

AGILENT TECHNOLOGIES:

REDUCING FX EXPOSURE THROUGH FOCUSED
INTERCOMPANY COLLABORATION

The **automated straight-through processing** system allows the lean Treasury staff to **focus on strategic activities** like analyzing exposure & **coming up with hedging strategies instead of** consolidating, capturing, copying-and-pasting, **checking, and double-checking data.**

Agilent Technologies and FiREapps

REDUCING FX EXPOSURE THROUGH FOCUSED INTERCOMPANY COLLABORATION

Executive Summary

For Agilent, a closed-loop straight-through processing (STP) system for foreign exchange (FX) management provides benefits above and beyond higher efficiency and lower IT costs. The system is also the key to improving forecast accuracy and exploiting natural hedging opportunities through timely, fact-based collaboration between Treasury and regional controllers, and among Treasury, Tax, A/P, and Cash Flow Management.

Company & Case Study Quick Facts

Industry

Bio-analytical and electronic measurement tools

Annual Revenues

\$6.6 billion in FY2011

Business Landscape

Operations in more than 100 countries with 70 percent of revenue generated internationally

Systems Environment

Oracle, SunGard Integrity, 360T, Misys

FiREapps Solution

FiREapps Enterprise— a dynamic, flexible, and scalable cloud-based platform for closed-loop FX exposure analytics, cross-functional collaboration, and hedge program decision support

The automated system integrates the FiREapps pre-trade FX exposure analytics and decision support platform with Agilent's 360T trading platform and SunGard Integrity treasury management system to create a seamless, full-circle FX workflow that:

- 1. Calculates preliminary **monthly balance sheet exposure** based on a parametrically driven, 30-day exposure forecast that is shared with forecast stakeholders.
- 2. Derives **quarterly revenue & expense exposure forecasts** using revenue, COGS, and operating expense input provided by Agilent's business units, and specific forecast parameters defined by Agilent.
- 3. Provides a **smart hedging decision support framework** that recommends optimized trades, breaks trades into pieces that include some counterparty trade limits after approval, sends trades to the 360T trading platform, and brings trade information back through SunGard into FiREapps for use in monthly reporting and future forecast cycles.

With an efficient process that consolidates forecasted balance sheet and cash flow exposure derivation, trading, and hedge accounting in a single view, Treasury now has both the information and the time they need to focus on value-added analysis and innovative hedging strategies.

As a result, they can work with subsidiaries to connect the local facts on the ground with global FX processes for managing balance sheet and cash flow exposure on an enterprise level, effectively transforming FX management from a functional silo into a strategic activity for the business.

After Treasury layers in 25 percent of forecasted exposure over a one-year horizon, FiREapps calculates hedge adjustment recommendations to protect revenue, COGS, and operating expense cash flows by business group.

CHALLENGE

RIP AND REPLACE INEFFICIENT MANUAL PROCESSES WITH AUTOMATED STP

To address the constant fluctuations and pressures of currency on the company's bottom line, the team felt it was critical to partner with a vendor who could offer both the technology and the deep FX expertise they needed to be successful.

Agilent's Treasury team has a long track record of tightly managing foreign currency exchange risk by maximizing hedge efficiency. For years, they achieved successful results via a robust, albeit complex, FX process that involved pulling exposure data from Oracle through Crystal Reports and then manually populating a series of rigid spreadsheets (12-15 workbooks).

To move away from an aging Excel add-on, eliminate a cumbersome manual process, and reduce costs related to the shared Treasury transaction database, Agilent embarked on an initiative to automate the FX management program. The top priorities for the new program were to:

- 🔴 Eliminate the need for significant manual data entry while still supporting diverse business units and sophisticated workflows.
- 🔴 Provide a new level of flexible analytics with support for multi-user exposure data sets, analysis, and decision making.
- 🔴 Reduce IT costs.

The immediate objective was to improve efficiency and lower costs through automation with the ultimate goal being to establish a process that would enable Treasury to become a more strategic partner to the business units and other finance departments.

