CFO

NOVEMBER/DECEMBER 2020
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SPACs COME BACK

HANDLING RECRUITERS

THE CFO OF 2030

Strength Test

Hard-hit industries find ways to withstand the pandemic.

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By the Numbers

Getty Images (4)

FROM THE EDITOR

All I Want for 2021

We have no idea what 2021 will bring, but here are some things I hope happen. ¶ **1. Remote work.** Working at home has been a godsend for some people; it has taken its toll on many others. My wish is that next year C-suite executives scrutinize how remote working affects organizational culture and innovation. If they decide to keep offices closed, I hope that CFOs also find a way to adapt HR practices and policies so that employees feel less isolated and regain a sense of esprit de corps.

2. Small businesses. Next year Congress and the president need to focus on saving the 30 million small businesses that are the engine of the U.S. economy. Large industries have the bankruptcy system, highly competent executives, and liquid capital markets to keep them from running aground. Small businesses, on the other hand, have fewer capital-raising options and fewer routes to debt forgiveness. They are critical to any economic revival.

3. U.S. balance sheet. Implicitly and explicitly, many politicians have embraced Modern Monetary Theory, the belief that nations that issue their own currencies can never "run out of money" the way people or businesses can. Ergo, they are proposing programs under the notion that the U.S. can spend freely to revive the economy. I hope that in 2021 policymakers get a clear picture of the real limits of the federal government's balance sheet. They also need to show wisdom in the stimulus spending programs they prioritize and undertake.

4. Pandemic. One of my desires is for the U.S. health care system, its regulators, and related government agencies to be more imaginative next year in figuring out how to handle the COVID-19 pandemic and any future outbreaks. Lockdowns are a blunt tool that have serious side effects. The constant drumbeat of fear from the media has overshadowed any balanced messaging from scientific experts and knowledgeable health care officials.

5. CFOs. Twenty-twenty has shown us, once again, how intertwined businesses are with the macroeconomy, government policymaking, and their customers and partners. I hope that in 2021 CFOs begin to take a positive role in solving all of the problems confronting our nation. They have a responsibility to help make 2021 a year of historic recovery.

Vincent Ryan
Editor-in-Chief

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EDITOR'S PICKS

MANAGEMENT
"If Pandemic Productivity Is Up, Why Is Innovation Slowing Down?" looks at why working from home has caused an innovation deficit at some companies. "Videoconferencing and instant messaging apps can't perfectly replicate the dynamics of being together in the same room, hashing out ideas and feeding off the energy of co-workers," write the authors. Read more on the Knowledge@Wharton website.

DATA
The data economy is a source of power and profit, but Dr. Carissa Véliz of Oxford University says it is also a threat. Listen to **"Should We End the Data Economy?"** to get a perspective on what's wrong with the data economy and what proposals experts have suggested to end it. Access the podcast on the Harvard Business Review website.

EVENT
Argyle Digital's last Finance Leadership Forum of 2020 takes place on December 17. The virtual event's theme is **"Finance Strategy and Innovation in 2021 and Beyond."** Speakers include finance executives from IHG, QuickLogic, Honeywell Home, and Inframark. Visit argyleforum.com and click on "Events" for more information.

Mark Bennington


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"Fed Chair Jerome Powell Calls for More Stimulus" (CFO.com, November 6) discussed how the central bank chair said fiscal stimulus is needed to help the economy recover from the effects of the coronavirus.

"I strongly believe we should face up to the COVID-19 challenge by instituting a robust nationally coordinated and well-funded strategy, with state-specific complementary operating plans, to keep both our American citizenry and our whole economy alive, while making it possible to have a timely and full restoration of both our physical and economic health, in the long run," said one reader. **"Shutting down the economy may be an effective scientific lab approach to control this disease, but our modern American society does not permit us this special luxury**. There is no alternative but to find a cure for this pandemic, now, with effective, easy access to everybody."

Another reader added: "Maybe, since the world has so far shown that the virus is not stopped, it would be better to trust people to use common sense and not stop the economy. **Shutting things down will in the end, in my opinion, delay, not stop, the virus**, and only hurt people more by not allowing them to work."

"The CFO of 2030" (page 24) asked how finance chiefs are going to create value across the next decade. **"A finance team should be stressing how important robust and agile systems of budgeting, planning, and analysis are**," said one LinkedIn reader. "Many companies should have learned that preparing for scenarios to better manage the business not only in a crisis but for taking advantage of market opportunities is a role where the CFO and his/her finance team can bring so much value."

"A CFO must be able to sharply recognize the internal capabilities and resources of the company so they will know what the real needs are," added one CFO.com reader. "That's a [task] that must be immediately completed. Then look for market opportunities that can be taken by the company to expand business growth."

In response to the online version of **"Small Businesses Weigh Subchapter V Filings"** (page 8), one reader commented: "I am a bankruptcy attorney in Chicago, and I can tell you that small businesses need to be aware of this option. I have helped a number of small business owners save their businesses by using Chapter 11." They continued: **"Plain and simple, it works. Subchapter V can make what can be a burdensome process easier than ever before."**

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STATS OF THE MONTH

PAY CHECK

4.4%
Increase in middle-market CFO total direct compensation (TDC)*

6.9%
Increase in retail and manufacturing CFOs' TDC

$423K
Average salary, middle-market CFOs

$322K
Average bonus and annual incentives

17%
Middle-market CFOs that took 2020 pay cuts +

* For fiscal year 2019. Average of 600 publicly held middle market companies
+ Disclosed in SEC filings between March and June 2020

Source: The BDO 600 compensation study

TOPLINE

BANKRUPTCY

Small Businesses Weigh Subchapter V Filings

Small Business Debtor Reorganization offers advantages over other restructuring options for owners brought to the brink by COVID-19 shutdowns. By Vincent Ryan

Many small businesses are using a niche part of the Bankruptcy Act to discharge their debts during COVID-19, and bankruptcy experts are encouraging other ailing small companies to consider the option instead of shutting down entirely.

About 1,000 small businesses have filed under the so-called Subchapter V, Small Business Debtor Reorganization, in 2020, according to statistics cited in a session of the American Bankruptcy Institute's Insolvency 2020 conference.

Part of the reason might be the enhancement to Subchapter V in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. CARES temporarily raised the ceiling on a filer's aggregate secured and unsecured non-contingent and liquidated debt to $7.5 million from $2.7 million. The higher debt limit ends on March 27, 2021.

"[Subchapter V] is tailor-made for small businesses that can survive COVID and come out the other end," said Deirdre O'Connor, a managing director at Epiq Global.

A Subchapter V filing has advantages over a Chapter 11. First, in Chapter V, a creditors' committee is not formed, and as a result, the debtor's bankruptcy estate does not bear the committee's professionals' costs. A creditor's committee has significant power in a Chapter 11 case and is adversarial to the secured creditors, which significantly impairs the reorganization process, says Stephen Klein, managing director of Atlanta-based Bennett Thrasher's bankruptcy & restructuring practice.

Second, "the absolute priority" rule does not apply. A debtor may retain its equity interest even though unsecured creditors do not receive payment in full. In a typical Chapter 11, the debtor cannot keep its equity unless (1) creditors vote in favor, and (2) the equity security holder "adds value." In many Chapter 11 cases, the owner loses its equity and ownership in the business.

Third, in a Subchapter V, the management of the small business can remain with the debtor (absent expansion of the trustee's role).

And fourth, Subchapter V gives the small business debtor flexibility to pay administrative claims over the life of the plan rather than in cash on the effective date of the bankruptcy, Klein says. The lack of that flexibility has impeded the successful reorganization of many companies, Klein says.

The bankruptcy bar and the courts are expecting more Subchapter V cases to be filed this year and next as Paycheck Protection Program funds are exhausted. Indeed, the U.S. courts have hired 250 new Subchapter V trustees.

In other bankruptcy trends, Reorg.com's data cited in the session showed that 2020 has been rife with Chapter 11 cases. The second quarter saw 138 cases, and the third quarter, 133 cases. (The quarterly average since 2016 has been 97 cases.)

The months of June and July saw 50-plus cases each, but filings slowed in August and September. However, the fourth quarter could be much busier, according to bankruptcy experts.

Data from Cornerstone Research released in October revealed that the first three quarters of 2020 saw record numbers of large company bankruptcies. About 138 companies with over $100 million in assets filed for Chapter 7 or Chapter 11 bankruptcy protection in that period. That figure is 84% higher than the 75 similarly sized bankruptcies filed in 2019. The second quarter's 55 filings marked the second-highest total for any quarter since 2005, only behind the 65 in the first quarter of 2009.

There were also 52 mega-bankruptcies (over $1 billion in assets), more than the number of mega bankruptcies in any full year from 2005 to 2019 except for 2009.

"Mega-bankruptcy filings were concentrated in two industry sectors—mining, oil, and gas; and retail trade—as oil prices collapsed and remained depressed, and traditional retailers faced an increasingly difficult environment," said Allie Schwartz, a Cornerstone Research principal.

The decline in worldwide travel precipitated 3 of the 20-largest bankruptcies: Hertz, LATAM Airlines, and Avianca Holdings. CFO

REGULATION

Beware This Misstep With Share Buybacks

Think it's an OK time to repurchase some of the company's stock? Better have the compliance department check with the CEO first, even he's the one who told you to pull the trigger on the repurchase.

That's just one of the lessons from the Andeavor LLC case announced by the Securities and Exchange Commission in October.

The SEC accused San Antonio-based Andeavor, now part of Marathon Petroleum, of controls violations related to a stock buyback plan's timing. According to the SEC, while the company was in talks to be acquired by Marathon in 2018, Andeavor bought back $250 million worth of stock, violating its own policies regarding trading while in possession of material, nonpublic information, and securities laws.

Andeavor and Marathon held months of confidential discussions in 2017 about Marathon potentially acquiring Andeavor. But, the order found, in October 2017 Andeavor's then-Chairman and CEO and Marathon's Chairman and CEO agreed to suspend the discussions. Then, in January 2018, they agreed to resume talks.

The order found that two days before the date set for resuming the discussions, Andeavor's CEO directed the company's CFO to initiate a $250 million stock buyback. The stock was repurchased in February and March 2018.

But a company policy that was part of the board-authorized buyback prohibited repurchases while Andeavor was in possession of material nonpublic information. Andeavor failed to maintain internal accounting controls that provided reasonable assurance that the buyback complied with Andeavor's policy, the SEC said.

The SEC said Andeavor used "an abbreviated and informal process" to evaluate whether the buyback requirements were satisfied. More specifically, the process for evaluating the materiality of the acquisition negotiations did not include discussing, with the CEO, the likelihood of a deal between Andeavor and Marathon.

About one month after completing the buyback, the order found, Andeavor publicly announced that it would be acquired by Marathon in a deal valuing Andeavor at over $150 per share.

Andeavor agreed to pay a $20 million penalty to settle the charges without admitting to the violations.

The SEC's order finds that Andeavor violated the internal controls provisions of Section 13(b)(2)(B) of the Securities Exchange Act of 1934. | V.R.

Getty Images (2)

FRAUD

Wells Fargo Abused COVID Relief

Wells Fargo fired up to 125 employees for allegedly misrepresenting themselves to obtain stimulus money intended to help businesses hurt by the COVID-19 pandemic.

CNN, citing an internal memo written by Wells Fargo's head of human resources, David Galloreese, reported the misrepresentations may have amounted to fraud against the U.S. Small Business Administration.

In the memo, David Galloreese wrote that the bank identified employees whom it believes may have "defrauded the U.S. Small Business Administration (SBA) by making false representations in applying for coronavirus relief funds for themselves through the Economic Injury Disaster Loan program, which is administered directly through the SBA."

Galloreese wrote the employees' actions did not involve customers and were taken outside of their responsibilities at the company.

"We have zero tolerance for fraudulent behavior and will continue to look into these matters," Galloreese wrote. "If we identify additional wrongdoing by employees, we will take appropriate action." He said the company would fully cooperate with law enforcement.

"As a company, we are vigilant in detecting fraud," he said. "While these instances of wrongdoing are extremely unfortunate and disappointing, they are not representative of the high integrity of the vast majority of Wells Fargo employees."

In 2016, the Consumer Financial Protection Bureau fined the bank $185 million over allegations it created millions of fraudulent savings accounts and checking accounts. In 2018, the Federal Reserve announced it was capping the bank's assets citing "widespread consumer abuse."

In September, JPMorgan Chase the largest lender under the Paycheck Protection Program, said some of its employees had "fallen short" of company standards and participated in conduct around the program that may have been illegal. The bank reportedly fired several employees who improperly applied for COVID-19 relief funds through the Economic Injury program. | WILLIAM SPROUSE

THE CLOUD

IBM to Spin Off Infrastructure Unit

IBM is spinning off its managed infrastructure services unit into a new public company. The company said the move would help accelerate its hybrid cloud growth strategy and drive digital transformation.

"IBM is laser-focused on the $1 trillion hybrid cloud opportunity," IBM chief executive officer Arvind Krishna. "Client buying needs for application and infrastructure services are diverging, while adoption of our hybrid cloud platform is accelerating."

