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Association for Financial Professionals' Quarterly Magazine

Winter 2019

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enhance your business

How robotics are
impacting finance

Results of the 2019
AFP Cyberrisk Survey

Keys to implementing
a planning system

Maximizing the potential
value of blockchain

Rana el Kaliouby on
building AI we can trust



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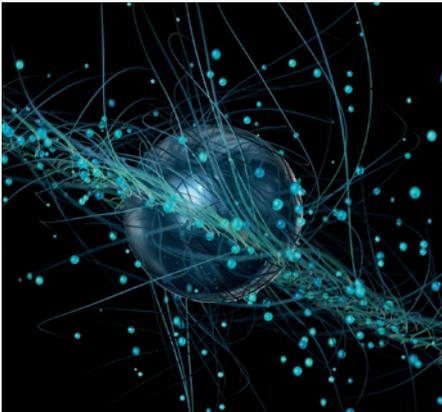
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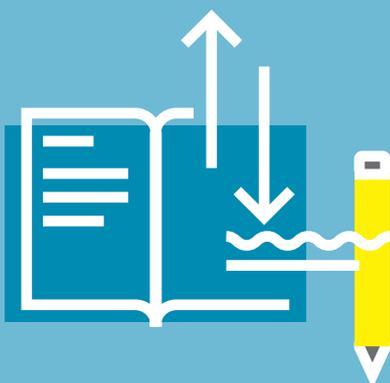
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ABOUT AFP®

Headquartered outside of Washington, D.C. and located regionally in Singapore, the Association for Financial Professionals (AFP) is the professional society committed to advancing the success of treasury and finance members and their organizations. AFP established and administers the Certified Treasury Professional and Certified Corporate FP&A Professional credentials, which set standards of excellence in treasury and finance. Each year, AFP hosts the largest networking conference worldwide for more than 7,000 corporate financial professionals.

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JIM KAITZ, PRESIDENT & CEO

EMBRACE CHANGE

Dear AFP Members,

Having just wrapped up AFP 2019 in Boston, I'm always inspired by seeing the thousands of attendees taking time out of their busy schedules to learn, share and network with one another—both in the education sessions and on the exhibit floor. The collective energy and enthusiasm is contagious; the challenge for all of us is to sustain that momentum, continuing to learn and grow professionally throughout the year.

In her keynote address, Robin Roberts spoke passionately about her grit and determination to reach her career goals. No job was too small for her as she progressed in her career, and she emphasized how important it is to strive to continually improve your skills. Given the pace of change today, especially as it relates to technology, being committed to lifelong learning is the path to career growth.

As AFP MindShift keynote Rana el Kaliouby explained in Boston, technology is not to be feared in finance, but rather embraced and leveraged to drive operational efficiencies and enable the growth of our organizations. The adoption of digital transformation will require finance professionals to acquire new technical skills, and also embrace their right brain skills, such as creativity, empathy and storytelling.

So like Robin Roberts, be committed to lifelong learning and embrace change—your career is too important to leave to chance!

Sincerely,

A handwritten signature in black ink that reads "J Kaitz". The signature is fluid and cursive, with a large initial "J" and "K".

Jim Kaitz
President and CEO



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CYBERRISK SURVEY

Despite increased security efforts, cybercriminals aren't giving up

AFP RESEARCH



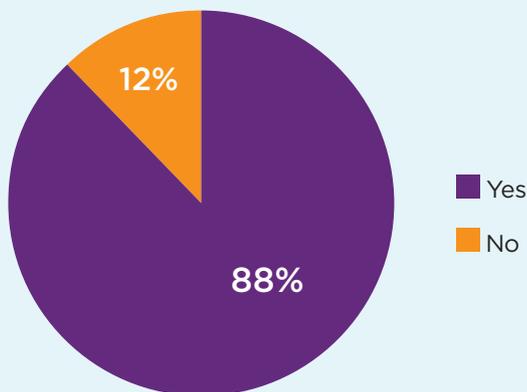
Financial professionals have significantly stepped up cybersecurity defense over the past three years as cybercriminals increase their efforts to breach organizations, according to the 2019 Association for Financial Professionals Cyberrisk Survey, underwritten by Wells Fargo.

Conducted in October at AFP 2019 in Boston, the survey garnered 433 responses, of which 88% were from corporate treasury and finance professionals. Responses received from those practitioners form the basis of the report.

Relentless attacks

Fully 88% of corporate practitioners revealed that their organizations have been targeted by attempted or actual cyberattacks in the past 18 months. This signals those committing the attacks are not discouraged by increasing safeguards and measures being put in place, or the consequences that they might face.

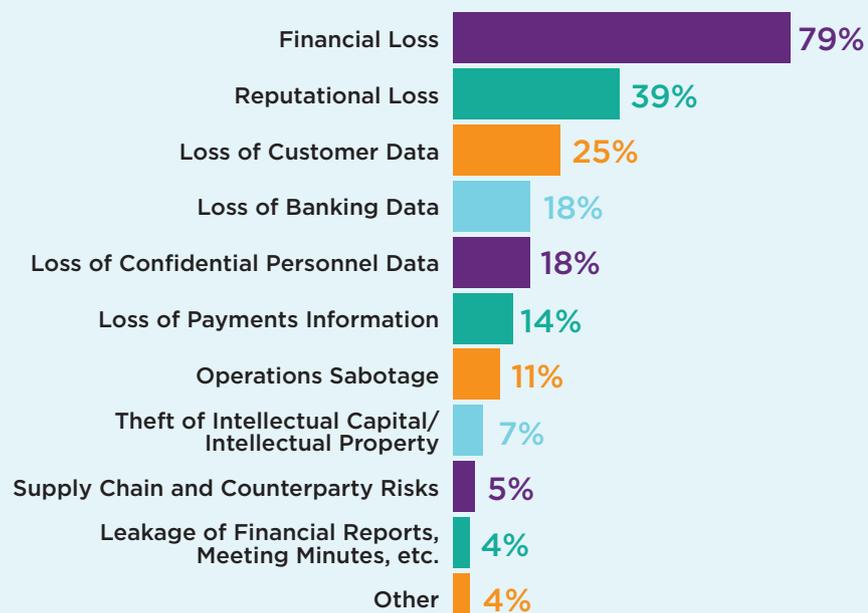
Organizations that have Experienced an Actual or Attempted Cyberattack in the Past 18 Months
(Percentage Distribution of Organizations)



Major consequences

Nearly 80% of survey respondents believe that the most severe consequence of a cyberbreach at their companies has been or will be financial losses, and 39% are concerned about the loss of reputation arising from a cyberattack. Financial losses will impact the bottom line, and most organizations are vulnerable to this risk. While reputational loss may seem to be a greater risk to high-profile organizations, even lesser-known businesses are concerned about the impact of a cyberbreach among their suppliers and customers.

Most Severe Impacts of a Cyberbreach on Organizations
(Percent of Organizations)



continued on page 8

Fearless Girl is Reinventing Investing



Sculpture by Kristen Visbal

We ignited a global conversation about the power of women in leadership with Fearless Girl, and called on companies to take action. 577 companies have now added women to their boards as a result.¹ And our work continues.

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¹ State Street Global Advisors Asset Stewardship Team, August 2019.

² State Street Global Advisors as of June 30, 2019.

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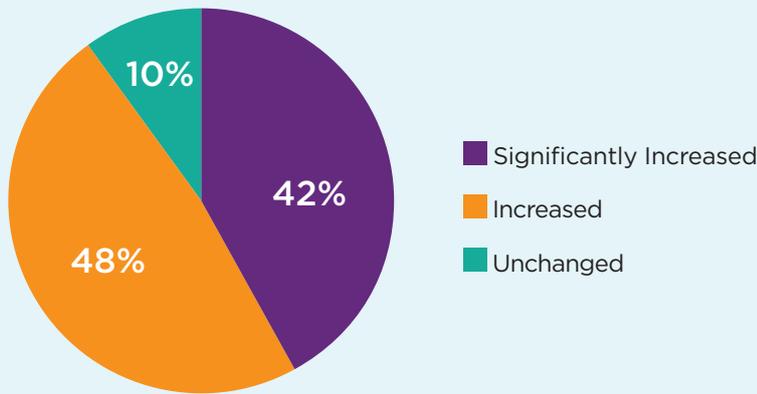
Awareness

Financial leaders are cognizant of the risks that cyberattacks pose to their organizations and are taking steps to mitigate those risks. An overwhelming majority of corporate practitioners (90%) report that the emphasis on cybersecurity at their organizations has increased in the last three years.

“Treasury and financial leaders are well aware that the ‘new normal’ is operating in an environment where cyberattacks are frequent and cybercriminals are relentless in their efforts,” said Jim Kaitz, president and CEO of the Association for Financial Professionals. “To stay one step ahead, corporate practitioners need to have measures in place that can detect attacks at an early stage, which includes educating and training employees.”

Change in Treasury and Finance Functions’ Emphasis on Cybersecurity Awareness in the Last Three Years

(Percentage Distribution of Organizations)

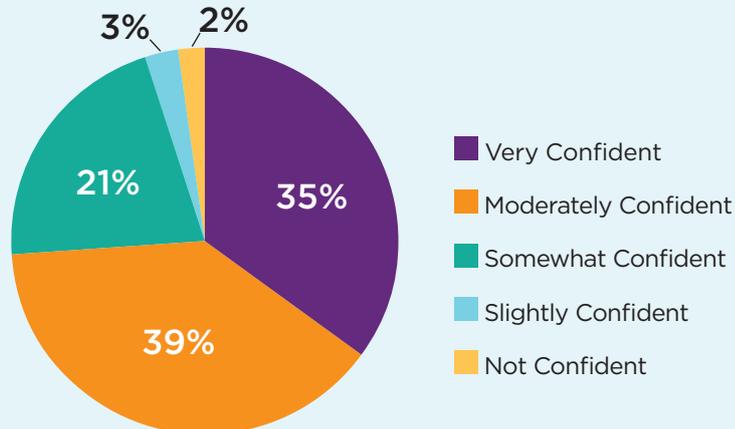


Confidence in protections

But despite the increased emphasis on security, only 35% of survey respondents are very confident that their employers are better prepared to manage and respond to cyberattacks today than they were three years ago, while 39% are moderately confident. Senior management may need to step up their efforts to demonstrate to their employees that they are thoroughly prepared to manage these attacks.

Level of Confidence that Organizations are Better Prepared to Respond to a Cyberattack Today

(Percentage Distribution of Organizations)





TREASURY ESSENTIALS

ANDREW DEICHLER

The World of Tomorrow

Robotics are the future of treasury and finance

Emerging technologies are changing finance functions from the top down. In particular, treasury and finance executives are being forced to explore how robotic process automation (RPA), artificial intelligence (AI) and machine learning (ML) can improve their operations overall.

A new Executive Guide, underwritten by Kyriba, explores why and how these technologies are reshaping finance. Released in two parts, the first section looks at RPA, while the second half explores AI and ML.

Robotic Process Automation

Robotic process automation (RPA) is the next step in the evolution of automation, using a software robot that mimics human actions. It is typically used in treasury and finance to streamline repetitive, manual processes, freeing practitioners up to focus on more strategic work.

According to Laurens Tijdhof, partner at Zanders, while there are many new technologies that will ultimately be adopted by treasury, RPA is one that is already having an impact. “The quick wins are typically in RPA,” he said. “This is something that is available today; you can really start implementing it now.”

Tijdhof noted that other new technologies such as big data and blockchain/distributed ledger technology require much more time and preparation to implement. “You need to have a data strategy to prepare for [those technologies], and you have to make sure your system environment is ready to process these new techniques,” he said.

However, even though RPA is easier to adopt than some of these other innovations, that doesn't mean that corporates are flocking to it en masse. The technology is still new and it will still take some time before it becomes mainstream in treasury and finance.

RPA use cases

Although many companies who have adopted RPA are still in the pilot stage, some have taken the initiative and are applying the technology in a number of different areas.

In October of 2018, Chick-fil-A's finance department embarked on an RPA pilot for multiple use cases. One of the biggest challenges for the quick service restaurant chain was that it was experiencing rapid growth, and finance was experiencing capacity constraints as a result.

“Even if we wanted to hire more people, we could not find that many people fast enough to get them on board and up-to-speed in order to do the work at the pace it was growing,” said Camille Felton, CTP, FP&A, senior lead analyst, financial analytics and solutions. “One of the things we really struggled with is that everyone at Chick-fil-A today, like other companies, is running at 110% capacity. So we really just said, ‘Let's take some transactional work and see if we can reduce that effort to free up capacity in areas that need it most.’ And those use cases were so successful that we were quickly able to see the value that this could have in the business.”

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For treasury, the pilot use case was related to their cash position, which Chick-fil-A had previously performed manually in Excel. Chick-fil-A's cash management team had created multiple process efficiencies, but they were ultimately gathering copious amounts of data and then populating spreadsheets. While some of their banks had application programming interfaces (APIs) that could be leveraged to pull necessary inputs, others had not yet explored this capability. Additionally, APIs or even using a TMS required initial connection and ongoing support from an IT team that was equally strapped for time, so the treasury team stuck within technologies where they had direct expertise.

Enter RPA. “We said, ‘What if we used a robot to pull down all of our transactional and balance activity from every single bank that we have?’ And then we can use some tools to push that downstream so that at any given time, we could have the cash position readily available,” Felton said. “That initial value-add pilot began to show everyone what RPA could do. Ultimately, we created a new group to do specifically RPA in financial services.”

