



Competitive Treasury Practices: Objectives, Trends & Leverage Points

March 20, 2006

Jeff Wallace
Managing Partner
Greenwich Treasury Advisors

Today's Topics

- The major trend affecting treasury
- Treasurer objectives
- Adding value
- Key leverage points
- Career issues



The Major LT Trend Affecting Treasury

**Unrelenting
Global
Competition**



Unrelenting Global Competition – 1998

Amoco	ENI	Merck	Sara Lee
BP	Fiat	Mobil	Shell
Chrysler	Ford	NEC	Siemens
Daimler-Benz	GM	Nestlé	Texaco
Dow Chemical	HP	Novartis	Toyota
Du Pont	IBM	P&G	Unilever
Elf Aquitaine	Lucent	Philips	Volvo

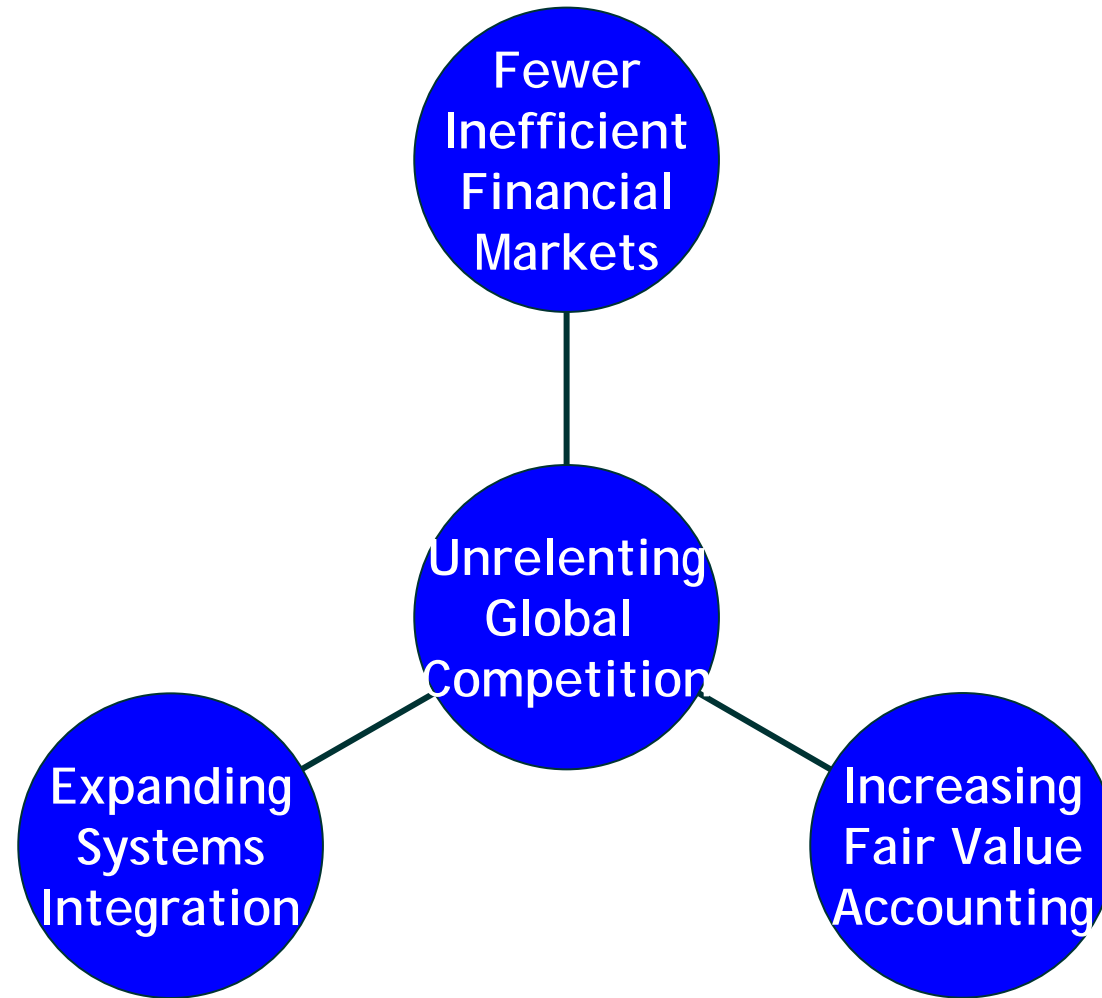


Unrelenting Global Competition – 2002

	ENI	Merck	Sara Lee
BP	Fiat		Shell
	Ford	NEC	Siemens
DaimlerChrysler	GM	Nestlé	
Dow Chemical	HP	Novartis	Toyota
Du Pont	IBM	P&G	Unilever
	Lucent	Philips	



Globalization is Driving the Changes



Fewer Inefficient Financial Markets

- Consolidation
 - Banks
 - Stock exchanges
 - Derivative exchanges
 - Mutual funds
- New and more efficient capital suppliers
 - Banks as distributors, not suppliers
 - Hedge funds
 - Private equity
 - Venture capital



Implications for Treasurers

- Bank relationship management has become capital relationship management
 - Rating agencies more important than ever
 - Active management of current and prospective debt holders
- Need to pick the winning horses
 - Major banks will change strategic directions
 - Banks will cut their losses with you quickly
- Taking advantage of the equity markets changes
 - NYSE becoming more like NASDAQ
 - Equity auctions instead of IPO's



Increasing Global Fair Value Accounting

- FAS 133 and IAS 39 are only the beginning
- In next two years, pension obligations will be fully reflected on the balance sheet and P&L
- In next five years, all financial instruments, including corporate debt, will be marked-to-market on the balance sheet
 - FASB/IASB would like the P&L
- Bifurcation of complex financial instruments will continue to increase
 - With MTM to P&L