Following the spinoff, IBM will have more than 50% of its portfolio in recurring revenues products. It said it will transition from a company with more than half of its revenues in services to one with a majority in high-value cloud software and solutions.

It said the spinoff company will immediately be the leading managed infrastructure services provider with more than twice the scale of its nearest competitor. The new company does not yet have a name.

"We have positioned IBM for the new era of hybrid cloud," Ginni Rometty, IBM executive chairman, said. "Our multi-year transformation created the foundation for the open hybrid cloud platform, which we then accelerated with the acquisition of Red Hat."

IBM closed on its $34 billion acquisition of Red Hat in July 2019. The Red Hat deal, the largest ever for IBM, was led by Krishna who took over as CEO in April.

The spinoff is expected to be tax-free and completed by the end of 2021. | W.S.

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The Big Shot

Taking the Leap to Digital Finance

As a CFO, are you looking to push the boundaries of traditional finance and accounting operations? To integrate siloed processes? To deliver agility, stability and scalability? To offer superior end-customer experience?

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Scan the QR code to read the full article

HFS Research | WNS

AUDITING

Deloitte Fined Record $19M

Concluding a years-long investigation, the U.K.'s accounting watchdog has fined Deloitte a record 15 million pounds ($19.4 million) for "serious and serial failures" in its audits of software firm Autonomy.

The Financial Reporting Council's investigation focused on Deloitte's audits of Autonomy's financial statements before the company was acquired for $11 billion by Hewlett-Packard in 2011.

After a seven-week hearing last year, an independent disciplinary tribunal found Deloitte and two former partners, Richard Knights and Nigel Mercer, were culpable of misconduct for audit failings related to the accounting and disclosure of Autonomy's sales of hardware and its sales of software licenses to value-added resellers.

The FRC announced Thursday that the tribunal had upheld its request for sanctions, with Knights and Mercer being fined 500,000 pounds and 250,000 pounds, respectively.

"The significant sanctions ... reflect the gravity and extent of the failings by Deloitte and two of its former partners in discharging their public interest duty concerning Autonomy's audits," Elizabeth Barrett, the FRC's executive counsel, said.

"The identified failures to act with integrity, objectivity, skepticism, and professional competence go to the heart of audit," she added.

The FRC alleged Deloitte allowed Autonomy to hide 118 million pounds of loss-making hardware sales before the company was sold to HP. A year later, HP took an $8.8 billion writedown on the deal, alleging accounting irregularities.

"Our audit practices and processes have evolved significantly since this work was performed over a decade ago," Deloitte said. | **MATTHEW HELLER**

CAPITAL MARKETS

CME, Nasdaq to Offer Water Futures

CME Group and Nasdaq said they plan to offer futures contracts based on the Nasdaq Veles California Water Index.

The index, launched in 2018, is based on the volume-weighted average of the transaction prices in California's five largest and most actively traded water markets.

In a statement, the companies said each contract would represent 10-acre feet of water and allow users to lock-in prices, increasing transparency, price discovery, and risk transfer.

"With nearly two-thirds of the world's population expected to face water shortages by 2025, water scarcity presents a growing risk for businesses and communities around the world, and particularly for the $1.1 billion California water market," Tim McCourt, CME Group global head of equity index and alternative investment products, said. "Developing risk management tools that address growing environmental concerns is increasingly important to CME Group."

Peter Gleick, a water expert at the Pacific Institute, said the market could result in some users conserving water and selling a surplus for a profit, but he thought the impact of the futures market would be small because selling was complicated due to rights issues.

"There are fewer places in California where water can be transferred legally," Gleick said. "The vast majority of California water isn't accessible to these water markets."

Rostin Behnam, a commissioner at the Commodity Futures Trading Commission, said derivatives based on water prices would be an important way for businesses to manage climate risk, citing increasing prevalence of extreme weather events.

"Every time I talk about this, these weather events are just validating the need to take action," Behnam said.

Sales of the contracts would begin late in the fourth quarter, pending regulatory review. | **W.S.**

ACCOUNTING

SAExploration Accused of Fraud

The Securities and Exchange Commission has filed civil charges against SAExploration Holdings, a publicly traded seismic data acquisition company based in Houston, over an alleged multi-year accounting fraud that falsely inflated the company's revenue and concealed the theft of millions of dollars.

In a complaint filed in the Southern District of New York, the SEC said senior executives engaged in an "elaborate, four-year-long fraud." It names former CEO and chairman Jeffrey Hastings, former CFO and general counsel Brent Whiteley, former CEO and chief operating officer Brian Beatty, and former vice president of operations Michael Scott as defendants. It also names the spouses of Hastings and Whiteley, Lori Hastings and Thomas O'Neill, as relief defendants.

The executives allegedly entered into a series of seismic data acquisition contracts totaling about $140 million with a purportedly unrelated Alaska-based company that was in fact controlled by Hastings and Whiteley. The defendants allegedly misappropriated nearly $6 million from SAE and used the funds for a series of round-trip transactions. They then stole approximately $6 million for themselves. Whiteley allegedly misappropriated an additional $4 million through a separate fictitious invoice scheme.

The U.S. Attorney's Office for the Southern District of New York announced criminal charges against Hastings in a parallel action.

Hastings was arrested last month in Anchorage, Alaska. A spokesperson for the company said he was put on administrative leave more than a year ago and then resigned.

The SEC is seeking a permanent injunction against SAE and executives, civil penalties, disgorgement, and office-and-director bars against the executives. | W.S.

M&A

SAP to Buy Emarsys

German software giant SAP has reached an agreement to buy Emarsys, a cloud-based customer engagement platform, for an undisclosed sum.

"Once the transaction closes, SAP will enable brands to connect every part of their business to the customer, including experience data," SAP chief executive officer Christian Klein. "We will deliver a portfolio for a 'commerce anywhere' strategy allowing for hyper-personalized digital commerce experiences across all channels at any time."

The deal comes some two months after SAP announced it was spinning off Qualtrics, the customer experience (CX) management company it bought for $8 billion in 2018.

"This illustrates that SAP is serious about CX and competing in a highly competitive space," CRM Essentials founder and principal analyst Brent Leary said. "Emarsys adds industry-specific customer engagement capabilities that should help SAP CX customers accelerate their efforts to provide their customers with the experiences they expect as their needs change over time."

Qualtrics was the last big acquisition under former CEO Bill McDermott, who was criticized for overpaying for the company days ahead of its scheduled public offering. Experience management remained the smallest of SAP's four business segments, however.

In a statement, SAP said Emarsys would enhance its customer experience portfolio and create a new paradigm to deliver omnichannel enagements in real time.

Emarsys was founded in 2000 in Austria and has more than 800 employees in 13 offices around the world. U.S. headquarters are in Indianapolis. It has reportedly raised $55 million.

The transaction is expected to close in the fourth quarter. | W.S.

Getty Images(4)

REGULATION

SEC Drops Proposed Whistleblower Rule

The U.S. Securities and Exchange Commission announced changes to its whistleblower program but discarded a controversial proposal to allow staff to reduce awards of more than $30 million.

The proposal for a discretionary "cap" on large awards had sparked an outcry among whistleblower advocates and lawyers, who said it would discourage tipsters from flagging the most egregious frauds.

The whistleblower program, which allows the SEC to reward tipsters whose original information leads to a penalty exceeding $1 million with between 10% and 30% of the fine, has so far resulted in more than $2 billion in penalties and $523 million in tipster rewards.

The commissioners recognized "the importance of paying awards to whistleblowers and the invaluable contributions whistleblowers make to protecting investors," Stephen M. Kohn, an attorney and chairman of the National Whistleblower Center, said. "The unanimity of support for the basic principles underlying the whistleblower reward law sends a powerful message to Wall Street."

The proposed cap applied to a whistleblower suit resulting in monetary sanctions of at least $100 million. In such cases, SEC staff would have had the discretion to reduce the award percentage so that an award "[did] not exceed an amount that is reasonably necessary to reward the whistleblower and to incentivize other similarly situated whistleblowers."

An award could not be reduced to less than 10% of the sanctions.

The business community had encouraged the SEC to revisit its evaluation of potential large awards and some commissioners were also worried that large awards would drain the independent fund from which whistleblower payouts are drawn. | M.H.

RISK MANAGEMENT

Citigroup Fined Over Risk Defects

U.S. banking regulators have fined Citigroup $400 million for failing to correct "serious and longstanding deficiencies" in its risk-management systems.

Citigroup agreed to the fine as part of a settlement with the Office of the Comptroller of the Currency that also requires it to "take broad and comprehensive corrective actions to improve risk management, data governance, and internal controls."

The bank also entered into a similar consent order with the Federal Reserve that said it had "not adequately remediated the longstanding enterprise-wide risk management and controls deficiencies" previously identified by the Fed.

The OCC cited deficiencies in Citigroup's enterprise-wide risk management and compliance risk management programs, saying it failed to "adequately identify, measure, monitor, and control risk."

In August, Citigroup mistakenly paid $900 million to Revlon lenders who had sued the cosmetics company—an error that heightened concerns over its risk-management systems, which are a legacy of a string of deals in the 1990s that turned it into a financial powerhouse.

The bank said in a statement that it was disappointed to have fallen short of regulatory expectations and has "significant remediation projects" under way.

Under the consent order with the Fed, the Citigroup board has 120 days to submit a plan describing how it will hold senior managers accountable for executing effective and sustainable remediation plans and ensure they fix the risk-management problems.

Citigroup's chief risk officer, Bradford Hu, left the bank in early November. He had been head of risk for eight years. | M.H.

FRAUD

Fraud Detection Ex-CEO Charged

The former CEO of fraud prevention startup NS8 has been charged with fraud for fabricating millions of dollars in revenue to raise $123 million from investors.

The U.S. Department of Justice said Adam Rogas, 43, altered NS8's bank statements before providing them on a monthly basis to its finance department to show revenue and bank balances that did not exist, resulting in an over $60 million inflation of assets as recently as June 2020.

When NS8 raised approximately $123 million in two offerings, Rogas allegedly provided the false statements to existing and prospective investors, pocketing nearly $17.5 million of the proceeds for himself.

Rogas, who was arrested in September on federal charges of securities fraud, is also facing a civil complaint filed by the Securities and Exchange Commission.

"As alleged, Adam Rogas was the proverbial fox guarding the henhouse. While raising over $100 million from investors for his fraud prevention company, Rogas himself allegedly was engaging in a brazen fraud," acting Manhattan U.S. Attorney Audrey Strauss said.

NS8, which Rogas co-founded in 2016, provides fraud detection and prevention software to e-commerce merchants.

According to the SEC, Rogas began no later than 2018 to download electronic copies of the firm's revenue account statements and "altered the text of those statements to grossly exaggerate the dollars paid by customers to NS8."

"As a result, each of the NS8 financial statements from 2018 to 2020 [was] also false and materially misstated, among other things, the balance of the revenue account, NS8's revenue, and NS8's assets," the commission said.

A doctored balance sheet as of Feb. 29, 2020, showed there was $38.1 million in the revenue account in January and $42.2 million in February when the actual balances were $39,005 and $45,408, respectively, according to the SEC.

Rogas resigned on Sept. 1, the SEC said, after an employee in NS8's finance department discovered the true balance of funds in the revenue account. | M.H.

CREDIT

Banks Wary of Main Street Loans

An overwhelming number of U.S. banks do not expect to become more willing to make loans to businesses under a key pandemic relief program amid concerns over the financial condition of borrowers and overly restrictive loan terms.

The Main Street Lending Program (MSLP) is aimed at keeping middle-market firms afloat that were solvent before the coronavirus pandemic. However, only about $2 billion of a potential $600 billion in funding has been approved by the Federal Reserve so far.

According to a Fed survey released in September, a major fraction of large banks approved at least 40% of the inquiries for Main Street loans that they had received since mid-June and nearly a third of banks expected demand for the loans to increase over the next three months.

However, only 13.4% of banks said they expected their willingness to approve loans to increase over the next three months, with 83.6% expecting it would stay the same.

Banks enrolled in the program "often cited concerns about borrowers' financial condition before and during the COVID-19 crisis, as well as overly restrictive MSLP loan terms for borrowers as reasons for not approving MSLP loans," the Fed said.

More than half of the senior loan officers who responded to the survey indicated they had rejected Main Street loans for firms that were "creditworthy before the COVID-19 crisis, but too severely impacted to remain viable and hence unable to repay the loan."

Nearly three-fourths of respondents said they had made no Main Street loans at all or were not registered for the program and, for most of those that had made loans, the program accounted for less than 2.5% of their overall commercial and industrial lending. | M.H.

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CYBERSECURITY

Ransomware Hits Hospital Chain

A suspected ransomware attack shut down the computer systems at Universal Health Services, one of the largest U.S. hospital chains, and raised fears that the hackers gained access to patient and employee data.

The attack on UHS in September left doctors and nurses scrambling to render care, with computers replaced by pen and paper. Telemetry monitors that show critical care patients' heart rates, blood pressure, and oxygen levels went dark and had to be restored with ethernet cabling.

"These things could be life or death," a clinician told the Associated Press.

CEO Alan Miller told The Wall Street Journal that the hackers used a previously unknown technique to break into UHS' computer systems. He declined to say whether they had requested payment from the company.

