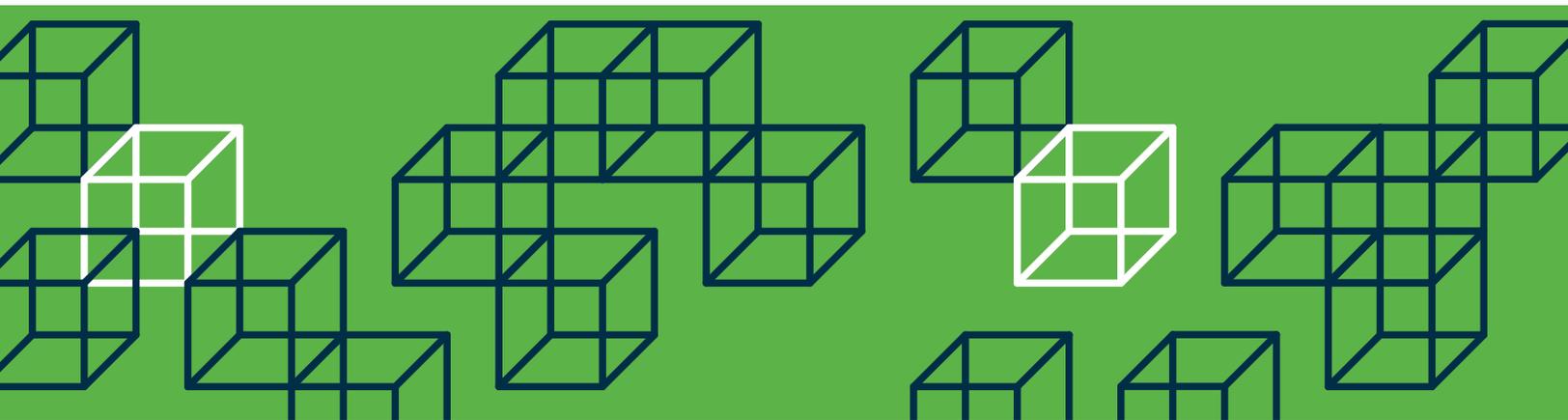


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The five key elements of a world-class company treasury department



Treasury departments have become increasingly important parts of all high-performing businesses, not just high-performing financial organizations. Although competent treasury operations certainly keep a business running day to day, great treasury departments seize the chance to make the entire business better. But what makes a great treasury department?

From our work in driving financial transformation across dozens of companies, we've distilled the differences between underperformers and world-class treasury departments into five key elements that must be present.

FINDING THE DIFFERENCE BETWEEN AVERAGE—AND EXCEPTIONAL

Bob had been treasurer of a billion-dollar energy company for more than four years and had never heard a complaint from the company's long-standing chief financial officer (CFO). When Bob was told cash needed to be made available, he made sure it was available. When there were opportunities to invest cash, he invested it according to the company's standard practices. Everything seemed fine until a new CFO, Dawn, came aboard and in her first meeting with Bob asked a simple question:

"What's your plan for our cash?"

"What do you mean?" Bob asked.

"I mean, how are you using our cash? When do we need cash? Where is it going? We've got a lot of cash on hand: how much do we have free to use?"

"Um—I'm not sure. Usually, the business units tell me what they need, and my group provides. We react."

ELEMENT 1: PROACTIVE MIND-SET

A top-performing treasury organization is proactive, not reactive. That means the treasury group constantly anticipates the organization's cash needs and is actively engaged in maximizing the use of cash. The treasury group speaks with a clear voice from its leaders, who are involved in all decisions having to do with major sources and uses of cash and who take the lead in anticipating potential opportunities and challenges.

Building a proactive mind-set

In our experience, building a proactive mind-set can be achieved in a number of ways, though the specific techniques depend on how deeply ingrained the reactive mind-set is in the business. The techniques include:

Asking the right questions. As the above story indicates, sometimes it can be as simple as nudging the treasury group by asking the right questions and making sure the group is aware of leadership's expectations for the role's function.

Inclusion in operating meetings. When the treasurer is involved in operating meetings, it's much easier to understand different business unit leaders' needs and objectives. A CFO can help get the treasurer more involved and can cultivate the treasurer as a productive, proactive partner who can meet company needs by coordinating the timings of cash-related decisions and helping set priorities.