Implications for Treasurers

- Hedging is now based upon performance, not intent
 - Closet speculation is no longer possible
 - Exotic derivatives are not effective hedges
- Interest rate risk and pension management will become increasingly important
- Financial engineering to achieve book objectives will become more difficult and risky
- Any treasurer who does not fully understand financial fair value accounting will not remain treasurer for long



Expanding Corporate Systems Integration

- ERP systems are the default G/L
 - Multiple legacy G/L's are so 19th Century
- Internet treasury systems are becoming the default treasury system
 - PC workstations are so 20th Century
- Best practice is clear:
 - Global access
 - Communication via internet system vs. email and .xls files
 - STP ASAP AMAP (as much as possible)



Today's Topics

- The major trend affecting treasury
- **Treasurer objectives**
- Adding value
- Key leverage points
- Career issues



Primary Treasurer Objectives

1. Ensure access to funding to meet the Company's operating needs and strategic objectives
2. Securely and reliably manage the Company's cash flows in a cost-efficient manner
3. To add value by economically managing the Company's FX, interest rate and investment risks consistent with business objectives
4. Achieve all of the above on an effective after-tax GAAP basis



Secondary Treasurer Objectives

To also increase shareholder value by:

- Supporting tax planning arrangements
- Reducing working capital
- Managing commodity risk
- Managing customer credit
- Internal consulting on business issues
- Providing customer financing



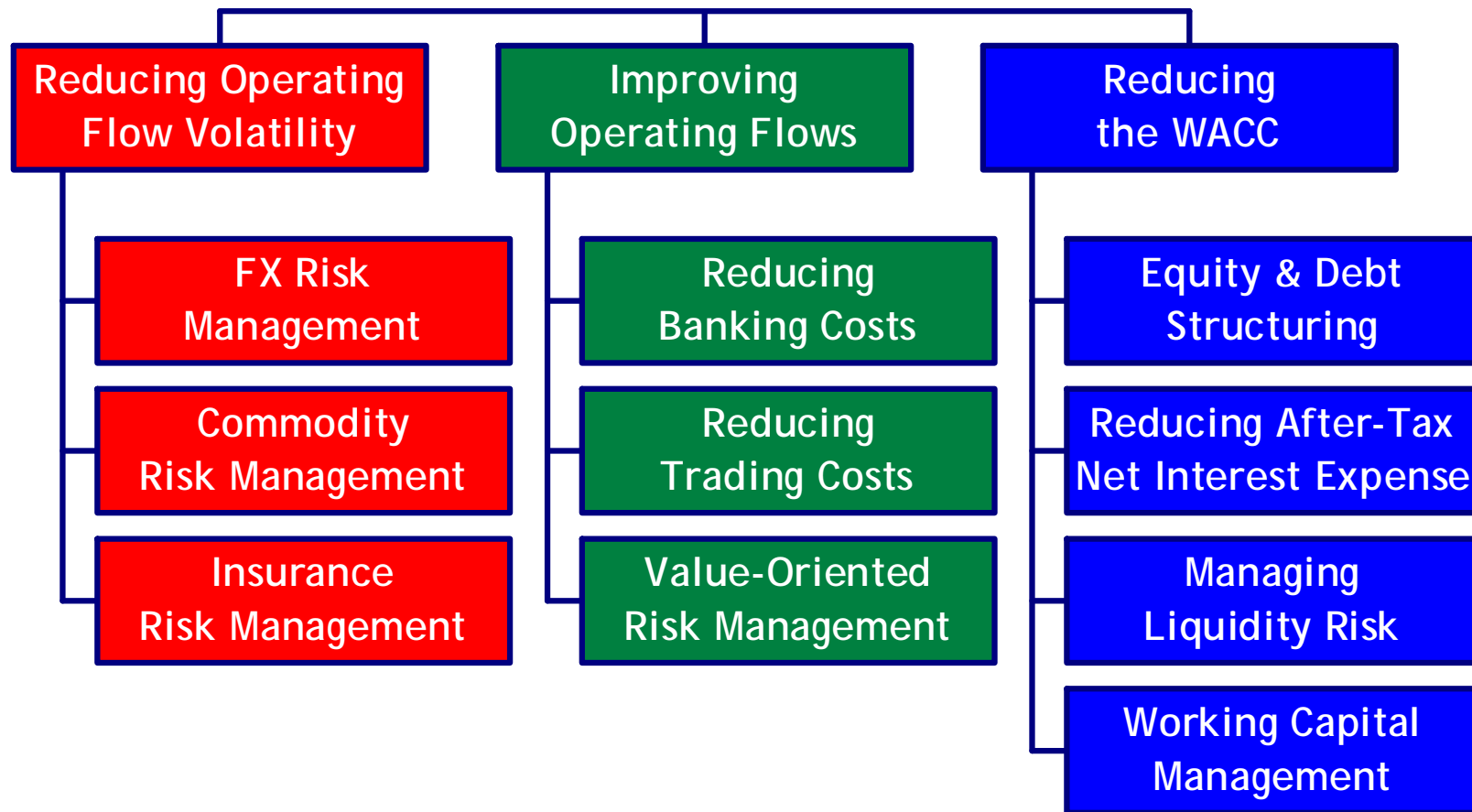
Today's Topics

- The major trend affecting treasury
- Treasurer objectives
- **Adding value**
- Key leverage points
- Career issues

