Understanding Capital Mobilisation & Concerns in Treasury

UQ-ACTA Survey Report

May 2023

This study is being conducted by Associate Professor Kelvin Tan, Drs Samuel Pearson, Vincent Emodi, Saphira Rekker, Belinda Wade, Professor Matthew Hornsey and Mr Amit Mehta, University of Queensland Business School, Australian Corporate Treasury Association (ACTA).

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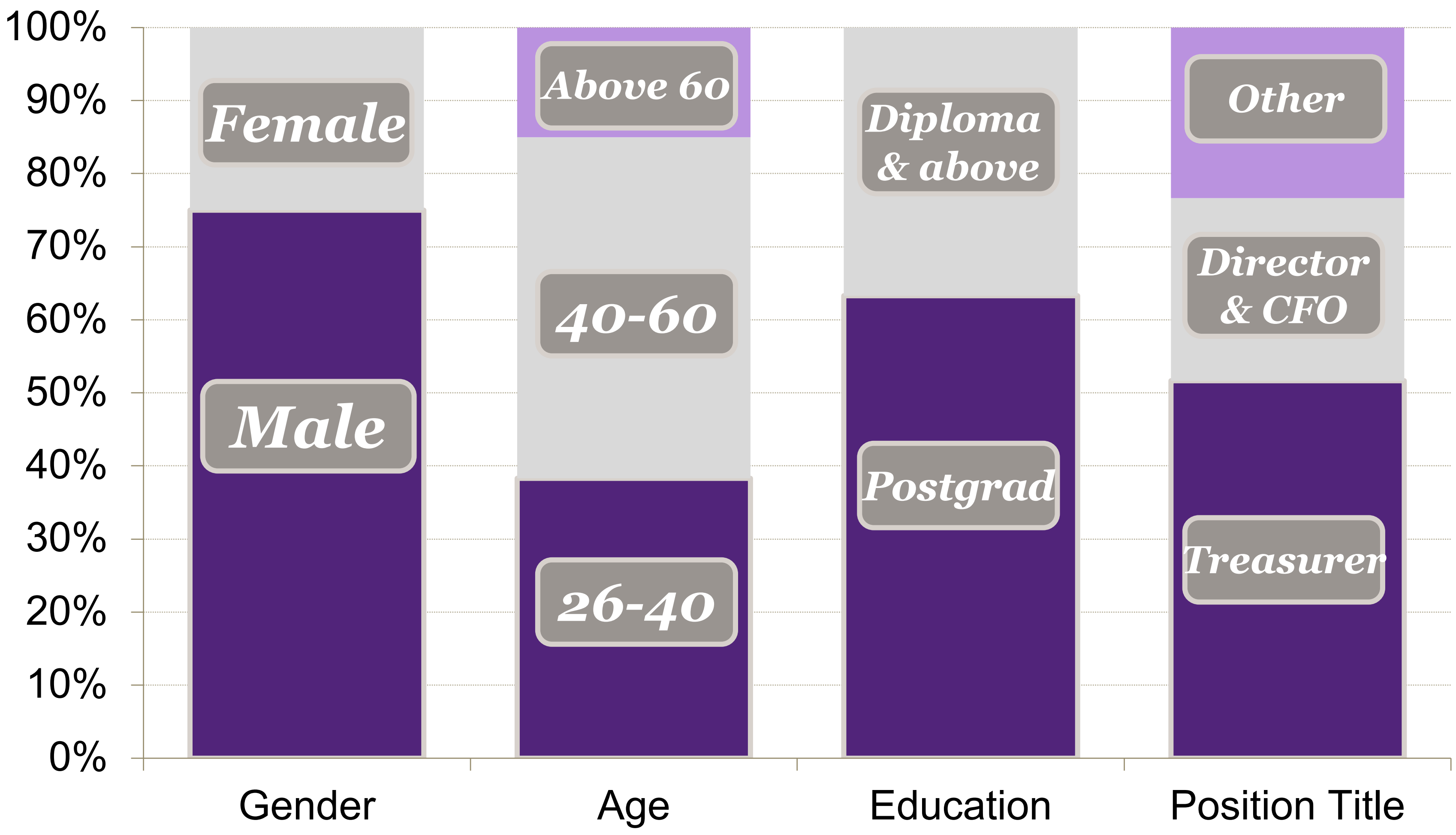
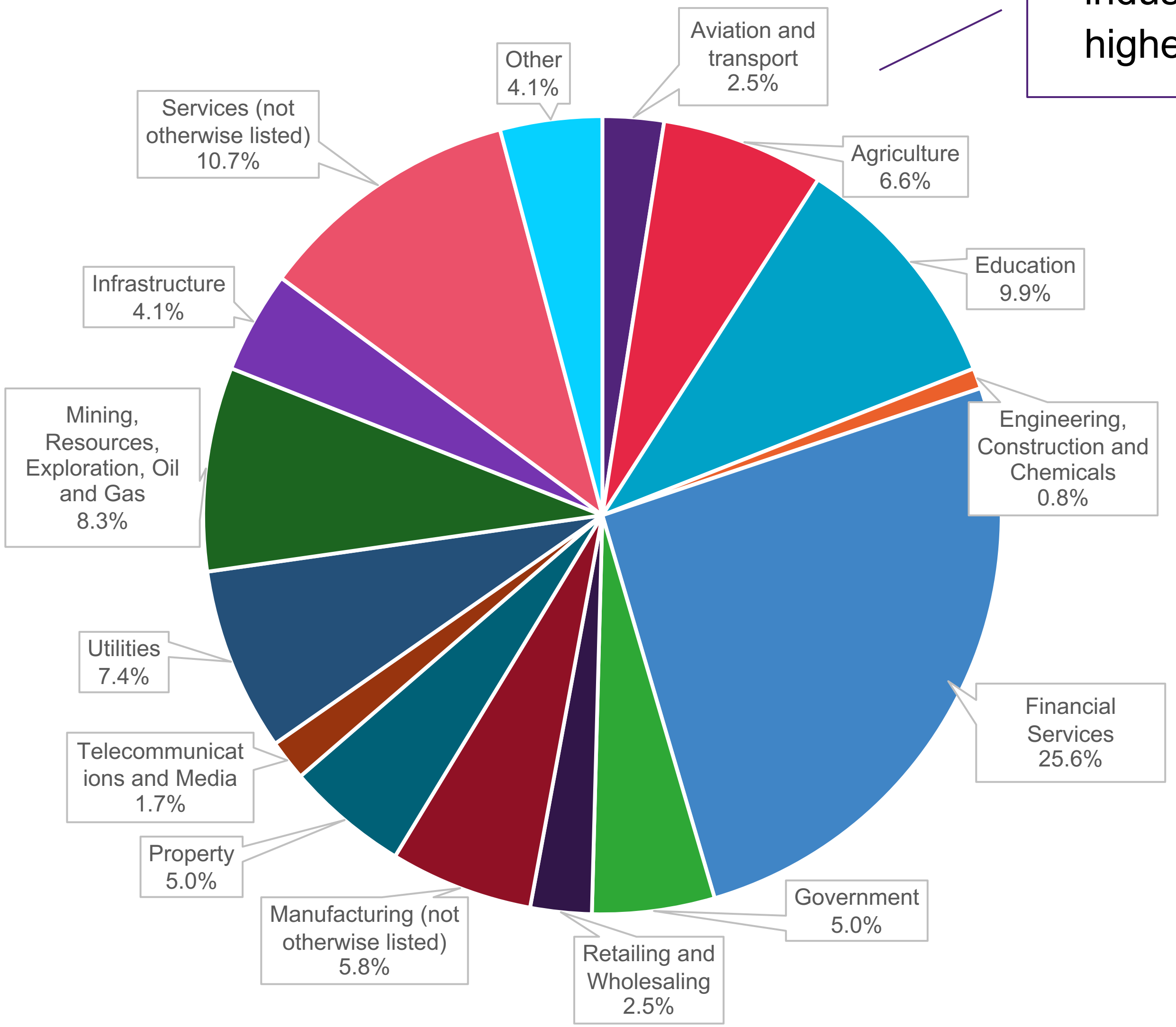
We also acknowledge the contributions of our research assistants: Wenbin Hu, Shirina Lin, Michelle Xuan Mi, and Hazel Tan for drafting the paper.