After searching the market and determining that a single-vendor, end-to-end solution to meet their requirements didn't exist, the team opted to combine best-of-breed exposure analytics (FiREapps), trading (360T), and treasury management (SunGard) solutions, each of which needed to interact at multiple points to mimic Treasury's past success.

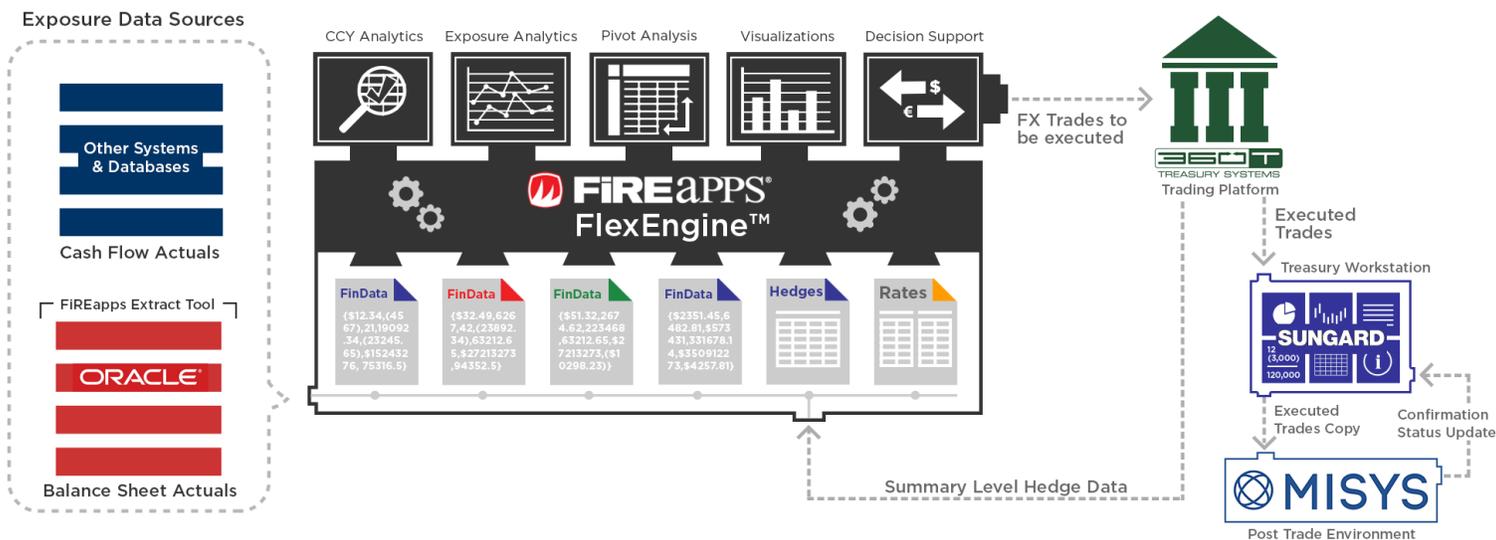
Facing a complicated integration scenario, they realized that it would take more than software to pave the way to STP and ensure predictability in the income statement. To address the constant fluctuations and pressures of currency on the company's bottom line, the team felt it was also critical to partner with a vendor who could offer both the technology and the deep FX expertise they needed to be successful.



SOLUTION

INTEGRATED, FULL-CIRCLE FX MANAGEMENT WITH TOP-TO-BOTTOM VISIBILITY

As the vendor who could bring both innovative technology and deep FX domain expertise to the table, FiREapps worked closely with Agilent to design, architect, implement, and validate the front-end components of the new straight-through process—an effort that required tight collaboration with Treasury, IT, SunGard, and 360T. The FiREapps application took the pain out of creating the kind of automated STP solution Agilent was looking for by interacting very quickly with their Oracle ERP system and other disparate data sources and feeding their downstream trade execution and management platforms. The efficiency gained allows them to make better decisions faster.



