

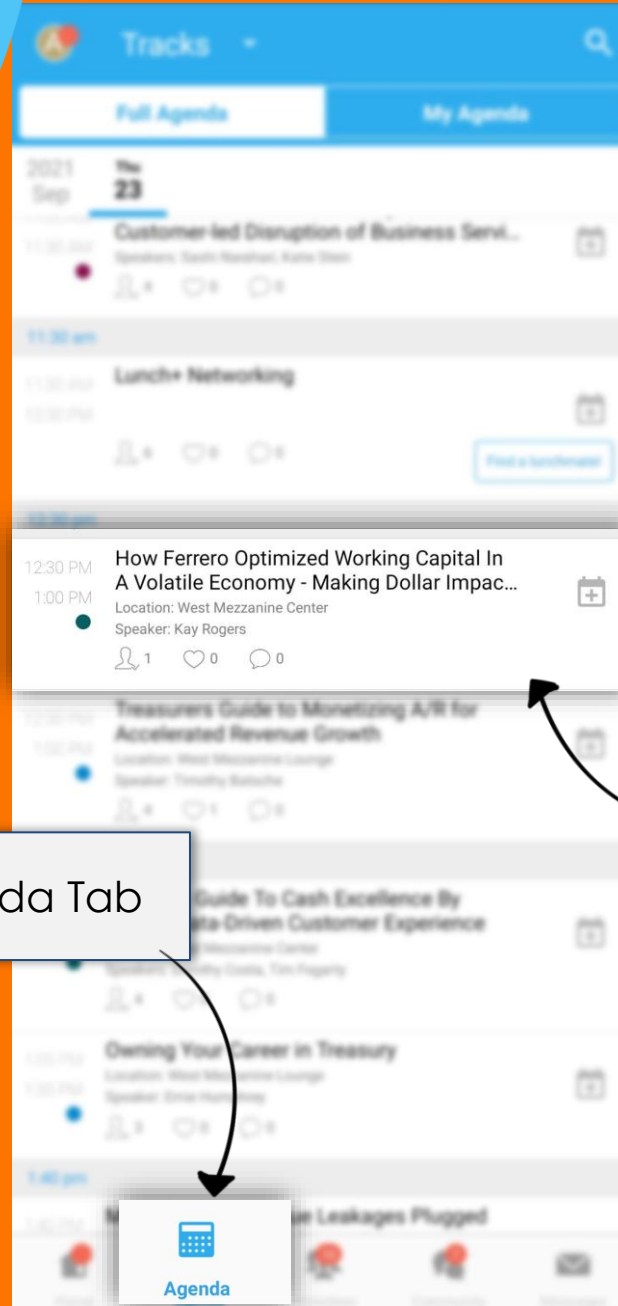


How Should Treasury Measure Its Success in a **Post-COVID19** World

Bruce C. Lynn, CTP
Managing Partner



How Can I Register My Vote Through the Whova App?



1

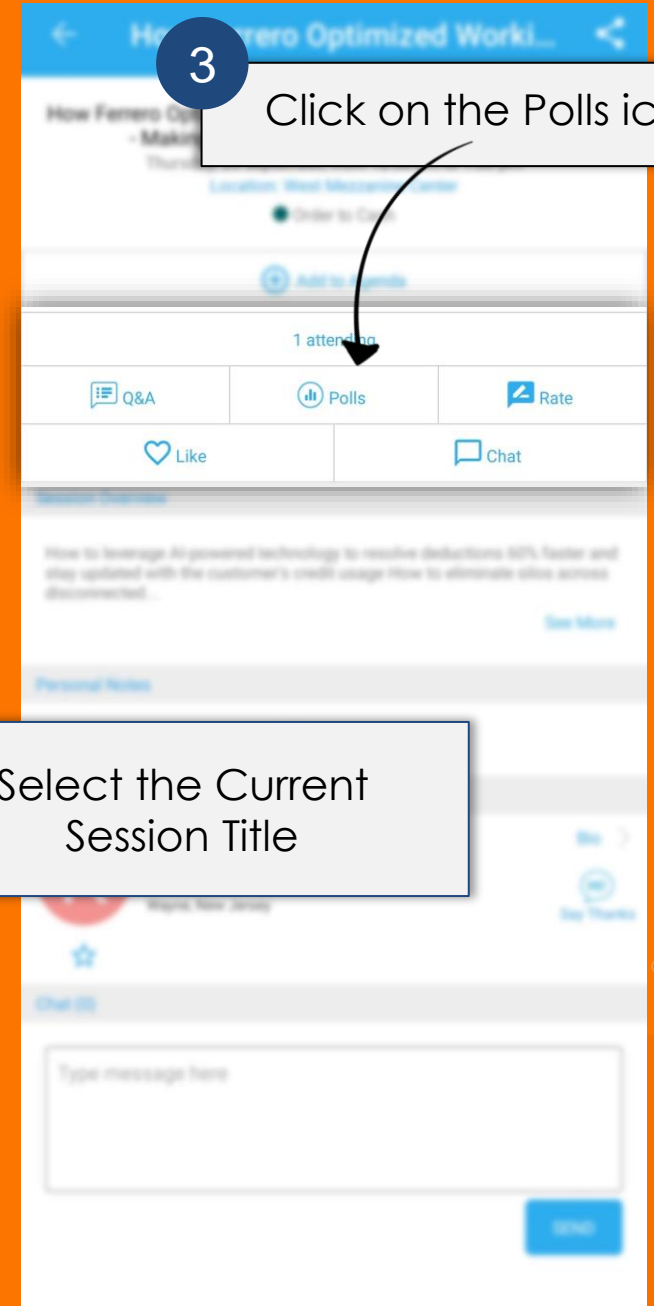
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Click on the Polls icon