UHS operates more than 400 facilities across the U.S.,

Puerto Rico, and the U.K. "No patient or employee data appears to have been accessed, copied, or misused," the company said in a news release.

But news site Bleeding Computer said the attackers appear to have used Ryuk ransomware, which is widely linked to Russian cybercriminals, and that "if this is a ransomware attack, there is also a high chance of the attackers stealing patient and employee data, which will further increase the damage."

In 2017, a ransomware strain called WannaCry, created by hackers working for the North Korean government, infected the U.K.'s National Health Service, disrupting at least 80 medical facilities. In September, the first known fatality related to ransomware occurred at a hospital in Germany.

"We are most concerned with ransomware attacks which have the potential to disrupt patient care operations and risk patient safety," said John Riggi, senior cybersecurity adviser to the American Hospital Association. | M.H.

FRAUD

S&P Manager Traded On Index Changes

A senior index manager at S&P Dow Jones Indices and his friend have been charged with trading on inside information he misappropriated from his employer, generating $900,000 in illicit profits.

The U.S. Securities and Exchange Commission said Yinghang "James" Yang of Flushing, N.Y., traded in the options of 14 companies between June and October 2019 after he learned in advance that they would be added to or removed from one of S&P Dow Jones' three indices.

The trades were allegedly executed through the brokerage account of co-conspirator Yuanbiao Chen of Corona, N.Y., manager of a sushi restaurant.

Yang was arrested in September in a related criminal case.

According to his LinkedIn profile, Yang has a master's degree from Columbia University and joined S&P Dow Jones in September 2018 after previously working for the derivatives businesses of JPMorgan Chase and BNY Mellon.

As an index manager at S&P Dow Jones, he was "privy to index committee discussions and related matters, including the identities of companies that might be added to or removed from one of [the company's] U.S.-based indices," the SEC said.

Yang and Chen allegedly made illegal trades in the call or put options of companies including Etsy, GrubHub, and T-Mobile, with Yang on some occasions accessing Chen's brokerage account directly through the internet and on others tipping off Chen.

The defendants generated returns on their option purchases as high as 624%, the SEC said, with their most lucrative trade being an $18,014 investment in call options of CDW on Sept. 17, 2019. After S&P Dow Jones announced CDW would be added to one of its indexes, they allegedly liquidated the options the following day for $112,487 in profits. | M.H.

Getty Images(3)

FRAUD

Tycoon Accused of Touting ICOs

Anti-virus software developer John McAfee has been charged with promoting initial coin offerings (ICOs) to his Twitter followers without disclosing that issuers paid him more than $23 million in digital assets for the promotions.

McAfee, 74, (photo) is the latest high-profile figure to be accused of illegally “touting” ICOs, joining celebrities including music producer DJ Khaled and professional boxer Floyd Mayweather.

According to the U.S. Securities and Exchange Commission, the cybersecurity millionaire touted at least seven ICOs to his hundreds of thousands of Twitter followers from at least November 2017 through February 2018.

McAfee’s bodyguard, Jimmy Gale Watson, was also charged with “substantially assist[ing] McAfee’s touting and scalping schemes.”

“Potential investors in digital asset securities are entitled to know if promoters were compensated by the issuers of those securities,” Kristina Littman, chief of the SEC’s cyber unit, said. “McAfee, assisted by Watson, allegedly leveraged his fame to deceptively tout numerous digital asset securities to his followers without informing investors of his role as a paid promoter.”

McAfee had increased his Twitter following to 784,000 as of Feb. 17, 2018, in part by becoming a booster for bitcoin. As he gained fame in the digital asset community, the SEC said in a civil complaint, ICO issuers began asking him to promote their upcoming digital asset offerings.

The ICOs he promoted raised at least $41 million and he made approximately $23.2 million in secret compensation, demanding an upfront payment in bitcoin in addition to a percentage of the digital assets offered in the ICOs and, later, a percentage of the total funds raised from investors. | M.H.

Take a bow, CFOs. You deserve it.

CFOs at the Forefront of Crisis and in Position to Impact the Future.

The year 2020 will be remembered by finance professionals as one marked by great challenges, but also by resilience and accelerated change. The global impact of the COVID-19 pandemic and the resulting economic disruption presented CFOs and finance leaders with business issues not seen in generations, forcing them to demonstrate greater resolve and strategic leadership than ever before.

Considering these events, FTI surveyed more than 325 CFOs and finance executives to uncover the tremendous efforts that finance leaders demonstrated through adversity, and to provide a look at what's still to come. The insights from the survey provide guidance to better position CFOs and finance leaders for continued success amidst uncertainty. Topics discussed cut across areas such as scenario-planning and improving accuracy of forecasts; reducing enterprise costs; developing agile operating models; transitioning to remote and virtual workforces; deploying automation; and much more.

What's clear is that the implications from COVID-19 and economic instability have heightened the importance of Finance's role to drive change across the enterprise. Survey respondents indicated that key priorities and initiatives for 2021 were as follows (chart below):

Manage Business Volatility	Adapt and Develop Capabilities	Prepare for the Rebound
• Improve planning, scenario modeling, and forecasting • Optimize cash flow and working capital • Manage enterprise costs • Identify and manage risks • Deliver real-time information to make faster business decisions	• Attract new talent and develop capabilities • Enable a remote workforce and plan for corporate real estate, technology, and talent impacts • Eliminate/automate manual processes • Enhance data management and security • Improve accounting processes and internal controls	• Improve capital structure and strengthen balance sheet • Redefine operating model and expand use of external partners • Develop analytic capabilities • Implement new technologies • Undertake M&A/ strategic alternatives

Looking Ahead

The survey revealed five key insights that CFOs can draw upon to navigate current and future challenges and drive value in 2021.

1. The CFO role has quickly elevated.

The pandemic focused a spotlight on the CFO's ability to lead the organization. The most successful CFOs drove scenario and contingency planning, took swift cost reduction actions to ensure economic viability, and maintained liquidity by improving working capital and tapping capital markets as necessary.

What it means: CFOs can and should do more to drive enterprise strategy, capitalizing on the inherent strength of the finance function to manage key initiatives, provide analytical insights, and free up resources for higher-value activities.

2. Finance maintained productivity working remotely and moving to do so on a permanent basis.

In response to COVID-19 shutdowns, finance functions were adept in moving to both remote and virtual workforces. Survey respondents indicated that over 70%of their physical finance teams will remain remote; however, teams are likely to move to a hybrid model in the future as desire for interpersonal connections and an in-office presence increases. Additionally, 61% of respondents stated that transitioning to and enabling their remote workforces were either critical or a high priority in the next 12 to 18 months.

What it means: Going forward, CFOs will have to carefully consider real estate needs, new office interaction models, compensation adjustments, employee mental health and a scalable engagement model. CFOs who have already seen high performance with a remote workforce will need to optimize the remote experience to maintain or improve performance, and they'll need to anticipate how the new operating models will impact corporate real estate, technology, and human resources requirements.

In a post-pandemic world, there will be no substitute for solid planning and leadership.

3. Automation proved its value and the digital workforce continues to grow.

While most CFOs have started to adopt automation, the survey results suggest that it has not reached its full potential in Finance. Nearly 80% of respondents indicated that at least 5% of their finance team was composed of a digital workforce through automation[1]. However, less than one-third of the respondents indicated that one in five of their finance teams was digital, suggesting automation has more room to grow.

What it means: CFOs should encourage the adoption of RPA and broader intelligent automation solutions across the enterprise by serving as a value creator within Finance and demonstrating the benefits of these solutions in other areas. Accelerated adoption of the digital workforce will be critical to managing margin pressures that are likely to persist in the coming years.

4. Finance operating models are being redefined with expanded use of BPO.

CFOs will change the delivery of the finance function's services in the next 12 to 18 months. The underlying motivation is driven by increased focus on reducing the cost of Finance without undermining the function's strategic objectives. In addition, CFOs are recognizing that BPO providers are growing front- and back-office capabilities and offering economic incentives such as variable, volume-based pricing, that further allow them to manage through volatility.

What it means: A growing number of CFOs recognize the value of executing finance processes within a centralized model. Now, CFOs are partnering with BPO providers to source labor, expertise and automation in order to bolster enterprise value. Bucking recent trends, CFOs are increasingly turning to BPO providers to also support non-transactional processes. Some CFOs are using BPOs to assist with higher-value processes, such as financial and profitability analyses, and with budgeting and forecasting using analytics.

5. CFOs will continue to lead the way.

The CFO and finance function's ability to provide predictive insights in an ambiguous market will continue to position the CFO as an enterprise leader. Having guided their companies through the COVID- 19 crisis, CFOs are well-positioned to lead the way as enterprise value creators. To be successful, the CFO must utilize analytic insights to make enterprise-wide decisions that impact cost, working capital, liquidity, risk and capital markets. This pivot from a finance and accounting professional to the enterprise value creator role has been driven in part by adoption of digital innovation and technology that helps provide visibility in volatile business climates. There is also broad recognition—as supported by 89% of the survey respondents—that the CFO and finance function have the talent and skills to drive enterprise value for the organization. It is simply a matter of the CFO can harness the talent and skill, with precision, to deliver results.

What it means: In many organizations, the CFO has effectively acted as the enterprise lead through COVID-19, according to survey respondents. This favorable attitude toward CFOs is attributable to their ability to deliver accurate real-time planning, reporting and data analysis and quickly initiate efforts to reduce and/or optimize enterprise costs.

Looking Ahead

There are high expectations for the CFO to drive performance while protecting the business from risks. Finance's imperative is to deliver insights, steer strategy and operational decisions by facilitating effective partnerships in the business. In a post-pandemic world, there will be no substitute for solid planning and leadership, and Finance's role in driving change across the enterprise will be critical to thriving in future disruptions and shaping the organization for success.

To obtain a full report of FTI Consulting's CFO Survey, email FTIOCFO@fticonsulting.com. For more information, visit www.fticonsulting.com/OCFO

[1]Automation can be characterized as Robotic Process Automation (RPA), automation via software-enabled planning and reporting (e.g. Anaplan, OneStream), automated account reconciliation (e.g. Blackline, Oracle FCCS), and dashboard automation/BI.

HEALTH
BENEFITS

7 Ways COVID-19 Will Transform Health Care

The pandemic could promote disruptive innovation to lower costs, but it will take pressure from the business community to make it happen. By Jeff Levin-Scherz, MD, Steve Blumenfield, and Julie Stone

Health care in the United States is broken. CFOs know we have the most expensive health care system in the world, yet our outcomes are worse than those in most developed countries. What's more, long-standing efforts to decrease cost and increase value through disruptive innovation have fallen flat due to the influence of established stakeholders, the persistence of restrictive rules, and the moral hazard of third-party payment.

The COVID-19 pandemic provides us with a real opportunity to finally transform our health care system. We expect seven phenomena brought on by the COVID-19 pandemic will accelerate change in health care. If managed effectively, they will allow health care purchasers such as employers to harness the benefits of dynamic changes in the market.

1. The rise of virtual care. Americans avoided most non-emergency care this spring. Data shows massive decreases in preventive services such as colonoscopies (86%), mammography (94%), and dental care (92%).

Telehealth visits rose to as much as 14% of total visits at their peak in April. Patients saved time and parking fees, and fewer ancillary tests were performed. Patients will not mourn the loss of packed waiting rooms and hours away from work for a 10-minute appointment.

Innovative virtual visit support tools continue to evolve, and algorithms and artificial intelligence enable better evaluation of suspicious lesions via smartphone cameras. Good consumer experiences with virtual care will create stickiness, and much care will continue to be delivered remotely even after the pandemic is over.

2. New digital approaches to meeting mental health needs. We have long had inadequate access to mental health care, and the pandemic has heightened needs that society and employers alike were already feeling acutely. The Centers for Disease Control and Prevention found that almost four times as many adults (40.1%) reported symptoms of major depression or anxiety in July 2020 compared with a year earlier.

The pandemic has led to dramatic increases in the use of digital and virtual mental health care. The treatment ranges from digital emotional wellbeing tools to chatbots offering cognitive behavioral therapy to text-based coaching by humans to robust virtual networks with access to a full continuum of mental health care, including psychiatric services. These alternatives can decrease costs and help address gaps in access to mental health services.

3. More entrepreneurial health care startups. The first half of 2020 saw the greatest venture capital investment in digital health ever—more than $5.4 billion in investment. Buoyed by the successful IPOs of Teladoc, Livongo (now owned by Teladoc), Progyny, One Medical, and others, investors now see great potential in this space.

This torrent of investment could mean a future where patients can use apps to triage their needs, initially connecting to an artificial intelligence

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chatbot, and escalating to coaches, nurses, and physicians depending on the complexity and the urgency. We will likely see an increase in direct-to-consumer diagnostic testing and further empowerment of patients. Entrepreneurial companies can use learnings from genomics to direct patients to the most appropriate care, and neural networks can help us convert vast troves of data into actions that will improve health.

Jeff Levin-Scherz, MD

Steve Blumenfield

Julie Stone

4. Provider consolidation. There has already been substantial provider consolidation, and this is likely to accelerate as the pandemic continues. Hospitals with excellent brand recognition have been able to achieve high reimbursement rates and have vast reserves. But hospitals that offer excellent quality without as much market leverage may fail or be absorbed by higher-priced systems. This kind of consolidation has historically raised unit prices, although this will be more difficult for providers in a more price-sensitive world.

