



Surviving a Cash Crunch Part 1

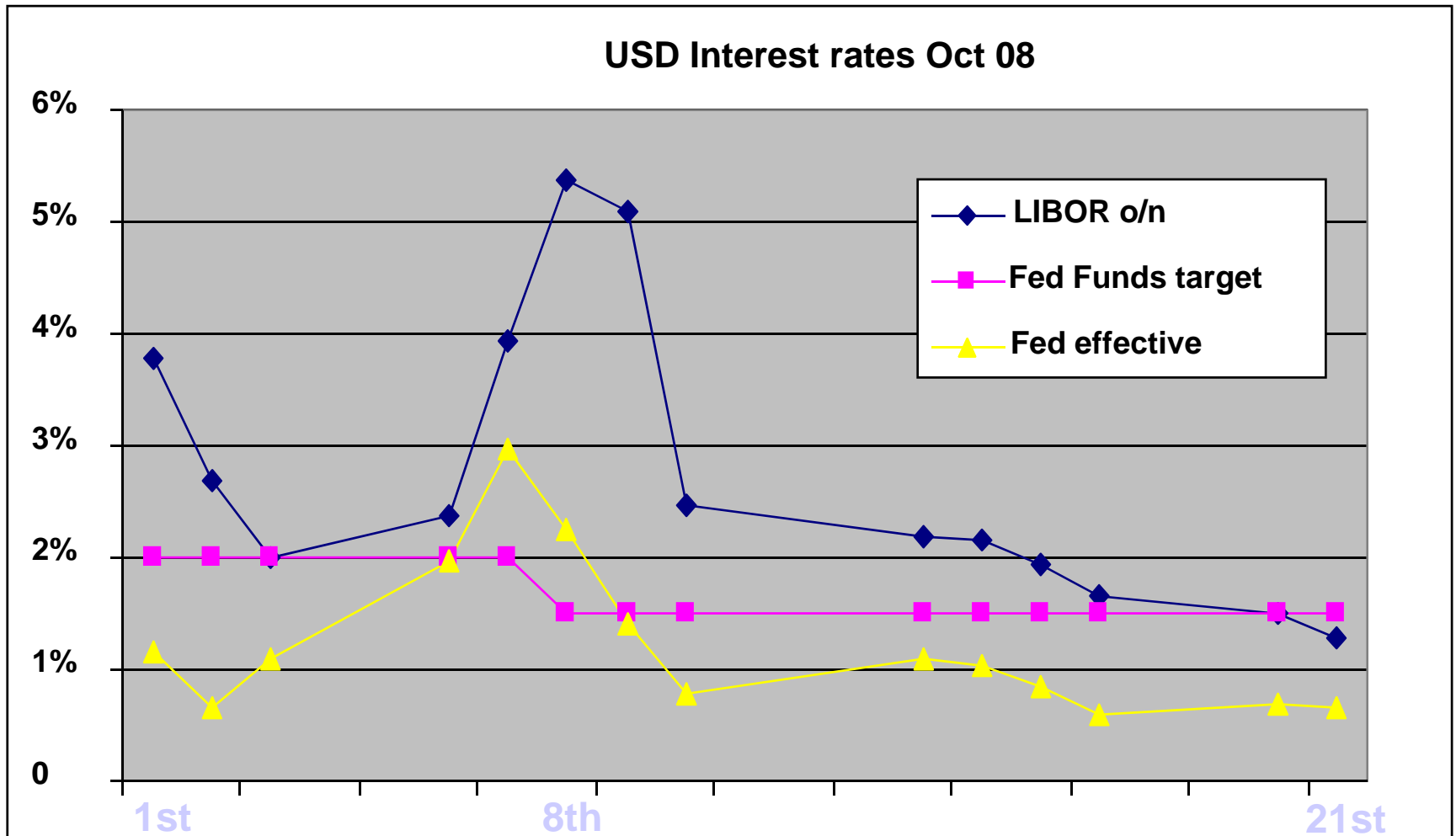


Mark K. Webster, CPA, CCM, Partner
Peter J. Pinfield, Partner
Daniel L. Blumen, CTP, Partner
Treasury Alliance Group LLC

