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Corporate Financial Strategy

"Shaping Treasury's Future: Recent Lessons Learned and Their Impacts"

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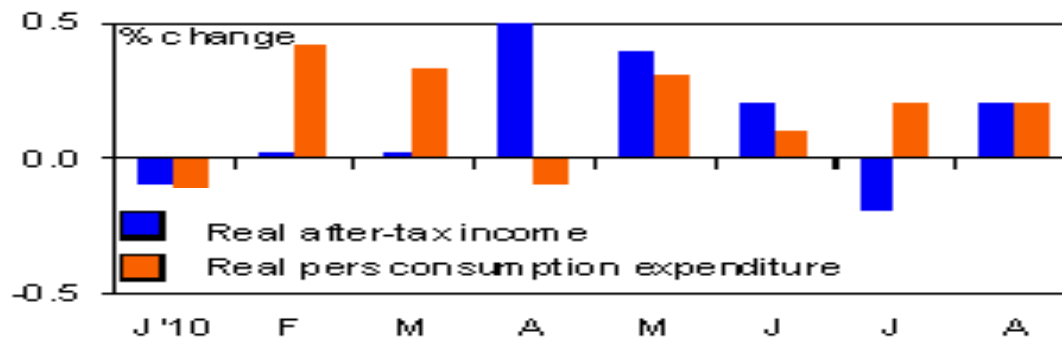
The World Around Us!

- Monitoring cash flow is no longer just a matter of best practice—Managing & Planning it is essential for survival.
 - Finance executives are getting back to basics... looking to
 - taking costs out,
 - running the enterprise lean and efficiently,
 - optimizing enterprise working capital, and
 - keeping close and frequent watch on financial performance.
 - Credit markets are very selective, and the outlook for economic growth remains unsure for now...
 - These changes have impacted the way treasuries think and the nature of their duties as a prime source of corporate liquidity and stability
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“A Little More Traction Through the Soft Patch”

- Nominal Personal Income increased by 0.5 percent in August, the largest monthly gain since December 2009.
- Real Disposable Income gained 0.2 percent in August after personal taxes paid increased by 0.6 percent.
- Nominal Personal Consumption Expenditures gained 0.4 percent, boosted by spending on nondurable goods.

August Consumer Spending Steady



Source: PNC Economics, October, 2010

Challenges for CFOs and Treasuries

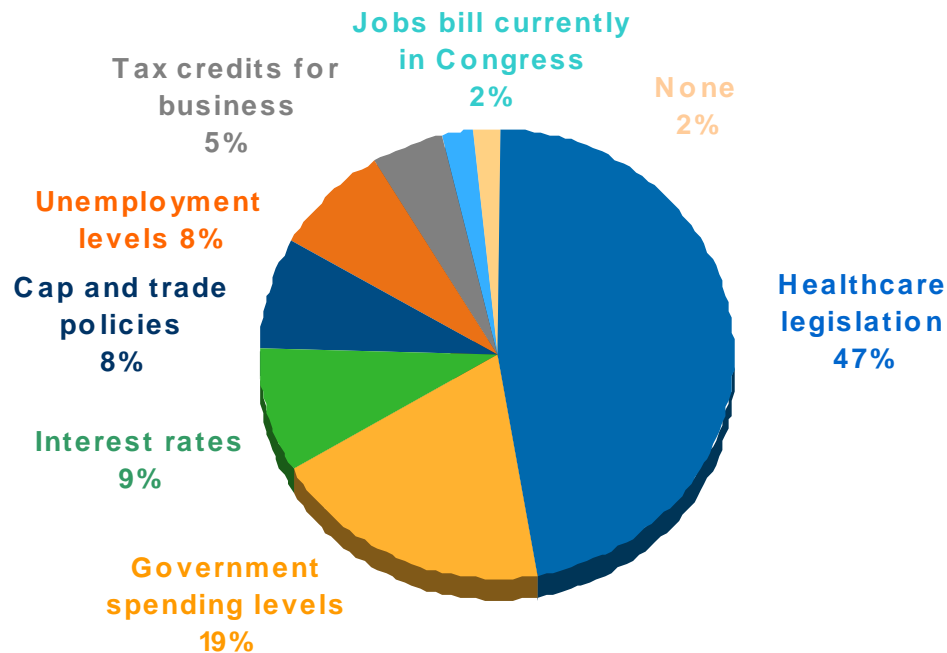
- ① Ability to maintain margins
- ② Ability to forecast results
- ③ Maintaining morale/productivity
- ④ Working-capital management
- ⑤ Attracting and retaining qualified employees