Agilent's Integrated FX Management Process

Agilent's integrated, full-circle FX management process leverages multiple data sources and interfaces to help Treasury reduce exposure by improving forecast accuracy and identifying natural intercompany hedging opportunities.

Collaborative, iterative exposure forecasting

FiREapps worked closely with Agilent to thoroughly understand and document the cumbersome manual process, including all of the data sources and algorithms involved, so that it could be translated into a systematic process enabled by FiREapps software.

In the new process:

- 1. FiREapps derives monthly balance sheet exposure forecasts, which, depending on the account and entity type, are based on either three-month trended data pulled automatically from Oracle or inputted forecasting parameters applied to the actual data.
- 2. To get the most accurate information possible, entity controllers review and revise the first-pass forecasts based on local conditions, creating an iterative feedback loop that reduces volatility through collaborative forecasting.
- 3. After Treasury reviews, modifies if necessary, and approves FiREapps-generated hedge recommendations, the FiREapps Trade Management Utility evaluates the trades and, according to policy, allocates them to the owning internal counterparty before sending the trades to the 360T trading platform.
- 4. To close the loop, validated and confirmed deals are brought back into FiREapps for use in monthly reporting and future hedging decisions.

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Prior to establishing the systematic process, Treasury was able to reduce exposure temporarily, but found themselves right back where they started in a year or two because they didn't know why it was going up and down. With Fireapps, they have the historical data, the metrics, and the analysis needed to work with regional controllers to understand what is causing exposure, and consistently reduce it through natural hedges.

Quarterly revenue & expense exposure forecasting improves cash management

FiREapps quarterly revenue and expense exposure forecasts incorporate multiple data sources (queries from Oracle on revenue, cost of goods sold, and operating expense actuals for the latest quarter), as well as input from the business groups allocating those same components into their currency mix forecasts.

FiREapps integrates these data points to generate a 12-month, multi-currency cash flow forecast and then compares the forecast against existing hedges. After Treasury layers in 25 percent of forecasted exposure over a one-year horizon, FiREapps calculates hedge adjustment recommendations to protect revenue, COGS, and operating expense cash flows by business group. The FiREapps Trade Management Utility then pushes trade recommendations out to the 360T trading platform. The executed hedges go through to SunGard and then return into FiREapps for future hedge cycles.

Key benefits at a glance

- Operational efficiency.** By eliminating a multitude of worksheets and the need for manual data copy and manipulation, efficiency is up, and the potential for errors is down.
- Lower IT costs.** FiREapps software is delivered as a service in the cloud, reducing IT costs.
- Transparency.** Treasury views exposure data and assesses hedging impact in the context of the business units, and reports accurate and detailed results on the income statement and to management. Treasury Accounting has direct access and visibility to exposure data for monthly reporting.
- Timeliness.** With a faster turnaround of front-end forecasts and hedge recommendations, the team gains time for more analysis and decision making.
- Increased flexibility.** Flexible processes and an agile environment mean Treasury can keep pace with Agilent's dynamic global business landscape.
- Partnership with FX experts.** The FX experts at FiREapps collaborate with Agilent in support of the company's financial goals.
- Expanded exposure views and increased analytics.** Enhanced data allows the Treasury team to pursue strategic projects such as evaluation of alternative hedging instruments.

Instead of focusing on forecast deviation, Agilent focuses on reducing exposure itself. It's an approach that allows the team to work smarter, not harder.



RESULTS

SYSTEMATIC PROCESS FOR COLLABORATIVE EXPOSURE REDUCTION AND MANAGEMENT

Managing exposure through hedging

The new FX system at Agilent has streamlined a process that was previously time- and labor-intensive. Instead of spending the majority of their time gathering data and forecasting exposure in preparation for forward hedging, the team now has a systematic process for finding and exploiting natural hedging opportunities in collaboration with regional Controllers, Tax, A/P, and Cash Management.

