January 14, 2014

Treasury Priorities 2014: Green Shoots of Growth
Speakers

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- Based in New York, Ron leads a global team responsible for the design and delivery of integrated global treasury solutions for Citi’s corporate and institutional clients. His prior experience includes positions in treasury consultancy, transaction banking strategy and product management, and, corporate banking based in Asia, Europe, and the US.

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- Based in Singapore, Gourang leads a team covering the Asia Region that provides advisory service to clients in setting up best in class efficiency structures such as Treasury Centers, Shared Service Centers, Principal Structures, and In-house Banks. Gourang has over 20 years of experience in Corporate Treasury, Mergers and Acquisitions, Financial Planning & Analysis, and Product Engineering. Prior to joining Citi, he was based in the United States as Vice President and Assistant Treasurer of Tyco Electronics.
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1. Backdrop
Backdrop

Macroeconomic forecasts are for an improving picture for the coming year in both advanced economies and emerging markets. Will this lead to changes in the corporate treasury outlook?

GDP Growth (%) 

Short-Term Interest Rates (%)

Need to support globally dispersed growth in a low interest rate environment

Redeploy Liquidity  
Fund Working Capital Optimally  
Mitigate Risks

Sources: Global Economic Outlook and Strategy, Citi Research, December 2013;
2. Drivers of Change
Treasury Priorities for 2014: Green Shoots of Growth

Treasurers must cope with the challenges of supporting the business in an environment of both growth - in advanced economies and emerging markets alike - and increasing complexity.

Drivers

- Regulatory & Tax Changes
- Advancing Technology
- Global Growth

Priorities

1. Funding Efficiency
   - Internal Funding
   - Working Capital Chain

2. Managing Regulatory Change
   - Addressing Challenges
   - Leveraging Opportunities

3. Treasury Transformation
   - Financial Ergonomics
   - “Intelligent” Centralization

4. Leveraging Technology
   - Show the ROI
   - Big Data
Global Growth: Opportunities & Challenges

While overall world GDP growth is picking up, there is wide dispersion - with some areas doing well and others requiring continued focus with an eye for risk mitigation.

**GDP Growth (%)**

<table>
<thead>
<tr>
<th>Area</th>
<th>2013F</th>
<th>2014F</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>China</td>
<td>7.6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Average of India, Russia, Brazil</td>
<td>2.9%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

**Currency Volatility**

- \( y = 19.86x - 3.15 \)
- \( R^2 = 0.86 \)

**Trapped Cash**

- 55%
- 25%
- 15%
- 5%

*Focus on deploying liquidity to meet growth needs in more places; ensuring an efficient balance sheet; and, managing challenges with un-deployable cash and foreign exchange volatility*

Sources: *Global Economic Outlook and Strategy*, Citi Research, December 2013; *Insights From Our Clients: What’s Next?*, Treasury Advisory Group, Citi Liquidity Management Services, October 2013
Regulatory & Tax Changes: Opportunities & Challenges

The regulatory landscape continues to evolve, from ongoing implementation of global financial industry regulations to local capital control changes (usually) towards liberalization.

**Drivers of Change**

- **Financial System Regulation**
  - E.g., Basel III, D-F, EMIR, National Preference, Bank Resolution Plans

- **Capital Control Changes**
  - E.g., China, Argentina, India

- **Statutory Reporting**
  - E.g., US GAAP / IFRS convergence

- **Market Infrastructure Changes**
  - E.g., SEPA

- **Taxation Proposals**
  - E.g., OECD BEPS, FATCA, FTT

Treasurers must remain on top of the changes to leverage opportunities and prepare to address challenges.
With greater emphasis on visibility, risk management and controls since the financial crisis, many Treasurers have been able to get senior agreement to fund change projects.

**Major Drivers of Transformation Projects for Treasury during 2014**

- No notable projects in 2014: 5%
- Enterprise-led business transformation projects: 9%
- Enterprise-led technology transformation projects: 36%
- Treasury-led organizational or technology transformational projects: 50%
- Treasury-led banking restructuring projects: 27%

*Treasury departments are being proactive in driving transformational change, rather than simply being driven by enterprise-level initiatives.*

Source: *Insights From Our Clients: What’s Next?,* Treasury Advisory Group, Citi Liquidity Management Services, October 2013
3. Priorities for 2014
Treasury Priorities for 2014: Green Shoots of Growth

Treasurers must cope with the challenges of supporting the business in an environment of both growth - in advanced economies and emerging markets alike - and increasing complexity.