No Worries Mate

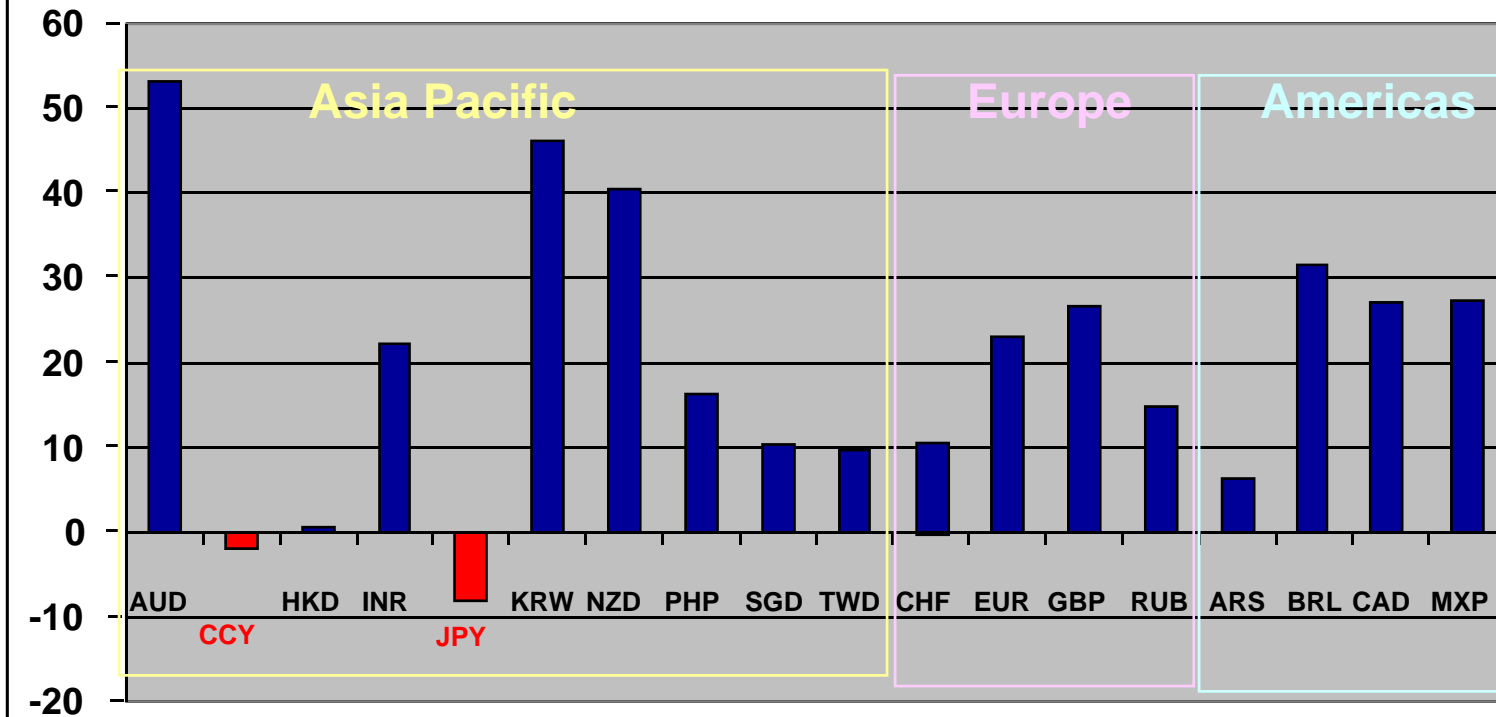
- Interest rates
 - Cost of borrowing
 - Yield on investments
- Counterparties
 - Ability to find lender
 - Stability of investment
- Working Capital
 - Increasing DSO
 - DP and inventory under pressure
- FX, Stock and Commodity Price Volatility