How Should Treasury Measure Its Success in a **Post-COVID19** World

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Agenda

- Today's world vs today's treasury
- A “perfect” treasury model
- Building a business case for change in a COVID-19 World
- Measuring Success
- Audience Q & A

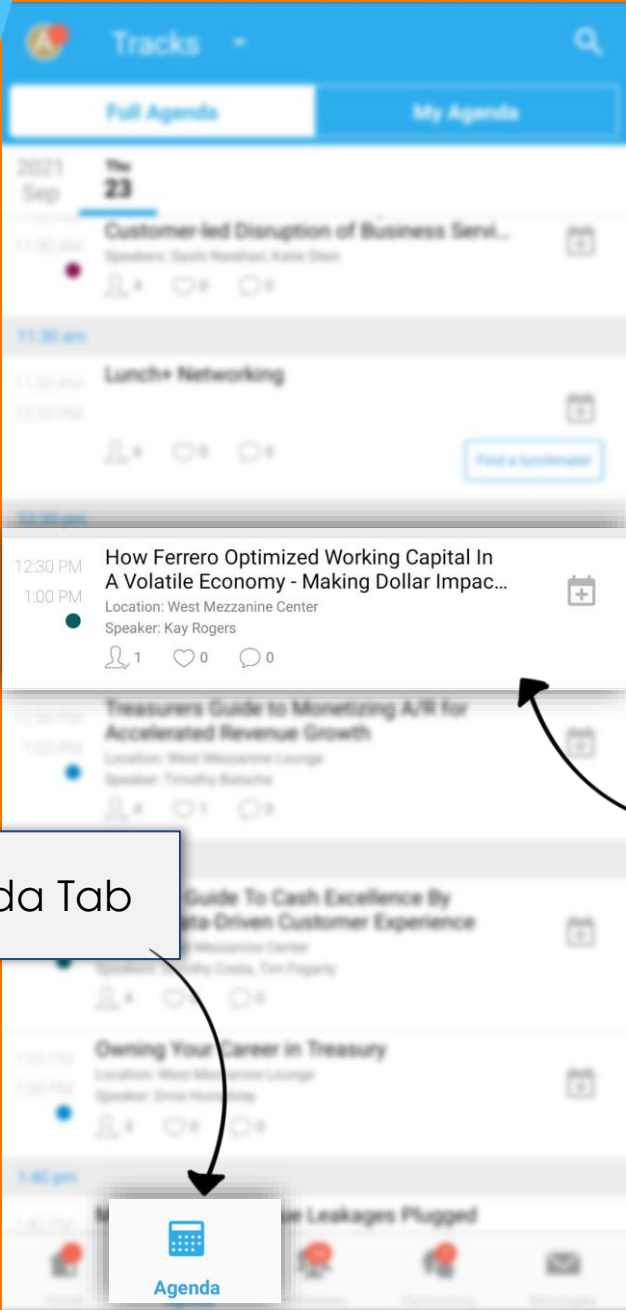


Poll Question -1

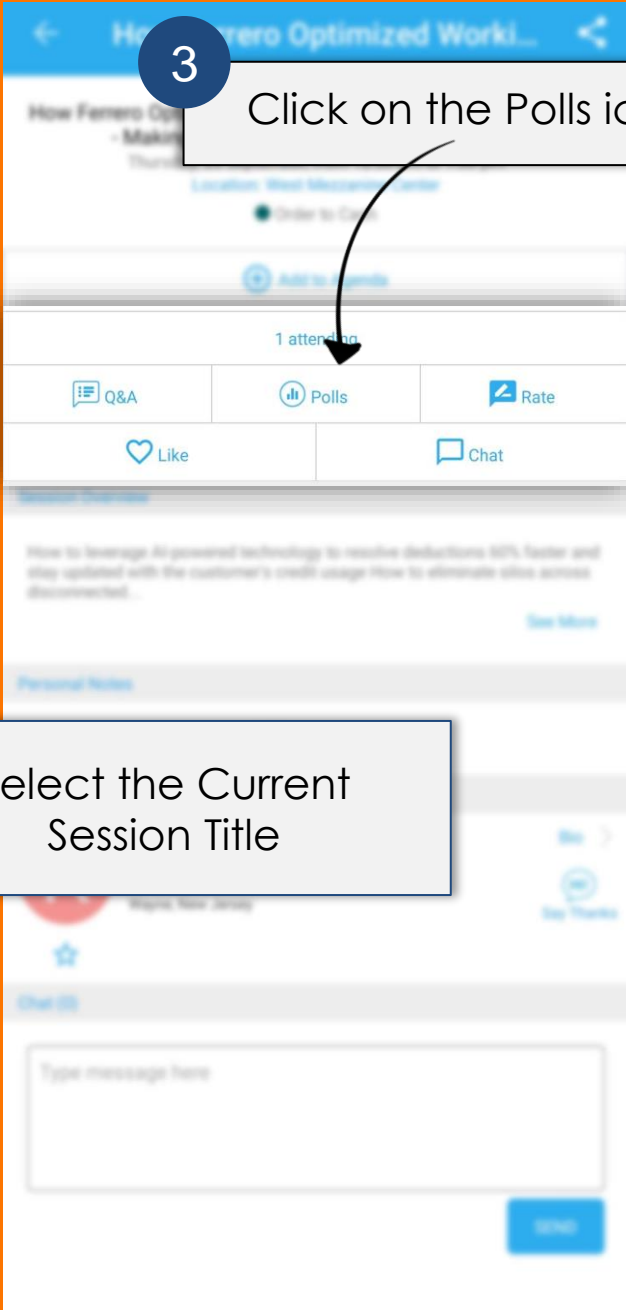
**Would you agree / disagree with the following statement:
“We have formal success measures for the treasury
function which are integrated into the corporation’s
success metrics”**

- a. Agree
- b. Disagree
- c. Not sure
- d. N/A - Our company doesn't have a treasury function