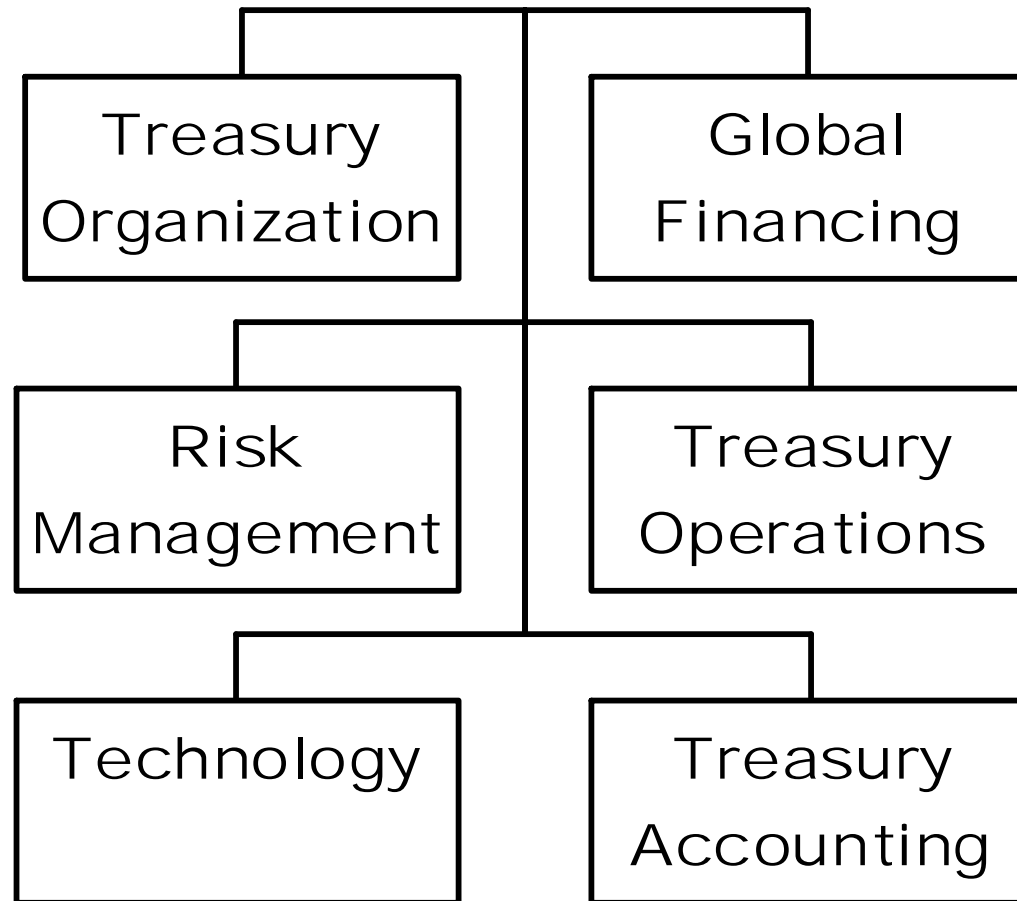


How Treasury Adds Value

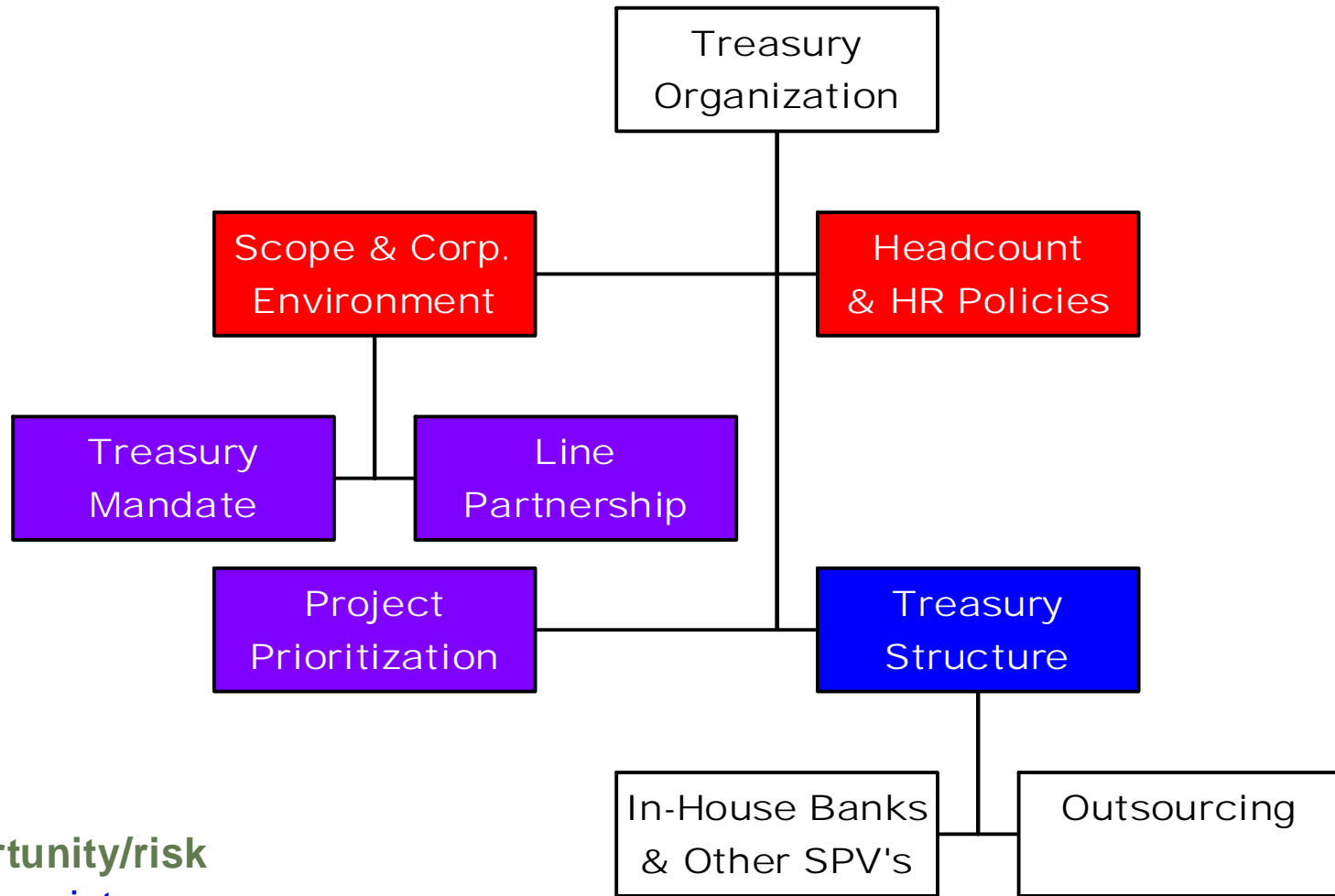
NPV of Future Operating Flows @ WACC



How Treasury Objectives are Achieved



How Treasury Objectives are Achieved



Constraint

Major opportunity/risk

Key leverage point



Competitive Practices