Adopting a role model. Sometimes a reactive treasury culture is so ingrained that a treasurer needs help in learning new ways of acting. One method of learning new ways is to call on the services of an outside resource to act as a shadow treasurer who works with the company treasurer daily and who is an exemplar of how the role can become more active. Even though such a method might be invasive, it usually results in the biggest changes in the shortest amount of time—and without causing the need for a new treasurer.

Bringing in new blood. Many staid and reactive treasury organizations have employees with lengthy tenures who see their jobs as fairly routine. When a treasury group is unable—or unwilling—to change, it may be time to bring in new talent in the form of either an assistant treasurer or a new treasurer.

ELEMENT 2: CASHCENTRIC ORGANIZATION

Cash is the lifeblood of any business. A treasurer who helps create a cashcentric organization is focusing on accountability for every dollar coming into and going out of the company. An employee who constantly raises awareness of cash flow helps the entire business.

“Treasury lives and breathes cash. It has accountability for every dollar coming into and out of an organization. In a world-class treasury organization, there are no surprises involving cash: a world-class treasury organization has its arms around whatever situation the company is in, and it displays visibility for whatever is coming down the road.”

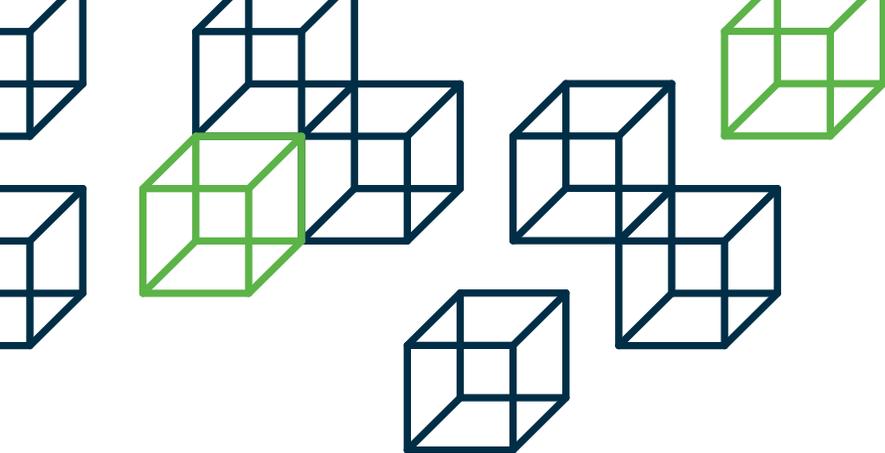
— TOM STUDEBAKER, ALIXPARTNERS MANAGING DIRECTOR

Tom has served as CFO for businesses across a number of business sectors.

Creating a cashcentric organization

A number of actions can be taken to build a cashcentric organization. Three of the most powerful actions are:

Clear communication. Creating a cashcentric organization starts at the top with a constant message—usually from the C-suite—about the importance of cash. The CFO of one public-sector utility company made the importance of cash his daily mantra, and it came up in almost every conversation. The top-down inspiration worked. In discussions of the group's number one priority, almost everyone in the organization gave the same answer: “Cash.”



Cash forecast. There are two kinds of businesses that tend to have a cash forecast: (1) those that are terrible at managing their cash but whose lenders require them to do so and (2) those that do a superlative job of managing their cash and that want to be able to anticipate cash needs and surpluses so they can plan their use of cash accordingly. For example, an interim treasurer was brought into a distressed tier 1 automotive supplier. The treasurer developed a cash forecast to assist the company through its challenges. The result was that the forecast enabled the company to review its actual cash positions, to identify expected sources and uses of cash for the period, and to achieve near-term stability—all of which were instrumental in the company's eventual stabilization and turnaround.

Cash spend as metric. Profit-and-loss (P&L) reporting and budget-to-actual reporting are critical components of running a business, but they can also conceal issues that cash flow reporting would reveal. Consider an industrial company with significant capital expenditures. Project managers historically had incentives (1) to overorder items they anticipated needing for their projects and (2) to order parts early. At the end of the project, unused items would get sent to inventory and their costs were reimbursed to the project. So, even though a report to budget and to P&L showed the project looking as if it had come in on budget, it had actually overspent cash. With a new aim to shift behaviors and begin conserving cash, the treasury group worked with the accounting and project management departments to include actual cash spend as a performance metric, thereby reinforcing an important change.

“One of the first things we did was to build out a 13-week cash forecast, and at times, we were so stretched that we were forecasting day by day. This proved to be the critical tool for guiding the company through its challenges. Once the company completed its successful restructuring, it continued to utilize the cash forecast as a way of staying cashcentric and ensuring it built on its strengths.”