RPA was also used to resolve reconciliation issues in accounts payable (AP). “Chick-fil-A had an opportunity to improve the efficiency of matching what we ordered at our stores versus what we were invoiced. Initially,



“In the simple scenario where the prior day file reports a \$1 million wire and we thought it was going to be \$900,000, the cash manager will know through their experience what explains that \$100,000 difference and what to do about it. Machine learning will learn from the user’s manual reconciliation, so next time it will reconcile those transactions without human intervention.”

this was done more manually than we’d like to admit, again via Excel,” she said. “But with RPA, we were able to utilize a bot to identify variances and report the discrepancies to our teams instead of them spending valuable time on this research daily.”

Now with RPA, AP, treasury and all of financial services have begun to see process efficiencies that are freeing up teammates’ time to shift their focus towards data-driven decisions.

Again, these may sound like problems that would be easily solved with a treasury system. However, in Chick-fil-A’s case, it made more sense to go a different way. “Five years ago, we felt we were too small for a TMS,” Felton said. “We just didn’t have many banks. Now we’re seeing we have a need for that, but we’ve found other ways around it because of our IT’s capacity constraints. Due to our growth, IT’s time is focused, rightfully so, on keeping the wheels on the bus for existing systems and their changes. If we were to implement a TMS, we’d get it stable and then turn around and say, ‘We want to add another bank,’ or, ‘We want to change tools.’ Our business is evolving faster than the pace of current IT implementations.”

So RPA may be ideal for treasury departments that want to connect disparate systems but don’t have the bandwidth to support a TMS or an API. “If we had a centralized data management platform that could help

different systems talk to each other, as well as manage documents in a better way across departments, then we maybe we could use that instead,” Felton said. “But in absence of that, and in absence of a TMS, RPA pairs well with other things.”

Artificial intelligence and machine learning

A key limitation of RPA is that it is not actually “intelligent.” RPA does what it is told. AI, in contrast, uses machine learning so that it can essentially think for itself. The software learns, without human intervention, by analyzing data. It can be used to develop new rules, instantly discover exceptions and build forecasts.

RPA is like an Excel macro; it is automation that mimics what the user tells it to mimic, noted Bob Stark, vice president of strategy for Kyriba. Treasury management systems (TMS) and other types of financial platforms don’t typically rely on RPA within their product, but rather support their customers’ use of robotic process to automate the interaction with other systems. “Machine learning, on the other hand, learns from the data that it receives within the treasury system so has a natural role within a TMS,” he said.

But although AI has incredible potential to improve many processes for treasury and finance, it also has yet to catch on, wrote Jason Dobbs, senior manager, and Kyle Olovson, CTP, senior consultant, both with

Actualize Consulting, in a recent AFP article. They see this as irrational, particularly since humans have the ability to only recognize a few patterns. Machines, meanwhile, can pick up on patterns indefinitely.

AI use cases

There are many treasury use cases for AI, and even more will likely be revealed as practitioners familiarize themselves with the technology and what it can do.

AI and ML have incredible potential for cash management and forecasting, particularly when reconciling prior day bank files with yesterday's expected cash position. "This is one of the first cash management processes performed each day," Stark said. "And for some organizations, the volume of transactions is so big that it can take hours and multiple people to do that reconciliation."

ML can be used to identify and resolve those discrepancies on its own. "In the simple scenario where the prior day file reports a \$1 million wire and we thought it was going to be \$900,000, the cash manager will know through their experience what explains that \$100,000 difference and what to do about it," Stark said. "Machine learning will learn from the user's manual reconciliation, so next time it will reconcile those transactions without human intervention."

But AI and ML can do more than detect anomalies—they can recognize when an exception isn't actually a problem. For example, your company might make a regular monthly payment to a supplier of approximately \$10,000. However, a recent payment made at the end of the current month is \$15,000. With rules-based automation or even RPA, you likely have a payment control that flags that 50% variance from the normal monthly amount, quarantining that payment for further review. But ML can recognize that this particular payment is part of a larger pattern where the last monthly payment in each quarter is substantially higher than the average.

AI can also help treasury as it consolidates copious amounts of data from ERP systems, TMS and other bespoke sources when doing cash forecasting. "Everyone cares about the accuracy in the end, but the process to get there is quite cumbersome in most cases—to get your hands on the data, then to mix all the data, and to make something out of it that makes sense," said Nicolas Christiaen, CEO and co-founder of Cashforce, who discussed AI and ML in an AFP 2019 session. "And then there are the people involved; you don't want to have 60 people tripping over each other to make that forecast."

To create the forecast, treasury needs to consolidate the data correctly to make sure it is getting the right data sources from the TMS and ERP systems. To improve the forecasting process for its clients, Cashforce looks at historical GL (general ledger) data. "We try to analyze the data historically to come up with insights; if you augment on top of the data you already have, you can make this smarter," Christiaen said.

He added, as an example, that attempting to forecast based on due dates for payments is pointless, as customers rarely pay precisely when you require them to. Hence why it is so important to look at the historical trends and patterns, if available.

The final step in Cashforce's process is what is called its back-testing algorithm. Based again on historical data, Christiaen's team looks at how good a system-based forecast measures itself against the actuals. "We're trying to understand the historical deviation of your system's forecastable data versus the actuals to come up with a segmented variance, and then inject that on top of the current forecast," he said. "To summarize, I would say it's using different smart data sources and different smart algorithms, which will optimize the accuracy of your forecast. With the back-testing algorithm, we've just scratched the surface, in my opinion, of what we can potentially do."

Taking the next step

According to the *2019 AFP Risk Survey*, underwritten by Marsh & McLennan Companies, fully 25 percent of respondents said they use RPA, artificial intelligence and blockchain in some capacity. Artificial intelligence and machine learning have a leg up on RPA because the software learns, without the need for human interaction. RPA is essentially process decision-making, where is AI/ML is data-driven decision-making. However, adopting AI/ML requires more of a mind shift for many treasury and finance departments to truly get on board with it.

Treasury and finance professionals may be apprehensive about adopting any of these technologies because they fear they could lead to their jobs could ultimately being phased out. But it is much more likely their roles will simply need to evolve with the technology. The more familiar they become with it, the better off they'll be.

Download **Parts 1 and 2 of the AFP Executive Guide to Emerging Technologies**, underwritten by Kyriba, at www.AFPonline.org/publications



The GAME PLAN

Keys to implementing a planning system

BRYAN LAPIDUS, FP&A

The landscape of IT projects is littered with failed implementations. Multiple estimates put the failure rate between 30% and 60% as measured by unmet goals, spend over budget, significant delays, or just outright giving up on the project. If you consider IT implementations as part of a larger organizational transformation effort, the statistics get more dire—McKinsey research estimates a 70% failure rate on change management efforts.

But we need to change. Constantly. The accelerating rate of technology leads to accelerated competition, and an accelerated lifecycle for companies.

The latest FP&A guide is a two-part series that focuses on technology change. The first part explores the planning and reporting system,

which is foundational to FP&A's mission of supporting business decisions by deploying resources to the most efficient use. Getting it right frees up time for value-added insights, business partnering, and strategic work. The right system enables the entire business to be more agile in responding to the market.

AFP approached this broad topic by asking the finance community about the key questions they wrestled with during the design and implementation of their planning tools. In this way, it augments other research on this large and well-researched field. Let's start with the most basic question: *Why is this so hard?*

The many moving parts increase complexity: multiple stakeholders with different goals, needs, availability, and capabilities; lack of an

enterprise approach and intentional roadmap; an incomplete project vision; and poor change management skills. However, our research shows that IT implementations, such as adopting a new planning system, are not about technology; they are about integrating the people and data to facilitate integrated business planning.

Your digital strategy

For FP&A to interact and contribute to the company, its systems and data need to interact as well. The following are questions to ask relating a planning system to your digital strategy.

How does the system support my digitally enabled finance and FP&A function?

This is the big picture question of creating a department where people think digitally, have advanced tools, and have processes designed to optimize both. Ideally, this starts with a motivating vision that turns into a roadmap, a high-level plan that identifies the goal of the organization aided by digital initiatives.

For example, a sample digital vision may read like this: to increase the velocity of business decision-making by increasing the speed of generating insightful questions, analysis, decisions, and actions. The planning system

is a digital initiative that is on this roadmap. By sitting in the flow of business and data, experts around the company can input data, and transactional systems have necessary links to automatically enter/update. The antithesis of this is a planning system on an island.

Brian Mehr, FP&A, assistant vice president of FP&A for Southern New Hampshire University, explained an encompassing roadmap for his organization: “Our CTO had a whole vision of where we would be at Tier 1, Tier 2 and Tier 3 technology. It was an outward-in process, starting with what is the priority for the students/customers, then what is the priority internally to support them. That’s how we got our spot in line.”

The transformation to digital finance codifies many of the mental models and brings transparency to offline, “shadow” models and forecasting. Bringing these into the larger process flow can add velocity to the planning and decision processes.

Implications & Actions: Create a long-term, wholistic view of digital finance to help you define what your finance organization delivers value, explain why the planning system supports that vision, and that constant upgrades and change are expected.

Sample of a finance department-wide roadmap

VISION

To increase the velocity of business decision-making by increasing the speed of generating insightful questions, analysis, decisions and actions.

PLAN

12-week effort to assess current situation, define future state and develop a deployment approach

WORKSTREAMS

Organizational Design	Planning and Forecasting Process	Investment Optimization Process	Metrics and Reporting	Application and Technology Strategy	Data Strategy
<ul style="list-style-type: none"> Which functions can be consolidated and centralized? Which functions need to be more closely aligned to the business? 	<ul style="list-style-type: none"> Define a standard process for entire enterprise. Reduce bespoke BU specific processes. 	<ul style="list-style-type: none"> Define a standard end-to-end process for entire enterprise. Clear up role and responsibility confusion between Finance and other groups. 	<ul style="list-style-type: none"> Simplify the reporting and dashboarding. Improve the dimensionality. Standardize definitions across BU's. 	<ul style="list-style-type: none"> Select applications to support standard processes. Determine the right analytics and dashboarding tools. 	<ul style="list-style-type: none"> Define a holistic view of the data required by Finance. Leverage existing assets, if possible. Design a single source of truth that all groups.

ADAPT & INNOVATE

Search for new ways apply digitization, while maintain lookout for the next change opportunity!

Sample of a tool-centric roadmap; the “Land and Expand” plan assumes enhancements after initial implementation



What if a planning system is my digital strategy?

If the previous question presents the ideal of a vision and long-range plan, a sizeable portion of the membership views the deployment of the planning system as the strategy itself. Frank Chou, FP&A, CTP, voiced this approach; he joined H&T Nevada, a small company with the mandate to improve a broken planning process: “We needed something that was as cheap as possible and easy to implement as possible! We had a short timeline given our budgeting cycle, so this was a standalone project,” he said. Even then, Chou still took the opportunity to peer ahead with his system design: “It would have been easy to just plan this system at our company level, but we asked, ‘How are we going to use this going forward, not just this year?’ We thought about future use cases, expanding this to the 20+ companies [in our parent company portfolio], and built the hierarchy for that.”

This can be a critical first step in developing a strategy because the digital benefits can create the platform for further transformation. First, it forces you to consider your data strategy, including master data management—elements such as unified common customer definitions, meta data management, data structures like the account dimension, organization dimension, attributed, etc., and data governance, and the process and people assigned to be the guardians of the data. Second, it elevates your entire team by learning to use more sophisticated tools and demonstrating what is possible.

Implications & Actions: The planning system can be an effective start to your digital finance organization if you envision a multi-stage deployment that will grow and add capabilities over time. Avoid the trap of implementing a band-aid solution that meets a short-term need only without an option for growth.

For more insights, download both parts of the **AFP Guide on Planning Systems**, underwritten by Adaptive Insights, at: www.AFPonline.org/publications-data-tools/reports/guides/fpa

Additionally, don't miss **FinNext 2020, March 15-17 in New Orleans**. This FP&A-focused event will feature four case studies on companies that have undergone digital transformations. Learn more at: dynamic.afponline.org/finnext



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Target Acquired

Treasury's role in raising bank acquisition finance

RIAAN BARTLETT, CTP

Given the importance of an acquisition in the context of the broader organization and the potential complexity it involves, treasury should commit its best internal resources to handling it.

This article sets out the key aspects treasury must consider in arranging and syndicating a bank acquisition facility. Treasury's overall aim should be to:

- **Enhance value**, ensuring that the acquisition is completed in line with the company's strategy
- **Maintain financial flexibility**, negotiating a facility that does not place overly onerous restrictions on management while it remains in place
- **Optimize the balance sheet**, syndicating and refinancing the facility as quickly as possible and in line with the company's optimal debt maturity profile
- **Manage relationships**, treating banks fairly and maintaining transparency with them throughout the process.

The process consists of six key steps.

1

Understand the transaction and the company to be acquired (the target).

The transaction: Treasury needs a comprehensive understanding of the acquisition rationale, as the alignment between the transaction rationale and the company strategy will give the stakeholders (e.g. banks, ratings agencies) comfort, and this should benefit the terms of the financing. Treasury also needs to understand acquisition structure and regulatory environment, as this will drive, in particular, the bank strategy.

The target: A thorough due diligence should be done on the target company's financial position, and in particular its debt facilities, as change of control provisions can have significant consequences if not properly managed. The risk profile of the combined entity's ('Newco') debt maturity profile also must be considered.