Treasury Centralization

- All cash belongs to Treasury
- All banking relationships are controlled by Treasury
- All (or nearly all) FX is done by Treasury
 - Particularly hedge execution



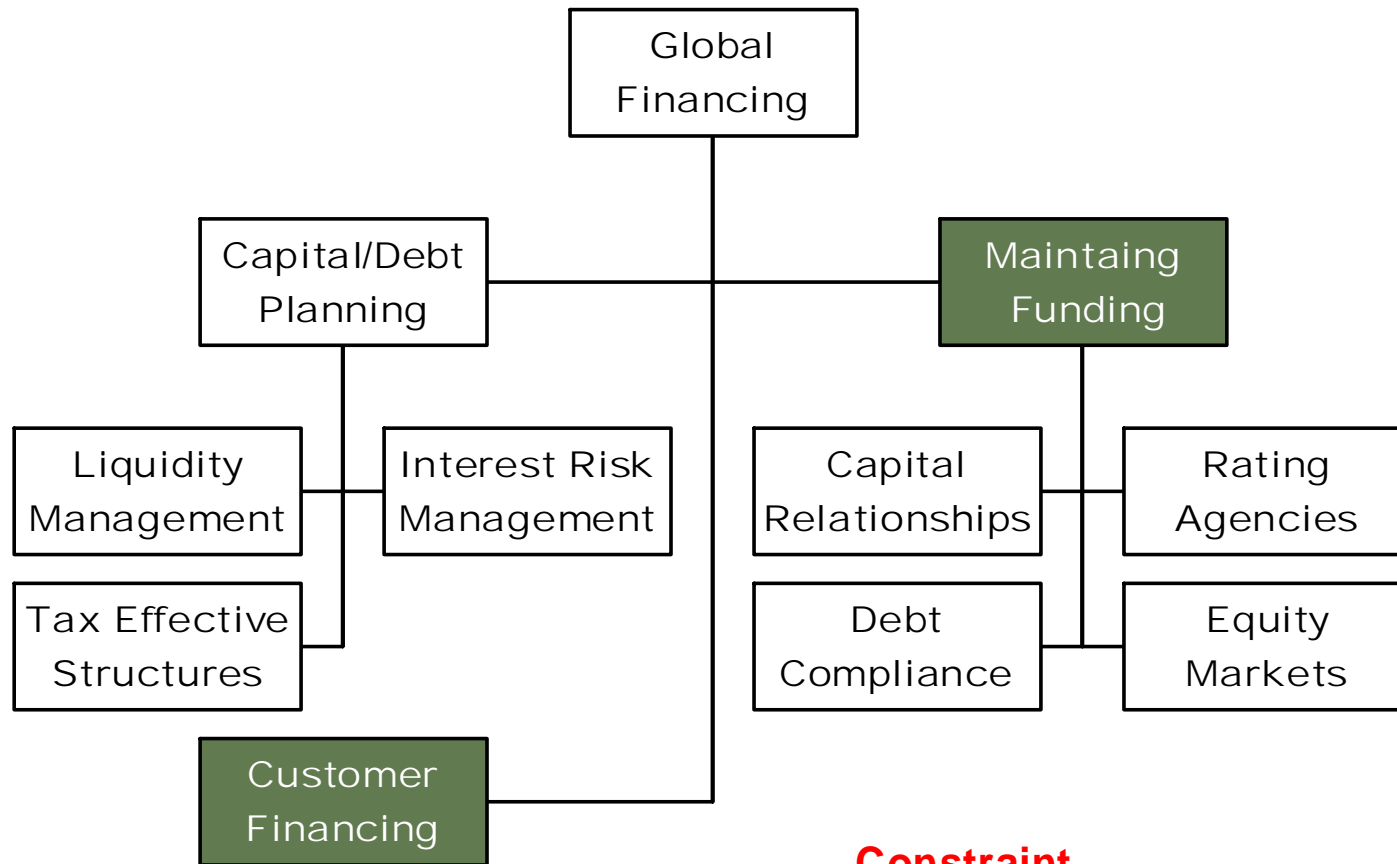
Competitive Practices

Eliminate low value-added transaction processing:

- Systems instead of manual spreadsheet processes that take staff time
- Consolidate in shared service centers or in-house banks
- Outsource
 - Treasury agency management of in-house banking activities
 - Payment factories
 - Collection companies



How Treasury Objectives are Achieved



Constraint

Major opportunity/risk

Key leverage point

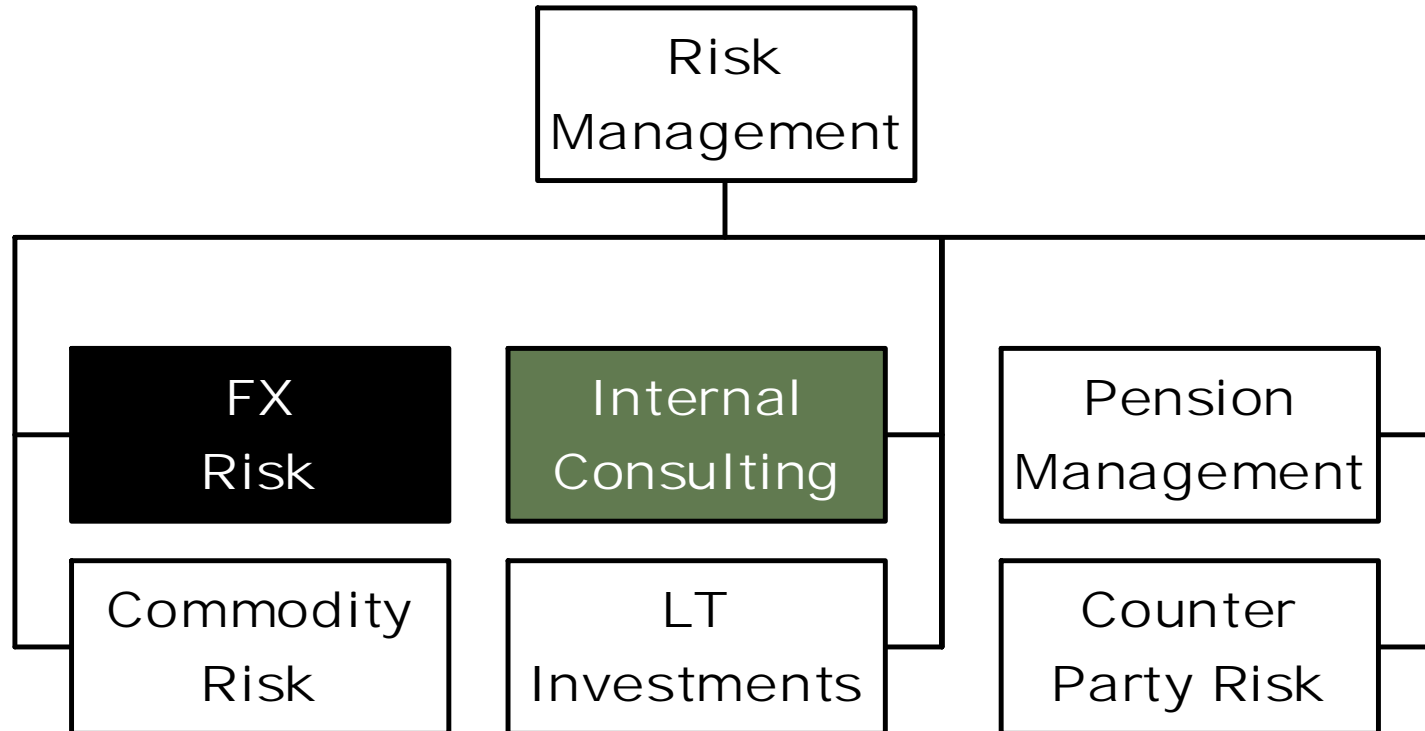


Competitive Practices

- Without liquidity, there's no capital
- Debt/equity planning is the only way to minimize cost of capital
 - Taxes are the key driver
- Estimate each bank's ROI
- Active CFO/CEO support with debt investors
- Equity markets are changing
 - Will SOX be the interest equalization tax of its time?