Demographics

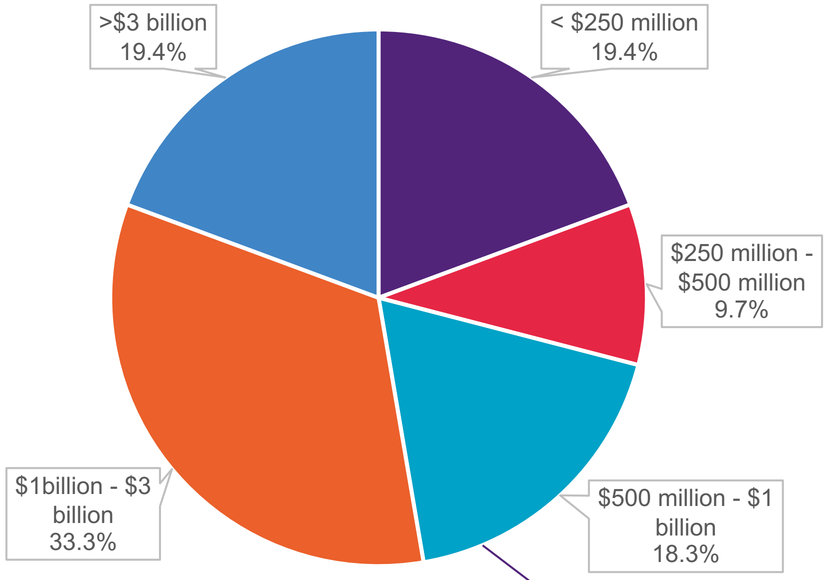
- 129 respondents from the Australian Corporation Treasury Association (ACTA) members, representing a response rate of approximately 18%
- 75% of respondents are male
- 46.7% aged from 40-60 years old
- 63.3% hold a postgraduate degree, while all of them have at last diploma or above
- 51.67% are the Treasurer, and 25% are director or CFO



Company Information

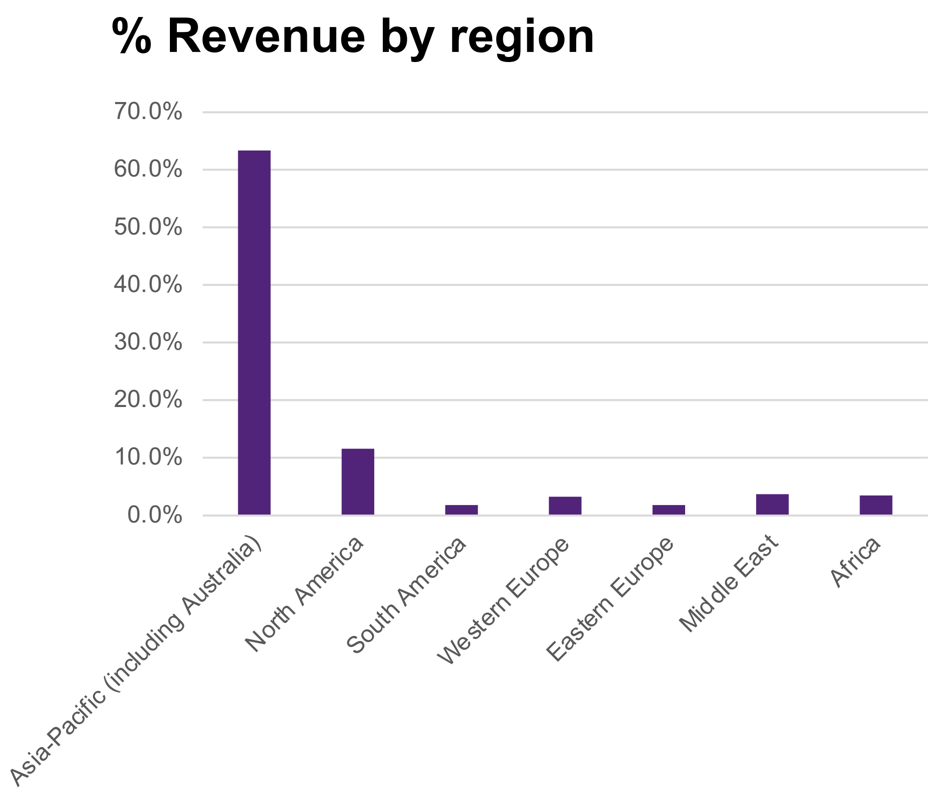


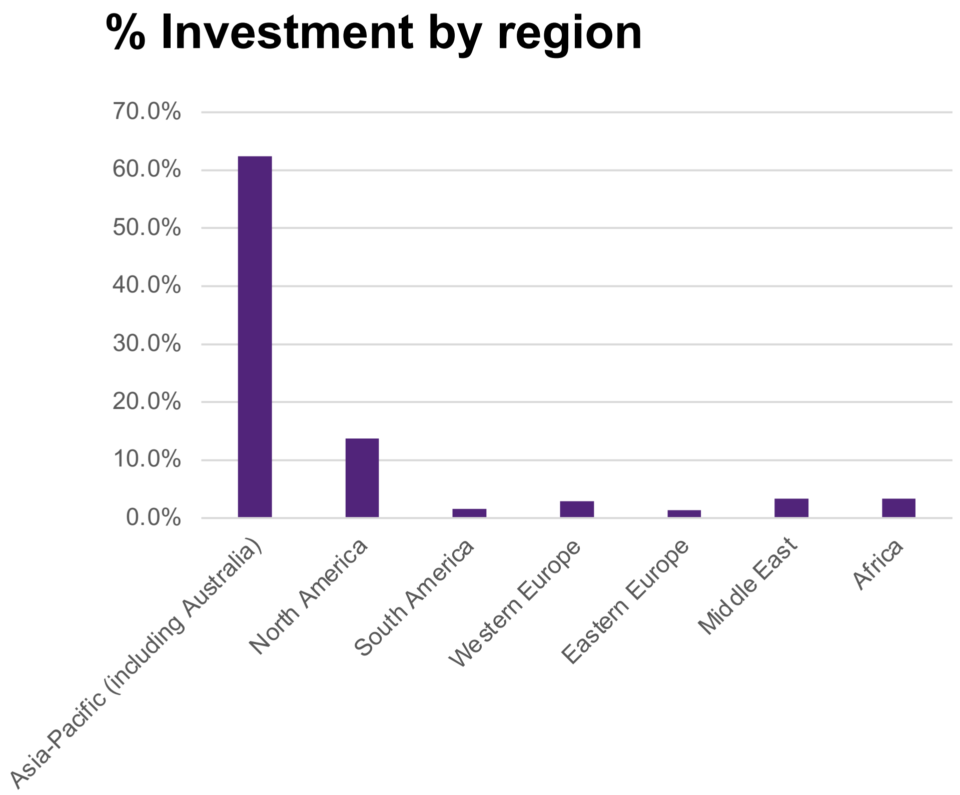
- Responds represent a diverse range of industry with Financial Services taking up the highest percentage (25.6%)



- Over half of respondents generate annual revenue of more than $500 millions with 33.3% generate over $1 billions.