In the past, when Treasury saw exposure going up or down, the reaction was to put more effort into predicting what it would do in the future. Now, they use consolidated data not only to forecast more accurately, but also to organically and immediately eliminate exposure, whether it's in intercompany cash, A/P, A/R, or somewhere else. Instead of focusing on forecast deviation, they focus on reducing exposure itself. It's a completely different approach that allows the team to work smarter, not harder.

As a result, reducing exposure is now a process, not an event. Within the first year, increased transparency enabled a 20 percent reduction in total exposure; Treasury expects to eliminate another 30 percent by the end of 2012. The combination of improved operational efficiency and enhanced analytics has also boosted productivity, which has a ripple effect across the company. The goal is to leverage the visibility and transparency gained to support the overall needs of the business.

Fact-based collaboration reveals natural hedges

Finding natural hedges is more difficult than forecasting exposure because there is no single formula that can be applied to every subsidiary's balance sheet. Before FiREapps, Treasury would review balance sheet exposure in different regions periodically, often discovering that it had grown significantly and remained elevated over an extended period of time. By the time they saw an exposure that exceeded Agilent's established threshold, it was often too late to change capital flows, and it had already manifested itself as an FX gain or loss in the income statement.

Each business unit is different, with intercompany flows that vary and capital structures that might be different, requiring a unique methodology. Because each balance sheet has different dynamics impacting A/R and A/P, Treasury realized they could not deal with the complexity by looking harder at the data; it required collaboration with Controllers, Tax, A/P, and Cash Management. By using FiREapps to analyze data and trends for different variables, including the relationship between currencies and intercompany cash, A/P, A/R, dividends, and other capital flows, they can systematically identify exposure patterns and anomalies, and use that information to work with regional controllers and other corporate functions to investigate and understand the root causes.

For example, when A/P was increasing unexpectedly in a certain business unit, collaboration with the regional Controller revealed an issue with reconciliation between internal systems which was causing delays in payments and creating an FX exposure. Consolidated data enabled Treasury to spot issues sooner, so they could initiate a meaningful conversation and solve the underlying problem rather than relying on imperfect forecasts and hoping for the best.



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Example natural hedge: Using cash as a lever

As one form of a natural hedge, Agilent uses cash as a lever. For example, if a company in Europe receives revenue in euros and Treasury converts them into dollars, an exposure that needs to be hedged is created. Exposure analytics showed that by bypassing the conversion of euros to dollars, Treasury could maintain the same underlying currency exposure while reducing the risk profile for the cash invested. This is a simple concept, but requires a lot of coordination with local controllers and other finance groups. Treasury had to change the way they manage cash and look at investments, but using cash as a lever is a very effective way to organically reduce exposure through a natural hedge.

Proactive analysis provides actionable intelligence to subsidiaries

Without spreadsheets slowing them down, Treasury now has the time to do the kind of proactive strategic analysis that improves forecast accuracy and triggers curiosity for regional controllers who want to better understand their operations. By doing the analytical “homework” and offering preliminary conclusions, Treasury provides actionable intelligence to help the controllers investigate and resolve issues affecting their facilities.

STP helps a lean Treasury team focus on strategic priorities

When acquiring companies and integrating new units, Treasury needs to clearly understand the new exposures. The automated straight-through processing system allows the lean staff to focus on strategic activities like analyzing exposure and coming up with hedging strategies instead of consolidating, capturing, copying-and-pasting, checking, and double-checking data. The system is very efficient, and allows Treasury to spend their time forming a comprehensive view of new FX exposures, applying the processes, and looking ahead to the next month.

About FiREapps

FiREapps is a leader in foreign exchange exposure management solutions. For over a decade, the company has helped global leaders eliminate FX surprises, reduce transaction costs and increase operational efficiencies. FiREapps has enabled multinational corporations to identify, analyze and manage FX risk using fact-based collaboration. They have offices in New York, Portland, and San Francisco, and are headquartered in Scottsdale, AZ.





Phone: +1.866.928.FIRE (3473) | Fax: +1.928.223.0133
www.fireapps.com