There are possible counterbalances to higher prices from provider consolidation. Providers suffering from the loss of fee-for-service payments during the pandemic could embrace alternative payment models to take financial and clinical responsibility for populations or offer warrantied bundled care for procedures or episodes. This could help promote higher value, rather than higher prices. Price regulation, either through price ceilings or price setting, could also be enacted, as is the case in most highly developed countries.

5. Increasing price sensitivity. With massive jumps in unemployment and dramatic decreases in the gross domestic product, many individuals and businesses will be less financially secure as the pandemic recedes. As a result, consumers and health plan sponsors will be more price sensitive. That sets the stage for the success of solutions that are dramatically cheaper, even if initially perceived to be not quite as good. For example, lower resolution magnetic resonance imaging machines (MRI) that allow for $100 MRI scans in Japan have never been introduced in the United States. Price sensitivity nurtures disruptive innovation, and our decreased wealth could paradoxically spur solutions that help us achieve higher value in health care.

6. Easing of regulations. Congress and the Centers for Medicare and Medicaid Services have altered or eliminated 212 rules and regulations to help the delivery system address patient needs during the pandemic. These actions have expanded reimbursement for telemedicine, eliminated some practice limitations, and decreased requirements for face-to-face contact for reimbursement.

Some of these regulatory changes, if left in place, could promote investment in startups which can accelerate health care transformation. Virtual visits utilizing providers across state lines could address rural health care access gaps. We can expand the scope of services and utilization of nurse practitioners, physician assistants, and pharmacists, including through virtual visits, to increase access to care and improve the cost of care for services currently restricted to physicians.

7. Increasing governmental role. The federal government was responsible for almost half of all health care spending before the pandemic. Tens of millions lost their employer-sponsored health insurance when they lost their jobs. Some will be uninsured, but many will qualify for heavily subsidized exchange plans or will qualify for Medicaid.

Additional people on government-sponsored or government-subsidized insurance will be a financial strain for governments at the state and the federal levels. The government will likely see a greater need to use its leverage to decrease unit prices, especially for pharmaceuticals.

Even though government regulations can suppress health care innovation, the government has also been the source of many of the most important payment innovations of the last generation.

Medicare pioneered "diagnosis-related groups," a single payment to hospitals based on the initial reason for hospitalization. These have spread to commercial insurance and to government payers around the world. Medicare introduced risk adjustment, which has since been adopted widely. The Centers for Medicare and Medicaid Innovation has piloted both bundled payments and population-based payments to accountable care organizations.

In the world of employer-sponsored health care, we are accustomed to seeing annual price increases that exceed inflation. Health care costs are second only to wages for most American companies. The changes wrought by the pandemic can promote much-needed disruptive innovation, help to lower unit costs, and realign technology and people to more effectively deliver care. CFO

Jeff Levin-Scherz, MD, MBA, is a managing director and co-leader of the North American health management practice at Willis Towers Watson; Steve Blumenfield, MBA, is the North American head of strategy and innovation for Willis Towers Watson's health & benefits business; and Julie Stone, MPA, is the North American intellectual capital leader for Willis Towers Watson's health and benefits business.

Courtesy of the authors

The CFO of 2030

How are finance chiefs going to create value across the next decade? Accordion convened a panel to find out. By Hal Polley

CFOs are frequently asked to predict the future. Where do you think the market, your industry, the function will be in 5, 10, 15 years? We're going to take a wild guess: Nobody got 2020 quite right. ¶ Now, that doesn't mean predictions are pointless. In fact, quite the opposite. More than what they indicate about some uncertain future, predictions are actually informative about the trends that are starting to take shape now. CFO predictions shine a light on functional and financial currents at their inception (or at least shortly thereafter).

And that is why Accordion invited a (virtual) roomful of private equity-backed CFOs to watch a curated panel of their peers discuss the evolving role of the CFO and what it will look like 10 years from now. Those panelists included: Brian Gladden, an operating partner at Bain Capital; Tom Dowling, CFO of Banner Solutions; Bill Ingram, former CFO of Avalara; and Mario Ramos, CFO and CRO of Edelman Financial Engines.

Most of what we learned about the role of the CFO, today and tomorrow, can be summed up in one word: technology.

Transforming Through Technology

Unpacking that one word is a little more complex.

When asked about creating value across the next decade, the plurality of CFO panelists (44%) believed that "driving tech transformation" will be the function's most critical role going forward. What they meant by that was not a singular software solution. Instead, it's a whole host of tech-centric concerns and tech-enabling insights, most of which start and end with data.

"Ten years ago," said Dowling. "the availability of data was probably the key issue. Now, it's gone completely the other way. There is a massive amount of available data. How do you herd those massive amounts in a meaningful way?"

Added Gladden, "More and more, the CFO's role will be about mastering data management."

Panelists agreed that as data systems explode across the organization, it is critical that the CFO be the entity to govern data interactions.

"My pitch to the CFO is this," said Dowling. "The data your salespeople need is different from the data your accounts payable people need and that's different from the data your engineering people need. The CFO must own data governance. It can't be the wild, wild, West. It's not to restrict; it's just to get the right data into the hands of the people at the right level. It's a way to distribute data to run the business effectively."

Of course, data governance is not only about data control, it's also about data content. "It can't only be internal data anymore," continued Dowling. "We have to go to our customers and suppliers and request data. We have to look at their data and use it as a leading indicator of what's to come for us in the future."

And once those data sets are defined, the CFO needs to understand how to leverage them in order to become a business predictor, instead of just a business recorder. They must understand how to turn data into insights, not just canned reports.

Said Ingram: "Historically, CFOs have reported on results. That's still going to be critical and not going away. But, we need to produce forward-looking metrics and share those metrics

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[with] additional stakeholders within the business. That's the future of the CFO function."

Those forward-looking, data-driven metrics, while critical to the evolution of the role, will not, however, be the only way CFOs leverage technology to drive value creation. The future of the function will also be about understanding emerging technologies and identifying where, how, and when to invest in them (and when not to).

Hal Polley

"Let's talk about machine learning and [artificial intelligence]," said Ingram. "My advice to CFOs is: Use it but don't go after all the bells and whistles. Use it to go after some mundane, repeatable, and in-the-trenches requirement specific to the company."

Ingram provides the example of real-time sales tax calculations for a grocery store business. Here is a business where the combination of SKUs and jurisdictions is astronomical, and the work required to maintain current data and records relevant to those SKUs is overwhelming.

"We were frustrated how this critical function unique to our company—that very few people in the world care about—that we just could not get through it. We simply did not have all the rates and product definitions for every item ever sold in a grocery store. And it was critical to our business. So, we acquired about two dozen engineers for the sole purpose of applying an AI/ML process to our SKU and jurisdiction problem. The results of applying machine learning to that issue were transformative for us."

Partnering with the Business

While the plurality of CFO attendees believed driving tech transformation would be most important to CFO-led value creation across the next decade, many also focused on the criticality of shifting the function "from supporting to leading corporate strategy" and on "strengthening internal business partnerships."

Both can occur, argued Ingram, when the CFO prioritizes providing insights to all different stakeholders within the organization. "I started giving financial overviews to different departments, not just around the executive table. I'd take different departments through our income statement, balance sheet, and cash flow. I'd say, look, this is the financial result of the decisions we made: we invested here, we didn't spend here. I would do these via conference calls or Zoom. Initially, I thought I'd get 30 or 40 people to dial in, but very quickly I had 800 employees from all over the world."

According to Ramos, the idea of bringing additional stakeholders along on the finance ride is key, not only to the growth of the function but to the fortunes of the organization.

"I think it's going to be very important to democratize the detailed drivers of the business so that all of the people looking at the data understand the decisions at play and how to make them. That's what really impacts the bottom line and that's what really makes the CFO play a key role in the strategy and outcomes of the organization."

Embracing New Talent Paradigms

Beyond tech and interdepartmental relationships, a number of CFO respondents focused on how "talent strategy" would be critical to future CFO value creation. That strategy has never been more relevant than now, in the COVID-19 economy, as the nature and expectations of how people work, and from where they work, have changed dramatically.

Ingram argued the importance of embracing those changes in the search for tomorrow's talent: "I think it's not going to be an all or nothing model in regard to working from the office or working from home. I envision a hub scenario: you'll have a centralized office, but the employees will hub and spoke back and forth from home to the office to get what they need to be able to do their jobs. It's a very different model than the fixed locations where we have planted people up until now. It's a different cultural model and for the CFO, it's a different financial model."

Preparing for the Next Black Swan

If 2020 has taught us anything it's the certainty of uncertainty. Given the expectation of more perfect storms and business disruptions, the question is, how can the CFO of the future best navigate a company through the unknown?

"In a word," said Ingram, "Cash. I'm a big believer in cash on the balance sheet. If you have a rock-solid balance sheet, it buys you time to understand the new market landscape and respond effectively."

And while cash is king, we would argue that, across all of our clients, those CFOs that were best able to weather this storm are the very same CFOs who really represent the future of the function. They are the ones who are close to the data. They are the CFOs who, because of that visibility and proximity, were able to quickly extrapolate changes in customer behavior, were able to monitor leading indicators in real-time, and were able to immediately offer viable alternatives for organizational cost structure.

These data-literate CFOs were the ones who were ready for this crisis. They will be the CFOs who can best navigate the next inevitable one. And, they are the current finance function leaders that best represent the CFO of tomorrow, today. CFO

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Courtesy of the author

What’s the Right Way to Return to the Workplace?

Just as you have fire drills, we suggest practicing your organization’s response to, for example, news that one of your employees has contracted COVID-19.

By Saul B. Helman, MD, and David Berger

During the COVID-19 crisis, it’s tempting to focus on immediate challenges and sort everything else out later. ¶ Organizations can try to muddle through and survive today’s immediate challenges. However, if companies, schools, and other groups don’t identify their long-term goals and how to achieve them, they risk getting trapped in a deadly cycle of constant crisis and, eventually, obsolescence or worse.

Here are six tips we’re giving our clients to get their returns to the workplace right.

Identify Your Ultimate Goal

Returning to the workplace isn’t a long-term goal. Adapting or transforming your organization to thrive, not just survive, under radically different conditions is. That means answering tough questions about how to reinvent your business and re-engage with customers for success in a new environment.

Returning to the classroom, for example, isn’t an end-goal. Providing a quality education, attracting and retaining good teachers, increasing enrollment, and keeping everyone safe are the real goals. COVID-19 is the crisis today, but epidemiologists agree that new epidemics and pandemics are inevitable and likely to surface more frequently.

Win Every Referendum

Employees, candidates, customers, prospects, investors, and the media vote on your management every day. In normal times, it may be easier to bounce back from an occasional thumbs down. That’s no longer the case.

You may not know how much support you’ve lost among employees, especially those who can’t work from home, until the crisis eases and they vote with their feet. If you fail to earn the trust and confidence of stakeholders, you won’t get their full support for measures to blunt contagion risk and they’ll abandon you for competitors who can. Now is a historic opportunity to foment stronger ties with all stakeholders.

Avoid Echo Chambers

You’ll need to conduct a comprehensive risk review and create a “to-do” list, but you also should get a gut check from experts and other stakeholders who aren’t on your management team because you undoubtedly will have missed something.

We’ve seen well-run organizations thoughtfully restructure office floor space to create a socially-distanced workplace and still overlook, for example, airflow and HVAC systems. The risk of transmitting the virus via aerosols can increase without return air ventilation, especially in any room without the mechanism for air exchange. A similar concern exists for high-flow power flushing toilets, hand dryers, and air scent diffusers in employee bathrooms.

Be Flexible

If you proactively adjust vacation, personal leave, healthcare, work-from-home, and other HR policies, procedures, and benefits to the reality of life during this pandemic, your employees will be flexible too. They’ll also tell job candidates. The same goes for your customers.

Industrial behemoth Siemens,

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which already knew from surveys that its employees wanted greater flexibility, learned from the pandemic that "working independently of a fixed location offers many advantages and is possible on a much wider scale than originally thought." In September the company announced that more than 100,000 employees could work from home two or three days a week on a permanent basis.

Train, Practice, Review, Repeat

How do you get to Carnegie Hall? Practice, as the old joke goes.

When you launch a new product, you train, practice, review, and repeat new steps to iron out unanticipated kinks and keep everyone moving in the same direction. The same applies to planning for a return to the workplace.

Just as you have fire drills, we suggest practicing your organization's response to, for example, news that one of your employees believes she has COVID-19.

Will you confirm the infection? How? What if it takes too long to get test results? Who will contact trace? How and when will you share this information with other employees, clients, neighboring businesses, and public health officials? Should other employees be tested or quarantined? What if the media calls?

Don't Throw Away Your Shot

As with Alexander Hamilton and Aaron Burr during the American Revolution, all of your competitors and peers are facing the same crisis you are. The pandemic presents a rare opportunity for a broad range of organizations to pivot to new strategies.