How Treasury Objectives are Achieved



Constraint

Major opportunity/risk

Key leverage point

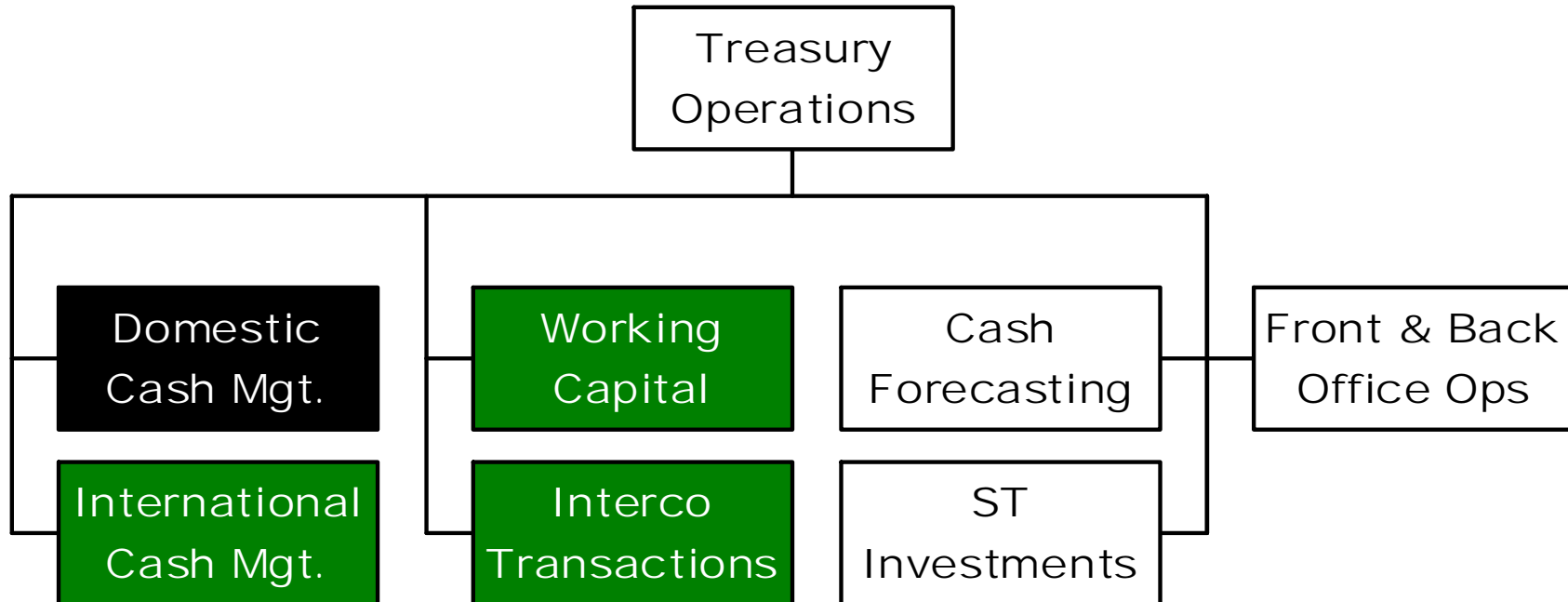


Competitive Practices

- Operating unit hedging
 - Within policy with Treasury consulting
- Centralized treasury derivative trade execution
 - Centralized hedge accounting
- Probabilistic risk analysis
- Risk performance metrics
- LT investments if sizeable are outsourced
- Internal consulting on LT sales and purchase contracts
 - FX and funding



How Treasury Objectives are Achieved



Constraint

Major opportunity/risk

Key leverage point



Competitive Practices – 1

- Cash management
 - By subsidiary, the ideal is three bank accounts
 - Operating, collections and disbursements
 - 95%+ electronic payments and receipts
 - Bidding out the cash management business every 3-5 years
- Working capital
 - Must have real senior management support
 - The best way to ensure quality sales

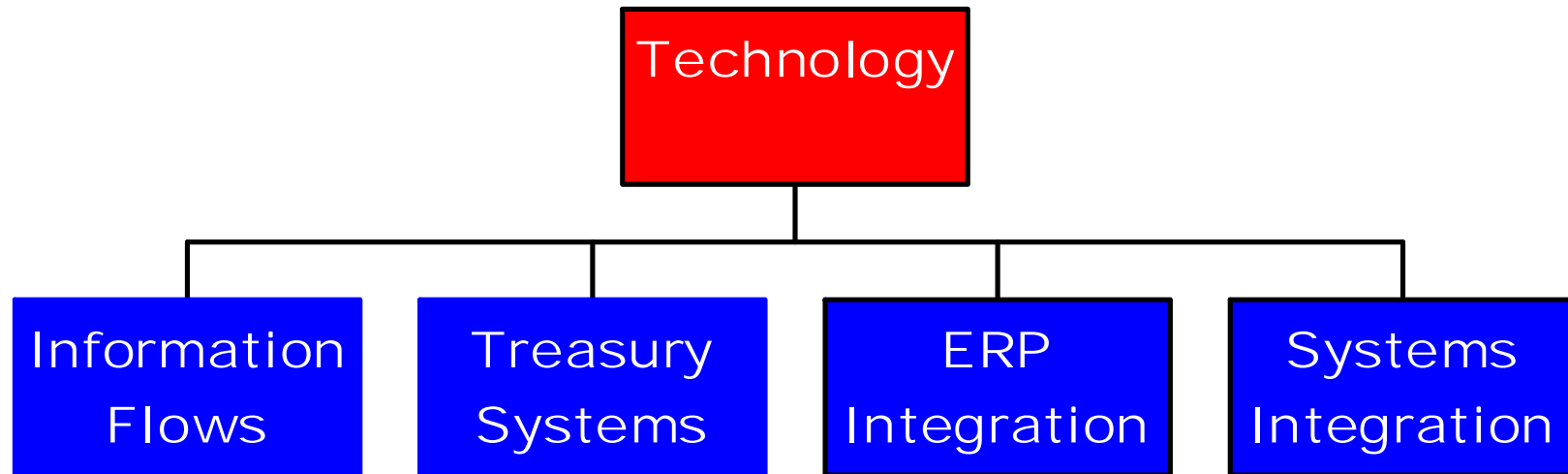


Competitive Practices – 2

- International
 - In-house banking and regional treasury centers
 - In-country and cross-border pools
 - Payment factories
 - Collection companies
 - Shared service centers
- Interco transactions
 - Netting
 - Standard payment terms