**Drivers**

- Global Growth
- Regulatory & Tax Changes
- Advancing Technology

**Priorities**

1. **Funding Efficiency**
   - Internal Funding
   - Working Capital Chain

2. **Managing Regulatory Change**
   - Addressing Challenges
   - Leveraging Opportunities

3. **Treasury Transformation**
   - Financial Ergonomics
   - “Intelligent” Centralization

4. **Leveraging Technology**
   - Show the ROI
   - Big Data
1a. Funding Efficiency: Internal Funding

Continuing growth in emerging markets, coupled with a modest turnaround in advanced economies, requires ensuring the right amount of liquidity, at the right place, at the right time.

Liquidity Management: Percent of respondents with > 95% of operating flows (AP & AR) in pooling structure

Efficient Organization Construct: Do you have one or more In House Banks or are you considering setting up one in 2014/2015?

Top factors in creating the In-House Bank(s)

- More effective management of intercompany term loans: 67%
- More effective management of intercompany demand/revolving loans, e.g. resulting from cash pools: 67%
- More effective FX risk management: 50%
- Reducing bank cash and external debt held at subsidiaries: 42%

Sources: Citi Treasury Diagnostics; Insights From Our Clients: What’s Next?, Treasury Advisory Group, Citi Liquidity Management Services, October 2013

Efficient Organization Construct (IHB)

Further optimize liquidity funding and risk management

Improve Liquidity Management

Reduce Idle Cash; Centralize Investment; Centralize Funding; Improve Controls and Liquidity Risk Management

1. Funding Efficiency
2. Managing Regulatory Change
3. Treasury Transformation
4. Leveraging Technology

Priorities for 2014
1b. Funding Efficiency: Working Capital Chain

Treasury departments are increasingly in the role of coordination and oversight of Working Capital Management processes and decision making through a close relationship with both SSC and underlying operating businesses.

Acceleration of Cash Conversion Cycle

Optimal Financing Programs

Centralize A/R and A/P processes

Functional coordination of supplier and distributor financing

Deployment of Supplier Financing Programs

Impact of Treasury on DPO and DSO

Sources: Citi Treasury Diagnostics; FactSet
2a. Regulatory Change: Addressing Challenges

Global corporates must ensure compliance with the diverse and fast-changing global environment.

Emerging Markets Example
Capital Controls & FX Impacts

Advanced Economies Example
Basel III Effects on Bank Pricing

- Deposit pricing has started to change: 27%
- Loan pricing has started to change: 18%
- Derivative pricing has started to change: 18%

Currency volatility often precedes imposition of capital controls

Sources: Global Economic Outlook and Strategy, Citi Research, December 2013; Insights From Our Clients: What’s Next?, Treasury Advisory Group, Citi Liquidity Management Services, October 2013
2b. Regulatory Change: Leveraging Opportunities

…while taking advantage of new opportunities as they appear.

**Emerging Markets Example**

**RMB & New Opportunities for Improving Liquidity**

- China entities can be included in global liquidity structures via RMB automated x-border pooling
- Opportunities may also include USD x-border pooling, Netting, and “On Behalf Of” Payments/Receivables

**Advanced Economies Example**

**SEPA & New Opportunities for Streamlining**

- From addressing operational challenges of SEPA compliance towards simplifying banking and liquidity structures – for further cost reduction, efficiency, and streamlined liquidity management

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1. Note: Requires approvals and/or customization to each company’s unique circumstances. Please seek appropriate independent counsel.
3a. Treasury Transformation: Financial Ergonomics

With the shift towards emerging markets, the trend at many global corporates for stepped re-engineering of the core business operating model is becoming more pronounced.