Treasury also needs to assess the target company's banking group, as this permits the assessment of potentially conflicted banks. These are banks that have a relationship with both the acquiring and target companies but may decide not to participate as a lender in the facility (i.e., when the transaction is hostile). This is critical in shaping the selected banking group to support the acquisition facility, and it will also give an early indication as to the likely financing execution risk, especially if a very large facility is required.

2

Structure the acquisition facility.

The terms of the acquisition facility should be structured in a way that maintains the company's operational and strategic flexibility, and should not undermine the ability of the company to capture further investment opportunities in the future.

First, treasury must determine when the facility needs to be put in place (committed/signed). In the absence of specific regulatory requirements, the board can determine when funds must be committed. They might take the view that having committed funds when an offer is made can give them an advantage (e.g., against competing bidders), but the additional fees and costs must be acceptable.

Next, treasury should consider the size of the facility. This will be a function of the amount of cash in the offer, the potential impact of the change of control provisions, and the cash forecast (allowing for contingencies and an increase in the offer price). At this stage, treasury will not have access to the target company's internal forecast, therefore reliance will have to be placed on its own estimates of the target's financial position or the best available public information (e.g., broker notes).

Lastly, consider the structure of the facility. The amount, tenor and terms of each tranche will be driven by the size of the facility, as well as lender considerations, in particular the perceived ability to successfully syndicate and refinance the facility. The incentive should be to refinance quickly—this would typically mean higher fees for shorter tenors and lower fees for longer tenors. Keep in mind that longer tenors may improve refinancing risk but will inevitably mean more onerous provisions (covenants).

3

Engage the credit rating agencies.

Treasury should engage the rating agencies as early as is practical, probably after the board has endorsed the transaction. The aim is to get as much possible clarity from the agencies on what the credit rating of Newco is likely to be, as this will impact the terms and conditions of the facility and the supporting loan documentation, as well as the bank and syndication strategies.

Having this visibility becomes more important if the expectation is that the acquisition will be credit negative to the acquiring company, as the banks will perceive this as increasing the execution risk.

The rating agencies may, however, not be prepared to provide a firm view on the rating outcome, due to their own internal policies. For example, if the acquisition is hostile, they may be prepared to only have informal discussions, giving only a hypothetical view of the likely rating outcome. The best outcome in terms of certainty provided will be if the rating agency's advisory service give a formal opinion. This will probably only be achievable if the acquisition is friendly.

4

Develop the bank strategy.

Treasury needs to decide on which banks to invite to be part of the facility, and in what capacity. The right advisor and mandated lead arranger(s) will contribute significantly towards a successful strategy. If a relationship model is followed (with the banks), then ensuring a fair spread of business between the banks will be a key driver in the selection process.

Prior to making a commitment to participate as a lender, banks will want to be comfortable with the credit of Newco, and will also want to fully understand the terms of the transaction. Treasury will provide the required information in the Information Memorandum, a document which normally requires an extensive verification process.

A bank is more likely to provide acquisition support if:

- The deal dynamics are supportive (i.e., there is credit rating certainty, stable market conditions, a short hold period, an acceptable return, and an acceptable likely level of ancillary business)
- A positive view is held of management's credibility (i.e., management has a proven track record of commitment to financial policies and a strong relationship exist with the company)
- The bank's internal position is supportive (i.e., not conflicted, and the commitment is not too large for its balance sheet).

5

Negotiate and agree on the facility documentation.

It is desirable (if not a regulatory requirement), to launch the transaction on the back of (largely) agreed documentation. Usually the key commercial issues and legal principles will be agreed first, typically in the term sheet. This will be followed by negotiating the final, detailed documentation. Various letters will also be exchanged (e.g. mandate, commitment letters and side-letters).

The acquisition facility documentation drivers will:

- Ensure smooth execution of the deal, so that the availability period to draw down funds allows for sufficient time to meet all approvals and eventually a squeeze-out of minorities (more problematic if it is a hostile transaction).
- Preserve financial flexibility by minimizing restrictions on operations. This will ensure carve-outs exist for mandatory prepayments provisions (manage cash flows with as much freedom as

possible), and for negative pledge and permitted subsidiary indebtedness provisions (flexibility to pursue projects and issue secured debt if required).

- Manage the liquidity and refinancing risk. Pay special attention to change of control and cross acceleration provisions in the target's debt facilities, as it (if not waived) can have adverse cash consequences; there should be sufficient headroom and grace periods before a financial covenant is breached and becomes an event of default.
- Ensure that the company can reasonably adhere to all the provisions. Be wary of unreasonable (repeating) representations and warranties.

6

Develop and execute the syndication and refinancing strategy.

In developing these strategies, the company should: leverage from long-term relationships with its banks, minimize leak risk by dealing with a reduced number of banks at an early stage, avoid unnecessary costs, and aim to reduce the bank's exposure as quickly as possible (by shortening any possible underwriting window and accelerating the syndication).

Syndication: An important issue to consider is whether the facility must be underwritten, or not. It may have to be if, for example, it is a very large facility that has to be in place when the offer is made (due to regulatory requirements or a board decision). An underwritten facility is not required if, for example, the bank's aggregate funding hold levels exceed the required facility amount. In this instance, treasury can self-arrange the facility and proceed directly to syndication.

Refinancing: Following syndication, the aim should be to refinance the facility as quickly as possible (subject to market conditions) in order to get rid of potentially onerous provisions, enable the company to optimize its debt maturity profile, and cancel the bank's exposure.

Conclusion

In summary, acquisition financing can be one of the most challenging aspects of treasury's role—but it is also one of the most rewarding. By delivering a complex acquisition facility in line with—or even exceeding—management's expectations, treasury's importance as a business partner can be greatly enhanced.

Riaan Bartlett, CTP, is a finance and treasury executive based in Pretoria, South-Africa

Smarter Things

American PowerNet launches smart contracts solution

JOHN HINTZE

Energy producers typically get paid more than 30 days after supplying electricity, and once it is used there's nothing to go back and repossess. That risk has required producers to seek letters of credit (LOCs) from their banks to act as collateral, adding to transaction costs.

“The whole energy industry is papered up, often two or three times over,” said Scott Helm, CEO of American PowerNet (APN), a Wyomissing, PA-based power-supply company providing wholesale and retail services.

The obvious solution is for energy producers to receive payments as soon as possible. To enable that, APN has been testing a blockchain solution as a part of a new digital platform called Verde Blocks that the energy company has developed to facilitate power sellers and buyers finding one another and make payments in practically real-time.

Verde Blocks

Unlike other payment solutions based on blockchain technology, it does not use volatile cryptocurrencies such as Bitcoin and Ethereum. However, it provides many of blockchain technology’s benefits, including enabling transactions to occur automatically via so-called smart contracts on a 24x7x365 basis and in a highly secure and transparent manner.

APN’s payment solution is powered by New York-headquartered Signature Bank’s Signet platform, in which each “Signet” represents \$1 held in a deposit account at the bank. APN signed on to the Signet platform

“On that delivery date the smart contact will start to execute, confirming delivery and transferring money from buyer to seller on a daily basis.”

last December and has been testing it as part of its digital Verde Blocks platform, enabling the Commonwealth of Pennsylvania to pay the Lancaster County Solid Waste Management Authority for power produced by its water-to-power facility.

Ultimately, Verde Blocks will enable large power users to post the amount of energy they need over a certain time period, and renewable-energy producers to bid for that contract, the terms of which will be incorporated in a Signet smart contract. The smart contract will then automatically confirm delivery of the power and execute payments for it over that period, providing a transparent and immutably time-stamped record to the parties involved.

Helm said that a current APN client, a large university, anticipates using Verde Blocks soon to seek the first bid to fulfill its power needs, with delivery starting at the beginning of 2020. “On that delivery date the smart contact will

start to execute, confirming delivery and transferring money from buyer to seller on a daily basis,” he said.

Minimizing risks and costs

Although some corporate finance executives may view blockchain technology as risky, APN describes the service as a digital tool tied to the dollar. In addition, power producers must open accounts with Signature Bank, which vets them and applies know-your-customer (KYC) rules and other security requirements. “This brings up customers’ comfort level relatively quickly,” Helm said.

He added that an additional carrot for sellers is explaining that opening an account will enable transactions to settle daily using Verde Blocks, but otherwise APN will sweep payments only once every 30 days.

Power buyers, on the other hand, typically prefer waiting as long as possible to make payments. It’s those delays, however, that result in power producers adopting



LOCs and other risk-management tools, significant costs that can be reduced or eliminated when the payments are settled immediately over Verde Blocks. That should enable power producers to lower the prices for buyers.

“There’s an education process there. As buyers better understand the cost of paying later versus right away, we expect more companies will adopt the strategy,” Helm said, noting that APN customers include large companies, universities and government entities.

In addition, power buyers don’t have to open an account with Signature Bank, since they’re actually paying APN as the supplier. Verde Blocks populates digital wallets assigned to them with their payments, which are then passed on to producers via the Signet blockchain.

Evolution

The strategy behind Verde Blocks is to accommodate a quickly evolving energy industry, which once was highly centralized among large nuclear-, coal- and natural gas-fired power plants, and now includes many more wind, hydro and solar plants. “Many companies have pledged to be 100% green in the next 10 years, but they still want to buy competitively priced power,” Helm said.

Verde Blocks’ use of blockchain and smart contracts for payments is especially appropriate in the energy industry, Helm said, because the product doesn’t require physical inspection and customers purchase power repetitively. In addition, independent system operators (ISOs) act as third parties controlling power systems in specific regions, and Verde Blocks can confirm with them daily that the agreed-upon power generation has passed through the system.

“When the two parties have reached an agreement, the power generator schedules the delivery of power into the ISO, and the smart contract confirms that the power has been delivered,” Helms said.

Broader implications

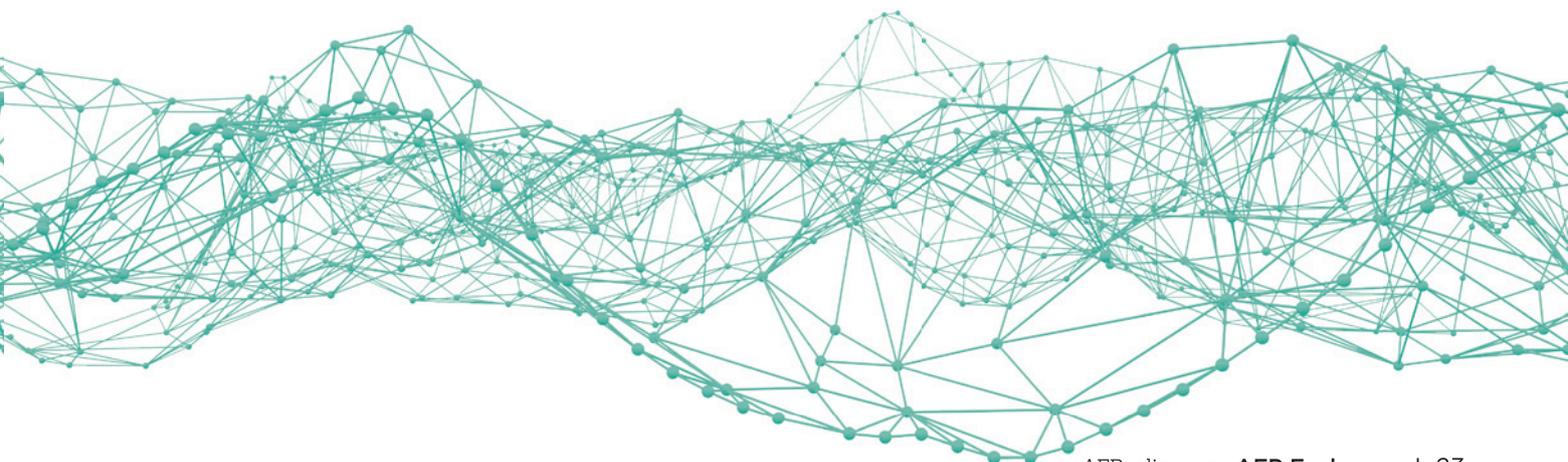
Scott Shay, Signature Bank’s chairman, said that other industries that have expressed interest in Signet include cargo shipment companies that engage in thousands of small transactions, as well as companies that sell digital products. Signature Bank declined to comment further on new or potential customers.

Cryptocurrencies such as Bitcoin and Ethereum use public blockchains, in which anyone can join and there’s no central authority. Signature Bank is Signet’s central authority, determining

who can join the network, and it can correct or otherwise change problematic transactions. Shay said that the bank has yet to make such changes, but if it did they would be “completely transparent,” since everything is recorded and timestamped on the blockchain.

The bank’s Signet platform was developed by Tassat, a New York-based fintech that has also built a platform to trade digital currency-based derivatives, as well as reference rates for bitcoin and other cryptocurrencies. CEO Thomas Kim said that the firm is developing API functionality that will permit the clients of banks using Tassat’s core payment offering, like the Signet platform, to process high volumes of payments faster and more efficiently. He added that companies’ needs and workflows around payments and treasury management have become more complex as their businesses grow, prompting them to ask their banks for access to APIs that allow them to integrate their proprietary payment and treasury systems with the bank’s.

“The API enables our bank partners to deliver more banking as a service (BaaS) to their corporate clients, where they can work together to solve for more sophisticated payment workflows and needs,” Kim said.