Source: Duke University/CFO Global Business Outlook Survey

April 2010

Adding to the Complexities

Policy Issues of Greatest Concern



Sources: Estimates based on Various News and Articles

Dodd-Frank Act: Structural Changes Coming

- Financial Stability Oversight Council
- Orderly Liquidation Authority
- Reforms to Regulatory Structure
- Federal Reserve System
- Reliance on Ratings Agencies
- Over 200 rulemakings by federal agencies required
- Many rules have no set deadline for implementation

Dodd-Frank Act: Significant Impacts

- Consumer Financial Protection Bureau
 - Debit Card Interchange Fees
 - Retail Investor Protection
 - Regulatory Reporting and record-keeping
 - Risk retention for securitizations
 - Interest on Corporate checking (Repeal of Reg Q)
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Impacts of Recent Events on Treasuries

- Treasury Liquidity focus and financial partners assessments are being performed with increased rigor and discipline, and longer planning horizons are being considered more frequently
- Treasury strategic governance of receivables and payables as part of working capital is becoming more prevalent
- Migration of forecasting to predictive modeling
- More intensive evaluation of future global business needs from a financing, liquidity, and risk perspective by Treasury
- Dynamic Financial, Reputational, Operational, and Compliance Risk assessment is becoming a shared duty of Treasury, if not as its leader
- Due to the need for more sophisticated Treasury automation, Treasurers are more involved directly or indirectly in establishing IT priorities
- Service Costs will change as FDIC and other regulation is enacted

Why Working Capital Management?

- Common measure of a company's LIQUIDITY, efficiency, and overall health.
 - Timing of Asset Purchases, Capital Raising, Payment Policies, and COLLECTION POLICIES impact Working Capital.
 - Current tightening of credit for small – mid-sized businesses.
 - “Focus on ways to convert what you sell directly to the marketplace as quickly as possible into cash.” *Danny Caswell, Dell Computer*
 - “...as levers of financial management go, none bears more weight than working capital.” *CFO Magazine*
 - For small – mid-sized organizations – largest share of Working Capital is tied up in A/R.
 - When cash from external sources is in short supply it is the business that can find and release cash from their working capital that will be best positioned to respond to market changes... *KPMG*
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United Stationers Inc (“USI”)

- United Stationers Inc. is a leading North American wholesale distributor of business products, with 2009 net sales of \$4.7 billion.
 - The company stocks approximately 100,000 items from over 1,000 manufacturers.
 - The company has 64 distribution centers through which it provides a high level of customer service, and next to second-day delivery to the contiguous U.S. and major cities in Mexico, providing a 98% on-time delivery rate in 2009.
 - United Stationers primarily serves commercial and contract business products dealers and industrial product distributors.
 - USI has more than 25,000 resellers - such as office products dealers; contract stationers; office products superstores, etc.
 - These resellers in turn serve many geographic markets and have a diverse end-consumer base.
 - USI stock is traded on The NASDAQ Global Select Market under the symbol “USTR”.
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Impacts: One Company's View

- Consider the environment 4-5 years ago:
 - Plenty of Liquidity
 - Credit defaults virtually non-existent
 - Financial risk insurance readily available
 - Now, Conventional ways of managing treasury have gone by the wayside
 - New Trends
 - Working Capital is a major priority
 - More frequent and rigorous reviews of company financial health are required
 - Multi-disciplines within businesses are concerned with liquidity, foreign exchange and credit on a dynamic basis
 - There is a Premium on Treasury experience
 - Financial services and credit/collection activities are receiving heightened attention
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Credit and Liquidity