Consider the cruise line industry, which struggled to manage infectious disease outbreaks long before COVID-19. Last month Royal Caribbean Group and Norwegian Cruise Line Holdings created the "Healthy Sail Panel" to address the pandemic. If done properly, the industry could demonstrate and reinforce its leadership by providing one of the world's safest leisure environments.


Saul B. Helman, MD


David Berger

The COVID-19 pandemic is one of the biggest challenges ever faced by most organizations. It's also one of the greatest opportunities to make meaningful long-term change.

Dr. Helman and David Berger are the practice leader and director, respectively, of the life sciences group at global consulting firm Guidehouse.

Health Benefit Costs Seen Rising 8.1% in 2021

The coronavirus had a major impact on slowing medical cost growth this year but the trend is expected to be short-lived.

Employer-sponsored health care benefit costs are expected to increase more than 8% globally next year as workers get treatment they had deferred due to the coronavirus pandemic, according to a Willis Towers Watson report.

Amid the pandemic, the consulting firm's 2021 Global Medical Trends Survey found medical insurers project growth in benefit costs will slow this year to 5.9% after a 7.2% gain in 2019.

But for 2021, they forecast 8.1% growth, with North America gaining 7.1% after a 2.8% increase in 2020.

The study also found that 67% of respondents expect medical costs will continue to accelerate over the next three years.

"The pandemic undoubtedly had a major impact on slowing trend increases this year as it sparked a sharp decline in non-urgent surgeries and elective care," Francis Coleman, a managing director at Willis Towers, said. "While most, but not all, countries experienced a decrease in trend this year, that is expected to be short-lived."

He added that Willis Towers expects to see "significant volatility in 2021 results, which are dependent on the impact of COVID-19 and whether a vaccine becomes available early in the year, who pays for it, and the extent of its availability."

According to the survey, cancer (80%), cardiovascular diseases (56%), and conditions affecting musculoskeletal and connective tissue (41%) are the top three conditions currently affecting medical costs.

But four in 10 respondents also predicted mental health conditions will be among the three most common conditions affecting costs within the next 18 months.

Regionally, Latin America, excluding Venezuela, is expected to see the biggest gain in costs next year (13.6%).

"Further uncertainty around medical trend lies ahead as we start to see the true impact of delayed treatment in 2020 and the long-term effects on those who contracted COVID-19," said Emma Tekstra, another Willis Towers managing director.

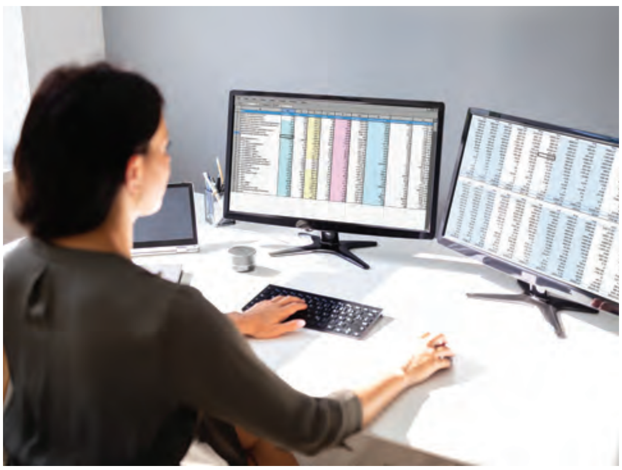
She noted that COVID-19 "has greatly accelerated the adoption and use of telehealth, which could help to offset those potential higher costs and provide a more efficient way for insureds to access and use health care in the future." | **MATTHEW HELLER**

Top: Courtesy of the authors; Bottom: Getty images

Crafting Realistic, On-Time Budgets

Use these three strategies for a faster, stronger, and more realistic budget.
By Perry D. Wiggins

Reviewing and editing draft after draft of your budget is time consuming, frustrating, and may even risk disengagement from your stakeholders. Reviewing the three practices below will help companies get it done more quickly and with a better final product. ¶ As a CFO, the ideal number of budget iterations I would seek is three to four. The first iteration is a preliminary version, while the next two to three come after successive rounds of collaborative meetings in which stakeholders get on the same page, review, and fine-tune the numbers. This ideal is consistent with APQC's Open Standards Benchmarking database in planning and management accounting, where we find that that top performers produce four budget versions or less before final approval.



After that fourth version of the budget, people become more likely to bake in whatever numbers they think will make you or other executives happy just to finish the work. That's the last thing you want. Budget numbers should be realistic, achievable, and produced with a collaborative eye to driving better results for the business. Bottom performers, which produce eight or more versions of the budget before final approval, are at much higher risk for the kind of disengagement that leads to unrealistic and inaccurate budgets.

Wait for More Data and Insight

Starting the budget too early is one of the most common causes of a painful and frustrating budget process. The amount of time it takes to build the budget can vary based on the size and complexity of your company, but a longer planning cycle requires you to predict events that may still be too far in the future. If you start too early, any assumptions you may have started with may be out of date by the time the budget is issued.

This year my organization started the budgeting process in October, about 40 days after our usual start time in August, because we were trying to take in as much information as we could about what 2020 has been like. Starting earlier would have likely required us to go back to the drawing board multiple times.

Transparency and Collaboration

Long before a company starts building a budget, everyone who has a stake in the process needs to come to a common understanding of reasonable and achievable stretch goals for the next year. Transparency and open, clear communication provide a foundation for the kind of iterative, collaborative budgeting that accomplishes a final draft in fewer rounds.

Leaders can sometimes have a goal in mind for a given business unit that is wildly different from what business unit leaders see as achievable, or hold back details that are important for a realistic budget. Events like strategic planning meetings and budgeting kickoff sessions provide opportunities to work for buy-in through open discussion so that ultimately, stakeholders can take a feasible set of stretch goals back to their department, location, region, or business unit to help shape their budgets.

Just as executives should be transparent with management and other stakeholders, transparency needs to flow upwards to executives and horizontally to other business units as well. If a manager creates a budget within her own silo, she might be confident that her team can deliver on its goals, but that doesn't account for the workflows or other efforts that support that silo. Without interdepartmental

Getty images

negotiation and information-sharing, you can count on multiple rounds of edits and a more lengthy, intensive budgeting process.

Get Your Data House in Order

Even the most transparent and collaborative budgeting process can be hampered by poor data practices. With so many hands shaping the budget, it's critical to standardize the data and the processes that support it. Cloud-based tools can help you avoid multiple versions of the truth and the errors that come with them. Many of these tools

Perry D. Wiggins

update the data in real time, which helps everyone to see the immediate impact of budget changes and inputs made at the unit level or department level. If these tools aren't available for your organization, make sure that you at least have governance with strict version control in place.

Crafting your company's annual budget is a time and labor-intensive endeavor. So far, 2020 has only offered complications that will make it even more difficult for some companies. Proper timing, collaboration, transparency, and strong data governance will help ensure that your budget is done with fewer iterations and reflects a realistic set of assumptions, goals, and expectations for 2021.

Perry D. Wiggins, CPA, is CFO, secretary, and treasurer for APQC, a nonprofit benchmarking and best practices research organization.

The High Costs of An Inefficient Data Strategy

There is a price to operating in the data-driven world: time, money, and risk.

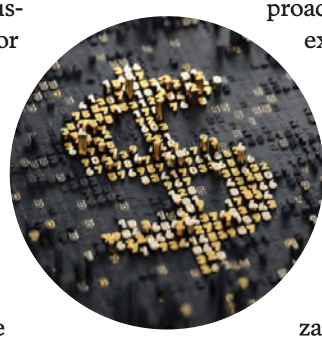
As a CFO or head of finance charged with the go/no-go decisions on a given project, it's imperative to review the associated costs within a standard data project use case.

For example, suppose your marketing team has put forward a proposal for a large ad campaign with the potential for steady revenue. But some of the costs are not immediately clear. You've been asked to help evaluate the decision to forge ahead. Given that data strategies tend to be inefficient, your first area to explore is reducing resource-waste related to time. Who will be researching the data needed and where to locate it? A dedicated resource collating the data requirements for the project and then vetting suppliers to procure it is time-consuming.

Once the supply has been identified there is the effort it takes to build out the infrastructure required to ingest the data. This usually takes the form of connecting systems via application programming interfaces. Doing so securely will require engineering expertise and technology setup.

After the teams have connected the pipes, the data analysts begin receiving and processing large, unstructured data sets. With the status quo, there isn't much in the way of flexibility or agility with data. You get bulk data ingestion which needs to be sorted through to find and make sense of the relevant items. The inflexibility of buying data, i.e., turning on a full firehose of data with no ability to control what comes through, is another relic of an outmoded data broker ecosystem designed to fit only those companies that can afford it. What this invariably leads to is unusable (or unuseful) data for which you likely paid a pretty penny.

But you're not done yet.



There are other costs lurking in the shadows. Money is likely the most obvious factor in deciding to take on a project from a finance perspective, but it's still worth reviewing the various sources of strain on the wallet. Maximizing unit economics around customer acquisition costs tops the list. While the direct costs related to acquiring a customer are sales and marketing related, for data projects the net is cast even wider to include the time- and resource-related factors in servicing the client properly.

Indirectly, you're including the hours of labor to achieve the infrastructure and insights required to complete the project. Certainly, finance leaders are aware that cash is king at any company, so reducing cash outflows on projects that require large budgets due to resource-related inefficiencies (waste) is an important consideration.

The analysis around data costs culminates in the need for a risk mitigation strategy for your data. Rules and regulations regarding data use and privacy are continuously evolving, and any data strategy that is not diligent in its approach to data governance risks exposure to incurring substantial future costs through fines, legal challenges, and loss of customer trust or goodwill.

Establishing control over data management and ensuring security at both the data and organizational levels will reduce the need for expensive corrective actions down the line. Because the rules around data are evolving, maintaining compliance and good data governance are key to staying ahead of changes that could have a financial impact on your organization.

Yasmin Siddiqui is vice president of finance at data streaming platform Narrative I/O.

Top: Courtesy of the author; Bottom: Getty images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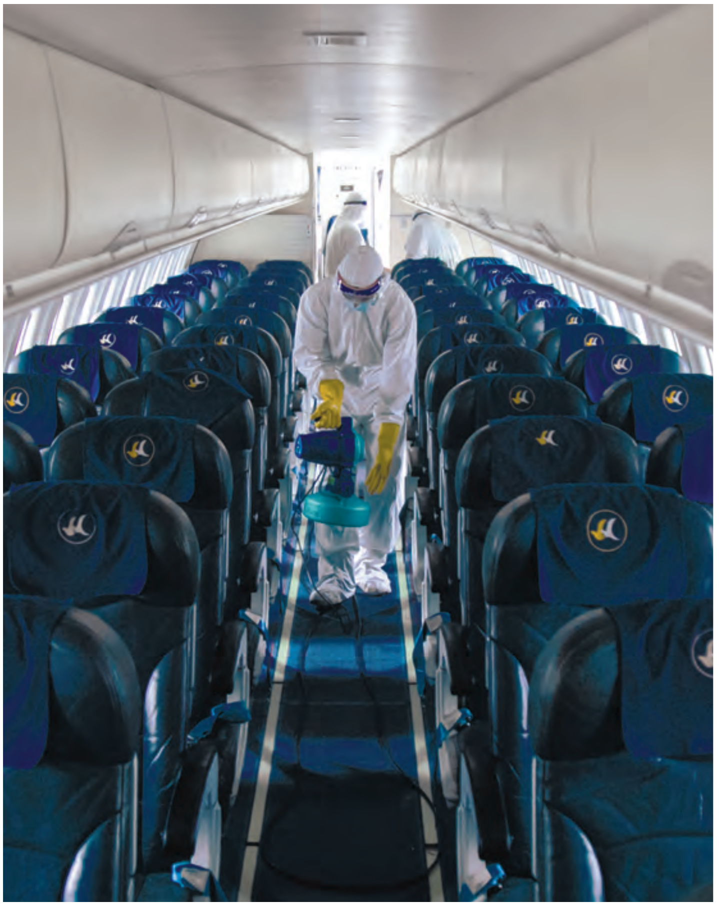
Social distancing standards
To support social distancing and for everyone's safety, please allow 6 feet between yourself and others.

PROFILES IN RESILIENCE

Although the pandemic nearly crushed their industries, these companies are finding ways to thrive.

BY RUSS BANHAM



Aimbridge Hospitality's worst-case scenario in its planning for "black swan" events used to be 9/11. "Nobody traveled. Our revenues went down 17% to 22% the following two years. We built plans around that scenario," recalls Judy Hendrick, CFO of the hotel management firm whose brands include Marriott, Hilton, and Hyatt.

Then came COVID. "Nobody had ever seen anything like this," Hendrick says. "We were shell-shocked."

Aimbridge is not alone in its reaction as the pandemic has ravaged companies in the hotel, restaurant, and retail sectors. According to the American Hotel and Lodging Association, hotel occupancy rates have fallen further than in the Great Depression. Lodging facilities from economy hotels to pricey spa resorts are feeling the impact. For retail, Moody's Investors Service predicts the industry's total operating income will fall by 15% this year. Forecasting the future appears to be an exercise in futility.