Company Information

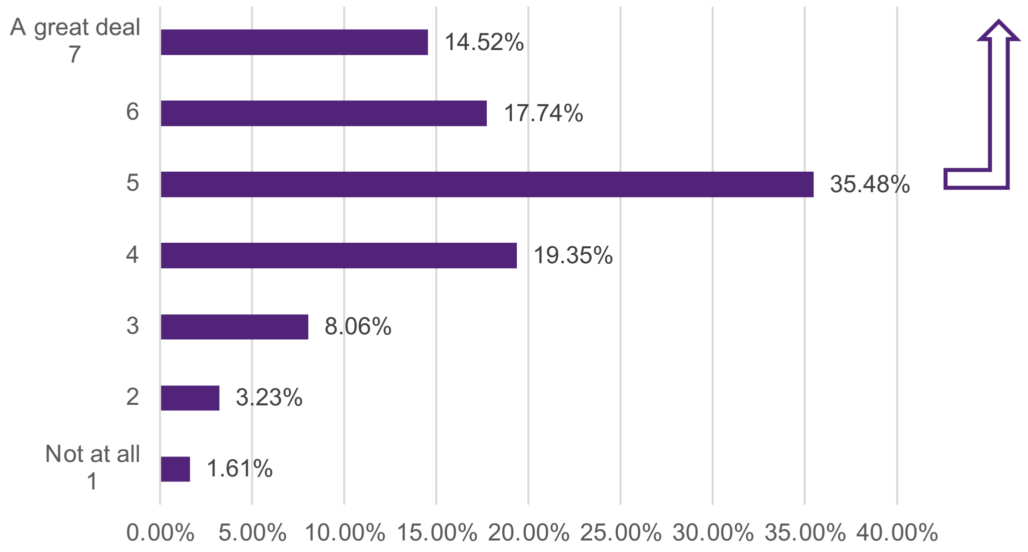




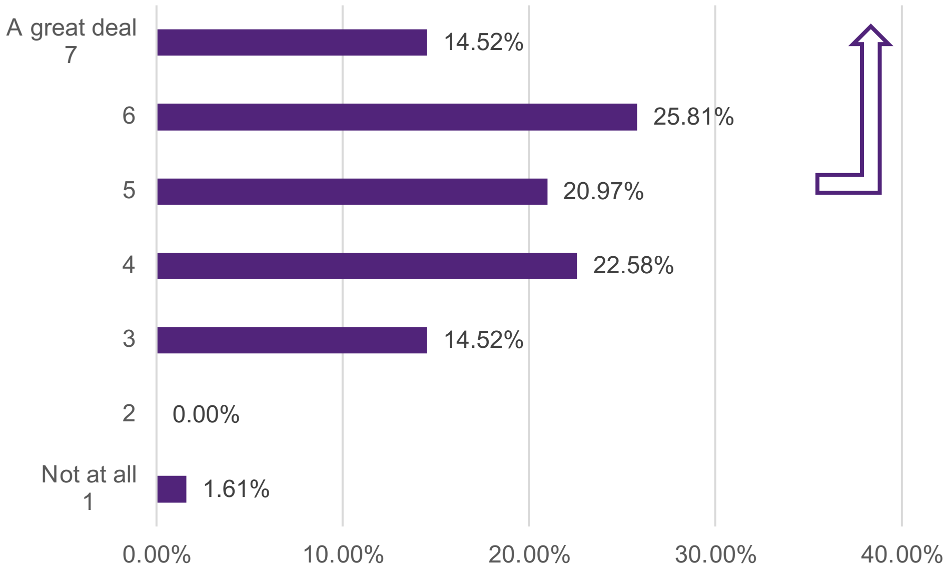
- Majority of the companies generate revenues and invest in the Asia-Pacific Region

Climate Change

The extent of seeing climate change as a threat



The extent of seeing climate change as an opportunity



- Approximately 70% of respondents perceive climate change as a significant threat
- 60% of respondents indicating that addressing climate change could be regarded as an opportunity for growth
- At the same time, 75% of firms have specific mandates in place to address climate change.
  - ✓ Nearly half of the respondents stating they have a net-zero target for carbon emissions (either by 2030 or 2050)
  - ✓ Only few have set decarbonisation targets for selected portfolios (13%) or all portfolios (5%)

Climate Change

Understanding of Scope 1, 2 & 3

- Most respondents indicated they had a good understanding of Scope 1 (67%) & 2 (60%) emissions
- Fewer respondents (40%) felt the same way toward Scope 3 emissions

Carbon Dioxide Lifespan

- Over half of the respondents answered this question incorrectly
  - 6.35% believed it's less than 20 years
  - 50.79% believed it's between 20-200 years

Greenhouse gases contributor

- Slightly over half of the respondents didn't know the source of greenhouse gases
- 57.14% believe energy was the most significant source

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Climate Change

Knowledge of climate change

- Nearly all respondents believe that earth's climate is changing
- Most respondents believe it's mainly (52.38%) or entirely (17.46%) caused by human activity
- 28.6% believe it's caused by natural processes

Source of information

- Variety of sources are used in obtaining information regarding climate change, with scientific reports being viewed as the most trusted and reliable
- Worth noting that still a relatively high portion coming from casual resources

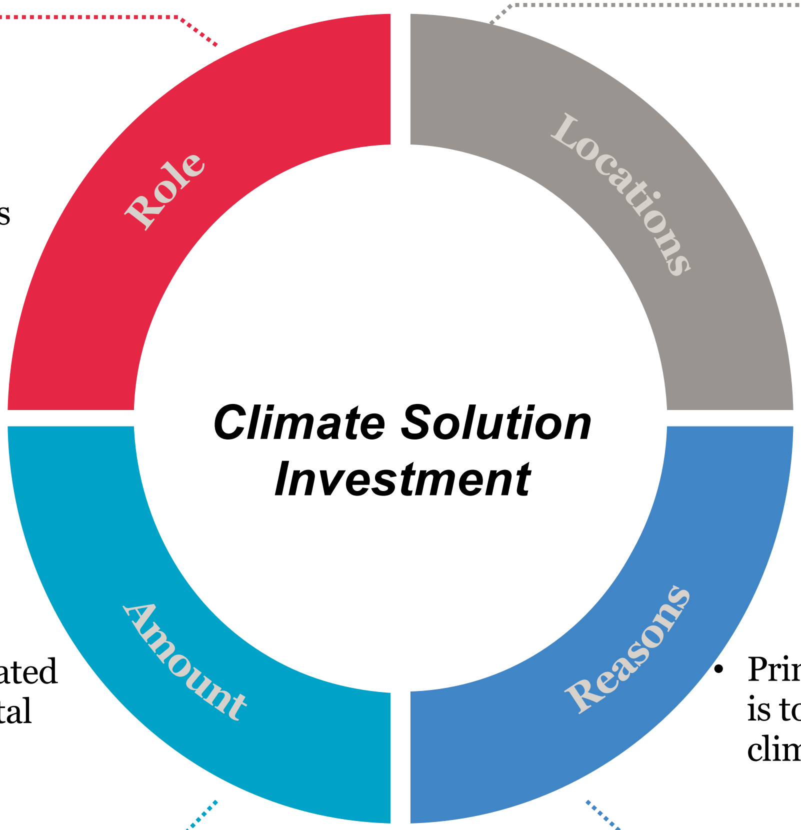
Climate Solutions

Role

- 87.95% of the organisations reported to play a role in climate change solutions
- The majority (38.56%) of the firms invested in either climate-friendly and environmentally sustainable project or clean energy companies

Locations

- Most of the investments are concentrated in the Oceania Region
- Asia, however, has the highest concentration for investment in Batteries and storage systems.