How Treasury Objectives are Achieved



Constraint

Major opportunity/risk

Key leverage point

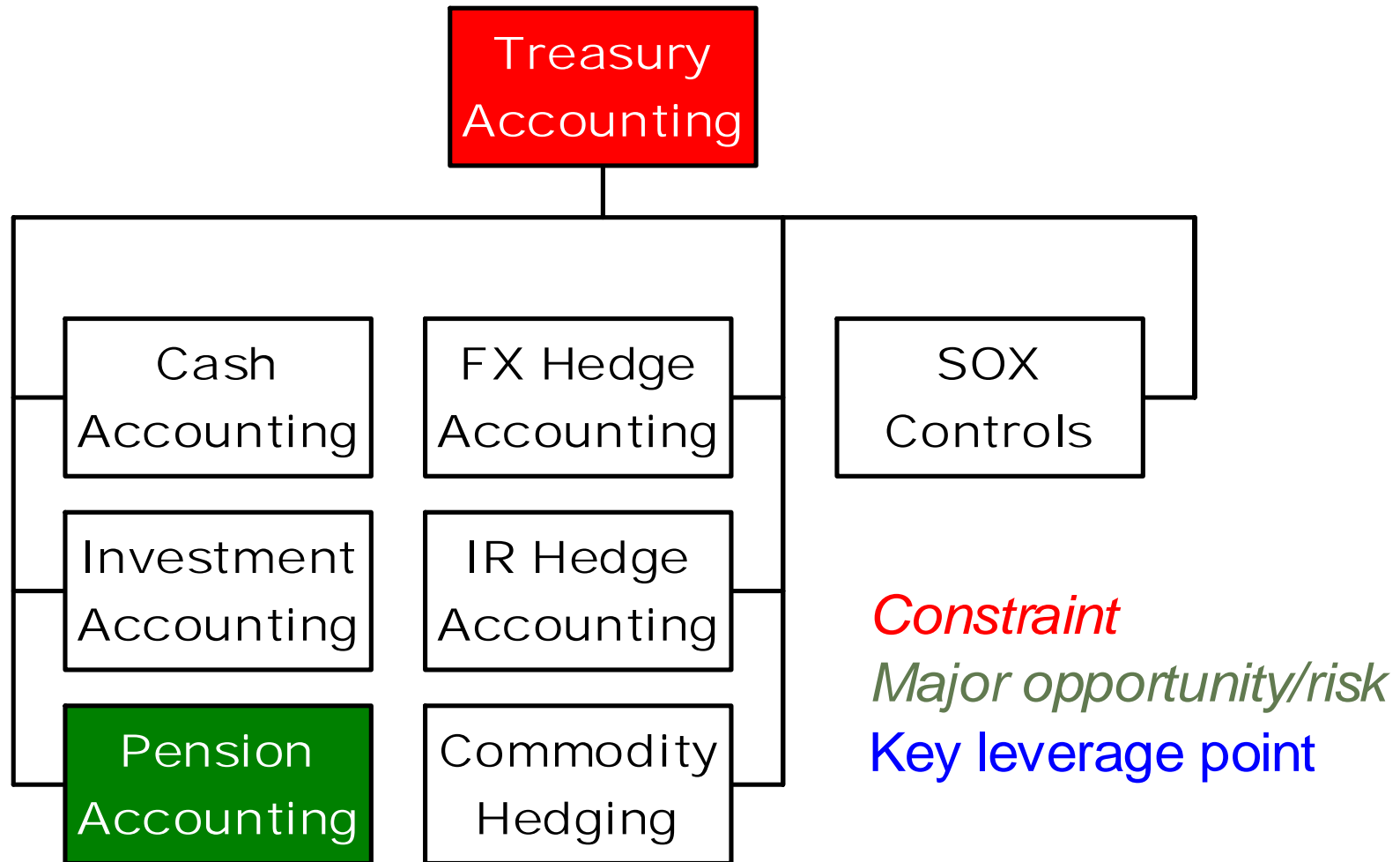


Competitive Practices

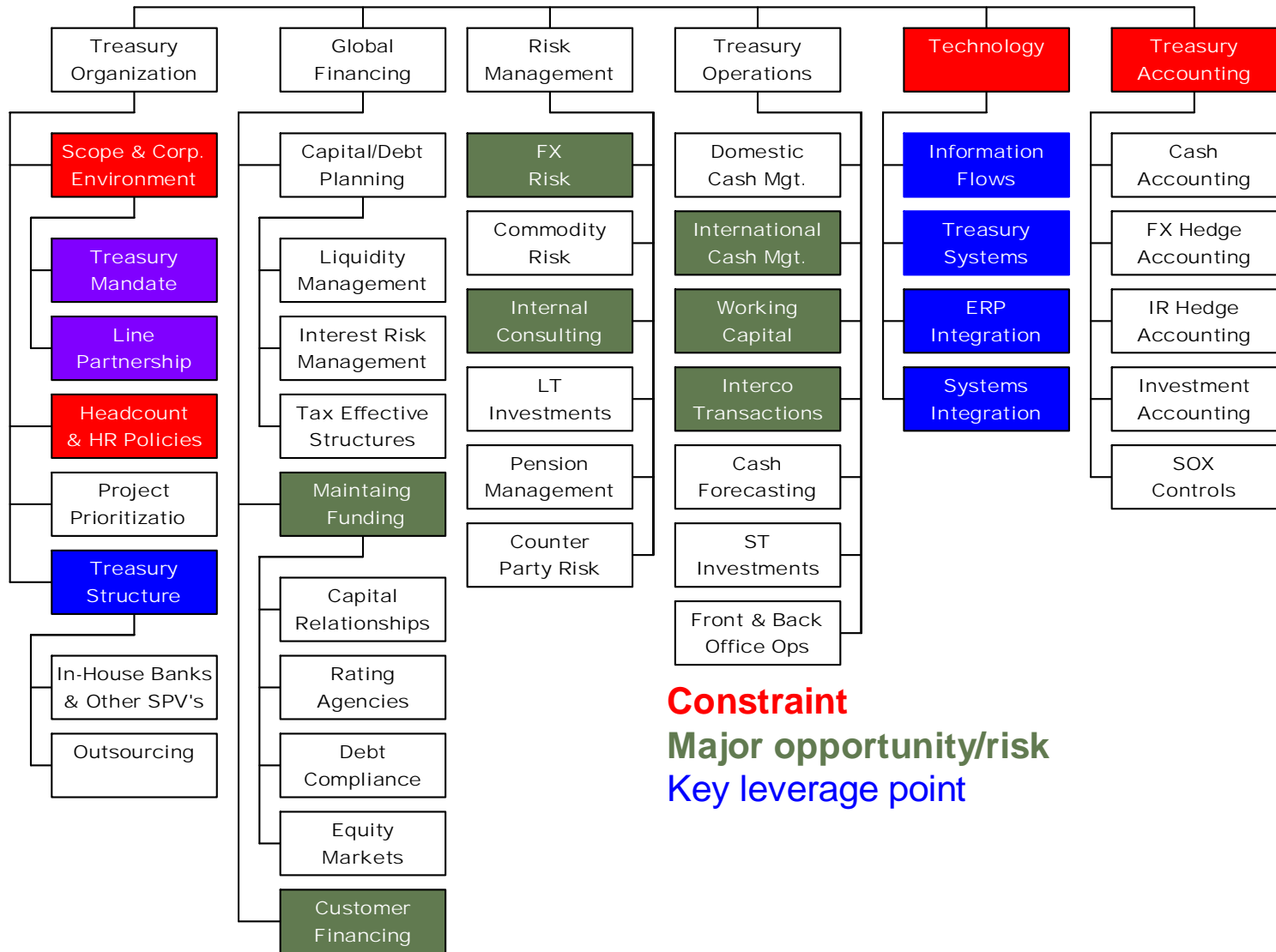
- Take full advantage of your ERP system
 - In-house banking
 - Payment factories
 - Cash forecasting
 - Working capital management
- Lease an internet treasury system
 - With global access, more practical
 - One worldwide treasury data warehouse
 - Much less expensive
- Integrate your bank trading with your system



