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FirstService Corporation operates in four areas: Property Management, Integrated Security, Consumer Services and Business Services. While different, all divisions are service focused



Services
Real Estate Operations
(FSV - TSX) (FSRV – NASDAQ)

FirstService Corporation

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John Friedrichsen
Senior VP and
Chief Financial Officer

Interview conducted by:
Lynn Fosse
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BIO:

John B. Friedrichsen joined FirstService Corporation as Vice President, Acquisitions in February 1998, a position that he held until May 2000 when he became Senior Vice President, Acquisitions. In September 2002, Mr. Friedrichsen was named Senior Vice President and Chief Financial Officer of FirstService.

Prior to joining FirstService, from October 1996 to February 1998, Mr. Friedrichsen held the position of Vice President with Ernst & Young Corporate Finance Inc. in Toronto, where he was responsible for advising companies on a range of corporate finance matters, including the raising of capital and acquisitions. Prior to October 1996 and from June 1995, Mr. Friedrichsen held the position of Vice President at Canadian Corporate Funding Limited, a privately held merchant and investment bank based in Toronto, where he was responsible for advising companies on raising private capital. From May 1987 to June 1995, Mr. Friedrichsen held senior lending and credit positions with National Bank of Canada in the bank's commercial and corporate banking groups based in Toronto. Mr. Friedrichsen began his career in September 1984 with the chartered accounting firm Thorne Riddell, a predecessor firm of KPMG, where Mr. Friedrichsen obtained his Chartered Accountant designation.

Company Profile:

FirstService Corporation (FSV – TSX; FSRV - NASDAQ) is a leader in the rapidly growing service sector providing

services to commercial and residential customers in the following areas: Residential Property management; Integrated Security Systems; Consumer Services and Business Services.

FirstService is the largest manager of private residential communities in North America. Private residential communities include condominiums, cooperatives, gated communities and a variety of other residential developments governed by multiple unit residential community associates. They manage more than 400,000 residential units in 2,000 community associations across North America. In addition, FirstService operates the largest commercial swimming pool and recreation facility management company in North America managing and servicing over 1,200 commercial swimming pools and over 5,000 residential pools in 10 States and Canada.

FirstService is one of North America's largest providers of integrated security services, primarily to the commercial market. Operating with two security brands, the security companies extend their operations to 10 branches within Canada and the United States. They design, install, monitor and provide service access control, closed circuit television and other intrusion systems as well as offering high-end guard services.

FirstService provides a variety of residential and commercial services through their Consumer Services network of approximately 1,400 franchised and 23 Company-owned locations across North America and internationally. The brand names in this franchise service unit include California Closets ®; Paul Davis

Restoration, Inc.®; Certa ProPainters and College Pro Painters ®; and Nutri-Lawn ®, ChemLawn ® (in Canada) and Green Lawn Care ®.

FirstService provides business-to-business customer support and fulfillment services as well as business process outsourcing to Fortune 1000 companies, including banks, insurance companies and governments through 24 branches in the United States and Canada. Services include customer relationship management ("CRM"), technical and product support; student loan servicing; claims and other items processing; coupon and rebate administration; and inventory management, order assembly and shipping of marketing support materials, textbooks, medical information and pharmaceutical samples.

Interview with: John Friedrichsen

CEOCFOinterviews: Mr. Friedrichsen, please tell us about FirstService Corporation and the services you provide.

Mr. Friedrichsen: "FirstService is a diversified service company operating in four areas. We operate a significant Property Management business, whereby we provide ongoing administrative and related service to condominiums, townhouses, cooperatives and gated communities in a number of key markets in the United States. We also have an Integrated Security services division, which provides security systems integration services in both the United States and Canada and high-end security guard services in the Canadian market. We have a Consumer Services group, which focuses on providing property related services to consumers and businesses throughout Canada and the United States. It operates primarily on a franchise basis where we own and operate established franchise systems that are focused in those areas. Finally, we have a Business Services group, which provides outsourced services to medium and large sized business in Canada and the U.S. in the areas of business process outsourcing as well as customer support and services. The thing that is common to all the different businesses that make up FirstService is that they are primarily labor-intensive services, not generally product focused, but service focused and

that generate a high proportion of recurring revenues."

CEOCFOinterviews: In those four areas, could you give us a sense on how the revenues break down, and do you see it changing?

Mr. Friedrichsen: "If you look at FirstService as a whole, amongst all the various pieces that comprise our services, about 40% of our revenue would be in the Residential Property Management business. The next largest segment would be our Integrated Security Services business, which comprises about 23% of our revenues. About 20% of our revenues are generated by our Consumer Services and the smallest on a revenue basis is our Business Services group. In terms of profitability and looking at earnings before interest, taxes, depreciation and amortization, or EBITDA, our largest business is our Business Services area followed closely by our Consumer Services business. We are a diversified company; not one segment accounts for more than 40% of our business on a top-line basis. All of our businesses have a very high proportion of recurring revenue, which we generate on an ongoing basis as we service our clients. That would be the common thread that ties it all together."