Amount

- Most respondents (42.86%) allocated between 1% and 10% of total capital towards various climate solutions

Reasons

- Primary reason (35%) for firms to invest is to meet their organisational climate/net-zero targets

Climate Solutions

Barriers

- The most common barriers (24.57%) are construction, technical, and operational
- Followed closely (22.81%) by business or market-related barriers

Drivers

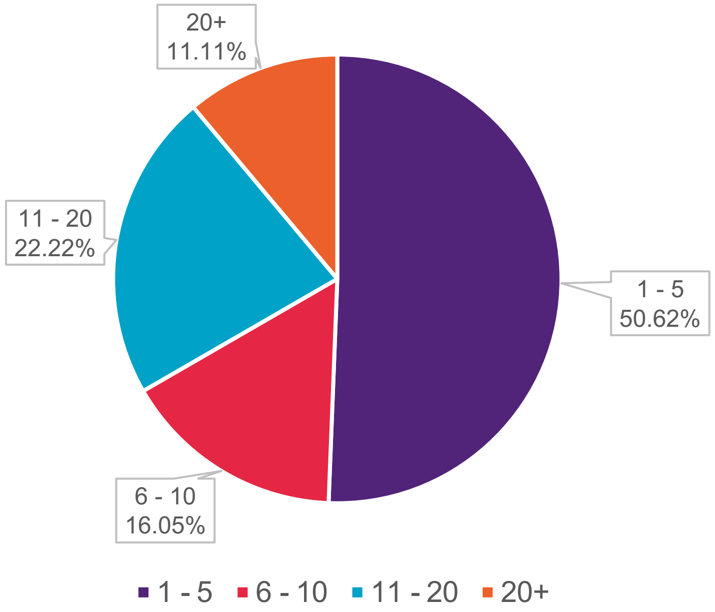
- 42.11% reported that maintaining a positive corporate reputation is the most significant driver
- Commercial opportunity is the second highest (39.65%), followed by consumer demand (37.93%)

Reduce Greenwashing

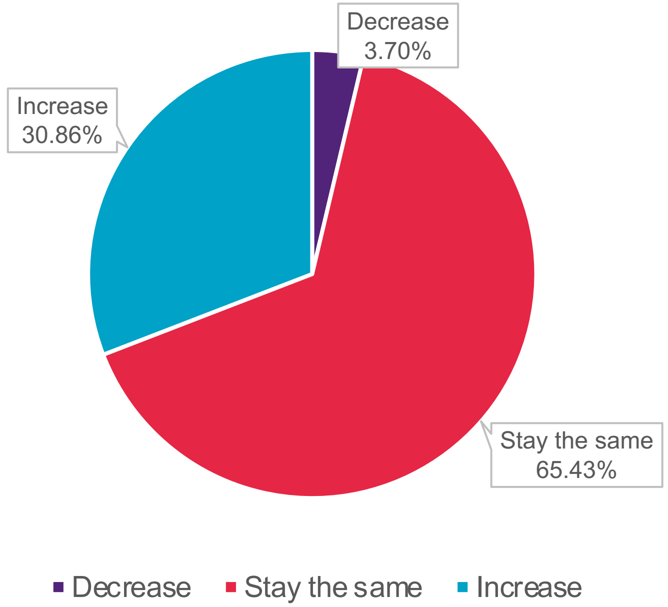
- 51.73% respondents believe that honesty and transparency from organisations are the most effective methods to mitigate concern of greenwashing.
- Official certifications and the developments of SDG strategy are the next two highest (both 41.38%)

Treasury Findings

Current employee number



Employee number forecast

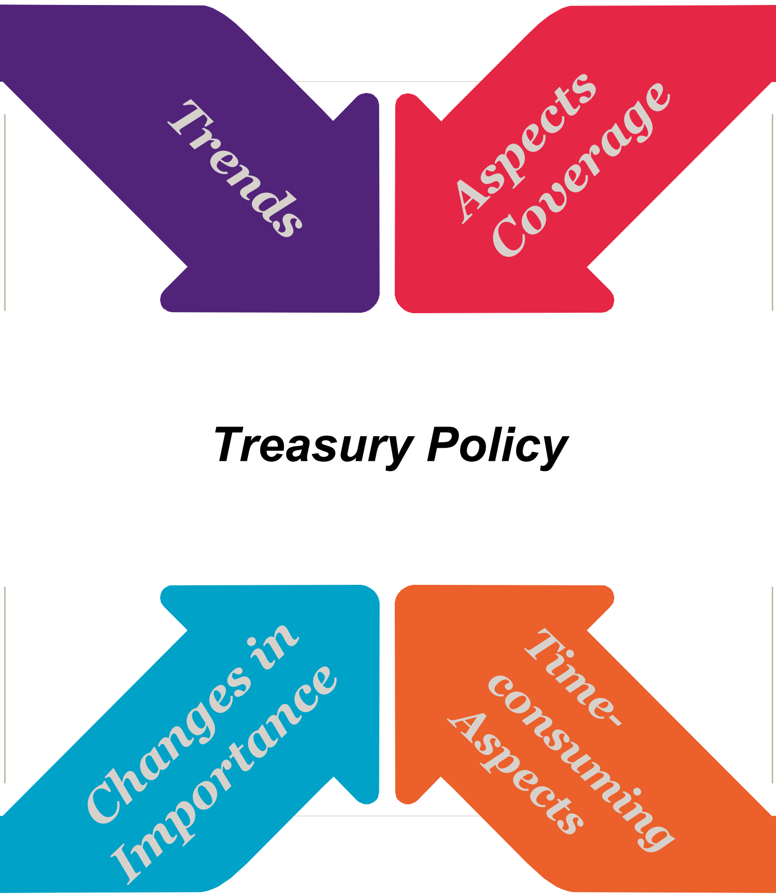


- In 2022, respondents had an average of 3 full-time employee in their Global Treasury
- 65.43% of the respondents expect the number to remain the same, while 31% anticipate an increase

Treasury Findings

- Inflation and interest rates are perceived as the most prominent trend (17.39%) three year pose 2022, followed by Geopolitical uncertainties (12.65%) & digitalisation (9.88%)
- Only 4.74% identifying COVID-19 as a trend, whereas, it was viewed as the most prominent trend over the period 2019-2022

- Only a small percentage (2.67%) claimed that they do not currently have a treasury policy in place
- Highest portion of respondents (81.33%) stated that liquidity risk management is covered by their current policy



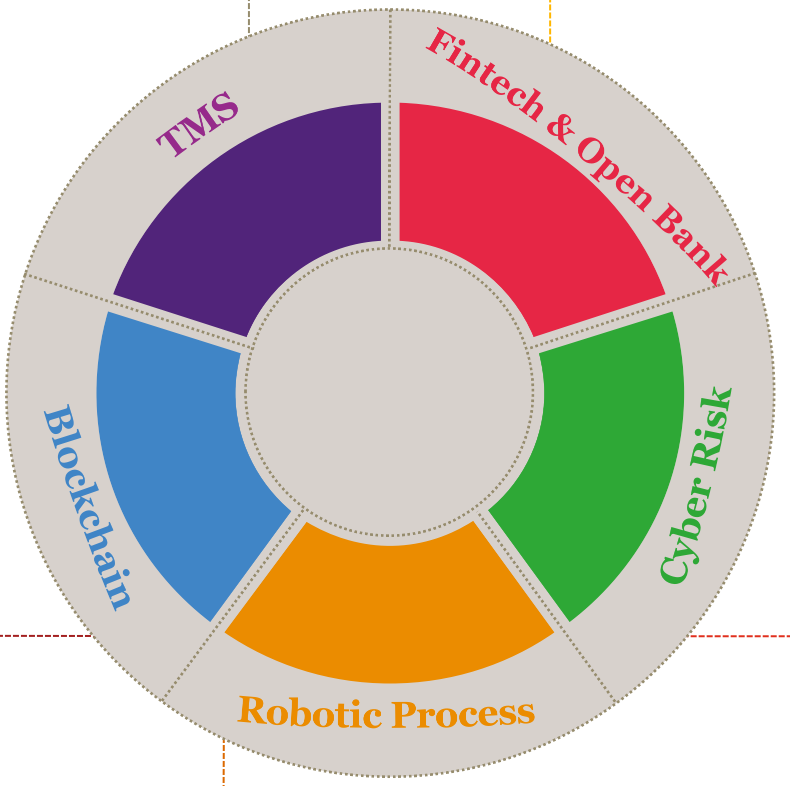
- Importance of various treasury aspects has changed over the past three year,
  - Flexibility in ways of working (87%)
  - Keeping sufficient cash buffers (71.8%)
  - Optimising working capital (63.64%)