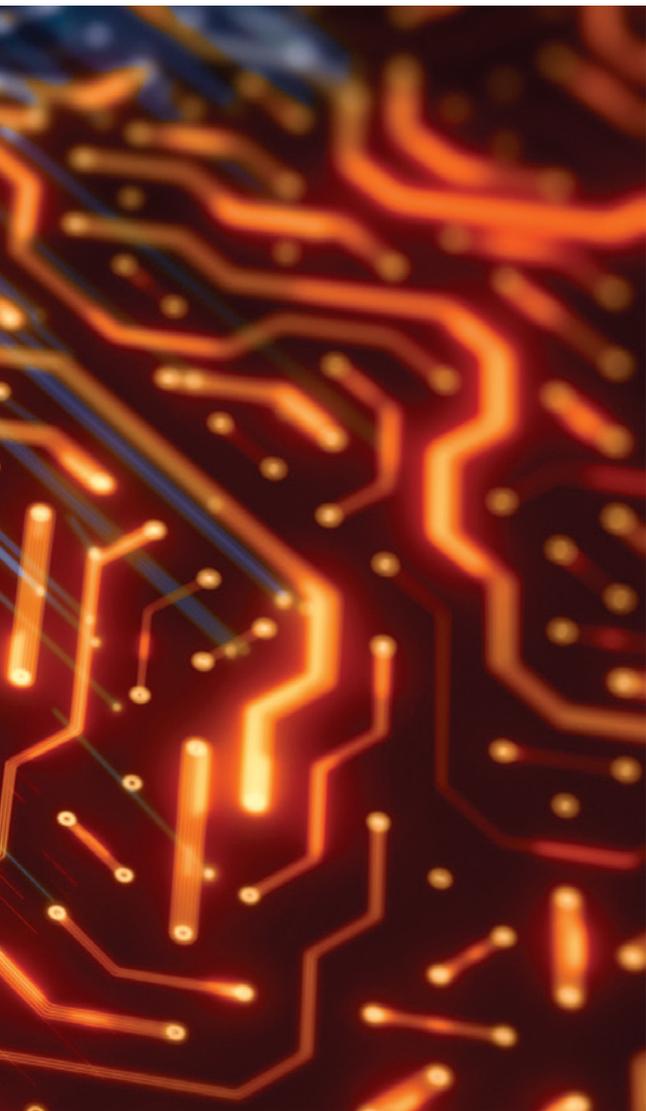
ANDREW DEICHLER

What's Your Game Plan?

Treasury needs to have a strategy for cybersecurity

Data, cyber and identity controls are top priorities for corporate treasury and finance professionals. What do practitioners need to consider when working with their team, their banks and their technology partners when attempting to protect themselves?

At AFP 2019, Stacy Rosenthal, senior vice president and head of payments product for Santander and Bob Stark, vice president of strategy for Kyriba, joined the AFP Conversations podcast to discuss practical approaches to strengthening cybersecurity, focusing on three fronts: people, processes and tools. The following is an excerpt of that interview.



Andrew Deichler: So let's start with the top cyberthreats to corporates today. What types of attacks do each of you see as the biggest threats specifically to corporate treasury and finance? Is it ransomware, is it business email compromise scams, man-in-the-browser—or some combination?

Stacy Rosenthal: I think it's a combination thereof, dependent upon the industry or the type of organization, they may see one attack more than the other. However, what's top of mind for corporate treasurers is to make sure that they mitigate internal and external risks and to do so, it's important to work in collaboration internally, to have the right policies, procedures and tools, and externally

with partners and vendors. And that's where working with organizations like Kyriba is so critical. Whatever the threat may be, whatever the concern is, make sure that there's awareness, understanding and a plan.

Andrew Deichler: Bob, on that note, you work with corporate treasury and finance professionals. Are you seeing any kind of a change as these new threats come? Are you working closer than you ever have before with your clients? They are obviously relying on you more than they have in the past, when installed treasury management systems were the norm. Now, their technology partners are the ones heading up a lot of that technical support.

Bob Stark: It's a very good question. I'd like to piggyback on what Stacy was saying; awareness is heightened. Now it's heightened because you look at everything; you look at the AFP Payments Fraud Survey and every year, the percentage is a little bit higher in terms of the type of fraud attempts that are happening. So CFOs, CIOs, CTOs—the C-level across the organization—recognize that there are significant threats not just around payments. Certainly, that's what's within the CFO's remit, and they recognize that there are controls you can put in place to do something about that. But like Stacy said, awareness is important. That's something that's changed quite a bit in the past five to 10 years. Ten years ago, we weren't talking about this. Five years ago, we were sort of talking about it, but with a vagueness—not really appreciating exactly what was going on so that we could put ourselves in a position to protect against that.

Andrew Deichler: Yes; when we had the Target breach, that felt like the breach heard around the world. It felt like the C-suite really woke up to these threats. But one issue that corporate treasury and finance professionals have is getting buy-in for technology projects. It's not always easy to convince somebody at the top, "I need this technology for treasury." But for this topic specifically, with all this recognition going on in the C-suite, do you feel that it's easier for treasury professionals to get that buy-in?

Bob Stark: Well, what I would say is that it's the collaboration that Stacy was mentioning a few moments ago—that's what's critical. Treasury on their own always will struggle with proving that value to be a priority in the budget cycle. And that's always been the case. Whether you're talking about liquidity, whether you're talking about currency volatility, whether you're talking about payments fraud and cybercrime, there's always going to be a struggle to show exactly what the quantitative ROI is going to be. But treasury is not facing payments fraud alone. And so it's the CFO who sees this across other workflows, and it's part of the CIO's remit, who typically own the ERP, where a lot of these payment controls originate from. So it's collaboration that needs to happen in order to free up the funds to fight it.

Stacy Rosenthal: And it's technology coupled with people and process. So it is a board level conversation—the concern about cyber, data security and fraud—and the internal and external ways to mitigate these things. But it's also making sure that that conversation that happens with the CIO and the CISO is not only about treasury, but about protecting the enterprise and having the appropriate checklist, standard operating procedures and change management. So it's not only about taking the best of technology and making sure that you have the right entitlements, the right access management and the right technology partners to work with. But what are you doing with that technology? Are you actually utilizing the tools that are available to



you to be able to configure it in a way that makes sense for your business?

Do you have policies and procedures to manage your day-to-day so you're not caught flatfooted if something goes wrong? That's why it's so important to understand your current environment and to work with the resources that you have at the helm. Also, talk to your peers, talk to your technology providers, talk to your banks, so we can all partner together. It's definitely a team sport, it's not an individual participant game here.

Andrew Deichler: Sure. And so, Stacy, when meeting with your treasury clients, are you seeing them be more proactive now? Are they taking those steps, so that they're not just reacting when they get attacked? Are they making sure that they insulate themselves so that they don't get attacked in the first place?

Stacy Rosenthal: I think there are a lot more questions being asked about what's available. There's more interest in attending educational sessions and webinars, and having active discussions. The RFP landscape has changed. There's not only a section on security but more interest in understanding the various controls, and then what they should be thinking of and who they should have at the table. Before, it was a discussion where you'd be speaking



to the business team and then they'd invite their technology team, or technology would be speaking without the business. Now, it's truly a partnership across the organization, and it's not always with a banking partner. It's the banking partner, the corporate treasury team, as well as the technology provider, if there is one. They are asking great questions, and they're also inquiring about what they should be asking. What don't they know? How do they get better at it? And what's changing?

I had heard from a corporate practitioner that when it was check payments, they had more understanding of what the landscape was and how to manage it and the tools that were available to them. Now we're going through yet another digital transformation, and we have this concept of payments everywhere and the cloud and APIs. It's less comfortable for corporates to know what they don't know. It's like, "What should I be asking? Who should I be asking this of?"

Bob Stark: I would add to that there are people that are bringing examples because they're trying to understand, "Is this something that could affect me?" And

they don't know what they don't know, so that's an excellent point. When they are asking those questions, they're trying to be proactive. They're taking a hypothetical scenario or a real-life example that happened to someone else and they're asking, "How does this not happen to me?" And that is a collaborative type of conversation. Treasury will have had that conversation with the CTO, with the CIO, with the CSO to ensure that they are internally asking the right questions around their own network. But they're trying to create a resilience that all they know is this has happened to other people, and it could be as simple as there may be a controller in a different part of the world, maybe it's in Europe or Asia or Latin America, that had some privileges that maybe they shouldn't have had.

Or it's some sort of breakdown in controls or policy that allowed a payment to be initiated and approved by not as many people as should have been doing that. And as a result, you create a scenario where that standardization, that consistency of controls that Stacy was talking about, doesn't happen. And sometimes it's as simple as that.

This episode of the **AFP Conversations** podcast was sponsored by Santander. The full interview is available at www.AFPonline.org/ideas-inspiration/discussions/afp-conversations-podcast/



EXTREME MAKEOVER

To change with the times, Hyundai Capital America overhauled its capital structure

STAFF WRITERS

The auto industry was changing, and Hyundai Capital America (HCA) knew it needed to change too if it wanted to keep pace. To meet these challenges, HCA overhauled its capital structure. In the end, HCA's solution was so innovative that it won the AFP 2019 Pinnacle Grand Prize for excellence in treasury and finance.

Looking around the bend

Following nearly a decade of rapid growth, HCA's balance sheet had expanded dramatically, with a significant reliance on debt. This had stretched HCA's capital structure towards the upper limits of its internal targets. Additionally, heavy reliance on secured funding limited its amount of unencumbered assets and reduced operational flexibility, since plain vanilla assets were required to be pledged. The



growth HCA experienced had similarly limited the accumulation of excess liquidity, hindering HCA's ability to prepare for cash flow contingencies.

HCA realized that it needed to overhaul its capital and liquidity strategy if it wanted to remain relevant in a smart mobility future. Asset-backed or secured funding reduces an organization's ability to innovate and constrains operational flexibility. The auto industry has changed substantially in recent years, with increased ride share, autonomous driving and electrification—therefore, a financial strategy that didn't allow for innovation was not a viable option.

Major innovations

Uniquely, HCA's finance department was where the innovation began, having been given the role of directing overall strategy. The team determined that its best option was a radical transformation of its capital structure and liquidity profile, one that would position HCA for market force disruptions. Finance significantly reduced its leverage, which provided a stronger capital cushion and more flexibility to pursue new revenue opportunities. The finance team also reduced asset encumbrance and increased its unsecured borrowing capacity to prepare for future market changes and the next eventual downturn.

“Our dramatically strengthened financial profile is enabling the commercial side of the business to lean into the industry changes rather than resist and risk obsolescence.”

As a finance business, HCA's funding cost competitiveness is imperative. Throughout this transitional period, the finance team was able to maintain that competitive edge through innovative bank and investor sourcing, as well as strong marketing. “Our dramatically strengthened financial profile is enabling the commercial side of the business to lean into the industry changes rather than resist and risk obsolescence,” said Charley Yoon, treasurer for Hyundai Capital America.

Recapitalizing the business involving three key goals: supporting companywide efforts to enhance profitability, arguing for a fresh equity injection, and proposing an innovative financing move that consisted of selling assets (a residual sale) to strengthen the balance sheet. These initiatives reduced HCA's debt to equity leverage by 2.5x over six quarters.



Ranjana Clark of MUFG presents the Pinnacle Grand Prize to Charley Yoon of Hyundai Capital America.

Growing HCA’s unsecured funding mix required intensive marketing efforts, which meant going around the world to expand the company’s network of senior unsecured bond investors. Finance also upsized HCA’s commercial paper (CP) program by 30% to \$3 billion, and targeted incremental investors through tradeshows, investor conferences and in-person meetings.

Finance also changed its U.S. bond issuance format by beginning its bond borrowing during Asia market hours, and then following the sun to Europe and carrying on into the U.S. market. While this doubled HCA’s borrowing hours, it also exposed the company to higher market risk.

Key outcomes

HCA’s funding flexibility increased exponentially. Unencumbered assets grew by more than \$4 billion, and secondary liquidity in its senior unsecured bonds and CP improved with their larger outstanding balances. HCA’s unsecured funding mix increased by 13 percentage points to over 60%. Additionally, the rating agency implied rating for HCA’s capital adequacy improved by four full notches.

Finance shifted over \$1 billion of annual debt maturities out of the overcrowded summer months, and upsized and extended the maturity on its largest committed revolving credit facility to \$4 billion. This was particularly significant,

as most of HCA’s competitors were introducing shorter tenor revolving facility tranches in order to get banks to refinance their overall facilities.

“The dramatic reduction in our leverage demonstrated a strengthened financial profile, which helped reduce our borrowing costs through minimal credit spread concessions charged by lenders,” Yoon said.

HCA’s new funding flexibility enabled the front-end of the business to pursue new and innovative products, including auto finance subscription/bundles, partnerships with mobility/ride-share providers, used vehicle financing, longer-term loans, and eContracting.

Pinnacle Award

The Pinnacle Grand Prize, sponsored by MUFG (Mitsubishi UFJ Financial Group), was presented to HCA before the opening keynote at AFP 2019 in Boston.

“AFP is honored to recognize Hyundai Capital America’s contribution,” said Jim Kaitz, president and chief executive of AFP. “As disruption continues, Hyundai Capital America’s solution embodies the innovative spirit required to advance the treasury and finance profession.”

MUFG donated \$10,000 to the charity of HCA’s choice, Children’s Hospital of Orange County, which specializes in pediatric care. The hospital has a pediatric residency program, as well as the Children’s Heart, Neuroscience, Orthopedic, and Hyundai Cancer Institute.