Volatile Rates

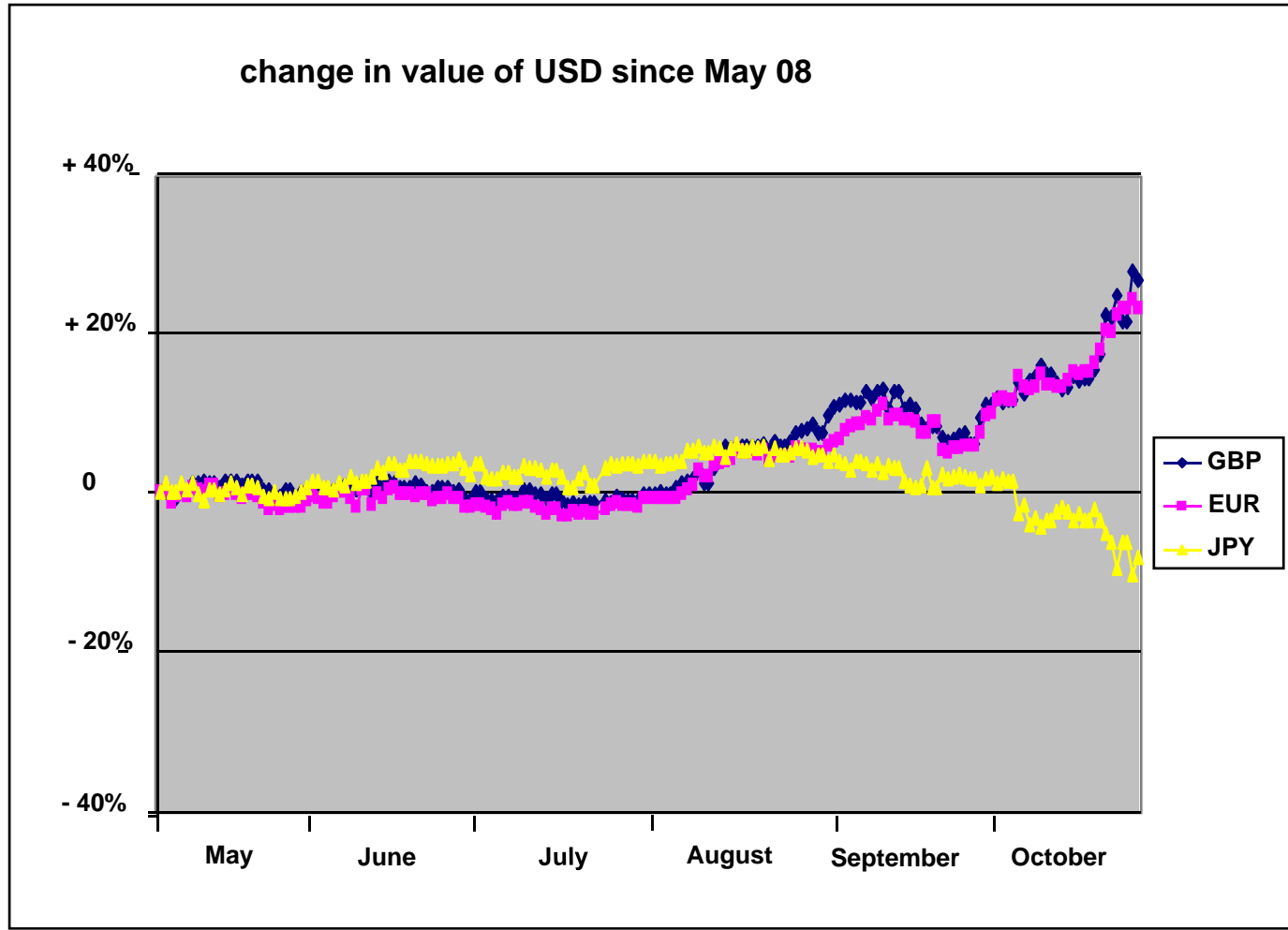


Stronger US Dollar

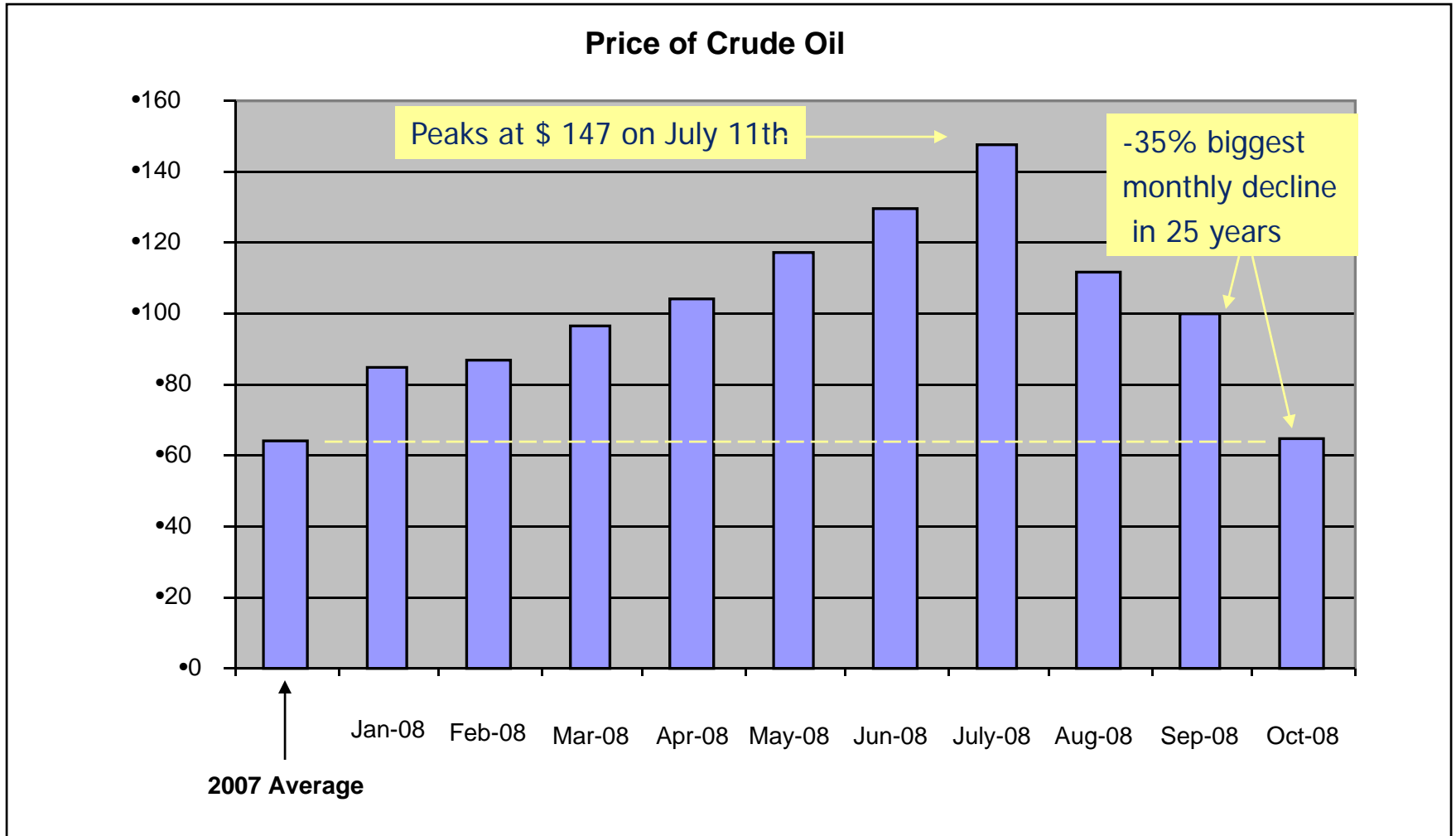
% Change in value of USD
May-Nov 2008



USD Up 25% against Euro



Oil Prices Up 125% and Down



Market Volatility is High

DJIA Aug-Oct 2008



Agenda

- Market background
- Ten ideas
- Summary
- Questions

1 - Analyze Working Capital

- What
 - Analyze basic working capital management metrics such as DSO, DP and DI at country and business level
 - Build dynamic dashboard showing status of key working capital indicators
- Why
 - Detailed analysis of metrics permits country and industry specific actions to improve working capital