- Liquidity management and cashflow forecasting (21.15%), group financing (16.35%), and managing financial provider relationship (13.46%) are viewed as the most time-taking aspects of treasury

Treasury Findings

- Most companies use an external provider (50.67%) for their TMS
- 40% are not currently employing any TMS, however, 21.33% claimed to have plans for it in the future

- Almost half of the companies don't use Fintech solutions in payments
- 64% don't use open banking, with 41.33% stating that they don't plan on preparing for it

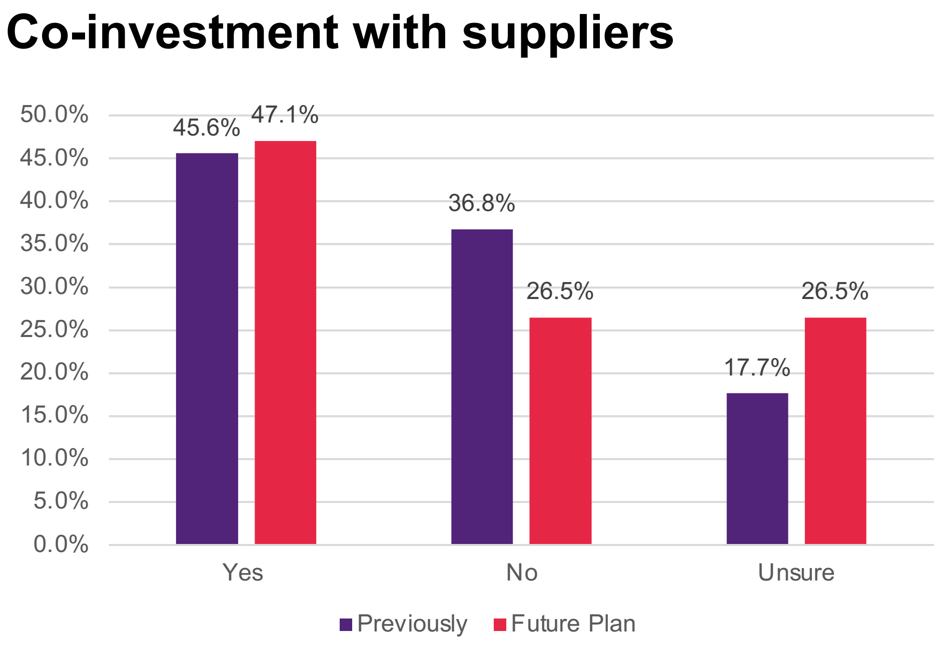


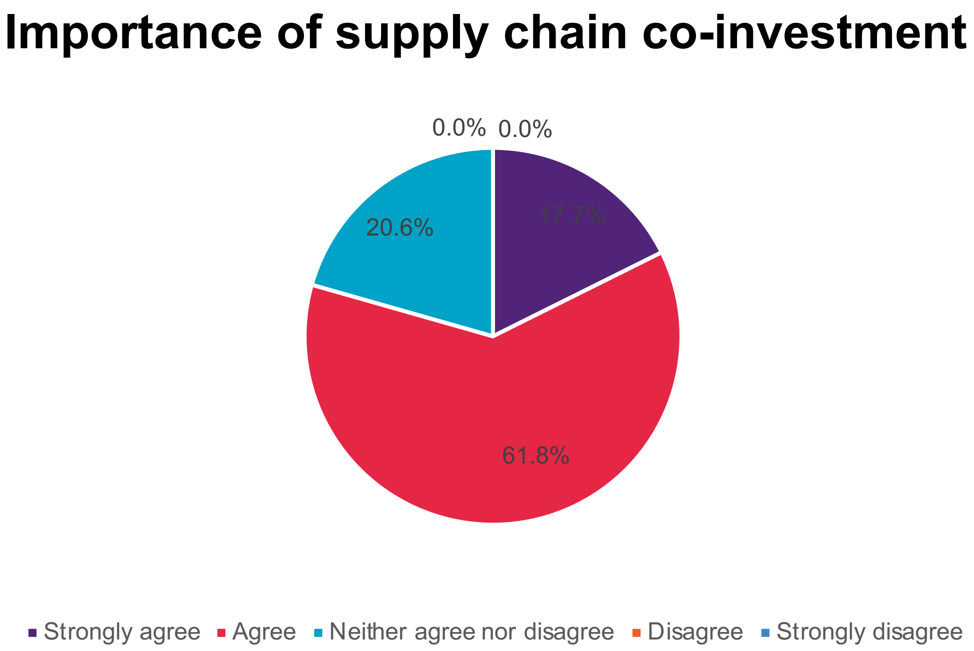
- Only small portion of companies (4.11%) currently utilise Blockchain technology in the treasury process, however, with a growing interest in the development
  - 12.33% are currently developing
  - 9.59% stated that project outlines have been discussed

- Almost all respondents indicates that they have at least some controls in their current system for cyber risk. Specifically with insurance against cyber risk, only 18.31% currently don't have any insurance
- Insurance premiums have increased for most firms
  - 20-40% increased (37.31%)
  - 41-70% increased (17.91%)
  - No increase (23.88%)

- A third of companies have no use of robotics process automation with 28% have not yet considered
- Firms expect robotic process to be integrated into reconciliation (25.5%), accounts payable (19.46%), receivables (17.45), settlement (17.45%), and reporting process (14.09%)

Supply Chain Co-Investment

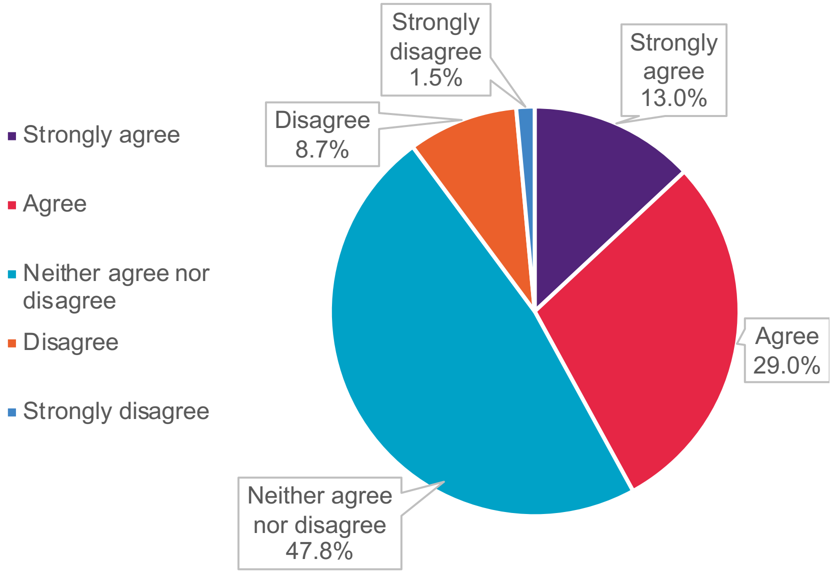




- Nearly half of the respondents have previously co-invested in technology with their suppliers, and plan to co-invest in the future as well
- Over 80% agree that supply chain co-investment with key suppliers is important to build a strong supply chain, with 20.6% feeling neutral. None of the respondents disagree regarding the importance

