2018 H2 MEETING SUMMARY

Tech20 High-Growth Treasurers' Peer Group

NeuGroup™ for treasurers of high-growth tech companies

Forward-Looking Treasury Planning Puts High-Growth Tech on the Strategic Path

Treasurers at high-growth tech companies are looking ahead—be it with professional goals, bank relationships, tax planning, treasury strategy or supporting the business.

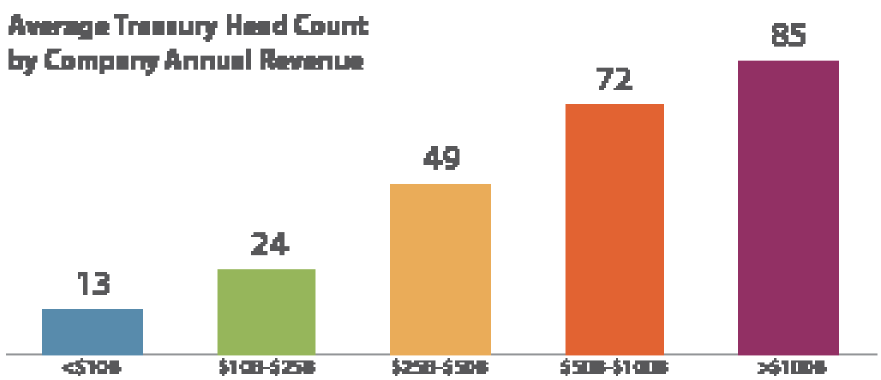
The theme of being forward-looking pervaded the pilot meeting of the Tech 20 High-Growth Treasurers' Peer Group in Santa Clara, Calif. In the opening session, when asked what first drew them to treasury, almost all the participants said they liked that treasury is forward-looking and supports driving future business growth. The fact that treasury also touches most aspects of the business in this quest also had appeal. This focus on what lies ahead carried through other sessions, including the story of the pilot meeting sponsor, Bank of the West/BNP Paribas. Here are the three top takeaways from the meeting:

1) Planting treasury seeds for high-growth success. Running treasury at a young, fast-growing tech company presents plenty of challenges and potential growing pains. But there are also advantages, and following some basic principles will go a long way toward creating a treasury that adds strategic value.

NeuGroup Peer Research

COUNTING TREASURY HEADS AND HATS

Treasury departments at large MNCs are all too familiar with doing more with less or more with the same when it comes to resources, including personnel. But as the chart demonstrates, everything is relative: The average number of treasury staff at companies with revenue above $100 billion (85) is more than six times the number at companies with revenues between $1 billion and $10 billion. One Tech20HG company has just two treasury staffers. Of course, each team member at smaller companies must wear multiple treasury hats. One member wrote, "Including myself, we are a relatively small treasury organization and members are expected to be cross-functional. For instance, the same AT will work on liquidity as well as capital structure and capital markets." Small size is yet another reason for treasury high-growth tech firms to embrace the technology and automation solutions that hold the promise of boosting efficiency, improving the analysis of data and boosting treasury's strategic value.



Source: NeuGroup Peer Research, 2018 H2 (US treasurer and assistant treasurer groups)

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> "Treasury provides an opportunity to support the business with an internal overlay on the firm and an external overlay looking outside the firm to the world."

Post-US Tax Reform Global Structure

A treasurer with heavy tax-treasury planning experience at large MNCs and an international tax services partner at BDO helped the group consider the best global expansion strategy and structure for the post-US tax reform world. Highlights:

Substance matters more. Lower US corporate tax rates and global efforts to curb base erosion mean companies should structure with more substance—transactions must, for starters, have a substantial purpose other than reducing tax liability. So treasurers should encourage their tax departments to put treasury centers, in-house banks or other special purpose vehicles in jurisdictions where they will not be taxed harshly and find qualified people to create substance (e.g., Ireland, Switzerland, the Netherlands, Hong Kong and Singapore).

A carrot to do more in the US. High-growth tech companies that have not yet moved their intellectual property (IP) offshore should be aware that the carrot (foreign-derived intangible income or FDII) in US tax reform is to do more from the US and the sticks—global intangible low-taxed income (GILTI) and base erosion and anti-abuse tax (BEAT)—are to discourage doing more offshore to erode the taxable US base of revenue. The timing of any move is also a factor, since IP tends to become much more valuable as company value grows (with an IPO being a significant trigger point).

2) Creating better bank relationships and groups. Managing banking relationships takes on increasing importance for small, fast-growing businesses that are becoming bigger, multinational companies (MNCs). Knowing the lay of the banking land will help treasury navigate through a thicket of issues.