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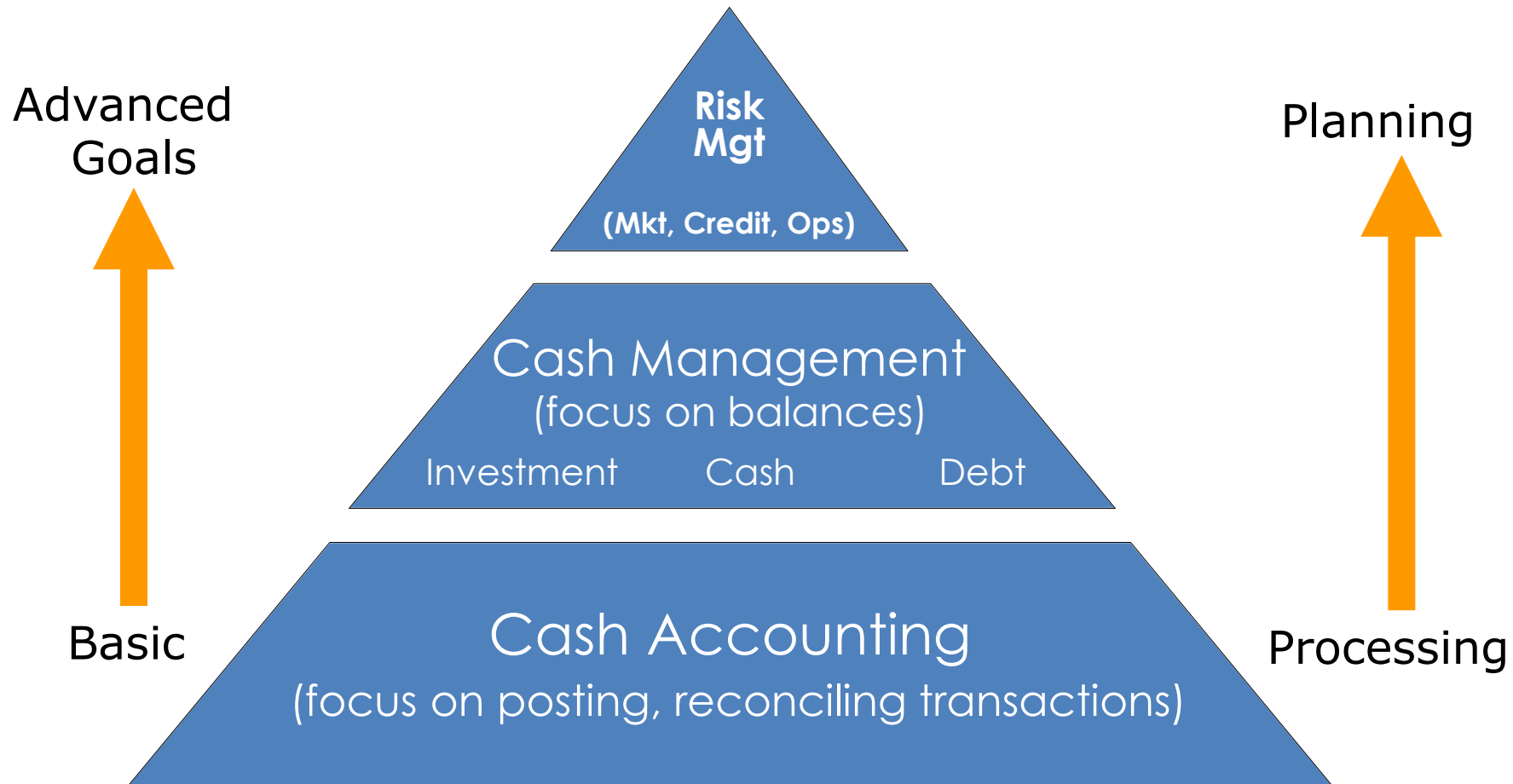



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Today's