BRIEFING:

Reporting from the AFP Executive Roundtables across the nation for Q1 of 2017

WHAT ARE FINANCE EXECUTIVES WORKING ON?

The theme for the latest round of Executive Roundtables across the country was a fairly simple one: What are treasury and finance executives working on? The answers, however, were unsurprisingly complex.

China

One treasury executive for an American company that operates in China discussed how Chinese authorities pressured his company to address unfounded food safety issues. This put treasury and the business on high alert to preserve liquidity, communicate updates to their banking group on a daily basis, and work with their entities in China to navigate a plethora of serious issues. Employees were put in jail, records were absconded by the government, and any and all access to employees was shut down.

It took several months to manage through the crisis, and it was determined that China—the country itself—was in the wrong and was attempting to pressure the company to pay a corporate ransom for their efforts. The American company realized its brand name was not as strong across the many provinces in China, but once China recognized the organization's prominent role in being a major employer as well as exporter, the situation improved immensely.

Treasury was brought in to facilitate getting employees paid, securing lines of credit, and getting currency settled as needed. This resulted in making three amendments to the company's credit facility, reconfiguring treasury processes across the country, and holding back on potential investments until the issue was resolved. As a result, the Chinese government saw the company as a foreign investment, and took a much more supportive role. Nevertheless, competitors and others continue to take a wait-and-see approach to investment in the country.

Other executives in the group commented that from a treasury and banking standpoint, China is "lawless"; rules change constantly depending on who is in power and differ from province to province. Some executives have used Entrust loans, but some of those have limitations in terms of the amount of borrowing based on what the bank will allow. Other executives admitted to shutting down their China manufacturing altogether; they couldn't establish a profitable business there and instead utilize a less risky distribution format.

Coordinating efforts with the State Administration of Foreign Exchange (SAFE) is key, but depending on who you are and what China deems important to its economy, treatment is often different many times. Technology companies have received favorable treatment in the past. As one executive commented, "You bring to China what they don't have." That gives you more leverage as a company.

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Upcoming Events

AFP 2017 Executive Institute
October 16-17, 2017
San Diego
More information **here**.

Tax Policy Concerns

The border adjustment tax plan got much discussion at all the roundtables. Major importers were particularly concerned about the border tax implications; one retailer believes that the new tax plan would require them to do a major cost restructuring to offset their taxes. Furthermore, the idea that the U.S. dollar would float accordingly with a net exporter model is unproven and causes much concern for those companies that are net importers of goods. One thought is that manufacturing could pick up again in the United States

Two retail companies that are net importers said they are focused on scenario analysis with the current tax proposal around the border tax adjustment. Net importers would feel a crunch as a net debit, while net exporters would be valued more favorably as a net credit. There is an assumption that the USD would float to accommodate the adjustment in the balance of trade, however, many executives are skeptical of this as it's not likely a linear relationship as perceived.

As it stands today, the BAT was not included in the Trump administration's proposed outline for tax reform.

Acquisitions/Divestitures

Treasurers talked about the appetite for M&A, but auctions and private equity are very expensive. Thus some are focused on opportunities on a more micro level.

A key issue is that treasury is often brought in too late in the M&A discussion. One treasurer said he is currently taking steps to educate his company and the various parties involved on when treasury needs to be incorporated into the mix. Generally, all transactions flow through tax and legal, so partnering with those two departments has yielded rewards for some treasurers. But it can be difficult if the CEO has a high aspiration of growing the company through acquisitions, and the person in charge of that process has different incentives for carrying out the acquisitions.

One treasurer sought to make sure he was brought in much sooner than later—preferably well before the day of closing. Treasury is very good at connecting the dots and making sure all the different parties that need to be involved are involved, especially since many of those parties have a banking aspect to them. This is a tremendous benefit to the organization and a trait that treasurers are often not given enough credit for, noted several executives.

One attendee asked the group how treasurers can ensure that they have a seat at the table and are brought in appropriately in terms of M&A. The group offered some suggestions.

- Treasury can have a pipeline of projects discussion with the person in charge of M&A.
- Treasury could bring together the head of M&A, the CEO and the CFO, all as part of the process to discuss what the options for a merger or acquisition are and likelihood that it will go forward.
- Certain companies have a target leverage ratio, so making a list of key metrics that the company can't break in terms of thresholds for deal drivers—covenant targets, EBITDA multiples, rating agency expectations, days cash on hand, etc.—are good forms to have to help educate those that don't understand the effects of M&A on the company.
- Having investor relations (IR) under treasury's umbrella also has some key benefits when it comes to acquisitions. As the communicator of bond and equity information, IR has the ability to work in parallel with treasury when company information needs to be disseminated quickly pertaining to an acquisition.

Determining the value of an acquisition post-implementation was important for several organizations. Some are implementing a project management office format, focusing on key metrics to measure the acquisitions based on what was said would be delivered vs. what was actually delivered. This is done on a rolling basis, often three, six and nine months out. Some organizations are holding business partners accountable for their transactions and this has been built into their compensation metrics.

Along with acquisitions, companies are shedding assets to be more streamlined—something either their investors or private equity owners are asking for. Several companies downsized, spun off entities, and became smaller as a result. Oftentimes, treasury personnel are not affected as a result of the divestitures if treasury is centralized. In cases of downsizing in which treasury is not centralized, staff faces challenges around how to recapture the value of FTE input. Treasury is expected to do more with less.