CEOCFOinterviews: Which areas are the highest growth areas for you?

Mr. Friedrichsen: "I think all of the areas have attractive growth prospects. Given the present operating environment, our Property Management would be our greatest growth prospect on a near-term, go-forward basis. That segment operates in a highly fragmented industry and we are the market leaders with a 3% market share. It is an area that is consolidating and an area that is growing. We provide services to property owners to help them administer and manage the communities they live in. Demographics play into that as well, whereby more and more people are interested in outsourcing services that were previously done internally."

CEOCFOinterviews: You mentioned that your services are labor intensive. How do you keep track and control of these different areas?

Mr. Friedrichsen: "When people look at FirstService, it is important to know that our key operating philosophy is to have partners in our different businesses. Whether we are looking at the Residential Property Management area, Security, Consumer Services or the Business Services area, we have what we refer to as platform investments, which are larger investments in these areas. Many of these are geographic specific. In these businesses, the senior management teams are also partners, so they retain a direct ownership interest in these businesses; they have a direct investment in the businesses they manage on a day-to-day basis. We are big proponents of variable, performance driven compensation and incentives. Whether on a short-term basis, such as annual bonuses, or a longer-term basis, through equity ownership, there is a high degree of motivation to ensure that they are managing and providing service at an optimal level and that allows them to continue to retain customers and grow their businesses. This approach allows us to operate a very decentralized organization with strong, highly motivated management teams running our businesses. We believe this also aligns our management teams with the interests of our shareholders in maximizing the profitability and long-term potential of FirstService."

CEOCFOinterviews: How have things changed in the last few years with the heightened security problems both in the security business and in the building management area?

Mr. Friedrichsen: "Our clients own, operate or manage, multi-tenant or single tenant facilities. There is certainly a heightened interest in ensuring that these facilities are adequately secured and that has increased since the events of 9/11, but probably not as much as many people would have expected. What has curtailed some of the growth that otherwise would have been seen in security spending over the last few years, has been the difficult economic situation here in the United States that has been challenging for a lot of companies. Companies generally have been reluctant to commit capital to a variety of expenditures, security being one, and many of the Integrated Security Systems that we provide

are high-end and require a significant investment by companies. Having said that, I think security has been near the top of the list for many companies in terms of available capital that has otherwise been allocated very sparingly over the last couple of years and we believe more spending will take place in this area over the coming years. On the Residential Property Management side, we provide property management services to condominiums and co-ops etc., which is an area in which we do not provide much in the way of security services. It is a market that is quite competitive, and generally does not provide the kind of profit margins that we require in our Integrated Security Services business, but it does represent a growth opportunity for FirstService”

CEOCFOinterviews: Will you tell us about your acquisition strategy?

Mr. Friedrichsen: “Acquisitions are an important part of our growth strategy. We have always looked at acquisitions to complement our internal growth, with acquisitions contributing up to half of our annual growth, historically. Over the past few years, this has changed a bit primarily because we slowed down our acquisition pace due to the challenging economic operating environment. This has impacted our own growth by way of acquisitions over the last few years but our focus and strategy remains the same. We want to be able to buy good businesses with solid track records and strong management teams, which have been successful and are interested in growing their businesses and maintaining a high degree of autonomy. We expect to complete at least half-a-dozen acquisitions this year. In the past five or six years, we were completing about ten acquisitions on an annual basis. I think that next year, we should return to our historical pace.”

CEOCFOinterviews: Are there particular geographic areas where you would like to be more involved?

Mr. Friedrichsen: “On the security side, we have a strong presence in the northeast and mid-Atlantic of the US and we would like to begin to branch out of that region. We would like to continue to build our presence in that market but we

are looking at other areas as well. On our property management side, we have a significant presence stretching from New York to Washington, as well as Florida and Arizona. We would like to be in the Midwest, and at some point, perhaps the Colorado, Nevada, and California markets.”

CEOCFOinterviews: Will you tell us a bit about your business services, and how has the trend toward outsourcing helped you?

Mr. Friedrichsen: “Our Business Services area is made up of three different areas. First, we have a business transaction or process outsourcing, which is a business that we operate only in the Canadian market right now. We have some U.S. customers but it is based in Canada and most of the customer base is Canadian. These include Canadian banks, insurance companies and certain parts of the government, where we provide transaction services, whether it is facilitating credit card applications or student loan processing etc., which are all labor intensive but also require the application of technology. We provide these on an outsource basis to large organizations. We also have a customer support fulfillment group, which assists large corporations with servicing both their internal and external customer base. For example Chrysler, which is one of our long time customers, has a network of dealerships that require materials on an ongoing basis to promote and support their products and customers, whether it is banners, shop manuals, owners manuals, promotional materials, etc. We also have a customer support group that provides customer support through an in-bound call center, which we operate in Canada and provide service to a mix of Canadian and U.S. corporations and organizations. These services include technical support, product inquiry, services related to rebates, or general customer inquiries. The trend in these service areas is to outsource what many companies would consider to be not necessarily their core competency; it is something they need to do but they do not make it the primary focus of their organization. We benefit by training people to provide this kind of service and to make it their core competency, so we can provide it in a more efficient and cost-effective manner.”

