The Successful CFO in Today’s Environment

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What Do CEO’s Look For From CFO’s?

- CFO’s are considered the voice of sanity, expected to detect and report every new threat on short notice.

- CFO’s need a 360 degree view of financial performance.

- Must have financial analysts embedded in business units to help business decision makers determine how to control costs and allocate resources.
Over the past 15 years CFO’s are seen as strategic business partners, no longer just reporting financial results

- Financial scandals made headlines then as now. Savings and loan crisis replaced with Enron and World Com.
- Off-balance sheet partnership’s are yesterday’s junk bonds.
- China has replaced Japan as the feared Asian competitor.
- Sarbanes Oxley 404 is just a fresh look at the 1987 Treadaway Commission’s COSO recommendations.
Job of the CFO

Controllership:
- Regulatory Requirements
- Financial Operations

Financial Planning:
- Planning and Budgets
- Assist Decision Makers

Financial Systems Integration

Other:
- Treasury & Risk Management
- Internal Audit
- Investors Relations

CFO
Controllership

Closes financial records such as the general ledger and subsidiary ledgers

- Billing and accounts receivable
- Accounts payable
- Payroll
- Fixed assets
- Inventory and cost accounting
- General accounting
- Tax accounting
Controllership

Establishes internal control system
- Works with each process owner to establish accounting policy.
- Works with Internal Audit as well as external auditors.
- Responsible for financial systems to maintain information.

Prepares necessary financial reporting
- Daily, weekly, monthly financial statements or reporting requirements.
- Prepares tax returns for Federal, state or local governments.
- Prepares external Securities and Exchange Commission (SEC) reports or forms.
CFO’s primary role:

• Have knowledge of the Company and its accounting policies. Be a technical accountant that understands areas of business judgment and focuses on helping employees to make good decisions. Also provide a last review of financial statements to ensure that they are accurate and reasonable.

• Responsible for all financial systems. Make sure that data is correct and has a solid audit trail of why the numbers are what they are. Ensure that the work of heavy transactional areas is integrated and automate systems where possible.
Prepares strategic plan

- Provides the basis for the business plan and tracks results over 3-5 years.

- Involves all levels of management including sales, business units and senior management.

- Identifies need for capital expansion, hiring and raising cash.

- Looks at competitive environment and create the Company’s identity of what they want to be and identify core strengths and how to drive business and grow revenue. Consider acquisitions that may be complementary to your business.
Budgeting and Forecasts

- Develop budget from strategic planning process. Budget is usually a 1 year look at the business but provides a lower level of details and planning.

- According to CFO Magazine: 67% of companies still use spreadsheets for budgeting and planning.

Provide analysis for business units:

- Track movement in business to inform decision makers of changes and help managers better understand their business.

- Use financial metrics and dashboards to run the business as they provide critical benchmarks.
CFO’s primary role:

• Reviews operating plan to ensure that the Company is planning the next business growth cycle and has resources ready for the cycles. Consolidate each business unit into overall Company plan. Help identify when cash will be needed for expansion or plan stock repurchase or dividend distribution. Help business managers to better understand their operations from a budget perspective.

• Focus on what matters most and spend less time on irrelevant details. Identify non financial measures to drive business, establish short term targets for measures, establish long-term measures, identify specific projects to achieve targets and report on the progress of projects.

• Align long-range strategies with business priorities and create real deliverables. Prepare strategy 2 times per year and base the plan on operating performance and external factors affecting business.
Treasury and risk management

- Invest excess cash to provide the safest and highest returns for the Company.

- Plan sources and uses of cash to determine whether financing or borrowing may be needed and seek a banker that you trust.

- If you are borrowing money, negotiate loan covenants that make sense and are achievable for your Company.

- Work with insurance brokers to maintain adequate insurance coverage for your business including property insurance, directors and officers insurance and business interruption coverage.
Internal audit

• Engage in-house group to review your internal control system to ensure that it is adequate.

• Develop plan to comply with requirements of Sarbanes Oxley 404 (Sox). Biggest findings in Corporate America: tax related followed by IT. These are areas outside of technical accountants general knowledge.

Investor Relations:

• Meet with sell side analysts to “cover” your Company.

• Tell your company story with a road show presentation to get investors to buy your stock.
Other Opportunities and CFO Projects

- Mergers and acquisitions
- Raising equity
- Career planning for employees

Other considerations for public companies:

- Sarbanes Oxley 404
- Dealing with the SEC
- Dealing with Wall Street
Mergers and Acquisitions

- Business planning identifies opportunities to expand your business by acquiring another company or you may determine to sell a particular business unit. Consider all competitors or complimentary businesses that may provide the Company with synergy or grow revenue opportunities.

- Prepare due diligence to determine if the Company can gain synergies and efficiency by acquiring the other company.

- Seek outside attorneys and investment bankers to evaluate “the deal”.

- Sometimes acquiring another company is faster and cheaper than growing the business yourself.

- Spend adequate time planning the deal. Approximately 25% of all business combinations are ultimately successful!
Raising Equity

• Determine if public or private rounds are optimal.