- More local currency billing and sourcing changing currency exposures
- Evolving emerging markets capital controls creating opportunities
- Shifts in global supply chains changing sources and uses of cash
- New trading models / legal entity structures impacting liquidity and FX risk
- Maturing life cycles in new markets creating new procurement and credit risks

**Illustrative Business Model**

- Suppliers
- 3rd Party Suppliers
- Fully Fledged Manufacturers
- Principal Company
- Customer
- Regional Sales Office (Limited Risk Distributor)

- Quarterly Delivery Forecast
- Cost Plus (5%) Charge at 30 Day Terms
- Settled in Cash
- JIT Title Transfer
- 30 Day Payment Terms
- Good Delivered as Available
- Order Placement on Behalf of Customer
- Quarterly Payments
- Settled in Cash

**12 Priorities for 2014**

1. Funding Efficiency
2. Managing Regulatory Change
3. Treasury Transformation
4. Leveraging Technology
3b. Treasury Transformation: “Intelligent Centralization”

Balance centralization to attain the benefits of global efficiency and control, with proper distribution of resources to capitalize on opportunities and mitigate risks occurring in key growth markets.

Centralization Delivers Benefits…

INSEAD case study, in collaboration with Citi, demonstrates value of centralization: companies with sophisticated centrally managed Treasury (relative to those who leave Treasury decentralized) are able to:

- Operate at 5% lower Cash/ Market Value
- Increase ROA by 1.44%
- Multiple Tobin’s Q\(^*\) by a factor of 1.1

Central Treasury:
- Sets policy
- Manages aggregate risk
- Forecasts / manages aggregate liquidity
- Plans / raises capital
- Sets global bank relationship strategy

Regional Treasury Centers:
- Funds business units
- Forecasts cash flows
- Identifies risk exposures
- Executes investment and FX trades
- Coordinates bank relationships
- Provides close response to business

Shared Service Centers:
- Processes vendor payments, payroll, & customer receivables
- Provides cash forecasting support
- Supports accounting processes

...need to balance with optimal distribution of resources


*Tobin’s Q is calculated as the market value of a company divided by the replacement value of the firm’s assets. Low Tobin’s Q implies undervaluation of firm’s stock.*
4a. Leveraging Technology: Showing the ROI

As treasuries step up to meet business growth, technology investments will remain critical to operating effectively in an increasingly more global and complex environment.

**Treasury Objectives**

- Reduce Capital Requirements
  - ↓ Operating Cash, ↓ Working Capital
  - ↑ ROIC

- Lowering Costs
  - ↓ Net Interest Expense
  - ↑ Net Income

- Improve Process Efficiency
  - ↑ Control
  - ↓ Operational Expenses

- Mitigate Risk
  - ↓ Earnings Volatility
  - ↑ Sustainability

**Metrics**

**Example: Treasury Technology Improves Cash Visibility**

![Bar chart comparing Spreadsheets and Centralized TWS]

- Spreadsheets:
  - 22% Daily
  - 78% Weekly +
- Centralized TWS:
  - 61% Daily
  - 39% Weekly +

**Source:** Citi Treasury Diagnostics

14 Priorities for 2014

1. Funding Efficiency
2. Managing Regulatory Change
3. Treasury Transformation
4. Leveraging Technology
4b. Leveraging Technology: Big Data

New models enabled by Big Data produce new insights.

**Treasury Level – Examples**

**Roche**

Using SAP In-house Cash, Treasury is a hub between businesses and banks, mining the resulting centralized information warehouse for enterprise-wide data analysis.

**Citi TreasuryVision**

Online analytics provides each treasury level (local, regional, and global center) with analytics on cash positions and cash forecasts – helps improve cash efficiency and liquidity risk management.

**Shared Service Center Level – Examples**

**Global Technology Company**

Shared Service Center data-mines central transaction warehouse for subsidiaries across the world to provide business review data - moving it from a Center of Scale to a Center of Excellence.

**Citi Payment Analytics**

Online dashboard provides SSCs with metrics on payment methods, geographies, channels – helps uncover opportunities to lower costs and increase efficiency.

*Sourced from Citi Data Innovation Office, Citi Treasury and Trade Solutions Technology; “We Innovate Corporate Treasury” The In-House Bank of Roche, INSEAD, 2013*
4. Conclusions & Outlook
Conclusion: A Gradual Return to Normalcy

2014 will require supporting growth strategies…

1. Funding Efficiency
   - Working Capital Chain
   - Internal Funding

2. Managing Regulatory Change
   - Leveraging Opportunities
   - Mitigating Risks

3. Treasury Transformation
   - "Intelligent" Centralization
   - Financial Ergonomics

4. Leveraging Technology
   - Big Data
   - Show the ROI

…while retaining the good practices strengthened in the years since the financial crisis
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