Moving to Digital Channels

Generally, treasury departments are moving from checks to electronic payments for business-to-business (B2B) payments wherever possible. For one treasurer, this involved the usage of PayPal. What they found is that PayPal is not acquirer friendly—but rather more small business friendly in terms of acceptance. They are

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currently putting policies in place in terms of accepting this alternative form of payment in lieu of traditional B2B payment processes. Several treasurers felt that there will be disruption in this marketplace for PayPal on a B2B channel.

As new payment types evolve, more time will be spent on reviewing payment terms given their cost of capital, interest rates, credit risk, etc. For many, credit cards are a component to this. There is a high emphasis on straight-through processing for cards—the cost of acceptance is high relative to what the payment terms are, but when you factor in the credit risk outsourcing, shorter payment terms, interest rates around cost of funds, it can be very compelling and seen as just a cost of doing business.

More companies are also being asked to join supply chain financing arrangements. For some industries, primarily the auto aftermarket industry, the terms are net 360 and to expedite the payment terms, the suppliers offer their supply chain financing solutions. For one treasurer, as an OEM, he has to comply with several programs with major retailers. The group asked why he doesn't have his own backup program instead. He explained that it is much cheaper to go this route. As long as you review documents and have a list of deal killers to a transaction, it should be a straightforward process.

The Receivables Exchange was mentioned in the group in terms of an auction process for receivables purchasing and selling. While financial institutions have primarily been the major buyers of receivables, corporates are starting to venture into the marketplace—but in the form of more speculative buyers.

ERP/TMS

A couple companies are in the process of implementing their ERP treasury solution. This is primarily seen as an extension of the investment the company made into broader ERP and for modules they already owned and purchased. One attendee said that moving to the cloud has been a major focus, due to the latest version of what their ERP provider offers—seamless updates, lower IT utilization, etc.

Discussions around both SAP and Oracle were the main focus around ERP treasury workstation implementation—much to the displeasure of treasurers implementing the solutions. Implementing bank fees into Oracle was mentioned by one company as a way to help recoup their investment in the module.

Several companies in Seattle, Chicago, and Minneapolis are in the midst of a TMS implementation, primarily through SaaS channels. Both Reval and Kyriba were well represented at all three roundtables, with each having its positives depending on the corporate. For some, the Reval hedging module is more valuable and makes it a logical connection to incorporate their liquidity module as well and migrate off of other platforms.

This topic was also discussed quite a bit at the New York roundtable. Out of the 18 corporates in attendance, five of them had installed or were in the process of installing Kyriba. One of the companies, a global luxury goods producer and retailer, used a number of the modules including cash management, bank reporting, payments, bank fee analysis and bank account management.

Bank Network Rationalization

Several companies are rationalizing their bank group, looking at assembling a more streamlined approach and lowering the number of banks they do business with. Drivers to the decision include:

- Geographic footprint, both global and domestic
- Product offerings matching company needs
- Credit appetite
- Strategic value—looking at where the bank can add value in growth areas/markets.

One company looked at its existing bank group in light of new product pipeline potential and was very upfront that the relationship might not make profitable sense to continue. This was met with relief from the banks for the most part—they were struggling to support credit business in the past as a loss leader and this enabled them to free up their balance sheet to more lucrative companies.

Hedging – Interest Rates and Currencies

Currencies

Companies are looking at and reexamining their hedge effectiveness, their hedge gathering process for exposures, and communicating the value of the process internally to various business partners. During the discussion on this topic in Atlanta, a treasurer who is very experienced in hedging pointed out that the first thing one needs to determine is, what you're trying to accomplish. "When communicating to the C-suite and the board, you need to clearly articulate the goals for hedging," he said. "Speak to them about the goals that matter to them, which is dampening volatility in EPS and the balance sheet." Then when everyone's in agreement, you can put into place sound policies and controls.

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Interest Rates

Companies are looking at their fixed/floating ratios on debt and determining if it makes sense to have more fixed rate debt. It was apparent that more are interested in locking in longer term fixed debt via issuance or swaps.

In New York, there were a number of companies that had recently issued debt. One had issued $7.5 billion in the U.S., and 3.5 billion Eurobonds. Two companies issued 30-year bonds. One company had entered into five-year swaps to increase its fixed/floating ratio from 40 percent to 60 percent.

Purchasing Cards and Payroll Cards

Several companies are in the process of a new corporate purchasing card offering, as well as a new payroll card offering. The desire to be more global, matching the company footprint as they have grown was important, as are deal sweeteners from certain vendors. Exploring virtual cards was also mentioned as part of the process in sourcing new partners for purchasing cards.

It was mentioned that Uber uses Green Dot and rapid! PayCard to pay their drivers, representing a significant stake in the payroll card business. A few companies are looking at their existing payroll card providers in light of offerings to employees and state payroll regulations that are considered more stringent, such as those in California and New York.

Talent Retention

In Atlanta, treasurers from older, well-established companies held a lively discussion about talent retention. With senior management mostly made up of baby boomers approaching retirement, companies have suddenly found themselves at a precipice staring at a huge loss of experience, knowledge and talent. So those same companies are reviewing the situation and putting in place plans to shore up that rather significant risk to the business.

Conclusion

Clearly, treasury and finance executives have no shortage of responsibilities in today's environment. From geopolitical concerns in the United States and abroad to questions on emerging technologies and processes to the age old conversation around getting a voice at the table, executives have a lot to consider in their day-to-day activities. As the year progresses, things will likely only become more complicated.