Treasury

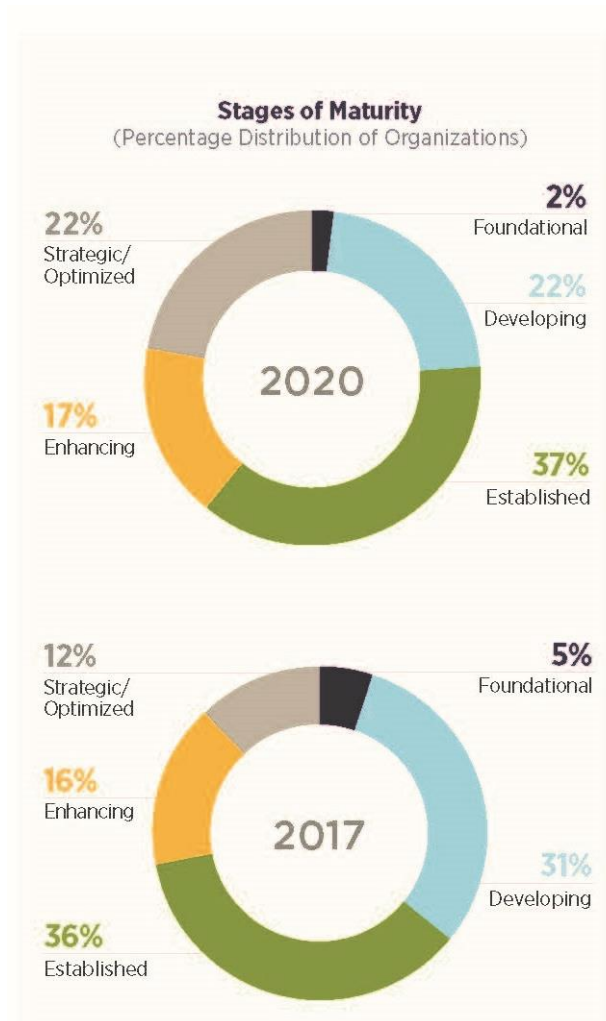
- Focused on Processing
- Resources devoted to repetitive tasks