"CFO decisions regarding mergers and acquisitions, working capital, budget allocations, and the like require visibility into medium and longer-term results. But in sectors like hotels, restaurants, and specialty retail stores, this visibility is limited to nonexistent," says Alex Miller, the U.S. and global head of strategy at KPMG.

But amid the gloom, shards of light are peeking through as some companies

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and their CFOs take the pandemic as an opportunity to reevaluate tried and true business models and embrace innovation. Examples include Aimbridge, which is looking into managing non-hotel properties; Now Optics, an eyeglass retailer that has invested in telemedicine; and Anthony's Coal Fired Pizza, a restaurant chain doubling down on digital.

"The most resilient companies in the sectors hit hardest by the pandemic share an ability to shift and adapt rapidly to emerging tailwinds, reallocating capital quickly to capture this momentum," says Andy West, global co-leader of the M&A practice at McKinsey & Co.

Sums up Bill Casey, EY Americas vice chair of strategy: "The path to recovery in these sectors involves rethinking what you are, what you do, and who you serve to generate new income streams."

Reimagining Hospitality

Private equity-backed Aimbridge is a hotel management behemoth, having acquired its largest competitor, Interstate Hotels & Resorts, in 2019 for $1 billion.

According to CFO Hendrick, annual revenue exceeds $10 billion. But with the pandemic, sales plunged 86%. "We've gone down several paths in weathering the crisis, beginning with telling our investors and lenders that we do not fear downturns; during such times, we have an opportunity to gain market share," Hendrick says.

In one innovative move, the CFO recently invested in a state-of-the-art procurement platform to reduce food, beverage, fixtures, landscaping services, and other traditional hotel expenses. "We have the purchasing power ... to extract significant volume-based savings," she notes.

Another change involves fragmenting operations across eight verticals, each one a specific kind of hotel enterprise, such as economy, resort, five-star, and corporate hotels. Each vertical will have a separate full-service leadership team consisting of operations, sales, marketing, and revenue management staff trained in that segment's business nuances.

Hendrick's most out-of-the-box idea is to offer Aimbridge's expertise in property management to adjacent industries. Those include senior living centers, student housing, multifamily communities, and even automotive service chains.

"Our hotel owners and investors believe it's natural for Aimbridge to move into senior living, which has no professional third-party management," she explains. "If we go in that direction, we could use hotel properties to accommodate [an adjacent] business. We've reinvented hotel operations. Why not do the same for other industries?"

"Our hotel owners and investors believe it's natural for Aimbridge to move into senior living, which has no professional third-party management."

—Judy Hendrick, CFO, Aimbridge Hospitality

"We were able to promote a low-touch interaction that kept the lights on initially and then spurred dramatic growth."

—Bill Aurilio, CFO, Now Optics

EY's Casey endorses the strategy. "Step one for hotels is to repurpose their physical assets and entertain adjacent business opportunities," he says. "I can see value in hotels serving business travelers by offering long-term leases on empty rooms as an executive pied-à-terre, saving corporations from having to rent apartments in cities like New York and San Francisco."

For his part, McKinsey's West suggests that with many companies expected to shift toward a hybrid physical-remote workspace, "perhaps some floors of a hotel can be set aside for flexible shared workspaces. Hotels need a strategy to make ends meet until the core business comes back."

Retail Reimaginations

COVID-19 eradicated months of revenues for "nonessential" retailers, according to a late August report by Moody's Investors Service, which posited a 25% to 35% plunge in total operating income in 2020. Due to a surge in online shopping trends, Moody's analysts project that mall store footprints could shrink by 20% in the next five years.

But essential businesses have had their challenges, too. Now Optics is the country's largest independently owned retail optical chain, with 150 company-owned stores and 30 stores at brand franchises like My EyeLab and Stanton Optical.

Although it is an essential business immune to state lockdowns, a sharp decrease in customers in March forced the closure of more than 70 stores, causing revenues to "screech to almost zero," says CFO Bill Aurilio. "We're a fast-growing midsize company, but we don't have access to a billion-dollar line of credit. What we do have is an entrepreneurial mindset."

That mindset guided Aurilio in 2017 to invest in a telemedicine solution to provide remote care to patients. Rather than employ an optometrist at each store location, Now Optics developed proprietary software that enables an off-site optometrist to conduct remote eye examinations.

Doctors are paid a fee for each exam conducted, reducing overall labor expenses. "It typically costs between $50,000 and $75,000 annually to employ an optometrist at a store, compared with less than $25,000 to install the new equipment," Aurilio says.

The investment in telemedicine is paying off during the pandemic by limiting physical contact between people. Without it, Now Optics could have been devastated. "The 40% of the stores we shut down were those without the telemedicine offering," Aurilio says. The remainder stayed open to provide eyeglass examinations, its primary business and most profitable enterprise.

Aurilio also renegotiated lease contracts with its landlords to successfully defer a percentage of rent obligations. He applied for a Payroll Protection Program loan, qualifying for the financial relief in April.

"While our competitors were closing all their locations, we kept most of ours open for business," Aurilio says. "We were able to promote a low-touch interaction that kept the lights on initially and then spurred dramatic growth." May and June were the best months in the company's history for sales and profitability, with franchise locations posting 50% growth in comparable sales, year-over-year, across the chain, according to Aurilio.

Aurilio is setting aside capital to provide remote examinations at all Now Optics' stores and expanding through agreements with six existing franchisees to add another 38 locations. "It amazes me when I look back to the middle of March that I wondered if I had just received my last paycheck," he marvels. "By June, we were in turnaround mode, and now we're in growth mode."

Regaining Altitude

A similar story is unfolding at Red Wing Shoe, the work, safety, and lifestyle footwear brand founded in 1905 to serve workers in the logging, mining, and farming industries. It now sells its iconic shoes at more than 500 U.S. stores and

Consolidation Coming?

Distressed targets offer M&A opportunities, but economic uncertainty is causing many buyers to be cautious.

Retail & Consumer

The retail & consumer sector in the Americas saw muted deal activity in the second quarter; however, deal values and deal volumes rebounded in the third quarter by 47% and 17%, respectively. Overall year-over-year deal activity remains lower as deal values declined by 1% and deal volumes declined by 34%. The pandemic has forced the retail landscape to shift as more consumers are increasingly spending through e-commerce channels, which now constitute 16% of all retail sales. Retailers are forced to increase costs from servicing lower-margin online sales as the sector suffers from prevailing distress despite slight growth recently.

Hotels, Motels, and Lodging

COVID-19 impacted the hotel industry particularly hard. With hotels temporarily closing, cutting salaries, furloughing employees, and borrowing money, even global chains like the Hilton were forced to optimize their costs during this crisis.

In the Americas, the third quarter numbers signaled a rebound from the second quarter as deal values saw a 116% increase. However, the volume of deals made still declined by 75%. Compared with 2019 levels, deal values are 30% higher; however, deal volumes still remain suppressed at 95% below the third quarter a year ago. With no signal of a second stimulus bill, hotel lobbyists continue to ask for another relief package to sustain services across the country. As a consequence, expectations for deal activity growth should remain measured in this sector until normal travel patterns resume.

Restaurants

The restaurant industry has been severely impacted by the extended lockdowns and resurging virus. Within the Americas, during the third quarter the industry saw a decline in deal value of 92% quarter-on-quarter and 98% year-over-year. The suppressed deal activity demonstrates the lack of resilience in such a highly fragmented sector, in which independent individuals own and operate a large share of the businesses. The potential $120 billion stimulus relief for restaurants in the United States as a part of the new stimulus proposal has been stalled.

BILL CASEY, *vice chair of strategy, EY Americas* in 100 countries. In March, CFO Ralph Balestriere planned for a worst-case scenario of a 55% revenue decline in the second quarter and a 25% decline for all of 2020. "Fortunately, we did much better than that," he says.

Although Red Wing's stores, tannery, and two manufacturing sites were closed from mid-April to mid-June, online orders with curbside pickup kept the cash register ringing. The stores' locations in strip malls with adjacent parking minimized the social interactions that might be risky at stores in large indoor malls. "Our e-commerce business grew 80% during the shutdown," Balestriere says.

"We're completely digitizing the buying experience, something our competitors in the industrial space aren't doing."

—Ralph Balestriere, CFO, Red Wing Shoe

Nevertheless, the going was tough. Demand from the oil industry, a significant market, and Red Wing's lifestyle shoes and accessories brand Heritage hit a wall. According to Balestriere, the company's fashion business is down 25% this year "since most people working remotely at home are not dressing up." Demand for its recreational line of shoes has also fallen significantly.

To preserve cash, Red Wing has managed inventory downward by 18%, or $30 million; curtailed new styles; furloughed nearly half the workforce; negotiated rent deferments with landlords; and renegotiated payment terms with key vendors. As a failsafe, Balestriere put together an agreement for an additional layer of capital on top of a revolving line of credit. It turned out the money wasn't needed as, when Red Wing stores reopened in mid-June, pent-up demand for products exploded, increasing 13%, year-over-year, in the following months. "We'll be cash positive for the year," Balestriere predicts.

Looking ahead, Red Wing is undergoing a digital transformation into what Balestriere calls a B2B2C (business-to-business-to-consumer) enterprise. Previously, industrial customers like Waste Management were given paper vouchers for their employees to buy work shoes at Red Wing's physical stores. The vouchers are now digitized.

"We're completely digitizing the buying experience, something our competitors in the industrial space aren't doing," Balestriere says, adding, "We're committed to reinventing demand marketing as a digital strategy."

Eating Out and In

The restaurant business is littered with bankrupt chains now, including Chuck E. Cheese, Ruby Tuesday, Sizzler, and California Pizza Kitchen. But still going strong is Anthony's Coal Fired Pizza, a network of 60 high-end pizza restaurants across eight states. The company's CFO, Patrick Renna, previously led finance at burger and bar chain Wahlburgers and Mexican fast-casual dining chain Boloco. "There's no question the pandemic hurt us, with revenues falling 40% back in March, but we've bounced back to where we're at nearly 80% of pre-COVID revenue," he says.

Anthony's has benefited from a combination of pre- and post-COVID decisions to refine its operating model, invest in its e-commerce offering, emphasize off-premise outdoor dining, and expand third-party customer delivery services.

When the pandemic erupted, the company adapted quickly, reducing the menu from 32 to 17 items. "It helped maximize profit yields by reducing our capital expenditures in areas like labor and the number of specialty food vendors we do business with," Renna explains. "Fewer suppliers give us more buying clout to reduce pricing."

Before the pandemic, the chain had refined its operating model to focus more on outdoor dining. "Our restaurants are relatively small boxes with decent-size [outdoor] dining, so we capitalized on that, making sure tables were appropriately separated to comply with social distancing rules," says Renna. "During the summer months and early fall, we were able to draw back many customers to dine outside."

The alfresco dining option should remain robust in warmer states like Florida, where Anthony's has 28 of its restaurants. In chillier climes such as New York, Massachusetts, and Pennsylvania, the chain has enhanced its online ordering digital infrastructure and provides contactless curbside pickup services. All locations are now open for patrons indoors and outside, weather permitting. Renna is considering adding more restaurants to the chain, including sites formerly occupied by devastated chains.

"With all the bankruptcies and closings, we're preparing for what looks like a once-in-a-lifetime opportunity."

—Patrick Renna, CFO, Anthony's Coal Fired Pizza

"It's something we're looking at very closely at in our core markets, especially in Florida, where we can manage growth better than in the Northeast," he says. "With all the bankruptcies and closings, we're preparing for what looks like a once-in-a-lifetime opportunity." CFO

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.

WHEN OPPORTUNITY KNOCKS:

Dealing With Recruiters

Think calls from recruiters are a waste of time? Here's how to make the most of these career connections.

Executive recruiters looking to fill client C-suite positions in various industries are on the hunt for top talent, especially for CFO slots.

One day this summer, Mike Laureno, the new CFO of SiteSpect, a platform for web and mobile marketers, got six LinkedIn connection requests from recruiters. "Almost the minute I switched the recruiter button to 'open' on LinkedIn, my inbox started blowing up," he says.

Whether you're actively looking for a position or locked in where you are, it's likely that executive recruiters (also called "head hunters") will contact you. They say that it's a numbers game as they search for the right fit, both culturally and

BY SANDRA BECKWITH

Getty Images

Dealing With Recruiters

skill-wise, for open C-suite and board of director jobs. "It's the fit that's the most important part of this process," says Steve Mandell, executive relationship leader at Anchin Executive Network.

Because CFOs are likely to continue to see a barrage of connection requests next year (see "A Seller's Market in 2021?", page 39), we gathered some bits of wisdom from recruiters and CFOs. Whether you've solicited the recruiter or not, and whether you're happy in your job or not, these tips can help you make the most of contacts with and inquiries by recruitment firms.

1 Know who you are and where you want to go.

Without this self-awareness, conversations with recruiters will be less productive. "Recruiters need to know your motivations, what you're looking for, who you are, and what you've done," says finance chief Bernard Huger. Recruiters placed Huger, the CFO of access management software provider OneLogin, in two previous positions. "What size company do you want, what specifics are important, what do you need for compensation?" adds Laureno.

Alyse Bodine, a partner at Heidrick & Struggles, stresses the importance of the CFO understanding what kind of environment he or she needs to do their best work. "Part of our job is to assess not only technical capabilities but also culture compatibility. Where will the executive thrive? That's when the magic happens."