Ranjana Clark, Head of Global Transaction Banking, Head of Transaction Banking Americas, and Bay Area President for MUFG, hosted the ceremony. “MUFG is proud to partner with the AFP in recognizing companies for their advancements in treasury and finance,” Clark said. “Hyundai Capital America’s entry highlights how an innovative approach can evolve the way companies conduct business. We congratulate Hyundai Capital America on receiving the Pinnacle Award and we are pleased to support their charity, Children’s Hospital of Orange County, in serving the community.”

The runners-up for the Pinnacle Award were Baird and Expedia Group. Along with Hyundai Capital America, these organizations were selected as finalists for their innovative solutions that demonstrated increased revenue, reduced risk, enhanced productivity, saved costs, or improved quality.



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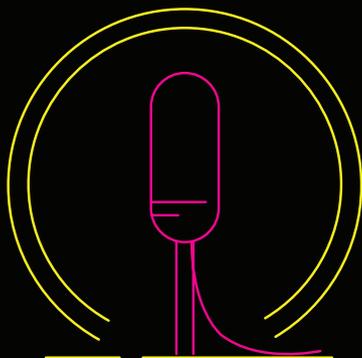
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Everybody's Got **Something**

At AFP 2019, Robin Roberts delivered a powerful message of perseverance

MADELINE CANNON

In a moment of national anguish, breaking down and crying on live national television, Robin Roberts believed she would surely be fired. But surprisingly, the opposite happened. In a keynote address at AFP 2019, the Good Morning America host explained how being temporarily overtaken by her emotions on air ended up being a pivotal moment in her broadcasting career. She suddenly understood her strength—her mess.

Position yourself

Roberts had always been a planner. She practiced tennis with the plan to one day arrive on the floor of Wimbledon, but at 5'10", she quickly found herself on the basketball team. But just because the plan changed did not mean Roberts stopped planning. Her new goal was to earn a basketball scholarship, which would enable her to eventually earn her degree and go into sports broadcasting. "I was positioning myself; I was dreaming big but focusing small," Roberts said.

After a 15-year stint at ESPN, Robin Roberts eventually decided to take on a new challenge, and joined Good Morning America. Not long after joining the beloved morning show, she found herself in the Gulf Coast reporting on Hurricane Katrina. She had lost communication with her family, who lived in the area. Fortunately, right before going live on air, she had found out that they were alright. When her co-anchor back in the studio asked about her family, Roberts, overwhelmed by it all, Roberts began crying tears of relief.

Crying on camera brought Roberts her greatest life lesson: the things that weigh on us do not have to be a detriment to your growth. Instead of being fired, Roberts received an overwhelmingly positive response to her authenticity. It was Robert's ah-ha moment. "Make your mess your message, everybody's got something," she said. "The tragedy is not understanding why it was placed in our path."

That is Roberts' message for not only your career, but for your life. Position yourself for success, but when that positioning doesn't quite land you where you want to be, seek to understand why.

Expect the best

Every treasury and finance professional has something going on—be it a personal or professional struggle, or both. We should not be so concerned with our differences per se, but with what we find in common. Because regardless of having these different life moments—at different times—at some point we have all come to understand sadness, heartbreak, joy, or love. These are the universal messages that we can relate to, individually grow from, and build on together.

"There are no risks; there are only chances," said Roberts. "It takes courage to believe the best is yet to come."

After putting in the dedication, which included working as a DJ at a country music station on the weekends just so she could cover play-by-plays for high school, all her planning and positioning brought Roberts the job she long desired—working as a broadcast journalist for ESPN. She had positioned herself to not only succeed in achieving her career goals, but also to realize her childhood dream of making it to Wimbledon—only as a reporter instead of as a player.

A photograph of Robin Roberts, a woman with short dark hair, wearing a light-colored plaid blazer. She is smiling and gesturing with her hands as if speaking on a stage. The background is a soft purple and blue gradient.

"There are no risks; there are only chances," said Roberts. "It takes courage to believe the best is yet to come."



Catching FIRE

ANDREW DEICHLER

Will real-time payments catch on with corporate treasury?

Corporate treasury professionals have generally been interested in faster and real-time payments, but many still look at it as a nice-to-have, largely because they don't necessarily feel they need the capability right now. A panel at the AFP 2019 Payments Symposium, sponsored by Nacha, looked at the struggle that faster payments have had in the United States and attempted to gauge whether greater adoption is imminent.

“We allow the customer to decide. They may not want or need it faster, but we leave it up to them.”

The roundtable discussion began with a look at several key points in the 2019 AFP Electronic Payments Survey. First, the study found that the speed of settlement is becoming more important to treasury and finance professionals. Additionally, respondents identified possible use cases, like last minute bill payments, and emergency payroll. But while the survey found many potential use cases for faster/real-time payments, there is still a question of whether corporates have serious plans to put them into action.

Faster payments adoption

Nacha's Same Day ACH system has seen growth but it's still very early on in the process, noted Michael Herd, senior vice president of Nacha. Same Day ACH payments are projected to hit about 250 million this year, bring its total to about 500 million since the service launched in late 2016. “That's about 1% of total ACH volume,” he said. “We're very optimistic about future growth, but I think it's kind of indicative of where we are in the industry. Looking at the overall picture for Same Day, as well as faster and real-time payments, it's still in its infancy.

However, Same Day is likely to see more adoption once the \$25,000 threshold increases to \$100,000 in March 2020. This has been a key barrier that has kept many treasury professionals from using the service. Nacha is also planning to increase the hours for Same Day ACH the following year, which may make it even more appealing to corporate practitioners.

As for real-time payments adoption, The Clearing House's Real Time Payments (RTP) Network has been in effect since 2017, though it has struggled to gain mass adoption. Like Same Day ACH, it also has a \$25,000 payment limit, though that is slated to increase. Additionally, the Federal Reserve is launching its own real-time payment and settlement service called FedNow. However, there's a question of how well RTP and FedNow will be able to work together.

Use cases

David Tao, head of payments and treasury for Gusto, noted that part of the problem real-time has had catching on en masse is because both corporates and consumers have yet to find one particular use case where real-time fits in every instance. “It's not about a single use,” he said. “It's about optionality.”

However, Tao has observed a demand for real-time, particularly when he was still with Uber. Many Uber drivers sought to be paid immediately, which resulted in Uber's AFP 2018 Pinnacle Award winning daily payments solution, Instant Pay. Additionally, some of the smaller restaurants that Uber Eats works with were requesting to be payment in real-time because they have cash flow issues. “They push to get paid faster so they can keep stocking their inventory,” he said.

One area where faster and real-time payments have found a home is in B2C payments for insurance companies. Lynn Cirrincione, director of treasury, cash and banking operations for Allstate Insurance Co., explained how, after Hurricane Katrina, her organization realized they couldn't send checks to victims who were no longer in the New Orleans area. This ultimately led to Allstate making immediate payouts to its customers. That solution also won a Pinnacle Award in 2017.

However, these payments aren't mandatory; Allstate will still send checks if that's what customers prefer. “We allow the customer to decide,” she said. “They may not want or need it faster, but we leave it up to them.”

And that's essentially where faster payments are right now. Organizations and consumers are interested in the service, and some would willingly use it for every payment. But as long as there are options out there and no government mandates like SEPA in the EU and Faster Payments in the UK, businesses will continue to only use the service when and where it makes sense. As such, that could mean that mass adoption in the U.S. may take a long time.



Download the 2019 AFP Electronic Payments Survey, underwritten by J.P. Morgan, at: www.AFPonline.org/payments

MOVING on UP



FP&A professionals discuss the difficulties of climbing the technology ladder

BRYAN LAPIDUS, FP&A

Corporate practitioners shared stories of frustration and success at moving up the technology ladder during an FP&A Roundtable at AFP 2019, sponsored by IBM on behalf of QueBIT. Increasing your capabilities is essential, but execution is hard.

“We have tried three major IT projects in finance and achieved nothing,” said one frustrated FP&A professional. “How are you getting it done?”

In this peer-mentoring session, the group provided many useful takeaways for each other.

Tailor your digital roadmap to your situation.

- The roadmap may be focused on a single tool that needs to be implanted between budget cycles, or broad in view, as members referenced the AFP 2019 educational session detailing American Express' seven-year transformation journey.
- In designing your roadmap, interview your stakeholders to see what they need and design for that functionality; it also serves to build supporting allies around the company.
- "Change fatigue" from successive implementations can dull the motivation of the best employees; the roadmap can combat this by showing progress towards a goal.
- It may be useful to build your own roadmap due to a limited view of market options; outside consultants can guide the discussions to navigate different technologies, vendors and the vision process.
- To help win support for your plan, consider showing how easy it is to ask FP&A a question, but how hard it is to get the answer in the current system.

Work closely with IT.

- In the best case, finance can have a tight partnership with IT.
 - "Two in a box" leadership describes a project where ownership responsibility exists with both functions, and both leaders have their name in a box on top of the project org chart.
 - You may even be able to have an IT relationship partner embedded in finance. One participant reported that they hired their own IT person to sit in finance with a dotted line back to the IT.
- In a counter example, the IT team was focused on delivering services to external customers rather than internal teams. In this case, the finance team chose cloud solutions where they controlled the administration of the SaaS software.
- In all cases, cultivate a strong relationship with IT project managers, who can translate business requirements to technical requirements.

"We have tried three major IT projects in finance and achieved nothing. Are you getting it done?"

Uncover, hire or rent your enthusiasts.

- Many people at the roundtable reported that they "uncovered" people with tech skills or aptitudes that were not obvious, in use, or realized. Often a good project will attract or transform staff members and can redirect an employee's career in exciting ways.
- It's a good idea to hire finance people with a "tendency towards technology," as demonstrated through interview aptitude questions, experience with APIs, SQL, and building structured data tables.
- Some FP&A departments may opt to outsource rather than hire; assess the situation and use your best judgment. "If we have some work to be done and are going to need the skill for the three years, we will hire or train for it; otherwise, we use consultants," explained one practitioner. This keeps the employees motivated because they are developing forward-looking skills.

Train up your boss.

- Several practitioners reported that their digitization efforts stopped at the CFO, who would not understand, trust or use the new technology.
- Remember that executives are also afraid of appearing dumb or unaware, so consider private training sessions, sharing "tips" as a euphemism for training, or send them offsite classes to get them onboard.
- Mainstream the use of technology in meetings and regular operations so that the new technology is routinized.

Trust the PROCESS

Rana el Kaliouby
builds AI we can trust

MADELINE CANNON



Humans are not fans of change. When something in our environment changes, we often push back. It's not the advancement we fear, but the unknown that comes with it. Rana el Kaliouby, co-founder and CEO of Affectiva, knows all too well the fear that people have toward innovation, and she provided AFP 2019 attendees with her insight in the AFP MindShift keynote address, sponsored by Capital One Commercial Banking.

Overcoming the fear

El Kaliouby noted that the topic of artificial intelligence (AI) generates a palpable tension in the air. Most of us have heard the horror stories of bots becoming biased in under 24 hours of operation and we have all been fed the Hollywood narrative that robots are going to one day take over our lives. In terms of dealing with AI, the fear we experience stems from a lifetime of being presented the worst-case scenarios.

She's on a mission to change that. "I want to bring emotions back into our digital experiences," el Kaliouby said. "I want to build AI that we can trust, and it can trust us." The world her children are growing up in is radically different from the life she had growing up; the future is on a one-way track toward a technologically integrated society that we seem less and less in control of.

Accepting that we will be unable to reject AI, el Kaliouby has set out to dismantle the fear that older generations have toward robotic advancement and create a bridge toward the positivity and hope younger generations experience due to being born in a digital world.



As the future looks increasingly complex, el Kaliouby doesn't let fear win. "We're building these technologies; they're not suddenly going to take over the world." She's pushing back against the shadowy narrative of AI with her work—a new social contract between AI and humans. It revolves around ethics, being human centric, dismantling known and unknown biases from the development stage to the end product, and establishing a code of integrity that safeguards emotional intelligence AI from certain fields that could abuse it.

Finding hope

Financial professionals could take a page or two from el Kaliouby's playbook. As AI becomes increasingly interwoven into treasury and finance technology, how can practitioners make sure that they are combatting the worst-case scenarios? As el Kaliouby suggests, by pushing past fear and finding hope in the unknown.

Emotional intelligence AI brings a world of possibilities to the treasury and finance world, from enhancing the consumer-product experience, to conducting international business more efficiently, to better understanding emotion-based decisions inherent to financial actions. As this profession continually relies on digital processes, we must incorporate the integrity and commitment that el Kaliouby has demonstrated by working toward a future that is ethical, so that the world we leave behind is one future generations can trust.



AFP Aware

Community Service Day

STAFF WRITERS



For the tenth year in a row, AFP and BBVA teamed up for AFP Aware Community Service Day. Nearly 70 treasury and finance professionals arrived at AFP 2019 early on Sunday morning, to give back to the community of Boston.

“It is inspiring to be a part of this effort and to have a real impact on the community,” said Nanette Crocker, executive director and USA corporate Treasury Management sales manager for BBVA.

Bob Whitaker, CTP, senior vice president, corporate finance for DHL and chairman of AFP’s Board of Directors, agreed. “I love that we get the opportunity each year at conference to give back to the local community that hosts the event,” he said.

For this year’s offsite project, AFP 2019 attendees assisted the City of Boston’s Love Your Block program, which offers mini-grants and neighborhood cleanups for beautification projects. Boston’s Office of Civic Engagement started the project in 2015, which urges Bostonians to revitalize their neighborhoods one block at a time.

