

## HIGHLY COMMENDED WINNER

### Best Liquidity Management Solution

#### Atlas Copco Korea

Korea

Youngeun Kim, Treasury Manager



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## New cash pooling solution in Korea

### Company profile

The Atlas Copco Group is a global industrial group of companies headquartered in Nacka, Sweden. In 2016, global revenues totalled SEK101bn, and by the end of that year the company employed approximately 45,000 people. The company manufactures products at about 100 production sites in more than 20 countries.

### The challenge

In Korea, Atlas Copco's four entities experience different cash flows depending on the products and customer sectors. The company's days sales outstanding (DSO) and cash conversion cycle (CCC) metrics are not as good as some of their peers, so to manage the mismatch between DSO and days payables outstanding (DPO) the company relies heavily on inter-company loans as well as external loans from its banks.

Youngeun Kim, Treasury Manager explains, "Reducing our interest expense through a liquidity management solution which leverages other related entities surpluses was our main requirement. The other was to find a way to repatriate surplus USD with HQ to reduce interest expense of USD funding in the overseas markets."

### The solution

Deutsche Bank proposed a domestic cash pooling and cross-border cash pooling structure to maximise the utilisation of the surplus cash of the related entities (Atlas Copco Korea, Edwards Korea, CSK, and Leybold Korea) with tax efficiency. The structure established for domestic cash pooling involved Atlas Copco Korea Co, Ltd as the header and others as participants. Priority was set for domestic cash pooling where entities were set up in order to cover the funds for the header account. For the efficiency and transparency of liquidity and balance management, cover and reverse were set up so that Atlas Copco Group could optimise most of the liquidity utilisation among its entities in Korea with minimal interest expense associated with cash pooling.

For the centralised management, all accounts were attached to a single internet banking domain. All transactions toward each entity were controlled and transaction information was made available under this single domain structure.

For USD surplus, utilising FX regulation, called Consolidated Management of Funds (CMF), the automatic cross-border cash pooling was also implemented for the Atlas Copco Group in Korea. Under this framework, Edwards Korea, one of Atlas' subsidiaries in Korea, shares its USD surplus cash with Atlas Copco entities overseas within a pre-approved cap amount by the Central Bank. Deutsche Bank's intelligent system automatically monitors the outstanding balance of inter-company loan under the CMF regulation and proactively manages its cross-border transaction to/from HQ

within the approved cap and prevents entities from breaching the regulation.

### Best practice and innovation

Domestic and cross-border cash pooling is not commonly used in Korea due to rare reference cases and complicated regulatory and tax implications.

Priority based pooling and 'Cover and Reverse' are the innovative components to clearly handle those regulatory and tax issues, and these were seamlessly implemented.

Also, the intelligent monitoring of cross-border capital transactions, eliminating the risk of regulation breach, critically reduces administrative operations and was the key factor to consider in implementing CMF.

"This is an innovative solution not tried by others before, and it very efficiently handles the issues we were facing related to cash pooling in Korea," says Youngeun Kim.

### Key benefits

- Atlas Copco was able to save on interest expense to support their Korean company's working capital requirement. The pool participants are able to cover the whole amount for the cash pool header account and AC Korea is saving around €130,000 per month in interest expense.
- In addition, Atlas Copco Group was able to utilise surplus USD in Korea for their internal funding which resulted in cost savings of up to €60,000.
- Given the cash pooling structure in conjunction with the robust reporting ability, Atlas managed to increase its global, regional and local visibility on treasury activities.
- Atlas also saved operation costs and increased their work efficiency. All costs saved contributed to the enhancement of net profit and increased the client's enterprise value as a result.