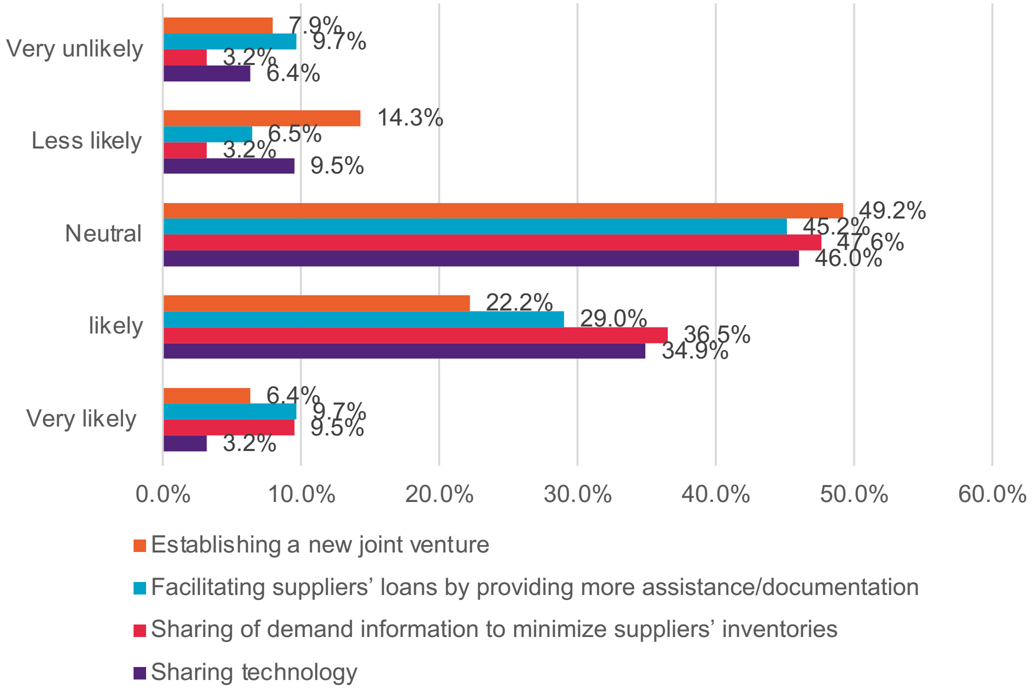
Supply Chain Co-Investment

Agreement for offering non-monetary assistance



- 42% of respondents agree that offering nonmonetary assistance to suppliers can improve suppliers' co-investment when their firms are financially constrained.
- Suggesting that when firms are constrained, they can improve the innovation investment outcomes through nonfinancial cooperation

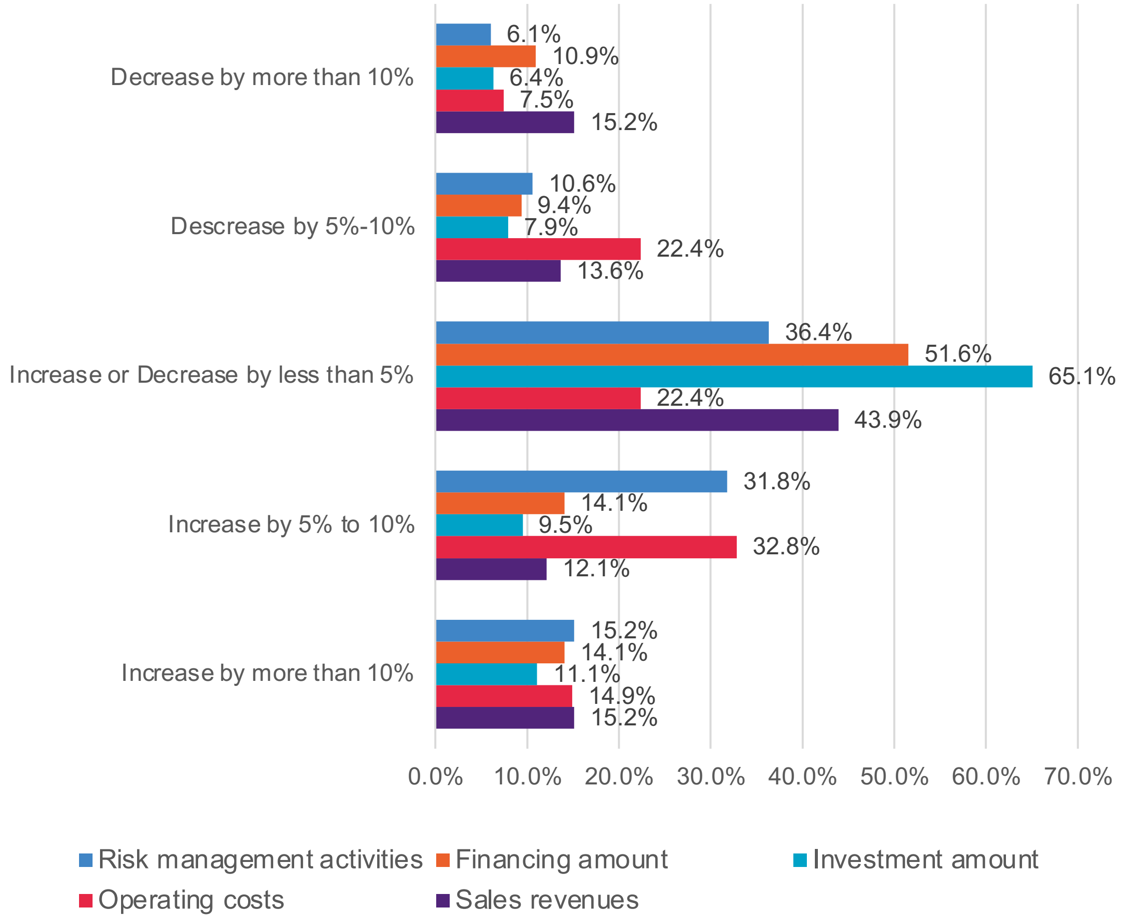
Likelihood of offering non-monetary assistance



- Sharing demand information to suppliers receives the highest likelihood as the non-monetary assistance offering to suppliers (46%)
- Sharing technology comes second (38.1%)

Supply Chain Co-Investment

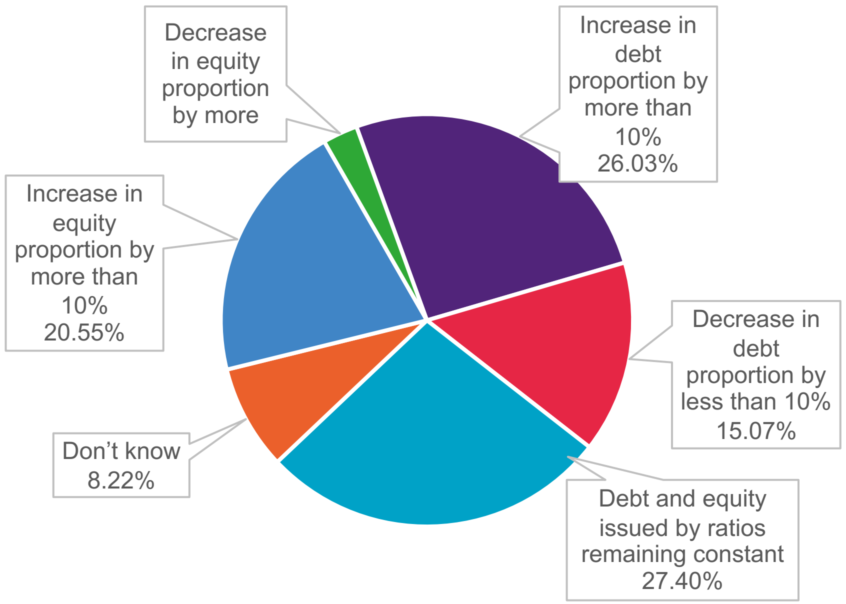
The impact of the geopolitical uncertainties and the COVID-19 on the five aspects of businesses