During the first conversation with a candidate, Ed Montoya, a partner at recruiting firm Calibre One, is more interested in learning about the executive's background and aspirations than in talking about current projects.

"I'll often ask, 'Where do you sit today? Where do you want to be in three to five years?' It's more about getting to know if they're intentional about their career, or so busy they don't have time to think about it."

When you have clarity about your career's direction, you can work with a recruiter to identify gaps that need addressing. Sometimes, says Robert Bendetti, CFO of Life Cycle Engineering, the difference between top candidates for a position is so narrow that even the smallest differentiator matters. "A little change in education, experience, or exposure can be the tiebreaker," he says.

2 Vet the recruiter.

As with any profession, some recruiters are more skilled than others. Whether they're getting in touch simply to expand their network or filling a client position, many recruiters reach CFOs initially through email. For the CFO emailed out of the blue, that's where the vetting process begins.

"Was it an automated email that went out to 150 people or one where the recruiter is familiar with the specific candidate's background as well as the job requirements?" asks Calibre One's Montoya. "A legitimate email is much shorter when it's for a job tailored to my experience," adds finance chief Bendetti. "They've dropped hints about the industry or my situational experience."

In addition to stressing the importance of messages targeted to the specific candidate, Deepak Shukla, CFO and founder of search engine optimization agency Pearl Lemon, recommends examining the packaging of outreach email messages.

"Pay attention to the quality—how personalized is it, does it use a consistent font size and color, is there a professional email signature, and does the message come from a domain name address?" he asks.

"Recruiters need to know your motivations, what you're looking for, who you are, and what you've done."

—Bernard Huger, CFO, OneLogin

If the email message passes the sniff test, most CFOs and experts recommend investigating the company further on LinkedIn and its website. "I look at the parent company and the type of work they do. For example, I've worked in the nonprofit sector for my entire career, so it's important that they do a lot of work there," says Kevin Noel, CFO of Northeast Treatment Centers, a provider of rehab and mental health services.

For some executives, a favorable report on a recruiting firm, online or from an acquaintance, is enough. Others, though, want to vet the individual recruiter, too. Heidrick & Struggles' Bodine recommends taking that extra step. "Make sure the recruiter would be working on assignments relevant to your background and career aspirations," she says, noting that many specialize.

3 Take the call.

If you're looking for a change, you already know that it's wise to begin the conversation with recruiters, even if the specific position being floated isn't the one you covet. But what if you're not looking for a new role? Most agree there are good reasons to talk to a qualified recruiter anyway. It's about long-term relationship-building.

"It's short-sighted to say, 'I don't need a different position now, so there's no value in talking to a recruiter,'" says CFO Shukla. That's why he recommends scheduling time for 15-minute networking calls every week. "You can't predict what's going to happen down the line," he adds.

Recruiter Bodine agrees, noting: "Companies get

> **“It's short-sighted to say, 'I don't need a different position now, so there's no value in talking to a recruiter.'”**
>
> **—Deepak Shukla,** CFO, Pearl Lemon

acquired all the time, leaving room for just one CFO, not two. If you have an established relationship with a firm that knows you, you have a head start.”

That willingness to talk when there’s no opportunity on the table applies to recruiters, too. “What differentiates a great recruiter is the time they invest when they don’t have an opportunity open,” says Mandell. In addition, while a position might not appeal to a particular CFO, it could be a good match for someone he or she knows. “There’s probably somebody in every network looking for a position,” says Bendetti of Life Cycle Engineering.

4 See yourself as a brand.

From the recruiter’s perspective, personal branding involves how an executive handles themselves in conversations and what information is discovered through online searches. “I’m astonished that some executives have no LinkedIn or social media presence,” says Montoya, adding that recruiters can help craft an appropriate LinkedIn profile.

Bendetti recommends improving your visibility by writing, speaking, and volunteering within your field or industry. LinkedIn’s publishing platform, for example, allows users to establish themselves as thought leaders.

CFO Job Seekers:

A Seller’s Market in 2021?

Fortune 500 companies are having a tough time finding replacement CFOs.

According to two executives from recruiting firm Spencer Stuart, the challenge of finding experienced external CFO candidates may only increase in the wake of the COVID-19 pandemic. On the one hand, remote work arrangements might attract candidates not interested in relocating, but on the other, some CFOs may choose to “bow out following one of the most tumultuous years on record.”

There’s not a huge pool to draw from to run large companies.

Spencer Stuart research on the market found that only 61 of the Fortune 500 CFOs (12%) in 2019 previously held the position at another Fortune 500 company. One of the reasons is that only 4% of outgoing finance chiefs in 2019 took a CFO job at another Fortune 500 company.

According to a blog post by Tricia B. Clifford and Karen D. Quint of Spencer Stuart, “Looking Ahead to Your Next Fortune 500 CFO?,” a key reason the lateral move to another company is so rare is that successful CFOs are often looking upward for their next gig. An outside opportunity to be finance chief of another company has to offer something better, like a more strategic role, a path to being CEO, or a much larger finance organization in a larger company.

> **About 20% of the outgoing CFOs in the Fortune 500 in 2019 was promoted to CEO or general management when they left.**

About 20% of the outgoing CFOs in the Fortune 500 in 2019 was promoted to CEO or general management when they left.

“Attractive and lucrative opportunities have also arisen in the past decade in private equity, where experienced CFOs can take a more operational position without the public scrutiny,” write Clifford and Quint.

From where are Fortune 500 companies drawing their externally sourced CFOs? Of those hired in 2019 with previous experience as a CFO, 76% moved to a larger company. About half (47%) had previously managed a company or division.

Candidates from traditional finance backgrounds like divisional and deputy finance, FP&A, accounting and control, and treasury constitute a large part of the CFO pool. But “it’s clear that strong CFO candidates have profiles that go much wider than mere finance acumen,” say Clifford and Quint.

As executive recruiters often make abundantly clear, skills are only a piece of the puzzle. Say Clifford and Quint: “An external candidate’s interest in and availability for a new CFO role ultimately may simply come down to individual factors that are difficult to pinpoint at a broad scale: a recent empty-nester who’s far from retirement but open to a relocation for the first time in years; a previous CFO who lost the job after a merger; an internal candidate for the CEO job who didn’t get it; or someone in semi-retirement who can’t resist the opportunity for one last challenge.”

Dealing With Recruiters

Branding extends to one-on-one conversations, as well. One of the most undervalued pieces of advice? When talking to a recruiter, it's essential to communicate enthusiasm, says Shukla. "How you say what you say will take you further than anything else."

Be thoughtful about the reasons for career transitions, too. Recruiters want to know about professional challenges or why you are leaving a current position. However, "never get too personal about the reasons for leaving. Job opportunities should be about business decisions," counsels Mandell of the Anchin Executive Network. For example, Mandell would prefer to hear, "From a cultural standpoint, it's not where I envision myself in the future," over complaints about a CEO's difficult personality.

Finally, trust that recruiters can read between the lines. If you choose your words with diplomacy in mind, recruiters will recognize a challenging situation without you having to provide details, says Montoya.

5 Opt for honesty and transparency.

"The most important part of this whole process is the transparency," says Mandell. In a recent conversation Mandell had with a finance chief, the candidate said it bothered him when he didn't hear back after an initial discussion with a recruiter. Mandell advises recruiter colleagues, "Just be honest and say it's not going to work out and why."

A call with a recruiter is also not the time for CFOs to hide their shortcomings. "If there are weaknesses, it's important to understand what they are" and talk about them, says Noel. An honest discussion allows both parties to evaluate whether the position is a good fit.

Laureno, SiteSpect's CFO, says transparency saves everybody time. "If I have a minimum go, no-go [compensation] number, I put that out there right away. If they're describing a position that requires a certain piece of experience, I'll say I don't have that."

There's still a question, though, of how much to share and with whom. Most experts agree that if a head hunter calls about an opportunity, you'll want to adjust the honesty and transparency according to the situation. Do you have a relationship with the recruiter already, or is this the first time you've heard from the person?

Some recruiters advise being careful about disclosures. "It's not always in the best interest of a CFO to disclose everything to a recruiter because my client pays my bill," said Korn Ferry's Barry Toren at the CFO Live conference in 2019. For example, Toren noted, "if you're a candidate for another job or are talking with another recruiter, keep it to yourself."

Be thoughtful about the level of detail you disclose, cautions CFO Huger. Don't share anything confidential or controversial if it's likely that the information will be shared within the recruiting firm or with potential employers, he says.

INVEST THE TIME

Most experts encourage executives to take the time to build relationships with recruiters, whether or not they expect to work with them. "God forbid something happens, you have that fail-safe who knows you, your personality, what you're looking for, and the types of companies you would and wouldn't want to work for," says Mandell.

But don't always take. Give, too. Talk to recruiters when they're looking for industry insights or trends and refer candidates to them. That's what Montoya refers to as a "karma multiplier." It will come back to you when you need it most. CFO

Sandra Beckwith is a freelance business writer.

Three More Tips

A relationship with a recruiter requires patience and honesty.

Ed Montoya, Calibre One

Tell us when you're a candidate for other positions, too.

"You don't lose anything by sharing that you're talking to one or two other companies. It increases your marketability. If people know there's competition and you have specific issues you're comparing, they feel like it's a fair fight."

Steve Mandell, Anchin Executive Network

Relationship-building takes time.

"Be interested in a long-term relationship, not a transactional one. Any time I call someone out of the blue, I expect them to be guarded. They have to trust that they can be transparent with me about certain things, which comes in time. I understand that. Transparency and open dialogue can develop over time."

Alyse Bodine, Heidrick & Struggles

Don't string us along.

"The last thing I want to have happened for the client, the candidate, and I is to go through the process just for the sake of it and learn at the finish line that the candidate was never interested in the job."

CFO

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They're Back

Fueled by piles of capital, special-purpose acquisition companies want to take your company public. But are they the best route to a listing?

By Vincent Ryan

Scott Henry, CFO of Skillz, is a veteran of capital raising and exits. He steered Beats Music through its $3 billion sale to Apple in 2014. A decade before, he saw casino gaming company Las Vegas Sands through a $690 million public listing. But in August, when Henry joined Skillz, a monetization platform for game developers, he jumped headfirst into a different kind of transaction: a special-purpose acquisition company IPO.

SPACs, a kind of "blank check" company, are flooding U.S. equity markets. They raise capital in an initial public offering and use the proceeds to acquire a public-ready operating business not yet identified. Once a SPAC selects a target operating company, that business merges into the SPAC shell company and becomes publicly traded.

For example, Skillz is merging with Flying Eagle Acquisition, the sixth SPAC raised by former MGM CEO Harry Sloan and CBS Entertainment president Jeff Sagansky. The deal is expected to close in the fourth quarter. Though Skillz management had already chosen the SPAC route before Henry joined Skillz, he says the structure offers speed, greater flexibility, and other benefits over a traditional IPO. A SPAC deal, in many ways, is just as akin to a merger as an IPO.

This kind of backdoor IPO transaction "is a faster path to market—three to four months versus the typical six to nine months for a traditional IPO," Henry says (once the SPAC and target have agreed to combine). That means less distraction for the target's management throughout the process.

Skillz has a lot of company. About 175 SPAC vehicles listed this year on U.S. exchanges (as of November 10), compared with 59 in 2019, according to SPACInsider. The average size is $363 million. About 18 of those SPACs have announced the target company they are acquiring. (SPACs have up to two years to find an operating company to buy.) So, there is an enormous amount of raised capital looking for midsize to large companies to purchase.

Numerous factors kicked off the 2020 SPAC revival (the buildup of private capital looking for big returns, choppy equity markets, mixed success for traditional IPOs). The market is getting so heated that big names like Richard Branson, former Congressman Paul Ryan, and Donald Trump adviser Gary Cohn are getting in on the action. However, there are sound reasons why these transactions particularly appeal to some CFOs.

The Advantages

Fewer and fewer management teams are willing to go through the time-intensive process of a traditional S-1 filing. While the filing requirements for a SPAC deal are not trivial, the target doesn't have to disclose historical financials or offer a lengthy list of business risks, according to the Harvard Law School Forum on Corporate Governance.

SPACs also protect the target (somewhat) from the whims of the market. Market volatility and unpredictable investor sentiment affect the pricing of a traditional IPO, according to a Deloitte report, "Private-Company CFO Considerations for SPAC Transactions." A SPAC deal, however, values the target outside the market through negotiations between the SPAC and management. That occurs months before the merger transaction closes and the target company is listed.

Another advantage to SPAC deals, Henry points out, is that the target company can share forward financial projections as part of its regulatory filings. "In a traditional IPO, the internal model is not shared with the investor [and analyst] community; in a SPAC, it is shared."

Also, in a SPAC merger, the target company can devote a large portion of the proceeds from the merger to providing secondary liquidity to early investors. "In a traditional IPO, investors would view that level of secondary proceeds [70%, in the case of Skillz] unfavorably," Henry says.

