integrates our belief that the future of Cervus and our customers will be undeniably influenced by innovation and technology.

These statements serve as our north star. They inspire our strategies and inform our actions for the future.

Within these strategic shifts, we are not moving away from a focus on sales and market share. The focus on sales and market share is critical to our relationship with our OEM’s and sustaining a dominant machine population that drives product support revenues.

Instead we are elevating our focus on product support revenues. Increasing the proportion of predictable and high margin product support revenues forms the sustainable base of our company that creates value.

This is evident in our new 5-year strategic goal: achieving sustainable equilibrium between revenues from Sales and Product Support – we call this our 50/50 Strategy – 50% Equipment Sales and 50% Product Support.



We believe this is the aspirational objective directly linked to the creation of sustainable value, enhanced by the market leading equipment we represent.

The introduction of new technologies and the potential paradigm shift in customer buying patterns is a critical link in the expansion of product support offerings as we move toward a 50/50 objective.

## **2020 – RISING TO THE CHALLENGE**

Having set our new path as we enter 2020, we are confident in the actions we took in 2019 to protect our balance sheet and keep our credit metrics well within our banking covenants. These actions contribute to organizational resiliency in the face of uncertain market conditions.

With this latest crisis of the coronavirus pandemic, our world has changed in unpredictable ways. The past 6 weeks have been incredibly challenging for everyone. As the length of this crisis is prolonged so will be the economic impacts and hardships.

We take great pride in supporting our customers through these uncertain times. Our employees understand the important role we play in the essential services of food production and transportation of essential goods in the supply chain.

With the seeding and growing season upon us and over-the-road transportation vital in these uncertain times, we are here to provide equipment solutions and support to keep essential service businesses running.

Let me tell you what we are doing at Cervus to manage through this crisis:

- The health and safety of our employees is our top priority. We have taken precautions such as remote working from home, isolation and travel quarantines where appropriate, disinfecting high touch areas and physical distancing in our interactions with each other and our customers. Recommendations of health and government authorities are being adhered to vigorously.
- To date, we have kept all our Canadian and Australian store locations open for business. We accelerated programs to introduce on-line ecommerce to our customers and innovative solutions for communication. The uptake of these virtual options has been excellent. We have also expanded product delivery options to ensure our customers and our employees remain healthy.

As you might expect, the broader macro outlook for the rest of the year has been significantly impacted by COVID-19. It is still too early to have visibility into the full impacts of this pandemic.



Compounding the coronavirus crisis is the plunge in oil prices. The downward pressure on the energy sector has contributed to a slow-down in our Transportation and Industrial divisions in Saskatchewan and Alberta.

Offsetting these pressures, our geographic and industry diversification is an advantage. Our Transportation dealerships in the Ontario logistics corridor continue to support the movement of consumer goods and our Agriculture dealerships are prepared to support producers during the critical seeding window.

With these variable conditions across our dealership footprint, we are taking a tailored and measured approach to prudently manage controllable costs. Where necessary, these include temporary layoffs, reduction in work hours, reductions in salaries and workshare arrangements.

We are meeting today at a time of great uncertainty and many challenges still lie ahead. Nevertheless, I am inspired by the resiliency of our customers, the dedication of our employees, the strength of our OEM's and the support of our shareholders.

I would like to close with a thank you to all of you.