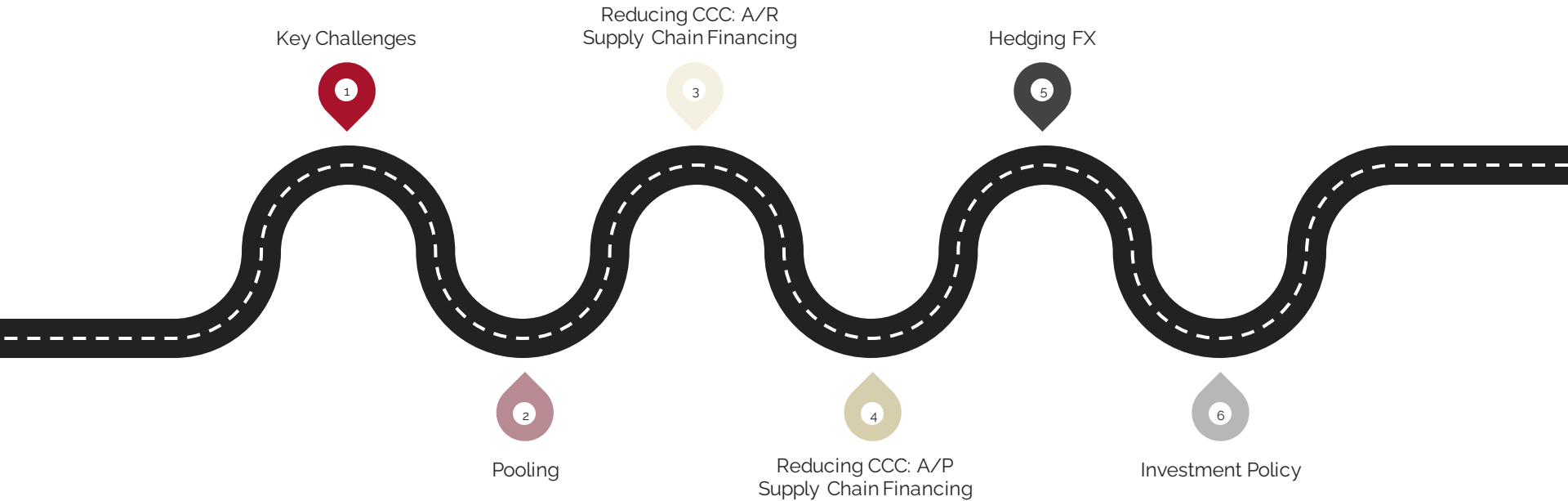


# Acme Case Study

# Roadmap



## Key Challenges



**Credit Downgraded To  
Junk Level**



**Liquidity Crisis**



**Decentralized Banking**  
(150+ Banking Relationships, 1600+ Bank  
Accounts, Multiple Erp Systems)



**Lack Of E-banking**



**No Treasury Management  
System.**



**No FX Hedging  
Strategy**

# Pooling

## Benefits:

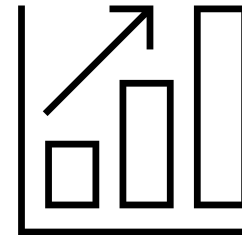
- Foreign currency and liquidity management
- Centralization
- Greater visibility
- Currency exposure

## Implementation:

- Notional vs. physical pooling
- Pre-pooling data comparisons (**\$2.87mm extra income**)
- Operating cash reduced by 30%, leading to cash savings of **\$325.2 million** on Acme's current cash position
- **Total - \$328.07mm cash released**

## Importance:

- Eliminates idle cash
- Net interest income/cost savings



## Reducing CCC: A/R Financing

### Assumptions:

- **Acme China:** We reduced DSO from 120 days to 90 days, using the assumption that the OEM customers have a higher credit rating
- **Acme Asia:** We make same assumption that 25% of buyers have a better credit rating than Acme, therefore utilizing similar strategies to China

Amount Receivables Released from Asia	256
Amount Receivables Released from China	65.75
Cost of A/R Financing	(11.3)
<b>Total Cash Freed Up</b>	<b>310.47</b>

## Reducing CCC: A/P Supply Chain Financing

### Assumptions:

- **Acme China:** CFO was successfully able to increase DPO from 30 to 42.5 days through A/P financing and corporate cards
- **Acme Asia:** Like Acme China, 25% of suppliers were stretched. Therefore, Acme's credit rating is higher and A/P financing can be utilized. Increased DPO from 42 to 54.5 days by taking the weighted average of increased

**Benefits:** Suppliers will gain faster and cheaper access to the capital they are owed, allowing them to remain in business. Buyers (Acme Asia as well as Acme Electronics) will be able to lengthen the time before payment, increasing DPOs and reducing CCC.