CEOCFOinterviews: What sets you apart from your competition?

Mr. Friedrichsen: “The service sector has grown over the last several years and continues to grow. It provides a tremendous opportunity for somebody interested in participating in the growth of the industry, and the consolidation of the different segments in which we operate, because they are all highly fragmented areas. Over time, it has been consolidated to a degree but there is still a significant opportunity to build market share by putting together a number of companies to build significant businesses in these different areas. The track record of FirstService speaks for itself; we have grown at a compound annual growth rate of over 20% for a number of years. The management team at the FirstService level, along with the very strong management teams that we have within our various operating businesses, has demonstrated that we know how to acquire and operate service businesses. As a result, we have been fortunate in having been able to deliver ongoing growth in revenues and earnings on an annual basis for a number of years. We believe that we’ll continue to successfully execute our growth strategy that we had set out from inception, and that there is a great opportunity to continue building FirstService into a significant, diversified services company. Over the last few years, our growth has slowed, including our acquisition pace. Nevertheless, we are generating cash flow at record levels and we believe that over the next several years, there will be excellent opportunities to once again acquire businesses, which will allow us to return to our historical growth rate. Given that the stock is presently trading at about 12 times trailing earnings, we think it is very attractively priced for those investors interested in participating in our growth over the next several years.”

CEOCFOinterviews: Why are your customers choosing you?

Mr. Friedrichsen: “We are looking to try to differentiate ourselves. We are the clear leader in the Residential Property Management market and we are able to attract the best employees in the industry because of our market position. We are able to spend on technology, which al-

allows us to be able to deliver service to our customers in a more cost-effective manner, and allows us to deliver service at a higher level than many of our competitors. These are the key areas in which we differentiate ourselves. In the Residential Property Management area, we have also been able to provide other services in addition to the traditional administrative related services to our customers. That's something that not many other competitors are capable of doing because of the expertise and complexity in providing multiple services, along with the initial investment required. For example, we provide landscaping, concrete restoration, plumbing, and air conditioning services, in addition to the traditional administrative-related services to many of our clients in south Florida making us a comprehensive service provider and a one-stop shopping experience and convenience for those customers that have chosen us to provide these additional services as well.

In security, we are the fourth largest integrated security services provider in North America. We are able to buy better, have better training and higher quality employees and ultimately provide a higher service level than our competitors. In the Consumer Services level, we operate a number of leading franchise brands such as California Closets, the innovator in the closet reorganization and design world. There are many that try to copy us, but we continue to be market leaders in that area. In each segment, we have built the brands over a number of years and we think we are providing service at the top end of the

market, with franchisees that own and operate these businesses day-to-day supporting our growth.

In Business Services, we have leading positions in business process outsourcing. In the Canadian market, it has allowed us to make significant investments in technology and training, which leads to higher service levels for our customers. On the fulfillment side, we are in the top three or four fulfillment companies in North America. That has allowed us to make investment in technology and process, as well as multiple locations, and that translates into better service levels. We think that our size and focus on certain segments, allows us to develop an expertise to differentiate ourselves."

CEOCFOinterviews: What is the financial position of FirstService?

Mr. Friedrichsen: "FirstService generates a great deal of free cash flow. We are coming off a record year in terms of cash flow from operations, and our recently completed first quarter was a record as well. We reinvest this cash flow into our businesses primarily through additional acquisitions to build our business. We will generate this year, somewhere around US\$570 million in revenues, EBITDA in the US\$53 million to US\$55 million range, and earnings per share in the US\$1.20-\$1.30 range. Our cash flow from operations this year will be somewhere between US\$35-\$38 million. We will continue to repay our debt until such time that we find acquisition candidates that we think are good ones.

Our debt to EBITDA is presently about 2.8 times and we operate within a range of 2.5-3.0 times. We think that range is an appropriate amount of leverage given our diversification and high free cash flow. It provides what we consider to be an optimal capital structure, and a significant return on equity, which is has averaged about 17% over the last five years."

CEOCFOinterviews: In closing, what should potential investors know about FirstServices?

Mr. Friedrichsen: "The management team at FirstService has been together for a number of years. Jay Hennick was the founder and CEO, and continues to be very involved. He started FirstService going back more than twenty years ago as a business that provided swimming pool management services in Canada. Over a number of years, we have built a management team and put together an organization that has been successful in building a business from the ground up. Management owns a significant amount of equity in this business. Collectively the head office management team and many of the senior managers within the operating units own about 25% of the outstanding shares. I think it is important to note, from a shareholder's perspective, that FirstService's management team has a significant investment in this business and a significant amount of their net-worth riding on the success of FirstService, and ultimately our share value."