 - Dashboard facilitates effective ongoing management and demonstrates commitment to investors and lenders

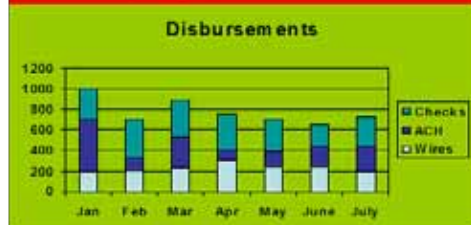
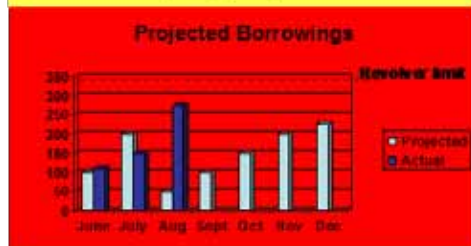
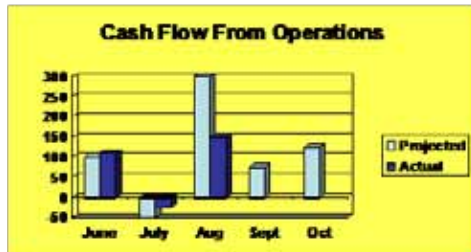
1 - Analyze Working Capital

- How
 - Form cross-functional team from supply chain, sales and manufacturing to tackle working capital issues
 - Identify and baseline key metrics
 - Formalize communication and review program
- Things to consider
 - Reliability of information sources and ability to automate data feeds
 - Internal resistance to treasury involvement in cross-functional initiative

1 - Treasury Dashboard

XYZ Company Treasury Operations Dashboard

August 15, 2008



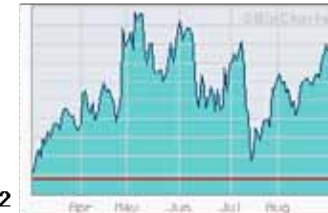
- Operations Status**
- Lockbox
 - Wire Transfer
 - Account Recon
 - Cash Application
 - Vendor Inquiries

XYZ Co. (NYSE:XYZ)

29.18 -0.19 / -0.38%

Open: 29.31 Volume: 7,300
 High: 29.49 Volume Avg: 411,700
 Low: 29.12 P/E Ratio: 12.00
 Prev. Close: 29.37 Div. Yield: 3.99%

52-Week Range (Low - High): 23.83 - 30.72



Key Metrics	June	July	Aug
DSO	38	40	41
DIO	20	15	14
DPO	45	40	41

Key Rates:	Tues.	Wed.
Treasury Bills (90 day)	4.97	4.97
Commercial Paper (Finl. 90 day)	5.27	5.27
Commercial Paper (Non-Finl. 90 day)	5.22	5.23
Federal Funds (Overnight)	5.24	5.23
Eurodollars (90 day)	5.40	5.40
One Month Libor	3.17	3.18