Volunteers traveled to a local elementary school, where they painted benches, built learning gardens/flower beds, built bookshelves, organized storage rooms, cleaned up the school grounds, and painted walls throughout the school. 36 volunteers participated in the offsite event.

“I’m always amazed at how much can be done in a short amount of time with a group of dedicated individuals,” said former AFP Chairman Jeff Johnson, who participated in the Love Your Block event. “AFP members joining together to improve the communities we are in moves me and motivates me. In the end, behind the numbers we work with every day, are people and this allows us to help people in a very tangible way.”

AFP 2019: AFP AWARE

For this year's onsite project, attendees worked with Pine Street Inn, which has worked for the past 50 years to move people out of homelessness as quickly as possible. Services provided include shelter, outreach, facilitating moves to permanent housing, and workforce development.

Volunteers assembled 300 hygiene kits and 2,000 utensil packs for homeless individuals in the local area. The hygiene kits contain personal toiletry items, as well as winter socks, lip balm and hand warmers, while the utensil packs are an important part of meal service. 31 attendees participated in the onsite event.

Last but not least, AFP conference attendees also gathered for Paintfest, which took place in the Exhibit Hall throughout the event. Attendees painted pre-drawn murals provided by the Foundation for Hospital Art, which are donated to healthcare facilities across the country. The Foundation for Hospital Art's mission is to give comfort and hope to those who suffer in hospitals by providing them with murals at no cost in order to soften the experience for patients, families, and hospital staff.

"When attendees volunteer for AFP Aware, they're giving back to a community that needs physical and emotional support," said Marcia Harris, senior treasury and account manager for the American Institute of Physics and the AFP Aware ambassador. "Whether our task is small or large, we always seem to accomplish more than what is expected."

Harris added that volunteering every year gives her a sense of thankfulness to be part of AFP. "It really makes me understand that as an organization, people come from all different areas and they want to help others," she said. "And that makes me feel good, because I'm a member of AFP."



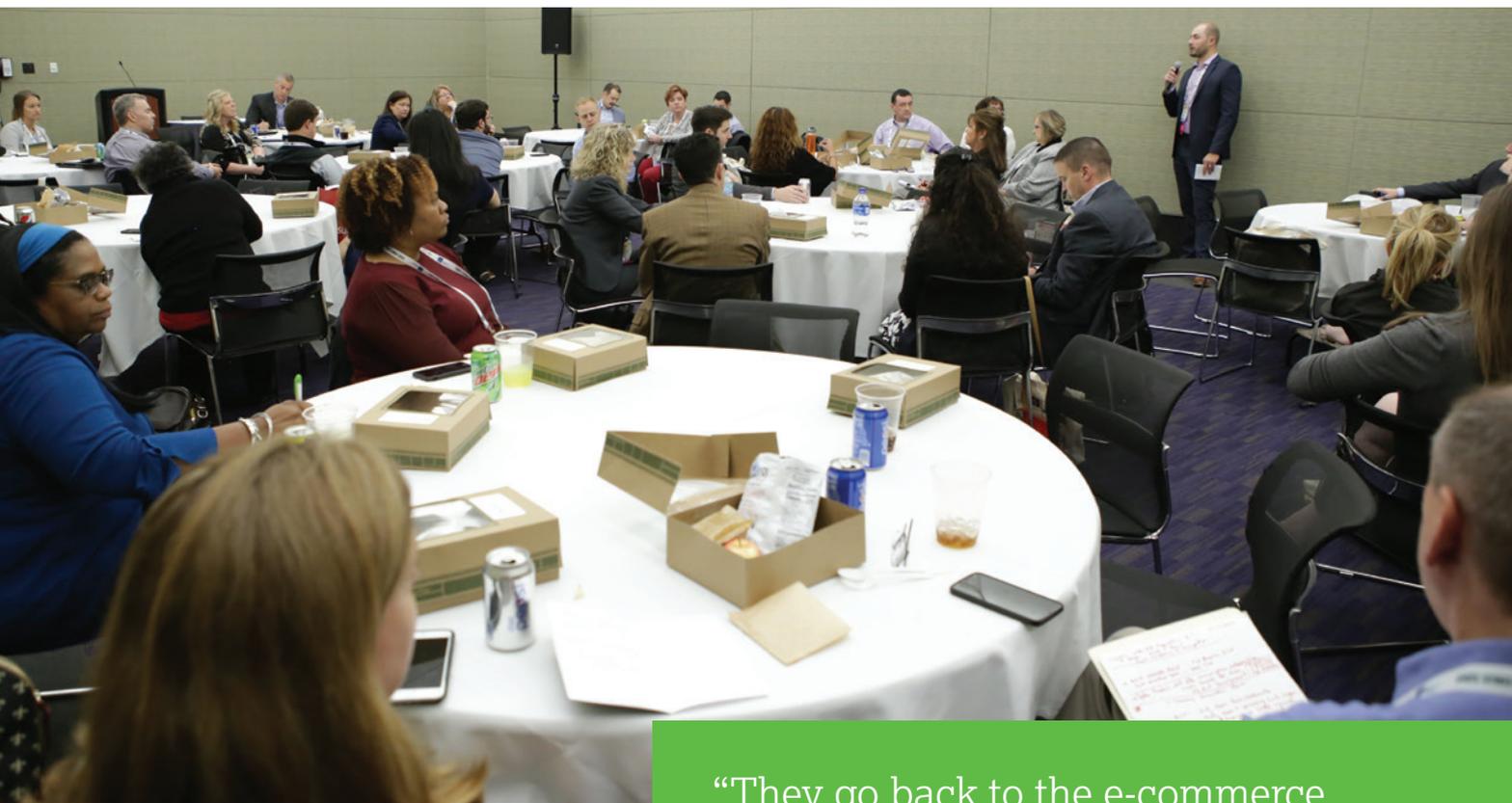


RETAIL, As We Know It

As e-commerce grows,
merchants rethink their approach

MADELINE CANNON

At the AFP 2019 Retail Industry Roundtable, sponsored by Fifth Third Bank, treasury professionals lamented the steady decline that traditional brick-and-mortar retail is experiencing. With the rise of online titans like Amazon and Alibaba, merchants have found it increasingly difficult to gauge customer behavior and devise new ways of keeping people coming to their stores. Customers aren't behaving in reliable ways anymore because retail, as we know it, is dead.



“They go back to the e-commerce sites and find a cheaper version or the best price that they can find.”

One practitioner mused over a recent survey that said 70% of millennials prefer shopping in stores, while Generation Z is at 77%. Most of the practitioners scoffed at this survey, and rightfully so. Customers aren't going to the empty mall for one store and they're not driving to an outlet 30 minutes away. So, it begs the question—is it worth even having brick-and-mortar stores at all?

Changing behaviors

Retailers are struggling to adjust to this new paradigm. Previously, there wasn't much of a need to feel threatened by the digital world. When e-commerce came about in the 2000s, it was infantile. eBay was not going to replace JCPenney. But the digital world we live in today is an entirely different beast than the one 10 years ago.

Traditional retail has been passed over in favor of online marketplaces. Reuters reported that Alibaba just set a record of \$38 billion in online sales during their November Singles' Day shopping event. Retail has tried to compete against these behemoths, but has faced many challenges, some in the form of regulators. In

2016, the Federal Trade Commission (FTC) rejected Staples' acquisition of Office Depot over antitrust concerns, despite Staples' argument that Amazon would provide substantial competition. Meanwhile, regulators have so far been reluctant to crack down on big tech. The lack of understanding the federal government has shown will continue to be an impediment for retailers who wish to compete against growing online monopolies.

Online markets that offer everything in one place have become the bane of retail's existence. One practitioner at the roundtable noted that even if a customer visits a brick-and-mortar store and finds the item they're looking for, it's still no guarantee of a sale. “They go back to the e-commerce sites and find a cheaper version or the best price that they can find,” he said.

The plurality of online retail sites today has fundamentally changed the way consumers

behave. Concepts like brand loyalty no longer hold and consumer expectations have shifted. For example, with the arrival of two-day shipping, Amazon has shifted consumer shopping expectations to expect fast and cheap delivery. It's the easiest and quickest option for the consumer to choose, "I'm guilty of that myself; I just don't have time to get to the stores," said one retail treasury professional.

Tariff turmoil

Retail faces another current temporal hurdle—tariffs. Since consumers can go online

Offering something new

With so much disruption, retailers have been taking on new approaches to gain customers back. The general consensus of the merchants in attendance was that brick and mortar stores need to offer something different than what they can find online. "You need to do things in the store to make it more of a destination," said one attendee.

Jewelry and tire retailers at the roundtable explained that their stores are working on offering buy-online/pick-up-in-store options, in hopes of mimicking the fluid experience of online shopping. Their marketing has shifted as well; advertising is constructed around the experience rather than the product, since the product can be swapped out with a cheaper version from somewhere else. The jewelry retailer described the process as becoming more "touchy-feely" with the customer.

And yet, with so many new plans for attracting customers, the merchants still harbored doubt. "Is it worth it? I don't know," said one attendee.



"If we change our pricing, people will go to different stores. They don't care."

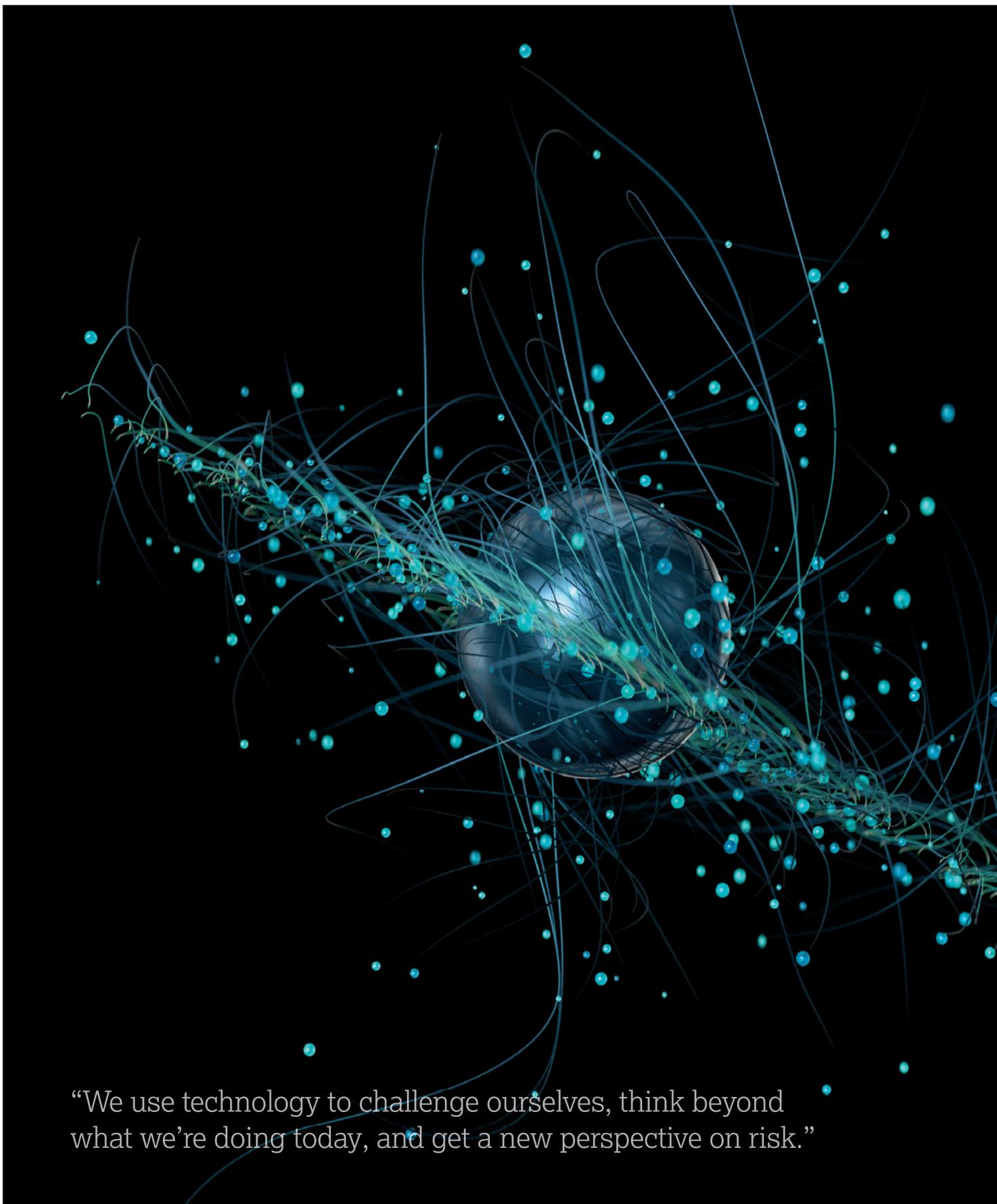
and find better deals somewhere else, the cost of tariffs has primarily fallen on retailers. "It's a pricing nightmare," said one attendee. "If we change our pricing, people will go to different stores. They don't care."

To work around the tariffs, some retailers have been buying in bulk. One practitioner shared how his business buys \$20-\$30 million in bulk and then stores it in its U.S. warehouses. And while that solution works for his company, he acknowledged that it isn't applicable for all. You need to have product that can be stored for long periods of time, as well as the space to store said product. Buying in bulk also poses the risk of not being able to move enough of your product over time, leaving the retailer in a deficit.