## Reducing CCC: Corporate Credit Cards

Commercial cards offer flexibility by increasing DPO to buyer and payment to supplier

- For small ticket, high volume items
- Assumed 20% of purchases were made using a corporate credit card

### **Benefits:**

- Provides a grace period
- Suppliers are paid sooner
- Buyers extend their payments until the next billing cycle
- Increase Acme's DPO

## Total Cash Freed Up From Increasing DPO

### ***Summary (in millions)***

Amount Payables Released from Asia	\$118.90
Amount Payables Released from China	\$17.80
<b>Total Cash Freed Up =</b>	<b>\$136.70</b>



## Introducing E-banking and Consolidation of ERP's

Increased E-banking and introducing a single ERP for some of the business segments in ACME Asia can help decrease the DIO.

### Implementation:

- Acme Asia DIO: 82 → 73.8
- Acme China DIO: 80 → 72

Amounts Inventory Released from Asia	78.0
Amounts Inventory Released from China	11.4
<b>Total Cash Freed Up</b>	<b>89.4</b>

### Benefits:

- By cutting down our DIO, we will be able to increase capital on hand as the revenue committed to inventories will decrease
- Increased e-banking and consolidation of ERP system will help decrease the number of bank accounts by sharing connectivity with their Headquarters banking partners

## Total Increase in Cash Visibility

<b><i>Summary (in millions)</i></b>	
Total Cash Freed Up from Accounts Receivable	\$310.52
Total Cash Freed Up from Accounts Payable	\$136.70
Total Cash Freed Up from Inventory	\$89.40
<b>Total Cash Freed Up =</b>	<b>\$536.57</b>

## Investment Policy

### 50% in Money Market Funds

- Minimizes Market Risk and offers stability
- High Liquidity
- Average 3% returns

### 10% in One-Year CD

- Low market risk and guaranteed returns
- Average 3-5% returns

### 40% in Government & Agency Securities

- Backed by US Government
- Most are tax-exempt
- Average 5-6% returns

<b>Funds Invested</b>	<b>268.285</b>	<b>53.657</b>	<b>214.628</b>
<b>Projected Profit</b>	<b>8.04855</b>	<b>2.14628</b>	<b>11.80454</b>

# FX Hedging Strategy

## Benefits:

Reduces variability of cash flows  
(increases stability)

Signifies better creditworthiness  
and allows the company to be  
assigned a better credit rating from  
agencies

Would allow for time to pivot  
(further hedging = longer delay  
before changes in currency rates  
affect the business)

Reduction in earnings volatility  
caused by FX risk

## Process:

Understand where the exposure is currently  
and begin a hedging program (short-term)

### *Currency Futures Contract:*

- Locks in today's exchange rate and protects from losses if the foreign currency value drops
- Less counterparty risk since regulated

### *Currency Swaps:*

- Exchange interest payments and principal amounts in two currencies
- Used to hedge against exchange rate fluctuations and to borrow currency at a lower interest rate

Begin implementing a consolidated ERP system that can help keep track of different exposure (long-term)

As ERP systems are consolidated, Acme will have more visibility on their currency exposures and could hedge those risks

# Summary

## Cash Pooling

Being able to consolidate cash through pooling would allow Acme to have access to its funds in different countries.

## Reducing CCC

By reducing the cash conversion cycle, we are able to increase Acme's accessibility to cash.

## FX/Hedging

Exploring different options for hedging against currency risk in the short term, Acme can position themselves better for long term success after ERP development.

### ***Summary (in millions)***

Total Cash Freed Up from Pooling	\$328.07
Total Cash Freed Up from Cash Visibility	\$536.57
<b>Total Cash Freed Up =</b>	<b>\$864.64</b>

Thanks!