3) Solidifying treasury's strategic say. A key success factor for treasurers at companies new to treasury is to get senior management and the board to understand treasury's role and buy into it. Treasurers at the meeting shared their efforts to increase treasury's strategic say in the business by helping support it and solving problems.

Planting Treasury Seeds for High-Growth Success

The tools for building a treasury that helps high-growth companies scale their businesses and meet their goals can't be downloaded from the cloud or purchased off the shelf. But a strategy based on the experience of those who have undergone or advised on the process increases the odds of success.

KEY TAKEAWAYS

1) Understanding treasury's raison d'être. The why of treasurers is to serve the core business by looking ahead and determining: the cash being generated by the business; future funding needs; the treasury infrastructure needed to support the business; and the various financial risks that may impede business health. These essential functions are why treasury gets and needs to work with almost every aspect of the business. As one treasurer put it, "Treasury provides an opportunity to support the business with an internal overlay on the firm and an external overlay looking outside the firm to the world."

2) Hyperproductivity as a service. One treasurer said his company is essentially dedicated to providing other companies hyperproductivity as a service. This trait of tech firms drives treasury to support business units with service that empowers them to be hyperproductive too. With small treasury staffs, high-growth companies need treasury to be hyperproductive as well. That means integrating solutions quickly that will scale hugely—by using processes that leverage open APIs, robotic process automation and artificial intelligence.

3) Putting cash to good use. High-growth tech businesses have different use-of-proceeds concerns than mature, larger-cap tech companies. Given tax reform, the leverage benefit is not only reduced, but the synthetic repatriation of cash earned offshore is no longer in play, so the imperative to issue debt as global sales take off is diminished. Also, high-growth tech companies should not have pressure to return cash to shareholders, since the best use of cash is still investing in their own growth.

4) Cash awareness is a matter of culture, so start building it. Some growth companies generate so much cash that they tend to ignore the need to forecast and use it efficiently. Their treasurers need to build a culture of cash awareness to gain better visibility and forecasting accuracy for when it becomes mission-critical. One treasurer created stickers and buttons to boost awareness. Tapping into the data residing in systems is critical, one reason treasurers should work closely with other functions that manage cash data and influence cash flow results, including FP&A, procurement and collections.

OUTLOOK

High-growth tech treasurers have important jobs with mandates that may not be fully appreciated by their C-suites and board. With staffing levels under five and some treasurers having just one to two direct reports, pilot participants expressed a strong need for help from peers, banks and other solution providers and technology. To succeed, they must be high performers adept at getting things done. Firms that have them have a huge advantage over those that don't.

Creating Better Bank Relationships

The discussion of banking relationships started with two treasurers sharing their experience with being asked by their main bank to shift from the commercial bank to having the corporate banking group cover them. As context, Bank of the West/BNP Paribas shared plans to integrate the two sides to bring a high-touch middle-market, commercial banking coverage model to deliver the capabilities of the global corporate bank.

KEY TAKEAWAYS

1) Step back to assess new bank relationships. Companies outgrowing their incumbent banks and building a new bank group should step back and assess the banks, their capabilities, the commitments they offer and whether the bankers assigned to cover the company know what they're doing. How credit underwriting is done also matters: One treasurer got a shock after moving from their pre-IPO bank to a large global bank which offered international capabilities but much stricter credit underwriting terms. Treasurers then need to decide if they want a tiered structure in their banking group. Given the more limited wallet of smaller companies, you really have to determine how many tiers you can feed.

2) Where will you get the most access to the A-team? Another factor in bank relationships is getting access to the A-team and having a relationship banker who will maximize your exposure to that team. In the stories about being asked to migrate from the commercial to the corporate bank, the chief concern was losing a competent coverage person. Also, you could be a highly valued client for the commercial team and a small-fish afterthought to the corporate group. (See sidebar.) Since sales often overpromises, the consensus was to bring in the whole team of bankers you will likely interface with as part of your RFP.

3) Tell the board and CEO that treasury owns bank relationships. Smaller growth companies more often select banks, especially for M&A, because the founder is a friend of, say, Jamie Dimon. Since these companies have no experience with professional treasurers who own and manage bank relationships, treasury needs to work hard to educate the C-suite and board. Also make sure that banks hired via friend referrals are used for their real capabilities; don't let any bank's shortcomings get in the way of what needs to be done.