Adapt, or else

Common treasury problems such as fraud and the ills of armored carrier services will continue to persist on the backburner, but retail faces a far greater and immediate threat—extinction. No number of gimmicks will change the fact that your product can be bought somewhere else cheaper and more conveniently, and it will be received quicker.

Retail treasurers need to rethink what shopping truly is and what it could be in the future. If they continue to envision the practice as something familiar and unchanging, instead of treating it as something that is constantly evolving, then they are not likely to survive this increasingly competitive environment.



“We use technology to challenge ourselves, think beyond what we’re doing today, and get a new perspective on risk.”

MAJOR Disruptions

Corporate treasury journeys into new technology

STAFF WRITERS, WITH DATA FROM BLOOMBERG

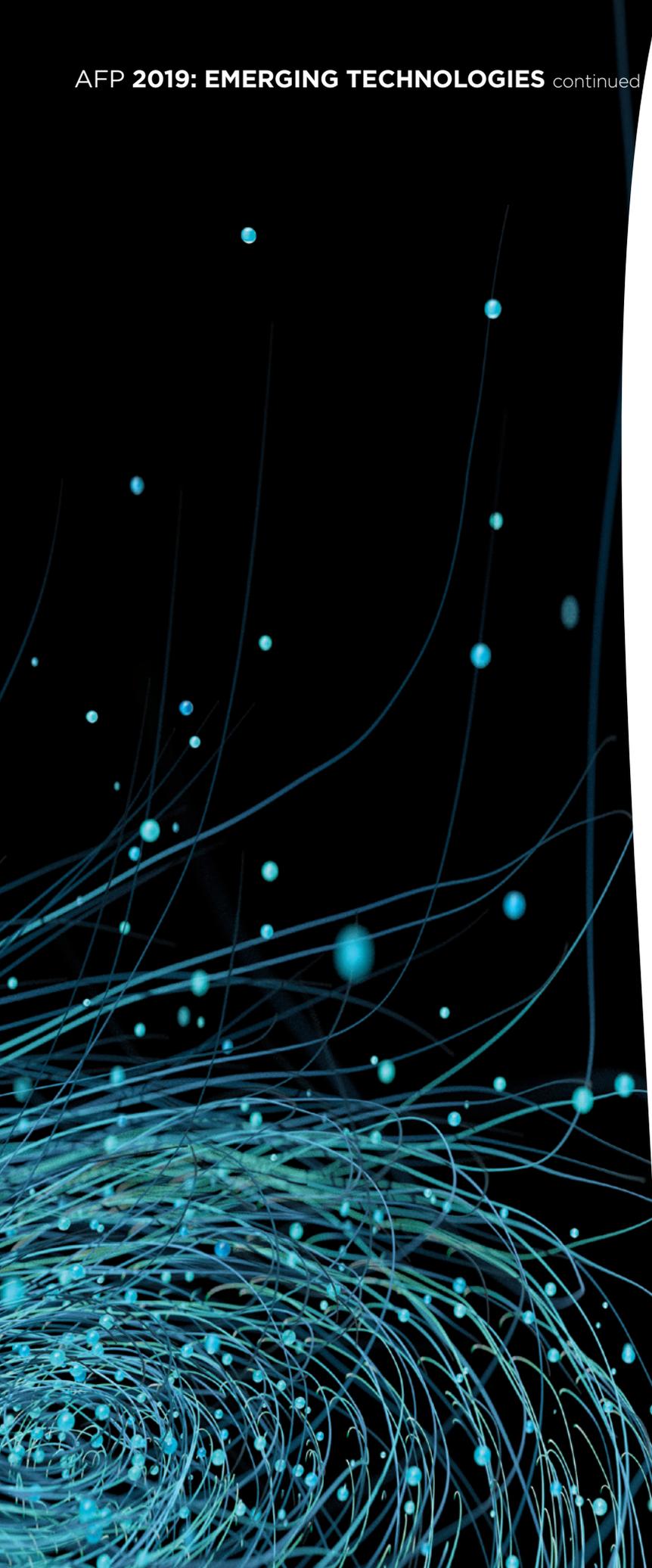
Corporate treasurers, faced with volatile financial markets and geopolitics, are looking to new technologies to reduce costs, gain efficiencies and strengthen their teams.

During the AFP 2019 Executive Breakfast, three leading treasury experts spoke about their journey to embrace new digital solutions and create strategic opportunities for their firms.

Thinking ahead

“We use technology to challenge ourselves, think beyond what we’re doing today, and get a new perspective on risk,” said Sandy Dominach, senior vice president and treasurer of Constellation Brands, a Fortune 500 company that is a global producer of beer, wine and spirits. New, disruptive technology can help minimize and manage risk, ensuring that the company is protected, she added.

One area where technology has brought vast improvements for Dominach’s company has been hedging. Previously, like many companies, Constellation hedged according to a certain percentage. Today, it uses a sophisticated formula to calculate the balance between its cash flow at risk (CFaR) and its earnings at risk (EaR).

An abstract background on the left side of the page, featuring a dark blue to black gradient. It is filled with numerous thin, light blue lines that curve and swirl, creating a sense of motion and complexity. Interspersed among these lines are many small, glowing blue spheres of varying sizes, some appearing as bright points of light and others as softer, out-of-focus bokeh. The overall effect is reminiscent of a digital network or a microscopic view of a complex system.

“Now, our calculations can be done in a matter of minutes, instead of hours. We have real-time data when we need it, and can easily show our executive management board a simple graph to show how we’re hedging,” Dominach said.

The new technology has improved life for her treasury team, too. They use robotic process automation (RPA) and artificial intelligence (AI) to handle manual and repetitive tasks, so that her team can concentrate on more high-value and strategic projects. “By using robotics, you can achieve greater financial control in your processes, as they are no longer manual,” Dominach said. “You’re taking that manual process out of it. There many repetitive tasks in treasury/shared service functions where we can use bots. At Constellation, we have actually been able to maintain and reduce headcount by applying this technology.”

Fluor, one of the world’s largest global engineering and construction firms that designs, builds, and maintains some of the world’s most complex projects, has also begun using RPA and AI to optimize its hedging strategies. “The right hedging strategy can mean millions of dollars to the business, so we are looking for any edge we can get,” said Todd Yoder, head of derivatives and hedging strategy and director of global treasury at Fluor.

The technology allows Fluor to have better visibility into its foreign currency exposure, specifically its CFaR, considering the impacts from diversification and carry. “We wanted more information to ensure we implement the optimal hedging strategies in alignment with our overall objectives,” Yoder said.

Streamlining processes

For Royal Dutch Shell, part of the challenge was the pure size of its operations. The company was running a multitude of disparate systems, which has caused major interoperability issues. “We can do great things and we’ve done great projects,” said Michael Dawson, head of liquidity and foreign exchange for Shell. “But the challenge is that we’ve done so many of them in the past that what we have is a technology ecosystem that is huge and complex, and the systems don’t talk to each other.”

“Our technology ecosystem was huge. Several systems had reached their end of lifespan and we had to continue to automate; the flow is just too great to manage via spreadsheets and email.”

But how do you replace multiple, separate execution systems with one integrated one, and still safely execute billions of foreign exchange trades? That was the question Shell had to answer. “Our technology ecosystem was huge. Several systems had reached their end of lifespan and we had to continue to automate; the flow is just too great to manage via spreadsheets and email,” Dawson said.

Shell wanted the best system possible, but it also wanted to create a new best practice for treasury globally, not just something bespoke. “Technology can be challenging, but you have to see the value in it and get comfortable with change,” Dawson said.

Shell’s overall goal was to move towards standardization. “Why should Shell have systems that only work for Shell? How do we adopt industry standards in technology to simplify all of this?” Dawson asked.

Shell replaced multiple systems and worked with Bloomberg to develop an expansion of FXGO, Bloomberg’s electronic foreign exchange trading platform. The new streamlined solution helps eliminate risks and achieve best execution, he said, adding that, “We have significantly reduced our costs.”

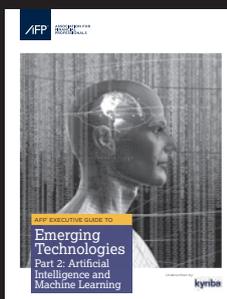
While technology is not appropriate for everything, Dawson stressed that treasury should automate things that do not add value. “Our new system gives us optionality, and empowers people,” he said. “We have removed manual tasks, and now have the time to focus on more creative, value-added tasks that allow us to make smarter decisions.”

Exciting times ahead?

According to Yoder, now is an exciting time to be corporate treasury, given the technology advances. “The acceleration in technology and innovation within the treasury ecosystem is being driven by lower costs for computing power and data storage, combined with an increase in the availability of data and applications being developed,” he said.

He emphasized the need for treasurers to be educated on AI and RPA, so that they are able to discern the current hype from the real value add.

Nevertheless, Dawson emphasized the importance of only adopting new technology where it is needed. “Let’s use technology for the stuff that it’s appropriate for,” he said. “Technology is not appropriate for everything. You still need humans to work on strategy and other things.”



For more insights on emerging technologies and how they can apply to treasury and finance, download **AFP’s two-part Executive Guide to Emerging Technologies**, underwritten by Kyriba, at: www.AFPonline.org/publications

EMERGING TECHNOLOGIES



Value PROPOSITION

Maximizing the potential
value of blockchain

ANGELA LAWSON

Should blockchain be on the minds of business leaders? While it may be tempting to give a definitive “yes or no” answer, the practical response is, “It depends.”

Proponents of the multiparty shared ledger, where some participants contribute to the operation, security and resilience of the system sometimes without reliance on a single owner, have enumerated hundreds of use cases in various industries from trade finance to healthcare. However, in the past year or so, what was once a multitude of potential use cases have contracted as business leaders ask themselves if blockchain delivers cost effective improvement over traditional solutions to their problems.



“The technology is hard of course, but the changes to the trust and business models are much harder. It can feel more complex because it is so fundamentally different from other technologies and constantly evolving.”

In our AFP 2019 panel discussion, “Avoid Mistakes: Make Fewer Assumptions About Blockchain,” experts in banking, technology and law discussed the landscape of blockchain adoption, and how to steer clear of the hazards others have encountered in exploring a much-hyped, but complicated, new technology.

Aligning stakeholders

One key obstacle that blockchain faces is whether stakeholders can agree on it. First, blockchain’s value proposition includes the promise to create efficiency in sharing information among multiple parties. “However, the technology itself cannot simplify complex transactions nor align numerous stakeholders,” said Samantha Pelosi, senior vice president of payments and innovation at BAFT.

Michael Concannon, vice president at American Express agreed. “Since blockchain solutions are distributed in nature, there are typically more stakeholders across the solution,” he said. These stakeholders include business partners, vendors, and even senior leaders within the organization.

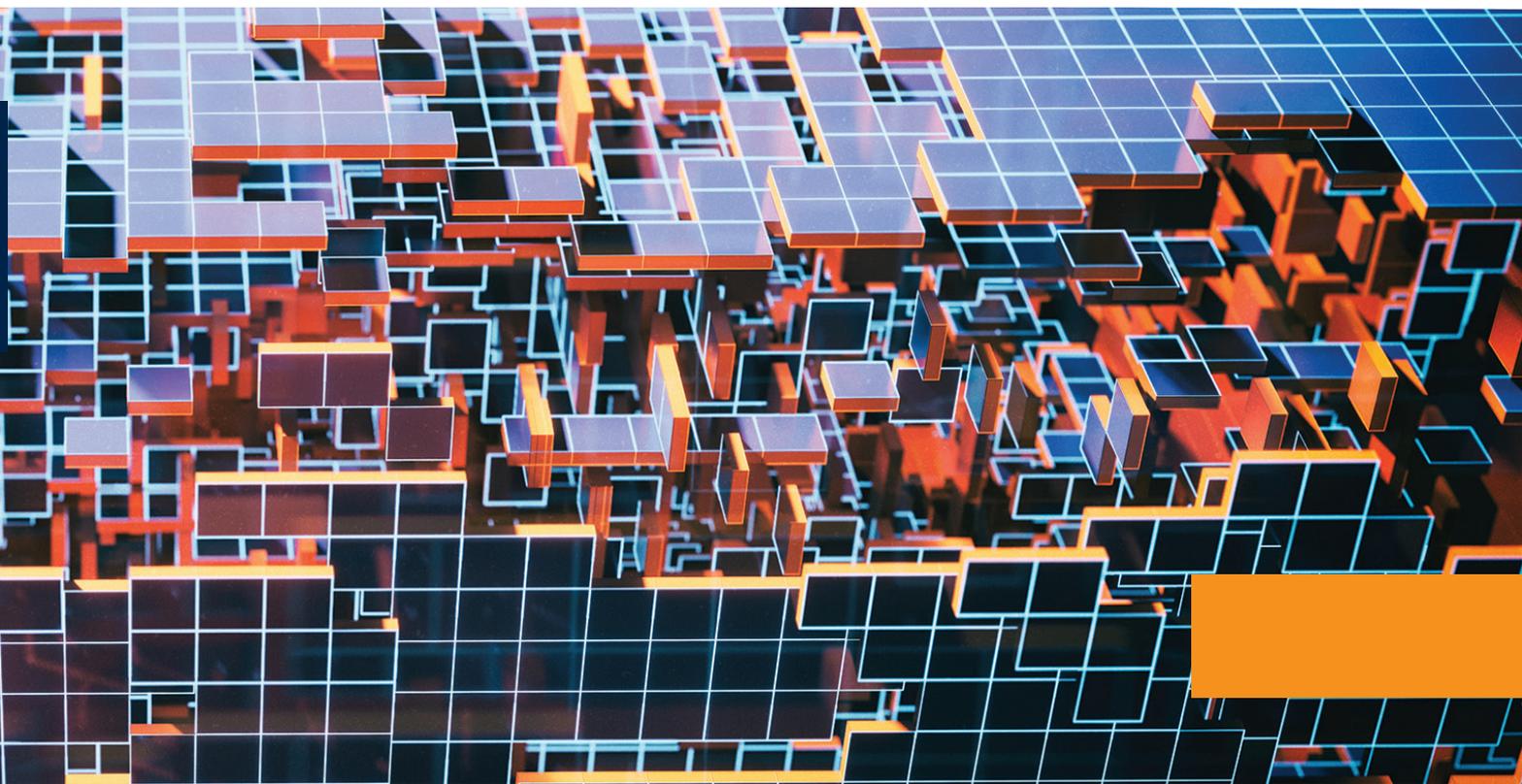
Jim Cunha, senior vice president at the Federal Reserve Bank of Boston, described the challenge of assuring senior leaders that an experiment to learn about the technology would not endanger production systems, processes or data. Media coverage, said our panelists, and the tendency to perpetuate hype over reality can mean project leaders must first help stakeholders “unlearn” what they have heard or read in order to accurately evaluate the use case. But achieving stakeholder alignment isn’t easy, even in many traditional projects or industries.