• Private rounds involve a group of interested parties that are called “angel” investors or venture capitalists (VC’s).

• Public investments mean that your stock will be made available to the public via the stock market (NYSE, NASD for example).

• Going public requires filings with the SEC including Form S-1 and a prospectus for investors that tells the Company business plan.

• Hire investment bankers.
Succession Planning for Employees

• Make sure that you are communicating corporate culture and business ethics to your employees.

• Lead and mentor employees by cross training them and developing technical expertise.

• Tell your employees about succession planning strategies so that they understand how they will grow to the next level of advancement and responsibility in the organization and develop goals for your employees to be successful.

• Provide them with necessary education and encourage them to achieve advanced degrees or certifications.

• Manage employees to take accountability and show them how they contribute to the overall success of the company. Make it personal for each employee and do not micromanage.
Survey CFO Research Services:

- 65% of large company CFO’s found that Sox is a catalyst for positive long-term change and some CFO’s have discovered problems that they never knew existed.

- Some CFO’s have become more aware than ever that performance surprises can be as damaging as financial management control failures.

- Audit Committees now meet several times a year with finance teams and auditors.

NASDAQ Survey Results:

- 74% of CEO's & CFO's believe that Sox was necessary.

- Determined that the law was not the issue. The implementation costs and timeframe was the problem. NASDAQ issuers spent an average of $1.1 million to comply and a total of $3.5 billion.

- Issuers require clarity and guidance from regulators with regard to implementation of the new law. Too much ambiguity around the implementation of the law pushed auditors to be overly conservative.

- 70% of CEO’s & CFO’s do not believe that the accounting industry has sufficiently trained staff to test for compliance with Sox.
Dealing with SEC

• Responsible for Securities and Exchange Commission documents including Form 10-K, Form 10-Q and Form 8-K. Make sure that these reports are timely and accurate!

• Each Company’s Form 10-K will be reviewed every three years. The SEC will provide comment letters on their review that you must respond to. On average they begin with approximately 40 questions about your filing. This process may take several months to complete.

• Answer all questions as openly and honest as possible. If you can’t be honest, they prefer that you don’t answer their questions.
Dealing with Wall Street

- Be a company spokesperson that understands Regulation FD! Never give private information about your company.

- Communicate with your investors. At times you may be challenged by short-sellers or hedge fund managers that bet against your company.

- Target shareholders that you believe will own your stock for several years and focus investor non deal road shows on these groups.

- Do not avoid hedge funds as they provide assets of nearly one trillion dollars to equity markets today.
More CFO Tips

- Manage your company’s growth with people and systems! Execute strategies and manage human capital to achieve larger business objectives. Work with all levels of the organization.

- Show respect to others at every level in the organization.

- Think outside the box and forget the rules at times.

- To achieve growth focus on revenue growth as well as cost reduction.

- The most successful CFO in today’s times has a firm understanding of accounting and is a good speaker.
More CFO Tips (cont)

My Worst Time as a CFO:

• The Company and corporate officers, including myself, are sued in 19 class action lawsuits that alleges violations of federal securities laws and that we made false and misleading statements in connection with corporate acquisitions and other matters. The SEC opened an informal investigation.

My Best Time as a CFO:

• Our CEO and I raised $266 million in four days in a secondary offering. The Company has not raised capital in 5 years as a result.

Prepare for anything!
• Robert Merritt, CFO Outback Steakhouse announced that he was leaving his job of 15 years in April of 2005 blaming the increasingly negative regulatory environment and “lunacy” over lease accounting. He stated “I used to enjoy coming to work everyday working with restaurant operators to improve results, now I find myself coming to work to sit in meetings and talk about regulatory compliance”. He also spoke of “the growing presumption that all business people are dishonest”.

• Many CFO’s believe that they are no longer strategic thinkers, they are not making strategic capital allocation decisions, but they are just following the rules!
• According to Tatum Partners, the average tenure of a CFO is between 30-36 months. Longer hours, increased regulation and liability are the reason. Many say that the job is no fun anymore as CFO’s enjoy the operational side of the business and they find too many hours spent in regulation and compliance.

• The balance: The career is very rewarding and provides recognition and financial freedom in some cases.
Best Advice To Become a CFO

• Be an accounting expert! You gain credibility and respect with your knowledge. Get a CPA designation and maintain your license. Accounting is universal to understanding business!

• Be a generalist. Don’t limit yourself to doing tax work or systems or auditing. Try to understand a little bit of everything and never be afraid to ask about things that you don’t understand.

• Be motivated and always try to learn more.

• Don’t take systems knowledge for granted.

• Learn to lead people, not just manage! Mentor and inspire people to develop their career to its fullest and they will reward you with hard work.
Best Advice To Become a CFO (cont.)

- Respect everyone at every level. Don’t think that you are above anyone in the organization. Work as a team and say we not me!

- Surf information, don’t focus on details, find what matters most and spend time there.

- Be up front and honest and always be viewed with high integrity!
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