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TREASURY

AS A PLATFORM FOR GROWTH

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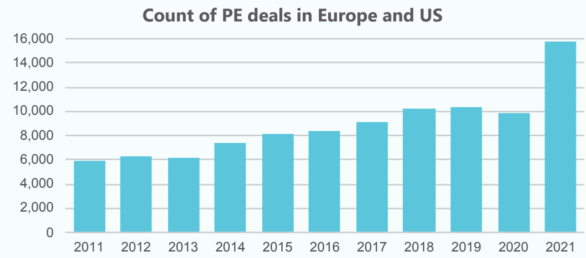
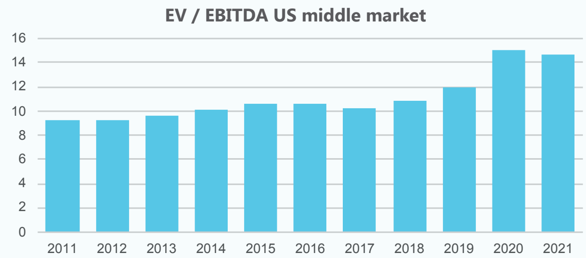
INTRODUCTION

The Private Equity sector posted records for both deal volumes and values in 2021 and, with significant dry powder and ongoing fund raising, looks set for continued strength in 2022.

Along with near historic high levels of activity, valuations and multiples have risen, reducing the margin for error and underscoring the importance of Treasury in driving growth and creating value.



Source: PitchBook



Source: PitchBook

In this series of three articles, PMC Treasury shares insights on the significant role Treasury plays at each stage of the transaction lifecycle, drawing on over 30 years of experience in helping Private Equity sponsors drive value.

We look at the transaction lifecycle in four stages:

Due Diligence | **Pre-Close** | **Value Creation** | **Exit**

1. Due Diligence
Evaluating an asset for acquisition

2. Pre-Close
Preparing the asset for growth

3. Value Creation
Through the life of asset ownership

4. Exit
Preparing the asset for sale

This first article looks at the first two of these stages:

Due Diligence | **Pre-Close**

Treasury is not always a primary consideration during due diligence, buried within standard Financial Due Diligence (FDD), despite the need for specialised expertise. Failure to rigorously assess Treasury can result in loss of value, excessive risk exposure, obstacles to growth and failure to identify and address challenges that must be resolved prior to Day One.

Here we look at the objectives of due diligence where Treasury is critical and the key questions to address.

> "Along with near historic high levels of activity, valuations and multiples have risen, reducing the margin for error and underscoring the importance of Treasury in driving growth and creating value."

1. EQUITY AND CASH REQUIREMENTS

Equity contribution

- Ensure effective cashflow management and forecasting to improve efficiency and reduce equity requirements.

Cash and liquidity

- Ensure appropriate tools and processes are available to secure full visibility and access to global cash balances and management of day-to-day cashflows.
- Understand the required balance sheet and cash requirements for both Day 1 and future.
- Ensure that there is visibility and liquidity structures in place to ensure orderly ongoing operations and adequate liquidity for the company.

Cash mobility constraints

- Ensure mobility of cash across jurisdictions and investigate instances of trapped liquidity.
- Identify countries where a specialist cash management approach to repatriating funds is required to support debt service and minimising trapped cash.

2. RISK MANAGEMENT

Risk identification and quantification

- Identify all material risk exposures (e.g. FX, IR, commodity) and the business drivers creating them.
- Understand and quantify risks and how they are monitored & hedged.
- Investigate efficiencies that can be gained from natural hedges and offsets to minimise FX and IR risk.
- Analyse customer and vendor arrangements to identify hidden risk exposures and the assess any capability to mitigate exposures with pricing flexibility.

Control appropriateness

- Ensure that the governance and reporting, controls are sufficient for the scale and complexity of financial operations and their suitability for Day 1.

3. DAY 1 READINESS

Scope and economics of TSA

- Ensure the agreement is fully understood, and the processes that covered are known.
- Assess any constraints the TSA may impose on treasury operations and cash visibility or settlement (e.g. wrong pocket clauses).
- Understand level of support and commitment required for Day 1.

Process, people and technology

- Assess if Treasury as a platform can adjust to operating within a highly leveraged environment (consider people, process, technology, governance).
- Ensure Treasury platform prepared for Day 1 operation and that any near-term constraints on executing against leverage / growth expectations are understood and a plan is in place to address.
- Determine if a new, independent Treasury function need to be established.

Banking and financing

- Assess what banking facilities and credit support are required for transition/Day One.
- Determine the most efficient and optimal structure to deliver the financing and which banking partners should be retained.
- Ensure you have the right partners to support not only the credit and liquidity needs, but with the capabilities to support the cash management operations of the firm.

CASE STUDY

PMC PERFORMED TREASURY DUE DILIGENCE AND PRE-CLOSE ON A CARVE-OUT TRANSACTION FROM LARGE MULTI-NATIONAL

1. **Equity and cash requirements**

   Finding: PMC identified that the stated financing requirements were potentially materially underestimated, and this had not been picked up through the standard Financial Due Diligence.

   Action taken: The financing needs were re-assessed ahead of close and PMC engaged with the banks to ensure that appropriate credit facilities were in place to avoid liquidity issues.

2. **Risk Management**

   Finding: The TSA proposed that the parent would continue to provide transactional hedging support which Newco had no control or oversight of.

   Action taken: PMC developed a FX forecasting process to manage currency exposures in Newco and established the ability to execute FX hedges to transition from the TSA.

3. **Day 1 readiness**

   Finding: PMC identified that there was insufficient cash and liquidity at close to support Day 1 operations and that the TSA provided only limited visibility of cash and underlying transactions.

   Action Taken: The TSA was re-negotiated to ensure full cash and transaction visibility. A 13-week cash forecast was implemented and a cash repatriation strategy developed.from TSA.

SUMMARY

Specialist Treasury Due Diligence identified financing and operational issues which had not been identified through standard financial due diligence. These issues were addressed quickly and avoided costly post close operational and liquidity issues.

CONCLUSION

Treasury Due Diligence flags showstoppers, identifies and sizes the impact of challenges that affect valuation, and inventories key changes required to support successful execution of the investment thesis.

Most critically, Due Diligence addresses the question: **How can Treasury be deployed as a platform for growth?**

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ABOUT PMC TREASURY

PMC Treasury is an independent and impartial Treasury and Risk Management consultancy. Established for 30 years, we offer expert advice and practical support to corporates and financial sponsors worldwide and have offices in New York, London and Singapore.

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