4) Build to be bank-agnostic. Being as bank-agonistic as possible makes sense for companies forming a bank group from scratch, where the opportunity to build in flexibility to change banks is much greater than for those with long-standing bank relationships. But it's not easy: A bank may suggest a host-to-host connection to speed implementation and provide better end-to-end service. But that will make it more difficult to switch. So one treasurer is working on Swift connectivity using the latest standards to ease connections to new banks. Similarly, open banking APIs and similar initiatives should appeal to growth tech companies, especially those that operate platforms that also leverage open APIs.

Treasurers, Bankers and Big Fish

One treasurer told the group that she knows firsthand what it's like to go from a big-wallet client, large-cap tech company, with access to the corporate bank group's A-team, to a smaller-wallet mid-cap that had no access to the corporate bank group, much less its A-team. So after the mid-cap company grew to become a big-wallet client with the commercial bank group and gained access to its A-team, she was reluctant when asked to move to the corporate bank group, fearing she would not warrant the same access to an A-team. "You remember what that experience was like," she said.

However, the mid-market commercial banking group can pair you with inexperienced coverage. One treasurer moved to a growth company from a large corporate and asked for a daylight overdraft facility. His coverage banker asked what that was. Bigger, global banks often have more junior people in commercial banking. To compensate, he reached out to his former large corporate relationships at the bank to help get things moving.

Another treasurer said she wants a bank that cares about what her firm is now as well as what it might grow to be in the future. She also wants a bank that cares enough to understand that she is short-staffed and cares less about having a brand-new banking portal than having one that her team is familiar with and has documentation for.

Use a Private Rating as a Hole Card

When the capital structure discussion turned to getting a rating, the concern was that the rating agencies would give companies a worse credit rating than indicated by their current bank credit pricing. "If you are not big enough to be investment grade, then getting a rating gives up flexibility," one treasurer noted. The rating agencies will force you to be overly focused on your free cash flow and your balance sheet will be held hostage to holding a minimum level of cash. But another treasurer shared how he used a private rating from a credit rating agency as a sort of hole card to assess his bank credit pricing. While bankers will come up with every reason in the book why you should disclose your private rating, you are under no obligation to do so (a fact confirmed by Tom Bailey, who heads BNP Paribas' rating advisory service).

OUTLOOK

Parsing the issues growth tech companies have with banks, including smart support, end-to-end service delivery and speed to market, we see the opportunity for banks with both commercial and corporate banking groups (and global capabilities) to win business if they can get their offerings right. We also see the greater opportunity for fintechs to win business on the margin with tech growth companies. If high-growth tech companies do their homework and build bank-agnostic treasury infrastructures, they may gain access to the best of both.

Solidifying Treasury's Strategic Say

A key success factor for treasurers at companies new to treasury is to get buy-in for treasury's role from senior management and the board. One way to do this is to create a treasury vision and mission statement that aligns with the business.

KEY TAKEAWAYS

1) Find out what matters to the C-suite. One treasurer had been trained to learn what mattered to his bosses and then figure out how to align treasury objectives accordingly. But getting lucky never hurts. One day the CEO at the treasurer's latest job told him the stock was priced too low and he wanted to buy some back. The company had never done buybacks, but it turned out share repurchase was something the CEO cared about. The treasurer was able to tell him there was no need to repurchase shares but that the company needed a share repurchase strategy. "And I just happened to be working on one," the treasurer said. "It's often better to be lucky than smart."

2) Tie the treasury mission statement into that of the firm. One thing to look for is any mention of capital or business objectives that are capital intensive or anything relevant to cash flow in the company's mission statement. In one treasurer's case, the company actually mentioned free cash flow in its strategy documents. Supporting these priorities then naturally becomes a cornerstone in treasury's mission.

3) Map out a timetable with specifics for the near term. One way to win buy-in for the treasury function is to deliver specific wins early in your tenure. So the mission statement and strategy should be accompanied by milestones with specific, quick-to-deliver wins that are relevant to what the C-suite cares about in the first week, month, quarter, six months, nine months and year of your program.

4) Instill a multicurrency mindset. Young MNCs often struggle to instill a multicurrency mindset and treasury can add real value by making that happen. Point out why, if payment is received or made in a foreign currency, it should go into the system in that currency and not be converted into dollars. Also, once a decision is made to bill in local currency, don't waffle and let the customer pay in dollars.

OUTLOOK

The treasurers at the Tech20HG pilot meeting are bold. First, they all agreed to take on roles in which they are largely responsible for building a treasury function from scratch. Second, they are not afraid to roll up their sleeves to get much of it built, since they don't have others with the knowledge and experience to help them. You don't always have the opportunity to step up to a challenge like this, certainly not at more mature companies with existing treasury functions. But growth tech company treasurers do, and they are making the most of it.