- Due to the ongoing uncertainties, many firms have had to revisit and adjust their risk management strategies
- 20.63% report an increase in investment amount by at least 5%
  - May view such uncertainties as an opportunity to invest in new product development or new market
- 28.12% report an increase in financing amount by at least 5%
  - May need to raise additional capital to manage risks and day-to-day expenses or make new investment

Investment & Financing Decisions

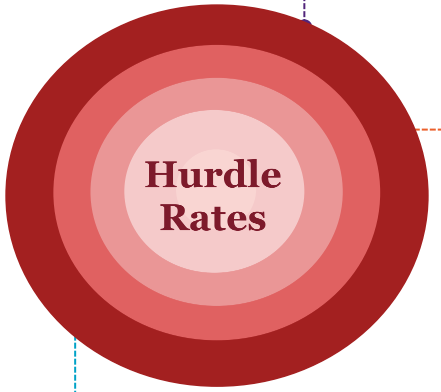
Capital structure forecast



- 56.47% of the respondents expect debt-to-equity ratios to remain unchanged over the next three years, and 26.03% (15.07%) predict an increase (decrease) by more than 10%

"*Interesting finding as interest rates increased, yet debts are expected to increase*".

- 55.56% stated that investment hurdle rates are reviewed annually.
- 30.16% of the respondents reported that the hurdle rates have remained constant in the past three years

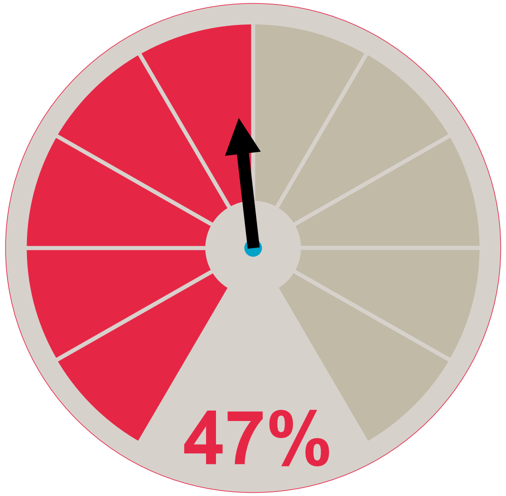


- 29% stated that their treasury team doesn't play a role in setting hurdle rate, 43.55% calculated the rates internally and no external advisers are used for reviews, and 24.19% seek external advice
- Only small portion (3.23%) solely rely on external advisers

- Most respondents are either planning on adjusting or have already adjusted their hurdle rates
  - 45% are currently reviewing and are likely to make changes
  - 21.67% have already increase at least 10%
  - 33.33% don't anticipate a change

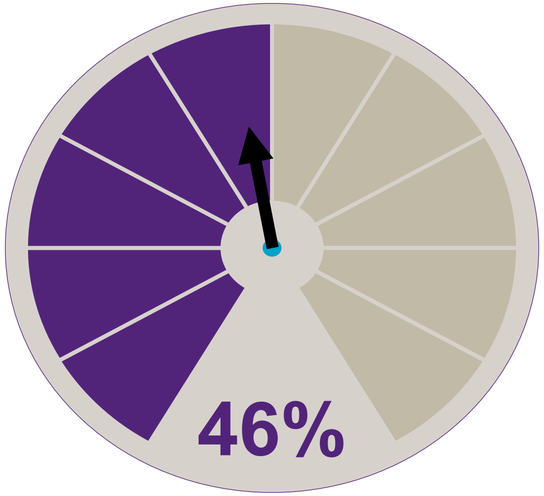
Investment & Financing Decisions

External Financing needs



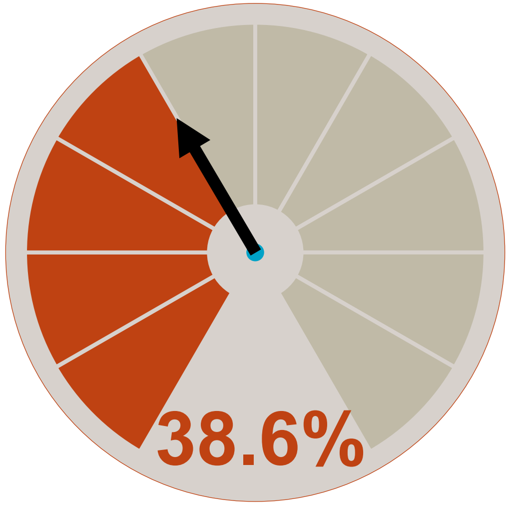
- Almost half of external financing is sourced from the bank loans in the future
  - Bilateral loans (25%)
  - Syndicated loans (22.3%)

Foreign currency



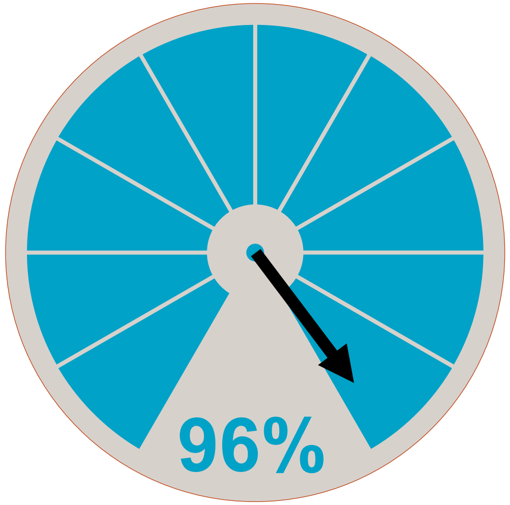
- Almost half choose to use 2-3 currencies for the external financing needs (include synthetic borrowings through cross-currency swaps)
  - 37.29% prefer to use only one currency

Foreign debt drivers



- Currency profile of net assets is viewed as the most commonly cited factor
- Reduction of interest expense come second (29.82%)

ESG in gross debt



- Only less than 4% of firms have no ESG criteria in debt
- In the next five years, 60% expect to increase by 10%, and 10% expect to increase by 50% or more

Investment & Financing Decisions

48% of the firms have fixed to floating rate debt ration of >50%, 30% have less than 30%