How Treasury Objectives are Achieved



How Treasury Objectives are Achieved



Key Leverage Points

- Treasury special purpose vehicles allow consolidation of treasury operations
- Outsourcing of low value-added cash consolidation frees up headcount that can be applied to the high value-added functions
- A treasury system is the only way to manage the overseas units with minimal headcount
- Treasury integration into and out of the ERP system is a largely untapped major resource



Key Leverage Points – People

Well-qualified staff are critical:

- Rotate the company's best and brightest finance people into and out of Treasury
- Have professional treasury people at the AT level
- Show your staff off to the CFO
- Eliminate boring work
- Focus them on cash savings goals
- Ensure that they work well with Tax
- Have them travel to operating units



Career Issues – 1

- Being Treasurer is not a permanent position:
 - Average age of the American treasurer is 41, and has been so for the last 30 years
 - Average age is somewhat higher in Europe
 - Average age in Latin America is somewhat lower
- Focus on the likely next steps:
 - Business unit CFO
 - VP-Finance with treasury, tax and other
 - CEO of the customer finance company
 - Group CFO



Career Issues – 2

- Increase visibility with the business units
 - Speak to unit GM's during visits
- Seek responsibilities requiring constant interaction with the businesses
 - Customer credit
 - Working capital management
 - Consulting on LT sales/purchase contracts
- Develop strong relationships with the treasury service providers
 - OK to be tough but always be fair and respectful



About Greenwich Treasury – 1

Since 1992, Greenwich Treasury Advisors has been delivering integrated treasury solutions for over 300 global businesses:

- Risk
 - FX/IR/commodity risk assessment and policies
 - FAS 133/IAS 39 hedging and documentation
 - Performance measurement
 - Best practices
- Cash
 - Global liquidity management
 - Cross-border cash consolidation
 - Bank reviews and RFP development



About Greenwich Treasury – 2

- Structures
 - Diagnostic treasury reviews
 - Implementing spin-offs and merger treasuries
 - In-house banking and outsourcing
- Technology
 - Treasury system RFP's, review and selection
 - Treasury intranet and web application design
- For more info, visit www.greenwichtreasury.com
 - Free articles on risk management, FAS 133, treasury systems and treasury maxims at [/articles.cfm](#)



Representative Clients

Alcan

Amgen

BP

CITGO

DaimlerChrysler

Dow Chemical

DuPont

EDS

Ford

General Motors

Hydro Quebec

International Paper

McDonald's

Merck

Nestle

Novartis

NZ Dairy Board

Procter & Gamble

Saint-Gobain

Siemens



Jeff Wallace

- Founded Greenwich Treasury Advisors in 1992, and author of:
 - *The Group of 31 Report: Core Principles for Managing MNC FX Risk* (AFP, 1999)
 - *A Risk Metric Approach to Hedging* (GTA, 2002)
 - FAS 133 chapter of *The Handbook of International Finance & Accounting* (John Wiley, 2004)
- Formerly VP-International Treasury at American Express, AT at Seagram and at D&B; CPA at PW
- jeff.wallace@greenwichtreasury.com
- +1-630-566-9119



Senior Directors

- George Caravanos
 - Former AT of Compaq
- Bruce Burlen
 - Former VP-Int'l Treasury, American Express
- James Hodge
 - Former AT at IBM and AT&T
- Gerry Kondritzer
 - Former VP&T of Chiquita and AT at Amerada Hess



Why Clients Choose Greenwich Treasury

- Corporate Treasury Expertise
 - Each consultant brings over 25 years of corporate treasury experience
- Proven methodologies
 - Data gathering and analysis
- Collaborative approach
 - We work as part of your team
- Independent with no conflicts of interest
- 100% guarantee of your satisfaction
 - Or we will return your fee