Pending Disbursements (over \$100K)		
Payee	Amount	Date
James Doe	\$155,000.00	Aug. 16, 2008
Huntington Reserve	\$215,986.55	Aug. 16, 2008
IBM	\$200,000.00	Aug. 18, 2008
IRS	\$750,000.00	Aug. 20, 2008
Monroe Printers	\$125,000.00	Aug. 31, 2008
PPG	\$425,000.00	Sep. 15, 2008

2 – Find the Cash

- What
 - Review your existing bank structure for idle cash
- Why
 - Internal cash is the cheapest source of funding
 - Accounts tend to multiply over time
 - Identifies unneeded bank accounts which can be closed to reduce fees and free up even more cash
 - Identifies need for structural changes to access internal cash using techniques such as pooling

2 – Find the Cash

- How
 - Consider leveraging recent government efforts, e.g. IRS 2008-91
 - Rationalize your banking network
 - Identify and map all existing relationships
 - Maintain sufficient number of relationships to protect against future consolidation or failure
 - Use global liquidity management techniques such as pooling, sweeping and follow the sun sweeps
 - Review domestic sweeps and concentration arrangements
- Things to consider
 - Corporate structure may be an issue
 - Tax consequences need to be reviewed
 - Integrate with Relationship Management (Tip 3) for administrative efficiency

3 – Manage Your Relationships

- What
 - Identify, analyze and confirm your financial partners and counterparties
 - Have defined strategy for allocating your business
- Why
 - Permits your company to respond to changing market and counterparty conditions quickly and precisely
 - Facilitates the development and implementation of contingency plans
 - Strengthens relationships to avoid future problems
 - Reduces overall costs
 - Happy suppliers are flexible and cooperative

3 – Manage Your Relationships

- How
 - Consider non-bank sources of credit such as customers and suppliers
 - Supplier finance
 - Leading and lagging under agreed terms
 - Conserve credit and draw down lines
 - Request SAS 70 for outsourced services
 - Review counterparty risk ratings
 - Update country risk analysis
 - Establish credit terms based on country risk and customer risk
- Things to consider
 - Ability to maintain accurate relationship data
 - On-going bank consolidations
 - Comfort level with rating agencies

4 – Review Terms and Conditions

- What
 - Analyze existing payment terms offered to customers to ensure they fit corporate needs and are being met
 - Harmonize sales and payment terms to reflect industry and country best practices
 - Enforce discipline surrounding terms and conditions; eliminate exceptions
- Why
 - Simplifies payables processing
 - Reduces exception processing and related errors
 - Improves cash position
 - May increase sales

4 – Review Terms and Conditions

- How
 - Use the 80/20 rule to lower DSOs and accelerate cash
 - Review ACH direct debit usage
 - Instruct accounts receivable to bill back unauthorized discounts taken
 - Ensure payment methods appropriate to each country
 - Review appropriateness of instrument
 - LCs are costly and not always necessary
 - Electronic methods are cheaper than paper
 - Become proactive with SEPA credits and debits to reduce costs
- Things to consider
 - Can generate resistance from sales and A/P

5 - Perform Spend Analysis

- What
 - Analyze spending on key goods and services to improve pricing and utilization
- Why
 - Expenses tend to grow over time
 - You waste an awful lot of money on paper clips
 - And staples too

5 - Perform Spend Analysis

- How
 - Concentrate business with strategic vendors and aggressively pursue discounts
 - Implement just-in-time inventory management
 - Utilize corporate card capabilities for payment and tracking
 - Request re-assessment of commercial property value to lower property taxes - and insurance premiums too
- Things to consider
 - Delaying payments to suppliers is short-sighted

6 - Auditing Risk Management

- What
 - Review the effectiveness of interest, currency and commodity hedges
 - Review all current insurance policies
- Why
 - Identifies areas of deficiency in hedging strategies
 - Allows company to operate business within acceptable tolerances amid fluctuations of key drivers
 - Ensures compliance with corporate policies
 - Minimize cost of hedging and insurance