**How mature is your treasury
function?**

Today's Treasury (Continued)



Good News - % of strategic Treasuries has almost doubled since 2017

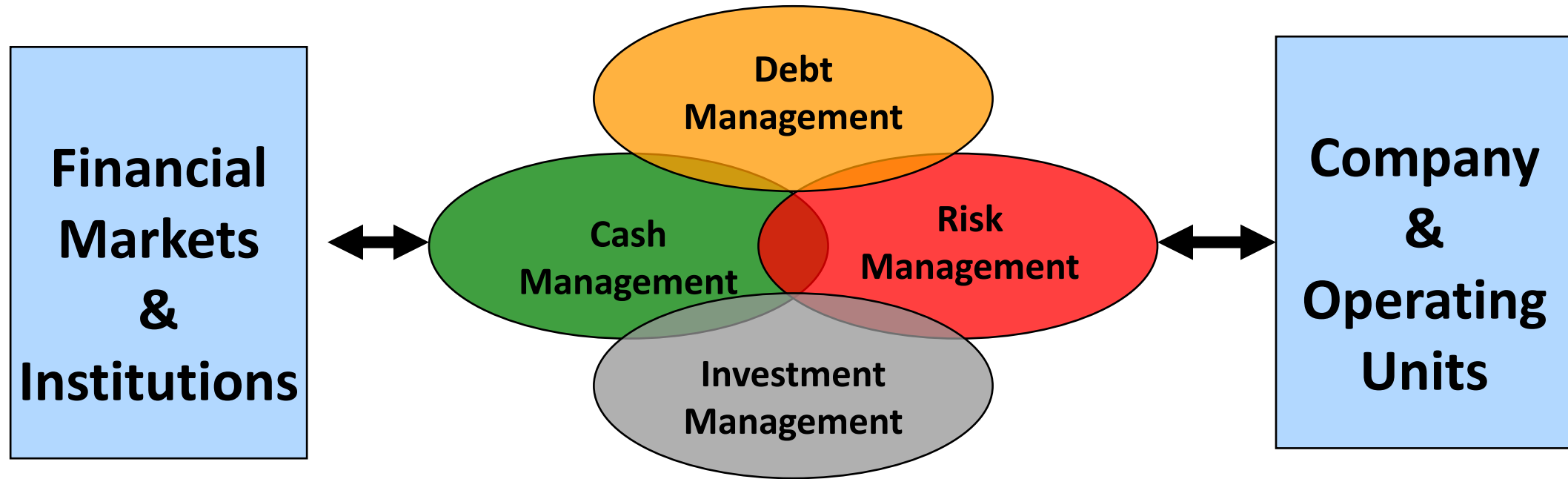
Bad News - % of Treasuries considering themselves “strategic” is only 22%

Implications for 2022 ?

Foundational	Lack of dedicated or centralized treasury staff/treasury tasks at subsidiary level
Developing	Dedicated treasurer with some support staff/centralization of some core treasury activities
Established	Clear central treasury structure and governance model/adequate staff/experienced qualified treasury team
Enhancing	Internal consultant to other corporate functions and subsidiaries
Strategic/Optimized	Optimal centralization of activities/strategic, proactive business partner/advisor to CFO on complex business investments

Source: 2020 AFP Strategic Role of Treasury Survey, p7

A Model for the “Perfect” (Modern) Treasury



- Policies Highly Visible
- Interactive Communications
- Plan, Actual & Forecast in Sync