- Consider the immediate past for Financial Sources
 - For a period of time, unavailable
 - Expensive
- New Environment
 - Unprecedented levels of debt reduction
 - Interest rates – below every plan
- Impacts
 - A “Fortress” Balance Sheet – Conservative & Strong
 - Longer funding planning cycles
 - Diversification of Refinance – staggering of maturities
 - Rethinking fixed and floating rate exposures
 - The new value of cash

Operating Working Capital Considerations

- The increased importance of metrics in financial management
 - Managing Financial Risk- relationships with business partners
 - Customers
 - Refined Credit Approach
 - Information Requirements and tracking
 - Suppliers
 - Dependency assessment
 - Inventory Considerations
 - Information requirements and tracking
 - Offsets that become receivables (e.g. rebates)
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USI Remarks- Treasury Resources

After years of “right-sizing”, treasuries are a more significant component of financial management than ever before

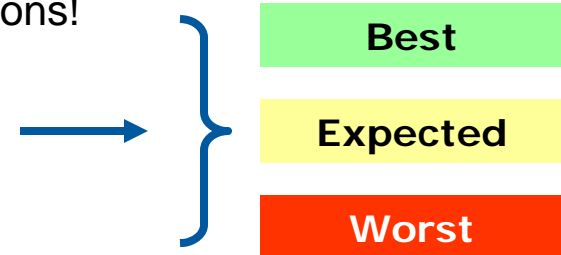
- Will this increase treasury resources?
- Will more functions (A/R, A/P, risk, etc) be assigned to Treasury?
- Will Treasury advocacy of strategic financial positioning expand the nature and type of treasury professional that will be sought?

Reasons For Treasury Expansion?

- CFOs occupied with
 - Strategic business direction
 - Maintaining and building customer, employee and vendor confidence
 - Strategic Investor relations
 - Competition
 - Controller function likely to be very busy with:
 - Adopting IFAS
 - Modifying and Maintaining the system of Internal Controls
 - Refining cost models
 - Sophisticating Staffing and resource allocation models
 - Disclosure modifications and content
 - Other non- production corporate disciplines will need focus on risk, reputation, and financial impacts of their actions
 - Maturation of Enterprise software in new apps
 - Focus on operating issues in light of economic situation
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Perspective: Components of Forecasting

- Information
 - Sources and uses
 - Direct data and its use
 - Model Data- assumptions and validation
- People
 - Roles and problems
- Automation
 - What it does well
 - What it does not do well
- Degree of accuracy desired versus required- expectations!
- Liquidity, Liquidity
- Achieving a balanced approach:



Treasury Technology

- To become more strategic, continued automation of the core treasury functions is essential to free up resources
 - Interest in ERP and Treasury Workstations has “morphed” from cash flow accounting to visibility and improved forecasting
 - New challenges like “XBRL” and International Financial Accounting Standards are increasing the demand for automation and access to information for dynamic decisioning
 - Use of the Internet has revolutionized our ability to accumulate and share information...
 - Next up is developing the visibility and mobility aspects within an ever-increasingly complex security set of needs
 - Treasury requirements are moving from “nice-to-have” to foundational status... unto itself this is elevating the strategic nature of treasury
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Other Impacts from a Corporate Perspective

- Financial Service Usage and Costs?
 - Evolution of Outsourcing? Or de-emphasis?
 - Global reach for middle market companies as the new growth frontier?
 - Will improving business confidence drive consolidations based on relatively large cash accumulations by many companies?
 - Corporate operational “due diligence” impacts?
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Summary

- Working capital management is a vital and growing aspect of Treasury
- Liquidity and counterparty risk assessment are wide-spread terms now – what plans has your treasury function to handle these duties?
- Receivables and payables components require day-over-day management, but must be combined through strategic coordination among the other corporate disciplines
- Electronics are here to stay... strategies need to be put in place for your enterprise... Treasury can lead the way!
- Compliance and financial reporting continue to drive the control function... new regulations will make this a dynamic exercise!
- Globalization is moving us rapidly toward open trade... are you ready?
- Tighter Cash Forecasting is the buzz... perhaps we should more carefully consider the strategic notions linking data analysis and scenario modeling for the future...

Questions?