62.71% of firms do not expect a change in the next three years

27.12% expect an increase
10.17% expect a decrease

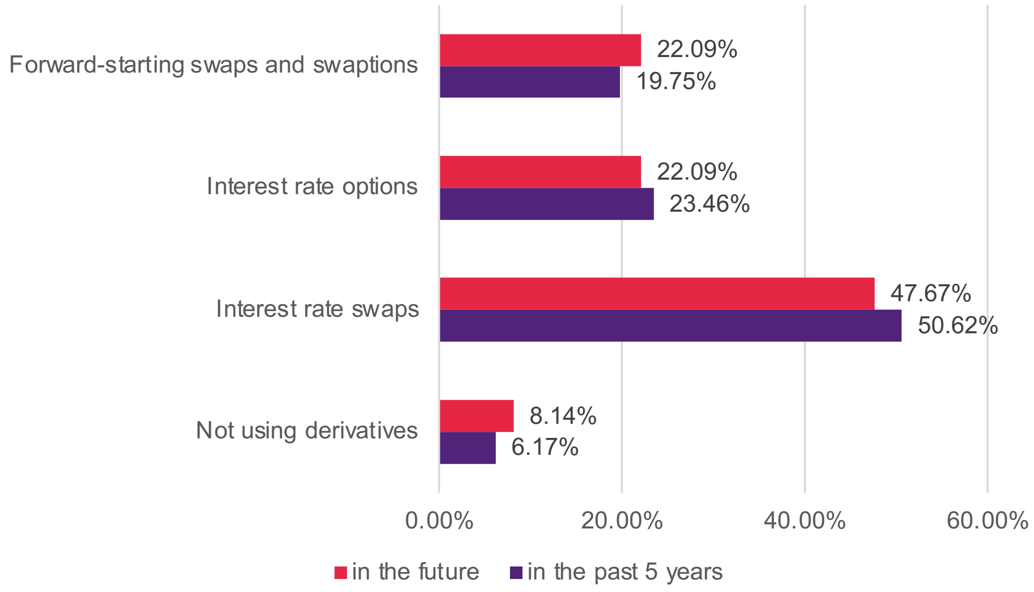
Interest rate sensitivities are viewed as the most Relevant factor (19.51%), followed by business outlook and cyclicality (17.89%).

Other factors such as lender requirements and covenants also counts for 11.38%

Over half of the participants identify interest rate outlook to be the main driver causing the anticipated change

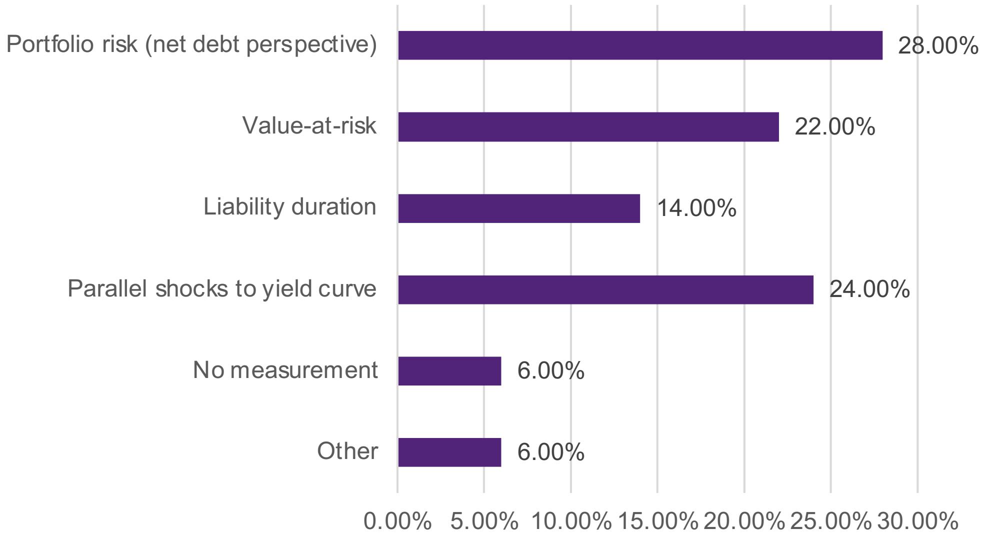
Risk Management

Interest rate risk hedging tools



- Nearly 80% of the respondents are involved in interest rate risk management
  - Only small portion are not using derivatives for hedging, with 6% and 8% in the past 5 years and future

Measurement of interest rate risk



- Net debt perspective is the primary measurement for interest rate/portfolio risk (28%)
  - 2nd: Parallel shocks to the yield curve (24%)
  - 3rd: Value-at-risk (22%)
  - 4th: liability duration (14%)

Risk Management

Foreign Exchange (FX) Risk Management

1

- 21-28% show that less than 10% of their annual costs and revenues are reported in company reporting currency
- Indicate that hedging foreign currency will be an important decision for them

2

- Almost 35% of the firms hedge their forecasted cash flows to mitigate FX risk

3

- Most of the respondents adjust their price lists based on FX movements only when required.
  - 40.91% for price list adjustment
  - 28.89% for FX risk hedging management

4

- Operational cash flow forecasting at the group level is primarily done manually (70.45%)

5

- 63% of the firms hedge their forecasts exposures over a period of more than 6 months

6

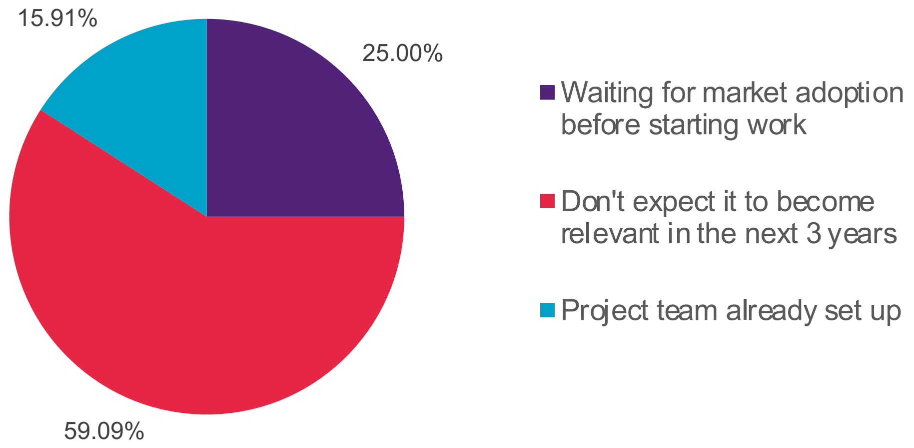
- Companies vary in their level of flexibility to deviate from target ratios when hedging forecasted cashflows

7

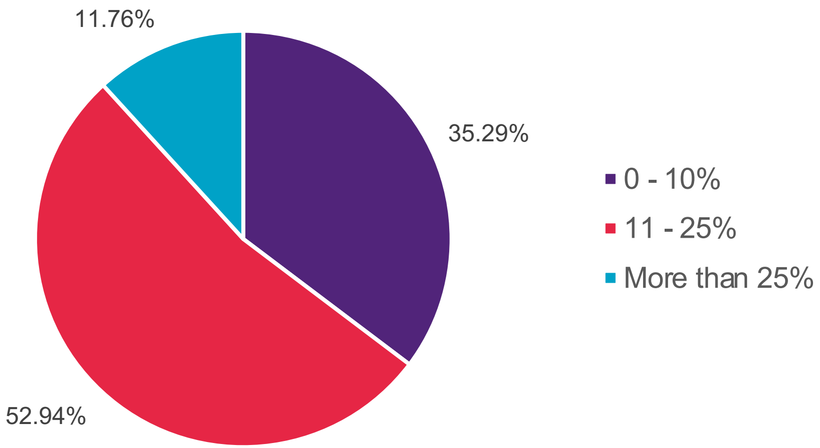
- Spot rate is the most used FX instrument for FX hedging (66% currently using it)
- Followed by forwards (61.36% currently using it)

Risk Management

When cryptocurrencies relevant for business



% of transaction volume in cryptocurrencies within the next 3 years



- Significant portion of firms (59%) are not expecting cryptocurrencies to become relevant
  - Out of those who believe to be relevant, only 16% have set up the project team

- Over half of respondents expect to have 11-25% of their total transaction volume in cryptocurrencies within the next three year

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Thank you

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