**ANY QUESTIONS?**



## Extra Resources

# Appendix 1: Pooling

Pooling	Net Cash In-Country	LCY		USD		
		Cash	Working Capital Debt	Cash	Working Capital Debt	
Australia	150	120	18	70	22	notional
China	215	185	10	40	0	cannot pool
Japan	100	70	5	55	20	notional
Korea	100	114	18	10	6	physical
Hong Kong	-30	10	20	5	25	notional
Singapore	75	18	20	80	3	notional
India	30	35	5	0	0	physical
Taiwan	45	35	1	20	9	physical
Malaysia	50	85	36	15	14	physical
New Zealand	25	15	2	13	1	notional
Thailand	20	31	13	2	0	physical
Indonesia	10	23	16	3	0	notional
Philippines	15	17	3	1	0	physical
Vietnam	10	12	2	0	0	cannot pool
<b>Total</b>	<b>815</b>	<b>760</b>	<b>169</b>	<b>324</b>	<b>100</b>	

	Asia-wide Cash Pool	China
Investment Rate	3.50%	3.00%
Borrowing Rate	4.75%	3.50%

2.87	extra income as a result of pooling
325.20	cash released as a result of pooling
<b>328.07</b>	<b>total cash released as a result of pooling</b>

Prepooling (in millions)						
Asia (excluding china)		575	159	284	100	17.76
China		185	10	40	0	6.40
<b>Total Interest Income</b>		<b>760</b>	<b>169</b>	<b>324</b>	<b>100</b>	<b>24.16</b>

(in millions)		LCY		USD		Interest Income
Notional Pooling	Net Cash In-Country	Cash	Working Capital Debt	Cash	Working Capital Debt	
Australia	150	120	18	70	22	5.25
Japan	100	70	5	55	20	3.50
Hong Kong	-30	10	20	5	25	-1.43
Singapore	75	18	20	80	3	2.63
New Zealand	25	15	2	13	1	0.88
Indonesia	10	23	16	3	0	0.35
<b>Total</b>	<b>330</b>	<b>256</b>	<b>81</b>	<b>226</b>	<b>71</b>	<b>11.18</b>

(in millions)		LCY		USD		Interest Income
Physical Pooling	Net Cash In-Country	Cash	Working Capital Debt	Cash	Working Capital Debt	
Korea	100	114	18	10	6	3.50
India	30	35	5	0	0	1.05
Taiwan	45	35	1	20	9	1.58
Malaysia	50	85	36	15	14	1.75
Thailand	20	31	13	2	0	0.70
Philippines	15	17	3	1	0	0.53
						<b>9.10</b>
	270					
	815					

Countries that cannot pool						
Vietnam	10	12	2	0	0	0.36
China	215	185	10	40	0	6.40
<b>Total Interest Income from Pooling</b>						<b>27.04</b>



## Appendix 2: Cash Conversion Cycle

<b>CCC</b>	
<b>ACTUAL</b>	
<b>Operating Metrics for Acme Electronics (Asia)</b>	
Days Sales Outstanding	70
Days Payable Outstanding	42
Days Inventory Outstanding	82
<b>Net Trade Cycle</b>	<b>110</b>
Revenue	5340
COGS	0.65
Receivables	1024.1
Payables	399.4
Inventory	779.79
<b>Operating Metrics for Acme Electronics (China)</b>	
Revenue	800
Cost of Goods Sold	0.65
Days Sales Outstanding	120
Days Payable Outstanding	30
Days Inventory Outstanding	80
<b>Net Trade Cycle</b>	<b>170</b>
Receivables	263.0
Payables	42.7
Inventory	113.97

<b>ASSUMPTIONS</b>	
<b>Operating Metrics for Acme Electronics (Asia)</b>	
Days Sales Outstanding	52.5
Days Payable Outstanding	54.5
Days Inventory Outstanding	73.8
<b>Net Trade Cycle</b>	<b>71.8</b>
Receivables	768.1
Payables	518.3
Inventory	701.81
<b>Operating Metrics for Acme Electronics (China)</b>	
Revenue	800
Cost of Goods Sold	0.65
Days Sales Outstanding	90
Days Payable Outstanding	42.5
Days Inventory Outstanding	72
<b>Net Trade Cycle</b>	<b>119.5</b>
Receivables	197.3
Payables	60.5
Inventory	102.58

Amount Receivables Released from Asia	256.0
Amount Receivables Released from Cina	65.8
Amount Payables Released from Asia	118.9
Amount Pyabales Released from China	17.8
Cost of A/R Financing	(11.3)
Amounts Inventory Released from Asia	77.98
Amounts Inventory Released from China	11.4
<b>Total Cash Released</b>	<b>559.1</b>