6 - Auditing Risk Management

- How
 - Review:
 - Policies to make sure they're still appropriate
 - Practices to ensure they comply with policy
 - Consider billing in select foreign currencies
 - Protect your company from currency/commodity price fluctuation by structuring a price cap, price floor or price collar
- Potential Concerns
 - Not a question of cost savings but effectiveness
 - Hedging costs
 - Management/ Shareholder understanding and expectations

7 – Tune-up Cashflow Forecast

- What
 - Develop or improve current method of cashflow forecasting
 - Consider increasing frequency of forecasting
- Why
 - Reduce costly short-term overdrafts
 - Improves yields on investments
 - Facilitates compliance with lender covenants

7 – Tune-up Cashflow Forecast

- How
 - Identify existing forecasts
 - Track their reliability
 - Evaluate and consolidate
 - Review potential information sources
- Potential Concerns
 - It's not a lot of fun
 - Information can be hard to collect

8 - Read the Fine Print

- What
 - Review the terms and conditions of your current agreements and contracts to make sure you understand all of their potential implications and renewal dates
- Why
 - Economic changes may change the value of the contract or the impact of some of the terms
 - Trading partners tend to be more rigorous about enforcing covenants and contract terms during economic down turns.

8 - Read the Fine Print

- How
 - Include loan agreements, investment schemes, customer and supplier contracts
 - Don't forget to check your banks' banking partners
 - Who is your money really with? Really?
 - Evaluate interest rates for early and late payments in contracts with customers and vendors
 - Review existing insurance policies terms and conditions
 - Ensure current carrier ratings meet your requirements
 - Look for opportunities to reduce premiums
- Potential Concerns
 - Look for opportunities to shorten or extend contract to address current conditions
 - Trading partners may not be cooperative

9 – Review Investment Policies

- What
 - Review your existing investment policies (yes policies with an s) to ensure they meet your company's needs and risk appetite
- Why
 - Changes in the economy and in accounting rules may have overtaken your existing policies
 - Changes in accounting rules have created a need for additional policies for many companies.

9 – Review Investment Policies

- How
 - Review your investment guidelines to make sure that they match your risk policies and long term goals
 - If you don't have them, consider developing Impairment and Valuation policies
 - Ensure policies provide for “exceptional” circumstances
 - If you can't explain it – don't invest in it
 - Communicate with investment managers and make sure they are complying with your revised policies
 - Talk to your banks
 - They can give direct access to fund managers
- Potential Concerns
 - Current investments may not comply with revised policies

10 – Add Staff

- What
 - Increase Treasury resources – direct & indirect
 - Reinforce “cash is king” culture
 - Attend to internal and external communication, enhance collaboration
- Why
 - Efficient working capital management is crucial
 - Direct impact to the bottom line
 - Leverage the value of Treasury
 - This is the time!

10 – Add Staff

- How
 - Identify priorities for improvement & build business case for extra resources
 - Involve business partners in raising Treasury profile
 - Communicate up down and sideways
 - Publish a calendar of events
 - Incent employees to be cash conscious
 - Clarify roles and responsibilities
- Potential Concerns
 - Hiring freeze and budgeted expense cuts
 - Keep focus on facilitating value-add initiatives not empire building

Summary

- Working capital is critical to survival at all times, but especially during economic downturns
- There are always internal opportunities to improve working capital and cash flow
- Identify and address issues before they become problems
- Communicate with all of your trading partners, especially bankers and lenders
- Economic downturns can provide opportunities if you're prepared to find them

For further information

Mark K. Webster, CCM, CPA, Partner
Phone (216) 932-1678
mark.webster@treasuryalliance.com

Peter J. Pinfield, Partner
Phone (415) 413-4780
peter.pinfield@treasuryalliance.com

Daniel L. Blumen, CTP, Partner
Phone (630) 717-9728
dlblumen@treasuryalliance.com

Treasury Alliance Group LLC
www.treasuryalliance.com