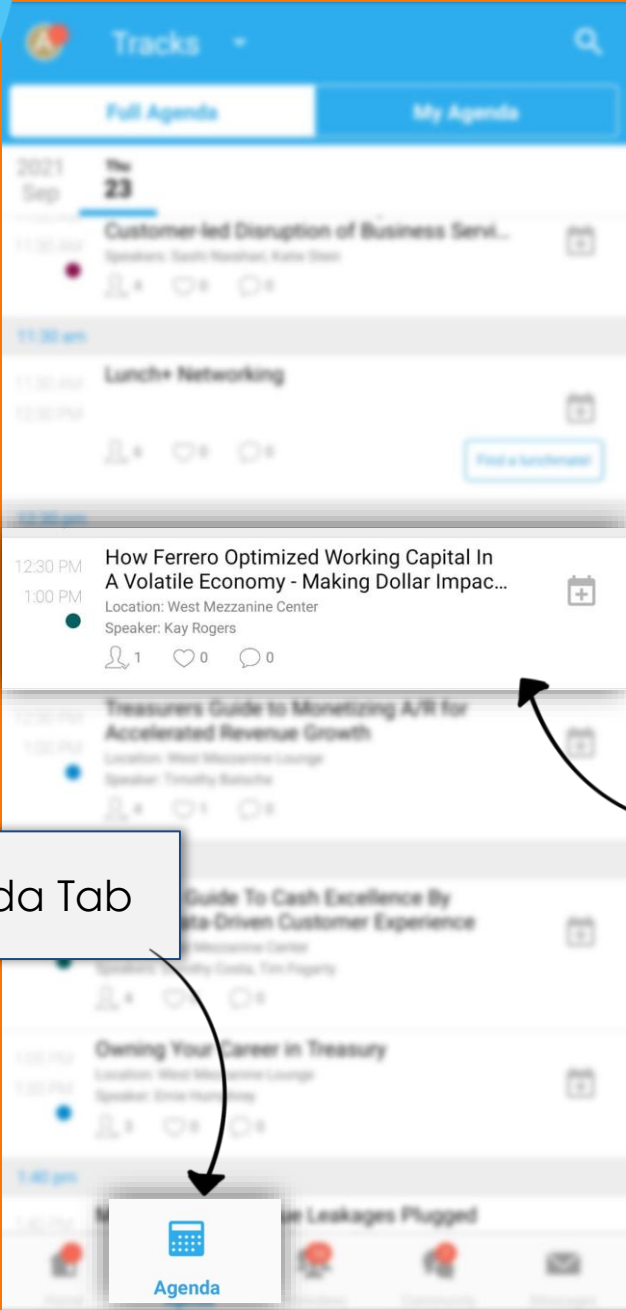
- Functions & Systems integrated
- Performance Metrics in Place to Demonstrate Value

Poll Question - 2

How should treasury measure its success?

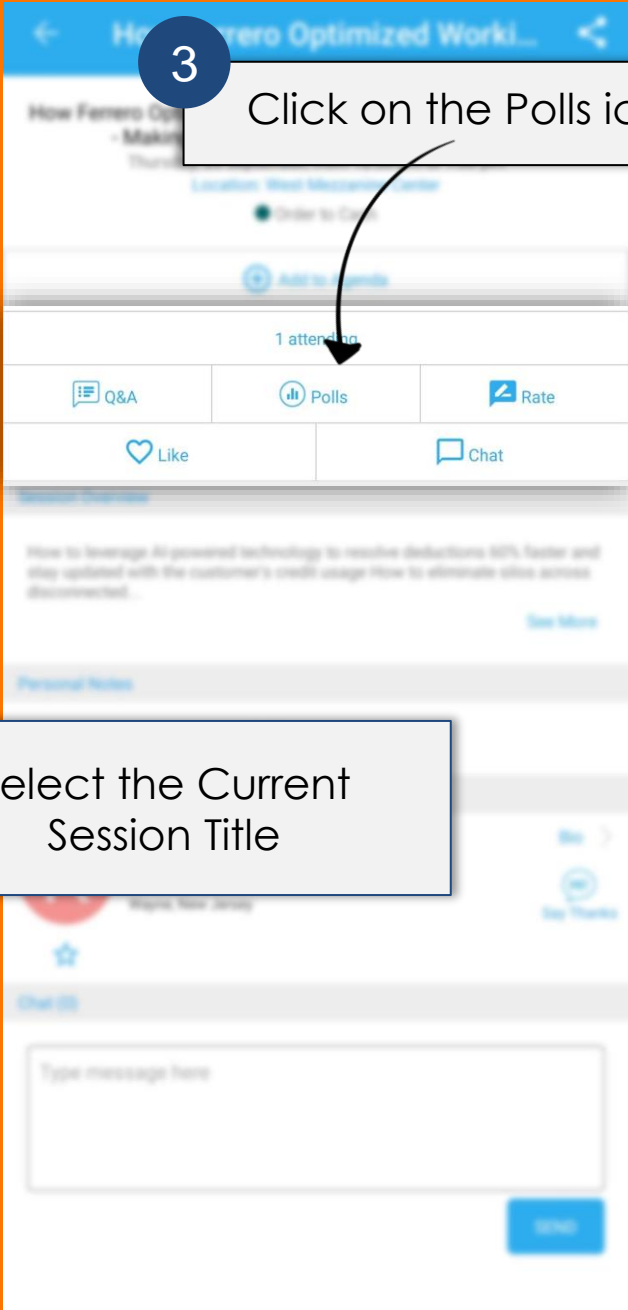
- a. Contribution to EBITDA?
- b. Ability to effect operating cash flow?
- c. Impact on borrowing utilization ?
- d. Reduce exposure to “rate risks” (e.g. currency, commodity, interest rate)?
- e. Ability to obtain “enough” 3rd party capital at the lowest after tax cost?
- f. Some other set of success measures