Getty Images

Finally, as SPACs increase in popularity, and more SPAC money chases target companies, a snowball effect occurs: the cost difference between the SPAC route and the traditional IPO route narrows, says Henry. SPAC targets can now negotiate better terms on warrants and other deal elements. “A lot of that has flattened out,” he says.

Spotty Past

All that may sound ideal for a private company wanting a listed acquisition currency to grow the business and give stakeholders liquidity. But CFOs need to step back and look at the details of these transactions and how the shares of companies that list via SPACs traditionally perform. Not all is wine and roses.

SPAC transactions haven’t rid themselves of a sketchy past. Unscrupulous operators once used shell companies like SPACs as fronts for “pump and dump” scams. And not all SPAC transactions are squeaky clean now either. Nikola Motor reverse-merged with SPAC VectoIQ in June, but by September had received subpoenas from the Department of Justice and the Securities and Exchange Commission about the accuracy of its disclosures.

Additionally, in June 2019, the SEC sued Ability, an Israeli-company that defrauded shareholders of a Florida-based SPAC, Cambridge Capital Acquisition. And in November, health care company MultiPlan became the target of short-seller Muddy Waters, which claims the SPAC model provides “perverse” incentives.

Today, though, many executives feel there is little negative connotation with the term SPAC, says CFO Henry. “A Flying Eagle was a diamond in the rough in the past,” he says. “But today, there are higher caliber sponsors with experience and a proven track record with shareholders.”

The choice of SPAC partner is the critical decision for the target company,

“Today there are higher caliber sponsors with experience and a proven track record with shareholders.”

—Scott Henry, CFO, Skillz

and it’s a decision made early in the process. The transaction team needs to consider the sponsor’s reputation, track record, and knowledge of the target’s industry sector, among other characteristics. “It’s a partner you’re going to live with, not just through the transaction.” Indeed, the SPAC partner often has a seat on the target’s board of directors. For example, Skillz expects Sloan or another executive from Flying Eagle to be on its board.

The SPAC vehicle is intricately tied to the ultimate success of the stock, also. In the initial SPAC listing, investors park their capital for up to two years in exchange for downside protection (redemption rights, if the SPAC fails to find an acquisition target or the investor is unhappy with its choice) and additional upside (warrants), says Louis Lehot of L2 Counsel, a Silicon Valley M&A and securities lawyer.

In return for sourcing an acquisition of an operating company, negotiating the deal, and bringing the target public in a reverse merger, the SPAC sponsor earns some portion of the company’s stock, called “promote” stock, says Lehot. The sponsor promote can amount to about 20% of the total capital raised at IPO. To fund the IPO expenses and working capital, the SPAC sponsor also purchases additional private placement warrants for proceeds representing as much as 6% of the SPAC IPO.

Shifting Shareholders

There are plenty of risks for a target company looking to list via a SPAC, even with the right partners. After an acquisition is proposed, both the SEC and the SPAC’s investors—typically at least 80% of them—must approve it, Lehot says. Stockholders may choose to vote against a target and redeem their shares for cash.

Indeed, these short term and momentum-focused investors represent another hurdle for the operating target. SPAC investors (traditionally hedge and arbitrage funds) are typically different from the growth-oriented investors (pension and 401(k)-type funds) that would invest in a traditional IPO, explains Henry. The so-called “de-SPACing” process (which officially begins after a letter of intent is signed) is about bringing growth-oriented

Into the Pool

This year special-purpose acquisition vehicles have raised more than four times the proceeds they did in 2019.

Year	Number	Gross Proceeds ($M)
2009	1	$36
2010	7	$470
2011	15	$1,081
2012	9	$491
2013	10	$1,447
2014	12	$1,739
2015	20	$3,902
2016	13	$3,499
2017	34	$10,049
2018	46	$10,752
2019	59	$13,600
2020*	175	$63,631

*Through November 10
Source: SPACInsider

Photo courtesy of the company.

investors into the stock.

A way to kick-start the de-SPACing process and draw institutional investors is a private investment in public equity (PIPE) transaction. "The PIPE is a hard forward commitment, very much like how you allocate a book before an IPO," Henry says.

PIPEs can finance a significant portion of the target's acquisition price and provide post-merger operating cash. (The initial SPAC raise rarely covers all of the merger price.) PIPEs also earn the target company validation from respected long-money investors, "so there's a little bit of a branding element to it," Henry says. The PIPE investment for Skillz is $158.5 million and is led by Wellington, Fidelity, Franklin Templeton, and Neuberger Berman.

Performance Problems

Even with a PIPE, capturing long term investors while keeping the stock price up can be tricky. After the reverse-merger's close, the target's shares face immense pressure from stockholders trying to run for the exits, says Lehot. In contrast, in a traditional IPO, only 10% to 20% of the company is sold, and all existing stockholders are locked up for 180 days. "The very limited liquidity pushes up demand," says Lehot.

In contrast, "in a SPAC, there is always a ton of supply of common stock on the market for sale that depresses the stock price," he adds. The supply comes from the 20% SPAC promoter interest and the warrants issued to the purchasers in the initial SPAC IPO.

Renaissance Capital, a provider of IPO exchange-traded funds, found that of the 313 SPACs IPOs since the start of 2015, 93 have completed mergers and taken a company public. Of those, the common shares have delivered an average loss of -9.6% and a median return of -29.1%, compared with the average aftermarket return of 47.1% for traditional IPOs. Only 29 of the SPACS in the group (31.1%) had positive returns as of late September.

Lehot is blunt about whether SPACs are worth the risk. If a company can list via a traditional IPO or find an exit via private equity or a strategic purchase, especially with some management rollover, investors are better served, he says. He calls those routes "eminently preferable."

But SPACs may be here to stay regardless, especially if the stocks of companies that have taken the SPAC route start to perform better.

"Every Wall Street investment bank and law firm is promoting a SPAC conference and making hay while the sun is shining," Lehot says. "Long-term performance and continued availability of capital will be required to prove whether these efforts are a flash fad or a sustainable trend."

For his part, Scott Henry says his opinion of SPACs has become much more favorable: "I think of it as one of the potential tools that the modern-day CFO has as an approach to going public." CFO

Going the SPAC Route

A "backdoor" IPO suits some companies, but not all.

By Louis Lehot

If the pros outweigh the cons, or if the stars are aligning for a business to merge with a publicly-traded SPAC, the following are some essential items to think about before pressing "go."

- Are the SPAC sponsors going to be good long-term partners for the business? Not all SPAC sponsor teams are created equal. While having a great basketball player like LeBron James is worth millions on the court for a sports franchise, do we know if his celebrity will translate into financial success in a non-sports related public company?
- Will there be sufficient post-closing capital to enable growth on a go-forward basis? As noted, shareholders in the SPAC IPO have the right of redemption. If they redeem in too high a percentage, the business will not have sufficient capital to grow. Sometimes, a concurrent private placement of capital into the combined company solves this problem.
- Is your business predictable three to four quarters out, such that you will not shock and disappoint Wall Street once public?
- Is your business ready to build out the internal controls over financial reporting and other governance requirements for a company to withstand public scrutiny and the plaintiffs' bar?
- Will the combined company post-closing provide sufficiently active and large enough trading volume to give liquidity to stakeholders?

CFOs Skeptical About Recovery Before Next Year

On average, finance chiefs anticipate it will take months, if not years, until a full recovery.
By Matthew Heller

U.S. finance executives remain more optimistic about the economy than they were in the spring but very few expect to return to pre-COVID levels of employment and revenue until at least 2021, according to The CFO Survey.

The report, a collaboration of Duke University's Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta, found CFOs' average optimism for the financial prospects of their firms was just above 70 on a scale of 0 to 100 in the third quarter.

When respondents were asked to rate their optimism about the overall U.S. economy, the average rating was 61.

Both readings were roughly in line with those for the second quarter, which showed a rebound after confidence declined with the onset of the coronavirus pandemic.

But despite the increased optimism since the spring, more than 60% of CFOs reported that revenue projections have not recovered to pre-COVID levels and about 40% report lowered employment. Only about one-quarter of those firms, moreover, expected a full revenue or employment recovery by June 2021.

Many CFOs do not see a recovery until 2022 or later.

"The economy is recovering, to be sure, and business confidence has improved since the spring," said Sonya Ravindranath Waddell, a vice president at the Richmond Fed. "But all indicators from The CFO Survey point towards a slow return to normal that is challenging to forecast due to the uncertainty created by this virus."

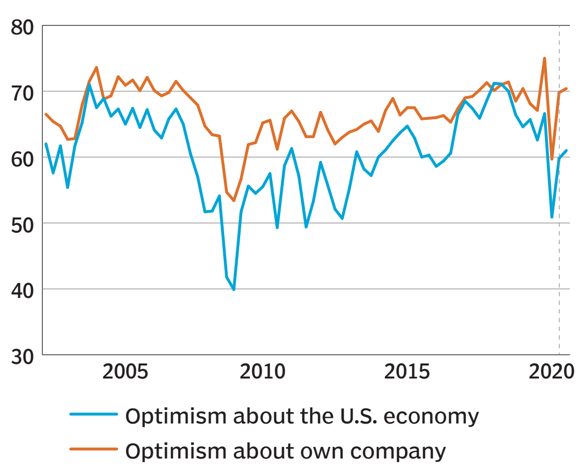
The survey also indicated that firms continue to limit spending and investment, with more than half reporting they either "somewhat" or "significantly" decreased spending in the third quarter, compared to what is typical for the business.

Firms that are abstaining from spending on structures or/and on equipment cited an uncertain environment, no need to expand capacity, and a need to preserve cash.

"Measures of uncertainty remain elevated and we can see that reflected in the decision by many firms not to invest in capital," said Brent Meyer, senior policy adviser at the Atlanta Fed.

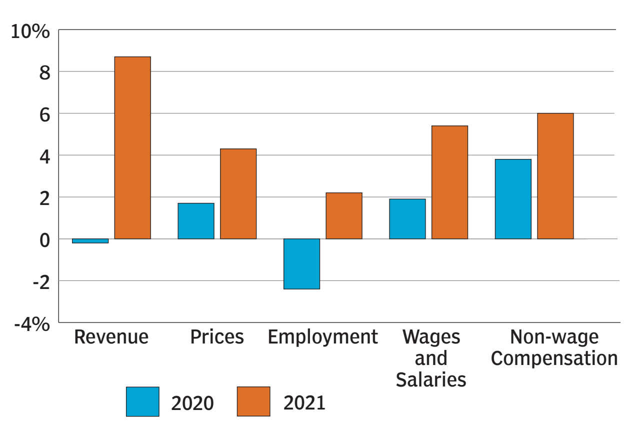
CFOs also anticipated continued slow growth in gross domestic product during the next four quarters, averaging about 2.2%. The most pressing concerns firms cited involved customer demand, sales or revenues, labor availability, the broad health of the economy, and the political climate. CFO

CFO Optimism Level Rises



CFO's Growth Expectations For Own Firms

Expected year-over-year percentage change for calendar years 2020 and 2021.



Source for both charts: Duke University, FRB Atlanta, and FRB Richmond, The CFO Survey

Do You Remember?

The news generated by once-in-100-year crises tends to drown out other events that take place. So it was with 2020, a year filled with stories about the COVID-19 pandemic and its damage to the macroeconomy and businesses. But CFO.com covered plenty of other corporate finance happenings these past 12 months, some pandemic-related, some not. Take our quiz on these stories to see how many you might have already forgotten.

1 Which was the first well-known retail chain to declare bankruptcy in 2020?

A. The Gap
B. Papyrus
C. Friendly's
D. Pier 1

2 Late in 2019, two veteran tech giants got into a skirmish when the smaller one offered to buy the larger one. The deal fell apart in March. Which company was the takeover target?

A. Cisco Systems
B. NCR
C. HP
D. Dell

3 In May, the U.S. Treasury Department did something it hadn't done since 1986. What was it?

A. Boosted the sale of Treasury securities to an all-time high
B. Suspended issuance of 3-year notes
C. Conducted an audit of its IT spending
D. Issued 20-year bonds

4 Two Illinois residents sued Microsoft, Google, and Amazon in July for violating a biometric privacy law. What technology did the case involve?

A. Natural language processing
B. DNA identification
C. Digital fingerprinting
D. Facial recognition systems

5 Which company did NOT announce an acquisition or merger in 2020?

A. Morgan Stanley
B. Palantir Technologies
C. Zoom Video Communications
D. 7-Eleven

6 Which big-name CFO did NOT announce they were leaving their position in 2020?

A. Amy Hood (Microsoft)
B. Paula Price (Macy's)
C. Kelly Kramer (Cisco Systems)
D. Alan Graf (Fedex)

7 As of late November, which company's stock was in negative-return territory for 2020?

A. Microsoft (MSFT)
B. Facebook (FB)
C. Deere & Co. (DE)
D. JPMorgan Chase (JPM)

8 At the beginning of 2020, before the pandemic hit, one closely-watched U.S. economic indicator hit a 10-year low. Which indicator was it?

A. The Institute for Supply Management's manufacturing index
B. The Bureau of Labor Statistics' employment cost index
C. The U.S. Census Bureau's monthly housing starts
D. The BLS' producer price index

Answers: 1-B; 2-C; 3-D; 4-D; 5-B; 6-A; 7-D; 8-A

Getty Images