– CHARLIE BRALEY, ALIXPARTNERS DIRECTOR

Charlie has served as treasurer at distressed companies and helped train several sitting treasurers on cash forecasting and instituting proactive practices.

ELEMENT 3: MEANINGFUL REPORTING THAT BRIDGES FINANCE AND OPERATIONS

Discussions with a dozen different CFOs about the things that separate a world-class treasury department from the merely average all pointed to great reporting as a defining factor, along with a proactive core and a cashcentric focus.

“A great treasury department functions as the information hub not only for finance but also the entire organization and is integral to ensuring that the company’s planning and operations align with its resources.”

– GABE KOCH, ALIXPARTNERS DIRECTOR

Gabe has assisted executive teams in implementing rapid financial and operating performance improvement initiatives across a number of sectors.

A treasury department must do two things if it is to become an information hub and produce reporting that makes a difference.

- It must provide focused, meaningful reporting for end users.
- It must be part of operating conversations.

Providing focused and meaningful reporting is related directly to having a cashcentric organization and ensures that the treasury group is in front of—and actively communicating changes to—those who need such reporting based on the points previously discussed.

Being part of operating conversations is usually a natural outgrowth of a proactive treasury department, but success often depends on financial executives’ ability to communicate effectively with operating executives. Working capital is usually the critical cash bridge between finance and operations—and it’s where reporting can be most important. Companies routinely forecast strong revenue growth, and they plan ways to operationally support that forecast. But oftentimes they neglect to account for the working-capital impact. Even very healthy companies can get into trouble as a result of not fully understanding the effect that changes in working capital can have on liquidity. A world-class

treasury organization stays in front of all situations and makes sure that realization of a forecast—or changes to it—aligns with the company’s resources.

ELEMENT 4: FINDING THE RIGHT PLATFORM

Highly effective treasury organizations make great use of available information platforms. Ineffective organizations find themselves duplicating work and performing most activities manually. Evaluating a treasury department begins with reports on cash sources and uses; on current debt maturities and investments; and on accounts payable and receivable information. If the treasury group is unable to provide such information at the touch of a button, it’s usually a sign of deeper problems with the technology platform the company uses or with integration of the treasury workstation. World-class treasury organizations don’t have to have the latest and greatest platform, but they do have to have systems that:

- Automate routine transactions.
- Flow information easily to and from accounting and other financial departments.
- Set clear benchmarks and make comparisons to past performance.

ELEMENT 5: ADAPTABILITY

A world-class treasury department is always evaluating both the current and future needs of the business—not just with regard to day-to-day operations but also for significant shifts in underlying operations. For example, a private-equity firm’s acquisition of midmarket companies can dramatically change the landscape of the business’s treasury requirements. Such acquisitions are usually funded by leveraging up the balance sheet, thereby creating a requirement for debt service that may or may not have existed previously. Companies that traditionally have had plenty of cash from operations to fund growth now must accept that cash may not be as readily available as it was in the past.

“All of the elements that are key to a world-class treasury operation—such as being proactive and cashcentric, producing meaningful reporting, and finding the right

platforms—all center on the group's knowing the requirements of the larger business. When those requirements change, the treasury department must be able to adapt its game plan."

— **DEBORAH RIEGER-PAGANIS, ALIXPARTNERS**
MANAGING DIRECTOR

Deborah has served as CFO for businesses across a number of industries.

SO, WHAT ABOUT BOB?

Although it took an enormous amount of effort, Bob—with support from his CFO—refocused his organization by incorporating the key elements of a world-class treasury group. It took significant

work and support from business planning and accounting, but he became able to build a cash forecast the group could maintain that was tied into the business plan and aligned with the business's capital investment requirements. The daily mantra throughout the organization became "cash," and it permeated the entire business. Bob worked collaboratively with a mentor for several weeks to learn new behaviors and processes. Ultimately, the company recruited an assistant treasurer to support Bob, and an upgraded treasury workstation was finally installed. After six months, Bob could finally sit down with Dawn and the CFO's other direct reports. "Let's talk about cash," he began. "I'm projecting we'll have excess cash of \$30 million by the end of the fiscal year, including an appropriate cushion, that we can use in a number of ways..."

Transforming a treasury function can be an incremental process or one that causes radical change. However it happens, the resulting cash focus and improved reporting should make a major difference to any business that attempts it. **A**

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