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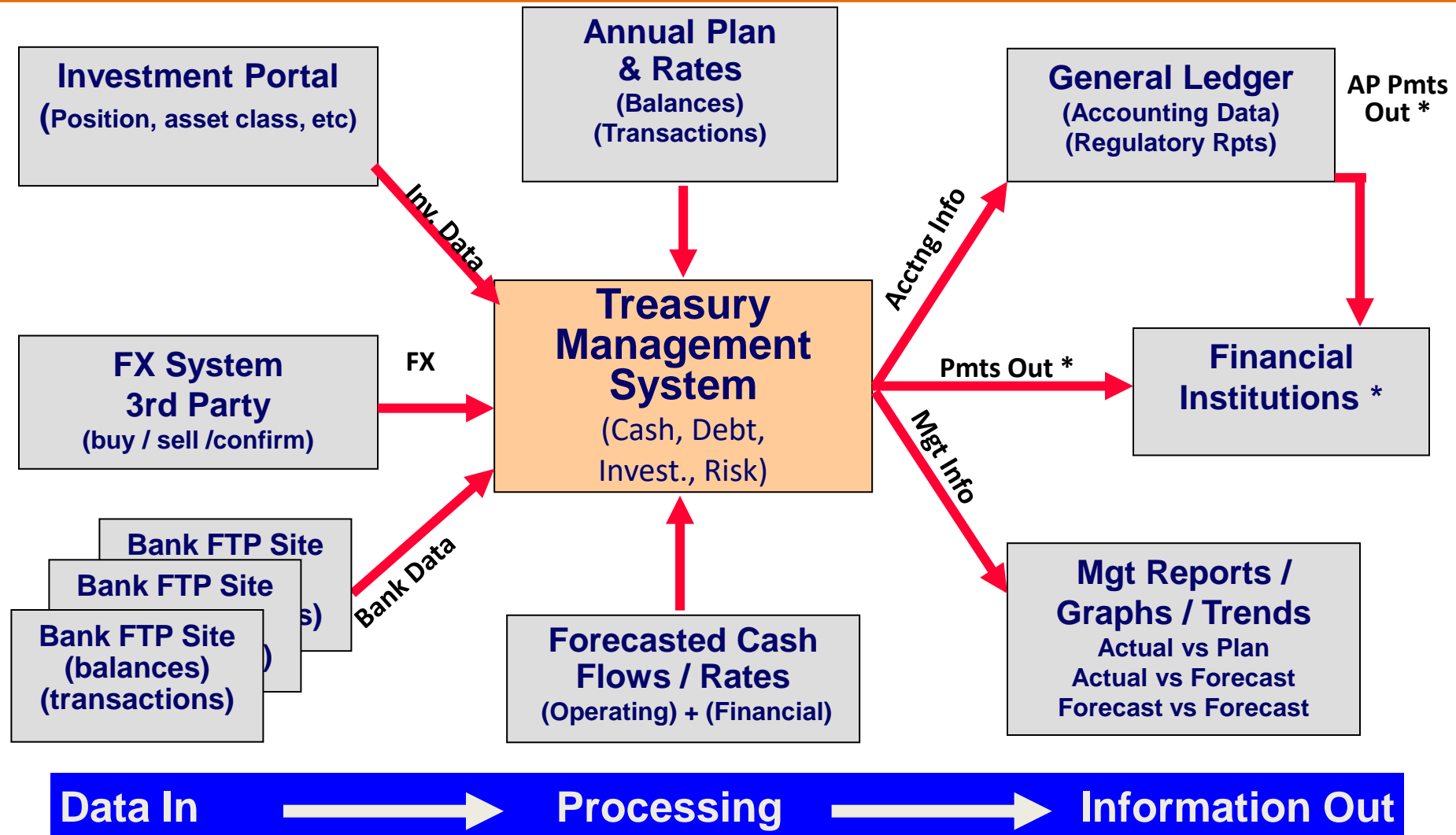
A Model for the Modern Treasury (Continued)