Technical complexity

It’s no secret that blockchain is a complex technology that can be difficult to implement. Though not ‘new’ in some respects, the combination of components and the shift from trusted intermediaries to a new operating and governance model adds challenges. “The technology is hard of course, but the changes to the trust and business models are much harder,” Cunha said. “It can feel more complex because it is so fundamentally different from other technologies and constantly evolving.”

As with any early stage technology, new skills and knowledge are needed, and the documentation and support sometimes doesn’t exist or is inconsistent. Standards bodies, like Accredited Standards Committee X9, are beginning work on establishing some of these best practices, including a new effort to develop audit guidelines for blockchain systems within financial services firms. These efforts will help set the foundations, but won’t eliminate the need for firms to develop a clear, objective understanding of the technology and what it can and cannot do.



“Blockchain platforms and types,” Pelosi noted, “are not interoperable.” Blockchain-as-a-service gives firms opportunities to experiment with less overhead in both learning and infrastructure, but may also result in an overreliance on service providers and a lack of in-house expertise. Concannon, a technologist, said technology teams, “need to help partners along since understanding varies from one partner to the next. Offering hybrid hosting models and creating an open API layer may help bridge the gap.”

Terminology

While the technology is complex, the terms often used to describe blockchain attempt to simplify it. However, the result can be misleading. Words like ‘immutable’ or ‘secure’ are often problematic. Cunha was one of a team of contributors from around the Federal Reserve System behind a recent paper that discussed blockchain terminology. The contributors concluded that most of the terms used to describe the technology, though not wholly inaccurate, still leave a false impression. The

terms, wrote the contributors, often suggest that the ‘natural’ design of blockchain delivers capabilities achievable only through specific design choices and with the addition of other systems or technologies.

Cunha noted that mixing people from different worlds—from developers to business to regulators—means the words we use simply mean different things. “Incumbents,” he said, “know their language and can’t often talk the new lingo (of fintech). Startups don’t often understand the business they are trying to disrupt. Regulators talk a different language from anyone.” No surprise then, Concannon pointed out, “education is a constant challenge.”

Angela Lawson is senior payments consultant for the Federal Reserve Bank of Minneapolis.

Disclaimer: Views expressed are those of the author and panelists and do not necessarily represent the views of their respective organizations.

MONEY BALL

How unique situations and a little fantasy baseball can improve financial analysis

KARL KERN



People may believe that financial analysis can be improved strictly from education and employment, but that is not always the case. Often, life can provide unique situations that allow finance professionals to improve their analysis.

My unique situation

My unique situation occurred as an undergraduate at Temple University. A common interest I had with my dorm mates was baseball. We played Strat-O-Matic, a precursor to fantasy baseball that involved drafting players instead of selecting teams. The draft that occurred in my senior year was the unique situation that improved my financial analysis.

The unique situation organized my work into the following process:

1. Establish a simple goal.
2. Define the goal.
3. Determine measurements.
4. Identify elements that fit the measurements.
5. Take action.
6. Don't take measurements at face value.

By following this process, you too can determine how your unique situation can improve your financial analysis.

1 Does your unique situation provide opportunities for asking questions?

Financial analysis must have a starting point, and asking questions is a great way to begin. Asking questions establishes the foundation for learning what financial analysis is, the process of learning whether businesses are accumulating wealth. If your unique situation provides opportunities for asking questions, you are on the path to improving your financial analysis.

2 Does your unique situation provide opportunities for defining goals?

The goal I established prior to my fantasy draft was to create a winning team. How I defined this goal was run production; I wanted position players who could maximize run production and pitchers who could minimize it. My definition of my goal for the draft has carried forward into financial analysis by understanding terms like profitability, liquidity and solvency. If your unique situation provides opportunities for defining goals, you're on your way to improving your financial analysis.

3 Does your unique situation provide opportunities for determining measurements?

Preparing for the draft gave me an excellent opportunity for determining measurements, which allowed me to identify what to look for in regard to run production. The table that appears at the end of this article provides insights into the measurements I determined.

4 Does your unique situation provide opportunities to identify elements that fit the measurements?

Again, while preparing for the draft, I looked for position players who could maximize run production and pitchers who could minimize it. This task has helped me as a financial analyst because position players and pitchers are like elements on financial statements and in transactions.

MEASUREMENT	FORMULA	PURPOSE
On-Base Percentage	$(\text{Hits} + \text{Walks}) / \text{At Bats}$	Identify position players who could get on base.
At Bats per Home Run	$\text{At Bats} / \text{Home Runs}$	Identify position players who could hit home runs.
Hits + Walks per 9 Innings	$(\text{Hits} + \text{Walks}) / \text{Innings} * 9$	Identify pitchers who could keep position
Home Runs per 9 Innings	$(\text{Home Runs} / \text{Innings}) * 9$	Identify pitchers who could minimize home runs.

Taking action in financial analysis goes beyond calculations; it requires communication with people who affect measurements.

5 Does your unique situations provide opportunities for taking action?

Taking action during the draft was very simple. Taking action in financial analysis goes beyond calculations; it requires communication with people who affect measurements. These are generally individuals working in production, selling and administrative functions. Communicating with these people can help you establish yourself as a helpful financial analyst.

6 Does your unique situation provide opportunities for not taking measurements at face value?

I remember selecting two pitchers, Alejandro Pena and Bob Welch. Pena had better statistics than Welch when it came to minimizing run production. However, Welch had a better win-loss record, because he would win games with scores like 8 to 4, while Pena would lose games like 3 to 2. This experience helped me scrutinize ratios, like the current ratio. The current ratio can communicate a strong liquidity position, however, a business having large receivables

and inventory balances is not as liquid as a business having a large cash balance. So if your unique situation provides opportunities for not taking measurements at face value and you have a critical eye, you can determine whether a business is in fact communicating wealth.

A unique opportunity

I will not deny that education and employment have helped me improve my financial analysis. But I also know that my unique situation helped me do the same. Having this opportunity before becoming a professional is something I will never discount, that’s something you should remember. Don’t discount the unique situations in your life, because sometimes they can help you become a better analyst.

The table above contains insights into the measurements that I determined prior to the draft.

NOTE: The draft occurred years before the book “Moneyball” was published.

Karl Kern is an accountant, lecturer and writer focused on economics and finance.

Deals, Deals, Deals

Five key
rules for
executing
on M&A

BRYAN LAPIDUS

Mergers and acquisitions are hard on FP&A. When two dozen practitioners gathered at an AFP 2019 FP&A Roundtable to discuss their roles and experience in M&A, there was no discussion of modeling economic benefits and strategic rationale. Instead, five themes came through clearly.

Deal structures and FP&A involvement vary.

There are many different flavors to M&A, and the negotiation for each will differ as well. For example, buying small companies that operate independently, private-to-private transactions, and a publicly traded firm acquiring another will each be handled differently. A banker in attendance explained how senior leadership at his organization was in talks with other company for about 10 years before finalizing an acquisition. In contrast, an FP&A practitioner for large consumer product company noted that once, he “had one month’s notice” prior to a deal. Some deals are negotiated among a small group due to secrecy and delicacy of the information; FP&A may be involved or not, often depending on the strength of the internal corporate FP&A group. For those who get short notice, one CFO noted, “there are reasons for that, and that is the way it is.” The best you can do is have playbook and process ready to execute.

Culture eats (M&A) strategy for breakfast.

While this is a play on the famous Peter Drucker quote, it essentially captures the sentiment of the room when asked to identify the most common pitfall for M&A transactions.

Deals may take on a momentum of their own that is hard to stop. “Often, people are also bought into the process... [it’s like] you have to go through with the wedding because the checks have already been cashed,” said one attendee. “You cannot stop the process.”

Then, when the hard work of integration takes place, people leave due to any number of reasons: fear, frustration, change, not liking the new circumstances, etc. “We offered 50% pay increases to the acquired employees and they still left,” a former CFO recalled.

The practitioners offered up some advice:

- The better you can define and explain your culture to the acquired staff, the better they will understand the change to come and hopefully appreciate the values of the new company.
- Include HR in the evaluation team, with the ability to examine and explain role alignments and read the culture of other company.



- Look out for signs of culture clash, including missed deadlines to deliver data and make progress.
- Assume and model headcount reduction of at least 25% in affected teams, and associated productivity loss.
- Have a blueprint for M&A to present an orderly expectation of events and diligence.
- Consider the earn-out incentives of key players.

Consolidated reporting will be hard.

“It has been 12 months since the merger and we are still working on getting our reporting right,” said one practitioner, as heads nodded in understanding and sympathy around the room. Systems don’t integrate, and even ledger accounts with the same name have different meanings and elements. There is a need to create “new historicals” for the combined entity as a basis for new forecasts. Yet this operational pain contrasts with the demands of leadership and investors who require that finance present consolidated reporting “on day one” after



the deal closes. Finance makes manual adjustments and ugly contortions to make the numbers work; this may be exacerbated if the time between deal announcement and close is especially short.

A few more pieces of advice:

- Standardize a template for reporting so the acquired team knows what is expected; deploy members of your team to coach the new team.
- Focus on the roll-up reporting items that matter.
- Beware of change fatigue; start with easy reconciliations like payroll.

Deals take on a life of their own.

Given the high stakes, the time investment from senior leaders, and the personal capital involved once negotiations begin and word gets out, it can be

difficult to walk away from a deal. FP&A practitioners can prepare for this by laying out milestones and goals ahead of time so that they have a pre-defined benchmark to compare progress. “We scuttled a deal because the company we were acquiring missed every deadline to deliver information to us,” one practitioner said. “We interpreted that as a sign of resistance.”

Get deal experience.

For all the frustration, deal experience is an important part of the finance resume. Deal volume was up last year, and the expectation is for further acceleration due to cheap capital, outsourced R&D, and the need to gain scale quickly. This is becoming a required skill for finance development.

For more exciting **FP&A roundtables on M&A** and a host of other topics, don't miss **FinNext**, March 15-17, 2020 in New Orleans. Learn more at: dynamic.afponline.org/finnext



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Finding Your Voice

ANDREW DEICHLER

If you saw me at AFP 2019, it was probably while recording podcast interviews at the AFP Conversations Booth. In contrast to previous years, I only had the opportunity to sit in on a couple of sessions, one of which was our opening keynote, Robin Roberts.

Robin is obviously a very inspiring speaker, but also very funny and relatable. One little anecdote that she shared that really hit home for me was how, when she first got into broadcasting, she took a job as a DJ at a country radio station. Robin's ultimate goal at that point was to get into sports reporting. But like so many of us, she had to take the work she could find and make the most of it—even though she wasn't a fan of country music.

Back when I was first trying to break into the competitive world of communications, I took a part-time job as a DJ for a country radio station. Now, I like all kinds of music; I'm mostly into rock, but I also like blues, R&B, rap, classical, jazz, etc. One type of music I've never been able to connect to is country, which I suppose is ironic because I grew up mostly in Central Pennsylvania and that's what's popular there. Nevertheless, every weekend, I had to get on the radio and act enthusiastic about the latest Dierks Bentley song.

But while I can't say I loved hosting a country radio show, one thing it did do for me was help me work on my radio voice. Most of us have an idea of what we sound like when we talk. But it's only after you record your voice and hear it played back to you that you know what you really sound like. This experience ultimately helped me immensely when I took over the AFP Conversations podcast.

And I think that's really the point. Throughout our careers, we often take jobs that we view as steppingstones. Obviously, we have our eyes on some other position. But it's also worth immersing yourself in the job you have, because the skills you obtain might prove highly useful somewhere down the line.

Back when I hosted that country radio show, podcasts weren't even a thing yet. And once I started my writing career, I figured my radio days were behind me. But we live in an age where technology is constantly creating new opportunities and trends. So when the time came to dust off my radio voice and put it to use, I jumped at the chance. But I might not have had the confidence to do it, had I not hosted that radio show.

When you have an opportunity to learn a new skill, don't brush it off. Absorb everything you can, because you never know when you might need it in the future.

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