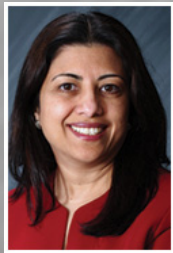


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**Adam Smith Webinars**



# Bankers collaborate to deliver a win/win solution



**PRESENTER**  
Anita Prasad  
General Manager,  
Treasury Capital Management,  
Microsoft Corp.



**FACILITATOR**  
John Nicholas  
Editorial & Research Director  
Treasury Today

# Supply Chain Financing

## Best Trade Solution

### Adam Smith Award 2015

Microsoft - Anita Prasad, Jayna Bundy, Shreyas Kulkarni

# Background

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- Growth in capex with limited on-shore cash
- Focus on lower COGS & improve margin
- Non-standard payment terms
- Commercial benefits for Microsoft, if any, need to be documented
- Short payment terms to vendor results in us financing our competitors
- Industry trend is towards longer payment terms

# Supply Chain Financing

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Supplier Relationships

Cost Reduction



Working Capital Improvement

ROI Improvement

- **Supplier Relationships** – Improves relationships with suppliers by providing inexpensive liquidity and credit shock insulation.
- **Cost reduction** – Ability to negotiate lower pricing with Suppliers in exchange for providing cheaper capital.
- **Working Capital Improvement** – Generates value in the supply chain and enhances current ratio through extended payment terms or COGS reduction.
- **ROI Improvement** - Capital preservation and opportunity to generate higher yields on excess cash.

# Economic Impact: Sample Discount Rate Paid by Supplier

$$\text{Payment Amount} \times \text{Annual Discount Rate} \times \frac{\text{Days left in term}}{360} = \text{Discount Charge}$$

LIBOR + Bank Spread
Days left in term = Payment Terms *minus* days to approve invoice

- LIBOR = London Inter-Bank Offered Rate
- Rate at which banks lend to each other
- Current 3M LIBOR is 0.24%
- Bank spread (bps per annum) includes cost to implement and manage program in addition to Microsoft credit risk
- 0.70% pa
- Days left in term = Payment Terms *minus* days to approve invoice

$$\$100 \times (0.24\% + 0.70\%) \times \frac{90-5}{360} = 0.22\%$$

**0.22% of Invoice Value**

Note: The payment terms and pricing example shown are illustrative. Rate used for example purposes only; rate may vary by geography, currency, and supplier

On a \$100 invoice payable in 90 days, a supplier can receive \$99.78 in just 5 days.

# Kernel of an idea - Adam Smith awards ceremony 2015

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# Bring three banks together

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Bank of  
America

Citi  
Bank

JP Morgan



# Initial hurdles & rising to the challenge

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- Competition to collaboration
- Customer contact
- Secret sauce
- Marketing
- Never been done before
- Economics & credit
- Technology



# Collaboration across three banks

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# Project scope

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- 2 SAP environments
- Multi-currency
- Multi-country
- Single global pricing methodology
- Fully automated solution
- Single technology platform
- Handling credits and withholding tax

# Internal stakeholders

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- Tax
- Legal
- Accounting
- IT
- Accounts Payable
- Procurement

# Project implementation

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- Bank relationship management
- Marketing materials
- Leader for training sessions
- KYC and other compliance needs
- Every issue needs three banks to resolve

# Lessons learned

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- Clarity and full transparency on roles of banks
- Walking the talk
- Takes a village and the village chief
- Onboarding vendors is challenging
- Learn by doing!
- Patience

# Moving forward

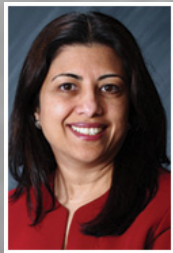
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Metric	Definition
Weighted Average Payment Term (WAPT)	Payment terms weighted by Supplier spend.
Cost of Capital Benefit	Microsoft benefit realized by payment term standardization. Assumed WACC at 8.5%.
Cash Flow Benefit	Cash flow acceleration realized from payment term standardization.
WAPT (Entitlement)	WAPT if all suppliers are at standard payment terms, that is, 60 day payment term.
WAPT (Current)	Current status compared to WAPT (Entitlement).
WAPT (Goal)	FY17 goal for moving towards WAPT (Entitlement) of 60 days.

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**Question time**



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