- **Become a strategic unit to add value by:**
 - Shifting workload to strategic analysis/decision making
 - Centralizing funding/banking/FX (but leave execution local)
 - Focusing on forecasting and future events
 - Developing “success” metrics
 - Free Cash Flow
 - RAROC or “risk adjusted returns to capital”
- **Move from Traditional to Modern with a “4 flows” model**
 - Become pro-active by preventing rather than curing liquidity or risk issues
 - Become a problem solving resource for business units
 - Take economic ownership of the cash flow statement
 - Broaden career opportunities - interact with FP & A, Tax, Board

Modern Treasury - Integration Check List

	Work flows	Cash flows	Accounting flows	Information flows
Cash	Deadlines Priorities Utilization	Payments Frequency Purpose	GL Accounts Deadlines	Position, Currency, Targets, Forecasts
Debt	Due date, deadlines	Borrow Repay	Interest expense	Covenants, terms, maturity
Investments	Due date, deadlines	Purchase Redeem	Interest income	Asset class, maturity
Risk	Authorize Compliance	Volatility Hedges	Hedge accounting	Exposure, targets Structures
Legal Entities	Setup Count	Interco.	Fees	Ownership Parent/child groups
Staff & Counterparties	Experience Priorities Deadlines	Beneficiaries Deadlines	Info source, Bk fees, penalties, reconciliation	Banks, contacts
Policies / Procedures	Responsibilities: FP&A, Audit, Tax, Treasury, Business units (Key - one unit's output is another's input)			
Technology	Integration: Market prices, In house, TMS, ERP, Portals, Spreadsheets, Regulatory / management reports			

Modern Treasury - System Relationship “Flows”



* Need for link from TWS to Bank depends on payment purpose and ERP system

Business Case for a Change (Easy & Hard)

Benefits	Treasury	Accounting	FP&A	Tax	Audit	Business Units
Staff savings	★	★	★			★
Interest income	★	★		★		
Interest expense	★	★		★		
FX gains / losses	★				★	★
Borrowing utilization	★					★
Bank Fees	★					
Cash conversion cycle						★
Time to close		★				?
Operating risks		?	★		★	?
Compliance / bank fees	★		★	★	★	?
Cost of Funds	★	?				?

Treasury Metrics – A Starter Kit

1. **Cash on hand** (by curr., entity, bank, etc)
2. **Free Cash Flow** (\$FCF) = op cash flow – CAPEX – Dvds (compared to uses?)
3. **Cash Conversion Cycle** (days) = DSO + DIO – AP Days to pay
4. **Burn rate** (\$ / day) = Avg. current liabilities / cash on hand.
5. **Debt headroom** (% or \$) = debt used vs credit limits
6. **Leverage** = debt / FCF; debt / equity
7. **Exposure** - % hedged (FX, IR; floating vs fixed)
8. **Covenant compliance** – financial + non financial
9. **Ops cost** = Treasury + bank + back office + FX losses
10. **RAROC** – Risk adjusted return to capital

Which of these does your TMS measure?



Make it Happen (A Transition Plan)

Top 10 tasks to transition from “processor” to “planner” (ranked easy to hardest)

1. Rationalize bank network
2. Set target balances at banks
3. Re-bid bank services to obtain market prices
4. Work with other units to establish joint goals (e.g. working capital?)
5. Upgrade treasury technology



Make it Happen

Transition Plan

6. Set up pooling or netting arrangement at international locations
7. Create in-house bank
8. Obtain analytical tools to measure risk
9. Imbed & reward liquidity and risk performance measures into corporate planning processes
10. Work with business units as “internal consultants”



Thank You!

Bruce C. Lynn, CTP
Managing Partner

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NEXT SESSIONS



Deloitte.



Panel

*Reimagining the Future of Finance with
Digital: Key Trends in Enterprise Technology
& Associated Pitfalls*

02:35 PM EST | West Mezzanine Center



Treasury

*Top Opportunities in Treasury
Transformation and How to Get Started*

Valerio Trinchì, Global Treasury Advisory
Services, EY

02:35 PM EST | West Mezzanine Lounge

